

Corporate Responsibility

As a leading financial services firm, one of our main purposes is to create long-term value. We achieve this by providing our clients with value-added products and services, promoting a corporate culture that adheres to high ethical standards, and by generating superior and sustainable returns for our shareholders. We firmly believe that sustainable growth and investment for any business is also dependent on what it does above and beyond what laws and regulations require. It is why we are committed to creating a working environment based on the values of equal opportunity, diversity and meritocracy. We have also adopted measures to protect the environment, we adhere to high social standards and contribute to the communities we are a part of. All our activities are underpinned by our governance structure, which complies with the leading codes of best practices.

>> For more on our workforce, see the employees section.

>> For more on governance, see the corporate governance section.

Adherence to the UN Global Compact initiative

In 2000, UBS was one of the first companies to join the UN Global Compact initiative. Since then, the Global Compact

has expanded its scope, and it now comprises ten principles covering the areas of human rights, labor standards, environment and corruption. Its geographic reach is now global, with over 2,900 business participants from 100 countries adhering to it at the end of 2006. 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 action. Key among these, from our 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 we also participate in other Global Compact-related endeavors, including its Swiss network, which was established in 2006.

Human rights

In the area of human rights, UBS in November 2006 adopted a statement in support of basic human rights, signaling to employees, clients and society that we recognize the significance of promoting and respecting human rights within our sphere of influence.

The statement does not, of course, mean that we only became aware of human rights issues in November 2006.

UBS Statement on Human Rights

The international human rights norms are a call upon governments to respect these rights of their citizens to the largest extent possible. Although international human rights are not directly enforceable upon the private sector, it is our view that private companies such as UBS can and should support governments in implementing human rights. In this spirit, the UBS Statement on Human Rights sets out our approach to promote and respect human rights standards within our sphere of influence. This is in line with our endorsement of the UN Global Compact and its underlying principles.

Our ability to promote and respect human rights standards depends on the nature of our relationship with the various stakeholders with which we engage: as an employer, we act in line with the principles underlying human rights; with suppliers, our level of influence is lower, but we can act to a certain extent through the contractual agreements we have with them; our level of influence is limited with our clients.

The human rights principles below describe our aspirations. We endeavor to embed the principles in our culture by integrating them into our business practices and internal communications.

Employees

We respect and support human rights standards through our human resources policies and practices.

Suppliers and Contractors

We strive to assess the business practices of significant suppliers in light of human rights standards and integrate relevant aspects into our contractual relationships with them.

Clients

We aim to promote the responsible use of our products and services by taking human rights standards into account when vetting prospective clients and executing transactions.

We regularly report on our progress in implementing this Statement as part of UBS's annual reporting.

Financial institutions have been dealing with human rights issues for years, but have frequently employed different descriptions for the issue. For example, human resources and diversity policies for equal opportunity and anti-discrimination programs can address human rights issues, as can employment and health and safety policies. The UBS Statement on Human Rights both sets out our position and embraces the key issues in a single document.

Labor standards

UBS possesses well-established human resources policies and practices that any responsible company would be expected to have and we continually review policies and practices to ensure that labor standards are respected.

>> For more on our labor standards, see the employee section.

Environment

We were one of the first signatories of the United Nations Environment Program's Bank Declaration (UNEP) in 1992, which committed us to integrating appropriate environmental measures in our activities. Today, our efforts 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 and in-house operations. We consider efficient and sustainable management of our energy requirements, and the measures we have taken to reduce our carbon emissions, as an important factor in being a responsible corporation. In February 2006, we set a target to reduce our carbon emissions in 2012 by 40% from 2004 levels.

>> For more information on the environment, see the end of this section.

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.

>> For more information on our AML activities, see next page.

Our corporate responsibility efforts are widely recognized. We have been a component of the Dow Jones Sustainability indices since their inception in 1999. The indices track the financial performance of the leading sustainability-driven companies worldwide. We are also included in the FTSE-4Good Index, which measures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights. We have 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.

