



To Our Shareholders:

In a year that challenged our company, our industry and our world, the people of Morgan Stanley displayed great discipline and resolve. We believe our company has emerged even stronger and better prepared for the future. The long-term growth trends that shape our strategy are intact. And more than ever, we are focused on the working relationships with clients that will drive our future growth.



When we think back on 2001, we are filled with deep sorrow and outrage over the events of September 11. Who among us will ever forget the shock and horror of that day? For the Morgan Stanley family, the attacks hit us right at home — 3,700 of our people worked in the World Trade Center. Sadly, seven of them and six contract service professionals did not make it out that day.

But we also take pride in the way our company responded in the immediate aftermath of the attacks and the weeks that followed. Through resolve, discipline and some individual acts of heroism, nearly all our employees evacuated the South Tower immediately after the North Tower was hit, executing planned and frequently practiced safety procedures. Many of our people immediately went to backup sites to begin to take care of customers and to protect the firm. We believe it was a defining moment for us — a summation of what we stand for and how we respond when tested by extreme circumstances. We believe the response of our people should give shareholders great confidence.

Few, if any, events will ever have the impact of September 11, but the year 2001 also tested our people and our businesses in other ways. For most of the year, the world economy was gripped in a recession that still continues as we write this letter. As a result, our business volume was down from the record levels of late 1999 and early 2000, and the steady growth in our profitability was interrupted.

We have responded to this challenge by focusing even more intently on client relationships. Despite the difficult environment, we continued to achieve substantial returns for shareholders.

## SELECTED FINANCIAL DATA

FISCAL YEAR <sup>(1)</sup>	2001	2000	1999	1998	1997
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(DOLLARS IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)

### INCOME STATEMENT DATA

#### Revenues:

Investment banking	\$ 3,415	\$ 5,008	\$ 4,523	\$ 3,339	\$ 2,694
Principal transactions:					
Trading	5,501	7,361	5,796	3,159	3,191
Investments	(316)	193	725	89	463
Commissions	3,153	3,645	2,774	2,208	2,066
Fees:					
Asset management, distribution and administration	4,078	4,286	3,377	3,041	2,554
Merchant and cardmember	1,345	1,323	1,074	1,236	1,351
Servicing	1,904	1,450	1,194	928	762
Interest and dividends	24,127	21,234	14,880	16,385	13,583
Other	520	485	244	284	144
Total revenues	43,727	44,985	34,587	30,669	26,808
Interest expense	20,779	18,176	12,515	13,463	10,806
Provision for consumer loan losses	1,052	810	526	1,174	1,493
Net revenues	21,896	25,999	21,546	16,032	14,509

#### Non-interest expenses:

Compensation and benefits	9,397	10,936	8,398	6,636	6,019
Other	6,815	6,572	5,420	4,696	4,142
Merger-related expenses	—	—	—	—	74
Total non-interest expenses	16,212	17,508	13,818	11,332	10,235

#### Gain on sale of businesses

	—	35	—	685	—
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#### Income before income taxes, extraordinary item and cumulative effect of accounting change

	5,684	8,526	7,728	5,385	4,274
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#### Provision for income taxes

	2,074	3,070	2,937	1,992	1,688
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#### Income before extraordinary item and cumulative effect of accounting change

	3,610	5,456	4,791	3,393	2,586
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#### Extraordinary item

	(30)	—	—	—	—
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#### Cumulative effect of accounting change

	(59)	—	—	(117)	—
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Net income	\$ 3,521	\$ 5,456	\$ 4,791	\$ 3,276	\$ 2,586
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Earnings applicable to common shares <sup>(2)</sup>	\$ 3,489	\$ 5,420	\$ 4,747	\$ 3,221	\$ 2,520
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### PER SHARE DATA

#### Earnings per common share:

Basic before extraordinary item and cumulative effect of accounting change	\$ 3.29	\$ 4.95	\$ 4.33	\$ 2.90	\$ 2.19
Extraordinary item	(0.03)	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	(0.10)	—
Basic	\$ 3.21	\$ 4.95	\$ 4.33	\$ 2.80	\$ 2.19
Diluted before extraordinary item and cumulative effect of accounting change	\$ 3.19	\$ 4.73	\$ 4.10	\$ 2.76	\$ 2.08
Extraordinary item	(0.03)	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	(0.09)	—
Diluted	\$ 3.11	\$ 4.73	\$ 4.10	\$ 2.67	\$ 2.08

Book value per common share	\$ 18.64	\$ 16.91	\$ 14.85	\$ 11.94	\$ 11.06
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Dividends per common share	\$ 0.92	\$ 0.80	\$ 0.48	\$ 0.40	\$ 0.28
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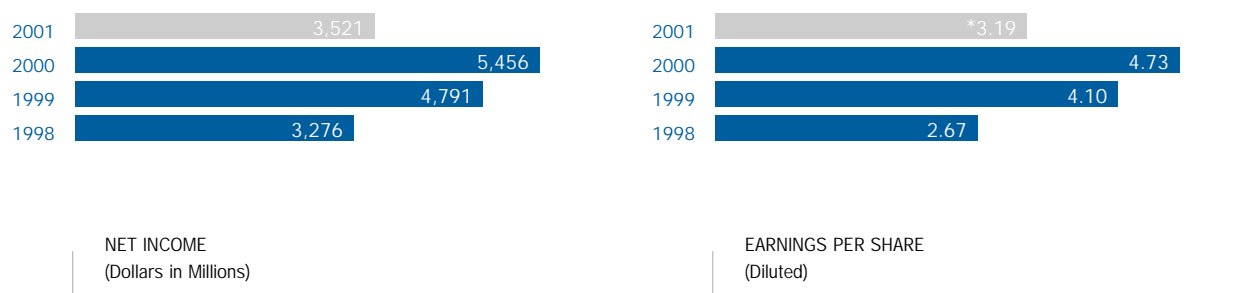
### BALANCE SHEET AND OTHER OPERATING DATA

