

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of  
Morgan Stanley Dean Witter & Co.:

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley Dean Witter & Co. and subsidiaries (the "Company") as of fiscal years ended November 30, 2000 and 1999, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three fiscal years in the period ended November 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morgan Stanley Dean Witter & Co. and subsidiaries at fiscal years ended November 30, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in fiscal 1998, Morgan Stanley Dean Witter & Co. changed its method of accounting for certain offering costs of closed-end funds.

*Deloitte & Touche LLP*

New York, New York  
January 12, 2001

**MORGAN STANLEY DEAN WITTER & CO.**

**Consolidated Statements of Financial Condition**  
**(dollars in millions, except share data)**

	<b>November 30, November 30,</b>	
	<b><u>2000</u></b>	<b><u>1999</u></b>
<b>Assets</b>		
Cash and cash equivalents .....	\$ 18,819	\$ 12,325
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (including securities at fair value of \$41,312 at November 30, 2000 and \$6,925 at November 30, 1999).....	48,637	9,713
Financial instruments owned:		
U.S. government and agency securities .....	28,841	25,646
Other sovereign government obligations.....	24,119	17,522
Corporate and other debt.....	33,419	30,443
Corporate equities .....	16,889	14,843
Derivative contracts .....	27,333	22,769
Physical commodities .....	217	819
Securities purchased under agreements to resell.....	50,992	70,366
Receivable for securities provided as collateral .....	3,563	9,007
Securities borrowed.....	105,231	85,064
Receivables:		
Consumer loans (net of allowances of \$780 at November 30, 2000 and \$769 at November 30, 1999) .....	21,090	20,229
Customers, net.....	26,015	29,299
Brokers, dealers and clearing organizations.....	1,257	2,252
Fees, interest and other.....	6,102	5,371
Office facilities, at cost (less accumulated depreciation of \$1,934 at November 30, 2000 and \$1,667 at November 30, 1999).....	2,685	2,204
Aircraft under operating leases (less accumulated depreciation of \$257 at November 30, 2000 and \$101 at November 30, 1999).....	3,927	1,884
Other assets .....	<u>7,658</u>	<u>7,211</u>
<b>Total assets</b> .....	<u><u>\$426,794</u></u>	<u><u>\$366,967</u></u>

**MORGAN STANLEY DEAN WITTER & CO.**

**Consolidated Statements of Financial Condition—(Continued)**  
(dollars in millions, except share data)

	<b>November 30, 2000</b>	<b>November 30, 1999</b>
<b>Liabilities and Shareholders' Equity</b>		
Commercial paper and other short-term borrowings.....	\$ 27,754	\$ 38,242
Deposits.....	11,930	10,397
Financial instruments sold, not yet purchased:		
U.S. government and agency securities .....	13,578	12,285
Other sovereign government obligations.....	6,959	7,812
Corporate and other debt.....	6,772	2,322
Corporate equities .....	15,091	15,402
Derivative contracts.....	27,547	23,228
Physical commodities .....	1,462	919
Securities sold under agreements to repurchase.....	97,230	104,450
Obligation to return securities received as collateral.....	8,353	14,729
Securities loaned .....	35,211	30,080
Payables:		
Customers .....	94,546	45,775
Brokers, dealers and clearing organizations.....	3,072	1,335
Interest and dividends.....	2,766	2,951
Other liabilities and accrued expenses .....	12,731	10,439
Long-term borrowings.....	<u>42,051</u>	<u>28,604</u>
Capital Units.....	407,053	348,970
Preferred Securities Issued by Subsidiaries .....	70	583
Commitments and contingencies	<u>400</u>	<u>400</u>
Shareholders' equity:		
Preferred stock.....	545	670
Common stock (1) (\$0.01 par value, 3,500,000,000 shares authorized, 1,211,685,904 and 1,211,685,904 shares issued, 1,107,270,331 and 1,104,630,098 shares outstanding at November 30, 2000 and November 30, 1999, respectively).....	12	12
Paid-in capital (1).....	3,377	3,836
Retained earnings.....	20,802	16,285
Employee stock trust.....	3,042	2,426
Cumulative translation adjustments .....	<u>(91)</u>	<u>(27)</u>
Subtotal.....	27,687	23,202
Note receivable related to ESOP .....	(44)	(55)
Common stock held in treasury, at cost (1) (\$0.01 par value, 104,415,573 and 107,055,806 shares at November 30, 2000 and November 30, 1999, respectively).....	(6,024)	(4,355)
Common stock issued to employee trust.....	<u>(2,348)</u>	<u>(1,778)</u>
Total shareholders' equity .....	<u>19,271</u>	<u>17,014</u>
Total liabilities and shareholders' equity .....	<u>\$426,794</u>	<u>\$366,967</u>

(1) Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.

