

# What Really Matters

MERRILL LYNCH  
CAPITAL MARKETS AG  
2004 ANNUAL REPORT





**At Merrill Lynch  
we have built our  
business around  
what matters most**

- : Clients**
- : Markets**
- : Growth**
- : Discipline**
- : Innovation**
- : Community**
- : Results**



# Merrill Lynch & Co., Inc.



**WE ARE COMMITTED TO BUILDING VALUE AND WEALTH FOR OUR CLIENTS AROUND THE WORLD... FOCUSING SQUARELY ON THEIR NEEDS... UNDERSTANDING THAT THEIR SUCCESS ENHANCES THE VALUE OF OUR ENTERPRISE.**

**At Merrill Lynch, we have been building our business to deliver what matters most to the people we value most: relevant and trusted advice, insight and execution for our clients; and growth, operating discipline and strong financial performance for our shareholders.**

A Strong Financial Performance in 2004, we delivered:

- Net revenues of \$22 billion, up 11% from the \$19.9 billion the firm generated in 2003.
- Pretax margin of 26.5%, a record level for Merrill Lynch.
- Net earnings of \$4.4 billion, the highest the firm has ever reported, up 16% from \$3.8 billion in 2003.
- Earnings per diluted share of \$4.38, a 13% increase over \$3.87 per share the prior year.

All three of our businesses – Global Markets & Investment Banking (GMI), Global Private Client (GPC) and Merrill Lynch Investment Managers (MLIM) – contributed to these results. Each achieved higher net revenues and pretax earnings in 2004 than in 2003. And our performance was as consistently impressive across the world as it was across our businesses, with each of our geographic regions increasing net revenues year-over-year.



**Stan O'Neal**  
Chairman and Chief Executive Officer  
of Merrill Lynch

**“We are constantly evolving to provide the finest client service and meet the full breadth of our clients’ needs.”**

## Local Knowledge

Merrill Lynch's presence in Switzerland goes back to 1951. Today it employs roughly 320 professionals active in four different areas: national and international private banking, brokerage, institutional asset management and a AAA+ rated derivatives vehicle. Merrill Lynch offers its clients a broad range of services and products and is the third-largest foreign bank in Switzerland in terms of equity capital.

**In Switzerland we have the following Merrill Lynch divisions:**

> **Merrill Lynch Bank (Suisse) SA**

Responsible for Private Banking

> **Merrill Lynch Investment Managers**

Responsible for the Fund Business

> **Merrill Lynch Capital Markets AG**

Global Markets & Investment Banking

Responsible for the Institutional Business

> **Merrill Lynch Derivative Products AG**

Responsible for Institutional Business

through a AAA+ related vehicle

## Merrill Lynch Capital Markets AG

Merrill Lynch is one of the world's premier Investment Banks. In Switzerland, this area of activity is covered by Merrill Lynch Capital Markets AG (registered Swiss Bank since 1993), through which clients gain access to specialized conception and structuring of bond and equity issues as well as related derivative products, either in Swiss francs or other currencies. Our local sales force offers unparalleled know-how and service to our clients.

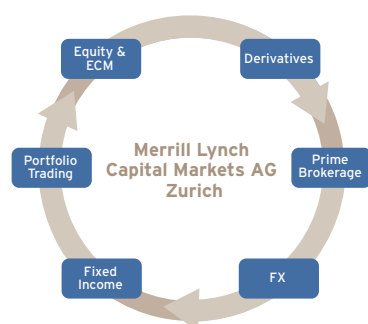
## Smart Solutions

Global Markets & Investment Banking Group (GMI) leverages off Merrill Lynch's vast global resources to deliver total solutions. Whether our clients are looking for proactive origination and distribution, customised enterprise solutions, pioneering equity-linked products, M&A advisory or prime brokerage services, our considerable global resources are applied to help fulfil our clients' potential.

The combination of local knowledge with a truly global presence and technological excellence enables us to provide our clients with customized financial solutions.

Our huge trading volumes/flows allow us to see the markets from an advantageous perspective. We strive to always be a strategic partner to our clients, anticipating their needs, continually leveraging our resources and bringing the capabilities of each of our businesses to deliver fully realized opportunities to our clients. We always aim at complementing our wide array of equity, fixed income, quantitative and alternative investment products with innovative new products that offer unique opportunities.

## One Stop Shop



**Tap into the resources of GMI (Global Markets and Investment Banking) and you're tapping into the total resources of Merrill Lynch.**

We believe in offering integrated solutions – drawing on intellectual capital from across the firm, finding innovative answers from our bankers, traders, portfolio managers and financial advisors. With the resources and capabilities of each of our businesses we are able to cover the full range of client needs. We can provide seamless execution by offering the resources of the entire firm to our clients. Every day, we connect issuers and investors in equity markets, debt markets and investment banking across five continents.

# Merrill Lynch Capital Markets AG

## Business Report 2004

Over the course of 2004, Merrill Lynch group has continued building its businesses to deliver what matters to its clients and shareholders, against a changing economic background. The year started with a strong first quarter, as all areas of the financial markets were performing well, and each of our businesses benefited. The environment changed in the middle of the year as we saw a noticeable slowdown in financial markets. Uncertainty over interest rates, the rising price of oil, the US presidential elections as well as geo-political risk reduced client activity. At the same time the low levels of volatility reduced trading opportunities, and institutional clients stayed on the sidelines. The last quarter showed considerable pick up in both activities and opportunities.



**Alfred Berger**  
Chairman

The financial performance of Merrill Lynch Capital Markets AG ("MLCM AG") again highlighted its position as one of the leading foreign banks in the Swiss market place, and showed how Swiss investors value its high quality financial advice and service. Both the equity and fixed income teams achieved very attractive performances - both divisions generated better results than in the previous year. For the fixed income team it was even the best result in four years. The activities of MLCM AG resulted in a Profit before Extraordinary Items and Taxes of CHF 27.5 million compared to CHF 25.8 million in 2003, and MLCM AG recorded a Net Income of 29.7 million compared to CHF 30.2 million in 2003.



**Dominik Schärer**  
CEO

2004 marked the start of a new era for MLCM AG in Zurich. The relocation with the other Zurich based Merrill Lynch entities to new combined offices at the Stockerhof site stands for the commitment to a long-term future in Switzerland. This was well received by clients, and will allow MLCM AG to continue to demonstrate its capabilities and act as a "one stop shop" across all financial products and services for the Swiss client base. Europe is seen as a region of growth for Merrill Lynch, and Switzerland continues to be a key component of the group's strategy. Our investment in people, technology and infrastructure show that for the future, MLCM AG is well positioned to capture the opportunities the industry is offering, regardless of the prevailing financial market environment. Our excellent team spirit combined with Merrill Lynch's solid global capabilities give us a unique platform on which to deliver outstanding results for our Swiss clients.

We wish to thank our employees for their outstanding performance in a demanding year. We have full confidence that their talent, teamwork, and client focus will ensure a successful year for MLCM AG whilst providing premium service and solutions to our Swiss clients.

