MORGAN STANLEY
Form 424B2
November 20, 2018

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	*Maximum Aggregate Offering Price*	*Amount of Registration Fee*
Capped Leveraged Buffered Basket-Linked Notes due 2020	$7,293,000	$883.91

PROSPECTUS Dated November 16, 2017
PRODUCT SUPPLEMENT Dated November 16, 2017
INDEX SUPPLEMENT Dated November 16, 2017

Pricing Supplement No. 1,208 to
Registration Statement Nos. 333-221595; 333-221595-01
Dated November 16, 2018
Rule 424(b)(2)

Morgan Stanley Finance LLC

STRUCTURED INVESTMENTS

Opportunities in International Equities

$7,293,000

Capped Leveraged Buffered Basket-Linked Notes due December 14, 2020

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The notes are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. **The notes will not bear interest.** The amount that you will be paid on your notes on the stated maturity date (December 14, 2020, subject to postponement) is based on the performance of a weighted basket comprised of the EURO STOXX 50® Index (36.00% weighting), the Tokyo Stock Price Index (27.00% weighting), the FTSE® 100 Index (20.00% weighting), the Swiss Market Index (9.00% weighting) and the S&P/ASX 200 Index (8.00% weighting), as measured from the trade date (November 16, 2018) to and including the determination date (December 10, 2020, subject to postponement). The initial basket level is 100, and the final basket level on the determination date will equal the *sum* of the products, as calculated separately for each basket underlier, of: (i) the final underlier level *multiplied* by (ii) the applicable multiplier. The multiplier equals, for each basket underlier, (i) the weighting of such basket underlier *multiplied* by 100 *divided* by (ii) the initial underlier level (3,180.74 with respect to the EURO STOXX 50® Index, 1,629.30 with respect to the Tokyo Stock Price Index, 7,013.88 with respect to the FTSE® 100 Index, 8,907.39 with respect to the Swiss Market Index and 5,730.551 with respect to the S&P/ASX 200 Index) for such basket underlier. If the final basket level on the determination date is greater than the initial basket level, the return on your notes will be positive, subject to the maximum settlement amount ($1,477.25 for each $1,000 face amount of your notes). If the level of the basket declines by up to 20% from the initial basket level, you will receive the face amount of your notes. **However, if the level of the basket declines by more than 20% from the initial basket level, the return on your notes will be negative. You could lose your entire investment in the notes.** The notes 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 notes 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.

To determine your payment at maturity, we will calculate the basket return, which is the percentage increase or decrease in the basket level from the initial basket level to the final basket level. On the stated maturity date, for each $1,000 face amount of your notes, you will receive an amount in cash equal to:

if the basket return is *positive* (the final basket level is *greater than* the initial basket level), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) 230% *times* (c) the basket return, subject to the maximum settlement amount;

if the basket return is *zero* or *negative* but *not below* -20% (the final basket level is *equal to* or *less than* the initial basket level but not by more than 20%), $1,000; or

if the basket return is *negative* and is *below* -20% (the final basket level is *less than* the initial basket level by more than 20%), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) 1.25 *times* (b) the *sum* of the basket return *plus* 20% *times* (c) $1,000.

Under these circumstances, you will lose some or all of your investment.

You should read the additional disclosure herein so that you may better understand the terms and risks of your investment.

The estimated value on the trade date is $992.10 per note. See "Estimated Value" on page 2.

	Price to public[(1)]	*Agent's commissions*	*Proceeds to us*[(2)]
Per note	*$1,000*	*$0*	*$1,000*
Total	*$7,293,000*	*$0*	*$7,293,000*

(1) Morgan Stanley & Co. LLC ("MS & Co.") will sell all of the notes that it purchases from us to an unaffiliated dealer at the original issue price of 100.00%, or $1,000 per face amount of notes. Such dealer will sell the notes to investors at the same price without a discount or commission. Investors that purchase and hold the notes in fee-based accounts may be charged fees based on the amount of assets held in those accounts, including the notes. For more information, see "Summary Information—Supplemental information regarding plan of distribution; conflicts of interest."

(2) See "Summary Information—Use of proceeds and hedging" beginning on page 6.

The notes involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 17.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these notes, 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 notes 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 "Key Terms" on page 3.

MORGAN STANLEY

About Your Prospectus

The notes are notes issued as part of MSFL's Series A Global Medium-Term Notes program. This prospectus includes this pricing supplement and the accompanying documents listed below. This pricing supplement constitutes a supplement to the documents listed below and should be read in conjunction with such documents:

- Prospectus dated November 16, 2017
- Product Supplement dated November 16, 2017
- Index Supplement dated November 16, 2017

The information in this pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

ESTIMATED VALUE

The Original Issue Price of each note is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the notes, which are borne by you, and, consequently, the estimated value of the notes on the Trade Date is less than $1,000. We estimate that the value of each note on the Trade Date is $992.10.

What goes into the estimated value on the Trade Date?

In valuing the notes on the Trade Date, we take into account that the notes comprise both a debt component and a performance-based component linked to the Basket Underliers. The estimated value of the notes is determined using our own pricing and valuation models, market inputs and assumptions relating to the Basket Underliers, instruments based on the Basket Underliers, 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 notes?

In determining the economic terms of the notes, including the Upside Participation Rate, the Cap Level, the Maximum Settlement Amount and the Buffer Amount, 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 notes would be more favorable to you.

What is the relationship between the estimated value on the Trade Date and the secondary market price of the notes?

The price at which MS & Co. purchases the notes in the secondary market, absent changes in market conditions, including those related to the Basket Underliers, may vary from, and be lower than, the estimated value on the Trade 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 notes are not fully deducted upon issuance, for a period of up to 3 months following the issue date, to the extent that MS & Co. may buy or sell the notes in the secondary market, absent changes in market conditions, including those related to the Basket Underliers, 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 notes, and, if it once chooses to make a market, may cease doing so at any time.

SUMMARY INFORMATION

The Capped Leveraged Buffered Basket-Linked Notes, which we refer to as the notes, are unsecured obligations of MSFL and are fully and unconditionally guaranteed by Morgan Stanley. The notes will pay no interest, do not guarantee any return of principal at maturity and have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The notes are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

Capitalized terms used but not defined herein have the meanings assigned to them in the accompanying product supplement and prospectus. All references to "Buffer Rate," "Multiplier," "Cash Settlement Amount," "Closing Level," "Determination Date," "Face Amount," "Basket Closing Level," "Final Basket Level," "Initial Basket Level," "Maximum Settlement Amount," "Original Issue Price," "Stated Maturity Date," "Trade Date," "Basket," "Basket Underlier," "Basket and "Upside Participation Rate" herein shall be deemed to refer to "downside factor," "multiplier," "payment at maturity," "basket component closing value," "valuation date," "stated principal amount," "basket closing value," "final basket value," "initial basket value," "maximum payment at maturity," "issue price," "maturity date," "pricing date," "basket," "basket in "basket return" and "leverage factor," respectively, as used in the accompanying product supplement.

References to "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

If the terms described herein are inconsistent with those described in the accompanying product supplement or prospectus, the terms described herein shall control.

Key Terms

Issuer: Morgan Stanley Finance LLC

Guarantor: Morgan Stanley

Basket:

Basket Underlier	Bloomberg Ticker Symbol	Basket Underlier Publisher	Basket Underlier Weighting	Initial Underlier Level	Multiplier
	SX5E		36.00%	3,180.74	0.011318121

EURO STOXX 50® Index		STOXX Limited ("STOXX")			
Tokyo Stock Price Index	TPX	Tokyo Stock Exchange, Inc. ("TSE")	27.00%	1,629.30	0.016571534
FTSE® 100 Index	UKX	FTSE Russell ("FTSE")	20.00%	7,013.88	0.002851489
Swiss Market Index	SMI	SIX Group Ltd. ("SIX Group")	9.00%	8,907.39	0.001010397
S&P/ASX 200 Index	AS51	S&P Dow Jones Indices LLC ("S&P")	8.00%	5,730.551	0.001396026

For more information on the Basket and the Basket Underliers, see "The Basket and the Basket Underliers" on page 23.

Notes: The accompanying product supplement refers to the notes as the "PLUS."

Specified currency: U.S. dollars ("$")

Face Amount: Each note will have a Face Amount of $1,000; $ 7,293,000 in the aggregate for all the notes; the aggregate Face Amount of notes may be increased if the Issuer, at its sole option, decides to sell an additional amount of the notes on a date subsequent to the date hereof.

Denominations: $1,000 and integral multiples thereof

Purchase at amount other than Face Amount: The amount we will pay you on the Stated Maturity Date for your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or discount) to the Face Amount and hold them to the Stated Maturity Date, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at the Face Amount. Also, the Buffer Level would not offer the same measure of protection to your investment as would be the case if you had purchased the notes at the Face Amount. Additionally, the Cap Level would be triggered at a lower (or higher) percentage return than indicated below, relative to your initial investment. See "Risk Factors—If You Purchase Your Notes At A Premium To The Face Amount, The Return On Your Investment Will Be Lower Than The Return On Notes Purchased At The Face Amount, And The Impact Of Certain Key Terms Of The Notes Will Be Negatively Affected" beginning on page 17 of this document.

Cash Settlement Amount (on the Stated Maturity Date): For each $1,000 Face Amount of notes, we will pay you on the Stated Maturity Date an amount in cash equal to:

- if the Final Basket Level is *greater than* or *equal to* the Cap Level, the Maximum Settlement Amount;

- if the Final Basket Level is *greater than* the Initial Basket Level but *less than* the Cap Level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the Upside Participation Rate *times* (c) the Basket Return;

- if the Final Basket Level is *equal to* or *less than* the Initial Basket Level but *greater than* or *equal to* the Buffer Level, $1,000; or

- if the Final Basket Level is *less than* the Buffer Level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the Buffer Rate *times* (c) the *sum* of the Basket Return and the Buffer Amount.

You will lose some or all of your investment at maturity if the Final Basket Level is less than the Buffer Level. Any payment of the Cash Settlement Amount is subject to the credit of the Issuer.

Initial Basket Level: 100, which is equal to the *sum* of the products, as calculated separately for each Basket Underlier, of (i) the Initial Underlier Level and (ii) the applicable Multiplier

Initial Underlier Level: With respect to each Basket Underlier, the level set forth for such Basket Underlier under "Basket—Initial Underlier Level" above.

Final Underlier Level: With respect to each Basket Underlier, the Closing Level of such Basket Underlier on the Determination Date, except in the limited circumstances described under "Description of PLUS—Postponement of Valuation Date(s)" on page S-44 of the accompanying product supplement, and subject to adjustment as provided under "Description of PLUS—Discontinuance of Any Underlying Index or Basket Index; Alteration of Method of Calculation" on page S-47 of the accompanying product supplement.

Basket Closing Level: On the Determination Date, the *sum* of the following, calculated separately for each Basket Underlier: (i) the Final Underlier Level *multiplied* by (ii) the applicable Multiplier

Final Basket Level: The Basket Closing Level on the Determination Date

Basket Return: The *quotient* of (i) the Final Basket Level *minus* the Initial Basket Level *divided* by (ii) the Initial Basket Level, expressed as a percentage

Multiplier: With respect to each Basket Underlier, the multiplier set forth for such Basket Underlier under "Basket—Multiplier" above.

Upside Participation Rate: 230%

Cap Level: 120.75, which is 120.75% of the Initial Basket Level

Maximum Settlement Amount: $1,477.25 for each $1,000 Face Amount of notes

Buffer Level: 80.00, which is equal to 80.00% of the Initial Basket Level

Buffer Amount: 20%

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Buffer Rate: The *quotient* of the Initial Basket Level *divided* by the Buffer Level, which equals 125%

Trade Date: November 16, 2018

Original Issue Date (Settlement Date): November 26, 2018 (5 Business Days after the Trade Date)

Determination Date: December 10, 2020, subject to postponement as described in the accompanying product supplement on page S-44 under "Description of PLUS—Postponement of Valuation Date(s)."

Stated Maturity Date: December 14, 2020 (2 Business Days after the Determination Date), subject to postponement as described below.

Postponement of Stated Maturity Date: If the scheduled Determination Date is not a Trading Day for a Basket Underlier or if a market disruption event occurs with respect to a Basket Underlier on that day so that the date on which the Final Underlier Level for all Basket Underliers has been determined falls less than two Business Days prior to the scheduled Stated Maturity Date, the Stated Maturity Date of the notes will be postponed to the second Business Day following such date.

No interest or dividends: The notes will not pay interest or dividends.

No listing: The notes will not be listed on any securities exchange.

No redemption: The notes will not be subject to any redemption right.

Closing Level: As described under "Description of PLUS—Some Definitions—index closing value" on page S-37 of the accompanying product supplement

Business Day: As described under "Description of PLUS—Some Definitions—business day" on page S-36 of the accompanying product supplement

Trading Day: With respect to each of the EURO STOXX 50® Index, the Tokyo Stock Price Index and the FTSE® 100 Index, as described under "Description of PLUS—Some Definitions—index business day" on page S-37 of the accompanying product supplement. The product supplement refers to a Trading Day as an "index business day."

With respect to each of the Swiss Market Index and the S&P/ASX 200 Index, notwithstanding the definition of "index business day" on page S-37 of the accompanying product supplement, Trading Day means a day, as determined by the calculation agent, on which (i) the respective principal securities markets for all of the stocks composing such Basket Underlier are open for trading, (ii) the Basket Underlier Publisher for such Basket Underlier is open for business and (iii) such Basket Underlier is calculated and published by its Basket Underlier Publisher. Although the Basket Underlier Publisher for the Swiss Market Index or the S&P/ASX 200 Index may publish a Closing Level with respect to such Basket Underlier on a day on which one or more of the principal securities markets for the stocks composing such Basket Underlier are closed, that day would not be a Trading Day for such Basket Underlier.

Market disruption event: The following replaces in its entirety the section entitled "Description of PLUS—Some Definitions—market disruption event" on page S-37 of the accompanying product supplement:

"Market disruption event" means, with respect to any Basket Underlier:

(i) the occurrence or existence of:

(a) a suspension, absence or material limitation of trading of securities then constituting 20 percent or more, by weight, of such Basket Underlier (or successor index) on the relevant exchanges for such securities for more than two hours of trading or during the one-half hour period preceding the close of the principal trading session on such relevant exchange, or

(b) a breakdown or failure in the price and trade reporting systems of any relevant exchange as a result of which the reported trading prices for securities then constituting 20 percent or more, by weight, of such Basket Underlier (or successor index), or futures or options contracts, if available, relating to such Basket Underlier (or successor index) or the securities then constituting 20 percent or more, by weight, of such Basket Underlier

during the last one-half hour preceding the close of the principal trading session on such relevant exchange are materially inaccurate, or

(c) the suspension, material limitation or absence of trading on any major U.S. securities market for trading in futures or options contracts or exchange-traded funds related to such Basket Underlier (or successor index), or in futures or options contracts, if available, relating to securities then constituting 20 percent or more, by weight, of such Basket Underlier (or successor index) for more than two hours of trading or during the one-half hour period preceding the close of the principal trading session on such market,

in each case as determined by the calculation agent in its sole discretion; and

(ii) a determination by the calculation agent in its sole discretion that any event described in clause (i) above materially interfered with our ability or the ability of any of our affiliates to unwind or adjust all or a material portion of the hedge position with respect to the notes.

For the purpose of determining whether a market disruption event exists at any time, if trading in a security included in a Basket Underlier is suspended, absent or materially limited at that time, then the relevant percentage contribution of that security to the value of such Basket Underlier shall be based on a comparison of (x) the portion of the value of such Basket Underlier attributable to that security relative to (y) the overall value of such Basket Underlier, in each case immediately before that suspension or limitation.

For the purpose of determining whether a market disruption event has occurred: (1) a limitation on the hours or number of days of trading will not constitute a market disruption event if it results from an announced change in the regular business hours of the relevant exchange or market, (2) a decision to permanently discontinue trading in the relevant futures or options contract or exchange-traded fund will not constitute a market disruption event, (3) a suspension of trading in futures or options contracts or exchange-traded funds on a Basket Underlier, or futures or options contracts, if available, relating to securities then constituting 20 percent or more, by weight, of a Basket Underlier, by the primary securities market trading in such contracts or funds by reason of (a) a price change exceeding limits set by such securities exchange or market, (b) an imbalance of orders relating to such contracts or funds, or (c) a disparity in bid and ask quotes relating to such contracts or funds will constitute a suspension, absence or material limitation of trading in futures or options contracts or exchange-traded funds related to such Basket Underlier and (4) a “suspension, absence or material limitation of trading” on any relevant exchange or on the primary market on which futures or options contracts or exchange-traded funds related to a Basket Underlier are traded will not include any time when such securities market is itself closed for trading under ordinary circumstances.

Use of proceeds and hedging: The proceeds from the sale of the notes will be used by us for general corporate purposes. We will receive, in aggregate, $1,000 per note issued. The costs of the notes borne by you and described on page 2 comprise the cost of issuing, structuring and hedging the notes.

On or prior to the Trade Date, we hedged our anticipated exposure in connection with the notes, by entering into hedging transactions with our affiliates and/or third party dealers. We expect our hedging counterparties to have taken positions in stocks of the Basket Underliers and in futures and options contracts on the Basket Underliers, and any component stocks of the Basket Underliers listed on major securities markets. Such purchase activity could have increased the levels of the Basket Underliers on the Trade Date, and therefore could have increased the levels at or above which the Basket Underliers must close on the Determination Date so that investors do not suffer a loss on their initial investment in the notes. In addition, through our affiliates, we are likely to modify our hedge position throughout the term of the notes, including on the Determination Date, by purchasing and selling the stocks constituting the Basket Underliers, futures or options contracts on the Basket Underliers or their component stocks listed on major securities markets or positions in any other available securities or instruments that we may wish to use in connection with such hedging activities. As a result, these entities may be unwinding or adjusting hedge positions during the term of the notes, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Determination Date approaches. We cannot give any assurance that our hedging activities will not affect the levels of the Basket Underliers, and, therefore, adversely affect the value of the notes or the payment you will receive at maturity, if any. For further

information on our use of proceeds and hedging, see "Use of Proceeds and Hedging" in the accompanying product supplement.

Benefit Plan Investor Considerations: Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we and certain of our affiliates, including MS & Co., may each be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (such accounts and plans, together with other plans, accounts and arrangements subject to Section 4975 of the Code, also "Plans"). ERISA Section 406 and Code Section 4975 generally prohibit transactions between Plans and parties in interest or disqualified persons. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the notes are acquired by or with the assets of a Plan with respect to which MS & Co. or any of its affiliates is a service provider or other party in interest, unless the notes are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the notes. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the Issuer of the notes nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than "adequate consideration" in connection with the transaction (the so-called "service provider" exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the notes.

