

Morgan Stanley Annual Report 2003

Morgan Stanley

“Client focus has become
the foundation of
everything we do ...
engraved in our culture
throughout the firm.”

Philip J. Purcell

*Chairman & Chief Executive Officer,
Morgan Stanley*

recognition

Euromoney Magazine

- Best Global Investment Bank
- Best Global Equity-Linked House
- Best Overall Bank in Electronic Equities

BusinessWeek Magazine

- Top 100 Brands

Nikkei Japan Annual Fixed Income Research Poll

- Top-Ranked Credit Analysts

International Financing Review

- U.S. Equity House of the Year
- U.S. Dollar Investment-Grade Corporate
Bond House of the Year
- U.S. Securitization House of the Year

Greenwich Associates

- Best Overall Equity Sales, Research and
Trading Services

Wall Street Journal

- #1 “Best on the Street” Analyst Survey

Risk Magazine

- Derivatives House of the Year

Reuters Institutional Investor Report

- #1 Pan-European Trading & Execution

letter to shareholders

from Philip J. Purcell

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In 2003, as the securities markets ended a three-year slide, your company delivered strong business results and established positive momentum for the future. I believe we performed very well in each of the key areas set out as priorities in last year's annual report: profitability, market share, brand and the quality of our people.

Net income increased 27% to \$3.8 billion, and return on equity increased from 14.1% to 16.5%—both excellent given the weak first-half business environment. Your stock price increased 45%, and dividends were raised 9% to an annual rate of \$1.00 per share.

Our market share performance was very strong in our securities business, with rankings higher or equal to last year's in almost every major category. I believe this performance indicates our client-focused strategy is working.

Brand strength changes little year over year, but, as in the case of our market share performance, I believe there was discernible improvement. This past year, our awards for being “best in class” included: Best Global Investment Bank—*Euromoney* magazine; U.S. Equity House of the Year—*International Financing Review*; Derivatives House of the Year—*Risk* magazine; 100 Best Companies to Work For—*Sunday Times* (U.K.); and Top 50 Companies for Diversity—*DiversityInc* magazine.

The continued innovation and intellectual leadership of the people of Morgan Stanley were high points for the year. To cite just three of many possible examples, we led General Motors' \$17 billion global debt and equity offering in June, reopened the IPO markets for Chinese financial companies and led the offering for PICC in October, and closed the year by advising FleetBoston Financial in its \$47 billion merger with Bank of America.

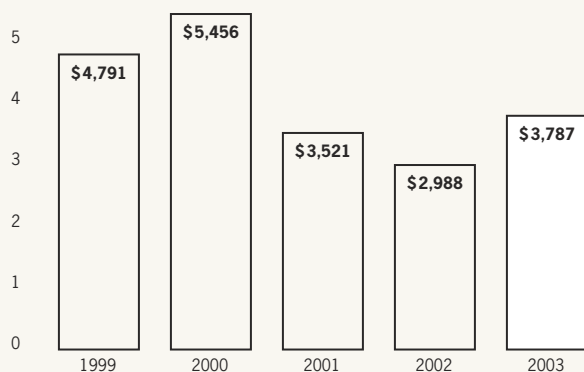
In each of these transactions, as in the successes in all our businesses, we were able to build on a close and trusted relationship with our clients. Client focus has become the foundation of everything we do, and that's why we have chosen to highlight that strategy in this year's report.

Let me begin, however, by discussing our financial and market share performance, both of which are the result of that strategy.

financial results

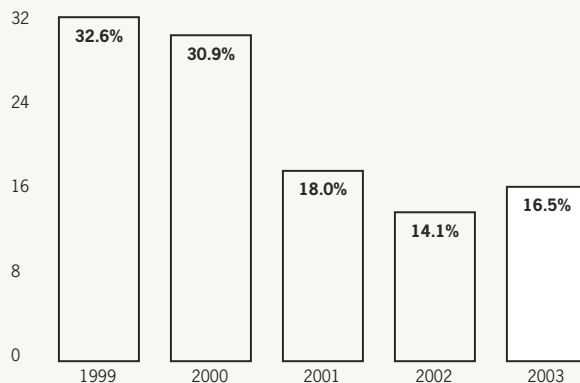
Net Income

(Dollars in Millions)



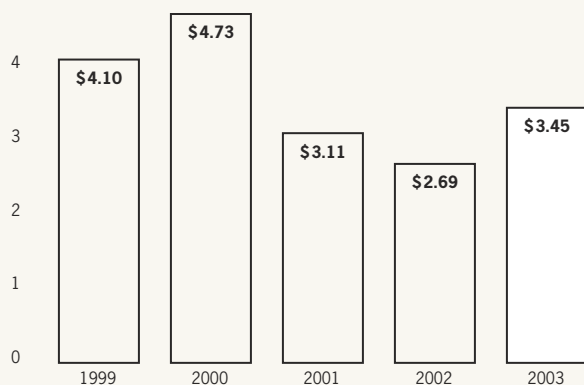
Return on Equity

(In Percent)

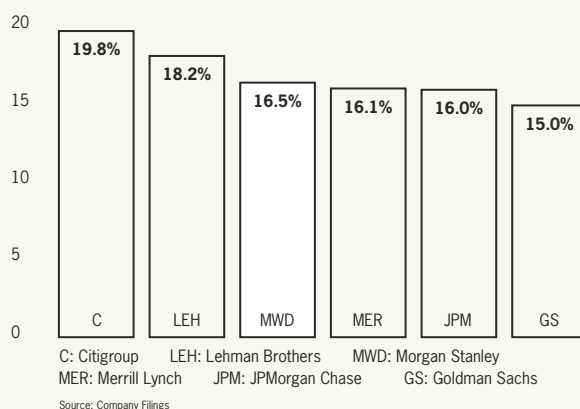


Earnings per Share

(Diluted)



Competitive Return on Equity Comparison—2003



Business Drivers

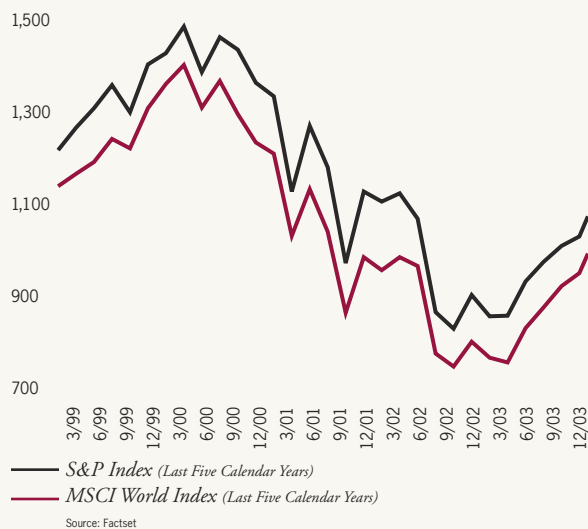
	1999	2000	2001	2002	2003
S&P 500	1,389	1,315	1,139	936	1,058
DOW	10,878	10,415	9,852	8,896	9,782
NASDAQ VOLUME (\$B)	9,478	19,928	11,609	7,524	6,866
NYSE VOLUME (\$B)	8,788	10,945	10,623	10,412	9,510
GLOBAL IPO VOLUME (\$B)	161	221	83	76	45
GLOBAL EQUITY UNDERWRITING VOLUME (\$B) ¹	497	645	410	360	356
GLOBAL INVESTMENT GRADE VOLUME (\$B)	1,635	1,638	1,885	1,639	1,924
GLOBAL COMPLETED M&A \$ VOLUME (\$B) ²	2,250	3,403	2,280	1,218	1,030
GLOBAL ANNOUNCED M&A \$ VOLUME (\$B) ²	3,082	3,240	1,593	1,074	1,183

