

A black and white photograph of a person in silhouette walking from left to right in a modern office. The person is wearing a suit and is talking on a mobile phone. The office has large windows with a grid pattern, and the background is a bright, overcast sky. The lighting is dramatic, with the person's silhouette being dark against the bright background.

iSHARES<sup>®</sup> **MSCI SERIES**

2006 Annual Report to Shareholders – August 31, 2006



# iShares<sup>®</sup>

iShares, Inc.

Supplement dated October 31, 2006

to the Prospectus dated January 1, 2006 (as revised March 8, 2006)  
for the iShares MSCI Index Funds (the "Prospectus")

*The information in this Supplement updates the information in, and should be read in conjunction with, the Prospectus for the iShares MSCI Index Funds.*

The following information replaces the second paragraph found under the heading "Investment Adviser" on page 80:

For its investment advisory services to the iShares MSCI Brazil Index, iShares MSCI South Africa Index, iShares MSCI South Korea Index and iShares MSCI Taiwan Index Funds, BGFA is paid management fees equal to each of those Fund's allocable portion of: 0.74% per year of the aggregate net assets of those Funds less than or equal to \$2 billion, plus 0.69% per year of the aggregate net assets of those Funds between \$2 billion and \$4 billion, plus 0.64% per year of the aggregate net assets of those Funds greater than \$4 billion; for its investment advisory services to the iShares MSCI Pacific ex-Japan Index Fund, BGFA is paid management fees equal to 0.50% per year of the net assets of that Fund. Effective September 1, 2006, for its investment advisory services to the iShares MSCI Emerging Markets Index Fund, BGFA is paid management fees equal to 0.75% per year of the aggregate net assets of that Fund less than or equal to \$14.0 billion, plus 0.68% per year of the aggregate net assets of that Fund between \$14.0 billion and \$28.0 billion, plus 0.61% per year of the aggregate net assets of that Fund in excess of \$28.0 billion. Effective September 1, 2006, for its investment advisory services to each of the other Funds included in this Prospectus, BGFA is paid a fee equal to each of those Funds' allocable portion of: 0.59% per year of the aggregate net assets of those Funds less than or equal to \$7.0 billion, plus 0.54% per year of the aggregate net assets of the those Funds between \$7.0 billion and \$11.0 billion, plus 0.49% per year of the aggregate net assets of those Funds between \$11.0 billion and \$24.0 billion, plus 0.44% per year of the aggregate net assets of those Funds in excess of \$24.0 billion.

If you have any additional questions, please call 1-800-iShares (1-800-474-2737).

©iShares is a registered trademark of Barclays Global Investors, N.A.

---

PLEASE RETAIN THIS SUPPLEMENT FOR FUTURE REFERENCE.  
THIS SUPPLEMENT IS NOT PART OF THE ANNUAL REPORT.

THIS PAGE INTENTIONALLY LEFT BLANK.

# Table of Contents

Management’s Discussion of Fund Performance .....	1
Shareholder Expenses (Unaudited) .....	3
Schedule of Investments .....	4
Financial Statements .....	15
Financial Highlights .....	18
Notes to the Financial Statements .....	19
Report of Independent Registered Public Accounting Firm .....	25
Tax Information (Unaudited) .....	26
Board Review and Approval of Investment Advisory Contracts (Unaudited) .....	27
Supplemental Information (Unaudited) .....	30
Director and Officer Information (Unaudited) .....	31
iShares Family of Funds .....	36

THIS PAGE INTENTIONALLY LEFT BLANK.

# Management's Discussion of Fund Performance

## iSHARES® MSCI JAPAN INDEX FUND

Performance as of August 31, 2006

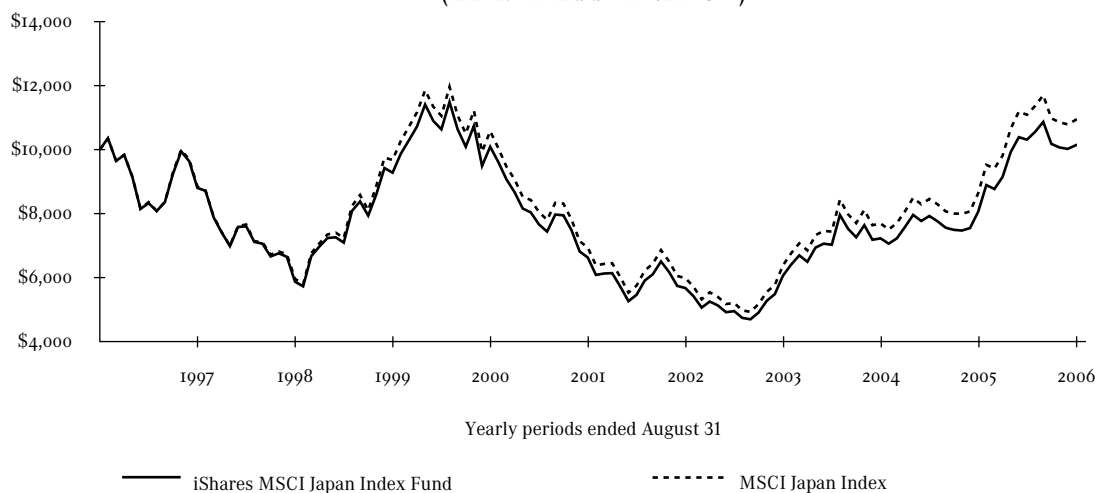
Average Annual Total Returns								
Year Ended 8/31/06			Five Years Ended 8/31/06			Ten Years Ended 8/31/06		
NAV	MARKET	INDEX	NAV	MARKET	INDEX	NAV	MARKET	INDEX
26.10%	23.64%	26.94%	8.94%	8.73%	9.59%	0.16%	0.14%	0.92%
Cumulative Total Returns								
Year Ended 8/31/06			Five Years Ended 8/31/06			Ten Years Ended 8/31/06		
NAV	MARKET	INDEX	NAV	MARKET	INDEX	NAV	MARKET	INDEX
26.10%	23.64%	26.94%	53.45%	51.94%	58.06%	1.57%	1.46%	9.54%

"Average annual total returns" represent the average annual change in value of an investment over the periods indicated. "Cumulative total returns" represent the total change in value of an investment over the periods indicated.

The Fund's per share net asset value or "NAV" is the value of one share of the Fund as calculated in accordance with the standard formula for valuing mutual fund shares. The NAV return is based on the NAV of the Fund, and the market return is based on the market price per share of the Fund. The price used to calculate market return ("Market Price") is determined by using the midpoint between the highest bid and the lowest offer on the stock exchange on which the shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. Market and NAV returns assume that dividends and capital gain distributions have been reinvested in the Fund at Market Price and NAV, respectively.

An index is a statistical composite that tracks a specified financial market or sector. Unlike the Fund, an index does not actually hold a portfolio of securities and therefore does not incur the expenses incurred by the Fund. These expenses negatively impact the performance of the Fund. Also, market returns do not include brokerage commissions that may be payable on secondary market transactions. If brokerage commissions were included, market returns would be lower. The returns shown in the tables above do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption or sale of fund shares. The investment return and principal value of shares of the Fund will vary with changes in market conditions. Shares of the Fund may be worth more or less than their original cost when they are redeemed or sold in the market. The Fund's past performance is no guarantee of future results.

### GROWTH OF \$10,000 INVESTMENT (AT NET ASSET VALUE)



Performance figures assume reinvestment of all dividends and capital gain distributions and do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. An index is a statistical composite that tracks a specified financial market or sector. Unlike the Fund, an index does not actually hold a portfolio of securities and therefore does not incur the expenses incurred by the Fund. These expenses negatively impact the performance of the Fund. The Fund's past performance is no guarantee of future results.

# Management's Discussion of Fund Performance (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

PORTFOLIO ALLOCATION As of 8/31/06		TOP TEN FUND HOLDINGS As of 8/31/06	
<i>Sector</i>	<i>Percentage of Net Assets</i>	<i>Security</i>	<i>Percentage of Net Assets</i>
Consumer Cyclical	24.78%	Toyota Motor Corp.	5.57%
Financial	22.51	Mitsubishi UFJ Financial Group	4.24
Industrial	20.01	Mizuho Financial Group Inc.	2.78
Consumer Non-Cyclical	10.07	Sumitomo Mitsui Financial Group Inc.	2.44
Basic Materials	7.99	Takeda Pharmaceutical Co. Ltd.	2.08
Technology	4.96	Canon Inc.	1.89
Communications	4.35	Honda Motor Co. Ltd.	1.89
Utilities	4.26	Sony Corp.	1.57
Energy	1.00	Matsushita Electric Industrial Co. Ltd.	1.55
Short-Term and Other Net Assets	0.07	Nomura Holdings Inc.	1.24
<b>TOTAL</b>	<b><u>100.00%</u></b>	<b>TOTAL</b>	<b><u>25.25%</u></b>

The iShares MSCI Japan Index Fund (the "Fund") seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in the aggregate in the Japanese market, as measured by the MSCI Japan Index (the "Index"). The Fund invests in a representative sample of securities in the Index, which has a similar investment profile as the Index. Due to the use of representative sampling, the Fund may or may not hold all of the securities that are included in the Index. For the twelve-month period ended August 31, 2006 (the "reporting period"), the Fund returned 26.10%, while the Index returned 26.94%.

The Japanese stock market rallied sharply for the reporting period, overcoming a series of challenges that included computer glitches at the Tokyo Stock Exchange, financial fraud and insider trading scandals, and North Korean missile testing in the Sea of Japan. The strong stock market performance was due to the Japanese economy, which appeared to turn the corner after a decade-long downturn. Economic growth repeatedly surpassed expectations as industrial production increased, spare manufacturing capacity shrunk to its lowest levels since 1991, consumer confidence hit a 15-year high, and retail sales surged to their highest level in more than a decade. In local employment markets, the job vacancies per applicant ratio climbed to its highest level in the past 14 years, indicating that there are more jobs available than there are applicants.

All of this economic activity produced an end to Japan's decade-long battle against deflation, as consumer prices rose for nine consecutive months. As a result, the Bank of Japan raised interest rates for the first time in six years and only the second time since 1990, boosting rates from 0% to 0.25% in July 2006. Nonetheless, Japanese interest rates remained well below those of other developed nations, and that continued to weigh on the Japanese currency. For the reporting period, the U.S. dollar strengthened by 5.9% against the Japanese *yen*, hurting returns for U.S. investors. In local-currency terms, the Index returned 33.97%.

As of August 31, 2006, the ten largest Fund holdings accounted for approximately 25% of Fund net assets. Each of the Fund's ten largest holdings as of August 31, 2006, produced double-digit returns for the reporting period. The top performer was Canon Inc., which makes cameras, printers, and copiers. Canon enjoyed robust sales and increasing profit margins, especially in its camera division, and boosted capital spending to automate all of its manufacturing processes. The financial stocks amongst the Fund's ten largest holdings also performed well, led by Mizuho Financial Group Inc. and Nomura Holdings Inc. Both companies reported strong profit growth; in particular, Nomura reported the highest profits in the 81-year history of the company, tripling its earnings from the previous year. The lowest returns came from electronics manufacturer Matsushita Electric Industrial Co. Ltd. and drug maker Takeda Pharmaceutical Co. Ltd., though both produced strong gains for the reporting period.

# Shareholder Expenses (Unaudited)

## *iSHARES*<sup>®</sup> MSCI JAPAN INDEX FUND

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, including brokerage commissions on purchases and sales of fund shares and (2) ongoing costs, including management fees and other fund expenses. The following Example is intended to help you understand your ongoing costs (in dollars and cents) of investing in the Fund and to compare these costs with the ongoing costs of investing in other funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period from March 1, 2006 to August 31, 2006.

### **ACTUAL EXPENSES**

The first line in the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

### **HYPOTHETICAL EXAMPLE FOR COMPARISON PURPOSES**

The second line in the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in your Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as brokerage commissions paid on purchases and sales of fund shares. Therefore, the second line in the table is useful in comparing ongoing costs only and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<i>Beginning Account Value (3/1/06)</i>	<i>Ending Account Value (8/31/06)</i>	<i>Annualized Expense Ratio</i>	<i>Expenses Paid During Period<sup>a</sup> (3/1/06 to 8/31/06)</i>
Actual	\$1,000.00	\$ 985.00	0.52%	\$2.60
Hypothetical (5% return before expenses)	1,000.00	1,022.58	0.52	2.65

<sup>a</sup> Expenses are calculated using the Fund’s annualized expense ratio (as disclosed in the table), multiplied by the average account value for the period, multiplied by the number of days in the period (184 days) and divided by the number of days in the year (365 days).