Our corporate responsibility processes

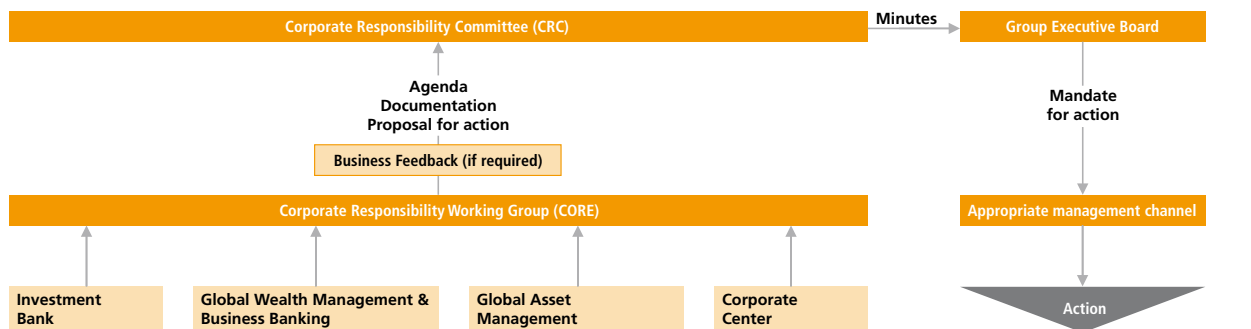
In 2001, we created a Corporate Responsibility Committee (CRC). It assesses how to meet the evolving expectations of our stakeholders related to our corporate conduct. If the committee concludes that there is a gap between what stakeholders expect and what we practice – and that this gap represents either a risk or an opportunity to the firm – the CRC suggests appropriate actions to management.

The committee is chaired by Marco Suter, Executive Vice-Chairman of UBS and Group Environmental Representative, and includes two other members of the Board of Directors and eight senior UBS executives representing our businesses, as well as a number of corporate functions, including legal and communication. The committee meets two to three times a year.

The committee's work is supported by a working group that comprises 17 functional experts from all our Business Groups. It monitors and evaluates any new issues potentially related to corporate conduct, and ensures that all are brought to the attention of the CRC.

Neither the CRC nor the working group runs operational processes related to corporate responsibility; rather they ensure that UBS considers changing societal expectations in its business practices.

UBS Corporate Responsibility Governance Structure



CR training and awareness raising

It is important that our employees are aware of UBS's corporate responsibility efforts and processes. Apart from the general information published on our intranet and internet, in 2006 we directly provided nearly 3,000 employees in all businesses with information on the approach UBS takes towards corporate responsibility through a range of training sessions.

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 and corporate and personal responsibility forms part of the Business Group's management training program.

Contributing to society – preventing money laundering

Extensive and constant efforts to prevent money laundering and terrorist financing are important contributions to society. The integrity of the financial system is the responsibility of all those involved in it. We take our duties extremely seriously – in protecting both the system at large and our own operations. Our stakeholders expect us to be at the forefront of developing strategies and implementing measures necessary to achieve these objectives. The threats posed by money laundering and terrorism are real, and we all have a role in contributing to the fight against them as effectively as possible.

The Group Money Laundering Prevention Unit leads our efforts to fight money laundering, corruption, and the fi-

ancing 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 potential criminals nor unduly hinders our normal banking business. While doing so, we remain completely committed to the respect and protection of our clients' privacy, a cornerstone of our firm's philosophy, which we integrate into our money laundering prevention structure to the best of our abilities.

The best way to achieve our goals is through a real spirit of partnership across the firm – between those who manage client relationships and the risk managers and controllers who support them. Our employees should be focused on really getting to know clients, understanding their needs – and then questioning things that do not make sense. In order to assist our employees in staying ahead of the curve in respect of their "know your customer" (KYC) skills and the identification of new trends in suspicious behavior, we ensure that they undertake regular training courses, in the form of both on-line training and seminars. In fact, we believe that one reason clients choose UBS is because they are confident of our first-class reputation for integrity.

To prevent money laundering, we take a risk-oriented approach that is tailored to our different business lines and their specific risks and exposures. This includes establishing, where applicable, consistent criteria by which a business relationship should be judged "higher-risk". We utilize advanced technology to assist us in the identification of transaction patterns or unusual dealings. In 2006, the shift from the traditional "rule based" approach to AML regula-

Corporate responsibility in UBS guidelines and policies

The importance we attach to responsible corporate behavior is reflected in the various documents and policies defining the rules and principles that we apply to the behavior of UBS employees. Our guidelines define the way we do business and we regularly monitor compliance.

Our **Vision and Values** state that we are a member of the global community and should behave as a responsible corporate citizen. Our firm and its employees should conduct themselves in a manner that is above reproach, as preserving our integrity is vital to our most valuable asset – our reputation.

The **Code of Business Conduct and Ethics of UBS** sets forth the policies and practices which we expect all employees of UBS to follow. It 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 our employees, regardless of gender, ethnicity, race, nationality, age, disability, sexual orientation, or religion.

