Common Stock
The common stock of Morgan Stanley is listed on the
New York Stock Exchange and on the Pacific Exchange.
Ticker Symbol: MWD

Independent Auditors
Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281
212-436-2000

Stock Transfer Agent
For information about the direct stock purchase and dividend
reinvestment program (DRIP), address changes, dividend-
checks, lost stock certificates, share ownership and other
administrative services, contact:
Mellon Investor Services LLC
P.O. Box 3315
South Hackensack, NJ 07606-1915
Telephone: 800-622-2393
For investors outside the U.S., please call 201-329-8660
Internet: www.melloninvestor.com

Electronic Delivery of Annual Meeting Materials
You may elect to receive your annual meeting and proxy
statement material via the Internet rather than receiving
mailed copies. For shareholders of record, please visit:

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including recruitment, hiring, training and promotion.
For more information, including the company’s Diversity and
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Morgan Stanley is committed to participating in the political
process in a manner consistent with good corporate gover-
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Our Corporate Political Contributions Policy Statement is
available through our website at www.morganstanley.com. For
a copy of our most recent Corporate Political Contributions
Disclosure Statement, write to: Morgan Stanley Government
Relations, 401 5th Street, N.W., Washington, D.C. 20001.

For a more complete discussion of our 2004 results, please refer to our
Annual Report on Form 10-K and visit us online at www.morganstanley.com.
“The ultimate measure of your firm’s success is how well it performs for people: building value for all our shareholders, improving each client’s performance and offering personal and professional growth for every employee.”

Philip J. Purcell Chairman & Chief Executive Officer, Morgan Stanley

letter to shareholders from Philip J. Purcell

2004 was a very good year for your firm. I am pleased by the strategic initiatives we put in place. About our prospects moving forward. And our performance overall.

The client focus we undertook in 2000 continued to yield excellent results. Net revenues increased 14%. Earnings per share increased 18%. Our return on equity (ROE) was 17% in a 4% risk-free environment. At year-end, we increased our dividend 8%, reflecting strong confidence in our future.

Market share and league table results in Institutional Securities were the best ever. We were #1 in global equity underwriting for the first time since 1982, #2 in completed mergers and acquisitions and #2 in global debt underwriting. We booked record revenues in our Fixed Income Division.

Fund performance in our Investment Management Division improved substantially, helping to attract $29 billion in new asset inflows. We realized major credit quality improvement and profit growth at Discover—leading to record results. We restarted growth in our retail brokerage sales force, a precursor to positive growth in our Individual Investor Group overall.

Yet despite all these positives in both performance and returns, we did not achieve two important goals. Our stock price has not increased. And we did not deliver a premium return on equity compared with our competitors. These, for me, were disappointments in a year in which we successfully faced so many challenges and gained so much momentum.
While we do not control our stock price, we do control the performance of the firm against our stated objectives and our vision for the future. This performance should be the driving factor of our stock price over the long term.

So I thought it appropriate to address this subject in my annual letter to you, our shareholders and clients, our supporters and friends: to articulate our vision, to review our strategy in executing that vision, to express my confidence in the rightness of the course we have chosen and the people we have in place to take your company to new levels of success.

When we shortened our brand name to Morgan Stanley in 2000, we chose as our corporate logomark a blue “directional” triangle, pointing to the northeast, where all financial success is traditionally plotted. The points of the triangle itself represent our three primary constituencies—our people, clients and shareholders—each of whom we owe a commitment of excellence.

It is our stated vision that a business culture focused on the best and brightest people in absolute service to the success of our clients is an unbeatable combination in generating superior returns for our shareholders. This vision is the underpinning of both the strategic framework and competitive advantage of Morgan Stanley.

Our strategic framework

From the time of the merger, our approach has been thoughtful and deliberate. There are three principles which, taken collectively, make our strategy unique.

First, we are a financial services firm focused on growth. Second, we believe our unique mix of businesses provides both strategic synergies and financial balance.

Third, and perhaps most important, we have chosen to compete in each of our businesses with a concept we call “skills over capital.”

These three pillars created the market strategy that brought us together. They are the source of our strength today.

As a result, shareholders should expect that we will continue to grow market shares in our businesses. They should expect that we will invest sufficiently in our people, systems and innovation to grow those shares; that we will be more profitable and realize greater organic growth as a result of it. And, to the extent that we can propel growth across businesses—what I ascribe to the benefit of the “full firm”—we will further differentiate our firm relative to competitors.

A financial services firm focused on growth

In our estimation, retail payments, financial advice, asset management and global capital markets capabilities for institutions represent the most compelling secular growth opportunities in financial services. We are extremely well-positioned for each of these opportunities.

