

**PINNACLE NOTES**  
**FREQUENTLY ASKED QUESTIONS**

**18 DECEMBER 2008<sup>1</sup>**

These Frequently Asked Questions have been prepared by Pinnacle Performance Limited for the distributors of the Pinnacle notes in Singapore in response to questions about the Pinnacle notes generally. Any questions from investors should be raised with the institution that sold them the Pinnacle notes in Singapore.

*Please read the important notice at the end of this document.*

**1. What are the Pinnacle notes?**

The Pinnacle notes are the Series 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 15 and 16 notes issued by Pinnacle Performance Limited (the "Issuer"). Some of the Pinnacle notes are equity-linked notes and some are credit-linked notes. The Pinnacle equity-linked notes and the Pinnacle credit-linked notes are together referred to in this document as the "Pinnacle notes".

**2. What are the Pinnacle equity-linked notes?**

The Pinnacle equity-linked notes (the "Pinnacle equity-linked notes") are the Series 8, 11, 12, 15 and 16 notes issued by the Issuer.

An equity-linked note is, in general terms, a structured note where the return and/or interest on the note is determined by reference to, amongst other things, the performance of one or more shares or share indices.

Investors in a Series of Pinnacle equity-linked notes should also refer to the Frequently Asked Questions in relation to Pinnacle equity-linked notes dated 14 November 2008 for further information. A copy of these Frequently Asked Questions is available on the website referred to in the important notice below.

**3. What are the Pinnacle credit-linked notes?**

The Pinnacle credit-linked notes (the "Pinnacle credit-linked notes") are the Series 1, 2, 3, 5, 6, 7, 9 and 10 notes issued by the Issuer.

A credit-linked note is, in general terms, a structured note where the return and/or interest on the note is determined by reference to, amongst other things, the credit performance of one or more reference entities, which may be companies or sovereign entities.

While the Series 7 and 10 Pinnacle notes are credit-linked notes they also have certain equity-linked features because they have terms relating to equity bonus coupons.

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<sup>1</sup> Paragraph 8 below was revised on 14 May 2009.

Further details of these terms are set out in the Pricing Statements for the Series 7 and 10 Pinnacle notes. A copy of these documents are available on the website referred to in the important notice at the end of this document.

**4. What are the Underlying Assets for the Pinnacle notes?**

The Issuer holds Underlying Assets for each Series of Pinnacle notes as collateral for its obligations to holders of that Series and to other secured creditors in respect of that Series. The Underlying Assets differ for each Series of Pinnacle notes. Investors should refer to the offering documents for each Series of Pinnacle notes and the website referred to in the important notice below for further information on the Underlying Assets for each Series of Pinnacle notes.

**5. What is the status of the Underlying Assets of the Pinnacle credit-linked notes?**

As set out in the offering documents for each series of Pinnacle credit-linked notes, Synthetic CDO Securities comprise the Underlying Assets held for each Series of Pinnacle credit-linked notes.

Following the recent unprecedented market events, credit events have occurred in relation to some of the entities which are the underlying reference entities for the Synthetic CDO Securities comprising the Underlying Assets held for each Series of Pinnacle credit-linked notes. Information about these credit events and their effect on each Series of Pinnacle credit-linked notes is contained in the notices which were sent to distributors of the Pinnacle credit-linked notes on 3 November 2008, 8 December 2008 and 11 December 2008. A copy of these notices is available on the website referred to in the important notice at the end of this document.

The occurrence of these credit events in relation to the Underlying Assets held by the Issuer as collateral in respect of the Series 9 and 10 Pinnacle notes has resulted in the occurrence of a mandatory redemption event in respect of the Series 9 and 10 Pinnacle notes. Please see paragraph 7 below for further information.

**6. Has the mandatory redemption event which occurred in relation to the Series 9 and 10 Pinnacle notes resulted in a mandatory redemption event in respect of any other Series of Pinnacle notes?**

A mandatory redemption event has occurred in relation to the Series 9 and 10 Pinnacle notes. Investors in the Series 9 and 10 Pinnacle notes should refer to the Frequently Asked Questions in relation to the Series 9 and 10 Pinnacle notes dated 14 November 2008 for further information about this mandatory redemption event, a copy of which is available on the website referred to in the important notice at the end of this document, and to the other sources of information referred to in the important notice at the end of this document.

