J.P. MORGAN STRUCTURED PRODUCTS B.V.

Amsterdam, The Netherlands

Report for the period from
6 November 2006 to 31 December 2007

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Report for the period from 6 November 2006 to 31 December 2007

Contents **Page**

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Directors' report for the period from 6 November 2006 to 31 December 2007

The directors present their report and the audited financial statements for the period ended 31 December 2007.

Incorporation

J.P. Morgan Structured Products B.V. (the "Company") is a private company with limited liability incorporated on 6 November 2006 under the laws of The Netherlands. These financial statements reflect the operations of the Company during the period from 6 November 2006 to 31 December 2007.

The Company's parent undertaking is J.P. Morgan International Finance Limited which is incorporated in the state of Delaware in the United States of America.

Principal activity

The Company's main activity is the issuance of securitised derivatives comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

Review of business

The directors are satisfied with the performance of the Company.

On 6 November 2006, the Company issued 18,000 ordinary shares with a par value of €1.00 each as fully paid up share capital of the Company translating to $22,880. On 29 March 2007, the Company issued additional 2,000 ordinary shares with a par value of €1.00 ($1.34) each at a premium for the sum of $499.99 million. The cash was subsequently placed with another JPMorgan Chase group undertaking.

The Company had no employees, other than directors, at any time during the period. Administrative expenses amounting to $68,000 were charged by the former director TMF Management B.V. and $97,000 by Equity Trust Co. N.V. for various services rendered during the period.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of JPMorgan Chase & Co (the Group) and are not managed separately. Accordingly, the principal risks and uncertainties of the group, which include those of the Company, are discussed within the Group's annual report which does not form part of this report.

Business environment, strategy and future outlook

In the opinion of the directors, there will likely be a lower demand for structured securities issued by subsidiaries of J P Morgan Chase Bank N.A. and a greater demand for structured securities issued by a subsidiary of J P Morgan Chase & Co. This may lead to the Company itself issuing fewer securities going forward. It is further envisaged that J P Morgan Chase Bank, N.A. will issue notes which, if held until their respective redemption date, may be redeemed by way of the application of the note redemption amount to the purchase of certain warrants. These warrants would, upon exercise in accordance with their terms, entitle the warrant holder to acquire preference shares issued by the Company.

Results and dividends

The results of the Company for the period are set out on page 5. The Company's profit for the period from 6 November 2006 to 31 December 2007 attributable to equity shareholders of the Company is $14,279,000.

No dividend was paid or proposed during the period.

Financial risk management

Risk management is an inherent part of the Group (of which the Company is a part) business activities and the Company has adopted the same risk management policies and procedures as the Group as a whole. The Group and the Company's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Company exercises oversight through the Board of Directors and delegation from the Board to various sub-committees which are organized in line with the Group Risk Management policy.

An overview of the key aspects of risk management and use of financial instruments is provided below. A more detailed description of the policies and processes adopted by all Group companies may be found within the JPMorgan Chase & Co. annual report.

Liquidity risk

Liquidity risk arises from the general funding needs of the Company's activities and in the management of its assets and liabilities. The Company's funding needs are provided by JPMorgan Chase Bank, N.A. or other Group companies whose liquidity management frameworks are intended to maximise liquidity access.

Credit risk

Each business within the Group has its own independent credit risk management function, reporting to the Business executive and the Chief Credit Officer. These units are responsible for overseeing the credit risk management and also for proposing to the Board of Directors significant new transactions and product offerings. They are also responsible for monitoring the credit risk profile of the portfolio and reporting monthly to the Group's Operating Committee. The Board of Directors have final authority over credit risk assessment for the Company.

Market risk

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads, and equity and commodity prices. Market Risk Management (MRM) is a function within the Group that is independent of the businesses and identifies, measures, monitors and controls market risk. MRM works in partnership with the business segments within the Group and the directors of the Company to identify market risks and to refine and monitor market risk policies and procedures. Market risk is primarily controlled through a series of limits.

