



The Morgan Stanley FTSE™ Optimiser  
Investor Pack

Morgan Stanley

# The Morgan Stanley FTSE™ Optimiser

With today's low interest rates and with the FTSE™ 100 Index being well off its peak, now may be a good time to get investment exposure to the 100 largest companies listed on the London Stock Exchange.

However, different investors have different requirements for their investments in terms of risk and return. Each investor may also have a differing view of where the market is going. With the vast number of investment products on the market it is difficult for investors to compare one product to another. In order to address these problems Morgan Stanley has developed the FTSE™ Optimiser (the "Plan").

The Plan enables investors to optimise their ideal mix of risk, return and market expectations by choosing one or more of four products offered under the Plan. To make the four products easy to compare and evaluate Morgan Stanley has structured the Plan to keep several key factors constant across the four products. All four products have the following features:

- Linked to the FTSE™ 100 Index
- A maturity of five and a quarter years
- Returns are provided by Preference Shares issued by the same Guernsey investment company and listed on the Irish Stock Exchange
- Available as an ISA for both 2002/03 and 2003/04, an ISA/PEP transfer or as a direct investment

Within the Plan, investors have the ability to choose between a fixed level of income and/or the potential for capital growth. For more risk averse investors there is also the ability to choose one of two products with high capital protection.

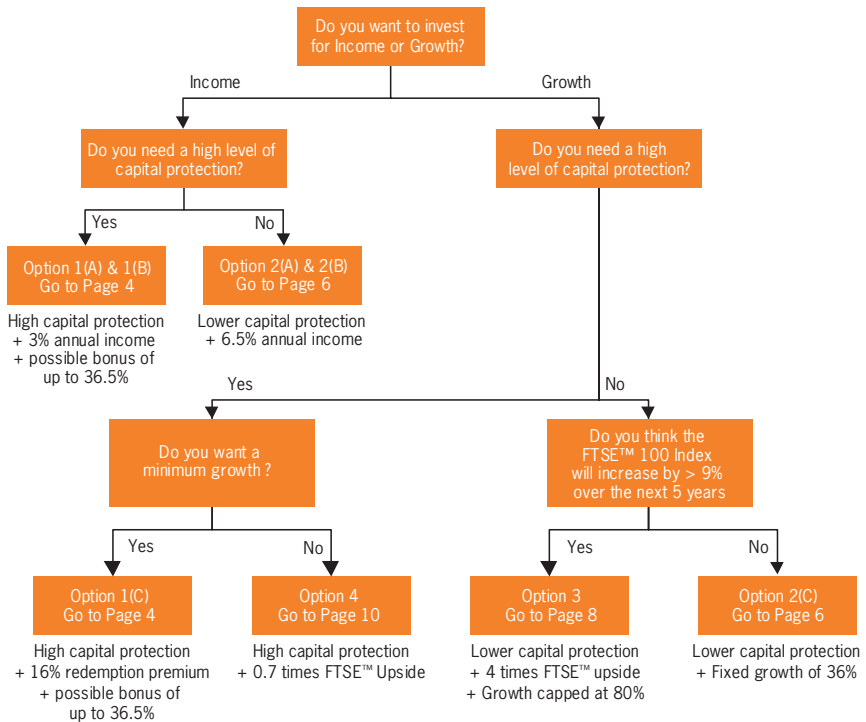
		INVESTMENT RETURN	
		Income	Growth
CAPITAL RETURN	Higher Protection	<b>Option 1</b> <b>See Page 4</b>	<b>Option 4</b> <b>See Page 10</b>
	Lower Protection	<b>Option 2</b> <b>See Page 6</b>	<b>Option 3</b> <b>See Page 8</b>

On the following pages is a more detailed overview of the Plan and the four investment options contained within the Plan.

These products are unlikely to be suitable for investors who cannot afford an element of risk to their capital or who may need to cash in their investment before the maturity date. For a further explanation of the risks attached to this investment please refer to the Risk Factors set out in the Key Features section of this brochure on pages 13 to 16.

# Choose between four products to optimise your investment profile

Use the flow chart below to help you decide which product fits your investment profile most closely then turn to the relevant page to see more details on your selected product.



Before making any investment decision you should be aware of the risks involved. Each Option has its own specific risks (set out within each Option description) and below are some of the general risks which apply to each Option. For a more extensive explanation of the risk factors please refer to 'Risk Factors' in the Key Features section of this brochure (pages 13 to 16).

- The Plan has an investment term of approximately five and a quarter years. It is intended as a medium term investment. If you sell the Plan investments before the end of the investment term, for whatever reason, you may not get back the amount you invested.
- Your money is invested in Preference Shares issued by a Guernsey investment company, which is listed on the Irish Stock Exchange. The investment company will use the net proceeds to invest in assets issued by, and in contracts entered into with, financial institutions rated A- or better by Standard & Poor's or the equivalent rating by Moody's Investor Services Limited. These assets and contracts will provide the capital protection for your investment. In the event of these financial institutions going into liquidation or failing to comply with the terms of the bonds or contracts, you may lose money and get back less than you invested. It is not a guaranteed investment.
- If you have invested via an ISA and subsequently decide to withdraw, it may not be possible to invest in another ISA for the same tax year if your cancellation period has expired.
- The Morgan Stanley FTSE™ Optimiser Options 2 & 3 would be considered to be "High Income Products" by the FSA. High income products can help you improve the amount of income you get from your capital but you need to feel comfortable with the risks involved. A summary of the risks set out in the FSA's factsheet on High Income Products is set out on page 16 of this brochure; you can obtain a full version at [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer), or by ringing the FSA Consumer Helpline on 0845 606 1234 or by speaking to your independent financial advisor.

# Optimiser - Option 1

## Overview

Option 1 is a five and a quarter year investment which provides investors with high protection of their capital plus the flexibility of choosing one of three ways in which to receive a competitive minimum return. In addition to the minimum return, investors also have the potential of receiving a bonus payment at maturity of up to 36.5% of their initial investment.

## Product Returns

### Minimum Returns

Investors can choose one of the following Options to receive their minimum return:

Option 1 (A) - Annual Income of 3.0% for five years,  
or

Option 1 (B) - Quarterly Income of 0.67% for  
21 quarters,  
or

Option 1 (C) - Growth at maturity of 16%

### Capital Return

All three investment Options benefit from high capital protection at maturity.

### Additional Bonus Returns

Investors have the potential to receive Bonus Growth in addition to the Minimum Returns detailed above.

Bonus Growth will be calculated by deducting 16% from Plan Growth. However, in no circumstances will Bonus Growth ever be less than zero.

### What is Plan Growth?

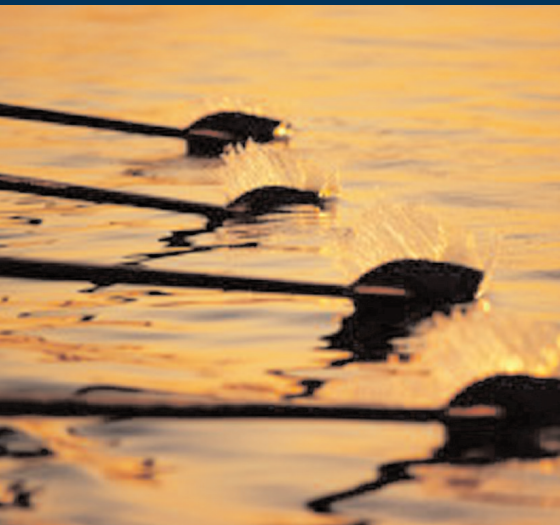
Plan Growth will be determined by adding the total of the quarterly returns, calculated as the sum of the rise or fall of the FTSE™ 100 Index, capped at plus or minus 2½%, in each of the twenty one quarters over the life of the Plan. The quarterly returns are calculated by comparing the Final Index Level for each quarter with the Initial Index Level for the same quarter.

