

Review 2007

07



Letter to shareholders

In this year's annual report we present a Group net loss of CHF 4,384 million. This resulted almost completely from our exposure to the US residential real estate market through positions in mortgage-backed securities and related structured products. The losses on these positions overshadow the outstanding 2007 performance in the majority of our other businesses. This makes this year's financial result even more difficult for us to accept.

This letter discusses what we consider to be the structural reasons for our losses and how we are addressing them. It also outlines our strategy and current position and the reasons we consider these to have so much potential.

UBS has historically paid close attention to the management of illiquid and long dated risk exposures. And we have fared well in these particular risk categories. Our positions in leveraged lending and commercial real estate are comparatively small and of good quality. At the same time, and in line with our traditional focus, we grew our trading activities in seemingly liquid and high quality securities. The availability of cheap, short-term funding from UBS's strong capital position facilitated this growth, accelerating the expansion of our balance sheet and comparatively high tradable asset inventories. The creation of Dillon Read Capital Management (DRCM) led to an overweight

exposure to the US mortgage market. After a range of largely proprietary driven trading activities were transferred into DRCM, the Investment Bank replaced them with client-driven origination, trading and structuring of mortgage-backed securities. However, this still involved taking principal risk. This decision was driven by an attempt to close revenue gaps with key competitors in certain areas of the fixed income business. In hindsight, these three structural issues were important factors in the very bad outcome we experienced in the context of the US real estate market crisis.

Our shareholders' support for the measures to strengthen our capital base at the extraordinary general meeting on 27 February was important for the future of UBS. We would like to thank you and reassure you that we see this as just one step on the path to recovery.

How are we correcting our shortcomings? We closed DRCM in 2007 and re-integrated its businesses into the Investment Bank. Recently, we introduced a new funding framework for the Investment Bank to ensure that our trading activities are financed at market comparable levels and consistent with the nature and liquidity of the respective positions. This will reduce the potential incentive to hold disproportionately high trading inventories. Combined with commensurate balance

sheet limits, it will also ensure better control over the size of our balance sheet. Finally, we have repositioned the activities of the Investment Bank so that its future will be built on our strengths and client franchises. In 2007, the areas in which we achieved outstanding results are those where we have developed strong and long-standing client relationships and excellent client service. They represent the majority of the Investment Bank's business and are a solid basis on which to build sustainable and profitable growth.

Wealth and asset management delivered excellent results in 2007.

Global Wealth Management & Business Banking produced record results in both net new money inflow, at CHF 156 billion, and profitability. Our Global Asset Management business group fell short of a record result only because it absorbed costs related to the closure of DRCM. The outflows in institutional assets largely related to the weak past investment performance in some core and value equity capabilities. However, these problems have been addressed and new investment management teams are in place. We are therefore confident that we can reverse this trend in the medium term.

Outside Switzerland we have a focused business portfolio that concentrates on wealth management, asset management and investment banking. In our domestic Swiss market, we are the

leading universal bank. UBS's revenue mix, which has a much higher wealth and asset management component than our peers, is unique. With a repositioned and client-centric Investment Bank, we believe our business portfolio is uniquely placed to benefit from the continuing growth of wealth around the world and therefore deliver sustainable, profitable growth. For us, such growth lies in establishing a set of earnings streams based on true customer benefit, building a strong and growing client base and maintaining assets and capabilities that our competitors find hard to copy. All of our businesses – Global Wealth Management & Business Banking, Global Asset Management and the Investment Bank – are built to benefit from the same fundamental trend, the long-term creation of wealth. Growth of all our businesses, across all countries in which they operate, improves when they work together as a unified firm, as opposed to operating independently of one another.

Efficiency in managing our financial resources, capital and risk is a prerequisite for growth. By making continuous efficiency improvement a permanent task, we will strengthen the enforcement of cost management discipline on a firm-wide basis and therefore be able to direct investment spending towards areas where it most benefits our clients and investors. We remain committed to managing our capital in a disciplined

fashion. We will strive, subject to regulatory requirements, to return to our usual pattern of redistributing capital not required to grow our business to shareholders, once our profitability and capital ratios return to more normalized levels.

