

## FINAL TERMS

27 March, 2006

### Kaupthing Bank hf.

**Issue of EUR 2,000,000.00 Second Reopening Variable Redemption Amount Notes due  
February 2011  
under the €12,000,000,000  
Euro Medium Term Note Programme**

### PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 2nd September, 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

1. Issuer: Kaupthing Bank hf.
2. (i) Series Number: 38  
(ii) Tranche Number: 3  

The Notes will be consolidated and form a single Series with the Issuer's existing (i) EUR 104,000,000 Variable Redemption Amount Notes due February 2011 (Series 38 Tranche 1 issued on 15 February 2006) and (ii) EUR 8,000,000 Variable Redemption Amount Notes due February 2011 (Series 38 Tranche 2 issued on 13 March 2006) as of the Issue date.
3. Specified Currency or Currencies: Euro ("EUR")
4. Aggregate Nominal Amount:
  - (i) Series: EUR 114,000,000.00
  - (ii) Tranche: EUR 2,000,000.00
5. Issue Price: 102.82 per cent of the Aggregate Nominal Amount
6. Specified Denominations: EUR 1,000.00
7. (i) Issue Date: 27 March 2006

	(ii) Interest Commencement Date:	15 February 2006
8.	Maturity Date:	15 February 2011
9.	Interest Basis:	Fixed rate
10.	Redemption/Payment Basis:	Other (see Appendix)
11.	Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable
12.	Put/Call Options:	Not Applicable
13.	(a) Status of the Notes:	Senior
	(b) Date Board approval for issuance of Notes obtained:	Not Applicable
14.	Method of distribution:	Non-syndicated

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15.	<b>Fixed Rate Note Provisions</b>	Applicable
	(i) Rate of Interest:	0.80 per cent per annum payable on the Interest Payment Dates(i) specified below
	(ii) Interest Payment Dates(i):	(1) 15 February 2007; (2) 15 February 2008; (3) 16 February 2009; (4) 15 February 2010; (5) 15 February 2011.
	(iii) Fixed Coupon Amount:	EUR 8.00 per EUR 1,000.00 in nominal amount (unadjusted)
	(iv) Broken Amount:	Not Applicable
	(v) Day Count Fraction:	Not Applicable
	(vi) Determination Date:	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	The Fixed Interest Period shall not be adjusted with respect to the accrual of interest
16.	<b>Floating Rate Note Provisions</b>	Not Applicable
17.	<b>Zero Coupon Note Provisions</b>	Not Applicable
18.	<b>Index Linked Interest Note Provisions</b>	Not Applicable
19.	<b>Dual Currency Interest Note Provisions</b>	Not Applicable

20. Target Redemption Note Provisions: Not Applicable

21. Range Accrual Note Provisions: Not Applicable

#### **PROVISIONS RELATING TO REDEMPTION**

22. Issuer Call: Not Applicable

23. Investor Put: Not Applicable

24. Target Redemption Note Provisions: Not Applicable

25. Final Redemption Amount of each Note: As set out in the Appendix hereto

26. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(f)):

In the case of an early redemption of the Note for taxation reasons or on an Event of Default, the Calculation Agent will determine in consultation with the Issuer (on such basis as it, in its absolute discretion, considers fair and reasonable in the circumstances) the Early Redemption Amount payable for the Note as the fair market value which the Note would have had on the date fixed for early redemption if the taxation reasons or the Event of Default had not occurred less, in case of early redemption for taxation reasons, the reasonable cost to the Issuer of unwinding any related hedging arrangements, all as calculated by the Calculation Agent and as agreed with the Issuer.

27. Capital Notes Provisions: Not Applicable

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

28. Form of Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event

29. Additional Financial Centre(s) or other special provisions relating to Payment Dates: Not Applicable

30. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No

31. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable
32. Details relating to Instalment Notes:
- (i) Instalment Amount(s): Not Applicable
- (ii) Instalment Date(s): Not Applicable
33. Redenomination applicable: Redenomination not applicable
34. Other final terms: Minimum trading number of EUR 10,000.00 and multiples of EUR 1,000.00 thereafter

#### DISTRIBUTION

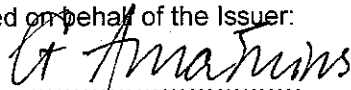
35. (i) If syndicated, names and addresses of Managers and underwriting commitments: Not Applicable
- (ii) Date of Subscription Agreement: Not Applicable
- (iii) Stabilising Manager (if any): Not Applicable
36. If non-syndicated, name and address of relevant Dealer: Exane S.A.  
16, avenue Matignon – 75008 Paris
37. Total commission and concession: Not Applicable
38. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D
39. Additional selling restrictions: Not Applicable