Total assets	\$ 482,628	\$ 421,279	\$ 366,967	\$ 317,590	\$ 302,287
Consumer loans, net	20,108	21,743	20,963	16,412	21,347
Total capital <sup>(3)</sup>	61,633	49,637	39,699	37,922	33,577
Long-term borrowings <sup>(3)</sup>	40,917	30,366	22,685	23,803	19,621
Shareholders' equity	20,716	19,271	17,014	14,119	13,956
Return on average common shareholders' equity	18.5%	30.9%	32.6%	24.5%	22.0%
Average common and equivalent shares <sup>(2)</sup>	1,086,121,508	1,095,858,438	1,096,789,720	1,151,645,450	1,149,636,466

(1) This information should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001, copies of which are available at [www.morganstanley.com](http://www.morganstanley.com) or upon request. 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.

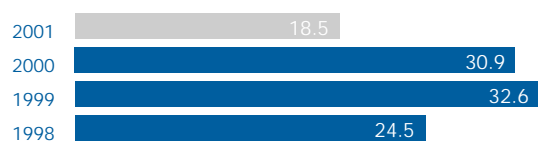
(3) These amounts exclude the current portion of long-term borrowings and include Capital Units and Preferred Securities Issued by Subsidiaries.



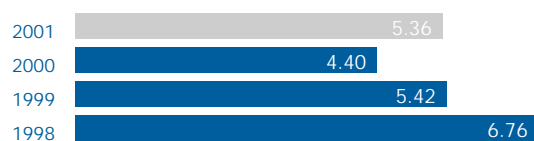
*\*Excludes extraordinary item and cumulative effect of accounting change.*

## FINANCIAL RESULTS

- › Our net income for fiscal year 2001 was \$3.6 billion, a decline of 34 percent from last year's record \$5.5 billion. Earnings per share were \$3.19, down 33 percent from \$4.73 a year ago.
- › Return on equity (ROE) for the year was 19 percent, which is very strong considering the difficult environment in the securities industry. We believe the two principal reasons for this strong ROE are our discipline in controlling expenses and the breadth and diversity of our businesses, several of which had excellent results despite the generally difficult environment.
- › Net income in our securities segment was down 42 percent from \$4 billion in 2000 to \$2.4 billion this past year. Fixed income, however, was the exception within the securities segment, with a record year in net revenues. Our equities business also continued to deliver high returns, even though volume was down from the peaks of the first half of 2000. Both investment banking and the individual investor group suffered significant decreases in net revenues.
- › Our investment management business was down 19 percent in net income, but our investor base remained solid, and the business continued to produce high returns.
- › Credit services net income was roughly equal to last year at \$702 million, resulting in 19 percent ROE.
- › We were pleased that our market share gains continued in the equity and fixed income trading businesses, with particularly strong gains in Europe.
- › In equities, we achieved significant market share gains in secondary trading for institutional clients in the U.S. and in Europe, especially in listed stocks, over-the-counter (OTC) stocks, convertible securities and listed options. Fixed income showed similar gains in investment grade, asset-backed, government securities and credit derivatives.
- › In investment banking, we held our global position as #2 in completed mergers and acquisitions (M&A), #2 in initial public offerings (IPO) and #3 in equity products. During the year, we reorganized the division, repositioning our resources to allow for more client coverage while reducing headcount by more than 10 percent. Despite increased competitive pressure from commercial banks, we were able to maintain our market position in investment banking. We are intent on improving that leadership position over the next several years as the impact of our reoriented client coverage strategy begins to take effect.



RETURN ON COMMON EQUITY  
(In Percent)



DISCOVER FINANCIAL SERVICES NET CHARGE-OFF RATE  
(In Percent)

- › Our market share in retail securities increased in terms of number of financial advisors, but our percentage of industry-wide revenues decreased.
- › In 2001, Discover® Card again increased market share measured by percentage of total receivables.

In summary, we increased market shares in our trading businesses and maintained market shares in most of our other major businesses.

#### CHALLENGES OF 2001

The year was not an easy one in which to achieve a 19 percent ROE. Most markets were down significantly from 2000.

- › M&A activity declined by 51 percent.
- › IPOs globally were down 57 percent.
- › Retail securities activity in the U.S. was off at least 25 percent.
- › Equity prices in the U.S. were down 13 percent for S&P 500 and 21 percent for the NASDAQ Composite. European markets suffered from similar declines.
- › The U.S. officially slipped into a recession, leading the Federal Reserve to reduce interest rates 11 times during

the year. In Europe, gross domestic product (GDP) annual growth fell from 3.3 percent to 1.6 percent.

- › Technology and telecom stocks and bonds were particularly hard hit with stocks off over 50 percent, sharp declines in most bonds and many bankruptcies.

