

BASE PROSPECTUS IN RESPECT OF THE WARRANTS AND CERTIFICATES

22 JUNE 2007

Morgan Stanley

as issuer and guarantor

(incorporated under

the laws of the State of Delaware in the United States of America)

MORGAN STANLEY (JERSEY) LIMITED

as issuer

(incorporated with limited liability in Jersey, Channel Islands)

MORGAN STANLEY B.V.

as issuer

(incorporated with limited liability in The Netherlands)

Program for the Issuance of Warrants and Certificates

Under the program (the "**Program**") described in this Base Prospectus, Morgan Stanley ("**Morgan Stanley**"), Morgan Stanley (Jersey) Limited ("**Morgan Stanley Jersey**") and Morgan Stanley B.V. ("**MSBV**") or any of Morgan Stanley's subsidiaries that accedes to the Program in accordance with the terms of the Distribution Agreement (as defined herein) (each, an "**Additional Issuer**" and, together with Morgan Stanley, Morgan Stanley Jersey and MSBV, the "**Issuers**" and each, an "**Issuer**") may offer from time to time Warrants (the "**Warrants**") and Certificates (the "**Certificates**" and, together with the Warrants, the "**Securities**"). Each Additional Issuer shall prepare a base prospectus and references herein to "this Base Prospectus" shall, where applicable, be deemed to be references to this Base Prospectus as supplemented or amended from time to time. To the extent not set forth in this Base Prospectus, the specific terms of any Securities will be included in the applicable Final Terms.

Application has been made to the Irish Financial Services Regulatory Authority (the "**IFSRA**"), as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**") for the Base Prospectus to be approved. Application has also been made to the Irish Stock Exchange for the Securities to be admitted to the Official List and trading on its regulated market during the period from and including the date hereof up to but excluding 22 June 2008.

Unlisted Securities may be issued pursuant to the Program and the Program provides that Securities may be listed on such other stock exchange(s) as may be specified in the relevant Final Terms. The Final Terms applicable to a Series will specify whether or not Securities of such Series have been admitted to the Official List and to trading on the Irish Stock Exchange and/or admitted to listing, trading and/or quotation by any other stock exchange, listing authority and/or quotation system.

The approval of the IFSRA of this Base Prospectus relates only to the Securities which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Area.

Applications to the Irish Stock Exchange for admission of the Securities to the Official List and trading on its regulated market have been made only in respect of Securities which give the right to acquire transferable securities or to receive a cash amount, as a consequence of the rights conferred by them being exercised and where the issuer of the underlying securities does not belong to the Morgan Stanley group of companies. Admission to the Official List and to trading on the Irish Stock Exchange of the Securities offered by this Base

Prospectus is expected to be granted by the Irish Stock Exchange on or about 22 June 2007 subject only to issuance of Securities. The listing agent with respect to the application for the listing of the Securities on the Official List and to trading on the Irish Stock Exchange is Morgan Stanley & Co. International plc (in conjunction with The Bank of New York).

The payment of all amounts due in respect of Securities issued by Morgan Stanley Jersey, MSBV or an Additional Issuer will, unless specified otherwise in the Final Terms to this Base Prospectus or, in the case of an Additional Issuer, in the accession agreement pursuant to which such Additional Issuer accedes to the Program, be unconditionally and irrevocably guaranteed by Morgan Stanley (in such capacity, the "**Guarantor**") pursuant to a deed of guarantee dated as of 10 June 2002.

Each Issuer is offering the Securities on a continuing basis through Morgan Stanley & Co. International plc and Morgan Stanley & Co. Incorporated (the "**Distribution Agents**"), who have agreed to use reasonable efforts to solicit offers to purchase the Securities. Each Issuer may also sell Securities to the Distribution Agents as principal for their own accounts at a price to be agreed upon at the time of sale. The Distribution Agents may resell any Securities they purchase as principal at prevailing market prices, or at other prices, as they determine. Each Issuer or the Distribution Agents may reject any offer to purchase Securities, in whole or in part. See "Subscription and Sale" beginning on page 124.

The European Union Transparency Directive (Directive 2004/109/EC) (the "**Transparency Directive**") may be implemented in a manner which could be burdensome for companies such as an Issuer or the Guarantor (if applicable). In particular, companies may be required to publish financial statements more frequently than they otherwise would or to prepare financial statements in accordance with accounting standards other than the ones they would otherwise utilise, for example the Guarantor may be required to prepare financial statements in accordance with accounting standards other than U.S. GAAP. None of the Issuers is under any obligation to maintain the listing of any Securities, and prospective purchasers should be aware that, in circumstances where an admission to listing of the Securities by the Irish Financial Services Regulatory Authority or any other listing authority would require publication by the relevant Issuer or the Guarantor (if applicable) of financial statements more frequently than either would otherwise prepare them or preparation by Morgan Stanley (as Issuer or Guarantor, as applicable) of financial statements in accordance with standards other than U.S. GAAP, or in any other circumstances where the Transparency Directive is implemented in a manner that, in the opinion of the Issuer or the Guarantor (if applicable), is burdensome for the relevant Issuer or Guarantor (if applicable), the Securities may be de-listed. In such a case of de-listing, the relevant Issuer may, but is not obliged to, seek an alternative listing for the Securities on a stock exchange outside the European Union. However, if such an alternative listing is not available or is, in the opinion of the relevant Issuer or the Guarantor (if applicable), burdensome, an alternative listing for the Securities may not be considered. Although no assurance is made as to the liquidity of the Securities as a result of listing by the Irish Financial Services Regulatory Authority, de-listing the Securities may have a material effect on a holder's ability to resell the Securities in the secondary market.

The Securities will be governed by, and construed in accordance with, the laws of England and Wales.

Investing in the Securities involves risks. See "Risk Factors" beginning on page 12.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE IN THE UNITED STATES, AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS UNLESS OTHERWISE SPECIFIED IN THE APPLICABLE FINAL TERMS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN EITHER REGULATION S UNDER THE SECURITIES ACT OR

THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"). SEE "SUBSCRIPTION AND SALE" AND "NO OWNERSHIP BY U.S. PERSONS."

Each investor must comply with all applicable laws and regulations in each country or jurisdiction in or from which the investor purchases, offers, sells or delivers the Securities or has in the investor's possession or distributes this Base Prospectus or any accompanying Final Terms.

MORGAN STANLEY

The Morgan Stanley base prospectus (the "Morgan Stanley Base Prospectus") will comprise this base prospectus with the exception of (i) the information in the sections entitled (a) Morgan Stanley Jersey, (b) MSBV, (c) Jersey Taxation, (d) Netherlands Taxation, and (ii) Morgan Stanley Jersey's Annual Reports for the years ended 30 November 2005 and 30 November 2006, and MSBV's Annual Reports for the years ended 30 November 2005 and 30 November 2006 (which are incorporated by reference in this document).

The Morgan Stanley Jersey base prospectus (the "Morgan Stanley Jersey Base Prospectus") will comprise this base prospectus with the exception of the information in the sections entitled (a) MSBV (b) Netherlands Taxation and (c) MSBV's Annual Reports for the years ended 30 November 2005 and 30 November 2006.

The MSBV base prospectus (the "MSBV Base Prospectus") will comprise this base prospectus with the exception of the information in the sections entitled (a) Morgan Stanley Jersey (b) Jersey Taxation and (c) Morgan Stanley Jersey's Annual Reports for the years ended 30 November 2005 and 30 November 2006.

Morgan Stanley accepts responsibility for information contained in the Morgan Stanley Base Prospectus, Morgan Stanley Jersey accepts responsibility for information contained in the Morgan Stanley Jersey Base Prospectus and MSBV accepts responsibility for information contained in the MSBV Base Prospectus. To the best of the knowledge and belief of each of Morgan Stanley, Morgan Stanley Jersey and MSBV (each of which has taken all reasonable care to ensure that such is the case), the information contained in each of the Morgan Stanley Base Prospectus, the Morgan Stanley Jersey Base Prospectus and the MSBV Base Prospectus respectively is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorized by the Issuers or the Guarantor to give any information or to make any representation not contained or incorporated by reference in the Base Prospectus or any other document entered into in relation to the Program, and, if given or made, that information or representation should not be relied upon as having been authorized by the Issuers, the Guarantor or any of the Distribution Agents. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Securities will, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of any of the Issuers or the Guarantor since the date hereof or, as the case may be, the date upon which this Base Prospectus has been most recently amended or supplemented or the balance sheet date of the most recent financial statements which are deemed to be incorporated into this Base Prospectus by reference, or that any other information supplied in connection with the Program is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Distribution Agents expressly do not undertake to review the financial condition or affairs of the Issuers or the Guarantor during the life of the Program. Investors should review, inter alia, the most recent financial statements of the relevant Issuer and, where applicable, the Guarantor when evaluating the Securities or an investment therein. Such financial statements shall not form a part of this Base Prospectus unless they have been expressly incorporated herein by way of a supplement to this Base Prospectus.

The Distribution Agents have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Distribution Agents as to the accuracy or completeness of this Base Prospectus or any document incorporated by reference herein or any further information supplied in connection with any Securities. The Distribution Agents accept no liability in relation to this Base Prospectus or any document incorporated by reference herein or their distribution or with regard to any other information supplied by or on behalf of the Issuers.

Each Issuer has confirmed to the Distribution Agents that this Base Prospectus is true, accurate and complete in all material respects and is not misleading; that the opinions and intentions expressed herein are honestly held and based on reasonable assumptions; that there are no other facts in relation to the information contained or incorporated by reference in this Base Prospectus the omission of which would, in the context of the Program or the issue of the Securities, make any statement herein or opinions or intentions expressed herein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. Each Issuer has further confirmed to the Distribution Agents that this Base Prospectus (together with the relevant Final Terms) contains all such information as may be required by all applicable laws, rules and regulations.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession the Base Prospectus or any Final Terms comes are required by the Issuers, the Guarantor and the Distribution Agents to inform themselves about and to observe those restrictions.

The Issuers do not intend to provide post-issuance information in respect of the Securities.

Neither this Base Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which that offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. For a description of certain restrictions on offers, sales and deliveries of Securities and on the distribution of the Base Prospectus or any Final Terms and other offering material relating to the Securities, see "Subscription and Sale".

This Base Prospectus should be read and construed with any amendment or supplement hereto and with, in relation to any issue of Securities, the Final Terms (each the "Final Terms") relating thereto and with all documents incorporated by reference herein. Neither this Base Prospectus nor any Final Terms constitutes an offer of or an invitation to subscribe for or purchase any Securities and should not be considered as a recommendation by any Issuer, the Guarantor or the Distribution Agents that any recipient of the Base Prospectus or any Final Terms should subscribe for or purchase any Securities. Each recipient of the Base Prospectus or any Final Terms will be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuers and, where applicable, the Guarantor and of the particular terms of any offered Securities.

None of the Distribution Agents or any of their affiliates assumes any obligation to purchase any Securities or to make a market in the Securities, and no assurances can be given that a liquid market for the Securities will exist.

All references in this Base Prospectus to "Sterling" and "£" are to the lawful currency of the United Kingdom, all references to "U.S. dollars," "U.S.\$" and "\$" are to the lawful currency of the United States of America, all references to "Japanese Yen" and "¥" are to the lawful currency of Japan, all references to "Australian dollars" and "AUD" are to the lawful currency of the Commonwealth of Australia, all references to "New Zealand dollars" and "NZD" are to the lawful currency of New Zealand, and all references to "euro", "€" and "EUR" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended (the "Treaty").

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE RELEVANT ISSUER AND, WHERE APPLICABLE, THE GUARANTOR AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE

ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF SECURITIES UNDER THE PROGRAM, ANY DISTRIBUTION AGENT OR ANY OTHER AGENT SPECIFIED FOR THAT PURPOSE IN THE APPLICABLE FINAL TERMS AS THE STABILIZING MANAGER (OR ANY PERSON ACTING FOR THE STABILIZING MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF ANY OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR ANY AGENT OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZING ACTION. ANY STABILIZING ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF SECURITIES IS MADE AND, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME BUT MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF SECURITIES AND 60 DAYS AFTER THE ALLOTMENT OF THE RELEVANT TRANCHE OF SECURITIES. ANY STABILIZING ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR ANY PERSON ACTING FOR THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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SUMMARY

*This summary has been prepared in accordance with Article 5(2) of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read as an introduction to the Base Prospectus prepared by each Issuer relating to the Securities referred to below. Any decision to invest in any Securities should be based on a consideration of the relevant Base Prospectus as a whole, including the documents incorporated by reference. Following implementation of the relevant provisions of the Prospectus Directive in a Member State of the European Economic Area, no civil liability will attach to the Issuer or the Guarantor (as applicable) solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the relevant Base Prospectus. Where a claim relating to the information contained in the relevant Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the relevant Base Prospectus before the legal proceedings are initiated.*

Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Base Prospectus have the same meanings in this summary.

Essential characteristics and risks associated with the Issuers and the Guarantor

Morgan Stanley

The auditors of Morgan Stanley for the periods 1 December 2003 to 30 November 2004, 1 December 2004 to 30 November 2005 and 1 December 2005 to 30 November 2006 are Deloitte & Touche LLP, an independent registered public accounting firm.

Morgan Stanley was originally incorporated for an unlimited term under the laws of the State of Delaware on 1 October 1981 under registered number 0923632, and its predecessor companies date back to 1924.

On 31 May 1997, Morgan Stanley Group, Inc. was merged with and into Dean Witter Discover & Co. ("**Dean Witter Discover**") in a merger of equals. At that time, Dean Witter Discover changed its corporate name to Morgan Stanley, Dean Witter, Discover & Co. ("**MSDWD**"). On 24 March 1998 MSDWD changed its corporate name to Morgan Stanley Dean Witter & Co, and to Morgan Stanley on 20 June 2002.

As at the date of this Base Prospectus, Morgan Stanley's legal and commercial name is "Morgan Stanley".

Morgan Stanley has its registered office at The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A., and its principal executive offices at 1585 Broadway, New York, New York 10036, U.S.A., telephone number +1 (212) 761-4000.

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. It maintains significant market positions in each of its business segments - Institutional Securities, Global Wealth Management Group, Asset Management and Discover. See "Recent events" on page 29 for further details on the Discover business segment.

Morgan Stanley's objects and purposes are set out in Article III of its Certificate of Incorporation and enable it to engage in any lawful act or activity for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware.

The Directors of Morgan Stanley as of the date of this Base Prospectus are the following: John J. Mack, Roy J. Bostock, Erskine B. Bowles, Howard J. Davies, C. Robert Kidder, Donald T. Nicolaisen, Charles H. Noski, Hutham S. Olayan, Charles E. Phillips Jr, O. Griffith Sexton, Laura D'Andrea Tyson and Klaus Zumwinkel.

As at 30 November 2006, Morgan Stanley had 56,310 employees worldwide.

The authorised share capital of Morgan Stanley as at 30 November 2006 comprised 3,500,000,000 ordinary shares of nominal value U.S.\$0.01 and 30,000,000 preferred stock of nominal value U.S.\$0.01.

The issued, non-assessable and fully paid up share capital of Morgan Stanley as at 30 November 2006 comprised 1,211,701,552 ordinary shares of nominal value U.S.\$0.01.

For the year ended 30 November 2006, total assets of Morgan Stanley amounted to U.S.\$1,120,645 million and total liabilities and shareholders' equity amounted to U.S.\$1,120,645 million. For the fiscal year ended 30 November 2005, total assets of Morgan Stanley amounted to U.S.\$898,523 million and total liabilities and shareholders' equity amounted to U.S.\$ 898,523 million.

There are a number of factors which could cause Morgan Stanley's actual results to differ, in some instances materially, from those anticipated. The factors set out below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties which face Morgan Stanley's business.

The results of Morgan Stanley's operations may be materially affected by market fluctuations and by economic and other factors such as political, economic and market conditions, the availability and cost of capital, the level and volatility of equity prices, commodity prices and interest rates, currency values and other market indices, technological changes and events, the availability and cost of credit, inflation, and investor sentiment and confidence in the financial markets.

Morgan Stanley faces strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect its revenue and profitability.

The financial services industry faces substantial litigation and regulatory risks, and Morgan Stanley may face damage to its professional reputation and legal liability if its services are not regarded as satisfactory or for other reasons.

Morgan Stanley Jersey

Morgan Stanley Jersey was incorporated in St. Helier, Jersey, Channel Islands (registration number 35857) as a company with unlimited duration on 24 September 1986. It has its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands. Morgan Stanley Jersey's objects and purposes are not specified in any document and are therefore unlimited.

Morgan Stanley Jersey's business primarily consists of issuing financial instruments and the hedging of obligations relating thereto. All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. Morgan Stanley Jersey's auditors are Deloitte & Touche LLP, Chartered Accountants and Registered Auditors.

Morgan Stanley Jersey has no subsidiaries and is wholly owned by Morgan Stanley.

The directors of Morgan Stanley Jersey are Joel Hodes, Charles Edward Crossley Hood and Kevin Woodruff. Morgan Stanley Jersey has no employees.

At 30 November 2006, the authorised share capital of Morgan Stanley Jersey comprised 10,000 ordinary shares with a par value of £1 each all of which are issued, allotted and fully paid up.

The profit or loss before tax for the financial years ended 30 November 2006 and 2005 was nil and nil respectively. The current assets of Morgan Stanley Jersey have risen from U.S.\$3,598,223,000 in 2005 to U.S.\$4,001,459,000 in 2006 with total creditors rising from U.S.\$3,597,767,000 in 2005 to U.S.\$4,001,003,000 in 2006.

All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of Morgan Stanley Jersey pursuant to such hedging transactions are guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to Morgan Stanley Jersey or not) their ability to fulfil their obligations to Morgan Stanley Jersey could be impaired, thereby exposing holders of securities issued by Morgan Stanley Jersey to a risk of loss.

MSBV

MSBV was incorporated as a private company with limited liability under the laws of The Netherlands on 6 September 2001 for an unlimited duration. MSBV is registered at the commercial register of the Chamber of Commerce and Industries (Kamer van Koophandel) for Amsterdam, The Netherlands under number 34161590. It has its corporate seat at Amsterdam, The Netherlands and its offices are located at Locatellikade 1, 1076 AZ Amsterdam, The Netherlands. Telephone number +31 20 57 55 600.

MSBV's objects are set out in Article 3 of its Articles of Associates and enable it, *inter alia*, to issue notes, warrants and other securities. All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. MSBV's auditors are Deloitte Accountants B.V. (members of the Royal Netherlands Institute of Registered Accountants).

MSBV has no subsidiaries and is ultimately controlled by Morgan Stanley.

The directors of MSBV are C.E.C Hood, J. Solan, G.C. De Boer and TMF Management B.V. MSBV has no employees.

The authorised share capital of MSBV comprises 900 ordinary shares of nominal value EUR100. The issued, allotted and fully paid up share capital of MSBV comprises 180 ordinary shares of nominal value EUR100.

MSBV's net revenue for the financial years ended 30 November 2006 and 2005 was EUR908,000 and EUR1,614,000 respectively, representing issuance fees received on the issuance of financial instruments less guarantee fees payable. The profit or loss before tax for the financial years ended 30 November 2006 and 2005 was a profit of EUR1,075,000 and a loss of EUR1,475,000 respectively. During the period, no dividends were paid. The loss will be carried to reserves.

The current assets of MSBV rose from EUR641,974,000 in 2005 to EUR3,893,257,000 in 2006 with a total amount owing to creditors rising from EUR639,578,000 in 2005 to EUR3,890,086,000 in 2006. The principal reason for the increase in debt was an increase in client demand for financial instruments.

All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of MSBV pursuant to such transactions are substantially guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to MSBV or not) their ability to fulfil their obligations to MSBV could be impaired, thereby exposing holders of securities issued by MSBV to a risk of loss.

Essential characteristics and risks associated with the Securities

Morgan Stanley, Morgan Stanley Jersey and MSBV may offer from time to time Warrants and Certificates (together, "**Securities**"). Applications have been made for the Securities issued under the Program to be admitted to the Official List and to trading on the Irish Stock Exchange. The payment of all amounts due in respect of Securities issued by Morgan Stanley Jersey or MSBV will, unless specified otherwise in the Final Terms be unconditionally and irrevocably guaranteed by Morgan Stanley.

Each Issuer is offering the Securities on a continuing basis through the Distribution Agents, who have agreed to use reasonable efforts to solicit offers to purchase the Securities. Each Issuer may also sell Securities to the Distribution Agents as principal for their own accounts at a price to be agreed upon at the time of sale. The Distribution Agents may resell any Securities they purchase as principal at prevailing market prices, or at other prices, as they determine. Each Issuer or the Distribution Agents may reject any offer to purchase Securities, in whole or in part.

Each Issuer will issue Securities in bearer form, which may be in either definitive form or global form. Securities in definitive bearer form will be serially numbered. Securities may be denominated or payable in any currency, be issued at any price and have any maturity, in each case subject to all applicable consents being obtained and compliance with all applicable legal and regulatory requirements.

Securities may be redeemed at par or at such other redemption amount (detailed in a formula or otherwise) or by delivery of securities of an issuer that is not affiliated with Morgan Stanley, as may be specified in the applicable Final Terms.

The Securities will be governed by, and construed in accordance with, the laws of England and Wales.

The net proceeds from the sale of Securities offered by the Base Prospectus will be used by the Issuers for general corporate purposes, in connection with hedging its obligations under the Securities, or both.

Certain documents relating to the Securities will be available, during usual business hours on any week day, for inspection by physical means at The Bank of New York, One Canada Square, London E14 5AL and at J.P. Morgan Bank (Ireland) plc c/o BNY Financial Services Plc, 4th Floor, Hanover Building, Windmill Lane, Dublin 2, Ireland and also at the principal executive offices of Morgan Stanley and the registered offices of Morgan Stanley Jersey and MSBV.

The Issuers may issue Securities with return determined by reference to currency prices, commodity prices or to single securities, baskets of securities or indices or other assets or instruments. Any such Securities may entail significant risks not associated with a similar investment in fixed or floating rate debt securities, including a return that may be significantly less than the return available on an investment in fixed or floating rate debt securities. In some cases such Securities may also carry the risk of a total or partial loss of investment.

RISK FACTORS

Prospective investors should read the entire Base Prospectus (and where appropriate, any relevant final terms). Words and expressions defined elsewhere in this Base Prospectus have the same meanings in this section. Investing in securities involves certain risks. Prospective investors should consider, among other things, the following:

Risk Relating to Morgan Stanley

Liquidity Risk

Liquidity and funding risk refers to the risk that Morgan Stanley 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 ability of Morgan Stanley to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

Liquidity is essential to Morgan Stanley's businesses and Morgan Stanley relies on external sources to finance a significant portion of its operations.

Liquidity is essential to Morgan Stanley's businesses. Morgan Stanley's liquidity could be substantially negatively affected by an inability to raise funding in the long-term or short-term debt capital markets or an inability to access the secured lending markets. Factors that Morgan Stanley cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair its ability to raise funding. In addition, Morgan Stanley's ability to raise funding could be impaired if lenders develop a negative perception of its long-term or short-term financial prospects. Such negative perceptions could be developed if Morgan Stanley incurs large trading losses, it is downgraded or put on negative watch by the rating agencies, it suffers a decline in the level of its business activity, regulatory authorities take significant action against it, or it discovers serious employee misconduct or illegal activity, among other reasons. If Morgan Stanley is unable to raise funding using the methods described above, it would likely need to liquidate unencumbered assets, such as its investment and trading portfolios, to meet maturing liabilities. Morgan Stanley may be unable to sell some of its assets, or it may have to sell assets at a discount from market value, either of which could adversely affect its results of operations.

Morgan Stanley's borrowing costs and access to the debt capital markets depend significantly on its credit ratings.

The cost and availability of unsecured financing generally are dependent on Morgan Stanley's short-term and long-term credit ratings. Factors that are significant to the determination of Morgan Stanley's credit ratings or otherwise affect its ability to raise short-term and long-term financing include the level and volatility of its earnings; Morgan Stanley's relative competitive position in the markets in which it operates; its geographic and product diversification; its ability to retain key personnel; its risk profile; its risk management policies; its cash liquidity; its capital adequacy; its corporate lending credit risk; and legal and regulatory developments. A deterioration in any of these factors or combination of these factors may lead rating agencies to downgrade Morgan Stanley's credit ratings, thereby increasing its cost of obtaining unsecured funding.

Morgan Stanley's debt ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions, including credit derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business, Morgan Stanley would be required to provide additional collateral to certain counterparties in the event of a downgrade by either Moody's Investors Service or Standard & Poor's.

Morgan Stanley is a holding company and depends on payments from its subsidiaries.

Morgan Stanley depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Regulatory and other legal restrictions may limit its ability to transfer funds freely, either to or from its subsidiaries. In particular, many of its subsidiaries, including its broker-dealer subsidiaries, are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder Morgan Stanley's ability to access funds that it may need to make payments on its obligations.

If Morgan Stanley's liquidity and funding policies are not adequate, it may be unable to access sufficient financing.

Morgan Stanley's liquidity and funding policies have been designed to ensure that it maintains sufficient liquid financial resources to continue to conduct its business for an extended period in a stressed liquidity environment. If its liquidity and funding policies are not adequate or it does not adhere to the policies, Morgan Stanley may be unable to access sufficient financing to service its financial obligations when they come due, which could have a material adverse franchise or business impact.

Market Risk

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

Morgan Stanley's results of operations may be materially affected by market fluctuations and by economic and other factors.

The amount, duration and range of Morgan Stanley's market risk exposures have been increasing over the past several years, and may continue to do so. Morgan Stanley's results of operations may be materially affected by market fluctuations due to economic factors. Results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including political, economic and market conditions; the availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events; the availability and cost of credit; inflation; and investor sentiment and confidence in the financial markets. In addition, there have been legislative, legal and regulatory developments related to Morgan Stanley's businesses that potentially could increase costs, thereby affecting future results of operations. These factors also may have an impact on its ability to achieve its strategic objectives.

The results of Morgan Stanley's Institutional Securities business, particularly results relating to its involvement in primary and secondary markets for all types of financial products, are subject to substantial fluctuations due to a variety of factors, such as those enumerated above, that Morgan Stanley cannot control or predict with great certainty. These fluctuations impact results by causing variations in new business flows and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from Morgan Stanley's principal investments.

During periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets may also decrease, which would negatively impact the results of its Global Wealth Management Group business. In addition, fluctuations in global market activity could impact the flow of investment capital into or from assets under management or supervision and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact its

Asset Management business. Furthermore, changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer confidence and consumer debt, may substantially affect consumer loan levels and credit quality, which, in turn, could impact the results of its Discover business.

Holding large and concentrated positions may expose Morgan Stanley to losses.

Concentration of risk may reduce revenues or result in losses in Morgan Stanley's market-making, proprietary trading, investing, block trading, underwriting and lending businesses in the event of unfavorable market movements. Morgan Stanley has committed substantial amounts of capital to these businesses, which often require it to take large positions in the securities of, or make large loans to, a particular issuer or issuers in a particular industry, country or region. Moreover, the trend in all major capital markets is towards larger and more frequent commitments of capital in many of these activities, and Morgan Stanley expects this trend to continue.

The profitability of certain of Morgan Stanley's commodities marketing activities depends on the availability of supplies of petroleum products. A significant decrease in available supplies for any reason could adversely affect the sales and results of operations of certain businesses within its commodities activities.

The success of Morgan Stanley's marketing and distribution in its commodities business depends on its ability to generate positive margins on sales of refined petroleum products. In addition, Morgan Stanley's terminal, tug and barge business depends on an active market for refined petroleum products to create demand for terminal services. The availability of supplies of refined petroleum products is essential to Morgan Stanley's pipeline, transport and terminal operations. A material disruption in the flow of refined petroleum product supplies could adversely affect its revenues from rack spot and contract sales, as well as throughput and storage fees. Among such risks are "force majeure" conditions caused by natural disasters, adverse weather conditions, terrorist attacks and other events beyond its control. These conditions also may adversely affect the pipeline and marine operations as well as the shipping and terminaling operations in its commodities business.

Morgan Stanley may incur significant losses in the real estate sector.

Morgan Stanley finances and acquires principal positions in a number of real estate and real estate-related products for its own account, for investment vehicles managed by affiliates in which it also may have a significant investment, for separate accounts managed by affiliates and for major participants in the commercial and residential real estate markets, and originates loans secured by commercial and residential properties. Morgan Stanley also securitizes and trades in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate and commercial assets and products, including residential and commercial mortgage-backed securities. These businesses could be adversely affected by a downturn in the real estate sector.

Credit Risk

Credit risk refers to the risk of loss arising from the default by a borrower, counterparty or other obligor when it is unable or unwilling to meet its obligations to Morgan Stanley. Morgan Stanley is exposed to three distinct types of credit risk in its businesses.

Morgan Stanley is exposed to the risk that third parties that are indebted to it will not perform their obligations.

Morgan Stanley incurs significant, "single-name" credit risk exposure through the Institutional Securities business. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to Morgan Stanley and by extending credit to its

clients through various credit arrangements. Morgan Stanley incurs “individual consumer” credit risk in the Global Wealth Management Group business through margin loans to individual investors and loans to small businesses, both of which are generally collateralized. Morgan Stanley incurs “consumer portfolio” credit risk in the Discover business primarily through cardholder receivables. Credit risk in a pool of cardholder receivables is generally highly diversified, without significant individual exposures, and, accordingly, is managed on a portfolio and not a single-name basis.

The amount, duration and range of Morgan Stanley’s credit exposures have been increasing over the past several years, and may continue to do so. In recent years, Morgan Stanley has significantly expanded its use of swaps and other derivatives and it may continue to do so. Corporate clients are increasingly seeking loans or lending commitments from Morgan Stanley in connection with investment banking and other assignments. In addition, Morgan Stanley has experienced, due to competitive factors, increased pressure to assume longer-term credit risk, to extend credit against less liquid collateral and to price derivatives instruments more aggressively based on the credit risks that it takes. As a clearing member firm, Morgan Stanley finances its customer positions and it could be held responsible for the defaults or misconduct of its customers. Although it regularly reviews its credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

Defaults by another larger financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity problems, losses or defaults by other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which Morgan Stanley interacts on a daily basis, and therefore could adversely affect Morgan Stanley.

Operational Risk

Operational risk refers to the risk of financial or other loss, or potential damage to a firm’s reputation, arising from inadequate or failed internal processes, people, resources and systems or from external events (e.g. external or internal fraud, legal and compliance risks, damage to physical assets, etc.). Morgan Stanley may incur operational risk across its full scope of business activities, including revenue generating activities (e.g. sales and trading) and support functions (e.g. information technology and facilities management). As such, Morgan Stanley may incur operational risk in each of its businesses, as well as within the control groups.

Morgan Stanley is subject to operational risk and an operational event could adversely affect its businesses.

Morgan Stanley’s businesses are highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions it processes are increasingly complex. Morgan Stanley performs the functions required to operate its different businesses either by itself or through agreements with third parties. Morgan Stanley relies on the ability of its employees, its internal systems and systems at technology centers operated by third parties to process a high volume of transactions. Morgan Stanley also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate its securities transactions. In the event of a breakdown or improper operation of its or third party’s systems or improper action by third parties or employees, Morgan Stanley could suffer financial loss, an impairment to its liquidity, a disruption of its businesses, regulatory sanctions or damage to its reputation.

Despite the business contingency plans Morgan Stanley has in place, its ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its business and the communities where it is located. This may include a disruption involving physical site access, terrorist activities, disease pandemics,

electrical, communications or other services used by Morgan Stanley, its employees or third parties with whom Morgan Stanley conducts business.

Legal Risk

Legal risk refers to the risk of non-compliance with applicable legal and regulatory requirements and standards. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable.

The financial services industry faces substantial litigation and regulatory risks, and Morgan Stanley may face damage to its reputation and legal liability.

Morgan Stanley has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

Morgan Stanley is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding its business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry, including Morgan Stanley. Like any large corporation, Morgan Stanley is also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory action against Morgan Stanley could materially adversely affect Morgan Stanley's business, financial condition or results of operations or cause it significant reputational harm, which could seriously harm Morgan Stanley's business.

Morgan Stanley is subject to extensive regulation in the jurisdictions in which it conducts its businesses.

Morgan Stanley is subject to extensive regulation globally and faces the risk of significant intervention by regulatory authorities in the jurisdictions in which it conducts its businesses. Among other things, Morgan Stanley could be fined, prohibited from engaging in some of its business activities or subject to limitations or conditions on its business activities. Significant regulatory action against Morgan Stanley could have material adverse financial effects, cause significant reputational harm to it, or harm its business prospects. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to Morgan Stanley's clients may also adversely affect Morgan Stanley's business.

Morgan Stanley's commodities activities subject it to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose it to significant costs and liabilities.

In connection with the commodities activities in Morgan Stanley's Institutional Securities business, Morgan Stanley engages in the production, storage, transportation, marketing and trading of several commodities, including metals (base and precious), crude oil, oil products, natural gas, electric power, emission credits, coal and related products. In addition, Morgan Stanley owns three exempt wholesale generators in the U.S. and one electric generation facility in The Netherlands. As a result of these activities, Morgan Stanley is subject to extensive and evolving energy, environmental, safety and other governmental laws and regulations. Morgan Stanley's commodities business also exposes it to the risk of unforeseen and catastrophic events, including leaks, spills and terrorist attacks.

Although Morgan Stanley has attempted to mitigate its pollution and other environmental risks, including those discussed below, by, among other measures, adopting appropriate policies and procedures for power plant operations, monitoring the quality of petroleum storage facilities and transport vessels and implementing emergency response programs, these actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, Morgan Stanley's financial condition and results of operations may be adversely affected by these events.

Morgan Stanley also expects the other laws and regulations affecting its energy business to increase in both scope and complexity. During the past several years, intensified scrutiny of the energy markets by federal, state and local authorities in the U.S. and abroad and the public has resulted in increased regulatory and legal enforcement, litigation and remedial proceedings involving companies engaged in the activities in which Morgan Stanley is engaged. Morgan Stanley may incur substantial costs in complying with current or future laws and regulations and its overall businesses and reputation may be adversely affected by the current legal environment.

Pipeline, Marine Transport and Terminal Operations. The risk of substantial environmental costs and liabilities is inherent in pipeline, marine transport and terminal operations. As is the case with respect to Morgan Stanley's other commodities activities, both U.S. and international environmental laws are or may be applicable, including U.S. and foreign oil spill anti-pollution statutes. Liability may be incurred without regard to fault under federal laws and regulations and analogous state laws for the remediation of contaminated areas.

