Registered number: 2312079

MERRILL LYNCH INTERNATIONAL

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
28 December 2007

MERRILL LYNCH INTERNATIONAL

CONTENTS

DIRECTORS' REPORT
For the year ended 28 December 2007

The directors present their report and the audited financial statements of Merrill Lynch International (the "Company") for the year ended 28 December 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

PRINCIPAL ACTIVITIES

The principal activities of the Company are to provide a wide range of financial services globally for business originated in EMEA, Asia Pacific and the Americas, to act as a broker and dealer in financial instruments and to provide corporate finance services

The Company also provides a number of post trade related services to third party clients, including settlement and clearing activities

There have been no changes in the principal activities of the Company during the year and the directors expect the principal activities to continue in 2008

PERFORMANCE AND DIVIDENDS

Global financial markets experienced significant stress during 2007, primarily driven by challenging conditions in the credit markets during the second half of the year related to U S sub-prime residential mortgages and related assets (including CDOs collateralized by sub-prime residential mortgages) This adverse market environment began to intensify in the beginning of the third quarter and was characterized by significant credit spread widening, prolonged illiquidity, reduced price transparency and increased volatility

During the year the Company recorded exceptional write-downs, primarily related to Super Senior United States Asset-Backed Securities Collateralised Debt Obligations ("U S ABS CDOs"), credit valuation adjustments related to hedging transactions with financial guarantors on U S ABS CDOs and other financial instruments as described in Note 3 to these financial statements

The challenging market conditions at the end of 2007 have continued into 2008, driven largely by significant weakness in the U S and European credit markets The markets for these U S ABS CDO exposures remain extremely illiquid and as a result, valuation of these exposures is complex and involves a comprehensive process including the use of quantitative modeling and management judgment Valuation of these exposures will also continue to be impacted by external market factors including default rates, rating agency actions, and the prices at which observable market transactions occur Our ability to mitigate our risk by selling or hedging our exposures is also limited by the market environment Our future results may continue to be materially impacted by these positions

DIRECTORS' REPORT
For the year ended 28 December 2007

PERFORMANCE AND DIVIDENDS (continued)

The loss on ordinary activities after taxation amounted to $15,413 million (2006 – loss of $250 million)
The turnover for the year amounted to $11,415 million loss (2006 – $4,864 million gain)
The administrative expenses for the year amounted to $3,979 million (2006 – $4,620 million)

Merrill Lynch & Co , Inc ("ML & Co " and, together with its subsidiaries, "Merrill Lynch") manages its operations on a divisional basis For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business

The directors do not recommend the payment of a dividend in the current year During the preceding year the Company paid a dividend on the 'A' and 'B' preference shares totaling $180 million

Subsequent to year end, the Company issued 3,125,000,000 ordinary shares of $1 each with a nominal value of $3,125,000,000 for a total consideration of $6,250,000,000 in light of continued market uncertainty The Company relies upon its ultimate parent, ML & Co , to provide capital to support its business operations

RISK MANAGEMENT

The Company's risk management objectives and policies, as well as exposures in relation to the principal risks of price risk, credit risk and liquidity risk are more fully described in note 25

DIRECTORS

The directors who served during the year and up to the date of signing this report were as follows

N Azam
A M Briski
M Butler
M J Hale (resigned 2 July 2007)
K Hotsuki (resigned 9 November 2007)
E N Moriarty III
A Orcel
O Semerci (resigned 9 October 2007)
D Sobotka (appointed 7 November 2007)
R C M Wigley (Chairman)
T R Winder (appointed 2 July 2007)

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

The Company does not directly make payments to suppliers The current policy is for the ultimate United Kingdom parent, Merrill Lynch Europe PLC ("MLE PLC" and together with its subsidiaries, "the Group"), to (i) pay creditors and other suppliers in accordance with the terms of payment agreed at the time the contract is made, (ii) endeavour to keep suppliers informed of the Group's terms of payment, and (iii) make payments in accordance therewith The number of creditor days is disclosed in the consolidated financial statements of MLE PLC

EMPLOYEE INVOLVEMENT

It is the Company's policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs or future prospects

DIRECTORS' REPORT
For the year ended 28 December 2007

EMPLOYMENT OF DISABLED PERSONS

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant Efforts are made to enable any employees who become disabled during employment to continue their careers with the Company Training, career development and promotion of disabled persons is, as far as possible, identical to that of employees who are not disabled

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Pursuant to s386 Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually This election was in force immediately before 1 October 2007 Therefore, Deloitte & Touche LLP are deemed to continue as auditors

This report was approved by the Board on 27 March 2008 and signed on its behalf

Debra A Searle

Merrill Lynch Corporate Services Limited
Company Secretary
London

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERRILL LYNCH INTERNATIONAL

We have audited the financial statements of Merrill Lynch International (the "Company") for the year ended 28 December 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 30 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERRILL LYNCH INTERNATIONAL

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

Date ~~2008~~ 27th Mar 2008

PROFIT AND LOSS ACCOUNT
For the year ended 28 December 2007

	Note	2007 $m	Restated 2006 $m
TURNOVER (before exceptional item)		**5,453**	4,864
Exceptional item	3	**(16,868)**	-
TURNOVER	3	**(11,415)**	4,864
Administrative expenses		**(3,979)**	(4,620)
OPERATING (LOSS)/PROFIT	4	**(15,394)**	244
Interest payable on subordinated debt		**(614)**	(380)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		**(16,008)**	(136)
TAX ON LOSS ON ORDINARY ACTIVITIES	8	**595**	(114)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	22/23	**(15,413)**	(250)

Turnover and operating (loss)/profit derive wholly from continuing operations

The notes on pages 9 to 37 form part of these financial statements

BALANCE SHEET
As at 28 December 2007

	Note	$m	2007 $m	$m	Restated 2006 $m
FIXED ASSETS					
Intangible fixed assets	9		**80**		110
Fixed asset investments	10		**659**		2
			739		112
CURRENT ASSETS					
Long inventory positions	11	**466,979**		182,456	
Trade debtors	12	**250,166**		157,788	
Other debtors and prepayments	13	**15,131**		9,276	
Cash at bank and in hand	14	**11,757**		8,356	
		744,033		357,876	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Bank loans and overdrafts		**5,184**		3,547	
Short inventory positions	15/17	**461,774**		152,652	
Trade creditors	16/17	**238,154**		161,929	
Other creditors including taxation and social security	18	**16,541**		27,959	
		721,653		346,087	
NET CURRENT ASSETS			**22,380**		11,789
TOTAL ASSETS LESS CURRENT LIABILITIES			**23,119**		11,901
CREDITORS amounts falling due after more than one year	20		**(10,480)**		(5,599)
NET ASSETS			**12,639**		6,302
CAPITAL AND RESERVES					
Called up share capital	21		**17,346**		6,471
Share premium account	22		**10,875**		-
Profit and loss account	22		**(15,582)**		(169)
SHAREHOLDERS' FUNDS	23		**12,639**		6,302