The impact of a difficult economic environment in 2001 reaffirmed the wisdom of focusing on our clients as well as our strategy of diversification by both products and markets. In general, certain businesses in which we carried "proprietary positions," such as high yield and private equity, experienced write-downs. Through sales and write-downs, however, we significantly reduced the size of both our high-yield and private equity portfolios in 2001. Our restructured high-yield business focuses on servicing client flows, and private equity is concentrated on the fund business where we invest alongside our clients in vehicles that we manage. While it represents a small part of our business currently, we also continue to invest in our commercial lending business. Disciplined underwriting, advantageous collateral arrangements, increased diversification and an increased investment in distribution infrastructure will help us to better manage these portfolios in the future.



WORLDWIDE M&A ANNOUNCED TRANSACTIONS\*  
(Market Share in Percent)

*\*Thomson Financial*



WORLDWIDE INITIAL PUBLIC OFFERINGS\*  
(Market Share in Percent)

*\*Thomson Financial*

#### FOCUS ON CLIENTS

A major accomplishment in 2001 was the continued move closer to true client centricity in every business. Each business has restructured to focus on and better serve our clients. It is no coincidence that those businesses that enjoyed the biggest market share gains — institutional equities, for example — are the ones that have made the most progress in reorganizing around the client.

As 2002 begins, we are confident the changes made in 2001 will make us more valuable to our clients in every business. Several examples of excellent client focus deserve highlighting:

- › In the individual investor group, virtually all of our 4 million individual clients received a call soon after September 11 from their financial advisor, many of whom worked around the clock to stay in touch, provide reassurance and continue business.
- › Our investment bankers worked with Comcast Corporation for more than a year designing a successful plan to complete a merger with AT&T's cable subsidiary in a \$72 billion transaction.

› Our investment bankers and equity and fixed income capital markets specialists helped raise \$16.4 billion in debt, \$7.3 billion in convertible securities and \$5.8 billion in equity from the IPO of Orange Wireless on behalf of France Telecom despite the extremely challenging markets for the telecommunications industry.

› In investment management, our portfolio professionals achieved superior performance for clients in spite of an extremely difficult market environment. With 56 of our funds receiving four or five stars at the close of November 2001, we had more funds receiving Morningstar's two highest ratings than any other full-service firm.

› In credit services, when U.S. mail delivery of payments was delayed immediately after September 11, Discover was the only large credit card issuer to suspend customer late fees during the disruption of service.

#### CONTROLLING COSTS

In the three years ending in 2000, our net revenues grew 27 percent per year. Incremental investments and operations above capacity allowed us to fulfill the extraordinary



NUMBER OF FUNDS RANKED FOUR OR FIVE STARS BY MORNINGSTAR



NUMBER OF TOP-RATED ANALYSTS WORLDWIDE

demand across all our businesses. In a rapid reversal, revenues declined 16 percent in 2001, presenting a real challenge to manage costs to protect profits for shareholders. Through a combination of reducing incentive compensation, restructuring existing businesses and closing selected operations, we were able to reduce the expense base in 2001 and create profit leverage for when the economy turns.

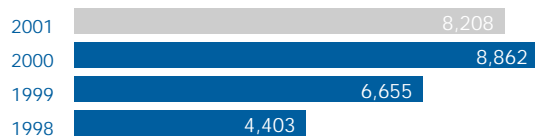
Compensation was down 14 percent overall and was down by a much larger percentage in selected businesses. Headcount was down 4 percent from peak levels despite a significant increase in headcount at Discover. Non-compensation expenses came down throughout the year and by the fourth quarter were 11 percent below fourth quarter last year, excluding costs associated with our aircraft leasing operations. Our focus on costs will continue in 2002, and we expect to achieve further savings as we get out of businesses with poor current economics. For example, we closed our retail business in Japan and several retail branches in the U.S., as well as our freestanding retail Internet business, and temporarily halted further international expansion of our credit card business.

While reducing our cost structure, we have kept in mind that the factors driving secular growth in financial services — an aging population, globalization, privatization and productivity — remain in place and that growth will resume. We therefore have balanced the need to reduce expenses with the need to have talent in place to take full advantage of future opportunities.

#### TO DO IN 2002

We continue to see the accelerated combination of firms in pursuit of a global capital markets strategy. In the past 18 months, UBS acquired PaineWebber for \$12 billion to gain retail distribution and asset management in the U.S., and Chase completed its acquisition of J.P. Morgan to strengthen its investment banking and equity business globally. Also, Credit Suisse First Boston acquired DLJ for \$13.5 billion to strengthen its investment banking and equity business in the U.S. As a result of these strategic mergers, there now are about eight firms vying for leadership in global investment banking and securities distribution, some of them straining to carve out a viable market share in a business where there is enough demand for no more than three or four profitable competitors. This competitive dynamic will put continued pressure on margins.





INSTITUTIONAL SECURITIES SALES AND TRADING NET REVENUE\*  
(Dollars in Millions)



ASSETS UNDER MANAGEMENT OR SUPERVISION  
(Dollars in Billions)

\*Includes principal trading, commissions and net interest income

Our response in 2002 will be to:

- › Continue our strategy of client centricity to understand and meet our clients' needs ahead of competitors.
- › Align our resources by client to bring all of our firm's talent and capital to bear on the needs of each client.
- › Continue to invest in people and capital, notably in both our equity and fixed income trading and sales activities in Europe.
- › Maintain cost control while continuing to support our core businesses and delivering value to clients.

