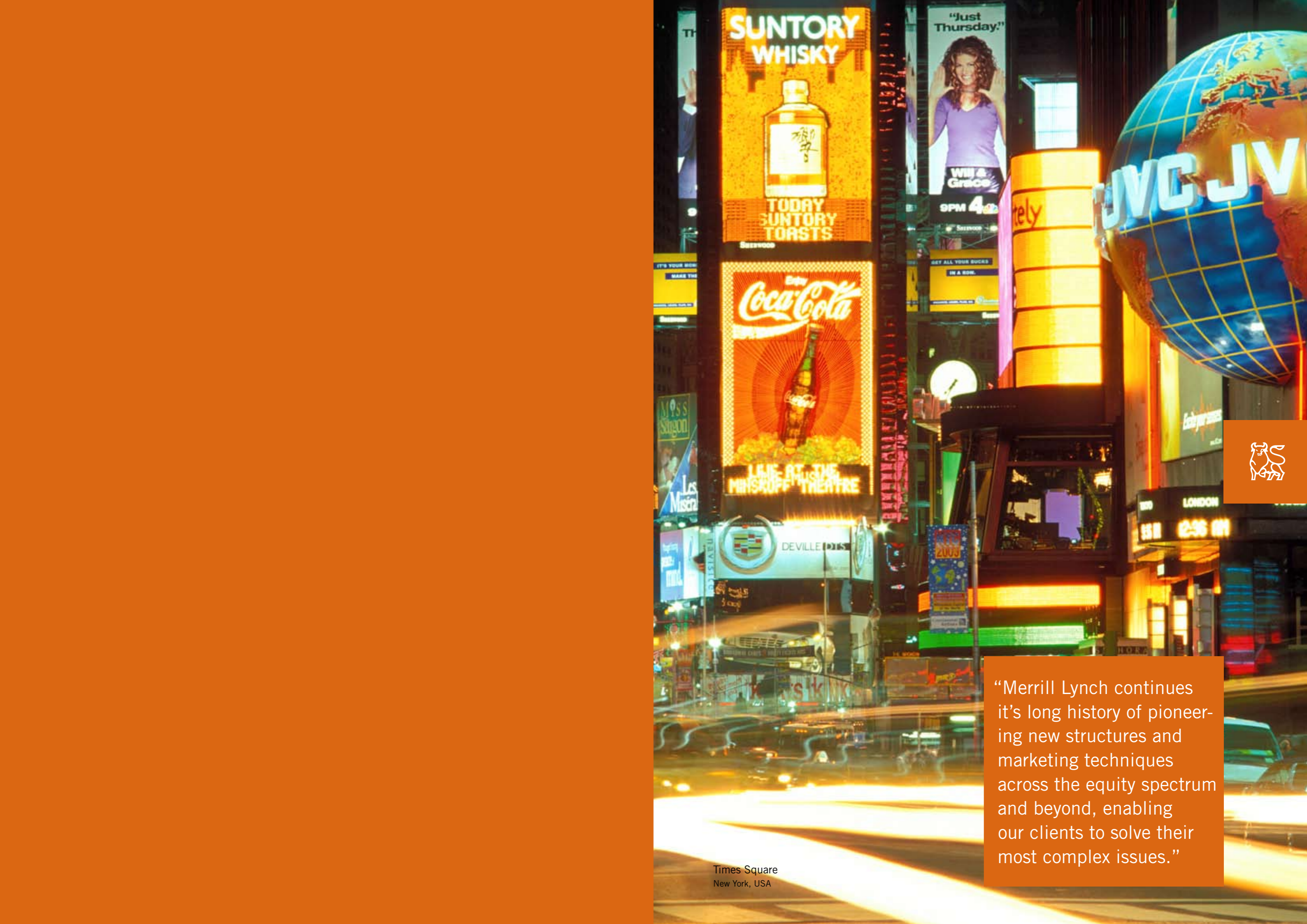


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The real measure of
success





Times Square
New York, USA

“Merrill Lynch continues its long history of pioneering new structures and marketing techniques across the equity spectrum and beyond, enabling our clients to solve their most complex issues.”



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 29, 2006 and December 30, 2005. A comparative analysis of MLDP’s swap portfolio is also included.

MLDP’s revenues for 2006 were \$49.9 million, of which intermediation income accounted for 44% of total revenues. Operating expenses were \$4.6 million for 2006 and net earnings were \$34.3 million.

