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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-K  
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ANNUAL REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
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For the fiscal year ended December 25, 1998 Commission file number 1-7182

Merrill Lynch & Co., Inc.  
(Exact name of Registrant as specified in its charter)

Delaware 13-2740599  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

World Financial Center--North Tower  
250 Vesey Street  
New York, New York 10281  
(Address of principal executive (Zip Code)  
offices)

Registrant's telephone number, including area code: (212) 449-1000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1.33 1/3 and  
attached Rights to Purchase Series A Junior  
Preferred Stock New York Stock Exchange;  
Chicago Stock Exchange;  
Pacific Exchange; Paris Stock  
Exchange; London Stock  
Exchange; and Tokyo Stock  
Exchange

Depository Shares representing 1/400th share  
of 9% Cumulative Preferred Stock, Series A New York Stock Exchange

European Portfolio Market Index Target-Term  
Securities ("MITTS") due June 30, 1999; S&P  
500 MITTS due May 10, 2001; Technology MITTS  
due August 15, 2001; Healthcare/Biotechnology  
Portfolio MITTS due October 31, 2001; Nikkei  
225 MITTS due June 14, 2002; S&P 500 MITTS  
due September 16, 2002; Merrill Lynch's MITTS  
based upon the Dow Jones Industrial Average  
due January 14, 2003; Top Ten Yield MITTS due  
August 15, 2006; S&P 500 MITTS due September  
28, 2005; S&P 500 Inflation Adjusted MITTS  
due September 24, 2007; Stock Market Annual  
Reset Term Notes ("SMART Notes") due December  
31, 1999 (Series A); Equity Participation  
Securities with Minimum Return Protection due  
June 30, 1999; 5% Stock Return Income Debt  
Securities ("STRIDES") due June 1, 2000; 6%  
Structured Yield Product Exchangeable for  
Stock ("STRYPES") due June 1, 1999; 7 1/4%  
STRYPES due June 15, 1999; 7 7/8% STRYPES due  
February 1, 2001; 6 1/4% STRYPES due July 1,  
2001. New York Stock Exchange

Japan Index Equity Participation Securities  
with Minimum Return Protection due January  
31, 2000; AMEX Oil Index SMART Notes due  
December 29, 2000; AMEX Hong Kong 30 Index  
Equity Participation Notes due February 16,  
1999; Major 8 European Index MITTS due August  
30, 2002; Major 11 International MITTS due  
December 6, 2002; Russell 2000 Index MITTS  
due September 30, 2004; S&P 500 MITTS due  
July 1, 2005; EuroFund MITTS due February 28,  
2006; Medium-Term Notes, Series B, 3% Stock-  
Linked Notes due June 10, 2000; Medium-Term  
Notes, Series B, 5% Stock-Linked Notes due  
July 3, 2000; Medium-Term Notes, Series B,  
1.5% Principal Protected Notes due December  
15, 2005; Oracle Corporation Indexed Callable  
Protected Growth Security due March 31, 2003; American Stock Exchange

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

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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 [X] 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. [X]

As of the close of business on February 24, 1999, there were 359,808,565 shares of Common Stock and 4,414,794 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 24, 1999, 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 \$27 billion.

Documents Incorporated By Reference: Merrill Lynch & Co., Inc. 1998 Annual Report to Stockholders and Merrill Lynch & Co., Inc. Proxy Statement for its 1999 Annual Meeting of Stockholders dated March 5, 1999, 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 and other investment advisory and recordkeeping services
- . 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

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 two segments that comprise its four strategic priorities: Wealth Management and Corporate and Institutional Client. Wealth Management comprises three of the four strategic priorities--U.S. Private Client, International Private Client, and Asset Management--each of which provides services related to the accumulation and management of wealth. The Corporate and Institutional Client segment, the fourth strategic priority, provides investment banking and strategic advisory services as well as equity and debt trading and capital markets services, and equity, debt and economic research. Merrill Lynch provides these financial services worldwide through a number of highly integrated subsidiaries and affiliates that frequently participate in the facilitation and consummation of a single transaction. This organizational structure is designed to enhance 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

\* 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.

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 more than 45 countries outside the U.S., including offices in Buenos Aires, Dublin, Frankfurt, Geneva, Hong Kong, Johannesburg, London, Madrid, Mexico City, Milan, Paris, Sao Paulo, Singapore, Sydney, Toronto, Tokyo and Zurich.

Merrill Lynch employed 63,800 people at the end of 1998.

At the end of 1998, total assets in client accounts or under management were more than \$1.4 trillion. In 1998, according to Securities Data Co., Merrill Lynch achieved the top ranking in U.S. debt and equity underwriting, and ranked first in U.S. completed, and second in U.S. announced, mergers and acquisitions. Globally, Merrill Lynch was the leading debt and equity underwriter and ranked second in mergers and acquisitions for both announced and completed transactions.

Financial information concerning Merrill Lynch for each of the three fiscal years ended on the last Friday in December of 1998, 1997, and 1996, 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. 1998 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, such as Internet broker-dealers. In addition, the recent relaxation of banks' barriers to entry into the securities industry and expansion by insurance companies into traditional brokerage products, coupled with the potential repeal of the laws separating commercial and investment banking activities, 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, 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.

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#### Description of Business Activities

The business activities of certain significant U.S. and non-U.S. Merrill Lynch subsidiaries comprising its Wealth Management and Corporate and Institutional Client segments are described below. These subsidiaries may provide both Wealth Management and Corporate and Institutional Client products and services. 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.

#### Wealth Management

##### Brokerage 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, 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 for investors 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.

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. MLPF&S customers participating in the BlueprintSM program can trade certain equity securities and mutual funds at a lower cost due to order processing efficiencies.

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, as described below under Corporate and Institutional Client--Brokerage and Related Activities.

Merrill Lynch Investment Partners Inc. ("MLIP") serves principally as the sponsor and commodity pool operator of publicly and privately offered commodity pools for which MLF acts as commodity broker and MLPF&S or an affiliate act as selling agent. MLIP also structures and sponsors managed futures and hedge fund products to meet a variety of client objectives. MLIP is one of the largest managed futures sponsors in the world as measured by assets under its management and by its financial resources. MLIP is an integrated business, the capabilities of which include research, trading services, finance, systems, operations, administration, sales, and marketing. MLIP's responsibilities include selecting and monitoring trading advisors, as well as allocating and reallocating capital among them. At the end of 1998, more than \$2.5 billion in equity was invested or was to be invested in 40 U.S. and non-U.S. commodity futures or hedge fund products that MLIP has sponsored or has been selected to manage.

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In 1998, MLPF&S sold more than \$55.5 billion of mutual funds, including income, balanced, and growth funds, of which approximately \$22.5 billion represented sales of mutual funds advised by Merrill Lynch Asset Management or Merrill Lynch Mercury Asset Management.

MLPF&S sponsors the Defined Asset FundsSM product. This product consists of a series of funds that are unit investment trusts registered under the Investment Company Act of 1940 and that have invested 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 1998, approximately \$25.5 billion of client funds were invested in Defined Asset Funds.

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(R) financial services program (the "CMA(R) account"). At the end of 1998, there were more than 1.9 million CMA accounts held by Merrill Lynch's U.S. customers with aggregate assets of approximately \$525 billion and there were approximately 53,000 CMA accounts held by Merrill Lynch's non-U.S. clients with aggregate assets of approximately \$28 billion. MLPF&S offers various other products such as the Capital BuilderSM Account, Merrill Lynch Consults(R), the Asset PowerSM, the Merrill Lynch Mutual Fund AdvisorSM program, the Merrill Lynch Mutual Fund Advisor SelectsSM program, the Financial Foundation(R) report, and Merrill Lynch Financial AdvantageSM.

Outside the United States, Merrill Lynch International and its affiliates provide comprehensive investment, financing, and related products and services on a global basis to individual investors, as described below under Corporate and Institutional Client Group--Brokerage and Related Activities.

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 1998, it provided these services to approximately 29,000 401(k) plans, representing over \$90

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 275 companies and has more than one million participants and approximately \$25 billion in assets. 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 pursuant to Section 408 of the Internal Revenue Code and related Treasury Department regulations. At the end of 1998, there were approximately \$162 billion in customer assets in more than 2 million Merrill Lynch IRAs.

MLPF&S is actively marketing the new Roth and Education IRAs, created by the Taxpayer Relief Act of 1997. Contributions to the new IRAs were permitted to be made beginning in January 1998, the effective date for these provisions. At the end of 1998, MLPF&S had approximately 268,360 Roth and Education IRAs representing more than \$3.5 billion in client assets.

#### Business Financial Services:

Through Merrill Lynch Business Financial Services Inc. ("MLBFS"), Merrill Lynch provides financing services to small- and medium-sized businesses in conjunction with the Working Capital

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ManagementSM account ("WCMA(R) account"), which MLPF&S markets to business clients. The WCMA account combines business checking, borrowing, investment, and electronic funds transfer services into one account for participating business clients. At the end of 1998, there were more than 143,000 WCMA accounts that, in the aggregate, had investment assets of more than \$92 billion. MLBFS also provides business advisory services, including strategic services to middle market companies.

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 1998, MLBFS originated more than \$1.5 billion in new commercial loans for business customers and, at the end of 1998, total outstanding loans were more than \$1.8 billion, of which approximately 97% were secured by tangible assets pledged by customers.

#### Insurance Activities:

Merrill Lynch's operations in 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, the District of Columbia, Guam, and the U.S. Virgin Islands. These products are marketed to MLPF&S customers. Although authorized to do so, it does not presently underwrite accident and health insurance. At year-end 1998, MLLIC had approximately \$13 billion of life insurance in force. At year-end 1998, MLLIC had annuity contracts in force of more than \$8.5 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 1998, ML Life had approximately \$2 billion of life insurance in force, which amount included approximately \$1 billion reinsured from yearly renewable term insurance of an unaffiliated insurer. At year-end 1998, ML Life had annuity contracts in force of approximately \$696 million in value.

Through agency agreements, licensed affiliate insurance agencies and other insurance agencies associated with MLPF&S sell life and health insurance and annuities 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, accept certificates of deposit and money market deposits (including deposit accounts offered through the Insured SavingsSM Account program for the CMA service), originate and purchase secured loans, and issue VISA(R) 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

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needs. MLCC, through Merrill Lynch's financial consultants, offers a variety of adjustable-rate and fixed-rate first mortgage loans throughout the United States, including the PrimeFirst(R) 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 provides securities-based lending through its OmegaSM account, a personal line of credit using eligible securities as collateral that is accessible by VISA(R) card and by check.

Merrill Lynch International Bank Limited ("MLIB Limited"), a United Kingdom bank with non-U.K. branch offices in Germany, Singapore, Bahrain, Luxembourg, and Italy provides foreign exchange trading and collateralized lending and letter of credit services and accepts deposits. Merrill Lynch Bank (Suisse) S.A., a Swiss bank, provides loans, deposits, portfolio management services, and individual client services to international private banking clients.

#### Asset Management Activities:

Merrill Lynch's asset management activities are conducted through its Asset Management Group ("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 Merrill Lynch Mercury Asset Management ("MLMAM"). AMG is one of the largest asset management organizations in the world having at the end of 1998 total assets under management of approximately \$501 billion compared with approximately \$448 billion at year-end 1997.

At the end of 1998, 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 most significant markets globally.

AMG's open-end funds offered in the United States (except for its money-market funds) are generally offered pursuant to the Merrill Lynch Select PricingSM system, which allows investors four pricing alternatives. The Hotchkis and Wiley brand of mutual funds are sold to clients on a no-load basis. AMG offers a family of unit trusts in the United Kingdom under the Mercury brand. During 1998, Merrill Lynch introduced the Mercury Asset Management brand of mutual funds that were distributed through Merrill Lynch's distribution network both inside and outside the United States. Both Merrill Lynch and Mercury branded mutual funds are offered to clients in other global markets through both the Merrill Lynch distribution network and directly through unaffiliated financial intermediaries. At the end of 1998, AMG managed approximately \$252 billion globally of mutual funds or their non-U.S. equivalent.

AMG provides separate account investment management services to a widely 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 1998, the total assets under management of such services were approximately \$211 billion. AMG offers similarly structured separate account investment management services for private clients both in the United States, the United Kingdom and globally. The total assets under management for these services were \$38 billion at the end of 1998.

In the third quarter of 1998, AMG introduced a new family of 17 mutual funds that were distributed through Merrill Lynch Japan Securities Co., Ltd. Merrill Lynch now manages more than \$17 billion of assets for Japanese individual, corporate and institutional investors.

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## Brokerage and Related Activities:

In the United States, MLPF&S and certain of its affiliates provide many of the same products and services for corporate, institutional, and governmental clients as they do for individual clients as described above under Wealth Management--Brokerage and Related Activities.

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 in substantially all exchange-traded commodity and financial futures products. MLPF&S and certain of its affiliates may also take proprietary market positions in futures and futures options in certain instances. 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. On certain exchanges, third party brokers are utilized to execute and/or clear trades. Where MLF or other Merrill Lynch subsidiaries maintain memberships in the clearing associations of various futures exchanges, these entities have potentially significant financial exposure in the event that other members of futures clearing houses default materially in their obligations to such clearing houses. In addition, as with any margin transaction, the risk of loss to Merrill Lynch and its customers from the trading of futures contracts is greater than the risk in cash securities transactions, primarily as a result of the low initial margin requirements (good faith deposits) relative to the value of the actual futures contracts. Merrill Lynch may have financial exposure if a client fails to meet a margin call. Net worth requirements, financial reviews, margin procedures, and other credit standards established for a client's futures accounts are intended to limit any exposure to Merrill Lynch resulting from its client's trading in futures accounts.

Outside the United States, Merrill Lynch International and its affiliates ("MLI") provides comprehensive investment, financing, and related products and services on a global basis to sovereign governments, corporations, and institutional clients, as well as to individual investors. MLI companies are members of various non-U.S. stock and futures exchanges. The investment, financing, and market-making operations of MLI are conducted through a network of offices, including representative and liaison offices, located in more than 40 countries outside the United States. This office network services major "money center" institutions as well as thousands of regional institutions and individual investors.

The worldwide trading operations of MLI, particularly in London and Tokyo, make it one of the largest traders of equities and dealers in Eurobonds and other globally traded securities and a significant participant in the over-the-counter equity derivatives business. MLI also engages in foreign exchange transactions (including options on non-U.S. currencies) as a dealer and consequently assumes proprietary positions in numerous currencies and related options.

Merrill Lynch Capital Markets Bank Limited, an Irish bank with branch offices in Frankfurt, Johannesburg, Labuan (Malaysia), Milan, and Tokyo, engages in capital markets activities such as underwriting, foreign exchange, and swap and other derivative transactions, lending, and institutional equity and debt sales.

Merrill Lynch International Bank, an Edge Act corporation ("MLIB"), provides foreign exchange trading services to corporations and institutions.

## Investment Banking Activities:

MLPF&S is a leading 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, leveraged buyouts, and defensive projects. MLPF&S advises on capital structuring and 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, mortgage and lease financing.

MLPF&S, 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. MLPF&S and its affiliates have, from time to time, taken principal positions in transactions and its affiliates have 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 MLPF&S and its affiliates engage in any of these financing activities, an analysis is 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, MLPF&S and its affiliates occasionally acquire equity interests in the subject companies as part of, or in connection with, such activities.

Merrill Lynch, through various subsidiaries and affiliates, including ML Global Partners, Inc. ("MLGP") and Merrill Lynch Capital Partners, Inc. ("MLCP"), has made investments in equity and debt securities issued in acquisition transactions. MLGP provides management services for Merrill Lynch Partners, L.P., an international private equity fund. MLCP provides management services for two leveraged buyout funds. The limited partners of the MLGP and MLCP funds are primarily private investors. Merrill Lynch, through MLPF&S and its other subsidiaries, may underwrite, trade, invest, and make markets in certain securities of companies in which the MLGP and MLCP funds have invested, and may also provide financial advisory services to these companies.

#### Securities Dealing Activities:

MLPF&S regularly makes a market in the equity securities of approximately 550 U.S. corporations. In addition, it engages in transactions in approximately 5400 securities of non-U.S. issuers traded in the over-the-counter markets, and conducts market-making activities with clients and other dealers. MLPF&S is also a dealer in municipal, mortgage-backed, asset-backed, and corporate fixed-income securities.

As an adjunct to its trading activities, MLPF&S 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, MLPF&S purchases securities, or sells securities 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, MLPF&S 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.

Merrill Lynch Government Securities Inc. ("MLGSI") is a primary dealer in obligations issued or guaranteed by the United States Government and by Federal agencies and other government-sponsored entities, including Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation and is a dealer in mortgage-backed-pass-through certificates issued by certain of these entities, and also deals in related futures, options, and forward contracts for its own account, to

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hedge its own risk, and to facilitate customers' transactions. It is one of 30 primary government securities dealers that daily report positions and activities to the Federal Reserve Bank of New York.

MLGSI's transactions in obligations of the United States Government, Federal agencies and government-sponsored entities involve large dollar amounts and small dealer spreads. As an integral part of its business, MLGSI enters into repurchase agreements whereby it obtains funds by pledging its own securities as collateral. The repurchase agreements provide financing for MLGSI's dealer inventory and serve as short-term investments for MLGSI's customers, which include certain of MLGSI's affiliates. MLGSI also enters into reverse repurchase agreements whereby it provides funds against the pledge of collateral by customers. Such agreements provide MLGSI with needed collateral and provide MLGSI's customers with temporary liquidity for their investments in United States Government and agency securities.

#### Derivative Dealing Activities:

Merrill Lynch Capital Services, Inc. ("MLCS") and Merrill Lynch Derivative Products AG ("MLDP") are Merrill Lynch's primary derivative product dealers and act as intermediaries and principals in a variety of interest rate, currency, and other over-the-counter derivative transactions.

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 has

become 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.

As mentioned above, MLI engages in the equity and credit derivatives business in the over-the-counter markets, and Merrill Lynch Capital Markets Bank Limited is a credit intermediary and conducts part of Merrill Lynch's non-dollar swap activities.

#### 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 PassportSM 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 resale 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 and non-performing real estate and mortgages.

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#### Money Markets Activities:

Merrill Lynch, through 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. MLMMI 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, 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.

#### 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 more than 3800 companies located in 26 countries, with more than 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 Merrill Lynch's public website, [www.ml.com](http://www.ml.com).

#### Securities Clearing Services:

MLPF&S provides securities clearing services through its subsidiaries, Broadcourt Capital Corp. ("BCC") and Merrill Lynch Professional Clearing Corp.

("MLPCC"). BCC provides these services to approximately 117 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.

#### Strategic Initiatives

During 1998, Merrill Lynch expanded its non-U.S. presence through strategic acquisitions and initiatives. In the third quarter of 1998, Merrill Lynch Japan Securities Co., Ltd. opened to serve individual investors in Japan through a network of 33 branch offices throughout the country. Merrill Lynch Japan Securities offers private clients a diversified selection of global investment choices including funds, Japanese and foreign equities, convertible bonds, and fixed-income securities, including Japanese government, domestic, and foreign currency bonds.

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Also during the third quarter, Merrill Lynch acquired the shares of Midland Walwyn Inc., Canada's largest independent full-service securities firm. This acquisition strengthens Merrill Lynch's presence in Canada, gives Canadian investors greatly expanded product offerings and access to global opportunities, and brings Canadian corporations broad distribution of their securities both domestically and globally.

Through the acquisition of a majority interest in Phatra Securities Company Limited, a Thai investment bank, Merrill Lynch furthered its commitment to the Asia Pacific region. Phatra Securities provides corporate finance, research, asset management, portfolio management, and secondary market services. Phatra's research group is Thailand's largest, covering more than 100 companies in Thailand.

In the U.S., Merrill Lynch enhanced its group employee services business through the acquisition of Howard Johnson & Company, a benefits and actuarial consulting firm. Merrill Lynch divested Merrill Lynch Specialists Inc., a non-core equities business that conducts a specialist business in stocks traded on the floor of the New York Stock Exchange, and a majority interest in Lender's Service Inc., which provides real estate appraisal, title, and closing management services for the residential lending community, including for MLCC.

#### 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 and 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.

Certain U.S. judicial and regulatory actions in recent years concerning, among other things, the authority of bank affiliates to engage in securities underwriting and brokerage activities have resulted in increased competition in those aspects of Merrill Lynch's business. The proposed Financial Services Act of 1998, H.R.10, represented a significant accomplishment in the effort to modernize the financial services industry in the U.S. by proposing the repeal of statutes that limit the securities, insurance, and other non-banking

activities of any company that controls an insured bank. The bill was passed in the House of Representatives but the Senate adjourned for 1998 before completing action on the bill. Nevertheless, H.R.10 came closer to passage than any financial modernization bill to date and resolved bank-insurance, bank-securities, and other issues that had long stood as obstacles to the progress of prior modernization bills. This legislation was reintroduced in the House of Representatives in January 1999.

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## 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"), and Office of Thrift Supervision ("OTS"). In other areas of the world, these regulators include The Financial Services Authority ("FSA"), The Securities and Futures Authority ("SFA"), the Bank of England and the Investment Management Regulatory Organization ("IMRO") in the U.K., the Central Bank of Ireland, the Federal Banking Supervisory Authority in Germany, the Japanese Ministry of Finance, The Monetary Authority of Singapore, the Office of Superintendent of Financial Institutions in Canada, the Central Bank of Brazil, the Central Bank of Argentina, the Central Bank of 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. MLPF&S and MLAM are registered as investment advisers in those states requiring such registration.

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 12 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,

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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 Control 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.

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. Merrill Lynch's registered futures commission merchants are 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 states and MLBFS is licensed or registered in 7 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.

#### 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, including Merrill Lynch International, are regulated as broker-dealers under the laws of the jurisdictions in which they operate.

Merrill Lynch International, a registered broker-dealer in the United Kingdom, is regulated by the SFA and is subject to its capital requirements. 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,

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

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 New York State

Banking Department, MLIB Limited is regulated by the FSA 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.

## 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. The information regarding Merrill Lynch's property lease commitments is set forth in Note 8 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. In 1998, separate Merrill Lynch affiliates leased 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 400,000 square foot hotel, conference and training center, a 700,000 square foot office 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 1998, Merrill Lynch continued to pursue a plan to purchase land and build a new facility in Hopewell, New Jersey to consolidate existing operations and allow for future expansion. 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.

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### 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 to construct a new headquarters complex of 2,550,000 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. In 1998, with the acquisition of Midland Walwyn, Merrill Lynch added 114 offices, mostly in Canada, and with the opening of Merrill Lynch Japan Securities, Merrill Lynch added 36 locations in Japan. Merrill Lynch leases a total of 737 business locations in the United States and 285 outside the United States.

## 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 1, 1999.

### Orange County Litigation

In June 1998, Merrill Lynch settled the following two actions in the United States District Court for the Central District of California (the "District Court") alleging violations of Federal and California law in connection with its business activities with the Treasurer-Tax Collector of Orange County, California ("Orange County"): County of Orange, et al. v. Merrill Lynch & Co., Inc., et al. instituted January 12, 1995 (the "Orange County Action"); and Irvine Ranch Water District v. Merrill Lynch & Co., Inc. instituted December 20, 1996. Under the settlement terms, ML & Co. undertook to pay \$400 million to Orange County, approximately \$17 million to Irvine Ranch Water District, and to return approximately \$20 million of excess collateral to Orange County. On November 30, 1998, the District Court found that the settlement of the Orange County Action was in good faith, thereby barring any potential claims for contribution, indemnity or similar relief by non-settling parties. Payment by ML & Co. will be due approximately five business days after May 3, 1999, the first business day following the expiration of the time for

any party to appeal from this District Court finding of good faith.

The following actions filed against ML & Co. in connection with Merrill Lynch's business activities with the Treasurer-Tax Collector of Orange County remain outstanding:

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. Damages, including punitive damages, in unspecified amounts are sought. On May 10, 1996, the court stayed this action pending final resolution of the Orange County Action.

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. The complaint alleges, among other things, that the defendants committed fraud, deceit, and negligent misrepresentation; conspired to commit fraud; breached fiduciary duties; aided and abetted breaches of fiduciary duty; and violated California Penal Code Section 496 and the Racketeer Influenced and Corrupt Organizations Act in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. Damages, including punitive

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damages and treble damages, in unspecified amounts are sought. By decision dated December 7, 1998 and modified on January 6, 1999, the California Court of Appeal reversed a lower court dismissal of this action. An action in the District Court by the same 14 entities making substantially the same allegations and seeking the same damages has been stayed pending final resolution of the state court action or until further order of the District Court.

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.

#### NASDAQ Litigation

In the Matter of Certain Market Making Activities on Nasdaq, instituted and settled without a hearing or an admission of or denial of findings on January 11, 1999, was an SEC administrative action that found that on certain occasions in 1994 traders at MLPF&S improperly coordinated their quotes with traders at other firms. MLPF&S agreed to pay a fine of \$472,500, to submit some of its procedures for review by an independent consultant, and to an administrative cease and desist order prohibiting Merrill Lynch from violating certain provisions of the securities laws. Twenty-seven other market makers and 51 traders at other firms settled related SEC administrative actions at the same time.

In re Nasdaq Market-Makers Antitrust Litigation, a consolidated class action instituted December 16, 1994 in the United States District Court for the Southern District of New York, was brought against more than 35 market makers, including MLPF&S, alleging that they engaged in a conspiracy with respect to the spread between bid and ask prices for certain securities traded on Nasdaq by, among other things, refusing to quote bid and ask prices in odd eighths. On November 13, 1998, judgment was entered granting final approval to a settlement without a hearing on the merits of the claims or finding of liability; MLPF&S paid approximately \$100 million to settle the action.

#### Shareholder Derivative Litigation

In each of the following shareholder derivative actions 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. On January 5, 1999, the New York State Supreme Court, Appellate Division, reversed a lower court dismissal of this action.

Miller v. Peters, et al., a derivative action instituted October 13, 1998 in the Supreme Court of the State of New York, New York County, alleges, among other things, that 15 present or former ML & Co. directors breached their fiduciary duties by failing to prevent ML & Co. from engaging in excessively risky business transactions with hedge funds. Damages in an unspecified amount are sought.

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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 1, 1999, 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.

#### Item 4. Matters Submitted to a Vote of Securityholders

There were no matters submitted to a vote of security holders during the 1998 fourth quarter.

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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, 59

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; Executive Vice President, Debt Markets Group from June 1992 to April 1993.

Herbert M. Allison, Jr., 55

President and Chief Operating Officer since April 1997; Executive Vice President, Corporate and Institutional Client Group from January 1995 to April 1997; Executive Vice President, Investment Banking Group from May 1993 to January 1995; Executive Vice President, Finance and Administration from October 1990 to April 1993.

Thomas W. Davis, 45

Executive Vice President and Head 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; Head of Global Equity Capital Markets from 1991 to 1993.

Edward L. Goldberg, 58

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, 61

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

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Jerome P. Kenney, 57

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

John A. McKinley, Jr., 41



Head of the Technology Group since January 1999; Senior Vice President and Chief Technology Officer since October 1998. 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, 47

Executive Vice President and Chief Financial Officer since March 1998; 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.

Jeffrey M. Peek, 52

Executive Vice President, Head 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 from 1993 to March 1995.

Winthrop H. Smith, Jr., 49

Executive Vice President and Head 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, 57

Vice Chairman of the Board since April 1997; Head of U.S. Private Client Group since October 1990.

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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 94 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 25 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 57 to 93 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 26 to 54 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 57 to 93 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 51 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 56 to 93, and are

incorporated herein by reference. In addition, the information on page 94 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 5, 1999 for its 1999 Annual Meeting of Stockholders (the "1999 Proxy

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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 95 to 97, of the Annual Report.

Item 11. Executive Compensation

Information relating to ML & Co. executive officer and director compensation set forth on pages 13 to 24 and page 26 of the 1999 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 1999 Proxy Statement and the information concerning the security ownership of ML & Co. directors and executive officers on pages 9 and 10 of the 1999 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 pages 24 to 25 of the 1999 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.

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(3) Articles of Incorporation and By-Laws

<TABLE>

<C> <S>

(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 (Exhibit 4(ii) to 10-Q for the quarter ended September 30, 1994 ("Third Quarter 1994 10-Q")).
- (d) Certificate of Designation of ML & Co. establishing the rights, preferences, privileges, qualifications, restrictions, and limitations relating to the 9% Preferred Stock (Exhibit 4(iii) to Third Quarter 1994 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 Depositary Receipts (Exhibit 4(iv) to Third Quarter 1994 10-Q).
- (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 (incorporated by reference to 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 April 15, 1997 (Exhibit 3(i) to 1997 10-Q for the quarter ended March 28, 1997 ("First Quarter 1997 10-Q")).