As always, downturns in the economy present the highest risk to the returns we can generate for shareholders. Specific challenges also present themselves in 2002. We must protect ourselves from the decline in credit quality that always accompanies recessions and higher unemployment. In addition, the precipitous decline in air travel will likely pressure the profitability of our aircraft leasing business.

We will continue to measure success, in every business, by our ability to increase market share and deliver profitability. We are confident that by building on the progress

we made in 2001, we will be able to achieve market share gains in 2002. The combination of market share increases and secular growth in financial markets will provide the offset to margin pressures.

We know our geographic and product breadth, innovative and talented people, and strong client-centered culture give us the competitive advantage to continue to be a market share leader in our core businesses.

Our employees are the key to our success. We have been, and continue to be, committed to providing an environment in which outstanding individuals with diverse skills, experiences and backgrounds are valued and rewarded. With our global operations and broad client base, we believe that diversity in our workforce maximizes the level of creativity and problem solving that is critical to serving our clients well. This year we published our first Diversity Report, which communicates the importance we place on, and some of the action we take to foster, diversity. We were pleased to receive external recognition of our commitment from leading organizations and publications. For example, *Fortune* magazine named us

*"We will continue to measure success, in every business, by our ability to increase market share and deliver profitability. We are confident that by building on the progress we made in 2001, we will be able to achieve market share gains in 2002."*



**PHILIP J. PURCELL**  
*Chairman & Chief Executive Officer*



**ROBERT G. SCOTT**  
*President & Chief Operating Officer*

one of the top 10 companies to work for in Europe, *Latina Style* magazine said we were one of the "50 Best Companies for Latinas to Work for in the U.S." and *Working Mother* magazine selected us as one of the "Top Ten" best companies for working mothers. Respect for individuals and cultures, one of our core values, will continue to drive our commitment.

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During the year, we were fortunate to add John E. Jacob, Executive Vice President & Chief Communications Officer of Anheuser-Busch Companies, Inc., to our Board of Directors.

Reflecting any more on 2001 would be belaboring the obvious. Let us just say it is clear that our company has a superb collection of talented and dedicated people who can and will rise to meet any crisis or challenge. Morgan Stanley's employees responded to the needs of each other and the needs of our clients during the September 11 crisis. We, indeed, are blessed with a unique resource in our human capital, and our people ensure a bright future for our company. We can take this group of talented, dedicated professionals into any competitive environment and be confident of success.

*Sincerely,*

A handwritten signature in black ink that reads "Philip J. Purcell".

**PHILIP J. PURCELL**  
*Chairman & Chief Executive Officer*

A handwritten signature in black ink that reads "Robert G. Scott".

**ROBERT G. SCOTT**  
*President & Chief Operating Officer*

*February 5, 2002*

# In Memoriam

Morgan Stanley will always remember September 11 and never forget our colleagues and friends who died on that day. All of them were at work when the attacks came — earning a living, supporting their families, serving our firm and our clients. Some lost their lives making sure that others got out.

Our thoughts and prayers also have been with the families of the more than 3,000 victims, including the firefighters, police and emergency personnel who rushed to the scene to help our people and so many others. We're proud that Morgan Stanley employees from around the world have come forward to give help and support to these families through the Morgan Stanley Victims Relief Fund.

TITUS DAVIDSON

JENNIFER DE JESUS

JOSEPH DIPILATO

GODWIN FORDE

LINDSAY HERKNESS

ALBERT JOSEPH

CHARLES LAURENCIN

WESLEY MERCER

RICHARD RESCORLA

NOLBERT SALOMON

STEVE STRAUSS

THOMAS SWIFT

JORGE VELAZQUEZ

Clients today are looking for more than just products and services. Individuals and institutions alike have financial objectives that cannot be neatly boxed or segmented into separate spheres. They rely on a financial services firm to understand the full range of their needs, to actively help them think and work through complex challenges, and to offer not just a product but an entire firm's worth of talent. Across Morgan Stanley, we are finding new ways to build the working relationships that will drive our future growth.

"I trust her advice even in these hard times, and I can't say I give my trust easily. Right now, my mind is on writing a book. I need somebody who's knowledgeable looking out for my best interests, and I think I have that in Carol."

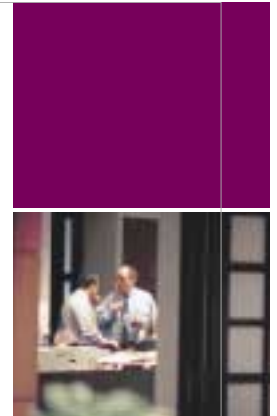
MORGAN STANLEY CLIENT **LINDA LEHRER**, TALKING ABOUT HER FINANCIAL ADVISOR CAROL GLAZER

# Building on trust



Expertise is a precious commodity, but trust is even rarer. Individuals entrust their Morgan Stanley financial advisor with the fruits of their career, with their retirement and with the financial security of their children. Institutional clients demand that Morgan Stanley earn trust throughout their organizations — whether from their portfolio analysts, technologists, operations and finance people, their board or their CEO.

Trust grows from personal experience with an individual and extends gradually to the firm as we demonstrate market excellence, high standards of integrity and a genuine concern for the client. Whether that client is an individual, an organization or a management team, we seek to build trust by delivering consistently on promises large and small.



