

Corporate responsibility

- Corporate responsibility is integral to the way UBS does business
- UBS helps clients consider corporate responsibility opportunities and risks, by providing relevant research, advisory services and product offerings
- UBS actively maintains its strong track-record in managing environmental challenges
- The firm seeks to positively influence the well-being of its local communities

UBS's commitment

Active advancement of corporate responsibility:

UBS has participated in the UN Global Compact initiative since its inception and is a long-standing member of the UNEP Finance Initiative, a founding member of the Carbon Disclosure Project and a founding financial partner of the Energy Efficiency Building Retrofit Program (a project of the Clinton Climate Initiative)

Prevention of financial crime: a founding member of the Wolfsberg Group, UBS maintains an effective risk-based approach to anti-money laundering

Established environmental management: ISO 14001 certified for its environmental management system since 1999, UBS set a group-wide CO₂ emission reduction target in 2006, a 40% reduction of 2004 levels by 2012

Respect of human rights: UBS adopted its own statement on human rights in 2006 – a clear indication that the firm recognizes the significance of promoting and respecting human rights in its sphere of influence

Assisting local communities: the firm has established partnerships in the communities where it does business, focusing on the key themes of "Empowerment through education" and "Building a stronger community"

External recognition of corporate responsibility activities: UBS is a component of the Dow Jones Sustainability Indexes, the FTSE4Good Index and the Climate Leadership Index

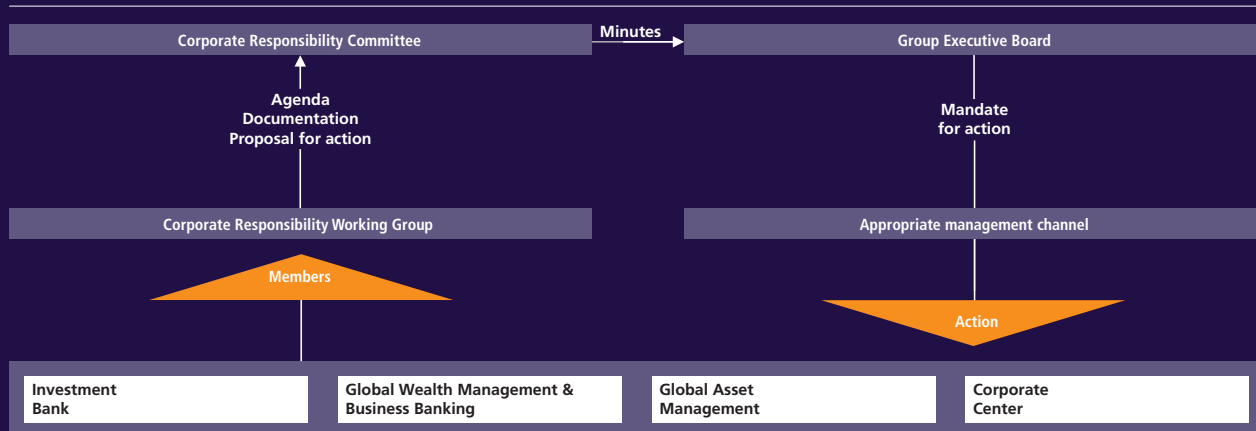
Milestones 2007

- **Socially Responsible Investments (SRI):** SRI invested assets increased by 116% (to CHF 38.9 billion) in 2007. UBS launched new SRI products in Japan and Taiwan and launched strategy certificates for climate change, water and demographics
- **Climate Change:** UBS reduced its own CO₂ emissions by 22% from 2004, provided financial and advisory services to companies in renewable energy sectors, published major research reports on the impacts of climate change on companies and sectors and launched the UBS Global Warming Index and the UBS Greenhouse Index
- **Wolfsberg Group's statement against corruption:** UBS actively participated in the drafting and release of this statement, which clarifies the link between financial institutions and international corruption fighting efforts and outlines ways financial institutions can prevent both corruption and the misuse of their operations in relation to corruption
- **More than CHF 46 million contributed to charitable causes around the globe:** nearly 8,000 employees spent over 80,000 hours in volunteering services

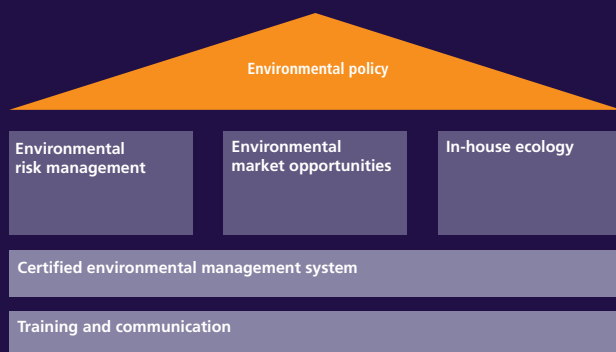
Operational corporate responsibility



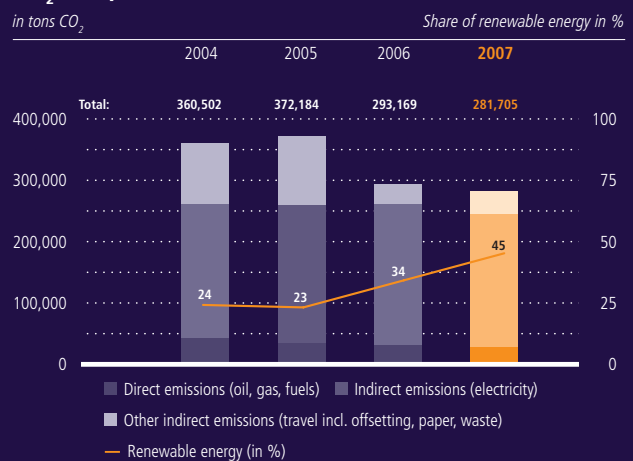
Corporate responsibility structure and process at UBS



Five principles of UBS's environmental policy



CO₂ footprint



Corporate responsibility

As a leading financial services firm, one of UBS's main purposes is to create long-term value. UBS believes this can be best achieved by providing clients with value-added products and services and by promoting a corporate culture that adheres to high ethical standards. The firm also firmly believes that, for any business, long-term value creation is also dependent on what it does above and beyond what laws and regulations require. It is why UBS dedicates itself to creating a working environment based on the values of equal opportunity, diversity and meritocracy.

UBS has adopted measures to protect the environment, is committed to affirmative social standards and contributes to the communities it is a part of. All of the firm's activities are underpinned by its governance structure and are implemented along existing business processes.

→ For more on UBS's workforce, see the "UBS employees" section in this report

→ For more on governance, see *Corporate Governance and Compensation Report 2007*

Adherence to the UN Global Compact initiative

In 2000, UBS was one of the first companies to join the UN Global Compact, which comprises ten principles covering the areas of human rights, labor standards, environment and corruption. Its geographic reach is now global, with over 3,700 business participants from 120 countries adhering to it at the end of 2007. Although it is an important component in any discussion with the public about the role of business in society, it is ultimately aimed at concrete actions. Key among these, from UBS's point of view, is the "Who cares wins" initiative which, initiated by 20 financial institutions in June 2004, maps the progress made by different actors in

integrating environmental, social and governance issues into mainstream investment decisions. UBS has been involved in this initiative since its inception and also participates in other Global Compact-related endeavors, including the Swiss network, which was established in 2006.

