

Morgan Stanley

Citigroup Financial Services Conference

David H. Sidwell, Executive Vice President & Chief Financial Officer

James P. Gorman, President & Chief Operating Officer, Global Wealth Management Group

January 31, 2007

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Notice

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on 8-K, including any amendments thereto, which are available on www.morganstanley.com.

This presentation may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of risks and uncertainties that may affect the future results of the Company, please see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Competition" and "Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A and "Certain Factors Affecting Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2005, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Quarterly Report on Form 10-Q for the quarterly periods ended February 28, 2006, May 31, 2006 and August 31, 2006 and other items throughout the Form 10-K, 10-Q and the Company's Current Reports on Form 8-K.

Morgan Stanley

David H. Sidwell

Executive Vice President & Chief Financial Officer

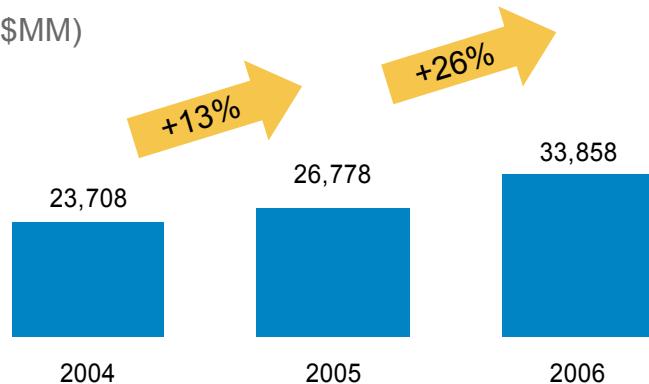
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Consolidated Financial Highlights

Fiscal Year 2006

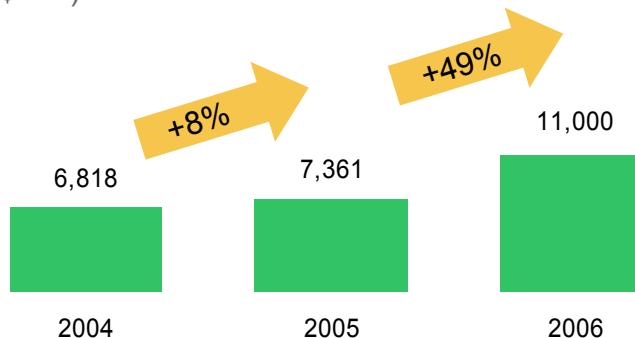
Net Revenues

(\$MM)



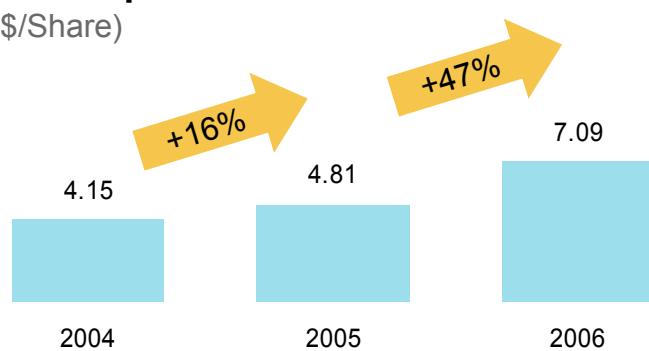
Profit Before Taxes

(\$MM)



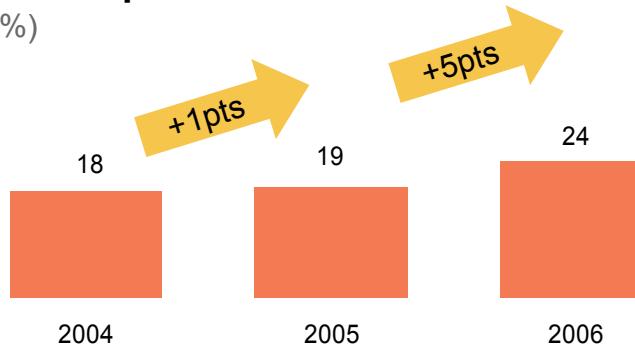
Cont. Ops. Diluted EPS

(\$/Share)



Cont. Ops. Annualized ROE

(%)



Source:

Company SEC Filings and 4Q06 Financial Supplement

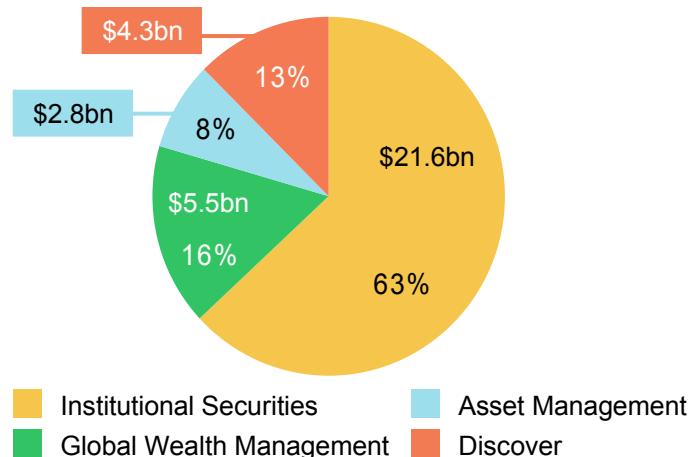
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Segment Contributions – FY 2006