(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 (Exhibit 3 to ML & Co.'s Registration Statement on Form 8A dated July 20, 1992).
- (ii) Supplemental Indenture dated as of October 25, 1993 to the 1983 Senior Indenture (Exhibit 4(b) (ii) to S-3 (File No. 33-61559)).
- (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").
- (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).

</TABLE>

- -----

\* Filed herewith

(10) Material Contracts

<TABLE>

<C> <S>

- (i) Form of ML & Co. 1978 Equity Purchase Plan as amended through January 16, 1995 (Exhibit 10(i) to 10-K for the fiscal year ended December 30, 1994 ("1994 10-K")).
- (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 (Exhibit 10(ii) to 1994 10-K).
- (iii) ML & Co. Long-Term Incentive Compensation Plan, as amended through July 27, 1998 (Exhibit 10(i) to 10-Q for the quarter ended June 29,

1998 ("Second Quarter 1998 10-Q").

- (iv) ML & Co. Equity Capital Accumulation Plan, as amended through October 21, 1996 (Exhibit 10(ii) to Third Quarter 1996 10-Q).
- (v) ML & Co. Executive Officer Compensation Plan (Exhibit 10(i) to ML & Co.'s Proxy Statement for the 1994 Annual Meeting of Stockholders contained in ML & Co.'s Schedule 14A filed on March 14, 1994).
- (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 ("1999 Proxy Statement")).
- (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.
- \* (ix) Written description of ML & Co.'s incentive compensation programs.
  - (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 Growth Investments Limited Partnership 1983 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-81619)).
  - (xii) Merrill Lynch KECALP L.P. 1984 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-87962)).
  - (xiii) Merrill Lynch KECALP L.P. 1986 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 2-99800)).
  - (xiv) Merrill Lynch KECALP L.P. 1987 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-11355)).
  - (xv) Merrill Lynch KECALP L.P. 1989 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-26561)).
  - (xvi) Merrill Lynch KECALP L.P. 1991 (Exhibit 1(b) to Registration Statement on Form N-2 (File No. 33-39489)).
  - (xvii) Merrill Lynch KECALP L.P. 1994 (Exhibit 1(a) (ii) to Registration Statement on Form N-2 (File No. 33-51825)).
  - (xviii) Merrill Lynch KECALP L.P. 1997 (Exhibit 1(a) (ii) to Registration Statement on Form N-2 (File No. 333-15035)).
  - (xix) ML & Co. Deferred Restricted Unit Plan for Executive Officers (Exhibit 10(xxiii) to 10-K for fiscal year ended December 27, 1996 ("1996 10-K")).

</TABLE>

- - - - -

\* Filed herewith

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<TABLE>

- | <C>     | <S>   |
|---------|---|
| (xx)    | ML & Co. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxii) to 1994 10-K).                                  |
| (xxi)   | ML & Co. Fee Deferral Plan for Non-Employee Directors, as amended through April 15, 1997 (Exhibit 10 to First Quarter 1997 10-Q).                   |
| (xxii)  | 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). |
| (xxiii) | ML & Co. 1997 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10(xxvii) to 1996 10-K).                                 |
| (xxiv)  | ML & Co., Inc. 1999 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to Third Quarter 1998 10-Q).                    |
| (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).

- (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 1998 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 1998 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.

</TABLE>

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\* Filed herewith

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(b) Reports on Form 8-K:

<TABLE>

<C> <S>

The following Current Reports on Form 8-K were filed by the Registrant during the fourth quarter of 1998 with the Commission under the caption "Item 5. Other Events":

- (i) Current Report on Form 8-K dated September 29, 1998 for the purpose of filing the form of Merrill Lynch & Co., Inc.'s S&P 500 Market Index Target-Term SecuritiesSM due September 28, 2005.
- (ii) Current Report on Form 8-K dated October 13, 1998 for the purpose of filing ML & Co.'s Preliminary Unaudited Earnings Summary for the three- and nine-month periods ended September 25, 1998.
- (iii) Current Report on Form 8-K dated October 21, 1998 for the purpose of filing the Twelfth Supplemental Indenture, between ML & Co. and The Chase Manhattan Bank, dated as of September 1, 1998.
- (iv) Current Report on Form 8-K dated October 28, 1998 for the purpose of filing the form of Merrill Lynch & Co., Inc.'s 6 3/8% Notes due October

15, 2008.

- (v) Current Report on Form 8-K dated October 28, 1998 for the purpose of filing ML & Co.'s Preliminary Unaudited Consolidated Balance Sheet as of September 25, 1998.
- (vi) Current Report on Form 8-K dated November 3, 1998 for the purpose of filing the Consent of Deloitte & Touche LLP with respect to the Prospectus of Merrill Lynch Preferred Capital Trust V.
- (vii) Current Report on Form 8-K dated November 24, 1998 for the purpose of filing:
  - (a) Form of ML & Co.'s 6% Notes due November 15, 2004; and
  - (b) Form of ML & Co.'s 6 7/8% Notes due November 15, 2018.
- (viii) Current Report on Form 8-K dated December 1, 1998 for the purpose of filing the form of ML & Co.'s 5 3/4% Stock Return Income Debt SecuritiesSM due June 1, 2000.
- (vix) Current Report on Form 8-K dated December 10, 1998 for the purpose of filing audited consolidated financial statements for ML & Co. for its 1997 fiscal year, restated to reflect the merger with Midland Walwyn Inc.

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MERRILL LYNCH & CO., INC.

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

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	1998 Annual Report to Form 10-K Stockholders
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Independent Auditors' Report	56
Consolidated Statements of Earnings	57
Consolidated Balance Sheets	58-59
Consolidated Statements of Changes in Stockholders' Equity	60-61
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Financial Statements Schedule	
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Schedule I--Condensed Financial Information of Registrant	F-2 to F-6
Condensed Statements of Earnings	F-2
Condensed Balance Sheets	F-3
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Specifically incorporated elsewhere herein by reference are certain portions of the following unaudited items:	
(i) Selected Financial Data	25
(ii) Management's Discussion and Analysis	26-54
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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 1998 Annual Report to Stockholders, which are incorporated herein by reference.

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CONDENSED STATEMENTS OF EARNINGS (Parent Company Only)  
 (dollars in millions)

<TABLE>  
<CAPTION>

	Year Ended Last Friday in December		
	1998	1997	1996
<S>	<C>	<C>	<C>
REVENUES			
Interest (principally from affiliates).....	\$4,476	\$3,937	\$2,507
Management service fees (from affiliates).....	321	296	258
Other.....	109	4	33
Total Revenues.....	4,906	4,237	2,798
Interest Expense.....	4,942	4,077	2,598
Net Revenues.....	(36)	160	200
NON-INTEREST EXPENSES			
Compensation and benefits.....	236	281	285
Other.....	394	307	288
Total Non-Interest Expenses.....	630	588	573
Equity in Earnings of Affiliates.....	1,727	2,222	1,878
EARNINGS BEFORE INCOME TAXES.....	1,061	1,794	1,505
Income Tax Benefit.....	198	141	143
NET EARNINGS.....	\$1,259	\$1,935	\$1,648
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS.....	\$1,220	\$1,896	\$1,602

</TABLE>

See Notes to Condensed Financial Statements

F-2

CONDENSED BALANCE SHEETS (Parent Company Only)  
(dollars in millions, except per share amount)

<TABLE>  
<CAPTION>

	December 25, 1998	December 26, 1997
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents.....	\$ --	\$ 187
Loans to, receivables from, and preference securities of affiliates.....	80,492	79,201
Investments in affiliates.....	9,745	8,172
Equipment and facilities (net of accumulated depreciation and amortization of \$289 in 1998 and \$267 in 1997).....	160	155
Other receivables and assets.....	2,197	1,974
Total Assets.....	\$92,594	\$89,689
LIABILITIES		
Commercial paper and other short-term borrowings....	\$16,986	\$30,607
Loans from and payables to affiliates.....	4,046	3,063
Other liabilities and accrued interest.....	4,301	4,492
Long-term borrowings.....	57,129	42,988
Total Liabilities.....	82,462	81,150
STOCKHOLDERS' EQUITY		
Preferred Stockholders' Equity.....	425	425
Common Stockholders' Equity		
Shares exchangeable into common stock.....	66	66
Common stock (par value \$1.33 1/3 per share; authorized: 1,000,000,000 shares; issued: 472,660,324 shares).....	630	630
Paid-in capital.....	1,427	1,001
Accumulated other comprehensive loss (net of tax).....	(122)	(47)
Retained earnings.....	10,475	9,579
Less: Treasury stock, at cost:	12,476	11,229

1998--116,376,259 shares; 1997--133,400,971

shares.....	2,101	2,677
Employee stock transactions.....	668	438
	-----	-----
Total Common Stockholders' Equity.....	9,707	8,114
	-----	-----
Total Stockholders' Equity.....	10,132	8,539
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$92,594	\$89,689
	=====	=====

</TABLE>

See Notes to Condensed Financial Statements

F-3

CONDENSED STATEMENTS OF CASH FLOWS (Parent Company Only)  
(dollars in millions)

<TABLE>  
<CAPTION>

	Year Ended Last Friday in December		
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings.....	\$ 1,259	\$ 1,935	\$ 1,648
Noncash items included in earnings:			
Equity in earnings of affiliates.....	(1,727)	(2,222)	(1,878)
Depreciation and amortization.....	30	30	31
Other.....	(183)	103	50
(Increase) decrease in operating assets, net of operating liabilities..	--	(216)	907
Dividends and partnership distributions from affiliates .....	868	1,126	1,367
	-----	-----	-----
Cash Provided by Operating Activities.....	247	756	2,125
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payments for):			
Loans to affiliates, net of payments.....	774	(22,164)	(17,299)
Investments in affiliates, net of dispositions.....	(436)	(60)	(129)
Equipment and facilities.....	(35)	(54)	(18)
	-----	-----	-----
Cash Provided by (Used for) Investing Activities.....	303	(22,278)	(17,446)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings.....	(13,621)	5,770	7,499
Issuance and resale of long-term borrowings.....	27,153	23,592	15,019
Settlement and repurchase of long-term borrowings.....	(13,933)	(6,665)	(6,070)
Repurchase of Remarketed Preferred Stock.....	--	(194)	--
Common stock transactions.....	27	(500)	(919)
Dividends to shareholders.....	(363)	(294)	(245)
	-----	-----	-----
Cash (Used for) Provided by Financing Activities.....	(737)	21,709	15,284
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	(187)	187	(37)
Cash and cash equivalents, beginning of year.....	187	--	37
	-----	-----	-----
Cash and cash equivalents, end of year.....	\$ --	\$ 187	\$ --
	=====	=====	=====
Supplemental Disclosure			
Cash paid for:			
Income taxes.....	\$ 280	\$ 555	\$ 949
Interest.....	4,906	3,904	2,517

</TABLE>

See Notes to Condensed Financial Statements

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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 1998 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 7)
- .Commitments and contingencies (Note 8)
- .Employee incentive plans (Note 10)

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 4 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 8 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 6 to the Consolidated Financial Statements).

F-5

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 25, 1998 and December 26, 1997, and for each of the three years in the period ended December 25, 1998, and have issued our report thereon dated February 22, 1999, which report expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method for certain internal-use software development costs. Such consolidated financial statements and our report are included in your 1998 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, of this Annual Report on Form 10-K. 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 22, 1999

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Signatures

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 5th day of March, 1999.

Merrill Lynch & Co., Inc.  
Registrant

/s/ Andrea L. Dulberg

ANDREA L. DULBERG

-----  
Andrea L. Dulberg  
Secretary

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 5th day of March, 1999.

/s/ David H. Komansky

DAVID H. KOMANSKY

-----  
David H. Komansky  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

/s/ E. Stanley O'Neal

E. STANLEY O'NEAL

-----  
E. Stanley O'Neal  
Executive Vice President  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Michael J. Castellano

MICHAEL J. CASTELLANO

-----  
Michael J. Castellano  
Senior Vice President  
and Controller  
(Principal Accounting Officer)

/s/ Herbert M. Allison, Jr.

HERBERT M. ALLISON, JR.

-----  
Herbert M. Allison, Jr.  
Director

/s/ W. H. Clark

W.H. CLARK

-----  
W. H. Clark  
Director

/s/ Jill K. Conway

JILL K. CONWAY

-----  
Jill K. Conway  
Director

/s/ Stephen L. Hammerman

STEPHEN L. HAMMERMAN

-----  
Stephen L. Hammerman  
Director

/s/ Earle H. Harbison, Jr.

EARLE H. HARBISON, JR.

-----  
Earle H. Harbison, Jr.  
Director

/s/ George B. Harvey

GEORGE B. HARVEY

-----  
George B. Harvey  
Director

/s/ William R. Hoover

WILLIAM R. HOOVER

-----  
William R. Hoover  
Director

/s/ Robert P. Luciano

ROBERT P. LUCIANO

-----  
Robert P. Luciano  
Director

/s/ David K. Newbigging

DAVID K. NEWBIGGING

-----  
David K. Newbigging

Director

/s/ Aulana L. Peters

AULANA L. PETERS

-----  
Aulana L. Peters  
Director

/s/ John J. Phelan, Jr.

JOHN J. PHELAN, JR.

-----  
John J. Phelan, Jr.  
Director

/s/ John L. Steffens

JOHN L. STEFFENS

-----  
John L. Steffens  
Director

/s/ William L. Weiss

WILLIAM L. WEISS

-----  
William L. Weiss  
Director

II-1

MERRILL LYNCH & CO., INC.

TO

THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), TRUSTEE

INDENTURE

Dated as of October 1, 1993

SENIOR DEBT SECURITIES

MERRILL LYNCH & CO., INC.

RECONCILIATION AND TIE BETWEEN TRUST INDENTURE ACT OF 1939 AND  
INDENTURE, DATED AS OF OCTOBER 1, 1993

<TABLE> <CAPTION> TRUST INDENTURE ACT SECTION -----	INDENTURE SECTION -----
<S>	<C>
(S) 310 (a) (1) .....	608
(a) (2) .....	608
(a) (3) .....	Not Applicable
(a) (4) .....	Not Applicable
(a) (5) .....	608
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(S) 312 (a) .....	605, 703
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(c) .....	702
(S) 313 (a) .....	703(a)
(b) (1) .....	Not Applicable
(b) (2) .....	703(b)
(c) .....	703(c)
(d) .....	703(c)
(S) 314 (a) (1) .....	704
(a) (2) .....	704
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(b) .....	Not Applicable
(c) (1) .....	102
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(c) (3) .....	Not Applicable
(d) .....	Not Applicable
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(S) 315 (a) .....	601(a)
(b) .....	602
(c) .....	601(b)
(d) .....	601(c)
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(c) .....	Not Applicable

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(a) (2).....	504
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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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ARTICLE ONE

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INDENTURE, dated as of October 1, 1993, between MERRILL LYNCH & CO., INC., a Delaware corporation (hereinafter called the "Company"), having its principal office at World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281 and THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), a New York corporation, as Trustee (hereinafter called the "Trustee") having its Corporate Trust Office at 4 Chase MetroTech Center, Brooklyn, New York 11245.

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 duly authorized the execution and delivery of this Indenture and all things necessary to make this 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

###### SECTION 101. 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.

"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 612 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 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.

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"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 instalment of interest on the applicable Securities.

"Maturity" when used with respect to any Security means the date on which the principal of such Security or an instalment 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;

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(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 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 instalment of principal thereof or interest thereon means the date specified in such Security or a coupon representing such instalment of interest as the fixed date on which the principal of such Security or such instalment 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 amended, and any reference herein to the Trust Indenture Act or a particular provision thereof shall mean such Act or provision, as the case may be, as amended or replaced from time to time or as supplemented from time to time by rules or regulations adopted by the Commission under or in furtherance of the purposes of such Act or provision, as the case may be.

"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 nonresident alien fiduciary of a foreign estate or trust.

"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 any series, any successor to such Person. If at any time there is more than one such Person, "U.S. Depository" shall mean, with

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respect to any series of Securities, the qualifying entity which has been appointed with respect to the Securities of that series.

"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.

#### SECTION 102. 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

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

#### SECTION 103. 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.

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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.

#### SECTION 104. 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 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 Section 1406.

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 interest 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.

(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.

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(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 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.

SECTION 105. 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.

SECTION 106. 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,

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(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 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 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.

SECTION 107. 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.

SECTION 108. 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.

SECTION 109. 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.

SECTION 110. Successors and Assigns.

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

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SECTION 111. 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.

SECTION 112. 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

SECTION 113. Governing Law.

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

SECTION 114. 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

SECTION 201. 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 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.

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SECTION 202. 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.

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION)

as Trustee

By \_\_\_\_\_  
Authorized Officer

ARTICLE THREE

THE SECURITIES

SECTION 301. 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;

(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; and whether any Securities of the series are to be 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) 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;

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(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;

(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

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

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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.

SECTION 302. 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.

SECTION 303. 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 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,

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(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 615 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.

SECTION 304. 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.

SECTION 305. 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

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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.

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 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.

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

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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 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.

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

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immediately surrendered for redemption with written instruction for payment consistent with the provisions of this Indenture.

SECTION 306. 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 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 Securities.

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.

SECTION 307. 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 of 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

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 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.

SECTION 308. 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.

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.

SECTION 309. 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.

SECTION 310. 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

SECTION 401. 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, 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 1106, and (iv) Securities and coupons for whose payment money has theretofore been deposited in trust or

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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 instrument from all Trustees hereunder.

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.

SECTION 402. 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.

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ARTICLE FIVE

REMEDIES

SECTION 501. 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 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.

SECTION 502. 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

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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,

(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.

SECTION 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any instalment 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 the collection of the sums so due and unpaid, and

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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.

SECTION 504. 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.

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.

SECTION 505. 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.

SECTION 506. 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

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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.

SECTION 507. 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;

(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.

SECTION 508. 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.

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SECTION 509. 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.

SECTION 510. 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 of employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. 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.

SECTION 512. 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.

SECTION 513. 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

(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.

SECTION 514. 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.

SECTION 515. 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.

ARTICLE SIX

THE TRUSTEE

SECTION 601. 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 wilful 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 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.

SECTION 602. 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 instalment 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.

SECTION 603. 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

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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 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.

SECTION 604. 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.

SECTION 605. 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 310(b) and 311 of the Trust Indenture Act, 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.

SECTION 606. 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.

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SECTION 607. 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.

SECTION 608. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder that is a corporation (or other person permitted to so act by the Commission permitted by the Trust Indenture Act to act as trustee under an indenture qualified under the Trust Indenture Act and that has a combined capital and surplus (computed in accordance with Section 310(a) (2) of the Trust Indenture Act) of at least \$5,000,000. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section or Section 310(a) (5) of the Trust Indenture Act, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 609. 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 610.

(b) The Trustee may resign at any time with respect to the Securities of one or more series giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 610 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 any time:

(1) the Trustee shall fail to comply with the obligations imposed upon it under Section 310(b) of the Trust Indenture Act with respect to Securities of any series 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 608 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 the Securities of such series, or (ii) subject to Section 315(e) of the Trust Indenture Act, 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 610. If, within one year after such resignation, 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 610, 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 610, 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.

SECTION 610. 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 or 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.

SECTION 611. 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.

SECTION 612. 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 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.

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.

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\_\_\_\_\_  
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 612 an Authenticating Agent having an office in a Place of Payment designated by the Company with respect to such series of Securities.

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 701. 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,

provided, however, that, so long as the Trustee is the Security Registrar, no such list shall be required to be furnished.

SECTION 702. Preservation of Information; Communications to Holders.

The Trustee shall comply with the obligations imposed upon it pursuant to Section 312 of the Trust Indenture Act.

Every Holder of Securities or coupons, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company, the Trustee,



any Paying Agent or any Security Registrar shall be held accountable by reason of the disclosure of any information as to the names and addresses of the Holders of Securities in accordance with Section 312 of the Trust Indenture Act, 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 312(b) of the Trust Indenture Act.

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SECTION 703. Reports by Trustee.

(a) Within 60 days after May 15 of each year commencing with the first May 15 following the first issuance of Securities pursuant to Section 301, if required by Section 313(a) of the Trust Indenture Act, the Trustee shall transmit, pursuant to Section 313(c) of the Trust Indenture Act, a brief report dated as of such May 15 with respect to any of the events specified in said Section 313(a) which may have occurred since the later of the immediately preceding May 15 and the date of this Indenture.

(b) The Trustee shall transmit the reports required by Section 313(b) of the Trust Indenture Act at the times specified therein.

(c) Reports pursuant to this Section shall be transmitted in the manner and to the Persons required by Sections 313(c) and 313(d) of the Trust Indenture Act. The Company will notify the Trustee when any series of Securities are listed on any securities exchange.

SECTION 704. 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 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

SECTION 801. 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

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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.

SECTION 802. 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.

SECTION 803. 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

SECTION 901. 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:

(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

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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 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 610 (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 1006.

SECTION 902. Supplemental Indentures with Consent of Holders.

With the consent of the Holders of not less than 66-2/3% 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 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 instalment 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.

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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.

#### SECTION 903. 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.

#### SECTION 904. 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.

#### SECTION 905. 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.

#### SECTION 906. 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

#### SECTION 1001. 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) 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.

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SECTION 1002. 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.

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.

SECTION 1003. 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

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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

(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 two 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 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.

#### SECTION 1004. 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 be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

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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.

#### SECTION 1005. 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.

(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.

SECTION 1006. 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.

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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.

SECTION 1007. 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

(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.

SECTION 1008. 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

###### SECTION 1101. 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.

###### SECTION 1102. 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.

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###### SECTION 1103. 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 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.

###### SECTION 1104. 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,
- (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.

SECTION 1105. 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.

SECTION 1106. 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 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.

SECTION 1107. 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. 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.

ARTICLE TWELVE

SINKING FUNDS

SECTION 1201. 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 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.

#### SECTION 1202. 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.

#### SECTION 1203. 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

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theretofore delivered. If such Officers' Certificate shall specify an optional amount to be added in cash to the next 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

##### SECTION 1301. 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

SECTION 1401. 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.

SECTION 1402. 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 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,

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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.

SECTION 1403. 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.

SECTION 1404. 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.

SECTION 1405. 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

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the appointment and duties of inspectors of votes, the submission and examination or 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 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.

SECTION 1406. 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 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

SECTION 1501. 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.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture, dated as of October 1, 1993 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 \_\_\_\_\_  
Senior Vice President and  
Treasurer

Attest:

/s/ GREGORY T. RUSSO

-----

Secretary

The Chase Manhattan Bank  
(National Association)

[CORPORATE SEAL]

By /s/ JAMES D. HEANEY  
-----  
Vice President

Attest:

/s/ JOSEPHINE MANNINO

-----

Assistant Secretary

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.

AGREEMENT  
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AGREEMENT, effective as of \_\_\_\_\_ between Merrill Lynch & Co., Inc., a Delaware corporation (the "Company"), and (the "Indemnitee").

WHEREAS, it is essential to the Company to retain and attract as directors the most capable persons available;

WHEREAS, Indemnitee is a director of the Company;

WHEREAS, both the Company and Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and officers of public companies in today's environment;

WHEREAS, basic protection against undue risk of personal liability of directors and officers heretofore has been provided through insurance coverage providing reasonable protection at reasonable cost, and Indemnitee is relying on the availability of such coverage; but as a result of substantial changes in the marketplace for such insurance it has become increasingly more difficult to obtain such insurance on terms providing reasonable protection at reasonable cost; and the Company cannot be assured that it will be able to renew its present insurance policies, that the cost thereof will not become prohibitive, or, if its present coverage is not renewed or does become prohibitively expensive, that similar coverage will be available elsewhere;

WHEREAS, the Restated Certificate of Incorporation (the "Certificate") of the Company requires the Company to indemnify and advance expenses to its directors to the full extent authorized or permitted by law and the Indemnitee has agreed to serve and will continue to serve as a director of the Company in part in reliance on the Certificate.

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to enhance Indemnitee's continued service to the Company in an effective manner, the increasing difficulty in obtaining satisfactory directors' and officers' liability insurance coverage, and Indemnitee's reliance on the Certificate, and in part to provide Indemnitee with specific contractual assurance that the protection promised by the Certificate will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Certificate or any

change in the composition of the Company's Board of Directors or acquisition transaction relating to the Company), the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the full extent (whether partial or complete) authorized or permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies;

NOW, THEREFORE, in consideration of the premises and of Indemnitee continuing to serve the Company directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Basic Indemnification Arrangement.  
-----

(a) In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee to the full extent authorized or permitted by law as soon as practicable but in any event no later than thirty days after written demand is presented to the Company, against any and all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Claim; provided, however, that, except for

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proceedings to enforce rights to indemnification, the Company shall not be obligated to indemnify Indemnitee in connection with a proceeding (or part thereof) initiated by Indemnitee unless such proceeding (or part thereof) was authorized in advance, or unanimously consented to, by the Board of Directors of the Company. If so requested by Indemnitee, the Company shall advance (within two business days of such request) any and all Expenses to Indemnitee (an "Expense Advance").

(b) Notwithstanding the foregoing, (i) the obligations of the Company under Section 1(a) shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion, in any case in which the Independent Legal Counsel referred to in Section 2 hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an Expense Advance pursuant to Section 1(a) shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall

not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). If there has not been a Change in Control, the Reviewing Party shall be selected by the Company's Board of Directors, and if there has been such a Change in Control, the Reviewing Party shall be the Independent Legal Counsel referred to in Section 2 hereof. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation in any court in the States of New York or Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

2. Change in Control. The Company agrees that if there is a Change in Control

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of the Company, then with respect to all matters thereafter arising concerning the rights of Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement, or any Certificate or by-law provision now or hereinafter in effect relating to Claims for Indemnifiable Events, the Company shall seek legal advice only from Independent Legal Counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent the Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

3. Establishment of Trust. In the event of a Potential Change in Control, the

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Company shall, upon written request by Indemnitee, create a trust for the benefit of Indemnitee and from time to time upon written request of Indemnitee shall fund such trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for and defending any Claim relating to an Indemnifiable Event, and any and all judgments, fines, penalties and settlement amounts of any and all Claims relating to an Indemnifiable Event from time to time actually paid or claimed, reasonably anticipated or proposed to be paid. The amount or amounts to be deposited in the trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Party, in any case in which the Independent Legal Counsel referred to above is involved. The terms of the trust shall provide that upon a Change in Control (i) the trust shall not be revoked or the principal thereof invaded,

without the written consent of the Indemnitee, (ii) the trustee shall advance, within two business days of a request by the Indemnitee, any and all Expenses to the Indemnitee (and the Indemnitee hereby agrees to reimburse the trust under the circumstances under which the Indemnitee would be required to reimburse the Company under Section 1(b) of this Agreement), (iii) the trust shall continue to be funded by the Company in accordance with the funding obligation set forth above, (iv) the trustee shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (v) all unexpended funds in such trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The trustee shall be chosen by Indemnitee. Nothing in this Section 3 shall relieve the Company of any of its obligations under this Agreement.

4. Indemnification for Additional Expenses. The Company shall indemnify

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Indemnitee against any and all expenses (including attorneys' fees) and, if requested by Indemnitee, shall (within two business days of such request)

advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement, or any Certificate or by-law provision now or hereafter in effect relating to Claims for Indemnifiable Events and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

5. Partial Indemnity, Etc. If Indemnitee is entitled under any provision of

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this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

6. Burden of Proof. In connection with any determination by the Reviewing

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Party or otherwise as to whether Indemnitee is entitled to be indemnified hereunder, the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

7. No Presumptions. For purposes of this Agreement, the termination of any

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claim, action, suit or proceeding, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its

equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnitee to secure a judicial determination that Indemnitee should be indemnified under applicable law shall be a defense to Indemnitee's claim or create a presumption that Indemnitee has not met any particular standard of conduct or did not have any particular belief.

8. Nonexclusivity, Etc. The rights of the Indemnitee hereunder shall be in

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addition to any other rights Indemnitee may have under the Certificate or the Delaware General Corporation Law or otherwise. To the extent that a change in the Delaware General Corporation Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Certificate and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

9. Liability Insurance. To the extent the Company maintains an insurance

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policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.

