

What Really Matters

MERRILL LYNCH
DERIVATIVE PRODUCTS AG
2004 ANNUAL REPORT



Merrill Lynch Derivative Products AG

Overview 2004



OPEN

To Our Stockholders and Clients:

We enclose for your review the audited financial statements of Merrill Lynch Derivative Products AG ("MLDP"), for the years ended December 31, 2004 and December 26, 2003. A comparative analysis of MLDP's swap portfolio is also included.

MLDP's revenues for 2004 were \$49.8 million, of which intermediation income accounted for 76% of total revenues. Operating expenses were \$4.6 million for 2004 and net earnings were \$43.4 million.

The notional principal of MLDP's swap transactions with third parties decreased \$3.4 billion to \$98.4 billion at December 31, 2004, down 3% from \$101.8 billion at December 26, 2003. MLDP had 2,006 transactions with 192 unaffiliated counterparties at December 31, 2004 compared to 2,136 transactions with 237 unaffiliated counterparties at December 26, 2003.

MLDP had total swap contracts, at fair value, of \$3,687 million with unaffiliated third parties at December 31, 2004. Swap contracts totaling \$979 million payable, represented the fair value of contracts with affiliates. A significant portion of MLDP's swap contracts with third parties were with Aaa/AAA, Aa1/AA+, and Aa2/AA credit rated counterparties. Although MLDP is not subject to the Bank of International Settlements ("BIS") capital requirements, MLDP evaluates its capital in terms of this internationally recognized measure of financial condition. The minimum requirement for Tier 1 capital to cover credit risk calculated using BIS standards was approximately \$66.4 million.

Sincerely,

David Gu

Chairman of the Board
Merrill Lynch Derivative Products AG

Statement of Earnings

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

(U.S. Dollars)	12/31/2004	12/26/2003
REVENUES		
Intermediation income from affiliate	38,096,300	45,882,100
Release of Credit Reserves	–	11,822,000
Interest	6,775,100	7,488,800
Interest from affiliate	4,871,000	4,327,900
Administration income from affiliate	90,000	105,000
TOTAL REVENUES	49,832,400	69,625,800
EXPENSES		
Professional fees	1,951,300	1,739,300
Compensation & benefits	1,111,100	1,035,700
Communications & technology	890,600	762,000
Occupancy & related depreciation	174,100	70,800
Management fees	108,300	100,000
Market development	31,100	23,300
Bank transaction fees	74,000	76,100
Other	249,900	471,600
TOTAL EXPENSES	4,590,400	4,278,800
EARNINGS BEFORE INCOME TAXES	45,242,000	65,347,000
Income tax expense (see Note 7 of the Notes to the Financial Statements)	1,867,500	17,190,800
NET EARNINGS	43,374,500	48,156,200
OTHER COMPREHEHENSIVE GAINS / (LOSSES) (NET OF TAX):		
Accumulated other comprehensive income / (expense)	(1,048,400)	125,800
Comprehensive Earnings	42,326,100	48,282,000

See Notes to Financial Statements

Balance Sheet

at December 31, 2004 and December 26, 2003



BALANCE SHEET

(U.S. Dollars)	12/31/2004	12/26/2003
ASSETS		
Cash and Cash Equivalents	2,861,400	1,062,800
Receivables		
Interest	1,029,200	531,500
Deferred Income taxes	350,000	350,000
Income taxes receivable current	7,240,800	-
Broker dealer receivable	12,523,800	3,691,600
Affiliated companies	385,828,000	250,802,100
Trading Assets		
Swap Contracts	2,708,316,800	2,797,270,300
Investments Securities at Fair Value		
U.S. Government and agencies obligations	133,661,500	315,889,700
Foreign Government obligations	79,522,800	54,956,800
Corporate debt	267,333,400	213,454,800
Equipment and leasehold improvements (net of accumulated depreciation and amortization of \$1,157,160 in 2004 and \$1,145,200 in 2003)		
	-	12,000
Other Assets		
Prepaid management and rating agency fees	224,000	175,000
TOTAL ASSETS	3,598,891,700	3,638,196,600
LIABILITIES & STOCKHOLDERS' EQUITY		
Liabilities		
Overdrafts	400	2,465,000
Trading Liabilities		
Swap contracts	2,753,606,400	2,844,422,700
Unamortized swap payments	48,898,300	47,657,800
Other payables		
Income taxes payable current	1,170,800	7,394,500
Deferred Income taxes	-	633,800
Accounts payable & accrued expenses	394,100	347,500
Broker dealer payable	14,967,400	1,964,700
Affiliated companies	29,884,100	16,562,800
TOTAL LIABILITIES	2,848,921,500	2,921,448,800
STOCKHOLDERS' EQUITY		
Preferred Stock (\$2,772.09 par value 10,000 shares authorised, issued and outstanding, liquidation preference, \$50,000,000. All preference shares were converted to common shares during 2004)	-	27,720,900
Common Stock (2004: \$2,772.09 par value 70,000 shares authorised issued and outstanding, 2003: 60,000)	194,046,500	166,325,700
Paid in Capital (\$97,023,300 restricted as to distribution by legal regulation)	156,753,500	156,753,400
Net unrealized gains / (losses) on investment securities	(356,000)	692,400
Retained Earnings	399,526,200	365,255,400
TOTAL STOCKHOLDERS' EQUITY	749,970,200	716,747,800
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	3,598,891,700	3,638,196,600