The maximum Plan Growth will be 52½% - i.e. 21 quarters x capped growth of 2½% per quarter. The maximum Bonus Growth will therefore be 36.5%.

The Initial Index Level is the official closing level of the FTSE™ 100 Index on the start date for the relevant quarter.

The Final Index Level is the official closing level of the FTSE™ 100 Index on the end date for the relevant quarter.

The start date for any particular quarter will be the same date as the end date for the immediately preceding quarter. Details of all the relevant dates for this product are set out on page 11.



## Potential Returns

The following tables illustrate the potential returns you could earn based on an initial investment of £10,000

### Option 1(A) Annual Income

Plan Growth	Minimum Growth	Bonus Growth	Income Received	Protected Capital Repayment	Total Received
-20%	0	0	1,500	10,000	11,500
0%	0	0	1,500	10,000	11,500
20%	0	400	1,500	10,000	11,900
40%	0	2,400	1,500	10,000	13,900
52½%	0	3,650	1,500	10,000	15,150

### Option 1(B) Quarterly Income

Plan Growth	Minimum Growth	Bonus Growth	Income Received	Protected Capital Repayment	Total Received
-20%	0	0	1,407	10,000	11,407
0%	0	0	1,407	10,000	11,407
20%	0	400	1,407	10,000	11,807
40%	0	2,400	1,407	10,000	13,807
52½%	0	3,650	1,407	10,000	15,057

### Option 1(C) Growth

Plan Growth	Minimum Growth	Bonus Growth	Income Received	Protected Capital Repayment	Total Received
-20%	1,600	0	0	10,000	11,600
0%	1,600	0	0	10,000	11,600
20%	1,600	400	0	10,000	12,000
40%	1,600	2,400	0	10,000	14,000
52½%	1,600	3,650	0	10,000	15,250

## Product Risks

Your money is invested in Preference Shares issued by a Guernsey investment company, which is listed on the Irish Stock Exchange. The investment company will use the net proceeds to invest in assets issued by, and in contracts entered into with, financial institutions rated A- or better by Standard & Poor's or the equivalent rating by Moody's Investor Services Limited. These assets and contracts will provide the capital protection for your investment. In the event of these financial institutions going into liquidation or failing to comply with the terms of the bonds or contracts, you may lose money and get back less than you invested. It is not a guaranteed investment.

The product has a maturity of five and a quarter years and is intended as a medium term investment. If you sell your investment before its maturity date you may get back less than your initial investment. Prior to maturity, limited liquidity in the secondary market for the Preference Shares will be provided. This means that it may not always be possible to sell the Preference Shares at certain times and that the price achieved may be less than the original investment.

## How to take things further

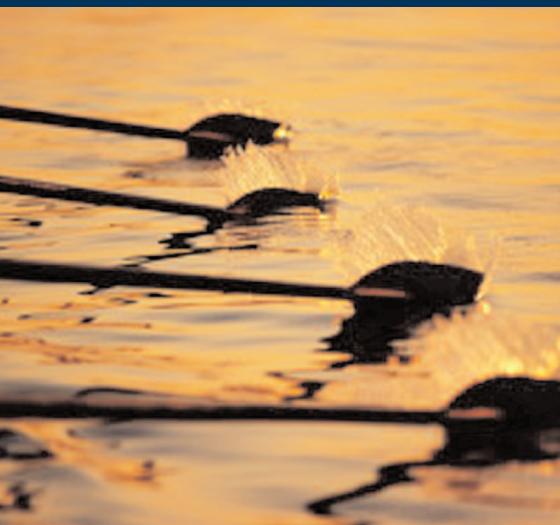
Please go to page 11 to find out more details about the important dates for this product, its taxation benefits and how to make an investment. Alternatively, go back to page 3 to see if a different Option more closely matches your desired investment profile.

# Optimiser - Option 2

## Overview

Option 2 is a five and a quarter year investment which provides investors with either a regular high income or a fixed growth amount at maturity, plus full return of their initial investment, unless the FTSE™ 100 Index falls by more than 40% during the life of the Plan and fails to recover by maturity.

Investors have the flexibility to choose one of two ways in which to receive their income or alternatively they may select to receive all their return at maturity as growth.



## Product Returns

### Income Return

Investors can choose one of the following Options to receive their income:

Option 2 (A) Annual Income of 6.50% for five years, or

Option 2 (B) Quarterly Income of 1.55% for 21 quarters,

or

Option 2 (C) Fixed Growth at maturity of 36%

### Capital Return

#### Full return of an investor's initial capital provided:

1) The FTSE™ 100 Index is never more than 40% lower than the Initial Index Level at any time on any Index Valuation Date.

#### OR

2) The FTSE™ 100 Index is more than 40% lower than the Initial Index Level at any time on any Index Valuation Date AND the Final Index Level is equal to or higher than the Initial Index Level.

Index Valuation Dates include every date from 22 April 2003 to 22 July 2008 (inclusive).

The Initial Index Level is the official closing level of the FTSE™ 100 Index on 22 April 2003.

The Final Index Level is the official closing level of the FTSE™ 100 Index on 22 July 2008.

#### A reduced level of an investor's initial capital is returned if:

The FTSE™ 100 Index is more than 40% below the Initial Index Level at any time on any Index Valuation Date AND the Final Index Level is lower than the Initial Index Level.

**In this case an investors capital will be reduced by 1% for each 1% that the Final Index Level is below the Initial Index Level.**

## Potential Returns

The following tables illustrate the potential returns you could earn based on an initial investment of £10,000.

### Option 2(A) Annual Income

Final Index Level compared to Initial Index Level (% change)	Annual Income Received	Index has fallen by 40% or more on any Index Valuation Date		Index has not fallen by 40% or more on any Index Valuation Date	
		Capital Return	Total Return	Capital Return	Total Return
-50%	3,250	5,000	8,350	N/A	N/A
-25%	3,250	7,500	10,750	10,000	13,250
0%	3,250	10,000	13,250	10,000	13,250
25%	3,250	10,000	13,250	10,000	13,250
50%	3,250	10,000	13,250	10,000	13,250

### Option 2(B) Quarterly Income

Final Index Level compared to Initial Index Level (% change)	Quarterly Income Received	Index has fallen by 40% or more on any Index Valuation Date		Index has not fallen by > 40% on any Index Valuation Date	
		Capital Return	Total Return	Capital Return	Total Return
-50%	3,255	5,000	8,255	N/A	N/A
-25%	3,255	7,500	10,755	10,000	13,255
0%	3,255	10,000	13,255	10,000	13,255
25%	3,255	10,000	13,255	10,000	13,255
50%	3,255	10,000	13,255	10,000	13,255

### Option 2(C) Growth

Final Index Level compared to Initial Index Level (% change)	Fixed Growth Received	Index has fallen by 40% or more on any Index Valuation Date		Index has not fallen by > 40% on any Index Valuation Date	
		Capital Return	Total Return	Capital Return	Total Return
-50%	3,600	5,000	8,600	N/A	N/A
-25%	3,600	7,500	11,100	10,000	13,600
0%	3,600	10,000	13,600	10,000	13,600
25%	3,600	10,000	13,600	10,000	13,600
50%	3,600	10,000	13,600	10,000	13,600

## Product Risks

Your money is invested in Preference Shares issued by a Guernsey investment company, which is listed on the Irish Stock Exchange. The investment company will use the net proceeds to invest in assets issued by, and in contracts entered into with, financial institutions rated A- or better by Standard & Poor's or the equivalent rating by Moody's Investor Services Limited. These assets and contracts will provide the capital protection for your investment. In the event of these financial institutions going into liquidation or failing to comply with the terms of the bonds or contracts, you may lose money and get back less than you invested. It is not a guaranteed investment.

If the index falls by 40% or more at any time and has failed to recover at maturity, you may lose some or all of your capital. As such, Option 2 is considered a "High Income Investment" by the FSA; see pages 3 and 16 of this brochure for further information on the risks involved in investing in such a product.