#### AGERE

The \$4.1 billion offering of Agere Systems, a subsidiary of Lucent Technologies, was the largest technology IPO in U.S. history and culminated a two-year effort by a Morgan Stanley team comprising professionals from Equity Capital Markets, Fixed Income, Corporate Finance and M&A. Morgan Stanley's connection with Lucent goes back to 1996, when we lead-managed its spin-off from AT&T. In 2001, Lucent and Agere trusted Morgan Stanley to help them generate shareholder value through a unique and innovative debt-for-equity swap and a commitment of Morgan Stanley's own capital to make that idea a reality.

#### THE PROFESSIONAL FOUNDATIONS PROGRAM

Morgan Stanley brings a new approach to training newly hired financial advisors in the knowledge, skills and tools they need to earn their clients' trust. Our Professional Foundations Program was developed with the help of our most successful branch managers, financial advisors and others from across the U.S. The program moves training out of New York City to multiple sites around the country, with Web-based components as well; it focuses on assessing financial plans and then finding the right solutions. Additional training will continue throughout the career of every Morgan Stanley financial advisor.

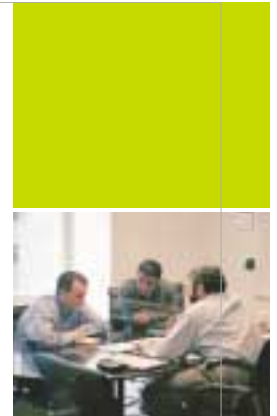
“We are concentrating our business on only a few firms, for a more unified relationship with each. The firm has to understand what we’re all about, and the parts of their organization have to talk to each other. Fortunately, Morgan Stanley has this capability.”

LAURENCE FINK, CHAIRMAN & CEO, BLACKROCK INC.

# Focused on listening



Different clients need — and demand — different kinds of relationships. Listening allows us not only to learn their concerns but also to understand how they work most comfortably. Listening to each other within Morgan Stanley broadens our reach and prepares us to serve clients as one firm. Finally, clients value our ability to listen to our worldwide network: to be their ears to the market. Being good listeners can help us stand out.



#### SINGTEL

Singapore Telecom, Singapore's largest company, is focused on expanding beyond its local market. As part of its international expansion strategy, SingTel turned to Australia and to Morgan Stanley for our understanding of the Australian market and our access to the company being auctioned: Cable & Wireless subsidiary Optus. Morgan Stanley understood the client's strategy for this complex transaction — the largest-ever Australian acquisition, with a number of regulatory issues — and provided a comprehensive solution that included services from M&A execution to financing and foreign exchange, as well as developing a unique and successful offer for Optus shareholders. The US\$10 billion acquisition of Optus proved to be a critical transaction for SingTel, an important milestone for its regional expansion.

#### DISCOVER CARD HELPS OUT

When a credit card customer falls behind on payments, most card companies take an aggressive stance. But a new program from Discover® Card acknowledges that when good Discover Cardmembers miss payments, the reasons often are outside their control. Instead of a terse reminder, they receive a sympathetic letter, and in some cases a Hallmark® card acknowledging that life takes unexpected turns, with a handwritten note offering to help. Cardmembers who call Discover Card receive credit counseling and can qualify for a special payment plan. Being treated with respect and understanding by Discover Card can encourage the loyalty of Cardmembers long after their temporary problems have passed.

#### 1 MILLION PHONE CALLS

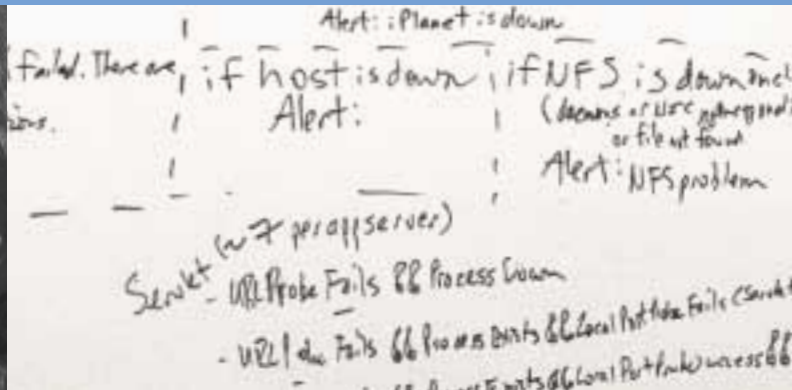
The New York Stock Exchange and other major U.S. stock exchanges did not open on the morning of September 11 and remained closed for almost a week in the wake of the terrorist attacks in New York City and Washington, D.C. It was a period of extraordinary anxiety for individual investors. They were concerned about their savings and investments: What could they do while the markets were closed? What should they do when the markets reopened? For seven days, around the clock, our nearly 14,000 financial advisors were on the phones to our individual clients. In well over 1 million conversations, our advisors listened to our clients' concerns and offered reassurance and trusted advice throughout this most trying time.



“Our close working relationship with Morgan Stanley — more than 30 people from both organizations working together for many months — led us to jointly develop an innovative financing structure, the first of its kind in the energy delivery industry. Securitizing our energy delivery business was not only extremely well-received by the capital markets but will also help protect our electricity customers in Pennsylvania.”

