

23 February 2006

**Kaupthing Bank hf.**  
**Issue of SEK 40,000,000 3 Year Equity Index Basket Notes due March 2009**  
**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.

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- |    |                                   |  |
|----|-----------------------------------|--|
| 1. | Issuer:                           | Kaupthing Bank hf.                               |
| 2. | (i) Series Number:                | 43   |
|    | (ii) Tranche Number:              | 1  |
| 3. | Specified Currency or Currencies: | Swedish Kroner ("SEK")                           |
| 4. | Aggregate Nominal Amount:         |  |
|    | (i) Series:                       | SEK 40,000,000                                   |
|    | (ii) Tranche:                     | SEK 40,000,000                                   |
| 5. | Issue Price:                      | 100.00 per cent. of the Aggregate Nominal Amount |
| 6. | Specified Denominations:          | SEK 100,000                                      |
| 7. | (i) Issue Date:                   | 23 February 2006                                 |
|    | (ii) Interest Commencement Date:  | 23 February 2006                                 |

- |     |  |   |
|-----|--|---|
| 8.  | Maturity Date:   | 10 March 2009   |
| 9.  | Interest Basis:  | Zero Coupon<br>(further particulars specified below)                    |
| 10. | Redemption/Payment Basis:                                  | Index Linked Redemption<br>(further particulars specified in the Annex) |
| 11. | Change of Interest Basis or Redemption/<br>Payment Basis:  | Not Applicable  |
| 12. | Put/Call Options:  | Not Applicable  |
| 13. | (a) Status of the Notes:                                   | Senior  |
|     | (b) Date Board approval for issuance<br>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>  | Not Applicable           |
| 16. | <b>Floating Rate Note Provisions</b>   | Not Applicable           |
| 17. | <b>Zero Coupon Note Provisions</b>   | Applicable               |
|     | (i) Accrual Yield:   | 0.00 per cent. per annum |
|     | (ii) Reference Price:  | Not Applicable           |
|     | (iii) Any other formula/basis of<br>determining amount payable:                        | Not Applicable           |
|     | (iv) Day Count Fraction in relation to<br>Early Redemption Amount and<br>late payment: | Not Applicable           |
| 18. | <b>Index Linked Interest Note Provisions</b>   | Not Applicable           |
| 19. | <b>Dual Currency Interest Note<br/>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   | see Appendix                  |
| 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)): | As set out in the Conditions. |
| 27. | Capital Notes Provisions   | Not Applicable                |
|     | (i) Special Event Redemption Amount:   |                               |
|     | (ii) Special Event Redemption Date(s):   |                               |
|     | (iii) Investment Considerations:   |                               |

## 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:  | TARGET, Stockholm   |
| 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: Please see Annex.

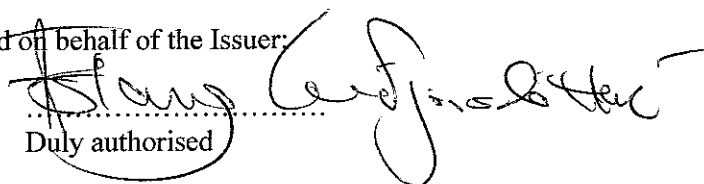
**DISTRIBUTION**

35. If syndicated, names and addresses of Managers and underwriting commitments: Not Applicable
36. If non-syndicated, name of relevant Dealer: Dresdner Bank AG London Branch  
Riverbank House  
2, Swan Lane  
London EC4R 3UX  
United Kingdom
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: None
- (ii) Admission to trading: Not Applicable
- (iii) Estimate of total expenses related to admission to trading: Not Applicable

### **2. RATINGS**

Ratings: The Notes to be issued have been rated:  
Moody's: A1  
Fitch: A

### **3. NOTIFICATION**

The Commission de Surveillance du Secteur Financier, Luxembourg has provided the Issuer with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

### **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: Not Applicable
- (iii) Estimated total expenses: Not Applicable

### **6. YIELD (*Fixed Rate Notes only*)**

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**

### **Nikkei 225 Index**

#### ***General***

The Nikkei 225<sup>®</sup> Stock Average Index is a modified price-weighted index of the 225 actively traded stocks in the First Section of the Tokyo Stock Exchange. It is calculated and published by Nihon Keizai Shimbun, Inc. and has been calculated continuously since 7 September 1950. The index is available under Bloomberg Code “NKY <Index>” and Reuters RIC Code “N225”.

