

Morgan Stanley

## Credit Suisse Financial Services Conference

David H. Sidwell, Executive Vice President & Chief Financial Officer  
John A. Shapiro, Managing Director & Global Head of Commodities

February 7, 2007

# 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](http://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.

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**David H. Sidwell**

Executive Vice President & Chief Financial Officer

# 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**

# Capital and Risk Management

- Active capital management
  - Balance use of capital for organic growth, 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
- Effective risk management
  - Focus on making sure the Firm's risk-taking is active, prudent, balanced and commensurate with the rewards and the Firm's risk appetite
  - Use integrated approach that spans all of the risks to which the firm is exposed - the "Doctrine of No Surprises"
    - Risk committees - at both Firm and business level - regularly perform comprehensive reviews
    - Control groups (e.g., market risk managers, credit officers and infrastructure) have credibility and access to senior management
- Rely on metrics including VaR, stress tests, scenario analysis, mark to market and mark to model back testing

# Increased Economic Capital Usage

## Average Economic Capital<sup>(1)</sup>

(\$Bn)

50

40

30

20

10

0



### Source:

Company SEC Filings and 4Q06 Financial Supplement

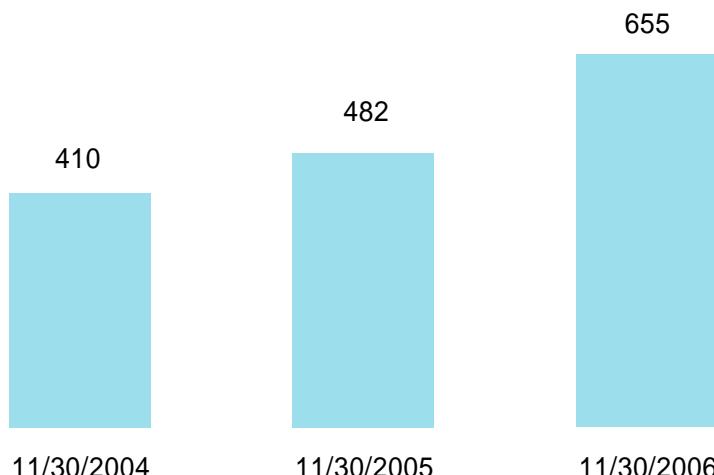
(1) The Company uses an economic capital model to determine the amount of equity capital needed to support the risk of its business activities to ensure that the Company remains adequately capitalized. Economic capital is defined as the amount of capital needed to run the business through the business cycle and satisfy the requirements of regulators, rating agencies and the market. The Company's methodology is based on a going concern approach that assigns economic capital to each segment based on regulatory capital usage plus additional capital for stress losses, goodwill and principal investment risk. The economic capital model and allocation methodology may be enhanced over time in response to changes in the business and regulatory environment.

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# Better Leverage Firm Capital

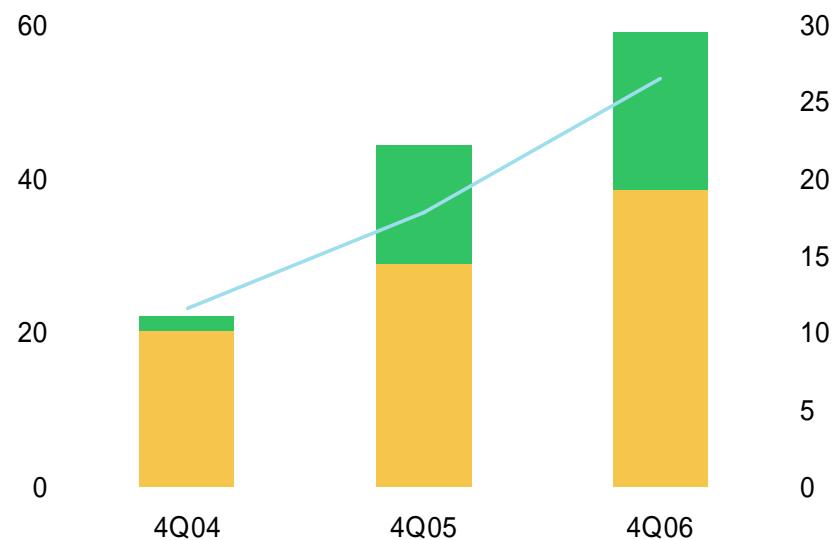
## Adjusted Assets

(\$Bn)