# Schedule of Investments

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Shares</i>	<i>Value</i>
<b>COMMON STOCKS – 99.93%</b>		
<b>ADVERTISING – 0.30%</b>		
Asatsu-DK Inc.	165,500	\$ 5,348,040
Dentsu Inc.	8,285	24,088,204
Hakuhodo DY Holdings Inc.	165,500	11,091,188
		<u>40,527,432</u>
<b>AGRICULTURE – 0.64%</b>		
Japan Tobacco Inc.	23,170	88,306,178
		<u>88,306,178</u>
<b>AIRLINES – 0.14%</b>		
All Nippon Airways Co. Ltd. <sup>1</sup>	3,310,000	12,953,831
Japan Airlines System Corp. <sup>1,2</sup>	3,314,000	6,301,079
		<u>19,254,910</u>
<b>APPAREL – 0.23%</b>		
Asics Corp.	461,000	5,766,185
Gunze Ltd.	1,655,000	9,736,540
Onward Kashiyama Co. Ltd.	1,105,000	15,460,673
		<u>30,963,398</u>
<b>AUTO MANUFACTURERS – 8.45%</b>		
Hino Motors Ltd.	1,655,000	8,918,105
Honda Motor Co. Ltd.	7,622,200	259,304,924
Nissan Motor Co. Ltd.	11,088,500	126,120,637
Toyota Motor Corp.	14,084,500	764,959,404
		<u>1,159,303,070</u>
<b>AUTO PARTS &amp; EQUIPMENT – 1.79%</b>		
Aisin Seiki Co. Ltd.	993,000	30,140,939
Bridgestone Corp.	3,144,500	67,026,901
Denso Corp.	2,648,000	92,341,903
JTEKT Corp.	497,100	9,917,841
NGK Spark Plug Co. Ltd.	629,000	12,817,581
NHK Spring Co. Ltd.	406,000	4,520,919
NOK Corp.	497,100	13,054,253
Sumitomo Rubber Industries Inc.	497,100	5,297,992
Tokai Rika Co. Ltd.	165,700	3,242,371
Toyoda Gosei Co. Ltd.	331,000	7,055,464
		<u>245,416,164</u>
<b>BANKS – 13.06%</b>		
Bank of Fukuoka Ltd.	3,310,000	25,484,333
Bank of Kyoto Ltd. (The)	433,000	4,507,763

<i>Security</i>	<i>Shares</i>	<i>Value</i>
Bank of Yokohama Ltd. (The)	6,620,000	\$ 52,379,759
Chiba Bank Ltd. (The)	3,314,000	30,883,762
Gunma Bank Ltd.	1,657,000	12,743,437
Hokuhoku Financial Group Inc.	4,971,000	19,581,379
Joyo Bank Ltd.	3,314,000	20,061,730
Mitsubishi UFJ Financial Group	42,678	582,212,559
Mitsubishi UFJ Securities Co. Ltd.	1,655,000	22,224,709
Mitsui Trust Holdings Inc.	2,774,000	32,497,557
Mizuho Financial Group Inc.	47,072	380,878,441
Nishi-Nippon City Bank Ltd. (The)	3,310,000	16,086,456
Resona Holdings Inc.	23,170	73,094,598
Sapporo Hokuyo Holdings Inc.	1,128	12,406,702
77 Bank Ltd. (The)	1,655,000	12,135,397
Shinsei Bank Ltd.	6,628,000	40,858,115
Shizuoka Bank Ltd. (The)	3,310,000	37,930,170
Sumitomo Mitsui Financial Group Inc.	29,790	335,275,611
Sumitomo Trust & Banking Co. Ltd. (The)	6,620,000	70,611,075
Suruga Bank Ltd. (The)	776,000	9,845,146
		<u>1,791,698,699</u>
<b>BEVERAGES – 0.80%</b>		
Asahi Breweries Ltd.	1,657,000	24,328,379
Coca-Cola West Japan Co. Ltd.	331,000	6,448,693
Ito En Ltd.	331,000	11,034,745
Kirin Brewery Co. Ltd.	4,296,000	59,741,450
Sapporo Holdings Ltd. <sup>1</sup>	1,655,000	8,283,114
		<u>109,836,381</u>
<b>BUILDING MATERIALS – 1.32%</b>		
Asahi Glass Co. Ltd.	4,965,000	65,192,480
Daikin Industries Ltd.	1,159,900	35,503,611
JS Group Corp.	1,489,500	31,305,090
Matsushita Electric Works Ltd.	1,657,000	17,688,229
Nippon Sheet Glass Co. Ltd. <sup>1</sup>	1,657,000	8,010,564
Sumitomo Osaka Cement Co. Ltd.	1,657,000	4,704,617
Taiheiyo Cement Corp.	4,965,000	18,711,088
		<u>181,115,679</u>
<b>CHEMICALS – 3.93%</b>		
Asahi Kasei Corp.	6,620,000	43,800,316
Daicel Chemical Industries Ltd.	1,655,000	12,558,724
Dainippon Ink & Chemical Inc.	3,310,000	12,332,950

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

Security	Shares	Value
Denki Kagaku Kogyo		
Kabushiki Kaisha	3,310,000	\$ 12,699,834
Hitachi Chemical Co. Ltd.	331,400	8,024,692
JSR Corp.	993,000	23,664,024
Kaneka Corp.	1,655,000	15,070,469
Mitsubishi Chemical		
Holdings Corp.	5,370,000	35,255,148
Mitsubishi Gas Chemical Co. Inc.	1,657,000	18,097,941
Mitsui Chemicals Inc.	3,310,000	23,283,029
Nippon Kayaku Co. Ltd. <sup>1</sup>	1,655,000	14,336,702
Nissan Chemical Industries Ltd.	1,103,000	14,322,965
Nitto Denko Corp.	827,500	59,477,555
Shin-Etsu Chemical Co. Ltd.	1,986,000	113,282,517
Showa Denko K.K.	4,971,000	21,361,504
Sumitomo Chemical Co. Ltd.	6,628,000	52,217,010
Taiyo Nippon Sanso Corp.	1,655,000	14,435,478
Tokuyama Corp.	908,000	12,595,950
Tosoh Corp.	3,310,000	12,643,390
Ube Industries Ltd.	4,965,000	13,588,822
Zeon Corp.	566,000	6,519,726
		<u>539,568,746</u>
<b>COMMERCIAL SERVICES – 0.97%</b>		
Benesse Corp.	331,000	12,332,950
Dai Nippon Printing Co. Ltd.	3,310,000	49,331,799
Goodwill Group Inc. (The) <sup>1</sup>	6,620	4,696,116
Kamigumi Co. Ltd.	1,655,000	13,264,272
KK DaVinci Advisors <sup>2</sup>	4,971	4,492,697
Park 24 Co. Ltd. <sup>1</sup>	165,700	5,086,072
TIS Inc.	331,000	6,984,909
Toppan Printing Co. Ltd.	3,310,000	37,478,620
		<u>133,667,435</u>
<b>COMPUTERS – 1.26%</b>		
CSK Corp.	331,000	14,223,814
Fujitsu Ltd.	9,930,000	79,670,291
Itochu Techno-Science Corp.	165,500	8,000,895
Meitec Corp. <sup>1</sup>	165,700	5,354,503
Net One Systems Co. Ltd. <sup>1</sup>	3,310	4,995,268
Obic Co. Ltd.	16,570	3,332,790
Otsuka Corp.	62,000	6,063,350
TDK Corp.	662,000	51,307,328
		<u>172,948,239</u>

Security	Shares	Value
<b>COSMETICS &amp; PERSONAL CARE – 0.81%</b>		
Aderans Co. Ltd.	165,700	\$ 4,294,906
Kao Corp.	2,587,000	69,039,605
Shiseido Co. Ltd.	1,657,000	32,918,191
Uni-Charm Corp.	88,300	4,946,336
		<u>111,199,038</u>
<b>DISTRIBUTION &amp; WHOLESALE – 3.35%</b>		
Canon Marketing Japan Inc.	165,700	3,934,642
Hitachi High-Technologies Corp.	165,700	4,379,673
Itochu Corp.	8,275,000	69,496,313
Marubeni Corp.	6,632,000	35,454,355
Mitsubishi Corp.	6,620,000	134,900,456
Mitsui & Co. Ltd.	7,947,000	115,120,885
Sojitz Corp. <sup>2</sup>	1,986,000	7,010,308
Sumitomo Corp.	4,971,000	67,263,307
Toyota Tsusho Corp.	828,500	21,827,727
		<u>459,387,666</u>
<b>DIVERSIFIED FINANCIAL SERVICES – 4.00%</b>		
ACOM Co. Ltd.	380,650	17,038,943
Aeon Credit Service Co. Ltd.	496,570	11,897,188
AIFUL Corp.	331,400	13,280,300
Credit Saison Co. Ltd.	827,500	37,323,400
Daiwa Securities Group Inc.	6,620,000	78,964,744
Nikko Cordial Corp.	4,137,500	52,563,201
Nomura Holdings Inc.	8,771,500	169,768,555
ORIX Corp.	414,250	110,021,635
Promise Co. Ltd.	413,750	18,520,591
SFCG Co. Ltd.	16,570	3,283,342
Shinko Securities Co. Ltd.	1,657,000	6,710,790
Takefuji Corp.	546,150	29,476,314
		<u>548,849,003</u>
<b>ELECTRIC – 3.54%</b>		
Chubu Electric Power Co. Inc.	3,310,000	89,745,492
Electric Power Development Co. Ltd.	827,500	30,902,929
Hokkaido Electric Power Co. Inc.	497,100	12,291,342
Kansai Electric Power Co. Inc. (The)	3,806,500	91,361,193
Kyushu Electric Power Co. Inc.	1,986,000	47,412,713
Tohoku Electric Power Co. Inc.	2,151,500	48,795,584
Tokyo Electric Power Co. Inc. (The)	5,799,500	165,650,552
		<u>486,159,805</u>

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Shares</i>	<i>Value</i>
<b>ELECTRICAL COMPONENTS &amp; EQUIPMENT – 3.88%</b>		
Casio Computer Co. Ltd.	1,324,000	\$ 25,456,111
Fujikura Ltd.	1,657,000	19,595,506
Furukawa Electric Co. Ltd.	3,310,000	22,944,367
Hitachi Cable Ltd.	1,655,000	7,944,451
Hitachi Ltd.	16,550,000	105,126,401
Mitsubishi Electric Corp.	9,930,000	81,956,261
SANYO Electric Co. Ltd. <sup>1</sup>	6,628,000	13,901,931
Sharp Corp.	4,965,000	88,898,837
Stanley Electric Co. Ltd.	664,000	14,521,550
Sumitomo Electric Industries Ltd.	3,314,000	42,807,776
Toshiba Corp.	14,895,000	106,170,610
Ushio Inc.	165,700	3,729,786
		<u>533,053,587</u>
<b>ELECTRONICS – 4.28%</b>		
Advantest Corp.	331,400	31,561,905
Alps Electric Co. Ltd.	828,500	9,303,274
Dainippon Screen Manufacturing Co. Ltd.	815,000	6,858,550
Fanuc Ltd.	828,500	65,765,741
Hirose Electric Co. Ltd.	165,500	21,476,830
IBIDEN Co. Ltd.	662,000	33,922,667
Keyence Corp.	182,192	42,081,948
Kyocera Corp.	827,500	71,542,396
Mabuchi Motor Co. Ltd.	165,500	10,540,862
Minebea Co. Ltd.	1,657,000	9,366,850
Murata Manufacturing Co. Ltd.	993,000	68,409,771
NEC Corp.	9,942,000	57,896,458
NGK Insulators Ltd.	1,655,000	22,605,705
Nippon Electric Glass Co. Ltd.	1,259,000	30,593,426
Omron Corp.	1,158,500	26,965,980
Secom Co. Ltd.	830,500	41,282,475
Tokyo Seimitsu Co. Ltd. <sup>1</sup>	165,700	8,010,564
Yaskawa Electric Corp.	1,142,000	13,174,114
Yokogawa Electric Corp.	1,158,500	16,495,673
		<u>587,855,189</u>
<b>ENGINEERING &amp; CONSTRUCTION – 1.03%</b>		
Chiyoda Corp.	609,000	13,370,636
JGC Corp.	1,202,000	21,624,419
Kajima Corp.	4,965,000	23,029,032
Nishimatsu Construction Co. Ltd. <sup>1</sup>	1,655,000	6,180,586
Obayashi Corp.	3,310,000	22,944,367

<i>Security</i>	<i>Shares</i>	<i>Value</i>
Okumura Corp.	1,655,000	\$ 9,073,325
Shimizu Corp.	3,310,000	19,642,410
Taisei Corp.	4,965,000	17,864,433
Toda Corp.	1,655,000	7,958,563
		<u>141,687,771</u>
<b>ENTERTAINMENT – 0.24%</b>		
Oriental Land Co. Ltd.	331,000	18,965,085
Toho Co. Ltd.	664,000	13,389,266
		<u>32,354,351</u>
<b>ENVIRONMENTAL CONTROL – 0.04%</b>		
Kurita Water Industries Ltd.	331,400	5,891,367
		<u>5,891,367</u>
<b>FOOD – 0.99%</b>		
Ajinomoto Co. Inc.	3,310,000	35,926,419
Katokichi Co. Ltd.	993,000	8,542,755
Kikkoman Corp.	1,655,000	20,178,624
Meiji Dairies Corp.	1,655,000	10,399,753
Meiji Seika Kaisha Ltd.	1,655,000	8,339,558
Nichirei Corp.	1,655,000	9,284,990
Nippon Meat Packers Inc.	1,118,000	12,515,957
Nisshin Seifun Group Inc.	830,500	8,879,626
Nissin Food Products Co. Ltd.	496,500	16,763,781
Yakult Honsha Co. Ltd.	165,700	4,520,953
		<u>135,352,416</u>
<b>FOREST PRODUCTS &amp; PAPER – 0.27%</b>		
Nippon Paper Group Inc.	4,965	18,457,092
OJI Paper Co. Ltd.	3,314,000	18,818,468
		<u>37,275,560</u>
<b>GAS – 0.72%</b>		
Osaka Gas Co. Ltd.	9,930,000	36,575,521
Tokyo Gas Co. Ltd.	11,585,000	61,735,303
		<u>98,310,824</u>
<b>HAND &amp; MACHINE TOOLS – 0.96%</b>		
Fuji Electric Holdings Co. Ltd.	3,310,000	16,820,224
Makita Corp.	331,400	9,748,305
Nidec Corp.	545,900	39,609,575
OSG Corp.	331,400	5,340,376
SMC Corp.	331,000	44,280,087
THK Co. Ltd.	662,000	16,086,456
		<u>131,885,023</u>

