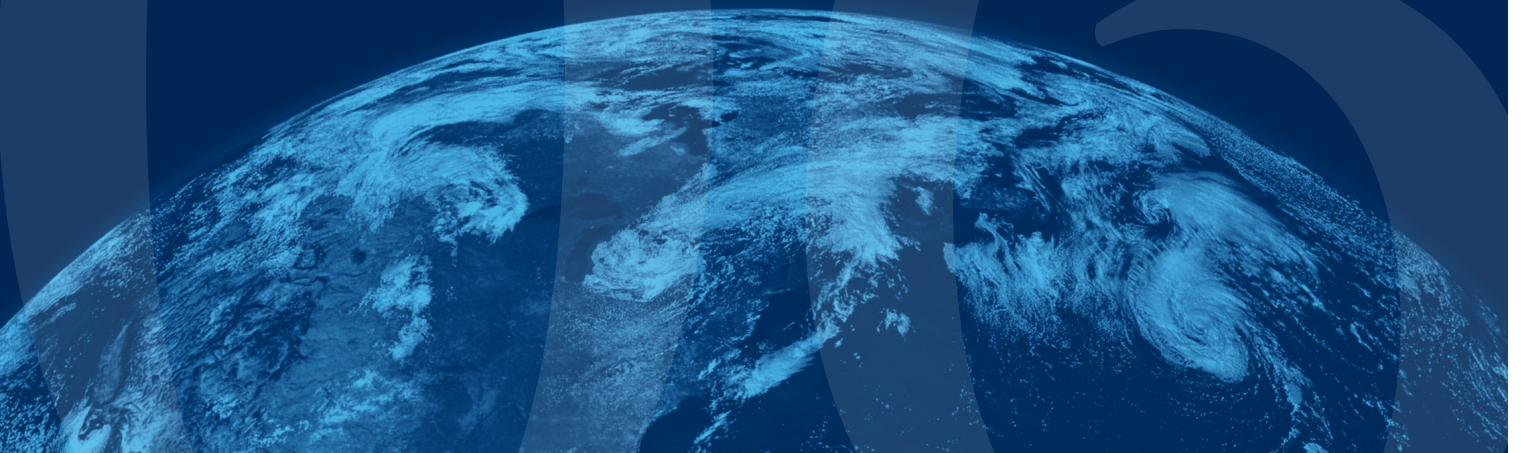


Morgan Stanley

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<sup>+</sup>

## 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 transactions<sup>1</sup>.

**#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 history<sup>1</sup>.

**\$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.

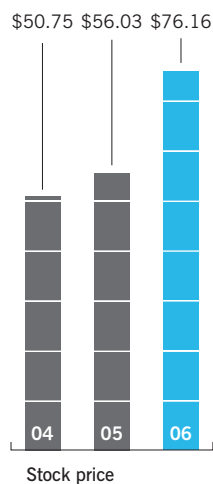
### Delivering Record Financial Performance

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.

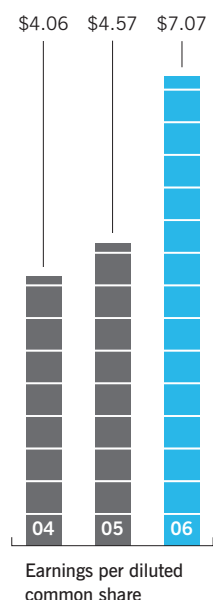
We believe the substantial strides we made in 2006 are reflected across all of our businesses.

#### 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.

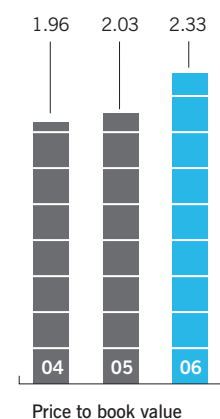
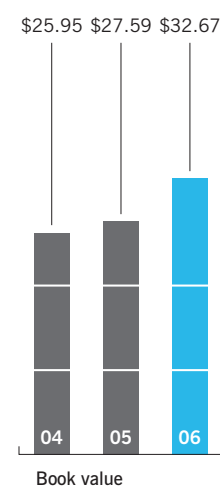
The financial benefits of these changes are clear: We have had three consecutive quarters of improved net income and, in 2006, delivered our highest net revenues in six years. Our margins in this business have improved dramatically – from 2% in mid-2005 to 12% in the fourth quarter of 2006. We also saw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

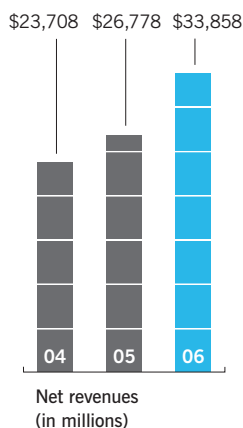
Going forward, we will focus on offering our clients innovative new products, with an emphasis on the capital markets and alternative investment areas. We will continue growing our successful bank deposit program and keep expanding our high- and ultra-high-net-worth businesses by hiring top-quality investment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



