

## Annual report 2006



### The art of investment

“I don’t work as an investor, I AM an investor”. For Portfolio manager Filip Weintraub it is all about a way of life, not an occupation. Page 14

### Outlook 2007

Our portfolio managers see four reasons why 2007 will be yet another good year. Read more about the themes globalisation, inflation, large, family owned conglomerates and capital spending. Page 18

### New markets

During 2006 SKAGEN Funds increased its activities in countries outside the Nordic region, obtaining approval to market its funds in Finland and the Netherlands. Read more in the Board of directors’ report on page 44



Never before have so many benefited from our funds’ performance. In 2006 our equity funds delivered good returns, both in absolute and relative terms. Our fixed income funds also achieved a very competitive return. We share in our clients’ happiness.

## Awards and commendations

SKAGEN Funds and our portfolio managers have received a number of awards and prizes in 2006. This international recognition proves that our investment philosophy works and that we deliver world-class returns. Page 70

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*Front page photo: Liv Berit Oseid works as a client advisor for SKAGEN Funds in Oslo, Norway*

## WELCOME TO SKAGEN FUNDS

SKAGEN Funds is an independent and partner owned management company whose sole business is equity and fixed income fund management. SKAGEN Funds was established in 1993, and since start-up the company has enjoyed a spectacular growth to become one of the largest fund management companies in Norway, with increasing activities in the Nordic countries and internationally. At the end of 2006 the company had approximately seven billion Euro under management and almost 120,000 direct clients. The company is headquartered in Stavanger, Norway, and has offices in Stockholm and Copenhagen.

SKAGEN Funds manages seven funds (both retail and institutional), all of which are domiciled in Norway and denominated in Norwegian Kroner (NOK). Outside of Norway we have approval to market five retail funds; the equity funds SKAGEN Vekst, SKAGEN Global and SKAGEN Kon-Tiki, and the bond funds SKAGEN Avkastning and SKAGEN Tellus. All our funds for the international market are UCITS III compliant. We currently have approval to market our funds in Norway, Denmark, Sweden, Luxembourg, the Netherlands and Finland.

SKAGEN Funds' sole objective is to provide its clients with the best possible risk adjusted return. We do so by pursuing an applied value-based investment philosophy. This philosophy has not been changed since the company started in 1993 and all funds are managed according to this same philosophy. We are active stock-pickers, and when selecting companies, we take a bottom-up approach, finding high quality companies with a low price-tag; companies characterised by being undervalued, under-researched and unpopular. Our funds have broad mandates, and our portfolio managers can select companies from equity markets around the world. We minimise risk by maintaining a sensible geographic and sector balance.

SKAGEN Funds is under the direct supervision of the Financial Supervisory Authority of Norway (Kredittilsynet). The trustee bank is Svenska Handelsbanken, and the units of the funds are registered in the Central Securities Depository (of Norway). The company's auditors are PWC and KPMG. SKAGEN Funds is a member of trade associations in Norway, Denmark, Sweden and Luxembourg.

### IMPORTANT INFORMATION

The Annual Report 2006 was originally prepared in Norwegian. This is a translated version that is published with reservations regarding possible errors and omissions as well as erroneous translation. In case of conflict between the Norwegian text and the English translation, the Norwegian text shall prevail. The Norwegian version of the Annual Report 2006 is available on [www.skagenfondene.no](http://www.skagenfondene.no).

All figures quoted in the report are in Norwegian kroner unless otherwise stated.

SKAGEN Funds only has authorisation to market its money market funds SKAGEN Høyrente and SKAGEN Høyrente Institusjon in Norway. Information regarding these funds is included in the official accounts and audited information hereto. Other information regarding these funds from the Norwegian version of the report has been excluded in this English language publication.

# World class returns

2006 was a good year for our unit holders. All our funds outperformed their respective benchmark indices, and our equity funds exceeded our objective of achieving a 20 percent average annual return in the long-term.

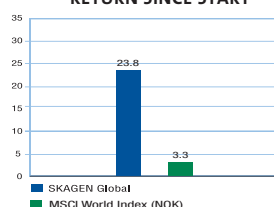
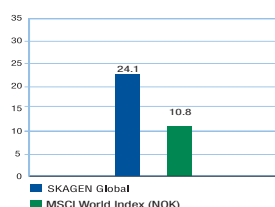
## SKAGEN Global

**Manager**  
**Start**

Filip Weintraub  
8th August 1997  
22 113 (2006) and 13 828 (2005)

**RETURN 2006**

**AVERAGE ANNUAL  
RETURN SINCE START**



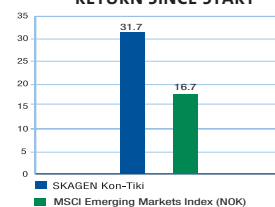
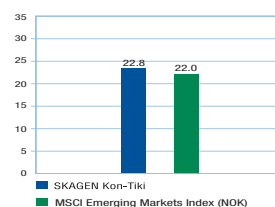
## SKAGEN Kon-Tiki

**Manager**  
**Start**

J. Kristoffer C. Stensrud  
14th March 2003  
13 918 (2006) and 8 749 (2005)

**RETURN 2006**

**AVERAGE ANNUAL  
RETURN SINCE START**



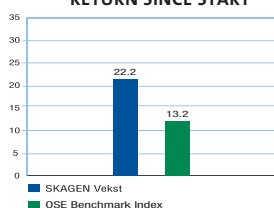
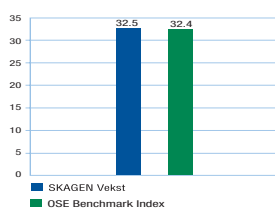
## SKAGEN Vekst

**Manager**  
**Start**

Kristian Falnes  
1st December 1993  
11 698 (2006) and 8 254 (2005)

**RETURN 2006**

**AVERAGE ANNUAL  
RETURN SINCE START**



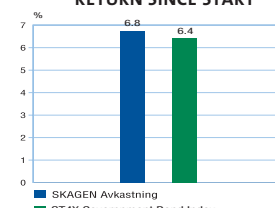
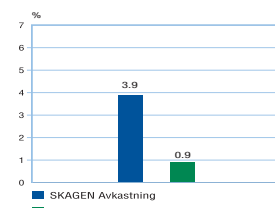
## SKAGEN Avkastning

**Manager**  
**Start**

Ross Porter  
16th September 1994  
3 020 (2006) and 2 827 (2005)

**RETURN 2006**

**AVERAGE ANNUAL  
RETURN SINCE START**

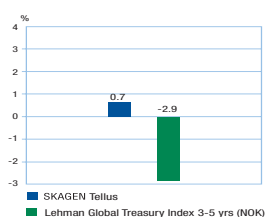


## SKAGEN Tellus

**Manager**  
**Start**

Torgeir Høyen  
29th September 2006  
574 (2006)  
2 557 (2006)

**AVERAGE ANNUAL  
RETURN SINCE START**  
29.09.2006



## GOING INTERNATIONAL AND DELIVERING STRONG RESULTS

# Expanding horizons

## A GOOD YEAR FOR CLIENTS

2006 was the year when SKAGEN really took a big step out into the world. We have received international recognition and grown in terms of number of clients, assets under management, number of countries where we market the funds and new employees. Our objective is to be the best – not the biggest – and with that focus we have delivered another year of world-class returns to our unit holders.

### Returns of over 20 percent

As 2006 drew to a close, the SKAGEN equity funds had provided their unit holders with an annual return in excess of 20 percent! All funds beat their respective benchmarks. At the end of 2006, SKAGEN Global had risen by 24.1 percent and was 13.3 percentage points ahead of the World Index. The fund has outperformed the World Index every year since 1997. SKAGEN Vekst increased 32.5 percent and was 0.1 percentage points ahead of the Oslo Stock Exchange. This is a strong achievement, because only half of the fund's assets are invested on the Oslo Stock Exchange, which was among the world's best performing stock exchanges in 2006. Good results from the fund's Norwegian portfolio and very strong performance from the international portfolio contributed to the fund's achievement. SKAGEN Kon-Tiki rose by 22.8 percent in 2006, which was 0.8 percentage points better than the Emerging Market Index. The fund has beaten its benchmark in every year since its launch in 2002.

Total assets under management at the end of 2006 were NOK 58.2 billion, of which 52.0 billion were in equity funds and 6.2 billion in fixed income funds.



Thank you for the confidence you have shown in us once again this year. This inspires us to do our utmost to ensure that 2007 is yet another year where we provide our unit holders with the best risk adjusted return possible, says Managing director Harald Espedal.

### New fixed income fund

The launch of SKAGEN Tellus in September means that our clients are now able to invest their assets in a global bond fund – and that we are able to offer a wider product range. This is important for an increasing number of clients who want to diversify their holdings out of the Norwegian fixed income markets. The fund did well in its first quarter, delivering a return of 1.4 percent in the fund's base currency, the Euro. This is 3.6 percent better than its benchmark index. Measured in NOK, the fund has experienced value fluctuations as a result of changes in the Euro/NOK exchange rates. The fund's return for the first quarter was 0.7 percent, giving an excess return of 3.5 percent measured in NOK.

SKAGEN Avkastning delivered a strong second half. At the end of December, the fund had risen 3.9 percent and beaten its benchmark (ST4X) by a strong 3.0 percent.

Our ambition is not to be the best fund over the past 12 months, but to be best in the long term by achieving excess returns and avoiding major capital losses. Our 2006 achievements made an important contribution to the realisation of this ambition.



### International recognition

During the Lipper Fund Europe Awards 2006, SKAGEN Funds was awarded the prize for the best equity fund manager among smaller fund companies. In addition, our equity funds won five other prizes at this prestigious awards event, which rewards funds and fund managers who have achieved the strongest and most consistent performance relative to competitors in the same class. Lipper uses quantitative methods to evaluate the funds, in the same way as e.g. Morningstar.

Global Investor Magazine selected SKAGEN Funds as an Equity firm to watch, when it awarded prizes to outstanding investment companies in 2006.

Kristoffer Stensrud was nominated as one of three candidates for European Investment Director of the year 2006 by Funds Europe Awards. We treasure the nomination, which is recognition of our investment philosophy and that our way of managing the funds stands out from the many thousands of funds in this market – and that our performance is world-class.

### Prospects for 2007

In 2006, the short interest rates in Western countries rose somewhat more than we predicted in the 2005 Annual Report, whereas the long interest rates rose slightly. As we predicted, 2006 gave strong economic growth in most of the world, with the associated significant earnings growth and increased equity for our portfolio companies. This led to an increase in share prices without equity valuations becoming appreciably more expensive.

As we enter 2007 we are of the opinion that equities, in spite of super performance, are still cheaply valued. There is a good supply of undervalued, under-researched and unpopular companies to invest in. In addition, we expect good global economic growth also in 2007. We are optimistic with respect to the performance opportunities for our portfolio companies.

### Market shares – More satisfied clients

According to figures from the Norwegian Mutual Fund Association (VFF), SKAGEN Funds is Norway's largest equity fund provider, with a market share of 25 percent. At

the end of the year, we had over 119,000 clients in Norway. We thank our clients for their confidence and will do our utmost to reach our objective of delivering the best possible risk-adjusted return, service, communication and competent follow-up. We recognise that satisfied clients are not a result of our expansion – neither in terms of new countries nor the number of clients – but because we meet client expectations with respect to good management of their money.

SKAGEN Funds is still a small player in Sweden, but in 2006 Swedish customers really discovered our funds. No one else attracted as much new capital from Swedish equity fund savers, and in 2006 SKAGEN had the highest net subscriptions of any equity fund manager in Sweden. When the Stockholm office opened a little over two years ago, assets under management in the Swedish market were just under SEK

one billion. The amount has now passed SEK seven billion. At the end of 2006, we have around 3,000 direct Swedish clients, and about 100,000 customers through PPM, the Swedish Premium Pension Authority.

In 2006, we opened the doors of our new office in Copenhagen, Denmark, and consolidated the position of SKAGEN Funds as a Nordic fund provider. During the past year, SKAGEN has had authorisation to market its funds in Norway, Sweden, Denmark,

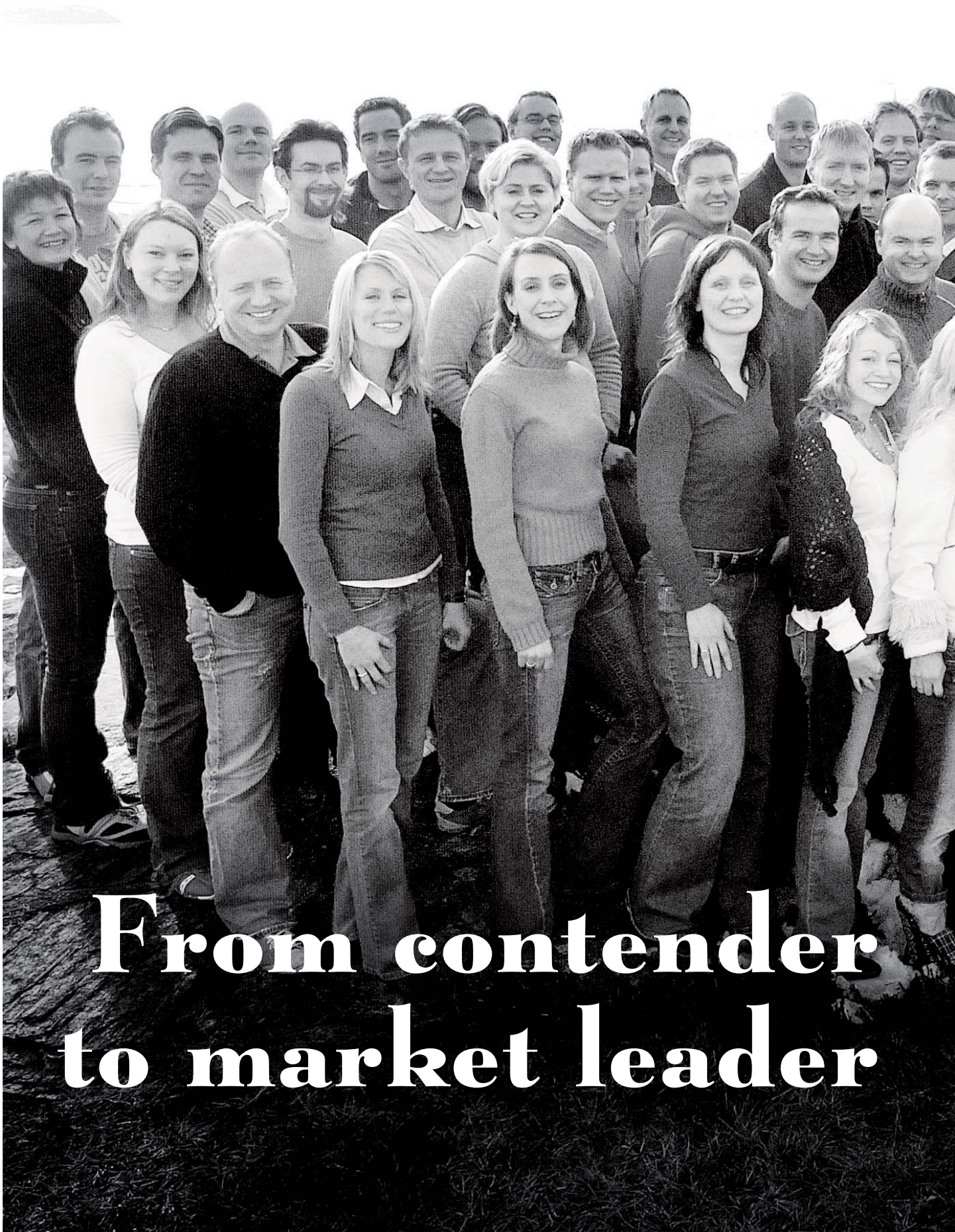
Finland, Luxembourg and the Netherlands. An application for marketing authorisation has been submitted in Iceland, and we expect an answer early in 2007.

In Norway, SKAGEN opened a new office in Tønsberg, with two employees, making it easier for our clients in the Vestfold area to get in touch with us.

### Strengthening the organisation

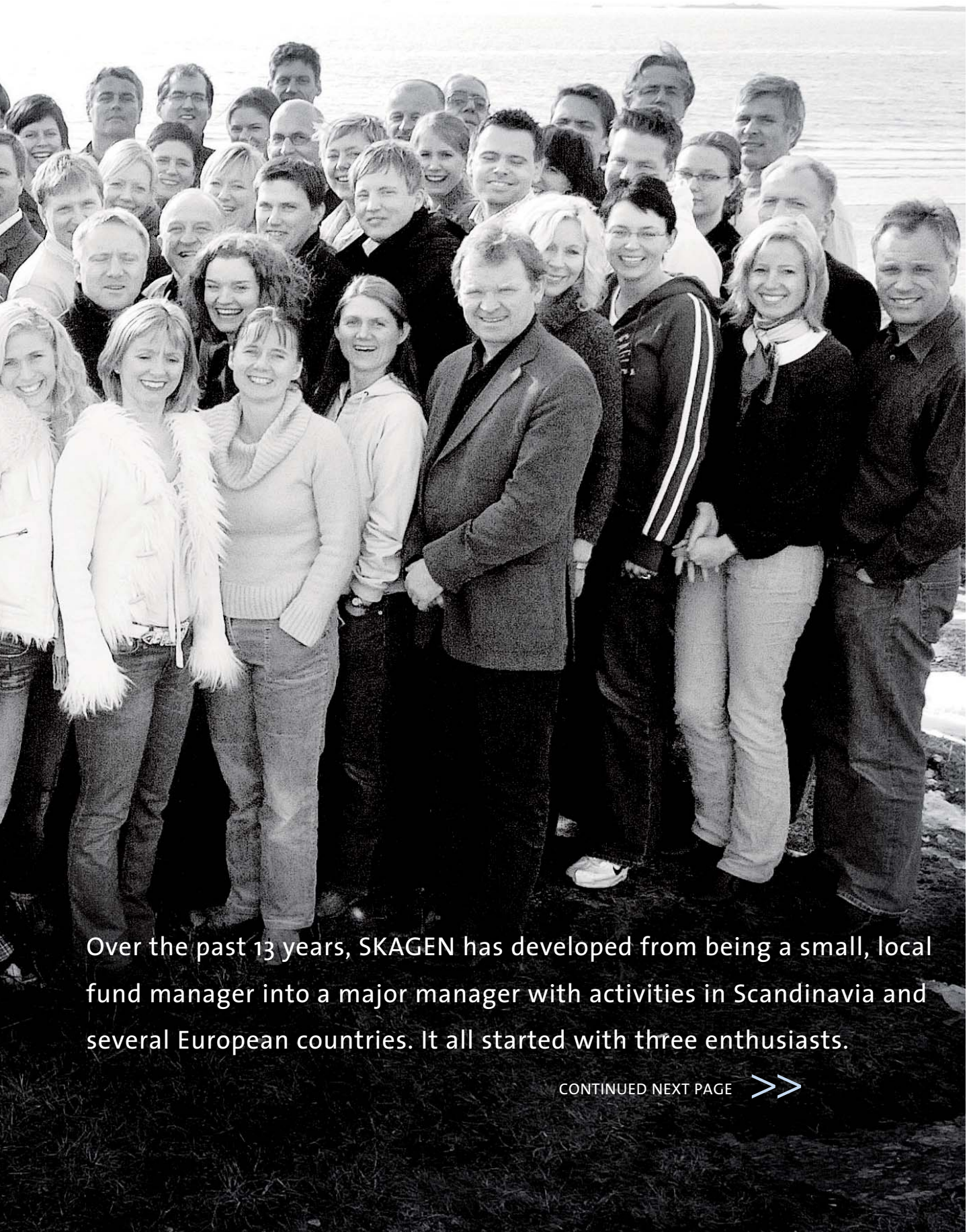
The number of employees increased from 59 to 94 during the year. The increase has taken place in most of the company's areas of competence, and has been in step with increased activity and entry into new markets. The portfolio department almost doubled in size during the year, with a reinforcement of both the equity and the fixed income teams. This means more time and more skills are available for the analysis of companies and fixed income markets.

**Our goal is to  
be the best  
- not the largest -  
and with this in  
focus we have  
once again this year  
delivered world-class  
returns to our  
unit holders**



# From contender to market leader





Over the past 13 years, SKAGEN has developed from being a small, local fund manager into a major manager with activities in Scandinavia and several European countries. It all started with three enthusiasts.

CONTINUED NEXT PAGE >>

When SKAGEN was founded on December 1st 1993, it was with one fund – SKAGEN Vekst. Today, the company manages seven funds, of which three are equity funds and four are fixed income funds. The legal name of the company is Stavanger Fondsforvaltning AS, but it is the brand name, SKAGEN, that clients are familiar with.

Even before the start in 1993, the founders of the company, J. Kristoffer Stensrud, Åge K. Westbø and Tor Dagfinn Veen, had long experience from the securities markets.

Knowledge of international equity markets resulted in SKAGEN immediately gaining a strong global orientation. Large parts of the equity funds' assets are broadly invested in global equity markets. SKAGEN's active management philosophy has been the basis for the management of its portfolios since the start.

Harald Espedal has been Managing Director since December 2002. The management company is owned by its founders, Kristoffer Stensrud (35.25 percent), Åge K. Westbø (23.5 percent), Tor Dagfinn Veen (35.25 percent), as well as Managing Director Harald Espedal (2.0 percent), and portfolio managers Kristian Falnes (2.0 percent) and Filip Weintraub (2.0 percent). The owners have large parts of their personal wealth invested in the funds, and are therefore in the same boat as the unit holders.

### Why save in funds?

To save in a fund has a number of advantages compared with other forms of saving. Saving in funds is a simple



The Chairman of the Board, Martin Gjelsvik, is very conscious of the employees' contribution to making SKAGEN Funds the leader it is today.

and inexpensive way for you to participate in the value creation taking place in companies worldwide.

By saving in funds you have a great degree of freedom and flexibility. You may buy and sell units whenever you want – for almost any amount you may wish. Funds may be the most strictly regulated investment

## SKAGEN FUNDS MILESTONES

### 1993

- Stavanger Fondsforvaltning AS was granted authorisation from the Financial Supervisory Authority of Norway to manage mutual funds
- The SKAGEN Vekst equity fund launched December 1st
- 448 unit holders, and assets under management of 20 MNOK

### 1994

- The SKAGEN Avkastning bond fund launched September 16th
- SKAGEN Vekst selected as AMS (tax free investment scheme) fund of the year, among a total of 22 funds

### 1997

- SKAGEN Global launched August 8th
- SKAGEN Vekst selected as the best AMS fund by the media (Dine Penger), due to its good returns and low risk
- Office established in Ålesund
- Assets under management passed one billion NOK

### 1998

- The SKAGEN Høyrente money market fund launched September 18th
- SKAGEN Vekst again selected as the best AMS fund on the market (Dine Penger)
- Office established in Oslo

### 2001

- Offices established in Bergen and Trondheim
- SKAGEN offers defined contribution pensions for the first time
- Assets under management passed five billion NOK

### 2002

- SKAGEN Kon-Tiki launched April 5th
- Our funds approved for sale in Sweden and Denmark



vehicle and the savings form that provides the best protection for clients. Each fund is valued, analysed and ranked daily, so it is easy to get information about our funds.

### Six offices in Norway, one in Stockholm, one in Copenhagen

At the start of 2007, SKAGEN Funds had 94 employees. The main office is in Stavanger, with branch offices in Oslo, Bergen, Tønsberg, Trondheim and Ålesund. We have also expanded to Sweden and Denmark, with offices in Stockholm and Copenhagen.

### Active Board of Directors

Ever since the start in 1993, the Directors of Stavanger Fondsforvaltning have played an active role in the company's operations.

- In the beginning, the management team was small, and the competence of the Directors was important in the start-up phase. Now, the role of the Directors is more strategic, and we also have an important control function, says Martin Gjelsvik, Chairman of the Board.

The Board of Directors consists of two groups of directors: Directors representing the owners, and Directors representing the unit holders.

- It has been important to develop a sense of community among the Directors, and we emphasise achieving consensus with respect to important decisions, says Mr. Gjelsvik.

From the very start, we have stressed the development of a unit holder democracy. We introduced a nominat-

ing committee to assist in the election of Directors representing the unit holders before it became a statutory requirement, the Chairman continues.

The Directors are important discussion partners for the development of personnel policies at SKAGEN.

- Every year we discuss the company's personnel policy and bonus schemes. Achieving the SKAGEN ambition is only possible with highly qualified people. Thus, the Directors have been in favour of investing in the development of employee qualifications and personal improvement, and the retention of these skill sets in the company. This is where bonuses come in. The bonus scheme ensures that people remain with the company, and that their competencies are utilised for the benefits of the unit holders.

Good wage and bonus arrangements also mean that the company is able to attract the best employees, and that investments in competency building result in good returns in the form of employees who stay with the company for the benefit of the unit holders.

The SKAGEN bonus system encourages an effective and creative employee community, and is key to understanding the company's outstanding success.

- The Directors are committed to ensuring that the growth we have experienced in recent years does not compromise quality and thus our existing unit holders. In this context, I think management has benefited from the Directors' broad competencies within marketing, personnel development and international expansion, Mr. Gjelsvik concludes.

#### 2003

- SKAGEN Høyrente Institusjon launched March 14th
- All our three equity funds received A rating from Standard & Poor's (S&P)
- Assets under management passed 12 billion NOK

#### 2004

- SKAGEN Global and SKAGEN Kon-Tiki upgraded to AA rating by S&P
- We become Norway's second largest equity fund manager (VFF)
- Office established in Stockholm
- Assets under management reach almost 20 billion NOK

#### 2005

- SKAGEN Global upgraded to AAA rating by S&P
- SKAGEN becomes Norway's largest equity fund manager (VFF)
- Assets under management pass 39 billion NOK
- SKAGEN Funds received approval to market its funds in Luxembourg

#### 2006

- SKAGEN Vekst upgraded to AAA rating by S&P
- SKAGEN Funds are approved for sale in the Netherlands and Finland
- SKAGEN Tellus launched September 29th
- Offices established in Tønsberg and Copenhagen
- SKAGEN is Norway's largest equity fund manager (VFF) and has the highest net subscriptions in Sweden (Swedish Investment Fund Association)
- SKAGEN wins six awards at the Lipper Awards Europe 2006
- Assets under management passed 58 billion NOK

# Long-term and passionate

SKAGEN portfolio managers are characterised by a collective individualism. This may sound like a contradiction in terms, but it is all about a strong sense of being a team and a common belief in the investment philosophy. Each portfolio manager is responsible for his/her own fund, and makes independent decisions.





In practical terms, this means that each portfolio manager uses his/her knowledge, experience and world view to make investments in companies that are under-researched, undervalued and unpopular – known as the three Us. For the SKAGEN portfolio managers, it is the companies that are important. This is where values are created, and that is why we use thorough research, strategy and tactics to select companies.

#### **Experience and thorough research**

SKAGEN believes that many equities are genuinely undervalued - that is to say the share price does not reflect the inherent values of the company. The portfolio managers hand-pick a few companies from all over the world, and focus on individual companies – not markets and sectors.

## **The average lifespan of the holdings in the SKAGEN equity fund portfolios is three to five years**

SKAGEN uses macro analyses simply to understand the companies' development, potential and framework conditions.

The fund managers require that the companies they invest in offer potential value at a low price. Simply put: SKAGEN is looking for companies where we pay 50 cents for something that is worth a dollar.

The companies in which SKAGEN invests must have an understandable and proven business model. The companies should also show willingness to create

shareholder value. The portfolio managers try to map all aspects of risk associated with their investments. We monitor the companies' debt exposure and may accept a highly leveraged situation if there is high potential for future earnings from the company. We also pay attention to geographic and industry imbalances.

The probability of being able to realise the assumed underlying values of a company is an important element when deciding whether it is a good investment. In addition to the three Us, we want to see potential catalysts ("triggers") for revaluation. For example changes in capital structure, acquisitions, change of management, mergers, demergers, changed ownership structure and changed framework conditions.

#### **Not a follower of fashion**

SKAGEN has a more long-term perspective of company investments than most other investors. The average lifespan of the holdings in the SKAGEN equity fund portfolios has been three to five years, compared to 9-12 months for the typical fund manager.

SKAGEN investment decisions are based on objectivity, research and facts. Broad investment mandates provide us with the flexibility to select genuinely undervalued companies. We do not follow fashion trends. We will not speculate by offering funds directed at individual industries or geographic areas during times when these are popular among investors because this means high risk for our clients.

The SKAGEN portfolio managers are contrarians: They go against the tide by researching and emphasising aspects that other investors either do not see or do not rate.



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### Learning from mistakes

There is risk associated with every investment. Investment outcomes may be negative if possible risks materialise, if SKAGEN makes a bad decision, or if unforeseen events occur.

The portfolio managers monitor the valuation of their companies throughout the whole investment period and continuously check their own research. This method ensures that the portfolio managers are able to pick up on mistakes when conditions change.

However, some times it is impossible to avoid mistakes. In order to learn from these, the portfolio managers go back to the starting point to discuss the assessments and assumptions that formed the basis for the original investments. In this respect it is a great strength that the collective memory and experience of the team is greater than that of each individual portfolio manager. What is important for SKAGEN is to use this hindsight to avoid making the same mistake in the future.