Our Investment Bank now has new leadership. Jerker Johansson is a very experienced banker with an outstanding track record in the finance industry. He will fulfill a crucial role in our mission to build UBS to the stage where we are the firm with the fastest client-driven growth. At Group level, our leadership has been further strengthened by the appointment of three UBS senior managers to the Group Executive Board, helping to improve the integration of the Investment Bank with other businesses: Robert Wolf, Chairman and Chief Executive Officer, UBS Group Americas and President and Chief Operating Officer, Investment Bank; Alexander Wilmot-Sitwell, Joint Global Head, Investment Banking Department, Investment Bank and Marten Hoekstra,

Head of Wealth Management, Americas.

We are proud of our employees. We appreciate their achievements, loyalty and hard work, especially in these difficult times. The way in which they fulfill their responsibility towards our clients is the backbone of our business. As an employer, UBS therefore remains committed to investing in its employees. We are dedicated to creating a productive working environment based on fairness and meritocracy.

Outlook – As explained in our letter about the fourth quarter result for 2007, we expect 2008 to be another difficult year. We are focusing on the development of our client-driven businesses and the risk management of our remaining exposures to the US real estate market. Our employees and senior management are committed to managing the business in a disciplined fashion, while continuing to deliver outstanding services to clients. We believe this is the best way to earn your confidence.

25 March 2008



Marcel Ospel
Chairman



Marcel Rohner
Chief Executive Officer

Strategy and development

UBS's commitment

Client focus: UBS's purpose is to serve clients and provide them with confidence in financial decision making. UBS strives to truly understand clients' goals – the first priority is the success and interests of clients.

Growth through client-driven revenue streams: targeting sustainable and profitable growth by establishing a set of earnings streams based on true customer benefit.

Three businesses, one underlying trend – growth of wealth: based on sustained social and economic trends, all of UBS's businesses – Global Wealth Management & Business Banking, Global Asset Management and the Investment Bank – are focused on areas with above-average growth rates.

"One firm" approach: the synergies between UBS's businesses create additional sustainable earnings opportunities, on top of their individual growth rates. To UBS, the "one firm" approach means meeting client needs without expecting clients to worry about its internal organizational structures.

Challenges in 2007

Losses on sizeable trading positions in the US mortgage market led to UBS's first ever negative Group result: the sudden collapse in the US mortgage securitization market impacted UBS worse than anticipated, overshadowing the strength of UBS's client-driven businesses.

Lessons from these developments were drawn at all levels.

Measures taken

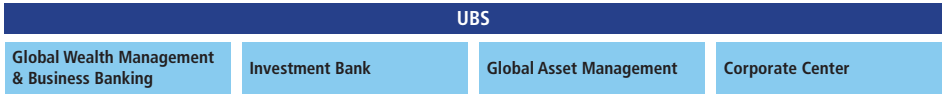
Closure of alternative investment business Dillon Read Capital Management in the first half of 2007.

Strategic realignment of the Investment Bank in early 2008 led to repositioning of the fixed income, currencies and commodities (FICC) business unit, in order to strengthen client-driven businesses and consolidate integration with wealth and asset management businesses.

Establishment of a workout group for mortgage-backed securities (MBS) and collateralized debt obligation portfolios, in order to improve risk management and reduce exposure.

Introduction of a new funding framework to improve balance sheet management discipline.

UBS's business structure

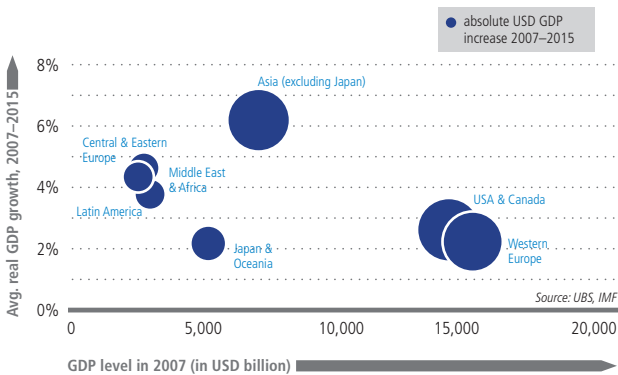


Integrated client-service model



Projected growth in all of UBS's key markets

Regional gross domestic product (GDP) growth forecasts



Financial performance

UBS results 2007

Losses on trading positions related to the US residential mortgage market totaled approximately CHF 21.3 billion.

Record net fee and commission income of CHF 30.6 billion, reflecting strong performance in wealth and asset management, investment banking and equity underwriting.

Operating expenses for financial businesses, at CHF 34.5 billion, were up 5% from 2006. Higher staff levels drove salary expenses and general and administrative expenses up.

