MORGAN STANLEY
Form 424B2
December 04, 2018

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	*Maximum Aggregate Offering Price*	*Amount of Registration Fee*
Contingent Income Auto-Callable Securities due 2019	$500,000	$60.60

November 2018

Pricing Supplement No. 1,161
Registration Statement Nos. 333-221595; 333-221595-01
Dated November 30, 2018
Filed pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC

STRUCTURED INVESTMENTS

Opportunities in U.S. Equities

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The securities are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The securities have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The securities do not guarantee the repayment of principal and do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of **each of** the Russell 2000® Index **and** the NASDAQ-100 Index® is **at or above** its coupon barrier level of 70% of its respective initial index value on the related observation date. If, however, the index closing value of **either** underlying index is less than its coupon barrier level on any observation date, we will pay no interest for the related quarterly period. In addition, the securities will be automatically redeemed if the index closing value **of each** underlying index is greater than or equal to its respective initial index value on any of the three quarterly redemption determination dates for the early redemption payment equal to the sum of the stated principal amount plus the related contingent quarterly coupon. At maturity, if the securities have not previously been redeemed and the index closing value of each underlying index has remained greater than or equal to 70% of the respective initial index value, which we refer to as the downside threshold level, on **each index business day** during the term of the securities, the payment at maturity will be the stated principal amount and the related contingent quarterly coupon. If, however, the index closing value of **either** underlying index is less than its respective downside threshold level on **any index business day** during the term of the securities, a trigger event will have occurred and investors will be fully exposed to the decline in the worst performing underlying index on a 1-to-1 basis and, if the final index value of **either** underlying index is less than its initial index value, investors will receive a payment at maturity that is less than the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment and also the risk of not receiving any contingent quarterly coupons throughout the 1-year term of the securities.** Because all payments on the securities are based on the worst performing of the underlying indices, a decline beyond the respective coupon barrier level or respective downside threshold level, as applicable, of either underlying index will result in few or no contingent coupon payments and a potentially significant loss of your investment, even if the other underlying index has appreciated or has not declined as much. The securities are for investors who are willing to risk their principal and seek an opportunity to earn interest at a potentially above-market rate in exchange for the risk of receiving no quarterly coupons over the entire 1-year term. Investors will not participate in any appreciation of either underlying index. The securities are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

FINAL TERMS

Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Underlying indices:	Russell 2000® Index (the "RTY Index") and NASDAQ-100 Index® (the "NDX Index")
Aggregate principal amount:	$500,000
Stated principal amount:	$1,000 per security
Issue price:	$1,000 per security
Pricing date:	November 30, 2018
Original issue date:	December 5, 2018 (3 business days after the pricing date)
Maturity date:	December 6, 2019
Early redemption:	If, on any of the three redemption determination dates, beginning on February 28, 2019, the index closing value of each underlying index is **greater than or equal to** its respective initial index value, the securities will be automatically redeemed for an early redemption payment on the related early redemption date. No further payments will be made on the securities once they have been redeemed. **The securities will not be redeemed early on any early redemption date if the index closing value of either underlying index is below the respective initial index value for such underlying index on the related redemption determination date.**
Early redemption payment:	The early redemption payment will be an amount equal to (i) the stated principal amount for each security you hold plus (ii) the contingent quarterly coupon with respect to the related observation date.
Contingent quarterly coupon:	

A *contingent* coupon at an annual rate of 10.25% **(corresponding to approximately $25.625 per quarter per security)** will be paid on the securities on each coupon payment date ***but only if*** the closing value of **each underlying index** is at or above its respective coupon barrier level on the related observation date.

If, on any observation date, the closing value of either underlying index is less than the respective coupon barrier level for such underlying index, we will pay no coupon for the applicable quarterly period. It is possible that one or both underlying indices will remain below their respective coupon barrier levels for extended periods of time or even throughout the entire 1-year term of the securities so that you will receive few or no contingent quarterly coupons.

Trigger event:

A trigger event occurs if, on any index business day from but excluding the pricing date to and including the final observation date, the closing level of **either** underlying index is less than its respective downside threshold level. If a trigger event occurs on **any index business day** during the term of the securities, you will be exposed to the downside performance of the worst performing underlying index at maturity.

Payment at maturity:

At maturity, investors will receive, in addition to the final contingent quarterly coupon payment, if payable, a payment at maturity determined as follows:

If a trigger event HAS NOT occurred on any index business day from but excluding the pricing date to and including the final observation date: the stated principal amount

If a trigger event HAS occurred on any index business day from but excluding the pricing date to and including the final observation date: (i) the stated principal amount *multiplied by* (ii) the index performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount.

If a trigger event occurs and the final index value of **either** underlying index is less than its initial index value, the payment at maturity will be less than the stated principal amount of the securities and could be zero.

Under no circumstances will investors participate in any appreciation of either underlying index.