### Exploiting market distortions

Each individual investment has to stand on its own two feet. Since all SKAGEN funds are actively managed and not bound to any index, the managers do not have to make investments which are, for example, tied to certain regions, a given weighting or a predefined industry spread. SKAGEN's ethical norms and guidelines for the management of our unit holders' assets are integrated into how the portfolio managers sort information, analyse companies and pick shares, and how we manage values on behalf of our unit holders.

### Not like everyone else

SKAGEN assumes an active stance, and investments are made by professionals with many years of equity market experience. The portfolio managers are generalists – and one important task is therefore to draw on knowledge about companies in different industries and countries.

Our portfolio managers are all collective individualists who put objectivity and cooperation in the forefront. It may sound like a contradiction in terms, but means that all portfolio managers have a strong loyalty to the investment philosophy and the team – at the same time as each of them makes independent decisions. The SKAGEN investment philosophy has been unchanged since the company was established in 1993.

During 2006, the portfolio management department has been strengthened to become a more versatile team where everyone has different experience, background, education and skills. Common for all however is a strong shared belief in the SKAGEN investment philosophy – a long-term approach that requires patience, drive, enthusiasm and thoroughness.

The portfolio department shares a common research platform, but that does not mean that all managers act the same way. Fund managers are responsible for making independent decisions for their funds. Team stability is important and no key people have been changed.

Team diversity means that the portfolio managers receive input for new approach angles for analysing companies – enabling SKAGEN to continue to find individual companies that are under-researched, undervalued and unpopular also in the future.

## We have no plans to change our formula for success

### A common interest

Several of the portfolio managers are also owners in the company and have a large part of their personal assets invested in the

funds they manage. SKAGEN shares therefore a unique commonality of interest with its clients.

Owners and founders of SKAGEN continue to play an active role in the management company and focus on long-term performance rather than short-term profits.

### The narrow path

SKAGEN produces world-class returns, which we believe is due to the correct application of our investment philosophy. In the past few years, active value-based fund management has become more popular. However, what separates SKAGEN from many other fund managers is that we have long experience in the application of our investment philosophy, and we know that hard work in the form of proprietary thorough research provides the basis for long-term performance. It is through discipline of method that SKAGEN achieves its overall objective – to provide our clients with the highest possible risk adjusted return.

We have no plans to change our formula for success.



## PORTFOLIO MANAGERS WITH LONG AND VARIED EXPERIENCE



Investment director  
Kristoffer Stensrud

Responsible for SKAGEN Kon-Tiki



Portfolio manager  
Knut Harald Nilsson

Responsible for global research and  
daily management of portfolios



Portfolio manager  
Filip Weintraub

Responsible for SKAGEN Global



Portfolio manager  
Omid Gholamifar

Responsible for global research and  
daily management of portfolios



Portfolio manager  
Kristian Falnes

Responsible for SKAGEN Vekst



Portfolio manager  
Beate Bredesen

Responsible for global research and  
daily management of portfolios



Portfolio manager  
Ross Porter  
Responsible for SKAGEN  
Avkastning



Portfolio manager  
Torgeir Høyen  
Responsible for SKAGEN Tellus and  
SKAGEN Høyrente until 31st Dec 2006



Portfolio manager Ola Sjöstrand  
Responsible for SKAGEN Høyrente  
and SKAGEN Høyrente Institusjon  
as of 1st Jan 2007



Portfolio manager  
Fredrik Astrup  
Responsible for global research and  
daily management of portfolios

# The Art of Investment: Defeating Fear and Greed

Filip Weintraub, manager of SKAGEN Global, is interviewed by British investment specialist Peter A. Scott.

*Filip - You are 33, Swedish, American - educated, with SKAGEN funds for six years (after working as a fund manager in the U.S.), and responsible for the hugely successful SKAGEN Global Fund.*

*What gets you out of bed in the morning?*

Even in bed I often dream about stocks! I don't work as an investor, I AM an investor – for me it is a way of living, not an occupation. The intellectual challenge is what drives me – and the desire for improvement - one can always improve, always.

Every day I want to learn something new, or see the world from a different perspective. But however exciting new perceptions are, you need the discipline to apply them sparingly, cautiously; things often change seldom or slowly, and so should one's decisions. Quoting Einstein: "Make things as simple as possible, but never simpler than that..."

*By now, you have made and implemented hundreds of investment decisions. Do you still get a buzz?*

It's actually thousands. Every day, I still walk into the

office and mentally "buy" the SKAGEN Global portfolio anew. Every day, new information arrives which could affect every stock in the portfolio. Of course I still get a buzz: I am excited every time I come across an interesting investing proposition, annoyed at a bad decision or a missed opportunity.

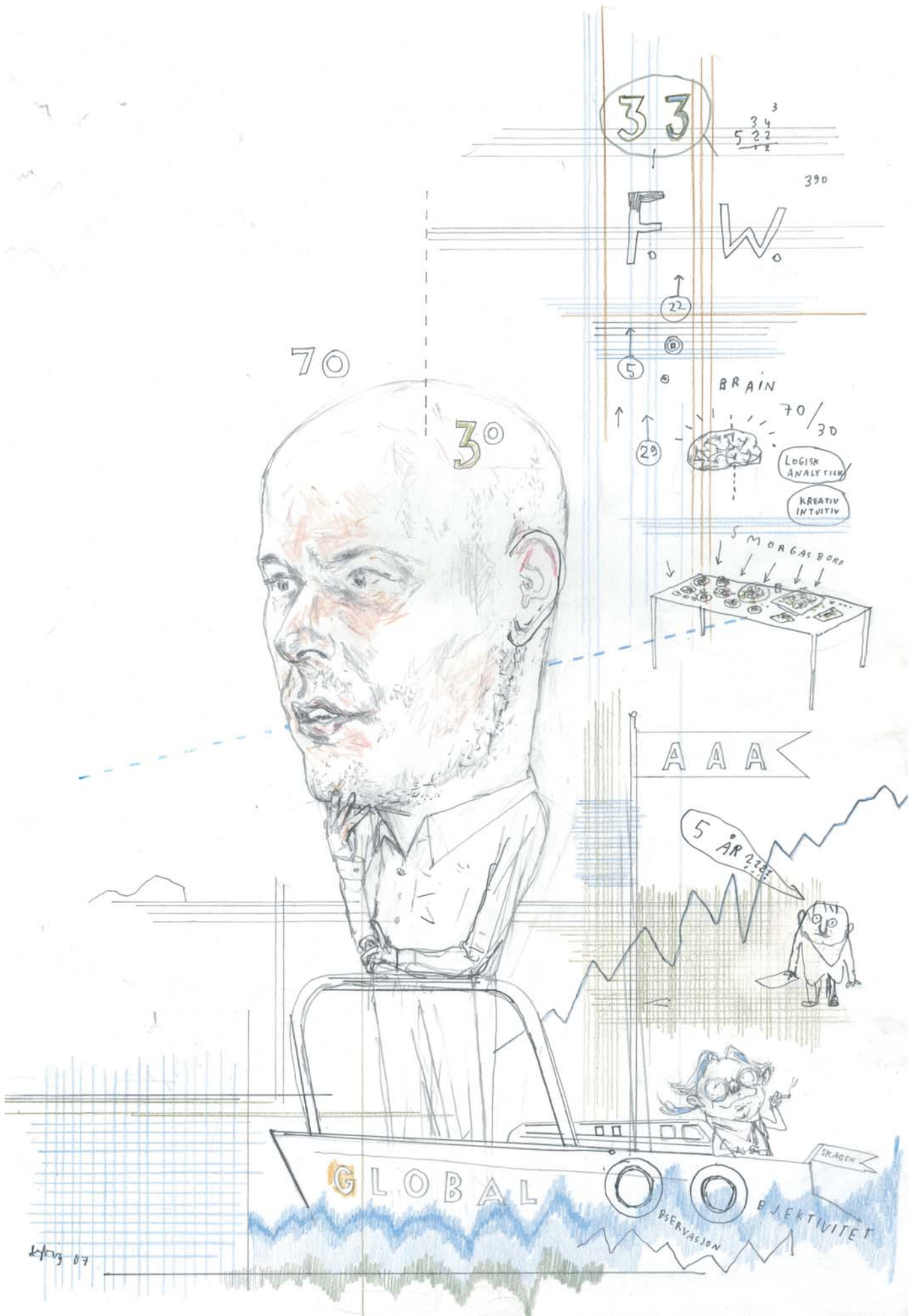
*Are you left brained or right brained (i.e. logical / analytical or creative / intuitive)? Which is more important - is investment art or science?*

I guess I am about 70 percent logical and 30 percent creative. But a successful investor needs to be "whole brained" in using one's own mental tool kit to the best effect. I suppose investment is art in the sense that "art is science with more than seven parameters" - there are usually more than seven things influencing an investment decision.

*Is being mentally tough essential? How do you handle it when things go badly wrong?*

You have to be mentally tough, or at least in control. Emotions can affect you both ways – they either make you too conservative when markets are falling or after you make a wrong decision, or too brave when things





are going perfectly. It is essential to control both greed and fear – and other traits such as pride, which is a very expensive fault in this business: try to deny reality and reality will bite you. You need very strong convictions – about yourself, about the investment process and about the right way to invest, at all times.

*Kristoffer Stensrud is the main driver of SKAGEN's investment philosophy. He is an aggressive contrarian. Is the crowd always wrong?*

Kristoffer and I are from very different backgrounds; yet we are scarily similar. This is how we found each other in this business and why we are close friends. We also both have an appreciation of sailing and self-deprecating humour!

I too am a contrarian. The crowd is not necessarily always wrong, or not wrong enough to make an opportunity, but it is a great first hypothesis to try to find if it

is true! With that assumption, you really make research life tough for yourself, but when you discover something really interesting, it can also be very rewarding.

*What sort of time horizon is appropriate for investors in SKAGEN Global - i.e. over what period are you happy to be judged?*

Any one investing in equities (and equity funds) should have at least a five year time horizon, probably longer. That is how you get the best results, in my view.

*How concentrated is your portfolio, and how concentrated is your investment effort? I.e. do you personally follow a small number of stocks really closely, or do you try to remain open to a large universe of opportunities? How do you control risk?*

I prefer to distil my investments, from the huge “smorgasbord” of the global markets to very few ideas. There

are not many great (i.e. seriously mispriced) investments in the markets at any point in time and I invest based on the individual company. When I do find an attractive opportunity, I tend to buy quite a lot of it. However, I minimize overall risk by having a portfolio diversified across industries – this also helps to drive the discipline of only buying the most attractive ones in each sector. Otherwise, it is too easy to introduce unintended macro risks into the portfolio.

*When you look at the fundamentals of a company, are you judging people or numbers?*

The language of investing is numbers and that is what I speak. People are crucial, of course, especially in less

favourable situations, but you must understand and believe the numbers. This is not a static analysis: the numbers need to be translated into real world values and put into the appropriate context.

**I can fall in love with stocks  
– but never marry them!**

*Do you play favourites? Do you fall in love with stocks? e.g., do you regret having to sell the shares of a great company because they have become overpriced?*

I can fall in love with stocks – but never marry them! The key in this business is constant Observation, and Objectivity (I call it the double-O's). Always question the conclusions by researching the key variables. The most subjective part of the analysis is yourself – you must always question your own biases and conclusions. I can be sentimental saying farewell to a great investment – but I still sell it.

*Apart from experience and education, what skills and characteristics are essential in a good investment manager?*

The key is to be ruthlessly logical, but still to be able to bend a little to see a problem from a wider perspective

– to be creative. I also believe one has to have a true intellectual interest in how business and the world works – the thirst for knowledge and curiosity are the key drivers over time in the most successful investors.

A broad interest is important – arts, philosophy, math, psychology, science and especially history. This will bring an amazing tool set and understanding of life. Many people in the investment industry live through their spreadsheets and models and know nothing of how the world works.

*Twenty years ago, investment managers were seen as dull introverts. Now top fund managers are stars. It's fun to be recognized, but is this rock 'n' roll profiling a bad influence? How do you guard against an inflated ego and all the attendant risks?*

I beg to differ, sir. We are super-nerds! Sometimes the attention can be a bad influence but again it comes down to discipline. You must always remember that you are never quite as good as it appears when you do well, and never quite as a stupid when things go poorly.

*Finally, what would you be doing if you weren't a successful fund manager?*

I have no clue what I would do if I wasn't a fund manager, and I have no plans to find out.



Filip Weintraub, manager of SKAGEN Global



# 2007

## – the year ahead

SKAGEN's equity and fixed income funds did really well in 2006. The portfolio team is positive regarding 2007, and four themes in particular seem to be relevant - globalisation, big family companies, long-term inflation, the capex cycle.

2006 was a good year for the stakeholders of SKAGEN, although the 39-59 percent performance from 2005 was difficult to replicate. Nevertheless, all equity funds performed better than their respective reference indices, and well above our goal of 20 percent annual return over longer periods of time. Investors want relative performance in good markets and absolute returns in falling markets.

Investment managers don't win literature prizes and our reports cure insomnia really quickly. But at SKAGEN we're nerdily excited about our work and want you to know more about us and our thinking, beyond the usual portfolio chat.

We will try to be more forward-looking than usual. Instead of criss-crossing thru markets, industries and

companies we will explain how our portfolio managers are looking at a few major topics of the current affairs of this world. The themes are globalisation, big family companies, long-term inflation, and the capex cycle. Re-read in 12 months' time for added entertainment value.

### **Voyages from a fishing village**

In a taxi in Beirut, a colleague detected an American accent. Had the cabbie lived in the US? Yes, in Detroit, until 1985. 1985! He had come back to Lebanon in the middle of its civil war! Why? "I'd rather be killed by people I know", said the driver.

Until recently, most investors thought this way about investing outside their home market. Some still do. But this is emotion trumping logic. There are not many 'free lunches', but one is spreading your bets globally, which provides a mix of lower risks and/or higher returns.

Some competitors describe us as hicks in a remote fishing village. Stavanger certainly has less of the noise and few of the attributes of a global financial centre, including lower consumption of Cristal champagne. But we've always had an international perspective. Our ancestors voyaged far and wide to establish foreign relations (conducted a little too robustly at times, according to the victims). We've had telephones since the early 1990s, plus the best ticker-tape machines money can buy.

Since our first equity fund, SKAGEN Vekst in 1993, followed by fixed income fund SKAGEN Avkastning in 1994, all of our funds have had global mandates.



We established SKAGEN Global in 1997, originally to play Euroland convergence, and SKAGEN Kon-Tiki in 2002, to focus mainly on (global) emerging markets. SKAGEN Tellus opened in September 2006 to capture mispricing and convergence in global bond markets.

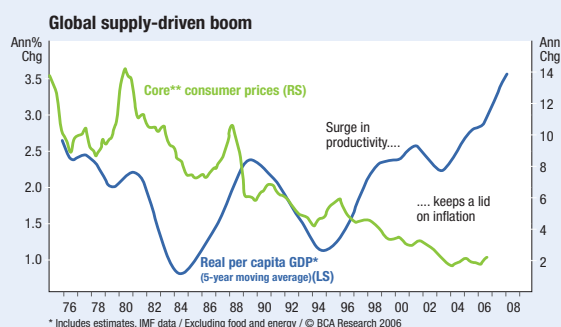
What we do, in fact, is apply fishing village brainpower to the discovery of mispricing and anomalies, of which globally there remain enough to keep us very busy; we now employ immigrants from Oslo to mend the nets. These 'special situations', in investment jargon, include different valuations of similar companies in different

countries and anomalous valuations by size or ownership – see our Family Owned Conglomerates theme on page 24.

Globalisation is the driver behind convergence. Our mantra, Unpopular/Under-researched/Undervalued, continues therefore to guide us to exceptional returns for unit holders.

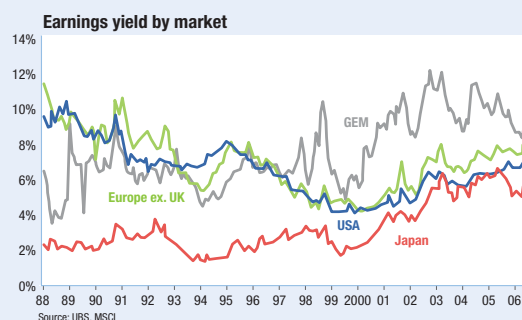
By the way, the ticker-tape machines are now in the basement. They were too noisy and distracting.

#### GLOBAL GROWTH WITHOUT COMPARE; RISING PRODUCTIVITY MEANS LOW INFLATION



As opposed to previous periods of expansion, this time we have had strong growth and falling inflation. Productivity growth resulting from globalisation has led to reduced price growth.

#### VALUATION OF EQUITIES BY GEOGRAPHY HAS CONVERGED STRONGLY DURING THE PAST FIVE YEARS



Earnings multiples between regions have converged, which makes it even more important to focus on undervalued companies, and not regions, in order to achieve excess returns.



# Globalisation: you ain't seen nothing yet.

Globalisation: last year's story. Failure of world trade talks.

Back to unsackable idlers and "Made in Norway" labels?



No chance. Globalisation remains the story of the century. Armed with the weaponry of the information revolution, the consumer is king of the world, demanding (and receiving) better, cheaper, goods and services. Where from? No-one cares. Romania already makes the cheapest car in Europe. New WTO member Vietnam produces the cheapest of everything (so far, shoes, coffee, shrimps and software, but just wait).

Migration of manufacturing to the east (and the south): much more to come, plus accelerating trade and industrial migration within the developing world. Services, the largest bit of the global economy, are hardly traded – but watch this space: trade in services is going to be huge.

In business, continuous re-orientation has become the norm and adaptability the vital survival skill. Schumpeterian creative destruction (qua the dotcom boom/bust) rules, bringing huge benefits in its wake.

The weakening of monolithic monopolies and better enforcement of laws favouring competition drove benefits from previous trade openings. But the genie is out of the bottle: with or without formal trade liberalisation measures, competitive pressures will leak into the last bastions of protectionism – agriculture, “the professions”, excessive intellectual property rights, jobs-for-life. This erosion of fat cat vested interests will release even greater globalisation benefits than those experienced to date.

### Has this bubbling cauldron of change made the world more dangerous?

Except to the idlers, absolutely not. Together with faster global growth, inflation has been low and stable. Increased supply from the emerging giants pushed prices down, suppressed wage inflation and forced productivity growth higher in the developed world. Bottlenecks arose in the commodity markets, but the supply side defeated the inflationary impetus (see our inflation theme).

Even fearful, job-hoarding Europeans have piggy-backed successfully on the globalisation which they resisted – and will do even better in 2007.

During the time we have owned Korean electronics manufacturer Samsung Electronics, it has gone from near-obscurity to being a major global company, with a world-class brand name, and becoming the lowest-cost operator in the IT supply chain.

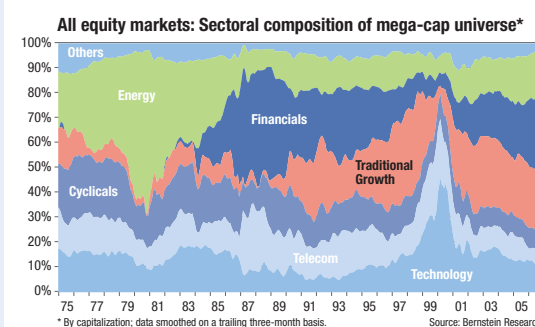
Indian telecom company Bharti Airtel applied marketing lessons acquired in other countries, achieving instant market leadership and super profitability just

three years after liberalisation of the vast, slumbering Indian telecoms market.

Rig company Seadrill started on May 16th 2005 with three old jackup oil rigs plus a deep understanding of how to straddle hypercyclical markets and financial market psychology. Tomorrow it could be the global leader of the deepwater rig market, combining good organisation and brand new equipment in a sector which has underinvested for 20 years.

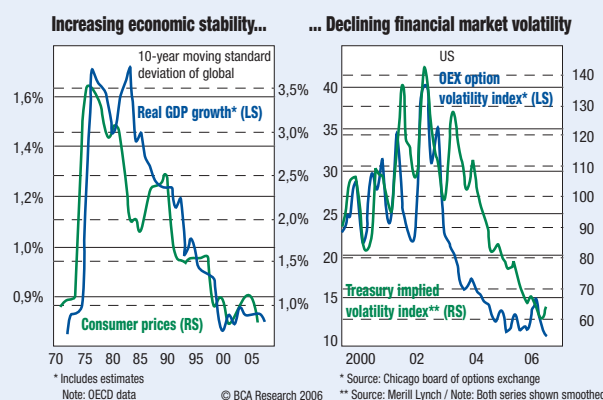
Globalisation is mostly good. We like it, although we need to research companies even better – and really, really, understand their dynamics and those of their environment. One big advantage: we now have the ability to apply knowledge learnt in one market or industry to identifying winners (we hope!) in another. *Viva la revolucion!*

#### GOOD SECTOR BALANCE INDICATES CONTINUED LOW DEGREE OF SPECULATION



With a good sector balance, there are still few signs of speculative bubbles. Such bubbles, such as hi-tech in 2000, have often been warnings of strong declines in share prices.

#### INCREASING ECONOMIC STABILITY RESULTS IN LOWER VOLATILITY, WHICH SHOULD NOT INDICATE HIGHER RISK PREMIUMS



A strong drop in the rate of change in economic growth and inflation has resulted in greater economic stability. This has rubbed off on the financial markets through lower volatility in both equity and fixed income markets. Lower volatility is synonymous with lower risk, which should indicate higher valuations through lower risk premiums.



# Inflation: as expected

Low, stable inflation will continue in 2007.

What makes us so certain?

Price stability used to be elusive – remember the 1970s? But in the 80s, the central banks assumed responsibility for inflation and in the early 90s they began managing monetary policy directly according to inflation targets, with a norm that is now around two percent.

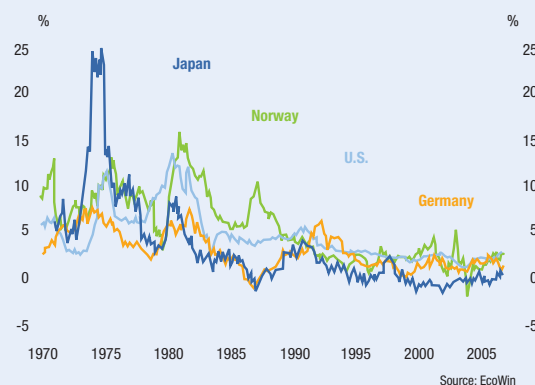
Inflation targeting worked. Inflation is low and stable, and the markets have confidence that the central banks will increase the short rates aggressively enough to rein in any indications of increasing inflation rates. The job has been made easier by the disinflation power of globalisation. This has been profitable for bond investors. The inflation premium for unexpected inflation has been strongly reduced due to lower inflation expectations, the inflation premium inherent in the long interest rates, and the confidence that the central banks will set the short interest rates where they ought to be to keep inflation in check. The result: long bond investors no longer care much about the ups and downs of short-term interest rates. Now, the strategy of a bond manager is about the relationship between savings and investments – not about inflation, and whether bonds are correctly priced in different national markets.

But what about the growth of the money supply? High growth in the money supply used to be a cause of high inflation. With inflation targeting, money supply growth predicts real economic activity (see graph), not inflation. The money supply is passively adjusted to the demand for money in light of the inflation expectations. For example, the high growth of the money supply in the Euro zone reflects the robust growth of the real economy. This is not a sign of a strong increase in inflation.

Currently, Eurozone inflation is 1.9 percent, but a hike of indirect taxes will probably result in a rise in the short rate towards four percent.

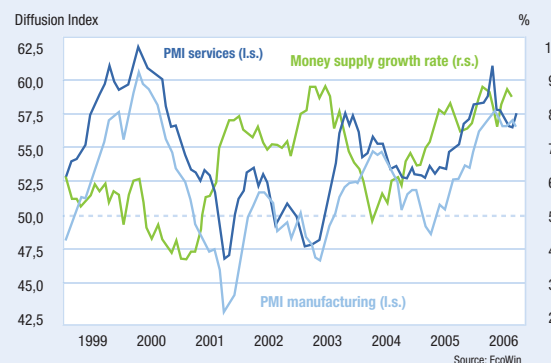
US core inflation, having tilted upwards to about 2.5 percent, is already showing signs of waning, so a Fed rate of 5.25 percent may very well be the peak. The market anticipates a reduction to 4.75 percent at the end of the year. UK inflation is a little above the Bank of England inflation target. Japan, which has not adopted inflation targeting, has recently seen positive inflation after a long period of falling prices, and the Bank of Japan will probably increase its policy rate gradually from 0.25 percent to up to one percent by year-end.

## LOW AND STABLE INFLATION



Inflation was high and very volatile during the 70s and 80s. The past ten years have been characterised by low and stable inflation.

## MONEY SUPPLY AND THE REAL ECONOMY



With low inflation, the growth of the money supply has become an indicator of real economic activity. Here measured by the PMI Index.



# Family Owned Conglomerates: treasure in the attic

Unsexy, dull, slow-moving, clumsy, old-fashioned. Stockbrokers ignore them - they fit into no neat sector boxes. They can be complex, opaque and difficult to analyse. Information deficits are typical; family secrets are not for outsiders. Discounts to underlying valuations also reflect lack of transparency and perceived weakness in corporate governance, including nepotism, low accountability, potential abuse of minorities, excessive major shareholder control and/or limited liquidity. Family owned conglomerates (FOC's). Don't you hate them?

No! We love them. Remember our mantra: Unpopular, Under-researched, Undervalued. Many FOC's are all three.

We commissioned a study of 70 German companies over 16 years. It showed that the shares of family-controlled companies returned 19.9 percent per annum versus 13.6 percent for those with widely spread shareholdings. One reason: families often focus on long-term value creation and make more contrarian purchases – both of which are, of course, SKAGEN themes.

So is unlocking undervaluation, a major driver for abrasive young investment bankers and private equiteers; in the long run, few FOC's will be safe from their firepower.

Want \$1 for 30 cents? We recently bought into South Korean LG Corp. It's main listed assets are undervalued, but the holding company trades at a 45 percent discount even to these. Apply fair values, including its stake in LG Electronics (which we also own) and the discount becomes 55 percent. The unlocking of value has started, with replacement of family management

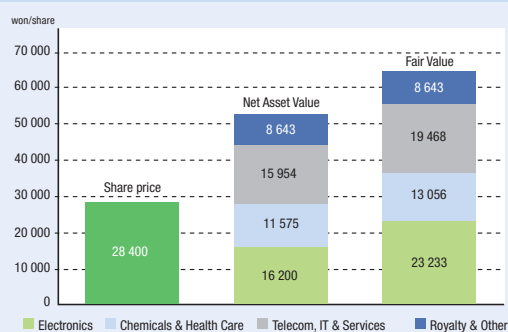
and increased dividends. Share buy-backs and realisation of values in subsidiaries via M&A and IPO's are pending triggers.

We are big fans of Anadolu Efes, which brews beer in thirsty Russia and Eastern Europe. It has strong growth and value appreciation potential. Yazicilar Holding, a listed FOC, owns 36 percent of Anadolu Efes; the stake is, extraordinarily, worth 20 percent more than its own market capitalisation. For less than nothing, you also get in Yazicilar some partly listed auto operations plus 59 percent of Alternatifbank; in total, a dollar of assets for less than 50 cents. We own seven percent of the company.

Although conglomerates often fit SKAGEN's '3U' philosophy (under-researched, undervalued and unpopular), they need catalysts to close the discounts to intrinsic values. A good example is American Tyco International, in which we recently invested. Tyco's board plans to enhance shareholder value by splitting the group into three separately listed companies in the near future. Strong cash flows may then attract bids from private equity players for one (or more) of these.

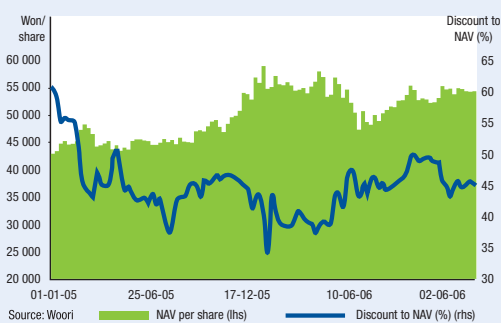


#### GREAT DISCOUNT ON UNDERLYING VALUES IN LG CORP



When you invest in LG Corp, you only pay for the values associated with its interests in electronics and chemicals/health care. The rest of the activities, which represent 45 percent of total values, are just thrown into the bargain.

#### VALUE-ADJUSTED EQUITY PER SHARE AND DISCOUNT FOR LG CORP SINCE STOCK MARKET LISTING IN 2005



Value-adjusted equity per share has risen by 26 percent in two years (green bars, values on left axis). The discount relative to value-adjusted equity has varied from 34-61 percent and is now at 45 percent (blue line, values on right axis). With positive changes in corporate governance, we believe this discount will be reduced.



# This time, capex won't kill the bull

What kills bull markets? Usually, rising capital spending (capex). Financial bull markets are fuelled by a surplus of savings over investment: in their early stages, consumer and business confidence is still low, savings are high and money easy.

As confidence rises, consumers spend more and, with a lag, businesses raise their capex. Total demand then surges and competition for capital raises credit demand. The economies overheat, inflation expectations soar and central banks end the party by pushing interest rates sky high, at a time when corporate earnings expectations are being shattered. In the past, the US consumer often led the charge, using some of the surplus liquidity but also generating worrying global imbalances.