See Notes to Consolidated Financial Statements.

**MORGAN STANLEY DEAN WITTER & CO.**

**Consolidated Statements of Income**  
**(dollars in millions, except share and per share data)**

	<u>2000</u>	<u>1999</u>	<u>Fiscal Year 1999</u>	<u>1998</u>
Revenues:				
Investment banking.....	\$ 5,008	\$ 4,523	\$ 4,523	\$ 3,340
Principal transactions:				
Trading.....	7,393	5,830	5,830	3,159
Investments.....	193	725	725	89
Commissions.....	3,645	2,774	2,774	2,208
Fees:				
Asset management, distribution and administration .....	4,219	3,324	3,324	3,003
Merchant and cardmember.....	1,780	1,492	1,492	1,647
Servicing.....	1,450	1,194	1,194	928
Interest and dividends.....	21,234	14,880	14,880	16,386
Other.....	491	248	248	282
	<u>45,413</u>	<u>34,990</u>	<u>34,990</u>	<u>31,042</u>
Interest expense .....	18,176	12,515	12,515	13,464
Provision for consumer loan losses.....	810	529	529	1,173
	<u>26,427</u>	<u>21,946</u>	<u>21,946</u>	<u>16,405</u>
Net revenues.....				
Non-interest expenses:				
Compensation and benefits.....	10,936	8,398	8,398	6,636
Occupancy and equipment .....	772	643	643	583
Brokerage, clearing and exchange fees .....	519	485	485	552
Information processing and communications.....	1,556	1,325	1,325	1,140
Marketing and business development.....	2,058	1,679	1,679	1,411
Professional services .....	1,037	836	836	677
Other.....	1,058	852	852	706
	<u>17,936</u>	<u>14,218</u>	<u>14,218</u>	<u>11,705</u>
Total non-interest expenses .....				
Gain on sale of businesses.....	35	—	—	685
Income before income taxes and cumulative effect of accounting change.....				
change.....	8,526	7,728	7,728	5,385
Provision for income taxes .....	3,070	2,937	2,937	1,992
Income before cumulative effect of accounting change.....	5,456	4,791	4,791	3,393
Cumulative effect of accounting change .....	—	—	—	(117)
Net income .....	<u>\$ 5,456</u>	<u>\$ 4,791</u>	<u>\$ 4,791</u>	<u>\$ 3,276</u>
Preferred stock dividend requirements.....	<u>\$ 36</u>	<u>\$ 44</u>	<u>\$ 44</u>	<u>\$ 55</u>
Earnings applicable to common shares (1).....	<u>\$ 5,420</u>	<u>\$ 4,747</u>	<u>\$ 4,747</u>	<u>\$ 3,221</u>
Earnings per common share (2):				
Basic before cumulative effect of accounting change .....	\$ 4.95	\$ 4.33	\$ 4.33	\$ 2.90
Cumulative effect of accounting change .....	—	—	—	(0.10)
Basic.....	<u>\$ 4.95</u>	<u>\$ 4.33</u>	<u>\$ 4.33</u>	<u>\$ 2.80</u>
Diluted before cumulative effect of accounting change .....	\$ 4.73	\$ 4.10	\$ 4.10	\$ 2.76
Cumulative effect of accounting change .....	—	—	—	(0.09)
Diluted .....	<u>\$ 4.73</u>	<u>\$ 4.10</u>	<u>\$ 4.10</u>	<u>\$ 2.67</u>
Average common shares outstanding (2):				
Basic.....	<u>1,095,858,438</u>	<u>1,096,789,720</u>	<u>1,096,789,720</u>	<u>1,151,645,450</u>
Diluted.....	<u>1,145,011,515</u>	<u>1,159,500,670</u>	<u>1,159,500,670</u>	<u>1,212,588,130</u>

(1) Amounts shown are used to calculate basic earnings per common share.