Terms continued on the following page

Agent:	Morgan Stanley & Co. LLC ("MS & Co."), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See "Supplemental information regarding plan of distribution; conflicts of interest."		
Estimated value on the pricing date:	$985.30 per security. See "Investment Summary" beginning on page 3.		
Commissions and issue price:	**Price to public(1)**	**Agent's commissions(2)**	**Proceeds to us(3)**
Per security	$1,000	$6.25	$993.75
Total	$500,000	$3,125	$496,875

(1) The securities will be sold only to investors purchasing the securities in fee-based advisory accounts.

(2) MS & Co. expects to sell all of the securities that it purchases from us to an unaffiliated dealer at a price of $993.75 per security, for further sale to certain fee-based advisory accounts at the price to public of $1,000 per security. MS & Co. will not receive a sales commission with respect to the securities. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

(3) See "Use of proceeds and hedging" on page 28.

The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 14.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Information About the Securities" at the end of this document.

As used in this document, "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Auto-Callable Securities dated November 16, 2017   **Index Supplement dated November 16, 2017**   **Prospectus dated November 16, 2017**

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

Terms continued from previous page:

Redemption determination dates:	Quarterly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below, subject to postponement for non-index business days and certain market disruption events.
Early redemption dates:	Beginning on March 7, 2019, quarterly. See "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below. If any such day is not a business day, that early redemption payment will be made on the next succeeding business day and no adjustment will be made to any early redemption payment made on that succeeding business day
Coupon barrier level:	With respect to the RTY Index: 1,073.286, which is approximately 70% of its initial index value With respect to the NDX Index: 4,864.310, which is approximately 70% of its initial index value
Downside threshold level:	With respect to the RTY Index: 1,073.286, which is approximately 70% of its initial index value With respect to the NDX Index: 4,864.310, which is approximately 70% of its initial index value
Initial index value:	With respect to the RTY Index: 1,533.266, which is its index closing value on the pricing date With respect to the NDX Index: 6,949.014, which is its index closing value on the pricing date
Final index value:	With respect to each index, the respective index closing value on the final observation date
Worst performing underlying:	The underlying index with the larger percentage decrease from the respective initial index value to the respective final index value
Index performance factor:	Final index value *divided by* the initial index value
Coupon payment dates:	Quarterly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below; *provided* that if any such day is not a business day, that contingent quarterly coupon, if any, will be paid on the next succeeding business day and no adjustment will be made to any coupon payment made on that succeeding business day; *provided further* that the contingent quarterly coupon, if any, with respect to the final observation date will be paid on the maturity date
Observation dates:	Quarterly, as set forth under "Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates" below, subject to postponement for non-index business days and certain market disruption events. We also refer to November 29, 2019 as the final observation date.
CUSIP / ISIN:	61768DPT6 / US61768DPT62
Listing:	The securities will not be listed on any securities exchange.

Observation Dates, Redemption Determination Dates, Coupon Payment Dates and Early Redemption Dates

Observation Dates / Redemption Determination Dates	Coupon Payment Dates / Early Redemption Dates
February 28, 2019	March 7, 2019
May 30, 2019	June 6, 2019
August 30, 2019	September 9, 2019
November 29, 2019 (final observation date)*	December 6, 2019 (maturity date)

* The securities are not subject to automatic early redemption on the final observation date.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

Investment Summary

Contingent Income Auto-Callable Securities

Principal at Risk Securities

Contingent Income Auto-Callable Securities due December 6, 2019 All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index® (the "securities") do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of **each** underlying index is **at or above** 70% of its initial index value, which we refer to as the respective coupon barrier level, on the related observation date. If the index closing value of **either underlying index** is less than the respective coupon barrier level on any observation date, we will pay no coupon for the related quarterly period. It is possible that the index closing value of either underlying index could remain below the respective coupon barrier level for extended periods of time or even throughout the entire 1-year term of the securities so that you will receive few or no contingent quarterly coupons during the term of the securities. We refer to these coupons as contingent, because there is no guarantee that you will receive a coupon payment on any coupon payment date. Even if both underlying indices were to be at or above their respective coupon barrier levels on some quarterly observation dates, one or both underlying indices may fluctuate below the respective coupon barrier level(s) on others. In addition, if the securities have not been automatically called prior to maturity and the index closing value of **either** underlying index is less than 70% of the respective initial index value, which we refer to as the downside threshold level, on **any index business day** during the term of the securities, a trigger event will have occurred and investors will be fully exposed to the decline in the worst performing underlying index on a 1-to-1 basis and, if the final index value of **either** underlying index is less than its initial index value, investors will receive a payment at maturity that is less than the stated principal amount of the securities and could be zero. Investors will not participate in any appreciation of either underlying index. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment and also the risk of not receiving any contingent quarterly coupons throughout the entire 1-year term of the securities.**