Because we may be considered a party in interest with respect to many Plans, the notes may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser,

including any fiduciary purchasing on behalf of a Plan, transferee or holder of the notes will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the notes that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such notes on behalf of or with "plan assets" of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law") or (b) its purchase, holding and disposition of these notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exemptive relief.

The notes are contractual financial instruments. The financial exposure provided by the notes is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the notes. The notes have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the notes.

Each purchaser or holder of any notes acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the notes, (B) the purchaser or holder's investment in the notes, or (C) the exercise of or failure to exercise any rights we have under or with respect to the notes;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the notes and (B) all hedging transactions in connection with our obligations under the notes;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the notes has exclusive responsibility for ensuring that its purchase, holding and disposition of the notes do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any notes to any Plan or plan subject to Similar Law is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan. In this regard, neither this discussion nor anything provided in this pricing supplement is or is intended to be investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purchasers of these notes should consult and rely on their own counsel and advisers as to whether an investment in these notes is suitable.

However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as employee benefit plans that permit participants to direct the investment of their accounts, will not be permitted to purchase or hold the notes if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or Morgan Stanley

Wealth Management or a family member and the employee receives any compensation (such as, for example, an addition to bonus) based on the purchase of the notes by the account, plan or annuity.

Additional considerations: Client accounts over which Morgan Stanley, Morgan Stanley Wealth Management or any of their respective subsidiaries have investment discretion are not permitted to purchase the notes, either directly or indirectly.

Supplemental information regarding plan of distribution; conflicts of interest: MS & Co., acting as our agent, will sell all of the notes that it purchases from us to an unaffiliated dealer at the original issue price of 100.00%, or $1,000 per Face Amount of notes. Such dealer will sell the notes to investors at the same price without a discount or commission. MS & Co., the agent for this offering, is our affiliate. Because MS & Co. is both our affiliate and a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), the underwriting arrangements for this offering must comply with the requirements of FINRA Rule 5121 regarding a FINRA member firm's distribution of the securities of an affiliate and related conflicts of interest. In accordance with FINRA Rule 5121, MS & Co. may not make sales in offerings of the notes to any of its discretionary accounts without the prior written approval of the customer.

MS & Co. is an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley, and it and other affiliates of ours expect to make a profit by selling, structuring and, when applicable, hedging the notes.

MS & Co. will conduct this offering in compliance with the requirements of FINRA Rule 5121 of the Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm's distribution of the notes of an affiliate and related conflicts of interest. MS & Co. or any of our other affiliates may not make sales in this offering to any discretionary account. See "Plan of Distribution (Conflicts of Interest)" and "Use of Proceeds and Hedging" in the accompanying product supplement.

Settlement: We expect to deliver the notes against payment for the notes on the Original Issue Date, which will be the fifth scheduled Business Day following the Trade Date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two Business Days, unless the parties to a trade expressly agree otherwise. Accordingly, if the Original Issue Date is more than two Business Days after the Trade Date, purchasers who wish to transact in the notes more than two Business Days prior to the Original Issue Date will be required to specify alternative settlement arrangements to prevent a failed settlement.

Trustee: The Bank of New York Mellon

Calculation Agent: MS & Co.

CUSIP no.: 61768DRE7

ISIN: US61768DRE75

HYPOTHETICAL EXAMPLES

The following table and chart are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that the various hypothetical closing levels of the Basket and the Basket Underliers, as applicable, on the Determination Date could have on the Cash Settlement Amount.

The examples below are based on a range of Final Basket Levels and Final Underlier Levels that are entirely hypothetical; no one can predict what the level of the Basket will be on any day during the term of the notes, and no one can predict what the Final Basket Level will be on the Determination Date. The Basket Underliers have at times experienced periods of high volatility — meaning that the levels of the Basket Underliers have changed considerably in relatively short periods — and their performances cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the notes assuming that they are purchased on the Original Issue Date at the Face Amount and held to the Stated Maturity Date. The value of the notes at any time after the Trade Date will vary based on many economic and market factors, including interest rates, the volatility of the Basket Underliers, our creditworthiness and changes in market conditions, and cannot be predicted with accuracy. Any sale prior to the Stated Maturity Date could result in a substantial loss to you.

Key Terms and Assumptions	
Face Amount:	$1,000
Upside Participation Rate:	230.00%
Cap Level:	120.750% of the Initial Basket Level
Maximum Settlement Amount:	$1,477.25 per $1,000 Face Amount of notes (147.725% of the Face Amount)
Minimum Cash Settlement Amount:	None
Buffer Level:	80.00% of the Initial Basket Level
Buffer Rate:	125%
Buffer Amount:	20%

· *Neither a market disruption event nor a non-Trading Day occurs on the Determination Date.*

· *No discontinuation of the Underlier or alteration of the method by which the Underlier is calculated.*

· *Notes purchased on the Original Issue Date at the Face Amount and held to the Stated Maturity Date.*

The actual performance of the Basket and the Basket Underliers over the term of the notes, as well as the Cash Settlement Amount, if any, may bear little relation to the hypothetical examples shown below or to the historical levels of the Basket and the Basket Underliers shown elsewhere in this document. For information about the historical levels of each Basket Underlier during recent periods, see “The Basket and The Basket Underliers” below.

The levels in the left column of the table below represent hypothetical Final Basket Levels and are expressed as percentages of the Initial Basket Level. The amounts in the right column represent the hypothetical Cash Settlement Amount, based on the corresponding hypothetical Final Basket Level (expressed as a percentage of the Initial Basket Level), and are expressed as percentages of the Face Amount of notes (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical Cash Settlement Amount of 100% means that the value of the cash payment that we would deliver for each $1,000 Face Amount of notes on the Stated Maturity Date would equal 100% of the Face Amount of notes, based on the corresponding hypothetical Final Basket Level (expressed as a percentage of the Initial Basket Level) and the assumptions noted above. The numbers appearing in the table and chart below may have been rounded for ease of analysis.

Hypothetical Final Basket Level (as Percentage of Initial Basket Level)	**Hypothetical Cash Settlement Amount (as Percentage of Face Amount)**
200.000%	147.725%
175.000%	147.725%
150.000%	147.725%
130.000%	147.725%
125.000%	147.725%
120.750%	**147.725%**
120.000%	146.000%
115.000%	134.500%
110.000%	123.000%
105.000%	111.500%
100.000%	**100.000%**
95.000%	100.000%
90.000%	100.000%
80.000%	**100.000%**
75.000%	93.750%
50.000%	62.500%
25.000%	31.250%
0.000%	**0.000%**

If, for example, the Final Basket Level were determined to be 25.000% of the Initial Basket Level, the Cash Settlement Amount would be 31.250% of the Face Amount of notes, as shown in the table above. As a result, if you purchased your notes on the Original Issue Date at the Face Amount and held them to the Stated Maturity Date, you would lose 68.750% of your investment. If you purchased your notes at a premium to the Face Amount, you would lose a correspondingly higher percentage of your investment.

If the Final Basket Level were determined to be 200.000% of the Initial Basket Level, the Cash Settlement Amount would be capped at the Maximum Settlement Amount (expressed as a percentage of the Face Amount), or 147.725% of each $1,000 Face Amount of notes, as shown in the table above. As a result, if you purchased the notes on the Original Issue Date at the Face Amount and held them to the Stated Maturity Date, you would not benefit from any increase in the Final Basket Level above the Cap Level of 120.750% of the Initial Basket Level.

Payoff Diagram

The following chart shows a graphical illustration of the hypothetical Cash Settlement Amount (expressed as a percentage of the Face Amount of notes), if the Final Basket Level (expressed as a percentage of the Initial Basket Level) were any of the hypothetical levels shown on the horizontal axis. The chart shows that any hypothetical Final Basket Level (expressed as a percentage of the Initial Basket Level) of less than the Buffer Level of 80.00% (the section left of the 80.00% marker on the horizontal axis) would result in a hypothetical Cash Settlement Amount of less than 100% of the Face Amount of notes (the section below the 100% marker on the vertical axis), and, accordingly, in a loss of principal to the holder of the notes. The chart also shows that any hypothetical Final Basket Level (expressed as a percentage of the Initial Basket Level) of greater than 120.750% (the section right of the Cap Level of 120.750% marker on the horizontal axis) would result in a capped return on your investment and a Cash Settlement Amount equal to the Maximum Settlement Amount.

Hypothetical Payoff Diagram

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Scenario Analysis and Examples of Cash Settlement Amount at Maturity

Below are five examples of how the Cash Settlement Amount you receive at maturity, if any, will be calculated based on hypothetical Initial Underlier Levels, Final Underlier Levels and Multipliers for each of the Basket Underliers. As shown below, any increase in the level of one or more of the Basket Underliers may be moderated, or wholly offset, by lesser increases or declines in the level of one or more of the other Basket Underliers. The following examples are based on hypothetical data and are provided for illustrative purposes only. The numbers appearing in the examples below may have been rounded for ease of analysis.

The hypothetical Initial Underlier Level for each Basket Underlier of 100.00 has been chosen for illustrative purposes only and does not represent the actual Initial Underlier Level for that Basket Underlier. For the actual Initial Underlier Levels of the Basket Underliers, please see the information set forth under "Key Terms—Basket" above.

Example 1: All of the Basket Underliers appreciate over the term of the notes. The Final Basket Level is greater than the Cap Level. The Cash Settlement Amount equals the Maximum Settlement Amount.

	Column A	**Column B**	**Column C**	**Column D**	**Column E**
Basket Underlier & Basket Underlier Weighting	**Hypothetical Initial Underlier Level**	**Hypothetical Final Underlier Level**	**Appreciation / Depreciation**	**Hypothetical Multiplier**	**Column B x Column D**
EURO STOXX 50® Index (36.00% weighting)	100.00	170.00	+ 70.00%	0.36000	61.20
Tokyo Stock Price Index (27.00% weighting)	100.00	170.00	+ 70.00%	0.27000	45.90
FTSE® 100 Index (20.00% weighting)	100.00	170.00	+ 70.00%	0.20000	34.00
Swiss Market Index (9.00% weighting)	100.00	170.00	+ 70.00%	0.09000	15.30
S&P/ASX 200 Index (8.00% weighting)	100.00	170.00	+ 70.00%	0.08000	13.60
			Final Basket Level:		170.00
			Basket Return:		70.00%

In this example, all of the hypothetical Final Underlier Levels are greater than the applicable hypothetical Initial Underlier Levels, which results in the hypothetical Final Basket Level being greater than the Initial Basket Level of 100.00. Because the hypothetical Final Basket Level of 170.00 is greater than the Cap Level of 120.750, the hypothetical Cash Settlement Amount that we would deliver on your notes at maturity would be capped at the Maximum Settlement Amount of $1,477.25 for each $1,000 Face Amount of notes (147.725% of each $1,000 Face

Amount of notes).

Example 2: Four Basket Underliers appreciate, while the other Basket Underlier remains unchanged, over the term of the notes. The Final Basket Level is greater than the Initial Basket Level but less than the Cap Level.

	Column A	Column B	Column C	Column D	Column E
Basket Underlier & Basket Underlier Weighting	**Hypothetical Initial Underlier Level**	**Hypothetical Final Underlier Level**	**Appreciation / Depreciation**	**Hypothetical Multiplier**	**Column B x Column D**
EURO STOXX 50® Index (36.00% weighting)	100.00	105.00	+ 5.00%	0.36000	37.80

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Tokyo Stock Price Index (27.00% weighting)	100.00	100.00	0.00%	0.27000	27.00
FTSE® 100 Index (20.00% weighting)	100.00	110.00	+10.00%	0.20000	22.00
Swiss Market Index (9.00% weighting)	100.00	102.00	+ 2.00%	0.09000	9.18
S&P/ASX 200 Index (8.00% weighting)	100.00	107.75	+ 7.75%	0.08000	8.62
			Final Basket Level:		104.60
			Basket Return:		4.60%

In this example, all of the hypothetical Final Underlier Levels are greater than or equal to the applicable hypothetical Initial Underlier Levels, which results in the hypothetical Final Basket Level being greater than the Initial Basket Level of 100.00. Because the hypothetical Final Basket Level is 104.60, the hypothetical Cash Settlement Amount for each $1,000 Face Amount of notes will equal:

Cash Settlement Amount = $1,000 + ($1,000 × 230.00% × 4.60%) = $1,105.80

Example 3. Two Basket Underliers appreciate, while the other three Basket Underliers depreciate, over the term of the notes. The Final Basket Level is less than the Initial Basket Level, but greater than the Buffer Level. The Cash Settlement Amount equals the $1,000 Face Amount.

	Column A	**Column B**	**Column C**	**Column D**	**Column E**
Basket Underlier & Basket Underlier Weighting	**Hypothetical Initial Underlier Level**	**Hypothetical Final Underlier Level**	**Appreciation / Depreciation**	**Hypothetical Multiplier**	**Column B x Column D**
EURO STOXX 50® Index (36.00% weighting)	100.00	101.00	+ 1.00%	0.36000	36.36
Tokyo Stock Price Index (27.00% weighting)	100.00	90.00	- 10.00%	0.27000	24.30
FTSE® 100 Index (20.00% weighting)	100.00	85.00	- 15.00%	0.20000	17.00
Swiss Market Index (9.00% weighting)	100.00	95.00	- 5.00%	0.09000	8.55
S&P/ASX 200 Index (8.00% weighting)	100.00	110.00	+ 10.00%	0.08000	8.80
			Final Basket Level:		95.01
			Basket Return:		-4.99%

In this example, even though the hypothetical Final Underlier Levels for the EURO STOXX 50® Index and the S&P/ASX 200 Index are greater than their hypothetical Initial Underlier Levels, the negative returns of the Tokyo Stock Price Index, the FTSE® 100 Index and the Swiss Market Index more than offset the positive returns on the

EURO STOXX 50® Index and the S&P/ASX 200 Index, which results in the hypothetical Final Basket Level being less than the Initial Basket Level of 100.00. However, because the hypothetical Final Basket Level of 95.01 is greater than the Buffer Level of 80.00, the hypothetical Cash Settlement Amount for each $1,000 Face Amount of notes will equal the Face Amount of $1,000.

Example 4: One Basket Underlier depreciates, while the other Basket Underliers remain unchanged or appreciate, over the term of the notes. The Final Basket Level is less than the Buffer Level, and therefore the Cash Settlement Amount is less than the $1,000 Face Amount.

	Column A	Column B	Column C	Column D	Column E
Basket Underlier & Basket Underlier Weighting	**Hypothetical Initial Underlier Level**	**Hypothetical Final Underlier Level**	**Appreciation / Depreciation**	**Hypothetical Multiplier**	**Column B × Column D**
EURO STOXX 50® Index (36.00% weighting)	100.00	30.00	- 70.00%	0.36000	10.80
Tokyo Stock Price Index (27.00% weighting)	100.00	100.00	0.00%	0.27000	27.00
FTSE® 100 Index (20.00% weighting)	100.00	100.00	0.00%	0.20000	20.00
Swiss Market Index (9.00% weighting)	100.00	115.00	+ 15.00%	0.09000	10.35
S&P/ASX 200 Index (8.00% weighting)	100.00	115.00	+ 15.00%	0.08000	9.20
			Final Basket Level:		77.35
			Basket Return:		-22.65%

In this example, the hypothetical Final Underlier Level of the EURO STOXX 50® Index is less than its hypothetical Initial Underlier Level, while the hypothetical Final Underlier Levels of the Tokyo Stock Price Index and the FTSE® 100 Index are equal to their applicable hypothetical Initial Underlier Levels and the hypothetical Final Underlier Levels of the Swiss Market Index and the S&P/ASX 200 Index are greater than their applicable hypothetical Initial Underlier Levels.

Because the Basket Underliers are unequally weighted, increases in the lower-weighted Basket Underliers may be more than offset by decreases in the higher-weighted Basket Underliers. In this example, the large decline in the level of the EURO STOXX 50® Index results in the hypothetical Final Basket Level being less than the Buffer Level of 80.00% of the Initial Basket Level, even though the levels of the Tokyo Stock Price Index and the FTSE® 100 Index remained unchanged and the levels of the Swiss Market Index and the S&P/ASX 200 Index increased.

Because the hypothetical Final Basket Level of 77.35 is less than the Buffer Level of 80.00% of the Initial Basket Level, the hypothetical Cash Settlement Amount for each $1,000 Face Amount of notes will equal:

Cash Settlement Amount = $1,000 + ($1,000 × 125% × (-22.65% + 20%)) = $966.875

Example 5. All of the Basket Underliers depreciate over the term of the notes. The Final Basket Level is less than the Buffer Level, and therefore the Cash Settlement Amount is less than the $1,000 Face Amount.

	Column A	Column B	Column C	Column D	Column E
Basket Underlier & Basket Underlier Weighting	**Hypothetical Initial Underlier Level**	**Hypothetical Final Underlier Level**	**Appreciation / Depreciation**	**Hypothetical Multiplier**	**Column B x Column D**
EURO STOXX 50® Index (36.00% weighting)	100.00	40.00	- 60.00%	0.36000	14.40
Tokyo Stock Price Index (27.00% weighting)	100.00	65.00	- 35.00%	0.27000	17.55
FTSE® 100 Index (20.00% weighting)	100.00	75.00	- 25.00%	0.20000	15.00
Swiss Market Index (9.00% weighting)	100.00	77.00	- 23.00%	0.09000	6.93
S&P/ASX 200 Index	100.00	65.00	- 35.00%	0.08000	5.20

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(8.00% weighting)

Final Basket Level:	59.08
Basket Return:	-40.92%

In this example, all of the hypothetical Final Underlier Levels are less than the applicable hypothetical Initial Underlier Levels, which results in the hypothetical Final Basket Level being significantly less than the Initial Basket Level of 100.00. Because the hypothetical Final Basket Level of 59.08 is less than the Buffer Level of 80.00% of the Initial Basket Level, the hypothetical Cash Settlement Amount for each $1,000 Face Amount of notes will equal:

Cash Settlement Amount = $1,000 + ($1,000 × 125% × (-40.92% + 20%)) = $738.50

RISK FACTORS

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

The Notes Do Not Pay Interest Or Guarantee The Return Of Any Of Your Principal

The terms of the notes differ from those of ordinary debt securities in that the notes do not pay interest and do not guarantee any return of principal at maturity. If the Final Basket Level has declined by an amount greater than the Buffer Amount of 20.00% from the Initial Basket Level, you will receive for each note that you hold a Cash Settlement Amount that is less than the Face Amount of each note by an amount proportionate to the decline in the level of the Basket below 80.00% of the Initial Basket Level times the Buffer Rate of 125%. As there is no minimum Cash Settlement Amount on the notes, you could lose your entire initial investment.