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Shares</i>	<i>Value</i>
<b>HEALTH CARE - PRODUCTS - 0.80%</b>		
Hoya Corp.	2,151,500	\$ 78,329,752
Terumo Corp.	827,500	31,044,038
		109,373,790
<b>HOME BUILDERS - 0.88%</b>		
Daiwa House Industry Co. Ltd.	2,643,000	43,086,635
Haseko Corp. <sup>1,2</sup>	3,314,000	11,867,502
Sekisui Chemical Co. Ltd.	2,633,000	23,123,076
Sekisui House Ltd.	2,915,000	43,295,648
		121,372,861
<b>HOME FURNISHINGS - 3.38%</b>		
Matsushita Electric Industrial Co. Ltd.	9,930,015	212,510,872
Pioneer Corp. <sup>1</sup>	827,500	15,839,515
Sony Corp.	4,965,000	215,050,518
Yamaha Corp.	993,000	20,616,064
		464,016,969
<b>HOUSEWARES - 0.12%</b>		
Toto Ltd.	1,655,000	16,862,557
		16,862,557
<b>INSURANCE - 2.56%</b>		
Millea Holdings Inc.	7,267	133,833,994
Mitsui Sumitomo Insurance Co. Ltd.	6,117,000	74,685,970
Sompo Japan Insurance Inc.	4,303,000	56,903,721
T&D Holdings Inc.	1,158,500	86,034,318
		351,458,003
<b>INTERNET - 1.21%</b>		
Access Co. Ltd. <sup>1,2</sup>	995	6,676,600
E*Trade Securities Co. Ltd.	6,628	8,081,204
eAccess Ltd. <sup>1</sup>	4,971	2,971,114
Index Corp. <sup>1</sup>	5,773	4,503,811
Matsui Securities Co. Ltd. <sup>1</sup>	497,100	4,420,645
Rakuten Inc.	31,483	13,663,168
SBI Holdings Inc.	49,650	18,943,919
SoftBank Corp. <sup>1</sup>	3,641,000	63,329,838
Trend Micro Inc.	533,500	15,374,770
Yahoo! Japan Corp.	76,130	28,592,970
		166,558,039
<b>IRON &amp; STEEL - 2.93%</b>		
Daido Steel Co. Ltd.	1,657,000	12,743,437

<i>Security</i>	<i>Shares</i>	<i>Value</i>
JFE Holdings Inc.	2,813,550	\$ 114,667,425
Kobe Steel Ltd.	13,256,000	42,383,937
Nippon Steel Corp.	29,826,000	124,608,774
Nisshin Steel Co. Ltd.	4,965,000	14,901,138
Sumitomo Metal Industries Ltd.	19,884,000	81,885,766
Tokyo Steel Manufacturing Co. Ltd.	662,000	10,769,459
		401,959,936
<b>LEISURE TIME - 0.81%</b>		
Namco Bandai Holdings Inc.	1,158,598	18,265,317
Round One Corp.	1,657	6,640,150
Sankyo Co. Ltd.	331,000	17,920,876
Sega Sammy Holdings Inc.	828,500	28,326,598
Shimano Inc.	496,500	13,969,817
Yamaha Motor Co. Ltd.	993,000	26,500,320
		111,623,078
<b>MACHINERY - 0.17%</b>		
Hitachi Construction Machinery Co. Ltd.	331,400	7,318,293
Japan Steel Works Ltd. (The)	1,655,000	11,754,402
Okuma Corp.	493,000	4,880,189
		23,952,884
<b>MACHINERY - CONSTRUCTION &amp; MINING - 0.61%</b>		
Komatsu Ltd.	4,589,100	83,929,057
		83,929,057
<b>MACHINERY - DIVERSIFIED - 0.98%</b>		
Amada Co. Ltd.	1,657,000	17,320,902
Ebara Corp. <sup>1</sup>	1,657,000	6,654,278
Kubota Corp.	4,971,000	40,942,882
Sumitomo Heavy Industries Ltd.	3,310,000	28,616,958
Toyota Industries Corp.	993,000	41,401,458
		134,936,478
<b>MANUFACTURING - 2.29%</b>		
ARRK Corp.	165,700	1,999,109
Fuji Photo Film Co. Ltd.	2,482,500	91,015,475
Glory Ltd.	165,700	3,079,899
Ishikawajima-Harima Heavy Industries Co. Ltd.	6,620,000	19,303,748
Kawasaki Heavy Industries Ltd.	8,275,000	26,175,768
Konica Minolta Holdings Inc. <sup>2</sup>	2,467,500	32,294,091
Mitsubishi Heavy Industries Ltd.	16,550,000	69,425,758

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Shares</i>	<i>Value</i>
Nikon Corp.	1,655,000	\$ 29,985,719
Olympus Corp.	1,368,000	40,590,357
		<u>313,869,924</u>
<b>MEDIA – 0.05%</b>		
Fuji Television Network Inc.	1,655	3,711,173
Tokyo Broadcasting System Inc.	165,700	3,722,722
		<u>7,433,895</u>
<b>METAL FABRICATE &amp; HARDWARE – 0.29%</b>		
NSK Ltd.	3,310,000	26,500,320
NTN Corp.	1,657,000	12,701,053
		<u>39,201,373</u>
<b>MINING – 0.86%</b>		
Dowa Mining Co. Ltd.	1,655,000	15,098,692
Mitsubishi Materials Corp.	4,965,000	21,632,051
Mitsui Mining & Smelting Co. Ltd.	3,310,000	18,626,423
Nippon Light Metal Co. Ltd.	1,657,000	4,266,650
Sumitomo Metal Mining Co. Ltd.	2,864,000	40,413,693
Sumitomo Titanium Corp.	39,200	8,004,775
Toho Titanium Co. Ltd. <sup>1</sup>	165,500	10,272,754
		<u>118,315,038</u>
<b>OFFICE &amp; BUSINESS EQUIPMENT – 2.50%</b>		
Canon Inc.	5,219,950	259,918,216
Ricoh Co. Ltd.	3,310,000	65,051,370
Seiko Epson Corp.	662,800	18,253,349
		<u>343,222,935</u>
<b>OIL &amp; GAS – 1.00%</b>		
INPEX Holdings Inc. <sup>2</sup>	4,012	35,575,564
Nippon Mining Holdings Inc.	4,142,500	30,375,154
Nippon Oil Corp.	6,620,500	50,351,588
Showa Shell Sekiyu K.K.	497,100	5,556,534
TonenGeneral Sekiyu K.K. <sup>1</sup>	1,655,000	14,957,582
		<u>136,816,422</u>
<b>PACKAGING &amp; CONTAINERS – 0.15%</b>		
Toyo Seikan Kaisha Ltd.	993,000	20,235,068
		<u>20,235,068</u>
<b>PHARMACEUTICALS – 5.06%</b>		
Astellas Pharma Inc.	2,648,030	107,470,033
Chugai Pharmaceutical Co. Ltd.	1,489,500	33,019,568
Daiichi Sankyo Co. Ltd.	3,314,069	91,551,209
Eisai Co. Ltd.	1,324,000	63,104,063

<i>Security</i>	<i>Shares</i>	<i>Value</i>
Kyowa Hakko Kogyo Co. Ltd.	1,655,000	\$ 12,135,397
Mediceo Paltac Holdings Co. Ltd.	662,800	12,347,854
Santen Pharmaceutical Co. Ltd.	165,700	4,090,050
Shionogi & Co. Ltd.	1,655,000	29,774,055
Suzuken Co. Ltd.	331,400	12,376,110
Taisho Pharmaceutical Co. Ltd.	1,098,000	21,485,356
Takeda Pharmaceutical Co. Ltd.	4,308,200	285,413,429
Tanabe Seiyaku Co. Ltd.	1,655,000	21,109,946
		<u>693,877,070</u>
<b>REAL ESTATE – 2.52%</b>		
Daito Trust Construction Co. Ltd.	496,500	25,822,995
Leopalace21 Corp.	662,000	23,480,582
Mitsubishi Estate Co. Ltd.	5,270,000	113,681,204
Mitsui Fudosan Co. Ltd.	4,418,000	99,069,276
NTT Urban Development Corp.	819	6,389,436
Sumitomo Realty & Development Co. Ltd.	1,657,000	48,882,807
Tokyo Tatemono Co. Ltd.	1,257,000	13,611,204
Tokyu Land Corp.	1,657,000	14,467,050
		<u>345,404,554</u>
<b>REAL ESTATE INVESTMENT TRUSTS – 0.31%</b>		
Japan Real Estate Investment Corp.	1,655	14,252,036
Nippon Building Fund Inc.	2,435	23,875,602
Nomura Real Estate Office Fund Inc.	520	4,056,785
		<u>42,184,423</u>
<b>RETAIL – 3.53%</b>		
Aeon Co. Ltd.	2,979,000	75,056,018
Aoyama Trading Co. Ltd.	331,000	10,780,748
Autobacs Seven Co. Ltd.	165,500	6,843,800
Citizen Watch Co. Ltd.	1,986,000	16,425,118
Daimaru Inc. (The)	1,365,000	16,863,921
EDION Corp.	331,400	5,905,495
FamilyMart Co. Ltd.	331,000	9,369,655
Fast Retailing Co. Ltd.	274,900	25,665,302
Isetan Co. Ltd.	1,158,500	19,557,744
Lawson Inc.	331,000	11,570,960
Marui Co. Ltd.	1,655,000	24,665,900
Mitsukoshi Ltd. <sup>1</sup>	1,657,000	7,812,772
Nitori Co. Ltd.	165,700	7,728,004
Ryohin Keikaku Co. Ltd.	91,300	6,655,710
Seven & I Holdings Co. Ltd.	3,976,880	140,717,500

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Shares</i>	<i>Value</i>	<i>Security</i>	<i>Shares or Principal</i>	<i>Value</i>
Shimachu Co. Ltd.	331,000	\$ 9,341,433	Teijin Ltd.	4,965,000	\$ 26,669,651
Shimamura Co. Ltd.	47,700	4,709,605	Toray Industries Inc.	6,620,000	52,831,308
Takashimaya Co. Ltd.	1,655,000	20,884,171	Toyobo Co. Ltd.	3,310,000	8,805,218
UNY Co. Ltd.	1,245,000	17,716,715			148,215,868
USS Co. Ltd.	148,950	10,109,068	<b>TOYS, GAMES &amp; HOBBIES – 0.74%</b>		
Yamada Denki Co. Ltd.	331,400	35,602,507	Nintendo Co. Ltd.	496,500	101,937,332
		483,982,146			101,937,332
<b>SEMICONDUCTORS – 1.03%</b>			<b>TRANSPORTATION – 3.90%</b>		
Elpida Memory Inc. <sup>2</sup>	331,400	14,664,842	Central Japan Railway Co.	8,275	89,604,382
NEC Electronics Corp. <sup>1,2</sup>	165,700	5,594,680	East Japan Railway Co.	16,570	122,489,577
Rohm Co. Ltd.	497,500	46,193,247	Hanshin Electric Railway Co. Ltd. <sup>1</sup>	677,000	5,258,533
Sanken Electric Co. Ltd.	332,000	4,387,603	Kawasaki Kisen Kaisha Ltd. <sup>1</sup>	3,310,000	21,533,273
Shinko Electric Industries Co. Ltd.	165,700	4,817,641	Keihin Electric Express Railway Co. Ltd. <sup>1</sup>	1,661,000	11,442,964
Sumco Corp. <sup>1</sup>	165,700	11,019,824	Keio Corp.	3,310,000	21,561,495
Tokyo Electron Ltd.	827,552	54,471,598	Kintetsu Corp.	8,275,000	26,740,205
		141,149,435	Mitsui O.S.K. Lines Ltd.	4,971,000	37,933,623
<b>SHIPBUILDING – 0.11%</b>			Nippon Express Co. Ltd.	4,965,000	26,965,980
Mitsui Engineering & Shipbuilding Co. Ltd.	4,965,000	15,197,468	Nippon Yusen Kabushiki Kaisha	4,971,000	30,813,122
		15,197,468	Seino Holdings Co. Ltd.	1,243,000	14,254,465
<b>SOFTWARE – 0.17%</b>			Tobu Railway Co. Ltd.	4,965,000	25,568,999
Fuji Soft ABC Inc.	165,500	4,882,381	Tokyu Corp.	4,971,000	33,101,855
Konami Corp.	496,500	12,657,501	West Japan Railway Co.	9,930	42,417,445
Nomura Research Institute Ltd.	42,000	5,597,135	Yamato Holdings Co. Ltd.	1,657,000	25,825,946
		23,137,017			535,511,864
<b>STORAGE &amp; WAREHOUSING – 0.04%</b>			<b>VENTURE CAPITAL – 0.06%</b>		
Mitsubishi Logistics Corp.	319,000	5,140,555	JAFCO Co. Ltd.	165,700	8,561,555
		5,140,555			8,561,555
<b>TELECOMMUNICATIONS – 2.79%</b>			<b>TOTAL COMMON STOCKS</b>		
Hikari Tsushin Inc.	165,500	9,143,880	<b>(Cost: \$10,988,084,861)</b>		13,714,375,858
KDDI Corp.	11,599	76,644,285	<b>SHORT-TERM INVESTMENTS – 1.52%</b>		
Nippon Telegraph & Telephone Corp.	24,855	125,668,372	<b>CERTIFICATES OF DEPOSIT<sup>3</sup> – 0.06%</b>		
NTT Data Corp.	6,620	30,592,489	Credit Suisse First Boston NY		
NTT DoCoMo Inc.	86,167	133,711,847	5.28% - 5.43%,		
Oki Electric Industry Co. Ltd. <sup>1</sup>	3,310,000	7,309,460	04/23/07 - 08/21/07	\$1,218,425	1,218,425
		383,070,333	Societe Generale		
<b>TEXTILES – 1.08%</b>			5.33%, 12/08/06	1,740,607	1,740,607
Kuraray Co. Ltd.	1,657,000	18,988,004	Washington Mutual Bank		
Mitsubishi Rayon Co. Ltd.	3,310,000	22,859,701	5.36%, 11/13/06	4,351,517	4,351,517
Nisshinbo Industries Inc.	1,655,000	18,061,986			