Maturity:	Approximately 1 year
Contingent quarterly coupon:	A *contingent quarterly coupon* at an annual rate of 10.25% (corresponding to approximately $25.625 per quarter per security) will be paid on the securities on each coupon payment date **but only if** the closing value of **each** underlying index is at or above the respective coupon barrier level on the related observation date. **If on any observation date, the closing value of either underlying index is less than the respective coupon barrier level, we will pay no coupon for the applicable quarterly**

	period.
Automatic early redemption:	If the index closing value of **each** underlying index is greater than or equal to its initial index value on any of the three quarterly redemption determination dates, beginning on February 28, 2019, the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount plus the contingent quarterly coupon with respect to the related observation date.
Trigger event:	A trigger event occurs if, on any index business day from but excluding the pricing date to and including the final observation date, the closing level of **either** underlying index is less than its respective downside threshold level. If a trigger event occurs on **any index business day** during the term of the securities, investors will be exposed to the downside performance of the worst performing underlying index at maturity.
Payment at maturity:	At maturity, investors will receive, in addition to the final contingent quarterly coupon payment, if payable, a payment at maturity determined as follows: **If a trigger event HAS NOT occurred on any index business day from but excluding the pricing date to and including the final observation date**, investors will receive at maturity the stated principal amount. **If a trigger event HAS occurred on any index business day from but excluding the pricing date to and including the final observation date**, investors will receive a payment at maturity equal to: (i) the stated principal amount *multiplied by* (ii) the index

performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount.

If a trigger event occurs and the final index value of **either** underlying index is less than its initial index value, the payment at maturity will be less than the stated principal amount of the securities and could be zero.

Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment. Investors will not participate in any appreciation of either underlying index.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

The original issue price of each security is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date is less than $1,000. We estimate that the value of each security on the pricing date is $985.30.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying indices. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying indices, instruments based on the underlying indices, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the contingent quarterly coupon rate, the coupon barrier levels and the downside threshold levels, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 4 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

Key Investment Rationale

The securities do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of each underlying index is **at or above** its respective coupon barrier level on the related observation date. The securities have been designed for investors who are willing to forgo market floating interest rates and accept the risk of receiving no coupon payments for the entire 1-year term of the securities in exchange for an opportunity to earn interest at a potentially above market rate if each underlying index closes at or above its respective coupon barrier level on each quarterly observation date until the securities are redeemed early or reach maturity. The following scenarios are for illustrative purposes only to demonstrate how the coupon and the payment at maturity (if the securities have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur. Accordingly, the securities may or may not be redeemed, the contingent coupon may be payable in none of, or some but not all of, the quarterly periods during the 1-year term of the securities and the payment at maturity may be less than the stated principal amount of the securities and may be zero.

Scenario 1: The securities are redeemed prior to maturity	This scenario assumes that, prior to early redemption, each underlying index closes at or above its coupon barrier level on some quarterly observation dates, but one or both underlying indices close below the respective coupon barrier level(s) on the others. Investors receive the contingent quarterly coupon for the quarterly periods for which each index closing value is at or above the coupon respective barrier level on the related observation date, but not for the quarterly periods for which either index closing value is below the respective coupon barrier level on the related observation date. Starting on February 28, 2019, when each underlying index closes at or above its initial index value on a quarterly redemption determination date, the securities will be automatically redeemed for the stated principal amount *plus* the contingent quarterly coupon with respect to the related observation date.
Scenario 2: The securities are not redeemed prior to maturity and investors receive principal back at maturity	This scenario assumes that a trigger event has not occurred, as each underlying index has closed at or above the respective downside threshold level on each index business day during the term of the securities. In addition, each underlying index closes below the respective initial index value on every quarterly redemption determination date. Consequently, the securities are not automatically redeemed, and investors receive the contingent quarterly coupon for each quarterly period, as each index closing value was at or above the respective coupon barrier level on each observation date. Because a trigger event has not occurred on any index business day during the term of the securities, at maturity, investors will receive the stated principal amount and the contingent quarterly coupon with respect to the final observation date.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

Scenario 3: The securities are not redeemed prior to maturity, a trigger event occurs on any index business day during the term of the securities and investors suffer a loss of principal at maturity	This scenario assumes that each underlying index closes at or above its respective coupon barrier level on some quarterly observation dates, but one or both underlying indices close below the respective coupon barrier level(s) on the others, and each underlying index closes below the respective initial index value on every quarterly redemption determination date. Consequently, the securities are not automatically redeemed and a trigger event will have occurred. Investors receive the contingent quarterly coupon for the quarterly periods for which each index closing value is at or above the respective coupon barrier level on the related observation date, but not for the quarterly periods for which either index closing value is below the respective coupon barrier level on the related observation date. On the final observation date, one or both underlying indices close below the respective initial index value(s). At maturity, investors will receive an amount equal to the stated principal amount multiplied by the index performance factor of the worst performing underlying index. Under these circumstances, the payment at maturity will be less than the stated principal amount and could be zero. If a trigger event occurs on **any** index business day during the term of the securities, investors will have full downside exposure to the worst performing underlying index at maturity. Under these circumstances, if the final index value of **either** underlying index is less than its respective initial index value, investors will lose some or all of their investment in the securities.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

How the Securities Work

The following diagrams illustrate the potential outcomes for the securities depending on (1) the index closing values on each quarterly observation date, (2) the index closing values on each quarterly redemption determination date and (3) the final index values. Please see “Hypothetical Examples” beginning on page 10 for illustration of hypothetical payouts on the securities.