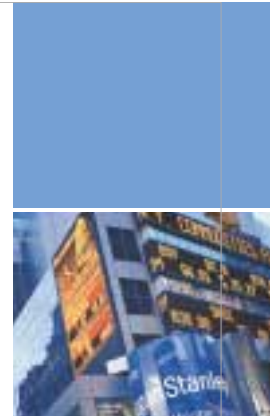
BILL HECHT, CHAIRMAN & CHIEF EXECUTIVE OFFICER, PPL

# Thinking together



The value in a Morgan Stanley relationship lies not only in the solutions that we offer but also in the dialogue that we hope to stimulate. Presented with an idea, the client asks: “Why is that the right idea for me, now, in the context of what’s happening in my life, my company or the capital markets? What should be on my agenda? How can I get something done?”

The power is likely to be in the framework for thinking, not in any one idea itself. By opening the way for different approaches, even for the counter-intuitive, an insightful dialogue clarifies the client’s own way of thinking. A good relationship can both organize ideas and liberate them, bringing thought that much closer to action.



#### MANAGING UNCERTAINTY

How should clients rethink their assumptions about the global outlook in the aftermath of September 11? More than 50 Morgan Stanley analysts, researchers and others from our securities division devoted hundreds of hours to this question. Four possible scenarios for the future emerged, from the optimistic “Global Healing” to the worst-case “Global L” of negative economic growth and political fragmentation. Challenges emerge in all scenarios, and each carries important implications for specific industries and stocks. Morgan Stanley has helped clients apply this framework to their portfolio and business strategies, as we have applied it to our own, unearthing hidden risks and potential opportunities.

#### THE CLIENT ALLIANCE

In 2001, we realigned several business units, bringing them closer together to better serve our clients. In August, we introduced the Client Alliance, a unit that will capitalize on the capabilities of Morgan Stanley’s investment management division and our individual investor group. This joint venture is charged with bringing together product development, information technology and distribution skills to create the next generation of financial tools and services. The Client Alliance will help Morgan Stanley gain a unique understanding of individual investors’ needs so that our advice, products and strategic asset allocation recommendations can be tailored more closely to each person’s investment objectives.

#### BUSINESS CONTINUITY PLANNING

Institutional clients taking a new look at their own preparedness have asked Morgan Stanley for information on our Business Continuity Planning (BCP). Our BCP initiative evolved over 10 years in response to the Gulf War, what we learned in previous bombings in New York City and London, and Y2K concerns. The resulting plan made it possible for our people to keep the firm open for business in the anxious, uncertain days immediately following September 11. We discuss this topic with clients in the same way we would approach any other topic with them: helping them think through their own solutions by providing a unique and knowledgeable outlook on a difficult problem.

“In a demanding environment, Morgan Stanley has been a value-adding partner whose strength, depth and commitment have been greatly appreciated by my colleagues at France Telecom and myself.”

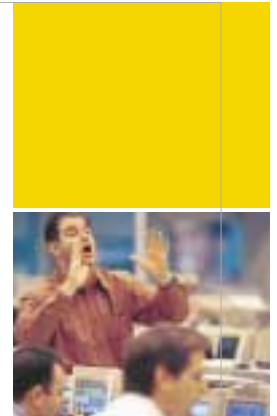
MICHEL BON, CHAIRMAN & CEO, FRANCE TELECOM

# Achieving results



A working relationship is judged by a measurable outcome. The question is not, “Did the deal get done?” but, “Has the client achieved what was wanted?” Will the solution prove valuable in the future — to the client, to an industry and to the firm?

In fast-changing financial markets, Morgan Stanley is judged by its continuing ability to achieve the desired outcomes, to get things done — whether through its trading skills, its conceptual expertise, its access to investors or its industry research. The client is the ultimate judge of effectiveness.



#### AIFUL

With more than 1,500 employees and a 30-year history in Japan, Morgan Stanley is one of the largest and most active foreign participants in the Japanese financial markets. In 2001, we created a new model for leveraged buyouts in Japan when we advised consumer loan company Aiful Corp. on its purchase of consumer credit company Life Co. By repackaging Life receivables as securities for sale to investors, Morgan Stanley helped Aiful finance the acquisition without taking on more bank debt. It was Japan's first takeover financing backed by repackaged assets and the country's largest securitization to date. The method can be applied to many other Japanese consumer finance companies as the industry consolidates.

#### SINOPEC

In October 2000, Morgan Stanley priced a US\$3.5 billion IPO for China Petroleum and Chemical Corporation (Sinopec Corp.), China's largest petrochemical company. During a 15-month process, Morgan Stanley worked with Sinopec Corp. to completely reorganize the conglomerate, restructure the balance sheet and obtain an investment grade credit rating. Sinopec Corp. was the third largest Chinese IPO in history and was listed on the Hong Kong, London and New York stock exchanges. Since then, Morgan Stanley has continued working closely with management to transform Sinopec Corp. into a world-class corporation. In June 2001, Morgan Stanley acted as financial advisor in Sinopec Corp.'s first large transaction since its IPO: the acquisition of Sinopec National Star for US\$1.1 billion.

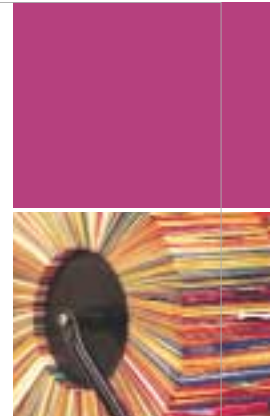
"Since we started in 1980, Morgan Stanley has always been very much in our camp and done a fine job for us all the way. Morgan Stanley has sort of fathered us along and took us from being nothing to perhaps their largest prime brokerage client. I think they work honestly, decently and effectively. As new funds spring up from Tiger and they ask me for advice, I've always recommended Morgan Stanley."