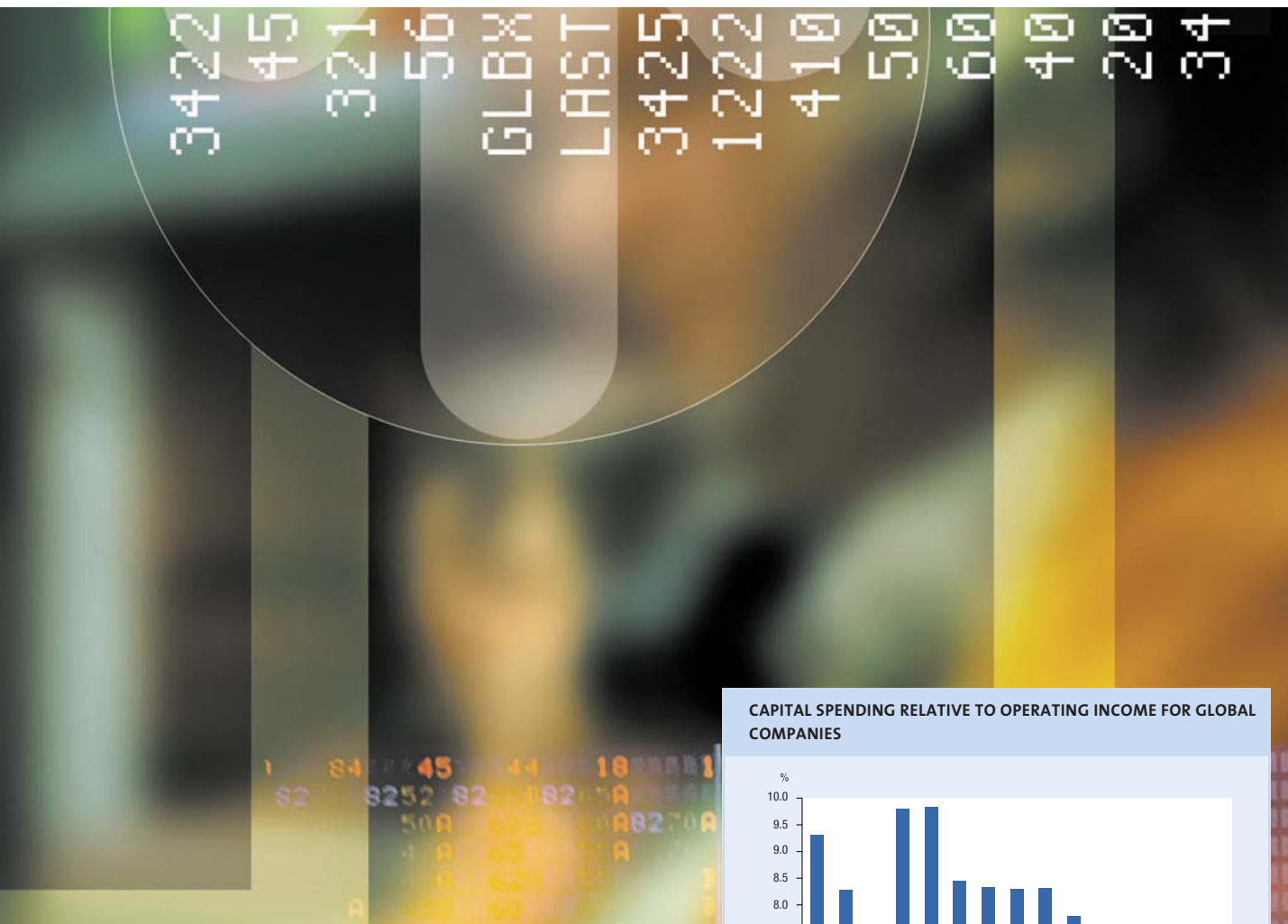
We now expect a sustained strong upturn in the capital goods cycle.

**We now expect a  
sustained strong upturn  
in the capital goods  
cycle.**

Are we scared? A little. Almost everywhere, returns on capital are extraordinarily high and real costs of borrowing modest. Capital spending (of which technology is now a big part) fell below replacement levels in the wake of the IT boom/bust seven years ago. Commodity suppliers have underinvested for decades. The prevailing ethos is worship of cash flow. So capital spending has been suppressed and is bouncing back. The bounce could be spectacular.

Will surging capex overheat the world? The 2006 commodities bubble was a flashing amber light, but was driven by hedge funds more than end users.



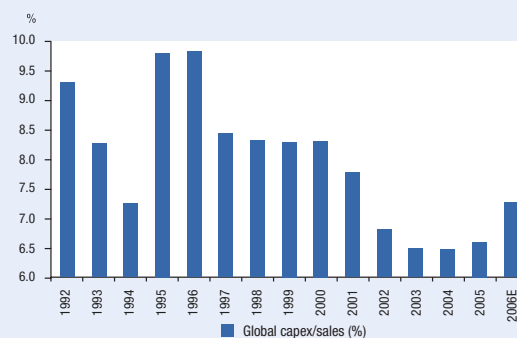


More significant, its general inflationary impetus was modest and the bubble has now deflated.

As important is the efficiency of today's capex and its accompanying economy-wide productivity gains, particularly evident in the emerging economies where industrial capex is now concentrated. Emerging market capex rose at an early stage of this cycle, underpinning robust world economic growth. Plus, of course, there are continuing gains from labour deregulation which has increased both productivity and returns on capital in the developed countries. For once, the supply side has defeated inflation.

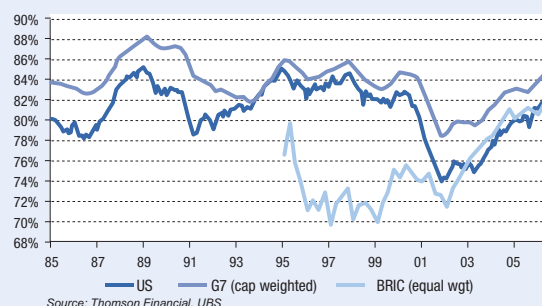
The bottom line: the bull is alive and surprisingly virile for a mature beast. Despite the tightening of monetary policy worldwide in 2006, global liquidity remains at high levels. Some further credit constriction will happen in 2007 but - see our inflation theme - overkill looks unlikely. The unemployment lines are full of those who said "This time, it's different", but, for the first time in decades, rising capex and a healthy stock market should co-exist and bring rewards to investors.

#### CAPITAL SPENDING RELATIVE TO OPERATING INCOME FOR GLOBAL COMPANIES



Listed global companies have invested significantly less relative to operating income during the past five years, compared to the 1992-2001 period. The level has risen somewhat during the past two years.

#### INDUSTRIAL CAPACITY UTILISATION IN THE U.S., THE G-7 COUNTRIES AND MAJOR EMERGING MARKETS (BRIC)



As a result of good economic growth and "underinvestment" by the corporate sector, global capacity utilisation has risen during the past four years. However, in the U.S. and the G7 countries, capacity utilisation is still somewhat below the previous peak from the end of the 1980s.

# Portfolio managers' report

## SKAGEN Vekst



SKAGEN Vekst invests 50 percent in Norwegian equities and the rest globally, with a more balanced industry exposure than a typical Norwegian fund. The global part of the portfolio is either in genres of companies not accessible in Norway or lower valued / higher quality shares than comparators listed in Oslo.

### Beating the world

In 2006, SKAGEN Vekst achieved a return to unit holders of 32.5 percent, a nose ahead of the Oslo Stock Exchange Benchmark Index (OSEBX) gain of 32.4 percent. The Norwegian part of the portfolio (54 percent of assets) did 3.5 percent better than OSEBX; the global part outperformed the MSCI World Index, adjusted for dividends and measured in Norwegian Kroner, by 28.2 percent.

The Norwegian equity market was again hard to beat. As in 2005, though, the global portfolio in SKAGEN Vekst outperformed the Norwegian part. How? By our policy of gaining exposure to oil, oil services, shipping and fish farming, (i.e., typical “Norwegian” industries) via cheaper shares listed on other stock markets. These industries had good frame conditions and high profitability which also contributed to outperformance by the global part of SKAGEN Vekst.

### Safer than home

Risk, measured by standard deviation, was again lower than that of the OSEBX – 11.8 percent compared with 17.4 percent. Again, therefore, SKAGEN Vekst met its objective of generating a higher risk adjusted return than OSEBX.

The portfolio remained well diversified with stable industry weightings. Oil and energy, for instance, remained at 30 percent of the fund, about half that of the Oslo market.

Telecoms, up 60 percent, were our top performer, reflecting a strong run by Telkom Indonesia. Energy, the largest sector, was up nearly 50 percent, beating not only the Oslo Energy Index (which managed +32 percent) but most international oil and oil service indices.

The bad news: Information Technology, which lost

us one percent. One of our largest holdings, Samsung Electronics, depreciated despite better earnings than the year before.

### Power to please

Big news in Norway: the proposed merger between Statoil and Norsk Hydro. We have always preferred Norsk Hydro because of the conglomerate discount. We argued that the value of Statoil's oil & gas activities was twice that of Norsk Hydro's when considering the companies relative reserves base and production: the merger proposal reflects this closely. On the announcement, Norsk Hydro gained more than 20 percent while Statoil fell slightly. During 2006 Norsk Hydro was up 40 percent whereas Statoil rose 11 percent. Norsk Hydro was our largest holding in SKAGEN Vekst in 2006 and contributed with a return of NOK 173 million. This made the company the second best contributor to the fund in absolute terms. Despite this, there still is a good conglomerate discount in Norsk Hydro. If its aluminium activities were valued at market, there would be significant upside in the Norsk Hydro valuation.

Other good energy sector contributors were French seismic company C G G Geophysique (a gain of NOK 139 million) and the Fred Olsen controlled twin companies Ganger Rolf and Bonheur (NOK 106 million and NOK 156 million). The twins were highlighted in our 2005 annual report as deep discounted value creators. During 2006 the discount to net asset value narrowed from 50 to 40 percent, which should indicate further price increase possibilities. There is still potential for share price gains on the back of further value creation in both the Fred Olsen Energy subsidiary and other energy-related activities.

### Changing the oil

Other new energy bets in 2006 were Nabors Industries (the largest land driller in the world) and the US seismic company Veritas DGC. The latter was acquired by CGG Geophysique in the autumn giving us a gain of more than 50 percent. During the year we doubled our holding in US rig contractor Pride International and Norwegian oil company Revus Energy. Because of what we judge to be stretched valuations, we cut our holdings significantly in CGG Geophysique and the Norwegian rig contractor Seadrill. We also reduced our exposure to pure oil & gas by selling Anadarko Petroleum (which made value-destructive acquisitions of competitors Kerr

McGee and Western Gas Resources.)

Since US rig companies are much cheaper than their Norwegian counterparts, we hold Pride International, Transocean and Nabors Industries. Acquisition of new oil reserves is at an early phase; current strong demand for oil services will continue for at least a couple of years. We still like supply vessel companies - Solstad Offshore,

Dof, Farstad Shipping and Eidesvik Offshore - due to low valuations plus continued strong demand for supply services. Many new supply vessels are on order, but there will still be a tight market, especially for sophisticated anchor handlers and construction vessels.

## The big news in Norway was the proposed merger between Statoil and Norsk Hydro

### Metal stars

Swedish copper and zinc company Boliden was our star in basic industries and largest contributor to value creation in SKAGEN Vekst, with an uplift of NOK 199 million. The share price appreciated close to 200 percent; during the period we halved our holding. We also took huge profits in the German steel company Salzgitter which sold its stake in French tube maker Vallourec, thus releasing one of the valuation triggers we had previously identified and mentioned in last year's annual report. Other good contributors were Korea Zinc and Norwegian fertilizer company Yara. We bought into Finnish stainless steel company Outokumpu and US mining company Apex Silver Mines.

The development of China and other emerging economies will continue to drive most commodity markets. Despite the weakness in prices at the turn of the year, long lead times for developing new capacity will keep markets tight and profit margins high within many commodities.

### Flying high

We took profits in shipping, selling Hyundai Merchant Marine, Brostrøm and Navigazione Montanari and significantly reducing Hanjin Shipping and Transatlantic. There will be big additions to the tanker fleet in coming years (30+ percent) and demand will not catch up with supply; tanker rates will come under pressure. Air France KLM was a new portfolio acquisition in the spring of 2006; both the company and share price have surpassed our expectations.

Towards the end of the year we bought into LG Corp (see Family Owned Companies theme and SKAGEN



Global). We also added the leading global supplier of equipment to the fish farming industry, Norwegian company Akva Group. Swedish industrial conglomerate Trelleborg was also included: it suffered from high rubber prices and low margins in its automotive division during 2006, but trends are about to reverse. German industrial conglomerate Siemens (see SKAGEN Global) was also added. Like Trelleborg, the value of the sum of the company's divisions is far north of the share price.

In the consumer discretionary sector, electronics retailers DSG International (owner of Elkjøp) and Expert performed well. We bought into LG Electronics after the price had fallen considerably due to, hopefully, low profit margins within the mobile telephony division. We believe that the current low valuation, especially for preferential shares which are priced considerably lower than book value, represent a good buy opportunity. Together with most other minority shareholders in Rica Hotels, we sold our shares to a competitor for a significant premium.

### Fish is good for you

Fish farming: we were right to be bullish; 2006 was the best year since 2000. Salmon prices rose in the first half of the year, came under pressure in the autumn but remained at very profitable levels. Our picks did particularly well. Unfortunately Nutreco sold Marine Harvest to Pan Fish instead of exiting via an IPO. We took part by investing in Pan Fish. After the transaction we got a revaluation of Nutreco and cut our holding significantly. We also participated in the IPO of Marine Farms by adding to our previous holding. Demand for salmon and other farmed species will continue to rise

for the foreseeable future. At some stage oversupply of salmon will probably put pressure on profit industry margins, but so far there are no signs of an overinvestment situation like we saw in the previous upswing in 2000.

### Going bananas

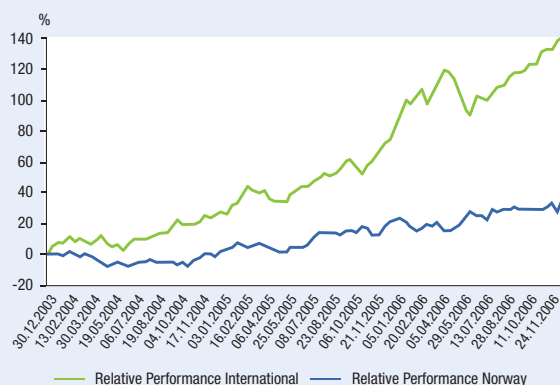
We went bananas via the world's second largest banana producer/distributor, Chiquita Brands. The company owns Fresh Express, the largest US distributor of fresh salad. After higher banana tariffs in Europe, tropical storms in Latin America, and E-Coli in spinach, earnings expectations are low. The current single digit price/earnings ratio, plus continued growth in Fresh Express, are compelling.

In pharmaceuticals, US Pfizer is still the largest holding. In spite of disappointing pipeline development, the share price had double digit performance; the current low valuation, 12 times free cash flow, should be supportive. Several minor pharma investments performed well and contributed to an 18 percent return for the sector. Alk-Abello was sold due to high valuation. No major additions were made in the sector last year.

### Banking on brokers

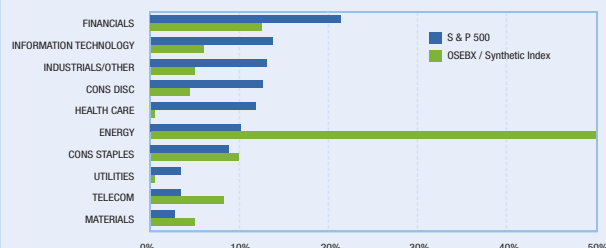
The financial sector did well for us with an appreciation of 40 percent. The highest contribution: from Olav Thon, at NOK 69 million following 80 percent share price appreciation. The Finnish stockbroker and asset manager, FIM Group, was new during the year while the insurance company NEMI was sold after an acceptable bid from the Icelandic insurance company Tryggingamiostodin. We also doubled our bet on Norgani Hotels, one of the largest hotel property hold-

SKAGEN VEKST – RELATIVE PERFORMANCE NORWAY/  
INTERNATIONAL PAST THREE YEARS



Relative to the relevant benchmarks, the global part of SKAGEN Vekst has performed stronger than the Norwegian part. Among other things, this is because the fund has deliberately chosen to invest its global assets in typical "Norwegian" industries, such as oil, oil service, shipping and fish.

BIG ENERGY SECTOR AT THE OSLO STOCK EXCHANGE MEANS  
SKEWED INDUSTRY BALANCE (SOURCE: FIRST SECURITIES)



A big energy sector results in a distorted industry balance on the Oslo Stock Exchange, compared to broader global equity indices. SKAGEN Vekst has a better industry balance than both the Oslo Stock Exchange and what is normally found in pure Norwegian equity funds.

ers in the Nordic area, and added to Aareal Bank, an undervalued German real estate bank.

As noted above, information technology disappointed. The main contributors to the negative returns were Samsung Electronics, Global IP Sound and the merged Eltek/Nera, the latter acquired via the Nera merger with Eltek. On the positive side, Tandberg Television, Kyocera and Teleste made good contributions. The search engine company Fast Search and Transfer was added: the company has a strong balance sheet and continues to grow fast, but its valuation collapsed due to corporate governance and accounting issues. The company went from Oslo Stock Exchange's most loved to most hated by many analysts. We choose to see this as a buying opportunity so long as the company's products are strong, and continue to show great growth prospects.

### Telephone exchange

In telecommunications we took some profits in Telkom Indonesia after a big gain and reinvested part into Indosat which has lagged its rival. We participated in two emissions of the unlisted Nordisk Mobiltelefon, which we expect to become a major wireless network and service provider based on CDMA technology.

In utilities, the Brazilian power giant Eletrobras is still our sole significant holding. We still like its low fundamental valuation: price compared to equity is 1/3, the price/earnings ratio is single digit and the dividend yield six percent. With prospects of higher energy prices in Brazil due to deregulation, we believe that the company represents good value for money and a good investment for our unit holders in SKAGEN Vekst.

#### EXPECTING HIGH ACQUISITION ACTIVITY IN EUROPE (SOURCE: FIRST SECURITIES)

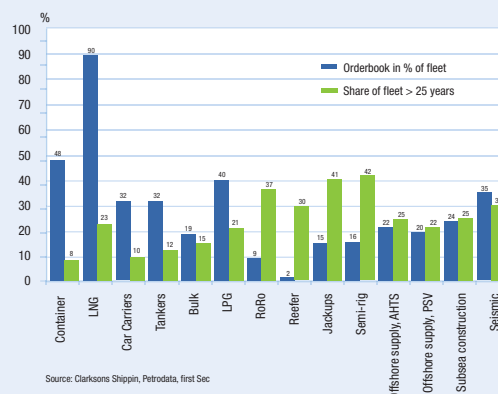


Relative to earnings, European companies carry low valuations compared to the levels prevalent during the past 13 years. If you consider valuations in relation to bond yields, they have never been lower than now.

### Prospects of good investment results in 2007

M&A activity was one of the big themes in 2006. As long as we have low interest rates and low corporate valuations, this will continue. We expect a continued good economic situation globally. Combined with low company valuations, good investment results in 2007 should be possible. Many of our holdings are potential takeover targets for either industrial players or financial vultures such as private equity companies and investment funds. Low company valuations, with good fundamental value creation for shareholders, should always be considered as attractive investments.

#### BIG SPENDING ON NEW CAPACITY. WHEN WILL THEY BUILD TOO MUCH? (SOURCE: FIRST SECURITIES)



In many of the typically "Norwegian" industries, high profit margins have resulted in big investments in new capacity. An important issue going forward will be whether overinvestment again will result in reduced profit margins.

# SKAGEN Global



## Solid returns

“Dog” is stockbroking abuse for an underperforming share, a company which has screwed up and disappointed. A dog can quickly become a pariah, which brokers cease to recommend and fund managers become embarrassed about owning. The power of social psychology is such that the label then blinds the market to improving fundamentals until these are highly visible.

### Canine capers

Last year was also the Chinese year of the dog, generally propitious for investment. This was a happy conjunction for SKAGEN Global: we made lots of money from ex-canines. Mining company Boliden, Air France-KLM, consumer products company SCA, supermarket chain Sainsbury, animal feed producer Nutreco and car producer Volkswagen, were all former pariahs which become our star performers. We bought them at low prices before they officially become ‘recovery stocks’ (more broking jargon, for a former ‘dog’ which brokers are now brave enough to tip). Perennial good performers included Bank Austria, Telkom Indonesia and Brazilian Petrobras.

Inevitably, we had a few four-legged friends of our own: building goods manufacturer Louisiana-Pacific, struggling from a deteriorating wood product market; Pride International, with some cost overruns; Samsung Electronics with a mixed year in mobile handsets; Stolt-Nielsen suffered from an unsettled legal settlement. Car producer Ssangyong Motors looks like an investment mistake – the new Chinese owners clearly have bad feng shui.

### GLOBAL RETURN ON EQUITY

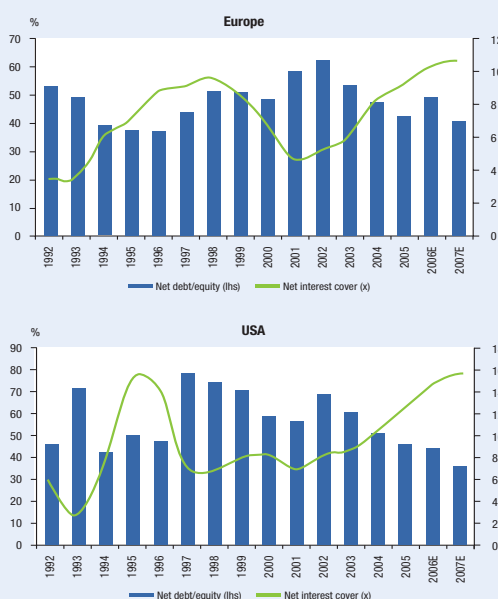


Global return on equity is now at a historically high level. In spite of this development, the price of equity capital has not risen, based on the price/book ratio. This means there are good opportunities for revaluations.

### Buying big

Turnover remained at miserly 20 percent; it is not our job to make brokers rich. However, we said goodbye to many great winners as they approached full valuation, and reinvigorated the portfolio with new positions (i.e., stocked up on - hopefully ex - dogs). Each investment is picked on its own merits, but we now have more in larger companies. Valuations globally have become “compressed” during the last five years, as previously cheap smaller company shares were substantially revalued, while many large, world-class companies were devalued. The same has happened geographically. The fact that we are finding value in many different markets and sectors is reflected in the current broad composition of the portfolio.

### LITTLE LEVERAGE IN BOTH EUROPEAN AND U.S. COMPANIES



Falling gearing levels relative to company capitalisation, as well as lower interest payments, indicate low equity risk for European companies.



## Moving to the city

New positions include large German industrial conglomerate Siemens, an infrastructure developer which is a leader in automation, energy, transport systems and medical technology. Siemens is a play on the growth of mega cities: by 2008, for the first time in human history, more people will live in urban than rural areas. This is reflected in the company's growing order book. However, profitability is low, so new management has been aggressively restructuring. For example, the network equipment division is to be merged into a joint venture with Nokia on favourable terms. The corporate structure will improve dramatically and Siemens is cheap in both absolute and relative terms.

## Fire three

American-based Tyco International is in fire & security, electronics, healthcare and engineered products. The company grew through acquisitions of smaller but leading businesses with stable margins, and return on invested capital should be around 20 percent. The company has been on the recovery path since 2002, since when the balance sheet has improved noticeably; one third of debt has been repaid and equity has grown by 50 percent. The company will split into three separate units in 2007; we expect the parts to be worth considerably more, and have more potential, than the current whole. Even before losing the conglomerate discount, the shares are cheap.

## Turkish delight

You don't need to be Muslim to make money out of Islamic finance. Bank Asya is the largest Turkish bank operating according to the prohibition against charging interest. The lender participates in the return on investment of the borrower, with regular dividends and a natural exit. An advantage to the bank is the network effect based on being close to your customer, and your customer's

customer, which generates growth and improves risk management. Bank Asya is an intermediary making a return on assets of over four percent and on equity of 30 percent. Growth is conservatively financed from retained earnings. We bought into the bank on under two times book value.

## Talk is cheap

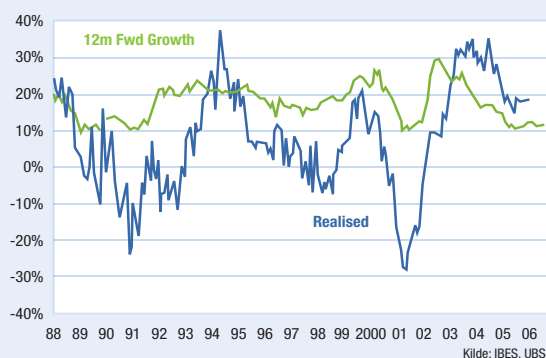
Singapore Telecommunication (SingTel) is the incumbent telecom operator in Singapore and a leading provider in Australia (Optus). Stable cash flow enables the company to pay a dividend of 4.5 percent, while building significant positions - often bought at low prices - in some of Asia's leading telecom operators. Stakes include Indian Bharti Airtel, Indonesian Telkomsel, Thai AIS, and Globe in the Philippines. These will drive Singtel's subscriber and earnings growth, but are as yet underappreciated in the company's valuation. Current merger activity among Asian telecoms should highlight the value of these positions.

## Lucky break

LG Corp is the holding company of the LG chaebol in South Korea. (Chaebol is a Korean expression for a conglomerate of many companies gathered round a holding company). The holdings include LG Electronics, LG Chemical, LG Telecom, and LG Household & Healthcare, plus meaningful value in private companies and real estate. The company also receives licensing fees from its subsidiaries. The valuation is just over once book and the P/E is below 9. (See our Family Owned Conglomerates theme). The group has started to report in English and seems keen to distance itself from previously murky corporate governance. The ambition level has clearly increased; if Samsung Electronics is a rough guide to possible revaluation from improvement in corporate governance alone, the potential in LG Corp is big.

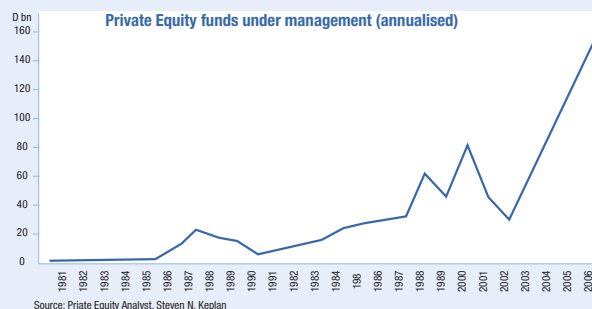
SKAGEN Global returned 24.1 percent in 2006, more than twice the 10.8 percent return on the MSCI World Index in 2006.

COMPANIES HAVE EXCEEDED ANALYSTS' EXPECTATIONS SINCE 2002-2003



Since 2003, analysts' expectations for corporate earnings have persistently lagged behind actual earnings. Was it only the conservative analysts that survived the 2000-2002 bear market?

TOTAL ASSETS IN EQUITY FUNDS



During the past three years, the total assets in private equity funds have exploded. The money is used to acquire listed companies.

## SKAGEN Kon-Tiki



# Still strong in emerging markets

Why emerging markets? Recent economic expansion of developing countries – especially (but not just) China – is without parallel in history. They represent over 80 percent of world population, half the world economy and two-thirds of global growth. Emerging corporate giants are huge, successful and increasingly engaged in ‘reverse colonisation’, using fat cash flows to vacuum up Western household names. Almost every major blue chip company – wherever domiciled – now derives a large percentage of its growth from the developing world.

Investment returns, though, have not kept up: since we launched SKAGEN Vekst (in late ‘93) the world index has returned 7.3 percent p.a., emerging markets only 4.5 percent. True, the last five years have been spectacular, but this only erased the damage done by previous crises: December 2006 all-time highs in the global emerging market indices took them just above the peak prior to the Asia crises of July 1997. A lot of positive things have happened in the companies and macro environment over the last ten years, which are not yet reflected in today’s prices.

### Fickle foreigners...

Traditionally it is the ebb and flow of global portfolio managers (and their risk appetite) which determines the large but fickle investment flows into emerging markets. After starting 2006 strongly, in June US\$20 billion was pulled out and emerging markets plunged by an average 26 percent, (although they then more than fully recovered by year-end, fuelled mainly by domestic buying.) Occasional mistakes - Thailand’s currency fiasco, and Venezuela’s Hugo Chavez’ promise to replicate the achievements of his hero, Fidel Castro - are

misconstrued as potential sources of contagion rather than isolated one-offs.

### ...make way for locals

All this is good news: it guarantees that there are still attractive, undervalued opportunities in emerging markets. The development of better channels for domestic savings means that high savings levels are increasingly available to finance domestic growth: who needs fickle foreigners? Hardly winners from globalisation? Discounts will be arbitrated away as ambitious locals and hungry global value seekers globalise the capital markets as well. Superior growth rates and high returns on capital will eventually command premium ratings – and the journey from here to there will produce years of good returns.