Diagram #1: Contingent Quarterly Coupons (Beginning on the First Coupon Payment Date until Early Redemption or Maturity)

Diagram #2: Automatic Early Redemption

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

Diagram #3: Payment at Maturity if No Automatic Early Redemption Occurs

For more information about the payout upon an early redemption or at maturity in different hypothetical scenarios, see "Hypothetical Examples" starting on page 10.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples illustrate how to determine whether a contingent quarterly coupon is paid with respect to an observation date and how to calculate the payment at maturity if the securities have not been automatically redeemed early. The following examples are for illustrative purposes only. Whether you receive a contingent quarterly coupon will be determined by reference to the index closing value of each underlying index on each quarterly observation date, and the amount you will receive at maturity, if any, will be determined by reference to the index closing value of each underlying index throughout the term of the securities. The actual initial index value, coupon barrier level and downside threshold level for each underlying index are set forth on the cover of this document. All payments on the securities, if any, are subject to our credit risk. The numbers in the hypothetical examples below may have been rounded for the ease of analysis. The below examples are based on the following terms:

Contingent Quarterly Coupon:	10.25% per annum (corresponding to approximately $25.625 per quarter per security)* **With respect to each coupon payment date, a contingent quarterly coupon is paid but only if the index closing value of each underlying is at or above its respective coupon barrier level on the related observation date.**
Automatic Early Redemption:	If the index closing value of **each** underlying index is greater than or equal to its initial index value on any of the three quarterly redemption determination dates, the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount plus the contingent quarterly coupon with respect to the related observation date.
Trigger event:	A trigger event occurs if, on any index business day from but excluding the pricing date to and including the final observation date, the closing level of **either** underlying index is less than its respective downside threshold level. If a trigger event occurs on **any index business day** during the term of the securities, investors will be exposed to the downside performance of the worst performing underlying index at maturity.
Payment at Maturity (if the securities have not been automatically redeemed early):	At maturity, investors will receive, in addition to the final contingent quarterly coupon payment, if payable, a payment at maturity determined as follows: **If a trigger event HAS NOT occurred on any index business day from but excluding the pricing date to and including the final observation date**: the stated principal amount

If a trigger event HAS occurred on any index business day from but excluding the pricing date to and including the final observation date: (i) the stated principal amount *multiplied by* (ii) the index performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount.

If a trigger event occurs and the final index value of **either** underlying index is less than its initial index value, the payment at maturity will be less than the stated principal amount of the securities and could be zero.

Under no circumstances will investors participate in any appreciation of either underlying index.

Stated Principal Amount:	$1,000
Hypothetical Initial Index Value:	With respect to the RTY Index: 1,200 With respect to the NDX Index: 7,650
Hypothetical Coupon Barrier Level:	With respect to the RTY Index: 840, which is 70% of the hypothetical initial index value for such index With respect to the NDX Index: 5,355, which is 70% of the hypothetical initial index value for such index
Hypothetical Downside Threshold Level:	With respect to the RTY Index: 840, which is 70% of the hypothetical initial index value for such index With respect to the NDX Index: 5,355, which is 70% of the hypothetical initial index value for such index

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

* The actual contingent quarterly coupon will be an amount determined by the calculation agent based on the number of days in the applicable payment period, calculated on a 30/360 basis. The hypothetical contingent quarterly coupon of $25.625 is used in these examples for ease of analysis.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

How to determine whether a contingent quarterly coupon is payable with respect to an observation date:

	Closing Level		Contingent Quarterly Coupon
	RTY Index	NDX Index	
Hypothetical Observation Date 1	950 (**at or above** coupon barrier level)	6,000 (**at or above** coupon barrier level)	$25.625
Hypothetical Observation Date 2	600 (**below** coupon barrier level)	8,200 (**at or above** coupon barrier level)	$0
Hypothetical Observation Date 3	1,200 (**at or above** coupon barrier level)	5,200 (**below** coupon barrier level)	$0
Hypothetical Observation Date 4	500 (**below** coupon barrier level)	5,000 (**below** coupon barrier level)	$0

On hypothetical observation date 1, both the RTY Index and NDX Index close at or above their respective coupon barrier levels. Therefore a contingent quarterly coupon of $25.625 is paid on the relevant coupon payment date.