See Notes to Financial Statements

Statement of Cash Flows

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

(U.S. Dollars)	12/31/2004	12/26/2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	43,374,500	48,156,200
Noncash items included in net earnings:		
Amortization of net discount on investment securities	(5,042,000)	(3,392,000)
Depreciation & amortization	12,000	15,700
(Increase) / decrease in operating assets:		
Interest receivable	(497,700)	1,410,000
Affiliated companies receivable	(135,025,900)	180,679,100
Broker dealer receivable	(8,832,200)	(3,569,500)
Prepaid management and rating agency fees	(49,000)	600,200
Swap contracts	(1,862,800)	(4,809,300)
Current income taxes receivable	(7,240,800)	-
Increase / (decrease) in operating liabilities:		
Unamortised swap payments	1,240,500	(4,061,900)
Current income taxes payable	(6,223,700)	2,815,900
Broker dealer payable	13,002,700	(1,512,700)
Accounts payable & accrued expenses	46,600	275,100
Affiliated companies payables	13,321,300	9,063,000
CASH (UTILISED) / PROVIDED BY OPERATING ACTIVITIES	(93,776,500)	225,669,800
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from / (payments for):		
Drafts payable	(2,464,600)	(446,800)
Dividends paid on common stock	(6,735,300)	(9,099,400)
Dividends paid on preferred stock	(2,368,400)	(4,736,800)
CASH UTILISED FOR FINANCING ACTIVITIES	(11,568,300)	(14,283,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from / (payments for):		
Maturities of investment securities	1,350,634,400	1,028,678,400
Purchases of investment securities	(1,243,491,000)	(1,240,421,000)
CASH (UTILISED) / PROVIDED BY INVESTING ACTIVITIES	107,143,400	(211,742,600)
INCREASE / (DECREASE) IN CASH	1,798,600	(355,800)
Cash at beginning of year	1,062,800	1,418,600
CASH AT END OF YEAR	2,861,400	1,062,800

Supplemental Disclosure of Cash Flow information. Income tax payments totaled \$13,102,085 in 2004 and \$7,801,922. Interest payments /(receipts) totaled \$552,400 in 2004 and \$832,100 in 2003.

Supplemental Disclosure of Non Cash Investing Activities. Net (decrease)/ increase in fair value of investment securities available-for-sale totaled (\$1,048,000) and \$125,800, net of applicable income tax benefit/(expenses) at December 31, 2004 and December 26, 2003, respectively.

See Notes to Financial Statements

Statement of Changes in Stockholder's Equity

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



STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY

(U.S. Dollars)	12/31/2004	12/26/2003
PREFERRED STOCK		
Balance, end of year (see Note 4 of the Notes to the Financial Statements)	-	27,720,900
COMMON STOCK		
Balance, end of year	194,046,600	166,325,700
PAID-IN CAPITAL		
Balance, end of year	156,753,400	156,753,400
TOTAL CAPITAL	350,800,000	350,800,000
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	692,400	566,600
Net unrealized (losses) / gains on AFS securities, net of applicable income tax benefit	(1,048,400)	125,800
Balance, end of year	(356,000)	692,400
RETAINED EARNINGS		
Balance, beginning of year	365,255,400	330,935,400
Net Earnings	43,374,500	48,156,200
Dividends declared and paid:		
Preferred Stock	(2,368,400)	(4,736,800)
Common Stock	(6,735,300)	(9,099,400)
Balance, end of year	399,526,200	365,255,400
TOTAL STOCKHOLDERS' EQUITY	749,970,200	716,747,800

See Notes to Financial Statements

Notes to the Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Description of Business

Merrill Lynch Derivative Products AG ("MLDP"), a subsidiary of Merrill Lynch & Co., Inc. ("ML & Co.") is organized to transact business in interest rate and currency swaps and related derivative products with counterparties rated A3 or better by Moody's Investors Service Inc., (Moody's) and A – or better by Standard & Poor's Ratings Group (S&P), or counterparties acceptable to the rating agencies. Also, MLDP guarantees specific swap transactions of certain Merrill Lynch affiliates.