Prior owners, tenants or users of properties now owned by Morgan Stanley or its subsidiaries may have disposed of or released hydrocarbons or solid wastes on or under such assets. Additionally, the acquired pipeline, transport and terminal operations are located near current or former refining and terminal operations. There is a risk that contamination, if ever present, has migrated or could migrate from those properties. Increasingly strict environmental laws, regulations and enforcement policies and claims for damages and other similar developments could result in substantial costs and liabilities.

Certain operations in Morgan Stanley's commodities business are subject to the hazards inherent in the transportation and storage of volatile and sometimes toxic petroleum products, including explosions, the release of toxic substances, fires and accidents on land and at sea that could result in personal injuries, loss of life and suspension of operations. These operations also are subject to risks associated with natural disasters, adverse weather conditions, terrorist attacks and other events beyond Morgan Stanley's control. Although Morgan Stanley maintains substantial insurance coverage, catastrophic events of this kind could exceed such coverage.

Power Generation Facilities. The power generation facilities owned by Morgan Stanley are subject to wide-ranging U.S. federal, state and local environmental laws and regulations in the U.S. and abroad relating to air quality, water quality and hazardous and solid waste management. They also are regulated under U.S. health and safety regulations. These laws may require capital expenditures as well as remediation where the facility has failed to comply with environmental, health or safety rules or has released pollutants into the environment. Additionally, the owners of such facilities may be subject to fines or penalties for failure to comply with environmental, health or safety rules.

Oil Trading Activities. The U.S. and foreign water pollution laws and numerous specific oil spill anti-pollution statutes apply to Morgan Stanley's oil trading activities to the extent it owns petroleum in storage or during waterborne or overland transit or it arranges for transportation or storage. In the event of an oil spill, one or more entities owned by Morgan Stanley could be held responsible for remediation as well as property and natural resource damages. Other U.S. federal and state laws apply to the specifications of the gasoline and diesel fuel that Morgan Stanley blends and import and provide for substantial penalties in the event of non-compliance. Oil pollution laws in non-U.S. jurisdictions also apply to Morgan Stanley in certain instances when it trades

petroleum internationally and/or charter vessels. Like the U.S. statutes, these laws often provide for penalties and damage assessments should a spill event occur.

Conflicts of interest are increasing and a failure to appropriately deal with conflicts of interest could adversely affect Morgan Stanley's businesses.

Morgan Stanley's reputation is one of its most important assets. As Morgan Stanley has expanded the scope of its businesses and its client base, Morgan Stanley increasingly has to address potential conflicts of interest, including those relating to its proprietary activities. For example, conflicts may arise between Morgan Stanley's position as a financial advisor in a merger transaction and a principal investment it holds in one of the parties to the transaction. In addition, hedge funds and private equity funds are an increasingly important portion of Morgan Stanley's client base, and also compete with Morgan Stanley in a number of its businesses. Morgan Stanley has procedures and controls that are designed to address conflicts of interest. However, appropriately dealing with conflicts of interest is complex and difficult and Morgan Stanley's reputation could be damaged if it fails, or appears to fail, to deal appropriately with conflicts of interest. In addition, the SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. It is possible that potential or perceived conflicts could give rise to litigation or enforcement actions. It is possible that the regulatory scrutiny of, and litigation in connection with, conflicts of interest will make Morgan Stanley's clients less willing to enter into transactions in which such a conflict may occur, and will adversely affect the businesses of Morgan Stanley.

Morgan Stanley is subject to tax contingencies that could adversely affect results.

Morgan Stanley is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which it has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. Morgan Stanley must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when in the future certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit.

Competitive Environment

Morgan Stanley faces strong competition from other financial services firms, which could lead to pricing pressures that could materially adversely affect its revenue and profitability.

The financial services industry, and all of Morgan Stanley's businesses, are intensely competitive, and Morgan Stanley expects them to remain so. Morgan Stanley competes with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet. Morgan Stanley competes on the basis of several factors, including transaction execution, capital or access to capital, products and services, innovation, reputation and price. Over time, certain sectors of the financial services industry have become considerably more concentrated, as financial institutions involved in a broad range of financial services have been acquired by or merged into other firms. This convergence could result in Morgan Stanley's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. Morgan Stanley may experience pricing pressures as a result of these factors and as some of its competitors seek to increase market share by reducing prices.

Morgan Stanley's ability to retain and attract qualified employees is critical to the success of its business and the failure to do so may materially adversely affect its performance.

Morgan Stanley's people are its most important resource and competition for qualified employees is intense. In order to attract and retain qualified employees, Morgan Stanley must compensate such employees at market

levels. Typically, those levels have caused employee compensation to be Morgan Stanley's greatest expense as compensation is highly variable and moves with performance. If Morgan Stanley is unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain its competitive position, or if compensation costs required to attract and retain employees become more expensive, Morgan Stanley's performance, including its competitive position, could be materially adversely affected.

International Risk

Morgan Stanley is subject to numerous political, economic, legal, operational and other risks as a result of its international operations which could adversely impact its businesses in many ways.

Morgan Stanley is subject to political, economic, legal, operational and other risks that are inherent in operating in many countries, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for Morgan Stanley to determine the exact requirements of local laws in every market. Morgan Stanley's inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on Morgan Stanley's businesses in that market but also on Morgan Stanley's reputation generally. Morgan Stanley is also subject to the enhanced risk that transactions it structures might not be legally enforceable in all cases.

Morgan Stanley has expanded, and continues to look at opportunities to expand, in the emerging markets. In the last several years, various emerging market countries have experienced severe economic and financial disruptions, including significant devaluations of their currencies, capital and currency exchange controls, and low or negative growth rates in their economies. These conditions could adversely impact Morgan Stanley's businesses and increase volatility in financial markets generally.

The emergence of a pandemic or other widespread health emergency, or concerns over the possibility of such an emergency, could create economic and financial disruptions in emerging markets and other areas throughout the world, and could lead to operational difficulties (including travel limitations) that could impair Morgan Stanley's ability to manage its businesses around the world.

Acquisition Risk

Morgan Stanley may be unable to fully capture the expected value from future acquisitions, joint ventures and minority stakes.

Morgan Stanley expects to grow in part through acquisitions, joint ventures and minority stakes. To the extent Morgan Stanley makes acquisitions or enters into combinations or joint ventures, it faces numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients and business partners. In the case of joint ventures and minority stakes, Morgan Stanley is subject to additional risks and uncertainties in that it may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under Morgan Stanley's control. In addition, conflicts or disagreements between Morgan Stanley and its joint venture partners may negatively impact the benefits to be achieved by the joint venture. There is no assurance that Morgan Stanley's recent acquisitions or any business it acquires in the future will be successfully integrated and result in all of the positive benefits anticipated. If Morgan Stanley is not able to integrate successfully its past and future acquisitions, there is a risk that Morgan Stanley's results of operations may be materially and adversely affected.

Credit Card Risk

Discover business subjects Morgan Stanley to risks that impact the credit card industry.

The performance of Morgan Stanley's Discover business is subject to numerous risks that impact the credit card industry, including rising cost of funds pressuring spreads; slow industry growth with rising payment rates; future loan loss rate uncertainty, especially given bankruptcy reform and changing minimum payment requirements; and a consolidating industry with competitive pressures and increasing marketing constraints. Changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer confidence, consumer spending and consumer debt may substantially affect consumer loan levels and credit quality. Morgan Stanley's financial condition and results of operations may be adversely affected by these factors.

Risk Management

Hedging strategies of Morgan Stanley and other risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk.

Morgan Stanley has devoted significant resources to develop its risk management policies and procedures and expects to continue to do so in the future. Nonetheless, Morgan Stanley's hedging strategies and other risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of Morgan Stanley's methods of managing risk are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Risks relating to Morgan Stanley Jersey

All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of Morgan Stanley Jersey pursuant to such transactions are guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to Morgan Stanley Jersey or not) their ability to fulfil their obligations to Morgan Stanley Jersey could be impaired, thereby exposing holders of securities issued by Morgan Stanley Jersey to a risk of loss.

Risks relating to MSBV

All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. The obligations of MSBV pursuant to such transactions are guaranteed by Morgan Stanley. If any of these Morgan Stanley group companies incur losses with respect to any of their activities (irrespective of whether those activities relate to MSBV or not) their ability to fulfil their obligations to MSBV could be impaired, thereby exposing holders of securities issued by MSBV to a risk of loss.

Risks relating to the Securities

Investors should consult their financial and legal advisors as to any specific risks entailed by an investment in Securities that are denominated or payable in, or the payment of which is linked to the value of, a currency other than the currency of the country in which such investor resides or in which such investor conducts its business, which is referred to as their "home currency." These Securities are not appropriate investments for investors who are not sophisticated in foreign currency transactions. The Issuers disclaim any responsibility to advise prospective purchasers of any matters arising under the laws

of the country in which they reside that may affect the purchase of, or holding of, or the receipt of payments on the Securities. These persons should consult their own legal and financial advisors concerning these matters. Investors should also consult their financial and legal advisors as to risks entailed by an investment in Securities that are linked to currency prices, commodity prices, single securities, baskets of securities or indices.

A wide range of Securities may be issued under the Program. A number of these Securities may have features which contain particular risks for potential investors. Set out below is a description of the most common features of such Securities. **Each investor should carefully consider whether the Securities, as described herein and in the applicable Final Terms, are suited to its particular circumstances before deciding to purchase any Securities.**

Index-linked Securities and dual currency Securities.

The Issuer may issue Securities with return determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Securities payable in one or more currencies which may be different from the currency in which the Securities are denominated. Potential investors should be aware that:

- (i) the market price of such Securities may be very volatile;
- (ii) payment may occur at a different time or in a different currency than expected;
- (iii) they may lose all or a substantial portion of their investment;
- (iv) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in currencies or other indices;
- (v) if a Relevant Factor is applied to Securities in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on such Securities is likely to be magnified; and
- (vi) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant factor, the greater the effect on yield.

Securities are not ordinary debt securities.

The terms of Securities differ from those of ordinary debt securities because such Securities do not pay interest and at maturity may return less than the amount invested or nothing, or may return securities of an issuer that is not affiliated with Morgan Stanley, Morgan Stanley Jersey or MSBV, the value of which is less than the amount invested, depending on the performance of the underlying asset. Prospective investors who consider purchasing the Securities should reach an investment decision only after carefully considering the suitability of the Securities in light of their particular circumstances. The price of Securities may fall in value as rapidly as it may rise, and investors in Securities will sustain a total loss of their investment if the Securities expire out of the money.

The value of Securities linked to a single security, or to baskets of securities or indices may be influenced by unpredictable factors.

The value of the Securities may be influenced by several factors beyond the relevant Issuer's and, where applicable, the Guarantor's control, including: (i) the market price or value of the applicable underlying security, index, or basket of securities or indices, (ii) the volatility (frequency and magnitude of changes in price) of the

underlying security, index, basket of securities or indices, (iii) the dividend rate on any underlying securities, (iv) geopolitical conditions and economic, financial and political, regulatory or judicial events that affect stock markets generally and which may affect the market price of the underlying security, index, basket of securities or indices, (v) interest and yield rates in the market, (vi) the time remaining to the maturity of the Securities and (vii) the relevant Issuer's and, where applicable, the Guarantor's creditworthiness.

Some or all of these factors will influence the price investors will receive if an investor sells its Securities prior to maturity. For example, investors may have to sell certain Securities at a substantial discount from the amount invested if the market price or value of the applicable underlying security, basket of securities or index is at, below, or not sufficiently above the initial market price or value or if market interest rates rise.

No affiliation with underlying companies.

The underlying issuer for any single security or basket security or the publisher of an underlying index will not be an affiliate of Morgan Stanley, Morgan Stanley Jersey or MSBV, unless otherwise specified in the applicable Final Terms. Morgan Stanley or its subsidiaries may presently or from time to time engage in business with any underlying company, or any specified entity, including entering into loans with, or making equity investments in, the underlying company, or specified entity, or its affiliates or subsidiaries or providing investment advisory services to the underlying company, or specified entity, including merger and acquisition advisory services. Moreover, no Issuer has the ability to control or predict the actions of the underlying company, index publisher, or specified entity, including any actions, or reconstitution of index components, of the type that would require the determination agent to adjust the payout to the investor at maturity. No underlying company, index publisher, or specified entity, for any issuance of Securities is involved in the offering of the Securities in any way or has any obligation to consider the investor's interest as an owner of the Securities in taking any corporate actions that might affect the value of the Securities. None of the money an investor pays for the Securities will go to the underlying company, or specified entity, for such Securities.

Exchange rates and exchange controls may affect Securities' value or return.

General Exchange Rate and Exchange Control Risks. An investment in a Security denominated in, or the payment of which is linked to the value of, currencies other than the investor's home currency entails significant risks. These risks include the possibility of significant changes in rates of exchange between its home currency and the other relevant currencies and the possibility of the imposition or modification of exchange controls by the relevant governmental authorities. These risks generally depend on economic and political events over which the Issuers have no control.

Exchange Rates Will Affect the Investor's Investment. In recent years, rates of exchange between some currencies have been highly volatile and this volatility may continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur during the term of any Security. Depreciation against the investor's home currency or the currency in which a Security is payable would result in a decrease in the effective yield of the Security and could result in an overall loss to an investor on the basis of the investor's home currency. In addition, depending on the specific terms of a Security, changes in exchange rates relating to any of the relevant currencies could result in a decrease in its effective yield and in the investor's loss of all or a substantial portion of the value of that Security.

The Issuers Have No Control Over Exchange Rates. Currency exchange rates can either float or be fixed. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to each other. However, from time to time governments may use a variety of techniques, such as intervention by a country's central bank, the imposition of regulatory controls or taxes, or changes in interest rate to influence the exchange rates of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by a devaluation or revaluation of a currency. These governmental actions could change or interfere with currency valuations and currency fluctuations that would

otherwise occur in response to economic forces, as well as in response to the movement of currencies across borders.

As a consequence, these government actions could adversely affect yields or payouts in the investor's home currency for (i) Securities denominated or payable in currencies other than U.S. dollars and (ii) Currency-Linked Securities.

The Issuers will not make any adjustment or change in the terms of the Securities in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting any currency. The investor will bear those risks.

Some Currencies May Become Unavailable. Governments have imposed from time to time, and may in the future impose, exchange controls that could also affect the availability of a Specified Currency (as defined herein). Even if there are no actual exchange controls, it is possible that the applicable currency for any security would not be available when payments on that security are due.

Currency Exchange Information Will Be Provided in the Final Terms. The applicable Final Terms or base prospectus supplement, where relevant, will include information with respect to any relevant exchange controls and any relevant historic exchange rate information for any Security. The investor should not assume that any historic information concerning currency exchange rates will be representative of the range of, or trends in, fluctuations in currency exchange rates that may occur in the future.

Currency exchange conversions may affect payments on some Securities.

The applicable Final Terms may provide for (i) payments on a non-U.S. dollar denominated Security to be made in U.S. dollars or (ii) payments in respect of Securities to be made in a currency other than U.S. dollars. In these cases, Morgan Stanley & Co. International plc, in its capacity as Exchange Rate Agent (the "**Exchange Rate Agent**"), or such other exchange rate agent identified in the applicable Final Terms, will convert the applicable currency into U.S. dollars or U.S. dollars into the applicable currency. The investor will bear the costs of the conversion through deductions from those payments.

Secondary trading of the Securities may be limited.

There may be little or no secondary market for the Securities. Although an Issuer may apply to have certain issuances of Securities admitted to the Official List and to trading on the Irish Stock Exchange or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, approval for any listing is subject to meeting the relevant listing requirements. Even if there is a secondary market, it may not provide enough liquidity to allow the investor to sell or trade the Securities easily. Morgan Stanley & Co. International plc currently intends to, and other affiliates of Morgan Stanley may from time to time, act as a market maker for the Securities, but they are not required to do so. If at any time Morgan Stanley & Co. International plc and other affiliates of the Issuers were to cease acting as market makers, it is likely that there would be little or no secondary market for the Securities.

Investors have no shareholder rights.

As an owner of Securities, investors will not have voting rights or rights to receive dividends, interest or other distributions, as applicable, or any other rights with respect to any underlying security or index.

Potential conflicts of interest between the investor and the determination agent.

As determination agent for Securities linked to a single security, index, basket of securities or indices or other underlying instruments, assets or obligations, Morgan Stanley & Co. International plc or an affiliate will

determine the payout to the investor at maturity. Morgan Stanley & Co. International plc and other affiliates may also carry out hedging activities related to any Securities linked to a single security, index, basket of securities or indices or to other instruments, assets or obligations including trading in the underlying securities or indices as well as in other instruments related to the underlying securities or indices. Morgan Stanley & Co. International plc and some of Morgan Stanley's other subsidiaries may also trade the applicable underlying securities or indices and other financial instruments related to the underlying securities or indices on a regular basis as part of their general broker-dealer and other businesses. Any of these activities could influence the determination agent's determination of adjustments made to any Securities linked to a single security, index, basket of securities or indices or other underlying instruments, assets or obligations and any such trading activity could potentially affect the price of the underlying securities or indices or other underlying instruments, assets or obligations and, accordingly, could affect the investor's payout on any Securities.

Because the Global Warrants (as defined below) may be held by or on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), investors will have to rely on their procedures for transfer, payment and communication with the relevant Issuer.

Securities issued under the Program may be represented by one or more global warrants (each, a "**Global Warrant**"). Such Global Warrants may be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Warrant, investors will not be entitled to receive definitive Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Warrants. While the Securities are represented by one or more Global Warrants held by Euroclear or Clearstream, Luxembourg, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Securities are represented by one or more Global Warrant, the Issuer will discharge its payment obligations under the Securities by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Warrant must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Securities. Neither the relevant Issuer nor the Guarantor has responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Warrants.

Holder of beneficial interests in the Global Warrants will not have a direct right to vote in respect of the relevant Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream, Luxembourg to appoint appropriate proxies.

Modification and waiver.

The conditions of the Securities contain provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority.

Change of law.

The conditions of the Securities are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice in England after the date of this Base Prospectus.

WHERE THE INVESTOR CAN FIND MORE INFORMATION ABOUT MORGAN STANLEY

Morgan Stanley files reports, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). The investor may read and copy any of these documents at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, the SEC maintains a website that contains reports, proxy statements and other information that Morgan Stanley files electronically. The address of the SEC's website is <http://www.sec.gov>. The information contained on this website, and any information available at the SEC's public reference room, shall not form part of this Base Prospectus, unless such information has been expressly incorporated herein by way of a supplement to this Base Prospectus.

Morgan Stanley's common stock, par value US\$0.01 per share, is listed on the New York Stock Exchange, Inc. under the symbol "MS." The investor may inspect annual, quarterly and current reports, proxy statements and other information concerning Morgan Stanley and its consolidated subsidiaries at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005 (such reports, proxy statements and other information shall not form a part of this Base Prospectus unless they have been expressly incorporated herein by way of a supplement to this Base Prospectus).

INCORPORATION BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Base Prospectus, to the extent that, on or before the date of this Base Prospectus, they have been published and filed with the Irish Stock Exchange:

- (i) Morgan Stanley's Quarterly Report on Form 10-Q for the quarterly period ended 28 February 2007 (as set out at <http://www.sec.gov>);
- (ii) Morgan Stanley's Current Report on Form 8-K dated 10 April 2007 (as set out at <http://www.sec.gov>);
- (iii) Morgan Stanley's Proxy Statement dated 23 February 2007 (as set out at <http://www.sec.gov>);
- (iv) Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended 30 November 2006 (as set out at <http://www.sec.gov>);
- (v) Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended 30 November 2005 (as set out at <http://www.sec.gov>);
- (vi) Morgan Stanley Jersey's Annual Report for the year ended 30 November 2005;
- (vii) Morgan Stanley Jersey's Annual Report for the year ended 30 November 2006;
- (viii) MSBV's Annual Report for the year ended 30 November 2005; and
- (ix) MSBV's Annual Report for the year ended 30 November 2006,

save that any statement contained in this Base Prospectus or any documents incorporated by reference herein, shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference and in respect of which a supplement to this Base Prospectus is prepared modifies or supersedes such statement.

The information about Morgan Stanley, Morgan Stanley Jersey and MSBV incorporated by reference in this Base Prospectus, (the "**Incorporated Information**") is considered to be part of this Base Prospectus. Future filings of Morgan Stanley with the SEC and future financial statements published by Morgan Stanley Jersey and MSBV may modify or supersede some of the information included or incorporated by reference in this Base

Prospectus. This means that investors should look at all of the SEC filings of Morgan Stanley and all of the financial statements of Morgan Stanley Jersey and MSBV to determine if any of the statements in this Base Prospectus or in any document previously incorporated by reference have been modified or superseded.

The Issuers will, at their registered offices and at the specified offices of the Securities Agents, make available for inspection during normal business hours and free of charge, upon oral or written request, a copy of this Base Prospectus (or any document incorporated by reference in this Base Prospectus and any future filings or financial statements published such Issuer). Written or oral requests for inspection of such documents should be directed to the specified office of any Securities Agent.

MORGAN STANLEY

Auditors

The auditors of Morgan Stanley for the periods 1 December 2003 to 30 November 2004, 1 December 2004 to 30 November 2005, and 1 December 2005 to 30 November 2006 were Deloitte & Touche LLP, Two World Financial Center, New York, New York 10281, U.S.A., an independent registered public accounting firm (the "**Auditors**").

The Auditors have issued a report dated February 12, 2007 (April 10, 2007 as to the effects of the discontinued operations discussed in Note 30), appearing in the Current Report on Form 8-K of Morgan Stanley dated April 10, 2007, relating to the consolidated financial statements of Morgan Stanley and reports dated February 12, 2007, relating to the financial statement schedule and management's report on the effectiveness of internal control over financial reporting appearing in the Annual Report on Form 10-K for the fiscal year ended November 30, 2006 (which reports on the consolidated financial statements and financial statement schedule express an unqualified opinion and include explanatory paragraphs relating to the adoption, in fiscal 2005, of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" and relating to, in fiscal year 2006, Morgan Stanley's change in accounting policy for recognition of equity awards granted to retirement-eligible employees and relating to, in fiscal year 2006, the application of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements").

The Auditors are registered with the Public Company Accounting Oversight Board (United States).

Risk Factors

Information about risk factors relating to Morgan Stanley is contained in "Risk Factors" in this Base Prospectus.

Information about Morgan Stanley

History and Development of Morgan Stanley

Morgan Stanley was originally incorporated for an unlimited term under the laws of the State of Delaware on 1 October 1981 under registered number 0923632, and its predecessor companies date back to 1924. On 31 May 1997, Morgan Stanley Group, Inc. was merged with and into Dean Witter Discover & Co. ("**Dean Witter Discover**") in a merger of equals. At that time, Dean Witter Discover changed its corporate name to Morgan Stanley, Dean Witter, Discover & Co. ("**MSDWD**"). On 24 March 1998 MSDWD changed its corporate name to Morgan Stanley Dean Witter & Co, and to Morgan Stanley on 20 June 2002.

Morgan Stanley has its registered office at The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A., and its principal executive offices at 1585 Broadway, New York, New York 10036, U.S.A., telephone number +1 (212) 761-4000.

As at the date of this Base Prospectus, Morgan Stanley's legal and commercial name is "Morgan Stanley".

Legislation

Morgan Stanley is subject both to the laws of the United States of America and to the General Corporation Law of the State of Delaware ("**DGCL**"). United States federal laws affect many aspects of corporate affairs in the United States and concern such diverse matters as antitrust, bankruptcy, labor-management relations, the sale of securities and taxation. Certain United States federal securities laws are administered by the SEC and generally prohibit the sale of securities by fraudulent means and require most corporations that have issued securities,

which are publicly held, such as Morgan Stanley, to make periodic financial and other reports to the SEC and to shareholders.

In the United States, business corporations are generally incorporated under the laws of one of the states. Morgan Stanley is incorporated under the laws of the State of Delaware.

Effective 1 December 2005, Morgan Stanley became a consolidated supervised entity (a “CSE”) as defined by the SEC. As such, Morgan Stanley is subject to group-wide supervision and examination by the SEC and to minimum capital requirements on a consolidated basis.

Morgan Stanley continues to work with its regulators on the implementation of the CSE rules and the standards of the Basel Committee on Banking Supervision (“**Basel II**”). As rules related to Basel II are released, Morgan Stanley will consult with regulators on the new requirements. Compliance with related EU requirements (capital, oversight and reporting) will be a focus item through 2008.

Recent events

On 19 December 2006, Morgan Stanley announced that its Board of Directors had approved the spin-off of Discover Financial Services (“**Discover**”) (the “**Discover Spin-off**”) in order to enhance shareholder value. The Discover Spin-off will allow Morgan Stanley to focus its efforts on more closely aligned firm-wide strategic priorities within its Institutional Securities, Global Wealth Management Group and Asset Management business segments. The Discover Spin-off is subject to regulatory approval and other customary conditions. On June 1, 2007, the Board of Directors of Morgan Stanley announced that the Discover Spin-off will occur on June 30, 2007. At that time, Morgan Stanley stockholders of record as of the close of business on June 18, 2007 will receive one share of Discover common stock for every two shares of Morgan Stanley common stock outstanding as of the record date. Stockholders will receive cash in lieu of fractional shares for amount less than one full Discover share. Following the distribution, Discover will be an independent, publicly traded company.

Investments

The following is a description of the principal investments made since the date of the last published annual financial statements.

CityMortgage Bank. On December 21, 2006, Morgan Stanley acquired CityMortgage Bank (“CityMortgage”), a leading Moscow-based mortgage bank that specializes in originating, servicing and securitizing residential mortgage loans in the Russian Federation. The results of CityMortgage will be included within the Institutional Securities business segment.

Olco Petroleum Group Inc. On December 15, 2006, Morgan Stanley acquired a 60% equity stake in Olco Petroleum Group Inc. (“Olco”), a petroleum products marketer and distributor based in eastern Canada. The results of Olco will be included within the Institutional Securities business segment.

Saxon Capital, Inc. On December 4, 2006, Morgan Stanley acquired Saxon Capital, Inc. (“Saxon”), a servicer and originator of residential mortgages. The results of Saxon will be included within the Institutional Securities business segment.

FrontPoint Partners. On December 4, 2006, Morgan Stanley acquired FrontPoint Partners (“FrontPoint”), a leading provider of absolute return investment strategies. The results of FrontPoint will be included within the Asset Management business segment.

Except as disclosed herein and in the Incorporated Information, so far as Morgan Stanley is aware, there have been no material investments made since the date of its last published financial statements and there are no principal future investments to which Morgan Stanley's management have already made firm commitments.

Business Overview

Principal Activities

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its business segments — Institutional Securities, Global Wealth Management Group, Asset Management and Discover. Morgan Stanley, through its subsidiaries and affiliates, provides a wide array of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

A summary of the activities of each of the segments follows:

Institutional Securities includes capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; benchmark indices and risk management analytics; research; and investment activities.

Global Wealth Management Group provides brokerage and investment advisory services covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; banking and cash management services; retirement services; and trust and fiduciary services.

Asset Management provides global asset management products and services in equity, fixed income, alternative investments and private equity to institutional and retail clients through proprietary and third party retail distribution channels, intermediaries and Morgan Stanley's institutional distribution channel. Asset Management also engages in investment activities.

Discover offers Discover[®] - branded credit cards and other consumer products and services and operates the Discover Network, a merchant and cash access network for Discover Network branded cards, and PULSE EFT[®] Association LP ("PULSE"), an automated teller machine/debit and electronic funds transfer network. Discover also offers consumer finance products and services in the U.K. including Morgan Stanley-branded, Goldfish-branded, and various other credit cards issued on the MasterCard[®] and Visa[®] networks.

On 19 December 2006, Morgan Stanley announced that its Board of Directors had approved the spin-off of Discover in order to enhance shareholder value. The Discover Spin-off will allow Morgan Stanley to focus its efforts on more closely aligned firm-wide strategic priorities within its Institutional Securities, Global Wealth Management Group and Asset Management business segments. The Discover Spin-off is subject to regulatory approval and other customary conditions. On June 1, 2007, the Board of Directors of Morgan Stanley announced that the Discover Spin-off will occur on June 30, 2007. At that time, Morgan Stanley stockholders of record as of the close of business on June 18, 2007 will receive one share of Discover common stock for every two shares of Morgan Stanley common stock outstanding as of the record date. Stockholders will receive cash in lieu of fractional shares for amount less than one full Discover share. Following the distribution, Discover will be an independent, publicly traded company.

Principal Markets

Morgan Stanley conducts its business from its headquarters in New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers.

Competition

All aspects of Morgan Stanley's businesses are highly competitive and Morgan Stanley expects them to remain so. Morgan Stanley competes in the U.S. and globally for clients, market share and human talent in all aspects of its business segments. Morgan Stanley's competitive position depends on its reputation, the quality of its products, services and advice. Morgan Stanley's ability to sustain or improve its competitive position also depends substantially on its ability to continue to attract and retain qualified employees while managing compensation and other costs.

Institutional Securities and Global Wealth Management Group: Morgan Stanley's competitive position depends on innovation, execution capability and relative pricing. Morgan Stanley competes directly in the U.S. and globally with other securities and financial services firms and broker-dealers, and with others on a regional or product basis. Morgan Stanley competes with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy companies and other companies offering financial services in the U.S., globally and through the internet.

Morgan Stanley's ability to access capital at competitive rates (which is generally dependent on Morgan Stanley's credit ratings) and to commit capital efficiently, particularly in its capital-intensive underwriting and sales, trading, financing and market-making activities, also affects its competitive position. Corporate clients continue to request that Morgan Stanley provide loans or lending commitments in connection with certain investment banking activities.

Over time, certain sectors of the financial services industry have become more concentrated, as financial institutions involved in a broad range of financial services industries have been acquired by or merged into other firms. This convergence could result in Morgan Stanley's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. It is possible that competition may become even more intense as Morgan Stanley continues to compete with financial institutions that may be larger, or better capitalized, or may have a stronger local presence and longer operating history in certain areas. Many of these firms have greater capital than Morgan Stanley and have the ability to offer a wide range of products that may enhance their competitive position and could result in pricing pressure in Morgan Stanley's businesses. The complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management, regulatory and other infrastructure challenges that require effective resource allocation in order for Morgan Stanley to remain competitive.

Morgan Stanley has experienced intense price competition in some of its businesses in recent years. In particular, the ability to execute trades electronically through the internet and other alternative trading systems has increased the pressure on trading commissions. The trend toward the use of alternative trading systems will likely continue. It is possible that Morgan Stanley will experience competitive pressures in these and other areas in the future as some of its competitors may seek to obtain market share by reducing prices.

Asset Management: Competition in the asset management industry is affected by several factors, including Morgan Stanley's reputation, investment objectives, quality of investment professionals, performance of investment products relative to peers and an appropriate benchmark index, advertising and sales promotion efforts, fee levels, the effectiveness of and access to distribution channels, and the types and quality of products offered. Morgan Stanley's products compete with the funds and separately managed account products of other asset management firms and other investment alternatives.

Discover: Credit cards issued by Discover compete directly with other bank-issued credit cards (the vast majority of which bear the MasterCard or Visa servicemark), charge cards, credit cards issued by travel, entertainment and financial advisory companies and debit cards. Credit cards issued on the Discover Network by third parties may also compete with credit cards offered by Discover. Competition centers on merchant acceptance of credit and debit cards (either directly or through merchant acquirers), account acquisition and customer utilization of credit and debit cards. Merchant acceptance is based on, among other factors, competitive transaction pricing and the volume and usage of cards in circulation. Credit card account acquisition and customer utilization are driven by competitive and appealing credit card features, such as fee levels, interest rates and other customized features targeting specific consumer groups. Credit card industry participants have increasingly used advertising, targeted marketing, account acquisitions and pricing competition in interest rates, annual fees, reward programs and low-priced balance transfer programs to compete and grow.

The Discover Network competes with other card networks, including among others, MasterCard, VISA and American Express. The principal competitive factors that affect the network business include the number of merchants that accept cards, the number of cards in force and the amount of spending on these cards, the quantity and quality of places where cards can be used, the economic attractiveness to card issuers and merchants participating in the network, reputation and brand recognition, innovation in systems, technology and product offerings, and quality of customer service.

Organisational Structure

Morgan Stanley is a holding company that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

Morgan Stanley's U.S. and international subsidiaries include Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International plc (formerly "Morgan Stanley & Co. International Limited"), Morgan Stanley Japan Securities Co., Ltd. (formerly "Morgan Stanley Japan Limited"), Morgan Stanley Investment Advisors Inc. and Discover Financial Services (formerly "NOVUS Credit Services Inc."). On April 1, 2007, Morgan Stanley merged Morgan Stanley DW Inc. into Morgan Stanley & Co. Incorporated. Upon completion of the merger, the surviving entity, Morgan Stanley & Co. Incorporated, became Morgan Stanley's principal U.S. broker-dealer.

Trend Information

There has been no significant change in the financial or trading position of Morgan Stanley and its consolidated subsidiaries since 28 February 2007.

Management

Directors

The directors of Morgan Stanley as of the date of this Base Prospectus, their offices, if any, within Morgan Stanley, and their principal outside activity, if any, are listed below. The business address of each director is 1585 Broadway, New York, New York 10036, U.S.A.

Name	Function within Morgan Stanley	Principal Outside Activity
John J. Mack	Chairman of the Board and Chief Executive Officer	John J. Mack does not perform other relevant managerial activities outside Morgan Stanley
Roy J. Bostock	Director	Chairman of the Partnership for a Drug-Free America. Member of the board of directors of Northwest Airlines Corporation and Yahoo! Inc.
Erskine B. Bowles	Director	President of the University of North Carolina. Director of General Motors Corporation and Cousins Properties Incorporated
Howard J. Davies	Director	Director of the London School of Economics and Political Science
C. Robert Kidder	Director	Chairman and CEO of 3 Stone Advisors LLC. Director of Schering-Plough Corporation
Donald T. Nicolaisen	Director	Board of Directors of MGIC Investment Corporation, Verizon Communications Inc. and Zurich Financial Services
Charles H. Noski	Director	Director of Microsoft Corporation and Air Products and Chemicals Inc.
Hutham S. Olayan	Director	President, Chief Executive Officer and Director of Olayan America Corporation
Charles E. Phillips, Jr.	Director	Director of Oracle Corporation and Viacom, Inc.