Labor standards and human rights

UBS has recognized human rights issues for many years. Indeed, human resource policies addressing employment, diversity, equal opportunity and discrimination, by definition, also tackle human rights issues, as can policies relating to health and safety practices. UBS has well-established human resources policies and practices in these areas and they are regularly reviewed to ensure that labor standards are respected.

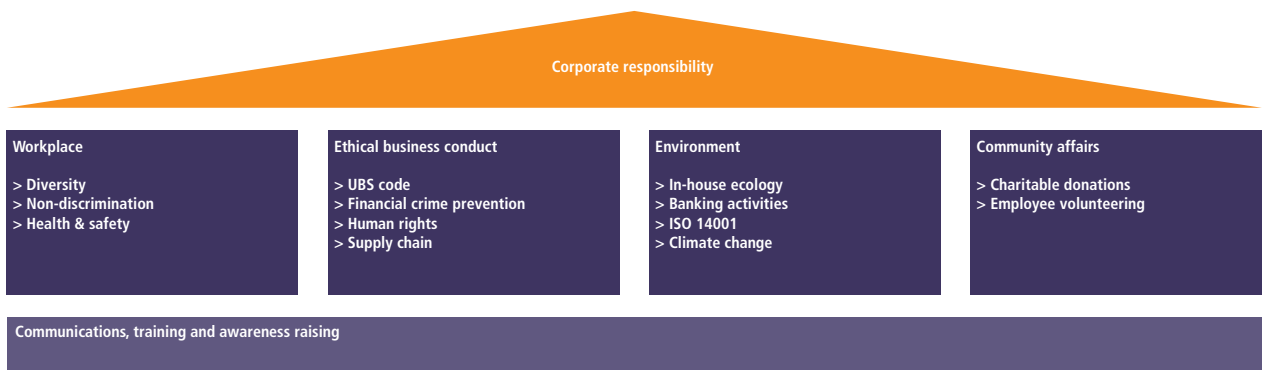
In 2006, UBS adopted a statement supporting basic human rights, signaling to employees, clients and society that the firm recognizes the significance of promoting and respecting human rights in its sphere of influence. The "UBS Statement on Human Rights" both sets out the firm's position and embraces key issues in a single document.

The firm is in the process of implementing initiatives relating to the statement's focus on employees, suppliers and clients. In 2007, it continued to build a diverse UBS workforce through a variety of programs.

→ For more on labor standards and diversity programs, see the "UBS employees" section of this report

Responsible procurement is a key aspect of UBS's approach to human rights and the environment. In the past few years, UBS has established processes to manage environmental and human rights issues in key areas of its supply chain (such as client gifts, IT equipment and energy sourcing). For example,

Operational corporate responsibility



after UBS's encouragement five years ago, the supplier of UBS's branded umbrellas started to take account of environmental and labor rights concerns in its production facilities in Guangzhou, China. In the meantime, this supplier has developed a positive reputation in the area of corporate responsibility and this has helped attract new clients that are concerned about environmental and human rights issues in their own supply chain. In order to further incorporate these issues into procurement processes, UBS has developed a supply chain guideline that provides guidance for identifying, assessing and monitoring environmental and human rights risks of suppliers and in support of consistent decision-making throughout all business groups and regions. This guideline focuses on high risk suppliers and contractors with whom UBS has influence through direct contractual agreements.

A number of industry sectors with higher potential environmental and social risks have also been identified, and UBS is developing sector guidelines for assistance and guidance when doing business with clients in these environmentally and socially sensitive industry sectors.

Environment

UBS was one of the first signatories of the United Nations Environment Program's Bank Declaration (UNEP) in 1992, which committed the firm to integrating appropriate environmental measures within its activities. Today, the efforts of UBS to protect the environment, which started in the 1970s, have grown into a well-developed, global environmental management system certified to the ISO 14001 standard covering banking activities and in-house operations. UBS considers efficient and sustainable management of the firm's energy requirements, and the measures it is taking to reduce its carbon emissions, as an important factor in being a responsible corporation. With this in mind, the firm set a target in February 2006 to reduce its carbon emissions in 2012 by 40% from 2004 levels. UBS acknowledges that climate change represents one of the most significant environmental challenges of current times. It will have wide-ranging effects on ecosystems, societies and economies worldwide. To support its clients in responding to these challenges, UBS incorporates climate change issues into its research, advisory services and product offerings.

→ For more information on the environment, see the end of this section and www.ubs.com/environment

Fighting corruption

UBS has long been committed to assisting in the fight against money laundering, corruption and terrorist financing by operating an effective and dynamic risk-based approach to its internal anti-money laundering (AML) process. In early 2007, the Wolfsberg Group, of which UBS is a founding member, released a statement against corruption. It describes the role of the Wolfsberg Group and financial institutions more generally in support of international efforts to fight corruption and identifies some of the measures finan-

cial institutions may consider to prevent corruption in their own business and protect against the misuse of their operations in relation to corruption.

→ For more information on UBS's AML activities, please see the next page

External recognition

The firm's corporate responsibility work has been widely recognized, and UBS has been included in many indexes that track such efforts, including being a component of the Dow Jones Sustainability indexes since their inception in 1999. The indexes track the financial performance of the leading sustainability-driven companies worldwide. UBS is also included in the FTSE4Good Index, which measures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights. The firm has been a member of the Climate Leadership Index (CLI) since its launch in 2004. The CLI discloses to investors which FT500 companies have the most comprehensive climate-change disclosure practices in place, judged on the basis of each company's individual response to the Carbon Disclosure Project (CDP) questionnaire.

Corporate responsibility governance

The Corporate Responsibility Committee, a Board of Directors (BoD) committee, was created in 2001 and assesses how to meet the evolving expectations of UBS's stakeholders in relation to the firm's corporate conduct. If the Corporate Responsibility Committee concludes that there is a gap between what stakeholders expect and what UBS practices – and that this gap represents either a risk or an opportunity to the firm – it suggests appropriate actions to the Group Executive Board (GEB).

The Corporate Responsibility Committee is chaired by Stephan Haeringer, Executive Vice-Chairman of UBS. It includes another member of the BoD, eight senior UBS executives representing UBS businesses, and a number of corporate functions, including legal and communications. The committee meets two to three times a year. It is supported by a working group that comprises 22 functional experts from all UBS business groups and is chaired by the firm's Chief Communication Officer, a member of the Corporate Responsibility Committee.

Neither the Corporate Responsibility Committee nor the working group runs operational processes related to corporate responsibility; it is the GEB that has overall responsibility for corporate responsibility strategy and that decides on specific corporate responsibility measures. The implementation of these measures is then undertaken within existing processes in the different business groups.

For example, the GEB is responsible for UBS's environmental policy and nominates a Group Environmental Representative. Each business group also nominates a representa-

tive, and together with the Group Representative, they form a committee that oversees the implementation of UBS's environmental policy. This committee also provides guidance to the different business groups in their implementation of "UBS's Statement on Human Rights". It is chaired by the Group Chief Credit Officer and is supported by coordinators and functional units across the business groups.

Corporate responsibility: training and raising awareness

It is important that employees are aware of UBS's corporate responsibility efforts and processes. Apart from the general information published on the firm's intranet and website, in 2007, UBS directly provided nearly 3,000 employees in all businesses with information on the approach taken by the firm towards corporate responsibility through a range of training and awareness-raising activities. They extended from short presentations, in particular at new employee induction events, to longer presentations and workshops. In Global Wealth Management & Business Banking, for example, a module on ethics, corporate and personal responsibility forms part of the business group's management training program.