Whistleblowing protection

We have a whistleblowing policy to encourage employees to report any breach of law, regulations or codes of ethics to the appropriate 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. We have therefore established guiding principles that outline our approach in 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

tion to “principle based” regulation (including the so called “risk based” approach) continued. This requires UBS to continue to reassess its own policies and procedures, focusing on our particular risks, further develop our own risk based model and ensure we continue to differentiate with external stakeholders on what is possible regarding terrorism and money laundering prevention. For these reasons, risk based AML policies were updated during the year both at Group level and in each Business Group. This allowed us 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) while allowing divergence where this made sense.

Last year, we launched the “Look Again” campaign around money laundering prevention to build awareness among personnel with a simple, clear message. We are confident that this will help to ensure that employees continue to focus on this key issue. In addition, we continue to work to enhance the effectiveness of our existing transaction monitoring systems and, as important, the effectiveness of their usage.

We remain strongly committed to promoting stringent anti-money laundering standards for the financial industry as a whole. As a prime example of this, UBS was one of the driving forces behind the launch of the Wolfsberg Group and its issuance of global anti-money laundering principles in 2000. In subsequent years, we also strongly supported its

monitoring, screening, and searching guidelines, its correspondent banking principles, and its efforts to suppress terrorism finance. Most recently, we have collaborated on AML guidance for mutual funds and investment and commercial banking and in a statement against corruption.

As part of Wolfsberg Group, and at the request of Russian and Chinese banking authorities, we have held seminars in both countries on how to prevent money laundering. In addition to the training programs accomplished within the Wolfsberg Group’s context, UBS frequently conducts, at the request of the Swiss Ministry of Foreign Affairs, training sem-

GRI

See www.ubs.com/corporateresponsibility for the GRI content index. The GRI content index refers to the GRI 3 Guidelines and the Financial Services Sector Supplements which form together a voluntary reporting framework that provides guidance on how organizations can disclose their sustainability performance.

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

We have committed ourselves to fighting money laundering, corruption and terrorist finance. To do that, we have a number of policies in place, an effective risk management framework, and a dedicated money laundering prevention unit. We aim 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

We have a policy governing 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 customers, employees, and shareholders.

Environmental management

UBS is committed to integrating environmental considerations into all its business activities. Our environmental policy has put the practices prescribed by UNEP into operation in the areas of banking and in-house operations.

Human rights

The UBS Statement on Human Rights sets out our approach to promote and respect human rights standards within our sphere of influence.

inars for countries still developing anti-money laundering and/or contra terrorist financing legislation.

Investing in our communities

The “raison d’être” behind our well-established community affairs program is the recognition that in addition to the economic impact generated through our business activities, UBS seeks to have a positive influence on the social and environmental well being of local communities in which it is active.

This encompasses activities such as matched-giving schemes, direct cash donations to selected organizations, employee volunteering, in-kind donations, disaster relief efforts, and/or partnerships with community groups. 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, building a stronger community and the environment.

Overall, in 2006, UBS and its affiliated foundations donated more than CHF 38 million to support charitable causes. Our employees, through their donations and volunteer efforts, make further significant contributions to the communities they live in. Last year, more than 3,800 employees spent over 50,000 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.

Moreover, besides direct donations from our business, UBS has established a number of independent 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 2006. 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, archeological 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.

Besides the engagement of the firm and its employees, we also give our clients the opportunity to contribute to charitable causes. The UBS Optimus Foundation invests donations from our 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 our clients reaches the projects. In 2006, UBS Optimus Foundation spent more than CHF 9 million supporting 53 projects in Africa, Asia Pacific, Europe, North and South America.

Some examples of our global community affairs activities

In the **UK**, we have had a partnership with Deptford Green, a secondary school in south-east London, for more than 12 years. Through the partnership, we introduced the UK’s first adult-to-pupil mentoring scheme, and have since given many of the school’s students work experience. A study by Roots & Wings, a charity, has shown that pupils mentored by UBS employees are 20% more likely to find work. The program has also had a significant positive impact in the wider community. Some of this is attributable to the 7,000 hours which UBS employees have contributed to the school in the

last three years alone. Our partnership with Deptford Green received national recognition with the UK Charity Award in 2006.

In **Switzerland**, among other projects, we support the “Lukas house”, a facility for the handicapped. Located in Grabs, it provides a home and workplace for about 50 handicapped adults. In autumn 2006, UBS employee volunteers built, together with the handicapped residents, a path called “the school of walking”. Through a series of exercises, the path helps to raise the self-esteem for the

adults living and working in the “Lukas house” while improving their cognitive ability.

