

When we think back on 2001, we are filled with deep sorrow and outrage over the events of September 11. Who among us will ever forget the shock and horror of that day? For the Morgan Stanley family, the attacks hit us right at home — 3,700 of our people worked in the World Trade Center. Sadly, seven of them and six contract service professionals did not make it out that day.

But we also take pride in the way our company responded in the immediate aftermath of the attacks and the weeks that followed. Through resolve, discipline and some individual acts of heroism, nearly all our employees evacuated the South Tower immediately after the North Tower was hit, executing planned and frequently practiced safety procedures. Many of our people immediately went to backup sites to begin to take care of customers and to protect the firm. We believe it was a defining moment for us — a summation of what we stand for and how we respond when tested by extreme circumstances. We believe the response of our people should give shareholders great confidence.

Few, if any, events will ever have the impact of September 11, but the year 2001 also tested our people and our businesses in other ways. For most of the year, the world economy was gripped in a recession that still continues as we write this letter. As a result, our business volume was down from the record levels of late 1999 and early 2000, and the steady growth in our profitability was interrupted.

We have responded to this challenge by focusing even more intently on client relationships. Despite the difficult environment, we continued to achieve substantial returns for shareholders.