The product has a maturity of five and a quarter years and is intended as a medium term investment. If you sell your investment before its maturity date you may get back less than your initial investment. Prior to maturity, limited liquidity in the secondary market for the Preference Shares will be provided. This means that it may not always be possible to sell the Preference Shares at certain times and that the price achieved may be less than the original investment.

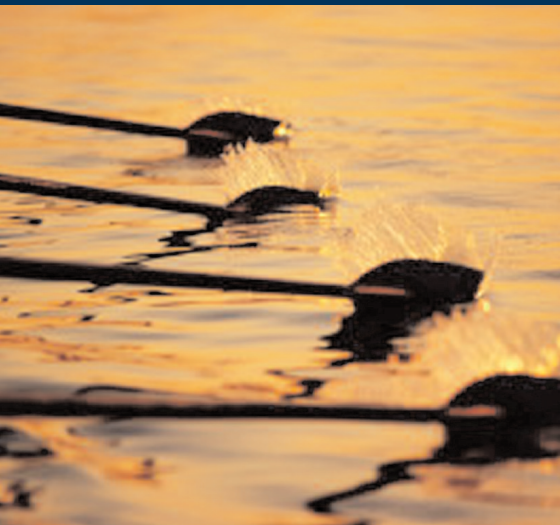
## How to take things further

Please go to page 11 to find out more details about the important dates for this product, its taxation benefits and how to make an investment. Alternatively, go back to page 3 to see if a different Option more closely matches your desired investment profile.

# Optimiser - Option 3

## Overview

Option 3 is a five and a quarter year investment which provides investors with four times upside exposure to the FTSE™ 100 Index up to a maximum return of 80% of their initial investment, plus full return of their initial investment unless the FTSE™ 100 Index falls by more than 40% during the life of the Plan and fails to recover by maturity.



## Product Returns

### Growth

Four times the percentage growth in the FTSE™ 100 Index determined by calculating the percentage change from the Initial Index Level to the Final Index Level.

The maximum growth that an investor can receive is 80% of their initial investment, which will occur if the FTSE™ Index has increased in value by 20% or more at maturity of the Plan.

### Capital Return

#### Full return of an investor's initial capital provided:

1) The FTSE™ 100 Index is never more than 40% lower than the Initial Index Level at any time on any Index Valuation Date.

#### OR

2) The FTSE™ 100 Index is more than 40% lower than the Initial Index Level at any time on any Index Valuation Date AND the Final Index Level is equal to or higher than the Initial Index Level.

Index Valuation Dates include every date from 22 April 2003 to 22 July 2008 (inclusive).

The Initial Index Level is the official closing level of the FTSE™ 100 Index on 22 April 2003

The Final Index Level is the average of the official weekly closing levels of the FTSE™ 100 Index from 22 January 2008 to 22 July 2008

#### A reduced level of an investor's initial capital is returned if:

The FTSE™ 100 Index is more than 40% below the Initial Index Level at any time on any Index Valuation Date AND the Final Index Level is lower than the Initial Index Level.

**In this case an investors capital will be reduced by 1% for each 1% that the Final Index Level is below the Initial Index Level.**

## Potential Returns

The following tables illustrate the potential returns you could earn based on an initial investment of £10,000.

Final Index Level compared to Initial Index Level (% change)	Product Growth	Index has fallen by 40% or more on any Index Valuation Date		Index has not fallen by 40% or more on any Index Valuation Date	
		Capital Return	Total Return	Capital Return	Total Return
-50%	0	5,000	5,000	N/A	N/A
-25%	0	7,500	7,500	10,000	10,000
0%	0	10,000	10,000	10,000	10,000
10%	4,000	10,000	14,000	10,000	14,000
20%	8,000	10,000	18,000	10,000	18,000
30%	8,000	10,000	18,000	10,000	18,000
40%	8,000	10,000	18,000	10,000	18,000

## Product Risks

Your money is invested in Preference Shares issued by a Guernsey investment company, which is listed on the Irish Stock Exchange. The investment company will use the net proceeds to invest in assets issued by, and in contracts entered into with, financial institutions rated A- or better by Standard & Poor's or the equivalent rating by Moody's Investor Services Limited. These assets and contracts will provide the capital protection for your investment. In the event of these financial institutions going into liquidation or failing to comply with the terms of the bonds or contracts, you may lose money and get back less than you invested. It is not a guaranteed investment.

If the index falls by 40% or more at any time and has failed to recover at maturity, you will lose some or all of your capital. As such, Option 3 is considered a "High Income Investment" by the FSA; see pages 3 and 16 of this brochure for further information on the risks involved in investing in such a product.

The product has a maturity of five and a quarter years and is intended as a medium term investment. If you sell your investment before its maturity date you may get back less than your initial investment. Prior to maturity, limited liquidity in the secondary market for the Preference Shares will be provided. This means that it may not always be possible to sell the Preference Shares at certain times and that the price achieved may be less than the original investment.

## How to take things further

Please go to page 11 to find out more details about the important dates for this product, its taxation benefits and how to make an investment. Alternatively, go back to page 3 to see if a different Option more closely matches your desired investment profile.

# Optimiser - Option 4

## Overview

Option 4 is a five and a quarter year investment which provides investors with high protection of their capital plus 0.7 times the growth in the FTSE™ 100 Index with no cap on the upside

## Product Returns

### Growth

0.7 times the percentage growth in the FTSE™ 100 Index determined by calculating the percentage change from the Initial Index Level to the Final Index Level.

The Initial Index Level is the official closing level of the FTSE™ 100 Index on 22 April 2003.

The Final Index Level is the average of the official weekly closing levels of the FTSE™ 100 Index from 22 January 2008 to 22 July 2008

### Capital Return

The investment benefits from high capital protection at maturity.

### Potential Returns

The following tables illustrate the potential returns you could earn based on an initial investment of £10,000.

Final Index Level compared to Initial Index Level (% change)	Growth	Protected Capital Repayment	Total Received
-25%	0	10,000	10,000
0%	0	10,000	10,000
25%	1,750	10,000	11,750
50%	3,500	10,000	13,500
75%	5,250	10,000	15,250
100%	7,000	10,000	17,000

### Product Risks

Your money is invested in Preference Shares issued by a Guernsey investment company, which is listed on the Irish Stock Exchange. The investment company will use the net proceeds to invest in assets issued by, and in contracts entered into with, financial institutions rated A- or better by Standard & Poor's or the equivalent rating by Moody's Investor Services Limited. These assets and contracts will provide the capital protection for your investment. In the event of these financial institutions going into liquidation or failing to comply with the terms of the bonds or contracts, you may lose money and get back less than you invested. It is not a guaranteed investment.

The product has a maturity of five and a quarter years and is intended as a medium term investment. If you sell your investment before its maturity date you may get back less than your initial investment. Prior to maturity, limited liquidity in the secondary market for the Preference Shares will be provided. This means that it may not always be possible to sell the Preference Shares at certain times and that the price achieved may be less than the original investment.

### How to take things further

Please go to page 11 to find out more details about the important dates for this product, its taxation benefits and how to make an investment. Alternatively, go back to page 3 to see if a different Option more closely matches your desired investment profile.

# The Morgan Stanley FTSE™ Optimiser

## Three Tax Efficient Ways to Invest\*

### 1. ISA's for 2002/03 and 2003/04

Invest £7,000 per person into a Maxi ISA for 2002/03 and £7,000 per person into a Maxi ISA for 2003/04.

Income or growth payments made within an ISA are completely free of any tax.

### 2. ISA and PEP transfers

The Plan accepts transfers of existing ISAs and PEPs.

Consideration prior to transfers should include exit and associated charges of encashing your existing investments and the potential for loss of income or growth whilst the transfer is pending.

