

Our shareholders' expectations — what are they? How do we live up to them?

Speech by Marcel Ospel, Chairman of the Board of Directors
at the Annual General Meeting of Shareholders of UBS AG on 21 April 2005 in Kloten

Valued Shareholders
Ladies and Gentlemen

The answer to the question: "Whose interests should the Board of Directors look after?" is a very simple one. You, ladies and gentlemen, elected us and appointed us to look after your interests. So far, so good. How you actually want us to do this, however, is not as straightforward.

If we were to ask each one of you here in this hall what your interests are, we would no doubt receive very different answers. There is one thing I can be fairly sure of, though: All of you want UBS to be successful over the long term, which would increase the value of your shares. If we were to look more closely at how you would like this goal of success in the long term to be achieved, however, it would not be long before we started hearing some very contrasting views. Some of you would probably be in favor of expansion and aggressive growth, while others would be urging caution and prefer to see us more as a conservative asset manager or a classic mortgage institution. Some of you would warn against taking on risk, whereas others would plainly state that, if we want lasting success in this tough business, we have to outdo our competitors on all fronts – even as regards taking risks. A number of you would say that the secret of success lies in setting prices low to secure as broad a client base as possible. Some, on the other hand, would advise us to focus on what they see as the most lucrative areas of business. No doubt many of you would urge us to take our social responsibilities toward our employees and society as a whole seriously, this being the only way for us to secure long-term performance and preserve our good name.

Naturally, the question of what you actually expect from us is one that interests me. A phrase that springs to mind is "you can't please all of the people all of the time". However, I will try to set out here how we see our mission, while being fully aware that it will not be exactly what each and every one of you might want to hear.

Sustainable value growth

We know that the vast majority of you agree with us that our goal must be to grow the value of our firm. Is this to be done as quickly as possible, however, or is the long-term picture – the keyword here being sustainability – more important? We have taken a clear decision in favor of the latter. It goes without saying that landing a spectacular coup would drive up our share price overnight, but such applause does not generally last long, and any shareholders who did not cash in immediately would face being disappointed later on. Our goal is to make sure that you will still be happy with your UBS shares many years down the line.

If we take stock of the past few years, what is the picture that emerges? Our share price naturally did not see a continual rise. We have had highs and lows, due in part to our own successes or failures and in part to conditions on the markets. The share price plummeted in the wake of the events of September 11, 2001, stock markets have reacted to the sharp increases in oil prices on occasion, and, last but not least, the war in Iraq has also taken its toll on the markets. From the longer-term perspective, our share price has gained around 40% since the end of 1998, which, coupled with dividends, has translated into an excellent return on your investment, even without fully taking the additional positive effects of our share buybacks into account. So what is our target price? You know that is something we are not allowed to comment on. What we can say, however, is that the Board of Directors and the Group Executive Board are convinced the stock's upside potential is far from exhausted. Further increases will not fall into our laps, but we are well placed to achieved them, thanks mainly to:

A strategy aligned with this goal

Let me remind you briefly of this strategy: As a global financial firm, we work with corporates, institutional clients, and private clients all over the world. At the global level, our focus is on investment banking and securities, wealth and asset management, in Switzerland also on retail and corporate banking. We see our integrated business model, which ensures that our clients around the globe can all access the full range of services, as the primary driver of our success. The single UBS brand is thus a major component of our strategy. Consistently recruiting and fostering outstanding and motivated talent, a professional risk management and lean processes support our strategy's success.

We have committed ourselves to growing organically, but also opting for targeted acquisitions in our core businesses wherever they underpin growth. Peter Wuffli will discuss this subject in greater detail. I am convinced that the trump card in our strategy is that we stick with it and hold steady even when circumstances and sometimes public opinion are changing all around us. The fact that we are on the right path is confirmed primarily by the good to excellent results we have achieved in difficult market environments as well as favorable ones. In short, the strategy we have chosen is neither an aggressive one that only works in fair-weather situations nor a defensive solution whereby we miss out on opportunities when conditions are good. Naturally, we have to fight in all situations, since competition is fierce and unforgiving. However, we have put in place the right tools and the right plans to make sure we come out on top.

Ladies and Gentlemen,

We have the determination to be successful in the long term and to grow value sustainably, plus we have defined the strategy that will make this success possible. Internationally, we have repeatedly won praise for the clarity and stability of this strategy.

Let us now look at a few aspects that shape our success and, as a result, are important in respect of our shareholders' interests.

Our company's good name

Finance is a "people business", where people and, more importantly, trust play a crucial role. To a large extent, trust is based on a good reputation. So how can we maintain and continually reinforce ours? Many requirements need to be fulfilled: We have to be seen by our clients as a reliable partner. We have to be an open employer that offers opportunities and acknowledges achievements. The public has to see us as a good corporate citizen living up to its obligations within the community and promoting high ethical standards. These are not things to be done by the Board of Directors or the Group Executive Board alone. To summarize a recent message I sent out to our employees: Each and every one of us has to have an inner ethical compass and follow this compass when it comes to acting responsibly. We all contribute to the good name of our firm and carry a joint responsibility – toward clients and shareholders, toward colleagues, and toward the general public. When individuals fail to live up to these responsibilities, the entire company is affected. Failure is to be accepted, as a normal business risk, but illegal, disloyal or grossly unacceptable behavior will meet with zero tolerance. We know that this is an area where we have not only your full support, but also the support of the public at large.

What do we mean by "ethically correct"?