MLDP conducts its business in global financial markets primarily located in the European, North American and Asia-Pacific regions. MLDP's financial results are closely tied to its level of intermediation revenues, which are influenced by a number of factors including economic and market conditions, political events, and investor sentiment. The reaction of participants in financial markets to a particular condition or event is unpredictable, and can result in volatility in the marketplace. While higher volatility can increase risk, it may also increase the volume of business transactions. Other global market and economic conditions, including the level and volatility of interest rates, currency valuations, competitive conditions, and the size, number, and timing of transactions may also affect MLDP's earnings. As a result, MLDP's earnings can vary significantly from year to year, and from quarter to quarter.

MLDP and Merrill Lynch Capital Services, Inc. (MLCS) have entered into an Intermediation and Security Agreement ("the Agreement") that governs the operations and activities of MLDP. The Agreement requires that all transactions be introduced through MLCS and, with certain very limited exceptions, for each deal transacted by MLDP with a counterparty, MLDP is required to enter into an offsetting transaction with MLCS. MLCS is required to post collateral based on a formula outlined in the Agreement. The formula is based on the fair value of MLCS swaps with MLDP, calculations of certain market and credit exposures in the swap portfolio, and minimum collateral requirement.

MLDP has also entered into a Management Agreement which provides for the management of its operations by an unaffiliated third party in the event of early termination as defined in the Agreement.

Basis of Presentation

All amounts disclosed in these financial statements are expressed in U.S. dollars and are prepared in accordance with generally accepted accounting principles and prevailing industry practices of the United States of America. Transactions denominated in currencies other than U.S. dollars are converted to dollars at the spot rate with the resulting gain or loss reflected in earnings of the current period.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States and prevailing industry practices requires management to make estimates that affect the reported amounts and disclosure of contingencies in the financial statements. Actual results could differ materially from those estimates.

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation.

The years ended December 31, 2004 and December 26, 2003 were 52 week periods.

Fair Value

Fair Value of Financial Instruments - The carrying amounts of the Company's financial instruments, which include all receivables and payables, approximate their respective fair values.

Investment Securities

MLDP's investment securities are classified as "available for sale" and reported at fair value. Fair value is based on quoted market prices where available or pricing models, utilizing indicators of general market conditions or other economic measurements. Net unrealized investment gains and losses on these securities are reported in stockholders equity as component of accumulated other comprehensive income, net of income taxes and other related items.

Realized gains and losses on all investment securities are included in current period earnings. For purposes of computing realized gains and losses, the cost basis of each investment sold is generally based on the average cost method.

Eligible securities are limited to obligations of the U.S. Government and its agencies, municipals, and instruments issued or guaranteed by entities with long-term debt ratings of Aaa by Moody's and AAA by S&P. Pursuant to MLDP's investment policy, investments are restricted to issues with a remaining term to maturity of less than ten years. At December 31, 2004 approximately 62% of MLDP's investments had a maturity of less than 180 days.

Securities received as Collateral

MLDP receives collateral from MLCS under the terms of the Intermediation Agreement. Conservative valuations are applied to ensure that market value of the underlying collateral remains sufficient relative to the exposure. Collateral is valued daily, and MLDP may require MLCS to deposit additional collateral when appropriate.

Intermediation Revenues

A single up-front payment based on the present value of a stated percentage of the notional principal is payable in full on the effective date for each new swap transaction. A portion of



these payments are recorded as unamortized swap payments and are amortized over the life of the swap portfolio. These unamortized swap payments represent a liability for losses associated with early swap terminations. The carrying value of unamortized swap payments approximates their fair value.

Cash and Cash Equivalents

Merrill Lynch defines cash and cash equivalents as short term, highly liquid securities, federal funds sold, and interest bearing deposits with original maturities of 90 days or less, that are not used for trading purposes.

Trading Assets and Liabilities

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions and other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Estimating the fair value of certain illiquid securities requires significant management judgment. Merrill Lynch values trading security assets at the institutional bid price and recognizes bid / offer revenues when assets are sold. Trading security liabilities are valued at the institutional offer price and bid-offer revenues are recognized when the positions are closed.

MLDP enters into interest rate and currency swaps, swap options, caps and floors, and forward rate agreements which are carried at their fair values. Balances with the same counterparty are offset, where applicable, according to the provisions of master netting agreements.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent the present value of amounts estimated to be received from or paid to a third-party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counterparty's credit ratings, or Merrill Lynch's own credit ratings, as appropriate. Obtaining the fair value for OTC derivatives contracts requires the use of management judgment and estimates.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the results of operations reported in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark-to-market all positions

consistently when only a subset of prices are directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Unrealized gains at the inception of the derivative contract are not recognized unless the valuation model incorporates significant observable market inputs.