Since no single measure can reflect all aspects of market risk, the Group uses several measures, both statistical and non-statistical, including:

- Statistical risk measures
  - Value-at-Risk (VAR)
  - Risk identification for large exposures (RIFLE)
- Non-statistical risk measures
  - Economic value stress tests
  - Earnings-at-risk stress tests
  - Other measures of position size and sensitivity to market moves

The Group's VAR statistical measure gauges the potential loss from adverse market movements in an ordinary market environment. Through the Group's RIFLE system, risk managers identify worst-case losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such a loss. This information is then communicated to the appropriate level of management, thereby permitting the Group and the directors to identify further earnings vulnerabilities. MRM regularly reviews and updates risk limits, and the Group's Operating Committee reviews and approves risk limits at least twice a year.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Directors' report for the period from 6 November 2006 to 31 December 2007 (continued)

Financial risk management (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operational risk, the Group and the Company maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment.

Directors

The directors of the Company who served during the period and up to the date of signing the financial statements were as follows:

TMF Management B.V.	(appointed 11 June 2006, resigned 6 March 2007)
J.C.W. van Burg	(appointed 6 March 2007)
J.P. Everwijn	(appointed 6 March 2007)
J.C.P. van Uffelen	(appointed 6 March 2007)
B.P. von Gunten	(appointed 6 March 2007)

Creditor payment policy

The Company has entered into an agreement with an affiliated Group Company, JP Morgan Chase Bank N.A to process the payment of invoices on behalf of the Company following approval of the invoices by the Directors. It is the policy of the Company to abide by the terms of payment, provided the supplier performs according to the terms of the contract.

Registered office

Strawinskylaan 3105, Floor 7
1077 ZX Amsterdam,
The Netherlands

Auditors

The auditors, PricewaterhouseCoopers Accountants N.V. were appointed on 2 March 2007 and have expressed their willingness to continue in office.

By order of the Board

Managing Director

Managing Director

Managing Director

Managing Director

13 March 2008

Date

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Balance sheet as at 31 December 2007

	Notes	2007 $'000
Assets		
Current assets		
Financial assets held for trading	4	980,538
Trade and other receivables	5	560
Current tax asset		4,378
Cash and cash equivalents	6	519,594
Total assets		**1,505,070**
Liabilities		
Current liabilities		
Financial liabilities designated at fair value through profit or loss	7	980,538
Trade and other payables	8	10,153
Bank overdraft	6	77
Total liabilities		**990,768**
Equity		
Capital and reserves attributable to equity shareholders of the Company		
Share capital	9	26
Share premium reserve	9	499,997
Legal reserve	9	4
Retained earnings		14,275
Total equity		**514,302**
Total liabilities and equity		**1,505,070**

By order of the Board

Managing Director

Managing Director

Managing Director

Managing Director

13 March 2008

Date

The notes on pages 8 to 18 form an integral part of these financial statements

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Income statement for the period from 6 November 2006 to 31 December 2007

	Notes	6 November 2006 to 31 December 2007 $'000
Trading profit – financial assets held for trading		1,840
Trading loss – financial liabilities designated at fair value through profit or loss		(1,840)
Fee and commission income	10	485
Fee and commission expense	10	(6)
Administrative expenses		(441)
Net foreign exchange loss		(330)
Operating loss	11	(292)
Interest and similar income	12	19,598
Interest expense	13	(1)
Income before income tax		19,305
Income tax expense	14	(5,026)
Profit for the period attributable to equity shareholders of the Company		14,279

The notes on pages 8 to 18 form an integral part of the financial statements.

Statement of changes in equity for the period from 6 November 2006 to 31 December 2007

	Share capital	Share premium reserve	Legal reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000	$'000
Issue of ordinary shares during the period	26	-	-	-	26
Share premium on ordinary shares issued during the period	-	499,997	-	-	499,997
Profit for the period	-	-	-	14,279	14,279
Transfer from retained earnings to legal reserve	-	-	4	(4)	-
Balance at 31 December 2007	**26**	**499,997**	**4**	**14,275**	**514,302**

The notes on pages 8 to 18 form an integral part of the financial statements.

J.P. MORGAN STRUCTURED PRODUCTS B.V.

