

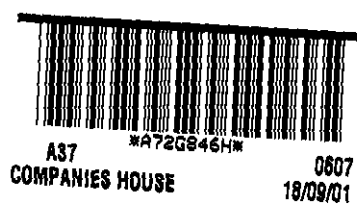
2418504

PAINWEBBER INTERNATIONAL (U.K.) LTD.

Report and Financial Statements

31 December 2000

ERNST & YOUNG



PaineWebber International (U.K.) Ltd.

Registered No. 2418504

DIRECTORS

J Britton (Chairman)

J Fadden

D Francese

A Di Iorio

I Myers

S Ryan

SECRETARY

P Hare

AUDITORS

Ernst & Young

Rolls House

7 Rolls Buildings

Fetter Lane

London EC4A 1NH

REGISTERED OFFICE

9 Appold Street

London EC2A 2HL

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2000.

REVIEW OF THE BUSINESS

The company's loss for the year after taxation amounted to \$10,692,000 (1999 – profit \$58,813,000). The company did not pay a dividend during the year, (1999 - \$Nil) and no dividend is proposed.

The company is regulated by The Securities and Futures Authority Limited. Its principal activity during the year was as securities brokers and dealers on behalf of its clients and its own account. This activity was discontinued in December 2000.

The company operated two branches in Switzerland.

RECENT DEVELOPMENTS

On 12 July 2000 Paine Webber Group Inc. ('PaineWebber') and UBS AG ('UBS') announced they had entered into a definitive merger agreement. On 3 November 2000 the merger between PaineWebber and UBS was legally consummated. As a result of this transaction, the whole of the share capital of the company was acquired by UBS through its wholly owned US subsidiary UBS Americas Inc.

FIXED ASSETS

The changes in fixed assets during the year are summarised in the notes to the financial statements.

DIRECTORS AND THEIR INTERESTS

The directors during the year and at the date of this report were as follows:

J Britton (Chairman, appointed 26 January 2001)

S Ryan (appointed 26 January 2001)

I Myers

B Barefoot (resigned 28 March 2000)

D Francese

G Larramendi (resigned 26 January 2001)

M O'Hanlon (resigned 2 November 2000)

S Phillips (resigned 10 May 2000)

A Di Iorio (appointed 28 March 2000)

J Fadden (appointed 28 March 2000)

G Stanley (resigned 28 March 2000)

J Wieland (resigned 28 March 2000)

M Woolf (resigned 28 March 2000)

None of the directors had a disclosable interest in the shares of the company, its holding company, or fellow subsidiaries.

DIRECTORS' REPORT

AUDITORS

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

Ernst & Young has stated that, during 2001, it is intending to transfer its business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be called Ernst & Young LLP. If this happens, it is the current intention of the Directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

By order of the board



P Hare
Secretary

28 March 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

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

REPORT OF THE AUDITORS to the members of PaineWebber International (U.K.) Ltd.

We have audited the financial statements on pages 6 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

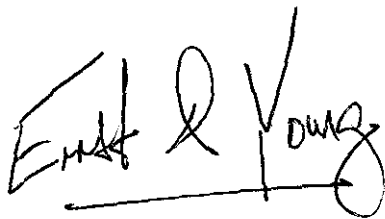
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Ernst & Young', with a horizontal line underneath.

Ernst & Young
Registered Auditor
London

28 March 2001

PaineWebber International (U.K.) Ltd.

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2000

	Notes	2000 \$000	1999 \$000
OPERATING INCOME	2	145,238	194,725
Administrative expenses		(119,707)	(109,829)
OPERATING PROFIT		25,531	84,896
Interest receivable	3	6,002	1,905
Interest payable	3	(2,180)	(1,842)
Exceptional item	4	(32,695)	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(3,342)	84,959
Taxation on (loss)/profit on ordinary activities	7	(7,350)	(26,146)
RETAINED (LOSS)/PROFIT FOR THE YEAR	16	(10,692)	58,813

The loss on ordinary activities arose wholly from discontinued operations.

A statement of total recognised gains and losses has not been provided as there were no recognised gains or losses other than the loss for the year.

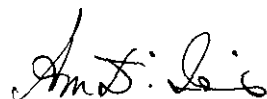
PaineWebber International (U.K.) Ltd.