A handwritten signature in black ink that reads "Alfred Berger". The signature is fluid and cursive.

**Alfred Berger**

Chairman

A handwritten signature in black ink that reads "Dominik Schärer". The signature is fluid and cursive.

**Dominik Schärer**

CEO

## Debt Markets Group



**Jurg Risch**  
Head of Fixed Income

Interest rates enjoyed a mixed performance over the year. European rates declined by roughly 50 bps over the course of the year while US rates closed the year more or less unchanged. Another substantial shift occurred in the steepness of the yield curve. As the Federal Reserve started to tighten, the curve flattened substantially especially in the United States where it was about 125 bps.

Customer activity remained strong all year and with the exception of one summer month, the performance targets were achieved. Asset Managers were positioned at the lower end of their benchmark target leading to a slight underperformance. This was compensated by a roaring credit market. Increased sophistication added more and more institutional clients to the buyers of low investment grade credit.

The result at a regional level was even better than last year which was already considered exceptional. There was a 20% increase in the number of transactions after already massive gains in the previous two years. Our electronic execution capability is helping to grow the business without having to increase headcount.

In Europe, Merrill Lynch International contributed substantially to the overall revenues, with Global Markets and Investment Banking being the most profitable areas. The management team remained constant and key staff appointment could be made in critical business areas. This should enable 'the Bulls' to continue performing. A commodity business was purchased towards the end of the year and this product should create additional revenues.

Merrill Lynch Capital Markets Zurich continued to look after Swiss distribution of all non-Swiss Franc denominated bonds. The fixed income sales team had no fluctuations and continues to score well in surveys, both credit and strategy. The operative discipline and stringent cost control have produced a solid bottom line result.

The outlook for 2005 has to be somewhat more cautious since credit spreads and the absolute level of rates look very tight by historic comparison. We remain constructive for the business overall and "Team Merrill Lynch" will perform whatever the environment may be.

## Equity Markets Group

Global Financial Markets improved in 2004 with increased momentum in the latter part of the year. After a slow start Equity markets increased pace on the basis of a strong global economy, rising corporate profits and the low interest rate environment. Strong global demand for commodities and rising prices oil in particular gave increased concern on inflation.

Emerging Markets, Asia, industrials, energy and the metal and mining sectors particularly remained popular throughout 2004 and certificate issuance reflected this focus. The IPO calendar also gained pace with some significant transactions in 2004 of which a highlight was the ENEL deal where Merrill Lynch was global book runner.

Once again we have shown innovation and have launched the first ever issued certificates on the VDAX® (Deutsche Boerse AG DAX Volatility Index) on the Swiss market. This product gave institutional clients direct access to this new Asset Class. We reached to attract many clients with the attractive risk return profile of the product.

Activity in derivatives again reflected MLCM AG's strong market position. In 2004, we issued 281 warrants (275 in 2003) and 45 certificates (19 in 2003), of which a majority had global equity sector themes during the year. With a focussed team, a constantly adapting business model and a desire to match our customers' demand, MLCM AG is well positioned to enter 2005.



**Jean-Marc Mantegani**  
Head of Equity



# Balance Sheets

at December 31, 2004 and December 26, 2003

| (Swiss franc thousands)             | 12/31/2004       | 12/26/2003       |
|-------------------------------------|------------------|------------------|
| <b>ASSETS</b>                       |                  |                  |
| Cash                                | -                | 1                |
| Due from banks                      | 783,991          | 763,722          |
| Due from customers                  | 8,942            | 11,513           |
| Securities trading portfolios       | 87,291           | 20,476           |
| Fixed assets                        | 3,190            | 1,132            |
| Accrued income and prepaid expenses | 8,880            | 3,630            |
| Other assets                        | 897,248          | 646,886          |
| <b>TOTAL ASSETS</b>                 | <b>1,789,542</b> | <b>1,447,360</b> |

## LIABILITIES AND SHAREHOLDERS' EQUITY

|   |                  |                  |
|---|------------------|------------------|
| Due to banks                                      | 159,526          | 91,307           |
| Due to customers, other                           | 3,991            | 3,507            |
| Accrued expenses and deferred income              | 11,229           | 9,752            |
| Other liabilities                                 | 899,205          | 646,224          |
| Valuation adjustments and provisions              | 9,955            | 20,641           |
| Share capital                                     | 112,000          | 112,000          |
| General legal reserve                             | 27,000           | 25,500           |
| Retained earnings brought forward                 | 536,929          | 508,197          |
| Net income  | 29,707           | 30,232           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>1,789,542</b> | <b>1,447,360</b> |
| Total subordinated liabilities                    | -                | -                |

## OFF-BALANCE SHEET TRANSACTIONS

| (Swiss franc thousands)       | 12/31/2004 | 12/26/2003 |
|-------------------------------|------------|------------|
| <b>DERIVATIVE INSTRUMENTS</b> |            |            |
| - Positive replacement values | 896,255    | 646,257    |
| - Negative replacement values | 896,313    | 643,675    |
| - Contract volume (notional)  | 13,890,391 | 6,761,404  |

In 2004, the value of derivative instruments have been adjusted to reflect only the value of contracts open with third parties. The unsold derivative inventory in the books of ML International, London and MLCM AG have been netted down to reflect this. The 2003 comparative balances have been restated to also reflect this adjustment.

