Registered number. 2312079

MERRILL LYNCH INTERNATIONAL

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
29 DECEMBER 2006

MERRILL LYNCH INTERNATIONAL

CONTENTS

DIRECTORS' REPORT
For the year ended 29 December 2006

The directors present their report and the audited financial statements of Merrill Lynch International (the "Company") for the year ended 29 December 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period and comply with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Companies Act 1985 In preparing those 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 accounting standards have been followed, 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 which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report, which comply with the requirements of the Companies Act 1985

PRINCIPAL ACTIVITIES

The principal activities of the Company are to provide a wide range of financial services, 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

The directors expect the principal activities of the Company to continue in 2007

PERFORMANCE AND DIVIDENDS

There have been no changes in the principal activities of the Company during the year and the directors are satisfied with the Company's performance for the year and the financial position at year end

The loss for the year, after taxation, amounted to $193,000,000 (2005 - profit $315,000,000)

The turnover for the year amounted to $4,864,000,000 (2005 - turnover $3,441,000,000)

The administrative expenses for the year amounted to $4,547,000,000 (2005 - administrative expenses $2,823,000,000)

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 performance of the Europe, Middle East, and Africa division of Merrill Lynch, which includes the Company, is discussed in the financial statements of Merrill Lynch which do not form part of this report

During the year the Company paid a dividend on the 'A' and 'B' preference shares totalling $180,000,000 (2005 - $nil)

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
K Hotsuki
E N Moriarty III
A Orcel
O Semerci
R C M Wigley

The directors had no beneficial interests in the shares of the Company or any other United Kingdom affiliated company at 29 December 2006 or any time during the year then ended

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.

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 other employees who are not disabled

DIRECTORS' REPORT
For the year ended 29 December 2006

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 section 234ZA of the Companies Act 1985

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985

This report was approved by the Board on 27 March 2007 and signed on its behalf

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 29 December 2006 which comprise the profit and loss account, the balance sheet and the related notes 1 to 28 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 29 December 2006 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

27 March 2007

MERRILL LYNCH INTERNATIONAL

PROFIT AND LOSS ACCOUNT
For the year ended 29 December 2006

	Note	2006 $m	2005 $m
TURNOVER	3	**4,864**	3,441
Administrative expenses		**(4,547)**	(2,823)
OPERATING PROFIT	4	**317**	618
Interest payable on subordinated debt		**(380)**	(209)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**(63)**	409
TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	8	**(130)**	(94)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	22/23	**(193)**	315

Turnover and operating profit derive wholly from continuing operations

There were no recognised gains and losses for 2006 or 2005 other than those included in the profit and loss account

The notes on pages 8 to 29 form part of these financial statements

BALANCE SHEET
As at 29 December 2006

	Note	$m	2006 $m	$m	2005 $m
FIXED ASSETS					
Intangible fixed assets	9		**110**		140
Fixed asset investments	10		**2**		2
			112		142
CURRENT ASSETS					
Long inventory positions	11	**182,456**		110,969	
Trade debtors	12	**157,788**		105,695	
Other debtors and prepayments	13	**9,223**		11,830	
Cash at bank and in hand	14	**8,356**		3,793	
		357,823		232,287	
CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR					
Bank loans and overdrafts		**3,547**		1,459	
Short inventory positions	15/17	**152,652**		84,915	
Trade creditors	16/17	**161,929**		126,335	
Other creditors including taxation and social security	18	**27,701**		9,068	
		345,829		221,777	
NET CURRENT ASSETS			**11,994**		10,510
TOTAL ASSETS LESS CURRENT LIABILITIES			**12,106**		10,652
CREDITORS amounts falling due after more than one year	20		**(5,599)**		(4,472)
NET ASSETS			**6,507**		6,180
CAPITAL AND RESERVES					
Called up share capital	21		**6,471**		5,771
Share premium account	22		**-**		309
Profit and loss account	22		**36**		100
SHAREHOLDERS' FUNDS	23		**6,507**		6,180

The financial statements were approved by the Board on 27 March 2007 and signed on its behalf

Director M BUTLER

The notes on pages 8 to 29 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 29 December 2006