(2) Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.

See Notes to Consolidated Financial Statements.

**MORGAN STANLEY DEAN WITTER & CO.**

**Consolidated Statements of Comprehensive Income**  
**(dollars in millions)**

	<u>Fiscal Year</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income .....	\$5,456	\$4,791	\$3,276
Other comprehensive income, net of tax:			
Foreign currency translation adjustment .....	<u>(64)</u>	<u>(15)</u>	<u>(3)</u>
Comprehensive income .....	<u>\$5,392</u>	<u>\$4,776</u>	<u>\$3,273</u>

See Notes to Consolidated Financial Statements.

**MORGAN STANLEY DEAN WITTER & CO.**

**Consolidated Statements of Cash Flows**  
(dollars in millions)

	<u>2000</u>	<u>1999</u>	<u>Fiscal Year 1998</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income .....	\$ 5,456	\$ 4,791	\$ 3,276
Adjustments to reconcile net income to net cash (used for) provided by operating activities:			
Non-cash charges (credits) included in net income:			
Cumulative effect of accounting change .....	—	—	117
Gain on sale of businesses .....	(35)	—	(685)
Deferred income taxes .....	(219)	(160)	(55)
Compensation payable in common or preferred stock .....	908	735	408
Depreciation and amortization .....	727	541	575
Provision for consumer loan losses .....	810	529	1,173
Changes in assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated under federal and other regulations.....	(38,924)	839	(3,641)
Financial instruments owned, net of financial instruments sold, not yet purchased .....	(10,524)	(22,081)	11,127
Securities borrowed, net of securities loaned .....	(15,036)	(8,798)	(5,061)
Receivables and other assets .....	2,077	(11,276)	2,114
Payables and other liabilities .....	<u>52,376</u>	<u>5,656</u>	<u>6,081</u>
Net cash (used for) provided by operating activities .....	<u>(2,384)</u>	<u>(29,224)</u>	<u>15,429</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (payments for) proceeds from:			
Office facilities .....	(836)	(656)	(358)
Sale of businesses, net of disposal costs.....	—	—	1,399
Purchase of Morgan Stanley Dean Witter, S.V., S.A., net of cash acquired .....	—	(223)	—
Purchase of Ansett Worldwide, net of cash acquired.....	(199)	—	—
Net principal disbursed on consumer loans .....	(11,410)	(8,769)	(2,314)
Sales of consumer loans.....	<u>9,760</u>	<u>2,997</u>	<u>4,466</u>
Net cash (used for) provided by investing activities .....	<u>(2,685)</u>	<u>(6,651)</u>	<u>3,193</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net (payments for) proceeds from short-term borrowings .....	(10,563)	9,994	5,620
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell .....	12,154	21,327	(14,407)
Net proceeds from (payments for):			
Deposits .....	1,533	2,200	(796)
Issuance of common stock .....	338	223	126
Issuance of put options.....	42	9	—
Issuance of long-term borrowings .....	22,475	7,552	9,771
Issuance of Preferred Securities Issued by Subsidiaries .....	—	—	400
Payments for:			
Repayments of long-term borrowings.....	(9,351)	(6,618)	(7,069)
Redemption of cumulative preferred stock.....	—	—	(200)
Redemption of Capital Units.....	(513)	(416)	—
Repurchases of common stock.....	(3,628)	(2,374)	(2,925)
Cash dividends .....	<u>(924)</u>	<u>(575)</u>	<u>(519)</u>
Net cash provided by (used for) financing activities .....	<u>11,563</u>	<u>31,322</u>	<u>(9,999)</u>
Net increase (decrease) in cash and cash equivalents .....	6,494	(4,553)	8,623
Cash and cash equivalents, at beginning of period .....	<u>12,325</u>	<u>16,878</u>	<u>8,255</u>
Cash and cash equivalents, at end of period.....	<u>\$ 18,819</u>	<u>\$ 12,325</u>	<u>\$ 16,878</u>

See Notes to Consolidated Financial Statements.