The financial statements were approved by the Board and authorised for issue on 27 March 2008 They were signed on its behalf by

Director

The notes on pages 9 to 37 form part of these financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 28 December 2007

	2007 $m	Restated 2006 $m
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	**(15,413)**	(250)
TOTAL RECOGNISED LOSSES RELATING TO THE YEAR	**(15,413)**	(250)
Prior year adjustment on adoption of FRS 20 Share Based Payment (see note 30)	**(205)**	
TOTAL RECOGNISED LOSSES SINCE LAST FINANCIAL STATEMENTS	**(15,618)**	

The notes on pages 9 to 37 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 28 December 2007

1. ACCOUNTING POLICIES

1.1 Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice (UK GAAP)

1.2 Accounting period

The Company's financial year consisted of a fifty-two (2006 fifty-two) week period ending on the last Friday in December (2006 29 December)

1.3 Accounting convention

The financial statements have been prepared under the historical cost convention, as modified to include inventories at fair value

1.4 Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement under Financial Reporting Standard 1 (Revised 1996) - Cash Flow Statements, as a consolidated cash flow statement is included in the publicly available consolidated financial statements of the ultimate parent company, ML & Co

1.5 Turnover

Turnover includes

Principal trading
Profits and losses on primary and secondary trading including dividend income on cash equities Changes in fair value of inventory are also recognised as principal trading turnover as they arise

Corporate finance fees
Underwriting revenues and fees for merger and acquisition advisory services are accrued when services for the transactions are substantially completed Transaction-related expenses are deferred to match revenue recognition Investment banking and advisory services revenues are presented net of transaction-related expenses

Service fee income
Charges made to affiliated undertakings to remunerate services provided or reimburse expenditure incurred by the Company are recognised on an accruals basis

Commissions
Profit earned on filling customer orders is recognised on an accruals basis

Net interest income
Interest income and expense to the extent they relate to trading activities are recognised on an accruals basis

Net other income
The changes in fair value of currency swaps used for cash management purposes are recognised within net other income as they arise

1.6 Segmental reporting

The Company's activities are wholly derived from Global Markets and Investment Banking It is not, however, possible to allocate trading revenues or net assets to any particular geographical source as one trade may involve parties situated in a number of different geographical areas

1. ACCOUNTING POLICIES (continued)

1.7 Translation of foreign currencies

Revenues and expenses arising from transactions to be settled in foreign currencies are translated into US Dollars at average monthly market rates of exchange Monetary assets and liabilities are translated into US Dollars at the market rates of exchange ruling at the balance sheet date Exchange differences arising from the translation of foreign currencies are reflected in the profit and loss account

1.8 Pensions

The Company participates in a number of defined benefit and defined contribution pension schemes throughout Europe The schemes are funded with the assets held in separate trustee administered funds

The major defined benefit scheme is the Merrill Lynch (UK) Pension Plan, (the "Plan", formerly the Merrill Lynch (UK) Final Salary Plan), which was closed to new entrants with effect from 30th June 1997 and to contributions from existing members with effect from 30th June 2004 The funding cost relating to the Plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit method The Company is one of a number of Merrill Lynch employer companies based in the United Kingdom which participate in the Plan The Company has been unable to identify its share of the underlying assets and liabilities of the Plan and accordingly accounts for the Plan as if it were a defined contribution scheme

The major defined contribution scheme is the Merrill Lynch (UK) Defined Contribution Plan The costs of defined contribution schemes are a percentage of each employee's annual salary based on their age and length of service with the Merrill Lynch group and are charged to the profit and loss account in the period in which they fall due

1.9 Intangible fixed assets

Goodwill is amortised on a straight line basis over its estimated useful life spanning 15 years Provision is made for any impairment

1.10 Investments

Investments held as fixed assets are stated at cost less provisions for impairment

1.11 Financial assets

The Company classifies its financial assets in the following categories financial assets at fair value through profit or loss and loans and receivables Management determines the classification of its investments at initial recognition

(a) Financial assets at fair value through profit or loss

This category has two sub-categories financial assets held for trading, and those designated at fair value through profit or loss at inception A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking Derivatives are also categorised as held for trading unless they are designated as hedging instruments Financial assets and financial liabilities are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue

1. ACCOUNTING POLICIES (continued)

1.11 Financial assets (continued)

Long Inventory positions are classified as held for trading and measured at fair value through profit and loss Within trade debtors are resale agreements and securities borrowed transactions which are designated at fair value through profit and loss All remaining financial assets are classified as loans and receivables

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss, or (b) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivables are carried at amortised cost using the effective interest rate method less an allowance for any impairment Interest calculated using the effective interest rate method is recognised through profit and loss

1 12 Recognition of deferred day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (ie, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets

The Company has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in profit and loss

The timing of recognition of deferred day one profit and loss is determined individually It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses

1 13 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 28 December 2007

1 ACCOUNTING POLICIES (continued)

1 14 Financial liabilities

Short inventory positions are classified as held for trading and are measured at fair value through profit and loss Gains and losses are recognised through the profit and loss as they arise Within trade creditors are resale agreements and securities loaned transactions designated at fair value through profit and loss All remaining financial liabilities are carried at amortised cost

1.15 Impairment of financial assets held at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement

1.16 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised as a liability or an asset if, prior to the balance sheet date, the Company has entered into transactions or events have occurred that give rise to timing differences giving the Company an obligation to pay more tax in the future or a right to pay less tax in the future Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements A deferred tax asset is regarded as recoverable and therefore recognised to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing difference can be deducted

1.17 Netting

Where the Company intends to settle (with any of its debtors or creditors) on a net basis, or to realise the asset and settle the liability simultaneously, and the Company has the legal right to do so, the balance included within the financial statements is the net balance due to or from the counterparty

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 28 December 2007

`1 ACCOUNTING POLICIES (continued)

1.18 Adoption of new accounting standards

The Company adopted FRS 20 - Share Based Payment ("FRS 20"), FRS 23 - The Effects of Changes in Foreign Exchange Rates ("FRS 23") and FRS 26 - Financial Instruments Measurement ("FRS 26") with effect from 29 December 2006

The effect on the financial statements of the adoption of FRS 20 is more fully described in the notes of these financial statements The requirements of FRS 23 and FRS 26 are consistent with existing accounting policies As a result of the adoption, financial instruments have been classified in accordance with FRS 26 categories As permitted in FRS 26, the Company has elected not to restate comparative information