On the payments front, non-cash transactions are replacing cash at a significant pace. Together with normal growth in retail sales, there is an extraordinary opportunity in retail payment networks. Free to compete on a more equal footing after an important ruling by the U.S. Supreme Court, and strengthened by our acquisition of the PULSE® debit card system,
financial results

**Net Income**

(Dollars in Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 ($)</td>
<td>$3,521</td>
<td>$2,988</td>
<td>$3,787</td>
<td>$4,486</td>
<td>$5,456</td>
</tr>
<tr>
<td>DOW ($)</td>
<td>$10,414</td>
<td>$9,852</td>
<td>$8,896</td>
<td>$9,782</td>
<td>$10,428</td>
</tr>
<tr>
<td>MSCI WORLD INDEX ($)</td>
<td>$1,203</td>
<td>$998</td>
<td>$833</td>
<td>$976</td>
<td>$1,127</td>
</tr>
<tr>
<td>NASDAQ ($B)</td>
<td>$19,928</td>
<td>$11,609</td>
<td>$7,524</td>
<td>$6,866</td>
<td>$8,532</td>
</tr>
<tr>
<td>NYSE ($B)</td>
<td>$10,945</td>
<td>$10,623</td>
<td>$10,412</td>
<td>$9,510</td>
<td>$11,410</td>
</tr>
</tbody>
</table>

**Earnings per Share**

(Diluted)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index ($)</td>
<td>$4.73</td>
<td>$3.11</td>
<td>$2.69</td>
<td>$3.45</td>
<td>$4.06</td>
</tr>
<tr>
<td>DOW ($)</td>
<td>$30.9%</td>
<td>$18.0%</td>
<td>$14.1%</td>
<td>$16.5%</td>
<td>$16.8%</td>
</tr>
</tbody>
</table>

**Return on Equity**

(In Percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index (%)</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.0%</td>
<td>17.2%</td>
</tr>
<tr>
<td>MSCI World Index (%)</td>
<td>14.1%</td>
<td>16.5%</td>
<td>16.8%</td>
<td>17.2%</td>
<td>17.2%</td>
</tr>
</tbody>
</table>

**Competitive Return on Equity**

Comparison—Five-Year Average

(In Percent)

- MWD: Morgan Stanley
- LEH: Lehman Brothers
- MER: Merrill Lynch

Source: Company Filings

**S&P 500 Index and MSCI World Index**

**Business Drivers**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 ($)</td>
<td>1,315</td>
<td>1,139</td>
<td>936</td>
<td>1,058</td>
<td>1,174</td>
</tr>
<tr>
<td>DOW ($)</td>
<td>10,414</td>
<td>9,852</td>
<td>8,896</td>
<td>9,782</td>
<td>10,428</td>
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<tr>
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<td>9,510</td>
<td>11,410</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOBAL EQUITY &amp; EQUITY-RELATED ($) VOLUME ($B)</td>
<td>575</td>
<td>427</td>
<td>319</td>
<td>389</td>
<td>507</td>
</tr>
<tr>
<td>GLOBAL IPO VOLUME ($B)</td>
<td>205</td>
<td>92</td>
<td>64</td>
<td>57</td>
<td>136</td>
</tr>
<tr>
<td>GLOBAL DEBT VOLUME ($B)</td>
<td>2,983</td>
<td>3,974</td>
<td>3,940</td>
<td>4,973</td>
<td>5,193</td>
</tr>
<tr>
<td>GLOBAL COMPLETED M&amp;A ($) VOLUME ($B)</td>
<td>3,528</td>
<td>2,061</td>
<td>1,229</td>
<td>1,080</td>
<td>1,388</td>
</tr>
</tbody>
</table>

1 Completed M&A data for transactions of $100MM or more

Sources: FIBV, FactSet and Thomson Financial
Discover now has a unique value proposition for issuers, one that we have already begun to exploit. A more vibrant network offers further opportunities to strengthen our Discover Card business, as shown by the recent announcement that GE Consumer Finance will issue a new card to Wal-Mart customers on the Discover Network.

Over the past five years, Discover has had the best profit growth of any of our reporting businesses. Discover's financial returns, measured in both aggregate earnings and return on capital, have been extremely important to the firm's overall results.

Demographic, regulatory and business changes will continue to generate more wealth for—and place added responsibility on—individuals to manage across an increasingly complex array of financial products. Offering distinctive products through a trusted intermediary is critical for any financial firm that hopes to have a meaningful presence in a market expected to grow at least twice the rate of the GDP. Morgan Stanley is very fortunate to be one of a small number of firms with both excellent "manufacturing" and "distribution" capabilities.

Our Investment Management business has focused successfully on providing high-performance products to help meet the wealth management and long-term investment needs of our clients. We have thought hard and made extensive realignments in this business over the past three years. In 2004, Investment Management increased profits by 72%, posted strong investment returns for clients and was our highest ROE business. We believe our established brand and global presence provide a significant opportunity for expansion both inside and outside the U.S.

Global capital markets have been the growth engine for financial services for the past 20 years. Short of an unlikely reversal in globalization, I believe financial markets will continue to take share from banks and governments in providing and allocating capital. As noted earlier, our leadership position in capital markets is even stronger today as a result of client initiatives we put in place in 2000.

In addition to a major presence in these larger market businesses, the firm is also a leader in pursuing many of the most attractive industry growth segments. Commodities, prime brokerage, securitization and China exemplify leading market positions with significant growth opportunities.

We believe the trends for 2005 are in our favor as well. As our revenues are more driven by the health of the equity markets than some of our competitors', we delivered premium returns on equity in the years 1997-2002. In 2003-2004, however, with fixed income markets driving revenues, our ROE performance vis-à-vis our competition was at the median. We began to see this balance shift back again in 2004, and we view this as a competitive advantage moving forward.

To take advantage of these trends, we need to address several factors that hurt our performance in 2004.

First, profitability in our Individual Investor Group did not meet expectations due, in part, to the regulatory and settlement costs that we incurred—costs that reduced earnings by over $120 million. A change in accounting in our fourth quarter reduced profitability by $80 million more. That $200 million reduced Individual Investor Group's profit margin by four percentage points. We now have in place a
Morgan Stanley was a leader in market share and many of the top transactions.