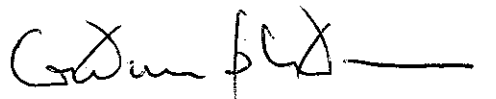
#### RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:

  
.....  
Duly authorised

  
**Guðmundur Þ. Guðmundsson**  
Managing Director  
Treasury Kaupthing Bank Iceland

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing: Luxembourg
- (ii) Admission to trading: Application has been made for the Notes to be admitted to trading on the Luxembourg Stock Exchange with effect from 27 March, 2006
- The original Notes of Series 38 Tranche 1 (Common Code 024358755 and ISIN Code: XS0243587556) have already been admitted to trading on the Luxembourg Stock Exchange on 15 February 2006.
- The original Notes of Series 38 Tranche 2 (Common Code 024659585 and ISIN Code: XS0246595853) have already been admitted to trading on the Luxembourg Stock Exchange on 13 March 2006
- (iii) Estimate of total expenses related to admission to trading: Not Applicable

### 2. RATINGS

Ratings: Not Applicable

### 3. NOTIFICATION

Not Applicable

### 4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

### 5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the Offer: For general corporate purposes
- (ii) Estimated net proceeds: EUR 2,056,400.00
- (iii) Estimated total expenses: Not Applicable

### 6. YIELD

Indication of yield: Not Applicable

**7. HISTORIC INTEREST RATES**

Not Applicable

**8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Not Applicable

**9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

Not Applicable

**10. OPERATIONAL INFORMATION**

- (i) ISIN Code: XS0248237330 (until Issue Date)  
to be fungible after the exchange of the Temporary Global Note for the Permanent Global Note with ISIN Code Series 38 Tranche 1 and 2: XS0243587556.
- (ii) Common Code: 024823733 (until Issue Date)  
to be fungible after the exchange of the Temporary Global Note for the Permanent Global Note with Common Code Series 38 Tranche 1 and 2: 024358755.
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): Not Applicable
- (iv) Delivery: Delivery against payment
- (v) Names and addresses of additional Paying Agent(s) (if any): Not Applicable

## APPENDIX

(This Appendix forms part of these Final Terms to which it is attached)

### I. FINAL REDEMPTION AMOUNT

Unless previously redeemed or purchased and cancelled, as provided in these Final Terms, the Final Redemption Amount upon redemption of each Note on the Maturity Date shall be an amount in EUR calculated by the Calculation Agent as follows:

$$\text{Max [100\% x Nominal; Exchange Ratio x RV}_{\text{final}}\text{]}$$

Where:

"Exchange Ratio"	means 12.7185;
"RV <sub>final</sub> "	means the Reference Value on close on the Valuation Date;
"Reference Value"	means the Closing Price of the Share multiplied by the Quantity;
"Quantity"	means 1.

### II. DEFINITIONS

Where, unless the context otherwise requires, the following defined terms beginning by a capital letter shall have the meanings set forth below:

"**Calculation Agent**" means Exane (16 avenue Matignon – 75008 Paris). Whenever the Calculation Agent is required to act or to exercise judgment in any way, it will do so in good faith and in a commercially reasonable manner, and its determinations and calculations will be binding in the absence of manifest error.

"**Closing Price**" means in respect of the Share, its official traded price quoted by the Exchange at the Valuation Time on the relevant Exchange Business Day.

"**Company**" means Novartis AG (ISIN Code CH0012005267, Bloomberg code NOVN VX, Reuters Code NOVN.VX).

"**Early Closure**" means in respect of the Share, the closure on any Exchange Business Day of the Exchange or the Related Exchange prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange or Related Exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange or Related Exchange on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

"**Exchange**" means Virt-X on which the Shares are traded.

"**Exchange Business Day**" means any Scheduled Trading Day on which the Exchange and the Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

"**Exchange Disruption**" means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Share on the Exchange, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Share on the Related Exchange.

**"Market Disruption Event"** means in respect of the Share, the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time, or (iii) an Early Closure.

**"Related Exchange"** means in respect of the Share, Eurex Zurich AG, any exchange or quotation system on which futures contracts and/or options contracts on the shares are traded.

**"Scheduled Closing Time"** means in respect of the Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading day, without regard to after hours or any other trading outside of the regular trading session hours.

**"Scheduled Trading Day"** means in respect of the Share, any day on which each relevant Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

**"Share"** means any ordinary share of the Company listed on the Exchange.

**"Trading Disruption"** means in respect of the Share, any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise (i) relating to the Share on the Exchange, or (ii) in futures or options contracts relating to the Share on the Related Exchange.

**"Valuation Date"** means 1 February 2011 or if such day is not an Exchange Business Day, the next following Exchange Business Day.