#### ***Constituent Stocks***

The index consists of 225 highly liquid Japanese companies listed on the First Section of the Tokyo Stock Exchange.

#### ***Calculation of the Index***

The index is calculated every minute using the Dow Jones method to determine the average price of the 225 Stocks. All the companies are given an equal weighting based on a par value of 50 yen per share and the figure is adjusted to maintain continuity and reduce the effect of external factors not directly related to the market.

#### ***Amendments to the index***

The Stocks are reviewed annually and any changes required are made in October. Changes may also be made at other times if necessary.

#### ***Disclaimer***

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IN ADDITION, THE NIKKEI SPONSOR GIVES NO ASSURANCE REGARDING ANY MODIFICATION OR CHANGE IN ANY METHODOLOGY USED IN CALCULATING THE NIKKEI 225 INDEX AND IS UNDER NO OBLIGATION TO CONTINUE THE CALCULATION, PUBLICATION AND DISSEMINATION OF THE NIKKEI 225 INDEX.

## **Standard & Poor's 500 Composite Stock Price Index (.SPX)**

SPX is a market value-weighted index of 500 leading US equities. The exchange for Standard & Poor's 500 Index (.SPX) is New York Stock Exchange (NYSE), American Stock Exchange (AMEX) and National Association of Securities Dealers for Automated Quotation (NASDAQ). The related exchange is Chicago Mercantile Exchange (CME), Chicago Board Options Exchange (CBOE) and any other exchange(s) on which futures and options contracts related to the Index are principally traded.

### ***Description and name of the index publisher***

Standard and Poor's Corporation ("S&P") is one of the world's pre-eminent providers of credit ratings and for globally recognized financial-market indices, risk evaluation, investment research, data and valuations. The company was established through a merger in 1941 of Standard Statistics and Poor's Publishing Company Standard & Poor's.

### ***Place of publication of the index***

SPX is published on Reuters Screen page .SPX, or any replacement pages. Real time values and closing index values are available on [www.standardandpoors.com](http://www.standardandpoors.com). Daily closing values are also published in leading newspapers.

### ***Frequency and method of calculation, index adjustment procedures***

Like all S&P Indices, the SPX is calculated daily using a base-weighted aggregate methodology, meaning the level of the Index reflects the total market value of all component stocks relative to a particular base period. Total market value is determined by multiplying the price of its stock by the number of shares outstanding. S&P updates total return and dividend information for the S&P 500 on a monthly basis.

The SPX is maintained by the S&P Index Committee, whose members include Standard and Poor's economists and index analysts. The Committee establishes Index Committee Policy used to maintain the indices in an independent and objective manner, including the following provisions:

#### **Criteria for Additions to a U. S. Index:**

- U. S. Companies;
- Adequate liquidity and reasonable price -- The ratio of annual dollar value traded to market capitalization should be 0.3 or greater. Very low stock prices can affect a stock's liquidity;
- Market capitalization of \$4 Billion or more for the S&P 500, \$1 billion - \$4 Billion for the S&P MidCap 400 and \$300 million to \$1 billion for the S&P SmallCap 600. These ranges are reviewed from time to time to assure consistency with market conditions;
- Financial viability, usually measured as four consecutive quarters of positive as reported earnings. As-reported earnings are GAAP Net Income excluding discontinued operations and extraordinary items;
- Public float of at least 50% of the stock;

- Maintaining sector balance for each index as measured by a comparison of the GICS sectors in each index and in the market in the relevant market capitalization ranges;
- Operating company and not a closed-end fund, holding company, partnership, investment vehicle or royalty trust. Real Estate Investment Trusts are eligible for inclusion in Standard & Poor's U. S. indices.

Criteria for Deletions from a U. S. Index:

- Companies involved in mergers, being acquired or significantly restructured such that they no longer meet inclusion criteria.
- Companies, which substantially violate one or more of the addition criteria.

