MORGAN STANLEY
Form 424B2
November 02, 2018

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	*Maximum Aggregate Offering Price*	*Amount of Registration Fee*
Buffered Performance Leveraged Upside Securities due 2023	$500,000	$60.60

October 2018

Pricing Supplement No. 1,065

Registration Statement Nos. 333-221595; 333-221595-01

Dated October 31, 2018

Filed pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC

Structured Investments

Opportunities in International Equities

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The Buffered PLUS are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The Buffered PLUS will pay no interest, provide a minimum payment at maturity of only 30% of the stated principal amount and have the terms described in the accompanying product supplement for PLUS, index supplement and prospectus, as supplemented or modified by this document. At maturity, if the underlying index has **appreciated** in value, investors will receive the stated principal amount of their investment plus leveraged upside performance of the underlying index. If the underlying index has **depreciated** in value, but the underlying index has not declined by more than the specified buffer amount, the Buffered PLUS will redeem for par. However, if the underlying index has declined by more than the buffer amount, investors will lose 1% for every 1% decline beyond the specified buffer amount, subject to the minimum payment at maturity of 30% of the stated principal amount. Investors may lose up to 70% of the stated principal amount of the Buffered PLUS. These long-dated Buffered PLUS are for investors who seek an equity index-based return and who are willing to risk their principal and forgo current income in exchange for the leverage and buffer features that in each case apply to a limited

range of performance of the underlying index. The Buffered PLUS 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 Buffered PLUS are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

FINAL Terms	
Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Maturity date:	November 3, 2023
Underlying index:	EURO STOXX 50® Index
Aggregate principal amount:	$500,000
Payment at maturity per Buffered PLUS:	If the final index value is greater than the initial index value: $1,000 + leveraged upside payment If the final index value is less than or equal to the initial index value but has decreased from the initial index value by an amount less than or equal to the buffer amount of 30%: $1,000 If the final index value is less than the initial index value and has decreased from the initial index value by an amount greater than the buffer amount of 30%: ($1,000 x the index performance factor) + $300 *Under these circumstances, the payment at maturity will be less than the stated principal amount of $1,000. However, under no circumstances will the Buffered PLUS pay less than $300 per Buffered PLUS at maturity.*
Leveraged upside payment:	$1,000 × leverage factor × index percent increase
Index percent increase:	(final index value – initial index value) / initial index value
Initial index value:	3,197.51, which is the index closing value on the pricing date
Final index value:	The index closing value on the valuation date
Valuation date:	October 31, 2023, subject to postponement for non-index business days and certain market disruption events
Leverage factor:	260%
Buffer amount:	30%. As a result of the buffer amount of 30%, the value at or above which the underlying index must close on the valuation date so that investors do not suffer a loss on their initial investment in the Buffered PLUS is 2,238.257, which is 70% of the initial index

	value.
Minimum payment at maturity:	$300 per Buffered PLUS (30% of the stated principal amount)
Index performance factor:	Final index value *divided* by the initial index value
Stated principal amount:	$1,000 per Buffered PLUS
Issue price:	$1,000 per Buffered PLUS (see "Commissions and issue price" below)
Pricing date:	October 31, 2018
Original issue date:	November 5, 2018 (3 business days after the pricing date)
CUSIP:	61768DGS8
ISIN:	US61768DGS80
Listing:	The Buffered PLUS will not be listed on any securities exchange.
Agent:	Morgan Stanley & Co. LLC ("MS & Co."), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See "Supplemental information regarding plan of distribution; conflicts of interest."
Estimated value on the pricing date:	$953.00 per Buffered PLUS. See "Investment Summary" beginning on page 2.

Commissions and issue price:	Price to public[1]	Agent's commissions and fees[2]	Proceeds to us[3]
Per Buffered PLUS	$1,000	$11.30	$988.70
Total	$500,000	$5,650	$494,350

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

(2) MS & Co. expects to sell all of the Buffered PLUS that it purchases from us to an unaffiliated dealer at a price of $988.70 per Buffered PLUS, for further sale to certain fee-based advisory accounts at the price to public of $1,000 per Buffered PLUS. MS & Co. will not receive a sales commission with respect to the Buffered PLUS. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement for PLUS.

(3) See "Use of proceeds and hedging" on page 14.

The Buffered PLUS involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 7.

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

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

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

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

Product Supplement for PLUS dated November 16, 2017 **Index Supplement dated November 16, 2017**

Prospectus dated November 16, 2017

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

Investment Summary

Buffered Performance Leveraged Upside Securities

Principal at Risk Securities

The Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023 (the "Buffered PLUS") can be used:

§ As an alternative to direct exposure to the underlying index that enhances returns for any potential positive performance of the underlying index

§ To enhance returns and potentially outperform the underlying index in a bullish scenario, with no limitation on the appreciation potential

§ To achieve similar levels of upside exposure to the underlying index as a direct investment, while using fewer dollars by taking advantage of the leverage factor.

§ To obtain a buffer against a specified level of negative performance in the underlying index

Maturity:	Approximately 5 years
Leverage factor:	260%
	None

Maximum payment at maturity:	
Buffer amount:	30%, with 1-to-1 downside exposure below the buffer
Minimum payment at maturity:	$300 per Buffered PLUS (30% of the stated principal amount). Investors may lose up to 70% of the stated principal amount of the Buffered PLUS.
Coupon:	None

The original issue price of each Buffered PLUS is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the Buffered PLUS, which are borne by you, and, consequently, the estimated value of the Buffered PLUS on the pricing date is less than $1,000. We estimate that the value of each Buffered PLUS on the pricing date is $953.00.

What goes into the estimated value on the pricing date?

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

In determining the economic terms of the Buffered PLUS, including the leverage factor, the buffer amount and the minimum payment at maturity, 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 Buffered PLUS would be more favorable to you.

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

The price at which MS & Co. purchases the Buffered PLUS in the secondary market, absent changes in market conditions, including those related to the underlying index, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the Buffered PLUS are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy

or sell the Buffered PLUS in the secondary market, absent changes in market conditions, including those related to the underlying index, 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.

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

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

Morgan Stanley Finance LLC

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Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

Key Investment Rationale

The Buffered PLUS offer leveraged upside exposure to the underlying index, while providing limited protection against negative performance of the underlying index. Once the underlying index has decreased in value by more than the specified buffer amount, investors are exposed to the negative performance of the underlying index, subject to the minimum payment at maturity. At maturity, if the underlying index has appreciated, investors will receive the stated principal amount of their investment plus leveraged upside performance of the underlying index. At maturity, if the underlying index has depreciated and (i) if the final index value of the underlying index has not declined from the initial index value by more than the specified buffer amount, the Buffered PLUS will redeem for par, or (ii) if the final index value of the underlying index has declined by more than the buffer amount, the investor will lose 1% for every 1% decline beyond the specified buffer amount, subject to the minimum payment at maturity. **Investors may lose up to 70% of the stated principal amount of the Buffered PLUS.**

Leveraged Performance Upside Scenario	The Buffered PLUS offer investors an opportunity to capture enhanced returns for any positive performance relative to a direct investment in the underlying index. The underlying index increases in value, and, at maturity, the Buffered PLUS redeem for the stated principal amount of $1,000 plus 260% of the index percent increase.
Par Scenario	The underlying index declines in value by no more than 30%, and, at maturity, the Buffered PLUS redeem for the stated principal amount of $1,000.
Downside Scenario	The underlying index declines in value by more than 30%, and, at maturity, the Buffered PLUS redeem for less than the stated principal amount by an amount that is proportionate to the percentage decrease of the underlying index from the initial index value, plus the buffer amount of 30%. (Example: if the underlying index decreases in value by 45%, the Buffered PLUS will redeem for $850.00, or 85.00% of the stated principal amount.) The minimum payment at maturity is $300 per Buffered PLUS.

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

How the Buffered PLUS Work

Payoff Diagram

The payoff diagram below illustrates the payment at maturity on the Buffered PLUS based on the following terms:

Stated principal amount:	$1,000 per Buffered PLUS
Leverage factor:	260%
Buffer amount:	30%
Maximum payment at maturity:	None
Minimum payment at maturity:	$300 per Buffered PLUS

Buffered PLUS Payoff Diagram

How it works

§ **Upside Scenario.** If the final index value is greater than the initial index value, investors will receive the $1,000 stated principal amount *plus* 260% of the appreciation of the underlying index over the term of the Buffered PLUS.

§ If the underlying index appreciates 2%, the investor would receive a 5.20% return, or $1,052.00 per Buffered PLUS.

§ **Par Scenario.** If the final index value is less than or equal to the initial index value but has decreased from the initial index value by an amount less than or equal to the buffer amount of 30%, investors will receive the stated principal amount of $1,000 per Buffered PLUS.

§ If the underlying index depreciates 5%, investors will receive the $1,000 stated principal amount.

- **Downside Scenario.** If the final index value is less than the initial index value and has decreased from the initial index value by an amount greater than the buffer amount of 30%, investors will receive an amount that is less than the stated principal amount by an amount that is proportionate to the percentage decrease of the value of the underlying index from the initial index value, plus the buffer amount of 30%. The minimum payment at maturity is $300 per Buffered PLUS.

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

§ For example, if the underlying index depreciates 65%, investors would lose 35.00% of their principal and receive only $650 per Buffered PLUS at maturity, or 65.00% of the stated principal amount.