Cash flow statement for the period from 6 November 2006 to 31 December 2007

	Note	2007
		$'000
Cash flows from operating activities		
Profit before income tax		19,305
Adjustments for:		
Income tax paid		(9,739)
Interest and similar income		(19,598)
Interest expense		1
Foreign exchange loss on operating activities		330
		(9,701)
Changes in working capital		
Financial assets held for trading		(980,538)
Trade and other receivables		(560)
Current tax asset		335
Financial liabilities designated at fair value through profit & loss		980,538
Trade and other payables		10,153
Net cash from operating activities		227
Cash flow from investing activities		
Interest and similar income		19,598
Interest expense		(1)
Net cash from investing activities		19,597
Cash flow from financing activities		
Proceeds from issuance of ordinary shares		26
Share premium on ordinary shares		499,997
Net cash from financing activities		500,023
Net increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period		-
Effect of exchange rate adjustments		(330)
Cash and cash equivalents at the end of the period	6	519,517

The notes on pages 8 to 18 form an integral part of the financial statements.

Notes to the financial statements for the period from 6 November 2006 to 31 December 2007

1. General information

J.P. Morgan Structured Products B.V. (the "Company") was incorporated on 6 November 2006 as a private company with limited liability under the laws of The Netherlands. These financial statements reflect the operations of the Company during the period from 6 November 2006 to 31 December 2007.

The Company's main activity is the issuance of securitised derivatives comprising certificates, warrants and notes including equity linked, reverse convertible and market participation notes, and the subsequent hedging of those risk positions.

These financial statements have been approved for issue by the Board of Directors on 13 March 2008.

2. Summary of significant accounting policies

(a) Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and under the historical cost convention as modified by the revaluation of certain financial instruments.

Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Company's operations

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2008 but are not relevant to the Company's operations:

- IAS 23 (Amendment), 'Borrowing costs' (effective 1 January 2009).
- IFRS 8, 'Operating segments' (effective 1 January 2009).
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective 1 January 2008).
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008).
- IFRIC 13, 'Customer loyalty programmes' (effective 1 July 2008).

(b) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into US dollars at rates of exchange ruling on the balance sheet date. Income and expense items denominated in foreign currencies are translated into US dollars at the average monthly rates of exchange during the period. Any gains or losses arising from translation are taken directly to the income statement.

Non-monetary items denominated in foreign currencies that are stated in historical cost are translated into US dollars at the date of the transaction.

The financial statements have been presented in US dollars (functional currency) as this is the currency of the primary economic environment in which the Company operates and generates net cash flows. The exchange rates used are:

Period-end exchange rate (USD/EUR)	1.47009
Average rate for the period (USD/EUR)	1.37118

2. Summary of significant accounting policies (continued)

(c) Income and expense recognition

Interest income and expense are recognised on an amortised basis.

Fees and commissions are recognised when the underlying contract becomes legally binding or at the agreed due date if later, unless a fee is received relating to work to be completed in the future in which case it is recognised over the period in accordance with the effective interest rate method. Effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Profits and losses resulting from the revaluation of financial instruments are recognised as trading gains or losses within operating income on a trade date basis.

Expenses are recognised when the underlying contract becomes legally binding or at an agreed due date if later.

(d) Financial assets and financial liabilities

The Company classifies its financial assets and financial liabilities in the following categories: financial assets and financial liabilities held for trading; and financial assets and financial liabilities designated at fair value through profit or loss. The directors determine the classification of its investments at initial recognition.

The Company recognises a financial asset or a financial liability on its balance sheet when it becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities held for trading

The Company considers a financial asset or financial liability as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or it is a derivative.

Financial assets and financial liabilities held for trading comprise equity derivatives. These instruments are initially recognised on trade date at fair value in the balance sheet with transaction costs being recorded in profit or loss and any gains or losses are taken directly to the profit and loss account. Subsequently, they are measured at fair value.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities that the Company designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss and are subsequently measured at fair value. Gains and losses on financial assets and financial liabilities that are designated at fair value through profit or loss are recognised in profit or loss as they arise. A financial instrument may only be designated at inception as held at fair value through profit or loss and cannot subsequently be changed.

Financial assets or financial liabilities are designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract..

2. Summary of significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Company has transferred its contractual right to receive the cash flows of the financial assets, and either

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

(e) Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values are determined by reference to observable market prices where available and reliable. Fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation techniques that are based on independently sourced market parameters. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation model.