Valuation adjustments are an integral component of the fair valuation process and are taken for individual positions where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality or concentration or market liquidity) requires the valuation to be based on more than simple application of the pricing models.

Equipment and Facilities

Equipment and facilities, consisting of Office equipment, Computer equipment and Leasehold improvements, are reported at historical cost, net of accumulated depreciation and amortization. Facilities are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the term of the lease. Equipment is depreciated using the straight-line method over the estimated useful life of the asset.

Prepaid Management Fee

A management fee is paid to the contingent manager obligated under the Management Agreement referred to previously, on a semi-annual basis, for services to be rendered in the following six-month period. These fees are amortized on a monthly basis over the term of the manager's obligation. A rating agency fee is paid quarterly to obtain counterparty risk ratings. These fees are amortized monthly.

Income Taxes

MLDP is subject to Swiss corporate income taxes. In addition, to the extent that income is earned in the United States, it is subject to United States Federal, state and local taxes.

It is the policy of ML & Co. to allocate the current and deferred taxes associated with operating results to its subsidiaries in a manner which approximates the separate company method. ML & Co. and its affiliates use the asset and liability method in providing income taxes on all transactions that have been recognized in the financial statements.

MLDP provides for deferred income taxes resulting from temporary differences which arise from recording specific transactions, including certain reserves and the unrealized gains (losses) from investment securities available-for-sale, in different years for income tax reporting purposes than for financial reporting purposes.

Notes to the Financial Statements

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

Brokers dealer Receivables and Payables

Receivables from brokers and dealers include amounts receivable for securities not delivered by Merrill Lynch to a purchaser by the settlement date ("fails to deliver"), deposits for securities borrowed, margin deposits, commissions, and net receivables arising from unsettled trades. Payables to brokers and dealers include amounts payable for securities not received by Merrill Lynch from a seller by the settlement date ("fails to receive"), deposits received for securities loaned, and net payables arising from unsettled trades. Brokers and dealers receivables and payables also include amounts related to futures contracts transacted on behalf of Merrill Lynch customers.

Interest Receivables and Payables

Interest receivable includes interest receivable on corporate and governmental obligations. Affiliated companies receivable includes Interest receivable related to the intercompany advance. Affiliated payables includes interest payable related to the intercompany advance from ML & Co.

New Accounting Pronouncements

In March 2004, the EITF reached a final consensus on Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 requires that when the fair value of an investment security is less than its carrying value, an impairment exists for which the determination must be made as to whether the impairment is other-than-temporary. The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115 and to investment securities accounted for under the cost method to the extent an impairment indicator exists. Under the guidance, the determination of whether an impairment is other-than-temporary and therefore would result in a recognized loss depends on market conditions and management's intent and ability to hold the securities with unrealized losses. In September 2004, the FASB approved FSP EITF 03-1, which defers the effective date for recognition and measurement guidance contained in EITF 03-1 until certain issues are resolved. Merrill Lynch will adopt the guidance at the time it is issued.

On May 15, 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 changes the accounting for certain financial instruments, including mandatorily redeemable preferred stock and certain freestanding equity derivatives, which under previous guidance were accounted for as equity. SFAS No. 150 requires that most mandatorily redeemable preferred shares (i.e., with certain exceptions for mandatorily redeemable noncontrolling interests and mandatorily redeemable financial instruments of certain non-public entities), written put options and physically settled forward purchase contracts on an issuer's shares, and certain financial

instruments that must be settled by issuing a variable number of an issuer's shares, be classified as liabilities in the Consolidated Balance Sheets. SFAS No. 150 must be applied immediately to instruments entered into or modified after May 31, 2003 and to all other pre-existing instruments beginning in the third quarter of this year. The adoption of SFAS No. 150 did not have a material impact on the Financial Statements.

On April 30, 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group ("DIG") process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components (e.g., pre-paid swaps). In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Beginning in the third quarter of 2003, in accordance with SFAS No. 149, Merrill Lynch modified its classification within the Consolidated Statements of Cash Flows. Certain derivative instruments entered into or modified after June 30, 2003, that have been determined to contain a financing element at inception, where Merrill Lynch is deemed the borrower, are now included as a separate component within Cash flows from financing activities. Prior to July 1, 2003, the activity associated with such derivative instruments is included within Cash flows from operating activities. The adoption of SFAS No. 149 did not have a material impact on the Financial Statements.