# Income Statements

for the years ended December 31, 2004 and December 26, 2003

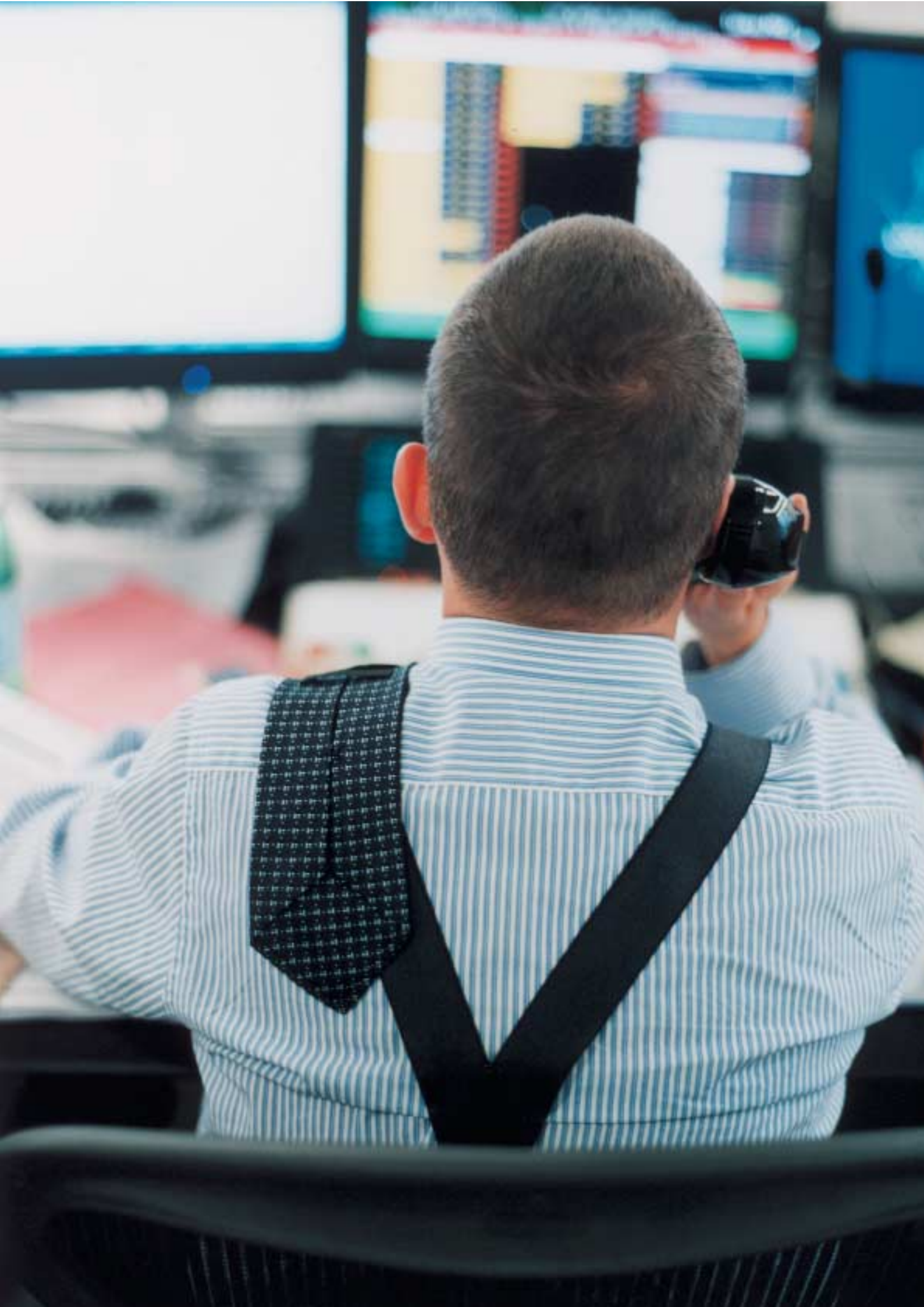


| (Swiss franc thousands)                                       | 12/31/2004     | 12/26/2003     |
|---|----------------|----------------|
| <b>REVENUES AND EXPENSES FROM ORDINARY BANKING ACTIVITIES</b> |                |                |
| Results from interest activities:                             |                |                |
| - Interest and discount income                                | 760            | 1,138          |
| - Interest expense  | (760)          | (1,138)        |
| Net interest income   | -              | -              |
| Results from commission and service fee activities:           |                |                |
| - Commission income on securities and investment transactions | 48,648         | 45,624         |
| - Commission income on other services                         | 643            | 1,945          |
| - Commission expenses   | (1,201)        | (1,019)        |
| Results from commission and service fee activities            | 48,090         | 46,550         |
| Results from trading operations                               | 3,994          | 3,342          |
| Operating income:   |                |                |
| - Other ordinary income                                       | 633            | -              |
| Total operating income  | 633            | -              |
| Operating expenses:   |                |                |
| - Personnel expenses  | (19,240)       | (16,109)       |
| - Other operating expenses                                    | (5,286)        | (6,612)        |
| Total operating expenses                                      | (24,526)       | (22,721)       |
| <b>GROSS PROFIT</b>   | <b>28,191</b>  | <b>27,171</b>  |
| <b>NET INCOME</b>   |                |                |
| Gross profit  | 28,191         | 27,171         |
| Depreciation and write-offs of noncurrent assets              | (674)          | (1,344)        |
| Valuation adjustments, provisions and losses                  | -              | -              |
| Result before extraordinary items and taxes                   | 27,517         | 25,827         |
| Extraordinary income  | 9,583          | 9,380          |
| Extraordinary expenses  | -              | -              |
| Taxes   | (7,393)        | (4,975)        |
| <b>NET INCOME</b>   | <b>29,707</b>  | <b>30,232</b>  |
| <b>ALLOCATION OF RETAINED EARNINGS</b>                        |                |                |
| Net income  | 29,707         | 30,232         |
| Retained earnings   | 536,929        | 508,197        |
| Retained earnings   | 566,636        | 538,429        |
| Allocation to general legal reserve                           | (1,000)        | (1,500)        |
| <b>RETAINED EARNINGS</b>                                      | <b>565,636</b> | <b>536,929</b> |

# Statements of Cash Flows

for the years ended December 31, 2004 and December 26, 2003

| (Swiss franc thousands)                                    | 2004            |                      | 2003             |                      |
|--|-----------------|----------------------|------------------|----------------------|
|  | Source of funds | Application of funds | Source of funds  | Application of funds |
| <b>CASH FLOW FROM OPERATING RESULTS (INTERNAL SOURCES)</b> |                 |                      |                  |                      |
| Net income   | 29,707          | -                    | 30,232           | -                    |
| Depreciation and write-offs on noncurrent assets           | 674             | -                    | 1,344            | -                    |
| Valuation adjustments and provisions                       | -               | 10,686               | -                | 12,164               |
| Accrued income and prepaid expenses                        | -               | 5,250                | 12,878           | -                    |
| Accrued expenses and deferred income                       | 1,477           | -                    | 644              | -                    |
| Balance  | 31,858          | 15,936               | 45,098           | 12,164               |
| <b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>                |                 |                      |                  |                      |
| Fixed assets   | -               | 2,732                | 15               | 3                    |
| <b>CASH FLOW FROM BANKING OPERATIONS</b>                   |                 |                      |                  |                      |
| Short-term operations:                                     |                 |                      |                  |                      |
| - Due from banks   | -               | 20,269               | -                | 77,227               |
| - Due from customers                                       | 2,571           | -                    | 100,637          | -                    |
| - Securities and trading portfolios                        | -               | 66,815               | 190,992          | -                    |
| - Other assets   | -               | 250,362              | -                | 2,282,065            |
| - Due to banks   | 68,219          | -                    | -                | 114,454              |
| - Due to customers   | 484             | -                    | -                | 152,660              |
| - Other liabilities  | 252,981         | -                    | 2,262,315        | -                    |
| Liquidity:   |                 |                      |                  |                      |
| - Cash   | 1               | -                    | 39,516           | -                    |
| Balance  | 324,256         | 337,446              | 2,593,460        | 2,626,406            |
| <b>TOTAL</b>   | <b>356,114</b>  | <b>356,114</b>       | <b>2,638,573</b> | <b>2,638,573</b>     |



# Notes to the Financial Statements

for the years ended December 31, 2004 and December 26, 2003

## 1. COMMENT ON BUSINESS ACTIVITIES & NUMBER OF EMPLOYEES

Merrill Lynch Capital Markets AG; ("the Bank") is located in Zürich and is engaged in securities trading and derivatives trading activities. The Bank is a member of the Swiss Stock Exchange as well as Virt-X and limits its business activities primarily to the issuing, underwriting and trading of listed and non-listed securities and derivatives for its own account and for customers. Money market and foreign exchange transactions are only undertaken as required for the funding and hedging of securities positions. The Bank does not accept deposits from customers and, with the exception of granting syndicated loans to banks, does not operate in the credit sector.