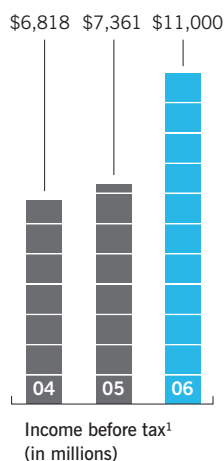


We continued the expansion of our international footprint this year, increasing distribution of our products outside the United States and stepping up sales efforts in China and India. We enhanced our traditional offerings, launching 34 new products that leverage our existing investment capabilities,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

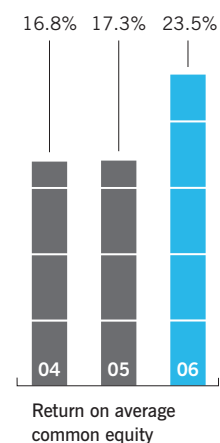
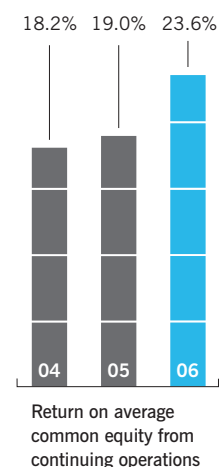


John J. Mack  
Chairman and Chief Executive Officer

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

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  
Phone: (800) 622-2393  
For investors outside the U.S.:  
(201) 680-6578  
[www.melloninvestor.com](http://www.melloninvestor.com)

### 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](http://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  
Morgan Stanley  
750 Seventh Avenue  
New York, NY 10019  
[diversity@morganstanley.com](mailto: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](http://www.morganstanley.com).

For a copy of our most recent Corporate Political Contributions Disclosure Statement, write to:  
Morgan Stanley  
Government Relations  
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](http://www.morganstanley.com) or by calling (800) 622-2393.

### Customer Service Phone Numbers

*Global Wealth Management*  
Branch Office Locator and  
General Information:  
(877) 937-6739

Client Advocate:  
(866) 227-2256  
[clientadvocate@morganstanley.com](mailto:clientadvocate@morganstanley.com)

Active Assets Account Client Services:  
(800) 869-3326

### *Asset Management*

Morgan Stanley Family of Funds:  
(800) 869-6397

Morgan Stanley Institutional Funds:  
(800) 548-7786

Morgan Stanley Closed-End Funds:  
(800) 221-6726

Van Kampen Funds:  
(800) 341-2911

*Discover Financial Services*  
Discover Card Services:  
(800) 347-2683

## BOARD OF DIRECTORS

John J. Mack  
Chairman of the Board and  
Chief Executive Officer

Roy J. Bostock  
Chairman  
The Partnership for a  
Drug-Free America

Erskine B. Bowles  
President  
The University of North Carolina

Howard J. Davies  
Director  
London School of Economics  
and Political Science

C. Robert Kidder  
Chairman and CEO  
3Stone Advisors LLC

Donald T. Nicolaisen  
Former Chief Accountant  
U.S. Securities and Exchange Commission

Charles H. Noski  
Former Vice Chairman of the Board  
AT&T Corporation

Hutham S. Olayan  
President and Chief Executive Officer  
Olayan America Corporation

Charles E. Phillips, Jr.  
President and Director  
Oracle Corporation

O. Griffith Sexton  
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

Walid A. Chammah  
Head of Investment Banking

Jonathan Chenevix-Trench  
Chairman, Morgan Stanley International

Zoe Cruz  
Co-President

Thomas V. Daula  
Chief Risk Officer

James P. Gorman  
President and COO, Global Wealth Management

David W. Heleniak  
Vice Chairman

Roger C. Hochschild  
President and COO, Discover Financial Services

Jerker M. Johansson  
Co-Head of Institutional Sales and Trading

Gary G. Lynch  
Chief Legal Officer

John J. Mack  
Chairman and CEO

Alasdair G. Morrison  
Chairman, Morgan Stanley Asia

Eileen K. Murray  
Head of Global Operations and Technology

David W. Nelms  
Chairman and CEO, Discover Financial Services

Thomas R. Nides  
Chief Administrative Officer and Secretary

Linda H. Riefler  
Chief Talent Officer

Hans J. Schuettler\*  
CEO, Morgan Stanley Asia

Robert W. Scully  
Co-President

Neal A. Shear  
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

## INTERNATIONAL LOCATIONS

### Worldwide Headquarters

#### New York

1585 Broadway  
New York, NY 10036  
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Tel (212) 761-4000

#### Amsterdam

Rembrandt Tower, 11th Floor  
Amstelplein 1  
1096 HA Amsterdam  
The Netherlands  
Tel (31 20) 462-1300

