



For a more complete discussion of our 2002 results, please refer to our Annual Report on Form 10-K and visit us online at www.morganstanley.com.

A Letter to Shareholders From Philip J. Purcell

As we look back at 2002, it was a most difficult year. We began the year with the memory of 9/11 still fresh in our minds. In the months that followed, we had to contend with the continued decline in equity markets and a highly publicized investigation of Wall Street research and investment banking practices. Given the year we have just been through, I wanted to lay out for each of you, in greater length and detail than usual, my thoughts on the year, your company's position today and where we are going in the future.

We were not satisfied with our results in 2002. In my view, the best way to measure our performance is in the context of the four principal goals we have set for ourselves. In each of our businesses, we strive for:

- 1 Profitability greater than our competitors. Through earnings, we reward our owners and invest for future growth.
- 2 Market share gains in each of our major businesses. Market share is a measure of how clients reward us for the value we provide them.
- 3 A brand and reputation that reflect an unshakable commitment to clients and the highest standards of integrity.
- 4 A positive differential in the quality of our people compared with competitors, demonstrated by intellectual leadership in each business.

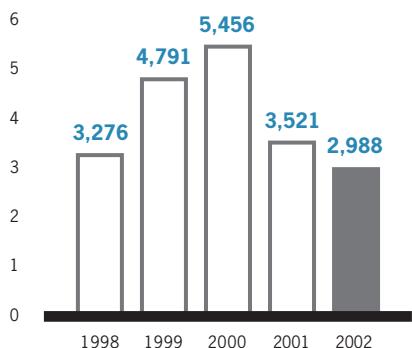
Over the years, we have found that strict adherence to these four fundamental goals has served our owners very well. We have invariably come to regret it whenever we deviated from or lost sight of these goals in the pursuit of what seemed fashionable at the time. In 2002, we performed well on all except market share.

When we look back on the five years since the merger of Morgan Stanley and Dean Witter in 1997, this time period can be divided into two parts, each characterized by radically different business environments. The first two-and-a-half years coincided with the final burst of the extraordinary economic expansion and bull market of the '90s. Returns in equity markets of more than 20 percent a year led many to believe that a "new paradigm" had replaced the traditional business cycle. The new paradigm embraced concepts such as clicks, eyeballs and zero-priced products rather than revenues, cash flows and profits. Valuations and price-to-earnings ratios skyrocketed with little or no discernible relationship to future earning streams.

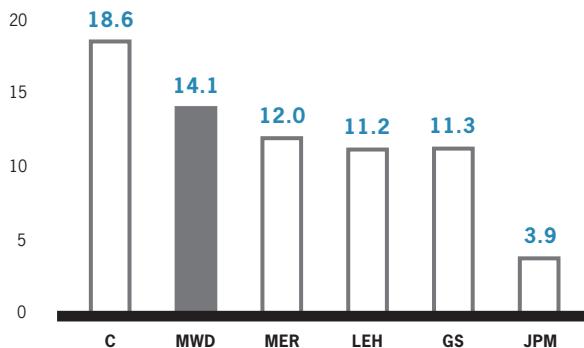
FINANCIAL RESULTS

Challenging financial markets, poor business conditions and an adverse regulatory climate have had an impact on revenues and earnings for the last 10 quarters — quite different from the heady growth of the late 1990s. Our ROE of 14.1 percent in 2002 was significantly better than almost all our competitors.

Net Income (Dollars in Millions)



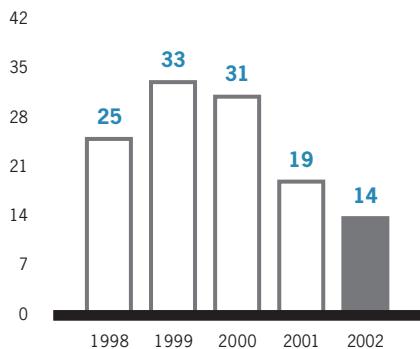
Competitive Return on Equity (ROE) Comparison – 2002



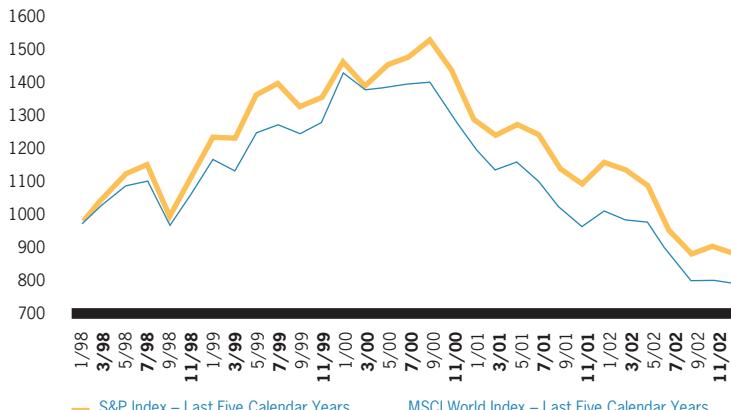
C: Citigroup, MWD: Morgan Stanley, MER: Merrill Lynch
LEH: Lehman Brothers, GS: Goldman Sachs, JPM: JPMorgan Chase

Source: Company filings

Return on Equity (In Percent)

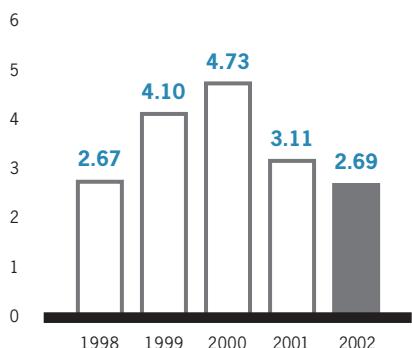


S&P 500 Index and MSCI World Index



Source: Factset

Earnings per Share (Diluted)



Business Drivers

	1998	1999	2000	2001	2002
S&P 500	1,164	1,389	1,315	1,139	936
Dow	9,117	10,878	10,415	9,852	8,896
NASDAQ (\$B)	5,356	9,478	19,928	11,609	7,524
NYSE (\$B)	7,194	8,788	10,945	10,623	10,412
Global Equity & Equity Related					
\$ Volume (\$B)	376	503	644	409	358
Global IPO Volume (\$B)	116	179	230	88	80
Global Investment Grade Volume (\$B)	2,210	2,184	1,979	2,456	1,843
Global Completed M&A \$ Volume (\$B)*	1,986	2,252	3,406	2,285	1,207
Global Announced M&A \$ Volume (\$B)*	2,175	3,086	3,251	1,595	1,052

* Completed and Announced M&A data is for deals of \$100MM or more

Sources: World Federation of Exchanges (FIBV). Underwriting and M&A Volume: Thomson Financial

In the past three years, businesses and investors have paid a heavy price. Equity prices have gone through the most severe and prolonged decline since the 1930s. In reaction to the expansion of capacity in many industries, including our own, businesses have hesitated to make new capital investments.