**"Valuation Time"** means, in relation to the Share, the close of trading on the Exchange.

### III. POTENTIAL ADJUSTMENT EVENTS, MERGER EVENT, NATIONALISATION, INSOLVENCY AND DELISTING

#### (A) Definitions:

In this Appendix, the following terms will have the following meaning:

**"Delisting"** means that the Exchange announces that pursuant to the rules of such Exchange, Share ceases (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or take-over) and is not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union).

**"Discounting Method"** means the division of the value to discount by  $[1 + (\text{IBOR} \times \text{Period} / 360)]$ , where: *"Inter-Bank Offered Rate"* or *"IBOR"* means the relevant rate applicable to the Share for a maturity corresponding to the whole number of complete months closest to the decimal number of months constituting the Period on the Valuation Date of the right; and *"Period"* means the number of days elapsed between the relevant Valuation Date of the right (exclusive) or the Effective Date (exclusive) in the case of paper or cash over bid and the official payment date (inclusive) or delivery date (inclusive) of the relevant cash amount.

**"Insolvency"** means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceedings affecting the Company (i) all the Shares of the Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company, become legally prohibited from transferring them.



**"Merger Date"** means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Calculation Agent.

**"Merger Event"** means, in respect of the Share, any (i) reclassification or change of such Share that results in a transfer of or an irrevocable commitment to transfer all of such Share outstanding, to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of the Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in a reclassification or change of all such Share outstanding), (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100% of the outstanding Share of the Company that results in a transfer of or an irrevocable commitment to transfer all such Share (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Share outstanding but results in the outstanding Share (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50% of the outstanding Share immediately following such event (a "Reverse Merger"), in each case if the Merger Date is on or before the Valuation Date.

**"Nationalization"** means that all of the Share or all or substantially all the assets of the Company are nationalized, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof.

**"Potential Adjustment Event"** means any of the following in each case if effective on or before the Valuation Date:

- (1) a subdivision, consolidation or reclassification of the Share (unless resulting in a Merger Event), or a free distribution or dividend of any such Share to existing holders by way of bonus, capitalisation or similar issue;
- (2) a distribution, issue or dividend to existing holders of the Share of (a) such Share or (b) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Share or (c) share capital or other securities of another company acquired or owned (directly or indirectly) by the Company as a result of a spin-off or other similar transaction, or (d) any other type of securities, rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by the Calculation Agent;
- (3) an extraordinary dividend;
- (4) a call by the Company in respect of the Share that are not fully paid;
- (5) a repurchase by the Company or any of its subsidiaries of the Share whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
- (6) in respect of the Company, an event that results in any shareholder rights being distributed or becoming separated from share of common stock or other shares of the capital stock of the Company pursuant to a shareholder rights plan or arrangement directed against hostile take-overs that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value, as determined by the Calculation Agent, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or
- (7) any other event that may have a diluting or concentrative effect on the theoretical value of the Share.

To make such adjustments, the Calculation Agent may (at its choice) either (a) adopt the treatment used by the relevant authority of the Related Exchange or (b) use the methods described below. Nevertheless, the Calculation Agent may decide (i) to modify the following adjustments in order to comply with local practices and/or legislation and/or (ii) to apply and/or modify the following adjustments in the occurrence of any events not described herein.

(B) Potential Adjustment Events:

Following the declaration by the Company of the terms of any Potential Adjustment Event, the Calculation Agent will, in its sole and absolute discretion, determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the Shares and, if so, the Calculation Agent in its sole and absolute discretion will take either of the actions described in (1) or (2) below:

- (1) the Calculation Agent will (i) determine the corresponding adjustment, if any, to the Closing Price of the Share and any of the other terms of the Conditions by reference to the adjustments in respect of such Potential Adjustment Event made by the Related Exchange to options on the Share traded on that Related Exchange and (ii) determine the effective date of that adjustment, which will be effective as of the date determined by the Calculation Agent to be the effective date of the corresponding adjustment made by the Related Exchange. If options on the Share are not traded on the Related Exchange, the Calculation Agent will make such adjustment, if any, to the terms of the Conditions as the Calculation Agent in its sole and absolute discretion determines appropriate, with reference to the rules and precedents (if any) set by the Related Exchange to account for the diluting or concentrative effect of any event that, in the determination of the Calculation Agent, would have given rise to an adjustment by the Related Exchange if such options were so traded; or
- (2) the Calculation Agent will (i) determine in its sole and absolute discretion the appropriate adjustment, if any, to be made to the terms of the Conditions as the Calculation Agent determines appropriate to account for the Potential Adjustment Event and (ii) determine the effective date of that adjustment. The Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of the Potential Adjustment Event made by an options exchange to options on the Share traded on that options exchange.