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Principal</i>	<i>Value</i>	<i>Security</i>	<i>Principal</i>	<i>Value</i>
Wells Fargo Bank N.A. 4.78%, 12/05/06	\$1,392,485	\$ 1,392,485	Lexington Parker Capital Co. LLC 5.19% - 5.27%, 09/15/06 - 11/15/06 <sup>4</sup>	\$2,256,209	\$ 2,243,264
		8,703,034	Liberty Street Funding Corp. 5.27%, 09/08/06 - 09/11/06 <sup>4</sup>	1,549,140	1,547,255
<b>COMMERCIAL PAPER<sup>3</sup> - 0.25%</b>			Mont Blanc Capital Corp. 5.29%, 11/15/06 <sup>4</sup>	1,122,691	1,110,318
Amstel Funding Corp. 5.20%, 11/21/06 - 11/22/06 <sup>4</sup>	507,874	501,906	Monument Gardens Funding LLC 5.28%, 09/21/06 <sup>4</sup>	874,707	872,141
Amsterdam Funding Corp. 5.27%, 09/15/06 <sup>4</sup>	1,740,607	1,737,039	Nestle Capital Corp. 5.19%, 08/09/07	1,044,364	992,872
Atlantis One Funding 5.30%, 11/14/06 <sup>4</sup>	2,388,252	2,362,233	Park Granada LLC 5.30%, 09/01/06 <sup>4</sup>	397,763	397,763
Barton Capital Corp. 5.27%, 09/06/06 <sup>4</sup>	877,266	876,624	Regency Markets LLC 5.28%, 09/15/06	870,303	868,518
Cancara Asset Securitisation Ltd. 5.30%, 11/14/06 <sup>4</sup>	882,348	872,736	Solitaire Funding Ltd. 5.27%, 09/05/06 <sup>4</sup>	1,305,455	1,304,691
CC USA Inc. 5.03%, 10/24/06 <sup>4</sup>	348,121	345,543	Sydney Capital Corp. 5.27%, 09/12/06 <sup>4</sup>	398,251	397,610
Charta LLC 5.30%, 11/06/06 <sup>4</sup>	1,740,607	1,723,694	Tulip Funding Corp. 5.29%, 11/15/06 <sup>4</sup>	918,031	907,913
Concord Minutemen Capital Co. LLC 5.27% - 5.29%, 09/13/06 - 11/16/06 <sup>4</sup>	3,057,045	3,043,484	White Pine Finance LLC 5.12%, 10/27/06 <sup>4</sup>	328,975	326,355
Curzon Funding LLC 5.29%, 11/17/06 <sup>4</sup>	1,740,607	1,720,912			33,729,197
Edison Asset Securitization LLC 5.22%, 12/11/06 <sup>4</sup>	1,284,080	1,265,275	<b>MEDIUM-TERM NOTES<sup>3</sup> - 0.05%</b>		
Falcon Asset Securitization Corp. 5.30%, 11/06/06 <sup>4</sup>	1,740,607	1,723,694	Bank of America N.A. 5.28%, 04/20/07	435,152	435,152
Five Finance Inc. 5.19%, 12/01/06 <sup>4</sup>	783,273	772,997	Cullinan Finance Corp. 5.71%, 06/28/07 <sup>4</sup>	1,305,455	1,305,455
General Electric Capital Services Inc. 5.22%, 12/11/06	174,061	171,512	K2 USA LLC 5.39%, 06/04/07 <sup>4</sup>	1,305,455	1,305,455
Giro Funding Corp. 5.28% - 5.34%, 09/11/06 - 10/10/06 <sup>4</sup>	1,740,607	1,734,300	Marshall & Ilsley Bank 5.18%, 12/15/06	1,740,607	1,742,330
Grampian Funding LLC 5.03% - 5.30%, 10/17/06 - 11/16/06 <sup>4</sup>	835,491	828,598	Sigma Finance Inc. 5.13% - 5.51%, 03/30/07 - 06/18/07 <sup>4</sup>	2,036,510	2,036,509
KKR Pacific Funding Trust 5.29%, 09/14/06 <sup>4</sup>	1,740,607	1,737,282	US Bank N.A. 2.85%, 11/15/06	348,121	346,805
Landale Funding LLC 5.31%, 11/15/06 <sup>4</sup>	1,357,673	1,342,668			7,171,706



# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Principal</i>	<i>Value</i>	<i>Security</i>	<i>Principal</i>	<i>Value</i>
Lehman Brothers Holdings Inc. Repurchase Agreement, 5.38%, due 9/1/06, maturity value \$1,740,867 (collateralized by non-U.S. Government debt securities, value \$1,829,424, 4.11% to 9.79%, 4/28/31 to 9/25/46).	\$1,740,607	\$ 1,740,607	Morgan Stanley Repurchase Agreement, 5.46%, due 9/1/06, maturity value \$609,304 (collateralized by non-U.S. Government debt securities, value \$934,286, 0.00% to 10.00%, 9/1/06 to 8/31/36).	\$ 609,212	\$ 609,212
Lehman Brothers Holdings Inc. Repurchase Agreement, 5.46%, due 9/1/06, maturity value \$1,914,957 (collateralized by non-U.S. Government debt securities, value \$2,012,309, 3.44% to 15.15%, 12/1/08 to 3/1/36).	1,914,667	1,914,667	Morgan Stanley Repurchase Agreement, 5.51%, due 6/4/07, maturity value \$1,270,082 (collateralized by non-U.S. Government debt securities, value \$1,896,885, 0.00% to 10.00%, 9/1/06 to 8/31/36). <sup>7</sup>	1,218,425	1,218,425
Merrill Lynch & Co. Inc. Repurchase Agreement, 5.33%, due 9/1/06, maturity value \$3,481,728 (collateralized by non-U.S. Government debt securities, value \$3,658,810, 6.38% to 10.25%, 5/1/07 to 10/15/16).	3,481,213	3,481,213	Wachovia Capital Repurchase Agreement, 5.38%, due 9/1/06, maturity value \$4,526,253 (collateralized by non-U.S. Government debt securities, value \$4,756,367, 0.06% to 7.68%, 10/15/11 to 3/15/45).	4,525,577	4,525,577
Merrill Lynch & Co. Inc. Repurchase Agreement, 5.36%, due 9/1/06, maturity value \$3,481,731 (collateralized by non-U.S. Government debt securities, value \$3,589,703, 0.00% to 10.13%, 10/15/06 to 7/1/26).	3,481,213	3,481,213		42,383,771	
Morgan Stanley Repurchase Agreement, 5.36%, due 9/1/06, maturity value \$1,740,866 (collateralized by non-U.S. Government debt securities, value \$1,830,216, 4.05% to 7.24%, 6/20/29 to 1/14/41).	1,740,607	1,740,607	<b>TIME DEPOSITS<sup>3</sup> - 0.00%</b> KBC Bank 5.31%, 09/01/06	367,285	367,285
			<b>VARIABLE &amp; FLOATING RATE NOTES<sup>3</sup> - 0.84%</b> Allstate Life Global Funding II 5.34% - 5.47%, 09/04/07 - 09/27/07 <sup>4</sup>	4,455,953	4,456,529
			American Express Bank 5.30%, 02/28/07	1,740,607	1,740,600
			American Express Centurion Bank 5.42%, 07/19/07	1,914,667	1,916,607
			American Express Credit Corp. 5.51%, 07/05/07	522,182	522,473
			ASIF Global Financing 5.51%, 05/03/07 <sup>4</sup>	174,061	174,126

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Principal</i>	<i>Value</i>	<i>Security</i>	<i>Principal</i>	<i>Value</i>
Australia & New Zealand Banking Group Ltd. 5.32%, 09/21/07 <sup>4</sup>	\$1,131,394	\$ 1,131,394	Granite Master Issuer PLC 5.30%, 09/20/06	\$6,092,123	\$ 6,092,123
Bank of Ireland 5.30% - 5.31%, 08/14/07 - 08/20/07 <sup>4</sup>	2,523,880	2,523,984	Harrier Finance Funding LLC 5.33%, 07/25/07 <sup>4</sup>	522,182	522,278
Beta Finance Inc. 5.29% - 5.48%, 04/25/07 - 07/25/07 <sup>4</sup>	4,438,547	4,438,774	Hartford Life Global Funding Trusts 5.35% - 5.55%, 07/13/07 - 09/17/07	2,610,910	2,611,318
BMW US Capital LLC 5.33%, 09/14/07 <sup>4</sup>	1,740,607	1,740,607	HBOS Treasury Services PLC 5.53%, 07/24/07 <sup>4</sup>	1,740,607	1,740,607
BNP Paribas 5.36%, 05/18/07 <sup>4</sup>	3,220,122	3,220,122	Holmes Financing PLC 5.40%, 07/16/07 <sup>4</sup>	3,046,062	3,046,062
Carlyle Loan Investment Ltd. 5.38%, 04/13/07 - 07/15/07 <sup>4</sup>	1,270,643	1,270,644	JP Morgan Chase & Co. 5.36%, 08/02/07	1,305,455	1,305,455
CC USA Inc. 5.48%, 07/30/07 <sup>4</sup>	870,303	870,417	K2 USA LLC 5.20% - 5.46%, 04/02/07 - 06/28/07 <sup>4</sup>	1,305,455	1,305,397
Commodore CDO Ltd. 5.38%, 06/12/07 <sup>4</sup>	435,152	435,152	Kestrel Funding LLC 5.31%, 07/11/07 <sup>4</sup>	696,243	696,179
Credit Agricole SA 5.48%, 07/23/07	1,740,607	1,740,607	Kommunalkredit Austria AG 5.33%, 09/09/07 <sup>4</sup>	1,044,364	1,044,364
Credit Suisse First Boston NY 5.51%, 04/24/07	870,303	870,342	Leafs LLC 5.33%, 01/22/07 - 02/20/07 <sup>4</sup>	1,816,103	1,816,103
Cullinan Finance Corp. 5.36%, 04/25/07 <sup>4</sup>	435,152	435,152	Lexington Parker Capital Co. LLC 5.46%, 01/10/07 <sup>4</sup>	2,175,758	2,175,273
DEPFA Bank PLC 5.37%, 06/15/07	1,740,607	1,740,607	Links Finance LLC 5.33% - 5.35%, 05/10/07 - 05/16/07 <sup>4</sup>	1,914,667	1,914,533
Dorada Finance Inc. 5.41% - 5.47%, 06/27/07 - 07/17/07 <sup>4</sup>	2,001,698	2,001,825	Lothian Mortgages Master Issuer PLC 5.30%, 04/24/07 <sup>4</sup>	766,960	766,960
Eli Lilly Services Inc. 5.37%, 08/31/07 <sup>4</sup>	1,740,607	1,740,607	Marshall & Ilsley Bank 5.31%, 09/14/07	957,334	957,334
Fifth Third Bancorp 5.30%, 09/21/07 <sup>4</sup>	3,481,213	3,481,213	Metropolitan Life Global Funding I 5.42%, 08/06/07 <sup>4</sup>	2,610,910	2,610,910
Five Finance Inc. 5.37% - 5.45%, 12/01/06 - 07/13/07 <sup>4</sup>	1,740,607	1,740,475	Metropolitan Life Insurance Funding Agreement 5.57%, 08/01/07 <sup>4,7</sup>	174,061	174,061
General Electric Capital Corp. 5.29% - 5.49%, 07/09/07 - 09/24/07	1,827,637	1,828,066	Monumental Global Funding II 5.49%, 12/27/06 <sup>4</sup>	348,121	348,158
			Mound Financing PLC 5.39%, 05/08/07 <sup>4</sup>	1,636,170	1,636,170

