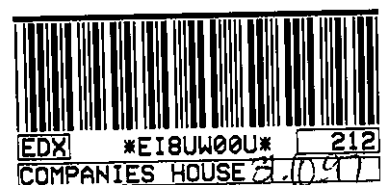


**PaineWebber**  
**International (U.K.) Ltd**  
Report and Financial Statements

31 December 1996



# PaineWebber International (U.K.) Ltd

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Registered No: 2418504

## **DIRECTORS**

I D Myers (Chairman)  
B Barefoot  
D Francese  
B B Havill  
G A Larramendi  
S B Phillips  
G Stanley  
J A Wieland  
M Woolf

## **SECRETARY**

J G Rose

## **AUDITORS**

Ernst & Young  
Rolls House  
7 Rolls Buildings  
Fetter Lane  
London EC4A 1NH

## **REGISTERED OFFICE**

1 Finsbury Avenue  
London EC2M 2PA

## DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 1996.

### REVIEW OF THE BUSINESS

The company's profit for the year after taxation amounted to \$26,574,000 (1995 - \$28,162,000). The company paid a dividend of \$20,000,000 (1995 - \$25,000,000) during the year. No further dividend is proposed.

The company is a member of The Securities and Futures Authority Limited. Its principal activity is engaging in financial services both on its own account and on behalf of its clients.

### 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:

I D Myers (Chairman)  
B Barefoot  
D Francese (appointed 7 July 1996)  
B B Havill  
G A Larramendi  
S B Phillips  
G Stanley  
W Watt (resigned 19 August 1997)  
J A Wieland  
M Woolf

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

### STATEMENT OF DIRECTORS' REPOSIBILITIES 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.

DIRECTORS' REPORT

**AUDITORS**

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

By order of the board



Secretary

30 OCT 1997

## **REPORT OF THE AUDITORS**

to the members of PaineWebber International (U.K.) Ltd

We have audited the financial statements on pages 5 to 14, which have been prepared under the historical cost convention and on the basis of the accounting policies set out in note 1.

### **Respective responsibilities of directors and auditors**

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

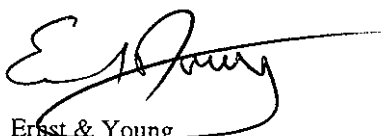
### **Basis of opinion**

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 1996 and of its profit 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 'E. Young', written over the printed name 'Ernst & Young'.

Ernst & Young  
Chartered Accountants  
Registered Auditor  
London

30 OCT 1997

PaineWebber International (U.K.) Ltd

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 1996

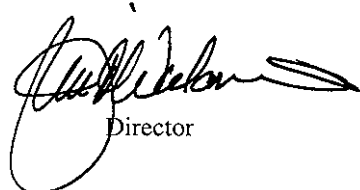
	<i>Notes</i>	<i>1996</i> <i>\$000</i>	<i>1995</i> <i>\$000</i>
<b>OPERATING INCOME</b>	2	119,475	122,899
Administrative expenses		(77,069)	(71,533)
<b>OPERATING PROFIT</b>		42,406	51,366
Interest receivable	3	444	587
Interest payable	4	(1,938)	(9,530)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	40,912	42,423
Taxation on profit on ordinary activities	7	(14,338)	(14,261)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	15	26,574	28,162
Dividends		20,000	25,000
<b>RETAINED PROFIT FOR THE YEAR</b>		6,574	3,162

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

# PaineWebber International (U.K.) Ltd

## BALANCE SHEET at 31 December 1996

	Notes	1996 \$000	1995 \$000
<b>FIXED ASSETS</b>			
Tangible assets	8	11,136	11,766
Investments	9	731	223
		<u>11,867</u>	<u>11,989</u>
<b>CURRENT ASSETS</b>			
Securities inventory		1,842,085	1,293,428
Debtors	10	10,266,208	6,981,301
Cash at bank and in hand		62,227	19,938
		<u>12,170,520</u>	<u>8,294,667</u>
<b>CREDITORS: amounts falling due within one year</b>	11	(11,975,405)	(8,070,210)
		<u>195,115</u>	<u>224,457</u>
<b>NET CURRENT ASSETS</b>			
		<u>206,982</u>	<u>236,446</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>CREDITORS: amounts falling due after more one year</b>	12	—	(36,000)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>			
Deferred taxation	13	(631)	(669)
		<u>206,351</u>	<u>199,777</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	1,410	1,410
Share premium account	15	121,526	121,526
Profit and loss account	15	83,415	76,841
		<u>206,351</u>	<u>199,777</u>

  
Director

30 OCT 1997

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 1996

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.