The Company has taken advantage of the exemption from financial instruments disclosures available in Paragraph 2 (d) of Financial Reporting Standard 29 – Financial Instruments Disclosures, as it is a wholly owned subsidiary and the consolidated financial statements of Merrill Lynch Europe PLC are publicly available from the Company Secretary, Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1A 1HQ

1.19 Share based payments

ML & Co the ultimate parent company and controlling party of the Company, grants equity settled share based payment awards to employees of the Company under various incentive schemes

Equity settled share based payment plans are measured based on the fair value of those awards at grant date The fair value determined at the grant date is expensed over the vesting period, based on the Company's estimate of the number of shares that will eventually vest

The Company has applied the requirements of FRS 20 Share Based Payment on a fully retrospective basis

1.20 Group accounts

The Company has taken advantage of the exemption in Section 228 of the Companies Act 1985 from the obligation to prepare and deliver group accounts since the Company is a subsidiary of Merrill Lynch UK Capital Holdings, which prepares group accounts which include the Company Accordingly, the Company's financial statements present information about it as an individual undertaking and not about its group

2. PRINCIPAL ACTIVITIES

The principal activities of the Company are to provide a wide range of financial services globally for business originated in EMEA, Asia Pacific and the Americas, to act as a broker and dealer in financial instruments and to provide corporate finance services The Company also provides a number of post trade related services to third party clients, including settlement and clearing activities

3. TURNOVER

	2007	2006
	$m	$m
Pnncipal tradıng (ıncludıng exceptıonal ıtem)	**(14,923)**	2,158
Corporate fınance fees	**1,290**	1,049
Servıce fee ıncome	**417**	457
Commıssıons	**1,140**	809
Net ınterest ıncome	**968**	436
Net other ıncome	**(307)**	(45)
	(11,415)	4,864

Durıng the year the Company recorded exceptıonal wrıte-downs of $16,868 mıllıon, prımarıly related to Super Senıor Unıted States Asset-Backed Securıtıes Collateralısed Debt Oblıgatıons ("U S ABS CDOs"), credıt valuatıon adjustments related to hedgıng transactıons wıth fınancıal guarantors on U S ABS CDOs and other fınancıal ınstruments This followed a sıgnıfıcant downturn ın the US sub-prıme lendıng market

At 28 December 2007, net exposure of $6,633 mıllıon ın U S ABS CDOs and secondary tradıng exposures related to the U S ABS CDO busıness Thıs ıs net of $6,062 mıllıon, beıng the faır value of credıt default swaps wıth fınancıal guarantors

Net ınterest ıncome relatıng to tradıng actıvıtıes comprıses

	2007	2006
	$m	$m
Interest ıncome		
Due from affılıated companıes	**2,535**	1,445
Bank deposıts and long posıtıons	**13,177**	6,603
	15,712	8,048
Interest expense.		
Due to affılıated companıes	**(2,745)**	(1,771)
Loans, overdrafts and short posıtıons	**(11,999)**	(5,841)
	(14,744)	(7,612)
Net ınterest ıncome	**968**	436

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after (crediting)/charging the following

	2007 $m	Restated 2006 $m
Amortisation - intangible fixed assets (see note 9)	**30**	30
Equipment rental charges	**8**	4
Directors' and employee costs (see note 5)	**1,524**	1,569
Foreign exchange losses/(gains)	**34**	(22)
Service fee expense	**1,307**	2,360
Other operating expenses	**1,076**	679

Equipment rental charges represent charges from an affiliated company The contractual commitments arising under rental agreements rest with that affiliated company

Audit fees and non audit fees borne by another affiliated company were as follows

	2007 $m	2006 $m
Total audit fees		
Fees payable to the company's auditors for the audit of the company's financial statements	**3**	3
Total non audit fees		
Other services pursuant to legislation	**1**	1

5. DIRECTORS AND EMPLOYEES

Directors and employees costs were as follows

	2007 $m	Restated 2006 $m
Salaries and benefits	**1,396**	1,340
Social security costs	**86**	195
Other pension costs	**42**	34
	1,524	1,569

5. DIRECTORS AND EMPLOYEES (continued)

The average number of persons (including directors) employed by the Company during the year was

	2007	2006
Trading, sales and advisory	1,409	1,318
Support, operations and technology	1,213	1,096
	2,622	2,414

Of the directors that served during the year, eight (2006 seven) were remunerated in relation to their services as directors of this Company and the amounts included below are based on an estimated time allocation basis

6. DIRECTORS' REMUNERATION

Remuneration paid to directors of the Company comprised	2007 $m	2006 $m
Emoluments	16	18

	2007 No	2006 No
Number of directors who		
Exercised ML & Co share options	2	5
Had receivable or received ML & Co shares under long term incentive schemes	8	1
Were members of a defined benefit pension scheme	7	6
Were members of a defined contribution pension scheme	4	4

Remuneration disclosed includes amounts paid to the highest paid director as follows

	2007 $m	2006 $m
Emoluments	4	6

The total accrued pension provision of the highest paid director at 28 December 2007 amounted to $72,000 (2006 - $65,000)

During the year the highest paid director exercised ML & Co share options

During the current and preceding year the highest paid director received ML & Co shares under a long term incentive scheme

7. PENSION COSTS

The latest formal triennial actuarial assessment of the Merrill Lynch (UK) Pension Plan, ("the Plan", formerly the Merrill Lynch (UK) Final Salary Plan) was carried out as at 1 January 2006, which showed that the Plan had a deficit of £103 million Following discussions and on the basis of actuarial advice, it was agreed that to fund the deficit the employing companies would pay an additional contribution of £25 million in the year to 31 December 2007 (as had previously been agreed) followed by contributions of £24 million per year during each of the three calendar years 2008, 2009 and 2010 These contributions are in addition to a contribution of £25 million paid in December 2006

In addition to the deficit reduction contributions above, the companies will meet the cost of death-in-service benefits, the expenses of operating the Plan and Pension Protection Fund levies

The contribution requirement is monitored following each annual funding review and any contribution payments may be adjusted accordingly An informal funding review of the Plan was carried out as at 1 January 2007 This showed that the deficit in the Plan had decreased to £48 0 million No changes were made to the contribution requirements In addition, a formal actuarial valuation will be carried out no later than as at 1 January 2009

The pension cost for the period was $17 million (2006 $18 million) in respect of defined benefit schemes, which includes the Company's share of the one-off contribution of £25 million (2006 £25 million), and $25 million (2006 $16 million) in respect of defined contribution schemes

8 TAX ON LOSS ON ORDINARY ACTIVITIES

	2007 $m	Restated 2006 $m
The tax for the year is as follows:		
Current tax (see note below)		
UK corporation tax (credit)/charge on (loss)/profit for the year	**(107)**	277
Adjustments in respect of prior periods	**(259)**	14
	(366)	291
Foreign tax on income for the year	**84**	19
Total current tax	**(282)**	310
Deferred tax		
Origination, reversal and revaluation of timing differences	**(313)**	(196)
Total deferred tax (see note 19)	**(313)**	(196)
Tax on loss on ordinary activities	**(595)**	114

8. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

Factors affecting tax charge for year

The tax assessed for the year is higher (2006 higher) than the standard rate of corporation tax in the UK applicable to the Company (30%) The differences are explained below

	2007 $m	Restated 2006 $m
Loss on ordinary activities before tax	**(16,008)**	(136)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 – 30%)	**(4,802)**	(41)
Effects of:		
Expenses not deductible for tax purposes	**12**	85
Taxable income not included in loss on ordinary activities before tax	**30**	-
Tax losses surrendered to affiliated companies	**183**	26
Tax losses surrendered to affiliated companies at a rate higher than 30%	**(74)**	-
Timing differences in respect of interest	**364**	105
Timing differences relating to compensation and social security costs	**(234)**	93
Impact of losses	**4,062**	-
Movement in other timing differences	**(41)**	11
Impact of foreign taxes	**66**	17
Losses carried back	**411**	-
Adjustments to tax charge in respect of prior periods	**(259)**	14
Current tax charge for year (see note above)	**(282)**	310

Factors that may effect future tax charges The standard rate of Corporation Tax in the UK changes to 28% with effect from the 1 April 2008

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 28 December 2007

9. INTANGIBLE FIXED ASSETS

	Goodwill $m
Cost	
At 29 December 2006 and 28 December 2007	464
Amortisation	
At 29 December 2006	354
Charge for the year	30
At 28 December 2007	384
Net book value	
At 28 December 2007	80
At 29 December 2006	110

Goodwill principally relates to the acquisition of business previously belonging to SNC Securities Limited acquired in 1995

10. FIXED ASSET INVESTMENTS

	Unlisted investments $m
Cost	
At 29 December 2006	2
Reclassification from trading inventory	610
Additions	48
Disposals	(1)
At 28 December 2007	659

During the year certain investments previously accounted for as trading inventory were reclassified to fixed asset investments to reflect more appropriately the nature of these investments

Subsidiary undertakings

ELDeRS Investment Company Limited ('ELDeRS'), a Guernsey incorporated company, acts as an investment company ELDeRS issues preference shares in separate Series to provide a return to shareholders calculated by reference to one or more specified investments, deposits or indices Where the Company has subscribed to a Series of preference shares in ELDeRS an assessment is performed to determine whether the Series represents a subsidiary undertaking If the Series does represent a subsidiary it is included within the reclassification from trading inventory above

TBR Finance Inc, a Cayman incorporated company, acts as an investment holding company At 28 December 2007, the Company held a 71 8% share of ordinary capital issued

11. LONG INVENTORY POSITIONS

	2007 $m	2006 $m
Contractual agreements	**377,772**	127,556
Corporate debt and preferred stock	**10,659**	7,719
Equities and convertible debentures	**67,417**	25,440
Money market instruments	**-**	22
Mortgages, mortgage-backed and asset-backed securities	**1,638**	12,081
Non-US governments and agencies	**6,226**	7,402
US Government and agencies	**3,267**	2,236
	466,979	182,456

Balances with affiliated companies within long inventory positions were $109,676 million (2006 $53,293 million)

12. TRADE DEBTORS

	2007 $m	2006 $m
Customer receivables	**49,110**	22,173
Amounts owed by affiliated companies	**68,126**	19,612
Brokers, dealers and clearing houses	**17,855**	13,733
Resale agreements and securities borrowed transactions	**107,265**	94,200
Other trade debtors	**7,810**	8,070
	250,166	157,788

Balances with affiliated companies within resale agreements and securities borrowed transactions were $7,514 million (2006 $13,360 million)

13. OTHER DEBTORS AND PREPAYMENTS

	2007 $m	Restated 2006 $m
Amounts falling due within one year		
Amounts owed by affiliated companies	**8,687**	7,753
Other debtors and prepayments	**5,646**	1,038
Deferred tax asset (see note 19)	**168**	1
	14,501	8,792
Amounts falling due after more than one year		
Deferred tax asset (see note 19)	**630**	484
	15,131	9,276

14. CASH AT BANK AND IN HAND

Included within cash balances are $8,992 million of deposits in respect of client money (2006 $4,490 million)

15. SHORT INVENTORY POSITIONS

	2007 $m	2006 $m
Contractual agreements	**400,128**	134,135
Corporate debt and preferred stock	**530**	2,593
Equities and convertible debentures	**52,213**	10,506
Mortgages, mortgage-backed and asset-backed securities	**1,702**	-
Non-US governments and agencies	**6,482**	4,509
US Government and agencies	**719**	909
	461,774	152,652

Balances with affiliated companies within short inventory positions were $118,089 million (2006 $52,367 million)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 28 December 2007

16 TRADE CREDITORS

	2007 $m	2006 $m
Customer payables	**24,155**	11,274
Amounts owed to affiliated companies	**69,756**	20,692
Brokers, dealers and clearing houses	**23,860**	18,107
Repurchase agreements and securities loaned transactions	**115,940**	109,224
Other trade creditors	**4,443**	2,632
	238,154	161,929

Balances with affiliated companies within repurchase agreements and securities loaned transactions were $7,960 million (2006 $14,561 million)

17. SECURITY AND COLLATERAL PLEDGED

Security has been provided by the Company by way of specific and general charges in respect of certain contractual commitments The collateral pledged is composed of cash and various securities positions such as sovereign bonds and equities

Collateral has been provided by the Company for the following amounts presented within creditors

	2007 $m	2006 $m
Short inventory positions	**78,221**	22,568
Trade creditors - Repurchase agreements and securities loaned transactions	**115,940**	109,224
	194,161	131,792

18. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2007 $m	Restated 2006 $m
Amounts owed to affiliated companies	10,723	24,893
Taxation and social security	-	140
Other creditors and accruals	5,818	2,926
	16,541	27,959

19. DEFERRED TAX

	2007 $m
At beginning of year as restated	485
Credit for the year relating to the current period	4,151
Charge relating to a change in tax rate	(322)
Credit for the year relating to the prior period	202
Decrease in estimate of recoverable deferred tax asset	(3,718)
At end of year (see note 13)	798

The deferred tax asset is made up as follows

	2007 $m	Restated 2006 $m
Accelerated capital allowances	-	1
Timing differences relating to compensation and social security costs	95	272
Timing differences relating to interest	415	175
Timing differences in relation to losses	279	-
Other short term timing differences	9	37
	798	485

The amount of deferred tax asset not recognised by the Company for the year ended 28 December 2007 was $3,718 million (2006 - $74 million)

