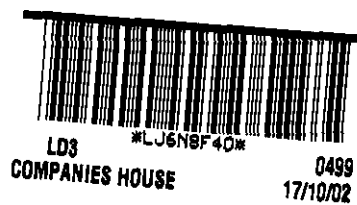


PAINWEBBER INTERNATIONAL (U.K.) LTD.

Company No. 2418504

Directors' Report and Accounts

31st December 2001



PaineWebber International (U.K.) Ltd.

Directors' Report and Accounts

For the year ended 31 December 2001

PaineWebber International (U.K.) Ltd.

Registered No. 2418504

DIRECTORS

D Francese
I Myers
J Britton (Chairman)
S Ryan
P Price
M Kerrison
R Chersi
S James

SECRETARY

P Hare

AUDITORS

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

REGISTERED OFFICE

1 Finsbury Avenue
London EC2M 2PP

DIRECTORS REPORT

The directors present their report and the financial statements for the period ended 31 December 2001.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The company acted as an investment company during the year. The company is regulated by the Financial Services Authority.

RESULTS AND DIVIDENDS

The results for the period are set out in the profit and loss account on page 5.

The directors consider the state of the company's affairs to be satisfactory.

The company did not pay a dividend during the year (2000 - \$nil), and no dividend is proposed.

FUTURE DEVELOPMENTS

The directors are evaluating certain potential future activities of the company.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the period were as follows:

A Di Iorio	(Resigned – 30 March 2001)
J Fadden	(Resigned – 4 September 2001)
D Francese	
I Myers	
G Larramendi	(Resigned – 26 January 2001)
J Britton (Chairman)	(Appointed - 26 January 2001)
S Ryan	(Appointed - 26 January 2001)
P Price	(Appointed - 27 April 2001)
M Kerrison	(Appointed - 16 August 2001)
R Chersi	(Appointed - 4 September 2001)
S James	(Appointed - 4 September 2001)

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

STATEMENT OF DIRECTORS RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period 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.

DIRECTORS REPORT

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.

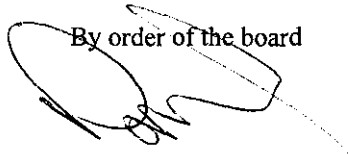
AUDITORS

On 28 June 2001, Ernst & Young, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. By resolution of the company dated 6 August 2001, the company consented to treat the appointment of Ernst & Young as auditors as extending to Ernst & Young LLP with effect from 28 June 2001.

Ernst & Young LLP will remain as auditors of the company in accordance with the provisions of Section 386 of the Companies Act.

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the members at the Annual General Meeting.

By order of the board



P Hare
Secretary

26 March 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAINWEBBER INTERNATIONAL (U.K.) LIMITED

We have audited the company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, Balance Sheet, and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

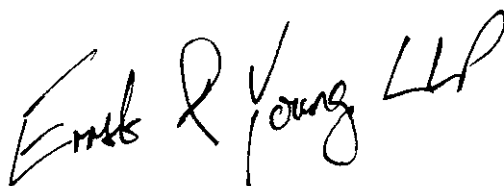
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 affairs of the company as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

26 March 2002

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is stylized, with the first letters of each word being prominent and the rest of the words being more fluidly connected.

PaineWebber International (U.K.) Ltd.

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

	<i>Notes</i>	<i>2001</i> <i>\$000</i>	<i>2000</i> <i>\$000</i>
OPERATING INCOME	2	-	145,238
Administrative expenses		-	(119,707)
OPERATING (LOSS)/PROFIT		-	25,531
Profit on sale of investments		535	-
Other Income		44	-
Foreign exchange gain	2	256	-
Interest receivable	3	13,308	6,002
Interest payable	3	(106)	(2,180)
Exceptional item		-	(32,695)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	4	14,037	(3,342)
Taxation on profit/(loss) on ordinary activities	6	(4,271)	(7,350)
RETAINED PROFIT/(LOSS) FOR THE YEAR	14	9,766	(10,692)

All operating profit relates to discontinued activities.

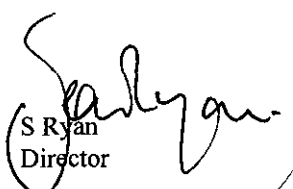
There were no gains or losses for 2001 or 2000 other than those included in the profit and loss account.