(C) Cash take-over bid

If the Share is the subject of a cash take-over bid, the Calculation Agent in its sole and absolute discretion will take either of the actions described below:

- (i) keep such Share, and if need be, make any adjustment, provided the Share continues to fulfil the requirements of liquidity and of incontestable reference prices for a traded security, as established by the Exchange; or
- (ii) pay the fair market value of the Notes as determined by the Calculation Agent on the basis of either the cash take-over bid price discounted (if necessary) using the Discounting Method or the last quotation of the Share which is deliverable to the offer on the last day of the cash take-over bid period.

(D) Paper take-over bid

If the Share is the subject of a paper take-over bid, the Calculation Agent in its sole and absolute discretion will take either of the actions described below:

- (i) keep such Share, provided that the Share continues to fulfil the criteria described in paragraph III.C.(i) above; or

- (ii) substitute such Share with the security which has been exchanged therefor, provided it fulfils the criteria described in paragraph III.C.(i) above. Such substitution will take effect on the Business Day following the day on which the result of the paper take-over bid is published by a notice of the relevant authority (the "**Effective Date**"); or
- (iii) in the case where several securities have been exchanged therefor, substitute one of such securities (the "**Retained Security**"), provided it fulfils the criteria described in paragraph III.C.(i) above. In such case, the value of the non-retained security(-ies) (the "**Non-Retained Security(-ies)**") shall be expressed as a number or a fraction of a number of the Retained Security which shall be calculated on the basis of the quotations of the Non-Retained Security(ies) and the Retained Security, taken if possible simultaneously, on the first Trading Day following the Effective Date. For the purpose of this paragraph "**Trading Day**" means a Business Day on which the Non-Retained Security(-ies) and the Retained Security are quoted.

Should the security(ies) exchanged therefor include unlisted security(ies), then the Calculation Agent shall determine a fair market value for such unlisted security(ies) based on the market conditions on the Effective Date. Such fair market value shall be reinvested in the Retained Security as if it were a Non-Retained Security as described above.

Should a cash amount (*soulte*) be exchanged therefor, such cash amount (minus any relevant withholding tax, if applicable) will be discounted (if necessary) using the Discounting Method and reinvested in the Retained Security as if it were a Non-Retained Security as described above.

In all cases, the substitution will be made by applying to the Share the exchange parity used in the process of the aforementioned paper take-over bid; or

- (iv) pay the fair market value of the Notes as determined by the Calculation Agent on the basis of the last quotation of the Share which is deliverable to the offer on the last day of the paper take-over bid period.

#### (E) Merger Event

If the Share is the subject of a merger, the Calculation Agent in its sole and absolute discretion will take either of the actions described below:

- (a) either substitute such Share with the share of the new company or absorbing company, provided that such share fulfils the criteria described in paragraph III.C.(i) above. The substitution will be made by applying to such Share the exchange parity used in the process of the aforementioned merger and will take effect on the day on which the merger becomes effective (the "**Effective Date**"); or
- (b) pay the fair market value of the Notes as determined by the Calculation Agent on the basis of the market conditions on the Effective Date.

#### (F) De-merger Event

In the event of a de-merger of the Company in respect of the Share (the "**Affected Share**"), the Calculation Agent in its sole and absolute discretion will take either of the actions described below:

- (i) either substitute the Share with the security(-ies) of the successor company(-ies), provided it (they) fulfil(s) the criteria described in paragraph III.C.(i) above; or
- (ii) in the case where several securities have been exchanged therefor, substitute one or more of such securities (but not all of them) (the "**Retained Security(-ies)**") provided it (they) fulfil(s) the criteria described in paragraph III.C.(i) above. In such case, the value of the non-retained security(-ies) (the "**Non-Retained Security(-ies)**") shall be expressed as a number or a fraction of a number of the Retained Security(-ies) which

shall be calculated on the basis of the quotations of the Non-Retained Security(-ies) and the Retained Security(-ies), taken if possible simultaneously, on the day on which the de-merger becomes effective (the "**Effective Date**") if such day is a Trading Day or the next following Trading Day. For the purpose of this paragraph "**Trading Day**" means a Business Day on which the Non-Retained and the Retained Security(-ies) are quoted.

It being understood that where the Calculation Agent has elected to substitute the Affected Share with several securities resulting from such de-merger, such securities shall be placed in a basket and considered as one component of the Interest Amount formula.

In either case, the substitution will be made by applying to the Share the exchange parity used in the process of the aforementioned de-merger. This substitution will take effect on the Business Day following the Effective Date; or

- (iii) pay the fair market value of the Notes as determined by the Calculation Agent on the basis of the market conditions on the Effective Date.