*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 securities, warrants, options and futures and are 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

*Fixed asset investments*

Fixed asset investments consist of market memberships and 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 17.

*Repurchase and resale agreements*

In the course of financing its business and as part of its trading activities, the company enters into arrangements which involve 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 securities, where owned by the company, are included in stock of marketable securities at market value. Resale agreements are recorded as debtors.



# PaineWebber International (U.K.) Ltd

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 1996

### 1. ACCOUNTING POLICIES (continued)

#### *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.

#### *Restatement of comparisons*

In these financial statements, trading interest has been reclassified from interest received and interest paid to operating income, as this represents more fairly the results of the company. The comparatives have been restated accordingly.

### 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, including trading interest income and expense recorded on a trade date basis. 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. The disclosure of income by geographical regions has been omitted as the directors consider that it would be seriously prejudicial to disclose this information.

Turnover includes trading interest income and expense as follows:

	1996 \$000	1995 \$000
Trading interest income:		
Group undertakings	48,446	92,104
Bank deposits and long positions	73,189	65,455
	<u>121,635</u>	<u>157,559</u>
Trading interest expense:		
Group undertakings	21,989	10,683
Loans, overdrafts and short positions	67,760	88,323
	<u>89,749</u>	<u>99,006</u>

Interests on loans, overdrafts and short positions exclude interest on subordinated debt (see note 4).

# PaineWebber International (U.K.) Ltd

## NOTES TO THE FINANCIAL STATEMENTS at 31 December 1996

### 3. INTEREST RECEIVABLE

	1996 \$000	1995 \$000
Other	444	587

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	1996 \$000	1995 \$000
Group undertakings	1,938	9,530

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging:

	1996 \$000	1995 \$000
Directors' emoluments	4,660	2,849
Auditors' remuneration	267	244
Depreciation	2,691	1,440
Operating lease rentals - land and buildings	1,885	2,179
- other	136	81
Pension costs	1,485	1,144

Additional fees of \$111,526 were paid to the auditors during the year in respect of non audit services (1995 - \$88,000).

(b) Directors' remuneration:

Directors' remuneration consists of fees and other emoluments paid to the directors of the company in respect of their duties in the management of the company.

	1996 \$000	1995 \$000
Directors' remuneration comprises:		
Other emoluments (including pension contributions)	4,660	2,849

The emoluments of the chairman, excluding pension contributions, were £221,300 (1995 - £165,332).

The emoluments of the highest paid director were £785,179 (1995 - £555,931).

NOTES TO THE FINANCIAL STATEMENTS  
at 31 December 1996

5. **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** (continued)

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	1996 No.	1995 No.
£nil - £5,000	3	3
£95,001 - £100,000	-	1
£130,001 - £135,000	1	-
£150,001 - £155,000	-	1
£165,001 - £170,000	-	1
£220,001 - £225,000	1	-
£260,001 - £265,000	1	-
£345,001 - £350,000	1	-
£365,001 - £370,000	-	1
£435,001 - £440,000	-	1
£545,001 - £550,000	1	-
£555,001 - £560,000	-	1
£785,001 - £790,000	1	-

6. **EMPLOYEES**

	1996 No.	1995 No.
Average monthly number of employees	227	218
	\$000	\$000
Wages and salaries	44,962	37,761
Social security costs	2,872	2,565
Other pension costs	1,485	1,144
	<u>49,319</u>	<u>41,470</u>

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 PROFIT ON ORDINARY ACTIVITIES**

The taxation charge is made up as follows:

	1996 \$000	1995 \$000
Based on the profit for the year:		
Corporation tax at 33% (1995 - 33%)	14,376	13,782
Deferred taxation	(38)	479
	<u>14,338</u>	<u>14,261</u>

# PaineWebber International (U.K.) Ltd

## NOTES TO THE FINANCIAL STATEMENTS at 31 December 1996

### 8. TANGIBLE FIXED ASSETS

	<i>Office equipment \$000</i>
Cost:	
At 1 January 1996	17,414
Additions	2,100
Disposals	(61)
At 31 December 1996	<u>19,453</u>
Depreciation:	
At 1 January 1996	5,648
Provided during the year	2,691
Disposals	(22)
At 31 December 1996	<u>8,317</u>
Net book value:	
At 31 December 1996	<u>11,136</u>
At 1 January 1996	<u>11,766</u>