In the **Asia Pacific** region, UBS assists the Education Development Fund of Thailand’s (EDF) “Barter between Brothers” project in northeastern Thailand, a rural area frequently ravaged by drought. A substantial number of students still lack proper food to eat, stunting their growth. EDF, realizing the importance of lunch meals and the need for agricultural skills training, teaches them how to grow oyster mushrooms, breed frogs

SRI invested assets

CHF billion, except where indicated	GRI ¹	For the year ended			% change from
		31.12.06	31.12.05	31.12.04	31.12.05
UBS		2,989	2,652	2,217	13
Socially Responsible Investments (SRI)					
Positive criteria	F9	1.84	1.05	0.78	75
Engagement	F9	55.81	38.90	31.60	43
Exclusion criteria	F9	16.17	10.73	7.32	51
Total SRI assets	F9	73.82	50.68	39.70	46
Proportion of invested assets (%) ²		2.47%	1.91%	1.79%	
Performance of UBS's SRI Funds (%)					
Absolute performance Eco Performance ³		10.82	21.79	4.66	
Relative performance Eco Perf. vs. MSCI ⁴		(0.41)	(5.72)	(1.30)	

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. ³ Eco Performance = UBS (Lux) Equity Fund – Eco Performance B. ⁴ Benchmark: MSCI World (r).

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.

Engagement: investors enter into a dialog with boards or management of companies with the aim of influencing corporate behavior and policies, if appropriate, in relation to environmental, social or ethical issues.

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

Socially Responsible Investments

UBS has strong expertise in incorporating environmental and social aspects into its research and advisory activities. In addition to financial considerations, Socially Responsible Investments (SRI) put special focus on environmental, social, or ethical criteria.

Our Global Asset Management business offers a wide range of SRI products to both private and institutional investors. In Switzerland and Japan, we use an approach that actively selects the best performers in each industry on environmental and social criteria. The SRI equity product offering includes a Global fund, a European fund, a Japanese fund

and a Global Innovators fund. The latter mainly invests in small companies with products that have significant potential in the areas of renewable energy and energy efficiency, mobility, water management, food and healthcare. The SRI funds use both our SRI and mainstream research platforms to construct a portfolio of leading SRI stocks. In the US, Global Asset Management manages various institutional accounts that exclude certain companies or sectors using "negative" screening criteria. In the UK, Global Asset Management seeks to influence corporate responsibility and corporate governance performance of the companies it invests in. UBS's open architecture also allows clients to invest in SRI products from third-party providers.

and catfish – which not only provide food for the lunches but also allow them to barter with other schools. UBS also underwrites a series of scholarships that enable students to continue on to junior high school. In November 2006, UBS employees from Tokyo, Seoul, Hong Kong, Bangkok and Singapore spent two days helping students, their teachers and families in various activities.

In the **Americas**, one of our top priorities is to support the development of children and youth by working with the public education system by

assisting elementary and secondary schools in UBS's main business locations. In New York, for example, UBS helps foster environments conducive to learning by funding the YMCA's after-school literacy programs and by building an information technology network to link charter public schools. In Connecticut, the focus extends to higher education, as exemplified by the new "UBS Student Success Center" at Norwalk Community College. In Chicago, contributions fund the "Boys & Girls Club" and the "After School Matters" programs, both of which complement the

curriculum of the public school system. In addition, UBS employees volunteer to help the schools by hosting museum field trips, painting classrooms and murals, reading and tutoring, donating supplies and serving on the boards of various educational organizations.

>> For more information on our **Community Affairs program**, see www.ubs.com/corporateresponsibility.

In the Investment Bank, UBS has a well-established SRI research team that produces original research on areas of increasing or diminishing risk and hosts conferences on timely topics. It also monitors ratings provided by external SRI agencies, organizes collaborative research by analysts about emerging SRI themes, and writes about and advises on quantifying the effects on share prices of companies with exposure to such issues. A SRI page is available to UBS's institutional clients on UBS's Research Web. In 2006, the Investment Bank launched the world's first biofuel index – the UBS Diapason Global Biofuel Index and the world's first emissions index – the UBS World Emissions Index. Index-linked products offered by the Investment Bank allow clients to participate in the indices' performance.