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been re-measured Deferred tax relating to timing differences which are expected to reverse during 2008 is measured at an effective rate of 28 5%, the tax rate that will apply in 2008 Timing differences expected to reverse after 2008 are measured at 28% The re-measurement has resulted in a net expense in the profit and loss account of $322 million

20 CREDITORS:
Amounts falling due after more than one year

	2007 $m	2006 $m
Subordinated loan notes from affiliated companies	10,452	5,572
Other creditors	28	27
	10,480	5,599

Included within the above are amounts falling due as follows

	2007 $m	2006 $m
Between one and two years		
Subordinated loan notes from affiliated companies	616	25
Between two and five years		
Subordinated loan notes from affiliated companies	25	1,459
Over five years		
Subordinated loan notes from affiliated companies	9,811	4,088
Other creditors	28	27
	10,480	5,599

Creditors include amounts not wholly repayable within five years as follows

	2007 $m	2006 $m
Repayable other than by instalments	9,839	4,115

All of the subordinated debt which is repayable between one and two years and between two and five years is USD denominated and bears interest at one month US Dollar LIBOR plus 100 basis points

Of the subordinated debt which is repayable in more than five years, $6,954 million (2006 $1,665 million) is USD denominated and bears interest at one month US Dollar LIBOR plus 100 basis points The remainder is denominated in Sterling, representing £1,432 million (2006 £1,235 million), and bears interest at one month Sterling LIBOR plus 100 basis points

As at 28 December 2007 the Company had undrawn facilities of (i) $4 million which mature on 31 January 2009, (ii) $62 million which mature on 31 January 2013, (iii) £721 million which mature on 31 August 2014 and (iv) $40,000 million which, subject to renewal, mature on 30 April 2008

Subsequent to the year end, the Company made drawings of $3,800 million against its short term subordinated loan facilities following an increase in those facilities of $3,800 million Furthermore, the Company entered into and drew down on a new short term Canadian Dollar facility to the value of Canadian $2,000 million

21 CALLED UP SHARE CAPITAL

	2007	2006
	$	$
Authorised		
20,000,000,000 (2006 3,300,000,000) ordinary shares of $1 each	**20,000,000,000**	3,300,000,000
500,000,000 (2006 500,000,000) 'A' preference shares of $1 each	**500,000,000**	500,000,000
40,150 (2006 40,150) 'B' preference shares of $1 each	**40,150**	40,150
500,150,000 (2006 500,150,000) 'C' preference shares of $1 each	**500,150,000**	500,150,000
500,000,000 (2006 500,000,000) 'D' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'E' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'F' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'G' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'H' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'I' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'J' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'K' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2006 500,000,000) 'L' preference shares of $1 each	**500,000,000**	500,000,000
2,043,313,424 (2006 2,043,313,424) 'M' preference shares of $1 each	**2,043,313,424**	2,043,313,424
	27,543,503,574	10,843,503,574
Allotted, called up and fully paid		
13,170,283,391 (2006 2,295,283,391) ordinary shares of $1 each	**13,170,283,391**	2,295,283,391
401,500,000 (2006 401,500,000) 'A' preference shares of $1 each	**401,500,000**	401,500,000
40,150 (2006 40,150) 'B' preference shares of $1 each	**40,150**	40,150
150,000 (2006 150,000) 'E' preference shares of $1 each	**150,000**	150,000
400,000,000 (2006 400,000,000) 'F' preference shares of $1 each	**400,000,000**	400,000,000
500,000,000 (2006 500,000,000) 'G' preference shares of $1 each	**500,000,000**	500,000,000
150,000,000 (2006 150,000,000) 'H' preference shares of $1 each	**150,000,000**	150,000,000
500,000,000 (2006 500,000,000) 'I' preference shares of $1 each	**500,000,000**	500,000,000
158,000,000 (2006 158,000,000) 'J' preference shares of $1 each	**158,000,000**	158,000,000
22,993,175 (2006 22,993,175) 'L' preference shares of $1 each	**22,993,175**	22,993,175
2,043,313,424 (2006 2,043,313,424) 'M' preference shares of $1 each	**2,043,313,424**	2,043,313,424
	17,346,280,140	6,471,280,140

During the year the company increased its authorised ordinary shares of $1 each to 20,000,000,000 and issued in total 10,875,000,000 ordinary shares of $1 each with a nominal value of $10,875,000,000 for a total cash consideration of $21,750,000,000

Subsequent to year end, the Company issued 3,125,000,000 ordinary shares of $1 each with a nominal value of $3,125,000,000 for a total consideration of $6,250,000,000 in light of continued market uncertainty

21 CALLED UP SHARE CAPITAL (continued)

The holders of 'A' non-cumulative preference shares (the 'A' preference shares) are entitled to receive a non-cumulative dividend at the rate of 7 6% per annum in priority to the holders of any other class of shares On winding-up or redemption of shares, the holders of the 'A' preference shares shall be entitled to repayment of a sum equal to that portion of the Capital Account balance relating to those shares The Capital Account initially shall equal the capital contributed in respect of the shares and shall be increased or decreased by (i) the amount of cash and the fair market value of any other property contributed/distributed in respect of the shares and (ii) the net profit/ loss allocated to the shares The holders of the 'A' preference shares have the right to attend and vote at general meetings only if a resolution is proposed abrogating, varying or modifying the rights or privileges of the holders of the 'A' preference shares, or for the winding-up of the Company, or for sanctioning the sale of the Company

The holders of 'B' cumulative preference shares (the 'B' preference shares) are entitled to cumulative dividends in priority to the holders of any other class of shares (other than the 'A' preference shares) equal to the amount of any dividend due to the holders of the 'A' preference shares On winding-up or redemption of shares, the holders of the 'B' preference shares shall be entitled to repayment of a sum equal to that portion of the Capital Account balance relating to those shares The holders of the 'B' preference shares have the right to attend and vote at general meetings only if (i) at the date of the notice convening such meeting, the dividend on the 'B' shares is six months or more in arrears, or (ii) a resolution is proposed abrogating, varying or modifying the rights or privileges of the 'B' preference shares, or for the winding-up of the Company, or for sanctioning the sale of the Company

The holders of 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J' and 'K' non-cumulative preference shares are entitled to receive equally a non cumulative dividend at the rate of 6 5% per annum in priority to the holders of the ordinary shares On winding-up or redemption of shares, the holders of these preference shares shall be entitled to repayment of a sum equal to that portion of the Capital Account balance relating to those shares The holders of these preference shares also have the right to attend and vote at general meetings only if a resolution is proposed abrogating, varying or modifying the rights or privileges of these preference shares, or for the winding-up of the Company

