

Morgan Stanley

WORLD WISE



Increase in Share Price

36%

*Growth in Diluted
Earnings per Share*

47%

*Growth in Net Income**

44%

Growth in Net Revenues

26%

* Percentage is based on continuing operations. Including discontinued operations, diluted earnings per share grew 55% and net income grew 51% in 2006 versus 2005.

World Wise. Morgan Stanley's successful year sprang from the talents of our people, rooted in the culture of our firm. Our broad global presence, deep understanding of markets and long experience in meeting client needs have delivered outstanding results. We can compete and win anywhere in the world, and are investing to enhance our leadership. Shareholders benefit from our access and insight into the new regions, new asset classes and new ideas that are remaking the financial world.

100,000⁺

ENTREPRENEURS

The Firm pioneered the largest ever public debt financing for micro-loans to some 100,000+ entrepreneurs.

SERVING OUR COMMUNITIES

\$50 million: The Firm, its Foundation and its employees contributed nearly \$50 million to nonprofit organizations worldwide.

10,000+ volunteers: During Global Volunteer Month in June, more than 10,000 employees actively participated in local community projects.

\$3 billion: The Firm committed \$3 billion over the next five years to investing in carbon emissions credits, projects and other initiatives related to reducing greenhouse gas emissions.

45

MINUTES

In a collaboration between our Global Wealth Management and Asset Management businesses, the Firm sold out the first-ever U.S.-registered fund in China's booming A-share market – in a mere 45 minutes.

DELIVERING FOR OUR CLIENTS

\$720 billion: Our investment banking business advised on M&A transactions valued at more than \$720 billion, garnering the #1 ranking in Europe and the #2 spot in global completed M&A transactions¹.

#2 ranking: Our equity business ranked #2 in global IPOs this year, including four of the top 10 deals – more than \$22 billion of offerings were highlighted by Rosneft and Sistema, the two largest IPOs in Russian history; KKR Private Equity Investors, the largest IPO from a U.S. issuer in 2006; and GAGEAH, the largest real estate IPO in European history¹.

\$11 billion in one day: Our fixed income business managed a number of landmark debt transactions this year, including two deals – the largest-ever debt debut by a U.S. company and the largest-ever convertible debt offering – on the same day, totaling \$11 billion.

1 Thomson Financial as of January 2, 2007 for the 2006 calendar year

The Firm completed eight bolt-on acquisitions, continuing to build leadership in areas such as our #1 commodities business, residential mortgages, alternative investments, credit cards and emerging markets.

BUILDING OUR BUSINESS

\$1.8 billion: We invested \$1.8 billion in Firm capital to promising principal investment opportunities as part of our ongoing effort to improve the Firm's risk taking.

58 new products: Our re-energized asset management business launched 58 new funds and products across the alternative, equities and fixed income areas.

586 new hires: The Firm made 586 new hires in a number of key businesses this year – including leveraged finance, equity derivatives, residential mortgages and emerging markets – as we continued executing on our critical growth initiatives.

36%

During fiscal 2006, the Firm's share price increased 36%.

BUILDING VALUE FOR OUR SHAREHOLDERS

\$33.9 billion: In 2006, the Firm posted record net revenues of \$33.9 billion as well as record EPS.

49%: Our 2006 consolidated income before taxes grew 49% to \$11 billion.

5 quarters: The fourth quarter of 2006 was our fifth consecutive quarter of 20%+ ROE.

\$20.6 billion: The positive momentum in our share price created \$20.6 billion in shareholder value this year.

8

BOLT-ON ACQUISITIONS

55K

EMPLOYEES

More than 55,000 diverse and talented employees – working in 30 countries and speaking 102 languages – offer our clients and our own people a wealth of different perspectives, opinions and advice.

INVESTING IN OUR PEOPLE

85%: Morgan Stanley increased its new hires at the Managing Director and Executive Director levels by 85% this year, bringing key new talent to the Firm.

1 Chief Talent Officer: The Firm created a new Chief Talent Officer position this year to ensure it attracts, develops and retains the best talent in the industry.

1,500 employees: As part of our ongoing effort to improve communications, more than 1,500 employees from all levels of the Firm attended informal "Open Door" sessions this year and had a candid dialogue with members of the Management Committee.

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.

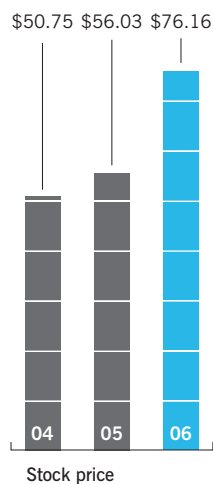
Delivering Record Financial Performance

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.

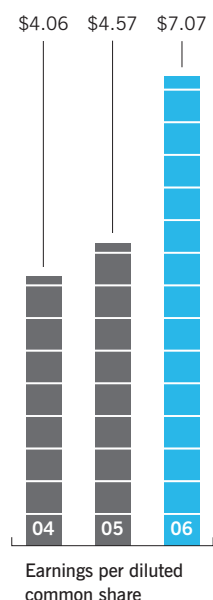
We believe the substantial strides we made in 2006 are reflected across all of our businesses.

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 residential 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.