Performance-based compensation declined, reflecting the losses on US mortgage related positions.

UBS performance indicators 2007

Return on equity was negative 10.2%, down from positive 26.4% in 2006.

Diluted earnings per share were negative CHF 2.49, compared with a positive CHF 5.57 in 2006.

Cost/income ratio for financial businesses was 110.3% in 2007, up significantly from 69.7% in 2006.

Net new money at CHF 140.6 billion, down from a record in 2006 (CHF 151.7 billion). The decrease was mostly driven by full-year outflows in Global Asset Management. Record net new money inflows were seen in Swiss and international wealth management (up by CHF 27.5 billion from 2006).

UBS financial highlights

	As of or for the year ended		% change from
<i>CHF million, except where indicated</i>	31.12.07	31.12.06	31.12.06
UBS Group			
Operating profit before tax (from continuing and discontinued operations)	(2,800)	15,523	
Net profit attributable to UBS shareholders	(4,384)	12,257	
Net profit attributable to minority interests	539	493	9
Financial businesses¹			
Operating income	31,032	47,171	(34)
Operating expenses	34,503	32,782	5
Net profit attributable to UBS shareholders from continuing operations	(5,235)	11,249	
Personnel (full-time equivalents)	83,560	78,140	7
UBS balance sheet and capital management			
Balance sheet key figures			
Total assets	2,272,579	2,346,362	(3)
Equity attributable to UBS shareholders	35,585	49,686	(28)
Market capitalization	108,654	154,222	(30)
BIS capital ratios			
Tier 1 (%) ²	8.8	11.9	
Total BIS (%)	12.0	14.7	
Risk-weighted assets	372,298	341,892	9
Invested assets (CHF billion)	3,189	2,989	7
Long-term ratings			
Fitch, London	AA	AA+	
Moody's, New York	Aaa	Aa2	
Standard & Poor's, New York	AA	AA+	
UBS performance indicators			
RoE (%) ³			
as reported	(9.4)	28.2	
from continuing operations	(10.2)	26.4	
Diluted earnings per share (CHF)			
as reported	(2.28)	5.95	
from continuing operations ⁴	(2.49)	5.57	
Cost/income ratio of the financial businesses (%)⁵	110.3	69.7	
Net new money, financial businesses (CHF billion)⁶	140.6	151.7	

¹ Excludes results from Industrial Holdings. ² Includes hybrid Tier 1 capital. ³ Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders less distributions (where applicable). ⁴ Details of the earnings per share calculation can be found in Note 8 in *Financial Statements 2007*. ⁵ Operating expenses / operating income less credit loss expense or recovery. ⁶ Excludes interest and dividend income.

Global Wealth Management & Business Banking

Business description

Global Wealth Management & Business Banking comprises the following business units, which are reported separately:

Wealth Management International & Switzerland provides a comprehensive range of products and services, individually tailored for wealthy and affluent clients around the world (except domestic US clients), via its extensive global branch network and through financial intermediaries. An open product platform gives clients access to a wide array of pre-screened, top-quality products from third-party providers that complement UBS's own lines.

Wealth Management US offers sophisticated products and services specifically designed to address the needs of emerging affluent, affluent, high net worth and ultra-high net worth domestic US clients.

Business Banking Switzerland offers high-quality, standardized products to the retail market for individual and small company clients, as well as more complex products and advisory services for larger corporate and institutional clients and financial institutions in Switzerland.

Performance in 2007

Wealth Management International & Switzerland:

Record net new money intake of CHF 125.1 billion (CHF 97.6 billion in 2006) led to an all-time high in invested assets of CHF 1,294 billion (up 14% from 2006).

Record pre-tax profit of CHF 6,306 million (up 21% compared with 2006).

Cost/income ratio improved for the fifth consecutive year to 50.9%.

Wealth Management US:

23% year-on-year increase in performance before tax to CHF 718 million despite weakening of the US dollar. Record recurring income and lower general and administrative expenses.

Strong net new money intake of CHF 26.6 billion (CHF 15.7 billion in 2006). Invested assets increased to CHF 840 billion reflecting rising markets, net new money intake and the first-time inclusion of McDonald Investments.

Business Banking Switzerland:

Record performance before tax of CHF 2,460 million (CHF 2,356 million in 2006), mainly due to income growth.

Continued high level of efficiency with cost/income ratio of 57.3%.