In 2002, your company faced challenging financial markets and poor business conditions for the third year in a row. We also had to contend with the harsh regulatory environment that came in the wake of scandals at a number of companies. All of this had an impact on revenues and earnings. Our net revenues were down 14 percent to \$19.1 billion, and profits were down 17 percent to \$3.0 billion. While these numbers still put us solidly in the black, they are quite different from the heady growth we had become accustomed to in the late '90s. Our return on equity (ROE) of 14.1 percent in 2002 was significantly better than almost all our competitors and is a satisfactory return at a time when 10-year U.S. government bonds yield 4 percent. Even so, our ROE target continues to be 18–20 percent over the course of the business cycle. While we clearly cannot always expect the 30 percent ROE of two years ago, we also do not regard last year's 14 percent as a permanent condition.

As our firm grows and becomes more complex, I rely increasingly on the valuable partnership with Bob Scott, our President, in sharing oversight of our major businesses. What follows is our view of how these businesses have performed in the context of the goals I mentioned earlier.

› **INSTITUTIONAL SECURITIES**

Our institutional securities business was challenged economically by significant, industry-wide declines in the volume of equity trading, equity underwriting, and merger and acquisition activity for the third year in a row. The corporate debt underwriting market held up better but was one of the few industry bright spots in 2002. Largely as a result of the overall decline in business activity, our institutional net revenues were down 20 percent, and pre-tax profits were off 30 percent. However, I believe our profit results were very good, given the depression in revenues and severe margin pressures throughout the financial services industry. Steve Newhouse and Vikram Pandit, the co-leaders of our institutional business, have applied their complementary skills to fashion a business model and a client strategy that have put us in an enviable competitive position. We should continue to have premium returns.

We made the difficult decision this past year to reduce the number of people in our institutional business. The cuts were substantial — 2,000 people or about 14 percent of our institutional workforce.

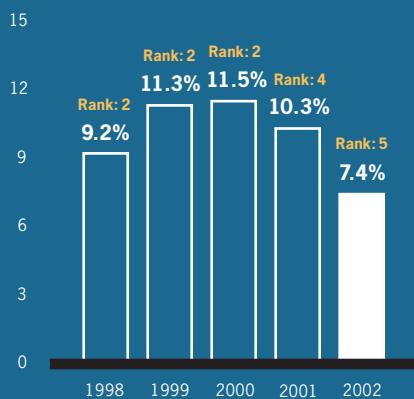
“In 2002, we achieved industry-leading returns without compromising what we stand for.”

VIKRAM PANDIT

Co-President and Head of *Institutional Securities*

**Global Equity Underwriting
Market Share and Rank**

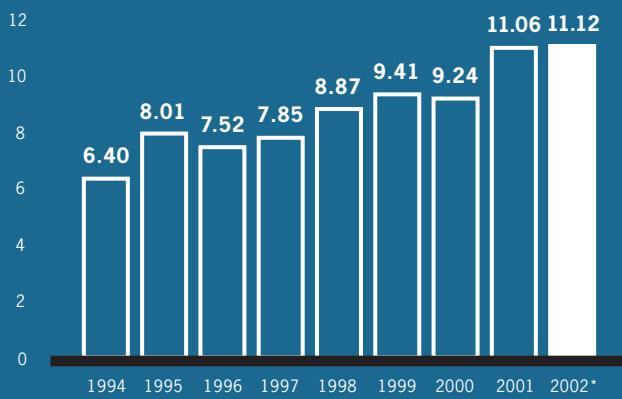
(Fiscal Year)



Source: Thomson Financial

Equity Trading Market Share

(In Percent)



* 2002 data represents January–September 30, 2002 annualized on straight-line basis. All figures are for Total Equity Business excluding new issues.

Source: McLagan

Institutional Securities

(Dollars in Millions)

	2001	2002	% Change
Revenues	30,671	20,057	(35%)
Expenses (including interest)	26,832	17,353	(35%)
Profit before Taxes	3,839	2,704	(30%)
Profit before Taxes Margin	13%	13%	NA

We determined the reductions were necessary because our capacity and costs were simply too great for current and projected levels of business in sales and trading and investment banking. We also reduced compensation for those we retained by an average of 20 percent and reduced non-compensation expenses by \$204 million or 7 percent. We always hate to let people go. We feel a strong commitment to our people, and a decision like this, however necessary, runs counter to our culture. We waited longer than some of our competition to start making layoffs — some would say too long, but we were willing to err on that side. The size of our staff reductions, in fact, was not as great as some of our competitors because we did not increase staff as dramatically in 1999 and 2000. We've tried to balance current profitability for the benefit of shareholders with the need to keep our talent pool intact in order to take full advantage of the upturn in business when it inevitably occurs.

We are also concentrating our best resources on our best clients. We now have a single senior relationship manager focused on each of our top 200 clients, and have achieved significant improvement in our ability to deliver a greater breadth of service with ideas that help our clients become more successful. We have rejuvenated advisory relationships at companies such as IBM, General Electric and AT&T because of this approach. In addition, we are seeing meaningful increases in market share with a number of the top mutual funds, pension funds and insurance companies.

Our client focus has been shepherded globally by Steve Newhouse through a series of leadership meetings with our 800 managing directors. Steve has personally visited more than 20 countries in the past two years and has been instrumental in forging the renewed focus on relationships that has enabled us to lead transactions with clients such as China Telecom, Lukoil, Ericsson and HSBC.