(G) Change of listing compartment or Exchange – Delisting

If the listing compartment of the Share or the Exchange in respect of such Share is changed, or if the quotation of such Share is definitively interrupted for any reason other than aforementioned, or the listing is maintained in inappropriate conditions in the opinion of the Calculation Agent, then the Calculation Agent in its sole and absolute discretion will take either of the actions described below:

- (i) continue to honour its obligations in respect of the Notes in accordance with the provisions of this Pricing Supplement, provided that the Share continues to meet conditions described in paragraph III.C.(i) above (except in the case of definitive interruption of quotation); or
- (ii) pay the fair market value of the Notes as determined by the Calculation Agent.

(H) Insolvency of the Company

If an order is made or an effective resolution passed for the dissolution, judicial receivership or liquidation of the Company or the whole or substantial part of its undertakings, property or assets, the value of the Share of such Company shall be accounted for its fair market value on the basis of the conditions on the date of the insolvency event.

#### IV. NOTICES

- (i) The Calculation Agent shall as soon as reasonably practicable notify the Issuer of the existence or occurrence of a Market Disruption Event on any day which but for such Market Disruption Event would have been the Valuation Date.
- (ii) Upon the occurrence of a Potential Adjustment Event, Merger Event, Nationalisation, Insolvency or Delisting, the Calculation Agent shall give notice as soon as practicable to the Issuer stating the occurrence of the Potential Adjustment Event, Merger Event, Nationalisation, Insolvency or Delisting, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.
- (iii) Adjustments in accordance with the foregoing clauses (*see paragraph III. Potential Adjustment Events, Merger Event, Nationalisation, Insolvency and Delisting*) shall be calculated by the Calculation Agent and notified to the Noteholders in accordance with Condition 14 and shall be (in the absence of manifest error) binding on all parties concerned. However, Noteholders should be aware that there may be necessarily, some delay between the time at which any of the above events occur and the time at which it is reported to Noteholders.

#### IV. RESPONSIBILITY

The calculations and determinations of the Calculation Agent shall be made in accordance with the Conditions (having regard in each case to the criteria stipulated herein and where relevant on the basis of information provided to or obtained by employees or officers of the Calculation Agent responsible for making the relevant calculation or determination) and shall, in the absence of bad faith or manifest error, be final, conclusive and binding on the Noteholders. Noteholders shall not be entitled to make any claim against the Calculation Agent or the Issuer in the case where public information related to the underlying contained any error, omission or other incorrect statement.

#### V. INFORMATION RELATING TO THE SHARE

Company	Currency	ISIN Code	Official closing price of the Share
Novartis AG	CHF	CH0012005267	Official closing price on 28 February 2006: 70.6 CHF

##### 5.1 Incorporation

Novartis AG, (the “**Company**”) is a holding company organized under Swiss law, owns directly or indirectly all companies worldwide belonging to the Novartis Group.

##### 5.2 Registered Office

The Company has its registered office in Lichstrasse 35, 4056 Basel, Switzerland.

##### 5.3 Financial Year

The financial year of the Company begins on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

##### 5.4 Object

The Company manufactures pharmaceutical and nutrition products. The Company produces treatments for hypertension, fungal infections, skin conditions, arthritis, cancer, cardiovascular diseases, arteriosclerosis and other conditions, and other conditions, animals health products, baby food, and clinical nutrition products.

##### 5.5 Availability of Documents

The annual report of the Company for the year ended December 31<sup>st</sup>, 2003 and December 31<sup>st</sup>, 2004 are available free of charge during usual business hours on any day at the specified office of the Paying Agent in Luxembourg and also on the website [www.novartis.ch](http://www.novartis.ch).

##### 5.6 Management

The Board of Administration is composed of:

Dr Daniel Vasella  
Prof. Dr. Helmut Sihler  
Hans-Joerg Rudloff  
Dr. h.c. Birgit Breuel  
Prof. Dr Peter Burckhardt  
Prof. Dr Srikant Datar  
William W. George  
Alexandre F. Jetzer  
Prof. Dr Ulrich Lehner  
Dr-Ing. Wendelin Wiedeking  
Prof. Dr. Rolf M. Zinkernagel

## **5.7 Statutory Auditors**

The statutory auditors of the Company are PricewaterhouseCoopers AG.

## **5.8 Capital**

The share capital of the Company is CHF 1 388 605 000, fully paid-in and divided into 2 777 210 000 registered shares of CHF 0.50 nominal value each. The Company has neither authorized nor conditional capital.

