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Growth in Net Revenues
Growth in Net Income*
Growth in Diluted
Earnings per Share
Increase in Share Price

36
47
44
26

Morgan Stanley

Morgan Stanley is committed to ensuring you always have access to the information and resources you need in order to make informed decisions. Our platform provides a comprehensive overview of your account, allowing you to view transactions, track performance, and access your personalized investment dashboard.
World Wise. Morgan Stanley’s successful year sprang from the talents of our people, rooted in the culture of our Firm. We can compete and win anywhere.

The Firm completed 819 convertible debt financings for books between $100 million and $10 billion in 2006. Almost 10% of the convertible debt financings were issued outside the United States.

45 MILES


55K EMPLOYEES

More than 55,000 diverse and talented employees, working together to speak one language, fulfill our clients’ needs and respond to market opportunities, constitute our most observable asset.

36%

In 2006, Morgan Stanley completed an all-time high of 958 equity offerings and raised $75 billion in the global equity capital markets, up 36% from 2005.

550 MILESTONE

The Firm completed 958 Equity Offerings in 2006, a new record. The Firm also completed 1,006 new fund and product launches across the alternative investment platform.

8 DIVISIONS


100,000+

In 2006, Morgan Stanley completed 100,000+ micro-loans to some 10,000 employees actively participated in the Firm, highlighting a commitment to giving back to the local community projects.

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Morgan Stanley’s successful year sprung from the talents of our people, rooted in the culture of our firm. World Wise.

1.000,000+

Morgan Stanley is committed to partnering with its clients in executing on our critical growth initiatives. This year – including leveraged finance, equity, debt, and capital markets – we advised on M&A transactions valued at $720 billion.

49%:

Our equity business ranked #2 in global IPOs this year, including leveraged finance, equity, debt, and capital markets – we advised on M&A transactions valued at $720 billion.

36%:

Our fixed income business managed a number of offerings that were highlighted by $33.9 billion in Russian history; KKR Private Equity led the way.

45 MINUTES

In a collaboration between our Global Wealth Management and Asset Management businesses, one of the first ever U.S.-registered funds designed for Morgan Stanley clients earned $11 billion in shareholder value this year.

10,000 employees actively participated in Volunteer Month in June, more than 55,000 diverse and talented volunteers: world-wide.

58 new products:

The Firm pioneered the largest ever public offering, raising $11 billion on the same day, totaling $11 billion. The Firm completed the largest public debt financing for a single issuer in a mere 45 minutes.

36%:

Our equity business managed a number of offerings that were highlighted by $33.9 billion in Russian history; KKR Private Equity led the way.

10,000 partners: since Morgan Stanley, advised on two of the largest ever public offerings, 1Q Thomson Financial as of January 2, 2007 for $3 billion.

$33.9 billion:

In local community projects, 10,000 employees actively participated in Volunteer Month in June, more than 55,000 diverse and talented volunteers: worldwide.

5,000+ employees:

More than 55,000 diverse and talented volunteers: worldwide.

85%:

Morgan Stanley increased its new hire quota by 85% this year, creating a new Chief Talent Officer to ensure it attracts, develops, and retains the best talents of our people, rooted in the culture of our firm. World Wise.

58%:

Morgan Stanley invested $12 billion in the past five years to invest in carbon emissions credits, projects worldwide.

Volunteer Month in June, more than 55,000 diverse and talented volunteers: world-wide.

5,000+ employees:

More than 55,000 diverse and talented volunteers: worldwide.

$3 billion:

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58%:

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$3 billion:

In local community projects, 10,000 employees actively participated in Volunteer Month in June, more than 55,000 diverse and talented volunteers: world-wide.
TO OUR SHAREHOLDERS:

2006 was an outstanding year for Morgan Stanley and its shareholders. We delivered record financial performance. We enhanced our risk profile. We made significant strides in executing on our strategic plan. And we re-energized our franchise – renewing the pride, passion and entrepreneurial spirit that have always distinguished Morgan Stanley.

