UBS

UBS BLOC/BLOC Plus
Higher returns when markets are tending sideways.

Optimisation

BLOCs are discount certificates allowing you to acquire an underlying indirectly at a discount. You receive either the underlying or cash on expiry. BLOC Plus also offers a limited amount of capital protection (risk buffer) against any falls in price.

BLOCs (**B**uy **L**ow **O**r **C**ash), also known as "discount certificates", are securities that allow you to invest indirectly in an underlying (e.g. a stock, exchange rate, precious metal or index) at a discount. In return for this discount, your participation in the underlying's upside is limited to a preset maximum price, known as the cap level. If the price of the underlying falls, the discount means that a BLOC outperforms a direct investment, i.e. you suffer lower losses. If, on the other hand, the price of the underlying does not move or rises only slightly prior to expiry, you achieve a higher return than with a direct investment. BLOCs are a good alternative to direct investments when equity or currency markets are tending sideways or falling/rising slightly.

Main benefits at a glance

- Investment at a discount.
- Optimized return when markets are tending sideways or falling/rising slightly.
- Risk/return profile can be optimized by choosing the appropriate cap level.
- Also available with limited capital protection (BLOC Plus).

When the BLOC expires, there are two possible outcomes:

- If the underlying is priced at or above the cap level on expiry, you receive a cash payment in the amount of the cap level.
- If the underlying is priced below the cap level on expiry, you take physical delivery of the underlying. In the case of a BLOC on an index, you usually take delivery of an open-end certificate on the index in question.

The breakeven point is the purchase price of the BLOC: you make a profit if the market price of the underlying on expiry is higher than the price you paid for the BLOC. You select the appropriate cap level to optimize your individual risk/return profile.

BLOC Plus: investment with limited capital protection (risk buffer)
BLOC Plus allows you to invest indirectly in an underlying and benefit from both a discount and a limited amount of capital protection against any falls in price. If the underlying never reaches a specific level (kick-out level) during the term of the product, you receive the predetermined cash payment on expiry. If, however, the kick-out level is reached during the term, the limited capital protection ceases to apply, and you either take delivery of the underlying or receive the predetermined cash payment on expiry, as with a normal BLOC.

Tailor-made solutions
Instead of having to scour the secondary market at length for a suitable "off-the-shelf" product, you can have a product structured to match your current requirements exactly with very little effort. With investment amounts as low as CHF/EUR/USD 50,000, your client advisor will assist you in structuring an individual product on the leading indices, stocks or currency pairs. You receive a solution that is tailored to your needs in terms of underlying, investment

amount, term, return and risk buffer. This allows you to react flexibly to market fluctuations at all times.

Rolling Discount Certificates
Rolling Discount Certificates are based on a dynamic investment strategy and are usually timed to invest once a month in BLOCs with a time to expiry of one month. Rolling Discount Certificates are offered as open-end certificates, i.e. they do not have a fixed expiry date.

Examples of BLOC/BLOC Plus investments

Example 1: purchase of a BLOC on stock A
You hold stock A (the underlying) and expect the price to remain flat or rise/fall slightly. You decide to switch into a BLOC investment.

Assumptions

Price of underlying at issue	EUR 100
Price of BLOC	EUR 80
Cap level	EUR 100
Time to expiry	one year
Exchange ratio	1:1

Scenario A: stock A closes above the cap level
Stock A performs in line with your expectations and rises slightly. After one year, its price stands at EUR 110. The following cash payment is made:

You receive the maximum repayment amount of EUR 100. You have therefore made a profit of EUR 20 per BLOC (cap level less the purchase price of the BLOC).

Had you invested directly in stock A, you would have made a profit of EUR 10 per share.

Scenario B: stock A closes below the cap level
Stock A does not perform in line with your expectations and on expiry is trading below the cap level at EUR 90. So on expiry of the BLOC, you take delivery of the stock as follows:

This means that you take delivery of the shares at EUR 90 each. You have therefore made a profit of EUR 10 per BLOC (current price of stock A less the purchase price of the BLOC)..

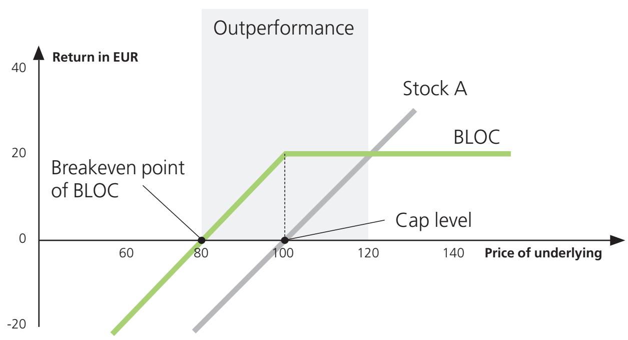
Had you invested directly in stock A, you would have made a loss of EUR 10 per share, since the market price has fallen from EUR 100 (purchase price) to EUR 90 (current price).