At Global Wealth Management & Business Banking, the key focus of activities in the last two years has been making client advisors aware of SRI-related issues. In 2006, senior executive management launched a strategy aiming to fully integrate SRI into the UBS Client Experience framework. The UBS Climate Change Strategy Certificate, an actively managed basket of around 20-25 stocks, was launched in February 2007 from the cooperation of existing capabilities in the investment banking and asset management businesses. The certificate gives investors access to innovative companies that develop solutions to fight climate change. The investment areas are energy production (renewable energy and cleaner energy) and energy efficiency (in buildings, in transport and in industrial processes and products).

Addressing climate change

UBS acknowledges that climate change represents one of the most significant environmental challenges of our times. It will have wide-ranging effects on ecosystems, on societies and on economies worldwide. Business will be shaping innovative strategies in response to new regulations as well as emerging market risks and opportunities. So, how are we responding?

Reducing our direct impact

Although our direct contribution to climate change as a financial institution is rather small compared to other industries, UBS considers the efficient and sustainable management of energy and the reduction of its CO₂ emissions to be an important aspect of our corporate responsibility. The Group Executive Board decided in February 2006 to set a group-wide CO₂ emission reduction target of 40% below 2004 levels by 2012. We seek to achieve this target by increasing in-house energy efficiency whenever possible, by purchasing more green energy, and by offsetting emissions, including those caused by our business-related air travel.

We have started to roll out ambitious programs to help us achieve this target.

As an immediate measure, we decided to offset all CO₂ emissions that resulted from our entire 2006 business air travel, i.e. over 100,000 tons of CO₂, representing about a quarter of our total CO₂ emissions. Offsetting means that we indirectly neutralize our business air travel emissions by investing in third party projects that reduce an equivalent amount of greenhouse gas emissions. We selected four projects in Brazil, Russia, India, and China, on the basis of their adherence to international quality standards, of their additional environmental and social benefits, and of their geographical proximity with important emerging markets. We purchased offsets from the following projects: in Brazil, local farmer cooperatives built small scale hydro power plants in an isolated region of the State of Rio Grande do Sul; in North West Russia, a wood producer replaced coal boilers with a biomass heating plant fueled by locally available wood waste; in Andhra Pradesh, India, a sugar cane factory captures methane from its waste waters and uses it as biofuel for clean power generation; in the Shandong Province of China, 15 wind turbines were built, thereby providing a cleaner source of energy in a region dominated by coal

power production. All four projects also boast significant social benefits such as local jobs, education, health and rural empowerment.

In parallel, we also continued our efforts to improve in-house energy efficiency and green energy purchasing. Some examples of measures taken in 2006 to that effect were:

- UBS signed a new agreement in Zurich, under which all the electricity supply for our buildings there now comes from renewable sources (roughly 100 GWh per year). As a result, more than three quarters of the total energy we consume in Switzerland now comes from renewable energy sources and district heating.
- In Stamford, Connecticut, the location of one of our main trading floors and one of our largest buildings globally, we are beginning to see the benefits of a major retrofitting project that included infrastructure upgrades and improved energy monitoring. Our 2006 electricity consumption decreased by 5% despite significant business growth and higher occupancy density. The estimated

Environmental management

Our commitment to the environment is underpinned by a global environmental management system certified under the ISO 14001 standard. The system covers both banking activities and in-house operations and was successfully re-certified in 2005 by our auditors SGS. The current certificate is valid until 2008.

We remain committed to integrating environmental considerations into all our business activities. Our environmental policy is based on five principles:

- we seek to consider environmental risks in all our businesses, especially in lending, investment banking, advisory and research, and in our own investments.
- we seek to pursue opportunities in the financial market for environmentally friendly products and services, such as Socially Responsible Investments.
- we are committed to actively seeking ways to reduce our direct environmental impact on air, soil and water from in-house operations, with a primary focus on reducing greenhouse gas emissions. We will also seek to assess the environmental impact of our suppliers' products and services.
- we ensure efficient implementation of our policy through a global environmental management system certified according to ISO 14001 – the international environmental management standard.
- we invest in know-how and integrate environmental considerations into internal communications and training.

annual energy saving of 2.3 GWh lowered costs by over USD 270,000 and cut indirect CO₂ emissions by 740 metric tons. Additionally, the measures helped reduce the building's draw on the local electricity grid, helping to mitigate some of the increased demand in the city of Stamford itself.

- A new functionality for PC workstations was introduced in Switzerland. Called Wake on LAN, this functionality allows PCs to be 'shut off' after work, and be 'woken up' for software upgrades during the night. It was rolled out for over 30,000 workstations and notebooks in Switzerland in 2006, and is expected to result in annual power savings of 8 GWh, and worth CHF 1 million.

