

4, 2006; Energy Select Sector SPDR Fund MITTS Securities due September 20, 2006; Medium-Term Notes ("MTN"), Series B, 3% Stock-Linked Notes due June 10, 2000; MTN, Series B, 5% Stock-Linked Notes due July 3, 2000; MTN, Series B, Stock-Linked Notes due November 28, 2003; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due April 19, 2004; MTN, Series B, 3.125% Callable Stock-Linked Notes due January 22, 2005; MTN, Series B, 1.5% Principal Protected Notes due December 15, 2005; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due February 8, 2006; MTN, Series B, 0.25% Callable and Exchangeable Portfolio-Linked Notes due April 27, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due May 10, 2006; MTN, Series B, 1% Callable and Exchangeable Stock-Linked Notes due July 20, 2006; Oracle Corporation Indexed Callable Protected Growth Securities ("ProGroS Securities") due March 31, 2003; Telebras Indexed Callable ProGroS Securities due May 19, 2005; 5 1/4% Nasdaq-100 Index STRIDES Securities due August 23, 2000; AMEX Oil Index Stock Market Annual Reset Term Notes ("SMART Notes") due December 29, 2000; Russell 2000 Index Call Warrants Expiring May 25, 2001; and Bond Index Notes, Domestic Master Series 1999A due December 23, 2002.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of the close of business on February 23, 2000, there were 383,049,771 shares of Common Stock and 4,008,129 Exchangeable Shares outstanding. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting, and other rights equivalent to Common Stock.

As of the close of business on February 23, 2000, the aggregate market value of the voting stock, comprising the Common Stock and the Exchangeable Shares, held by non-affiliates of the Registrant was approximately \$36 billion.

Documents Incorporated By Reference: Merrill Lynch & Co., Inc. 1999 Annual Report to Stockholders and Merrill Lynch & Co., Inc. Proxy Statement for its 2000 Annual Meeting of Stockholders dated March 9, 2000, each incorporated by reference in Parts I-IV in this Form 10-K.

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PART I

Item 1. Business

Overview

Merrill Lynch & Co., Inc.,* a Delaware corporation formed in 1973, is a holding company that, through its subsidiaries and affiliates, provides investment, financing, advisory, insurance, and related products and services on a global basis, including:

- . securities brokerage, trading, and underwriting
- . investment banking, strategic services, including mergers and acquisitions, and other corporate finance advisory activities
- . asset management
- . brokerage and related activities in swaps, options, forwards, futures, and other derivatives
- . securities clearance services
- . equity, debt and economic research
- . banking, trust, and lending services, including mortgage lending and related services
- . insurance sales and underwriting services
- . investment advisory and related recordkeeping services

Merrill Lynch provides these products and services to a wide array of clients, including individual investors, small businesses, corporations,

governments and governmental agencies, and financial institutions.

Merrill Lynch's business has three business segments: the Private Client Group ("PCG"), the Asset Management Group ("AMG") and the Corporate and Institutional Client Group ("CICG"). Merrill Lynch provides financial services worldwide through subsidiaries and affiliates that frequently participate in the facilitation and consummation of a single transaction. This organizational structure is designed to enhance the delivery of services to Merrill Lynch's diverse global client base and position it for worldwide growth. Merrill Lynch has organized its operations outside the United States into six regions:

Europe, Middle East, and Africa
Asia Pacific
Australia and New Zealand
Japan
Canada
Latin America

Merrill Lynch conducts its global business from various locations throughout the world. Its world headquarters facility is located at the World Financial Center in New York City and its other principal U.S. business and operational centers are in New Jersey, Colorado, Florida, and California. Merrill Lynch has a presence in 42 countries outside the U.S., including offices in Buenos Aires, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, Johannesburg, London, Madrid, Mexico City, Milan, Paris, Sao Paulo, Singapore, Sydney, Toronto, Tokyo and Zurich.

Merrill Lynch employed 67,200 people at the end of 1999.

At the end of 1999, total assets in client accounts or under management were nearly \$1.7 trillion. In 1999, according to Thomson Financial Services Data, Merrill Lynch achieved the top ranking in U.S. debt and equity underwriting, and ranked third in U.S. completed and announced mergers and acquisitions. Merrill Lynch was the leading

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* Unless the context otherwise requires, the term "Merrill Lynch" means Merrill Lynch & Co., Inc. and includes the consolidated subsidiaries of Merrill Lynch & Co., Inc. The term "ML & Co." is used herein where appropriate to refer to Merrill Lynch & Co., Inc., the parent holding company.

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global debt and equity underwriter and ranked second in announced and third in completed non-U.S. mergers and acquisitions transactions.

Financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December of 1999, 1998, and 1997, including the amount of total revenue contributed by classes of similar products or services that accounted for 10% or more of its consolidated revenues in any one of these fiscal periods, as well as information with respect to Merrill Lynch's operations by segment and geographic area is set forth in Merrill Lynch's Consolidated Financial Statements and the Notes thereto in the Merrill Lynch & Co., Inc. 1999 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 10-K.

Business Environment

The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous uncontrollable factors. These factors include economic conditions, monetary policies, the liquidity of global markets, international and regional political events, regulatory developments, the competitive environment, and investor sentiment. These conditions or events can significantly affect the volatility of financial markets. While greater volatility increases risk, it may also increase order flow in businesses such as trading and brokerage. Revenues and net earnings may vary significantly from period to period due to these unpredictable factors and the resulting market volatility.

The financial services industry continues to be affected by the intensifying competitive environment, as demonstrated by consolidation through mergers and acquisitions, as well as diminishing margins in many mature products and services, and competition from new entrants as well as established competitors using the internet to establish or expand their businesses. In addition, the passage of the Gramm-Leach-Bliley Act in November of 1999 represented a significant accomplishment in the effort to modernize the financial services industry in the U.S. by repealing anachronistic laws that separated commercial banking, investment banking and insurance activities. The Gramm-Leach-Bliley Act, together with the other changes in the financial services industry made possible by previous reforms, has increased the number of companies competing for a similar customer base.

In addition to providing historical information, Merrill Lynch may make or

publish forward-looking statements about management expectations, strategic objectives, business prospects, anticipated financial performance, and other similar matters. A variety of factors, many of which are beyond its control, affect the operations, performance, business strategy, and results of Merrill Lynch and could cause actual results and experience to differ materially from the expectations expressed in these statements. These factors include, but are not limited to, the factors listed in the previous paragraph, as well as actions and initiatives taken by both current and potential competitors, the effect of current, pending, and future legislation and regulation both in the United States and throughout the world, and the other risks and uncertainties detailed in Competition and Regulation below and in Management's Discussion and Analysis in the Annual Report. Merrill Lynch undertakes no responsibility to update or revise any forward-looking statements.

Description of Business Activities

The business activities of certain significant U.S. and non-U.S. Merrill Lynch subsidiaries comprising its three business segments are described below. Each subsidiary may provide products and services from some or all of these business segments. See Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements in the Annual Report for further information about Merrill Lynch's business activities and policies, its business segments, products and services, and the geographic markets within which it operates.

The Private Client Group

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Through offices around the world, the PCG provides products and services related to the accumulation and management of wealth, including, for example, brokerage and related activities; retirement, investment and custody services; insurance; business financial services; and banking, trust services, mortgage lending and related activities.

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Brokerage, Dealer and Related Activities:

In the United States, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") is a broker (i.e., agent) for individual clients, as well as corporate, institutional and governmental clients, and a dealer (i.e. acts for its own account) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. MLPF&S also acts as a broker and a dealer in the purchase and sale of money market instruments, government securities, high-yield bonds, municipal securities, futures, and options, including option contracts for the purchase and sale of various types of securities. In addition, MLPF&S acts as broker and/or mutual fund selected dealer in the purchase and sale of mutual funds.

MLPF&S has established commission rates or fixed charges for all brokerage services that it performs. For accounts that are actively traded, however, MLPF&S's policy is to negotiate commissions based on economies of scale and the complexity of the particular trading transaction and, additionally, for its institutional customers, based on the competitive environment and trading opportunities.

In July 1999, MLPF&S introduced Unlimited Advantage(Service Mark), in which U.S. clients receive a broad range of Merrill Lynch services for an annual asset-based fee. At the end of 1999 there were over 260,000 Unlimited Advantage accounts with aggregate client assets of approximately \$63 billion, of which \$9 billion represented new client assets. In December 1999, Merrill Lynch launched ML Direct(Service Mark), an online service offering trading execution and real-time account position information.

MLPF&S provides financing to clients, including margin lending and other extensions of credit. In a margin-based transaction, MLPF&S extends credit for a portion of the market value of the securities in the client's account up to the limit imposed by internal MLPF&S policies and applicable margin rules and regulations. Since MLPF&S may have financial exposure if a client fails to meet a margin call, any margin loan made by MLPF&S is collateralized by securities in the client's margin account. Financial reviews, margin procedures, and other credit standards have been implemented in an effort to limit any exposures resulting from this margin lending activity. Interest on margin loans is an important source of revenue for MLPF&S. To finance margin loans, MLPF&S uses funds on which it pays interest (including parent company borrowings), funds on which it does not pay interest (including its own capital), funds derived from client's free credit balances to the extent permitted by regulations, and funds derived from securities loaned.

Merrill Lynch, through Merrill Lynch Futures Inc. ("MLF") and other subsidiaries, acts as a broker for the purchase and sale of futures contracts and options on such futures contracts for corporate and institutional clients, but ceased such activities for individual clients in early 2000. See The Corporate and Institutional Client Group-Brokerage and Related Activities below.

Merrill Lynch Investment Partners Inc. ("MLIP") sponsors or manages

commodity pools, hedge funds and fund of funds products designed to meet a variety of client objectives. MLF acts as commodity broker for MLIP-sponsored funds and MLPF&S or an affiliate acts as selling agent. MLIP is one of the largest sponsors of managed futures funds in terms of both fund assets and financial and personnel resources. MLIP is an integrated business which includes research, finance, operations, systems, administration, sales and marketing. MLIP's functions include selecting and monitoring trading advisors and hedge fund managers, as well as allocating and reallocating fund capital among them. At the end of 1999, approximately \$2.3 billion in equity was invested or was to be invested in 39 U.S. and non-U.S. commodity pools, hedge funds and fund-of-funds products.

MLPF&S sponsors the Defined Asset Funds (Service Mark) group of funds. These funds are unit investment trusts registered in the United States under the Investment Company Act of 1940 and offshore in the Republic of Ireland and the Cayman Islands under applicable regulations. Defined Asset Funds invest in U.S. and non-U.S. equity securities, municipal, corporate, and U.S. Government and non-U.S. debt obligations. At the end of 1999, approximately \$20.9 billion of client funds were invested in Defined Asset Funds worldwide.

MLPF&S provides a wide range of client services, including effecting trades in equity, fixed-income and other securities through its securities account services, such as its Cash Management Account (Registered Trademark) financial services program (the "CMA (Registered Trademark) account"). At the end of 1999, there were more than 2.0 million CMA accounts held by Merrill Lynch's U.S. customers with aggregate assets of approximately \$550 billion and there were approximately 61,000 CMA accounts held

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by Merrill Lynch's non-U.S. clients with aggregate assets of approximately \$36.6 billion. MLPF&S offers various other products such as Merrill Lynch Consults (Registered Trademark), the Merrill Lynch Mutual Fund Advisor (Service Mark) program, the Merrill Lynch Mutual Fund Advisor Selects (Service Mark) program, and the Financial Foundation (Registered Trademark) report.

Outside the United States, Merrill Lynch provides comprehensive brokerage and investment services and related products on a global basis to private clients. These services and products are made available through a network of offices located in more than 30 countries outside the United States. The brokerage and other services provided by MLPF&S are offered on a global basis to private clients; in addition, in certain countries such as the UK, Japan, Canada and Australia, clients can open accounts with Merrill Lynch affiliates that are locally regulated. Banking and trust services, and asset management services, are also offered globally to private clients, as described below under The Private Client Group - Banking, Trust, Mortgage Lending and Related Activities and The Asset Management Group, respectively. In addition, during 1999 an online account information service was made available to international private clients.

Group Employee Services and Retirement, Investment and Custody Services:

Through its Group Employee Services division, MLPF&S is one of the largest bundled service providers of 401(k) plans in the United States. MLPF&S provides a wide variety of retirement plan products, particularly benefits consulting, administration, investment, employee education, and communication services to 401(k) and other benefit plans. At the end of 1999, it provided these services to over 20,000 corporate sponsored 401(k) plans, representing over \$111 billion in plan assets. Its services to this market were enhanced by Merrill Lynch's 1998 acquisition of Howard Johnson & Company, a benefits and actuarial consulting firm which administers plans for more than 255 companies with more than one million participants. Merrill Lynch is also a leading provider of administrative services for stock option and stock purchase plans.

MLPF&S provides custodial services to individual investors in connection with the investors' maintenance of Individual Retirement Accounts ("IRAs"), including IRAs established under Simplified Employee Pension and SIMPLE plans. At the end of 1999, there were approximately \$181.5 billion in customer assets in more than 2.6 million Merrill Lynch IRAs, which includes approximately 358,000 Roth and Education IRAs representing more than \$4.4 billion in client assets.

Business Financial Services:

Merrill Lynch provides financing services to small- and medium-sized businesses in conjunction with the Working Capital Management (Service Mark) account ("WCMA (Registered Trademark) account") through Merrill Lynch Business Financial Services Inc. ("MLBFS"). The WCMA account combines business checking, borrowing, investment, and electronic funds transfer services into one account for participating business clients. At the end of 1999, there were more than 142,000 WCMA accounts that, in the aggregate, had investment assets of more than \$106 billion.

In addition to providing qualifying clients with short-term working capital financing through the WCMA commercial line of credit, MLBFS offers assistance to

business clients with their term lending, equipment, and other asset-based financing needs, as well as financing for owner-occupied commercial real estate. In 1999, MLBFS originated more than \$1.9 billion in new small business and other commercial loans and, at the end of 1999, total outstanding loans were more than \$2.6 billion, of which approximately 97% were secured by tangible assets pledged by customers.

Merrill Lynch also provides business advisory services, including strategic services to middle market companies.

Insurance Activities:

Merrill Lynch's insurance services consist of the underwriting of life insurance and annuity products by Merrill Lynch Life Insurance Company ("MLLIC") and ML Life Insurance Company of New York ("ML Life") and of the sale of proprietary and non-proprietary life insurance and annuity products through Merrill Lynch Life Agency Inc. and other insurance agencies affiliated or associated with MLPF&S operating in the United States and Canada.

MLLIC, an Arkansas stock life insurance company, is authorized to underwrite insurance and annuities products in 49 states, Puerto Rico, the District of Columbia, Guam, and the U.S. Virgin Islands. These products are marketed to

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MLPF&S customers. Although authorized to do so, it does not presently underwrite accident and health insurance. At year-end 1999, MLLIC had approximately \$14.4 billion of life insurance in force. At year-end 1999, MLLIC had annuity contracts in force of more than \$10.3 billion in value.

ML Life, a New York stock life insurance company, is authorized to underwrite life insurance, annuities, and accident and health insurance in nine states; however, it does not presently underwrite accident and health insurance. At year-end 1999, ML Life had approximately \$1.9 billion of life insurance in force, which amount included approximately \$936 million reinsured from yearly renewable term insurance of an unaffiliated insurer. At year-end 1999, ML Life had annuity contracts in force of approximately \$836 million in value.

Through agency agreements, licensed affiliate insurance agencies and other insurance agencies associated with MLPF&S sell life and health insurance and annuity products. A significant portion of these sales consists of products underwritten by MLLIC and ML Life.

Banking, Trust, Mortgage Lending and Related Activities:

Merrill Lynch Bank & Trust Co. ("MLBT") and Merrill Lynch Bank USA ("MLBUSA"), both of which are state chartered depository institutions insured by the Federal Deposit Insurance Corporation, offer certificates of deposit, money market deposit accounts (including deposit accounts offered through the Insured Savings (Service Mark) Account program for the CMA service, the Retirement Asset Savings Program (Registered Trademark) for certain Merrill Lynch retirement accounts and, beginning in December 1999, the Banking Advantage (Registered Trademark) program for ML Direct accounts) and other deposit accounts, originate and purchase secured loans, and issue VISA (Registered Trademark) cards.

Merrill Lynch provides personal trust, employee benefit trust, and custodial services to clients in the U.S. through eight state-chartered trust institutions and a federally chartered savings bank. Trust services outside of the United States are provided by Merrill Lynch Bank and Trust Company (Cayman) Limited ("MLBT Cayman").

Merrill Lynch Credit Corporation ("MLCC") offers a broad selection of real estate-based lending products enabling clients to purchase and refinance their homes as well as to manage their other personal credit needs. MLCC offers a variety of adjustable-rate and fixed-rate first mortgage loans throughout the United States, including the PrimeFirst (Service Mark) mortgage program. In addition, MLCC originates and services home equity credit lines and other mortgage loans as well as services mortgage loans for affiliated and unaffiliated financial institutions. MLCC uses a variety of financing techniques to fund its loan portfolio, including securitizing its mortgages for sale into the secondary marketplace. MLCC also offers securities-based non-purpose lending through its Omega (Service Mark) account, a personal line of credit using eligible securities as collateral that is accessible by VISA (Registered Trademark) card and by check.

Merrill Lynch International Bank Limited ("MLIB Limited"), a United Kingdom bank provides collateralized lending, letter of credit services and foreign exchange trading services to, and accepts deposits from, international clients. Merrill Lynch Bank (Suisse) S.A., a Swiss bank, provides loans, deposits and portfolio management services, and individual client services to non-U.S. individual clients.

Merrill Lynch's asset management activities are conducted through AMG using, principally, the Merrill Lynch, Mercury and Hotchkis and Wiley brand names. The principal subsidiaries engaged in these activities are Merrill Lynch Asset Management LP ("MLAM") and Mercury Asset Management Ltd ("MAM"). AMG is one of the largest asset management organizations in the world having total assets under management of approximately \$557 billion at the end of 1999 compared with approximately \$501 billion at the end of 1998.

At the end of 1999, through portfolio managers located in the United States, the United Kingdom, Japan, Australia, Hong Kong, Canada, Switzerland and Singapore, AMG managed a wide variety of investment products. These ranged from money market funds and other forms of short-term fixed-income investments to long-term taxable and tax-exempt fixed-income funds or portfolios, along a broad spectrum of quality ratings and maturities. AMG also manages a wide variety of equity and balanced funds or portfolios that invest in more than 60 markets globally.

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AMG offers a wide array of taxable fixed-income, tax-exempt fixed-income, equity and balanced open-ended mutual funds in the United States. The MLAM brand of mutual funds (except for its money-market funds) are generally offered pursuant to the Merrill Lynch Select Pricing (Service Mark) system, which allows investors four pricing alternatives. The Hotchkis and Wiley brand of mutual funds are sold to clients on a no-load basis. The Mercury Asset Management brand of mutual funds, introduced in 1998, are distributed through Merrill Lynch's distribution network both inside and outside the United States. AMG also offers a broad family of unit trusts in the United Kingdom under the Mercury brand. In 1998, AMG introduced a new family of 17 mutual funds with the Merrill Lynch Mercury Asset Management (Japan) brand that are distributed through Merrill Lynch Japan Securities Co., Ltd.

AMG offers all of its brands of mutual funds to clients in other global markets through both the Merrill Lynch distribution network and through unaffiliated financial intermediaries. Of the more than \$63 billion of mutual funds sold by MLPF&S in 1999, approximately \$20 billion represented sales of mutual funds advised by Merrill Lynch Asset Management or Merrill Lynch Mercury Asset Management. At the end of 1999, AMG advised approximately \$266 billion globally of mutual funds or their non-U.S. equivalent.

AMG provides separate account investment management services to a geographically diversified client base that includes pension funds, corporations, governments, supranational organizations, central banks and other institutions. Marketing offices in over 15 countries further support these services. At the end of 1999, the total assets under management of such services were approximately \$247 billion. AMG offers similarly structured separate account investment management services for individual clients and smaller institutions and corporations both in the United States, the United Kingdom and globally. The total assets under management for these services were \$44 billion at the end of 1999.

The Corporate and Institutional Client Group

The CICG businesses, comprising one of Merrill Lynch's business segments, provide comprehensive investment banking, financing, and related products and services to corporations, institutional clients and sovereign governments throughout the world. These activities are conducted through a network of subsidiaries, including MLPF&S, Merrill Lynch International ("MLI"), and a number of other subsidiaries located in and outside the United States. CICG's activities predominately involve providing investment banking and other strategic mergers and acquisition advisory services, trading, both as a broker and as a dealer, in equity and debt securities and derivative instruments, publishing and disseminating equity, debt and economic research products and services and providing various other capital markets services, including securities clearance activities.

CICG's operations in the United States are conducted primarily out of Merrill Lynch's headquarters in New York City and from offices located throughout the United States, including Chicago, Houston, Boston, San Francisco, Palo Alto, and Menlo Park, California. Merrill Lynch's CICG activities outside the United States are conducted through MLI and the many non-U.S., locally-established affiliates strategically located throughout the world, and a network of offices, including representative and liaison offices, located in more than 40 countries outside the United States. This office network services sovereigns, major "money center" institutions as well as thousands of regional institutions.

Investment Banking Activities:

Merrill Lynch is a leading global investment banking firm that participates in every aspect of investment banking for corporate, institutional, and governmental clients and acts in principal, agency, and advisory capacities. Advisory services include advice on strategic matters, including mergers and acquisitions, divestitures, spin-offs, restructurings, capital structuring,

leveraged buyouts, and defensive projects. Merrill Lynch provides a wide variety of financial services, including underwriting the sale of securities to the public, privately placing securities with investors, providing structured and derivative financings, including project financing, and mortgage and lease financing.

Merrill Lynch, either directly or through affiliates, provides advice, valuation services, and financing assistance and engages in the underwriting and private placement of high-yield securities in connection with, among other things, leveraged buyouts and other acquisition-related transactions. It has, from time to time, taken principal positions in transactions and has extended credit to clients in the form of senior and subordinated debt, as well as provided bridge financing on a select basis, and syndicated loans. Before engaging in any of these financing activities, an analysis is

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performed to ascertain the underlying creditworthiness of the particular client and the liquidity of the market for securities that may be issued in connection with any such financings and to determine the likelihood of refinancing within a reasonable period. Additionally, equity interests in the subject companies are, from time to time acquired as part of, or in connection with, such activities.

Merrill Lynch has engaged in the business of making private equity investments in companies and sponsoring and managing private equity funds that have invested in equity and debt securities of various companies. The limited partners of the funds managed by Merrill Lynch affiliates are primarily private corporate and institutional investors. Merrill Lynch, through MLPF&S, MLI, and its other subsidiaries, may underwrite, trade, invest, and make markets in certain securities of companies in which the Merrill Lynch managed funds have invested, and may also provide financial advisory services to these companies.

Brokerage, Dealer and Related Activities:

In the United States, MLPF&S is a broker for corporate, institutional and governmental clients, and is a dealer in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. MLPF&S also acts as a broker and a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, futures, and options, including option contracts for the purchase and sale of various types of securities. Merrill Lynch, through MLPF&S, MLI, and various of its subsidiaries as described below, is a dealer in equity and fixed income securities of a significant number of U.S. and non-U.S. issuers, in U.S. and other sovereign government obligations, in U.S. municipal securities, and in mortgage-backed and asset-backed securities.

As an adjunct to its trading activities conducted by its subsidiaries, Merrill Lynch places its capital at risk by engaging in block positioning to facilitate transactions in large blocks of listed and over-the-counter securities and by engaging, from time to time, in arbitrage transactions for its own account. In its block positioning activities, securities are purchased, or are sold short for its own account, without having full commitments for their resale or covering purchase, thereby employing its capital to effect large transactions. Such positioning activities are undertaken after analyzing a given security's marketability, and any position taken typically is liquidated as soon as practicable. In addition, Merrill Lynch facilitates various trading strategies involving the purchase and sale of financial futures contracts and options and, in connection with this activity, it may establish positions for its own account and risk.

MLPF&S regularly makes a market in the equity securities of approximately 550 U.S. corporations. In addition, it engages in dealer transactions in approximately 5,400 securities of non-U.S. issuers traded in the over-the-counter markets, and conducts market-making activities with clients and other dealers. MLI regularly makes a market and trades in the equity securities of approximately 2,200 non-U.S. corporations. MLPF&S and MLI are also dealers in mortgage-backed, asset-backed, and corporate fixed-income securities.

Through its subsidiary, Merrill Lynch Government Securities Inc. ("MLGSI"), Merrill Lynch is a primary dealer in obligations issued or guaranteed by the United States Government and regularly makes a market in securities issued by Federal agencies and other government-sponsored entities, including Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. It deals in mortgage-backed pass-through certificates issued by certain of these entities, and also in related futures, options, and forward contracts for its own account, to hedge its own risk, and to facilitate customers' transactions. As a primary dealer, MLGSI acts as a counterparty to the Federal Reserve Bank of New York and regularly reports positions and activities to the Federal Reserve Bank of New York.

An integral part of its business involves entering into repurchase agreements whereby funds are obtained by the Merrill Lynch subsidiary engaging in the transaction pledging its own securities as collateral. The repurchase agreements provide financing for dealer inventory and serve as short-term

investments for customers, which customers include certain Merrill Lynch affiliates. As part of its business as a dealer in governmental obligations, the Merrill Lynch affiliate also enters into reverse repurchase agreements whereby it provides funds against the pledge of collateral by customers. Such agreements provide the Merrill Lynch affiliate with needed collateral and provide its customers with temporary liquidity for their investments in United States Government and agency securities or other non-U.S. government securities.

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Various non-U.S. Merrill Lynch subsidiaries act as dealers in certain securities issued or guaranteed by the governments where such subsidiaries are located.

Derivative Dealing Activities:

Merrill Lynch, through MLPF&S, MLI, as well as Merrill Lynch Capital Services, Inc. ("MLCS") and Merrill Lynch Derivative Products AG ("MLDP") act as intermediaries and principals in a variety of interest rate, currency, and other over-the-counter derivative transactions. MLI engages in the equity and credit derivatives business in the over-the-counter markets, and Merrill Lynch Capital Markets Bank Limited ("MLCMBL") is a credit intermediary and conducts part of Merrill Lynch's non-dollar swap activities. MLCS and MLDP are Merrill Lynch's primary derivative product dealers.

MLCS primarily acts as a counterparty for certain derivative financial products, including interest rate and currency swaps, caps and floors, currency options, and credit derivatives. MLCS maintains positions in interest-bearing securities, financial futures, and forward contracts primarily to hedge its derivative exposures. In the normal course of its business, MLCS enters into repurchase and resale agreements with certain affiliated companies. MLCS also engages in certain commodity-related transactions as a principal, and is licensed as a power marketer by the Federal Energy Regulatory Commission.

MLDP acts as an intermediary for certain derivative products, including interest rate and currency swaps, between MLCS and counterparties that are highly rated or otherwise acceptable to MLDP. Its activities address the desire of certain swap customers to limit their trading to those dealers having the highest credit quality. MLDP has been assigned the Aaa, AAA, and AAA counterparty rating by the rating agencies, Moody's Investors Service, Inc., Standard & Poor's, and Fitch IBCA, Inc., respectively. Customers meeting certain credit criteria enter into swaps with MLDP and, in turn, MLDP enters into offsetting mirror swaps with MLCS. However, MLCS is required to provide MLDP with collateral to meet certain exposures MLDP may have to MLCS.

Merrill Lynch Capital Markets Bank Limited, an Irish bank with branch offices in Frankfurt, Johannesburg, Labuan (Malaysia), Milan, and Tokyo, acts as a credit intermediary and conducts part of Merrill Lynch's non-dollar swap activities. It engages in foreign exchange, and swap and other derivative transactions, in addition to its underwriting, lending and institutional sales activities.

Foreign Exchange Activities:

Merrill Lynch provides foreign exchange trading services to corporations and institutions in various countries through Merrill Lynch International Bank, an Edge Act corporation ("MLIB"), MLIB Limited and MLCMBL.

Mortgage Dealing Activities:

Merrill Lynch Mortgage Capital Inc. ("MLMCI") is a dealer in whole loan mortgages, mortgage loan participations, mortgage servicing, and corporate bank loans. MLMCI, through its CMO Passport (Service Mark) service, provides dealers and investors with general indicative information and analytic capability with respect to collateralized mortgage obligations, mortgage pass-through certificates, and asset-backed securities. As an integral part of its business, MLMCI enters into repurchase agreements whereby it obtains funds by pledging its own whole loans as collateral. The repurchase agreements provide financing for MLMCI's inventory and serve as short-term investments for MLMCI's customers. MLMCI also enters into reverse repurchase agreements through which it provides funds to customers collateralized by whole loan mortgages, thereby providing them with temporary liquidity. MLMCI also has a mortgage conduit that purchases commercial and multi-family mortgage loans from lenders and securitizes these loans for sale to investors. In addition, MLMCI provides to its clients short-term financing secured by performing and non-performing commercial real estate. MLMCI also makes proprietary equity investments in U.S. and non-U.S. companies owning performing, sub-performing and non-performing real estate and mortgages.

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Money Markets Activities:

Merrill Lynch, through various subsidiaries including Merrill Lynch Money Markets Inc. ("MLMMI"), provides a full range of origination, trading, and marketing services with respect to money market instruments such as commercial

paper, bankers' acceptances, and institutional certificates of deposit. Merrill Lynch also provides services in connection with the origination of medium-term notes issued by U.S. and non-U.S. corporations and short- and medium-term bank notes issued by financial institutions, and through MLPF&S and MLI, it trades and markets such notes. MLMMI is also a commercial paper dealer for U.S. and non-U.S. corporations and financial institutions. MLMMI also acts as a dealer for U.S. and non-U.S. financial institutions in the certificate of deposit and bankers' acceptance markets and in connection with the purchase of certificates of deposit from Federally-insured depository institutions. Such instruments are resold to certain institutional customers such as banks, insurance companies, investment companies, pension plans, and state and local governments. MLMMI, in cooperation with MLPF&S, originates certificates of deposit issued by bank and thrift institutions that are sold to a broad range of individual investors of MLPF&S.

Futures Business Activities:

Merrill Lynch's futures business activity is conducted through MLF and other subsidiaries. MLF holds memberships on all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States. Other Merrill Lynch subsidiaries also hold memberships on major commodity and financial futures exchanges and clearing associations outside the U.S. and may also carry positions in proprietary and customer accounts. All futures and futures options transactions are executed, cleared through and/or carried by MLF and other Merrill Lynch subsidiaries engaged in futures activities. In certain contracts, or on certain exchanges, third party brokers are utilized to execute and/or clear trades. As part of its brokerage activities, MLPF&S, as a futures commission merchant, introduces customers to MLF for the purchase and sale of futures contracts and options on futures contracts. MLPF&S and certain of its affiliates may also take proprietary market positions in futures and futures options in certain instances.

In early 2000, Merrill Lynch refocused its futures activities on financial futures and options, and discontinued its sales and floor execution activities for agricultural and metals futures and options contracts.

Research Services:

The Global Securities Research & Economics Group provides equity, fixed-income, and economic research services on a global basis to Merrill Lynch's institutional and individual client sales forces and their customers. This group covers and distributes fundamental equity and fixed-income research, technical market and quantitative analyses, convertible securities analyses, investment and fixed-income strategy recommendations, high-yield debt securities research, credit research on municipal securities, and futures research information.

Merrill Lynch consistently ranks among the leading research providers in the industry, and its analysts and other professionals cover approximately 3,700 companies located in 26 countries, with approximately half of the staff now dedicated to non-U.S. research activities. Current information and investment opinions on these companies, as well as on industry sectors and countries, are available to Merrill Lynch's individual and institutional customers through their financial consultants and account executives, and through various electronic means, including Merrill Lynch's websites.

Securities Clearing Services:

MLPF&S provides securities clearing services through its subsidiaries, Broadcort Capital Corp. ("BCC") and Merrill Lynch Professional Clearing Corp. ("MLPCC"). BCC provides these services to over 100 unaffiliated broker-dealers. Those utilizing BCC's clearing services may also execute transactions through BCC's fixed-income desk and participate in underwritings of Defined Asset Funds sponsored by MLPF&S. While the introducing broker-dealer firm retains all sales functions with their customers, BCC services the customers' accounts and handles all settlement and credit aspects of transactions. MLPCC clears transactions for specialists and market-makers on various national and regional stock exchanges; clears commodities futures transactions for clients through a divisional clearing arrangement with MLF; and clears transactions of arbitrageurs, customers, and other professional trading entities. Merrill Lynch Canada Inc. provides securities clearing services to eight unaffiliated Canadian securities dealers.

Significant Strategic Initiatives

Among Merrill Lynch's significant strategic initiatives were e-commerce developments in our evolving business model for the delivery of information and products and services to our clients. In PCG, this change means that on-line services and research may be combined with the personalized advice of a Merrill Lynch Financial Consultant. In CICG, this change means the introduction of an enhanced business model for institutional debt and equity issuance, trading, and servicing activities. Examples of these, and other recent strategic initiatives, include the following:

- . Launched in July, Unlimited Advantage(Service Mark), a nondiscretionary brokerage service, with asset-based pricing, subject to a minimum annual charge of \$1,500. Percentage rates charged to customers decline as assets increase. Unlimited Advantage(Service Mark) offers U.S. clients a wide array of services, including virtually unlimited trading for most investors in most securities, unlimited enrolled accounts, traditional financial consultant relationships, a CMA(Registered Trademark) Visa(Registered Trademark) Signature(Service Mark) card with a travel rewards program, a financial plan, online capabilities, and access to Merrill Lynch research.
- . Introduced in October, International Asset Power(Service Mark) and Asset Partner (Service Mark), in Canada, the international versions of Unlimited Advantage.
- . Introduced in December, ML Direct(Service Mark), a new Internet account for U.S. clients preferring a self-directed approach to investing. The online service addresses investment and cash management needs to guide customer decision making. In addition to online equity trading for as little as \$29.95 per trade, clients can purchase and sell mutual funds, receive Merrill Lynch research, and purchase fixed-income products. ML Direct also provides access to the Global Investor Network(Service Mark), Merrill Lynch's multimedia platform featuring timely audio and video reports from analysts, in addition to banking services and online shopping.
- . Formed the Direct Markets group to develop integrated, electronically-delivered products and services for CIGC clients worldwide, including research, analytics, investment information, underwriting, trading, and account reporting. During the 1999 fourth quarter, Direct Markets introduced its first version of iDeal(Service Mark), a new software platform for offering all types of debt and equity securities that is designed to increase the efficiency of the underwriting process, enhance the dissemination of information, and broaden distribution.
- . Announced in December a strategic alliance with Multex.com to co-develop global research and information web sites for Merrill Lynch's CIGC clients, and to develop technology that will offer clients expanded market data and news, as well as interactive investor conference calls to give customers real-time access to Merrill Lynch's research analysts.
- . Invested in electronic trading and market systems, such as Primex, Archipelago and TradeWeb.
- . Established an integrated global Asset Management Group with three regional operating units servicing a diverse worldwide clientele. In addition, the initiatives included the hire of new senior marketing officers and senior investment managers, including chief investment officers and senior portfolio managers, as well as a quantitative management team, Merrill Lynch Quantitative Advisors. These changes have contributed to expanded product lines, including both active and quantitative investment funds, improved investment performance across both retail and institutional funds, and expanded distribution through Merrill Lynch's sales channels and external distribution partners.
- . In January 2000, announced the expansion of Merrill Lynch's banking initiatives, which will include new deposit product offerings to be introduced in the first half of 2000. These new products will include Federally-insured interest-bearing bank deposits into which cash from certain Merrill Lynch client accounts, previously swept into money market mutual funds, will be swept. It is anticipated that the new deposit product offerings will enhance the deposit base at Merrill Lynch's two FDIC-insured U.S. banking subsidiaries.

Competition

All aspects of Merrill Lynch's business are intensely competitive, particularly in the underwriting, trading, and advisory activities, and have been affected by the entry of several new and non-traditional competitors such as commercial banks and insurance companies and Internet broker-dealers, and by the consolidation of others. Merrill Lynch competes for clients, market share, and human talent in every aspect of its business. It competes directly on a worldwide basis with other U.S. and non-U.S. trading, investment banking and financial advisory service firms, brokers and dealers in securities and futures. It also competes with commercial banks and their affiliates in these businesses, particularly in its derivatives and capital markets businesses. Many of Merrill Lynch's non-U.S. competitors may have competitive advantages in their home markets. Merrill Lynch's competitive position depends to an extent on prevailing worldwide economic conditions and U.S. and non-U.S. governmental policies.

Through its subsidiaries and affiliates, Merrill Lynch also competes for investment funds with mutual fund management companies, insurance companies, finance and investment advisory companies, banks, and trust companies and

institutions. Merrill Lynch competes for its individual and institutional clients on the basis of price, the range of products that it offers, the quality of its services, its financial resources, and product and service innovation. Financial services companies also compete to attract and retain successful financial consultants and other revenue-producing personnel. Merrill Lynch's insurance businesses operate in highly competitive environments. Many insurance companies, both stock and mutual, are older and larger and have more substantial financial resources and larger agency relationships than do Merrill Lynch's insurance subsidiaries.

For a further discussion of the competitive environment, see Business Environment above.

Regulation

Certain aspects of Merrill Lynch's business, as that of its competitors and the financial services industry in general, are subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by various non-U.S. governmental agencies or regulatory bodies, securities exchanges, and central banks, each of which have been charged with the protection of the financial markets and the interests of those participating in those markets. These regulatory agencies in the United States include, among others, the Securities and Exchange Commission ("SEC"), Commodity Futures Trading Commission ("CFTC"), Federal Deposit Insurance Corporation ("FDIC"), Municipal Securities Rulemaking Board ("MSRB"), the New York State Banking Department ("NYSBD") and Office of Thrift Supervision ("OTS"). In other areas of the world, these regulators include, in the United Kingdom, the Financial Services Authority ("FSA") (which has assumed the banking supervisory role previously undertaken by the Bank of England) the Securities and Futures Authority ("SFA"), and the Investment Management Regulatory Organization ("IMRO"), and elsewhere, the Central Bank of Ireland, the Federal Banking Supervisory Authority in Germany, the Swiss Federal Banking Commission, the Japanese Financial Supervisory Agency, the Monetary Authority of Singapore, the Office of Superintendent of Financial Institutions in Canada, the Canadian Securities Administrators, the Securities Commission in Argentina, the Securities Commission in Brazil, the Securities Commission in Mexico and the Securities and Futures Commission in Hong Kong, among many others.

Additional legislation and regulations and changes in rules promulgated by the SEC or other U.S. Federal and state governmental regulatory authorities and self-regulatory organizations and by non-U.S. governments and governmental regulatory agencies may directly affect the manner of operation and profitability of Merrill Lynch.

United States Regulatory Oversight and Supervision:

MLPF&S and certain other subsidiaries of ML & Co. are registered as broker-dealers with the SEC and as such are subject to regulation by the SEC and by self-regulatory organizations, such as the National Association of Securities Dealers, Inc. (the "NASD") and the securities exchanges of which each is a member. Certain Merrill Lynch subsidiaries and affiliates, including MLPF&S, MLAM, and MLIP, are registered as investment advisers with the SEC.

Those Merrill Lynch entities that are broker-dealers registered with the SEC and members of U.S. national securities exchanges are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Exchange Act") which is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, they are required to maintain the minimum net capital deemed necessary to meet broker-dealers' continuing commitments to customers and others. Under certain circumstances, this rule limits the ability of ML&Co. to withdraw capital from such broker-dealers. Additional information regarding certain net capital requirements is set forth in Note 13 to the Consolidated Financial Statements in the Annual Report.

Certain Merrill Lynch subsidiaries are also subject to the risk assessment rules adopted by the SEC under the Market Reform Act of 1990, which require, among other things, that certain broker-dealers maintain and preserve records and other information, describe risk management policies and procedures, and report on the financial condition of certain affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operating condition of the broker-dealer.

Broker-dealers are also subject to other regulations covering the operations of their business, including sales and trading practices, use of client funds and securities, and conduct of directors, officers, and employees. Broker-dealers are also subject to regulation by state securities administrators in those states where they do business. Violations of the stringent regulations governing the actions of a broker-dealer can result in the revocation of broker-dealer licenses, the imposition of censures or fines, the issuance of cease and desist orders, and the suspension or expulsion from the securities business of a firm, its officers, or employees. The SEC and the national securities exchanges emphasize in particular the need for supervision and control by broker-dealers of their employees.

The SEC, various banking regulators, the Financial Accounting Standards Board, and Congressional committees, among others, have launched a number of initiatives which have the effect of increasing regulation, and requiring greater disclosure, of financial instruments, including derivatives positions and activities. Merrill Lynch, along with certain other major U.S. securities firms, has implemented a voluntary oversight framework to address issues related to capital, management controls, and counterparty relationships arising out of the over-the-counter derivatives activities of unregulated affiliates of SEC-registered broker-dealers and CFTC-registered futures commission merchants. Merrill Lynch formed its Risk Oversight Committee as an extension of its risk management process to provide general oversight of risk management for all of its institutional trading activities and to monitor compliance with its commitments respecting this voluntary oversight initiative.

MLIP and QA Advisers LLC are registered with the Commodity Futures Trading Commission as commodity pool operators and commodity trading advisors.

MLGSI is subject to regulation by the NASD and the Chicago Board of Trade and is required to maintain minimum net capital pursuant to rules of the U.S. Department of the Treasury. Merrill Lynch's municipal finance professionals are subject to various trading and underwriting regulations of the MSRB. MLPF&S and MLF are registered futures commission merchants and regulated by the CFTC, the National Futures Association ("NFA"), and the commodity exchanges of which each is a member. The CFTC and the NFA impose net capital requirements on these companies. MLIP is registered with the CFTC as a commodity pool operator and a commodity trading advisor and is a member of the NFA in such capacities.

Merrill Lynch's banking and lending activities are supervised and regulated by a number of different Federal and state regulatory agencies. MLBT is regulated primarily by the State of New Jersey and by the FDIC. Certain of the activities of MLBFS and MLCC are regulated by the New Jersey Department of Banking. In addition to New Jersey, MLCC is also licensed or registered to conduct its lending activities in 35 other jurisdictions and MLBFS is licensed or registered in 8 states, subjecting each to regulation and examination by the appropriate authorities in those states.

MLBUSA is regulated primarily by the State of Utah and by the FDIC. MLIB is regulated by the Federal Reserve Bank of New York. Merrill Lynch's U.S. trust institutions are subject to regulation by the OTS in the case of the federal savings bank and by the bank regulatory agencies in the states where the state-chartered institutions are incorporated.

Merrill Lynch's insurance subsidiaries are subject to state insurance regulatory supervision. ML Life is subject to regulation and supervision by the New York State Insurance Department. MLLIC is subject to regulation and supervision by the Insurance Department of the State of Arkansas. Both MLLIC and ML Life are subject to similar regulation in the other states in which they are licensed.

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Non-U.S. Regulatory Oversight and Supervision:

Merrill Lynch's business is also subject to extensive regulation by various non-U.S. governments, securities exchanges, central banks, and regulatory bodies, particularly in those countries where it has established an office. Certain Merrill Lynch subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate.

MLI and MLIB Limited are regulated in the United Kingdom by the SFA. Merrill Lynch Capital Markets Bank Limited, which engages in the derivatives business, is regulated by the Central Bank of Ireland and the New York State Banking Department. Merrill Lynch's activities in Australia are regulated by the Australian Securities and Investment Commission or the Australian Prudential Regulation Authority, and its Hong Kong and Singapore operations are regulated and supervised by the Hong Kong Securities and Futures Commission and The Monetary Authority of Singapore, respectively. Merrill Lynch's Japanese business is subject to the regulation of the Financial Supervisory Agency as well as other Japanese regulatory authorities. Merrill Lynch Phatra Securities is regulated primarily by the Securities and Exchange Commission of Thailand and the Stock Exchange of Thailand.

Merrill Lynch Canada is an investment dealer in Canada and is regulated under the laws of the Canadian provinces by securities commissions and by the Investment Dealers Association of Canada. It is also a member of all major Canadian exchanges and is subject to their rules and regulations.

The business of MLAM and MAM is regulated by a number of non-U.S. regulatory agencies or bodies. Their activities in the United Kingdom are regulated by IMRO and the Personal Investment Authority and, in other jurisdictions, by local regulators.

Merrill Lynch's activities in Mexico are regulated by Securities Commission in Mexico, its activities in Argentina by the Securities Commission in

Argentina, and its activities in Brazil by the Securities Commission in Brazil.

Merrill Lynch's subsidiaries engaged in banking and trust activities outside the United States are regulated by various governmental entities in the particular jurisdiction where they are chartered, incorporated, and/or conduct their business activities. In addition to being regulated by the NYSBD, MLIB Limited is regulated by the FSA in respect of its banking activities (previously by the Bank of England) and The Monetary Authority of Singapore. Merrill Lynch Bank (Suisse) S.A. is regulated by the Swiss Federal Banking Commission. MLBT Cayman is regulated by the Cayman Monetary Authority and the Florida Department of Banking. Banco Merrill Lynch is regulated by the Brazilian Central Bank.

Item 2. Properties

Merrill Lynch has a number of offices throughout the world. Other than those described below as being owned, substantially all offices of Merrill Lynch subsidiaries throughout the world are located in leased premises. Facilities owned or occupied by Merrill Lynch are believed to be adequate for the purposes for which they are currently used and are well maintained. Set forth below is a brief description and the approximate square footage of the principal facilities of Merrill Lynch. Each of these principal facilities support all of Merrill Lynch's segments, other than the property on King William Street in London referred to below, which is utilized solely by our Asset Management Group. The information regarding Merrill Lynch's property lease commitments is set forth in Note 9 to the Consolidated Financial Statements under the caption Leases in the Annual Report.

Principal Facilities in the United States:

Merrill Lynch's executive offices and principal administrative offices are located in leased premises at the World Financial Center in New York City. Separate Merrill Lynch affiliates lease both the North Tower (1,800,000 square feet) and the South Tower (2,500,000 square feet); both leases expire in 2013. Merrill Lynch occupies the entire North Tower and approximately half the South Tower. Another Merrill Lynch affiliate is a partner in the partnership that holds the ground lessee's interest in the North Tower.

In New York City, MLPF&S also holds a lease for 662,000 square feet in lower Manhattan expiring in 2007. In 1998, Merrill Lynch began partial occupancy of a 760,000 square foot building at 222 Broadway, which was purchased by a subsidiary in 1997; as third party leases expire, Merrill Lynch intends to occupy the entire building. In New Jersey, Merrill Lynch affiliates own a 389,000 square foot hotel, conference and training center, a 669,000 square foot office

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building in Plainsboro, and a 414,000 square foot building on 34 acres at 300 Davidson Avenue in Somerset. MLPF&S holds a 590,000 square foot lease at 101 Hudson Street in Jersey City. In 1999, Merrill Lynch affiliates leased land and commenced construction on facilities in Hopewell, New Jersey which will consolidate existing operations and allow for future expansion. Initial operations are scheduled to commence in the Fall of 2000. Merrill Lynch affiliates own a 54-acre campus in Jacksonville, Florida, with four buildings, and a 70-acre campus in Englewood, Colorado with two buildings.

Principal Facilities Outside the United States:

In London, Merrill Lynch leases 250,000 square feet at Ropemaker Place with a cancellation right in 2002. In 1998, Merrill Lynch purchased a site in the City of London and is currently constructing a headquarters complex of 550,000 square feet. The new headquarters will replace the Ropemaker facility, and is expected to be occupied in 2001. An additional 170,000 square feet of office space is also leased at Farringdon Road. This lease, which has a 25 year term, commenced in 1990. Merrill Lynch also leases approximately 140,000 square feet under a lease expiring in 2014 on King William Street, where Merrill Lynch Mercury Asset Management's operations are headquartered.

Item 3. Legal Proceedings

ML & Co., certain of its subsidiaries, including MLPF&S, and other persons have been named as parties in civil actions and arbitration proceedings, including those described below. Each of the following actions is reported as of March 6, 2000.

Sumitomo Litigation.

In December 1999, Merrill Lynch entered into an agreement in principle with the plaintiffs to settle two purported class actions in the United States District Court for the Western District of Wisconsin (Loeb Industries, Inc. v. Sumitomo Corp., et al., instituted June 7, 1999; Metal Prep Co., Inc. v. Sumitomo Corp., et al., instituted July 30, 1999) and two purported class actions in the Superior Court for the County of San Diego (Heliotrope General,

Inc. v. Sumitomo Corp., et al., instituted July 8, 1999; R.W. Strang Mechanical v. Sumitomo Corp., et al., instituted August 20, 1999) for a total of \$20 million. Those actions alleged that Merrill Lynch conspired with Sumitomo Corporation and others to inflate copper prices. These matters were settled without an adjudication of the merits of the claims and Merrill Lynch denied liability in connection with the settlement. The settlement in principle is subject to the execution of a definitive settlement agreement and court approval.

JAS Securities Litigation.

JAS Securities LLP v. Merrill Lynch, instituted July 14, 1999, was brought against Merrill Lynch as a purported class action in the Superior Court of the State of Delaware, on behalf of beneficial owners of certain exchangeable debt securities. The complaint alleges breach of contract based on Merrill Lynch's alleged use of an incorrect formula for redeeming certain exchangeable debt securities prior to their maturity. Plaintiff has asserted that damages are approximately \$255 million. Merrill Lynch has moved to dismiss the action and plaintiff has moved for partial summary judgment on its claims.

Orange County Litigation

The following actions filed against ML & Co. in connection with Merrill Lynch's business activities with the Treasurer-Tax Collector of Orange County, California ("Orange County") have been settled:

City of Atascadero, et al. v. Merrill Lynch, Pierce, Fenner & Smith Inc., et al., instituted September 15, 1995, was brought in the Superior Court of the State of California, San Francisco County by 14 California public entities against ML & Co., and certain of its subsidiaries and employees. Plaintiffs alleged, among other things, that the defendants violated state and federal law in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. In February 2000, Merrill Lynch and the plaintiffs agreed to settle the case for \$32.5 million and payment was made on March 3, 2000. The matter was settled without an adjudication of the merits of the claims and Merrill Lynch denied liability in connection with the settlement.

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DeLeon v. Merrill Lynch, Pierce, Fenner & Smith Inc., et al., instituted December 13, 1994, was brought against MLPF&S, an affiliate, and an employee of Merrill Lynch as a purported class action in the Superior Court of the State of California, Orange County, on behalf of individuals whose funds were invested by the Orange County Treasurer-Tax Collector, alleging breaches of fiduciary duties and acts of professional negligence in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. Plaintiffs have agreed to dismiss the case voluntarily without the payment of any damages by Merrill Lynch.

The following action filed against ML & Co. in connection with Merrill Lynch's business activities with Orange County is outstanding:

Balan v. Merrill Lynch & Co., Inc., et al., instituted December 16, 1994, was brought as a purported class action in the United States District Court for the Southern District of New York on behalf of purchasers of ML & Co.'s common stock between March 31, 1994 and December 6, 1994 alleging, among other things, violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder by ML & Co. and two of its present or former directors and officers in connection with Merrill Lynch's disclosure with respect to its business activities with the Orange County Treasurer-Tax Collector. Damages in an unspecified amount are sought. Merrill Lynch has moved to dismiss the action, and is awaiting decision on its motion.

Shareholder Derivative Litigation

In the following shareholder derivative action ML & Co. is named as a nominal defendant because the action purports to be brought on behalf of ML & Co. and any recovery obtained by plaintiffs would be for the benefit of ML & Co.:

Miller v. Schreyer, et al., a consolidated derivative action instituted October 11, 1991 in the Supreme Court of the State of New York, New York County, alleges, among other things, breach of fiduciary duty against certain present or former ML & Co. directors, and against Transmark USA, Inc. and one of its principals in connection with securities trading transactions that occurred at year-end 1984, 1985, 1986, and 1988 between subsidiaries of ML & Co. and a subsidiary of Transmark USA, Inc., Guarantee Security Life Insurance Company, which was later liquidated. Damages in an unspecified amount are sought. Merrill Lynch has moved to dismiss the action, and is awaiting a decision on its motion.

ML & Co. believes it has strong defenses to, and, where appropriate, will vigorously contest the actions described above that have not already been settled. Although the ultimate outcome of the actions described above and other civil actions, arbitration proceedings, and claims pending against ML & Co. or

its subsidiaries as of March 6, 2000, cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition or the results of operations of Merrill Lynch as set forth in the Consolidated Financial Statements of Merrill Lynch included in the Annual Report, but may be material to the Company's operating results for any particular period.

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Item 4. Matters Submitted to a Vote of Securityholders

There were no matters submitted to a vote of security holders during the 1999 fourth quarter.

EXECUTIVE OFFICERS OF MERRILL LYNCH & CO., INC.

The following table sets forth the name, age, present title, principal occupation, and certain biographical information for the past five years for ML & Co.'s executive officers, all of whom have been elected by the ML & Co. Board of Directors and have been appointed as members of the Merrill Lynch Executive Management Committee. Unless otherwise indicated, the officers listed are of ML & Co. Under ML & Co.'s by-laws, elected officers are elected annually to hold office until their successors are elected and qualify or until their earlier resignation or removal.

David H. Komansky, 60

Chairman of the Board since April 1997; Chief Executive Officer since December 1996; President and Chief Operating Officer from January 1995 to April 1997; Executive Vice President, Debt and Equity Markets Group from May 1993 to January 1995.

Thomas W. Davis, 46

Executive Vice President and President of Corporate and Institutional Client Group since March 1998; Executive Vice President and Co-Head of Corporate and Institutional Client Group from April 1997 to March 1998; Managing Director and Co-Head of Investment Banking Group from April 1995 to April 1997; Co-Head of Equity Markets Group from 1993 to April 1995.

Edward L. Goldberg, 59

Executive Vice President, Operations Services Group since January 1999; Executive Vice President, Operations, Services and Technology from April 1991 to January 1999.

Stephen L. Hammerman, 62

Vice Chairman of the Board since April 1992; General Counsel since October 1984.

Jerome P. Kenney, 58

Executive Vice President, Corporate Strategy and Research since October 1990, concurrently with Executive Vice President, Corporate Credit from May 1993 to May 1995.

John A. McKinley, Jr., 42

Executive Vice President since January 2000; Head of the Technology Group since January 1999; Chief Technology Officer since October 1998; Senior Vice President from October 1998 to January 2000. Joined Merrill Lynch in October 1998. Prior, Chief Technology and Information Officer, General Electric Capital Services, October 1995 to October 1998; Partner, Ernst & Young LLP, October 1992 to November 1995.

E. Stanley O'Neal, 48

Executive Vice President and President of U.S. Private Client Group since February 2000, Executive Vice President and Chief Financial Officer from March 1998 to February 2000; Executive Vice President and Co-Head of Corporate and Institutional Client Group from April 1997 to March 1998; Managing Director and Head of Global Capital Markets Group from April 1995 to April 1997; Managing Director, Investment Banking and Head of Financing Services Group from June 1993 to April 1995.

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Thomas H. Patrick, 56

Executive Vice President and Chief Financial Officer since February 2000, Executive Vice President and Chairman of Special Advisory Services from March 1993 to February 2000.

Jeffrey M. Peek, 53

Executive Vice President, President of Asset Management Group and President and Chief Executive Officer of MLAM since December 1997; Managing Director and Co-Head of Investment Banking Group from March 1997 to December 1997; Senior Vice President and Director, Global Securities Research & Economics from April 1995 to March 1997; Head of Global Industries Group, Investment Banking, from November 1993 to March 1995.

Winthrop H. Smith, Jr., 50

Executive Vice President and President of International Private Client Group since April 1997; Chairman, Merrill Lynch International Incorporated since April 1993; Executive Vice President, International from June 1992 to April 1997.

John L. Steffens, 58

Chairman of U.S. Private Client Group since February 2000; Vice Chairman of the Board since April 1997; President of U.S. Private Client Group from April 1997 to February 2000; Executive Vice President, Private Client Group from October 1990 to April 1997.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information relating to the principal market in which the Registrant's Common Stock is traded, the high and low sales prices per share for each full quarterly period within the two most recent fiscal years, the approximate number of holders of record of Common Stock, and the frequency and amount of any cash dividends declared for the two most recent fiscal years is set forth under the captions "Dividends Per Common Share" and "Stockholder Information" on page 88 of the Annual Report and such information is incorporated herein by reference.

Item 6. Selected Financial Data

Selected financial data for the Registrant and its subsidiaries for each of the last five fiscal years is set forth in the financial table "Selected Financial Data" on page 27 of the Annual Report (excluding for this purpose the financial ratio, leverage, and employee information set forth under the headings "Financial Ratios" and "Employee Statistics"). Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 55 to 87 in the Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth on pages 28 to 53 of the Annual Report under the caption "Management's Discussion and Analysis" and is incorporated herein by reference. All of such information should be read in conjunction with the Consolidated Financial Statements and the Notes thereto on pages 55 to 87 in the Annual Report.

Item 7A Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosure about market risk is set forth on pages 49 to 50 of the Annual Report under the caption "Management's Discussion and Analysis" and in Note 3 to the Consolidated Financial Statements, and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of the Registrant and its subsidiaries, together with the Notes thereto and the Report of Independent Auditors thereon, are contained in the Annual Report on pages 54 to 87, and are incorporated herein by reference. In addition, the information on page 88 of the Annual Report under the caption "Quarterly Information" is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Election of Directors" on pages 4 to 7 of ML & Co.'s Proxy Statement dated March 9, 2000 for its 2000 Annual Meeting of Stockholders (the "2000 Proxy Statement") is incorporated herein by reference. For a list of the members of the ML & Co. Board of Directors and of the ML & Co. executive officers, see pages 89 to 91, of the Annual Report.

Item 11. Executive Compensation

Information relating to ML & Co. executive officer and director compensation set forth on pages 16 to 26 and page 28 of the 2000 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information concerning security ownership of certain beneficial owners of ML & Co. Common Stock on pages 1 and 2 of the 2000 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on pages 10 and 11 of the 2000 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions set forth under the caption "Certain Transactions" on page 27 of the 2000 Proxy Statement is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedule, And Reports On Form 8-K

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed hereunder are listed on page F-1 hereof by reference to the corresponding page number in the Annual Report.

2. Financial Statement Schedule

The financial statement schedule required to be filed hereunder is listed on page F-1 hereof and the schedule included herewith appears on pages F-2 through F-6 hereof.

3. Exhibits

Certain of the following exhibits were previously filed as exhibits to other reports or registration statements filed by the Registrant and are incorporated herein by reference to such reports or registration statements as indicated parenthetically below by the appropriate report reference date or registration statement number. For convenience, Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, Current Reports on Form 8-K, and Registration Statements on Form S-3 are designated herein as "10-Q", "10-K", "8-K", and "S-3", respectively.

(3) Articles of Incorporation and By-Laws

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- (i) (a) Restated Certificate of Incorporation of ML & Co., effective as of April 28, 1998 (Exhibit (3) (i) to 10-Q for the quarter ended March 27, 1998 ("First Quarter 1998 10-Q")).
- (b) Form of certificate representing the 9% Cumulative Preferred Stock, Series A, par value \$1.00 per share, of ML & Co. (the "9% Preferred Stock") (Exhibit 3(i) to First Quarter 1998 10-Q).
- * (c) Form of Depositary Receipt evidencing the Depositary Shares for the 9% Preferred Stock.
- (d) Certificate of Designation of ML & Co. establishing the rights, preferences, privileges, qualifications, Restrictions, and limitations relating to the 9% Preferred Stock (filed as part of Exhibit (3) (i) to First Quarter 1998 10-Q).
- * (e) Deposit Agreement dated as of November 3, 1994 among ML & Co., Citibank, N.A. as Depositary, and The holders from time to time of the

Depository Receipts.

- (f) Certificate of Designation dated December 17, 1987 for Series A Junior Preferred Stock (Exhibit 3(f) to S-3 (file No. 33-19975)).
- (g) Certificate of Designation dated August 20, 1998 for Special Voting Stock, relating to ML & Co.'s Restated Certificate of Incorporation effective as of April 28, 1998 (Exhibit (3) to 10-Q for the quarter ended September 25, 1998 ("Third Quarter 1998 10-Q")).
- (h) Form of Amended and Restated Rights Agreement dated as of December 2, 1997 between ML & Co. and ChaseMellon Shareholder Services, L.L.C. (Exhibit 4 to 8-K dated December 2, 1997).
- (ii) By-Laws of ML & Co., effective as of September 24, 1999 (Exhibit 3 to 1999 10-Q for the quarter ended September 24, 1999).

(4) Instruments defining the rights of security holders, including indentures

ML & Co. hereby undertakes to furnish to the SEC, upon request, copies of any unfiled agreements defining the rights of holders of long-term debt securities of ML & Co., none of which authorize an amount of securities that exceed 10% of the total assets of ML & Co.

- * (i) Senior Indenture dated as of April 1, 1983, as amended and restated as of April 1, 1987, between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (the "1983 Senior Indenture") and the Supplemental Indenture thereto dated as of March 15, 1990.
- * (ii) Sixth Supplemental Indenture dated as of October 25, 1993 to the 1983 Senior Indenture.
- (iii) Twelfth Supplemental Indenture to the 1983 Senior Indenture dated as of September 1, 1998 between ML & Co. and The Chase Manhattan Bank (formerly known as Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company) (Exhibit 4(a) to 8-K dated October 21, 1998).
- (iv) Senior Indenture dated as of October 1, 1993 between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (the "1993 Senior Indenture") (Exhibit (4) (iv) to 10-K for fiscal year ended December 25, 1998 ("1998 10-K")).
- (v) First Supplemental Indenture to the 1993 Senior Indenture, dated as of June 1, 1998, between ML & Co. and The Chase Manhattan Bank (successor by merger to The Chase Manhattan Bank N.A.) (Exhibit 4(a) to 8-K dated July 2, 1998).
- (vi) Form of S&P 500 Market Index Target-Term Security due March 27, 2006 (Exhibit 4 to 8-K dated March 26, 1999).

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- (vii) Form of Consumer Staples Select Sector SPDR Fund Market Index Target-Term Security due April 19, 2006 (Exhibit 4 to 8-K dated April 19, 1999).
- (viii) Form of Major 11 International Market Index Target-Term Security due May 26, 2006 (Exhibit 4 to 8-K dated May 26, 1999).
- (ix) Form of Russell 2000 Index Call Warrant Expiring May 25, 2001 (Exhibit 4 to 8-K dated May 28, 1999).
- (x) Form of Select Sector SPDR Fund Growth Portfolio Market Index Target-Term Security due May 25, 2006 (Exhibit 4 to 8-K dated May 28, 1999).
- (xi) Form of Market Index Target-Term Security based upon the Dow Jones Industrial Average due June 26, 2006 (Exhibit 4 to 8-K dated June 25, 1999).
- (xii) Form of Russell 2000 Market Index Target-Term Security due July 21, 2006 (Exhibit 4 to 8-K dated July 21, 1999).
- (xiii) Form of Nikkei 225 Market Index Target-Term Security due August 4, 2006 (Exhibit 4 (b) to 8-K dated August 4, 1999).
- (xiv) Form of S&P 500 Market Index Target-Term Security due August 4, 2006 (Exhibit 4 to 8-K dated August 4, 1999).
- (xv) Form of Nikkei 225 Market Index Target-Term Security due September 20, 2002 (Exhibit 4 (a) to 8-K dated September 20, 1999).

- (xvi) Form of Energy Select Sector SPDR Fund Market Index Target-Term Security due September 20, 2006 (Exhibit 4 (b) to 8-K dated September 20, 1999).
- (xvii) Form of Bond Index Note, Domestic Master Series 1999A due December 23, 2002 (Exhibit 4 to 8-K dated December 22, 1999).
- (xviii) Form of Global Market Index Target-Term Security due December 22, 2004 (Exhibit 4 to 8-K dated December 22, 1999).

(10) Material Contracts

- * (i) Form of ML & Co. 1978 Equity Purchase Plan as amended through January 16, 1995.
- * (ii) Form of ML & Co. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, as amended through November 10, 1994.
- (iii) ML & Co. Long-Term Incentive Compensation Plan, as amended through July 26, 1999 (Exhibit 10(i) to 10-Q for the quarter ended June 25, 1999 ("Second Quarter 1999 10-Q")).
- (iv) ML & Co. Equity Capital Accumulation Plan, as amended through July 26, 1996 (Exhibit 10(iii) to Second Quarter 1999 10-Q).
- (v) ML & Co. Executive Officer Compensation Plan.
- (vi) Written description of Retirement Program for Non-Employee Directors of ML & Co., as amended June 29, 1988 (Pages 23 to 24 of ML & Co.'s Proxy Statement for the 1999 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 4, 1998).

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- (vii) Form of Severance Agreement between ML & Co. and certain of its directors and executive officers (Exhibit 10(x) to 10-K for fiscal year ended December 29, 1995).
- (viii) Form of Indemnification Agreement entered into with all current directors of ML & Co. and to be Entered into with all future directors of ML & Co. (Exhibit 10 (viii) to 1998 10-K).
- (ix) Written description of ML & Co.'s incentive compensation programs (Exhibit 10 (ix) to 1998 10-K).
- (x) Written description of ML & Co.'s compensation policy for executive officers and directors (Pages 13 to 15 and pages 22 to 24 of ML & Co.'s Proxy Statement for the 1999 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 5, 1999).
- (xi) Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).
- (xii) Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).
- (xiii) Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).
- (xiv) Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).
- (xv) Merrill Lynch KECALP L.P. 1994 (Exhibit 1(a)(ii) to Registration Statement on Form N-2 (File No. 33-51825)).
- (xvi) Merrill Lynch KECALP L.P. 1997 (Exhibit 1(a)(ii) to Registration Statement on Form N-2 (File No. 333-15035)).
- (xvii) Merrill Lynch KECALP L.P. 1999 (Exhibit 1(a)(ii) to Registration Statement on Form N-2 (File No. 333-59143)).
- (xviii) ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xviii) to 10-K for fiscal Year ended December 27, 1996 ("1996 10-K")).
- * (xix) ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees.
- (xx) ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to 1997 10-Q for the quarter ended March 28, 1997).

- (xxi) ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 29, 1995).
- (xxii) ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).
- (xxiii) ML & Co. 1999 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to Third Quarter 1998 10-Q).
- * (xxiv) ML & Co. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees.
- (xxv) ML & Co. 1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended June 27, 1997).

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- (xxvi) ML & Co. Deferred Unit and Stock Unit Plan for Non-Employee Directors (Exhibit 10 to First Quarter 1998 10-Q).
- (xxvii) ML & Co. Long-Term Incentive Compensation Plan for Managers and Producers (Exhibit 10(ii) to Second Quarter 1999 10-Q).
- (xxviii) Executive Annuity Agreement dated as of January 27, 1997 by and between ML & Co. and David H. Komansky (Exhibit 10(xxxi) to 1996 10-K).
- (xxix) Amendment dated September 18, 1996 to Deferred Compensation Plans (amending the Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees, the ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees, and the ML & Co. 1996 Deferred Compensation Plan for a Select Group of Eligible Employees) (Exhibit 10(xxxii) to 1996 10-K).
- (xxx) ML & Co. 1998 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(i) to 10-Q for the quarter ended September 26, 1997 (the "Third Quarter 1997 10-Q")).
- (xxxii) ML & Co. Program for the Deferral of Stock Option Gains for a Select Group of Eligible Employees (Exhibit 10(iv) to Third Quarter 1997 10-Q).
- (xxxiii) Amendment dated February 12, 1998 to the ML & Co. Deferred Compensation Plans for a Select Group of Eligible Employees for the years 1994, 1995, 1996, and 1997 (Exhibit 10.32 to 10-K for the fiscal year ended December 26, 1997 ("1997 10-K")).
- (xxxiiii) Amendment dated February 12, 1998 to the ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10.33 to 1997 10-K).

- * (11) Statement re computation of per share earnings.
- * (12) Statement re computation of ratios.
- * (13) Excerpt of 1999 Annual Report to Stockholders.
- * (21) Subsidiaries of ML & Co.
- * (23) Consent of Independent Auditors, Deloitte & Touche LLP.
- * (27) Financial Data Schedule.
- * (99) Additional Exhibits.
 - (i) Opinion of Deloitte & Touche LLP with respect to the Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends, which is included in Exhibit 12.
 - (ii) Opinion of Deloitte & Touche LLP with respect to certain information in the Selected Financial Data, which is incorporated by reference in Part II, Item 6.

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(b) Reports on Form 8-K:

The following Current Reports on Form 8-K were filed by the Registrant during the fourth quarter of 1999 with the Commission under the caption "Item 5. Other Events":

- (i) Current Report on Form 8-K dated October 12, 1999 for the purpose of filing Merrill Lynch & Co.'s Preliminary Unaudited Earnings Summary for the three and nine-month periods ended September 24, 1999.
- (ii) Current Report on Form 8-K dated October 27, 1999 for the purpose of filing Merrill Lynch & Co.'s Preliminary Unaudited Consolidated Balance Sheet as of September 24, 1999.
- (iii) Current Report on Form 8-K dated December 22, 1999 for the purpose of filing the form of Merrill Lynch & Co. Bond Index Notes, Domestic Master Series 1999A due December 23, 2002.
- (iv) Current Report on Form 8-K dated December 22, 1999 for the purpose of filing the form of Merrill Lynch & Co. Global Market Index Target-Term Securities due December 22, 2004.

* Filed herewith

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MERRILL LYNCH & CO., INC.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
ITEMS 14 (A) (1) AND 14 (A) (2)

| | Page Reference |
|--|--|
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| | 1999 Annual Report to Stockholders |
| | ----- |
| Form 10-K | ----- |
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| Specifically incorporated elsewhere herein by reference are certain portions of the following unaudited items: | |
| (i) Selected Financial Data | 27 |
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| (iii) Quarterly Information | 88 |

Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is included in the Consolidated Financial Statements and Notes thereto in the 1999 Annual Report to Stockholders, which are incorporated herein by reference.