Scenario C: stock price rises sharply
Contrary to your expectations, stock A performs very strongly and on expiry is trading at EUR 130. The following cash payment is made:

You receive the maximum repayment amount of EUR 100. You have therefore made a profit of EUR 20 per BLOC (cap level less the purchase price of the BLOC).

Had you invested directly in the stock, you would have made a profit of EUR 30 per share.

Payout scenario on expiry of a BLOC (discount certificate) on stock A



Example 2: purchase of a BLOC Plus (Discount Plus) on stock B

You hold stock B (the underlying) and expect markets to trend sideways, but you would like to hedge against any slight falls in price. You decide to switch into a BLOC Plus investment.

Assumptions

Price of stock B (the reference price) at issue:	EUR 100
Purchase price of BLOC Plus:	EUR 90
Cap level	EUR 100
Kick-out level (75% of the reference price):	EUR 75
Term of BLOC Plus:	one year
Conversion ratio	1:1

The following scenarios are possible on expiry:

Scenario A: The kick-out level is never reached.

Stock B performs in line with your expectations and remains above EUR 75 throughout the term. The stock is priced at EUR 80 on expiry. The payout is as follows:

You receive the maximum repayment amount of EUR 100. Thanks to the risk buffer, you have made a profit of EUR 10 per BLOC Plus. Had you invested directly, you would have made a loss of EUR 20 per share.

Scenario B: The kick-out level is reached, and the stock closes above the cap level.

The price of stock B proves highly volatile and reaches or falls below the EUR 75 threshold at least once during the term. On expiry, however, the stock is trading at EUR 110, i.e. above the cap level. The payout is as follows:

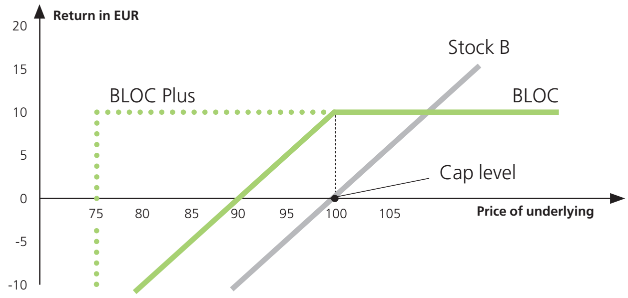
You receive the maximum repayment amount of EUR 100. Thanks to the 10% discount, you have still made a profit of EUR 10 per BLOC Plus. Had you invested directly, you would have received EUR 110 per share, giving you a profit of EUR 10.

Scenario C: The kick-out level is reached, and the stock closes below the cap level.

Contrary to your expectations, stock B performs negatively, falling below EUR 75 at least once during the term and trading at EUR 80 (below the cap level) on expiry. The risk buffer ceases to apply, so the BLOC Plus behaves like a normal BLOC. This means that you take delivery of the stock on expiry as follows:

You receive the shares at EUR 80 each. You make a loss of EUR 10 per share. Had you invested directly, you would have made a loss of EUR 20 per share.

Payout scenario on expiry of a BLOC Plus on stock B



Examples and charts are for illustrative purposes only and do not convey any information regarding actual circumstances or profits. These examples do not take account of dividend payments or standard securities trading costs (brokerage fees, etc.).

Optimisation
Solutions for investors with moderate to high risk tolerance who want to get more from their investment portfolios in flat markets.

Risks

- The BLOC's potential return is limited on the upside by a cap.
- It is possible that you will receive the underlying on expiry.
- While the potential loss is in all cases lower than with a direct investment in the underlying, there is no protection against falling prices.
- In the case of the BLOC Plus, the risk cushion provides limited capital protection against any falling prices. If the underlying were to reach a certain price or undershoot (kick-out level), the capital protection would cease to apply and the BLOC Plus would have the risk profile of a standard BLOC.

This product is subject to the general risks associated with structured products. For additional information, please refer to the UBS brochure "Special risks in securities trading" or consult your client advisor.

Investor profile and suitability

- You are an experienced investor and are familiar with structured products.
- You expect flat or only slightly rising/falling markets.
- You already have an equity portfolio and would like to improve its performance in anticipation of a market tending sideways.
- You want to remain flexible and be in a position to sell your position at any time at market prices.
- You take the time to actively monitor price trends.

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