JULIAN H. ROBERTSON, JR., CHAIRMAN, TIGER MANAGEMENT, LLC

# Deepening with time



Time is the ally of the successful working relationship. Over time, Morgan Stanley people can gain an ever more intimate understanding of a client's needs. We can find new ways to meet those needs and to anticipate them, earning the chance to prove ourselves in new areas. We can over-deliver on each transaction and demonstrate our desire to stay close to the client even with no transaction at hand. Time gives us the opportunity to distinguish Morgan Stanley again and again: through the quality of our people, our insights and our execution, applied consistently in the client's interest.



#### FRANCE TELECOM/ORANGE

Morgan Stanley's relationship with France Telecom has allowed us to provide consistent financing and strategic advice. In February 2001, Morgan Stanley managed the landmark €6.3 billion initial public offering of shares in Orange Wireless, France Telecom's mobile phone service subsidiary. Despite a historically difficult market, Morgan Stanley helped to pull off one of the largest-ever IPOs. A simultaneous €3.1 billion issue of France Telecom bonds exchangeable into Orange shares, also managed by Morgan Stanley, was the largest-ever euro-denominated exchangeable debt offering. These capital-raising initiatives helped France Telecom finance its 2000 acquisition of Orange, a transaction in which we advised France Telecom. In total, Morgan Stanley helped France Telecom raise approximately €40 billion in 2000 and more than €45 billion in 2001 from the equity, bond and bank debt markets.

#### GUCCI

Morgan Stanley has worked closely with Gucci since before its 1995 IPO, which we lead-managed. When competitor LVMH began to accumulate Gucci stock in early 1999, Morgan Stanley helped Gucci thwart a takeover through an issue of shares to an Employee Share Scheme and, subsequently, of 42 percent of the company to Pinault-Printemps-Redoute (PPR). Using the PPR \$3 billion capital injection, Gucci rapidly established itself as a multi-brand fashion house by acquiring the labels of Yves Saint Laurent, Boucheron, Sergio Rossi, Stella McCartney, Alexander McQueen and Bottega Veneta. In 2001, Morgan Stanley brokered an innovative agreement between Gucci, PPR and LVMH, facilitating an exit for the latter and the settlement of all pending litigation, as well as providing for an extraordinary dividend for independent shareholders and downside protection on the share price until 2004.

#### EXCHANGE-TRADED FUNDS

One of the fastest-growing investment products, exchange-traded funds (ETF) are baskets of stocks that closely track a specific market or sector index. Because they trade as ordinary stocks on major exchanges, ETFs offer investors greater convenience and efficiency than traditional index funds. The success of ETFs has fueled our relationships with leading issuers such as The Bank of New York, Barclays Global Investors, State Street Global Advisors and The Vanguard Group. These ETF sponsors now rely on us not only as a major broker-dealer, liquidity provider and key marketer but also as a vital resource to help them navigate the ever-changing and diverse regulatory requirements of the world's equity markets as they introduce new ETF products.

## MORGAN STANLEY AT A GLANCE

<p>SECURITIES INCOME AFTER TAXES (Dollars in Millions)</p> <p><i>*Excludes extraordinary item and cumulative effect of accounting change.</i></p>	<table border="1"> <thead> <tr> <th>Year</th> <th>Income (Dollars in Millions)</th> </tr> </thead> <tbody> <tr> <td>2001</td> <td>*2,363</td> </tr> <tr> <td>2000</td> <td>4,054</td> </tr> <tr> <td>1999</td> <td>3,657</td> </tr> <tr> <td>1998</td> <td>2,216</td> </tr> </tbody> </table>	Year	Income (Dollars in Millions)	2001	*2,363	2000	4,054	1999	3,657	1998	2,216	<p>INVESTMENT MANAGEMENT INCOME AFTER TAXES (Dollars in Millions)</p> <p><i>*Excludes gain on sale of business.</i></p>	
Year	Income (Dollars in Millions)												
2001	*2,363												
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### SECURITIES

Morgan Stanley provides investment banking services to corporations, governments and other entities and provides sales, trading and research services to institutional and individual investors, all on a global basis. The firm offers its investment banking clients advice on mergers and acquisitions, restructurings and privatizations. The firm also is a major underwriter of stocks and bonds and provides research, sales and trading services in virtually every type of financial instrument, including stocks, bonds, derivatives, foreign exchange and commodities. The firm provides clearance and custody, financing, client technology and securities lending to hedge funds and also manages private partnerships that invest in venture capital, real estate and other private equity opportunities. The individual investor group has nearly 14,000 financial advisors and 5.6 million client accounts, with client assets of \$595 billion.

### INVESTMENT MANAGEMENT

Morgan Stanley is one of the largest asset managers in the world, offering a diverse range of investment products managed by top investment professionals from our various money management units, including many highly rated U.S. and international bond, equity and multi-asset class funds distributed in multiple channels under several brands.

- INDIVIDUAL INVESTORS

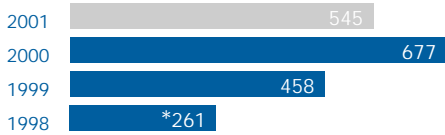
*Proprietary channel* — Morgan Stanley reaches individual investors through our proprietary network of financial advisors who offer, among other things, Morgan Stanley and Van Kampen-branded products.