F-1

Condensed Statements of Earnings (Parent Company Only)

Schedule 1

CONDENSED STATEMENTS OF EARNINGS
(dollars in millions)

<TABLE>
<CAPTION>

| | YEAR ENDED LAST FRIDAY IN DECEMBER | | |
|---|------------------------------------|----------|----------|
| | 1999 | 1998 | 1997 |
| <S> | <C> | <C> | <C> |
| REVENUES | | | |
| Interest (principally from affiliates) | \$ 3,693 | \$ 4,476 | \$ 3,937 |
| Management service fees (from affiliates) | 336 | 321 | 296 |
| Other | 20 | 109 | 4 |
| | ----- | ----- | ----- |
| Total Revenues | 4,049 | 4,906 | 4,237 |
| Interest Expense | 4,094 | 4,942 | 4,077 |
| | ----- | ----- | ----- |
| Net Revenues | (45) | (36) | 160 |
| | ----- | ----- | ----- |
| NON-INTEREST EXPENSES | | | |
| Compensation and benefits | 323 | 236 | 281 |
| Other | 358 | 394 | 307 |
| | ----- | ----- | ----- |
| Total Non-Interest Expenses | 681 | 630 | 588 |
| | ----- | ----- | ----- |
| EQUITY IN EARNINGS OF AFFILIATES | 3,104 | 1,727 | 2,222 |
| | ----- | ----- | ----- |
| EARNINGS BEFORE INCOME TAXES | 2,378 | 1,061 | 1,794 |
| Income Tax Benefit | 240 | 198 | 141 |
| | ----- | ----- | ----- |
| NET EARNINGS | \$ 2,618 | \$ 1,259 | \$ 1,935 |
| | ===== | ===== | ===== |
| OTHER COMPREHENSIVE LOSS, NET OF TAX..... | (267) | (75) | (63) |
| | ----- | ----- | ----- |
| COMPREHENSIVE INCOME..... | \$ 2,351 | \$ 1,184 | \$ 1,872 |
| | ===== | ===== | ===== |
| NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS | \$ 2,580 | \$ 1,220 | \$ 1,896 |
| | ===== | ===== | ===== |

</TABLE>

See Notes to Condensed Financial Statements

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Condensed Balance Sheets (Parent Company Only)

Schedule 1

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
MERRILL LYNCH & CO., INC.
(Parent Company Only)
CONDENSED BALANCE SHEETS
(dollars in millions, except per share amounts)

<TABLE>
<CAPTION>

| | DECEMBER 31, 1999 | DECEMBER 25, 1998 |
|---|----------------------|----------------------|
| ASSETS | | |
| <S> | <C> | <C> |
| Cash and cash equivalents | \$ 379 | \$ -- |
| Marketable investment securities | 1,197 | -- |
| Loans to, receivables from and preference securities of affiliates | 84,538 | 80,492 |

| | | |
|--|-----------|-----------|
| Investments in affiliates, at equity | 11,037 | 9,745 |
| Equipment and facilities (net of accumulated depreciation and amortization of \$330 in 1999 and \$289 in 1998) | 210 | 160 |
| Other receivables and assets | 2,192 | 2,197 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 99,553 | \$ 92,594 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Commercial paper and other short-term borrowings | \$ 24,057 | \$ 16,986 |
| Loans from and payables to affiliates | 5,981 | 4,046 |
| Other liabilities and accrued interest | 4,734 | 4,301 |
| Long-term borrowings | 51,979 | 57,129 |
| | ----- | ----- |
| Total Liabilities | 86,751 | 82,462 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY | | |
| Preferred Stockholders' Equity | 425 | 425 |
| | ----- | ----- |
| Common Stockholders' Equity: | | |
| Shares exchangeable into common stock | 59 | 66 |
| Common stock, par value \$1.33 1/3 per share; authorized: 1,000,000,000 shares; issued 1999-472,714,925 shares, 1998-472,660,324 shares..... | 630 | 630 |
| Paid-in capital | 1,863 | 1,427 |
| Accumulated other comprehensive loss (net of tax) | (389) | (122) |
| Retained earnings | 12,667 | 10,475 |
| | ----- | ----- |
| | 14,830 | 12,476 |
| Less: Treasury stock, at cost: 1999-104,949,595 shares; 1998-116,376,259 shares | 1,817 | 2,101 |
| Employee stock transactions | 636 | 668 |
| | ----- | ----- |
| Total Common Stockholders' Equity | 12,377 | 9,707 |
| | ----- | ----- |
| Total Stockholders' Equity | 12,802 | 10,132 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 99,553 | \$ 92,594 |
| | ===== | ===== |

See Notes to Condensed Financial Statements
</TABLE>

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Condensed Statements of Cash Flows (Parent Company Only)

Schedule 1

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
MERRILL LYNCH & CO., INC.
(Parent Company Only)
CONDENSED STATEMENTS OF CASH FLOWS
(dollars in millions)

<TABLE>
<CAPTION>

| | YEAR ENDED LAST FRIDAY IN DECEMBER | | |
|---|------------------------------------|----------|----------|
| | 1999 | 1998 | 1997 |
| | ----- | ----- | ----- |
| <hr/> | | | |
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net Earnings | \$ 2,618 | \$ 1,259 | \$ 1,935 |
| Noncash items included in earnings: | | | |
| Equity in earnings of affiliates | (3,104) | (1,727) | (2,222) |
| Depreciation and amortization | 45 | 30 | 30 |
| Other | 15 | (183) | 103 |
| (Increase) decrease in | | | |
| Operating assets, net of operating liabilities | 123 | - | (216) |
| Dividends and partnership distributions from affiliates ... | 1,781 | 868 | 1,126 |
| | ----- | ----- | ----- |
| CASH PROVIDED BY OPERATING ACTIVITIES | 1,478 | 247 | 756 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from (payments for): | | | |
| Loans to affiliates, net of payments | (2,257) | 774 | (22,164) |
| Sales of available for sale securities | 12 | - | - |
| Purchases of available for sale securities | (1,198) | - | - |
| Investments in affiliates, net of dispositions | (4) | (436) | (60) |

| | | | |
|--|----------|----------|----------|
| Equipment and facilities | (95) | (35) | (54) |
| | ----- | ----- | ----- |
| CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES | (3,542) | 303 | (22,278) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from (payments for): | | | |
| Commercial paper and other short-term borrowings | 7,071 | (13,621) | 5,770 |
| Issuance and resale of long-term borrowings | 11,685 | 27,153 | 23,592 |
| Settlement and repurchases of long-term borrowings | (16,092) | (13,933) | (6,665) |
| Repurchase of remarketed preferred stock | - | - | (194) |
| Common stock transactions | 200 | 27 | (500) |
| Dividends to shareholders | (421) | (363) | (294) |
| | ----- | ----- | ----- |
| CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | 2,443 | (737) | 21,709 |
| | ----- | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 379 | (187) | 187 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | - | 187 | - |
| | ----- | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 379 | \$ - | \$ 187 |
| | ===== | ===== | ===== |

Supplemental Disclosure

Cash paid for:

| | | | |
|--------------------|-------|-------|-------|
| Income taxes | 261 | 280 | 555 |
| Interest | 4,149 | 4,906 | 3,904 |

</TABLE>

See Notes to Condensed Financial Statements

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NOTES TO CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

NOTE 1. BASIS OF PRESENTATION

The condensed unconsolidated financial statements of Merrill Lynch & Co., Inc. ("ML & Co." or the "Parent Company") should be read in conjunction with the Consolidated Financial Statements of Merrill Lynch & Co., Inc. and subsidiaries (collectively, "Merrill Lynch") and the Notes thereto in the Merrill Lynch 1999 Annual Report to Stockholders (the "Annual Report") included as an exhibit to this Form 10-K. Certain reclassification and format changes have been made to prior year amounts to conform to the current year presentation. Prior year amounts have also been restated to reflect the merger of Midland Walwyn with ML & Co. (see Note 2 to the Consolidated Financial Statements in the Annual Report).

Investments in affiliates are accounted for in accordance with the equity method.

For information on the following, refer to the indicated Notes to the Consolidated Financial Statements within the Annual Report.

- . Long-term borrowings (Note 5)
- . Stockholders' equity (Note 8)
- . Commitments and contingencies (Note 9)
- . Employee incentive plans (Note 11)

The Parent Company hedges certain risks arising from long-term borrowing payment obligations and investments in and loans to foreign subsidiaries. See Notes 5 and 6 to the Consolidated Financial Statements, respectively, for additional information.

Note 2. Guarantees

ML & Co. issues guarantees of counterparty obligations in connection with certain activities of subsidiaries (see Note 9 to the Consolidated Financial Statements for further information).

The Parent Company also guarantees certain obligations of subsidiaries, including obligations associated with foreign exchange forward contracts and interest rate swap transactions.

ML & Co. also guarantees obligations related to Trust Originated Preferred Securities (Service Mark) issued by subsidiaries (see Note 7 to the Consolidated Financial Statements).

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[LOGO]

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 1999 and December 25, 1998, and for each of the three years in the period ended December 31, 1999, and have issued our report thereon dated February 28, 2000, which report expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs to conform with Statement of Position 98-1. Such consolidated financial statements and our report are included in your 1999 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Merrill Lynch, listed in Item 14. Such financial statement schedule is the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

New York, New York
February 28, 2000

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| | | |
|---|---|---|
| <TABLE> | <C> | |
| <S> | | /s/ W. H. Clark |
| ----- | | ----- |
| Signatures | W.H. CLARK | W. H. Clark Director |
| Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be -- signed on its behalf by the undersigned, thereunto duly authorized on the 9th day of March, 2000. | JILL K. CONWAY | /s/ Jill K. Conway ----- Jill K. Conway Director |
| Hammerman | | /s/ Stephen L. |
| ---- | | ----- |
| Merrill Lynch & Co., Inc. Registrant | STEPHEN L. HAMMERMAN | Stephen L. Hammerman Director |
| | /s/ Andrea L. Dulberg ----- | /s/ George B. Harvey ----- |
| ANDREA L. DULBERG | Andrea L. Dulberg Secretary | GEORGE B. HARVEY George B. Harvey Director |
| Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been -- signed below by the following persons on behalf of the Registrant in the capacities indicated on the 9th day of March, 2000. | WILLIAM R. HOOVER | /s/ William R. Hoover ----- William R. Hoover Director |
| | /s/ David H. Komansky ----- | /s/ Robert P. Luciano ----- |
| DAVID H. KOMANSKY | David H. Komansky Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | ROBERT P. LUCIANO Robert P. Luciano Director |
| Newbigging | | /s/ David K. |

| | | | |
|------------------------------------|---|---------------------|---|
| ----- Newbigging | | DAVID K. NEWBIGGING | ----- David K. Director |
| | /s/ Thomas H. Patrick ----- | | /s/ Aulana L. ----- |
| Peters THOMAS H. PATRICK --- | Thomas H. Patrick Executive Vice President Chief Financial Officer (Principal Financial Officer) | AULANA L. PETERS | Aulana L. Peters Director |
| Jr. ----- | | | /s/ John J. Phelan, ----- |
| Jr. ----- | /s/ Ahmass L. Fakahany ----- | JOHN J. PHELAN, JR. | John J. Phelan, Director |
| AHMASS L. FAKAHANY --- | Senior Vice President and Controller (Principal Accounting Officer) | JOHN L. STEFFENS | /s/ John L. Steffens ----- John L. Steffens Director |
| Weiss ----- | | | /s/ William L. ----- |
| </TABLE> | | WILLIAM L. WEISS | William L. Weiss Director |

[FORM OF FACE OF RECEIPT!]

NUMBER DEPOSITARY SHARES

DR

DEPOSITARY RECEIPT FOR DEPOSITARY SHARES, EACH REPRESENTING ONE-FOUR HUNDREDTH OF ONE SHARE OF 9% CUMULATIVE PREFERRED STOCK, SERIES A,

OF

MERRILL LYNCH & CO., INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

CUSIP

SEE REVERSE FOR CERTAIN DEFINITIONS

CITIBANK, N.A., as Depositary (the "Depositary"), hereby certifies that

is the registered owner of DEPOSITARY SHARES

("Depositary Shares"), each Depositary Share representing one-four hundredth of one share of 9% Cumulative Preferred Stock, Series A, par value \$1.00 per share (the "Stock"), of Merrill Lynch & Co., Inc., a Delaware corporation (the "Corporation"), on deposit with the Depositary, subject to the terms and entitled to the benefits of the Deposit Agreement dated as of November 3, 1994 (the "Deposit Agreement"), among the Corporation, the Depositary and the holders from time to time of the Depositary Receipts. By accepting this Depositary Receipt, the holder hereof becomes a party to and agrees to be bound by all the terms and conditions of the Deposit Agreement. This Depositary Receipt shall not be valid or obligatory for any purpose or entitled to any benefits under the Deposit Agreement unless it shall have been executed by the Depositary by the manual signature of a duly authorized officer or, if executed in facsimile by the Depositary, countersigned by a Registrar in respect of the Depositary Receipts by the manual signature of a duly authorized officer thereof.

Dated:

CITIBANK, N.A., Depositary

By _____ Authorized Officer

[FORM OF REVERSE OF RECEIPT] MERRILL LYNCH & CO., INC.

MERRILL LYNCH & CO., INC. WILL FURNISH WITHOUT CHARGE TO EACH RECEIPTHOLDER WHO SO REQUESTS A COPY OF THE DEPOSIT AGREEMENT AND A COPY OR SUMMARY OF THE CERTIFICATE OF DESIGNATIONS OF THE 9% CUMULATIVE PREFERRED STOCK, SERIES A, OF MERRILL LYNCH & CO., INC. ANY SUCH REQUEST IS TO BE ADDRESSED TO THE DEPOSITARY NAMED ON THE FACE OF THIS RECEIPT.

The Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof of the Corporation, and the qualifications, limitations or restrictions of such preferences and/or rights. Such request may be made to the Corporation or to the Transfer Agent or Registrar.

EXPLANATION OF ABBREVIATIONS

The following abbreviations when used in the form of ownership on the face of this certificate shall be construed as though they were written out in full according to applicable laws or regulations. Abbreviations in addition to those appearing below may be used.

| Phrase | Abbreviation | Equivalent | Phrase | Abbreviation |
|--------|--------------|---|--------|--------------|
| JT | TEN | As joint tenants, with right of survivorship and not as tenants in common | TEN | BY ENT |
| TEN | IN COM | As tenants in common | UNIF | GIFT MI |

| Word | Equivalent | Word | Equivalent |
|--------------|------------------|--------------|---------------------------|
| Abbreviation | | Abbreviation | |
| ADM | Administrator(s) | EST | Estate, of Estate of |
| | Administratrix | EX | Executor(s), Executrix |
| AGMT | Agreement | FBO | For the benefit of |
| ART | Article | FDN | Foundation |
| CH | Chapter | GDN | Guardians) |
| CUST | Custodian for | GDNSHP | Guardianship |
| DEC | Declaration | MIN | Minor(s) |

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For value received, _____ hereby sell(s), assigns(s) and transfer(s) unto PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE

T!

HOUT CHARGE TO EACH
AGREEMENT AND A COPY OR
CUMULATIVE PREFERRED STOCK,
UEST IS TO BE ADDRESSED TO

stockholder who so requests
participating, optional or
s thereof of the
restrictions of such
to the Corporation or to

ownership on the face of
ere written out in full
iations in addition to those

| | Phrase | Abbreviation | Equivalent |
|-----------------|-------------------|--------------|------------------------------|
| of survivorship | TEN BY ENT | | As tenants by the entireties |
| | UNIF GIFT MIN ACT | | Uniform Gifts to Minors Act |

| ion | Equivalent | Word | Abbreviation | Equivalent |
|-----|------------------------|------|--------------|-----------------------------|
| | Estate, of Estate of | PAR | | Paragraph |
| | Executor(s), Executrix | PL | | Public Law |
| | For the benefit of | TR | | (As) trustees(s), for, of |
| | Foundation | U | | Under |
| | Guardian(s) | UA | | Under agreement |
| | Guardianship | UW | | Under will of, Of will of, |
| | Minor(s) | | | Under last will & testament |

=====

by sell(s), assign(s) and

NUMBER OF ASSIGNEE

POSTAL ZIP CODE OF ASSIGNEE

_____ Depository Shares represented by the within Receipt, and do(es) hereby irrevocably constitute and appoint _____ Attorney to transfer the said Depository Shares on the books of the within named Depository

with full power of substitution in the premises.

Dated _____

NOTICE: The signature to the assignment must correspond with the name as written upon the face of this Receipt in every particular, without alteration or enlargement or any change whatsoever.

SIGNATURE GUARANTEED

NOTICE: The signature(s) should be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations, and credit unions with membership in an approved signature guarantee medallion program), pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934.

MERRILL LYNCH & CO., INC.
CITIBANK, N.A., As Depositary
AND

THE HOLDERS FROM TIME TO TIME OF
THE DEPOSITARY RECEIPTS DESCRIBED HEREIN

DEPOSIT AGREEMENT

Dated as of November 3, 1994

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DEPOSIT AGREEMENT dated as of November 3, 1994, among MERRILL LYNCH & CO., INC., a Delaware corporation (the "Company"), Citibank, N.A., a national banking association (the "Depositary"), and the holders from time to time of the Receipts described herein.

WHEREAS, it is desired to provide, as hereinafter set forth in this Deposit Agreement, for the deposit of shares of 9% Cumulative Preferred Stock, Series A, of MERRILL LYNCH & CO., INC. With the Depositary for the purposes set forth in this Deposit Agreement and for the issuance hereunder of Receipts evidencing Depositary Shares in respect of the Stock so deposited; and

WHEREAS, the Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement;

NOW, THEREFORE, in consideration of the premises, the parties hereto agree as follows:

ARTICLE I

Definitions

The following definitions shall for all purposes, unless otherwise indicated, apply to the respective terms used in this Deposit Agreement:

"Certificate" shall mean the Certificate of Designations filed with the secretary of State of the State of Delaware establishing the Stock as a series of preferred stock of the Company.

"Company" shall mean Merrill Lynch & Co., Inc., a Delaware a corporation, and its successors.

"Deposit Agreement" shall mean this Deposit Agreement, as amended or supplemented from time to time in accordance with the terms hereof.

"Depository" shall mean Citibank, N.A., and any successor as Depository hereunder.

"Depository Shares" shall mean Depository shares, each representing one-four hundredth of one share of Stock and evidenced by a Receipt.

"Depository's Agent" shall mean an agent appointed by the Depository pursuant to Section 7.05.

"Depository's Office" shall mean the principal office of the Depository, at which at any particular time its depository receipt business shall be administered.

"Receipt" shall mean one of the depository receipts, substantially in the form set forth as Exhibit A hereto, issued hereunder, whether in definitive or temporary form and evidencing the number of Depository Shares held of record by the record holder of such Depository Shares.

"record holder" or "holder" as applied to a Receipt shall mean the person in whose name a Receipt is registered on the books of the Depository maintained for such purpose.

"Registrar" shall mean the Depository or such other bank or trust company which shall be appointed by the Company to register ownership and transfers of Receipts as herein provided and if a Registrar shall be so appointed, references herein to "the books" of or maintained by the Depository shall be deemed, as applicable, to refer as well to the register maintained by such Registrar for such purpose.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Stock" shall mean shares of the Company's 9% Cumulative Preferred Stock, Series A, par value \$1.00 per share, \$10,000 liquidation preference per share.

ARTICLE II

Form of Receipts, Deposit of Stock,
Execution and Delivery, Transfer,
Surrender and Redemption of Receipts

SECTION 2.01. Form and Transfer of Receipts. Definitive Receipts shall be

engraved or printed or lithographed on steel-engraved borders, with appropriate insertions, modifications and omissions, as hereinafter provided. Pending the preparation of definitive Receipts, the Depository, upon the written order of the Company, delivered in compliance with Section 2.02, shall execute and deliver temporary Receipts which are printed, lithographed, typewritten, mimeographed or otherwise substantially of the tenor of the definitive Receipts in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the persons executing such Receipts may determine, as evidenced by their execution of such Receipts. If temporary Receipts are issued, the Company and the Depository will cause definitive Receipts to be prepared without unreasonable delay. After the preparation of definitive Receipts, the temporary Receipts shall be exchangeable for definitive Receipts upon surrender of the temporary Receipts

at an office described in the penultimate paragraph of Section 2.02, without charge to the holder. Upon surrender for cancellation of any one or more temporary Receipts, the Depository shall execute and deliver in exchange therefor definitive Receipts representing the same number of Depository Shares as represented by the surrendered temporary Receipt or Receipts. Such exchange

shall be made at the Company's expense and without any charge therefor. Until so exchanged, the temporary Receipts shall in all respects be entitled to the same benefits under this Agreement, and with respect to the Stock, as definitive Receipts.

Receipts shall be executed by the Depository by the manual signature of a duly authorized officer of the Depository; provided, that such signature

may be a facsimile if a Registrar for the Receipts (other than the Depository) shall have been appointed and such Receipts are countersigned by a duly authorized officer of the Registrar. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose unless it shall have been executed manually by a duly authorized officer of the Depository or, if a Registrar for the Receipts (other than the Depository) shall have been appointed, by manual or facsimile signature of a duly authorized officer of the Depository and countersigned by a duly authorized officer of such Registrar. The Depository shall record on its books each Receipt so signed and delivered as hereinafter provided.

Receipts shall be in denominations of any number of whole Depository Shares.

Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Deposit Agreement as may be required by the Depository and approved by the Company or required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange upon which the Stock, the Depository Shares or the Receipts may be listed or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Receipts are subject.

Title to Depository Shares evidenced by a Receipt which is properly endorsed or accompanied by a properly executed instrument of transfer, shall be transferable by delivery with the same effect as in the case of a negotiable instrument; provided, however, that until transfer of a Receipt shall be

registered on the books of the Depository as provided in Section 2.03, the Depository may, notwithstanding any notice to the contrary, treat the record holder thereof at such time as the absolute owner thereof for the purpose of determining the person entitled to distributions of dividends or other distributions or

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to any notice provided for in this Deposit Agreement and for all other purposes.

SECTION 2.02. Deposit of Stock; Execution and Delivery of Receipts in

Respect Thereof. Subject to the terms and conditions of this Deposit Agreement,

the Company may from time to time deposit shares of the Stock under this Deposit Agreement by delivery to the Depository of a certificate or certificates for the Stock to be deposited, properly endorsed or accompanied, if required by the Depository, by a duly executed instrument of transfer or endorsement, in form satisfactory to the Depository, together with all such certifications as may be required by the Depository in accordance with the provisions of this Deposit Agreement, and together with a written order of the Company directing the Depository to execute and deliver to, or upon the written order of, the person or persons stated in such order a Receipt or Receipts evidencing in the aggregate the number of Depository Shares representing such deposited Stock.

Deposited Stock shall be held by the Depository at the Depository's office or at such other place or places as the Depository shall determine. The Depository shall not lend any Stock deposited hereunder.

Upon receipt by the Depository of a certificate or certificates for Stock deposited in accordance with the provisions of this Section, together with the other documents required as above specified, and upon recordation of the Stock on the books of the Company in the name of the Depository or its nominee, the Depository, subject to the terms and conditions of this Deposit Agreement, shall execute and deliver to or upon the order of the person or persons named in one written order delivered to the Depository referred to in the first paragraph of this Section, a Receipt or Receipts evidencing in the aggregate the number of Depository Shares representing the Stock so deposited and registered in such name or names as may be requested by such person or persons. The Depository shall execute and deliver such Receipt or Receipts at the Depository's Office or such other offices, if any, as the Depository may designate. Delivery at other offices shall be at the risk and expense of the person requesting such delivery.

SECTION 2.03. Registration of Transfer of Receipts. Subject to the terms

and conditions of this Deposit Agreement, the Depository shall register on its

books from time to time transfers of Receipts upon any surrender thereof by the holder in person or by duly authorized attorney, properly endorsed or accompanied by a properly executed instrument of transfer. Thereupon, the Depositary shall execute a new Receipt or Receipts evidencing the same aggregate number of Depositary Shares as those evidenced by the Receipt or Receipts surrendered and

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deliver such new Receipt or Receipts to or upon the order of the person entitled thereto.

The Depositary shall not be required (a) to issue, transfer or exchange any Receipts for a period beginning at the opening of business fifteen days next preceding any selection of Depositary Shares and Stock to be redeemed and ending at the close of business on the day of the mailing of notice of redemption, or (b) to transfer or exchange for another Receipt any Receipt called or being called for redemption in whole or in part except as provided in section 2.08.

SECTION 2.04. Split-ups and Combinations of Receipts; Surrender of Receipts

and Withdrawal of Stock. Upon surrender of a Receipt or Receipts at the

Depositary's Office or at such other offices as it may designate for the purpose of effecting a split-up or combination of such Receipt or Receipts, and subject to the terms and conditions of this Deposit Agreement, the Depositary shall execute a new Receipt or Receipts in the authorized denomination or denominations requested, evidencing the aggregate number of Depositary Shares evidenced by the Receipt or Receipts surrendered, and shall deliver such new Receipt or Receipts to or upon the order of the holder of the Receipt or Receipts so surrendered.

Any holder of a Receipt or Receipts may withdraw the number of whole shares of Stock and all money and other property, if any, represented thereby by surrendering such Receipt or Receipts, at the Depositary's Office or at such other offices as the Depositary may designate for such withdrawals. Thereafter, without unreasonable delay, the Depositary shall deliver to such holder, or to the person or persons designated by such holder as hereinafter provided, the number of whole shares of Stock and all money and other property, if any, represented by the Receipt or Receipts so surrendered for withdrawal, but holders of such whole shares of Stock will not thereafter be entitled to deposit such Stock hereunder or to receive a Receipt evidencing Depositary Shares therefor. If a Receipt delivered by the holder to the Depositary in connection with such withdrawal shall evidence a number of Depositary Shares in excess of the number of Depositary Shares representing the number of whole shares of Stock to be so withdrawn, the Depositary shall at the same time, in addition to such number of whole shares of Stock and such money and other property, if any, to be so withdrawn, deliver to such holder, or subject to Section 2.03 upon his order, a new Receipt evidencing such excess number of Depositary Shares. In no event will fractional shares of Stock be delivered by the Depositary. Delivery of the Stock and money and other property, if any, being withdrawn may be made by the delivery of such certificates, documents of title and other instruments as the Depositary may deem appropriate.

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If the Stock and the money and other property, if any, being withdrawn are to be delivered to a person or persons other than the record holder of the Receipt or Receipts being surrendered for withdrawal of Stock, such holder shall execute and deliver to the Depositary a written order so directing the Depositary and the Depositary may require that the Receipt or Receipts surrendered by such holder for Withdrawal of such shares of Stock be properly endorsed in blank or accompanied by a properly executed instrument of transfer in blank.

Delivery of the Stock and the money and other property, if any, represented by Receipts surrendered for withdrawal shall be made by the Depositary at the Depositary's Office, except that, at the request, risking expense of the holder surrendering such Receipt or Receipts and for the account of the holder thereof, such delivery may be made at such other place as may be designated by such holder.

SECTION 2.05. Limitations on Execution and Delivery, Transfer, Surrender

and Exchange of Receipts. As a condition precedent to the execution and

delivery, registration of transfer, split-up, combination, surrender or exchange of any Receipt, the Depositary, any of the Depositary's Agents or the Company may require payment to it of a sum sufficient for the payment (or, in the event that the Depositary or the Company shall have made such payment, the reimbursement to it) of any charges or expenses payable by the holder of a Receipt pursuant to Section 5.07, may require the production of evidence

satisfactory to it as to the identity and genuineness of any signature and may also require compliance with such regulations, if any, as the Depository or the Company may establish consistent with the provisions of this Deposit Agreement.

The deposit of Stock may be refused, the delivery of Receipts against Stock may be suspended, the registration of transfer of Receipts may be refused and the registration of transfer, surrender or exchange of outstanding Receipts may be suspended (i) during any period when the register of stockholders of the Company is closed or (ii) if any such action is deemed necessary or advisable by the Depository, any of the Depository's Agents or the Company at any time or from time to time because of any requirement of Law or of any government or governmental body or commission or under any provision 3f this Deposit Agreement.

SECTION 2.06. Lost Receipts, etc. In case any receipt shall be mutilated,

destroyed, lost or stolen, the Depository in its discretion may execute and deliver a Receipt of like form and tenor in exchange and substitution for such mutilated Receipt, or in lieu of and in substitution for such destroyed, lost or stolen Receipt, upon (i) the filing by the holder thereof with the Depository of evidence satisfactory to the Depository of such destruction or loss or theft of such Receipt, of the authenticity

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thereof and of his or her ownership thereof and (ii) the holder thereof furnishing of the Depository with reasonable indemnification satisfactory to the Depository.

SECTION 2.07. Cancellation and Destruction of Surrendered Receipts. All

Receipts surrendered to the Depository or any Depository's Agent shall be cancelled by the Depository. Except as prohibited by applicable law or regulation, the Depository is authorized and directed to destroy all Receipts so cancelled.

SECTION 2.08. Redemption of Stock. Whenever the Company shall be permitted

and shall elect to redeem shares of Stock in accordance with the provisions of the Certificate, it shall (unless otherwise agreed to in writing with the Depository) give or cause to be given to the Depository, not less than 25 days and not more than 75 days prior to the Redemption Date (as defined below), notice of the date of such proposed redemption of Stock and of the number of such shares held by the Depository to be so redeemed and the applicable redemption price, which notice shall be accompanied by a certificate from the Company stating that such redemption of Stock is in accordance with the provisions of the Certificate. On the date of such redemption, provided that the Company shall then have paid or caused to be paid in full to the Depository the redemption price of the Stock to be redeemed, plus an amount equal to any accrued and unpaid dividends thereon to the date fixed for redemption, in accordance with the provisions of the Certificate, the Depository shall redeem the number of Depository Shares representing such Stock. The Depository shall mail notice of the Company's redemption of Stock and the proposed simultaneous redemption of the number of Depository Shares representing the Stock to be redeemed by first-class mail, postage prepaid, not less than 10 and not more than 60 days prior to the date fixed for redemption of such Stock and Depository Shares (the "Redemption Date"), to the record holders of the Receipts evidencing the Depository Shares to be so redeemed at the addresses of such holders as they appear on the records of the Depository; but neither failure to mail any such notice of redemption of Depository Shares to one or more such holders nor any defect in any notice of redemption of Depository Shares to one or more such holders shall affect the sufficiency of the proceedings for redemption as to the other holders. Each such notice shall state: (i) the Redemption Date, (ii) the number of Depository Shares to be redeemed and, if less than all the Depository Shares held by any such holder are to be redeemed, the number of such Depository Shares held by such holder to be so redeemed; (iii) the redemption price; (iv) the place or places where Receipts evidencing Depository Shares are to be surrendered for payment of the redemption price; and (v) that dividends in respect of the Stock represented by the Depository Shares to be redeemed will cease to accrue on such Redemption Date. In case less than all the outstanding Depository Shares are to be

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redeemed, the Depository Shares to be so redeemed shall be selected by the Depository by Lot or pro rata (as nearly as may be), as determined by the Depository in its sole discretion to be equitable.

Notice having been mailed by the Depository as aforesaid, from and after the Redemption Date (unless the Company shall have failed to provide the funds necessary to redeem the Stock evidenced by the Depository Shares called for redemption) (i) dividends on the shares of Stock so called for Redemption shall cease to accrue from and after such date, (ii) the Depository Shares being

redeemed from such proceeds shall be deemed no longer to be outstanding, (iii) all rights of the holders of Receipts evidencing such Depositary Shares (except the right to receive the redemption price) shall, to the extent of such Depositary Shares, cease and terminate, and (iv) upon surrender in accordance with such redemption notice of the Receipts evidencing any such Depositary Shares called for redemption (properly endorsed or assigned for transfer, if the Depositary or applicable law shall so require), such Depositary Shares shall be redeemed by the Depositary at a redemption price per Depositary Share equal to one-four hundredth of the redemption price per share of Stock so redeemed plus all money and other property, if any, represented by such Depositary Shares, including all amounts paid by the Company in respect of dividends which on the Redemption Date have accrued on the shares of Stock to be so redeemed and have not therefore been paid.

If fewer than all of the Depositary Shares evidenced by a Receipt are called for redemption, the Depositary will deliver to the holder of such Receipt upon its surrender to the Depositary, together with the redemption payment, a new Receipt evidencing the Depositary Shares evidenced by such prior receipt and not called for redemption.

ARTICLE III

Certain Obligations of Holders of Receipts and the Company -----

SECTION 3.01. Filing Proofs, Certificates and Other Information. Any holder -----

of a Receipt may be required from time to time to file such proof of residence, or other matters or other information, to execute such certificates and to make such representations and warranties as the Depositary or the Company may reasonably deem necessary or proper. The Depositary or the Company may withhold the delivery, or delay the registration of transfer or redemption, of any Receipt or the withdrawal of the Stock represented by the Depositary Shares evidenced by any Receipt or the distribution of any dividend or other distribution or the sale of any rights or of the proceeds thereof until such

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proof or other information is filed or such certificates are executed or such representations and warranties are made.

SECTION 3.02. Payment of Taxes or Other -----

Governmental Charges. Holders of Receipts shall be obligated to make payments

to the Depositary of certain charges and expenses, as provided in Section 5.07. Registration of transfer of any Receipt or any withdrawal of Stock and all money or other property, if any, represented by the Depositary Shares evidenced by such Receipt may be refused until any such payment due is made, and any dividends, interest payments or other distributions may be withheld or any part of or all the Stock or other property represented by the Depositary Shares evidenced by such Receipt and not theretofore sold may be sold for the account of the holder thereof (after attempting by reasonable means to notify such holder prior to such sale), and such dividends, interest payments or other distributions or the proceeds of any such sale may be applied to any payment of such charges or expenses, the holder of such Receipt remaining liable for any deficiency.

SECTION 3.03. Warranty as to Stock. The Company hereby represents and -----

warrants that the Stock, when issued, will be duly authorized, validly issued, fully paid and nonassessable. Such representation and warranty shall survive the deposit of the Stock and the issuance of Receipts.

SECTION 3.04. Warranty as to Receipts. The Company hereby represents and -----

warrants that the Receipts, when issued, will represent legal and valid interests in the Stock. Such representation and warranty shall survive the deposit of the Stock and the issuance of Receipts.

ARTICLE IV

The Deposited Securities; Notices -----

SECTION 4.01. Cash Distributions. Whenever the Depositary shall receive any -----

receive any cash dividend or other cash distribution on Stock, the Depositary shall, subject to Sections 3.01 and 3.02, distribute to record holders of Receipts on the record date fixed pursuant to Section 4.04 such amounts of such

dividend or distribution as are, as nearly as practicable, in proportion to the respective numbers of Depositary Shares evidenced by the Receipts held by such holders; provided, however, that in case the Company or the Depositary shall be

required to withhold and shall withhold from any cash dividend or other cash distribution in respect of the Stock an amount on account of taxes, the amount made available for distribution or distributed in respect of Depositary Shares shall be reduced accordingly. The Depositary shall distribute or make available for distribution, as the case may be, only such amount, however,

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as can be distributed without attributing to any of Depositary Shares a fraction of one cent, and any balance not so distributable shall be held by the Depositary (Without liability for interest thereon) and shall be added to and be treated as part of the next sum received by the Depositary for distribution to record holders of Receipts then outstanding.

SECTION 4.02. Distributions Other than Cash, Rights, Preferences or

Privileges. Whenever the Depositary shall receive any distribution other than

cash, rights, preferences or privileges upon Stock; the Depositary shall, subject to Sections 3.01 and 3.02, distribute to record holders of Receipts on the record date fixed pursuant to Section 4.04 such amounts of the securities or property received by it as are, as nearly as practicable, in proportion to the respective numbers of Depositary Shares evidenced by the Receipts held by such holders, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution. If in the opinion of the Depositary such distribution cannot be made proportionately among such record holders, or if for any other reason (including any requirement that the Company or the Depositary withhold an amount on account of taxes) the Depositary deems, after consultation with the Company, such distribution not to be feasible, the Depositary may, with the approval of the Company, adopt such method as it deems equitable and practicable for the purpose of effecting such distribution, including the sale (at public or private sale) of the securities or property thus received, or any part thereof, in a commercially reasonable manner. The net proceeds of any such sale shall, subject to Sections 3.01 and 3.02, be distributed or made available for distribution, as the case may be, by the Depositary to record holders of Receipts as provided by Section 4.01 in the case of a distribution received in cash. The Company shall not make any distribution of such securities or property to the Depositary and the Depositary shall not make any distribution of such securities or property to the holders of Receipts unless the Company shall have provided an opinion of counsel stating that such securities or property, have been registered under the Securities Act or do not need to be registered in connection with such distributions.

SECTION 4.03. Subscription Rights, Preferences or Privileges. If the

Company shall at any time offer or cause to be offered to the persons in whose names Stock is recorded on the books of the Company any rights, preferences or privileges to subscribe for or to purchase any securities or any rights, preferences or privileges of any other nature, such rights, preferences or privileges shall in each such instance be made available by the Depositary to the record holders of Receipts in such manner as the Depositary may determine, either by the issue to such record holders of warrants representing such rights, preferences or privileges or by such other method as may be approved by the Depositary in its discretion with the approval of

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the Company; provided, however, that (i) if at the time of issue or offer of any

such rights, preferences or privileges the Depositary determines that it is not lawful or (after consultation with the Company) not feasible to make such rights, preferences or privileges available to holders of Receipts by the issue of warrants or otherwise, or (ii) if and to the extent so instructed by holders of Receipts who do not desire to exercise such rights, preferences or privileges, then the Depositary, in its discretion (with approval of the Company, in any case where the Depositary has determined that it is not feasible to make such rights, preferences or privileges available), may, if applicable laws or the terms of such rights, preferences or privileges permit such transfer, sell such rights, preferences or privileges at public or private sale, at such place or places and upon such terms as it may deem proper. The net proceeds of any such sale shall, subject to Sections 3.01 and 3.02, be distributed by the Depositary to the record J holders of Receipts entitled thereto as provided by Section 4.01 in the case of a distribution received in cash.

The Company shall notify the Depositary whether registration under the Securities Act of the securities to which any rights, preferences or privileges

relate is required in order for holders of Receipts to be offered or sold the securities to which such rights, preferences or privileges relate, and the Company agrees with the Depositary that it will file promptly a registration statement pursuant to such Act with respect to such rights, preferences or privileges and securities and use its best efforts and take all steps available to it to cause such registration statement to become effective sufficiently in advance of the expiration of such rights, preferences or privileges to enable such holders to exercise such rights, preferences or privileges. In no event shall the Depositary make available to the holders of Receipts any right, preference or privilege to subscribe for or to purchase any securities unless and until such registration statement shall have become effective, or the Company shall have provided to the Depositary an opinion of counsel to the effect that the offering and sale of such securities to such holders are exempt from registration under the provisions of the Securities Act.

The Company shall notify the Depositary whether any other action under the laws of any jurisdiction or any governmental or administrative authorization, consent or permit is required in order for such rights, preferences or privileges to be made available to holders of Receipts, and the Company agrees with the Depositary that the Company will use its reasonable best efforts to take such action or obtain such authorization, consent or permit sufficiently in advance of the expiration of such rights, preferences or privileges to enable such holders to exercise such rights, preferences or privileges.

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SECTION 4.04. Notice of Dividends, etc.; Fixing Record Date for Holders of

Receipts. Whenever any cash dividend or other cash distribution shall become

payable or any distribution other than cash shall be made, or if rights, preferences or privileges shall at any time be offered, with respect to Stock, or whenever the Depositary shall receive notice of any meeting at which holders of Stock are entitled to vote or of which holders of Stock are entitled to notice, or whenever the Depositary and the Company shall decide it is appropriate, the Depositary shall in each such instance fix a record date (which shall be the same date as the record date fixed by the Company with respect to or otherwise in accordance with the terms of the Stock) for the determination of the holders of Receipts who shall be entitled to receive such dividend, distribution, rights, preferences or privileges or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, or who shall be entitled to notice of such meeting or for any other appropriate reasons.

SECTION 4.05. Voting Rights. Upon receipt of notice of any meeting at which

the holders of Stock are entitled to vote, the Depositary shall, as soon as practicable thereafter, mail to the record holders of Receipts a notice which shall contain (i) such information as is contained in such notice of meeting and (ii) a statement that the holders may, subject to any applicable restrictions, instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Stock represented by their respective Depositary Shares (including an express indication that instructions may be given to the Depositary to give a discretionary proxy to a person designated by the Company) and a brief statement as to the manner in which such instructions may be given. Upon the written request of the holders of Receipts on the relevant record date, the Depositary shall endeavor insofar as practicable to vote or cause to be voted, in accordance with the instructions set forth in such requests, the maximum number of whole shares of Stock represented by the Depositary Shares evidenced by all Receipts as to which any particular voting instructions are received. The Company hereby agrees to take all reasonable action which may be deemed necessary by the Depositary in order to enable the Depositary to vote such Stock or cause such Stock to be voted. In the absence of specific instructions from the holder of a Receipt, the Depositary will not vote (but, at its discretion, may appear at any meeting with respect to such Stock unless directed to the contrary by the holders of all the Receipts) to the extent of the Stock represented by the Depositary Shares evidenced by such Receipt.

SECTION 4.06. Changes Affecting Deposited Securities and Reclassifications,

Recapitalizations, etc. Upon any change in par or stated value, split-up,

combination or any other reclassification of the Stock, or upon any recapitalization,

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reorganization, merger or consolidation affecting the Company or to which it is a party, the Depositary may in its discretion with the approval of, and shall upon the instructions of, the Company, and (in either case) in such manner as

the Depositary may deem equitable, (i) make such adjustments as are certified by the Company in the fraction of an interest represented by one Depositary Share in one share of Stock as may be necessary fully to reflect the effects of such change in par or stated value, split-up, combination or other reclassification of Stock, or of such recapitalization, reorganization, merger or consolidation and (ii) treat any securities which shall be received by the Depositary in exchange for or upon conversion of or in respect of the Stock as new deposited securities so received in exchange for or upon conversion or in respect of such Stock. In any such case the Depositary may in its discretion, with the approval of the Company, execute and deliver additional Receipts or may call for the surrender of all outstanding Receipts to be exchanged for new Receipts specifically describing such new deposited securities. Anything to the contrary herein notwithstanding, holders of Receipts shall have the right from and after the effective date of any such change in par or stated value, split-up, combination or other reclassification of the Stock or any such recapitalization, reorganization, merger or consolidation to surrender such Receipts to the Depositary with instructions to convert, exchange or surrender the Stock represented thereby only into or for, as the case may be, the kind and amount of shares of stock and other securities and property and cash into which the Stock represented by such Receipts might have been converted or for which such Stock might have been exchanged or surrendered immediately prior to the effective date of such transaction.

SECTION 4.07. Delivery of Reports. The Depositary shall furnish to holders

of Receipts any reports and communications received from the Company which are received by the Depositary and which the Company is required to furnish to the holders of the Stock.

SECTION 4.08. Lists of Receipt Holders. Promptly upon request from time to

time by the Company, the Depositary shall furnish to it a list, as of the most recent practicable date, of the names, addresses and holdings of Depositary Shares of all record holders of Receipts.

ARTICLE V

The Depositary, the Depositary's
Agents, the Registrar and the Company

SECTION 5.01. Maintenance of Offices, Agencies and Transfer Books by the

Depositary; Registrar. Upon execution of this Deposit Agreement, the Depositary

shall maintain at the

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Depositary's Office, facilities for the execution and delivery, registration and registration of transfer, surrender and exchange of Receipts, and at the offices of the Depositary's Agents, if any, facilities for the delivery, registration of transfer, surrender and exchange of Receipts, all in accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books at the Depositary's Office for the registration and registration of transfer of Receipts, which books at all reasonable times shall be open for inspection by the record holders of Receipts; provided that any such holder requesting to exercise such right shall certify to

the Depositary that such inspection shall be for a proper purpose reasonably related to such person's interest as an owner of Depositary Shares evidenced by the Receipt.

The Depositary may close such books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder.

The Depositary may, with the approval of the Company, appoint a Registrar for registration of the Receipts or the Depositary Shares evidenced thereby. If the Receipts or the Depositary Shares evidenced thereby or the Stock represented by such Depositary Shares shall be listed on one or more national stock exchanges, the Depositary will appoint a Registrar (acceptable to the Company) for registration of such Receipts or Depositary Shares in accordance with any requirements of such exchange. Such Registrar (which may be the Depositary if so permitted by the requirements of any such exchange) may be removed and a substitute registrar appointed by the Depositary upon the request or with the approval of the Company. If the Receipts, such Depositary Shares or such Stock are listed on one or more other stock exchanges, the Depositary will, at the request of the Company, arrange such facilities for the delivery, registration, registration of transfer, surrender and exchange of such Receipts, such Depositary Shares or such Stock as may be required by law or applicable stock

exchange regulation.

SECTION 5.02. Prevention of or Delay in Performance by the Depository, the

Depository's Agents, the Registrar or the Company. Neither the Depository nor

any Depository's Agent nor any Registrar nor the Company shall incur any liability to any holder of any Receipt if by reason of any provision of any present or future law, or regulation thereunder, of the United States of America or of any other governmental authority or, in the case of the Depository, the Depository's Agent or the Registrar, by reason of any provision, present or future, of the Company's Certificate of Incorporation, as amended (including the Certificate) or by reason of any act of God or war or other circumstance beyond the control of the relevant party, the Depository, the Depository's Agent, the Registrar or the Company

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shall be prevented or forbidden from, or subjected to any penalty on account of, doing or performing any act or thing which the terms of this Deposit Agreement provide shall be done or performed; nor shall the Depository, any Depository's Agent, any Registrar or the Company incur liability to any holder of a Receipt (i) by reason of any nonperformance or delay, caused as aforesaid, in the performance of any act or thing which the terms of this Deposit Agreement shall provide shall or may be done or performed, or (ii) by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement except, in the case of any such exercise or failure to exercise discretion not caused as aforesaid, if caused by the negligence or willful misconduct of the party charged with such exercise or failure to exercise.

SECTION 5.03. Obligations of the Depository, the Depository's Agents, the

Registrar and the Company. Neither the Depository nor any Depository's Agent nor

any Registrar nor the Company assumes any obligation or shall be subject to any liability under this Deposit Agreement to holders of Receipts other than for its negligence, willful misconduct or bad faith.

Neither the Depository nor any Depository's Agent nor any Registrar nor the Company shall be under, any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of the Stock, the Depository shares or the Receipts which in its opinion may involve it in expense or Liability unless indemnity satisfactory to it against all expense and liability be furnished as often as may be required.

Neither the Depository nor any Depository's Agent nor any Registrar nor the Company shall be liable for any action or any failure to act by it in reliance upon the written advice of legal counsel or accountants, or information from any person presenting Stock for deposit, any holder of a Receipt or any other person believed by it in good faith to be competent to give such information. The Depository, any Depository's Agent, any Registrar and the Company may each rely and shall each be protected in acting upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

The Depository shall not be responsible for any failure to carry out any instruction to vote any of the shares of stock or for the manner or effect of any such vote made, as long as any such action or non-action is in good faith. The Depository undertakes, and any Registrar shall be required to undertake, to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Depository or any Registrar.

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The Depository, the Depository's Agents, and any Registrar may own and deal in any class of securities of the Company and its affiliates and in Receipts. The Depository may also act as transfer agent or registrar of any of the securities of the Company and its affiliates.

SECTION 5.04. Resignation and Removal of the Depository; Appointment of

Successor Depository. The Depository may at any time resign as Depository

hereunder by delivering notice of its election to do so to the Company, such resignation to take effect upon the appointment of a successor Depository and its acceptance of such appointment as hereinafter provided.

The Depository may at any time be removed by the Company by notice of such removal delivered to the Depository, such removal to take effect upon the appointment of a successor depository hereunder and its acceptance of such

appointment as hereinafter provided.

In case at any time the Depository acting hereunder shall resign or be removed, the Company shall, within 60 days after the delivery of the notice of resignation or removal, as the case may be, appoint a successor Depository, which shall be a bank or trust company having its principal office in the United States of America and having a combined capital and surplus of at least \$50,000,000. If no successor Depository shall have been so appointed and have accepted appointment within 60 days after delivery of such notice, the resigning or removed Depository may petition any court of competent jurisdiction for the appointment of a successor Depository. Every successor Depository shall execute and deliver to its predecessor and to the Company an instrument in writing accepting its appointment hereunder, and thereupon such successor Depository, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor and for all purposes shall be the Depository under this Deposit Agreement, and such predecessor, upon payment of all sums due it and on the written request of the Company, shall promptly execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Stock and any moneys or property held hereunder to such successor, and shall deliver to such successor a list of the record holders of all outstanding Receipts and such records, books and other information in its possession relating thereto. Any successor Depository shall promptly mail notice of its appointment to the record holders of Receipts.

Any corporation into or with which the Depository may be merged, consolidated or converted shall be the successor of such Depository without the execution or filing of any document or any further act, and notice thereof shall not be required

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hereunder. Such successor Depository may authenticate the Receipts in the name of the predecessor Depository or in the name of the successor Depository.

SECTION 5.05. Corporate Notices and Reports. The Company agrees that it

will deliver to the Depository, and the Depository will, promptly after receipt thereof, transmit to the record holders of Receipts, in each case at the addresses recorded in the Depository's books, copies of all notices and reports (including without limitation financial statements) required by law, by the rules of any national securities exchange upon which the Stock, the Depository Shares or the Receipts are listed or by the Company's Restated Certificate of Incorporation (including the Certificate), to be furnished to the record holders of Receipts. Such transmission will be at the Company's expense and the Company will provide the Depository with such number of copies of such documents as the Depository may reasonably request. In addition, the Depository will transmit to the record holders of Receipts at the Company's expense such other documents as may be requested by the Company.

SECTION 5.06. Indemnification by the Company. The Company shall indemnify

the Depository, any Depository's Agent and any Registrar against, and hold each of them harmless from, any loss, liability or expense (including the reasonable costs and expenses of defending itself) which may arise out of acts performed or omitted in connection with this Agreement and the Receipts by the Depository, any Registrar or any of their respective agents (including any Depository's Agent), except for any liability arising out of negligence, willful misconduct or bad faith on the respective parts of any such person or persons. The obligations of the Company set forth in this Section 5.06 shall survive any succession of any Depository, Registrar or Depository's Agent.

SECTION 5.07. Fees, Charges and Expenses. The Company agrees promptly to

pay the Depository the compensation to be agreed upon with the Company for all services rendered by the Depository hereunder and to reimburse the Depository for its reasonable out-of-pocket expenses (including reasonable counsel fees and expenses) incurred by the Depository without negligence, willful misconduct, bad faith or breach of this Agreement on its part in connection with the services rendered by it hereunder. The Company shall pay all charges of the Depository in connection with the initial deposit of the Stock and the initial issuance of the Depository Shares, all withdrawals of shares of the Stock by owners of Depository Shares, and any redemption or exchange of the Stock at the option of the Company. The Company shall pay all transfer and other taxes and governmental charges arising solely from the existence of the depository arrangements. All other transfer and other taxes and governmental charges shall be at the expense of holders of Depository Shares evidenced by

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Receipts. If, at the request of a holder of Receipts, the Depository incurs

charges or expenses for which the Company is not otherwise liable hereunder, such holder will be liable for such charges and expenses. All other charges and expenses of the Depositary and any Depositary's Agent hereunder and of any Registrar (including, in each case, reasonable fees and expenses of counsel) incident to the performance of their respective obligations hereunder will be paid upon consultation and agreement between the Depositary and the Company as to the amount and nature of such charges and expenses. The Depositary shall present its statement for charges and expenses to the Company at such intervals as the Company and the Depositary may agree.

ARTICLE VI

Amendment and Termination

SECTION 6.01. Amendment. The form of the Receipts and any provisions of

this Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable; provided, however, that no such amendment which

shall materially and adversely alter the rights of the holders of Receipts shall be effective unless such amendment shall have been approved by the holders of at least a majority (or, in the case of amendments relating to or affecting rights to receive dividends or distributions or voting or redemption rights two-thirds of the holders) of the Depositary Shares then outstanding. Every holder of an outstanding Receipt at the time any such amendment becomes effective shall be deemed by continuing to hold such receipt, to consent and agree to such amendment and to be bound by the Depositary Agreement as amended thereby. In no event shall any amendment impair the right, subject to the provisions of sections 2.05 and 2.05 and Article III, of any owner of Depositary Shares to surrender any Receipt evidencing such Depositary Shares to the Depositary with instructions to deliver to the holder the Stock and all money and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law or the rules and regulations of any governmental body, agency or commission, or applicable stock exchange.

SECTION 5.02. Termination. This Agreement may be terminated by the Company

at any time upon not less than 60 days prior written notice to the Depositary, in which case, at least 30 days prior to the date fixed in such notice for such termination, the Depositary will mail notice of such termination the record holders of all Receipts then outstanding.

If any Receipts shall remain outstanding after the date of termination of this Deposit Agreement, the Depositary

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thereafter shall discontinue the transfer of Receipts, shall suspend the distribution of dividends to the holders thereof and shall not give any further notices (other than notice of such termination) or perform any further acts under this Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Stock, shall sell rights, preferences or privileges as provided in this Deposit Agreement and shall continue to deliver the Stock and any money and other property, if any, represented by Receipts upon surrender thereof by the holders thereof. At any time after the expiration of two years from the date of termination, the Depositary may sell Stock then held hereunder at public or private sale, at such places and upon such terms as it deems proper and may thereafter hold the net proceeds of any such sale, together with any money and other property held by it hereunder, without liability for interest, for the benefit, pro rata in accordance with their holdings, of the holders of Receipts that have not theretofore been surrendered. After making such sale, the Depositary shall be discharged from all obligations under this Deposit Agreement except to account for such net proceeds and money and other property.

This Agreement may be terminated by the Company or the Depositary only if (i) all outstanding Depositary Shares have been redeemed pursuant to Section 2.08, (ii) there shall have been made a final distribution in respect of the Stock in connection with any liquidation, dissolution or winding up of the Company and such distribution shall have been distributed to the holders of Depositary Shares pursuant to Section 4.01 or 4.02, as applicable or (iii) upon the consent of holders of Depositary Receipts representing not less than two-thirds of the Depositary Shares outstanding.

Upon the termination of this Deposit Agreement, the Company shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depositary, any Depositary's Agent and any Registrar under Sections 5.06 and 5.07.

ARTICLE VII

SECTION 7.01. Counterparts. This Deposit Agreement may be executed in any

number of counterparts, and by each of the parties hereto on separate
counterparts, each of which counterparts, when so executed and delivered, shall
be deemed an original but all such counterparts taken together shall constitute
one and the same instrument.

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SECTION 7.02. Exclusive Benefit of Parties. This Deposit Agreement is for

the exclusive benefit of the parties hereto, and their respective successors
hereunder, and shall not be deemed to give any legal or equitable right, remedy
or claim to any other person whatsoever.

SECTION 7.03. Invalidity of Provisions. In case any one or more of the

provisions contained in this Deposit Agreement or in the Receipts should be or
become invalid, illegal or unenforceable in any respect, the validity, legality
and enforceability of the remaining provisions contained herein or therein shall
in no way be affected, prejudiced or disturbed thereby.

SECTION 7.04. Notices. Any and all notices to be given to the Company

hereunder or under the Receipts shall be in writing and shall be deemed to have
been duly given if personally delivered or sent by mail, or by telegram or
facsimile transmission confirmed by letter, addressed to the Company at

Merrill Lynch & Co., Inc.
100 Church Street, 12th Floor
New York, New York 10007
Attention: Secretary
Facsimile No.: (212) 602-8436

with a copy to:

Merrill Lynch & Co., Inc.
World Financial Center
South Tower, 7th Floor
New York, New York 10080-6107
Attention: Treasurer
Facsimile No.: (212) 236-6004

or at any other addresses of which the Company shall have notified the
Depository in writing.

Any and all notices to be given to the Depository hereunder or under the
Receipts shall be in writing and shall be deemed to have been duly given if
personally delivered or sent by mail, or by telegram or facsimile transmission
confirmed by letter, addressed to the Depository at the Depository's office at

Citibank, N.A.
120 Wall Street, 13th Floor
New York, New York 10043
Attention: Corporate Trust Department
Facsimile No.: (212) 480-1614

or at any other address of which the Depository shall have notified the Company
in writing.

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Any and all notices to be given to any record holder of a Receipt
hereunder or under the Receipts shall be in writing and shall be deemed to have
been duly given if personally delivered or sent by mail, or by telegram or
facsimile transmission confirmed by letter, addressed to such record holder at
the address of such record holder as it appears on the books of the Depository,
or if such holder shall have timely filed with the Depository a written request
that notices intended for such holder be mailed to some other address, at the
address designated in such request.

Delivery of a notice sent by mail or by telegram or facsimile transmission
shall be deemed to be effected at the time when a duly addressed letter
containing the same (or a confirmation thereof in the case of a telegram or
facsimile transmission) is deposited, postage prepaid, in a post office letter
box. The Depository or the Company may, however, act upon any telegram or
facsimile transmission received by it from the other or from any holder of a
Receipt, notwithstanding that such telegram or facsimile transmission shall not

subsequently be confirmed by letter or as aforesaid.

SECTION 7.05. Depository's Agents. The Depository may from time to time

appoint Depository's Agents to act in any respect for the Depository for the purposes of this Deposit Agreement and may at any time appoint additional Depository's Agents and vary or terminate the appointment of such Depository's Agents. The Depository will promptly notify the Company of any, such action.

The Company hereby also appoints the Depository as Registrar and Transfer Agent in respect of the Receipts and the Depository hereby accepts such Appointments.

SECTION 7.06. Holders of Receipts Are Parties. The holders of Receipts

from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance of delivery thereof.

SECTION 7.07. Governing Law. This Deposit Agreement and the Receipts and

all rights hereunder and thereunder and provisions hereof and thereof shall be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable conflicts of law principles.

SECTION 7.08. Inspection of Deposit Agreement. Copies of this Deposit

Agreement shall be filed with the Depository and the Depository's Agents and shall be open to inspection during business hours at the Depository's Office and the respective offices of the Depository's Agents, if any, by any holder of a Receipt.

SECTION 7.09. Headings. The headings of articles and sections in this

Deposit Agreement and in the form of the Receipt set forth in Exhibit A hereto have been inserted for convenience only and are not to be regarded as a part of this Deposit Agreement or the Receipts or to have any bearing upon the meaning or interpretation of any provision contained herein or in the Receipts.

IN WITNESS WHEREOF, the Company and the Depository have duly executed this Agreement as of the day and year first above set forth, and all holders of Receipts shall become parties hereto by and upon acceptance by them of delivery of Receipts issued in accordance with the terms hereof.

MERRILL LYNCH & CO., INC.

Attested by

Secretary

BY _____
Treasurer

SEAL

Attested by

CITITBANK N.A.

BY _____

SEAL

=====

MERRILL LYNCH & CO., INC.

TO

Manufacturers Hanover Trust Company, Trustee

SUPPLEMENTAL INDENTURE

Dated as of March 15, 1990

Supplement to Indenture

Dated as of April 1, 1983

Senior Debt Securities

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SUPPLEMENTAL INDENTURE, dated as of March 15, 1990, between MERRILL LYNCH & CO., INC., a Delaware corporation, having its principal office at Merrill Lynch World Headquarters, North Tower, World Financial Center, 250 Vesey Street, New York, New York 10281-1220 and MANUFACTURERS HANOVER TRUST COMPANY, a New York corporation, as Trustee under an Indenture hereinafter mentioned, having its Corporate Trust Office at 450 West 33rd Street, New York, New York.

RECITALS

The Company has heretofore executed and delivered its Indenture, dated as of April 1, 1983, as previously supplemented and as previously restated as of April 1, 1987 (such Indenture as previously supplemented and restated being herein referred to as the "Original Indenture"), dated as of April 1, 1983, to the Trustee to provide for the issuance from time to time of its unsecured and unsubordinated debentures, notes or other evidences of senior indebtedness.

Section 901 of the Original Indenture provides that the Company, when authorized by a Board Resolution, and the Trustee may enter into a supplemental indenture without the consent of any Holders to make any provisions with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Original Indenture and which shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

The Company has duly authorized the execution and delivery of this Supplemental Indenture, and all things necessary to make this Supplemental Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, in consideration of the premises and the sum of one dollar duly paid by the Company to the Trustee, the receipt of which is hereby acknowledged, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders, as follows:

ARTICLE One

AMENDMENT

.1. Section 101 of the Indenture is amended by inserting after the definition of "United States Alien" the following definition:

"U.S. Depository" or "Depository" means, with respect to the Securities of any series issuable or issued in whole or in part in the form of one or more global Securities, the Person designated as U.S. Depository by the Company pursuant to Section 301, which must be a clearing agency registered under the Securities Exchange Act of 1934, as amended, and, if so provided pursuant to Section 301 with respect to the Securities of an series, any successor to such Person. If at any time there is more than one such Person, "U.S. Depository" shall mean, with respect to any series of

with respect to the Securities of that series.

.2. Section 104(a) of the Indenture is amended by adding the following subsection thereto:

Without limiting the generality of this Section 104, unless otherwise established in or pursuant to a Board Resolution or set forth or determined in an Officers' Certificate, or established in one or more indentures supplemental hereto, pursuant to Section 301, a Holder, including a U.S. Depository that is a Holder of a global Security, may make, give or take, by a proxy, or proxies, duly appointed in writing, any request, demand, authorization, direction, notice, consent, waiver or other action provided in this Indenture to be made, given or taken by Holders, and a U.S. Depository that is a Holder of a global Security may provide its proxy or proxies to the beneficial owners of interests in any such global Security through such U.S. Depository's standing instructions and customary practices.

The Trustee shall fix a record date for the purpose of determining the Persons who are beneficial owners of interests in any permanent global Security held by a U.S. Depository entitled under the procedures of such U.S. Depository to make, give or take, by a proxy or proxies duly appointed in writing, any request, demand, authorization, direction, notice, consent, waiver or other action provided in this Indenture to be made, given or taken by Holders. If such a record date is fixed, the Holders on such record date or their duly appointed proxy or proxies, and only such Persons, shall be entitled to make, give or take such request, demand, authorization, direction, notice, consent, waiver or other action, whether or not such Holders remain Holders after such record date. No such request, demand, authorization, direction, notice, consent, waiver or other action shall be valid or effective if made, given or taken more than 90 days after such record date.

.3. Section 301 of the Indenture is amended by deleting subsection (3) thereof and substituting in its place the following:

(3) whether Securities of the series are to be issuable as Registered Securities, Bearer Securities (with or without coupons) or both; any restrictions applicable to the offer, sale or delivery of Bearer Securities and the terms upon which Bearer Securities of the series may be exchanged for Registered Securities of the series and vice versa; and whether any Securities of the series are to be

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issuable initially in global form and, if so, (i) whether beneficial owners of interests in any such global Security may exchange such interests for Securities of such series and of like tenor of any authorized form and denomination and the circumstances under which any such exchanges may occur, if other than in the manner specified in Section 305 and (ii) the name of the depository or the U.S. Depository, as the case may be, with respect to any global Security;

.4. Section 305 of the Indenture is amended by adding the following paragraph as the seventh paragraph thereof:

Notwithstanding the foregoing, except as otherwise specified as contemplated by Section 301, any global Security shall be exchangeable only if (i) the Securities Depository is at any time unwilling or unable to continue as Securities Depository and a successor depository is not appointed by the Company within 60 days, (ii) the Company executes and delivers to the Trustee a Company Order to the effect that such global Security shall be so exchangeable, or (iii) an Event of Default has occurred and is continuing with respect to the Securities. If the beneficial owners of interests in a global Security are entitled to exchange such interests for Securities of such series and of like tenor and principal amount of any authorized form and denomination, as specified as contemplated by Section 301, then without unnecessary delay but in any event not later than the earliest date on which such interests may be so exchanged, the Company shall deliver to the Trustee definitive Securities of that series in aggregate principal amount equal to the principal amount of such global Security, executed by the Company. On or after the earliest date on which such interests may be so exchanged, such

global Securities shall be surrendered from time to time by the U. S. Depository or such other depository as shall be specified in the Company Order with respect thereto, and in accordance with instructions given to the Trustee and the U.S. Depository or such depository, as the case may be (which instructions shall be in writing but need not comply with Section 102 or be accompanied by an Opinion of Counsel), as shall be specified in the Company Order with respect thereto to the Trustee, as the Company's agent for such purpose, to be exchanged, in whole or in part, for definitive Securities of the same series without charge. The Trustee shall authenticate and make available for delivery, in exchange for each portion of such surrendered global Security, a like aggregate principal amount of definitive Securities of the same series of authorized denominations and of like tenor as the portion of such global Security to be exchanged which (unless

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the Securities of the series are not issuable both as Bearer Securities and as Registered Securities, in which case the definitive Securities exchanged for the global Security shall be issuable only in the form in which the Securities are issuable, as specified as contemplated by Section 301) shall be in the form of Bearer Securities or Registered Securities, or any combination thereof, as shall be specified by the beneficial owner thereof; provided, however, that no such exchanges may occur during a period beginning at the opening of business 15 days before any selection of Securities of that series to be redeemed and ending on the relevant Redemption Date; and provided, further, that (unless otherwise specified as contemplated by Section 301) no Bearer Security delivered in exchange for a portion of a global Security shall be mailed or otherwise delivered to any location in the United States. Promptly following any such exchange in part, such global Security shall be returned by the Trustee to such depository or the U.S. Depository, as the case may be, or such other depository or U.S. Depository referred to above in accordance with the instructions of the Company referred to above. If a Registered Security is issued in exchange for any portion of a global Security after the close of business at the office or agency where such exchange occurs on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of interest or Defaulted Interest, as the case may be, interest will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Registered Security, but will be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such global Security is payable in accordance with the provisions of this Indenture.

.5. Section 1107 of the Indenture is hereby amended by adding the following sentence at the end thereof:

"If a Security in global form is so surrendered, the Company shall execute, and the Trustee shall authenticate and deliver to the U.S. Depository or other depository for such Security in global form as shall be specified in the Company Order with respect thereto to the Trustee, without service charge, a new Security in global form in a denomination equal to and in exchange for the unredeemed portion of the principal of the Security in global form so surrendered."

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ARTICLE Two

MISCELLANEOUS PROVISIONS

.1. For all purposes of this Supplemental Indenture, except as otherwise stated herein, terms used in capitalized form in this Supplemental Indenture and defined in the Original Indenture have the meanings specified in the Original Indenture.

.2. All of the provisions of the Original Indenture with respect to the rights, duties and immunities of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

.3. The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Supplemental Indenture.

.4. This Supplemental Indenture shall be governed by and construed in accordance with the laws of the jurisdiction which govern the Original Indenture and its construction.

.5. This Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

.6. This Supplemental Indenture shall become effective as of the date first written above with respect to Securities issued on or after the date hereof.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

MERRILL LYNCH & CO., INC.

[Corporate Seal]

By /s/ Thomas H. Patrick

Executive Vice President
and Chief Financial Officer

Attest:

/s/ Gregory T. Russo

Secretary

MANUFACTURERS HANOVER TRUST

COMPANY, as Trustee

[Corporate Seal]

By /s/ F. J. Grippo

Vice President

Attest:

Trust Officer

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STATE OF NEW YORK)
) SS.:
COUNTY OF NEW YORK)

On the 15th day of March, 1990, before me personally came Thomas H. Patrick, to me known, who, being by me duly sworn, did depose and say that he is Executive Vice President and Chief Financial Officer of MERRILL LYNCH & CO., INC., one of the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Executive Committee of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ William R. Massey

Notary Public

[NOTARIAL SEAL]

STATE OF NEW YORK)
) SS.:
COUNTY OF NEW YORK)

On the 15th day of March, 1990, before me personally came F. J. Grippo, to me known, who, being by me duly sworn, did depose and say that he is a Vice President of MANUFACTURERS HANOVER TRUST COMPANY, one of the corporations

described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ William R. Massey

Notary Public

[NOTARIAL SEAL]

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[CONFORMED COPY]

MERRILL LYNCH & CO., INC.

TO

Manufacturers Hanover Trust Company, Trustee

Indenture

Dated as of April 1, 1983
and
Restated as of April 1, 1987

(Including the Fourth Supplemental
Indenture, dated as of April 1, 1987)

Senior Debt Securities

MERRILL LYNCH & CO., INC.

Reconciliation and tie between Trust Indenture Act of 1939 and
Indenture, dated as of April 1, 1983 and restated as of April 1, 1987

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| (S) 310 (a) (1) | 609 |
| (a) (2) | 609 |
| (a) (3) | Not Applicable |
| (a) (4) | Not Applicable |
| (b) | 608, 610 |
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| (S) 313 (a) | 703 (a) |
| (b) (1) | Not Applicable |
| (b) (2) | 703 (b) |
| (c) | 703 (c) |
| (d) | 703 (d) |
| (S) 314 (a) | 704 |
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| (c) (3) | Not Applicable |
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| (c) | 601 (b) |
| (d) | 601 (c) |

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|----------------------|----------------------|
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Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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INDENTURE, dated as of April 1, 1983 and restated as of April 1, 1987, between Merrill Lynch & Co., Inc., a Delaware corporation (hereinafter called the "Company"), having its principal office at One Liberty Plaza, 165 Broadway, New York, New York 10080 and Manufacturers Hanover Trust Company, a New York corporation, as Trustee (hereinafter called the "Trustee") having its Corporate Trust Office at 600 Fifth Avenue, New York, N.Y. 10020.

Recitals of The Company

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured and unsubordinated debentures, notes or other evidences of senior indebtedness (hereinafter called the "Securities"), unlimited as to principal amount, to bear such rates of interest, to mature at such time or times, to be issued in one or more series and to have such other provisions as shall be fixed as hereinafter provided.

The Company has heretofore executed and delivered an Indenture between the Company and the Trustee dated as of April 1, 1983 (the "Original Indenture") and supplements to the Original Indenture in the form of a First Supplemental Indenture, dated as of July 1, 1985, a Second Supplemental Indenture, dated as of December 24, 1985 and a Third Supplemental Indenture, dated as of April 15, 1986 (such First, Second and Third Supplemental Indentures, together with the Original Indenture, being herein referred to as the "Supplemented Indenture").

Section 901 of the Original Indenture provides that the Company, when authorized by a Board Resolution, and the Trustee may enter into a supplemental indenture without the consent of any Holders to make any provisions with respect to matters or questions arising under the Indenture, provided such provisions shall not be inconsistent with the provisions of the Original Indenture and shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

The Company deems it advisable, not inconsistent with the provisions of the Original Indenture and not adverse to the interests of the Holders of Securities of any series to amend the Original Indenture pursuant to a Fourth Supplemental Indenture, dated as of April 1, 1987. Also as of April 1, 1987, the Company restates this Indenture pursuant to the terms and provisions of this Indenture as supplemented by such First, Second, Third and Fourth Supplemental Indentures, each difference between the Supplemented Indenture and the Indenture as restated herein being pursuant to the terms and provisions of said Fourth Supplemental Indenture.

The Company has duly authorized the execution and delivery of this Fourth Supplemental Indenture and restatement of the Indenture, and all things necessary to make this Fourth Supplemental Indenture and restatement of the Indenture a valid agreement of the Company, in accordance with its terms, have been done.

Now, Therefore, in consideration of the premises and the sum of one dollar duly paid by the Company to the Trustee, the receipt of which is hereby acknowledged, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders, as follows:

Now, Therefore, This Indenture Witnesseth:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

Article One

Definitions and Other Provisions of General Application

1. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of such computation; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Article Six, are defined in that Article.

"Act" when used with respect to any Holder has the meaning specified in Section 104.

"Additional Amounts" means any additional amounts which are required by a Security or by or pursuant to a Board Resolution, under circumstances specified therein, to be paid by the Company in respect of certain taxes imposed on certain Holders and which are owing to such Holders.

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"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Authorized Newspaper" means a newspaper, in an official language of the country of publication or in the English language, customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays, and of general circulation in the place in connection with which the term is used or in the financial community of such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

"Bearer Security" means any Security in the form established pursuant to Section 201 which is payable to bearer.

"Board of Directors" means either the Board of Directors of the Company or the Executive Committee thereof.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" with respect to any Place of Payment means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law to close, except as may otherwise be provided in the form of Securities of any particular series pursuant to the provisions of this Indenture.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties on such date.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor corporation shall have become such pursuant to the

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applicable provisions of this Indenture, and thereafter "Company" shall mean such successor corporation.

"Company Request" and "Company Order" mean, respectively, a written request or order signed in the name of the Company by the Chairman of the Board, the President, a Vice President or by the Treasurer, and by an Assistant Treasurer, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee.

"Controlled Subsidiary" means any corporation more than 80% of the outstanding Voting Stock, except for qualifying shares, of which shall at the time be owned directly or indirectly by the Company.

"Corporate Trust Office" means the office of the Trustee at which at any particular time its corporate trust business shall be administered.

"corporation" includes corporations, associations, companies and business trusts.

"coupon" means any interest coupon appertaining to a Bearer Security.

"Defaulted Interest" has the meaning specified in Section 307.

"Dollars" or \$ or any similar reference shall mean the currency of the United States, except as may otherwise be provided in the form of Securities of any particular series pursuant to the provisions of this Indenture.

"Event of Default" has the meaning specified in Section 501.

"Holder", when used with respect to any Security, means in the case of a Registered Security, the Person in whose name the Security is registered in the Security Register and in the case of a Bearer Security, the bearer thereof and, when used with respect to any coupon, means the bearer thereof.

"Indenture" means this instrument as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, and shall include each Officers' Certificate delivered to the Trustee pursuant to Section 303.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity, and, when used with respect to a Security which provides for the payment of Additional Amounts pursuant to Section 1004, includes such Additional Amounts.

"Interest Payment Date" means the Stated Maturity of an installment of interest on the applicable Securities.

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"Maturity" when used with respect to any Security means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, notice of redemption, request for redemption or otherwise.

"MLPF&S" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, a Delaware corporation.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the President, a Vice President or the Treasurer, and by an Assistant Treasurer, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may (except as otherwise expressly provided in this Indenture) be an employee of or counsel for the Company, or other counsel acceptable to the Trustee.

"Original Issue Discount Security" means a Security issued pursuant to this Indenture which provides for declaration of an amount less than the principal thereof to be due and payable upon acceleration pursuant to Section 502.

"Outstanding" when used with respect to Securities means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities and any coupons thereto appertaining, provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and

(iii) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder or are present at a meeting of Holders of Securities for quorum purposes, the principal amount of an Original Issue Discount

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Security that may be counted in making such determination and that shall be deemed to be Outstanding for such purposes shall be equal to the amount of the principal thereof that could be declared to be due and payable pursuant to the terms of such Original Issue Discount Security at the time the taking of such action by the Holders of such requisite principal amount is evidenced to the Trustee as provided in Section 104(a), and, provided further, that Securities owned beneficially by the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor, other than Securities purchased in connection with the distribution or trading thereof, shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment" when used with respect to the Securities of any series, means the place or places where the principal of (and premium, if any) and interest on the Securities of that series are payable as specified as provided pursuant to Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a lost, destroyed, mutilated or stolen Security or a Security to which a mutilated, destroyed, lost or stolen coupon appertains shall be deemed to evidence the same debt as the lost, destroyed, mutilated or stolen Security or the Security to which a mutilated, destroyed, lost or stolen coupon appertains.

"Redemption Date" when used with respect to any Security to be redeemed means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price" when used with respect to any Security to be redeemed means the price at which it is to be redeemed as determined pursuant to the provisions of this Indenture.