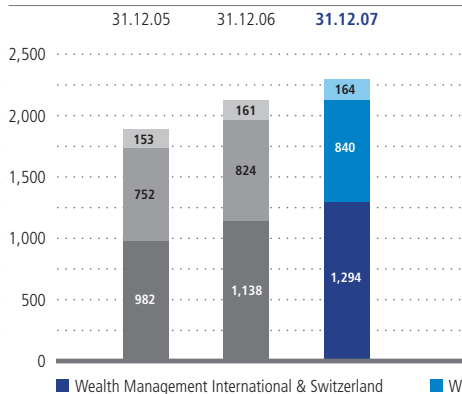
Business group / business unit reporting

<i>CHF million, except where indicated</i>	Wealth Management International & Switzerland		Wealth Management US		Business Banking Switzerland		Global Wealth Management & Business Banking	
As of or for the year ended	31.12.07	31.12.06	31.12.07	31.12.06	31.12.07	31.12.06	31.12.07	31.12.06
Total operating income	12,866	10,798	6,659	5,863	5,489	5,270	25,014	21,931
Total operating expenses	6,560	5,595	5,941	5,281	3,029	2,914	15,530	13,790
Business group / business unit performance before tax	6,306	5,203	718	582	2,460	2,356	9,484	8,141
Additional information								
Net new money (CHF billion) ¹	125.1	97.6	26.6	15.7	4.6	1.2	156.3	114.5
Invested assets (CHF billion)	1,294	1,138	840	824	164	161	2,298	2,123
Personnel (full-time equivalents)	15,811	13,564	19,347	18,557	15,932	15,913	51,090	48,034

¹ Excludes interest and dividend income.

Invested assets

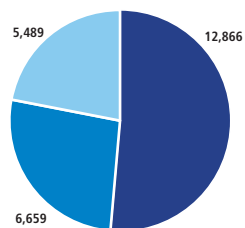
CHF billion



Total operating income

CHF million

As of 31.12.07 **Total: CHF 25,014 million**



Global Asset Management

Business description

Two principal client segments:

Institutional: corporate and public pension plans; endowments, municipalities, charities and private foundations; insurance companies; governments and their central banks; and supnationals.

Wholesale intermediary: financial intermediaries including Global Wealth Management & Business Banking and third-parties.

Broad range of investment capabilities and services:

Traditional, alternative, real estate and infrastructure investment solutions.

Over 500 investment funds, exchange-traded funds and others, plus service platform for hedge funds and other investment funds.

Performance in 2007

Pre-tax profit of CHF 1,315 million, down 6% from a year earlier. The decrease reflects closure costs of CHF 384 million from Dillon Read Capital Management. This charge offset the positive impact of increased performance and management fees in all business areas, coupled with the inclusion of acquisitions in Brazil and Korea.

Total net new money outflow of almost CHF 16 billion primarily in equity mandates in the institutional business, while the wholesale business had small net new money inflows.

Past weak investment performance in some capabilities, notably core/value equities and fixed income, are at the root of this development. Over the last year, UBS has taken steps to address these issues by reorganizing its equities business. In addition, UBS has made changes to the management in these areas, focused on recruiting high performing candidates and added new investment capabilities.

Business group reporting

	As of or for the year ended	
<i>CHF million, except where indicated</i>	31.12.07	31.12.06
Institutional fees	2,370	1,803
Wholesale intermediary fees	1,724	1,417
Total operating income	4,094	3,220
Total operating expenses	2,779 ¹	1,828
Business group performance before tax	1,315	1,392

Additional information

Invested assets (CHF billion)	891	866
Net new money (CHF billion) ²	(15.7)	37.2
Personnel (full-time equivalents)	3,625	3,436

¹ Includes CHF 384 million related to the closure of Dillon Read Capital Management. ² Excludes interest and dividend income.