Name	Function within Morgan Stanley	Principal Outside Activity
O. Griffith Sexton	Director	Advisory Director of Morgan Stanley, Adjunct Professor of Finance at Columbia Business School; Visiting Lecturer of Princeton University, Director of Investor AB
Laura D'Andrea Tyson	Director	Professor, Walter A. Haas School of Business, University of California at Berkeley. Director of Eastman Kodak Company and AT&T Inc.
Klaus Zumwinkel	Director	Chairman of the Board of Management, Deutsche Post AG, Director of Deutsche Lufthansa AG (Supervisory Board), Deutsche Telekom AG (Chairman, Supervisory Board), Karstadt Quelle AG (Supervisory Board) and Deutsche Postbank AG (Chairman, Supervisory Board)

Related Party Transactions

During fiscal year 2006, Morgan Stanley's subsidiaries extended credit in the ordinary course of business to certain of Morgan Stanley's directors, officers and employees and members of their immediate families. These extensions of credit were in connection with margin loans, mortgage loans, credit card transactions, revolving lines of credit and other extensions of credit by Morgan Stanley's subsidiaries. The extensions of credit were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other persons. The extensions did not involve more than the normal risk of collectability or present other unfavorable features. Directors, officers and employees and members of their immediate families who wish to purchase securities and derivative and financial products and financial services may do so through Morgan Stanley's subsidiaries. These subsidiaries may offer them discounts on their standard commission rates or fees. These subsidiaries also, from time to time and in the ordinary course of their business, enter into transactions on a principal basis involving the purchase or sale of securities and derivative products in which Morgan Stanley's directors, officers and employees and members of their immediate families have an interest. These purchases and sales may be made at a discount from the dealer mark-up or mark-down, as the case may be, charged to non-affiliated third parties. Certain employees, including Morgan Stanley's executive officers, may invest on the same terms and conditions as other investors in investment funds that Morgan Stanley may form and manage primarily for client investment, except that Morgan Stanley may waive or lower certain fees and expenses for its employees. In addition, Morgan Stanley may, pursuant to stock repurchase authorizations in effect from time to time, repurchase or acquire shares of Morgan Stanley's common stock in the open market or in privately negotiated transactions, which may include transactions with directors, officers and employees. These transactions are in the ordinary course of business and at prevailing market prices.

During fiscal year 2006, Morgan Stanley engaged in transactions in the ordinary course of business with each of State Street and Barclays and certain of their respective affiliates. Each of State Street and Barclays beneficially owned more than 5 % of the outstanding shares of Morgan Stanley common stock as of December 31, 2006. Such transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unrelated third parties. Morgan Stanley also engages in transactions, including entering into financial services transactions (e.g., trading in securities, commodities or derivatives) with, and performs investment banking, financial advisory, brokerage, investment management and other services for, entities for which its directors and members of their immediate family serve as executive officers, and may make loans or commitments to extend loans to such entities. The transactions are conducted, services are performed, and loans and commitments are made in the ordinary course of business and on substantially the same terms, including interest rate and collateral, that prevail at the time for comparable transactions with other persons. The loans do not involve more than the normal risk of collectability or present other unfavorable features.

A son-in-law of director Roy J. Bostock engaged in transactions with Morgan Stanley and became a managing director in the Morgan Stanley's asset management business in connection with Morgan Stanley's acquisition of FrontPoint in December 2006. As a result of Morgan Stanley's acquisition of FrontPoint, Morgan Stanley paid him total compensation for services rendered to FrontPoint in fiscal year 2006 of approximately U.S.\$318,000 (consistent with the amount accrued by FrontPoint for his compensation during fiscal year 2006).

Eileen Murray is an executive officer of Morgan Stanley. Morgan Stanley employs her brother as a professional level employee in the Business Continuity Planning Department in the Securities Integration Group and paid him compensation for services with respect to fiscal year 2006 of approximately U.S.\$170,000.

There are no existing or potential conflicts of interest between any duties owed to Morgan Stanley by its directors or by the members of its principal committees and the private interests and/or other external duties owed by these individuals.

Board Practices

Morgan Stanley considers itself to be in compliance with all United States laws relating to corporate governance that are applicable to it.

The Board meets regularly and directors receive information between meetings about the activities of committees and developments in Morgan Stanley's business. All directors have full and timely access to all relevant information and may take independent professional advice if necessary.

The Corporate Governance Policies (including Morgan Stanley's Director Independence Standards), Code of Ethics and Business Conduct, Board Committee charters, Policy regarding Communication by Shareholders and Other Interested Parties with the Board of Directors, Policy regarding Director Candidates Recommended by Shareholders, Policy regarding Corporate Political Contributions, Policy regarding Shareholder Rights Plan, information regarding the Integrity Hotline and the Management Committee Equity Ownership Commitment are available at Morgan Stanley's corporate governance webpage at the "Company Information" link under the "About Morgan Stanley" link at "<http://www.morganstanley.com/about/company/governance/index.html>". The information contained on this webpage, shall not form part of this Base Prospectus, unless such information has been expressly incorporated herein by way of a supplement to this Base Prospectus.

The Lead Director is C. Robert Kidder.

The Board's standing committees include the following:

Committee	Current Members	Primary Responsibilities
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Committee	Current Members	Primary Responsibilities
Audit	Charles H. Noski (Chair) Howard J. Davies Donald T. Nicolaisen Charles E. Phillips, Jr.	<p>Oversees the integrity of Morgan Stanley's consolidated financial statements, system of internal controls, risk management and compliance with legal and regulatory requirements.</p> <p>Selects, determines the compensation of, evaluates and, when appropriate, replaces the independent auditor, and pre-approves audit and permitted non-audit services.</p> <p>Oversees the qualifications and independence of the independent auditor and performance of Morgan Stanley's internal and independent auditors.</p> <p>After review, recommends to the Board the acceptance and inclusion of the annual audited consolidated financial statements in Morgan Stanley's Annual Report on Form 10-K.</p>
Compensation, Management, Development and Succession	C. Robert Kidder (Chair) Erskine B. Bowles Donald T. Nicolaisen	<p>Annually reviews and approves the corporate goals and objectives relevant to the compensation of the Chairman and CEO and evaluates his performance in light of these goals and objectives.</p> <p>Determines the compensation of Morgan Stanley's executive officers and other officers as deemed appropriate.</p> <p>Administers Morgan Stanley's equity-based compensation plans.</p> <p>Oversees plans for management development and succession.</p>
Nominating and Governance	Laura D'Andrea Tyson (Chair) Roy J. Bostock Hutham S. Olayan Klaus Zumwinkel	<p>Identifies and recommends candidates for election to the Board.</p> <p>Establishes procedures for its oversight of the evaluation of the Board.</p> <p>Recommends director compensation and benefits.</p> <p>Reviews annually Morgan Stanley's</p>

Committee	Current Members	Primary Responsibilities
		corporate governance policies.

Employees

As at 30 November 2006, Morgan Stanley had 56,310 employees worldwide.

Principal Shareholders

Under SEC regulations applicable to Morgan Stanley, the relevant threshold for disclosure obligation concerning participation interests in listed companies is 5 per cent. of share capital. Therefore, this is the only information available to the public.

Morgan Stanley does not have information about shareholders with participation interests between 2 per cent. and 5 per cent. According to the most recent SEC filings, as at 23 February 2007, the following shareholders owned more than 5 per cent. of Morgan Stanley's common stock:

<u>Name and Address</u>	Shares of Common Stock Beneficially Owned	
	<u>Number</u>	<u>Percent.</u> ⁽¹⁾
State Street Bank and Trust Company ⁽²⁾ 225 Franklin Street, Boston, MA 02110	127,887,564	12.01%
Barclays Global Investors, N.A., and other reporting entities (Barclays) ⁽³⁾ 45 Fremont Street, San Francisco, CA 94105	64,442,639	6.05%

⁽¹⁾ Percentages calculated based upon common stock outstanding as of February 9, 2007 and holdings of common stock set forth in the Schedule 13G Information Statements described in notes 2-3 below. These Information Statements state that State Street and Barclays beneficially owned 12.1% and 6.15%, respectively, of Morgan Stanley's common stock on December 31, 2006.

⁽²⁾ Based on Schedule 13G Information Statement filed February 12, 2007 by State Street, acting in various fiduciary capacities. The Schedule 13G discloses that State Street had sole voting power as to 47,230,411 shares, shared voting power as to 80,657,153 shares and shared dispositive power as to 127,887,564 shares; that shares held by State Street on behalf of the Trust and Company-sponsored equity-based compensation program amounted to 7.6% of the common stock as of December 31, 2006; and that State Street disclaimed beneficial ownership of all shares reported therein.

⁽³⁾ Based on a Schedule 13G Information Statement filed on January 23, 2007 (dated January 31, 2007) by Barclays Global Investors, N.A., Barclays Global Fund Advisors, Barclays Global Investors, Ltd, Barclays Global Investors Japan Trust and Banking Company Limited and Barclays Global Investors Japan Limited. In the Schedule 13G, the reporting entities do not affirm the existence of a group. The Schedule 13G discloses that the reporting entities, taken as a whole, had sole voting and sole dispositive power as to 56,284,434 shares and sole dispositive power as to 64,442,639 shares, and did not have shared power as to any shares.

Accordingly, there is no entity owning or controlling, either directly or indirectly, Morgan Stanley.

Share Capital

The authorised share capital of Morgan Stanley at 30 November 2006 comprised 3,500,000,000 ordinary shares of nominal value U.S.\$0.01 and 30,000,000 preferred stock of nominal value U.S.\$0.01.

The issued, non-assessable and fully paid up share capital of Morgan Stanley at 30 November 2006 comprised 1,211,701,552 ordinary shares of nominal value U.S.\$0.01.

Certificate of Incorporation

Morgan Stanley's objects and purposes are set out on page 1 of its Certificate of Incorporation and enable it to engage in any lawful act or activity for which corporations may be organised and incorporated under the DGCL.

Selected Financial Information

This section incorporates by reference the historical financial information contained in the Current Report on Form 8-K dated 10 April 2007 for the fiscal years ended 30 November 2006 and 30 November 2005, including consolidated statements of financial condition, the consolidated statements of income, consolidated statements of cash flow and notes to the consolidated financial statements.

Financial Information

Consolidated Statements of Financial Condition	Pages 61-62 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006
Consolidated Statements of Income	Page 63 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006
Consolidated Statements of Cash Flow	Page 65 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006
Notes to the Consolidated Financial Statements	Pages 67-124 of the Current Report on Form 8-K dated 10 April 2007 for the fiscal year ended 30 November 2006

The Annual Report on Form 10-K for the fiscal year ended 30 November 2006 has been filed with the SEC on 13 February 2007.

Additional financial information is contained in the Current Report on Form 8-K dated 10 April 2007 and the Annual Report on Form 10-K for the fiscal year ended 30 November 2006, available to the public as indicated in the section headed "Where the Investor can find more information about Morgan Stanley".

There has been no material adverse change in the prospects of Morgan Stanley and its consolidated subsidiaries since 30 November 2006.

Auditing of Historical Financial Information

The Auditors have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) (i) the consolidated statements of financial condition of Morgan Stanley as of 30 November 2006 and 2005 and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended 30 November 2006 (ii) the related financial statement schedule included in Schedule I and (iii) management's report on the effectiveness of internal control over financial reporting, each included in Morgan Stanley's Annual Report on Form 10-K for the year ended November 2006.

The Auditors of Morgan Stanley have issued a report dated February 12, 2007 (April 10, 2007 as to the effects of the discontinued operations discussed in Note 30), appearing in the Current Report on Form 8-K of Morgan Stanley dated April 10, 2007, relating to the consolidated financial statements of Morgan Stanley and reports dated February 12, 2007, relating to the financial statement schedule and management's report on the effectiveness of internal control over financial reporting appearing in the Annual Report on Form 10-K for the fiscal year ended 30 November 2006 (which reports on the consolidated financial statements and financial statement schedule express an unqualified opinion and include explanatory paragraphs relating to the adoption, in fiscal 2005, of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" and relating to, in fiscal year 2006, Morgan Stanley's change in accounting policy for recognition of equity awards granted to retirement-eligible employees and relating to, in fiscal year 2006, the application of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements").

This document does not contain other information that has been audited by the Auditors.

Legal and Arbitration Proceedings

In addition to the matters described below, in the normal course of business, Morgan Stanley has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

Morgan Stanley is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding Morgan Stanley's business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of these reviews, investigations and proceedings has increased in recent years with regard to many firms in the financial services industry, including Morgan Stanley.

Morgan Stanley contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Morgan Stanley cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, and except for the *Coleman Litigation* described below, Morgan Stanley believes, based on current knowledge and after consultation with counsel, that the outcome of all other pending matters will not have a material adverse effect on the consolidated financial condition of Morgan Stanley, although the outcome of such matters could be material to Morgan Stanley's operating results for a particular future period, depending on, among other things, the level of Morgan Stanley's revenues or

income for such period. Legal reserves have been established in accordance with SFAS No.5, "Accounting for Contingencies" ("SFAS No.5"). Once established, reserves are adjusted when there is more information available or when an event occurs requiring a change.

On April 1, 2007, Morgan Stanley merged Morgan Stanley DW Inc. into Morgan Stanley and Co. Incorporated, and Morgan Stanley & Co. Incorporated, the surviving entity, became Morgan Stanley's principal U.S. broker-dealer.

Coleman Litigation.

On May 8, 2003, Coleman (Parent) Holdings Inc. ("CPH") filed a complaint against Morgan Stanley in the Circuit Court of the Fifteenth Judicial Circuit for Palm Beach County, Florida. The complaint relates to the 1998 merger between The Coleman Company, Inc. ("Coleman") and Sunbeam, Inc. ("Sunbeam"). The complaint, as amended, alleges that CPH was induced to agree to the transaction with Sunbeam based on certain financial misrepresentations, and it asserts claims against Morgan Stanley for aiding and abetting fraud, conspiracy and punitive damages. Shortly before trial, which commenced in April 2005, the trial court granted, in part, a motion for entry of a default judgment against Morgan Stanley and ordered that portions of CPH's complaint, including those setting forth CPH's primary allegations against Morgan Stanley, be read to the jury and deemed established for all purposes in the action. In May 2005, the jury returned a verdict in favor of CPH and awarded CPH \$604 million in compensatory damages and \$850 million in punitive damages. On June 23, 2005, the trial court issued a final judgment in favor of CPH in the amount of \$1,578 million, which includes prejudgment interest and excludes certain payments received by CPH in settlement of related claims against others.

On June 27, 2005, Morgan Stanley filed a notice of appeal with the District Court of Appeal for the Fourth District of Florida (the "Court of Appeal") and posted a supersedeas bond, which automatically stayed execution of the judgment pending appeal. Included in cash and securities deposited with clearing organisations or segregated under federal and other regulations or requirements in the consolidated statement of financial condition is \$1,840 million of money market deposits that have been pledged to obtain the supersedeas bond. Morgan Stanley filed its initial brief in support of its appeal on December 7, 2005 and, on June 28, 2006, the Court of Appeal heard oral argument. Morgan Stanley's appeal seeks to reverse the judgment of the trial court on several grounds and asks that the case be remanded for entry of a judgment in favor of Morgan Stanley or, in the alternative, for a new trial.

On March 21, 2007, the District Court of Appeal for the Fourth District of Florida issued an opinion reversing the trial court's award for compensatory and punitive damages and remanding the matter to the trial court for entry of judgment for Morgan Stanley. The opinion will become final upon disposition of any timely filed motions for rehearing.

Until the March 21, 2007 opinion becomes final, the Company is maintaining a reserve for the Coleman litigation. The reserve is presently \$360 million, which the Company believes to be a reasonable estimate, under SFAS No.5, of the low end of the range of its probable exposure in the event the Court of Appeal's March 21, 2007 opinion is reversed or modified as a result of further appellate proceedings and the case remanded for a new trial. If the trial court's compensatory and/or punitive awards are ultimately upheld on appeal, in whole or in part, the Company may incur an additional expense equal to the difference between the amount affirmed on appeal (and post-judgment interest thereon) and the amount of the reserve. While the Company cannot predict with certainty the amount of such additional expense, such additional expense could have a material adverse effect on the condensed consolidated financial condition of the Company and/or the Company's or Institutional Securities' operating results and cash flows for a particular future period, and the upper end of the range could exceed \$1.4 billion.

IPO Fee Litigation.

Starting in late 1998, purported class actions, later captioned *In re Public Offering Fee Antitrust Litigation* (the “purchaser actions”) and *In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation* (the “issuer actions”), were initiated in the U.S. District Court for the Southern District of New York (the “SDNY”) against Morgan Stanley and numerous other underwriters. The consolidated proceedings, one on behalf of purchasers and the other on behalf of issuers of certain shares in initial public offerings (“IPOs”), allege that defendants conspired to fix the underwriters’ spread at 7% in IPOs of U.S. companies in the \$20 million to \$80 million range, in violation of Section 1 of the Sherman Act. The complaints seek treble damages and injunctive relief. Plaintiffs’ claims for damages in the purchaser actions have been dismissed, but the claims for injunctive relief remain. Plaintiffs’ claims for damages and injunctive relief remain in the issuer actions. Plaintiffs moved for class certification in both actions, and defendants opposed that motion on May 25, 2005. On October 25, 2005, plaintiffs moved for summary judgment which defendants opposed. On April 18, 2006, the court denied plaintiffs’ motion for class certification in the issuer actions. On May 1, 2006, plaintiffs filed a petition pursuant to Federal Rule of Civil Procedure 23(f) for leave to appeal the denial of class certification, and on August 1, 2006, the U.S. Court of Appeals for the Second Circuit (the “Second Circuit”) granted plaintiffs’ petition. The case is otherwise stayed pending the appeal on class certification.

IPO Allocation Matters.

In March 2001, a purported class action, now captioned *In re Initial Public Offering Antitrust Litigation*, was initiated in the SDNY against Morgan Stanley and numerous other underwriters of various IPOs. The consolidated amended complaint alleges that defendants required customers who wanted allocations of “hot” IPO securities to pay undisclosed and excessive underwriters’ compensation in the form of increased brokerage commissions and to buy shares of securities offered in the IPOs after the IPOs were completed (“**tie-in purchases**”) at escalating price levels higher than the IPO price (a practice plaintiffs refer to as “**laddering**”). The complaint alleges violations of federal and/or state antitrust laws, including Section 1 of the Sherman Act. On September 28, 2005, the Second Circuit reversed the district court’s dismissal of this matter. On January 12, 2006, the Second Circuit denied defendants’ petition for rehearing *en banc*. On March 8, 2006, defendants filed a petition to the U.S. Supreme Court for writ of certiorari, which was granted on December 7, 2006.

Also beginning in March 2001, numerous purported class actions, now captioned *In re Initial Public Offering Securities Litigation*, were filed in the SDNY against certain issuers of IPO securities, certain individual officers of those issuers, Morgan Stanley and other underwriters of those IPOs, purportedly on behalf of purchasers of stock in the IPOs or the aftermarket. These complaints make factual allegations similar to the complaint in the antitrust action described above, but claim violations of the federal securities laws, including Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended (the “**Securities Act**”) and Section 10(b) of the Exchange Act. Some of the complaints also allege that continuous “buy” recommendations by the defendants’ research analysts improperly increased or sustained the prices at which the securities traded after the IPOs. On February 19, 2003, the underwriter defendants’ joint motion to dismiss was denied, except as to certain specified offerings. On December 5, 2006, the Second Circuit reversed the SDNY’s grant of class certification, and ruled that these cases could not be certified for class treatment. On January 5, 2007, plaintiffs filed a petition for rehearing and rehearing *en banc*.

On June 10, 2004, plaintiffs and issuer defendants entered into a definitive settlement agreement under which insurers of the issuers would guarantee recovery of at least \$1 billion by class members. As part of the settlement, the settling issuer defendants agreed to assign to class members certain claims they had against the underwriters. Starting in late 2004, purported assignees of certain issuers filed suits in the SDNY against several underwriter defendants, including Morgan Stanley, on the ground that underwriters breached the underwriting agreement and related duties by allocating shares in each company’s IPO to customers who allegedly paid the underwriters “excess compensation”. On October 11, 2005, the SDNY dismissed the complaint with leave to

replead. Plaintiffs filed a second amended complaint, which was dismissed with prejudice, on February 24, 2006. Plaintiff filed a notice of appeal on May 31, 2006.

On April 2, 2002, a purported class action complaint, captioned *Breakaway Solutions, Inc. v. Morgan Stanley & Co. Incorporated, et al.*, was filed in the Delaware Court of Chancery against Morgan Stanley and two other underwriters. The complaint was brought on behalf of a class of issuers that issued IPO securities from January 1, 1998 to October 31, 2000 pursuant to underwriting agreements with defendants and whose securities increased in value by 15 percent or more within 30 days following the IPO. The complaint alleges that defendants allocated underpriced stock to certain of defendants' favored clients and, directly or indirectly, shared in portions of the profits of such favored clients pursuant to side agreements or understandings, with the alleged effect of depriving issuers of millions of dollars in IPO proceeds. The complaint alleges breach of contract, breach of covenant of good faith, breach of fiduciary duty, indemnification or contribution and unjust enrichment and restitution. The court dismissed plaintiffs' claims except for its breach of fiduciary duty claim.

On September 30, 2005, Breakaway Solutions, Inc. ("Breakaway") filed another complaint in an individual action against Morgan Stanley and two other underwriters in the Supreme Court of the State of New York. The complaint alleges that defendants underpriced Breakaway's IPO stock, allocated this underpriced stock to favored clients pursuant to a profit sharing arrangement, and that Morgan Stanley improperly sold Breakaway shares before expiration of the lock-up period. The complaint alleges breach of fiduciary duty and breach of the covenant of good faith against all the defendants and fraud and unjust enrichment against Morgan Stanley. This action has been stayed by agreement of the parties.

Global Wealth Management Group Employment Matters.

Wage and Hour Matters. Complaints raising allegations of unpaid overtime and unlawful wage deductions against Morgan Stanley have been filed in New Jersey, New York, Connecticut, Texas, Florida, Illinois and California seeking damages on behalf of certain current and former employees. In New Jersey, a purported class action, captioned *Steinberg v. Morgan Stanley & Co., Inc. and Morgan Stanley DW Inc.*, was filed in the Superior Court of New Jersey, Law Division, Bergen County ("**New Jersey Superior Court**") on September 1, 2005 and was removed to the U.S. District Court for the District of New Jersey (the "**New Jersey District Court**") on October 7, 2005. A second purported class action, captioned *Robert Adler et al. v. Morgan Stanley & Co., Inc. and Morgan Stanley DW Inc.*, was filed in New Jersey Superior Court on May 22, 2006. On September 25, 2006, a third purported New Jersey class action, captioned *Jeff Quinn and John Volpe v. Morgan Stanley*, was filed in the New Jersey District Court.

On September 9, 2005, a purported class action, captioned *Gasman v. Morgan Stanley*, was filed in the SDNY. On September 23, 2005, another purported class action, captioned *Roles v. Morgan Stanley et al.*, was filed in the U.S. District Court for the Eastern District of New York.

On May 22, 2006, a purported class action, captioned *Janemarie Lenihan v. Morgan Stanley & Co., Inc. and Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the District of Connecticut. On June 23, 2006, a purported class action, captioned *Kyle R. Armitage v. Morgan Stanley & Co., Inc.*, was filed in the U.S. District Court for the Eastern District of Texas. On September 15, 2006, Morgan Stanley filed its answer and affirmative defenses to the *Armitage* complaint. On June 26, 2006, a purported class action, captioned *Jennifer Taub v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the Southern District of Florida. On August 24, 2006, a purported class action, captioned *Joseph Stowell, Jr., v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the Central District of Illinois. On September 8, 2006, plaintiffs in the *Armitage* and *Stowell* matters moved before the Judicial Panel on Multi-District Litigation (the "**Judicial Panel**") to coordinate the various pending matters in the U.S. District Court for the Northern District of Illinois (the "**Northern District of Illinois**").

On October 18, 2006, a purported class action, captioned *Vernon Brown v. Morgan Stanley* was filed in the U.S. District Court for the Southern District of California (the "**Southern District of California**").

On October 9, 2006, Morgan Stanley reached an agreement to resolve the wage and hour claims filed by the *Steinberg, Adler, Gasman, Roles, Lenihan* and *Brown* plaintiffs. The agreement, which is subject to, among other things, court approval, will resolve all claims brought by plaintiffs in New Jersey, New York, Connecticut and California as well as those of all other potential class members nationwide. On November 29, 2006, for purposes of executing the settlement, a consolidated amended complaint, captioned *Steinberg, et al. v. Morgan Stanley* (“Steinberg II”), was filed in the Southern District of California.

On November 21, 2006, the *Taub* matter was dismissed with prejudice.

On November 30, 2006, a hearing was held in St. Louis, Missouri before the Judicial Panel on the *Armitage* and *Stowell* plaintiffs’ motion for consolidation in the Northern District of Illinois. On December 27, 2006, the Panel issued an order centralizing the *Gasman, Roles, Steinberg, Lenihan, Armitage* and *Stowell* matters in the Southern District of California. The Judicial Panel also treated the *Quinn, Brown* and *Steinberg II* matters as potential “tag along” cases and issued a conditional transfer order transferring those cases to the Southern District of California as well.

Gender Matters. Morgan Stanley has also been named in two purported class actions alleging gender discrimination under state and federal law. On June 22, 2006, a purported class action, captioned *Joanne Augst-Johnson et al. v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the District of Columbia. On June 22, 2006, a second purported class action, captioned *Daisy Jaffe v. Morgan Stanley DW Inc.*, was filed in the U.S. District Court for the Northern District of California. Plaintiffs seek damages in law and in equity.

On October 12, 2006, a first amended complaint adding an additional named plaintiff, Denise Williams, was filed in the *Jaffe* matter. On October 30, 2006, Morgan Stanley filed a motion to stay the class claims and a motion to dismiss certain of plaintiff Williams’ claims. On November 13, 2006, plaintiffs agreed to voluntarily dismiss without prejudice the claims which were the subject of Morgan Stanley’s motion to dismiss. On January 19, 2007, the court granted Morgan Stanley’s motion to stay the class-wide allegations until March 15, 2007.

Late Trading and Market Timing.

Starting in July 2003, Morgan Stanley received subpoenas and requests for information from various regulatory and governmental agencies, including the SEC, the NYSE, and various states, in connection with industry-wide investigations of broker-dealers and mutual fund complexes relating to possible late trading and market timing of mutual funds. Morgan Stanley continues to cooperate with and provide information to regulators in connection with their inquiries.

AOL Time Warner Litigation.

Since 2003, Morgan Stanley has been named as a defendant in a number of state court actions involving AOL Time Warner, including cases in California, Ohio and West Virginia. All of these cases also name as defendants AOL Time Warner, numerous individual defendants, AOL Time Warner’s auditors, and other investment banking defendants. The complaints allege that AOL Time Warner issued false and misleading financial statements by, among other things, inflating advertising revenues. These complaints name Morgan Stanley in its capacity as financial advisor to Time Warner in the merger of America Online and Time Warner and/or as underwriter of bond offerings completed in 2001 and 2002. The complaints allege violations of Section 11 of the Securities Act and Section 14(a) of the Exchange Act (and Rule 14a-9 thereunder) in connection with the merger registration statement, as well as various state and common laws, and violations of Section 11 and 12(a)(2) of the Securities Act in connection with the bond registration statements.

In the coordinated California proceedings, claims based on California common law fraud and Sections 25400 and 25500 of the California Corporations Code remain against Morgan Stanley. In the Ohio action, state securities law claims remain against Morgan Stanley. Motions to dismiss are pending in the West Virginia action.

On January 30, 2006, numerous new individual actions were filed against Morgan Stanley and other defendants by plaintiffs opting out of the class settlement of a previously filed federal class action. The claims against Morgan Stanley in that class action had been dismissed by the SDNY. The new complaints contain similar factual allegations against Morgan Stanley, and assert similar claims, but also include a claim for violation of Section 10(b) of the Exchange Act. These actions were transferred to the SDNY and consolidated. Plaintiffs have filed amended complaints in these actions. On June 30, 2006, defendants filed motions to dismiss the claims common to all complaints.

Global Wealth Management Group NASD Email Matter.

On December 19, 2006, the NASD commenced a disciplinary proceeding against MSDWI, alleging that it provided false information regarding the existence of emails and failed to provide such emails to arbitration claimants and regulators in response to discovery obligations and regulatory inquiries, failed to preserve books and records and failed to establish and maintain systems and written procedures reasonably designed to preserve required records and to ensure that it conducted adequate searches in response to regulatory inquiries and discovery requests for email, in violation of section 17(a) of the Exchange Act, Rule 17a-4 thereunder, NASD Conduct Rules 2110, 3010 (a) and (b) and 3110, NASD Procedural Rule 8210 and Interpretative Material 10100 under NASD Code of Arbitration Procedure.

Shareholder Derivative Matters.

Beginning on July 19, 2005, shareholder plaintiffs filed purported derivative actions on behalf of Morgan Stanley against certain present and former directors and its former chief legal officer based on, among other things, agreements to pay the former CEO and co-President of Morgan Stanley and the handling of a lawsuit resulting in an adverse judgment against Morgan Stanley. Four lawsuits filed in the SDNY have been consolidated, under the heading *In re Morgan Stanley Derivative Litigation*, and on January 23, 2006, plaintiffs filed a second amended consolidated complaint that includes claims for, among other things, violations of Sections 10(b) and 14(a) of the Exchange Act and breach of fiduciary duties and seeks, among other things, rescission of the severance and compensation agreements and damages. On March 9, 2006, defendants moved to dismiss.

On July 19, 2005, a derivative lawsuit was filed in a New York state court challenging the agreement to pay the former co-President of Morgan Stanley and seeking an accounting for losses as a result thereof. This matter has been stayed by agreement of the parties.

Indonesian Litigation.

In November 2003, two proceedings were initiated in the Indonesian District Courts by two members of the Asia Pulp & Paper Group (PT Indah Kiat Pulp & Paper Tbk and PT Lontar Papyrus Pulp & Paper Industry, respectively) against Morgan Stanley and 13 other defendants with respect to two bond issues in 1994 and 1995 that were guaranteed by plaintiffs and in which Morgan Stanley acted as underwriter. The claims alleged that the bond issues were invalid and contrary to Indonesian law, and alleged damages in the amount of all principal and interest paid under the bonds as well as other amounts. In November 2006 the Indonesian Supreme Court upheld the decisions at first instance and on appeal in favor of the plaintiff and declared the bond issues to be illegal and void, holding that defendants (including Morgan Stanley) had committed unspecified tortious acts, but awarding no damages.

In April 2004, another proceeding was filed in the Indonesian District Courts by PT Lontar Papyrus against Morgan Stanley and 28 other defendants, alleging that the defendants violated injunctions issued by the Indonesian District Court in the first claim brought by PT Lontar Papyrus and conspired to cause the failure of plaintiff's restructuring negotiations. Plaintiff seeks damages in respect of losses allegedly suffered. On September 28, 2005, the Indonesian District Court rejected the plaintiff's claim against Morgan Stanley. On

September 13, 2006, Morgan Stanley filed its counter-arguments to the plaintiff's memorandum of appeal that was filed with the Indonesian High Court on April 19, 2006.

In October 2004, an additional proceeding was filed in the Indonesian District Courts by APP International Finance Company BV, a member of the Asia Pulp & Paper Group and the issuer of the 1995 bond issue, against Morgan Stanley and 18 other defendants, making allegations similar to those in the November 2003 claim brought by PT Lontar Papyrus. Plaintiff seeks damages in respect of losses allegedly suffered. On December 28, 2006, the Indonesian District Court issued its judgment, declaring the bond issue to be illegal and void, holding that defendants (including Morgan Stanley) had committed unspecified tortious acts, but awarding no damages. Morgan Stanley has appealed this decision to the Indonesian High Court.

In January 2005, an additional proceeding was filed in the Indonesian District Courts by Indah Kiat International Finance Company BV, a member of the Asia Pulp & Paper Group and the issuer of the 1994 bond issue, against Morgan Stanley and other defendants, making allegations similar to those in the November 2003 claim brought by PT Indah Kiat. Plaintiff seeks damages in respect of losses allegedly suffered. In October 2006, the Indonesian High Court upheld on appeal the decision of the Indonesian District Court in favor of the plaintiff, declaring the bond issue to be null and void, holding that defendants (including Morgan Stanley) had committed unspecified tortious acts, but awarding no damages. Morgan Stanley has appealed this decision to the Indonesian Supreme Court in Jakarta.

The following matter was terminated during the quarter ended November 30, 2006:

General American Litigation.

On April 24, 2006, a Second Amended Petition, captioned *Finke, et al. v. Morgan Stanley & Co. Incorporated, et al.*, was filed in the Missouri Circuit Court, Twenty-Second Judicial Circuit (St. Louis City), by the Director of the Department of Insurance for the State of Missouri and the Special Deputy Liquidator for General American Mutual Holding Company against MS&Co., Morgan Stanley and a former officer of General American. The amended petition, which updated a petition first filed on or about July 28, 2004, asserts several causes of action against the Morgan Stanley defendants, including claims for fraud, breach of fiduciary duty and negligent misrepresentation. The case arises out of the firm's investment banking work in connection with a potential demutualization and initial public offering of General American in 1998-1999. Plaintiffs sought compensatory damages of over \$1 billion and punitive damages of over \$3 billion. On November 8, 2006, the court granted final approval of a settlement agreement between the parties to resolve the matter.

Save as set out above in this section, Morgan Stanley is not involved in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which Morgan Stanley is aware) during the twelve month period before the date of this Base Prospectus involving Morgan Stanley which may have or have had in the recent past a significant effect on the financial position or profitability of Morgan Stanley.

MORGAN STANLEY JERSEY

History and Development

Morgan Stanley (Jersey) Limited was incorporated in St. Helier, Jersey, Channel Islands (registration number 35857) as a company with unlimited duration on 24 September 1986. It has its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, telephone number +44 (0)1534 609000.

Legislation

Morgan Stanley Jersey is subject to the Companies (Jersey) Law 1991, as amended.

Investments

All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies.

Principal Activities

Morgan Stanley Jersey's business primarily consists of issuing financial instruments and the hedging of obligations relating thereto.

Principal Markets

Morgan Stanley Jersey conducts its business from Jersey. All material assets of Morgan Stanley Jersey are obligations of (or securities issued by) one or more Morgan Stanley group companies. Morgan Stanley Jersey does not undertake such business on a competitive basis, however as a member of the Morgan Stanley group it is indirectly affected by some of the competitive pressures that apply to Morgan Stanley. See "Morgan Stanley" above for further details.

Organisational Structure

Morgan Stanley Jersey has no subsidiaries. It is wholly owned by Morgan Stanley.

Trend Information

Morgan Stanley Jersey intends to continue issuing securities and entering hedges in respect of such issues of securities.

There has been no significant change in the financial or trading position, nor any material adverse change in the prospects of, Morgan Stanley Jersey since 30 November 2006.

Management

The directors of Morgan Stanley Jersey, their respective business addresses and principal outside activities as at the date hereof are:

Name and Business Address

Principal Outside Activity

Joel Hodes
Morgan Stanley
1585 Broadway
New York, New York 10920
U.S.A.

Managing Director, Morgan Stanley

Charles Edward Crossley Hood
Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Managing Director, Morgan Stanley

Kevin Woodruff
240 Riverside Blvd, #3A
New York, New York 10069
U.S.A.