Training is also integral to the more specialized areas of environmental management and anti-money laundering (AML). AML and compliance staff have to complete mandatory training every two years, and all new joiners go through an AML and compliance induction training. In 2007, 6,000 employees participated in training on environmental issues.

Contributing to society – preventing money laundering, corruption and terrorist financing

Extensive and constant efforts to prevent money laundering, corruption and terrorist financing are important contributions

to society. The integrity of the financial system is the responsibility of all those involved in it. UBS takes its duties extremely seriously – in protecting both the overall financial system and its own operations. The threats posed by money laundering and terrorism are real, and everyone has a role in contributing to the fight against them as effectively as possible.

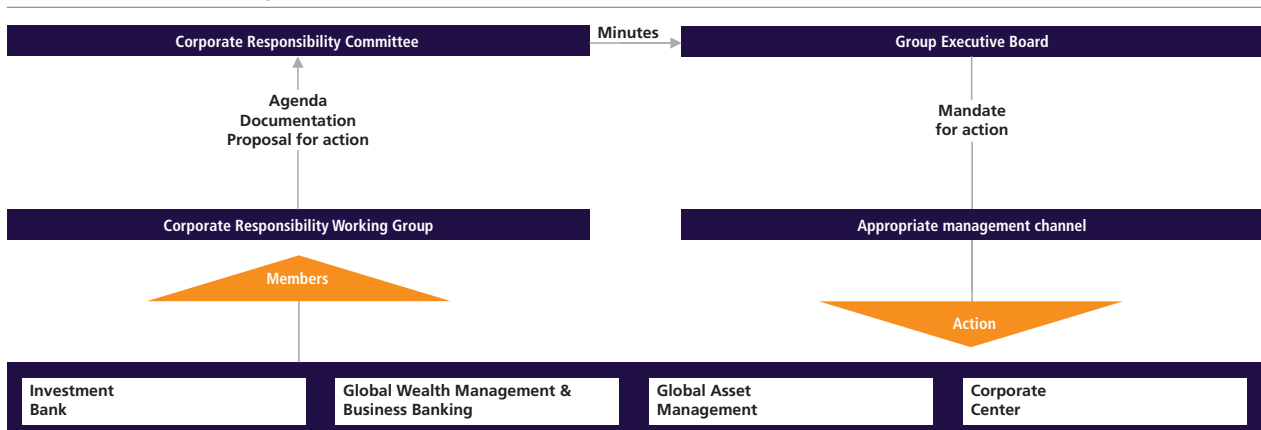
UBS's Group Money Laundering Prevention Unit leads its efforts to fight money laundering, corruption and the financing of terrorism. Its key task is to help employees to recognize and then manage and report suspicious activities – in a way that neither treats all clients as criminals nor unduly hinders normal business. While doing so, the firm also remains completely committed to the respect and protection of its clients' privacy, a cornerstone of the firm's philosophy.

The best way to achieve such goals is through a spirit of partnership across the firm – between those who manage client relationships and the risk managers and controllers who support them. Employees should be focused on really getting to know clients, understanding their needs – and then asking questions when things do not make sense. To assist employees in their "know your customer" (KYC) skills and the identification of new trends in suspicious behavior, employees undertake regular training courses, both in the form of on-line training and seminars.

To prevent money laundering, UBS takes a risk-oriented approach that is tailored to its different business lines and their particular risks and exposures. This includes establishing consistent criteria by which a business relationship should be judged "higher-risk" from an AML perspective. UBS also utilizes advanced technology to assist the firm in the identification of transaction patterns or unusual dealings.

A particular focus in the last few years has been on enhancing UBS's controls around dealings with regimes and countries with heightened risks. This included establishing

Corporate responsibility structure and process at UBS



and implementing an approach where UBS decided to exit commercial and client business dealings with a limited number of countries – reflecting increasing international concern and a commitment by UBS to actively managing its global security risk, notwithstanding that its legacy involvement was in any event very small. Countries involved included Iran, Myanmar, North Korea and Sudan.

In 2007, UBS continued to work with the public sector to better define how and in what areas financial institutions can contribute to the wider efforts of society against money laundering. In particular, as regulators continue to shift from the traditional “rule-based” approach to AML regulation to “principle-based” regulation (including the so-called “risk-based” approach), the firm actively contributed to the Financial Action Task Force’s (FATF) development of their “Guidance on the Risk-Based Approach to Combating Money Laundering and Terrorist Financing”. The “risk-based” approach requires UBS to continue to reassess its own policies and procedures, focusing on the firm’s particular risks, and continually develop its own risk-based models, something that UBS did throughout 2007. Where possible, UBS seeks to streamline and increase consistency between business groups in their AML/KYC policies and procedures using consistent methodologies and tools (for example, the creation of a consistent country risk framework for identifying sensitive countries).

UBS remains strongly committed to promoting the development and implementation of AML standards for the financial industry as a whole. As an example of this, UBS was one of the driving forces behind the launch of the Wolfsberg Group, which issued its first global AML principles in 2000. In subsequent years, UBS has contributed substantially to other guidances, including on corruption; correspondent banking; mutual funds and investment and commercial banking. Most recently, during 2007, UBS has played an active role in the work undertaken by the Wolfsberg Group and the Clearing House Association to develop and issue a statement endorsing measures to enhance the transparency of international wire transfers to promote the effectiveness of global AML and anti-terrorist financing programs.

Community investment

In addition to the economic impact generated through its business activities, UBS, together with its employees, seeks to have a positive influence on the social and environmental well-being of local communities in which it is active. The firm does this through its well established community affairs program.

This program encompasses activities such as direct cash donations to selected organizations, employee volunteering,

matched-giving schemes, in-kind donations, disaster relief efforts, and/or partnerships with community groups, educational institutions and cultural organizations. Dedicated teams around the world work closely with staff at all levels to build partnerships with organizations in the communities, focusing on the key themes of “Empowerment through education” and “Building a stronger community”.

Overall, in 2007, UBS and its affiliated foundations donated more than CHF 46 million to support charitable causes. UBS employees, through their donations and volunteer efforts, make further significant contributions to the communities they live in. Last year, almost 8,000 employees spent over 80,000 hours volunteering. UBS supports their commitment by matching their donations and offering, depending on location, up to two working days a year for volunteering efforts.

UBS has also established a number of foundations and associations that donate money to worthy causes in Switzerland. The association “A Helping Hand from UBS Employees” assists disabled and disadvantaged people to lead active, independent lives. UBS encourages this employee involvement by matching the funds raised in 2007. The UBS Cultural Foundation fosters creativity, appreciation of different forms of art, and contact between artists and society. The foundation financially supports fine arts, film, literature, music, preservation of historic buildings, archaeological projects and studies in history and philosophy in Switzerland. In similar fashion, the purpose of the UBS Foundation for Social Issues and Education is to support deprived communities in Switzerland in various forms. Non-profit, charitable organizations, projects and initiatives aiming at improving social welfare receive monetary assistance from these funds.