Key focus areas

Distribution is integrated but regionally organized

Americas

Asia Pacific

Europe, Middle East & Africa

and delivered by globally coordinated business areas

Equities

Fixed income

Alternative and
quantitative
investments

Global real
estate

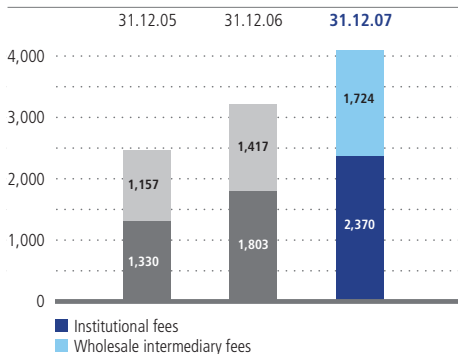
Global investment
solutions

Infrastructure

Fund services

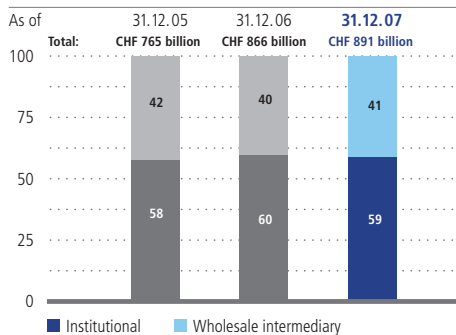
Total operating income

CHF million



Invested assets by client type

in %, except where indicated



Investment Bank

Business description

The Investment Bank comprises the following business units:

The *equities* business unit distributes, trades, finances and clears cash equity and equity-linked products. It also structures, originates and distributes new equity and equity-linked issues and provides research on companies, industry sectors, geographical markets and macro-economic trends.

The *fixed income, currencies and commodities (FICC)* business unit services corporate, institutional and public sector clients in all major markets globally. Major business areas include: credit, rates, foreign exchange and money markets, structured products, commodities, debt capital markets and emerging markets.

The *investment banking* department provides services to corporate clients, financial sponsors and hedge funds. Its advisory group assists on transactions and advises on strategic reviews and corporate restructuring solutions. Its capital markets and leveraged finance teams arrange the execution of primary and secondary equity, as well as debt issues worldwide.

Performance in 2007

Pre-tax loss of CHF 15,525 million (profit of CHF 5,943 million in 2006), due to losses in FICC on sizeable positions related to the US mortgage market.

Performance in other areas was strong:

Record equities revenues, up 13% from 2006. Retained market leadership in secondary equities trading.

Record investment banking revenues, up 39% from 2006, with market share gains exceeding growth of the global fee pool.

Recent developments

Repositioning of FICC to:

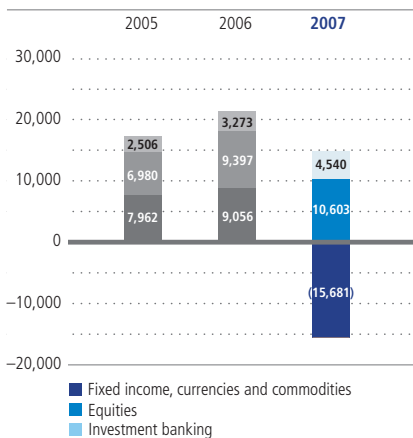
- strengthen client-facing businesses;
- improve cooperation with other parts of UBS;
- strengthen risk discipline; and
- create a workout group for mortgage-backed securities and collateralized debt obligation portfolios, including the positions that caused the 2007 losses.

Business group reporting

	As of or for the year ended	
<i>CHF million, except where indicated</i>	31.12.07	31.12.06
Equities	10,603	9,397
Fixed income, currencies and commodities	(15,681)	9,056
Investment banking	4,540	3,273
Adjusted expected credit loss	(19)	61
Total operating income	(557)	21,787
Total operating expenses	14,968	15,844
Business group performance before tax	(15,525)	5,943
Personnel (full-time equivalents)	21,932	21,899

Income by business area

CHF million



Equities: share of secondary trading

Global market share: 14.3% (No. 1)

As of 30.9.07



Source: Leading industry survey

¹ Pan-Europe is Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Greece, Austria, Belgium, Cyprus, Luxembourg, and Iceland. ² Asia (excluding Japan) is China, Hong Kong, India, Indonesia, South Korea, Philippines, Singapore, Malaysia, Taiwan, Thailand, Bangladesh, Cambodia, Fiji, Guam, Laos, Myanmar, Pakistan, Sri Lanka, Togo, Vietnam and Papua New Guinea. ³ Latin America is Brazil, Peru, Venezuela, Colombia, Panama, Chile, Argentina and Mexico.

Corporate governance

Key features

Strict dual board structure:

The *Board of Directors (BoD)* is the most senior body in the firm, with ultimate responsibility for its mid- and long-term strategic direction and supervision of executive management. The majority of its members are independent.

