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Merrill Lynch Derivative Products AG
2007 Annual Report

LET'S FACE THE FACTS





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 28, 2007 and December 29, 2006. A comparative analysis of MLDP’s swap portfolio is also included.

MLDP’s revenues for 2007 were \$46.2 million, of which intermediation income accounted for 31% of total revenues. Operating expenses were \$4.6 million for 2007 and net earnings were \$36.2 million.

The notional principal of MLDP’s swap transactions with third parties and guarantees decreased \$17.8 billion to \$69.8 billion at December 28, 2007, down 20% from \$87.6 billion at December 29, 2006. MLDP had 1188 transactions with 228 unaffiliated counterparties at December 28, 2007 compared to 1,575 transactions with 266 unaffiliated counterparties at December 29, 2006.

MLDP had total swap assets, at fair value, of \$1,947 million and swap liabilities of \$2,103 million with unaffiliated third parties at December 28, 2007. Swap contracts totaling \$111 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 \$35.1 million.

Sincerely,

David Gu
Chairman of the Board
Merrill Lynch Derivative Products AG





FINANCIAL MANAGEMENT

Merrill Lynch Derivative Products AG **2007 Annual Report**



Statements of Earnings

for the years ended Dec 28, 2007 and Dec 29, 2006

(U.S. Dollars)	28/12/2007	29/12/2006
REVENUES		
Intermediation income from affiliate	14,172,400	21,805,100
Interest	22,757,700	23,670,100
Interest from affiliate	9,218,600	4,392,900
Administration income from affiliate	108,000	61,500
TOTAL REVENUES	46,256,700	49,929,600
EXPENSES		
Professional fees	1,874,800	2,135,200
Compensation & benefits	1,165,600	1,151,600
Communications & Technology	355,100	787,000
Occupancy & related depreciation	229,900	200,100
Management fees	200,000	200,000
Bank transaction fees	100,000	109,600
Market development	21,000	24,300
Other	604,600	33,800
TOTAL EXPENSES	4,551,000	4,641,600
EARNINGS BEFORE INCOME TAXES	41,705,700	45,288,000
Income tax expense	5,468,200	11,026,400
NET EARNINGS	36,237,500	34,261,600
OTHER COMPREHENSIVE LOSSES (NET OF TAX):		
Accumulated other comprehensive expense	(569,300)	(37,400)
COMPREHENSIVE EARNINGS	36,806,800	34,299,000

See Notes to the Financial Statements.

Balance Sheets

at Dec 28, 2007 and Dec 29, 2006

(U.S. Dollars)	28/12/2007	29/12/2006
ASSETS		
Cash and cash equivalents	2,207,800	4,145,200
Receivables		
Interest	11,326,200	13,409,600
Deferred Income taxes	-	329,800
Income taxes receivable current	-	-
Broker dealer receivable	56,579,300	113,186,200
Affiliated companies	202,252,600	135,294,800
Swap Assets		
Swap contracts	2,057,949,500	1,991,907,600
Investment Securities – at fair value		
U.S. Government and agencies obligations	248,742,600	135,152,500
Foreign Government obligations	-	-
Corporate debt	286,149,500	417,450,600
Equipment & leasehold improvements	10,900	17,300
(net of accumulated depreciation and amortization of \$1,186,000 in 2007 and \$1,174,100 in 2006)		
Other Assets		
Prepaid management and rating agency fees	193,100	222,800
TOTAL ASSETS	2,865,411,500	2,811,116,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
Overdrafts	-	-
Swap liabilities		
Swap contracts	2,102,591,300	2,032,966,500
Unamortized swap payments	48,609,800	50,821,600
Other payables		
Income taxes payable current	7,557,900	4,269,000
Deferred Income taxes	6,207,900	5,308,400
Accounts payable & accrued expenses	1,904,500	2,069,000
Broker dealer payable	32,169,100	117,078,600
Affiliated companies	67,486,100	36,525,100
TOTAL LIABILITIES	2,266,526,600	2,249,038,200
STOCKHOLDERS' EQUITY		
Common Stock (\$2,772.09 par value 70,000 shares authorized 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	209,000	(360,300)
Retained Earnings	247,875,900	211,638,500
TOTAL STOCKHOLDERS' EQUITY	598,884,900	562,078,200
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	2,865,411,500	2,811,116,400

See Notes to the Financial Statements.