¹ Includes equity-related underwriting

² Completed and announced M&A data is for transactions of \$100MM or more

Sources: FIBV, Factset and Thomson Financial

S&P 500 Index and MSCI World Index



“Product excellence and technical skills are essential to our success. They are necessary, but they are not sufficient. What we truly prize is the quality of the relationships we build with our clients. That is what gets us the first call when a client has a problem that needs a solution and the last call after he has surveyed the competition.”

Stephan F. Newhouse

President,

Morgan Stanley

recognition

Sunday Times (U.K.)

— 100 Best Companies to Work For

Working Mother Magazine

— Best Companies for Working Mothers

Essence Magazine

— Outstanding Companies for Black Women

LATINA Style Magazine

— 50 Best Companies to Work for in the U.S.

Asian Enterprise Magazine

— Top Companies for Asian-Americans

The National Business & Disability Council

— Employer of the Year

Family Digest

— Best Companies for African-Americans

Hispanic Magazine

— 100 Companies Providing the
Most Opportunities to Hispanics

Hispanic Network Magazine

— Top Corporations for Supplier Diversity

DiversityInc Magazine

— Top 50 Companies for Diversity

Business Committee for the Arts

— Business in the Arts Award for Innovation

The Harlem School of the Arts

— Dorothy Maynor Corporate Citizen of the
Year Award

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2003 financial results

Our consolidated financial performance for the year was strong. Revenues were up 9%, the first increase in revenues since 2000. While higher revenues reflected, in part, a better environment, I believe our focus on improving our market share with clients also contributed to the stronger performance. Profits before tax were up 22% as a result of our focus on costs in addition to the growth in revenues. Net income increased 27%, and earnings per share increased 28%.

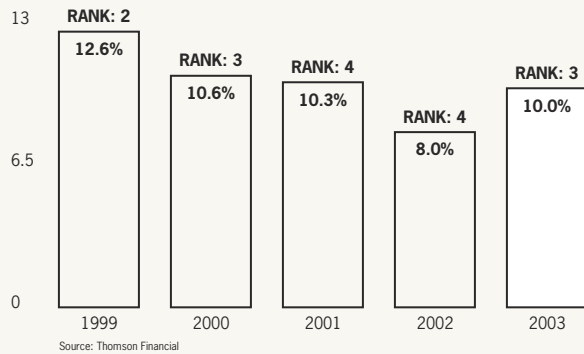
Looking behind consolidated results to the particular businesses, Institutional Securities drove the increase in profits for the firm as a whole. In particular, fixed income had a record year with revenues up 65%, 40% higher than the prior record year of 2001. Results in our equity and investment banking businesses were relatively unchanged from the prior year, with revenues up 2% and down 4%, respectively.

The Individual Investor Group also had significantly better financial results in 2003. While revenues were relatively flat (down 2%), profits before tax were up 317%. Over the last three years, we have reorganized and improved every aspect of the business, including how we train our advisors, define our customer segments, report our financial results and reward our financial advisors. We believe we have set the foundation for growth in a business that has significant secular growth opportunities given the demographics in our country.

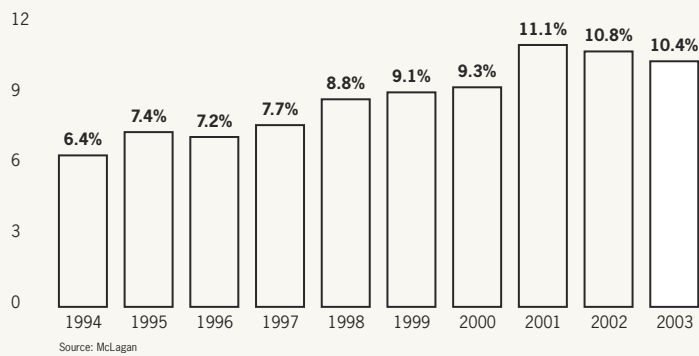
The performance in Discover[®] and Investment Management was not up to our expectations in 2003. Starting with Discover, we have emphasized for the last several years our key priority: improving credit quality. While there were more positive signs toward the end of the year, Discover's charge-offs were up from 6.19% on a managed basis in 2002 to 6.60% in 2003. A strong focus on costs mitigated much of this increase, resulting in a decline in revenues and profits before taxes of 7% from 2002's record levels.

With competitors pursuing growth at what we believe to be sub-par economic returns, our average outstanding managed balances grew by only 2% this year. While we believe an improved economic outlook and significant changes in credit risk management will contribute to lower losses in the coming quarters, the competitive environment is much more

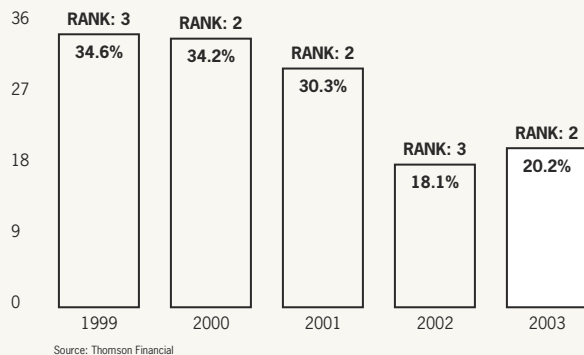
Global Equity Underwriting Market Share (%) and Rank (#) (Calendar Year)



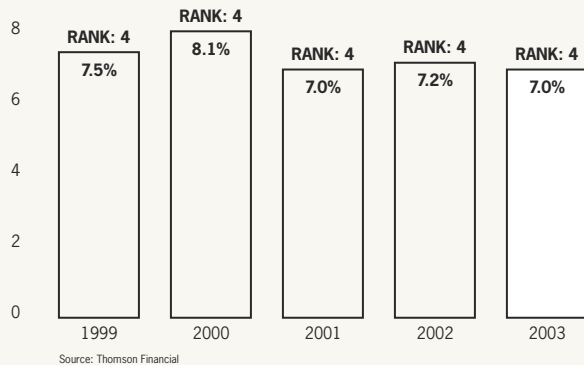
Equity Trading Market Share—North America (In Percent)



Global Announced M&A Market Share (%) and Rank (#) (Calendar Year)



Global Investment Grade Debt Market Share (%) and Rank (#) (Calendar Year)



“Institutional clients’ needs are becoming broader and more complex. In direct response, we’ve emphasized advice and solutions and focused on differentiating Morgan Stanley in terms of our people and intellectual content. The result has been growing momentum—our relationships are stronger; our market share is showing it; and if recovery is ripe, we ought to be a beneficiary.”