A mandatory redemption event has not occurred in relation to any other Series of Pinnacle notes as of the date of this document. The Issuer can give no assurance as to whether mandatory redemption events will or will not occur in the future in relation to any other Series of Pinnacle notes.

**7. What is the process for the sale of the Underlying Assets for the Series 9 and 10 Pinnacle notes following the mandatory redemption event in respect of the Series 9 and 10 Pinnacle notes?**

As set out in the offering documents for the Series 9 and 10 Pinnacle notes, following the writedown of the principal amount of the Underlying Assets which are held by the Issuer as collateral for its obligations in respect of the Series 9 and 10 Pinnacle notes and the resulting occurrence of a mandatory redemption event for the Series 9 and 10 Pinnacle notes, the Underlying Assets will be sold at the highest clean firm bid price obtained by Morgan Stanley Capital Services Inc. as swap counterparty for the Series 9 and 10 Pinnacle notes upon the solicitation of five reference dealers selected by Morgan Stanley & Co. International plc as Determination Agent for the Series 9 and 10 Pinnacle notes acting for and on behalf of the Issuer (which reference dealers will not be affiliated to each other and may include Morgan Stanley & Co. International plc or any of its affiliates). As set out in the offering documents for the Series 9 and 10 Pinnacle notes, the Custodian for the Pinnacle notes, acting as agent for the Issuer, will arrange for and administer the sale of the Underlying Assets for the Series 9 and 10 Pinnacle notes in accordance with the terms of the Series 9 and 10 Pinnacle notes. To do so, the Custodian will deliver the Underlying Assets to the reference dealer which purchases the Underlying Assets in accordance with the process set out above and take receipt of the sale proceeds of the Underlying Assets for distribution in accordance with the terms of the Series 9 and 10 Pinnacle notes.

Investors in the Series 9 and 10 Pinnacle notes should consult the financial institution that sold them the notes for further information. They should also refer to the Frequently Asked Questions in relation to the Series 9 and 10 Pinnacle notes dated 14 November 2008 for further information, a copy of which is available on the website referred to in the important notice at the end of this document, and to the other sources of information referred to in the important notice at the end of this document.

**8. Is the event that has occurred in relation to the Series 9 and 10 Pinnacle notes different from the events that have occurred in relation to the Lehman Minibonds?<sup>1</sup>**

A set of Frequently Asked Questions issued by the note trustee in relation to Minibond Notes dated 4 December 2008 states that “an event of default has occurred in relation to series 1, 5, 6, 7 and 8” of the Lehman Minibonds because of a payment default (a failure by the issuer of the Lehman Minibonds (Minibond Limited) to make an interest payment to investors when it fell due and the expiry of the grace period for such payment) in respect of each of these series. According to this document, these failures to make interest payments appear to have arisen because of a failure to pay by Lehmans (following its bankruptcy) in relation to the swap arrangements which Lehmans entered into with Minibond Limited and the issuer of the underlying assets held by Minibond Limited. In the case of series 2 and 3 of the Lehman Minibonds, these Frequently

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<sup>1</sup> This paragraph 8 was revised on 14 May 2009.

Asked Questions also state that “an event of default is very likely to occur in respect of each series of notes as interest payments fall due” for the same reason.

In contrast to what appears to have taken place in the case of the Lehman Minibonds referred to above, there has been no Event of Default in relation to the Series 9 and 10 Pinnacle notes (as that term is defined in the terms and conditions for the Series 9 and 10 Pinnacle notes). The Issuer continues to perform its obligations in relation to these Series of Pinnacle notes in accordance with their terms. In addition, there has been no failure by Morgan Stanley, as the swap provider in relation to the Series 9 and 10 Pinnacle notes, to make payments in relation to the swap arrangements which it entered into with the Issuer or with the issuer of the Underlying Assets for these Series.