10. Period of Limitations. No legal action shall be brought and no cause of

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action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action such shorter period shall govern.

11. Amendments, Etc. No supplement, modification or amendment of this

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Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

12. Subrogation. In the event of payment under this Agreement, the Company

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shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

13. No Duplication of Payments. The Company shall not be liable under this  
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Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, the Certificate or otherwise) of the amounts otherwise indemnifiable hereunder.

14. Binding Effect, Etc. This Agreement shall be binding upon and inure to the  
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benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director of the Company.

15. Severability. The provisions of this Agreement shall be severable in the  
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event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the full extent permitted by law.

16. Governing Law. This Agreement shall be governed by and construed and  
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enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

17. Certain Definitions:  
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(a) Change in Control: a change in control of a nature that would be  
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required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement; provided that, without limitation, a Change in Control shall be  
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deemed to have occurred if (i) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, or any syndicate or group deemed to be a person under Section 14(d)(2) of the Exchange Act (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the total voting power represented by the Company's then outstanding Voting Securities; or (ii) during any period of two (2)

consecutive years, individuals who at the beginning of such period constituted the Board of Directors and any new directors, whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least three quarters (3/4) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of transactions) all or substantially all the Company's assets.

(b) Claim: any threatened, pending or completed action, suit or  
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proceeding, or any inquiry or investigation, whether instituted by the Company or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.



(c) Expenses: include attorneys' fees and all other costs, expenses and  
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obligations paid or incurred in connection with investigating, defending, being  
a witness in or participating in (including on appeal), or preparing to defend,  
be a witness in or participate in any Claim relating to any Indemnifiable Event.

(d) Indemnifiable Event: any event or occurrence related to the fact that  
-----  
Indemnitee is or was a director or officer of the Company, or is or was serving  
at the request of the Company as a director, officer or trustee of another  
corporation, trust or other enterprise, or by reason of anything done or not  
done by Indemnitee in any such capacity.

(e) Independent Legal Counsel: an attorney or firm of attorneys, selected  
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in accordance with the provisions of Section 2, who shall not have otherwise  
performed services for the Company or Indemnitee within the last two years  
(other than with respect to matters concerning the rights of Indemnitee under  
this Agreement, or of other indemnitees under similar indemnity agreements).

(f) Potential Change in Control: shall be deemed to have occurred if (i)  
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the Company enters into an agreement, the consummation of which would result in  
the occurrence of a Change in Control; (ii) any person (including the Company)  
publicly announces an intention to take or to consider taking actions which if  
consummated would constitute a Change in Control; (iii) any person, other than a  
trustee or other

fiduciary holding securities under an employee benefit plan of the Company or a  
corporation owned, directly or indirectly, by the stockholders of the Company in  
substantially the same proportions as their ownership of stock of the Company,  
who is or becomes the beneficial owner, directly or indirectly, of securities of  
the Company representing 9.5% or more of the combined voting power of the  
Company's then outstanding Voting Securities, increases such person's beneficial  
ownership of such securities by three percentage points (3%) or more over the  
percentage so owned by such person; or (iv) the Board adopts a resolution to the  
effect that, for purposes of this Agreement, a Potential Change in Control has  
occurred.

(g) Reviewing Party: any appropriate person or body consisting of a member  
-----  
or members of the Company's Board of Directors or any other person or body  
appointed by the Board who is not a party to the particular Claim for which  
Indemnitee is seeking indemnification, or Independent Legal Counsel.

(h) Voting Securities: any securities of the Company which vote generally  
-----  
in the election of directors.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of  
the \_\_\_\_\_ day of \_\_\_\_\_

MERRILL LYNCH & CO., INC.

By: \_\_\_\_\_

\_\_\_\_\_

Written Description of ML & Co.'s Incentive Compensation Programs

Cash incentive compensation programs are maintained for key employees of Merrill Lynch & Co., Inc. ("ML & Co.") and its participating subsidiaries. The individuals who are to receive awards and the amount of such awards are determined or approved each year by the Management Development and Compensation Committee of the Board of Directors of ML & Co. based on the recommendations of the management of ML & Co. Annual cash incentive awards are based on the overall performance of ML & Co. or groupings of one or more subsidiaries or units thereof, and on an employee's rank and performance, during the most recently completed fiscal year.

<TABLE>  
<CAPTION>

EXHIBIT

11

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
COMPUTATION OF EARNINGS PER COMMON SHARE  
(in millions, except per share amounts)

	Year Ended Last Friday in December				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net earnings	\$ 1,259	\$ 1,935	\$ 1,648	\$ 1,126	\$
1,030					
Preferred stock dividends	(39)	(39)	(46)	(48)	
(13)					
Net earnings applicable to common stockholders	1,220	1,896	1,602	1,078	
1,017					
Interest on convertible debt	-	-	1	1	
1					
	1,220	1,896	1,603	1,079	
1,018					
Weighted-average shares outstanding (basic shares)	355.6	340.1	346.0	361.2	
399.2					
Effect of dilutive instruments:					
Employee stock options	29.2	29.7	21.9	19.9	
13.6					
FCCAAP shares	16.6	20.6	19.6	18.7	
14.0					
Restricted units	4.9	5.3	4.7	2.4	
2.5					
ESPP shares	-	-	.1	.1	
.1					
Convertible debt	-	.2	.7	.6	
.7					
Dilutive potential common shares	50.7	55.8	47.0	41.7	
30.9					
Diluted shares	406.3	395.9	393.0	402.9	
430.1					
BASIC EARNINGS PER SHARE	\$ 3.43	\$ 5.57	\$ 4.63	\$ 2.98	\$
2.55					
DILUTED EARNINGS PER SHARE	\$ 3.00	\$ 4.79	\$ 4.08	\$ 2.68	\$
2.37					

</TABLE>

Notes: Amounts for 1994-1997 have been restated for Merrill Lynch's 1998 merger with Midland Walwyn Inc., accounted for as a pooling-of-interests. Share and per share amounts for 1994-1996 have also been restated for the 1997 two-for-one common stock split.

Basic and diluted earnings per share are based on actual numbers before rounding.

<TABLE>  
<CAPTION>

EXHIBIT

12

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)

	Year Ended Last Friday in December				
	1998	1997	1996	1995	1994
---					
---					
<S>	<C>	<C>	<C>	<C>	<C>
Pre-tax earnings from continuing operations	\$ 2,096	\$ 3,111	\$ 2,628	\$ 1,836	\$ 1,747
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	18,498	16,410	12,266	11,587	8,736
--					
Pre-tax earnings before fixed charges	20,594	19,521	14,894	13,423	10,483
Fixed charges:					
Interest	18,278	16,224	12,083	11,434	
8,591					
Other (a)	351	236	183	153	
145					
--					
Total fixed charges	18,629	16,460	12,266	11,587	8,736
--					
Preferred stock dividend requirements	58	61	73	77	22
--					
Total combined fixed charges and preferred stock dividends	\$18,687	\$16,521	\$12,339	\$11,664	\$ 8,758
RATIO OF EARNINGS TO FIXED CHARGES	1.11	1.19	1.21	1.16	1.20
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS	1.10	1.18	1.21	1.15	1.20

(a) Other fixed charges consist of the interest factor in rentals, amortization of debt issuance costs, preferred security dividend requirements of subsidiaries, and capitalized interest.

This exhibit contains an excerpt from the ML&Co. 1998 Annual Report to Stockholders:

	Page (s) -----
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<TABLE>  
<CAPTION>

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SELECTED FINANCIAL DATA  
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(dollars in millions, except per share amounts)

DECEMBER	YEAR ENDED LAST FRIDAY IN			
	1998	1997	1996	1995
1994				
-----				
<S>	<C>	<C>	<C>	<C>
<C>				
OPERATING RESULTS				
Total Revenues	\$ 35,853	\$ 32,499	\$ 25,713	\$ 22,060
\$ 18,573				
Interest Expense	18,306	16,243	12,092	11,445
8,614	-----	-----	-----	-----
-----				
Net Revenues	17,547	16,256	13,621	10,615
9,959				
Non-Interest Expenses	15,451	13,145	10,993	8,779
8,212	-----	-----	-----	-----
-----				
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	2,096	3,111	2,628	1,836
1,747				
Income Tax Expense	713	1,129	980	710
717				
Dividends on Preferred Securities Issued by Subsidiaries	124	47	-	-
-	-----	-----	-----	-----
-----				
Net Earnings	\$ 1,259	\$ 1,935	\$ 1,648	\$ 1,126
\$ 1,030	=====	=====	=====	=====
=====				
Net Earnings Applicable to Common Stockholders	\$ 1,220	\$ 1,896	\$ 1,602	\$ 1,078
\$ 1,017	=====	=====	=====	=====
=====				
-----				
-----				

FINANCIAL POSITION				
Total Assets	\$299,804	\$296,980	\$217,266	\$179,452
\$165,920				
Short-Term Borrowings(a)	\$ 99,550	\$124,219	\$103,469	\$ 86,969
\$ 78,735				
Long-Term Borrowings	\$ 57,563	\$ 43,143	\$ 26,206	\$ 17,389
\$ 14,911				
Preferred Securities Issued by Subsidiaries	\$ 2,627	\$ 627	\$ 327	\$ 51
\$ 51				
Total Stockholders' Equity	\$ 10,132	\$ 8,539	\$ 7,067	\$ 6,288
\$ 5,951				

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COMMON SHARE DATA(b)  
(in thousands, except per share amounts)

Earnings Per Share:				
Basic	\$ 3.43	\$ 5.57	\$ 4.63	\$ 2.98
\$ 2.55				
=====				
Diluted	\$ 3.00	\$ 4.79	\$ 4.08	\$ 2.68
\$ 2.37				
=====				
Weighted-Average Shares Outstanding:				
Basic	355,589	340,096	346,043	361,193
399,209				
Diluted	406,262	395,855	392,990	402,852
430,092				
Shares Outstanding at Year End(c)	356,284	339,259	332,349	346,953
367,135				
Shares Repurchased(d)	-	13,301	36,606	39,861
59,790				
Average Share Repurchase Price	\$ -	\$ 48.91	\$ 31.30	\$ 23.48
\$ 18.98				
Book Value Per Share	\$ 26.89	\$ 23.63	\$ 19.24	\$ 16.25
\$ 14.48				
Dividends Paid Per Share	\$ 0.92	\$ 0.75	\$ 0.58	\$ 0.505
\$ 0.445				

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FINANCIAL RATIOS

Pre-tax Margin(e)	11.9%	19.1%	19.3%	17.3%
17.5%				
Profit Margin(f)	7.2%	11.9%	12.1%	10.6%
10.3%				
Common Dividend Payout Ratio	26.3%	13.4%	12.5%	17.0%
17.6%				
Return on Average Assets	0.3%	0.7%	0.7%	0.5%
0.6%				
Return on Average Common Stockholders' Equity	13.4%	26.5%	26.6%	19.8%
18.4%				
Average Leverage(g)	32.9x	35.3x	33.3x	32.1x
31.3x				
Average Adjusted Leverage(h)	19.2x	21.3x	19.8x	19.4x
18.6x				

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EMPLOYEE STATISTICS

Full-Time Employees:				
U.S	46,700	45,800	42,100	39,250
38,750				
Non-U.S	17,100	13,900	10,500	9,250
7,550				
-----				
Total	63,800	59,700	52,600	48,500
46,300				
=====				
Financial Consultants and Other Investment Professionals	18,200	16,600	15,600	14,900
14,500				

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</TABLE>

- (a) Consists of Payables under repurchase agreements and securities loaned transactions, Commercial paper and other short-term borrowings, and Demand and time deposits.
- (b) All share and per share data have been restated for the 1997 two-for-one common stock split (see Note 7 to the Consolidated Financial Statements).
- (c) Does not include 4,506, 4,718, 4,134, 3,932, and 3,786 shares exchangeable into common stock (see Note 7 to the Consolidated Financial Statements) at year-end 1998, 1997, 1996, 1995, and 1994, respectively. Also does not include 3,078, 8,026, and 12,854 unallocated reversion shares held in the Employee Stock Ownership Plan at year-end 1996, 1995, and 1994, respectively, which are not considered outstanding for accounting purposes.

- (d) 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.
- (e) Earnings before income taxes and Dividends on preferred securities issued by subsidiaries to Net revenues.
- (f) Net earnings to Net revenues.
- (g) Average Total assets to average Total stockholders' equity and Preferred securities issued by subsidiaries.
- (h) 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

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Merrill Lynch & Co., Inc. ("ML & Co." and, together with its subsidiaries and affiliates, "Merrill Lynch") is a holding company that, through its subsidiaries and affiliates, provides investment, financing, advisory, insurance, and related services worldwide. Merrill Lynch conducts its businesses in global financial markets that 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. In addition, the recent relaxation of banks' barriers to entry into the securities industry and expansion by insurance companies into traditional brokerage products, coupled with the potential repeal of the laws separating commercial and investment banking activities, 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's 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, those listed in the previous paragraphs, as well as:

- o actions taken by both current and potential competitors,
- o the impact of current and future legislation and regulation throughout the world, and
- o the other risks and uncertainties detailed in the following sections.

MERRILL LYNCH UNDERTAKES NO RESPONSIBILITY TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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BUSINESS ENVIRONMENT

Global financial markets experienced significant volatility during 1998, after generally strong performances in 1997 and 1996. Continued low inflation and falling interest rates led U.S. and European markets to new highs during the 1998 first half. During the 1998 third quarter, however, global markets were adversely impacted by the collapse of the Russian economy, severe weakening of several Asian economies, hedge fund liquidity concerns or default, and economic turmoil in many emerging markets. These events triggered a significant increase in credit risk premiums and a virtual disappearance of liquidity for emerging market and many other debt instruments. U.S. and most European markets subsequently rebounded during the 1998 fourth quarter, as a series of moderate U.S. interest rate cuts provided market stability that led equity market indices to record levels and resulted in increased liquidity in credit markets. Russian and Latin American markets remained weak during the 1998 fourth quarter, while certain markets in Asia, particularly Korea and Thailand, began to show signs of recovery.

Long-term U.S. interest rates, as measured by the yield on the 30-year U.S. Treasury bond, generally declined throughout 1998. The rally in U.S. Treasuries during the third quarter, precipitated by investors' flight from lower credit quality instruments, continued low inflation, and deleveraging of hedge funds, drove long-term rates to their lowest levels since 1967. European rates, following the U.S. trend, generally decreased during 1998 and were lower relative to 1997. Interest rates in Latin American countries, particularly Brazil, increased during the first nine months of 1998, but declined modestly during the final weeks of the year.

Credit spreads, which represent the risk premium over the risk-free rate paid by an issuer based on the issuer's credit rating or perceived creditworthiness, widened to unprecedented levels during 1998. This extreme movement in credit spreads, which peaked in August and September, led to large mark-to-market losses on credit-sensitive instruments, particularly high-yield and emerging market securities. Due to the reduced effectiveness of hedging with U.S. Treasuries, the typical hedge for corporate debt instruments, these losses were not offset.

U.S. equity markets experienced significant gains during 1998 as evidenced by the 16.1% advance in the Dow Jones Industrial Average (the "Dow"). This increase occurred despite a volatile third quarter, when concerns over global economic markets and earnings disappointments led to a one-day 513-point drop in the Dow in August, erasing the gains achieved during the first seven months of the year. U.S. equity markets posted a strong recovery in the fourth quarter, aided by a series of modest U.S. interest rate cuts beginning in September. The Nasdaq Composite and the S&P 500 also advanced 39.6% and 26.7%, respectively, from year-end 1997.

Global equity markets trended upward during the first quarter of 1998. European markets flourished due to prospects for strong corporate earnings and low interest rates, while certain Asian markets slowly recovered from 1997 price declines. This trend continued through July in Europe, but reversed early in the second quarter in Asia, as fears over the yen's declining value and political unrest in certain Asian countries led to significant volatility and reduced investor confidence. The collapse of the Russian economy and delays in International Monetary Fund loans to Brazil in the third quarter triggered further declines in Asian and Latin American markets and adversely impacted European stock indices. Aided by interest rate cuts, European and certain Asian markets, including Korea and Thailand, bounced back during the 1998 fourth quarter, while Russian and Latin American markets continued to struggle. Despite this severe volatility in many non-U.S. markets during 1998, the Dow Jones World Index advanced 20.2% from year-end 1997.

Global underwriting volume reached record levels during 1998, as a robust first six months and strong fourth quarter compensated for the slowdown of new issuances from mid-August through mid-October. Underwriting fees for 1998 fell slightly short of a record, however, totaling \$8.8 billion industrywide, as debt offerings, which typically yield lower fees than equity issuances, accounted for much of the underwriting activity during the year.

Strategic services activities reached record levels in 1998, as merger and acquisition deal values increased nearly 50% from 1997. Companies continued to seek strategic alliances to increase earnings growth, better compete in existing markets, and expand into new markets and businesses.

Merrill Lynch continually evaluates its businesses across varying market conditions for profitability and alignment with long-term strategic objectives. Businesses that fail to meet these hurdles over market cycles are resized, restructured, or exited (e.g., certain debt trading businesses in the

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MANAGEMENT'S DISCUSSION AND ANALYSIS

1998 fourth quarter). Merrill Lynch seeks to mitigate the effect of market downturns by expanding globally into new markets, developing and maintaining long-term client relationships, monitoring costs and risks, and diversifying revenue sources, including the expansion of fee-based revenues.

RESULTS OF OPERATIONS

(in millions, except per share amounts)	1998	1997	1996	1998 vs.	
				1997	1996
Total revenues	\$35,853	\$32,499	\$25,713	10.3%	39.4%
Net revenues	17,547	16,256	13,621	7.9	28.8
Net earnings	1,259	1,935	1,648	(34.9)	(23.6)
Net earnings applicable to common stockholders	1,220	1,896	1,602	(35.6)	(23.8)
Earnings per common share:					
Basic	3.43	5.57	4.63	(38.4)	(25.9)
Diluted	3.00	4.79	4.08	(37.4)	(26.5)
Return on average common stockholders' equity	13.4%	26.5%	26.6%		

During 1998, record revenues were achieved in investment banking, commissions, and asset management and portfolio service fees. These revenues were partially offset by a decrease in principal transactions revenues and increased costs related to compensation and benefits, communications and technology, and a staff reduction provision.

Merrill Lynch reported 1998 net earnings of \$1.3 billion, which included an after-tax provision for costs related to staff reductions of \$430 million (\$288 million after-tax). Excluding the staff reduction provision, 1998 net earnings were \$1.5 billion, or \$3.71 per diluted share, down 20% from \$1.9 billion or \$4.79 per diluted share reported in 1997. Return on average common stockholders' equity on this basis was 16.4%.

Management believes cash earnings, which exclude goodwill amortization, are the most relevant measure of financial performance because it best illustrates Merrill Lynch's operating performance and ability to support growth. Earnings on a cash basis, before the staff reduction provision, were \$1.8 billion, down from \$2.0 billion in 1997. On the same basis, diluted earnings per share were \$4.27 versus \$4.95 in 1997, and return on average common stockholders' equity was 18.3%.

The staff reduction program and other cost savings initiatives implemented during the 1998 fourth quarter are expected to reduce annual fixed and semi-fixed costs by approximately \$500 million and selectively resize certain Merrill Lynch businesses. In the 1998 fourth quarter, Merrill Lynch experienced a \$271 million, or 17%, decrease in all non-compensation expenses compared to the 1998 third quarter, due to cost savings initiatives including the staff reduction provision. These programs were instituted to position Merrill Lynch for 1999 in anticipation of a more challenging business environment (see the Non-Interest Expenses section for more information).

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. Prior year amounts have been restated to reflect Merrill Lynch's merger with Midland Walwyn (see Note 2 to the Consolidated Financial Statements), as if Merrill Lynch and Midland

Walwyn had always been combined. In addition, certain reclassification and format changes have been made to prior year amounts to conform with the current year presentation.

COMMISSIONS

(in millions)	1998	1997	1996
Listed and over-the-counter	\$ 3,185	\$ 2,759	\$ 2,207
Mutual funds	1,871	1,594	1,302
Other	743	642	576
Total	\$ 5,799	\$ 4,995	\$ 4,085

Commissions revenues advanced 16% in 1998 to a record \$5.8 billion, primarily due to increases in global listed securities volume and mutual fund commissions. Commissions from listed securities were up 16% from 1997 as a result of higher trading volumes on the New York Stock Exchange and many non-U.S. exchanges. Mutual fund commissions revenues rose 17%, benefiting from strong sales of both U.S. and non-U.S. funds. Other commissions revenues advanced 16% in 1998, largely due to increased sales of money market instruments, commodities, and third party annuity contracts.

Commissions revenues in 1997 rose 22% from 1996 levels. Increased trading volume led to higher listed and over-the-counter securities transaction revenues, while strong sales of U.S. and non-U.S. mutual funds and higher distribution fees increased mutual fund commissions.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTEREST AND DIVIDENDS

(in millions)	1998	1997	1996
<b>INTEREST AND DIVIDEND REVENUES</b>			
Resale agreements and securities			
borrowed transactions	\$ 8,973	\$ 8,121	\$ 5,930
Trading assets	5,218	5,240	4,208
Margin lending	2,757	2,207	1,556
Other	2,366	1,731	1,431
	19,314	17,299	13,125
<b>INTEREST EXPENSE</b>			
Repurchase agreements and securities			
loaned transactions	8,413	7,306	5,508
Borrowings	5,500	4,623	3,064
Trading liabilities	2,619	2,983	2,492
Other	1,774	1,331	1,028
	18,306	16,243	12,092
<b>NET INTEREST AND DIVIDEND PROFIT</b>	<b>\$ 1,008</b>	<b>\$ 1,056</b>	<b>\$ 1,033</b>

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, term structure, and volatility of interest rates. Net interest and dividend profit was down 5% from 1997, primarily due to additional financing costs related to the Mercury Asset Management Group ("Mercury") acquisition.

In 1997, interest and dividend profit was up 2% from 1996 with increases in net interest-earning assets offset by declining interest spreads due to the flattening of the yield curve.

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 1998, 1997, and 1996 by \$62 million, \$81 million, and \$127 million, respectively (see Note 5 to the Consolidated Financial Statements).

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, however, 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)
-----			
1998			
Equities and equity derivatives	\$ 1,634	\$ 82	\$ 1,716
Corporate debt and preferred stock	(720)	(174)	(894)
Debt derivatives	817	(71)	746
Mortgages and municipals	271	266	537
Government and agency obligations	441	74	515
Foreign exchange	208	(4)	204
	-----	-----	-----
Total	\$ 2,651	\$ 173	\$ 2,824
	=====	=====	=====
-----			
1997			
Equities and equity derivatives	\$ 1,323	\$ (10)	\$ 1,313
Corporate debt and preferred stock	814	(109)	705
Debt derivatives	846	(78)	768
Mortgages and municipals	343	159	502
Government and agency obligations	316	125	441
Foreign exchange	185	(1)	184
	-----	-----	-----
Total	\$ 3,827	\$ 86	\$ 3,913
	=====	=====	=====
-----			
1996			
Equities and equity derivatives	\$ 1,245	\$ (31)	\$ 1,214
Corporate debt and preferred stock	638	50	688
Debt derivatives	711	(105)	606
Mortgages and municipals	404	114	518
Government and agency obligations	396	93	489
Foreign exchange	137	8	145
	-----	-----	-----
Total	\$ 3,531	\$ 129	\$ 3,660
	=====	=====	=====

(1) Excludes commissions. For further information on trading results, see Note 13 to the Consolidated Financial Statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Net trading revenues were \$2.8 billion in 1998, down 28% from 1997 due to significant volatility in global debt markets. This decrease was attributable to losses from corporate debt and preferred stock and lower revenues from debt derivatives, partly offset by strong revenues in equities and equity derivatives, mortgages and municipals, government and agency obligations, and foreign exchange.

Equities and equity derivatives trading revenues advanced 31% from 1997 to \$1.7 billion, primarily due to significantly higher revenues from non-U.S. equities as well as equity derivative transactions, partially offset by a decrease in convertibles. The increase in revenues from non-U.S. equities resulted primarily from an increase in trading volumes in European markets and higher market share. The growth in equity derivatives revenues from 1997 was due to increased customer demand and further synergies from the 1995 Smith New Court acquisition. The decrease in revenues from convertibles was due to the significant widening of credit spreads.

Corporate debt and preferred stock losses were \$894 million during 1998, compared with revenues of \$705 million in 1997, as valuations of corporate and emerging market bonds were significantly impacted by the unprecedented widening of credit spreads during August and September and severely reduced liquidity.

These losses were compounded by the ineffectiveness of related hedges during the 1998 third quarter and into the fourth quarter.

Debt derivatives revenues were \$746 million, down 3% from 1997 due in part to credit losses on emerging market-related derivatives in the latter half of 1998.

Revenues from mortgages and municipals were \$537 million, up 7% from 1997. Higher trading revenues from mortgage products were partly offset by lower revenues from municipals due to reduced margins on sales of shorter-term instruments.

Government and agency revenues rose 17% during 1998 to \$515 million. Higher revenues from U.S. Government and agencies, driven by investor demand for higher quality debt instruments, were partially offset by lower revenues from non-U.S. governments and agencies, attributable to weak economic conditions in Latin American, Eastern European, and other emerging markets.

Foreign exchange trading revenues increased 11% to \$204 million, attributable to fluctuations in the U.S. dollar versus various currencies.

In 1997, trading revenues were up 7% from 1996. Increased profitability from equity derivative transactions, higher transaction volume, and price appreciation in U.S. and certain non-U.S. equity markets led to advances in equities and equity derivatives trading revenues (up 8%). Lower interest rates and improved economic conditions increased demand for corporate debt and preferred stock (up 2%). Higher revenues from emerging market-related derivatives, improved customer demand due to market volatility, and increased activity in credit derivatives led to advances in debt derivatives (up 27%). A less favorable market environment and reduced margins on sales of shorter-term instruments led to decreased revenues from mortgages and municipals, respectively (down 3%). Lower interest rates and reduced market volatility in certain countries led to a decline in government and agency revenues worldwide (down 10%). Increased volume attributable to fluctuations in the U.S. dollar versus the German mark and Japanese yen led to higher foreign exchange revenues (up 27%).

#### INVESTMENT BANKING

(in millions)	1998	1997	1996
Underwriting revenues	\$ 2,162	\$ 2,079	\$ 1,592
Strategic services revenues	1,102	797	430
Total	\$ 3,264	\$ 2,876	\$ 2,022

Investment banking revenues advanced 13% from 1997 to a record \$3.3 billion, benefiting from increased revenues from underwriting and record merger and acquisition advisory fees in 1998. Higher issuances of convertible securities and Defined Asset Funds (Service Mark) were partially offset by lower equity and high-yield debt underwriting activity. Merrill Lynch retained its position as the leading underwriter of total debt and equity securities for the 11th consecutive year in the U.S. and for the 10th consecutive year globally. In addition, Merrill Lynch gained market share in 1998 for most debt and equity categories. Merrill Lynch's underwriting market share information based on transaction value follows:

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

	1998		1997		1996	
	MARKET SHARE	RANK	MARKET SHARE	RANK	MARKET SHARE	RANK
U.S. PROCEEDS						
Debt	16.2%	1	15.8%	1	15.6%	1
Equity	16.6	1	15.3	1	13.5	2
Debt and Equity	16.7	1	16.1	1	16.0	1
GLOBAL PROCEEDS						
Debt	13.8%	1	13.1%	1	12.2%	1
Equity	13.2	3	13.2	2	12.2	2
Debt and Equity	14.1	1	13.4	1	12.7	1

Source: Securities Data Co. ("SDC") statistics based on full credit to book manager.

Strategic services fees were up 38% from 1997 to a record \$1.1 billion, benefiting from strong merger and acquisition activity. Merrill Lynch also increased its market share during 1998 in both U.S. and global completed and announced transactions. Merrill Lynch's merger and acquisition market share information based on transaction value follows:

	1998		1997		1996	
	MARKET SHARE	RANK	MARKET SHARE	RANK	MARKET SHARE	RANK
COMPLETED TRANSACTIONS						
U.S.	33.4%	1	28.6%	1	24.3%	2
Global	25.7	2	19.4	2	15.9	3
ANNOUNCED TRANSACTIONS						
U.S.	31.9%	2	27.9%	1	27.9%	1
Global	25.3	2	18.8	3	18.0	2

Source: SDC statistics based on full credit to both target and acquiring companies' advisors.