### Institutional Securities

#### Global Equity and Equity-Related Underwriting Market Share (%) and Rank (#)

*Calendar Year*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>10.1%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2001</td>
<td>10.2%</td>
<td>10.7%</td>
</tr>
<tr>
<td>2002</td>
<td>7.9%</td>
<td>10.2%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: Thomson Financial

#### Global Completed M&A Market Share (%) and Rank (#)

*Calendar Year*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>10.1%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2001</td>
<td>10.2%</td>
<td>10.7%</td>
</tr>
<tr>
<td>2002</td>
<td>7.9%</td>
<td>10.2%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: Thomson Financial

### Global Debt Market Share (%) and Rank (#)

*Calendar Year*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>7.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2001</td>
<td>6.6%</td>
<td>10.1%</td>
</tr>
<tr>
<td>2002</td>
<td>6.9%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

Source: Thomson Financial

### Global IPO Market Share (%) and Rank (#)

*Calendar Year*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>14.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>2001</td>
<td>5.1%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2002</td>
<td>4.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Source: Thomson Financial

### Global Equity Trading Market Share (%)

*In Percent*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>11.6%</td>
<td>11.0%</td>
</tr>
<tr>
<td>2001</td>
<td>10.4%</td>
<td>10.4%</td>
</tr>
<tr>
<td>2002</td>
<td>10.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>10.3%</td>
</tr>
</tbody>
</table>

Source: McLagan

### Global Equity-Related Underwriting Market Share (%) and Rank (#)

*Calendar Year*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>10.1%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2001</td>
<td>10.2%</td>
<td>10.7%</td>
</tr>
<tr>
<td>2002</td>
<td>7.9%</td>
<td>10.2%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: Thomson Financial

### Initial Public Offerings of Stock

Global offerings by U.S. issuers, ranked by 2004 proceeds

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>14.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td>2001</td>
<td>5.1%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2002</td>
<td>4.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Source: Thomson Financial

### Top 10 Global Stock Issues

*Total equity excluding new issues*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>11.6%</td>
<td>11.0%</td>
</tr>
<tr>
<td>2001</td>
<td>10.4%</td>
<td>10.4%</td>
</tr>
<tr>
<td>2002</td>
<td>10.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2003</td>
<td>2004</td>
<td>10.3%</td>
</tr>
</tbody>
</table>

Source: Thomson Financial

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1. Total equity excluding new issues
2. Through Sept. 2004
3. Morgan Stanley bookrun transaction
Opportunities: How Powerful Trends Support Morgan Stanley Businesses

Growth in U.S. household financial assets creates opportunities for our retail securities representatives and asset managers.

U.S. Household Financial Assets¹
(Dollars in Trillions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Financial Assets (Household and nonprofit organizations)</td>
<td>1.1</td>
<td>1.3</td>
<td>1.5</td>
<td>1.7</td>
<td>1.9</td>
<td>2.1</td>
<td>2.3</td>
<td>2.5</td>
<td>2.7</td>
<td>3.0</td>
</tr>
</tbody>
</table>

CAGR = 7%

Source: Federal Reserve Board, Cerulli estimates

1 Household and nonprofit organizations total financial assets. Sector includes farm households. 2004 estimate from Cerulli Mid-Year 2004 Report, defined as “U.S. Household Financial Assets.”

As the first of 78 million baby boomers near retirement age, growth in retirement assets and demand for wealth management will continue.

Individual Retirement Account Assets
(Dollars in Trillions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1.1</td>
<td>1.3</td>
<td>1.5</td>
<td>1.7</td>
<td>1.9</td>
<td>2.1</td>
<td>2.3</td>
<td>2.5</td>
<td>2.7</td>
<td>3.0</td>
</tr>
</tbody>
</table>

CAGR = 12%

Source: Federal Reserve Board, Cerulli estimates

CAGR: Compound Annual Growth Rate

The shift in retail payments away from cash and checks to credit and debit cards will continue.

U.S. Consumer Payments
(Dollars in Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2007E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash/Checks</td>
<td>5,400</td>
<td>7,000</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>324</td>
<td>1,404</td>
</tr>
<tr>
<td>Debit Cards</td>
<td>540</td>
<td>1,960</td>
</tr>
<tr>
<td>Electronic</td>
<td>3,132</td>
<td>2,870</td>
</tr>
<tr>
<td>Total</td>
<td>9,876</td>
<td>5,738</td>
</tr>
</tbody>
</table>

CAGR = 4%

Source: Nilson

U.S. Consumer Payment Mix

- Credit/Debit: 48%
- Cash/Checks: 52%

Source: Nilson

1 Cash/Checks includes electronic.

Despite the severe contraction following the Internet bubble, the long-term trend in the global capital markets has been one of robust growth.

Global Equity Trading
(Dollars in Trillions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1994</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Dollar Volume (Includes NYSE, Nasdaq, London, Deutsche Borse, Borsa Italiana, Swiss Exchange, Copenhagen Exchange, Tokyo, Taiwan, Korea and Hong Kong Exchanges)</td>
<td>33.8</td>
<td>817</td>
</tr>
</tbody>
</table>

CAGR = 16%

Source: World Federation of Exchanges, IBV

Innovation continues to be a strong source of growth in capital markets as securitized products, credit derivatives and hedge funds have become major new markets.