## **5.9 Rights attached to the shares of the Company**

There are no preferential voting shares. All shares have equal voting rights. The Company has not issued participation certificates, nonvoting equity securities (Genussscheine) or profitsharing certificates.

Each registered share entitles the holder to one vote at the general assembly. Shareholders also have the right to receive dividends, appoint a proxy, convene a general assembly, place items on the agenda of a general assembly and hold such other rights as defined in the Swiss Code of Obligations. One or more shareholders, whose combined shareholdings represent an aggregate nominal value of at least CHF 1,000,000.00, may demand that an item be included in the agenda of a general assembly. Demands must be made in writing at the latest 45 days before the date of the assembly; specify the item to be included in the agenda; and contain the proposal for which the shareholder requests a vote.

There are no restrictions regarding the transferability of the Company's shares. However, only those persons having their shares registered in the Company's share register may exercise their voting rights. Pursuant to Swiss law, a person who wishes to register shares must make a declaration to the Shareholder Registry that the shares have been acquired in his/her own name and for his/her own account.

Each share carries one vote. However, the articles of incorporation of the Company provide that no shareholder shall be registered to vote for shares comprising more than 2% of the issued share capital unless the board of directors has granted, upon request, an exemption. Exemptions are in force for the two largest shareholders reported above (Novartis Foundation for Employee Participation and Emasan AG). In 2004 no other exemptions were requested.

The statutory voting restrictions can be cancelled with a two-thirds majority of the shares represented at the general assembly.

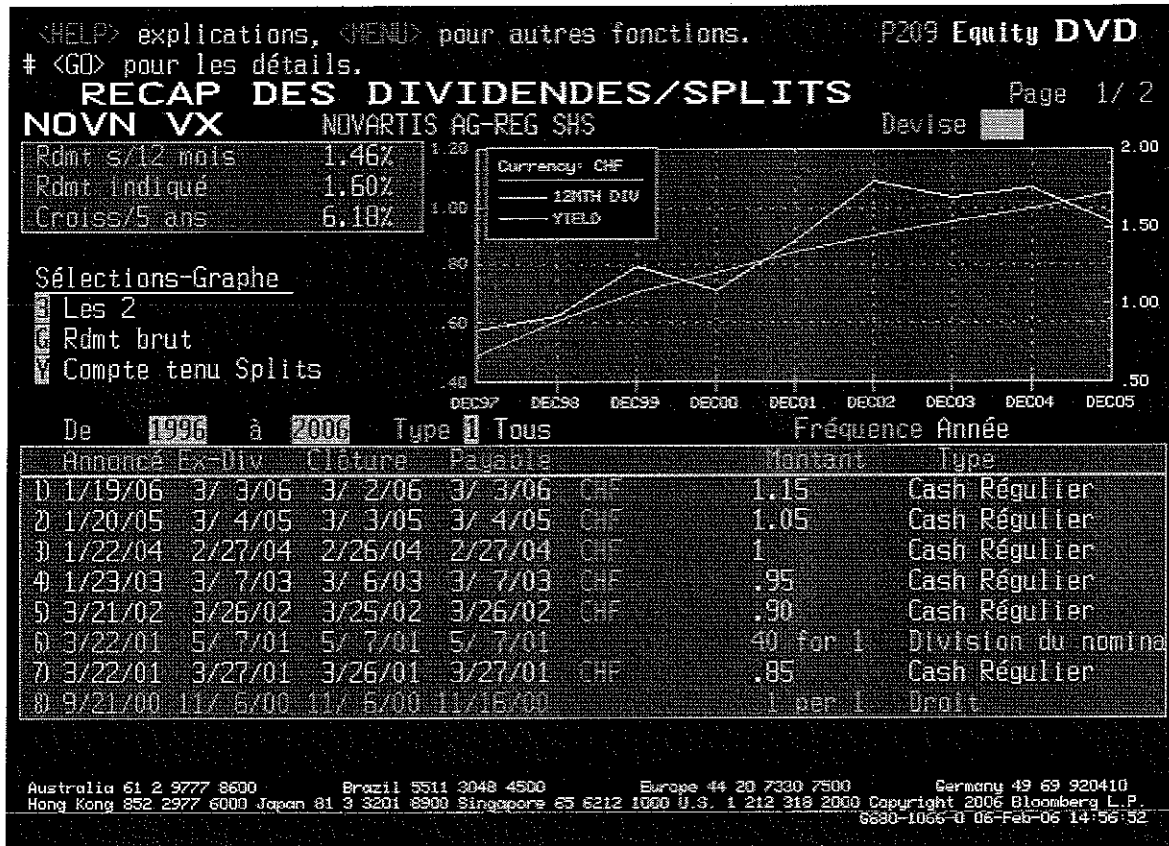
Nominees may not vote shares absent registration with the Share Registry and, with registration, may only vote shares constituting less than or equal to 0.5% of the issued share capital. The Board of Directors may register nominees with the right to vote in excess of that limit if the nominees disclose such particulars of the beneficial owners of the shares as the Board shall require. Such agreements are in force with Nortrust Nominee and J. P. Morgan Chase Bank. Groupings formed to circumvent this limitation are treated as one single person or nominee.