"Registered Security" means any Security established pursuant to Section

201 which is registered in the Security Register.

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"Regular Record Date" for the interest payable on a Registered Security on any Interest Payment Date means the date, if any, specified in such Security as the "Regular Record Date".

"Responsible Officer" when used with respect to the Trustee means the chairman or vice-chairman of the board of directors, the chairman or vice chairman of the executive committee of the board of directors, the president, any vice president (whether or not designated by a number or a word or words added before or after the title "vice president"), the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Security" or "Securities" means any Security or Securities, as the case may be, authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest on the Registered Securities of any series means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity" when used with respect to any Security or any installment of principal thereof or interest thereon means the date specified in such Security or a coupon representing such installment of interest as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

"Subsidiary" means any corporation of which at the time of determination the Company and/or one or more Subsidiaries owns or controls directly or indirectly more than 50% of the shares of Voting Stock. "Wholly-owned", when used with reference to a Subsidiary, means a Subsidiary of which all of the outstanding capital stock (except for qualifying shares) is owned by the Company or by one or more wholly-owned Subsidiaries.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such with respect to one or more series of Securities pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to the Securities of that series.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed, except as provided in Section 905.

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"United States" means the United States of America (including the States and the District of Columbia), its territories and possessions and other areas subject to its jurisdiction.

"United States Alien" means any Person who, for United States Federal income tax purposes, is a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is, for United States Federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust.

"Vice President" when used with respect to the Company shall mean any Vice President of the Company whether or not designated by a number or a word or words added before or after the title "Vice- President".

"Voting Stock" means stock of the class or classes having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such corporation provided that, for the purposes hereof, stock which carries only the right to vote conditionally on the happening of an event shall not be considered voting stock whether or not such event shall have happened.

2. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been

complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include

(1) a statement that each individual signing such certificate or opinion has read such condition or covenant and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such condition or covenant has been complied with; and

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(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

3. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

4. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing. If, but only if, Securities of a series are issuable as Bearer Securities, any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of Securities of such series may, alternatively, be embodied in and evidenced by the record of Holders of Securities of such series voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders of Securities of such series duly called and held in accordance with the provisions of Article Fourteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments and so voting at any

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such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company and any agent of the Trustee or the Company, if made in the manner provided in this Section. The record of any meeting of Holders of Securities shall be proved in the manner provided in

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any reasonable manner which the Trustee deems sufficient and in accordance with such reasonable rules as the Trustee may determine; and the Trustee may in any instance require further proof with respect to any of the matters referred to in this Section.

(c) The ownership of Registered Securities and the principal amount and serial numbers of Registered Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) The principal amount and serial numbers of Bearer Securities held by any Person, and the date of holding the same, may be proved by the production of such Bearer Securities or by a certificate executed, as depositary, by any trust company, bank, banker or other depositary reasonably acceptable to the Company, wherever situated, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such Person had on deposit with such depositary, or exhibited to it, the Bearer Securities therein described; or such facts may be proved by the certificate or affidavit of the Person holding such Bearer Securities, if such certificate or affidavit is deemed by the Trustee to be satisfactory. The Trustee and the Company may assume that such ownership of any Bearer Security continues until (1) another certificate or affidavit bearing a later date issued in respect of the same Bearer Security is produced, or (2) such Bearer Security is produced to the Trustee by some other Person, or (3) such Bearer Security is surrendered in exchange for a Registered Security, or (4) such Bearer Security is no longer Outstanding. The principal amount and serial numbers of Bearer Securities held by the Person so executing such instrument or writing and the date of holding the same may also be proved in any other manner which the Trustee deems sufficient.

(e) If the Company shall solicit from the Holders of any Registered Securities any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by Board Resolution, fix in advance a record date for the determination of Holders of Registered Securities entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of Registered Securities of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or

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other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; provided that no such authorization, agreement or consent by the Holders of Registered Securities on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

(f) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done or suffered to be done by the Trustee, any Security Registrar, any Paying Agent or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

5. Notices, etc. to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to the attention of its Treasurer at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

6. Notice to Holders of Securities; Waiver.

Except as otherwise expressly provided herein or in the form of Securities of any particular series pursuant to the provisions of this Indenture, where this Indenture provides for notice to Holders of Securities of any event,

(1) such notice shall be sufficiently given to Holders of Registered Securities if in writing and mailed, first-class postage prepaid, to each Holder of a Registered Security affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice; and

(2) such notice shall be sufficiently given to Holders of Bearer Securities, if any, if published in an Authorized Newspaper in The City of New York and, if the Securities of such series are then listed on any stock exchange outside the United States, in an Authorized Newspaper in such city as the Company shall advise the

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Trustee that such stock exchange so requires, on a Business Day at least twice, the first such publication to be not earlier than the earliest date and not later than the latest date prescribed for the giving of such notice.

In any case where notice to Holders of Registered Securities is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder of a Registered Security shall affect the sufficiency of such notice with respect to other Holders of Registered Securities or the sufficiency of any notice to Holders of Bearer Securities given as provided herein. In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

In case by reason of the suspension of publication of any Authorized Newspaper or Authorized Newspapers or by reason of any other cause it shall be impracticable to publish any notice to Holders of Bearer Securities as provided above, then such notification to Holders of Bearer Securities as shall be given with the approval of the Trustee shall constitute sufficient notice to such Holders for every purpose hereunder. Neither failure to give notice by publication to Holders of Bearer Securities as provided above, nor any defect in any notice so published, shall affect the sufficiency of any notice mailed to Holders of Registered Securities as provided above.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Securities shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

7. Language of Notices, etc.

Any request, demand, authorization, direction, notice, consent, election or waiver required or permitted under this Indenture shall be in the English language, except that, if the Company so elects, any published notice may be in an official language of the country of publication.

8. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Indenture by any of the provisions of the Trust Indenture Act, such required provisions shall control.

9. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

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10. Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

11. Separability Clause.

In case any provision in this Indenture or in the Securities or coupons shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

12. Benefits of Indenture.

Nothing in this Indenture or in the Securities or coupons, express or implied, shall give to any Person, other than the parties hereto, any Security

Registrar, any Paying Agent and their successors hereunder and the Holders of Securities or coupons, any benefit or any legal or equitable right, remedy or claim under this Indenture.

13. Governing Law.

This Indenture and the Securities and coupons shall be governed by and construed in accordance with the laws of the State of New York.

14. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or the Securities or coupons other than a provision in the Securities which specifically states that such provision shall apply in lieu of this Section) payment of interest or any Additional Amounts or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

Article Two

Security Forms

1. Forms Generally.

The Registered Securities, if any, of each series and the Bearer Securities, if any, of each series, related coupons, if any, and temporary global Securities, if any, shall be in the form established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, shall have appropriate insertions, omissions, substitutions and other

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variations as are required or permitted by this Indenture or any indenture supplemental hereto and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, the Securities of each series shall be issuable in registered form without coupons. If so provided as contemplated by Section 301, the Securities of a series also shall be issuable in bearer form, with or without interest coupons attached.

The definitive Securities and coupons shall be printed, lithographed or engraved or produced by any combination of these methods on a steel engraved border or steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities or coupons.

2. Form of Trustee's Certificate of Authentication.

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Manufacturers Hanover Trust Company,

as Trustee

By: _____
Authorized Officer

Article Three

The Securities

1. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution, and set forth in an Officers' Certificate, or established in one or more indentures supplemental hereto:

(1) the title of the Securities and the series in which such Securities shall be included;

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(2) any limit upon the aggregate principal amount of the Securities of such title or the Securities of such series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107);

(3) whether Securities of the series are to be issuable as Registered Securities, Bearer Securities (with or without coupons) or both, any restrictions applicable to the offer, sale or delivery of Bearer Securities and the terms upon which Bearer Securities of the series may be exchanged for Registered Securities of the series and vice versa;

(4) the date as of which any Bearer Securities of the series and any temporary global Security representing Outstanding Securities of the series shall be dated if other than the date of original issuance of the first Security of the series to be issued;

(5) if Securities of the series are to be issuable as Bearer Securities, whether interest in respect of any portion of a temporary Bearer Security in global form (representing all of the Outstanding Bearer Securities of the series) payable in respect of an Interest Payment Date prior to the exchange of such temporary Bearer Security for definitive Securities of the series shall be paid to any clearing organization with respect to the portion of such temporary Bearer Security held for its account and, in such event, the terms and conditions (including any certification requirements) upon which any such interest payment received by a clearing organization will be credited to the Persons entitled to interest payable on such Interest Payment Date;

(6) the date or dates on which the principal of such Securities is payable;

(7) the rate or rates at which such Securities shall bear interest, if any, or any method by which such rate or rates shall be determined, the date or dates from which such interest shall accrue, the Interest Payment Dates on which such interest shall be payable and the Regular Record Date for the interest payable on Registered Securities on any Interest Payment Date, whether and under what circumstances Additional Amounts on such securities shall be payable in respect of specified taxes, assessments or other governmental charges withheld or deducted and, if so, whether the Company has the option to redeem the affected Securities rather than pay such Additional Amounts, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;

(8) the place or places, if any, in addition to or other than the Borough of Manhattan, The City of New York, where the principal of (and premium, if any) and interest on or Additional Amounts, if any, payable in respect of such Securities shall be payable;

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(9) the period or periods within which, the price or prices at which and the terms and conditions upon which such Securities may be redeemed, in whole or in part, at the option of the Company;

(10) the obligation, if any, of the Company to redeem or purchase such Securities pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which such Securities shall be redeemed or purchased, in whole or in part, pursuant to such obligation, and any provisions for the remarketing of such Securities;

(11) the denominations in which Registered Securities of the series, if any, shall be issuable if other than denominations of \$1,000 and any integral multiple thereof, and the denominations in which Bearer Securities of the series, if any, shall be issuable if other than the denomination of \$5,000;

(12) if other than the principal amount thereof, the portion of the principal amount of such Securities which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(13) if other than such coin or currency of the United States of America as at the time of payment is legal tender for payment of public or private debts, the coin or currency, including composite currencies, in which payment of the principal of (and premium, if any) and interest, if any, on, and Additional Amounts in respect of such Securities shall be payable;

(14) if the principal of (and premium, if any) or interest, if any, on, and Additional Amounts in respect of, such Securities are to be payable, at the election of the Company or a Holder thereof, in a coin or currency, including composite currencies, other than that in which the Securities are stated to be payable, the period or periods within which, and the terms and conditions upon which, such election may be made;

(15) if the amount of payments of principal of (and premium, if any) or

interest, if any, on, and Additional Amounts in respect of, such Securities may be determined with reference to an index, formula or other method or based on a coin or currency other than that in which the Securities are stated to be payable, the manner in which such amounts shall be determined;

(16) if the Securities of such series are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary Security of such series) only upon receipt of certain certificates or other documents or satisfaction of other conditions, then the form and terms of such certificates, documents or conditions; and

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(17) any other terms of such Securities (which terms shall not be inconsistent with the provisions of this Indenture).

All Securities of any one series and the coupons appertaining to Bearer Securities of such series, if any, shall be substantially identical except as to denomination and the rate or rates of interest, if any, and Stated Maturity, the date from which interest, if any, shall accrue and except as may otherwise be provided in or pursuant to such Board Resolution and set forth in such Officers' Certificate or in any such indenture supplemental hereto. All Securities of any one series need not be issued at the same time, and unless otherwise provided, a series may be reopened for issuances of additional Securities of such series.

If any of the terms of the Securities of any series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of such series.

2. Denominations.

Unless other denominations and amounts may from time to time be fixed by or pursuant to a Board Resolution, the Registered Securities of each series, if any, shall be issuable in registered form without coupons in denominations of \$1,000 and any integral multiple thereof and the Bearer Securities of each series, if any, shall be issuable in the denomination of \$5,000, or in such other denominations and amounts as may from time to time be fixed by or pursuant to a Board Resolution.

3. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, President, Vice President serving as Chief Financial Officer or its Treasurer under its corporate seal reproduced thereon and attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile. Coupons shall bear the facsimile signature of the Treasurer or any Assistant Treasurer of the Company.

Securities and coupons bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series, together with any coupons appertaining thereto, executed by the Company to the Trustee for authentication, together with the Board Resolution and Officers' Certificate or supplemental indenture with

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respect to such Securities referred to in Section 301 and a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order and subject to the provisions hereof shall authenticate and deliver such Securities. In authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating,

(a) the form and terms of such Securities and coupons, if any, have been established in conformity with the provisions of this Indenture;

(b) that all conditions precedent to the authentication and delivery of such Securities, together with the coupons, if any, appertaining thereto, have been complied with and that such Securities and coupons, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general equity

principles;

(c) that all laws and requirements in respect of the execution and delivery by the Company of such Securities and coupons, if any, have been complied with; and

(d) as to such other matters as the Trustee may reasonably request.

The Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee or if the Trustee being advised by counsel determines that such action may not lawfully be taken.

Each Registered Security shall be dated the date of its authentication. Each Bearer Security and any temporary Bearer Security in global form shall be dated as of the date specified as contemplated by Section 301.

No Security or coupon appertaining thereto shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Security a certificate of authentication substantially in the form provided for in Section 202 or 614 executed by or on behalf of the Trustee by the manual signature of one of its authorized signers, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Except as permitted by Section 306 or 307, the Trustee shall not authenticate and deliver any Bearer Security unless all appurtenant coupons for interest then matured have been detached and cancelled.

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4. Temporary Securities.

Pending the preparation of definitive Securities of any series, the Company may execute and deliver to the Trustee, and upon Company Order the Trustee shall authenticate and deliver, in the manner provided in Section 303, temporary Securities of such series which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, in registered form, or, if authorized, in bearer form with one or more coupons or without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities. In the case of Bearer Securities of any series, such temporary Securities may be in global form, representing all of the Outstanding Bearer Securities of such series.

Except in the case of temporary Securities in global form, which shall be exchanged in accordance with the provisions thereof, if temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities of such series shall be exchangeable for definitive Securities of such series containing identical terms and provisions upon surrender of the temporary Securities of such series at an office or agency of the Company maintained for such purpose pursuant to Section 1002, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series (accompanied by any unmatured coupons appertaining thereto) the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations of the same series containing identical terms and provisions; provided, however, that no definitive Bearer Security, except as provided pursuant to Section 301, shall be delivered in exchange for a temporary Registered Security; and provided, further, that a definitive Bearer Security shall be delivered in exchange for a temporary Bearer Security only in compliance with the conditions set forth therein. Unless otherwise specified as contemplated by Section 301 with respect to a temporary global Security, until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

5. Registration, Transfer and Exchange.

With respect to the Registered Securities of each series, if any, the Company shall cause to be kept at an office or agency of the Company maintained pursuant to Section 1002, a register (herein sometimes referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of the Registered Securities of each series and of transfers of the Registered Securities of each series. Such office or agency shall be the "Security Registrar" for the Registered Securities, if any, of each series of Securities. In the event that the Trustee shall not be the Security Registrar, it shall have the right to examine the Security Register at all reasonable times.

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Upon surrender for registration of transfer of any Registered Security of any series at any office or agency of the Company maintained for that series pursuant to Section 1002, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Registered Securities of the same series, of any authorized denominations, of a like aggregate principal amount bearing a number not contemporaneously outstanding and containing identical terms and provisions.

At the option of the Holder, Registered Securities of any series may be exchanged for other Registered Securities of the same series containing identical terms and provisions, in any authorized denominations, and of a like aggregate principal amount, upon surrender of the Securities to be exchanged at any such office or agency. Whenever any Registered Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Registered Securities which the holder making the exchange is entitled to receive.

At the option of the Holder, Bearer Securities of any series may be exchanged for Registered Securities of the same series containing identical terms and provisions, of any authorized denominations and aggregate principal amount, upon surrender of the Bearer Securities to be exchanged at any such office or agency, with all unmatured coupons and all matured coupons in default thereto appertaining. If the Holder of a Bearer Security is unable to produce any such unmatured coupon or coupons or matured coupon or coupons in default, such exchange may be effected if the Bearer Securities are accompanied by payment in funds acceptable to the Company and the Trustee in an amount equal to the face amount of such missing coupon or coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there is furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to any Paying Agent any such missing coupon in respect of which such a payment shall have been made, such Holder shall be entitled to receive the amount of such payment; provided, however, that, except as otherwise provided in Section 1002, interest represented by coupons shall be payable only upon presentation and surrender of those coupons at an office or agency located outside the United States. Notwithstanding the foregoing, in case a Bearer Security of any series is surrendered at any such office or agency in exchange for a Registered Security of the same series and like tenor after the close of business at such office or agency on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related date for payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date or proposed date of payment, as the case may be (or, if such coupon is so surrendered with such Bearer Security, such coupon shall be returned to the person so surrendering the Bearer Security), and interest or Defaulted Interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of the Registered

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Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

If expressly provided with respect to the Securities of any series, at the option of the Holder, Registered Securities of such series may be exchanged for Bearer Securities upon such terms and conditions as may be provided with respect to such series.

Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Registered Security presented or surrendered for registration of transfer, or for exchange or redemption shall (if so required by the Company or the Security Registrar for such series of Security presented) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and such Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange, or redemption of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or

exchange any Securities of any series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities of that series selected for redemption under Section 1103 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Registered Security so selected for redemption in whole or in part, except, in the case of any Security to be redeemed in part, the portion thereof not to be redeemed, or (iii) to exchange any Bearer Security so selected for redemption except that such a Bearer Security may be exchanged for a Registered Security of that series, provided that such Registered Security shall be immediately surrendered for redemption with written instruction for payment consistent with the provisions of this Indenture.

6. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security or a Security with a mutilated coupon appertaining to it is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series containing identical

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terms and of like principal amount and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to the surrendered Security.

If there be delivered to the Company and to the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security or coupon, and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security or coupon has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security or in exchange for the Security to which a destroyed, lost or stolen coupon appertains (with all appurtenant coupons not destroyed, lost or stolen), a new Security of the same series containing identical terms and of like principal amount and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to such destroyed, lost or stolen Security or to the Security to which such destroyed, lost or stolen coupon appertains.

In case any such mutilated, destroyed, lost or stolen Security or coupon has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security or coupon; provided, however, that payment of principal of (and premium, if any) and any interest on Bearer Securities shall, except as otherwise provided in Section 1002, be payable only at an office or agency located outside the United States and, unless otherwise specified as contemplated by Section 301, any interest on Bearer Securities shall be payable only upon presentation and surrender of the coupons appertaining thereto.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series, with its coupons, if any, issued pursuant to this Section in lieu of any destroyed, lost or stolen Security, or in exchange for a Security to which a destroyed, lost or stolen coupon appertains, shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security and its coupons, if any, or the destroyed, lost or stolen coupon shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series and their coupons, if any, duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons.

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7. Payment of Interest; Interest Rights Preserved.

Interest on any Registered Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall, if so provided in such Security, be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest. In case a Bearer Security of any series is surrendered in exchange for a Registered Security of such series after the close of business (at an office or agency in a Place of Payment for such series) on any Regular Record Date and before the opening of business (at such office or agency) on the next succeeding Interest Payment Date, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date and interest will not be payable on such Interest Payment Date in respect of the Registered Security issued in exchange for such Bearer Security, but will be

payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

Any interest on any Registered Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date for such Registered Security (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder; and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Registered Securities affected (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Registered Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of such Registered Securities at his address as it appears in the Security Register not less than 10 days prior to such Special Record Date. The Trustee may, in its discretion, in the name and at the expense of the Company, cause a similar notice to be published at least once in a newspaper, customarily published in the English language on each Business Day and of general

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circulation in the Borough of Manhattan, The City of New York, but such publication shall not be a condition precedent to the establishment of such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Registered Securities (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2). In case a Bearer Security of any series is surrendered at the office or agency in a Place of Payment for such series in exchange for a Registered Security of such series after the close of business at such office or agency on any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such proposed date of payment and Defaulted Interest will not be payable on such proposed date of payment in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such payment shall be deemed practicable by the Trustee.

At the option of the Company, interest on Registered Securities of any series that bear interest may be paid by mailing a check to the address of the person entitled thereto as such address shall appear in the Security Register.

Subject to the foregoing provisions of this Section and Section 305, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

8. Persons Deemed Owners.

Prior to due presentment of a Registered Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Registered Security is registered as the owner of such Registered Security for the purpose of receiving payment of principal of (and premium, if any), and (subject to Sections 305 and 307) interest on and Additional Amounts with respect to, such Registered Security and for all other purposes whatsoever, whether or not such Registered Security be overdue, and neither the Company, the Trustee nor any agent of the Company or

the Trustee shall be affected by notice to the contrary.

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The Company, the Trustee and any agent of the Company or the Trustee may treat the bearer of any Bearer Security and the bearer of any coupon as the absolute owner of such Security or coupon for the purpose of receiving payment thereof or on account thereof and for all other purposes whatsoever, whether or not such Security or coupon be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

9. Cancellation.

All Securities and coupons surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee, and any such Securities and coupons and Securities and coupons surrendered directly to the Trustee for any such purpose shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly cancelled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities and coupons held by the Trustee shall be destroyed by it unless by a Company Order the Company directs their return to it.

10. Computation of Interest.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

Article Four

Satisfaction And Discharge

1. Satisfaction and Discharge of Indenture.

Upon the direction of the Company by a Company Order this Indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for and any right to receive Additional Amounts, as provided in Section 1004), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered and all coupons appertaining thereto (other than (i) coupons appertaining to Bearer Securities surrendered for exchange for Registered Securities and maturing after such exchange,

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whose surrender is not required or has been waived as provided in Section 305, (ii) Securities and coupons which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306, (iii) coupons appertaining to Securities called for redemption and maturing after the relevant Redemption Date, whose surrender has been waived as provided in Section 1107, and (iv) Securities and coupons for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities and, in the case of (i) or (ii) below, any such coupons appertaining thereto not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities and coupons not theretofore delivered to the Trustee for

cancellation, for principal (and premium, if any) and interest, and any Additional Amounts with respect thereto, to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

In the event there are Securities of two or more series hereunder, the Trustee shall be required to execute an instrument acknowledging satisfaction and discharge of this Indenture only if requested to do so with respect to Securities of all series as to which it is Trustee and if the other conditions thereto are met. In the event there are two or more Trustees hereunder, then the effectiveness of any such instrument shall be conditioned upon receipt of such instruments from all Trustees hereunder.

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Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

2. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities, the coupons and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and any interest and Additional Amounts for whose payment such money has been deposited with the Trustee; but such money need not be segregated from other funds except to the extent required by law.

Article Five

Remedies

1. Events of Default.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon or any Additional Amounts payable in respect of any Security of that series when such interest or Additional Amounts becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of (and premium, if any, on) any Security of that series when it becomes due and payable at Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has been expressly included in this Indenture solely for the benefit of series of Securities other than that series), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least

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10% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any

substantial part of its property, or ordering the winding-up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(6) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the Company or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of any of the foregoing; or

(7) any other Event of Default provided with respect to Securities of that series.

2. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal of all the Securities of that series, or such lesser amount as may be provided for in the Securities of that series, to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by the Holders), and upon any such declaration such principal or such lesser amount shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue installments of interest on and any Additional Amounts payable in respect of all Securities of that series,

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(B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates borne by or provided for in such Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue installments of interest and Additional Amounts at the rate or rates borne by or provided for in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which has become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

3. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any installment of interest on or any Additional Amounts payable in respect of any Security when such interest or Additional Amounts shall have become due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at its Maturity,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities and coupons, the whole amount then due and payable on such Securities and coupons for principal (and premium, if any) and interest and Additional Amounts, if any, with interest upon the overdue principal (and premium, if any) and, to the extent that payment of such interest shall be

legally enforceable, upon overdue installments of interest or any Additional Amounts, at the rate or rates borne by or provided for in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for

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the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series and any related coupons by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

4. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount, or such lesser amount as may be provided for in the Securities of that series, of principal (and premium, if any) and interest and any Additional Amounts owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents or counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder of Securities and coupons to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders of Securities and coupons, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any other amounts due the Trustee under Section 607.

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Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Security or coupon any plan of reorganization, arrangement, adjustment or composition affecting the Securities or coupons or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder of a Security or coupon in any such proceeding.

5. Trustee May Enforce Claims Without Possession of Securities or Coupons.

All rights of action and claims under this Indenture or any of the Securities or coupons may be prosecuted and enforced by the Trustee without the possession of any of the Securities or coupons or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery or judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities and coupons in respect of which such judgment has been recovered.

6. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and,

in case of the distribution of such money on account of principal (and premium, if any), interest or any Additional Amounts, upon presentation of the Securities or coupons, or both, as the case may be, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under Section 607;

Second: To the payment of the amounts then due and unpaid upon the Securities and coupons for principal (and premium, if any) and interest and any Additional Amounts payable in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Securities and coupons for principal (and premium, if any), interest and Additional Amounts, respectively;

Third: The balance, if any, to the Person or Persons entitled thereto.

7. Limitation on Suits.

No Holder of any Security of any series or any related coupons shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

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(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other such Holders or Holders of any other series, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all such Holders.

8. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security or coupon shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Sections 305 and 307) interest on and any Additional Amounts in respect of such Security or payment of such coupon on the respective Stated Maturity or Maturities expressed in such Security or coupon (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

9. Restoration of Rights and Remedies.

If the Trustee or any Holder of a Security or coupon has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case the Company, the Trustee and the Holders of Securities and coupons shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

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10. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the

Trustee or to the Holders of Securities or coupons is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

11. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Security or coupon to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders of Securities or coupons may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders of Securities or coupons, as the case may be.

12. Control by Holders of Securities.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Securities of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) such direction is not unduly prejudicial to the rights of other Holders of Securities of such series.

13. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series and any related coupons waive any past default hereunder with respect to such series and its consequences, except a default

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(1) in the payment of the principal of (and premium, if any) or interest on or Additional Amounts payable in respect of any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

14. Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Security or coupon by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit, other than the Trustee, of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, including the Trustee, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Company, the Trustee or by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities of any series, or to any suit instituted by any Holder of any Security or coupon for the enforcement of the payment of the principal of (and premium, if any) or interest on or any Additional Amounts in respect of any Security or the payment of any coupon on or after the respective Stated Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date) or interest on any overdue principal of any Security.

15. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the

performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

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Article Six

The Trustee

1. Certain Duties and Responsibilities.

(a) Except during the continuance of an Event of Default,

(1) the Trustee undertakes to perform such duties, and only such duties, as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities of any series, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities of such series; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have

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reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

2. Notice of Defaults.

Within 90 days after the occurrence of any default hereunder with respect to the Securities of any series, the Trustee shall transmit by mail to all Holders of Securities of such series entitled to receive reports pursuant to Section 703 (c), notice of such default hereunder known to the Trustee, unless such default shall have been cured or waived; provided, however, that, except in the case of a default in the payment of the principal of (and premium, if any) or interest on, or any Additional Amounts with respect to, any Security of such series or in the payment of any sinking fund installment with respect to Securities of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interests of the Holders of Securities and coupons of such series; and provided, further, that in the case of any default of the character specified in Section 501(4) with

respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

3. Certain Rights of Trustee.

Except as otherwise provided in Section 601:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties,

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order (other than delivery of any Security to the Trustee for authentication and delivery pursuant to Section 303 which shall be sufficiently evidenced as provided therein) and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any

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action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Securities of any series or any related coupons pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

4. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except the Trustee's certificate of authentication, and in any coupons shall be taken as the statements of the Company, and the Trustee or any Authenticating Agent assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities or coupons. The Trustee or any Authenticating Agent shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

5. May Hold Securities.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and coupons and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

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6. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no

liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

7. Compensation and Reimbursement.

The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursements or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee and its agents for, and to hold them harmless against, any loss, liability or expense incurred without negligence or bad faith on their part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending themselves against any claim or liability in connection with the exercise or performance of any of their powers or duties hereunder.

As security for the performance of the obligations of the Company under this Section the Trustee shall have a lien prior to the Securities of any series upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (or premium, if any) or interest on Securities.

8. Disqualifications; Conflicting Interests.

(a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section, with respect to the Securities of any series, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign with respect to the Securities of that series in the manner and with the effect hereinafter specified in this Article.

(b) In the event that the Trustee shall fail to comply with the provisions of Subsection (a) of this Section with respect to the Securities of any series, the Trustee shall, within 10 days after the expiration of such 90-day period, transmit, in the manner and to the extent provided in Section 703(c) to all Holders of Securities of that series notice of such failure.

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(c) For the purposes of this Section, the Trustee shall be deemed to have a conflicting interest with respect to the Securities of any series, if

(1) the Trustee is trustee under this Indenture with respect to the Outstanding Securities of any series other than that series or is trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the Company are outstanding, unless such other indenture is a collateral trust indenture under which the only collateral consists of Securities issued under this Indenture, provided that there shall be excluded from the operation of this paragraph (A) this Indenture with respect to the Securities of any series other than that series, and (B) any indenture or indentures under which other securities, or certificates of interest or participation in other securities, of the Company are outstanding, if

(i) this Indenture and such other indenture or indentures are wholly unsecured and such other indenture or indentures are hereafter qualified under the Trust Indenture Act, unless the Commission shall have found and declared by order pursuant to Section 305(b) or Section 307(c) of the Trust Indenture Act that differences exist between the provisions of this Indenture with respect to Securities of that series and one or more other series or the provisions of such other indenture or indentures which are so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or under such other indenture or indentures, or

(ii) the Company shall have sustained the burden of proving, on application to the Commission and after opportunity for hearing thereon, that trusteeship under this Indenture with respect to the Securities of that series and such other series or such other indenture or indentures is not so likely to involve a material

conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series under such other indenture or indentures;

(2) the Trustee or any of its directors or executive officers is an obligor upon the Securities or an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with the Company or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business of underwriting, except that (i) one individual may be a director or an

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executive officer, or both, of the Trustee and a director or an executive officer, or both, of the Company but may not be at the same time an executive officer of both the Trustee and the Company; (ii) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director or an executive officer, or both, of the Trustee and a director of the Company; and (iii) the Trustee may be designated by the Company or by any underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent, escrow agent, or depositary, or in any other similar capacity, or, subject to the provisions of paragraph (1) of this Subsection, to act as trustee, whether under an indenture or otherwise;

(5) 10% or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner, or executive officer thereof, or 20% or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or 10% or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner or executive officer thereof, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), (i) 5% or more of the voting securities, or 10% or more of any other class of security, of the Company not including the Securities issued under this indenture and securities issued under any other indenture under which the Trustee is also trustee, or (ii) 10% or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), 5% or more of the voting securities of any person who, to the knowledge of the Trustee, owns 10% or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this Subsection defined), 10% or more of any class of security of any person who, to the knowledge of the Trustee, owns 50% or more of the voting securities of the Company; or

(9) the Trustee owns, on May 15 in any calendar year, in the capacity of executor, administrator, testamentary or inter vivos trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of 25% or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflicting interest under paragraph (6), (7) or (8) of this Subsection. As to any such securities of which the Trustee acquired ownership through becoming executor, administrator, or testamentary trustee of an estate which included them, the provisions of the preceding sentence shall not apply,

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for a period of two years from the date of such acquisition, to the extent that such securities included in such estate do not exceed 25% of such voting securities or 25% of any such class of security. Promptly after May 15 in each calendar year, the Trustee shall make a check of its holdings of such securities in any of the above-mentioned capacities as of such May 15. If the Company fails to make payment in full of the principal of (or premium, if any) or interest on any of the Securities when and as the same becomes due and payable, and such failure continues for 30 days thereafter, the Trustee shall make a prompt check of its holding of such securities in

any of the above-mentioned capacities as of the date of the expiration of such 30-day period, and after such date, notwithstanding the foregoing provisions of this paragraph, all such securities so held by the Trustee, with sole or joint control over such securities vested in it, shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this Subsection.

The specification of percentages in paragraphs (5) to (9), inclusive, of this Subsection shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary or sufficient to constitute direct or indirect control for the purposes of paragraph (3) or (7) of this Subsection.

For the purposes of paragraphs (6), (7), (8) and (9) of this Subsection only, (i) the terms "security" and "securities" shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (ii) an obligation shall be deemed to be "in default" when a default in payment of principal shall have continued for 30 days or more and shall not have been cured; and (iii) the Trustee shall not be deemed to be the owner or holder of (A) any security which it holds as collateral security, as trustee or otherwise, for an obligation which is not in default as defined in clause (ii) above, or (B) any security which it holds as collateral security under this Indenture, irrespective of any default hereunder, or (C) any security which it holds as agent for collection, or as custodian, escrow agent, or depositary, or in any similar representative capacity.

(d) For the purposes of this Section:

(1) The term "underwriter", when used with reference to the Company, means every person who, within three years prior to the time as of which the determination is made, has purchased from the Company with a view to, or has offered or sold for the Company in connection with, the distribution of any security of the Company outstanding at such time, or has participated or has had a direct or indirect participation in any such undertaking, or has participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such term shall not

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include a person whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission.

(2) The term "director" means any director of a corporation, or any individual performing similar functions with respect to any organization, whether incorporated or unincorporated.

(3) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization, or a government or political subdivision thereof. As used in this paragraph, the term "trust" shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

(4) The term "voting security" means any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a person, or any security issued under or pursuant to any trust, agreement or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are presently entitled to vote in the direction or management of the affairs of a person.

(5) The term "Company" means any obligor upon the Securities.

(6) The term "executive officer" means the president, every vice president, every trust officer, the cashier, the secretary, and the treasurer of a corporation, and any individual customarily performing similar functions with respect to any organization whether incorporated or unincorporated, but shall not include the chairman of the board of directors.

(e) The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

(1) A specified percentage of the voting securities of the Trustee, the Company or any other person referred to in this Section (each of whom is referred to as a "person" in this paragraph) means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(2) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(3) The term "amount", when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares, and the number of units if relating to any other kind of security.

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(4) The term "outstanding" means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

(i) securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;

(ii) securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;

(iii) securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise; and

(iv) securities held in escrow if placed in escrow by the issuer thereof;

provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(5) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges; provided, however, that, in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes; and provided, further, that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

9. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America, any State or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$5,000,000 and subject to supervision or examination by Federal or State authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

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10. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 611.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(d) If at anytime:

(1) the Trustee shall fail to comply with Section 608(a) after written request therefor by the Company or by any Holder of a Security who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder of a Security, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (ii) subject to Section 514, any Holder of a Security who has been a bona fide Holder of a Security of any series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities of such series and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation,

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removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders of Securities and accepted appointment in the manner required by Section 611, any Holder of a Security who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of Registered Securities, if any, of such series as their names and addresses appear in the Security Register and, if Securities of such series are issued as Bearer Securities, by publishing notice of such event once in an Authorized Newspaper in each Place of Payment located outside the United States. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

11. Acceptance of Appointment by Successor.

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that

those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and that no Trustee shall be responsible for any notice given to, or received by, or any act or failure to act on the part of any other Trustee hereunder, and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein, such retiring Trustee shall with respect to the Securities of that or those series to which the appointment of such successor Trustee relates have no further responsibility for the exercise of rights and powers or for the performance of the duties and obligations vested in the Trustee under this Indenture other than as hereinafter expressly set forth, and each such successor Trustee without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee, to the extent contemplated by such supplemental indenture, the property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

12. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or

consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

13. Preferential Collection of Claims Against Company.

(a) Subject to Subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within four months prior to a default, as defined in Subsection (c) of this Section, or subsequent to such a default, then, unless and until such default, shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the Holders of the Securities and coupons and the holders of other indenture securities (as defined in Subsection (c) of this Section):

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such four months' period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this Subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received by the Trustee in respect of any claim as such creditor, either as security therefor, or in satisfaction or

composition thereof, or otherwise, after the beginning of such four months' period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right of the Trustee:

(A) to retain for its own account (i) payments made on account of any such claim by any Person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third Person, and (iii) distributions made in cash, securities or other property in respect of claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such four months' period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such four months' period and such property was received as security therefor simultaneously with the creation thereof, and if the

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Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in Subsection (c) of this Section, would occur within four months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security for such claim as provided in paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such four months' period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the Holders of Securities and the holders of other indenture securities in such manner that the Trustee, the Holders of Securities and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee and the Holders of Securities and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term "dividends" shall include any distribution with respect to such claim, in bankruptcy or receivership or proceedings for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, whether such distribution is made in cash, securities, or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or proceedings for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee and the Holders of Securities and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee and the Holders of Securities and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property

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held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured

portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee which has resigned or been removed after the beginning of such four months' period shall be subject to the provisions of this Subsection as though such resignation or removal had not occurred. If any Trustee has resigned or been removed prior to the beginning of such four months' period, it shall be subject to the provisions of this Subsection if and only if the following conditions exist:

(i) the receipt of property or reduction of claim, which would have given rise to the obligation to account, if such Trustee had continued as Trustee, occurred after the beginning of such four months' period; and

(ii) such receipt of property or reduction of claim occurred within four months after such resignation or removal.

(b) There shall be excluded from the operation of Subsection (a) of this Section a creditor relationship arising from:

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction, or by this Indenture, for the purpose of preserving any property which shall at any time be subject to the lien of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advances and of the circumstances surrounding the making thereof is given to the Holders of Securities at the time and in the manner provided in this Indenture;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depositary, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction, as defined in Subsection (c) of this Section;

(5) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or

(6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self-liquidating paper as defined in Subsection (c) of this Section.

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(c) For the purpose of this Section only:

(1) the term "default" means any failure to make payment in full of the principal of or interest on any of the Securities or upon the other indenture securities when and as such principal or interest becomes due and payable;

(2) the term "other indenture securities" means securities upon which the Company is an obligor outstanding under any other indenture (i) under which indenture and as to which securities the Trustee is also trustee, (ii) which contains provisions substantially similar to the provisions of this Section, and (iii) under which a default exists at the time of the apportionment of the funds and property held in such special account;

(3) the term "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand;

(4) the term "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation; and

(5) the term "Company" means any obligor upon the Securities.

14. Appointment of Authenticating Agent.

The Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue or exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States

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of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$5,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall (i) mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Registered Securities, if any, of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register, and (ii) if Securities of the series are issued as Bearer Securities, publish notice of such appointment at least once in an Authorized

Newspaper in the place where such successor Authenticating Agent has its principal office if such office is located outside the United States. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 607.

The provisions of Sections 308, 604 and 605 shall be applicable to each Authenticating Agent.

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If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

As Trustee

By: _____
As Authenticating Agent

By: _____
Authorized Signatory

If all of the Securities of any series may not be originally issued at one time, and if the Trustee does not have an office capable of authenticating Securities upon original issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested in writing (which writing need not comply with Section 102) by the Company, shall appoint in accordance with this Section 614 an Authenticating Agent having an office in a Place of Payment designated by the Company with respect to such series of Securities.

Article Seven

Holder's Lists and Reports by Trustee and Company

1. Company to Furnish Trustee Names and Addresses of Holders.

The Company will furnish or cause to be furnished to the Trustee

(a) semi-annually, not later than fifteen days after the Regular Record Date for interest for each series of Securities, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Registered Securities of such series as of such Regular Record Date, or if there is no Regular Record Date for interest for such series of Securities, semi-annually, upon such dates as are set forth in the Board Resolution or indenture supplemental hereto authorizing such series, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished,

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provided, however, that, so long as the Trustee is the Security Registrar, no such list shall be required to be furnished.

2. Preservation of Information; Communications to Holders.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders of Securities (i) contained in the most recent list furnished to the Trustee for each series as provided in Section 701, (ii) received by the Trustee for each series in the capacity of Security Registrar if the Trustee is then acting in such capacity and (iii) filed with it within the two preceding years pursuant to Section 703 (c) (2). The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished, and destroy not earlier than two years after filing, any information filed with it pursuant to Section 703 (c) (2).

(b) If three or more Holders of Securities of any series (hereinafter referred to as "applicants") apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned a Security of such series for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other Holders of Securities of such series with respect to their rights under this Indenture or under the Securities and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either

(i) afford such applicants access to the information preserved at the time by the Trustee in accordance with Section 702(a), or

(ii) inform such applicants as to the approximate number of Holders of Securities whose names and addresses appear in the information preserved at the time by the Trustee in accordance with Section 702 (a), and as to the approximate cost of mailing to such Holders the form of proxy or other communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Holder of Securities whose name and address appears in the information preserved at the time by the Trustee in accordance with Section 702(a), a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender the Trustee shall mail to such applicants and file with the Commission, together with a copy of the material to be mailed, a written statement to the effect

that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the Holders of Securities or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If the Commission, after opportunity for a hearing upon the

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objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, the Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Holders of Securities with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(c) Every Holder of Securities or coupons, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any Paying Agent nor any Security Registrar shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders of Securities in accordance with Section 702(b), regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 702(b).

3. Reports by Trustee.

(a) Within 60 days after May 15 of each year commencing with the year 1984, the Trustee shall transmit by mail to all Holders of Securities, as their names and addresses appear in the Security Register, a brief report dated as of such May 15 with respect to:

(1) its eligibility under Section 609 and its qualifications under Section 608, or in lieu thereof, if to the best of its knowledge it has continued to be eligible and qualified under said Sections, a written statement to such effect;

(2) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on any property or funds held or collected by it as Trustee, except that the Trustee shall not be required (but may elect) to report such advances if such advances so remaining unpaid aggregate not more than 1/2 of 1% of the principal amount of the Securities Outstanding on the date of such report;

(3) the amount, interest rate and maturity date of all other indebtedness owing by the Company (or by any other obligor on the Securities) to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in any manner described in Section 613 (b) (2), (3), (4) or (6);

(4) the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;

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(5) any additional issue of Securities which the Trustee has not previously reported; and

(6) any action taken by the Trustee in the performance of its duties hereunder which it has not previously reported and which in its opinion materially affects the Securities, except action in respect of a default, notice of which has been or is to be withheld by the Trustee in accordance with Section 602.

(b) The Trustee shall transmit by mail to all Holders of Securities, as provided in Subsection (c) of this Section, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) since the date of the last report transmitted pursuant to Subsection (a) of this Section (or if no such report has yet been so transmitted, since the date of execution of this instrument) for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on property or funds collected by it as Trustee, and which it has not previously reported pursuant to this Subsection, except that the Trustee shall not be required (but may elect) to report such advances if such advances remaining unpaid at any time aggregate 10% or less of the principal amount of the Securities Outstanding at such time, such report to be transmitted within 90 days after such time.

(c) Reports pursuant to this Section shall be transmitted by mail:

(1) to all Holders of Registered Securities, as the names and addresses of such Holders appear in the Security Register;

(2) to such Holders of Bearer Securities as have, within the two years preceding such transmission, filed their names and addresses with the Trustee for that purpose; and

(3) except in the case of reports pursuant to Subsection (b) of this Section, to each Holder of a Security whose name and address is preserved at the time by the Trustee, as provided in Section 702(a).

(d) A copy of each such report shall, at the time of such transmission to Holders of Securities, be filed by the Trustee with each stock exchange upon which the Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange.

4. Reports by Company.

The Company shall:

(1) file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the

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Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934; or, if the Company is not required to file information, documents or reports pursuant to either of said Sections, then it shall file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(2) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(3) transmit within 30 days after the filing thereof with the Trustee, in the manner and to the extent provided in Section 703(c) with respect to reports pursuant to Section 703(a), such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraphs (1) and (2) of this Section as may be required by rules and regulations prescribed from time to time by the Commission.

Article Eight

Consolidation, Merger, Sale, Lease or Conveyance

1. Consolidations and Mergers of Company and Sales, Leases and Conveyances Permitted Subject to Certain Conditions.

The Company may consolidate with, or sell, lease or convey all or substantially all of its assets to, or merge with or into any other corporation, provided that in any such case, (i) either the Company shall be the continuing corporation, or the successor corporation shall be a corporation organized and existing under the laws of the United States of America or a State thereof and such successor corporation shall expressly assume the due and punctual payment of the principal of (and premium, if any), any interest on, and any Additional Amounts payable pursuant to Section 1004 with respect to, all the Securities, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed by the Company by supplemental indenture satisfactory to the Trustee, executed and delivered to the Trustee by such corporation, and (ii) the Company or such successor corporation, as the case may be, shall not, immediately after such merger or consolidation, or such sale, lease or conveyance, be in default in the performance of any such covenant or condition.

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2. Rights and Duties of Successor Corporation.

In case of any such consolidation, merger, sale, lease or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and the

predecessor corporation, except in the event of a lease, shall be relieved of any further obligation under this Indenture and the Securities and coupons. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of the Company, any or all of the Securities and coupons issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor corporation, instead of the Company, and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver any Securities and coupons which previously shall have been signed and delivered by the officers of the Company to the Trustee for authentication, and any Securities or coupons which such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities and coupons so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities and coupons theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Securities and coupons had been issued at the date of the execution hereof.

In case of any such consolidation, merger, sale, lease or conveyance, such changes in phraseology and form (but not in substance) may be made in the Securities and coupons thereafter to be issued as may be appropriate.

3. Officers' Certificate and Opinion of Counsel.

The Trustee, subject to the provisions of Sections 601 and 603, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, lease or conveyance, and any such assumption, complies with the provisions of this Article.

Article Nine

Supplemental Indentures

1. Supplemental Indentures without Consent of Holders.

Without the consent of any Holders of Securities or coupons, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

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(1) to evidence the succession of another corporation to the Company, and the assumption by any such successor of the covenants of the Company herein and in the Securities contained; or

(2) to add to the covenants of the Company, for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add to or change any of the provisions of this Indenture to provide that Bearer Securities may be registrable as to principal, to change or eliminate any restrictions on the payment of principal (or premium, if any) on Registered Securities or of principal (or premium, if any) or any interest on Bearer Securities, to permit Registered Securities to be exchanged for Bearer Securities or to permit the issuance of Securities in uncertificated form, provided any such action shall not adversely affect the interests of the Holders of Securities of any series or any related coupons in any material respect; or

(4) to establish the form of terms of Securities of any series as permitted by Sections 201 and 301; or

(5) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611(b); or

(6) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture which shall not adversely affect the interest of the Holders of Securities of any series or any related coupons in any material respect; or

(7) to add to, delete from or revise the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of Securities, as herein set forth; or

(8) to secure the Securities pursuant to Section 1005.

2. Supplemental Indentures with Consent of Holders.

With the consent of the Holders of not less than 66% in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized

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by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any Additional Amounts payable in respect thereof, or any premium payable upon the redemption thereof, or change the obligation of the Company to pay Additional Amounts pursuant to Section 1004 (except as contemplated by Section 801(i) and permitted by Section 901 (1)), or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or reduce the requirements of Section 1404 for quorum or voting, or

(3) modify any of the provisions of this Section, or Section 513, or Section 1007, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby.

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders of Securities under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

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3. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

4. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder and of any coupons appertaining thereto shall be bound thereby.

5. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

6. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

Covenants

1. Payment of Principal, Premium, if any, and Interest.

The Company covenants and agrees for the benefit of the Holders of each series of Securities that it will duly and punctually pay the principal of (and premium, if any), interest on and any Additional Amounts payable in respect of the Securities of that series in accordance with the terms of such series of Securities, any coupons appertaining thereto and this Indenture. Any interest due on and any Additional Amounts payable in respect of Bearer Securities on or before Maturity, other than Additional Amounts, if any, payable as provided in Section 1004 in respect of principal of (or premium, if any, on)

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such a Security, shall be payable only upon presentation and surrender of the several coupons for such interest installments as are evidenced thereby as they severally mature.

2. Maintenance of Office or Agency.

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series (but not Bearer Securities, except as otherwise provided below, unless such Place of Payment is located outside the United States) may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. If Securities of a series are issuable as Bearer Securities, the Company will maintain, subject to any laws or regulations applicable thereto, an office or agency in a Place of Payment for such series which is located outside the United States where Securities of such series and the related coupons may be presented and surrendered for payment (including payment of any additional amounts payable on Securities of such series pursuant to Section 1004); provided, however, that if the Securities of such series are listed on The Stock Exchange of the United Kingdom and the Republic of Ireland or the Luxembourg Stock Exchange or any other stock exchange located outside the United States and such stock exchange shall so require, the Company will maintain a Paying Agent in London, Luxembourg or any other required city located outside the United States, as the case may be, so long as the Securities of such series are listed on such exchange. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, except that Bearer Securities of that series and the related coupons may be presented and surrendered for payment (including payment of any Additional Amounts payable on Bearer Securities of that series pursuant to Section 1004) at the place specified for the purpose pursuant to Section 301, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

Except as otherwise provided in the form of Bearer Security of any particular series pursuant to the provisions of this Indenture, no payment of principal, premium or interest on Bearer Securities shall be made at any office or agency of the Company in the United States or by check mailed to any address in the United States or by transfer to an account maintained with a bank located in the United States; provided, however, payment of principal of and any premium and interest in U.S. dollars (including Additional Amounts payable in respect thereof) on any Bearer Security may be made at the Corporate Trust Office of the Trustee in the Borough of Manhattan, The City of New York if (but only if) payment of the full amount of such principal, premium, interest or Additional Amounts at all offices outside the United States maintained for the purpose by the Company in accordance with this Indenture is illegal or effectively precluded by exchange controls or other similar restrictions.

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The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in

any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. Unless otherwise set forth in a Board Resolution or indenture supplemental hereto with respect to a series of Securities, the Company hereby designates as the Place of Payment for each series of Securities the Borough of Manhattan, The City of New York, and initially appoints the Trustee at its Corporate Trust Office as the Company's office or agency for each of such purposes in such city.

3. Money for Securities Payments to be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of (and premium, if any), or interest on, any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided, and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, on or prior to each due date of the principal of (and premium, if any), or interest on, any Securities of that series, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will

(1) hold all sums held by it for the payment of the principal of (and premium, if any) or interest on Securities of that series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment of principal (and premium, if any) or interest on the Securities of that series; and

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(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or of any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Except as otherwise provided in the form of Securities of any particular series pursuant to the provisions of this Indenture, any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any) or interest on any Security of any series and remaining unclaimed for three years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security or any coupon appertaining thereto shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the aforementioned three year period shall be two years with respect to Securities of any series established pursuant to Section 301 on and after April 1, 1987; provided further, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper in each Place of Payment or to be mailed to Holders of Registered Securities, or both, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication or mailing, any unclaimed balance of such money then remaining will be repaid to the Company.

4. Additional Amounts.

If the Securities of a series provide for the payment of Additional Amounts, the Company will pay to the Holder of any Security of any series or any coupon appertaining thereto Additional Amounts as provided therein. Whenever in this Indenture there is mentioned, in any context, the payment of the principal of (or premium, if any) or interest on, or in respect of, any Security of any series or any related coupon or the net proceeds received on the sale or exchange of any Security of any series, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not

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be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

If the Securities of a series provide for the payment of Additional Amounts, at least 10 days prior to the first Interest Payment Date with respect to that series of Securities (or if the Securities of that series will not bear interest prior to Maturity, the first day on which a payment of principal (and premium, if any) is made), and at least 10 days prior to each date of payment of principal (and premium, if any) or interest if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate, the Company will furnish the Trustee and the Company's principal Paying Agent or Paying Agents, if other than the Trustee, with an Officers' Certificate instructing the Trustee and such Paying Agent or Paying Agents whether such payment of principal (and premium, if any) or interest on the Securities of that series shall be made to Holders of Securities of that series or the related coupons who are United States Aliens without withholding for or on account of any tax, assessment or other governmental charge described in the Securities of that Series. If any such withholding shall be required, then such Officers' Certificate shall specify by country the amount, if any, required to be withheld on such payments to such Holders of Securities or coupons and the Company will pay to the Trustee or such Paying Agent the Additional Amounts required by this Section. The Company covenants to indemnify the Trustee and any Paying Agent for, and to hold them harmless against, any loss, liability or expense reasonably incurred without negligence or bad faith on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any Officers' Certificate furnished pursuant to this Section.

5. Statement as to Compliance; Notice of Certain Defaults.

(a) The Company will deliver to the Trustee, within 120 days after the end of each fiscal year, a written statement, which need not comply with Section 102, signed by the Chairman of the Board, the President or a Vice President and by the Treasurer, an Assistant Treasurer, the Controller or an Assistant Controller of the Company, stating, as to each signer thereof, that

(1) a review of the activities of the Company during such year and of performance under this Indenture has been made under his supervision, and

(2) to the best of his knowledge, based on such review, (a) the Company has fulfilled all of its obligations under this Indenture throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to him and the nature and status thereof, and (b) no event has occurred and is continuing which is, or after notice or lapse of time or both would become, an Event of Default, or, if such an event has occurred and is continuing, specifying each such event known to him and the nature and status thereof.

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(b) The Company will deliver to the Trustee within five days after the occurrence thereof, written notice of any event which after notice or lapse of time or both would become an Event of Default pursuant to Clause (4) of Section 501.

6. Limitation Upon Creation of Liens on Voting Stock of Certain Subsidiaries.

The Company will not, and it will not permit any Subsidiary at any time directly or indirectly to, create, assume, incur or permit to exist any indebtedness for borrowed money secured by a pledge, lien or other encumbrance (any pledge, lien or other encumbrance being hereinafter in this Section referred to as a "lien") on the Voting Stock of any Subsidiary (other than a Subsidiary which, at the time of incurrence of such secured indebtedness, has a net worth, as determined in accordance with generally accepted accounting principles, of less than \$3,000,000) without making effective provision whereby the Outstanding Securities and coupons appertaining thereto, if any (and, if the Company so elects, any other indebtedness ranking on a parity with the Securities), shall be secured equally and ratably with such secured indebtedness so long as such other indebtedness shall be so secured; provided, however, that the foregoing covenant shall not be applicable to liens for taxes or assessments

or governmental charges or levies not then due and delinquent or the validity of which is being contested in good faith or which are less than \$1,000,000 in amount, liens created by or resulting from any litigation or legal proceeding which is currently being contested in good faith by appropriate proceedings or which involve claims of less than \$1,000,000, or deposits to secure (or in lieu of) surety, stay, appeal or customs bonds.

If the Company shall hereafter be required to secure the Securities and coupons appertaining thereto, if any, equally and ratably with any other indebtedness pursuant to this Section, (i) the Company will promptly deliver to the Trustee an Officers' Certificate stating that the foregoing covenant has been complied with, and an Opinion of Counsel stating that in the opinion of such counsel the foregoing covenant has been complied with and that any instruments executed by the Company or any Subsidiary in the performance of the foregoing covenant comply with the requirements of the foregoing covenant and (ii) the Trustee is hereby authorized to enter into an indenture or agreement supplemental hereto and to take such action, if any, as it may deem advisable to enable it to enforce the rights of the holders of the Securities and coupons appertaining thereto, if any, so secured.

7. Limitation on Disposition of Voting Stock of, and Merger and Sale of Assets by, MLPF&S.

The Company will not:

(a) sell, transfer or otherwise dispose of any shares of Voting Stock of MLPF&S or permit MLPF&S to issue, sell, or otherwise dispose of any shares of its Voting Stock, unless, after giving effect to any such transaction, MLPF&S remains a Controlled Subsidiary; or

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(b) permit MLPF&S to

(i) merge or consolidate, unless the surviving company is a Controlled Subsidiary; or

(ii) convey or transfer its properties and assets substantially as an entirety to any Person, except to one or more Controlled Subsidiaries.

8. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Sections 1004 to 1007 inclusive, with respect to the Securities of any series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

Article Eleven

Redemption of Securities

1. Applicability of Article.

Redemption of Securities of any series at the option of the Company as permitted or required by the terms of such Securities shall be made in accordance with the terms of such Securities and this Article.

2. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a Company Order. In case of any redemption at the election of the Company of less than all of the Securities of any series with the same issue date, interest rate and Stated Maturity, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed.

3. Selection by Trustee of Securities to be Redeemed.

If less than all the Securities of any series with the same issue date, interest rate and Stated Maturity are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the

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Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide

for the selection for redemption of portions of the principal amount of Registered Securities of such series; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Registered Security of such series not redeemed to less than the minimum denomination for a Security of that series established pursuant to Section 302.

The Trustee shall promptly notify the Company and the Security Registrar (if other than itself) in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal of such Securities which has been or is to be redeemed.

4. Notice of Redemption.

Notice of redemption shall be given in the manner provided in Section 106, not less than 30 nor more than 60 days prior to the Redemption Date, unless a shorter period is specified in the Securities to be redeemed, to the Holders of Securities to be redeemed. Failure to give notice by mailing in the manner herein provided to the Holder of any Registered Securities designated for redemption as a whole or in part, or any defect in the notice to any such Holder, shall not affect the validity of the proceedings for the redemption of any other Securities or portion thereof.

Any notice that is mailed to the Holder of any Registered Securities in the manner herein provided shall be conclusively presumed to have been duly given, whether or not such Holder receives the notice.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price,
- (3) if less than all Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amount) of the particular Securities to be redeemed,
- (4) in case any Registered Security is to be redeemed in part only, the notice which relates to such Security shall state that on and after the Redemption Date, upon surrender of such Security, the Holder of such Security will receive, without charge, a new Registered Security or Registered Securities of authorized denominations for the principal amount thereof remaining unredeemed,

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(5) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed, and, if applicable, that interest thereon shall cease to accrue on and after said date,

(6) the place or places where such Securities, together in the case of Bearer Securities with all coupons appertaining thereto, if any, maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price, and

(7) that the redemption is for a sinking fund, if such is the case.

A notice of redemption published as contemplated by Section 106 need not identify particular Registered Securities to be redeemed.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

5. Deposit of Redemption Price.

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on and any Additional Amounts with respect thereto, all the Securities or portions thereof which are to be redeemed on that date.

6. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest and the coupons for such

interest appertaining to any Bearer Securities so to be redeemed, except to the extent provided below, shall be void. Upon surrender of any such Security for redemption in accordance with said notice, together with all coupons, if any, appertaining thereto maturing after the Redemption Date, such Security shall be paid by the Company at the Redemption Price, together with accrued interest (and any Additional Amounts) to the Redemption Date; provided, however, that installments of interest on Bearer Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable only upon presentation and surrender of coupons for such interest (at an office or agency located outside the United States except as otherwise provided in Section 1002), and provided, further, that installments of interest on Registered Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of

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business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Bearer Security surrendered for redemption shall not be accompanied by all appurtenant coupons maturing after the Redemption Date, such Security may be paid after deducting from the Redemption Price an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to the Trustee or any Paying Agent any such missing coupon in respect of which a deduction shall have been made from the Redemption Price, such Holder shall be entitled to receive the amount so deducted; provided, however, that interest (and any Additional Amounts) represented by coupons shall be payable only upon presentation and surrender of those coupons at an office or agency located outside of the United States except as otherwise provided in Section 1002.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

7. Securities Redeemed in Part.

Any Registered Security which is to be redeemed only in part shall be surrendered at any office or agency of the Company maintained for that purpose pursuant to Section 1002 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Registered Security or Securities of the same series, containing identical terms and provisions, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE TWELVE

Sinking Funds

1. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series, except as otherwise permitted or required by any form of Security of such series issued pursuant to this Indenture.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and

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any payment in excess of such minimum amount provided for by the terms of Securities of such series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

2. Satisfaction of Sinking Fund Payments with Securities.

The Company may, in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series to be made pursuant to the terms of such Securities as provided for by the terms of such series (1) deliver Outstanding Securities of such series (other than any of such Securities previously called for redemption or any of such Securities in respect of which

cash shall have been released to the Company), together in the case of any Bearer Securities of such series with all unmatured coupons appertaining thereto, and (2) apply as a credit Securities of such series which have been redeemed either at the election of the Company pursuant to the terms of such series of Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, provided that such series of Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly. If as a result of the delivery or credit of Securities of any series in lieu of cash payments pursuant to this Section 1202, the principal amount of Securities of such series to be redeemed in order to exhaust the aforesaid cash payment shall be less than \$100,000, the Trustee need not call Securities of such series for redemption, except upon Company Request, and such cash payment shall be held by the Trustee or a Paying Agent and applied to the next succeeding sinking fund payment, provided, however, that the Trustee or such Paying Agent shall at the request of the Company from time to time pay over and deliver to the Company any cash payment so being held by the Trustee or such Paying Agent upon delivery by the Company to the Trustee of Securities of that series purchased by the Company having an unpaid principal amount equal to the cash payment requested to be released to the Company.

3. Redemption of Securities for Sinking Fund.

Not less than 60 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing mandatory sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting of Securities of that series pursuant to Section 1202, and the optional amount, if any, to be added in cash to the next ensuing mandatory sinking fund payment, and will also deliver to the Trustee any Securities to be so credited and not theretofore delivered. If such Officers' Certificate shall specify an optional amount to be added in cash to the next

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ensuing mandatory sinking fund payment, the Company shall thereupon be obligated to pay the amount therein specified. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

Article Thirteen

Repayment At The Option Of Holders

1. Applicability of Article.

Securities of any series which are repayable at the option of the Holders thereof before their Stated Maturity shall be repaid in accordance with the terms of the Securities of such series. The repayment of any principal amount of Securities pursuant to such option of the Holder to require repayment of Securities before their Stated Maturity, for purposes of Section 309, shall not operate as a payment, redemption or satisfaction of the indebtedness represented by such Securities unless and until the Company, at its option, shall deliver or surrender the same to the Trustee with a directive that such Securities be cancelled. Notwithstanding anything to the contrary contained in this Article Thirteen, in connection with any repayment of Securities, the Company may arrange for the purchase of any Securities by an agreement with one or more investment bankers or other purchasers to purchase such Securities by paying to the Holders of such Securities on or before the close of business on the repayment date an amount not less than the repayment price payable by the Company on repayment of such Securities, and the obligation of the Company to pay the repayment price of such Securities shall be satisfied and discharged to the extent such payment is so paid by such purchasers.

Article Fourteen

Meetings of Holders of Securities.

1. Purposes for Which Meetings May Be Called.

If Securities of a series are issuable as Bearer Securities, a meeting of Holders of Securities of such series may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

2. Call, Notice and Place of Meetings.

(a) The Trustee may at any time call a meeting of Holders of Securities of any series for any purpose specified in Section 1401, to be held at such time and at such place in the Borough of Manhattan, The City of New York, or in London as the Trustee shall determine. Notice of every meeting of Holders of Securities of any series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 106, not less than 21 nor more than 180 days prior to the date fixed for the meeting.

(b) In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% in principal amount of the Outstanding Securities of any series shall have requested the Trustee to call a meeting of the Holders of Securities of such series for any purpose specified in Section 1401, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have made the first publication of the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series in the amount above specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York, or in London for such meeting and may call such meeting for such purposes by giving notice thereof as provided in subsection (a) of this Section.

3. Persons Entitled to Vote at Meetings.

To be entitled to vote at any meeting of Holders of Securities of any series, a Person shall be (1) a Holder of one or more Outstanding Securities of such series, or (2) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders of Securities of any series shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

4. Quorum; Action.

The Persons entitled to vote a majority in principal amount of the Outstanding Securities of a series shall constitute a quorum for a meeting of Holders of Securities of such series; provided, however, that if any action is to be taken at such meeting with respect to a consent or waiver which this Indenture expressly provides may be given by the Holders of not less than 66/2/3% in principal amount of the Outstanding Securities of a series, the Persons entitled to vote 66/2/3% in principal amount of the Outstanding Securities of such series shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the

chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 1402(a), except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Except as limited by the proviso to Section 902, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Securities of that series; provided, however, that, except as limited by the proviso to Section 902, any resolution with respect to any consent or waiver which this Indenture expressly provides may be given by the Holders of not less than 66/2/3% in principal amount of the Outstanding Securities of a series may be adopted at a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid only by the affirmative vote of the Holders of 66/2/3% in principal amount of the Outstanding Securities of that series; and provided, further, that except as limited by the proviso to Section 902, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of a series may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of that series.

Any resolution passed or decision taken at any meeting of Holders of Securities of any series duly held in accordance with this Section shall be binding on all the Holders of Securities of such series and the related coupons, whether or not present or represented at the meeting.

5. Determination of Voting Rights; Conduct and Adjournment of Meetings.

(a) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities of such series in regard to proof of the holding of Securities of such series and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 104 and the appointment of any proxy shall be proved in the manner specified in Section 104 or by having the signature of the person executing the proxy witnessed or guaranteed by any

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trust company, bank or banker authorized by Section 104 to certify to the holding of Bearer Securities. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 104 or other proof.

(b) The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders of Securities as provided in Section 1402(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting.

(c) At any meeting each Holder of a Security of such series or proxy shall be entitled to one vote for each \$1,000 principal amount of Securities of such series held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of such series or proxy.

(d) Any meeting of Holders of Securities of any series duly called pursuant to Section 1402 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting; and the meeting may be held as so adjourned without further notice.

6. Counting Votes and Recording Action of Meetings.

The vote upon any resolution submitted to any meeting of Holders of Securities of any series shall be by written ballots on which shall be subscribed the signatures of the Holders of Securities of such series or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities of such series held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record, at least in triplicate, of the proceedings of each meeting of Holders of Securities of any series shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 1402 and, if applicable, Section 1404. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustee to be preserved by the

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Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Article Fifteen

Miscellaneous Provisions

1. Securities in Foreign Currencies.

Whenever this Indenture provides for (i) any action by, or the determination of any of the rights of, Holders of Securities of any series in which not all of such Securities are denominated in the same currency, or (ii) any distribution to Holders of Securities, in the absence of any provision to the contrary in the form of Security of any particular series, any amount in respect of any Security denominated in a currency other than United States dollars shall be treated for any such action or distribution as that amount of United States dollars that could be obtained for such amount on such reasonable basis of exchange and as of the record date with respect to Registered Securities of such series (if any) for such action, determination of rights or distribution (or, if there shall be no applicable record date, such other date reasonably proximate to the date of such action, determination of rights or distribution) as the Company may specify in a written notice to the Trustee or, in the absence of such written notice, as the Trustee may determine.

* * * * *

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Fourth Supplemental Indenture, dated as of April 1, 1987, and restatement of the Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

Merrill Lynch & Co., Inc.

[Corporate Seal]

By /s/ D. B. Brunson

Vice President and Treasurer

Attest:

/s/ Stephen M. M. Miller

Secretary

Manufacturers Hanover Trust Company

[Corporate Seal]

By /s/ F. J. Grippo

Vice President

Attest:

/s/ Joyce E. Behymer

Trust Officer

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State of New York:)
) ss.:
County of New York:)

On the 31st day of March, 1987, before me personally came D. B. Brunson, to me known, who, being by me duly sworn, did depose and say that he is Vice President and Treasurer of Merrill Lynch & Co., Inc., one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Christa M. Bowen

Notary Public
CHRISTA M. BOWEN
Notary Public, State of New York
No. 30-4723478
Qualified in Nassau County
Certificate filed in New York County
Commission Expires August 31, 1988

[Notarial Seal]

State of New York:)
) ss.:
County of New York:)

On the 31st day of March, 1987, before me personally came F. J. Grippo, to me known, who, being by me duly sworn, did depose and say that he is a Vice President of Manufacturers Hanover Trust Company, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Christa M. Bowen

[Notarial Seal]

Notary Public
CHRISTA M. BOWEN
Notary Public, State of New York
No. 30-4723478
Qualified in Nassau County
Certificate filed in New York County
Commission Expires August 31, 1988

MERRILL LYNCH & CO., INC.

TO

THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION)
as Successor Trustee
and
CHEMICAL BANK, as Resigning Trustee
(each with respect to the series designated
"Medium-Term Notes")

SIXTH SUPPLEMENTAL INDENTURE

Dated as of October 25, 1993

Supplemental to Indenture
Dated as of April 1, 1983
as Amended

SIXTH SUPPLEMENTAL INDENTURE, dated as of October 25, 1993, to the Indenture (as defined below), by and among MERRILL LYNCH & CO., INC., a corporation duly organized and existing under the laws of the State of Delaware (the "Company"), having its principal office at the World Financial Center, New York, New York 10080, THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), a national banking association duly organized and existing under the laws of the United States of America (the "Successor Trustee"), having its Corporate Trust Office at 4 Chase MetroTech Center, Brooklyn, New York 11245, and CHEMICAL BANK, a corporation duly organized and existing under the laws of the State of New York and successor by merger to MANUFACTURERS HANOVER TRUST COMPANY (the "Resigning Trustee"), having its Corporate Trust Office at 450 West 33rd Street, New York, New York 10001.

RECITALS OF THE COMPANY

The Company has heretofore executed and delivered its Indenture, dated as of April 1, 1983 (as amended to the date hereof, the "Indenture") to the Resigning Trustee to provide for the issuance from time to time of its unsecured and unsubordinated debentures, notes or other evidences of senior indebtedness, including a series of Securities designated the Company's Medium-Term Notes (the "Medium-Term Notes"). The term "Indenture" shall mean such Indenture as amended by the Trust Indenture Reform Act of 1990.

Section 610(b) of the Indenture provides that the Trustee may resign at any time with respect to the Securities of one or more series, and that should such resignation occur, the Company, by a Board Resolution, pursuant to Section 610(e), shall authorize the appointment of a successor Trustee with respect to the Securities of that or those series.

Section 610(a) of the Indenture provides that no resignation of the retiring Trustee shall become effective until the acceptance of appointment by a successor Trustee.

Sections 611(b) and 901(5) of the Indenture provide that the Company, the retiring Trustee, and each successor Trustee with respect to the Securities of such one or more series, when authorized by a Board Resolution, shall execute and deliver an indenture supplemental to the Indenture, without the consent of any Holders, to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the securities of one or more series.

The Resigning Trustee has notified the Company of its intention to resign as Trustee with respect to the series of Securities designated Medium-Term Notes issued under the Indenture, and the Successor Trustee has indicated its willingness to accept such appointment as successor Trustee with respect to such series.

The Company deems it advisable to supplement the indenture to provide for such resignation and the successorship of the Successor Trustee with respect to the series of Securities designated Medium-Term Notes.

The Company has duly authorized the execution and delivery of this Sixth Supplemental Indenture, and all actions necessary to make this Sixth Supplemental Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, the Company, the Successor Trustee and the Resigning Trustee, for and in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged,

hereby covenant and agree, for the equal and proportionate benefit of all Holders, as follows:

ARTICLE I

THE RESIGNING TRUSTEE

1. Pursuant to Section 610(b) of the Indenture, the Resigning Trustee hereby notifies the Company that the Resigning Trustee is hereby resigning as Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes.

2. The Resigning Trustee hereby assigns, transfers, delivers and confirms to the Successor Trustee (i) all the rights, title and interest of the Resigning Trustee in and to the trust under the Indenture with respect to the series of Securities designated Medium-Term Notes, (ii) all the rights, powers, trusts and duties of the Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes, and (iii) all property and money, if any, held by the Resigning Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes. The Resigning Trustee shall execute and deliver such further instruments and shall do such other things as the Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in the Successor Trustee, all the rights, powers, trusts and duties hereby assigned, transferred, delivered and confirmed to the Successor Trustee.

3. The Resigning Trustee hereby acknowledges and confirms that all of the rights, powers, trusts and duties of the Resigning Trustee with respect to all series of Securities issued under the Indenture other than those designated Medium-Term Notes shall continue and remain vested in the Resigning Trustee.

SECTION 104. The Resigning Trustee hereby resigns as Paying Agent with respect to the series of Securities designated Medium-Term Notes, as Registrar with respect to the series of Securities designated Medium-Term Notes, and as the office or agency maintained by the Company pursuant to Section 1002 of the Indenture with respect to the series of Securities designated Medium-Term Notes.

ARTICLE II

THE COMPANY

1. The Company hereby accepts the resignation of the Resigning Trustee as Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes.

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2. The Secretary or Assistant Secretary of the Company who is attesting to the execution of this Agreement by the Company hereby certifies that Exhibit A annexed hereto is a copy of the Board Resolutions which were duly adopted by the Board of Directors of the Company, which resolutions are in full force and effect on the date hereof, and which authorized certain officers of the Company to (a) appoint the Successor Trustee as Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes, and (b) execute and deliver such agreements and other instruments as may be necessary or desirable to effectuate the succession of the Successor Trustee as Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes.

3. The Company hereby appoints the Successor Trustee as Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes to succeed to, and hereby confirms to, the Successor Trustee, all the rights, powers, trusts and duties of the Resigning Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes with like effect as if originally named as Trustee in the Indenture with respect to the Securities of such series. The Company shall execute and deliver such further instruments and such other things as the Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in the Successor Trustee, all the rights, powers, trusts and duties hereby assigned, transferred, delivered and confirmed to the Successor Trustee.

4. Promptly after the effectiveness of this Sixth Supplemental Indenture, the Company shall cause a notice, substantially in the form of Exhibit B annexed hereto, to be sent to each Holder of the Medium-Term Notes in accordance with the provisions of Section 610(f) of the Indenture.