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 (2005 fifty-two) week period ending on the last Friday in December (2005 30 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

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, Merrill Lynch & Co , Inc

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 recognised on an accruals basis

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

Net interest income
Interest income and expense to the extent that it relates to trading activities recognised on an accruals basis

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 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 ACCOUNTING POLICIES (continued)

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

1 10 Investments

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

1 11 Inventory positions

Long and short security inventory positions held for trading purposes are recorded on a trade date basis and are valued at fair value at the close of business on the balance sheet date The net changes in fair values are reflected in the profit and loss account for the current year

Derivative financial instruments included within contractual agreements consist of futures, swaps, forwards, and interest rate, foreign currency and other options All other derivative instruments are recorded in the related cash instrument caption Changes in fair values of derivative instruments are recorded as principal trading turnover revenues in the current year Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices Fair values for over-the-counter derivative financial instruments, principally forwards, options, and swaps, represent amounts that would be received from or paid to a third party in a transfer of those instruments These amounts are determined using pricing models based on the present value of estimated future cash flows employing mid-market valuations with appropriate adjustments These adjustments are integral components of the mark to market process and relate to credit quality and concentration, market liquidity and exposure close-out costs associated with unmatched positions

1 ACCOUNTING POLICIES (continued)

1 12 Securities financing transactions

Securities sold under agreements to repurchase and securities purchased under agreements to resell are recorded as financing transactions at the amount received or paid plus accrued interest at the balance sheet date

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received

1.13 Deferred taxation

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 Deferred tax assets are recognised to the extent that they are regarded as recoverable 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

1 14 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 customer

2 PRINCIPAL ACTIVITIES

The principal activities of the Company are to provide a wide range of financial services, 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

	2006 $m	2005 $m
Principal trading	**2,158**	1,266
Corporate finance fees	**1,049**	869
Service fee income	**457**	313
Commissions	**809**	626
Net interest income	**436**	152
Net other income	**(45)**	215
	4,864	3,441

Net interest income relating to trading activities comprises

	2006 $m	2005 $m
Interest income		
Due from affiliated companies	**1,445**	1,157
Bank deposits and long positions	**6,603**	3,890
	8,048	5,047
Interest expense		
Due to affiliated companies	**(1,771)**	(1,236)
Loans, overdrafts and short positions	**(5,841)**	(3,659)
	(7,612)	(4,895)
Net interest income	**436**	152

4 OPERATING PROFIT

Operatıng profit ıs stated after (credıtıng)/chargıng the followıng

	2006 $m	2005 $m
Amortısatıon - ıntangıble fixed assets (see note 9)	30	31
Equıpment rental charges	4	5
Dırectors' and employee costs (see note 5)	1,947	1,119
Foreıgn exchange gaıns	(22)	(11)
Servıce fee expense	1,909	1,169
Other operatıng expenses	676	510

Audıtors' remuneratıon for audıt and non audıt servıces has been borne by another group company ın the current and precedıng years

Equıpment rental charges represent charges from an affilıated company The contractual commıtments arısıng under rental agreements rest wıth that affilıated company

5. DIRECTORS AND EMPLOYEES

Dırectors and employees costs were as follows

	2006 $m	2005 $m
Salarıes and benefits	1,718	967
Socıal securıty costs	195	114
Other pensıon costs	34	38
	1,947	1,119

The average number of persons (ıncludıng dırectors) employed by the Company durıng the year was

	2006	2005
Tradıng, sales and advısory	1,318	1,251
Support, operatıons and technology	1,096	699
	2,414	1,950

6 DIRECTORS' REMUNERATION

Of the dırectors that served durıng the year, seven (2005 ten) were remunerated ın relatıon to theır servıces as dırectors of thıs Company and the amounts ıncluded below are based on an estımated tıme allocatıon basıs

	2006 $m	2005 $m
Remuneratıon paıd to dırectors of the Company comprısed		
Emoluments	18	14

6. DIRECTORS' REMUNERATION (continued)

During the year retirement benefits were accruing to four directors (2005 - seven) in respect of defined contribution pension schemes

During the year retirement benefits were accruing to six directors (2005 - eight) in respect of defined benefit pension schemes