Banker

There are no existing or potential conflicts of interest between any duties owed to Morgan Stanley Jersey by its management (as described above) and the private interests and/or other external duties owed by these individuals.

The secretary of Morgan Stanley Jersey is Mourant & Co. Secretaries Limited of 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands.

Board Practice

Morgan Stanley Jersey considers itself to be in compliance with all Jersey laws relating to corporate governance that are applicable to it.

As of the date of this Base Prospectus, Morgan Stanley Jersey does not have an audit committee.

Shareholders

Morgan Stanley Jersey is wholly owned by Morgan Stanley. Morgan Stanley Jersey is not aware of any control measures with respect to such shareholder control. All decisions to issue securities are taken by the Board and Morgan Stanley Jersey earns a spread on all its issues of securities.

Share Capital

At 30 November 2006, the authorised share capital of Morgan Stanley Jersey comprised 10,000 ordinary shares with a par value of £1 each all of which are issued, allotted and fully paid up.

Memorandum and Articles of Association

Morgan Stanley Jersey's objects and purposes are not specified in any document and are therefore unlimited.

Selected Financial Information

The profit or loss before tax for the financial years ended 30 November 2006 and 2005 was nil and nil respectively. The current assets of Morgan Stanley Jersey have risen from U.S.\$3,598,223,000 in 2005 to U.S.\$4,001,459,000 in 2006 with total creditors rising from U.S.\$3,597,767,000 in 2005 to U.S.\$4,001,003,000 in 2006.

MSBV

History and Development

Morgan Stanley B.V. was incorporated as a private limited company under the laws of The Netherlands on 6 September 2001 for an unlimited duration. MSBV is registered at the commercial register of the Chamber of Commerce and Industries for Amsterdam under registered number 34161590 with registered offices at Locatellikade 1, 1076 AZ Amsterdam, The Netherlands, telephone number +31 20 57 55 600.

Legislation

MSBV is incorporated under, and subject to, the laws of The Netherlands.

Investments

All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. MSBV has not made any principal investments since the date of the last published financial statements.

Principal Activities

MSBV's objects are, inter alia, to issue notes, warrants and other securities.

Principal Markets

MSBV conducts its business from the Netherlands. All material assets of MSBV are obligations of (or securities issued by) one or more Morgan Stanley group companies. MSBV does not undertake such business on a competitive basis, however as a member of the Morgan Stanley group it is indirectly affected by some of the competitive pressures that apply to Morgan Stanley. See "Morgan Stanley" above for further details.

Organisational Structure

MSBV has no subsidiaries. It is ultimately controlled by Morgan Stanley.

Trend Information

MSBV intends to continue issuing securities and entering hedges in respect of such issues of securities.

There has been no significant change in the financial or trading position, nor any material adverse change in the prospects, of MSBV since 30 November 2006.

Management

The current directors of MSBV, their offices, if any, within MSBV, and their principal outside activity, if any, are listed below. The business address of each director is Locatellikade 1, 1076 AZ Amsterdam, The Netherlands.

<i>Name</i>	<i>Title</i>	<i>Principal Outside Activity</i>
C.E.C. Hood	Managing Director	Managing Director, Morgan Stanley
J. Solan	Executive Director	Executive Director, Morgan Stanley
G.C. De Boer	Managing Director	Executive Director and Sales Director, Morgan Stanley Investment

Management

TMF Management B.V. Managing Director

Directors of TMF Management B.V.

R.W. de Koning	Managing Director	Employee of TMF Nederland B.V.
F.A.J. van Oers	Managing Director	Employee of TMF Nederland B.V.
T.J. van Rijn	Managing Director	Employee of TMF Nederland B.V.
M.C. van der Sluijs-Plantz	Managing Director	Employee of TMF Nederland B.V.
J.R. de Vos van Steenwijk	Managing Director	Employee of TMF Nederland B.V.
J. Versluis	Managing Director	Employee of TMF Nederland B.V.

There are no existing or potential conflicts of interest between any duties owed to MSBV by its management (as described above) and the private interests and/or other external duties owed by these individuals.

Board Practice

MSBV considers itself to be in compliance with all Netherlands laws relating to corporate governance that are applicable to it.

As of the date of this Base Prospectus, MSBV does not have an audit committee. The audited financial statements of MSBV are approved by the Board of Directors.

Shareholders

MSBV is ultimately controlled by Morgan Stanley. MSBV is not aware of any control measures with respect to such shareholder control. All decisions to issue securities are taken by the Board and MSBV earns a spread on all its issues of securities.

Share Capital

The authorised share capital of MSBV comprises 900 ordinary shares of nominal value EUR100.

The issued, allotted and fully paid up share capital of MSBV comprises 180 ordinary shares of nominal value EUR100.

Memorandum and Articles of Association

MSBV's objects and purposes are set out in Article 3 of its Articles of Association and enable it to issue, sell, purchase, transfer and accept warrants, derivatives, certificates, debt securities, equity securities and/or similar securities or instruments and to enter into hedging arrangements in connection with such securities and instruments. Furthermore its objects are to finance businesses and companies, to borrow, to lend and to raise funds as well as to enter into agreements in connection with the aforementioned, to render guarantees, to bind the company and to pledge its assets for obligations of the companies and enterprises with which it forms a group and on behalf of third parties and to trade in currencies, securities and items of property in general.

Selected Financial Information

The net revenue for the financial years ended 30 November 2006 and 2005 was EUR908,000 and EUR 1,614,000 respectively, representing issuance fees received on the issuance of financial instruments less guarantee fees payable. The (loss)/profit before tax for the financial years ended 30 November 2006 and 2005 was a profit of EUR1,075,000 and a loss of EUR1,475,000 respectively.

The current assets of MSBV have risen from EUR641,974,000 in 2005 to EUR3,893,257,000 in 2006 with total creditors rising from EUR 636,732,000 in 2005 to EUR3,890,086,000 in 2006. The principal reason for the increase in issuances is an increase in client demand for financial instruments.

KEY FEATURES OF THE SECURITIES

The following summary describes the key features of the Securities that each Issuer is offering under the Program in general terms only. Investors should read the summary together with the more detailed information that is contained in this Base Prospectus and in the applicable Final Terms.

Issuers	Morgan Stanley, Morgan Stanley Jersey, MSBV and any Additional Issuer
Guarantor	In the case of Securities issued by Morgan Stanley Jersey, MSBV or an Additional Issuer, unless specified otherwise in the applicable Final Terms or, in the case of an Additional Issuer, the accession agreement pursuant to which such Additional Issuer accedes to the Program, Morgan Stanley.
Distribution Agents	Morgan Stanley & Co. International plc and Morgan Stanley & Co. Incorporated.
Principal Securities Agent	The Bank of New York.
Irish Securities Agent	J.P. Morgan Bank (Ireland) plc.
Irish Listing Agent	Morgan Stanley & Co. International plc (in conjunction with The Bank of New York).
Issuance in Series	Securities will be issued in series (each, a " Series "). Each Series may comprise one or more tranches (" Tranches " and each, a " Tranche ") issued on different issue dates.
Terms and Conditions	<p>A Final Terms (a "Final Terms") will be prepared in respect of each Tranche of Securities. The terms and conditions applicable to each Tranche issued by Morgan Stanley, Morgan Stanley Jersey or MSBV will be those set out herein under the heading "Terms and Conditions of the Securities" as supplemented, modified or replaced by the applicable Final Terms. The terms and conditions applicable to each Tranche issued by an Additional Issuer will be those set out in the relevant Supplemental Base Prospectus, as supplemented, modified or replaced by the applicable Final Terms.</p> <p>Any Issuer may issue Securities that are Share Securities, Share Basket Securities, Index Securities, Index Basket Securities, Currency Securities, Commodity Securities and Bond Securities (each as defined in Condition 1 of "<i>Terms and Conditions of the Securities</i>").</p>
Forms of Securities	Each Tranche of Securities will (unless otherwise

specified in the applicable Final Terms) at all times be represented by a Global Warrant (the "**Global Warrant**"). The Global Warrant will be deposited on the issue date therefor with a common depository for Euroclear, Clearstream, Luxembourg and/or any other relevant Clearing System. Securities in definitive bearer form will only be issued if so specified in the applicable Final Terms. Securities may be issued by Morgan Stanley Jersey or MSBV in registered and in uncertificated book entry form with a Swedish Central Securities Depository which is expected to be VPC AB.

Style of Securities

Securities may be exercisable on any day during a specified exercise period ("**American Style Securities**"), on a specified expiration date ("**European Style Securities**") or on specified dates during a specified exercise period ("**Bermudan Style Securities**"), as specified in the applicable Final Terms. If so specified in the applicable Final Terms, Securities may be deemed exercised on the expiration date thereof.

Settlement of Securities

Upon exercise, Securities may entitle the Securityholder to receive from the relevant Issuer a cash settlement amount (as specified or calculated in accordance with the applicable Final Terms) ("**Cash Settlement Securities**"), or may entitle the Securityholder to receive delivery of or to deliver an amount of securities (as specified or calculated in accordance with the relevant Supplement) ("**Physical Settlement Securities**"), as specified in the applicable Final Terms.

Minimum Exercise Number

Securities are exercisable in the minimum number (or, if so specified, integral multiples thereof) specified in the applicable Final Terms.

Status.....

The Securities will be direct and general obligations of the relevant Issuer.

Guarantee

The payment of all amounts due in respect of Securities issued by Morgan Stanley Jersey, MSBV or an Additional Issuer will, unless specified otherwise in the applicable Final Terms or, in the case of an Additional Issuer, in the accession agreement pursuant to which such Additional Issuer accedes to the Program, be unconditionally and irrevocably guaranteed by Morgan Stanley pursuant to a deed of guarantee dated as of 10 June 2002.

Taxation	The Securityholders shall be liable for any applicable taxes, duties and other charges due in relation to, <i>inter alia</i> , the issue, transfer, transmission and/or settlement of the Securities. In the case of Cash Settlement Securities, the relevant Issuer shall be entitled to withhold or deduct from any amounts otherwise payable to the Securityholders such amount as is necessary for the payment of such taxes, duties and other charges. In the case of Physical Settlement Securities, the relevant Issuer's obligation to deliver an amount of securities shall be subject to payment by the relevant Securityholders, or shall be reduced by such amount to take account, of an amount in respect of such taxes, duties and other charges.
Listing	Applications have been made for the Securities issued under the Program during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List, and to be admitted to trading on the Irish Stock Exchange. The applicable Final Terms will specify whether an issue of Securities will be admitted to the Official List and to trading on the Irish Stock Exchange or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as the relevant Issuer and any Distribution Agent may agree. Securities issued under the Program may also be unlisted.
Clearance Systems	Euroclear, Clearstream, Luxembourg and/or any other clearing systems as may be specified in the applicable Final Terms.
Governing Law	The Securities will be governed by, and construed in accordance with, English law.
Selling Restrictions	The Securities may not be offered, sold or delivered at any time, directly or indirectly, within the United States or to or for the account of U.S. Persons (as defined in any of Regulation S under the Securities Act, the Code or the United States Commodity Exchange Act). For a description of certain restrictions on offers, sales and deliveries of the Securities and on the distribution of offering material in the United States and in certain other countries, see "Subscription and Sale" and "No Ownership by U.S. Persons."

PRO FORMA FINAL TERMS FOR WARRANTS AND CERTIFICATES

FINAL TERMS dated [•]

Series Number: [•]

Tranche: [•]

Common Code: [•]

ISIN: [•]

[]

[•]

as Issuer

**[MORGAN STANLEY
as Guarantor]**

*PROGRAM FOR THE ISSUANCE OF
WARRANTS AND CERTIFICATES*

Issue of [Aggregate Nominal Amount of Tranche] [Title of Warrants/Certificates]

THE [WARRANTS/CERTIFICATES] DESCRIBED HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE IN THE UNITED STATES, AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE [WARRANTS/CERTIFICATES] DESCRIBED HEREIN MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN EITHER REGULATIONS UNDER THE SECURITIES ACT OR THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED). SEE "SUBSCRIPTION AND SALE" AND "NO OWNERSHIP BY U.S. PERSONS" IN THE BASE PROSPECTUS DATED [] 2007. IN PURCHASING THE [WARRANTS/CERTIFICATES], PURCHASERS WILL BE DEEMED TO REPRESENT AND WARRANT THAT THEY ARE NEITHER LOCATED IN THE UNITED STATES NOR A U.S. PERSON AND THAT THEY ARE NOT PURCHASING FOR, OR FOR THE ACCOUNT OR BENEFIT OF, ANY SUCH PERSON. THE [WARRANTS/CERTIFICATES] ARE NOT RATED.

This document constitutes Final Terms relating to the issue of [Warrants/Certificates] described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Securities (the "**Conditions**") set forth in the Base Prospectus dated 22 June 2007 [and the supplemental Base Prospectus dated [•]]¹ which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). The [Warrants/Certificates] shall constitute Securities for the purposes of the Conditions. This document constitutes the Final Terms of the [Warrants/Certificates] described herein for the purposes of Article 5.4 of the Prospectus Directive and must be

¹ Only include details of a supplemental Prospectus in which the Conditions have been amended for the purposes of all issues under the Programme.

read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the [Warrants/Certificates] is only available on the basis of the combination of these Final Terms and the Base Prospectus.

Information Concerning Investment Risk

[]

General

1. Issuer: [Morgan Stanley/Morgan Stanley (Jersey) Limited/Morgan Stanley B.V.]
2. Guarantor: [Morgan Stanley]
3. Aggregate Number of [•]
[Warrants/Certificates] in the Series:
4. Aggregate Number of [•]
[Warrants/Certificates] in the Tranche:
5. Issue Date: [•]
6. Issue Price: [currency][amount] per [Warrant/Certificate]
7. [Warrant/Certificate] Style: [American/European/Bermudan] Style
(Condition 4)
[Warrants/Certificates]
 - (i) [Exercise Period:] [As defined in Condition 1]
 - (ii) [Potential Exercise Dates:] [Each day from and including the Commencement Date to and including the Latest Exercise Time on the Expiration Date]
 - (iii) [Commencement Date:] [•]
8. Type: The [Warrants/Certificates] are [Index / Index Basket / Share / Share Basket / Bond / Currency / Commodity / [Warrants/Certificates]]

For Share and Share Basket [Warrants/Certificates] only

 - (i) Underlying Security: [•]
 - (ii) Relevant Issuer: [•]
 - (iii) Exchange(s): [•]
 - (iv) Related Exchange: [•][All Exchanges]
 - (v) Exchange Business Day: [•]
 - (vi) Initial Date [•]
 - (vii) Additional Disruption Events Change in Law, Hedging Disruption, Loss of Stock

Borrow and Increased Cost of Hedging shall apply
*[specify if any are not applicable, or any further
 Additional Disruption Events]*

*For Index and Index Basket
 [Warrants/Certificates] only*

- (i) Index/Indices: [•]
- (ii) Exchange(s): [•]*[specify whether Multi-exchange Index]*
- (iii) Related Exchange(s): [•]*[All Exchanges]*
- (iv) Exchange Business Day: [•]

*For Commodity [Warrants/Certificates]
 only*

- (i) Commodity/Commodity Basket/Commodity Index [•]*[if applicable, specify whether Non Metal, Base Metal or Precious Metal]*
- (ii) Commodity Reference Price [•]
- (iii) Specified Price [[high][low][average of high and low][closing price][opening price][bid] [asked] [average of high and low prices][settlement price][official settlement price][official price][morning fixing][afternoon fixing][spot price][Other (specify)]
- (iv) Delivery Date [•]
- (v) Pricing Date [•]
- (vi) Commodity Disruption Events [Price Source Disruption]
 [Trading Disruption]
 [Disappearance of Commodity Reference Price]
 [Material Change in Formula]
 [Material Change in Content]
 [Tax Disruption]
 [Trading Limitation]
 [specify any applicable additional Commodity Disruption Events][Not Applicable]
- (vii) Common Pricing [Applicable/Not Applicable] *(where Commodity Basket only)*

*For Currency [Warrants/Certificates]
 only*

- (i) Settlement Currency *[Swedish Securities: SEK, € or any other currency as may be approved by the Swedish CSD Rules]*

- | | | |
|--------|--|--|
| (ii) | Reference Currency | [•] |
| (iii) | Specified Amount | [•] |
| (iv) | Specified Rate | <i>[select one from definition of Specified Rate in Condition 8.5]</i> |
| (v) | Settlement Rate Option | [Currency Reference Dealers] |
| (vi) | Valuation Date | [•] |
| (vii) | Averaging Dates | [•]/Not Applicable] |
| (viii) | Other special terms and conditions | [•] |
| 9. | Minimum Transfer Amount:
<i>(Condition 2.3)</i> | [•] |

Exercise

- | | | |
|-----|---|---|
| 10. | Expiration Date: | [•] |
| 11. | Latest Exercise Time: | [•] [(local time in the place where the Clearance System through which the relevant [Warrant/Certificate] is exercised is located)] |
| 12. | Minimum Exercise Number:
<i>(Condition 5.10)</i> | [[•]/Not applicable] |
| 13. | Permitted Multiple:
<i>(Condition 5.10)</i> | [[•]/Not applicable] |
| 14. | Deemed Exercise:
<i>(Condition 5.6)</i> | [[•]/Not applicable] |

Settlement

- | | | |
|-----|--|---|
| 15. | Settlement Basis:
<i>(Condition 4)</i> | The [Warrants/Certificates] are [Physical/Cash] Settlement [Warrants/Certificates]. |
| | <i>For Physical Settlement [Warrants/Certificates] only:²</i> | |
| 16. | Ratio: | [•] [Warrant(s)/Certificate(s)] relates to [•] [Underlying Security/Securities] |
| 17. | Strike Price Payment Date: | [•] |

² Note that if Physical Settlement Warrants/Certificates are to be listed, the underlying must be "transferable securities" and must not be linked to any member of the Morgan Stanley group. See Article 2 (1)(m)(ii) of the Prospectus Directive

18. Strike Price: [•]
19. Settlement Price: [[•]/Not applicable]
20. Physical Settlement Date: [As defined in Condition 1]

*For Cash Settlement
[Warrants/Certificates] only:*

21. Cash Settlement Amount: [•]
22. Determination Date:
(Condition 5.8.1) [•]
23. Valuation Time: [•]
24. Valuation Date: [•]
25. Averaging Dates: [•]
26. Settlement Currency: [•]
27. Cash Settlement Payment Date: [•]

For all [Warrants/Certificates]:

Additional details

28. Determination Agent: [As defined in the Conditions]
29. Listing: [Application has been made to the Irish Stock Exchange for the Securities to be admitted to the Official List and trading on its regulated market]

[The European Union Transparency Directive (the "Transparency Directive") may be implemented in a manner which could be burdensome for companies such as the Issuer [or the Guarantor]. In particular, companies may be required to publish financial statements more frequently than they otherwise would or to prepare financial statements in accordance with accounting standards other than the ones they would otherwise utilise, for example the Guarantor may be required to prepare financial statements in accordance with accounting standards other than U.S. GAAP. The Issuer is under no obligation to maintain the listing of the [Warrants/Certificates] and prospective purchasers of [Warrants/Certificates] should be aware that in circumstances where to listing of the [Warrants/Certificates] by the Irish Stock Exchange would require publication by the Issuer or the Guarantor of financial statements more frequently than either would otherwise prepare

them or preparation by the Guarantor of financial statements in accordance with standards other than U.S. GAAP, or in any other circumstances where the Transparency Directive is implemented in a manner that, in the opinion of the Issuer or the Guarantor, is burdensome for the Issuer or Guarantor, the [Warrants/Certificates] may be de-listed. In such a case of de-listing, the Issuer may, but is not obliged to, seek an alternative listing for the [Warrants/Certificates] on a stock exchange outside the European Union. However, if such an alternative listing is not available or is, in the opinion of the Issuer or the Guarantor, burdensome, an alternative listing for the [Warrants/Certificates] may not be considered. Although no assurance is made as to the liquidity of the [Warrants/Certificates] as a result of listing by the Irish Stock Exchange, de-listing the [Warrants/Certificates] may have a material effect on a holder's ability to resell the [Warrants/Certificates] in the secondary market.]

30. Clearance Systems:

[Euroclear and Clearstream, Luxembourg]

[The Securities are Swedish Securities.]

[For Swedish Securities, specify Swedish CSD (expected to be VPC AB) and Swedish Issuing Agent (expected to be [●]). ISIN code applies but additional VPC code may be inserted if deemed appropriate:

Swedish CSD: VPC AB, Regeringsgatan 65, Box 7822, SE-103 97 Stockholm, Sweden

Swedish Issuing Agent: [●], Stockholm, Sweden]

31. Additional Selling Restrictions:

[●]

[LISTING AND ADMISSION TO TRADING APPLICATION]

These Final Terms comprise the final terms required to list and have admitted to trading the issue of [Warrants/Certificates] described herein pursuant to the Program for the Issuance of Warrants and Certificates of [Morgan Stanley/Morgan Stanley (Jersey) Limited/Morgan Stanley B.V.]

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:
Duly authorised

[Signed on behalf of the Guarantor:

By:
Duly authorised]

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: [Irish Stock Exchange/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Securities to be

admitted to trading on [] with effect from [].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)

(iii) [Estimate of total expenses []]³
related to admission to trading:

2. RATINGS

Credit ratings assigned to the Issuer or [None]
its debt securities:

[S & P: []]

[Moody's: []]

[[Other]: []]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]⁴

[Specify the credit ratings (if any) assigned to the issuer or its debt securities at the request or with the co-operation of the Issuer in the rating process.]

3. [NOTIFICATION]

The [*include name of competent authority in home Member State*] [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Program and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Subscription and Sale and Transfer Restrictions”], so far as the Issuer is aware, no person involved in the offer of the Securities has an interest material to the offer.”]

5. [TERMS AND CONDITIONS OF THE OFFER

[For Non-exempt Offers, insert details of conditions to which the offer is subject, total amount of the offer, time period during which the offer will be open, application process, minimum and maximum

³ Delete for Securities with a nominal amount per Security of less than EUR50,000

⁴ Delete for Securities with a nominal amount per Security of EUR50,000 or more

amount of applications (if any), method and time limits for paying up the security, manner and date on which results of the offer are to be made public; plan of distribution and allotment; categories of potential investors to which the securities are offered; process for notification to applicants of the amount allotted and indication of whether dealing may begin before notification is made; amount of expenses and taxes specifically charged to the subscriber]

6. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

(i) [Reasons for the offer []]

(If reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)

(ii) [Estimated net proceeds: ●]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

(iii) [Estimated total expenses: ● [Include breakdown of expenses and taxes (if any).]]

(If the Securities are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

7. PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, [EXPLANATION OF EFFECT OF VALUE OF THE UNDERLYING ON VALUE OF WARRANTS/CERTIFICATES AND ASSOCIATED RISKS]⁵ AND OTHER INFORMATION CONCERNING THE UNDERLYING

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained [and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident]⁶. [Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

8. OPERATIONAL INFORMATION

ISIN Code: []

Common Code: []

Any clearing system(s) other than [Not Applicable/give name(s) and number(s)]

⁵ Delete for Securities with a nominal amount per Security of EUR50,000 or more

⁶ Delete for Securities with a nominal amount per Security of EUR50,000 or more

Euroclear Bank S.A./N.V., Clearstream
Banking, *société anonyme* and the
relevant identification number(s):

Delivery:

Delivery [against/free of] payment

Names and addresses of additional []

Paying Agent(s) (if any):

TERMS AND CONDITIONS OF THE SECURITIES

The following are the terms and conditions of the Securities which (subject to completion and amendment) will be applicable to each Series of Securities issued by Morgan Stanley, Morgan Stanley (Jersey) Limited or Morgan Stanley B.V. provided that the relevant Final Terms in relation to any Series of Securities may supplement these terms and conditions and/or may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following terms and conditions, replace the following terms and conditions for the purposes of such Series of Securities.

This security is one of a series (each, a "**Series**") of Warrants (the "**Warrants**") or Certificates (the "**Certificates**") and, together with the Warrants, the "**Securities**") issued by Morgan Stanley ("**Morgan Stanley**") pursuant to a securities agency agreement dated 30 November 2000 (as modified and restated on 4 December 2001, 30 June 2005 and on 11 July 2006, and as further modified and restated on 22 June 2007, the "**Securities Agreement**", which expression shall include any further amendments or supplements thereto) to which Morgan Stanley (Jersey) Limited and Morgan Stanley B.V. acceded and by which they are bound pursuant to the terms of accession agreements dated respectively as of 10 June 2002 and as of 16 April 2004. The other parties to the Securities Agreement are (1) Morgan Stanley, (2) The Bank of New York (as successor to JPMorgan Chase Bank, N.A., London Branch), as principal Securities Agent (the "**Principal Securities Agent**", which expression includes any successor or substitute principal Securities Agent appointed in accordance with the Securities Agreement), and (3) J.P. Morgan Bank (Ireland) plc, as Securities Agent (together with the Principal Securities Agent and any other Securities Agents appointed under the Securities Agreement, the "**Securities Agents**"). In the following provisions of these terms and conditions (the "**Conditions**"), each reference to the "**Issuer**" is a reference to whichever of Morgan Stanley, Morgan Stanley (Jersey) Limited and Morgan Stanley B.V. is identified as the Issuer in the relevant Final Terms (as defined below). The payment obligations of Morgan Stanley (Jersey) Limited and Morgan Stanley B.V. in respect of Securities issued by them under the Program are (unless otherwise stated in the relevant Final Terms) guaranteed by Morgan Stanley (the "**Guarantor**") under the terms of a deed of guarantee dated 10 June 2002.

In relation to a Series of Securities, the expression "**Securities**" shall, unless the context otherwise requires, include any further Warrants or, as the case may be, Certificates issued pursuant to Condition 18 (*Further Issues*) of these Conditions and forming a single series with such Series. The Securityholders (as defined below) are entitled to the benefit of, and are bound by and are deemed to have notice of, all the provisions of the Securities Agreement, these Conditions and the Final Terms (as defined below) relating to the relevant Securities.

Each Series of Securities may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**") of Securities. Each Tranche will be the subject of a set of Final Terms supplemental hereto (each, "**Final Terms**"), a copy of which will, in the case of a Tranche in relation to which application has been made for admission to the Official List and to trading on the Irish Stock Exchange, be lodged with the Irish Stock Exchange, and copies of which may be obtained free of charge from the specified office of the Principal Securities Agent. In the case of a Tranche in relation to which application has not been made for admission to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by a Holder of Securities of that Tranche.

References in the Conditions to Securities are to the Securities of the relevant Series and references to the Issuer, the Guarantor, the Principal Securities Agent, the Determination Agent, any Holder or the Securityholders are to those persons in relation to the Securities of the relevant Series. Capitalised terms used but not defined in these Conditions will have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Securities of the relevant Series.

1. DEFINITIONS

As used in these Conditions, the following expressions shall have the following meanings in respect of any Securities or Series of Securities:

"Affiliate" means any entity which is (a) an entity controlled, directly or indirectly, by the Issuer, (b) an entity that controls, directly or indirectly, the Issuer or (c) an entity directly or indirectly under common control with the Issuer;

"Bond Securities" means Securities relating to bonds or other debt securities;

"Business Day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in London;

"Business Day Convention", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) "Following Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) "Modified Following Business Day Convention" or "Modified Business Day Convention" means that the relevant date shall be postponed to the first following day that is a Business Day, unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day;
- (iii) "Nearest" means that the relevant date shall be the first preceding day that is a Business Day, if the relevant date would otherwise fall on a day other than a Sunday or a Monday, and will be the first following day that is a Business Day, if the relevant date would otherwise fall on a Sunday or a Monday;
- (iv) "Preceding" means that the relevant date will be the first preceding day that is a Business Day; and
- (v) "No Adjustment" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"Cash Settlement Payment Date" means, in respect of each Exercise Date, the date specified or otherwise determined as provided in the relevant Final Terms or, if such date is not a Currency Business Day, the next succeeding Currency Business Day;

"CEA" means the United States Commodity Exchange Act, as amended;

"Clearance System" means Euroclear, Clearstream, Luxembourg and/or any other clearance system located outside the United States specified in the relevant Final Terms in which Securities of the relevant Series are for the time being held, or, in relation to an Underlying Security, in which that Underlying Security is, for the time being, held;

"Clearance System Business Day" means, in respect of a Clearance System, any day on which such Clearance System is (or, but for the occurrence of a Settlement Disruption Event, would have been) open for the acceptance and execution of settlement instructions;

"Clearstream, Luxembourg" means Clearstream Banking, société anonyme;

"Commencement Date" means the date specified as such in the relevant Final Terms, or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day;

"**Commodity Securities**" means any Series of Securities that relate to a commodity or commodities or to a commodity index;

"**Currency Business Day**" means, unless otherwise specified in the applicable Final Terms and subject as provided in Condition 8.5 with respect to Currency Securities, for the purpose of the definition of Cash Settlement Payment Date in respect of any Series of Securities, any day (1) that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close (x) in The City of New York or London, or (y) in relation to sums payable in currencies other than U.S. dollars, euro or Australian dollars, in the principal financial centre of the country of the relevant currency, (z) in relation to sums payable in Australian dollars, in Sydney and (2) in relation to sums payable in euro, a day that is also a TARGET Settlement Day;

"**Currency Securities**" means Securities relating to a currency exchange rate or currency exchange rates;

"**Determination Agent**" means Morgan Stanley & Co. International plc ("**MSI plc**") or, in respect of any Series of Securities, such other determination agent as may be specified in the relevant Final Terms;

"**Disrupted Day**" has the meaning ascribed thereto in Condition 6.1.2;

"**EC Treaty**" means the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992) and as amended by the Treaty of Amsterdam (signed in Amsterdam on 2 October 1997), as further amended from time to time;

"**Euro**", "**euro**", "**€**" and "**EUR**" each means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the EC Treaty;

"**Euroclear**" means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

"**European Economic and Monetary Union**" means economic and monetary union pursuant to the EC Treaty;

"**Exercise Date**" means, in respect of any Security, the day on which such Security is deemed to have been exercised in accordance with Condition 5.6 (*Deemed Exercise*), if applicable, or on which an Exercise Notice relating to that Security is delivered in accordance with the provisions of Condition 5.1 (*Exercise Notice*);

"**Exercise Notice**" means any notice in the form scheduled to the Securities Agreement (or such other form as may from time to time be agreed by the Issuer and the Principal Securities Agent) which is delivered by a Securityholder in accordance with Condition 5.1 (*Exercise Notice*);

"**Exercise Period**" means, unless otherwise specified in the relevant Final Terms, the period beginning on (and including) the Commencement Date and ending on (and including) the Expiration Date;

"**Expiration Date**" means:

- (i) in respect of any Share Security, Share Basket Security, Index Security or Index Basket Security, the date specified as such in the relevant Final Terms (or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day), unless such date is a Disrupted Day due to the occurrence of an event giving rise to a Disrupted Day prior to the Latest Exercise Time on such date. If such date is a Disrupted Day due to the occurrence of such an event, then the Expiration Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the original date that, but for the occurrence of a Disrupted Day, would have been the Expiration Date is a Disrupted Day. In that case, that eighth Scheduled Trading Day shall be deemed to be the Expiration Date, notwithstanding the fact that such day is a Disrupted Day. Notwithstanding the foregoing, if a Security is exercised on a Scheduled Trading Day that would have been an Expiration Date but for the occurrence of an event giving rise to a Disrupted Day, such Scheduled Trading Day shall be deemed to be the Expiration Date for the purpose of determining whether an Exercise Date has occurred during the Exercise Period; and

- (ii) in respect of any Bond Security or Commodity Security, the date specified as such in the relevant Final Terms or, if that date is not a Business Day, a Clearance System Business Day and, if specified in the relevant Final Terms, an Exchange Business Day or a Currency Business Day, the next following day that is a Business Day, a Clearance System Business Day and, as the case may be, an Exchange Business Day or a Currency Business Day;

"**Index Basket Securities**" means Securities relating to a basket of Indices;

"**Index Securities**" means Securities relating to a single Index;

"**Initial Date**" means the date specified as such in the relevant Final Terms;

"**Latest Exercise Time**" means 10:00 a.m. (local time in the place where the Clearance System through which the relevant Security is exercised is located), unless specified otherwise in the relevant Final Terms;

"**Physical Settlement Date**" means, in relation to Underlying Securities to be delivered following exercise of a Security on an Exercise Date, and unless otherwise specified in the relevant Final Terms, the first day on which settlement of a sale of such Underlying Securities on that Exercise Date customarily would take place through the relevant Clearance System, unless a Settlement Disruption Event prevents delivery of such Underlying Securities on that day;

"**Potential Exercise Date**" means:

- (i) in respect of any Share Security, Share Basket Security, Index Security or Index Basket Security, each date specified as such in the relevant Final Terms (or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day), unless such date is a Disrupted Day due to the occurrence of an event giving rise to a Disrupted Day prior to the Latest Exercise Time on such date. If such date is a Disrupted Day due to the occurrence of such an event, then the Potential Exercise Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the original date that, but for the occurrence of a Disrupted Day, would have been the Potential Exercise Date is a Disrupted Day. In that case, that eighth Scheduled Trading Day shall be deemed to be the Potential Exercise Date, notwithstanding the fact that such day is a Disrupted Day. Notwithstanding the foregoing, if a Security is exercised on a Scheduled Trading Day that would have been a Potential Exercise Date prior to the occurrence of an event giving rise to a Disrupted Day, such Scheduled Trading Day shall be deemed to be the Potential Exercise Date for the purpose of determining whether an Exercise Date has occurred during the Exercise Period; and
- (ii) in respect of any Bond Security or Commodity Security, the dates specified in the relevant Final Terms (or, if any such date is not a Business Day, a Clearance System Business Day and, if so specified in the relevant Final Terms, an Exchange Business Day and/or a Currency Business Day, the next following date that is a Business Day, a Clearance System Business Day and, as the case may be, an Exchange Business Day and/or a Currency Business Day);

"**Principal Financial Centre**" means, in respect of any Series of Securities and any currency, the financial centre(s) for that currency specified as such in the relevant Final Terms, or, if none is specified, the financial centre or centres determined by the Determination Agent in its sole and absolute discretion;

"**Reference Dealers**" means, in respect of any Series of Securities, the dealers specified as such in the relevant Final Terms;

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**Securityholder**" has the meaning ascribed thereto in Condition 2.2 (*Title*);

"Settlement Currency" means, in respect of any Series of Securities, the currency specified as such in the relevant Final Terms;

"Settlement Cycle" means, in respect of an Underlying Security or Index, the period of Settlement Cycle Days following a trade in such Underlying Security or the securities or other property underlying such Index, as the case may be, on the Exchange in which settlement will customarily occur according to the rules of such Exchange (or, if there are multiple Exchanges in respect of an Index, the longest such period) and for this purpose **"Settlement Cycle Day"** means a day on which the relevant Clearance System at the relevant time is (or, but for the occurrence of a Settlement Disruption Event would have been) open for the acceptance and execution of settlement instructions or, if none, a day selected by the Determination Agent;

"Settlement Election Date" means, in respect of any Series of Securities, the date specified in the relevant Final Terms or, if such date is not a Business Day and a Clearance System Business Day, the next following day that is a Business Day and a Clearance System Business Day;

"Share Basket Securities" means Securities relating to a basket of Underlying Securities that are shares;

"Share Securities" means Securities relating to a single Underlying Security that is a share;

"Specified Office" means, in respect of any Series of Securities, any office or branch of the Reference Dealer located in the city specified for such purpose in the relevant Final Terms. If a city is not so specified, the Specified Office will be deemed to be an office or branch of such Reference Dealer located in the Principal Financial Centre of the Reference Currency unless no quotations are available from the relevant office or branch of such Reference Dealer in which case, the Specified Office of the relevant Reference Dealer shall be the office or branch of such Reference Dealer located in any major financial market for the purchase and sale of the Reference Currency and the Settlement Currency outside the country where the Reference Currency is the lawful currency, as selected by the Determination Agent;

"Specified Time" means, in respect of any Series of Securities and the determination of the Spot Rate, the time specified as such in the relevant Final Terms;

"Strike Price" means, in respect of any Series of Securities, the price, level or amount specified as such or otherwise determined as provided in the relevant Final Terms;

"Strike Price Payment Date" has the meaning ascribed thereto in the relevant Final Terms;

"Swedish CSD" means a duly authorised Swedish central securities depository (Sw.: *central värdepappersförvarare*) under the Swedish Financial Instruments Accounts Act (Sw.: *lag (1998:1479) om kontoföring av finansiella instrument*), which is expected to be VPC AB, Regeringsgatan 65, Box 7822, SE-103 97 Stockholm, Sweden;

"Swedish CSD Rules" means the Swedish Financial Instruments Accounts Act (Sw.: *lag (1998:1479) om kontoföring av finansiella instrument*) and any regulations, rules and operating procedures applicable to and/or issued by the Swedish CSD;

"Swedish Issuing Agent" means a duly authorised issuing agent (Sw.: *emissionsinstitut*) under the Swedish CSD Rules and designated as such by the Issuer in Part A, paragraph 30 of the relevant Final Terms;

"Swedish Register" means the book entry register maintained by the Swedish CSD on behalf of the Issuer and in respect of the relevant Tranche of Swedish Securities;

"Swedish Securities" means any Tranche of Securities issued by Morgan Stanley (Jersey) Limited or Morgan Stanley B.V. and designated by the Issuer as "Swedish Securities" in paragraph 30 ("Clearance Systems") of the relevant Final Terms;

"TARGET Settlement Day" means any day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is open;

"**Taxes**" has the meaning ascribed thereto in Condition 4.5.1 (*Physical Settlement Securities*);

"**Underlying Securities**" means shares, bonds, other debt securities, other securities or other property specified as such in the relevant Final Terms, and "**Underlying Security**" shall be construed accordingly; and

"**Underlying Security Issuer**" means, in respect of Underlying Securities, the issuer of the relevant Underlying Securities.