5. The Company represents and warrants to the Resigning Trustee and to the Successor Trustee that, to the best of its knowledge, no event has occurred and is continuing which is, or after notice or lapse of time or both would become, an Event of Default under Section 501 of the Indenture.

6. The Company hereby acknowledges and confirms that all of the rights,

powers, trusts and duties of the Resigning Trustee with respect to all series of Securities issued under the Indenture other than those designated Medium-Term Notes shall continue and remain vested in the Resigning Trustee.

7. The Company hereby appoints the Successor Trustee as Paying Agent with respect to the series of Securities designated Medium-Term Notes, as Registrar with respect to the series of Securities designated Medium-Term Notes, and as the Company's office and agency maintained pursuant to Section 1002 of the Indenture with respect to the series of Securities designated Medium-Term Notes.

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ARTICLE III

THE SUCCESSOR TRUSTEE

1. The Successor Trustee hereby represents and warrants to the Resigning Trustee and to the Company that the Successor Trustee is not disqualified under the provisions of Section 608 and is eligible under the provisions of Section 609 of the Indenture to act as Trustee with respect to the series of Securities designated Medium-Term Notes issued under the Indenture.

2. The Successor Trustee hereby accepts its appointment as successor Trustee under the Indenture with respect to the series of Securities designated Medium-Term Notes issued under the Indenture and accepts, and shall hereby be vested with, all the rights, powers, trusts and duties of the Resigning Trustee as Trustee with respect to the series of Securities designated Medium-Term Notes, upon the terms and conditions set forth therein, with like effect as if originally named as Trustee with respect to the Securities of such series under the Indenture.

3. The Successor Trustee hereby acknowledges and confirms that all of the rights, powers, trusts and duties of the Resigning Trustee with respect to all series of Securities issued under the Indenture other than those designated Medium-Term Notes shall continue and remain vested in the Resigning Trustee.

4. The Successor Trustee hereby accepts its appointment as Paying Agent with respect to the series of Securities designated Medium-Term Notes, as Registrar with respect to the series of Securities designated Medium-Term Notes, and as the Company's office and agency maintained pursuant to Section 1002 of the Indenture with respect to the series of Securities designated Medium-Term Notes.

ARTICLE IV

MISCELLANEOUS PROVISIONS

1. For all purposes of this Sixth Supplemental Indenture, except as otherwise stated herein, terms used in capitalized form in this Sixth Supplemental Indenture and defined in the Indenture have the meanings specified in the Indenture.

2. All of the provisions of the Indenture with respect to the rights, powers, trusts and duties of each of the Successor Trustee and the Resigning Trustee, including the provisions of Section 611(b), shall be applicable to each as fully and with like effect as if set forth herein, except as has been amended or altered by this Sixth Supplemental Indenture herein.

3. This Sixth Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State.

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4. This Sixth Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

5. This Sixth Supplemental Indenture shall become effective as of the opening of business on the 25th of October, 1993, upon the execution and delivery hereof by each of the parties hereto.

6. The Recitals contained herein shall be taken as the statements of the Company, and the Resigning Trustee assumes no responsibility for their correctness. The Resigning Trustee makes no representations as to the validity or sufficiency of this Sixth Supplemental Indenture.

7. Notwithstanding the resignation of the Resigning Trustee effected hereby, the Company shall remain obligated under Section 607 of the Indenture to compensate, reimburse and indemnify the Resigning Trustee in connection with its trusteeship with respect to the series of Securities designated Medium-Term

Notes.

8. The Company, the Resigning Trustee and the Successor Trustee hereby acknowledge receipt of an executed and acknowledged counterpart of this Agreement and the effectiveness thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Sixth Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

MERRILL LYNCH & CO., INC.

[SEAL]

By: _____
Name:
Title:

Attest

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THE CHASE MANHATTAN BANK
(NATIONAL ASSOCIATION)

(SEAL)

/s/ James Heaney
By: _____
Name: James Heaney
Title: Vice President

Attest

CHEMICAL BANK

(SEAL)

/s/ F.J. Grippo
By: _____
Name: F.J. Grippo
Title: Vice President

Attest

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MERRILL LYNCH & CO., INC.

1978 INCENTIVE EQUITY PURCHASE PLAN

1. Purpose and Effect of Plan.

The purpose of this 1978 Incentive Equity Purchase Plan (the "Plan") is to secure for Merrill Lynch & Co., Inc., a Delaware corporation (the "Company"), and its stockholders the benefits of the incentive inherent in Common Stock ownership by selected employees of the Company and its subsidiaries who will be responsible for continued long-term growth and to stimulate the efforts of such employees by encouraging capital appreciation and giving suitable recognition to services which will contribute materially to the success of the Company. It is intended that the Plan will aid in retaining, encouraging and attracting employees of exceptional ability because of the opportunity offered to acquire a proprietary interest in the business.

2. Shares Reserved for the Plan.

No further shares of Common Stock, par value \$1.33 1/3 per share, of the Company ("Common Stock") may be sold under the Plan, the sale of shares under the Plan having been discontinued; provided, however, that the Plan shall

continue in effect with respect to all Book Value Shares sold under the Plan prior to January 16, 1995, and the rights and obligations of the holders of such Book Value Shares, and the rights and obligations of the Company with respect such Book Value Shares, under the Plan and the related agreements of sale shall be unaffected by the discontinuation of the sale of shares under the Plan. For purposes of the Plan, the terms "Market Shares" and "Book Value Shares" shall have the following meanings: "Market Shares" shall mean shares of Common Stock of the Company for which there is a generally recognized trading market and which are freely transferable; "Book Value Shares" shall mean shares of Common Stock of the Company, which shall be shares of the same class as Market Shares and which shall have all of the same designation, preferences and relative, participating, optional or other rights, and qualifications, limitations or restrictions thereon (including, without limitation, voting, dividend and liquidation rights), as Market Shares, except that they shall not be transferable except to the Company and except that they shall be subject to the repurchase provisions set forth in Section 5 hereof and in the repurchase agreement referred to therein. Book Value Shares shall include any shares issued in respect of any Book Value Shares by reason of dividends thereon or splits, combinations or reclassifications thereof.

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3. Administration of the Plan.

(a) The Plan shall be administered by a committee, to be known as the Management Development and Compensation Committee (the "Committee"), of not less than three members appointed by and composed of members of the Board of Directors of the Company. Members of the Committee shall not be eligible to participate in the Plan while serving on the Committee, nor shall they have been eligible to participate in the Plan for a period of one year prior to the commencement of their service on the Committee. The Committee shall have full authority, from time to time: (1) subject to the provisions of Section 4 hereof, to determine, after receiving the recommendations of the management of the Company, which of the employees of the Company or any of its present or future subsidiaries shall participate in the Plan and the extent and terms of such participation; (2) to prescribe the form or forms of the instruments and repurchase agreements evidencing any sale or rights under the Plan (which forms shall be consistent with the Plan); (3) to adopt, amend, and rescind such rules and regulations as, in its opinion, may be advisable in the administration of the Plan; and (4) to construe and interpret the Plan, the rules and regulations and the instruments and repurchase agreements utilized under the Plan and to make all other determinations deemed necessary or advisable for the administration of the Plan. The Committee's interpretation and construction of any provision of the Plan or any instrument or repurchase agreement utilized thereunder and any determination by the Committee pursuant to any provision of the Plan or any such instrument or repurchase agreement shall be final and

conclusive.

(b) Any offer of Book Value Shares under the Plan shall be in writing and shall be entirely discretionary and nothing in the Plan shall be deemed to give any officer or employee any right to purchase any shares. All decisions, determinations, and implementation by the Committee shall be final and binding.

(c) The Committee shall hold meetings at such times and places as it may determine. The Committee may request advice or assistance or employ such other persons as are necessary for proper administration of the Plan. A quorum of the Committee shall consist of a majority of its members and the Committee may act by vote of a majority of its members at a meeting at which a quorum is present, or without a meeting by a written consent to the action taken signed by all members of the Committee. The Board of Directors may from time to time appoint members of the Committee in substitution of members previously appointed and may fill vacancies, however caused, in the Committee.

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4. Eligibility and Participation.

(a) Subject to the provisions of this Plan, Book Value Shares may be sold only to such employees of the Company or any of its present or future subsidiaries (defined to include any corporation, partnership or other organization of which the Company owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests) who, (i) in the opinion of the Committee, after receiving the recommendations of the management of the Company, exercise such functions or discharge such responsibilities that they merit consideration as selected employees; and (ii) have not made, during the 12-month period preceding the Purchase Date with respect to any offer of Book Value Shares hereunder, a hardship withdrawal of Elective 401(k) Deferrals as defined under the Merrill Lynch & Co., Inc. Savings & Investment Plan.

(b) An eligible employee may be sold Book Value Shares hereunder and may thereafter be sold additional Book Value Shares if the Committee shall so determine.

5. Sales of Book Value Shares.

Book Value Shares may be sold to eligible employees from time to time upon the following terms and conditions:

(a) The purchase price for each Book Value Share shall be the Book Value Per Share on the Valuation Date next preceding the Purchase Date such Book Value Share is purchased by an eligible employee.

"Book Value Per Share" as of any given date, for purposes of the Plan, shall mean the common stockholders' equity as reported in the consolidated financial statements of the Company (as distributed to stockholders of the Company) at the Valuation Date coincident with or next preceding such given date (except as provided in clause (d)), in each case divided by the number of shares of the Common Stock of the Company outstanding as of such Valuation Date (excluding treasury stock and shares of Series A Junior Preferred Stock, par value \$1.00 per share, if any), which calculation shall be made before giving effect to the sale or repurchase of Book Value Shares on such Valuation Date; provided, however, that the Book Value Per Share, only for purposes of calculating the price at which Book Value Shares will be repurchased by the Company under clause (d), may be adjusted to such an extent as may be determined by the Committee to preserve the benefit of the arrangement for the Company, its employees and stockholders, if in the opinion of the Committee, after consultation with the Company's independent public accountants, changes in the Company's accounting policies, acquisitions or other unusual or extraordinary items have disproportionately and materially affected the number of shares of Common Stock outstanding or the Company's common stockholders' equity. "Valuation Date", for purposes of the Plan, shall mean the last day of each quarterly accounting period then utilized by the Company. "Purchase Date", for purposes of the Plan, shall mean a date

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fixed by the Committee in connection with each offer of a Book Value Share under the Plan, provided, however, that such date shall be at least seven business days before the Valuation Date immediately next succeeding the Valuation Date utilized for calculating the purchase price of such Book Value Share pursuant to clause (a).

(b) An employee who is offered the right, through a written offer, to purchase Book Value Shares under the Plan must irrevocably agree on or prior to the Purchase Date set forth in such offer to purchase any or all of the number of Book Value Shares indicated in such offer; provided, however, that if an

offer is not accepted in full it must be accepted in a number of shares which is an integral multiple of 100. Book Value Shares shall be sold to an employee only upon the simultaneous receipt by the Company of the full purchase price for such shares, determined in accordance with clause (a), and a repurchase agreement, in form satisfactory to the Committee, executed by the employee and containing the restrictions set forth in clause (c), providing for the resale of the Company of the Book Value Shares so purchased upon the terms specified in clause (d), and containing such other provisions as the Committee shall determine. The purchase price for Book Value Shares shall be payable in cash or, at the discretion of the Committee, all or part of the purchase price may be paid through the assignment and delivery to the Company of Market Shares (valued at the Fair Market Value thereof on the date of such delivery in accordance with clause (i)).

(c) Book Value Shares may not be sold, assigned or transferred, but may be pledged or otherwise encumbered.

(d) Each employee purchasing any Book Value Shares shall agree that upon the earlier of (i) termination of such employee's employment for any reason other than retirement or disability (as both terms are defined by the Committee) or death or (ii) the lapse of a period of five years from the date of such employee's retirement or disability or (iii) the lapse of a period of six months from the date of such employee's death or (iv) the delivery of a written request by the Committee or the delivery of a written request by such employee to the Company (provided, however, that such request may not be made by such employee until a period of at least six months has elapsed since such Book Value Shares were purchased by such employee) or, in the case of death, the legal representative of such employee's estate, such employee or his estate, as the case may be, shall, on a date specified by the Committee, within thirty days of such termination, lapse or request, unless such Book Value Shares have been surrendered pursuant to clause (f), sell to the Company, and the Company shall repurchase, all Book Value Shares then owned by such employee or his estate, as the case may be; provided, however, that in the case of a request pursuant to (iv) above, such request may state that only a particular number of Book Value Shares (in integral multiples of 100) shall be sold to the Company whereupon only such number of Book Value Shares shall be sold to the Company and repurchased by the Company. Any purchase by the Company pursuant to this clause (d) shall be at a price per share equal to the Book Value Per Share as of the Valuation Date coincident with or next preceding the date of

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such termination, lapse or request; provided, however, that if the Board of Directors has ordered the preparation of, or has received, consolidated financial statements of the Company certified by the Company's independent public accountants since such Valuation Date, the Book Value Per Share shall be based on such certified financial statements until the next succeeding Valuation Date. Payment for Book Value Shares repurchased, less any applicable transfer taxes and amounts required to be withheld pursuant to Section 13 hereof, shall be made by the Company, as promptly as the amount of such payment becomes ascertainable, in cash, or, in the discretion of the Committee, in a number of Market Shares or other securities issued by the Company having an aggregate Fair Market Value as at the business day preceding the date of resale to the Company equal to the amount payable to the employee (except that an employee whose employment was terminated due to retirement or disability, or the estate of such employee, may request that the Company's obligation be satisfied by the delivery of Market Shares, but the discretion to deliver any such Market Shares shall be in the sole discretion of the Committee) or in a combination of the foregoing; provided, however, that in the event the payment is to be made in securities issued by the Company other than Market Shares, notice of such payment shall be delivered to the employee or his estate, as the case may be, at least ten business days prior to the intended date of payment by the Company. In the event that the Committee has given notice that payment is to be made in other than cash or Market Shares, then at any time after a termination, lapse or request under this clause (d) and the surrender of Book Value Shares hereunder, and until five business days prior to the intended date of payment by the Company, such Book Value Shares may be surrendered pursuant to clause (f) and the surrender under this clause (d) shall be deemed withdrawn.

(e) Each certificate issued in respect of Book Value Shares sold under the Plan shall be registered in the name of the employee, and shall bear a legend that includes the following language:

"The transferability of this certificate and the shares of stock represented hereby is restricted and the shares are subject to the further terms and conditions contained in the Merrill Lynch & Co., Inc. 1978 Incentive Equity Purchase Plan and in a repurchase agreement executed pursuant thereto. A copy of such Plan is on file in the office of the Secretary of Merrill Lynch & Co., Inc."

(f) At any time, or from time to time, any employee or, in the case of death, the legal representative of the employee's estate, may surrender to the Company any Book Value Shares then owned by such employee or estate, as the case may be, and request that such shares be released from the restrictions and

rights contained in the governing repurchase agreement. As soon as practicable after receipt of the foregoing, the Company shall deliver to such employee or estate, as the case may be, for each Book Value Share surrendered, a number of Market Shares equal to the quotient (not to exceed 1.00) obtained by dividing the Book Value Per Share at which such Book Value Share was purchased by the employee from the Company by the Fair Market

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Value per share of Common Stock on the business day immediately preceding the Purchase Date on which such Book Value Share was purchased by the employee; provided, however, that under no circumstances shall the Company be required, in connection with any surrender, pursuant to this clause (f), to deliver a number of Market Shares in excess of the number of Book Value Shares surrendered.

(g) The Company shall not be obligated to deliver any fractional Market Shares under this Plan as a result of the repurchase of any Book Value Shares under clause (d) or the surrender of any Book Value Shares under clause (f), but instead shall deliver to the employee or estate, as the case may be, an amount of cash equal to the corresponding fraction of the Fair Market Value per share of Common Stock on the date of surrender of such Book Value Shares. In addition, the number of Market Shares deliverable to an employee or estate, as the case may be, shall be reduced for any applicable transfer taxes and amounts required to be withheld pursuant to Section 13 hereof.

(h) After the delivery of Market Shares to an employee or the estate of an employee under either clause (d) or (f), the repurchase agreement or agreements previously entered into between the Company and such employee or estate, as the case may be, shall continue in full force and effect, but only as to the Book Value Shares, if any, which the employee continues to own.

(i) For purposes of the Plan, "Fair Market Value" of any security on any given date shall be determined by the Committee by any fair and reasonable means, including (a) if the security is not listed for trading on a national securities exchange but is traded in the over-the-counter market, the mean of the highest and lowest bid prices for such security on the date in question, or there are no such bid prices for such security on such date, the mean of the highest and lowest bid prices on the first day prior thereto on which such prices appear, or (b) if the security is listed for trading on one or more national securities exchanges, the mean of the high and low sales prices on the principal such exchange on the date in question, or if such security shall not have been traded on such principal exchange on such date, the mean of the high and low sales prices on such principal exchange on the first day prior thereto on which such security was so traded, provided, however, if the Distribution

Date defined in the Rights Agreement dated as of December 16, 1987) (the "Rights Agreement") between the Company and Manufacturers Hanover Trust Company shall have occurred and the Rights (as defined in the Rights Agreement) shall then be represented by separate certificates rather than by certificates representing the Common Stock, there shall be added to such value as determined in (a) or (b) above, as the case may be, (i) if the Rights are not listed for trading on a national securities exchange but are traded in the over-the-counter market, the mean of the highest and lowest bid prices of the Rights on the date in question, or, if there are no such bid prices for the Rights on such date, the mean of the highest and lowest bid prices on the first date prior thereto on which such prices appear or (ii) if the Rights are listed for trading on one or more national securities exchanges, the mean of the high and low sales prices of the Rights on the

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principal such exchange on the date in question, or if the Rights shall not have been traded on such principal exchange on such date, the mean of the high and low sales prices on such principal exchange on the first day prior thereto on which the Rights were so traded.

6. Rights Not transferable.

No rights granted under the Plan or repurchase agreements are assignable or transferable by an employee other than by will or the laws of descent and distribution.

7. Tax Litigation.

The Company shall have the right to contest, at its expense, any tax ruling or decision, administrative or judicial on an issue which is related to the Plan or any repurchase agreement and which the committee believes to be important to holders of shares of Common Stock sold under the Plan, and to conduct any such contest or any litigation arising therefrom to a final decision.

8. Amendment of the Plan.

The Board of Directors or the Committee (but no other committee of the Board of Directors) may from time to time alter, amend, modify, suspend or discontinue the Plan or alter or amend any and all of the repurchase agreements entered into hereunder, provided, however, that no change shall be made in the maximum number of shares which may be sold under the plan (other than adjustments made pursuant to Section 9 hereof), the method by which the price at which Book Value Shares may be sold or repurchased is determined, the method of ascertaining Book Value Per Share (other than adjustments made pursuant to Section 5 hereof) or the terms of the exchange of Book Value Shares for Market Shares without the approval of the holders of a majority of the shares of Common Stock represented in person or by proxy at a meeting of stockholders. No amendment or modification of the Plan or any repurchase agreement shall operate so as to adversely affect any employee with respect to Book Value Shares already purchased without the consent of such employee.

9. Adjustment in Case of Changes Affecting the Common Stock.

In the event of a subdivision or consolidation of outstanding shares of Common Stock or other capital adjustment, or the payment of a stock dividend thereon, the number of shares reserved or authorized to be reserved under the Plan shall be increased or reduced proportionately and the Book Value Per Share and the terms of the exchange of Book Value Shares for Market Shares increased or reduced proportionately, and such other adjustments shall be made as may be deemed necessary or equitable by the Committee. Subject to any required action by the stockholders of the Company, if the Company shall be the surviving or resulting corporation in any merger or consolidation, any repurchase agreement under the Plan

shall cover the shares which the employee receives upon the merger or consolidation in respect of the shares covered by the repurchase agreement. In the event of a change in the Company's presently authorized Common Stock which is limited to a change in the designation thereof or a change of authorized shares with par value into the same number of shares with a different par value

or into the same number of shares without par value, the shares resulting from any such change shall be deemed to be Common Stock within the meaning of the Plan. In the event of any other change affecting the Common Stock, such adjustment shall be made as may be deemed equitable by the Committee to give proper effect to such event.

10. Governmental and Other Regulations.

The Plan, and the sale of shares hereunder, and the Company's obligation to repurchase or exchange shares, shall be subject to all applicable Federal and state laws, rules and regulations, and to such approvals by any regulatory or governmental agency which may, in the opinion of counsel for the Company, be required.

11. Indemnification of Committee.

Service on the Committee shall constitute service as a Director of the Company so that members of the Committee shall be entitled to indemnification and reimbursement as Directors of the Company pursuant to its Certificate of Incorporation, By-Laws or resolutions of its Board of Directors or stockholders.

12. Effective Date.

The Plan shall not become effective unless and until approved by the vote of the holders of a majority of the shares of Common Stock represented in person or by proxy at the meeting of stockholders to which it is presented.

13. Withholding.

Amounts paid or shares delivered under the Plan shall be reduced by any sums required to be withheld by the Company.

MERRILL LYNCH & CO., INC.

AMENDED AND RESTATED

1994 DEFERRED COMPENSATION AGREEMENT

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

DATED AS OF NOVEMBER 10, 1994

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

MERRILL LYNCH & CO., INC.
 AMENDED AND RESTATED
 1994 DEFERRED COMPENSATION AGREEMENT
 FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

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MERRILL LYNCH & CO., INC.

AMENDED AND RESTATED
1994 DEFERRED COMPENSATION AGREEMENT
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

WHEREAS, Merrill Lynch & Co., Inc. ("ML & Co.") has entered into agreements to defer compensation with certain of its employees or the employees of its affiliates;

WHEREAS, ML & Co. now wishes to amend and restate such agreements to increase the flexibility and benefit of such agreements to the participants therein in order to encourage the participants to continue their employment;

NOW, THEREFORE, effective November 10, 1994, all agreements collectively known as the Merrill Lynch & Co., Inc. 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees are hereby amended and restated in their entirety as set forth below:

ARTICLE I

GENERAL

1.1 Purpose and Intent.

The purpose of the Agreement is to encourage the employees who are integral to the success of the business of the Company to continue their employment by providing them with flexibility in meeting their future income needs. It is intended that this Agreement be unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA, and all decisions concerning who is to be considered a member of that select group and how this Agreement shall be administered and interpreted shall be consistent with this intention.

1.2 Definitions.

For the purpose of the Agreement, the following terms shall have the meanings indicated.

"Account Balance" means, as of any date, the Deferred Amounts credited to a Participant's Account, adjusted in accordance with Section 3.4 to reflect the performance of the Participant's Selected Benchmark Return Options, the Annual Charge and any payments made from the Account to the Participant prior to that date.

"Account" means the reserve account established on the books and records of ML & Co. for each Participant to record the Participant's interest under the Agreement.

"Adjusted Compensation" means the financial consultant incentive compensation, account executive incentive compensation, or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the period from October 1, 1993 to December 31 1994, and payable after January 1, 1994, as a result of the Participant's production credit level.

"Administrator" means the Director of Human Resources of ML & Co., or his functional successor, or any other person or committee designated as Administrator of the Agreement by the MDCC.

"Affiliate" means any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests.

"Agreement" means this Merrill Lynch & Co., Inc. Amended and Restated 1994 Deferred Compensation Agreement for a Select Group of Eligible Employees.

"Agreement Year" means the Fiscal Year ending in 1995.

"Annual Charge" means the charge to the Participant's Account provided for in Section 3.4(c).

"Benchmark Return Options" means such Merrill Lynch mutual funds or other investment vehicles as the Administrator may from time to time designate for the purpose of indexing Accounts hereunder. In the event a Benchmark Return Option ceases to exist or is no longer to be a Benchmark Return Option, the Administrator may designate a substitute Benchmark Return Option for such discontinued option.

"Board of Directors" means the Board of Directors of ML & Co.

"Code" means the U.S. Internal Revenue Code of 1986, as amended from time to time.

"Company" means ML & Co. and all of its Affiliates.

"Compensation" means, as relevant, a Participant's Adjusted Compensation, Variable Incentive Compensation, FCCAAP Payment and/or Sign-On Bonus. In no event shall a Participant's base pay be considered Compensation (i.e., an amount subject to deferral under this Agreement).

"Deferral Percentage" means the percentage (which shall be in whole percentage increments and not more than 90%), specified by the Participant to be the percentage of each payment of Compensation he or she wishes to defer under the Agreement.

"Deferred Amounts" means the amounts of Compensation actually deferred by the Participant under this Agreement.

"Election Year" means the 1993 calendar year.

"Eligible Compensation" means a Participant's "eligible compensation" as determined, from time to time, for purposes of ML & Co.'s Basic Group Life Insurance Plan.

"Eligible Employee" means an employee eligible to defer amounts under this Agreement, as determined under Section 2.1 hereof.

"ERISA" means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

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"FCCAAP" means the Merrill Lynch 1984 Asset Accumulation Award Plan.

"FCCAAP Payment" means the amount of cash, if any, that would, but for deferral under this Agreement, be payable to the Participant as soon as practicable following January 1, 1995 in accordance with the terms of Section 8 of FCCAAP (including a Proportional Amount of any Forfeited Amount).

"Fiscal Month" means the monthly period used by ML & Co. for financial accounting purposes.

"Fiscal Year" means the annual period used by ML & Co. for financial accounting purposes.

"Full-Time Domestic Employee" means a full-time employee of the Company paid from the Company's domestic based payroll (other than any U.S. citizen or "green card" holder who is employed outside the United States).

"Full-Time Expatriate Employee" means a U.S. citizen or "green card" holder employed by the Company outside the United States and selected by the Administrator as eligible to participate in the Agreement (subject to the other eligibility criteria).

"Maximum Deferral" means the whole dollar amount specified by the Participant to be the amount of Compensation he or she elects to be deferred under the Agreement.

"MDCC" means the Management Development and Compensation Committee of the Board of Directors.

"ML & Co." means Merrill Lynch & Co., Inc.

"Net Asset Value" means, with respect to each Benchmark Return Option that is a mutual fund or other commingled investment vehicle for which such values are determined in the normal course of business, the net asset value, on the date in question, of the Selected Benchmark Return Option for which the value is to be determined.

"Participant" means an Eligible Employee who has elected to defer Compensation under the Agreement.

"Remaining Deferred Amounts" means a Participant's Deferred Amounts times a fraction equal to the number of remaining installment payments divided by the total number of installment payments.

"Retirement" means a Participant's (i) termination of employment with the Company for reasons other than for cause on or after the Participant's 65th birthday, or (ii) resignation on or after the Participant's 55th birthday if the Participant has at least 10 years of service, or (iii) resignation at any age with the express approval of the Administrator, which will be granted only if the termination is found by the Administrator to be in, or not contrary to, the best interests of the Company.

"Selected Benchmark Return Option" means a Benchmark Return Option selected by the Participant in accordance with Section 3.4.

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"Sign-On Bonus" means a single-sum amount paid or payable during the Agreement Year upon commencement of employment to a new Eligible Employee, in addition to base pay and other Compensation, to induce him or her to become an employee of the Company.

"Variable Incentive Compensation" means the variable incentive compensation or office manager incentive compensation that is paid in cash to certain employees of the Company generally in January or February of the Agreement Year with respect to the prior Fiscal Year, which for purposes of this Agreement is considered earned during the Agreement Year regardless of when it is actually paid to the Participant.

ARTICLE II

ELIGIBILITY

2.1 Eligible Employees.

(a) General Rule. An individual is an Eligible Employee if he or she (i) is a Full-Time Domestic Employee or a Full-Time Expatriate Employee, (ii) has at least \$200,000 of Eligible Compensation for the Election Year, (iii) has attained at least the title of Vice President, Director or Managing Director, or holds a National Sales Management position with the Company (a "National Sales Manager"), and (iv) (A) is a financial consultant or an estate planning and business insurance specialist, who was a member in 1993 of the Chairman's Club, the Charles E. Merrill Circle, the Society of Eagles, the Falcons Club or the Win Smith Fellows, (B) is a National Sales Manager (C) is a member of the International Private Banking Group, (D) is a non-producing employee in the Senior Manager or Senior Consultant Band (Q Band) or above, or (E) is a producing employee in grade 95 or above; provided, that non-producing employees

in the Director Band (R Band) or above and producing employees in grade 97 or above (or their executive equivalents) shall not be required to meet condition (ii) hereof, and provided, further, that employees who were 1993 Win Smith

Fellows shall not be required to meet condition (iii) hereof.

(b) Individuals First Employed During Election Year or Agreement Year. Subject to the approval of the Administrator in his sole discretion, an individual who is first employed by the Company during the Election Year or the Agreement Year is an Eligible Employee if his or her Eligible Compensation is greater than \$200,000 and he or she is either employed as a National Sales Manager or is to be nominated for at least the title of Vice President, Director or Managing Director at the first opportunity following his or her commencement of employment with the Company.

(c) Wages Subject to Legal Process. An individual shall not, however, be an Eligible Employee if as of the deadline for submission of elections specified in Section 3.1(a) the individual's wages have been attached or are being garnished or are otherwise restrained pursuant to legal process.

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ARTICLE III

DEFERRAL ELECTIONS; ACCOUNTS

3.1 Deferral Elections.

(a) Timing and Manner of Making of Elections. An election to defer Compensation for payment in accordance with Section 5.1 shall be made by submitting to the Administrator such forms as the Administrator may prescribe. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Agreement must be received by the Administrator or such person as he may designate for the purpose by no later than September 30, 1993; provided, however, that the Eligible

Employee's election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

(b) Irrevocability of Deferral Election. Except as provided in Sections 3.5 and 5.5, an election to defer the receipt of any Compensation made under Section 3.1(a) is irrevocable once submitted to the Administrator or his designee. The Administrator's acceptance of an election to defer Compensation shall not, however, affect the contingent nature of such Compensation under the plan or program under which such Compensation is payable.

(c) Application of Election. The Participant's Deferral Percentage will be applied to each payment of Compensation to which the Participant's deferral election applies, provided, that the aggregate of the Participant's Deferred Amounts shall not exceed the Participant's Maximum Deferral. If a Participant has made deferral elections with respect to more than one category of Compensation, this Section 3.1(c) shall be applied separately with respect to each such category.

3.2 Crediting to Accounts.

A Participant's Deferred Amounts will be credited to the Participant's Account, as soon as practicable (but in no event later than 90 days) after the last day of the Fiscal Month during which such Deferred Amounts would, but for deferral, have been paid and will be accounted for in accordance with Section 3.4.

3.3 Minimum Requirements for Deferral.

(a) Minimum Requirements. Notwithstanding any other provision of this Agreement, no deferral will be effected under this Agreement with respect to a Participant if:

- (i) the Participant is not an Eligible Employee as of December 31, 1993,
- (ii) the Participant's election as applied to the Participant's Variable Incentive Compensation (determined by substituting the Election Year for the Agreement Year) or Adjusted Compensation (determined by substituting the Fiscal Year ending in 1992 for the Fiscal Year ending in 1994) would have resulted in an annual deferral of less than \$15,000, or

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- (iii) the greater of (A) the sum of (1) the compensation amount listed on the Participant's W-2 form for 1994 and (2) any Compensation that is accelerated which the Participant may receive in December 1993 which would have been payable in calendar year 1994 in the absence of the action of the Company to accelerate the payment, and (B) the Participant's Eligible Compensation for calendar year 1995, is less than \$200,000;

provided, that any Participant who first becomes an employee of the Company

during the Agreement Year shall not be required to satisfy conditions (i) and (ii).

(b) Failure to Meet Requirements. If any of the requirements of Section 3.3(a) are not met by a Participant, the Deferred Amounts will be paid to the Participant, without adjustment to reflect the performance of any Selected Benchmark Return Option, as soon as practicable after it has been determined that the requirement has not been met provided, however, that if the Participant

fails to meet the requirements of Section 3.3(a) (iii), the Participant will receive the greater of the Deferred Amounts or the Account Balance.

3.4 Benchmark Return Options; Adjustment of Accounts.

(a) Selection of Benchmark Return Options. Coincident with the Participant's election to defer Compensation, the Participant must select one or more Benchmark Return Options and the percentage of the Participant's Account to be adjusted to reflect the performance of each Selected Benchmark Return Option. All elections of Selected Benchmark Return Options shall be in multiples of 10% unless the Administrator determines that lower increments are administratively feasible, in which case such lower increment shall apply. A Participant may, by complying with such procedures as the Administrator may prescribe on a uniform and nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than twelve times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

(b) Adjustment of Accounts. While each Participant's Account does not

represent the Participant's ownership of, or any ownership interest in, any particular assets, the Account shall be adjusted to reflect the investment experience of the Participant's Selected Benchmark Return Options in the same manner as if investments in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the timing of receipt of Participant instructions by the ML II System shall control the timing and pricing of the notional investments in the Participant's Selected Benchmark Return Options in accordance with the rules of operation of the ML II System and its requirements for placing corresponding investment orders, as if orders to make corresponding investments were actually to be made, except that in connection with the crediting of Deferred Amounts to the Participant's Account and distributions from the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant day. Each Selected Benchmark Return Option shall be valued using the Net Asset Value of the Selected Benchmark Return Option as of the relevant day, provided, that, in

valuing a Selected Benchmark Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Agreement shall be the price reported for actual transactions in that security through the ML II System on the relevant day, without giving effect to any transaction charges or costs associated with

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such transactions, provided, further, that, if there are no such transactions

effected through the ML II System on the relevant day, the value of the security shall be:

- (i) if the security is listed for trading on one or more national securities exchanges, the average of the high and low sale prices for that day on the principal exchange for such security, or if such security is not traded on such principal exchange on that day, the average of the high and low sales prices on such exchange on the first day prior thereto on which such security was so traded;
- (ii) if the security is not listed for trading on a national securities exchange but is traded in the over-the-counter market, the average of the highest and lowest bid prices for such security on the relevant day; or
- (iii) if neither clause (i) nor (ii) applies, the value determined by the Administrator by whatever means he considers appropriate in his sole discretion.

(c) Annual Charge. As of the last day of each Fiscal Year or such earlier day in December as the Administrator shall determine, an Annual Charge of 2.0% of the Participant's Deferred Amounts (exclusive of any appreciation or depreciation determined under Section 3.4 (b)) shall be applied to reduce the Account Balance (but not below zero). In the event that the Participant elects to have the Account Balance paid in installments, this Annual Charge will be charged on the Remaining Deferred Amounts after giving effect to the installment payments. In the event that the Account Balance is paid out completely during a Fiscal Year prior to the date that the Annual Charge is assessed, a pro rata

Annual Charge will be deducted from amounts to be paid to the Participant to cover that fraction of the Fiscal Year that Deferred Amounts (or Remaining Deferred Amounts in the case of installment payments) were maintained hereunder. The Annual Charge shall be applied as a pro rata reduction of the Account

Balance indexed to each of the Participant's Selected Benchmark Return Options. In applying the Annual Charge, the pricing principles set forth in Section 3.4(b) will be followed.

3.5 Rescission of Deferral Election.

(a) Prior to December 1, 1993. A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 1993, and (ii) if the Administrator, in his sole discretion and upon evidence of such basis that he finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between October 1, 1993 and December 1, 1993), agrees to the rescission of the election. The Deferred Amounts will be paid to the Participant as soon as practicable subject to a reduction for any applicable withholding taxes.

(b) Adverse Tax Determination. Notwithstanding the provisions of Section 3.5(a), a deferral election may be rescinded at any time if (i) a final determination is made by a court or other governmental body of competent jurisdiction that the election was ineffective to defer income for purposes of U.S. Federal, state, local or foreign income taxation and the time for appeal from this determination has expired, and (ii) the Administrator, in his sole

discretion, decides, upon the Participant's request and upon evidence of the occurrence of the events described in (i) hereof that he finds persuasive, to rescind the election. Upon such rescission, the Account Balance, including any adjustment for performance of the Selected Benchmark Return Options will be paid to the

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Participant as soon as practicable, and no additional amounts will be deferred pursuant to this Agreement.

(c) Rescission For Amounts Not Yet Earned. Upon the Participant's written request, the Administrator may in his sole discretion terminate any deferral elections made hereunder with respect to compensation not yet earned and no further amounts will be deferred. Amounts previously deferred will continue to be governed by the terms of this Agreement.

ARTICLE IV

STATUS OF DEFERRED AMOUNTS AND ACCOUNT

4.1 No Trust or Fund Created; General Creditor Status.

Nothing contained herein and no action taken pursuant hereto will be construed to create a trust or separate fund of any kind or a fiduciary relationship between ML & Co. and any Participant, the Participant's beneficiary or estate, or any other person. Title to and beneficial ownership of any funds represented by the Account Balance will at all times remain in ML & Co.; such funds will continue for all purposes to be a part of the general funds of ML & Co. and may be used for any corporate purpose. No person will, by virtue of the provisions of this Agreement, have any interest whatsoever in any specific assets of the Company. TO THE EXTENT THAT ANY PERSON ACQUIRES A RIGHT TO RECEIVE PAYMENTS FROM ML & CO. UNDER THIS AGREEMENT, SUCH RIGHT WILL BE NO GREATER THAN THE RIGHT OF ANY UNSECURED GENERAL CREDITOR OF ML & CO.

4.2 Non-Assignability.

The Participant's right or the right of any other person to the Account Balance or any other benefits hereunder cannot be assigned, alienated, sold, garnished, transferred, pledged, or encumbered except by a written designation of beneficiary under this Agreement, by written will, or by the laws of descent and distribution.

4.3 Effect of Deferral on Benefits Under Pension and Welfare Benefit Plans.

The effect of deferral on pension and welfare benefit plans in which the Participant may be a participant will depend upon the provisions of each such plan, as amended from time to time.

ARTICLE V

PAYMENT OF ACCOUNT

5.1 Payment Date.

A Participant's Account Balance will be paid by ML & Co., as elected by the Participant at the time of his or her deferral election, either in a single sum to be paid, or in the number of annual installments (not to exceed 15) chosen by the Participant to commence, as specified, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month and year selected by

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the Participant after the end of 1994, (iii) in any month in the calendar year following the Participant's Retirement, but in no event may the date elected under clause (i), (ii) or (iii) result in payment (in the case of a single sum) or commencement of payment (in the case of installment payments) later than the month following the Participant's 70th birthday. The amount of each annual installment, if any, shall be a fraction of the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made, the numerator of such fraction shall be one and the denominator of such fraction shall be the number of remaining installments (including the installment to be made).

5.2 Termination of Employment.

(a) Death or Retirement. If the Participant dies or retires prior to payment, then the Account Balance will be paid to the Participant in accordance with the Participant's election (in the event of Retirement) or to the Participant's beneficiary (in the event of death) in accordance with the Participant's election of either installment payments or a lump sum, provided,

however, that in the event that a beneficiary of the Participant's Account

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Balance is the Participant's estate or is otherwise not a natural person, the applicable portion of the Account Balance will be paid in lump sum to such beneficiary.

(b) Other Termination of Employment. If the Participant's employment terminates at any time for any reason other than death or Retirement, the Account Balance will be paid to the Participant, in a lump sum, as soon thereafter as is practicable.

(c) Leave of Absence, Transfer or Disability. The Participant's employment will not be considered as terminated if the Participant is on an approved leave of absence or if the Participant transfers or is transferred but remains in the employ of the Company or if the Participant is eligible to receive disability payments under the ML & Co. Basic Long-Term Disability Plan.

(d) Discretion to Alter Payment Date. Notwithstanding the provisions of Sections 5.2(a) and (b), if the Participant's employment terminates for any reason, the Administrator may, in his sole discretion, direct that the Account Balance be paid at some other time or that it be paid in installments; provided,

that no such direction that adversely affects the rights of the Participant or his or her beneficiary under this Agreement shall be implemented without the consent of the affected Participant or beneficiary. This direction may be revoked by the Administrator at any time in his sole discretion.

5.3 Withholding of Taxes.

ML & Co. will deduct or withhold from any payment to be made or deferred hereunder any U.S. Federal, state or local or foreign income or employment taxes required by law to be withheld or require the Participant or the Participant's beneficiary to pay any amount, or the balance of any amount, required to be withheld.

5.4 Beneficiary.

(a) Designation of Beneficiary. The Participant may designate, in a writing delivered to the Administrator or his designee before the Participant's death, a beneficiary to receive payments in the event of the Participant's death. The Participant may also designate a contingent beneficiary to receive payments in accordance with this Agreement if the primary beneficiary does not survive the

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Participant. The Participant may designate more than one person as the Participant's beneficiary or contingent beneficiary, in which case (i) no contingent beneficiary would receive any payment unless all of the primary beneficiaries predeceased the Participant, and (ii) the surviving beneficiaries in any class shall share in any payments in proportion to the percentages of interest assigned to them by the Participant.

(b) Change in Beneficiary. The Participant may change his or her beneficiary or contingent beneficiary (without the consent of any prior beneficiary) in a writing delivered to the Administrator or his designee before the Participant's death. Unless the Participant states otherwise in writing, any change in beneficiary or contingent beneficiary will automatically revoke prior such designations of the Participant's beneficiary or of the Participant's contingent beneficiary, as the case may be, under this Agreement only; and any designations under other deferral agreements or plans of the Company will remain unaffected.

(c) Default Beneficiary. Effective January 1, 1995, in the event a Participant does not designate a beneficiary, or no designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's surviving spouse, if the Participant is married at the time of his or her death and not subject to a court-approved agreement or court decree of separation, or otherwise the person or persons designated to receive benefits on account of the Participant's death under the ML & Co. Basic Group Life Insurance Plan (the "Life Insurance Plan"). However, if an unmarried Participant does not have coverage in effect under the Life Insurance Plan, or the Participant has assigned his or her death benefit under the Life Insurance Plan, any amounts payable to the Participant's beneficiary under the Agreement will be paid to the Participant's estate.

(d) If the Beneficiary Dies During Payment. If a beneficiary who is receiving or is entitled to receive payments hereunder dies after the Participant dies, but before all the payments have been made, the portion of the Account Balance to which that beneficiary was entitled will be paid as soon as practicable in one lump sum to such beneficiary's estate and not to any contingent beneficiary the Participant may have designated.

5.5 Hardship Distributions.

ML & Co. may pay to the Participant, on such terms and conditions as the

Administrator may establish, such part or all of the Account Balance as he may, in his sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Agreement. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his sole discretion to be immediate and substantial.

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ARTICLE VI

ADMINISTRATION OF THE AGREEMENT

6.1 Powers of the Administrator.

The Administrator has full power and authority to interpret, construe, and administer this Agreement so as to ensure that it provides deferred compensation for the Participant as a member of a select group of management or highly compensated employees within the meaning of Title I of ERISA. The Administrator's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments, will be binding and conclusive on all persons for all purposes. The Administrator will not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Agreement unless attributable to his willful misconduct or lack of good faith. The Administrator may designate persons to carry out the specified responsibilities of the Administrator and shall not be liable for any act or omission of a person as designated.

6.2 Payments on Behalf of an Incompetent.

If the Administrator finds that any person who is entitled to any payment hereunder is a minor or is unable to care for his or her affairs because of disability or incompetency, payment of the Account Balance may be made to anyone found by the Administrator to be the committee or other authorized representative of such person, or to be otherwise entitled to such payment, in the manner and under the conditions that the Administrator determines. Such payment will be a complete discharge of the liabilities of ML & Co. hereunder with respect to the amounts so paid.

6.3 Corporate Books and Records Controlling.

The books and records of the Company will be controlling in the event a question arises hereunder concerning the amount of Adjusted Compensation, Incentive Compensation, FCCAAP Payment, Sign-On Bonus, Eligible Compensation, the Deferred Amounts, the Account Balance, the designation of a beneficiary, or any other matters.

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 Litigation.

The Company shall have the right to contest, at its expense, any ruling or decision, administrative or judicial, on an issue that is related to the Agreement and that the Administrator believes to be important to Participants, and to conduct any such contest or any litigation arising therefrom to a final decision.

7.2 Headings Are Not Controlling.

The headings contained in this Agreement are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Agreement.

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7.3 Governing Law.

To the extent not preempted by applicable U.S. Federal law, this Agreement will be construed in accordance with and governed by the laws of the State of New York as to all matters, including, but not limited to, matters of validity, construction, and performance.

7.4 Amendment and Termination.

ML & Co., through the Administrator, reserves the right to amend or terminate this Agreement at any time, except that no such amendment or termination shall adversely affect the right of a Participant to his or her Account Balance as of the date of such amendment or termination.

7.5 Agreement Binding on Successors and Assigns.

This Agreement will be binding upon and inure to the benefit of ML & Co. and its successors and assigns; the Participant and the Participant's heirs, executors, administrators and legal representatives; and the Participant's beneficiary(ies) and the heirs, executors, administrators and legal representatives of such beneficiary(ies).

7.6 Invalidity of Provisions.

If any provision of this Agreement or the application thereof shall for any reason be invalid or unenforceable, such provision shall be limited only to the extent necessary in the circumstances to make it valid and enforceable. In any event, the remaining provisions of this Agreement will continue in full force and effect.

MERRILL LYNCH & CO., INC.

1995 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

MERRILL LYNCH & CO., INC.

1995 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

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FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

ARTICLE I

GENERAL

1.1 Purpose and Intent.

The purpose of the Plan is to encourage the employees who are integral to the success of the business of the Company to continue their employment by providing them with flexibility in meeting their future income needs. It is intended that this Plan be unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA, and all decisions concerning who is to be considered a member of that select group and how this Plan shall be administered and interpreted shall be consistent with this intention.

1.2 Definitions.

For the purpose of the Plan, the following terms shall have the meanings indicated.

"Account Balance" means, as of any date, the Deferred Amounts credited to a Participant's Account, adjusted in accordance with Section 3.4 to reflect the performance of the Participant's Selected Benchmark Return Options, the Annual Charge and any payments made from the Account to the Participant prior to that date.

"Account" means the reserve account established on the books and records of ML & Co. for each Participant to record the Participant's interest under the Plan.

"Adjusted Compensation" means the financial consultant incentive compensation, account executive incentive compensation, or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the Fiscal Year ending in 1995, and payable after January 1, 1995, as a result of the Participant's production credit level.

"Administrator" means the Director of Human Resources of ML & Co., or his functional successor, or any other person or committee designated as Administrator of the Plan by the MDCC.

"Affiliate" means any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests.

"Annual Charge" means the charge to the Participant's Account provided for in Section 3.4(c).

"Benchmark Return Options" means such Merrill Lynch mutual funds or other investment vehicles as the Administrator may from time to time designate for the purpose of indexing Accounts hereunder. In the event a Benchmark Return Option ceases to exist or is no longer to be a Benchmark Return Option, the Administrator may designate a substitute Benchmark Return Option for such discontinued option.

"Board of Directors" means the Board of Directors of ML & Co.

"Code" means the U.S. Internal Revenue Code of 1986, as amended from time to time.

"Company" means ML & Co. and all of its Affiliates.

"Compensation" means, as relevant, a Participant's Adjusted Compensation, Variable Incentive Compensation and/or Sign-On Bonus. In no event shall a Participant's base pay be considered Compensation (i.e., an amount subject to deferral under this Plan).

"Deferral Percentage" means the percentage (which shall be in whole percentage increments and not more than 90%), specified by the Participant to be the percentage of each payment of Compensation he or she wishes to defer under the Plan.

"Deferred Amounts" means the amounts of Compensation actually deferred by the Participant under this Plan.

"Election Year" means the 1994 calendar year.

"Eligible Compensation" means a Participant's "eligible compensation" as determined, from time to time, for purposes of ML & Co.'s Basic Group Life Insurance Plan.

"Eligible Employee" means an employee eligible to defer amounts under this

Plan, as determined under Section 2.1 hereof.

"ERISA" means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

"Fiscal Month" means the monthly period used by ML & Co. for financial accounting purposes.

"Fiscal Year" means the annual period used by ML & Co. for financial accounting purposes.

"Full-Time Domestic Employee" means a full-time employee of the Company paid from the Company's domestic based payroll (other than any U.S. citizen or "green card" holder who is employed outside the United States).

"Full-Time Expatriate Employee" means a U.S. citizen or "green card" holder employed by the Company outside the United States and selected by the Administrator as eligible to participate in the Plan (subject to the other eligibility criteria).

"Maximum Deferral" means the whole dollar amount specified by the Participant to be the amount of Compensation he or she elects to be deferred under the Plan.

"MDCC" means the Management Development and Compensation Committee of the Board of Directors.

"ML & Co." means Merrill Lynch & Co., Inc.

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"Net Asset Value" means, with respect to each Benchmark Return Option that is a mutual fund or other commingled investment vehicle for which such values are determined in the normal course of business, the net asset value, on the date in question, of the Selected Benchmark Return Option for which the value is to be determined.

"Participant" means an Eligible Employee who has elected to defer Compensation under the Plan.

"Plan" means this Merrill Lynch & Co., Inc. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees.

"Plan Year" means the Fiscal Year ending in 1995.

"Remaining Deferred Amounts" means a Participant's Deferred Amounts times a fraction equal to the number of remaining installment payments divided by the total number of installment payments.

"Retirement" means a Participant's (i) termination of employment with the Company for reasons other than for cause on or after the Participant's 65th birthday, or (ii) resignation on or after the Participant's 55th birthday if the Participant has at least 10 years of service, or (iii) resignation at any age with the express approval of the Administrator, which will be granted only if the termination is found by the Administrator to be in, or not contrary to, the best interests of the Company.

"Selected Benchmark Return Option" means a Benchmark Return Option selected by the Participant in accordance with Section 3.4.

"Sign-On Bonus" means a single-sum amount paid or payable during the Plan Year upon commencement of employment to a new Eligible Employee, in addition to base pay and other Compensation, to induce him or her to become an employee of the Company.

"Variable Incentive Compensation" means the variable incentive compensation or office manager incentive compensation that is paid in cash to certain employees of the Company generally in January or February of the Plan Year with respect to the prior Fiscal Year, which for purposes of this Plan is considered earned during the Plan Year regardless of when it is actually paid to the Participant.

ARTICLE II

ELIGIBILITY

2.1 Eligible Employees.

(a) General Rule. An individual is an Eligible Employee if he or she (i) is a Full-Time Domestic Employee or a Full-Time Expatriate Employee, (ii) has at least \$200,000 of Eligible Compensation for the Election Year, (iii) has attained at least the title of Vice President, Director or Managing Director, or holds a National Sales Management position with the Company (a "National Sales Manager"), and (iv) (A) is a financial consultant or an estate planning and

business insurance specialist, who was a member in 1994 of the Chairman's Club, the Charles E. Merrill Circle, the Society of Eagles, the Falcons Club or the Win Smith Fellows, (B) is a National Sales Manager, (C) is

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a member of the International Private Banking Group, (D) is a non-producing employee in the Senior Manager or Senior Consultant Band (Q Band) or above, or (E) is a producing employee in grade 95 or above; provided, that non-producing

employees in the Director Band (R Band) or above and producing employees in grade 97 or above (or their executive equivalents) shall not be required to meet condition (ii) hereof, and provided, further, that employees who were 1994 Win

Smith Fellows shall not be required to meet condition (iii) hereof.

(b) Individuals First Employed During Election Year or Plan Year. Subject to the approval of the Administrator in his sole discretion, an individual who is first employed by the Company during the Election Year or the Plan Year is an Eligible Employee if his or her Eligible Compensation is greater than \$200,000 and he or she is either employed as a National Sales Manager or is to be nominated for at least the title of Vice President, Director or Managing Director at the first opportunity following his or her commencement of employment with the Company.

(c) Wages Subject to Legal Process. An individual shall not, however, be an Eligible Employee if as of the deadline for submission of elections specified in Section 3.1(a) the individual's wages have been attached or are being garnished or are otherwise restrained pursuant to legal process.

ARTICLE III

DEFERRAL ELECTIONS; ACCOUNTS

3.1 Deferral Elections.

(a) Timing and Manner of Making of Elections. An election to defer Compensation for payment in accordance with Section 5.1 shall be made by submitting to the Administrator such forms as the Administrator may prescribe. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Plan must be received by the Administrator or such person as he may designate for the purpose by no later than September 30, 1994; provided, however, that the Eligible Employee's

election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

(b) Irrevocability of Deferral Election. Except as provided in Sections 3.5 and 5.5, an election to defer the receipt of any Compensation made under Section 3.1(a) is irrevocable once submitted to the Administrator or his designee. The Administrator's acceptance of an election to defer Compensation shall not, however, affect the contingent nature of such Compensation under the plan or program under which such Compensation is payable.

(c) Application of Election. The Participant's Deferral Percentage will be applied to each payment of Compensation to which the Participant's deferral election applies, provided, that the aggregate of the Participant's Deferred

Amounts shall not exceed the Participant's Maximum Deferral. If a Participant has made deferral elections with respect to more than one category of Compensation, this Section 3.1(c) shall be applied separately with respect to each such category.

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3.2 Crediting to Accounts.

A Participant's Deferred Amounts will be credited to the Participant's Account, as soon as practicable (but in no event later than 90 days) after the last day of the Fiscal Month during which such Deferred Amounts would, but for deferral, have been paid and will be accounted for in accordance with Section 3.4.

3.3 Minimum Requirements for Deferral.

(a) Minimum Requirements. Notwithstanding any other provision of this Plan, no deferral will be effected under this Plan with respect to a Participant if:

- (i) the Participant is not an Eligible Employee as of December 31, 1994,

- (ii) the Participant's election as applied to the Participant's Variable Incentive Compensation (determined by substituting the Election Year for the Plan Year) or Adjusted Compensation (determined by substituting the Fiscal Year ending in 1993 for the Fiscal Year ending in 1995) would have resulted in an annual deferral of less than \$15,000, or
- (iii) the greater of (A) the sum of (1) the compensation amount listed on the Participant's W-2 form for 1995 and (2) any Compensation that is accelerated which the Participant may receive in December 1994 which would have been payable in calendar year 1995 in the absence of the action of the Company to accelerate the payment, and (B) the Participant's Eligible Compensation for calendar year 1996, is less than \$200,000;

provided, that any Participant who first becomes an employee of the Company
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during the Plan Year shall not be required to satisfy conditions (i) and (ii).

(b) Failure to Meet Requirements. If any of the requirements of Section 3.3(a) are not met by a Participant, the Deferred Amounts will be paid to the Participant, without adjustment to reflect the performance of any Selected Benchmark Return Option, as soon as practicable after it has been determined that the requirement has not been met provided, however, that if the Participant

fails to meet the requirements of Section 3.3(a) (iii), the Participant will receive the greater of the Deferred Amounts or the Account Balance.

3.4 Benchmark Return Options; Adjustment of Accounts.

(a) Selection of Benchmark Return Options. Coincident with the Participant's election to defer Compensation, the Participant must select one or more Benchmark Return Options and the percentage of the Participant's Account to be adjusted to reflect the performance of each Selected Benchmark Return Option. All elections of Selected Benchmark Return Options shall be in multiples of 10% unless the Administrator determines that lower increments are administratively feasible, in which case such lower increment shall apply. A Participant may, by complying with such procedure as the Administrator may prescribe on a uniform and nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than twelve times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

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(b) Adjustment of Accounts. While each Participant's Account does not represent the Participant's ownership of, or any ownership interest in, any particular assets, the Account shall be adjusted to reflect the investment experience of the Participant's Selected Benchmark Return Options in the same manner as if investments in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the timing of receipt of Participant instructions by the ML II System shall control the timing and pricing of the notional investments in the Participant's Selected Benchmark Return Options in accordance with the rules of operation of the ML II System and its requirements for placing corresponding investment orders, as if orders to make corresponding investments were actually to be made, except that in connection with the crediting of Deferred Amounts to the Participant's Account and distributions from the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant day. Each Selected Benchmark Return Option shall be valued using the Net Asset Value of the Selected Benchmark Return Option as of the relevant day, provided, that, in

valuing a Selected Benchmark Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Plan shall be the price reported for actual transactions in that security through the ML II System on the relevant day, without giving effect to any transaction charges or costs associated with such transactions,
provided, further, that, if there are no such transactions effected through the
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ML II System on the relevant day, the value of the security shall be:

- (i) if the security is listed for trading on one or more national securities exchanges, the average of the high and low sale prices for that day on the principal exchange for such security, or if such security is not traded on such principal exchange on that day, the average of the high and low sales prices on such exchange on the first day prior thereto on which such security was so traded;
- (ii) if the security is not listed for trading on a national securities exchange but is traded in the over-the-counter

market, the average of the highest and lowest bid prices for such security on the relevant day; or

- (iii) if neither clause (i) nor (ii) applies, the value determined by the Administrator by whatever means he considers appropriate in his sole discretion.

(c) Annual Charge. As of the last day of each Fiscal Year or such earlier day in December as the Administrator shall determine, an Annual Charge of 2.0% of the Participant's Deferred Amounts (exclusive of any appreciation or depreciation determined under Section 3.4 (b)) shall be applied to reduce the Account Balance (but not below zero). In the event that the Participant elects to have the Account Balance paid in installments, this Annual Charge will be charged on the Remaining Deferred Amounts after giving effect to the installment payments. In the event that the Account Balance is paid out completely during a Fiscal Year prior to the date that the Annual Charge is assessed, a pro rata

Annual Charge will be deducted from amounts to be paid to the Participant to cover that fraction of the Fiscal Year that Deferred Amounts (or Remaining Deferred Amounts in the case of installment payments) were maintained hereunder. The Annual Charge shall be applied as a pro rata reduction of the Account

Balance indexed to each of the Participant's Selected Benchmark Return Options. In applying the Annual Charge, the pricing principles set forth in Section 3.4(b) will be followed.

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3.5 Rescission of Deferral Election.

(a) Prior to December 1, 1994. A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 1994, and (ii) if the Administrator, in his sole discretion and upon evidence of such basis that he finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between October 1, 1994 and November 30, 1994), agrees to the rescission of the election. The Deferred Amounts will be paid to the Participant as soon as practicable subject to a reduction for any applicable withholding taxes.

(b) Adverse Tax Determination. Notwithstanding the provisions of Section 3.5(a), a deferral election may be rescinded at any time if (i) a final determination is made by a court or other governmental body of competent jurisdiction that the election was ineffective to defer income for purposes of U.S. Federal, state, local or foreign income taxation and the time for appeal from this determination has expired, and (ii) the Administrator, in his sole discretion, decides, upon the Participant's request and upon evidence of the occurrence of the events described in (i) hereof that he finds persuasive, to rescind the election. Upon such rescission, the Account Balance, including any adjustment for performance of the Selected Benchmark Return Options will be paid to the Participant as soon as practicable, and no additional amounts will be deferred pursuant to this Plan.

(c) Rescission For Amounts Not Yet Earned. Upon the Participant's written request, the Administrator may in his sole discretion terminate any deferral elections made hereunder with respect to compensation not yet earned and no further amounts will be deferred. Amounts previously deferred will continue to be governed by the terms of this Plan.

ARTICLE IV

STATUS OF DEFERRED AMOUNTS AND ACCOUNT

4.1 No Trust or Fund Created; General Creditor Status.

Nothing contained herein and no action taken pursuant hereto will be construed to create a trust or separate fund of any kind or a fiduciary relationship between the ML & Co. and any Participant, the Participant's beneficiary or estate, or any other person. Title to and beneficial ownership of any funds represented by the Account Balance will at all times remain in ML & Co.; such funds will continue for all purposes to be a part of the general funds of ML & Co. and may be used for any corporate purpose. No person will, by virtue of the provisions of this Plan, have any interest whatsoever in any specific assets of the Company. TO THE EXTENT THAT ANY PERSON ACQUIRES A RIGHT TO RECEIVE PAYMENTS FROM ML & CO. UNDER THIS PLAN, SUCH RIGHT WILL BE NO GREATER THAN THE RIGHT OF ANY UNSECURED GENERAL CREDITOR OF ML & CO.

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4.2 Non-Assignability.

The Participant's right or the right of any other person to the Account Balance or any other benefits hereunder cannot be assigned, alienated, sold, garnished, transferred, pledged, or encumbered except by a written designation of beneficiary under this Plan, by written will, or by the laws of descent and

distribution.

4.3 Effect of Deferral on Benefits Under Pension and Welfare Benefit Plans.

The effect of deferral on pension and welfare benefit plans in which the Participant may be a participant will depend upon the provisions of each such plan, as amended from time to time.

ARTICLE V

PAYMENT OF ACCOUNT

5.1 Payment Date.

A Participant's Account Balance will be paid by ML & Co., as elected by the Participant at the time of his or her deferral election, either in a single sum, or in the number of annual installments (not to exceed 15) chosen by the Participant to commence, as specified, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month or year selected by the Participant after the end of 1995, (iii) in any month in the calendar year following the Participant's Retirement, but in no event may the date elected under clause (i), (ii) or (iii) result in commencement of payments later than the month following the Participant's 70th birthday. The amount of each annual installment, if any, shall be a fraction of the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made, the numerator of such fraction shall be one and the denominator of such fraction shall be the number of remaining installments (including the installment to be made).

5.2 Termination of Employment.

(a) Death or Retirement. If the Participant dies or retires prior to payment, then the Account Balance will be paid to the Participant in accordance with the Participant's election (in the event of Retirement) or to the Participant's beneficiary (in the event of death) in accordance with the Participant's election of either installment payments or a lump sum, provided,

however, that in the event that a beneficiary of the Participant's Account
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Balance is the Participant's estate or is otherwise not a natural person, the applicable portion of the Account Balance will be paid in lump sum to such beneficiary.

(b) Other Termination of Employment. If the Participant's employment terminates at any time for any reason other than death or Retirement, the Account Balance will be paid to the Participant, in a lump sum, as soon thereafter as is practicable.

(c) Leave of Absence, Transfer or Disability. The Participant's employment will not be considered as terminated if the Participant is on an approved leave of absence or if the Participant transfers or is transferred but remains in the employ of the Company or if the Participant is eligible to receive disability payments under the ML & Co. Basic Long-Term Disability Plan.

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(d) Discretion to Alter Payment Date. Notwithstanding the provisions of Sections 5.2(a) and (b), if the Participant's employment terminates for any reason, the Administrator may, in his sole discretion, direct that the Account Balance be paid at some other time or that it be paid in installments; provided,

that no such direction that adversely affects the rights of the Participant or his or her beneficiary under this Plan shall be implemented without the consent of the affected Participant or beneficiary. This direction may be revoked by the Administrator at any time in his sole discretion.

5.3 Withholding of Taxes.

ML & Co. will deduct or withhold from any payment to be made or deferred hereunder any U.S. Federal, state or local or foreign income or employment taxes required by law to be withheld or require the Participant or the Participant's beneficiary to pay any amount, or the balance of any amount, required to be withheld.

5.4 Beneficiary.

(a) Designation of Beneficiary. The Participant may designate, in a writing delivered to the Administrator or his designee before the Participant's death, a beneficiary to receive payments in the event of the Participant's death. The Participant may also designate a contingent beneficiary to receive payments in accordance with this Plan if the primary beneficiary does not survive the Participant. The Participant may designate more than one person as the Participant's beneficiary or contingent beneficiary, in which case (i) no contingent beneficiary would receive any payment unless all of the primary

beneficiaries predeceased the Participant, and (ii) the surviving beneficiaries in any class shall share in any payments in proportion to the percentages of interest assigned to them by the Participant.

(b) Change in Beneficiary. The Participant may change his or her beneficiary or contingent beneficiary (without the consent of any prior beneficiary) in a writing delivered to the Administrator or his designee before the Participant's death. Unless the Participant states otherwise in writing, any change in beneficiary or contingent beneficiary will automatically revoke prior such designations of the Participant's beneficiary or of the Participant's contingent beneficiary, as the case may be, under this Plan only; and any designations under other deferral agreements or plans of the Company will remain unaffected.

(c) Default Beneficiary. In the event a Participant does not designate a beneficiary, or no designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's surviving spouse, if the Participant is married at the time of his or her death and not subject to a court-approved agreement or court decree of separation, or otherwise the person or persons designated to receive benefits on account of the Participant's death under the ML & Co. Basic Group Life Insurance Plan (the "Life Insurance Plan"). However, if an unmarried Participant does not have coverage in effect under the Life Insurance Plan, or the Participant has assigned his or her death benefit under the Life Insurance Plan, any amounts payable to the Participant's beneficiary under the Plan will be paid to the Participant's estate.

(d) If the Beneficiary Dies During Payment. If a beneficiary who is receiving or is entitled to receive payments hereunder dies after the Participant but before all the payments have been made, the portion of the Account Balance to which that beneficiary was entitled will be paid as soon as practicable in one lump sum to such beneficiary's estate and not to any contingent beneficiary the Participant may have designated.

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5.5 Hardship Distributions.

ML & Co. may pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance as he may, in his sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his sole discretion to be immediate and substantial.

ARTICLE VI

ADMINISTRATION OF THE PLAN

6.1 Powers of the Administrator.

The Administrator has full power and authority to interpret, construe, and administer this Plan so as to ensure that it provides deferred compensation for the Participant as a member of a select group of management or highly compensated employees within the meaning of Title I of ERISA. The Administrator's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments, will be binding and conclusive on all persons for all purposes. The Administrator will not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to his willful misconduct or lack of good faith. The Administrator may designate persons to carry out the specified responsibilities of the Administrator and shall not be liable for any act or omission of a person as designated.

6.2 Payments on Behalf of an Incompetent.

If the Administrator finds that any person who is entitled to any payment hereunder is a minor or is unable to care for his or her affairs because of disability or incompetency, payment of the Account Balance may be made to anyone found by the Administrator to be the committee or other authorized representative of such person, or to be otherwise entitled to such payment, in the manner and under the conditions that the Administrator determines. Such

payment will be a complete discharge of the liabilities of ML & Co. hereunder with respect to the amounts so paid.

6.3 Corporate Books and Records Controlling.

The books and records of the Company will be controlling in the event a question arises hereunder concerning the amount of Adjusted Compensation, Incentive Compensation, Eligible

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Compensation, the Deferred Amounts, the Account Balance, the designation of a beneficiary, or any other matters.

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 Litigation.

The Company shall have the right to contest, at its expense, any ruling or decision, administrative or judicial, on an issue that is related to the Plan and that the Administrator believes to be important to Participants, and to conduct any such contest or any litigation arising therefrom to a final decision.

7.2 Headings Are Not Controlling.

The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan.

7.3 Governing Law.

To the extent not preempted by applicable U.S. Federal law, this Plan will be construed in accordance with and governed by the laws of the State of New York as to all matters, including, but not limited to, matters of validity, construction, and performance.

7.4 Amendment and Termination.

ML & Co., through the Administrator, reserves the right to amend or terminate this Plan at any time, except that no such amendment or termination shall adversely affect the right of a Participant to his or her Account Balance as of the date of such amendment or termination.

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MERRILL LYNCH & CO., INC.
 2000 DEFERRED COMPENSATION PLAN
 FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

DATED AS OF SEPTEMBER 1, 1999

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

MERRILL LYNCH & CO., INC.
 2000 DEFERRED COMPENSATION PLAN
 FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

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MERRILL LYNCH & CO., INC.
2000 DEFERRED COMPENSATION PLAN
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

ARTICLE I

GENERAL

1.1 Purpose and Intent.

The purpose of the Plan is to encourage the employees who are integral to the success of the business of the Company to continue their employment by providing them with flexibility in meeting their future income needs. It is intended that this Plan be unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA, and all decisions concerning who is to be considered a member of that select group and how this Plan shall be administered and interpreted shall be consistent with this intention.

1.2 Definitions.

For the purpose of the Plan, the following terms shall have the meanings indicated.

"Account" means the reserve account established on the books and records of ML & Co. for each Participant to record the Participant's interest under the Plan.

"Account Balance" means, as of any date, the Deferred Amounts credited to a Participant's Account, adjusted in accordance with Section 3.4 to reflect the performance of the Participant's Selected Benchmark Return Options, the Annual Charge, and any payments made from the Account to the Participant prior to that date.

"Adjusted Compensation" means the financial consultant incentive compensation, account executive incentive compensation or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the Fiscal Year ending in 2000, and payable after January 1, 2000, as a result of the Participant's production credit level, or such other similar items of compensation as the Administrator shall designate as "Adjusted Compensation" for purposes of this Plan.

"Administrator" means the Director of Human Resources of ML & Co., or his or her functional successor, or any other person or committee designated as Administrator of the Plan by the MDCC.

"Affiliate" means any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests.

"Annual Charge" means the charge to a Participant's Account provided for in Section 3.4(g).

"Applicable Federal Rate" means the applicable federal rate for short-term (0-3 years) obligations of the United States Treasury established in January of each year.

"Available Balance" means amounts in a Participant's Account after the Debit Balance has been reduced to zero.

"Average Leveraged Principal Amount" means, for each Participant, for any period, the sum of the Leveraged Principal Amounts outstanding at the end of

each day in the period divided by the number of days in such period.

"Benchmark Return Options" means such investment vehicles as the Administrator may from time to time designate for the purpose of indexing Accounts hereunder. In the event a Benchmark Return Option ceases to exist or is no longer to be a Benchmark Return Option, the Administrator may designate a substitute Benchmark Return Option for such discontinued option.

"Board of Directors" means the Board of Directors of ML & Co.

"Career Retirement" means a Participant's termination of employment with the Company for reasons other than for cause on or after: (i) the Participant's 55th birthday, if the Participant has at least 5 years of service; (ii) the Participant's 50th birthday, if the Participant has at least 10 years of service; (iii) the Participant's 45th birthday, if the Participant has at least 15 years of service, or (iv) at any age, if the Participant has at least 20 years of service, provided that, in each case, following such termination such Participant does not engage in any activity that, in the sole judgment of the Administrator, is in competition with the business of the Company.

"Code" means the U.S. Internal Revenue Code of 1986, as amended from time to time.

"Company" means ML & Co. and all of its Affiliates.

"Compensation" means, as relevant, a Participant's Adjusted Compensation, Variable Incentive Compensation and/or Sign-On Bonus, or such other items or items of compensation as the Administrator, in his sole discretion, may specify in a particular instance.

"Debit Balance" means, as of any date the negative dollar amount, if any, representing each of: (1) the aggregate Annual Charge, accrued in accordance with Section 3.4(g) (i); and (2) any Leveraged Principal Amount (together with any pro rata Interest Amounts determined in accordance with Section 3.4(g) (ii), if applicable), as reduced by any distributions recorded from KECALP Units recorded in a Participant's Account or chargeoffs against the Liquid Balance in such Account in accordance with Section 3.4(e).

"Deferral Percentage" means the percentage (which, unless the Administrator, in his sole discretion, determines otherwise, shall be in whole percentage increments and not more than 90%) specified by the Participant to be the percentage of each payment of Compensation he or she wishes to defer under the Plan.

"Deferred Amounts" means, except as provided in Section 5.6, the amounts of Compensation actually deferred by the Participant under this Plan.

"Election Year" means the 1999 calendar year.

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"Eligible Compensation" means (1) for persons eligible for the Variable Incentive Compensation Program or other similar programs: (A) a Participant's 1998 base earnings (and/or 1998 Adjusted Compensation) plus (B) any cash bonus awarded in early 1999, and (2) for persons ineligible for such bonus programs, a Participant's 1998 Adjusted Compensation.

"Eligible Employee" means an employee eligible to defer amounts under this Plan, as determined under Section 2.1 hereof.

"ERISA" means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

"Fiscal Month" means the monthly period used by ML & Co. for financial accounting purposes.

"Fiscal Year" means the annual period used by ML & Co. for financial accounting purposes.

"Full-Time Domestic Employee" means a full-time employee of the Company paid from the Company's domestic based payroll (other than any U.S. citizen or "green card" holder who is employed outside the United States).

"Full-Time Expatriate Employee" means a U.S. citizen or "green card" holder employed by the Company outside the United States and selected by the Administrator as eligible to participate in the Plan (subject to the other eligibility criteria).

"Hedge Fund Return Option(s)" means one or more multi-advisor hedge funds structured and managed by Merrill Lynch Investment Partners Inc. that are offered as Benchmark Return Options.

"Hedge Fund Unit(s)" means the record-keeping units credited to the Accounts of Participants who have chosen one or more Hedge Fund Return Options.

"Initial Leveraged Amount" means the initial dollar amount by which a Participant's deferral into KECALP Units is leveraged as determined in accordance with Section 3.4(c).

"Interest" means the hypothetical interest accruing on a Participant's Average Leveraged Principal Amount at the Applicable Federal Rate.

"Interest Amounts" means, for any Participant, as of any date, the amount of Interest that has accrued to such date on such Participant's Average Leveraged Principal Amount, from the date on which a Participant's Leveraged Principal Amount is established, or from the most recent date that Interest Amounts were added to the Leveraged Principal Amount.

"KECALP Return Option" means the option of indexing returns hereunder to the performance of a KECALP limited partnership, on a leveraged or unleveraged basis.

"KECALP Units" means the record-keeping units credited to the Accounts of Participants who have chosen the KECALP Return Option.

