

Index linked bond nr 3 Global & Neutral

- The Index linked bond has had a historical return matching a broad stock index during positive market periods and a positive return in worse market climates.
- The investment consists of two parts: one part of global stock indices and the other consisting of two market-neutral strategies that can give a positive return during negative times on the equity market.
- These two parts are separated from each other. This implies that a positive return from one part is equal to positive return from the investment.
- If the return of both parts is unchanged or negative, the invested nominal amount is guaranteed by the issuer.
- Issuer of this investment is UBS AG with issuer rating AA+ according to Standard and Poor's.

Last subscription day : 5th of September 2007
Last payment day: 17th of September 2007

	Defensive	Growth
Issue price*	102 %*	112 %*
Capital protection	100 %	100 %
Participation ¹	1.0	2.0
Duration	4 years	4 years
Averaging	12 months	12 months
<u>Underlying</u>	Global stock indices and two market-neutral strategies	

*All costs are included in the price

Follow the positive equity markets, get positive return in bad market climate...

In a bullish equity market it's not difficult to achieve a positive return on your investments. The big challenge is to preserve the positive return during periods of worse equity markets. In order to try to achieve

this challenge, Garantum has developed the Index linked bond Global & Neutral (ILB Global & Neutral) that historically always has given a positive return during both good and bad equity markets. This type

of investment alignment, in combination with a protection of the invested principal amount, has brought major interest among both Swedish and foreign institutions, companies and private investors.

Global stock indices & two market-neutral strategies – together they create a dynamic investment

The ILB Global & Neutral shows an exceptional ability to create a positive return during both ascending and descending periods on the equity market. The table shows the historical return of the two different investment alternatives compared to the world equity index. Since 1992 the ILB Global & Neutral has always generated a positive return, even during the exceptional descending period that occurred a couple of years ago. While the world equity market fell 37 percent during a four year period, the ILB Global & Neutral still managed to give the investor a positive net return. The ILB Global & Neutral's lowest net return over a four year period has historically been

17 respective 24 percent depending on which of the two investment alternatives that was chosen. The yearly average shows,

4 years net yield on monthly investments since 1992	Index linked bond		World index
	Defensive	Growth	
Average:	39 %	64 %	37 %
Max:	77 %	132 %	114 %
Min:	17 %	24 %	-37 %
Positive months (consistency)	100 %	100 %	71,3 %
Yearly average			
Net yield:	8.6 %	13.2 %	8.1 %
Standard deviation:	3.0 %	4.7 %	9.7 %
Sharpe ratio:	1,3	1,8	0,2

that the different parts of the ILB Global & Neutral combined has had a level of risk that historically has been in level with or directly above the risk of an ordinary bonds investment. Despite this, the yearly historical return of the ILB Global & Neutral has been better than the yearly historical return of a broad equity index.

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Since 1992 the ILB Global & Neutral has always generated a positive return, even during the exceptional descending period that occurred a couple of years ago²

Description of the underlying indices

The ILB Global & Neutral consists of two parts that are independent of each other. This means that if one part decreases the other will not be affected. Thereby the investor has the opportunity to get return no matter how the equity market develops. One part is linked to a global basket of broad indices: 1/3 in Europe, Sweden and Japan respectively. This part will give return if these markets increase. The other part is linked to two markets neutral strategies, ELSA and G10 (see below). These strategies can give positive return independent of how the equity market develops. The strategies are based on completely different strategies in order to create return, therefore possible future return from this part is increased.

G10

The G10 is based on a so called "carry trade strategy". The "carry trade" is a commonly used strategy in the currency markets and takes advantages of differences in interest rates between countries in the G10 region. Basically capital is borrowed where rates are low and invested where rates are high. The strategy has an average return that exceeds both stock market and the currency market.

ELSA

The ELSA (Equity Long Short Alpha Index) strategy is a classic asset management strategy where cheap and expensive stocks in North America, Europe and the Asian Pacific are identified. Among big institutions, this type of strategy has been very popular during a long period of time as an alternative to professional asset management. The foundation for this market neutral strategy is extensive company analysis made by UBS. UBS then buy and sell stocks in cheap respective expensive companies were they believe changes made to the profit prediction will have the biggest effect. Descending profit predictions have greatest effect on expensive companies while ascending profit predictions mostly affect the cheap companies. Since UBS buy in the same amount of companies as the sell, a market neutral strategy is created.

¹ The level of participation is indicative and can be both higher and lower than what is stated and the finalised terms are fixed on the Start Date. The application is binding providing that the participation is not lower than 0,9 for Linked Bond Global & Neutral Defensive and 1,8 for Linked Bond Global & Neutral Growth. The End Value is calculated as an average of 13 observations conduct each month the last year.