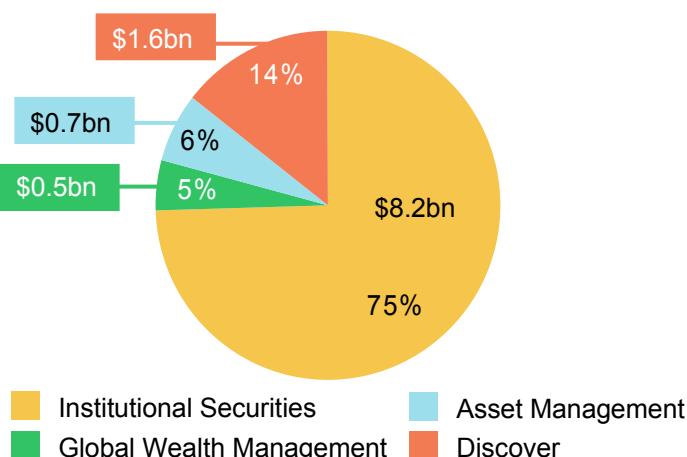
Net Revenues of \$34.1bn⁽¹⁾

(%)



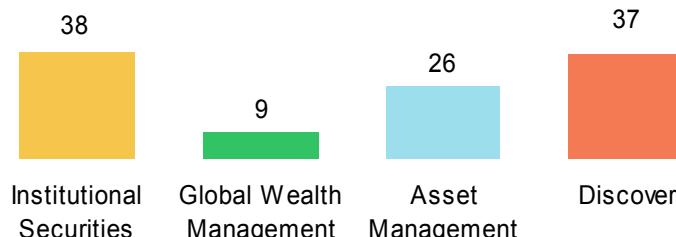
Profit Before Taxes of \$11.0bn⁽²⁾⁽³⁾

(%)



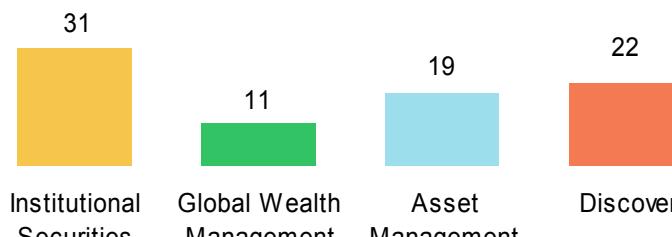
Pre-tax Profit Margin

(%)



Return on Average Common Equity⁽⁴⁾

(%)



Source: Company SEC Filings and 4Q06 Financial Supplement

(1) Excluding intersegment eliminations of (\$269mm).

(2) Excluding intersegment eliminations of \$33mm.

(3) Income from continuing operations before losses from unconsolidated investees, taxes and cumulative effect of accounting change.

(4) The computation of average common equity for each segment is based upon an economic capital model that the Company uses to determine the amount of equity capital needed to support the risk of its business activities and to ensure that the Company remains adequately capitalized.

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Key Strategic Principles and Financial Objectives

Diversified, Global Firm Focused on Improving Profit Margins, Growth, and ROE

- Leverage global scale, franchise and integration across businesses
- Strike a better balance between principal and customer activity
- Invest to optimize growth opportunities and achieve best-in-class status in all businesses
- Aggressively pursue new opportunities including bolt-on acquisitions
- Create cohesive “One-Firm” culture with the right leadership

**Double 2005 pre-tax profits by 2010
5 percentage points improvement in pre-tax profit margin**

Institutional Securities

Critical Initiatives

- Increase principal risk taking
- Expand derivatives business
- Increase presence in domestic and global residential mortgage
- Build leveraged finance business
- Grow in emerging markets
- Enhance financing / prime brokerage offerings
- Improve economics of core equities business

2007 Focus

- Continue to improve risk-adjusted trading revenues and returns on risk taking
- Accelerate progress toward our goal of \$2.5bn in principal investments
- Build upon growth initiatives in equity derivatives
- Complete integration of acquisitions
 - Mortgages: Saxon Capital (U.S.), Advantage (U.K.) and City Mortgage (Russia)
 - Commodities: TransMontaigne and Heidmar
- Pursue measured leveraged finance build out
- Build out emerging markets
 - Develop more international presence through increased local branches
 - Secure licenses and mandates to increase product offerings in local markets
 - Focus research on emerging and developing markets
- Prime Brokerage
 - Continue roll out of multi-asset class offerings
 - Maintain pace of global client balance growth
- Enhance electronic and program equity trading capabilities and productivity and efficiency in the cash equities business