2. **FORM, TITLE AND TRANSFER**

2.1 *Form:*

Each Tranche of Securities will (unless so specified in the relevant Final Terms) at all times be represented by a Global Warrant (each a "**Global Warrant**") in bearer form. The Global Warrant will be deposited on the issue date (the "**Issue Date**") specified in the relevant Final Terms with a common depository (the "**Common Depository**") for the relevant Clearance System(s). Securities in definitive bearer form will be issued only if so specified in the relevant Final Terms.

2.2 *Title:*

The person for the time being appearing in the books of the relevant Clearance System as the holder of a Security shall be treated for all purposes by the Issuer, the Securities Agents, the relevant Clearance System and all other persons dealing with such person as the holder thereof (a "**Securityholder**" or a "**Holder**") and as the person entitled to exercise the rights represented thereby, notwithstanding any notice to the contrary, except that (i) Euroclear shall not be treated as the Holder of any Security held in an account with Clearstream, Luxembourg on behalf of Euroclear's accountholders and (ii) Clearstream, Luxembourg shall not be treated as the Holder of any Security held in an account with Euroclear on behalf of Clearstream, Luxembourg's accountholders.

2.3 *Transfer:*

All transactions in (including transfers of) Securities, in the open market or otherwise, must be effected through an account at the Clearance System(s) in which the Securities to be transferred are held. Interests in the Global Warrant will be transferable in a minimum amount of such number of Securities (the "**Minimum Transfer Amount**") as is specified in the relevant Final Terms and in accordance with the rules and procedures for the time being of the relevant Clearance System.

The Securities may not be offered, sold, delivered or otherwise transferred within the United States or to or for the account or benefit of U.S. persons (as such terms are used in Regulation S under the Securities Act, the United States Internal Revenue Code of 1986 and the CEA) and will bear a legend to such effect.

2.4 *Swedish Securities:*

Securities designated as "Swedish Securities" in the applicable Final Terms will be issued in uncertificated and dematerialised book-entry form in accordance with the Swedish CSD Rules. In respect of Swedish Securities, "**Securityholder**" and "**holder**" means the person in whose name a Swedish Security is registered in the Swedish Register and the reference to a person in whose name a Swedish Security is registered shall include also any person duly authorised to act as a nominee (*Sw. förvaltare*) and so registered for the Swedish Security. Title to Swedish Securities shall pass by registration in the Swedish Register. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined above) of any Swedish Security shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it and no person shall be liable for so treating the holder. The Issuer shall be entitled to obtain information from the Swedish Register in accordance with the Swedish CSD Rules. No physical global or definitive warrants or certificates will be issued in respect of Swedish Securities and the provisions relating to presentation, surrender or replacement of such bearer instruments shall not apply. All Swedish Securities will be subject to the legend concerning United States Persons referred to in

the section "Legend Concerning United States Persons" below and will also be subject to the provisions under "Limitations on Issuance of, Payment on, and Delivery of Bearer Securities and Swedish Securities" below.

3. STATUS OF SECURITIES

3.1 *Status of Securities:*

The Securities of each Series constitute direct and general obligations of the Issuer which rank *pari passu* among themselves.

3.2 *Status of Guarantee:*

The Guarantor's obligations in respect of Securities issued by Morgan Stanley (Jersey) Limited or Morgan Stanley B.V. (other than Securities the Final Terms relating to which specifies that such Securities are not guaranteed by Morgan Stanley) constitute direct and general obligations of the Guarantor which rank *pari passu* between themselves.

3.3 *The Issuer is not obliged to purchase or hold Underlying Securities.*

By exercising a Security, the Holder thereof shall be deemed to have agreed to such form of settlement as the Issuer may elect in accordance with Conditions 4.6 (*Optional physical settlement*) and 4.7 (*Optional cash settlement*), if applicable.

4. RIGHTS ON EXERCISE OF SECURITIES

4.1 *American Style Securities:*

If the Securities are specified in the relevant Final Terms as being "**American Style Securities**", then this Condition 4.1 is applicable and the Securities are exercisable not later than the Latest Exercise Time on any day during the Exercise Period which is a Business Day, a Clearance System Business Day and, if so specified in the relevant Final Terms, a Scheduled Trading Day, an Exchange Business Day and/or a Currency Business Day, subject to Condition 4.9 (*Securities void on expiry*) and to prior termination of the Securities as provided in Conditions 6.3 (*Adjustments affecting Underlying Securities*) to 11 (*Provisions relating to all Securities*) and 14 (*Force Majeure and Illegality*).

4.2 *European Style Securities:*

If the Securities are specified in the relevant Final Terms as being "**European Style Securities**", then this Condition 4.2 is applicable and the Securities are exercisable only not later than the Latest Exercise Time on the Expiration Date, subject to Condition 4.9 (*Securities void on expiry*) and to prior termination of the Securities as provided in Conditions 6.3 (*Adjustments affecting Underlying Securities*) to 11 (*Provisions relating to all Securities*) and 14 (*Force Majeure and Illegality*).

4.3 *Bermudan Style:*

If the Securities are specified in the relevant Final Terms as being "**Bermudan Style Securities**", then this Condition 4.3 is applicable and the Securities are exercisable only not later than the Latest Exercise Time on each Potential Exercise Date, subject to Condition 4.9 (*Securities void on expiry*) and to prior termination of the Securities as provided in Conditions 6.3 (*Adjustments affecting Underlying Securities*) to 11 (*Provisions relating to all Securities*) and 14 (*Force Majeure and Illegality*).

4.4 *Cash Settlement Securities:*

If the Securities are specified in the relevant Final Terms as being "**Cash Settlement Securities**", then, subject to Condition 4.6 (*Optional physical settlement*) if applicable, upon exercise each Security entitles the Holder thereof to receive from the Issuer on the Cash Settlement Payment Date an amount (the "**Cash Settlement**

Amount") calculated in accordance with the relevant Final Terms in the currency (the "**Settlement Currency**") specified in the relevant Final Terms (less any amount in respect of Taxes, as defined below). The Cash Settlement Amount will be rounded down to the nearest minimum unit of the Settlement Currency, with Securities exercised at the same time by the same Securityholder being aggregated for the purpose of determining the aggregate Cash Settlement Amount payable in respect of such Securities.

4.5 *Physical Settlement Securities:*

- 4.5.1 If the Securities are specified in the relevant Final Terms as being "Full Physical Settlement Securities", then, subject to Condition 4.7 (*Optional cash settlement*) if applicable, upon the exercise of a Security by a Securityholder, the Issuer will deliver or procure the delivery of all the Underlying Securities in respect of such Security on the Physical Settlement Date to the account of the Clearance System specified, or as may otherwise be specified, for that purpose by such Securityholder in the relevant Exercise Notice, following payment by such Securityholder to or to the order of the Issuer on or before the Strike Price Payment Date of the Strike Price (plus an amount equal to all applicable stamp tax, stamp duty reserve tax, estate, inheritance, gift, transfer, capital gains, corporation, income, property, withholding, other taxes, duties and charges ("Taxes") due by reason of the exercise of such Security and the purchase for, and credit to or to the order of such Securityholder of such Underlying Securities and, in the case of Bond Securities, accrued interest, if any, on the Bond Security Entitlement computed by the Determination Agent in accordance with customary trade practices employed with respect to bonds or such other debt securities), all as more fully described in Condition 5 (*Exercise*).
- 4.5.2 If the Securities are specified in the relevant Final Terms as being "Part Physical Settlement Securities", then, subject to Condition 4.7 (*Optional cash settlement*) if applicable, upon the exercise of a Security by a Securityholder, the Issuer will deliver or procure the delivery of all the Underlying Securities in respect of such Security on the Physical Settlement Date to the account of the Clearance System specified, or as may otherwise be specified, for that purpose by such Securityholder in the relevant Exercise Notice. The number of Underlying Securities to be so delivered shall be an amount of Underlying Securities, rounded down if not a whole number, whose market value (as determined by the Determination Agent in its sole and absolute discretion) on the Exercise Date (less any commissions which the Issuer may charge at such rate as it deems fit in its sole and absolute discretion and any applicable Taxes due by reason of the exercise of such Security and the purchase for, and credit to or to the order of such Securityholder of such Underlying Securities) is equal to the excess, if any, of the Settlement Price over the Strike Price (plus, in the case of Bond Securities, any accrued interest, as specified in Condition 4.5.1 above). Where a Securityholder becomes entitled to receive Underlying Securities in respect of more than one Security, any rounding adjustment referred to in this Condition 4.5.2 shall be applied only to the aggregate number of Underlying Securities deliverable in respect of such Securities.
- 4.5.3 If the Securities are specified in the relevant Final Terms as being "Other Physical Settlement Securities", then, subject to Condition 4.7 (*Optional cash settlement*) if applicable, upon the exercise of a Security by a Securityholder, the Issuer will deliver or procure the delivery of such amount of Underlying Securities, or the Securities will be settled in any other manner, as may be specified in, or determined in accordance with, the relevant Final Terms.
- 4.5.4 In these Conditions, references to "Physical Settlement Securities" shall, where the context so admits, comprise Full Physical Settlement Securities, Part Physical Settlement Securities and Other Physical Settlement Securities.

4.6 *Optional physical settlement:*

If this Condition 4.6 is specified in the relevant Final Terms as being applicable, then, upon the exercise of a Security by a Securityholder, the Issuer may elect not to pay the Cash Settlement Amount to that Securityholder in accordance with Condition 4.4 (*Cash Settlement Securities*), but instead deliver or procure the delivery of Underlying Securities in accordance with Condition 4.5.1 (*Full Physical Settlement Securities*) or Condition 4.5.2 (*Part Physical Settlement Securities*).

4.7 *Optional cash settlement:*

If this Condition 4.7 is specified in the relevant Final Terms as being applicable, then, upon the exercise of a Security by a Securityholder, the Issuer may elect not to deliver or procure the delivery of Underlying Securities in accordance with Condition 4.5.1 (*Full Physical Settlement Securities*) or Condition 4.5.2 (*Part Physical Settlement Securities*), but instead to pay the Cash Settlement Amount to that Securityholder in accordance with Condition 4.4 (*Cash Settlement Securities*).

4.8 *Notification of election:*

If Condition 4.6 (*Optional physical settlement*) or Condition 4.7 (*Optional cash settlement*) is specified in the relevant Final Terms as being applicable, the Issuer will, by the close of business (London time) on the Settlement Election Date, notify the relevant Clearance System(s), the Principal Securities Agent, the Determination Agent and the relevant Securityholder whether it has elected to pay the Cash Settlement Amount in accordance with Condition 4.4 (*Cash Settlement Securities*) or deliver or procure the delivery of Underlying Securities in accordance with Condition 4.5.1 (*Full Physical Settlement Securities*) or Condition 4.5.2 (*Part Physical Settlement Securities*). Notice to the relevant Securityholder shall be given by facsimile or telex to the number specified in the relevant Exercise Notice, and any notice so given shall be deemed received by the relevant Securityholder.

4.9 *Securities void on expiry:*

Subject to Condition 5.6 (*Deemed Exercise*), Securities with respect to which an Exercise Notice has not been duly completed and delivered to the relevant Clearance System and to the Principal Securities Agent, in the manner set out in Condition 5 (*Exercise*), before the Latest Exercise Time shall become void for all purposes and shall cease to be transferable.

4.10 *Delivery outside the United States:*

Notwithstanding the foregoing, no cash, securities or other property shall be delivered in the United States (as defined in Regulation S under the Securities Act and in the CEA) in connection with the settlement of, or exercise of, Securities.

5. **EXERCISE**

5.1 *Exercise Notice:*

5.1.1 Subject to Condition 4.9 (*Securities void on expiry*) and to prior termination of the Securities provided in Conditions 6.3 (*Adjustments affecting Underlying Securities*) to 11 (*Provisions relating to all Securities*) and 14 (*Force Majeure and Illegality*), Securities may be exercised by a Securityholder (at his own expense) at such time and on such day(s) as provided in Condition 4.1 (*American Style Securities*), 4.2 (*European Style Securities*) or 4.3 (*Bermudan Style Securities*), as applicable, by delivery from a location outside the United States, or by the sending of a tested telex confirmed in writing from a location outside the United States, of a duly completed and signed Exercise Notice to (i) the relevant Clearance System, (ii) the Securities Agents and (iii) the Determination Agent.

- 5.1.2 Subject to Condition 4.9 (*Securities void on expiry*), any Exercise Notice delivered after the Latest Exercise Time on any day shall: (a) in the case of Bermudan Style Securities and European Style Securities, be void and (b) in the case of American Style Securities, be deemed to have been delivered on the next following day on which such Securities are exercisable (unless no such day occurs on or prior to the Expiration Date, in which case that Exercise Notice shall be void).

5.2 *Form of Exercise Notice for Cash Settlement Securities:*

Each Exercise Notice shall be in the form (for the time being current) available from each Securities Agent, and must:

- (a) specify the name, address, telephone, facsimile and telex details of the Securityholder in respect of the Securities being exercised;
- (b) specify the number of Securities of the relevant Series being exercised by the Securityholder (which must not be less than the Minimum Exercise Number);
- (c) specify the number of the Securityholder's account at the relevant Clearance System to be debited with the Securities being exercised and irrevocably instruct, or, as the case may be, confirm that the Securityholder has irrevocably instructed, the relevant Clearance System to debit the Securityholder's account with the Securities being exercised and credit the same to the account of the Principal Securities Agent;
- (d) where applicable, specify the number of the Securityholder's account at the relevant Clearance System to be credited with the Cash Settlement Amount for the Securities being exercised;
- (e) include an irrevocable undertaking to pay any applicable Taxes due by reason of exercise of the relevant Securities and an authority to the Issuer and the relevant Clearance System to deduct an amount in respect thereof from any Cash Settlement Amount due to such Securityholder or otherwise (on, or at any time after, the Cash Settlement Payment Date) and to debit a specified account of the Securityholder at the relevant Clearance System with an amount or amounts in respect thereof; and
- (f) give a certification as to the non-U.S. beneficial ownership of the Securities being exercised therewith.

5.3 *Form of Exercise Notice for Physical Settlement Securities:*

If the Securities are specified in the relevant Final Terms as being Physical Settlement Securities or if Condition 4.6 (*Optional physical settlement*) is specified in the relevant Final Terms as being applicable, the Exercise Notice shall also:

- (a) in the case of Full Physical Settlement Securities, irrevocably instruct the relevant Clearance System to debit on the Strike Price Payment Date a specified account of the Securityholder with the aggregate Strike Price in respect of the Securities being exercised (plus any applicable Taxes and, in the case of Bond Securities, any accrued interest, as specified in Condition 4.5.1 above), and to transfer such amount to such account as shall have been specified by the Issuer to the relevant Clearance System for that purpose;
- (b) include an irrevocable undertaking to pay any applicable Taxes due by reason of the transfer (if any) of Underlying Securities to the account at the relevant Clearance System specified, or as otherwise specified, by the Securityholder and an authority to the Issuer and the relevant

Clearance System to debit a specified account of the Securityholder with an amount in respect thereof;

- (c) specify the number of the Securityholder's account with the relevant Clearance System to be credited with the relevant Underlying Securities or, as the case may be, the delivery details for such Underlying Securities; and
- (d) specify such other details as the relevant Final Terms may require.

5.4 *Verification of Securityholder:*

5.4.1 To exercise Securities, the Holder thereof must duly complete an Exercise Notice. The relevant Clearance System shall, in accordance with its normal operating procedures, verify that each person exercising Securities is the Holder thereof according to the records of such Clearance System and that such Holder has an account at the relevant Clearance System which contains Securities in an amount being exercised and funds equal to any applicable Taxes and the aggregate Strike Price (if any) in respect of the Securities being exercised.

5.4.2 If, in the determination of the relevant Clearance System or the Principal Securities Agent:

- (a) the Exercise Notice is not complete or not in proper form;
- (b) the person submitting an Exercise Notice is not validly entitled to exercise the relevant Securities or not validly entitled to deliver such Exercise Notice; or
- (c) sufficient Securities or sufficient funds equal to any applicable Taxes and the aggregate Strike Price (if any) are not available in the specified account(s) with the relevant Clearance System on the Exercise Date,

that Exercise Notice will be treated as void and a new duly completed Exercise Notice must be submitted if exercise of the Holder's Securities is still desired.

5.4.3 Any determination by the relevant Clearance System or the Principal Securities Agent as to any of the matters set out in Condition 5.4.2 above shall, in the absence of manifest error, be conclusive and binding upon the Issuer, the Securityholder and the beneficial owner of the Securities exercised.

5.5 *Notification to Principal Securities Agent and Common Depositary:*

5.5.1 Subject to the verification set out in Condition 5.4.1 above, the relevant Clearance System will:

- (a) confirm to the Principal Securities Agent (copied to the Issuer and the Determination Agent) the number of Securities being exercised and the number of the account to be credited with the Cash Settlement Amount or, as the case may be, with the Underlying Securities; and
- (b) promptly notify the Common Depositary of receipt of the Exercise Notice and the number of the Securities to be exercised.

5.5.2 Upon exercise of part of the Global Warrant, the Common Depositary will note such exercise on the Schedule to the Global Warrant and the number of Securities so exercised as represented by the Global Warrant shall be cancelled *pro tanto*.

5.6 *Deemed Exercise:*

If "**Deemed Exercise**" is specified in the relevant Final Terms to be applicable in relation to a Series of Securities, where an Exercise Notice has not been duly completed and delivered by the Latest Exercise Time on the Expiration Date in respect of any Securities of such Series, each such Security shall be deemed to have been exercised at that time on such date and/or upon such other terms as may be specified in the relevant Final Terms, subject in each case to prior termination as provided for in 6.3 (*Adjustments affecting Underlying Securities*) to 11 (*Provisions relating to all Securities*) and 14 (*Force Majeure and Illegality*). Notwithstanding such deemed exercise, the Issuer shall be under no obligation to settle any such Security until the Holder has delivered an Exercise Notice in the prescribed form in accordance with Conditions 5.2 (*Form of Exercise Notice*) and/or 5.3 (*Form of Exercise Notice for Physical Settlement Securities*) above, provided that where the Holder has not delivered an Exercise Notice within 30 Business Days and Clearance System Business Days of the day on which such Securities were deemed to have been exercised, such Securities shall become void for all purposes.

5.7 *Debit of Securityholder's Account:*

5.7.1 The relevant Clearance System will on or before the Cash Settlement Payment Date or the Physical Settlement Date, as the case may be, debit the relevant account of the Securityholder and credit the relevant account of the Principal Securities Agent (in favour of the Issuer) with: (i) the Securities being exercised, (ii) the aggregate Strike Price (if any) in respect of the Securities being exercised (plus any applicable Taxes and, in the case of Bond Securities, any accrued interest, as specified in Condition 4.5.1 above), and (iii) any other amounts and/or amounts of Underlying Securities as may be specified in the relevant Final Terms.

5.7.2 If any of the items set out in Condition 5.7.1 are not so credited to the relevant account of the Principal Securities Agent (in favour of the Issuer), then the Issuer shall be under no obligation to transfer any Underlying Securities or make any delivery or make any payment of any nature to the relevant Securityholder in respect of the Securities being exercised, and the Exercise Notice delivered in respect of such Securities shall thereafter be void for all purposes.

5.8 *Payment and delivery:*

5.8.1 In respect of Securities which have been exercised and which are specified in the relevant Final Terms as being Cash Settlement Securities, or in respect of which the Issuer has elected cash settlement in accordance with Condition 4.7 (*Optional cash settlement*):

- (a) the Determination Agent shall, on the date specified therefor (the "Determination Date") in the relevant Final Terms, determine, in its sole and absolute discretion, the Cash Settlement Amount (if any) to be paid on the relevant Cash Settlement Payment Date in respect of the relevant Securities and notify the Issuer and the Principal Securities Agent of such Cash Settlement Amount on the Business Day immediately following the Determination Date, provided that the Determination Agent has received confirmation from the relevant Clearance System of the number of Securities which have been exercised; and
- (b) the Issuer will transfer to the Principal Securities Agent the Cash Settlement Amount in respect of the Securities being exercised, less any amount in respect of Taxes which the Issuer is authorised to deduct therefrom, for value on the Cash Settlement Payment Date, and the Principal Securities Agent will cause the Securityholder's account with the relevant Clearance System to be credited with such amount for value on the Cash Settlement Payment Date.

- 5.8.2 In respect of Securities which have been exercised and which are specified in the relevant Final Terms as being Physical Settlement Securities, or in respect of which the Issuer has elected physical settlement in accordance with Condition 4.6 (*Optional physical settlement*), subject, in the case of Full Physical Settlement Securities, to transfer of the Strike Price (plus any applicable Taxes and, in the case of Bond Securities, any accrued interest, as specified in Condition 4.5.1 above) from the relevant account of the Securityholder to the relevant account of the Principal Securities Agent (in favour of the Issuer) as aforesaid, the Issuer shall, on the Physical Settlement Date, deliver or procure the delivery of the relevant number of Underlying Securities in respect of each Security for credit to the account specified, or as may otherwise be specified, in the relevant Exercise Notice. The Issuer shall be entitled, if it so elects, to divide any Underlying Securities to be transferred into such number of lots of such size as it desires to facilitate its delivery obligations.
- 5.8.3 Exercise of the Securities and payments and deliveries by the Issuer and the Securities Agents will be subject in all cases to all applicable fiscal and other laws, regulations and practices in force at the relevant time (including, without limitation, any relevant exchange control laws or regulations and the rules and procedures of the relevant Clearance System) and none of the Issuer or any Securities Agent shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations and practices. None of the Issuer or any Securities Agent shall under any circumstances be liable for any acts or defaults of any Clearance System in the performance of the Clearance System's duties in relation to the Securities.

5.9 *Effect of Exercise Notice:*

- 5.9.1 Delivery of an Exercise Notice shall constitute an irrevocable election and undertaking by the Securityholder to exercise the Securities specified therein, provided that the person exercising and delivering such Exercise Notice is the person then appearing in the records of the relevant Clearance System as the holder of the relevant Securities. If the person exercising and delivering the Exercise Notice is not the person so appearing, such Exercise Notice shall for all purposes become void and shall be deemed not to have been so delivered.
- 5.9.2 After the delivery of an Exercise Notice (other than an Exercise Notice which shall become void pursuant to Condition 5.1.2) by a Securityholder, such Securityholder shall not be permitted to transfer either legal or beneficial ownership of the Securities exercised thereby. Notwithstanding this, if any Securityholder does so transfer or attempt to transfer such Securities, the Securityholder will be liable to the Issuer for any losses, costs and expenses suffered or incurred by the Issuer including those suffered or incurred as a consequence of it having terminated any related hedging operations in reliance on the relevant Exercise Notice and subsequently: (i) entering into replacement hedging operations in respect of such Securities; or (ii) paying any amount on the subsequent exercise of such Securities without having entered into any replacement hedging operations.

5.10 *Minimum Number of Securities Exercisable:*

The Securities are exercisable in the minimum number (the "**Minimum Exercise Number**") specified in the relevant Final Terms (or, if a "**Permitted Multiple**" is specified in the relevant Final Terms, higher integral multiples of the Minimum Exercise Number) on any particular occasion or such lesser Minimum Exercise Number or other Permitted Multiple as the Issuer may from time to time notify to the Securityholders in accordance with Condition 15 (*Notices*).

5.11 *Exercise and Settlement of Swedish Securities:*

Swedish Warrants may only be exercised by delivery of a duly completed Exercise Notice to the Swedish Issuing Agent in respect of the relevant Tranche of Swedish Securities and these Conditions shall be construed accordingly. The Swedish Issuing Agent (or such other person designated by the then applicable Swedish CSD Rules as responsible for such actions) shall perform the verification and debiting of the relevant securities accounts referred to in Condition 5.4 and 5.7 (or, as the case may be under the then applicable Swedish CSD Rules, request and/or effect the transfer by the Holder of the relevant Swedish Securities to an account blocked for further transfers until such debiting may occur) and notify the Principal Securities Agent in accordance with Condition 5.5. Cash Settlement and, to the extent applicable, settlement in respect of Physical Settlement Securities, will occur in accordance with the Swedish CSD Rules and payments will be effected to the Holder recorded as such on the fifth business day (as defined by the then applicable Swedish CSD Rules) before the due date for such payment, or such other business day falling closer to the due date as may then be stipulated in said Swedish CSD Rules (such date being the “**Record Date**” for the purposes of the Swedish Securities). Claims for any amount payable in respect of the Swedish Securities shall become void unless made within a period of ten years after the relevant due date.

6. PROVISIONS RELATING TO SHARE SECURITIES, SHARE BASKET SECURITIES, INDEX SECURITIES AND INDEX BASKET SECURITIES

This Condition 6 is applicable only in relation to Securities specified in the relevant Final Terms as being Share Securities, Share Basket Securities, Index Securities or Index Basket Securities.

6.1 *Valuation, Market Disruption and Averaging Dates:*

6.1.1 “**Valuation Date**” means, unless otherwise specified in the relevant Final Terms, each Exercise Date (or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day), subject to the provisions of Condition 6.1.2. If any Valuation Date is a Disrupted Day, then:

- (a) in the case of an Index Security or Share Security, the Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day. In that case, (1) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day, and (2) the Determination Agent shall determine in its sole and absolute discretion:
 - (i) in respect of an Index Security, the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day of each security or other property comprised in the Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security or other property on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security or other property as of the Valuation Time on that eighth Scheduled Trading Day); and
 - (ii) in respect of a Share Security, its good faith estimate of the value for the Underlying Security as of the Valuation Time on that eighth Scheduled Trading Day;
- (b) in the case of an Index Basket Security, the Valuation Date for each Index not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date, and the

Valuation Date for each Index affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to that Index, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day relating to that Index. In that case, (1) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date for the relevant Index, notwithstanding the fact that such day is a Disrupted Day, and (2) the Determination Agent shall determine, in its sole and absolute discretion, the level of that Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating that Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day of each security comprised in that Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security as of the Valuation Time on that eighth Scheduled Trading Day); and

- (c) in the case of a Share Basket Security, the Valuation Date for each Underlying Security not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date, and the Valuation Date for each Underlying Security affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to that Underlying Security, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day relating to that Underlying Security. In that case, (1) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date for the relevant Underlying Security, notwithstanding the fact that such day is a Disrupted Day, and (2) the Determination Agent shall determine, in its sole and absolute discretion, its good faith estimate of the value for that Underlying Security as of the Valuation Time on that eighth Scheduled Trading Day.

6.1.2 For the purposes hereof:

"Disrupted Day" means (a) except with respect to a Multi-exchange Index, any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred, and (b) with respect to any Multi-exchange Index, any Scheduled Trading Day on which (i) the Index Sponsor fails to publish the level of the Index; (ii) the Related Exchange fails to open for trading during its regular trading session; or (iii) a Market Disruption Event has occurred;

"Early Closure" means (a) except with respect to a Multi-exchange Index, the closure on any Exchange Business Day of the relevant Exchange (or, in the case of an Index Security or Index Basket Security, any relevant Exchange(s) relating to securities or other property that comprise(s) 20 percent or more of the level of the relevant Index) or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or Related Exchange(s) at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange(s) or Related Exchange(s) on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day and (b) with respect to any Multi-exchange Index, the closure on any Exchange Business Day of the Exchange in respect of any Component or the Related Exchange prior to its Scheduled Closing Time unless such earlier closing is announced by such Exchange or

Related Exchange (as the case may be) at least one hour prior to the earlier of: (i) the actual closing time for the regular trading session on such Exchange or Related Exchange (as the case may be) on such Exchange Business Day; and (ii) the submission deadline for orders to be entered into such Exchange or Related Exchange system for execution at the relevant Determination Time on such Exchange Business Day;

"Exchange Disruption" means (a) except with respect to a Multi-exchange Index, any event (other than an Early Closure) that disrupts or impairs (as determined by the Determination Agent in its sole and absolute discretion) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Underlying Securities on the Exchange (or, in the case of an Index Security or Index Basket Security, on any relevant Exchange(s) in securities or other property that comprise(s) 20 percent or more of the level of the relevant Index), or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Underlying Security or the relevant Index on any relevant Related Exchange and (b) with respect to any Multi-exchange Index, any event (other than an Early Closure) that disrupts or impairs (as determined by the Determination Agent) the ability of market participants in general to effect transactions in, or obtain market values for, (i) any Component on the Exchange in respect of such Component; or (ii) futures or options contracts relating to the Index on the Related Exchange;

"Market Disruption Event" means (a) in respect of an Underlying Security or Index other than a Multi-exchange Index, the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case the Determination Agent determines is material (such determination to be at the Determination Agent's sole and absolute discretion), at any time during the one hour period that ends at the relevant Valuation Time, or (iii) an Early Closure. For the purposes of determining whether a Market Disruption Event in respect of an Index exists at any time, if a Market Disruption Event occurs in respect of a security or other property included in the Index at any time, then the relevant percentage contribution of that security or other property to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to that security or other property and (y) the overall level of the Index, in each case immediately before the occurrence of such Market Disruption Event; and (b) with respect to any Multi-exchange Index either (i)(A) the occurrence or existence, in respect of any Component, of (1) a Trading Disruption, (2) an Exchange Disruption, which in either case the Determination Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange on which such Component is principally traded, OR (3) an Early Closure; AND (B) the aggregate of all Components in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists comprises 20 per cent. or more of the level of the Index; OR (ii) the occurrence or existence, in respect of futures or options contracts relating to the Index, of: (A) a Trading Disruption, (B) an Exchange Disruption, which in either case the Determination Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Related Exchange; or (c) an Early Closure;

For the purposes of determining whether a Market Disruption Event exists in respect of a Component at any time, if a Market Disruption Event occurs in respect of such Component at that time, then the relevant percentage contribution of that Component to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to that Component to (y) the overall level of the Index, in each case using the official opening weightings as published by the Index Sponsor as part of the market "opening data";

"Scheduled Valuation Date" means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been a Valuation Date (ignoring for the purposes of this definition any postponement of the Potential Exercise Date or Expiration Date as a result of the occurrence of a Disrupted Day and assuming that the original Potential Exercise Date or original Expiration Date, as the case may be, would have been a Valuation Date); and

"Trading Disruption" means (a) except with respect to a Multi-exchange Index any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise (i) relating to the Underlying Security on the Exchange (or, in the case of an Index Security or Index Basket Security, on any relevant Exchange(s) relating to securities or other property that comprise(s) 20 percent or more of the level of the relevant Index), or (ii) in futures or options contracts relating to the Share or the relevant Index on any relevant Related Exchange and (b) with respect to any Multi-exchange Index, any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise (i) relating to any Component on the Exchange in respect of such Component; or (ii) in futures or options contracts relating to the Index on the Related Exchange.

6.1.3 If Averaging Dates are specified in the relevant Final Terms as being applicable, then, notwithstanding any other provisions of these Conditions, the following provisions will apply to the valuation of the relevant Index, Underlying Security or Basket in relation to a Valuation Date:

- (a) **"Averaging Date"** means, in respect of each Valuation Date, each date specified or otherwise determined as provided in the relevant Final Terms (or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day).
- (b) For purposes of determining the Settlement Price in relation to a Valuation Date, the Settlement Price will be:
 - (i) in respect of an Index Security or a Share Security that is a Cash Settlement Security or a Part Physical Settlement Security, the arithmetic mean of the Relevant Prices of the Index or the Underlying Securities on each Averaging Date;
 - (ii) in respect of an Index Basket Security, the arithmetic mean of the amounts for the Basket determined by the Determination Agent in its sole and absolute discretion as provided in the relevant Final Terms as of the relevant Valuation Time(s) on each Averaging Date or, if no means for determining the Settlement Price are so provided, the arithmetic mean of the amounts for the Basket calculated on each Averaging Date as the sum of the Relevant Prices of each Index comprised in the Basket (weighted or adjusted in relation to each Index as provided in the relevant Final Terms); and
 - (iii) in respect of a Share Basket Security that is a Cash Settlement Security or a Part Physical Settlement Security, the arithmetic mean of the amounts for the Basket determined by the Determination Agent in its sole and absolute discretion as provided in the relevant Final Terms as of the relevant Valuation Time(s) on each Averaging Date or, if no means for determining the Settlement Price is so

provided, the arithmetic mean of the amounts for the Basket calculated on each Averaging Date as the sum of the values calculated for the Underlying Securities of each Underlying Security Issuer as the product of (1) the Relevant Price of such Underlying Security and (2) the number of such Underlying Securities comprised in the Basket.