The holders of 'L' cumulative preference shares ("the 'L' preference shares") are entitled to receive a cumulative dividend at the rate of 9 5% per annum in priority to the holders of any other class of shares after payment of dividends due on the 'A','B' and 'M' preference shares On winding-up or redemption of shares, the holders of the L preference shares shall be entitled to repayment of a sum equal to that portion of the Capital Account balance relating to those shares The holders of the L preference shares have the right to attend and vote at general meetings only if a resolution is proposed abrogating, varying or modifying the rights or privileges of the holders of the L preference shares, or for the winding-up of the Company

21 CALLED UP SHARE CAPITAL (continued)

The holders of the 'M' cumulative redeemable preference shares (the 'M' preference shares) are entitled to dividends in priority to all other classes of shares in the Company, other than the 'A' and 'B' preference shares Dividends on the 'M' preference shares will be paid at a floating rate of (one month US Dollar LIBOR plus 5 basis points) x (100% - UK corporation tax rate) + 100 basis points, compounded on a monthly basis On winding-up or redemption of shares, the holders of the 'M' preference shares shall be entitled to repayment of a sum equal to that portion of the Capital Account balance relating to those shares The holders of the 'M' preference shares have the right to attend and vote at general meetings only if a resolution is proposed abrogating, varying or modifying the rights or privileges of the holders of the 'M' preference shares, or for winding-up of the Company, or for sanctioning the sale of the Company

Each class of preference shares in issue at 28 December 2007 except the 'M' preference shares may be repaid or redeemed in full at any time, but not in part, at the discretion of the directors, and without any requirement for shares of any other class to be repaid or redeemed The 'M' preference shares may only be redeemed once any such redemption has been approved in advance by the holders of those preference shares

22. RESERVES

Share premium account

	$m
At 29 December 2006	-
Share premium on shares issued during the year	10,875
At 28 December 2007	10,875

Profit and loss account	**$m**
At 29 December 2006 as previously stated	36
Prior year adjustment on adoption of FRS 20 Share Based Payment (see note 30)	(205)
At 29 December 2006 as restated	(169)
Loss retained for the year	(15,413)
At 28 December 2007	(15,582)

23. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 $m	Restated 2006 $m
Loss for the year	(15,413)	(250)
Dividends	-	(180)
	(15,413)	(430)
Shares issued during the year	10,875	700
Share premium on shares issued during the year (net of expenses)	10,875	-
	6,337	270
Opening shareholders' funds as previously stated	6,507	6,180
Prior year adjustment on adoption of FRS 20 Share Based Payment (see note 30)	(205)	(148)
Opening shareholders' funds as restated	6,302	6,032
Closing shareholders' funds	12,639	6,302

24. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has contingent liabilities in respect of open financial futures, forward rate agreements, interest rate swaps and option contracts entered into in the ordinary course of business, which are primarily utilised for inventory hedging purposes The difference between the market value of each open contract at year end and any amounts received or paid at inception is reflected in the profit and loss account and is offset by the effect of marking to market the assets and liabilities hedged

As at 28 December 2007, the Company had $693 million (2006 $713 million) in undrawn funding commitments relating to prime brokerage clients

As at 28 December 2007, the Company had $81 million (2006 $87 million) in undrawn secondary distressed and par trading loan positions These become payable if the counterparty requests a drawdown under the terms of the loan facility, prior to the Company selling these loans on to a third party

As at 28 December 2007, the Company had issued two guarantees to a customer for the performance of an affiliated company's obligations under put options and ML & Co's performance on those obligations as an additional guarantor ML & Co in turn has indemnified the Company from any loss under these guarantees As at 28 December 2007 the unsecured amounts in relation to these put option obligations amounted to €300 million and $195 million (2006 €300 million and $195 million)

24. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

With regard to certain U S super senior ABS CDOs, Merrill Lynch has entered into CDSs with two financial guarantors on different tranches of the same CDO In the event of defaults, there could be inconsistent directions on certain voting rights related to the CDOs from the financial guarantors, and these inconsistent directions could result in the loss of the credit default swap protection from one of the guarantors whose directions Merrill Lynch could not follow For the CDOs for which credit default swaps are provided by two financial guarantors, the loss of such protection would have a mark-to-market impact of $169 million loss as of 29 February 2008 and would reduce the notional amount guaranteed by $4,253 million

25. RISK MANAGEMENT

As part of its trading activities, the Company provides its clients with brokerage, dealing, financing, and underwriting services for a broad range of products While trading activities are primarily generated by client order flow, the Company also takes proprietary positions based on expectations of future market movements and conditions The Company's trading strategies rely on the integrated management of its client-driven and proprietary positions, along with related hedging and financing activities

Trading activities expose the Company to market, credit, operational and liquidity risks These risks are managed in accordance with established risk management policies and procedures and are further detailed below

Market risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads, or other risks The level of market risk is influenced by the volatility and liquidity in the markets in which financial instruments are traded

The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities The Company uses a combination of cash instruments and derivatives to hedge its market exposures The following discussion describes the types of market risk faced by the Company

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments Interest rate swap agreements, U S Treasury securities and futures are common interest rate risk management tools used by the Company The decision to manage interest rate risk using for example, futures or swap contracts, as opposed to buying or selling short U S Treasury or other securities, depends on current market conditions and funding considerations

Currency risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will affect the value of financial instruments The Company's trading assets and liabilities include both cash instruments denominated in and derivatives linked to more than fifty currencies, including Sterling, Euros, Japanese Yen, Swiss Francs and United States Dollars Currency forwards and options are commonly used by the Company to manage the currency risk associated with financial instruments

25. RISK MANAGEMENT (continued)

Equity price risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index Instruments typically used by the Company to manage equity price risk include equity options, warrants, and baskets of equity securities

Credit spread risk

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments Credit spreads represent the credit risk premiums required by market participants for a given credit quality Certain instruments are used by the Company to manage this type of risk Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer

Commodity risk

Through its commodities business, the Company enters into exchange-traded contracts and contracts for physical delivery Commodity contracts expose the Company to the possibility that the price of the underlying commodity may rise or fall In addition, contracts resulting in physical delivery can expose the Company to numerous other risks, including performance risk and other delivery risks

Credit risk

The Company is exposed to risk of loss if an issuer, counterparty or country fails to perform its obligations under contractual terms ("default risk") Both cash instruments and derivatives expose the Company to default risk Credit risk arising from changes in credit spreads is discussed in the market risk section

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

In the normal course of business, the Company executes, settles, and finances various customer securities transactions Execution of these transactions includes the purchase and sale of securities by the Company These activities may expose the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations In these situations, the Company may be required to purchase or sell financial instruments at unfavourable market prices to satisfy obligations to other customers or counterparties In addition, the Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines

The Company has exposure to U S ABS CDOs, which are primarily held as derivative positions in the form of total return swaps To economically hedge these exposures, the Company entered into credit derivatives with various counterparties, including financial guarantors Valuation of these exposures will continue to be impacted by external market factors including default rates, rating agency actions, and the prices at which observable market transactions occur The Company's ability to mitigate its risk by selling or hedging its exposures is also limited by the market environment The Company's future results may continue to be materially impacted by the valuation adjustments applied to these positions