BALANCE SHEET

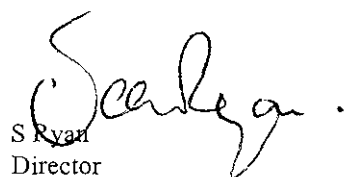
at 31 December 2000

	Notes	2000 \$000	1999 \$000
FIXED ASSETS			
Tangible assets	8	11,810	8,668
Investments	9	797	1,811
		<u>12,607</u>	<u>10,479</u>
CURRENT ASSETS			
Securities inventory		6,257	1,012,771
Debtors	10	962,071	5,031,727
Cash at bank and in hand	13	297,890	33,650
		<u>1,266,218</u>	<u>6,078,148</u>
CREDITORS: amounts falling due within one year	11	(993,112)	(5,755,786)
		<u>273,106</u>	<u>322,362</u>
NET CURRENT ASSETS			
		<u>285,713</u>	<u>332,841</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
CREDITORS: amounts falling due after more than one year	12	-	(36,000)
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	14	-	(436)
		<u>285,713</u>	<u>296,405</u>
CAPITAL AND RESERVES			
Called up share capital	15	1,410	1,410
Share premium account	16	121,526	121,526
Profit and loss account	16	162,777	173,469
		<u>285,713</u>	<u>296,405</u>

The financial statements were approved by the board on 28 March 2001 and signed on its behalf by:



A M Di Iorio
Director



S Ryan
Director

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2000

1. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the inclusion of trading positions at market value. The financial statements are prepared in accordance with applicable accounting standards. All assets are recorded at recoverable value and all costs to closure have been accrued.

Preparation of financial statements in US dollars

It is considered that a fairer reflection of the company's activities is given by presenting the financial statements in US dollars since the majority of the company's transactions are denominated in this currency.

Securities inventory

Securities inventory consists of equities, bonds and warrants and is valued at market prices ruling at the balance sheet date. Warrants issued, options written and short securities positions are included within creditors.

Income recognition

Income from securities transactions is accounted for on a trade date basis.

Underwriting commissions, corporate finance, management and syndication fees are credited to income on the completion of the related offerings.

Depreciation

Tangible assets are written off over their estimated useful lives on a straight line basis. Office equipment comprises computer equipment and fixtures and fittings. The estimated useful lives of these assets are as follows:

Computer equipment	-	3-7 years
Fixtures and fittings	-	5-10 years
Leasehold improvements	-	over the lease term

With effect from 3 November 2000 the rates of depreciation were amended to reflect those of the UBS group as follows:

- all fixed assets with a cost of less than 20,000 CHF or its equivalent are fully written down during the month of purchase.
- leasehold improvements are depreciated over the shorter of 10 years or the lease term.

Fixed asset investments

Fixed asset investments are stated at the lower of cost and market value.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. All differences are taken to the profit and loss account.

Stock borrowing and lending transactions

Stock borrowing and lending transactions are reflected in debtors and creditors, respectively, only to the extent that collateral given or received is in the form of cash. Details of stock borrowing and lending transactions against non cash collateral are shown in note 18.

Repurchase and resale agreements

In the course of financing its business and as part of its trading activities, the company entered into arrangements which involved the sale of securities with agreements to repurchase and the purchase of securities with resale agreements. Repurchase agreements are recorded as liabilities and the related

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2000

1. ACCOUNTING POLICIES (continued)

securities, where owned by the company, are included in securities inventory at market value. Resale agreements, to the extent that cash collateral has been provided, are recorded as debtors, whilst any securities received under the agreements are excluded from securities inventory.

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that taxation will be payable.

Operating leases

Rentals paid under operating leases are charged on a straight line basis over the term of the lease.

Cash flow statement

A cash flow statement has not been prepared as the company's cash flows are consolidated into the consolidated cash flow statement prepared by PaineWebber UK Holdings.

2. OPERATING INCOME

Operating income has been disclosed instead of turnover as this reflects more accurately the results and nature of the company's activities. This includes trading interest income (2000 - \$87,371,000, 1999 - \$126,796,000) and interest expense (2000 - \$59,839,000, 1999 - \$93,433,000) recorded on a trade date basis, which is an integral part of these activities. Operating income represents the amounts derived from the provision of services which fall within the company's continuing activities and is stated net of value added tax.

The directors consider that the company operates within a single class of business, being securities brokers and dealers. The disclosure of income by geographical regions has been omitted as the directors consider that it would be seriously prejudicial to disclose this information.