### 9. FIXED ASSET INVESTMENTS

	<i>1996 \$000</i>
Valuation:	
At 1 January	223
Additions	508
At 31 December	<u>731</u>

### 10. DEBTORS

	<i>1996 \$000</i>	<i>1995 \$000</i>
Securities purchased under agreements to resell		
-third parties	8,344,032	5,905,661
-group undertakings	285,617	293,082
Trade debtors	701,565	284,178
Collateral on stock borrowed from group undertakings	466,202	181,465
Trade receivables from group undertakings	186,251	273,887
Collateral on stock borrowed from third parties	162,480	10,201
Prepayments and accrued income	113,735	28,444
Group undertakings	5,494	2,866
Other debtors	832	1,517
	<u>10,266,208</u>	<u>6,981,301</u>

# PaineWebber International (U.K.) Ltd

## NOTES TO THE FINANCIAL STATEMENTS at 31 December 1996

### 11. CREDITORS: amounts falling due within one year

	1996 \$000	1995 \$000
Securities sold under agreements to repurchase		
-third parties	8,992,066	5,809,058
-group undertakings	5,066	1,012
Securities sold not yet purchased	816,257	818,994
Trade creditors	795,379	266,775
Collateral on stock lent to third parties	567,200	610,707
Bank loans and overdrafts	299,298	179,530
Group undertakings	252,517	312,345
Collateral on stock lent to group undertakings	120,975	3,068
Accruals and other creditors	72,776	52,643
Subordinated loan from Paine Webber Group Inc.	30,000	-
UK corporation tax	15,282	13,185
Subordinated loan form Paine Webber International Futures Ltd	6,000	-
Other taxes and social security costs	2,589	2,893
	<u>11,975,405</u>	<u>8,070,210</u>

The subordinate loans are due to be repaid on 31 December 1997. Early repayment can be made at the discretion of the company and subject to the approval of The Securities and Futures Authorities Limited.

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

	1996 \$000	1995 \$000
Subordinated loan from PaineWebber Group Inc.	-	30,000
Subordinated loan from PaineWebber International Futures Ltd	-	6,000
	<u>-</u>	<u>36,000</u>

### 13. DEFERRED TAXATION

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

	1996 \$000
As of 31 December 1995	669
Capital allowances in advance of depreciation	(38)
As of 31 December 1996	<u>631</u>

# PaineWebber International (U.K.) Ltd

## NOTES TO THE FINANCIAL STATEMENTS at 31 December 1996

### 14. CALLED-UP SHARE CAPITAL

	1996 000s	1995 000s
Authorised:		
Ordinary shares of \$1 each	1,500	1,500
	<u>\$000</u>	<u>\$000</u>
Allotted, called up and fully paid:		
Ordinary shares of \$1 each	1,410	1,410
	<u>\$000</u>	<u>\$000</u>

### 15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital \$000	Share premium account \$000	Profit and loss account \$000	Total \$000
At 1 January 1995	1,400	96,096	73,679	171,175
Profit for the year			28,162	28,162
Dividend paid			(25,000)	(25,000)
Shares issued	10	25,430		25,440
At 1 January 1996	1,410	121,526	76,841	199,777
Profit for the year	-	-	26,574	26,574
Dividend paid	-	-	(20,000)	(20,000)
At 31 December 1996	1,410	121,526	83,415	206,351

### 16. 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.

### 17. CONTINGENT LIABILITIES

The company borrows and lends stock against non-cash collateral, as well as cash collateral, in the form of other stocks, bonds and standby letters of credit. These 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:

	1996 \$000	1995 \$000
Received in respect of stock lent	207,779	67,621
Given in respect of stock borrowed	210,395	440,510

NOTES TO THE FINANCIAL STATEMENTS  
at 31 December 1996

**18. OBLIGATIONS UNDER LEASES**

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

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>1996</i>	<i>1996</i>	<i>1995</i>	<i>1995</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Operating leases which expire:				
Within one year	–	40	140	–
In the second to fifth years inclusive	378	89	395	81
Over five years	1,432	–	1,437	–
	<u>1,810</u>	<u>129</u>	<u>1,972</u>	<u>81</u>

**19. 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 1 Finsbury Avenue, London, EC2M 2PA.

Paine Webber Group Inc., which is incorporated in the State of Delaware, USA, 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 1285 Avenue of the Americas, New York City, USA.