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

Risk Factors

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

§ **Buffered PLUS do not pay interest and provide a minimum payment at maturity of only 30% of your principal.** The terms of the Buffered PLUS differ from those of ordinary debt securities in that the Buffered PLUS do not pay interest, and provide a minimum payment at maturity of only 30% of the stated principal amount of the Buffered PLUS, subject to our credit risk. If the final index value is less than 70% of the initial index value, you will receive for each Buffered PLUS that you hold a payment at maturity that is less than the stated principal amount of each Buffered PLUS by an amount proportionate to the decline in the closing value of the underlying index from the initial index value, plus $300 per Buffered PLUS. **Accordingly, investors may lose up to 70% of the stated principal amount of the Buffered PLUS.**

§ **The market price of the Buffered PLUS will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the Buffered PLUS in the secondary market and the price at which MS & Co. may be willing to purchase or sell the Buffered PLUS in the secondary market, including the value, volatility (frequency and magnitude of changes in value) and dividend yield of the underlying index, interest and yield rates in the market, time remaining until the Buffered PLUS mature, geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the underlying index or equities markets generally and which may affect the final index value of the underlying index and any actual or anticipated changes in our credit ratings or credit spreads. Generally, the longer the time remaining to maturity, the more the market price of the Buffered PLUS will be affected by the other factors described above. The value of the underlying index may be, and has recently been, volatile, and we can give you no assurance that the volatility will lessen. See "EURO STOXX 50® Index Overview" below. You may receive less, and possibly significantly less, than the stated principal amount per Buffered PLUS if you try to sell your Buffered PLUS prior to maturity.

§ **There are risks associated with investments in securities linked to the value of foreign equity securities.** The Buffered PLUS 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. 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 between countries.

- **The Buffered PLUS 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 Buffered PLUS.** You are dependent on our ability to pay all amounts due on the Buffered PLUS at maturity and therefore you are subject to our credit risk. If we default on our obligations under the Buffered PLUS, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the Buffered PLUS 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 Buffered PLUS.

- **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 MSFL securities if they make claims in respect of such securities 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 securities issued by MSFL should accordingly assume that in any such proceedings they would 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.

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

- **The amount payable on the Buffered PLUS is not linked to the value of the underlying index at any time other than the valuation date.** The final index value will be based on the index closing value on the valuation date, subject to postponement for non-index business days and certain market disruption events. Even if the value of the underlying index appreciates prior to the valuation date but then drops by the valuation date by more than 30% of the initial index value, the payment at maturity will be less, and may be significantly less, than it would have been had the payment at maturity been linked to the value of the underlying index prior to such drop. Although the actual value of the underlying index on the stated maturity date or at other times during the term of the Buffered PLUS may be higher than the index closing value on the valuation date, the payment at maturity will be based solely on the index closing value on the valuation date.

- **Investing in the Buffered PLUS is not equivalent to investing in the underlying index.** Investing in the Buffered PLUS is not equivalent to investing in the underlying index or its component stocks. As an investor in the Buffered PLUS, you will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute the underlying index.

- **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 Buffered PLUS in the original issue price reduce the economic terms of the Buffered PLUS, cause the estimated value of the Buffered PLUS 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 Buffered PLUS 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 Buffered PLUS in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the Buffered PLUS less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the Buffered PLUS are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the Buffered PLUS in the secondary market, absent changes in market conditions, including those related to the

underlying index, 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.

- **Adjustments to the underlying index could adversely affect the value of the Buffered PLUS.** The underlying index publisher may add, delete or substitute the stocks constituting the underlying index or make other methodological changes that could change the value of the underlying index. The underlying index publisher may discontinue or suspend calculation or publication of the underlying index 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 underlying index and is not precluded from considering 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 payment at maturity on the Buffered PLUS will be an amount based on the closing prices at maturity of the securities composing the underlying index at the time of such discontinuance, without rebalancing or substitution, computed by the calculation agent in accordance with the formula for calculating the underlying index last in effect prior to discontinuance of the underlying index.

- **The estimated value of the Buffered PLUS 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 Buffered PLUS than those generated by others, including other dealers in the market, if they attempted to value the Buffered PLUS. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your Buffered PLUS in the secondary market (if any exists) at any time. The value of your Buffered PLUS at any time after the date of this document 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 of the Buffered PLUS will be influenced by many unpredictable factors” above.

- **The Buffered PLUS will not be listed on any securities exchange and secondary trading may be limited.** The Buffered PLUS will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the Buffered PLUS. MS & Co. may, but is not obligated to, make a market in the Buffered PLUS 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

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

prices based on its estimate of the current value of the Buffered PLUS, 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 Buffered PLUS. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Buffered PLUS easily. Since other broker-dealers may not participate significantly in the secondary market for the Buffered PLUS, the price at which you may be able to trade your Buffered PLUS 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 Buffered PLUS, it is likely that there would be no secondary market for the Buffered PLUS. Accordingly, you should be willing to hold your Buffered PLUS to maturity.

- **The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the Buffered PLUS.** As calculation agent, MS & Co. has determined the initial index value, will determine the final index value and will calculate the amount of cash you receive at maturity. 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 index value in the event of a market disruption event or discontinuance of the underlying index. These potentially subjective determinations may adversely affect the payout to you at maturity. For further information regarding these types of determinations, see "Description of PLUS—Postponement of Valuation Date(s)" and "—Calculation Agent and Calculations" and related definitions in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the Buffered PLUS on the pricing date.

- **Hedging and trading activity by our affiliates could potentially adversely affect the value of the Buffered PLUS.** 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 Buffered PLUS (and possibly to other instruments linked to the underlying index or its component stocks), including trading in the stocks that constitute the underlying index as well as in other instruments related to the underlying index. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Buffered PLUS, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date approaches. Some of our affiliates also trade the stocks that constitute the underlying index and other financial instruments related to the underlying index 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 pricing date could have increased the initial index value, and, therefore, could have increased the value at or above which the underlying index must close on the valuation date so that investors do not suffer a loss on their initial investment in the Buffered PLUS. Additionally, such hedging or trading activities during the term of the Buffered PLUS, including on the valuation date, could adversely affect the closing value of the underlying index on the valuation date, and, accordingly, the amount of cash an investor will receive at maturity.

- **The U.S. federal income tax consequences of an investment in the Buffered PLUS are uncertain.** Please read the discussion under "Additional provisions—Tax considerations" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement for PLUS (together, the "Tax Disclosure Sections") concerning the U.S. federal income tax consequences of an investment in the Buffered PLUS. If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment, the timing and character of income on the Buffered PLUS 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 Buffered PLUS as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the Buffered PLUS every year at a "comparable yield" determined at the time of issuance and recognize all income and gain in respect of the Buffered PLUS as ordinary income. Additionally, as discussed under "United States Federal Taxation—FATCA" in the accompanying product supplement for PLUS, the withholding rules commonly referred to as "FATCA" would apply to the Buffered PLUS if they were recharacterized as debt instruments. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the Buffered PLUS, 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 Buffered PLUS, 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,

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

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 Buffered PLUS, 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 Buffered PLUS, 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.

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

EURO STOXX 50® Index Overview

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.

Information as of market close on October 31, 2018:

Bloomberg Ticker Symbol:	SX5E
Current Index Value:	3,197.51
52 Weeks Ago:	3,673.95
52 Week High (on 11/1/2017):	3,697.40
52 Week Low (on 10/24/2018):	3,130.33

The following graph sets forth the daily index closing values of the underlying index for each quarter in the period from January 1, 2013 through October 31, 2018. The related table sets forth the published high and low closing values, as well as end-of-quarter closing values, of the underlying index for each quarter in the same period. The index closing value of the underlying index on October 31, 2018 was 3,197.51. We obtained the information in the table and graph below from Bloomberg Financial Markets, without independent verification. The underlying index has at times experienced periods of high volatility. You should not take the historical values of the underlying index as an indication of its future performance, and no assurance can be given as to the index closing value of the underlying index on the valuation date.

EURO STOXX 50® Index

Daily Index Closing Values

January 1, 2013 to October 31, 2018

October 2018 Page 11

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

Buffered Performance Leveraged Upside Securities℠

Principal at Risk Securities

EURO STOXX 50® Index	High	Low	Period End
2013			
First Quarter	2,749.27	2,570.52	2,624.02
Second Quarter	2,835.87	2,511.83	2,602.59
Third Quarter	2,936.20	2,570.76	2,893.15
Fourth Quarter	3,111.37	2,902.12	3,109.00
2014			
First Quarter	3,172.43	2,962.49	3,161.60
Second Quarter	3,314.80	3,091.52	3,228.24
Third Quarter	3,289.75	3,006.83	3,225.93
Fourth Quarter	3,277.38	2,874.65	3,146.43
2015			
First Quarter	3,731.35	3,007.91	3,697.38
Second Quarter	3,828.78	3,424.30	3,424.30
Third Quarter	3,686.58	3,019.34	3,100.67
Fourth Quarter	3,506.45	3,069.05	3,267.52
2016			
First Quarter	3,178.01	2,680.35	3,004.93
Second Quarter	3,151.69	2,697.44	2,864.74
Third Quarter	3,091.66	2,761.37	3,002.24
Fourth Quarter	3,290.52	2,954.53	3,290.52
2017			
First Quarter	3,500.93	3,230.68	3,500.93
Second Quarter	3,658.79	3,409.78	3,441.88
Third Quarter	3,594.85	3,388.22	3,594.85
Fourth Quarter	3,697.40	3,503.96	3,503.96
2018			
First Quarter	3,672.29	3,278.72	3,361.50
Second Quarter	3,592.18	3,340.35	3,395.60
Third Quarter	3,527.18	3,293.36	3,399.20
Fourth Quarter (through October 31, 2018)	3,414.16	3,130.33	3,197.51

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

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the EURO STOXX 50® Index due November 3, 2023

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Additional Information About the Buffered PLUS

Please read this information in conjunction with the summary terms on the front cover of this document.