3. INTEREST

INTEREST RECEIVABLE

	2000 \$000	1999 \$000
Other	6,002	1,905

INTEREST PAYABLE AND SIMILAR CHARGES

	2000 \$000	1999 \$000
Group undertakings	2,180	1,842

4. EXCEPTIONAL ITEM

This relates to costs incurred as the result of two significant business events during the year.

The company moved its offices to 9 Appold Street in July 2000. The capitalised leasehold improvements and office equipment relating to the previous offices at 1 Finsbury Avenue were written off during the year.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2000

4. EXCEPTIONAL ITEM (continued)

As set out in the Directors' Report, on 3 November 2000 the UBS and PaineWebber groups merged. Following the merger of these two groups, the company incurred costs in relation to the discontinuance of its business, including a further write down of fixed assets, redundancy costs and costs relating to the early termination of contracts.

5. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging:

	2000 \$000	1999 \$000
Auditors' remuneration – audit services	233	315
Depreciation	19,365	3,074
Operating lease rentals – land and buildings	3,826	1,768
– other	249	554
	<u>23,673</u>	<u>5,711</u>

Additional fees of \$417,670 (1999 - \$131,200) were paid to the auditors in respect of non audit services provided during the year.

(b) Directors' remuneration:

Directors' remuneration consists of fees and other emoluments paid to the directors of the company.

	2000 \$000	1999 \$000
Total emoluments	9,740	7,290
Contributions to defined contribution pension schemes	53	91
Compensation for loss of office	136	-
	<u>9,929</u>	<u>7,381</u>

The emoluments and pension contributions of the highest paid director were \$4,324,692 (1999 - \$3,074,720) and \$11,394 (1999 - \$14,646) respectively.

These amounts include payments made directly by PaineWebber Inc., a fellow subsidiary of the ultimate holding company.

6. EMPLOYEES

	2000 No.	1999 No.
Average monthly number of employees	224	250
	<u>\$000</u>	<u>\$000</u>
Wages and salaries	75,396	63,018
Social security costs	7,706	8,417
Other pension costs	1,566	1,818
	<u>84,668</u>	<u>73,253</u>

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2000

6. EMPLOYEES (continued)

The company operates two defined contribution pension schemes, both of which require contributions to be made to separately administered funds. Contributions to these funds are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

7. TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	2000 \$000	1999 \$000
Based on the profit for the year:		
UK Corporation tax at 30% (1999 30.25%)	7,616	25,613
Swiss Tax	170	235
Deferred taxation	(436)	298
	<u>7,350</u>	<u>26,146</u>

8. TANGIBLE FIXED ASSETS

	Leasehold improvements	Office equipment	Construction in progress	Total \$000
Cost:				
At 1 January 2000	5,750	13,573	444	19,767
Additions	39	1,924	20,544	22,507
Transfers	12,095	8,893	(20,988)	-
Disposals	(9,160)	(14,810)	-	(23,970)
	<u>8,724</u>	<u>9,580</u>	<u>-</u>	<u>18,304</u>
At 31 December 2000				
Depreciation:				
At 1 January 2000	2,775	8,324	-	11,099
Provided during the year	6,906	12,459	-	19,365
Disposals	(9,160)	(14,810)	-	(23,970)
	<u>521</u>	<u>5,973</u>	<u>-</u>	<u>6,494</u>
At 31 December 2000				
Net book value				
At 31 December 2000	<u>8,203</u>	<u>3,607</u>	<u>-</u>	<u>11,810</u>
At 1 January 2000	<u>2,975</u>	<u>5,249</u>	<u>444</u>	<u>8,668</u>

All tangible fixed assets held at 31 December 2000 were sold to fellow group companies in the first of quarter 2001.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2000

9. FIXED ASSET INVESTMENTS

	2000 \$000
Valuation:	
At 1 January	1,811
Diminution in value	(1,014)
At 31 December	<u>797</u>

All fixed asset investments were sold to UBS AG London branch in first quarter 2001.