Vikram Pandit foresaw the margin pressures that would result from the impact of technology and decimalization of stock prices. Rather than acquire other established firms at a premium, which several of our major competitors did, we made the decision to build our own capabilities and invested significantly in technology to automate the vast majority of our NASDAQ and options trading. As a result, we were able to offer our clients best execution at the lowest cost through our steady investment in systems rather than through large commitments of risk capital. With this technology working in our favor, our equity trading business has steadily increased market share every year, including 2002.

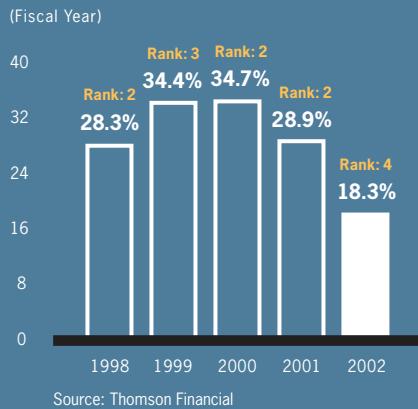
Our overall market share results this past year were mixed. In addition to the gains in equity trading, we believe we gained share in most fixed income trading categories, although fixed income shares are more difficult to measure. With industry-wide investment banking activity down to levels not seen

“Under the most intense scrutiny, Morgan Stanley and its employees were clearly differentiated by their integrity. We proved to be the kind of company we have always believed we are.”

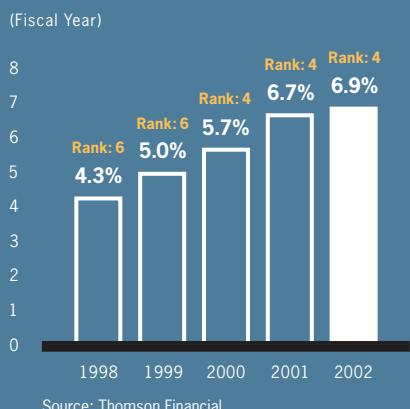
STEPHAN NEWHOUSE

Co-President and Head of *Institutional Securities*

**M&A Announced
Market Share and Rank**



**Investment Grade Debt
Market Share and Rank**



2002 Awards

- #1 Global Research Team
— *Institutional Investor*
- #1 U.S. Equity Research Team
— *Greenwich Associates*
- #1 Overall Equity Borrower (All Regions)
— *Euromoney*
- #1 Equity Trading and Execution (U.S. and Europe)
— *Reuters Institutional Investor Report*
- Best Overall FX Provider
— *Global Investor*
- Best Local and Foreign Investment Bank in China
— *Finance Asia*
- 100 Best Companies for Working Mothers
— *Working Mother Magazine*
- Top 100 Companies Providing the Most Opportunities to Hispanics — *Hispanic Magazine*
- Top Companies for African-Americans
— *Family Digest Magazine*
- Employer of the Year
— *National Business and Disability Council*

since 1997, we increased market share in debt underwriting but slipped in equity underwriting, initial public offering (IPO) underwriting, and mergers and acquisitions. During a time when excess capacity in our industry has led to some less-than-rational, and in some cases riskier, competitive behavior, we believe we managed the relationship between market share and profitability better than many of our competitors. Even so, we were disappointed in our market share decreases.

Another negative in 2002 was the red ink in our aircraft financing business. In recent years, the securitization markets have continued to grow in size and importance. Securitization is a useful technique that benefits clients by unlocking value in assets, transferring risk and bringing greater liquidity to the markets. But like everything else in business, it is not without risk. We entered the aircraft financing business in 1997 and began selling securities backed by the value of the planes and the future income from the leases. After 9/11 and the subsequent sharp reduction in air travel, we were left with a sizable fleet of planes during a time of dire economic conditions for the industry. The negative impact on our pre-tax earnings was approximately \$140 million in 2002. A recovery in aircraft values will take some time to materialize, creating uncertainty as to when (and at what valuation) we will be able to reduce our aircraft investment. We believe we have an excellent team of professionals managing this complex and difficult business, and we continue to make every effort to maximize the long-term value of our investment in it.

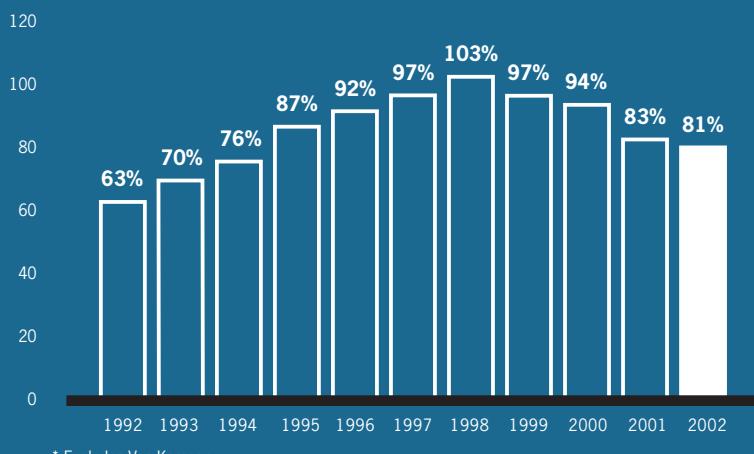
One of our proudest achievements in 2002 was maintaining the strength of our brand and our reputation for integrity during a time when the reputations of many companies were severely damaged. We are the beneficiaries of our predecessors' actions over many years in putting the interests of our clients first and choosing carefully those with whom we do business. As you know, your company was not involved with Enron, Global Crossing, WorldCom or Adelphia in any meaningful way. The high-visibility investigation by New York State Attorney General Eliot Spitzer resulted in all major firms being fined and in a restructuring of the relationship between research and investment banking in our industry. Morgan Stanley came through the investigations relatively unscathed. In fact, we positively differentiated ourselves from our major competitors. We paid the lowest fine — \$50 million compared with fines ranging from \$55 million to \$325 million for other firms. In contrast, the disclosures at several of our competitors kept them in the headlines for most of the year.

“We continue to shift from merely selling products to serving the unique, varied needs of each client, putting a premium on our competitive advantage as advisors.”