# Schedule of Investments (Continued)

## iSHARES® MSCI JAPAN INDEX FUND

August 31, 2006

<i>Security</i>	<i>Principal</i>	<i>Value</i>
Natexis Banques Populaires 5.31% - 5.40%, 02/05/07 - 09/14/07 <sup>4</sup>	\$5,221,820 \$	5,221,736
National City Bank of Indiana 5.37%, 05/21/07	870,303	870,356
Nationwide Building Society 5.44% - 5.62%, 07/06/07 - 07/27/07 <sup>4</sup>	5,744,002	5,745,341
Newcastle Ltd. 5.35%, 04/24/07 <sup>4</sup>	613,564	613,447
Northern Rock PLC 5.43%, 08/03/07 <sup>4</sup>	2,088,728	2,088,777
Principal Life Global Funding I 5.80%, 02/08/07	783,273	784,878
Sedna Finance Inc. 5.30% - 5.37%, 09/20/06 - 08/21/07 <sup>4</sup>	3,046,062	3,046,005
Skandinaviska Enskilda Bank NY 5.33%, 09/18/07 <sup>4</sup>	1,740,607	1,740,607
Strips III LLC 5.38%, 07/24/07 <sup>4</sup>	423,243	423,243
SunTrust Bank 5.37%, 05/01/07	1,740,607	1,740,678
Tango Finance Corp. 5.22% - 5.48%, 04/25/07 - 07/16/07 <sup>4</sup>	4,247,080	4,246,703
Union Hamilton Special Funding LLC 5.42% - 5.49%, 09/28/06 - 12/21/06 <sup>4</sup>	2,436,849	2,436,850
US Bank N.A. 5.26%, 09/29/06	783,273	783,257
Wachovia Asset Securitization Inc. 5.31%, 09/25/06 <sup>4</sup>	2,597,354	2,597,355
Wachovia Bank N.A. 5.36%, 05/22/07	3,481,213	3,481,213
Wells Fargo & Co. 5.34%, 09/14/07 <sup>4</sup>	870,303	870,357
WhistleJacket Capital Ltd. 5.29% - 5.35%, 04/18/07 - 06/13/07 <sup>4</sup>	1,305,455	1,305,447

<i>Security</i>	<i>Principal</i>	<i>Value</i>
White Pine Finance LLC 5.29% - 5.35%, 05/22/07 - 08/20/07 <sup>4</sup>	\$5,221,820 \$	5,220,748
Wind Master Trust 5.31% - 5.32%, 09/25/06 - 07/25/07 <sup>4</sup>	1,103,910	1,103,910
		<u>115,104,516</u>
<b>TOTAL SHORT-TERM INVESTMENTS</b> <b>(Cost: \$208,828,059)</b>		<u>208,828,059</u>
<b>TOTAL INVESTMENTS</b> <b>IN SECURITIES - 101.45%</b> <b>(Cost: \$11,196,912,920)</b>		13,923,203,917
<b>Other Assets, Less Liabilities - (1.45)%</b>		<u>(198,613,508)</u>
<b>NET ASSETS - 100.00%</b>		<u><u>\$13,724,590,409</u></u>

<sup>1</sup> All or a portion of this security represents a security on loan. See Note 5.

<sup>2</sup> Non-income earning security.

<sup>3</sup> All or a portion of this security (these securities) represent(s) an investment of securities lending collateral. See Note 5.

<sup>4</sup> This security or a portion of these securities may be resold to qualified institutional buyers under Rule 144A or pursuant to Section 4(2) of the Securities Act of 1933.

<sup>5</sup> Affiliated issuer. See Note 2.

<sup>6</sup> The rate quoted is the annualized seven-day yield of the fund at period end.

<sup>7</sup> The investment adviser has determined that this security or a portion of these securities is illiquid.

See notes to the financial statements.

# Statement of Assets and Liabilities

**iSHARES<sup>®</sup>, INC.**

August 31, 2006

*iShares MSCI  
Japan Index Fund*

## ASSETS

Investments, at cost:	
Unaffiliated issuers	\$11,195,544,370
Affiliated issuers <sup>a</sup>	\$ 1,368,550
Foreign currency, at cost	\$ 9,748,028
Investments in securities, at value (including securities on loan <sup>b</sup> ) (Note 1):	
Unaffiliated issuers	\$13,921,835,367
Affiliated issuers <sup>a</sup>	1,368,550
Foreign currency, at value	9,540,626
Receivables:	
Investment securities sold	9,237,605
Dividends and interest	4,668,793
Total Assets	<u>13,946,650,941</u>

## LIABILITIES

Payables:	
Investment securities purchased	8,486,916
Collateral for securities on loan (Note 5)	207,459,509
Investment advisory fees (Note 2)	6,114,107
Total Liabilities	<u>222,060,532</u>

NET ASSETS \$13,724,590,409

## Net assets consist of:

Paid-in capital	\$11,196,635,749
Undistributed net investment income	29,465,062
Accumulated net realized loss	(227,565,085)
Net unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	2,726,054,683
NET ASSETS	<u>\$13,724,590,409</u>

Shares outstanding 994,200,000

Net asset value per share \$ 13.80

<sup>a</sup> See Note 2.

<sup>b</sup> Securities on loan with market value of \$196,512,225. See Note 5.

See notes to the financial statements.

# Statement of Operations

## *iSHARES*<sup>®</sup>, *INC.*

Year ended August 31, 2006

*iShares MSCI  
Japan Index Fund*

### NET INVESTMENT INCOME

Dividends from unaffiliated issuers <sup>a</sup>	\$ 125,980,438
Interest from affiliated issuers <sup>b</sup>	309,395
Securities lending income <sup>c</sup>	1,897,151
Total investment income	<u>128,186,984</u>

### EXPENSES

Investment advisory fees (Note 2)	67,470,595
Proxy fees	267,453
Total expenses	<u>67,738,048</u>
Net investment income	<u>60,448,936</u>

### NET REALIZED AND UNREALIZED GAIN (LOSS)

Net realized gain (loss) from:	
Investments in unaffiliated issuers	(33,121,854)
In-kind redemptions	482,452,139
Foreign currency transactions	(487,960)
Net realized gain	<u>448,842,325</u>
Net change in unrealized appreciation (depreciation) on:	
Investments	1,877,509,737
Translation of assets and liabilities in foreign currencies	(202,136)
Net change in unrealized appreciation (depreciation)	<u>1,877,307,601</u>
Net realized and unrealized gain	<u>2,326,149,926</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$2,386,598,862</u>

<sup>a</sup> Net of foreign withholding tax of \$8,233,961.

<sup>b</sup> See Note 2.

<sup>c</sup> Includes income earned from affiliated issuers. See Note 2.

See notes to the financial statements.

# Statements of Changes in Net Assets

*iSHARES*<sup>®</sup>, *INC.*

*iShares MSCI  
Japan Index Fund*

Year ended August 31, 2006      Year ended August 31, 2005

*INCREASE (DECREASE) IN NET ASSETS*

**OPERATIONS:**

Net investment income	\$ 60,448,936	\$ 37,668,587
Net realized gain	448,842,325	63,663,962
Net change in unrealized appreciation (depreciation)	1,877,307,601	584,158,197
Net increase in net assets resulting from operations	<u>2,386,598,862</u>	<u>685,490,746</u>

**DISTRIBUTIONS TO SHAREHOLDERS:**

From net investment income	(55,636,178)	(26,096,423)
Total distributions to shareholders	<u>(55,636,178)</u>	<u>(26,096,423)</u>

**CAPITAL SHARE TRANSACTIONS:**

Proceeds from shares sold	5,381,707,859	1,159,930,120
Cost of shares redeemed	(1,236,187,530)	(434,548,691)
Net increase in net assets from capital share transactions	<u>4,145,520,329</u>	<u>725,381,429</u>
INCREASE IN NET ASSETS	6,476,483,013	1,384,775,752

*NET ASSETS*

Beginning of year	7,248,107,396	5,863,331,644
End of year	<u>\$13,724,590,409</u>	<u>\$7,248,107,396</u>
Undistributed net investment income included in net assets at end of year	<u>\$ 29,465,062</u>	<u>\$ 21,558,909</u>

*SHARES ISSUED AND REDEEMED*

Shares sold	426,600,000	109,200,000
Shares redeemed	(91,800,000)	(42,600,000)
Net increase in shares outstanding	<u>334,800,000</u>	<u>66,600,000</u>

See notes to the financial statements.

# Financial Highlights

## iSHARES<sup>®</sup>, INC.

(For a share outstanding throughout each period)

	<i>iShares MSCI Japan Index Fund</i>				
	Year ended Aug. 31, 2006	Year ended Aug. 31, 2005	Year ended Aug. 31, 2004	Year ended Aug. 31, 2003	Year ended Aug. 31, 2002
<b>Net asset value, beginning of year</b>	\$ 10.99	\$ 9.89	\$ 8.29	\$ 7.77	\$ 9.07
<b>Income from investment operations:</b>					
Net investment income (loss) <sup>a</sup>	0.06	0.06	0.03	0.00 <sup>b</sup>	(0.01)
Net realized and unrealized gain (loss) <sup>c</sup>	2.81	1.08	1.57	0.52	(1.29)
Total from investment operations	2.87	1.14	1.60	0.52	(1.30)
<b>Less distributions from:</b>					
Net investment income	(0.06)	(0.04)	(0.00) <sup>b</sup>	-	-
Total distributions	(0.06)	(0.04)	(0.00) <sup>b</sup>	-	-
<b>Net asset value, end of year</b>	\$ 13.80	\$ 10.99	\$ 9.89	\$ 8.29	\$ 7.77
<b>Total return</b>	26.10%	11.58%	19.32%	6.69%	(14.33)%
<b>Ratios/Supplemental data:</b>					
Net assets, end of year (000s)	\$13,724,590	\$7,248,107	\$5,863,332	\$1,726,855	\$666,376
Ratio of expenses to average net assets	0.54%	0.57%	0.64% <sup>d</sup>	0.84%	0.84%
Ratio of net investment income (loss) to average net assets	0.48%	0.59%	0.28%	0.03%	(0.12)%
Portfolio turnover rate <sup>e</sup>	8%	6%	5%	2%	2%

<sup>a</sup> Based on average shares outstanding throughout each period.

<sup>b</sup> Rounds to less than \$0.01.

<sup>c</sup> The amounts reported may not accord with the change in aggregate gains and losses in securities due to the timing of capital share transactions.

<sup>d</sup> Ratio of expenses to average net assets prior to voluntarily reimbursed distribution fees for the year ended August 31, 2004 was 0.78%.

<sup>e</sup> Portfolio turnover rates exclude portfolio securities received or delivered as a result of processing capital share transactions in Creation Units.

See notes to the financial statements.

# Notes to the Financial Statements

## *iSHARES*<sup>®</sup>, INC.

iShares, Inc. (the “Company”), is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. The Company was incorporated under the laws of the State of Maryland on September 1, 1994 pursuant to amended and restated Articles of Incorporation. As of August 31, 2006, the Company offered 24 investment portfolios or funds.

These financial statements relate only to the iShares MSCI Japan Index Fund (the “Fund”).

The Fund’s investment objective is to seek investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded equity securities in the aggregate in the Japanese equity market, as measured by the MSCI Japan Index compiled by Morgan Stanley Capital International Inc. (“MSCI”). The investment adviser uses a “passive” or index approach to achieve the Fund’s investment objective. The Fund is classified as a non-diversified fund under the 1940 Act. Non-diversified funds generally hold securities of fewer companies than diversified funds and may be more susceptible to the risks associated with these particular companies, or to a single economic, political or regulatory occurrence affecting these companies.

The Fund invests in the securities of foreign issuers of a single country, which may involve certain considerations and risks not typically associated with securities of U.S. issuers. Such risks include, but are not limited to: generally less liquid and less efficient securities markets; generally greater price volatility; exchange rate fluctuations and exchange controls; imposition of restrictions on the expatriation of funds or other assets of the Fund; less publicly available information about issuers; the imposition of withholding or other taxes; higher transaction and custody costs; settlement delays and risk of loss attendant in settlement procedures; difficulties in enforcing contractual obligations; less regulation of securities markets; different accounting, disclosure and reporting requirements; more substantial governmental involvement in the economy; higher inflation rates; greater social, economic and political uncertainties; the risk of nationalization or expropriation of assets and the risk of war.

Under the Company’s organizational documents, the Fund’s officers and directors are indemnified against certain liabilities that may arise out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund’s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred.

### **1. SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies are consistently followed by the Company in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for investment companies. The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **SECURITY VALUATION**

The securities and other assets of the Fund are generally valued using market valuations. A market valuation generally means a valuation (i) obtained from an exchange, a pricing service or a major market maker (or dealer), (ii) based on a price quotation or other equivalent indication of value supplied by an exchange, a pricing service or a major market maker (or dealer) or (iii) based on amortized cost. In the case of shares of funds that are not traded on an exchange, a market valuation means such fund’s published net asset value per share. The investment adviser may use various pricing services or discontinue the use of any pricing service. A price obtained from a pricing service based on such pricing service’s valuation matrix may be considered a market valuation. In the event that current market valuations are not readily available or such valuations do not reflect current market values, the affected investments will be valued using fair value pricing pursuant to the pricing policy and procedures approved by the Board of Directors of the Company (the “Board”).

# Notes to the Financial Statements (Continued)

## *iSHARES*<sup>®</sup>, INC.

### **SECURITY TRANSACTIONS AND INCOME RECOGNITION**

Security transactions are accounted for on trade date. Dividend income is recognized on the ex-dividend date, net of any foreign taxes withheld at source, and interest income is accrued daily. Realized gains and losses on investment transactions are determined using the specific identification method.

### **FOREIGN CURRENCY TRANSLATION**

The accounting records of the Fund are maintained in U.S. dollars. Foreign currencies, as well as investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates deemed appropriate by the investment adviser. Any use of a different rate from the rates used by MSCI may adversely affect the Fund's ability to track its underlying index. Purchases and sales of securities, income receipts and expense payments are translated into U.S. dollars on the respective date of such transactions.

The Fund does not isolate the effect of fluctuations in foreign exchange rates from the effect of fluctuations in the market prices of securities. Such fluctuations are reflected by the Fund as a component of realized and unrealized gains and losses from investments for financial reporting purposes.