Also, the market price of your notes prior to the Stated Maturity Date may be significantly lower than the purchase price you pay for your notes. Consequently, if you sell your notes before the Stated Maturity Date, you may receive significantly less than the amount of your investment in the notes.

The Appreciation Potential Of The Notes Is Limited By The Maximum Settlement Amount

The appreciation potential of the notes is limited by the Maximum Settlement Amount of $1,477.25 per note, or 147.725% of the Face Amount. Although the Upside Participation Rate provides 230% exposure to any increase in the Final Basket Level over the Initial Basket Level, because the Cash Settlement Amount will be limited to 147.725% of the Face Amount for the notes, any increase in the Final Basket Level beyond 120.75% of the Initial Basket Level will not further increase the return on the notes.

If You Purchase Your Notes At A Premium To The Face Amount, The Return On Your Investment Will Be Lower Than The Return On Notes Purchased At The Face Amount, And The Impact Of Certain Key Terms Of The Notes Will Be Negatively Affected

The Cash Settlement Amount will not be adjusted based on the issue price you pay for the notes. If you purchase notes at a price that differs from the Face Amount of notes, then the return on your investment in such notes held to the Stated Maturity Date will differ from, and may be substantially less than, the return on notes purchased at the Face Amount. If you purchase your notes at a premium to the Face Amount and hold them to the Stated Maturity Date, the

return on your investment in the notes will be lower than it would have been had you purchased the notes at the Face Amount or at a discount to the Face Amount. In addition, the impact of the Buffer Level and the Cap Level on the return on your investment will depend upon the price you pay for your notes relative to the Face Amount. For example, if you purchase your notes at a premium to the Face Amount, the Cap Level will reduce your potential percentage return on the notes to a greater extent than would have been the case for notes purchased at the Face Amount or at a discount to the Face Amount. Similarly, the Buffer Level will provide less protection of the investment amount for notes purchased at a premium to the Face Amount than for notes purchased at the Face Amount or a discount to the Face Amount.

The Basket Underliers Reflect The Price Return Of The Stocks Composing Each Basket Underlier, Not A Total Return

The return on the notes is based on the performance of the Basket Underliers, which reflect the changes in the market prices of the stocks composing each Basket Underlier. The Basket Underliers are not, however, "total return" indices, which, in addition to reflecting the price returns of their respective component stocks, would also reflect all dividends and other distributions paid on such component stocks. The return on the notes will not include such a total return feature.

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 notes in the secondary market and the price at which MS & Co. may be willing to purchase or sell the notes in the

secondary market, including: the level of the Basket and each Basket Underlier at any time, volatility (frequency and magnitude of changes in value) of each of the Basket Underliers, the dividend yield of the component stocks of each Basket Underlier, the actual or expected positive or negative correlation among the Basket Underliers, or the actual or expected absence of any such correlation, interest and yield rates, time remaining to maturity, geopolitical conditions and economic, financial, political and regulatory or judicial events that affect the Basket Underliers or equities markets generally and which may affect the Final Underlier Levels of the Basket Underliers and any actual or anticipated changes in our credit ratings or credit spreads. The levels of the Basket Underliers may be, and have been, volatile, and we can give you no assurance that the volatility will lessen. See "The Basket and The Basket Underliers " below. You may receive less, and possibly significantly less, than the Face Amount per note if you try to sell your notes prior to maturity.

The Notes Are Subject To Our Credit Risk, And Any Actual Or Anticipated Changes To Our Credit Ratings Or Credit Spreads May Adversely Affect The Market Value Of The Notes

You are dependent on our ability to pay all amounts due on the notes at maturity, and therefore you are subject to our credit risk. If we default on our obligations under the notes, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the notes prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the notes.

As A Finance Subsidiary, MSFL Has No Independent Operations And Will Have No Independent Assets

As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of the notes if they make claims in respect of such notes in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of the notes should accordingly assume that in any such proceedings they could not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

The Amount Payable On The Notes Is Not Linked To The Levels Of The Basket Underliers At Any Time Other Than The Determination Date

The Final Basket Level will be based on the Closing Levels of the Basket Underliers on the Determination Date, subject to adjustment for non-Trading Days and certain market disruption events. Even if the levels of some or all of the Basket Underliers appreciate prior to the Determination Date but then drop by the Determination Date, the Cash

Settlement Amount may be less, and may be significantly less, than it would have been had the Cash Settlement Amount been linked to the levels of the Basket Underliers prior to such drop. Although the actual levels of the Basket Underliers on the Stated Maturity Date or at other times during the term of the notes may be higher than the Final Underlier Levels on the Determination Date, the Cash Settlement Amount will be based solely on the Closing Levels of the Basket Underliers on the Determination Date as compared to their respective Initial Underlier Levels.

Changes In The Level Of One Or More Of The Basket Underliers May Offset Changes In The Levels Of The Others

Movements in the levels of the Basket Underliers may not correlate with each other. At a time when the level of one or more Basket Underliers increases, the level of one or more of the other Basket Underliers may not increase as much, or may decline. Therefore, in calculating the Basket Return, increases in the level of one or more Basket Underliers may be moderated, or wholly offset, by lesser increases or declines in the level of one or more of the other Basket Underliers. Further, the Basket is not equally weighted among the Basket Underliers. Decreases in the level of a more heavily weighted Basket Underlier could moderate or wholly offset increases in the levels of the less heavily weighted Basket Underliers. If the Final Basket Level has declined by an amount greater than the Buffer Amount of 20%

from the Initial Basket Level, you will receive at maturity an amount that is less, and may be significantly less, than the Face Amount of your notes, and which could be zero.

The Notes Are Linked To The Basket Underliers And Are Subject To Risks Associated With Investments In Securities Linked To The Value Of Foreign Equity Securities

The notes are linked to the value of foreign equity securities. Investments in securities linked to the value of foreign equity securities involve risks associated with the securities markets in those countries, including risks of volatility in those markets, governmental intervention in those markets and cross-shareholdings in companies in certain countries. Although the equity securities included in the Basket Underliers are traded in foreign currencies, the value of your notes (as measured in U.S. dollars) will not be adjusted for any exchange rate fluctuations. Also, there is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the United States Securities and Exchange Commission, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements different from those applicable to U.S. reporting companies. The prices of securities issued in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange laws. Local securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of holdings difficult or impossible at times. Moreover, the economies in such countries may differ favorably or unfavorably from the economy in the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources, self-sufficiency and balance of payment positions.

Investing In The Notes Is Not Equivalent To Investing In The Basket Underliers Or The Stocks Composing The Basket Underliers

Investing in the notes is not equivalent to investing in the Basket Underliers or the stocks that constitute the Basket Underliers. Investors in the notes will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute the Basket Underliers.

Adjustments To The Basket Underliers Could Adversely Affect The Value Of The Notes

The publisher of each Basket Underlier may add, delete or substitute the stocks constituting such Basket Underlier or make other methodological changes that could change the level of such Basket Underlier. The publisher of each Basket Underlier may also discontinue or suspend calculation or publication of such Basket Underlier at any time. In these circumstances, the calculation agent will have the sole discretion to substitute a successor index that is comparable to the discontinued Basket Underlier and is permitted to consider indices that are calculated and published by the calculation agent or any of its affiliates. If the calculation agent determines that there is no appropriate

successor index, the Final Underlier Level for such Basket Underlier will be determined based on the closing prices at maturity of the securities composing the Basket Underlier at the time of such discontinuance, without rebalancing or substitution, computed by the calculation agent in accordance with the formula for calculating such Basket Underlier last in effect prior to discontinuance of such Basket Underlier.

The Rate We Are Willing To Pay For Securities Of This Type, Maturity And Issuance Size Is Likely To Be Lower Than The Rate Implied By Our Secondary Market Credit Spreads And Advantageous To Us. Both The Lower Rate And The Inclusion Of Costs Associated With Issuing, Selling, Structuring And Hedging The Notes In The Original Issue Price Reduce The Economic Terms Of The Notes, Cause The Estimated Value Of The Notes To Be Less Than The Original Issue Price And Will Adversely Affect Secondary Market Prices

Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the notes in secondary market transactions will likely be significantly lower than the Original Issue Price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the Original Issue Price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the notes in the Original Issue Price and the lower rate we are willing to pay as issuer make the economic terms of the notes less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the notes are not fully deducted upon issuance, for a period of up to 3 months following the issue date, to the extent that MS & Co. may buy or sell the notes in the secondary market, absent changes in market conditions, including those related to the Basket Underliers, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

The Estimated Value Of The Notes Is Determined By Reference To Our Pricing And Valuation Models, Which May Differ From Those Of Other Dealers And Is Not A Maximum Or Minimum Secondary Market Price

These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the notes than those generated by others, including other dealers in the market, if they attempted to value the notes. In addition, the estimated value on the Trade Date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your notes in the secondary market (if any exists) at any time. The value of your notes at any time after the date hereof will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The Market Price Will Be Influenced By Many Unpredictable Factors” above.

The Notes Will Not Be Listed On Any Securities Exchange And Secondary Trading May Be Limited

The notes will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the notes. MS & Co. may, but is not obligated to, make a market in the notes and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the notes, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the notes. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the notes easily. Since other broker-dealers may not participate significantly in the secondary market for the notes, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the notes, it is likely that there would be no secondary market for the notes. Accordingly, you should be willing to hold your notes to maturity.

The Calculation Agent, Which Is A Subsidiary Of Morgan Stanley And An Affiliate Of MSFL, Will Make Determinations With Respect To The Notes

As calculation agent, MS & Co. has determined the Initial Underlier Levels, will determine the Final Underlier Levels and the Final Basket Level and will calculate the Cash Settlement Amount you receive at maturity, if any. Moreover, certain determinations made by MS & Co. in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of market disruption events and the selection of a successor index or calculation of the Final Underlier Level in the event of a market disruption event with respect to a Basket Underlier or discontinuance of a Basket Underlier. These potentially subjective determinations may adversely affect the Cash Settlement Amount at maturity, if any. For further information regarding these types of determinations, see "Description of PLUS—Postponement of Valuation Date(s)" and "—Calculation Agent and Calculations" in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the notes on the Trade Date.

Hedging And Trading Activity By Our Affiliates Could Potentially Adversely Affect The Value Of The Notes

One or more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging activities related to the notes, including trading in the stocks that constitute the Basket Underliers

as well as in other instruments related to the Basket Underliers. As a result, these entities may be unwinding or adjusting hedge positions during the term of the notes, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Determination Date approaches. Some of our affiliates also trade the stocks that constitute the Basket Underliers and other financial instruments related to the Basket Underliers on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the Trade Date could have increased the Initial Underlier Levels, and, therefore, could have increased the levels at or above which the Basket Underliers must close on the Determination Date so that investors do not suffer a loss on their initial investment in the notes. Additionally, such hedging or trading activities during the term of the notes, including on the Determination Date, could adversely affect the levels of the Basket Underliers on the Determination Date, and, accordingly, the Cash Settlement Amount an investor will receive at maturity, if any. Furthermore, if the dealer from which you purchase notes is to conduct trading and hedging activities for us in connection with the notes, that dealer may profit in connection with such trading and hedging activities and such profit, if any, will be in addition to any compensation that the dealer receives for the sale of the notes to you. You should be aware that the potential to earn a profit in connection with hedging activities may create a further incentive for the dealer to sell the notes to you, in addition to any compensation they would receive for the sale of the notes.

We May Sell An Additional Aggregate Face Amount Of Notes At A Different Issue Price

At our sole option, we may decide to sell an additional aggregate Face Amount of notes subsequent to the date hereof. The issue price of the notes in the subsequent sale may differ substantially (higher or lower) from the issue price you paid as provided on the cover of this document.

Past Performance is No Guide to Future Performance

The actual performance of the Basket Underliers over the term of the notes, as well as the amount payable at maturity, may bear little relation to the historical Closing Levels of the Basket Underliers or to the hypothetical return examples set forth herein. We cannot predict the future performance of the Basket Underliers.

The U.S. Federal Income Tax Consequences Of An Investment In The Notes Are Uncertain

Please read the discussion under “Tax Considerations” in this document and the discussion under “United States Federal Taxation” in the accompanying product supplement (together, the “Tax Disclosure Sections”) concerning the U.S. federal income tax consequences of an investment in the notes. If the Internal Revenue Service (the “IRS”) were successful in asserting an alternative treatment, the timing and character of income on the notes might differ significantly from the tax treatment described in the Tax Disclosure Sections. For example, under one possible treatment, the IRS could seek to recharacterize the notes as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the notes every year at a “comparable yield” determined at the time of issuance and recognize

all income and gain in respect of the notes as ordinary income. Additionally, as discussed under "United States Federal Taxation—FATCA" in the accompanying product supplement, the withholding rules commonly referred to as "FATCA" would apply to the notes if they were recharacterized as debt instruments. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the notes, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features. We do not plan to request a ruling from the IRS regarding the tax treatment of the notes, and the IRS or a court may not agree with the tax treatment described in the Tax Disclosure Sections.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very

generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

THE BASKET AND THE BASKET UNDERLIERS

The Basket

The Basket consists of five Basket Underliers with the following weightings within the Basket: the EURO STOXX 50® Index (36.00%), the Tokyo Stock Price Index (27.00%), the FTSE® 100 Index (20.00%), the Swiss Market Index (9.00%) and the S&P/ASX 200 Index (8.00%). **The actual performance of the Basket and the Basket Underliers over the term of the notes, as well as the Cash Settlement Amount you receive at maturity, if any, may bear little relation to the historical levels of the Basket and the Basket Underliers or to the hypothetical return examples set forth herein.**

Historical Information

The following graph is calculated to show the performance of the Basket during the period from January 1, 2013 through November 16, 2018, assuming the Basket Underliers were weighted as set forth herein and that the weightings were set on January 1, 2013 such that the initial basket level of the Basket were 100, and illustrates the effect of the offset and/or correlation among the Basket Underliers during such period. The graph does not take into account the Upside Participation Rate or the Buffer Level, nor does it attempt to show your expected return on an investment in the notes. The historical values of the Basket should not be taken as an indication of its future performance.

The EURO STOXX 50® Index

The EURO STOXX 50® Index was created by STOXX Limited, which is owned by Deutsche Börse AG and SIX Group AG. Publication of the EURO STOXX 50® Index began on February 26, 1998, based on an initial index value of 1,000 at December 31, 1991. The EURO STOXX 50® Index is composed of 50 component stocks of market sector leaders from within the STOXX 600 Supersector Indices, which includes stocks selected from the Eurozone. The component stocks have a high degree of liquidity and represent the largest companies across all market sectors. For additional information about the EURO STOXX 50® Index, see the information set forth under "EURO STOXX 50® Index" in the accompanying index supplement.

In addition, information about the EURO STOXX 50® Index may be obtained from other sources including, but not limited to, the Basket Underlier Publisher's website (including information regarding the EURO STOXX 50® Index's (i) top ten constituents and weightings, (ii) sector weightings and (iii) country weightings). We are not incorporating by reference into this pricing supplement the website or any material it includes. Neither we nor any agent or dealer for this offering makes any representation that this publicly available information regarding the Basket Underliers is accurate or complete.

Information as of market close on November 16, 2018:

Bloomberg Ticker Symbol:	SX5E
Current Index Value:	3,180.74

The following graph sets forth the daily Closing Levels of the EURO STOXX 50® Index for each quarter in the period from January 1, 2013 through November 16, 2018. The Closing Level of the EURO STOXX 50® Index on November 16, 2018 was 3,180.74. We obtained the information in the graph below from Bloomberg Financial Markets without independent verification. The EURO STOXX 50® Index has at times experienced periods of high volatility. The actual performance of the EURO STOXX 50® Index over the term of the notes may bear little relation to the historical Closing Levels of the EURO STOXX 50® Index or to the hypothetical return examples set forth herein. We cannot predict the future performance of the EURO STOXX 50® Index. You should not take the historical levels of the EURO STOXX 50® Index as an indication of its future performance, and no assurance can be given as to the Closing Level of the EURO STOXX 50® Index on the Determination Date.

"EURO STOXX 50®" and "STOXX®" are registered trademarks of STOXX Limited. For more information, see "EURO STOXX 50® Index" in the accompanying index supplement.

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The Tokyo Stock Price Index

The Tokyo Stock Price Index (the "TOPIX Index®") is published by the Tokyo Stock Exchange, Inc. ("TSE"). The TOPIX Index® was developed by the TSE. Publication of the TOPIX Index® began on July 1, 1969, based on a base index value of 100 as of January 4, 1968. The TSE domestic stock market is divided into two sections: the First Section and the Second Section. Listings of stocks on the TSE are divided between these two sections, with stocks listed on the First Section typically being limited to larger, longer-established and more actively traded issues and the Second Section to smaller and newly listed companies. The component stocks of the TOPIX Index® consist of all domestic common stocks listed on the First Section of the TSE. The TOPIX Index® is computed and published every second via TSE's Market Information System, and is reported to securities companies across Japan and available worldwide through computerized information networks. For additional information about the TOPIX Index®, see the information set forth under "Tokyo Stock Price Index" in the accompanying index supplement.

In addition, information about the TOPIX® Index may be obtained from other sources including, but not limited to, the Basket Underlier Publisher's website (including information regarding the TOPIX® Index's sector weightings). We are not incorporating by reference into this pricing supplement the website or any material it includes. Neither we nor any agent or dealer for this offering makes any representation that this publicly available information regarding the Basket Underliers is accurate or complete.

Information as of market close on November 16, 2018:

Bloomberg Ticker Symbol: TPX
Current Index Value: 1,629.30

The following graph sets forth the daily Closing Levels of the TOPIX Index® for each quarter in the period from January 1, 2013 through November 16, 2018. The Closing Level of the TOPIX Index® on November 16, 2018 was 1,629.30. We obtained the information in the graph below from Bloomberg Financial Markets without independent verification. The TOPIX Index® has at times experienced periods of high volatility. The actual performance of the TOPIX Index® over the term of the notes may bear little relation to the historical Closing Levels of the TOPIX Index® or to the hypothetical return examples set forth herein. We cannot predict the future performance of the TOPIX Index®. You should not take the historical levels of the TOPIX Index® as an indication of its future performance, and no assurance can be given as to the Closing Level of the TOPIX Index® on the Determination Date.

"TOPIX®" and "TOPIX Index®" are trademarks of the TSE. For more information, see "Tokyo Stock Price Index" in the accompanying index supplement.