Statements of Cash Flows

for the years ended Dec 28, 2007 and Dec 29, 2006

(U.S. Dollars)	28/12/2007	29/12/2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	36,237,500	34,261,600
Non cash items included in net earnings:		
Amortization of net discount on investment securities	(4,175,800)	(9,139,400)
Deferred Tax	708,100	5,658,400
Depreciation & amortization	10,700	10,700
(Increase)/decrease in operating assets:		
Interest receivable	2,083,400	(10,177,600)
Affiliated companies receivable	(66,957,800)	6,107,100
Broker dealer receivable	56,606,900	(84,483,400)
Prepaid management and rating agency fees	29,700	(128,600)
Swap contracts	3,582,900	(962,500)
Current income taxes receivable	-	-
Increase/(decrease) in operating liabilities:		
Unamortized swap payments	(2,211,800)	(797,300)
Current income taxes payable	3,288,800	3,883,700
Broker dealer payable	(84,909,500)	100,632,600
Accounts payable & accrued expenses	(164,500)	(11,516,500)
Affiliated companies payables	30,961,000	3,687,500
CASH (UTILIZED)/ PROVIDED BY OPERATING ACTIVITIES	(24,910,400)	37,036,300
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from/(payments for):		
Drafts payable	-	(16,255,400)
Dividends paid on common stock	-	-
CASH UTILIZED FOR FINANCING ACTIVITIES	-	(16,255,400)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from/(payments for):		
Maturities of investment securities	1,420,740,000	1,247,417,000
Purchases of investment securities	(1,397,762,700)	(1,268,109,400)
Purchase of fixed assets	(4,300)	(7,400)
CASH PROVIDED/ (UTILIZED) BY INVESTING ACTIVITIES	22,973,000	(20,699,800)
(DECREASE)/INCREASE IN CASH	(1,937,400)	81,100
Cash at beginning of year	4,145,200	4,064,100
CASH AT END OF YEAR	2,207,800	4,145,200

Supplemental Disclosure of Cash Flow information U.S. Income tax payments totaled \$1,562,360 in 2007 and \$1,727,167 in 2006 via inter-company reimbursement. Swiss Income tax payments totaled \$183,962 in 2007 and \$NIL in 2006. Interest payments made on deposit trades totaled \$2,269,753 in 2007 and \$1,779,900 in 2006.

Supplemental Disclosure of Non Cash Investing Activities Net increase in fair value of investment securities available-for-sale totaled \$569,300 and \$37,400, net of applicable income tax benefit at December 28, 2007 and December 29, 2006, respectively.

See Notes to the Financial Statements.

Statement of Changes in Stockholders' Equity

for the years ended Dec 28, 2007 and Dec 29, 2006

(U.S. Dollars)	28/12/2007	29/12/2006
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	(360,300)	(397,700)
Transfer to deferred tax asset	-	-
Net unrealized gain on AFS securities, net of applicable income tax benefit	569,300	37,400
Balance, end of year	209,000	(360,300)
RETAINED EARNINGS		
Balance, beginning of year	211,638,500	177,376,900
Net Earnings	36,237,500	34,261,600
Dividends declared and paid:		
Common Stock	-	-
Balance, end of year	247,876,000	211,638,500
TOTAL STOCKHOLDERS' EQUITY	598,885,000	562,078,200

See Notes to the Financial Statements.



Notes to the Financial Statements for the years ended Dec 28, 2007 and Dec 29, 2006

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., (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 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 28, 2007 and December 29, 2006 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 five years. At December 28, 2007 90% 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 2007 or 2006 from MLDP.

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. and non-U.S. currencies, as an intermediary between MLCS or MLIB and counterparties rated A3 or better by Moody's or 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 28, 2007, MLDP had concentrations of credit risk in excess of \$50,000,000 per counterparty aggregating \$1,677,462,796 with 11 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 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 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 and MLIB, including US Treasury Notes and Bills, to provide for potential portfolio credit and market exposures. At December 28, 2007 and December 29, 2006, MLDP received collateral with fair value totaling \$3,382,592,234 and \$3,012,400,500, respectively. MLDP may require counterparties to post collateral from time to time, however at December 28, 2007 and December 29, 2006, 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 MCLMB to meet client obligations. MLDP's pledged collateral cannot be sold by MLDP's counterparties. At December 28, 2007 and December 29, 2006 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 2007.

For further analysis of credit and currency risk, see Portfolio Highlights on page 25.