The *Group Executive Board (GEB)* has business management responsibility for UBS. Its members account to the BoD for the firm's results.

Separation of powers is achieved by limiting membership to one board and assigning the functions of Chairman of the BoD and Group Chief Executive Officer to different people.

Shareholder participation rights:

No restrictions on share ownership and voting rights.

Shareholders (individually or jointly) representing shares with an aggregate par value of CHF 62,500 can submit proposals for the agendas of shareholders' meetings.

Recent developments

Extraordinary general meeting on 27 February 2008 approved capital strengthening program:

Creation of conditional capital to issue CHF 13 billion of mandatory convertible notes to financial investors.

Creation of authorized capital of maximum CHF 10.4 million to replace cash dividend with stock dividend.

Compensation in 2007

67% decrease in total senior executive compensation. This reflects the losses occurred on specific trading positions in 2007, which led to an overall net loss for the Group as a whole, but also the strong performance in UBS's client-driven businesses.

No stock options were awarded to senior executives for the 2007 performance year.

No incentive award was granted to executive members of the BoD as their incentive award is dependent on overall Group financial performance.

Board of Directors

<i>Name</i>	<i>Address</i>	<i>Function(s) in UBS</i>	<i>Nationality</i>	<i>Year of initial appointment</i>	<i>Current term of office runs until</i>
Marcel Ospel	UBS AG Bahnhofstrasse 45 CH-8098 Zurich	Chairman	Swiss	2001	2008 ¹
Stephan Haeringer	UBS AG Bahnhofstrasse 45 CH-8098 Zurich	Executive Vice Chairman / Chairman of the Corporate Responsibility Committee	Swiss	2004	2010
Ernesto Bertarelli	Bemido SA 2, chemin des Mines CH-1211 Geneva 20	Member of the Nominating Committee	Swiss	2002	2009
Gabrielle Kaufmann-Kohler	Lévy Kaufmann-Kohler 3-5, rue du Conseil-Général CH-1205 Geneva	Member of the Nominating Committee / member of the Corporate Responsibility Committee	Swiss	2006	2009
Sergio Marchionne	Fiat S.p.A Via Nizza 250 I-10126 Torino	Member of the Compensation Committee	Canadian and Italian	2007	2010
Rolf A. Meyer	Heiniweidstrasse 18 CH-8806 Bäch	Chairman of the Compensa- tion Committee / member of the Audit Committee	Swiss	1998	2009
Helmut Panke	BMW AG Petuelring 130 D-80788 Munich	Chairman of the Nominating Committee	German	2004	2010
Peter Spuhler	Stadler Bussnang AG Bahnhofplatz CH-9565 Bussnang	Member of the Compensation Committee	Swiss	2004	2010
Peter Voser	Royal Dutch Shell plc 2501 AN NL-The Hague	Member of the Audit Committee	Swiss	2005	2008 ¹
Lawrence A. Weinbach	Yankee Hill Capital Management 300 East 42nd Street USA-New York, NY 10017	Chairman of the Audit Committee	American (US)	2001	2008 ¹
Jörg Wolle	DKSH Holding AG Wiesenstrasse 8 CH-8034 Zurich	Member of the Nominating Committee	German	2006	2009

¹ Proposed for re-election at the 2008 annual general meeting.

Group Executive Board



Marcel Rohner
Group Chief Executive Officer (Group CEO)
and Chairman & CEO Investment Bank



John A. Fraser
Chairman and CEO,
Global Asset Management



Walter H. Stuerzinger
Chief Operating Officer, Corporate Center



Marco Suter
Group Chief Financial Officer



Peter Kurer
Group General Counsel



Joe Scoby
Group Chief Risk Officer



Rory Tapner
Chairman and CEO, Asia Pacific



Raoul Weil
Chairman and CEO Global Wealth
Management & Business Banking

Corporate responsibility

UBS's commitment

Active advancement of corporate responsibility:

- participation in the UN Global Compact Initiative since its inception;
- founding member of the Carbon Disclosure Project; and
- 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, of 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”.