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"Leveraged or Unleveraged Distributions" means the distributions to a Participant's Account attributable to the leveraged or unleveraged portion (as the case may be) of a Participant's KECALP Units.

"Leverage-Eligible Participants" means persons who have at least \$400,000 of Total Compensation for the Election Year and otherwise qualify, in accordance with standards determined by the Administrator, to select a KECALP Return Option on a leveraged basis.

"Leverage Percentage" means the percentage of leverage chosen by a Leverage-Eligible Participant, which percentage will be subject to limits determined by the Administrator.

"Leveraged Principal Amount" means a Participant's Initial Leveraged Amount, if any, as adjusted to reflect the addition of Interest Amounts (or any pro rata Interest Amounts).

"Liquid Balance" means, as of any date, the Deferred Amounts credited to a Participant's Account, adjusted (either up or down) to reflect: (1) the performance of the Participant's Mutual Fund Return Balances as provided in Section 3.4(f); (2) distributions with respect to KECALP Units made in accordance with Section 3.4(d); (3) reduction of any Debit Balance as provided in Section 3.4(e); and (4) any payments to the Participant under Article V hereof.

"Maximum Deferral" means the whole dollar amount specified by the Participant to be the amount of Compensation he or she elects to be deferred under the Plan.

"MDCC" means the Management Development and Compensation Committee of the Board of Directors.

"ML & Co." means Merrill Lynch & Co., Inc.

"Mutual Fund Return Options" means the mutual funds chosen as Benchmark Return Options by the Administrator.

"Net Asset Value" means, with respect to each Benchmark Return Option that is a mutual fund or other commingled investment vehicle for which such values are determined in the normal course of business, the net asset value, on the date in question, of the vehicle for which such value is being determined.

"Participant" means an Eligible Employee who has elected to defer Compensation under the Plan.

"Plan" means this Merrill Lynch & Co., Inc. 2000 Deferred Compensation Plan for a Select Group of Eligible Employees.

"Plan Year" means the Fiscal Year ending in 2000.

"Retirement" means a Participant's (i) termination of employment with the Company for reasons other than for cause on or after the Participant's 65th birthday, or (ii) resignation on or after the Participant's 55th birthday if the Participant has at least 10 years of service, or (iii) resignation at any age with the express approval of the Administrator, which will be granted only if the termination is found by the Administrator to be in, or not contrary to, the best interests of the Company.

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"Remaining Deferred Amounts" means a Participant's Deferred Amounts times a fraction equal to the number of remaining installment payments divided by the total number of installment payments.

"Selected Benchmark Return Option" means a Benchmark Return Option selected by the Participant in accordance with Section 3.4.

"Sign-On Bonus" means a single-sum amount paid or payable to a new Eligible Employee during the Plan Year upon commencement of employment, in addition to base pay and other Compensation, to induce him or her to become an employee of the Company, or any similar item of compensation as the Administrator shall designate as "Sign-On Bonus" for purposes of this Plan.

"Total Compensation" means Eligible Compensation plus the grant value, as determined by ML & Co. at the time of grant, of stock-based awards that are granted to certain employees of the Company generally in January or February of the Plan Year with respect to the prior Fiscal Year, which, for purposes of this Plan, are considered earned during the Plan Year regardless of when they are actually granted or paid to the Participant.

"Undistributed Deferred Amounts" means, as of any date on which the Annual Charge is determined, a Participant's Deferred Amounts (exclusive of any appreciation or depreciation) minus, for each distribution to a Participant prior to such date, an amount equal to the product of the Deferred Amounts and a fraction the numerator of which is the amount of such distribution and the denominator of which is the combined Net Asset Value (prior to distribution) of the Participant's Account as of the date of the relevant distribution.

"Variable Incentive Compensation" means the variable incentive compensation or office manager incentive compensation that is paid in cash to certain employees of the Company generally in January or February of the Plan Year with respect to the prior Fiscal Year, which for purposes of this Plan is considered earned during the Plan Year regardless of when it is actually paid to the Participant, or such other similar items of compensation as the Administrator shall designate as "Variable Incentive Compensation" for purposes of this Plan.

"401(k) Plan" means the Merrill Lynch & Co., Inc. 401(k) Savings & Investment Plan.

ARTICLE II

ELIGIBILITY

2.1 Eligible Employees.

(a) General Rule. An individual is an Eligible Employee if he or she (i) is a Full-Time Domestic Employee or a Full-Time Expatriate Employee, (ii) has at least \$225,000 of Eligible Compensation for the Election Year, (iii) has attained at least the title of Vice President, Director or Managing Director, or holds a National Sales Management position with the Company (a "National Sales Manager"), and (A) is a financial consultant or an estate planning and business insurance specialist, who was a member in 1999 of the Chairman's Club, the Charles E. Merrill Circle, the Society of Eagles, the Falcons Club, the Circle of Champions, the Circle of Excellence

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or the Director's Circle, (B) is a member of the International Private Banking Group, (C) is employed as an Investment Manager for Merrill Lynch Asset Management, (D) is an employee in the 2 Band or above, or (E) is a producing employee in grade 95 or above; provided, that employees in the 1 Band or above -----
and producing employees in grade 97 or above (or their executive equivalents) shall not be required to meet condition (ii) hereof; and provided, further, that -----
employees who were 1999 Win Smith Fellows shall not be required to meet condition (iii) hereof.

(b) Individuals First Employed During Election Year or Plan Year. Subject to the approval of the Administrator in his or her sole discretion, an individual who is first employed by the Company during the Election Year or the Plan Year is an Eligible Employee if his or her Eligible Compensation, together, if applicable, with the amount of any Variable Incentive Compensation that will be payable to such individual in the next annual bonus cycle pursuant to a written bonus guarantee, is greater than \$225,000, and he or she is either employed as a National Sales Manager or is to be nominated for at least the title of Vice President, Director or Managing Director at the first opportunity following his or her commencement of employment with the Company.

(c) Disqualifying Factors. An individual shall not be an Eligible Employee if either (i) as of the deadline for submission of elections specified in Section 3.1(a), the individual's wages have been attached or are being garnished or are otherwise restrained pursuant to legal process, or (ii) within 13 months prior to the deadline for submission of elections specified in Section 3.1(a), the individual has made a hardship withdrawal of Elective 401(k) Deferrals as defined under the 401(k) Plan.

ARTICLE III

DEFERRAL ELECTIONS; ACCOUNTS

3.1 Deferral Elections.

(a) Timing and Manner of Making of Elections. An election to defer Compensation for payment in accordance with Article V shall be made by submitting to the Administrator such forms as the Administrator may prescribe in whatever manner that the Administrator may indicate. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Plan must be received by the Administrator or such person as he may designate for the purpose by no later than September 30 of the Election Year (or such later date as the Administrator, in his sole discretion, may specify in any particular instance) or, in the event such date is not a business day, the immediately preceding business day; provided, however, that -----
the Eligible Employee's election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

(b) Irrevocability of Deferral Election. Except as provided in Sections 3.5 and 5.5, an election to defer the receipt of any Compensation made under Section 3.1(a) is irrevocable once submitted to the Administrator or his designee. The Administrator's acceptance of an

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election to defer Compensation shall not, however, affect the contingent nature of such Compensation under the plan or program under which such Compensation is payable.

(c) Application of Election. The Participant's Deferral Percentage will be applied to each payment of Compensation to which the Participant's deferral election applies, provided that the aggregate of the Participant's Deferred -----
Amounts shall not exceed the Participant's Maximum Deferral. If a Participant has made deferral elections with respect to more than one category of Compensation, this Section 3.1(c) shall be applied separately with respect to each such category.

3.2 Crediting to Accounts.

(a) Initial Deferrals. A Participant's Deferred Amounts will be credited to the Participant's Account as soon as practicable (but in no event later than the end of the following month) after the last day of the Fiscal Month during which such Deferred Amounts would, but for deferral, have been paid and will be accounted for in accordance with Section 3.4. No interest will accrue, nor will any adjustment be made to an Account, for the period until the Deferred Amounts are credited.

(b) KECALP. Upon the closing of any Merrill Lynch KECALP Return Option, a Participant's Account will be credited with a number of units determined by dividing by \$1,000 the sum of the following: (1) the portion of the Account Balance that the Participant has elected to allocate to the KECALP Return Option, as of the day prior to the closing date; and (2) the Participant's Initial Leveraged Amount (computed in accordance with Section 3.4(c)). Any amounts not applied to the KECALP Unit Account will remain in a Participant's Account (or be applied to reduce a Participant's Debit Balance). No fractional units will be credited.

3.3 Minimum Requirements for Deferral.

(a) Minimum Requirements. Notwithstanding any other provision of this Plan, no deferral will be effected under this Plan with respect to a Participant if:

- (i) the Participant is not an Eligible Employee as of December 31, 1999,
- (ii) the Participant's election as applied to the Participant's Variable Incentive Compensation (determined by substituting the Election Year for the Plan Year) or Adjusted Compensation (determined by substituting the Fiscal Year immediately prior to the Fiscal Year ending in the Election Year for the Fiscal Year ending in the Plan Year) would have resulted in an annual deferral of less than \$15,000, or
- (iii) the greater of (A) the sum of (1) the "Medicare wages" amount listed on the Participant's W-2 form for the Plan Year, and (2) any Compensation that is accelerated which the Participant may receive in December of the Election Year which would have been payable in

the Plan Year in the absence of the action of the Company to accelerate the payment, or (B) the Participant's Eligible Compensation for the Plan Year, is less than \$225,000;

provided, that any Participant who first becomes an employee of the Company

during the Plan Year shall not be required to satisfy conditions (i) and (ii). Condition (ii) shall not be construed to require a Participant's elections to result in an actual deferral of at least \$15,000.

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(b) Failure to Meet Requirements. If the requirements of Section 3.3(a)(i) or (ii) are not met by a Participant to whom such requirements are applicable, such Participant's Deferred Amounts, if any, will be paid to such Participant, without adjustment to reflect the performance of any Selected Benchmark Return Option, as soon as practicable after it has been determined that the requirements have not been met. If the requirements of Section 3.3(a)(iii) are not met by a Participant, the greater of such Participant's Deferred Amounts or Account Balance will be paid to such Participant as soon as practicable after it has been determined that the requirements have not been met.

3.4 Return Options; Adjustment of Accounts.

(a) Selection of KECALP Return Options. In any year that a KECALP partnership is offered, eligible Participants may select the KECALP Return Option (and designate any Leverage Percentage). Participants should be aware that once the closing of the relevant KECALP partnership has occurred, Participants will not be able to change their elections of such options.

(b) Selection of Mutual Fund Return Options. Coincident with the Participant's election to defer Compensation, the Participant must select the percentage of the Participant's Account to be adjusted to reflect the performance of Mutual Fund Return Options, for use when a Participant's Account has a Liquid Balance. All elections shall be in multiples of 1%. A Participant may, by complying with such procedures as the Administrator may prescribe on a uniform and nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than 12 times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

(c) Selection of the KECALP Leverage Percentage by Eligible Participants. Prior to the closing of the offering of a KECALP partnership, Leverage-Eligible Participants who select the KECALP Return Option on a leveraged basis must choose their Leverage Percentage, in accordance with standards determined by the Administrator, by submitting such forms as the Administrator shall prescribe. Prior to the closing of a KECALP partnership, the Administrator will determine each Leverage-Eligible Participant's Initial Leveraged Amount by applying such Participant's Leverage Percentage to the dollar value of the portion of the Participant's Account Balance allocated to the KECALP Return Option. The Initial Leveraged Amount will be recorded as the Leveraged Principal Amount, to which amount Interest Amounts will be added annually in accordance with Section 3.4(e).

(d) Adjustments of KECALP. Whenever a distribution is paid on an actual unit of a KECALP partnership, an amount equal to such per unit distribution times the number of units in the Participant's Account will first be applied against any Debit Balance, as provided in Section 3.4(e), and then, if any portion of such distribution remains after the Debit Balance is reduced to zero, be credited to the Participant's Account to be indexed to the Mutual Fund Return Option(s) chosen by the Participant. Because the KECALP Return Option is illiquid, payouts to Participants under Article V hereof will be made only from amounts credited to a Participant's Account after the Debit Balance is reduced to zero. The KECALP Units and the Debit Balance will also be adjusted in accordance with Section 5.2 hereof in the event of a Participant's termination.

(e) Adjustment of Debit Balance. Any Debit Balance shall be reduced as soon as possible against either (i) any Liquid Balance, or (ii) any distributions relating to KECALP Units. Reductions of the Debit Balance, as provided in the foregoing sentence, shall be applied first to reduce the Debit Balance attributable to accrued

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Annual Charges and then, after all such accrued Annual Charges have been satisfied, to reduce any Leveraged Principal Amount. As of the last day of each Fiscal Year, Interest Amounts computed by the Administrator shall be added to the Leveraged Principal Amount. If on any date the Leveraged Principal Amount would be discharged completely as a result of distributions or chargeoffs, Interest Amounts will be computed though such date and added to the Leveraged Principal Amount as of such date.

(f) Adjustment of Mutual Fund Return Balances. While the Participant's Balances do not represent the Participant's ownership of, or any ownership

interest in, any particular assets, the Balances attributable to Mutual Fund Return Options shall be adjusted to reflect credits or debits relating to distributions with respect to the KECALP Units or chargeoffs against the Debit Balance and to reflect the investment experience of the Participant's Mutual Fund Return Options in the same manner as if investments or dispositions in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the timing of receipt of Participant instructions or credits or debits by the ML II System shall control the timing and pricing of the notional investments in the Participant's Mutual Fund Return Options in accordance with the rules of operation of the ML II System and its requirements for placing corresponding investment orders, as if orders to make corresponding investments or dispositions were actually to be made, except that in connection with the crediting of Deferred Amounts or distributions to the Participant's Account and distributions from or debits to the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant day. Each Mutual Fund Return Option shall be valued using the Net Asset Value of the Mutual Fund Return Option as of the relevant day; provided,

that, in valuing a Mutual Fund Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Plan shall be the price reported for actual transactions in that security through the ML II System on the relevant day, without giving effect to any transaction charges or costs associated with such transactions;

provided, further, that, if there are no such transactions effected through the

ML II System on the relevant day, the value of the security shall be:

- (i) if the security is listed for trading on one or more national securities exchanges, the average of the high and low sale prices for that day on the principal exchange for such security, or if such security is not traded on such principal exchange on that day, the average of the high and low sales prices on such exchange on the first day prior thereto on which such security was so traded;
- (ii) if the security is not listed for trading on a national securities exchange but is traded in the over-the-counter market, the average of the highest and lowest bid prices for such security on the relevant day; or
- (iii) if neither clause (i) nor (ii) applies, the value determined by the Administrator by whatever means he considers appropriate in his sole discretion.

All debits and charges against the Account shall be applied as a pro rata

reduction of the portion of the Account Balance indexed to each of the Participant's Mutual Fund Return Options.

(g) Annual Charge. As of the last day of each Fiscal Year or such earlier day in December as the Administrator shall determine, an Annual Charge of 2.0% of the Participant's Deferred Amounts (exclusive of any appreciation or depreciation determined under Section 3.4 (f)) shall be applied to reduce the Account Balance.

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- (i) In the event that all or any portion of the Account Balance is indexed to a Benchmark Return Option with less than daily liquidity, the Annual Charge will accrue as a Debit Balance and be paid out of future amounts credited to the Account Balance.
- (ii) In the event that the Participant elects to have the Account Balance paid in installments, the Annual Charge will be charged on the Remaining Deferred Amounts after giving effect to the installment payments.
- (iii) In the event that the Account Balance is paid out completely during a Fiscal Year prior to the date upon which the Annual Charge is assessed, a pro --- rata Annual Charge will be deducted from amounts to be paid to the Participant ---- to cover that fraction of the Fiscal Year that Deferred Amounts (or Remaining Deferred Amounts in the case of installment payments) were maintained hereunder. The Annual Charge shall be applied as a pro rata reduction of the portion of the ----- Account Balance indexed to each of the Participant's Selected Benchmark Return Options. In applying the Annual Charge, the pricing principles set forth in Section 3.4(f) will be followed.

(h) Rollover Option. In the discretion of the Administrator or a designee, additional Benchmark Return Options, including Return Options with less than daily liquidity, may be offered to all Participants under the Plan or to a more limited group of Participants, if appropriate because of regulatory

requirements. In such event, Participants will be entitled, in such manner as the Administrator shall determine, to elect that all or a portion of Account Balances be indexed to such Benchmark Return Options.

- (i) With respect to Benchmark Return Options that do not provide daily liquidity: (A) payments under Article V will be made in accordance with a Participant's election at the time of the Participant's original deferral, with any adjustments required for the more limited liquidity of such Return Option; (B) Participants may be limited in their ability to elect, change or continue their Benchmark Return Options in accordance with such terms and conditions as the Administrator or a designee may determine; and (C) the Annual Charge shall be accrued and paid, when possible, upon liquidation of all or any portion of the Benchmark Return Option, provided that no payment shall be made to a Participant under Article V hereof until all accrued Annual Charges have been paid.
- (ii) In the event that such limited liquidity options include future KECALP Partnerships, the designated amounts shall be credited to such Participant, accounted for, adjusted and paid out to such Participant in accordance with the terms and conditions of this Plan as they related to the KECALP Return Option.

3.5 Rescission of Deferral Election.

(a) Prior to December 1, 1999. A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 1999, and (ii) if the Administrator, in his sole discretion and upon evidence of such basis that he finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between September 30, 1999 and November 30, 1999), agrees to the rescission of the election. In the event that the Administrator agrees to the rescission, the Deferred Amounts, if

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any, credited to the Participant's Account will be paid to the Participant as soon as practicable thereafter, subject to reduction for any applicable withholding taxes.

(b) Adverse Tax Determination. Notwithstanding the provisions of Section 3.5(a), a deferral election may be rescinded at any time if (i) a final determination is made by a court or other governmental body of competent jurisdiction that the election was ineffective to defer income for purposes of U.S. Federal, state, local or foreign income taxation and the time for appeal from this determination has expired, and (ii) the Administrator, in his sole discretion, decides, upon the Participant's request and upon evidence of the occurrence of the events described in (i) hereof that he finds persuasive, to rescind the election. Upon such rescission, the Account Balance, including any adjustment for performance of the Selected Benchmark Return Options, will be paid to the Participant as soon as practicable, and no additional amounts will be deferred pursuant to this Plan.

(c) Rescission For Amounts Not Yet Earned. Upon the Participant's written request, the Administrator may in his sole discretion terminate any deferral elections made hereunder with respect to Compensation not yet earned and no further amounts will be deferred. In addition, in the event a Participant receives a hardship withdrawal under the 401(k) Plan, the Administrator shall, as of the date the Participant's Elective 401(k) Deferrals (as defined in the 401(k) Plan) are suspended under the 401(k) Plan as a result of such hardship withdrawal, terminate the Participant's deferrals under this Plan in accordance with the preceding sentence, as if the Participant had requested rescission in writing. In each case, amounts previously deferred will continue to be governed by the terms of this Plan.

ARTICLE IV

STATUS OF DEFERRED AMOUNTS AND ACCOUNT

4.1 No Trust or Fund Created; General Creditor Status.

Nothing contained herein and no action taken pursuant hereto will be construed to create a trust or separate fund of any kind or a fiduciary relationship between ML & Co. and any Participant, the Participant's beneficiary or estate, or any other person. Title to and beneficial ownership of any funds represented by the Account Balance will at all times remain in ML & Co.; such funds will continue for all purposes to be a part of the general funds of ML & Co. and may be used for any corporate purpose. No person will, by virtue of the provisions of this Plan, have any interest whatsoever in any specific assets of the Company. TO THE EXTENT THAT ANY PERSON ACQUIRES A RIGHT TO RECEIVE PAYMENTS FROM ML & CO. UNDER THIS PLAN, SUCH RIGHT WILL BE NO GREATER THAN THE RIGHT OF ANY UNSECURED GENERAL CREDITOR OF ML & CO.

4.2 Non-Assignability.

The Participant's right or the right of any other person to the Account Balance or any other benefits hereunder cannot be assigned, alienated, sold, garnished, transferred, pledged, or encumbered except by a written designation of beneficiary under this Plan, by written will, or by the laws of descent and distribution.

4.3 Effect of Deferral on Benefits Under Pension and Welfare Benefit Plans.

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The effect of deferral on pension and welfare benefit plans in which the Participant may participate will depend upon the provisions of each such plan, as amended from time to time.

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ARTICLE V

PAYMENT OF ACCOUNT

5.1 Manner of Payment.

(a) Regular Payment Elections. A Participant's Account Balance will be paid by the Company, as elected by the Participant at the time of his or her deferral election, either in a single payment to be made, or in the number of annual installments (not to exceed 15) chosen by the Participant to commence, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month and year selected by the Participant after the end of 2000, or (iii) in any month in the calendar year following the Participant's Retirement;

provided that, if a Participant's election would result in payment (in the case

of a single payment) or commencement of payment (in the case of installment payments) after the Participant's 70th birthday, then, notwithstanding the Participant's elections, the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's 70th birthday unless the Participant continues to be an active full time employee at such time, in which case the Company will pay, or commence payment of, the Participant's Account Balance in the month following the Participant's cessation of active service (to the extent payment has not already been made or commenced). The amount of each annual installment, if applicable, shall be determined by multiplying the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments (including the installment payment to be made). In the event that immediately prior to the lump sum payment or the initial installment payment, all or any portion of a Participant's Account Balance remains indexed to a Benchmark Return Option with less than daily liquidity, such payment shall be adjusted, if necessary, for the liquidity restraints of the Benchmark Return Option and, in the case of an election of 11 or more installment payments commencing upon Retirement or a date certain coincident with Retirement, shall be delayed until such Account Balance is fully liquid.

[(b) Modified Installment Payments. In lieu of one of the regular payment elections provided for in Section 5.1(a), a Participant may elect to receive the Account Balance in at least 11 but no more than 15 annual installment payments ("modified installment payments"), such modified installment payments to commence on the last business day in March in the year following the Participant's Retirement or death (the "Initial Payment Date"), provided that, in the event that immediately prior to the initial payment of such installment payments, all or any portion of a Participant's Account Balance remains indexed to a Benchmark Return Option with less than daily liquidity, such initial payment shall be delayed until such Account Balance is fully liquid. The modified installment payments shall be computed in accordance with last sentence of Section 5.1(a) and will in all other respects be treated like regular installment payments under the Plan. By electing modified installment payments, the Participant agrees that at any time prior to the last day of February immediately preceding a Participant's Initial Payment Date (the "Determination Date"), ML & Co. shall have the right, without the consent of the Participant or any beneficiary, to change the Participant's method of payment to 11 annuitized payments ("annuitized payments"), in the event that, in the sole discretion of the Administrator, it is determined that such a change is necessary or appropriate in order to preserve the intended state tax benefits of the modified installment payments to the Participant or any beneficiary. In the event that the Administrator determines that annuitized payments shall be made, the amount

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of the annuitized payments will be determined by applying the Discount Rate, as defined below, to the Account Balance as of the Determination Date to create a stream of 11 equal annual payments. If annuitized payments are to be made, then the Account Balance shall cease to be adjusted pursuant to Section 3.4 as of the Determination Date (except that a pro rata Annual Charge will be deducted from

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the Account Balance prior to calculation of the annuitized payments to cover the fraction of the Fiscal Year preceding the Determination Date) and the Company's only obligation to the Participant shall be to make the annuitized payments when due. As used herein, Discount Rate shall mean ML & Co.'s then-applicable after-tax cost of borrowing and is defined as (A) x (B), where (A) is equal to 1 minus ML & Co.'s then-effective tax rate, expressed as a decimal, and (B) is equal to the sum of: (i) the annual yield on the then-current 5-year U.S. Treasury Note, and (ii) a spread (which will not be less than 0.10%) indicative of ML & Co.'s borrowing cost for transactions of similar structure and average maturity to the annuity, as determined by ML & Co.]

5.2 Termination of Employment.

(a) Death or Retirement. Upon a Participant's death, Career Retirement, or Retirement prior to payment, the Account Balance will be paid, in accordance with the Participant's elections and as provided in Section 5.1(a) or (b), as applicable, to the Participant (in the event of Career Retirement or Retirement) or to the Participant's beneficiary (in the event of death); provided, however,

that in the event that a beneficiary of the Participant's Account is the Participant's estate or is otherwise not a natural person, then (i) if the Participant has elected a regular payment election pursuant to Section 5.1(a), the applicable portion of the Account Balance will be paid in a single payment to such beneficiary notwithstanding any election of installment payments, and (ii) if the Participant has elected modified installment payments pursuant to Section 5.1(b), the applicable portion of the Account Balance will continue to be payable as modified installment payments or annuitized payments, as the case may be, in accordance with Section 5.1(b), but only to a single person consisting of the administrator or executor of the Participant's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

(b) Other Termination of Employment - Forfeiture of Leverage. If the Participant's employment terminates at any time for any reason other than death, Career Retirement or Retirement, then, notwithstanding the Participant's elections hereunder, any Available Benchmark Return Account Balance will be paid to the Participant, as soon as practicable, in a single payment if the Account Balance is fully liquid, or as available, as soon thereafter as is practicable, notwithstanding the Participant's elections hereunder. In the event that a Participant's employment terminates at any time for any reason other than death, disability, Career Retirement or Retirement, such Participant will forfeit all rights to the leveraged portion of such Participant's KECALP Unit Account, including any future Leveraged Distributions, unless the Administrator, in his sole discretion, determines that such forfeiture would be detrimental to Merrill Lynch based on the Net Asset Value of the KECALP Units; provided, however, that such forfeiture will not occur: if (1) the Participant is terminated by ML & Co. as the result of a reduction in staff, (2) the Participant delivers to ML & Co. a release of claims (in a form approved by the Director of Human Resources of ML & Co. and counsel) he or she may have against the corporation or any of its subsidiaries and (3) such Participant complies with the terms of such release. In the event of such forfeiture, the Participant's Account Balance and Debit Balance will be restated by the Administrator, as of the date of termination, to reflect what such balances would have been had the Participant selected no leverage under Section 3.4(c). To the extent necessary, the Participant's Account Balance will also be adjusted, as of the

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date of the termination, to credit the Participant with the amount of any Unleveraged Distributions that were previously applied to the repayment of the Leveraged Principal Amount and any Interest Amounts and, to the extent necessary, any Leveraged Distributions paid out to the Participant will be restated as a Debit Balance. Leveraged and Unleveraged Distributions shall be deemed to have been applied and distributed proportionately. All calculations hereunder shall be made by the Administrator and shall be final and determinative.

(c) Leave of Absence, Transfer or Disability. The Participant's employment will not be considered as terminated if the Participant is on an approved leave of absence or if the Participant transfers or is transferred but remains in the employ of the Company or if the Participant is eligible to receive disability payments under the ML & Co. Basic Long-Term Disability Plan.

(d) Discretion to Alter Payment Date. Notwithstanding the provisions of Sections 5.2(a) and (b), if the Participant's employment terminates for any reason, the Administrator may, in his or her sole discretion, direct that the Account Balance be paid at some other time or that it be paid in installments;

provided that no such direction that adversely affects the rights of the

Participant or his or her beneficiary under this Plan shall be implemented without the consent of the affected Participant or beneficiary. This direction may be revoked by the Administrator at any time in his sole discretion.

5.3 Withholding of Taxes.

ML & Co. will deduct or withhold from any payment to be made or deferred hereunder any U.S. Federal, state or local or foreign income or employment taxes required by law to be withheld or require the Participant or the Participant's beneficiary to pay any amount, or the balance of any amount, required to be withheld.

5.4 Beneficiary.

(a) Designation of Beneficiary. The Participant may designate, in a writing delivered to the Administrator or his designee before the Participant's death, a beneficiary to receive payments in the event of the Participant's death. The Participant may also designate a contingent beneficiary to receive payments in accordance with this Plan if the primary beneficiary does not survive the Participant. The Participant may designate more than one person as the Participant's beneficiary or contingent beneficiary, in which case (i) no contingent beneficiary would receive any payment unless all of the primary beneficiaries predeceased the Participant, and (ii) the surviving beneficiaries in any class shall share in any payments in proportion to the percentages of interest assigned to them by the Participant.

(b) Change in Beneficiary. The Participant may change his or her beneficiary or contingent beneficiary (without the consent of any prior beneficiary) in a writing delivered to the Administrator or his designee before the Participant's death. Unless the Participant states otherwise in writing, any change in beneficiary or contingent beneficiary will automatically revoke prior such designations of the Participant's beneficiary or of the Participant's contingent beneficiary, as the case may be, under this Plan only; and any designations under other deferral agreements or plans of the Company will remain unaffected.

(c) Default Beneficiary. In the event that a Participant does not designate a beneficiary, or no designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's surviving spouse, if the Participant is married at the time of his or her death and not

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subject to a court-approved agreement or court decree of separation, or otherwise the person or persons designated to receive benefits on account of the Participant's death under the ML & Co. Basic Group Life Insurance Plan (the "Life Insurance Plan"). However, if an unmarried Participant does not have coverage in effect under the Life Insurance Plan, or the Participant has assigned his or her death benefit under the Life Insurance Plan, any amounts payable to the Participant's beneficiary under the Plan will be paid to the Participant's estate.

(d) If the Beneficiary Dies During Payment. If a beneficiary who is receiving or is entitled to receive payments hereunder dies after the Participant dies, but before all the payments have been made, the portion of the Account Balance to which that beneficiary was entitled will be paid as soon as practicable in one lump sum to such beneficiary's estate and not to any contingent beneficiary the Participant may have designated; provided, however,

that if the beneficiary was receiving modified installment payments or annuitized payments pursuant to Section 5.1(b), the applicable portion of the Account Balance will continue to be paid as modified installment payments or annuitized payments, as the case may be, in accordance with Section 5.1(b), but only to a single person consisting of the administrator or executor of the beneficiary's estate or another person lawfully designated by the administrator or executor (and in the event no such person is designated within a reasonable time, payment will be made in a lump sum).

5.5 Hardship Distributions.

ML & Co. may pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance as he may, in his sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his sole discretion to be immediate and substantial.

5.6 Domestic Relations Orders.

Notwithstanding the Participant's elections hereunder, ML & Co. will pay to, or to the Participant for the benefit of, the Participant's spouse or former spouse the portion of the Participant's Account Balance specified in a valid court order entered in a domestic relations proceeding involving the Participant's divorce or legal separation. Such payment will be made net of any amounts the Company may be required to withhold under applicable federal, state or local law. After such payment, references herein to the Participant's "Deferred Amounts" (including, without limitation, for purposes of determining the Annual Charge applicable to any remaining Account Balance) shall mean the Participant's original Deferred Amounts times an amount equal to one minus a fraction, the numerator of which is the gross amount (prior to withholding) paid pursuant to the order, and the denominator of which is the Participant's Account Balance immediately prior to payment.

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ARTICLE VI

ADMINISTRATION OF THE PLAN

6.1 Powers of the Administrator.

The Administrator has full power and authority to interpret, construe and administer this Plan so as to ensure that it provides deferred compensation for the Participants as members of a select group of management or highly compensated employees within the meaning of Title I of ERISA. The Administrator's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments, will be binding and conclusive on all persons for all purposes. The Administrator will not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to his willful misconduct or lack of good faith. The Administrator may designate persons to carry out the specified responsibilities of the Administrator and shall not be liable for any act or omission of a person as designated.

6.2 Rabbi Trust

Creation of Trust. The Administrator shall create a Grantor Trust to hold assets representing the amounts deferred under this Plan on such terms and conditions as the Administrator shall approve. The trustee of the Rabbi Trust shall be a party unaffiliated with the Company.

6.3 Payments on Behalf of an Incompetent.

If the Administrator finds that any person who is entitled to any payment hereunder is a minor or is unable to care for his or her affairs because of disability or incompetency, payment of the Account Balance may be made to anyone found by the Administrator to be the committee or other authorized representative of such person, or to be otherwise entitled to such payment, in the manner and under the conditions that the Administrator determines. Such payment will be a complete discharge of the liabilities of ML & Co. hereunder with respect to the amounts so paid.

6.4 No Right of Set-Off.

Unless specifically authorized by a Participant, the Company shall have no right of set-off with respect to any Participant's Account Balances or Account under the Plan and unless so authorized, the Company shall not withhold any sums owed to a Participant under the Plan.

6.5 Corporate Books and Records Controlling.

The books and records of the Company will be controlling in the event that a question arises hereunder concerning the amount of Adjusted Compensation, Incentive Compensation, Sign-On Bonus, Eligible Compensation, the Deferred Amounts, the Account Balance, the designation of a beneficiary, or any other matters.

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ARTICLE VII

MISCELLANEOUS PROVISIONS

7.1 Litigation.

The Company shall have the right to contest, at its expense, any ruling or decision, administrative or judicial, on an issue that is related to the Plan and that the Administrator believes to be important to Participants, and to conduct any such contest or any litigation arising therefrom to a final decision.

7.2 Headings Are Not Controlling.

The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan.

7.3 Governing Law.

To the extent not preempted by applicable U.S. Federal law, this Plan will be construed in accordance with and governed by the laws of the State of New York as to all matters, including, but not limited to, matters of validity, construction, and performance.

7.4 Amendment and Termination.

ML & Co., through the Administrator, reserves the right to amend or terminate this Plan at any time, except that no such amendment or termination shall adversely affect the right of a Participant to his or her Account Balance (as reduced by the Annual Charge, the Debit Balance or the Leveraged Principal Amount and Interest thereon, as set forth in Section 3.4) as of the date of such amendment or termination.

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES
 COMPUTATION OF EARNINGS PER COMMON SHARE
 (in millions, except per share amounts)

<TABLE>
 <CAPTION>

| | Year Ended Last Friday in December | | | | |
|--|------------------------------------|---------|---------|---------|---------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Net earnings | \$2,618 | \$1,259 | \$1,935 | \$1,648 | \$1,126 |
| Preferred stock dividends | (38) | (39) | (39) | (46) | (48) |
| Net earnings applicable to common stockholders | 2,580 | 1,220 | 1,896 | 1,602 | 1,078 |
| Interest on convertible debt | - | - | - | 1 | 1 |
| | 2,580 | 1,220 | 1,896 | 1,603 | 1,079 |
| Weighted-average shares outstanding (Basic shares) | 368.7 | 355.6 | 340.1 | 346.0 | 361.2 |
| Effect of dilutive instruments: | | | | | |
| Employee stock options | 27.9 | 29.2 | 29.7 | 21.9 | 19.9 |
| FCCAAP shares | 15.9 | 16.6 | 20.6 | 19.6 | 18.7 |
| Restricted units | 5.6 | 4.9 | 5.3 | 4.7 | 2.4 |
| ESPP shares | - | - | - | .1 | .1 |
| Convertible debt | - | - | .2 | .7 | .6 |
| Dilutive potential common shares | 49.4 | 50.7 | 55.8 | 47.0 | 41.7 |
| Diluted shares | 418.1 | 406.3 | 395.9 | 393.0 | 402.9 |
| BASIC EARNINGS PER SHARE | \$ 7.00 | \$ 3.43 | \$ 5.57 | \$ 4.63 | \$ 2.98 |
| DILUTED EARNINGS PER SHARE | \$ 6.17 | \$ 3.00 | \$ 4.79 | \$ 4.08 | \$ 2.68 |

</TABLE>

Note: Basic and diluted earnings per share are based on actual numbers before rounding.

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES
 COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND
 COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
 (dollars in millions)

<TABLE>
 <CAPTION>

| | Year Ended Last Friday in December | | | |
|---|------------------------------------|------------|------------|------------|
| | 1999 | 1998 | 1997 | 1996 |
| 1995 | | | | |
| ----- | | | | |
| (52 weeks) | (53 weeks) | (52 weeks) | (52 weeks) | (52 weeks) |
| <S> | <C> | <C> | <C> | <C> |
| <C> | | | | |
| Pre-tax earnings from continuing operations | 4,078 | 2,096 | 3,111 | 2,629 |
| 1,836 | | | | |
| Add: Fixed charges (excluding | | | | |
| capitalized interest and preferred security | | | | |
| dividend requirements of subsidiaries) | 13,222 | 17,223 | 15,121 | 11,589 |
| 11,021 | | | | |
| ----- | | | | |
| Pre-tax earnings before fixed charges | 17,300 | 19,319 | 18,232 | 14,218 |
| 12,857 | | | | |
| Fixed charges: | | | | |
| Interest (a) | 12,978 | 17,004 | 14,934 | 11,414 |
| 10,876 | | | | |
| Other (b) | 448 | 351 | 236 | 182 |
| 153 | | | | |
| ----- | | | | |
| Total fixed charges | 13,426 | 17,355 | 15,170 | 11,596 |
| 11,029 | | | | |
| Preferred stock dividend requirements | 55 | 58 | 61 | 73 |
| 77 | | | | |
| Total combined fixed charges | | | | |
| ----- | | | | |
| and preferred stock dividends | 13,481 | 17,413 | 15,231 | 11,669 |
| 11,106 | | | | |
| ----- | | | | |
| Ratio of earnings to fixed charges | 1.29 | 1.11 | 1.20 | 1.23 |
| 1.17 | | | | |
| Ratio of earnings to combined fixed charges | | | | |
| and preferred stock dividends | 1.28 | 1.11 | 1.20 | 1.22 |
| 1.16 | | | | |

</TABLE>

(a) Prior period amounts have been restated to conform to the current year presentation.

(b) Other fixed charges consist of the interest factor in rentals, amortization of debt issuance costs, preferred security dividend requirements of subsidiaries, and capitalized interest.

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SELECTED FINANCIAL DATA

(dollars in millions, except per share amounts)

| December | Year Ended Last Friday in | | | |
|--|---------------------------|------------|------------|------------|
| | 1999 | 1998 | 1997 | 1996 |
| 1995 | | | | |
| ----- | | | | |
| | (53 weeks) | (52 weeks) | (52 weeks) | (52 weeks) |
| <S> | <C> | <C> | <C> | <C> |
| <C> | | | | |
| OPERATING RESULTS | | | | |
| Total Revenues | \$ 34,879 | \$ 34,574 | \$ 31,209 | \$ 25,043 |
| \$ 21,501 | | | | |
| Less Interest Expense | 13,010 | 17,027 | 14,953 | 11,422 |
| 10,886 | ----- | ----- | ----- | ----- |
| ----- | | | | |
| Net Revenues | 21,869 | 17,547 | 16,256 | 13,621 |
| 10,615 | | | | |
| Non-Interest Expenses | 17,791 | 15,451 | 13,145 | 10,993 |
| 8,779 | ----- | ----- | ----- | ----- |
| ----- | | | | |
| Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries | 4,078 | 2,096 | 3,111 | 2,628 |
| 1,836 | | | | |
| Income Tax Expense | 1,265 | 713 | 1,129 | 980 |
| 710 | | | | |
| Dividends on Preferred Securities Issued by Subsidiaries | 195 | 124 | 47 | - |
| - | ----- | ----- | ----- | ----- |
| ----- | | | | |
| Net Earnings | \$ 2,618 | \$ 1,259 | \$ 1,935 | \$ 1,648 |
| \$ 1,126 | ===== | ===== | ===== | ===== |
| ===== | | | | |
| Net Earnings Applicable to Common Stockholders(a) | \$ 2,580 | \$ 1,220 | \$ 1,896 | \$ 1,602 |
| \$ 1,078 | ===== | ===== | ===== | ===== |
| ===== | | | | |

| FINANCIAL POSITION | | | | |
|---|-----------|-----------|-----------|-----------|
| Total Assets | \$328,071 | \$299,804 | \$296,980 | \$217,266 |
| \$179,452 | | | | |
| Short-Term Borrowings (b) | \$114,775 | \$ 98,267 | \$123,400 | \$103,009 |
| \$ 86,663 | | | | |
| Long-Term Borrowings | \$ 53,465 | \$ 57,563 | \$ 43,143 | \$ 26,206 |
| \$ 17,389 | | | | |
| Preferred Securities Issued by Subsidiaries | \$ 2,725 | \$ 2,627 | \$ 627 | \$ 327 |
| \$ 51 | | | | |
| Total Stockholders' Equity | \$ 12,802 | \$ 10,132 | \$ 8,539 | \$ 7,067 |
| \$ 6,288 | | | | |

| COMMON SHARE DATA (C) | | | | |
|--|----------|----------|----------|----------|
| (in thousands, except per share amounts) | | | | |
| Earnings Per Share: | | | | |
| Basic | \$ 7.00 | \$ 3.43 | \$ 5.57 | \$ 4.63 |
| \$ 2.98 | | | | |
| Diluted | \$ 6.17 | \$ 3.00 | \$ 4.79 | \$ 4.08 |
| \$ 2.68 | | | | |
| Weighted-Average Shares Outstanding: | | | | |
| Basic | 368,718 | 355,589 | 340,096 | 346,043 |
| 361,193 | | | | |
| Diluted | 418,131 | 406,262 | 395,855 | 392,990 |
| 402,852 | | | | |
| Shares Outstanding at Year End (d) | 367,765 | 356,284 | 339,259 | 332,349 |
| 346,953 | | | | |
| Shares Repurchased (e) | - | - | 13,301 | 36,606 |
| 39,861 | | | | |
| Average Share Repurchase Price | - | - | \$ 48.91 | \$ 31.30 |
| \$ 23.48 | | | | |
| Book Value Per Share | \$ 33.20 | \$ 26.89 | \$ 23.63 | \$ 19.24 |
| \$ 16.25 | | | | |
| Dividends Paid Per Share | \$ 1.05 | \$ 0.92 | \$ 0.75 | \$ 0.58 |
| \$ 0.505 | | | | |

| FINANCIAL RATIOS | | | | |
|---|-------|-------|-------|-------|
| Pre-tax Margin (f) | 18.6% | 11.9% | 19.1% | 19.3% |
| 17.3% | | | | |
| Profit Margin (g) | 12.0% | 7.2% | 11.9% | 12.1% |
| 10.6% | | | | |
| Common Dividend Payout Ratio | 15.0% | 26.3% | 13.4% | 12.5% |
| 17.0% | | | | |
| Return on Average Assets | 0.8% | 0.3% | 0.7% | 0.7% |
| 0.5% | | | | |
| Return on Average Common Stockholders' Equity | 23.5% | 13.4% | 26.5% | 26.6% |
| 19.8% | | | | |
| Average Leverage (h) | 23.2x | 32.9x | 35.3x | 33.3x |
| 32.1x | | | | |
| Average Adjusted Leverage (i) | 14.4x | 19.2x | 21.3x | 19.8x |
| 19.4x | | | | |

| EMPLOYEE STATISTICS | | | | |
|--|--------|--------|--------|--------|
| Full-Time Employees: | | | | |
| U.S. | 49,000 | 46,500 | 45,800 | 42,100 |
| 39,250 | | | | |
| Non-U.S. | 18,200 | 17,300 | 13,900 | 10,500 |
| 9,250 | | | | |
| Total | 67,200 | 63,800 | 59,700 | 52,600 |
| 48,500 | | | | |
| Financial Consultants and Other Investment Professionals | 19,000 | 18,100 | 16,600 | 15,600 |
| 14,900 | | | | |

</TABLE>

- (a) Net earnings less preferred stock dividends.
- (b) Consists of Payables under repurchase agreements and securities loaned transactions, Commercial paper and other short-term borrowings, and Demand and time deposits.
- (c) All share and per share data have been restated for the 1997 two-for-one common stock split (see Note 8 to the Consolidated Financial Statements).
- (d) Does not include 4,009, 4,506, 4,718, 4,134, and 3,932 shares exchangeable

into common stock (see Note 8 to the Consolidated Financial Statements) at year-end 1999, 1998, 1997, 1996, and 1995, respectively. Also does not include 3,078, and 8,026 unallocated reversion shares held in the Employee Stock Ownership Plan at year-end 1996 and 1995, respectively, which are not considered outstanding for accounting purposes.

- (e) Does not include shares either (i) owned by employees and used to pay for the exercise of stock options or (ii) stock withheld from employee stock option exercises to pay associated taxes.
- (f) Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries to Net Revenues.
- (g) Net Earnings to Net Revenues.
- (h) Average Total assets to average Total stockholders'equity and Preferred securities issued by subsidiaries.
- (i) Average Total assets less average (a) Securities received as collateral, net of securities pledged as collateral, (b) Securities pledged as collateral, (c) Receivables under resale agreements and securities borrowed transactions, to average Total stockholders'equity and Preferred securities issued by subsidiaries.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Merrill Lynch & Co., Inc. ("ML & Co.") is a holding company that, through its subsidiaries and affiliates, (therein "Merrill Lynch") provides investment, financing, advisory, insurance, and related services worldwide. The financial services industry, in which Merrill Lynch is a leading participant, is highly competitive and highly regulated. This industry and the global financial markets are influenced by numerous uncontrollable factors. These factors include economic conditions, monetary policies, the liquidity of global markets, international and regional political events, regulatory developments, the competitive environment, and investor sentiment. These conditions or events can significantly affect the volatility of financial markets. While greater volatility increases risk, it may also increase order flow in businesses such as trading and brokerage. Revenues and net earnings may vary significantly from

period to period due to these unpredictable factors and the resulting market volatility.

The financial services industry continues to be affected by the intensifying competitive environment, as demonstrated by consolidation through mergers and acquisitions, as well as diminishing margins in many mature products and services, and competition from new entrants as well as established competitors using the Internet to establish or expand their businesses. In addition, the passage of the Gramm-Leach-Bliley Act in November of 1999 represented a significant accomplishment in the effort to modernize the financial services industry in the U.S. by repealing anachronistic laws that separated commercial, investment banking, and insurance activities, which together with other recent changes in the financial services industry, have increased the number of companies competing for a similar customer base.

In addition to providing historical information, Merrill Lynch may make or publish forward-looking statements about management expectations, strategic objectives, business prospects, anticipated financial performance, and other similar matters. A variety of factors, many of which are beyond its control, affect the operations, performance, and results of Merrill Lynch and could cause actual results and experience to differ materially from the expectations expressed in these statements. These factors include, but are not limited to, the factors listed in the previous paragraph, as well as actions and initiatives taken by both current and potential competitors, the effect of current, pending, and future legislation and regulation both in the United States and throughout the world, and the other risks detailed in the following sections.

MERRILL LYNCH UNDERTAKES NO RESPONSIBILITY TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS.

BUSINESS ENVIRONMENT

- - - - -

Global financial markets rebounded significantly in 1999, after a very volatile second half of 1998. Markets benefited from tightening credit spreads, which represent the risk premium paid by an issuer over the risk-free rate (based on the issuer's credit rating or perceived creditworthiness), increased investor demand, and improved liquidity in debt markets. U.S. equity indices continued to advance to record levels for the fifth consecutive year, despite a midsummer downturn in the stock market, a series of interest rate hikes by the Federal Reserve beginning in June, and weakness in the U.S. dollar versus the Japanese yen. Most non-U.S. markets recovered sharply in 1999, posting significant gains in equity indices during the first six months of the year, but retreating somewhat in the third quarter due to U.S. interest rate concerns. Following the Federal Reserve's November 1999 announcement of a neutral bias toward interest

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rates, global market indices soared, contributing to record trading and commissions revenues industrywide for 1999.

U.S. bond rates steadily increased throughout 1999, as inflationary fears led the Federal Reserve to increase the overnight lending rate by twenty-five basis points three times, in June, August, and November. The yield on the 30-year U.S. Treasury bond reached 6.48% at year-end, up from 5.10% at the beginning of 1999. In Europe, a decline in industrial production and exports led the European Central Bank and the Bank of England to reduce short-term rates by fifty and twenty-five basis points, respectively. Long-term rates in Europe, however, increased modestly throughout 1999. Credit spreads generally tightened throughout 1999, with the exception of the 1999 third quarter, when spreads reached their widest point since the 1998 Russian debt crisis.

U.S. equity markets experienced extraordinary gains during 1999, led by an unprecedented demand for communications and technology stocks. The Nasdaq advanced a record 85.6% in 1999, with more than half of the gain recorded during the last two months of the year. Despite a series of interest rate increases, a midsummer downturn in the stock market, and Year 2000 concerns, both the Dow Jones Industrial Average and S&P 500 reached record levels, up 25.2% and 19.5%, respectively, in 1999. Performances within these indices were mixed, however, as 67% of equities within these indices were down 20% or more from their fifty-two week highs.

Global equity indices significantly advanced in 1999, as world markets recovered from the credit crisis that occurred during the latter half of 1998. Emerging market indices produced the biggest rally, led primarily by Brazil, South Korea, and Mexico, which all rose more than 80% in local currency terms. International Monetary Fund support, as well as a reduction in interest rates, helped Brazilian markets recover from a currency devaluation. The South Korean economy benefited from low interest rates and strong corporate earnings, while an increase in exports and investment from abroad fueled markets in Mexico. Demand by foreign investors for Japanese equities, in addition to government intervention to control the rise in the yen, contributed to the advance in Japanese market indices, which rose 50% in local currency terms during 1999.

European markets, which experienced sluggish growth during most of the year, rebounded in the 1999 fourth quarter, led by an increase in manufacturing levels and exports in Germany. The euro, however, continued to weaken throughout most of 1999, sinking below \$1 in December and declining 14% against the U.S. dollar in 1999.

Global underwriting volume reached near record levels during 1999, led by record activity in equity underwriting and initial public offerings. Equity issuances totaled \$173 billion during 1999, representing a 50% increase over 1998 levels and surpassing the previous record of \$124 billion set in 1997. Initial public offerings surged to \$69 billion during the year, a 38% increase from the record \$50 billion recorded in 1996. Contributing to the increased volume was record demand for technology, media, and telecommunications offerings, which accounted for two-thirds of all new stock issues in 1999. Concerns over U.S. interest rates and inflation led to a modest decline in debt issuances during 1999. As a result, proceeds from U.S. debt issuances decreased 4% overall from 1998 to \$1.9 trillion in 1999, representing the first year-over-year decline in debt underwriting since 1995.

Strategic advisory services activities reached record levels in 1999, reflecting a continuation of the high level of merger and acquisition activity experienced during 1998. Companies continued to seek strategic alliances to increase earnings growth, better compete in existing markets, and expand into new markets and businesses. While announced mergers and acquisitions in the U.S. increased over 7% from 1998 to a record \$1.8 trillion, European deals advanced to over \$1.2 trillion, more than double the 1998 level. During 1999, the largest announced merger and acquisition deal ever and the largest announced cross-border transaction ever both occurred in Europe, contributing to the surge in activity for the year.

Merrill Lynch continually evaluates its businesses for profitability and performance under varying market conditions and, in light of the evolving conditions in its competitive environment, for alignment with its long-term strategic objectives. Maintaining long-term client relationships, closely monitoring costs and risks, diversifying revenue sources, and expanding strategically, all contribute to mitigating the effects of volatility on Merrill Lynch's business as a whole.

RESULTS OF OPERATIONS

(in millions, except per share amounts)

| | 1999 | 1998 | 1997 | 1999 vs. | |
|---|----------|----------|----------|----------|-------|
| | | | | 1998 | 1997 |
| Total revenues | \$34,879 | \$34,574 | \$31,209 | 0.9% | 11.8% |
| Net revenues | 21,869 | 17,547 | 16,256 | 24.6 | 34.5 |
| Earnings before income taxes and dividends on preferred securities issued by subsidiaries | 4,078 | 2,096 | 3,111 | 94.6 | 31.1 |
| Net earnings | 2,618 | 1,259 | 1,935 | 107.9 | 35.3 |
| Net earnings applicable to common stockholders | 2,580 | 1,220 | 1,896 | 111.5 | 36.1 |
| Earnings per common share: | | | | | |
| Basic | 7.00 | 3.43 | 5.57 | 104.1 | 25.7 |
| Diluted | 6.17 | 3.00 | 4.79 | 105.7 | 28.8 |
| Return on average common stockholders' equity | 23.5% | 13.4% | 26.5% | | |

Management's Discussion and Analysis 29

During 1999, record revenues were achieved in all revenue categories, including commissions, principal transactions, investment banking, asset management and portfolio service fees, and net interest profit. These revenues were partially offset by increased costs related to compensation and benefits, advertising and market development, and communications and technology.

Merrill Lynch reported 1999 net earnings of \$2.6 billion, or \$6.17 per diluted share with a return on average common stockholders' equity of 23.5%. This compares with \$1.3 billion or \$3.00 per diluted share reported in 1998, which included a \$288 million after-tax provision for costs related to staff reductions. Excluding this provision, 1998 net earnings were \$1.5 billion, or \$3.71 per diluted share. Return on average common stockholders' equity on this basis was 16.4% in 1998. In 1997, Merrill Lynch reported net earnings of \$1.9 billion, or \$4.79 per diluted share. Return on average common stockholders' equity for 1997 was 26.5%.

On a cash basis, which excludes goodwill amortization, earnings were \$2.8

billion, up from \$1.8 billion in 1998 excluding the staff reduction provision. On the same basis, diluted earnings per share were \$6.71 versus \$4.27 in 1998, and return on average common stockholders' equity in 1999 was 24.4%. In 1997, earnings on a cash basis were \$2.0 billion, or \$4.95 per diluted share.

The 1999 results reflected record results in the equity markets and investment banking businesses, and a substantial increase in profitability from debt-related activities versus the difficulties encountered in the 1998 fixed-income markets. The Private Client and Asset Management businesses each recorded strong results on record revenues in Commissions and Asset management and portfolio service fees.

The following discussion provides details of major revenue and expense categories and other pertinent information on Merrill Lynch's business activities, financial condition, liquidity, and risks. Certain prior year amounts have been restated to conform with the current year presentation.

COMMISSIONS

- - - - -

(in millions)

| | 1999 | 1998 | 1997 |
|-----------------------------|---------|---------|---------|
| Listed and over-the-counter | \$3,597 | \$3,185 | \$2,759 |
| Mutual funds | 1,868 | 1,871 | 1,594 |
| Other | 869 | 743 | 642 |
| Total | \$6,334 | \$5,799 | \$4,995 |

Commissions revenues advanced 9% in 1999 to a record \$6.3 billion, primarily due to increases in global listed securities volume and over-the-counter securities transactions. Commissions from listed securities were up 11% from 1998 as a result of higher trading volumes, particularly on non-U.S. exchanges. Mutual fund commissions were virtually unchanged, and other commissions revenues advanced 17% in 1999, primarily due to increased sales of money market instruments and third party annuity contracts.

Commissions revenues rose 16% in 1998. Increased volume led to higher listed and over-the-counter securities transaction revenues, while strong sales of U.S. and non-U.S. mutual funds increased mutual fund commissions.

PRINCIPAL TRANSACTIONS

- - - - -

The table that follows provides information on trading revenues, including related net interest. Interest revenue and expense amounts are based on management's assessment of the cost to finance trading positions, after consideration of the underlying liquidity of these positions.

Trading and related hedging and financing activities affect the recognition of both principal transactions revenues and net interest and dividend revenues. In assessing the profitability of its trading activities, Merrill Lynch aggregates net interest and principal transactions revenues. For financial reporting purposes, realized and unrealized gains and losses on trading positions, including hedges, are recorded in principal transactions revenues. The net interest carry (i.e., the spread representing interest earned less financing costs) for trading positions, including hedges, is recorded either as principal transactions revenues or net interest revenues, depending on the nature of the specific instruments. Changes in the composition of trading inventories and hedge positions can cause the recognition of revenues within these categories to fluctuate.

(in millions)

| | Principal Transactions Revenues | Net Interest Revenues | Net Trading Revenues (1) |
|---------------------------------|---------------------------------|-----------------------|--------------------------|
| 1999 | | | |
| Equities and equity derivatives | \$ 1,989 | \$ 226 | \$ 2,215 |
| Debt and debt derivatives | 2,170 | 282 | 2,452 |
| Mortgages | (5) | 255 | 250 |
| Foreign exchange | 207 | - | 207 |
| Total | \$ 4,361 | \$ 763 | \$ 5,124 |

| ----- | | | |
|---------------------------------|----------|--------|----------|
| 1998 | | | |
| Equities and equity derivatives | \$ 1,593 | \$ 9 | \$ 1,602 |
| Debt and debt derivatives | 890 | (37) | 853 |
| Mortgages | (33) | 259 | 226 |
| Foreign exchange | 201 | (3) | 198 |
| | ----- | ----- | ----- |
| Total | \$ 2,651 | \$ 228 | \$ 2,879 |
| | ===== | ===== | ===== |

| ----- | | | |
|---------------------------------|----------|---------|----------|
| 1997 | | | |
| Equities and equity derivatives | \$ 1,290 | \$ (54) | \$ 1,236 |
| Debt and debt derivatives | 2,335 | 35 | 2,370 |
| Mortgages | 28 | 160 | 188 |
| Foreign exchange | 174 | 1 | 175 |
| | ----- | ----- | ----- |
| Total | \$ 3,827 | \$ 142 | \$ 3,969 |
| | ===== | ===== | ===== |

(1) Excludes commissions. For further information on trading results, see Note 3 to the Consolidated Financial Statements.

30 Management's Discussion and Analysis

Net trading revenues were \$5.1 billion in 1999, up 78% from 1998 due to significantly improved global market conditions in 1999 compared with 1998. Market conditions were generally favorable in 1999, including rising U.S. stock prices and narrowing credit spreads.

Equities and equity derivatives net trading revenues advanced 38% from 1998 to \$2.2 billion, due to significantly higher revenues from both U.S. and non-U.S. equities as well as convertibles. The increase in revenues was largely due to an increase in trading volumes in global markets, particularly in Europe and Japan, and higher market share. Net revenues from global convertibles benefited from improved market conditions, especially in the U.S.

Debt and debt derivatives net trading revenues were \$2.5 billion, up sharply from 1998, when revenues suffered from significant uncertainty in global debt markets, and an unprecedented widening of credit spreads and the absence of liquidity in debt markets led to severe losses in the third and fourth quarters. Increased volume, tightening credit spreads and a more stable global environment led to increased revenues in 1999, particularly in the U.S.

Net revenues from mortgages were \$250 million in 1999, up 11% from 1998. Foreign exchange net trading revenues remained virtually unchanged for the year.

In 1998, net trading revenues were down 27% from 1997 due to the significant volatility in global debt markets. An increase in volume of non-U.S. equities and equity derivative transactions led to advances in equities and equity derivatives net trading revenues (up 30%). Debt and debt derivatives net trading revenues were \$853 million compared to \$2.4 billion in 1997, as valuations of corporate and emerging market bonds were significantly impacted by widening credit spreads and reduced liquidity in the third quarter of 1998. In addition, 1998 results reflect credit losses on emerging market-related debt derivatives in the latter half of the year. A more favorable mortgage environment led to increased net revenues (up 20%). Fluctuations in the U.S. dollar versus various currencies led to higher net foreign exchange revenues (up 13%).

INVESTMENT BANKING

| ----- | | | |
|--------------------------------------|---------|---------|---------|
| (in millions) | | | |
| | 1999 | 1998 | 1997 |
| ----- | | | |
| Underwriting revenues | \$2,301 | \$2,162 | \$2,079 |
| Strategic advisory services revenues | 1,313 | 1,102 | 797 |
| | ----- | ----- | ----- |
| Total | \$3,614 | \$3,264 | \$2,876 |
| | ===== | ===== | ===== |

Investment banking revenues rose 11% in 1999 to a record \$3.6 billion, benefiting from increased revenues from underwriting and from record merger and acquisition advisory fees.

Underwriting

Increased equity underwriting revenues were partly offset by lower corporate bond and high yield underwriting revenues. Merrill Lynch retained its position as the leading underwriter of total debt and equity securities for the 12th

consecutive year in the U.S. and for the 11th consecutive year globally. Merrill Lynch's underwriting market share information based on transaction value follows:

| | 1999 | | 1998 | | 1997 | |
|-----------------|--------------|------|--------------|------|--------------|------|
| | Market Share | Rank | Market Share | Rank | Market Share | Rank |
| U.S. PROCEEDS | | | | | | |
| Debt | 16.0% | 1 | 14.9% | 1 | 14.9% | 1 |
| Equity | 12.5 | 3 | 15.8 | 1 | 14.8 | 1 |
| Debt and Equity | 15.8 | 1 | 15.4 | 1 | 15.1 | 1 |
| GLOBAL PROCEEDS | | | | | | |
| Debt | 12.4% | 1 | 13.1% | 1 | 12.7% | 1 |
| Equity | 12.2 | 3 | 13.4 | 2 | 13.2 | 2 |
| Debt and Equity | 12.6 | 1 | 13.5 | 1 | 13.0 | 1 |

Source: Thomson Financial Securities Data statistics based on full credit to book manager.

Strategic Advisory Services

Strategic advisory services fees rose 19% in 1999 to a record \$1.3 billion, benefiting from strong merger and acquisition activity, particularly in Europe. Merrill Lynch's merger and acquisition market share information based on transaction value follows:

| | 1999 | | 1998 | | 1997 | |
|------------------------|--------------|------|--------------|------|--------------|------|
| | Market Share | Rank | Market Share | Rank | Market Share | Rank |
| COMPLETED TRANSACTIONS | | | | | | |
| U.S. | 22.8% | 3 | 33.0% | 1 | 28.3% | 1 |
| Global | 22.4 | 3 | 25.3 | 2 | 18.9 | 3 |
| ANNOUNCED TRANSACTIONS | | | | | | |
| U.S. | 27.6% | 3 | 31.5% | 2 | 28.0% | 1 |
| Global | 32.0 | 3 | 25.1 | 3 | 18.7 | 3 |

Source: Thomson Financial Securities Data statistics based on full credit to both target and acquiring companies' advisors.

Investment banking revenues in 1998 increased 13% from 1997 due to increased underwriting revenues and strong merger and acquisition advisory fees.

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ASSET MANAGEMENT AND PORTFOLIO SERVICE FEES

| (in millions) | 1999 | 1998 | 1997 |
|------------------------|---------|---------|---------|
| Asset management fees | \$2,263 | \$2,075 | \$1,232 |
| Portfolio service fees | 1,479 | 1,150 | 826 |
| Account fees | 499 | 451 | 422 |
| Other fees | 512 | 526 | 522 |
| Total | \$4,753 | \$4,202 | \$3,002 |

Revenues from asset management and portfolio service fees rose 13% in 1999 to a record \$4.8 billion, primarily due to strong growth in assets under management and assets in fee-based accounts.

Asset management fees increased 9% in 1999 due to growth in assets under management attributable to market appreciation and net inflows of new money. Portfolio service fees were up 29% in 1999, benefiting from significant growth in client accounts and assets in fee-based accounts, including Merrill Lynch Consults (Registered Trademark) and Unlimited Advantage (Service Mark), Merrill Lynch's new total access fee-based account which was introduced in 1999. Account fees rose 11%, principally as a result of increases in the number of Working

Capital Management Accounts ("WCMA(Registered Trademark)") and Cash Management Accounts ("CMA(Registered Trademark)").

In 1998, asset management and portfolio service fees advanced 40% from 1997, primarily due to the December 1997 acquisition of Mercury Asset Management Group ("Mercury") and growth in assets under management, which benefited from significant growth in both client accounts and assets in fee-based accounts.

Merrill Lynch's year-end assets in Private Client accounts or under management for 1999, 1998, and 1997 are summarized as follows:

| | 1999 | 1998 | 1997 | 1999 vs. | |
|--|---------|---------|---------|----------|------|
| | | | | 1998 | 1997 |
| (in billions) | | | | | |
| ASSETS IN PRIVATE CLIENT ACCOUNTS OR UNDER MANAGEMENT(1) | | | | | |
| U.S. | \$1,338 | \$1,164 | \$ 979 | 15% | 37% |
| Non-U.S. | 358 | 282 | 250 | 27 | 43 |
| Total | \$1,696 | \$1,446 | \$1,229 | 17 | 38 |
| ASSETS UNDER MANAGEMENT | | | | | |
| Retail | \$ 291 | \$ 276 | \$ 240 | 5 | 21 |
| Institutional | 266 | 225 | 208 | 18 | 28 |
| Total | \$ 557 | \$ 501 | \$ 448 | 11 | 24 |
| U.S.FEE-BASED PROGRAM ASSETS(2) | \$ 151 | \$ 84 | \$ 60 | 80 | 152 |
| 401(K) ASSETS | \$ 111 | \$ 99 | \$ 74 | 12 | 50 |

(1) Includes certain assets that are also included in Assets Under Management.

(2) Including Unlimited Advantage, Merrill Lynch Consults, Private Portfolio Group, and Mutual Fund Advisor(Service Mark).

Changes in assets in Private Client accounts or under management from year-end 1998 to year-end 1999 are described below:

| | YEAR-END 1998 | NET CHANGES DUE TO | | YEAR-END 1999 |
|---|------------------|--------------------|-----------------------|------------------|
| | | NEW MONEY(1) | ASSET APPRECIATION | |
| (in billions) | | | | |
| Assets in Private Client accounts or under management | \$1,446 | \$ 104 | \$ 146 | \$1,696 |
| Assets under management | 501 | 18 | 38 | 557 |

(1) Includes reinvested dividends of \$11 billion.

OTHER REVENUES

Other revenues were \$720 million in 1999, up 16% from 1998. Other revenues include investment and real estate gains and losses, and partnership distributions. The increase in other revenues during 1999 was primarily attributable to higher investment gains and partnership revenues.

In 1998, other revenues increased 25% from 1997 to \$623 million, principally due to a pre-tax gain of approximately \$100 million from the sale of Merrill Lynch's New York Stock Exchange specialist business.

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INTEREST AND DIVIDENDS

| | 1999 | 1998 | 1997 |
|--|----------|----------|----------|
| (in millions) | | | |
| INTEREST AND DIVIDEND REVENUES | | | |
| Resale agreements and securities borrowed transactions | \$ 5,761 | \$ 7,694 | \$ 6,831 |

| | | | |
|---|----------|----------|----------|
| Trading assets | 3,931 | 5,218 | 5,240 |
| Margin lending | 2,982 | 2,757 | 2,207 |
| Other | 2,423 | 2,366 | 1,731 |
| | ----- | ----- | ----- |
| | 15,097 | 18,035 | 16,009 |
| | ----- | ----- | ----- |
| INTEREST EXPENSE | | | |
| Repurchase agreements and securities loaned transactions | 4,830 | 7,134 | 6,016 |
| Borrowings | 4,606 | 5,500 | 4,623 |
| Trading liabilities | 1,743 | 2,619 | 2,983 |
| Other | 1,831 | 1,774 | 1,331 |
| | ----- | ----- | ----- |
| | 13,010 | 17,027 | 14,953 |
| | ----- | ----- | ----- |
| NET INTEREST AND DIVIDEND PROFIT | \$ 2,087 | \$ 1,008 | \$ 1,056 |
| | ===== | ===== | ===== |

Interest and dividend revenues and expenses are a function of the level and mix of interest-earning assets and interest-bearing liabilities, and the prevailing level and volatility of interest rates. Net interest and dividend profit was up sharply from 1998, principally due to increases in interest spreads attributable to a steepening yield curve and efficiencies in financing.

In 1998, interest and dividend profit was down 5% from 1997, largely due to additional financing costs related to the December 1997 Mercury acquisition.

Merrill Lynch hedges its long- and short-term borrowings, primarily with interest rate and currency swaps, to better match the interest rate and currency characteristics of the borrowings to the assets funded by borrowing proceeds. The effect of this hedging activity, which is included in "Borrowings" above, decreased interest expense for 1999, 1998, and 1997 by \$269 million, \$62 million, and \$81 million, respectively (see Note 5 to the Consolidated Financial Statements).

NON-INTEREST EXPENSES

Merrill Lynch's non-interest expenses are summarized as follows:

| (in millions) | 1999 | 1998 | 1997 |
|--|----------|----------|----------|
| Compensation and benefits | \$11,153 | \$ 9,199 | \$ 8,333 |
| Non-interest expenses, excluding compensation and benefits: | | | |
| Communications and technology | 2,038 | 1,749 | 1,255 |
| Occupancy and related depreciation | 941 | 867 | 736 |
| Advertising and market development | 779 | 688 | 613 |
| Brokerage, clearing, and exchange fees | 678 | 683 | 525 |
| Professional fees | 567 | 552 | 520 |
| Goodwill amortization | 227 | 226 | 65 |
| Provision for costs related to staff reductions | - | 430 | - |
| Other | 1,408 | 1,057 | 1,098 |
| Total non-interest expenses, excluding compensation and benefits | 6,638 | 6,252 | 4,812 |
| Total non-interest expenses | \$17,791 | \$15,451 | \$13,145 |
| Compensation and benefits as a percentage of net revenues | 51.0% | 52.4% | 51.3% |
| Compensation and benefits as a percentage of pre-tax earnings before compensation and benefits | 73.2% | 78.5%(1) | 72.8% |

(1) Excluding provision for costs related to staff reductions.

Non-interest expenses were \$17.8 billion in 1999, compared with \$15.5 billion in 1998. The largest expense category, compensation and benefits, was up 21% from 1998 due to higher incentive and Financial Consultant compensation, resulting from increased profitability and strong business volume. An increase in the number of full-time employees also contributed to this increase, including a full year of Merrill Lynch Japan Securities Co. ("MLJS") staff operating costs. The number of full-time employees was 67,200 at year-end 1999, up approximately 3,400 since the end of 1998. This increase is attributable to strategic business expansion, primarily in the Private Client Group and growth in existing businesses.

Communications and technology expense rose 17% in 1999 to \$2.0 billion due to higher technology-related depreciation and communication maintenance and

support, partly related to new strategic online initiatives implemented in 1999. Occupancy and related depreciation increased 9% to \$941 million as a result of continued global expansion.

Advertising and market development expense was \$779 million, up 13% from 1998 because of increased costs related to new advertising campaigns launched during the year, including those related to the new online initiatives. Brokerage, clearing, and exchange fees remained virtually unchanged from the prior year. Professional fees rose 3% to \$567 million due in part to higher employment service fees. Goodwill amortization was substantially unchanged at \$227 million for the year, and other

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expenses rose 33% from 1998 due in part to higher provisions related to various business, operational, and legal matters and unfavorable foreign exchange movements related to the Japanese yen versus the U.S. dollar.

Non-interest expenses in 1998 were up 18% compared to 1997. Approximately 60% of this increase was attributable to the acquisition of Mercury, the start-up of MLJS, and a 1998 staff reduction provision. In the 1998 third quarter, Merrill Lynch recorded a \$430 million (\$288 million after-tax) provision for costs related to staff reductions aimed at reducing fixed and semi-fixed costs and resizing certain debt trading businesses. The staff reduction provision covered primarily severance costs, as well as costs to terminate long-term contracts and leases related to personnel reductions and resized businesses (see Note 2 to the Consolidated Financial Statements).

Compensation and benefits rose 10% in 1998 due to an increase in the number of full-time employees and higher Financial Consultant compensation, slightly offset by lower incentive compensation. Communications and technology expense advanced 39% in 1998, primarily due to increased systems consulting costs related to various initiatives, including Year 2000. Occupancy costs increased 18%, as a result of continued global expansion, particularly associated with MLJS and Mercury. Advertising and market development expense rose 12%, partly due to the start-up of MLJS and the Roth IRA campaign, and higher recognition program costs. Brokerage, clearing, and exchange fees were up 30%, principally due to custody and clearing costs for Mercury. Professional fees rose 6% due to higher costs for strategic market studies and one-time integration costs for Midland Walwyn Inc. ("Midland Walwyn"). Goodwill amortization increased \$161 million to \$226 million as a result of the Mercury acquisition. Other expenses were down 4% from 1997 due to reductions in provisions for various business activities and legal matters.

The following bar graph illustrates fee-based revenues as a percentage of fixed and semi-fixed expenses for the past five years.

 FEE-BASED REVENUES AS A PERCENTAGE OF
 FIXED AND SEMI-FIXED EXPENSES
 (\$ in millions)

| | FEE-BASED REVENUES (2) | FIXED AND SEMI-FIXED EXPENSES | % |
|------|---------------------------|-------------------------------------|-------|
| | ----- | ----- | ----- |
| 1999 | \$6,842 | \$8,812 | 78 |
| 1998 | 6,042 | 7,930 | 76(1) |
| 1997 | 4,364 | 6,569 | 66 |
| 1996 | 3,703 | 5,584 | 66 |
| 1995 | 3,188 | 4,671 | 68 |

(1) The increase in this percentage compared to 1997 is primarily due to higher fee-based revenues resulting from the Mercury acquisition.

(2) Fee-based revenues principally include asset management and portfolio service fees and net margin interest.

 INCOME TAXES

Merrill Lynch's 1999 income tax provision was \$1.3 billion, representing a 31.0% effective tax rate compared with 34.0% in 1998 and 36.3% in 1997. The decline in the 1999 effective tax rate was primarily attributable to additional lower-taxed non-U.S. income, higher tax-exempt income, and additional tax-advantaged financing. The 1998 decline was primarily attributable to higher tax-exempt income and additional tax-advantaged financing.

Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. Merrill Lynch assessed its ability

to realize deferred tax assets primarily based on a strong earnings history and the absence of negative evidence as discussed in Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. During the last 10 years, average pre-tax earnings were \$2.1 billion. Accordingly, management believes that it is more likely than not that deferred tax assets, net of related valuation allowances, will be realized (see Note 12 to the Consolidated Financial Statements).

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STRATEGIC BUSINESS INITIATIVES

Among Merrill Lynch's strategic initiatives were e-commerce developments in our evolving business model for the delivery of information and products and services to our clients. In the Private Client Group ("PCG"), this change means that online services and research may be combined with the personalized advice of a Merrill Lynch Financial Consultant. In the Corporate and Institutional Client Group ("CICG"), this change means the introduction of an enhanced business model for institutional debt and equity issuance, trading, and client activities. Examples of these, and other recent strategic initiatives, include the following:

- . Launched in July, Unlimited Advantage, a nondiscretionary brokerage service, with asset-based pricing, subject to a minimum annual charge of \$1,500. Percentage rates charged to customers decline as assets increase. Unlimited Advantage offers U.S. clients a wide array of services, including virtually unlimited trading for most investors in most securities, unlimited enrolled accounts, traditional Financial Consultant relationships, a CMA (Registered Trademark) Visa (Registered Trademark) Signature (Service Mark) card with a travel rewards program, a financial plan, online capabilities, and access to Merrill Lynch research.
- . Introduced in October, International Asset Power (Service Mark) and Asset Partner (Service Mark), in Canada, the international versions of Unlimited Advantage.
- . Introduced in December, ML Direct (Service Mark), a new Internet account for U.S. clients preferring a self-directed approach to investing. The online service addresses investment and cash management needs to guide customer decision making. In addition to online equity trading for as little as \$29.95 per trade, clients can purchase and sell mutual funds, receive Merrill Lynch research, and purchase fixed-income products. ML Direct also provides access to the Global Investor Network (Service Mark), Merrill Lynch's multimedia platform featuring timely audio and video reports from analysts, in addition to banking services and online shopping.
- . Formed the Direct Markets group to develop integrated, electronically-delivered products and services for CICG clients worldwide, including research, analytics, investment information, underwriting, trading, and account reporting. During the 1999 fourth quarter, Direct Markets introduced its first version of iDeal (Service Mark), a new software platform for offering all types of debt and equity securities that is designed to increase the efficiency of the underwriting process, enhance the dissemination of information, and broaden distribution.
- . Announced in December, a strategic alliance with Multex.com to co-develop global research and information web sites for Merrill Lynch's CICG clients, and to develop technology that will offer clients expanded market data and news, as well as interactive investor conference calls to give customers real-time access to Merrill Lynch's research analysts.
- . Invested in electronic trading and market systems, such as Primex, Archipelago, and TradeWeb.
- . Established an integrated global Asset Management Group ("AMG") with three regional operating units servicing a diverse worldwide clientele. In addition, the initiatives included the hire of new senior marketing officers and senior investment managers, including chief investment officers and senior portfolio managers, as well as a quantitative management team, Merrill Lynch Quantitative Advisors. These changes have contributed to expanded product lines, including both active and quantitative investment funds, improved investment performance across both retail and institutional funds, and expanded distribution through Merrill Lynch's sales channels and external distribution partners.
- . In January 2000, announced the expansion of Merrill Lynch's banking initiatives, which will include new deposit product offerings to be introduced in the first half of 2000. These new products will include Federally-insured interest-bearing bank deposits into which cash from certain Merrill Lynch client accounts, previously swept into money market mutual funds, will be swept. It is anticipated that the new deposit product offerings will enhance the deposit base at Merrill Lynch's two FDIC-insured U.S. banking subsidiaries.

In 1998, Merrill Lynch executed its global business strategy by:

- . Opening 33 retail offices in Japan through MLJS, which resulted in \$12 billion in client assets held by Merrill Lynch in Japan at year-end 1999,
- . Merging with Midland Walwyn, one of Canada's premier securities firms,
- . Purchasing a majority interest in Phatra Securities Company Limited,

Thailand's leading investment bank, for \$65 million,

- . Acquiring Howard Johnson & Co., a U.S. employee benefits consulting firm, for \$27 million, and
- . Divesting a majority interest in Lender's Service, Inc., a residential real estate service subsidiary, and a 100% interest in Merrill Lynch's New York Stock Exchange specialist subsidiary.

Acquisitions made in 1997 included Mercury, for which approximately \$5.3 billion was paid, and MasterWorks, a 401(k) service provider, for which \$13 million was paid. In addition, Merrill Lynch hired the employees of Centaurus Corporate Finance Group, a strategic advisor in Australia.

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BUSINESS SEGMENTS

Merrill Lynch reports the results of its business within three business segments: CICG, PCG, and AMG. CICG's activities primarily involve providing services to corporate, institutional, and government clients throughout the world. PCG provides investment, financing, insurance, tax, and other financial services and products to its clients, globally. AMG provides investment management services to a wide variety of retail and institutional clients.

Certain AMG and CICG products are distributed by PCG distribution networks, and to a more limited extent, certain AMG products are distributed through the distribution capabilities of CICG. Costs and revenues associated with these intersegment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue sharing agreements for shared activities are in place and the results of each segment reflect the agreed upon portion of these activities. The following segment operating results, which exclude certain corporate items, represent the information that is relied upon by management in its decision-making processes. In relying upon these numbers, management understands that restatements will occur to reflect reallocations of revenues and expenses which result from changes in Merrill Lynch's business strategy (see Note 14 to the Consolidated Financial Statements).

CORPORATE AND INSTITUTIONAL CLIENT GROUP

(dollars in millions)

| | 1999 | 1998 | 1997 |
|-----------------|----------|----------|----------|
| Net revenues | \$ 9,328 | \$ 6,549 | \$ 6,789 |
| Net earnings | 1,906 | 961 | 1,186 |
| Total employees | 11,138 | 10,723 | 10,553 |

CICG provides investment banking and strategic merger and acquisition advisory services, as well as equity and debt trading and capital markets services to corporations, financial institutions, and governments around the world. CICG raises capital for its clients on favorable terms through securities underwriting, private placements, and loan syndications. CICG trades securities, currencies, and other products and contracts over-the-counter derivatives to satisfy customer demand for these instruments. With more than 2,000 equity research, sales, trading, and capital markets professionals and equity trading activities in 28 countries, Merrill Lynch maintains one of the most powerful equity trading and underwriting capabilities of any firm in the world. Through its expertise in government and corporate debt trading, CICG is also the leader in global distribution of new issue and secondary debt securities. CICG's client-focused strategy provides investors with opportunities to diversify their portfolios, manage risk, and enhance returns by tailoring investments and structuring derivatives to meet clients' customized needs. In line with the firmwide strategic initiative in e-commerce, in 1999, CICG established Direct Markets which will enhance existing CICG businesses by serving as a vehicle for creating the "next generation" business model for institutional debt and equity issuance, trading, and servicing activities and for capitalizing on the opportunities created by the Internet to reach institutional clients and investors.

In 1999, CICG's net earnings were \$1.9 billion, up nearly 100% from 1998 and 61% from 1997 levels. CICG's net revenues increased 42% from 1998 to \$9.3 billion, primarily due to a significant improvement in global market conditions. In 1998, the highly volatile global markets, particularly in the latter half of the year, negatively impacted financial markets, especially debt markets.

Revenues from CICG equity products were a record \$4.7 billion in 1999 due to increased client demand for equities and equity derivatives in both the U.S. and Europe. CICG's global equities business has grown substantially over the last few years. In addition, CICG has substantially grown its equity derivatives and portfolio trading activities during this period. As a result, equity revenues, both trading and underwriting, have grown substantially since 1995, with 56% of 1999 revenues from non-U.S. locations.

Debt trading revenues were significantly higher in 1999 compared to 1998, primarily due to a recovery from the global market turmoil experienced in the second half of 1998, when the unprecedented movement in credit spreads led to valuation and counterparty losses that significantly impacted certain of Merrill Lynch's debt trading businesses.

Merrill Lynch's investment banking and strategic advisory services activities reached record levels in 1999. Merrill Lynch remained the leading underwriter of global debt and equity securities for the 11th consecutive year, with a 12.6% market share in 1999, according to Thomson Financial Securities Data. Origination revenues for debt and equity securities were \$1.6 billion, up 14% from 1998 and 10% from 1997. Through the strengthening of its client relationships, CIG has increased its revenues from strategic advisory services by 17% and 66% as compared with 1998 and 1997, respectively.

PRIVATE CLIENT GROUP

(dollars in millions)

| | 1999 | 1998 | 1997 |
|-----------------|-----------|----------|----------|
| Net revenues | \$ 10,688 | \$ 9,596 | \$ 8,532 |
| Net earnings | 925 | 949 | 730 |
| Total employees | 44,946 | 42,543 | 38,856 |

During 1999, PCG announced evolutionary changes to its retail business, introducing major e-commerce initiatives, tailored by region, designed to provide clients greater choice and flexi-

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bility, together with a wide range of products and services to meet their diverse financial needs. Major components of PCG's 1999 initiatives include:

- The July, 1999 launch of Unlimited Advantage, a U.S. fee-based financial service that empowers Financial Consultants to compete aggressively for a total financial relationship with clients. Since its inception, Unlimited Advantage has been successful in its asset-gathering strategy, attracting assets at a rate more than 20 times faster than previous fee-based products. At year-end 1999, Unlimited Advantage accounts totaled over 260,000 with assets of \$63 billion, of which \$9 billion represented new money. Assets include approximately 81,000 ML Financial Advantage (Service Mark) and Asset Power (Service Mark) accounts containing \$24 billion in total assets, which were converted to Unlimited Advantage accounts during the year. Over time, this initiative will lead to a shift from commissions revenues to asset management and portfolio service fees. However, we cannot predict with certainty the impact that this initiative will have on revenues or earnings.
- The October, 1999 introduction of the international versions of Unlimited Advantage, International Asset Power in most regions, and Asset Partner in Canada.
- The December, 1999 introduction of ML Direct, an online investing service for self-directed investors in the U.S. At year-end 1999, more than 5,300 ML Direct accounts had been opened with more than \$300 million in assets. Due to the short time period since the inception of ML Direct, we cannot predict with certainty the impact that this initiative will have on revenues or earnings.

The formation of MLJS in 1998 has proved essential in establishing Merrill Lynch's presence in Japan. During 1998, Merrill Lynch began offering individual investors in Japan the same consultative approach employed elsewhere in the world and became the first U.S. firm to operate a nationwide retail securities network within the country. In addition, PCG's global presence and position in Canada have strengthened since the 1998 merger with Midland Walwyn. Rebounding from the severe global market turmoil in 1998, Midland Walwyn client assets increased 24% in 1999 to \$33 billion at year end.

PCG provides a wide range of other fee-based products and services that assist clients around the world to build financial assets and maximize returns in relation to risk tolerance and investment objectives. These products and services include retail brokerage, asset and liability management, retail and private banking, trust and generational planning services, and insurance products. Outside the U.S., PCG's products and services also include private banking services, which provide high-net-worth individuals with a host of products and services to meet their financial objectives, including investing and borrowing strategies, investment management, trust and personal holding company services, and currency management. PCG products and services are provided to individual investors, corporations, and institutions through various distribution networks, including approximately 18,200 Financial Consultants in nearly 1,000 Private Client offices in 36 countries.

Financial Consultants and other investment professionals work with

individual investors, small and medium-sized corporations, and other organizations to address clients' financial concerns by matching the numerous products offered by Merrill Lynch with the clients' customized needs. These products include:

- . The CMA and CBA(Registered Trademark) accounts for individuals, WCMA account for small and mid-sized businesses, and EMA(Service Mark)account for foundations and non-profit organizations, all of which are types of flexible central asset accounts for securities transactions, money sweeps, electronic funds-transfer capabilities, debit card access, and many other financial management features.
- . A wide array of global mutual fund portfolios covering a cross section of industries and regions of the world.
- . Various advisory services and brokerage pricing alternatives, including Merrill Lynch Consults, Mutual Fund Advisor, and Global Funds Advisor(Service Mark).
- . Other services provided include mortgages and other consumer loans, margin lending, commercial financing, annuity and life products, trust and other estate planning techniques, and advisory and administrative activities for defined contribution, defined benefit, and various stock plans.

Total Private Client customer assets reached \$1.5 trillion at year-end 1999, up 17% for the year. Assets in U.S. Private Client fee-based programs were up 80% in 1999 to \$151 billion on strong gains in ML Consults and Unlimited Advantage.

Net earnings for PCG were \$925 million in 1999, down 3% from \$949 million in 1998 and up 27% from \$730 million in 1997. Net revenues were \$10.7 billion, up 11% and 25% from 1998 and 1997, respectively. Increased trading volumes on global exchanges and the continued growth in fee-based revenues have led to record revenues in both Commissions revenues and Asset management and portfolio service fees during 1999. The profitability of the PCG business decreased slightly in 1999 as a result of higher technology expenses and increased advertising expenses, including those related to Unlimited Advantage, ML Direct, and MLJS. PCG results in 1998 included start-up and integration costs associated with MLJS and Midland Walwyn, respectively.

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ASSET MANAGEMENT GROUP

| (dollars in millions) | 1999 | 1998 | 1997 |
|-----------------------|----------|----------|----------|
| Net revenues | \$ 2,268 | \$ 1,979 | \$ 1,239 |
| Net earnings | 335 | 292 | 264 |
| Total employees | 3,535 | 3,202 | 2,924 |

AMG provides investment management services to a diverse global clientele of institutions, including pension plans and corporations, high-net-worth individuals, mutual funds, and other investment vehicles. The December 1997 acquisition of Mercury has proved critical to Merrill Lynch's global asset-gathering strategy and, in combination with Merrill Lynch Asset Management ("MLAM"), is essential to the success of AMG's business. During 1999, AMG integrated its business into a single global organization with three regional operating units serving a wide variety of clients, with a special focus in the U.S., Japan, and Europe. In line with this realignment and focus, AMG expanded its products and services as well as its distribution channels. AMG services are now offered under three distinct brand names around the world, Merrill Lynch Asset Management, Merrill Lynch Mercury Asset Management, and Hotchkis and Wiley. In the U.S., Merrill Lynch branded products are available primarily through the PCG distribution channel, while the Mercury and Hotchkis and Wiley products are available through both PCG and third-party distribution networks. Outside the U.S., Merrill Lynch, Mercury, and Atlas (offered in Canada only) branded products are available through both the Merrill Lynch distribution network and other financial intermediaries.

In 1999, the introduction of new senior management, including new chief investment and marketing officers, senior portfolio managers, and an experienced quantitative management team, contributed to improved investment performance across retail and institutional products and permitted enhanced product distribution. The U.S. retail mutual fund offerings were expanded to include greater representation in growth areas, particularly technology. In addition, quantitative management capabilities were enhanced with the formation of Merrill Lynch Quantitative Advisors, a management unit offering products that utilize quantitative techniques designed to provide consistent and high investment returns. AMG's sales capabilities through third-party and internal distribution channels also strengthened during 1999, particularly through increased wholesale product offerings.

At year-end 1999, assets under management were a record \$557 billion, up 11% during 1999, with increases across virtually all asset classes, client bases, and client locations. Of particular note were the increases in assets under management in Japan and Australia, two of AMG's target non-U.S. markets. Based on assets under management, Merrill Lynch is one of the largest investment managers in the world.

Presented are three pie charts illustrating Merrill Lynch's assets under management in terms of Client Base, Client Location and Asset Class at year-end 1999.

ASSETS UNDER MANAGEMENT AT YEAR-END 1999

| | |
|---|-----|
| CLIENT BASE | |
| Retail | 52% |
| Institutional | 48% |
| CLIENT LOCATION | |
| U.S. | 58% |
| Non-U.S. | 42% |
| ASSET CLASS | |
| Equity and Balanced | 55% |
| Fixed Income - Medium and Long Duration | 17% |
| Fixed Income - Short Duration | 28% |

AMG's assets under management for each of the last three years were comprised of the following:

| (in billions) | 1999 | 1998 | 1997 |
|-------------------------------|--------|--------|--------|
| Equity and balanced | \$ 306 | \$ 267 | \$ 252 |
| Fixed income: | | | |
| Medium and long duration | 95 | 90 | 81 |
| Short duration | 156 | 144 | 115 |
| Total assets under management | \$ 557 | \$ 501 | \$ 448 |

Net earnings for AMG were \$335 million in 1999, up 15% from \$292 million in 1998 and up 27% from \$264 million in 1997. Results in 1999 include an after-tax investment gain of approximately \$45 million. Net revenues were \$2.3 billion, up 15% and 83% from 1998 and 1997, respectively. The 1998 increase reflects the December 1997 purchase of Mercury. Profitability of the AMG business also improved from 1998 and 1997 because of robust markets, increased productivity, and expanded product lines.

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GLOBAL OPERATIONS

Merrill Lynch's non-U.S. operations are organized into six geographic regions:

- . Europe, Middle East, and Africa,
- . Asia Pacific,
- . Australia and New Zealand,
- . Japan,
- . Canada, and
- . Latin America.

The following summary of regional operating results excludes goodwill amortization, financing costs for the Mercury acquisition, and the 1998 staff reduction provision.

EUROPE, MIDDLE EAST, AND AFRICA

| (dollars in millions) | 1999 | 1998 | 1997 |
|------------------------------|----------|----------|----------|
| Net revenues | \$ 4,222 | \$ 2,844 | \$ 1,949 |
| Earnings before income taxes | 1,290 | 452 | 328 |
| Total full-time employees | 7,658 | 7,178 | 6,477 |

Merrill Lynch operates in Europe, the Middle East, and Africa as a dealer in a wide array of equity and debt products, as well as providing asset management, investment banking, private banking, and research services. In line with its strategy of becoming a global leader with a strong local presence in key markets, Merrill Lynch now has 45 offices in 20 countries in the region.

As a result of the December 1997 acquisition of Mercury, Merrill Lynch has preeminent asset management capabilities in this region. The asset management group is the largest active fund manager in Europe, with assets under management of \$288 billion at year-end 1999. Merrill Lynch Mercury received a number of prestigious awards in Europe, including #1 Asset Management Group according to the 1999 Primark/Extel Survey, and #1 Fund Management Group as ranked by the 1999 Reuters UK Larger Companies Survey.

All of the region's businesses achieved record results in 1999, with notable contributions from equity markets and investment banking. Merrill Lynch has established itself as the leading equities house in the region, and was ranked #1 Research House by Reuters and #1 All-Europe Research Team by the 1999 Institutional Investor Survey. 1999 was the most successful year ever for investment banking in Europe, as Merrill Lynch participated in a number of top deals in the region, including winning "Best M&A Deal of the Year" and "Best Buyout Deal of the Year" from Corporate Finance Magazine. Merrill Lynch was also awarded the #1 position in European IPOs after acting as lead manager on the "European IPO of the Year", as ranked by IFR Magazine. In addition, the international version of Unlimited Advantage, International Asset Power, was launched in October 1999, and in 2000 Merrill Lynch aims to establish leadership in e-commerce in Europe through aggressive development of a regional Direct Markets Group. Customers in this region will also have access to online trading in 2000.

In 1999, net revenues for the region increased 48% from 1998, primarily due to higher investment banking and equity trading revenues, as well as increased asset management fees. Debt trading revenues also contributed to the increase, as market conditions stabilized compared to the second half of 1998.

The \$838 million increase from 1998 in earnings before income taxes was primarily attributable to significantly increased revenues resulting primarily from investment banking activities, partially offset by a rise in compensation costs.

In 1998, net revenues for the region increased 46% from 1997, primarily attributable to asset management fees relating to Mercury, as well as higher investment banking and equity trading revenues, partly offset by lower debt trading revenues. Earnings before income taxes increased 38% from 1997.

ASIA PACIFIC

(dollars in millions)

| | 1999 | 1998 | 1997 |
|-------------------------------------|--------|--------|--------|
| Net revenues | \$ 813 | \$ 333 | \$ 478 |
| Earnings (loss) before income taxes | 230 | (182) | (26) |
| Total full-time employees | 1,605 | 1,516 | 1,624 |

Merrill Lynch serves a broad retail and institutional client base throughout the Asia Pacific region and offers a full range of Private Client, Asset Management, and CIG products. Merrill Lynch operates from offices in the People's Republic of China and its special administrative Hong Kong region, Singapore, Taiwan, South Korea, Thailand, Malaysia, Indonesia, India, and the Philippines. Merrill Lynch has an established trading presence and exchange memberships in all major financial markets in the region. The Private Client business operates seven Private Client offices throughout the Asia Pacific region, including two offices in the Western U.S., offering investment services and wealth management products to its clients.

After a year of financial turbulence in 1998, Merrill Lynch had its best year ever in terms of financial performance in the region. Merrill Lynch completed deals across most Asian markets and was associated with some of the most complex and high profile transactions in the region. IFR Magazine ranked Merrill Lynch Asia Pacific Equity House of the Year and Asia Pacific Bond House of the Year. Merrill Lynch was also named Best Securities Firm in Asia by Euromoney, Best Bank for Equity Origination by Global Finance, and Institutional Investor Magazine ranked Merrill Lynch #1 in Asian Equity and Fixed Income Research.

Net revenues in the region were up \$480 million in 1999 as global markets stabilized. The increase resulted from strong revenues from equities and equity derivatives and record Private

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Client revenues, as well as increased asset management fees, with a 20% increase in assets under management. Earnings before income taxes rose \$412 million to \$230 million, primarily as a result of increased equity and debt trading activity.

In 1998, net revenues in the region were down 30% from 1997, as economic turmoil adversely impacted debt markets. However, solid equity trading results

and Private Client revenues enabled Merrill Lynch to strengthen its leading position in these businesses across the region.

AUSTRALIA AND NEW ZEALAND

| (dollars in millions) | 1999 | 1998 | 1997 |
|------------------------------|--------|--------|--------|
| Net revenues | \$ 253 | \$ 221 | \$ 163 |
| Earnings before income taxes | 32 | 22 | 12 |
| Total full-time employees | 865 | 827 | 852 |

In the Australia and New Zealand region, Merrill Lynch provides a broad mix of Private Client, Asset Management, and CICG products. Assets under management grew 77% during the year, with total net inflows tripling over 1998 levels. The increase in Private Client assets was due to an increased product range, a more focused and expanded sales force, and improved market conditions. The Private Client Group continued to focus on gathering client assets, resulting in a 62% increase in total client assets. In the third quarter of 1999, Merrill Lynch became the first U.S. asset manager to offer U.S.-registered mutual funds in Australia. International equities and mutual funds were introduced to Australian investors during the year, and three new fee-based products were offered in 1999, including the international version of Unlimited Advantage. In New Zealand, the International CMA account was successfully introduced, and customers in Australia will have access to self-directed Internet trading in early 2000.

Merrill Lynch's Investment Banking team strengthened its role in the region as a preeminent strategic and financial advisor to Australian and New Zealand corporations in 1999. Merrill Lynch is one of the region's leading strategic advisors to listed companies, and advised on the two largest completed public company M&A transactions. Debt markets, which had its most profitable year ever, is recognized as a leading provider of structured and credit products, in addition to more traditional strengths in cross border origination. Equity markets also continued to perform well, characterized by structural innovation and landmark transactions, including the first major Australian Internet offering. Merrill Lynch was named Best Foreign Securities House in Australia by Finance Asia Magazine and Best Investment Bank in Australia and New Zealand by the Greenwich Survey.

Net revenues for the region increased 14% from 1998 and 55% from 1997. The increase primarily resulted from growth in the Private Client and Asset Management businesses. Earnings before income taxes increased 45% from 1998 and nearly tripled since 1997.

JAPAN

| (dollars in millions) | 1999 | 1998 | 1997 |
|-------------------------------------|----------|--------|--------|
| Net revenues | \$ 1,062 | \$ 592 | \$ 433 |
| Earnings (loss) before income taxes | 20 | (108) | 62 |
| Total full-time employees | 3,160 | 2,881 | 766 |

Following the establishment of MLJS and Merrill Lynch Mercury Asset Management Japan ("MLMJ") in 1998, Merrill Lynch continued to enhance its presence in the region during 1999 with the successful alignment of its various businesses in Japan. The firm now provides an integrated range of Private Client, Asset Management, and CICG products and services to individual, small to mid-sized corporate, and institutional clients. In 1999, synergies between CICG and Private Client resulted in the successful distribution of five notable public offerings through MLJS, in addition to numerous new products introduced and distributed by MLJS to the retail market.

The firm's CICG business, which operates under the name Merrill Lynch Japan ("MLJ") continued to improve its performance in 1999, with record revenues in its debt, equity, and advisory businesses. Merrill Lynch has significantly expanded its origination activities and presence in Japan, ranking #2 in Japanese announced M&A, and #1 in foreign underwriting for both Japanese equity and debt issuances, according to Thomson Financial Securities Data. MLJ also became the first foreign financial institution in Japan to be a lead manager on a domestic equity new issuance, and has seized business opportunities arising from the ongoing restructuring of Japanese financial institutions.

In 1999, MLJS began to capitalize on the shift in personal assets in Japan, from low-yielding deposits to equities, professionally managed funds, and higher yielding products, while operating under an environment of a more variable compensation structure for Financial Consultants, continued deregulation, innovative products, and robust equity markets. Client assets reached \$12 billion at year-end 1999, an increase of \$10 billion since year-end 1998, and the number of client accounts more than doubled during the year.

MLMJ, one of the leading managers of Japanese pension funds and a provider of a wide range of mutual funds, is poised to capitalize on the continuing deregulation of the Japanese asset management industry. Assets under management continued to grow rapidly in both the institutional and retail areas while Japanese equity accounts managed in Tokyo for overseas clients also grew significantly due to strong performance.

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Net revenues in the Japan region were up 79% from 1998, reflecting strong performance in all businesses. These higher revenues were offset by a full year of fixed expenses and higher production-related compensation costs associated with MLJS.

Net revenues in the Japan region in 1998 were up 37% from 1997, primarily due to improved profitability from corporate bond trading, higher assets under management, and increased services provided to financial institutions resulting from regulatory reform. The pre-tax loss in 1998 was primarily the result of the start-up costs associated with MLJS.

CANADA

(dollars in millions)

| | 1999 | 1998 | 1997 |
|------------------------------|--------|--------|--------|
| Net revenues | \$ 619 | \$ 642 | \$ 708 |
| Earnings before income taxes | 65 | 25 | 99 |
| Total full-time employees | 3,744 | 3,703 | 3,288 |

In 1998, Merrill Lynch merged with Midland Walwyn, one of Canada's premier securities firms. With this transaction, Merrill Lynch significantly expanded its capabilities in Canada beyond its traditional strengths in investment banking and debt markets. Today, Merrill Lynch is a full-service firm in the region with a growing presence, serving individual and institutional clients, as well as corporate and government issuers.

Merrill Lynch's Private Client business in Canada made significant progress in 1999. The company's Private Client business ranks as the third largest in Canada, with a team of more than 1,250 investment professionals serving approximately 600,000 individuals. MLAM Group Canada, which now includes Merrill Lynch Mercury, reached \$4.8 billion in assets under management, an increase of 55% from the end of 1998. MLAM Group Canada also launched 17 new mutual funds and introduced a managed wrap program. In October 1999, Merrill Lynch introduced Asset Partner, the Canadian version of the Unlimited Advantage account.

In CIGG, Merrill Lynch was ranked the #1 Investment Bank and #1 in research by 174 Canadian-based corporations who took part in the 1999 Reuters Survey. The Debt Markets group jointly led a \$2 billion Government Debt Offering which was voted "Sovereign Deal of the Year" by Euroweek, and also earned "Canadian Deal of the Year" from Euroweek as joint lead on a debt offering for a Canadian province.

Net revenues for the region were down slightly from 1998. However, Merrill Lynch Canada gained significant market share within the Canadian market, and is positioned to build on this momentum if equity markets improve. Earnings before income taxes increased 160% from 1998, primarily due to costs incurred in 1998 due to the Midland Walwyn merger.

Net revenues in 1998 declined 9% from 1997, due to decreased underwriting, debt trading, and commissions revenues caused by uncertainties in global markets. These declines were partially offset by strong growth in merger and acquisition advisory revenues and asset management fees. Earnings before income taxes dropped significantly from 1997 because of a decline in revenues and \$40 million in merger and integration-related expenses.

LATIN AMERICA

(dollars in millions)

| | 1999 | 1998 | 1997 |
|-------------------------------------|--------|--------|--------|
| Net revenues | \$ 614 | \$ 412 | \$ 523 |
| Earnings (loss) before income taxes | 137 | (53) | 123 |
| Total full-time employees | 1,172 | 1,192 | 904 |

In Latin America, Merrill Lynch provides various brokerage and investment services, including financial planning, investment banking, research, and asset management, including a newly established asset management presence in Brazil. Included in this region are certain U.S. offices that primarily serve Latin American clients.

Volatility stemming from the fourth quarter 1998 emerging market crisis continued in the first quarter of 1999; high interest rates and increased foreign capital outflow resulted in a 70% devaluation in the Brazilian real in the first quarter of 1999. The devaluation had a ripple effect throughout all Latin American economies, as Brazil is the largest economy in the region. Subsequent to the first quarter of 1999, the Latin American economy rebounded due to political and structural changes, as well as robust global markets.

In the second quarter of 1999, Merrill Lynch was appointed by the largest oil company in Spain as advisor on the significant acquisition of YPF, the large Argentine oil company. Merrill Lynch continued to receive high honors in numerous categories, including best M&A firm in Latin America according to Euromoney, and for the third consecutive year, Merrill Lynch received first place in Institutional Investor's 1999 Latin America Research Team.

Merrill Lynch's private banking efforts in the region were significant in 1999, as assets in the region grew 20%. In early 2000, Santander Securities Corporation purchased Merrill Lynch's retail brokerage business in Puerto Rico.

Net revenues for the region increased 49% from 1998 as trading and investment banking revenues were negatively impacted by volatile global markets throughout most of 1998. Pre-tax earnings rose \$190 million from 1998 due to significantly improved performance by the debt markets group.

Net revenues in 1998 decreased 21% from 1997 as trading and investment banking activities were adversely affected by the market turbulence that occurred throughout most of 1998. The pre-tax loss in 1998 resulted from increased variable compensation, brokerage, clearing, and exchange costs, and communication and technology expenses.

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BALANCE SHEET

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OVERVIEW

Management continually monitors and evaluates on a daily basis the level and composition of the balance sheet.

In 1999, average total assets were \$331 billion, down 12% from \$376 billion in 1998. Average total liabilities in 1999 decreased 13% to \$317 billion from \$365 billion in 1998. The major components of the decrease in average total assets and liabilities are summarized as follows:

| (in millions) | INCREASE | (DECREASE) | CHANGE |
|--|-------------|------------|--------|
| AVERAGE ASSETS | | | |
| Receivables under resale agreements and securities borrowed transactions | \$ (20,331) | | (16)% |
| Trading assets | (29,979) | | (21) |
| Securities pledged as collateral | (5,584) | | (31) |
| Customer receivables | 5,982 | | 14 |
| Loans, notes, and mortgages | 2,361 | | 35 |
| AVERAGE LIABILITIES | | | |
| Payables under repurchase agreements and securities loaned transactions | \$ (27,394) | | (22)% |
| Commercial paper and other short-term borrowings | (17,726) | | (57) |
| Obligation to return securities received as collateral | (10,251) | | (32) |
| Long-term borrowings | 5,806 | | 11 |
| Demand and time deposits | 2,529 | | 23 |

Balance sheet levels were, on average, lower in 1999 compared to 1998. Year-end 1999 balances, however, were higher compared with year-end 1998 balances, primarily resulting from increases in secured financing transactions, customer receivables, marketable investment securities, and commercial paper and other short term borrowings. The discussion that follows analyzes the changes in year-end financial statement balances of major asset and liability categories.

TRADING-RELATED ASSETS AND LIABILITIES

Trading-related balances primarily consist of trading assets and liabilities, receivables under resale agreements and securities borrowed transactions, payables under repurchase agreements and securities loaned transactions, and certain receivable/payable balances that result from trading activities. At December 31, 1999 total trading-related assets and liabilities were \$251 billion and \$174 billion, respectively. Presented are two pie charts illustrating

trading-related balances as a percentage of total assets and liabilities, excluding collateral recognized under SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

 ASSETS AND LIABILITIES

TRADING-RELATED ASSETS:

| | |
|---|-----|
| Trading Assets | 32% |
| Resale Agreements and Securities Borrowed | 32 |
| Receivables | 18 |
| | --- |
| | 82 |

NON-TRADING-RELATED ASSETS

18

 100%
 ===

TRADING-RELATED LIABILITIES:

| | |
|---|-----|
| Trading Liabilities | 23% |
| Repurchase Agreements and Securities Loaned | 24 |
| Payables | 12 |
| | --- |
| | 59 |

NON-TRADING-RELATED LIABILITIES

41

 100%
 ===

 Although trading-related balances comprise a significant portion of the balance sheet, the magnitude of these balances does not necessarily convey a sense of the risk profile assumed by Merrill Lynch. The market and credit risks associated with trading-related balances are mitigated through various hedging strategies, as discussed in the following sections (see Note 3 to the Consolidated Financial Statements for descriptions of market and credit risks).

Merrill Lynch reduces a significant portion of the credit risk associated with trading-related receivables by requiring counterparties to post cash or securities as collateral in accordance with collateral maintenance policies. The bar graph that follows depicts the value of collateral maintained at December 31, 1999 for trading-related assets to reduce counterparty credit risk.

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 COLLATERALIZED TRADING-RELATED RECEIVABLES
 (in billions)

| | TRADING-RELATED RECEIVABLES | COLLATERAL MAINTAINED |
|--|--------------------------------|--------------------------|
| | ----- | ----- |
| Derivative Contract Receivables (a) | \$ 28 | \$ 4 |
| Receivables under Resale Agreements | 58 | 62 |
| Receivables under Securities Borrowed Transactions | 42 | 41 |
| Other Receivables (b) | 56 | 39 |

- (a) Included in trading assets. Collateral is not maintained for securities and other cash instruments.
 (b) Collateral presented does not include over collateralization, i.e., Merrill Lynch maintains collateral in excess of customer margin loan receivables.

Trading Assets and Liabilities

Trading inventory principally represents securities purchased ("long" positions), securities sold but not yet purchased ("short" positions), and the fair value of derivative contracts (see Note 1 to the Consolidated Financial Statements). These positions are primarily the result of market-making, hedging, and proprietary activities.

Merrill Lynch acts as a market-maker in a wide range of securities, resulting in a significant amount of trading inventory to facilitate customer transaction flow. To a lesser degree, Merrill Lynch also maintains proprietary trading inventory in seeking to profit from existing or projected market opportunities.

Merrill Lynch uses both cash instruments and derivatives to manage trading inventory market risks. As a result of these hedging techniques, a significant portion of trading assets and liabilities represents hedges of other trading positions. Long U.S. Government securities, for example, may be hedged with

short interest rate futures contracts. These hedging techniques, which are generally initiated at the trading unit level, are supplemented by corporate risk management policies and procedures (see the Risk Management section for a description of risk management policies and procedures).

Trading assets at year-end 1999, including the \$10 billion of collateral recognized under SFAS No. 125, were down 1% from year-end 1998. Collateral recognized under SFAS No. 125 and contractual agreements increased, while non-U.S. Government and agencies securities declined. Trading liabilities increased from \$64 billion to \$68 billion, primarily as a result of higher levels of contractual agreements and U.S. Government and agencies, partially offset by declines in non-U.S. governments and agencies and equities and convertible debentures.

Resale/Repurchase Agreements and Securities Borrowed/Loaned Transactions

Repurchase agreements and, to a lesser extent, securities loaned transactions are used to fund a significant portion of trading assets. Likewise, Merrill Lynch uses resale agreements and securities borrowed transactions to obtain the securities needed for delivery on short positions. These transactions are typically short-term in nature since a significant portion are entered into on an overnight or open basis. Resale and repurchase agreements entered into on a term basis typically mature within 90 days.

Merrill Lynch also enters into these transactions to meet customers' needs. These "matched-book" repurchase and resale agreements or securities borrowed and loaned transactions are entered into with different customers using the same underlying securities, generating a spread between the interest revenue on the resale agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions. Exposures on these transactions are limited by their typically short-term nature and collateral maintenance policies.

Presented is a bar graph illustrating the nature of resale/repurchase agreements and securities borrowed/loaned transactions, differentiating between matched-book and non-matched-book for total resale agreements, repurchase agreements, securities borrowed, and securities loaned balances of \$58,034 million, \$64,954 million, \$41,707 million, and \$6,624 million, respectively.

RESALE/REPURCHASE AGREEMENTS AND SECURITIES BORROWED/LOANED TRANSACTIONS

| | MATCHED-BOOK | NON-MATCHED-BOOK |
|-----------------------|--------------|------------------|
| Resale Agreements | 51% | 49% |
| Repurchase Agreements | 46 | 54 |
| Securities Borrowed | 11 | 89 |
| Securities Loaned | 71 | 29 |

Receivables under resale agreements and securities borrowed transactions and payables under repurchase agreements and securities loaned transactions in 1999

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increased 14% and 7% from year-end 1998, respectively, as a result of higher matched book activity.

Other Trading-Related Receivables and Payables

Securities trading may lead to various customer or broker-dealer balances. Broker-dealer balances may also result from recording trading inventory on a trade date basis. Certain receivable and payable balances also arise when customers or broker-dealers fail to pay for securities purchased or fail to deliver securities sold, respectively. These receivables are generally fully collateralized by the securities that the customer or broker-dealer purchased but did not receive. Customer receivables also include margin loans collateralized by customer-owned securities held by Merrill Lynch. Collateral policies significantly limit Merrill Lynch's credit exposure to customers and broker-dealers. Merrill Lynch, in accordance with regulatory requirements, will sell securities that have not been paid for, or purchase securities sold but not delivered, after a relatively short period of time, or will require additional margin collateral, as necessary. These measures reduce market risk exposure related to these balances.

Interest receivable and payable balances related to trading inventory are principally short-term in nature. Interest balances for resale and repurchase agreements, securities borrowed and loaned transactions, and customer margin loans are generally considered when determining the collateral requirements related to these transactions.

Trading-related receivables in 1999 were up \$9 billion from 1998, primarily

due to increases in margin and other collateralized loans. Trading-related payables increased \$5 billion during 1999 due to heightened customer activity and a net payable that results from recording inventory on a trade date basis.

NON-TRADING ASSETS

Investments

Merrill Lynch's investments, which includes Investments of Insurance Subsidiaries, primarily consist of holdings of liquid debt and equity securities for liquidity and asset/liability matching purposes, merchant banking and venture capital investments, including technology investments, such as Electronic Communications Networks, and investments to hedge deferred compensation liabilities (see Note 4 to the Consolidated Financial Statements for further information). Investments grew from \$11.7 billion at year-end 1998 to \$17.7 billion at year-end 1999, as a result of increases in most categories.

Loans, Notes, and Mortgages

Merrill Lynch's portfolio of loans, notes, and mortgages includes mortgage loans on residences, working capital loans to small and medium-sized businesses, and syndicated loans. Merrill Lynch generally maintains collateral on these extensions of credit in the form of securities, liens on real estate, perfected security interests in other assets of the borrower, and guarantees. Loans, notes, and mortgages rose \$3.5 billion in 1999 to \$11.2 billion due to increased consumer lending activities. Merrill Lynch maintained collateral of \$6.8 billion at December 31, 1999 to reduce related default risk.

Other

Other non-trading assets, which include goodwill (related primarily to the Mercury acquisition), equipment and facilities, and other assets, were up slightly from year-end 1998 levels.

NON-TRADING LIABILITIES

Borrowings

Portions of trading and non-trading assets are funded through borrowings, primarily commercial paper and long-term borrowings (see the Capital Adequacy and Liquidity section for more information on funding sources).

Commercial paper increased from \$16.8 billion at year-end 1998 to \$24.2 billion at year-end 1999. Demand and time deposits increased \$5.1 billion in 1999 as a result of higher customer deposits in banking subsidiaries. Outstanding long-term borrowings decreased to \$53.5 billion at December 31, 1999 from \$57.6 billion at December 25, 1998. Major components of the change in long-term borrowings for 1999 and 1998 follow:

| ----- | | |
|--|---------|---------|
| (dollars in billions) | | |
| | 1999 | 1998 |
| ----- | | |
| Beginning of year | \$ 57.6 | \$ 43.1 |
| Issuances | 15.1 | 29.3 |
| Maturities | (18.6) | (15.8) |
| Other | (.6) | 1.0 |
| | ----- | ----- |
| End of year(1) | \$ 53.5 | \$ 57.6 |
| | ===== | ===== |
| Average maturity in years of long-term borrowings, when measured to: | | |
| Maturity | 4.8 | 4.4 |
| Earlier of the call or put date | 4.2 | 4.0 |
| ----- | | |

(1) At year-end 1999 and 1998, \$45.0 billion and \$43.9 billion of long-term borrowings had maturity dates beyond one year, respectively.

Other

Other non-trading liabilities, which include liabilities of insurance subsidiaries and other payables, increased slightly from year-end 1998 levels.

PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Preferred securities issued by subsidiaries consist primarily of Trust Originated Preferred Securities (Service Mark) ("TOPrS" (Service Mark)) (see Note 7 to the Consolidated Financial Statements for further information). TOPrS proceeds are utilized as part of general balance sheet funding (see the Capital Adequacy and Liquidity section

million during 1999 as a result of a yen-denominated TOPrS issuance.

STOCKHOLDERS' EQUITY

Stockholders' equity at December 31, 1999 increased 26% to \$12.8 billion from \$10.1 billion at year-end 1998. The 1999 increase resulted from net earnings and the net effect of employee stock transactions, partially offset by dividends.

At December 31, 1999, total common shares outstanding, excluding shares exchangeable into common stock, were 367.8 million, 3% higher than the 356.3 million shares outstanding at December 25, 1998. The increase was attributable principally to employee stock grants and option exercises.

Total shares exchangeable into common stock at year-end 1999, issued in connection with the Midland Walwyn merger, were 4.0 million, compared with 4.5 million at year-end 1998. As a result of the merger, Merrill Lynch also issued 4.2 million shares of common stock.

There were no common stock repurchases during 1999. In 1998, Merrill Lynch rescinded its share repurchase authority in order to facilitate pooling-of-interests accounting for the Midland Walwyn merger.

CAPITAL ADEQUACY AND LIQUIDITY

The primary objectives of Merrill Lynch's capital structure and funding policies are to:

- . Ensure sufficient equity capital to absorb losses,
- . Support the business strategies, and
- . Assure liquidity at all times, across market cycles, and through periods of financial stress.

CAPITAL ADEQUACY

Among U.S. institutions engaged primarily in the global securities business, Merrill Lynch is one of the most highly capitalized, with \$12.4 billion in common equity, \$425 million in preferred stock, and \$2.7 billion of TOPrS at December 31, 1999.

Merrill Lynch continually reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, as well as the regulatory and legal capital requirements of its subsidiaries. Merrill Lynch uses statistically based risk models, developed in conjunction with risk management practices, to estimate potential losses arising from market and credit risks. Equity capital needs are determined based on these models, which dynamically capture changes in risk profile. Merrill Lynch also assesses the need for equity capital to support business risks that may not be adequately measured through these risk models, as well as the potential use of equity capital to support growth. Merrill Lynch determines the appropriateness of its equity capital composition, which includes common stock, preferred stock, and TOPrS, taking into account the perpetual nature of its preferred stock and TOPrS. Based on these analyses and criteria, management believes that Merrill Lynch's equity capital base of \$15.5 billion is adequate.

Merrill Lynch operates in many regulated businesses that require various minimum levels of capital (see Note 13 to the Consolidated Financial Statements for further information). Merrill Lynch's broker-dealer, banking, insurance, and futures commission merchant activities are subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels and making affiliated investments.

Merrill Lynch's leverage ratios were as follows:

| | LEVERAGE RATIO (1) | ADJUSTED LEVERAGE RATIO (2) |
|------------------------------|-----------------------|-----------------------------------|
| PERIOD-END | | |
| December 31, 1999 | 21.1x | 13.4x |
| December 25, 1998 | 23.5x | 15.5x |
| AVERAGE (3) | | |
| Year ended December 31, 1999 | 23.2x | 14.4x |
| Year ended December 25, 1998 | 32.9x | 19.2x |

- (1) Total assets to Total stockholders' equity and Preferred securities issued by subsidiaries.
- (2) Total assets less (a) Securities received as collateral, net of securities pledged as collateral, (b) Securities pledged as collateral, (c) Receivables under resale agreements and securities borrowed transactions, to Total stockholders' equity and Preferred securities issued by subsidiaries.
- (3) Computed using month-end balances.

An asset-to-equity leverage ratio does not reflect the risk profile of assets, hedging strategies, or off-balance-sheet exposures. Thus, Merrill Lynch does not rely on overall leverage ratios to assess risk-based capital adequacy.

LIQUIDITY

Liquidity risk occurs when there are timing differences between cash inflows from the businesses and cash outflows for business needs and maturing debt obligations. Merrill Lynch's liquidity policy is to maintain alternative funding sources such that all unsecured debt obligations maturing within one year can be repaid when due without issuing new unsecured debt or liquidating business assets. Primary alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, and secured bank loans, which require pledging unhypothecated marketable securities held for trading or liquidity purposes. Other funding sources include liquidating cash equivalents; securitizing loan assets; and drawing on a committed, senior, unsecured bank credit facility that, at December 31,

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1999, totaled \$8 billion and was not drawn upon. Merrill Lynch maintains a contingency funding plan, which out-lines actions that would be taken in the event of a severe funding disruption.

Merrill Lynch regularly reviews the level and mix of its assets and liabilities to assess its ability to conduct core business activities without issuing new unsecured debt or drawing upon its bank credit facilities. The mix of assets and liabilities provides flexibility in managing liquidity since a significant portion of assets turns over frequently and is typically match-funded with liabilities having similar maturities and cash flow characteristics. At December 31, 1999, a significant portion of Merrill Lynch's assets was considered readily marketable by management.

Merrill Lynch typically concentrates its unsecured, general-purpose funding at the ML & Co. level, except where tax regulations, time zone differences, or other business considerations make this impractical. The benefits of this strategy are enhanced control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries.

Merrill Lynch strives to expand and diversify its funding programs, markets, and investor and creditor base. Merrill Lynch benefits by distributing a significant portion of its liabilities and equity through its own sales force to a large, diversified global client base. Available funding sources include:

- . repurchase agreements and securities loaned transactions,
- . U.S., Canadian, Euro, Japanese, and Australian commercial paper programs,
- . letters of credit,
- . master notes,
- . demand and time deposits issued through Merrill Lynch's banking subsidiaries,
- . bank loans,
- . long-term debt,
- . TOPrS,
- . preferred stock, and
- . common stock.

Additionally, Merrill Lynch maintains access to significant uncommitted credit lines, both secured and unsecured, from a large group of banks.

Commercial paper represented 7% and 6% of total assets at year-end 1999 and 1998, respectively. Merrill Lynch maintains strict concentration standards for commercial paper and other short-term borrowings, including limits for any single investor.

In addition to equity capital sources, Merrill Lynch views long-term debt as a stable funding source for its core balance sheet assets. Long-term, less liquid assets are fully funded with long-term sources of capital, which include the non-current portion of long-term debt, TOPrS, preferred stock, and common equity. Generally, trading and other current assets are financed with a combination of short-term funding, long-term debt, and equity capital.

As part of an overall liquidity management strategy, Merrill Lynch's insurance subsidiaries regularly review the funding requirements of their contractual obligations for in-force, fixed-rate life insurance and annuity contracts as well as expected future acquisition and maintenance expenses for all contracts. The insurance subsidiaries develop and market primarily variable life insurance and variable annuity products. These products are not subject to the interest rate, asset/liability matching, or credit risks attributable to fixed-rate products, thereby reducing the insurance subsidiaries' risk profile and liquidity demands. At December 31, 1999, approximately 84% of invested assets of insurance subsidiaries were considered liquid by management.

The relationship between assets and liabilities is managed on a consolidated basis across businesses and subsidiaries. Merrill Lynch routinely issues debt in a variety of maturities and currencies to achieve the lowest cost financing possible. Merrill Lynch uses derivative transactions, including interest rate swaps, to more closely match the duration of these borrowings to the duration of the assets being funded to minimize interest rate risk. Merrill Lynch also enters into currency swaps, to ensure that foreign-currency denominated assets are funded with like-currency denominated liabilities (to the extent that the currency cannot be sourced more efficiently through a direct debt issuance). Merrill Lynch uses swaps for asset and liability management to reduce its interest expense and effective borrowing rate.

Credit Ratings

The cost and availability of unsecured financing generally are dependent on credit ratings. Merrill Lynch's senior long-term debt, preferred stock, and TOPrS were rated by several recognized credit rating agencies at December 31, 1999 as follows:

| RATING AGENCY | SENIOR DEBT RATINGS | PREFERRED STOCK AND TOPrS RATINGS |
|---|---------------------|-----------------------------------|
| Duff & Phelps Credit Rating Co. | AA | AA- |
| Fitch IBCA, Inc. | AA | AA- |
| Japan Rating & Investment Information, Inc. | AA | A+ |
| Moody's Investors Service, Inc. | Aa3 | aa3 |
| Standard & Poor's | AA- | A |
| Thomson BankWatch, Inc. | AA+ | Not Rated |

Approximately \$78.1 billion of indebtedness at December 31, 1999 is considered senior indebtedness as defined under various indentures.

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CAPITAL PROJECTS AND EXPENDITURES

Merrill Lynch continually prepares for the future by expanding its operations and investing in new technology to improve service to clients. To support business expansion, for example, Merrill Lynch is building a new European headquarters in London, for approximately \$650 million; approximately \$180 million has been spent to date.

Significant technology initiatives include decimalization, the Securities and Exchange Commission's mandated initiative, extended hours trading, and numerous other projects related to Merrill Lynch's e-commerce initiatives across all businesses. The decimalization project involves systems application alterations and upgrades in order to comply with the industry-mandated conversion of listed equities and options from fractional to decimal pricing beginning in July 2000. Extended hours trading involves systems remediations, and extended availability of online systems.

YEAR 2000 COMPLIANCE INITIATIVE

In 1999 Merrill Lynch completed its efforts to address the Year 2000 issue (the "Y2K issue"). The Y2K issue was the result of a widespread programming technique that caused computer systems to identify a date based on the last two numbers of a year, with the assumption that the first two numbers of the year are "19." As a result, the year 2000 would be stored as "00," causing computers to incorrectly interpret the year as 1900. Left uncorrected, the Y2K issue may have caused serious failures in information technology systems and other systems.

In 1995 Merrill Lynch established the Year 2000 Compliance Initiative to address the internal and external risks associated with the Y2K issue. The Initiative consisted of six phases, completed by the millennium: planning, pre-renovation, renovation, production testing, certification, and integration testing. Contingency plans were established in the event of any failures or disruptions.

Through the date of this report, there have been no material failures or disruptions of systems or services at Merrill Lynch attributable to the Y2K issue. Similarly we have not been notified of any material failure or disruption of systems or services affecting third parties in their capacity to transact business with Merrill Lynch or in Merrill Lynch's capacity to transact business with others. Merrill Lynch continues to monitor the performance of its systems for any possible future failures or disruptions attributable to the Y2K issue.

As of December 31, 1999 the total estimated expenditure of existing and incremental resources for the Year 2000 Compliance Initiative was approximately \$510 million, including \$102 million of occupancy, communications, and other

related overhead expenditures, as Merrill Lynch is applying a fully costed pricing methodology for this project. At December 31, 1999, of the total estimated expenditures, approximately \$12 million, related to continued testing, contingency planning, risk management, and the wind down of the efforts, had not yet been spent.

RISK MANAGEMENT
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RISK MANAGEMENT PHILOSOPHY

Risk-taking is an integral part of Merrill Lynch's business. Through its operating activities, Merrill Lynch is exposed to a variety of risks, including market, credit, liquidity, and process risk. Merrill Lynch's business segments remain primarily accountable for managing the risks of their business activities.

To ensure that these risks are effectively identified, evaluated, monitored, and managed, Merrill Lynch has established a comprehensive risk management process. Key components include:

- . a formal risk governance framework which defines the firm's risk oversight process,
- . review of the risk oversight process by the Audit and Finance Committee of the Board of Directors,
- . segregation of risk oversight responsibilities between Merrill Lynch's executive, business, and control functions and active communication and coordination among these functions,
- . clearly articulated risk tolerance levels, set by the Executive Management Committee ("EMC") and reviewed continually with the goal of ensuring that Merrill Lynch's risks are consistent with its strategies and capabilities, as well as current and anticipated business and market conditions,
- . risk policies and procedures, and
- . advanced analytic tools.

The ultimate goal of the process is to ensure that Merrill Lynch's exposures are identified, acknowledged, and understood at the appropriate levels within the firm and that, to the extent possible, risk-related losses occur within acceptable, predetermined tolerance levels.

Risk management is a dynamic function, influenced by industry, technology, regulatory, and market forces, and Merrill Lynch is continually refining its internal risk management processes. Enhancements are being created in a number of areas, including process risk management, scenario analysis, leveraged counterparty risk management, country risk management, stress testing, and risk-adjusted performance measurement. As the environment changes, Merrill Lynch will strive to maintain innovative policies and procedures in the management of its risk.

The overall effectiveness of Merrill Lynch's risk management process is illustrated by analyzing actual net trading-related revenues over time. Merrill Lynch's trading-related activities, largely a client order flow-driven business, combined with its risk management strategies, help to reduce earnings volatility. Presented is a bar graph illustrating the distribution of weekly net trading-related revenues by revenue band for 1997, 1998, and 1999.

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DISTRIBUTION OF WEEKLY NET TRADING-RELATED REVENUES BY YEAR
(dollars in millions)
- - - - -

| | Number of weeks | | |
|---------------|-----------------|------|------|
| | 1997 | 1998 | 1999 |
| Less than \$0 | - | 5 | - |
| \$0-50 | 4 | 7 | 1 |
| \$50-100 | 12 | 9 | 5 |
| \$100-150 | 31 | 17 | 21 |
| Over \$150 | 5 | 14 | 26 |
| | --- | --- | --- |
| | 52 | 52 | 53 |
| | === | === | === |

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Risk Governance Structure

Merrill Lynch's risk governance structure involves the Audit and Finance Committee of the Board of Directors, the EMC, the Risk Oversight Committee ("ROC"), the business segments, Corporate Risk Management ("CRM"), and various corporate governance committees.

- . The Audit and Finance Committee of the Board of Directors, comprised entirely of external directors, has authorized the ROC to establish Merrill Lynch's risk management policies.
- . The EMC establishes risk tolerance for the firm and authorizes changes in Merrill Lynch's risk profile. It also ensures that the risks assumed by Merrill Lynch are managed within these tolerance levels, verifies that Merrill Lynch has implemented appropriate policies for the effective management of risks, and approves substantive changes to risk policies, including those proposed by the ROC. Particular attention is paid to risk concentration and illiquidity.
- . The ROC, comprised of senior business and control managers and chaired by the Head of CRM, oversees Merrill Lynch's risks, ensures that the business units create and implement processes to identify, measure, and monitor risks, assists the EMC in determining risk tolerance levels for Merrill Lynch's business units, monitors the activities of Merrill Lynch's corporate governance committees, and reports significant issues and transactions to the EMC and the Audit and Finance Committee.
- . Corporate governance committees exist to create policy, review activity, and ensure new and existing business initiatives remain within established risk tolerance levels. These committees include the New Product Review Committee, Debt and Equity Capital Commitment Committees, Reserve Committee, and Special Transactions Review Committee. Representatives of the principal independent control functions participate as voting members of these committees. These committees report regularly to the ROC.

Risk Framework

Merrill Lynch has developed a mechanism known as the Risk Framework to define and communicate its tolerance for risk and raise as exceptions certain areas of risk concentration. Risks are measured against Framework limits on a continuous basis, and exceptions and violations are reported, investigated, and addressed at the appropriate level of management. The Framework has been approved by the EMC and the risk parameters utilized by the Framework have been reviewed by the Audit and Finance Committee. The EMC reviews the Framework annually and approves material changes; the ROC reports substantive Framework changes to the Audit and Finance Committee. The Framework establishes broad risk limits for Merrill Lynch. Market risk limits are intended to constrain exposure to specific classes of market risk and Value-at-Risk ("VaR"). VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. Credit risk limits are intended to constrain the magnitude and duration of exposure to individual counterparties, types of counterparties, countries, and financing collateral. The Risk Framework has been established for CICG and is in the process of being expanded to other business units and Treasury.

Business Segments

Business segments are responsible for ensuring that appropriate processes are in place to identify, monitor, manage, and report the risks of their businesses working within the confines of the Risk Framework.

Corporate Risk Management

CRM is an independent control function responsible for Merrill Lynch's risk management process. The group is headed by a member of the EMC who reports to the Chief Financial Officer; the Head of CRM also chairs the ROC. CRM manages Merrill Lynch's market risks (representing the potential change in value of trading instruments caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads or other risks) and credit risks (representing the potential for loss that can occur as a result of an impairment in the credit-worthiness of an issuer or counterparty or a default by an issuer or counterparty on its contractual obligations). CRM also provides

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the firm with an overview of risks on a portfolio basis and develops systems and tools to facilitate the risk management process.

CRM is comprised of the following groups:

- . The CICG Market Risk Management Group defines the products and markets in which CICG can transact, identifies and quantifies the market risks to which businesses are exposed, establishes limits within the CICG Risk Framework to constrain concentrations of risk, and monitors exposures against these limits. The Group also has a dedicated unit which reviews, tests, and stresses the mathematical models used by Merrill Lynch's business and control units and performs revaluations, stress tests, and hedging analyses.
- . The CICG Credit Risk and Capital Commitments Group assesses and rates the creditworthiness of potential and existing institutional counterparties and establishes credit limits within the Framework based on counterparty/issuer credit quality and the potential risk of transactions. The Group reviews and approves credit exposures and commitments to specific counterparties/issuers within CICG, and works with business managers to

structure transactions in order to mitigate and/or manage credit risk within acceptable tolerance levels.

- . The Private Client Credit Group assesses the creditworthiness of potential and existing Private Client business unit counterparties, establishes credit limits within the Framework based on credit quality, risk, and diversification factors, reviews and approves credit exposures to specific clients within the PCG, and works with business managers to structure transactions in order to mitigate and/or manage credit risk within acceptable tolerance levels.
- . The Portfolio Risk Management Group integrates the disciplines of credit, market, and process risk management into a single framework that identifies and controls risks at a firmwide level. The Group develops management tools that guide judgement on the sources/magnitudes of risk and the use of capital in support of such risk, and creates and maintains a firmwide management control framework for process risk. The Portfolio Group also oversees market risk within Merrill Lynch's Treasury and PCG units and is responsible for developing and managing the firm's country risk process.
- . The Risk Infrastructure Group provides CRM with the technology, analytics, and resources to quantify, monitor, and manage Merrill Lynch's market, credit, and portfolio risks. The Group develops systems and analytic tools to facilitate the collation, aggregation, and analysis of transactions, positions, and exposures, and designs and implements methodologies for measuring and managing credit and market risks.

MARKET RISK

Merrill Lynch uses several mathematical techniques to assess the risk of its positions and portfolios. In particular, CRM quantifies the sensitivities of Merrill Lynch's trading portfolio to changes in market parameters and utilizes these sensitivities, together with historical data on benchmark market parameters, to estimate distributions of the potential earnings and losses that the portfolio would have incurred had it been subject to the market movements which occurred during the historic period. From these distributions are derived a number of risk statistics including VaR.

VaR estimates the amount that Merrill Lynch could lose, with a specified degree of confidence, over a given time interval. The VaR statistic for a particular risk category represents the amount that Merrill Lynch could lose due to market movements in that risk category. The VaR for Merrill Lynch's portfolio is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all the risk categories is shown in the following tables and may be viewed as a measure of the diversification within Merrill Lynch's portfolio. CRM believes that the tabulated risk measures provide some guidance as to the amount Merrill Lynch could lose in future periods. Like all statistics, however, they need to be interpreted with a clear understanding of their assumptions and limitations. For these disclosures, Merrill Lynch uses a historical simulation approach to estimate value-at-risk using a 99% confidence level and a two-week holding period for trading and non-trading instruments. Sensitivities to market risk factors are aggregated and combined with a database of historical biweekly changes in market factors to simulate a series of profits and losses. The level of loss that is exceeded in that series 1% of the time is used as the estimate for the 99% confidence level VaR.

The overall total VaR amounts are presented across major risk categories, including exposure to volatility risk found in certain products, e.g., options. The table that follows presents Merrill Lynch's VaR for trading instruments at year-end 1999 and 1998 and the 1999 average VaR calculated on a quarterly basis. In late 1999, CRM enhanced its VaR model and thus for comparison purposes, year-end 1998 amounts have been restated. In addition, for purposes of calculating the 1999 average, the quarter-end data for the first three quarters of 1999 have also been restated.

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(in millions)

| | Year-end 1999 | Year-end 1998 | Average 1999 |
|---------------------------------|------------------|------------------|-----------------|
| TRADING VALUE-AT-RISK(1) | | | |
| Interest rate and credit spread | \$ 111 | \$ 136 | \$ 114 |
| Equity | 34 | 28 | 44 |
| Commodity | 12 | 3 | 9 |
| Currency | 11 | 26 | 12 |
| Volatility | 53 | 24 | 39 |
| | ----- | ----- | ----- |
| | 221 | 217 | 218 |
| Diversification benefit | (69) | (75) | (73) |
| | ----- | ----- | ----- |
| Overall(2) | \$ 152 | \$ 142 | \$ 145 |
| | ===== | ===== | ===== |

- (1) Based on a 99% confidence level and a two-week holding period.
(2) Overall VaR using a 95% confidence level and a one-day holding period was \$19 million and \$32 million at year-end 1999 and 1998, respectively.

During 1999, overall VaR increased, primarily due to increases in the equity, commodity, and volatility VaR, partially offset by a decrease in interest rate and credit spread and currency VaR.

The table that follows presents Merrill Lynch's VaR for non-trading instruments at year-end 1999 and 1998:

| (in millions) | | |
|---------------------------------|------------------|------------------|
| | Year-end 1999 | Year-end 1998 |
| ----- | | |
| NON-TRADING VALUE-AT-RISK(1) | | |
| Interest rate and credit spread | \$ 20 | \$ 75 |
| Currency | 52 | 77 |
| Equity | 26 | 10 |
| Volatility | 1 | - |
| | ----- | ----- |
| | 99 | 162 |
| Diversification benefit | (35) | (49) |
| | ----- | ----- |
| Overall | \$ 64 | \$ 113 |
| | ===== | ===== |

- (1) Based on a 99% confidence level and a two-week holding period.

In addition to the amounts reported in the accompanying table, non-trading interest rate VaR associated with Merrill Lynch's TOPrS at year-end 1999 and 1998 was \$102 million and \$119 million, respectively. TOPrS, which are fixed-rate perpetual preferred securities, are considered a component of Merrill Lynch's equity capital and, therefore, the associated interest rate sensitivity is not hedged.

The decrease in non-trading interest rate VaR is primarily due to a decrease in interest rate and credit spread risk (see the Capital Adequacy and Liquidity section for further information).

CREDIT RISK

Credit risk represents the loss that Merrill Lynch would incur if a counterparty or issuer failed to perform its contractual obligations. Policies and procedures have been established with the objective of protecting against unacceptable credit losses, including: reviewing and establishing limits for credit exposures, further mitigating counterparty credit exposures through various techniques, including maintaining collateral and obtaining the right to terminate transactions or collect collateral in the event of a credit rating downgrade, and continually assessing the credit-worthiness of counterparties and issuers.

Credit exposures related to Merrill Lynch's retail customer business, including mortgages and home equity lines of credit, customer margin accounts, and working capital facilities to small businesses, are continually monitored.

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its derivative counterparties whenever possible. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure.

In addition, to reduce default risk, Merrill Lynch requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. The following is a summary of counterparty credit ratings for the replacement cost (net of \$4.2 billion of collateral) of trading derivatives in a gain position by maturity at December 31, 1999.

| CREDIT RATING(1) | YEARS TO MATURITY | | | | CROSS- MATURITY | |
|---------------------|-------------------|--------|-------|--------|--------------------|----------|
| | 0-3 | 3-5 | 5-7 | OVER 7 | NETTING(2) | TOTAL |
| AAA | \$ 753 | \$ 288 | \$ 91 | \$ 174 | \$ (288) | \$ 1,018 |
| AA+/AA | 2,013 | 597 | 208 | 528 | (341) | 3,005 |
| AA- | 4,115 | 2,626 | 1,106 | 3,467 | (4,530) | 6,784 |
| A+/A | 3,133 | 1,509 | 560 | 1,100 | (1,840) | 4,462 |
| A- | 1,656 | 895 | 414 | 400 | (268) | 3,097 |
| BBB | 1,600 | 876 | 335 | 204 | (224) | 2,791 |
| BB+ | 1,049 | 298 | 214 | 109 | (498) | 1,172 |

| | | | | | | |
|-------|-----------|----------|----------|----------|------------|-----------|
| Other | 808 | 215 | 369 | 198 | (73) | 1,517 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 15,127 | \$ 7,304 | \$ 3,297 | \$ 6,180 | \$ (8,062) | \$ 23,846 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

-
- (1) Represents credit rating agency equivalent.
 - (2) Represents netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.

In addition to obtaining collateral, Merrill Lynch mitigates default risk on derivatives whenever possible by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of the derivative contract.

PROCESS RISK

Process risk is the risk of direct or indirect loss resulting from inadequate controls or business disruption relating to people, internal processes, systems, or external events. Examples of process risks faced by the firm could be systems failure, human error, fraud, major fire, or other disasters.

Merrill Lynch manages process risks in many ways including maintaining a comprehensive system of internal controls, using technology, employing experienced personnel, maintaining backup facilities, conducting internal audits, and emphasize-

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ing the importance of management oversight. In addition, Merrill Lynch has established a new process risk management function within CRM to focus on further enhancing the management of these risks. This new Group is charged with developing a firm-wide process risk management framework, as well as policies and procedures aimed at establishing a consistent approach to identify, monitor, and manage process risks across all business lines. The Group recognizes a variety of risk management tools and techniques to reinforce the firm's strong risk management culture. These include summarizing and monitoring process risk related losses on a regular basis, developing risk indicators to facilitate proactive risk management capabilities, and self-assessments to identify risks, corresponding controls, and measures for improvement.

OTHER RISKS

Liquidity risk arises in the course of Merrill Lynch's general funding activities and in the management of the balance sheet. This risk includes both the risk of being unable to raise funding with appropriate maturity and interest rate characteristics and the risk of being unable to liquidate an asset in a timely manner at a reasonable price. For more information on how Merrill Lynch manages liquidity risk, see the Capital Adequacy and Liquidity section.

Other risks Merrill Lynch encounters include political, tax, and regulatory risks. These risks revolve around the impact that changes in local laws, regulatory requirements, or tax statutes would have on the viability, profitability, or cost-effectiveness of existing or future transactions. To help mitigate the effects of these risks, Merrill Lynch constantly reviews new and pending legislation and regulations by employing professionals in the jurisdictions in which the company operates to actively follow these issues and participate in related interest groups.

NON-INVESTMENT GRADE HOLDINGS AND HIGHLY LEVERAGED TRANSACTIONS

Non-investment grade holdings and highly leveraged transactions involve risks related to the creditworthiness of the issuers or counterparties and the liquidity of the market for such investments. Merrill Lynch recognizes these risks and, whenever possible, employs strategies to mitigate exposures. The specific components and overall level of non-investment grade and highly leveraged positions may vary significantly from period to period as a result of inventory turnover, investment sales, and asset redeployment.

In the normal course of business, Merrill Lynch underwrites, trades, and holds non-investment grade cash instruments in connection with its investment banking, market-making, and derivative structuring activities. Non-investment grade holdings have been defined as debt and preferred equity securities rated as BB+ or lower or equivalent ratings by recognized credit rating agencies, sovereign debt in emerging markets, amounts due under derivative contracts from non-investment grade counterparties, and other instruments that, in the opinion of management, are non-investment grade.

In addition to the amounts included in the following table, derivatives may also expose Merrill Lynch to credit risk related to the underlying security where a derivative contract can either synthesize ownership of the underlying security (e.g., long total return swaps) or potentially force ownership of the

underlying security (e.g., short put options). At year-end 1999 and 1998, Merrill Lynch had derivatives with notionals of \$2.9 billion and \$1.6 billion, respectively, with non-investment grade credit exposure. Derivatives may also subject Merrill Lynch to credit spread or issuer default risk, in that changes in credit spreads or in the credit quality of the underlying securities may adversely affect the derivatives' fair values. Merrill Lynch seeks to manage these risks by engaging in various hedging strategies to reduce its exposure associated with non-investment grade positions, such as purchasing an option to sell the related security or entering into other offsetting derivative contracts. At year-end 1999 and 1998, Merrill Lynch had derivatives with notionals of \$3.8 billion and \$4.7 billion, respectively, that hedge non-investment grade credit exposure.

Merrill Lynch provides financing and advisory services to, and invests in, companies entering into leveraged transactions, which may include leveraged buyouts, recapitalizations, and mergers and acquisitions. Merrill Lynch provides extensions of credit to leveraged companies, in the form of senior and subordinated debt, as well as bridge financing on a select basis. In addition, Merrill Lynch syndicates loans for non-investment grade companies, or in connection with highly leveraged transactions and may retain a residual portion of these loans.

Merrill Lynch holds direct equity investments in leveraged companies and interests in partnerships that invest in leveraged transactions. Merrill Lynch has also committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships and other direct equity investments will continue to be made on a select basis.

TRADING EXPOSURES

The following table summarizes trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 1999 and 1998:

| (in millions) | 1999 | 1998 |
|--|----------|----------|
| ----- | | |
| Trading assets: | | |
| Cash instruments | \$ 5,279 | \$ 7,462 |
| Derivatives | 4,033 | 4,675 |
| Trading liabilities - cash instruments | (997) | (920) |
| Collateral on derivative assets | (1,344) | (2,192) |
| | ----- | ----- |
| Net trading asset exposure | \$ 6,971 | \$ 9,025 |
| | ===== | ===== |
| ----- | | |

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Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At December 31, 1999, the carrying value of such debt and equity securities totaled \$64 million, of which 78% resulted from Merrill Lynch's market-making activities in such securities. This compared with \$72 million at December 25, 1998, of which 86% related to market-making activities. In addition, Merrill Lynch held distressed bank loans totaling \$86 million and \$156 million at year-end 1999 and 1998, respectively.

NON-TRADING EXPOSURES

The following table summarizes non-trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 1999 and 1998:

| (in millions) | 1999 | 1998 |
|---|-------|-------|
| ----- | | |
| Marketable investment securities | \$ 58 | \$ 39 |
| Investments of insurance subsidiaries | 108 | 148 |
| Loans (net of allowance for loan losses): | | |
| Bridge loans(1) | 68 | 66 |
| Other loans(2) | 1,169 | 1,058 |
| Other investments: | | |
| Partnership interests(3) (4) | 1,368 | 852 |
| Other equity investments(5) | 369 | 459 |
| ----- | | |

- (1) Subsequent to year-end, \$40 million of this loan was repaid. In addition, Merrill Lynch extended a \$56 million bridge loan to a counterparty in connection with an acquisition transaction.
- (2) Represents outstanding loans to 129 and 80 companies at year-end 1999 and 1998, respectively.
- (3) Includes \$599 million and \$279 million in investments at year-end 1999 and 1998, respectively, related to deferred compensation plans, for which the

- default risk of the investments rests with the participating employees.
- (4) Includes a \$3 million and \$300 million investment in the hedge fund Long Term Capital Portfolio, L.P. at year-end 1999 and 1998, respectively.
 - (5) Includes investments in 62 and 89 enterprises at year-end 1999 and 1998, respectively.

The following table summarizes Merrill Lynch's commitments with exposure to non-investment grade or highly leveraged counterparties at year-end 1999 and 1998:

| (in millions) | 1999 | 1998 |
|--|----------|--------|
| Additional commitments to invest in partnerships | \$ 200 | \$ 227 |
| Unutilized revolving lines of credit and other lending commitments | 2,585(1) | 1,678 |

(1) Subsequent to year-end 1999, \$900 million of these commitments were terminated.

At December 31, 1999, the largest industry exposure was to the financial services sector, which accounted for 34% of total non-investment grade positions and highly leveraged transactions.