At times a company may appear to temporarily violate one or more of the addition criteria. Further, the addition criteria are for addition to an index, not for continued membership. As a result, a company in an index that appears to violate the criteria for addition to that index will not be deleted unless ongoing conditions warrant an index change. When a company is removed from an index, Standard & Poor's will explain the basis for the removal.

*Values of the index*

The following table shows the development of the Index during the last year before the Issue Date (source of information BLOOMBERG: SPX <Index> HP M <go>):

<b>Date</b>	<b>High</b>	<b>Low</b>	<b>Date</b>	<b>High</b>	<b>Low</b>
Feb 2005	1211.37	1184.16	Aug 2005	1245.04	1205.10
March 2005	1225.31	1165.36	Sept 2005	1241.48	1210.20
April 2005	1191.14	1142.62	Oct 2005	1226.70	1176.84
May 2005	1198.78	1154.05	Nov 2005	1202.76	1268.25
June 2005	1216.96	1194.67	Dec 2006	1272.74	1248.29
July 2005	1243.72	1194.44	Jan 2006	1294.18	1261.49

The value of SPX at 14 February 2006 was 1275.53.

**CECE EUR Index**

(i) *General*

The CECE EUR Index is a capitalization-weighted index consisting of the 27 most traded Czech, Hungarian and Polish blue chip stocks which are members of the respective country index: CTX – Czech Traded Index, HTX – Hungarian Traded Index and PTX – Polish Traded Index. Calculated and disseminated in real-time by Wiener Börse, the start level of CECE<sup>®</sup>EUR was set to 746,46 points as of 4 January 1999. CECE<sup>®</sup>EUR covers about 85 % in terms of turnover and over 80 % in terms of market capitalization of the total Czech, Hungarian and Polish stock markets. The index is available under Bloomberg Code “CECEEUR <Index>”.



(ii) *Constituent stocks*

The index consists of the 27 most traded Czech, Hungarian and Polish blue chip stocks which are members of the respective country index.

(iii) *Calculation of the Index*

The index is a free float-adjusted market capitalisation index with a weighting cap of 20 per cent for index constituents. It is calculated and published in real time in Euro *on every day that at least one of the source stock markets (Czech, Hungarian or Polish) is open for trading*. Information as to the methodology, calculation and value of the index at any given point in time is available on the Wiener Börse Index website, [www.indices.cc](http://www.indices.cc) (which website does not form part of this Prospectus) and the value of the index is available on Bloomberg Code "CECEEUR <Index>".

(iv) *Amendments to the Index*

The update of the free float and the weighting cap of all constituents takes place on a quarterly basis (March, June, September, December). The composition of the index will be reviewed semiannually in March and September.

(v) *Disclaimer*

The **CECEEUR (CECE Composite Index® in EUR)** was developed and is real-time calculated and published by Wiener Börse AG. The full name of the Index and its abbreviation are protected by copyright law as trademarks. The CECEEUR index description, rules and composition are available online on [www.indices.cc](http://www.indices.cc) - the index portal of Wiener Börse AG (which website does not form part of this Prospectus).

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## **Kospi 200 Index ("KOSPI2")**

### ***Description and name of the index publisher***

Name: Korea Stock Exchange  
Address: 33, Yoido-dong, Youngdeungpo-ku, Seoul 150-977,  
Republic of Korea  
Founding: 1956

The KSE is a securities exchange where cash and derivative financial products, including stocks, bonds, stock index futures, stock index options and equity options, are traded. Presently, investors from over 60 countries trade in securities listed on the KSE market through 50 KSE member firms. In terms of the trading volume and market capitalization, the KSE is ranked tenth in the world.

### ***Place of publication of the index and publication method***

KOSPI 200 is published on the KSE website and in various publications of the KSE, e.g., Stock (a monthly magazine) and Fact Book (an annual review of market activities), and available retrospective to January 3, 1990. The relevant BLOOMBERG screen page is KOSPI Index DES <GO>.