- (c) If an Averaging Date is a Disrupted Day, then if, in relation to "**Averaging Date Disruption**", the consequence specified in the relevant Final Terms is:
- (i) "**Omission**", then such Averaging Date will be deemed not to be a relevant Averaging Date for the purposes of determining the relevant Settlement Price Provided that, if through the operation of this provision no Averaging Date would occur with respect to the relevant Valuation Date, then Condition 6.1.1 will apply for purposes of determining the relevant level, price or amount on the final Averaging Date in respect of that Valuation Date as if such Averaging Date were a Valuation Date that was a Disrupted Day;
 - (ii) "**Postponement**", then Condition 6.1.1 will apply for the purposes of determining the relevant level, price or amount on that Averaging Date as if such Averaging Date were a Valuation Date that was a Disrupted Day irrespective of whether, pursuant to such determination, that deferred Averaging Date would fall on a day that already is or is deemed to be an Averaging Date for the relevant Security; or
 - (iii) "**Modified Postponement**", then:
 - (1) in the case of an Index Security or a Share Security, the Averaging Date shall be the first succeeding Valid Date. If the first succeeding Valid Date has not occurred as of the Valuation Time on the eighth Scheduled Trading Day immediately following the original date that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in relation to the relevant Scheduled Valuation Date, then (A) that eighth Scheduled Trading Day shall be deemed to be the Averaging Date (irrespective of whether that eighth Scheduled Trading Day is already an Averaging Date), and (B) the Determination Agent shall determine, in its sole and absolute discretion, the relevant level or price for that Averaging Date in accordance with (x) in the case of an Index Security, Condition 6.1.1(a)(2)(i) and (y) in the case of a Share Security, Condition 6.1.1(a)(2)(ii);
 - (2) in the case of an Index Basket Security or a Share Basket Security, the Averaging Date for each Underlying Security or Index not affected by the occurrence of a Disrupted Day shall be the date specified in the relevant Final Terms as an Averaging Date in relation to the relevant Valuation Date and the Averaging Date for an Underlying Security or Index affected by the occurrence of a Disrupted Day shall be the first succeeding Valid Date in relation to such Underlying Security or Index. If the first succeeding Valid Date in relation to such Underlying Security or Index has not occurred as of the Valuation Time on the eighth Scheduled Trading Day immediately following the original date that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in relation to the relevant Scheduled Valuation Date, then (A) that eighth Scheduled Trading Day shall be

deemed to be the Averaging Date (irrespective of whether that eighth Scheduled Trading Day is already an Averaging Date) in relation to such Underlying Security or Index, and (B) the Determination Agent shall determine, in its sole and absolute discretion, the relevant level or amount for that Averaging Date in accordance with (x) in the case of an Index Basket Security, Condition 6.1.1(b)(2) and (y) in the case of a Share Basket Security, Condition 6.1.1(c)(2); and

- (3) "**Valid Date**" shall mean a Scheduled Trading Day that is not a Disrupted Day and which another Averaging Date in respect of the relevant Valuation Date does not or is not deemed to occur.
- (d) If any Averaging Dates in relation to a Valuation Date occur after that Valuation Date as a result of the occurrence of a Disrupted Day, then (i) the relevant Cash Settlement Payment Date or, as the case may be, the relevant Physical Settlement Date or (ii) the occurrence of an Extraordinary Event or a Potential Adjustment Event shall be determined by reference to the last such Averaging Date as though it were that Valuation Date.

6.2 *Adjustments to Indices:*

This Condition 6.2 is applicable only in relation to Securities specified in the relevant Final Terms as being Index Securities or Index Basket Securities.

6.2.1 *Successor Index:*

If a relevant Index is (a) not calculated and announced by the Index Sponsor, but is calculated and announced by a successor sponsor acceptable to the Determination Agent in its sole and absolute discretion or (b) replaced by a successor index using, in the determination of the Determination Agent (such determination to be at the Determination Agent's sole and absolute discretion), the same or a substantially similar formula for and method of calculation as used in the calculation of that Index, then in each case that index (the "**Successor Index**") will be deemed to be the Index.

6.2.2 *Index Adjustment Events:*

If (i) on or prior to any Valuation Date, or any Averaging Date, a relevant Index Sponsor announces that it will make a material change in the formula for or the method of calculating that Index or in any other way materially modifies that Index (other than a modification prescribed in that formula or method to maintain that Index in the event of changes in constituent securities (or other property) and capitalisation and other routine events) (an "**Index Modification**") or permanently cancels the Index and no Successor Index exists (an "**Index Cancellation**") or (ii) on any Valuation Date, or any Averaging Date, the Index Sponsor fails to calculate and announce a relevant Index (an "**Index Disruption**" and together with an Index Modification and an Index Cancellation, each an "**Index Adjustment Event**"), then (A) in the case of an Index Modification or an Index Disruption, the Determination Agent shall determine if such Index Adjustment Event has a material effect on the Securities and, if so, shall calculate in its sole and absolute discretion the relevant Settlement Price or Final Price, as the case may be, using, *in lieu* of a published level for that Index, the level for that Index as at that Valuation Date or, as the case may be, that Averaging Date as determined by the Determination Agent in its sole and absolute discretion in accordance with the formula for and method of calculating that Index last in effect prior to that change, failure or cancellation, but using only those securities or other property that comprised that Index immediately prior to that Index Adjustment Event and (B) in the case of an Index Cancellation, the

Issuer may, at any time thereafter and in its sole and absolute discretion, determine that the Securities shall be terminated as of any later date. If the Issuer so determines that the Securities shall be terminated, then the Securities shall cease to be exercisable (or, in the case of any Securities which have been exercised, the entitlements of the respective exercising Securityholders to receive the Underlying Securities or payment of the Cash Settlement Amount, as the case may be, pursuant to such exercise shall cease) as of such later date and the Issuer will pay an amount which the Determination Agent, in its sole and absolute discretion, determines is the fair value to the Securityholder of a Security with terms that would preserve for the Securityholder the economic equivalent of any payment or delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of such termination, less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion. The Issuer's obligations under the Securities shall be satisfied in full upon payment of such amount. If the Issuer determines that the relevant Securities shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to any variable relevant to the exercise, settlement, or payment terms of the relevant Securities and/or any other adjustment (including without limitation, the substitution of the Index) which adjustment shall be effective on such date as the Determination Agent shall determine.

6.2.3 *Correction of Index Levels:*

If the level of an Index published by the Index Sponsor and which is utilised by the Determination Agent for any calculation or determination (the "**Original Determination**") under the Securities is subsequently corrected and the correction (the "**Corrected Value**") is published by the Index Sponsor by such time as may be specified in the relevant Final Terms (or, if none is so specified, within one Settlement Cycle after the original publication and prior to the final Valuation Date), then the Determination Agent will notify the Issuer and the Fiscal Agent of the Corrected Value as soon as reasonably practicable and shall determine the relevant value (the "**Replacement Determination**") using the Corrected Value. If the result of the Replacement Determination is different from the result of the Original Determination, to the extent that it determines to be necessary, the Determination Agent may adjust any relevant terms accordingly.

6.3 *Adjustments affecting Underlying Securities:*

This Condition 6.3 is applicable only in relation to Securities specified in the relevant Final Terms as being Share Securities or Share Basket Securities.

6.3.1 *Adjustments for Potential Adjustment Events:*

- (a) Following the declaration by the Underlying Security Issuer of the terms of a Potential Adjustment Event, the Determination Agent will determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the relevant Underlying Securities and, if so, will (i) make such adjustment as it in its sole and absolute discretion considers appropriate, if any, to the Strike Price, the formula for the Cash Settlement Amount and/or the Settlement Price and/or the Relevant Price set out in the relevant Final Terms, the number of Underlying Securities to which each Security relates, the number of Underlying Securities comprised in a Basket, the amount, the number of or type of shares or other securities which may be delivered in respect of such Securities and/or any other adjustment and, in any case, any other variable relevant to the exercise, settlement, payment or other terms of the relevant Securities as the

Determination Agent determines, in its sole and absolute discretion, to be appropriate to account for that diluting or concentrative effect and (ii) determine, in its sole and absolute discretion, the effective date(s) of such adjustment(s).

(b) *For the purposes hereof:*

"Extraordinary Dividend" means the dividend per Underlying Security, or portion thereof, which the Determination Agent determines should be characterised as an Extraordinary Dividend.

"Potential Adjustment Event" means any of the following:

- (i) a subdivision, consolidation or reclassification of relevant Underlying Securities (unless resulting in a Merger Event), or a free distribution or dividend of any such Underlying Securities to existing holders by way of bonus, capitalisation or similar issue; or
- (ii) a distribution, issue or dividend to existing holders of the relevant Underlying Securities of (A) such Underlying Securities, or (B) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Underlying Security Issuer equally or proportionately with such payments to holders of such Underlying Securities, or (C) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the Underlying Security Issuer as a result of a spin-off or other similar transaction, or (D) any other type of securities, rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by the Determination Agent in its sole and absolute discretion; or
- (iii) an Extraordinary Dividend; or
- (iv) a call by the Underlying Security Issuer in respect of relevant Underlying Securities that are not fully paid; or
- (v) a repurchase by the Underlying Security Issuer or any of its subsidiaries of relevant Underlying Securities whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise; or
- (vi) in respect of the Underlying Security Issuer, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of the Underlying Security Issuer pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, Securities, debt instruments or stock rights at a price below their market value, as determined by the Determination Agent in its sole and absolute discretion, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or
- (vii) any other event that may have a diluting or concentrative effect on the theoretical value of the relevant Underlying Securities; or
- (viii) any other event specified as such in the relevant Final Terms.

6.3.2 *European currency related adjustments:*

If any relevant Underlying Securities were originally quoted, listed and/or dealt as of the Initial Date in a currency of a member state of the European Union that has not adopted the single currency in accordance

with the EC Treaty, and are at any time thereafter quoted, listed and/or dealt exclusively in euro on the Exchange or, where no Exchange is specified in the relevant Final Terms, the principal market on which such Underlying Securities are traded, then the Determination Agent will adjust any amount or quantity that is payable or deliverable in respect of the Securities and/or any other settlement, payment or other terms of the Securities as the Determination Agent determines appropriate to preserve the economic terms of the Securities. The Determination Agent will make any conversion necessary for purposes of any such adjustment as of the Valuation Time at an appropriate mid-market spot rate of exchange determined by the Determination Agent prevailing as of the Valuation Time. No adjustments under this Condition 6.3.2 will affect the currency denomination of any payment obligations of the Issuer under the Securities.

6.3.3 *Correction of Underlying Security Prices:*

If any price published on the Exchange and which is utilised by the Determination Agent for any calculation or determination (the "**Original Determination**") under the Securities is subsequently corrected and the correction (the "**Corrected Value**") is published by the Exchange by such time as may be specified in the relevant Final Terms (or, if none is so specified, within one Settlement Cycle after the original publication and prior to the final Valuation Date), then the Determination Agent will notify the Issuer and the Fiscal Agent of the Corrected Value as soon as reasonably practicable and shall determine the relevant value (the "**Replacement Determination**") using the Corrected Value. If the result of the Replacement Determination is different from the result of the Original Determination, to the extent that it determines to be necessary, the Determination Agent may adjust any relevant terms accordingly.

6.4 *Extraordinary Events:*

This Condition 6.4 is applicable only in relation to Securities specified in the relevant Final Terms as being Share Securities or Share Basket Securities.

6.4.1 *Merger Event or Tender Offer:*

- (a) Following the occurrence of any Merger Event or Tender Offer, the Issuer will, in its sole and absolute discretion, determine whether or not the relevant Securities shall continue.
- (b) If the Issuer determines that the relevant Securities shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to the Strike Price, the formula for the Cash Settlement Amount and/or the Settlement Price and/or the Relevant Price set out in the relevant Final Terms, the number of Underlying Securities to which each Security relates, the number of Underlying Securities comprised in a Basket, the amount, the number of or type of shares or other securities which may be delivered under such Securities and, in any case, any other variable relevant to the exercise, settlement, or payment terms of the relevant Securities and/or any other adjustment (including without limitation, in relation to Share Basket Securities, the cancellation of terms applicable in respect of Underlying Securities affected by the relevant Merger Event or Tender Offer) which adjustment shall be effective on such date as the Determination Agent shall determine.
- (c) If the Issuer determines that the relevant Securities shall be terminated, then the relevant Securities shall cease to be exercisable as of the Merger Date (in the case of a Merger Event) or Tender Offer Date (in the case of a Tender Offer) (or, in the case of any

Securities which have been exercised but remain unsettled, the entitlements of the respective exercising Securityholders to receive Underlying Securities or the Cash Settlement Amount, as the case may be, pursuant to such exercise shall cease) and the Issuer's obligations under the Securities shall be satisfied in full upon payment of the Merger Event Settlement Amount (as defined below) (in the case of a Merger Event) or Tender Offer Settlement Amount (in the case of a Tender Offer).

(d) For the purposes hereof:

"Merger Date" means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Determination Agent in its sole and absolute discretion.

"Merger Event" means in respect of any relevant Underlying Securities, as determined by the Determination Agent, acting in a commercially reasonable manner, any: (i) reclassification or change of such Underlying Securities that results in a transfer of or an irrevocable commitment to transfer all of such Underlying Securities outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of the Underlying Security Issuer with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Underlying Security Issuer is the continuing entity and which does not result in a reclassification or change of all such Underlying Securities outstanding), (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100% of the outstanding Underlying Securities of the Underlying Security Issuer that results in a transfer of or an irrevocable commitment to transfer all such Underlying Securities (other than such Underlying Securities owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Underlying Security Issuer or its subsidiaries with or into another entity in which the Underlying Security Issuer is the continuing entity and which does not result in a reclassification or change of all such Underlying Securities outstanding but results in the outstanding Underlying Securities (other than Underlying Securities owned or controlled by such other entity) immediately prior to such event collectively representing less than 50% of the outstanding Underlying Securities immediately following such event (a **"Reverse Merger"**), in each case if the Merger Date is on or before, (A) in respect of Securities where settlement by delivery applies, the later to occur of the Expiration Date and the Physical Settlement Date or, (B) in any other case, the final Valuation Date.

"Merger Event Settlement Amount" means an amount which the Determination Agent, in its sole and absolute discretion, determines is the fair value to the Securityholder of a Security with terms that would preserve for the Securityholder the economic equivalent of any payment or delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of the Merger Event less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion.

"Tender Offer" means, in respect of any Underlying Securities, as determined by the Determination Agent, acting in a commercially reasonable manner, a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10% and less than 100% of the outstanding voting shares of the Underlying Security Issuer, as determined by the Determination Agent, based

upon the making of filings with governmental or self-regulatory agencies or such other information as the Determination Agent deems relevant.

"**Tender Offer Date**" means, in respect of a Tender Offer, the date on which voting shares in the amount of the applicable percentage threshold are actually purchased or otherwise obtained, as determined by the Determination Agent in its sole and absolute discretion.

"**Tender Offer Settlement Amount**" means an amount which the Determination Agent, in its sole and absolute discretion, determines is the fair value to the Securityholder of a Security with terms that would preserve for the Securityholder the economic equivalent of any payment or delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of the Tender Offer, less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion.

6.4.2 *Nationalisation, Insolvency and Delisting:*

- (a) If in the determination of the Determination Agent, acting in a commercially reasonable manner:
- (1) all the Underlying Securities or all or substantially all the assets of the Underlying Security Issuer are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof ("**Nationalisation**"); or
 - (2) by reason of the voluntary or involuntary liquidation, bankruptcy or insolvency, dissolution or winding-up of or any analogous proceeding affecting a Underlying Security Issuer, (1) all the Underlying Securities of that Underlying Security Issuer are required to be transferred to a trustee, liquidator or other similar official or (2) holders of the Underlying Securities of that Underlying Security Issuer become legally prohibited from transferring them ("**Insolvency**"); or
 - (3) the Exchange announces that pursuant to the rules of such Exchange, the Underlying Securities cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union) ("**Delisting**"),

then the Issuer will, in its sole and absolute discretion, determine whether or not the Securities shall continue.

- (b) If the Issuer determines that the relevant Securities shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to the Strike Price, the formula for the Cash Settlement Amount and/or the Settlement Price and/or the Relevant Price set out in the relevant Final Terms, the number of Underlying Securities to which each Security relates, the number of Underlying Securities comprised in a Basket, the amount, the number of or type of shares or other securities which may be delivered under such Securities and, in any case, any other variable relevant to the exercise, settlement, or payment terms of the relevant Securities and/or any other adjustment (including without

limitation, in relation to Share Basket Securities or Index Basket Securities, the cancellation of terms applicable in respect of Underlying Securities or any Index, as the case may be, affected by the relevant Additional Disruption Event) which change or adjustment shall be effective on such date as the Determination Agent shall determine.

- (c) If the Issuer determines that the relevant Securities shall be terminated, then the relevant Securities shall cease to be exercisable (or, in the case of any Securities which have been exercised but remain unsettled, the entitlements of the respective exercising Securityholders to receive Underlying Securities or the Cash Settlement Amount, as the case may be, pursuant to such exercise shall cease) as of the Announcement Date and the Issuer's obligations under the Securities shall be satisfied in full upon payment of an amount which the Determination Agent, in its sole and absolute discretion, determines is the fair value to the Securityholder of a Security with terms that would preserve for the Securityholder the economic equivalent of any payment or delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of such Nationalisation, Insolvency or Delisting, less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion.
- (d) For the purposes hereof, "**Announcement Date**" means, as determined by the Determination Agent in its sole and absolute discretion: (i) in the case of a Nationalisation, the date of the first public announcement to nationalise (whether or not subsequently amended) that leads to the Nationalisation, (ii) in the case of an Insolvency, the date of the first public announcement of the institution of a proceeding or presentation of a petition or passing of a resolution (or other analogous procedure in any jurisdiction) that leads to the Insolvency and (iii) in the case of a Delisting, the date of the first public announcement by the Exchange that the Underlying Securities will cease to be listed, traded or publicly quoted in the manner described in (a)(iii) above. In respect of any such event, if the announcement of such event is made after the actual closing time for the regular trading session on the relevant Exchange, without regard to any after hours or any other trading outside of regular trading session hours, the Announcement Date shall be deemed to be the next following Scheduled Trading Day.

6.5 *Additional Disruption Events*

- (a) Following the occurrence of an Additional Disruption Event, the Issuer will, in its sole and absolute discretion, determine whether or not the relevant Securities shall continue.
- (b) If the Issuer determines that the relevant Securities shall continue, the Determination Agent may make such adjustment as the Determination Agent, in its sole and absolute discretion, considers appropriate, if any, to the Strike Price, the formula for the Cash Settlement Amount and/or the Settlement Price and/or the Relevant Price set out in the relevant Final Terms, the number of Underlying Securities to which each Security relates, the number of Underlying Securities comprised in a Basket, the amount, the number of or type of shares or other securities which may be delivered under such Securities and, in any case, any other variable relevant to the exercise, settlement, or payment terms of the relevant Securities and/or any other adjustment (including without limitation, in relation to Share Basket Securities or Index Basket Securities, the cancellation of terms applicable in respect of any Underlying Securities or Index, as the case may be, affected by the relevant Additional Disruption Event) which

change or adjustment shall be effective on such date as the Determination Agent shall determine.

- (c) If the Issuer determines that the relevant Securities shall be terminated, then the relevant Securities shall cease to be exercisable (or, in the case of any Securities which have been exercised but remain unsettled, the entitlements of the respective exercising Securityholders to receive Underlying Securities or the Cash Settlement Amount, as the case may be, pursuant to such exercise shall cease) and the Issuer's obligations under the Securities shall be satisfied in full upon payment of an amount which the Determination Agent, in its sole and absolute discretion, determines is the fair value to the Securityholder of a Security with terms that would preserve for the Securityholder the economic equivalent of any payment or delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of such termination, less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion.
- (d) The Issuer shall as soon as reasonably practicable under the circumstances notify the Fiscal Agent and the Determination Agent of the occurrence of an Additional Disruption Event.

6.6 In relation to Share Securities, Share Basket Securities, Index Securities or Index Basket Securities, the following expressions have the meanings set out below:

"Additional Disruption Event" means with respect to a series of Share Securities or Share Basket Securities (unless otherwise specified in the relevant Final Terms) a Change of Law, Hedging Disruption, Increased Cost of Hedging or Loss of Stock Borrow (as defined below), and any further event or events specified in the applicable Final Terms as an Additional Disruption Event applicable with respect to such Securities.

"Basket" means:

- (i) in respect of an Index Basket Security, a basket composed of each Index specified in the relevant Final Terms in the relative proportions specified in such Final Terms; and
- (ii) in respect of a Share Basket Security and a Bond Security, a basket composed of Underlying Securities of each Underlying Security Issuer specified in the relevant Final Terms in the relative proportions or number of Underlying Securities of each Underlying Security Issuer specified in such Final Terms;

"Change in Law" means that, on or after the Initial Date (A) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (B) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Issuer determines that (X) it has become illegal to hold, acquire or dispose of any relevant Underlying Securities, or (Y) it will incur a materially increased cost in performing its obligations with respect to the Securities (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on its tax position);

"Component" means, in respect of an Index, any securities comprising such Index;

"Exchange" means (1) in respect of an Underlying Security relating to a Share Security or Share Basket Security or an Index relating to an Index Security or Index Basket Security other than a Multi-exchange Index, each exchange or quotation system specified as such for the relevant Underlying

Security or Index in the relevant Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the relevant Underlying Security (in the case of a Share Security or Share Basket Security) or the securities comprised in the relevant Index (in the case of an Index Security or Index Basket Security) has temporarily relocated (provided that the Determination Agent has determined that there is comparable liquidity relative to such Underlying Security or, as the case may be, the securities comprised in such Index on such temporary substitute exchange or quotation system as on the original Exchange) or if none is specified, the principal exchange or quotation system for trading in such Underlying Security or Index, as determined by the Determination Agent, and (2) in respect of a Multi-exchange Index, and in respect of each Component, the principal stock exchange on which such Component is principally traded, as determined by the Determination Agent;

"Exchange Business Day" means (1) in respect of an Underlying Security relating to a Share Security or Share Basket Security or an Index relating to an Index Security or Index Basket Security other than a Multi-exchange Index, any Scheduled Trading Day on which each Exchange and each Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time or (2) with respect to an Index Security or Index Basket Security relating to a Multi-exchange Index, any Scheduled Trading Day on which (a) the Index Sponsor publishes the level of the Index and (b) the Related Exchange is open for trading during its regular trading session, notwithstanding that any Exchange or Related Exchange closing prior to its Scheduled Closing Time;

"Hedging Disruption" means that the Issuer is unable, after using commercially reasonable efforts, to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) which the Issuer deems necessary to hedge the equity or other price risk of entering into and performing its obligations with respect to the relevant Securities, or (B) realize, recover or remit the proceeds of any such transaction(s) or asset(s);

"Increased Cost of Hedging" means that the Issuer would incur a materially increased (as compared with circumstances existing on the Initial Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the risk of entering into and performing its obligations with respect to the Securities or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s) provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer shall not be deemed an Increased Cost of Hedging;

"Index" means, in respect of any Index Security or Index Basket Security and subject to Condition 6.2 (*Adjustments to Indices*), each index specified as such in the relevant Final Terms;

"Index Sponsor" means, in respect of an Index, the corporation or other entity that (a) is responsible for setting and reviewing the rules and procedures and the methods of calculation and adjustments, if any, related to the relevant Index and (b) announces (directly or through an agent) the level of the relevant Index on a regular basis during each Scheduled Trading Day;

"Loss of Stock Borrow" means that the Issuer is unable, after using commercially reasonable efforts, to borrow (or maintain a borrowing of) Underlying Securities with respect to the relevant Securities in an amount which the Issuer deems necessary to hedge the risk of entering into and performing its obligations with respect to the Securities (not to exceed the number of Underlying Securities) at a rate as determined by the Issuer;

"Multi-exchange Index" means any Index specified as such in the relevant Final Terms;

"Related Exchange" means, subject to the proviso below, in respect of an Underlying Security relating to a Share Security or Share Basket Security or an Index relating to an Index Security or Index Basket Security, each exchange or quotation system specified as such for such Underlying Security or Index in the relevant Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Underlying Security or such Index has temporarily relocated (provided that the Determination Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Underlying Security or such Index on such temporary substitute exchange or quotation system as on the original Related Exchange), provided, however, that where **"All Exchanges"** is specified as the Related Exchange in the relevant Final Terms, **"Related Exchange"** shall mean each exchange or quotation system where trading has a material effect (as determined by the Determination Agent) on the overall market for futures or options contracts relating to such Underlying Security or such Index;

"Relevant Price" on any day means:

- (i) in respect of an Underlying Security to which a Share Security or a Share Basket Security relates, the price per Underlying Security determined by the Determination Agent as provided in the relevant Final Terms as of the Valuation Time on the Valuation Date or Averaging Date, as the case may be, or, if no means for determining the Relevant Price are so provided: (a) in respect of any Underlying Security for which the Exchange is an auction or "open outcry" exchange that has a price as of the Valuation Time at which any trade can be submitted for execution, the Relevant Price shall be the price per Underlying Security as of the Valuation Time on the Valuation Date or Averaging Date, as the case may be, as reported in the official real-time price dissemination mechanism for such Exchange; and (b) in respect of any Underlying Security for which the Exchange is a dealer exchange or dealer quotation system, the Relevant Price shall be the mid-point of the highest bid and lowest ask prices quoted as of the Valuation Time on the Valuation Date or Averaging Date, as the case may be, (or the last such prices quoted immediately before the Valuation Time) without regard to quotations that "lock" or "cross" the dealer exchange or dealer quotation system;
- (ii) in respect of an Index to which an Index Security or an Index Basket Security relates, the level of such Index determined by the Determination Agent as provided in the relevant Final Terms as of the Valuation Time on the Valuation Date or Averaging Date, as the case may be, or, if no means for determining the Relevant Price are so provided, the level of the Index as of the Valuation Time on the Valuation Date or Averaging Date, as the case may be;

"Scheduled Closing Time" means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours;

"Scheduled Trading Day" means (1) except with respect to a Multi-exchange Index, any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions and (2) with respect to a Multi-exchange Index, any day on which (a) the Index Sponsor is scheduled to publish the level of the Index and (b) the Related Exchange is scheduled to be open for trading for its regular trading session;

"Settlement Price" means, in respect of a Share Security, a Share Basket Security, an Index Security or an Index Basket Security, the price, level or amount as determined by the Determination Agent, in its sole and absolute discretion, in accordance with the relevant Final Terms; and

"Valuation Time" means in respect of Share Securities, Share Basket Securities, Index Securities or Index Basket Securities, the time on the relevant Valuation Date or Averaging Date, as the case may be,

specified as such in the relevant Final Terms or, if no such time is specified, the Scheduled Closing Time on the relevant Exchange in relation to each Underlying Security or Index to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

7. PROVISIONS RELATING TO BOND SECURITIES

This Condition 7 is applicable only in relation to Securities specified in the relevant Final Terms as being Bond Securities.

7.1 *Conversion:*

7.1.1 Following the occurrence of any Conversion, the Issuer will, in its sole and absolute discretion, determine whether or not the Securities will continue and, if so, the Determination Agent will determine, in its sole and absolute discretion, any adjustments to be made.

7.1.2 If the Issuer determines that the Securities shall continue, the Determination Agent may make such adjustment as it, in its sole and absolute discretion considers appropriate, to the Strike Price, the formula for the Cash Settlement Amount set out in the relevant Final Terms, the Bond Security Entitlement, the number of Underlying Securities to which each Security relates, the number of Underlying Securities comprised in a Basket, the amount, number of or type of bonds or other debt securities which may be delivered under such Securities and, in any case, any other variable relevant to the exercise, settlement, or payment terms of the relevant Securities and/or any other adjustment and determine, in its sole and absolute discretion, the effective date(s) of such adjustment.

7.1.3 If the Issuer determines that the Securities shall be terminated, then the Securities shall cease to be exercisable (or, in the case of any Securities which have been exercised, the entitlements of the respective exercising Securityholders to receive Underlying Securities or the Cash Settlement Amount, as the case may be, pursuant to such exercise, shall cease) and the Issuer's obligations under the Securities shall be satisfied in full upon payment of the Conversion Settlement Amount.

7.1.4 For the purposes hereof:

"**Conversion**" means, as determined by the Determination Agent, acting in a commercially reasonable manner, in respect of any relevant Underlying Securities any irreversible conversion by the Underlying Security Issuer, of such Underlying Securities into other securities.

"**Conversion Settlement Amount**" means an amount which the Determination Agent, acting in a commercially reasonable manner, determines is the fair value to the Securityholder of a Security with terms that would preserve the economic equivalent of any payment or delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the Security but for the occurrence of the Conversion, less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion.

7.2 *Correction to published prices*

For the purposes of determining the Spot Price for any day, if applicable, as specified in the relevant Final Terms for the purposes of calculating the Cash Settlement Amount or any other amount in respect of a Bond Security, if the price published or announced on a given day and used or to be used by the Determination Agent to determine a Spot Price is subsequently corrected and the correction is published or announced by the person responsible for that publication or announcement by such time as may be specified in the relevant Final Terms (or, if none is so specified, within thirty days of the original publication or announcement, and the Determination Agent determines (in its sole and absolute discretion) that an amount is repayable to the Issuer as a result of that correction, the Issuer shall be entitled to reimbursement of the relevant payment by the relevant Securityholder, together with interest on that amount at a rate per annum equal to the cost (without proof or evidence of actual cost) to the Issuer of funding that amount for the period from and including the day on which a payment originally was made, to but excluding the day of payment of the refund or payment resulting from that correction (all as determined by the Determination Agent in its sole and absolute discretion). Any such reimbursement shall be effected in such manner as the Issuer shall agree with the Principal Securities Agent and shall be notified to the relevant Securityholder(s) by facsimile or telex to the number specified in the relevant Exercise Notice.

7.3 In relation to Bond Securities, the following expressions have the meanings set out below:

"**Exchange**" means each securities exchange or trading market specified as such in the relevant Final Terms (including any successor to that securities exchange or trading market) for so long as the Underlying Securities are listed or otherwise included in that securities exchange or trading market. If the specified Exchange ceases to list or otherwise include the Underlying Securities and the Underlying Securities are listed or otherwise included in any other securities exchange or trading market, the Determination Agent will, in its sole and absolute discretion, select an alternative securities exchange or trading market;

"**Exchange Business Day**" means in respect of any Bond Security, any day that is a trading day on the Exchange (or on each Exchange if more than one is specified) other than a day on which trading on the Exchange is scheduled to close prior to its regular weekday closing time;

"**Spot Price**" means, in respect of any Bond Security:

- (i) if the Strike Price is stated as an amount in the relevant currency, the price for the Underlying Securities, stated as an amount in the relevant currency, equal in amount to the nominal amount (the "**Bond Security Entitlement**") specified in the relevant Final Terms of the relevant Underlying Securities to which one Security relates; and
- (ii) if the Strike Price is stated as a percentage of the nominal value of the Underlying Securities, the price of the Underlying Securities stated as a percentage of their nominal value,

in each case, as of the Valuation Time on the relevant Exercise Date, as determined by the Determination Agent in its sole and absolute discretion; and

"**Valuation Time**" means in the case of Bond Securities, the time specified as such in the relevant Final Terms.

8. **PROVISIONS RELATING TO CURRENCY SECURITIES**

This Condition 8 is applicable only in relation to Securities specified in the relevant Final Terms as being Currency Securities.

8.1 *Valuation Date:* "**Valuation Date**" means, in respect of any Series of Currency Securities, the date(s) specified as such in the relevant Final Terms provided that where the Valuation Date is not a Currency Business Day then the Valuation Date shall be the first preceding day that is a Currency Business Day, unless otherwise specified in the relevant Final Terms. Unless otherwise specified in the relevant Final

Terms and subject to Condition 8.2 (*Averaging*), the Valuation Date will be the two Currency Business Days prior to the Exercise Date.

8.2 *Averaging*: If Averaging Dates are specified in the relevant Final Terms, then notwithstanding any other provisions of these Conditions, the following provisions will apply to the determination of the Settlement Rate in relation to a Valuation Date:

8.2.1 "**Averaging Date**" means, in respect of a Valuation Date, each date specified as such or otherwise determined as provided in the relevant Final Terms, provided that if any such date is not a Currency Business Day, such date shall be the first preceding day that is a Currency Business Day, unless otherwise specified in the relevant Final Terms.

8.2.2 For purposes of determining the Settlement Rate in relation to a Valuation Date, the Settlement Rate will be the arithmetic mean of the Spot Rates on each Averaging Date (or, if different, the day on which rates for each Averaging Date would, in the ordinary course, be published or announced by the relevant price source).

8.2.3 Unless otherwise specified in the relevant Final Terms, in the case where it becomes impossible to obtain the Spot Rate on an Averaging Date (or, if different, the day on which rates for that Averaging Date would, in the ordinary course, be published or announced by the relevant price source), such Averaging Date will be deemed not to be a relevant Averaging Date for purposes of determining the relevant Settlement Rate. If through the operation of this Condition 8.2.3, there would not be an Averaging Date with respect to the relevant Valuation Date, the provisions of Conditions 8.3 (*Currency Disruption Events*) and 8.4 (*Currency Disruption Fallbacks*) shall apply for purposes of determining the relevant Spot Rate on the final Averaging Date with respect to that Valuation Date as if such Averaging Date were a Valuation Date on which a Price Source Disruption had occurred.

8.3 *Currency Disruption Events*:

8.3.1 If so specified in the Final Terms relating to any Series of Securities, the following shall constitute "Currency Disruption Events" for the purposes of such Series:

- (a) "**Price Source Disruption**", which means it becomes impossible, as determined by the Determination Agent, acting in a commercially reasonable manner, to determine the Settlement Rate on the Valuation Date (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced by the relevant price source in accordance with the relevant price source); and
- (b) any other (if any) currency disruption event specified in the relevant Final Terms.