Asset Management

Critical Initiatives

- Enhance bench of talent
- Build Alternatives capability
- New products and bolt-on lift-outs / acquisitions
- Rebuild institutional reputation and business, particularly in U.S.
- Stem outflows of Morgan Stanley retail mutual funds
- Continued focus on improved performance

2007 Focus

- Continue to grow alternatives and hedge fund opportunities
 - Develop global Alternatives sales force, including distribution with Global Wealth Management
 - Coordinate structured products/portable alpha with Institutional Securities
 - Further develop support functions: legal, ops, trading and risk oversight
- Make traditional acquisitions/lift-outs to fill product gaps to complement existing product lines
 - Equity and fixed income, with large cap products (core, growth and value), global blend, international and high yield
- Continue growth of international franchise
- Rationalize proprietary fund sales
- Continue build out of Private Equity and Infrastructure businesses

Discover

Critical Initiatives

- Invest to expand merchant acceptance, new accounts and usage
 - Merchant acquisition effort
 - Cardmember acquisition and usage
 - Brand / product differentiation
 - Portfolio management
 - Additional markets / products
- Monetize growth opportunities in the payments business (signature and PIN)
- Grow international network, issuing and acquiring businesses

2007 Focus

- Complete spin-off by 3Q07
- Grow U.S. Sales and Loans
 - Leverage brand, new products, and service to continue sales and loan growth
- Universal Domestic Acceptance
 - Increase acceptance with small/medium merchants by implementing newly-signed acquirer deals
- Payments
 - Add additional third party issuers and volume onto Pulse and Discover Networks
- European
 - Multiple projects to control U.K. credit losses, improve revenue margins and reduce expenses
- Expense Efficiency
 - Cross functional programs focused on improving marketing effectiveness, reducing customer servicing costs and enhancing leverage of employee and infrastructure costs

Capital, Expenses and Risk Management

- Active capital management
 - Balance organic use of capital, acquisitions and share repurchases
 - Current goal to repurchase up to \$6 billion over the next 12-18 months
 - Use Tier 1 capital for economic capital model to give credit to preferred and hybrid capital instruments
- Continued emphasis on productivity and efficiency
 - Focus on a 1 percentage point reduction in non-compensation-to-net revenue ratio in 2007
- Effective risk management
 - Maintain focus on identification, measurement and monitoring of risk, as the level of risk increases, reflected in increases in VaR, scenario stress losses and investments in private equity

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James P. Gorman

President & Chief Operating Officer, Global Wealth Management Group

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Global Wealth Management at Morgan Stanley

- Core beliefs about the business
- What we focused on in 2006
- Results against the metrics that matter

Core Beliefs About the Business

- Scale matters – to a point (\pm 8,000 FAs), but FA productivity matters a lot
- A winning culture is essential to keeping and attracting talented producers
- Integration with Institutional Securities is a key competitive advantage for us
- Margin expansion is an outcome resulting from revenue growth, business mix, cost management and controls/risk management

Revenue Growth vs. FA Productivity ⁽¹⁾

Metrics: 2006 vs. 2005

	2006	2005	Variance
Revenue (\$MM)	5,505	5,019	10%
Global Representatives	8,030	9,526	(16%)
FA Productivity ⁽¹⁾ (\$000)	643	495	30%