Vikram Pandit

*President & Chief Operating Officer,
Institutional Securities*

Institutional Securities (Dollars in Millions)

	2002	2003	% CHANGE
REVENUES	19,885	23,157	16%
EXPENSES (INCLUDING INTEREST)	17,248	19,549	13%
PROFIT BEFORE TAXES*	2,637	3,608	37%
PROFIT BEFORE TAXES MARGIN	13%	16%	N/A

*Income before losses from unconsolidated investees, income taxes and dividends on preferred securities subject to mandatory redemption

“Our work with Morgan Stanley over the course of a decade rests on the quality of our personal relationships. You need a strong investment bank in the background, but you also need people you trust to give you candid advice and deliver the full strength of the firm.”

Chad Gifford

*Chairman & Chief Executive Officer,
FleetBoston Financial*

a long-term advisor

Morgan Stanley's relationship with FleetBoston dates back to 1995, when we advised Shawmut and Baybanks on their respective mergers with Fleet Financial and Bank of Boston; in 1999, we advised BankBoston on its merger with Fleet Financial to create FleetBoston Financial. In 2003, Morgan Stanley acted as sole financial advisor to FleetBoston in its merger with Bank of America. This \$47 billion transaction—by far the largest bank deal of the year—created a financial services giant with some 33 million consumer relationships coast to coast.

difficult to forecast. As a result, we are not anticipating significant portfolio growth throughout most of 2004.

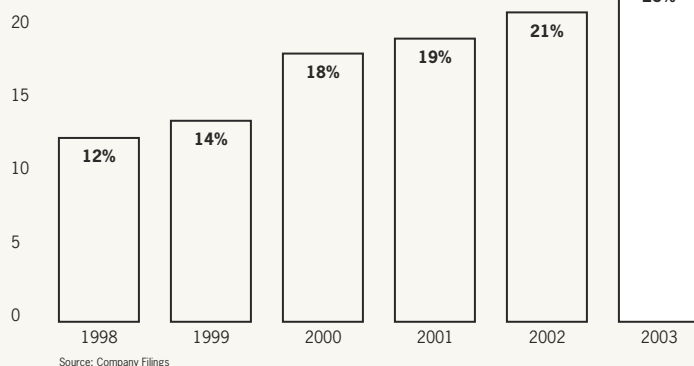
Investment Management revenues and profits were down 8% and 22%, respectively. Cost reductions of 2% did not offset the reduction in revenues. The decline in revenues reflects the earlier decline in market values globally as well as net outflows of customer assets, both resulting in fewer assets under management. We were not satisfied with our market share of new assets. In particular, investment performance in our institutional fixed income area and negative publicity surrounding sales of affiliated funds drove underperformance in attracting new assets. Many steps were taken to address these issues, and we expect to improve our market share of new assets in 2004.

Even with a more favorable economic outlook, financial strength continues to be a key objective for the firm. In the last 12 months, we have improved our liquidity position, lowered reliance on short-term funding and reduced our leverage. We continue to believe financial strength, represented in a strong balance sheet and a diversified source of earnings, is a competitive advantage for the firm.

Looking at the months ahead, our success in capturing client wallet share will be the key factor in driving relative financial performance. However, given the extraordinary effort and expense associated with reducing our cost structure, maintaining cost discipline is almost as important. As was true in 2003, the legal and regulatory environment makes it difficult to forecast expense levels.

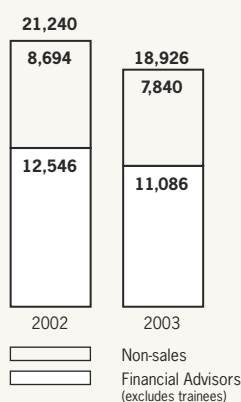
I believe that as we move forward, there will be two key drivers to wealth creation in financial services: Financial institutions with returns higher than the cost of capital *and* high growth in book value will create the most wealth for shareholders over the long term. In 2003, with a 16.5% return on equity and 13% growth in book value per share, I believe the company made a very significant contribution to the wealth of its owners.

Fee-Based Assets % of Total Assets



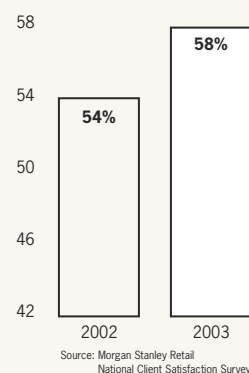
Headcount

(Financial Advisors and Non-sales Staff)



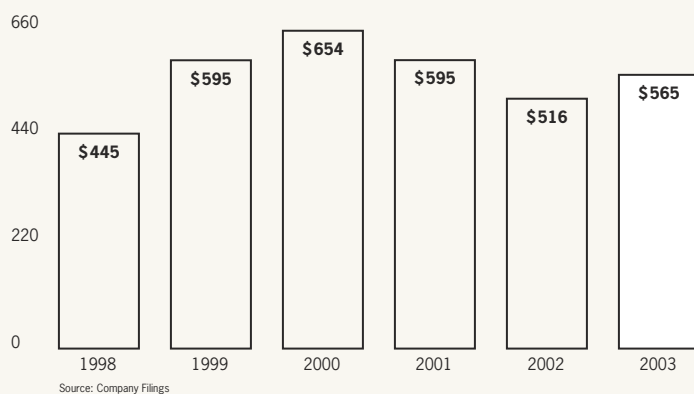
Satisfaction Level of U.S. High Net Worth Clients of the Firm

(Percent Exceptionally or Very Satisfied)



Client Assets

(Dollars in Billions)



Individual Investor Group

(Dollars in Millions)

	2002	2003	% CHANGE
REVENUES	4,264	4,167	-2%
EXPENSES (INCLUDING INTEREST)	4,155	3,713	-11%
PROFIT BEFORE TAXES	109	454	317%
PROFIT BEFORE TAXES MARGIN	3%	11%	N/A

“Our satisfaction surveys show our clients place a high value on trusting relationships with their financial advisors. This year, we focused on organizing our business around specific client segments, which has allowed us to better tailor solutions to their needs. Building on trusting relationships, tailoring solutions and keeping costs down resulted in a dramatically improved profit picture as markets improved and individual investors returned in strength.”