JOHN SCHAEFER

President & COO, *Individual Investor Group*

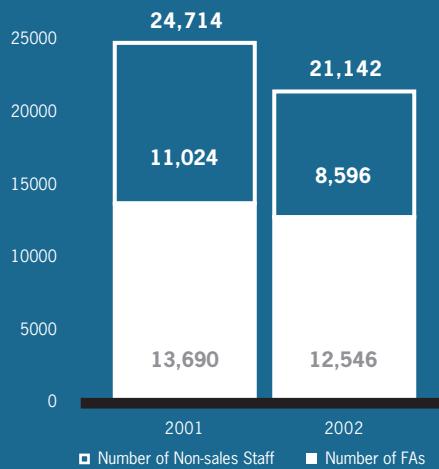
Continuing Revenues as Percentage of Fixed Expense*



* Excludes Van Kampen

Total Headcount

(Number of FAs and Number of Non-sales Staff)

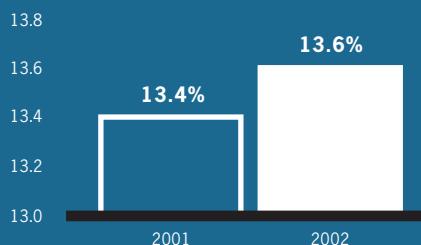


Individual Investor Group

(Dollars in Millions)

	2001	2002	% Change
Revenues	4,821	4,111	(15%)
Expenses (including interest)	4,882	4,126	(15%)
Loss before Taxes	(61)	(15)	NA

Client Asset Share Percentage*



* All 2002 asset figures based on 3Q02 company reports. Industry universe includes Morgan Stanley, Merrill Lynch, UBS PaineWebber, Salomon Smith Barney, Schwab and Prudential.

The primary reason we came through all this so well is that our research analysts and investment bankers have adhered to our basic principles of integrity and did not allow research to be compromised by the desire to court favor with potential clients. In fact, we chose *not* to compete for 80 percent of the Internet IPOs during the boom, passing up more than \$1 billion in potential fees. I can report to you that we were extensively and thoroughly investigated by the New York State Attorney General, the SEC, the NYSE and the NASD. Through the tireless efforts of Don Kempf, our Chief Legal Officer, and his team, we provided thousands of documents with over a half a million pages of e-mails. Mary Meeker, our other technology analysts and our investment bankers were put through the wringer. And all emerged with their reputation for integrity intact.

› **INDIVIDUAL INVESTORS**

Our retail clients have been hurt by three years of double-digit declines in the equity market. In 2002, the assets of our retail customers declined from \$595 billion to \$517 billion as a result of market depreciation. The declines have led to an understandable reluctance on the part of investors to put money into stocks. Instead, they have shown an increased preference for bank CDs and money market funds. These trends resulted in net revenues in our individual investor business falling by 11 percent in 2002 on top of a decline of 22 percent in 2001. The revenue base for this business is now approximately 30 percent below what it was just two years ago.

The poor environment is by far the primary cause of the revenue declines. However, we deviated from our long-term, fee-based focus in 1998, 1999 and 2000 as the high client returns from IPOs and from individual technology stocks encouraged us to follow these fashionable trends. As a result, the steep decline in transactional revenues affected us more in 2001 and 2002 than in previous equity market downturns. Because of this transaction-based focus, our fee revenues as a percentage of fixed costs declined sharply. This resulted in poor economics for the business.

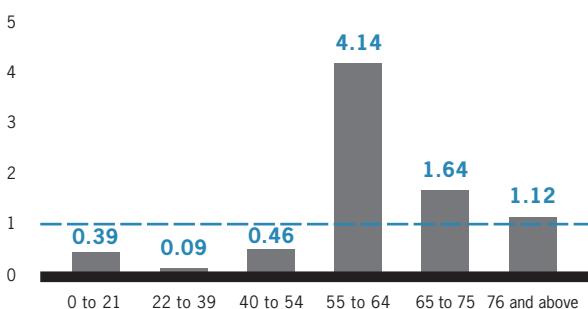
To counter the decline, John Schaefer, who leads our retail brokerage business, has refocused this business on fee-based assets. To support this effort, John's team has changed payout to financial advisors to encourage more fee-based accounts in which the interests of both the client and the financial advisor are the same: to increase the value of the assets. Going forward, this fee-based approach should enable us to increase revenue market share.

SECULAR TRENDS

Morgan Stanley has strong prospects for growth based on long-term, fundamental trends in financial services. An aging population in the United States, as in Europe, should create increased demand for financial services products linked to savings and retirement. Also, merger and acquisition activity is poised for an upturn, driven by further industry consolidation across sector and geography.

Expected Compounded Annual Growth Rates of Different Age Groups

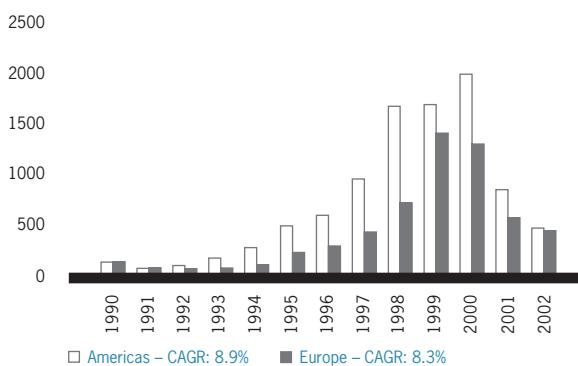
(Percentage, 2001 to 2011)



Source: U.S. Census Bureau (Middle Series Projection, January 2000),
Morgan Stanley Research

Announced M&A Volume*

(Dollars in Billions)

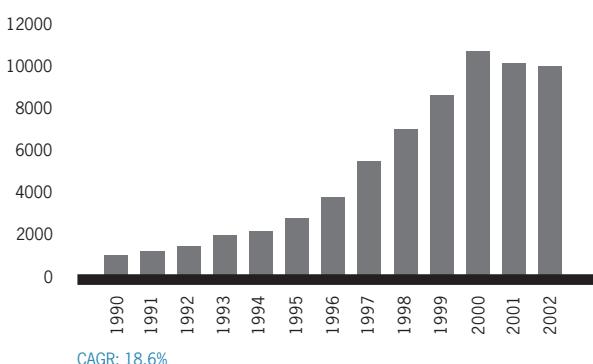


* Results based on location of target and/or acquirer; includes deals with aggregate value of \$100M+; data as of 2/3/2003.