2006 was a reasonably good year for SKAGEN Kon-Tiki, the 22.8 percent return marginally beating both our long-term goal of 20 percent p.a. and our benchmark, the MSCI EM traded Net index which returned 22 percent measured in NOK.

### Gaining energy

In energy, good returns from Seadrill and China Oilfield Services (COSL) offset a poor performance from Pride International and National Oilwell Varco. The US oil service companies followed the North American gas and oil price down and disregarded the strong momentum in international E&P activity, especially ambitious plans by National Oil Companies (NOC's) to increase reserves and build capacity. We increased the energy content in the portfolio to over 20 percent during the year, but reduced our exposure to companies directly exposed to oil price and political risk.

### Spades in the Klondike

The world energy infrastructure is badly neglected. The 'normal' cycle, in which oil companies slash costs when energy prices fall, has been suspended. NOC's with longer time horizons and brimming coffers offer huge profit opportunities to those who sell spades in the Klondike. We added PKN Orlen, a major Polish refiner and marketer of petroleum products in Eastern Europe at the end of the year as negative oil sentiment and capital market scepticism towards its ambitions created a good opportunity.

At year end, the portfolio was balanced between undervalued assets (Pride), industry consolidators (Seadrill) and global operators (China Oilfield Services). Unlike SKAGEN Vekst, we are holding onto the undervalued Petrobras, growing its asset base by 10-15 percent pa, and still delivering a five percent dividend yield.

### Brazil's new giant

The difficult match to call in 2006 was materials, in which tighter global money played monster profitability, low company valuations and galloping commodity prices. Grupo Mexico successfully completed its restructuring into a pure copper/metals company (Southern Copper Co) and built upon this recently acquired solidity a new backbone in infrastructure (Mexican Railroads). The company was only slightly revalued during the year, but we sold a major part of our holding. SKAGEN Kon-Tiki instead backed Brazilian C. Vale Rio Doce, which in 2006 completed its transformation from state dominated local company to international mining giant via the takeover of Inco, world leader in nickel. Spinoff possibilities and a rising international profile are triggers for revaluation in 2007.

**SKAGEN Kon-Tiki  
delivered a return of  
22.8 percent in 2006**

Energy and materials together represent close to 40 percent of earnings in the global emerging market universe. SKAGEN Kon-Tiki is 'underweight' in these at 28 percent of the portfolio. Attitudes towards companies will be liable to mood swings in line with fluctuations in commodity prices. This can prove good investment opportunities in 2007.

### First time buyers

The emerging market consumer has come of age. As a result, we reduced our interest in ocean shipping and shipyards and bought Enka Insaat (Middle East infrastructure, Russian consumer); LG Electronics (too early – we lost NOK 216 million on this holding in 2006); Mexican retailer and consumer financier Grupo Elektra; LG Corp (see the Family Owned Conglomerates theme and SKAGEN Global) and travel operator China Travel.

We also added consumer staple names with some positive early benefits: Pivo Lasko in Slovenia, soft drinks manufacturer Yazicilar Holding, Norwegian Pan Fish, budding agro-giant Cresud in Argentina.



### Cheap pills

SKAGEN Kon-Tiki probably has the best spread and lowest valued portfolio of pharmaceuticals in the world, with a median P/E of ten and a P/B of 2; Turkish Eczabaci Group, Hungarian Gedeon Richter and Hanmi Pharma in Korea are some of the best names in generics, with high growth, low valuations and global potential. They represented more than 7.5 percent of the portfolio at year-end; we sold Pfizer to make space.

### Free(d) banking

In financials we resisted the temptation (well, it wasn't much of a temptation) to buy overvalued Chinese banking IPO's at three times book, settling for boring old HSBC at two times book, for less risk and higher returns. There was no immediate benefit. The world's third largest bank, HSBC's, exposure to the "sick" American consumer and the "dying" British house buyer overshadowed a sparkling performance in the emerging markets, which represents 30 percent of assets and (soon) 50 percent of earnings. However, in the short term we benefited from partaking in the speculative wave.

Our other financial holdings representing East European banking (Bank Austria) and developing Latin American consumer finance (Banco do Brasil) performed beautifully. SKAGEN Kon-Tiki also holds some innovative companies reaping rewards from deregulation of local capital markets, such as Indonesian Trimegah, Korean Kiwom.com, UK-Asian oriented fund manager Aberdeen Asset Management, and Turkish shariah financier Bank Asya. We also own some Taiwanese stockbrokers (gritting their teeth over lost opportunities in mainland China) earning decent returns, and still valued below book value.

One of the sectors which was derated in 2006: information technology. This sector came about as a misunderstanding during the technology boom 1999/2000 – previously companies had been categorised as either industrials or services. Our major investment, Samsung Electronics, is wrongly included in this sector. If it was categorized as "consumer staples" - which indeed it is (who doesn't change their handset every 18 months?) – the valuation would be markedly higher. With huge free cash

flows, 20 percent+ return on capital and increasing returns in cash to shareholders, the fundamentals are still great and the company remains undervalued. Let's hope for a reclassification soon – or a new tech boom? We are still underweight in the sector, but a more unified appraisal of branches and sectors should create opportunities in 2007.

### Telephone numbers

Leading Indian mobile operator Bharti Airtel's development (organisationally as well as financially) leaves us breathless. 100 million people are now connected to the world and each other – there are at least 800 million more to join the conversation. Increasing earnings and a soaring return on capital should lead to continued revaluation of the company.

Filipinos are world record holders for sending SMS messages. Our new holding First Pacific, major holder in leading Philippine telco

PLDT, hopes they will start talking to each other instead. Thailand operator TAC and Indonesian Indosat, both underperformed their local markets. They should outperform their peers in the year to come, as a result of strong growth, good results and regulatory and structural changes.

### Russian power play

One of our best bets in 2006 was our modest exposure to Russian power producer UES, which runs the vast power generating and distributing assets of Russia. Politically poisoned, oligark tainted, the rise of the shares in 2006 gave us vertigo. Our remaining holding was sold just after Christmas, having been one of 2006's best performers.

The proceeds were reinvested in Eletrobras preference shares, a good performer, the largest holding, and a major contributor to our 2006 investment returns. These prefs trade at a 65 percent discount to book value (maybe more than 75 percent to underlying assets), a dividend yield of six percent, with earnings growing 12-17 percent annually over the next ten years. We await US SEC clearance for "normal" global ADR trading of the shares, a major value release trigger. This was originally scheduled for 2004; we are still waiting.

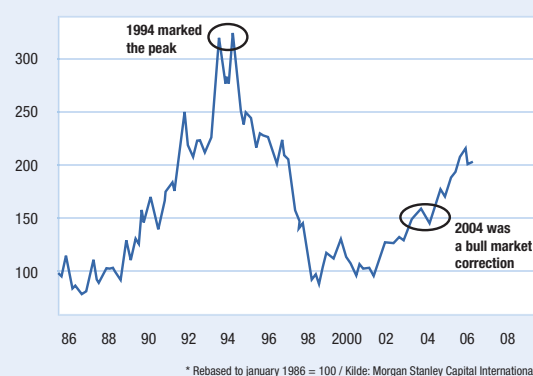
### Keeping the faith

By our own standards, 2006 was a mixed year for

## IT was one of the sectors which was derated in 2006

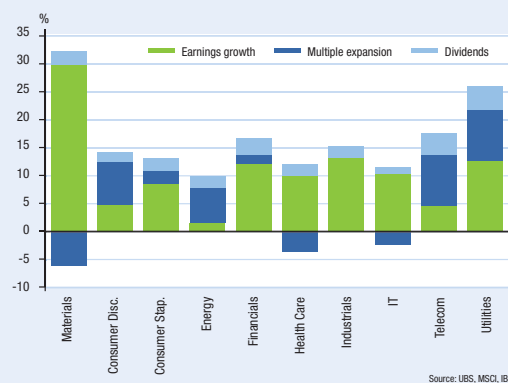
SKAGEN Kon-Tiki. We had some good winners, including previously underperforming stocks (e.g., in Croatia and Slovenia) where we had 'kept the faith', together with perennial dependables. Some major holdings lagged, diluting the overall numbers. We remain very comfortable with, and confident in, our basic approach – buying good quality and good value at a discount, with a practical understanding of how the correction of undervaluation will be triggered. More undervaluation will be corrected in 2007 and companies will grow and earn more than in 2006. This means that 2007 should be another good year for SKAGEN Kon-Tiki.

#### GLOBAL EMERGING MARKETS FAR FROM HISTORICAL PEAK



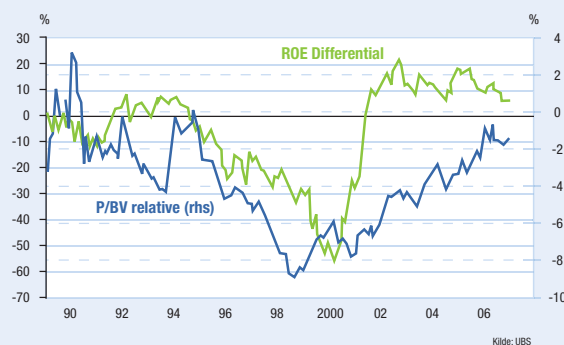
Even though emerging market equities have done better than developed markets for some years, we are still far from the peak of 1994. With strong economic growth, we still see opportunities for strong relative performance by the emerging markets.

#### BIG DIFFERENCE IN RETURN AND MULTIPLE DEVELOPMENT BETWEEN GLOBAL SECTORS IN 2006



In spite of big earnings differences among global sectors, we did see divergence of multiples in 2006. High-multiple sectors, such as IT and pharmaceuticals, experienced falling multiples, whereas low-multiple sectors, such as utilities and telecommunications, experienced rising multiples. An interesting point is that commodity companies experienced falling multiples, whereas strong earnings growth made this sector the global winner in 2006.

#### STILL LOW VALUATIONS FOR GLOBAL EMERGING MARKETS



For six years, emerging market return on equity has been stronger than the global return on equity. The relative price/book ratio still does not fully reflect the return gap.

## SKAGEN Tellus



# Good start for new fund

Since its inception on 29th September 2006, SKAGEN Tellus, our new actively managed global bond fund, returned 1.4 percent in euros, 3.6 percent above the return on the Lehman Global Treasury 3-5 years reference index.

We did well in Brazilian, Turkish, South African, and Hungarian government bonds. Australia and Israel made positive contributions. Iceland, the US, and Thailand were duds.

SKAGEN Tellus uses the euro as its base currency. In order to diversify currency risk, 35 percent of the portfolio has been in short euro denominated bonds and certificates issued by solid European banks and governments in the euro zone. Currently we see little value in long euro bonds.

### Playing globalisation

Two significant developments justify the launch of SKAGEN Tellus: widespread inflation targeting (see our inflation theme) and free capital movement.

Currently two dozen countries have explicit numerical inflation targets, and many more are expected to follow. Several central banks, e.g. the Fed, have implicit inflation targets. Inflation targets provide a clear indication

of expected inflation in the long term and reduce the risk premium in long nominal rates. Free movement of capital ties individual country's capital markets together and contributes to convergence in the long real rates. Long nominal rates therefore become a function of the country's inflation target and global real rates.

Based on this SKAGEN Tellus's investment philosophy is simple. We analyse local bond markets and estimate whether government bonds are correctly valued; we buy bonds that are undervalued. A bond is undervalued if long nominal rates are higher than the sum of expected inflation and the global real rate of interest (corrected for country risk premium). Short bonds can also be undervalued. But in this case the analysis looks at whether monetary policy is correct compared to inflationary developments and targets.

### Where is the global rate heading?

Despite strong growth in the global economy the past years, the global real rate of interest has remained low



due to an increase in the savings rate in many countries as a result of an aging population. Currently our best estimate is a global long run real rate of slightly above two percent. In December there was a small – 25 basis point - increase in the global real rate of interest, due to better than expected indicators of real economic growth. We expect the global expansion to continue through 2007, but we do not anticipate much room for additional increases in the global real interest rate. Increased investments can be financed by increasing savings without driving the real interest rate up.

### Betting against the U.S. consensus

Many investors currently hate long U.S. bonds. We disagree.

Our US investment is in a government bond maturing in 2025, with a yield that currently stands at 4.9 percent. This is higher than warranted by long run real rates of interest and long term inflation expectations.

Currently the spread between yields on nominal and inflation-adjusted U.S. treasury securities indicates that market participants expect inflation to average 2.3 percent. We think the Fed is serious when it stresses that its comfort zone for inflation is one to two percent; we expect it to implement an explicit inflation target within that zone in the not too distant future. This means that nominal yields on long U.S. bonds have approximately 80 basis points to fall.

This U.S. bet is not based on a view on short term downwards movements in the Fed policy rate. Many analysts expect aggressive Fed easing to follow a sharp U.S. economic slowdown in 2007. We do not share

this bearish view and don't therefore expect the Fed to cut rates to stimulate the economy. We do, however, expect the Fed to adjust short term rates according to its outlook for inflation. Since the trend of contracting core inflation that began in late 2006 will probably continue throughout 2007, the policy rate might well be cut marginally by the end of the year.

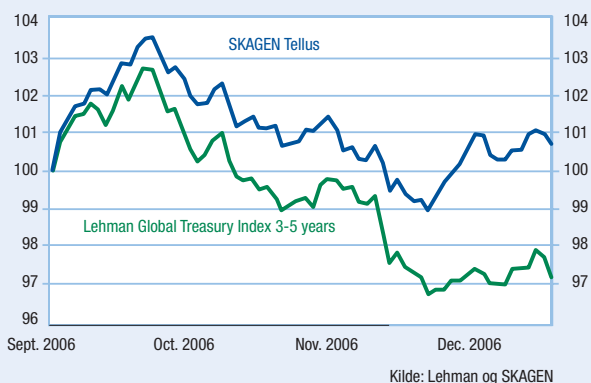
Could higher than currently expected U.S. growth put upward pressure on long interest rates and undermine our case for long bonds? We think the effect of higher than expected GDP growth on long U.S. treasury yields is limited. Higher growth might spur U.S. business investment, but the effect on long yields is cushioned by the global capital market which is available for US investments. In addition, better than expected U.S. indicators were already reflected in the world-wide hike in real interest rates at the end of 2006.

We are not short term currency traders, but we don't share the consensus view that the dollar, due to a looming U.S. recession or accelerating "external imbalances", will sink much further. A resilient economy and prudent monetary policies will most likely put some upward pressure on the dollar in 2007.

### High expectations to 2007

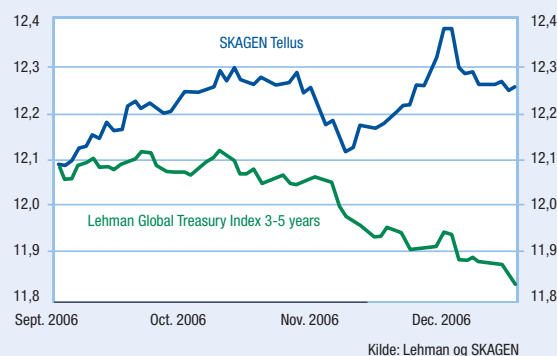
We have high expectations for SKAGEN Tellus in 2007. The fund's portfolio is well diversified, and positioned to achieve high rates of return in several markets. Short term fluctuations in currency and interest rates will impact the fund's monthly performance; unit holders should have an investment horizon of at least a year. Patient investors, though, should be well rewarded.

FUND PRICE MEASURED IN NOK



From its launch on September 29th until the end of 2006, SKAGEN Tellus yielded 0.7 percent, measured in NOK. During the same period, the benchmark lost 2.9 percent.

FUND PRICE MEASURED IN EUR



From its launch on September 29th until the end of 2006, SKAGEN Tellus yielded 1.4 percent, measured in EUR. During the same period, the benchmark lost 2.2 percent.

## SKAGEN Avkastning



# 2006: average – 2007: promising

SKAGEN Avkastning returned 3.9 percent. This was a whole lot better than the Norwegian three year bond index, which did only 0.9 percent. 2006 was the second consecutive year that the fund beat its benchmark by north of three percent.

SKAGEN Avkastning's target of out-doing the Norwegian money market fell short of target in the first six months but was reached over 12 months. The Norwegian three month state bill index returned 2.9 percent for the year.

### Looking sexy

The fund starts this year with a yield of 5.2 percent, enhanced mainly by higher rates in Norway and Iceland. This is much better than last year's start of 3.4 percent. We still hold mostly short duration floater bonds in Norway since longer maturities elsewhere are better value. Today's high yield will bolster the fund against market volatility; it is also well ahead of our guess for Norwegian money rates.

### Samba and salsa rocked...

Our two biggest plays in 2006 were Mexican and Brazilian government bonds. They both started poorly due to election worries, but gave fabulous returns in the second half. The Brazilian bond yield fell from 12.5 to 10.2 percent, which generated us a (local) return of 25 percent. The yield on our Mexican government bond fell from 8.3 to 7.4 percent, which generated 14 percent. The appreciating Brazilian real added 8 percent to the total return; a depreciating Mexican peso lost us two percent.

### ...and the carnival goes on

The real yield on the Brazilian government bond began 2006 at a staggering seven percent adjusted

for credit risk; now down to 4.7 percent, it is still too high.

Brazilian inflation fell from 4.5 to three percent in 2006; we expect falling commodity prices and a high nominal interest rate to squeeze it further in 2007. The central bank's target rate was reduced from 18 to 13.2 percent in 2006, far more than consensus, and we expect more pleasant surprises. The three pillars of the inflation target, a freely moving currency and a responsible fiscal policy will hold - and enable the central bank to cut its rate below ten percent. This should release a lot more value from our long government bond maturing in 2016.

### **Iceland: in the right direction**

Our Icelandic bonds fluctuated violently in 2006, shaving an alarming 1.5 percent from the fund's return; normally we like crises but even we didn't expect monetary management to be a stock car race on amphetamines.

Crashes, however, create investment opportunities. The harsh monetary policy is not much changed but stability is returning. The financial system is stronger; the current account deficit will contract from 24 percent to below ten percent in 2007. At about 6.5 percent, higher than most 'junk' bonds, the real rate on the longest maturity Icelandic bond makes it the cheapest government paper in the world. The currency is perhaps ten percent undervalued.

The economic fundamentals are also better: inflation peaked at 8.6 percent in August but is now below seven percent; it will fall rapidly due to stable housing prices (which are included in CPI), falling energy prices and decreased private consumption. Inflation could fall to below one percent during the year, making Iceland the most compelling interest rate story around.

### **Safety first**

The fund's portfolio still comprises about 80 percent short duration Norwegian bonds and 20 percent longer maturity bets on undervalued government bonds globally. This worked out well over the last three years, with a yearly average return of 5.1 percent compared with 2.2 percent for the Norwegian money market. Norwegian longer maturity government bonds are still expensive but that may change over the year and we may increase holdings of these if they continue to underperform.

SKAGEN Avkastning has a flexible mandate regarding interest rate risk. We only add risk if risk/reward expectations are favourable from an absolute value perspective. We have a maximum investment horizon

of six months (and a minimum of six months for unit holders), which limits total risk. The fund was particularly volatile last spring, but three year average volatility is an acceptable two percent.

## RETURN AND RISK MEASUREMENTS

RETURNS	12 MONTHS	24 MONTHS	36 MONTHS	48 MONTHS	60 MONTHS	120 MONTHS	SINCE START
SKAGEN VEKST	32,49 %	40,10 %	37,26 %	44,00 %	27,41 %	21,33 %	22,24 %
OSE BENCHMARK INDEX	32,43 %	36,40 %	37,08 %	39,82 %	21,37 %	11,74 %	13,15 %
SKAGEN GLOBAL	24,07 %	31,42 %	29,09 %	36,80 %	21,88 %		23,85 %
MORGAN STANLEY WORLD INDEX (NOK)	10,79 %	16,22 %	12,16 %	15,94 %	2,31 %		3,28 %
SKAGEN KON-TIKI	22,75 %	39,82 %	37,28 %	51,37 %			31,69 %
MORGAN STANLEY EMERGING MARKETS INDEX (NOK)	21,96 %	34,91 %	27,66 %	32,89 %			16,70 %
SKAGEN TELLUS							0,66 %
LEHMAN GLOBAL TREASURY INDEX 3-5 YR							-2,87 %
SKAGEN AVKASTNING	3,85 %	4,84 %	5,13 %	5,38 %	5,65 %	5,23 %	6,79 %
ST4X BOND INDEX	0,89 %	1,72 %	2,96 %	4,95 %	5,53 %	5,36 %	6,35 %

UPDATED AS OF 31.12.2006

RISK MEASUREMENTS LAST 36 MONTHS	SKAGEN VEKST	SKAGEN GLOBAL	SKAGEN KON-TIKI	SKAGEN AVKASTNING
RELATIVE GAIN	97 %	163 %	119 %	136 %
RELATIVE LOSS	87 %	104 %	100 %	66 %
STANDARD DEVIATION FUND	14,58	15,64	21,13	1,97
STANDARD DEVIATION BENCHMARK INDEX	17,14	11,08	18,04	2,12
RELATIVE VOLATILITY	8,18	8,18	6,77	2,15
POSITIVE INDEX DIVERGENCE	9,89	19,29	11,93	4,12
NEGATIVE INDEX DIVERGENCE	9,56	5,50	4,19	2,13
PERFORMANCE MEASUREMENTS LAST 36 MONTHS				
RELATIVE GAIN/LOSS RATIO	1,11	1,57	1,20	2,05
SHARPE RATIO FUND	2,39	1,68	1,63	1,46
SHARE RATIO BENCHMARK INDEX	2,03	0,71	1,19	0,33
INFORMATION RATIO	0,02	2,07	1,42	1,01
INDEX DIVERGENCE RATIO	1,03	3,51	2,85	1,94
RISK MEASUREMENTS LAST 60 MONTHS				
RELATIVE GAIN	100 %	166 %	-	86 %
RELATIVE LOSS	78 %	84 %	-	71 %
STANDARD DEVIATION FUND	18,59	18,71	-	1,92
STANDARD DEVIATION BENCHMARK INDEX	21,47	15,87	-	2,68
RELATIVE VOLATILITY	7,69	8,44	-	2,33
POSITIVE INDEX DIVERGENCE	12,64	23,35	-	2,99
NEGATIVE INDEX DIVERGENCE	7,81	5,76	-	2,87
PERFORMANCE MEASUREMENTS LAST 60 MONTHS				
RELATIVE GAIN/LOSS RATIO	1,28	1,97	-	1,21
SHARPE RATIO FUND	1,29	0,97	-	1,01
SHARPE RATIO BENCHMARK INDEX	0,84	-0,19	-	0,68
INFORMATION RATIO	0,78	2,32	-	0,05
INDEX DIVERGENCE RATIO	1,62	4,05	-	1,04
RISK MEASUREMENTS SINCE START				
RELATIVE GAIN	103 %	173 %	132 %	100 %
RELATIVE LOSS	73 %	96 %	99 %	81 %
POSITIVE INDEX DIVERGENCE	16,14	25,84	17,49	3,89
NEGATIVE INDEX DIVERGENCE	8,43	8,65	5,58	3,38
PERFORMANCE MEASUREMENTS SINCE START				
RELATIVE GAIN/LOSS RATIO	1,43	1,81	1,33	1,23
INDEX DIVERGENCE RATIO	1,92	2,99	3,13	1,15

UPDATED AS OF 31.12.2006

## EXPLANATION OF TERMS

All calculations of measurements are based on monthly observations.

**Standard deviation** is a measure of the variation of annual returns. There is approximately a 65 percent probability that annual returns will be in the range of plus/minus one standard deviation. The probability that returns will deviate more than two standard deviations from the expected return is approximately five percent. A high standard deviation may indicate high risk.

**Relative gain/relative loss** is a measure of the ability to achieve excess returns in cyclical upturns and downturns, respectively. A relative loss of 80 percent means that the fund has suffered a loss corresponding to the loss it would have suffered if it were invested 80 percent in the benchmark and 20 percent in risk-free securities (ST1X). A

relative loss of less than 100 percent means that the fund is losing less than the market in a cyclical downturn. A relative gain of more than 100 percent means that the fund is performing better than the market in a cyclical upturn. If you compare with a fund's standard deviation, these measures may explain why the standard deviation is higher or lower than the benchmark.

**Relative volatility** is the standard deviation of the annual excess return relative to the benchmark during the relevant period. Relative volatility measures the manager's ability to create regular excess returns relative to the benchmark, but is often used as a measure of a fund's independence of the benchmark.

**Positive/negative index divergence** shows positive or negative annual divergence during the relevant period. If positive divergences are greater than the negative ones, the fund has achieved a higher return than the benchmark. The total of positive and nega-



# Fund rating

FUND RATING	SKAGEN Global	SKAGEN Vekst	SKAGEN Kon-Tiki	SKAGEN Avkastning
Standard & Poor (5 = Best rating)	★★★★★	★★★★★	★★★★★	★★★★★
Standard & Poor (AAA = Best rating)	AAA	AAA	AA	
Citywire (3 year performance)	No. 1 of 554		No. 1 of 102	
Lipper Fund Awards Europe 2006	Best fund 3&5 yrs Equity Global	Best fund 3&5 yrs Equity Nordic	Best fund 3 yrs EM Global	
Morningstar (5 = Best rating)	★★★★★	★★★★★	★★★★★	★★★
Wassum (5 = Best rating)	W W W W W			W W W

Ratings updated as of 31st December 2006.

Empty fields indicate that ratings have not been carried out for the fund.

## NOTE TO FUND RATING TABLE:

Historical returns are no guarantee for future returns. Future returns will, among other things, depend on market developments, the fund manager's skill, the fund's risk profile as well as expenses associated with subscription and management. The investment return may become negative as a result of negative price developments. Investments in foreign currencies are not hedged.

tive divergences is a measure of the fund's independence from the benchmark.

**The Sharpe Index** measures the probability of the fund generating a higher return than the risk-free interest rate. The higher the score, the higher the probability. The higher the probability, the more certain are the chances of achieving excess returns in the equity market. Thus, the value may be used as a long-term measure of risk, but is often used as an absolute measure of risk-adjusted returns.

**Information Ratio** measures the probability of the fund generating a higher return than the benchmark. The higher the score, the higher the probability of achieving excess returns. The information ratio is also used as a measure of risk-adjusted excess returns, where risk is construed as the chance of uneven excess returns. Thus, the information ratio measures the manager's ability to create certain excess returns, whereas relative volatility measures the ability to generate regular excess return.

**Relative gain/relative loss ratio** shows the ratio between relative gain and relative loss. A value above one means that the fund is getting better paid for the risk assumed relative to the benchmark. When ranking funds investing in the same market, the measure is strongly correlated with the Sharpe Index, but also shows whether the risk-adjusted return is better than the risk-adjusted return of the market. Thus, the measure may be used to compare funds in different markets, as opposed to the Sharpe Index, which may only be used to compare funds investing in the same market.

**Index divergence ratio** shows the ratio between positive and negative benchmark divergences. This is a measure of the ability to create excess returns by being an active rather than a passive manager. The higher the number, the better you get paid for each negative benchmark divergence. The benchmark divergence ratio interprets risk as the chance of negative index divergences, as opposed to the Information Ratio, which construes the risk as irregular excess returns (not necessarily negative excess returns).

# Continued growth – and happy clients

## BOARD OF DIRECTORS' REPORT

2006 was the year when SKAGEN really became an international company. SKAGEN has become the leading equity fund manager in Sweden in terms of net subscriptions, and is on its way into new markets. At the same time SKAGEN continues to deliver world-class performance together with good client service, follow-up and communication. During 2006, SKAGEN also solidified its position as Norway's largest equity fund manager, and our fixed income market share increased to over five percent.

2006 was a year characterised by growth, through increased assets under management, the marketing of SKAGEN Funds in an extended number of countries, the establishment of new offices, hiring of employees and the launch of a new fund. We are pleased to note that, during this period of high activity, SKAGEN has maintained its focus on quality, and the objective of providing its clients with the best possible risk-adjusted return, service and communication.

At the start of 2006, SKAGEN correctly predicted continued good global economic growth with related earnings growth for the companies in the funds' portfolios. However, there were more interest rate increases in the developed world than expected. Nevertheless, the optimism regarding the performance opportunities for the funds' equity investments proved to be more than justified.

### Assets under management

In 2006, assets under management rose from 39.50 billion NOK to 58.20 billion NOK. Throughout the year, net subscriptions in equity funds were 8.74 billion NOK, a new record. The increase was primarily due to increased volume in Sweden and internationally.

For the fixed income funds, net subscriptions totalled 0.52 billion NOK, a decline from 3.60 billion NOK in 2005. This drop must be seen in light of the great tax-motivated inflow of client capital in December 2005, with related redemptions at the beginning of 2006. The wealth tax discount on assets invested in fixed income funds was removed in 2006, whereas it will remain at 20 percent for equity funds for 2006.

### Good returns – both absolute and relative

For the equity funds, 2006 was a good year in terms of both absolute and relative performance. SKAGEN Global had the best relative return, with a 13.3 percentage point outperformance of its World Index benchmark. The fund had an absolute return of 24.1 percent for the year.