Investment banking revenues in 1997 increased 42% from 1996 due to higher levels of equity underwriting and increased merger and acquisition activity industrywide.

#### ASSET MANAGEMENT AND PORTFOLIO SERVICE FEES

(in millions)	1998	1997	1996
Asset management fees	\$ 2,075	\$ 1,232	\$ 1,010
Portfolio service fees	1,150	826	608
Account fees	451	422	383
Other fees	526	522	430
Total	\$ 4,202	\$ 3,002	\$ 2,431

Revenues from asset management and portfolio service fees rose 40% in 1998 to a record \$4.2 billion, primarily due to the Mercury acquisition and strong growth in other assets under management. Year-end client assets for 1998, 1997, and 1996 are summarized as follows:

(in billions)	1998	1997	1996	1998 vs.	
				1997	1996
ASSETS IN CLIENT ACCOUNTS OR UNDER MANAGEMENT					
U.S.	\$ 1,164	\$ 979 (1)	\$ 792	19%	47%
Non-U.S.	278	250 (2)	68	11	309
Total	\$ 1,442	\$ 1,229	\$ 860	17	68
ASSETS UNDER MANAGEMENT					
Retail	\$ 258	\$ 240	\$ 194	8	33
Institutional	243	208	41	17	493
Total	\$ 501	\$ 448 (2)	\$ 235	12	113
FEE-BASED PROGRAM ASSETS (3)	\$ 64	\$ 45	\$ 30	42	113
401(k) ASSETS	\$ 99	\$ 74	\$ 45	34	120

- (1) Includes \$17 billion of assets related to the 1997 acquisition of MasterWorks, a 401(k) service provider.
- (2) Includes \$167 billion of assets related to the year-end 1997 acquisition of Mercury.
- (3) Includes Merrill Lynch Consults (Registered Trademark), Merrill Lynch Mutual Fund Advisor (Service Mark), Asset Power (Service Mark), Global Funds Advisor (Service Mark), and Merrill Lynch Financial Advantage (Service Mark).

Changes in client assets from year-end 1997 to year-end 1998 are described below:

NET CHANGES DUE TO

(in billions)	YEAR-END 1997	NEW MONEY (1)	ASSET APPRECIATION	YEAR-END 1998
Assets in client accounts or under management	\$ 1,229	\$ 98	\$ 115	\$ 1,442
Assets under management	448	34	19	501

(1) Includes reinvested dividends of \$11 billion.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

Asset management fees increased 68% in 1998 due to the acquisition of Mercury and growth in Merrill Lynch Asset Management ("MLAM") assets under management. Portfolio service fees were up 39% in 1998, benefiting from significant growth in client accounts and asset levels for various fee-based products, including Merrill Lynch Consults (Registered Trademark), Merrill Lynch Mutual Fund Advisor (Service Mark), Asset Power (Service Mark), Global Funds Advisor (Service Mark), and Merrill Lynch Financial Advantage (Service Mark). Account fees rose 7% principally as a result of increases in the number of customer and custodial accounts.

In 1997, asset management and portfolio service fees rose 23% from 1996, due to increases in MLAM assets under management resulting from market appreciation and net inflows, as well as growth in client accounts and asset levels for other fee-based products.

#### OTHER REVENUES

Other revenues were \$623 million in 1998, up 25% from 1997. Other revenues include investment and real estate gains and losses and partnership distributions. The increase in other revenues during 1998 was primarily attributable to a pre-tax gain from the sale of Merrill Lynch's New York Stock Exchange specialist business of approximately \$100 million.

In 1997, other revenues decreased 4% to \$500 million primarily due to lower realized gains in 1997 versus 1996. Realized gains in 1997 resulted from the sales of (i) merchant banking investments, (ii) Merrill Lynch's proxy distribution operation, and (iii) securitized mortgages, while the sale of a portion of Merrill Lynch's interest in Bloomberg L.P. accounted for the realized gain in 1996.

#### NON-INTEREST EXPENSES

Merrill Lynch's non-interest expenses are summarized as follows. Certain of these expenses have been reclassified from prior periods to conform to the current period presentation.

(in millions)	1998	1997	1996
Compensation and benefits	\$ 9,199	\$ 8,333	\$ 7,012
Non-interest expenses, excluding compensation and benefits:			
Communications and technology	1,749	1,255	1,010
Occupancy and related depreciation	867	736	742
Advertising and market development	688	613	527
Brokerage, clearing, and exchange fees	683	525	433
Professional fees	552	520	385
Goodwill amortization	226	65	50
Provision for costs related to staff reductions	430	-	-
Other	1,057	1,098	834
Total non-interest expenses, excluding compensation and benefits	6,252	4,812	3,981
Total non-interest expenses	\$ 15,451	\$ 13,145	\$ 10,993
Compensation and benefits as a percentage of net revenues	52.4% (1)	51.3%	51.5%
Compensation and benefits as a percentage of pre-tax earnings before compensation and benefits	78.5% (1) (2)	72.8%	72.7%

(1) These ratios, excluding Mercury and MLJS, were 51.5% and 74.8%,

respectively.

(2) Excluding provision for costs related to staff reductions.

Non-interest expenses increased 18% from 1997. Approximately \$1.4 billion, or about 60%, of this increase was attributable to the acquisition of Mercury, the start-up of Merrill Lynch Japan Securities Co. ("MLJS"), and a staff reduction provision.

The largest expense category, compensation and benefits, was up 10% from 1997 due to increased headcount and higher production-related compensation, slightly offset by lower incentive compensation. Headcount of 63,800 employees at year-end 1998 reflects an increase of approximately 4,100 employees since year-end 1997. This increase is attributable to strategic business expansion, including the start-up of MLJS. Production-related compensation was up due to strong business volume associated with higher Financial Consultant productivity, while lower profitability led to reduced incentive compensation.

Communications and technology expense rose 39% from 1997 to \$1.7 billion. Increased systems consulting costs associated with the Year 2000, European and Economic Monetary Union, and Trusted Global Advisor (Service Mark) initiatives (see the Capital Projects and Expenditures section) and higher technology-

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MANAGEMENT'S DISCUSSION AND ANALYSIS

related depreciation contributed to this advance. Occupancy and related depreciation increased 18% to \$867 million as a result of continued global expansion, including a total of \$74 million associated with MLJS and Mercury.

Advertising and market development expense was \$688 million, up 12% from 1997 because of increased advertising costs, partly related to the start-up of MLJS and the Roth IRA campaign, and higher recognition program costs. Brokerage, clearing, and exchange fees increased 30% to \$683 million, primarily due to custody and clearing costs for Mercury. Professional fees rose 6% to \$552 million due to higher costs for various strategic market studies and one-time integration costs for Midland Walwyn. Goodwill amortization increased \$161 million to \$226 million primarily as a result of the Mercury acquisition. Other expenses were down 4% from 1997, attributable to reductions in provisions for various business activities and legal matters, partly offset by higher office and postage costs.

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 program included reductions in the workforce, through termination and attrition, of approximately 3,400 personnel, or about 5% of Merrill Lynch's global workforce, including producers and direct business support staff in certain Corporate and Institutional Client Group businesses. In addition, full-time equivalent consultants, mainly involved in technology projects, were reduced by approximately 900. 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). As of year-end 1998, these headcount reductions had been largely implemented.

Non-interest expenses in 1997 were up 20% over 1996. Higher incentive and production-related compensation and a 14% growth in full-time employees led to a 19% increase in compensation and benefits. Communications and technology expense was up 24%, primarily due to increased systems consulting costs related to various technology projects and higher technology-related depreciation. Occupancy costs decreased 1%, reflecting a non-recurring pre-tax charge in 1996 of \$40 million related to the resolution of Olympia & York's bankruptcy that affected ML & Co.'s long-term sublease agreement in the World Financial Center, partially offset by increased costs related to growth outside the U.S. Advertising and market development expense rose 16%, primarily due to increased global travel related to business development and client promotion costs. Brokerage, clearing, and exchange fees were up 21% as a result of higher global securities trading volume. Professional fees rose 35% attributable in part to higher management consulting costs related to strategic market studies. Goodwill amortization increased \$15 million to \$65 million as a result of recent acquisitions. Other expenses increased 32% from 1996 due to increases in provisions for various business activities and legal matters and higher office and postage costs.

Presented below is a bar graph illustrating 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)

FIXED AND



	FEE-BASED REVENUES (2) -----	SEMI-FIXED EXPENSES -----	% ----
1998	\$5,749	\$7,930	73%(1)
1997	4,145	6,569	63
1996	3,562	5,584	64
1995	3,083	4,671	66
1994	2,886	4,385	66

(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 1998 income tax provision was \$713 million, representing a 34.0% effective tax rate compared with 36.3% in 1997 and 37.3% in 1996. The decline in the 1998

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

effective tax rate was primarily attributable to higher tax-exempt income and additional tax-advantaged financing. The effective tax rate decreased in 1997 from 1996 due to a reduction in state and local taxes associated with the settlement of tax audits.

Deferred tax assets 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 \$1.7 billion. Accordingly, management believes that it is more likely than not that deferred tax assets will be realized.

#### STRATEGIC BUSINESS INITIATIVES

Merrill Lynch continued to execute its global business strategy in 1998, which included:

- o Opening 33 retail offices in Japan through Merrill Lynch Japan Securities Co.,
- o Merger with Midland Walwyn Inc., one of Canada's premier securities firms, for which approximately nine million shares of common stock or exchangeable shares were issued,
- o Purchasing a majority interest in Phatra Securities Company Limited, Thailand's leading investment bank, for \$65 million,
- o Acquiring Howard Johnson & Co., a U.S. employee benefits consulting firm, for \$27 million, and
- o Divesting a majority interest in Lender's Service, Inc., a residential real estate services subsidiary, and a 100% interest in Merrill Lynch's New York Stock Exchange specialist subsidiary.

In 1997, Merrill Lynch acquired the Mercury Asset Management Group, the leading independent U.K. asset management firm, for approximately \$5.3 billion. The acquisition was recorded at year-end 1997 and, as a result, had no effect on 1997 operating results.

Merrill Lynch made other strategic acquisitions in 1997 in acquiring MasterWorks, a 401(k) service provider, for \$13 million and hiring the employees of the Centaurus Corporate Finance Group, a strategic advisor in Australia.

Acquisitions made or substantially completed in 1996 included McIntosh Securities Limited and Hotchkis and Wiley, for which aggregate consideration of \$232 million was paid. See Note 2 to the Consolidated Financial Statements for further information on acquisitions.

#### BUSINESS SEGMENTS

Merrill Lynch reports the results of its four strategic business priorities within two business segments: Wealth Management and Corporate and Institutional Client. Wealth Management comprises Merrill Lynch's U.S. Private Client, International Private Client, and Asset Management strategic priorities, all of which provide services related to the accumulation and management of wealth. The Corporate and Institutional Client Group ("CICG"), Merrill Lynch's other strategic priority, is reported as a separate business segment due to the distinct nature of the products it provides and the clients it serves. CICG's activities predominantly involve providing investment banking and strategic

merger and acquisition advisory services, as well as other capital markets services to corporate, institutional, and governmental clients throughout the world.

Certain CICG products are distributed by the Wealth Management distribution network, and to a more limited extent, certain Wealth Management products are distributed through the distribution capabilities of CICG. Costs associated with these intersegment services are borne by each segment through transfer pricing. The following segment operating results exclude certain corporate items (see Note 13 to the Consolidated Financial Statements).

#### Wealth Management

(dollars in millions)	1998	1997	1996
Net revenues	\$ 11,331	\$ 9,505	\$ 7,984
Net earnings	1,346	1,056	855
Average assets	46,251	38,276	33,496
Total employees	46,790	43,850	38,845

Wealth Management provides a wide range of fee-based products and services that assist clients around the world in building financial assets and maximizing client returns in relation to risk tolerance and investment objectives. These products and services include retail brokerage, asset management, liability management, retail and private banking, trust and

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

retirement services, and insurance products. These products and services are provided to individual investors, corporations, and institutions through various distribution networks, including approximately 17,400 Financial Consultants and Relationship Managers located in more than forty countries, as well as highly specialized personnel such as banking and insurance specialists.

Financial Consultants, Relationship Managers, and other investment professionals work with individual investors, small and medium-sized corporations, and other organizations to address clients' financial concerns, matching the numerous products offered by Merrill Lynch with the clients' customized needs. These products include:

- o The CMA (Registered Trademark) and CBA (Registered Trademark) accounts for individuals, WCMA (Registered Trademark) 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.
- o Investment research programs, such as Merrill Lynch OnLine (Service Mark), that provide clients with internet access to their accounts and the latest research and investment recommendations of the firm.
- o A wide array of global mutual fund portfolios covering a cross section of industries and regions of the world.
- o Various advisory programs, including Merrill Lynch Consults (Registered Trademark), Merrill Lynch Mutual Fund Advisor (Service Mark), Asset Power (Service Mark), Global Funds Advisor (Service Mark), and Merrill Lynch Financial Advantage (Service Mark).
- o Liability management services, in which mortgage and other consumer loans, margin lending, and commercial financing are offered.
- o Private banking services, which provide high net worth customers outside of the U.S. 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.
- o Insurance services, including annuity and life products for both retirement and estate planning.
- o Trust and other estate planning techniques to protect the assets of clients and their families.
- o Advisory and administrative activities for defined contribution, defined benefit, and various stock plans.

Within the U.S., Wealth Management has over 670 Private Client offices, 13,600 Financial Consultants, and client assets of \$1.1 trillion at year-end 1998, including \$298 billion of assets under management. Outside of the U.S., Merrill Lynch has over 220 Private Client offices, 3,800 Relationship Managers, and client assets of more than \$300 billion at year-end 1998, including \$203 billion of assets under management.

Wealth Management continued to expand its global presence during 1998 through the merger with Midland Walwyn. With Midland Walwyn's approximately

3,200 employees, including 1,300 investment professionals operating in 145 offices, Merrill Lynch has significantly enhanced its presence in Canada. In Japan, through the formation of MLJS, individual investors are offered the same consultative approach that Merrill Lynch has employed elsewhere in the world. Staffed by approximately 2,000 employees, including approximately 1,000 investment professionals in 33 branch offices, Merrill Lynch is the first U.S. firm to operate a nationwide retail securities network within the country.

The Asset Management business provides investment advisory services to a wide variety of institutions and retail clients, including pension plans, corporations, high net worth individuals, and mutual funds. This business was expanded through the year-end 1997 acquisition of Mercury. Management believes that this acquisition is critical to Merrill Lynch's global asset-gathering strategy and, in combination with MLAM, is essential to the success of its Wealth Management segment. Asset Management services are offered under three distinct brand names around the world: Merrill Lynch Asset Management, Merrill Lynch Mercury Asset Management, and Hotchkis and Wiley. Based on assets under management, Merrill Lynch is one of the largest investment managers in the world with \$501 billion in assets at year-end 1998. These assets are well diversified in terms of client type, asset type, and client location (see next page).

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Presented are three pie charts illustrating Merrill Lynch's assets under management in terms of client type, asset type, and client location at year-end 1998.

<TABLE>  
<CAPTION>

ASSETS UNDER MANAGEMENT AT YEAR-END 1998

<S>	<C>
CLIENT TYPE	
Retail	52%
Institutional	48
ASSET TYPE	
Equity	52%
Fixed-Income and other	48
CLIENT LOCATION	
U.S.	59%
Non-U.S.	41

</TABLE>

Net earnings for Wealth Management were \$1.3 billion in 1998, up 27% from \$1.1 billion in 1997 and up 57% from \$855 million in 1996. Net revenues were \$11.3 billion, up 19% and 42% from 1997 and 1996, respectively. The fee-based nature of many of Wealth Management's revenues, including commissions and asset management and portfolio service fees, has increased the stability of Merrill Lynch's earnings, thereby mitigating some of the market volatility experienced by the CIGG business in the latter half of 1998. 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 1998. The profitability of the Wealth Management segment has also improved from 1997 and 1996 because of robust markets, increased productivity, and expanded product lines. Substantially all of Wealth Management's fixed expenses were covered by fee-based revenues in 1998.

CIGG

(dollars in millions)	1998	1997	1996
Net revenues	\$ 6,522	\$ 6,751	\$ 5,637
Net earnings	882	1,145	930
Average assets	328,184	249,864	186,328
Total employees	17,010	15,850	13,755

CIGG 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. CIGG raises capital for its clients on favorable terms through securities underwriting, private placements, and loan syndication.

CIGG trades securities, currencies, and other products and writes

over-the-counter derivatives to satisfy customer demand for these instruments. With more than 2,000 equity research professionals and equity trading activities in 23 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, CIG is also the leader in global distribution of new issue and secondary debt securities. CIG'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 1998, CIG's net earnings were \$882 million, down 23% from 1997 and 5% from 1996 levels. CIG's net revenues decreased 3% from year-end 1997 to \$6.5 billion, primarily due to the significant market volatility in the latter half of the year which affected global financial markets, especially debt markets.

Revenues from equity products were a record \$3.6 billion in 1998 due to increased client demand for equities and equity derivatives in both the U.S. and Europe. CIG's global equities business has grown substantially over the last few years, due to the successful integration of Smith New Court, which was acquired in 1995, as well as through acquisitions in Australia, Canada, South Africa, Spain, and Thailand. As a result, equity revenues, both trading and underwriting, have grown nearly 150% since 1995, with over 36% of 1998 revenues from non-U.S. locations.

In debt products, the unprecedented movement in credit spreads during the 1998 third quarter led to valuation

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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and counterparty losses that significantly impacted certain of Merrill Lynch's debt trading businesses. Despite a favorable interest rate environment, debt underwriting levels were also down because of reduced investor demand and issuer activity in the second half of 1998. As a result of these market conditions, trading inventories, particularly emerging market instruments and other credit-sensitive products, were reduced. In addition, staff reductions in certain debt businesses were implemented during the last quarter of the year to better balance the cost base relative to the revenue outlook.

Merrill Lynch's investment banking and strategic services activities reached record levels in 1998. Merrill Lynch remained the leading underwriter of global debt and equity securities for the 10th consecutive year, with a 14.1% market share in 1998, according to SDC. Origination revenues for debt and equity securities were \$1.3 billion, down 2% from 1997 and up 24% from 1996. In addition, Merrill Lynch's global market share of initial public offerings nearly doubled from 1997. CIG is also a leading advisor for mergers and acquisitions, and in 1998 ranked No. 1 and No. 2, respectively, in U.S. completed and global announced transactions, according to SDC. Through the strengthening of its client relationships, CIG has steadily increased its global completed merger and acquisition market share and revenues by 32% and 43%, respectively, as compared with 1997 levels, and 62% and 178%, respectively, when compared with 1996.

GLOBAL OPERATIONS

Merrill Lynch's non-U.S. operations are organized into six geographic regions:

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

In 1998, certain of Merrill Lynch's CIG businesses were impacted by significant volatility that affected many global financial markets. The strong performance of the Wealth Management segment, however, helped to mitigate the effect of this volatility on Merrill Lynch's operating results.

Despite the market turbulence during 1998, Merrill Lynch continued to strategically expand its non-U.S. operations. This expansion, which included the integration of Mercury and Midland Walwyn and the start-up of the retail brokerage business in Japan, coupled with synergies from previous acquisitions, enabled Merrill Lynch to continue to benefit from increasing demand for global investments.

The following summary of regional operating results excludes goodwill amortization, financing costs for the Mercury acquisition, and the staff reduction provision.

Europe, Middle East, and Africa

(dollars in millions)	1998	1997	1996
Net revenues	\$ 2,808	\$ 1,982	\$ 1,563
Earnings before income taxes	307	360	301
Average assets	134,664	73,251	59,935
Total full-time employees	7,090	6,470	4,610

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.

Merrill Lynch enhanced its presence in the region during 1998 through the successful integration of Mercury, the leading U.K. asset management firm. As a result of the acquisition, Merrill Lynch now manages five of the top ten pension funds in the world and includes 50 of the U.K.'s 100 largest public companies as its clients. This acquisition demonstrates Merrill Lynch's commitment to its strategic objective of becoming a global leader in the asset management business and expands the region's depth and range of products and services.

Building on the foundations of the 1995 Smith New Court acquisition, equities revenues in this region have increased almost four-fold over the last three years. This growth reflects Merrill Lynch's position as a preeminent equities firm in the region in origination, secondary trading, and research.

In 1998, net revenues for the region increased 42% from 1997, primarily due to asset management fees relating to Mercury, as well as higher investment banking and equity trading revenues, partially offset by lower debt trading revenues.

The 15% decrease from 1997 in earnings before income taxes was primarily attributable to significantly reduced

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

revenues resulting from the adverse trading conditions experienced in debt markets in the 1998 second half.

In 1997, net revenues for the Europe, Middle East, and Africa region increased 27% from 1996. The increase was primarily attributable to higher commissions and trading revenues. Earnings before income taxes rose 20% resulting from higher revenues, partially offset by increases in infrastructure costs to support business growth in the region.

#### Asia Pacific

(dollars in millions)	1998	1997	1996
Net revenues	\$ 338	\$ 489	\$ 361
Earnings (loss) before income taxes	(165)	(34)	36
Average assets	6,562	4,707	6,513
Total full-time employees	1,620	1,690	1,300

Merrill Lynch serves a broad retail and institutional client base throughout the Asia Pacific region. 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, a full range of Wealth Management and CICG products are offered. Merrill Lynch has an established trading presence and exchange memberships in virtually all financial markets in the region and, during 1998, obtained membership on the Korean and Thai stock exchanges.

Despite continuing financial turbulence in 1998, Merrill Lynch continued its commitment to expand businesses in this region through the acquisition of a majority stake in Phatra Securities Company Limited, Thailand's leading investment bank. Merrill Lynch has successfully integrated Phatra, and is actively developing new product lines in the Thai markets. Client investment opportunities in this region were enhanced during 1998 with the introduction of Mercury mutual funds. During the year, Merrill Lynch was named the leader in fixed-income research by "Finance Asia Magazine" and was ranked the No. 2 overall Asian research firm by "Institutional Investor".

Net revenues in the region were down 31% from 1997 as continued economic turmoil in many markets across the region adversely impacted debt and investment banking revenues. Debt trading results suffered from widening of credit spreads

and severely reduced liquidity across global debt markets. Currency volatility and political uncertainty in the region also contributed to lower debt trading and origination revenues. These reduced revenues also negatively impacted pre-tax earnings. However, solid equity trading results and Private Client revenues enabled Merrill Lynch to strengthen its leading position in these businesses across the region.

In 1997, net revenues in the region were up 35% from 1996, benefiting from strong trading volume and investment banking activity during the first half of the year, partially offset by declining revenues in the 1997 second half as currency devaluations across the region significantly affected equity and debt markets. The pre-tax loss in 1997 was due to specific client provisions and increased expenses associated with regional expansion, partially offset by higher trading revenues.

#### Australia and New Zealand

(dollars in millions)	1998	1997	1996
Net revenues	\$ 224	\$ 177	\$ 60
Earnings before income taxes	36	25	7
Average assets	2,789	2,939	1,103
Total full-time employees	830	780	160

In the Australia and New Zealand region, Merrill Lynch provides a broad mix of Wealth Management and CICG products. In 1998, Merrill Lynch established itself as one of Australia's top three Private Client firms through extensive recruitment of Relationship Managers and the enhancement of products such as the Cash Management Trust (Service Mark). As a result, the region's margin lending and asset management businesses grew substantially in 1998. Merrill Lynch was also ranked the No. 1 brokerage firm in Australia in the recent "Financial Products Research Group Survey".

Growth in this region was primarily attributable to the integration of the 1996 acquisition of McIntosh Securities Limited, one of the largest securities brokerage firms in Australia and New Zealand, as well as the addition of the staff and clients in 1997 of the Centaurus Corporate Finance Group, a top-tier Australian merger and acquisition advisory firm. Merrill Lynch was the lead manager on three of the four largest initial public offerings in the region during 1998 and led the industry in institutional commissions.

Net revenues for the region increased 27% from 1997. The increase primarily resulted from higher investment banking revenues due to several large equity underwritings. Commissions revenues and asset management and portfolio

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

service fees also benefited from synergies relating to the McIntosh and Mercury acquisitions.

Earnings before income taxes rose 44% from 1997, reflecting increased revenues that were partially offset by higher compensation costs due to additional hirings in the Wealth Management segment.

Net revenues in the Australia and New Zealand region nearly tripled in 1997 from 1996 due to higher equity trading and investment banking revenues. Earnings before income taxes rose due to increased revenues, in part offset by increases in incentive and production-related compensation due to regional expansion.

#### Japan

(dollars in millions)	1998	1997	1996
Net revenues	\$ 574	\$ 416	\$ 408
Earnings (loss) before income taxes	(11)	74	109
Average assets	10,224	7,910	5,007
Total full-time employees	2,880	780	630

Following the establishment of MLJS and Merrill Lynch Mercury Asset Management Japan ("MLMJ"), Merrill Lynch now provides an integrated range of Wealth Management and CICG products and services in Japan.

MLJS entered the Private Client business in 1998 by hiring approximately

2,000 employees from Yamaichi Securities and opening 33 branch offices throughout Japan. MLJS provides financial products and services to individuals and small to mid-sized corporate and institutional clients.

During 1998, MLMJ was formed via the merger of three existing asset management companies. Through this company, Merrill Lynch is one of the leading managers of Japanese pension funds, a provider of a wide range of mutual funds, and is poised to capitalize on the continuing deregulation of the Japanese asset management industry.

The region's CIG business, which operates under the name Merrill Lynch Japan ("MLJ"), remained strong in 1998 with record revenues achieved in debt and equity businesses. MLJ has also seized opportunities arising from financial services regulatory reforms in Japan, which are expected to benefit underwriting and merger and acquisition advisory activities and trading volume.

Net revenues in the Japan region were up 38% 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 is primarily the result of a \$230 million pre-tax loss from the start-up of MLJS. Excluding MLJS, the region had record pre-tax earnings of \$219 million.

Net revenues in the Japan region in 1997 were up 2% from 1996, due to increased derivative trading revenues and sales of cross-border products, partially offset by lower trading revenues for local products. Earnings before income taxes decreased 32% due to higher compensation costs associated with regional expansion, offset in part by higher revenues.

#### Canada

(dollars in millions)	1998	1997	1996
Net revenues	\$ 625	\$ 702	\$ 615
Earnings before income taxes	46	134	118
Average assets	11,612	11,869	8,469
Total full-time employees	3,700	3,280	2,950

Note: Amounts have been restated to include Midland Walwyn as required under pooling-of-interests accounting.

In 1998, Merrill Lynch merged with Midland Walwyn Inc., 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 network in Canada ranks as one of the top three in Canada, with a team of more than 1,300 investment professionals serving approximately 600,000 individuals. Merrill Lynch Asset Management Group Canada, with \$2 billion in assets under management, launched the first two of a planned series of proprietary mutual funds in 1998.

In CIGG, an independent study of all underwritings in 1998 by Canadian issuers, compiled by "FP Data Group", ranked Merrill Lynch No. 1 in international equity and debt financings and No. 3 in all financings. "Euromoney" ranked Merrill Lynch as the Best Foreign Securities firm in Canada in 1998.

Net revenues for the region declined by 11% from 1997, due to declines in underwriting, debt trading, and commissions revenues caused by global market uncertainties. These

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

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 decrease in revenues and \$40 million in merger and integration-related expenses.

Net revenues in 1997 increased 14% from 1996, due to stronger investment banking and commissions revenues. These higher revenues, combined with lower expenses, led to a 14% increase in earnings before income taxes in 1997.

## Latin America

(dollars in millions)	1998	1997	1996
Net revenues	\$ 392	\$ 524	\$ 435
Earnings (loss) before income taxes	(67)	141	146
Average assets	11,874	10,629	5,968
Total full-time employees	980	900	850

In Latin America, Merrill Lynch provides various brokerage and investment services. Included in this region are certain U.S. offices that primarily serve Latin American clients. In the first half of 1998, Latin American markets experienced a mild recovery from 1997 price declines. During the second half of the year, political and economic events in other regions, as well as delays in International Monetary Fund support for Brazil, adversely affected revenues in Latin American markets. Merrill Lynch successfully completed a \$4.7 billion Telebras HOLDRS (Service Mark) (Holding Company Depository Receipts) issuance, in addition to obtaining memberships on the Sao Paulo and Rio de Janeiro stock exchanges in April.