## Lending and Commitments vs. Hedges

(\$Bn)



### Adjusted Leverage Ratio<sup>(1)</sup>:

14.2x	16.4x	17.7x
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### % Investment Grade:

91%	65%	65%
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█ Investment Grade (left axis) █ Hedges<sup>(2)</sup> (right axis)  
█ Non-Investment Grade (left axis)

#### Source:

Company SEC Filings and 4Q06 Financial Supplement

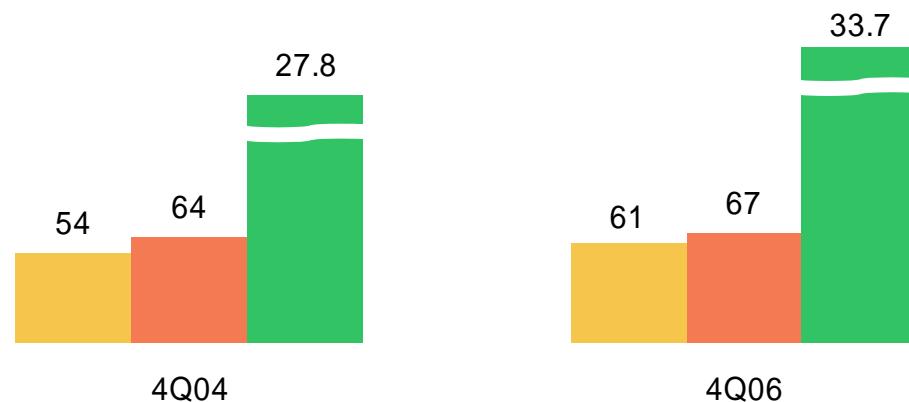
(1) Adjusted leverage ratio equals adjusted total assets divided by tangible shareholders' equity.

(2) Includes both internal and external hedges utilized by the lending business.

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# Measured VaR Growth

## Aggregate Average Trading and Total VaR vs. Total Average Economic Capital<sup>(1)</sup>



% Trading VaR to Economic Capital

0.194%

0.181%

% Total VaR to Economic Capital

0.230%

0.199%

Aggregate Average Trading VaR (\$MM)

Aggregate Average Total VaR (\$MM)

Total Economic Capital (\$Bn)

### Source:

Company SEC Filings and 4Q06 Financial Supplement

(1) The Company uses an economic capital model to determine the amount of equity capital needed to support the risk of its business activities to ensure that the Company remains adequately capitalized. Economic capital is defined as the amount of capital needed to run the business through the business cycle and satisfy the requirements of regulators, rating agencies and the market. The Company's methodology is based on a going concern approach that assigns economic capital to each segment based on regulatory capital usage plus additional capital for stress losses, goodwill and principal investment risk. The economic capital model and allocation methodology may be enhanced over time in response to changes in the business and regulatory environment.