With 32.5 percent, SKAGEN Vekst had the highest absolute return, 0.05 percentage points better than the Oslo Stock Exchange. In 2006, the Oslo Stock Exchange was one of the world's best performing stock exchanges. Considering that the fund only has a little over 50 percent of its assets invested in Norwegian shares, beating the Oslo Stock Exchange is an outstanding achievement by SKAGEN Vekst. Excess returns were due to the Norwegian subportfolio performing a little better than the Norwegian

**Assets under  
management increased  
by 47 percent in 2006**



**Extremely happy:** The board expects that SKAGEN's investment philosophy will also provide good returns in the future. From left Barbro Johansson, Sigve Erland and Ulrik Scheen.

benchmark, whereas the international sub-portfolio did far better than the World Index.

SKAGEN Kon-Tiki achieved a 22.8 percent return, compared to the Emerging Markets Index's 22.0 percent. Both SKAGEN Global and SKAGEN Kon-Tiki have beaten their respective benchmarks every year since their launch in 1997 and 2002 respectively. All three equity funds have achieved over 20 percent average annual return since they were launched, which is in line with SKAGEN's long-term ambitions.

SKAGEN Avkastning achieved a respectable 3.85 percent return in the past year. 2006 was a difficult year for most bond investors, and in light of this we are particularly pleased with the fund's performance.

SKAGEN Høyrente achieved a 2.90 percent return, practically the same as the NIBOR three months. SKAGEN Høyrente Institusjon returned 2.77 percent. The fund has beaten its benchmark (ST1X) every year since its launch in 2003.\*

#### **Introduction of a new fund**

The SKAGEN Tellus bond fund was launched on

September 29th, 2006. The fund is a global bond fund investing in creditworthy bonds worldwide. By applying SKAGEN's active investment philosophy to the global fixed income market, the objective is to provide our clients with excess returns compared with investments solely in the Norwegian market. The base currency of the fund is the Euro, and the fund is therefore also a good alternative for foreign investors who are not tied up to the NOK exchange rate.

## **The global bond fund SKAGEN Tellus was launched in the autumn**

In its first three months of existence, the fund showed good growth in net asset value, which at the end of the year amounted to 574 MNOK. The net asset

value per unit is sensitive to the NOK/EUR exchange rate fluctuations. We are happy with the fund's performance to date, both the absolute return measured in Euro, and the outperformance of its benchmark (Lehman Global Treasury Index 3-5 years).

#### **New markets**

SKAGEN receives an increasing number of inquiries from individuals and institutions in countries outside the Nordic region that want to become clients. At the end of the year, SKAGEN had clients in 75 different countries. In addition to receiving subscriptions from



Martin Gjelsvik, Chairman of the board



Barbro Johansson, elected by the shareholders

clients directly, SKAGEN has, during the year, applied for authorisation for cross-border activities in several new countries. At the end of 2006 SKAGEN is authorised to market its funds in Norway, Sweden, Denmark, Finland, Luxembourg and the Netherlands, and has applied for authorisation in Iceland. Marketing outside Norway, Sweden and Denmark is carried out by distributors and via SKAGEN's English language web pages and market reports.

### Good results in Sweden

After a successful first full operating year in 2005, the Swedish office delivered fantastic results in 2006. SKAGEN has the highest net subscription in equity funds in Sweden. At the end of the year, SKAGEN had a 0.8 percent share of the Swedish market, and is therefore well on the way to achieving its goal of one percent market share by the end of 2007.

Based on successful operations and the steadily growing asset base, Sweden was defined as part of SKAGEN's home market effective January 1st, 2006. Staffing was increased from three to seven full time equivalents, and a further increase is planned for next year. SKAGEN is working continuously to ensure that Swedes will experience SKAGEN as a worthy national fund product provider.

### Office in Denmark

After the success in Sweden, SKAGEN established an office in Copenhagen in December 2006. The company is benefiting from its experience gained from the establishment of its office in Stockholm and hopes that the Copenhagen office quickly will be fully operational. The establishment of a branch office in Copenhagen

is a step towards the long-term strategy of establishing Scandinavia as a home market.

As was the case with the establishment in Sweden, SKAGEN will initially distribute its funds through external partners. In addition, SKAGEN will maintain the listing of its funds on the Copenhagen Stock Exchange.

## Marketing approval in new European countries

We hope that SKAGEN's presence in Copenhagen will result in an increase in assets under management as SKAGEN becomes better known in the Danish market, and

that the funds will appear as an attractive investment option for an increasing number of Danes.

### New office in Norway

SKAGEN has strengthened its presence in Norway, and established an office in Tønsberg in December 2006. The office opened with two employees, and SKAGEN now has six offices in Norway: Stavanger, Bergen, Ålesund, Trondheim, Oslo and Tønsberg. SKAGEN has over a longer period of time experienced very good growth in assets under management and number of clients from the counties of Vestfold and Telemark. Thus, it was only natural to establish an office in Tønsberg, to be closer to clients in this region.

### 2006 – the year of the pension

2006 was an exciting year for the SKAGEN pension team. The introduction of mandatory company pensions and the proposal to remove the favourable tax treatment of IPAs and life annuities have opened new opportunities





Sigve Erland, elected by the unit holders



Anne Sophie K. Stensrud, deputy, elected by the shareholders

for SKAGEN. At the same time, it was a challenge to enter a market that until now has been dominated by the big life insurance companies, and where the framework to a large extent is constructed to accommodate these companies. SKAGEN is convinced that the funds are good products also for pension clients, and would like to say thank you for the confidence shown by those corporate and retail clients who have chosen to let SKAGEN manage their pension assets.

### 35 new employees

To be able to handle the increased activity, SKAGEN recruited 35 new employees during 2006. At the end of the year, the company had 94 employees. The new employees have strengthened our operations by providing increased capacity, new competencies and formalised back-up of all functions. The Board of Directors is happy to note that the employees, through the employee and welfare survey, experience SKAGEN as a good place to work, with a safe and trusting working environment. This is also reflected by the low rate of absence due to illness of 1.7 percent.

In the employee and welfare survey, fund management employees state that they perceive the company's incentive models as motivating, both collectively and individually. The Board of Directors considers the incentive model to be on target with respect to stimulating employees to work to achieve the highest possible return for the clients. The model also strengthens cooperation between all departments to ensure that clients receive the best possible SKAGEN experience – including good service,

follow-up and communication. No employees have their compensation directly tied to subscription volume. Thus, avoiding the danger of unhealthy competition, protection of own expertise and poor utilisation of employee resources, which may characterise such arrangements.

SKAGEN has continued to prioritise employee development, both through internal training at the SKAGEN School, which takes place nine times a year, and external training programs. Since 2004, SKAGEN has partnered with the Norwegian School of Economics and Business Administration to offer educational programs for employees within macro economics, finance and personal finance. All programmes qualify for university credits and are con-

cluded with an exam. In Sweden, the company has established a collaboration with Financial Education – one of Sweden's leading institutes for certification and education of financial advisors. In addition, each employee has a great degree of freedom in choosing training courses suited to their own work situation.

SKAGEN recruits employees with many different backgrounds and also focuses on achieving a balance between male and female employees. At the end of the year, there were 37 female and 57 male employees. There are equal opportunities for both genders with respect to terms of employment and pay.

The board would like to take the opportunity to thank all employees for their contribution to making SKAGEN the best place to work as well as the best place to invest.

## SKAGEN had the highest net subscriptions in equity funds in Sweden in 2006



Jan Henrik Hatlem, elected by the unit holders



Tor Dagfinn Veen, elected by the shareholders

### New office premises

Unfortunately, SKAGEN's office premises in Stavanger have not been able to keep up with the rapid expansion of the number of employees. Work has started to expand the premises from around 800 square meters to approximately 2,000 square meters, and the existing offices will undergo a full refurbishment. We hope that the new offices will enable us to provide even better client service and hospitality. The new office premises will be ready by March 2008. The offices will remain in the same building, and SKAGEN will be open to Stavanger clients during the entire building period.

### Putting the client first

The board would like to thank all clients who have chosen to invest money with SKAGEN, and thereby helped the company pass 100,000 clients this year. It is important that all clients feel welcome, and that they receive the information they need to get the most out of their investments. In order to check that we are headed in the right direction, every year Synnovate MMI conducts two client surveys on behalf of SKAGEN. In addition, SKAGEN carries out surveys for the market reports and website, where traffic has increased considerably in all languages. The board is pleased with the confidence shown by the high ratings that the clients have given SKAGEN in these surveys. SKAGEN will use this feedback actively to ensure continuous improvement.

During 2006, SKAGEN tried to make its town-hall information meetings more accessible for clients, both by arranging meetings in more cities, and by arranging events directed at select target audiences, for example the "Saving for Women" meetings. In total, 8182 clients participated in 101 meetings. It is wonderful to see so many clients enjoying SKAGEN events. The board hopes it will be an eventful and exciting year on this front too in 2007.

### SKAGEN Funds' organisation

SKAGEN Funds is managed by Stavanger Fondsforvaltning AS ("SKAGEN"), which is authorised by the Financial Supervisory Authority of Norway to act as a fund management company. SKAGEN's activities are subject to the Norwegian Securities Funds Act, and the Financial Supervisory Authority of Norway monitors the activities to ensure that they are in compliance with relevant legislation. The Financial Supervisory Authority of Norway monitors SKAGEN's international activities, but SKAGEN is also subject to the regulatory authorities of the countries in which the activities are executed. Handelsbanken acts as custodian for SKAGEN and is responsible for the registration and settlement of transactions for the funds' portfolios. The Norwegian Central Securities Depository maintains SKAGEN's unit holder registry, and is responsible for maintaining registration of the correct number of units for each client, and ensuring that the client receives transaction notifications.

The funds' risk arises from market movements, currency, interest rate and cyclical developments, as well as company specific issues. To prevent unreasonable risk exposure, legislation stipulates requirements with respect to portfolio diversification, ownership limitations and the percentage of unlisted securities. The funds' risk exposure is monitored continuously with the aid of daily reports showing the portfolio risk of each fund and its weighting relative to the statutory requirements.

In addition, SKAGEN applies internal requirements to, for example, industry balance and liquidity within the portfolios, and these requirements have been complied with throughout the year. SKAGEN has also developed internal procedures aimed at reducing the risk of errors that may affect the funds. The spread of the equity portfolios' investments suit of the SKAGEN investment philosophy.



Siv Oftedal, deputy, elected by the unit holders



Ulrik Scheen, deputy, elected by the shareholders

phy, which contains requirements for company valuation, product/market matrix, the company's debt exposure and the liquidity of the security. The investments of the fixed income funds are also based on an evaluation of the creditworthiness of individual issuers and the general economic conditions in the country in which the issuer resides.

In spite of restless markets in May/June 2006, none of the funds have experienced extraordinary or disruptive levels of redemption during the year. SKAGEN is very pleased to have such a stable client base focusing on long-term saving. At the same time, SKAGEN will do its best to ensure that as many clients as possible achieve their return targets and are able to reap the benefits of their investments.

### Future prospects

The board confirms that the going concern requirement pursuant to section 3-3a) of the Norwegian Accounting Act is fulfilled. Proposals for distribution of profits in the funds have been included in the table below.

SKAGEN maintains its investment philosophy and

business concept. The communication of the investment philosophy and business concept is important when expanding into new countries where the players are not familiar with SKAGEN and what it stands for. SKAGEN is convinced that the best way of creating excess returns for clients, in the future as in the past, is to have an active investment philosophy, according to which the portfolio managers search for unpopular, under-researched and undervalued companies. The same principle applies to the managers of the SKAGEN fixed income funds: The funds are actively managed based on the portfolio manager's analyses of the market and individual bonds.


The board expects SKAGEN's application of the investment philosophy to provide a good return for the unit holders next year as well.


2007 will be a year filled with continued international efforts and purposeful work to improve services to clients in all countries – in the form of the best possible risk-adjusted return and the best client service, follow-up and communication.

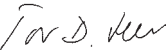
## DISTRIBUTION OF FUNDS' PROFITS


	SKAGEN VEKST	SKAGEN GLOBAL	SKAGEN KON-TIKI	SKAGEN AVKASTNING	SKAGEN HØYRENT HØYRENT	SKAGEN HØY- RENT INST.	SKAGEN TELLUS
<b>ANNUAL ACCOUNTS 2006</b>							
ANNUAL PROFIT IN MNOK	2 685	3 745	2 303	102	61,7	9	0,046
<b>DISTRIBUTION</b>							
TRANSFERRED TO/FROM RETAINED EQUITY	2 685	3 745	2 303	-31	-0,3	-1	-8,989
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	0	0	0	133	62,0	11	9,035
<b>TOTAL</b>	<b>2 685</b>	<b>3 745</b>	<b>2 303</b>	<b>102</b>	<b>61,7</b>	<b>9</b>	<b>0,046</b>

\*SKAGEN Høyrente and SKAGEN Høyrente Institusjon are only available for sale in the Norwegian market.

  
Martin Gjelsvik  
Chairman of the board

  
Barbro Johansson

  
Tor Dagfinn Veen

  
Sigve Erland

  
Jan Henrik Hatlem

## ANNUAL FINANCE STATEMENT 2006

NOTES	SKAGEN VEKST		SKAGEN GLOBAL		SKAGEN KON-TIKI		SKAGEN AVKASTNING		SKAGEN HØYRENT		SKAGEN HØYRENT INSTITUTSJON		SKAGEN TELLUS	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	29.09.06-31.12.06	
<b>INCOME STATEMENT (ALL FIGURES IN 1,000 NOK)</b>														
<b>PORTFOLIO EARNINGS AND COSTS</b>														
INTEREST EARNINGS AND COSTS	200	91	-15 527	-5 515	-26 925	358	120 318	114 332	72 064	60 288	12 490	8 695	9 056	
DIVIDENDS RECEIVED	249 573	218 383	445 415	288 350	274 492	143 850	-	-	-	-	-	-	-	
PROFIT/LOSS AT REALISATION	1 474 954	799 575	958 017	696 153	1 153 355	382 137	11 706	11 464	-4 587	-2 996	-1 384	-842	1 363	
CHANGE UNREALISED PROFIT/LOSS	8 2 282 206	2 027 439	2 740 558	2 629 079	1 150 494	2 149 120	-31 012	35 339	-296	-1 904	-1 133	274	-8 989	
OTHER REVENUE	1 759	538	-	-	-	-	-	-	-	-	-	-	-	
BROKER'S FEE	-8 189	-6 021	-25 425	-16 192	-23 355	-13 514	-79	-	-	-	-	-	-	
AGIO/DISAGIO	41 185	-23 404	93 741	-20 401	102 431	-44 506	19 576	-9 928	-	-	-	-	-373	
<b>PORTFOLIO RESULT</b>	<b>5 3 041 687</b>	<b>3 016 602</b>	<b>4 196 780</b>	<b>3 571 473</b>	<b>2 630 492</b>	<b>2 617 445</b>	<b>120 509</b>	<b>151 206</b>	<b>67 180</b>	<b>55 388</b>	<b>9 973</b>	<b>8 127</b>	<b>1 058</b>	
<b>MANAGEMENT FEES AND COSTS</b>														
MANAGEMENT FEE - FIXED	9 -95 105	-69 979	-176 591	-96 071	-298 974	-125 558	-18 089	-6 763	-5 463	-3 900	-499	-584	-1 011	
MANAGEMENT FEE - VARIABLE	9 -246 292	-251 771	-227 841	-147 344	-7 201	-33 037	-	-	-	-	-	-	-	
<b>ASSETS MANAGEMENT PROFIT/LOSS</b>	<b>-341 399</b>	<b>-321 747</b>	<b>-404 432</b>	<b>-243 415</b>	<b>-306 175</b>	<b>-158 595</b>	<b>-18 089</b>	<b>-6 763</b>	<b>-5 463</b>	<b>-3 900</b>	<b>-499</b>	<b>-584</b>	<b>-1 011</b>	
<b>RESULT BEFORE TAX</b>	<b>2 700 288</b>	<b>2 694 855</b>	<b>3 792 348</b>	<b>3 328 058</b>	<b>2 324 318</b>	<b>2 458 850</b>	<b>102 419</b>	<b>144 443</b>	<b>61 717</b>	<b>51 488</b>	<b>9 474</b>	<b>7 543</b>	<b>47</b>	
TAX COST	4 -14 799	-14 896	-46 907	-37 954	-21 392	-15 807	-	-	-	-	-	-	-	
<b>ANNUAL PROFIT/LOSS</b>	<b>2 685 490</b>	<b>2 679 960</b>	<b>3 745 442</b>	<b>3 290 104</b>	<b>2 302 926</b>	<b>2 443 043</b>	<b>102 419</b>	<b>144 443</b>	<b>61 717</b>	<b>51 488</b>	<b>9 474</b>	<b>7 543</b>	<b>47</b>	
<b>FOR WHICH PROVISIONS ARE MADE AS FOLLOWS</b>														
TRANSFER TO/FROM RETAINED EARNINGS	2 685 490	2 679 960	3 745 442	3 290 104	2 302 926	2 443 043	-31 012	35 339	-296	-1 904	-1 133	274	-8 989	
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	-	-	-	-	-	-	133 431	109 104	62 014	53 392	10 607	7 269	9 035	
<b>TOTAL</b>	<b>2 685 490</b>	<b>2 679 960</b>	<b>3 745 442</b>	<b>3 290 104</b>	<b>2 302 926</b>	<b>2 443 043</b>	<b>102 419</b>	<b>144 443</b>	<b>61 717</b>	<b>51 488</b>	<b>9 474</b>	<b>7 543</b>	<b>47</b>	
<b>BALANCE SHEET</b>														
<b>ASSETS</b>	<b>31.12.06</b>	<b>31.12.05</b>	<b>31.12.06</b>	<b>31.12.05</b>	<b>31.12.06</b>	<b>31.12.05</b>	<b>31.12.06</b>	<b>31.12.05</b>	<b>31.12.06</b>	<b>31.12.05</b>	<b>31.12.06</b>	<b>31.12.05</b>	<b>31.12.06</b>	
NORWEGIAN SECURITIES AT COST PRICE	3,8 3 143 875	2 332 115	-	-	452 723	209 085	2 367 397	2 092 096	1 990 120	1 759 365	331 837	344 821	9 489	
FOREIGN SECURITIES AT COST PRICE	3,8 3 008 770	2 152 925	14 623 584	9 361 042	9 382 804	5 026 934	614 660	426 592	-	-	-	-	554 981	
UNREALISED CAPITAL GAINS	8 4 970 768	3 688 562	6 752 579	4 012 021	4 054 001	2 903 507	10 749	41 771	-2 484	-2 188	-1 373	-240	-8 989	
ACCRUED INTEREST	8 -	-	-	-	-	-	46 445	20 277	15 579	9 354	3 916	1 250	13 572	
<b>TOTAL SECURITIES PORTFOLIO</b>	<b>11 123 412</b>	<b>8 173 602</b>	<b>21 376 163</b>	<b>13 373 063</b>	<b>13 889 528</b>	<b>8 139 526</b>	<b>3 039 251</b>	<b>2 580 735</b>	<b>2 003 215</b>	<b>1 766 531</b>	<b>334 380</b>	<b>345 831</b>	<b>569 053</b>	
ACCRUED DIVIDENDS	24 193	25 115	61 747	56 496	56 646	69 697	-	-	-	-	-	-	-	
TAX RECEIVABLE ON DIVIDENDS	8 403	4 655	20 643	15 042	303	838	-	-	-	-	-	-	-	
<b>ACCRUED INCOME, NOT RECEIVED</b>	<b>32 596</b>	<b>29 770</b>	<b>82 390</b>	<b>71 537</b>	<b>56 949</b>	<b>70 535</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
ACCOUNTS RECEIVABLE - BROKERS	1 628	16 431	-	-	66 748	-	30 033	-	-	-	-	-	-	
ACCOUNTS RECEIVABLE - MANAGEMENT COMPANY	177	136	181	128	150	89	13	10	12	14	1	1	6	
OTHER RECEIVABLES	750	-	43 250	579	566	4	-	22 497	-	-	-	-	-	
<b>TOTAL OTHER RECEIVABLES</b>	<b>2 556</b>	<b>16 568</b>	<b>181</b>	<b>43 378</b>	<b>67 477</b>	<b>655</b>	<b>30 059</b>	<b>10</b>	<b>22 510</b>	<b>14</b>	<b>1</b>	<b>1</b>	<b>6</b>	
BANK DEPOSITS	908 632	349 499	1 162 468	785 117	110 862	754 070	-	257 702	209 891	746 061	23 198	59 202	8 523	
<b>TOTAL ASSETS</b>	<b>12 067 196</b>	<b>8 569 439</b>	<b>22 621 201</b>	<b>14 273 096</b>	<b>14 124 816</b>	<b>8 964 786</b>	<b>3 069 301</b>	<b>2 838 447</b>	<b>2 235 616</b>	<b>2 512 606</b>	<b>357 579</b>	<b>405 034</b>	<b>577 582</b>	
<b>EQUITY CAPITAL</b>														
UNIT CAPITAL AT FACE VALUE	10 849 392	790 402	2 977 546	2 311 968	3 782 616	2 915 695	2 346 366	2 209 598	2 153 834	2 348 067	343 435	368 129	571 937	
PREMIUM	10 2 356 315	1 602 256	10 008 013	6 100 287	4 405 422	2 390 252	508 467	467 146	19 655	19 837	-305	-443	3 916	
<b>TOTAL PAID-IN EQUITY CAPITAL</b>	<b>3 205 707</b>	<b>2 392 658</b>	<b>12 985 559</b>	<b>8 412 255</b>	<b>8 188 038</b>	<b>5 305 947</b>	<b>2 854 832</b>	<b>2 676 744</b>	<b>2 173 489</b>	<b>2 367 904</b>	<b>343 130</b>	<b>367 686</b>	<b>575 854</b>	
RETAINED EARNINGS	10 8 550 329	5 864 839	9 246 094	5 500 653	5 747 705	3 444 779	10 459	41 471	-2 471	-2 175	-1 276	-262	-8 989	
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS FOR REINVESTMENT	10 -	-	-	-	-	-	139 562	109 104	63 156	54 292	10 607	7 269	9 035	
<b>TOTAL EQUITY CAPITAL</b>	<b>11 756 036</b>	<b>8 257 497</b>	<b>22 231 653</b>	<b>13 912 908</b>	<b>13 935 743</b>	<b>8 750 726</b>	<b>3 004 853</b>	<b>2 827 319</b>	<b>2 234 174</b>	<b>2 420 021</b>	<b>352 461</b>	<b>374 693</b>	<b>575 900</b>	
<b>DEBT</b>														
BANK WITHDRAWALS	-	-	-	-	-	-	46 696	-	-	-	-	-	-	
OWED TO BROKERS	29 248	24 662	64 691	172 220	46 782	95 687	-	-	-	54 282	-	30 157	-	
ACCOUNTS PAYABLE - MANAGEMENT COMPANY	274 929	272 450	282 089	180 069	92 485	77 991	3 991	2 546	1 442	1 022	118	184	1 011	
OTHER DEBT	6 982	14 830	42 768	7 900	49 806	40 383	13 770	8 582	-	37 280	5 000	-	671	
<b>TOTAL DEBT</b>	<b>311 159</b>	<b>311 942</b>	<b>389 548</b>	<b>360 188</b>	<b>189 073</b>	<b>214 060</b>	<b>64 457</b>	<b>11 128</b>	<b>1 442</b>	<b>92 585</b>	<b>5 119</b>	<b>30 341</b>	<b>1 682</b>	
<b>TOTAL DEBT AND EQUITY CAPITAL</b>	<b>12 067 196</b>	<b>8 569 439</b>	<b>22 621 201</b>	<b>14 273 096</b>	<b>14 124 816</b>	<b>8 964 786</b>	<b>3 069 301</b>	<b>2 838 447</b>	<b>2 235 616</b>	<b>2 512 606</b>	<b>357 579</b>	<b>405 034</b>	<b>577 582</b>	
NUMBER OF UNITS ISSUED	8 493 920	7 904 023	29 775 546	23 119 679	37 826 164	29 156 949	23 463 656	22 095 984	21 538 339	23 480 674	3 434 352	3 681 289	5 719 375	
REDEMPTION PRICE PER UNIT 29.12./31.12	1383,81	1044,47	746,67	601,81	368,46	300,16	128,06	127,96	103,77	103,07	102,62	101,79	100,66	
<b>CASH FLOW STATEMENT</b>														
<b>BANK DEPOSITS AS OF 1.1.</b>	<b>349 499</b>	<b>146 050</b>	<b>785 117</b>	<b>254 243</b>	<b>754 070</b>	<b>198 509</b>	<b>257 702</b>	<b>28 500</b>	<b>746 061</b>	<b>31 225</b>	<b>59 202</b>	<b>-6 012</b>	<b>-</b>	
<b>INFLOWS</b>														
NET SUBSCRIPTIONS (INCL. SUBSCRIPTION AND REDEMPTION FEES)	+/- 813 049	-133 961	4 573 304	3 664 516	2 882 091	3 081 016	178 088	2 126 690	-194 415	1 211 542	-24 556	172 298	575 854	
NET REALIZED GAINS	+/- 1 474 954	799 575	958 017	696 153	1 153 355	382 137	11 706	11 464	-4 587	-2 996	-1 384	-842	1 363	
INTEREST AND DIVIDENDS RECEIVED (AFTER TAX)	+/- 269 729	174 692	451 298	208 288	305 252	70 381	139 814	104 404	72 064	60 288	12 490	8 695	8 683	
<b>TOTAL INFLOWS</b>	<b>= 2 557 732</b>	<b>840 306</b>	<b>5 982 619</b>	<b>4 568 956</b>	<b>4 340 698</b>	<b>3 533 534</b>	<b>329 609</b>	<b>2 242 558</b>	<b>-126 938</b>	<b>1 268 834</b>	<b>-13 450</b>	<b>180 151</b>	<b>585 900</b>	
<b>APPLICATION</b>														
NET PURCHASE OF SECURITIES	+/- -1 667 605	-450 109	-5 262 542	-3 877 503	-4 599 508	-2 886 663	-463 370	-1 976 667	-230 755	-641 314	12 984	-147 276	-564 469	
CHANGE IN UNSETTLED ITEMS	+/- 10 402	135 002	61 705	82 836	-78 223	67 285	-49 584	-4 422	-119 865	113 971	-27 888	37 658	-11 896	
OPERATING EXPENSES	- -341 397	-321 750	-404 432	-243 415	-306 175	-158 595	-18 079	-6 763	-5 463	-3 900	-499	-584	-1 011	
NET DISTRIBUTION TO UNIT HOLDERS	- -	-	-	-	-	-	-102 974	-25 504	-53 149	-22 755	-7 150	-4 735	-	
<b>TOTAL ALLOCATION</b>	<b>= -1 998 600</b>	<b>-636 857</b>	<b>-5 605 269</b>	<b>-4 038 082</b>	<b>-4 983 906</b>	<b>-2 977 973</b>	<b>-634 007</b>	<b>-2 013 355</b>	<b>-409 232</b>	<b>-553 999</b>	<b>-22 554</b>	<b>-114 937</b>	<b>-577 377</b>	
<b>BANK DEPOSITS AS OF 31.12.</b>	<b>= 908 632</b>	<b>349 499</b>	<b>1 162 468</b>	<b>785 117</b>	<b>110 862</b>	<b>754 070</b>	<b>-46 696</b>	<b>257 702</b>	<b>209 891</b>	<b>746 061</b>	<b>23 198</b>	<b>59 202</b>	<b>8 523</b>	

STAVANGER, 29TH JANUARY 2007


Martin Gjelsvik  
Chairman of the board


Barbro Johansson



Tor Dagfinn Veen



## GENERAL NOTES

### NOTE 1 : ACCOUNTING PRINCIPLES

#### Financial Instruments

#### Determination of fair value:

All financial instruments, such as shares, bonds and certificates, are valued at fair value (market value). Securities are valued at market prices as of 29.12.2006. Bonds and notes, for which there are no "marketmaker" prices, are at all times valued against the applicable yield curve. Unlisted equities are valued according to the latest trading price, value adjustments made by brokers and internal valuations.

#### Currency exchange rates:

Securities and bank deposits/overdrafts in foreign currency are valued at the prevailing exchange rate at the time of pricing 29.12.2006.

#### Treatment of transaction cost:

Transaction cost in the form of commission to brokers accrues at the time of the transaction.

#### Allocated for distribution to unit holders:

All distributions to unit holders in fixed income funds are treated as allocations of profits in accordance with the regulation for annual financial statements for securities funds. Distributions from fixed income funds are entered by entering reinvestments as new units in the fund during the financial year.

#### Adjustment of acquisition cost:

For the equity funds, the average acquisition value has been used to arrive at the realised gain/loss on the sale of shares. For the fixed income funds, the FIFO principle has been used to calculate realised gain/loss on sale.

### NOTE 2 : FINANCIAL DERIVATIVES

The funds have not held financial derivatives during the year.

### NOTE 3 : FINANCIAL MARKET RISK

The balance sheets in the annual financial statement for the funds reflect market value on the last stock market day of the year expressed in Norwegian kroner. Through investment in Norwegian and foreign businesses, the equity funds are exposed to share price and exchange risks. The fixed income funds are exposed to interest and credit risks and to currency risks in those cases where the funds invest in certificates in foreign currencies.