Net revenues for the region decreased 25% from 1997 as trading and investment banking revenues decreased due to market turbulence that occurred throughout most of the year. These declines were partially offset by higher volume driven commissions revenues.

The pre-tax loss during 1998 was the result of increased variable compensation, brokerage, clearing, and exchange costs, and communications and technology expenses.

Net revenues in 1997 increased 20% from 1996, due to stronger investment banking and commissions revenues. Earnings before income taxes decreased 3% as increases in compensation and benefits and brokerage, clearing, and exchange fees more than offset the higher revenues.

## BALANCE SHEET

## Overview

Management continually monitors and evaluates the level and composition of the balance sheet based on average daily balances, which are determined on a settlement date basis. Financial statement balances are recorded on a trade date basis as required under generally accepted accounting principles.

In 1998, average total assets were \$380 billion, up 31% from \$289 billion in 1997. Average total liabilities in 1998 rose 31% to \$367 billion from \$280 billion in 1997. The major components in the growth of average total assets and liabilities are summarized as follows:

(in millions)	INCREASE	GROWTH
AVERAGE ASSETS		
Receivables under resale agreements and securities borrowed transactions	\$ 13,257	11%
Trading assets	34,528	32
Securities pledged as collateral	17,813	N/M
Customer receivables	11,502	41
Goodwill	4,893	N/M
AVERAGE LIABILITIES		
Payables under repurchase agreements and securities loaned transactions	\$ 19,641	19%
Trading liabilities	10,840	19
Obligation to return securities received as collateral	32,458	N/M
Long-term borrowings	16,274	46

N/M Not meaningful.

The adoption of SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125", which requires the recognition of collateral received or provided for certain resale and repurchase agreements, increased the average balances of trading assets and securities pledged as collateral by \$14 billion and \$18 billion, respectively, with a corresponding increase of \$32 billion in the obligation to return securities received as collateral (for more information on SFAS No. 127, see Note 2 to the Consolidated Financial Statements).

Balance sheet levels were, on average, higher in 1998 compared to 1997. Year-end 1998 balances, however, generally remained consistent with year-end 1997 balances, resulting from a reduction in the balance sheet, particularly in trading



MANAGEMENT'S DISCUSSION AND ANALYSIS

inventory and secured financing transactions, during the 1998 second half. 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. Trading-related balances as a percentage of total assets and liabilities, excluding collateral recognized under SFAS No. 127, are as follows:

Presented are two pie charts illustrating Merrill Lynch's trading-related balances as percentages of total assets and total liabilities, respectively, excluding collateral recognized under SFAS No. 127.

ASSETS AND LIABILITIES

TRADING-RELATED ASSETS:

Trading Assets	36%
Resale Agreements and Securities Borrowed	31
Receivables	16

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83

NON-TRADING-RELATED ASSETS

17

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100%

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TRADING-RELATED LIABILITIES:

Trading Liabilities	23%
Repurchase Agreements and Securities Loaned	25
Payables	11

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59

NON-TRADING-RELATED LIABILITIES

41(1)

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100%

====

(1) 24% of the 41% consisted of borrowings to fund trading-related assets.

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 chart that follows depicts the value of collateral maintained at December 25, 1998 for trading-related assets to reduce counterparty credit risk.

Presented is a bar graph illustrating the collateral maintained for the respective balance sheet trading-related receivables.

COLLATERALIZED TRADING-RELATED RECEIVABLES  
(in billions)

	TRADING-RELATED RECEIVABLES	COLLATERAL MAINTAINED
Derivative Contract Receivables(a)	\$ 30	\$ 6
Receivables under Resale Agreements	50	53
Receivables under Securities Borrowed Transactions	37	36
Other Receivables(b)	48	29
	----	----
	\$165	\$124
	====	====

(a) Included in trading assets. Collateral is not maintained for securities and

other cash instruments.

- (b) Collateral presented does not include overcollateralization, 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and a discussion of the effectiveness of hedging techniques).

Trading assets at year-end 1998, including the \$6.1 billion of collateral recognized under SFAS No. 127, were virtually unchanged from year-end 1997. U.S. Government and agencies securities increased while corporate debt and preferred stock positions decreased, as a result of investors migrating to higher credit quality instruments. Trading liabilities decreased from \$71 billion to \$64 billion, primarily as a result of a reduction in short U.S. Government and agencies securities used as hedges, partially offset by higher levels of equities, convertible debentures, and contractual agreements.

"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. The following graph illustrates the balances related to these activities at December 25, 1998.

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 \$50,188 million, \$59,501 million, \$37,525 million, and \$7,626 million, respectively.

RESALE/REPURCHASE AGREEMENTS AND  
SECURITIES BORROWED/LOANED TRANSACTIONS

	MATCHED- BOOK	NON-MATCHED- BOOK
Resale Agreements	54%	46%
Repurchase Agreements	44	56
Securities Borrowed	14	86
Securities Loaned	69	31

Receivables under resale agreements and securities borrowed transactions and payables under repurchase agreements and securities loaned transactions decreased 18% and 15% from year-end 1997, respectively, as a result of lower funding requirements due to reductions in inventory levels and matched-book

trading 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

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 were up \$7.0 billion from 1997, primarily from higher open agency clearing transactions and increases in margin and other collateralized loans. Trading-related payables increased \$6.8 billion during 1998 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 investing activities primarily consist of holding liquid debt and equity securities, investments of insurance subsidiaries, merchant banking and venture capital investments, and investments to hedge deferred compensation liabilities (see Note 4 to the Consolidated Financial Statements for further information). Investments grew from \$10.0 billion at year-end 1997 to \$11.7 billion at year-end 1998, as a result of increased investments held by non-trading entities and investments in partnerships, joint ventures, and real estate.

##### "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 \$3.4 billion in 1998 to \$7.7 billion due to increased consumer lending activities. Merrill Lynch maintained collateral of \$5.9 billion at December 25, 1998 to reduce related default risk.

##### "Other"

Other non-trading assets include goodwill (related primarily to the Mercury acquisition), equipment and facilities, and other assets, which were up slightly from year-end 1997 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 decreased from \$30.4 billion at year-end 1997 to \$16.8 billion at year-end 1998 in order to reduce Merrill Lynch's use of short-term unsecured funding. Outstanding long-term borrowings increased to \$57.6 billion at December 25, 1998 from \$43.1 billion at December 26, 1997. Major components of the change in long-term borrowings for 1998 and 1997 follow:

(dollars in billions)	1998	1997
Beginning of year	\$ 43.1	\$ 26.2
Issuances	29.3	25.1
Maturities	(15.8)	(8.2)
Other	1.0	-

End of year(1)	\$ 57.6	\$ 43.1
	=====	=====
Average maturity in years of long-term borrowings, when measured to:		
Maturity	4.4	3.5
Earlier of the call or put date	4.0	3.1

(1) At year-end 1998 and 1997, \$43.9 and \$31.2 billion of long-term borrowings had maturity dates beyond one year, respectively.

Demand and time deposits increased \$3.0 billion in 1998 as a result of higher customer deposits in banking subsidiaries.

"Other"

Other non-trading liabilities include liabilities of insurance subsidiaries and other payables, which decreased slightly from year-end 1997 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 6 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 for more information). Preferred securities issued by subsidiaries rose \$2.0 billion during 1998 as a result of three TOPrS issuances.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Stockholders' Equity

Stockholders' equity at December 25, 1998 increased 19% to \$10.1 billion from \$8.5 billion at year-end 1997. The 1998 increase resulted from net earnings and the net effect of employee stock transactions, partially offset by dividends.

At December 25, 1998, total common shares outstanding, excluding shares exchangeable into common stock, were 356.3 million, 5% higher than the 339.3 million shares outstanding at December 26, 1997. The increase was attributable principally to employee stock grants and option exercises.

Total shares exchangeable into common stock at year-end 1998, issued in connection with the Midland Walwyn merger, were 4.5 million. In the merger, Merrill Lynch also issued 4.2 million shares of common stock.

There were no common stock repurchases during 1998. Merrill Lynch repurchased 13.3 million shares of common stock during 1997 at an average price of \$48.91 per share. 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:

- o Ensure sufficient equity capital to absorb losses,
- o Support the business strategies, and
- o 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 \$9.7 billion in common equity, \$425 million in preferred stock, and \$2.6 billion of subsidiaries' preferred securities at December 25, 1998.

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 preferred securities issued by subsidiaries, 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 \$12.8 billion is adequate.

Merrill Lynch operates in many regulated businesses that require various minimum levels of capital (see Note 12 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, making affiliated investments, and entering into management and service agreements with affiliated companies.

Merrill Lynch's leverage ratios were as follows:

PERIOD-END	LEVERAGE RATIO (1)	ADJUSTED LEVERAGE RATIO (2)
December 25, 1998	23.5x	15.5x
December 26, 1997	32.4x	20.7x
AVERAGE (3)		
Year ended December 25, 1998	32.9x	19.2x
Year ended December 26, 1997	35.3x	21.3x

- (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

Merrill Lynch's liquidity policy is to maintain alternative funding sources such that all debt obligations maturing within one year can be repaid when due without issuing new

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

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. Other funding sources include liquidating cash equivalents; securitizing loan assets; and drawing on committed, unsecured bank credit facilities that, at December 25, 1998, totaled \$6.9 billion and were not drawn upon. Merrill Lynch maintains a contingency funding plan, covering an extended time horizon, which outlines 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 25, 1998, 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:

- o repurchase agreements and securities loaned transactions,
- o U.S., Canadian, Euro, Japanese, and Australian commercial paper programs,
- o letters of credit,
- o master notes,

- o demand and time deposits issued through Merrill Lynch's banking subsidiaries,
- o bank loans,
- o long-term debt, including medium-term notes,
- o TOPrS,
- o preferred stock, and
- o common stock.

Additionally, Merrill Lynch maintains access to significant uncommitted credit lines, both secured and unsecured, from a large group of banks.

During 1998, Merrill Lynch undertook measures to extend the maturity of its liabilities and to reduce its use of short-term unsecured funding. Commercial paper represented 6% and 10% of total assets at year-end 1998 and 1997, 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, non-interest-earning investments and fixed assets are financed with fixed-rate long-term debt and equity capital, while trading and other current assets are financed with a combination of short-term funding, floating-rate long-term debt, and equity capital. Foreign currency-denominated assets are typically funded with like-currency-denominated borrowings. Merrill Lynch routinely uses derivative transactions, including interest rate and foreign currency swaps, to reduce its borrowing costs and interest rate and currency exposures.

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 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 25, 1998, approximately 85% of invested assets of insurance subsidiaries were considered liquid by management.

"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 25, 1998 as follows:

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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	Not Rated
Moody's Investors Service, Inc.	Aa3	aa3
Standard & Poor's	AA-	A
Thomson BankWatch, Inc.	AA+	Not Rated

Approximately \$75.4 billion of indebtedness at December 25, 1998 is considered senior indebtedness as defined under various indentures.

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; \$120 million has been spent to date. Completion of this facility is expected in 2001. During 1997, Merrill Lynch also approved a plan to construct an office complex in central New Jersey to consolidate certain operations. Construction costs are estimated at approximately \$325 million, and completion of this facility is anticipated in 2000.

Significant technology initiatives include Merrill Lynch Trusted Global Advisor (Service Mark) ("TGA" (Service Mark)) and Year 2000 and European Economic and Monetary Union systems compliance. The TGA system, a technology

platform which is now available to virtually all Financial Consultants, was completed during the 1998 third quarter. In the future, new system applications and systems upgrades will continue to be added to the platform as necessary.

#### Year 2000 Compliance Initiative

As the millennium approaches, Merrill Lynch has undertaken initiatives to address the Year 2000 problem (the "Y2K problem"). The Y2K problem is the result of a widespread programming technique that causes 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 problem may cause information technology systems (e.g., computer databases) and non-information technology systems (e.g., elevators) to produce incorrect data or cease operating completely.

Merrill Lynch believes that it has identified and evaluated its internal Y2K problem and that it is devoting sufficient resources to renovating technology systems that are not already Year 2000 compliant. The resource-intensive renovation phase (as further discussed) of Merrill Lynch's Year 2000 efforts was approximately 95% completed as of January 31, 1999. Merrill Lynch will focus primarily on completing its renovation and testing and on integration of the Year 2000 programs of recent acquisitions during the remainder of 1999. In order to focus attention on the Y2K problem, management has deferred certain other technology projects; however, this deferral is not expected to have a material adverse effect on the company's business, results of operations, or financial condition.

The failure of Merrill Lynch's technology systems relating to a Y2K problem would likely have a material adverse effect on the company's business, results of operations, and financial condition. This effect could include disruption of normal business transactions, such as the settlement, execution, processing, and recording of trades in securities, commodities, currencies, and other assets. The Y2K problem could also increase Merrill Lynch's exposure to risk and its need for liquidity.

In 1995, Merrill Lynch established the Year 2000 Compliance Initiative, which is an enterprisewide effort to address the risks associated with the Y2K problem, both internal and external. The Year 2000 Compliance Initiative's efforts to address the risks associated with the Y2K problem have been organized into six phases: planning, pre-renovation, renovation, production testing, certification, and integration testing.

The planning phase involved defining the scope of the Year 2000 Compliance Initiative, including its annual budget and strategy, and determining the level of expert knowledge available within Merrill Lynch regarding particular systems or applications. The pre-renovation phase involved developing a detailed enterprisewide inventory of applications and systems, identifying the scope of necessary renovations to each application or system, and establishing a conversion schedule. During the renovation phase, source code is actually converted, date fields are expanded or windowed (windowing is used on an exception basis only), test data is prepared, and each system or

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application is tested using a variety of Year 2000 scenarios. The production testing phase validates that a renovated system is functionally the same as the existing production version, that renovation has not introduced defects, and that expanded or windowed date fields continue to handle current dates properly. The certification phase validates that a system can run successfully in a Year 2000 environment. The integration testing phase, which will occur throughout 1999, validates that a system can successfully interface with both internal and external systems. Finally, as Merrill Lynch continues to implement new systems, they are also being tested for Year 2000 readiness.

In 1996 and 1997, as part of the planning and pre-renovation phases, both plans and funding of plans for inventory, preparation, renovation, and testing of computer systems for the Y2K problem were approved. All plans for both mission-critical and non-mission-critical systems are tracked and monitored. The work associated with the Year 2000 Compliance Initiative has been accomplished by Merrill Lynch employees, with the assistance of consultants where necessary.

As part of the production testing and certification phases, Merrill Lynch has performed, and will continue to perform, both internal and external Year 2000 testing intended to address the risks from the Y2K problem. As of January 31, 1999, production testing was approximately 93% completed. In July 1998, Merrill Lynch participated in an industrywide Year 2000 systems test sponsored by the Securities Industry Association ("SIA"), in which selected firms tested their computer systems in mock stock trades that simulated dates in December 1999 and January 2000. Merrill Lynch will participate in further industrywide testing sponsored by the SIA, currently scheduled for March and April 1999, which will involve an expanded number of firms, transactions, and conditions.

Merrill Lynch also participated in various other domestic and international industry tests during 1998.

Merrill Lynch continues to survey and communicate with third parties whose Year 2000 readiness is important to the company. Information technology and non-information technology vendors and service providers are contacted in order to obtain their Year 2000 compliance plans. Based on the nature of the response and the importance of the product or service involved, Merrill Lynch determines if additional testing is needed. The results of these efforts are maintained in a database that is accessible throughout the firm. Third parties that have been contacted include transactional counterparties, exchanges, and clearinghouses; a process to access and rate their responses has been developed. This information as well as other Year 2000 readiness information on particular countries and their political subdivisions will be used by Merrill Lynch to manage risk resulting from the Y2K problem. Management is unable at this point to ascertain whether all significant third parties will successfully address the Y2K problem. Merrill Lynch will continue to monitor third parties' Year 2000 readiness to determine if additional or alternative measures are necessary. In connection with information technology and non-information technology products and services, contingency plans, which are developed at the business unit level, may include selection of alternate vendors or service providers and changing business practices so that a particular system is not needed. In the case of securities exchanges and clearinghouses, risk mitigation could include the re-routing of business. In light of the interdependency of the parties in or serving the financial markets, however, there can be no assurance that all Y2K problems will be identified and remediated on a timely basis or that all remediation will be successful. The failure of exchanges, clearing organizations, vendors, service providers, counterparties, regulators, or others to resolve their own processing issues in a timely manner could have a material adverse effect on Merrill Lynch's business, results of operations, and financial condition.

At year-end 1998, the total estimated expenditures for the entire Year 2000 Compliance Initiative were approximately \$425 million, of which approximately \$125 million was remaining. The majority of these remaining expenditures are expected to cover testing, risk management, and contingency planning. There can be no assurance that the costs associated with such remediation efforts will not exceed those currently anticipated by Merrill Lynch, or that the costs associated with the remediation efforts or the possible failure of such remediation efforts would not have a material adverse effect on Merrill Lynch's business, results of operations, or financial condition.

European Economic and Monetary Union  
("EMU") Initiatives

As of January 1, 1999, the "euro" was adopted as the common legal currency of participating member states of the EMU. As a consequence of the introduction of and conversion to the euro, Merrill Lynch was required to make significant changes to nearly 200 global business systems in order to reflect the substitution of the euro for the 11 member national currencies and the European currency unit. The introduction

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of the euro brings about fundamental changes in the structure and nature of European financial markets, including the creation of a unified, more liquid capital market in Europe. As financial markets in EMU member states converge and local barriers are removed, competition is expected to increase.

The introduction of the euro affects all Merrill Lynch facilities that transact, distribute, or provide custody or recordkeeping for securities or cash denominated in the currency of a participating member state. Merrill Lynch's systems or procedures that handle such securities or cash were modified in order to implement the conversion to the euro. The implementation phase is continuing into the first quarter of 1999 to resolve any post-conversion issues. The success of Merrill Lynch's euro conversion efforts was dependent on the euro-compliance of third parties, such as trading counterparties, financial intermediaries (e.g., securities and commodities exchanges, depositories, clearing organizations, and commercial banks), and vendors.

As of the end of the 1998 fiscal year, the total estimated expenditures associated with the introduction of and conversion to the euro were approximately \$79 million, of which \$1 million is remaining to be spent during the first quarter of 1999 on compliance efforts and project administration. Management believes that it has identified and evaluated all of the systems and operational modifications necessary for the conversion to the euro. On January 4, 1999 and since then, Merrill Lynch has conducted normal business operations, having successfully completed its conversion program. Management does not expect the introduction of the euro to have a negative effect on its future business, currency risk, or competitive positioning in the European markets.



Through its operating activities, Merrill Lynch is exposed to market, credit, and other risks. These risks are continually monitored, evaluated, and managed firmwide through a comprehensive risk management process. The proper execution of this process leads to more effective management of these risks, helping to reduce the likelihood of earnings volatility over time.

The primary responsibility in the risk management process rests with individual business units in managing the risks that arise from individual transactions or portfolios of similar transactions. Business units manage these risks by adhering to established risk policies and procedures, advanced hedging techniques, and the distribution strength of our global sales force.

To supplement risk management at the business unit level, Merrill Lynch has developed corporate governance policies and procedures that require corporate personnel, who are independent of business units, to participate in the risk management process (see the Corporate Governance section). To ensure a proper system of checks and balances, these units are independent of the business units and report to other senior executives in the firm.

Merrill Lynch's firmwide risk management process is based on the belief that there is more to risk management than identifying and measuring risk. The process itself has been strengthened by experience, but the underlying philosophy is essentially unchanged. This philosophy is based on the following eight principles:

1. The most important tools in any risk process are experience, judgment, and constant communication.
2. Vigilance, discipline, and an awareness of risk must be continuously emphasized throughout the firm.
3. Management must provide a clear and simple statement as to what can and cannot be done in committing capital.
4. Risk policies and procedures must be clear, well communicated, and understood.
5. Risk managers must consider the unexpected, probe for potential problems, test for weaknesses, and help identify potential for loss.
6. Reporting on risk exposures and variables must be accurate and timely.
7. The process must be flexible to permit adaptation to changing environments, including the evolving goals of Merrill Lynch itself.
8. The key objective must be to minimize the possibility of incurring unacceptable loss. Such losses usually arise from unexpected events that most statistical model-based risk methodologies cannot predict.

The overall effectiveness of Merrill Lynch's risk management process is illustrated by analyzing actual net trading-related revenues over time. The nature of Merrill Lynch's trading-related activities, which are principally client order flow-driven, combined with its risk management strategies, help to reduce earnings volatility. A distribution of weekly net trading-related revenues, net of reserves, for each of the last three years is presented in the graph that follows:

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Presented is a bar graph illustrating the distribution of weekly net trading-related revenues by revenue band for 1996, 1997, and 1998.

DISTRIBUTION OF WEEKLY NET  
TRADING-RELATED REVENUES BY YEAR  
(\$ IN MILLIONS)

	Number of weeks		
	1996	1997	1998
Less than \$0	-	-	5
\$0-50	1	4	7
\$50-100	31	12	9
\$100-150	20	31	17
Over \$150	-	5	14
	52	52	52
	====	====	====

Corporate Governance

Merrill Lynch's corporate governance policies and procedures require specific resource units to assist in the identification, assessment, and control of risks. The groups responsible for the maintenance of these policies and

procedures include Global Risk and Credit Management ("Risk Management"), as well as Finance, Audit, Treasury, Operations, and Law and Compliance ("Control Units").

Risk Management is organized into divisions overseeing market and credit risks ("Market Risk Division" and "Credit Risk Division", respectively). These divisions are managed by a single head of Risk Management, who is a member of the Executive Management Committee.

Risk Management has the authority to set and monitor firmwide risk levels related to trading exposures and counterparty credit limits, and to veto proposed transactions (see further discussion in the Market Risk and Credit Risk sections). Many transactions are subject to prior approval from Risk Management, including underwriting commitments of equity, high-yield, and emerging market securities, real estate financings, and bridge loans, as well as most derivatives and syndicated loans. In addition, Risk Management and representatives from other Control Units approve new types of transactions as part of the new product review process.

In addition to independent risk management responsibilities, senior management from Risk Management and the Control Units take an active role in the oversight of the risk management process through the Risk Control and Reserve Committees.

The Risk Control Committee provides general risk oversight for all institutional trading activities, which includes setting quantitative limits for market and credit risks and developing guidelines for the approval of new products. The Risk Control Committee, chaired by the head of Risk Management, reports periodically to the Audit and Finance Committee of the Board of Directors and is independent of Merrill Lynch's business units.

The Reserve Committee monitors valuation and certain other risks associated with assets and liabilities. Merrill Lynch establishes balance sheet reserves for existing conditions, events, or circumstances that may indicate that the realizable value of an asset has been reduced below its carrying value or that a liability has been incurred. The Reserve Committee, chaired by the Chief Financial Officer, reviews and approves firmwide reserve levels, as well as changes in reserve methodologies. The Reserve Committee meets monthly to review current market conditions and to act on specific issues. Merrill Lynch's reserves take into account management's judgment and are generally based on:

- o identification of specific risks and exposures,
- o formulas, and
- o aging, concentration, and liquidity analyses.

The following discussions of market, credit, operating, and other risks highlight specific policies and procedures for risk identification, assessment, and control. For information on qualitative aspects of market and credit risk, see Note 3 to the Consolidated Financial Statements.

#### Market Risk

Market risk is the potential change in a financial instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, and credit spreads. The Market Risk Division is responsible for measuring, monitoring, and controlling market risk on trading positions, including the establishment of trading limits throughout the firm, which may not be exceeded without prior approval.

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#### MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Market Risk Division comprises three functional groups: the Quantitative Risk Management Group; the Analytics, Reporting, and Technology Group; and the Risk Managers Group. The Quantitative Risk Management Group independently tests and reviews valuation and risk models used throughout the firm's trading businesses. The Analytics, Reporting, and Technology Group designs and develops risk processes and analytics which support portfolio measurement, establishment of trading limits, and compliance with various reporting requirements. The Risk Managers Group has primary responsibility for the independent risk assessment and limits establishment of individual trading units and is organized along geographic and product lines to ensure direct and frequent communication with the business areas.

The Market Risk Division has established certain controls and guidelines to supplement hedging of market risks at the trading unit level (see Trading Assets and Liabilities in the Balance Sheet section for further information on these techniques). In addition, the Division performs regular, formal risk reviews with senior trading managers.

The Market Risk Division uses several proprietary risk technology tools, including a scenario/value-at-risk system, a risk inventory database, a trading limit monitoring system, and trading system access. The scenario/value-at-risk

system performs daily sensitivity and value-at-risk analysis on trading positions. The risk inventory database provides daily consolidation of securities inventory exposure by product, credit rating, country, etc., along with concentrations of exposure. The trading limit monitoring system enables the Division to review compliance with established limits. Access to trading systems allows the Division to monitor positions and perform computerized analytics.

Merrill Lynch uses mathematical risk models, including value-at-risk and sensitivity analysis, to help estimate its exposure to market risk. Nevertheless, management believes that the use of mathematical risk models alone may provide a greater sense of security than warranted; therefore, reliance on these models should be limited. In fact, because of the inability of mathematical risk models to quantify large-scale potential financial events with any precision, these models only serve to supplement other risk management efforts. The 1998 third quarter market turmoil is an example of such a financial event.

Value-at-risk is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors. 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 value-at-risk. The Market Risk Division continually enhances its value-at-risk model both in terms of analytic methodology and historical time series data, both of which can impact final value-at-risk numbers. Trading units communicate daily to the Division the sensitivity of their positions to changes in risk factors.

A number of assumptions must be made to obtain the sensitivities and simulated profits and losses. There is no reason to believe that the historically simulated profits and losses have any predictive power for the future distribution of profits and losses. For instance, the unprecedented volatility experienced in the 1998 third quarter demonstrated the limitations of value-at-risk models. Prior to that period, the largest widening of credit spreads in emerging markets ever experienced over a one-month period was approximately 200 basis points, including the peso crisis in 1994. In contrast, emerging market spreads widened by approximately 900 basis points during a three-week period in the 1998 third quarter. Value-at-risk, even using a 99% confidence level, would only have considered a widening of approximately 200 basis points.

Hypothetical gains and losses from simulated changes in risk factors for trading instruments would be reflected in earnings since these instruments are accounted for at fair value. Hypothetical gains and losses from simulated changes in risk factors for non-trading instruments generally would not be reflected in earnings since these instruments are typically accounted for at historical cost.

The overall total value-at-risk 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 value-at-risk for trading instruments at year-end 1998 and 1997 and the 1998 average value-at-risk calculated on a quarterly basis.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(in millions)	YEAR-END 1998	YEAR-END 1997	AVERAGE 1998
<b>TRADING VALUE-AT-RISK</b>			
Interest rate(1)	\$ 116	\$ 85	\$ 97
Equity	4	53	27
Commodity	4	24	12
Currency	25	39	33
Volatility	13	103	38
	-----	-----	-----
Diversification benefit	(49)	(144)	(79)
	-----	-----	-----
Overall	\$ 113(2)	\$ 160(2)	\$ 128
	=====	=====	=====

(1) Includes credit spread risk.

(2) Overall value-at-risk using a 95% confidence level and a one-day holding period was \$21 and \$69 million at year-end 1998 and 1997, respectively.

While trading interest rate value-at-risk increased, Merrill Lynch decreased its equity, commodity, currency, and volatility values-at-risk across

trading businesses during 1998. These risk reductions reduced overall value-at-risk by 29% from year-end 1997 to year-end 1998.

The table that follows presents Merrill Lynch's value-at-risk for non-trading instruments at year-end 1998 and 1997 and the 1998 average value-at-risk calculated on a quarterly basis:

(in millions)	YEAR-END 1998	YEAR-END 1997	AVERAGE 1998
<b>NON-TRADING VALUE-AT-RISK</b>			
Interest rate(1)	\$ 179	\$ 15	\$ 78
Currency	82	23	53
Equity	11	7	11
	-----	----	----
	272	45	142
Diversification benefit	(86)	(15)	(45)
	-----	----	----
Overall	\$ 186(2)	\$ 30(2)	\$ 97
	=====	=====	=====

(1) Includes credit spread risk.

(2) Overall value-at-risk using a 95% confidence level and a one-day holding period was \$34 and \$5 million at year-end 1998 and 1997, respectively.