# Improving Risk / Return

## Quarterly Sales and Trading Net Revenues vs. Average Trading VaR



Source Company SEC filings and 4Q06 Financial Supplement

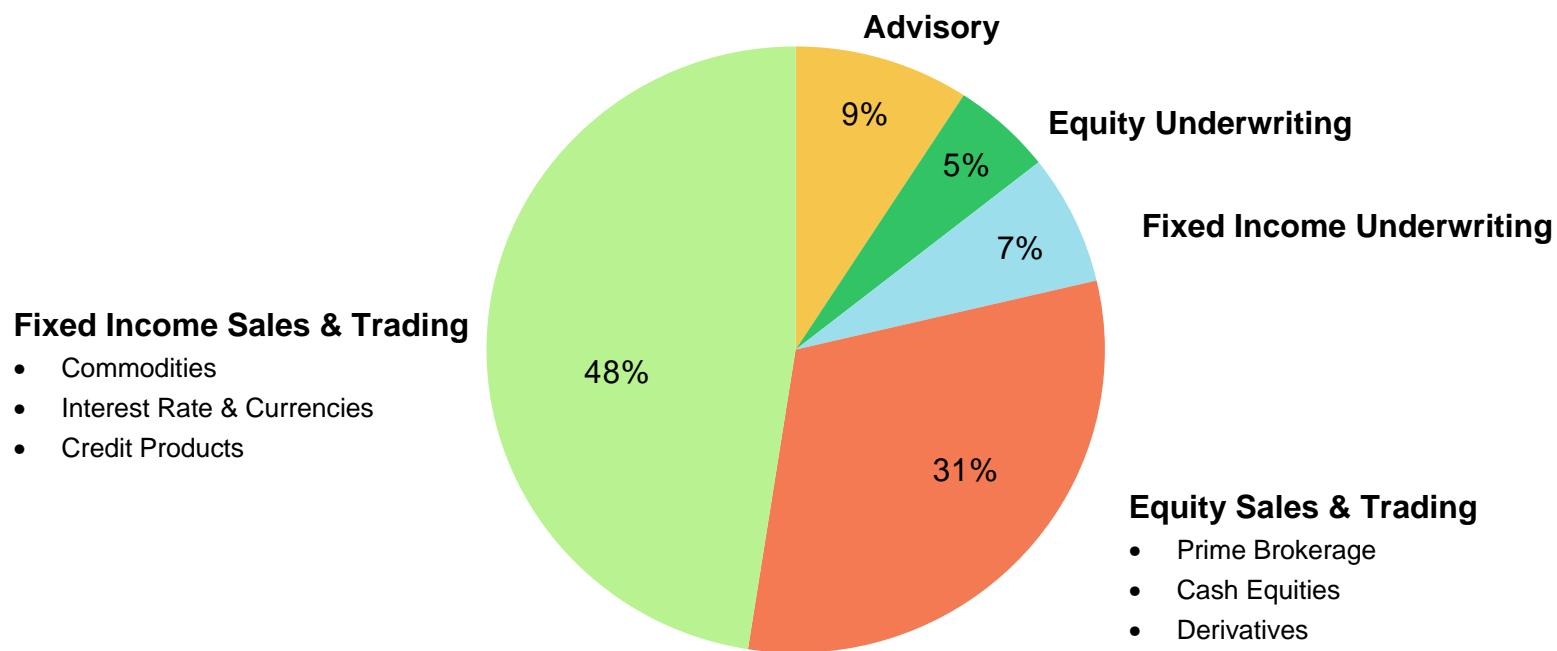
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# Institutional Securities Business Mix

Total FY 2006 Net Revenues = \$21.6bn

## Business Mix <sup>(1)</sup>



### Source:

Company SEC Filings and 4Q06 Financial Supplement

(1) Excludes Investments and other revenue

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# Institutional Securities Growth

## Fiscal 2004-2006 Net Revenue Compound Annual Growth Rates

(%)