Notes to the Financial Statements

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

2. TRADING ASSETS AND LIABILITIES

MLDP enters into Derivative transactions, including interest rate and currency swaps, swap options, caps and floors, and forward rate agreements, denominated in U.S. dollars and non U.S. dollars, as an intermediary between MLCS and counterparties rated A3 or better by Moody's and A- or better by S&P, or counterparties acceptable to both rating agencies. Swap agreements between counterparties entail the exchange of periodic payments based on specific interest rates applied to a specified notional or contractual amount.

Normally, swap participants are exposed to off-balance sheet market risk, associated with unfavourable changes in underlying interest rates, currency exchange rates and other market rates. However, it is MLDP's policy to mitigate these risks through the execution of offsetting transactions with MLCS for each deal transacted. On a very limited basis, and only with respect to certain swaps, MLDP is not required to enter into fully offsetting transactions with MLCS. Rather, MLDP hedges the market risk of these swaps through the combination of the investment of the proceeds of the swap, and the execution of a hedging swap with MLCS.

Concentrations of Credit Risk

MLDP is exposed to credit risk associated with the execution of transactions with MLCS and other counterparties. The notional or contractual values of derivative agreements do not represent exposure to credit risk, which is limited to the current cost of replacing those contracts in a gain position. Credit risk represents the amount of accounting loss that MLDP would incur if a counterparty failed to perform its obligations under contractual terms and any collateral held, in respect of such counterparty, was deemed worthless. At December 31, 2004, MLDP had concentrations of credit risk in excess of \$50,000,000 per counterparty aggregating \$3,121,056,818 with 21 unaffiliated counterparties, and MLCS. These counterparties, other than MLCS, had credit ratings ranging from Moody's Aaa to Aa3 and S&P's AAA to AA-.

At December 26, 2003, MLDP had concentrations of credit risk in excess of \$50,000,000 per counterparty aggregating \$2,479,264,383 with 10 unaffiliated counterparties and MLCS. These counterparties, other than MLCS, had credit ratings ranging from Moody's Aaa to Aa3 and S&P's AAA to AA-.

Pursuant to the Agreement, MLDP receives collateral from MLCS, including U.S. Treasury Notes and Bills, to provide for potential portfolio credit and market exposures. At December 31, 2004 and December 26, 2003, MLDP received collateral with fair value totalling \$2,728,789,092 and \$3,689,741,963, respectively. MLDP may require counterparties to post collateral from time to time, however at December 31, 2004 and December 26,

2003, MLDP did not require collateral from any counterparty. MLDP also pledges collateral to certain counterparties, under standard trading terms. Under the terms of the Agreement, MLDP is entitled to pledge collateral received from MLCS to meet client obligations. MLDP's pledged collateral cannot be sold by MLDP's counterparties. At December 31, 2004 and December 26, 2003 the fair value of collateral pledged to counterparties was zero and \$21,440,669, respectively.

In addition to these specific exposures, MLDP's most significant industry concentration is with financial institutions. MLDP also has significant concentrations with certain sovereign governments. These concentrations arise in the normal course of MLDP's derivatives activities. MLDP's credit exposure arises from the risk of non performance of its counterparties in fulfilling their contractual obligations pursuant to its derivative transactions. This risk of non performance can be directly impacted by volatile or illiquid trading markets which may impair the counterparties' abilities to satisfy their obligations. As discussed above, certain provisions of the Agreement provide collateral for such portfolio concentration exposures.

Credit reserve calculation

There were no changes in the credit reserve requirement calculation during 2004. In 2003, MLDP aligned its calculation of credit reserve requirement to that used by the Merrill Lynch Group, which resulted in additional revenues of \$11,822,000 reflected in the statement of earnings.

For further analysis of credit and currency risk, see the Portfolio Highlights on Page 18.

The notional or contractual amounts of MLDP's financial instruments are set forth below:

(Amounts in U.S. Dollar Millions)	12/31/2004	12/26/2003
Transactions with Third Parties and MLCS:		
Interest Rate and Currency Swaps-Third Parties	93,163	96,338
Interest Rate and Currency Swaps-MLCS	93,163	96,338
Options, Caps and Floors-Third Parties	5,236	5,438
Options, Caps and Floors-MLCS	5,236	5,438
Affiliate Transactions Guaranteed by MLDP:		
Interest Rate and Currency Swaps-Affiliate incl. MLCS	15,979	17,294
Options, Caps and Floors-Third Parties incl. MLCS	791	-

End of Period and Average Fair Value – The amounts presented below represent end of period and average fair values for MLDP's derivative financial instruments. Average fair values are derived using month end balances. The amounts include netting of offsetting transactions, where appropriate.