In contrast to what appears to have taken place in the case of the Lehman Minibonds, the Series 9 and 10 Pinnacle notes are subject to a Mandatory Redemption Event (as that term is defined in the terms and conditions for the Series 9 and 10 Pinnacle notes) in accordance with the terms of these Series of Pinnacle notes (as further set out in paragraphs 5, 6 and 7 above), because of a writedown of the principal amount of the Underlying Assets held by the Issuer as collateral for those Series of Pinnacle notes. Investors should refer to the Frequently Asked Questions in relation to the Series 9 and 10 Pinnacle notes dated 14 November 2008 for further information about the consequences of the occurrence of the mandatory redemption event in respect of the Series 9 and 10 Pinnacle notes, a copy of which is available on the website referred to in the important notice at the end of this document, and to the other sources of information referred to in the important notice at the end of this document.

**9. Will the Series 9 and 10 Pinnacle notes be restructured?**

The following points should be noted in relation to the Series 9 and 10 Pinnacle notes:

- The Issuer is not aware of any proposals to amend the terms of the Series 9 and 10 Pinnacle notes.
- Given the current market values of, amongst other things, the Underlying Assets for the Series 9 and 10 Pinnacle notes, it is anticipated that investors in the Series 9 and 10 Pinnacle notes will lose all of their original principal investment. The mere amendment of the existing terms and conditions of the Series 9 and 10 Pinnacle notes alone, without the incurrence of additional costs and/or the provision of additional capital, would not, in and of itself, increase the economic value of the notes following such amendment.
- A restructuring would be a change to the existing terms and conditions of the notes and such an amendment would require the consent of, amongst others, the Noteholders, the Issuer, the Trustee and the swap providers.
- The existing terms and conditions of the Series 9 and 10 Pinnacle notes do not provide for an amendment to the terms and conditions upon the occurrence of a mandatory redemption event, but require an early redemption of the notes.

Investors should refer to the Frequently Asked Questions in relation to the Series 9 and 10 Pinnacle notes dated 14 November 2008 for further information about the

consequences of the occurrence of the mandatory redemption event in respect of the Series 9 and 10 Pinnacle notes, a copy of which is available on the website referred to in the important notice at the end of this document, and to the other sources of information referred to in the important notice at the end of this document

**10. How can I find out the market value of the Pinnacle notes that I hold?**

Investors in a Series of Pinnacle notes who would like to know the indicative price at which they can sell their Pinnacle notes should contact the financial institution from which they purchased their Pinnacle notes. Morgan Stanley & Co. International plc ("Morgan Stanley"), in its capacity as market agent for each Series of the Pinnacle notes, through its agent, Morgan Stanley Asia (Singapore) Pte., may quote prices to the financial institutions which sold a Series of Pinnacle notes to investors, being the prices at which Morgan Stanley will be prepared to purchase Pinnacle notes of a particular Series from these financial institutions. However, it is under no obligation to do so. The prices quoted by Morgan Stanley to these financial institutions are indicative only and are not final or binding on Morgan Stanley. However, Morgan Stanley is not able to quote prices directly to, or purchase Pinnacle notes directly from, investors who bought Pinnacle notes from these financial institutions. Further details about the market making arrangements for each Series of Pinnacle notes is set out in the section of the Base Prospectus for the Pinnacle notes entitled "Market Making Arrangements".

In order to provide investors in a Series of Pinnacle notes with a general indication of the market value of a Series of Pinnacle notes, an indicative price which Morgan Stanley has recently quoted to the financial institutions who sold this Series of Pinnacle notes to investors is set out on the website referred to in the important notice set out at the end of this document. This price is entirely historical and is posted on the website for information purposes only. This is not an actionable price and by this price being posted on the website Morgan Stanley is not offering to purchase any Pinnacle notes from investors. It should be noted that historical market data and historical market trends are not necessarily illustrative or reliable indicators of current or future market behavior. Investors in a Series of Pinnacle notes who would like to sell their Pinnacle notes should contact the financial institution from which they purchased their Pinnacle notes in order to obtain an indicative price at which the relevant financial institution will purchase their Pinnacle notes.