John Schaefer

President & Chief Operating Officer,
Individual Investor Group

“The thing I liked most about Morgan Stanley was that they built a personal relationship. They asked me, ‘What’s your goal? What’s your life financial strategy?’ There’s nothing impersonal about what they do. That’s everything.”

Eric Lee

Individual Investor Group Client

the ClientOne commitment

In 2003, Morgan Stanley's Individual Investor Group launched new initiatives to enhance the client experience at Morgan Stanley and sharpen our focus on clients. One of the most significant was ClientOne. Centered on the needs of our affluent and high net worth clients, ClientOne gives Morgan Stanley financial advisors a consistent approach to understanding each client's goals; identifying their options; recommending a strategy; and accessing all of Morgan Stanley's resources to carry it out. ClientOne confirms our advisors' ongoing commitment to each client.

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market share

Our overall market share performance in our securities businesses was the strongest ever. Our full-year results in a number of the key categories include:

- #1 in Global Equity Trading
- #2 in announced Global Mergers & Acquisitions
- #3 in Global Equity Underwriting
- #4 in Global Debt Underwriting, ahead of all peer securities competitors
- Flat revenue market share among retail securities companies even while reducing the number of our financial advisors by 1,500 from 12,500 to 11,000
- Our internal measures of share with our largest fixed income clients indicate positive share gains as our increased breadth of product strengthens our value to clients, especially in credit products.

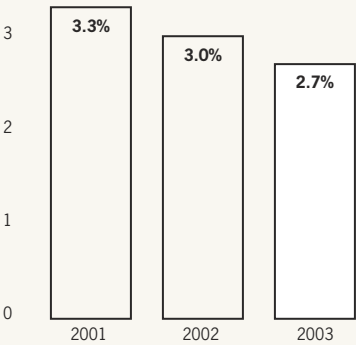
Each of the above rankings represents an improvement over last year, or at worst, equal performance to last year. What is impressive is the *breadth* of improved client acceptance of the value of our people, products and services. I believe all of this traces back to the strategy of client focus, which, while always strong, has now become engraved in our culture throughout the firm.

In most businesses—and particularly in Mergers & Acquisitions—our performance in the second half of the year was far better than the first half. We believe our momentum with clients is building as we demonstrate to them every day that their interests come first. As the capital markets strengthen in 2004, we expect to continue strong market share performance and leadership in all securities businesses.

In Investment Management, we had disappointing market share results in 2003. Our overall share of assets under management declined from 3.0% to 2.7% as a result of:

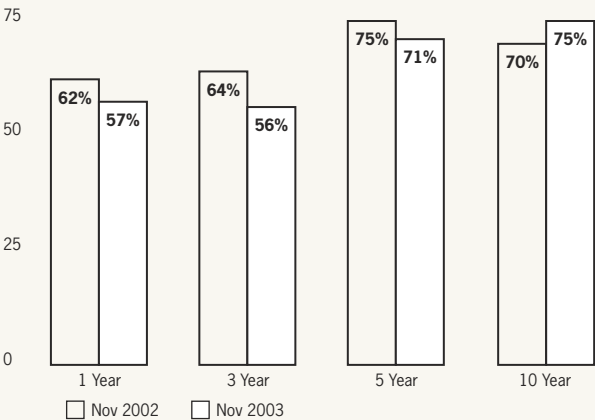
- Net outflows of institutional fixed income assets as clients shifted to equities at a time our investment performance was uncharacteristically underperforming against our benchmarks.

Assets under Management Mutual Fund Market Share*



* Includes long-term open-end mutual funds
Source: Strategic Insight

Lipper Percent of Assets in Top Half
(Total Assets Including Money Markets*)



* Reflects recent change in Lipper methodology
Sources: Lipper, Performance Link

Investment Management
(Dollars in Millions)

	2002	2003	% CHANGE
REVENUES	2,722	2,514	−8%
EXPENSES (INCLUDING INTEREST)	2,055	2,023	−2%
PROFIT BEFORE TAXES	667	491	−26%
PROFIT BEFORE TAXES MARGIN	25%	20%	N/A

“Our focus is on putting clients first and on creating quality products. The separately managed account business is growing; we’re committed to long-term, top-quartile performance in major investment disciplines over the next few years.”

Mitchell Merin
*President & Chief Operating Officer,
Investment Management*

- Weak inflows in retail from our own branch network as a result of particularly strong sales of other asset management companies' products and pressure on the sale of affiliated products.

We expect markedly better net flows in 2004. Our institutional fixed income comparisons to benchmarks have improved, and our Van Kampen brand mutual funds are now enjoying strong inflows related to several key equity funds' outstanding performance.

Discover Card market share declined because we have focused more on improved credit quality than on growth. Tightening credit approvals and limits naturally reduces growth in new accounts and receivables. We hope to begin more aggressive growth later this year if the economy continues to improve.

client relationships

Though there are a number of factors in our success this year, in my view one of the most important—certainly in gaining market share—was a decision we made in late 1999 to bring together our many businesses under a single, unifying vision.

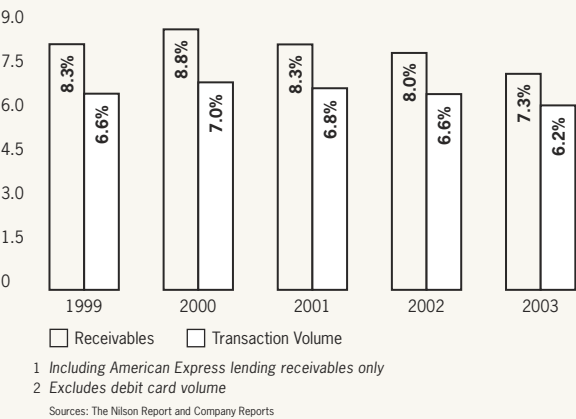
We recognized then—even at the height of the markets—that our future growth depended on rededicating ourselves—and, in some cases, reorienting ourselves—to the needs and goals of our clients. Although our client constituencies are varied—from institutions to governments to individuals—we believed that our mission in serving them was the same: to put their interests above our own; to measure our success by how much we help them in achieving theirs.