(f) Impairment

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or portfolio of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that that loss event has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(g) Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(i) Provisions for liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement represent cash in hand and balances with banks, other short term liquid investments with original maturities of three months or less, and bank overdrafts.

(k) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Share capital

The share capital of the Company consists of ordinary shares, classified as equity.

(m) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In this regard, the Directors believe that the critical accounting policies where judgement is necessarily applied are those which relate to the valuation of financial instruments. Refer to note 2(d).

4. Financial assets held for trading

	2007 $'000
Financial assets held for trading	980,538

All financial assets held for trading were with other JPMorgan Chase group undertakings.

There were no amounts within financial assets held for trading that were passed due or impaired as at 31 December 2007.

Included within financial assets held for trading are financial instruments for which fair values are derived in whole or in part from appropriate pricing or valuation techniques that are not based on directly observable market transactions.

The directors consider that due to the economic hedge relationship between financial assets held for trading and financial liabilities designated at fair value through profit or loss, the effect of any reasonably possible alternative assumptions used in the valuation technique is not significant to the results of the Company. Refer to note 7.

Notes to the financial statements for the period from 6 November 2006 to 31 December 2007(continued)

5. Trade and other receivables

	2007
	$'000
Amounts owed by group undertakings	545
Trade debtors	15
	560

6. Cash and cash equivalents

	2007
	$'000
Cash placed with group undertakings	519,567
Balances with third party	27
	519,594
Balances due to third party	(77)
	519,517

Cash and cash equivalents include balances held with other JPMorgan Chase group undertakings.

7. Financial liabilities designated at fair value through profit or loss

	2007
	$'000
Financial liabilities designated at fair value through profit or loss	980,538

Included within financial liabilities designated at fair value through profit or loss are financial instruments for which fair values are derived in whole or in part from appropriate pricing or valuation techniques that are not based on directly observable market transactions.

The directors consider that due to the economic hedge relationship between financial assets held for trading and financial liabilities designated at fair value through profit or loss, the effect of any reasonably possible alternative assumptions used in the valuation technique is not significant to the results of the Company. Refer to note 4.

The carrying amount at 31 December 2007 of financial liabilities designated at fair value through profit or loss was $100,173 lower than the contractual amount at maturity. At 31 December 2007, the accumulated amount of the change in fair value attributable to changes in credit risk was $100,173. This amount is fully offset by an equal and opposite amount in financial assets held for trading. Refer to note 4.

8. Trade and other payables

	2007
	$'000
Amounts due to group undertakings	10,153

Notes to the financial statements for the period from 6 November 2006 to 31 December 2007 (continued)

9. Share capital

	2007
	'000
Authorised	
90,000 ordinary shares of €1.00 each	€90
Issued and fully paid	
20,000 ordinary shares of €1.00 each	26

On 6 November 2006, the Company issued 18,000 ordinary shares with a par value of €1.00 each as fully paid up share capital of the Company translating to $22,880. On 29 March 2007, the Company issued additional 2,000 ordinary shares with a par value of €1.00 ($1.34) each at a premium for the sum of $499.99 million. The cash was subsequently placed with another JPMorgan Chase group undertaking.

In accordance with the requirements of Article 373 Book 2 of the Civil Code, the Company has transferred an amount of $4,000 to a legal reserve in respect of revaluation of Euro denominated share capital.

10. Fee and commission

	2007
	$'000
Fee and commission income	
Issuance fee income	485
Fee and commission expense	
Issuance fee expense	(6)

All fee and commission income is receivable from other JPMorgan Chase group undertakings.

All fee and commission expenses are paid by other JPMorgan Chase group undertakings and reimbursed by the Company.

11. Operating profit

	2007
	$'000
Operating profit is stated after charging:	
Auditors' remuneration for the audit of the Company's financial statements	120

12. Interest and similar income

	2007
	$'000
Interest and similar income	19,598

Interest and similar income is receivable from other JPMorgan Chase group undertakings.

13. Interest expense

	2007
	$'000
Interest expense	1

Interest expense is paid to other JPMorgan Chase group undertakings.