We also created significant shareholder value this year – with the Firm’s share price rising 36% during fiscal 2006. Heading into 2007, we are looking to enhance shareholder value even further through the spin-off of Discover®; the continued relentless execution of our plan for growth; and proactive, measured risk taking.

Delivering Record Financial Performance
The people of Morgan Stanley capitalized on a strong market environment in 2006 to deliver the best revenues and earnings in the Firm’s history. We generated net revenue of $33.9 billion, up 26% from 2005, and income from continuing operations of $7.5 billion, an increase of 44%. Diluted earnings per share from continuing operations were $7.09, compared with $4.81 in 2005 – an increase of 47%. Net income was up 51%, and diluted earnings per share were up 55% over 2005. We delivered annualized return on common equity from continuing operations of 23.6% for the year, up from 19.0% in 2005.

Making Significant Progress on Our Strategic Plan
Just as important as our record performance this year, we made significant progress in executing our plan to double earnings in five years. Thanks to the hard work and commitment of Morgan Stanley’s employees, we took huge steps forward in achieving some of our key strategic objectives:

• **Leveraging our global franchise to build out key growth areas**, including businesses where we already have strong leadership positions, such as commodities and prime brokerage, as well as other areas where we have started to close the gap with our peers, such as leveraged finance, residential mortgages and equity derivatives.

• **Putting more of our own capital to work while continuing to focus on managing our risk**, with improved risk-adjusted trading revenues in both our equity and fixed income businesses and a number of promising investments we have made as part of our new principal investing effort.
• **Investing in underperforming businesses**, such as asset management and global wealth management, which now have strong foundations for future growth after years of underinvestment.

• **Pursuing bolt-on acquisitions to strengthen and accelerate growth in key businesses**, including the acquisition of FrontPoint Partners to expand our alternative investment capabilities; the purchase of Saxon Capital to build our residential mortgage business; and the addition of TransMontaigne and Heidmar to augment our world-class commodities business.

• **Expanding our presence and capabilities in key emerging markets**, including opening new offices in Dubai and Istanbul, securing a license to operate in Qatar, attracting new senior executives in China and Russia, and acquiring China’s Nan Tung Bank, which will help us strengthen our premier platform in that growing market.

We believe the substantial strides we made in 2006 are reflected across all of our businesses.

**Extended Leadership Positions in Institutional Securities**

Our Institutional Securities business delivered its best results ever in 2006 – with net revenues up 38% and income before taxes up 72% versus 2005. This included record results in equities, fixed income, prime brokerage and commodities, as well as strong performance in our investment banking and M&A businesses.

In our leveraged finance business, we increased our market share across all products and lead-managed three of the five largest high-yield bonds in 2006. We leveraged our best-in-class cash equities platform to build out our equity derivatives business, nearly doubling revenues versus 2005. In prime brokerage, we rolled out cross-asset class offerings and delivered our 15th straight quarter of rising client balances and net revenues. We also continued investing in our leading commodities business, particularly in capabilities for managing physical assets. And in our residual mortgage business, we made a number of senior hires in the United States, Europe and Asia and accelerated the growth of our global, vertically integrated mortgage franchise with bolt-on acquisitions.

In 2007, we will continue investing in these key areas of growth, including leveraged finance, equity derivatives, residential mortgages, principal investments and emerging markets. At the same time, we will maintain a sharp focus on costs and margins across our institutional businesses.
Improved Performance in Global Wealth Management

New leadership has brought renewed energy and focus to our Global Wealth franchise, which is showing signs of improvement after years of underperformance. Since last February, we have revamped the senior management team, streamlined the organizational structure, stabilized and reinvigorated our sales force, and improved our recruiting and training processes. We introduced a new compensation plan for financial advisors and continued to address platform, infrastructure, and legal and compliance issues. And we substantially improved Global Wealth Management’s collaboration with the Capital Markets group in Institutional Securities.