25. RISK MANAGEMENT (continued)

Operational risk

The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events Some of these risks cannot be avoided, for example, the exposure to natural or man-made disasters, but can be mitigated by management actions, recovery plans and insurance The Company manages operational risks in a variety of ways These include maintaining a comprehensive system of internal controls, using technology to automate processes and reduce manual errors, monitoring and analysing risk events and trends, employing experienced staff, monitoring of business activities by compliance and audit professionals, maintaining fully operational off-site backup facilities, requiring education and training of employees and emphasising the importance of management oversight

Liquidity risk

Liquidity relates to the ability of a company to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern Liquidity risk is particularly important for financial services firms and includes both the potential inability to raise funding with appropriate maturity and interest rate characteristics, as well as the inability to liquidate an asset in a timely manner at a reasonable price

Risk governance structure

As explained in the Directors' Report, Merrill Lynch manages its operations on a divisional basis Risk governance is managed across the Merrill Lynch group in the following manner

Merrill Lynch's risk governance structure is comprised of the Audit Committee and the Finance Committee, the Regulatory, Oversight and Controls Committee, the business units, the independent risk and control groups, various other corporate governance committees as well as the active management of risk issues by senior management at the Weekly Risk Review In 2008 the responsibilities that were held by the former Risk Oversight Committee (the "ROC") through 2007 were assumed by Global Risk Management, the newly established Regulatory Oversight and Controls Committee and the Weekly Risk Review This structure is intended to provide more effective management of risk by senior business managers and Global Risk Management jointly and clearer accountability within the risk governance structure

At the Board level, two committees are responsible for oversight of the management of the risks and risk policies and procedures of Merrill Lynch The Audit Committee, which is composed entirely of independent directors, oversees management's policies and processes for managing all major categories of risk affecting Merrill Lynch, including operational, legal and reputational risks and management's actions to assess and control such risks The Finance Committee, which is also composed entirely of independent directors, reviews the Merrill Lynch policies and procedures for managing exposure to market, credit and liquidity risk in general and, when appropriate, reviews significant risk exposures and trends in these categories of risk Both the Audit Committee and the Finance Committee are provided with regular risk updates from management and the independent control groups

Risk tolerance levels established by Global Risk Management are considered by senior management as necessary during the Weekly Risk Review and this group also receives regular updates on a variety of other risk–related matters Particular attention is also paid to risk concentrations, liquidity concerns, efficient balance sheet usage and strategic risk-return considerations

Through 2007, the ROC, which was comprised of senior business and control managers and chaired by the Chief Financial Officer and Chief Risk Officer, was charged with establishing risk tolerance levels for Merrill Lynch and authorising material changes to its risk profile The ROC's mandate was to monitor the risks that Merrill Lynch assumed and confirm they were managed within the established tolerance levels and to verify that appropriate processes were in place to identify, measure, monitor and manage these risks

25. RISK MANAGEMENT (continued)

Despite the foregoing, losses on U S sub-prime residential mortgage-related exposures and U S ABS CDOs in 2007 reflect a significant concentration in securities that accumulated as a result of these activities as a leading underwriter of CDOs Merrill Lynch's stress tests and other risk measures significantly underestimated the magnitude of actual loss from the unprecedented credit market environment over the second half of 2007 Merrill Lynch continues to pursue opportunities to reduce its remaining exposures to these instruments but options are limited in its ability to do so due to the current illiquidity of the market for these assets

Global Risk Management establishes, and the Weekly Risk Review considers, Merrill Lynch's market and credit risk tolerance levels, which are represented in part by framework limits Risk framework exceptions and violations are reported and investigated at predefined levels of management

Merrill Lynch have a number of additional governance committees, including new product, transaction review, and monitoring and oversight committees, that create policy, review activity, and verify that new and existing business initiatives remain within established risk tolerance levels Representatives of the independent risk and control groups participate as members of these committees along with members from the businesses The Regulatory, Oversight and Controls Committee monitors the activities of these committees

Merrill Lynch will continue to take risk as appropriate and expand risk-taking judiciously where there are clear opportunities and where the business skill-set is in place to manage and understand the risk and its changing nature Business lines will continue to have responsibility and accountability for managing the risk, and it will continue to deepen capabilities in a number of areas In addition, Merrill Lynch believe that the high level of focus on risk by the Chief Executive Officer and other senior managers, the additional senior management resources in the form of dedicated co-Chief Risk Officers, the integration of the credit and market risk functions, and their emphasis on reinforcing a culture of disciplined risk taking are enhancing their capacity to monitor the associated risk levels and conformity to corporate risk guidelines and risk tolerance levels

26. FINANCIAL INSTRUMENTS

The following financial instruments are held at fair value

	2007 $m Assets	2007 $m Liabilities	2006 $m Assets	2006 $m Liabilities
Contractual agreements	377,772	400,128	127,556	134,135
Corporate debt and preferred stock	10,659	530	7,719	2,593
Equities and convertible debentures	67,417	52,213	25,440	10,506
Money market instruments	-	-	22	-
Mortgages, mortgage-backed and asset-backed securities	1,638	1,702	12,081	-
Non-US governments and agencies	6,226	6,482	7,402	4,509
US Government and agencies	3,267	719	2,236	909
	466,979	461,774	182,456	152,652

Gains/(losses) on financial instruments held at fair value

The Company's gains and losses included in the profit and loss account in relation to financial instruments held at fair value analysed by financial instrument category are as follows

	2007 $m	2006 $m
Contractual agreements	(9,476)	(3,587)
Corporate debt and preferred stock	(1,935)	739
Equities and convertible debentures	(53)	5,673
Money market instruments	13	18
Mortgages, mortgage-backed and asset-backed securities	(2,685)	43
Non-US governments and agencies	(937)	1,149
US Government and agencies	150	(1,877)
	(14,923)	2,158

27. SHARE BASED PAYMENTS

To align the interests of employees with those of shareholders, the Company's ultimate parent, ML & Co sponsors several employee compensation plans that provide eligible employees with shares or options to purchase shares The total pre-tax compensation cost recognised in profit and loss for share-based compensation plans for 2007 was $202 million (2006 - $273 million)

Long-Term Incentive Compensation Plans ("LTIC Plans"), Employee Stock Compensation Plan ("ESCP") and Equity Capital Accumulation Plan ("ECAP")