8.3.2 If the relevant Final Terms specifies that any Currency Disruption Event shall be applicable to such Series, then, where the Determination Agent determines, acting in a commercially reasonable manner, that such Currency Disruption Event has occurred and is continuing in respect of such Series:

- (a) in the case of Price Source Disruption, on the day that is the Valuation Date in respect of such Series (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced by the relevant price source); and
- (b) in the case of any other Currency Disruption Event, on such day as may be specified for this purpose in the relevant Final Terms,

then the Settlement Rate for such Series will be determined, or the Securities of such Series shall be settled following exercise, as the case may be, in accordance with the terms of the Currency Disruption Fallback first applicable pursuant to Condition 8.4 (*Currency Disruption Fallbacks*).

8.4 *Currency Disruption Fallbacks:*

8.4.1 If so specified in the Final Terms relating to any Series of Securities, the following shall constitute "Currency Disruption Fallbacks" for the purposes of such Series, and the relevant Final Terms shall specify which Currency Disruption Fallback(s) shall apply to such Series, to which Currency Disruption Event each such Currency Disruption Fallback shall apply and, where more than one Currency Disruption Fallback may apply to a Currency Disruption Event, the order in which such Currency Disruption Fallback(s) shall apply to such Currency Disruption Event.

- (a) "**Determination Agent Determination of Settlement Rate**" means that the Determination Agent will determine, in its sole and absolute discretion, the Settlement Rate (or a method for determining the Settlement Rate), taking into consideration all available information that it deems relevant;
- (b) "**Fallback Reference Price**" means, in respect of Price Source Disruption or any other Currency Disruption Event, that the Determination Agent will determine, in its sole and absolute discretion, the Settlement Rate for such Series on the relevant Valuation Date (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced) pursuant to the Settlement Rate Option referred to as Currency-Reference Dealers (save that, if so specified in the relevant Final Terms, the reference in the definition of Currency-Reference Dealers to the Cash Settlement Payment Date shall be a reference to such date as is specified for such purpose in the relevant Final Terms) or pursuant to such other Settlement Rate Option as may be specified in the relevant Final Terms; and
- (c) any other currency disruption fallbacks specified in the relevant Final Terms.

8.4.2 Where more than one Currency Disruption Event occurs or exists or is deemed to occur or exist, then, unless the relevant Final Terms has specified which Currency Disruption Fallback shall apply in such circumstances, the Determination Agent shall determine, in its sole and absolute discretion, which Currency Disruption Fallback shall apply.

8.5 In relation to Currency Securities, the following expressions have the meanings set out below:

"**Basket**" means a basket composed of each Reference Currency specified in the relevant Final Terms;

"**Currency Business Day**" means, unless otherwise specified in the relevant Final Terms, for the purposes of:

- (i) the definition of Cash Settlement Payment Date, in respect of any Series of Securities: any day (1) that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close (x) in The City of New York or London, or (y) in relation to sums payable in currencies other than U.S. dollars, euro or Australian dollars, in the principal financial centre of the country of the relevant currency, (z) in relation to sums payable in Australian dollars, in Sydney and (2) in relation to sums payable in euro, a day that is also a TARGET Settlement Day;

- (ii) the definition of Valuation Date in Condition 8.1 (*Valuation Date*): (1) a day on which commercial banks are (or but for the occurrence of a Currency Disruption Event would have been) open for general business (including dealings in foreign exchange in accordance with the market practice of the foreign exchange markets) in the Principal Financial Centre(s) of the Reference Currency or (2) where the currency to be valued is euro, a day that is a TARGET Settlement Day and a Business Day; and
- (iii) the definition of Exercise Date, Exercise Period and Expiration Date and any other purpose: (1) a day on which commercial banks are open for general business (including dealings in foreign exchange in accordance with the market practice of the foreign exchange market) in the Principal Financial Centre(s) of the Reference Currency and (2) where one of the Currency Pair is euro, a day that is a TARGET Settlement Day;

"Currency Pair" means the Reference Currency and the Settlement Currency;

"Currency-Reference Dealers" is a Settlement Rate Option which means that the Spot Rate for a Rate Calculation Date will be determined on the basis of quotations provided by Reference Dealers on that Rate Calculation Date of that day's Specified Rate, expressed as the amount of Reference Currency per one unit of Settlement Currency for the purposes of calculating the Cash Settlement Amount. The Determination Agent will request the Specified Office of each of the Reference Dealers to provide a firm quotation of its Specified Rate for a transaction where the amount of Reference Currency equals the Specified Amount. If four quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the Specified Rates, without regard to the Specified Rates having the highest and lowest value. If exactly three quotations are provided, the rate for a Rate Calculation Date will be the Specified Rate provided by the Reference Dealer that remains after disregarding the Specified Rates having the highest and lowest values. For this purpose, if more than one quotation has the same highest value or lowest value, then the Specified Rate of one of such quotations shall be disregarded. If exactly two quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the Specified Rates. If only one quotation is provided, the rate for a Rate Calculation Date will be the Specified Rate quoted by that Reference Dealer. The quotations used to determine the Spot Rate for a Rate Calculation Date will be determined in each case at the Specified Time on that Rate Calculation Date or, if no such time is specified, the time chosen by the Determination Agent;

"Rate Calculation Date" means any Valuation Date or Averaging Date (as defined in Conditions 8.1 (*Valuation Date*) and 8.2 (*Averaging*) respectively);

"Reference Currency" means the currency specified as such in the relevant Final Terms;

"Reference Currency Jurisdiction" means the jurisdiction specified as such in the relevant Final Terms;

"Settlement Rate" means the rate as determined by the Determination Agent, in its sole and absolute discretion, in accordance with the relevant Final Terms and, where applicable shall be determined in accordance with Condition 8.2 (*Averaging*);

"Settlement Rate Option" means for the purposes of calculating the Settlement Rate, the Settlement Rate Option specified in the relevant Final Terms (or deemed specified pursuant to Condition 8.4 (*Currency Disruption Fallbacks*));

"Specified Amount" means the amount of Reference Currency specified as such in the relevant Final Terms;

"Specified Rate" means any of the following rates, as specified in the relevant Final Terms: (i) the Reference Currency bid exchange rate, (ii) the Reference Currency offer exchange rate, (iii) the average of the Reference Currency bid and offer exchange rates, (iv) the Settlement Currency bid exchange rate, (v) the Settlement Currency offer exchange rate, (vi) the average of the Settlement Currency bid and offer exchange rates, (vii) the official fixing rate or (viii) any other exchange rate specified in the relevant Final Terms. If no such rate is specified, the Specified Rate will be deemed to be the average of the Reference Currency bid and offer rate; and

"**Spot Rate**" means for any Valuation Date (as defined in Condition 8.1), the relevant currency exchange rate determined in accordance with the specified (or deemed specified) Settlement Rate Option and, if a Settlement Rate Option is not specified (or deemed specified), the currency exchange rate at the time at which such rate is to be determined for foreign exchange transactions in the Currency Pair for value on the relevant Valuation Date, as determined in good faith and in a commercially reasonable manner by the Determination Agent.

9. PROVISIONS RELATING TO COMMODITY SECURITIES

This Condition 9 is applicable only in relation to Securities specified in the relevant Final Terms as being Commodity Securities.

9.1 *Corrections to published prices:* For the purposes of determining the Relevant Price for any Pricing Date, if applicable, as specified in the relevant Final Terms for the purposes of calculating the Cash Settlement Amount or any other amount in respect of a Commodity Security, if the price published or announced on a given day and used or to be used by the Determination Agent to determine such Relevant Price is subsequently corrected and the correction is published or announced by the person responsible for that publication or announcement by such time as may be specified in the relevant Final Terms (or, if none is so specified, within thirty days of the original publication or announcement, and the Determination Agent determines (in its sole and absolute discretion) that an amount is repayable to the Issuer as a result of that correction, the Issuer shall be entitled to reimbursement of the relevant payment by the relevant Securityholder, together with interest on that amount at a rate per annum equal to the cost (without proof or evidence of actual cost) to the Issuer of funding that amount for the period from and including the day on which a payment originally was made, to but excluding the day of payment of the refund or payment resulting from that correction (all as determined by the Determination Agent in its sole and absolute discretion). Any such reimbursement shall be effected in such manner as the Issuer shall agree with the Principal Securities Agent and shall be notified to the relevant Securityholder(s) by facsimile or telex to the number specified in the relevant Exercise Notice.

9.2 *Commodity Disruption Events:*

9.2.1 If so specified in the Final Terms relating to any Series of Commodity Securities, the following shall constitute "Commodity Disruption Events" for the purposes of such Series:

- (a) "**Price Source Disruption**", which means (i) the failure of the Price Source to announce or publish the Specified Price (or the information necessary for determining the Specified Price) for the relevant Commodity Reference Price, (ii) the temporary or permanent discontinuance or unavailability of the Price Source, (iii) if the Commodity Reference Price is "Commodity-Reference Dealers," the failure to obtain at least three quotations from the relevant Reference Dealers or (iv) if Price Materiality Percentage is specified in the applicable Final Terms, the Specified Price for the relevant Commodity Reference Price differs from the Specified Price determined in accordance with the Commodity Reference Price "Commodity-Reference Dealers" by such Price Materiality Percentage;
- (b) "**Trading Disruption**", which means the material suspension of, or the material limitation imposed on, trading in the Futures Contract or the Commodity on the Exchange or in any additional futures contract, options contract or commodity on any Exchange as specified in the applicable Final Terms. The determination of whether a suspension of or limitation on trading is material shall be made by the Determination Agent in its sole and absolute discretion;

- (c) "**Disappearance of Commodity Reference Price**", which means (i) the permanent discontinuation of trading in the relevant Futures Contract on the relevant Exchange or (ii) the disappearance of, or of trading in, the relevant Commodity or (iii) the disappearance or permanent discontinuance or unavailability of a Commodity Reference Price, notwithstanding the availability of the related Price Source or the status of trading in the relevant Futures Contract or the relevant Commodity;;
- (d) "**Material Change in Content**", which means the occurrence since the Initial Date of a material change in the content, composition or constitution of the relevant Commodity or relevant Futures Contract;
- (e) "**Material Change in Formula**", which means the occurrence since the Initial Date of a material change in the formula for or method of calculating the relevant Commodity Reference Price;
- (f) "**Tax Disruption**", which means the imposition of, change in or removal of an excise, severance, sales, use, value-added, transfer, stamp, documentary, recording or similar tax on, or measure by reference to, the relevant Commodity (other than a tax on, or measured by reference to, overall gross or net income) by any government or taxation authority after the Initial Date, if the direct effect of such imposition, change or removal is to raise or lower the Relevant Price on the day that would otherwise be a Pricing Date from what it would have been without that imposition, change or removal;
- (g) "**Trading Limitation**", which means the material limitation imposed on trading in the Futures Contract or the Commodity on the Exchange or in any additional futures contract, options contract or commodity on any exchange or principal trading market as specified in the relevant Final Terms; and
- (h) any other (if any) Commodity Disruption Event specified in the relevant Final Terms.

9.2.2 If the relevant Final Terms specifies that any Commodity Disruption Event shall be applicable to such Series, then, where the Determination Agent determines, acting in a commercially reasonable manner, that such Commodity Disruption Event has occurred and is continuing in respect of such Series on the Pricing Date in respect of such Series (or, if different, the day on which prices for that Pricing Date would, in the ordinary course, be published or announced by the Price Source), or on any other day as may be specified for this purpose in the relevant Final Terms, then the Relevant Price will be determined, or the Securities of such Series shall be settled following exercise, as the case may be, in accordance with the terms of the Commodity Disruption Fallback first applicable pursuant to Condition 9.3 (*Commodity Disruption Fallbacks*).

9.3 *Commodity Disruption Fallbacks:*

Where one or more Commodity Disruption Events occurs or exists, then unless the relevant Final Terms specifies that any other Commodity Disruption Fallback shall apply in respect of any Commodity Disruption Event, "Determination Agent Determination" shall apply.

"**Determination Agent Determination**" means that the Determination Agent will determine, in its sole and absolute discretion, the Relevant Price (or a method for determining the Relevant Price), taking into consideration the latest available quotation for the relevant Commodity Reference Price and any other information that it deems relevant.

9.4 *Common Pricing:*

With respect to Securities relating to a Basket of Commodities, if "Common Pricing" has been selected in the applicable Final Terms as:

- (i) "Applicable", then no date will be a Pricing Date unless such date is a day on which all referenced Commodity Reference Prices (for which such date would otherwise be a Pricing Date) are scheduled to be published or announced, as determined as of the time of issue of the Securities.
- (ii) "Inapplicable", then if the Determination Agent determines that a Commodity Disruption Event has occurred or exists on the Pricing Date in respect of any Commodity in the Basket (the "**Affected Commodity**"), the Relevant Price of each Commodity within the basket which is not affected by the occurrence of a Commodity Disruption Event shall be determined on its scheduled Pricing Date and the Relevant Price for each Affected Commodity shall be determined in accordance with the first applicable Commodity Disruption Fallback that provides a Commodity Reference Price.

9.5 *Commodity Index Disruption Events:*

9.5.1 The following shall constitute "**Commodity Index Disruption Events**" for the purposes of any Series of Securities with respect to a Commodity Index:

- (a) a temporary or permanent failure by the applicable exchange or other price source to announce or publish the final settlement price for the Commodity Index; or
- (b) the occurrence in respect of any Component of the relevant Commodity Index of a Commodity Disruption Event (as defined in Condition 9.2.1).

9.5.2 Where the Determination Agent determines, acting in a commercially reasonable manner, that a Commodity Index Disruption Event has occurred and is continuing in respect of a Series on the Pricing Date in respect of such Series (or, if different, the day on which prices for that Pricing Date would, in the ordinary course, be published or announced by the Price Source), or on any other day as may be specified for this purpose in the relevant Final Terms, then (unless Condition 9.5.3 (*Physical Hedging Fallback*) is specified to apply) the following provisions shall apply:

- (a) with respect to each Component which is not affected by the Commodity Index Disruption Event, the Relevant Price will be determined by the Determination Agent based on the closing prices of each Component on the applicable Pricing Date;
- (b) with respect to each Component which is affected by the Commodity Index Disruption Event, the Relevant Price will be determined by the Determination Agent (in the case of any Dow Jones-AIG Commodity Index) as set out in the DJ-AIGCI Manual or (in the case of any GS Commodity Index) as set out in the GSCI Manual, and in respect of any other Commodity Index as set out in the applicable Final Terms, in each case based on the closing prices of each such Component on the first day following the applicable Pricing Date on which no Commodity Index Disruption Event occurs with respect to such Component;
- (c) subject to (d) below, the Determination Agent shall determine the Relevant Price by reference to the closing prices determined in (a) and (b) above using the then-current method for calculating the relevant Commodity Index; and

- (d) where a Commodity Index Disruption Event with respect to one or more Components continues to exist (measured from and including the first day following the applicable determination date) for five consecutive Trading Days, the Determination Agent shall determine the Relevant Price acting in good faith and in a commercially reasonable manner. In calculating the Relevant Price as set out in this paragraph, the Determination Agent shall use the formula for calculating the relevant Commodity Index last in effect prior to the Commodity Index Disruption Event. For the purposes of this paragraph (d), "**Trading Day**" shall mean a day when the exchanges for all Futures Contracts included in the relevant Commodity Index are scheduled to be open for trading.

9.5.3 *Physical Hedging Fallback.* Where the Determination Agent determines that a Commodity Index Disruption Event has occurred and is continuing in respect of a Series on the Pricing Date in respect of such Series and "Physical Hedging Fallback" is specified as applicable in the relevant Final Terms, then the following provisions shall apply;

- (a) with respect to each Component included in the Commodity Index which is not affected by the Commodity Index Disruption Event, the Relevant Price will be based on the closing prices of each such Component on the applicable determination date;
- (b) with respect to each Component included in the Commodity Index which is affected by the Commodity Index Disruption Event, the Relevant Price will be based on the closing price of each such Component on the first day following the applicable determination date on which no Commodity Index Disruption Event occurs with respect to such Component;
- (c) subject to (d) below, the Determination Agent shall determine the Relevant Price by reference to the closing prices determined in (a) and (b) above using the then-current method for calculating the Relevant Price; and
- (d) where a Commodity Index Disruption Event with respect to one or more Components included in the Commodity Index continues to exist (measured from and including the first day following the applicable determination date) for five consecutive Trading Days, the Determination Agent shall determine the Relevant Price in good faith and in a commercially reasonable manner. For the purposes of this paragraph (d), "**Trading Day**" shall mean a day when the exchanges for all Futures Contracts included in the relevant Commodity Index are scheduled to be open for trading with respect to each Futures Contract included in the Commodity Index which is not affected by the Commodity Index Disruption Event, the Relevant Price will be based on the closing prices of each such contract on the applicable determination date.

9.6 *Adjustments to Commodity Index:*

- 9.6.1 If a Commodity Index is permanently cancelled or is not calculated and announced by the sponsor of such Commodity Index or any of its affiliates (together the "**Sponsor**") but (i) is calculated and announced by a successor sponsor (the "**Successor Sponsor**") acceptable to the Determination Agent, or (ii) replaced by a successor index (the "**Successor Index**") using, in the determination of the Determination Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of such Commodity Index, then the Commodity Reference Price will be determined by the Index so calculated and announced by that Successor Sponsor or that Successor Index, as the case may be.

9.6.2 If, for a Commodity Index with respect to a Commodity Reference Price, on or prior to the Maturity Date or Early Redemption Date, (i) the Sponsor makes a material change in the formula for or the method of calculating such Commodity Index or in any other way materially modifies such Commodity Index (other than a modification prescribed in that formula or method to maintain the Commodity Index in the event of changes in constituent commodities and weightings and other routine events), or (ii) the Sponsor permanently cancels the Commodity Index or (iii) the Sponsor fails to calculate and announce the Commodity Index for a continuous period of three Trading Days and the Determination Agent determines that there is no Successor Sponsor or Successor Index, then the Determination Agent may at its option (in the case of (i)) and shall (in the case of (ii) and (iii)) (such events (i) (ii) & (iii) to be collectively referred to as "**Index Adjustment Events**") calculate the Relevant Price using in lieu of the published level for that Commodity Index (if any), the level for that Commodity Index as at the relevant determination date as determined by the Determination Agent in accordance with the formula for and method of calculating that Commodity Index last in effect prior to the relevant Index Adjustment Event (as the case may be), but using only those Futures Contracts that comprised that Index immediately prior to the relevant Index Adjustment Event (as the case may be) (other than those futures contracts that have ceased to be listed on any relevant exchange).

9.7 In relation to Commodity Securities, the following expressions have the meanings set out below:

"**Basket**" means a basket composed of each Commodity specified in the relevant Final Terms;

"**Commodity**" means each commodity specified in the relevant Final Terms;

"**Commodity Business Day**" means:

- (i) in the case where the Commodity Reference Price is a price announced or published by an Exchange, a day that is (or, but for the occurrence of a Commodity Disruption Event, would have been) a day on which the Exchange is open for trading during its regular trading session; and
- (ii) in the case where the Commodity Reference Price is not a price announced or published by an Exchange, a day in respect of which the relevant Price Source published (or, but for the occurrence of a Commodity Disruption Event, would have published) a price;

"**Commodity Index**" means an index comprising commodities specified as such in the relevant Final Terms;

"**Commodity Reference Price**" means the commodity reference price(s) specified in the relevant Final Terms;

"**Component**" means in respect of a Commodity Index, each commodity or Futures Contract comprising such Commodity Index;

"**Delivery Date**" means the relevant date or month for delivery of the underlying Commodity (which must be a date or month reported or capable of being determined from information reported in or by the relevant Price Source) as specified in, or determined in accordance with the provisions in, the relevant Final Terms. In relation to any underlying Commodity which is specified in the relevant Final Terms to be a "Non Metal" and each Pricing Date, the relevant Delivery Date shall be the month of expiration of the first Futures Contract to expire following such Pricing Date. In relation to any underlying Commodity which is specified in the applicable Final Terms to be a "Base Metal" or a "Precious Metal" and each Pricing Date, the Delivery Date shall be such Pricing Date;

"DJ-AIG Commodity Index" means the Dow Jones-AIG Commodity Index and any other Commodity Index, in each case which is calculated and sponsored by Dow Jones Inc, or any successor to such sponsor;

"DJ-AIGCI Manual" means the manual or handbook in respect of a DJ-AIG Commodity Index published by the sponsor of the relevant Commodity Index and in effect from time to time;

"Exchange" means each exchange or principal trading market specified in the relevant Final Terms, or any successor to such exchange or principal trading market;

"Futures Contract" means either (a) the contract for future delivery in respect of the relevant Delivery Date relating to the relevant Commodity referred to in the relevant Commodity Reference Price or (b) each futures contract underlying or included in a Commodity Index;

"GS Commodity Index" means the Goldman Sachs Commodity Index and any other Commodity Index, in each case which is calculated and sponsored by Goldman, Sachs & Co., or any successor to such sponsor;

"GSCI Manual" means the manual or handbook in respect of a GS Commodity Index published by the sponsor of the relevant Commodity Index and in effect from time to time;

"Price Source" means the publication (or such other origin of reference, including an Exchange) containing (or reporting) the Specified Price (or prices from which the Specified Price is calculated) specified in the relevant Final Terms;

"Pricing Date" means each date specified as such (or determined pursuant to a method specified for such purpose) in the relevant Final Terms;

"Relevant Price" on any day means in respect of a unit of measure of the Commodity to which a Commodity Security relates, the price, expressed as a price per unit, determined by the Determination Agent as provided in the relevant Final Terms with respect to such day for the specified Commodity Reference Price; and

"Specified Price" means any of the following prices of a Commodity or Commodities or levels of a Commodity Index (which must be a price reported or capable of being determined from information reported in or by the relevant Price Source), as specified in the applicable Final Terms (and, if applicable, as of the time so specified) (a) the high price (b) the low price (c) the average of the high price and the low price (d) the closing price (e) the opening price (f) the bid price (g) the asked price (h) the average of the bid price and the asked price (i) the settlement price (j) the official settlement price (which shall be the Specified Price for any Commodity Index, and for any Commodity specified in the applicable Final Terms as a "Non Metal") (k) the official price (l) the morning fixing (m) the afternoon fixing (which shall be the Specified Price in respect of any Commodity specified in the applicable Final Terms as a "Precious Metal") (n) the spot price or (o) any other price specified in the applicable Final Terms. The Specified Price for any Commodity specified in the applicable Final Terms as a "Precious Metal" shall be the official cash bid price.

10. PROVISIONS RELATING TO PHYSICAL SETTLEMENT SECURITIES

This Condition 10 is applicable only in relation to Securities specified in the relevant Final Terms as being Physical Settlement Securities.

10.1 *Settlement Disruption:*

10.1.1 The Determination Agent shall determine, acting in a commercially reasonable manner, whether or not at any time a Settlement Disruption Event has occurred and where it determines

such an event has occurred and so has prevented delivery of Underlying Securities on the original day that but for such Settlement Disruption Event would have been the Physical Settlement Date, then the Physical Settlement Date will be the first succeeding day on which delivery of such Underlying Securities can take place through the relevant Clearance System unless a Settlement Disruption Event prevents settlement on each of the 10 relevant Clearance System Business Days immediately following the original date or during such other period specified in the relevant Final Terms that, but for the Settlement Disruption Event, would have been the Physical Settlement Date. In that case, if the Underlying Securities are bonds or other debt securities, the Issuer shall use reasonable efforts to deliver such Underlying Securities promptly thereafter in a commercially reasonable manner outside the Clearance System on a delivery versus payment basis, and in all other cases: (a) if such Underlying Securities can be delivered in any other commercially reasonable manner, then the Physical Settlement Date will be the first day on which settlement of a sale of Underlying Securities executed on that 10th relevant Clearance System Business Day, or during such other period specified in the relevant Final Terms, customarily would take place using such other commercially reasonable manner of delivery (which other manner of delivery will be deemed the relevant Clearance System for the purposes of delivery of the relevant Underlying Securities), and (b) if such Underlying Securities cannot be delivered in any other commercially reasonable manner, then the Physical Settlement Date will be postponed until delivery can be effected through the relevant Clearance System or in any other commercially reasonable manner, as determined by the Determination Agent.

- 10.1.2 For the avoidance of doubt, where a Settlement Disruption Event affects some but not all of the Underlying Securities comprised in a Basket, the Physical Settlement Date for Underlying Securities not affected by the Settlement Disruption Event will be the first day on which settlement of a sale of such Underlying Securities executed on that Exercise Date customarily would take place through the relevant Clearance System. In the event that a Settlement Disruption Event will result in the delivery on a Physical Settlement Date of some but not all of the Underlying Securities comprised in a Basket, the Determination Agent shall determine in its sole and absolute discretion the appropriate pro rata portion of the Strike Price (if any) to be paid by the relevant party in respect of that partial settlement.
- 10.1.3 For the purposes hereof, "**Settlement Disruption Event**" in relation to an Underlying Security means an event beyond the control of the Issuer as a result of which or following which the relevant Clearance System cannot clear the transfer of such Underlying Security.

10.2 *Delivery Disruption:*

- 10.2.1 If the Determination Agent determines, acting in a commercially reasonable manner, that a Delivery Disruption Event has occurred and the Determination Agent has notified the Issuer, the Principal Securities Agent and the relevant Securityholder(s) within one Clearance System Business Day of the relevant Exercise Date to that effect, then the Issuer may:
- (a) determine, in its sole and absolute discretion, that the obligation to deliver the relevant Underlying Securities will be terminated and the Issuer will pay an amount which the Determination Agent, in its sole and absolute discretion, determines is the fair value to the Securityholder of a Security with terms that would preserve for the Securityholder the economic equivalent of the relevant delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of such Delivery Disruption Event, less the cost to the Issuer of, or the loss realised by the Issuer on,

unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion, in which event the entitlements of the respective exercising Securityholders to receive Underlying Securities pursuant to such exercise shall cease and the Issuer's obligations under the Securities shall be satisfied in full upon payment of such amount; or

- (b) deliver on the Physical Settlement Date such number of Underlying Securities (if any) as it can deliver on that date and pay an amount, as determined by the Determination Agent in its sole and absolute discretion, which shall seek to preserve for the Securityholder the economic equivalent of the delivery of the remainder of Underlying Securities (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of such Delivery Disruption Event, in which event the entitlements of the respective exercising Securityholders to receive Underlying Securities pursuant to such exercise shall cease and the Issuer's obligations under the Securities shall be satisfied in full upon delivery of such number of Underlying Securities and payment of such amount.

10.2.2 For the purposes hereof, "Delivery Disruption Event" means the failure by the Issuer or the Principal Securities Agent to deliver on the relevant Physical Settlement Date the requisite number of relevant Underlying Securities under the relevant Security which is due to illiquidity in the market for such Underlying Securities.

11. PROVISIONS RELATING TO ALL SECURITIES

11.1 *Performance Disruption:*

11.1.1 If the Determination Agent determines, acting in a commercially reasonable manner, that Performance Disruption has occurred, then the Issuer may determine, in its sole and absolute discretion, that the relevant Securities shall be terminated on the date specified in a notice to the Securityholders and the Issuer will pay an amount which the Determination Agent, in its sole and absolute discretion, determines is the fair value to the Securityholder of a Security with terms that would preserve for the Securityholder the economic equivalent of any payment or delivery (assuming satisfaction of each applicable condition precedent) to which the Securityholder would have been entitled under the relevant Security after that date but for the occurrence of such Performance Disruption, less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion, in which event the Security shall cease to be exercisable (or, in the case of any Securities which have been exercised, the entitlements of the respective exercising Securityholders to receive the relevant currency or payment of the Settlement Amount, as the case may be, pursuant to such exercise shall cease) and the Issuer's obligations under the Securities shall be satisfied in full upon payment of such amount.

11.1.2 For the purposes hereof, "**Performance Disruption**" means, in relation to any Security, the occurrence or existence on any day of any event, circumstance or cause beyond the control of the Issuer that has had or reasonably could be expected to have a material adverse effect upon (i) its ability to perform its obligations under, or hedge its positions with respect to, the relevant Security; (ii) the ability of any hedging counterparty of the Issuer to perform its obligations under any hedging transaction entered into by the Issuer to hedge all or any of its liabilities in respect of the Securities or any of them; or (iii) the availability of hedging transactions in the market.

11.2 *Effects of European Economic and Monetary Union:*

- 11.2.1 Following the occurrence of an EMU Event, the Determination Agent may make such adjustment (and determine the effective date of such adjustment) as it, in its sole and absolute discretion, determines appropriate, if any, to the Strike Price (if any), the formula for the Cash Settlement Amount, the Settlement Price, the Settlement Rate, the Relevant Price, the Spot Rate, the number of Underlying Securities to which each Security relates, the number of Underlying Securities comprised in a Basket, the amount, the number of or type of shares, bonds, other securities or other property which may be delivered in respect of such Securities and/or any other adjustment and, in any case, any other variable relevant to the exercise, settlement, payment or other terms of the relevant Securities which in the sole and absolute discretion of the Determination Agent have been or may be affected by such EMU Event.
- 11.2.2 Following the occurrence of an EMU Event, without prejudice to the generality of the foregoing, the Issuer shall be entitled to: (i) make such conversions between amounts denominated in the national currency units (the "National Currency Units") of the member states of the European Union that have adopted the single currency in accordance with the EC Treaty and the euro, and the euro and the National Currency Units, in each case, in accordance with the conversion rates and rounding rules established by the Council of the European Union pursuant to the EC Treaty as it, in its sole and absolute discretion, considers appropriate; (ii) make all payments in respect of the Securities solely in euro as though references in the Securities to the relevant National Currency Units were to euro and (iii) make such adjustments as it, in its sole and absolute discretion considers necessary to the Strike Price (if any), the formula for the Cash Settlement Amount, Settlement Rate, Settlement Price, Relevant Price, Spot Rate and any other amount as it determines, in its sole and absolute discretion, to be appropriate.
- 11.2.3 None of the Issuer, the Principal Securities Agent or the Determination Agent will be liable to any Securityholder or other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection therewith.
- 11.2.4 For the purposes hereof, "**EMU Event**" means the occurrence of any of the following, as determined by the Determination Agent, acting in a commercially reasonable manner:
- (a) the withdrawal from legal tender of any currency that, before the introduction of the euro, was lawful currency in one of the member states;
 - (b) the redenomination of any Underlying Security into euro;
 - (c) any change in the currency of denomination of any Index;
 - (d) any change in the currency in which some or all the securities or other property contained in any Index is denominated;
 - (e) the disappearance or replacement of a relevant rate option or other price source for the national currency of any member state, or the failure of the agreed sponsor (or successor sponsor) to publish or display a relevant rate, index, price, page or screen; or
 - (f) the change by any organised market, exchange or clearance, payment or settlement system in the unit of account of its operating procedures to the euro.

12. SECURITIES AGENTS AND DETERMINATION AGENT

12.1 *Appointment of Agents:* The Issuer reserves the right at any time to vary or terminate the appointment of any Securities Agent or the Determination Agent and to appoint substitute or additional Securities Agents or a substitute or additional Determination Agent, provided that (i) so long as any Security is outstanding, it will maintain a Principal Securities Agent and (ii) so long as the Securities are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, there will be a Securities Agent with a specified office in such place as may be required by the rules of such listing agent, stock exchange and/or quotation system. Notice of any termination of appointment and of any change in the specified office of a Securities Agent or a Determination Agent and of any appointment of a Securities Agent or a Determination Agent will be given to Securityholders in accordance with Condition 15 (*Notices*) and so long as there is any Tranche of Swedish Securities outstanding, there will at all times be a Swedish CSD duly authorised as a central securities depository under the Swedish Financial Instruments Accounts Act and a Swedish Issuing Agent in respect of the relevant Tranche of Swedish Securities. .

12.2 *Role of Agents:*

12.2.1 In acting under the Securities Agreement, each Securities Agent and each Determination Agent acts solely as agent of the Issuer and does not assume any obligation or duty to, or any relationship of agency or trust for or with, the Securityholders. All calculation and determination functions required of the Determination Agent or the Principal Securities Agent under these Conditions may be delegated to any such person as the Determination Agent or the Principal Securities Agent, as the case may be, in its absolute discretion, may decide.

12.2.2 None of the Issuer, the Guarantor (if applicable), the Principal Securities Agent or the Determination Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables used in any calculation made pursuant to these Conditions or in the determination of any Cash Settlement Amount or of any entitlement to a delivery of any Underlying Securities arising from such errors or omissions.

12.3 *Notifications:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the Securities by the Principal Securities Agent, the Determination Agent or the Issuer shall (in the absence of manifest error or wilful misconduct) be binding on the Issuer and the Securityholders and (subject as aforesaid) no liability to the Securityholders (or any of them) shall attach to the Principal Securities Agent, the Determination Agent or the Issuer in connection with the exercise or non-exercise by any of them of their powers, duties and discretions for such purposes.

13. **TAXES**

- 13.1.1 A Securityholder subscribing, purchasing or exercising a Security shall pay all Taxes and securities transfer taxes and any other charges, if any payable in connection with the subscription, issue, purchase or exercise of such Security and the payment of the Cash Settlement Amount and/or the delivery of any Underlying Securities as a result of such exercise. The Issuer shall have the right, but not the duty, to withhold or deduct from any amounts otherwise payable to a Securityholder such amount as is necessary for the payment of any such taxes, duties or charges or for effecting reimbursement in accordance with Condition 13.1.2 below.
- 13.1.2 In any case where the Issuer is obliged to pay any such tax, duty or charge referred to in Condition 13.1.1 above, the relevant Securityholder shall promptly reimburse the Issuer therefor.
- 13.1.3 The Issuer shall not be liable for or otherwise be obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, issue, transfer or exercise of any Securities.

14. **FORCE MAJEURE AND ILLEGALITY**

- 14.1 The Issuer shall have the right to terminate the Securities if it shall have determined, in its sole and absolute discretion, that its performance thereunder shall have become or will be unlawful in whole or in part as a result of compliance in good faith by the Issuer with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power ("applicable law").
- 14.2 In such circumstances the Issuer will, however, if and to the extent permitted by applicable law, pay to each Securityholder in respect of each Security held by him an amount determined by the Determination Agent, in its sole and absolute discretion, as representing the fair market value of such Security immediately prior to such termination (ignoring such illegality) less the cost to the Issuer of, or the loss realised by the Issuer on, unwinding any related underlying hedging arrangements, the amount of such cost or loss being as determined by the Determination Agent in its sole and absolute discretion. Payment will be made to the relevant Clearance System in such manner as shall be notified to the Securityholders in accordance with Condition 15 (Notices).