CASH FLOWS

During 1998, Merrill Lynch disbursed \$5.3 billion to acquire the outstanding shares of Mercury. This purchase was financed primarily with proceeds from long-term borrowings.

LITIGATION

Certain actions have been filed against Merrill Lynch in connection with Merrill Lynch's business activities. Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on Merrill Lynch's financial condition; however, such resolution could have a material adverse impact on quarterly operating results in future periods, depending in part on the results for such periods.

RECENT DEVELOPMENTS

NEW ACCOUNTING PRONOUNCEMENTS

In June 1999, the Financial Accounting Standards Board deferred for one year the effective date of the accounting and reporting requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 133 requires Merrill Lynch to recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. Currently, the majority of Merrill Lynch's derivatives are recognized at fair value in trading assets and liabilities, as they are entered into in a dealing capacity. However, Merrill Lynch also enters into derivatives to hedge its exposures relating to non-trading assets and liabilities, some of which are not carried at fair value depending on the nature of the derivative and the related hedged item.

Merrill Lynch will adopt the provisions of SFAS No. 133 on January 1, 2001, which will primarily impact the accounting for derivatives used to hedge borrowings. Merrill Lynch has undertaken ongoing initiatives to address the adoption of SFAS No. 133. This evaluation includes the impact of implementation guidance under development. As the impact of adoption is largely dependent on the derivative positions existing at year-end 2000, Merrill Lynch is unable to quantify the impact of adoption at this time.

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MANAGEMENT'S DISCUSSION OF FINANCIAL RESPONSIBILITY

Management of Merrill Lynch & Co., Inc. is responsible for preparing the financial statements and related notes contained in this Annual Report. The consolidated financial statements and notes are prepared in accordance with generally accepted accounting principles. Other financial data included in the Annual Report are consistent with those in the financial statements.

Management recognizes the importance of safeguarding Merrill Lynch's assets and integrity. Therefore, Management devotes considerable attention to understanding the risks of its businesses, promoting the highest standards of ethical conduct, exercising responsible stewardship over Merrill Lynch's assets, and presenting fair financial statements.

Merrill Lynch regularly reviews its framework of internal controls, taking into account changing circumstances. Corrective actions are taken to address control deficiencies, and other opportunities for improvement are implemented when cost effective.

The framework of internal control includes policies, procedures, and organizational structures that are overseen by a predominantly independent Board of Directors. Several committees of the Board actively participate in setting policy and monitoring controls. The Audit and Finance Committee, which consists of five independent directors, examines Merrill Lynch's compliance with acceptable business standards and ethics in accordance with its written charter of responsibilities and duties. It also reviews significant financial issues and recommends overall policies regarding market and credit risk, as well as funding requirements. The Management Development and Compensation Committee, also composed entirely of independent directors, oversees procedures for developing and assessing the performance of Merrill Lynch's employees with an emphasis on ethical business behavior.

Oversight is provided by independent units within Merrill Lynch, working together to maintain Merrill Lynch's internal control standards.

Corporate Audit reports directly to the Audit and Finance Committee, providing independent appraisals of Merrill Lynch's internal accounting controls and compliance with established policies and procedures.

Finance establishes accounting policies and procedures, measures and monitors financial risk, and prepares financial statements that fairly present the underlying transactions and events of Merrill Lynch. Corporate Risk Management is both independent from business line management and has oversight responsibility for Merrill Lynch's market and credit risks. This group has clear authority to enforce trading and credit limits using various systems and procedures to monitor positions and risks.

Law and Compliance serves in a counseling and advisory role to Management. In this role, the group develops policies; monitors compliance with internal policies, external rules, and industry regulations; assesses litigation risk exposure; and provides support in connection with the execution of various transactions.

The independent auditors, Deloitte & Touche LLP, perform annual audits of Merrill Lynch's financial statements in accordance with generally accepted auditing standards, including a review of the internal accounting control system. The independent auditors openly discuss with the Audit and Finance Committee their views on the quality of the financial statements and related disclosures and the adequacy of Merrill Lynch's internal accounting controls. Quarterly review reports on the interim financial statements are also issued by Deloitte & Touche LLP. Merrill Lynch's independent auditors are appointed each year by the Audit and Finance Committee and are given unrestricted access to all financial records and related data, including minutes of meetings of stockholders, Board of Directors, and committees of the Board.

/s/ David H. Komansky
David H. Komansky
Chairman of the Board and Chief Executive Officer

/s/ Thomas H. Patrick
Thomas H. Patrick
Executive Vice President and Chief Financial Officer

Management's Discussion and Analysis 53

[LOGO OF DELOITTE & TOUCHE]

INDEPENDENT AUDITORS' REPORT

- - - - -

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF MERRILL LYNCH & CO., INC.:

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 1999 and December 25, 1998 and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Merrill Lynch's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merrill Lynch at December 31, 1999 and December 25, 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 1998 Merrill Lynch changed its method of accounting for certain internal-use software development costs to conform with Statement of Position 98-1.

/s/ Deloitte & Touche LLP

New York, New York
February 28, 2000

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CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in millions, except per share amounts)

<TABLE>

<CAPTION>

| | Year Ended Last Friday in December | | |
|--|------------------------------------|-----------------|-----------------|
| | 1999 | 1998 | 1997 |
| | (53 weeks) | (52 weeks) | (52 weeks) |
| | <C> | <C> | <C> |
| NET REVENUES | | | |
| Commissions | \$ 6,334 | \$ 5,799 | \$ 4,995 |
| Principal transactions | 4,361 | 2,651 | 3,827 |
| Investment banking | 3,614 | 3,264 | 2,876 |
| Asset management and portfolio service fees | 4,753 | 4,202 | 3,002 |
| Other | 720 | 623 | 500 |
| Subtotal | 19,782 | 16,539 | 15,200 |
| Interest revenue and dividends | 15,097 | 18,035 | 16,009 |
| Less interest expense | 13,010 | 17,027 | 14,953 |
| Net interest profit | 2,087 | 1,008 | 1,056 |
| TOTAL NET REVENUES | 21,869 | 17,547 | 16,256 |
| NON-INTEREST EXPENSES | | | |
| Compensation and benefits | 11,153 | 9,199 | 8,333 |
| Communications and technology | 2,038 | 1,749 | 1,255 |
| Occupancy and related depreciation | 941 | 867 | 736 |
| Advertising and market development | 779 | 688 | 613 |
| Brokerage, clearing, and exchange fees | 678 | 683 | 525 |
| Professional fees | 567 | 552 | 520 |
| Goodwill amortization | 227 | 226 | 65 |
| Provision for costs related to staff reductions | - | 430 | - |
| Other | 1,408 | 1,057 | 1,098 |
| TOTAL NON-INTEREST EXPENSES | 17,791 | 15,451 | 13,145 |
| EARNINGS BEFORE INCOME TAXES AND DIVIDENDS ON PREFERRED SECURITIES ISSUED BY SUBSIDIARIES | 4,078 | 2,096 | 3,111 |
| Income Tax Expense | 1,265 | 713 | 1,129 |
| Dividends on Preferred Securities Issued by Subsidiaries | 195 | 124 | 47 |
| NET EARNINGS | \$ 2,618 | \$ 1,259 | \$ 1,935 |
| NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS | \$ 2,580 | \$ 1,220 | \$ 1,896 |
| EARNINGS PER COMMON SHARE | | | |

| | | | |
|---------|---------|---------|---------|
| Basic | \$ 7.00 | \$ 3.43 | \$ 5.57 |
| | ===== | ===== | ===== |
| Diluted | \$ 6.17 | \$ 3.00 | \$ 4.79 |
| | ===== | ===== | ===== |

</TABLE>

See Notes to Consolidated Financial Statements.

Consolidated Financial Statements 55

CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)

<TABLE>
<CAPTION>

DECEMBER 25, 1998

DECEMBER 31, 1999

ASSETS

| <S> | <C> |
|--|-----------|
| CASH AND CASH EQUIVALENTS | \$ 10,827 |
| \$ 12,530 | ----- |
| CASH AND SECURITIES SEGREGATED FOR REGULATORY PURPOSES OR DEPOSITED WITH CLEARING ORGANIZATIONS | 5,880 |
| 6,590 | ----- |
| RECEIVABLES UNDER RESALE AGREEMENTS AND SECURITIES BORROWED TRANSACTIONS | 99,741 |
| 87,713 | ----- |
| MARKETABLE INVESTMENT SECURITIES | 10,145 |
| 4,605 | ----- |
| TRADING ASSETS, AT FAIR VALUE | |
| Equities and convertible debentures | 23,593 |
| 25,318 | |
| Contractual agreements | 22,701 |
| 21,979 | |
| Corporate debt and preferred stock | 20,346 |
| 21,166 | |
| U.S. Government and agencies | 15,376 |
| 15,421 | |
| Mortgages, mortgage-backed, and asset-backed | 7,394 |
| 7,023 | |
| Non-U.S. governments and agencies | 4,892 |
| 7,474 | |
| Municipals and money markets | 2,427 |
| 3,358 | ----- |
| | 96,729 |
| 101,739 | |
| Securities received as collateral, net of securities pledged as collateral | 10,005 |
| 6,106 | ----- |
| Total | 106,734 |
| 107,845 | ----- |
| SECURITIES PLEDGED AS COLLATERAL | 9,699 |
| 8,184 | ----- |

OTHER RECEIVABLES

| | |
|---|--------|
| Customers (net of allowance for doubtful accounts of \$56 in 1999 and \$48 in 1998) | 39,850 |
| 29,559 | |
| Brokers and dealers | 9,095 |
| 8,872 | |
| Interest and other | 7,505 |
| 9,278 | |
| ----- | |
| Total | 56,450 |
| 47,709 | |
| ----- | |

INVESTMENTS OF INSURANCE SUBSIDIARIES

| | |
|---|--------|
| 4,485 | 4,097 |
| LOANS, NOTES, AND MORTGAGES (net of allowance for loan losses of \$146 in 1999 and \$124 in 1998) | 11,187 |
| 7,684 | |

| | |
|-------------------|-------|
| OTHER INVESTMENTS | 3,410 |
| 2,590 | |

| | |
|--|-------|
| EQUIPMENT AND FACILITIES (net of accumulated depreciation and amortization of \$4,069 in 1999 and \$3,482 in 1998) | 3,117 |
| 2,761 | |

| | |
|---|-------|
| GOODWILL (net of accumulated amortization of \$543 in 1999 and \$338 in 1998) | 4,952 |
| 5,364 | |

| | |
|--------------|-------|
| OTHER ASSETS | 1,832 |
| 1,741 | |

| | |
|--------------|------------|
| TOTAL ASSETS | \$ 328,071 |
| \$ 299,804 | |

=====

- - - - -

</TABLE>

56 Consolidated Financial Statements

<TABLE>

| | DECEMBER 31, 1999 | |
|---|-------------------|-----|
| DECEMBER 25, 1998 | | |
| ----- | | |
| LIABILITIES | | |
| <S> | <C> | <C> |
| PAYABLES UNDER REPURCHASE AGREEMENTS AND SECURITIES LOANED TRANSACTIONS | \$ 71,578 | \$ |
| 67,127 | | |
| ----- | | |
| COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS | 25,595 | |
| 18,679 | | |
| ----- | | |
| DEMAND AND TIME DEPOSITS | 17,602 | |
| 12,461 | | |
| ----- | | |
| TRADING LIABILITIES, AT FAIR VALUE | | |
| Contractual agreements | 27,030 | |
| 23,840 | | |
| Equities and convertible debentures | 20,231 | |
| 21,558 | | |
| U.S. Government and agencies | 10,816 | |
| 7,939 | | |
| Non-U.S. governments and agencies | 6,311 | |
| 7,245 | | |
| Corporate debt, preferred stock, and other | 3,405 | |
| 3,132 | | |
| ----- | | |

| | |
|---|------------|
| Total | 67,793 |
| 63,714 | |
| ----- | ----- |
| OBLIGATION TO RETURN SECURITIES RECEIVED AS COLLATERAL | 19,704 |
| 14,290 | |
| ----- | ----- |
| OTHER PAYABLES | |
| Customers | 22,722 |
| 22,255 | |
| Brokers and dealers | 11,397 |
| 7,899 | |
| Interest and other | 18,601 |
| 18,738 | |
| ----- | ----- |
| Total | 52,720 |
| 48,892 | |
| ----- | ----- |
| LIABILITIES OF INSURANCE SUBSIDIARIES | 4,087 |
| 4,319 | |
| LONG-TERM BORROWINGS | 53,465 |
| 57,563 | |
| ----- | ----- |
| TOTAL LIABILITIES | 312,544 |
| 287,045 | |
| ----- | ----- |
| PREFERRED SECURITIES ISSUED BY SUBSIDIARIES | 2,725 |
| 2,627 | |
| ----- | ----- |
| STOCKHOLDERS' EQUITY | |
| PREFERRED STOCKHOLDERS' EQUITY | 425 |
| 425 | |
| ----- | ----- |
| COMMON STOCKHOLDERS' EQUITY | |
| Shares exchangeable into common stock | 59 |
| 66 | |
| Common stock (par value \$1.33 1/3 per share; authorized: 1,000,000,000 shares; issued 1999-472,714,925 shares, 1998-472,660,324 shares) | 630 |
| 630 | |
| Paid-in capital | 1,863 |
| 1,427 | |
| Accumulated other comprehensive loss (net of tax) | (389) |
| (122) | |
| Retained earnings | 12,667 |
| 10,475 | |
| ----- | ----- |
| 12,476 | 14,830 |
| Less: Treasury stock, at cost (1999-104,949,595 shares; 1998-116,376,259 shares) | 1,817 |
| 2,101 | |
| Employee stock transactions | 636 |
| 668 | |
| ----- | ----- |
| TOTAL COMMON STOCKHOLDERS' EQUITY | 12,377 |
| 9,707 | |
| ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | 12,802 |
| 10,132 | |
| ----- | ----- |
| TOTAL LIABILITIES, PREFERRED SECURITIES ISSUED BY SUBSIDIARIES, AND STOCKHOLDERS' EQUITY | \$ 328,071 |

=====

</TABLE>

See Notes to Consolidated Financial Statements.

Consolidated Financial Statements 57

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

(dollars in millions)

<TABLE>

<CAPTION>

| | Year Ended Last Friday in December | | |
|--|------------------------------------|--------|--------|
| | 1999 | 1998 | 1997 |
| | <C> | <C> | <C> |
| ----- | | | |
| <S> | | | |
| PREFERRED STOCKHOLDERS' EQUITY | | | |
| 9% CUMULATIVE PREFERRED STOCK, SERIES A | | | |
| Balance, beginning and end of year | \$ 425 | \$ 425 | \$ 425 |
| | ===== | ===== | ===== |
| REMARKETED PREFERRED STOCK, SERIES C | | | |
| Balance, beginning of year | - | - | 194 |
| Redeemed | - | - | (194) |
| | ----- | ----- | ----- |
| Balance, end of year | - | - | - |
| | ----- | ----- | ----- |
| TOTAL PREFERRED STOCKHOLDERS' EQUITY | \$ 425 | \$ 425 | \$ 425 |
| | ===== | ===== | ===== |
| COMMON STOCKHOLDERS' EQUITY | | | |
| SHARES EXCHANGEABLE INTO COMMON STOCK | | | |
| Balance, beginning of year | \$ 66 | \$ 66 | \$ 46 |
| Net activity | - | 5 | 20 |
| Exchanges | (7) | (5) | - |
| | ----- | ----- | ----- |
| Balance, end of year | 59 | 66 | 66 |
| | ===== | ===== | ===== |
| COMMON STOCK | | | |
| Balance, beginning and end of year | 630 | 630 | 630 |
| | ===== | ===== | ===== |
| PAID-IN CAPITAL | | | |
| Balance, beginning of year | 1,427 | 1,001 | 925 |
| Issuance of stock: | | | |
| To employees | 440 | 430 | 76 |
| Other | (4) | (4) | - |
| | ----- | ----- | ----- |
| Balance, end of year | 1,863 | 1,427 | 1,001 |
| | ===== | ===== | ===== |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Foreign Currency Translation Adjustment (net of tax) | | | |
| Balance, beginning of year | (138) | (85) | 7 |
| Translation adjustment | (164) | (53) | (92) |
| | ----- | ----- | ----- |
| Balance, end of year | (302) | (138) | (85) |
| | ----- | ----- | ----- |
| Net Unrealized Gains (Losses) on Investment Securities Available-for-Sale (net of tax) | | | |
| Balance, beginning of year | 16 | 38 | 9 |
| Net unrealized gains (losses) on investment securities available-for-sale | (223) | (60) | 34 |
| Other adjustments(a) | 120 | 38 | (5) |
| | ----- | ----- | ----- |
| Balance, end of year | (87) | 16 | 38 |

| | | | |
|----------------------|----------|----------|---------|
| Balance, end of year | \$ (389) | \$ (122) | \$ (47) |
|----------------------|----------|----------|---------|

</TABLE>

58 Consolidated Financial Statements

<TABLE>
<CAPTION>

| | Year Ended Last Friday in December | | |
|---|------------------------------------|------------------|-----------------|
| | 1999 | 1998 | 1997 |
| RETAINED EARNINGS | | | |
| Balance, beginning of year | \$ 10,475 | \$ 9,579 | \$ 7,938 |
| Net earnings | 2,618 | 1,259 | 1,935 |
| Cash dividends declared: | | | |
| 9% Cumulative Preferred stock | (38) | (38) | (38) |
| Remarketed Preferred stock | - | - | (1) |
| Common stock | (388) | (325) | (255) |
| Balance, end of year | 12,667 | 10,475 | 9,579 |
| TREASURY STOCK, AT COST | | | |
| Balance, beginning of year | (2,101) | (2,677) | (2,769) |
| Treasury stock purchased | - | - | (644) |
| Issued out of treasury (net of reacquisitions): | | | |
| Employees | 273 | 556 | 736 |
| Other | 11 | 20 | - |
| Balance, end of year | (1,817) | (2,101) | (2,677) |
| UNALLOCATED ESOP REVERSION SHARES, AT COST | | | |
| Balance, beginning of year | - | - | (24) |
| Allocation of shares to participants | - | - | 24 |
| Balance, end of year | - | - | - |
| EMPLOYEE STOCK TRANSACTIONS | | | |
| Balance, beginning of year | (668) | (438) | (314) |
| Net issuance of employee stock grants | (380) | (599) | (351) |
| Amortization of employee stock grants | 406 | 359 | 218 |
| Repayment of employee loans | 6 | 10 | 9 |
| Balance, end of year | (636) | (668) | (438) |
| TOTAL COMMON STOCKHOLDERS' EQUITY | \$ 12,377 | \$ 9,707 | \$ 8,114 |
| TOTAL STOCKHOLDERS' EQUITY | \$ 12,802 | \$ 10,132 | \$ 8,539 |

(a) Other adjustments relate to policyholder liabilities, deferred policy acquisition costs, and income taxes. See Notes to Consolidated Financial Statements.

</TABLE>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

<TABLE>
<CAPTION>

| | 1999 | 1998 | 1997 |
|--|----------|----------|----------|
| <S> | <C> | <C> | <C> |
| NET EARNINGS | \$ 2,618 | \$ 1,259 | \$ 1,935 |
| OTHER COMPREHENSIVE LOSS: | | | |
| Foreign currency translation adjustment: | | | |
| Foreign currency translation losses, net of gains | (116) | (131) | (96) |
| Income taxes | (48) | 78 | 4 |
| Total | (164) | (53) | (92) |
| Net unrealized gains (losses) on investment securities available-for-sale: | | | |
| Net unrealized holding gains (losses) arising during the period | (229) | (10) | 50 |
| Reclassification adjustment for (gains) losses included in net earnings | 6 | (50) | (16) |
| Net unrealized gains (losses) on investment securities | (223) | (60) | 34 |
| Adjustments for: | | | |
| Policyholder liabilities | 35 | 16 | 10 |
| Deferred policy acquisition costs | 35 | 4 | - |
| Income taxes | 50 | 18 | (15) |
| Total | (103) | (22) | 29 |
| Total Other Comprehensive Loss | (267) | (75) | (63) |
| COMPREHENSIVE INCOME | \$ 2,351 | \$ 1,184 | \$ 1,872 |

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

<TABLE>

<CAPTION>

| | Year Ended Last Friday in December | | |
|---|------------------------------------|----------|----------|
| | 1999 | 1998 | 1997 |
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Earnings | \$ 2,618 | \$ 1,259 | \$ 1,935 |
| Noncash items included in earnings: | | | |
| Depreciation and amortization | 718 | 585 | 473 |
| Policyholder reserves | 205 | 227 | 240 |
| Goodwill amortization | 227 | 226 | 65 |
| Amortization of stock-based compensation | 406 | 359 | 218 |
| Other | 626 | (34) | 1,036 |
| (Increase) decrease in operating assets: (a) | | | |
| Trading assets | 4,177 | 6,332 | (31,246) |
| Cash and securities segregated for regulatory purposes or deposited with clearing organizations | 710 | (1,233) | (2,242) |
| Receivables under resale agreements and securities borrowed transactions | (12,028) | 19,940 | (22,373) |
| Customer receivables | (10,304) | (2,229) | (7,957) |
| Brokers and dealers receivables | (223) | (3,690) | 1,132 |
| Other | 1,100 | 126 | (4,068) |
| Increase (decrease) in operating liabilities: (a) | | | |
| Trading liabilities | 4,079 | (7,474) | 26,770 |
| Payables under repurchase agreements and securities loaned transactions | 4,451 | (12,040) | 12,346 |
| Customer payables | 467 | 3,922 | 5,091 |
| Brokers and dealers payables | 3,498 | 3,675 | 399 |
| Other | (546) | 873 | 2,356 |
| CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | 181 | 10,824 | (15,825) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from (payments for): | | | |
| Maturities of available-for-sale securities | 4,155 | 3,983 | 3,376 |

| | | | |
|---|-----------|-----------|-----------|
| Sales of available-for-sale securities | 3,071 | 3,426 | 2,198 |
| Purchases of available-for-sale securities | (11,802) | (8,676) | (6,383) |
| Maturities of held-to-maturity securities | 995 | 831 | 1,081 |
| Purchases of held-to-maturity securities | (1,015) | (877) | (752) |
| Loans, notes, and mortgages | (3,541) | (3,405) | (989) |
| Acquisitions, net of cash acquired | (20) | (5,235) | (13) |
| Sales of subsidiaries, net of cash disposed | - | 202 | - |
| Other investments and other assets | (855) | (1,398) | (240) |
| Equipment and facilities | (1,074) | (1,231) | (863) |
| | ----- | ----- | ----- |
| CASH USED FOR INVESTING ACTIVITIES | (10,086) | (12,380) | (2,585) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from (payments for): | | | |
| Commercial paper and other short-term borrowings | 6,916 | (15,661) | 7,019 |
| Demand and time deposits | 5,141 | 2,568 | 976 |
| Issuance and resale of long-term borrowings | 15,057 | 29,269 | 25,087 |
| Settlement and repurchase of long-term borrowings | (18,598) | (15,833) | (8,242) |
| Issuance of subsidiaries' preferred securities | 98 | 2,000 | 300 |
| Issuance of treasury stock | 213 | 194 | 154 |
| Other common and preferred stock transactions | (199) | (161) | (848) |
| Dividends | (426) | (363) | (294) |
| | ----- | ----- | ----- |
| CASH PROVIDED BY FINANCING ACTIVITIES | 8,202 | 2,013 | 24,152 |
| | ----- | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,703) | 457 | 5,742 |
| CASH AND CASH EQUIVALENTS,BEGINNING OF YEAR | 12,530 | 12,073 | 6,331 |
| | ----- | ----- | ----- |
| CASH AND CASH EQUIVALENTS,END OF YEAR | \$ 10,827 | \$ 12,530 | \$ 12,073 |
| | ===== | ===== | ===== |

(a) Net of effects of acquisitions and divestitures.

SUPPLEMENTAL DISCLOSURES

| | | | |
|----------------|--------|--------|--------|
| Cash paid for: | | | |
| Income taxes | \$ 633 | \$ 579 | \$ 910 |
| Interest | 13,118 | 17,078 | 14,119 |

</TABLE>
See Notes to Consolidated Financial Statements.

Consolidated Financial Statements 61

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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DESCRIPTION OF BUSINESS

Merrill Lynch & Co., Inc. ("ML & Co.") provides investment, financing, insurance, and related services to individuals and institutions on a global basis through its broker, dealer, banking, insurance, and other financial services subsidiaries. Its principal subsidiaries include:

- . Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a U.S.-based broker-dealer in securities;
- . Merrill Lynch International ("MLI"), a U.K.-based broker-dealer in securities and dealer in equity derivatives;
- . Merrill Lynch Government Securities Inc. ("MLGSI"), a dealer in U.S. Government securities;
- . Merrill Lynch Capital Services, Inc., a dealer in interest rate, currency, and credit derivatives;
- . Merrill Lynch Asset Management, LP, a U.S.-based asset management company; and
- . Merrill Lynch Mercury Asset Management, a U.K.-based asset management company.

Services provided to clients by ML & Co. and subsidiaries (collectively, "Merrill Lynch") include:

- . securities brokerage, trading, and underwriting;
- . investment banking, strategic services, and other corporate finance advisory activities, including loan syndication;
- . asset management and other investment advisory and recordkeeping services;
- . dealing and brokerage of swaps, options, forwards, futures, and other derivatives;
- . securities clearance services;
- . debt, equity, and economic research activities;
- . banking, trust, and lending services; and
- . insurance sales and underwriting services.

BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Merrill Lynch and are presented in accordance with U.S. generally accepted accounting principles and prevailing industry practices. All material intercompany transactions and balances have been eliminated.

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation. All 1997 amounts have been restated to reflect the 1998 merger of Midland Walwyn Inc. ("Midland Walwyn") with Merrill Lynch, which has been accounted for as a pooling-of-interests (see Note 2 for further information).

The Consolidated Financial Statements are presented in U.S. dollars. Many non-U.S. subsidiaries have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar, often the currency of the country in which a subsidiary is domiciled. Subsidiaries' assets and liabilities are translated to U.S. dollars at year-end exchange rates, while revenues and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts in a subsidiary's functional currency, net of hedging gains or losses and related tax effects, are reported in stockholders' equity as a component of Accumulated other comprehensive loss. All other translation adjustments are included in earnings.

In presenting the Consolidated Financial Statements, management makes estimates regarding certain trading inventory valuations, the outcome of litigation, the carrying amount of

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goodwill, the realization of deferred tax assets and insurance deferred acquisition costs, and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ materially from those estimates.

Merrill Lynch defines cash equivalents as short-term, highly liquid securities and interest-earning deposits with original maturities of 90 days or less, other than those used for trading purposes. For purposes of the Consolidated Statements of Cash Flows, cash flows from derivatives are classified in operating activities.

At December 31, 1999 and December 25, 1998, substantially all financial instrument assets and the majority of financial instrument liabilities are carried at fair value or amounts that approximate fair value. Fair values of

financial instruments are disclosed in Note 6.

TRADING ACTIVITIES

Merrill Lynch's trading activities consist primarily of securities brokerage, trading, and underwriting; derivatives dealing and brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (such as securities) and derivative instruments used for trading purposes or for hedging other trading inventory.

Securities

Trading securities and other cash instruments (e.g., loans held for trading purposes) are reported on a trade date basis at fair value. Included in trading liabilities are securities that Merrill Lynch has sold but did not own and will therefore be obligated to purchase at a future date ("short sales"). Changes in fair value (i.e., unrealized gains and losses) are recognized as principal transactions revenues in the current period. Realized gains and losses and any related interest amounts are included in principal transactions revenues and interest revenues and expenses, depending on the nature of the instrument.

Fair values of trading securities are based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time.

Derivatives

A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument or index such as a futures, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

Derivatives are often referred to as off-balance-sheet instruments since neither their notional amounts nor the underlying instruments are reflected on the balance sheet; however, the fair values of trading derivatives are recorded in trading assets and liabilities. Derivatives are reported separately as assets and liabilities unless a legal right of setoff exists under a master netting agreement enforceable at law. Balances related to swap and forward transactions and foreign currency options are included in Contractual agreements on the Consolidated Balance Sheets. All other derivative balances are recorded in the related cash instrument caption. The fair value of equity options purchased, for example, is recorded in the Equities and convertible debentures trading asset caption.

Changes in fair values of derivatives are recorded as principal transactions revenues in the current period. Fair values for certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts that would be received from or paid to a third party in settlement of these 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. Adjustments are also made for administrative costs incurred to service periodic cash flows and to maintain hedges over the life of the contract. A portion of income related to long-term contracts is recognized as the related administrative costs are incurred.

New, complex instruments may have immature or limited markets. The precision of the pricing model for a complex product, which involves multiple variables and assumptions, will evolve over time. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments.

Securities Financing Transactions

Merrill Lynch enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers (i.e., matched-book), finance firm inventory positions, and obtain securities for settlement. Merrill Lynch also engages in securities financing for customers through margin lending (see Customer Transactions).

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. Merrill Lynch's policy is to obtain possession of collateral

with a market value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and Merrill Lynch may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. Substantially all repurchase and resale activities are transacted under master netting agreements that give Merrill Lynch the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Merrill Lynch offsets certain repurchase and resale agreement balances with the same counterparty on the Consolidated Balance Sheets.

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require Merrill Lynch to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. Merrill Lynch receives collateral in the form of cash or other securities for securities loaned transactions. For these transactions, the fees received or paid by Merrill Lynch are recorded as interest revenue or expense. On a daily basis, Merrill Lynch monitors the market value of securities borrowed or loaned against the collateral value. Although substantially all securities borrowing and lending activities are transacted under master netting agreements, such receivables and payables with the same counterparty are not set off on the Consolidated Balance Sheets.

Merrill Lynch recognizes collateral received or provided in certain resale and repurchase agreements in the following balance sheet captions:

- . Securities received as collateral, net of securities pledged as collateral;
- . Securities pledged as collateral; and
- . Obligation to return securities received as collateral.

The balances reported under these captions primarily represent securities received as collateral in matched-book term resale and repurchase agreements for which the collateral provider does not have the explicit contractual right to substitute.

Interest rate swaps may be used to modify the interest rate characteristics of long-term resale and repurchase agreements. These swaps are accounted for on an accrual basis, with amounts to be paid or received recognized as adjustments to interest expense or revenue. (See the Non-trading Derivatives section for additional information on accounting policy for non-trading derivatives.)

INVESTMENT BANKING AND ADVISORY SERVICES

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.

CUSTOMER TRANSACTIONS

Customer securities and commodities transactions are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheets.

Commissions charged for executing customer transactions are accrued on a trade date basis and are included in current period earnings. Financial Consultant compensation and benefits expense is accrued in the same period as revenue is recognized.

Mutual fund distribution fee revenues are accrued as earned, and redemption fee revenues are recognized upon receipt. Certain compensation costs related to sales of rear-load open-end mutual funds are deferred to match revenue recognition.

INVESTING ACTIVITIES

Merrill Lynch's non-broker-dealer subsidiaries hold debt and equity investments, which are primarily classified as available-for-sale.

Debt and marketable equity securities classified as available-for-sale are reported at fair value. Unrealized gains or losses on these securities are reported in stockholders' equity as a component of Accumulated other comprehensive loss, net of applicable income taxes and other related items.

Debt securities that Merrill Lynch has the positive intent and ability to hold to maturity are classified as held-to-maturity. These investments are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is reduced. The amortization of premiums or accretion of discounts and any unrealized losses deemed other than temporary are included in current period earnings.

Debt and marketable equity securities purchased principally for the purpose of resale in the near-term are classified as trading investments and are

reported at fair value. Unrealized gains or losses on these investments are included in current period earnings.

Restricted equity investment securities or equity investment securities without available market quotations are reported at the lower of cost or estimated net realizable value. Adjustments in carrying values are included in current period earnings.

Realized gains and losses on investments are included in current period earnings. The cost basis of each investment sold

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is specifically identified for purposes of computing realized gains and losses.

Derivative contracts may be used to modify interest rate characteristics of available-for-sale securities. Merrill Lynch also uses derivatives to manage the currency exposure arising from investments in non-U.S. subsidiaries (see Basis of Presentation for accounting policy for these investments). Unrealized gains and losses on these derivatives are reported net of tax in stockholders' equity as a component of Accumulated other comprehensive loss, along with unrealized gains and losses from the hedged items. (See Non-trading Derivatives section for additional information on accounting policy for non-trading derivatives).

LENDING ACTIVITIES

Merrill Lynch's lending activities include loan originations, syndications, securitizations, and servicing. Merrill Lynch also engages in secondary market loan trading and margin lending (see Trading Activities and Customer Transactions, respectively).

Loans held for investment purposes, including consumer and small business loans and the residual portion of commercial loans syndicated by Merrill Lynch, are carried at their principal amount outstanding. The allowance for loan losses is established through provisions that are based on management's assessment of the collectibility of the loan portfolio. Loans are charged off against the allowance for loan losses when management determines that collection of principal is unlikely.

Loans held for sale, which include certain residential mortgage and home equity loans, are reported at the lower of cost (less allowance for loan losses) or estimated fair value determined on a portfolio basis. Mortgage servicing assets and residual interests in mortgage loans underlying Real Estate Mortgage Investment Conduits and revolving trusts are (1) recognized upon sales of loans when servicing is retained, and (2) amortized into income in proportion to and over the estimated life of the net servicing revenue. Mortgage servicing assets are recognized at the present value of future cash flows, periodically evaluated for impairment, and included in Other assets on the Consolidated Balance Sheets. Residual interests are categorized as available-for-sale (see Investing Activities) and reported in Other investments on the Consolidated Balance Sheets.

BORROWING ACTIVITIES

Merrill Lynch's unsecured general-purpose funding is principally obtained from commercial paper and long-term borrowings. Commercial paper, which is issued at a discount, is recorded at the proceeds received and accreted to its par value. Long-term borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

Merrill Lynch uses derivatives to manage the interest rate, currency, and equity risk exposures of its borrowings. Derivatives that hedge the interest rate risk on borrowings are generally accounted for on an accrual basis, with amounts to be paid or received recognized as adjustments to the related interest expense. Unrealized gains and losses on other financing derivatives are recognized currently. (See following Non-trading Derivatives section for additional information on accounting policy for non-trading derivatives.)

NON-TRADING DERIVATIVES

As part of its overall risk management strategy, Merrill Lynch uses derivatives to manage its market risk exposures arising from non-trading assets and liabilities. These exposures include interest rate, currency, equity and other risks. Derivatives used for hedging borrowings and other non-trading assets and liabilities must be effective at reducing the risk being managed and be designated as a hedge at inception.

Realized gains and losses on early terminations of derivatives are deferred over the remaining lives of the hedged assets or liabilities. At December 31, 1999, there was \$27 million in deferred gains relating to a derivative contract terminated during 1999. At December 25, 1998, there were no such deferred amounts.

INSURANCE ACTIVITIES

Insurance liabilities are future benefits payable under annuity and interest-sensitive life insurance contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mortality provision for certain products. Certain policyholder liabilities are also adjusted for those investments classified as available-for-sale. Liabilities for unpaid claims consist of the mortality benefit for reported claims and an estimate of unreported claims based upon prior experience.

Substantially all security investments of insurance subsidiaries are classified as available-for-sale and recorded at fair value. These investments support Merrill Lynch's in-force, universal life-type contracts. Merrill Lynch records adjustments to deferred acquisition costs and policyholder account balances which, when combined, are equal to the adjustment that would have been recorded if those available-for-sale investments had been sold at their estimated fair values and the proceeds reinvested at current yields. The corresponding credits or charges for these adjustments are recorded in stockholders' equity as a component of Accumulated other comprehensive loss, net of applicable income taxes.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred, to the extent deemed recoverable, and amortized over the

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estimated lives of the contracts in proportion to the estimated gross profit for each group of contracts.

Merrill Lynch maintains separate accounts representing segregated funds held for purposes of funding variable life and annuity contracts. Separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with Merrill Lynch's other investment products. Accordingly, separate account assets and the related liabilities are not consolidated with the assets and liabilities of Merrill Lynch.

STOCK-BASED COMPENSATION

Merrill Lynch accounts for stock-based compensation in accordance with the intrinsic value-based method in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, rather than the fair value-based method in Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. Compensation expense for stock options is not recognized since Merrill Lynch grants stock options without any intrinsic value. Compensation expense related to other stock-based compensation plans is recognized over the vesting period. For certain stock-based compensation grants, the unamortized portion of the grant value is reflected as a reduction of stockholders' equity in Employee stock transactions on the Consolidated Balance Sheets.

GOODWILL

Goodwill, which represents the cost of acquired businesses in excess of fair value of the related net assets at acquisition, is amortized on a straight-line basis. Goodwill associated with the purchase of the Mercury Asset Management Group ("Mercury") is amortized over 30 years (see Note 2 for additional information). Goodwill related to other acquisitions is amortized over periods generally not exceeding fifteen years.

Goodwill is evaluated for impairment upon occurrence of an event that leads to a significant reduction in expected future cash flows associated with the acquired entity. These events could include, but are not limited to, the loss of a major client, the loss of market share, an unanticipated reduction in the revenue stream, or an unanticipated increase in the entity's cost structure. Once it has been determined that conditions for potential impairment exist, impairment assessment will be determined by comparing the carrying value of goodwill to its estimated value based on a discounted cash flow valuation model. Impairment is determined to occur when the estimated value of the goodwill falls significantly below its recorded value. This analysis is based on appropriate assumptions, including a discount rate that reflects the acquired entity's weighted average cost of capital.

EQUIPMENT AND FACILITIES

Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life, while leasehold improvements are amortized over the lesser of the improvement's estimated economic useful life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Included in the Occupancy and related depreciation expense category was depreciation and amortization of \$205 million, \$190 million, and \$167 million in 1999, 1998, and 1997, respectively. Depreciation and amortization recognized in the Communications and technology expense category was \$513 million, \$395 million, and \$306 million for 1999, 1998, and 1997, respectively.

In 1998, Merrill Lynch also began capitalizing certain costs incurred in the development of internal-use software (see Note 2). These amounts are amortized over the useful life of the developed software, generally not exceeding three years.

INCOME TAXES

ML & Co. and certain of its wholly owned subsidiaries file a consolidated U.S. federal income tax return.

Merrill Lynch uses the asset and liability method in providing income taxes on all transactions that have been recognized in the Consolidated Financial Statements. The asset and liability method requires that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts are expected to be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

NOTE 2. OTHER SIGNIFICANT EVENTS

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ACCOUNTING CHANGES

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP 98-1 requires capitalization of certain internal-use software development costs. The SOP was adopted early for 1998 and resulted in the capitalization of software development costs of \$146 million in 1999 and \$72 million in 1998.

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In April 1998, the AICPA issued SOP 98-5, Reporting on the Costs of Start-Up Activities, which requires that all start-up costs be expensed as incurred. Closed-end mutual fund distribution costs, previously deferred and amortized by Merrill Lynch over a four-year period, are required to be expensed under the SOP. The SOP was adopted early as of the beginning of 1998, and the impact of adoption was not material.

MERGERS, ACQUISITIONS, AND DIVESTITURES

In August 1998, Merrill Lynch acquired the outstanding shares of Midland Walwyn, a Canadian broker-dealer, in a share exchange. Each Midland Walwyn shareholder received either 0.24 shares of ML & Co. common stock or 0.24 exchangeable shares of Merrill Lynch & Co., Canada Ltd. for every Midland Walwyn share held (see Note 8). The merger was accounted for as a pooling-of-interests; the Consolidated Financial Statements reflect the results of operations, financial position, changes in stockholders' equity, and cash flows as if the two companies had always been combined.

During 1998, Merrill Lynch acquired Howard Johnson & Co., a U.S. employee benefits consulting firm and a majority interest in a non-U.S. investment bank in transactions accounted for as purchases. Aggregate consideration of \$92 million was paid, and goodwill of \$56 million was recorded in connection with these acquisitions. In addition, Merrill Lynch sold a U.S. residential real estate services subsidiary and a New York Stock Exchange specialist subsidiary, recognizing pre-tax gains totaling \$138 million.

At year-end 1997, Merrill Lynch recorded the acquisition of Mercury, a U.K.-based global asset manager. In 1998, approximately \$5.3 billion in cash was paid as consideration. Goodwill of approximately \$4.8 billion was recorded related to the acquisition. In 1997, Merrill Lynch also acquired a 401(k) service provider for \$13 million, recognizing goodwill of \$10 million.

For acquisitions accounted for as purchases, the operating results of acquired companies are included in Merrill Lynch's results of operations commencing with the acquisition date.

PROVISION FOR COSTS RELATED TO STAFF REDUCTIONS

During the 1998 third quarter, Merrill Lynch recognized a \$430 million provision for costs related to staff reductions (\$288 million after-tax). The provision covered primarily severance costs, but also included costs to terminate long-term contracts and leases related to personnel reductions and resized businesses. The staff reduction program included reductions, through termination and attrition, of approximately 3,400 personnel, or about 5% of the global workforce.

At December 31, 1999, the remaining liability was \$54 million, which primarily represents remaining severance payments for personnel receiving periodic payments. All staff reductions were fully completed during 1999 and all severance payments will be completed in 2000.

NOTE 3. TRADING AND RELATED ACTIVITIES

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

Interest revenue and expense are integral components of trading activities. In assessing the profitability of trading activities, Merrill Lynch views net interest and principal transactions revenues in the aggregate. For further information on Merrill Lynch's net trading results, see Management's Discussion and Analysis (unaudited) - Principal Transactions.

Certain trading activities expose Merrill Lynch to market and credit risks. These risks are managed in accordance with established risk management policies and procedures that are described in Management's Discussion and Analysis (unaudited) - Risk Management.

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.

Merrill Lynch 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. Merrill Lynch uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by Merrill Lynch.

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, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using 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.

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Interest rate swap agreements used by Merrill Lynch include caps, collars, floors, basis swaps, and leveraged swaps. Interest rate caps and floors provide the purchaser protection against rising and falling interest rates, respectively. Interest rate collars combine a cap and a floor, providing the purchaser with a predetermined interest rate range. Basis swaps are a type of interest rate swap agreement where variable rates are received and paid, but are based on different index rates. Leveraged swaps are another type of interest rate swap where changes in the variable rate are multiplied by a contractual leverage factor, such as four times three-month LIBOR (London Interbank Offered Rate). Merrill Lynch's exposure to interest rate risk resulting from these leverage factors is typically hedged with other financial instruments.

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Merrill Lynch's trading assets and liabilities include both cash instruments denominated in and derivatives linked to over 70 currencies, including the euro, Japanese yen, German mark, Swiss franc, British pound, and Italian lira. Currency forwards and options are commonly used to manage currency risk associated with these instruments. Currency swaps may also be used in situations where a long-dated forward market is not available or where the end-user needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

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 Merrill Lynch to manage equity price risk include equity options, warrants, and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

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, i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument). Certain instruments are used by Merrill Lynch 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. Credit risk resulting from default on counterparty obligations is discussed in the Credit Risk section.

Commodity Price and Other Risks

Merrill Lynch views its commodity contracts as financial instruments since they are generally settled in cash and not by delivery of the underlying commodity. Commodity price risk results from the possibility that the price of the underlying commodity may rise or fall. Cash flows from commodity contracts are based on the difference between an agreed-upon fixed price and a price that varies with changes in a specified commodity price or index. Commodity contracts held by Merrill Lynch principally relate to energy, precious metals, and base metals.

Merrill Lynch is also a party to financial instruments that contain risks not correlated to typical financial risks. Securities or derivatives, for example, may be linked to the occurrence of certain weather conditions or natural catastrophes. Merrill Lynch generally mitigates the risk associated with these transactions by entering into offsetting derivative transactions.

CREDIT RISK

Merrill Lynch is exposed to risk of loss if an issuer or a counter-party fails to perform its obligations under contractual terms and the collateral held, if any, is deemed worthless ("default risk"). Both cash instruments and derivatives expose Merrill Lynch to default risk. Credit risk arising from changes in credit spreads was previously discussed in the Market Risk section.

Merrill Lynch has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties. For further information, see Management's Discussion and Analysis (unaudited) - Risk Management - Credit Risk.

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

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Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were acquired, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, Merrill Lynch may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Concentrations of Credit Risk

Merrill Lynch's exposure to credit risk (both default and credit spread) associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

At December 31, 1999, Merrill Lynch's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration

consists of both direct and indirect exposures. Direct exposure, which primarily results from trading asset and investment security positions in instruments issued by the U.S. Government and its agencies, amounted to \$17.0 billion and \$17.4 billion at December 31, 1999 and December 25, 1998, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. Merrill Lynch's direct credit exposure on these transactions is with the counterparty; thus Merrill Lynch has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government or its agencies held as collateral for resale agreements and securities borrowed transactions at December 31, 1999 and December 25, 1998 totaled \$43.8 billion and \$54.8 billion, respectively.

At December 31, 1999, Merrill Lynch had concentrations of credit risk with other counterparties, including a corporate counterparty rated AAA by recognized credit rating agencies. Total unsecured exposure to this counterparty was \$857 million, or 0.3% of total assets.

Merrill Lynch's most significant industry credit concentration is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies, and investment companies. This concentration arises in the normal course of Merrill Lynch's brokerage, trading, financing, and underwriting activities. Merrill Lynch also monitors credit exposures worldwide by region. Within these regions, sovereign governments represent the most significant concentration, followed by financial institutions.

In the normal course of business, Merrill Lynch purchases, sells, underwrites, and makes markets in non-investment grade instruments. In conjunction with merchant banking activities, Merrill Lynch also provides extensions of credit and makes equity investments to facilitate leveraged transactions. These activities expose Merrill Lynch to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties. See Management's Discussion and Analysis (unaudited) - Non-Investment Grade Holdings and Highly Leveraged Transactions for further information.

TRADING DERIVATIVES

Merrill Lynch's trading derivatives consist of derivatives provided to customers and derivatives entered into for proprietary trading strategies or risk management purposes.

The fair values of derivatives used in trading activities at year-end 1999 and 1998 follow:

| | December 31, 1999 | | December 25, 1998 | |
|-------------------|-------------------|-------------|-------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Swap agreements | \$ 19,984 | \$ 24,204 | \$ 17,938 | \$ 19,747 |
| Forward contracts | 2,232 | 2,385 | 2,882 | 2,822 |
| Options | 5,785 | 7,823 | 8,841 | 12,195 |

The following table presents the average fair values of Merrill Lynch's trading derivatives for 1999 and 1998, calculated using month-end balances:

| | Average Fair Value | | | |
|-------------------|--------------------|-------------|-----------|-------------|
| | 1999 | | 1998 | |
| | Assets | Liabilities | Assets | Liabilities |
| Swap agreements | \$ 16,724 | \$ 20,575 | \$ 19,096 | \$ 17,272 |
| Forward contracts | 2,030 | 2,127 | 3,227 | 3,178 |
| Options | 7,358 | 8,333 | 8,551 | 11,420 |

The notional or contractual amounts of derivatives provide only a measure of involvement in these types of transactions and represent neither the amounts subject to the various types of market risk nor the future cash requirements under these instruments.

The notional or contractual amounts of derivatives used for trading purposes by type of risk follow:

(in billions)

RISK

| | INTEREST RATE (1) (2) | CURRENCY (3) | EQUITY PRICE | COMMODITY AND OTHER |
|-------------------|--------------------------|--------------|-----------------|------------------------|
| DECEMBER 31, 1999 | | | | |
| Swap agreements | \$ 2,470 | \$ 175 | \$ 27 | \$ 3 |
| Forward contracts | 94 | 153 | 3 | 1 |
| Futures contracts | 224 | 3 | 12 | 3 |
| Options purchased | 216 | 102 | 53 | 2 |
| Options written | 270 | 71 | 53 | 4 |
| DECEMBER 25, 1998 | | | | |
| Swap agreements | \$ 2,006 | \$ 170 | \$ 19 | \$ 5 |
| Forward contracts | 62 | 229 | - | 6 |
| Futures contracts | 184 | 2 | 10 | 3 |
| Options purchased | 254 | 93 | 71 | 4 |
| Options written | 192 | 96 | 58 | 6 |

- (1) Certain derivatives subject to interest rate risk are also exposed to the credit spread risk of the underlying financial instrument.
- (2) Forward contracts subject to interest rate risk principally represent "To Be Announced" mortgage pools that bear interest rate as well as principal prepayment risk.
- (3) Included in the currency risk category are certain contracts that are also subject to interest rate risk.

Most of Merrill Lynch's trading derivative transactions are relatively short-term in duration with a weighted-average maturity of approximately 2.9 years at December 31, 1999 and December 25, 1998. For trading derivatives outstanding at December 31, 1999, the following table presents the notional or contractual amounts of derivatives expiring in future years based on contractual expiration:

(in billions)

| | 2000 | 2001 | 2002 | 2003 | After 2003 | Total |
|-------------------|----------|--------|--------|--------|---------------|----------|
| Swap agreements | \$ 657 | \$ 373 | \$ 325 | \$ 243 | \$ 1,077 | \$ 2,675 |
| Forward contracts | 221 | 27 | - | - | 3 | 251 |
| Futures contracts | 91 | 48 | 32 | 33 | 38 | 242 |
| Options purchased | 249 | 18 | 19 | 12 | 75 | 373 |
| Options written | 268 | 33 | 24 | 16 | 57 | 398 |
| Total | \$ 1,486 | \$ 499 | \$ 400 | \$ 304 | \$ 1,250 | \$ 3,939 |

The notional or contractual values of derivatives do not represent default risk exposure. Default risk is limited to the current cost of replacing derivative contracts in a gain position. Default risk exposure varies by type of derivative. Swap agreements and forward contracts are generally OTC-transacted and thus are exposed to default risk to the extent of their replacement cost. Since futures contracts are exchange-traded and usually require daily cash settlement, the related risk of accounting loss is generally limited to a one-day net positive change in market value. Option contracts can be exchange-traded or OTC-transacted. Purchased options have default risk to the extent of their replacement cost. Written options represent a potential obligation to counterparties and, accordingly, do not subject Merrill Lynch to default risk.

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its counterparties, whenever possible. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure.

To reduce default risk, Merrill Lynch requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates default risk exposures net of related collateral. At December 31, 1999, such collateral amounted to \$4.2 billion. In addition to obtaining collateral, Merrill Lynch attempts to mitigate default risk on derivatives by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of the derivative contract. See Management's Discussion and Analysis (unaudited) - Risk Management - Credit Risk for further information on credit risk related to derivatives.

SECURITIES FINANCING TRANSACTIONS

Merrill Lynch enters into secured borrowing and lending transactions to finance

trading inventory positions, obtain securities for settlement, and to meet customers' needs (see Management's Discussion and Analysis (unaudited) - Balance Sheet for further information). Outstanding receivables and payables under resale and repurchase agreements and securities borrowed and loaned transactions at year-end 1999 and 1998 are as follows:

| ----- | | |
|----------------------------------|-----------|-----------|
| (in millions) | | |
| | 1999 | 1998 |
| ----- | | |
| RECEIVABLES UNDER: | | |
| Resale agreements | \$ 58,034 | \$ 50,188 |
| Securities borrowed transactions | 41,707 | 37,525 |
| ----- | | |
| Total | \$ 99,741 | \$ 87,713 |
| ===== | | |
| ----- | | |
| PAYABLES UNDER: | | |
| Repurchase agreements | \$ 64,954 | \$ 59,501 |
| Securities loaned transactions | 6,624 | 7,626 |
| ----- | | |
| Total | \$ 71,578 | \$ 67,127 |
| ===== | | |
| ----- | | |

Under these agreements and transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. When providing collateral for these transactions, Merrill Lynch delivers its own securities, securities borrowed from counterparties, and securities owned by customers collateralizing margin loans and other obligations. The market value of securities owned by Merrill Lynch that have been loaned or pledged to counterparties as collateral for obligations of Merrill Lynch, primarily related to repurchase agreements, were

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\$31,731 million and \$35,762 million at December 31, 1999 and December 25, 1998, respectively.

Merrill Lynch hedges interest rate risk exposures on long-dated resale and repurchase agreements (see Note 6).

NOTE 4. INVESTMENTS

Merrill Lynch has several broad categories of investments on its Consolidated Balance Sheets, including Marketable investment securities, Investments of insurance subsidiaries, and Other investments.

Marketable investment securities consist of highly liquid debt and equity securities, including those held for liquidity management purposes and those held by a subsidiary for credit rating agency purposes. Investments of insurance subsidiaries, primarily debt securities, are used to fund policyholder liabilities. Other investments consist of equity and debt securities, including those acquired in connection with merchant banking activities. Certain merchant banking investments are subject to restrictions that may limit Merrill Lynch's ability to realize its investment until such restrictions expire.

Marketable investment securities and certain investments of insurance subsidiaries and other investments are classified as available-for-sale, held-to-maturity, or trading as described in Note 1. Investment securities reported on the Consolidated Balance Sheets at December 31, 1999 and December 25, 1998 are as follows:

| ----- | | |
|---------------------------------------|----------|----------|
| (in millions) | | |
| | 1999 | 1998 |
| ----- | | |
| MARKETABLE INVESTMENT SECURITIES | | |
| Available-for-sale | \$ 9,484 | \$ 4,070 |
| Held-to-maturity | 362 | 354 |
| Trading | 299 | 181 |
| ----- | | |
| Total | \$10,145 | \$ 4,605 |
| ===== | | |
| ----- | | |
| INVESTMENTS OF INSURANCE SUBSIDIARIES | | |
| Available-for-sale | \$ 2,499 | \$ 2,917 |
| Trading | 22 | 17 |
| Non-qualifying (1) (2) | 1,576 | 1,551 |
| ----- | | |
| Total | \$ 4,097 | \$ 4,485 |
| ===== | | |
| ----- | | |

| | ===== | ===== |
|-----------------------|----------|----------|
| OTHER INVESTMENTS | | |
| Available-for-sale | \$ 494 | \$ 435 |
| Held-to-maturity | 312 | 290 |
| Non-qualifying(1) (3) | 2,604 | 1,865 |
| | ----- | ----- |
| Total | \$ 3,410 | \$ 2,590 |
| | ===== | ===== |

- (1) Non-qualifying for SFAS No. 115 purposes.
(2) Primarily consists of insurance policy loans.
(3) Includes merchant banking investments and investments hedging deferred compensation liabilities.

Information regarding investment securities subject to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, follows:

<TABLE>
<CAPTION>

| (in millions) | | December 31, 1999 | | | December 25, 1998 | | |
|----------------------------------|----------------------|---------------------|------------------------|-------------------------|----------------------|---------------------|------------------------|
| Gross Unrealized Losses | Estimated Fair Value | Cost/Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Cost/Amortized Cost | Gross Unrealized Gains |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| AVAILABLE-FOR-SALE | | | | | | | |
| Corporate debt (31) | \$ 2,801 | \$ 4,976 | \$ 10 | \$ (178) | \$ 4,808 | \$ 2,771 | \$ 61 |
| U.S. Government and agencies (1) | 664 | 974 | 1 | (18) | 957 | 658 | 7 |
| Municipals (13) | 1,723 | 2,120 | 7 | (5) | 2,122 | 1,721 | 15 |
| Mortgage-backed securities (2) | 1,588 | 3,808 | 16 | (26) | 3,798 | 1,572 | 18 |
| Other debt securities (4) | 180 | 293 | - | (6) | 287 | 183 | 1 |
| ----- | | | | | | | |
| Total debt securities (51) | 6,956 | 12,171 | 34 | (233) | 11,972 | 6,905 | 102 |
| Equity securities (7) | 466 | 528 | 12 | (35) | 505 | 447 | 26 |
| ----- | | | | | | | |
| Total (58) | \$ 7,422 | \$ 12,699 | \$ 46 | \$ (268) | \$ 12,477 | \$ 7,352 | \$ 128 |
| ===== | | | | | | | |

<CAPTION>
(in millions)

| (in millions) | | December 31, 1999 | | | December 25, 1998 | | |
|--------------------------------|----------------------|---------------------|------------------------|-------------------------|----------------------|---------------------|------------------------|
| Gross Unrealized Losses | Estimated Fair Value | Cost/Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Cost/Amortized Cost | Gross Unrealized Gains |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| HELD-TO-MATURITY | | | | | | | |
| Corporate debt - | \$ 39 | \$ - | \$ - | \$ - | \$ - | \$ 38 | \$ 1 |
| U.S. Government and agencies - | 292 | 405 | 17 | - | 422 | 263 | 29 |
| Municipals | | 66 | 12 | (51) | 27 | 144 | 64 |

| | | | | | | | | |
|-------|----------------------------|--------|-------|---------|--------|--------|-------|----|
| (2) | 206 | | | | | | | |
| | Mortgage-backed securities | 68 | - | (1) | 67 | 87 | - | |
| - | 87 | | | | | | | |
| | Other debt securities | 135 | - | - | 135 | 112 | - | |
| (2) | 110 | | | | | | | |
| ----- | | | | | | | | |
| | Total | \$ 674 | \$ 29 | \$ (52) | \$ 651 | \$ 644 | \$ 94 | \$ |
| (4) | \$ 734 | | | | | | | |
| ===== | | | | | | | | |
| ----- | | | | | | | | |
| ----- | | | | | | | | |

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The amortized cost and estimated fair value of debt securities at December 31, 1999, by contractual maturity, for available-for-sale and held-to-maturity investments follow:

| (in millions) | Available-for-Sale | | Held-to-Maturity | |
|--|--------------------|----------------------|------------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | \$ 2,807 | \$ 2,807 | \$ 231 | \$ 231 |
| Due after one year through five years | 1,846 | 1,816 | 197 | 205 |
| Due after five years through ten years | 1,003 | 962 | 29 | 11 |
| Due after ten years | 2,707 | 2,589 | 149 | 137 |
| | 8,363 | 8,174 | 606 | 584 |
| Mortgage-backed securities | 3,808 | 3,798 | 68 | 67 |
| Total(1) | \$12,171 | \$11,972 | \$ 674 | \$ 651 |

(1) Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

The proceeds and gross realized gains (losses) from the sale of available-for-sale investments are as follows:

| (in millions) | 1999 | 1998 | 1997 |
|-----------------------|----------|----------|----------|
| Proceeds | \$ 3,071 | \$ 3,426 | \$ 2,198 |
| Gross realized gains | 22 | 74 | 27 |
| Gross realized losses | (28) | (27) | (11) |

Net unrealized gains (losses) from investment securities classified as trading included in the 1999, 1998, and 1997 Consolidated Statements of Earnings were \$46 million, \$6 million, and \$(21) million, respectively.

Merrill Lynch hedges interest rate risk exposures on certain investments (see Note 6 for further information).

NOTE 5. BORROWINGS

Merrill Lynch issues U.S. and non-U.S. dollar-denominated debt instruments with both variable and fixed interest rates, primarily at the ML & Co. level. These borrowing activities may create exposure to market risk, most notably interest rate and currency risk. Merrill Lynch typically uses derivatives to better match the interest rate and currency characteristics of assets and liabilities, thereby reducing risk exposures. Derivatives used most frequently include swap agreements that:

- . convert fixed-rate interest payments into variable payments,
- . change the underlying interest rate basis or reset frequency, and
- . convert non-U.S. dollar payments into U.S. dollars.

Merrill Lynch also issues debt whose repayment terms are linked to the performance of an equity or other index (e.g., S&P 500), basket of securities, or an individual security. The contingent components of these indexed debt obligations are hedged with derivatives (see Note 6 for further information).

Borrowings at December 31, 1999 and December 25, 1998 are presented below:

| (in millions) | | |
|------------------------------------|----------|----------|
| | 1999 | 1998 |
| ----- | | |
| COMMERCIAL PAPER AND OTHER | | |
| SHORT-TERM BORROWINGS | | |
| Commercial paper | \$24,198 | \$16,758 |
| Other | 1,397 | 1,921 |
| | ----- | ----- |
| Total | \$25,595 | \$18,679 |
| | ===== | ===== |
| ----- | | |
| DEMAND AND TIME DEPOSITS | | |
| Demand | \$ 3,498 | \$ 3,171 |
| Time | 14,104 | 9,290 |
| | ----- | ----- |
| Total | \$17,602 | \$12,461 |
| | ===== | ===== |
| ----- | | |
| LONG-TERM BORROWINGS | | |
| Fixed-rate obligations: (1) | | |
| U.S.dollar-denominated | \$13,150 | \$12,595 |
| Non-U.S. dollar-denominated | 1,287 | 1,189 |
| Variable-rate obligations: (2) (3) | | |
| U.S.dollar-denominated | 3,338 | 4,077 |
| Non-U.S.dollar-denominated | 1,918 | 1,303 |
| Medium-term notes: (3) (4) | | |
| U.S.dollar-denominated | 22,166 | 24,916 |
| Non-U.S.dollar-denominated | 11,606 | 13,483 |
| | ----- | ----- |
| Total | \$53,465 | \$57,563 |
| | ===== | ===== |

- (1) At December 31, 1999, U.S.dollar-denominated fixed-rate obligations are due between 2000 and 2028 at interest rates ranging from 6.0% to 8.4%; non-U.S. dollar-denominated fixed-rate obligations are due between 2000 and 2002 at interest rates ranging from 2.6% to 9.3%.
- (2) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.
- (3) Included are various equity-linked or other indexed instruments.
- (4) The medium-term note program provides for issuances that may bear fixed or variable interest rates and may have maturities that range from nine months to 30 years from the date of issue.

Long-term borrowings at December 31, 1999, based on their contractual terms, mature as follows:

| (in millions) | |
|---------------------|----------|
| 2000 | \$ 8,448 |
| 2001 | 9,280 |
| 2002 | 7,971 |
| 2003 | 5,825 |
| 2004 | 3,549 |
| 2005 and thereafter | 18,392 |
| | ----- |
| Total | \$53,465 |
| | ===== |

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity.

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Management believes, however, that a significant portion of such borrowings will remain outstanding beyond their earliest redemption date.

The effective weighted-average interest rates for borrowings, which include the impact of hedges, at December 31, 1999 and December 25, 1998 were:

| | 1999 | 1998 |
|----------------------------|-------|-------|
| | ---- | ---- |
| COMMERCIAL PAPER AND OTHER | | |
| SHORT-TERM BORROWINGS | 5.94% | 5.28% |
| DEMAND AND TIME DEPOSITS | 4.34 | 4.54 |
| LONG-TERM BORROWINGS | | |
| Fixed-rate obligations | 6.90 | 6.69 |
| Variable-rate obligations | 6.14 | 5.46 |
| Medium-term notes | 6.21 | 5.52 |

Subsequent to year-end 1999 and through February 25, 2000, long-term borrowings, net of repayments and repurchases, decreased approximately \$505 million.

Borrowing Facilities

Merrill Lynch has obtained a committed, senior unsecured revolving credit facility aggregating \$8 billion under an agreement with a bank. The agreement contains covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreement, on the date of an advance. At December 31, 1999, this credit facility was not drawn upon.

The credit quality, amounts, and terms of this credit facility are continually monitored and modified as warranted by business conditions. Under the existing agreement, the credit facility will mature in May 2000. At maturity, Merrill Lynch may convert amounts borrowed, if any, into term loans that would mature in two years.

NOTE 6. FAIR VALUE INFORMATION AND NON-TRADING DERIVATIVES

FAIR VALUE INFORMATION

The following information is presented to help the reader gain an understanding of the relationship between the amounts reported in Merrill Lynch's financial statements and the related fair values. Specific accounting policies are discussed in Note 1.

At December 31, 1999, \$299 billion or 91% of Merrill Lynch's total assets and \$229 billion or 73% of Merrill Lynch's total liabilities were carried at fair value or at amounts that approximate fair value. At December 25, 1998, \$276 billion, or 92%, of Merrill Lynch's total assets and \$204 billion, or 71%, of Merrill Lynch's liabilities were carried at fair value or at amounts that approximate such values. Financial instruments that are carried at fair value include cash and cash equivalents, cash segregated for regulatory purposes or deposited with clearing organizations, trading assets and liabilities, available-for-sale and trading securities included in marketable investment securities, certain investments of insurance subsidiaries, and certain other investments. (See Notes 3 and 4 for information related to these instruments).

Financial instruments recorded at amounts that approximate fair value include most receivables under resale agreements and securities borrowed transactions, receivables, payables under repurchase agreements and securities loaned, commercial paper and other short-term borrowings, demand deposits, and other payables. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity of many of these instruments and/or their variable interest rates.

The following table shows financial instruments with carrying values that differ from their fair values.

(in millions)

| | Assets | | Liabilities | |
|---|----------------|------------|----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | ----- | ----- | ----- | ----- |
| DECEMBER 31, 1999 | | | | |
| Held-to-maturity investments | \$ 674 | \$ 651 | | |
| Merchant banking and other financial instruments(1) | 2,605 | 2,917 | | |
| Loans, notes, and mortgages | 11,187 | 11,211 | | |
| Long-term borrowings | | | \$53,465 | \$53,063 |
| Non-trading derivatives | 1,220 | 1,514 | 2,191 | 2,669 |
| DECEMBER 25, 1998 | | | | |
| Held-to-maturity investments | \$ 644 | \$ 734 | | |
| Merchant banking and other | | | | |

| | | | | |
|-----------------------------|-------|-------|----------|----------|
| financial instruments(1) | 1,834 | 1,891 | | |
| Loans, notes, and mortgages | 7,687 | 7,712 | | |
| Long-term borrowings | | | \$57,563 | \$58,237 |
| Non-trading derivatives | 1,429 | 2,725 | 794 | 1,269 |

(1) Merchant banking equity investments are non-qualifying for SFAS No. 115 purposes.

Fair value for merchant banking equity investments, including partnership interests (included in Other investments on the Consolidated Balance Sheets), is estimated using a number of methods, including earnings multiples, cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., consent of other investors) that may limit Merrill Lynch's ability to realize currently the estimated fair value. Accordingly, Merrill Lynch's current estimate of fair value and the ultimate realization on these instruments may differ. Included in merchant banking and other financial instruments in the previous table is Merrill Lynch's investment in Long Term Capital Portfolio, L.P. ("LTCP"). In 1998, in conjunction with 13 other

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financial institutions, Merrill Lynch made a \$300 million capital infusion to LTCP, a hedge fund significantly affected by the 1998 third quarter market turmoil. At December 31, 1999, this investment has been substantially repaid.

In addition to investments noted in the previous table, Merrill Lynch also holds a passive minority interest in Bloomberg, L.P., a privately held limited partnership that provides information services to financial institutions. The fair value of the investment is not readily determinable as of December 31, 1999. Management believes, however, that the fair value of this instrument may significantly exceed its carrying value of \$28 million.

Fair value for loans made in connection with merchant banking activities, consisting primarily of senior and subordinated debt, is estimated using discounted cash flows. Merrill Lynch's estimate of fair value for other loans, notes, and mortgages is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans, adjusted for credit risk and other individual loan characteristics. For Merrill Lynch's variable-rate loan receivables, carrying value approximates fair value.

The fair values of long-term borrowings and related hedges are estimated using current market prices and pricing models.

The fair value of outstanding third party guarantees was \$41 million and \$54 million at December 31, 1999 and December 25, 1998, respectively.

NON-TRADING DERIVATIVES

The notional or contractual amounts of non-trading derivatives used to hedge market risk exposures on non-trading assets and liabilities at December 31, 1999 and December 25, 1998 follow:

| (in billions) | 1999 | 1998 |
|---|-------|-------|
| | ---- | ---- |
| Borrowings: | | |
| Interest rate risk(1) | \$ 44 | \$ 54 |
| Currency risk | 1 | - |
| Equity risk | 3 | 1 |
| Investment securities(2) | 11 | 6 |
| Resale and repurchase agreements(2) | 6 | 8 |
| Customer loans(2) | 6 | 2 |
| Investments in non-U.S. subsidiaries(3) | 3 | 4 |
| Other | 3 | 4 |

(1) Includes \$10 billion and \$12 billion of instruments which also contain currency risk and \$4 billion and \$1 billion of instruments that also contain equity risk at year-end 1999 and 1998, respectively.

(2) Primarily hedging interest rate risk.

(3) Hedging currency risk.

The combined fair value of hedged items and related derivative hedges approximates their combined carrying value at year-end 1999 and 1998. Most of these derivatives are entered into with Merrill Lynch's derivative dealer subsidiaries, which hedge interest rate, currency, and equity risks in the normal course of their trading activities.

NOTE 7. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Preferred securities issued by subsidiaries, which represent preferred minority interests in consolidated subsidiaries, primarily consist of perpetual trust-issued preferred securities.

Trust Originated Preferred Securities (Service Mark) ("TOPrS" (Service Mark)) are issued to investors by trusts created by Merrill Lynch. Using the issuance proceeds, the trusts purchase Partnership Preferred Securities, representing limited partnership interests. Using the purchase proceeds, the limited partnerships extend loans to ML & Co. and one or more subsidiaries of ML & Co. The trusts and partnerships are consolidated subsidiaries of Merrill Lynch. ML & Co. has guaranteed, on a subordinated basis, the payment in full of all distributions and other payments on the TOPrS to the extent that the trusts have funds legally available. This guarantee and a similar partnership distribution guarantee are subordinated to all other liabilities of ML & Co. and rank equally with preferred stock of ML & Co.

The table below presents data related to the issuance of TOPrS by Merrill Lynch Capital Trust I, II, III, IV, and V. All TOPrS issued have a liquidation value of \$25 per security, have a perpetual life, and can be redeemed at the option of the trusts, in whole or in part, at the liquidation value on or after their respective optional redemption dates. Distributions are payable from the date of original issuance and are payable quarterly if, as, and when the trusts have funds available for payment.

(in millions)

| TOPrS | Annual Distribution Rate | Issue Date | Optional Redemption Date | Liquidation Value |
|----------|--------------------------------|---------------|--------------------------------|----------------------------|
| I | 7.75% | Dec. 1996 | Dec. 2006 | \$ 275 |
| II | 8.00 | Feb. 1997 | Mar. 2007 | 300 |
| III | 7.00 | Jan. 1998 | Mar. 2008 | 750 |
| IV | 7.12 | Jun. 1998 | Jun. 2008 | 400 |
| V | 7.28 | Nov. 1998 | Sep. 2008 | 850 |
| Other(1) | 2.70 | Jul. 1999 | Jun. 2004 | 98 |
| | | | | ----- \$ 2,673 ===== |

(1) Represents Yen-denominated TOPrS issued by Merrill Lynch Yen TOPrS Trust I.

In addition, \$52 million of preferred securities of other subsidiaries were outstanding at year-end 1999 and 1998.

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NOTE 8. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

PREFERRED EQUITY

ML & Co. is authorized to issue 25,000,000 shares of undesignated preferred stock, \$1.00 par value per share. All shares of currently outstanding preferred stock constitute one and the same class that have equal rank and priority over common stockholders as to dividends and in the event of liquidation.

9% Cumulative Preferred Stock, Series A

ML & Co. has issued 17,000,000 Depositary Shares, each representing a one-four-hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, liquidation preference value of \$10,000 per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of \$425 million, all of which was outstanding at year-end 1999, 1998, and 1997.

Dividends on the 9% Preferred Stock are cumulative from the date of original issue and are payable quarterly when declared by the authority of the Board of Directors. The 9% Preferred Stock is perpetual and redeemable on or after December 30, 2004 at the option of ML & Co., in whole or in part, at a redemption price equal to \$10,000 per share, plus accrued and unpaid dividends (whether or not declared) to the date fixed for redemption.

Remarketed Preferred (Service Mark) Stock, Series C

During 1997, all outstanding shares of Remarketed Preferred Stock, Series C were redeemed. Dividend rates in effect prior to redemption ranged from 3.80% to 4.15% per annum.

COMMON STOCK

In 1999, ML & Co. issued 54,601 shares of common stock to certain non-U.S. employees in connection with an employee incentive plan grant, thereby increasing issued shares to 472,714,925.

In 1998, stockholders approved the proposal to amend ML & Co.'s certificate of incorporation to increase the authorized number of shares of common stock from 500 million to 1 billion.

In 1997, the Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend. The par value of the common stock remained at \$1.33 1/3 per share. Accordingly, a transfer from paid-in capital to common stock of \$315 million was made to preserve the par value of the post-split shares. All share and per share data have been restated for the effect of the split. Dividends paid on common stock were \$1.05, \$.92, and \$.75 per share in 1999, 1998, and 1997, respectively.