Agency Mortgage-Backed Securities
Average Daily Volume
(Dollars in Billions)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Daily Volume</td>
<td>30, 29, 38, 47, 71, 67, 69</td>
<td>112</td>
<td>154</td>
<td>206, 206</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CAGR = 21%

Source: Federal Reserve Bank of NY, Bond Market Association

1 Purchases and sales by primary U.S. government securities dealers. 2004 data as of Sept. 30.

Credit Default Swaps
(Dollars in Trillions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notional Outstanding</td>
<td>0.6</td>
<td>1.5</td>
<td>2.7</td>
<td>5.4</td>
</tr>
</tbody>
</table>

CAGR = 105%

Source: ISDA

1 All figures first half of respective years

Hedge Fund Assets Under Management
(Dollars in Billions)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Assets Under Management</td>
<td>167, 188, 257, 368, 377, 456, 488, 536, 622</td>
<td>817</td>
<td>1,063</td>
<td></td>
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</tbody>
</table>

CAGR = 20%

Source: HFR, Freeman & Co. estimates

1 YTD as of November 2004 (latest data available).

In recent years, China has had three times the growth and savings rates of the U.S. … an unparalleled opportunity for our strong Asian franchise.
cost structure, enhanced broker education and new product development program that should provide both improved returns in 2005 and longer-term protection from market downsides. The investments we have made in this business are vital to bottom line growth.

Second, while our Fixed Income business had a record year, we did not take advantage of trading opportunities in the third and fourth quarters to the extent that we would have expected.

Our unique mix of businesses provides both strategic synergies and financial balance

We do not underestimate the value to shareholders that the financial balance of our business mix provides. This balance helps smooth out the cyclical nature of many of the individual businesses. But we will not pursue new businesses simply for the sake of balance or size. We will concentrate only in areas where our core competencies add shareholder value.

We believe these core competencies—innovation, execution and superior service—lie at the heart of our competitive strength. We expect that the application of these competencies will drive us to the top three in market share in any business in which we operate. As a result, we have eschewed a number of opportunities in financial services sectors where we did not believe our involvement could add sufficient value. We simply do not believe in the long-term merits of a strategy that would bring together many low share positions across multiple businesses and geographies in order to create an even bigger company.

We have seen the success of this approach in 2004 across almost all of our businesses. We have also seen the
growing strength of our “full-firm” franchise, most often because the individual business segments that make it up contribute to the strength of other segments.

For example, our retail securities position is stronger today due to the combination of high-quality IPOs, equity issues, debt underwritings and structured products in both debt and equity developed within our Institutional Securities Group. We have also helped our retail securities clients by providing $4.2 billion of residential mortgages from Discover that generated more than $60 million in pre-tax profits.

In turn, our retail securities distribution network has been of enormous value to our institutional clients. Many transactions were successfully completed that otherwise would not have been assigned to us. Our Fixed Income Division has sold more product. The retail brokerage system has also provided additional equity flows, reducing cost per transaction and providing valuable additional trading opportunities. Our Prime Brokerage Group now has an additional, dependable, effective, low-cost source of securities.

Our Investment Management performance has been strengthened by our ability to select premier products and portfolio managers from four formerly independent investment management companies. Van Kampen, once an underdeveloped arm of Investment Management, today can count on its two biggest third-party distributors for over $5 billion in sales—sales that were nonexistent prior to 2000.

While Discover has typically been the least integrated of our businesses, it is increasingly the source of important services for our retail securities clients in the form of mortgage loans and deposit products—products developed and serviced by Discover. We expect liability products to become increasingly important to Individual Investor Group clients.

We have in all our businesses brought to market a stronger array of products better suited to our varied client constituencies. The key to building on this success is in finding new ways for different parts of the firm to work together, both within divisions and across them, without sacrificing focus or returns within the businesses themselves. But to be effective, these initiatives must work to the benefit of the client, not just the firm. Planned joint efforts in 2005 include a new coverage model for middle markets,
Assurant  Through an IPO, Morgan Stanley helped Assurant—formerly Fortis, Inc., the U.S. insurance business of Fortis NV (an integrated financial services provider active in banking and insurance)—to become a standalone public company. Morgan Stanley helped to unwind complex intercompany financial arrangements, design a new capital structure, and arrange corporate governance and a variety of transitional agreements. The highly successful IPO in February 2004 raised more than $2 billion, with Morgan Stanley Individual Investor Group clients accounting for more than $600 million in demand. Additionally, Morgan Stanley committed $625 million of bridge capital to facilitate the transformation before leading Assurant’s inaugural debt offering. In January 2005, Fortis again called on Morgan Stanley to sell its remaining stake in Assurant through a concurrent common and mandatory exchangeable transaction worth an additional $1.6 billion.

Genworth  In 2004, GE entered the equity markets for the first time since 1961. In the space of three months, Morgan Stanley assisted GE in two major transactions. In March, in the second largest follow-on offering in U.S. history, the firm acted as lead bookrunner for a $3.8 billion offering of GE shares. In May, the firm acted as joint bookrunner for the $2.8 billion IPO and concurrent $600 million convertible offering for GE’s insurance subsidiary Genworth Financial, the largest U.S. IPO in over two years. Our Individual Investor Group generated more than $500 million in demand for Genworth. Together, the assignments underscored Morgan Stanley’s role as a trusted advisor to GE, one of the world’s most admired companies.