### Employees

At year-end, the number of employees amounted to 34 based on conversion to full-time positions (prior year: 41).

## 2. ACCOUNTING POLICIES AND VALUATION PRINCIPLES

### 2.1 Accounting policies and valuation principles

#### General principles

Accounting policies and valuation principles follow the provisions of the Swiss code of obligations, the banking law and the ordinance to the banking law, and guidelines of the Federal Banking Commission.

#### Foreign currency translation

Balances and transactions in foreign currencies are translated into Swiss Francs as follows:

Assets and liabilities: year-end rate

Expenses and income: rate prevailing at transaction date

Foreign currency translation differences are included in the income statement.

### Financial instruments

All positions in securities, derivatives and loans are held for trading purposes. Securities are valued at market prices prevailing at year-end. Market prices for derivative financial instruments and loans are calculated using valuation models commonly used in the industry. For loans and fixed income securities, a provision is made as the position holding increases.

#### Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation, computed using the straight-line method over the estimated useful lives of the assets.

#### Valuation adjustments and provisions

For identified risks, valuation adjustments and provisions are set up based on the principle of prudence. Income taxes due and income taxes required on the current profit are provided for.

### Results from trading operations

Income from the securities issuing business is included in this caption.

### Employee Benefit Plans

The Bank operates a defined contribution pension plan for all employees over the age of 21, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by contributions from the Bank and the employee based on salary and length of service. The Bank's contributions to the defined contribution pension plan are charged to the income statement in the year to which they relate.

### 2.2 Changes in accounting policies and valuation principles

In the reporting year, there was a change in accounting policy for the calculation of open derivative contracts. Warrants issued by MLCM AG are sold to MLI, London with MLCM AG receiving an "Over The Counter" option for the entire issue in return. On a monthly basis MLCM AG has been netting the unsold



portion of the warrants inventory with the respective portion of the OTC option, so that the financial statements reflect only issued warrants sold to third parties.

In order to provide comparable numbers the prior year comparatives have been restated to also reflect netted numbers as well.

No other accounting and valuation principles were changed compared during the current year.

### 2.3 Treatment of refinancing of trading positions

Refinancing expenses are incorporated within results from trading operations. Accordingly, interest and dividend income from securities trading positions and loans included in trading positions are included in this category.

### 2.4 Comments on risk management

In the reporting year, In the course of conducting its business operations, the Bank is exposed to a variety of risks. These risks include market, credit and other risks that are material and require comprehensive controls and management. Risk limits have been approved for all significant market and credit risks and are actively monitored.

Credit and market risk is reported into the Global Credit and Corporate Risk Management ("CRM") systems of the Merrill Lynch Group on a daily basis. Corporate Risk Management of the Merrill Lynch group, along with other control units, ensures that these risks are properly identified, monitored, and managed throughout the Bank. The risk management process works to ensure that the Bank's risk tolerance is well-defined and understood by the firm's risk-takers as well as by its executive management.

Locally, the Board of Directors and management are informed on a regular basis of the risk positions of the Bank. Monitoring of the positions of the Bank is the responsibility of the Risk Committee and the Risk Officer, who works closely with Global

Credit and CRM. Daily stress simulations on the trading portfolio are performed to evaluate the impact of possible extreme market fluctuations on the Bank's financial positions. New products are approved prior to initial trading. In order to limit liquidity risks, the Risk Committee prior to execution approves certain types of transactions. Legal Risks are limited by using standard agreements for over-the-counter products.

### Market Risks

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity prices, credit spreads, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded. The Bank seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate and price of trading inventories and related financing and hedging activities. The Bank uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by the Bank.

#### Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by the Bank to manage equity price risk include equity options, warrants, and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

#### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank utilises interest rate swap agreements to mitigate exposure to interest rate risk.

# Notes to the Financial Statements

for the years ended December 31, 2004 and December 26, 2003

## Currency Risk

Currency risk to the bank arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The bank's largest exposure is to Swiss Francs, however exposure does extend to other G7 currencies. The Bank manages currency exposure by transacting regular hedging transactions with the Merrill Lynch Group Treasury.

## Credit Risk

The Bank is exposed to risk of loss if an issuer or a counterparty fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Bank to default risk.

The Bank has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Bank executes and settles various customer securities and derivative transactions. Execution of these transactions includes the purchase and sale of securities by the Bank. These activities may expose the Bank to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. The Bank seeks to control the credit risks associated with its trading activities by requiring customers to maintain collateral in compliance with internal guidelines.

Liabilities to Banks and Customers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from the Bank or Customer.

## 2.5 Business policy concerning the use of derivative financial instruments

The Bank enters into derivatives in a dealing capacity, providing them to clients and entering into them for proprietary trading and to manage its risk exposures arising from trading assets and liabilities. These transactions allow clients to manage their exposures to interest rate and equity security price risks. The Bank also enters into derivative financial instruments to manage and hedge its own risks related to proprietary trading strategies, client transactions and non trading activities. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions.

Derivative activity is subject to the Bank's overall risk management policies and procedures outlined in Section 2.4.

## 2.6 Recording of business transactions

All concluded transactions are recorded on the transaction date and valued according to the principles stated above. The results from those transactions are recorded in the income statement. Balance sheet transactions with a fixed maturity, as well as forward transactions, are included in the balance sheet on the value date. Securities transactions are included in the balance sheet on the transaction date.



# Notes to the Financial Statements

for the years ended December 31, 2004 and December 26, 2003

## 3. INFORMATION ON THE BALANCE SHEET

### 3.1 Schedule of collateral for loans and off-balance sheet transactions

| (Swiss franc thousands)       | Type of collateral  |                  |                    | Total         |
|-------------------------------|---------------------|------------------|--------------------|---------------|
|                               | Mortgage collateral | Other collateral | Without collateral |               |
| <b>LOANS</b>                  |                     |                  |                    |               |
| Due from customers            | -                   | -                | 8,942              | 8,942         |
| <b>TOTAL LOANS 12/31/2004</b> | -                   | -                | <b>8,942</b>       | <b>8,942</b>  |
| <b>TOTAL LOANS 12/26/2003</b> | -                   | -                | <b>11,513</b>      | <b>11,513</b> |

### 3.2 Securities trading portfolios, financial investments and participations

#### SECURITIES TRADING PORTFOLIOS

| (Swiss franc thousands)                              | 12/31/2004    | 12/26/2003    |
|--|---------------|---------------|
| Debt securities:                                     |               |               |
| - exchange listed                                    | 780           | 794           |
| - unlisted   | -             | -             |
| - of which own bonds and cash bonds                  | -             | -             |
| Equity securities:                                   | 86,511        | 19,682        |
| - of which own shares, similar securities and rights | -             | -             |
| <b>TOTAL SECURITIES TRADING PORTFOLIOS</b>           | <b>87,291</b> | <b>20,476</b> |
| - of which securities acceptable to central banks    | 780           | 794           |