### ***Frequency and method of calculation, index adjustment procedures***

KOSPI 200 is calculated and published every 10 seconds. KOSPI 200 has been produced since June 15, 1994. As an index developed as underlying index for derivatives products (index futures and index options) traded on the KSE market, its constituents are 200 blue-chip stocks that are representatives of the market and industry groups that they belong to. The base date of KOSPI 200 is January 3, 1990, with a base index 100. As a market capitalization weighted index, KOSPI 200 is calculated according to following formula:

$$\text{KOSPI 200} = \frac{\text{Current aggregated market value of component stocks}}{\text{Base aggregated market value of component stocks}} * 100$$

### **Constituent stocks**

Of the industry groups in the Korea Standard Industry Classification, stocks of the companies that belong to 8 industry groups, whose market capitalization is at least 1% of the total market capitalization, are selected, thus ensuring the high percentage of the market capitalization of the constituents against the total. Stocks excluded from the constituents are: the stocks initially listed or relisted after May 1 of the year preceding the year to which the periodic realignment review date, the stocks designated as administrative issue as of the periodic realignment review date, stocks of the securities investment companies, issues of liquidation sale and stocks deemed unsuitable to be a constituent of the index.

All industry groups other than manufacturing group are classified as non-manufacturing industry group, and the constituents are selected first from the non-manufacturing industry group, and then the rest are chosen from the manufacturing group. Basic selection criteria are the average market

capitalization obtained dividing the aggregated value attained by multiplying the closing price of the listed common shares by the number of listed common shares for one year from April of the year preceding the year to which the periodic realignment review date belongs, by 12, and the sum of daily trading value for the same period. In case of a stock, which has been reclassified under different industry group, such stock is grouped with the newly classified industry group.

#### KOSPI 200 Industry Groups

<u>Industry name</u>	<u>Industry classification used for national statistics</u>
Fisheries	Fisheries
Mining	Mining
Manufacturing	Food & beverage, Textiles & apparel, Paper & wood, Chemicals, Pharmaceuticals, Non-metallic minerals, Iron & metals, Machinery, Electrical and Electronics, Medical & Precision machines, Transportation equipment, Other manufacturing
Electricity & Gas	Electricity & Gas
Construction	Construction
Services	Services
Post & Communication	Post & Communication
Finance	Finance

First, the constituent stocks from non-manufacturing industry are chosen on the basis of rank order of average monthly market capitalization, while ensuring that the accumulated market capitalization of a stock is at least 70% of the total market capitalization of the same industry group. In such case, the number of stocks selected is considered as the number of constituent stocks chosen from the same industry group. However, of the stocks selected, in case where the ranking of annual trading value of a stock is below 85% of the same industry group, such stock is excluded, and among the stocks whose market capitalization is ranked next, a stock that satisfies the trading value requirement is chosen. Second, the constituent stocks from manufacturing industry are selected by the rank order of market capitalization, while ensuring that annual trading value of stocks are ranked above 85% of the industry group. The number of the stocks selected from the manufacturing industry is the number obtained by subtracting the number of constituent stocks chosen from the non-manufacturing industry group from 200. Notwithstanding the above criteria, in case of a stock that does not satisfies the above criteria, but whose market capitalization is within top 50 of its industry group, the KOSPI Maintenance Committee makes the decision on inclusion of such stock in the constituents, while taking into account such factors as the percentage of market capitalization of the industry group to the total, liquidity of such stock, etc.

### Realignment of Constituent Stocks

To ensure that KOSPI 200 accurately represents the overall market movement, its constituent stocks are realigned as a need arises. There are two types of realignment; periodic realignment and special realignment. Periodic realignment takes place regularly one a year, so that KOSPI index can be calculated on the basis of the constituents realigned on the trading day following the day which is the last trading day of June contracts of both the index futures and index options. Special realignment takes place at the time when a stock has to be excluded from the constituents as a result of delisting, designation as administrative issue, merger, etc.

The method of periodic realignment is similar to the method used for selection of constituent stocks. However, to maintain constancy of the index, a replacement stock has to satisfy the criteria for selection of constituent stocks, as well as its ranking of market capitalization should be within 90% of total market capitalization of the constituents of the same industry group. Also, even a existing constituent stock does not satisfy the criteria for selection of constituent stocks, if the ranking of the market capitalization of such stock is within 110% of the market capitalization of the constituents, such stock remains as a constituent. In case of a stock whose ranking of market capitalization has reached to 90% of the same industry group, such stock is not placed in the constituents unless there is an existing constituent whose ranking falls below 110% of the constituents. Special realignment is carried out by choosing a stock from the replacement list that was prepared beforehand in a priority order by industry group. In the event that the replacement list includes no stock for a specific industry, a stock is chosen from the manufacturing industry group.