Additional Provisions:	
Underlying index publisher:	STOXX Limited
Interest:	None
Bull market or bear market PLUS:	Bull market PLUS
Postponement of maturity date:	If the scheduled valuation date is not an index business day or if a market disruption event occurs on that day so that the valuation date as postponed falls less than two business days prior to the scheduled maturity date, the maturity date of the Buffered PLUS will be postponed to the second business day following that valuation date as postponed.
Denominations:	$1,000 per Buffered PLUS and integral multiples thereof
Minimum ticketing size:	$1,000 / 1 Buffered PLUS
Tax considerations:	Although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the Buffered PLUS 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, a Buffered PLUS should be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes. Assuming this treatment of the Buffered PLUS is respected and subject to the discussion in "United States Federal Taxation" in the accompanying product supplement for PLUS, 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 Buffered PLUS prior to settlement, other than pursuant to a sale or exchange.

§ Upon sale, exchange or settlement of the Buffered PLUS, 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 Buffered PLUS. Such gain or loss should be long-term capital gain or loss if the investor has held the Buffered PLUS 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 Buffered PLUS, possibly with retroactive effect.

As discussed in the accompanying product supplement for PLUS, 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 Buffered PLUS do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the Buffered PLUS 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 Buffered PLUS.

Both U.S. and non-U.S. investors considering an investment in the Buffered PLUS should read the discussion under "Risk Factors" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement for PLUS and consult their tax advisers regarding all aspects of the U.S. federal income tax consequences of an investment in the Buffered PLUS,

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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 for PLUS, 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 Buffered PLUS.

Trustee: The Bank of New York Mellon

Calculation agent: MS & Co.

Use of proceeds and hedging: The proceeds from the sale of the Buffered PLUS will be used by us for general corporate purposes. We will receive, in aggregate, $1,000 per Buffered PLUS issued, because, when we enter into hedging transactions in order to meet our obligations under the Buffered PLUS, our hedging counterparty will reimburse the cost of the agent's commissions. The costs of the Buffered PLUS borne by you and described beginning on page 2 above comprise the agent's commissions and the cost of issuing, structuring and hedging the Buffered PLUS.

On or prior to the pricing date, we hedged our anticipated exposure in connection with the Buffered PLUS 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 underlying index and in futures and options contracts on the underlying index and any component stocks of the underlying index listed on major securities markets. Such purchase activity could have increased the value of the underlying index on the pricing date, and, therefore, could have increased the value at or above which the underlying index must close on the valuation date so that investors do not suffer a loss on their initial investment in the Buffered PLUS. In addition, through our affiliates, we are likely to modify our hedge position throughout the term of the Buffered PLUS, including on the valuation date, by purchasing and selling the stocks constituting the underlying index, futures or options contracts on the underlying index or its 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 Buffered PLUS, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date approaches. We cannot give any

assurance that our hedging activities will not affect the value of the underlying index, and, therefore, adversely affect the value of the Buffered PLUS or the payment you will receive at maturity. For further information on our use of proceeds and hedging, see “Use of Proceeds and Hedging” in the accompanying product supplement for PLUS.

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 Buffered PLUS. 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. and an increased use of sequencing capacity for commercial activity in the first quarter of fiscal 2002 as compared to the prior year. 38 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued R&D expense also decreased due to reduced personnel as a result of the transfer of the personnel and the assets and liabilities of a business unit to the Applied Biosystems group effective July 1, 2001. See Note 3 to the Celera Genomics group's condensed combined financial statements for a further discussion of this transfer. SG&A expenses remained relatively consistent year over year, with $12.6 million for the first quarter of fiscal 2002 compared with $13.0 million for the first quarter of fiscal 2001. The Celera Genomics group recorded non-cash amortization expenses of $.5 million in the first quarter of fiscal 2002 compared with $11.1 million in the first quarter of fiscal 2001 relating to the amortization of goodwill and other intangibles. Effective July 1, 2001, the Celera Genomics group adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," and as a result, the Celera Genomics group no longer amortizes goodwill. Interest expense was $.8 million in the first quarter of fiscal 2001 reflecting the financing of the purchase of the Celera Genomics group's Rockville, Maryland facilities. This financing was repaid in the second quarter of fiscal 2001; therefore, there was no interest expense in the first quarter of fiscal 2002. Interest income was $10.9 million for the first quarter of fiscal 2002 compared with $18.2 million for the first quarter of fiscal 2001. The decrease was primarily attributable to lower average interest rates during the first quarter of fiscal 2002. Other expense, net of $.7 million in the first quarter of fiscal 2002 consisted primarily of a loss from an equity method investment and other nonoperating costs. The effective income tax benefit rate was 37% for the first quarter of fiscal 2002 and 27% for the first quarter of fiscal 2001. The income tax benefit rate was lower in fiscal 2001 primarily because of the amortization of nondeductible goodwill during fiscal 2001. As discussed previously, the Celera Genomics group no longer amortizes goodwill due to the adoption of SFAS No. 142. Management's Discussion of Condensed Consolidated Financial Resources and Liquidity The following discussion of financial resources and liquidity focuses on the Company's Condensed Consolidated Statements of Financial Position and Condensed Consolidated Statements of Cash Flows, the Applied Biosystems group's Condensed Combined Statements of Financial Position and Condensed Combined Statements of Cash Flows, and the Celera Genomics group's Condensed Combined Statements of Financial Position and Condensed Combined Statements of Cash Flows. 39 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Significant Changes in the Condensed Consolidated Statements of Financial Position Cash and cash equivalents and short-term investments were $1.4 billion at September 30, 2001 and June 30, 2001, with total debt of $43.7 million at September 30, 2001 and $45.2 million at June 30, 2001. Working capital was $1.5 billion at September 30, 2001 and June 30, 2001. Debt to total capitalization was 2% at September 30, 2001 and June 30, 2001. Accounts receivable decreased by $25.9 million to $374.9 million at September 30, 2001 from $400.8 million at June 30, 2001, reflecting the lower net revenues in the first quarter of fiscal 2002 as compared to the fourth quarter of fiscal 2001 as well as the effect of currency translation. Prepaid expenses and other current assets decreased $14.3 million to $88.7 million at September 30, 2001 from $103.0 million at June 30, 2001, primarily due to a decrease in the fair value of financial instruments used for hedging. Other long-term assets decreased to $401.5 million at September 30, 2001 from $410.8 million at June 30, 2001. The fair value of the company's minority equity investments decreased $41.1 million primarily caused by the decline in market prices of the securities. These decreases were partially offset by an increase of $26.3 million in noncurrent deferred tax assets and spending of approximately $10 million for purchased licensed technology and supply agreements. Accrued salaries and wages decreased $6.1 million to $58.8 million at September 30, 2001 from $64.9 million at June 30, 2001. Accrued salaries and wages were higher at June 30, 2001 primarily due to accruals for fiscal year incentive compensation programs that were paid during the first quarter of fiscal 2002. Discussion of the Condensed Consolidated Statements of Cash Flows Operating activities generated $24.0 million of cash for the first three months of fiscal 2002 compared with a use of $61.8 million for the first three months of fiscal 2001. For the first three months of fiscal 2002 compared with the first three months of fiscal 2001, lower payments of compensation-related accruals, higher collections of accounts receivable balances, and lower tax-related payments were only partially offset by lower income-related cash flows and higher increases in inventory balances. For the first three months of fiscal 2002, net cash used by investing activities was $41.0 million, compared with $67.1 million for the first three months of fiscal 2001. Capital expenditures were $31.5 million for the first three months of fiscal 2002 compared with $76.7 million in the prior year. Capital expenditures were higher during fiscal 2001 primarily due to the Applied Biosystems group's purchase of additional property. During the first three months of fiscal 2002, the Company had net purchases of short-term investments of $9.6 million compared with net proceeds from maturities and sales of short-term investments of $.6 million during the prior year. During the first three months of fiscal 2001, the Company realized $12.0 million in net cash proceeds from the sale of minority equity investments. Investments made by the Company during the first three months of fiscal 2001 included Genomica Corporation and Hubit Genomix. 40 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued Net cash used by financing activities was $6.4 million for the first three months of fiscal 2002 compared with net cash provided by financing activities of $15.5 million for the first three months of fiscal 2001. During the first three months of fiscal 2002, the Company received $6.7 million of proceeds from stock issued for stock plans compared with $25.8 million during the first three months of fiscal 2001. Dividends paid were $9.0 million for the first three months of fiscal 2002 compared with $8.9 million for the first three months of fiscal 2001. The Company made net payments of $3.1 million on loans payable during the first three months of fiscal 2002 compared with $1.5 million during the first three months of fiscal 2001. During the first three months of fiscal 2002, the Company purchased $.9 million of Applera Corporation - Celera Genomics Group Common Stock for treasury. Discussion of Segment Financial Resources and Liquidity Applied Biosystems Group Significant Changes in the Applied Biosystems Group's Condensed Combined Statements of Financial Position Cash and cash equivalents were $422.7 million at September 30, 2001 and $392.5 at June 30, 2001, with total debt of $43.7 million at September 30, 2001 and $45.2 million at June 30, 2001. Working capital was $523.1 million at September 30, 2001 and $505.9 million at June 30, 2001. Debt to total capitalization was 4% at September 30, 2001 and June 30, 2001. Accounts receivable decreased by $28.4 million to $354.2 million at September 30, 2001 from $382.6 million at June 30, 2001, reflecting the lower net