Source: Thomson Financial

NYSE Dollar Value of Shares Traded*

(Dollars in Billions)



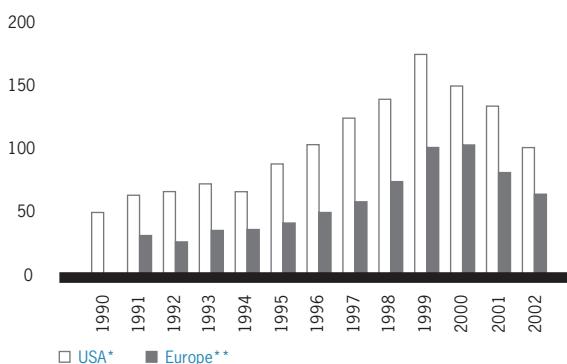
CAGR: 18.6%

* Includes domestic and foreign shares, including investment funds; counts only transactions that pass through NYSE trading systems or which take place on NYSE trading floor.

Source: FIBV

Capital Markets Penetration

(Market Cap as a Percentage of GDP)



* Includes NYSE, NASDAQ, AMEX and Chicago exchanges.

** Includes EU-15 countries.

Source: FIBV, EU Factbook, Bureau of Economic Analysis

We are confident that over the next few years our individual investor business will return to being the leader in terms of coverage of fixed expenses from continuing revenues, which have historically been defined as those revenues resulting primarily from fee-based assets.

John and his team have put into place this strategy adjustment while, at the same time, bringing our costs into line with the reduced level of demand. This has been a painful but necessary labor that we believe is now complete. We have reduced the number of financial advisors from 14,000 to 12,500 through attrition and enforcement of productivity standards. Despite this reduction, our market share of financial advisors remained steady in 2002. As the weak market continues, we would expect the number of financial advisors to continue to decline and reach a level of between 11,000 and 12,000 at the end of 2003. In further measures to cut costs, we have reduced our non-sales staff by 30 percent over the last two years, closed 100 of our branch locations in 2002 and will close about 100 more in the first half of this year. We are investing in our most profitable offices, and we have kept our most productive financial advisors. With the costs of these actions behind us, we should not only return this business to profitability, but at a level greater than any of our competitors. The financial performance of our individual securities businesses improved in 2002 in spite of \$112 million in onetime costs from the layoffs and real estate closures. We begin 2003 with a cost structure well below 2002, which should enhance profitability.

While reducing costs, we have also upgraded significantly the services we provide to our individual investor clients. We have worked hard to provide our clients with a clear picture of their aggregate investments and gains and losses set against their financial goals. Our clients are in a position to evaluate the performance of both their accounts and financial advisors. We are also investing heavily in financial advisor education to give them additional tools to assist their clients in wealth management.

Our financial advisors are also taking a more consultative approach with clients, with emphasis on financial planning, asset allocation and diversification. Professionally managed investment products — including mutual funds, separately managed accounts and variable annuities — are a major focus. We believe these enhancements will result in greater client satisfaction and a higher market share of client assets.

In recent years, we have pursued the expansion of our retail securities and asset management businesses into markets outside the U.S. While we moved more carefully than some of our competitors, the

“By combining our businesses into a unified global platform, we have reduced costs and created an organization where the best minds can focus on creating the best investment products.”

MITCHELL MERIN

President and COO, *Investment Management*

Assets Under Management
Mutual Fund Market Share

(In Percent)

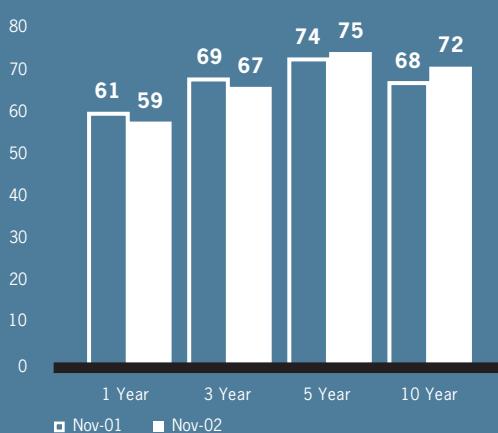


* Includes proprietary and non-proprietary channels

Source: Strategic Insight

Lipper Percent of Assets in Top Half

(In Percent)



Source: Lipper

Investment Management

(Dollars in Millions)

	2001	2002	% Change
Revenues	2,535	2,304	(9%)
Expenses (including interest)	1,706	1,462	(14%)
Profit before Taxes	829	842	2%
Profit before Taxes Margin	33%	37%	NA

expansion was still largely premature. Our institutional securities business outside the U.S. has been long-established and will continue to be profitable. Retail securities and asset management, however, have been much slower to develop. We still believe that extending our global reach is the right long-term strategy, but this effort has not been profitable over the past five years. John Schaefer has responded by reducing our global retail commitment, shutting down our retail business in Japan and pulling back somewhat in Germany. However, our retail businesses in the U.K. and Spain as well as our private wealth management business in Europe and Asia continue at full strength. Over time, we will continue to slowly expand in the individual investor market outside the U.S. because we believe a global footprint will suit the business 20 years from now. But this expansion will proceed based on fundamentals, such as clear profit opportunities, rather than on a “strategic” basis in which returns cannot be foreseen.

› INVESTMENT MANAGEMENT

Our financial performance in investment management was excellent in 2002. We achieved a 9 percent increase in net income to \$525 million despite a 9 percent decline in revenues to \$2.3 billion. The revenue decline was largely the result of lower equity prices, which drove a decline in the value of our assets under management. The increase in net income was due partly to efficiencies realized from restructuring as well as other cost-control measures.

Mitch Merin and his team have restructured our investment management business to be in line with the current environment. We believe we are ahead of many of our major competitors in achieving efficiencies and in positioning ourselves to realize the advantages of scale. By combining operations, we have been able to reduce costs substantially in all areas of the business except portfolio management. Part of these savings was returned to shareholders, and part was reinvested in portfolio manager pay to maintain the best investment professionals.

The restructuring enables us to leverage the full scale of our large, global organization to improve investment performance. As one of the largest asset managers in the world, we have been able to negotiate lower prices with vendors, reducing certain costs for our clients and improving their returns. One of our goals is to have our best portfolio managers — those who generate superior returns compared with our competitors — serve more of our clients and further enhance our investment performance. In keeping with this philosophy, Mitch has replaced underperforming portfolio managers and has the entire organization committed to giving clients the best possible returns and service.