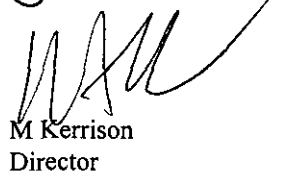
PaineWebber International (U.K.) Ltd.

BALANCE SHEET
at 31 December 2001

	Notes	2001 \$000	2000 \$000
FIXED ASSETS			
Tangible assets	7	-	11,810
Investments	8	142	797
		<u>142</u>	<u>12,607</u>
CURRENT ASSETS			
Securities inventory		-	6,257
Debtors	9	11,725	962,071
Cash at bank and in hand	11	312,712	297,890
		<u>324,437</u>	<u>1,266,218</u>
CREDITORS: amounts falling due within one year	10	(29,100)	(993,112)
		<u>295,337</u>	<u>273,106</u>
NET CURRENT ASSETS			
		<u>295,479</u>	<u>285,713</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>295,479</u>	<u>285,713</u>
CAPITAL AND RESERVES			
Called up share capital	13	1,410	1,410
Share premium account	14	121,526	121,526
Profit and loss account	14	172,543	162,777
		<u>295,479</u>	<u>285,713</u>
Shareholders' funds		<u>295,479</u>	<u>285,713</u>

The financial statements were approved by the board on 26 March 2002 and signed on its behalf by:


S Ryan
Director


M Kerrison
Director

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2001

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 consisted of equities, bonds and warrants and was valued at market prices ruling at the balance sheet date. Warrants issued, options written and short securities positions were included within creditors.

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 were reflected in debtors and creditors, respectively, only to the extent that collateral given or received was in the form of cash. Details of stock borrowing and lending transactions against non cash collateral was shown in note 16.

Repurchase and resale agreements

In the course of financing its business and as part of its former 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 were recorded as liabilities and the related securities, where owned by the company, were included in securities inventory at market value. Resale agreements, to the extent that cash collateral has been provided, were recorded as debtors, whilst any securities received under the agreements were excluded from securities inventory.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2001

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.

2. OPERATING INCOME

Operating income is disclosed instead of turnover as this reflects more accurately the results and nature of the company's activities. This includes trading income (2001 - \$nil, 2000 - \$87,371,000) and interest expense (2001 - \$nil, 2000 - \$59,839,000) 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.

Foreign exchange losses in the prior year of \$1,663,000 were included in administrative expenses as they related to the operations of the business. As the trading activities have ceased, foreign exchange gains in the current year of \$256,000 have been separately identified in the profit and loss account.

3. INTEREST

INTEREST RECEIVABLE

	<i>2001</i> <i>\$000</i>	<i>2000</i> <i>\$000</i>
Other	13,308	6,002
	<u> </u>	<u> </u>

INTEREST PAYABLE AND SIMILAR CHARGES

	<i>2001</i> <i>\$000</i>	<i>2000</i> <i>\$000</i>
Group undertakings	99	2,180
Other	7	-
	<u> </u>	<u> </u>
	106	2,180
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2001

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

(a) This is stated after charging:

	2001 \$000	2000 \$000
Auditors' remuneration -- audit services	-	233
Depreciation	-	19,365
Operating lease rentals -- land and buildings	-	3,826
-- other	-	249
	<u>-</u>	<u>20,473</u>

Additional fees of \$nil (2000 - \$417,670) were paid to the auditors in respect of non audit services provided during the year. Current year audit fees were borne by another group undertaking.

(b) Directors' remuneration:

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

	2001 \$000	2000 \$000
Total emoluments	-	9,740
Contributions to defined contribution pension schemes	-	53
Compensation for loss of office	-	136
	<u>-</u>	<u>9,929</u>

5. EMPLOYEES

	2001 No.	2000 No.
Average monthly number of employees	-	224
	<u>\$000</u>	<u>\$000</u>
Wages and salaries	-	75,396
Social security costs	-	7,706
Other pension costs	-	1,566
	<u>-</u>	<u>84,668</u>

The company operates two defined contribution pension schemes, both of which require contributions to be made to separately administered funds. No further contributions were made during the year.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2001

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

The taxation charge is made up as follows:

	2001 \$000	2000 \$000
Based on the profit for the year:		
UK Corporation tax at 30%	4,271	7,616
Swiss Tax	-	170
Deferred taxation	-	(436)
	<u>4,271</u>	<u>7,350</u>

7. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i>	<i>Office equipment</i>	<i>Total \$000</i>
Cost: or Valuation			
At 1 January 2001	8,724	9,580	18,304
Additions	-	-	-
Transfers	-	-	-
Disposals	(8,724)	(9,580)	(18,304)
	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2001	-	-	-
Depreciation:			
At 1 January 2001	521	5,973	6,494
Provided during the year	-	-	-
Disposals	(521)	(5,973)	(6,494)
	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2001	-	-	-
Net book value			
At 31 December 2001	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2000	<u>8,203</u>	<u>3,607</u>	<u>11,810</u>

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

8. FIXED ASSET INVESTMENTS

	2001 \$000
Valuation:	
At 1 January 2001	797
Disposal of investments	(655)
	<u>142</u>
At 31 December 2001	<u>142</u>

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2001

9. DEBTORS

	2001 \$000	2000 \$000
Securities purchased under agreements to resell		
- third parties	-	18,686
- group undertakings	-	23,924
Trade debtors	-	1,163
Collateral on stock borrowed from group undertakings	-	907,045
Trade receivable from group undertakings	-	186
Prepayments and accrued income	326	7,375
Amounts owed by group undertakings	11,088	1,567
Other debtors	311	2,125
	<u>11,725</u>	<u>962,071</u>

10. CREDITORS: amounts falling due within one year

	2001 \$000	2000 \$000
Securities sold under agreements to repurchase		
- third parties	-	2
Securities sold not yet purchased	-	6,257
Trade creditors	-	1,468
Collateral on stock lent to third parties	-	902,941
Bank loans and overdrafts	-	2,084
Amounts owed to group undertakings	15,961	39,328
Collateral on stock lent to group undertakings	-	68
Accruals and other creditors	-	33,220
UK corporation tax	6,645	3,856
Other taxes and social security costs	479	3,888
Other creditors	6,015	-
	<u>29,100</u>	<u>993,112</u>

11. CASH AT BANK AND IN HAND

The cash balance includes \$262,679,702 (2000 - \$252,427,015) on deposit at market rates with a group undertaking.

12. DEFERRED TAXATION

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

	2001 \$000	2000 \$000
At 1 January	-	436
Charge/(credit) for the year (note 6)	-	(436)
	<u>-</u>	<u>-</u>
At 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2001

13. CALLED-UP SHARE CAPITAL

	2001 \$000	2000 \$000
Authorised:		
Ordinary shares of \$1 each	1,500	1,500
	<u> </u>	<u> </u>
	\$000	\$000
Allotted, called up and fully paid:		
Ordinary shares of \$1 each	1,410	1,410
	<u> </u>	<u> </u>

14. 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 2001	1,410	121,526	162,777	285,713
Profit for the year	-	-	9,766	9,766
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001	1,410	121,526	172,543	295,479
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15. 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.

16. COMMITMENTS AND CONTINGENT LIABILITIES

The company borrowed and lent 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 were excluded from the balance sheet in accordance with general industry practice. The market value of non-cash collateral in use at 31 December was:

	2001 \$000	2000 \$000
Received in respect of securities lent	-	270,702
	<u> </u>	<u> </u>
Given in respect of securities borrowed	-	268,222
	<u> </u>	<u> </u>

The company used forward foreign exchange contracts to hedge known and anticipated future costs. At 31 December 2001 the unrecognised loss on these contracts was \$nil (2000 – loss \$82,393).

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2001

17. 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>2001</i>	<i>2001</i>	<i>2000</i>	<i>2000</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Operating leases which expire:				
Within one year	-	-	185	22
In the second to fifth years inclusive	-	-	200	188
Over five years	-	-	3,465	39
	<u>-</u>	<u>-</u>	<u>3,850</u>	<u>249</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The company has disposed of all operating leases.

18. ULTIMATE PARENT HOLDING COMPANY

The Company is a wholly owned subsidiary of PaineWebber UK Holdings, a company registered in England, whose ultimate parent company is UBS AG, a company incorporated in Switzerland.

Copies of these group accounts can be obtained from UBS AG, 100 Liverpool Street, London EC2M 2RH.