### **DISTRIBUTIONS TO SHAREHOLDERS**

Distributions to shareholders from net investment income, if any, including any net foreign currency gains, are declared and distributed at least annually by the Fund. Distributions of net realized capital gains, if any, generally are declared and distributed once a year. Distributions are determined on a tax basis and may differ from net investment income and net realized capital gains for financial reporting purposes. Dividends and distributions are paid in U.S. dollars and cannot be automatically reinvested in additional shares of the Fund.

As of August 31, 2006, the tax year-end of the Fund, the components of net distributable earnings on a tax basis consisted of undistributed ordinary income of \$49,104,975, unrealized appreciation of \$2,651,432,248, and capital and other losses of \$172,582,563, for net distributable earnings of \$2,527,954,660.

For the years ended August 31, 2006 and August 31, 2005, the tax characterization of distributions paid for the Fund represents ordinary income. The total distributions and distributions per share are disclosed in the accompanying Statements of Changes in Net Assets and the Financial Highlights for the Fund.

### **FEDERAL INCOME TAXES**

The Fund is treated as an entity separate from the Company's other funds for federal income tax purposes. It is the policy of the Fund to qualify as a regulated investment company by complying with the provisions applicable to regulated investment companies, as defined under Subchapter M of the Internal Revenue Code of 1986, as amended, and to annually distribute substantially all of its net income and any net gains (taking into account any capital loss carryforwards) sufficient to relieve it from all, or substantially all, federal income and excise taxes. Accordingly, no provision for federal income taxes was required for the year ended August 31, 2006.

From November 1, 2005 to August 31, 2006, the Fund incurred net realized capital losses and net foreign currency losses of \$21,186,379. As permitted by tax regulations, the Fund has elected to defer those losses and treat them as arising in the year ending August 31, 2007.

As of August 31, 2006, the tax year-end of the Fund, the Fund had tax basis net capital loss carryforwards of \$2,959,030, \$62,572,173, \$3,621,148, \$5,594,562, \$8,733,802 and \$68,122,871 expiring in 2009, 2010, 2011, 2012, 2013 and 2014, respectively. Such losses may be applied against any net realized taxable gains in each succeeding year or until their respective expiration dates, whichever occurs first.

# Notes to the Financial Statements (Continued)

## *iSHARES*<sup>®</sup>, *INC.*

The Fund may own shares in certain foreign investment entities, referred to, under U.S. tax law, as “passive foreign investment companies.” The Fund may elect to mark-to-market annually the shares of each passive foreign investment company and would be required to distribute to shareholders any such mark-to-market gains.

The Fund reclassifies at the end of its tax year certain amounts to paid-in-capital from accumulated net realized gain (loss) on investments and foreign currency transactions and accumulated net investment income (loss), respectively, as a result of permanent book and tax differences primarily attributed to net investment loss, return of capital, passive foreign investment companies, realized foreign currency gains and losses and gains and losses on in-kind redemptions. These reclassifications have no effect on net assets or net asset value per share.

As of August 31, 2006, the cost of investments for federal income tax purposes was \$11,271,535,355. Net unrealized appreciation was \$2,651,668,562, of which \$2,873,877,135 represented gross unrealized appreciation on securities and \$222,208,573 represented gross unrealized depreciation on securities.

## **REPURCHASE AGREEMENTS**

The Fund may enter into repurchase agreements with banks and securities dealers. These transactions involve the purchase of securities with a simultaneous commitment to resell the securities to the bank or the dealer at an agreed-upon date and price. A repurchase agreement is accounted for as an investment by the Fund, collateralized by securities, which are delivered to the Fund’s custodian or to an agent bank under a tri-party agreement. The securities are marked-to-market daily and additional securities are acquired as needed, to ensure that their value equals or exceeds the repurchase price plus accrued interest.

## **2. AGREEMENTS AND OTHER TRANSACTIONS WITH AFFILIATES**

Pursuant to an Investment Advisory Agreement with the Company, Barclays Global Fund Advisors (“BGFA”) manages the investment of the Fund’s assets. BGFA is a California corporation indirectly owned by Barclays Bank PLC. Under the Investment Advisory Agreement, BGFA is responsible for all expenses (“Covered Expenses”) of the Company, including the cost of transfer agency, custody, fund administration, legal, audit and other services, except interest, taxes, brokerage commissions and other expenses connected with the execution of portfolio transactions, distribution fees and extraordinary expenses.

For its investment advisory services to the Fund, BGFA is entitled to an annual investment advisory fee based on the Fund’s allocable portion of the aggregate of the average daily net assets of all the funds offered by the Company (except for the iShares MSCI Brazil, iShares MSCI Emerging Markets, iShares MSCI Pacific ex-Japan, iShares MSCI South Africa, iShares MSCI South Korea and iShares MSCI Taiwan Index Funds) as follows:

<i>Investment Advisory Fee</i>	<i>Aggregate Average Daily Net Assets</i>
0.59%	First \$7 billion
0.54	Over \$7 billion, up to and including \$11 billion
0.49	Over \$11 billion

# Notes to the Financial Statements (Continued)

## *iSHARES*<sup>®</sup>, INC.

The Board approved a change to the investment advisory fee rates for the Fund effective September 1, 2006. For its investment advisory services to the Fund, BGFA will be entitled to be paid annual investment advisory fees based on the Fund's allocable portion of the aggregate of the average daily net assets of all the funds offered by the Company (except for the iShares MSCI Brazil, iShares MSCI Emerging Markets, iShares MSCI Pacific ex-Japan, iShares MSCI South Africa, iShares MSCI South Korea and iShares MSCI Taiwan Index Funds) as follows:

<i>Investment Advisory Fee</i>	<i>Aggregate Average Daily Net Assets</i>
0.59%	First \$7 billion
0.54	Over \$7 billion, up to and including \$11 billion
0.49	Over \$11 billion, up to and including \$24 billion
0.44	Over \$24 billion

Investors Bank & Trust Company ("Investors Bank") serves as administrator, custodian and transfer agent for the Company. As compensation for its services, Investors Bank receives certain out-of-pocket costs, transaction fees and asset-based fees, which are accrued daily and paid monthly. These fees and expenses are Covered Expenses as defined above.

SEI Investments Distribution Co. ("SEI") serves as the Fund's underwriter and distributor of the shares of the Fund, pursuant to a Distribution Agreement with the Company. SEI does not receive a fee from the Fund for its distribution services.

Pursuant to an exemptive order issued by the U.S. Securities and Exchange Commission ("SEC"), the Fund is permitted to lend portfolio securities to Barclays Capital, Inc. ("BarCap"). Pursuant to the same exemptive order, Barclays Global Investors, N.A. ("BGI") serves as securities lending agent for the Company. BarCap and BGI are affiliates of BGFA, the Fund's investment adviser. As securities lending agent, BGI receives, as fees, a share of the income earned on investment of the cash collateral received for the loan of securities. For the year ended August 31, 2006, BGI earned securities lending agent fees of \$1,897,151.

Cross trades for the year ended August 31, 2006 were executed by the Fund pursuant to Rule 17a-7 under the 1940 Act. Cross trading is the buying or selling of portfolio securities between funds to which BGFA (or an affiliate) serves as investment adviser. At its regularly scheduled quarterly meetings, the Board reviews such transactions as of the most recent calendar quarter, for compliance with the requirements and restrictions set forth by Rule 17a-7.

The Fund may invest in the Institutional Shares of certain money market funds managed by BGFA, the Fund's investment adviser, including the Government Money Market Fund ("GMMF"), Institutional Money Market Fund ("IMMF"), Prime Money Market Fund ("PMMF") and Treasury Money Market Fund ("TMMF") of Barclays Global Investors Funds. The GMMF, IMMF, PMMF and TMMF are feeder funds in a master/feeder fund structure that invest substantially all of their assets in the Government Money Market Master Portfolio, Money Market Master Portfolio, Prime Money Market Master Portfolio and Treasury Money Market Master Portfolio (collectively, the "Master Portfolios"), respectively, which are also managed by BGFA. While the GMMF, IMMF, PMMF and TMMF do not directly charge an investment advisory fee, the Master Portfolios in which they invest do charge an investment advisory fee. Income distributions from the GMMF, IMMF, PMMF and TMMF are declared daily and paid monthly from net investment income. Income distributions earned by the Fund from temporary cash investments are recorded as interest from affiliated issuers in the accompanying Statement of Operations. Income distributions earned by the Fund from the investment of securities lending collateral are included in securities lending income in the accompanying Statement of Operations.

# Notes to the Financial Statements (Continued)

## *iSHARES*<sup>®</sup>, *INC.*

The following table provides information about the direct investment by the Fund (exclusive of investments of securities lending collateral) in issuers of which BGFA is an affiliate, for the year ended August 31, 2006.

<i>Name of Affiliated Issuer</i>	<i>Number of</i>	<i>Gross</i>		<i>Number of</i>	<i>Value at</i>	<i>Interest</i>
	<i>Shares Held</i>	<i>Additions</i>	<i>Reductions</i>	<i>Shares Held</i>		
	<i>Beginning</i>	<i>(in 000s)</i>	<i>(in 000s)</i>	<i>End of Year</i>	<i>End of Year</i>	<i>Income</i>
	<i>of Year</i>			<i>(in 000s)</i>		
	<i>(in 000s)</i>	<i>(in 000s)</i>	<i>(in 000s)</i>			
IMMF	694	1,756,261	1,755,586	1,369	\$1,368,550	\$309,395

As of August 31, 2006, certain directors and officers of the Company are also officers of BGI and/or BGFA.

### **3. INVESTMENT PORTFOLIO TRANSACTIONS**

Purchases and sales of investments (excluding in-kind transactions and short-term investments) for the year ended August 31, 2006, aggregated \$1,011,331,752 and \$963,888,644, respectively.

In-kind purchases and sales (see Note 4) for the year ended August 31, 2006, aggregated \$5,304,346,344 and \$1,209,690,820, respectively.

### **4. CAPITAL SHARE TRANSACTIONS**

The Company has authorized 10.9 billion shares of \$.001 par value capital stock. As of August 31, 2006, 2,124,600,000 shares were authorized to the Fund.

The Company issues and redeems capital shares of the Fund only in aggregations of a specified number of shares (each, a "Creation Unit") at net asset value. Except when aggregated in Creation Units, shares of the Fund are not redeemable. Transactions in capital shares for the Fund are disclosed in detail in the Statements of Changes in Net Assets.

The consideration for the purchase of Creation Units of the Fund generally consists of the in-kind contribution of a designated portfolio of equity securities constituting a portfolio sampling representation of the securities involved in the MSCI Japan Index and an amount of cash. Investors purchasing and redeeming Creation Units pay a purchase transaction fee and a redemption transaction fee directly to Investors Bank, the administrator, to offset transfer and other transaction costs associated with the issuance and redemption of Creation Units.

### **5. LOANS OF PORTFOLIO SECURITIES**

The Fund may lend its investment securities to approved borrowers, such as brokers, dealers and other financial institutions. The borrower pledges and maintains with the Fund collateral consisting of cash, an irrevocable letter of credit issued by a bank, or securities issued or guaranteed by the U.S. Government. The initial collateral received by the Fund is required to have a value of at least 102% of the market value of the loaned securities for securities traded on U.S. exchanges and a value of at least 105% for all other securities. The collateral is maintained thereafter, at a value equal to at least 100% of the current market value of the securities on loan. The risks to the Fund of securities lending are that the borrower may not provide additional collateral when required or may not return the securities when due.

# Notes to the Financial Statements (Continued)

## *iSHARES®*, INC.

As of August 31, 2006, the Fund had loaned securities which were collateralized by cash. Pursuant to an exemptive order issued by the SEC, the cash collateral received was invested in a joint account with other investment funds managed by BGFA. The joint account invests in securities with remaining maturities of 397 days or less, repurchase agreements and money market mutual funds, including money market funds managed by BGFA. Repurchase agreements held in the joint account are fully collateralized by U.S. Government securities or non-U.S. Government debt securities. The market value of the securities on loan as of August 31, 2006 and the value of the related collateral are disclosed in the Statement of Assets and Liabilities. Securities lending income, as disclosed in the Fund's Statement of Operations, represents the income earned from the investment of the cash collateral, net of rebates paid to, or fees paid by, borrowers and less the fees paid to BGI as securities lending agent.

### **6. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT**

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, ("FIN 48") "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of applying the various provisions of FIN 48.

# Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of  
iShares, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the iShares MSCI Japan Index Fund, a portfolio of the iShares MSCI Series (the "Fund") at August 31, 2006, the results of its operations for the year then ended and the changes in its net assets and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
San Francisco, California  
October 23, 2006

# Tax Information (Unaudited)

## *iSHARES<sup>®</sup>, INC.*

For the fiscal year ended August 31, 2006, the Fund earned foreign source income of \$134,214,398 and paid foreign taxes of \$8,201,533 which it intends to pass through to its shareholders pursuant to Section 853 of the Internal Revenue Code (the "Code").

Under Section 854(b)(2) of the Code, the Fund hereby designates the maximum amount of \$83,820,853 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended August 31, 2006.

In January 2007, shareholders will receive Form 1099-DIV which will include their share of qualified dividend income distributed during the calendar year 2006. Shareholders are advised to check with their tax advisers for information on the treatment of these amounts on their income tax returns.