*Non-proprietary channel* — Morgan Stanley also offers Van Kampen-branded products through a large and diversified network of non-proprietary national and regional broker-dealers, commercial banks and thrifts, insurance companies and their affiliated broker-dealers, and financial planners.

- INSTITUTIONAL INVESTORS

Institutional investors, including corporations, non-profit organizations, governmental agencies, insurance companies and banks, are serviced through a proprietary sales force globally, as well as a team dedicated to covering the investment consultant industry.





CREDIT SERVICES INCOME AFTER TAXES  
(Dollars in Millions)

*\*Excludes cumulative effect of accounting change.  
\*\*Excludes gain on sale of business.*



### CREDIT SERVICES

Morgan Stanley's flagship Discover® Card is marketed in the United States with no annual fee and a Cashback Bonus® award. With more than 50 million Cardmembers and nearly \$50 billion in consumer loans, Discover Card is one of the largest issuers of general purpose credit cards in the U.S. The Discover Card is accepted on the Discover Business Services Network, the largest independent credit card network in the U.S., with approximately 4 million merchant and cash access locations.

Discover Card offers various products and financial services, including Discover Platinum and Discover Gold cards, affinity cards, CD and money market accounts, installment loans, home mortgages and credit insurance coverage. Today, 24 percent of our active Cardmembers have at least one additional Discover Card-branded product.

Discover Card has quickly become a leading card company on the Internet (Discovercard.com), with more than 7 million Cardmembers registered at the Discover Card Account Center.

Our efforts to expand our credit card business overseas have been equally successful as the Morgan Stanley MasterCard®, introduced in the U.K. in 1999, reached over \$1.5 billion in consumer loans in 2001.





## OFFICERS AND DIRECTORS

### BOARD OF DIRECTORS

PHILIP J. PURCELL  
Chairman & Chief Executive Officer

ROBERT G. SCOTT  
President & Chief Operating Officer

ROBERT P. BAUMAN  
Former Chief Executive Officer  
SmithKline Beecham plc

EDWARD A. BRENNAN  
Former Chairman & Chief Executive Officer  
Sears, Roebuck and Co.

JOHN E. JACOB  
Executive Vice President &  
Chief Communications Officer  
Anheuser-Busch Companies, Inc.

C. ROBERT KIDDER  
Chairman & Chief Executive Officer  
Borden, Inc.

CHARLES F. KNIGHT  
Chairman  
Emerson Electric Co.

JOHN W. MADIGAN  
Chairman, President &  
Chief Executive Officer  
Tribune Company

MILES L. MARSH  
Former Chairman & Chief Executive Officer  
Fort James Corporation

MICHAEL A. MILES  
Special Limited Partner  
Forstmann Little & Co.

LAURA D'ANDREA TYSON  
Dean, London Business School

### MANAGEMENT COMMITTEE

PHILIP J. PURCELL  
Chairman & Chief Executive Officer

ROBERT G. SCOTT  
President & Chief Operating Officer

TAREK F. ABDEL-MEGUID  
Investment Banking Division

STEPHEN S. CRAWFORD  
Chief Financial Officer

ZOE CRUZ  
Fixed Income Division

JOHN P. HAVENS  
Institutional Equities Division

ROGER C. HOCHSCHILD  
Chief Strategic & Administrative Officer

DONALD G. KEMPF, JR.  
Chief Legal Officer & Secretary

MITCHELL M. MERIN  
Investment Management

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Discover Financial Services

STEPHAN F. NEWHOUSE  
Institutional Securities

VIKRAM S. PANDIT  
Institutional Securities

JOSEPH R. PERELLA  
Institutional Securities

JOHN H. SCHAEFER  
Individual Investor Group

### OTHER OFFICERS

ALEXANDER C. FRANK  
Treasurer

JOANNE PACE  
Controller &  
Principal Accounting Officer



### BOARD OF DIRECTORS

Left to right:

Robert P. Bauman, Robert G. Scott,  
Philip J. Purcell, John W. Madigan,  
Charles F. Knight, Michael A. Miles,  
Edward A. Brennan, Laura D'Andrea Tyson,  
Miles L. Marsh, C. Robert Kidder,  
John E. Jacob

## STOCKHOLDER INFORMATION

### COMMON STOCK

Ticker Symbol: MWD

The common stock of Morgan Stanley is listed on the New York Stock Exchange and on the Pacific Exchange.

### INDEPENDENT AUDITORS

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Two World Financial Center  
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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:

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P.O. Box 3315  
South Hackensack, NJ 07606-1915  
Telephone: 1-800-622-2393  
1-201-329-8660 for investors outside the U.S.  
Internet: [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 material 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, Global Head of Diversity, Morgan Stanley, 1221 Avenue of the Americas, New York, NY 10020 or email [diversity@morganstanley.com](mailto:diversity@morganstanley.com).

### INVESTOR RELATIONS

Security analysts, portfolio managers and representatives of financial institutions seeking information about the company are invited to contact:

Investor Relations 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 1-800-622-2393.

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Morgan Stanley Institutional Funds/MAS Funds . . . . 800-548-7786  
Morgan Stanley Closed-End Funds . . . . . 800-221-6726  
Van Kampen Funds . . . . . 800-341-2911

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