Client foundation

Besides the engagement of the firm and its employees, UBS also provides its clients with the opportunity to contribute to charitable causes. The UBS Optimus Foundation invests donations from UBS clients into a number of programs and organizations, focusing on the key themes of children and medical and biological research. The projects involve close collaboration with respected partner organizations and are selected by a team of specialists within the foundation, who also closely monitor their implementation. The costs of managing and administering the UBS Optimus Foundation are borne by UBS, so that the full contribution from the firm’s clients reaches the projects. In 2007, UBS Optimus Foundation spent almost CHF 11 million supporting 55 projects in Africa, Asia Pacific, Europe and North and South America.

Examples of UBS's 2007 global community affairs activities

In the **Asia Pacific** region, UBS supports the Child Welfare and Holistic Organization for Rural Development (CHORD) in Hyderabad, India. The organization provides a bridge education program and emotional support to child workers, helping them to return to normal schooling. As part of a "buddy" program, UBS employees assist the children with their schoolwork, and act as mentors, guiding them in their development and their efforts to return to school. Over the past year, the UBS India Service Centre (ISC) has organized a "Fun Day" for 420 CHORD children, a "Teachers' Day" at the CHORD school as well as a field visit to the ISC itself, giving many students their first look inside a large corporation. One of the students at the CHORD school said: "I was working in a shop previously. I have seen many customers and many faces. But no one ever bothered about me and my feelings. After I joined CHORD school I had the privilege of interacting with UBS. They bring smiles back on our sad faces."

In the **UK**, UBS is working in partnership with two other City firms to support the regeneration of Shoreditch. Situated in East London, Shoreditch is one of the most deprived areas in the UK with 82% of its population living in social housing and more than 30% of school leavers unable to find a job. Working directly with government and non-profit social regeneration agencies, the corporate collaboration known as Project Shoreditch focuses on matching the skills, expertise and enthusiasm of UBS employees to the needs of Shoreditch organizations. Since the project's inception in April 2005, over 1,500 UBS volunteers have

supported a wide variety of Shoreditch-based community groups, charities and schools, through team challenges, business planning, mentoring, training, web design, workplace visits, the provision of employment advice and fundraising. Volunteers provide direct support for Shoreditch-based organizations while also assisting with the regeneration of the area. In 2007, Project Shoreditch was awarded the "Positive Impact on London" Award from Business in the Community.

In **Switzerland**, a notable volunteering project is the support of business training for students called "Fit for business". The training is aimed at young people aged 14 to 16. UBS employees conduct the training sessions and support students with career guidance, help them write job applications and give them advice in managing their own money. UBS makes direct donations to charitable projects such as Swiss mountain aid, an organization that tries to stop the significant population outflows from poor mountainous areas in Switzerland by financing projects and businesses that help alpine communities achieve or maintain sustainable rates of economic subsistence. In addition, UBS helps Swisscontact, a Swiss foundation for technical cooperation, to give young girls and boys in Benin, Africa, training in various professions including carpentry, tailoring and hairdressing. The youths participating in the program learn how to read and write and are informed about important health issues they face, including AIDS and how to prevent it.

In the **Americas**, the wealth management business launched a new philanthropic focus "Education as a Pathway to a Better Future", concen-

trating its charitable activities in the US on improving the education of students in kindergarten, elementary and high school in low-income areas. In conjunction with the new focus, a national volunteer initiative, called "Building Brighter Futures", was launched in October 2007 with the goal of cultivating community, school and civic collaboration to help paint, garden and liven up schools and organizations related to education. During the month, over 2,100 UBS employees, family and friends volunteered in over 90 projects across the country. The Investment Bank launched a pilot education program in conjunction with Earthwatch International, a non-profit organization that engages people worldwide in scientific field research and education to promote the understanding and action necessary for a sustainable environment. Six UBS employees were selected as Earthwatch Fellows together with three public school teachers to participate in climate change expeditions in the northern reaches of Canada and on the coast of central Mexico. After the eight-day expeditions, the Fellows returned to share their experiences with colleagues and students from Medill Elementary school in Chicago, Illinois, the Hart Magnet School in Stamford, Connecticut; and the Manhattan Center for Science and Math in New York City. In 2008, the program will be expanded to include other UBS business areas in the Americas as employees work with their local schools to increase awareness of global environmental issues.

→ For more information on UBS's community affairs program, see www.ubs.com/corporateresponsibility

UBS and the environment

UBS's commitment to the environment is underpinned by a global environmental management system certified under the ISO 14001 standard since 1999. The system covers both banking activities and in-house operations and was successfully re-certified in 2005 by the firm's auditor, SGS.

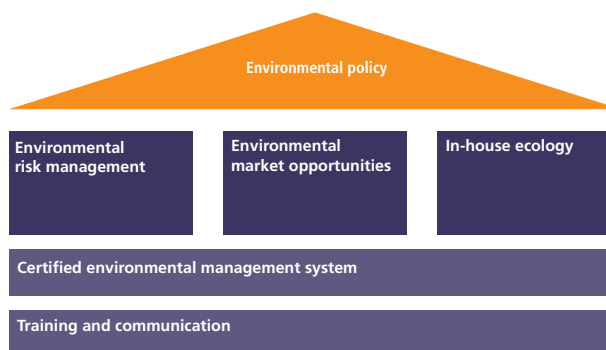
The firm remains committed to integrating environmental considerations into all its business activities. Its environmental policy is based on five principles:

- seeking to consider environmental risks in all UBS businesses, especially in lending, investment banking, advisory and research, and its own investments;
- seeking to pursue opportunities in the financial market for environmentally friendly products and services, such as socially responsible investments;
- seeking ways to reduce UBS's direct environmental impact on air, soil and water from in-house operations, with a primary focus on reducing greenhouse gas emissions. UBS will also seek to assess the environmental impact of its suppliers' products and services;
- ensuring efficient implementation of UBS's policy through a global environmental management system certified according to ISO 14001 – the international environmental management standard; and
- integrating environmental considerations into internal communications and training.

Environmental performance indicators

Every year, UBS provides a detailed description of its environmental performance using key performance indicators (KPIs), which allow for annual comparisons. They are based on in-

Five principles of UBS's environmental policy



dustry standards such as the Global Reporting Initiative (GRI), the Greenhouse Gas Protocol and ISO 14064.

The management indicators below provide an overview of the firm's environmental management system.

Environmental market opportunities

UBS has strong expertise in incorporating environmental and social aspects into its research and advisory activities. A socially responsible investments (SRI) team was established in Global Asset Management as early as 1996. Socially responsible investments are sustainable investments that take ecological and social criteria into account alongside classical financial analysis. Today, SRI teams operate in all business groups and regions, allowing UBS to produce original SRI research and to offer a broad range of SRI investment products. Furthermore, the Investment Bank actively pursues related market opportunities, for example by trading emissions on behalf of clients, or by arranging finance and providing advisory services to re-