### 3.3 Schedule of non-current assets

(Swiss franc thousands)

|  | Historical cost | Write-offs/<br>accumulated<br>depreciation | Book<br>value<br>12/26/03 | 2004                   |           |           |                             |                           |
|--|-----------------|--|---------------------------|------------------------|-----------|-----------|-----------------------------|---------------------------|
|  |                 |  |                           | Reclassifi-<br>cations | Additions | Disposals | Write-offs/<br>depreciation | Book<br>value<br>12/31/04 |
| Fixed assets   | 10,105          | [8,973]                                    | 1,132                     | -                      | 2,732     | -         | [674]                       | 3,190                     |
| Fire insurance value of fixed assets                               |                 |  |                           |                        |           |           |                             | 12,512                    |
| Commitments: future leasing installments<br>under operating leases |                 |  |                           |                        |           |           |                             | 553                       |

### 3.4 Total amount of assets pledged or ceded to secure own liabilities, and assets subject to ownership reservation

(Swiss franc thousands)

|                                      | 12/31/2004               |                     | 12/26/2003               |                     |
|--------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                      | Receivable<br>book value | thereof<br>utilized | Receivable<br>book value | thereof<br>utilized |
| Collateral for securities borrowing  | -                        | -                   | -                        | -                   |
| Collateral at SNB for Lombard Credit | -                        | -                   | -                        | -                   |
| Pledged shares for stillholders      | -                        | -                   | -                        | -                   |
| SWX membership guarantee             | 780                      | -                   | 794                      | -                   |
| <b>TOTAL</b>                         | <b>780</b>               | <b>-</b>            | <b>794</b>               | <b>-</b>            |

### 3.5 Other assets and other liabilities

(Swiss franc thousands)

|                              | 12/31/2004      |                      | 12/26/2003      |                      |
|------------------------------|-----------------|----------------------|-----------------|----------------------|
|                              | Other<br>assets | Other<br>liabilities | Other<br>assets | Other<br>liabilities |
| Trading positions            | 896,255         | 896,313              | 646,257         | 643,675              |
| Total derivative instruments | 896,255         | 896,313              | 646,257         | 643,675              |
| Other assets and liabilities | 993             | 2,892                | 629             | 2,549                |
| <b>TOTAL</b>                 | <b>897,248</b>  | <b>899,205</b>       | <b>646,886</b>  | <b>646,224</b>       |

In 2004, the value of derivative instruments have been adjusted to reflect only the value of contracts open with third parties. The unsold derivative inventory in the books of ML International, London and MLCM AG have been netted down to reflect this. The 2003 comparative balances have been restated to also reflect this adjustment.

### 3.6 Liabilities to own pension funds

The company operates a defined contribution pension scheme for all employees over the age of 21. Retirement age from the scheme is 65 for men and 63 for women. Employees can retire at 57 with reduced pension benefits. Every year the scheme is valued using two bases: static positions and net present value of expected future liabilities.

Liability to own pension fund: CHF 0 (2003 CHF 0)

# Notes to the Financial Statements

for the years ended December 31, 2004 and December 26, 2003

## 3.7 Valuation adjustments and provisions

(Swiss franc thousands)

|  | Balance<br>12/26/03 | Specific<br>usage | Change in<br>definition of<br>purpose (re-<br>classification) | Recoveries,<br>doubtful<br>interest,<br>differences | New creation<br>charged to<br>income<br>statement | Reversals<br>credited to<br>income<br>statement               | Balance<br>12/31/04 |
|--|---------------------|-------------------|---|---|---|---|---------------------|
| Valuation adjustments<br>and provisions for:<br>credit risks (credit and<br>country risks) | 11,059              | -                 | -   | -   | -   | (1,104)   | 9,955               |
| Provisions:<br>for taxes and<br>deferred taxes   | -                   | -                 | -   | -   | -   | -   | -                   |
| other provisions   | 9,582               | -                 | -   | -   | -   | (9,582)   | -                   |
| <b>TOTAL VALUATION<br/>ADJUSTMENTS AND<br/>PROVISIONS</b>                                  | <b>20,641</b>       |                   |   |   |   | <b>(10,686)</b>   | <b>9,955</b>        |
| <b>TOTAL VALUATION<br/>ADJUSTMENTS AND<br/>PROVISIONS AS PER<br/>BALANCE SHEET</b>         | <b>20,641</b>       |                   |   |   |   |   | <b>9,955</b>        |
|  |                     |                   |   |   |   | <b>TOTAL NET VALUATION<br/>ADJUSTMENTS<br/>AND PROVISIONS</b> | <b>9,955</b>        |

## 3.8 Share capital and shareholders

(Swiss franc thousands)

|  | 12/31/2004                |                       |                                | 12/26/2003                |                       |                                |
|--|---------------------------|-----------------------|--------------------------------|---------------------------|-----------------------|--------------------------------|
|  | Total<br>nominal<br>value | Number<br>of units    | Dividend<br>bearing<br>capital | Total<br>nominal<br>value | Number<br>of units    | Dividend<br>bearing<br>capital |
| <b>Share capital:</b>                              |                           |                       |                                |                           |                       |                                |
| Share capital                                      | 112,000                   | 112,000               | 112,000                        | 112,000                   | 112,000               | 112,000                        |
| Total capital                                      | 112,000                   | 112,000               | 112,000                        | 112,000                   | 112,000               | 112,000                        |
| <b>Significant shareholders:</b>                   |                           |                       |                                |                           |                       |                                |
|  | 12/31/2004                |                       |                                | 12/26/2003                |                       |                                |
|  | Nominal                   | Participation<br>in % |                                | Nominal                   | Participation<br>in % |                                |
| Merrill Lynch International<br>Holdings Inc., USA* | 112,000                   | 100%                  |                                | 112,000                   | 100%                  |                                |

\* The parent company of this Company is Merrill Lynch International Inc. (Delaware) which is 100% owned by Merrill Lynch & Co., Inc.