The vision statement that we developed in 2000 expresses that commitment:

*“Connecting people, ideas and capital,
we will be our clients' first choice
for achieving their financial aspirations.”*

This vision drew upon our essential skills in connecting the brightest people with the most powerful ideas and the capital to help clients succeed on their own terms. The adoption of this vision by our Board of Directors

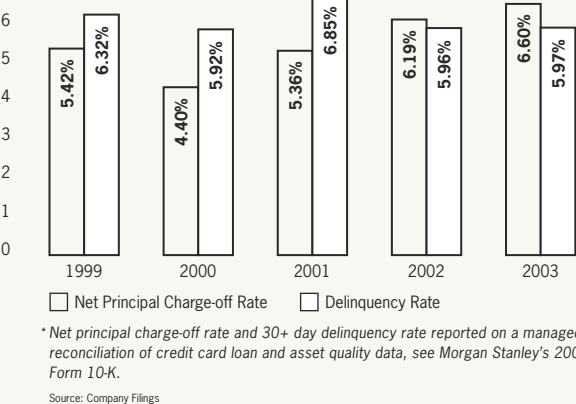
Market Share for Receivables¹ and Total Transaction Volume²
(Calendar Basis)



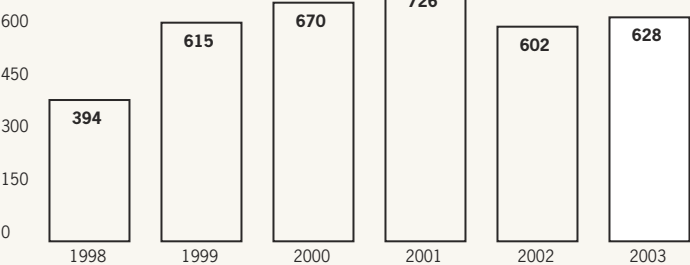
“As competitive pressures have increased, we’ve been working to reduce expenses, improve our credit profile, increase card usage and acceptance, and create new products in order to position ourselves for growth.”

David Nelms
Chairman & Chief Executive Officer,
Discover Financial Services

Net Principal Charge-off Rate and Delinquency Rate
(30+ Days*)



New Merchant Outlets
(In Thousands)



Discover Financial Services
(Dollars in Millions)

	2002	2003	% CHANGE
REVENUES	5,943	5,500	-7%
EXPENSES (INCLUDING INTEREST AND PROVISIONS FOR CONSUMER LOAN LOSSES)	4,765	4,407	-8%
PROFIT BEFORE TAXES	1,178	1,093	-7%
PROFIT BEFORE TAXES MARGIN	20%	20%	N/A
PRE-TAX RETURN ON AVERAGE MANAGED RECEIVABLES	2.36%	2.15%	N/A

“We are pleased to have selected the Discover Card as the only credit card we accept. When we begin offering the Discover Card as a payment option in the first quarter of 2004, we expect it to benefit both our KinderCare families and our company.”

Dave Johnson

*Chairman & Chief Executive Officer,
KinderCare Learning Centers, Inc.*

“For nearly 18 years, we have been Discover Card customers. We were intrigued from the beginning by the Cashback Bonus feature. It always made us feel appreciated by the Discover Card folks. Thanks for making us happy to be your customer.”

John & Ginny Migliore

New York

giving Cardmembers more choices

The Cashback Bonus award is one of the largest reward programs in the world and Discover Card's most popular feature, earning Cardmembers more than \$3 billion in awards since 1986. In 2003, Discover introduced a new Discover Platinum Card with the Cashback Bonus Plus Program, giving Discover Cardmembers the opportunity to receive increased Cashback Bonus awards in selected categories. A new investment redemption option now allows Cardmembers to electronically transfer their award into their checking or savings accounts, including money market or 529 accounts. Many new partners, including Lands' End and Regal Entertainment Group, joined the Cashback Bonus Program in 2003, allowing Cardmembers to get up to double their Cashback Bonus award amount when they redeem their awards with a partner.

set in motion a fairly robust change in the way we approached our businesses. It is an activity that continues to this day throughout the firm.

It established a foundation for the financial results we are now seeing. Many of the changes enacted began with gaining a deeper understanding of our clients and their behavior (both individually and in terms of their own customers)—an understanding that has had significant strategic implications for our businesses.

In 2000, we established firmwide standards for the measurement of client satisfaction and the strength of our brand. Feedback from our clients—as well as improvements in their estimation of us, especially vis-à-vis our competitors—has become a critical element of our self-evaluation. Client satisfaction surveys and client profitability metrics (which had not been broadly used in the past) are now a routine part of our business activities. Not surprisingly, different business units have taken different paths in identifying client-based solutions and achieving market share growth.

In our Institutional Securities group, we have established Senior Relationship Managers to oversee our ongoing client relationships. In doing so, we broke down many of the internal silos that had been built which restricted development of more effective overall client strategies. Recently, Terry Meguid, head of our Investment Banking Division, created the Strategic Client Engagement Group, a team of eight of our most senior bankers, whose sole responsibilities will now be to focus on our portfolio of clients, with less of the day-to-day burden of administration.

The entire Institutional Securities business, under the leadership of Vikram Pandit, is focusing on the importance of execution as a driver of client satisfaction, differentiation and future growth. Superior execution will ensure that we not only understand client strategy, but that we also create greater satisfaction. The focus on execution will drive innovation by building unique product solutions for complex client problems. And superior execution will give us major operating advantages because we will be able to replicate solutions for different client segments with similar needs.

John Schaefer and the Individual Investor Group determined that a new service model segmented by client needs was in order for his business.

After spending two years listening to clients and tirelessly building capabilities across a number of service and product platforms, John's group recently introduced ClientOne—a high-touch model that puts the financial advisor at the center of a personalized approach to providing a more sophisticated offering to affluent clients. We believe ClientOne helps to differentiate us from competition through a clearer understanding of clients across their life cycle and a stronger involvement with them over time. An intense financial advisor training program has been initiated to accomplish these objectives. Tiering of clients into Platinum, Gold and Blue gives us the ability to offer optimal pricing and benefits to our best clients. And our recently announced "Statement of Commitment to Clients" clearly identifies what clients can expect from us and what we expect of them as part of our ongoing relationships. In addition, John created, for the first time, the position of Client Advocate, who will act as an ombudsman to rectify problems and identify conflicts on behalf of our individual clients. All these steps to get closer to clients, combined with an improved market environment, have resulted in a significant rebound in our individual investor business, and we believe they position us well for the years ahead.

Our Discover unit, already very in tune with their Cardmembers and their behavior, spent much of the past couple of years tailoring its offering and narrowing its focus to a more profitable customer segment. Today, we feel we are in a much better position to service these clients and use our Cashback Bonus® positioning to broaden the product solutions available to them. And Discover's more than 4 million merchant partners increasingly view Discover as the lowest cost, most flexible provider of card services.

Some of the changes we have made on behalf of our clients were not initiated from inside the firm but rather were the result of agreements we made as part of outside regulatory action. Issues related to the sale of mutual fund products by our retail brokers is one such area. Greater transparency is called for in the way we conduct this business and how clients pay us for the products we sell. As of this writing, we have agreed to a number of changes moving forward, including a Mutual Funds Bill of

“When we began BlackRock in 1988, one of our first relationships was with Morgan Stanley, and in the last few years that relationship has become more robust than ever. From fixed income to equities, investment banking and economics—from their most senior executives to their operations and administration people—it’s a total relationship that is helping us to navigate our future.”