14. Income tax expense

	2007
	$'000
Current tax	5,026
Tax on profit on ordinary activities	5,026
Profit before income tax	19,305
Taxation calculated at applicable tax rates	5,026
Income tax expense	**5,026**

15. Related party disclosures

Related parties comprise:

(a) Directors and shareholders of the Company and companies in which they have an ownership interest;

(b) Group undertakings of the Company.

The Company's parent undertaking is detailed in note 18. There were no transactions with the parent undertaking during the period other than the issuance or ordinary shares detailed in note 9.

Related party transactions, outstanding balances at period end, and income and expenses for the period, relating to normal business activities are as follows:

(i) Outstanding balances at period end

	Directors 2007	JPMorgan Chase group undertakings 2007
	$'000	$'000
Financial assets held for trading	-	980,538
Trade and other receivables	-	560
Cash and cash equivalents	-	519,567
Trade and other payables	-	(10,153)

(ii) Income and expenses

	Directors 2007	JPMorgan Chase group undertakings 2007
	$'000	$'000
Trading profit – financial assets held for trading	-	1,840
Fees and commission income	-	485
Fees and commission expense	-	(6)
Administrative expenses	(165)	(5)

15. Related party disclosures (continued)

There was no remuneration paid to the directors of the Company.

Included within administration expenses was $68,000 paid to former director TMF Management B.V. and $97,000 charged by Equity Trust Co. N.V., which share the following directors with the Company:

J.C.W. van Burg
J.P. Everwijn
J.C.P. van Uffelen

The Company had no employees, other than directors, at any time during the period.

16. Financial risk management

The primary activity of the Company is the issuance and holding of securitised derivatives comprising certificates, warrants and notes including equity linked notes, reverse convertible notes and market participation notes, reported as financial liabilities designated at fair value through profit or loss.

The market, credit and liquidity risks resulting from the issuance of these instruments, are matched by simultaneously entering into equal and offsetting over the counter (OTC) transactions, reported as financial assets held for trading, with internal group companies so that all such risks are effectively hedged. Regular checks are made on open OTC transactions to ensure the continued effectiveness of the economic hedges in place.

To the extent that settlement-related timing differences between issuance and the OTC hedge may result in funding requirements, these are funded by the JPMorgan Chase group undertakings involved in the transaction.

Market risk

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads, and equity and commodity prices. Market Risk Management (MRM) is a function within the JPMorgan Chase Group ('the Group') (of which the Company is a part) that is independent of the businesses and identifies, measures, monitors and controls market risk. MRM works in partnership with the business segments within the Group and the directors of the Company to identify market risks and to refine and monitor market risk policies and procedures. Market risk is primarily controlled through a series of limits.

Since no single measure can reflect all aspects of market risk, the Group uses several measures, both statistical and non-statistical, including:

- Statistical risk measures
  - Value-at-Risk (VAR)
  - Risk identification for large exposures (RIFLE)

- Non-statistical risk measures
  - Economic value stress tests
  - Earnings-at-risk stress tests
  - Other measures of position size and sensitivity to market moves

16. Financial risk management (continued)

The Group's VAR statistical measure gauges the potential loss from adverse market movements in an ordinary market environment. Through the Group's RIFLE system, risk managers identify worst-case losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such a loss. This information is then communicated to the appropriate level of management, thereby permitting the Group and the directors to identify further earnings vulnerabilities. MRM regularly reviews and updates risk limits, and the Group's Operating Committee reviews and approves risk limits at least twice a year.

Foreign exchange risk

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk on the issued instruments is matched by entering into equal and offsetting over the counter (OTC) transactions with internal group companies in the same currency so that foreign exchange risk in the Company is effectively hedged. As at 31 December 2007, any movements in Sterling or Euro against US dollar (the functional currency of the Company) would result in no change to the financial profit of the Company.

Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has a cash flow interest rate risk from cash and cash equivalents on the balance sheet. Interest rate risk on the issued instruments is matched by entering into equal and offsetting interest bearing over the counter (OTC) transactions with internal group companies so that the interest rate risk from these instruments is effectively hedged.

The following table shows the effect of change in interest rates by 50 basis points which is considered to be reasonably possible for the portfolio that is based in countries with a low volatility in interest rates.