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The FTSE® 100 Index

The FTSE® 100 Index, which is calculated, published and disseminated by FTSE Russell, is a free-float-adjusted index which measures the composite price performance of stocks of the largest 100 companies (determined on the basis of market capitalization) traded on the London Stock Exchange. The 100 stocks included in the FTSE® 100 Index (the "FTSE Underlying Stocks") are selected from a reference group of stocks trading on the London Stock Exchange which are in turn selected by excluding certain stocks that have low liquidity based on public float, accuracy and reliability of prices, size and number of trading days. The FTSE Underlying Stocks are selected from this reference group by selecting 100 stocks with the largest market value. For additional information about the FTSE® 100 Index, see the information set forth under "FTSE™ 100 Index" in the accompanying index supplement.

In addition, information about the FTSE® 100 Index may be obtained from other sources including, but not limited to, the Basket Underlier Publisher's website (including information regarding the FTSE® 100 Index's (i) top five constituents and weightings and (ii) sector weightings). We are not incorporating by reference into this pricing supplement the website or any material it includes. Neither we nor any agent or dealer for this offering makes any representation that this publicly available information regarding the Basket Underliers is accurate or complete.

Information as of market close on November 16, 2018:

Bloomberg Ticker Symbol:	UKX
Current Index Value:	7,013.88

The following graph sets forth the daily Closing Levels of the FTSE® 100 Index for each quarter in the period from January 1, 2013 through November 16, 2018. The Closing Level of the FTSE® 100 Index on November 16, 2018 was 7,013.88. We obtained the information in the graph below from Bloomberg Financial Markets without independent verification. The FTSE® 100 Index has at times experienced periods of high volatility. The actual performance of the FTSE® 100 Index over the term of the notes may bear little relation to the historical Closing Levels of the FTSE® 100 Index or to the hypothetical return examples set forth herein. We cannot predict the future performance of the FTSE® 100 Index. You should not take the historical levels of the FTSE® 100 Index as an indication of its future performance, and no assurance can be given as to the Closing Level of the FTSE® 100 Index on the Determination Date.

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The Swiss Market Index

The Swiss Market Index ("SMI®") represents approximately 85% of the free-float capitalization of the Swiss equity market. The Swiss Market Index consists of the 20 largest and most liquid equities of the Swiss Performance Index®. The composition of the Swiss Market Index is reviewed annually, and in order to ensure a high degree of continuity in the composition of the Swiss Market Index, the component stocks are subject to a special procedure for adding them to the Swiss Market Index or removing them based on free-float market capitalization and liquidity. For additional information about the Swiss Market Index, see the information set forth under "Swiss Market Index" in the accompanying index supplement.

In addition, information about the Swiss Market Index may be obtained from other sources including, but not limited to, the Basket Underlier Publisher's website (including information regarding the Swiss Market Index's (i) constituents and weightings and (ii) sector weightings). We are not incorporating by reference into this pricing supplement the website or any material it includes. Neither we nor any agent or dealer for this offering makes any representation that this publicly available information regarding the Basket Underliers is accurate or complete.

Information as of market close on November 16, 2018:

Bloomberg Ticker Symbol: SMI
Current Index Value: 8,907.39

The following graph sets forth the daily Closing Levels of the Swiss Market Index for each quarter in the period from January 1, 2013 through November 16, 2018. The Closing Level of the Swiss Market Index on November 16, 2018 was 8,907.39. We obtained the information in the graph below from Bloomberg Financial Markets without independent verification. The Swiss Market Index has at times experienced periods of high volatility. The actual performance of the Swiss Market Index over the term of the notes may bear little relation to the historical Closing Levels of the Swiss Market Index or to the hypothetical return examples set forth herein. We cannot predict the future performance of the Swiss Market Index. You should not take the historical levels of the Swiss Market Index as an indication of its future performance, and no assurance can be given as to the Closing Level of the Swiss Market Index on the Determination Date.

SMI® is a trademark of SIX Swiss Exchange. For more information, see "Swiss Market Index" in the accompanying index supplement.

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The S&P/ASX 200 Index

The S&P/ASX 200 Index is Australia's large-capitalization tradable equity index and Australia's institutional benchmark. The S&P/ASX 200 Index measures the performance of the 200 largest index-eligible stocks listed on the Australian Securities Exchange by float-adjusted market capitalization. Only stocks that are actively and regularly traded are considered for inclusion in the S&P/ASX 200 Index. The index is float-adjusted, and, as of August 2014, covers approximately 80% of Australian equity market capitalization. For additional information about the S&P/ASX 200 Index, see the information set forth under "S&P/ASX 200 Index" in the accompanying index supplement.

In addition, information about the S&P/ASX 200 Index may be obtained from other sources including, but not limited to, the Basket Underlier Publisher's website (including information regarding the S&P/ASX 200 Index's (i) top ten constituents, (ii) sector weightings and (iii) country weightings). We are not incorporating by reference into this pricing supplement the website or any material it includes. Neither we nor any agent or dealer for this offering makes any representation that this publicly available information regarding the Basket Underliers is accurate or complete.

Information as of market close on November 16, 2018:

Bloomberg Ticker Symbol: AS51
Current Index Value: 5,730.551

The following graph sets forth the daily Closing Levels of the S&P/ASX 200 Index for each quarter in the period from January 1, 2013 through November 16, 2018. The Closing Level of the S&P/ASX 200 Index on November 16, 2018 was 5,730.551. We obtained the information in the graph below from Bloomberg Financial Markets without independent verification. The S&P/ASX 200 Index has at times experienced periods of high volatility. The actual performance of the S&P/ASX 200 Index over the term of the notes may bear little relation to the historical Closing Levels of the S&P/ASX 200 Index or to the hypothetical return examples set forth herein. We cannot predict the future performance of the S&P/ASX 200 Index. You should not take the historical levels of the S&P/ASX 200 Index as an indication of its future performance, and no assurance can be given as to the Closing Level of the S&P/ASX 200 Index on the Determination Date.

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TAX CONSIDERATIONS

Although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the notes due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP, under current law, and based on current market conditions, it is more likely than not that a note will be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes.

Assuming this treatment of the notes is respected and subject to the discussion in "United States Federal Taxation" in the accompanying product supplement, the following U.S. federal income tax consequences should result based on current law:

- A U.S. Holder should not be required to recognize taxable income over the term of the notes prior to settlement, other than pursuant to a sale or exchange.

- Upon sale, exchange or settlement of the notes, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized and the U.S. Holder's tax basis in the notes. Such gain or loss should be long-term capital gain or loss if the investor has held the notes for more than one year, and short-term capital gain or loss otherwise.

In 2007, the U.S. Treasury Department and the Internal Revenue Service (the "IRS") released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect.

As discussed in the accompanying product supplement, Section 871(m) of the Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder ("Section 871(m)") generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an "Underlying Security"). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a "Specified Security"). However, pursuant to an IRS notice, Section 871(m) will not apply to

securities issued before January 1, 2021 that do not have a delta of one with respect to any Underlying Security. Based on our determination that the notes do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the notes should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the notes.

Both U.S. and non-U.S. investors considering an investment in the notes should read the discussion under "Risk Factors" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement and consult their tax advisers regarding all aspects of the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments, the issues presented by the aforementioned notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

The discussion in the preceding paragraphs under "Tax considerations" and the discussion

contained in the section entitled "United States Federal Taxation" in the accompanying product supplement, insofar as they purport to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitute the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of an investment in the notes.

CONTACT

Morgan Stanley clients may contact their local Morgan Stanley branch office or our principal executive offices at 1585 Broadway, New York, New York 10036 (telephone number (866) 477-4776). All other clients may contact their local brokerage representative. Third-party distributors may contact Morgan Stanley Structured Investment Sales at (800) 233-1087.

WHERE YOU CAN FIND MORE INFORMATION

MSFL and Morgan Stanley have filed a registration statement (including a prospectus, as supplemented by the product supplement and the index supplement) with the Securities and Exchange Commission, or SEC, for the offering to which this communication relates. You should read the prospectus in that registration statement, the product supplement, the index supplement and any other documents relating to this offering that MSFL and Morgan Stanley have filed with the SEC for more complete information about MSFL, Morgan Stanley and this offering. You may get these documents without cost by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, MSFL and/or Morgan Stanley will arrange to send you the product supplement, index supplement and prospectus if you so request by calling toll-free 800-584-6837.

You may access these documents on the SEC web site at www.sec.gov.as follows:

Prospectus dated November 16, 2017

50.2

(16)
-

ViiV Healthcare

977
65.2
20

302
65.4
43
-

Established Products

1,793
59.5
(17)
468
60.2
(17)
-

Pharmaceutical R&D

(2,708)

-

-
(749)

-

2
-

Other trading and unallocated
pharmaceuticals

(402)
(40.0)
(37)
(145)
(54.3)
(7)

-

Pharmaceuticals and Vaccines

6,497
34.8
(6)
1,766
34.8
(9)

Consumer Healthcare

657
15.2
(6)
177
15.9
1

-

-

7,154
31.1
(6)
1,943
31.4
(8)

Corporate & other unallocated costs

(560)

-

(2)
(173)

-

(6)

-

Core operating profit

6,594
28.7
(6)
1,770
28.6
(9)

-

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* Unless otherwise stated, 2014 growth is in comparison with 2013 core results excluding divestments in 2013. See page 29.

Core operating profit – 2014

Core operating profit was £6,594 million, 6% lower than in 2013 in CER terms on a turnover decline of 3%. The core operating margin of 28.7% was 1.7 percentage points lower than in 2013. Excluding currency effects, the margin decreased 0.8 percentage points. This primarily reflected an increase in SG&A as a percentage of sales and lower royalty income. SG&A costs

declined 2% driven by targeted cost management and the benefit of ongoing restructuring programmes. SG&A also included the credit reported in Q3 2014 of £219 million from a release of reserves following simplification of the Group's entity structure and its trading arrangements. Structural savings of approximately £280 million were realised in 2013.

Cost of sales as a percentage of turnover was 28.4% compared with 27.6% in 2013. Net of adverse currency translation effects, the cost of sales percentage increased 0.2 percentage points. This reflected adverse price and mix movements, particularly the decline in Pharmaceuticals sales in the US, the costs of supply remediation activities and continuing investments in new launch capacity and future manufacturing technology, partly offset by the benefit of the Group's ongoing cost reduction programmes.

SG&A costs as a percentage of sales were 30.7%, 0.4 percentage points higher than in 2013. Excluding currency effects, the SG&A percentage increased 0.5 percentage points, as SG&A declined 2% on a turnover decline of 3%. The reduction in SG&A reflected continued investments in the Group's multiple new product launches partly offset by the benefits of the Group's restructuring programmes and ongoing cost management efforts.

R&D expenditure declined 4% to £3,113 million (13.5% of turnover) compared with £3,394 million (13.3% of turnover) in 2013. Excluding currency effects, the R&D percentage declined 0.1 percentage points, reflecting the phasing of ongoing project spending as well as the completion of a number of programmes and continuing cost management benefits.

Royalty income was £310 million (2013: £387 million) reflecting the conclusion of a number of royalty agreements. 2013 also included a prior year catch-up adjustment.

Core operating profit – Q4 2014

Core operating profit was £1,770 million, 9% lower than Q4 2013 in CER terms on a turnover decline of 5%. The core operating margin of 28.6% was 1.5 percentage points lower than in Q4 2013. Excluding currency effects, the margin decreased 1.3 percentage points. This primarily reflected increases in cost of goods and SG&A as a percentage of sales and lower royalty income.

Cost of sales as a percentage of turnover was 29.1%, compared with 28.4% in Q4 2013. Net of adverse currency translation effects, the cost of sales percentage increased 0.5 percentage points. This reflected ongoing pricing pressures, particularly in the US, continuing investments in new launch capacity and future manufacturing technology and manufacturing remediation costs that exceeded the benefit of the Group's ongoing cost reduction programmes in the quarter, partly offset by lower stock write-offs.

SG&A costs as a percentage of sales were 30.1%, 0.7 percentage points higher than Q4 2013. Excluding currency effects, the SG&A percentage increased 0.9 percentage points, as SG&A declined 2% on a turnover decline of 5%. The reduction in SG&A reflected the benefits in the quarter of the Group's restructuring programmes and ongoing cost management efforts, partly offset by continued investments in the Group's multiple new product launches.

R&D expenditure declined 8% to £821 million (13.3% of turnover) compared with £904 million (13.5% of turnover) in Q4 2013. This reflected the completion of a number of programmes and the phasing of ongoing project spending as well as continuing cost management benefits.

Royalty income was £67 million (Q4 2013: £98 million) including the impact of the conclusion of a number of royalty agreements.

Core operating profit after tax and core earnings per share – 2014

Net finance expense was £646 million compared with £692 million in 2013, reflecting GSK's strategy to improve the funding profile of the Group, despite average net debt in 2014 being marginally higher than in 2013.

- The share of profits of associates and joint ventures was £30 million (2013: £43 million), reflecting the reduced shareholding in the Aspen group, currency movements and a number of one-off adjustments.

- Tax on core profit amounted to £1,172 million and reflected an effective core tax rate of 19.6% (2013: 23.0%). The reduction in the effective rate included the resolution of a number of matters that benefited the year.

- Core EPS of 95.4p decreased 1% in CER terms compared with a 6% decline in the operating profit as a result of financial efficiencies

- Core operating profit after tax and core earnings per share – Q4 2014

Net finance expense was £168 million compared with £155 million in Q4 2013, reflecting higher average net debt partly offset by the continued benefit of GSK's strategy to improve the funding profile of the Group.

- The share of profits of associates and joint ventures was £11 million (Q4 2013: £11 million).

- Tax on core profit amounted to £246 million and reflected an effective core tax rate of 15.3% (Q4 2013: 22.1%). The reduction in the effective rate included the resolution of a number of matters that benefited the quarter.

- Core EPS of 27.3p declined 1% in CER terms compared with a 9% decline in the operating profit as a result of financial efficiencies.

Currency impact

The 2014 results are based on average exchange rates, principally £1/$1.65, £1/€1.24 and £1/Yen 175. Comparative exchange rates are given on page 43. The period-end exchange rates were £1/$1.56, £1/€1.29 and £1/Yen 187.

- In the year, turnover declined 3% CER and declined 10% at actual exchange rates. Core EPS for the twelve months of 95.4p was down 1% in CER terms and down 12% at actual rates. The negative currency impact reflected the strength of Sterling against the majority of the Group's trading currencies relative to 2013. The relatively lower proportion of the cost base in Emerging Markets also contributed to the greater adverse currency impact on EPS compared with that on turnover. Losses on settled intercompany transactions had no material effect on the negative currency impact of 11 percentage points on core EPS.

- In the quarter, turnover declined 5% CER and declined 8% at actual exchange rates. Core EPS for the quarter of 27.3p was down 1% in CER terms and down 6% at actual rates. The negative currency impact reflected the strengthening of Sterling against the majority of the Group's trading

currencies since Q4 2013.

Core adjustments

The adjustments that reconcile core operating profit, profit after tax and earnings per share to total results are as follows:

	2014			2013		
	Operating profit £m	Profit after tax £m	EPS p	Operating profit £m	Profit after tax £m	EPS p
Core results before divestments	6,594	4,806	95.4	7,771	5,487	108.4
Divestments				244	184	3.8
Core results including divestments	6,594	4,806	95.4	8,015	5,671	112.2
Intangible asset amortisation	(575)	(366)	(7.6)	(547)	(398)	(8.2)
Intangible asset impairment	(150)	(121)	(2.5)	(739)	(513)	(10.7)
Major restructuring costs	(750)	(540)	(11.3)	(517)	(378)	(7.8)
Legal costs	(548)	(522)	(10.9)	(252)	(243)	(5.0)
Acquisition accounting and other	(974)	(426)	(5.8)	1,068	1,489	32.0
	(2,997)	(1,975)	(38.1)	(987)	(43)	0.3
Total results	3,597	2,831	57.3	7,028	5,628	112.5

	Q4 2014			Q4 2013		
	Operating profit £m	Profit after tax £m	EPS p	Operating profit £m	Profit after tax £m	EPS p
Core results before divestments	1,770	1,367	27.3	2,020	1,462	29.0
Divestments				68	51	1.1
Core results including divestments	1,770	1,367	27.3	2,088	1,513	30.1
Intangible asset amortisation	(125)	(25)	(0.4)	(150)	(109)	(2.3)
Intangible asset impairment	(55)	(46)	(1.0)	(453)	(299)	(6.2)
Major restructuring costs	(457)	(357)	(7.4)	(175)	(67)	(1.4)
Legal costs	(75)	(89)	(1.9)	(89)	(106)	(2.2)
Acquisition accounting and other	(367)	175	4.9	1,220	1,573	33.3
	(1,079)	(342)	(5.8)	353	992	21.2
Total results	691	1,025	21.5	2,441	2,505	51.3

Full reconciliations between core results and total results are set out on pages 46 to 49 and the definition of core results is set out on page 29.

Total operating profit and total earnings per share – 2014

Total operating profit was £3,597 million compared with £7,028 million in 2013. The non-core items resulted in a net charge of £2,997 million (2013: £987 million, excluding trading profits on products divested in 2013). The 2013 net charge included the profits on the disposals of Lucozade and Ribena business and the anti-coagulant products, which in aggregate were £1,331 million.

- The intangible asset amortisation increased to £575 million (2013: £547 million), reflecting the accelerated amortisation of Lovaza. Intangible asset impairments of £150 million (2013: £739 million) included write-offs of several R&D and commercial assets.

- Major restructuring charges of £750 million (2013: £517 million) included £101 million under the Operational Excellence programme, £334 million under the Major Change programme and £243 million under the new Pharmaceuticals restructuring programme.

- The Operational Excellence programme announced in February 2013 was substantially complete at the end of 2014 at a total cost of £4.7 billion and delivered annual pre-tax savings of approximately £2.9 billion. The Major Change programme focuses on opportunities to simplify our supply chain processes, build the Group's capabilities in manufacturing and R&D, and restructure our European Pharmaceuticals business. The programme is expected to cost £1.5 billion, of which non-cash charges are expected to be £350 million. It has delivered approximately £0.6 billion of annual savings and remains on track to deliver annual pre-tax savings of at least £1.0 billion by 2016.

- The new Pharmaceuticals restructuring programme, announced in October 2014, will rescale commercial operations, global support functions and the relevant R&D/manufacturing operations across pharmaceuticals. The programme is expected to cost £1.5·billion, predominantly in cash charges. Approximately £1 billion of new annual cost savings are expected over the next 3 years, with around 50% delivered in 2016.