### 3. Direct Investments

The current taxation of direct investments has a number of beneficial features:

- Any income payouts are subject to tax at the rates of 10% for basic rate taxpayers and 32.5% for higher rate taxpayers
- Investors can use their annual capital gains allowance to reduce tax on growth payments at maturity
- The growth investments will benefit from 15% taper relief at maturity

\* Please note: The taxation treatment of Investors is dependent on their individual circumstances and may be subject to changes in tax regulations. Potential Investors are advised to consult their professional advisers regarding the taxation consequences of investing in the Plan. The published rates of taxation are correct at the time of publication. Levels of, and relief from, taxation are subject to change.

## Important Dates to Note

Event	Options	Dates*
<b>Offer Periods:</b>		
ISAs, Direct Investments	1, 2, 3, 4	24 Feb 2003 to 4 April 2003
ISA and PEP Transfers	1, 2, 3, 4	24 Feb 2003 to 21 March 2003
<b>FTSE 100 Index observation dates:</b>		
Initial Index Level	1, 2, 3, 4	22 April 2003
Final Index Level	1, 2	22 July 2008
Final Index Level	3,4	Average of official weekly closing prices of FTSE™ 100 Index from 22 January 2008 to 22 July 2008
Index Valuation Dates	2, 3	22 April 2003 to 22 July 2008
First quarter start date	1	22 April 2003
First quarter end date	1	22 July 2003
Subsequent quarter dates	1	22 October 2003, 22 January 2004 and quarterly until 22 July 2008
<b>Plan Payments:</b>		
Annual Income Payment Dates	1, 2	22 April 2003 to 22 April 2008
Quarterly Income Payment Dates	1, 2	22 July 2003, 22 October 2003 and quarterly until 22 July 2008
Growth Payments	1, 2, 3, 4	26 July 2008
Return of Capital	1, 2, 3, 4	26 July 2008

\*In the event that any of the above dates are not London business days the relevant date will be moved to a business day.

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## How to invest

This brochure also contains a Key Features section including Terms & Conditions, all of which should be read before investing.

- Main Application Form for ISA and Direct Investment – If you are applying for a Direct Investment or an ISA in 2002/03 or 2003/04, you should complete sections 1- 6 on the front of the form and section 7 on the back of the Application Form for ISA and/or Direct Investment.
- Application Form for PEP/ISA Transfers – If you are applying for a PEP or ISA transfer, you should complete sections 1-5 on the front of the form and section 6 on the back of the Application Form for PEP or ISA transfer.
- Application Forms for second applicants – For second applicants there is an additional ISA/Direct Investment form. For additional applications simply photocopy the application forms.
- Your cheque – It is only necessary to send one cheque for the total amount that each individual wishes to invest (e.g. one cheque for £15,000 can cover an ISA investment of £7,000 and a Direct Investment in shares of £8,000). Separate applications (e.g. from a husband and wife) require two cheques. Cheques should be made payable to 'Morgan Stanley FTSE Optimiser 1 Client A/C'.

If your cheque is from a building society, it should reference your name (for example 'Morgan Stanley FTSE Optimiser 1 Client A/C' Reference 'A Johnson').

### What to do with your completed application

1. Check that all sections have been completed as necessary and that the application has been signed.
2. Give the completed application and your cheque to your financial adviser, who will be required to complete the appropriate verification of identity checks and sign the application.
3. Your financial adviser should then send the completed application package to Morgan Stanley & Co. International Limited, Administration Office, FTSE Optimiser Offer, Floor 8, Fountain House, 2 Queen's Walk, Reading, RG1 7QF

## Investment Proceeds

Investment proceeds will be invested in Preference Shares listed on the Irish Stock Exchange to be issued by a Guernsey incorporated Investment Company. Morgan Stanley & Co. International Limited is the Investment Manager of the Investment Company.

The Investment Company will use the net proceeds of the issue of the Preference Shares to purchase debt securities and enter into derivative contracts and / or make deposits. It is anticipated that these investments will generate the income and growth payments scheduled to be paid under the Plan.

All debt securities and derivative contracts will be issued by or entered into with financial institutions which have a credit rating of at least A- by Standard & Poor's or the equivalent by Moody's Investor Services Limited. In the event of these financial institutions going into liquidation or failing to comply with the terms of the bonds or contracts, you may lose money and get back less than you invested. It is not a guaranteed investment.

The Plan invests in the shares of an Investment Company. You should read this document (which contains the Key Features and Terms & Conditions of the Plan) and the Prospectus issued by the Investment Company. The Prospectus is available on request from Morgan Stanley & Co. International Limited, Administration Office, FTSE Optimiser Offer, Floor 8, Fountain House, 2 Queen's Walk, Reading, RG1 7QF. If you are in any doubt about the suitability of an investment in the Plan you should consult your Independent Financial Adviser. Please note that neither the Plan Manager nor the Investment Manager are able to provide investment advice in relation to the Plan.

## KEY FEATURES SECTION

### Key Features of the Morgan Stanley FTSE™ Optimiser

#### Investment Options

Investment can be made in the following ways:

- Via a Maxi ISA
- By transferring an existing PEP (General and/or Single Company) or ISA
- By making a Direct Investment

We've described all the FTSE™ Optimiser Options in this brochure. For your information, the current issue of this Plan will close to investments on 4 April 2003 (21 March 2003 in respect of PEP and ISA transfers) at the latest.

#### Objectives

The objectives of the Morgan Stanley FTSE™ Optimiser ("the Plan") are as follows:

##### Option 1

###### Income version

To provide a fixed income of 3.0% each year for five years or 0.67% each quarter over a five and a quarter year period.

OR

###### Growth version

To generate fixed capital growth of 16% at maturity

PLUS

To provide a repayment of initial investment at maturity.

PLUS Additional Bonus

To provide an opportunity for growth linked to the FTSE™ 100 Index on top of the return of your initial investment.

##### Option 2

To provide a fixed income of 6.5% each year or 1.55% each quarter over a five and a quarter year period.

OR

To generate capital growth of up to 36% over a five and a quarter year period.

PLUS

To provide a repayment of capital at maturity, depending on the performance of the FTSE™ 100 Index.

##### Options 3 & 4

To provide an opportunity to participate in returns linked to the FTSE™ 100 Index over a five and a quarter year period.

Your money is invested in Preference Shares issued by a Guernsey investment company, which is listed on the Irish Stock Exchange, Morgan Stanley & Co. International Limited ("the Account Manager"), a subsidiary of Morgan Stanley and regulated by the FSA, will be the Sponsor and Investment Manager for the issue of the Preference Shares. The investment company will use the net proceeds to invest in assets issued by, and in contracts entered into with, financial institutions rated A- or better by Standard & Poor's or the equivalent rating by Moody's Investor Services Limited. These assets and contracts will provide the capital protection for your investment and will generate the income and growth payments scheduled to be paid under the Plan. In the event of these financial institutions going into liquidation or failing to comply with the terms of the bonds or contracts, you may lose money and get back less than you invested. It is not a guaranteed investment

As soon as practicable after 26 July 2008, you will have the option to either close your Plan, transfer it to another manager (where relevant), or to continue your investment on terms that may be offered at the time.

## Making an Investment

Subscription is only available by way of lump sum investment. The minimum is £5,000 for Maxi ISA investment or £5,000 via a Direct Investment. If investing via a Maxi ISA, you must not subscribe to another ISA (other than a Tessa only ISA) in the same tax year that you subscribe to this Maxi ISA, PEP or ISA transfers are subject to a minimum investment amount of £5,000.