On each of the hypothetical observation dates 2 and 3, one underlying index closes at or above its coupon barrier level, but the other underlying index closes below its coupon barrier level. Therefore, no contingent quarterly coupon is paid on the relevant coupon payment date.

On hypothetical observation date 4, each underlying index closes below its respective coupon barrier level, and, accordingly, no contingent quarterly coupon is paid on the relevant coupon payment date.

You will not receive a contingent quarterly coupon on any coupon payment date if the closing level of either underlying index is below its respective coupon barrier level on the related observation date.

How to calculate the payment at maturity (if the securities have not been automatically redeemed early):

Example 1: A trigger event HAS NOT occurred.

Final Index Value		RTY Index: 1,800 NDX Index: 7,900
Payment at Maturity	=	\$1,000.00 + \$25.625 (contingent quarterly coupon for the final quarterly period)
	=	\$1,025.625

In example 1, the index closing values of both the RTY Index and NDX Index are at or above their respective downside threshold levels on **each index business day** during the term of the securities. Therefore, a trigger event has not occurred and investors receive at maturity the stated principal amount of the securities and the contingent quarterly coupon with respect to the final observation date. However, investors do not participate in any appreciation of either underlying index.

Example 2: A trigger event HAS occurred.

Final Index Value		RTY Index: 960 NDX Index: 7,800
Payment at Maturity	=	\$25.625 (contingent quarterly coupon for the final quarterly period) + [\$1,000 x index performance factor of the worst performing underlying index, subject to a maximum of the stated principal amount]

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

	=$25.625 + [$1,000 x (960 / 1,200)]
	=$825.625

In example 2, the index closing value of one underlying index is at or above its downside threshold level on each index business day during the term of the securities, but the index closing value of the other underlying index is below its downside threshold level on one or more index business days during the term of the securities. The final index values of both the RTY Index and the NDX Index are at or above the respective coupon barrier levels on the final observation date. However, because a trigger event has occurred, investors are exposed to the downside performance of the worst performing underlying index at maturity, even though one of the underlying indices has appreciated. Because the final index value of each underlying index is greater than its respective coupon barrier level, investors receive the contingent quarterly coupon with respect to the final observation date. The payment at maturity is an amount equal to the contingent quarterly coupon with respect to the final observation date *plus* (i) the stated principal amount *times* (ii) the index performance factor of the worst performing underlying index.

Example 3: A trigger event HAS occurred.

Final Index Value	RTY Index: 600 NDX Index: 3,060
Payment at Maturity	=$1,000 x index performance factor of the worst performing underlying index
	=$1,000 x (3,060 / 7,650) = $400
	=$400

In example 3, the index closing values of both the RTY Index and NDX Index are below the respective downside threshold levels on one or more index business days during the term of the securities. Therefore, a trigger event has occurred, and investors are exposed to the downside performance of the worst performing underlying index at maturity. Because the final index value of one or both underlying indices are below the respective coupon barrier levels, investors do not receive the contingent quarterly coupon with respect to the final observation date. The payment at maturity is an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index.

If a trigger event occurs on any index business day during the term of the securities, investors will have full downside exposure to the worst performing underlying index at maturity. Under these circumstances, if the

final index value of either underlying index is less than its respective initial index value, investors will lose some or all of their investment in the securities.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

Risk Factors

The following is a list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement, index supplement and prospectus. We also urge you to consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities do not guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that they do not guarantee the repayment of any principal. If the securities have not been automatically redeemed prior to maturity and the index closing value of **either** underlying index is less than its respective downside threshold level on **any index business day** during the term of the securities, a trigger event will have occurred and you will be exposed to the decline in the closing value of the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis at maturity. If a trigger event occurs on any index business day during the term of the securities, investors will have full downside exposure to the worst performing underlying index at maturity. Under these circumstances, if the final index value of either underlying index is less than its respective initial index value, investors will lose some or all of their investment in the securities. In this case, you will receive for each security that you hold at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index, subject to a maximum payment at maturity of the stated principal amount. **In this case, the payment at maturity will be less than the stated principal amount and could be zero.**

§ **The securities do not provide for the regular payment of interest.** The terms of the securities differ from those of ordinary debt securities in that they do not provide for the regular payment of interest. Instead, the securities will pay a contingent quarterly coupon **but only if** the index closing value of **each** underlying index is **at or above** 70% of its respective initial index value, which we refer to as the coupon barrier level, on the related observation date. If, on the other hand, the index closing value of **either** underlying index is lower than the coupon barrier level for such underlying index on the relevant observation date for any interest period, we will pay no coupon on the applicable coupon payment date. Moreover, in such a case, a trigger event will necessarily have occurred, and you will have full downside exposure to the worst performing underlying index at maturity. It is possible that the index closing value of one or both underlying indices will remain below the respective coupon barrier level(s) for extended periods of time or even throughout the entire 1-year term of the securities so that you will receive few or no contingent quarterly coupons. If you do not earn sufficient contingent quarterly coupons over the term of the securities, the overall return on the securities may be less than the amount that would be paid on a conventional debt security of ours of comparable maturity.