#### Athens

18 Valaoritou Street  
Athens 10671  
Greece  
Tel (30 210) 364-0468

#### Bangkok

29F, The Offices at Centralworld  
999/9 Rama I Road  
Pathumwan, Bangkok 10330  
Thailand  
Tel (66 2) 207-2323

#### Beijing

Unit 2902-05  
29/F China World Tower II  
China World Trade Center  
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Beijing 100004  
People's Republic of China  
Tel (86 10) 6505-8383

#### Budapest

Mathematical Modelling Centre  
Deak Ferenc u. 15  
1052 Budapest  
Hungary  
Tel (36 1) 881-3400

#### Buenos Aires

Avenida Alicia Moreau  
de Justo 740  
2do. Piso, Oficina 6  
1107 Buenos Aires  
Argentina  
Tel (54 11) 4349-0700

#### Calgary

First Canadian Centre  
350 7th Avenue SW  
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Tel (403) 509-1022

#### Dubai

The Gate, Level 5, West Wing  
PO Box 506501  
Dubai, UAE  
Tel (971 0) 4 363-4800

#### Frankfurt

Junghofstrasse 13-15  
60311 Frankfurt  
Germany  
Tel (49 69) 2166-0

#### Geneva

12 Place de la Fusterie  
CH-1211 Geneva  
Switzerland  
Tel (41 22) 319-8000

#### Glasgow

The Cerium Building  
55 Douglas Street  
Glasgow G2 7NP  
Scotland  
Tel (01 41) 245-8000

#### Glasgow

Lanarkshire Operations Centre  
3 Hunt Hill  
Orchardton Woods  
Cumbernauld, Glasgow G68 9LL  
Scotland  
Tel (44 123) 679-7800

#### Hong Kong

30th Floor, Three Exchange Square  
Central  
Hong Kong SAR  
Tel (852) 2848-5200

#### Johannesburg

TA Centre, 1st Floor S.W. Wing  
160 Jan Smuts Avenue  
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Tel (27 11) 507-0800

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#### Moscow

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Moscow 123056  
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Tel (7 495) 589-2100

#### Mumbai

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Fort Mumbai 400 001  
India  
Tel (91 22) 2209-6600

#### Munich

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80333 Munich  
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Tel (49 89) 5177-0

#### Paris

61, rue de Monceau  
75008 Paris  
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Tel (33 1) 4290-7000

#### Rome

Via Cristoforo Colombo 80  
00147 Rome  
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Entrance in Largo Fochetti 30  
Tel (39 06) 57080-1

#### São Paulo

Avenida Presidente Juscelino  
Kubitschek,  
50 / Floors 07 & 08  
São Paulo, 04543-000  
Brazil  
Tel (55 11) 3048-6000

#### Seoul

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Hungkuk Life Insurance Building  
226, Shinmunro 1ga, Chongro-Gu  
Seoul, Korea 110-061  
Tel (822) 399-4819

#### Shanghai

Suite 700B, 7th Floor, West Wing  
Shanghai Center  
1376 Nanjing Xi Lu  
Shanghai 200040  
People's Republic of China  
Tel (86 21) 6279-7150

#### Singapore

#16-01 Capital Square  
23 Church Street  
Singapore 049481  
Tel (65) 6834-6888

#### Stockholm

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111 48 Stockholm  
Sweden  
Tel (46 8) 6789-600

#### Sydney

Level 38, Chifley Tower  
2 Chifley Square  
Sydney, NSW 2000  
Australia  
Tel (61 2) 9770-1111

#### Taipei

22nd Floor, Taipei Metro  
207 Tun Hwa South Road, Sec. 2  
Taipei 106  
Taiwan  
Tel (886 2) 2730-2800

#### Tel Aviv

Millennium Tower, 19th Floor  
17 HaArba'ah Street  
South Kiryah  
Tel Aviv 64739  
Israel  
Tel (97 23) 623-6300

#### Tokyo

Yebisu Garden Place Tower  
4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008  
Japan  
Tel (81 03) 5723-5000

#### Toronto

BCE Place, 181 Bay Street  
Suite 3700  
Toronto, Ontario M5J 2T3  
Canada  
Tel (416) 943-8400

#### Zurich

Bahnhofstrasse 92  
CH-8023 Zurich  
Switzerland  
Tel (41 44) 220-9111

### Locations coming soon

#### Istanbul, Turkey

#### Jakarta, Indonesia

#### Doha, Qatar

#### Zhuhai, People's Republic of China