### 3.9 Statement of changes in shareholders' equity

(Swiss franc thousands)

| <b>Shareholders' equity at December 26, 2003:</b>                                   |                |
|---|----------------|
| Share capital paid in   | 112,000        |
| General legal reserve   | 25,500         |
| Retained earnings   | 538,429        |
| <b>TOTAL SHAREHOLDERS' EQUITY AT DECEMBER 26, 2003</b> (before profit distribution) | <b>675,929</b> |
| <b>Changes 2004:</b>  |                |
| Net income  | 29,707         |
| <b>TOTAL SHAREHOLDERS' EQUITY AT DECEMBER 31, 2004</b> (before profit distribution) | <b>705,636</b> |
| Thereof:  |                |
| Share capital paid in   | 112,000        |
| General legal reserve   | 27,000         |
| Retained earnings   | 566,636        |

### 3.10 Maturity structure of current assets and borrowed funds

(Swiss franc thousands)

|                                     | At sight       | Redeemable<br>by notice | Maturities<br>within<br>3 months | Maturities<br>after 3<br>months up<br>to 12 months | Maturities<br>after 12<br>months up<br>to 5 years | After<br>5 years | Without<br>maturity | Total          |
|-------------------------------------|----------------|-------------------------|----------------------------------|--|---|------------------|---------------------|----------------|
| <b>Current assets:</b>              |                |                         |                                  |  |   |                  |                     |                |
| Cash                                | -              | -                       | -                                | -  | -   | -                | -                   | -              |
| Due from<br>banks                   | 783,473        | 498                     | 20                               | -  | -   | -                | -                   | 783,991        |
| Due from<br>customers               | -              | 8,942                   | -                                | -  | -   | -                | -                   | 8,942          |
| Securities<br>trading portfolio     | 87,291         | -                       | -                                | -  | -   | -                | -                   | 87,291         |
| <b>TOTAL CURRENT<br/>ASSETS</b>     |                |                         |                                  |  |   |                  |                     |                |
| <b>12/31/2004</b>                   | <b>870,764</b> | <b>9,440</b>            | <b>20</b>                        | <b>-</b>   | <b>-</b>  | <b>-</b>         | <b>-</b>            | <b>880,224</b> |
| Total current assets<br>12/26/2003  | 783,117        | 12,595                  | -                                | -  | -   | -                | -                   | 795,712        |
| <b>Borrowed funds:</b>              |                |                         |                                  |  |   |                  |                     |                |
| Due to banks                        | 134,737        | 24,789                  | -                                | -  | -   | -                | -                   | 159,526        |
| Due to<br>customers, other          | 1,805          | 123                     | 2,063                            | -  | -   | -                | -                   | 3,991          |
| <b>TOTAL<br/>BORROWED<br/>FUNDS</b> |                |                         |                                  |  |   |                  |                     |                |
| <b>12/31/2004</b>                   | <b>136,542</b> | <b>24,912</b>           | <b>2,063</b>                     | <b>-</b>   | <b>-</b>  | <b>-</b>         | <b>-</b>            | <b>163,517</b> |
| Total borrowed funds<br>12/26/2003  | 37,459         | 57,355                  | -                                | -  | -   | -                | -                   | 94,814         |

# Notes to the Financial Statements

for the years ended December 31, 2004 and December 26, 2003

## 3.11 Amounts due from and to affiliated entities

| (Swiss franc thousands)               | 12/31/2004 | 12/26/2003 |
|---------------------------------------|------------|------------|
| Amounts due from affiliated companies | 719,972    | 708,836    |
| Amounts due to affiliated companies   | 163,516    | 85,284     |

## Related Party Transactions

The Bank provides funding to Merrill Lynch International, a member of the Merrill Lynch Group, funding is provided at market interest rates.

The Bank also sells all issued warrants to Merrill Lynch International and receives an Over the Counter option in return. Both transactions are conducted at prevailing market price.

## 3.12 Assets and liabilities by domestic and foreign origin

| (Swiss franc thousands)             | 12/31/2004     |                  | 12/26/2003     |                  |
|-------------------------------------|----------------|------------------|----------------|------------------|
|                                     | Domestic       | Foreign          | Domestic       | Foreign          |
| <b>ASSETS</b>                       |                |                  |                |                  |
| Cash                                | -              | -                | 1              | -                |
| Due from banks                      | 73,007         | 710,984          | 66,459         | 697,263          |
| Due from customers                  | 5,691          | 3,251            | 4,651          | 6,862            |
| Securities trading portfolios       | 780            | 86,511           | 794            | 19,682           |
| Fixed assets                        | 3,190          | -                | 1,132          | -                |
| Accrued income and prepaid expenses | 8,880          | -                | 3,630          | -                |
| Other assets                        | 258,058        | 639,190          | 187,989        | 458,897          |
| <b>TOTAL ASSETS</b>                 | <b>349,606</b> | <b>1,439,936</b> | <b>264,656</b> | <b>1,182,704</b> |

## LIABILITIES AND SHAREHOLDER'S EQUITY

|   |                  |                |                |                |
|---|------------------|----------------|----------------|----------------|
| Due to banks                                      | 5                | 159,521        | 10,547         | 80,760         |
| Due to customers, other                           | 1,165            | 2,826          | 1,270          | 2,237          |
| Accrued expenses and deferred income              | 11,229           | -              | 4,792          | 4,960          |
| Other liabilities                                 | 472,050          | 427,155        | 116,901        | 529,323        |
| Valuation adjustments and provisions              | 9,955            | -              | 20,641         | -              |
| Share capital                                     | 112,000          | -              | 112,000        | -              |
| General legal reserve                             | 27,000           | -              | 25,500         | -              |
| Retained earnings                                 | 536,929          | -              | 508,197        | -              |
| Net income  | 29,707           | -              | 30,232         | -              |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>1,200,040</b> | <b>589,502</b> | <b>830,080</b> | <b>617,280</b> |

### 3.13 Assets by country and country groups

| (Swiss franc thousands)       | 12/31/2004       |             | 12/26/2003       |             |
|-------------------------------|------------------|-------------|------------------|-------------|
|                               |                  | in%         |                  | in%         |
| Switzerland                   | 349,606          | 19%         | 264,656          | 18%         |
| Europe, excluding Switzerland | 1,283,122        | 72%         | 1,023,241        | 71%         |
| Elsewhere                     | 156,814          | 9%          | 159,463          | 11%         |
| <b>TOTAL ASSETS</b>           | <b>1,789,542</b> | <b>100%</b> | <b>1,447,360</b> | <b>100%</b> |

### 3.14 Assets and liabilities by currencies

| (Swiss franc thousands)             | Currencies – 12/31/2004 |                |                |               |
|-------------------------------------|-------------------------|----------------|----------------|---------------|
|                                     | CHF                     | USD            | EUR            | Other         |
| <b>ASSETS</b>                       |                         |                |                |               |
| Cash                                | –                       | –              | –              | –             |
| Due from banks                      | 727,202                 | 53,284         | 554            | 2,951         |
| Due from customers                  | 8,702                   | 226            | 3              | 11            |
| Securities trading portfolios       | 780                     | 86,511         | –              | –             |
| Fixed assets                        | 3,190                   | –              | –              | –             |
| Accrued income and prepaid expenses | 8,545                   | 164            | 171            | –             |
| Other assets                        | 94,389                  | 394,164        | 358,260        | 50,435        |
| <b>TOTAL ASSETS</b>                 | <b>842,808</b>          | <b>534,349</b> | <b>358,988</b> | <b>53,397</b> |