During the year five directors exercised Merrill Lynch & Co share options (2005 - eight)

During the year the number of directors by whom Merrill Lynch & Co shares are receivable or have been received under long term incentive schemes was one (2005 - nine)

The highest paid director received emoluments of $6m (2005 - $4m)

The total accrued pension provision of the highest paid director at 29 December 2006 amounted to $65,000 (2005 - $55,000)

During the year the highest paid director exercised Merrill Lynch & Co share options

During the current and preceeding year the highest paid director received Merrill Lynch & 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 3 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 £23 7 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 mentioned 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 requirements will be monitored following each annual funding review 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 $18 million (2005 $25 million) in respect of defined benefit schemes, which includes the Company's share of the one-off contribution of £25 million (2005 £50 million), and $16 million (2005 $13 million) in respect of defined contribution schemes

8 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2006 $m	2005 $m
The tax for the year is as follows		
Current tax (see note below)		
UK corporation tax charge on (loss)/profit for the year	277	137
Adjustments in respect of prior periods	14	25
Impact of foreign exchange differences on the tax charge	-	8
	291	170
Double taxation relief	-	(2)
	291	168
Foreign tax on income for the year	19	7
Total current tax	310	175
Deferred tax		
Origination and reversal of timing differences in current year	(180)	(81)
Total deferred tax (see note 19)	(180)	(81)
Tax on (loss)/profit on ordinary activities	130	94

8. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES (continued)

Factors affecting tax charge for year

The tax assessed for the year is higher (2005 higher) than the standard rate of corporation tax in the UK applicable to the Company (30%) The differences are explained below

	2006 $m	2005 $m
(Loss)/Profit on ordinary activities before tax	**(63)**	409
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 - 30%)	**(19)**	123
Effects of		
Expenses not deductible for tax purposes	**79**	6
Tax losses surrendered to affiliated companies	**26**	-
Timing differences in respect of interest	**105**	55
Timing differences relating to compensation and social security costs	**77**	24
Movement in other short term timing differences	**11**	6
Timing differences in respect of losses	**-**	(77)
Impact of foreign exchange differences	**-**	8
Impact of foreign taxes	**17**	5
Adjustments to tax charge in respect of prior periods	**14**	25
Current tax charge for year (see note above)	**310**	175

9. INTANGIBLE FIXED ASSETS

	Goodwill $m
Cost	
At 31 December 2005 and 29 December 2006	**464**
Amortisation	
At 31 December 2005	**324**
Charge for the year	**30**
At 29 December 2006	**354**
Net book value	
At 29 December 2006	**110**
At 31 December 2005	140

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

10. FIXED ASSET INVESTMENTS

	Unlisted Invest-ments $m
Cost	
At 31 December 2005 and 29 December 2006	**2**

11. LONG INVENTORY POSITIONS

	2006 $m	2005 $m
Contractual agreements	**127,556**	73,936
Corporate debt and preferred stock	**7,719**	3,711
Equities and convertible debentures	**25,440**	19,491
Money market instruments	**22**	83
Mortgages, mortgage-backed and asset-backed securities	**12,081**	6,883
Non-US governments and agencies	**7,402**	950
US Government and agencies	**2,236**	5,915
	182,456	110,969

Balances with affiliated companies within long inventory positions were $53,293 million (2005 $57,679 million)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 29 December 2006

12. TRADE DEBTORS

	2006 $m	2005 $m
Customer receivables	**22,173**	8,551
Amounts owed by affiliated companies	**19,612**	12,352
Brokers, dealers and clearing houses	**13,733**	10,775
Resale agreements and securities borrowed transactions	**94,200**	71,800
Other trade debtors	**8,070**	2,217
	157,788	105,695

Balances with affiliated companies within resale agreements and securities borrowed transactions were $13,360 million (2005 $7,617 million)

13 OTHER DEBTORS AND PREPAYMENTS

	2006 $m	2005 $m
Amounts falling due within one year		
Amounts owed by affiliated companies	**7,753**	10,184
Other debtors and prepayments	**1,038**	1,394
Deferred tax asset (see note 19)	**1**	1
	8,792	11,579
Amounts falling due after more than one year		
Deferred tax asset (see note 19)	**431**	251
	9,223	11,830