The notional principal of MLDP’s swap transactions with third parties and guarantees decreased \$8.2 billion to \$87.6 billion (\$71.4 billion of transactions with third parties & affiliates and \$16.2 billion of guarantees for affiliate transactions) at December 29, 2006, down 9% from \$95.9 billion at December 30, 2005. MLDP had 1,575 transactions with 266 unaffiliated counterparties at December 30, 2005 compared to 1,832 transactions with 297 unaffiliated counterparties at December 30, 2005.

MLDP had total swap assets, at fair value, of \$1,903 million and swap liabilities of \$2,033 million with unaffiliated third parties at December 29, 2006. Swap contracts totaling \$88 million receivable, 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 \$36.9 million.

Sincerely,



David Gu
Chairman of the Board
Merrill Lynch Derivative Products AG

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



“Through innovative capital markets solutions, high-quality execution and superior market-making capabilities, we’re impacting the markets for our clients’ advantage.”



Financial Management

Merrill Lynch Derivative Products AG 2006 Annual Report

Statements of Earnings

for the years ended Dec 29, 2006 and Dec 30, 2005

(U.S. Dollars)	29/12/2006	30/12/2005
REVENUES		
Intermediation income from affiliate	21,805,100	32,067,300
Interest	23,670,100	12,508,800
Interest from affiliate	4,392,900	12,401,800
Administration income from affiliate	61,500	132,000
TOTAL REVENUES	49,929,600	57,109,900
EXPENSES		
Professional fees	2,135,200	2,161,900
Compensation & benefits	1,151,600	1,151,400
Communications & technology	787,000	818,600
Occupancy & related depreciation	200,100	166,500
Management fees	200,000	200,000
Bank transaction fees	109,600	86,800
Market development	24,300	73,100
Other	33,800	271,800
TOTAL EXPENSES	4,641,600	4,930,100
EARNINGS BEFORE INCOME TAXES	45,288,000	52,179,800
Income tax expense	11,026,400	2,646,800
NET EARNINGS	34,261,600	49,533,000
OTHER COMPREHENSIVE LOSSES (NET OF TAX):		
Accumulated other comprehensive expense	(37,400)	211,800
Comprehensive Earnings	34,299,000	49,321,200

See Notes to the Financial Statements

Balance Sheets

at Dec 29, 2006 and Dec 30, 2005

(U.S. Dollars)	29/12/2006	30/12/2005
ASSETS		
Cash and cash Equivalents	4,145,200	4,064,100
Receivables		
Interest	13,409,600	3,232,000
Deferred Income taxes	329,800	714,100
Broker dealer receivable	113,186,200	28,702,800
Affiliated companies	135,294,800	141,401,900
Swap Assets		
Swap contracts	1,991,907,600	2,208,469,500
Investment Securities – at fair value		
U.S. government and agencies obligations	135,152,500	259,092,300
Foreign government obligations		
Corporate debt	417,450,600	263,607,300
Equipment & leasehold improvements	17,300	20,600
(net of accumulated depreciation and amortization of \$1,174,100 in 2006 and \$1,163,500 in 2005)		
Other Assets		
Prepaid management and rating agency fees	222,800	94,200
TOTAL ASSETS	2,811,116,400	2,909,398,800
LIABILITIES AND STOCKHOLDER'S EQUITY		
Overdrafts	–	16,255,400
Swap liabilities		
Swap contracts	2,032,966,500	2,250,490,900
Unamortized swap payments	50,821,600	51,618,900
Other payables		
Income taxes payable current	4,269,000	385,300
Deferred income taxes	5,308,400	–
Accounts payable & accrued expenses	2,069,000	13,585,500
Broker dealer payable	117,078,600	16,446,000
Affiliated companies	36,525,100	32,837,600
TOTAL LIABILITIES	2,249,038,200	2,381,619,600
STOCKHOLDERS' EQUITY		
Common Stock (\$2,772.09 par value 70,000 shares authorised issued and outstanding)	194,046,500	194,046,500
Paid in Capital (\$97,023,300 restricted as to distribution by legal regulation)	156,753,500	156,753,500
Net unrealized losses on investment securities	(360,300)	(397,700)
Retained Earnings	211,638,500	177,376,900
TOTAL STOCKHOLDERS' EQUITY	562,078,200	527,779,200
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	2,811,116,400	2,909,398,800