## Risk Factors

### General Risk Factors

- The Plan has an investment term of approximately five and a quarter years and is intended as a medium term investment. If you sell the Plan investments before the end of the investment term the price you will receive will be the market price of the Preference Shares at the time of the disposal. Such market price may go down as well as up.
- The price attainable for selling Preference Shares in the secondary market may not reflect the net asset value of the Investment Company. As a result of the expected limited secondary market it may not be possible to sell the Preference Shares at certain times. There is no assurance that you will get back your initial investment in the Plan.
- The returns under the Plan depend on the Investment Company entering into transactions with and/or acquiring securities issued by a number of Approved Financial Institutions ("AFIs"). Each AFI will, at the time the Investment Company enters into such transaction or acquires such security, have a rating of at least A- by Standard & Poor's or the equivalent rating by Moody's Investor Services Limited. If, on or prior to the Plan maturity date, an AFI becomes insolvent and/or fails to comply with the terms of such transactions and/or securities, the Investment Company may not receive all or any of the expected payments (income or capital) from that investment. In these circumstances even if you had selected one of the capital protected options you may receive less than the amount you invest in the Plan. This may also be the case if there is a change of law, level or basis of taxation, or any exceptional expenses or liabilities that are incurred by the Investment Company.
- The Investment Company will issue further series of Preference Shares. The Investment Manager has agreed with the Investment Company that it will arrange derivative contracts for the Investment Company to enter into in respect of such further series of

Preference Shares only on a limited recourse basis. Morgan Stanley & Co. International Limited, which also acts as sponsor (the "Sponsor") to the Investment Company, has agreed to pay certain of the Investment Company's fees, expenses, and liabilities. If the Sponsor fails for any reason to make such payments, the amounts payable under the Preference Shares, and hence the Plan, could be reduced.

- If you have invested via an ISA and subsequently decide to withdraw, it may not be possible to invest in another ISA for tax year 2002/2003.
- Your circumstances could change, forcing you to withdraw your investment early. If this happens, you may get back substantially less than the amount you originally invested.
- The formula under which the return on the Plan is likely to be calculated provides that in certain circumstances calculation of the return may be adjusted to take account of market disruption interfering with determination of the level of the FTSE™ 100 Index. A relevant market disruption would be a suspension or limitation of trading on the London Stock Exchange of at least 20 per cent of the shares included in the FTSE™ 100 Index, which would delay or prevent calculation of the official Index level. Should this occur, the return on the Plan will be affected and may be more or less than would otherwise have been the case.
- Payments scheduled to be made in respect of the Preference Shares in which the Plan will invest your money may be delayed to reflect the occurrence of market disruption events, the availability of published index levels for the FTSE™ 100 Index and/or to enable payments to be made on business days. In the event that any such payments are delayed, corresponding adjustments will be made to the scheduled dates for payments under the Plan.
- Past performance is not necessarily a guide to future performance and should not be used to assess the risks associated with this investment.
- The levels and basis of taxation and reliefs from taxation can change at any time. The value and availability of any tax relief depends on individual circumstances. The favourable tax treatment of ISAs and PEPs may not be maintained throughout the term.
- Tax assumptions are based on our understanding of current legislation and practice at the time of print and may be subject to future change.
- The FTSE™ 100 Index does not include the re-investment of dividends.

### Specific Risk Factors

#### Option 1

- Quarterly growth and reductions are capped at plus and minus 2.5% over the five and a quarter year investment period. This is designed to protect your investment, but will restrain growth if the price of the FTSE™ 100 Index consistently rises in quarterly increments of more than 2.5% over the investment period.
- If the performance of the FTSE™ 100 Index linked Plan Growth does not exceed 16%, then Option 1(A) and Option 1(B) Investors will not receive any Bonus Growth and will only receive back an amount equal to their initial investment.
- If the performance of the FTSE™ 100 Index linked Plan Growth does not exceed 16%, then Option 1(C) Investors will only receive minimum growth of 16% in addition to an amount equal to their initial investment.

#### Option 2

- If at any Index Valuation Date the FTSE™ 100 Index is more than 40% below the Initial Index Level at any point in time your capital repayment may be reduced by 1% for each 1% by which the Final Index Level is below the Initial Index Level.
- For these reasons, this Plan is only suitable if you can afford an element of risk to your capital as the capital repayment at maturity may be less than your original investment. Full repayment of capital is not guaranteed and you may lose some or all of your capital.
- This is considered a "High Income Product" see p16 for further risk information.

#### Option 3

- If at any Index Valuation Date the FTSE™ 100 Index is more than 40% below the Initial Index Level at any point in time your capital repayment may be reduced by 1% for each 1% by which the Final Index Level is below the Initial Index Level.
- The extent to which you will benefit from the Index performance is capped at a maximum of 80%.
- For these reasons, this Option is only suitable if you can afford an element of risk to your capital as the capital repayment at maturity will be less than your original investment. Full repayment of capital is not guaranteed and you may lose some or all of your capital.
- This is considered a "High Income Product" see p16 for further risk information.

#### Option 4

- You will only benefit from 70% of any positive Index performance over the five year and a quarter investment period.

## Frequently Asked Questions

### What is the Morgan Stanley FTSE™ 100 Optimiser

It is an investment plan, which can be accessed in one or more ways: by using your annual Maxi ISA subscription allowance, by ISA or PEP transfer or as a Direct Investment.

The Plan follows an investment strategy designed to ensure that scheduled income and capital payments are met and that the risks of the investment correspond to the risks described above. The Plan is a Preference Share investment, denominated in sterling and listed on an approved stock exchange.

You can track the performance of your investment through the Plan price, which is available on request from the Plan Manager.

#### Who is eligible to invest?

UK investors aged 18 and over are eligible to invest in the Plan via an ISA or by using the Direct Investment option. Investments can also be made through the Direct Investment option on behalf of a person under the age of 18.

## What Income or Growth will I receive?

### Option 1

Based on a £10,000 investment you will receive the following:

If you choose Annual Income you are expected to receive £300 each year for 5 years starting 22 April 2004.

If you choose Quarterly Income you are expected to receive £67 per quarter for 21 quarters starting 22 July 2003.

If you choose Growth you are expected to receive £1,600 on 26 July 2008.

In addition to capital repayment at maturity, Bonus Growth may be payable as detailed in the Additional Bonus Returns section on page 4 of the Brochure.

### Option 2

Based on a £10,000 investment you are expected to receive the following:

If you choose Annual Income you will receive £650 each year for 5 years starting 22 April 2004.

If you choose Quarterly Income you are expected to receive £155 per quarter for 21 quarters starting 22 July 2003.

If you choose Fixed Growth you are expected to receive £3,600 on 26 July 2008.

### Option 3

Your final Growth payment, if any on 26 July 2008 will be as described in the Brochure on page 8 and Risk Factors.

### Option 4

Your final Growth payment, if any on 26 July 2008 will be as described in the Brochure on page 10 and Risk Factors.

## What Capital Repayment will I receive?

### Option 1

Your maturity proceeds on 26 July 2008 are expected to be equal to your initial investment.

### Option 2

If the FTSE<sup>™</sup> 100 Index is more than 40% below the Initial Index Level at any point in time on any Index Valuation Date, the capital repayment on 26 July 2008 could be less than the initial investment. This is explained in the Brochure under the "Capital Return" section on page 6. This investment is not likely to be suitable when an investor cannot afford an element of risk as some or all of the investors capital could be lost.

### Option 3

If the FTSE<sup>™</sup> 100 Index is more than 40% below the Initial Index Level at any point in time on any Index Valuation Date, the capital repayment on 26 July 2008 could be less than the initial investment. This is explained in the Brochure under the "Capital Return" section on page 8. This investment is not likely to be suitable when an investor cannot afford an element of risk as some or all of the investors capital could be lost.

### Option 4

Your maturity proceeds on 26 July 2008 are expected to be equal to your initial investment.

## What is the "FTSE<sup>™</sup> 100 Index"?

The FTSE<sup>™</sup> 100 Index is an index compiled and calculated by FTSE<sup>™</sup> International Limited ("FTSE<sup>™</sup>"). The Index is comprised of the 100 largest companies listed on the London Stock Exchange by market capitalisation. The daily published level of the Index is derived by FTSE<sup>™</sup> from the closing price of Shares in each of those 100 companies, weighted according to their relative market capitalisations.