Combined with our air travel offsetting, such measures allowed us to reduce our CO₂ emissions by 19% compared to 2004, an important step toward achieving our 40% target by 2012.

Engaging investors and markets

UBS is a founding member of the Carbon Disclosure Project. It collaborates with other institutional investors by writing to the largest quoted

companies in the world asking for information concerning their greenhouse gas emissions. The project asks companies to identify the business implications of their exposure to climate-related risks and explain what they are doing to address these risks. In 2006, 87% of responding companies flagged climate change as posing commercial risks or opportunities to their business, but less than half of them said they had implemented emission reduction programs.

At the end of January 2007, Wealth Management Research published a report examining the scientific, technological, and economic effects of climate change. Its authors argue that climate change will have far-reaching implications for the global economy and the worldwide investment climate, and conclude 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.

UBS Investment Bank's SRI research team also continues to see climate change as a critical risk issue for firms, markets and investors. The UBS Climate Change conference of 2005 was followed by a further climate change event in February 2006 with Professor Sir David King, Chief Scientific Adviser to the UK government, once again the keynote speaker. Later in the year the annual SRI conference focused on "Water Scarcity – the defining crisis of the 21st century", extending the team's consideration of climate change-related issues to some of its physical effects. The UK government's Stern Review on the economics of climate change noted that the impact of climate change would be felt most strongly by changes in water availability around the world.

UBS trades carbon financial instruments on behalf of clients 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).

The Group Executive Board is responsible for approving UBS's environmental policy and for nominating a Group Environmental Representative to guide UBS's environmental strategy and raise relevant environmental concerns with the Corporate Responsibility Committee. The primary responsibility for implementing environmental policy lies within the Business Groups.

Environmental performance indicators

Every year, we provide a detailed description of our environmental performance using key performance indicators (KPIs), which allow for annual comparisons. They are based on reporting standards such as the Global Reporting Initiative (GRI) and include environmental performance indicators tailored to financial institutions.

The management indicators below provide an overview of our environmental management system at Group level.

Managing environmental risks in our business transactions

For UBS, it is key to identify, manage, or control environmental risks in our business transactions. An example of such risks might be 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 collateral onto its own books.

Investment Bank

Our Investment Bank has a global environmental risk policy which applies to all transactions, services and activities it performs. This policy is supported by an environmental risk framework that is integrated into the Investment Bank's due dili-

gence and approval processes. Investment Bank staff identify potential environmental risks in the initial due diligence phase and alert the Business Group's Environmental Risk Group of significant potential risks. Assessments by lawyers and/or external consultants are routinely sought for certain sectors and products. The Environmental Risk Group 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. In 2006, 48 such internal assessments were carried out.

Global Wealth Management & Business Banking

The environmental risk policy of Global Wealth Management & Business Banking applies to all credit transactions of this Business Group. The policy ensures, firstly, that portfolios with significant exposure to environmental risk are identified and monitored. Secondly, the policy specifies a generic procedure for managing environmental risk in the credit process. The actual environmental assessments are integrated into these processes and tailored to client segments, transaction size and risk exposure. This generic environmental risk assessment involves a three-step procedure. The responsible client advisor or a specialized business unit assisting 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

Environmental management indicators

Full-time equivalent, except where indicated	GRI ¹	For the year ended			% change from
		31.12.06	31.12.05	31.12.04	31.12.05
Personnel financial businesses²		78,140	69,569	67,407	12
In specialized environmental units ³		30	25	22	18
Environmental awareness raising					
Employees trained	F5	2,489	2,251	1,664	11
Training time (hours)	F5	1,498	1,214	2,124	23
Specialized environmental training					
Employees trained	F5	977	1,010	602	(3)
Training time (hours)	F5	1,758	2,066	1,932	(15)
External environmental audits⁴					
Employees audited	F6	30	147	11	(80)
Auditing time (days)	F6	6	17	2	(67)
Internal environmental audits⁵					
Employees audited	F6	154	216	148	(29)
Auditing time (days)	F6	44	39	29	13

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 2006. ³ 2006: 25 UBS and 5 external employees (FTE). ⁴ Audits carried out by SGS Société Générale de Surveillance SA. Surveillance audits took place in 2004 and 2006. 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.

Group's environmental risk unit. In 2006, 25 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 dialogue about possible remedial action, or it may decline the transaction altogether.