See Notes to the Financial Statements

Statements of Cash Flows

for the years ended Dec 29, 2006 and Dec 30, 2005

(U.S. Dollars)	29/12/2006	30/12/2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	34,261,600	49,533,000
Non cash items included in net earnings:		
Amortization of net discount on investment securities	(9,139,400)	(7,055,300)
Deferred tax	5,658,400	-
Depreciation & amortization	10,700	6,300
(Increase)/decrease in operating assets:		
Interest receivable	(10,177,600)	(2,202,800)
Affiliated companies receivable	6,107,100	244,426,100
Broker dealer receivable	(84,483,400)	(16,179,000)
Prepaid management and rating agency fees	(128,600)	129,800
Swap contracts	(962,500)	(3,268,200)
Current income taxes receivable	-	7,240,800
Increase/(decrease) in operating liabilities:		
Unamortised swap payments	(797,300)	2,720,600
Current income taxes payable	3,883,700	(785,500)
Broker dealer payable	100,632,600	1,478,600
Accounts payable & accrued expenses	(11,516,500)	13,191,400
Affiliated companies payables	3,687,500	2,953,500
CASH PROVIDED BY OPERATING ACTIVITIES	37,036,300	292,189,300
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from/(payments for):		
Drafts payable	(16,255,400)	16,255,000
Dividends paid on common stock	-	(271,682,300)
CASH UTILISED FOR FINANCING ACTIVITIES	(16,255,400)	(255,427,300)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from/(payments for):		
Maturities of investment securities	1,247,417,000	1,065,668,100
Purchases of investment securities	(1,268,109,400)	(1,101,200,500)
Purchase of fixed assets	(7,400)	(26,900)
CASH UTILISED BY INVESTING ACTIVITIES	(20,699,800)	(35,559,300)
INCREASE IN CASH	81,100	1,202,700
Cash at beginning of year	4,064,100	2,861,400
CASH AT END OF YEAR	4,145,200	4,064,100

Supplemental Disclosure of Cash Flow information Income tax payments totaled \$1,727,167 in 2006 and \$3,408,800 in 2005 via inter-company reimbursement. Interest payments made on deposit trades totaled \$1,779,900 in 2006 and \$1,043,500 in 2005.

Supplemental Disclosure of Non Cash Investing Activities Net increase/(decrease) in fair value of investment securities available-for-sale totaled \$37,400 and (\$41,700), net of applicable income tax benefit at December 29, 2006 and December 30, 2005, respectively.

See Notes to the Financial Statements

Statement of Changes in Stockholders' Equity

for the years ended Dec 30, 2006 and Dec 30, 2005

(U.S. Dollars)	29/12/2006	30/12/2005
COMMON STOCK		
Balance, end of year	194,046,500	194,046,500
PAID-IN CAPITAL		
Balance, end of year	156,753,500	156,753,500
TOTAL CAPITAL	350,800,000	350,800,000
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	(397,700)	(356,000)
Transfer to deferred tax asset	-	170,100
Net unrealized gain/(losses) on AFS securities, net of applicable income tax benefit	37,400	(211,800)
Balance, end of year	(360,300)	(397,700)
RETAINED EARNINGS		
Balance, beginning of year	177,376,900	399,526,200
Net Earnings	34,261,600	49,533,000
Dividends declared and paid:		
Common Stock	-	(271,682,300)
Balance, end of year	211,638,500	177,376,900
TOTAL STOCKHOLDERS' EQUITY	562,078,200	527,779,200

See Notes to the Financial Statements



Notes to the Financial Statements for the years ended Dec 29, 2006 and Dec 30, 2005

1. Summary of Significant Accounting Policies

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. 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 Asian-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, Merrill Lynch Capital Services Inc. (MLCS) and Merrill Lynch International Bank Ltd (MLIB*) 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 or MLIB 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 or MLIB. MLCS and MLIB are required to post collateral based on a formula outlined in the Agreement. The formula is based on the fair value of MLCS and MLIB 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.

* In September 2006 Merrill Lynch Capital Markets Bank (MLCMB) changed its name to Merrill Lynch International Bank Limited (MLIB)

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 29, 2006 and December 30, 2005 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.

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.

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.

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 as a separate component of accumulated other comprehensive income, net of applicable income taxes.

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 29, 2006 approximately 55% of MLDP's investments had a maturity of less than 180 days.

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.

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.

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.

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.

Securities received as Collateral

MLDP receives collateral from MLCS and MLIB 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 and/or MLIB 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 swaps. These unamortized swap payments represent a liability for losses associated with early swap terminations and third party credit losses. The carrying value of unamortized swap payments approximates their fair value.

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.

Dividends

MLDP Holdings Inc. (the "Parent") received no common stock dividends during 2006 and \$271,682,300 during 2005 from MLDP.