revenues in the first quarter of fiscal 2002 as compared to the fourth quarter of fiscal 2001 as well as the effect of currency translation. Prepaid expenses and other current assets decreased $16.4 million to $81.7 million at September 30, 2001 from $98.1 million at June 30, 2001, primarily due to a decrease in the fair value of financial instruments used for hedging. Other long-term assets decreased to $337.6 million at September 30, 2001 from $348.6 million at June 30, 2001. The fair value of the company's minority equity investments decreased $41.1 million primarily caused by the decline in market prices of the securities of Millennium Pharmaceuticals, Inc. and Aclara Biosciences, Inc. These decreases were partially offset by an increase of $23.4 million in noncurrent deferred tax assets and spending of approximately $10 million for purchased licensed technology and supply agreements. Accounts payable decreased to $140.9 million at September 30, 2001 from $162.1 million at June 30, 2001 primarily due to the timing of vendor payments. 41 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued Discussion of the Applied Biosystems Group's Condensed Combined Statements of Cash Flows Operating activities generated $51.1 million of cash for the first three months of fiscal 2002 compared with a use of $54.6 million for the first three months of fiscal 2001. For the first three months of fiscal 2002 compared with the first three months of fiscal 2001, lower payments of compensation-related accruals, higher collections of accounts receivable balances, and lower tax-related payments were only partially offset by lower income-related cash flows and higher increases in inventory balances. For the first three months of fiscal 2002, net cash used by investing activities was $26.0 million, compared with $62.7 million for the first three months of fiscal 2001. Capital expenditures were $26.4 million, net of disposals, for the first three months of fiscal 2002 compared with $71.7 million in the prior year. Capital expenditures were higher during fiscal 2001 primarily due to the Applied Biosystems group's purchase of property in Pleasanton, California for approximately $54 million. During the first three months of fiscal 2001, the Applied Biosystems group realized $12.0 million in net cash proceeds from the sale of minority equity investments and invested $3 million in Genomica Corporation. Net cash used by financing activities was $8.9 million for the first three months of fiscal 2002 compared with net cash provided by financing activities of $7.3 million for the first three months of fiscal 2001. During the first three months of fiscal 2002, the Applied Biosystems group received $3.2 million of proceeds from stock issued for stock plans compared with $17.6 million during the first three months of fiscal 2001. Dividends paid on Applera Corporation -Applied Biosystems Group common stock were $9.0 million for the first three months of fiscal 2002 compared with $8.9 million for the first three months of fiscal 2001. The Applied Biosystems group made net payments of $3.1 million on loans payable during the first three months of fiscal 2002 compared with $1.5 million during the first three months of fiscal 2001. Celera Genomics Group Significant Changes in the Celera Genomics Group's Condensed Combined Statements of Financial Position Cash and cash equivalents and short-term investments were $968.3 million at September 30, 2001 compared with $995.6 million at June 30, 2001. Working capital was $931.9 million at September 30, 2001 and $945.1 million at June 30, 2001. Accounts payable decreased to $10.8 million at September 30, 2001 from $21.0 million at June 30, 2001 primarily due to the timing of vendor payments. Accrued salaries and wages decreased $4.6 million to $10.5 million at September 30, 2001 from $15.1 million at June 30, 2001. Accrued salaries and wages were higher at June 30, 2001 primarily due to accruals for fiscal year incentive compensation programs that were paid during the first quarter of fiscal 2002. 42 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued Discussion of the Celera Genomics Group's Condensed Combined Statements of Cash Flows Operating activities used $21.0 million of cash for the first three months of fiscal 2002 compared with $7.2 million for the first three months of fiscal 2001. For the first three months of fiscal 2002 compared with the first three months of fiscal 2001, lower reimbursements for the utilization of tax benefits by the Applied Biosystems group and higher payments to suppliers were only partially offset by lower net cash operating losses. During the first quarter of fiscal 2001, the Applied Biosystems group had begun utilizing tax benefits in excess

of the maximum reimbursable amount. See Note 1 to the Celera Genomics group's combined financial statements in the Company's 2001 Annual Report to Stockholders for a discussion of allocations of federal and state income taxes. For the first three months of fiscal 2002, net cash used by investing activities was $21.1 million, compared with $4.3 million for the first three months of fiscal 2001. During the first three months of fiscal 2002, the Celera Genomics group had net purchases of short-term investments of $9.6 million compared with net proceeds from maturities and sales of short-term investments of $.6 million during the prior year. During the first three months of fiscal 2002, the Celera Genomics group made investments of $8.3 million, which were primarily related to the Celera Diagnostics joint venture. Net cash generated by financing activities was $2.6 million for the first three months of fiscal 2002 compared with net cash provided by financing activities of $8.2 million for the first three months of fiscal 2001. During the first three months of fiscal 2002, the Celera Genomics group received $3.5 million of proceeds from stock issued for stock plans compared with $8.2 million during the first three months of fiscal 2001. During the first three months of fiscal 2002, the Company purchased $.9 million of Applera Corporation - Celera Genomics Group Common Stock for treasury. Recently Issued Accounting Standards In October 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS 144 is effective for the Company's fiscal year 2003 and is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in more dispositions being reported as discontinued operations than is permitted under current accounting principles. In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which will be effective for the Company beginning fiscal year 2003. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company has not yet determined the impact of adopting SFAS 143 on the Company's financial statements. 43 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued Outlook Applied Biosystems Group Current economic and political uncertainties add risk to the business outlook. The Applied Biosystems group's expectations for performance for the full fiscal year 2002 remain unchanged from the outlook given for the Applied Biosystems group in the Company's 2001 Annual Report to Stockholders. However, the Applied Biosystems group believes it may encounter softness in the next two quarters relative to the outlook given in the Company's 2001 Annual Report to Stockholders. Year-to-year sales growth rates for the second and third quarters of fiscal 2002 currently are expected to be in the low to mid single digits, rising to double digits in the fourth fiscal quarter ended June 30, 2002 and accelerating in the second half of calendar 2002 toward the Applied Biosystems group's annual target of 20 percent top-line growth. For fiscal 2002 overall, the Applied Biosystems group continues to anticipate sales growth of approximately 7% to 9% assuming current currency rates remain unchanged. The Applied Biosystems group continues to expect diluted earnings per share for fiscal 2002 to be in the range of $0.95 to $1.00. Given recent events, the Applied Biosystems group believes it is likely that diluted earnings per share will be toward the lower end of this range. Diluted earnings per share may be flat versus prior year in the second and third quarters and attain substantially higher growth in the fourth quarter as better year-to-year comparisons and a ramp up in sales of newer products should accelerate sales and profit performance. The Applied Biosystems group expects gross margin to be in the range of 50% to 52% for the balance of fiscal 2002. Research and development expenditures are anticipated to increase, in percentage terms, in the mid teens in fiscal 2002 over prior year levels and anticipated to approximate 12 percent of sales in fiscal 2002. Selling, general and administrative expenses are expected to rise somewhat more slowly than revenue during the full fiscal year 2002. Capital spending in fiscal 2002 is anticipated to be approximately $110 million. Celera Genomics

