

PaineWebber International (U.K.) Ltd

Report and Financial Statements

31 December 1997



PaineWebber International (U.K.) Ltd

Registered No: 2418504

DIRECTORS

I D Myers (Chairman)
B Barefoot
D Francese
G A Larramendi
M O'Hanlon
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 1997.

REVIEW OF THE BUSINESS

The company's profit for the year after taxation amounted to \$17,479,000 (1996 - \$26,574,000). The company paid a dividend of \$15,000,000 (1996 - \$20,000,000) 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.

The company operates two branches in Switzerland.

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
B B Havill (resigned 13 March 1998)
G A Larramendi
M O'Hanlon (appointed 19 August 1997)
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' 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.

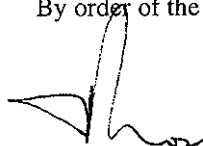
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

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



J G Rose
Secretary

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.

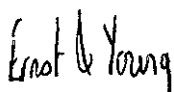
Basis of opinion

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 1997 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 dark ink, appearing to read 'Ernst & Young'.

Ernst & Young
Chartered Accountants
Registered Auditor
London

27 March 1998

PaineWebber International (U.K.) Ltd

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1997

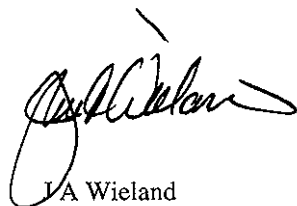
	<i>Notes</i>	<i>1997 \$000</i>	<i>1996 \$000</i>
OPERATING INCOME	2	113,242	119,475
Administrative expenses		(86,704)	(77,069)
OPERATING PROFIT		26,538	42,406
Interest receivable	3	659	444
Interest payable	4	(1,901)	(1,938)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	25,296	40,912
Taxation on profit on ordinary activities	7	(7,817)	(14,338)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	15	17,479	26,574
Dividends		15,000	20,000
RETAINED PROFIT FOR THE YEAR		2,479	6,574

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 1997

	Notes	1997 \$000	1996 \$000
FIXED ASSETS			
Tangible assets	8	10,271	11,136
Investments	9	797	731
		<u>11,068</u>	<u>11,867</u>
CURRENT ASSETS			
Securities inventory		2,130,564	1,842,085
Debtors	10	7,359,607	10,266,208
Cash at bank and in hand		32,213	62,227
		<u>9,522,384</u>	<u>12,170,520</u>
CREDITORS: amounts falling due within one year	11	<u>(9,288,070)</u>	<u>(11,975,405)</u>
NET CURRENT ASSETS		<u>234,314</u>	<u>195,115</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>245,382</u>	<u>206,982</u>
CREDITORS: amounts falling due after more one year	12	(36,000)	—
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	13	(552)	(631)
		<u>208,830</u>	<u>206,351</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,410	1,410
Share premium account	15	121,526	121,526
Profit and loss account	15	85,894	83,415
		<u>208,830</u>	<u>206,351</u>



J.A. Wieland

Director

27 MAR 1998

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 1997

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.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 1997

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.

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:

	1997 \$000	1996 \$000
Trading interest income:		
Group undertakings	45,944	48,446
Bank deposits and long positions	74,048	73,189
	<u>119,992</u>	<u>121,635</u>
Trading interest expense:		
Group undertakings	33,153	21,989
Loans, overdrafts and short positions	53,956	67,760
	<u>87,109</u>	<u>89,749</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 1997

3. INTEREST RECEIVABLE

	1997 \$000	1996 \$000
Other	659	444

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 \$000	1996 \$000
Group undertakings	1,901	1,938

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging:

	1997 \$000	1996 \$000
Directors' emoluments (note (b))	2,414	4,660
Auditors' remuneration	251	267
Depreciation	2,858	2,691
Operating lease rentals - land and buildings	1,812	1,885
- other	112	136
Pension costs	1,542	1,485

Additional fees of \$151,331 were paid to the auditors during the year in respect of non audit services (1996 - \$111,526).

(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.