14 CASH AT BANK AND IN HAND

Included within cash balances are $4,490 million of deposits in respect of client money (2005 $2,372 million)

15 SHORT INVENTORY POSITIONS

	2006 $m	2005 $m
Contractual agreements	**134,135**	62,396
Corporate debt and preferred stock	**2,593**	1,257
Equities and convertible debentures	**10,506**	12,609
Non-US governments and agencies	**4,509**	7,831
US Government and agencies	**909**	822
	152,652	84,915

Balances with affiliated companies within short inventory positions were $52,367 million (2005 $46,179 million)

16. TRADE CREDITORS

	2006 $m	2005 $m
Customer payables	**11,274**	6,775
Amounts owed to affiliated companies	**20,692**	30,894
Brokers, dealers and clearing houses	**18,107**	10,562
Repurchase agreements and securities loaned transactions	**109,224**	75,031
Other trade creditors	**2,632**	3,073
	161,929	126,335

Balances with affiliated companies within repurchase agreements and securities loaned transactions were $14,561 million (2005 $6,233 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

	2006 $m	2005 $m
Short inventory positions	**22,568**	27,425
Trade creditors - Repurchase agreements and securities loaned transactions	**109,224**	75,031
	131,792	102,456

18 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2006 $m	2005 $m
Amounts owed to affiliated companies	**24,651**	8,286
Taxation	**140**	164
Other creditors and accruals	**2,910**	618
	27,701	9,068

19. DEFERRED TAXATION

	2006 $m
At beginning of year	**252**
Credit for the year relating to the current period	**193**
Credit for the year relating to the prior period	**61**
Decrease in estimate of recoverable deferred tax asset	**(74)**
At end of year	**432**

The deferred tax asset is made up as follows

	2006 $m	2005 $m
Accelerated capital allowances	**1**	1
Timing differences relating to compensation and social security costs	**219**	145
Timing differences relating to interest	**175**	69
Other short term timing differences	**37**	37
	432	252

Management is of the opinion that it is more likely than not that the Company will be able to generate sufficient future taxable income to recover the deferred tax asset recognised as at the balance sheet date, having considered historic performance

The amount of deferred tax asset not recognised by the Company for the year ended 29 December 2006 was $74 million (2005 - $nil million)

20 CREDITORS.

Amounts falling due after more than one year

	2006 $m	2005 $m
Subordinated loan notes from affiliated companies	5,572	4,472
Other creditors	27	-
	5,599	4,472

Included within the above are amounts falling due as follows

	2006 $m	2005 $m
Between one and two years		
Subordinated loan notes from affiliated companies	25	-
Between two and five years		
Subordinated loan notes from affiliated companies	1,459	3,622
Over five years		
Subordinated loan notes from affiliated companies	4,088	850
Other creditors	27	-
	5,599	4,472

Creditors include amounts not wholly repayable within five years as follows

	2006 $m	2005 $m
Repayable other than by instalments	4,115	850

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, $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 £1,235 million, and bears interest at one month Sterling LIBOR plus 100 basis points

As at 29 December 2006 the Company had undrawn facilities of (i) $26 million which mature on 31 January 2009, (ii) $35 million which mature on 31 January 2013 and (iii) £5 million which mature on 31 August 2014

Subsequent to the year end, the Company made drawings of $2,685 million against its short term subordinated loan facilities following an increase in those facilities of $2,670 million