### Can I withdraw before the end of the five and a quarter year term?

Yes. However, should you withdraw at any time during the five and a quarter year investment period, the cash value is not guaranteed and will depend on prevailing market conditions including, but not limited to, interest rates, demand for Preference Shares in the secondary market and the levels of the FTSE<sup>™</sup> 100 Index to which your investment is linked. As all charges are reflected in the terms offered, the value of your investment in a Plan is likely to be less than the amount originally invested in it for a substantial part of the investment period. The investment protection is only valid if you remain invested for the full five and a quarter year investment period.

### Will my return be taxed?

For an investor who is a UK resident individual, all returns from ISA and PEP investments are currently free of Income Tax and Capital Gains Tax. If held within a Direct Investment, all returns in excess of the initial investment at maturity may be liable to Capital Gains Tax. If you select an Income Option, all dividend income received from the Preference Shares will be taxed at a rate of 10% for basic rate taxpayers and 32.5% for higher rate taxpayers. This statement is based on current legislation, regulations and practice, all of which may change.

If I am considering a PEP or ISA transfer, is there anything else I should know?

Your existing PEP or ISA must be transferred in cash, which means that your existing account manager will sell your investment holdings. Your existing account manager may charge you an exit or transfer fee. There is the potential for loss of income or growth if markets should rise while your transfer remains pending. Please note that to ensure the funds are received from your existing account manager in a timely manner, we have an early cut-off date for PEP and ISA transfers of 21 March 2003.

### What if I want to close or transfer my Plan?

You may only terminate or transfer the Plan in whole by way of written notification. Dealing normally takes place at the end of each month; your investments will be sold at the next practicable dealing day following the request. Payment will then be made within seven working days. Partial withdrawals will not be permitted. Capital protection only applies if the investment is held for the full five and quarter year term.

### How will charges and expenses affect my investment?

With the exception of a £100 plus VAT charge in the event that you subsequently wish to transfer your Plan to another account manager, there are no explicit initial or ongoing charges. All other charges are taken into account in setting the terms offered over the five and a quarter year investment period and the returns shown are net of all charges and expenses. The terms offered also take into account all the costs of setting up the Plan,

administering it and conducting the investment management of your Plan.

### How much sales commission will be paid?

Commission will be payable on all sales of the Plan to independent financial advisers through which applications are received at the rate of 3% of the sum invested for Options 2 and 3 and at the rate of 2% of the sum invested for Options 1 and 4. The amount of commission payable will therefore depend on the size of the investment. For example, for an investment of £10,000 in Option 2, the commission would be £300. The commission is payable by the Account Manager and will not affect the returns payable to investors under the Plan.

### Will you keep me updated?

Within 5 days of receipt of your application by us, we will send you a formal acknowledgement as well as information on your right to withdraw and a copy of the Prospectus issued by the Guernsey Investment Company in respect of the Preference Shares in which your money will be invested. If you withdraw within the applicable 14 day withdrawal period you will be entitled to the repayment of the amount you have invested less our administration and other costs. After the investment date on 22 April 2003, we will send you an opening statement detailing your holdings within your Plan. At the end of every year, we will send you an annual statement and valuation.

### What are CAT standards and do they apply to this Plan?

These are voluntary standards for ISAs introduced by the Government. The standards cover levels of charges, access to savings and fair terms. These are not a guarantee of performance and do not imply that an ISA has been approved by the Government. It is not considered useful or appropriate to structure this Plan in accordance with CAT standards.

### What happens if I die?

Upon death, assets will then be transferred to a Direct Investment, which forms part of your estate for Inheritance Tax purposes. If relevant, the PEP or ISA status of the investment will then be lost. Once suitable documentation is received, the investments will be transferred to your personal representatives within seven working days. Your Plan can then be terminated early in accordance with its terms or held to maturity.

The Plan is not in any way sponsored, endorsed, sold or promoted by FTSE<sup>™</sup> International Limited ("FTSE<sup>™</sup>") or by the London Stock Exchange plc (the "Exchange") or by The Financial Times Limited ("FT") and none of FTSE<sup>™</sup> nor Exchange nor FT makes any warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the Index and/or the figure at which the said Index stands at any particular time on any particular day or otherwise. The Index is compiled and calculated by FTSE<sup>™</sup>. However, none of FTSE<sup>™</sup> nor Exchange nor FT shall be liable (whether in negligence or otherwise) to any person for any error in the Index and none of FTSE<sup>™</sup> nor Exchange nor FT shall be under any obligation to advise any person of any error therein. FTSE<sup>™</sup> accepts no liability in connection with the trading of any products on the Index. All copyright in the Index values and constituent list vests in FTSE<sup>™</sup>. Morgan Stanley & Co International Limited, has obtained full license from FTSE<sup>™</sup> to use such copyright for the Plan. "FTSE<sup>™</sup>", "FT-SE<sup>™</sup>" and "Footsie<sup>™</sup>" are trademarks of the Exchange and FT and are used by FTSE<sup>™</sup> under license.

## TERMS & CONDITIONS SECTION

### 1. Definitions:

In these terms the following words have the following meanings:

"Account Manager"	Morgan Stanley & Co. International Limited which is regulated by the FSA (Financial Services Authority).
"Application Form"	The form that must be completed to enable your Plan to be opened, substantially in the form shown at the end of these Terms & Conditions.
"Effective Date"	22 April 2003.
"Investment Company"	Sienna Investment Company Limited.
"Investment Manager"	Morgan Stanley & Co. International Limited.
"ISA"	Individual Savings Account.
"MSIL"	Morgan Stanley & Co. International Limited.
"PEP"	Personal Equity Plan.
"Plan"	ISA, PEP or Direct Investment as held under these Terms & Conditions.
"Preference Shares"	The Series 2 Preference Shares described in the Prospectus to be issued by the Investment Company and which are to be listed on the Irish Stock Exchange.
"Prospectus"	The Principal Memorandum and the Series 2 Supplemental Memorandum, each issued by the Investment Company and together describing important characteristics of the Investment Company and the Terms of the Preference Shares, and on the basis of which any investment in the Plan is required to be made.
"Regulations"	Personal Equity Plan Regulations 1989 and Individual Savings Account Regulations 1989 as amended from time to time.
"We", "us" & "our"	Account Manager.
"You" and "your"	An investor who applies to open an ISA (or Direct Investment) or in the case of a PEP (or ISA) Transfer, an investor who applies to transfer their PEP (or ISA) on these Terms and Conditions.

### 2. Your Plan:

- To open a Plan, you must submit to the Account Manager a fully completed Application Form. In the case of an ISA investment, you must also provide the initial cash subscription. In the case of an ISA or PEP transfer, we will manage your Plan upon receipt of the proceeds of your previous Plan from your previous account manager. The Application Form is part of these conditions and if the terms differ, those contained in the Application Form will prevail.

- (b) Subject to the Regulations we may open an ISA Plan provisionally where the information which you have supplied is insufficient. In respect of an ISA, where we open a Plan on a provisional basis you must supply the missing information within 30 days, otherwise the Plan must be voided in accordance with Inland Revenue requirements.
- (c) If applicable you may open more than one Plan, subject to completion of an Application Form for each Plan.
- (d) The Account Manager reserves the right to reject an application for any reason.

### 3. Cancellation:

- (a) You will have the right to cancel your Plan within 14 days of receiving from us a notice of your right to cancel.
- (b) If you exercise your right to cancel, but we do not receive your notice to cancel until on or after the Effective Date, and the value of the Preference Shares has fallen in that time, an amount equivalent to the fall in value of the Preference Shares will be deducted.
- (c) If you exercise your right to cancel the purchase of Preference Shares following a PEP or ISA transfer, the proceeds will be paid direct to you and you will irrevocably lose any favourable tax treatment associated with a PEP or ISA holding.