Group In June 2001, the Company signed a definitive merger agreement to acquire Axys Pharmaceuticals, Inc. ("Axys") in a stock-for-stock transaction. Axys is an integrated small molecule drug discovery and development company that is developing products for chronic therapeutic applications through collaborations with pharmaceutical companies and has a proprietary product portfolio in oncology. If the merger is consummated, the Company expects to issue approximately 5.5 million shares of Applera - Celera stock in exchange for all of the outstanding shares of Axys common stock. If the merger is consummated, the Celera Genomics group expects to record a noncash charge of between $65 million and $75 million for the write-off of in-process research and development upon consummation of the merger. The following discussion in this outlook includes the anticipated impact of this proposed merger, which is expected to close in mid-November 2001. 44 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued The Celera Genomics group continues to expect a 40% to 50% increase in revenues in fiscal 2002 as compared to fiscal 2001. In an effort to manage sequencing capacity and priorities between internal programs such as the Celera Genomics group's participation in the collaborative genomics program among the Company's businesses and its service and contract commitments, the Celera Genomics group plans to allocate a larger portion of its sequencing capacity toward revenue generating customer commitments in the second quarter in comparison to other quarters of the year. This is expected to shift the timing of approximately $4 million to $6 million of revenue to the second quarter from the third quarter, and to a lesser extent, from the first quarter. The Celera Genomics group expects fiscal 2002 R&D expenses to approximate $165 million to $180 million and expects only a modest increase for fiscal 2002 SG&A expenses in comparison to fiscal 2001 SG&A expenses of $58.3 million. The Company expects fiscal 2002 pre-tax losses related to the Celera Diagnostics joint venture to be approximately $55 million to $65 million. Based on the expectations outlined above, the most likely range for Celera's fiscal 2002 net cash use is expected to be between $155 million and $170 million. This outlook reflects the expected impact of lower interest rates on interest income, and approximately $11 million in anticipated one time costs related to the Axys transaction. Forward-Looking Statements Certain statements contained in this report, including the Outlook section, are forward-looking and are subject to a variety of risks and uncertainties. These statements may be identified by the use of forward-looking words or phrases such as "believe," "expect," "anticipate," "should," "plan," "estimate," and "potential," among others. These forward-looking statements are based on the Company's current expectations. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for such forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's businesses include, but are not limited to: Factors Relating to the Applied Biosystems Group Rapidly changing technology in life sciences could make the Applied Biosystems group's product line obsolete unless it continues to improve existing products, develop new products, and pursue new market opportunities. A significant portion of the net revenues for the Applied Biosystems group each year is derived from products that did not exist in the prior year. The Applied Biosystems group's future success depends on its ability to continually improve its current products, develop and introduce, on a timely and cost-effective basis, new products that address the evolving needs of its customers, and pursue new market opportunities that develop as a result of technological and scientific advances in life sciences. The Applied Biosystems group's products are based on complex 45 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued technology which is subject to rapid change as new technologies are developed and introduced in the marketplace. Unanticipated difficulties or delays in replacing existing products with new products could adversely affect the Applied Biosystems group's future operating results. The pursuit of new market opportunities will add further complexity and require

additional management attention and resources as these markets are addressed. A significant portion of sales depends on customers' capital spending policies that may be subject to significant and unexpected decreases. A significant portion of the Applied Biosystems group's instrument product sales are capital purchases by its customers. The Applied Biosystems group's customers include pharmaceutical, environmental, research, biotechnology, and chemical companies, and the capital spending policies of these companies can have a significant effect on the demand for the Applied Biosystems group's products. These policies are based on a wide variety of factors, including the resources available to make purchases, the spending priorities among various types of research equipment, and policies regarding capital expenditures during recessionary periods. Any decrease in capital spending or change in spending policies of these companies could significantly reduce the demand for the Applied Biosystems group's products. A substantial portion of the Applied Biosystems group's sales is to customers at universities or research laboratories whose funding is dependent on both the level and timing of funding from government sources. As a result, the timing and amount of revenues from these sources may vary significantly due to factors that can be difficult to forecast. Although research funding has increased during the past several years, grants have, in the past, been frozen for extended periods or otherwise become unavailable to various institutions, sometimes without advance notice. Budgetary pressures may result in reduced allocations to government agencies that fund research and development activities. If government funding necessary to purchase the Applied Biosystems group's products were to become unavailable to researchers for any extended period of time, or if overall research funding were to decrease, the business of the Applied Biosystems group could be adversely affected. The Applied Biosystems group is currently and could in the future be subject to claims for infringement of patents and other intellectual property rights. The Applied Biosystems group's products are based on complex, rapidly developing technologies. These products could be developed without knowledge of previously filed but unpublished patent applications that cover some aspect of these technologies. In addition, there are relatively few decided court cases interpreting the scope of patent claims in these technologies, and the Applied Biosystems group's belief that its products do not infringe the technology covered by valid patents could be successfully challenged by third parties. Also, in the course of its business, the Applied Biosystems group may from time to time have access to confidential or proprietary information of third parties, and these parties could bring a theft of trade secret claim against the Applied Biosystems group asserting that the Applied Biosystems group's products improperly use technologies which are not patented but which are protected as trade secrets. The Applied Biosystems group has been made a party to litigation regarding intellectual property matters, including the patent litigation described in the next paragraph, some of which, if determined adversely, could have a material adverse effect on the Applied Biosystems group. Due to the fact that the Applied Biosystems group's business depends in large part on rapidly developing and 46 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued dynamic technologies, there remains a constant risk of intellectual property litigation affecting the group. The Applied Biosystems group has from time to time been notified that it may be infringing patents and other intellectual property rights of others. It may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, and the Applied Biosystems group cannot be assured that it will be able to obtain these licenses or other rights on commercially reasonable terms. The Company is currently subject to patent litigation with Amersham Pharmacia Biotech, Inc. and Molecular Dynamics, Inc. In the litigation, Amersham and Molecular Dynamics allege that the Applied Biosystems group has infringed four Amersham patents as a result of the Applied Biosystems group's sale of DNA sequencing instrumentations and reagents. Also in the litigation, the Company has brought suit against Amersham and Molecular Dynamics alleging that they have infringed two of the Company's patents as a result of their sale of their DNA sequencing instrumentations and reagents. At present, these lawsuits are not scheduled for trial. The sale of DNA sequencing instrumentation and reagents is an important part of the Applied Biosystems

group's business. If these lawsuits proceed to trial, the cost of the litigation, and the amount of management time that will be devoted to the litigation, will be significant. There can be no assurance that this litigation will be resolved favorably to the Company or either the Celera Genomics group or the Applied Biosystems group, that the Company and both of its groups will not be enjoined from selling the products in question or other products as a result, or that any monetary or other damages assessed against the Company will not have a material adverse effect on the financial condition of the Company, the Celera Genomics group, or the Applied Biosystems group. Since the Applied Biosystems group's business is dependent on foreign sales, fluctuating currencies will make revenues and operating results more volatile. Approximately 50% of the Applied Biosystems group's net revenues during fiscal 2001 were derived from sales to customers outside of the United States. The majority of these sales were based on the relevant customer's local currency. A significant portion of the related costs for the Applied Biosystems group are based on the U.S. dollar. As a result, the Applied Biosystems group's reported and anticipated operating results and cash flows are subject to fluctuations due to material changes in foreign currency exchange rates that are beyond the Applied Biosystems group's control. Integrating acquired technologies may be costly and may not result in technological advances. The future growth of the Applied Biosystems group depends in part on its ability to acquire complementary technologies through acquisitions and investments. The consolidation of employees, operations, and marketing and distribution methods could present significant managerial challenges. For example, the Applied Biosystems group may encounter operational difficulties in the integration of manufacturing or other facilities. In addition, technological advances resulting from the integration of technologies may not be achieved as successfully or rapidly as anticipated, if at all. Electricity shortages and earthquakes could disrupt operations in California. The headquarters and principal operations of the Applied Biosystems group are located in Foster City, California. The State of California and its principal electrical utility companies have recently indicated that there is a 47 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued statewide electricity shortage and that these utility companies are in poor financial condition. As a result, California has experienced temporary localized electricity outages, or rolling blackouts, which may continue or worsen into blackouts of longer duration in the future. Blackouts in Foster City, even of modest duration, could impair or cause a temporary suspension of the group's operations, including the manufacturing and shipment of new products. Power disruptions of an extended duration or high frequency could have a material adverse effect on operating results. In addition, Foster City is located near major California earthquake faults. The ultimate impact of earthquakes on the Applied Biosystems group, its significant suppliers, and the general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake. The Celera Genomics group/Applied Biosystems group Joint Venture's ability to develop proprietary diagnostic products is unproven. The Company has announced the formation of Celera Diagnostics, a joint venture between the Applied Biosystems group and the Celera Genomics group in the field of diagnostics. Celera Diagnostics faces the difficulties inherent in developing and commercializing diagnostic tests and in building and operating a commercial research and development program. Celera Diagnostics' ability to develop proprietary diagnostic products is unproven, and it is possible that Celera Diagnostics' discovery process will not result in any commercial products or services. Even if Celera Diagnostics is able to develop products and services, it is possible that these products and services may not be commercially viable or successful due to a variety of reasons, including difficulty obtaining regulatory approvals, competitive conditions, the inability to obtain necessary intellectual property protection, the need to build distribution channels, failure to get adequate reimbursement for these products from insurance or government payors, or the inability of Celera Diagnostics to recover its development costs in a reasonable period. Factors Relating to the Celera Genomics Group The Celera Genomics group has incurred net losses to date and may not achieve profitability. The Celera Genomics group has accumulated net losses of $380.6 million as of September 30, 2001, and expects