### Exception to Constituent Stocks

In cases where there is an initial listing of a stock which is deemed to have high liquidity and is worthy in terms of it's impact on KOSPI 200, a constituent stock is merged into non-constituent stock or a company is established as a result of merger between the constituents, it is possible to include such initially listed stock or stocks of the new companies in the constituents before the periodic realignment date. The time of including such stocks in the constituents is the trading day following the day which is the last trading day of the nearest month contracts of both the index futures and index options, which comes 30 trading days after the listing date of such stocks.

### *Values of the index*

The following table shows the development of the Index during the last year before the Issue Date (source of information BLOOMBERG screen page: KOSPI Index DES <GO>):

<b>Date</b>	<b>High</b>	<b>Low</b>	<b>Date</b>	<b>High</b>	<b>Low</b>
Feb 2005	130.85	119.74	Aug 2005	146.04	137.42
March 2005	131.97	123.49	Sept 2005	159.06	143.13
April 2005	128.44	117.58	Oct 2005	160.43	146.55
May 2005	124.84	117.89	Nov 2005	165.95	152.98
Jun 2005	129.43	124.79	Dec 2005	177.43	166.97
Jul 2005	143.32	130.54	Jan 2006	182.39	168.04

The value of KOSPI2 at 14 February was 168.31.

### **MSCI Taiwan Index ("TWY")**

#### *Description and name of the index publisher*

Name: Morgan Stanley Capital International Inc.  
Address: 750 Seventh Ave., 30<sup>th</sup> Floor, New York, NY 10019, U.S.A.  
Founding: 1969

MSCI is a leading provider of global indices and benchmark related products and services to investors worldwide. It is headquartered in New York, and conducts business worldwide with operations in Geneva, London, Hong Kong, Tokyo, Singapore, Sydney, Frankfurt, Milan, Paris, Princeton and San Francisco. The business of MSCI is to provide benchmark products and services to the investment management community, to distribute index and company-level data and to license the MSCI indices to third parties for the purpose of creating derivative and proprietary products.

#### *Place of publication of the index*

MSCI Taiwan Index is published on Bloomberg screen page TWY Index DES <GO>.

#### *Frequency and method of calculation, index adjustment procedures*

The MSCI Taiwan Index is one of over 1,200 different regional, country and sector equity indices published by Morgan Stanley Capital International Inc. As a Real Time Index the MSCI Taiwan Index provides an up-to-the minute picture of equity market activity in Taiwan. It is a market capitalization-weighted index of stocks listed on the TWE. The base date of the Index is January 1, 1988. As a derivative index the MXCI Taiwan Index is calculated every 15 seconds. MSCI Real Time Indices include more than 2,100 real time constituents and weights, which are calculated by Bloomberg.

#### Constructing the MSCI Standard Index Series

To construct relevant and accurate equity indices for the global institutional investor under the Standard Index Series Methodology, MSCI undertakes an index construction process, which involves:

- Defining the equity universe;
- Adjusting the total market capitalization of all securities in the universe for free float available to foreign investors;
- Classifying the universe of securities under the Global Industry Classification Standard (GICS);
- Selecting securities for inclusion according to MSCI's index construction rules and guidelines.

## Defining the Equity Universe

The index construction process starts at the country level, with the identification of the universe of investment opportunities. MSCI classifies each company and its securities in one and only one country. All listed equity securities, or listed securities that exhibit characteristics of equity securities, except investment trusts<sup>1</sup>, mutual funds and equity derivatives, are eligible for inclusion in the universe.

## Adjusting the Total Market Capitalization of Securities in the Universe for Free Float

After identifying the universe of securities, MSCI calculates the free float-adjusted market capitalization of each security in that universe. The process of free float-adjusting market capitalization involves:

- Defining and estimating the free float available to foreign investors for each security, using MSCI's definition of free float;
- Assigning a free float-adjustment factor to each security;
- Calculating the free float-adjusted market capitalization of each security.