	2007 $'000
50 basis points increase in local interest rates	2,549
50 basis points decrease in local interest rates	(2,549)

Price risk

Price risk from the issued instruments is matched by entering into equal and offsetting over the counter (OTC) transactions with internal group companies so that any price risk is effectively hedged. As at 31 December 2007, any movement in indices or ratings would result in no change to the financial profit of the Company.

16. Financial risk management (continued)

Credit Risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Each business within JPMorgan Chase & Co. (the Group) has its own independent credit risk management function, reporting to the Business Executive and the Chief Credit Officer. These units are responsible for making credit decisions on behalf of the Company. They approve significant new transactions and product offerings and exercise on behalf of the directors, final authority over credit risk assessment.

The amounts in the table below show the maximum credit exposure for the Company:

	2007
	$'000
Financial assts held for trading	980,538
Trade and other receivables	560
	981,098

All financial assets held for trading were with other JPMorgan Chase group undertakings.

Liquidity Risk

Liquidity risk arises from the general funding needs of the Company's activities and in the management of its assets and liabilities. The Company's funding needs are provided by JPMorgan Chase Bank, N.A. or other JPMorgan Chase group companies whose liquidity management frameworks are intended to maximise liquidity access.

The following table shows the maturity profile of all financial liabilities:

	2007	
	Less than 1 Year	Total
	$'000	$'000
Liabilities		
Financial liabilities designated at fair value through profit or loss	980,538	980,538
Trade and other payables	10,153	10,153

The above financial liabilities are presented based on the earliest contractual maturity. Fair value is considered to be the best representation of undiscounted cash flows for financial liabilities.

16. Financial risk management (continued)

Fair value of financial assets and financial liabilities

Carrying amounts of all financial instruments are equal to their fair values.

17. Managed Capital

Total equity of $514,302,000 constitutes the managed capital of the Company which consists entirely of issued share capital, share premium reserve and retained earnings.

The directors are responsible for setting the objectives, policies and processes relating to the management of the Company's capital and maintain a set of policy documents to assist in discharging their responsibilities. The major risk categories considered by the Company are those pertaining to credit risk, market risk and operational risk.

The Company is not subject to any externally imposed capital requirements.

18. Parent undertaking

The Company's immediate parent undertaking is J.P. Morgan International Finance Limited which is incorporated in the state of Delaware in the United States of America.

The Company's ultimate parent undertaking and the parent undertaking of the largest group in which the results of the Company are consolidated, is JPMorgan Chase & Co., which is also incorporated in the state of Delaware in the United States of America.

The parent undertaking of the smallest group in which the Company's results are consolidated is J.P. Morgan Internal Finance Limited.

The largest and the smallest groups' consolidated financial statements can be obtained from:

The Company Secretary
125 London Wall
EC2Y 5AJ
London

Other information

Profit appropriation according to the Articles of Association

The articles of association of the Company require that the allocation of profits be determined in a general meeting of the management board. Dividends may be paid only up to an amount which does not exceed the amount of the distributable part of the net assets. Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.

Proposed appropriation of net results

Management propose to appropriate the current period profits to the retained earnings. No dividend was paid or proposed during the period.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Accountants N.V.
Thomas R. Malthusstraat 5
1066 JR Amsterdam
P.O. Box 90357
1006 BJ Amsterdam
The Netherlands
Telephone +31 (20) 568 66 66
Facsimile +31 (20) 568 68 88
www.pwc.com/nl

To the General Meeting of Shareholders of J.P. Morgan Structured Products B.V.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements for the period from 6 November 2006 to 31 December 2007 of J.P. Morgan Structured Products B.V., Amsterdam as set out on pages 4 to 18 which comprise the balance sheet as at 31 December 2007, the profit and loss account, statement of changes in equity and cash flow statement for the period from 6 November 2006 to 31 December 2007 and a summary of significant accounting policies and other explanatory notes.

The directors' responsibility

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Reference: JdJ/e0045975

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of J.P. Morgan Structured Products B.V. as at 31 December 2007, and of its result and its cash flows for the period from 6 November 2006 to 31 December 2007 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 13 March 2008
PricewaterhouseCoopers Accountants N.V.

J.M. de Jonge RA