**MORGAN STANLEY DEAN WITTER & CO.**

**Consolidated Statements of Changes in Shareholders' Equity**  
(dollars in millions)

	Preferred Stock	Common Stock(1)	Paid-in Capital(1)	Retained Earnings	Employee Stock Trust	Cumulative Translation Adjustments	Note Receivable Related to ESOP	Common Stock Held in Treasury, at Cost	Common Stock Issued to Employee Trust	Total
<b>BALANCE AT NOVEMBER 30, 1997</b>										
NOVEMBER 30, 1997	\$ 876	\$ 12	\$ 3,721	\$ 9,330	\$ 1,681	\$ (9)	\$ (68)	\$ (250)	\$ (1,337)	\$ 13,956
Net income	—	—	—	3,276	—	—	—	—	—	3,276
Dividends	—	—	—	(526)	—	—	—	—	—	(526)
Redemption of 7-3/8 %										
Cumulative Preferred Stock	(200)	—	—	—	—	—	—	—	—	(200)
Conversion of ESOP Preferred Stock	(2)	—	(12)	—	—	—	—	14	—	—
Issuance of common stock	—	—	(261)	—	—	—	—	387	—	126
Repurchases of common stock	—	—	—	—	—	—	—	(2,925)	—	(2,925)
Compensation payable in common stock	—	—	292	—	232	—	—	72	(189)	407
ESOP shares allocated, at cost	—	—	—	—	—	—	8	—	—	8
Translation adjustments	—	—	—	—	—	(3)	—	—	—	(3)
<b>BALANCE AT NOVEMBER 30, 1998</b>										
NOVEMBER 30, 1998	674	12	3,740	12,080	1,913	(12)	(60)	(2,702)	(1,526)	14,119
Net income	—	—	—	4,791	—	—	—	—	—	4,791
Dividends	—	—	—	(586)	—	—	—	—	—	(586)
Conversion of ESOP Preferred Stock	(4)	—	(18)	—	—	—	—	22	—	—
Issuance of common stock	—	—	(223)	—	—	—	—	446	—	223
Repurchases of common stock	—	—	—	—	—	—	—	(2,374)	—	(2,374)
Compensation payable in common stock	—	—	312	—	513	—	—	205	(252)	778
ESOP shares allocated, at cost	—	—	—	—	—	—	5	—	—	5
Issuance of common stock in connection with Morgan Stanley Dean Witter, S.V., S.A. acquisition	—	—	16	—	—	—	—	48	—	64
Issuance of put options	—	—	9	—	—	—	—	—	—	9
Translation adjustments	—	—	—	—	—	(15)	—	—	—	(15)
<b>BALANCE AT NOVEMBER 30, 1999</b>										
NOVEMBER 30, 1999	670	12	3,836	16,285	2,426	(27)	(55)	(4,355)	(1,778)	17,014
Net income	—	—	—	5,456	—	—	—	—	—	5,456
Dividends	—	—	—	(939)	—	—	—	—	—	(939)
Conversion of ESOP Preferred Stock	(125)	—	(817)	—	—	—	—	942	—	—
Issuance of common stock	—	—	(446)	—	—	—	—	784	—	338
Issuance of put options	—	—	42	—	—	—	—	—	—	42
Exercise of put options	—	—	(4)	—	—	—	—	4	—	—
Repurchases of common stock	—	—	—	—	—	—	—	(3,628)	—	(3,628)
Compensation payable in common stock	—	—	766	—	616	—	—	229	(570)	1,041
ESOP shares allocated, at cost	—	—	—	—	—	—	11	—	—	11
Translation adjustments	—	—	—	—	—	(64)	—	—	—	(64)
<b>BALANCE AT NOVEMBER 30, 2000</b>										
NOVEMBER 30, 2000	<u>\$ 545</u>	<u>\$ 12</u>	<u>\$ 3,377</u>	<u>\$ 20,802</u>	<u>\$ 3,042</u>	<u>\$ (91)</u>	<u>\$ (44)</u>	<u>\$ (6,024)</u>	<u>\$ (2,348)</u>	<u>\$ 19,271</u>

(1) Amounts have been retroactively adjusted to give effect for a two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on January 26, 2000.

See Notes to Consolidated Financial Statements.