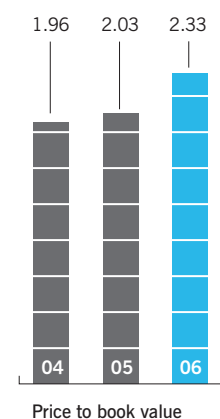
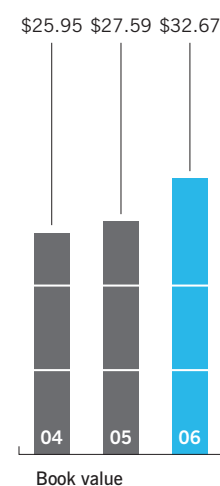
The financial benefits of these changes are clear: We have had three consecutive quarters of improved net income and, in 2006, delivered our highest net revenues in six years. Our margins in this business have improved dramatically – from 2% in mid-2005 to 12% in the fourth quarter of 2006. We also saw 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.

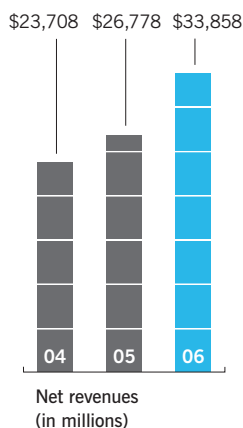
Going forward, we will focus on offering our clients innovative new products, with an emphasis on the capital markets and alternative investment areas. We will continue growing our successful bank deposit program and keep expanding our high- and ultra-high-net-worth businesses by hiring top-quality investment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



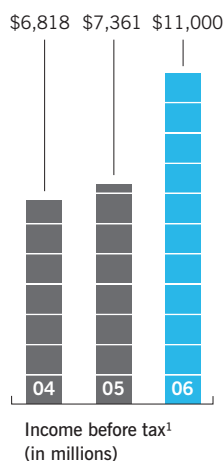


We continued the expansion of our international footprint this year, increasing distribution of our products outside the United States and stepping up sales efforts in China and India. We enhanced our traditional offerings, launching 34 new products that leverage our existing investment capabilities, 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.

(1) 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, net

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,

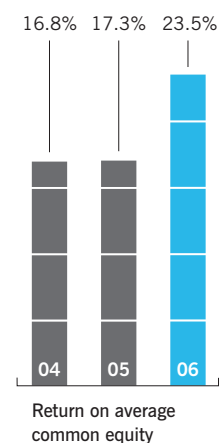
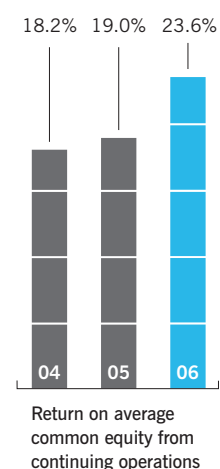


John J. Mack
Chairman and Chief Executive Officer

February 1, 2007



Zoe Cruz, Co-President; Robert W. Scully, Co-President; John J. Mack, Chairman and CEO



The above charts are based on the Firm's results of operations for the 12 months ended November 30, 2006 ("fiscal 2006"), November 30, 2005 ("fiscal 2005") and November 30, 2004 ("fiscal 2004").

Common Stock

The common stock of Morgan Stanley is listed on the New York Stock Exchange. Ticker symbol: MS

Independent Auditors

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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:

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Electronic Delivery of Annual Meeting Materials

You may elect to receive your future annual meeting and proxy statement materials via the Internet rather than receiving mailed copies. For shareholders of record, please visit www.melloninvestor.com.

Equal Opportunity Employer

Morgan Stanley is committed to providing a discrimination-free workplace and equal opportunity for its employees, including recruitment, hiring, training and promotion. For more information, including the Company's Diversity and EEO-1 Reports, write to: Marilyn F. Booker, Managing Director, Global Head of Diversity
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diversity@morganstanley.com

Political Contributions

Morgan Stanley is committed to participating in the political process in a manner consistent with good corporate governance practices and in compliance with legal requirements. 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:
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401 9th Street, N.W., Suite 650
Washington, DC 20004

Investor Relations

Security analysts, portfolio managers and representatives of financial institutions seeking information about the Company are invited to contact: Investor Relations at (212) 762-8131. General information about the Company and copies of the Company's Annual Report on Form 10-K and other filings can be obtained online at www.morganstanley.com or by calling (800) 622-2393.

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Asset Management

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Morgan Stanley Institutional Funds:
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Morgan Stanley Closed-End Funds:
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Van Kampen Funds:
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Discover Financial Services
Discover Card Services:
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BOARD OF DIRECTORS

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Chairman of the Board and
Chief Executive Officer

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Chairman
The Partnership for a
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President
The University of North Carolina

Howard J. Davies
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London School of Economics
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Chairman and CEO
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Hutham S. Olayan
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Olayan America Corporation

Charles E. Phillips, Jr.
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Adjunct Professor of Finance
Columbia Business School
Visiting Lecturer
Princeton University

Dr. Laura D'Andrea Tyson
Professor of Economics and Business
University of California, Berkeley

Dr. Klaus Zumwinkel
Chairman of the Management Board
Deutsche Post AG

MANAGEMENT COMMITTEE

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Head of Investment Banking

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Chairman, Morgan Stanley International

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President and COO, Discover Financial Services

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Linda H. Riefler
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Co-Head of Institutional Sales and Trading

David H. Sidwell
EVP and Chief Financial Officer

Cordell G. Spencer
Deputy Head of Investment Banking

Owen D. Thomas
President, Asset Management

* Appointed to the Management Committee in 2007

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Locations coming soon

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Jakarta, Indonesia

Doha, Qatar

Zhuhai, People's Republic of China