21. CALLED UP SHARE CAPITAL

	2006 $	2005 $
Authorised		
3,300,000,000 (2005 1,800,000,000) ordinary shares of $1 each	**3,300,000,000**	1,800,000,000
500,000,000 (2005 500,000,000) 'A' preference shares of $1 each	**500,000,000**	500,000,000
40,150 (2005 40,150) 'B' preference shares of $1 each	**40,150**	40,150
500,150,000 (2005 500,150,000) 'C' preference shares of $1 each	**500,150,000**	500,150,000
500,000,000 (2005 500,000,000) 'D' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'E' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'F' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'G' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'H' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'I' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'J' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'K' preference shares of $1 each	**500,000,000**	500,000,000
500,000,000 (2005 500,000,000) 'L' preference shares of $1 each	**500,000,000**	500,000,000
2,043,313,424 (2005 2,043,313,424) 'M' preference shares of $1 each	**2,043,313,424**	2,043,313,424
	10,843,503,574	9,343,503,574
Allotted, called up and fully paid		
2,295,283,391 (2005 1,595,283,391) ordinary shares of $1 each	**2,295,283,391**	1,595,283,391
401,500,000 (2005 401,500,000) 'A' preference shares of $1 each	**401,500,000**	401,500,000
40,150 (2005 40,150) 'B' preference shares of $1 each	**40,150**	40,150
150,000 (2005 150,000) 'E' preference shares of $1 each	**150,000**	150,000
400,000,000 (2005 400,000,000) 'F' preference shares of $1 each	**400,000,000**	400,000,000
500,000,000 (2005 500,000,000) 'G' preference shares of $1 each	**500,000,000**	500,000,000
150,000,000 (2005 150,000,000) 'H' preference shares of $1 each	**150,000,000**	150,000,000
500,000,000 (2005 500,000,000) 'I' preference shares of $1 each	**500,000,000**	500,000,000
158,000,000 (2005 158,000,000) 'J' preference shares of $1 each	**158,000,000**	158,000,000
22,993,175 (2005 22,993,175) 'L' preference shares of $1 each	**22,993,175**	22,993,175
2,043,313,424 (2005 2,043,313,424) 'M' preference shares of $1 each	**2,043,313,424**	2,043,313,424
	6,471,280,140	5,771,280,140

21. SHARE CAPITAL (continued)

On 13 April 2006 the Company increased the authorised ordinary share capital to 2,300,000,000 ordinary shares of $1 each On the same date, the Company issued 500,000,000 ordinary shares of $1 each at par

On 7 August 2006 the Company issued a further 200,000,000 ordinary shares of $1 each at par

On 29 September 2006 the Company increased the authorised ordinary share capital to 3,300,000,000 ordinary shares of $1 each

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/net 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. 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 29 December 2006 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 31 December 2005	**309**
Cancellation of share premium account and transfer to profit and loss account	**(309)**
At 29 December 2006	**-**

Profit and loss account	**$m**
At 31 December 2005	**100**
Loss retained for the year	**(193)**
Dividends	**(180)**
Cancellation of share premium account and transfer to profit and loss account	**309**
At 29 December 2006	**36**

On 15 December 2006, as permitted under Table E of the Companies (Tables A to F) Regulations 1985, the share premium account of $309 million was cancelled and transferred to the profit and loss account

23. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2006	2005
	$m	$m
(Loss)/Profit for the year	(193)	315
Dividends	(180)	-
	(373)	315
Shares issued during the year	700	1,810
	327	2,125
Opening shareholders' funds	6,180	4,055
Closing shareholders' funds	6,507	6,180

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 29 December 2006, the Company had $713 million (2005 $381 million) in undrawn funding commitments relating to prime brokerage clients

As at 29 December 2006, the Company had $87 million (2005 $29 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 29 December 2006, the Company had issued two guarantees to a customer for the performance of an affiliated company's obligations under put options and Merrill Lynch & Co's performance of those obligations as an additional guarantor Merrill Lynch & Co in turn has indemnified the Company from any loss under these guarantees As at 29 December 2006 the unsecured amounts in relation to these put option obligations amounted to €300 million and $195 million (2005 €300 million and $195 million)

The Company is one of many defendants sued by Dr Enrico Bondi, the specially appointed administrator of Parmalat Finanziaria S p A The claim against the Company could be significant but is largely unquantified The Company is vigorously defending the claim The Company is unable reliably to estimate the possible loss in relation to this matter or the effect that the possible loss might have on the Company's net assets or its operating results or cash flows in any particular period

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 the 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 impact on 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

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

25 RISK MANAGEMENT (continued)

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

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 emphasizing 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

ML&Co's risk governance structure is comprised of the Audit Committee and the Finance Committee of the Board of Directors, the Executive Committee, the Risk Oversight Committee ("ROC"), the business units, the independent risk and control groups, and various other corporate governance committees