Global Asset Management

The formal environmental risk matrix introduced in 2004 within Global Asset Management, which assesses the reputation and environmental risks that its investments might imply, is reviewed annually for applicability and comprehensiveness. It continues to form part of the environmental management system employed within the Business Group.

Environmental and CO₂ footprints

We directly impact the environment in a number of ways. Our 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 our use of these resources can boost our operating margins and enhance environmental performance and, therefore, we have a series of measures that manage our environmental impact efficiently.

Every year, we analyze our environmental and CO₂ footprints. The graph below shows the relative environmental and CO₂ footprints of our energy consumption, business travel, paper consumption and waste. It also breaks down our energy consumption according to source, and displays their related environmental and CO₂ footprints. This shows that the type of energy mix we purchase has a strong influence on our overall environmental and CO₂ footprint.

In 2006 we reviewed our entire CO₂ monitoring and reporting system in order to externally verify our CO₂ emissions

Environmental indicators per FTE

	Unit	2006	Trend	2005	2004
Total direct and intermediate energy	kWh/FTE	12,736	→	12,925	13,095
Total indirect energy	kWh/FTE	23,974	↘	26,024	24,699
Total business travel	Pkm/FTE	12,544	↑	10,659	9,617
Total paper consumption	kg/FTE	188	→	197	198
Total waste	kg/FTE	303	↘	325	363
Total water consumption	m ³ /FTE	26.0	→	26.0	25.9
Total environmental footprint	kWh/FTE	38,148	↘	41,129	38,868
CO ₂ footprint	t/FTE	3.93	↓	5.24	5.27

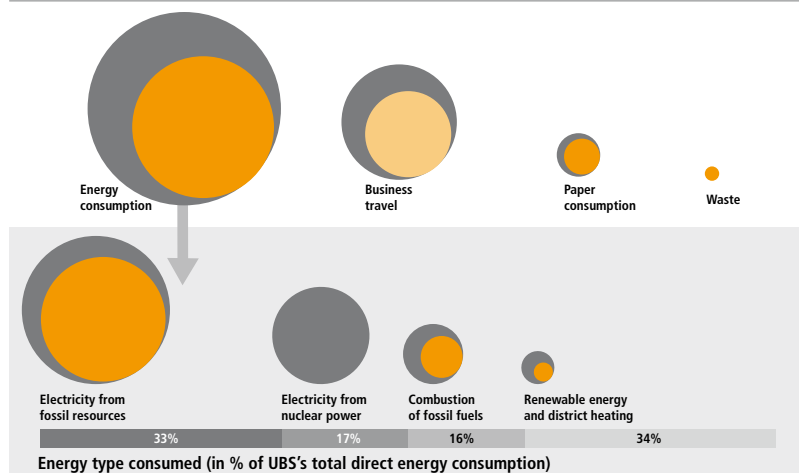
Legend: kWh = kilowatt hour; Pkm = person kilometer; kg = kilogram; m³ = cubic meter; t = ton

according to ISO 14064, the new international standard for quantification and reporting of greenhouse gas emissions (see verification statement on page 164). The review showed we had overstated our reported CO₂ emissions in the past by applying overly conservative assumptions. By applying the latest internationally accepted standards for converting air travel and electricity consumption into CO₂ emissions, our reported emissions decreased significantly.

In 2006, UBS's sustained growth led to significant increases in electricity consumption (+6%) and business travel (+24%). Pursuant to our climate change strategy, we decided to mitigate this trend by purchasing more renewable energy, and by offsetting our air travel. The percentage of renewable energy we source rose from 23% in 2005, to 34% in 2006. Combined with the purchasing of offsets (see climate change article on page 160), this cleaner energy mix enabled us to decrease our total CO₂ footprint by 21% compared with 2005 (see CO₂ footprints in the table below).

>> More detailed information on UBS's environmental management system is available on the internet: www.ubs.com/environment.

Environmental and CO₂ footprints



The size of the circles represents the scale of the environmental impact for each factor – the larger the circle area, the greater the environmental significance of the process.

- **Environmental footprint:** shows the environmental impact (i.e. through emissions, use of resources, waste) of each corresponding process. This includes all relevant upstream and downstream processes, such as acquisition of raw materials, manufacturing, transport and disposal. The environmental footprint is approximated based on the amount of non-renewable energy consumed.
- **CO₂ footprint:** equals the quantity of CO₂ that emerges through the corresponding energy consumption process.
- **CO₂ offsets:** shows the CO₂ footprint that has been offset by investing in third-party CO₂ reduction projects.