### NOTE 4 : TAX CALCULATION

Tax costs are associated with withholding tax on foreign dividends. Gain/loss on realisation of equities in securities funds are not taxable/deductible.

### NOTE 5 : CUSTODIAN COST

The funds are not charged custodian cost.

### NOTE 6 : VELOCITY

Velocity is measured by the size of the trading volume adjusted by subscriptions and redemptions of shares. The velocity is calculated as the sum of all purchases and sales of securities divided by 2, with a deduction of net subscriptions to the fund and then divided by the average net assets during the period. The velocity of the funds during 2006 was:

SKAGEN Vekst	0.21
SKAGEN Global	0.01
SKAGEN Kon Tiki	0.18
SKAGEN Avkastning	1.34
SKAGEN Høyrente	2.64
SKAGEN Høyrente Institusjon	1.62
SKAGEN Tellus	-0.42

### NOTE 7: SUBSCRIPTION FEE

#### Equity funds

Subscription fee:	NOK 0 - 499,999	0.7 % of the subscribed amount
	NOK 500,000 - 999,999	0.5 % of the subscribed amount
	NOK 1,000,000 - 4,999,999	0.2 % of the subscribed amount
	NOK 5,000,000 -	0.0 % of the subscribed amount

Redemption fee:	0.0 % of the redemption proceeds
-----------------	----------------------------------

0.0 % of the above mentioned fees is credited the fund in the case of both subscription and redemption.

### FIXED INCOME FUNDS

No subscription or redemption fees.

## NOTES TO SKAGEN Vekst

NOTE 8. SEE PAGE 55.

### NOTE 9. MANAGEMENT FEE

The management fee constitutes 1 % of average daily net asset value in addition to the variable management fee: 1/10 of the return above 6 %.

### NOTE 10. EQUITY RECONCILIATION

	UNIT CAPITAL	PREMIUM	RETAINED EARNINGS	TOTAL
EQUITY CAPITAL AS OF 1.1.2006	790 402	1 602 256	5 864 839	8 257 497
ISSUE OF UNITS	342 495	3 808 154		4 150 649
REDEMPTION OF UNITS	-283 506	-3 054 094		-3 337 599
ANNUAL PROFIT/LOSS			2 685 490	2 685 490
EQUITY CAPITAL AS OF 31.12.2006	849 392	2 356 315	8 550 329	11 756 036

### NOTE 11. RISK AMOUNT

RISK amount determined as of 01.01.1994:	-0,35
RISK amount determined as of 01.01.1995:	-0,37
RISK amount determined as of 01.01.1996:	3,28
RISK amount determined as of 01.01.1997:	-0,50
RISK amount determined as of 01.01.1998:	1,73
RISK amount determined as of 01.01.1999:	1,26
RISK amount determined as of 01.01.2000:	3,62
RISK amount determined as of 01.01.2001:	3,77
RISK amount determined as of 01.01.2002:	0,51
RISK amount determined as of 01.01.2003:	2,03
RISK amount determined as of 01.01.2004:	3,06
RISK amount determined as of 01.01.2005:	-7,03
RISK amount determined as of 01.01.2006:	-9,44

## NOTES TO SKAGEN Global

NOTE 8. SEE PAGE 58.

### NOTE 9. MANAGEMENT FEE

The management fee constitutes 1 % of average daily net asset value in addition to the variable management fee: 1/10 of the return above the Morgan Stanley Daily Net \$ World Index expressed in Norwegian kroner.

### NOTE 10. EQUITY RECONCILIATION

	UNIT CAPITAL	PREMIUM	RETAINED EARNINGS	TOTAL
EQUITY CAPITAL AS OF 1.1.2006	2 311 968	6 100 287	5 500 653	13 912 909
ISSUE OF UNITS	1 492 460	8 468 748		9 961 209
REDEMPTION OF UNITS	-826 882	-4 561 023		-5 387 905
ANNUAL PROFIT/LOSS			3 745 441	3 745 441
EQUITY CAPITAL AS OF 31.12.2006	2 977 546	10 008 013	9 246 094	22 231 653

## NOTES TO SKAGEN Kon-Tiki

NOTE 8. SEE PAGE 61.

### NOTE 9. MANAGEMENT FEE

The management fee constitutes 2.5 % p.a. of average daily net asset value in addition to the variable management fee: 1/10 of the return above/under the Morgan Stanley Capital International Daily Total Return Net Dividends \$ Emerging Markets Index expressed in Norwegian kroner. It is, however, limited upwards and downwards in such a way that the total management fee does not exceed 4 % p.a. and cannot be lower than 1 % p.a. of the average net asset value.

### NOTE 10. EQUITY RECONCILIATION

	UNIT CAPITAL	PREMIUM	RETAINED EARNINGS	TOTAL
EQUITY CAPITAL AS OF 1.1.2006	2 915 695	2 390 252	3 444 779	8 750 726
ISSUE OF UNITS	2 749 862	6 200 832		8 950 694
REDEMPTION OF UNITS	-1 882 941	-4 185 663		-6 068 604
ANNUAL PROFIT/LOSS			2 302 926	2 302 926
EQUITY CAPITAL AS OF 31.12.2006	3 782 616	4 405 422	5 747 705	13 935 743

### NOTE 11. RISK AMOUNTS

RISK amount determined as of 01.01.2003:	3,26
RISK amount determined as of 01.01.2004:	1,80
RISK amount determined as of 01.01.2005:	-0,11
RISK amount determined as of 01.01.2006:	0,00

## NOTES TO SKAGEN Avkastning

NOTE 8. SEE PAGE 64.

**NOTE 9. MANAGEMENT FEE**

The management fee constitutes 0.5 % of average daily net asset value. No subscription fee is charged.

**NOTE 10. EQUITY RECONCILIATION**

	SHARE CAPITAL	PREMIUM	RETAINED EARNINGS	ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	TOTAL
EQUITY CAPITAL AS OF 1.1.2006	2 209 598	467 146	41 471	109 104	2 827 319
ISSUE OF UNITS	3 196 256	707 778			3 904 034
REDEMPTION OF UNITS	-3 059 489	-666 468			-3 725 957
REINVESTED FOR UNIT HOLDERS				-102 974	-102 974
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS				133 431	133 431
CORRECTION OF PREVIOUS YEARS REINVESTMENT FOR UNIT HOLDERS					-
ANNUAL PROFIT/LOSS AFTER DISTRIBUTIONS TO UNIT HOLDERS			-31 022		-31 012
EQUITY CAPITAL AS OF 31.12.2006	2 346 366	508 467	10 459	139 562	3 004 853

## NOTES TO SKAGEN Høyrente

NOTE 8. SEE PAGE 66.

**NOTE 9. MANAGEMENT FEE**

The management fee constitutes 0.25 % of average daily net asset value. No subscription fee is charged.

**NOTE 10. EQUITY RECONCILIATION**

	SHARE CAPITAL	PREMIUM	RETAINED EARNINGS	ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	TOTAL
EQUITY CAPITAL AS OF 1.1.2006	2 348 067	19 837	-2 175	54 292	2 420 021
ISSUE OF UNITS	5 802 521	47 410			5 849 932
REDEMPTION OF UNITS	-5 996 755	-47 593			-6 044 347
REINVESTED FOR UNIT HOLDERS				-53 149	-53 149
CORRECTION OF PREVIOUS YEARS REINVESTMENT FOR UNIT HOLDERS					-
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS				62 014	62 014
ANNUAL PROFIT/LOSS AFTER DISTRIBUTIONS TO UNIT HOLDERS			-296		-296
EQUITY CAPITAL AS OF 31.12.2006	2 153 834	19 655	- 2 471	63 156	2 234 174

## NOTES TO SKAGEN Høyrente Institusjon

NOTE 8. SEE PAGE 67.

**NOTE 9. MANAGEMENT FEE**

The management fee constitutes 0.15 % of average daily net asset value. No subscription fee is charged.

**NOTE 10. EQUITY RECONCILIATION**

	SHARE CAPITAL	PREMIUM	RETAINED EARNINGS	ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	TOTAL
EQUITY CAPITAL AS OF 1.1.2006	368 129	-443	-262	7 269	374 693
ISSUE OF UNITS	310 536	-1 036			309 500
REDEMPTION OF UNITS	-335 230	1 175			-334 055
REINVESTED FOR UNIT HOLDERS				-7 269	-7 269
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS				10 607	10 607
CORRECTION OF PREVIOUS YEARS REINVESTMENT FOR UNIT HOLDERS			119		119
ANNUAL PROFIT/LOSS AFTER DISTRIBUTIONS TO UNIT HOLDERS			-1 133		-1 133
EQUITY CAPITAL AS OF 31.12.2006	343 435	-305	-1 276	10 607	352 461

## NOTES TO SKAGEN Tellus

NOTE 8. SEE PAGE 68.

**NOTE 9. MANAGEMENT FEE**

The management fee constitutes 0.8 % of average daily net asset value. No subscription fee is charged.

**NOTE 10. EQUITY RECONCILIATION**

	SHARE CAPITAL	PREMIUM	RETAINED EARNINGS	ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	TOTAL
EQUITY CAPITAL AS OF 29.09.2006	-	-	-	-	-
ISSUE OF UNITS	648 806	4 698			653 504
REDEMPTION OF UNITS	-76 869	-781			-77 650
REINVESTED FOR UNIT HOLDERS					-
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS				9 035	9 035
CORRECTION OF PREVIOUS YEARS REINVESTMENT FOR UNIT HOLDERS					-
ANNUAL PROFIT/LOSS AFTER DISTRIBUTIONS TO UNIT HOLDERS			-8 989		-8 989
EQUITY CAPITAL AS OF 31.12.2006	571 937	3 916	-8 989	9 035	575 900

# SKAGEN Vekst

This information is not part of the official accounts and has not been audited

A minimum of 50 percent of the assets of the SKAGEN Vekst equity fund will at all times be invested in Norway. The rest will be invested in the global equity market. Studies carried out by the Norwegian financial magazine Dine Penger and by Morningstar place SKAGEN Vekst among the best performing equity funds in terms of returns relative to risk.

Reduced risk is achieved through thorough research of the individual companies as well as of the main trends in Norwegian and international business. In addition, significant parts of the fund's assets are invested outside of Norway. This means that the fund may partake in the value created by companies in industries or markets not represented on the Oslo Stock Exchange. We look for companies that are solid but under priced.

SKAGEN Vekst is suitable for investors who want an equity fund with a good balance between Norwegian and global companies. The fund has a broad mandate which gives it the freedom to invest in a number of companies, industries and regions.

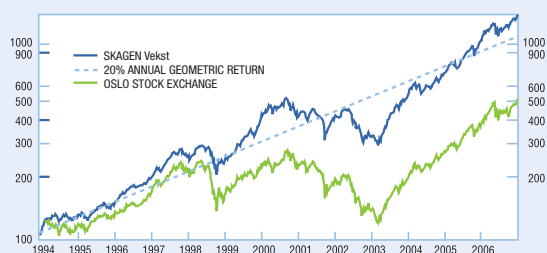
<b>Fund start date</b>	1st December 1993
<b>Return since start</b>	1283.81 %
<b>Average annual return</b>	22.24 %
<b>S&amp;P qualitative rating</b>	AAA
<b>Net asset value</b>	11 698 MNOK
<b>Number of unit holders</b>	74 547
<b>Subscription fee</b>	0.0 – 0.7 % (dependent on amount)
<b>Redemption fee</b>	0 %
<b>Management fee</b>	1.0 % p.a + 10 % of the return exceeding 6 % p.a.
<b>Minimum subscription amount</b>	One-time subscription NOK 1,000
<b>Tax schemes</b>	Unit Link
<b>Authorised for marketing in</b>	Norway, Sweden, Denmark, the Netherlands, Finland and Luxembourg
<b>Benchmark</b>	Oslo Stock Exchange Benchmark Index
<b>UCITS fund</b>	Yes
<b>Portfolio Manager</b>	Kristian Falnes

YEAR	RETURN ON INVESTMENT %	BENCHMARK-INDEX	NET ASSET-VALUE*	NUMBER OF UNIT HOLDERS	TER %**
2006	32,49	32,43	11 698	74 547	3,36
2005	48,15	40,47	8 254	61 792	4,50
2004	31,75	38,45	5 712	51 781	3,45
2003	66,25	48,40	4 238	47 334	5,82
2002	-21,91	-31,09	2 146	46 153	0,86
2001	-1,33	-16,57	2 594	46 283	1,27
2000	-2,25	-1,68	2 650	44 619	2,18
1999	76,98	45,54	2 361	38 167	7,31
1998	-6,47	-26,65	988	19 568	2,46
1997	29,23	31,60	895	13 036	3,74
1996	39,09	32,03	472	6 873	4,01
1995	14,72	11,60	200	4 149	2,95
1994	19,13	7,13	125	1 760	1,58

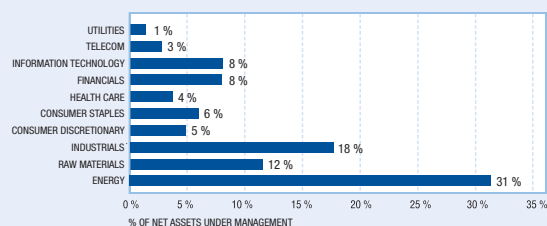
\* MNOK

\*\* See note on page 62. Management fee: change in reporting

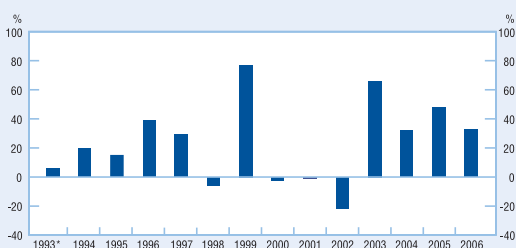
## HISTORIC PRICE DEVELOPMENT



## SECTOR DISTRIBUTION

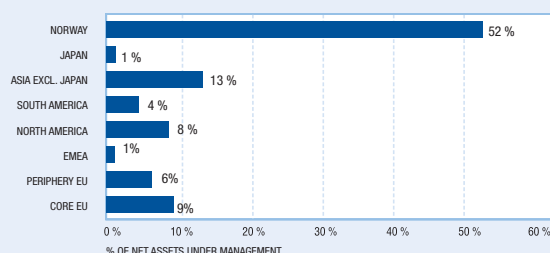


## ANNUAL RETURN



\* THE FUND WAS ESTABLISHED DURING THE YEAR

## GEOGRAPHICAL DISTRIBUTION





## SKAGEN Vekst Note 8. Securities portfolio as of 31st December 2006

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK- EXCHANGE
<b>ENERGY</b>									
NORSK HYDRO	2 525 170	174 744 989	193,50	NOK	488 620 395	313 875 406	4,18 %	0,20 %	OSLO BØRS
BONHEUR	1 300 000	72 349 763	268,00	NOK	348 400 000	276 050 237	2,98 %	3,19 %	OSLO BØRS
PRIDE INTERNATIONAL	1 575 000	242 854 399	30,32	USD	297 903 930	55 049 531	2,55 %	0,96 %	NEW YORK
SOLSTAD OFFSHORE	2 035 000	94 440 345	137,00	NOK	278 795 000	184 354 655	2,38 %	5,38 %	OSLO BØRS
DOF	3 899 400	43 853 023	68,00	NOK	265 159 200	221 306 177	2,27 %	5,08 %	OSLO BØRS
GANGER ROLF	1 016 300	57 011 371	239,00	NOK	242 895 700	185 884 329	2,08 %	2,80 %	OSLO BØRS
PETROBRAS PREF. ADR	364 500	51 975 303	92,43	USD	210 173 019	158 197 716	1,80 %	0,08 %	NEW YORK
TRANSOCEAN	316 500	48 627 365	80,95	USD	159 829 538	111 202 173	1,37 %	0,11 %	NEW YORK
TGS NOPEC GEOPHYSICAL CO	889 100	15 738 548	129,00	NOK	114 693 900	98 955 352	0,98 %	0,84 %	OSLO BØRS
VERITAS DGC	200 000	60 602 040	85,02	USD	106 076 107	45 474 067	0,91 %	3,44 %	NEW YORK
DEEP OCEAN	3 299 000	62 049 049	29,50	NOK	97 320 500	35 271 451	0,83 %	3,74 %	OSLO BØRS
NABORS INDUSTRIES	500 000	101 888 731	29,99	USD	93 543 356	-8 345 374	0,80 %	0,17 %	NEW YORK
FARSTAD SHIPPING	600 000	34 943 354	135,50	NOK	81 300 000	46 356 646	0,70 %	1,54 %	OSLO BØRS
EIDESVIK OFFSHORE ASA	1 223 800	59 212 291	62,50	NOK	76 487 500	17 275 209	0,65 %	4,06 %	OSLO BØRS
CIE GENERALE DE GEOPHYSIQUE	50 000	15 964 486	165,30	EUR	67 919 704	51 955 217	0,58 %	0,19 %	PARIS
SCORPION OFFSHORE	800 000	42 822 700	72,00	NOK	57 600 000	14 777 300	0,49 %	1,63 %	OSLO BØRS
REVUS ENERGY	1 049 100	52 551 675	54,00	NOK	56 651 400	4 099 725	0,48 %	3,18 %	OSLO BØRS
ODIM	317 600	10 748 330	178,00	NOK	56 532 800	45 784 470	0,48 %	2,90 %	OSLO BØRS
SEADRILL	500 000	21 644 708	105,25	NOK	52 625 000	30 980 292	0,45 %	0,13 %	OSLO BØRS
BP ADR	100 000	42 933 984	67,20	USD	41 921 397	-1 012 586	0,36 %	0,00 %	NEW YORK
MPU OFFSHORE LIFT	3 363 400	41 436 675	12,00	NOK	40 360 800	-1 075 875	0,35 %	7,02 %	UNOTERT
REMORA	538 000	26 900 000	70,00	NOK	37 660 000	10 760 000	0,32 %	5,72 %	UNOTERT
HORIZON OFFSHORE	360 000	37 193 329	16,33	USD	36 673 737	-519 592	0,31 %	1,11 %	NASDAQ
BP	457 321	30 148 479	5,67	GBP	31 704 845	1 556 366	0,27 %	0,00 %	LONDON
ACTIVE SUBSEA	2 500 000	25 000 000	12,00	NOK	30 000 000	5 000 000	0,26 %	5,49 %	UNOTERT
MINOR ITEMS*		199 857 050			287 400 398	87 543 349	2,46 %		
<b>TOTAL ENERGY</b>		<b>1 667 491 988</b>			<b>3 658 248 227</b>	<b>1 990 756 239</b>	<b>31,27 %</b>		
<b>RAW MATERIALS</b>									
NORSKE SKOGINDUSTRIER	2 700 057	270 577 123	107,50	NOK	290 256 127	19 679 005	2,48 %	1,42 %	OSLO BØRS
YARA INTERNATIONAL	1 600 019	77 603 469	141,75	NOK	226 802 693	149 199 225	1,94 %	0,51 %	OSLO BØRS
BOLIDEN	1 169 000	32 011 629	177,00	SEK	188 328 778	156 317 149	1,61 %	0,40 %	STOCKHOLM
OUTOKUMPO	400 000	68 365 878	29,90	EUR	98 284 290	29 918 412	0,84 %	0,22 %	HELSINKI
KOREA ZINC	125 000	18 267 072	98 700,00	KRW	82 813 495	64 546 423	0,71 %	0,66 %	KOREA
VOTORANTIM CELLULOSE ADR	578 500	44 864 905	19,77	USD	71 347 130	26 482 226	0,61 %	0,59 %	NEW YORK
SALZGITTER	80 000	10 717 399	99,70	EUR	65 544 774	54 827 375	0,56 %	0,13 %	FRANKFURT
GRUPO MEXICO SAB DE CV	2 250 000	13 019 954	39,95	MXN	51 786 896	38 766 942	0,44 %	0,09 %	MEXICO
APEX SILVER MINES	507 900	63 570 230	15,59	USD	49 395 889	-14 174 342	0,42 %	0,87 %	AMEX
CREW GOLD CORPORATION	3 250 157	22 371 308	13,60	NOK	44 202 135	21 830 827	0,38 %	1,67 %	OSLO BØRS
HINDALCO INDUSTRIES	1 500 000	28 263 541	4,03	USD	37 710 543	9 447 002	0,32 %	0,13 %	LONDON INT.
ALCAN	101 625	27 465 859	56,39	CAD	30 703 303	3 237 444	0,26 %	0,03 %	TORONTO
HEXAGON COMPOSITES	3 000 000	5 911 239	9,90	NOK	29 700 000	23 788 761	0,25 %	2,38 %	OSLO BØRS
MINOR ITEMS*		70 873 668			78 233 738	7 360 070	0,67 %		
<b>TOTAL RAW MATERIALS</b>		<b>753 883 275</b>			<b>1 345 109 792</b>	<b>591 226 517</b>	<b>11,50 %</b>		
<b>INDUSTRIALS</b>									
STOLT-NIELSEN	1 378 150	187 462 623	191,00	NOK	263 226 650	75 764 027	2,25 %	2,09 %	OSLO BØRS
WILH. WILHELMSEN LTD A	1 000 000	57 718 538	237,50	NOK	237 500 000	179 781 462	2,03 %	2,71 %	OSLO BØRS
KONGSBERG GRUPPEN	941 350	82 599 224	175,00	NOK	164 736 250	82 137 026	1,41 %	3,14 %	OSLO BØRS
HYUNDAI HEAVY INDUSTRIES	163 250	54 354 283	126 000,00	KRW	138 069 478	83 715 194	1,18 %	0,21 %	KOREA
TOMRA SYSTEMS	2 323 000	67 405 392	43,00	NOK	99 889 000	32 483 608	0,85 %	1,34 %	OSLO BØRS
KOREA LINE	250 000	24 758 419	49 500,00	KRW	83 065 207	58 306 788	0,71 %	2,50 %	KOREA
LG CORP	400 000	79 243 025	29 850,00	KRW	80 145 340	902 314	0,69 %	0,23 %	SEOUL
SIEMENS AG	129 200	67 228 992	75,43	EUR	80 086 543	12 857 551	0,68 %	0,01 %	FRANKFURT
AIR FRANCE KLM	300 000	42 130 491	31,86	EUR	78 545 254	36 414 763	0,67 %	0,11 %	AMSTERDAM
I.M. SKAUGEN	1 726 664	21 448 497	44,00	NOK	75 973 216	54 524 719	0,65 %	6,35 %	OSLO BØRS
AKVA GROUP	1 632 000	57 120 000	35,00	NOK	57 120 000	0	0,49 %	9,48 %	OSLO BØRS
KVERNELAND	694 874	56 484 204	75,50	NOK	52 462 987	-4 021 217	0,45 %	4,50 %	OSLO BØRS
HANJIN SHIPPING	251 010	15 916 927	26 400,00	KRW	44 480 422	28 563 495	0,38 %	0,35 %	KOREA
FAIRMOUNT HEAVY TRANSPORT B.V.	1 492 000	18 704 140	29,50	NOK	44 014 000	25 309 860	0,38 %	4,97 %	UNOTERT
BERGESEN WORLDWIDE GAS	500 000	44 313 325	82,50	NOK	41 250 000	-3 063 325	0,35 %	0,39 %	OSLO BØRS
TELLEBORG B	275 000	35 619 566	163,50	SEK	40 924 121	5 304 555	0,35 %	0,34 %	STOCKHOLM
AKER A	100 010	18 131 645	401,00	NOK	40 104 010	21 972 365	0,34 %	0,14 %	OSLO BØRS
ODFJELL A	336 700	13 893 280	115,00	NOK	38 720 500	24 827 220	0,33 %	0,51 %	OSLO BØRS
NORWEGIAN AIR SHUTTLE	405 800	22 936 151	93,00	NOK	37 739 400	14 803 249	0,32 %	2,06 %	OSLO BØRS
KOREAN AIR CO. LTD.	151 500	13 896 563	35 450,00	KRW	36 049 797	22 153 234	0,31 %	0,21 %	KOREA
GILDEMEISTER	456 150	24 600 970	9,60	EUR	35 985 856	11 384 886	0,31 %	1,05 %	FRANKFURT
GLAMOX	5 944 034	5 852 347	6,00	NOK	35 664 204	29 811 857	0,30 %	9,14 %	UNOTERT
GOLDEN OCEAN GROUP	3 000 000	13 152 377	11,15	NOK	33 450 000	20 297 623	0,29 %	1,11 %	OSLO BØRS
SOLVANG	1 053 000	17 400 942	31,20	NOK	32 853 600	15 452 658	0,28 %	4,27 %	OSLO BØRS
PREMUDA	2 400 000	22 646 991	1,57	EUR	30 984 205	8 337 214	0,26 %	1,71 %	MILANO
FURUKAWA ELECTRIC	750 000	19 432 422	748,00	JPY	29 399 183	9 966 760	0,25 %	0,11 %	TOKYO
MINOR ITEMS*		77 705 864			127 017 029	49 311 164	1,09 %		
<b>TOTAL INDUSTRIALS</b>		<b>1 162 157 200</b>			<b>2 059 456 250</b>	<b>897 299 050</b>	<b>17,61 %</b>		
<b>CONSUMER DISCRETIONARY</b>									
DSG INTERNATIONAL PLC	4 208 697	73 166 998	1,91	GBP	98 458 919	25 291 921	0,84 %	0,23 %	LONDON
LG ELECTRONICS PREF.	400 000	98 261 993	32 400,00	KRW	86 991 926	-11 270 066	0,74 %	0,29 %	KOREA
VOLKSWAGEN PREF.	160 000	36 763 887	56,55	EUR	74 354 202	37 590 315	0,64 %	0,15 %	FRANKFURT
HURTIGRUTEN GROUP	1 018 490	58 052 312	59,00	NOK	60 090 910	2 038 598	0,51 %	5,13 %	OSLO BØRS
EXPERT	600 000	28 751 960	100,00	NOK	60 000 000	31 248 040	0,51 %	1,81 %	OSLO BØRS
MAHINDRA & MAHINDRA LTD GDR	400 000	13 797 277	20,70	USD	51 653 150	37 855 873	0,44 %	0,16 %	LONDON INT.
NORGES HANDELS OG SJØFATRSIDENDE	30 000	18 722 708	1 140,00	NOK	34 200 000	15 477 292	0,29 %	2,59 %	UNOTERT
MINOR ITEMS*		83 597 977			109 829 561	26 231 583	0,94 %		
<b>TOTAL CONSUMER DISCRETIONARY</b>		<b>411 115 113</b>			<b>575 578 668</b>	<b>164 463 555</b>	<b>4,92 %</b>		