# Board Review and Approval of Investment Advisory Contracts (Unaudited)

## *iSHARES*<sup>®</sup>, INC.

Under Section 15(c) of the Investment Company Act of 1940 (the “1940 Act”), the Company’s Board of Directors (the “Board”), including a majority of Directors who are not interested persons of the Company (as that term is defined in the 1940 Act) (the “Independent Directors”), is required annually to consider the Investment Advisory Contract between the Company and BGFA (the “Advisory Contract”) on behalf of the Fund. As required by Section 15(c), the Board requested and BGFA provided such information as the Board deemed reasonably necessary to evaluate the terms of the Advisory Contract. At a meeting held on June 14-15, 2006, the Board approved the selection of BGFA and the continuance of the Advisory Contract, based on its review of qualitative and quantitative information provided by BGFA. In selecting BGFA and approving the Advisory Contract for the Fund, the Board, including the Independent Directors, advised by their independent counsel, considered the following factors, none of which was controlling, and made the following conclusions:

### **NATURE, EXTENT AND QUALITY OF SERVICES PROVIDED BY BGFA**

The Board determined that there would be no diminution in the scope of services required of BGFA under the Advisory Contract for the coming year as compared to the scope of services provided by BGFA over the past year. In reviewing the scope of these services, the Board considered BGFA’s investment philosophy and experience, noting that BGFA and its affiliates have committed significant resources over time, including over the past year, to the support of the Fund. The Board also considered BGFA’s compliance program and its compliance record with respect to the Fund. In that regard, the Board noted that BGFA reports to the Board about portfolio management and compliance matters on a periodic basis in connection with regularly scheduled meetings of the Board, and has made appropriate officers available as needed to provide further assistance with these matters. The Board also reviewed the background and experience of the persons responsible for the day-to-day management of the Fund. In addition to the above considerations, the Board reviewed and considered BGFA’s investment processes and strategies, and matters related to BGFA’s portfolio transaction policies and procedures. The Board further noted that BGFA does not serve as investment adviser for any other series of registered investment companies with substantially similar investment objectives and strategies as the Fund; therefore, no comparative performance information was available. However, the Board also noted that the Fund had met its investment objective consistently since its inception date. Based on this review, the Board concluded that the nature, extent and quality of services to be provided by BGFA to the Fund under the Advisory Contract were appropriate and mitigated in favor of the Board’s approval of the Advisory Contract for the coming year.

### **FUNDS’ EXPENSES AND PERFORMANCE OF THE FUND**

The Board reviewed statistical information prepared by Lipper Inc. (“Lipper”), an independent provider of investment company data, regarding the expense ratio components, including advisory fees, waivers/reimbursements, and gross and net total expenses of the Fund in comparison with the same information for other registered funds objectively selected solely by Lipper as comprising the Fund’s peer group (the “Lipper Peer Group”). In addition, the Board reviewed statistical information prepared by Lipper regarding the performance of the Fund for the one-, three- and five-year, and “last quarter” periods ended March 31, 2006 and a comparison of the Fund’s performance to that of the funds in its Lipper Peer Group for the same periods. Because there are few, if any, exchange traded funds or index funds that track indices similar to those tracked by the Fund, the Lipper Peer Group included mutual funds, closed-end funds, exchange traded funds, and funds with differing investment objective classifications, investment focuses and other characteristics (e.g., actively managed funds and funds sponsored by “at cost” service providers). In support of its review of the statistical information, the Board was provided with a detailed description of the methodology used by Lipper to determine the Lipper Peer Group and to prepare this information. The Board further noted that due to the limitations in providing comparable funds in the Lipper Peer Group, the statistical information may or may not provide meaningful direct comparisons to the Fund. The Board noted that the Fund generally performed in line with the funds in its Lipper Peer Group over relevant periods. The Board also noted that the investment advisory fees and overall expenses for the Fund were generally lower than or in line with the investment advisory fee rates and overall expenses of the funds in its respective Lipper Peer Group. The Board also reviewed statistical information from Lipper displaying the effects of the proposed extension of breakpoints in the investment advisory fee rates for the Fund (as discussed below) at various assets levels of the Funds as compared to its Lipper Peer Group. Based on this review, the Board concluded that the investment advisory fees and expense levels and the historical performance of the Fund, as managed by BGFA, as compared to the investment advisory fees and expense levels and performance of the funds in its Lipper Peer Group, were satisfactory for the purposes of approving the Advisory Contract for the coming year.

# Board Review and Approval of Investment Advisory Contracts (Unaudited) (Continued)

*iSHARES*<sup>®</sup>, *INC.*

## **COSTS OF SERVICES PROVIDED TO THE FUND AND PROFITS REALIZED BY BGFA AND AFFILIATES**

The Board reviewed information about the profitability to BGFA of the Fund based on the fees payable to BGFA and its affiliates (including fees under the Advisory Contract), and all other sources of revenue and expense to BGFA and its affiliates for the last calendar year. The Board discussed the sources of direct and ancillary revenue with management, including the revenues to BGI from securities lending by the Company (including any securities lending by the Fund). The Board also discussed BGFA's profit margin as reflected in the Fund's profitability analysis and reviewed information regarding economies of scale (as discussed below). Based on this review, the Board concluded that the profits to be realized by BGFA and its affiliates under the Advisory Contract and from other relationships between the Fund and BGFA and/or its affiliates, if any, were within the range the Board considered reasonable and appropriate.

## **ECONOMIES OF SCALE**

In connection with its review of the Fund's profitability analysis, the Board reviewed information regarding economies of scale or other efficiencies that may result from increases in the Fund's assets. The Board was also presented with materials regarding the proposed extension of breakpoints in the investment advisory fee rates at certain asset levels of the Fund on an aggregated basis with certain other iShares funds. The Board noted that the Advisory Contract already provided for breakpoints in the Fund's investment advisory fee rates as the assets of the Fund, on an aggregated basis with the assets of certain other iShares funds, increase. The Board also discussed the substantial growth in assets of certain iShares funds, including the Fund, over the last few years. The Board further noted that as of July 1, 2004, Fund shareholders were no longer paying distribution fees pursuant to the Fund's distribution plan under 12b-1 of the 1940 Act because such plan had been terminated as of that date, benefiting the Fund's shareholders by lowering the Fund's overall expenses. The Board also reviewed BGFA's historic profitability as investment adviser to the iShares fund complex and noted that BGFA had made a significant investment in the iShares funds and had incurred operating losses during earlier years when the iShares funds, including the Fund, had not yet reached scale. In light of this history, the Board determined that the proposed extension of breakpoints was appropriate and warranted at this juncture for the Fund. Based on this review, the Board, recognizing its responsibility to consider this issue at least annually, concluded that the structure of the investment advisory fees, with the proposed extension of breakpoints for the Fund, reflects the current sharing and potential further sharing of economies of scale with the Fund's shareholders.

## **FEES AND SERVICES PROVIDED FOR OTHER COMPARABLE FUNDS/ACCOUNTS MANAGED BY BGFA AND ITS AFFILIATES**

The Board considered the Fund's annual investment advisory fee rates under the Advisory Contract in comparison to the investment advisory/management fee rates for other funds/accounts for which BGFA (or its affiliate, BGI) provides investment advisory/management services, including other funds registered under the 1940 Act, collective funds and separate accounts (together, the "Other Accounts"). The Board noted that comparative investment advisory/management fee information was not available, as BGFA and its affiliates do not manage any Other Accounts with substantially similar investment objectives and strategies as the Funds. However, the Board noted that BGFA provided the Board with general information regarding how the level of services provided to the Other Accounts differed from the level of services provided to the Funds. Based on this review, the Board determined that the investment advisory fee rates under the Advisory Contract, with the proposed extension of breakpoints, do not constitute fees that are so disproportionately large as to bear no reasonable relationship to the services rendered and that could not have been the product of arm's-length bargaining, and concluded that the investment advisory fee rates under the Advisory Contract, with the proposed extension of breakpoints, are fair and reasonable.

# Board Review and Approval of Investment Advisory Contracts (Unaudited) (Continued)

*iSHARES<sup>®</sup>, INC.*

## **OTHER BENEFITS TO BGFA AND/OR ITS AFFILIATES**

The Board reviewed any ancillary revenue received by BGFA and/or its affiliates in connection with the services provided to the Fund by BGFA, such as any payment of revenue to BGI, the Company's securities lending agent, for loaning any portfolio securities, and payment of advisory fees and/or administration fees to BGFA and BGI in connection with any investments by the Fund in other funds for which BGFA provides investment advisory services and/or BGI provides administration services. The Board noted that BGFA does not use soft dollars or consider the value of research or other services that may be provided to BGFA (including its affiliates) in selecting brokers for portfolio transactions for the Fund. The Board further noted that any portfolio transactions on behalf of the Fund placed through a BGFA affiliate are reported to the Board pursuant to Rule 17e-1 under the 1940 Act. The Board concluded that any such ancillary benefits would not be disadvantageous to the Fund's shareholders.

Based on this analysis, the Board determined that the Advisory Contract, including the investment advisory fee rates, with the proposed extension of breakpoints, are fair and reasonable in light of all relevant circumstances, and concluded that it is in the best interest of the Fund and its shareholders to approve the Advisory Contract, with the fee schedule to the Advisory Contract as proposed to be amended to reflect the extension of breakpoints, for the coming year.

# Supplemental Information (Unaudited)

## *iSHARES*<sup>®</sup>, INC.

The table that follows presents information about the differences between the daily market price on secondary markets for shares of the iShares MSCI Japan Index Fund (the “Fund”) and the Fund’s net asset value. Net asset value, or “NAV”, is the price per share at which the Fund issues and redeems shares. It is calculated in accordance with the standard formula for valuing mutual fund shares. The “Market Price” of the Fund generally is determined using the midpoint between the highest bid and the lowest offer on the stock exchange on which the shares of the Fund is listed for trading, as of the time that the Fund’s NAV is calculated. The Fund’s Market Price may be at, above or below its NAV. The NAV of the Fund will fluctuate with changes in the market value of its portfolio holdings. The Market Price of the Fund will fluctuate in accordance with changes in its NAV, as well as market supply and demand.

Premiums or discounts are the differences (expressed as a percentage) between the NAV and Market Price of the Fund on a given day, generally at the time NAV is calculated. A premium is the amount that the Fund is trading above the reported NAV, expressed as a percentage of the NAV. A discount is the amount that the Fund is trading below the reported NAV, expressed as a percentage of the NAV.

The following information shows the frequency distributions of premiums and discounts for the Fund. The information shown for the Fund is for five calendar years through the date of the most recent calendar quarter-end.

*Each line in the table shows the number of trading days in which the Fund traded within the premium/discount range indicated. The number of trading days in each premium/discount range is also shown as a percentage of the total number of trading days in the period covered by the table. All data presented here represents past performance, which cannot be used to predict future results.*

*iShares MSCI Japan Index Fund  
Period Covered: January 1, 2001 through June 30, 2006*

<u>Premium/Discount Range</u>	<u>Number of Days</u>	<u>Percentage of Total Days</u>
Greater than 3.5% and Less than 4.0% . . . . .	2	0.14%
Greater than 3.0% and Less than 3.5% . . . . .	4	0.29
Greater than 2.5% and Less than 3.0% . . . . .	8	0.58
Greater than 2.0% and Less than 2.5% . . . . .	19	1.38
Greater than 1.5% and Less than 2.0% . . . . .	47	3.40
Greater than 1.0% and Less than 1.5% . . . . .	142	10.28
Greater than 0.5% and Less than 1.0% . . . . .	256	18.54
<b>Between 0.5% and –0.5%</b> . . . . .	<b>628</b>	<b>45.48</b>
Less than –0.5% and Greater than –1.0% . . . . .	160	11.59
Less than –1.0% and Greater than –1.5% . . . . .	64	4.63
Less than –1.5% and Greater than –2.0% . . . . .	36	2.61
Less than –2.0% and Greater than –2.5% . . . . .	6	0.43
Less than –2.5% and Greater than –3.0% . . . . .	4	0.29
Less than –3.0% . . . . .	5	0.36
	<u>1,381</u>	<u>100.00%</u>

# Director and Officer Information (Unaudited)

## *iSHARES*<sup>®</sup>, *INC.*

The Board of Directors has responsibility for the overall management and operations of the Company, including general supervision of the duties performed by BGFA and other service providers. Each Director serves until his or her successor is duly elected or appointed and qualified.

iShares, Inc., iShares Trust, Barclays Global Investors Funds and Master Investment Portfolio are considered to be members of the same fund complex, as defined in Form N-1A under the 1940 Act. Each Director of iShares, Inc. also serves as a Trustee for iShares Trust and oversees 111 portfolios within the fund complex. In addition, Lee T. Kranefuss and Richard K. Lyons each serves as a Trustee for Barclays Global Investors Funds and Master Investment Portfolio and oversees an additional 25 portfolios within the fund complex.

Unless otherwise noted in the tables below, the address for each Director and Officer is c/o Barclays Global Investors, N.A., 45 Fremont Street, San Francisco, California 94105. The Board has designated George G.C. Parker as its Lead Director. Additional information about the Funds' Directors and Officers may be found in the Funds' combined Statement of Additional Information, which is available without charge, upon request, by calling toll-free 1-800-474-2737.

### Interested Directors and Officers

Name, Year of Birth	Position(s), Length of Service	Principal Occupation(s) During Past 5 Years	Other Directorships Held
*Lee T. Kranefuss, 1961	Director, Chairman and President (since 2003).	Chief Executive Officer, Global Index and Markets Group of BGI (since 2005); Chief Executive Officer of Intermediary Investor and Exchange Traded Products Business of BGI (since 2003); Chief Executive Officer of the Individual Investor Business of BGI (1999-2003).	Trustee (since 2003) of iShares Trust; Trustee (since 2001) of Barclays Global Investors Funds and Master Investment Portfolio; Director (since 2003) of BGI Cayman Prime Money Market Fund, Ltd.
*John E. Martinez, 1962	Director (since 2003).	Co-Chief Executive Officer of Global Index and Markets Group of BGI (2001-2003); Chairman of Barclays Global Investors Services (2000-2003); Chief Executive Officer of Capital Markets Group of BGI (1996-2001).	Trustee (since 2003) of iShares Trust; Director (since 2005) of Real Estate Equity Exchange; Director (since 2003) of Larkin Street Youth Services.