### 4. Subscriptions:

- (a) Subscriptions to the Plan may only be made with your own cash or by transfer of cash from an existing ISA.
- (b) If you are investing into a PEP Plan, investment may only be made by transfer of cash from an existing PEP.
- (c) Transfers of existing PEPs and ISAs will normally be arranged with the existing PEP or ISA manager. Once the PEP or ISA has been transferred, your PEP or ISA Plan will be subject to the Terms & Conditions set out here.

### 5. Treatment of Cash held within your Plan:

- (a) Cash will be held by us in a pooled Client Account with a bank (which is not an associate of the Account Manager).
- (b) As securities are bought in whole numbers of pounds sterling, any cash remaining on your account will be paid over to MSIL at the Effective Date. At most this will amount to 99p per Plan.
- (c) Within an ISA or PEP, cash can only be held pending an investment and if held in cash over a prolonged period there is a risk that the Inland Revenue may void your ISA or PEP.

### 6. Permitted Investments:

- (a) All cash received by us for investment in your Plan will be applied to purchase the Preference Shares. The Preference Shares are structured with the aim of meeting the investment return objectives of the relevant option of Plan.
- (b) Investment will be made on or before the Effective Date. The Account Manager will be acting as your agent in arranging, and will be responsible for, all purchases and sales of investments for your Plan.
- (c) As stated in the Prospectus relating to the Preference Shares, the offer of the Preference Shares is conditional upon certain conditions being satisfied or waived. In the event that any of these conditions are not satisfied or waived no Preference Shares will be allotted by the Investment Company and your subscription will be returned to you.
- (d) It is not possible to switch between Plans at any time.
- (e) The Account Manager may aggregate any transaction for an investor with one or more transactions for other investors, even though this may result in a less favourable price than if it had been carried out separately. The Account Manager will take all reasonable steps to ensure that any aggregated transaction is carried out on the best terms generally available in the market at that time for transactions of a similar type and size.
- (f) You have a right to inspect copies of contract notes, vouchers and entries in the Account Manager's book, or computerised records relating to transactions carried out for your account. These records will be kept for at least six years.

### 7. Plan Returns:

- (a) By allocating your investment using the appropriate box(es) on each application form, you have chosen to receive one or more of eight different types of scheduled investment return. These returns are represented by different Preference Share types:

#### Option 1

- (a) Annual Income option: five income payments of 3% of the amount you invest, payable annually in arrears commencing 22 April 2004, plus final capital repayment of your initial investment payable 26 July 2008, plus any Bonus Growth calculated by reference to the sum of the twenty one returns in each quarter of the investment term.
- (b) Quarterly Income option: twenty income payments of 0.67% of the amount you invest, payable quarterly in arrears commencing 22 July 2003, plus final capital repayment of your initial investment payable 26 July 2008, plus any Bonus Growth
- (c) Growth option: final growth of 16% of the amount you invest, payable on 26 July 2008, plus final capital repayment of your initial investment payable 26 July 2008, plus any Bonus Growth

A more detailed explanation of Bonus Growth can be found in the Brochure under "Additional Bonus Returns" on page 4.

#### Option 2

- (a) Annual Income option: five income payments of 6.5% of the amount you invest, payable annually in arrears commencing 22 April 2003, plus final capital repayment of up to 100% of your initial investment payable 26 July 2008
- (b) Quarterly Income option: twenty income payments of 1.55% of the amount you invest, payable quarterly in arrears commencing 22 July 2003, plus final capital repayment of up to 100% of your initial investment payable 26 July 2008
- (c) Fixed Growth option: a final capital payment of up to 136% of your initial investment payable 26 July 2008

#### Option 3

You will receive a final payment on 26 July 2008 of four times the growth of the FTSE<sup>®</sup> 100 Index up to a maximum payment of 80% of your initial investment plus a capital repayment of up to 100% of your initial investment also payable 26 July 2008.

#### Option 4

You will receive a final payment on 30 June 2008 of 0.7 times the growth of the FTSE<sup>®</sup> 100 Index plus final capital repayment of your initial investment also payable 26 July 2008.

For Investors who are resident in the UK for tax purposes the above payments made in respect of a Plan which is held as an ISA or PEP will not be subject to either UK Income Tax or UK Capital Gains Tax. Any gains or losses on your investment will be disregarded for the purposes of Income Tax or Capital Gains Tax. For Investors who are resident in the UK for tax purposes, in respect of a Plan which is held as a Direct Investment, all returns in excess of the initial investment at maturity may be liable to Capital Gains Tax. If you select any of the Income options, all dividend income received from the Preference Shares will be taxed at a rate of 10% for basic rate tax payers and 32.5% for higher rate taxpayers. These statements are based on current legislation, regulations and practice, all of which may change.

### 8. How Investments are held:

Preference Shares will be held in the name of Keydata Investment Product Nominees Limited, or such other nominee approved by us, and will be beneficially owned by you. No share certificates will be issued to you. We accept full responsibility for any loss that might arise directly as a result of any default by any nominee company in whose name the Preference Shares are held.

All interests in your Plan will be, and must at all times remain, in your beneficial ownership, and must not be used as security for a loan. None of the interests may be lent to or deposited by way of collateral with any third party, nor may you create any charge or security over any interests. We may not lend any of your interests to a third party, nor may we borrow against its security.

### 9. Documentation:

- (a) We will acknowledge in writing, where applicable:
  - (i) your application to open an ISA;
  - (ii) your request to transfer a PEP or ISA to us; or
  - (iii) your application to open a Direct Investment Plan.
- (b) You will receive an annual statement prepared on the basis of valuations taken on 22 April each year. This will show details of all transactions effected during the previous twelve months and includes a valuation of your Plan. The statement will be prepared in accordance with the rules of the FSA and will be issued within 25 business days of the valuation date and will not include any measure of comparative performance.
- (c) We may produce a consolidated statement covering where applicable:
  - (i) all ISAs that are held with us;
  - (ii) an investment statement covering all PEPs held with us;
  - (iii) an investment statement covering all Direct Investments held with us.
- (d) On request, you are entitled to receive copies of any information issued to holders of Preference Shares in which you invest. On request you will be invited to exercise voting rights in respect of Preference Shares held. If you wish to attend Preference Shareholder meetings in person we will seek to arrange this. We reserve the right to make a reasonable charge for providing these additional services.
- (e) Where a certificate or other document evidencing title to a permitted investment is issued, it will be held by us or as we may direct.

### 10. Partial Withdrawals:

No partial withdrawals are permitted from your Plan.

### 11. Transfer to another Manager:

- (a) Subject to the Regulations, you have the right at any time to transfer your ISA to another ISA Manager, or as the case may be, your PEP to another PEP Manager. Your investment protection is only valid if you remain invested for the full five and a quarter year investment period. As such, if you transfer your ISA or PEP you may not receive a transfer value equal to your initial investment.
- (b) To effect a transfer you must submit to us a written instruction and/or a letter of acceptance from your new ISA (or as the case may be PEP) Manager. We only effect the transfer in cash following the sale of all Preference Shares held by you. It is not possible to transfer the Preference Shares within any of the Plans directly into another ISA or PEP.
- (c) In accordance with the Regulations, if you wish to transfer an ISA for the current year the transfer must be effected in respect of all the subscriptions made that year. In relation to ISAs and PEPs opened in respect of a previous year the transfer must be effected in respect of all holdings held in that year's Plan.
- (d) No partial transfers will be allowed.