Environmental management indicators

| Full-time equivalent, except where indicated | GRI ¹ | For the year ended | | | % change from |
|---|------------------|--------------------|----------|----------|---------------|
| | | 31.12.07 | 31.12.06 | 31.12.05 | 31.12.06 |
| Financial businesses personnel² | | 83,560 | 78,140 | 69,569 | 7 |
| In specialized environmental units ³ | | 38 | 30 | 25 | 28 |
| Environmental awareness raising | | | | | |
| Employees trained | F5 | 5,090 | 2,489 | 2,251 | 104 |
| Training time (hours) | F5 | 2,133 | 1,498 | 1,214 | 42 |
| Specialized environmental training | | | | | |
| Employees trained | F5 | 976 | 977 | 1,010 | 0 |
| Training time (hours) | F5 | 1,420 | 1,758 | 2,066 | (19) |
| External environmental audits⁴ | | | | | |
| Employees audited | F6 | 37 | 30 | 147 | 23 |
| Auditing time (days) | F6 | 8 | 6 | 17 | 40 |
| Internal environmental audits⁵ | | | | | |
| Employees audited | F6 | 121 | 154 | 216 | (21) |
| Auditing time (days) | F6 | 38 | 44 | 39 | (15) |

¹ Global Reporting Initiative (see also www.globalreporting.org). F stands for the Environmental Performance Indicators defined in the GRI Financial Services Sector Supplement. ² All employment figures represent the state as of 31 December 2007. ³ 2007: 32 UBS and six external employees (FTE). ⁴ Audits carried out by SGS Société Générale de Surveillance SA. Surveillance audits took place in 2006 and 2007. The more comprehensive Re-Certification Audit was done in 2005. ⁵ Audits/reviews carried out by specialized environmental units. The implementation of environmental risk policies is also audited by Group Internal Audit.

newable energy companies. Finally, Global Wealth Management & Business Banking has decided to integrate SRI into the UBS Client Experience framework by adapting relevant client profiling tools, adding new proprietary and selected third-party products to its SRI offering and enhancing internal platforms that provide information and sales documentation. These measures should help client advisors identify, understand and meet client demand for SRI products more effectively. After a successful pilot in Switzerland in 2007, which contributed to the overall increase of SRI invested assets, this approach will also be rolled out to the other regions.

Investment products and advisory

UBS's asset management business is rapidly expanding its offering in the area of SRI to respond to growing demand from a number of markets. In 2007, for example, UBS launched SRI products in Japan and Taiwan. The SRI offering is diversified and includes products managed according to "best-in-class" practice and theme-based approaches. "Best-in-class" is an active equity management approach based on stock selection of companies that generate above-average environmental, social and economic performance and offer significant growth potential. The "best-in-class" offering includes a Global fund, a European fund, a Japanese fund and a Taiwanese fund. The theme-based approach focuses investment around particular issues and themes such as energy, water and demographics. Products offered include a Global Innovators fund and segmented Climate Change, Water and Demographics strategies.

Additionally, the Global Asset Management offering comprises customized client portfolios in the form of segregated mandates/institutional accounts based on "negative" screening, which is the exclusion or avoidance of certain stocks or sectors from the portfolio based on their perceived negative social or environmental impact by the client. UBS's global platform and investment research enable the firm to offer such tailor-made solutions to meet its client needs.

In the UK, the asset management business seeks to influ-

ence the corporate responsibility and corporate governance practices of the companies it invests in.

UBS also offers structured products that take into account environmental and social topics, such as the UBS Climate Change Strategy Certificate and UBS Water Strategy Certificate.

In the Investment Bank, the UBS Global Warming Index, the UBS Greenhouse Index and other index-linked products have been introduced to clients. The SRI Equity Sales team provides stock broking and account management services to alternative energy and SRI fund managers.

UBS's open architecture also allows clients to invest in SRI products from third-party providers.

Investment Bank: sell-side research

In 2004, the Investment Bank created an SRI team of sell-side analysts (sell-side analysts write recommendations and reports for professional investors) in its equity research area. Among other things, these sell-side analysts research areas of increasing or diminishing risk. Many SRI issues cannot easily be quantified, but, where possible, the team leverages UBS standard models, such as the Value Creation Analysis Model, to analyze the potential effects of social and environmental issues on companies' share prices. Identifying the material SRI issues presents challenges as, essentially, three things help determine which environmental and social issues are critical: what society sees as important; the nature of the competitive pressures facing firms in an industry; and how costs and benefits are (or will be) distributed between stakeholders.

Since the team was established, client interest in some aspects of SRI – most notably climate change – has grown, and so has research coverage. The SRI team regularly collaborates with analysts in sector teams to write about emerging SRI themes, and relevant research content is regularly published by a growing number of specialists within the mainstream research effort. An SRI page is available to UBS's institutional clients on UBS's Research Web. This brings together publications of the SRI team, as well as relevant sector reports from other teams.

Socially responsible investments invested assets

| CHF billion, except where indicated | GRI ¹ | For the year ended | | | % change from |
|---|------------------|--------------------|----------|----------|---------------|
| | | 31.12.07 | 31.12.06 | 31.12.05 | 31.12.06 |
| UBS | | 3,189 | 2,989 | 2,652 | 7 |
| UBS socially responsible investments (SRI) products and mandates | | | | | |
| Positive criteria | F9 | 5.42 | 1.84 | 1.05 | 194 |
| Exclusion criteria | F9 | 32.06 | 16.17 | 10.73 | 98 |
| Third-party | F9 | 1.38 | N/A | 0.61 | N/A |
| Total SRI invested assets | F9 | 38.86 | 18.01 | 12.39 | 116 |
| Proportion of total invested assets (%) ² | | 1.22% | 0.60% | 0.47% | |

¹ Global Reporting Initiative (see also www.globalreporting.org). F stands for the Environmental Performance Indicators defined in the GRI Financial Services Sector Supplement. ² Total socially responsible investments / UBS's invested assets.

Positive criteria: applies to the active selection of companies, focusing on how a company's strategies, processes and products impact its financial success, the environment and society. This includes "best-in-class" or thematic investments.

Exclusion criteria: companies or sectors are excluded based on environmental, social or ethical criteria. For example, companies involved in weapons, tobacco, gambling, or with high negative environmental impacts.

Third-party: UBS's open product platform gives clients access to SRI products from third-party providers. This includes both positive and exclusion criteria.

Global Asset Management: buy-side research

In the asset management business, an SRI buy-side (internal proprietary research) team was established in Switzerland in 1996 and has expanded to the US and Singapore. The team carries out in-depth, theme-based research in the areas of climate change, water and demographics. It also leverages the asset management business's research platform of more than 100 analysts to construct all of its SRI portfolios. The internal research is complemented by specialized rating agencies. An academic board of experts also provides strategic support.

Global Wealth Management & Business Banking: secondary research

The secondary research team in UBS's wealth management business helps private investors navigate large volumes of global financial data. It monitors and interprets research information on most traded asset classes. The team established an SRI competence center in 2007 in order to provide sound advice to clients. It publishes in-depth studies of emerging socio-economic and environmental trends such as climate change by assessing their potential impact on investment markets.

Financing and advisory services

UBS's renewable energy investment banking business arranges financing and provides strategic and financial advisory services for companies in the biofuels, solar, wind, wave and other renewable energy sectors. Since 2006, UBS has led over 20 financing transactions, raising over USD 5 billion for renewable energy companies worldwide and winning a top-five ranking two years in a row (including the prestigious "Top Underwriter" award in 2006) from New Energy Finance, a specialist provider of financial information and analysis to investors in clean energy. UBS provides advice on a number of high-profile strategic combinations including the merger between US BioEnergy Corporation and VeraSun Energy Corporation, the largest transaction of its type in the history of the biofuel sector.