The increase in non-trading interest rate value-at-risk is primarily due to the issuance of \$4 billion in fixed-rate financing, including TOPRS. Merrill Lynch did not hedge the resulting interest rate risk since long-term non-interest-earning assets are partially financed with fixed-rate long-term debt (see the Capital Adequacy and Liquidity section for further information). The increase in non-trading currency value-at-risk is attributable to greater British pound exposure resulting from growth in non-U.S. operations.

#### 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:

- o reviewing and establishing limits for credit exposures,
- o 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
- o continually assessing the creditworthiness of counterparties and issuers.

The Credit Risk Division is organized geographically, with industry specialization in the U.S.

Within the Credit Risk Division, counterparty credit approval levels are established based on counterparty or issuer credit quality and the potential risk of the transaction. Credit officers set limits by counterparty or issuer, recommend credit reserves, and manage credit exposures. Transactions that exceed prescribed levels must be approved by the Credit Committee, which includes several Directors of Corporate Credit and the Chief Credit Officer. Regional credit groups, in addition to evaluating the creditworthiness of specific counterparties, enhance country analysis by ensuring that total credit risks are within country concentration limits. Within the Credit Department, the Sovereign Risk group analyzes the political, economic, and financial conditions of individual countries, establishes country credit ratings, and recommends overall country risk limits.

The credit system tracks information from automated and manual sources to enable the Credit Risk Division to monitor counterparty/issuer, product, and country concentrations. This system aggregates credit exposure by counterparty/issuer, maintains overall counterparty/issuer and specific product limits, and identifies limit review dates by counterparty/issuer. Detailed information on firmwide inventory positions and executed transactions, including current and potential credit exposure, is updated frequently and compared with limits. Collateral holdings, which reduce credit exposure, are also tracked on the credit system.

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.

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Operating Risk

Operating risk focuses on Merrill Lynch's ability to accumulate, process, protect, and communicate information necessary to conduct business in a global market environment, and also includes the execution of legal, fiduciary, and agency responsibilities. Merrill Lynch manages operating risk in many ways, including maintaining backup facilities, using technology, employing experienced personnel, and maintaining a comprehensive system of internal controls.

Merrill Lynch maintains key backup facilities worldwide and updates systems and equipment as required in response to changes in business conditions and technology needs. An example is the extensive work currently being performed to become Year 2000-compliant (see the Capital Projects and Expenditures section). In addition, experienced operations personnel provide support and control for trading, clearance, and settlement activities and perform custodial functions for customer and proprietary assets. Merrill Lynch regularly reviews its framework of internal controls, taking into account changing circumstances. Corrective actions are taken to address control deficiencies, and opportunities for improvement are implemented when cost-effective.

From a legal standpoint, risk arises from the enforceability of clients' and counterparties' obligations to, and receivables from, Merrill Lynch, including obtaining contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations. The firm seeks to mitigate such risk by:

- o developing policies that enhance enforceability of transactions,
- o monitoring compliance with internal policies and external regulations, and
- o requiring consultation with internal and external legal advisors for non-standard transactions.

Fiduciaries and agents have obligations to act on behalf of others. Such risks are inherent in brokerage and investment management activities. Merrill Lynch has a number of policies in place to ensure that fiduciary obligations to clients are met and that Merrill Lynch is in compliance with applicable legal and regulatory requirements.

#### 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 trading inventories have increased in recent years to satisfy growing client demand for higher-yielding investments, including emerging market and other non-U.S. securities. During the second half of 1998, however, these exposures were intentionally reduced as a result of market volatility. 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.

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 swap) or potentially force ownership of the underlying security (e.g., short put option). In addition,

derivatives may 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 engages 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.

In addition to engaging in business involving non-investment grade positions, 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 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 1998 and 1997:

(in millions)	1998	1997
Trading assets:		
Cash instruments	\$ 7,932	\$ 13,049
Derivatives	4,939	3,420
Trading liabilities - cash instruments	(920)	(2,970)
Collateral on derivative assets	(2,457)	(599)
Net trading asset exposure	9,494	12,900
Derivative notionals with credit exposure(1)	2,633	3,654
Derivative notionals that hedge credit exposure(1)	(3,927)	(4,235)
Net exposure	\$ 8,200	\$ 12,319

(1) Represents amount subject to strike or reference price.

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 25, 1998, the carrying value of such debt and equity securities totaled \$74 million, of which 84% resulted from Merrill Lynch's market-making activities in such securities. This compared with \$142 million at December 26, 1997, of which 56% related to market-making activities. In addition, Merrill Lynch held distressed bank loans totaling \$156 million and \$432 million at year-end 1998 and 1997, respectively.

#### Non-Trading Exposures

The following table summarizes non-trading exposures to non-investment grade or highly leveraged issuers or counterparties at year-end 1998 and 1997:

(in millions)	1998	1997
Marketable investment securities	\$ 39	\$ 648
Investments of insurance subsidiaries	148	192
Loans (net of allowance for loan losses):		
Bridge loans	66	-
Other loans(1)	1,099	467
Other investments:		
Partnership interests(2)	852(3)	315
Other equity investments(4)	459	170

(1) Represented outstanding loans to 82 and 48 companies at year-end 1998 and 1997, respectively.

(2) Included is \$279 and \$233 million in investments at year-end 1998 and 1997, respectively, related to deferred compensation plans, for which the default risk of the investments rests with the participating employees.

(3) Included in this amount is a \$300 million investment in the hedge fund Long Term Capital Portfolio, L.P.

(4) Invested in 89 and 72 enterprises at year-end 1998 and 1997, respectively.

The following table summarizes Merrill Lynch's commitments with exposure to non-investment grade or highly leveraged counterparties at year-end 1998 and 1997:

(in millions)	1998	1997
Additional commitments to invest in partnerships	\$ 227	\$ 60
Unutilized revolving lines of credit and other lending commitments	1,678 (1)	485

(1) Includes a \$1.1 billion commitment to a counterparty related to acquisition financing. Subsequent to year-end, the acquisition was completed, with substantially all of the acquisition financing syndicated to third parties.

At December 25, 1998, the largest industry exposure was to the financial services sector, which accounted for 43% 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 the financial condition or the results of operations of Merrill Lynch as set forth in the Consolidated Financial Statements contained herein.

#### RECENT DEVELOPMENTS

##### New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities". SFAS No. 133 requires all derivatives, including certain derivatives embedded in other contracts, to be recorded on the balance sheet at fair value. SFAS No. 133, which is effective for Merrill Lynch beginning January 1, 2000, will primarily impact Merrill Lynch's accounting and reporting of derivatives used to hedge borrowings and other non-trading assets and liabilities. Merrill Lynch is currently evaluating the expected impact of adopting this standard.

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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.

Global Risk and Credit 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; 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.

<TABLE>		
<S>	<C>	<C>
/s/ David H. Komansky	/s/ Herbert M. Allison, Jr.	/s/ E. Stanley O'Neal
David H. Komansky	Herbert M. Allison, Jr.	E. Stanley O'Neal
Chairman of the Board	President and	Executive Vice President and
and Chief Executive Officer	Chief Operating Officer	Chief Financial Officer
</TABLE>		

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DESCRIPTION OF BUSINESS

Merrill Lynch & Co., Inc. ("ML & Co.") is a holding company that 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:

- o Merrill Lynch, Pierce, Fenner & Smith Incorporated, a U.S.-based broker-dealer in securities;
- o Merrill Lynch International, a U.K.-based broker-dealer in securities and dealer in equity derivatives;
- o Merrill Lynch Government Securities Inc., a dealer in U.S. Government securities; and
- o Merrill Lynch Capital Services, Inc., a dealer in interest rate, currency, and credit derivatives.

Services provided to clients by ML & Co. and subsidiaries include:

- o securities brokerage, trading, and underwriting;
- o investment banking, strategic services, and other corporate finance advisory activities, including loan syndication;
- o asset management and other investment advisory and recordkeeping services;
- o dealing and brokerage of swaps, options, forwards, futures, and other derivatives;
- o securities clearance services;
- o debt, equity, and economic research activities;
- o banking, trust, and lending services; and
- o insurance sales and underwriting services.

INDEPENDENT AUDITORS' REPORT

[LOGO]

To the Board of Directors and Stockholders of



We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of December 25, 1998 and December 26, 1997 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 25, 1998. 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 25, 1998 and December 26, 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 1998 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 22, 1999

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CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in millions, except per share amounts)

<TABLE>  
<CAPTION>

	YEAR ENDED LAST FRIDAY IN DECEMBER		
	1998	1997	1996
	<C>	<C>	<C>
REVENUES			
Commissions	\$ 5,799	\$ 4,995	\$ 4,085
Interest and dividends	19,314	17,299	13,125
Principal transactions	2,651	3,827	3,531
Investment banking	3,264	2,876	2,022
Asset management and portfolio service fees	4,202	3,002	2,431
Other	623	500	519
TOTAL REVENUES	35,853	32,499	25,713
Interest Expense	18,306	16,243	12,092
NET REVENUES	17,547	16,256	13,621
NON-INTEREST EXPENSES			
Compensation and benefits	9,199	8,333	7,012
Communications and technology	1,749	1,255	1,010
Occupancy and related depreciation	867	736	742
Advertising and market development	688	613	527
Brokerage, clearing, and exchange fees	683	525	433
Professional fees	552	520	385
Goodwill amortization	226	65	50

Provision for costs related to staff reductions	430	-	-
Other	1,057	1,098	834
TOTAL NON-INTEREST EXPENSES	15,451	13,145	10,993
EARNINGS BEFORE INCOME TAXES AND DIVIDENDS ON PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	2,096	3,111	2,628
Income Tax Expense	713	1,129	980
Dividends on Preferred Securities Issued by Subsidiaries	124	47	-
NET EARNINGS	\$ 1,259	\$ 1,935	\$ 1,648
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	\$ 1,220	\$ 1,896	\$ 1,602
EARNINGS PER COMMON SHARE			
Basic	\$ 3.43	\$ 5.57	\$ 4.63
Diluted	\$ 3.00	\$ 4.79	\$ 4.08

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amount)

	DECEMBER 25, 1998	DECEMBER 26, 1997
	<C>	<C>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 12,530	\$ 12,073
CASH AND SECURITIES SEGREGATED FOR REGULATORY PURPOSES OR DEPOSITED WITH CLEARING ORGANIZATIONS	6,590	5,357
RECEIVABLES UNDER RESALE AGREEMENTS AND SECURITIES BORROWED TRANSACTIONS	87,713	107,443
MARKETABLE INVESTMENT SECURITIES	4,605	3,309
TRADING ASSETS, AT FAIR VALUE		
Equities and convertible debentures	25,318	24,031
Contractual agreements	21,979	21,205
Corporate debt and preferred stock	21,166	32,537
U.S. Government and agencies	15,421	9,848
Non-U.S. governments and agencies	7,474	10,221
Mortgages, mortgage-backed, and asset-backed	7,023	7,312
Other	3,358	2,937
Securities received as collateral, net of securities pledged as collateral	6,106	-
Total	107,845	108,091
SECURITIES PLEDGED AS COLLATERAL	8,184	-
OTHER RECEIVABLES		
Customers (net of allowance for doubtful accounts of \$48 in 1998 and \$50 in 1997)	29,559	27,319

Brokers and dealers	8,872	5,182
Interest and other	9,278	8,185
Total	47,709	40,686
INVESTMENTS OF INSURANCE SUBSIDIARIES	4,485	4,833
LOANS, NOTES, AND MORTGAGES (net of allowance for loan losses of \$124 in 1998 and \$130 in 1997)	7,687	4,310
OTHER INVESTMENTS	2,590	1,829
EQUIPMENT AND FACILITIES (net of accumulated depreciation and amortization of \$3,482 in 1998 and \$2,955 in 1997)	2,761	2,099
GOODWILL (net of accumulated amortization of \$338 in 1998 and \$131 in 1997)	5,364	5,467
OTHER ASSETS	1,741	1,483
TOTAL ASSETS	\$ 299,804	\$ 296,980

</TABLE>

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<TABLE>  
<CAPTION>

	DECEMBER 25, 1998	DECEMBER 26, 1997
<S>	<C>	<C>
LIABILITIES		
PAYABLES UNDER REPURCHASE AGREEMENTS AND SECURITIES LOANED TRANSACTIONS	\$ 67,127	\$ 79,167
COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS	18,679	34,340
DEMAND AND TIME DEPOSITS	13,744	10,712
TRADING LIABILITIES, AT FAIR VALUE		
Contractual agreements	23,840	20,632
Equities and convertible debentures	21,558	15,817
U.S. Government and agencies	7,939	18,186
Non-U.S. governments and agencies	7,245	10,460
Corporate debt and preferred stock	2,878	5,764
Other	254	355
Total	63,714	71,214
OBLIGATION TO RETURN SECURITIES RECEIVED AS COLLATERAL	14,290	-
OTHER PAYABLES		
Customers	20,972	17,514
Brokers and dealers	7,899	4,224
Interest and other	18,738	22,784
Total	47,609	44,522
LIABILITIES OF INSURANCE SUBSIDIARIES	4,319	4,716
LONG-TERM BORROWINGS	57,563	43,143
TOTAL LIABILITIES	287,045	287,814
PREFERRED SECURITIES ISSUED BY SUBSIDIARIES	2,627	627
STOCKHOLDERS' EQUITY		

PREFERRED STOCKHOLDERS' EQUITY	425	425
	-----	-----
COMMON STOCKHOLDERS' EQUITY		
Shares exchangeable into common stock	66	66
Common stock (par value \$1.33 1/3 per share; authorized: 1,000,000,000 shares; issued: 472,660,324 shares)	630	630
Paid-in capital	1,427	1,001
Accumulated other comprehensive loss (net of tax)	(122)	(47)
Retained earnings	10,475	9,579
	-----	-----
	12,476	11,229
Less: Treasury stock, at cost (1998 - 116,376,259 shares; 1997 - 133,400,971 shares)	2,101	2,677
Employee stock transactions	668	438
	-----	-----
TOTAL COMMON STOCKHOLDERS' EQUITY	9,707	8,114
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	10,132	8,539
	-----	-----
TOTAL LIABILITIES, PREFERRED SECURITIES ISSUED BY SUBSIDIARIES, AND STOCKHOLDERS' EQUITY	\$ 299,804	\$ 296,980
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in millions)

<TABLE>  
<CAPTION>

	YEAR ENDED LAST FRIDAY IN DECEMBER		
	1998	1997	1996
	<C>	<C>	<C>
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	194
Redeemed	-	(194)	-
	-----	-----	-----
Balance, end of year	-	-	194
	=====	=====	=====
TOTAL PREFERRED STOCKHOLDERS' EQUITY	\$ 425	\$ 425	\$ 619
	=====	=====	=====
COMMON STOCKHOLDERS' EQUITY			
SHARES EXCHANGEABLE INTO COMMON STOCK			
Balance, beginning of year	\$ 66	\$ 46	\$ 44
Net activity	5	20	2
Exchanges	(5)	-	-
	-----	-----	-----
Balance, end of year	66	66	46
	=====	=====	=====
COMMON STOCK			
Balance, beginning and end of year	630	630	630
	=====	=====	=====
PAID-IN CAPITAL			

Balance, beginning of year	1,001	925	858
Issuance of stock:			
To employees	430	76	67
Other	(4)	-	-
Balance, end of year	1,427	1,001	925
=====			
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign Currency Translation Adjustment (net of tax)			
Balance, beginning of year	(85)	7	8
Translation adjustment (net of tax)	(53)	(92)	(1)
Balance, end of year	(138)	(85)	7
-----			
Net Unrealized Gains on Investment Securities Available-for-Sale (net of tax)			
Balance, beginning of year	38	9	25
Net unrealized gains (losses) on investment securities available-for-sale	(60)	34	(97)
Other adjustments(a)	38	(5)	81
Balance, end of year	16	38	9
-----			
Balance, end of year	\$ (122)	\$ (47)	\$ 16
=====			

</TABLE>

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<TABLE>  
<CAPTION>

	YEAR ENDED LAST FRIDAY IN DECEMBER		
	1998	1997	1996
<S>	<C>	<C>	<C>
-----			
RETAINED EARNINGS			
Balance, beginning of year	\$ 9,579	\$ 7,938	\$ 6,535
Net earnings	1,259	1,935	1,648
Cash dividends declared:			
9% Cumulative Preferred stock	(38)	(38)	(38)
Remarketed Preferred stock	-	(1)	(9)
Common stock	(325)	(255)	(198)
Balance, end of year	10,475	9,579	7,938
=====			
TREASURY STOCK, AT COST			
Balance, beginning of year	(2,677)	(2,769)	(2,114)
Treasury stock purchased	-	(644)	(1,146)
Issued out of treasury (net of reacquisitions):			
Employees	556	736	491
Other	20	-	-
Balance, end of year	(2,101)	(2,677)	(2,769)
=====			
UNALLOCATED ESOP REVERSION SHARES, AT COST			
Balance, beginning of year	-	(24)	(63)
Allocation of shares to participants	-	24	39
-----			

Balance, end of year	-	-	(24)
	=====	=====	=====
EMPLOYEE STOCK TRANSACTIONS			
Balance, beginning of year	(438)	(314)	(254)
Net issuance of employee stock grants	(599)	(351)	(251)
Amortization of employee stock grants	359	218	183
Repayment of employee loans	10	9	8
	-----	-----	-----
Balance, end of year	(668)	(438)	(314)
	=====	=====	=====
TOTAL COMMON STOCKHOLDERS' EQUITY	\$ 9,707	\$ 8,114	\$ 6,448
	=====	=====	=====
TOTAL STOCKHOLDERS' EQUITY	\$ 10,132	\$ 8,539	\$ 7,067
	=====	=====	=====

</TABLE>

(a) Other adjustments relate to policyholder liabilities, deferred policy acquisition costs, and deferred income taxes.

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

<TABLE>

<CAPTION>

	YEAR ENDED LAST FRIDAY IN DECEMBER		
	1998	1997	1996
<S>	<C>	<C>	<C>
NET EARNINGS	\$ 1,259	\$ 1,935	\$ 1,648
	-----	-----	-----
OTHER COMPREHENSIVE INCOME			
Foreign currency translation adjustment:			
Foreign currency translation losses, net of gains	(131)	(96)	(17)
Deferred income taxes	78	4	16
	-----	-----	-----
Total	(53)	(92)	(1)
	-----	-----	-----
Net unrealized gains (losses) on investment securities available-for-sale:			
Net unrealized holding gains (losses) arising during the period	(10)	50	(68)
Reclassification adjustment for gains included in net earnings	(50)	(16)	(29)
	-----	-----	-----
Net unrealized gains (losses) on investment securities	(60)	34	(97)
	-----	-----	-----
Adjustments for:			
Policyholder liabilities	16	10	64
Deferred policy acquisition costs	4	-	9
Deferred income taxes	18	(15)	8
	-----	-----	-----
Total	(22)	29	(16)
	-----	-----	-----
Total Other Comprehensive Loss	(75)	(63)	(17)
	-----	-----	-----
COMPREHENSIVE INCOME	\$ 1,184	\$ 1,872	\$ 1,631
	=====	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

	YEAR ENDED LAST FRIDAY IN DECEMBER		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Earnings	\$ 1,259	\$ 1,935	\$ 1,648
Noncash items included in earnings:			
Depreciation and amortization	585	473	436
Policyholder reserves	227	240	269
Goodwill amortization	226	65	50
Other	278	1,336	869
(Increase) decrease in operating assets(a):			
Trading assets	6,332	(31,246)	(15,574)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(1,233)	(2,242)	(266)
Receivables under resale agreements and securities borrowed transactions	19,940	(22,373)	(19,328)
Customer receivables	(2,229)	(7,957)	(3,845)
Brokers and dealers receivables	(3,690)	1,132	3,043
Other	188	(4,068)	(704)
Increase (decrease) in operating liabilities(a):			
Trading liabilities	(7,474)	26,770	10,219
Payables under repurchase agreements and securities loaned transactions	(12,040)	12,346	6,573
Customer payables	3,458	4,731	686
Brokers and dealers payables	3,675	399	(2,660)
Other	864	2,274	2,515
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	10,366	(16,185)	(16,069)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payments for):			
Maturities of available-for-sale securities	3,983	3,376	3,057
Sales of available-for-sale securities	3,426	2,198	1,341
Purchases of available-for-sale securities	(8,676)	(6,383)	(4,374)
Maturities of held-to-maturity securities	831	1,081	920
Purchases of held-to-maturity securities	(877)	(752)	(555)
Loans, notes, and mortgages	(3,405)	(989)	(1,196)
Acquisitions, net of cash acquired	(5,235)	(13)	(135)
Sales of subsidiaries, net of cash disposed	202	-	-
Other investments and other assets	(1,398)	(240)	(388)
Equipment and facilities	(1,231)	(863)	(483)
CASH USED FOR INVESTING ACTIVITIES	(12,380)	(2,585)	(1,813)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payments for):			
Commercial paper and other short-term borrowings	(15,661)	7,019	8,763
Demand and time deposits	3,032	1,336	1,163
Issuance and resale of long-term borrowings	29,269	25,087	16,509
Settlement and repurchase of long-term borrowings	(15,833)	(8,242)	(7,440)
Issuance of subsidiaries' preferred securities	2,000	300	276
Common and preferred stock transactions	27	(694)	(919)
Dividends	(363)	(294)	(245)
CASH PROVIDED BY FINANCING ACTIVITIES	2,471	24,512	18,107
INCREASE IN CASH AND CASH EQUIVALENTS	457	5,742	225
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,073	6,331	6,106
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 12,530	\$ 12,073	\$ 6,331

(a) Net of effects of acquisitions and divestitures.

## SUPPLEMENTAL DISCLOSURES

Cash paid for:			
Income taxes	\$ 579	\$ 910	\$ 1,139
Interest	18,357	15,390	11,801

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

- o Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a U.S.-based broker-dealer in securities;
- o Merrill Lynch International ("MLI"), a U.K.-based broker-dealer in securities and dealer in equity derivatives;
- o Merrill Lynch Government Securities Inc. ("MLGSI"), a dealer in U.S. Government securities; and
- o Merrill Lynch Capital Services, Inc., a dealer in interest rate, currency, and credit derivatives.

Services provided to clients by ML & Co. and subsidiaries (collectively, "Merrill Lynch") include:

- o securities brokerage, trading, and underwriting;
- o investment banking, strategic services, and other corporate finance advisory activities, including loan syndication;
- o asset management and other investment advisory and recordkeeping services;
- o dealing and brokerage of swaps, options, forwards, futures, and other derivatives;
- o securities clearance services;
- o debt, equity, and economic research activities;
- o banking, trust, and lending services; and
- o 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. Prior period amounts have also been restated to reflect the merger of Midland Walwyn Inc. with Merrill Lynch, which has been accounted for as a pooling-of-interests. The Consolidated Financial Statements reflect the results of operations, financial position, changes in stockholders' equity, and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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cash flows as if the two companies had always been combined (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 income. 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 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. As such, 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 25, 1998 and December 26, 1997, substantially all financial instrument assets are carried at fair value or amounts that approximate fair value. Fair values of financial instruments are disclosed in Notes 3, 4, 5, and 8.

#### 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 recorded 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 future, forward, swap, or option contract, or other financial instrument with similar characteristics. The derivative definition excludes all cash instruments, including those that derive their values or contractually required cash flows from an underlying instrument or index, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments. It also excludes option features embedded in cash instruments, such as conversion features and call provisions embedded in bonds.

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). Different types of derivatives can also be combined to meet specialized needs (e.g., swaptions).

Derivatives are often referred to as off-balance-sheet instruments since their notional amounts or underlying instruments are not 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

(dollars in millions, except per share amounts)

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 products may have immature or limited two-way markets. The precision of the pricing model for a complex product, which involves multiple variables and assumptions, will evolve over time. As 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, on the balance sheet, collateral received or provided in certain resale and repurchase agreements (see Note 2 for further information).

#### 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. Deal-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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

current period earnings. Production-related compensation and benefits expense is accrued to match revenue recognition.

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 principally classified as held-to-maturity, trading, or available-for-sale.

Held-to-maturity investments are debt securities that Merrill Lynch has the positive intent and ability to hold 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 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.

Other debt and equity securities that are not categorized as held-to-maturity or trading are classified as available-for-sale and reported at fair value. Unrealized gains or losses on these securities are reported in stockholders' equity as a component of Accumulated other comprehensive income, net of applicable income taxes and other related items.

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 is specifically identified for purposes of computing realized gains and losses.

#### 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.

As part of overall asset/liability management, Merrill Lynch monitors the interest rate, currency, equity, and other risk exposures of its assets and liabilities. Derivatives are common tools used to manage these risks.

Derivatives that hedge borrowings and other non-trading assets and liabilities are accounted for on an accrual basis, with amounts to be paid or received recognized as adjustments to the related interest expense or revenue. Unrealized gains and losses on other financing derivatives are recognized currently. Derivatives used for hedging borrowings and other non-trading assets and liabilities must be effective at reducing the risk being managed

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

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 25, 1998 and December 26, 1997, there were no deferred amounts related to terminated contracts.

#### 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 income, 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 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 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 periodically for impairment.

#### Equipment and Facilities

Equipment and facilities primarily consist of technology hardware and software and leasehold improvements. 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 \$190, \$167, and \$163, in 1998, 1997, and 1996, respectively. Depreciation and amortization recognized in the Communications and technology expense category was \$395, \$306, and \$273, for 1998, 1997, and 1996, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(dollars in millions, except per share amounts)

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, which is generally 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 will 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

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 \$72 in 1998, or \$.12 per diluted share.

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.

SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", issued by the Financial Accounting Standards Board in 1996, provides guidance for determining whether a transfer of a financial asset is treated as a sale or a financing. Merrill Lynch adopted the provisions of SFAS No. 125 not deferred by SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of Statement No. 125", for all transactions entered into after December 31, 1996.

In 1998, Merrill Lynch adopted SFAS No. 127, which requires balance sheet recognition of collateral related to certain secured financing transactions entered into after December 31, 1997. The adoption of such provisions creates the following additional captions on Merrill Lynch's balance sheet:

- o Securities received as collateral, net of securities pledged as collateral;
- o Securities pledged as collateral; and
- o Obligation to return securities received as collateral.

The balances recognized in 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.

Mergers, Acquisitions, and Divestitures

On August 26, 1998, Merrill Lynch acquired the outstanding shares of Midland Walwyn Inc. ("Midland"), a Canadian broker-dealer, in a share exchange. Each Midland 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 share held (see Note 7). The merger was accounted for as a pooling-of-interests; prior period financial statements have been restated (see Note 1).

During 1998, Merrill Lynch acquired 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 was paid, and goodwill of \$56 was recorded in connection with these acquisitions.

In 1998, 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.

At year-end 1997, Merrill Lynch recorded the acquisition of the Mercury Asset Management Group ("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, recognizing goodwill of \$10.

Merrill Lynch completed several acquisitions in 1996, including two non-U.S. securities firms and a U.S. asset man-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

ager. Aggregate consideration of \$232 was paid and goodwill of \$167 was recorded in connection with these acquisitions.

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 provision for costs related to staff reductions (\$288 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 includes reductions, through termination and attrition, of approximately 3,400 personnel, or about 5% of the global workforce. Approximately 63% of terminated personnel were producers and direct support staff in certain Corporate and Institutional Client Group businesses, and the remaining were personnel in Wealth Management businesses and certain corporate areas. In addition, full-time equivalent consultants, mainly involved in technology projects, were reduced by approximately 900. Severance payments, which may be in the form of one-time or periodic payments, are made once the employee ceases employment.

At December 25, 1998, 87% of the personnel had been terminated or notified of termination, and severance payments of \$48 were made. The provision liability at December 25, 1998 was \$369, which primarily represented severance payments for personnel receiving periodic payments. At January 29, 1999, the cumulative severance benefits paid and the remaining provision liability were \$215 and \$197, respectively. The staff reductions were substantially completed as of January 29, 1999 and are expected to be fully completed by March 1999.

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.

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 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 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 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 counterparty 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

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

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 25, 1998, 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 \$17,377 and \$11,708 at December 25, 1998 and December 26, 1997, respectively. Merrill Lynch's indirect exposure results from maintaining U.S. Government and agencies securities as collateral, primarily 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 at December 25, 1998 and December 26, 1997 totaled \$54,784 and \$60,868, respectively.