\* Lee T. Kranefuss and John E. Martinez are considered to be "interested persons" (as defined in the 1940 Act) of the Company due to their affiliations with BGFA, the Funds' investment adviser, BGI, the parent company of BGFA, and Barclays Global Investors Services, an affiliate of BGFA and BGI.

# Director and Officer Information (Unaudited) (Continued)

iSHARES<sup>®</sup>, INC.

## Independent Directors

Name, Year of Birth	Position(s), Length of Service	Principal Occupation(s) During Past 5 Years	Other Directorships Held
<b>Richard K. Lyons, 1961</b>	Director (since 2002).	Executive Associate Dean (since 2005); Sylvan Coleman Chair in Finance (since 2004); Acting Dean (2004-2005) and Professor (since 1993), University of California, Berkeley; Haas School of Business; Consultant for IMF World Bank, Federal Reserve Bank and Citibank N.A. (since 2000).	Trustee (since 2000) of iShares Trust; Trustee (since 2001) of Barclays Global Investors Funds and Master Investment Portfolio; Director (since 2003) of BGI Cayman Prime Money Market Fund, Ltd.; Trustee (since 1995) and Chairman of Matthews Asian Funds (oversees 8 portfolios).
<b>George G. C. Parker, 1939</b>	Director (since 2002).	Dean Witter Distinguished Professor of Finance (since 1994); Formerly Senior Associate Dean for Academic Affairs, Director of MBA Program, Stanford University; Graduate School of Business (1993-2001).	Trustee (since 2000) of iShares Trust; Director (since 1996) of Continental Airlines, Inc.; Director (since 1995) of Community First Financial Group; Director (since 1999) of Tejon Ranch Company; Director (since 2003) of First Republic Bank; Director (since 2004) of Threshold Pharmaceuticals.
<b>Cecilia H. Herbert, 1949</b>	Director (since 2005).	Member of Finance Council, Archdiocese of San Francisco (since 1991); Chair of Investment Committee, Archdiocese of San Francisco (1994-2005).	Trustee (since 2005) of iShares Trust; Trustee (2004-2005) of Pacific Select Funds; Trustee (1992-2003) of the Montgomery Funds; Trustee (since 2005) of the Thacher School; Director (since 1998) of Catholic Charities CYO; Director (since 2005) of Women's Forum West (professional association).
<b>Charles A. Hurty, 1943</b>	Director (since 2005).	Partner, KPMG LLP (1968-2001).	Trustee (since 2005) of iShares Trust; Director (since 2002) of GMAM Absolute Return Strategy Fund (1 portfolio); Director (since 2002) of Citigroup Alternative Investments Multi-Adviser Hedge Fund Portfolios LLC (2 portfolios); Director (since 2005) of CSFB Alternative Investments Fund (15 portfolios).
<b>John E. Kerrigan, 1955</b>	Director (since 2005).	Chief Investment Officer, Santa Clara University (since 2002); Managing Director, Merrill Lynch (1994-2002).	Trustee (since 2005) of iShares Trust; Member (since 2004) of Advisory Council for Commonfund Distressed Debt Partners II.

# Director and Officer Information (Unaudited) (Continued)

*iSHARES*<sup>®</sup>, *INC.*

## Officer

Name, Year of Birth	Position(s), Length of Service	Principal Occupation(s) During Past 5 Years	Other Directorships Held
Michael A. Latham, 1965	Secretary, Treasurer and Principal Financial Officer (since 2002).	Chief Operating Officer of the Intermediary Investor and Exchange Traded Products Business of BGI (since 2003); Director of Mutual Fund Delivery in the U.S. Individual Investor Business of BGI (2000-2003).	None.

Notes:

Notes:

# The iShares® Family of Funds

The following is a list of iShares Funds being offered, along with their respective exchange trading symbols. **Please call 1-800-iShares (1-800-474-2737) to obtain a prospectus for any iShares Fund. The prospectus contains more complete information, including charges, expenses, investment objectives and risk factors that should be carefully considered to determine if the Fund(s) are an appropriate investment for you. Read the prospectus(es) carefully before investing. Investing involves risk, including possible loss of principal.**

## **iShares S&P Domestic Index Funds**

iShares S&P 1500 (ISI)  
iShares S&P 100 (OEF)  
iShares S&P 500 (IVV)  
iShares S&P 500 Growth (IVW)  
iShares S&P 500 Value (IVE)  
iShares S&P MidCap 400 (IJH)  
iShares S&P MidCap 400 Growth (IJK)  
iShares S&P MidCap 400 Value (IJJ)  
iShares S&P SmallCap 600 (IJR)  
iShares S&P SmallCap 600 Growth (IJT)  
iShares S&P SmallCap 600 Value (IJS)

## **iShares Domestic Sector Index Funds**

iShares Cohen & Steers Realty Majors (ICF)  
iShares Dow Jones U.S. Basic Materials Sector (IYM)  
iShares Dow Jones U.S. Consumer Services Sector (IYC)  
iShares Dow Jones U.S. Consumer Goods Sector (IYK)  
iShares Dow Jones U.S. Energy Sector (IYE)  
iShares Dow Jones U.S. Financial Sector (IYF)  
iShares Dow Jones U.S. Financial Services (IYG)  
iShares Dow Jones U.S. Healthcare Sector (IYH)  
iShares Dow Jones U.S. Industrial Sector (IYI)  
iShares Dow Jones U.S. Real Estate (IYR)  
iShares Dow Jones U.S. Technology Sector (IYW)  
iShares Dow Jones U.S. Telecommunications Sector (IYZ)  
iShares Dow Jones Transportation Average (IYT)  
iShares Dow Jones U.S. Utilities Sector (IDU)  
iShares Dow Jones U.S. Total Market (IYY)  
iShares Goldman Sachs Natural Resources (IGE)  
iShares Goldman Sachs Networking (IGN)  
iShares Goldman Sachs Semiconductor (IGW)  
iShares Goldman Sachs Software (IGV)  
iShares Goldman Sachs Technology (IGM)  
iShares Nasdaq Biotechnology (IBB)

## **iShares Domestic Subsector Index Funds**

iShares Dow Jones U.S. Aerospace & Defense (ITA)  
iShares Dow Jones U.S. Broker-Dealers (IAI)  
iShares Dow Jones U.S. Health Care Providers (IHF)  
iShares Dow Jones U.S. Home Construction (ITB)  
iShares Dow Jones U.S. Insurance (IAK)  
iShares Dow Jones U.S. Medical Devices (IHI)  
iShares Dow Jones U.S. Oil & Gas Exploration & Production (IEO)  
iShares Dow Jones U.S. Oil Equipment & Services (IEZ)  
iShares Dow Jones U.S. Pharmaceuticals (IHE)  
iShares Dow Jones U.S. Regional Banks (IAT)

## **iShares Global Index Funds**

iShares S&P Global 100 (IOO)  
iShares S&P Global Consumer Discretionary Sector (RXI)  
iShares S&P Global Consumer Staples Sector (KXI)  
iShares S&P Global Energy Sector (IXC)  
iShares S&P Global Financials Sector (IXG)  
iShares S&P Global Healthcare Sector (IXJ)  
iShares S&P Global Industrials Sector (EXI)  
iShares S&P Global Materials Sector (IXI)  
iShares S&P Global Technology Sector (IXN)  
iShares S&P Global Telecommunications Sector (IXP)  
iShares S&P Global Utilities Sector (MXI)

## **iShares Russell Index Funds**

iShares Russell 3000 (IWV)  
iShares Russell 3000 Growth (IWZ)  
iShares Russell 3000 Value (IWW)  
iShares Russell 1000 (IWB)  
iShares Russell 1000 Growth (IWF)  
iShares Russell 1000 Value (IWD)  
iShares Russell Midcap (IWR)  
iShares Russell Midcap Growth (IWP)  
iShares Russell Midcap Value (IWS)  
iShares Russell 2000 (IWM)  
iShares Russell 2000 Growth (IWO)  
iShares Russell 2000 Value (IWN)  
iShares Russell Microcap™ (IWC)

## **iShares International Country Index Funds**

iShares FTSE/Xinhua China 25 (FXI)  
iShares MSCI Australia (EWA)  
iShares MSCI Austria (EWO)  
iShares MSCI Belgium (EWK)  
iShares MSCI Brazil (EWZ)  
iShares MSCI Canada (EWC)  
iShares MSCI France (EWQ)  
iShares MSCI Germany (EWG)  
iShares MSCI Hong Kong (EWH)  
iShares MSCI Italy (EWI)  
iShares MSCI Japan (EWJ)  
iShares MSCI Malaysia (EWM)  
iShares MSCI Mexico (EWW)  
iShares MSCI Netherlands (EWN)  
iShares MSCI Singapore (EWS)  
iShares MSCI South Africa (EZA)  
iShares MSCI South Korea (EWY)  
iShares MSCI Spain (EWP)  
iShares MSCI Sweden (EWD)  
iShares MSCI Switzerland (EWL)  
iShares MSCI Taiwan (EWT)  
iShares MSCI United Kingdom (EWU)  
iShares S&P/TOPIX 150 (ITF)

## **iShares Bond Funds**

iShares Lehman Aggregate (AGG)  
iShares Lehman TIPS (TIP)  
iShares Lehman 1-3 Year Treasury (SHY)  
iShares Lehman 7-10 Year Treasury (IEF)  
iShares Lehman 20+ Year Treasury (TLT)  
iShares GS \$ InvesTop™ Corporate (LOD)

## **iShares Specialty Index Funds**

iShares KLD Select Social™ (KLD)  
iShares Dow Jones Select Dividend (DVY)

## **iShares International Index Funds**

iShares MSCI EAFE (EFA)  
iShares MSCI EAFE Growth (EFG)  
iShares MSCI EAFE Value (EFV)  
iShares MSCI Emerging Markets (EEM)  
iShares MSCI EMU (EZU)  
iShares MSCI Pacific ex-Japan (EPP)  
iShares S&P Europe 350 (IEV)  
iShares S&P Latin America 40 (ILF)

## **iShares Morningstar Index Funds**

iShares Morningstar Large Core (JKD)  
iShares Morningstar Large Growth (JKE)  
iShares Morningstar Large Value (JKF)  
iShares Morningstar Mid Core (JKG)  
iShares Morningstar Mid Growth (JKH)  
iShares Morningstar Mid Value (JKI)  
iShares Morningstar Small Core (JKJ)  
iShares Morningstar Small Growth (JKK)  
iShares Morningstar Small Value (JKL)

## **iShares NYSE Index Funds**

iShares NYSE Composite (NYC)  
iShares NYSE 100 (NY)

iShares® is a registered trademark of Barclays Global Investors, N.A. The iShares Funds are not sponsored, endorsed or issued by Goldman, Sachs & Co. or Lehman Brothers, nor are they sponsored, endorsed, issued, sold or promoted by Cohen & Steers Capital Management, Inc., Dow Jones & Company, Inc., FTSE/Xinhua Index Limited, KLD Research & Analytics, Inc., Morgan Stanley Capital International, Morningstar, Inc., The Nasdaq Stock Market, Inc., New York Stock Exchange, Inc., Frank Russell Company, or Standard & Poor's. None of these companies make any representation regarding the advisability of investing in the iShares Funds. Neither SEI nor BGI, nor any of their affiliates, are affiliated with the companies listed above. "GS \$ InvesTop™" and "Goldman Sachs®" are trademarks of Goldman, Sachs & Co.

An investment in the Fund(s) is not a deposit of a bank and it is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

This advertising section does not constitute part of the 2006 Annual Report.

3467-IS-0906



The iShares Funds are distributed by SEI Investments Distribution Co. (SEI). Barclays Global Fund Advisors (BGFA) serves as an adviser to the iShares Funds. Barclays Global Investors Services (BGIS) assists in the marketing of the iShares Funds. BGFA and BGIS are subsidiaries of Barclays Global Investors, N.A., a majority-owned subsidiary of Barclays Bank PLC, none of which are affiliated with SEI.

The iShares Funds are not sponsored, endorsed, issued, sold or promoted by Morgan Stanley Capital International, Inc., nor does this company make any representation regarding the advisability of investing in the iShares Funds.

©2006 Barclays Global Investors. All rights reserved. iShares® is a registered trademark of Barclays Global Investors, N.A. All other trademarks, servicemarks or registered trademarks are the property of their respective owners.

**Investing involves risk, including possible loss of principal.**

A description of the policies that the Fund uses to determine how to vote proxies relating to portfolio securities and information about how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available without charge, upon request, by calling toll-free 1-800-474-2737; on the Fund's website at [www.iShares.com](http://www.iShares.com); and on the U.S. Securities and Exchange Commission (SEC) website at [www.sec.gov](http://www.sec.gov).

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. The Fund's Form N-Q is available on the SEC's website or may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund also discloses its complete schedule of portfolio holdings on a daily and monthly basis on the Fund's website.

**This report is intended for the Fund's shareholders. It may not be distributed to prospective investors unless it is preceded or accompanied by the current prospectus.**

For more information visit our website  
or call 1-800-iShares (1-800-474-2737)  
[www.iShares.com](http://www.iShares.com)

BGLF-005-11061