Holders of American Depositary Shares (ADS) may vote by instructing J. P. Morgan Chase Bank to exercise the voting rights. JPMorgan Chase Bank as depositary may exercise the voting rights for deposited shares represented by ADS at its discretion to the extent the holders of the ADS have not given instructions for the voting.

**5.10 Recording of the Company's Share price (highest and lowest prices in CHF) for the last three years**

DATE	Px High	Px Low
janv.-06	72,45	67,6
déc.-05	70,45	66,55
nov.-05	71,7	68,1
oct.-05	69,6	65,1
sept.-05	65,65	60,4
août-05	63,85	59,25
juil.-05	63,75	59,15
juin-05	61,95	60,2
mai-05	61,8	57,95
avr.-05	58,1	55,15
mars-05	59,25	54,75
févr.-05	59,35	56,85
janv.-05	58	55,5
déc.-04	57,6	54,65
nov.-04	59,45	54,5
oct.-04	59,45	56,15
sept.-04	60,15	58,15
août-04	59,15	56,1
juil.-04	57,5	53,25
juin-04	58	55,25
mai-04	58,65	56
avr.-04	58,7	53,85
mars-04	57,1	51,8
févr.-04	58,85	55,65
janv.-04	59	56,55
déc.-03	56,15	54,25
nov.-03	55,3	50,5
oct.-03	53,9	50,1
sept.-03	55,95	50,7
août-03	53,3	51,05
juil.-03	54	51,5
juin-03	56,1	51,35
mai-03	54,75	50,35
avr.-03	55,45	49,3
mars-03	56	45,2
févr.-03	50,75	46,95
janv.-03	54,3	45,6

5.11 Dividends paid over the last three financial years





## 5.12 Key Financial Data of the Company

### CONSOLIDATED INCOME STATEMENTS

for the years ended December 31, 2005 and 2004

	Note	2005 USD million	2004 USD million
Net sales	3/4	31 212	28 247
Other revenues		314	154
Cost of goods sold		-8 868	-7 268
Gross profit		23 658	21 133
Marketing & sales		-9 502	-8 873
Research & development		-4 846	-4 171
General & administration		-1 742	-1 540
Other income & expense		-363	-397
Operating income	3/4	6 995	6 151
Result from associated companies	10	193	68
Financial income	5	461	486
Interest expense		-294	-261
Income before taxes		7 265	6 445
Taxes	6	-1 134	-1 065
Net income		6 141	5 389
Attributable to			
Shareholders of Novartis AG		6 130	5 365
Minority interests		11	15
Earnings per share (USD)	7	2.63	2.28
Diluted earnings per share (USD)	7	1.62	2.27

The accompanying notes form an integral part of the consolidated financial statements.

### CONSOLIDATED BALANCE SHEETS

at December 31, 2005 and 2004

	Note	2005 USD million	2004 USD million
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant & equipment	8	8 679	8 497
Intangible assets	9	13 294	5 629
Associated companies	10	7 096	7 450
Deferred taxes	11	3 401	2 535
Financial and other non-current assets	12	3 829	4 457
Total non-current assets		36 289	28 568
<b>Current assets</b>			
Inventories	13	3 725	3 658
Trade accounts receivable	14	5 343	4 851
Marketable securities & derivative financial instruments	15	4 613	7 909
Cash and cash equivalents		6 321	6 883
Other current assets	16	1 442	1 619
Total current assets		21 443	23 920
Total assets		57 732	52 488
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	17	994	1 008
Treasury shares	17	-146	-159
Reserves		32 142	30 328
Issued share capital and reserves available to Novartis shareholders		32 990	31 177
Minority interests		174	138
Total equity		33 164	31 315
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial debts	18	1 319	2 736
Deferred taxes	11	3 472	2 340
Provisions and other non-current liabilities	19	4 449	4 248
Total non-current liabilities		9 240	9 324
<b>Current liabilities</b>			
Trade accounts payable		1 961	2 020
Financial debts and derivative financial instruments	20	7 135	4 119
Current income tax liabilities		1 253	1 101
Provisions and other current liabilities	21	4 979	4 609
Total current liabilities		15 328	11 849
Total liabilities		24 568	21 173
Total equity and liabilities		57 732	52 488