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

(Notional or contractual amounts in U.S. Dollar Millions)	28/12/2007	29/12/2006
Transactions with Third Parties and Affiliates		
Interest Rate and Currency Swaps – Third Parties	48,377	69,284
Interest Rate and Currency Swaps – Affiliates	48,377	69,284
Options, Caps and Floors – Third Parties	1,690	2,018
Options, Caps and Floors – Affiliates	1,690	2,018
Affiliate Transactions Guaranteed by MLDP:		
Interest Rate and Currency Swaps	19,581	14,250
Options, Caps and Floors	135	2,036

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	
	28/12/2007	29/12/2006	28/12/2007	29/12/2006
SWAP CONTRACTS- ASSETS				
Third Parties	1,946,876,100	1,903,411,300	1,990,268,386	2,324,842,400
MLCS	(61,218,100)	(135,130,000)	(240,756,880)	(303,258,900)
MLIB	172,291,500	223,626,300	133,418,003	142,858,600
TOTAL	2,057,949,500	1,991,907,600	1,882,929,508	2,164,442,100
SWAP CONTRACTS- LIABILITIES				
Third Parties	2,102,591,305	2,032,966,500	(1,923,401,127)	2,205,721,400

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 28, 2007 and December 29, 2006 are as follows:

DECEMBER 28, 2007:

SECURITY TYPE (U.S. Dollars)	Amortized Cost	Fair Value	Gross Unrealized	
			Gains	Losses
U.S. Government and agencies' obligations	248,776,739	248,742,536	-	(34,200)
Foreign government obligations	-	-	-	-
Corporate debt	285,714,981	286,149,514	434,500	-
TOTAL DEBT SECURITIES	534,491,720	534,892,050	434,500	(34,200)

MATURITIES

Due in one year or less	514,491,720	514,845,321	-	-
Due after one year through five years	20,000,000	20,046,729	-	-
TOTAL	534,491,720	534,892,050	-	-

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	-	-

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.

A subsequent event relating to the impairment of certain Corporate Debt investments occurred at the beginning of 2008, as described in Note 7 to the Financial Statements.

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 28, 2007 and December 29, 2006, MLDP guaranteed certain transactions of affiliates under these arrangements, the fair value of these swap obligations totalling \$3,008,290,000 and \$2,654,217,300 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⁾	1,316	19

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⁾	1,316	367	742	73	134

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 \$10,501,819 in 2007 and \$15,349,400 in 2006 and from Merrill Lynch International Bank (MLIB) of \$3,671,000 in 2007 and \$6,455,700 in 2006 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 2007 and 2006.

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 \$108,000 in 2007 and \$57,000 in 2006.

MLDP received Interest from a loan to Merrill Lynch Luxembourg Finance S.A (MLLFSA) of \$9,218,600 and \$4,392,900 in 2007 and 2006 respectively. The loan outstanding as at December 28, 2007 and December 29, 2006 was \$197,747,400 and \$135,294,800, 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 \$169,400 in 2007 and \$160,900 in 2006.

MLID Delaware provides certain services in the processing of swap payments. Professional fees incurred for services rendered by MLFSL were \$117,400 in 2007 and \$262,500 in 2006.

6. Income Taxes

Income Tax consisted of:

(U.S. Dollars)	28/12/2007	29/12/2006
U.S. Federal:		
Current	1,762,103	1,593,500
U.S. Branch Profits Tax at 5% of fall in net equity	–	101,600
U.S. State and Local:		
Current	76,669	69,300
Swiss:		
Current Tax prior year	–	–
Current Tax Current year	2,921,243	3,603,600
Deferred	708,145	5,658,400
TOTAL	5,468,160	11,026,400

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

(U.S. Dollars)	28/12/2007	29/12/2006
U.S. statutory Federal income tax rate	35.0%	35.0%
U.S. Branch Profits Tax	0%	5%
U.S. state and local income taxes net of Federal benefit	1.5%	1.5%
Swiss operations, net	(23.4%)	(17.2%)
TOTAL	13.1%	24.3%

As part of the Merrill Lynch group, MLDP transfers to ML&Co. its current U.S. Federal, state and local tax liabilities. During 2007 and 2006, MLDP transferred \$1,562,360 and \$1,727,200 to ML&Co. At December 28, 2007 and December 29, 2006, MLDP had U.S. current taxes payable to ML&Co. of \$522,700 and \$246,300 respectively. MLDP had U.S. deferred tax liability of \$191,300 at December 28, 2007 and a deferred tax asset of \$364,000 at December 29, 2006. During 2007 MLDP paid \$183,962 Swiss tax and no Swiss tax in 2006. At December 28, 2007, MLDP had Swiss taxes payable of \$6,760,000. At December 29, 2006, MLDP had Swiss taxes payable of \$4,022,700. At December 28, 2007 MLDP had a Swiss deferred tax liability of \$6,016,600 and at December 29, 2006 a Swiss deferred tax asset of \$5,308,400.



7. Subsequent Events

In February 2008, the Corporate debt investment, Whistlejacket Corporation, entered into receivership. As a result, the investment was considered Other-Than-Temporarily impaired under SFAS No.115 and a loss of \$11,963k was recognized in the P&L.

Corporate debt investments in Sigma Finance and Centauri were sold at a loss of \$5.25 million.

