

Morgan Stanley

DEAR FELLOW SHAREHOLDERS:

Morgan Stanley made significant progress driving forward our business and strategy during 2010. We leveraged our unique position in the marketplace and our unparalleled global platform to overcome challenging market conditions and to deliver improved performance across many businesses.

Our clients always have been at the heart of everything we do at Morgan Stanley, and, in 2010, we continued serving them with ingenuity, integrity and the highest standards of excellence. Thanks to the dedication and hard work of more than 60,000 employees, our premier client franchise is stronger than ever—as evidenced by Morgan Stanley’s participation in virtually every major transaction that helped raise capital for leading corporations and governments around the globe in 2010.

There is much left to do across our franchise—and the entire financial services industry—as the market and regulatory landscapes continue to evolve. But we see many new and exciting opportunities. We have clear plans to continue growing revenues, earnings and return on equity in each of our businesses. And we are intensely focused on delivering first-class service to our clients and long-term value to our fellow shareholders as we write the next chapter in Morgan Stanley’s proud history.

Extraordinary Changes Across Our Industry—and Within Our Business—Since 2008

The financial services industry has been through a period of extraordinary change over the past two-and-a-half years. We have seen unprecedented turmoil in the markets, significant consolidation in the industry, extraordinary government intervention and sweeping regulatory change.

The steps the U.S. government took—and the support it provided—during 2008 and 2009 were essential to preventing the total collapse of the financial system. Every firm in the industry and the broader financial markets as a whole benefited from this support. That is why members

of our industry should play a constructive role in making changes in their own businesses—and supporting the regulatory reforms necessary—to prevent this sort of crisis from happening again.

At Morgan Stanley, we have embraced the need for change while staying true to the core values of our Firm. We made changes to how we operate our business, manage our risks and pay our people. Over the past two years, we've put the right people in the right places to lead our businesses forward. We've created the industry's leading Wealth Management platform and refocused our Asset Management business around its historic, institutional strengths. We've continued strengthening our Investment Banking franchise and built out our client flow businesses in Sales and Trading while closing proprietary trading groups. And we're supporting all these efforts with stronger liquidity, capital and risk management.

Committed to Playing Constructive Role in Regulatory Reform and Economic Recovery

We believe that Morgan Stanley, as a leading bank, has a responsibility to participate in shaping the changes under way in our industry and the regulatory framework that governs it. That process is critically important to rebuilding trust and confidence in the markets—and in our industry.

There's no doubt that uncertainty about regulatory reform weighed on the markets—and investors—for much of 2010. Markets need certainty—and market participants need to know what the rules of the game will be going forward.

The enactment of the Dodd-Frank regulatory reform legislation in the United States and progress on the Basel III capital and liquidity standards helped provide greater clarity to the market. Still, many details remain unresolved while the rule-making process moves forward and debate continues. This, obviously, could drive the same sort of “risk on /risk off” investment sentiment we saw in 2010.

We have encouraged regulators and legislators, however, to ensure that the process is pursued carefully and thoughtfully to prevent the enactment of regulation that has unintended consequences for the market. While the market needs clarity, it is more important that rule-making gets done right than that it simply gets done quickly.

We believe that, as this process continues, it also is critical for regulators and policymakers to coordinate and synchronize standards across the globe. Today's financial markets are global and interconnected. Risk cannot be defined or contained by geographic borders. So our regulatory regime must be global as well.

We believe that, if done right, global regulatory reform—and Basel III—ultimately will help level the playing field and lead to a safer, more secure financial sector. Morgan Stanley is committed to continuing to work as a partner with regulators, legislators and others throughout the industry to forge practical and workable solutions that will help provide certainty to the market and help drive economic growth.

Delivered Improved Profitability and Strengthened Client Franchise in 2010

Our performance always is inextricably tied to the global market environment and our ability to execute on the opportunities we see in that environment. In 2010, we continued to face challenging market conditions amidst the regulatory and market uncertainty that has weighed on both institutional and retail investors. But Morgan Stanley delivered improved performance as we benefited from our diverse revenue stream, strong execution and global platform.