(U.S. Dollars)	End of the Period Value		Average Fair Values	
	December 31, 2004	December 26, 2003	For the Year Ended December 31, 2004	For the Year Ended December 26, 2003
Swap Contracts-Assets				
Third parties	3,687,152,500	2,710,872,800	2,656,754,276	2,367,294,148
MLCS	(978,835,700)	86,397,500	(297,203,820)	658,458,498
Total	2,708,316,800	2,797,270,300	2,359,550,456	3,025,752,646
Swap Contracts-Liabilities				
Third parties	2,753,606,400	2,844,422,700	2,405,031,726	3,073,127,069

Notes to the Financial Statements

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

3. INVESTMENT SECURITIES

Investment securities accounted for under SFAS No. 115 are classified as available-for-sale, held-to-maturity, or trading as described in Note 1 to the Financial Statements.

MLDP's available-for-sale investment securities subject to SFAS No. 115 at December 31, 2004 and December 26, 2003 are as follows:

December 31, 2004:

(U.S. Dollars) SECURITY TYPE	Amortized Cost	Fair Value	Gross Unrealized	
			Gains	Losses
U.S. Government and agencies' obligations	133,667,500	133,661,500	-	(6,000)
Foreign government obligations	79,595,900	79,522,800	-	(73,100)
Corporate debt	267,610,300	267,333,400	-	(276,900)
TOTAL DEBT SECURITIES	480,873,700	480,517,700	-	(356,000)

MATURITIES

Due in one year or less	450,940,600	450,615,300
Due after one year	29,933,100	29,902,400
TOTAL	480,873,700	480,517,700

December 26, 2003:

(U.S. Dollars) SECURITY TYPE	Amortized Cost	Fair Value	Gross Unrealized	
			Gains	Losses
U.S. Government and agencies' obligations	315,568,800	315,889,700	320,900	-
Foreign government obligations	54,936,500	54,956,800	20,300	-
Corporate debt	212,469,700	213,454,800	985,100	-
TOTAL DEBT SECURITIES	582,975,000	584,301,300	1,326,300	-

MATURITIES

Due in one year or less	553,057,900	553,860,100
Due after one year	29,917,100	30,441,200
TOTAL	582,975,000	584,301,300

The majority of the unrealized losses relate to mortgage- and asset-backed securities and U.S. Government and agencies securities. The majority of the investments are AAA-rated debentures and mortgage-backed securities issued by U.S. agencies. These investments are not considered other-than-temporarily impaired because MLDP has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investment.



4. STOCKHOLDERS' EQUITY

MLDP's 10,000 authorised and issued Cumulative Preferred Stock were converted into common shares in September 2004. As at 31 December 2004, there is 70,000 authorised and issued common stock.

MLDP Holdings, Inc. (the "Parent") received common stock dividends during 2004 of \$6,735,300 (2003: \$9,099,400) and preferred stock dividends of \$2,368,400 (2003: \$4,736,800)

5. COMMITMENTS, CONTINGENCIES AND GUARANTEES

MLDP guarantees specific swap obligations of certain affiliates. These affiliate guarantees are considered contingent liabilities for MLDP's calculation of the minimum collateral requirement. At December 31, 2004 and December 26, 2003, MLDP guaranteed certain transactions of affiliates under these arrangements, the fair value of these swap obligations totalling \$2,500,074,007 and \$2,236,020,709 respectively.

Guarantees

MLDP enters into certain derivative contracts that meet the accounting definition of a guarantee under FIN 45. FIN 45 defines guarantees to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in an underlying (such as changes in the value interest rates, security prices, currency rates, indices, etc) that relate to an asset, liability or equity security of a guaranteed party. Derivatives that meet the FIN 45 definition of guarantees include certain written options and swap options. MLDP does not track, for accounting purposes, whether its clients enter into these derivative contracts for speculative or hedging purposes. Accordingly, MLDP has disclosed information about certain types of written options that can potentially be used by clients to protect against changes in an underlying.

For certain derivative transactions such as written interest rate caps and written currency options, the maximum payout could theoretically be unlimited, because, for example, the rise in interest rates or changes in foreign exchange rates could theoretically be unlimited. In addition, MLDP does not monitor its exposure to derivatives based on the theoretical maximum payout because that measure does not take into consideration the probability of the occurrence. As such, rather than including the maximum payout, the notional value of these contracts has been included to provide information about the magnitude of involvement with these types of contracts. However, it should be noted that the notional value is not a reliable indicator of Merrill Lynch's exposure to these contracts.

MLDP records all derivative transactions at fair value on its balance sheet. As noted above, MLDP does not monitor its exposure to derivative contracts in terms of maximum payout. Instead, a risk framework is used to define risk tolerances and establish limits to ensure that certain risk-related losses occur within acceptable, predefined limits. MLDP economically hedges its exposure to these contracts by entering into a variety of offsetting derivative contracts and security positions.