## CONSOLIDATED CASH FLOW STATEMENTS

for the years ended December 31, 2005 and 2004

	Note	2005 USD million	2004 USD million	2004 USD million
Net income			6 141	5 380
Reversal of non-cash items				
Taxes		1 124		1 065
Depreciation, amortization and impairments on				
Property, plant & equipment		835		796
Intangible assets		882		543
Financial assets		48		49
Result from associated companies		-193		-68
Divestment gain/loss from subsidiaries		-8		1
Gains on disposal of property, plant & equipment, intangible and financial assets, net		-393		-224
Equity settled share-based compensation expenses		-415		332
Net financial income		-167		-225
Total reversal of non-cash items			2 543	2 269
Dividends from associated companies			96	73
Dividends received from marketable securities			4	12
Interest and other financial receipts			437	382
Interest and other financial payments			-313	-274
Taxes paid			-1 363	-1 083
Cash flow before working capital and provision changes			7 545	6 759
Restructuring payments and other cash payments out of provisions			-337	-219
Change in net current assets and other operating cash flow items	22		872	55
Cash flow from operating activities			8 080	6 595
Investment in property, plant & equipment			-1 188	-1 289
Proceeds from disposals of property, plant & equipment			73	129
Purchase of intangible assets			-360	-181
Proceeds from disposals of intangible assets			250	184
Purchase of financial assets			-783	-747
Proceeds from disposals of financial assets			708	486
Acquisition of additional interests in associated companies			-300	
Acquisition and divestments of businesses	23		-8 536	-1 031
Acquisition of minority interests			-30	
Proceeds from disposals of marketable securities			6 724	6 527
Payments for acquiring marketable securities			-4 040	-7 315
Cash flow used for investing activities			-7 482	-3 217
Acquisition of treasury shares, net			-131	-1 820
Proceeds from issuance of share capital to third parties by subsidiaries			67	60
Increase in non-current financial debts			15	14
Repayment of non-current financial debts			-884	-15
Change in current financial debts			2 906	685
Dividend payments and cash contributions to minority interests			-32	-25
Dividends paid to shareholders of Novartis AG			-2 107	-1 896
Cash flow used for financing activities			-2 666	-3 997
Net effect of currency translation on cash and cash equivalents			-94	56
Net change in cash and cash equivalents			238	437
Cash and cash equivalents at the beginning of the year			6 093	5 646
Cash and cash equivalents at end of the year			6 331	6 083

## CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

for the years ended December 31, 2005 and 2004

	Note	2005 USD million	2004 USD million
Net income		6 141	5 380
Fair value adjustments on financial instruments	24.1	-75	297
Actuarial losses from defined benefit plans, net	24.2	-480	-1 038
Novartis share of equity recognized by associated companies	24.3	41	24
Translation movements <sup>1</sup>	24.4	-1 878	950
Total recognized income and expense		3 729	5 613
Attributable to shareholders of Novartis AG		3 720	5 597
Attributable to minority interests		9	16

<sup>1</sup> Thereof USD -2 million associated with minority interests (2004: USD 1 million in 2004)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended December 31, 2005 and 2004

	Note	Share capital USD millions	Treasury shares USD millions	Share premium USD millions	Retained earnings USD millions	Total dividend adjustment attributable to Novartis USD millions	Total reserves USD millions	Minority interests USD millions	Total equity USD millions
Total equity at January 1, 2004		1 017	-121	176	28 327	1 030	29 533		30 429
Changes in accounting policies			-34		-669	-773	-1 442	90	-1 386
Total recognized income and expense					5 389	308	5 597	16	5 613
Dividends	25.1				-1 896		-1 896		-1 896
Acquisition of treasury shares, net	25.2		-13		-1 796		-1 796		-1 809
Reduction in share capital	25.3	-9	9						
Share-based compensation	25.4				332		332		332
Changes in minority interests								32	32
Transfers	25.5			26	-26				
Total of other equity movements		-9	-4	26	-3 386		-3 360	32	-3 341
Total equity at December 31, 2004		1 008	-159	202	29 661	465	30 328	138	31 315
Total recognized income and expense					6 171	-2 451	3 720	9	3 729
Dividends	25.1				-2 107		-2 107		-2 107
Acquisition of treasury shares, net	25.2		-1		-244		-244		-245
Reduction in share capital	25.3	-14	14						
Share-based compensation	25.4				445		445		445
Changes in minority interests								27	27
Transfers	25.5			-3	3				
Total of other equity movements		-14	13	-3	-1 903		-1 906	27	-1 880
Total equity at December 31, 2005		994	-146	199	33 929	-1 986	32 142	174	33 164

Source: [www.novartis.com](http://www.novartis.com)