Laurence Fink

*Chairman & Chief Executive Officer,
BlackRock Inc.*

expanding our role

As one of Morgan Stanley's key clients, BlackRock has been a focus of our relationship management efforts, both within the fixed income division and elsewhere across the firm. BlackRock is one of the world's largest asset managers, and Morgan Stanley generates trading ideas and provides liquidity to help BlackRock seize opportunities as they occur. Increasingly, the firm also provides strategic ideas to help BlackRock build its position as a leader in the investment business.

Rights, which stipulates the rights of mutual funds investors working with us. And, we plan to do more.

We have made important organizational changes in an effort to proactively identify and address other potential conflicts. Our new President, Steve Newhouse, has been charged with a single-minded focus on clients—coordinating and expanding all of our client-related activities across business units. In bringing Eric Dinallo to the firm from New York State Attorney General Eliot Spitzer's office, we established a valuable internal voice for clients. Eric's job will include working with each of the business units in their continuing effort to identify practices or perceptions that may be in conflict with the spirit of the regulatory law and address potential issues before they become problems. And in nominating the respected Howard Davies, former Chairman of the Financial Services Administration in the United Kingdom and currently head of the London School of Economics, to our Board of Directors, we will add an acknowledged leader in the area of risk management and regulation.

There will be some who say we were forced to make such a broad array of changes. In some cases, they will be correct. But the broader imperatives that we have undertaken on behalf of our clients were begun with a simple vision statement created more than four years ago, before many of the current issues arose. Clearly, the regulatory environment has become more intense. But we will work together with our regulators to find effective solutions. And, we hope, not just with our firm but across our industry, a healthier portrait of our efforts will emerge. I know that our commitment to clients—to their best interests and their ultimate success—is as unshakable as ever.

We believe our strategy of being client-driven is working. We have seen it in our market shares. We have seen it in our revenues. We have seen it in our client satisfaction numbers. We have seen it in the deals we are being awarded and the assets individual investors are entrusting to us. We have seen it in the efficiencies we have created. And we have seen it in our internal organization.

selected financial data

(Dollars in Millions, Except Share and per Share Data)

Fiscal Year ¹	2003	2002	2001	2000	1999
Income Statement Data:					
Revenues:					
Investment banking	\$ 2,440	\$ 2,478	\$ 3,413	\$ 5,008	\$ 4,523
Principal transactions:					
Trading	6,138	2,730	5,503	7,361	5,796
Investments	86	(31)	(316)	193	725
Commissions	2,970	3,278	3,159	3,664	2,783
Fees:					
Asset management, distribution and administration	3,706	3,932	4,205	4,381	3,448
Merchant and cardmember	1,379	1,420	1,349	1,256	1,030
Servicing	2,015	2,080	1,888	1,489	1,232
Interest and dividends	15,744	15,879	24,132	21,233	14,879
Other	455	660	553	539	278
Total revenues	34,933	32,426	43,886	45,124	34,694
Interest expense	12,809	11,970	20,729	18,148	12,487
Provision for consumer loan losses	1,267	1,336	1,052	810	526
Net revenues	20,857	19,120	22,105	26,166	21,681
Non-interest expenses:					
Compensation and benefits	8,545	7,940	9,376	10,899	8,365
Other	6,545	6,225	7,045	6,748	5,560
Restructuring and other charges	—	235	—	—	—
Total non-interest expenses	15,090	14,400	16,421	17,647	13,925
Gain on sale of business	—	—	—	35	—
Income before losses from unconsolidated investees, income taxes, dividends on preferred securities subject to mandatory redemption and cumulative effect of accounting change	5,767	4,720	5,684	8,554	7,756
Losses from unconsolidated investees	279	77	30	33	21
Provision for income taxes	1,547	1,568	2,024	3,037	2,916
Dividends on preferred securities subject to mandatory redemption	154	87	50	28	28
Income before cumulative effect of accounting change	3,787	2,988	3,580	5,456	4,791
Cumulative effect of accounting change	—	—	(59)	—	—
Net income	\$ 3,787	\$ 2,988	\$ 3,521	\$ 5,456	\$ 4,791
Earnings applicable to common shares ²	\$ 3,787	\$ 2,988	\$ 3,489	\$ 5,420	\$ 4,747
Per Share Data:					
Earnings per common share:					
Basic before cumulative effect of accounting change	\$ 3.52	\$ 2.76	\$ 3.26	\$ 4.95	\$ 4.33
Cumulative effect of accounting change	—	—	(0.05)	—	—
Basic	\$ 3.52	\$ 2.76	\$ 3.21	\$ 4.95	\$ 4.33
Diluted before cumulative effect of accounting change	\$ 3.45	\$ 2.69	\$ 3.16	\$ 4.73	\$ 4.10
Cumulative effect of accounting change	—	—	(0.05)	—	—
Diluted	\$ 3.45	\$ 2.69	\$ 3.11	\$ 4.73	\$ 4.10
Book value per common share	\$ 22.93	\$ 20.24	\$ 18.64	\$ 16.91	\$ 14.85
Dividends per common share	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.80	\$ 0.48
Balance Sheet and Other Operating Data:					
Total assets	\$ 602,843	\$ 529,499	\$ 482,628	\$ 421,279	\$ 366,967
Consumer loans, net	19,382	23,014	19,677	21,743	20,963
Total capital ³	82,769	65,936	61,633	49,637	39,699
Long-term borrowings ³	57,902	44,051	40,917	30,366	22,685
Shareholders' equity	24,867	21,885	20,716	19,271	17,014
Return on average common shareholders' equity	16.5%	14.1%	18.0%	30.9%	32.6%
Average common and equivalent shares ²	1,076,754,740	1,083,270,783	1,086,121,508	1,095,858,438	1,096,789,720

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

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

³ These amounts exclude the current portion of long-term borrowings and include Capital Units and preferred securities subject to mandatory redemption.

looking ahead


The global economy, corporate profits and the securities market should be stronger in 2004 than in 2003. We expect a more favorable environment, and we should increase our revenues and profits.

We did not reduce headcount in investment banking and in sales and trading as sharply as some competitors in 2001–2003, and we believe this will allow us to serve clients better during the upturn we expect in 2004. The talent and experience of our people will continue to be one of our greatest competitive strengths.

We are adding two exceptional Directors to our Board in early 2004: Sir Howard Davies, Director of the London School of Economics, whom I mentioned earlier, and Dr. Klaus Zumwinkel, Chairman of the Management Board of Deutsche Post AG. These additions will be significant as they mark the transition of our Board to a truly global membership, reflecting the geographic breadth of our business. We will miss Ed Brennan, who left the Board in October after being named Executive Chairman of AMR Corp., and Bob Bauman, who will retire from the Board in April. Our company has benefited from their wise counsel and careful oversight.