The financial benefits of these changes are clear: We have had three consecutive quarters of improved net income and, in 2006, delivered our highest net revenues in six years. Our margins in this business have improved dramatically – from 2% in mid-2005 to 12% in the fourth quarter of 2006. We also saw financial advisor productivity and net new client assets at all-time highs during the fourth quarter. And we have made steady progress in growing our high-net-worth business, with more than 69% of our total client assets coming from households with more than $1 million. We still have a great deal of work to do to achieve our goals in this business, but I’m confident that we can successfully drive the changes we need to make our Firm an increasingly profitable industry leader in due time.

Going forward, we will focus on offering our clients innovative new products, with an emphasis on the capital markets and alternative investment areas. We will continue growing our successful bank deposit program and keep expanding our high- and ultra-high-net-worth businesses by hiring top-quality investment representatives and financial advisors.

Strengthened Foundation for Growth in Asset Management

After several years in which strong profit margins came at the expense of missing attractive growth opportunities, our Asset Management business is making significant progress in building a solid foundation for future profitable growth.

During 2006, we filled key leadership gaps, recruited experienced executives from both inside and outside the Firm, and strengthened our already deep bench of management and investment talent. We expanded our alternative investment capabilities – where we badly trailed peers – through new hires, bolt-on acquisitions, strategic investments in third-party hedge funds and the launch of 24 new alternative investment products. We also moved to re-enter the private equity business by naming a new leadership team and starting to build out our infrastructure business.
We continued the expansion of our international footprint this year, increasing distribution of our products outside the United States and stepping up sales efforts in China and India. We enhanced our traditional offerings, launching 34 new products that leverage our existing investment capabilities, our newly hired investment teams, our strong Morgan Stanley and Van Kampen brands, and our Firm’s global reach. We will continue to focus intensely on improving investment performance across this business.

It could take several years before some of these initiatives begin to show a positive impact on our bottom line, but I am confident they offer extremely attractive long-term growth opportunities. So we will continue building on the investments we have made in this business – and keep growing our capabilities in hedge fund, private equity and traditional products – as we seek to strengthen our reputation and presence among institutional and retail investors and reassert our leadership position in asset management.

**Positioned Discover for Success as a Standalone Company**

In 2006, Discover achieved its best full-year results ever, with net revenues of $4.3 billion and income before taxes of $1.6 billion, up 72% from 2005. While margins and returns benefited considerably from the continued benign credit environment last year, we expect 2007 to return to more normal margins. Discover also made significant progress in executing on its critical growth initiatives.

Discover boosted acceptance in its strong U.S. cards business – signing agreements with a number of merchant acquirers designed to improve acceptance by small- to mid-size merchants and increase overall usage of the card. The company continued laying the foundation for growth in its payments business with new products, including signature debit. And Discover expanded its international presence by acquiring the Goldfish and Liverpool Victoria card businesses in the U.K.; establishing new partnerships with JCB, the largest card issuer and acquirer in Japan, as well as Credomatic in Central America; and beginning to accept China UnionPay cards throughout the PULSE® EFT Association.

Given the record financial results and significant momentum in our cards and payments business as well as in our core securities business, we concluded that Morgan Stanley and Discover can best execute their growth strategies as two standalone, well-capitalized companies. In December 2006, we announced our plan to spin off the Discover business. We believe this decision will enhance value for Morgan Stanley shareholders and will allow Discover to continue building on its strong brand and significant scale.
We are confident that Discover will be a stable standalone company. It has generated strong pre-tax profits in recent years, improved its credit quality, and grown both sales and loans in recent quarters. As the marketplace continues to change, we believe the spin-off will give Discover the flexibility it needs to realize the exciting opportunities it sees ahead.

Realizing Morgan Stanley’s Potential

Morgan Stanley delivered strong performance in 2006, but there is still room for improvement in many of our businesses. Realizing the full potential of our global franchise is a multi-year effort that requires a long-term commitment.