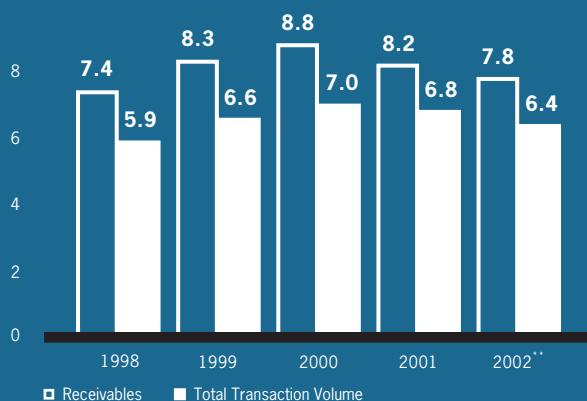
“We have positioned ourselves for a challenging economy by focusing on the basics: risk management, great service, innovation, branding and fair pricing.”

DAVID NELMS

President and COO, *Discover Financial Services*

Market Share for Receivables and Total Transaction Volume*

(In Percent)



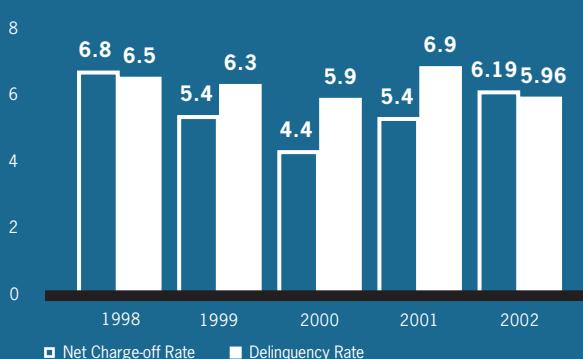
* On a calendar basis

** Through calendar 2Q2002, the most recent industry data available

Source: The Nilson Report

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

(In Percent)



Source: Internal Data

Discover Financial Services

(Dollars in Millions)

	2001	2002	% Change
Revenues	5,847	5,943	2%
Expenses (including interest)	4,720	4,754	1%
Profit before Taxes	1,127	1,189	4%
Profit before Taxes Margin	19%	20%	NA
Pre-tax Return on Average Managed Receivables	2.28%	2.39%	NA

Our share of net fund inflows as well as market share of assets under management have been disappointing — both declined slightly in 2002. But with the changes that have been made in the portfolio management and client services part of the business, we believe our market share will improve in 2003.

› **DISCOVER CARD** Discover® Card's revenues were flat in 2002, but profits were up 9 percent to a record \$767 million even with an increase in loan write-offs to 6.19 percent. In addition, transaction volume increased by 4 percent to \$97 billion, and managed receivables increased by 4 percent to \$51 billion. The credit card business has remained intensely competitive as companies slash rates to as low as 0% in an attempt to attract new customers and gain market share. But in recent years Discover has been able to largely maintain its market share as measured by managed receivables without adopting the money-losing pricing measures of some competitors.

David Nelms and his team distinguished themselves on three fronts this past year: the introduction of the Discover 2GOSM Card — the industry's first key chain credit card; the relaunching of the Cashback Bonus® award program with merchant partners; and the signing of more than 600,000 new merchants. Discover is now close to achieving our long-term goal of merchant parity with Visa and MasterCard in the U.S. This means that nearly as many merchant locations throughout the U.S. accept Discover Card as accept Visa and MasterCard. This remarkable achievement was the work of the Discover merchant sales force, who contacted merchants in many different markets and presented them with a value proposition they could not afford to ignore: a 50-plus million Cardmember base who all are potential customers for merchants accepting Discover Card.

Discover has initiated a new brand-advertising campaign focusing on the Cashback Bonus award that has long differentiated Discover from other cards. We believe our brand is a significant competitive advantage, and with new products such as the Discover 2GO Card, we should be able to gain market share, particularly as the very aggressive pricing and lax credit standards of some competitors reach the point of diminishing returns. We expect some of our most aggressive competitors will reassess their pricing and credit policies in the face of stricter accounting standards and profitability pressures.

SELECTED TRANSACTIONS

➤ COMCAST ACQUIRES AT&T BROADBAND

Morgan Stanley was lead advisor to Comcast Corporation on its \$72 billion acquisition of AT&T Broadband, making Comcast the biggest cable company in the world. In a series of the largest and most complex transactions of 2002, Morgan Stanley helped Comcast to secure \$17 billion of bank and bridge loan financing, to execute a \$12 billion debt exchange and consent (the largest in history), and to reach an agreement with AOL in unwinding the Time Warner Entertainment partnership.

➤ CHINA TELECOM GOES GLOBAL

The largest global telecom IPO of 2002 took place in China: The US\$1.5 billion offering of China Telecom was the cornerstone for China's restructuring of its telecom industry. Morgan Stanley, acting as joint bookrunner, helped China Telecom's IPO succeed amid challenging, volatile markets and investor sentiment about the telecom sector. The offering helped to transform China Telecom, increasing its public profile and securing access to the international capital markets to fund future growth.

➤ ACCENTURE BROADENS ITS BASE

Morgan Stanley, which had acted as joint bookrunner for the Accenture IPO in 2001, acted as sole bookrunner for the \$1.9 billion follow-on offering for the world's leading management consulting and technology services company. It was a landmark offering for the U.S. equity capital markets: one of the largest secondary issues priced in 2002 and the largest secondary ever for the services industry. The offering expanded Accenture's institutional and retail investor base.

➤ AEGON RESTRUCTURES

Clients rely on Morgan Stanley to complete transactions that require the broadest global access to institutional investors. For AEGON, one of the world's largest listed insurance groups, Morgan Stanley served as joint bookrunner on a secondary offering of EUR3.5 billion that was part of a broad capital realignment of the company and its main shareholder, the AEGON Association. It was Europe's largest equity transaction of 2002 and the largest ever of its kind in the insurance sector.

➤ JETBLUE TAKES OFF

In the face of a broad downturn in the airline sector, Morgan Stanley acted as sole bookrunner on the highly successful \$182 million IPO for JetBlue Airways. Morgan Stanley helped the market differentiate JetBlue from the other airlines: Its low-cost strategy, high-brand awareness and customer loyalty made this an emerging growth opportunity. Investors responded with exceedingly strong interest that afforded the company a premium valuation.