#### Liabilities and shareholders' equity

|   |                |                |                |               |
|---|----------------|----------------|----------------|---------------|
| Due to banks                                      | 32,783         | 124,436        | 632            | 1,675         |
| Due to customers, other                           | 276            | 2,980          | 8              | 727           |
| Accrued expenses and deferred income              | 5,064          | 4,525          | –              | 1,640         |
| Other liabilities                                 | 97,523         | 393,762        | 358,312        | 49,608        |
| Valuation adjustments and provisions              | 9,955          | –              | –              | –             |
| Share capital                                     | 112,000        | –              | –              | –             |
| General legal reserve                             | 27,000         | –              | –              | –             |
| Retained earnings                                 | 536,929        | –              | –              | –             |
| Net income  | 29,707         | –              | –              | –             |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>851,237</b> | <b>525,703</b> | <b>358,952</b> | <b>53,650</b> |
| <b>TOTAL NET ASSETS</b>                           | <b>(8,429)</b> | <b>8,646</b>   | <b>36</b>      | <b>(253)</b>  |

# Notes to the Financial Statements

for the years ended December 31, 2004 and December 26, 2003

## 4. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

### 4.1 Outstanding derivative financial instruments

(Swiss franc thousands)

|                                   | Trading Instruments        |                            |                   | Hedging Instruments        |                            |                   |
|-----------------------------------|----------------------------|----------------------------|-------------------|----------------------------|----------------------------|-------------------|
|                                   | Positive replacement value | Negative replacement value | Contract volume   | Positive replacement value | Negative replacement value | Contract volume   |
| <b>Interest rate instruments</b>  |                            |                            |                   |                            |                            |                   |
| - Options - OTC                   | -                          | -                          | -                 | -                          | -                          | -                 |
| - Futures                         | -                          | -                          | -                 | -                          | -                          | -                 |
| - Swaps                           | 6,407                      | 26,458                     | 1,326,290         | 26,458                     | 6,407                      | 1,326,290         |
| <b>Cross currency instruments</b> |                            |                            |                   |                            |                            |                   |
| - Options - OTC                   | -                          | -                          | -                 | -                          | -                          | -                 |
| - Futures                         | -                          | -                          | -                 | -                          | -                          | -                 |
| - Swaps                           | 38,353                     | 43,591                     | 1,721,189         | 43,591                     | 38,353                     | 1,721,189         |
| - FX options & forwards           | 7,685                      | -                          | 522,637           | -                          | 7,685                      | 522,637           |
| <b>Shares / Indices</b>           |                            |                            |                   |                            |                            |                   |
| - Futures                         | -                          | -                          | -                 | -                          | -                          | -                 |
| - Options - OTC                   | -                          | 234,558                    | 349,994           | 5,051,738                  | -                          | 35,187,928        |
| - Options - Exchange traded       | -                          | 5,361,400                  | 34,837,933        | 544,162                    | -                          | -                 |
| <b>TOTAL BEFORE NETTING</b>       |                            |                            |                   |                            |                            |                   |
| <b>AGREEMENTS 12/31/2004</b>      | <b>52,445</b>              | <b>5,666,077</b>           | <b>38,758,043</b> | <b>5,665,949</b>           | <b>52,445</b>              | <b>38,758,044</b> |
| Total 12/26/2003                  | 49,010                     | 4,267,050                  | 32,290,492        | 4,269,632                  | 49,010                     | 32,484,760        |
| <b>TOTAL AFTER NETTING</b>        |                            |                            |                   |                            |                            |                   |
| <b>AGREEMENTS 12/31/2004</b>      | <b>25,115</b>              | <b>871,198</b>             | <b>6,945,195</b>  | <b>871,140</b>             | <b>25,115</b>              | <b>6,945,196</b>  |
| Total 12/26/2003                  | 49,010                     | 594,665                    | 3,283,568         | 597,247                    | 49,010                     | 3,477,836         |

### 4.2 Client assets

The Bank does not have third party client assets under management.

## 5. INFORMATION ON THE INCOME STATEMENT

### 5.1 Refinancing income in the position interest and discount income

| (Swiss franc thousands)                  | 12/31/2004 | 12/26/2003 |
|--|------------|------------|
| Refinancing income on intercompany loans | 2,298      | 2,186      |

### 5.2 Results from trading operations

| (Swiss franc thousands)                      | 12/31/2004   | 12/26/2003   |
|--|--------------|--------------|
| Equity division                              | 729          | 2,542        |
| Debt division                                | 3,265        | 800          |
| <b>TOTAL RESULTS FROM TRADING OPERATIONS</b> | <b>3,994</b> | <b>3,342</b> |

### 5.3 Personnel expenses

| (Swiss franc thousands)         | 12/31/2004    | 12/26/2003    |
|---------------------------------|---------------|---------------|
| Salaries                        | 15,471        | 13,297        |
| Social benefits                 | 1,472         | 1,058         |
| Other personnel expenses        | 2,297         | 1,772         |
| <b>TOTAL PERSONNEL EXPENSES</b> | <b>19,240</b> | <b>16,109</b> |

### 5.4 Other operating expenses

| (Swiss franc thousands)   | 12/31/2004   | 12/26/2003   |
|---|--------------|--------------|
| Occupancy   | 1,311        | 1,012        |
| Cost of EDP, machines, fixtures and fittings,<br>vehicles and other equipment | 847          | 1,580        |
| Other expenses  | 3,128        | 4,020        |
| <b>TOTAL OTHER OPERATING EXPENSES</b>   | <b>5,286</b> | <b>6,612</b> |

### 5.5 Extraordinary income

| (Swiss franc thousands)    | 12/31/2004 | 12/26/2003 |
|----------------------------|------------|------------|
| Release of hidden reserves | 9,583      | 9,380      |

# Auditors' Report

To the General Meeting of the Shareholders of  
Merrill Lynch Capital Markets AG, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, statement of cash flows and notes) of Merrill Lynch Capital Markets AG for the year ended December 31, 2004.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