New Accounting Pronouncements

During the first quarter of 2006, we adopted the provisions of Statement No. 123 (revised 2004), Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123R"). Under SFAS No. 123R, compensation expenses for share based awards that do not require future service are recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. We adopted SFAS No. 123R under the modified prospective method whereby the provisions of SFAS No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. Thus, for Merrill Lynch Derivative Products, SFAS No. 123R required the immediate expensing of share-based awards granted or modified in 2006 to retirement eligible employees, including awards that are subject to non-compete provisions.

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 US and non-US currencies, as an intermediary between MLCS or MLIB and counterparties rated A3 or better by Moody's 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 specific 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 or MLIB 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 to 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, MLIB 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 29, 2006, MLDP had concentrations of credit risk in excess of \$50,000,000 per counterparty aggregating \$1,530,089,100 with 8 unaffiliated counterparties, MLIB and MLCS. These counterparties, other than MLCS and MLIB, had credit ratings ranging from Moody's Aaa to Aa3 and S&P's AAA to AA-.

At December 31, 2005, MLDP had concentrations of credit risk in excess of \$50,000,000 per counterparty aggregating \$2,416,186,500 with 17 unaffiliated counterparties and MLCS and MLIB. 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 and MLIB, including US Treasury Notes and Bills, to provide for potential portfolio credit and market exposures. At December 29, 2006 and December 30, 2005, MLDP received collateral with fair value totaling \$3,012,400,500 and \$3,496,884,800, respectively. MLDP may require counterparties to post collateral from time to time, however at December 29, 2006 and December 30, 2005, 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 and MLIB to meet client obligations. MLDP's pledged collateral cannot be sold by MLDP's counterparties. At December 29, 2006 and December 30, 2005 no collateral was pledged to counterparties.

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 2006.

For further analysis of credit and currency risk, see Portfolio Highlights on Page 20.



THE NOTIONAL OR CONTRACTUAL AMOUNTS OF MLDP'S FINANCIAL INSTRUMENTS ARE SET FORTH BELOW:

(Notional or contractual amounts
in U.S. Dollar Millions)

	29/12/2006	30/12/2005
Transactions with Third Parties and Affiliates		
Interest Rate and Currency Swaps – Third Parties	69,284	78,316
Interest Rate and Currency Swaps – Affiliates	69,284	78,316
Options, Caps and Floors – Third Parties	2,018	4,391
Options, Caps and Floors – Affiliates	2,018	4,391
Affiliate Transactions Guaranteed by MLDP:		
Interest Rate and Currency Swaps	14,250	12,284
Options, Caps and Floors	2,036	817

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 Period Fair Value		Average Fair Value	
	29/12/2006	30/12/2005	29/12/2006	30/12/2005
SWAP CONTRACTS-ASSETS				
Third parties	1,903,411,300	2,342,983,300	2,324,842,400	2,799,746,500
MLCS	(135,130,000)	(179,916,200)	(303,258,900)	(453,282,700)
MLIB	223,626,300	45,402,400	142,858,600	45,402,400
TOTAL	1,991,907,600	2,208,469,500	2,164,442,100	2,346,463,800
SWAP CONTRACTS-LIABILITIES				
Third parties	2,032,966,500	2,250,490,900	2,205,721,400	2,405,031,700

“Relationships are the core of our business. By understanding the needs of our clients, we are leveraging the full resources of Merrill Lynch to help achieve their goals. In the process, we become an essential partner, creating opportunities, adding value and helping turn visions into reality.”



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 29, 2006 and December 30, 2005 are as follows:

DECEMBER 29, 2006:

SECURITY TYPE (U.S. Dollars)	Amortized Cost	Fair Value	Gross Unrealized	
			Gains	Losses
U.S. Government and agencies' obligations	135,694,000	135,152,500	–	(541,400)
Foreign government obligations	–	–	–	–
Corporate debt	417,599,300	417,450,600	–	(148,700)
TOTAL DEBT SECURITIES	553,293,300	552,603,100	–	(690,100)

MATURITIES

Due in one year or less	425,550,900	424,955,300	–	–
Due after one year through five years	127,742,400	127,647,800	–	–
TOTAL	553,293,300	552,603,100	–	–

DECEMBER 30, 2005:

SECURITY TYPE (U.S. Dollars)	Amortized Cost	Fair Value	Gross Unrealized	
			Gains	Losses
U.S. Government and agencies' obligations	259,731,500	259,092,300	–	(639,200)
Foreign government obligations	–	–	–	–
Corporate debt	263,730,000	263,607,300	–	(122,700)
TOTAL DEBT SECURITIES	523,461,500	522,699,600	–	(761,900)

MATURITIES

Due in one year or less	458,461,500	458,293,500		
Due after one year through five years	65,000,000	64,406,100		
TOTAL	523,461,500	522,699,600		

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. 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 29, 2006 and December 30, 2005, MLDP guaranteed certain transactions of affiliates under these arrangements, the fair value of these swap obligations totalling \$2,654,217,300 and \$2,782,822,700 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 swaptions. MLDP does not monitor whether its clients enter into these derivative contracts for speculative purposes or to protect against changes in an underlying that relates to an asset, liability of equity security of the client. 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 is not quantifiable, because, for example, the rise in interest rates could theoretically be unlimited. In addition, MLDP does not monitor its exposure to derivatives in this manner. Instead, the notional value of these contracts has been included to provide information about these contracts. However, it should be noted that the notional value significantly overstates the 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.



TYPE OF GUARANTEE (U.S. Dollar Millions)	Maximum Payout/Notional	Carrying Value
Derivative contracts ¹⁾	3,428	10

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

Expiration information for these contracts is as follows:

(U.S. Dollar Millions)	Maximum Payout/Notional	Less than 1 Year	1 – 3 Years	4 – 5 Years	Over 5 Years
Derivative contracts ¹⁾	3,428	1,135	1,672	535	86

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

5. Related Party Transactions

MLDP received Intermediation fees from Merrill Lynch Capital Services (MLCS) of \$15,349,400 in 2006 and \$29,062,600 in 2005 and from Merrill Lynch International Bank (MLIB) of \$6,455,700 in 2006 and \$3,004,700 in 2005 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 2006 and 2005.

MLDP provides operational procedures for MLCS under the Business Plan for Standard Bank South Africa Intermediation Agreement. Professional fees incurred for services rendered by MLDP were \$57,000 in 2006 and \$132,000 in 2005.

MLDP received Interest from a loan to Merrill Lynch Luxembourg Finance S.A (MLLFSA) of \$4,392,900 and \$12,401,800 in 2006 and 2005 respectively. The loan outstanding as at 29 December 2006 and 30 December 2005 was \$135,294,800 and \$141,401,900, 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 \$160,900 in 2006 and \$402,100 in 2005.

Merrill Lynch International Inc. (Delaware) (“MLID”) provides certain services in the processing of swap payments. Professional fees incurred for services rendered by MLID which are passed on to Merrill Lynch Finance Services Ltd. (MLFSL) were \$262,500 in 2006 and \$278,400 in 2005.

6. Income Taxes

Income tax consisted of:

(U.S. Dollars)	29/12/2006	30/12/2005
U.S. Federal:		
Current	1,593,500	2,345,100
US Branch Profits Tax at 5% of fall in net equity	101,600	–
U.S. State and Local:		
Current	69,300	102,000
Swiss:		
Current Tax prior year	–	(200,300)
Current Tax Current year	3,603,600	400,000
Deferred	5,658,400	–
TOTAL	11,026,400	2,646,800

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

(U.S. Dollars)	29/12/2006	30/12/2005
U.S. statutory Federal income tax rate	35.0%	35.0%
U.S. Branch Profits Tax	5%	0%
U.S. state and local income taxes net of Federal benefit	1.5%	1.5%
Swiss operations, net	(17.2%)	(31.4%)
TOTAL	24.3%	4.1%

As part of the consolidated group, MLDP transfers to ML&Co. its current U.S. Federal, state and local tax liabilities. During 2006 and 2005, MLDP transferred \$1,727,200 and \$3,408,800 to ML&Co. At December 29, 2006 and December 30, 2005, MLDP had U.S. current taxes payable to ML&Co. of \$246,300 and \$209,100 respectively. MLDP had US deferred tax assets of \$329,800 at December 29 2006 and \$364,100 at December 30, 2005. During 2006 MLDP paid no Swiss tax and received a net Swiss tax refund of \$6,606,300 in 2005. At December 29, 2006, MLDP had Swiss taxes payable of \$4,022,700. At December 30, 2005, MLDP had Swiss taxes payable of \$176,200. At December 29, 2006 MLDP had a Swiss deferred tax liability of \$5,308,400 and at December 30, 2005 a Swiss deferred tax asset of \$350,000.