**11. Why are the market values of the Pinnacle credit-linked notes low?**

The market values of the Pinnacle credit-linked notes are attributable to a number of factors.

One of the main factors is that the present unprecedented market conditions in combination with the occurrence of the credit events referred to in paragraph 5 above in relation to the Underlying Assets for each Series of the Pinnacle credit-linked notes has resulted in an increased risk of that Series becoming subject to a mandatory redemption event in the future if further credit events occur which result in a writedown of the principal amount of the Underlying Assets held by the Issuer for that Series.

Whether the principal amount of the Synthetic CDO Securities which comprise the Underlying Assets for a Series of Pinnacle credit-linked notes is reduced or otherwise written down will depend on whether one or more future credit events in respect of the underlying reference entities of such Synthetic CDO Securities occur (and whether any other applicable conditions are satisfied), as well as whether any loss calculations in connection with such credit event(s) exceed the relevant threshold amount.

Further information on the effect of credit events in respect of underlying reference entities on the principal amount and/or market value of Underlying Assets where those Underlying Assets comprise Synthetic CDO Securities is set out under the paragraph headed “*Exposure to the Underlying Assets where Underlying Assets consist of Synthetic CDO Securities, CDO Squared Securities, Credit Commodity Linked Securities and Asset-Backed Securities*” in the section headed “Risk Factors” of the Base Prospectus. A copy of the Base Prospectus is available from the website referred to in the important notice at the end of this document.

## 12. Who can answer any questions I may have?

You should contact the distributor in Singapore that sold you the Pinnacle notes at the contact telephone number set out below.

<b>Distributor</b>	<b>Contact Number</b>
ABN Amro Bank NV, Singapore Branch	1800 226 2676
CIMB-GK Securities Pte Ltd	1800 538 9889
Citibank Singapore Limited	6333 9000
DBS Vickers Securities (Singapore) Pte Ltd	6398 6090
DMG & Partners Securities Pte Ltd	6538 3773
Hong Leong Finance Limited	1800 800 8000
Kim Eng Securities Pte. Ltd.	6226 0300
Malayan Banking Berhad, Singapore Branch	1800 629 2265
OCBC Securities Private Limited	6538 4775
Phillip Securities Pte Ltd	6531 1555
RHB Bank Berhad	1800 323 0100
Standard Chartered Bank	1800 747 7000
UOB Kay Hian Pte Ltd	6536 9338

### *IMPORTANT NOTICE*

This document is a summary of some of the terms of the Pinnacle notes which are relevant to the questions above and is subject to the full terms of the Pinnacle notes which are described in the relevant offering documentation in respect of the Pinnacle notes. Investors should refer to the Base Prospectus together with all Supplementary Base Prospectuses applicable to the relevant Series of Pinnacle notes and the Pricing Statement in respect of the relevant Series of Pinnacle notes (together referred to in these Frequently Asked Questions as the offering documents in respect of a relevant Series) for further information. Investors should also refer to the Pricing Supplements in respect of the relevant Series of Pinnacle notes. These documents can be accessed at [www.morganstanley.com/pinnaclenotes](http://www.morganstanley.com/pinnaclenotes). Although Pinnacle Performance Limited is under no obligation to provide information in respect of the Pinnacle notes or the Underlying Assets beyond that specified in the offering documents for the Pinnacle notes, in the present unprecedented market conditions Pinnacle Performance Limited believes that it may be helpful to provide these Frequently Asked Questions relating to the Pinnacle notes. Except as specified in the offering documents for the Pinnacle notes, Pinnacle Performance Limited is not under any obligation to provide further information in relation to the Pinnacle notes or to update the information contained in these Frequently Asked Questions.

This document only contains general information in relation to the Pinnacle notes and does not constitute legal, financial or any other advice. Investors should seek independent advice where necessary. Capitalised terms used in this document but not otherwise defined herein have the meaning given in the Pricing Statement for the relevant notes.