DECEMBER 28, 2007:

INVESTMENT SECURITY	Fair Value
Centauri Corporation	25,256,301
Sigma Finance Corporation	20,046,729
Whistlejacket Corporation	34,979,504
TOTAL	80,282,534

MARCH 28, 2008:

INVESTMENT SECURITY	Fair Value
Centauri Corporation	SOLD
Sigma Finance Corporation	SOLD
Whistlejacket Corporation	24,500,000
TOTAL	24,500,000

Portfolio Highlights for the years ended Dec 28, 2007 and Dec 29, 2006

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 28, 2007 and December 29, 2006 was \$50.1 billion and 71.3 billion, respectively.

(% of Portfolio)	28/12/2007	29/12/2006
MOODY'S RATING		
Aaa	52	48
Aa1	19	4
Aa2	18	28
Aa3	6	11
A1 to A3	3	7
Acceptable unrated counterparties	3	2

(% of Portfolio)	28/12/2007	29/12/2006
S&P'S RATING		
AAA	44	38
AA+	7	5
AA	21	18
AA-	7	8
A+ to A-	17	23
Acceptable unrated counterparties	4	7

The total positive net exposure to third parties was \$1,947 million and \$1,903 million at December 28, 2007 and December 29, 2006 respectively. The tables below contain the proportion of positive net exposures to third parties by credit ratings.

(% of Portfolio)	28/12/2007	29/12/2006
MOODY'S RATING		
Aaa	55	40
Aa1	23	5
Aa2	18	46
Aa3	3	7
A1 to A3	1	0
Acceptable unrated counterparties	0	2

(% of Portfolio)	28/12/2007	29/12/2006
S&P'S RATING		
AAA	43	30
AA+	11	11
AA	23	21
AA-	5	2
A+ to A-	18	35
Acceptable unrated counterparties	1	1

The fair value of MLDP's portfolio with MLCS&MLCMB at December 28, 2007, was \$111 million receivable compared with \$88 million receivable at December 29, 2006, MLDP held collateral totaling \$3,383 million, (risk adjusted fair value \$3,135 million), at December 28, 2007 and \$3,012 million, (risk adjusted fair value \$2,775 million) at December 29, 2006, to cover the direct potential exposure to MLCS, MLCMB and other counterparties.



Portfolio Highlights for the years ended Dec 28, 2007 and Dec 29, 2006**PRODUCT COMPOSITION**

On December 28, 2007, MLDP's portfolio contained 887 third party transactions with a total U.S. Dollar equivalent notional of \$50.1 billion as compared with 1,272 third party transactions with a total U.S. Dollar equivalent notional of \$71.3 billion as of December 29, 2006. The table below describes the allocation by notional principal among the product categories.

(% of Portfolio)	28/12/2007	29/12/2006
PRODUCT		
Interest Rate Swaps	66	70
Currency Swaps	31	27
Interest Rate and Currency Options	3	3

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)	28/12/2007	29/12/2006
CURRENCY		
U.S. Dollar	47.2	37.7
Euro	19.3	32.5
Canadian Dollar	26.0	16.5
Japanese Yen	3.9	4.1
British Pound	2.3	3.8
Swiss Franc	0.4	2.8
Swedish Krona	0.3	1.3
Australian Dollar	0.3	0.8
Danish Krona	0.0	0.3
Norwegian Kroner	0.2	0.1
New Zealand Dollar	0.0	0.1

Portfolio Highlights for the years ended Dec 28, 2007 and Dec 29, 2006**MATURITY PROFILE**

The average maturity of the portfolio was 10.14 years at December 28, 2007 and 8.42 years at December 29, 2006. The following table indicates the proportion of transactions, by notional principal, in each time band.

(% of Portfolio)	28/12/2007	29/12/2006
MATURITY		
Less than 3 years	38	50
3 – 5 years	21	11
5 – 10 years	27	26
Greater than 10 years	14	13

COUNTERPARTIES

Active unaffiliated counterparties, categorized by country in the table below, totaled 119 and 155 at December 28, 2007 and December 29, 2006 respectively.

(No. of Counterparties)	28/12/2007	29/12/2006
COUNTRY		
United States	57	59
Australia	19	21
Canada	11	13
United Kingdom	1	9
Germany	2	8
Spain	6	8
Netherlands	2	6
France	4	5
Supranationals	4	5
Norway	3	4
Denmark	3	4
Sweden	2	3
Austria	1	2
Finland	2	2
Belgium	0	2
Ireland	0	1
Switzerland	2	1
Luxembourg	0	1
Japan	0	1
Ivory Coast	0	0



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 28, 2007 and December 29, 2006 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 28, 2007 and December 29, 2006, 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 28, 2008



Thomas Reisser
Auditor in charge

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