There are occasions, however, when conflicts between the various stakeholder interests mean that the word "ethical" is understood differently by different people. There are two areas of conflict with which we are currently concerned that I would like to look at in more detail: The *conflict between our high profits and headcount reductions* on the one hand and the *conflict between wealth and poverty* on the other.

Following the publication of our results for last year, we immediately came under fire for having increased our profits considerably while at the same time making job cuts in Switzerland. From the short-term viewpoint, this criticism is understandable. Had we not shed 672 jobs in Switzerland, we would still have been able to pay our shareholders a good dividend, despite the fact that our profits would have been slightly lower. Would you have been unhappy about this, ladies and gentlemen? Probably not. What we have been talking about a

minute ago, however, is how we think and act on the long-term view. From this perspective, all resources have to be reviewed constantly, especially when things are going well. Companies that fail to give sufficient consideration to the long-term picture when business is good are often forced to implement cost-cutting measures at a time when they are most painful. Most of our job cuts last year were motivated by operating considerations. Technological advances mean that far fewer people are needed in many areas, and I am sure you will agree with me that it cannot be our aim to keep jobs simply for the sake of appearances. We could draw a parallel here with the famous stokers working on electric locomotives during the early days of industrialization. Let me stress once again: When business is good, a company can basically afford to opt for this approach. Things can change, though, forcing the company to trim off its dead weight without the funds needed to finance socially responsible solutions being available.

The second area of conflict is between wealth and poverty. It is often said that the rich are getting richer and the poor poorer, making it unacceptable, immoral even, to post such high profits. Naturally, the high salaries paid out by our bank not only to top management, but across a much broader front, also come under fire. We are well aware it may be difficult to understand how UBS can make a profit of more than eight billion Swiss francs while tens of thousands of people in Switzerland live under the poverty line. Once again, we have received a multitude of proposals as to how we can help – by sharing some of our wealth to help improve the situation for the poor in Switzerland and the rest of the world. As a company, we are very active in this area, and many of our high-earning employees support generously social projects in their own way. Unfortunately, however, no matter what we do, we cannot eradicate poverty in the world.

Even more important than providing direct support is that, in Switzerland the same as everywhere else in the world, there are companies that are successful and thus maintain jobs over the long term and pay their taxes and social security contributions, which are then used to help those less fortunate in their thousands. No one would be better off if successful companies were to earn

less, and no one would be better off if UBS were to pay lower salaries in general. This would have a direct impact on federal, cantonal, and municipal government and especially on the Swiss social security system. Last year, UBS paid income taxes of 1.4 billion Swiss francs to the federal, cantonal and municipal governments, and UBS employees contributed another estimated 700 million Swiss francs. Indirect taxes, including withholding taxes on client assets and UBS dividends, accounted for 1.9 billion Swiss francs. And last but not least, UBS also paid some 350 million Swiss francs to public social security (AHV/IV). Successful companies and their successful employees can do more in the fight against poverty than any state-sponsored redistribution of wealth.

Let me now turn to one last problem area:

The legal and regulatory environment

It is part of human nature that there are calls for new regulation when problems arise and that, when things go wrong, new rules and prohibitions are introduced. Over the short term, this is understandable and perhaps even useful. Over the long term, however, it is fatal. The legal and regulatory developments we have been seeing over the past few years are worrying. Some of these restrictive requirements come from the United States, but there is also a growing tendency in Switzerland to go just as far as quickly as possible. Of course, the extremely detailed regulations that ensure an efficient controlling system within the Group have their advantages: They allow us to identify weaknesses early on. There is a danger, however, of entrepreneurial aspects becoming stifled if our sole purpose becomes ensuring that all rules and regulations are being complied with to the letter. New constraints also come in the form of regulations governing working hours, building standards, provisions against unfair dismissal, new taxes and duties (many of which involve huge increases in paperwork), and a constant increase in the number of controls within our businesses. These constraints make delivering products and services more expensive. None of which makes companies more competitive.

I personally see it as my duty to commit myself to making sure that entrepreneurship does not fall victim to regulation and bureaucracy. Is that a

political commitment? My view is that we have to take a prominent stance and commit ourselves to action wherever and whenever it is useful. Simply complaining after the event is pointless. That is why you may be hearing reports of either me or another figure in our bank making a political stand – in your interests, in the interests of the Swiss economy, and thus in UBS' interests as well.

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Ladies and Gentlemen,

Let me now come to a close. These are fascinating but challenging times. UBS is well equipped to cope with the challenges it will face. Nevertheless, we will have to continue ensuring absolute top performance in the future – a goal that no one can achieve on their own. We rely on many different partners. Without our six million clients plus all over the world, what would be the point of our delivering services? I would therefore like to thank our clients for their loyalty and for the fact that, time and again, they allow us to develop new ideas and products in order to serve them better. Our employees – some 67,000 of them – play a central role in our current and future success. They dedicate themselves on a daily basis to their clients and to ensuring that our business works as it should. For this reason, I would like to say a very special word of thanks to them. They can be proud of what they have achieved. My thanks, of course, also go to my colleagues on the Board of Directors and the Group Executive Board for their services and commitment. We have a very strong relationship, both within and between the two bodies. Our actions are always governed by mutual respect. Our work is carried out within the framework of constructively critical discussions and reinforced by the common aim of making UBS even more successful.

Last but not least, I would naturally also like to thank you, our shareholders. You provide us with the capital we need for our activities. I hope you agree that this investment is worthwhile.