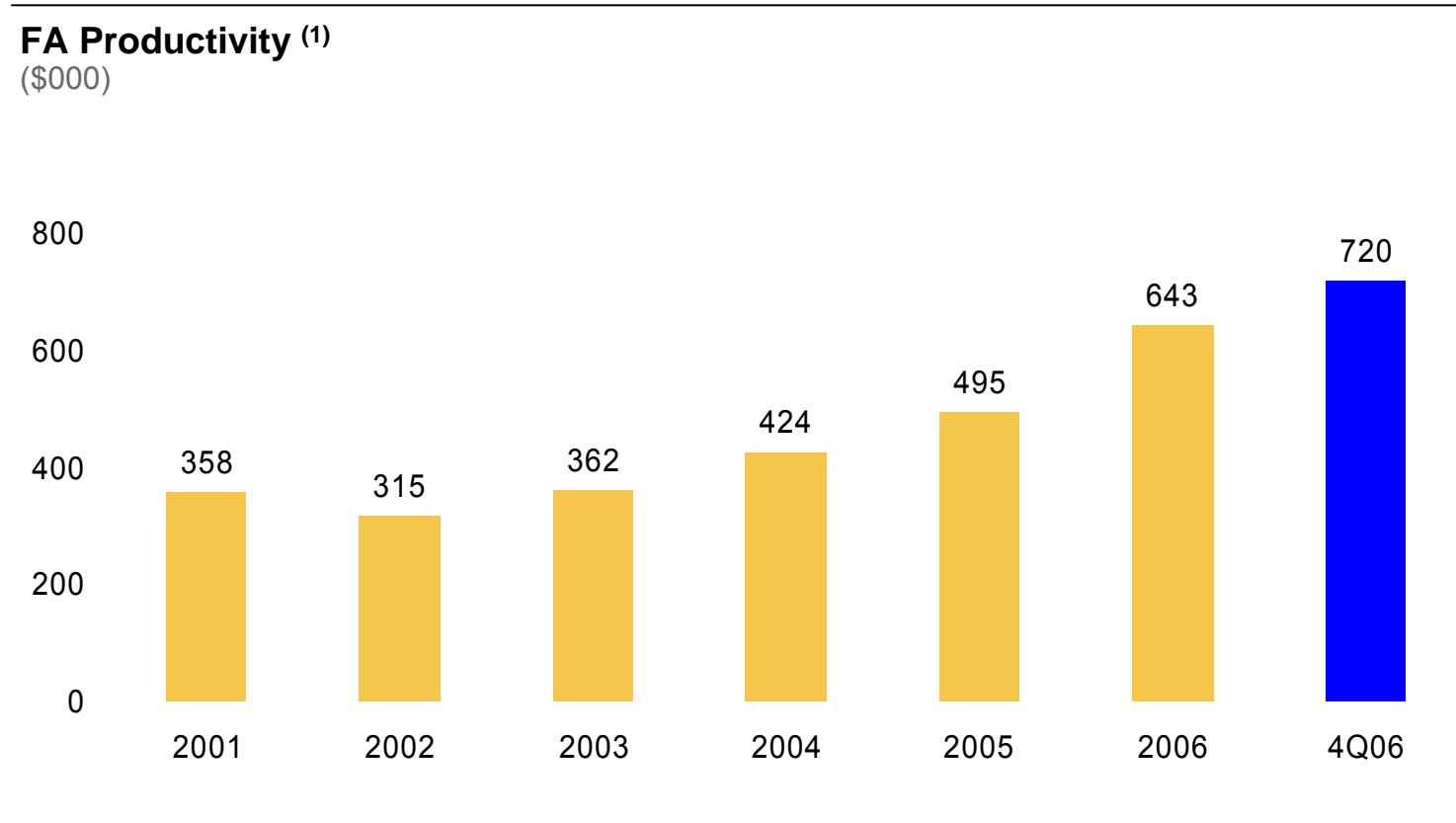
Source: Company SEC Filings and 4Q06 Financial Supplement

(1) Annualized revenue divided by average global representative headcount.

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FA Productivity: Steady Improvement

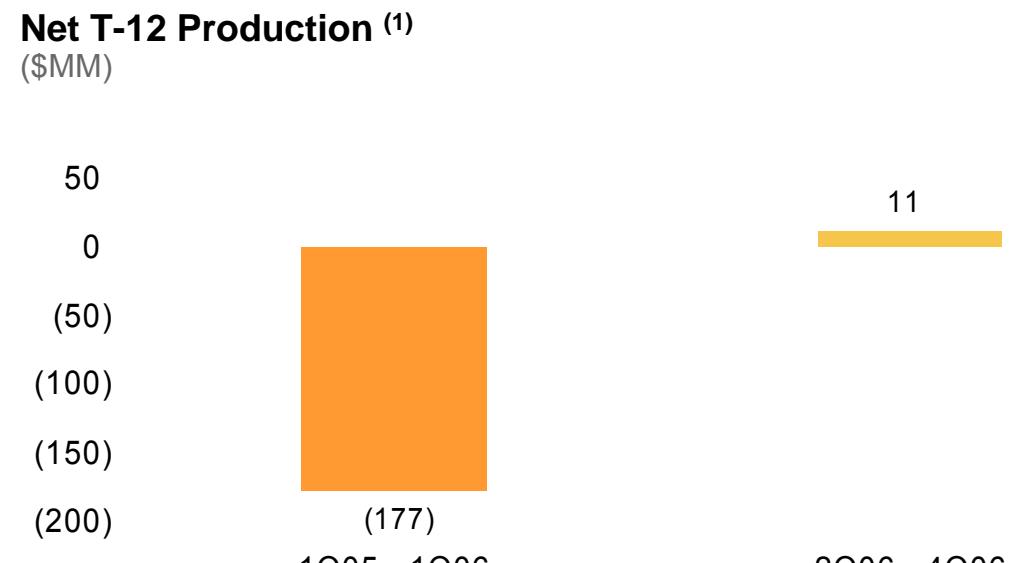
Annualized Revenue per Global Representative



Source: Company SEC Filings and 4Q06 Financial Supplement

(1) Annualized revenue divided by average global representative headcount.