Our friend, colleague, and President & COO Robert Scott announced his retirement in October. He is now an Advisory Director and will continue to help us with assignments in a number of key areas. Bob has been with Morgan Stanley for 33 years in a number of different capacities, and no one has served with greater commitment or finer intelligence. He represents the very best qualities of our firm.

Sincerely,



Philip J. Purcell
Chairman & Chief Executive Officer

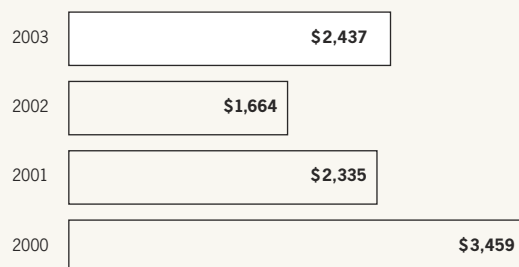
February 5, 2004

morgan stanley at a glance

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Institutional Securities Net Income

(Dollars in Millions)



Institutional Securities

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

Investment Banking

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

Sales, Trading, Financing and Market-Making

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

Other

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

Individual Investor Group Net Income

(Dollars in Millions)



Individual Investor Group

The Individual Investor Group provides comprehensive financial services to individual investors globally. Morgan Stanley has one of the largest financial advisor networks in the U.S. with approximately 11,000 advisors located in nearly 450 branches. Through its financial advisors, Morgan Stanley is committed to delivering advice to its clients with a focus on affluent and high net worth investors.

Client Coverage

In the U.S., Morgan Stanley provides services to multiple client segments spanning the wealth spectrum through a single sales organization. Morgan Stanley's network of financial advisors, wealth advisors and investment representatives provides clients with financial planning and investment advisory services through a flexible platform designed to accommodate individual investment goals and risk profiles.

Morgan Stanley also offers financial advisory services outside the U.S. to serve the needs of high net worth clients in Europe, Asia and Latin America.

Client Solutions

Morgan Stanley provides various products and services to execute financial plans and position clients to attain their financial goals, including mutual funds, stocks, bonds, professional money management, banking, mortgage, insurance and trust. Morgan Stanley offers financial solutions to businesses through BusinessScapeSM and also provides defined contribution plan services for businesses of all sizes, including 401(k) plans and stock plan administration.

Investment Management Net Income*(Dollars in Millions)*

2003	\$326
2002	\$418
2001	\$425
2000	\$612

Investment Management

Morgan Stanley Investment Management has grown to be one of the largest asset managers with global reach in the world today, offering a diverse range of investment products managed by top investment professionals focused within their areas of expertise. Products include many highly rated U.S. and international bond, equity, money market and multi-asset class funds, separately managed accounts and alternative investments that are distributed in multiple channels and markets under two distinct brands. Our portfolio managers and research analysts are located throughout the world, enhancing investment capabilities through a combination of global information sharing and local decision making.

Individual Investors

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

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

Institutional Investors

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

Credit Services Net Income*(Dollars in Millions)*

2003	\$688
2002	\$760
2001	\$689
2000	\$725

Credit Services

With more than 50 million Cardmembers, 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 proprietary credit card network in the U.S., with more than 4 million merchant and cash access locations.

Discover Card offers various products and financial services, including Cashback Bonus® awards, Discover Platinum, Gold and Titanium cards, affinity cards, gift cards, home loans and credit protection products.

This year, a new series of Discover Platinum Cashback Bonus Plus Cards was introduced, which allows Cardmembers to earn awards of up to 10%. In addition, The Miles Card from Discover Card was launched, enabling Cardmembers to earn one mile for every dollar they spend, which is redeemable for travel on any major domestic airline.

The Discover 2GO® Card continues to be well-received by consumers. The Card was launched in 2002 as the first key chain credit card in the industry.

Discover Card is a leading credit card company on the Internet, with more than 12 million Cardmembers registered at the Discover Card Account Center. Discover Cardmembers can view, sort and download their monthly statements online and can also redeem their Cashback Bonus awards and enroll for paperless statements.

With more than 1 million Morgan Stanley Card® credit cards in the U.K. and \$2 billion in consumer loans, our overseas credit card business continues to grow and turned profitable in 2003.

In 2003, more than \$5 billion of mortgages were originated, primarily through Morgan Stanley financial advisors.

officers and directors

Board of Directors

Philip J. Purcell
*Chairman &
Chief Executive Officer*

Robert G. Scott
*Retired President &
Chief Operating Officer*

Robert P. Bauman
*Former Chief Executive Officer
SmithKline Beecham plc*

John E. Jacob
*Executive Vice President—
Global Communications
Anheuser-Busch Companies, Inc.*

C. Robert Kidder
*Chairman
Borden Chemical, Inc.*

Charles F. Knight
*Chairman
Emerson Electric Co.*

John W. Madigan
*Former Chairman
Tribune Company*

Miles L. Marsh
*Former Chairman &
Chief Executive Officer
Fort James Corporation*

Michael A. Miles
*Special Limited Partner
Forstmann Little & Co.*

Dr. Laura D'Andrea Tyson
*Dean
London Business School*

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

Management Committee

Philip J. Purcell
*Chairman &
Chief Executive Officer*

Stephan F. Newhouse
President

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
Discover Financial Services

Donald G. Kempf, Jr.
Chief Legal Officer & Secretary

Mitchell M. Merin
Investment Management

David W. Nelms
Discover Financial Services

Vikram S. Pandit
Institutional Securities

Joseph R. Perella
Institutional Securities

John H. Schaefer
Individual Investor Group

Other Officers

Alexander C. Frank
Controller

David S. Moser
Principal Accounting Officer

Alan Scheuer
Treasurer

Ronald T. Carman
Vice President and Counsel

Anthony DeLuca
*Vice President and Company
Audit Director*

Karen C. Jamesley
*Vice President and Global Head of
Human Resources*

Commitment to Diversity

Morgan Stanley prizes innovation and creativity, and we maximize these assets by building diverse teams. As we grow our businesses around the world, the talents and diversity of our workforce become all the more important. We continue to foster an environment that encourages employees of all backgrounds to flourish individually as they contribute to our team effort. We were pleased with the continuing recognition we received in 2003 as a leading employer that is implementing its diversity commitment with success. Our commitment to respect for individuals and cultures, one of our core values, has never been stronger.

international locations

**Worldwide Headquarters—
New York**

1585 Broadway
New York, NY 10036
Phone (212) 761-4000
Fax (212) 761-0086

Amsterdam

Rembrandt Tower, 11th Floor
Amstelplein 1
1096 HA Amsterdam
The Netherlands
Phone (31 20) 462-1300
Fax (31 20) 462-1310

Bangkok

25/F M Thai Tower
87 Wireless Road
Lumpini Pathumwan
Bangkok, 10330
Thailand
Phone (66 2) 627-9455
Fax (66 2) 627-9588