Google  No IPO drew more attention than that of Google, whose management sought to go public via a unique auction process that would provide equal access for institutional and retail investors alike. Morgan Stanley was awarded the exclusive role of building and operating the auction system itself—including building the technology platform, which not only aggregated the bids but also produced analyses and scenarios to guide pricing and allocation decisions. Despite challenging market conditions throughout the weeks of the summer auction process, Morgan Stanley delivered a successful outcome for Google and its shareholders—at $1.9 billion, the largest Internet IPO ever.

Opportunities: Innovation in IPOs  Three innovative initial public offerings were among the highlights of a notably successful year in which Morgan Stanley ranked #1 in global and U.S. IPOs. The firm’s focus on client relationships, its wide-ranging skills and broad distribution network promises to keep Morgan Stanley a leader in the equity and equity-linked capital markets—the partner of choice for corporate clients seeking to create value.
Opportunities: Discover Financial Services

Discover Financial Services is pursuing many new prospects for growth. Some arise from Discover’s product innovation; others from the U.S. Supreme Court ruling in October 2004, which struck down anticompetitive practices by Visa and MasterCard. That judgment allows Discover to forge partnerships with financial institutions such as the recent partnership with GE Consumer Finance in offering a new card for Wal-Mart customers.

- Acquiring PULSE
  Following the U.S. Supreme Court ruling, Discover acquired PULSE EFT Association, a fast-growing ATM/debit network currently serving more than 4,100 financial institutions and approximately 90 million cardholders. The merger (completed January 12, 2005) creates a leading electronic payments company that will offer a full range of products and services and provide an appealing alternative for small to large institutions across the United States. New products expected in 2005 will build on the strengths of both partners.

- Expanding Internationally
  With almost 1.3 million Morgan Stanley Card® credit cards in the U.K., accounts there grew 21% in 2004. As the Morgan Stanley Card seeks to grow market share and profitability in the U.K., which is the second largest market globally, we are also considering additional markets to enter. The opportunities are immense: In China, for instance, the credit card market is expected to grow 29% in 2005. (Source: Access Asia)

- Growing Non-card Financial Services
  Mortgage originations (primarily through Morgan Stanley’s Individual Investor Group, or IIG) have grown rapidly in recent years, totaling $4.6 billion in 2004. There is room to go beyond that in coming years, further penetrating both the IIG and Discover customer bases by introducing new products and broadening marketing efforts.

- Winning Exclusives
  Not only did Discover sign over 1 million new merchant locations in 2004, but more than 7,000 merchant locations have agreed to make Discover® Card the only credit card they accept. Two prominent examples are KinderCare and SAM’S CLUB. Discover charges these merchants lower fees—and the savings ultimately mean lower prices for consumers.

- Increasing Rewards Leadership
  Cashback Bonus® is America’s leading rewards program, offering complete earning freedom—free rewards, unlimited earnings and rewards that never expire as long as the card is used. Discover will continue to expand its leadership in credit card rewards programs.

Opportunities: Discover Financial Services
introduction of enhanced index funds, expanded hedge fund products and further global expansion.

We have made sizeable investments in a number of areas in the world—in China, India and Russia—as part of this planned expansion. China has been the source of some of our most aggressive efforts. My predecessors identified China early on as a future center of the global economy. We have spent considerable time building a foundation of trust with our business partners and clients, as well as regulatory and political leaders, in each of these countries. We believe we are in a superior position to continue making investments that will deliver growth to our shareholders.

The regulatory environment in which our industry now operates places upon us extraordinary levels of oversight and review. We take this responsibility seriously. We have directed a top-to-bottom review of our policies and our potential conflicts. This has resulted in self-reported deficiencies ahead of outside investigations and, even while exposing us to early adverse publicity, allows us to get things right faster. We have committed ourselves to taking the lead in the transparency with which we address industry reform. We are convinced that by responding aggressively to these issues, we are far better positioned to be advocates for the best interests of our clients, for whom this new oversight is intended.

This becomes of particular importance as we seek to expand our footprint across both client segments and businesses. That said, we are not alone in our strategy to be well-represented in many of these markets. I believe this reflects a broad recognition of the opportunities, synergies and balance that presence in these markets can provide. While the conflicts of interest

<table>
<thead>
<tr>
<th>Credit Services</th>
<th>2003</th>
<th>2004</th>
<th>CHANGE</th>
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</thead>
<tbody>
<tr>
<td>NET REVENUE</td>
<td>$3,427</td>
<td>$3,634</td>
<td>6%</td>
</tr>
<tr>
<td>NONINTEREST EXPENSES</td>
<td>2,334</td>
<td>2,362</td>
<td>1%</td>
</tr>
<tr>
<td>PROFIT BEFORE TAXES</td>
<td>1,093</td>
<td>1,272</td>
<td>16%</td>
</tr>
<tr>
<td>PROFIT BEFORE TAXES MARGIN</td>
<td>32%</td>
<td>35%</td>
<td>N/A</td>
</tr>
<tr>
<td>RETURN ON AVERAGE</td>
<td>2.15%</td>
<td>2.68%</td>
<td>N/A</td>
</tr>
</tbody>
</table>
“Our core competencies—innovation, execution and superior service—have brought both business success and recognition in the wider community.”