- Legal charges of £548 million (2013: £252 million) included a £301 million fine paid to the Chinese government, settlement of existing anti-trust matters and higher litigation costs.

- Acquisition accounting and other adjustments resulted in a net charge of £974 million (2013: income of £1,068 million) and included, following the improved sales performance of Tivicay and Triumeq, an increase in the liability for the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture which has been increased to £1.7 billion, resulting in a charge for the year of £768 million (2013: £253 million). The liability represents the present value of expected future payments to Shionogi. These will be paid over a number of years and will vary in line with sales of products that contain dolutegravir.

- The net credit in 2013 included profits on the disposal of Lucozade and Ribena business and the anti-coagulant products, which in aggregate were £1,331 million. Other items also included charges related to major acquisitions, equity investment and asset disposals, one-off required regulatory charges in R&D and certain other adjusting items.

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The charge for taxation on total profits amounted to £137 million and represented a total effective tax rate of 4.6% (2013: 15.3%), reflecting the differing tax effects of the various non-core items. See 'Taxation' on page 42.

- Total EPS was 57.3p, compared with 112.5p in 2013 which included 33.8p arising from gains on equity investment and asset disposals. Of the remaining difference, 10.4p was due to currency.

Total operating profit and total earnings per share – Q4 2014

Total operating profit was £691 million compared with £2,441 million in Q4 2013. The non-core items resulted in total net charges of £1,079 million in the quarter (Q4 2013: income of £353 million, excluding trading profits on products divested in 2013). The Q4 2013 income included the profits on the disposals of Lucozade and Ribena business and the anti-coagulant products, which in aggregate were £1,331 million.

- The intangible asset amortisation decreased to £125 million (Q4 2013: £150 million). Intangible asset impairments of £55 million (Q4 2013: £453 million) included write-offs of a number of R&D and commercial assets.

- Major restructuring charges of £457 million (Q4 2013: £175 million) included £41 million under the Operational Excellence programme, £111 million under the Major Change programme and £243 million under the new Pharmaceuticals restructuring programme.

- Legal charges of £75 million (Q4 2013: £89 million) principally related to ongoing costs and product liability claims.

- Acquisition accounting and other adjustments resulted in a net charge of £367 million (Q4 2013: income of £1,220 million) and included, following the improved sales performance of Triumeq, an increase in the liability for the contingent consideration for the acquisition of the former Shionogi-ViiV Healthcare joint venture which has been increased to £1.7 billion, resulting in a charge in the quarter of £356 million. Other adjustments included items related to major acquisitions, equity investment disposals, one-off required regulatory charges in R&D and certain other adjusting items. The net credit in Q4 2013 included the profits on the disposals of the Lucozade and Ribena business and the anti-coagulant products, which in aggregate were £1,331 million.

- The taxation credit on total profits amounted to £494 million and represented a total effective tax rate of (93)% (Q4 2013: 1.6%), reflecting the differing tax effects of the various non-core items. See 'Taxation' on page 42.

- Total EPS was 21.5p, compared with 51.3p in Q4 2013 which included 31.1p arising from gains on equity investment and asset disposals.

Cash generation and conversion

Cash flow and net debt

	2014	2013	Q4 2014
Net cash inflow from operating activities (£m)	5,176	7,222	2,210

Adjusted net cash inflow from operating activities* (£m)	5,878	7,337	2,325
Free cash flow* (£m)	2,620	4,657	1,327
Adjusted free cash flow* (£m)	3,322	4,772	1,442
Free cash flow growth (%)	(44)%	>100%	(7)%
Free cash flow conversion* (%)	101%	84%	126%
Net debt (£m)	14,377	12,645	14,377

* Adjusted net cash inflow from operating activities, free cash flow, adjusted free cash flow and free cash flow conversion are defined on page 29.

The net cash inflow from operating activities for the year was £5,176 million (2013: £7,222 million). Excluding legal payments of £702 million (2013: £115 million), the adjusted net cash inflow from operating activities was £5,878 million (2013: £7,337 million), a 20% decrease compared with 2013. This primarily reflected the impact of the strength of Sterling on profits and lower profits, including the impact of divestments.

Free cash flow was £2,620 million for the year. Excluding legal payments, adjusted free cash flow was £3,322 million (2013: £4,772 million). The decrease primarily reflected the impact of the strength of Sterling and lower profits, including the impact of divestments. The Group paid dividends to shareholders of £3,843 million and spent £238 million on repurchasing shares.

At 31 December 2014, net debt was £14.4 billion, compared with £12.6 billion at 31 December 2013, comprising gross debt of £18.8 billion and cash and liquid investments of £4.4 billion. The increase in net debt reflected the aggregate consideration of £0.7 billion paid to increase the shareholding in the Group's Indian pharmaceutical subsidiary from 50.7% to 75% and the acquisition of the remaining 30% of GSK's Indonesian Consumer Healthcare business held by a third party, together with the reduction in cash generated from operations. At 31 December 2014, GSK had short-term borrowings (including overdrafts) repayable within 12 months of £2,943 million with loans of £800 million repayable in the subsequent year.

The net cash inflow from operating activities for the fourth quarter was £2,210 million (Q4 2013: £2,187 million) out of £5,176 million for the year. This reflected an improved working capital position and the benefit of weaker Sterling against the US Dollar. Excluding legal payments of £115 million (Q4 2013: £168 million), the adjusted net cash inflow from operating activities was £2,325 million (Q4 2013: £2,355 million).

Working capital

	31 December 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013
Working capital conversion cycle* (days)	209	216	208	205	176
Working capital percentage of turnover (%)	22	24	22	22	19

* Working capital conversion cycle is defined on page 29.

The reported working capital conversion cycle days are distorted by divestments made in 2013 and the intangible asset impairments included in the denominator used in the conversion cycle computation. The year-end 2014 and 2013 conversion cycles adjusted for these factors were around 211 days and 190 days respectively. The increase of 21 days is predominantly due to stock building behind new launches and the remediation of the Consumer Healthcare supply chain, compounded by a reduction in the denominator arising from the translation effect of stronger Sterling on overseas revenue and costs, which contributed an increase of 7 days.

Returns to shareholders

GSK's commitment is to use free cash flow to support increasing dividends over the long-term, undertake share repurchases or, where returns are more attractive, reinvest in the business, including bolt-on acquisitions.

Following the completion of the Novartis transaction, expected to be in H1 2015, GSK intends to return to shareholders £4 billion of the net proceeds. The amount will be reduced by the after-tax impact of any repayment of consideration for the Oncology disposal required in connection with the COMBI-d trial. The company does not expect to make any share repurchases in 2015.

Quarterly dividends
The Board has declared a fourth interim dividend of 23 pence per share (Q4 2013: 23 pence per share) making 80 pence for the full year 2014.

The dividend per share for the full year 2015 is expected to be maintained at the same level as 2014.

Payment of dividends
The equivalent interim dividend receivable by ADR holders is 69.5244 cents per ADS based on an exchange rate of £1/$1.5114. One ADS represents two ordinary shares. The ex-dividend date will be 19 February 2015 (18 February 2015 – ADR holders), with a record date of 20 February 2015 and a payment date of 9 April 2015.

	Paid/ payable	Pence per share	£m
2014			
First interim	10 July 2014	19	916
Second interim	2 October 2014	19	918
Third interim	8 January 2015	19	924
Fourth interim	9 April 2015	23	1,107
		80	3,865
2013			
First interim	11 July 2013	18	878
Second interim	3 October 2013	18	864
Third interim	9 January 2014	19	910

Fourth interim		10 April 2014	23	1,099
-	-			
-	-		78	3,751
-	-			

Share repurchases

During the year, GSK repurchased 14.7 million shares at a cost of £238 million (2013: £1,504 million). The company issued 13 million shares under employee share schemes amounting to £167 million (2013: £585 million).

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The weighted average number of shares for 2014 was 4,808 million, compared with 4,831 million in 2013, a reduction of 0.5%. The weighted average number of shares for Q4 2014 was 4,809 million, compared with 4,798 million in Q4 2013.

Divisional performance

Pharmaceuticals

-	2014		Q4 2014	
-	£m	CER%	£m	CER%
Respiratory	6,181	(10)	1,664	(11)
Oncology	1,202	33	335	30
Cardiovascular, metabolic and urology	965	(3)	260	(5)
Immuno-inflammation	214	40	61	30
Other pharmaceuticals	2,407	(2)	665	(8)
Innovative Pharmaceuticals	10,969	(3)	2,985	(6)
ViiV Healthcare (HIV)	1,498	15	462	25
-	12,467	(1)	3,447	(3)
Established Products	3,011	(16)	777	(16)
-	15,478	(5)	4,224	(5)

Respiratory

2014 (£6,181 million; down 10%)

Respiratory sales in 2014 declined 10% to £6,181 million. Seretide/Advair sales were down 15% to £4,229 million, Flixotide/Flovent sales decreased 6% to £702 million and Ventolin sales grew 11% to £665 million. Xyzal sales, almost exclusively made in Japan, grew 7% to £130 million.

In the US, Respiratory sales declined 18% (11% volume decline and a 7% negative impact of price and mix), primarily reflecting the continued price and contracting pressures in the market. Sales of Advair were down 25% to £1,972 million (14% decline in volume and an 11% decline of price and mix). Flovent sales were down 6% while Ventolin sales were up 18%,

primarily reflecting the impact of net favourable adjustments to previous accruals for returns and discounts. Breo Ellipta recorded sales of £29 million and Anoro Ellipta sold £14 million in the year.

- European Respiratory sales were down 3%, primarily reflecting increasing competition. Seretide sales declined 5% to £1,330 million (1% decline in volume and a 4% negative impact of price), reflecting increasing competitive pressures and the transition of the Respiratory portfolio to the newer products in the latter part of the year. Relvar Ellipta recorded sales of £18 million in the year.

- Respiratory sales in Emerging Markets grew 3%. Seretide grew 3% to £400 million, helped by an improved performance in China. Sales growth of Ventolin, up 8% to £165 million, and Veramyst, up 15% to £73 million, was offset by a 33% decline in Flixonase, which was largely driven by lower sales in China.

- In Japan, Respiratory sales fell 2% to £475 million. Sales of the newly launched Relvar Ellipta of £17 million offset the impact of increasing competitor action on Adoair, which fell 6% to £228 million. The growth in Xyzal, up 8% to £114 million, was more than offset by lower sales elsewhere in the Respiratory portfolio.

- Q4 2014 (£1,664 million; down 11%)
Respiratory sales in the quarter declined 11% to £1,664 million. Seretide/Advair sales were down 18% to £1,119 million, Flixotide/Flovent sales decreased 8% to £189 million and Ventolin sales grew 5% to £181 million. Relvar/Breo Ellipta, now launched in the US, Europe and Japan, recorded sales of £38 million in the quarter.

- In the US, Respiratory sales declined 20% in the quarter (6% volume decline and a 14% negative impact of price and mix), primarily reflecting the continued price and contracting pressures, including for new products, which affected the ICS/LABA combination market, where Advair and Breo Ellipta compete, and also the LABA/LAMA combination market, where Anoro Ellipta has recently been introduced. Sales of Advair were down 27% (11% volume decline and a 16% negative impact of price and mix) and Flovent sales were down 10% to £113 million, primarily reflecting the negative impact of price and mix. Ventolin sales grew 5%, largely due to net favourable adjustments to previous accruals for returns and rebates. Breo Ellipta, launched in Q4 2013 recorded sales of £15 million, and Anoro Ellipta, launched in Q2 2014 recorded sales of £9 million in the quarter.

- European Respiratory sales were down 5%, primarily reflecting increasing competition. Seretide sales declined 9% to £316 million (4% decline in volume and a 5% negative impact of price), reflecting increasing competitive pressures and the transition of the Respiratory portfolio to the newer products. Relvar Ellipta, approved in Europe for both COPD and asthma and launched in Q1 2014, recorded sales of £9 million in the quarter.

- Respiratory sales in Emerging Markets grew 1% to £217 million. Sales of Seretide declined 2% to £111 million, while Ventolin grew 6% to £47 million.

- In Japan, Respiratory sales fell 2% to £135 million. Relvar Ellipta recorded sales of £12 million in the quarter, benefiting from the release of the “Ryotan” restrictions in mid-December, largely offsetting the 16% decline in Adoair sales, while growth in Veramyst and Xyzal was offset by declines in Zyrtec and Flixotide.

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Oncology

- 2014 (£1,202 million; up 33%)
Oncology sales in 2014 grew 33% to £1,202 million. Votrient sales grew 33% to £410 million and Promacta sales grew 34% to £231 million. Arzerra sales fell 24% to £54 million and Tykerb/Tyverb sales fell 11% to £171 million. Generic competition to both Hycamtin and Argatroban was more than offset by new launches, as Tafinlar and Mekinist recorded sales of £135 million and £68 million, respectively.

- In the US, Oncology grew 41% to £509 million. Votrient sales grew 32% to £181 million and sales of Promacta grew 32% to £91 million. Tafinlar and Mekinist sales were £58 million and £67 million, respectively.

- In Europe, Oncology grew 29% to £417 million, led by sales of Votrient, which increased by 23% to £153 million in the year. Promacta grew 36% to £71 million and sales of Tafinlar were £67 million.

- In Emerging Markets and Japan, Oncology sales in the year grew 30% to £169 million and 17% to £65 million, respectively.

- Q4 2014 (£335 million; up 30%)
Oncology sales in the quarter grew 30% to £335 million. Votrient sales grew 32% to £115 million and Promacta sales grew 33% to £66 million. Arzerra sales fell 37% to £12 million and Tykerb/Tyverb sales fell 8% to £42 million. The newly launched products, Tafinlar and Mekinist, recorded sales of £43 million and £21 million, respectively.

- In the US, Oncology grew 45% to £150 million. Votrient sales grew 36% to £54 million and sales of Promacta grew 42% to £27 million. Tafinlar and Mekinist sales were £18 million and £21 million, respectively. Both were launched in late Q2 2013.

- In Europe, Oncology grew 28% to £106 million. Votrient sales increased 17% to £39 million and Promacta grew 25% to £18 million. Sales of Tafinlar, which was launched in Q3 2013, were £21 million.

- In Emerging Markets and Japan, Oncology sales in the quarter grew 9% to £47 million and 31% to £19 million, respectively.

- Cardiovascular, metabolic and urology

- 2014 (£965 million; down 3%)
Sales in the category fell 3% to £965 million. The Avodart franchise grew 1% to £805 million, with 17% growth in sales of Duodart/Jalyn and a 4% decline in sales of Avodart. Levitra fell 28% to £100 million in the year. Sales of Prolia fell 10% to £41 million due to the agreement in Q2 2014 with Amgen to terminate the joint commercialisation in a number of European markets, Mexico and Russia.

- On a regional basis, the decline in the US of 16% to £364 million, was partly offset by Emerging Markets, up 20% to £145 million, and Japan, up 14% to £114 million. Europe was flat at £293 million.

- Q4 2014 (£260 million; down 5%)

Sales in the category fell 5% to £260 million. The Avodart franchise fell 3% to £212 million, with 16% growth in sales of Duodart/Jalyn and a 9% decline in sales of Avodart, while Levitra fell 14% to £32 million in the quarter. Sales of Prolia decreased 31% to £10 million, due to the agreement in Q2 2014 with Amgen to terminate the joint commercialisation in a number of European markets, Mexico and Russia.

- On a regional basis, sales in the US were down 8% to £108 million, and in Europe down 7% to £70 million, but sales in Emerging Markets were up 25% to £42 million and in Japan up 9% to £33 million.

- Immuno-inflammation

- 2014 (£214 million; up 40%)
Immuno-inflammation sales grew 40% to £214 million. Benlysta turnover in the year was £173 million, up 25%. In the US, Benlysta sales were £155 million, up 22%.

- Q4 2014 (£61 million; up 30%)
Immuno-inflammation sales grew 30% to £61 million. Benlysta turnover in the quarter was £49 million, up 32%. In the US, Benlysta sales were £44 million, up 30%.

- Other pharmaceuticals

- 2014 (£2,407 million; down 2%)
Other therapy areas were down 2% at £2,407 million, principally reflecting generic competition to Dermatology products, which primarily affected sales of Soriatane in the US, and by a decline in sales of Mepron in the Rare diseases category. These declines were partly offset by growth in Relenza sales of 39%, primarily in the US, and the inclusion of Theravance milestone income of £57 million (2013: £78 million).

- Q4 2014 (£665 million; down 8%)
Other therapy areas fell 8% to £665 million. This reflected a decline in sales of Augmentin, down 13% to £137 million, in part reflecting supply constraints, and a decline in sales of Mepron, in the Rare diseases category, down 16% to £21 million, following the start of generic competition in March 2014.

- ViiV Healthcare (HIV)

- 2014 (£1,498 million; up 15%)
ViiV Healthcare sales increased 15%, with the US up 28%, Europe up 6%, Japan up 35% and Emerging Markets down 4%. Tivicay recorded sales of £282 million, Epzicom/Kivexa sales increased 8% to £768 million but Selzentry sales were flat at £136 million. The launch of Triumeq is well underway and it recorded sales of £57 million in the year. This growth was partly offset by declines in the mature portfolio, mainly driven by generic competition to both Combivir, down 46% to £59 million, and Trizivir, down 61% to £36 million.

- Q4 2014 (£462 million; up 25%)
ViiV Healthcare sales increased 25%, with the US up 35%, Europe up 17%, Japan up 53% and Emerging Markets up 12%. The ongoing roll-out of Tivicay resulted in sales of £109 million in the quarter. Epzicom/Kivexa, which benefited from use in combination with Tivicay, increased 1% to £205 million but Selzentry sales fell 3% to £35 million. Triumeq sales were £48 million in the quarter. This growth was partly offset by declines in the mature portfolio, mainly driven

by generic competition to both Combivir, down 52% to £15 million, and Trizivir, down 65% to £9 million.

Established Products

2014 (£3,011 million; down 16%)
Established Products turnover fell 16% to £3,011 million. Sales in the US were down 31% to £854 million, Europe was down 13% to £601 million, Emerging Markets was down 1% to £1,050 million and Japan was down 15% to £444 million.

Generic competition to Lovaza, down 57% to £240 million, Seroxat/Paxil, down 19% to £210 million and Valtrex, down 24% to £154 million, all contributed to the decline in the category.

Q4 2014 (£777 million; down 16%)
Established Products turnover fell 16% to £777 million. Sales in the US were down 30% to £228 million, Europe was down 13% to £144 million and Japan was down 17% to £115 million, while sales in Emerging Markets increased 1% to £270 million.