Fixed Income  
Sales & Trading  31.2

Fixed Income  
Underwriting  28.4

Advisory  26.3

Equity Sales &  
Trading  24.7

Equity  
Underwriting  3.3

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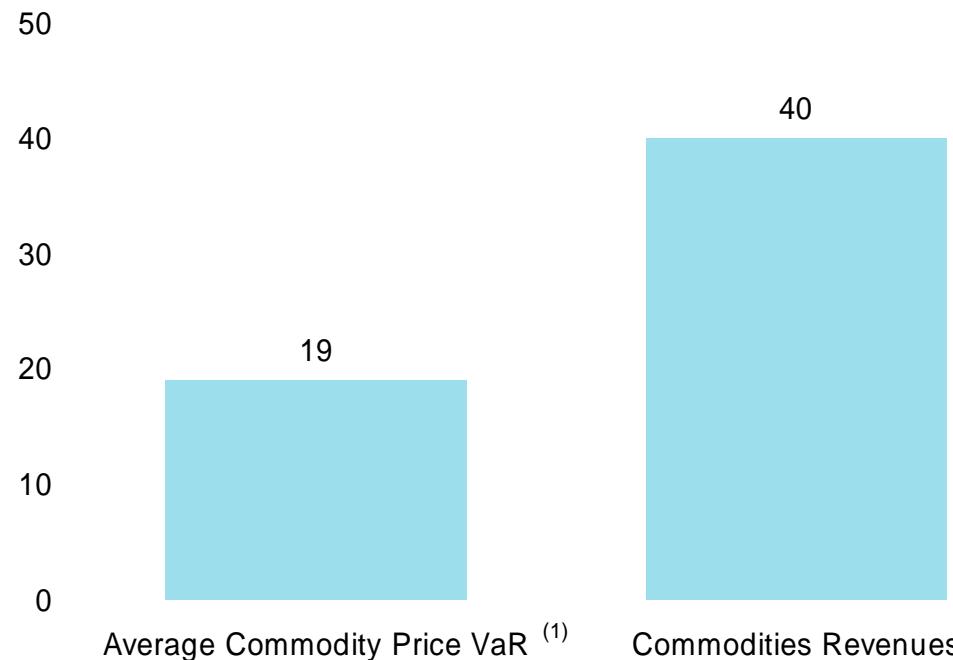
### Source:

Company SEC Filings and 4Q06 Financial Supplement

# Commodities Risk / Return

## Fiscal 2004-2006 Compound Annual Growth Rates

(%)