CONTINUED NEXT PAGE



## Continuation SKAGEN Vekst Note 8. Securities portfolio as of 31st December 2006

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK- EXCHANGE
<b>CONSUMER STAPLES</b>									
LERØY SEAFOOD GROUP	1 950 000	62 195 752	110,00	NOK	214 500 000	152 304 248	1,83 %	4,56 %	OSLO BØRS
NUTRECO HOLDING	310 000	61 043 752	49,39	EUR	125 821 148	64 777 397	1,08 %	0,89 %	AMSTERDAM
CHIQUITA BRANDS INTL	724 800	76 605 346	16,05	USD	72 570 430	-4 034 916	0,62 %	1,72 %	NEW YORK
MARINE FARMS	2 400 000	25 156 500	18,20	NOK	43 680 000	18 523 500	0,37 %	7,20 %	OSLO BØRS
PAN FISH ASA	6 500 000	35 187 004	5,70	NOK	37 050 000	1 862 996	0,32 %	0,19 %	OSLO BØRS
J SAINSBURY	626 625	22 393 061	4,09	GBP	31 328 170	8 935 109	0,27 %	0,04 %	LONDON
MINOR ITEMS*		165 949 752			164 777 917	-1 171 834	1,41 %		
<b>TOTAL CONSUMER STAPLES</b>		<b>448 531 166</b>			<b>689 727 666</b>	<b>241 196 500</b>	<b>5,90 %</b>		
<b>HEALTH CARE</b>									
PFIZER	400 000	65 822 296	26,12	USD	65 177 792	-644 504	0,56 %	0,01 %	NEW YORK
PHOTOCURE	725 000	31 106 367	54,25	NOK	39 331 250	8 224 883	0,34 %	3,29 %	OSLO BØRS
AXIS-SHIELD	1 048 400	26 529 182	34,50	NOK	36 169 800	9 640 618	0,31 %	2,16 %	OSLO BØRS
MINOR ITEMS*		184 824 937			290 983 724	106 158 787	2,49 %		
<b>TOTAL HEALTH CARE</b>		<b>308 282 782</b>			<b>431 662 566</b>	<b>123 379 784</b>	<b>3,69 %</b>		
<b>FINANCIALS</b>									
OLAV THON EIENDOMSSKAP	180 000	32 062 153	850,00	NOK	153 000 000	120 937 847	1,31 %	1,68 %	OSLO BØRS
HANNOVER RUECKVERSICHERUNG	435 000	87 663 487	35,08	EUR	125 401 221	37 737 734	1,07 %	0,36 %	FRANKFURT
AAREAL BANK	300 000	55 253 740	35,27	EUR	86 952 013	31 698 273	0,74 %	0,70 %	FRANKFURT
NORGANI HOTELS	1 150 000	66 282 480	73,50	NOK	84 525 000	18 242 520	0,72 %	2,91 %	OSLO BØRS
KOREAN REINSURANCE	915 123	11 484 654	12 700,00	KRW	78 011 232	66 526 578	0,67 %	0,82 %	KOREA
SABANCI HOLDING (HACI OMER)	3 000 000	48 279 953	5,55	TRY	73 293 774	25 013 821	0,63 %	0,17 %	ISTANBUL
KINNEVIK INV AB, SER B	664 200	11 370 509	115,25	SEK	69 673 675	58 303 166	0,60 %	0,31 %	STOCKHOLM
ABG SUNDAL COLLIER ASA	3 000 000	15 364 399	13,00	NOK	39 000 000	23 635 601	0,33 %	1,04 %	OSLO BØRS
FIM GROUP OYJ	750 000	31 712 931	6,08	EUR	37 472 940	5 760 009	0,32 %	1,76 %	HELSINKI
IMAREX NOS	344 000	26 956 178	88,00	NOK	30 272 000	3 315 822	0,26 %	3,33 %	OSLO BØRS
MINOR ITEMS*		82 862 721			158 416 235	75 553 513	1,35 %		
<b>TOTAL FINANCIALS</b>		<b>469 293 203</b>			<b>936 018 090</b>	<b>466 724 886</b>	<b>8,00 %</b>		
<b>INFORMATION TECHNOLOGY</b>									
SAMSUNG ELECTRONICS PREF. GDR	124 492	92 102 593	255,50	USD	198 426 114	106 323 521	1,70 %	0,27 %	LONDON INT.
SAMSUNG ELECTRONICS GDR	60 000	23 654 760	329,00	USD	123 144 105	99 489 345	1,05 %	0,02 %	LONDON INT.
TANDBERG TELEVISION	975 000	40 440 697	78,20	NOK	76 245 000	35 804 303	0,65 %	1,21 %	OSLO BØRS
KYOCERA	120 000	86 707 798	11 220,00	JPY	70 558 038	-16 149 760	0,60 %	0,06 %	TOKYO
ELTEK ASA	1 000 062	103 999 124	61,75	NOK	61 753 828	-42 245 295	0,53 %	2,03 %	OSLO BØRS
FAST SEARCH AND TRANSFER	3 250 000	62 635 625	15,60	NOK	50 700 000	-11 935 625	0,43 %	0,98 %	OSLO BØRS
GLOBAL IP SOUND	2 600 000	12 638 931	18,50	NOK	48 100 000	35 461 069	0,41 %	4,90 %	UNOTERT
TELESTE	400 000	21 087 810	11,70	EUR	38 459 070	17 371 260	0,33 %	2,30 %	HELSINKI
VMETRO	1 500 000	35 637 987	25,40	NOK	38 100 000	2 462 013	0,33 %	6,53 %	OSLO BØRS
Q-FREE	1 700 000	26 778 847	18,80	NOK	31 960 000	5 181 153	0,27 %	3,26 %	OSLO BØRS
MINOR ITEMS*		197 285 710			211 008 203	13 722 493	1,80 %		
<b>TOTAL INFORMATION TECHNOLOGY</b>		<b>702 969 884</b>			<b>948 454 358</b>	<b>245 484 474</b>	<b>8,11 %</b>		
<b>TELECOM</b>									
TELEKOMUNIK INDONESIA ADR	469 700	26 164 142	45,47	USD	133 233 057	107 068 914	1,14 %	0,09 %	NEW YORK
INDOSAT TBK ADR	283 400	47 503 139	37,93	USD	67 057 779	19 554 640	0,57 %	0,26 %	NEW YORK
NORDISK MOBILTELEFON AB	1 699 940	46 786 841	37,50	SEK	58 022 144	11 235 303	0,50 %	5,26 %	UNOTERT
TOTAL ACCESS TELECOMMUNICATION	2 000 000	8 863 830	4,30	USD	53 649 407	44 785 577	0,46 %	0,42 %	SINGAPORE
MINOR ITEMS*		7 842 206			9 076 731	1 234 525	0,08 %		
<b>TOTAL TELECOM</b>		<b>137 160 158</b>			<b>321 039 118</b>	<b>183 878 960</b>	<b>2,74 %</b>		
<b>UTILITIES</b>									
ELEKTROBRAS PREFERED	1 117 400	90 179 609	47,90	BRL	156 428 414	66 248 805	1,34 %	0,00 %	SAO PAULO
MINOR ITEMS*		1 580 500			1 689 250	108 750	0,01 %		
<b>TOTAL UTILITIES</b>		<b>91 760 109</b>			<b>158 117 664</b>	<b>66 357 555</b>	<b>1,35 %</b>		
<b>TOTAL EQUITY PORTFOLIO**</b>		<b>6 152 644 878</b>			<b>11 123 412 400</b>	<b>4 970 767 521</b>	<b>95,09 %</b>		

BASE PRICE AS OF 29.12.06

1383,8079

\* PLEASE CONTACT STAVANGER FONDSFORVALTNING A/S FOR A LIST OF COMPANIES INCLUDED IN THIS POST – WILL BE SENT BY EMAIL.

\*\* FOR LIQUIDITY IN THE PORTFOLIO AS OF 31.12.2006, PLEASE REFER TO BALANCE SHEET.

# SKAGEN Global

This information is not part of the official accounts and has not been audited.

The SKAGEN Global equity fund invests in shares worldwide – except Norway. The fund's objective is to provide unit holders with the best possible risk adjusted return by investing in companies which are undervalued, under-researched and unpopular. The fund seeks to maintain a balanced industry exposure. The requirement that the companies must be of high quality and have low valuations is absolute. At the same time company risk and market risk must be balanced with the performance opportunities.

SKAGEN Global is regarded by independent agencies, such as the international rating agency Standard & Poor's, as well as magazines such as the Norwegian "Dine Penger", to be one of the very best global equity funds on the market.

SKAGEN Global is suitable for investors who want an equity fund which invests over the whole world and is therefore diversified both geographically and by industry. The fund is also suitable for those who already have exposure towards the Norwegian equity market, but who wish to strengthen their portfolio and reduce risk with a cultivated global fund.

<b>Fund start date</b>	8th August 1997
<b>Return since start</b>	646.67 %
<b>Average annual return</b>	23.85 %
<b>S&amp;P qualitative rating</b>	AAA
<b>Net asset value</b>	22 113 MNOK
<b>Number of unit holders</b>	77 148
<b>Subscription fee</b>	0.0 – 0.7 % (dependent on amount)
<b>Redemption fee</b>	0 %
<b>Management fee</b>	1.0 % p.a + 10 % of the return exceeding the return of the benchmark
<b>Minimum subscription amount</b>	One-time subscription NOK 1,000
<b>Tax schemes</b>	Unit Link
<b>Authorised for marketing in</b>	Norway, Sweden, Denmark, the Netherlands, Finland and Luxembourg
<b>Benchmark</b>	MSCI Daily Net \$ World Index measured in NOK
<b>UCITS fund</b>	Yes
<b>Portfolio Manager</b>	Filip Weintraub

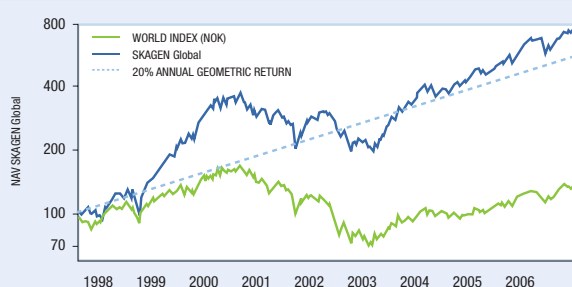
YEAR	RETURN ON INVESTMENT %	BENCHMARK INDEX	NET ASSET VALUE*	NUMBER OF UNIT HOLDERS	TER %**
2006	24,07	10,79	22 113	77 148	2,20
2005	39,21	21,93	13 828	52 715	2,42
2004	24,55	4,46	6 958	35 971	2,88
2003	62,82	28,04	4 387	28 772	3,49
2002	-23,20	-37,97	2 176	26 465	3,06
2001	-4,24	-16,07	2 660	24 767	2,25
2000	-4,65	-5,12	2 863	22 093	1,74
1999	113,41	30,73	2 092	9 983	5,68
1998	47,16	26,52	237	1 017	2,24
1997**	-3,08	-8,21	32	24	3,28

\* MNOK

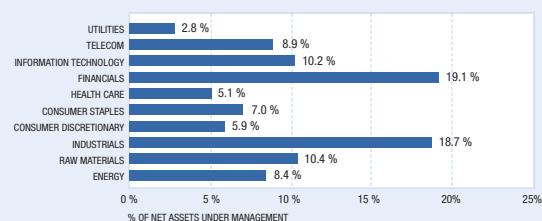
\*\* THE FUND WAS ESTABLISHED DURING THE YEAR

\*\*\* See note on page 62. Management fee: change in reporting

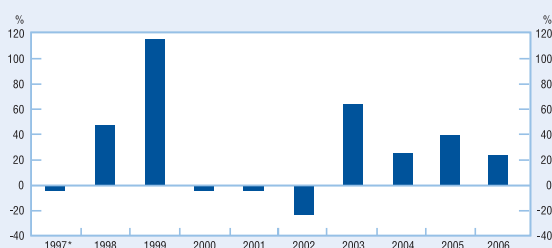
## HISTORIC PRICE DEVELOPMENT



## SECTOR DISTRIBUTION

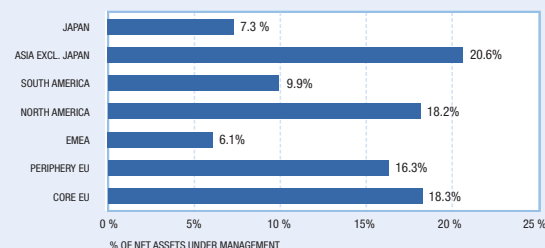


## ANNUAL RETURN



\* THE FUND WAS ESTABLISHED DURING THE YEAR

## GEOGRAPHICAL DISTRIBUTION



## SKAGEN Global Note 8. Securities portfolio as of 31st December 2006

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK EXCHANGE
<b>ENERGY</b>									
PRIDE INTERNATIONAL	4 667 606	830 787 671	30,01	USD	873 716 915	42 929 243	3,95 %	2,85 %	NEW YORK
PETROBRAS PREF. ADR	805 900	145 561 087	92,76	USD	466 286 084	320 724 997	2,11 %	0,17 %	NEW YORK
TRANSOCEAN	323 410	66 167 569	80,89	USD	163 176 960	97 009 391	0,74 %	0,11 %	NEW YORK
BP ADR	351 000	155 763 001	67,10	USD	146 906 224	-8 856 777	0,66 %	0,00 %	NEW YORK
FOREST OIL CORP	474 100	60 318 581	32,68	USD	96 641 255	36 322 674	0,44 %	0,75 %	NEW YORK
BP	738 457	52 258 475	5,67	GBP	51 168 978	-1 089 497	0,23 %	0,00 %	LONDON
MARINER ENERGY INC	383 689	35 054 078	19,60	USD	46 907 899	11 853 821	0,21 %	0,44 %	NEW YORK
FMC TECHNOLOGIES	57 700	11 213 590	61,63	USD	22 180 868	10 967 279	0,10 %	0,08 %	NEW YORK
<b>TOTAL ENERGY</b>		<b>1 357 124 053</b>			<b>1 866 985 182</b>	<b>509 861 130</b>	<b>8,44 %</b>		
<b>RAW MATERIALS</b>									
SVENSKA CELLULOSA B	1 935 350	459 324 867	357,50	SEK	630 309 626	170 984 760	2,85 %	0,98 %	STOCKHOLM
BOLIDEN	2 727 365	75 386 004	176,00	SEK	437 294 795	361 908 790	1,98 %	0,94 %	STOCKHOLM
GRUPO MEXICO SAB DE CV	10 763 220	109 109 476	39,60	MXN	246 783 413	137 673 937	1,12 %	0,42 %	MEXICO
LOUISIANA-PACIFIC	1 609 300	271 374 075	21,53	USD	216 118 328	-55 255 746	0,98 %	1,54 %	NEW YORK
VALE RIO DEL DOCE ADR PREF	1 033 000	124 390 185	26,25	USD	169 137 609	44 747 425	0,76 %	0,11 %	NEW YORK
KEMIRA GROWHOW	2 593 980	127 644 745	6,79	EUR	144 832 720	17 187 975	0,66 %	4,53 %	HELSINKI
VOTORANTIM CELLULOSE ADR	1 092 700	87 500 839	19,61	USD	133 656 196	46 155 357	0,60 %	1,11 %	NEW YORK
ERAMET	71 912	27 886 949	121,40	EUR	71 787 750	43 900 801	0,32 %	0,28 %	PARIS
ALCAN	225 666	60 872 849	56,78	CAD	68 672 922	7 800 074	0,31 %	0,06 %	TORONTO
HARMONY GOLD MINING ADR	629 000	66 451 245	15,75	USD	61 793 353	-4 657 891	0,28 %	0,16 %	NEW YORK
APEX SILVER MINES	559 470	63 656 691	15,89	USD	55 451 240	-8 205 451	0,25 %	0,96 %	AMEX
CLEVELAND-CLIFFS INC	171 200	38 665 620	48,44	USD	51 727 138	13 061 519	0,23 %	0,42 %	NEW YORK
CEMEX SAB	335 600	6 932 517	36,61	MXN	7 113 777	181 260	0,03 %	0,00 %	MEXICO
ASIA PULP&PAPER	86 600	4 565 292	0,01	USD	5 402	-4 559 891	0,00 %	0,03 %	NEW YORK
<b>TOTAL RAW MATERIALS</b>		<b>1 523 761 353</b>			<b>2 294 684 271</b>	<b>770 922 918</b>	<b>10,38 %</b>		
<b>INDUSTRIALS</b>									
SIEMENS AG	1 358 350	776 359 835	75,55	EUR	843 871 745	67 511 911	3,82 %	0,15 %	FRANKFURT
BUNGE LIMITED	1 098 981	377 934 086	72,51	USD	497 048 363	119 114 277	2,25 %	0,92 %	NEW YORK
SAMSUNG HEAVY INDUSTRIES	2 735 090	205 098 395	22 300,00	KRW	410 479 572	205 381 178	1,86 %	1,18 %	KOREA
AIR FRANCE KLM	1 527 621	164 708 017	31,89	EUR	400 590 300	235 882 284	1,81 %	0,57 %	AMSTERDAM
TYCO INTERNATIONAL	1 762 900	337 164 953	30,40	USD	334 281 098	-2 883 855	1,51 %	0,09 %	NEW YORK
KONE CORPORATION B	845 300	156 024 608	42,94	EUR	298 471 728	142 447 120	1,35 %	0,78 %	HELSINKI
STOLT NILSEN ADR	1 501 300	304 354 221	30,49	USD	285 519 298	-18 834 923	1,29 %	2,27 %	NASDAQ
KOMATSU LIMITED	2 047 000	86 909 144	2 415,00	JPY	259 534 012	172 624 869	1,17 %	0,20 %	TOKYO
LG CORP	967 290	192 019 372	29 850,00	KRW	194 319 372	2 300 000	0,88 %	0,56 %	SEOUL
CMB	516 821	29 139 526	32,61	EUR	138 586 600	109 447 074	0,63 %	1,48 %	BRÜSSELS
KWS SAAT AG	143 361	91 850 204	82,61	EUR	97 385 418	5 535 214	0,44 %	2,17 %	FRANKFURT
ENKA INSAAT VE SANAYI	1 440 838	63 496 618	15,10	TRY	95 772 790	32 276 172	0,43 %	0,24 %	ISTANBUL
BUCHER INDUSTRIES AG	128 845	30 312 841	132,30	CHF	87 085 593	56 772 752	0,39 %	1,22 %	ZÜRICH
FURUKAWA ELECTRIC	1 484 000	69 753 989	748,00	JPY	58 276 680	-11 477 309	0,26 %	0,21 %	TOKYO
KOREA LINE	171 500	29 353 832	49 500,00	KRW	57 132 652	27 778 820	0,26 %	1,71 %	KOREA
MUNTERS	125 110	23 505 906	317,00	SEK	36 130 142	12 624 236	0,16 %	0,51 %	STOCKHOLM
TAIHEI DENGYO KAISHA	636 000	33 966 791	820,00	JPY	27 379 800	-6 586 991	0,12 %	1,44 %	TOKYO
AIR FRANCE WARRANT	185 825	0	8,19	EUR	12 514 639	12 514 639	0,06 %	0,42 %	AMSTERDAM
<b>TOTAL INDUSTRIALS</b>		<b>2 971 952 337</b>			<b>4 134 379 804</b>	<b>1 162 427 467</b>	<b>18,70 %</b>		
<b>CONSUMER DISCRETIONARY</b>									
MCGRAW-HILL COMPANIES INC	861 198	267 917 415	68,02	USD	365 384 566	97 467 151	1,65 %	0,24 %	NEW YORK
INDEPENDENT NEWS & MEDIA	10 201 938	166 454 681	3,01	EUR	252 510 514	86 055 833	1,14 %	1,35 %	LONDON
TUI AG	1 107 478	138 948 747	15,19	EUR	138 332 164	-616 583	0,63 %	0,44 %	FRANKFURT
VOLKSWAGEN PREF.	290 000	67 453 784	56,57	EUR	134 900 782	67 446 998	0,61 %	0,28 %	FRANKFURT
SHANGRI-LA ASIA	6 138 207	50 433 194	20,05	HKD	98 949 124	48 515 931	0,45 %	0,24 %	HONG KONG
REGIS CORP	319 989	78 168 362	39,54	USD	78 919 127	750 765	0,36 %	0,71 %	NEW YORK
MAHINDRA & MAHINDRA LTD GDR	585 000	20 732 338	20,70	USD	75 533 006	54 800 668	0,34 %	0,24 %	LONDON INT.
VOLKSWAGEN	86 500	34 119 193	85,89	EUR	61 092 655	26 973 463	0,28 %	0,03 %	HONG KONG
LI & FUNG	2 359 500	27 264 077	24,20	HKD	45 908 320	18 644 242	0,21 %	0,07 %	HONG KONG
DANUBIUS HOTELS	98 897	11 728 576	6 950,00	HUF	22 544 560	10 815 984	0,10 %	1,19 %	BUDAPEST
SSANGYONG MOTOR CO.P-NOTE	605 000	14 820 823	5 260,00	KRW	21 416 879	6 596 056	0,10 %	0,50 %	KOREA
SSANGYONG MOTOR CO.	523 900	21 485 846	5 260,00	KRW	18 545 955	-2 939 891	0,08 %	0,43 %	KOREA
<b>TOTAL CONSUMER DISCRETIONARY</b>		<b>899 527 035</b>			<b>1 314 037 653</b>	<b>414 510 618</b>	<b>5,94 %</b>		
<b>CONSUMER STAPLES</b>									
J SAINSBURY	11 093 904	384 683 559	4,09	GBP	554 356 004	169 672 445	2,51 %	0,65 %	LONDON.
NUTRECO HOLDING	709 953	161 165 070	49,39	EUR	288 336 030	127 170 960	1,30 %	2,04 %	AMSTERDAM
TOLL BROTHERS	1 019 670	181 919 037	32,23	USD	204 988 976	23 069 939	0,93 %	0,66 %	NEW YORK
YAZICILAR HOLDING AS	888 269	80 657 616	36,00	TRY	140 765 765	60 108 149	0,64 %	2,22 %	ISTANBUL
KIKKOMAN CORP	1 523 700	79 805 905	1 437,00	JPY	114 951 737	35 145 833	0,52 %	0,77 %	TOKYO
UNITED INTL ENTERPRISES	176 074	20 082 647	470,00	DKK	91 444 032	71 361 384	0,41 %	3,42 %	KØBENHAVN
ROYAL UNIBREW A/S	92 000	31 588 687	740,00	DKK	75 228 400	43 639 713	0,34 %	1,44 %	KØBENHAVN
LANNEN TEHTAAT	210 350	23 235 921	24,30	EUR	42 031 906	18 795 984	0,19 %	3,33 %	HELSINKI
RAISIO PLC	2 247 300	42 527 608	1,79	EUR	33 078 391	-9 449 217	0,15 %	1,72 %	HELSINKI
<b>TOTAL CONSUMER STAPLES</b>		<b>1 005 666 049</b>			<b>1 545 181 241</b>	<b>539 515 191</b>	<b>6,99 %</b>		

CONTINUED NEXT PAGE





## Continuation SKAGEN Global Note 8. Securities portfolio as of 31st December 2006

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK EXCHANGE
<b>HEALTH CARE</b>									
PFIZER	2 272 600	364 663 566	25,90	USD	367 141 371	2 477 805	1,66 %	0,03 %	NEW YORK
GIDEON RICHTER	194 598	215 672 481	43 345,00	HUF	276 663 090	60 990 609	1,25 %	1,04 %	BUDAPEST
EISAI CO LTD	521 500	115 117 267	6 540,00	JPY	179 057 025	63 939 758	0,81 %	0,18 %	TOKYO
RICHTER GEDOEN NYRT	89 800	46 341 537	227,50	USD	127 429 006	81 087 469	0,58 %	0,48 %	LONDON LG
LIFE SCIENCES	239 900	46 210 634	47 200,00	KRW	76 205 674	29 995 041	0,34 %	1,45 %	SEOUL
YUHAN CORPORATION	49 214	22 743 876	178 000,00	KRW	58 955 419	36 211 543	0,27 %	0,54 %	SEOUL
NEUROSEARCH	112 500	21 889 274	321,50	DKK	39 966 469	18 077 195	0,18 %	0,91 %	KØBENHAVN
BIOVITRUM	93 000	8 769 241	114,00	SEK	9 658 422	889 181	0,04 %	0,21 %	STOCKHOLM
<b>TOTAL HEALTH CARE</b>		<b>841 407 875</b>			<b>1 135 076 476</b>	<b>293 668 602</b>	<b>5,13 %</b>		
<b>FINANCIALS</b>									
HSBC HOLDINGS PLC	7 274 545	812 863 642	9,31	GBP	826 934 630	14 070 988	3,74 %	0,06 %	LONDON.
BANK AUSTRIA CREDITANSTALT	709 465	288 726 184	119,80	EUR	698 904 897	410 178 713	3,16 %	0,48 %	WIEN
BANCO DO BRASIL	1 670 900	202 724 498	64,00	BRL	312 364 730	109 640 231	1,41 %	0,20 %	SAO PAULO
CHEUNG KONG HOLDINGS LTD	4 057 000	296 783 548	95,75	HKD	312 320 031	15 536 483	1,41 %	0,18 %	HONG KONG
HANNOVER RUECKVERSICHERUNG	992 880	204 100 294	35,01	EUR	285 837 473	81 737 179	1,29 %	0,82 %	FRANKFURT
KINNEVIK INV AB, SER B	2 350 800	89 255 949	115,00	SEK	246 281 562	157 025 613	1,11 %	1,10 %	STOCKHOLM
IRSA SA	2 157 210	176 390 221	16,91	USD	227 534 152	51 143 931	1,03 %	4,81 %	NEW YORK
ABERDEEN ASSET MANAGEMENT	9 328 000	74 531 423	1,90	GBP	216 400 272	141 868 849	0,98 %	1,49 %	LONDON
OSAKA SECURITIES EXCHANGE	6 588	73 559 260	596 000,00	JPY	206 138 520	132 579 260	0,93 %	2,44 %	TOKYO
JAPAN SECURITIES FINANCE	2 495 300	178 339 904	1 441,00	JPY	188 775 683	10 435 780	0,85 %	2,50 %	TOKYO
KOREAN REINSURANCE	2 193 791	34 233 167	12 700,00	KRW	187 505 511	153 272 343	0,85 %	1,96 %	KOREA
SABANCI HOLDING (HACI OMER)	6 800 350	120 984 007	5,55	TRY	166 140 031	45 156 024	0,75 %	0,38 %	ISTANBUL
INVIV B	757 980	37 539 138	151,00	SEK	104 268 487	66 729 349	0,47 %	2,87 %	STOCKHOLM
ASYA KATILIM BANKASI AS	4 153 698	76 032 541	5,60	TRY	102 393 640	26 361 099	0,46 %	1,38 %	ISTANBUL
TAG TEGERNSEE IMMOB	485 700	36 634 772	9,26	EUR	36 983 617	348 845	0,17 %	1,49 %	FRANKFURT
FIM GROUP OYJ	707 700	31 854 146	6,10	EUR	35 498 444	3 644 299	0,16 %	1,66 %	HELSINKI
AAREAL BANK	119 600	15 603 228	34,66	EUR	34 087 098	18 483 870	0,15 %	0,28 %	FRANKFURT
YAPI KREDI BANK	2 531 086	42 546 508	1,79	USD	28 259 892	-14 286 616	0,13 %	0,34 %	LONDON INT.
ABERDEEN ASSET MANAGEMENT PREF. 6.25	557	6 648 625	2 020,00	GBP	13 737 959	7 089 334	0,06 %	0,74 %	LONDON
<b>TOTAL FINANCIALS</b>		<b>2 799 351 055</b>			<b>4 230 366 628</b>	<b>1 431 015 574</b>	<b>19,13 %</b>		
<b>INFORMATION TECHNOLOGY</b>									
SAMSUNG ELECTRONICS PREF.	209 850	551 010 927	480 000,00	KRW	677 899 440	126 888 513	3,07 %	0,92 %	KOREA
KYOCERA	942 900	555 238 256	11 220,00	JPY	555 415 245	176 989	2,51 %	0,49 %	TOKYO
SAMSUNG ELECTRONICS GDR	197 866	165 152 430	329,00	USD	406 048 239	240 895 809	1,84 %	0,07 %	LONDON INT.
HEWLETT-PACKARD	1 187 800	206 868 765	41,19	USD	305 172 694	98 303 929	1,38 %	0,04 %	NEW YORK
SAMSUNG ELECTRONICS PREF. GDR	132 795	132 646 178	255,50	USD	211 632 902	78 986 724	0,96 %	0,29 %	LONDON INT.
KYOCERA ADR	42 950	37 558 020	94,89	USD	25 421 090	-12 136 929	0,11 %	0,02 %	NEW YORK
SAMSUNG SDI	58 131	24 789 781	64 300,00	KRW	25 155 551	365 770	0,11 %	0,13 %	KOREA
TRAVELSKY TECHNOLOGY	2 531 000	15 888 335	11,86	HKD	24 134 199	8 245 864	0,11 %	0,81 %	HONG KONG
RTX TELECOM	232 500	30 613 752	68,00	DKK	17 470 050	-13 143 702	0,08 %	2,46 %	KØBENHAVN
PROACT IT GROUP AB	240 220	9 299 795	35,00	SEK	7 659 415	-1 640 380	0,03 %	2,04 %	STOCKHOLM
<b>TOTAL INFORMATION TECHNOLOGY</b>		<b>1 729 066 237</b>			<b>2 256 008 824</b>	<b>526 942 586</b>	<b>10,20 %</b>		
<b>TELECOM</b>									
TELEKOMUNIK INDONESIA ADR	1 680 953	117 151 261	45,60	USD	478 113 462	360 962 201	2,16 %	0,33 %	NEW YORK
MAGYAR TELEKOM	9 440 677	284 028 027	1 060,00	HUF	328 233 458	44 205 431	1,48 %	0,91 %	BUDAPEST
SINGAPORE TELECOMMUNICATION LIMITED	22 711 000	243 383 850	3,28	SGD	302 996 535	59 612 685	1,37 %	0,14 %	SINGAPORE
BHARTI AIRTEL PART.CERT. SSB	3 167 262	69 968 151	15,00	USD	296 336 951	226 368 800	1,34 %	0,17 %	LONDON INT.
INDOSAT TBK,ADR	1 189 500	160 581 050	38,52	USD	285 799 381	125 218 331	1,29 %	1,09 %	NEW YORK
TOTAL ACCESS TELECOMMUNICATION	9 934 900	153 544 211	4,30	USD	266 466 437	112 922 226	1,21 %	2,09 %	SINGAPORE
PAKISTAN TELECOM	29 500	9 323 239	72,76	USD	13 388 295	4 065 056	0,06 %	0,00 %	OTC
<b>TOTAL TELECOM</b>		<b>1 037 979 788</b>			<b>1 971 334 518</b>	<b>933 354 731</b>	<b>8,92 %</b>		
<b>UTILITIES</b>									
ELEKTROBRAS PREFERED	4 489 186	457 748 598	47,90	BRL	628 108 499	170 359 901	2,84 %	0,00 %	SAO PAULO
<b>TOTAL UTILITIES</b>		<b>457 748 598</b>			<b>628 108 499</b>	<b>170 359 901</b>	<b>2,84 %</b>		
<b>TOTAL EQUITY PORTFOLIO*</b>		<b>14 623 584 380</b>			<b>21 376 163 097</b>	<b>6 752 578 718</b>	<b>96,67 %</b>		

BASE PRICE AS OF 29.12.06

746,6746

\* FOR LIQUIDITY IN THE PORTFOLIO AS OF 31.12.2006, PLEASE REFER TO BALANCE SHEET.

# SKAGEN Kon-Tiki

This information is not part of the official accounts and has not been audited.