	1997 \$000	1996 \$000
Total emoluments	2,299	3,175
Contributions to defined contribution pension schemes	115	1,485
	2,414	4,660

The emoluments and pension contributions of the highest paid director were £392,495 (1996 - £785,179) and £5,600 (1996 - £10,000), respectively.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 1997

6. EMPLOYEES

	1997 No.	1996 No.
Average monthly number of employees	238	227
	\$000	\$000
Wages and salaries	50,536	44,962
Social security costs	3,004	2,872
Other pension costs	1,542	1,485
	<u>55,082</u>	<u>49,319</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:

	1997 \$000	1996 \$000
Based on the profit for the year:		
UK Corporation tax at 31.5% (1996 - 33%)	8,145	14,020
Prior year release	(750)	-
Total UK tax	<u>7,395</u>	<u>14,020</u>
Swiss tax	501	356
Deferred taxation	(79)	(38)
	<u>7,817</u>	<u>14,338</u>

PaineWebber International (U.K.) Ltd

NOTES TO THE FINANCIAL STATEMENTS at 31 December 1997

8. TANGIBLE FIXED ASSETS

	<i>Office equipment \$000</i>
Cost:	
At 1 January 1997	19,453
Additions	2,007
Disposals	2,799
At 31 December 1997	18,661
Depreciation:	
At 1 January 1997	8,317
Provided during the year	2,858
Disposals	2,785
At 31 December 1997	8,390
Net book value:	
At 31 December 1997	10,271
At 1 January 1997	11,136

9. FIXED ASSET INVESTMENTS

	<i>1997 \$000</i>
Valuation:	
At 1 January	731
Additions	66
At 31 December	797

10. DEBTORS

	<i>1997 \$000</i>	<i>1996 \$000</i>
Securities purchased under agreements to resell		
-third parties	6,190,713	8,344,032
-group undertakings	374,212	285,617
Trade debtors	449,917	701,565
Collateral on stock borrowed from group undertakings	199,754	466,202
Trade receivables from group undertakings	62,651	186,251
Collateral on stock borrowed from third parties	19,617	162,480
Prepayments and accrued income	55,902	113,735
Group undertakings	4,998	5,494
Other debtors	1,843	832
	7,359,607	10,266,208

PaineWebber International (U.K.) Ltd

NOTES TO THE FINANCIAL STATEMENTS at 31 December 1997

11. CREDITORS: amounts falling due within one year

	1997 \$000	1996 \$000
Securities sold under agreements to repurchase		
-third parties	7,496,443	8,992,066
-group undertakings	14,952	5,066
Securities sold not yet purchased	889,832	816,257
Trade creditors	307,422	795,379
Collateral on stock lent to third parties	151,539	567,200
Bank loans and overdrafts	186,791	299,298
Group undertakings	138,605	252,517
Collateral on stock lent to group undertakings	17,554	120,975
Accruals and other creditors	76,722	72,776
Subordinated loan from Paine Webber Group Inc.	—	30,000
UK corporation tax	5,045	15,282
Subordinated loan from Paine Webber International Futures Ltd	—	6,000
Other taxes and social security costs	3,165	2,589
	<u>9,288,070</u>	<u>11,975,405</u>

12. CREDITORS: amounts falling due after more one year

	1997 \$000	1996 \$000
Subordinated loan from Paine Webber Group Inc.	30,000	—
Subordinated loan from Paine Webber International Futures Ltd	6,000	—
	<u>36,000</u>	<u>—</u>

The subordinated loans are due to be repaid on 31 December 1999. Early repayment can be made at the discretion of the company and subject to the approval of The Securities and Futures Authorities Limited.

13. DEFERRED TAXATION

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

	1997 \$000
As of 31 December 1996	631
Short term timing differences	(79)
As of 31 December 1997	<u>552</u>

PaineWebber International (U.K.) Ltd

NOTES TO THE FINANCIAL STATEMENTS at 31 December 1997

14. CALLED-UP SHARE CAPITAL

	1997 000s	1996 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>1,410</u>	<u>1,410</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 1996	1,410	121,526	76,841	199,777
Profit for the year			26,574	26,574
Dividend paid			(20,000)	(20,000)
At 1 January 1997	1,410	121,526	83,415	206,351
Profit for the year			17,479	17,479
Dividend paid			(15,000)	(15,000)
At 31 December 1997	1,410	121,526	85,894	208,830

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:

	1997 \$000	1996 \$000
Received in respect of stock lent	80,771	207,779
Given in respect of stock borrowed	235,704	210,395

PaineWebber International (U.K.) Ltd

NOTES TO THE FINANCIAL STATEMENTS at 31 December 1997

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>1997</i>	<i>1997</i>	<i>1996</i>	<i>1996</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Operating leases which expire:				
Within one year	–	68	–	40
In the second to fifth years inclusive	404	51	378	89
Over five years	1,520	–	1,432	–
	<u>1,924</u>	<u>119</u>	<u>1,810</u>	<u>129</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.