The Firm posted net revenues of \$31.6 billion and net income from continuing operations applicable to Morgan Stanley of \$4.5 billion, or \$2.44 per share last year—our highest revenues and net income since 2006. These results were driven by improved performance across most of our businesses—with positive momentum in our Investment Banking, Equity Sales and Trading, Wealth Management and Asset Management businesses, offset by weakness in Fixed Income Sales and Trading. Book value per common share grew 16 percent to \$31.49.

In 2010, the Firm also continued strengthening our client franchise and reinforced our position in the marketplace as a trusted advisor and counterparty of choice. The Firm ranked #1 in M&A, #1 in global IPOs and #1 in global equity. We advised on nine of the top 10 announced transactions of 2010, and our equity capital markets team achieved the highest market share in a decade.

Whether it was the GM and Citi offerings in the United States, Agricultural Bank of China in Asia or Petrobras in Brazil, Morgan Stanley served as a skilled and trusted advisor on the most significant landmark transactions around the world—helping to spur new investment and economic growth.

Our many successes in 2010 are a tribute to the growing collaboration between our banking, capital markets, and sales and trading teams—as well as the retail distribution power of Morgan Stanley Smith Barney. These successes also are a sign of the powerful “flywheel” effect of our businesses—as increased flows in one area, such as Investment Banking, drive increased activity in other parts of our global franchise, whether Capital Markets, Sales and Trading or Wealth Management.

We expect that this “flywheel” effect will become even more important—and powerful—as the global markets recover.

Have a Clear Strategy to Deliver Attractive Shareholder Returns

Today, Morgan Stanley has a clear and focused strategy to drive results: Our goal is to be the premier client-centered financial services firm—combining institutional origination, distribution and investment management with our leading individual wealth management platform.

We have a diverse revenue stream based on a powerful mix of capabilities, geographies, and capital “lite” and capital “heavy” businesses. We are going to compete—and win—based on the breadth and depth of our client relationships, our unmatched global platform, and our pre-eminent positions in the most attractive growth markets.

As we look to the year ahead, we are focused on a series of key strategic imperatives—continuing to build out those businesses that require less of our balance sheet, reallocating capital across our franchise, generating higher return on assets from more capital-intensive businesses, and operating all of our businesses and support functions with disciplined execution and clear earnings accountability.

We are confident that this strategy—and the changes we have made over the past two years—will make Morgan Stanley a stronger, more balanced and, ultimately, more successful Firm. It will keep us closely aligned to the Firm’s historical strengths as an advisor and partner. And it will help us deliver to our shareholders the kind of long-term performance they should expect from Morgan Stanley.

Poised to Profit from Growing Momentum in the Market

The political transformation sweeping North Africa and the Middle East and the tragic events in Japan highlight the potential for continued volatility in the markets. Against this backdrop, however, we see evidence of economic recovery, led by the United States, where we have seen modest improvements in unemployment. We also have seen signs of improving corporate confidence reflected in M&A activity, higher investor engagement and ongoing growth in emerging markets.

Morgan Stanley is well-positioned to continue managing the risks and seizing the opportunities presented by today’s market environment, and we are driving forward key priorities in each of our businesses to that end:

- In **Institutional Securities**, we are focused on further strengthening our leadership position in Investment Banking, and we expect to benefit as markets recover globally and sponsor and

corporate activity picks up. In Equities and Fixed Income, we are strengthening our client coverage to drive revenue and market share growth. Our coverage and footprint initiatives are showing progress, but we believe there are significant additional opportunities across the Sales and Trading platform.

- Our strong results—and new asset flows—at the end of last year are the clearest sign yet of the important strides we've made integrating our **Global Wealth Management Group**. We are intensely focused on driving forward the Morgan Stanley Smith Barney integration, growing our transaction and advisory business, and increasing deposit and lending revenues in 2011 and beyond. These efforts are progressing well, and we are confident they will help us deliver very attractive margins over the long term.
- **Asset Management** delivered significantly improved performance in 2010 as we refocused the business around our core strengths, hired key senior talent and addressed legacy issues. As a result of these enhancements, this business now is on a positive trajectory and is focused on leveraging our strong investment performance with robust distribution and sales. Performance is at the heart of this business, and, in fact, more than 70 percent of our long-term strategies outperformed their respective benchmarks on a three-, five- and 10-year basis as of December 2010.