that it will continue to incur additional net losses for the foreseeable future. These losses are expected to increase as the Celera Genomics group increases its investments in new technology and product development, including investments for the development of its therapeutics discovery and development business and investments in Celera Diagnostics, its joint venture with the Applied Biosystems group, for the development of Celera Diagnostics' diagnostics business. The Celera Genomics group will record all initial operating losses of Celera Diagnostics up to a maximum of $300 million, after which any additional operating losses would be shared equally by the Celera Genomics group and the Applied Biosystems group. As an early stage business, the Celera Genomics group faces significant challenges in simultaneously expanding its operations, pursuing key scientific goals and attracting customers for its information products and services. As a result, there is a high degree of uncertainty that the Celera Genomics group will be able to achieve profitable operations. The Celera Genomics group's business plan depends heavily on continued assembly and annotation of the human and mouse genomes. In June 2000, the Celera Genomics group and the Human 48 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued Genome Project each announced the "first assembly" of the human genome, and in April 2001, the Celera Genomics group announced the assembly of the mouse genome. Assembly is the process by which individual fragments of DNA, the molecule that forms the basis of the genetic material in virtually all living organisms, are pieced together into their appropriate order and place on each chromosome within the genome. The Celera Genomics group's first assembly of the human genome covered approximately 95% of that genome, and its assembly of the mouse genome covered approximately 99% of that genome. The Celera Genomics group intends to continue updating its assembly of the human and mouse genomes as it continues to annotate these genomes. Annotation is the process of assigning features or characteristics to each chromosome. Each gene on each chromosome is given a name, its structural features are described, and proteins encoded by genes are classified into possible or known function. The Celera Genomics group's ability to retain its existing customers and attract new customers for its genome database business is heavily dependent upon the continued assembly and annotation of these genomes. This information is also essential to the therapeutics discovery and development components of the Celera Genomics group's business strategy in which the Celera Genomics group intends to make substantial investments in the near future. As a result, failure to update the assembly and annotation efforts in a timely manner may have a material adverse effect on the Celera Genomics group's business. The Celera Genomics group's revenue growth depends on retaining existing customers and adding new customers. The revenues that the Celera Genomics group expects to receive from its existing customers will offset only a portion of its expenses. In order to generate significant additional revenues, the Celera Genomics group must obtain additional customers and retain its existing customers. The Celera Genomics group's ability to retain existing customers and add new customers depends upon customers' continued belief that the Celera Genomics group's products can help accelerate their drug discovery and development efforts and fundamental discoveries in biology. Although customer agreements typically have multiple year terms, there can be no assurance that any will be renewed upon expiration. The Celera Genomics group's future revenues are also affected by the extent to which existing customers expand their agreements to include new services and database products. In some cases, the Celera Genomics group may accept milestone payments or future royalties on products developed by its customers as consideration for access to the Celera Genomics group's databases and products in lieu of a portion of subscription fees. These arrangements are unlikely to produce revenue for the Celera Genomics group for a number of years, if ever, and depend heavily on the research and product development, sales and marketing and intellectual property protection abilities of the customer. Use of genomics information to develop or commercialize products is unproven. The development of new drugs and the diagnosis of disease based on information derived from the study of the genetic material of organisms, or genomics, is unproven. Few therapeutic or diagnostic products based on genomic discoveries have been developed and commercialized and to date no one has developed or

commercialized any therapeutic or diagnostic products based on the Celera Genomics group's technologies. If the Celera Genomics group or its customers are unsuccessful in developing and 49 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued commercializing products based on the group's databases or other products or services, customers and the Celera Genomics group may be unable to generate sufficient revenues and the Celera Genomics group's business may suffer as a result. Development of these products will be subject to risks of failure, including that these products will be found to be toxic, be found to be ineffective, fail to receive regulatory approvals, fail to be developed prior to the successful marketing of similar products by competitors or infringe on proprietary rights of third parties. The industry in which the Celera Genomics group operates is intensely competitive and evolving. There is intense competition among entities attempting to interpret segments of the human genome and identify genes associated with specific diseases and develop products, services and intellectual property based on these discoveries. The Celera Genomics group faces competition in these areas from genomic, pharmaceutical, biotechnology and diagnostic companies, academic and research institutions and government or other publicly-funded agencies, both in the United States and abroad. A number of companies, other institutions and government-financed entities are engaged in gene and protein analysis, and some of them are developing databases containing gene, protein, and related biological information and are marketing or plan to market their data to pharmaceutical and biotechnology companies and academic and research institutions. Additional competitors may attempt to establish databases containing this information in the future. In addition, some pharmaceutical and biotechnology companies may choose to develop or acquire competing technologies to meet their needs rather than purchase products or services from the Celera Genomics group. The Celera Genomics group has licensed some of its key technology on a non-exclusive basis from third parties and therefore this technology may be available for license by competitors of the Celera Genomics group or pharmaceutical or biotechnology companies seeking to develop their own databases for their own use. Also, a customer of the Celera Genomics group may use the products or services of the Celera Genomics group to develop products or services that compete with products or services separately developed by the Celera Genomics group or its customers. Competitors may also discover and characterize genes or proteins involved in disease processes, potential candidates for new therapeutics, drug discovery and development technologies, or drugs in advance of the Celera Genomics group or its customers, or which are more effective than those developed by the Celera Genomics group or its customers, or may obtain regulatory approvals of their drugs more rapidly than the Celera Genomics group or its customers do, any of which could have a material adverse effect on any of the similar programs of the Celera Genomics group or its customers. Moreover, these competitors may obtain patent protection or other intellectual property rights that would limit the Celera Genomics group's rights or its customers' ability to use the Celera Genomics group's products to commercialize therapeutic, diagnostic or agricultural products. In addition, a customer may use the Celera Genomics group's services to develop products that compete with products separately developed by the group or its other customers. The Celera Genomics group also faces competition from software providers. A number of companies have announced their intent to develop and market software to assist pharmaceutical and biotechnology companies and academic researchers in managing and analyzing their own genomic data and publicly available data. 50 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued The Celera Genomics group's current and potential customers are primarily from, and are subject to risks faced by, the pharmaceutical and biotechnology industries. The Celera Genomics group derives a substantial portion of its revenues from fees for its information products and services paid by pharmaceutical companies and biotechnology companies engaged in drug discovery and development. These fees accounted for approximately 70% of the Celera Genomics group's revenue in fiscal year 2001. The Celera Genomics group expects that these companies will continue to be the Celera Genomics group's

primary source of revenues for the foreseeable future. As a result, the Celera Genomics group is subject to risks and uncertainties that affect the pharmaceutical and biotechnology industries and to reduction and delays in research and development expenditures by companies in these industries. In addition, the Celera Genomics group's future revenues may be adversely affected by mergers and consolidation in the pharmaceutical and biotechnology industries, which may reduce the number of the group's existing and potential customers. Large pharmaceutical and biotechnology customers could also decide to conduct their own genomics programs or seek other providers instead of using the Celera Genomics group's products and services. The Celera Genomics group relies on its strategic relationship with the Applied Biosystems group. The Celera Genomics group believes that its strategic relationship with the Applied Biosystems group has provided it with a significant competitive advantage in its efforts to date to sequence the human and other genomes. The Applied Biosystems group leases instruments, sells consumables and project materials and provides research and development services to the Celera Genomics group. The Celera Genomics group paid the Applied Biosystems group $17.3 million in fiscal year 1999, $54.4 million in fiscal year 2000 and $60.1 million in fiscal year 2001 for these products and services. The Celera Genomics group's continued development of its database business and successful extension of its business into therapeutics discovery and development will depend on the Applied Biosystems group's ability to continue to provide leading edge, proprietary technology and products, including advanced technologies for gene and protein analysis. If the Applied Biosystems group is unable to supply these technologies, the Celera Genomics group will need to obtain access to alternative technologies, which may not be available, or may only be available on unfavorable terms. Any change in the relationship with the Applied Biosystems group that adversely affects the Celera Genomics group's access to the Applied Biosystems group's technology or failure by the Applied Biosystems group to continue to develop new technologies or protect its proprietary technology could adversely affect the Celera Genomics group's business. Introduction of new products may expose the Celera Genomics group to product liability claims. New products developed by the Celera Genomics group could expose the Celera Genomics group to potential product liability risks that are inherent in the testing, manufacturing and marketing of human therapeutic and diagnostic products. Product liability claims or product recalls, regardless of the ultimate outcome, could require the Celera Genomics group to spend significant time and money in litigation and to pay significant damages. 51 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued The Celera Genomics group could incur liabilities relating to hazardous materials that it uses in its research and development activities. The Celera Genomics group's research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive materials. In the event of an accidental contamination or injury from these materials, the Celera Genomics group could be held liable for damages in excess of its resources. The Celera Genomics group's sales cycle is lengthy and it may spend considerable resources on unsuccessful sales efforts or may not be able to complete deals on the schedule anticipated. The Celera Genomics group's sales cycle is typically lengthy because the group needs to educate potential customers and sell the benefits of its products and services to a variety of constituencies within those companies. In addition, each agreement involves the negotiation of unique terms. The Celera Genomics group's ability to obtain new customers for genomic information products, collaborative services, and licenses to intellectual property depends on its customers' belief that the Celera Genomics group can help accelerate their drug discovery efforts. The Celera Genomics group may expend substantial funds and management effort with no assurance that an agreement will be reached with a potential customer. Actual and proposed consolidations of pharmaceutical and biotechnology companies have affected and may in the future affect the timing and progress of the Celera Genomics group's sales efforts. Scientific and management staff has unique expertise which is key to the Celera Genomics group's commercial viability and which would be difficult to replace. The Celera Genomics group is highly dependent on the principal members of its scientific and management staff, particularly J. Craig Venter, its