§

You are exposed to the price risk of both underlying indices, with respect to both the contingent quarterly coupons, if any, and the payment at maturity, if any. Your return on the securities is not linked to a basket consisting of both underlying indices. Rather, it will be contingent upon the independent performance of each underlying index. Unlike an instrument with a return linked to a basket of underlying assets in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to both underlying indices. Poor performance by **either** underlying index over the term of the securities will negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying index. To receive **any** contingent quarterly coupons, **each** underlying index must close at or above its respective coupon barrier level on the applicable observation date. In addition, if the securities have not been automatically redeemed early and the index closing value of **either** underlying index is less than its respective downside threshold level on any index business day during the term of the securities, a trigger event will have occurred and you will be **fully exposed** to the decline in the worst performing underlying index over the term of the securities on a 1-to-1 basis, even if the other underlying index has appreciated or has not declined as much, and even if the worst performing underlying index is not the underlying index that originally caused the occurrence of the trigger event. Under this scenario, the value of any such payment will be less than the stated principal amount and could be zero. Accordingly, your investment is subject to the price risk of both underlying indices.

§ **Because the securities are linked to the performance of the worst performing underlying index, you are exposed to greater risks of receiving no contingent quarterly coupons and sustaining a significant loss on your investment than if the securities were linked to just one index.** The risk that you will not receive any contingent quarterly coupons, or that you will suffer a loss on your investment, is greater if you invest in the securities as opposed to substantially similar securities that are linked to the performance of just one underlying index. With two underlying indices, it is more likely that either underlying index will close below its coupon barrier level on any observation date, or below its downside threshold level on any index business day during the term of the securities, which would constitute a trigger event, than if the securities were linked to only one underlying index. Therefore, it is more likely that you will not receive any contingent quarterly coupons and that you will suffer a loss on your investment. In addition, because each underlying index must close above its initial index value on a quarterly determination date in order for the securities to be called prior to maturity, the securities are less likely to be called on any redemption determination date than if the securities were linked to just one underlying index.

§ **The contingent quarterly coupon, if any, is based on the value of each underlying index on only the related quarterly observation date at the end of the related interest period.** Whether the contingent quarterly coupon will be paid on any coupon payment date will be determined at the end of the relevant interest period based on the closing value of each underlying index on the relevant quarterly observation date. As a result, you will not know whether you will receive the contingent quarterly coupon on any coupon payment date until near the end of the relevant interest period. Moreover, because the contingent quarterly coupon is based solely on the value of each underlying index on quarterly observation dates, if the closing value of either underlying index on any observation date is below the coupon barrier level for such index, you will receive no coupon for the related interest period, even if the level of such underlying index was at or above its respective coupon barrier level on other days during that interest period and even if the closing value of the other underlying index is at or above the coupon barrier level for such index.

§ **Investors will not participate in any appreciation in either underlying index.** Regardless of whether or not a trigger event occurs, investors will not participate in any appreciation in either underlying index from the initial index value for such index, and the return on the securities will be limited to the contingent quarterly coupons, if any, that are paid with respect to each observation date on which the index closing value of each underlying index is greater than or equal to its respective coupon barrier level.

§ **The market price will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. We expect that generally the level of interest rates available in the market and the value of each underlying index on any index business day, including in relation to its respective coupon barrier level and downside threshold level, will affect the value of the securities more than any other factors. Other factors that may influence the value of the securities include:

o the volatility (frequency and magnitude of changes in value) of the underlying indices,

- whether a trigger event has occurred on any index business day during the term of the securities,
- whether the index closing value of either underlying index has been below its respective coupon barrier level on any observation date,
- geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the component stocks of the underlying indices or securities markets generally and which may affect the value of each underlying index,
- dividend rates on the securities underlying the underlying indices,
- the time remaining until the securities mature,
- interest and yield rates in the market,
- the availability of comparable instruments,
- the composition of the underlying indices and changes in the constituent stocks of such indices, and
- any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you sell your securities prior to maturity. In particular, if either underlying index has closed near or below its coupon barrier level and downside threshold level, the

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due December 6, 2019

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index and the NASDAQ-100 Index®