DELOITTE & TOUCHE AG



**Pavel Nemecek**



**Stephan Schmidli**

Auditor in charge

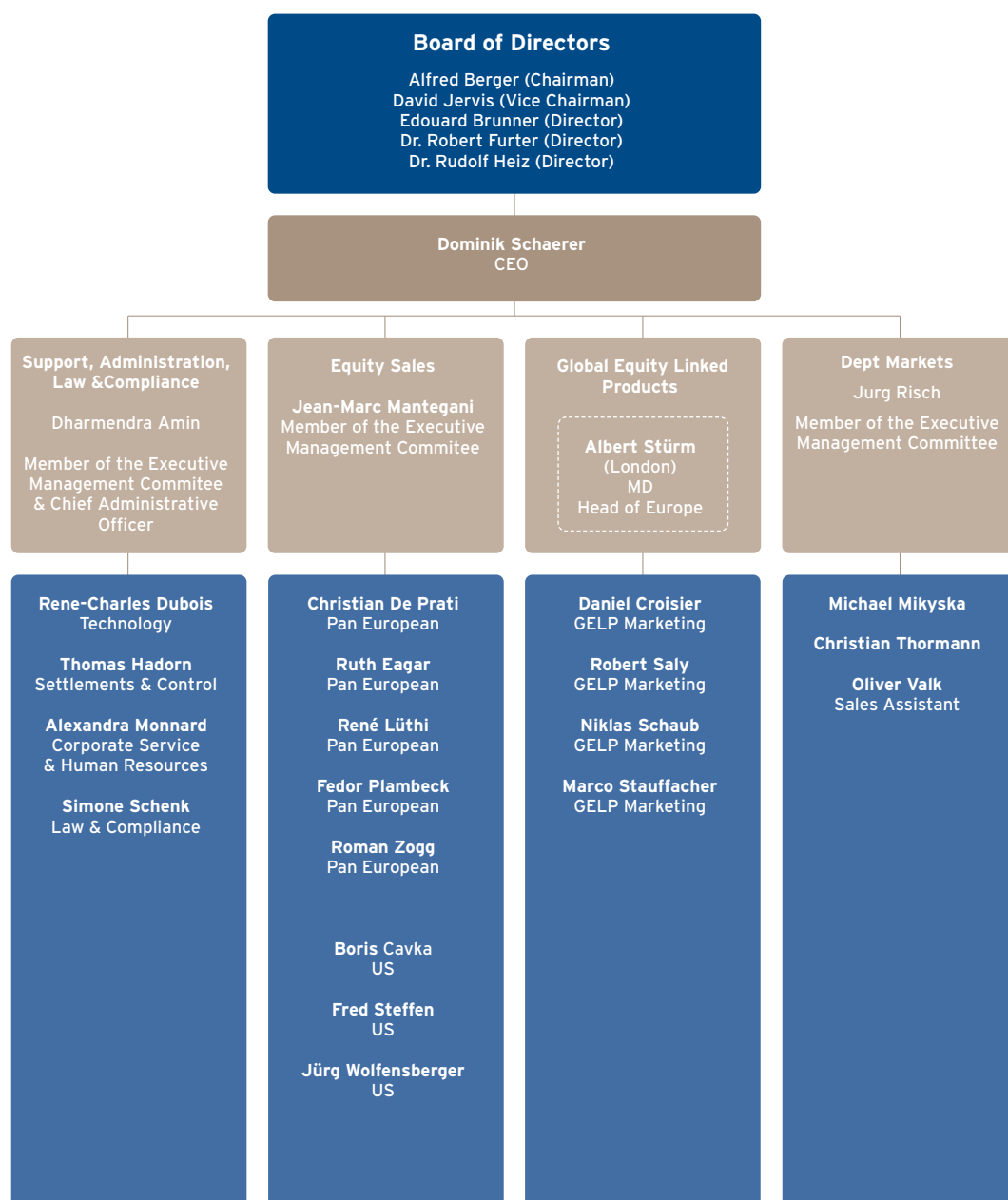
Zürich, March 11, 2005

**Enclosures:**

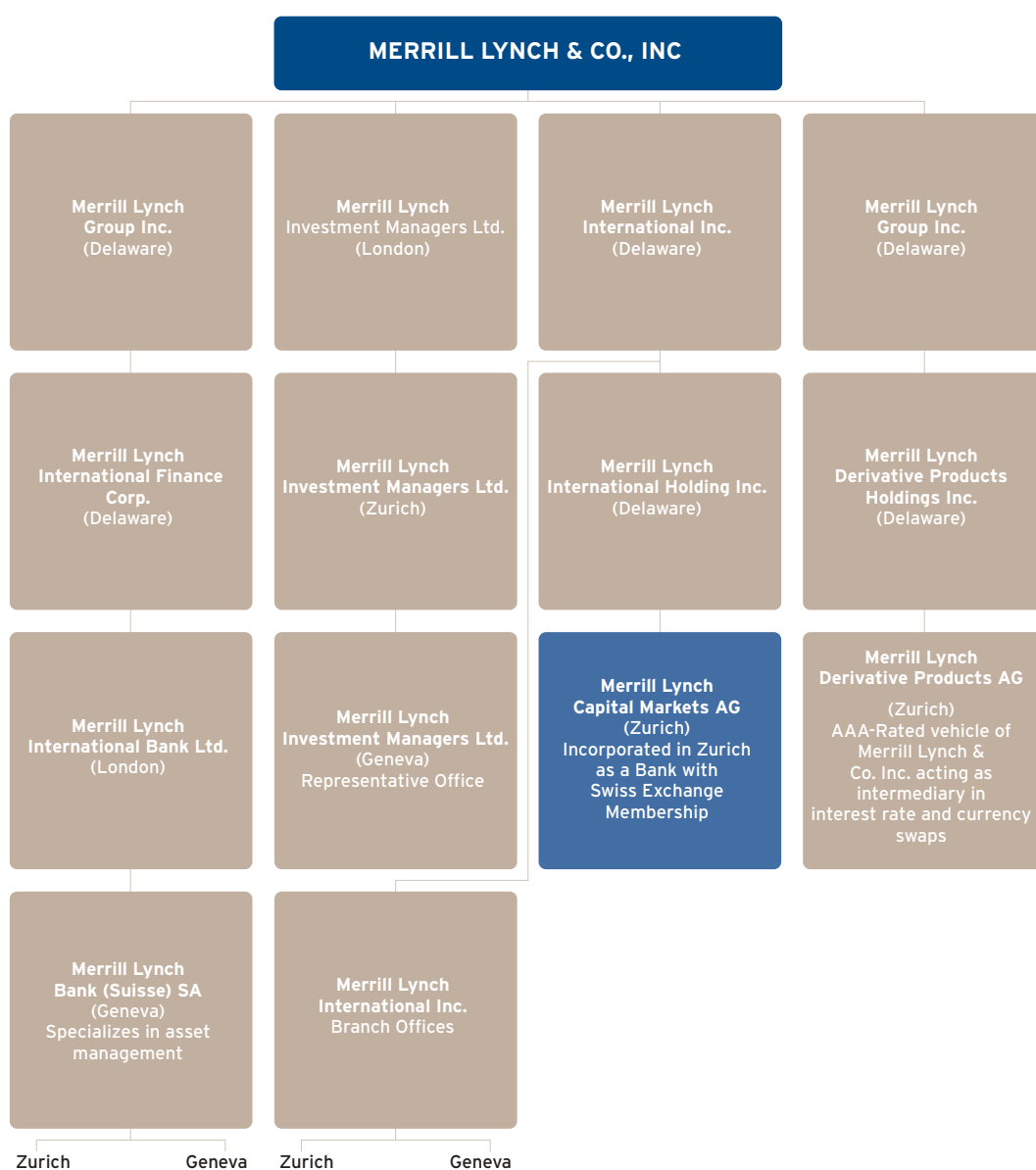
- Financial statements (balance sheet, income statement, statement of cash flows and notes)
- Proposed appropriation of available earnings



# Merrill Lynch Capital Markets AG



# Organisational Structure of Merrill Lynch's Swiss Companies






CLIENT FOCUS

RESPECT FOR THE INDIVIDUAL

TEAMWORK

RESPONSIBLE CITIZENSHIP

INTEGRITY

 Merrill Lynch

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