President and Chief Scientific Officer. Additional members of the Celera Genomics group's medical, scientific and information technology staff are important to the implementation of its business plan. The loss of any of these persons' expertise would be difficult to replace and could have a material adverse effect on the Celera Genomics group's ability to achieve its goals. The Celera Genomics group's competitive position may depend on patent and copyright protection and licenses to the important intellectual property patented by others, which may not be sufficiently available. The Celera Genomics group's ability to compete and to achieve profitability may be affected by its ability to protect its proprietary technology and other intellectual property. While the Celera Genomics group's business is currently primarily dependent on revenues from access fees to its on-line information system, the Celera Genomics group expects that obtaining patent protection may become increasingly important to its business as it moves beyond the on-line database business. The Celera Genomics group would be able to prevent competitors from making, using or selling any of its technology for which it obtains a patent. However, patent law affecting the Celera Genomics group's business, particularly gene sequences, gene function and genetic variations, or polymorphisms, is uncertain. As a result, the Celera Genomics group is uncertain as to its ability to obtain intellectual property protection covering its information discoveries sufficient to prevent competitors from developing similar subject matter. The United States Patent and Trademark Office has recently adopted new guidelines for use in the review of the utility of inventions, particularly biotechnology inventions. These guidelines increased the amount of evidence required to illustrate utility in order to obtain a patent in the biotechnology field, making patent protection more difficult 52 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued to obtain. Although others have been successful in obtaining patents to biotechnology inventions, since the adoption of these guidelines these patents have been issued with increasingly less frequency. As a result, patents may not issue from patent applications that the Celera Genomics group may own or license if the applicant is unable to satisfy the new guidelines. In addition, because patent applications in the United States are maintained in secrecy until patents issue, third parties may have filed patent applications for technology used by the Celera Genomics group or covered by the Celera Genomics group's pending patent applications without the Celera Genomics group being aware of those applications. The United States Patent and Trademark Office has issued several patents to third parties covering inventions involving single nucleotide polymorphisms (SNPs), naturally occurring genetic variations that scientists believe can be correlated with susceptibility to disease, disease prognosis, drug efficiency, and drug toxicity. These inventions are subject to the same new guidelines as other biotechnology inventions. In addition, the Celera Genomics group may need to obtain rights to patented SNPs in order to develop, use and sell analyses of the overall human genome or particular full-length genes. These licenses may not be available to the Celera Genomics group on commercially acceptable terms, or at all. Moreover, the Celera Genomics group may be dependent on protecting, through copyright law or otherwise, its databases to prevent other organizations from taking information from those databases and copying and reselling it. Copyright law currently provides uncertain protection regarding the copying and resale of factual data. As such, the Celera Genomics group is uncertain whether it could prevent that copying or resale. Changes in copyright and patent law could either expand or reduce the extent to which the Celera Genomics group and its customers are able to protect their intellectual property. The Celera Genomics group's position may depend on its ability to protect trade secrets. The Celera Genomics group relies on trade secret protection for its confidential and proprietary information and procedures, including procedures related to sequencing genes and to searching and identifying important regions of genetic information. The Celera Genomics group currently protects its information and procedures as trade secrets. The Celera Genomics group protects its trade secrets through recognized practices, including access control, confidentiality and nonuse agreements with employees, consultants, collaborators, and customers, and other security measures. These confidentiality and nonuse agreements may be breached, however, and the Celera Genomics group may not have adequate remedies for a breach. In

addition, the Celera Genomics group's trade secrets may otherwise become known or be independently developed by competitors. Public disclosure of genomics sequence data could jeopardize the Celera Genomics group's intellectual property protection and have an adverse effect on the value of its products and services. The Celera Genomics group, the federally funded Human Genome Project and others engaged in similar research have made and are expected to continue making available to the public basic human sequence data. These disclosures might limit the scope of the Celera Genomics group's claims or make subsequent discoveries related to full-length genes and proteins unpatentable. While the Celera 53 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued Genomics group believes that the publication of sequence data will not preclude it or others from being granted patent protection on genes and proteins, there can be no assurance that the publication has not affected and will not affect the ability to obtain patent protection. Customers may conclude that uncertainties of that protection and the fact that the basic human sequence data is available for free decrease the value of the Celera Genomics group's information products and services and as a result, it may be required to reduce the fees it charges for its products and services. The Celera Genomics group may infringe the intellectual property rights of third parties and may become involved in expensive intellectual property litigation. The intellectual property rights of biotechnology companies, including the Celera Genomics group, are generally uncertain and involve complex legal, scientific and factual questions. The Celera Genomics group's success in the therapeutics discovery and development fields may depend, in part, on its ability to operate without infringing on the intellectual property rights of others and to prevent others from infringing on its intellectual property rights. There has been substantial litigation regarding patents and other intellectual property rights in the genomics industry. The Celera Genomics group may become a party to patent litigation or proceedings at the United States Patent and Trademark Office to determine its patent rights with respect to third parties, which may include subscribers to the Celera Genomics group's database information services. Interference proceedings may be necessary to establish which party was the first to discover the intellectual property. The Celera Genomics group may become involved in patent litigation against third parties to enforce the Celera Genomics group's patent rights, to invalidate patents held by the third parties, or to defend against these claims. The cost to the Celera Genomics group of any patent litigation or similar proceeding could be substantial, and it may absorb significant management time. If an infringement litigation against the Celera Genomics group is resolved unfavorably to the Celera Genomics group, the Celera Genomics group may be enjoined from manufacturing or selling its products or services without a license from a third party. The Celera Genomics group may not be able to obtain a license on commercially acceptable terms, or at all. The Celera Genomics group's business is dependent on the continuous, effective, reliable and secure operation of its computer hardware, software and Internet applications and related tools and functions. Because the Celera Genomics group's business requires manipulating and analyzing large amounts of data, and communicating the results of the analysis to its internal research personnel and to its customers via the Internet, the Celera Genomics group depends on the continuous, effective, reliable and secure operation of its computer hardware, software, networks, Internet servers and related infrastructure. To the extent that the Celera Genomics group's hardware or software malfunctions or access to the Celera Genomics group's data by the Celera Genomics group's internal research personnel or customers through the Internet is interrupted, its business could suffer. The Celera Genomics group's computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, power loss, earthquakes, telecommunications failures, physical or software break-ins, and similar events. In addition, the 54 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued Celera Genomics group's database products are complex and sophisticated, and as such, could contain data, design or software errors that could be difficult to detect and correct. Software defects could be found in current or future products. If the Celera Genomics group fails to maintain and further develop the

necessary computer capacity and data to support its computational needs and its customers' drug discovery efforts, it could result in loss of or delay in revenues and market acceptance. In addition, any sustained disruption in Internet access provided by third parties could adversely impact the Celera Genomics group's business. The Celera Genomics group's research and product development depends on access to tissue samples and other biological materials. The Celera Genomics group will need access to normal and diseased human and other tissue samples, other biological materials and related clinical and other information, which may be in limited supply. The Celera Genomics group may not be able to obtain or maintain access to these materials and information on acceptable terms. In addition, government regulation in the United States and foreign countries could result in restricted access to, or use of, human and other tissue samples. If the Celera Genomics group loses access to sufficient numbers or sources of tissue samples, or if tighter restrictions are imposed on its use of the information generated from tissue samples, its business may be harmed. Ethical, legal and social issues related to the use of genetic information and genetic testing may cause less demand for the Celera Genomics group's products. Genetic testing has raised issues regarding confidentiality and the appropriate uses of the resulting information. For example, concerns have been expressed towards insurance carriers and employers using these tests to discriminate on the basis of this information, resulting in barriers to the acceptance of these tests by consumers. This could lead to governmental authorities calling for limits on or regulation of the use of genetic testing or prohibiting testing for genetic predisposition to certain diseases, particularly those that have no known cure. Any of these scenarios could reduce the potential markets for products of the Celera Genomics group. Expected rapid growth in the number of its employees could absorb valuable management resources and be disruptive to the development of the Celera Genomics group's business. The Celera Genomics group expects to increase its employee base significantly. This growth will require substantial effort to hire new employees and train and integrate them in the Celera Genomics group's business and to develop and implement management information systems, financial controls and facility plans. The Celera Genomics group's inability to manage growth effectively would have a material adverse effect on its future operating results. Products and services developed using the Celera Genomics group's databases, and the therapeutic discovery and development business of the Celera Genomics group, may be subject to government regulation. The Celera Genomics group and its pharmaceutical and biotechnology customers use the Celera Genomics group's databases for drug discovery and development, which is subject to regulation by the United States Food and Drug Administration. Any new drug developed must undergo an extensive regulatory review and approval process. This process can take many years and require substantial expense. The Celera Genomics group and its customers may also use its 55 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued databases to develop products or services in the field of personalized health/medicine. However, current and future patient privacy and health care laws and regulations issued by the United States Food and Drug Administration may limit the use of data concerning an individual's genetic information. To the extent that such regulations restrict or discourage the Celera Genomics group or its customers from developing these products and services, the Celera Genomics group's business may be adversely affected. Future acquisitions and other transactions may absorb significant resources, may be unsuccessful and could dilute the holders of Applera - Celera stock. As part of the Celera Genomics group's strategy, it expects to pursue acquisitions, investments and other strategic relationships and alliances. Acquisitions, investments and other strategic relationships and alliances may involve significant cash expenditures, debt incurrence, additional operating losses, and expenses that could have a material effect on the Celera Genomics group's financial condition and results of operations. Acquisitions involve numerous other risks, including: o difficulties integrating acquired technologies and personnel into the business of the Celera Genomics group; o diversion of management from daily operations; o inability to obtain required financing on favorable terms; o entry into new markets in which the Celera Genomics group has little previous experience; o potential loss of key employees or customers of acquired companies or of the Celera Genomics