LTIC Plans, ESCP and ECAP provide for grants of equity and equity-related instruments to certain employees LTIC Plans consist of the Long-Term Incentive Compensation Plan, a shareholder approved plan used for grants to executive officers, and the Long-Term Incentive Compensation Plan for Managers and Producers, a broad-based plan which was approved by the Board of Directors, but has not been shareholder approved LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Non-qualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, and other securities of Merrill Lynch ESCP, a broad-based plan approved by shareholders in 2003, provides for the issuance of Restricted Shares, Restricted Units and Non-qualified Stock Options ECAP, a shareholder-approved plan, provides for the issuance of Restricted Shares, as well as Performance Shares All plans under LTIC Plans, ESCP and ECAP may be satisfied using either treasury or newly issued shares

Restricted Shares and Units

Restricted Shares are shares of ML & Co common stock carrying voting and dividend rights A Restricted Unit is deemed equivalent in fair market value to one share of common stock Substantially all awards are settled in shares of common stock Recipients of Restricted Unit awards receive cash payments equivalent to dividends Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period Such shares and units are subject to forfeiture during the vesting period for grants under LTIC Plans, or the restricted period for grants under ECAP Restricted share and unit grants made in 2003 through 2005 generally cliff vest in four years Restricted share and unit grants made from 2006 generally step vest in four years From 2006, Participation Units were granted from the Long-Term Incentive Compensation Plan under Merrill Lynch's Managing Partners Incentive Program The awards granted under this program are fully at risk, and the potential payout will vary depending on Merrill Lynch's financial performance against pre-determined return on average common stockholders' equity ("ROE") targets One-third of the Participation Units converted into Restricted Shares on 31 January 2007 Based on the Company's 2007 performance, no participation units will convert on 31 January 2008 The remaining Participation Units will convert on 31 January 2009, subject to the satisfaction of minimum ROE targets determined for the most recently completed fiscal year Participation Units will cease to be outstanding immediately following conversion If the minimum target is not met, the Participation Units will expire without being converted The activity for Restricted Shares and Units under these plans during 2007 and 2006 is as follows

27 SHARE BASED PAYMENTS (continued)

	RSRU Plans	
	Restricted Shares	Restricted units
Outstanding, beginning of 2006	**3,157,148**	3,322,359
Granted – 2006	**1,415,768**	1,834,835
Paid, forfeited, or released from contingencies	**(436,187)**	(800,860)
Outstanding, end of 2006	**4,136,729**	4,356,334
Granted – 2007	**1,435,864**	2,039,679
Paid, forfeited, or released from contingencies	**(767,025)**	(268,277)
Outstanding, end of 2007	**4,805,568**	6,127,736

Non-Qualified Stock Options

Non-qualified Stock Options granted under LTIC Plans in 1996 through 2000 generally became exercisable over five years, options granted in 2001 and 2002 became exercisable after approximately six months Options granted after 2002 generally become exercisable over four years The exercise price of these grants is equal to 100% of the fair market value of a share of ML & Co common stock on the date of grant Options expire ten years after their grant date The activity for Non-qualified Stock Options under LTIC Plans for 2007 and 2006 is as follows

	Options Outstanding	Weighted average exercise price	Weighted average share price at date of exercise
Outstanding, beginning of 2006	**20,680,041**	50 8	
Granted – 2006	**98,478**	71 5	
Exercised	**(4,928,552)**	42 2	80 1
Forfeited	**(21,340)**	51 8	
Outstanding, end of 2006	**15,828,627**	54 8	
Granted – 2007	**54,803**	95 8	
Exercised	**(1,660,920)**	51 3	92 0
Forfeited	**(13,662)**	59 7	
Outstanding, end of 2007	**14,208,848**	55 1	
Exercisable, end of 2007	**12,918,205**	54 3	

All options outstanding at 28 December 2007 are fully vested or are expected to vest

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 28 December 2007

27. SHARE BASED PAYMENTS (continued)

The weighted-average remaining contractual terms of options outstanding and exercisable were 3 3 years (2006 4 3 years) The weighted-average fair value of options granted was $26 75 (2006 $20 79) per option The table below summarises the range of exercise prices and the weighted average remaining contractual life for all options outstanding at 28 December 2007

Range of exercise prices	2007 Number	2007 weighted average remaining contractual life in years	2006 Number	2006 weighted average remaining contractual life in years
$10.00-$20.00	-	-	12,513	4 1
$20.00-$30.00	-	-	231,288	0 1
$30.00-$40.00	3,120,658	2.7	3,584,516	3 5
$40.00-$50.00	1,752,746	2.3	1,901,976	3 2
$50.00-$60.00	5,489,270	4.1	5,796,964	5 4
$60.00-$70.00	367	2.1	356	3 1
$70.00-$80.00	3,758,627	3.1	4,268,638	3 1
$80 00-$90.00	32,377	3.8	32,376	4 8
$90.00-$100 00	54,803	7 9	-	-

The fair value of each option award is estimated on the date of grant based on a Black-Scholes option pricing model using the following weighted-average assumptions

The risk-free rate for periods within the contractual life of the option is based on the U S Treasury yield curve in effect at the time of grant The expected life of options granted is equal to the contractual life of the options adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations Expected volatilities are based on historical volatility of ML & Co common stock The expected dividend is based on the current dividend rate at the time of grant

	2007	2006
Risk free interest rate	4.79%	4 4%
Expected life	4.3 years	4 5 years
Expected volatility	21.39%	28 87%
Expected dividend yield	1 49%	1 37%

28. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption from related party disclosures available in Paragraph 3(c) of Financial Reporting Standard 8 - Related Party Disclosures, as it is a wholly owned subsidiary and the consolidated financial statements of the ultimate parent company are publicly available as noted below

There were no related party transactions other than those with affiliated companies covered by the exemption noted above

29 PARENT UNDERTAKINGS

The Company is a subsidiary of ML UK Capital Holdings and the ultimate parent company and controlling party is ML & Co a company incorporated in the State of Delaware in the United States of America The parent company of the largest group that includes the Company and for which group financial statements are prepared is ML & Co Copies of the group financial statements of ML & Co are available from the Investor Relations website at www ir ml com or by contacting the Corporate Secretary by mail at 222 Broadway, 17th Floor, New York, NY 10038, USA or by e-mail at corporate_secretary@ml com The parent undertaking of the smallest group, including the Company, which prepares group financial statements is ML UK Capital Holdings, a company incorporated in Great Britain Copies of the group financial statements of ML UK Capital Holdings are available from the Company Secretary, Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1A 1HQ

30. PRIOR YEAR ADJUSTMENT

The comparative figures in the financial statements have been restated in order to reflect the adoption of FRS 20 Share Based Payment The effects of the adoption of this standard are as follows

	2006 $m
Profit and loss account	
Increase in administration expenses	(73)
Decrease in taxation	16
Increase in loss for the year	(57)
Increase in loss for prior years	(148)
Balance sheet	
Increase in deferred tax included within other debtors and prepayments	(53)
Increase in other creditors including taxation and social security	258
Decrease in net assets	205