MSCI defines the free float of a security as the proportion of shares outstanding that are deemed to be available for purchase in the public equity markets by international investors. In practice, limitations on free float available to international investors include:

- Strategic and other shareholdings not considered part of available free float.
- Limits on share ownership for foreign investors.

MSCI's estimation of free float is based solely on publicly available shareholder information obtained from multiple information sources. For each security, all available shareholdings are considered where public data is available, regardless of the size of the shareholding. Consultation may be conducted with analysts, other industry experts and official company contacts, particularly where disclosure standards or data quality make the estimation of free float difficult.

## Securities Not Subject to Foreign Ownership Limits (FOLs)

For securities not subject to FOLs, the free float of a security is estimated as its total number of shares outstanding less shareholdings classified as strategic and/or non-free float. Examples of shares excluded from free float are stakes held by strategic investors such as governments, corporations, controlling shareholders and management.

Non-Free Float Shareholdings (%) = Number of Shares Classified as Non-Free Float  
divided by the Total Number of Shares

Free Float (%) = 100% minus Non-Free Float Shareholdings (%)

### Securities Subject to FOLs

For securities subject to FOLs, the estimated free float available to foreign investors is equal to the lesser of:

- Estimate of free float, as defined above.
- FOL adjusted for non-free float stakes held by foreign investors.

Free Float for Foreign Investors (%) = Minimum of:

- 100% minus Non-Free Float Shareholdings, Including Domestic and Foreign Shareholdings
- FOL minus Foreign Non-Free Float Shareholdings

### Assigning a Free Float-Adjustment Factor

MSCI free float-adjusts the market capitalization of each security using an adjustment factor referred to as the Foreign Inclusion Factor (FIF).

### Securities with Free Float Greater Than 15% and Not Subject to FOLs

For securities with free float greater than 15%, the FIF is equal to the estimated free float, rounded up to the closest 5%.

### Securities with Free Float Less Than 15% and Not Subject to FOLs

For securities with free float less than 15%, the FIF is equal to the estimated free float, rounded to the closest 1%.

### Securities Subject to FOLs

For securities subject to FOLs, the FIF is equal to the lesser of:

- Estimated free float available to foreign investors,
  - Rounded up to the closest 5%, if the free float is greater than 15%.
  - Rounded to the closest 1%, if the free float is less than 15%.
- FOL rounded to the closest 1%.

### Securities Affected by Other Foreign Investment Restrictions

For securities affected by other foreign investment restrictions, which hinder the efficient implementation of the investment process for foreign investors, an additional adjustment factor, referred to as the Limited Investability Factor (LIF), is applied. In these special cases, the free float-adjusted for limited investability is defined as the product of the available free float for foreign investors and the LIF.



Free Float-Adjusted for Limited Investability = Free Float for Foreign Investors times the LIF

Therefore, for securities subject to other foreign investment restrictions, the Foreign Inclusion Factor is equal to the lesser of:

- Estimated free float-adjusted for limited investability,
  - Rounded up to the closest 5%, if the free float-adjusted for limited Investability is greater than 15%.
  - Rounded to the closest 1%, if the free float-adjusted for limited investability is less than 15%.
- FOL rounded to the closest 1%.

#### Calculating the Free Float-Adjusted Market Capitalization

The free float-adjusted market capitalization of a security is calculated as the product of the FIF and the security's full market capitalization.

Free Float-Adjusted Market Capitalization = FIF times the Security's Full Market Capitalization

#### Classifying Securities Under the Global Industry Classification Standard (GICS)

In addition to the free float-adjustment of market capitalization, all securities in the universe are assigned to the industry that best describes their business activities. To this end, MSCI has designed in conjunction with Standard & Poor's, the Global Industry Classification Standard (GICS). This comprehensive classification scheme provides a universal approach to industries worldwide and forms the basis for achieving MSCI's objective of reflecting broad and fair industry representation in its indices.