Milestones 2007

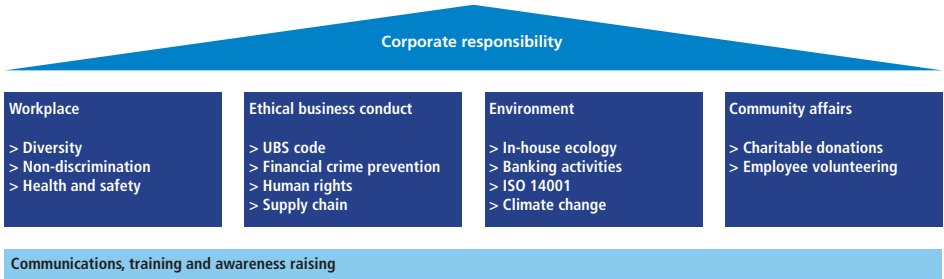
Socially responsible investments (SRI): SRI invested assets increased by 116% (to CHF 38.9 billion) in 2007. UBS launched new SRI products in Japan and Taiwan and launched strategy certificates for climate change, water and demographics.

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.

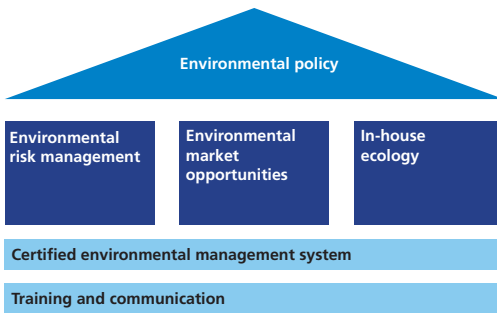
More than CHF 46 million contributed to charitable causes around the globe: nearly 8,000 employees spent over 80,000 hours in volunteering services.

Operational corporate responsibility

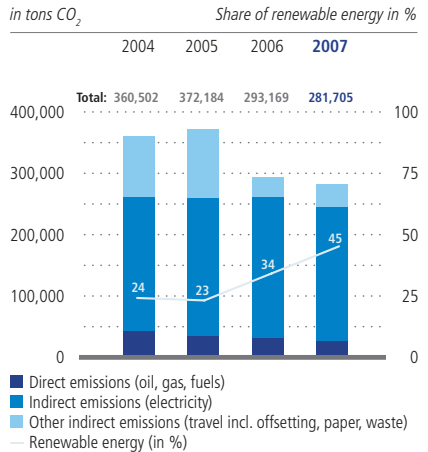


UBS is a component of the Dow Jones Sustainability Indexes: the FTSE4 Good Index and the Climate Leadership Index

Five principles of UBS's environmental policy



CO₂ footprint



How to find out more

Sources of information

Annual Report 2007 (all four reports are available in English and German, SAP no. 80531):

- *Strategy, Performance and Responsibility 2007*;
- *Risk, Treasury and Capital Management 2007*;
- *Corporate Governance and Compensation Report 2007* (SAP no. 82307); and
- *Financial Statements 2007*.

These reports contain information that is current as of the date of these reports. We undertake no obligation to update this information or notify you if it should change or if new information should become available.

Quarterly reports: we provide detailed quarterly financial reporting and analysis, including comment on the progress of our businesses and key strategic initiatives. These quarterly reports are available in English.

How to order reports: these reports are available in PDF format on the internet at www.ubs.com/investors/topics in the reporting section. Printed copies can be ordered from the same website by accessing the order/subscribe panel on the right-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference where applicable, from UBS AG, Information Center, P.O. Box, CH-8098 Zurich, Switzerland.

Websites: our Analysts & Investors website at www.ubs.com/investors offers a wide range of information about UBS, financial information (including SEC filings), corporate information, share price graphs and data, an event calendar, dividend information and recent presentations given by senior management to investors at external conferences.

Contacts

Switchboards

Zurich +41-44-234 1111
London +44-20-7568 0000
New York +1-212-821 3000
Hong Kong +852-2971 8888

Investor Relations

Hotline
Zurich +41-44-234 4100
New York +1-212-882 5734
sh-investorrelations@ubs.com

Media Relations

Zurich +41-44-234 8500
London +44-20-7567 4714
New York +1-212-882 5857
Hong Kong +852-2971 8200
mediarelations@ubs.com

Shareholder Services

Hotline +41-44-235 6202

UBS AG
Shareholder Services
P.O. Box
CH-8098 Zurich, Switzerland
sh-shareholder-services@ubs.com

US Transfer Agent

Calls from the US +866-541 9689
Calls outside the US +1-201-680 6578

BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310, USA
sh-relations@melloninvestor.com

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UBS AG
P.O. Box, CH-8098 Zurich
P.O. Box, CH-4002 Basel

www.ubs.com