Principal at Risk Securities

7

7
43
45
7.
Material balance sheet movements
Acquisition of M-real's coated graphic paper business
See note 8 for details of how the acquisition is recorded in the balance sheet.
Interest-bearing borrowings and cash and cash equivalents
Included in long term borrowings is the EUR220 million (US$293 million) vendor loan note and the assumed interest bearing debt both used to partly finance the acquisition of M-real's coated graphic paper business. During the six months ended March 2009, the group also drew down EUR200 million (US$266 million) of its committed facilities and raised a further US$52 million in long term bank loans. All of this is currently held in cash.
8.
Acquisition
On 31 December 2008, Sappi acquired M-real's coated graphic paper business for EUR750 million (US$1.1 billion). The transaction includes M-real's coated graphic paper business (excluding M-real's South African business), including brands and company knowledge, as well as four coated graphic mills.
The acquisition was financed through a combination of equity, assumed debt, the cash proceeds from a rights offering and a vendor loan note.
The acquired business contributed revenues of US$280 million, a net operating loss of US$3 million and a net loss of US$7 million to the group for the period from acquisition to 29 March 2009.
Details of net assets acquired and goodwill are as follows:
EURO
US$
Million
Million
Purchase consideration:
Cash consideration
400
563
Shares issued *
32
45
Vendor loan note
220
308
Adjustments to working capital
6
8

Gain on forward exchange contract covering purchase consideration
(24)
(32)
Direct costs relating to the acquisition
21
30
Total purchase consideration
655
922
Provisional fair value of net identifiable assets acquired (see below)
628
884
Provisional goodwill **
27
38
** 11,159,702 Sappi shares were issued to M-real as partial payment of the acquisition price. The fair value of US$45 million*
(EUR32 million) was determined using Sappi's published market price at the date of exchange.
*** The initial accounting for the business combination has been determined provisionally as at the end of the second quarter ended*
March 2009 because the group is still in the process of finalising the fair values of the identifiable assets and liabilities of the acquired
business of M-real.

// second quarter results
17
The assets and liabilities arising from the acquisition are as follows:
EURO
EURO
US$
US$
Million
Million
Million
Million
Acquiree’s Provisional Acquiree’s Provisional
carrying
fair carrying
fair
amount value
amount value
Property, plant and equipment
640
494
901
695
Information technology related intangibles
2
2
3
3
Brand names
–
18
–
25
Inventories
118
116 166 163
Trade
receivables
200
200 281 281
Prepayments and other debit balances
15
21
21
30
Cash and cash equivalents
5
5
7
7
Trade payables
(86)

(86)
(121)
(121)
Pension liabilities
(37)
(40)
(52)
(56)
Borrowings (46)
(47)
(65)
(66)
Provisions (4)
(4)
(6)
(6)
Other payables and accruals
(66)
(64)
(93)
(89)
Net deferred tax (liabilities) assets
(10)
13
(14)
18
Net identifiable assets acquired
731
628
1,028
884
Outflow of cash to acquire business, net of cash acquired:
EURO
US$
Million
Million
Cash consideration
400
563
Direct costs relating to acquisition
21
30
Cash and cash equivalents in subsidiary acquired
(5)
(7)
Cash outflow on acquisition
416
586

18
Notes to the group results
Quarter
Quarter
Half-year
Half-year
ended
ended
ended
ended
Mar 2009
Mar 2008
%
Mar 2009
Mar 2008
%
US$ million
US$ million
change
US$ million
US$ million
change
9.
Regional information
Sales
Fine Paper – North America
301
423
(29)
664
807
(18)
Europe
737
697
6
1,298
1,335
(3)
Southern Africa
74
89
(17)
148
176
(16)
Total
1,112
1,209
(8)
2,110

2,318
(9)
Forest
Products –
Pulp and paper
operations
189
246
(23)
363
498
(27)
Forestry operations
12
18
(33)
27
34
(21)
Total
1,313
1,473
(11)
2,500
2,850
(12)
Operating profit
Fine Paper – North America
(24)
26
–
(31)
37
–
Europe
(21)
18
–
(8)
37
–
Southern Africa
2
3
(33)
4
4
–
Total
(43)
47

–
(35)
78
–
Forest Products
48
172
(72)
97
227
(57)
Corporate and other
1
2
(50)
1
7
100
Total
6
221
(97)
63
312
(80)
Net operating assets
Fine Paper – North America
1,070
1,116
(4)
1,070
1,116
(4)
Europe
2,376
2,085
14
2,376
2,085
14
Southern Africa
181
127
43
181
127
43
Total
3,627
3,328
9

3,627
3,328
9
Forest Products
1,531
1,695
(10)
1,531
1,695
(10)
Corporate and other
126
8
–
126
8
–
Total
5,284
5,031
5
5,284
5,031
5

// second quarter results
19
Supplemental Information
1.
EBITDA
Quarter
Quarter
Half-year
Half-year
ended
ended
ended
ended
Mar 2009
Mar 2008
Mar 2009
Mar 2008
US$ million
US$ million
US$ million
US$ million
Reconciliation of (loss) profit for the period to
EBITDA excluding special items
(1)
(Loss) profit for the period
(35)
155
(12)
197
Net finance costs
40
27
61
55
Taxation
1
39
14
60
Depreciation and amortisation
99
93
180
189
EBITDA
(1)
105
314
243
501
(*1)*