The Global Industry Classification Standard (GICS) consists of 10 sectors, 24 industry groups, 62 industries, and 132 sub-industries. These four industry groupings are strictly hierarchical. Under the Global Industry Classification Standard (GICS), each company is assigned uniquely to one subindustry according to its principal business activity. Therefore, a company can only belong to one industry grouping at each of the four levels of the GICS. Classifying securities into their respective sub-industries can be complex, especially in an evolving and dynamic environment. The GICS guidelines used to determine the appropriate industry classification are:

- A security is classified in a sub-industry according to the business activities that generate approximately 60% or more of the company's revenues.
- A company engaged in two or more substantially different business activities, none of which contributes 60% or more of revenues, is classified in the sub-industry that provides the majority of both the company's revenues and earnings.
- Where the above guidelines cannot be applied, or are considered inappropriate, further analysis is conducted, and other factors are analyzed to determine an appropriate classification.

## Selecting Securities for Index Inclusion

In order to ensure a broad and fair representation in the indices of the diversity of business activities in the universe, MSCI follows a “bottom-up” approach to index construction, building indices from the industry group level up. The bottom-up approach to index construction requires a thorough analysis and understanding of the characteristics of the universe. This analysis drives the individual security selection decisions, which aim to reflect the overall features of the universe in the country index. MSCI targets an 85% free float-adjusted market representation level within each industry group, within each country. The security selection process within each industry group is based on the careful analysis of:

- Each company’s business activities and the diversification that its securities would bring to the index.
- The size (based on free float-adjusted market capitalization) and liquidity of securities. All other things being equal, MSCI targets for inclusion the most sizable and liquid securities in an industry group. In addition, securities that do not meet the minimum size guidelines discussed below and/or securities with inadequate liquidity are not considered for inclusion.
- The estimated free float for the company and its individual share classes. Only securities of companies with an estimated overall and/or security free float greater than 15% are, in general, considered for inclusion.

In constructing its Standard Index Series under the methodology, MSCI aims to target a free float-adjusted market representation of 85% within each industry group, within each country. However, because of differences in the structure of industries, this industry representation target may not be exactly and uniformly achieved in the indices across all industry groups. The differences in the structure of industries, and other considerations, may lead to over- or under-representation in certain industries. In these instances, the indices are constructed with a view to minimizing the divergence between the industry group representation achieved in the index and the 85% representation guideline. Since the over- and under-representation of industries is unlikely to be exactly off-setting, the average industry group representation achieved in a given country is also likely to be different from the 85% level. MSCI’s bottom-up approach to index construction, which builds the equity indices from the industry group level up, coupled with the 85% industry group representation guideline, may at times lead to a large company in an industry group not being included in the index, while a smaller company from the same or a different industry group might be added. Also, since the MSCI Standard Index Series is built from a country perspective, a large company in an industry group in one country may not be included in that country’s index, while a smaller company in the same industry group in another country might be added to that country’s index.

## Maintaining the MSCI Standard Index Series

The Index Committee is responsible for all editorial decisions affecting the MSCI Indices, including additions and deletions of constituents within the Indices. The Editorial Advisory Board (EAB) serves MSCI in an advisory capacity, providing input on index construction methodology and new product development. The EAB comprises approximately 18 members from leading pension funds, asset management firms, consultants and academicians from around the world.

The MSCI Standard Index Series is maintained with the objective of reflecting the evolution of the

underlying equity markets on a timely basis. In maintaining the indices, emphasis is also placed on continuity, replicability and on minimizing turnover in the indices. Maintaining the indices involves many aspects, including additions to and deletions from the indices and changes in number of shares and changes in Foreign Inclusion Factors (FIFs) as a result of updated free float estimates. Potential additions are analyzed not only with respect to their industry group, but also with respect to their industry or sub-industry group, in order to represent a wide range of economic and business activities. All additions are considered in the context of MSCI's Methodology, including the index constituent eligibility rules and guidelines described in Section 2.4.1. In assessing deletions, it is important to emphasize that indices must represent the full-investment cycle, including bull as well as bear markets. Out-of-favor industries and their securities may exhibit declining prices, declining market capitalization, and/or declining liquidity, and yet are not deleted because they continue to be good representatives of their industry group.