These guarantees and their expiration are summarized at December 31, 2004 as follows:

(U.S. Dollars in Millions)	Maximum Payout/ Notional	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years	Carrying Value
Derivative contracts ¹⁾	4,505	677	2,607	544	677	22

¹⁾ As noted above, the notional value of derivative contracts is provided rather than the maximum payout amount.

Notes to the Financial Statements

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

6. RELATED PARTY TRANSACTIONS

MLDP received Intermediation fees from Merrill Lynch Capital Services (MLCS) of \$38,096,300 in 2004 and \$45,882,100 in 2003, per the Intermediation and Security Agreement outlined in note 1. MLCS provides certain services to MLDP under the Agreement and acts as paying agent in the calculation and processing of swap payments. Professional fees incurred for services rendered by MLCS as paying agent were \$135,000 in 2004 and 2003.

MLDP provides operational procedures for MLCS under the Business Plan for Standard Bank of South Africa Intermediation Agreement. Professional fees incurred for services rendered by MLDP were \$90,000 in 2004 and \$105,000 in 2003.

MLDP received Interest from a loan to Merrill Lynch Luxembourg Finance S.A. (MLLFS) of \$4,871,000 and \$4,327,900 in 2004 and 2003 respectively. The loan outstanding as at 31 December 2004 and 26 December 2003 was \$385,828,000 and \$250,802,100, respectively.

Merrill Lynch Capital Markets AG ("MLCM") provides certain accounting and computer support services to MLDP under a Service Agreement. The agreement also includes the provision of premises. Professional fees incurred for services rendered by MLCM were \$402,700 in 2004 and \$372,100 in 2003.

Merrill Lynch Financial Services Limited ("MLFSL") provides certain services in the processing of swap payments. Professional fees incurred for services rendered by MLFSL were zero in 2004 and \$88,000 in 2003. These services were terminated in September 2003 and were replaced by MLID Delaware. Professional fees incurred for services rendered by MLID Delaware were \$288,245 in 2004 and \$140,000 for the four month period till December 2003.



7. INCOME TAXES

Income tax provisions (benefits) on earnings consisted of:

(U.S. Dollars)	Year Ended 12/31/2004	Year Ended 12/26/2003
U.S. Federal:		
Current	4,634,600	8,921,700
U.S. Branch Profits Tax at 5% of fall in net equity	450,000	4,191,500
U.S. State and Local:		
Current	201,700	388,200
Swiss:		
Current Tax - prior year	(3,692,800)	-
Current Tax - current year	274,000	4,039,400
Deferred Tax	-	(350,000)
TOTAL	1,867,500	17,190,800

A reconciliation of the statutory U.S. Federal income tax rate to MLDP's effective tax rate is as follows:

(U.S. Dollars)	Year Ended 12/31/2004	Year Ended 12/26/2003
U.S. statutory Federal income tax rate	35.0%	35.0%
U.S. Branch Profits Tax	5.0%	5.0%
U.S. state and local income taxes net of Federal benefit	1.5%	1.5%
Swiss operations, net	(37.4%)	15.2%
TOTAL	4.1%	26.3%

As part of the consolidated group, MLDP transfers to ML & Co. its current U.S. Federal, state and local tax liabilities. During 2004 and 2003, MLDP transferred \$11,324,305 and \$8,468,722 to ML & Co. At December 31, 2004 MLDP had U.S. current taxes payable to ML & Co. of \$1,170,801. At December 26, 2003 MLDP had U.S. current taxes payable to ML & Co. of \$2,383,474.

At December 31, 2004 MLDP had a U.S. deferred tax asset of \$170,135 and at December 26, 2003 a deferred tax liability of \$633,849.

During 2004 and 2003, MLDP paid Swiss tax of \$4,259,729 and \$5,836,383.

At December 31, 2004 and 26 December 2003, MLDP had a Swiss deferred tax asset of \$350,000. At December 31, 2004, MLDP had Swiss taxes receivable of \$7,240,828. At December 26, 2003, MLDP had Swiss taxes payable of \$889,317.

In 2004, the negative tax rate for Swiss operations arose from unrealized FX losses on translation of USD/CHF exposures for Swiss GAAP accounting. Under Swiss GAAP, these losses are treated as realized losses, and therefore the Swiss tax computation has resulted in a Swiss tax loss.

Portfolio Highlights

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

CREDIT RISKS

Measured by notional principal, the below tables contain the proportion of MLDP's third party swap portfolio in each rating category. The total notional size of the portfolio on December 31, 2004 and December 26, 2003 was \$98.4 billion and \$101.8 billion, respectively.