➤ CRÉDIT AGRICOLE'S PROPOSED MERGER WITH CRÉDIT LYONNAIS

Morgan Stanley is playing a major role in the current French banking consolidation. In Morgan Stanley's largest global M&A deal announced in 2002, the firm is acting as financial advisor to Crédit Agricole Group on its friendly US\$16.7 billion takeover of Crédit Lyonnais. In 2001, Morgan Stanley had acted as joint lead manager in Crédit Agricole's EUR3.3 billion IPO.

Our returns on equity and assets for Discover are at about industry averages. We are working on several fronts to improve these returns, particularly by reducing write-offs and improving our pricing strategy. In 2002, we sacrificed some growth in order to improve profitability, which we believe was the correct tradeoff in the current competitive environment. Finally, our entry into the credit card market in the U.K. has now reached critical mass. We have achieved \$2 billion in receivables balances with over 1 million credit cards in less than three years. The U.K. business should be profitable in 2003.

› **FINANCIAL STRENGTH** Over the past two years, Steve Crawford's financial team has significantly strengthened our balance sheet and liquidity position. Limited share repurchases and a stable dividend have contributed to a \$2.6 billion increase in shareholders' equity over the past two years. Our repurchase program in 2001 and 2002 has been limited to buying stock to offset equity awards given as part of employee compensation. In retrospect, our stock repurchase program in 1999 and 2000 was too aggressive.

In addition to a larger equity base, our liquidity position has been strengthened by less reliance on short-term debt, primarily commercial paper, and an increase in the amount and maturity of our long-term funding. We believe our financial strength is a competitive advantage that will be very important in the years to come.

› **LOOKING AHEAD** As difficult as 2002 was, it has had the beneficial effect of putting your relatively young management team through the test of battle. No one can say any longer that our top managers have never seen a downturn or haven't been through a bear market. The past two-and-a-half years have given our formerly bull-market management team the opportunity to lead people through revenue declines, layoffs, on-the-job deaths and injuries, clients losing major portions of wealth and retirement savings, discouraged and weary colleagues, and people working twice as hard for half the pay.

My appraisal is that your management did a great job and truly functioned as a team. That is why I have talked about a few of them in this letter. There is no doubt in my mind that we have achieved our goal of creating a positive differential in the quality of our people. Decisions and actions of both our predecessors and our current leaders have put us where we want to be today:

- Our reputation is intact, and enhanced relative to our competitors;
- Our brand is established with solid advertising supporting both Morgan Stanley and Discover;
- Our financial strength is second to none, with both profitability and cash flow *the* highest of major competitors;
- Our balance sheet ratios and debt ratings have stayed strong;
- We did not squander resources on high-priced marginal acquisitions in 1999 and 2000;
- We restructured costs to improve our profit economics in all our securities businesses and in investment management.

We also continued our intense focus on clients, with major changes in our approach to client relationships and in the rewards for our people. Our only disappointment in 2002 is that this client focus did not result in market share gains in many businesses. But we had strong market share momentum in the fourth quarter of 2002 and in early 2003, which should lead the way to major market share gains this year.

I am very optimistic on the prospects for your company.

Sincerely,



PHILIP J. PURCELL
Chairman & Chief Executive Officer

February 5, 2003

SELECTED FINANCIAL DATA

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

FISCAL YEAR ¹	2002	2001	2000	1999	1998
INCOME STATEMENT DATA					
Revenues:					
Investment banking	\$ 2,527	\$ 3,425	\$ 5,008	\$ 4,523	\$ 3,339
Principal transactions:					
Trading	2,685	5,491	7,361	5,796	3,159
Investments	(35)	(316)	193	725	89
Commissions	3,280	3,162	3,647	2,774	2,208
Fees:					
Asset management, distribution and administration	3,945	4,216	4,405	3,462	3,111
Merchant and cardmember	1,420	1,349	1,256	1,030	1,244
Servicing	2,091	1,904	1,489	1,232	936
Interest and dividends	15,866	24,127	21,234	14,880	16,385
Other	636	516	513	250	268
Total revenues	32,415	43,874	45,106	34,672	30,739
Interest expense	11,970	20,729	18,148	12,487	13,443
Provision for consumer loan losses	1,336	1,052	810	526	1,174
Net revenues	19,109	22,093	26,148	21,659	16,122
Non-interest expenses:					
Compensation and benefits	7,933	9,372	10,896	8,361	6,609
Other	6,221	6,987	6,733	5,542	4,793
Restructuring and other charges	235	—	—	—	—
Total non-interest expenses	14,389	16,359	17,629	13,903	11,402
Gain on sale of businesses	—	—	35	—	685
Income before income taxes, dividends on preferred securities subject to mandatory redemption, extraordinary item and cumulative effect of accounting change	4,720	5,734	8,554	7,756	5,405
Provision for income taxes	1,645	2,074	3,070	2,937	1,992
Dividends on preferred securities subject to mandatory redemption	87	50	28	28	20
Income before extraordinary item and cumulative effect of accounting change	2,988	3,610	5,456	4,791	3,393
Extraordinary item	—	(30)	—	—	—
Cumulative effect of accounting change	—	(59)	—	—	(117)
Net income	\$ 2,988	\$ 3,521	\$ 5,456	\$ 4,791	\$ 3,276
Earnings applicable to common shares ²	\$ 2,988	\$ 3,489	\$ 5,420	\$ 4,747	\$ 3,221
PER SHARE DATA					
Earnings per common share:					
Basic before extraordinary item and cumulative effect of accounting change	\$ 2.76	\$ 3.29 (0.03)	\$ 4.95	\$ 4.33	\$ 2.90
Extraordinary item	—	(0.05)	—	—	—
Cumulative effect of accounting change	—	—	—	—	(0.10)
Basic	\$ 2.76	\$ 3.21	\$ 4.95	\$ 4.33	\$ 2.80
Diluted before extraordinary item and cumulative effect of accounting change	\$ 2.69	\$ 3.19 (0.03)	\$ 4.73	\$ 4.10	\$ 2.76
Extraordinary item	—	(0.05)	—	—	—
Cumulative effect of accounting change	—	—	—	—	(0.09)
Diluted	\$ 2.69	\$ 3.11	\$ 4.73	\$ 4.10	\$ 2.67
Book value per common share	\$ 20.24	\$ 18.64	\$ 16.91	\$ 14.85	\$ 11.94
Dividends per common share	\$ 0.92	\$ 0.92	\$ 0.80	\$ 0.48	\$ 0.40
BALANCE SHEET AND OTHER OPERATING DATA					
Total assets	\$ 529,499	\$ 482,628	\$ 421,279	\$ 366,967	\$ 317,590
Consumer loans, net	23,404	20,108	21,743	20,963	16,412
Total capital ³	65,936	61,633	49,637	39,699	37,922
Long-term borrowings ³	44,051	40,917	30,366	22,685	23,803
Shareholders' equity	21,885	20,716	19,271	17,014	14,119
Return on average common shareholders' equity	14.1%	18.5%	30.9%	32.6%	24.5%
Average common and equivalent shares ²	1,083,270,783	1,086,121,508	1,095,858,438	1,096,789,720	1,151,645,450