**Source:**

Company SEC Filings and 4Q06 Financial Supplement

(1) Average commodities price VaR represents the arithmetic mean of 1Q, 2Q, 3Q and 4Q disclosed average commodities VaR values for each annual period.

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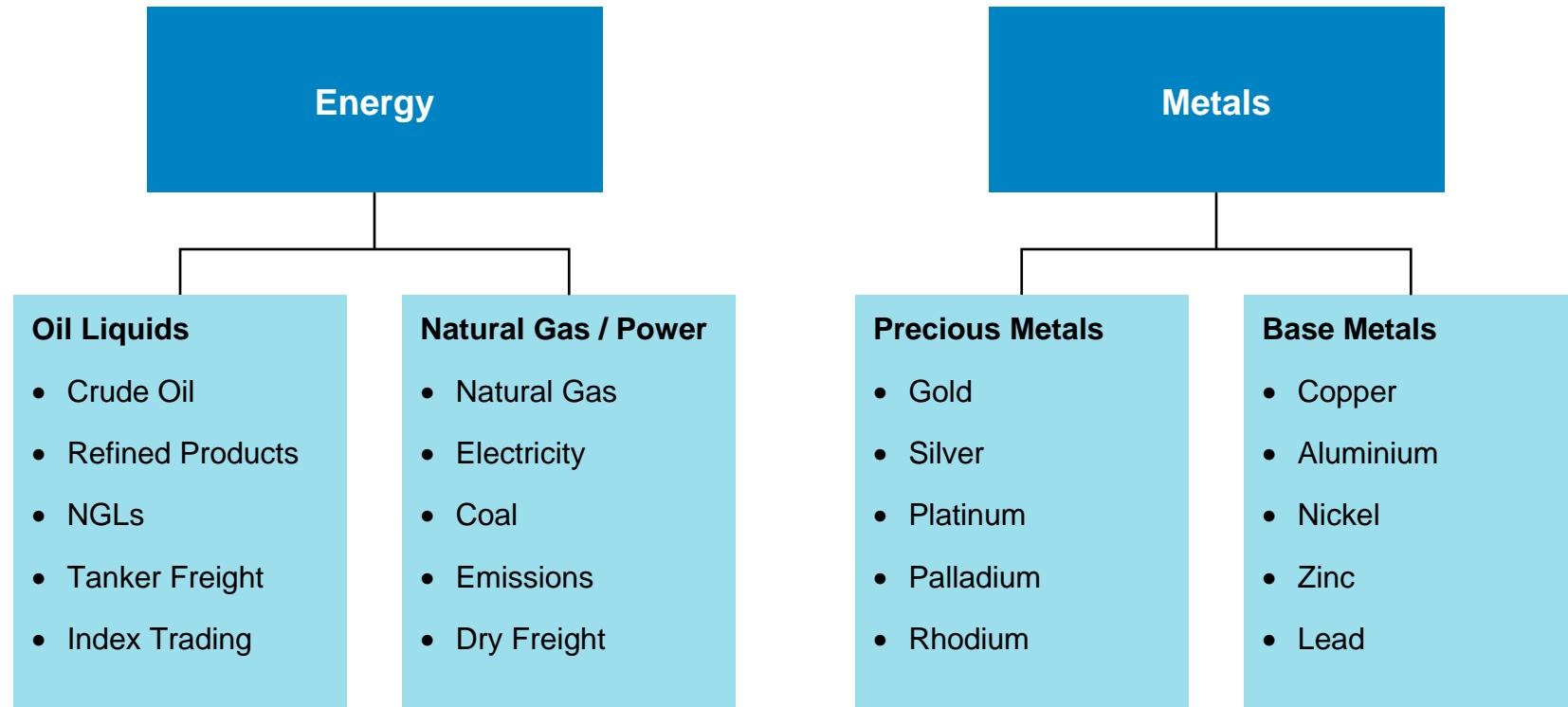
John A. Shapiro