UBS is also a founding financial partner in the Clinton Foundation's Climate Initiative (CCI), Energy Building Retrofit Program. The program, which includes five other major financial institutions, four of the world's largest energy service companies and 15 large cities, is designed to reduce energy consumption in existing buildings. Under the program, participat-

Engaging investors in climate change issues

As a leading wealth and asset manager, UBS wants to help investors evaluate risks and opportunities presented by climate change in their investments. To do so, the firm produces relevant research and raises investors' awareness by hosting dedicated conferences and seminars. It also seeks to increase the availability of data by collaborating in the Carbon Disclosure Project.

At the end of January 2007, the research team in the wealth management business published a report examining the scientific, technological and economic effects of climate change. Its authors argued that climate change will have far-reaching implications for the global economy and the worldwide investment climate and concluded that measures to combat global warming will increasingly influence people's behavior, the risk profiles of certain industries and prospects for investment. The analysis

suggests that products and processes that improve energy efficiency, as well as the development of renewable or low-CO₂ energy sources, have great potential to slow climate change.

In the Investment Bank, over 60 analysts were involved in collaborative work on climate change in 2007.

The utilities team wrote on the link between CO₂ and the share price of utilities since 2004. This team also now writes on and forecasts the CO₂ price traded on carbon exchanges. Elsewhere, sector teams cover photovoltaics, wind and other alternatives, as well as energy efficiency.

In addition to producing research on the effects of climate change on certain companies and sectors, UBS regularly invites institutional investors and other clients to attend conferences focusing on these topics. In 2007 alone, UBS hosted eight conferences and seminars featuring distinguished speakers on climate

change related topics in London, Tokyo, Hong Kong, Amsterdam, Stockholm, Paris and New York. For example, the UBS Global Alternative Energy Conference in New York City is one of the largest of its kind and represents an opportunity to meet investors and executives from leading companies in the sector.

UBS is a founding member of the Carbon Disclosure Project. In collaboration with other institutional investors, it seeks information from the world's largest companies concerning the business risks and opportunities presented by climate change and greenhouse gas emissions data. In 2007, unlike in previous years, responding companies appear to have moved beyond awareness and have implemented carbon strategies: 76% of respondents disclosed existing greenhouse gas emissions reduction efforts with targets and timelines. This marks a significant shift from 48% in 2006.

ing city governments and local building owners will retrofit buildings for increased energy efficiency. Participating cities include London, Paris, New York, Mexico City and Tokyo, among others. UBS has committed expertise and other resources to create financial structures capable of delivering capital effectively to public and private projects in this program.

Carbon trading

UBS is an active participant in emissions trading markets and is a member of the Intercontinental Exchange (ICE), an electronic marketplace for energy and emissions trading in conjunction with the European Climate Exchange (ECX). In “cap and trade” emissions markets, such as the EU Emissions Trading Scheme, companies are issued with permits that limit, or cap, their emissions. Companies who are able to reduce their emissions at low cost have the ability to sell their unused permits to other companies requiring them, thereby creating an emissions allowances market and ensuring that emission reductions are achieved in a cost-effective manner. Through the use of carbon financial instruments UBS is able to help clients manage their exposure to the emissions markets.

Environmental risk management

For UBS, it is important to identify, manage and control environmental risks in its business transactions. An example of such a risk is when a counterparty’s cash flow or assets are impaired by environmental factors such as inefficient production processes, or polluted or contaminated property. Another is liability risk, such as when a bank takes over environmentally unsound collateral onto its own books.

UBS has a long track record in managing environmental risks: an environmental credit assessment procedure was introduced for Swiss corporate clients as early as 1994, and the Investment Bank’s first environmental guideline was issued in 1999. Since then, UBS has constantly sought to adapt and refine its environmental risk framework.

The general approach to managing environmental risks is derived from the methodology of the ISO 14001 standard: the first step is to assess and rate the potential for material environmental risks arising in the various products and services offered by the bank. The result of this analysis is reviewed every year and currently shows that the potential for material risk is greater within the context of lending and capital markets practices for commercial lending, investment banking and direct infrastructure investments. In a second step, for each product and client segment rated with high potential risk, UBS designs environmental procedures and tools that are adapted to their specific risk profile and integrated into existing processes, such as due diligence on transactions or investments and ongoing risk management.

Global Wealth Management & Business Banking

Environmental risks are assessed in a three-stage process in the Global Wealth Management & Business Banking business group. The client advisor carries out a first screening, covering financial risks linked to environmental aspects such as compliance with environmental legislation, workplace safety, contaminated sites and natural hazards. If the risks cannot be fully ruled out during the first screening, a credit officer initiates a second screening and decides whether the risks identified are transparent enough for the credit decision to be taken. Transactions entailing significant environmental risk undergo a third step, a detailed environmental assessment – a service provided by the business group’s environmental risk competence center. In 2007, 36 such detailed assessments took place. If a transaction poses substantial environmental risks, the bank can take several courses of action. It can adapt the terms of the loan contract, it may engage the client in a dialog about possible remedial action, or it may decline the transaction altogether.

Investment Bank

The Global Environmental Risk Guidelines apply to all transactions, services and activities within the Investment Bank. This requirement is supported by an Environmental Risk Framework that is integrated into the Investment Bank’s due diligence and approval processes. Investment Bank staff identify potential environmental risks in the initial due diligence phase and alert the Investment Bank’s Environmental Risk Group (ERG) of significant potential risks. Assessments by lawyers and/or external consultants are routinely sought for certain sectors and products. The ERG works with the relevant business and control functions to assess the risks, determine any mitigating measures and direct further due diligence, as required, so that the relevant senior business committee may fully consider the potential environmental risk in the course of its review of the transaction and/or client. The ERG reinforces this requirement with training and awareness raising activities. In 2007, the ERG provided sector-specific training on the Environmental Risk Framework to 500 bankers and support functions and high-level training to a further 600 employees and advised on environmental issues in 108 transactions.

Global Asset Management

The formal environmental risk matrix introduced in 2004 within Global Asset Management, which assesses the reputation and environmental risks that investments on behalf of its clients might imply, is reviewed annually for applicability and comprehensiveness. It forms part of the environmental management system employed within the business group.

Environmental and CO₂ footprints

The firm directly impacts the environment in a number of ways. Its businesses consume electricity, employees travel for business purposes, they use paper and generate waste in the course of their work, and offices require heating and cooling systems. Improving the use of these resources can boost operating margins and enhance environmental performance and, therefore, UBS has a series of measures that manage its environmental impact efficiently.

UBS has a long track record for managing its environmental impact and CO₂ footprint, with the first energy unit having been established in the 1970s.

CO₂ strategy and emission reduction

The Group Executive Board decided in February 2006 to set a group-wide CO₂ emission reduction target of 40% below 2004 levels by 2012. UBS seeks to achieve this target by implementing:

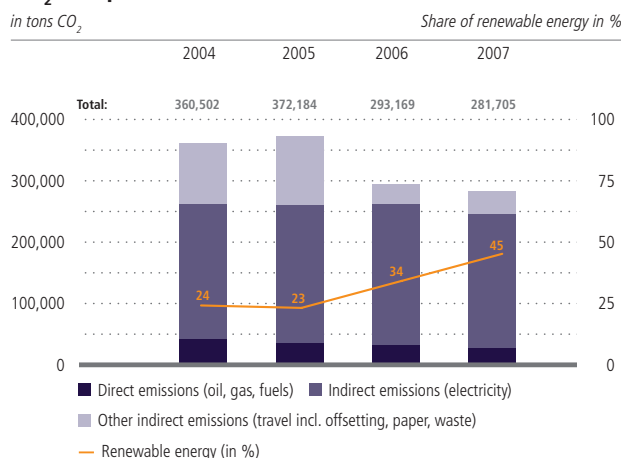
- in-house energy efficiency measures that reduce energy consumption in buildings it operates in;
- increasing the proportion of renewable energy to avoid emissions at source; and
- offsetting and neutralizing emissions that cannot be reduced by other means.