At December 25, 1998, Merrill Lynch had concentrations of credit risk with other counterparties, including a European sovereign rated AA by recognized credit rating agencies. Total exposure to this counterparty was \$1,197, or 0.4% of total assets. At December 26, 1997, Merrill Lynch had concentrations of credit risk with a European sovereign and an investment company totaling \$3,405, or 1.1% of total assets, excluding collateral held.

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 1998 and 1997 follow:

	DECEMBER 25, 1998		DECEMBER 26, 1997	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Swap agreements	\$17,938	\$19,747	\$16,189	\$15,703
Forward contracts	2,882	2,822	3,805	3,539
Options	8,841	12,195	5,987	10,970

The following table presents the average fair values of Merrill Lynch's trading derivatives for 1998 and 1997, calculated on a monthly basis:

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	AVERAGE FAIR VALUE			
	1998		1997	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Swap agreements	\$ 19,096	\$ 17,272	\$ 13,888	\$ 12,002
Forward contracts	3,227	3,178	2,340	2,181
Options	8,551	11,420	4,946	7,131

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 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
DECEMBER 26, 1997				
Swap agreements	\$ 1,482	\$ 159	\$ 17	\$ 2
Forward contracts	59	196	1	15
Futures contracts	202	1	15	2
Options purchased	99	71	60	3
Options written	133	73	44	3

(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 25, 1998 and 2.8 years at December 26, 1997. For trading derivatives outstanding at December 25, 1998, the following table presents the notional or contractual amounts of derivatives expiring in future years based on contractual expiration:

(in billions)	1999	2000	2001	2002	After 2002	Total
Swap agreements	\$ 533	\$ 376	\$ 236	\$ 204	\$ 851	\$ 2,200
Forward contracts	276	3	14	2	2	297
Futures contracts	70	51	25	8	45	199
Options purchased	266	40	21	21	74	422
Options written	166	65	29	24	68	352
Total	\$ 1,311	\$ 535	\$ 325	\$ 259	\$ 1,040	\$ 3,470

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 attempts to enter into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with each of its counterparties. 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. The following is a summary of counterparty credit ratings for the replacement cost (net of \$5,700 of collateral) of trading derivatives in a gain position by maturity at December 25, 1998.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

CREDIT RATING (1)	YEARS TO MATURITY				CROSS- MATURITY NETTING (2)	TOTAL
	0-3	3-5	5-7	OVER 7		
AAA	\$ 1,753	\$ 583	\$ 396	\$ 388	\$ (176)	\$ 2,944
AA+/AA	1,760	1,012	403	1,256	(999)	3,432
AA-	2,435	1,163	676	899	(832)	4,341
A+/A	3,458	1,371	407	838	(716)	5,358
A-	1,396	1,017	338	349	(293)	2,807
BBB	1,267	1,025	571	332	(598)	2,597
BB+	632	323	73	322	(249)	1,101
Other	905	488	390	397	(799)	1,381
Total	\$ 13,606	\$ 6,982	\$ 3,254	\$ 4,781	\$ (4,662)	\$ 23,961

(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 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.

Securities Financing Transactions

Merrill Lynch enters into secured borrowing and lending transactions to finance trading inventory positions, obtain securities for settlement, and 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 1998 and 1997 are as follows:

	1998	1997
-----		
RECEIVABLES UNDER:		
Resale agreements	\$ 50,188	\$ 71,904
Securities borrowed transactions	37,525	35,539
	-----	-----
Total	\$ 87,713	\$ 107,443
	=====	=====
-----		
PAYABLES UNDER:		
Repurchase agreements	\$ 59,501	\$ 72,127
Securities loaned transactions	7,626	7,040
	-----	-----
Total	\$ 67,127	\$ 79,167
	=====	=====
-----		

Due to the short-term nature of most of these transactions, the fair value of these receivables and payables approximate their carrying value. Included above are also certain long-term resale agreements for which interest rate risk is hedged using derivatives. At December 25, 1998 and December 26, 1997, the notional amounts of these derivatives were \$7 billion and \$5 billion, respectively. The combined fair value of these long-term resale agreements and related hedges approximate their combined carrying value on both dates.

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 \$35,762 and \$28,658 at December 25, 1998 and December 26, 1997, respectively.

NOTE 4. INVESTMENTS AND OTHER NON-TRADING ASSETS

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 liquid debt and equity securities, including those held (1) to manage cash flows related to certain liabilities of Merrill Lynch's banking subsidiaries or (2) 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 held-to-maturity, trading, or available-for-sale securities as described in Note 1. Investment securities reported on the Consolidated Balance Sheets at December 25, 1998 and December 26, 1997 are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

	1998	1997
-----		
MARKETABLE INVESTMENT SECURITIES		
Available-for-sale	\$ 4,070	\$ 2,392
Held-to-maturity	354	322
Trading	181	595



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HELD-TO-MATURITY

Corporate debt	\$ 38	\$ 1	\$ -	\$ 39	\$ 189	\$ 1	\$ -
\$ 190							
U.S. Government and agencies	263	29	-	292	211	-	-
211							
Municipals	144	64	(2)	206	35	44	(1)
78							
Mortgage-backed securities	87	-	-	87	119	2	-
121							
Other debt securities	112	-	(2)	110	1	-	-
1							
-----							
Total	\$ 644	\$ 94	\$ (4)	\$ 734	\$ 555	\$ 47	\$ (1)
\$ 601							
=====							

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

The amortized cost and estimated fair value of debt securities at December 25, 1998, by contractual maturity, for available-for-sale and held-to-maturity investments follow:

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	\$ 1,286	\$ 1,285	\$ 203	\$ 203
Due after one year through five years	1,565	1,591	254	297
Due after five years through ten years	993	1,006	29	49
Due after ten years	1,489	1,486	71	98
	5,333	5,368	557	647
Mortgage-backed securities	1,572	1,588	87	87
Total(1)	\$ 6,905	\$ 6,956	\$ 644	\$ 734

(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:

	1998	1997	1996
Proceeds	\$ 3,426	\$ 2,198	\$ 1,341
Gross realized gains	74	27	41
Gross realized losses	(27)	(11)	(12)

Net unrealized gains (losses) from investment securities classified as trading included in the 1998, 1997, and 1996 Consolidated Statements of Earnings were \$6, \$(21), and \$(1), respectively.

Other Non-Trading Assets

The fair value of most other non-trading financial instrument assets approximates their carrying value. Such assets include cash and cash equivalents, cash and securities segregated for regulatory purposes or deposited with clearing organizations, and other receivables. Other financial instrument assets with carrying values that differ from their fair values follow:

DECEMBER 25, 1998      DECEMBER 26, 1997

	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
	-----	-----	-----	-----
Loans, notes, and mortgages(1)	\$ 7,471	\$ 7,480	\$ 4,197	\$ 4,230
Merchant banking equity investment and loan portfolio(2)	241	355	275	403

(1) Excludes loans related to merchant banking activities.

(2) Merchant banking investments are non-qualifying for SFAS No. 115 purposes.

Fair value for merchant banking equity investments, including partnership interests (both included in Other investments on the Consolidated Balance Sheets), is estimated using a number of methods, including earnings multiples, cash flow analysis, 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.

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 estimated 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, fair value approximates carrying value.

In addition to the merchant banking investments noted in the table above, Merrill Lynch has made investments in Long Term Capital Portfolio L.P. ("LTCP") and Bloomberg L.P. ("Bloomberg"), which are not readily marketable.

In 1998, in conjunction with 13 other financial institutions, Merrill Lynch made a \$300 capital infusion to LTCP, a hedge fund significantly affected by the 1998 third quarter market turmoil. At December 25, 1998, the fair value of this investment approximates its carrying value of \$300.

Merrill Lynch holds a passive minority interest in Bloomberg, a privately held limited partnership that provides information services to financial institutions. In 1996, Merrill Lynch sold one-third of its interest to the majority interest

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holder, resulting in a pre-tax gain of \$155. Due to the nature and terms of the sale, the sale price is not necessarily indicative of the fair value of Merrill Lynch's remaining investment. In addition, given the contractual restrictions on disposition, the fair value of the remaining investment is not readily determinable as of December 25, 1998. Management believes, however, that the fair value of this investment may significantly exceed its carrying value of \$28.

Merrill Lynch enters into derivative hedges of interest rate risk on various non-trading assets, including certain investments. At December 25, 1998 and December 26, 1997, the notional amounts of derivatives hedging these positions were \$10 billion and \$4 billion, respectively. The combined fair value of hedged non-trading assets and related hedges approximates their combined carrying value at both dates.

Merrill Lynch uses currency derivatives to hedge certain exposures arising from investments in and loans to non-U.S. subsidiaries. At December 25, 1998 and December 26, 1997, the notional amounts of these currency derivatives were \$4 billion and \$2 billion, respectively.

NOTE 5. BORROWINGS AND OTHER NON-TRADING LIABILITIES

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:

- o convert fixed-rate interest payments into variable payments,

- o change the underlying interest rate basis or reset frequency, or
- o convert non-U.S. dollar payments into U.S. dollars.

Merrill Lynch also issues debt containing embedded options that link the repayment of these obligations to the performance of an equity or other index (e.g., S&P 500), an industry basket of stocks, or an individual stock. The contingent components of these indexed debt obligations are hedged with derivatives.

Borrowings at December 25, 1998 and December 26, 1997 are presented below:

	1998	1997
-----		
COMMERCIAL PAPER AND OTHER		
SHORT-TERM BORROWINGS		
Commercial paper	\$ 16,758	\$ 30,379
Other	1,921	3,961
	-----	-----
Total	\$ 18,679	\$ 34,340
	=====	=====
-----		
DEMAND AND TIME DEPOSITS		
Demand	\$ 4,454	\$ 3,537
Time	9,290	7,175
	-----	-----
Total	\$ 13,744	\$ 10,712
	=====	=====
-----		
LONG-TERM BORROWINGS		
Fixed-rate obligations:(1)		
U.S. dollar-denominated	\$ 12,595	\$ 7,136
Non-U.S. dollar-denominated	1,189	1,878
Variable-rate obligations:(2)(3)		
U.S. dollar-denominated	4,077	2,803
Non-U.S. dollar-denominated	1,303	1,276
Medium-term notes:(3)(4)		
U.S. dollar-denominated	24,916	20,090
Non-U.S. dollar-denominated	13,483	9,960
	-----	-----
Total	\$ 57,563	\$ 43,143
	=====	=====

- (1) At December 25, 1998, U.S. dollar-denominated fixed-rate obligations are due 1999 to 2028 at interest rates ranging from 5.5% to 10.4%; non-U.S. dollar-denominated fixed-rate obligations are due 1999 to 2002 at interest rates ranging from 2.6% to 12.1%.
- (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 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 25, 1998, based on their contractual terms, mature as follows:

1999	\$ 13,714
2000	7,049
2001	7,985
2002	6,398
2003	6,154
2004 and thereafter	16,263
	-----
Total	\$ 57,563
	=====

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Management believes, however, that a significant portion of

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(dollars in millions, except per share amounts)

such borrowings may remain outstanding beyond their earliest redemption date.

The notional or contractual amounts of derivatives used to hedge exposures related to borrowings at December 25, 1998 and December 26, 1997 follow:

(in billions)	1998	1997
Interest rate derivatives(1)	\$ 56	\$ 44
Currency derivatives(1)	12	8
Equity derivatives	5	3

(1) Includes swap contracts totaling \$2 billion in notional amounts that contain embedded options hedging callable debt at both dates.

Most of these derivatives are entered into with Merrill Lynch's derivative dealer subsidiaries, which intermediate interest rate, currency, and equity risks with third parties in the normal course of their trading activities.

The effective weighted-average interest rates for borrowings, which include the impact of hedges, at December 25, 1998 and December 26, 1997 were:

	1998	1997
COMMERCIAL PAPER AND OTHER		
SHORT-TERM BORROWINGS	5.28%	5.43%
DEMAND AND TIME DEPOSITS	4.54	4.67
LONG-TERM BORROWINGS		
Fixed-rate obligations	6.69	7.00
Variable-rate obligations	5.46	5.84
Medium-term notes	5.52	5.86

The fair value of borrowings and related hedges is estimated using current market prices and pricing models. The carrying and fair values of these instruments are summarized as follows:

	DECEMBER 25, 1998		DECEMBER 26, 1997	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
COMMERCIAL PAPER AND OTHER				
SHORT-TERM BORROWINGS	\$ 18,679	\$ 18,670	\$ 34,340	\$ 34,333
Related derivative:				
Assets	(15)	(14)	(21)	(19)
Liabilities	-	5	-	2
Total	\$ 18,664	\$ 18,661	\$ 34,319	\$ 34,316
DEMAND AND TIME DEPOSITS	\$ 13,744	\$ 13,745	\$ 10,712	\$ 10,726
Related derivative:				
Assets	(27)	(10)	(7)	(10)
Liabilities	4	21	3	2
Total	\$ 13,721	\$ 13,756	\$ 10,708	\$ 10,718
LONG-TERM BORROWINGS	\$ 57,563	\$ 58,237	\$ 43,143	\$ 43,706
Related derivative:				
Assets	(1,387)	(2,701)	(811)	(1,953)
Liabilities	790	1,243	921	1,032
Total	\$ 56,966	\$ 56,779	\$ 43,253	\$ 42,785

Subsequent to year-end 1998 and through February 19, 1999, long-term borrowings, net of repayments and repurchases, increased approximately \$3,301.

#### "Borrowing Facilities"

Merrill Lynch has obtained committed, unsecured revolving credit facilities aggregating \$6.9 billion under agreements with 67 banks. The agreements contain covenants requiring, among other things, that Merrill Lynch maintain specified levels of net worth, as defined in the agreements, on the date of an advance. At December 25, 1998, none of these credit facilities had been drawn upon.

The credit quality, amounts, and terms of the credit facilities are continually monitored and modified as warranted by business conditions. Under the existing agreements, the credit facilities mature as follows: \$1.2 billion in February 1999, \$1.6 billion in April 1999, \$2.1 billion in May 1999, and \$2.0 billion in September 1999. At maturity, Merrill Lynch may convert amounts borrowed, if any, into term loans that would mature in two years.

Other Non-Trading Liabilities



The fair value of other financial instrument liabilities approximate their carrying value. Such liabilities include

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

payables to customers and brokers and dealers, and insurance and other liabilities.

NOTE 6. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

Preferred securities issued by subsidiaries, which represent preferred minority interests in consolidated subsidiaries, consist of perpetual trust-issued preferred securities and other subsidiary-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.

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
				-----
				\$ 2,575
				=====

In addition, \$52 of preferred securities of other subsidiaries were outstanding at year-end 1998 and 1997.

NOTE 7. 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, all of which was outstanding at year-end 1998, 1997, and 1996.

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 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, an adjustment from paid-in capital to common stock of \$315 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

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

stock were \$.92, \$.75, and \$.58 per share in 1998, 1997, and 1996, respectively.

The following table summarizes the activity in outstanding common stock for 1998, 1997, and 1996:

	1998	1997	1996
BEGINNING OF YEAR			
Issued	472,660,324	472,660,324	472,660,324
Shares in treasury	(133,400,971)	(137,234,132)	(117,681,492)
ESOP reversion shares	-	(3,077,556)	(8,025,038)
Outstanding	339,259,353	332,348,636	346,953,794
ACTIVITY			
Shares purchased	-	(13,301,100)	(36,606,400)
Shares issued:			
To employees(1)	16,291,477	20,211,817	22,001,242
Share exchanges	325,459	-	-
Acquisition	407,776	-	-
Net activity	17,024,712	6,910,717	(14,605,158)
END 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

(1) Net of reacquisitions.

#### 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 (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 1998, 325,459 Exchangeable Shares were converted to ML & Co. common stock. At year-end 1998, 4,505,765 Exchangeable Shares were outstanding.

#### Accumulated Other Comprehensive Income

Accumulated other comprehensive income represents cumulative gains and losses on items that are not reflected in earnings. The balances at December 25, 1998 and December 26, 1997 are as follows:

	1998	1997
FOREIGN CURRENCY TRANSLATION ADJUSTMENT		
Unrealized losses, net of gains	\$ (241)	\$ (110)
Deferred income taxes	103	25
Total	(138)	(85)

UNREALIZED GAINS ON INVESTMENT SECURITIES	-----	-----
AVAILABLE-FOR-SALE		
Unrealized gains, net of losses	56	116
Adjustments for:		
Policyholder liabilities	(38)	(54)
Deferred policy acquisition costs	-	(4)
Deferred income taxes	(2)	(20)
	-----	-----
Total	16	38
	-----	-----
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS	\$ (122)	\$ (47)
	=====	=====

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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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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:

	1998	1997	1996
	-----	-----	-----
Net earnings	\$ 1,259	\$ 1,935	\$ 1,648
Preferred stock dividends	39	39	46
	-----	-----	-----
Net earnings applicable to common stockholders	1,220	1,896	1,602
Interest on convertible debt	-	-	1
	-----	-----	-----
	\$ 1,220	\$ 1,896	\$ 1,603
	=====	=====	=====

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(shares in thousands)

Weighted-average shares outstanding (basic shares) (1)	355,589	340,096	346,043
	-----	-----	-----
Effect of dilutive instruments (2)			
Employee stock options	29,184	29,748	21,934
FCCAAP shares	16,548	20,574	19,570
Restricted units	4,895	5,258	4,727
ESPP shares	46	45	56
Convertible debt	-	134	660
	-----	-----	-----
Dilutive potential common shares	50,673	55,759	46,947

	-----	-----	-----
Diluted shares (3)	406,262	395,855	392,990
	=====	=====	=====
-----			
Basic EPS	\$ 3.43	\$ 5.57	\$ 4.63
Diluted EPS	3.00	4.79	4.08
-----			

- (1) Includes shares exchangeable into common stock.
- (2) See Note 10 for a description of these instruments and issuances subsequent to December 25, 1998.
- (3) At year-end 1998, 1997, and 1996, there were 486, 7, and 58 instruments, respectively, that were considered antidilutive and thus were not included in the above calculations.

#### NOTE 8. COMMITMENTS AND CONTINGENCIES

##### Litigation

There are civil actions, arbitration proceedings, and claims pending against Merrill Lynch as of December 25, 1998, some of which involve claims for substantial amounts. Included among these matters is an action (the "Orange County Action") that is pending in the United States District Court for the Central District of California, commenced on January 12, 1995 by Orange County, California ("Orange County") and the Orange County Investment Pools, both of which filed bankruptcy petitions in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") on December 6, 1994. ML & Co. and certain of its subsidiaries are named as defendants in connection with Merrill Lynch's business activities with the Orange County Treasurer-Tax Collector. On May 17, 1996, the Bankruptcy Court confirmed a plan pursuant to which Orange County emerged from bankruptcy.

In June 1998, the Orange County Action and a related action brought by the Irvine Ranch Water District were settled. Under the settlement terms, ML & Co. undertook to pay \$400 to Orange County and \$17 to the Irvine Ranch Water District and to return approximately \$20 of excess collateral. On November 30, 1998, the District Court found that the settlement of the Orange County Action was in good faith, thereby barring any potential claims for contribution, indemnity or similar relief by non-settling parties. Payment by ML & Co. to Orange County will be due approximately five business days after expiration of the time for any party to appeal from this District Court finding of good faith, which expiration will occur 60 days after entry of final judgment incorporating the bar order.

In addition, other actions are pending against or on behalf of ML & Co., and/or against certain of its officers, directors, and employees and certain of its subsidiaries. These include class actions and stockholder derivative actions brought by persons alleging harm to themselves or to Merrill Lynch arising out of 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 matters will not have a material adverse effect on the financial condition or results of operations of Merrill Lynch as set forth in the Consolidated Financial Statements contained herein.

##### 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

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(dollars in millions, except per share amounts)

with certain leasing, agency securities lending, securitization, and other transactions. These commitments 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 25, 1998 and December 26, 1997, Merrill Lynch had the following commitments and guarantees:

	1998	1997
Commitments to extend credit	\$ 10,388	\$ 5,839
Third party guarantees	17,842	5,251

The fair value of the outstanding guarantees was \$18 and \$25 at December 25, 1998 and December 26, 1997, respectively.

#### Leases

Merrill Lynch has entered into various noncancelable long-term lease agreements for premises that expire through 2025. During 1996, Merrill Lynch incurred a pre-tax charge of \$40 related to the resolution of Olympia & York's bankruptcy that affected Merrill Lynch's long-term sublease agreements in the World Financial Center Headquarters ("WFC"). 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 25, 1998, future noncancelable minimum rental commitments under leases with remaining terms exceeding one year are as follows:

	WFC	OTHER	TOTAL
1999	\$ 140	\$ 313	\$ 453
2000	143	270	413
2001	145	250	395
2002	151	207	358
2003	158	168	326
2004 and thereafter	1,747	658	2,405
Total	\$ 2,484	\$ 1,866	\$ 4,350

The minimum rental commitments shown above have not been reduced by \$753 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:

	1998	1997	1996
Rent expense	\$ 537	\$ 468	\$ 438
Sublease revenue	(112)	(104)	(48)
Net rent expense	\$ 425	\$ 364	\$ 390

#### Other Commitments

In the normal course of business, Merrill Lynch enters into commitments for underwriting transactions. Settlement of these transactions as of December 25, 1998 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 25, 1998 and December 26, 1997 to enter into resale and repurchase agreements as follows:

	1998	1997
Resale agreements	\$ 5,392	\$ 3,440
Repurchase agreements	4,456	4,469

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 \$2,222 and \$1,063 at December 25, 1998 and December 26, 1997, respectively.

In connection with merchant banking activities, Merrill Lynch has committed to purchase \$369 and \$88 of partner-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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ship interests at December 25, 1998 and December 26, 1997, respectively.

Merrill Lynch has entered into agreements with providers of market data, communications, and systems consulting services. At December 25, 1998 and December 26, 1997, minimum fee commitments over the life of these agreements aggregated \$300 and \$348, respectively.

## NOTE 9. 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.

## 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 credits a participant's account and records 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, if necessary, cash, to participants' accounts based on a specified formula. Leveraged and Reversion Shares are released in accordance with the terms of the ESOP. If the fair market value of the shares released is less than the formula allocation to participants' accounts, cash contributions are made to the RAP. Reversion Shares were allocated to participants' accounts over a period of eight years, ending in 1997. Leveraged Shares are allocated to participants' accounts as principal is repaid on the loan to the ESOP, which matures in 1999. Principal and interest on the loan are payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions.

ESOP shares are considered to be either allocated (contributed to participants' accounts), committed (scheduled to be contributed at a specified future date but not yet released), or unallocated (not committed or allocated). Share information at December 25, 1998 is as follows:

	REVERSION SHARES	LEVERAGED SHARES
Allocated	38,962,348	7,748,048
Committed	-	163,101
Unallocated	-	977,739

The remaining cost of the unallocated Leveraged Shares of \$6 at December 25, 1998 is recorded as a reduction of stockholders' equity and represents the remaining ESOP loan balance.

Additional information on ESOP activity follows:

	1998	1997	1996
Dividends used for debt service(1)	\$ 7	\$ 7	\$ 8
Compensation costs funded with ESOP shares	49	193	190

(1) Dividends on all Leveraged Shares are used for debt service on the ESOP loan.

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 10).

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 1998 and 1997, 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 and assets for 1998 and 1997, a statement of the funded status of the plans as of year-end 1998 and 1997, and the amounts recognized in the Consolidated Balance Sheets:

	1998	1997
PROJECTED BENEFIT OBLIGATIONS		
Balance, beginning of year	\$ 1,928	\$ 1,639
Service cost	54	32
Interest cost	122	109
Net actuarial loss	55	69
Benefits paid	(77)	(61)
Acquisitions	-	171
Other	8	(31)
Balance, end of year	2,090	1,928
FAIR VALUE OF PLAN ASSETS		
Balance, beginning of year	2,151	1,768
Actual return on plan assets	282	314
Contributions	46	34
Benefits paid	(77)	(61)
Acquisitions	-	121
Other	8	(25)
Balance, end of year	2,410	2,151
FUNDED STATUS	320	223
Unrecognized net actuarial gains	(215)	(120)
Unrecognized prior service cost	3	4
Unrecognized net transition obligation	2	3
NET AMOUNT RECOGNIZED	\$ 110	\$ 110
Assets	234	209
Liabilities	(124)	(99)
NET AMOUNT RECOGNIZED	\$ 110	\$ 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 \$111, \$96, and \$50, respectively, as of December 25, 1998, and \$97, \$80, and \$45, respectively, as of December 26, 1997. 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Pension cost included the following components:

	1998	1997	1996
DEFINED CONTRIBUTION PLAN COST	\$ 177	\$ 218	\$ 224
DEFINED BENEFIT PLANS(1)			
Service cost for benefits earned during the year	54	32	25
Interest cost on projected benefit obligation	122	109	104
Expected return on plan assets	(141)	(121)	(122)
Deferral and amortization of unrecognized items	7	-	7
Total defined benefit plan cost	42	20	14
TOTAL PENSION COST	\$ 219	\$ 238	\$ 238

(1) The following actuarial assumptions were used in calculating the defined benefit cost and benefit obligations. Weighted-average rates as of the beginning of the year are:

	1999	1998	1997
Discount rate	5.5%	6.3%	6.7%
Rate of compensation increase	5.7	5.6	5.4
Expected rate of return on plan assets	6.2	6.6	6.9

## 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. As of December 25, 1998, none of these plans had been funded.

The following table provides a summary of the changes in the plans' benefit obligations and assets for 1998 and 1997, and a statement of the funded status of the plans as of year-end 1998 and 1997:

	1998	1997
ACCUMULATED BENEFIT OBLIGATIONS		
Balance, beginning of year	\$ 211	\$ 173
Service cost	8	6
Interest cost	13	11
Net actuarial (gain) loss	(12)	15
Benefits paid	(7)	(6)
Acquisitions	-	15
Other	1	(3)
Balance, end of year	214	211
FAIR VALUE OF PLAN ASSETS		
Balance, beginning of year	-	-
Contributions	7	6
Benefits paid	(7)	(6)
Balance, end of year	-	-
FUNDED STATUS OF THE PLANS	(214)	(211)
Unrecognized net actuarial (gain) loss	(3)	8
Unrecognized prior service cost	(1)	(1)
ACCRUED BENEFIT LIABILITIES	\$ (218)	\$ (204)



Other postretirement benefit cost included the following components:

	1998	1997	1996
Service cost	\$ 8	\$ 6	\$ 6
Interest cost	13	11	11
Amortization of unrecognized (gain) loss	-	-	-
Total other postretirement benefit cost	\$ 21	\$ 17	\$ 17

The following actuarial assumptions were used in calculating the postretirement benefit cost and obligations. Weighted-average rates as of the beginning of the year are:

	1999	1998	1997
Discount rate	6.3%	6.4%	6.8%
Health care cost trend rates(1)			
Initial	7.0	7.5	8.0
2012 and thereafter	5.5	5.5	5.5

(1) Assumed to decrease gradually until 2012 and remain constant thereafter.

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:

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	1% INCREASE		1% DECREASE	
	1998	1997	1998	1997
Effect on:				
Other postretirement benefit cost	\$ 4	\$ 3	\$ (4)	\$ (3)
Accumulated benefit obligation	35	26	(30)	(22)

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 \$439, \$30, and \$31 in 1998, 1997, and 1996, respectively, of postemployment benefits expense, which included severance costs for terminated employees of \$424, \$18, and \$14 in 1998, 1997, and 1996, 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 25, 1998 since future severance costs are not estimable.