10. DEBTORS

	2000 \$000	1999 \$000
Securities purchased under agreements to resell		
- third parties	18,686	3,071,846
- group undertakings	23,924	357,315
Trade debtors	1,163	640,220
Collateral on stock borrowed from group undertakings	907,045	806,497
Trade receivable from group undertakings	186	43,669
Collateral on stock borrowed from third parties	-	69,798
Prepayments and accrued income	7,375	38,201
Amounts owed by group undertakings	1,567	3,301
Other debtors	2,125	880
	<u>962,071</u>	<u>5,031,727</u>

11. CREDITORS: amounts falling due within one year

	2000 \$000	1999 \$000
Securities sold under agreements to repurchase		
- third parties	2	3,760,437
- group undertakings	-	2
Securities sold not yet purchased	6,257	823,287
Trade creditors	1,468	139,945
Collateral on stock lent to third parties	902,941	469,066
Bank loans and overdrafts	2,084	138,043
Amounts owed to group undertakings	39,328	121,051
Collateral on stock lent to group undertakings	68	199,452
Accruals and other creditors	33,220	82,423
UK corporation tax	3,856	18,174
Other taxes and social security costs	3,888	3,906
	<u>993,112</u>	<u>5,755,786</u>

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2000

12. CREDITORS: amounts falling due after more than one year

	2000 \$000	1999 \$000
Subordinated loan from Paine Webber Group Inc.	-	30,000
Subordinated loan from PaineWebber International Futures Limited	-	6,000
	-	36,000

The subordinated loans were due to be repaid on 31 December 2002. Early repayment of \$30,000,000 subordinated debt was made to Paine Webber Group Inc. during the year with the approval of The Securities and Futures Authorities Limited. In addition \$6,000,000 of subordinated debt was transferred to ordinary debt under a deed of variation to the subordinated loan agreement.

13. CASH AT BANK AND IN HAND

The cash balance includes \$252,427,015 (1999 - \$Nil) on deposit at market rates with the ultimate holding company.

14. DEFERRED TAXATION

Full provision has been made for deferred taxation. The movement for the year was:

	2000 \$000	1999 \$000
At 1 January	436	138
(Credit)/charge for the year (note 7)	(436)	298
At 31 December	-	436

15. CALLED-UP SHARE CAPITAL

	2000 000s	1999 000s
Authorised:		
Ordinary shares of \$1 each	1,500	1,500
	\$000	\$000
Allotted, called up and fully paid:		
Ordinary shares of \$1 each	1,410	1,410

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2000

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital \$000</i>	<i>Share premium account \$000</i>	<i>Profit and loss account \$000</i>	<i>Total \$000</i>
At 1 January 1999	1,410	121,526	114,656	237,592
Profit for the year	-	-	58,813	58,813
At 1 January 2000	1,410	121,526	173,469	296,405
Loss for the year	-	-	(10,692)	(10,692)
At 31 December 2000	1,410	121,526	162,777	285,713

17. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption given in FRS8 to subsidiaries from disclosing related party transactions with other group companies.

18. COMMITMENTS AND CONTINGENT LIABILITIES

The company borrows and lends securities against non-cash collateral (as well as cash collateral) in the form of stocks, bonds and standby letters of credit. These non-cash collateral amounts are excluded from the balance sheet in accordance with general industry practice. The market value of non-cash collateral in use at 31 December was:

	<i>2000 \$000</i>	<i>1999 \$000</i>
Received in respect of securities lent	270,702	514,455
Given in respect of securities borrowed	268,222	1,242,222

The company uses forward foreign exchange contracts to hedge known and anticipated future costs. At 31 December 2000 the unrecognised loss on these contracts was \$82,393 (1999 – gain \$20,490).

19. OBLIGATIONS UNDER LEASES

The annual commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings 2000 \$000</i>	<i>Other 2000 \$000</i>	<i>Land and buildings 1999 \$000</i>	<i>Other 1999 \$000</i>
Operating leases which expire:				
Within one year	185	22	298	85
In the second to fifth years inclusive	200	188	134	469
Over five years	3,465	39	1,492	-
	3,850	249	1,924	554

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2000

19. **OBLIGATIONS UNDER LEASES** (continued)

During the year, the company entered into new operating lease contracts for business premises. In the first quarter of 2001, it sold these new leases to fellow group companies. The existing operating lease was assigned to a fellow group company in the fourth quarter of 2000.

20. **ULTIMATE HOLDING COMPANY**

PaineWebber UK Holdings, a company registered in England and Wales, is the parent undertaking of the smallest group for which group accounts are prepared. Copies of these group accounts can be obtained from 9 Appold Street, London, EC2A 2HL.

UBS AG, a company incorporated in Switzerland, is the ultimate holding company and is the parent undertaking of the largest group for which group accounts are prepared. Copies of these group accounts can be obtained from UBS AG, 100 Liverpool Street, London EC2M 2RH.