Recruiting: Net T-12 Improvements



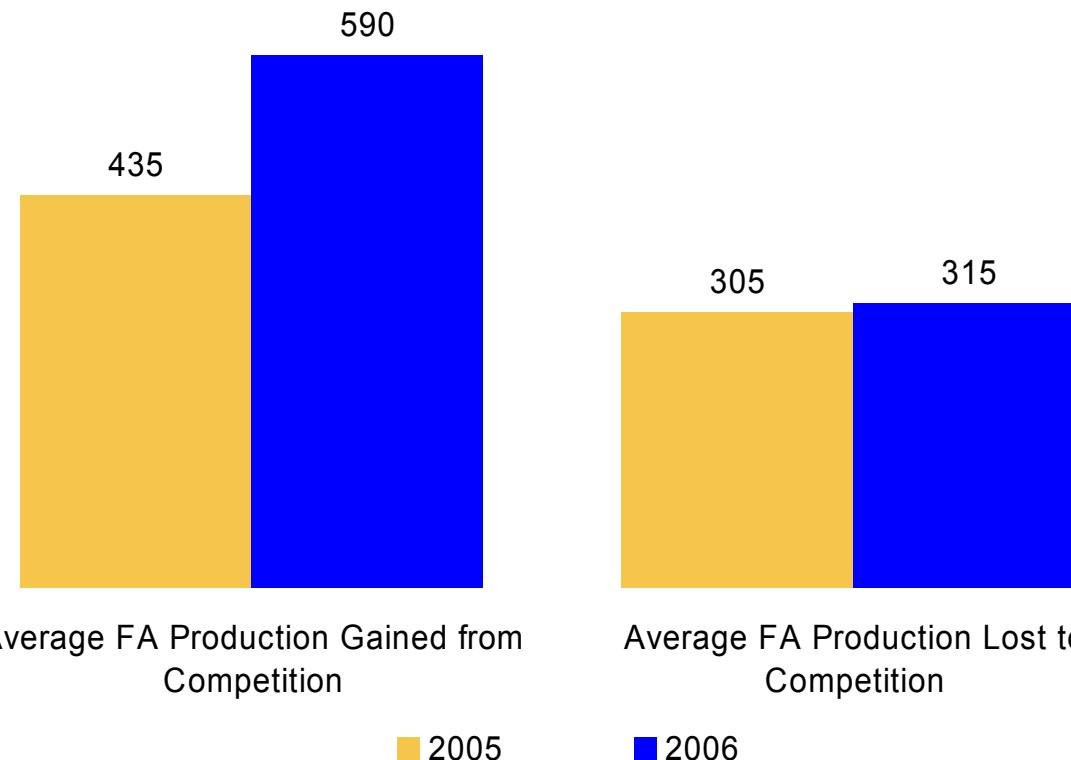
- Very strong pipeline
- Expensive deals, but not irrational

(1) Net T-12 production represents the trailing 12 month's net revenues (sales credits) of Domestic FAs/IRs recruited from and lost to competition

Attracting Better Recruits from Competition

FA Gained and Lost by Average Production ⁽¹⁾

(\$000)



(1) Average production is based on the Net T-12 of Domestic FA gains and losses to competition. 2006 data includes US PWM.

What Many Recruiters Say

- *“The message they’re sending is, ‘We’re a firm of productivity and want to be the firm of choice for large producers.”*
- *“They’ve done a lot more than just pay for talent. What they’ve done is change the fabric of the firm...”*