Important Opportunities across International Franchise, Especially in Emerging Markets

Since the Firm's first international expansion in the 1960s, Morgan Stanley has been a leader in building a presence in key markets around the world. That remains true today, and we recently realigned our senior management team to ensure that we are deploying our most experienced leaders in the best possible way to support the growth of our international franchise.

In Japan, our ties with Mitsubishi UFJ Financial Group (MUFG) offer us strategic advantages as we move forward. Last year, we established a global loan marketing joint venture and, with Mitsubishi UFJ Securities, entered into a joint venture of our respective securities businesses in Japan. In the wake of the tragic earthquake and tsunami that struck northeastern Japan in March, we have sought to help our Japanese colleagues, their families, our partners at MUFG and all the people of Japan. Our employees in Tokyo have shown incredible resolve in the face of many challenges, and we are continuing to provide support during this difficult time.

In the emerging markets, we are particularly focused on continuing to build a strong presence in China, India and Brazil—three dynamic and energetic markets that will drive a great deal of global growth over the next 10–20 years. The early presence that we established in these markets has positioned us well to help drive—and benefit from—that growth.

In China, we continue to benefit from our local presence—with more than 500 employees on the ground in the region—as well as our valuable partnership with the nation’s sovereign wealth fund, the China Investment Corporation. With the sale last year of our joint venture stake in the China International Capital Corporation (CICC), we have paved the way for our new joint venture in China and are poised to start a new and exciting chapter in the region—leveraging the strong relationships we’ve built in China and across Asia over decades.

In India, we are building on our long history in the region, successfully reinforcing our franchise in Investment Banking and Institutional Equities following the dissolution of our joint venture in 2007. During 2010, we ranked #1 in India M&A and helped lead Coal India’s \$3.5 billion IPO, the largest-ever IPO in the country. Looking forward, the Firm will continue to invest in our onshore businesses—including Wealth Management, Asset Management and Fixed Income, where we see a compelling opportunity.

In Brazil, we continue to deepen our Institutional Securities platform. We have 230 people in São Paulo and have developed strong investment banking, sales and trading, equity research, and prime brokerage capabilities. In 2010, we were one of the three most active traders of the Brazilian stock market and served as global coordinator and stabilization agent on Petrobras’ landmark \$70.1 billion equity offering.

In the year ahead, we will continue to build our strong platform in these vital emerging markets.

Focused on Delivering Value to Clients and Shareholders and Continuing Tradition of Excellence

Not long ago, our Firm—and the entire industry—faced the greatest financial crisis of our lifetime. Since then, Morgan Stanley has enacted significant change to our business and helped to shape positive change in the industry as a whole. As a result, we have strong momentum across an unsurpassed global client franchise and market leadership across many of our businesses. That progress has come through the hard work of the incredibly talented people across our Firm.

Indeed, if there is a single characteristic—more than any other—that has defined Morgan Stanley throughout the past 75 years, it is the quality of our people and the passion and excellence with which they have built the Firm and served our clients. That was the defining characteristic of the seven founding partners of Morgan Stanley who in 1935 opened for business in modest offices on the 19th floor of No. 2 Wall Street. And it is what defines the 60,000 passionate, driven and committed people in Morgan Stanley’s 1,200 offices across 42 nations today.

Throughout this Firm’s proud history—including the unprecedented events we have experienced in recent years—the people of Morgan Stanley have remained focused on doing business with honesty, with integrity and with our clients’ best interests at heart. That will continue to be our charge as we move forward in 2011 and beyond.

In the year ahead, our employees are going to provide the highest level of service to our clients—and work collaboratively across our businesses to create new investment and economic growth. We are going to work as partners with regulators, legislators and other market participants to enact effective regulatory regimes that reflect the complexity and global nature of today’s markets. We are going to execute our long-term business strategy with relentless intensity, leveraging our global brand and platform to boost client flows, enhance our market leadership and further improve financial performance. In short, we are going to build on Morgan Stanley’s proud 75-year tradition of excellence and, in the process, deliver long-term value to our clients, to our colleagues and to you, our shareholders.

Sincerely,

A handwritten signature in cursive script that reads "James P. Gorman". The signature is written in black ink and is positioned above the printed name.

James P. Gorman

President and Chief Executive Officer

April 7, 2011

Morgan Stanley

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