Generic competition to Lovaza, down 62% to £55 million, Seroxat/Paxil, down 17% to £55 million and Valtrex, down 19% to £44 million, all contributed to the decline in the category.

Vaccines

	2014		Q4 2014	
	£m	CER%	£m	CER%
Infanrix, Pediarix	828	2	212	5
Boostrix	317	16	57	(38)
Cervarix	118	(26)	31	(29)
Fluarix, FluLaval	215	(9)	78	(8)
Hepatitis	558	(6)	148	-
Rotarix	376	7	85	(14)
Synflorix	398	4	130	(14)
Other	382	(6)	105	(7)
	3,192	(1)	846	(9)

2014 (£3,192 million; down 1%)
Vaccines sales fell 1% to £3,192 million with declines in Europe, down 2%, and Japan, down 14% being partly offset by growth in Emerging Markets of 1%. The US was flat. The Emerging Markets performance primarily reflected the strength of Synflorix, Boostrix and Rotarix.

Infanrix/Pediarix grew 2% to £828 million. Growth in the US benefited from a favourable comparison with 2013, which was impacted by a withdrawal from the CDC stockpile. This offset declines in Europe and Emerging Markets.

Boostrix sales increased 16% to £317 million, reflecting growth in all regions except the US. US sales fell 7% reflecting the return of a competitor during the year and some supply constraints.

- Cervarix sales declined 26% to £118 million in 2014, largely reflecting declines in Emerging Markets and Japan and increasing competitive pressures, particularly in the tender market.

- Fluarix/FluLaval sales declined 9% to £215 million due to lower production levels for 2014 and the impact of increased competitive pressures.

- Sales of hepatitis vaccines fell 6% to £558 million, in part reflecting supply constraints that impacted the US and Emerging Markets.

- Rotarix sales were up 7% to £376 million, with growth driven by tender shipments in Europe and Emerging Markets, partly offset by a decline in the US, which was impacted by a CDC stockpile withdrawal in Q4 2014.

- Synflorix sales grew 4% to £398 million, primarily reflecting a strong tender performance in Emerging Markets.

- Q4 2014 (£846 million; down 9%)
Vaccines sales declined 9% to £846 million with the US down 9% following the return to the market of a number of competitor products earlier in the year. Sales in Emerging Markets fell 16% and Europe was down 7%.

- Infanrix/Pediarix grew 5% to £212 million, primarily reflecting growth in the US, which benefited from a CDC stockpile replenishment in the quarter.

- Boostrix sales fell 38% to £57 million, largely driven by the US, which was impacted by an unfavourable comparison with Q4 2013, which benefited from the absence of a competitor vaccine as well as some supply constraints.

- Cervarix sales declined 29% to £31 million in the quarter, largely reflecting declines in Emerging Markets and Europe.

- Fluarix/FluLaval sales declined 8% to £78 million, in part due to lower production levels for 2014 and the impact of increased competitive pressures in Europe and Emerging Markets.

- Sales of hepatitis vaccines were flat at £148 million, with growth in the US of 18% reflecting the phasing of shipments during 2014, offset by the impact of some ongoing supply constraints in Emerging Markets.

- Rotarix sales were down 14% to £85 million, primarily driven by the US, which was impacted by a CDC stockpile withdrawal in Q4 2014.

- Synflorix sales fell 14% to £130 million, reflecting the phasing of tenders in Emerging Markets.

Consumer Healthcare

	2014		Q4 2014	
Turnover	£m	CER%	£m	CER%

USA	836	(8)	237	(4)
Europe	1,242	(5)	313	-
Rest of World	2,258	4	566	7
Total	4,336	(1)	1,116	2

	2014		Q4 2014	
Turnover	£m	CER%	£m	CER%
Wellness	1,596	(7)	420	(5)
Oral health	1,797	4	460	9
Nutrition	633	10	152	15
Skin health	310	(11)	84	(8)
Total	4,336	(1)	1,116	2
Total including divestments	4,336	(11)	1,116	(7)

2014 (£4,336 million; down 1%)

Consumer Healthcare turnover was down 1% in 2014, reflecting the impact of supply issues, comparison with a strong cold and flu season in early 2013 and slowing markets in the Rest of World. Estimated global market growth was approximately 3%.

Sales in the US and Europe were down 8% and 5%, respectively, reflecting both supply issues and product recalls, primarily on products for Smokers Health and alli. Growth in Rest of World markets of 4% was restricted by a slower economic environment, but did reflect some growth across most markets, partly offset by a 5% reduction of sales in China and a 52% decline in sales of Smokers Health products, both primarily due to supply issues.

Wellness sales were £1,596 million, down 7%, primarily due to the supply issues and product recalls that significantly impacted sales of products for Smokers Health, down 29%, and alli.

Oral health sales grew 4% to £1,797 million. The continued growth of Sensodyne, up 11%, was partly offset by a 10% decline in sales of Aquafresh which was impacted by supply issues in both Europe and the US, together with increased competition.

Nutrition sales grew 10% to £633 million. Horlicks was up 11%, reflecting continued growth in India, and Boost was up 9%.

Sales of products for Skin health were down 11% to £310 million, primarily due to lower sales of Bactroban in China.

Q4 2014 (£1,116 million; up 2%)

Consumer Healthcare turnover was up 2% in the quarter, reflecting an improving supply position, particularly in the Rest of World markets.

Sales in the US were down 4% and Europe was flat, both reflecting supply issues. Growth in Rest of World markets of 7% was led by India.

Wellness sales were £420 million, down 5%, primarily due to supply issues that significantly impacted sales of products for Smokers Health, down 28%, and alli.

Oral health sales grew 9% to £460 million. The continued growth of Sensodyne, up 11%, was complemented by the return to growth of Aquafresh, reflecting an improved supply position.

Nutrition sales grew 15% to £152 million. Horlicks, led by growth in India, was up 18%.

Sales of products for Skin health were down 8% to £84 million, primarily due to supply interruptions to Bactroban in China.

Sales from new pharmaceutical and vaccine launches

		2014		Q4 2014	
		£m	CER%	£m	CER%
Pharmaceuticals					
Respiratory:	Relvar/Breo Ellipta	67	>100	38	>100
	Anoro Ellipta	17	-	11	-
Oncology:	Tafinlar	135	>100	43	>100
	Mekinist	68	>100	21	>100
CVMU:	Duodart/Jalyn	230	17	63	16
	Eperzan/Tanzeum	6	-	2	-
Immuno-inflammation:	Benlysta	173	25	49	32
Other pharmaceuticals		9	(47)	3	(39)
ViiV Healthcare:	Tivicay	282	>100	109	>100
	Triumeq	57	-	48	-
Vaccines					
Nimenrix		19	69	6	-
Synflorix		398	4	130	(14)
		1,461	84	523	78

New products are those launched in the last five years (2010 to 2014 inclusive). Sales of new products were £1,461 million, grew 84% in the year and represented 8% of Pharmaceuticals and Vaccines turnover. In Q4 2014, sales of new products were £523 million, grew 78% and represented 10% of Pharmaceuticals and Vaccines turnover.

In Q4 2013, Breo Ellipta was launched in the US for COPD, and Relvar Ellipta was launched in Europe for COPD and asthma in Q1 2014. In addition, Anoro Ellipta was launched in the US in April 2014 for the treatment of COPD.

In Q3 2013, Tivicay was launched in the US and subsequently launched in Europe in Q1 2014. Triumeq was launched in both the US and Europe in Q3 2014.

Research and development

GSK remains focused on delivering an improved return on its investment in R&D. Sales contribution, reduced attrition and cost reduction are all important drivers of an improving internal rate of return. R&D expenditure is not determined as a percentage of sales but instead capital is allocated using strict returns based criteria depending on the pipeline opportunities available.

The operations of Pharmaceuticals R&D are broadly split into Discovery activities (up to the completion of phase IIa trials) and Development work (from phase IIb onwards) each supported by specific and common infrastructure and other shared services where appropriate. Phase IV costs and other administrative expenses are reported in SG&A and are not included in the table below, but are included in the Pharmaceutical R&D segment operating profit set out on pages 40 and 41. R&D expenditure for the year is analysed below.

	2014 £m	2013 £m
Discovery	739	742
Development	1,317	1,535
Facilities and central support functions	455	449
	2,511	2,726
Vaccines	443	496
Consumer Healthcare	159	172
Core R&D before divestments	3,113	3,394
Divestments	-	6
Core R&D including divestments	3,113	3,400
Amortisation and impairment of intangible assets	144	428
Major restructuring costs	116	39
Acquisition accounting and other	77	56
Total R&D	3,450	3,923

GSK's Phase III/Registration Pharmaceuticals and Vaccines pipeline

The table below is provided as part of our quarterly update to show events and changes to the late-stage pipeline during the quarter and up to the date of this announcement. There were several news events for late-stage pipeline assets in this quarter and these are listed in the table below. Triumeq was announced as being approved in the US and EU last quarter and has been removed from the table, as has Arnuity which was announced as being approved in the US.

Since Q3 2014 results, the following pipeline milestones have been achieved:

- Announced positive data from lung function study comparing Anoro Ellipta with Spiriva Handihaler were published in Respiratory Medicine;
- US and EU filings of mepolizumab for severe eosinophilic asthma;
- EU filing for Revolade for additional indication of treatment of adult patients with severe aplastic anaemia;
- Announced publication in NEJM of positive results from the COMBI-v study of the combination of Tafinlar and Mekinist in metastatic melanoma;
- EU filing for extension to the indication for Volibris for use in initial combination therapy with tadalafil for patients with PAH based on the results of the AMBITION study;
- Announced positive data from pivotal phase III ZOE-50 study to assess the efficacy of the Zoster vaccine for the prevention of shingles in adults aged 50 years and older;
- ViiV Healthcare announced regulatory submission in Japan for Triumeq for the treatment of HIV;
- Announced patient recruitment complete in Salford COPD study exploring Relvar compared to other COPD treatments in the clinical setting;
- US filing for additional indication for Promacta in paediatric patients six years and older with chronic ITP.

Respiratory		US	EU	News update in the quarter
Relvar/Breo Ellipta (FF/VI)	Asthma	Filed June 2014	Approved Nov 2013	Announced patient recruitment complete in SALFORD COPD study on 19 November 2014.
vilanterol (VI)	COPD	Ph III	Ph III	-
mepolizumab	Severe eosinophilic asthma	Filed Nov 2014	Filed Nov 2014	Announced filings with FDA and EMA on 5 November 2014.
	COPD	Ph III	Ph III	-
FF+UMEC+VI	COPD	Ph III	Ph III	-
Vaccines		US	EU	News update in the quarter
Nimenrix (MenACWY)	MenACWY prophylaxis	Ph II	Approved Apr 2012	-
MAGE-A3	Melanoma	Ph III	Ph III	-
HZ/su herpes zoster	Shingles prophylaxis	Ph III	Ph III	Announced positive efficacy data from the ZOE-50 phase III study on 18 December 2014.
Mosquirix (RTS,S)	Malaria prophylaxis	n/a	Filed July 2014	-
Oncology		US	EU	News update in the quarter
Arzerra (ofatumumab)	CLL (relapsed/relapsed maintenance)	Ph III	Ph III	-
	NHL (FL)	Ph III	Ph III	-
Mekinist (trametinib) + Tafinlar (dabrafenib) in combination use	Metastatic melanoma	Approved Jan 2014	Ph III	COMBI-v data published in NEJM on 16 November 2014.
	Adjuvant melanoma	Ph III	Ph III	-
Promacta/Revolade	Severe aplastic anaemia	Approved Aug 2014	Filed Nov 2014	Filed with EMA on 12 November 2014.

-

	Myelodysplastic syndrome (MDS)	Ph III	Ph III	-
Cardiovascular & Metabolic		US	EU	News update in the quarter
losmapimod	Acute coronary syndrome (ACS)	Ph III	Ph III	-
Immuno-inflammation		US	EU	News update in the quarter
Benlysta (s.c.)	Systemic lupus erythematosus	Ph III	Ph III	-
Benlysta (i.v.)	vasculitis	Ph III	Ph III	-
sirukumab	Rheumatoid arthritis	Ph III	Ph III	-
Rare diseases		US	EU	News update in the quarter
2696273 (Ex-vivo stem cell gene therapy)	Adenosine deaminase severe combined immune deficiency (ADA-SCID)	Ph II/III	Ph II/III	-
mepolizumab	Eosinophilic granulomatosis with polyangiitis (EGPA)	Ph III	Ph III	-
Infectious Diseases		US	EU	News update in the quarter
tafenoquine	Treatment and relapse prevention of Plasmodium vivax malaria	Ph III	n/a	-
Dermatology		US	EU	News update in the quarter
ofatumumab (s.c.)	Pemphigus vulgaris	Ph III	Ph III	-

Definitions

Core results

Core results exclude the following items from total results: amortisation and impairment of intangible assets (excluding computer software) and goodwill; major restructuring costs, including those costs following material acquisitions; legal charges (net of insurance recoveries) and expenses on the settlement of litigation and government investigations, and acquisition accounting adjustments relating to the consolidation of material acquisitions, disposals of associates, products and businesses, other operating income other than royalty income and other items, together with the tax effects of all of these items. GSK believes this approach provides a clearer view of the underlying performance of the core business and should make the Group's results more comparable with the majority of its peers.

During 2014, GSK has reported core results performance measured against 2013 core results excluding divestments completed during 2013. In addition, the charge for an additional year of the US Branded Prescription Drug fee, in accordance with the final regulations issued by the IRS in Q3 2014, has been recorded as a non-core item. The normal, ongoing charge remains in core results.

CER growth

In order to illustrate underlying performance, it is the Group's practice to discuss its results in terms of constant exchange rate (CER) growth. This represents growth calculated as if the exchange rates used to determine the results of overseas companies in Sterling had remained unchanged from those used in the comparative period. All commentaries are presented in terms

of CER growth, unless otherwise stated.

Free cash flow

Free cash flow is the net cash inflow from operating activities less capital expenditure, interest and dividends paid to non-controlling interests plus proceeds from the sale of property, plant and equipment and dividends received from joint ventures and associated undertakings. It is used by management for planning and reporting purposes and in discussions with and presentations to investment analysts and rating agencies. Free cash flow growth is calculated on a reported basis.

Adjusted free cash flow

Adjusted free cash flow excludes payments made to settle legal disputes.

Free cash flow conversion

Free cash flow conversion is free cash flow as a percentage of earnings excluding after-tax legal charges and legal settlements.

Adjusted net cash inflow from operating activities

Adjusted net cash inflow from operating activities excludes payments made to settle legal disputes.

Working capital conversion cycle

The working capital conversion cycle is calculated as the number of days sales outstanding plus days inventory outstanding, less days purchases outstanding.

Brand names and partner acknowledgements

Brand names appearing in italics throughout this document are trademarks of GSK or associated companies or used under licence by the Group.

Cautionary statement regarding forward-looking statements

GSK cautions investors that any forward-looking statements or projections made by GSK, including those made in this Announcement, are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Such factors include, but are not limited to, those described under Item 3.D 'Risk factors' in the company's Annual Report on Form 20-F for 2013.

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Financial information

Income statements

	2014 £m	2013 £m	Q4 2014 £m	Q4 2013 £m
TURNOVER	23,006	26,505	6,186	6,906
Cost of sales	(7,323)	(8,585)	(2,029)	(2,526)
Gross profit	15,683	17,920	4,157	4,380
Selling, general and administration	(8,246)	(8,480)	(2,207)	(2,200)
Research and development	(3,450)	(3,923)	(979)	(1,070)
Royalty income	310	387	67	98
Other operating income/(expense)	(700)	1,124	(347)	1,233
OPERATING PROFIT	3,597	7,028	691	2,441
Finance income	68	61	18	17
Finance expense	(727)	(767)	(189)	(176)
Profit on disposal of interest in associates and joint ventures	-	282	-	253
Share of after tax profits of associates and joint ventures	30	43	11	11

PROFIT BEFORE TAXATION	2,968	6,647	531	2,546
Taxation	(137)	(1,019)	494	(41)
Tax rate %	4.6%	15.3%	(93.0)%	1.6%
PROFIT AFTER TAXATION FOR THE PERIOD	2,831	5,628	1,025	2,505
Profit/(loss) attributable to non-controlling interests	75	192	(8)	44
Profit attributable to shareholders	2,756	5,436	1,033	2,461
	2,831	5,628	1,025	2,505
EARNINGS PER SHARE	57.3p	112.5p	21.5p	51.3p
Diluted earnings per share	56.7p	110.5p	21.3p	50.4p

Statement of comprehensive income

	2014 £m	2013 £m
Profit for the year	2,831	5,628
Items that may be reclassified subsequently to income statement:		
Exchange movements on overseas net assets and net investment hedges	(497)	(255)
Reclassification on liquidation of overseas subsidiaries	(219)	-
Deferred tax on exchange movements	(2)	-
Fair value movements on available-for-sale investments	29	367
Reclassification of fair value movements on available-for-sale investments	(155)	(38)
Deferred tax on fair value movements on available-for-sale investments	(78)	(29)
Deferred tax reversed on reclassification of available-for-sale investments	58	7
Fair value movements on cash flow hedges	5	(9)
Deferred tax on fair value movements on cash flow hedges	(1)	1
Reclassification of cash flow hedges to income statement	(5)	2
Share of other comprehensive income of associates and joint ventures	18	15
	(847)	61
Items that will not be reclassified to income statement:		
	16	(35)

Exchange movements on overseas net assets of non-controlling interests		
Actuarial (losses)/gains on defined benefit plans	(1,181)	847
Deferred tax on actuarial movements in defined benefit plans	262	(286)
	(903)	526
Other comprehensive (expense)/income for the year	(1,750)	587
Total comprehensive income for the year	1,081	6,215
Total comprehensive income for the year attributable to:		
Shareholders	990	6,058
Non-controlling interests	91	157
	1,081	6,215

Statement of comprehensive income

	Q4 2014 £m	Q4 2013 £m
Profit for the period	1,025	2,505
Items that may be reclassified subsequently to income statement:		
Exchange movements on overseas net assets and net investment hedges	(188)	(164)
Deferred tax on exchange movements	(2)	-
Fair value movements on available-for-sale investments	174	(78)
Reclassification of fair value movements on available-for-sale investments	(148)	(17)
Deferred tax on fair value movements on available-for-sale investments	(69)	(16)
Deferred tax reversed on reclassification of available-for-sale investments	55	4
Fair value movements on cash flow hedges	3	(3)
Deferred tax on fair value movements on cash flow hedges	(1)	-
Reclassification of cash flow hedges to income statement	(4)	-
Share of other comprehensive expense of associates and joint ventures	-	(21)
	(180)	(295)
Items that will not be reclassified to income statement:		
Exchange movements on overseas net assets of non-controlling interests	7	(7)
Actuarial (losses)/gains on defined benefit plans	(1,035)	376
Deferred tax on actuarial movements in defined benefit plans	207	(123)