### 12. Termination:

- (a) You may terminate the Plan at any time by giving written notice to the Account Manager that you wish to terminate your Plan. Following receipt the Account Manager will then sell your investments at the next practicable dealing date. On termination, the Account Manager will account to you for the proceeds of investments and will be entitled to retain any cash or investments required to settle any transactions already initiated on your behalf and any outstanding fees. You will pay to the Account Manager any fees and transaction charges accrued to the date of termination.
- (b) The Plan may be terminated by the Account Manager in the following circumstances:
  - (i) immediately on giving written notice to you if, in its opinion, it is impossible to administer the Plan in accordance with the Regulations or you are in breach of the Regulations. The ISA or PEP Plan will terminate automatically if it fails to satisfy the provisions of the Regulations with immediate effect. The Account Manager will notify you in writing if, by reason of any failure to satisfy the provisions of the Regulations an ISA or PEP Plan ceases to qualify as an ISA or PEP;
  - (ii) on one month's written notice if you fail to pay any money due;
  - (iii) on three month's written notice if you are in breach of any of these Terms & Conditions.

In these circumstances any assets of the Plan will be sold and the proceeds transferred to you, subject to our right to retain cash in respect of fees and transaction charges as set out in (a) above.

### 13. Death:

In the event of your death, your ISA and/or PEP will cease to be exempt from tax, with investments then being held in a Direct Investment. The Direct Investment forms part of your estate for Inheritance Tax purposes, and accordingly the Account Manager would then await further instructions from your personal representatives.

### 14. Charges:

- All charges in connection with the Plan are payable by the Investment Company and are set out in the Prospectus.
- Where a Plan is transferred to another account manager, we will deduct an administration charge of £100 plus VAT from your Plan proceeds.
- However, we reserve the right to introduce additional charges in the future to cover any additional expenses incurred by us as a result of a material change in Regulations. Should it ever become necessary to introduce such a charge, you will be given three months notice.

### 15. Records of Your Plan:

We will undertake to do the following:

- maintain all such records relating to your Plan;
- make appropriate returns to the Inland Revenue for the purposes of taxation;
- provide all taxation details to you, as may be required under the Regulations.

### 16. Delegation of Functions:

We may appoint a third party to act in respect of any function relevant to administration of your Plan. Should we appoint a third party, we will satisfy ourselves that any such third party is competent to carry out those functions or responsibilities. We shall take full responsibility for the actions and omissions of any such third party.

### 17. Assignment:

We may appoint another company to be the account manager of your Plan under these Terms & Conditions on giving you one month's notice. The new account manager must be approved to act as a PEP and/or ISA Manager (as applicable) by the Commissioners of the Inland Revenue.

### 18. Complaints:

Any complaint should be addressed to Morgan Stanley & Co. International Limited, Compliance Department, 25 Cabot Square, Canary Wharf, London E14 4QA in the first instance. If you are not satisfied with the manner in which the matter is addressed you can refer complaints relating to the administration of your Plan to The Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR. Making a complaint will not prejudice your right to take legal proceedings. A statement describing our complaints handling procedure is available on request.

### 19. Compensation:

If we cannot meet our financial obligations to you, you may be entitled to compensation under the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000. Details of your rights under this scheme are available from us on request, and further information is available from the Financial Services Authority and the Financial Services Compensation Scheme. A statement describing your rights to compensation is available on request.

### 20. Commission:

When you subscribe to our Plan through an Independent Financial Adviser we will usually pay commission which will be detailed in correspondence with you. Please inform us of any change in your Adviser to enable us to keep our records up to date.

### 21. Data Protection:

- The information you provide on your application form (or subsequently) will be held and processed by us as data controller for the purposes of the Data Protection Act 1998.
- We may hold and process information for the administration of the service(s) for which you are currently applying or may apply for in the future, for the operation of your investment in shares (including e.g. for registration and distribution purposes), for the purposes of statistical analysis, and the marketing of goods or services by this company or other companies in the Morgan Stanley group. We may transfer information to other companies in the Morgan Stanley group and to third party agents of such companies or of this company for any of the above purposes.
- Where a financial adviser acts on your behalf, we will disclose information concerning your investment to that financial adviser.
- Save as noted above, we will not provide to any other third party any information relating to you, unless you have given your consent or unless we are required to do so by law.

### 22. Money Laundering:

All transactions relating to products provided by us are covered by the Money Laundering Requirements (Criminal Justice Act 1993, the Money Laundering Regulations 1993 and 2000, FSA Rules and any relevant guidance notes). This means that we are responsible for compliance with these regulations. As a consequence, you may be required to provide proof of identity when buying or selling your investment.

### 23. Telephone Recordings:

For your security telephone conversations may be recorded.

### 24. Telephone and/or Internet Dealing:

We reserve the right to introduce a facility for telephone and/or Internet dealing in respect of your Plan. In the event that we introduce these facilities, we will reserve the right not to accept any dealing instruction unless we are satisfied that all information which we require at the time of dealing has been accurately provided.

### 25. Exclusion of Liability:

Your attention is drawn to the Key Features documentation and the "Risk Factors" therein. No warranty is given by us as to the performance or profitability of the Plan. You must be aware that the price of securities can go down as well as up and that there is a degree of risk attached to stockmarket investments. You may not get back the amount invested. You are reminded that past performance is no guarantee of future returns. In the event of any failure, interruption or delay in the performance of its obligations resulting from any event or circumstance not reasonably within its control, the Account Manager shall not be liable or have any responsibility of any kind for any loss or damage you incur or suffer as a result.

### 26. Amendment to Terms & Conditions:

We may from time to time change these Terms & Conditions by giving not less than ten business days written notice to you of any change.

### 27. Governing Law and Jurisdiction:

These Terms & Conditions are governed by English law and are subject to the non-exclusive jurisdiction of the High Court of England and Wales.

### High Income Products:

The FTSE Optimiser Options 2 & 3 would be considered to be "High Income Products" by the FSA. High income products can help you improve the amount of income you get from your capital-but you need to feel comfortable with the risks involved. A summary of the risks set out in the FSA's factsheet on High Income Products is set out below; you can obtain a full version at [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer), or by ringing the FSA Consumer Helpline on 0845 606 1234.

Many investment products offer higher rates of return than you can get with ordinary savings accounts. The rates can look attractive, but take care - your capital (the money you put in) could be at risk.

High income products can help you improve the amount of income you get from your capital - but you need to be comfortable with the risks involved.

### Make sure you understand the risks

#### What are the risks?

You need to make sure you fully understand the risks involved in this type of product before investing. They are:

- The value of your capital can fall below the original amount you put in;
- Some products are designed to give you the maximum benefits only after a set period - often years. If you cash them in early, you may get a poor return;
- The higher the rate of return you are promised, the more likely it is that your money will be put into risky investments, such as high-risk bonds;
- The rate of income you see advertised (the 'headline' rate) may depend on certain conditions being met. It will not usually be guaranteed. Or, often if the income is guaranteed, the return of your original investment is not.

#### Remember

High-income products are not like ordinary savings accounts.

- They are unlikely to be a suitable place to put 'rainy day' money or any other savings you may need to get at quickly.
- The value of your capital and the income from it may fall as well as rise.
- You generally pay 'for' the higher income by accepting the risk that you may not get back all of the capital or the income advertised.

Before you put your money into a high-income investment:

- Think about what level and what sorts of risk you are willing to take;
- Make sure you are comfortable with taking some risk with your capital; and
- Make sure you are prepared to tie up your money for a certain period.

If you choose to invest in these products, they should form only part, not all of your investment portfolio.

#### Complaints

The fact that investments grow at unpredictable rates, and can fall as well as rise in value, is not usually a valid reason for complaint.

In some cases though, a financial product turns out badly because the firm you dealt with did something wrong. Problems can arise for many different reasons, for example:

- Incorrect or misleading information about a product;
- Failure of a firm to adequately warn about the risks of a product;
- Failure of a firm to draw attention to a particularly strict condition in the contract; or
- Unexpected or excessive charges.

Whatever the reason, you will want to get matters put right by firstly taking the matter up with the firm that sold you the product. You can often get matters sorted out quickly and easily if you do this. But, if you are not happy with the answers, you can take the matter to the Financial Ombudsman Service.