These measures allowed UBS to reduce its CO₂ emissions by 22% compared with 2004, an important step toward achieving the 40% reduction target by 2012.

Energy consumption and energy efficiency

Energy represents an important environmental impact area for UBS and is a major contributor to its overall greenhouse gas emissions. Energy efficiency measures are therefore an important component of UBS's program for achievement of the Group-wide CO₂ emission reduction target. Measures include investments in energy-efficient technology and encouraging good housekeeping measures. In 2007, UBS was awarded the "Energy Model Zurich" trophy for the firm's achievements in improving its energy efficiency in Switzerland by 17% since 1997. The firm's newly renovated offices in Stamford, Connecticut, were awarded the Silver Standard

CO₂ footprint



by the US Green Building Council's Leadership in Energy and Environmental Design (LEED). The building incorporates many energy optimizing features, such as light harvesting where sensors detect levels of sunshine, and the building automatically adjusts interior lighting depending on the level of exterior light. Going forward, UBS has adopted a technical standard supporting worldwide oversight of measures taken to improve energy efficiency in fields such as building operation, replacement investments and rehabilitations.

Renewable energy

In addition to its energy efficiency programs, UBS seeks to improve the energy mix it purchases towards a higher proportion of renewable energy. The percentage of renewable energy and district heating purchase rose from 24% in 2004 to 45% in 2007.

In 2007, UBS signed a new agreement (roughly 210 GWh per year) under which 90% of the electricity supply for its buildings in Switzerland now comes from renewable sources, such as water and solar power stations. In addition, UBS purchases Renewable Energy Credits (RECs) in the US electricity markets, which accounted for 10% of its electricity consumption in the US in 2007.

Environmental indicators per full-time employee (FTE)

| | Unit | 2007 | Trend | 2006 | 2005 |
|--------------------------------------|---------------------|--------|-------|--------|--------|
| Total direct and intermediate energy | kWh/FTE | 11,942 | ↘ | 12,736 | 12,925 |
| Total indirect energy | kWh/FTE | 20,391 | ↓ | 23,974 | 26,024 |
| Total business travel | Pkm/FTE | 12,685 | → | 12,544 | 10,659 |
| Total paper consumption | kg/FTE | 190 | → | 188 | 197 |
| Total waste | kg/FTE | 299 | → | 303 | 325 |
| Total water consumption | m ³ /FTE | 26.7 | → | 26.0 | 26.0 |
| Total environmental footprint | kWh/FTE | 32,530 | ↓ | 38,148 | 41,129 |
| CO ₂ footprint | t/FTE | 3.43 | ↓ | 3.93 | 5.24 |

Legend: kWh = kilowatt hour; Pkm = person kilometer; kg = kilogram; m³ = cubic meter; t = ton

Both these initiatives are a continuation of the renewable energy purchasing that began in 2000 in Switzerland and 2003 in London and represent an improvement on the previous contracts in terms of the increased volume derived from renewable sources.

Business travel and offsetting

Business travel is a significant contributor to UBS's greenhouse gas emissions. While the firm encourages its employees to use environmentally friendly alternatives to air and road travel, for example video conferences, travel is essential for a global financial services firm that strongly believes in personalized client relationships. Therefore, since 2006, UBS has decided to offset emissions from business related air travel, i.e. over 110,000 tons of CO₂, representing about a quarter of its total CO₂ emissions. Offsetting means that UBS indirectly neutralizes its business air travel emissions

by investing in third-party projects that reduce an equivalent amount of greenhouse gas emissions. For 2007, UBS selected projects in Brazil, India, China and Germany, on the basis of their adherence to international quality standards and of their additional environmental and social benefits.

Paper and waste

UBS has agreed on new firm-wide targets for paper and waste. This includes the goal of reducing paper consumption per employee by 5% by 2009 when compared with 2006 levels. UBS also wants to have 20% of the paper it uses come from recycled sources. Across Europe, UBS has now switched to a 100% recycled paper for all internal printing. At the same time, the firm will be seeking to improve its environmental footprint by reducing waste (for example, plastic bottles or packaging) per employee by 10% and by sending 70% of waste to recycling sites.

→ **More detailed information on UBS's environmental management system is available at www.ubs.com/environment**

Environmental indicators¹

| | 2007 ² | | | | 2006 ² | 2005 ² |
|---|-------------------|----------------------------------|---------------------------|--------------------|----------------------------------|----------------------------------|
| | GRI ³ | Absolute normalized ⁴ | Data quality ⁵ | Trend ⁶ | Absolute normalized ⁴ | Absolute normalized ⁴ |
| Total direct and intermediate energy consumption⁷ | | 981 GWh | *** | → | 951 GWh | 918 GWh |
| Total direct energy consumption⁸ | EN3 | 130 GWh | ** | ↘ | 154 GWh | 169 GWh |
| natural gas | | 83.3% | ** | → | 85.5% | 86.0% |
| heating oil | | 12.1% | *** | → | 11.8% | 11.0% |
| fuels (petrol, diesel, gas) | | 4.6% | *** | ↑ | 2.7% | 3.0% |
| renewable energy (solar power, etc.) | | 0.03% | *** | ↗ | 0.03% | 0.02% |
| Total intermediate energy purchased⁹ | EN4 | 851 GWh | *** | ↗ | 797 GWh | 749 GWh |
| electricity from gas-fired power stations | | 12.3% | ** | → | 13.2% | 14.3% |
| electricity from oil-fired power stations | | 4.2% | *** | → | 4.5% | 4.3% |
| electricity from coal-fired power stations | | 18.6% | ** | ↘ | 21.7% | 22.9% |
| electricity from nuclear power stations | | 13.6% | ** | ↓ | 20.5% | 29.9% |
| electricity from hydroelectric power stations | | 25.5% | *** | ↑ | 21.4% | 12.1% |
| electricity from other renewable resources | | 22.0% | *** | ↑ | 12.7% | 11.1% |
| district heating | | 3.8% | *** | ↓ | 6.0% | 5.4% |
| Total indirect energy consumption¹⁰ | EN4 | 1,674 GWh | *** | ↘ | 1,790 GWh | 1,849 GWh |
| Total business travel | EN29 | 1,042 m Pkm | *** | ↑ | 936 m Pkm | 757 m Pkm |
| rail travel ¹¹ | | 3.3% | ** | ↘ | 4.1% | 3.7% |
| road travel ¹¹ | | 0.5% | ** | ↓ | 0.6% | 0.7% |
| air travel | | 96.2% | *** | → | 95.3% | 95.6% |
| Number of flights (segments) | | 446,274 | *** | ↑ | 402,629 | 358,992 |
| Total paper consumption | EN1 | 15,593 t | *** | ↑ | 14,013 t | 14,020 t |
| post-consumer recycled | EN2 | 10.5% | *** | ↑ | 6.2% | 7.1% |
| new fibers FSC ¹² | | 10.7% | *** | ↑ | 0.0% | 0.0% |
| new fibers ECF + TCF ¹² | | 78.6% | *** | ↓ | 93.8% | 92.9% |
| new fibers chlorine bleached | | 0.2% | ** | ↑ | 0.0% | 0.0% |
| Total waste | EN22 | 24,589 t | *** | ↗ | 22,631 t | 23,073 t |
| valuable materials separated and recycled | | 56.3% | *** | → | 58.2% | 64.8% |
| incinerated | | 15.8% | *** | ↑ | 12.7% | 9.3% |
| landfilled | | 27.9% | ** | → | 29.1% | 25.9% |
| Total water consumption | EN8 | 2.19 m m³ | ** | ↗ | 1.94 m m³ | 1.84 m m³ |
| Total environmental footprint¹³ | | 2,671 GWh | ** | → | 2,848 GWh | 2,922 GWh |
| Total CO₂ footprint¹⁴ | | 281,705 t | *** | → | 293,169 t | 372,184 t |
| Total direct CO ₂ (GHG scope 1) ¹⁵ | EN16 | 26,701 t | *** | ↓ | 31,519 t | 34,556 t |
| Total indirect CO ₂ (GHG scope 2) ¹⁵ | EN16 | 218,681 t | ** | → | 230,015 t | 225,854 t |
| Total other indirect CO ₂ (GHG scope 3) ¹⁵ | EN17 | 149,323 t | *** | ↑ | 132,635 t | 111,773 t |
| Total CO ₂ e offsets (business air travel) ¹⁶ | | 113,000 t | *** | ↑ | 101,000 t | - |