	(821)	246
Other comprehensive expense for the period	(1,001)	(49)
Total comprehensive income for the period	24	2,456
Total comprehensive income for the period attributable to:		
Shareholders	25	2,419
Non-controlling interests	(1)	37
	24	2,456

Pharmaceuticals and Vaccines turnover
Year ended 31 December 2014

	Total		USA		Europe		Emerging Markets		Japan	
	£m	CER%	£m	CER%	£m	CER%	£m	CER%	£m	CER%
Respiratory	6,181	(10)	2,810	(18)	1,675	(3)	777	3	475	(2)
Avamys/Veramyst	238	5	31	(21)	69	4	73	15	48	10
Flixotide/Flovent	702	(6)	432	(6)	102	(9)	55	9	28	(24)
Relvar/Breo Ellipta	67	>100	29	>100	18	-	2	-	17	>100
Seretide/Advair	4,229	(15)	1,972	(25)	1,330	(5)	400	3	228	(6)
Ventolin	665	11	328	18	124	2	165	8	7	(11)
Other	280	(3)	18	>100	32	10	82	(18)	147	(3)
Oncology	1,202	33	509	41	417	29	169	30	65	17
Arzerra	54	(24)	28	(35)	23	(11)	1	-	3	>100
Mekinist	68	>100	67	>100	-	-	-	-	-	-
Promacta	231	34	91	32	71	36	29	50	33	27
Tafinlar	135	>100	58	>100	67	>100	-	-	-	-
Tyverb/Tykerb	171	(11)	45	(15)	67	(15)	47	13	8	(41)
Votrient	410	33	181	32	153	23	46	49	17	>100
Other	133	(1)	39	-	36	(10)	46	19	4	(33)
Cardiovascular, metabolic and urology (CVMU)	965	(3)	364	(16)	293	-	145	20	114	14
Avodart	805	1	258	(13)	280	8	113	20	114	14
Other	160	(21)	106	(23)	13	(63)	32	19	-	-
Immuno-inflammation	214	40	196	39	12	63	3	>100	-	-
Benlysta	173	25	155	22	12	63	3	>100	-	-
Other	41	>100	41	>100	-	-	-	-	-	-

Other pharmaceuticals	2,407	(2)	171	(31)	660	(4)	1,053	5	256	1
Dermatology	481	(18)	49	(56)	150	(8)	240	(9)	22	(7)
Augmentin	573	(2)	1	-	189	(2)	356	(1)	11	-
Other anti-bacterials	215	3	6	(14)	61	(3)	145	6	2	(33)
Rare diseases	417	(8)	67	(38)	134	9	40	(6)	157	(3)
Other	721	15	48	>100	126	(12)	272	30	64	16
Innovative Pharmaceuticals	10,969	(3)	4,050	(12)	3,057	-	2,147	7	910	2
Vaccines	3,192	(1)	930	-	978	(2)	1,056	1	27	(14)
Boostrix	317	16	163	(7)	78	26	55	>100	-	-
Cervarix	118	(26)	5	(17)	48	(16)	63	(24)	-	(100)
Fluarix, FluLaval	215	(9)	142	2	22	(34)	30	(23)	-	-
Hepatitis	558	(6)	234	(6)	186	(2)	97	(15)	-	-
Infanrix, Pediarix	828	2	297	15	369	(3)	104	(12)	-	-
Rotarix	376	7	86	(16)	67	19	179	18	28	28
Synflorix	398	4	-	-	40	(13)	355	7	-	-
Other	382	(6)	3	>100	168	(5)	173	(6)	(1)	<(100)
Innovative Pharmaceuticals and Vaccines	14,161	(3)	4,980	(10)	4,035	-	3,203	5	937	1
ViiV Healthcare (HIV)	1,498	15	670	28	534	6	142	(4)	63	35
Combivir	59	(46)	11	(67)	18	(52)	25	(20)	2	(15)
Epzicom/Kivexa	768	8	274	7	335	7	71	7	36	14
Lexiva/Agenerase	87	(17)	45	(24)	20	(25)	18	22	2	(27)
Selzentry	136	-	53	(4)	58	(3)	7	37	2	(16)
Tivicay	282	>100	200	>100	56	>100	1	-	14	-
Trizivir	36	(61)	10	(81)	22	(28)	1	(53)	-	-
Other	130	5	77	55	25	(30)	19	(33)	7	(22)
Established Products	3,011	(16)	854	(31)	601	(13)	1,050	(1)	444	(15)
Coreg	124	(1)	123	(1)	-	-	-	-	-	-
Hepsera	85	(5)	-	-	-	-	64	(3)	20	(8)
Imigran/Imitrex	172	(4)	83	5	61	2	6	-	17	(21)
Lamictal	531	3	253	(4)	106	1	78	10	89	22
Lovaza	240	(57)	238	(57)	-	-	-	-	-	-
Requip	109	(4)	7	-	39	(19)	14	14	48	6
Serevent	108	(12)	43	(12)	48	(9)	3	(25)	9	(23)
Seroxat/Paxil	210	(19)	-	-	43	(15)	62	(13)	98	(19)
Valtrex	154	(24)	26	(40)	27	(3)	33	(3)	50	(45)
Zeffix	166	(3)	3	(77)	8	(25)	141	7	13	(13)
Other	1,112	(12)	78	(28)	269	(19)	649	(3)	100	(17)
	18,670	(4)	-	-	-	-	-	-	-	

The table above includes the sales by product reported in the Other trading and unallocated pharmaceuticals segment (which includes Canada, Puerto Rico, Australasia, central vaccine

tender sales and contract manufacturing sales) in the total column only.

Pharmaceuticals and Vaccines turnover
Three months ended 31 December 2014

	Total		USA		Europe		Emerging Markets		Japan	
	£m	CER%	£m	CER%	£m	CER%	£m	CER%	£m	CER%
Respiratory	1,664	(11)	782	(20)	409	(5)	217	1	135	(2)
Avamys/Veramyst	58	15	8	33	15	(6)	20	17	11	22
Flixotide/Flovent	189	(8)	113	(10)	27	(3)	16	6	7	(33)
Relvar/Breo Ellipta	38	>100	15	>100	9	-	1	-	12	>100
Seretide/Advair	1,119	(18)	548	(27)	316	(9)	111	(2)	62	(16)
Ventolin	181	5	87	5	34	9	47	6	2	(33)
Other	79	8	11	>100	8	43	22	(15)	41	5
Oncology	335	30	150	45	106	28	47	9	19	31
Arzerra	12	(37)	6	(54)	6	20	1	-	1	-
Mekinist	21	>100	21	>100	-	-	-	-	-	-
Promacta	66	33	27	42	18	25	9	67	9	25
Tafinlar	43	>100	18	>100	21	>100	-	-	-	-
Tyverb/Tykerb	42	(8)	12	9	14	(21)	13	-	2	(25)
Votrient	115	32	54	36	39	17	13	36	6	>100
Other	36	(5)	12	71	8	(10)	11	(33)	1	(50)
Cardiovascular, metabolic and urology (CVMU)	260	(5)	108	(8)	70	(7)	42	25	33	9
Avodart	212	(3)	74	(8)	69	3	33	26	33	9
Other	48	(12)	34	(8)	1	(89)	9	22	-	-
Immuno-inflammation	61	30	56	34	3	100	1	-	-	-
Benlysta	49	32	44	30	3	100	1	-	-	-
Other	12	22	12	50	-	-	-	-	-	-
Other pharmaceuticals	665	(8)	61	17	192	2	275	2	74	(24)
Dermatology	123	(6)	13	8	36	(10)	63	(4)	5	(14)
Augmentin	137	(13)	-	-	46	(8)	85	(14)	3	-
Other anti-bacterials	59	7	2	-	16	(6)	41	17	1	(100)
Rare diseases	109	(11)	19	(30)	33	3	9	(29)	43	(4)
Other	237	(6)	27	>100	61	21	77	30	22	(48)
Innovative Pharmaceuticals	2,985	(6)	1,157	(10)	780	-	582	4	261	(7)
Vaccines	846	(9)	229	(9)	240	(7)	309	(16)	6	(25)
Boostrix	57	(38)	29	(58)	14	7	9	29	-	-
Cervarix	31	(29)	1	-	12	(32)	17	(32)	-	100

Fluarix, FluLaval	78	(8)	46	28	7	(67)	8	(64)	-	-
Hepatitis	148	-	67	18	47	(8)	24	(29)	-	-
Infanrix, Pediarix	212	5	76	21	97	2	23	(22)	-	-
Rotarix	85	(14)	9	(67)	17	20	47	4	7	(13)
Synflorix	130	(14)	-	-	6	(50)	124	(10)	-	-
Other	105	(7)	1	-	40	13	57	(17)	(1)	<(100)
Innovative Pharmaceuticals and Vaccines	3,831	(7)	1,386	(10)	1,020	(1)	891	(4)	267	(7)
ViiV Healthcare (HIV)	462	25	231	35	148	17	40	12	20	53
Combivir	15	(52)	3	(75)	3	(49)	7	(27)	-	-
Epzicom/Kivexa	205	1	77	(5)	86	5	18	15	10	15
Lexiva/Agenerase	23	(14)	12	(34)	4	(25)	6	>100	1	-
Selzentry	35	(3)	15	3	13	(12)	2	>100	-	(25)
Tivicay	109	>100	73	>100	24	>100	1	-	6	-
Trizivir	9	(65)	3	(79)	4	(36)	-	-	-	-
Other	66	92	48	>100	14	21	6	(25)	3	(50)
Established Products	777	(16)	228	(30)	144	(13)	270	1	115	(17)
Coreg	36	21	35	21	-	-	-	-	-	-
Hepsera	22	(4)	-	-	-	-	17	13	5	(17)
Imigran/Imitrex	44	-	22	17	15	7	1	-	5	(17)
Lamictal	149	2	73	(5)	27	-	23	20	27	26
Lovaza	55	(62)	54	(63)	-	-	-	-	-	-
Requip	28	7	2	-	7	(18)	4	67	14	7
Serevent	28	(10)	13	-	11	(21)	1	-	2	(33)
Seroxat/Paxil	55	(17)	-	-	12	8	15	(16)	25	(20)
Valtrex	44	(19)	7	(60)	6	-	8	-	12	(46)
Zeffix	39	(12)	1	(100)	2	(33)	33	-	4	(25)
Other	277	(12)	21	(12)	64	(21)	168	(2)	21	(27)
	5,070	(6)								

The table above includes the sales by product reported in the Other trading and unallocated pharmaceuticals segment (which includes Canada, Puerto Rico, Australasia, central vaccine tender sales and contract manufacturing sales) in the total column only.

Balance sheet

	31 December 2014 £m	31 December 2013 £m
ASSETS		
Non-current assets		
Property, plant and equipment	9,052	8,872
Goodwill	3,724	4,205

Other intangible assets	8,320	9,283
Investments in associates and joint ventures	340	323
Other investments	1,114	1,202
Deferred tax assets	2,688	2,084
Derivative financial instruments	-	1
Other non-current assets	735	889
Total non-current assets	25,973	26,859
Current assets		
Inventories	4,231	3,900
Current tax recoverable	138	129
Trade and other receivables	4,600	5,442
Derivative financial instruments	146	155
Liquid investments	69	66
Cash and cash equivalents	4,338	5,534
Assets held for sale	1,156	1
Total current assets	14,678	15,227
TOTAL ASSETS	40,651	42,086
LIABILITIES		
Current liabilities		
Short-term borrowings	(2,943)	(2,789)
Trade and other payables	(7,958)	(8,317)
Derivative financial instruments	(404)	(127)
Current tax payable	(945)	(1,452)
Short-term provisions	(1,045)	(992)
Total current liabilities	(13,295)	(13,677)
Non-current liabilities		
Long-term borrowings	(15,841)	(15,456)
Deferred tax liabilities	(445)	(693)
Pensions and other post-employment benefits	(3,179)	(2,189)
Other provisions	(545)	(552)
Derivative financial instruments	(9)	(3)
Other non-current liabilities	(2,401)	(1,704)
Total non-current liabilities	(22,420)	(20,597)
TOTAL LIABILITIES	(35,715)	(34,274)
NET ASSETS	4,936	7,812
EQUITY		
Share capital	1,339	1,336
Share premium account	2,759	2,595
Retained earnings	(2,074)	913

Other reserves	2,239	2,153
Shareholders' equity	4,263	6,997
Non-controlling interests	673	815
TOTAL EQUITY	4,936	7,812

Statement of changes in equity

	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Share-holder's equity £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	1,336	2,595	913	2,153	6,997	815	7,812
Profit for the year			2,756		2,756	75	2,831
Other comprehensive (expense)/income for the year			(1,626)	(140)	(1,766)	16	(1,750)
Total comprehensive income/(expense) for the year			1,130	(140)	990	91	1,081
Distributions to non-controlling interests						(205)	(205)
Dividends to shareholders			(3,843)		(3,843)		(3,843)
Changes in non-controlling interests			(58)		(58)	(28)	(86)
Shares issued	3	164			167		167
Forward contract relating to non-controlling interest				21	21		21
Ordinary shares purchased and held as Treasury shares			(238)		(238)		(238)
Shares acquired by ESOP Trusts			150	(245)	(95)		(95)
Write-down on shares held by ESOP Trusts			(450)	450			-
Share-based incentive plans			326		326		326
Tax on share-based incentive plans			(4)		(4)		(4)
At 31 December 2014	1,339	2,759	(2,074)	2,239	4,263	673	4,936
At 1 January 2013	1,349	2,022	642	1,787	5,800	937	6,737

Profit for the year			5,436		5,436	192	5,628
Other comprehensive income/(expense) for the year			316	306	622	(35)	587
Total comprehensive income for the year			5,752	306	6,058	157	6,215
Distributions to non-controlling interests						(238)	(238)
Dividends to shareholders			(3,680)		(3,680)		(3,680)
Changes in non-controlling interests			(584)		(584)	(41)	(625)
Shares issued	12	573			585		585
Ordinary shares purchased and cancelled or held as Treasury shares	(25)		(1,504)	25	(1,504)		(1,504)
Shares acquired by ESOP Trusts				(45)	(45)		(45)
Write-down on shares held by ESOP Trusts			(80)	80			-
Share-based incentive plans			294		294		294
Tax on share-based incentive plans			73		73		73
At 31 December 2013	1,336	2,595	913	2,153	6,997	815	7,812

Cash flow statement
Year ended 31 December 2014

	2014 £m	2013 £m
Profit after tax	2,831	5,628
Tax on profits	137	1,019
Share of after tax profits of associates and joint ventures	(30)	(43)
Profit on disposal of interest in associates	-	(282)
Net finance expense	659	706
Depreciation, amortisation, impairment and other adjusting items	2,026	1,415
(Increase)/decrease in working capital	(91)	46
Increase in other net liabilities	752	10
Cash generated from operations	6,284	8,499
Taxation paid	(1,108)	(1,277)
Net cash inflow from operating activities	5,176	7,222
Cash flow from investing activities		
Purchase of property, plant and equipment	(1,188)	(1,188)
Proceeds from sale of property, plant and equipment	39	46
Purchase of intangible assets	(563)	(513)
Proceeds from sale of intangible assets	330	136

Purchase of equity investments	(83)	(133)
Proceeds from sale of equity investments	205	59
Purchase of businesses, net of cash acquired	(104)	(247)
Disposal of businesses	225	1,851
Investment in associates and joint ventures	(9)	(8)
Proceeds from disposal of associates and joint ventures	1	429
Decrease in liquid investments	1	15
Interest received	63	59
Dividends from associates and joint ventures	5	18
Net cash (outflow)/inflow from investing activities	(1,078)	524
Cash flow from financing activities		
Issue of share capital	167	585
Shares acquired by ESOP Trusts	(95)	(45)
Shares purchased and cancelled or held as Treasury shares	(238)	(1,504)
Purchase of non-controlling interests	(679)	(588)
Increase in long-term loans	1,960	1,913
Repayment of short-term loans	(1,709)	(1,872)
Net repayment of obligations under finance leases	(23)	(31)
Interest paid	(707)	(749)
Dividends paid to shareholders	(3,843)	(3,680)
Distributions to non-controlling interests	(205)	(238)
Other financing items	(13)	(64)
Net cash outflow from financing activities	(5,385)	(6,273)
(Decrease)/increase in cash and bank overdrafts in the year	(1,287)	1,473
Cash and bank overdrafts at beginning of the year	5,231	3,906
Exchange adjustments	84	(148)
(Decrease)/increase in cash and bank overdrafts	(1,287)	1,473
Cash and bank overdrafts at end of the year	4,028	5,231
Cash and bank overdrafts at end of the year comprise:		
Cash and cash equivalents	4,338	5,534
Overdrafts	(310)	(303)
	4,028	5,231

Segment information

Operating segments are reported based on the financial information provided to the Chief Executive Officer and the responsibilities of the Corporate Executive Team (CET). Individual members of the CET are responsible for each geographic segment of the Pharmaceuticals and Vaccines business, ViiV Healthcare, Established Products and the Consumer Healthcare business as a whole, respectively. Certain product reclassifications, principally the OTC

dermatology brands acquired with the Stiefel business, have been made between the Pharmaceuticals and Consumer Healthcare segments in the majority of Emerging Markets with effect from 1 January 2014. Comparative information has been restated accordingly. In addition, 2014 core results growth rates have been calculated by measuring against 2013 core results excluding the divestments completed during 2013.

R&D investment is essential for the sustainability of the pharmaceutical businesses. However, for segment reporting, the US, Europe, Emerging Markets, Japan and Established Products Pharmaceuticals and Vaccines operating profits exclude allocations of globally funded R&D as well as central costs, principally corporate functions and unallocated manufacturing costs. The Group's management reporting process allocates intra-Group profit on a product sale to the market in which that sale is recorded, and the profit analyses below have been presented on that basis.

Other trading and unallocated pharmaceuticals and vaccines includes Canada, Puerto Rico, Australasia, central vaccine tender sales and contract manufacturing sales, together with costs such as vaccines R&D, central dermatology costs and central manufacturing costs not attributed to other segments.

Corporate and other unallocated costs and disposal profits include the costs of corporate functions.