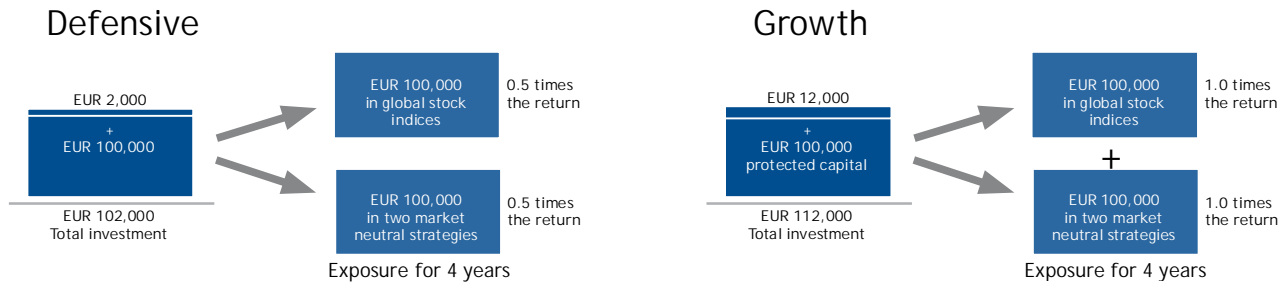
² A historical positive return does not guarantee a future positive return.

Chose between two investment alternatives – Defensive & Growth...

The defensive alternative is purchased at 102 per cent of the principal amount. It gives the investor 1,0 times the return of the underlying indices (0,5 for each part). The growth alternative is purchased at 112 percent of the principal amount and gives the investor 2,0 times the return of the un-

derlying indices (1,0 for each part). In both alternatives, all costs are included in the price and the principal amount is protected, should the development of both parts be unchanged or negative. Since both parts of the security are protected separately, the investor will attain a positive return if

one or both of the underlying parts has a positive return. The risk of the investment is thereby limited while the chance of a positive return is unlimited during the four coming years.



Positive historical return in both ascending & descending markets...

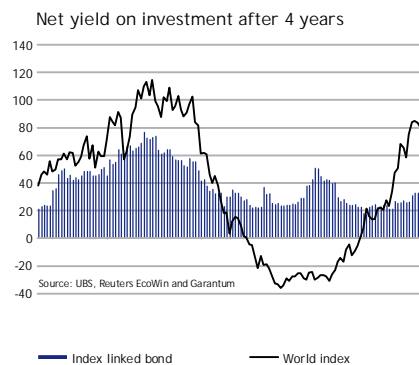
Since the beginning of the 90ths we have seen both substantial growth and heavy down turns on the equity markets. The diagram shows how an assumed four year investment would have resulted for both the ILB Global & Neutral and an alternative investment in a world equity index. Each point in the black graph represents the result of a four year investment in the world equity index. All blue piles represent the net return of the ILB Global & Neutral. The result clearly illustrates the dynamics of this investment.

During one of the worst times in the history of the equity market, which occurred a couple of years ago, the ILB Global & Neutral would have given a positive net return. In the same period the world equity index dropped nearly 40 percent. The positive result of the ILB Global & Neutral can be explained by the two market-neutral strategies that can give a positive return

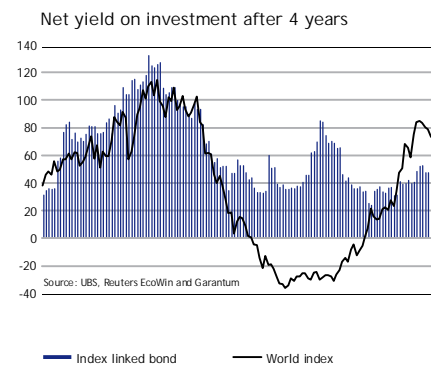
during negative times on the equity market. Also, when the equity market had a very ascending period, in the beginning of 2003, the ILB Global & Neutral gave it's investors a stable positive return. The calculations made on the world equity index is based

on actual development while calculations of the neutral strategies historical development is based on actual data since the year 2000 (ELSA) and 1998 (G10). Data before these years are based on so called proforma calculations.

Defensive



Growth



Secondary market

The ILB Global & Neutral should been seen as a four year investment. However, under normal market conditions, there is a

possibility to sell the product during it's lifetime on Garantums secondary market for structured products. Also, if an invest-

ment has had a very good performance, Garantum could offer the investor to secure his return up to that point.

Important information

Investing in structured products is associated with risk. The investor shall make sure they understand the nature and significance of the product and that the extent of the investment is adequate according to the investor's situation and financial circumstance. The information in this folder is intended to be informative only, not advisory. This folder is a part of a larger offer. Complete information about the product will be found in this folder, belonging subscription application and the issuers prospectus, which investors encourages to take part of.