Managing Director & Global Head of Commodities

# Overview

- Key Commodities Markets
- Global presence
- Business Model
- Business Mix
- Recent Acquisitions
- Business Outlook

# Key Commodities Markets



# Global Presence

- **Westchester (NY)**
  - North America
  - South America
- **London**
  - Europe
  - Africa
  - Middle East
- **Singapore**
  - Non-Japan Asia
  - India
  - South Pacific
- **Satellite Offices**
  - Tokyo
  - Calgary
  - Atlanta
  - Shanghai
  - Toronto
  - Moscow



# Business Model

**Our Commodities team is organized along five different but closely related lines, including those responsible for:**

- Client Coverage
- Trading
- Structuring
- Research / Analysis
- Traffic / Scheduling

# Business Mix

**Our Commodities business has five main areas. It is a strong combination of:**

- Proprietary Trading
- Client-Driven Flow
- Structured Transactions
- Physical Supply & Distribution
- Principal Investing

# Business Mix: Proprietary Trading

**Focused on taking positions based on fundamental assessment of markets and, when possible, capitalize on market inefficiencies**

- **Relative Value vs. Outright**

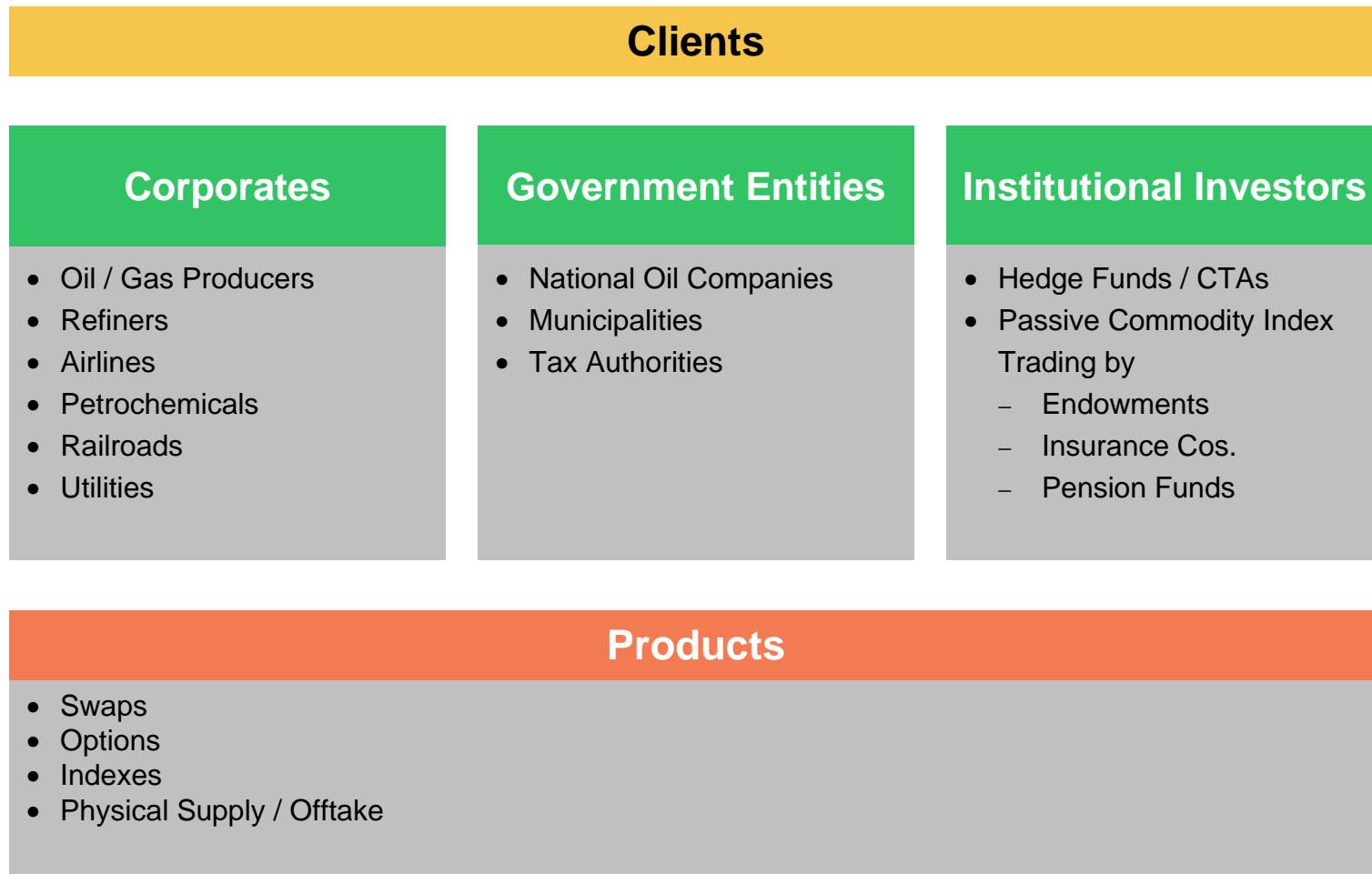
- Relative Value trades make up the majority of our proprietary trading and are used across product areas and geographies
- Outright trades are often used in conjunction with the relative value trading book to achieve a desired risk profile – occasionally to anticipate market moves