Turnover by segment

	2014 £m	2013 (restated) £m	Growth CER%
USA	4,980	5,817	(10)
Europe	4,035	4,226	-
Emerging Markets	3,203	3,370	5
Japan	937	1,058	1
ViiV Healthcare	1,498	1,386	15
Established Products	3,011	3,874	(16)
Other trading and unallocated pharmaceuticals and vaccines	1,006	1,115	(1)
Pharmaceuticals and Vaccines	18,670	20,846	(4)
Consumer Healthcare	4,336	4,756	(1)
Segment turnover excluding divestments	23,006	25,602	(3)
Segment turnover including divestments	23,006	26,505	(7)

Operating profit by segment

	2014 £m	2013 (restated) £m	Growth CER%

USA	3,173	3,955	(16)
Europe	2,205	2,277	2
Emerging Markets	993	986	16
Japan	466	568	(2)
ViiV Healthcare	977	885	20
Established Products	1,793	2,352	(17)
Pharmaceuticals R&D	(2,708)	(2,823)	-
Other trading and unallocated pharmaceuticals and vaccines	(402)	(631)	(37)
Pharmaceuticals and Vaccines	6,497	7,569	(6)
Consumer Healthcare	657	829	(6)
Segment profit	7,154	8,398	(6)
Corporate and other unallocated costs and disposal profits	(560)	(627)	(2)
Core operating profit	6,594	7,771	(6)
Non-core items	(2,997)	(743)	
Total operating profit	3,597	7,028	(40)
Finance income	68	61	
Finance costs	(727)	(767)	
Profit on disposal of interest in associates and joint ventures	-	282	
Share of after tax profits of associates and joint ventures	30	43	
Profit before taxation	2,968	6,647	(46)

Turnover by segment

	Q4 2014 £m	Q4 2013 (restated) £m	Growth CER%
USA	1,386	1,514	(10)
Europe	1,020	1,100	(1)
Emerging Markets	891	983	(4)
Japan	267	316	(7)
ViiV Healthcare	462	385	25
Established Products	777	947	(16)
Other trading and unallocated pharmaceuticals and vaccines	267	328	(16)
Pharmaceuticals and Vaccines	5,070	5,573	(6)
Consumer Healthcare	1,116	1,127	2

Segment turnover excluding divestments	6,186	6,700	(5)
Segment turnover including divestments	6,186	6,906	(7)

Operating profit by segment

	Q4 2014 £m	Q4 2013 (restated) £m	Growth CER%
USA	922	1,028	(12)
Europe	541	572	2
Emerging Markets	293	352	(10)
Japan	134	192	(16)
ViiV Healthcare	302	223	43
Established Products	468	583	(17)
Pharmaceuticals R&D	(749)	(735)	2
Other trading and unallocated pharmaceuticals and vaccines	(145)	(173)	(7)
Pharmaceuticals and Vaccines	1,766	2,042	(9)
Consumer Healthcare	177	198	1
Segment profit	1,943	2,240	(8)
Corporate and other unallocated costs and disposal profits	(173)	(220)	(6)
Core operating profit	1,770	2,020	(9)
Non-core items	(1,079)	421	
Total operating profit	691	2,441	(69)
Finance income	18	17	
Finance costs	(189)	(176)	
Profit on disposal of interest in associates and joint ventures	-	253	
Share of after tax profits of associates and joint ventures	11	11	
Profit before taxation	531	2,546	(77)

Legal matters

The Group is involved in significant legal and administrative proceedings, principally product liability, intellectual property, tax, anti-trust and governmental investigations as well as related private litigation, which are more fully described in the 'Legal Proceedings' note in the Annual Report 2013, as updated by the Legal matters section of the Results Announcements for Q1, Q2

and Q3 2014 and by the Litigation and other proceedings section of the Group's Circular to Shareholders and Notice of General Meeting dated 24 November 2014.

At 31 December 2014, the Group's aggregate provision for legal and other disputes (not including tax matters described under 'Taxation' below) was £0.5 billion. The Group may become involved in significant legal proceedings in respect of which it is not possible to make a reliable estimate of the expected financial effect, if any, that could result from ultimate resolution of the proceedings. In these cases, the Group would provide appropriate disclosures about such cases, but no provision would be made.

The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations. The Group's position could change over time, and, therefore, there can be no assurance that any losses that result from the outcome of any legal proceedings will not exceed by a material amount the amount of the provisions reported in the Group's financial accounts.

There have been no significant developments since the quarter ended 30 September 2014.

Developments with respect to tax matters are described in 'Taxation' below.

Taxation

In the year to December 2014, tax on core profits amounted to £1,172 million, representing an effective core tax rate of 19.6% (2013: 23.0%). The reduction in core tax rate included the resolution of a number of matters that benefited the year and, in particular, the fourth quarter.

The reported charge for taxation on total profits amounted to £137 million, representing an effective tax rate of 4.6% (2013: 15.3%) and reflecting a number of non-recurring tax-only items. These included a £205 million benefit arising on the recognition of a deferred tax asset on tax losses expected to be used on completion of the Novartis transaction and adjustments to a number of tax provisions. Excluding these non-core items, the effective tax rate on total profits for 2014 would have been approximately 23%.

The Group's balance sheet at 31 December 2014 included deferred tax assets of £2,688 million, deferred tax liabilities of £445 million, a tax payable liability of £945 million and a tax recoverable asset of £138 million. The increase in deferred tax assets compared with 2013 primarily reflected the impact of the increase in provisions for pensions and other post-employment benefits in the year and the recognition of the tax losses to be used on completion of the Novartis transaction.

GSK continues to believe that it has made adequate provision for the liabilities likely to arise from periods which are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities.

Transfer pricing and other issues are as previously described in the 'Taxation' note in the Annual Report 2013. There have been no other material changes to tax matters since the publication of the Annual Report.

Additional information

Accounting policies and basis of preparation

This unaudited Results Announcement contains condensed financial information for the year and three months ended 31 December 2014, and should be read in conjunction with the Annual Report 2013, which was prepared in accordance with International Financial Reporting Standards as adopted by the European Union. This Results Announcement has been prepared applying consistent accounting policies to those applied by the Group in the Annual Report 2013, except that an amendment to IAS 32 'Offsetting financial assets and financial liabilities' has been implemented from 1 January 2014. This revision has not had a material impact on the results or financial position of the Group.

In addition, the segment information for 2013 has been restated to reflect changes made to segments in 2014 as set out under 'Segment information' above.

This Results Announcement does not constitute statutory accounts of the Group within the meaning of sections 434(3) and 435(3) of the Companies Act 2006. The full Group accounts for 2013 were published in the Annual Report 2013, which has been delivered to the Registrar of Companies and on which the report of the independent auditors was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

Exchange rates

GSK operates in many countries, and earns revenues and incurs costs in many currencies. The results of the Group, as reported in Sterling, are affected by movements in exchange rates between Sterling and other currencies. Average exchange rates, as modified by specific transaction rates for large transactions, prevailing during the period, are used to translate the results and cash flows of overseas subsidiaries, associates and joint ventures into Sterling. Period-end rates are used to translate the net assets of those entities. The currencies which most influenced these translations and the relevant exchange rates were:

		2014	2013	Q4 2014	Q4 2013
Average rates:					
	US$/£	1.65	1.57	1.59	1.63
	Euro/£	1.24	1.18	1.27	1.18
	Yen/£	175	153	181	165
Period-end rates:					
	US$/£	1.56	1.66	1.56	1.66
	Euro/£	1.29	1.20	1.29	1.20
	Yen/£	187	174	187	174

During 2014, average sterling exchange rates were stronger against the US Dollar, the Euro and the Yen compared with the same period in 2013. During the three months ended 31 December 2014 average sterling exchange rates were stronger against the Euro and the Yen but weaker against the US Dollar, compared with the same period in 2013.

Year-end Sterling exchange rates were stronger against the Euro and the Yen but weaker against the US Dollar compared with 2013 year-end rates.

Weighted average number of shares

	2014 millions	2013 millions
Weighted average number of shares – basic	4,808	4,831
Dilutive effect of share options and share awards	57	88
Weighted average number of shares – diluted	4,865	4,919

	Q4 2014 millions	Q4 2013 millions
Weighted average number of shares – basic	4,809	4,798
Dilutive effect of share options and share awards	51	83
Weighted average number of shares – diluted	4,860	4,881

At 31 December 2014, 4,811 million shares were in free issue (excluding Treasury shares and shares held by the ESOP Trusts). This compares with 4,791 million shares at 31 December 2013.

Net assets

The book value of net assets decreased by £2,876 million from £7,812 million at 31 December 2013 to £4,936 million at 31 December 2014. This primarily reflects the impact of dividends paid out in the year and share repurchases.

The carrying value of investments in associates and joint ventures at 31 December 2014 was £340 million, with a market value of £1,388 million. Assets held for sale amounted to £1,156 million at 31 December 2014 (31 December 2013: £1 million), and included £1,010 million in relation to the previously reported Novartis transaction as set out on page 45.

At 31 December 2014, the net deficit on the Group's pension plans was £1,689 million compared with £613 million at 31 December 2013. The increase in the net deficit primarily arose from decreases in the rates used to discount UK pension liabilities from 4.5% to 3.6%, and US pension liabilities from 4.6% to 3.8%, partly offset by a decrease in the UK inflation rate and an increase in UK asset values.

At 31 December 2014, the post-retirement benefits provision was £1,397 million compared with £1,246 million at 31 December 2013. The increase in the provision arose from the decrease in the rate used to discount the US provision together with a stronger US Dollar at the year end.

At 31 December 2014, the ESOP Trusts held 52.7 million GSK shares against the future exercise of share options and share awards. The carrying value of £151 million has been deducted from other reserves. The market value of these shares was £726 million.

During the year, GSK purchased £238 million of shares to be held as Treasury shares. At 31 December 2014, the company held 491.5 million Treasury shares at a cost of £6,917 million, which has been deducted from retained earnings.

Contingent liabilities

There were contingent liabilities at 31 December 2014 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are expected to arise from such contingent liabilities. Provision is made for the outcome of legal and tax disputes where it is both probable that the Group will suffer an outflow of funds and it is possible to make a reliable estimate of that outflow. Descriptions of the significant legal and tax disputes to which the Group is a party are set out on page 42.

Novartis transaction

On 22 April 2014, GSK announced a three-part inter-conditional transaction with Novartis AG involving its Consumer Healthcare, Vaccines and Oncology businesses.

As part of this proposed transaction, GSK and Novartis will create a new Consumer Healthcare business over which GSK will have majority control, with an equity interest of 63.5%. In addition, GSK will acquire Novartis' global Vaccines business (excluding influenza vaccines) for an initial cash consideration of $5.25 billion with subsequent potential milestone payments of up to $1.8 billion and ongoing royalties.

GSK will also divest its marketed Oncology portfolio, related R&D activities and rights to its AKT inhibitor and also grant commercialisation partner rights for future oncology products to Novartis for an aggregate cash consideration of $16 billion, of which $1.5 billion depends on the results of an ongoing clinical trial.

The transaction is expected to be completed during H1 2015, subject to approvals.

Related party transactions

The Group's significant related parties are its joint ventures and associates as disclosed in the 2013 Annual Report.

There were no material transactions with Directors during the year.

Reconciliation of cash flow to movements in net debt

	2014 £m	2013 £m
Net debt at beginning of the year	(12,645)	(14,037)
(Decrease)/increase in cash and bank overdrafts	(1,287)	1,473
Decrease in liquid investments	(1)	(15)
Net increase in long-term loans	(1,960)	(1,913)
Net repayment of short-term loans	1,710	1,872
Net repayment of obligations under finance leases	23	31

Net non-cash funds of subsidiaries acquired	-	(6)
Exchange adjustments	(193)	(34)
Other non-cash movements	(24)	(16)
(Increase)/decrease in net debt	(1,732)	1,392
Net debt at end of the year	(14,377)	(12,645)

Core results reconciliations

The reconciliations between core results and total results for 2014 and 2013 and also Q4 2014 and Q4 2013 are set out below.

Income statement – Core results reconciliation
Year ended 31 December 2014

	Core results £m	Intangible amortisation £m	Intangible impairment £m	Major restructuring £m	Legal costs £m	Acquisition accounting and other £m	Total results £m
Turnover	23,006	-	-	-	-		23,006
Cost of sales	(6,535)	(503)	(78)	(204)		(3)	(7,323)
Gross profit	16,471	(503)	(78)	(204)		(3)	15,683
Selling, general and administration	(7,074)	-		(430)	(548)	(194)	(8,246)
Research and development	(3,113)	(72)	(72)	(116)		(77)	(3,450)
Royalty income	310	-	-	-	-		310
Other operating income/(expense)	-	-	-	-		(700)	(700)
Operating profit	6,594	(575)	(150)	(750)	(548)	(974)	3,597
Net finance costs	(646)	-		(5)		(8)	(659)
Share of after tax profits of associates and joint ventures	30	-	-	-	-		30
Profit before taxation	5,978	(575)	(150)	(755)	(548)	(982)	2,968
Taxation	(1,172)	209	29	215	26	556	(137)
Tax rate %	19.6%	-	-	-	-		4.6%
Profit after taxation	4,806	(366)	(121)	(540)	(522)	(426)	2,831
Profit attributable to non-controlling	222	-	-	-		(147)	75

interests								
Profit attributable to shareholders	4,584	(366)	(121)	(540)	(522)	(279)	2,756	
Earnings per share	95.4p	(7.6)p	(2.5)p	(11.3)p	(10.9)p	(5.8)p	57.3p	
Weighted average number of shares (millions)	4,808						4,808	

Income statement – Core results reconciliation
Year ended 31 December 2013

	Core results (before divest-ments) £m	Divest-ments £m	Core results (incl. divest-ments) £m	Intangible amortisation £m	Intangible impairment £m	Major restruct-uring £m	Legal costs £m	Acquisition accounting and other £m	Total results £m
Turnover	25,602	903	26,505						26,505
Cost of sales	(7,075)	(474)	(7,549)	(450)	(408)	(178)			(8,585)
Gross profit	18,527	429	18,956	(450)	(408)	(178)			17,920
Selling, general and administration	(7,749)	(179)	(7,928)			(300)	(252)		(8,480)
Research and development	(3,394)	(6)	(3,400)	(97)	(331)	(39)		(56)	(3,923)
Royalty income	387		387						387
Other operating income/(expense)								1,124	1,124
Operating profit	7,771	244	8,015	(547)	(739)	(517)	(252)	1,068	7,028
Net finance costs	(692)		(692)			(6)		(8)	(706)
Profit on disposal of interest in associates and joint ventures	-							282	282
Share of after tax profits of associates and joint ventures	43		43						43

Profit before taxation	7,122	244	7,366	(547)	(739)	(523)	(252)	1,342	6,647
Taxation	(1,635)	(60)	(1,695)	149	226	145	9	147	(1,019)
Tax rate %	23.0%		23.0%						15.3%
Profit after taxation	5,487	184	5,671	(398)	(513)	(378)	(243)	1,489	5,628
Profit attributable to non-controlling interests	250		250					(58)	192
Profit attributable to shareholders	5,237	184	5,421	(398)	(513)	(378)	(243)	1,547	5,436
Earnings per share	108.4p	3.8p	112.2p	(8.2)p	(10.7)p	(7.8)p	(5.0)p	32.0p	112.5p
Weighted average number of shares (millions)	4,831								4,831

Income statement – Core results reconciliation
Three months ended 31 December 2014

	Core results £m	Intangible amortisation £m	Intangible impairment £m	Major restructuring £m	Legal costs £m	Acquisition accounting and other £m	Total results £m
Turnover	6,186						6,186
Cost of sales	(1,798)	(110)	(41)	(88)		8	(2,029)
Gross profit	4,388	(110)	(41)	(88)		8	4,157
Selling, general and administration	(1,864)			(267)	(75)	(1)	(2,207)
Research and development	(821)	(15)	(14)	(102)		(27)	(979)
Royalty income	67						67
Other operating income/(expense)	-					(347)	(347)
Operating profit	1,770	(125)	(55)	(457)	(75)	(367)	691
Net finance costs	(168)			(1)		(2)	(171)
Share of after tax profits of associates and joint ventures	11						11

Profit before taxation	1,613	(125)	(55)	(458)	(75)	(369)	531
Taxation	(246)	100	9	101	(14)	544	494
Tax rate %	15.3%						(93.0)%
Profit after taxation	1,367	(25)	(46)	(357)	(89)	175	1,025
Profit attributable to non-controlling interests	52					(60)	(8)
Profit attributable to shareholders	1,315	(25)	(46)	(357)	(89)	235	1,033
Earnings per share	27.3p	(0.4)p	(1.0)p	(7.4)p	(1.9)p	4.9p	21.5p
Weighted average number of shares (millions)	4,809						4,809

Income statement – Core results reconciliation
Three months ended 31 December 2013

	Core results (before divest-ments) £m	Divest-ments £m	Core results (incl. divest-ments) £m	Intangible amortisation £m	Intangible impairment £m	Major restruct-uring £m	Legal costs £m	Acquisition accounting and other £m	Total results £m
Turnover	6,700	206	6,906						6,906
Cost of sales	(1,903)	(103)	(2,006)	(127)	(327)	(66)			(2,526)
Gross profit	4,797	103	4,900	(127)	(327)	(66)			4,380
Selling, general and administration	(1,971)	(34)	(2,005)			(107)	(89)	1	(2,200)
Research and development	(904)	(1)	(905)	(23)	(126)	(2)		(14)	(1,070)
Royalty income	98		98						98
Other operating income/(expense)								1,233	1,233
Operating profit	2,020	68	2,088	(150)	(453)	(175)	(89)	1,220	2,441

Net finance costs	(155)		(155)			(2)		(2)	(159)
Profit on disposal of associates								253	253
Share of after tax profits of associates and joint ventures	11		11						11
Profit before taxation	1,876	68	1,944	(150)	(453)	(177)	(89)	1,471	2,546
Taxation	(414)	(17)	(431)	41	154	110	(17)	102	(41)
Tax rate %	22.1%		22.2%						1.6%
Profit after taxation	1,462	51	1,513	(109)	(299)	(67)	(106)	1,573	2,505
Profit attributable to non-controlling interests	69		69					(25)	44
Profit attributable to shareholders	1,393	51	1,444	(109)	(299)	(67)	(106)	1,598	2,461
Earnings per share	29.0p	1.1p	30.1p	(2.3)p	(6.2)p	(1.4)p	(2.2)p	33.3p	51.3p
Weighted average number of shares (millions)	4,798								4,798

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 authorised.

GlaxoSmithKline plc
(Registrant)

Date: February 04, 2015

By: VICTORIA WHYTE

Victoria Whyte
Authorised Signatory for and on behalf of GlaxoSmithKline plc