Environmental indicators¹

	GRI ³	2006 ²			2005 ²	2004 ²
		Absolute normalized ⁴	Data quality ⁵	Trend ⁶	Absolute normalized ⁴	Absolute normalized ⁴
Total direct and intermediate energy consumption⁷		951 GWh	***	→	918 GWh	895 GWh
Total direct energy consumption⁸	EN3	154 GWh	***	↘	169 GWh	203 GWh
natural gas		85.5%	***	→	86.0%	84.3%
heating oil		11.8%	***	↗	11.0%	11.4%
fuels (petrol, diesel, gas)		2.7%	***	↘	3.0%	4.3%
renewable energy (solar power, etc.)		0.03%	***	↑	0.02%	0.02%
Total intermediate energy purchased⁹	EN4	797 GWh	***	↗	749 GWh	692 GWh
electricity from gas-fired power stations		13.2%	***	↘	14.3%	15.5%
electricity from oil-fired power stations		4.5%	***	→	4.3%	4.4%
electricity from coal-fired power stations		21.7%	**	→	22.9%	23.8%
electricity from nuclear power stations		20.5%	***	↓	29.9%	24.9%
electricity from hydroelectric power stations		21.4%	***	↑	12.1%	16.3%
electricity from biomass and waste power stations		0.5%	**	→	0.5%	0.5%
electricity from wind power stations		2.0%	***	↑	1.3%	1.6%
electricity from other renewable resources		10.3%	***	↑	9.3%	8.0%
district heating		6.0%	**	↗	5.4%	5.1%
Total indirect energy consumption¹⁰	EN4	1,790 GWh	***	→	1,849 GWh	1,689 GWh
Total business travel	EN29	936 m Pkm	***	↑	757 m Pkm	658 m Pkm
rail travel ¹¹		4.1%	**	↗	3.7%	5.0%
road travel ¹¹		0.6%	**	↘	0.7%	0.8%
air travel		95.3%	***	→	95.6%	94.2%
Number of flights (segments)		402,629	***	↑	358,992	323,467
Total paper consumption	EN1	14,013 t	***	→	14,020 t	13,551 t
post-consumer recycled	EN2	6.2%	***	↓	7.1%	8.1%
new fibers ECF + TCF ¹²		93.8%	***	→	92.9%	91.9%
new fibers chlorine bleached		0.0%	***	→	0.0%	0.0%
Total waste	EN22	22,631 t	***	→	23,073 t	24,852 t
valuable materials separated and recycled		58.2%	***	↓	64.8%	64.4%
incinerated		12.7%	***	↑	9.3%	8.0%
landfilled		29.1%	**	↗	25.9%	27.6%
Total water consumption	EN8	1.94 m³	**	→	1.84 m ³	1.77 m ³
Total environmental footprint¹³		2,848 GWh	**	→	2,922 GWh	2,658 GWh
Total CO₂ footprint¹⁴		293,169 t	***	↓	372,184 t	360,502 t
Total direct CO ₂ (GHG scope 1) ¹⁵	EN16	31,519 t	***	↘	34,556 t	41,858 t
Total indirect CO ₂ (GHG scope 2) ¹⁵	EN16	230,015 t	**	→	225,854 t	219,727 t
Total other indirect CO ₂ (GHG scope 3) ¹⁵	EN17	132,635 t	***	↑	111,773 t	98,918 t
Total CO ₂ e offsets (business air travel) ¹⁶		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 2007. ² Reporting period: 2006 (1 July 2005–30 June 2006), 2005 (1 July 2004–30 June 2005), 2004 (1 July 2003–30 June 2004)
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, which is ECF (Elementary Chlorine Free) or TCF (Totally Chlorine Free) bleached. 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 emissions from our business air travel.

Verification by SGS Société Générale de Surveillance SA

"We have verified the correctness of the statements in the 2006 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, 2005 and 2006 against the principles of ISO 14064-I (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 2007

Cautionary statement regarding forward-looking statements | This communication contains statements that constitute “forward-looking statements”, including, but not limited to, statements relating to the implementation of strategic initiatives and other statements relating to our future business development and economic performance. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, (1) general market and macro-economic trends, (2) legislative developments, governmental and regulatory trends, (3) movements in local and international securities markets, currency exchange rates and interest rates, (4) competitive pressures, (5) technological developments, (6) changes in the financial position or creditworthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (7) management changes and changes to our Business Group structure and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2006. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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