The following table summarizes the activity in outstanding common stock for 1999, 1998, and 1997:

| | 1999 | 1998 | 1997 |
|------------------------------|---------------|---------------|---------------|
| BEGINNING OF YEAR | | | |
| Issued | 472,660,324 | 472,660,324 | 472,660,324 |
| Shares in treasury | (116,376,259) | (133,400,971) | (137,234,132) |
| ESOP reversion shares | - | - | (3,077,556) |
| Outstanding | 356,284,065 | 339,259,353 | 332,348,636 |
| ACTIVITY | | | |
| Common stock issued | 54,601 | - | - |
| Shares purchased | - | - | (13,301,100) |
| Shares issued from treasury: | | | |
| To employees(1) (2) | 10,930,248 | 16,291,477 | 20,211,817 |
| Share exchanges | 496,416 | 325,459 | - |
| Acquisition | - | 407,776 | - |
| Net activity | 11,481,265 | 17,024,712 | 6,910,717 |
| END OF YEAR | | | |
| Issued | 472,714,925 | 472,660,324 | 472,660,324 |
| Shares in treasury | (104,949,595) | (116,376,259) | (133,400,971) |
| Outstanding | 367,765,330 | 356,284,065 | 339,259,353 |

(1) Net of reacquisitions from employees of 177,066, 348,466, and 440,016 in 1999, 1998, and 1997, respectively.

(2) See Note 11 for a description of employee incentive plans.

SHARES EXCHANGEABLE INTO COMMON STOCK

In 1998, Merrill Lynch & Co., Canada Ltd. issued 4,831,224 Exchangeable Shares in connection with Merrill Lynch's merger with Midland Walwyn (see Note 2). Holders of Exchangeable Shares have dividend, voting, and other rights equivalent to those of ML & Co. common stockholders. Exchangeable Shares may be exchanged at any time, at the option of the holder, on a one-for-one basis for ML & Co. common stock. Merrill Lynch may redeem all outstanding Exchangeable Shares for ML & Co. common stock after January 31, 2011, or earlier under certain circumstances.

During 1999 and 1998, 496,416 and 325,459 Exchangeable Shares, respectively, were converted to ML & Co. common stock. At year-end 1999, 4,009,349 Exchangeable Shares were outstanding, compared with 4,505,765 at year-end 1998.

ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss represents net cumulative gains and losses on items that are not reflected in earnings. The components at December 31, 1999 and December 25, 1998 are as follows:

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(in millions)

| | 1999 | 1998 |
|---|---------|---------|
| FOREIGN CURRENCY TRANSLATION ADJUSTMENT | | |
| Unrealized losses, net of gains | \$(357) | \$(241) |

| | | |
|--|----------|----------|
| Income taxes | 55 | 103 |
| | ----- | ----- |
| Total | (302) | (138) |
| | ----- | ----- |
| UNREALIZED GAINS (LOSSES) ON INVESTMENT | | |
| SECURITIES AVAILABLE-FOR-SALE | | |
| Net unrealized gains (losses) | (167) | 56 |
| Adjustments for: | | |
| Policyholder liabilities | (3) | (38) |
| Deferred policy acquisition costs | 35 | - |
| Income taxes | 48 | (2) |
| | ----- | ----- |
| Total | (87) | 16 |
| | ----- | ----- |
| TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS | \$ (389) | \$ (122) |
| | ===== | ===== |

STOCKHOLDER RIGHTS PLAN

In 1997, the Board of Directors approved and adopted the amended and restated Stockholder Rights Plan. The amended and restated Stockholder Rights Plan provides for the distribution of preferred purchase rights ("Rights") to common stockholders. The Rights separate from the common stock ten days following the earlier of: (a) an announcement of an acquisition by a person or group ("acquiring party") of 15% or more of the outstanding common shares of ML & Co., or (b) the commencement of a tender or exchange offer for 15% or more of the common shares outstanding. One Right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. Each Right entitles the holder to purchase 1/100 of a share (a "Unit") of Series A Junior Preferred Stock, par value \$1.00 per share, at an exercise price of \$300 per Unit at any time after the distribution of the Rights. The Units are nonredeemable and have voting privileges and certain preferential dividend rights. The exercise price and the number of Units issuable are subject to adjustment to prevent dilution.

If, after the Rights have been distributed, either the acquiring party holds 15% or more of ML & Co.'s outstanding shares or ML & Co. is a party to a business combination or other specifically defined transaction, each Right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, a Unit of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the Right. The Rights expire in 2007, and are redeemable at the option of a majority of the directors of ML & Co. at \$.01 per Right at any time until the tenth day following an announcement of the acquisition of 15% or more of ML & Co.'s common stock.

EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. The following table presents the computations of basic and diluted EPS:

(in millions)

| | 1999 | 1998 | 1997 |
|--|---------|---------|---------|
| | ----- | ----- | ----- |
| Net earnings | \$2,618 | \$1,259 | \$1,935 |
| Preferred stock dividends | 38 | 39 | 39 |
| | ----- | ----- | ----- |
| Net earnings applicable to common stockholders | \$2,580 | \$1,220 | \$1,896 |
| | ===== | ===== | ===== |

(shares in thousands)

| | | | |
|--|---------|---------|---------|
| Weighted-average shares outstanding (basic shares) (1) | 368,718 | 355,589 | 340,096 |
| | ----- | ----- | ----- |
| Effect of dilutive instruments (2) | | | |
| Employee stock options | 27,850 | 29,184 | 29,748 |
| FCCAAP shares | 15,947 | 16,548 | 20,574 |
| Restricted units | 5,569 | 4,895 | 5,258 |
| ESPP shares | 47 | 46 | 45 |
| Convertible debt | - | - | 134 |
| | ----- | ----- | ----- |
| Dilutive potential common shares | 49,413 | 50,673 | 55,759 |
| | ----- | ----- | ----- |
| Diluted shares (3) | 418,131 | 406,262 | 395,855 |
| | ===== | ===== | ===== |

| | | | |
|-------------|--------|--------|--------|
| Basic EPS | \$7.00 | \$3.43 | \$5.57 |
| Diluted EPS | 6.17 | 3.00 | 4.79 |

- (1) Includes shares exchangeable into common stock.
(2) See Note 11 for a description of these instruments and issuances subsequent to December 31, 1999.
(3) At year-end 1999, 1998, and 1997, there were 1,575, 486, and 7 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations.

NOTE 9. COMMITMENTS AND CONTINGENCIES

LITIGATION

At December 31, 1999, Merrill Lynch has been named as parties in various actions, some of which involve claims for substantial amounts. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on Merrill Lynch's financial condition; however, such resolution could have a material adverse impact on quarterly operating results in future periods, depending in part on the results for such periods.

LENDING AND GUARANTEES

Merrill Lynch enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking and loan syndication transactions. Customers may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. Merrill Lynch also issues various guarantees to counterparties in connection with certain leasing, securitization, and other transactions. These commit-

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ments and guarantees usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon or guarantees are issued, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and market conditions.

The contractual amounts of these commitments and guarantees represent the amounts at risk should the contract be fully drawn upon, the client default, and the value of the existing collateral become worthless. The total amount of outstanding commitments and guarantees may not represent future cash requirements, as commitments and guarantees may expire without being drawn upon.

At December 31, 1999 and December 25, 1998, Merrill Lynch had the following commitments and guarantees:

| | | |
|------------------------------|-----------|-----------|
| (in millions) | 1999 | 1998 |
| | ---- | ---- |
| Commitments to extend credit | \$ 14,871 | \$ 15,937 |
| Third party guarantees | 1,739 | 17,842 |

LEASES

Merrill Lynch has entered into various noncancelable long-term lease agreements for premises that expire through 2025. Merrill Lynch has also entered into various noncancelable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

At December 31, 1999, future noncancelable minimum rental commitments under leases with remaining terms exceeding one year are as follows:

| | | | |
|---------------------|---------|---------|---------|
| (in millions) | WFC(1) | Other | Total |
| | ----- | ----- | ----- |
| 2000 | \$ 144 | \$ 346 | \$ 490 |
| 2001 | 145 | 313 | 458 |
| 2002 | 150 | 272 | 422 |
| 2003 | 158 | 217 | 375 |
| 2004 | 179 | 176 | 355 |
| 2005 and thereafter | 1,564 | 671 | 2,235 |
| | ----- | ----- | ----- |
| Total | \$2,340 | \$1,995 | \$4,335 |

(1) World Financial Center Headquarters.

The minimum rental commitments shown above have not been reduced by \$674 million of minimum sublease rentals to be received in the future under noncancelable subleases. Certain leases contain renewal or purchase options or escalation clauses providing for increased rental payments based upon maintenance, utility, and tax increases.

Net rent expense for each of the last three years is presented below:

(in millions)

| | 1999 | 1998 | 1997 |
|------------------|--------|--------|--------|
| | ----- | ----- | ----- |
| Rent expense | \$ 585 | \$ 537 | \$ 468 |
| Sublease revenue | (101) | (112) | (104) |
| | ----- | ----- | ----- |
| Net rent expense | \$ 484 | \$ 425 | \$ 364 |
| | ===== | ===== | ===== |

OTHER COMMITMENTS

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 31, 1999, would not have a material effect on the consolidated financial condition of Merrill Lynch.

In connection with trading activities, Merrill Lynch had commitments at December 31, 1999 and December 25, 1998 to enter into resale and repurchase agreements as follows:

(in millions)

| | 1999 | 1998 |
|-----------------------|--------|----------|
| | ----- | ----- |
| Resale agreements | \$ 850 | \$ 5,392 |
| Repurchase agreements | 1,624 | 4,456 |

Merrill Lynch also obtains letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Letters of credit aggregated \$2,585 million and \$2,222 million at December 31, 1999 and December 25, 1998, respectively.

In connection with merchant banking activities, Merrill Lynch has committed to purchase \$252 million and \$369 million of partnership interests at December 31, 1999 and December 25, 1998, respectively.

Merrill Lynch has entered into agreements with providers of market data, communications, and systems consulting services. At December 31, 1999, minimum fee commitments over the remaining life of these agreements aggregated \$223 million.

NOTE 10. EMPLOYEE BENEFIT PLANS

Merrill Lynch provides retirement and other postemployment benefits to its employees worldwide through defined contribution and defined benefit pension plans and other postretirement benefit plans. Merrill Lynch reserves the right to amend or terminate these plans at any time.

In 1999, Merrill Lynch changed its measurement date for both its defined benefit pension and other postretirement benefit plans from year-end to September quarter-end. Prior period information has not been restated since the impact of the change is not material.

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DEFINED CONTRIBUTION PENSION PLANS

The U.S. defined contribution plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("401K"). The RAP, ESOP, and 401K cover substantially all U.S. employees who have met service requirements.

Merrill Lynch established the RAP and the ESOP, collectively known as the "Retirement Program," for the benefit of employees with one year of service. A

separate retirement account is maintained for each participant.

In 1989, the ESOP trust purchased from Merrill Lynch 47,851,236 shares of ML & Co. common stock with residual funds from a terminated defined benefit pension plan ("Reversion Shares") and loan proceeds from a subsidiary of Merrill Lynch ("Leveraged Shares").

Merrill Lynch credited a participant's account and recorded pension expense under the Retirement Program based on years of service and eligible compensation. This expense is funded by quarterly allocations of Leveraged and Reversion Shares and, when necessary, cash, to participants' accounts based on a specified formula. Leveraged and Reversion Shares are released in accordance with the terms of the ESOP. Reversion Shares were allocated to participants' accounts over a period of eight years, ending in 1997. Leveraged Shares were allocated to participants' accounts as principal was repaid on the loan to the ESOP, which matured in 1999. Principal and interest on the loan were payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions. At December 31, 1999, all Reversion and Leveraged Shares had been allocated.

Additional information on ESOP activity follows:

| (in millions) | 1999 | 1998 | 1997 |
|------------------------------------|-------|-------|--------|
| | ---- | ---- | ---- |
| Compensation costs funded | | | |
| with ESOP shares | \$ 49 | \$ 49 | \$ 193 |
| Dividends used for debt service(1) | 2 | 7 | 7 |

(1) Dividends on all Leveraged Shares were used for debt service on the ESOP loan through April 1, 1999. Dividends on unallocated Leveraged Shares only were used for this purpose through the end of the 1999 third quarter, when the loan was repaid.

Employees can participate in the 401K by contributing, on a tax-deferred basis, up to 15% of their eligible compensation, but not more than the maximum annual amount allowed by law. Merrill Lynch's contributions are equal to one-half of the first 4% of each participant's eligible compensation contributed to the 401K, up to a maximum of fifteen hundred dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants (see Note 11).

Merrill Lynch also sponsors various non-U.S. defined contribution plans. The costs of benefits under the RAP, 401K, and non-U.S. plans are expensed during the related service period.

DEFINED BENEFIT PENSION PLANS

Merrill Lynch has purchased a group annuity contract that guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). At year-end 1999 and 1998, a substantial portion of the assets supporting the annuity contract was invested in U.S. Government and agencies securities. Merrill Lynch, under a supplemental agreement, may be responsible for, or benefit from, actuarial experience and investment performance of the annuity assets. Merrill Lynch also maintains supplemental defined benefit plans for certain U.S. employees.

Employees of certain non-U.S. subsidiaries participate in various local defined benefit plans. These plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. Merrill Lynch's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the nine-month period ended September 24, 1999 and the year ended December 25, 1998 and the amounts recognized in the Consolidated Balance Sheets at year-end 1999 and 1998:

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| (in millions) | 1999 | 1998 |
|-------------------------------|----------|----------|
| | ----- | ----- |
| PROJECTED BENEFIT OBLIGATIONS | | |
| Balance, beginning of year | \$ 2,090 | \$ 1,928 |
| Service cost | 49 | 54 |
| Interest cost | 114 | 122 |
| Net actuarial (gain) loss | (170) | 55 |
| Benefits paid | (68) | (77) |

| | | |
|---|--------|--------|
| Other | (28) | 8 |
| Balance, end of period | 1,987 | 2,090 |
| FAIR VALUE OF PLAN ASSETS | | |
| Balance, beginning of year | 2,410 | 2,151 |
| Actual return on plan assets | (156) | 282 |
| Contributions | 55 | 46 |
| Benefits paid | (68) | (77) |
| Other | (25) | 8 |
| Balance, end of period | 2,216 | 2,410 |
| FUNDED STATUS | | |
| Unrecognized net actuarial gains | (103) | (215) |
| Unrecognized prior service cost (benefit) | (1) | 3 |
| Unrecognized net transition obligation | 2 | 2 |
| Fourth quarter activity net | 11 | - |
| NET AMOUNT RECOGNIZED | \$ 138 | \$ 110 |
| Assets | | |
| Liabilities | \$ 265 | \$ 234 |
| NET AMOUNT RECOGNIZED | (127) | (124) |
| NET AMOUNT RECOGNIZED | \$ 138 | \$ 110 |

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$119 million, \$103 million, and \$57 million, respectively, as of September 24, 1999, and \$111 million, \$96 million, and \$50 million, respectively, as of December 25, 1998. These plans primarily represent U.S. supplemental plans not subject to ERISA or non-U.S. plans where funding strategies vary due to legal requirements and local practices.

The actuarial assumptions used in calculating the projected benefit obligation at September 24, 1999 and December 25, 1998 are as follows:

| | 1999 | 1998 |
|--|------|------|
| Discount rate | 6.5% | 5.5% |
| Rate of compensation increase | 4.0 | 5.7 |
| Expected rate of return on plan assets | 6.7 | 6.2 |

Pension cost included the following components:

| (in millions) | 1999 | 1998 | 1997 |
|--|--------|--------|--------|
| DEFINED CONTRIBUTION PLAN COST | \$ 234 | \$ 177 | \$ 218 |
| DEFINED BENEFIT PLANS | | | |
| Service cost for benefits earned during the year | 49 | 54 | 32 |
| Interest cost on projected benefits obligation | 114 | 122 | 109 |
| Expected return on plan assets | (136) | (141) | (121) |
| Deferral and amortization of unrecognized items | - | 7 | - |
| Total defined benefit plan cost | 27 | 42 | 20 |
| TOTAL PENSION COST | \$ 261 | \$ 219 | \$ 238 |

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Merrill Lynch provides health and life insurance benefits to retired employees under a plan that covers substantially all U.S. employees who have met age and service requirements. The health care component is contributory, with certain retiree contributions adjusted periodically; the life insurance component of the plan is noncontributory. The accounting for costs of health care benefits anticipates future changes in cost-sharing provisions. Merrill Lynch pays claims as incurred. Full-time employees of Merrill Lynch become eligible for these

benefits upon attainment of age 55 and completion of ten years of service. Merrill Lynch also sponsors similar plans that provide health care benefits to retired employees of certain non-U.S. subsidiaries. At December 31, 1999, none of these plans had been funded.

The following table provides a summary of the changes in the plans' benefit obligations, assets, and funded status for the nine-month period ended September 24, 1999 and the year-ended December 25, 1998, and the amounts recognized in the Consolidated Balance Sheets at year-end 1999 and 1998:

| ----- | | |
|--|----------|----------|
| (in millions) | | |
| | 1999 | 1998 |
| | ----- | ----- |
| ACCUMULATED BENEFIT OBLIGATIONS | | |
| Balance, beginning of year | \$ 214 | \$ 211 |
| Service cost | 9 | 8 |
| Interest cost | 14 | 13 |
| Net actuarial gain | (33) | (12) |
| Benefits paid | (8) | (7) |
| Other | (2) | 1 |
| | ----- | ----- |
| Balance, end of period | 194 | 214 |
| | ----- | ----- |
| FAIR VALUE OF PLAN ASSETS | | |
| Balance, beginning of year | - | - |
| Contributions | 8 | 7 |
| Benefits paid | (8) | (7) |
| | ----- | ----- |
| Balance, end of period | - | - |
| | ----- | ----- |
| FUNDED STATUS | | |
| Unrecognized net actuarial gain | (37) | (3) |
| Unrecognized prior service cost | - | (1) |
| Fourth quarter activity, net | 2 | - |
| | ----- | ----- |
| ACCRUED BENEFIT LIABILITIES | \$ (229) | \$ (218) |
| | ===== | ===== |
| ----- | | |

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The actuarial assumptions used in calculating the postretirement accumulated benefit obligations at September 24, 1999 and December 25, 1998 are as follows:

| ----- | | |
|---------------------------------|-------|-------|
| | 1999 | 1998 |
| | ----- | ----- |
| Discount rate | 7.5% | 6.3% |
| Health care cost trend rates(1) | | |
| Initial | 8.4 | 7.0 |
| 2012 and thereafter | 5.0 | 5.5 |
| | ----- | ----- |

(1) Assumed to decrease gradually until 2012 and remain constant thereafter.

Other postretirement benefits cost included the following components:

| ----- | | | |
|--|-------|-------|-------|
| (in millions) | | | |
| | 1999 | 1998 | 1997 |
| | ----- | ----- | ----- |
| Service cost | \$ 9 | \$ 8 | \$ 6 |
| Interest cost | 14 | 13 | 11 |
| Other | (4) | - | - |
| | ----- | ----- | ----- |
| Total other postretirement benefits cost | \$ 19 | \$ 21 | \$ 17 |
| | ===== | ===== | ===== |
| ----- | | | |

The assumed health care cost trend rate has a significant effect on the amounts reported for the health care plans. A one percent change in the assumed health care cost trend rate would have the following effects:

| ----- | | | | |
|----------------------|-------------|-------|-------------|-------|
| (in millions) | | | | |
| | 1% INCREASE | | 1% DECREASE | |
| | ----- | ----- | ----- | ----- |
| | 1999 | 1998 | 1999 | 1998 |
| | ----- | ----- | ----- | ----- |
| Effect on: | | | | |
| Other postretirement | | | | |

| | | | | |
|--------------------------------|------|------|--------|--------|
| benefits cost | \$ 5 | \$ 4 | \$ (4) | \$ (4) |
| Accumulated benefit obligation | 29 | 35 | (24) | (30) |

POSTEMPLOYMENT BENEFITS

Merrill Lynch provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. Employees who are disabled due to non-work-related illness or injury are entitled to disability income, medical coverage, and life insurance. Merrill Lynch also provides severance benefits to terminated employees. In addition, Merrill Lynch is mandated by U.S. state and federal regulations to provide certain other postemployment benefits. Merrill Lynch funds these benefits through a combination of self-insured and insured plans.

Merrill Lynch recognized \$33 million, \$439 million, and \$30 million in 1999, 1998, and 1997, respectively, of postemployment benefits expense, which included severance costs for terminated employees of \$26 million, \$424 million, and \$18 million in 1999, 1998, and 1997, respectively. The severance costs for 1998 include amounts related to the staff reduction provision (see Note 2). Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 31, 1999 since future severance costs are not estimable.

NOTE 11. EMPLOYEE INCENTIVE PLANS

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with stock or options to purchase shares. The total compensation cost recognized in earnings for stock-based compensation plans for 1999, 1998, and 1997 was \$463 million, \$453 million, and \$318 million, respectively. Merrill Lynch also sponsors deferred cash compensation plans for eligible employees.

LONG-TERM INCENTIVE COMPENSATION PLANS ("LTIC PLANS") AND EQUITY CAPITAL ACCUMULATION PLAN ("ECAP")

LTIC Plans and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Nonqualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, Stock Appreciation Rights, and other securities of Merrill Lynch. ECAP provides for the issuance of Restricted Shares, as well as Performance Shares. As of December 31, 1999, no instruments other than Restricted Shares, Restricted Units, Nonqualified Stock Options, and Performance Options had been granted.

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, is payable in cash or shares of common stock, and receives 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, and 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.

The activity for Restricted Shares and Units under these plans during 1999 and 1998 follows:

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| | LTIC Plans | | ECAP |
|---|-------------------|------------------|-------------------|
| | Restricted Shares | Restricted Units | Restricted Shares |
| AUTHORIZED FOR ISSUANCE AT: | | | |
| December 31, 1999 | 240,000,000 | N/A | 52,400,000 |
| December 25, 1998 | 240,000,000 | N/A | 52,400,000 |
| AVAILABLE FOR ISSUANCE AT: (1) | | | |
| December 31, 1999 | 38,638,551 | N/A | 2,889,840 |
| December 25, 1998 | 69,342,410 | N/A | 2,985,313 |
| OUTSTANDING, END OF 1997 | 9,846,146 | 9,897,742 | 3,880,565 |
| Granted - 1998 | 4,389,218 | 4,641,545 | 6,443 |
| Paid, forfeited, or released from contingencies | (519,246) | (3,680,398) | (68,398) |
| OUTSTANDING, END OF 1998 | 13,716,118 | 10,858,889 | 3,818,610 |
| Granted - 1999 | 181,785 | 5,012,283 | 207,900 |

| | | | |
|--|------------|-------------|-----------|
| Paid, forfeited, or released from contingencies | (777,753) | (3,288,730) | (195,713) |
| ----- | ----- | ----- | ----- |
| OUTSTANDING, END OF 1999(2) | 13,120,150 | 12,582,442 | 3,830,797 |
| ===== | ===== | ===== | ===== |

- (1) Includes shares reserved for issuance upon the exercise of stock options.
(2) In February 2000, 100,836 and 6,774,239 Restricted Shares and Units under LTIC Plans, respectively, were granted to eligible employees.

The weighted-average fair value per share or unit for 1999, 1998, and 1997 grants follows:

| | | | |
|------------------------|----------|----------|----------|
| | 1999 | 1998 | 1997 |
| ----- | ----- | ----- | ----- |
| LTIC Plans | | | |
| Restricted Shares | \$ 75.80 | \$ 65.95 | \$ 46.31 |
| Restricted Units | 74.98 | 64.77 | 44.47 |
| ECAP Restricted Shares | 85.36 | 81.78 | 66.99 |
| ----- | ----- | ----- | ----- |

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares and units are granted to employees and non-employee directors. The accompanying table summarizes information related to restricted shares and units for these other plans:

| | | |
|-----------------------------|----------------------|---------------------|
| | Restricted Shares | Restricted Units |
| ----- | ----- | ----- |
| AUTHORIZED FOR ISSUANCE AT: | | |
| December 31, 1999 | 6,300,000 | 400,000 |
| December 25, 1998 | 6,300,000 | 400,000 |
| OUTSTANDING AT: | | |
| December 31, 1999 | 269,909 | 37,936 |
| December 25, 1998 | 316,823 | 40,051 |
| ----- | ----- | ----- |

Nonqualified Stock Options

Nonqualified Stock Options granted under LTIC Plans in 1989 through 1995 generally become exercisable over four years in equal installments commencing one year after the date of grant. Options granted in 1996 and thereafter generally are exercisable over five years. The exercise price of these options is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of ML & Co. common stock on the date of grant. Nonqualified Stock Options expire ten years after their grant date.

In 1999, Merrill Lynch granted performance options under the LTIC plan. These options vest based on Merrill Lynch's achievement of performance criteria over a period not exceeding nine years.

At consummation of Merrill Lynch's merger with Midland Walwyn (see Note 2), each Midland Walwyn optionholder received 0.24 options on ML & Co. common stock, with the vesting period and contractual life identical to the terms of the original grant.

The activity for Nonqualified Stock Options and Performance Options under LTIC Plans and Midland Walwyn options for 1999, 1998, and 1997 follows:

| | | |
|--------------------------------|------------------------|--|
| | Options Outstanding | Weighted- Average Exercise Price |
| ----- | ----- | ----- |
| OUTSTANDING, BEGINNING OF 1997 | 64,500,802 | \$ 16.84 |
| Granted - 1997 | 15,564,256 | 42.15 |
| Exercised | (9,226,197) | 12.46 |
| Forfeited | (1,387,935) | 31.25 |
| ----- | ----- | ----- |
| OUTSTANDING, END OF 1997 | 69,450,926 | 22.78 |
| Granted - 1998 | 12,119,989 | 62.76 |
| Exercised | (7,968,828) | 15.82 |
| Forfeited | (708,303) | 44.88 |
| ----- | ----- | ----- |
| OUTSTANDING, END OF 1998 | 72,893,784 | 29.97 |
| Granted - 1999 | 29,924,940 | 72.00 |
| Exercised | (7,485,120) | 17.90 |
| Forfeited | (2,818,160) | 63.89 |
| ----- | ----- | ----- |
| OUTSTANDING, END OF 1999(1) | 92,515,444 | 55.97 |
| ===== | ===== | ===== |

(1) In January 2000, 19,825,344 Nonqualified Stock Options were granted to eligible employees.

At year-end 1999, 1998, and 1997, options exercisable were 41,784,354, 38,810,615, and 36,665,520, respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 1999.

<TABLE>
<CAPTION>

| Exercisable | Options Outstanding | | Options | |
|-------------------|---------------------|---------------------------------|---|--------------------|
| | Number Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Life (years) (1) | Number Exercisable |
| \$5.00 - \$19.99 | 22,870,268 | \$ 13.57 | 2.88 | 22,870,268 |
| \$ 13.57 | | | | |
| \$20.00 - \$39.99 | 17,439,967 | 25.37 | 5.42 | 12,300,933 |
| 24.49 | | | | |
| \$40.00 - \$71.99 | 23,898,079 | 51.41 | 7.64 | 6,550,257 |
| 40.63 | | | | |
| \$72.00 - \$89.99 | 28,307,130 | 72.55 | 9.20 | 62,896 |
| 89.53 | | | | |

</TABLE>
(1) Based on original contractual life of ten years.

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The weighted-average fair value of options granted in 1999, 1998, and 1997 was \$24.78, \$21.43, and \$14.63 per option, respectively. Fair value is estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted-average assumptions:

| | 1999 | 1998 | 1997 |
|-------------------------|--------|--------|--------|
| Risk-free interest rate | 4.67% | 5.81% | 6.74% |
| Expected life | 5 yrs. | 6 yrs. | 6 yrs. |
| Expected volatility | 40.89% | 28.10% | 26.86% |
| Dividend yield | 1.33% | 1.28% | 1.47% |

See Pro Forma Compensation Expense in the following Employee Stock Purchase Plans section for additional information.

EMPLOYEE STOCK PURCHASE PLANS ("ESPP")

ESPP plans allow eligible employees to invest from 1% to 10% of their eligible compensation to purchase ML & Co. common stock at a price generally equal to 85% of its fair market value. These purchases are made on four quarterly investment dates through payroll deductions. Up to 50,300,000 shares of common stock have been authorized for issuance under ESPP. The activity in ESPP during 1999, 1998, and 1997 follows:

| | 1999 | 1998 | 1997 |
|------------------------------|-------------|-------------|-------------|
| Available, beginning of year | 5,990,095 | 7,251,343 | 8,267,360 |
| Authorized during year | - | - | 300,000 |
| Purchased through plan | (1,376,274) | (1,261,248) | (1,316,017) |
| Available, end of year | 4,613,821 | 5,990,095 | 7,251,343 |

The weighted-average fair value of ESPP stock purchase rights exercised by

employees in 1999, 1998, and 1997 was \$12.50, \$11.31, and \$7.66 per right, respectively.

Pro Forma Compensation Expense

No compensation expense has been recognized for Merrill Lynch's grants of stock options under LTIC Plans or ESPP purchase rights (see Note 1 for accounting policy). Pro forma compensation expense associated with option grants is recognized over the vesting period. Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of \$292 million, \$95 million, and \$56 million for 1999, 1998, and 1997, respectively, resulting in pro forma net earnings and earnings per share as follows:

| ----- | | | |
|---|----------|----------|----------|
| (in millions, except per share amounts) | | | |
| | 1999 | 1998 | 1997 |
| | ----- | ----- | ----- |
| NET EARNINGS | | | |
| As reported | \$ 2,618 | \$ 1,259 | \$ 1,935 |
| Pro forma | 2,326 | 1,164 | 1,879 |
| EARNINGS PER SHARE | | | |
| As reported: | | | |
| Basic | \$ 7.00 | \$ 3.43 | \$ 5.57 |
| Diluted | 6.17 | 3.00 | 4.79 |
| Pro forma: | | | |
| Basic | 6.21 | 3.16 | 5.41 |
| Diluted | 5.47 | 2.77 | 4.65 |
| ----- | | | |

FINANCIAL CONSULTANT CAPITAL ACCUMULATION AWARD PLANS ("FCCAAP")

Under FCCAAP, eligible employees in Private Client are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. The award is generally payable ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value plus interest, in which case the minimum value is paid in cash. Eligible participants may defer awards beyond the scheduled payment date. FCCAAP may also provide for the issuance of Restricted Shares that vest ten years from the date of the original award and carry voting and dividend rights. Only shares of common stock held as treasury stock may be issued under FCCAAP.

At December 31, 1999, shares subject to outstanding awards totaled 28,262,763, while 15,518,581 shares were available for issuance through future awards. The fair value of awards granted under FCCAAP during 1999, 1998, and 1997 was \$71.44, \$67.94, and \$42.09 per award, respectively.

INCENTIVE EQUITY PURCHASE PLAN ("IEPP")

IEPP allowed selected employees to purchase shares of ML & Co. common stock ("Book Value Shares") at a price equal to book value per common share. Book Value Shares, which otherwise may not be resold, may be sold back to Merrill Lynch at book value or exchanged at any time for a specified number of freely transferable common shares. Book Value Shares outstanding under IEPP were 1,743,500 at December 31, 1999. In 1995, IEPP was amended to reduce the authorized shares to zero and prohibit the reuse of any surrendered shares. No further offerings will be made under this plan.

MERRILL LYNCH INVESTMENT CERTIFICATE PROGRAM ("MLICP")

Under MLICP, eligible employees in Private Client are issued investment certificates based on their performance. The certificates mature ten years from the date issued and are

82 Notes to Consolidated Financial Statements

payable in cash if certain performance criteria are achieved and the employee is continuously employed for the ten-year period, with certain exceptions. The certificates bear interest commencing with the date on which the performance requirements are achieved. At year-end 1999 and 1998, \$409 million and \$353 million, respectively, were accrued under this plan.

OTHER DEFERRED COMPENSATION PLANS

Merrill Lynch sponsors other deferred compensation plans in which eligible employees may participate. Generally, contributions to the plans are made on a tax-deferred basis by participants. Contributions are invested by Merrill Lynch in mutual funds and other funds sponsored by Merrill Lynch, and the plans may include a leverage feature. The plans' investments and the amounts accrued by Merrill Lynch under the plans are both included in the Consolidated Balance Sheets. Plan investments totaled \$1.2 billion and \$648 million, respectively, at December 31, 1999 and December 25, 1998. Accrued liabilities at those dates were

\$1.0 billion and \$587 million, respectively.

NOTE 12. INCOME TAXES

Income tax provisions (benefits) on earnings consisted of:

| (in millions) | | | |
|---------------------|----------|--------|----------|
| | 1999 | 1998 | 1997 |
| U.S. FEDERAL | | | |
| Current | \$ 773 | \$ 673 | \$ 856 |
| Deferred | (80) | (180) | (94) |
| U.S.STATE AND LOCAL | | | |
| Current | (34) | 105 | (15) |
| Deferred | (42) | 10 | 7 |
| NON-U.S. | | | |
| Current | 617 | 412 | 400 |
| Deferred | 31 | (307) | (25) |
| TOTAL | \$ 1,265 | \$ 713 | \$ 1,129 |

The corporate statutory tax rate was 35.0% for the three years presented. A reconciliation of statutory U.S. federal income taxes to Merrill Lynch's income tax provisions for earnings follows:

| (in millions) | | | |
|--|----------|--------|----------|
| | 1999 | 1998 | 1997 |
| U.S.federal income tax at statutory rate | \$ 1,427 | \$ 734 | \$ 1,089 |
| U.S.state and local income taxes,net(1) | (49) | 74 | (5) |
| Non-U.S.operations | (80) | (71) | 1 |
| Tax-exempt interest | (64) | (51) | (26) |
| Dividends received deduction | (28) | (30) | (33) |
| Other,net | 59 | 57 | 103 |
| Income tax expense | \$ 1,265 | \$ 713 | \$ 1,129 |

(1) Includes adjustments to prior year accruals.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Balance Sheets. These temporary differences result in taxable or deductible amounts in future years. Details of Merrill Lynch's deferred tax assets and liabilities follow:

| (in millions) | | | |
|---------------------------------|----------|----------|----------|
| | 1999 | 1998 | 1997 |
| DEFERRED TAX ASSETS | | | |
| Deferred compensation | \$ 1,020 | \$ 679 | \$ 478 |
| Valuation and other reserves(1) | 782 | 1,225 | 940 |
| Employee benefits | 185 | 120 | 109 |
| Other | 621 | 375 | 116 |
| Gross deferred tax assets | 2,608 | 2,399 | 1,643 |
| Valuation allowances(2) | (82) | (42) | (26) |
| Total deferred tax assets | 2,526 | 2,357 | 1,617 |
| DEFERRED TAX LIABILITIES | | | |
| Lease transactions | 143 | 148 | 116 |
| Employee benefits | 74 | 64 | 58 |
| Other | 295 | 207 | 204 |
| Total deferred tax liabilities | 512 | 419 | 378 |
| NET DEFERRED TAX ASSETS | \$ 2,014 | \$ 1,938 | \$ 1,239 |

(1) Primarily related to Trading assets and Other payables.

(2) Related to net operating loss carryforwards not expected to be realized.

At December 31, 1999, Merrill Lynch had U.S. net operating loss carryforwards of \$310 million and non-U.S. net operating loss carryforwards of

\$370 million. The U.S. amounts are primarily state carryforwards expiring in various years after 2005 and the non-U.S. amounts are primarily Japanese carryforwards expiring in various years after 2002.

Income tax benefits of \$281 million, \$336 million, and \$173 million were allocated to stockholders' equity related to employee compensation transactions for 1999, 1998, and 1997, respectively.

Earnings before income taxes included approximately \$1,447 million, \$44 million, and \$805 million of earnings attributable to non-U.S. subsidiaries for 1999, 1998, and 1997, respectively. Cumulative undistributed earnings of non-U.S. subsidiaries not previously taxed in the U.S. were approximately \$3.3 billion at December 31, 1999. No deferred U.S. federal income taxes have been provided for the undistributed earnings to the extent that they are permanently reinvested in Merrill Lynch's non-U.S. operations. Merrill Lynch estimates that approximately \$160 million of non-U.S. withholding taxes and, assuming utilization of foreign tax credits, approximately \$300 million of U.S. federal income taxes would be incurred on the repatriation of such earnings.

Notes to Consolidated Financial Statements 83

NOTE 13. REGULATORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

MLPF&S, a U.S. registered broker-dealer, is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items arising from customer transactions. At December 31, 1999, MLPF&S's regulatory net capital of \$3,352 million was 12% of aggregate debit items, and its regulatory net capital in excess of the minimum required was \$2,780 million.

MLI, a U.K. registered broker-dealer, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. In 1997, MLI became Merrill Lynch's primary global equity derivatives dealer (previously Merrill Lynch Capital Markets PLC). At December 31, 1999, MLI's financial resources were \$3,747 million, exceeding the minimum requirement by \$492 million.

MLGSI, a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 31, 1999, MLGSI's liquid capital of \$1,739 million was 481% of its total market and credit risk, and liquid capital in excess of the minimum required was \$1,305 million.

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. At December 31, 1999, \$444 million, representing 88% of the insurance subsidiaries' net assets, was unavailable for distribution to Merrill Lynch.

Approximately 80 other subsidiaries are subject to regulatory and other requirements of the jurisdictions in which they operate. These regulatory restrictions may limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. At December 31, 1999, restricted net assets of these subsidiaries were \$5.3 billion.

In addition, to satisfy rating agency standards, a credit intermediary subsidiary of Merrill Lynch must also meet certain minimum capital requirements. At December 31, 1999, this minimum capital requirement was \$288 million.

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than (1) ML & Co.'s obligation to make payments on its TOPrS, and (2) the governing provisions of the Delaware General Corporation Law.

NOTE 14. SEGMENT, PRODUCT, AND GEOGRAPHIC INFORMATION

SEGMENT INFORMATION

In reporting to management during 1999, Merrill Lynch's operating results were categorized into three business segments: the Corporate and Institutional Client Group ("CICG"), the Private Client Group ("PCG") and the Asset Management Group ("AMG"). Prior period amounts have been restated to conform to the 1999 presentation. For information on each segment's activities, see Management's Discussion and Analysis (unaudited) - Business Segments.

The principal methodology used in preparing the segment results in the table that follows is:

. Revenues and expenses are assigned to segments where directly

- attributable.
- . Principal transaction and investment banking revenues and related costs resulting from the client activities of PCG are allocated among CIGC and PCG based on production credits, share counts, trade counts, and other measures which estimate relative value.
 - . Revenues and expenses related to certain retail money market funds are assigned to PCG.
 - . The 401(k) business is reported as a 50/50 joint venture between AMG and PCG.
 - . Revenues and expenses related to mutual fund shares bearing a contingent deferred sales charge are reflected in segment results as if AMG and PCG were unrelated entities.
 - . Interest (cost of carry) is allocated based on management's assessment of the relative risk of segment assets and liabilities.
 - . Goodwill amortization, Mercury financing costs, and the staff reduction provision are not attributed to segments because management excludes these items from segment operating results in evaluating segment performance. The elimination of intersegment revenues and expenses is also included in Corporate items (including intersegment eliminations).
 - . Residual revenues and expenses (i.e., those related to overhead and support units) are attributed to segments based on specific methodologies (e.g., headcount, square footage, intersegment agreements).
 - . Income taxes are attributed based on tax rates in the tax jurisdictions in which the segment activity takes place.

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Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to the consolidated amounts:

<TABLE>
<CAPTION>

| | CIGC | PCG | AMG | CORPORATE ITEMS (INCLUDING INTERSEGMENT ELIMINATIONS) |
|--|------------|-----------|----------|--|
| (in millions) | | | | |
| TOTAL | | | | |
| 1999 | | | | |
| <S> | <C> | <C> | <C> | <C> |
| <C> | | | | |
| All other revenues | \$ 8,303 | \$ 9,450 | \$ 2,223 | \$ (194) (1) |
| \$ 19,782 | | | | |
| Net interest revenue(2) | 1,025 | 1,238 | 45 | (221) (3) |
| 2,087 | | | | |
| Net revenues | 9,328 | 10,688 | 2,268 | (415) |
| 21,869 | | | | |
| Non-interest expenses | 6,760 | 9,265 | 1,752 | 14 (4) |
| 17,791 | | | | |
| Earnings (loss) before income taxes and dividends on preferred securities issued by subsidiaries | 2,568 | 1,423 | 516 | (429) |
| 4,078 | | | | |
| Income tax expense (benefit) | 662 | 498 | 181 | (76) |
| 1,265 | | | | |
| Dividends on preferred securities issued by subsidiaries | - | - | - | 195 |
| 195 | | | | |
| Net earnings (loss) | \$ 1,906 | \$ 925 | \$ 335 | \$ (548) |
| \$ 2,618 | | | | |
| Year-end total assets | \$ 264,130 | \$ 56,579 | \$ 2,410 | \$ 4,952 |
| \$ 328,071 | | | | |
| 1998 | | | | |
| All other revenues | \$ 6,177 | \$ 8,678 | \$ 1,955 | \$ (271) (1) |
| \$ 16,539 | | | | |
| Net interest revenue(2) | 372 | 918 | 24 | (306) (3) |

| | | | | |
|--|------------|-----------|----------|--------------|
| 1,008 | | | | |
| Net revenues | 6,549 | 9,596 | 1,979 | (577) |
| 17,547 | | | | |
| Non-interest expenses, excluding staff reduction provision | 5,453 | 8,101 | 1,529 | (62) (4) |
| 15,021 | | | | |
| Provision for costs related to staff reduction | - | - | - | 430 (5) |
| 430 | | | | |
| Earnings (loss) before income taxes and dividends on preferred securities issued by subsidiaries | 1,096 | 1,495 | 450 | (945) |
| 2,096 | | | | |
| Income tax expense (benefit) | 135 | 546 | 158 | (126) |
| 713 | | | | |
| Dividends on preferred securities issued by subsidiaries | - | - | - | 124 |
| 124 | | | | |
| Net earnings (loss) | \$ 961 | \$ 949 | \$ 292 | \$ (943) |
| \$ 1,259 | | | | |
| Year-end total assets | \$ 247,646 | \$ 44,691 | \$ 2,103 | \$ 5,364 |
| \$ 299,804 | | | | |
| 1997 | | | | |
| All other revenues | \$ 6,557 | \$ 7,706 | \$ 1,241 | \$ (304) (1) |
| \$ 15,200 | | | | |
| Net interest revenue(2) | 232 | 826 | (2) | - |
| 1,056 | | | | |
| Net revenues | 6,789 | 8,532 | 1,239 | (304) |
| 16,256 | | | | |
| Non-interest expenses | 5,166 | 7,374 | 834 | (229) (4) |
| 13,145 | | | | |
| Earnings (loss) before income taxes and dividends on preferred securities issued by subsidiaries | 1,623 | 1,158 | 405 | (75) |
| 3,111 | | | | |
| Income tax expense | 437 | 428 | 141 | 123 |
| 1,129 | | | | |
| Dividends on preferred securities issued by subsidiaries | - | - | - | 47 |
| 47 | | | | |
| Net earnings (loss) | \$ 1,186 | \$ 730 | \$ 264 | \$ (245) |
| \$ 1,935 | | | | |
| Year-end total assets | \$ 252,587 | \$ 38,061 | \$ 865 | \$ 5,467 |
| \$ 296,980 | | | | |

</TABLE>

- (1) Represents the elimination of intersegment revenues.
- (2) Management views interest income net of interest expense in evaluating results.
- (3) Represents Mercury financing costs.
- (4) Represents goodwill amortization of \$227, \$226, and \$65, net of elimination of intersegment expenses \$213, \$288, and \$294 for 1999, 1998, and 1997, respectively.
- (5) Had this amount been allocated to segments, \$259, \$88, and \$83 would have been allocated to CIG, PCG, and AMG, respectively.

PRODUCT INFORMATION

Merrill Lynch delivers a wide variety of products to clients:

- . Brokerage: Executing or facilitating security and commodity trades for retail clients and assisting clients in allocating their assets. (Includes commissions, net interest, and principal transactions).
- . Asset management and portfolio services: Offering customers access to a wide array of asset management services and other fee-based products.
- . Lending: Serving investors' liability management needs by providing margin lending, mortgage and other consumer loans, and commercial financing.
- . Trading: Satisfying institutional customer demand for securities, currencies, and other products by maintaining securities inventories and writing over-the-counter derivatives. Through structured notes and derivatives, investors are provided with opportunities to diversify their portfolios, manage risk, and enhance returns. Also included are revenues related to proprietary positions. (Includes commissions, principal transactions revenues, and net interest).
- . Origination: Raising capital for clients through securities underwritings, private placements, and loan syndications.
- . Strategic advisory services: Providing advice on mergers and acquisitions, sales, divestitures, and joint ventures.

The following table summarizes Merrill Lynch's net revenues by product.

| ----- | | | |
|-----------------------------|-----------|-----------|-----------|
| (in millions) | 1999 | 1998 | 1997 |
| | ----- | ----- | ----- |
| CICG | | | |
| Trading: | | | |
| Debt | \$ 2,397 | \$ 899 | \$ 2,232 |
| Equity | 3,638 | 2,722 | 2,052 |
| | ----- | ----- | ----- |
| Total | 6,035 | 3,621 | 4,284 |
| | ----- | ----- | ----- |
| Origination: | | | |
| Debt | 450 | 484 | 587 |
| Equity | 1,104 | 884 | 820 |
| | ----- | ----- | ----- |
| Total | 1,554 | 1,368 | 1,407 |
| | ----- | ----- | ----- |
| Strategic advisory services | 1,270 | 1,081 | 765 |
| Other | 469 | 479 | 333 |
| | ----- | ----- | ----- |
| Total CICG | 9,328 | 6,549 | 6,789 |
| | ----- | ----- | ----- |
| PCG | | | |
| Brokerage | 6,741 | 6,221 | 5,755 |
| | ----- | ----- | ----- |
| Fee-based services: | | | |
| Portfolio service fees | 1,459 | 1,134 | 805 |
| Asset management fees | 583 | 589 | 402 |
| Other fees | 1,042 | 988 | 944 |
| | ----- | ----- | ----- |
| Total | 3,084 | 2,711 | 2,151 |
| | ----- | ----- | ----- |
| Lending | 731 | 577 | 477 |
| Other | 132 | 87 | 149 |
| | ----- | ----- | ----- |
| Total Private Client | 10,688 | 9,596 | 8,532 |
| | ----- | ----- | ----- |
| AMG | | | |
| Fee-based services: | | | |
| Asset management fees | 1,680 | 1,486 | 830 |
| Other fees | 3 | - | 21 |
| | ----- | ----- | ----- |
| Total | 1,683 | 1,486 | 851 |
| | ----- | ----- | ----- |
| Other | 585 | 493 | 388 |
| | ----- | ----- | ----- |
| Total Asset Management | 2,268 | 1,979 | 1,239 |
| | ----- | ----- | ----- |
| CORPORATE ITEMS | | | |
| (INCLUDING INTERSEGMENT | | | |
| ELIMINATIONS) | | | |
| | (415) | (577) | (304) |
| | ----- | ----- | ----- |
| Total | \$ 21,869 | \$ 17,547 | \$ 16,256 |
| | ===== | ===== | ===== |
| ----- | | | |

Merrill Lynch operates in both U.S. and non-U.S. markets. Merrill Lynch's non-U.S. business activities are conducted through offices in six regions:

- . Europe, Middle East, and Africa,
- . Asia Pacific,
- . Australia and New Zealand,
- . Japan,
- . Canada, and
- . Latin America.

For further information on activities in these regions, see Management's Discussion and Analysis (unaudited) - Global Operations.

The principal methodology used in preparing the geographic data in the table that follows is:

- . Commissions revenues are recorded based on the location of the sales force,
- . Trading revenues are principally recorded based on the location of the trader,
- . Investment banking revenues are recorded based on the location of the client,
- . Asset management and portfolio service fees are recorded based on the location of the fund manager,
- . Earnings before income taxes include the allocation of certain shared expenses among regions, and
- . Intercompany transfers are based primarily on service agreements.

The information that follows, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated amounts.

(in millions)

| | 1999 | 1998 | 1997 |
|---------------------------------|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| NET REVENUES | | | |
| Europe, Middle East, and Africa | \$ 4,222 | \$ 2,844 | \$ 1,949 |
| Asia Pacific | 813 | 333 | 478 |
| Australia and New Zealand | 253 | 221 | 163 |
| Japan | 1,062 | 592 | 433 |
| Canada | 619 | 642 | 708 |
| Latin America | 614 | 412 | 523 |
| | ----- | ----- | ----- |
| Total Non-U.S. | 7,583 | 5,044 | 4,254 |
| U.S. | 14,507 | 12,809 | 12,002 |
| Corporate | (221) | (306) | - |
| | ----- | ----- | ----- |
| Total | \$ 21,869 | \$ 17,547 | \$ 16,256 |
| | ===== | ===== | ===== |

EARNINGS BEFORE INCOME TAXES
AND DIVIDENDS ON
PREFERRED SECURITIES
ISSUED BY SUBSIDIARIES

| | | | |
|---------------------------------|----------|----------|----------|
| Europe, Middle East, and Africa | \$ 1,290 | \$ 452 | \$ 328 |
| Asia Pacific | 230 | (182) | (26) |
| Australia and New Zealand | 32 | 22 | 12 |
| Japan | 20 | (108) | 62 |
| Canada | 65 | 25 | 99 |
| Latin America | 137 | (53) | 123 |
| | ----- | ----- | ----- |
| Total Non-U.S. | 1,774 | 156 | 598 |
| U.S. | 2,733 | 2,885 | 2,588 |
| Corporate | (429) | (945) | (75) |
| | ----- | ----- | ----- |
| Total | \$ 4,078 | \$ 2,096 | \$ 3,111 |
| | ===== | ===== | ===== |

Notes to Consolidated Financial Statements 87

SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY INFORMATION

The unaudited quarterly results of operations of Merrill Lynch for 1999 and 1998 are prepared in conformity with generally accepted accounting principles and reflect all adjustments (which consist of normal recurring accruals and a provision for costs related to staff reductions) that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Results of any interim period are not necessarily

indicative of results for a full year.

<TABLE>
<CAPTION>

(dollars in millions, except per share amounts)

| Ended | For the Quarter | | | | | | | |
|---|-----------------|------------------|------------------|-----------------|-----------------|------------------|------------------|-----|
| | DEC.31, 1999 | SEPT.24, 1999 | JUNE 25, 1999 | MAR.26, 1999 | DEC.25, 1998 | SEPT.25, 1998 | JUNE 26, 1998 | |
| MAR.27, 1998 | | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Total Revenues 9,062 | \$ 9,270 | \$ 8,412 | \$ 8,630 | \$ 8,567 | \$ 7,845 | \$ 8,345 | \$ 9,321 | \$ |
| Interest Expense 4,300 | 3,375 | 3,144 | 3,190 | 3,301 | 3,764 | 4,496 | 4,466 | |
| Net Revenues 4,762 | 5,895 | 5,268 | 5,440 | 5,266 | 4,081 | 3,849 | 4,855 | |
| Non-Interest Expenses 3,895 | 4,735 | 4,377 | 4,409 | 4,270 | 3,562 | 4,054 (1) | 3,940 | |
| Earnings (Loss) Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries 867 | 1,160 | 891 | 1,031 | 996 | 519 | (205) | 915 | |
| Income Tax Expense (Benefit) 330 | 346 | 271 | 310 | 338 | 119 | (75) | 339 | |
| Dividends on Preferred Securities Issued by Subsidiaries 23 | 50 | 48 | 48 | 49 | 41 | 33 | 27 | |
| Net Earnings (Loss) 514 | \$ 764 | \$ 572 | \$ 673 | \$ 609 | \$ 359 | \$ (163) | \$ 549 | \$ |
| Earnings (Loss) Per Common Share | | | | | | | | |
| Basic 1.44 | \$ 2.03 | \$ 1.52 | \$ 1.80 | \$ 1.65 | \$.97 | \$ (.48) | \$ 1.52 | \$ |
| Diluted 1.26 | 1.80 | 1.34 | 1.57 | 1.44 | .86 | (.48) | 1.31 | |

</TABLE>

(1) Includes a \$430 million provision for costs related to staff reductions.

DIVIDENDS PER COMMON SHARE

| (declared and paid) | 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER |
|---------------------|-------------|-------------|-------------|-------------|
| 1999 | \$.24 | \$.27 | \$.27 | \$.27 |
| 1998 | .20 | .24 | .24 | .24 |

With the exception of regulatory restrictions on subsidiaries' abilities to pay dividends, there are no restrictions on ML & Co.'s present ability to pay dividends on common stock, other than (a) ML & Co.'s obligation to make payments on its preferred stock and subsidiaries' preferred securities, and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited (see Note 13 to the Consolidated Financial Statements).

STOCKHOLDER INFORMATION

Consolidated Transaction Reporting System prices for the specified calendar quarters are noted below.

<TABLE>
<CAPTION>

(at calendar period-end)

| 1ST QUARTER | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER |
|-------------|-------------|-------------|-------------|
|-------------|-------------|-------------|-------------|

| | HIGH | LOW | HIGH | LOW | HIGH | LOW | HIGH | LOW |
|------|-----------|------------|------------|------------|------------|-----------|------------|-----------|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| 1999 | \$ 94 1/2 | \$ 65 5/8 | \$ 102 1/2 | \$ 66 1/16 | \$ 81 7/16 | \$ 62 | \$ 88 7/16 | \$ 62 3/8 |
| 1998 | \$ 87 1/2 | \$ 60 7/16 | \$ 100 | \$ 82 1/4 | \$ 109 1/8 | \$ 45 5/8 | \$ 80 | \$ 35 3/4 |

</TABLE>

The approximate number of record holders of ML & Co. common stock as of February 18, 2000 was 16,600. As of February 25, 2000, the closing price of ML & Co. common stock as reported on the Consolidated Transaction Reporting System was \$95 7/8.

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BOARD OF DIRECTORS

W.H. CLARK

Corporate Director...former Chairman of the Board and Chief Executive Officer of Nalco Chemical Company, a producer of specialty chemicals...67 years old...elected a Director of Merrill Lynch in 1995.

JILL K. CONWAY

Visiting Scholar, Massachusetts Institute of Technology... President of Smith College from 1975 to 1985...65 years old...elected a Director of Merrill Lynch in 1978.

STEPHEN L. HAMMERMAN

Vice Chairman of the Board of Merrill Lynch...62 years old... joined Merrill Lynch in 1978.

GEORGE B. HARVEY

Corporate Director...former Chairman of the Board, President and Chief Operating Officer of Pitney Bowes Inc., a provider of mailing, office and logistics systems and management and financial services...68 years old...elected a Director of Merrill Lynch in 1993.

WILLIAM R. HOOVER

Chairman of the Executive Committee of, Consultant to, and former Chairman of the Board, Chief Executive Officer and President of, Computer Sciences Corporation, a provider of information technology consulting, systems integration and outsourcing to industry and government...70 years old...elected a Director of Merrill Lynch in 1995.

DAVID H. KOMANSKY

Chairman of the Board and Chief Executive Officer of Merrill Lynch...60 years old...joined Merrill Lynch in 1968.

ROBERT P. LUCIANO

Corporate Director...Director, Chairman Emeritus and former Chairman of the Board and Chief Executive Officer of Schering-Plough Corporation, a health and personal care products company...66 years old...elected a Director of Merrill Lynch in 1989.

DAVID K. NEWBIGGING

Chairman of the Board of Friends' Provident Life Office, a United Kingdom-based life assurance company...former Chairman of the Board of Equitas Holdings Limited...former Chairman of the Board and Senior Managing Director of Jardine, Matheson & Co. Limited...66 years old...elected a Director of Merrill Lynch in 1996.

AULANA L. PETERS

Partner in the law firm of Gibson, Dunn & Crutcher LLP...former Commissioner of the U.S. Securities and Exchange Commission...58 years old...elected a Director of Merrill Lynch in 1994.

JOHN J. PHELAN, JR.

Corporate Director...former Chairman and Chief Executive Officer of the New York Stock Exchange, Inc....Senior Adviser, Boston Consulting Group...member of the Council on Foreign Relations... former President of the International Federation of Stock Exchanges...68 years old...elected a Director of Merrill Lynch in 1991.

JOHN L. STEFFENS

Vice Chairman of the Board and Chairman of U.S. Private Client Group of Merrill Lynch...58 years old...joined Merrill Lynch in 1963.

WILLIAM L. WEISS

Corporate Director...Chairman Emeritus and former Chairman of the Board and Chief Executive Officer of Ameritech Corporation, a provider of communications and information services...70 years old...elected a Director of Merrill Lynch in 1993.

Board of Directors 89

EXECUTIVE MANAGEMENT

On February 14, 2000, Merrill Lynch announced the following management changes. Merrill Lynch Vice Chairman John L. (Launny) Steffens was named Chairman of the U.S. Private Client Group. Executive Vice President E. Stanley O'Neal, who had been serving as Merrill Lynch's Chief Financial Officer, was named to succeed Mr. Steffens as President of U.S. Private Client Group. Mr. O'Neal will be succeeded as Chief Financial Officer by Executive Vice President Thomas H. Patrick, who had been serving as Chairman, Special Advisory Services.

[PHOTO]
DAVID H. KOMANSKY
Chairman of the Board and Chief Executive Officer

[PHOTO]
JOHN L. STEFFENS
Vice Chairman of the Board and Chairman of U.S. Private Client Group

[PHOTO]
STEPHEN L. HAMMERMAN
Vice Chairman of the Board

[PHOTO]
PAUL W. CRITCHLOW
Senior Vice President Communications and Public Affairs

[PHOTO]
THOMAS W. DAVIS
Executive Vice President and President of Corporate and Institutional Client Group

[PHOTO]
RICHARD A. DUNN
Senior Vice President and Head of Corporate Risk Management

[PHOTO]
BARRY S. FRIEDBERG
Executive Vice President and Chairman of Corporate and Institutional Client Group

90 Executive Management

[PHOTO]
CAROL GALLEY
Chief Operating Officer Asset Management Group

[PHOTO]
EDWARD L. GOLDBERG
Executive Vice President Operations Services Group

[PHOTO]
JAMES P. GORMAN
Executive Vice President and Chief Marketing Officer

[PHOTO]
JEROME P. KENNEY
Executive Vice President Corporate Strategy and Research

[PHOTO]
MICHAEL J.P. MARKS
Executive Chairman of Merrill Lynch Europe, Middle East & Africa

[PHOTO]
JOHN A. MCKINLEY, JR.
Executive Vice President and Chief Technology Officer

[PHOTO]
E. STANLEY O'NEAL
Executive Vice President and President of U.S. Private Client Group

[PHOTO]
THOMAS H. PATRICK
Executive Vice President and Chief Financial Officer

[PHOTO]
JEFFREY M. PEEK
Executive Vice President and President of Asset Management Group

[PHOTO]
WINTHROP H. SMITH, JR.
Executive Vice President and Chairman, Merrill Lynch International Inc. and
President of International Private Client Group

[PHOTO]
MARY E. TAYLOR
Senior Vice President Human Resources

[PHOTO]
STEPHEN A. ZIMMERMAN
Chief Operating Officer Asset Management Group

Executive Management 91

MERRILL LYNCH & CO., INC.
- - - - -

EXECUTIVE OFFICES

Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, New York 10281-1332

COMMON STOCK

Exchange Listings

The common stock of Merrill Lynch (trading symbol MER) is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Exchange, Paris Bourse, London Stock Exchange and Tokyo Stock Exchange.

Transfer Agent and Registrar

Merrill Lynch & Co., Inc. is the principal transfer agent for its own common stock. Questions from registered stockholders on dividends, lost and stolen certificates, changes of legal or dividend addresses, and other matters relating to registered stockholder status should be sent to:

Merrill Lynch & Co., Inc.
P.O. Box 20, Church Street Station
New York, NY 10277-1004
Attn: Darryl W. Colletti, Assistant Secretary

However, registered stockholders wishing to transfer their stock should continue to do so through the following transfer agent and registrar:

ChaseMellon Shareholder Services
P.O. Box 3310
South Hackensack, NJ 07606-1910
1-800-851-9677

PREFERRED STOCK

Exchange Listing

Depository Shares representing 1/400 of a share of 9% Cumulative Preferred Stock, Series A, are listed on the New York Stock Exchange.

Transfer Agent and Registrar

Citibank, N.A.
111 Wall Street, Fifth Floor
New York, NY 10043
Attn: Corporate Trust Department

FORM 10-K ANNUAL REPORT FOR 1999

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 1999 Annual Report on Form 10-K to be filed with the U.S. Securities and Exchange Commission. Merrill Lynch will furnish a copy of its 1999 Annual Report on Form 10-K (including financial statements and financial schedules but excluding other exhibits), without charge, to any person upon request addressed to Andrea L. Dulberg, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038.

EQUAL EMPLOYMENT OPPORTUNITY

Merrill Lynch is committed to Equal Employment Opportunity and to attracting and retaining the most qualified employees, regardless of race, national origin, religion, gender, age, or disability. For more information, write to Westina Matthews Shatteen, First Vice President, Corporate Responsibility, Merrill Lynch & Co., Inc., World Financial Center, North Tower, New York, NY 10281-1331.

CHARITABLE CONTRIBUTIONS

A summary of the Corporation's charitable contributions is available upon written request to the Secretary.

ANNUAL MEETING

The 2000 Annual Meeting of Merrill Lynch & Co., Inc. stockholders will take place at the Merrill Lynch Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Tuesday, April 18, 2000, beginning at 10:00 a.m. (local time).

Designed by DeSola Group, Inc.

Executive portrait photography by Chris Jones

VISIT OUR WEBSITE AT WWW.ML.COM

92 Corporate Information

Subsidiaries of the Registrant

The following are subsidiaries of ML & Co. as of February 25, 2000 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case ML & Co. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a "significant subsidiary" as that term is defined in Rule 1.02(w) of Regulation S-X under the Securities

Exchange Act of 1934.

| <TABLE> <CAPTION> | State or Jurisdiction of Entity |
|---|---------------------------------|
| Name ----- | ----- |
| <S> | <C> |
| Merrill Lynch & Co., Inc. | Delaware |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated/1/ | Delaware |
| Broadcort Capital Corp. | Delaware |
| Merrill Lynch Life Agency Inc./2/ | Washington |
| Merrill Lynch Professional Clearing Corp./3/ | Delaware |
| Merrill Lynch Bank & Trust Co. | New Jersey |
| Merrill Lynch Capital Services, Inc. | Delaware |
| Merrill Lynch Government Securities, Inc. | Delaware |
| Merrill Lynch Money Markets Inc. | Delaware |
| Merrill Lynch Group, Inc. | Delaware |
| Merrill Lynch & Co., Canada Ltd. | Ontario |
| Merrill Lynch Canada Inc. | Canada |
| Mercury Asset Management Group Ltd/4/ | England |
| Mercury Asset Management Holdings Ltd | England |
| Merrill Lynch Asset Management, L.P./5/ | Delaware |
| Merrill Lynch Capital Partners, Inc. | Delaware |
| Merrill Lynch Futures Inc. | Delaware |
| Merrill Lynch Insurance Group, Inc. | Delaware |
| Merrill Lynch Life Insurance Company | Arkansas |
| ML Life Insurance Company of New York | New York |
| Merrill Lynch International Finance Corporation | New York |
| Merrill Lynch International Bank Limited | England |
| Merrill Lynch Bank (Suisse) S.A. | Switzerland |
| Merrill Lynch Group Holdings Limited | Ireland |
| Merrill Lynch Capital Markets Bank Limited | Ireland |
| Merrill Lynch Mortgage Capital Inc. | Delaware |
| Merrill Lynch Bank USA | Utah |
| Merrill Lynch Trust Company/6/ | New Jersey |
| Merrill Lynch Business Financial Services Inc. | Delaware |
| Merrill Lynch Credit Corporation | Delaware |
| Merrill Lynch Investment Partners Inc. | Delaware |

</TABLE>

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- /1/ MLPF&S also conducts business as "Merrill Lynch & Co."
 - /2/ Similarly named affiliates and subsidiaries that engage in the sale of life insurance and annuity products are incorporated in various other jurisdictions.
 - /3/ The preferred stock of the corporation is owned by an unaffiliated group of investors.
 - /4/ Held through several intermediate holding companies.
 - /5/ Merrill Lynch Asset Management, L.P. is a limited partnership whose general partner is Princeton Services, Inc. and whose limited partner is ML & Co.
 - /6/ Similarly named affiliates and subsidiaries that provide trust and custodial services are incorporated in various other jurisdictions.

| <TABLE> <CAPTION> | State or Jurisdiction of Entity |
|---|---------------------------------|
| Name ----- | ----- |
| <S> | <C> |
| MLDP Holdings, Inc./7/ | Delaware |
| Merrill Lynch Derivative Products AG | Switzerland |
| ML IBK Positions, Inc. | Delaware |
| Merrill Lynch Capital Corporation | Delaware |
| ML Leasing Equipment Corp./8/ | Delaware |
| Merrill Lynch International Incorporated | Delaware |
| Merrill Lynch (Australasia) Pty Limited | New South Wales |
| Merrill Lynch International (Australia) Limited/9/ | New South Wales |
| Merrill Lynch International Bank | United States |
| Merrill Lynch International Holdings Inc. | Delaware |
| Merrill Lynch Bank and Trust Company (Cayman) Limited | Cayman Islands, |

| | |
|---|---------------------|
| Merrill Lynch Capital Markets AG | British West Indies |
| Merrill Lynch Europe PLC | Switzerland |
| Merrill Lynch Europe Holdings Limited | England |
| Merrill Lynch International/10/ | England |
| Merrill Lynch, Pierce, Fenner & Smith | England |
| (Brokers & Dealers) Limited | England |
| Merrill Lynch Europe Ltd. | Cayman Islands, |
| | British West Indies |
| Merrill Lynch France | France |
| Merrill Lynch Capital Markets (France) S.A. | France |
| Merrill Lynch (Asia Pacific) Limited | Hong Kong |
| Merrill Lynch Far East Limited | Hong Kong |
| Merrill Lynch Japan Incorporated | Cayman Islands, |
| | British West Indies |

</TABLE>

-
- /7/ Merrill Lynch Group, Inc. owns 100% of this corporation's outstanding common voting stock. 100% of the outstanding preferred voting stock is held by outside parties.
 - /8/ This corporation has more than 45 direct or indirect subsidiaries operating in the United States and serving as either general partners or associate general partners of limited partnerships.
 - /9/ Held through an intermediate subsidiary.
 - /10/ Partially owned by another indirect subsidiary of ML & Co.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries of our reports dated February 28, 2000, (which express an unqualified opinion and which report on the consolidated financial statements includes an explanatory paragraph relating to a change in the method of accounting in 1998 for certain internal-use software development costs) appearing in and incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1999.

Filed on Form S-8:

Registration Statement No. 33-41942 (1986 Employee Stock Purchase Plan)

Registration Statement No. 33-17908 (Incentive Equity Purchase Plan)

Registration Statement No. 33-33336 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51831 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51829 (401(k) Savings and Investment Plan)

Registration Statement No. 33-54154 (Non-Employee Directors' Equity Plan)

Registration Statement No. 33-54572 (401(k) Savings and Investment Plan (Puerto Rico))

Registration Statement No. 33-56427 (Amended and Restated 1994 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-55155 (1995 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-60989 (1996 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)

Registration Statement No. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-13367 (Restricted Stock Plan for Former Employees of Hotchkis and Wiley)

Registration Statement No. 333-15009 (1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-17099 (Deferred Unit and Stock Unit Plan for Non-Employee Directors)

Registration Statement No. 333-18915 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings & Investment Plan)

Registration Statement No. 333-56291 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-60211 (1999 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-62311 (Replacement Options; Midland Walwyn Inc.)

Registration Statement No. 333-85421 (401(k) Savings and Investment Plan)

Registration Statement No. 333-85423 (2000 Deferred Compensation Plan For a Select Group of Eligible Employees)

Registration Statement No. 333-92663 (Long-Term Compensation Plan for
Managers and Producers)

Filed on Form S-3:

Debt Securities:

Registration Statement No. 33-54218
Registration Statement No. 2-78338
Registration Statement No. 2-89519
Registration Statement No. 2-83477
Registration Statement No. 33-03602
Registration Statement No. 33-17965
Registration Statement No. 33-27512
Registration Statement No. 33-35456
Registration Statement No. 33-42041
Registration Statement No. 33-45327
Registration Statement No. 33-49947
Registration Statement No. 33-51489
Registration Statement No. 33-52647
Registration Statement No. 33-60413
Registration Statement No. 33-61559
Registration Statement No. 33-65135
Registration Statement No. 333-13649
Registration Statement No. 333-25255
Registration Statement No. 333-28537
Registration Statement No. 333-44173
Registration Statement No. 333-59997
Registration Statement No. 333-68747

Medium Term Notes:

Registration Statement No. 2-96315
Registration Statement No. 33-03079
Registration Statement No. 33-05125
Registration Statement No. 33-09910
Registration Statement No. 33-16165
Registration Statement No. 33-19820
Registration Statement No. 33-23605
Registration Statement No. 33-27549
Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 33-33335 (Common Stock)
Registration Statement No. 33-45777 (Common Stock)
Registration Statement No. 33-55363 (Preferred Stock)
Registration Statement No. 333-02275 (Long-Term Incentive Compensation
Plan)

Registration Statement No. 333-16603 (TOPrS)

Registration Statement No. 333-20137 (TOPrS)

Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)

Registration Statement No. 333-42859 (TOPrS)

Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)

Registration Statement No. 333-67903 (Howard Johnson & Company Resale)

/s/ Deloitte & Touche LLP

New York, New York
March 9, 2000

<TABLE> <S> <C>

<ARTICLE> BD

| <S> | <C> |
|-------------------------------|-------------|
| <PERIOD-TYPE> | OTHER |
| <FISCAL-YEAR-END> | DEC-31-1999 |
| <PERIOD-END> | DEC-31-1999 |
| <CASH> | 10,827 |
| <RECEIVABLES> | 56,450 |
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| <SECURITIES-BORROWED> | 41,707 |
| <INSTRUMENTS-OWNED> | 145,252<F1> |
| <PP&E> | 3,117 |
| <TOTAL-ASSETS> | 328,071 |
| <SHORT-TERM> | 43,197 |
| <PAYABLES> | 52,720 |
| <REPOS-SOLD> | 64,954 |
| <SECURITIES-LOANED> | 6,624 |
| <INSTRUMENTS-SOLD> | 87,497<F2> |
| <LONG-TERM> | 53,465 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 425 |
| <COMMON> | 630 |
| <OTHER-SE> | 11,747 |
| <TOTAL-LIABILITY-AND-EQUITY> | 328,071<F3> |
| <TRADING-REVENUE> | 4,361 |
| <INTEREST-DIVIDENDS> | 15,097 |
| <COMMISSIONS> | 6,334 |
| <INVESTMENT-BANKING-REVENUES> | 3,614 |
| <FEE-REVENUE> | 4,753 |
| <INTEREST-EXPENSE> | 13,010 |
| <COMPENSATION> | 11,153 |
| <INCOME-PRETAX> | 4,078 |
| <INCOME-PRE-EXTRAORDINARY> | 4,078 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 2,618 |
| <EPS-BASIC> | 7.00 |
| <EPS-DILUTED> | 6.17 |

<FN>

<F1>Includes \$10,005 of securities received as collateral, net of securities pledged as collateral, and \$9,699 of securities pledged as collateral, recorded pursuant to the provisions of Statement of Financial Accounting Standards No. 127 ("SFAS No. 127").

<F2>Includes \$19,704 of obligation to return securities received as collateral, recorded pursuant to the provisions of SFAS No. 127.

<F3>Includes \$2,725 of Preferred Securities issued by Subsidiaries.

</FN>

</TABLE>

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 1999 and December 25, 1998 and for each of the three years in the period ended December 31, 1999 and have issued our report thereon dated February 28, 2000, which report expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs. Such consolidated financial statements and our report thereon are incorporated by reference in Part Two, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Merrill Lynch as of December 26, 1997, December 27, 1996 and December 29, 1995, the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for each of the two years in the period ended December 27, 1996 (none of which are presented or incorporated by reference herein); and we expressed unqualified opinions on those consolidated financial statements. In our opinion, the information set forth in Exhibit 12 under the captions "Ratio of Earnings to Fixed Charges" and "Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends" for each of the five years in the period ended December 31, 1999 included in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
February 28, 2000

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Merrill Lynch & Co., Inc.:

We have audited the consolidated financial statements of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 31, 1999 and December 25, 1998 and for each of the three years in the period ended December 31, 1999 and have issued our report thereon dated February 28, 2000, which report expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method in 1998 for certain internal-use software development costs. Such consolidated financial statements and our report thereon are incorporated by reference in Part Two, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Merrill Lynch as of December 26, 1997, December 27, 1996 and December 29, 1995, the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for each of the two years in the period ended December 27, 1996 (none of which are presented or incorporated by reference herein); and we expressed unqualified opinions on those consolidated financial statements. In our opinion, the information set forth in the "Selected Financial Data" under the captions "Operating Results," "Financial Position," and "Common Share Data" included in the 1999 Annual Report to Stockholders and incorporated by reference in this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
February 28, 2000