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.

INSTITUTIONAL SECURITIES INCOME AFTER TAXES
(Dollars in Millions)

2002	1,703
2001	2,396
2000	3,564
1999	2,967

INDIVIDUAL INVESTOR GROUP (LOSS) INCOME AFTER TAXES
(Dollars in Millions)

2002	(7)
2001	(44)
2000	506
1999	454

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 private 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

The Individual Investor Group ("IIG") provides personalized financial advice and investment solutions to families and individuals, based on a thorough understanding of their needs and objectives.

Investor Advisory Services ("IAS"), Morgan Stanley's U.S. retail brokerage arm, specializes in serving affluent and high net worth clients via its network of 11,800 financial advisors located in nearly 500 branches across the country. IAS represents the second-largest individual client financial advisor organization in the U.S.

Private Wealth Management ("PWM") operates globally, with 700 investment representatives located in 18 primary offices in the U.S., Europe and Asia. PWM provides sophisticated financial solutions to some of the wealthiest people in the world.

Each IIG client benefits from individual attention and advice from a team of financial professionals who have access to Morgan Stanley's powerful capabilities as a global securities firm, including investment banking, trading, research, and a complete range of securities and investment products.

Globally, IIG had \$517 billion in client assets under management or supervision as of November 30, 2002.

INVESTMENT MANAGEMENT INCOME AFTER TAXES
(Dollars in Millions)

2002	525
2001	480
2000	661
1999	694

CREDIT SERVICES INCOME AFTER TAXES
(Dollars in Millions)

2002	767
2001	689
2000	725
1999	676

INVESTMENT MANAGEMENT

Morgan Stanley Investment Management is one of the largest asset managers in the world, offering a diverse range of investment products managed by top investment professionals around the globe. Products include many highly rated U.S. and international bond, equity and multi-asset class funds that are distributed in multiple channels and markets under several brands. Our portfolio managers and research analysts are located around the world, enhancing investment capabilities through a combination of global information sharing and local decision making.

• **INDIVIDUAL INVESTORS**

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

Non-proprietary channel — Morgan Stanley also offers investment products under several brands, including Van Kampen, 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 and offshore funds and are included in 401(k), IRA and asset allocation platforms.

• **INSTITUTIONAL INVESTORS**

Institutional investors, including pension plans, corporations, non-profit 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

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 approximately 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, CD and money market accounts, personal and home loans, and credit protection products.

This year, the Discover 2GO™ Card, the first credit card of its kind in the industry, was introduced. The Discover 2GO Card has a unique, compact shape and is housed in a protective case that easily attaches to a key chain, belt or money clip. The Discover 2GO Card was recognized as one of the "Best Products of 2002" by *BusinessWeek* and *USA Today*.

Discover Card is a leading credit card company on the Internet, with more than 8 million Cardmembers registered at the Discover Card Account Center. Through Discovercard.com, Cardmembers are offered a selection of free, easy-to-use online services to simplify everyday financial management.

Our overseas credit card business continues to grow and has now issued more than 1 million Morgan Stanley Card® credit cards in the U.K. and, this year, reached \$2 billion in consumer loans.

OFFICERS AND DIRECTORS

BOARD OF DIRECTORS

PHILIP J. PURCELL
Chairman & Chief Executive Officer

ROBERT G. SCOTT
President & Chief Operating Officer

ROBERT P. BAUMAN
Former Chief Executive Officer
SmithKline Beecham plc

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

JOHN E. JACOB
Executive Vice President –
Global Communications
Anheuser-Busch Companies, Inc.

C. ROBERT KIDDER
Chairman
Borden Chemical, Inc.

CHARLES F. KNIGHT
Chairman
Emerson Electric Co.

JOHN W. MADIGAN
Chairman
Tribune Company

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

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

LAURA D'ANDREA TYSON
Dean, London Business School

MANAGEMENT COMMITTEE

PHILIP J. PURCELL
Chairman & Chief Executive Officer

ROBERT G. SCOTT
President & Chief Operating Officer

TAREK F. ABDEL-MEGUID
Investment Banking Division

STEPHEN S. CRAWFORD
Chief Financial Officer

ZOE CRUZ
Fixed Income Division

JOHN P. HAVENS
Institutional Equities Division

ROGER C. HOCHSCHILD
Chief Strategic &
Administrative Officer

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

MITCHELL M. MERIN
Investment Management

DAVID W. NELMS
Discover Financial Services

STEPHAN F. NEWHOUSE
Institutional Securities

VIKRAM S. PANDIT
Institutional Securities

JOSEPH R. PERELLA
Institutional Securities

JOHN H. SCHAEFER
Individual Investor Group

OTHER OFFICERS

ALEXANDER C. FRANK
Treasurer

JOANNE PACE
Controller &
Principal Accounting Officer

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 2002 (see page 6) 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.

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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: > 1-800-622-2393
For investors outside the U.S.: > 1-201-329-8660
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 1-800-622-2393.

CUSTOMER SERVICE PHONE NUMBERS

INDIVIDUAL INVESTOR GROUP

Branch Office Locator and General Information .. > 877-937-6739
Morgan Stanley I-Choice > 888-454-3965
AAA Client Services > 800-869-3326

ASSET MANAGEMENT

Morgan Stanley Family of Funds > 800-869-6397
Morgan Stanley Institutional Funds/
MAS 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

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.

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