MOODY'S RATING	% of Portfolio	
	12/31/2004	12/26/2003
Aaa	55	52
Aa1	2	4
Aa2	19	13
Aa3	10	14
A1 to A3	13	13
Acceptable unrated counterparties	1	4

S&P'S RATING	% of Portfolio	
	12/31/2004	12/26/2003
AAA	48	43
AA+	0	8
AA	24	12
AA-	8	11
A+ to A-	11	15
Acceptable unrated counterparties	9	11

The total positive net exposure to third parties was \$3,687 million and \$2,711 million at December 31, 2004 and December 26, 2003, respectively. The tables below contain the proportion of positive net exposures to third parties by credit ratings.

MOODY'S RATING	% of Portfolio	
	12/31/2004	12/26/2003
Aaa	62	64
Aa1	1	0
Aa2	15	14
Aa3	10	10
A1 to A3	11	11
Acceptable unrated counterparties	1	1

S&P'S RATING	% of Portfolio	
	12/31/2004	12/26/2003
AAA	58	58
AA+	0	6
AA	19	13
AA-	4	9
A+ to A-	17	12
Acceptable unrated counterparties	2	2

The fair value of MLDP's portfolio with MLCS at December 31, 2004, was \$979 million payable compared with \$86 million receivable at December 26, 2003. MLDP held collateral totaling \$2,729 million, (risk adjusted fair value \$2,476 million), at December 31, 2004 and \$3,690 million, (risk adjusted fair value \$3,352 million) at December 26, 2003, to cover the direct potential exposure to MLCS and other counterparties.



PRODUCT COMPOSITION

On December 31, 2004, MLDP's portfolio contained 2006 third party transactions with a total U.S. dollar equivalent notional of \$98.4 billion as compared with 2,136 third party transactions with a total U.S. dollar equivalent notional of \$101.8 billion as of December 26, 2003. The table below describes the allocation by notional principal among the product categories.

PRODUCT	% of Portfolio	
	12/31/2004	12/26/2003
Interest Rate Swaps	69	71
Currency Swaps	26	24
Interest Rate and Currency Options	5	5

CURRENCY COMPOSITION

MLDP had swap positions denominated in 11 currencies at December 31, 2004 and 12 currencies at December 26, 2003. The relative composition of the portfolio, weighted by notional principal, is noted in the table below.

CURRENCY	% of Portfolio	
	12/31/2004	12/26/2003
U.S. Dollar	38.7	41.3
Euro	35.4	35.7
Japanese Yen	3.9	4.7
Canadian Dollar	12.4	8.1
British Pound	3.7	3.6
Swiss Franc	3.1	3.5
Australian Dollar	1.6	1.7
Swedish Krona	0.5	0.5
Danish Krona	0.5	0.6
Norwegian Kroner	0.1	0.1
New Zealand Dollar	0.1	0.1
South Africa	0.0	0.1

Portfolio Highlights

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

MATURITY PROFILE

The average maturity of the portfolio was 8.15 years at December 31, 2004 and 7.75 years at December 26, 2003. The following table indicates the proportion of transactions, by notional principal, in each time band.

MATURITY	% of Portfolio	
	12/31/2004	12/26/2003
Less than 3 years	46	43
3-5 years	23	24
6-10 years	19	20
Greater than 10 years	12	13

COUNTERPARTIES

Active unaffiliated counterparties, categorized by country in the table below, totaled 192 and 237 at December 31, 2004, and December 26, 2003, respectively.

COUNTRY	No. of Counterparties	
	12/31/2004	12/26/2003
United States	71	93
Australia	21	25
Germany	15	17
United Kingdom	10	11
Canada	17	18
France	9	9
Netherlands	7	7
Spain	9	8
Sweden	5	6
Austria	5	7
Norway	4	6
Ireland	4	5
Denmark	4	4
Switzerland	2	4
Luxembourg	2	2
Japan	1	1
Finland	2	2
Belgium	2	2
New Zealand	1	1
Abidjan	0	1
Supranationals	1	8



Independent Auditors' Report

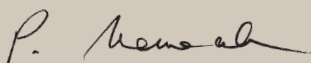
To the Board of Directors and Stockholders of
Merrill Lynch Derivative Products AG:

We have audited the accompanying balance sheets of Merrill Lynch Derivative Products AG (the "Company"), as of December 31, 2004 and December 26, 2003 and the related statements of earnings, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Our audit work completed on March 30th 2005 .

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2004 and December 26, 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE AG



Pavel Nemecek



Stephan Schmidli

Auditor in charge

Zurich, June 23, 2005

For more information on MLDP you may contact the individuals listed below:

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