Source: *On Wall Street*, January, 2007

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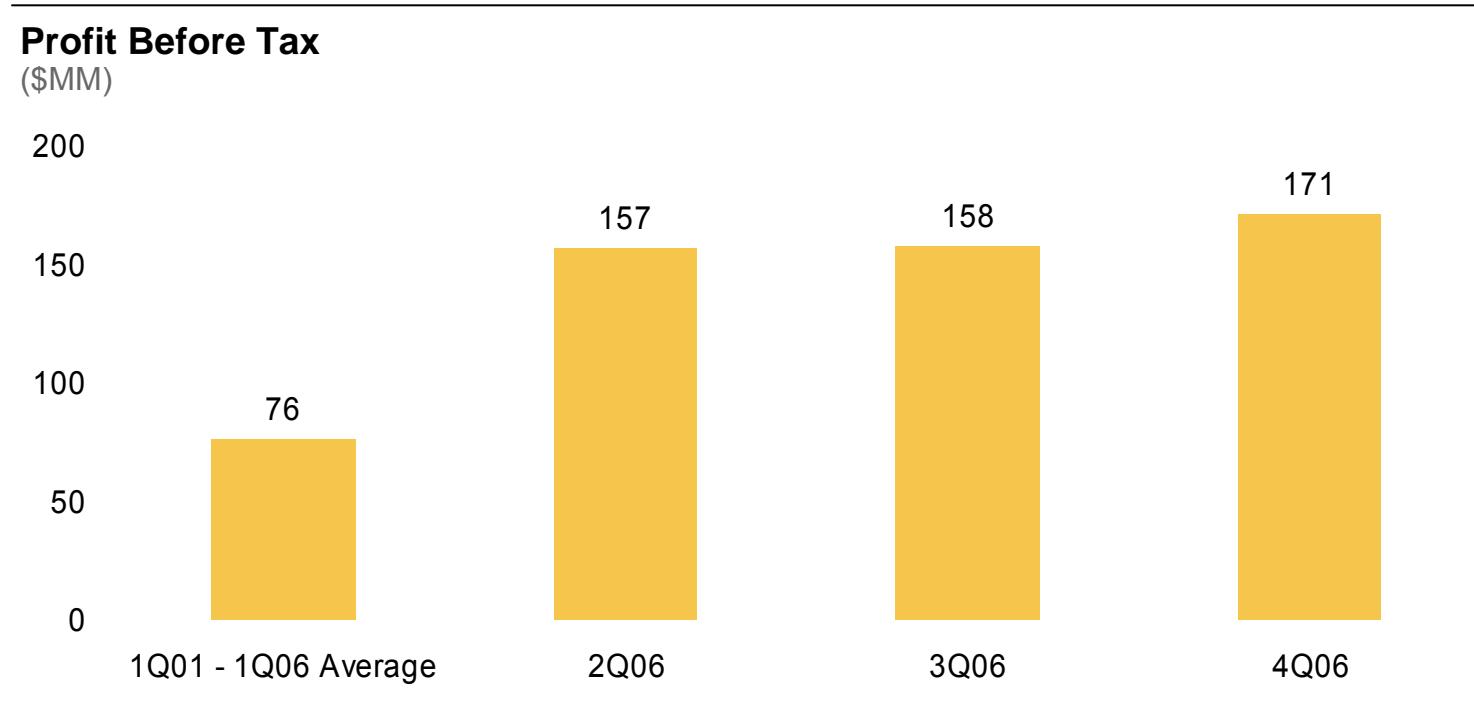
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Integration with Institutional Business

- Revenue sharing agreements to drive cross-referrals
 - Investment banking and principal investments
- Moved executives from Institutional Securities to Global Wealth Management
- GWMG representation on Institutional Equity Underwriting Committee
- Created Tactical Advisory Group to capture best investment ideas throughout the firm
- Created cross-divisional, multi-asset class Structured Investment team
- Formalized access to institutional product capabilities
- Enhanced FX product offering for international clients
- Jointly funded advertising campaign to leverage brand

Performance is Improving

PBT: Previous 21 Quarters vs. Latest 3 Quarters



- 3 most recent quarters all rank in top 4 of last 24 quarters for operating PBT

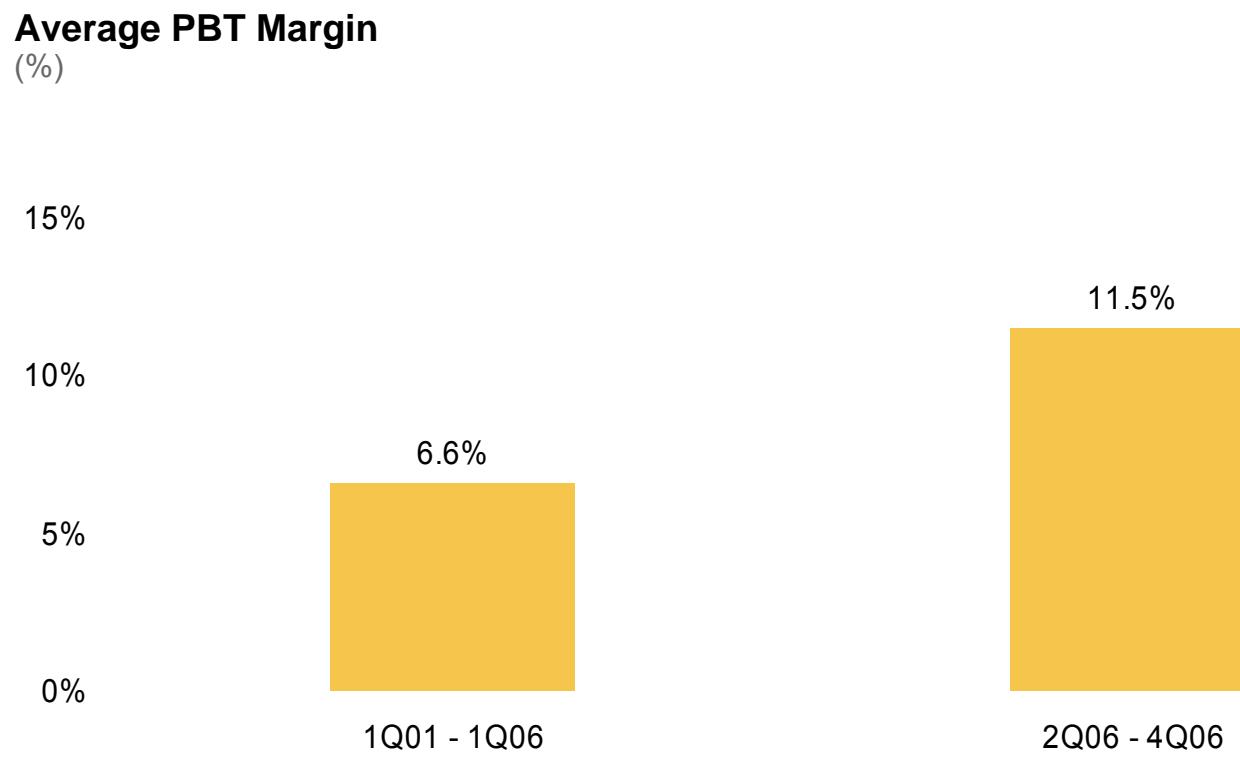
Source: Company SEC Filings and 4Q06 Financial Supplement