Philip J. Purcell  Chairman & Chief Executive Officer, Morgan Stanley

Industry Recognition

*The Banker*—Bank of the Year Awards
~ Global Bond House of the Year
~ Global Equity House of the Year

*BusinessWeek*—Top 100 Brands Survey
~ 27th Best Brand in the World

*Euromoney*—Awards for Excellence
~ Global Credit Derivatives House
~ U.S. Equities House

*Financial News*—
European Investment Banking Awards
~ European Investment Bank of the Year
~ ECM Secondary House of the Year
~ IPO House of the Year
~ Secondary House of the Year

*Global Investor*—FX Survey
~ Best FX Service Overall (all respondents)

*ICFA Magazine*—European Custody and Fund Administration Awards
~ European Prime Broker of the Year

*International Financing Review*—Annual Awards
~ Global Equity House of the Year
~ U.S. Equity House of the Year
~ U.S. Structured Equity House of the Year

*Risk*
~ Derivatives, Interest Rate Derivatives and Credit Derivatives House of the Year

*Financial News*—
IT Excellence in Investment Banking
~ Best Personal and Team Contribution (Jon Saxe and Team)
~ Best Electronic Trading: Dealer to Institution—Equities

Quality-of-Life Recognition

*Working Mother Magazine*
~ 100 Best Companies for Working Mothers

*Family Digest Magazine*
~ Best Companies for African Americans

*Asian Enterprise Magazine*
~ Top Companies for Asian Americans

*Hispanic Magazine*
~ 100 Companies Providing the Most Opportunities to Hispanics

*The Black Collegian Magazine*
~ Top 50 Diversity Employers

*Essence Magazine*
~ One of 30 Great Places for Black Women

*American Indian College Fund*
~ Morgan Stanley honored for its commitment to, and work with, the College Fund
the industry has faced pose a real challenge, they are also an implicit acknowledgment of the potential benefits—for both clients and shareholders—that an integrated firm such as ours provides. We recognize that potential conflicts are inevitable for any financial intermediary; the challenge is to actively confront them, to be transparent about them and to make sure we serve the best interests of all clients.

Skills over capital

Intangible assets are the singular source of differentiation in a post-industrial economy. Morgan Stanley’s single, most valuable intangible asset—our people—represents the greatest barrier to entry for our competitors. The ability to compete, first and foremost, on the power of our ideas (rather than the size of our balance sheet) is central to differentiating the firm for our people, our clients and our shareholders alike.

In delivering those ideas, our talent and experience base, our people development programs, our commitment to diversity, as well as our culture of excellence and entrepreneurial spirit continue to serve us well. The stability in our senior management ranks, along with our recruitment of some important new additions to this team, give us additional strength. It is further proof of my conviction that our people are the best in the business.

Another competitive asset is our brand itself. We have invested heavily in our brand, both in our commitment to our clients in our day-to-day business activities and in the creation of perceptions through our advertising, communications and sponsorships. Even with the challenges facing the reputation of our industry over the past several years, I am extremely pleased that our brand has remained strong, especially among our loyal client base. We are proud that our client satisfaction ratings—across all of our businesses—are up. As lead indicators of “share of wallet” gains, these ratings give us great confidence for even stronger results in the future.

As a firm today, we are operating on all cylinders. In every business, we are positioned to take advantage of the investments we are making, the partnerships we have developed and the incredible community of talent we are applying to every challenge and opportunity. As a result, I have every confidence that we will return to delivery of premium shareholder returns in 2005. I trust our stock price will respond to these returns.

Sadly, with the writing of this letter comes word of the death of a former Chairman, Richard B. Fisher. It is due to his vision and his energy, along with his indomitable belief in our people, that we are as strong a company as we are today. It is in dedication to this spirit that we will make further strides in 2005 and beyond. It is in this same dedication to our shareholders that our place as one of the strongest financial institutions on the Street will be confirmed. Thank you for your continued support.

Sincerely,

Philip J. Purcell
Chairman & Chief Executive Officer
February 5, 2005
morgan stanley at a glance

Institutional Securities Income before Taxes
(Dollars in Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before Taxes</td>
<td>$3,682</td>
<td>$3,645</td>
<td>$4,097</td>
<td></td>
</tr>
</tbody>
</table>

Individual Investor Group Income before Taxes
(Dollars in Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before Taxes</td>
<td>$41</td>
<td>$120</td>
<td>$464</td>
<td>$371</td>
</tr>
</tbody>
</table>

Morgan Stanley is a leading global provider of investment banking, sales and trading services to domestic and international corporate, government and other institutional clients.

Investment Banking
Morgan Stanley offers its investment banking clients, including corporations, governments and other entities, underwriting and distribution services for debt and equity offerings in addition to financial advisory services regarding key strategic matters, such as mergers and acquisitions, restructurings, real estate and project finance. Morgan Stanley also selectively provides loans or lending commitments to its clients.

Sales, Trading, Financing and Market-Making
Institutional and individual investors receive sales, trading and market-making services in virtually every type of financial instrument, including stocks, bonds, derivatives, foreign exchange and commodities. The firm is involved in these activities in all the major financial markets globally. Clients may also receive prime brokerage and financing services, including securities lending.

Other
Morgan Stanley produces and distributes research on global economics, market strategies, industries, individual companies and other related financial matters. It also engages in principal investing and aircraft financing. Through its subsidiary, Morgan Stanley Capital International Inc., it markets and distributes equity and fixed income indices.

The Individual Investor Group provides comprehensive brokerage, investment and financial services to individual investors globally. Morgan Stanley has one of the largest retail brokerage networks, with 10,962 worldwide representatives and 525 domestic retail locations.

Client Coverage
In the U.S., Morgan Stanley’s representatives cover multiple client segments from affluent to ultra-high net worth. Morgan Stanley also offers financial advisory services outside the U.S. to serve the needs of affluent and high net worth clients in Europe, Asia and Latin America.