NOTE 10. 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 1998, 1997, and 1996 was \$453, \$318, and \$269, 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 25, 1998, no instruments other than Restricted Shares, Restricted Units, and Nonqualified Stock 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 1998 and 1997 follows:

	LTIC PLANS		ECAP
	RESTRICTED SHARES	RESTRICTED UNITS	RESTRICTED SHARES
AUTHORIZED FOR ISSUANCE AT:			
December 25, 1998	240,000,000	N/A	52,400,000
December 26, 1997	200,000,000	N/A	52,400,000
AVAILABLE FOR ISSUANCE AT: (1)			
December 25, 1998	69,342,410	N/A	2,985,313
December 26, 1997	44,703,329	N/A	2,935,408
OUTSTANDING, END OF 1996	8,962,962	9,274,900	4,131,744
Granted - 1997	3,662,390	3,819,904	48,747
Paid, forfeited, or released from contingencies	(2,779,206)	(3,197,062)	(299,926)
OUTSTANDING, END OF 1997	9,846,146	9,897,742	3,880,565
Granted - 1998	4,265,945	4,641,545	6,443
Paid, forfeited, or released from contingencies	(519,246)	(3,680,398)	(68,398)
OUTSTANDING, END OF 1998 (2)	13,592,845	10,858,889	3,818,610

- (1) Includes shares reserved for issuance upon the exercise of stock options.  
(2) In February 1999, 33,766 and 3,235,932 Restricted Shares and Units under LTIC Plans, respectively, and 1,450 ECAP Restricted Shares were granted to eligible employees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

The weighted-average fair value per share or unit for 1998, 1997, and 1996 grants follows:

	1998	1997	1996
LTIC Plans			
Restricted Shares	\$ 66.20	\$ 46.31	\$ 28.97
Restricted Units	64.77	44.47	28.69
ECAP Restricted Shares	81.78	66.99	28.76

Merrill Lynch sponsors other plans similar to LTIC Plans in which restricted shares and units are granted to employees and non-employee directors. The table below summarizes information related to restricted shares and units for these other plans:

	RESTRICTED SHARES	RESTRICTED UNITS
AUTHORIZED FOR ISSUANCE AT:		
December 25, 1998	6,300,000	400,000
December 26, 1997	6,300,000	400,000

OUTSTANDING AT:		
December 25, 1998	316,823	40,051
December 26, 1997	258,929	31,862

"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.

The activity for Nonqualified Stock Options under LTIC Plans for 1998, 1997, and 1996 follows:

	OPTIONS OUTSTANDING	WEIGHTED- AVERAGE EXERCISE PRICE
OUTSTANDING, BEGINNING OF 1996	60,146,634	\$ 13.65
Granted - 1996	13,633,940	27.28
Exercised	(8,481,030)	10.45
Forfeited	(1,486,888)	25.43
OUTSTANDING, END OF 1996	63,812,656	16.72
Granted - 1997	15,323,524	42.18
Exercised	(9,065,189)	12.24
Forfeited	(1,363,699)	31.27
OUTSTANDING, END OF 1997	68,707,292	22.69
Granted - 1998	11,971,105	62.74
Exercised	(7,732,322)	15.41
Forfeited	(694,661)	44.88
OUTSTANDING, END OF 1998 (1)	72,251,414	29.89

(1) In January 1999, eligible participants were granted Nonqualified Stock Options and Performance Options for 9,893,225 and 19,959,423 shares, respectively. Performance options vest based on Merrill Lynch's achievement of performance criteria over a period not exceeding 9 years.

At year-end 1998, 1997, and 1996, options exercisable under LTIC Plans were 38,518,400, 36,380,942, and 35,532,334, respectively.

The table below summarizes information related to outstanding and exercisable options at year-end 1998.

<TABLE>  
<CAPTION>

EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED- AVERAGE EXERCISE PRICE	WEIGHTED- AVERAGE REMAINING LIFE (YEARS) (1)	NUMBER EXERCISABLE	WEIGHTED- AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$ 5.00 - \$21.99	33,947,586	\$ 14.34	3.99	31,658,066	\$ 14.10
\$22.00 - \$38.99	12,637,203	27.53	7.15	4,562,973	27.55
\$39.00 - \$55.99	12,848,038	40.59	8.21	2,205,990	40.59
\$56.00 - \$72.99	12,496,607	62.03	9.17	91,371	67.86
\$73.00 - \$89.99	321,980	89.53	9.58	-	-

</TABLE>

(1) Based on original contractual life of ten years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

At consummation of Merrill Lynch's merger with Midland (see Note 2), each Midland 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. Information at year-end 1998, 1997, and 1996 related to these options follows:

	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE EXERCISE PRICE
1998	642,370	\$ 36.16
1997	743,634	31.04
1996	688,146	28.08

At year-end 1998, 1997, and 1996, such options exercisable were 292,215, 284,578, and 243,404, respectively.

The weighted-average fair value of options granted in 1998, 1997, and 1996 was \$21.52, \$14.62, and \$7.58 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:

	1998	1997	1996
Risk-free interest rate	5.81%	6.74%	5.68%
Expected life	6 yrs.	6 yrs.	5 yrs.
Expected volatility	28.10%	26.86%	26.35%
Dividend yield	1.28%	1.47%	1.91%

The weighted-average fair value of options granted by Midland in 1998, 1997, and 1996 was \$14.07, \$15.01, and \$15.28 respectively.

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 1998, 1997, and 1996 follows:

	1998	1997	1996
Available, beginning of year	7,251,343	8,267,360	9,992,526
Authorized during year	-	300,000	-
Purchased through plan	(1,261,248)	(1,316,017)	(1,725,166)
Available, end of year	5,990,095	7,251,343	8,267,360

The weighted-average fair value of ESPP stock purchase rights exercised by employees in 1998, 1997, and 1996 was \$11.31, \$7.66, and \$4.38 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). Based on the fair value of stock options and purchase rights, Merrill Lynch would have recognized compensation expense, net of taxes, of \$95, \$56, and \$27 for 1998, 1997, and 1996, respectively, resulting in pro forma net earnings and earnings per share as follows:

	1998	1997	1996
NET EARNINGS			
As reported	\$ 1,259	\$ 1,935	\$ 1,648
Pro forma	1,164	1,879	1,621
EARNINGS PER SHARE			
As reported:			
Basic	\$ 3.43	\$ 5.57	\$ 4.63
Diluted	3.00	4.79	4.08
Pro forma:			
Basic	3.16	5.41	4.55
Diluted	2.77	4.65	4.01

In the table above, pro forma compensation expense associated with option grants is recognized over the vesting period. The impact of applying SFAS No. 123 on pro forma disclosure is not representative of the potential impact on pro forma net earnings for future years, which will include the cumulative effect of expense related to vesting of 1995 and subsequent grants.

#### Financial Consultant Capital Accumulation Award Plans ("FCCAAP")

Under FCCAAP, eligible employees in Merrill Lynch's Private Client groups 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

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 25, 1998, shares subject to outstanding awards totaled 31,375,873, while 18,154,644 shares were available for issuance through future awards. The fair value of awards granted under FCCAAP during 1998, 1997, and 1996 was \$67.94, \$42.09, and \$25.34 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 1,814,000 at December 25, 1998. 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 Merrill Lynch's Private Client groups are issued investment certificates based on their performance. The certificates mature ten years from the date issued and are 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. As of year-end 1998 and 1997, \$353 and \$292, 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 \$648 and \$554, respectively, at December 25, 1998 and December 26, 1997. Accrued liabilities at those dates were \$532 and \$441, respectively.

NOTE 11. INCOME TAXES

Income tax provisions (benefits) on earnings consisted of:

	1998	1997	1996
	----	----	----
U.S. FEDERAL			
Current	\$ 673	\$ 856	\$ 515
Deferred	(180)	(94)	(119)
U.S. STATE AND LOCAL			
Current	105	(15)	198
Deferred	10	7	(54)
NON-U.S.			
Current	412	400	496
Deferred	(307)	(25)	(56)
Total	\$ 713	\$ 1,129	\$ 980
	=====	=====	=====

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:

	1998	1997	1996
U.S. federal income tax at statutory rate	\$ 734	\$ 1,089	\$ 920
U.S. state and local income taxes, net	74	(5)	94
Pension plan transaction	(3)	6	12
Non-U.S. operations	(33)	41	3
Tax-exempt interest	(51)	(26)	(21)
Dividends received deduction	(30)	(33)	(34)
Other, net	22	57	6
Income tax expense	\$ 713	\$ 1,129	\$ 980

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

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:

	1998	1997	1996
<b>DEFERRED TAX ASSETS</b>			
Valuation and other reserves(1)	\$ 1,225	\$ 940	\$ 895
Deferred compensation	679	478	351
Employee benefits	120	109	115
Other	375	116	285
Gross deferred tax assets	2,399	1,643	1,646
Valuation allowances(2)	(42)	(26)	(30)
Total deferred tax assets	2,357	1,617	1,616
<b>DEFERRED TAX LIABILITIES</b>			
Lease transactions	148	116	114
Employee benefits	64	58	54
Accelerated tax depreciation	17	26	44
Other	190	178	88
Total deferred tax liabilities	419	378	300
NET DEFERRED TAX ASSET	\$ 1,938	\$ 1,239	\$ 1,316

(1) Primarily related to Trading assets and Other payables.

(2) Related to net operating loss carryforwards not expected to be realized.

At December 25, 1998, Merrill Lynch had net operating loss carryforwards as follows: \$48 in U.S. federal (expiring 2009), \$261 in U.S. states (expiring 2005), \$76 in Hong Kong (no expiration), \$63 in Germany (no expiration), \$59 in Japan (expiring 2003), and \$42 in Canada (expiring 2005).

Income tax benefits of \$336, \$173, and \$30 were allocated to stockholders' equity related to employee compensation transactions for 1998, 1997, and 1996, respectively.

Earnings before income taxes included approximately \$44, \$805, and \$800 of earnings attributable to non-U.S. subsidiaries for 1998, 1997, and 1996, respectively. Cumulative undistributed earnings of non-U.S. subsidiaries not previously taxed in the U.S. were approximately \$2,230 at December 25, 1998. No deferred U.S. federal income taxes have been provided for the undistributed earnings to the extent that they have been permanently reinvested in Merrill Lynch's non-U.S. operations. Assuming utilization of non-U.S. tax credits, Merrill Lynch estimates that approximately \$240 of U.S. federal income taxes and \$110 of non-U.S. withholding taxes would be incurred on the repatriation of such earnings.

NOTE 12. 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 25, 1998, MLPF&S's regulatory net capital of

\$3,224 was 14% of aggregate debit items, and its regulatory net capital in excess of the minimum required was \$2,761.

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 25, 1998, MLI's financial resources were \$3,711, exceeding the minimum requirement by \$1,124.

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 25, 1998, MLGSI's liquid capital of \$1,441 was 261% of its total market and credit risk, and liquid capital in excess of the minimum required was \$778.

Merrill Lynch's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. As of December 25, 1998, \$483, representing 89% of the insurance subsidiaries' net assets, was unavailable for distribution to Merrill Lynch.

Over 80 other subsidiaries are subject to regulatory requirements promulgated by the regulatory and exchange authorities 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 25, 1998, restricted net assets of these subsidiaries were \$3,555.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

In addition, to satisfy rating agency standards, a credit intermediary subsidiary of Merrill Lynch must also meet certain minimum capital requirements. At December 25, 1998, this minimum capital requirement was \$490.

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 preferred stock and subsidiaries' TOPRS, and (2) the governing provisions of the Delaware General Corporation Law.

NOTE 13. SEGMENT, PRODUCT, AND GEOGRAPHIC INFORMATION

Segment Information

In reporting to management, Merrill Lynch's operating results are categorized into two business segments: Wealth Management and CICG. 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:

- o Revenues and expenses are assigned to segments where directly attributable.
- o A portion of CICG principal transactions and investment banking revenues are allocated to Wealth Management based on production credits generated by Financial Consultants and other investment professionals.
- o Interest is allocated based on management's assessment of the relative risk of segment assets and liabilities.
- o 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.
- o 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).
- o Income taxes are attributed based on tax rates in the tax jurisdictions in which the segment activity takes place.

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to the consolidated amounts:

	WEALTH MANAGEMENT	CICG	CORPORATE ITEMS	TOTAL
1998				
Net interest revenue (a)	\$ 1,015	\$ 299	\$ (306) (b)	\$ 1,008
All other revenues	10,316	6,223	-	16,539
Net revenues	11,331	6,522	(306)	17,547

Non-interest expenses, excluding staff reduction provision	9,260	5,535	226(c)	15,021
Provision for costs related to staff reductions	-	-	430(d)	430
Earnings before income taxes	2,071	987	(962)	2,096
Income tax expense (benefit)	725	105	(117)	713
Dividends on preferred securities issued by subsidiaries	-	-	124	124
Net earnings	\$ 1,346	\$ 882	\$ (969)	\$ 1,259
Year-end total assets	\$ 45,726	\$ 248,714	\$ 5,364	\$ 299,804

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1997				
Net interest revenue(a)	\$ 860	\$ 196	\$ -	\$ 1,056
All other revenues	8,645	6,555	-	15,200

Net revenues	9,505	6,751	-	16,256
Non-interest expenses	7,872	5,208	65(c)	13,145
Earnings before income taxes	1,633	1,543	(65)	3,111
Income tax expense	577	398	154	1,129
Dividends on preferred securities issued by subsidiaries	-	-	47	47
Net earnings	\$ 1,056	\$ 1,145	\$ (266)	\$ 1,935
Year-end total assets	\$ 38,781	\$ 252,732	\$ 5,467	\$ 296,980

-----				
1996				
Net interest revenue(a)	\$ 751	\$ 282	\$ -	\$ 1,033
All other revenues	7,233	5,355	-	12,588
Net revenues	7,984	5,637	-	13,621
Non-interest expenses	6,602	4,341	50(c)	10,993
Earnings before income taxes	1,382	1,296	(50)	2,628
Income tax expense	527	366	87	980
Net earnings	\$ 855	\$ 930	\$ (137)	\$ 1,648
Year-end total assets	\$ 31,553	\$ 185,080	\$ 633	\$ 217,266

- (a) Management views interest income net of interest expense in evaluating results.
- (b) Represents Mercury financing costs.
- (c) Represents goodwill amortization.
- (d) Had this amount been allocated to segments, \$163 and \$267 would have been allocated to Wealth Management and CICG, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

Product Information

- Merrill Lynch delivers a wide variety of products to clients:
- o Brokerage: Executing or facilitating security and commodity trades for retail clients and assisting clients in allocating their assets. (Includes commissions and net interest.)
  - o Asset management and portfolio services: Offering customers access to a wide array of asset management services and other fee-based products.
  - o Lending: Serving investors' liability management needs by providing margin lending, mortgage and other consumer loans, and commercial financing.
  - o 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. (Includes commissions, principal transactions revenues, and net interest.)
  - o Origination: Raising capital for clients through securities underwritings, private placements, and loan syndications.
  - o Strategic services: Providing advice on mergers and acquisitions, sales, divestitures, and joint ventures.



The following table summarizes Merrill Lynch's net revenues by product.

	1998	1997	1996
<b>WEALTH MANAGEMENT</b>			
Brokerage	\$ 6,412	\$ 5,851	\$ 5,057
Asset management and portfolio services:			
Asset management fees	2,075	1,232	1,010
Portfolio service fees	1,150	826	608
Other fees	977	944	813
Total	4,202	3,002	2,431
Lending	577	477	378
Other	140	175	118
Total Wealth Management	11,331	9,505	7,984
<b>CICG</b>			
Trading:			
Debt	847	2,242	2,072
Equity	2,761	2,024	1,658
Total	3,608	4,266	3,730
Origination:			
Debt	488	593	489
Equity	841	770	587
Total	1,329	1,363	1,076
Strategic services	1,102	797	430
Other	483	325	401
Total CICG	6,522	6,751	5,637
TOTAL WEALTH MANAGEMENT AND CICG	17,853	16,256	13,621
Corporate	(306)	-	-
TOTAL	\$ 17,547	\$ 16,256	\$ 13,621

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per share amounts)

Geographic Information

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:

- o Europe, Middle East, and Africa,
- o Asia Pacific,
- o Australia and New Zealand,
- o Japan,
- o Canada, and
- o 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:

- o Commissions revenues are recorded based on the location of the sales force,
- o Trading revenues are principally recorded based on the location of the trader,
- o Investment banking revenues are recorded based on the location of the client,
- o Asset management and portfolio service fees are recorded based on the location of the fund manager,
- o Earnings before income taxes include the allocation of certain shared expenses among regions, and
- o 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.

	1998	1997	1996
<b>NET REVENUES</b>			
Europe, Middle East, and Africa	\$ 2,808	\$ 1,982	\$ 1,563
Asia Pacific	338	489	361
Australia and New Zealand	224	177	60
Japan	574	416	408
Canada	625	702	615
Latin America	392	524	435
Total Non-U.S.	4,961	4,290	3,442
U.S.	12,892	11,966	10,179
Corporate	(306)	-	-
Total	\$ 17,547	\$ 16,256	\$ 13,621
<b>EARNINGS BEFORE INCOME TAXES</b>			
Europe, Middle East, and Africa	\$ 307	\$ 360	\$ 301
Asia Pacific	(165)	(34)	36
Australia and New Zealand	36	25	7
Japan	(11)	74	109
Canada	46	134	118
Latin America	(67)	141	146
Total Non-U.S.	146	700	717
U.S.	2,912	2,476	1,961
Corporate	(962)	(65)	(50)
Total	\$ 2,096	\$ 3,111	\$ 2,628
<b>AVERAGE ASSETS</b>			
Europe, Middle East, and Africa	\$ 134,664	\$ 73,251	\$ 59,935
Asia Pacific	6,562	4,707	6,513
Australia and New Zealand	2,789	2,939	1,103
Japan	10,224	7,910	5,007
Canada	11,612	11,869	8,469
Latin America	11,874	10,629	5,968
Total Non-U.S.	177,725	111,305	86,995
U.S.	196,710	176,835	132,829
Corporate	5,573	680	519
Total	\$ 380,008	\$ 288,820	\$ 220,343

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## SUPPLEMENTAL FINANCIAL INFORMATION

## QUARTERLY INFORMATION

The unaudited quarterly results of operations of Merrill Lynch for 1998 and 1997 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)

Quarter Ended	For the						
	DEC. 25, 1997	SEPT. 25, 1997	JUNE 26, 1998	MAR. 27, 1998	DEC. 26, 1997	SEPT. 26, 1997	JUNE 27, 1997
MAR. 28, 1997	1998	1998	1998(1)	1998(1)	1997(1)	1997(1)	1997(1)
Total Revenues	\$ 8,172	\$ 8,712	\$ 9,581	\$ 9,388	\$ 8,311	\$ 8,338	\$ 8,200
Interest Expense	4,091	4,863	4,726	4,626	4,301	4,196	4,090

3,656								
Net Revenues	4,081	3,849	4,855	4,762	4,010	4,142	4,110	
3,994								
Non-Interest Expenses	3,562	4,054 (2)	3,940	3,895	3,275	3,353	3,306	
3,211								
Earnings (Loss) Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	519	(205)	915	867	735	789	804	
783								
Income Tax Expense (Benefit)	119	(75)	339	330	254	275	300	
300								
Dividends on Preferred Securities Issued by Subsidiaries	41	33	27	23	12	12	13	
10								
Net Earnings (Loss)	\$ 359	\$ (163)	\$ 549	\$ 514	\$ 469	\$ 502	\$ 491	
\$ 473								
Earnings (Loss) Per Common Share(3)								
Basic	\$ .97	\$ (.48)	\$ 1.52	\$ 1.44	\$ 1.34	\$ 1.45	\$ 1.42	
\$ 1.36								
Diluted	.86	(.48)	1.31	1.26	1.15	1.24	1.24	
1.16								

</TABLE>

- (1) Amounts have been restated from that originally reported on Form 10-Q to reflect the Midland Walwyn merger as required under pooling-of-interests accounting.
- (2) Includes a \$430 million provision for costs related to staff reductions.
- (3) Restated for the 1997 two-for-one common stock split.

#### DIVIDENDS PER COMMON SHARE

(Declared and paid)	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
1998	\$ .20	\$ .24	\$ .24	\$ .24
1997	.15	.20	.20	.20

Dividends per common share amounts give effect to the 1997 two-for-one common stock split. 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 12 to the Consolidated Financial Statements).

#### STOCKHOLDER INFORMATION

Consolidated Transaction Reporting System prices for the specified calendar quarters are noted below. Prices have been restated for the 1997 two-for-one common stock split.

<TABLE>  
<CAPTION>

(At calendar period-end)

	1ST QTR.		2ND QTR.		3RD QTR.		4TH QTR.	
	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1998	\$ 87 1/2	\$ 60 7/16	\$ 100	\$ 82 1/4	\$ 109 1/8	\$ 45 5/8	\$ 80	\$ 35 3/4
1997	52	39 1/4	63 7/8	42 1/16	75 1/8	59 1/16	78 3/16	61 1/4

</TABLE>

The approximate number of record holders of ML & Co. common stock as of February 12, 1999 was 19,400. As of February 19, 1999, the closing price of ML &

Co. common stock as reported on the Consolidated Transaction Reporting System was \$72 3/8.

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[LOGO]

BOARD OF DIRECTORS

-----

HERBERT M. ALLISON, JR.

President and Chief Operating Officer of Merrill Lynch...55 years old...joined Merrill Lynch in 1971.

W.H. CLARK

Corporate Director...former Chairman and Chief Executive Officer of Nalco Chemical Company, a producer of specialty chemicals...66 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...64 years old...elected a Director of Merrill Lynch in 1978.

STEPHEN L. HAMMERMAN

Vice Chairman of the Board and General Counsel of Merrill Lynch...61 years old...joined Merrill Lynch in 1978.

EARLE H. HARBISON, JR.

Chairman of the Board of Harbison Corporation, a manufacturer of molded plastic products...former Chairman of the Executive Committee and former President and Chief Operating Officer of Monsanto Company...70 years old...elected a Director of Merrill Lynch in 1987.

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...67 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...69 years old...elected a Director of Merrill Lynch in 1995.

DAVID H. KOMANSKY

Chairman of the Board and Chief Executive Officer of Merrill Lynch...59 years old...joined Merrill Lynch in 1968.

ROBERT P. LUCIANO

Corporate Director...Director and former Chairman of the Board and Chief Executive Officer of Schering-Plough Corporation, a health and personal care products company...65 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 and Senior Managing Director of Jardine, Matheson & Co. Limited...65 years old...elected a Director of Merrill Lynch in 1996.

AULANA L. PETERS

Partner in the law firm of Gibson, Dunn & Crutcher...former Commissioner of the U.S. Securities and Exchange Commission...57 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 ...67 years old...elected a Director of Merrill Lynch in 1991.

JOHN L. STEFFENS

Vice Chairman of the Board and Head of U.S. Private Client Group of Merrill Lynch...57 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 products and services...69 years old...elected a Director of Merrill Lynch in 1993.

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[LOGO]

EXECUTIVE MANAGEMENT

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[PHOTO]

DAVID H. KOMANSKY

Chairman of the Board  
and Chief Executive Officer

[PHOTO]

PAUL W. CRITCHLOW

Senior Vice President  
Marketing and Communications

[PHOTO]

CAROL GALLEY

Senior Vice President and  
Co-Head of Merrill Lynch  
Mercury Asset Management

[PHOTO]

HERBERT M. ALLISON, JR.

President and  
Chief Operating Officer

[PHOTO]

THOMAS W. DAVIS

Executive Vice President and  
Head of Corporate and  
Institutional Client Group

[PHOTO]

EDWARD L. GOLDBERG

Executive Vice President  
Operations Services Group

[PHOTO]

JOHN L. STEFFENS

Vice Chairman of the Board and Head of U.S.  
Private Client Group

[PHOTO]

RICHARD A. DUNN

Senior Vice President  
Global Risk and  
Credit Management

[PHOTO]

JEROME P. KENNEY

Executive Vice President  
Corporate Strategy and Research

[PHOTO]

STEPHEN L. HAMMERMAN

Vice Chairman of the Board  
and General Counsel

[PHOTO]

BARRY S. FRIEDBERG

Executive Vice President and  
Chairman of Corporate and  
Institutional Client Group

[PHOTO]

Michael J.P. Marks

Executive Chairman  
of Merrill Lynch Europe,  
Middle East & Africa

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[PHOTO]

JOHN A. MCKINLEY, JR.

Senior Vice President  
Chief Technology Officer and  
Head of Technology Group

[PHOTO]

WINTHROP H. SMITH, JR.

Executive Vice President and  
Head of International Private  
Client Group and Chairman,  
Merrill Lynch International Inc.

[PHOTO]

JOHN G. HEIMANN

[PHOTO]

E. STANLEY O'NEAL

Executive Vice President and  
Chief Financial Officer

[PHOTO]

MARY E. TAYLOR

Senior Vice President  
Human Resources

[PHOTO]

ARTHUR ZEIKEL

[PHOTO]

THOMAS H. PATRICK

Executive Vice President  
and Chairman  
Special Advisory Services

[PHOTO]

STEPHEN A. ZIMMERMAN

Senior Vice President and  
Co-Head of Merrill Lynch  
Mercury Asset Management

[PHOTO]

JEFFREY M. PEEK

Executive Vice President  
and Head of Asset  
Management Group

TWO VALUED MEMBERS of Merrill Lynch Executive Management -- John G. Heimann,  
Chairman of Merrill Lynch Global Financial Institutions, and Arthur Zeikel,

Chairman of Merrill Lynch Asset Management -- retired in 1999. Mr. Heimann, who came to Merrill Lynch in 1984, was instrumental in the firm's expansion in Europe and the Middle East and served ably as the senior relationship manager with financial institutions around the world. Mr. Zeikel, a 23-year Merrill Lynch veteran, was President of MLAM since its inception in 1977, building one of the largest asset management businesses in the world and introducing mutual funds to literally millions of investors. Each has contributed in strong and lasting ways to our firm, and their legacies will live on at Merrill Lynch for many years to come.

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[LOGO]

MERRILL LYNCH & CO., INC.

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#### 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: Andrea L. Dulberg, 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

Depositary 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 1998

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 1998 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission. Merrill Lynch will furnish a copy of its 1998 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, Secretary, Merrill Lynch & Co., Inc., P.O. Box 20, Church Street Station, New York, NY 10277-1004.

#### 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, Senior Director, 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 1999 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 Wednesday, April 14, 1999, 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](http://WWW.ML.COM)



SUBSIDIARIES OF THE REGISTRANT

The following are subsidiaries of ML & Co. as of FEBRUARY 24, 1999 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>

NAME -----	STATE OR JURIS- DICTION OF ENTITY -----
<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. ....	Nova Scotia
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 Group Holdings Limited.....	Ireland
Merrill Lynch Capital Markets Bank Limited.....	Ireland
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 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>

- 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>

NAME -----	STATE OR JURIS- DICTION OF ENTITY -----
<S>	<C>
MERRILL LYNCH & CO., INC.	
MERRILL LYNCH GROUP, INC. (CONT'D)	
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.....	New South Wales
Merrill Lynch International Bank.....	United States
Merrill Lynch International Holdings Inc. ....	Delaware
Merrill Lynch Bank (Austria) Aktiengesellschaft A.G. ....	Austria
Merrill Lynch Bank and Trust Company (Cayman) Limited .....	Cayman Islands, British West
Indies	
Merrill Lynch Capital Markets A.G. ....	Switzerland
Merrill Lynch Europe PLC.....	England
Merrill Lynch Europe Holdings Limited .....	England
Merrill Lynch International.....	England
Merrill Lynch, Pierce, Fenner & Smith (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.

## INDEPENDENT AUDITORS' CONSENT

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We consent to the incorporation by reference in the following Registration Statements of Merrill Lynch & Co., Inc. and subsidiaries of our reports dated February 22, 1999, (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 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 25, 1998.

## 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. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)

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. 333-33125 (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.)

## 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 and Touche LLP

New York, New York  
March 5, 1999

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<NET-INCOME>	1,259
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<EPS-DILUTED>	3.00
<FN>	

<F1>Includes \$6,106 of securities received as collateral, net of securities pledged as collateral, and \$8,184 of securities pledged as collateral, recorded pursuant to the provisions of Statement of Financial Accounting Standards No. 127 ("SFAS No. 127").

<F2>Includes \$14,290 in obligation to return securities received as collateral, recorded pursuant to the provisions of SFAS No. 127.

<F3>Includes \$2,627 in 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 25, 1998 and December 26, 1997 and for each of the three years in the period ended December 25, 1998 and have issued our report thereon dated February 22, 1999, which report expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method for certain internal-use software development costs. Such consolidated financial statements and our report 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 27, 1996, December 29, 1995 and December 30, 1994, the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the two years in the period ended December 29, 1995 and the related consolidated statement of comprehensive income for the year ended December 29, 1995 (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 25, 1998 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 and Touche LLP

New York, New York  
February 22, 1999

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 25, 1998 and December 26, 1997 and for each of the three years in the period ended December 25, 1998 and have issued our report thereon dated February 22, 1999, which report expresses an unqualified opinion and includes an explanatory paragraph for the change in accounting method 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 27, 1996, December 29, 1995 and December 30, 1994, the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the two years in the period ended December 29, 1995 and the related consolidated statement of comprehensive income for the year ended December 29, 1995 (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 1998 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 and Touche LLP

New York, New York  
February 22, 1999