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Performance is Improving

PBT Margin: Previous 21 Quarters vs. Latest 3 Quarters



Source:

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Global Wealth Management at Morgan Stanley

- Core beliefs about the business
- What we focused on in 2006
 - Initiatives to improve margin
 - New product upgrades
 - Technology and operations investments
 - Compensation and training changes for FAs and managers
 - International expansion
- Results against the metrics that matter

Initiatives to Improve Margin - 2006

- Put in place executives who are experts in their respective areas
- Removed unproductive FAs
- Re-priced accounts/fees as appropriate
- Reduced size of management structure
- Launched revenue-adding products
- Reviewed all legal exposure and causes driving exposure
- Established field-based risk management structure with clear lines of accountability
- Launched expense review program
- Consolidated real estate without compromising footprint
- Prioritized and sequenced technology/operations development spend

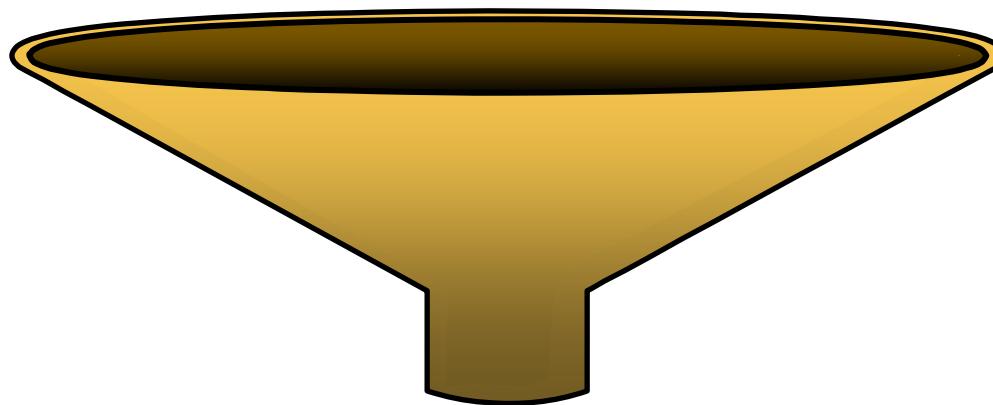
Product Improvements in 2006

- Created Capital Markets Group to leverage institutional capability
 - Equity, fixed income, structured products, investment banking, investment strategy, middle markets
- New formula for FA allocation of syndicate offering
- Closed-end Funds
 - DWS Dreman Value, Highland, Nuveen, Morgan Stanley China "A" Share
- Established alternative investments group – hired new head
- Managed money – added new capacity to state-of-the-art Unified Managed Account platform (managers, disciplines, asset classes)
- Annuities and Insurance – expanded third-party providers
- Banking and lending – focus on mortgages, HELOC, launched new Portfolio Loan AccountSM
- Deposits – accelerated technology investment to launch Phase II of deposit program

Highly Selective Product Offerings

**50+ Asset
Management
Firms**

**150+
Product Ideas**



6 funds selected

BLACKROCK

**Tradewinds
NWQ**
GLOBAL INVESTORS

DWS
SCHLICKER
Deutsche Pflicht-Gesell.

HIGHLAND H CAPITAL
Management, L.P.