Beijing

Room 2902-05
29/F China World Tower II
China World Trade Center
No. 1 Jian Guo Men Wai Dajie
Beijing 100004
People's Republic of China
Phone (86 10) 6505-8383
Fax (86 10) 6505-8220/21

Buenos Aires

Avenida Alicia Moreau de Justo 740
2do. Piso, Oficina 6
1107 – Buenos Aires
Argentina
Phone (54 11) 4349-0700
Fax (54 11) 4349-0707

Calgary

Morgan Stanley Canada Limited
First Canadian Centre
350 – 7th Avenue SW
Suite 2800
Calgary, Alberta, T2P 3N9
Phone (403) 509-1024
Fax (403) 264-2011

Frankfurt

Junghofstrasse 13-15
60311 Frankfurt am Main
Germany
Phone (49 69) 2166-0
Fax (49 69) 2166-1595

Geneva

12 place de la Fusterie
CH-1204 Geneva
Switzerland
Phone (41 22) 319-8000
Fax (41 22) 319-8090

Glasgow

Cerium Building
55 Douglas Street
Glasgow G2 7NP
Scotland
Phone (44 141) 245-8000
Fax (44 141) 245-7493

Hong Kong

30th Floor
Three Exchange Square
Central, Hong Kong
Phone (852) 2848-5200
Fax (852) 2845-1012

Johannesburg

TA Centre
1st Floor S.W. Wing
160 Jan Smuts Avenue
Rosebank, 2196
South Africa
Phone (27 11) 507-0800
Fax (27 11) 507-0801

London

25 Cabot Square, Canary Wharf
London E14 4QA
England
Phone (44 20) 7425-8000
Fax (44 20) 7425-8990

Luxembourg

EBBCB
6B, Route de Trèves
L-2633 Senningerberg
Luxembourg
Phone (35 2) 34646-1
Fax (35 2) 34646-363

Madrid

Fortuny 6, planta 5
28010 Madrid
Spain
Phone (34) 91 700-7200
Fax (34) 91 700-7299

Madrid

Serrano, 55
28006 Madrid
Spain
Phone (34 91) 412-1000
Fax (34 91) 431-9345

Melbourne

Level 53, 101 Collins Street
Melbourne, Victoria 3000
Australia
Phone (61 3) 9256-8900
Fax (61 3) 9256-8951

Mexico City

Andres Bello 10, 8 Piso
Colonia Polanco
11560 Mexico, D.F.
Phone (525) 282-6700
Fax (525) 282-9200

Milan

Palazzo Serbelloni
Corso Venezia, 16
20121 Milan
Italy
Phone (39 02) 76331
Fax (39 02) 783-057

Montreal

Morgan Stanley Canada Limited
1000, de la Gauchetiere West
Suite 2400
Montreal, Quebec, H3B 4W5
Phone (514) 847-7440
Fax (514) 847-7429

Moscow

Ducat Plaza II,
7 Gasheka Street, Building 1
Moscow 123056
Russia
Phone (7 501) 785-2200
Fax (7 501) 785-2228

Mumbai

4th & 5th Floors Forbes Building
Charanjit Rai Marg
Fort Mumbai 400 001
India
Phone (91 22) 2209-6600
Fax (91 22) 2209-6601/02

Munich

Prannerstrasse 10
80333 Munich
Germany
Phone (49 89) 5177-0
Fax (49 89) 5177-1888

New Delhi

11th Floor Himalaya House
23 Kasturba Gandhi Marg
New Delhi 110001
India
Phone (91 11) 2330-5000
Fax (91 11) 5151-0401

Paris

Etoile Saint Honore
25, rue Balzac
75406 Paris Cedex 08
France
Phone (33 1) 5377-7000
Fax (33 1) 5377-7099

Rome

Via Cristoforo Colombo, 80
00147 Roma
Italy
Phone (39 06) 57080-1
Fax (39 06) 57080-7510

São Paulo

Edifício CBS
Av. Pres Juscelino Kubitschek
50-8 Andar
04543-000 São Paulo-SP
Brazil
Phone (55 11) 3048-6000
Fax (55 11) 3048-6099

Seoul

19th Floor
Kwanghwamoon Building
211-1, Sejongro, Chongro-ku
Seoul 110-730
Korea
Phone (82 2) 399 4848
Fax (82 2) 399-4828

Shanghai

Suite 700B, 7th Floor, West Wing
Shanghai Center
1376 Nanjing Xi Lu
Shanghai 200040
People's Republic of China
Phone (86 21) 6279-7150
Fax (86 21) 6279-7157

Singapore

23 Church Street
#16-01 Capital Square
Singapore 049481
Phone (65) 6834-6888
Fax (65) 6834-6806

Stockholm

Hovslagargatan 5A
111 48 Stockholm
Sweden
Phone (46 8) 6789-600
Fax (46 8) 6789-601

Sydney

Level 38, The Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Australia
Phone (61 2) 9770-1111
Fax (61 2) 9770-1101

Taipei

22nd Floor, Taipei Metro
207 Tun Hwa South Road, Sec. 2
Taipei 106
Taiwan
Phone (886 2) 2730-2888
Fax (886 2) 2730-2990

Tel Aviv

Millennium Tower, 19th Floor
17 HaArba'ah St.
South Kiryah
Tel Aviv, 64739
Israel
Phone (97 23) 561-6316
Fax (97 23) 623-6399

Tokyo

Yebisu Garden Place Tower
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Phone (81 3) 5424-5000
Fax (81 3) 5424-5099

Toronto

BCE Place, 181 Bay Street
Suite 3700
Toronto, Ontario
Canada M5J 2T3
Phone (416) 943-8400
Fax (416) 943-8375

Zurich

Bahnhofstrasse 92
CH-8023 Zurich
Switzerland
Phone (41 1) 220-9111
Fax (41 1) 220-9800

stockholder information

Common Stock

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

Independent Auditors

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

Stock Transfer Agent

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

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, 750 Seventh Avenue, New York, NY 10019, or e-mail: 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 or by calling: 800-622-2393.

Customer Service Phone Numbers

Individual Investor Group

Branch Office Locator and General Information	877-937-6739
Client Advocate	866-227-2256 (clientadvocate@morganstanley.com)
Active Assets Account Client Services	800-869-3326

Investment 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
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Community Involvement

Morgan Stanley is committed to doing our share as a good corporate neighbor and to improving the quality of life in the communities where our employees live and work. To learn more about our philanthropic programs, access the company's Charitable Annual Report through our website at www.morganstanley.com or write to:

Morgan Stanley Community Affairs,
1601 Broadway, 12th Floor, New York, NY 10019



Morgan Stanley
1585 Broadway
New York, NY 10036-8293
212-761-4000
morganstanley.com