group; and o assumption of the liabilities and exposure to unforeseen liabilities of acquired companies. It may be difficult for the Celera Genomics group to complete these transactions quickly and to integrate these businesses efficiently into its current business. Any acquisitions, investments or other strategic relationships and alliances by the Celera Genomics group may ultimately have a negative impact on its business and financial condition. For example, future acquisitions may not be as successful as originally anticipated and may result in special charges, such as the charges for impairment of Paracel goodwill and intangibles in the amount of $69.1 million during fiscal 2001 and for the Molecular Informatics business in the amount of $14.5 million during fiscal 1999. In addition, acquisitions and other transactions may involve the issuance of a substantial amount of Applera Corporation - Celera Genomics Group Common Stock without the approval of the holders of Applera Corporation - Celera Genomics Group Common Stock. Any issuances of this nature will be dilutive to holders of Applera Corporation - Celera Genomics Group Common Stock. Applera Corporation - Celera Genomics Group Common Stock price is highly volatile. The market price of Applera Corporation - Celera Genomics Group Common Stock has been and may continue to be highly volatile due to the risks and uncertainties described in this section of this Form 10-Q, as well as other factors that may have affected or may in the future affect the market price, such as: 56 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued o conditions and publicity regarding the genomics, biotechnology, pharmaceutical, or life sciences industries generally; o price and volume fluctuations in the stock market at large which do not relate to the Celera Genomics group's operating performance; and o comments by securities analysts or government officials, including with regard to the viability or profitability of the biotechnology sector generally or with regard to intellectual property rights of biotechnology companies, or the Celera Genomics group's failure to meet market expectations. The stock market has from time to time experienced extreme price and volume fluctuations that are unrelated to the operating performance of particular companies. In the past, companies that have experienced volatility have sometimes been the subject of securities class action litigation. If litigation was instituted on this basis, it could result in substantial costs and a diversion of management's attention and resources. The Company is subject to a purported class action lawsuit relating to its 2000 offering of shares of Applera Corporation - Celera Genomics Group Common Stock that may be expensive and time consuming. The Company and some of its officers have been served in five lawsuits purportedly on behalf of purchasers of Applera Corporation - Celera Genomics Group Common Stock in the Company's follow-on public offering of Applera Corporation - Celera Genomics Group Common Stock completed on March 6, 2000. In the offering, the Company sold an aggregate of approximately 4.4 million shares of Applera Corporation - Celera Genomics Group Common Stock at a public offering price of $225 per share. All of these lawsuits have been consolidated into a single case and an amended consolidated complaint was filed on August 21, 2001. The consolidated complaint generally alleges that the prospectus used in connection with the offering was inaccurate or misleading because it failed to adequately disclose the alleged opposition of the Human Genome Project and two of its supporters, the governments of the United States and the United Kingdom, to providing patent protection to the Company's genomic-based products. Although the Celera Genomics group has never sought, or intended to seek, a patent on the basic human genome sequence data, the complaint also alleges that the Company did not adequately disclose the risk that it would not be able to patent this data. The consolidated complaint seeks unspecified money damages, rescission, costs and expenses, and other relief as the court deems proper. Although the Company believes the asserted claims are without merit and intends to defend the case vigorously, the outcome of this or any other litigation is inherently uncertain. The defense of this case will require management attention and resources. The Celera Genomics group's ability to develop proprietary therapeutics and the Celera Genomics/Applied Biosystems Joint Venture's ability to develop proprietary diagnostic products is unproven. The development and commercialization of new drugs by determining the causes of diseases through the study of genes, variations in genes, and the

proteins expressed by genes is unproven. As the Celera Genomics group expands its efforts into this new business area, it faces the difficulties inherent in developing and commercializing therapeutic products, and it has limited 57 APPLERA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued experience in operating a commercial research and development program. In addition, the Company has announced the formation of Celera Diagnostics, a joint venture between the Applied Biosystems group and the Celera Genomics group in the field of diagnostics. Celera Diagnostics faces the difficulties inherent in developing and commercializing diagnostic tests and in building and operating a commercial research and development program. Given the Celera Genomics group's unproven ability to develop proprietary therapeutics and Celera Diagnostics' unproven ability to develop proprietary diagnostic products, it is possible that the Celera Genomics group's and Celera Diagnostics' discovery processes will not result in any commercial products or services. Even if the Celera Genomics group or Celera Diagnostics is able to develop products and services, it is possible that these products and services may not be commercially viable or successful due to a variety of reasons, including difficulty obtaining regulatory approvals, competitive conditions, the inability to obtain necessary intellectual property protection, the need to build distribution channels, failure to get adequate reimbursement for these products from insurance or government payors, or the inability of the Celera Genomics group or Celera Diagnostics to recover its development costs in a reasonable period. 58 PART II - OTHER INFORMATION Item 4. Submission of Matters to a Vote of Security Holders. The Company held its Annual Meeting of Stockholders on October 18, 2001. At that meeting, the stockholders of the Company elected all of the nominees for director and approved all other proposals submitted by the Company to stockholders for approval at the meeting, each as described in the Notice of Annual Meeting and Proxy Statement dated September 18, 2001. The results of the voting of the stockholders with respect to these matters is set forth below. I. Election of Directors. Total Vote For Total Vote Withheld Each Director From Each Director ---------- ---------- Richard H. Ayers 237,988,608 1,604,286 Jean-Luc Belingard 237,992,429 1,600,465 Robert H. Hayes 238,155,151 1,437,743 Arnold J. Levine 238,163,468 1,429,426 Theodore E. Martin 237,975,190 1,617,704 Georges C. St. Laurent, Jr. 237,816,333 1,776,561 Carolyn W. Slayman 238,152,547 1,440,347 Orin R. Smith 237,989,651 1,603,243 James R. Tobin 238,163,900 1,428,994 Tony L. White 238,151,566 1,441,328 II. Ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent accountants for the fiscal year ending June 30, 2002. FOR AGAINST ABSTAIN --- ------- ------- 238,148,390 690,152 754,351 III. Approval of amendments to the Applera Corporation/Applied Biosystems Group 1999 Stock Incentive Plan. FOR AGAINST ABSTAIN --- ------- ------- 182,825,797 55,622,519 1,144,577 59 IV. Approval of amendments to the Applera Corporation/Celera Genomics Group 1999 Stock Incentive Plan. FOR AGAINST ABSTAIN --- ------- ------- 167,334,839 71,107,648 1,150,406 Item 5. Other Information. The year-to-year increase in revenues from the Applied Biosystems group's high-performance triple-quadrupole mass spectrometers was incorrectly stated as approximately 80 percent when the Company reported first quarter fiscal 2002 financial results for the Applied Biosystems group on October 24, 2001. Revenues from API 3000 and API 4000 mass spectrometer systems (which includes kits and accessories) increased approximately 56 percent in the first quarter of fiscal 2002 compared to revenues from API 3000 systems in the first quarter of fiscal 2001. Shipments of the API 4000 began in the fourth quarter of fiscal 2001. At a meeting of the Board of Directors of the Company held immediately following the Annual Meeting of Stockholders referred to in Item 4, above, the Board of Directors elected the following persons as officers of the Company: Tony L. White Chairman, President and Chief Executive Officer Michael Albin Vice President, Strategic Technologies Peter Barrett Vice President Samuel E. Broder Vice President Ugo D. DeBlasi Assistant Controller Michael W. Hunkapiller Senior Vice President and President, Applied Biosystems Group Vikram Jog Corporate Controller Robert C. Jones Vice President Barbara J. Kerr Vice President, Human Resources Thomas P. Livingston Secretary Stephen J. Lombardi Vice President Joseph E. Malandrakis Vice President Robert A. Millman Assistant Secretary Tama H.

Olver Vice President and Chief Information Officer Kathy P. Ordonez Vice President and President, Celera Diagnostics John S. Ostaszewski Treasurer Robert P. Ragusa Vice President William B. Sawch Senior Vice President and General Counsel Deborah A. Smeltzer Assistant Controller Joseph H. Smith Assistant Secretary J. Craig Venter Senior Vice President and President, Celera Genomics Group Dennis L. Winger Senior Vice President and Chief Financial Officer 60 Item 6. Exhibits and Reports on Form 8-K. (a) Exhibits 10.1 Amended and Restated Secured Promissory Note and Agreement, dated as of October 24, 2001, issued by Axys Pharmaceuticals, Inc. (b) Reports on Form 8-K. During the quarter ended September 30, 2001, the Company filed the following Current Reports on Form 8-K: (1) Current Report on Form 8-K dated July 10, 2001 to incorporate under Item 5 thereof the text of the Company's press release issued July 10, 2001 regarding a preliminary report on anticipated revenues of the Company's Applied Biosystems group for the fourth quarter of fiscal year 2001. (2) Current Report on Form 8-K dated July 26, 2001 to incorporate under Item 5 thereof the text of the Company's press releases issued July 26, 2001 regarding fiscal year 2001 fourth quarter and year end results of the Company's Applied Biosystems and Celera Genomics groups and the text of the Company's press release issued July 24, 2001 referenced in the foregoing press releases. (3) Current Report on Form 8-K dated September 6, 2001 to report under Item 5 thereof a clarification of a statement made by the Company in its press release issued July 26, 2001 regarding fiscal year fourth quarter and year end results for the Company's Applied Biosystems group. 61 SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. APPLERA CORPORATION By: /s/ Dennis L. Winger ---------- Dennis L. Winger Senior Vice President and Chief Financial Officer By: /s/ Vikram Jog ---------- Vikram Jog Corporate Controller (Chief Accounting Officer) Dated: November 14, 2001 62