Portfolio Highlights for the years ended Dec 29, 2006 and Dec 30, 2005

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 29, 2006 and December 30, 2005 was \$71.3 billion and \$82.7 billion, respectively.

(% of Portfolio)	29/12/2006	30/12/2005
MOODY'S RATING		
Aaa	48	51
Aa1	4	4
Aa2	28	15
Aa3	11	11
A1 to A3	7	17
Acceptable unrated counterparties	2	2

(% of Portfolio)	29/12/2006	30/12/2005
S&P'S RATING		
AAA	38	43
AA+	5	5
AA	18	16
AA-	8	8
A+ to A-	23	21
Acceptable unrated counterparties	7	7

The total positive net exposure to third parties was \$1,903m million and \$2,343 million at December 29, 2006 and December 30, 2005 respectively. The tables below contain the proportion of positive net exposures to third parties by credit ratings.

(% of Portfolio)	29/12/2006	30/12/2005
MOODY'S RATING		
Aaa	40	43
Aa1	5	6
Aa2	46	20
Aa3	7	8
A1 to A3	0	22
Acceptable unrated counterparties	2	1

(% of Portfolio)	29/12/2006	30/12/2005
S&P'S RATING		
AAA	30	35
AA+	11	7
AA	21	24
AA-	2	1
A+ to A-	35	30
Acceptable unrated counterparties	1	3

The fair value of MLDP's portfolio with MLCS & MLIB at December 29, 2006, was \$88 million receivable compared with \$135 million payable at December 30, 2005. MLDP held collateral totalling \$3,012 million, (risk adjusted fair value \$2,775 million), at December 29, 2006 and \$3,497 million, (risk adjusted fair value \$3,212 million) at December 30, 2005, to cover the direct potential exposure to MLCS, MLIB and other counterparties.

Portfolio Highlights for the years ended Dec 29, 2006 and Dec 30, 2005

PRODUCT COMPOSITION

On December 29, 2006, MLDP's portfolio contained 1,272 third party transactions with a total U.S. dollar equivalent notional of \$71.3 billion as compared with 1,832 third party transactions with a total U.S. dollar equivalent notional of \$82.7 billion as of December 30, 2005. The table below describes the allocation by notional principal among the product categories.

(% of Portfolio)	29/12/2006	30/12/2005
PRODUCT		
Interest Rate Swaps	70	66
Currency Swaps	27	28
Interest Rate and Currency Options	3	6

CURRENCY COMPOSITION

MLDP had swap positions denominated in 11 currencies at December 29, 2006 and at December 30, 2005. The relative composition of the portfolio, weighted by notional principal, is noted in the table below.

(% of Portfolio)	29/12/2006	30/12/2005
CURRENCY		
U.S. Dollar	37.7	40.9
Euro	32.5	33.4
Canadian Dollar	16.5	13.6
Japanese Yen	4.1	3.8
British Pound	3.8	3.8
Swiss Franc	2.8	2.4
Swedish Krona	1.3	0.3
Australian Dollar	0.8	1.2
Danish Krona	0.3	0.4
Norwegian Kroner	0.1	0.1
New Zealand Dollar	0.1	0.1



Portfolio Highlights for the years ended Dec 29, 2006 and Dec 30, 2005

MATURITY PROFILE

The average maturity of the portfolio was 8.42 years at December 29, 2006 and 7.69 years at December 30, 2005. The following table indicates the proportion of transactions, by notional principal, in each time band.

(% of Portfolio)	29/12/2006	30/12/2005
MATURITY		
Less than 3 years	50	51
3 – 5 years	11	14
5 – 10 years	26	22
Greater than 10 years	13	13

COUNTERPARTIES

Active unaffiliated counterparties, categorized by country in the table below, totaled 155 and 179 at December 29, 2006 and December 30, 2005 respectively.

(No. of Counterparties)	29/12/2006	30/12/2005
COUNTRY		
United States	59	66
Australia	21	21
Canada	13	17
United Kingdom	9	8
Germany	8	14
Spain	8	8
Netherlands	6	7
France	5	8
Supranationals	5	5
Norway	4	4
Denmark	4	3
Sweden	3	5
Austria	2	3
Finland	2	2
Belgium	2	2
Ireland	1	2
Switzerland	1	1
Luxembourg	1	1
Japan	1	1
Ivory Coast	0	1

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 29, 2006 and December 30, 2005 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 29, 2006 and December 30, 2005, 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 AG


Stephan Schmidli

Zurich, April 27, 2007


Thomas Reisser
Auditor in charge

Contact

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