As a general policy, changes in number of shares are coordinated with changes in Foreign Inclusion Factor (FIF) to accurately reflect the investability of the underlying securities. In addition, MSCI continuously strives to improve the quality of its free float estimates and the related Foreign Inclusion Factors (FIFs). Additional shareholder information may come from better disclosure by companies or more stringent disclosure requirements by a country's authorities. It may also come from MSCI's ongoing examination of new information sources for the purpose of further enhancing free float estimates and better understanding shareholder structure's. When MSCI identifies useful additional sources of information, it seeks to incorporate them into its free float analysis. Overall, index maintenance can be described by three broad categories of implementation of changes.

- Annual full country index reviews that systematically re-assess the various dimensions of the equity universe for all countries and are conducted on a fixed annual timetable.
- Quarterly index reviews, aimed at promptly reflecting other significant market events.
- Ongoing event-related changes, such as mergers and acquisitions, which are generally implemented in the indices rapidly as they occur.

Please note that potential changes in the status of countries (standalone, emerging, developed) follow their own separate timetables. These changes are normally implemented in one or more phases at the regular annual full country index review and quarterly index review dates.

### *Values of the Index*

The following table shows the development of the Index during the last year before the Issue Date (source of information BLOOMBERG screen page: TWY Index DES <GO>):

<b>Date</b>	<b>High</b>	<b>Low</b>	<b>Date</b>	<b>High</b>	<b>Low</b>
Feb 2005	259.46	250.83	Aug 2005	271.34	250.63
March 2005	261.15	245.14	Sept 2005	258.14	247.65
April 2005	249.10	235.89	Oct 2005	257.71	235.23
May 2005	253.36	242.47	Nov 2005	262.71	242.86
June 2005	266.97	250.08	Dec 2005	277.65	261.67
July 2005	269.63	258.83	Jan 2006	285.78	270.69

The value of the MSCI Taiwain at 14 February 2006 was 279.10.

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

Not Applicable

#### **10. OPERATIONAL INFORMATION**

- (i) ISIN Code: XS 0244628201
- (ii) Common Code: 24462820
- (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

## ANNEX

### Part A: Provisions relating to the calculation of the Final Redemption Amount

The Final Redemption Amount shall be calculated by the Calculation Agent in its absolute and sole discretion according to the following formula:

$$\text{Final Redemption Amount} = \text{specified denomination} \times (100\% + \text{Participation} \times \max \left\{ \sum_{i=1}^5 w^i \times \left( \frac{\text{Index}_T^i - \text{Index}_0^i}{\text{Index}_0^i} \right), 0 \right\})$$

**Index<sub>0</sub>** means with respect to each Index, the level of that Index rate at the Valuation Time on the Strike date.

**Index<sub>T</sub>** means with respect to each Index, the arithmetic mean of the levels of that Index on each Averaging Date at the Valuation Time.

**w<sub>i</sub>** means with respect to each Index, the weight of that index in the Basket as shown in the column “weight” in the table set out below.

**i** means each Index comprising the Basket.

**“Averaging Dates”** are 11 February 2008, 10 March 2008, 9 April 2008, 9 May 2008, 9 June 2008, 9 July 2008, 11 August 2008, 9 September 2008, 9 October 2008, 10 November 2008, 9 December 2008, 9 January 2009, 9 February 2009.

### Part B: Definitions and further provisions

**“Business Day”** means (except as indicated otherwise) a day on which the Stockholm and TARGET-System is open.

**“Calculation Agent”** means Dresdner Bank Aktiengesellschaft.

**“Closing Price”** means the closing level of the Index at the Valuation Time on the Valuation Date, or, if such date is not an Exchange Business Day, the next following Exchange Business Day.

**“Underlying Indices”** means each of the Indices as shown in the column “indices” in the table set out below.

**“Participation”** is 181%.

**“Trade Date”** means 9 February 2006.

**“Averaging Date”** means each Averaging Date as defined in the Annex, Part A above.

**“Valuation Time”** means the Scheduled Closing Time on the Exchange on the Trade Date or on a Valuation Date.

<b>Weight</b>	<b>Index</b>
30%	Nikkei 225
20%	S&P 500
25%	CECE EUR
12.5%	Kospi 200
12.5%	MSCI Taiwan