25 RISK MANAGEMENT (continued)

Risk governance structure (continued)

The Audit Committee, which comprises entirely independent directors, reviews and oversees management's policies and processes for managing all major categories of risk affecting the firm, including operational, legal and reputational risks In addition, the Audit Committee also approves the ROC charter and has authorized the ROC to establish our risk management policies The Finance Committee, which is also comprised entirely of independent directors, is responsible for reviewing policies and procedures for managing exposure to market, credit and liquidity risk, including risk limits for both market and credit risk, Value at Risk ("VaR"), liquidity models, and other relevant models The Executive Committee, a group comprised of executive management, approves the risk tolerance levels established by the ROC and receives regular updates from the ROC on risk-related matters The Executive Committee pays particular attention to risk concentrations and liquidity concerns

The ROC is comprised of senior business and control managers and is chaired by the Chief Financial Officer The ROC establishes risk tolerance levels for the firm and authorizes material changes in the firm's risk profile The ROC works to ensure that the risks that the firm assumes are managed within these tolerance levels and verifies that we have implemented appropriate processes to identify, measure, monitor and manage our risks

Market and credit risk tolerance levels are represented in part by framework limits, which are established by the ROC and reviewed and approved annually by the Executive Committee, which must also approve certain intra-year changes Substantive market and credit risk framework limit changes are reported to the Audit and Finance Committees The frameworks are reviewed by the Finance Committee in the context of its evaluation of market and credit risk exposures Risk framework exceptions and violations are reported and investigated at predefined and appropriate levels of management

Both the Audit Committee and the Finance Committee are provided with regular risk updates, and significant issues and transactions are reported to the Executive Committee, the Audit Committee and the Finance Committee Various governance committees exist to 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 voting members of these committees The activities of these committees are monitored by the ROC

26 FINANCIAL INSTRUMENTS

The following financial instruments are held at fair value

	2006 $m Assets	2006 $m Liabilities	2005 $m Assets	2005 $m Liabilities
Contractual agreements	127,556	134,135	73,936	62,396
Corporate debt and preferred stock	7,719	2,593	3,711	1,257
Equities and convertible debentures	25,440	10,506	19,491	12,609
Money market instruments	22	-	83	-
Mortgages, mortgage-backed and asset-backed securities	12,081	-	6,883	-
Non-US governments and agencies	7,402	4,509	950	7,831
US Government and agencies	2,236	909	5,915	822
	182,456	152,652	110,969	84,915

Gains and 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

	2006 $m	2005 $m
Contractual agreements	(3,587)	6,134
Corporate debt and preferred stock	739	202
Equities and convertible debentures	5,673	(4,686)
Money market instruments	18	21
Mortgages, mortgage-backed and asset-backed securities	43	(11)
Non-US governments and agencies	1,149	120
US Government and agencies	(1,877)	(514)
	2,158	1,266

27. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption from related party disclosures available in Paragraph 3(c) of Financial Reporting Standard No 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

28 PARENT UNDERTAKINGS

The Company ıs a subsıdıary of ML UK Capıtal Holdıngs and the ultımate parent company and controllıng party ıs Merrıll Lynch & Co , Inc , a company ıncorporated ın the State of Delaware ın the Unıted States of Amerıca The parent company of the largest group that ıncludes the Company and for whıch group financıal statements are prepared ıs Merrıll Lynch & Co , Inc Copıes of the group financıal statements of Merrıll Lynch & Co , Inc are avaılable from the Investor Relatıons websıte at www ır ml com or by contactıng the Corporate Secretary by maıl at 222 Broadway, 17th Floor, New York, NY 10038, USA or by e-maıl at corporate_secretary@ml com The parent undertakıng of the smallest group, ıncludıng the Company, whıch prepares group financıal statements ıs ML UK Capıtal Holdıngs, a company ıncorporated ın Great Brıtaın Copıes of the group financıal statements of ML UK Capıtal Holdıngs are avaılable from the Company Secretary, Merrıll Lynch Fınancıal Centre, 2 Kıng Edward Street, London, EC1A 1HQ