Morgan Stanley

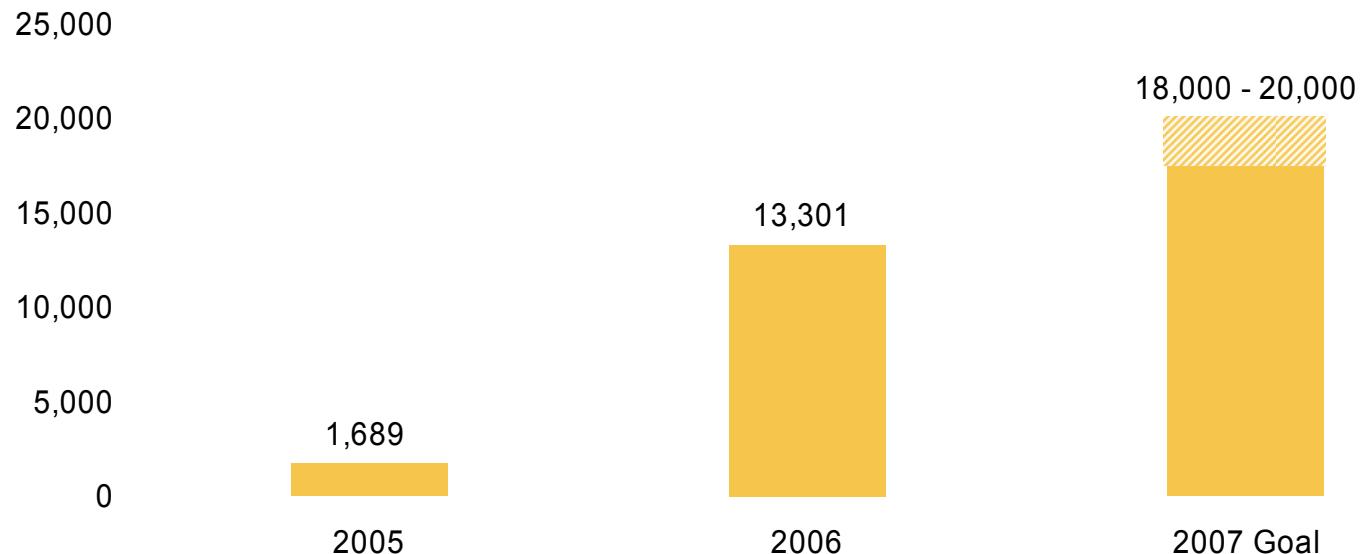


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Bank Deposit Program: Gaining Steam

Deposits at Morgan Stanley
(\$MM)



Source:
Company SEC Filings and 4Q06 Financial Supplement

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Technology and Operations Improvements

<u>Client</u>	<u>FA/Managers/Firm</u>
COMPLETED	
<ul style="list-style-type: none">• Redesigned ClientServ[®] online account access• New “welcome kit” for account openings• Improved performance reporting• Improved tax reporting	<ul style="list-style-type: none">• Roll-out of new FA workstations with improved functionality• New risk management structure by division and district• Consolidated product and regional operations centers
IN PROGRESS	
<ul style="list-style-type: none">• Comprehensive statement redesign• Online fulfillment – marketing collateral	<ul style="list-style-type: none">• Online branch operational workflow (journals, documents, etc.)• New compliance tools (eliminate 62 reports)• Single broker-dealer

Changes to FA Compensation

Principle	Change
1. Invest in FAs at competitor level	→ 2.5% increase across grid
2. Support transaction business	→ Up to 12% increase on large trades
3. Focus on larger households	→ Reduce payouts on small households
4. Offer wealth creation opportunity	→ New equity plan with bonus shares <ul style="list-style-type: none">• “you invest, we invest”• rewards loyalty
5. Share discounting between firm and FA	→ Adopt industry standard

International Progress

- Refocused on ultra-high net worth market segment
 - Sale of Quilter in U.K.
 - Reinvestment, including selective recruiting
 - Major technology upgrade/investment
- Swiss Bank expansion
- Latin America – New Miami office
- Middle East
 - Dubai office
 - Joint venture in Saudi Arabia
- Asia
 - Centers in Hong Kong and Singapore
 - Leverage Morgan Stanley brand in China
- Senior management focus and attention

Global Wealth Management at Morgan Stanley

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- What we focused on in 2006
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Measuring Our Performance: Metrics That Matter for Long-Term Health of Business

	FY05 / 1Q06	2Q06 / 4Q06	Aspiration
Revenue Growth Range	4 – 6%	8 – 12%	10%+
Pre-Tax Margin Range	2 – 8%	11 – 12%	20%+
1 st / 2 nd Quintile Turnover	~10%	~7%	< 5%
Net New Money Annualized	\$(2.2)Bn	\$11.3Bn	\$25 – 30Bn
Fee-Based Assets	29%	30% ⁽¹⁾	35%+
Client Assets in \$1MM+ households	65%	69% ⁽¹⁾	75%
Deposit Sweep	\$7.3Bn	\$13.3Bn ⁽¹⁾	\$25Bn+
Revenue per Financial Advisor	\$495-554K	\$720K ⁽¹⁾	\$700K+
Assets per Financial Advisor	\$70MM	\$85MM ⁽¹⁾	\$95MM+

Source: Company SEC Filings and 4Q06 Financial Supplement

(1) Metrics as of 4Q06

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