Moving forward, we will continue making the investments required to realize that potential and build shareholder value. At the same time, we will remain flexible to adapt our strategy and capitalize on the powerful trends shaping our business. I am confident that the talent, commitment and hard work of our people – together with the continued support of our shareholders – will allow us to take Morgan Stanley to a new and greater level of success.

Sincerely,

John J. Mack
Chairman and Chief Executive Officer

February 1, 2007

shareholders benefit from our access and insight into the world’s most important issues. our broad global presence, deep understanding of markets and the talents of our people, rooted in the culture of our firm—world wise—have delivered a successful year for morgan stanley. our fixed income business ranked #1 in global completed m&a transactions¹. our investment banking business generated $720 billion in worldwide capital raisings, including the $1.8 billion largest-ever convertible debt offering—the landmark debt transactions this year, including m&a transactions¹. the company achieved its #2 spot in global completed m&a transactions¹. our wealth management and asset management business generated $100,000+ in fees from advice, investment, and insurance products to advise and assist clients in meeting their financial goals. the firm committed $3 billion over the next five years to invest $50 million to nonprofit organizations supporting environmental causes. our employees contributed nearly 10,000+ volunteers; 10,000+ entrepreneurs. our sustainability initiatives are helping to reduce greenhouse gas emissions. our investment in carbon emissions credits, projects for renewable energy, and nuclear power, and research and development have helped to reduce carbon emissions by 36%. our competitive advantage, as well as the strength of our business model, is driven by the depth and breadth of our relationships with our clients, the talent and capabilities of our people, and the cultural values that underpin the firm’s strategy. world wise, our firm has the resources, organization, technology, and talent to continue to execute on its critical growth initiatives. world wise, we continue to shape the markets, industries, and strategies for the future and to offer innovative solutions to our clients. world wise, morgan stanley has a long tradition of leadership in the communities we serve. world wise, we pursue excellence and deliver exceptional value to our clients, our shareholders, and our communities.
outstanding results. We can compete and win anywhere and long experience in meeting client needs have delivered. Our broad global presence, deep understanding of markets the talents of our people, rooted in the culture of our firm. World Wise.

remaking the financial world. Morgan Stanley's successful year sprang from billions over the next five years to invest and its employees contributed nearly greenhouse gas emissions.

The Firm pioneered the largest ever public debt debut by a U.S. company and the world's largest IPO from a U.S. company, including two deals – the largest-ever in Russian history; KKR Private Equity Rosneft and Sistema, the two largest IPOs billion of offerings were highlighted by four of the top 10 deals – more than $22 trillion in new funds and products across the alternative investment business.

58 new products: Our equity business ranked at the #2 spot in global completed arrangements, garnering the #1 ranking in Europe valued at more than $720 billion, management businesses, the Firm sold in a mere 45 minutes. The Firm made 586 - 55

Executive Committee.

Our people – working in 30 countries and speaking 102 languages – offer more than 55,000 diverse and talented employees – working in 30 countries and speaking 102 languages – offer a rich mix of different perspectives, opinions and risk taking. The Firm develops and retains the best talent in the world, focusing on recruitment, hiring, training and development as part of our ongoing effort to improve the Firm's performance. In the fiscal year 2006, the Firm's share price increased 36%.

We invested $1.8 billion in shareholder value this year. In the fourth quarter of 2006, the Firm completed eight bolt-on acquisitions: two in Asia, two in Europe, two in Latin America and two in Russia, for a combined value of $4.5 billion. These acquisitions were quickly integrated into our global platform. The Firm completed 38 joint venture and strategic investments in 2006, expanding our global reach and capabilities.

The Firm is committed to providing meaningful diversity and inclusion initiatives and to ensuring a discrimination-free workplace and an environment in which we promote diversity and inclusion. The Firm is committed to participation in the political process in a manner consistent with good corporate governance and its business interests.

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