## Example: Oil

- **Trading Matrix**

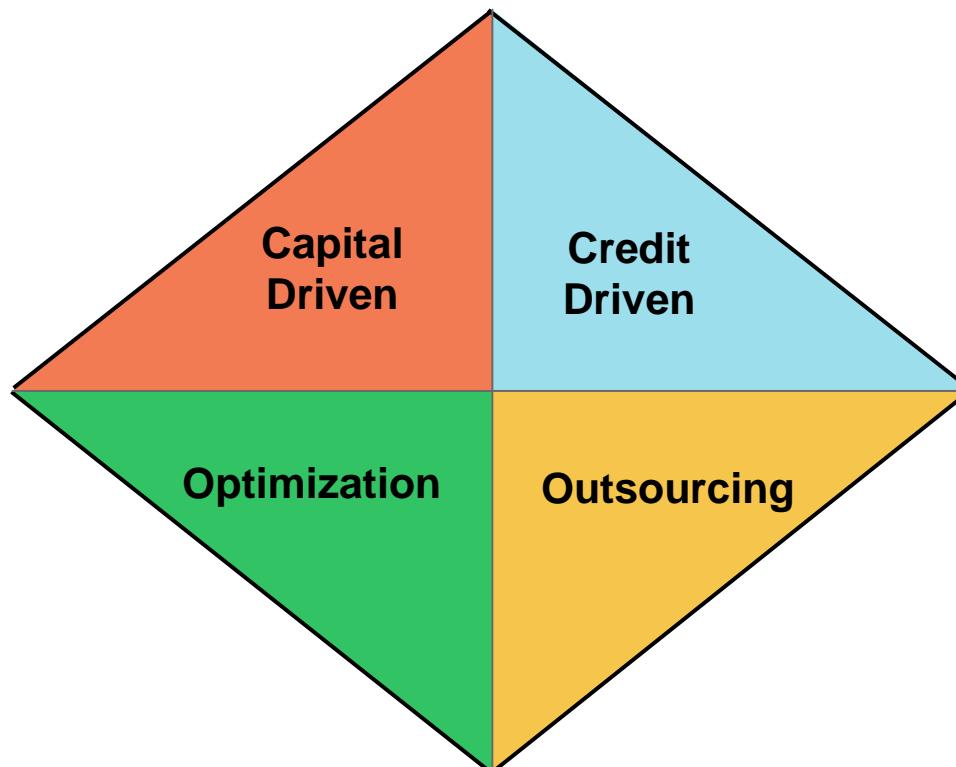
- **Quality** – WTI, Brent, Dubai, Gasoline and Jet Fuel
- **Location** – US Gulf, NY Harbor, Mediterranean, Singapore
- **Time** – September, December, 2007, 2010
- **Volatility** – ATM, Out-of-the Money, December, 2010

# Business Mix: Client-Driven Flow



# Business Mix: Structured Transactions

In addition to helping clients hedge their commodity price risk exposure, we are also increasingly helping them structure more complex transactions that are motivated by a number of different factors:



# Business Mix: Physical Supply & Distribution

- Types of Activities

– Oil Distribution	– Coal Transport	– Power Generation
– Oil Blending	– Dry Freight	– Power Transmission
– Oil Storage	– Tanker Freight	– Gas Transmission

- Rationale & Benefits

- Market Clearing Information
- Imbedded Optionality
- Locational Arbitrage
- Profitable Stand Alone Business
- Integral To Many Structured Transactions

# Business Mix: Principal Investing

## Production

- Helios Fund – Operated Producing Properties
- Gold Royalty Trust – Australian gold reserves
- Wellbore Exploration – Non-operated undeveloped properties

## Conversion

- Oil Refineries\*
- Gas Processing – gas liquids plants\*
- Generation – 3 U.S. power plants, 1 European power plant

## Infrastructure

- TransMontaigne – Terminaling and Distribution
- Heidmar Shipping – Tanker pool, trans-shipment
- Gas gathering and pipeline\*

## E-Commerce

- Electronic Trading - ICE

\* Potential Investments

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# Recent Acquisitions

- TransMontaigne
  - Long-term access to valuable trading opportunity
  - Vehicle for acquisitions and organic growth
  - Well-developed supply outsourcing platform
  - Strong management team
- Heidmar
  - Enables expansion of physical freight business across multiple vessel classes and geographies
  - Proven and scalable IT infrastructure suited to ship management business
  - Access to ships that can be serviced over time with paper derivatives and physical fuel supply

# Business outlook

- See strong secular and cyclical trends in commodities markets, including:
  - Sustained volatility in commodities prices
  - Increased demand in emerging markets
  - New investor interest from hedge funds, mutual funds, ETFs
  - Continued growth in one-off transactions and structured deals
  - Rise of new products and markets, such as renewable energy
- Face increased competition, given flood of new entrants in the market (e.g., large financial institutions, hedge funds and private equity)
- Believe pricing trends will be more mixed in 2007, which represents a different set of market opportunities
- Focused on maintaining competitive edge – will leverage our world-class team, proven track record in varied market conditions, and consistent commitment to the commodities business
- Will consider additional bolt-on acquisitions, when appropriate

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