In connection with the U.S. Securities Exchange Commission ("SEC") rules relating to "Conditions for Use of Non-GAAP Financial Measures", we have reconciled EBITDA to net profit rather than operating profit. As a result our definition retains non-trading profit/loss and minority interest as part of EBITDA. EBITDA represents earnings before interest (net finance costs), taxation, depreciation and amortisation. Net finance costs includes: gross interest paid; interest received; interest capitalised; net foreign exchange gains; and net fair value adjustments on interest rate financial instruments. See the Group income statement for an explanation of the computation of net finance costs. We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA is a measure used by the group, together with measures of performance under IFRS to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA is a useful and commonly used measure of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because it facilitates operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortisation methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA differently, so making comparisons among companies on this basis should be done very carefully. EBITDA is not a measure of performance under IFRS and should not be considered in isolation or construed as a substitute for operating profit or net profit as an indicator of the company's operations in accordance with IFRS.

2.
Headline earnings per share *
Quarter
Quarter
Half-year
Half-year
ended
ended
ended
ended
Mar 2009
Mar 2008
Mar 2009
Mar 2008
US$ million
US$ million

US$ million
US$ million
Headline earnings per share (US cents) **
(6)
42
(2)
54
Weighted average number of shares in
issue (millions) **
515.8
362.3
449.4
361.9
Diluted headline earnings per
share (US cents) **
(6)
41
(2)
53
Weighted average number of shares on
fully diluted basis (millions) **
517.8
365.0
451.5
364.9
Calculation of headline earnings *
(Loss) profit for the period
(35)
155
(12)
197
Asset impairments
2
–
5
2
Profit on disposal of property, plant
and equipment
–
(3)
(1)
(4)
Tax effect of above items
–
(1)
–
–
Headline (loss) earnings
(33)
151
(8)

195

** Headline earnings disclosure is required by the JSE Limited.*

*** Prior period headline earnings per share has been restated for the bonus element of the rights offer in accordance with IAS 33.*

20
3.
exchange rates
Mar
Dec
Sept
June
Mar
2009
2008
2008
2008
2008
Exchange rates:
Period end rate: US$1 = ZAR
9.5849
9.7148
8.0751
7.9145
8.1432
Average rate for the Quarter: US$1 = ZAR
9.8979
9.8584
7.8150
7.8385
7.4593
Average rate for the YTD: US$1 = ZAR
9.9015
9.8584
7.4294
7.3236
7.1465
Period end rate: EUR 1 = US$
1.3301
1.4064
1.4615
1.5795
1.5802
Average rate for the Quarter: EUR 1 = US$
1.3300
1.3471
1.5228
1.5747
1.5006
Average rate for the YTD: EUR 1 = US$
1.3288
1.3471
1.5064
1.5071
1.4790

The financial results of entities with reporting currencies other than the US Dollar are translated into US Dollars as follows:

–

Assets and liabilities at rates of exchange ruling at period end; and

–

Income, expenditure and cash flow items at average exchange rates.

// second quarter results
21
US$
0
2
4
6
8
10
12
14
Apr 05
Jul 05
Oct 06
Jan 07
Apr 07
Jul 07
Oct 07
Jan 08
Apr 08
Jul 08
Jan 09
Apr 09
Oct 08
Oct 05
Jan 06
Apr 06
Jul 06
ZAR
Apr 05
Jul 05
Oct 06
Jan 07
Apr 07
Jul 07
Oct 07
Jan 08
Apr 08
Jul 08
Jan 09
Apr 09
Oct 08
Oct 05
Jan 06
Apr 06
Jul 06
0
10
20
30
40

50
60
70
80
90
Sappi ordinary shares* (JSE: SAP)
US Dollar share price conversion*
** Historic share prices revised to reflect rights offer*

22
Other interested parties can obtain printed copies of this report from:
South Africa:
United States:
Channel Islands:
Computershare Investor
ADR Depositary:
Capita Registrars
Services (Proprietary) Limited
The Bank of New York Mellon
(Jersey) Limited
70 Marshall Street
Investor Relations
12 Castle Street
Johannesburg 2001
PO Box 11258
St Helier,
PO Box 61051
Church Street Station
Jersey
Marshalltown 2107
New York, NY 10286-1258
JE2 3RT
Tel +27 (0)11 370 5000
Tel +1 610 382 7836
Tel +44 (0)208 639 3399
Designed by
Printed by
Ince
this report is available on the Sappi website
www.sappi.com

// second quarter results
23
sappi
Printed on Magno Matt Classic 250g/m
2
and 150g/m
2
www.sappi.com

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 13 May, 2009

SAPPI LIMITED,

Name:

M. R. Thompson

Title:

Chief Financial Officer

M. R. Thompson

By:

/s/