Legend: GWh = gigawatt hour; Pkm = person kilometer; t = ton; m³ = cubic meter; m = million

¹ All figures are based on the level of knowledge as of January 2008. ² Reporting period: 2007 (1 July 2006–30 June 2007), 2006 (1 July 2005–30 June 2006), 2005 (1 July 2004–30 June 2005). ³ Global Reporting Initiative (see also www.globalreporting.org). EN stands for the Environmental Performance Indicators as defined in the GRI. ⁴ Non-significant discrepancies from 100% are possible due to roundings. ⁵ Specifies the estimated reliability of the aggregated data and corresponds approximately to the following uncertainty (confidence level 95%): up to 5% – ***, up to 15% – **, up to 30% – *. Uncertainty is the likely difference between a reported value and a real value. ⁶ Trend: at a ****/**/* data quality, the respective trend is stable (→) if the variance equals 5/10/15%, low decreasing/increasing (↘/↗) if it equals 10/20/30% and decreasing/increasing if the variance is bigger than 10/20/30% (↓/↑). ⁷ Refers to energy consumed within the operational boundaries of UBS. ⁸ Refers to primary energy purchased which is consumed within the operational boundaries of UBS (oil, gas, fuels). ⁹ Refers to energy purchased that is produced by converting primary energy and consumed within the operational boundaries of UBS (electricity and district heating). ¹⁰ Refers to primary energy, which is consumed to produce the electricity and district heating consumed by UBS. ¹¹ Rail and road travel: Switzerland only. ¹² Paper produced from new fibers. FSC stands for Forest Stewardship Council, ECF for Elementary Chlorine Free and TCF for Totally Chlorine Free. ¹³ Shows the environmental impact (through emissions, use of resources, waste) by a process including all relevant upstream and downstream processes. The environmental footprint is approximated using the equivalent of non-renewable energy consumed. ¹⁴ CO₂ footprint equals total CO₂ emissions (GHG scope 1, 2 and 3) minus CO₂e offsets. ¹⁵ Refers to ISO 14064 and the "GHG (greenhouse gas) protocol initiative" (www.ghgprotocol.org), the international standards for CO₂ reporting: direct CO₂ (Scope 1) accounts for direct CO₂ emissions by UBS; indirect CO₂ (Scope 2) accounts for indirect CO₂ emissions associated with the generation of imported/purchased electricity, heat or steam; other indirect CO₂ (Scope 3) accounts for indirect CO₂ emissions associated with business travel, paper consumption and waste disposal. ¹⁶ Offsets from third-party GHG reduction projects measured in CO₂ equivalents (CO₂e). These offsets neutralize CO₂ emission from our business air travel.

Verification by SGS Société Générale de Surveillance SA

"We have verified the correctness of the statements in the 2007 Environmental Report of UBS AG and, where necessary, have requested that proof be presented. We hereby confirm that the report has been prepared with the necessary care, that its contents are correct with regard to environmental performance, that it describes the essential aspects of the environmental management system at UBS AG and that it reflects the actual practices and procedures at UBS AG.

We have also conducted a third party verification of the CO₂ emissions in the years 2004 to 2007 against the principles of ISO 14064-1 (2006). In our opinion, the reported CO₂ emissions are fair, accurate, transparent and free from material errors or misstatements and meet the materiality threshold."

Elvira Bieri, Dr Erhard Hug and Dr Jochen Gross, Zurich, February 2008

Corporate responsibility in UBS guidelines and policies

The importance UBS attaches to responsible corporate behavior is reflected in the various documents and policies defining the rules and principles the firm applies to the behavior of its employees. These guidelines define the way UBS does business and the firm regularly monitors compliance.

UBS's **vision and values** state that the firm is a member of the global community and should behave as a responsible corporate citizen. The firm and its employees should conduct themselves in a manner that is above reproach, as preserving UBS's integrity is vital to its most valuable asset – its reputation.

The firm has a **code of business conduct and ethics**, which sets forth the policies and practices UBS expects all its employees to follow. The code outlines the required standards of fairness, honesty and integrity in a general manner. It is the basis for all UBS policies.

Employment of staff

UBS provides equal employment and advancement opportunities for all its employees, regardless of gender, ethnicity, race, nationality, age, disability, sexual orientation or religion.

Whistleblowing protection

A whistleblowing policy allows employees to report any breach of law, regulations or codes of ethics to a senior manager without fear of retaliation.

Conflicts of interest

UBS is committed to ensuring fair treatment of all its stakeholders, while recognizing that conflicts of interest cannot always be avoided. The firm has therefore established guiding principles outlining its approach to properly identifying and managing conflicts of interest. In addition, various other policies address situations in which a conflict of interest might potentially arise, such as personal account dealing, or the providing and receiving of gifts. UBS's Investment Bank also has specific conflict of interest policies for its research activities.

Anti-money laundering and bribery of public officials

UBS is committed to fighting money laundering, corruption and terrorist finance. To do that, the firm has a number of policies in place, an effective risk management framework and a dedicated money laundering prevention unit. UBS aims to prevent

bribery of public officials by requiring the pre-approval of any transfer of value by UBS or any employee to a public official.

Memberships and donations

A policy is in place to govern the handling and uniform treatment of memberships and donations by UBS globally. It specifies that donations are goodwill payments made to organizations whose activities serve (among others) non-profit, charitable, cultural and educational purposes.

Information security

UBS adheres to the highest standards of information security. It meets legal and regulatory requirements related to information security, satisfying the obligations it has to clients, employees and shareholders.

Environmental management

UBS is committed to integrating environmental considerations into all its business activities.

Human rights

The "UBS Statement on Human Rights" sets out the firm's approach to promote and respect human rights standards within its sphere of influence.