Client Solutions
Morgan Stanley’s representatives offer services that are tailored to their clients’ individual investment objectives, risk tolerance and liquidity needs. The product range spans mutual funds, equities, fixed income products, alternative investments, separately managed accounts, banking, mortgages, insurance and annuities. Morgan Stanley also offers financial solutions to small businesses through BusinessScape® and provides defined contribution plan services to businesses of all sizes, including 401(k) plans and stock plan administration.

Client Support
Client Coverage and Client Solutions are supported by Morgan Stanley’s infrastructure and technology platform. Morgan Stanley executes and clears its transactions through its own facilities and memberships in various clearing corporations.
Morgan Stanley Investment Management has grown to be one of the largest asset managers with global reach in the world today, offering a diverse range of investment products managed by experienced investment professionals focused within their areas of expertise. Products include many highly rated U.S. and international bond, equity, money market and multi-asset class funds, separately managed accounts and alternative investments that are distributed in multiple channels and markets under two distinct brands. Our portfolio managers and research analysts are located throughout the world, enhancing investment capabilities through a combination of global information sharing and local decision making.

**Individual Investors**
Affiliated Channel—Morgan Stanley Investment Management reaches individual investors through our affiliated network of representatives who offer, among a range of product providers, Morgan Stanley- and Van Kampen-branded products.

Third-Party Channels—Morgan Stanley Investment Management also offers investment products under our affiliated brand, Van Kampen Investments (in the United States), as well as under Morgan Stanley Investment Management (globally) through a diversified network of broker-dealers, banks, insurance companies and financial planners. Our products are packaged in mutual funds, variable annuities, separately managed accounts and offshore funds (SICAVs) and are included in 401(k), IRA and asset allocation platforms.

**Institutional Investors**
Institutional investors, including pension plans, corporations, nonprofit organizations, governmental agencies, insurance companies and banks, are serviced through a global proprietary sales force and a team dedicated to covering the investment consultant industry.

Discover Financial Services, through Discover Bank, is one of the largest issuers of general purpose credit cards in the U.S., with nearly 50 million cardmembers. It offers the Discover® Card and other general purpose credit cards. The cards are accepted on the Discover Network, the largest proprietary credit card network in the U.S., with more than 4 million merchant and cash access locations.

Discover Financial Services offers multiple cards such as the Discover Classic, Platinum, Gold and Titanium Cards; and more than 180 different Affinity Card designs. Discover Financial Services also offers Discover Gift Cards and a variety of financial services, including home loans and credit protection products, and is a leading credit card company on the Internet, with more than 13 million Cardmembers registered at Discovercard.com.

The Cashback Bonus® award is America’s #1 cash rewards program and the Discover Card’s most popular feature, earning Cardmembers more than $3 billion in awards since 1986. This year, several special Cashback Bonus award offers were available in which Discover Cardmembers earned up to 10% back on grocery and restaurant purchases.

In October, the U.S. Supreme Court rejected an appeal by Visa and MasterCard, which successfully concluded an important antitrust case brought by the U.S. Department of Justice. The ruling enables financial institutions to issue cards on the Discover Network, which will provide more choice and value to consumers and merchants.

In early 2005, Discover Financial Services acquired PULSE EFT Association, one of the nation’s fastest growing ATM/debit networks with more than 4,100 financial institution members and an estimated 90 million cardholders.

The Company’s overseas credit card business continued to grow and increase profitability in 2004, with nearly 1.3 million Morgan Stanley Card® credit cards in the U.K. and $2.6 billion in loans.

Over $4.6 billion of mortgages were originated in 2004, primarily through Morgan Stanley representatives.
### Income Statement Data:

#### Revenues:

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<tr>
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</thead>
<tbody>
<tr>
<td>Investment banking</td>
<td>$3,341</td>
<td>$2,440</td>
<td>$2,478</td>
<td>$3,413</td>
<td>$5,008</td>
</tr>
<tr>
<td>Principal transactions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>$5,525</td>
<td>6,192</td>
<td>3,479</td>
<td>5,503</td>
<td>7,361</td>
</tr>
<tr>
<td>Investments</td>
<td>$512</td>
<td>86</td>
<td>(31)</td>
<td>(316)</td>
<td>193</td>
</tr>
<tr>
<td>Commissions</td>
<td>$3,264</td>
<td>2,887</td>
<td>3,191</td>
<td>3,066</td>
<td>3,566</td>
</tr>
<tr>
<td>Fees:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset management, distribution and administration</td>
<td>$4,412</td>
<td>3,731</td>
<td>3,953</td>
<td>4,238</td>
<td>4,420</td>
</tr>
<tr>
<td>Merchant and cardmember</td>
<td>$1,318</td>
<td>1,379</td>
<td>1,420</td>
<td>1,349</td>
<td>1,256</td>
</tr>
<tr>
<td>Servicing</td>
<td>$1,993</td>
<td>2,015</td>
<td>2,080</td>
<td>1,888</td>
<td>1,489</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>$18,590</td>
<td>15,744</td>
<td>15,879</td>
<td>24,132</td>
<td>21,233</td>
</tr>
<tr>
<td>Other</td>
<td>$594</td>
<td>506</td>
<td>724</td>
<td>586</td>
<td>592</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$39,549</td>
<td>34,980</td>
<td>33,173</td>
<td>43,859</td>
<td>45,118</td>
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#### Non-interest expenses:

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<tr>
<td>Compensation and benefits</td>
<td>$9,880</td>
<td>8,545</td>
<td>7,940</td>
<td>9,376</td>
<td>10,899</td>
</tr>
<tr>
<td>Other</td>
<td>$7,200</td>
<td>6,507</td>
<td>6,214</td>
<td>7,033</td>
<td>6,748</td>
</tr>
<tr>
<td>Restructuring and other charges</td>
<td>—</td>
<td>—</td>
<td>235</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total non-interest expenses</strong></td>
<td>$17,080</td>
<td>15,052</td>
<td>14,389</td>
<td>16,409</td>
<td>17,647</td>
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#### Gain on sale of business

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<tr>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>35</td>
<td>—</td>
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</table>

#### Income from continuing operations before losses from unconsolidated investees, income taxes, dividends on preferred securities subject to mandatory redemption and cumulative effect of accounting change

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<thead>
<tr>
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<tbody>
<tr>
<td>6,685</td>
<td>5,805</td>
<td>4,738</td>
<td>5,678</td>
<td>8,551</td>
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#### Losses from unconsolidated investees

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<tr>
<td>328</td>
<td>279</td>
<td>77</td>
<td>30</td>
<td>33</td>
<td></td>
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#### Provision for income taxes

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<tbody>
<tr>
<td>1,803</td>
<td>1,562</td>
<td>1,575</td>
<td>2,022</td>
<td>3,036</td>
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#### Dividends on preferred securities subject to mandatory redemption

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</thead>
<tbody>
<tr>
<td>45</td>
<td>154</td>
<td>87</td>
<td>50</td>
<td>28</td>
<td></td>
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</tbody>
</table>

#### Income from continuing operations before cumulative effect of accounting change

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<tbody>
<tr>
<td>4,509</td>
<td>3,810</td>
<td>2,999</td>
<td>3,576</td>
<td>5,454</td>
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#### Discontinued operations:

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Loss)/gain from discontinued operations</td>
<td>(38)</td>
<td>(38)</td>
<td>(18)</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Income tax benefit/(provision)</td>
<td>15</td>
<td>15</td>
<td>7</td>
<td>(2)</td>
<td>(1)</td>
</tr>
<tr>
<td>(Loss)/gain on discontinued operations</td>
<td>(23)</td>
<td>(23)</td>
<td>(11)</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

#### Income before cumulative effect of accounting change

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<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4,486</td>
<td>3,787</td>
<td>2,988</td>
<td>3,580</td>
<td>5,456</td>
<td></td>
</tr>
</tbody>
</table>

#### Earnings applicable to common shares:

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,486</td>
<td>$3,787</td>
<td>$2,988</td>
<td>$3,521</td>
<td>$5,456</td>
<td></td>
</tr>
</tbody>
</table>

#### Per Share Data:

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings per common share:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>$4.17</td>
<td>$3.54</td>
<td>$2.77</td>
<td>$3.26</td>
<td>$4.95</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.01)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative effect of accounting change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(0.05)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Basic earnings per common share</strong></td>
<td>$4.15</td>
<td>$3.52</td>
<td>$2.76</td>
<td>$3.21</td>
<td>$4.95</td>
</tr>
</tbody>
</table>

#### Diluted earnings per common share:

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from continuing operations</td>
<td>$4.08</td>
<td>$3.47</td>
<td>$2.70</td>
<td>$3.16</td>
<td>$4.73</td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>(0.02)</td>
<td>(0.02)</td>
<td>(0.01)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative effect of accounting change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(0.05)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Diluted earnings per common share</strong></td>
<td>$4.06</td>
<td>$3.45</td>
<td>$2.69</td>
<td>$3.11</td>
<td>$4.73</td>
</tr>
</tbody>
</table>

#### Balance Sheet and Other Operating Data:

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>$775,410</td>
<td>$602,843</td>
<td>$529,499</td>
<td>$482,628</td>
<td>$421,279</td>
</tr>
<tr>
<td>Consumer loans, net</td>
<td>20,226</td>
<td>19,382</td>
<td>23,014</td>
<td>19,677</td>
<td>21,743</td>
</tr>
<tr>
<td>Total capital</td>
<td>110,793</td>
<td>82,769</td>
<td>65,936</td>
<td>61,633</td>
<td>49,637</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>82,587</td>
<td>57,902</td>
<td>44,051</td>
<td>40,917</td>
<td>30,366</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>28,206</td>
<td>12,856</td>
<td>12,710</td>
<td>20,720</td>
<td>18,145</td>
</tr>
<tr>
<td>Return on average common shareholders’ equity</td>
<td>16.8%</td>
<td>16.5%</td>
<td>14.1%</td>
<td>10.9%</td>
<td>30.9%</td>
</tr>
</tbody>
</table>

**Average common and equivalent shares**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1,080,121,708</td>
<td>1,076,754,740</td>
<td>1,083,270,783</td>
<td>1,086,121,508</td>
<td>1,095,858,438</td>
<td></td>
</tr>
</tbody>
</table>

---

1 Certain prior-period information has been reclassified to conform to the current year’s presentation.

2 Amounts shown are used to calculate basic earnings per common share.

3 These amounts exclude the current portion of long-term borrowings and include Capital Units and junior subordinated debt issued to capital trusts.
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Edward A. Brennan
Former Chairman, President and
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Ticker Symbol: MWD

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212-436-2000

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