15. **NOTICES**

- 15.1 All notices to the Securityholders, save where another means of communication has been specified in the relevant Final Terms, will be deemed to have been duly given if:
- 15.1.1 as long as the relevant Clearance System has procedures for transmitting copies, or the contents of notices to Securityholders to its account holders, notified to such relevant Clearance System; and
- 15.1.2 in the case of Securities admitted to the official list of the Irish Stock Exchange and to trading on the Irish Stock Exchange (or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system), published in one daily newspaper of general circulation in Europe and the Republic of Ireland (which is expected to be the Irish Times) (or such other publication required by the rules of such other listing authority, stock exchange and/or quotation system).

15.2 If publication in such a newspaper is not practicable, notice will be given in such other manner as the Principal Securities Agent on behalf of the Issuer shall determine in its sole and absolute discretion. Such notices shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper in which publication is required.

16. **LOSSES**

In no event shall the Issuer have any liability for indirect, incidental, consequential or other damages (whether or not it may have been advised of the possibility of such damages) other than interest until the date of payment on sums not paid when due in respect of any Securities or assets not delivered when due. Securityholders are entitled to damages only and are not entitled to the remedy of specific performance in respect of a Security.

17. **SEVERANCE AND MODIFICATION OF CONDITIONS**

17.1 Should any of the provisions contained in these Conditions be or become invalid, the validity of the remaining provisions shall not be affected in any way.

17.2 The Issuer may modify the Conditions without the consent of the Securityholders for the purposes of curing any ambiguity or correcting or supplementing any provision contained herein in any manner which the Issuer may deem necessary or desirable provided that such modification is not materially prejudicial to the interests of the Securityholders. Notice of any such modification will be given to the Securityholders in accordance with Condition 15 (*Notices*) but failure to give, or non-receipt of, such notice will not affect the validity of such modification.

18. **FURTHER ISSUES**

The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities of any particular Series so as to form a single series with the Securities of such Series, but upon such terms as to issue price and otherwise as the Issuer may determine in its sole and absolute discretion.

19. **PURCHASE OF SECURITIES BY ISSUER OR AFFILIATE**

The Issuer or an Affiliate may at any time and from time to time purchase Securities at any price in the open market or otherwise. Such Securities may, at the option of the Issuer or, as the case may be, the relevant Affiliate, be held, resold, reissued or cancelled or otherwise dealt with. No Security which has been exercised, or purchased and cancelled, may be re-issued.

20. **SUBSTITUTION**

The Issuer shall be entitled at any time and from time to time, without the consent of the Securityholders, to substitute any other member of the group comprising Morgan Stanley and any Affiliates (the "**New Issuer**") in its place as obligor under the Securities, provided that the New Issuer shall assume all obligations of the Issuer in relation to the Securityholders under or in relation to the Securities (provided, in respect of Swedish Securities, the Swedish CSD has given its consent to the substitution (which consent shall not be unreasonably withheld or delayed)). In the event of such substitution, any reference in these Conditions to the Issuer shall be construed as a reference to the New Issuer. Such substitution shall be promptly notified to the Securityholders in accordance with Condition 15 (*Notices*). In connection with such right of substitution, the Issuer shall not be obliged to have regard to the consequences of the exercise of such right for individual Securityholders in particular, without limitation, any consequences resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and no Securityholder shall be entitled to claim from the Issuer any indemnification or payment in respect of any tax or other consequence of any such substitution upon such Securityholder.

21. **RIGHTS OF THIRD PARTIES**

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

22. **REPRESENTATIONS AND ACKNOWLEDGEMENTS BY SECURITYHOLDERS**

Each Securityholder shall be deemed to represent and acknowledge to the Issuer on acquiring any Securities that:

- (a) neither the Issuer nor any Affiliate or any of their agents is acting as a fiduciary for it or provides investment, tax, accounting, legal or other advice in respect of the Securities and that such Securityholder and its advisors are not relying on any communication (written or oral and including, without limitation, opinions of third party advisors) of the Issuer or any Affiliate as (i) legal, regulatory, tax, business, investment, financial, accounting or other advice, (ii) a recommendation to invest in any Securities or (iii) an assurance or guarantee as to the expected results of an investment in the Securities (it being understood that information and explanations related to the terms and conditions of the Securities shall not be considered to be any such advice, recommendation, assurance or guarantee and should be independently confirmed by the recipient and its advisors prior to making any such investment);
- (b) such Securityholder (i) has consulted with its own legal, regulatory, tax, business, investments, financial and accounting advisors to the extent that it has deemed necessary, and has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Issuer or any Affiliate or any of their agents and (ii) is acquiring Securities with a full understanding of the terms, conditions and risks thereof and it is capable of and willing to assume those risks; and
- (c) the Issuer and/or any Affiliates may have banking or other commercial relationships with issuers of any securities to which the Securities relate and may engage in proprietary trading in any securities, indices, commodities or other property to which the Securities relate or options, futures, derivatives or other instruments relating thereto (including such trading as the Issuer and/or any Affiliate deem appropriate in their sole discretion to hedge the market risk on the Securities and other transactions between the Issuer and/or any Affiliates and any third parties), and that such trading (i) may affect the price or level thereof and consequently the amounts payable under the Securities and (ii) may be effected at any time, including on or near any Valuation or Averaging Date.

23. **GOVERNING LAW AND PROCEEDINGS**

- 23.1 The Securities shall be governed by, and construed in accordance with, English law.
- 23.2 The Issuer agrees for the benefit of each Securityholder that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Securities (respectively, "Proceedings" and "Disputes") and, for such purposes, irrevocably submits to the jurisdiction of such courts.
- 23.3 The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
- 23.4 The Issuer agrees that process in connection with Proceedings in the courts of England will be validly served on it if served upon Morgan Stanley & Co. International plc, 25 Cabot Square, Canary Wharf,

London E14 4QW or, if different, its registered office for the time being or at any address of the Issuer in the Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on the Issuer's behalf, the Issuer shall, on the written demand of any Securityholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Securities Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Securityholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Securities Agent. Nothing in this Condition shall affect the right of any Securityholder to serve process in any other manner permitted by law.

- 23.5 The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Securityholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

ERISA

The Securities may not be acquired or held by, or acquired with the assets of, any employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), or any individual retirement account or plan subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**").

Legend Concerning United States Persons

Unless otherwise specified in the Final Terms, in the case of Securities (or any Tranche thereof) having a maturity of more than 183 days, the Global Warrants and the definitive Securities will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Security will generally not be allowed to deduct any loss realized on the sale, exchange or redemption of such Security and any gain (which might otherwise be characterized as capital gain) recognized on such sale, exchange or redemption will be treated as ordinary income.

Unless otherwise specified in the Final Terms, any Securities (or any Tranche thereof) having a maturity of 183 days or less must have a minimum face and principal amount of \$500,000 and bear the following legend:

"By accepting this obligation, the holder represents and warrants that it is not a United States person (other than an exempt recipient described in Section 6049(b)(4) of the Internal Revenue Code and regulations thereunder) and that it is not acting for or on behalf of a United States person (other than an exempt recipient described in Section 6049(b)(4) of the Internal Revenue Code and regulations thereunder)."

Swedish Securities

Securities issued by Morgan Stanley Jersey or MSBV and designated as "Swedish Securities" in the applicable Final Terms will be issued in uncertificated and dematerialised book-entry form in accordance with the Swedish Financial Instruments Accounts Act (Sw. lag (1998:1479) om kontoföring av finansiella instrument) and all other applicable Swedish laws, regulations and operating procedures applicable to and/or issued by the Swedish central securities depository (Sw. *central värdepappersförvarare*) from time to time (the "**Swedish CSD Rules**") designated as registrar for the Swedish Securities in the relevant Final Terms (which is expected to be VPC AB (the "**Swedish CSD**"). No physical global or definitive Securities or certificates will be issued in respect of Swedish Securities and the provisions relating to presentation, surrender or replacement of such physical bearer instruments shall not apply. Payments of principal, interest (if any) or any other amounts on any Swedish Security will be made through the Swedish CSD in accordance with the Swedish CSD Rules. All Swedish Securities will be subject to the legend concerning United States Persons referred to above in the section "Legend Concerning United States Persons" above. In addition, all Swedish Securities are subject to the provisions under "Limitations on Issuance of, Payments on, and Delivery of Bearer Securities and Swedish Securities" below.

Limitations on Issuance of, Payments on, and Delivery of Bearer Securities and Swedish Securities

Unless otherwise specified in the Final Terms, bearer Securities, including bearer Securities in global form, and Swedish Securities will not be offered, sold or delivered, directly or indirectly, in the United States or its possessions or to United States persons, as defined below, except as otherwise permitted by United States Treasury Regulations Section 1.163 5(c)(2)(i)(D). Any underwriters, agents or dealers participating in the offerings of bearer Securities or of Swedish Securities, directly or indirectly, must agree that (i) they will not, in connection with the original issuance of any bearer Securities or of Swedish Securities or during the restricted period with respect to such securities (as defined in United States Treasury Regulations Section 1.163 5(c)(2)(i)(D)(7)) (the "**Restricted Period**"), offer, sell or deliver, directly or indirectly, any bearer Securities or Swedish Securities in the United States or its possessions or to United States persons, other than as permitted by the applicable Treasury Regulations described above; and (ii) they will not at any time offer, sell or deliver, directly or indirectly, any bearer Securities or Swedish Securities in the United States or its possessions or to United States persons, other than as permitted by the applicable Treasury Regulations above. For these purposes, it is presumed that United States Treasury Regulations Section 1.163 5(c)(2)(i)(D) will apply to the bearer Securities and to the Swedish Securities.

In addition, any underwriter, agent or dealer must have procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling bearer Securities or Swedish Securities are aware of the above restrictions on the offering, sale or delivery of bearer Securities and Swedish Securities.

Unless otherwise specified in the Final Terms, bearer Securities and Swedish Securities, other than bearer Securities and Swedish Securities that satisfy the requirements of United States Treasury Regulations Section 1.163 5(c)(2)(i)(D)(3)(iii), will not be delivered in definitive form, and no payment will be made thereon, unless the relevant Issuer has received a signed certificate in writing, or an electronic certificate described in United States Treasury Regulations Section 1.163 5(c)(2)(i)(D)(3)(ii), (an "**Ownership Certificate**") stating that on the date of the Ownership Certificate that bearer Security or Swedish Security:

- (1) is owned by a person that is not a United States person;
- (2) is owned by a United States person that is described in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6); or
- (3) is owned by a United States or foreign financial institution for the purposes of resale during the Restricted Period,

and, in addition, if the owner of the bearer Security or of the Swedish Security is a United States or foreign financial institution described in clause (3) above, whether or not also described in clause (1) or clause (2) above, the financial institution certifies that it has not acquired the bearer Security or Swedish Security for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

The relevant Issuer will make payments on bearer Securities and on Swedish Securities only outside the United States and its possessions except as permitted by the above regulations.

As used herein, "**United States person**" means, for United States federal income tax purposes, (i) a citizen or resident of the United States; (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

UNITED STATES TAXATION

This discussion is limited to the Federal tax issues addressed below. Additional issues may exist that are not addressed in this discussion and that could affect the Federal tax treatment of the transaction. Because this tax disclosure was written in connection with the marketing of the Program for the Issuance of Warrants and Certificates, it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder. Holders should seek their own advice based on their particular circumstances from an independent tax advisor.

References to "Securities" herein refer only to Securities issued by Morgan Stanley, Morgan Stanley Jersey or MSBV, not to Securities issued by an Additional Issuer.

The Issuers have been advised that the following summary accurately describes the principal United States federal income and estate tax consequences of ownership and disposition of the Securities by Non-U.S. Holders (as defined below). This summary is based on the Code, administrative pronouncements, judicial decisions and existing and proposed Treasury regulations, changes to any of which subsequent to the date of this Base Prospectus may affect the tax consequences described herein.

This summary does not discuss all of the tax consequences that may be relevant to holders in light of their particular circumstances or to holders subject to special rules, such as:

- persons other than Non-U.S. Holders;
- nonresident alien individuals who have lost their United States citizenship or who have ceased to be treated as resident aliens; or
- corporations that are treated as personal holding companies, controlled foreign corporations, or passive foreign investment companies.

Persons considering the purchase of Securities should consult their own tax advisors with regard to the application of the United States federal tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Security that is for United States federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation;
- a nonresident alien fiduciary of a foreign estate or trust; or
- a foreign partnership one or more of the members of which is a nonresident alien individual, a foreign corporation or a nonresident alien fiduciary of a foreign trust or estate.

General

Except as otherwise indicated in the applicable Final Terms, a Non-U.S. Holder will generally not be subject to United States federal income tax, including withholding tax, on payments on a Security, or on proceeds from the sale or other disposition of a Security, provided that for purposes of United States federal income tax law:

- the payments or proceeds are not effectively connected with the conduct of a trade or business within the United States by the holder;
- the holder does not own (directly or by attribution) ten percent or more of the total combined voting power of all classes of stock of Morgan Stanley entitled to vote;
- the holder is not a bank holding the Security in the context of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and
- the holder does not have a "tax home" (as defined in section 911(d)(3) of the Code) or an office or other fixed place of business in the United States.

Backup Withholding and Information Reporting

In general, U.S. information reporting and backup withholding will not apply to payments on Securities held by a Non-U.S. Holder and received outside the United States through a non-U.S. bank or other non-U.S. financial institution. Proceeds on sales and payments on Securities received within the United States or through certain U.S.-related financial institutions may be subject to information reporting and backup withholding unless the Non-U.S. holder complies with applicable certification procedures to establish that it is not a U.S. person.

Estate Tax

Non-U.S. Holders who are individuals, and holders that are entities the property of which is potentially includible in such an individual's gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), should note that, absent an applicable treaty benefit, a Security may be treated as U.S. situs property subject to U.S. federal estate tax. Such individuals and entities should consult their own tax advisors regarding the U.S. federal estate tax consequences of investing in the Securities.

UNITED KINGDOM TAXATION

The following disclosure applies only in respect of Securities issued by Morgan Stanley, Morgan Stanley Jersey or MSBV and not in respect of Securities issued by an Additional Issuer or any substitute issuer. References in this section on United Kingdom taxation to "Securities" refer only to Securities issued by Morgan Stanley, Morgan Stanley Jersey or MSBV, and references to Securityholders should be construed accordingly. The following assumes that Morgan Stanley, Morgan Stanley Jersey and MSBV are not resident in the United Kingdom for United Kingdom tax purposes and are not issuing the Securities for the purposes of a trade or other business carried on by them in the United Kingdom and that any payment on the Securities does not have a United Kingdom source.

Transactions involving Securities, including the issue of any Global Warrant, any purchase or disposal or abandonment of or other dealings in the Securities and any transaction involved in the exercise and settlement of Securities, may have United Kingdom tax consequences for potential purchasers (including but not limited to possible liabilities to stamp duties, transfer and registration taxes). The United Kingdom tax consequences may depend, amongst other things, upon the status of the potential purchaser and the terms and conditions of a particular Security. Potential purchasers should consult their own tax advisors about the United Kingdom tax implications of purchasing and holding a Security, any transaction involving a Security and any transaction involved in the exercise and settlement of a Security.

JERSEY TAXATION

Prospective purchasers of Securities issued by Morgan Stanley Jersey should consult their tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Jersey/United States of America of acquiring, holding and disposing of such securities and receiving payments of interest, principal and/or other amounts under such securities.

The following summary is based on the laws and practices currently in force in Jersey at the date of this document and is subject to changes therein.

Holders of Securities issued by Morgan Stanley Jersey (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, sale or other disposition of such securities. So long as the Issuer maintains its "exempt company" status, interest on such securities may be paid by Morgan Stanley Jersey without withholding or deduction for or on account of Jersey income tax.

No stamp duties are payable in Jersey on the acquisition, ownership, redemption, sale or other disposal of such securities. Stamp duty of up to 0.75% is payable on the grant of probate or letters of administration in Jersey in respect of a deceased natural person (i) who died domiciled in Jersey, on the value of the entire estate and (ii) otherwise, on the value of so much of the estate as is situate in Jersey.

As part of an agreement reached in connection with the European Union (the "EU") directive on the taxation of savings income in the form of interest payments, and in line with steps taken by other relevant third countries, Jersey introduced with effect from 1 July 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The retention tax system in Jersey is implemented by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Committee of the States of Jersey. Based on these provisions and our understanding of the current practice of the Jersey tax authorities (and subject to transitional arrangements described above), Morgan Stanley Jersey would not be obliged to levy retention tax in Jersey under these provisions in respect of interest payments made by it to a paying agent established outside Jersey.

Expected changes to the Jersey corporate tax regime: Legislation has been adopted by the States of Jersey which (subject to sanction by the Crown) will, on and from 1 January 2009, introduce a standard rate of corporate tax of 0% applicable to all companies (other than any "financial services company" (as defined therein) and certain specified Jersey utility companies). As at the date hereof, Morgan Stanley Jersey is neither a "financial services company" nor such a specified utility company.

NETHERLANDS TAXATION

The following disclosure applies only in respect of Securities issued by MSBV and not in respect of Securities issued by Morgan Stanley, Morgan Stanley Jersey or an Additional Issuer or any substitute issuer. References in this section on Netherlands taxation to "Securities" refer only to Securities issued by MSBV and references to holders of Securities should be construed accordingly.

The following disclosure outlines certain Netherlands tax consequences to holders of Securities. It is based on the current law and practice of the Netherlands, which is subject to changes that could prospectively or retrospectively affect the stated tax consequences. The disclosure does not purport to be complete. Prospective holders of Securities should consult their own appropriate independent professional advisors with respect to the tax consequences of an investment in the Securities in their particular circumstances.

Withholding Tax

All payments under Securities may be made free of withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that (i) the Securities have a maturity - legally or *de facto* - of not more than 50 years and (ii) the Securities will not represent, be linked to (the performance of) or be convertible (in part or in whole) into (rights to purchase) (a) shares (b) profit certificates (*winstbewijzen*) and/or (c) debt instruments having a maturity - legally or *de facto* - of more than 50 years, issued by MSBV, the Guarantor or any other entity related to MSBV and/or the Guarantor.

Taxes on Income and Capital Gains

A holder of Securities will not be subject to any Netherlands taxes on income or capital gains in respect of Securities, including such tax on any payment under Securities or in respect of any gain realised on the disposal, deemed disposal or exchange of Securities, provided that:

- (i) such holder is neither a resident nor deemed to be a resident of the Netherlands, nor, if he is an individual, has elected to be taxed as a resident of the Netherlands;
- (ii) such holder does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise, as the case may be, Securities are attributable;
- (iii) if such holder is an individual, neither such holder nor any of his spouse, his partner, a person deemed to be his partner, or other persons sharing such person's house or household, or certain other of such persons' relatives (including foster children), (a) has indirectly the disposition of the proceeds of Securities, nor (b) has a substantial interest in MSBV, the Guarantor and/or any other entity that legally or *de facto*, directly or indirectly, has the disposition of the proceeds of Securities. For purposes of this clause (iii), a substantial interest is generally not present if a holder does not hold, alone or together with his spouse or partner, whether directly or indirectly, the ownership of, or certain other rights (including rights to acquire shares, whether or not already issued) over, (a) shares representing five per cent. or more of the total issued and outstanding capital (or of the issued and outstanding capital of any class of shares) of a company, (b) profit sharing certificates, or membership rights in a co-operative association, entitling the holder to five per cent. or more of the profits or of the liquidation distributions of a company or co-operative association, or (c) membership rights representing five per cent. or more of the voting rights in a co-operative association's general meeting;
- (iv) if such holder is a company, such holder does not have a substantial interest in MSBV or if such holder does have such a substantial interest, it can be allocated to the holder's business assets. For purpose of

this clause (iv), a substantial interest is generally not present if a holder does not hold, whether directly or indirectly, the ownership of, or certain other rights (including the rights to acquire shares, whether or not already issued) over shares representing five per cent. or more of the total issued and outstanding capital (or of the issued and outstanding capital of any class of shares) of MSBV, or (b) profit sharing certificates, entitling the holder to five per cent. or more of the profits or of the liquidation distributions of MSBV; and

- (v) if such holder is an individual, such income or capital gain do not form "benefits from miscellaneous activities in the Netherlands" ("*resultaat uit overige werkzaamheden in Nederland*"), which would for instance be the case if the activities in the Netherlands with respect to Securities exceed "normal active asset management" ("*normaal, actief vermogensbeheer*").

A holder of Securities will not be subject to taxation in the Netherlands by reason only of the execution, delivery and/or enforcement of the documents relating to an issue of Securities or the performance by MSBV of its obligations thereunder or under Securities.

Gift, Estate and Inheritance Taxes

No gift, estate or inheritance taxes will arise in the Netherlands with respect to an acquisition of Securities by way of a gift by, or on the death of, a holder of Securities who is neither resident nor deemed to be resident in the Netherlands, unless:

- (i) such holder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise, as the case may be, Securities are or were attributable; or
- (ii) in the case of a gift of Securities by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.

Turnover Tax

No Netherlands turnover tax will arise in respect of any payment in consideration for the issue of Securities, with respect to any cash settlements under the Securities or with respect to the delivery of securities under the Securities.

Other Taxes and Duties

No Netherlands capital tax, registration tax, custom duty, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the Courts of the Netherlands) of the documents relating to the issue of Securities or the performance by MSBV of its obligations thereunder or under the Securities.

IRISH TAXATION

The following disclosure relates only to withholding taxes arising under current Irish law and practice operated by the Irish Revenue Commissioners.

Irish Withholding Tax

No charge to Irish interest withholding tax should arise upon payments in respect of the Securities, as such payments should not be charged with tax under Schedule D of the Taxes Consolidation Act 1997.

If the payments on the Securities are entrusted to an Irish paying agent or are collected by an Irish collecting agent then Irish encashment tax may be required to be withheld at the standard rate (currently 20 per cent) from the payments made by the relevant agent. Relief from encashment tax may be available to beneficial owners of Securities that are not resident in Ireland who make declarations in the required form..

EUROPEAN UNION SAVINGS DIRECTIVE

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income (the "**EU Savings Tax Directive**") which has applied since 1 July 2005. Under the EU Savings Tax Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg will, unless they elect otherwise, instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction, to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provisions of information or transitional withholding arrangements with certain of these dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such person for, an individual resident in one of these territories.

SUBSCRIPTION AND SALE

Each Issuer is offering the Securities on a continuing basis through Morgan Stanley & Co. International plc and Morgan Stanley & Co. Incorporated (the "**Distribution Agents**"), who have agreed to use reasonable efforts to solicit offers to purchase the Securities. Each Issuer will have the sole right to accept offers to purchase Securities and may reject any offer in whole or in part. The Distribution Agents will have the right to reject any offer to purchase Securities solicited by it in whole or in part. Each Issuer may pay the Distribution Agents, in connection with sales of the Securities resulting from a solicitation the Distribution Agents made or an offer to purchase received by the Distribution Agents, a commission, which may be in the form of a discount from the purchase price if the Distribution Agents are purchasing the Securities for their own account. Payment of the purchase price of the Securities will be required to be made in immediately available funds.

Each Issuer may also sell Securities to a Distribution Agent as principal for its own account at a price to be agreed upon at the time of sale. The Distribution Agents may resell any Securities they purchase as principal at prevailing market prices, or at other prices, as the Distribution Agents determine.

The arrangements for the offer and sale of the Securities from time to time are set out in the Regulation S Euro Distribution Agreement as modified and restated on 22 June 2007 (as further modified and restated from time to time, the "**Distribution Agreement**") among Morgan Stanley, Morgan Stanley Jersey, MSBV and the Distribution Agents (and any Additional Issuer that accedes to the Program). Pursuant to the Distribution Agreement, Morgan Stanley, Morgan Stanley Jersey, MSBV and the Distribution Agents have agreed (and any Additional Issuer that accedes to the Program shall agree) to indemnify each other against certain liabilities, or to contribute payments made in respect thereof. Morgan Stanley, Morgan Stanley Jersey and MSBV have also agreed (and any Additional Issuer that accedes to the Program shall agree) to reimburse the Distribution Agents for certain expenses.

United States of America

The Securities have not been and will not be registered under the Securities Act and may not be offered, sold or delivered, *at any time*, within the United States or to, or for the account or benefit of, U.S. Persons. Each Distribution Agent (1) has acknowledged that the Securities have not been and will not be registered under the Securities Act, or any securities laws of any state in the United States, are subject to U.S. tax law requirements, and the Securities are not being offered or sold and may not be offered, sold or delivered at any time, directly or indirectly, within the United States or to or for the account or benefit of U.S. Persons (as defined either in Regulation S under the Securities Act or the Code); (2) has represented, as a condition to acquiring any interest in the Securities, that neither it nor any persons for whose account or benefit the Securities are being acquired is a U.S. Person, is located in the United States, or was solicited to purchase Securities while present in the United States; (3) has agreed not to offer, sell or deliver any of the Securities, directly or indirectly, in the United States to any U.S. Person; (4) has agreed that, at or prior to confirmation of sale of any Securities (whether upon original issuance or in any secondary transaction), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Securities from it a written notice containing language substantially the same as the foregoing. As used herein, "**United States**" means the United States of America (including the states and the District of Columbia), its territories and possessions.

In addition, the Distribution Agents have represented and agreed that they have not offered or sold Securities and will not offer or sell Securities *at any time* except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, the Distribution Agents have represented and agreed that neither they, their affiliates (if any) nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to Securities, and it and they have complied and will comply with the offering restrictions requirements of Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are also subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. Person. The Securities will be issued in accordance with the provisions of United States Treasury Regulation § 1.163-5(c)(2)(i)(D). Terms used in this paragraph have the meanings given to them by the Code.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Distribution Agent has represented and agreed, and each further Distribution Agent appointed under the Program will be required to represent and agree, in relation to each Tranche of Securities that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Securities which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Securities to the public in that Relevant Member State:

- (a) if the final terms in relation to the Securities specify that an offer of those Securities may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last (or, in the case of Sweden, last two) annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Distribution Agent nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities referred to in (b) to (e) above shall require the Issuer or any Distribution Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Securities to the public**" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

In relation to each Tranche of Securities, each Distribution Agent subscribing for or purchasing such Securities has represented to, warranted and agreed with, or will represent to, warrant and agree with, the relevant Issuer and, if the Securities are issued by Morgan Stanley Jersey or MSBV, the Guarantor that:

- (a) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA would not, if it was not an authorised person, apply to the relevant Issuer; and
- (b) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom.

Ireland

Each Distribution Agent has represented and agreed that:

- (i) to the extent applicable, it will not underwrite the issue of or place the Securities otherwise than in conformity with the provisions of the Irish Investment Intermediaries Act, 1995 (as amended), including, without limitation, Sections 9 and 50 and will conduct itself in accordance with any code of conduct drawn up pursuant to Section 37; and
- (ii) in relation to any Securities having a maturity of less than one year, it has ensured compliance with the requirements of the Notice of the Central Bank of Ireland of Exemptions granted under Section 8(2) of the Central Bank Act 1971, as amended and any other successor or related requirements with respect to the issue of Securities of such maturity.

Jersey

Each Distribution Agent has severally represented to, and agreed with, Morgan Stanley Jersey that it will not take any action on behalf of Morgan Stanley Jersey that would result in Morgan Stanley Jersey being required to become registered under the Financial Services (Jersey) Law 1998, as amended.

NO OWNERSHIP BY U.S. PERSONS

The Securities may not be legally or beneficially owned by U.S. Persons at any time. Each holder and beneficial owner of a Security hereby represents, as a condition to purchasing or owning the Security, or any beneficial interest therein, that neither it nor any person for whose account or benefit the Securities are being purchased is located in the United States, is a U.S. Person or was solicited to purchase the Securities while present in the United States. Each holder and each beneficial owner of a Security hereby agrees not to offer, sell or deliver any of the Securities, at any time, directly or indirectly in the U.S. or to any U.S. Person. The term "U.S. Person" will have the meaning ascribed to it in either Regulation S under the Securities Act or the Code.

GENERAL INFORMATION

The obligation of a prospective purchaser, including any of the Distribution Agents, to pay for any Securities it has agreed to purchase is subject to the satisfaction of certain conditions which, if not satisfied or waived, would result in the purchaser having no obligation to pay for any of those Securities.

The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate code for each issue allocated by Euroclear and Clearstream, Luxembourg will be contained in the applicable Final Terms. Transactions will normally be effected for settlement not earlier than two business days after the date of the transaction.

For so long as the Program remains in effect or any Securities issued by Morgan Stanley, Morgan Stanley Jersey or MSBV under the Program remain outstanding, the following documents will be available from the date hereof, during usual business hours on any week day, for inspection by physical means at The Bank of New York, One Canada Square, London E14 5AL, being the London office of the Principal Securities Agent and at J.P. Morgan Bank (Ireland) plc c/o BNY Financial Services plc, 4th Floor, Hanover Building, Windmill Lane, Dublin, Ireland, being the office of the Irish Securities Agent, and also at the principal executive offices of Morgan Stanley and the registered offices of Morgan Stanley Jersey and MSBV:

- (i) copies of the Distribution Agreement, the Securities Agency Agreement dated 30 November 2000 (as modified and restated on 4 December 2001, 30 June 2005, and 11 July 2006 and as further modified and restated on 22 June 2007 and as from time to time further modified and/or restated), the accession agreement dated as of 10 June 2002 relating to Morgan Stanley Jersey, the accession agreement dated as of 16 April 2004 relating to MSBV, the Morgan Stanley Deed of Covenant, the MSJ Deed of Covenant, the MSBV Deed of Covenant, the guarantee dated 10 June 2002 provided by Morgan Stanley, all of Morgan Stanley Jersey's and MSBV's future published financial statements and all of Morgan Stanley's future Annual, Quarterly and Current Reports. Morgan Stanley's Quarterly Reports on Form 10-Q contain unaudited quarterly financial statements;
- (ii) the Certificate of Incorporation and Memorandum and Articles of Association of Morgan Stanley Jersey (these shall not be available at the registered office of MSBV);
- (iii) the Deed of Incorporation of MSBV (this shall not be available at the registered office of Morgan Stanley Jersey);
- (iv) the Certificate of Incorporation and Amended and Restated By-laws of Morgan Stanley;
- (v) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is included or referred to herein;
- (vi) the Annual Reports of MSBV for the financial years ended 30 November 2005 and 30 November 2006 (these shall not be available at the registered office of Morgan Stanley Jersey);
- (vii) the Annual Reports of Morgan Stanley Jersey for the financial years ended 30 November 2005 and 30 November 2006 (these shall not be available at the registered office of MSBV);
- (viii) Morgan Stanley's Annual Report on Form 10-K for the year ended 30 November 2006, including any amendments thereto, which contain the audited consolidated financial statements of Morgan Stanley for the years ended 30 November 2006 and 30 November 2005;
- (ix) a copy of this document;
- (x) any supplement to this Base Prospectus; and

- (xi) any Final Terms (relating to listed and outstanding issues of Securities) issued after the date of this Base Prospectus.

Morgan Stanley

The Program was authorised by Morgan Stanley pursuant to resolutions adopted at a meeting of the Board of Directors of Morgan Stanley held on 17 June 2003, as amended and updated pursuant to resolutions adopted at a meeting of the Board of Directors of Morgan Stanley held on 14 December 2004 and further amended by resolutions dated 20 September 2005, 12 December 2006 and 19 June 2007.

Morgan Stanley Jersey

There are no, nor have there been any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which Morgan Stanley Jersey is aware), during the 12 month period before the date of this Base Prospectus, involving Morgan Stanley Jersey which may have or have had in the recent past, a significant effect on the financial position or profitability of Morgan Stanley Jersey.

Deloitte & Touche LLP, Chartered Accountants and Registered Auditors (members of the Institute of Chartered Accountants of England and Wales) of PO Box 403, Lord Coutanche House, 66-68 Esplanade, St Helier, Jersey JE4 8WA have audited the financial statements of Morgan Stanley Jersey for the years ended 30 November 2004, 2005 and 2006 and unqualified opinions have been reported thereon.

Morgan Stanley Jersey does not publish interim financial statements.

The role of Morgan Stanley Jersey as issuer under the Program was authorised by resolutions of the Board of Directors of Morgan Stanley Jersey passed on 7 June 2002 and 20 June 2007.

Morgan Stanley Jersey has obtained or will obtain all necessary consents, approvals and authorisations in connection with the issue and performance of Securities. In particular, the Jersey Financial Services Commission (the "**Commission**") has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of Securities under the Program by Morgan Stanley Jersey. The Commission is protected by the Control of Borrowing (Jersey) Law 1947 against liability arising from the discharge of its functions under that law.

A copy of this document has been delivered to the Jersey registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar has given, and has not withdrawn, consent to its circulation.

It must be distinctly understood that, in giving these consents, neither the registrar of companies nor the Commission takes any responsibility for the financial soundness of Morgan Stanley Jersey or for the correctness of any statements made, or opinions expressed, with regard to it.

If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.

It should be remembered that the price of securities and the income from them can go down as well as up.

Financial Services (Jersey) Law 1998

Nothing in this Base Prospectus, any Final Terms or anything communicated to the holders of Securities issued by Morgan Stanley Jersey or potential holders of such securities by or on behalf of Morgan Stanley Jersey is intended to constitute or should be construed as advice on the merits of the purchase of or subscription for such securities or the exercise of any rights attached thereto for the purposes of the Financial Services (Jersey) Law 1998, as amended.

Collective Investment Funds (Restriction of Scope) (Jersey) Order 2000

The investments described in this document do not constitute a collective investment fund for the purpose of the Collective Investment Funds (Jersey) Law 1988, as amended, on the basis that they are investment products designed for financially sophisticated investors with specialist knowledge of, and experience of investing in, such investments, who are capable of fully evaluating the risks involved in making such investments and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investments. These investments are not regarded by the Jersey Financial Services Commission as suitable investments for any other type of investor.

Any individual intending to invest in any investment described in this document should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

MSBV

There are no, nor have there been any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which MSBV is aware), during the 12 month period before the date of this Base Prospectus, involving MSBV which may have or have had in the recent past, a significant effect on the financial position or profitability of MSBV.

Deloitte Accountants B.V., independent auditors and certified public accountants (members of the Royal Netherlands Institute of Registered Accountants) of Orlyplein 10, 1040 HC Amsterdam, Netherlands have audited the financial statements of MSBV for the years ended 30 November 2004, 30 November 2005 and 30 November 2006 and an unqualified opinion has been reported thereon.

The financial information in respect of MSBV has been prepared in accordance with United Kingdom accounting standards, as permitted by the Civil Code of the Netherlands on the basis of MSBV's international connections. Such financial information has not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No 1606/2002 and there may be material differences in such financial information had Regulation (EC) No 1606/2002 been applied to such historical financial information.

MSBV does not publish interim financial statements.

The role of MSBV as issuer under the Program was authorised by resolutions of the Board of Directors of MSBV passed on 16 April 2004 and 20 June 2007.

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