SKAGEN Kon-Tiki has as its overall objective to achieve the best possible risk adjusted return for its unit holders. The fund will invest at least 50 percent of its assets in emerging markets. These are markets that are not included in the Morgan Stanley World Index. They are: Eastern Europe, Turkey, Africa, Asia (except Japan, Singapore and Hong Kong) as well as all of Latin America including Mexico.

Following from our requirement to have a reasonable industry balance, up to 50 percent of the fund's assets may be invested in markets that are included in the Morgan Stanley World Index. However, the condition is that these companies must be registered in and/or have emerging markets as a substantial business area. SKAGEN Kon-Tiki is a company oriented fund focusing on geographical areas with high growth and companies with low valuations.

In line with SKAGEN's investment philosophy, the focus of the investments in SKAGEN Kon-Tiki is directed at individual companies. Strong cash flow and/or low gearing are important selection criteria for investment objects. Likewise, the three "SKAGEN U's": Undervalued, Under-researched and Unpopular. SKAGEN Kon-Tiki is suitable for an investor who wants to benefit from the value creation taking place in the world's emerging markets. The fund offers the opportunity of extraordinary returns by investing in geographic areas with huge growth potential, but at a higher risk than with a global/ Norwegian equity fund.

<b>Fund start date</b>	5th April 2002
<b>Return since start</b>	268.46 %
<b>Average annual return</b>	31.69 %
<b>S&amp;P qualitative rating</b>	AA
<b>Net asset value</b>	13 918 mill MNOK
<b>Number of unit holders</b>	44 692
<b>Subscription fee</b>	0.0 - 0.7 % (dependent on amount)
<b>Redemption fee</b>	0 %
<b>Management fee</b>	2.5 % p.a. plus/minus variable management fee
<b>Minimum subscription amount</b>	One-time subscription NOK 1,000
<b>Tax schemes</b>	Unit Link
<b>Authorised for marketing in</b>	Norway, Sweden, Denmark, the Netherlands, Finland and Luxembourg
<b>Benchmark</b>	MSCI Daily Net \$ EM Index Free measured in NOK
<b>UCITS fund</b>	Yes
<b>Portfolio Manager</b>	J. Kristoffer C. Stensrud

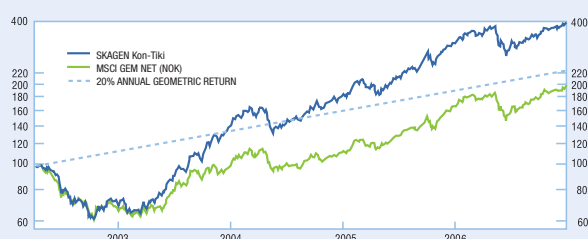
YEAR	RETURN ON INVESTMENT %	BENCHMARK INDEX	NET ASSET VALUE*	NUMBER OF UNIT HOLDERS	TER %***
2006	22,75	21,96	13 918	44 692	2,52
2005	59,25	49,23	8 749	29 553	3,16
2004	32,35	14,33	3 227	16 259	3,95
2003	102,93	50,41	1 711	9 835	3,85
2002**	-29,82	-33,41	250	4 190	3,89

\* MNOK

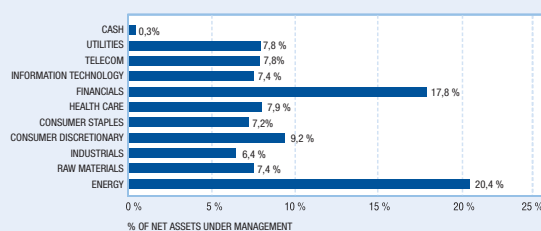
\*\* THE FUND WAS ESTABLISHED DURING THE YEAR

\*\*\* See note on page 6. Management fee: change in reporting

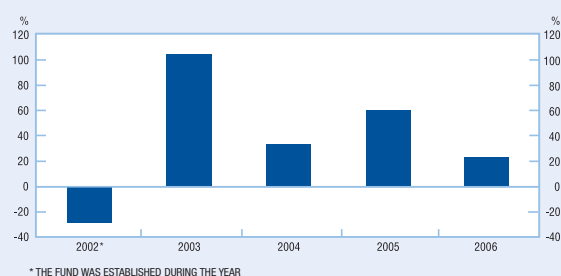
## HISTORIC PRICE DEVELOPMENT



## SECTOR DISTRIBUTION

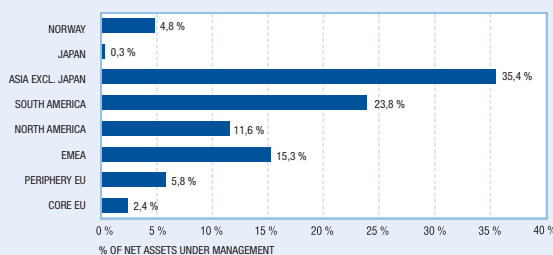


## ANNUAL RETURN



\* THE FUND WAS ESTABLISHED DURING THE YEAR

## GEOGRAPHICAL DISTRIBUTION



## SKAGEN Kon-Tiki Note 8. Securities portfolio as of 31st December 2006

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK EXCHANGE
<b>ENERGY</b>									
PRIDE INTERNATIONAL	5 782 000	1 057 924 361	30,01	USD	1 082 317 402	24 393 041	7,78 %	3,52 %	NEW YORK
NATIONAL OILWELL VARCO	1 331 000	536 525 853	61,18	USD	507 923 243	-28 602 610	3,65 %	0,76 %	NEW YORK
CHINA OILFIELD SERVICES	100 000 000	255 174 126	5,40	HKD	434 160 000	178 985 874	3,12 %	6,52 %	HONG KONG
SEADRILL	4 000 000	227 863 345	105,25	NOK	421 000 000	193 136 655	3,03 %	1,04 %	OSLO BØRS
PETROBRAS PREF. ADR	428 500	145 206 371	92,76	USD	247 926 029	102 719 658	1,78 %	0,09 %	NEW YORK
POLSKI KONCERN NAFTOWY ORLEN	1 000 000	107 245 750	47,70	PLN	102 364 200	-4 881 550	0,74 %	0,23 %	WARSAW
TREFOIL	842 600	39 536 750	46,00	NOK	38 759 600	-777 150	0,28 %	3,63 %	UNOTERT
DEEP SEA SUPPLY PLC	500 000	6 906 595	18,80	NOK	9 400 000	2 493 405	0,07 %	0,38 %	OSLO BØRS
<b>TOTAL ENERGY</b>		<b>2 376 383 152</b>			<b>2 843 850 474</b>	<b>467 467 322</b>	<b>20,44 %</b>		
<b>RAW MATERIALS</b>									
VALE RIO DEL DOCE ADR PREF	3 802 000	420 710 193	26,25	USD	622 518 094	201 807 901	4,47 %	0,40 %	NEW YORK
GRUPO MEXICO SAB DE CV	8 794 600	99 766 618	39,60	MXN	201 646 107	101 879 489	1,45 %	0,34 %	MEXICO
VOTORANTIM CELLULOSE ADR	650 100	49 958 026	19,61	USD	79 518 525	29 560 500	0,57 %	0,66 %	NEW YORK
HARMONY GOLD MINING ADR	750 000	54 182 186	15,75	USD	73 680 469	19 498 283	0,53 %	0,19 %	NEW YORK
CEMEX SAB	1 500 000	30 474 541	36,60	MXN	31 787 100	1 312 559	0,23 %	0,02 %	MEXICO
NORTHLAND RESOURCES INC.	900 000	6 705 000	7,75	NOK	6 975 000	270 000	0,05 %	1,46 %	OSLO BØRS
RIDGE MINING PLC	1 000 000	7 887 670	0,52	GBP	6 349 200	-1 538 470	0,05 %	1,27 %	LONDON
NORTHLAND RESOURCES INC. RESTRICTED	300 000	2 175 000	7,75	NOK	2 325 000	150 000	0,02 %	0,49 %	OSLO BØRS
<b>TOTAL RAW MATERIALS</b>		<b>671 859 233</b>			<b>1 024 799 495</b>	<b>352 940 261</b>	<b>7,36 %</b>		
<b>INDUSTRIALS</b>									
SAMSUNG HEAVY INDUSTRIES	2 900 000	206 229 386	22 300,00	KRW	435 229 100	228 999 714	3,13 %	1,26 %	KOREA
ENKA INSAAT VE SANAYI	2 202 142	95 832 837	15,10	TRY	146 393 445	50 560 609	1,05 %	0,37 %	ISTANBUL
GOLDEN OCEAN GROUP	5 995 000	22 918 680	11,15	NOK	66 844 250	43 925 570	0,48 %	2,21 %	OSLO BØRS
KOREA LINE	200 000	35 816 496	49 500,00	KRW	66 627 000	30 810 504	0,48 %	2,00 %	KOREA
THAI AIRWAYS INTERNATIONAL	5 479 700	42 408 095	44,25	THB	42 069 712	-338 383	0,30 %	0,32 %	BANGKOK
SKYEUROPE	1 417 500	51 436 366	2,85	EUR	33 219 892	-18 216 474	0,24 %	7,09 %	WIEN
TOYO KANETSU CORP	2 000 000	20 955 232	285,00	JPY	29 925 000	8 969 768	0,22 %	1,44 %	OSLO BØRS
SHIP FINANCE INTL	158 300	15 531 282	23,76	USD	23 460 535	7 929 253	0,17 %	0,22 %	NEW YORK
LG CORP PREF.	200 000	22 657 550	16 700,00	KRW	22 478 200	-179 350	0,16 %	6,03 %	SEOUL
REYSAS LOGISTICS	430 000	8 443 084	4,24	TRY	8 026 638	-416 446	0,06 %	0,86 %	ISTANBUL
IDT INTERNATIONAL	18 009 259	17 633 117	0,46	HKD	6 660 544	-10 972 573	0,05 %	0,72 %	HONG KONG
KOKUSAI KOGYO	250 000	6 694 780	381,00	JPY	5 000 625	-1 694 155	0,04 %	0,66 %	TOKYO
KURIBAYASHI STEAMSHIP CO.	100 000	1 229 337	505,00	JPY	2 651 250	1 421 913	0,02 %	0,78 %	TOKYO
SAVA	954	1 605 123	55 500,00	SIT	1 826 671	221 549	0,01 %	0,05 %	LJUBLJANA
<b>TOTAL INDUSTRIALS</b>		<b>549 391 365</b>			<b>890 412 863</b>	<b>341 021 498</b>	<b>6,40 %</b>		
<b>CONSUMER DISCRETIONARY</b>									
LG ELECTRONICS PREF.	1 800 000	530 119 435	32 400,00	KRW	392 493 600	-137 625 835	2,82 %	1,29 %	KOREA
MAHINDRA & MAHINDRA LTD GDR	2 963 310	68 765 021	20,70	USD	382 611 475	313 846 454	2,75 %	1,21 %	LONDON INT.
SHANGRI-LA ASIA	8 100 731	53 425 333	20,05	HKD	130 585 404	77 160 071	0,94 %	0,32 %	HONG KONG
GRUPO ELEKTRA SA	1 352 200	90 256 496	130,99	MXN	102 555 189	12 298 692	0,74 %	0,56 %	MEXICO
SSANGYONG MOTOR CO.	2 700 000	122 743 645	5 260,00	KRW	95 579 460	-27 164 185	0,69 %	2,24 %	KOREA
CHINA TRAVEL INTL INV	30 046 000	50 494 707	2,54	HKD	61 358 739	10 864 033	0,44 %	0,53 %	HONG KONG
SHOPRITE HOLDINGS	1 900 000	34 804 729	25,65	ZAR	43 325 415	8 520 686	0,31 %	0,35 %	JOH.S.BURG
DANUBIUS HOTELS	133 267	17 465 437	6 950,00	HUF	30 379 545	12 914 108	0,22 %	1,61 %	BUDAPEST
INDEPENDENT NEWS & MEDIA	1 047 694	19 622 078	3,01	EUR	25 931 715	6 309 638	0,19 %	0,14 %	LONDON
CONVENIENCE RETAIL ASIA	3 000 000	4 955 899	3,11	HKD	7 501 320	2 545 421	0,05 %	0,44 %	HONG KONG
HANDSOME	27 170	2 944 912	18 000,00	KRW	3 291 374	346 461	0,02 %	0,08 %	SEOUL
<b>TOTAL CONSUMER DISCRETIONARY</b>		<b>995 597 692</b>			<b>1 275 613 236</b>	<b>280 015 544</b>	<b>9,17 %</b>		
<b>CONSUMER STAPLES</b>									
YAZICILAR HOLDING AS	2 001 476	186 062 544	36,00	TRY	317 213 931	131 151 388	2,28 %	5,00 %	ISTANBUL
PODRAVKA	303 915	81 383 706	470,01	HRK	160 269 946	78 886 240	1,15 %	5,62 %	ZAGREB
PAN FISH ASA	27 999 457	146 617 725	5,70	NOK	159 596 905	12 979 180	1,15 %	0,81 %	OSLO BØRS
PIVOVARNA LASKO	455 588	115 356 116	9 630,00	SIT	151 362 279	36 006 164	1,09 %	5,31 %	LJUBLJANA
CRESUD ADR	800 718	77 648 198	17,23	USD	86 054 865	8 406 667	0,62 %	3,47 %	NEW YORK
ROYAL UNIBREW A/S	47 800	16 380 705	740,00	DKK	39 086 060	22 705 355	0,28 %	0,75 %	KØBENHAVN
GRUMA SA DE CV B	1 706 000	37 320 938	39,40	MXN	38 918 296	1 597 357	0,28 %	0,35 %	MEXICO
UNITED INTL ENTERPRISES	60 000	8 509 583	470,00	DKK	31 161 000	22 651 417	0,22 %	1,17 %	KØBENHAVN
PATERSON ZOCHONIS	1 200 000	16 600 527	1,65	GBP	24 175 800	7 575 273	0,17 %	0,28 %	LONDON
<b>TOTAL CONSUMER STAPLES</b>		<b>685 880 041</b>			<b>1 007 839 082</b>	<b>321 959 041</b>	<b>7,24 %</b>		
<b>HEALTH CARE</b>									
HANMI PHARMACEUTICAL CO LTD	456 487	155 409 830	140 000,00	KRW	430 102 522	274 692 693	3,09 %	5,50 %	KOREA
GIDEON RICHTER	295 000	327 184 634	43 345,00	HUF	419 406 220	92 221 586	3,01 %	1,58 %	BUDAPEST
ECZACIBASI SAGLIK URUNLERI SANAYI VE TIC	5 117 292	96 779 001	5,45	TRY	122 782 385	26 003 384	0,88 %	2,80 %	ISTANBUL
RICHTER GEDOEN NYRT	38 790	26 496 379	227,50	USD	55 044 222	28 547 843	0,40 %	0,21 %	LONDON INT.
ECZACIBASI YATIRIM HOLDING	2 084 209	27 787 622	4,70	TRY	43 125 932	15 338 309	0,31 %	3,79 %	ISTANBUL
YUYU INCORPORATED	120 000	15 234 843	18 800,00	KRW	15 182 880	-51 963	0,11 %	2,06 %	SEOUL
YUNG SHIN PHARMACEUTICAL IND.	2 000 000	12 463 142	28,65	TWD	11 030 250	-1 432 892	0,08 %	0,79 %	TAIPEI
SELÇUK ECZA DEPOSU TICARET	200 000	5 111 278	4,86	TRY	4 279 230	-832 048	0,03 %	0,09 %	ISTANBUL
<b>TOTAL HEALTH CARE</b>		<b>666 466 729</b>			<b>1 100 953 642</b>	<b>434 486 913</b>	<b>7,91 %</b>		

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## Continuation SKAGEN Kon-Tiki Note 8. Securities portfolio as of 31st December 2006

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK EXCHANGE
<b>FINANCIALS</b>									
BANCO DO BRASIL	3 325 500	398 424 938	64,00	BRL	621 682 272	223 257 334	4,47 %	0,40 %	SAO PAULO
HSBC HOLDINGS PLC	4 500 165	503 992 682	9,31	GBP	511 556 706	7 564 024	3,68 %	0,04 %	LONDON
BANK AUSTRIA CREDITANSTALT	310 758	178 733 607	119,80	EUR	306 132 491	127 398 884	2,20 %	0,21 %	WIEN
SABANCI HOLDING (HACI OMER)	9 000 000	150 974 969	5,55	TRY	219 904 875	68 929 906	1,58 %	0,50 %	ISTANBUL
ABERDEEN ASSET MANAGEMENT	6 585 869	51 494 436	1,90	GBP	152 785 575	101 291 139	1,10 %	1,05 %	LONDON
KOREAN REINSURANCE	1 326 000	18 632 127	12 700,00	KRW	113 334 546	94 702 419	0,81 %	1,18 %	KOREA
POLARIS SECURITIES CO LTD (P-NOTE)	31 527 969	86 379 759	17,15	TWD	104 085 649	17 705 890	0,75 %	1,66 %	TAIPEI
GRUPO FINANCIERO GALICIA ADR	1 523 000	80 972 156	9,56	USD	90 817 251	9 845 095	0,65 %	1,59 %	NASDAQ
KGI SECURITIES CO LTD (P-NOTE)	35 000 000	77 386 055	11,80	TWD	79 502 500	2 116 445	0,57 %	1,38 %	TAIPEI
KIWOOM.COM	310 000	30 816 793	27 400,00	KRW	57 164 620	26 347 827	0,41 %	2,53 %	KOREA
ASYA KATILIM BANKASI AS	2 000 008	35 180 906	5,60	TRY	49 308 197	14 127 291	0,35 %	0,67 %	ISTANBUL
BANK OF EAST ASIA	1 048 496	20 337 282	44,05	HKD	37 133 744	16 796 462	0,27 %	0,07 %	HONG KONG
YAPI KREDI BANK	3 277 303	28 674 947	1,79	USD	36 591 498	7 916 550	0,26 %	0,44 %	LONDON INT.
STATE BANK OF INDIA (P-NOTE)	50 000	8 510 315	74,40	USD	23 203 500	14 693 185	0,17 %	0,02 %	BOMBAY
ABERDEEN ASSET MANAGEMENT PREF. 6.25	939	11 208 364	2 020,00	GBP	23 159 684	11 951 320	0,17 %	1,25 %	LONDON
NOVAE GROUP	4 700 000	18 865 008	0,36	GBP	20 659 320	1 794 312	0,15 %	0,64 %	LONDON
GRAPHISOFT PARK	434 904	7 610 029	1 020,00	HUF	14 550 148	6 940 120	0,10 %	4,09 %	BUDAPEST
TRIMEGAH SECURITIES	107 500 000	11 302 105	150,00	IDR	11 176 786	-125 320	0,08 %	2,94 %	JAKARTA
FIM GROUP OYJ	115 000	4 970 893	6,10	EUR	5 768 434	797 541	0,04 %	0,27 %	HELSINKI
NOVAE GROUP 7PCT CNV BDS 15.12.08 GBP10	324 400	3 764 023	99,00	GBP	3 933 638	169 615	0,03 %	0,65 %	LONDON
<b>TOTAL FINANCIALS</b>		<b>1 728 231 394</b>			<b>2 482 451 435</b>	<b>754 220 041</b>	<b>17,84 %</b>		
<b>INFORMATION TECHNOLOGY</b>									
SAMSUNG ELECTRONICS PREF.	150 000	434 142 767	480 000,00	KRW	484 560 000	50 417 233	3,48 %	0,66 %	KOREA
SAMSUNG ELECTRONICS PREF. GDR	265 000	203 194 392	255,50	USD	422 325 531	219 131 139	3,03 %	0,58 %	LONDON INT.
ERICSSON NIKOLA TESLA	24 603	28 293 831	2 460,00	HRK	67 907 232	39 613 402	0,49 %	1,86 %	ZAGREB
GRAPHISOFT SE	421 029	14 315 509	2 201,00	HUF	30 395 262	16 079 753	0,22 %	3,96 %	BUDAPEST
TOP ENGINEERING	700 000	43 525 660	4 370,00	KRW	20 587 070	-22 938 590	0,15 %	4,71 %	KOREA
TRAVELSKY TECHNOLOGY	1 000 000	6 159 388	11,86	HKD	9 535 440	3 376 052	0,07 %	0,32 %	HONG KONG
<b>TOTAL INFORMATION TECHNOLOGY</b>		<b>729 631 546</b>			<b>1 035 310 536</b>	<b>305 678 990</b>	<b>7,44 %</b>		
<b>TELECOM</b>									
INDOSAT TBK,ADR	1 922 300	314 396 308	38,52	USD	461 868 138	147 471 829	3,32 %	1,77 %	NEW YORK
BHARTI AIRTEL PART.CERT. SSB	4 500 000	88 778 502	15,00	USD	421 031 250	332 252 748	3,03 %	0,24 %	LONDON INT.
TOTAL ACCESS TELECOMMUNICATION	3 826 200	36 428 816	4,30	USD	102 623 467	66 194 651	0,74 %	0,81 %	SINGAPORE
TELEFONOS DE VENEZUELA	433 900	53 629 202	19,59	USD	53 019 380	-609 822	0,38 %	0,78 %	NEW YORK
FIRST PACIFIC CO	11 050 000	35 391 180	4,04	HKD	35 892 168	500 988	0,26 %	0,34 %	HONG KONG
PAKISTAN TELECOM	10 000	2 718 037	72,76	USD	4 538 405	1 820 368	0,03 %	0,00 %	OTC
NORTEL NETWORKS NETAS TELEKOM	21 353	2 698 538	30,50	TRY	2 867 201	168 662	0,02 %	0,33 %	ISTANBUL
<b>TOTAL TELECOM</b>		<b>534 040 584</b>			<b>1 081 840 008</b>	<b>547 799 424</b>	<b>7,77 %</b>		
<b>UTILITIES</b>									
ELEKTROBRAS PREFERRED	7 750 000	845 002 656	47,90	BRL	1 084 348 225	239 345 569	7,79 %	0,01 %	SAO PAULO
<b>TOTAL UTILITIES</b>		<b>845 002 656</b>			<b>1 084 348 225</b>	<b>239 345 569</b>	<b>7,79 %</b>		
<b>INTEREST BEARING INSTRUMENTS</b>									
ISLANDSK STAT	600 000 000	49 802 043	92,52	ISK	50 953 228	1 151 185	0,37 %		REYKJAVIK
ARGENTINSK STAT	43 855 798	3 240 930	12,50	ARS	11 155 819	7 914 888	0,08 %		OTC
<b>TOTAL INTEREST BEARING INSTRUMENTS</b>		<b>53 042 973</b>			<b>62 109 046</b>	<b>9 066 073</b>	<b>0,45 %</b>		
<b>TOTAL EQUITY PORTFOLIO*</b>		<b>9 835 527 367</b>			<b>13 889 528 041</b>	<b>4 054 000 675</b>	<b>99,81 %</b>		

BASE PRICE AS OF 29.12.06

368,4594

\* FOR LIQUIDITY IN THE PORTFOLIO AS OF 31.12.2006, PLEASE REFER TO BALANCE SHEET.

**MANAGEMENT FEE: CHANGE OF REPORTING**

SKAGEN is continuously working to provide its clients with the most accurate measurement of the management fee. As of January 1st 2007, the annual management fee is reported as a percentage of net asset value per unit. This method of fee reporting removes the effect of subscription and redemption.

The change means that SKAGEN from now on will state the effective fee per fund unit, in the same way as returns are stated per unit. The charging of the management fee itself remains unchanged. The daily fee is calculated on the basis of the funds' net asset value in accordance with their prospectuses.

Previously, the fee has been reported as a percentage of average net asset value during the year. This form of fee reporting is affected by subscription and redemption. The divergence between these reporting forms is minimal for SKAGEN Funds, which has a stable subscription and redemption situation, but the new reporting form is more accurate.



# SKAGEN Avkastning

This information is not part of the official accounts and has not been audited.

SKAGEN Avkastning is a bond fund which only invests in issues with low default risk, i.e. government bonds, government guaranteed loans, loans to financial institutions and bank deposits. The fund has an international investment mandate but investments are primarily made in Norway.

By balancing investments between interest bearing securities with short and long maturities, the fund should over a period of six months seek to achieve the best possible return in the fixed income market. The starting point is that the fund should only assume interest risk if this is expected to provide a reasonable excess return compared to risk free investments.

Flexibility in terms of countries we invest in and duration (the remaining time to maturity for the loans) makes SKAGEN Avkastning a good alternative for investors who do not wish, or do not have the resources, to monitor the fixed income markets all the time for active allocation of their interest bearing assets.

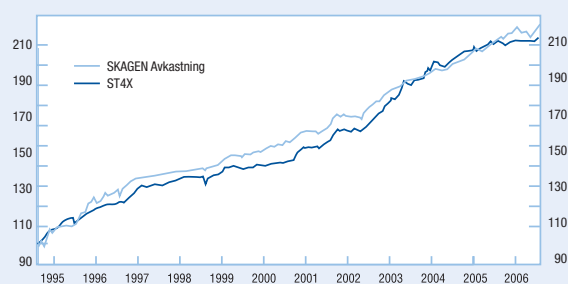
<b>Fund start date</b>	16th September 1994
<b>Return since start</b>	124.32 %
<b>Average annual return</b>	6.79 %
<b>S&amp;P quantitative rating</b>	★★★★★
<b>Net asset value</b>	3 020 MNOK
<b>Number of unit holders</b>	12 279
<b>Subscription fee</b>	0 %
<b>Redemption fee</b>	0 %
<b>Management fee</b>	0.5 %p.a
<b>Minimum subscription amount</b>	One-time subscription NOK 1 000
<b>Tax schemes</b>	Unit Link
<b>Authorised for marketing in</b>	Norway, Sweden, Denmark and Luxembourg
<b>Benchmark</b>	ST4X Government Bond Index
<b>UCITS fund</b>	yes
<b>Portfolio Manager</b>	Ross Porter

YEAR	RETURN ON INVESTMENT %	BENCHMARK INDEX %	NET ASSET VALUE*	NUMBER OF UNIT HOLDERS
2006	3,85	0,89	3 020	12 279
2005	5,82	2,55	2 827	6 385
2004	5,72	5,49	575	2 363
2003	6,15	11,13	144	937
2002	6,74	8,10	120	568
2001	6,17	7,65	60	343
2000	6,06	4,55	38	261
1999	4,57	5,49	36	194
1998	3,63	2,86	21	154
1997	3,66	6,05	72	185
1996	9,77	8,73	60	131
1995	16,11	14,07	34	54
1994 **	5,71	5,53	5	18

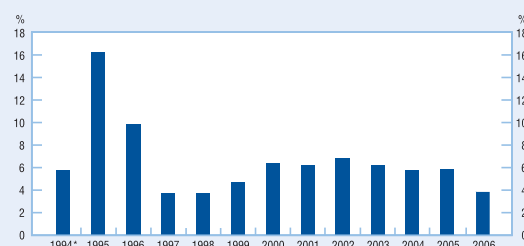
\* MNOK

\*\* The fund was established during the year

## HISTORIC PRICE DEVELOPMENT



## ANNUAL RETURN



\* THE FUND WAS ESTABLISHED DURING THE YEAR

## SKAGEN Avkastning Note 8. Securities portfolio as of 31st December 2006

FINANCIAL BONDS														
MARKET VALUE	ACCUMULATED INTEREST	MARKET PRICE	INTEREST RATE SENSITIVITY**	EFFECTIVE INTEREST**	COST PRICE	FACE VALUE	INTEREST ADJUSTMENT POINT	COUPON	MATURITY	UNREALISED GAIN/LOSS	SHARE OF THE FUND	RISK CLASS**		
155 206 150	1387 250	100,13	0,01	4	100,13	155 145 510	02-01-07	3,58	01-10-09	60 640	5,18 %	5		
119 958 000	692 267	99,96	0,09	3,96	99,96	119 978 800	02-02-07	3,52	02-02-09	-20 800	3,99 %	5		
100 318 000	659 028	100,32	0,08	3,99	100,32	100 129 000	29-01-07	3,65	27-04-10	189 000	3,34 %	5		
95 405 650	792 881	100,43	0,02	3,97	100,43	95 000 000	08-01-07	3,62	07-04-11	405 650	3,19 %	5		
92 947 920	547 640	99,94	0,12	3,99	99,94	93 013 950	13-02-07	3,61	13-02-09	-66 030	3,09 %	5		
75 216 000	477 917	100,29	0,04	4,01	100,29	75 000 000	15-01-07	3,65	14-01-10	-7 500	2,51 %	5		
69 897 800	466 394	99,85	0,07	4,06	99,85	70 000 000	25-01-07	3,58	26-04-11	-102 200	2,33 %	5		
49 982 500	605 903	99,96	0,05	4,05	99,96	50 000 000	28-02-07	3,49	28-08-08	-12 500	1,68 %	5		
50 098 000	266 333	100,21	0,11	4,11	100,21	50 103 500	12-02-07	3,76	10-08-12	-5 500	1,67 %	5		
50 140 500	145 875	100,28	0,16	4,09	100,28	50 193 250	02-03-07	3,89	02-09-09	-52 750	1,67 %	5		
50 097 000	179 444	100,19	0,15	4,05	100,19	50 117 500	26-02-10	3,8	26-02-10	-20 500	1,66 %	5		
50 168 944	131 944	100,07	0,18	4,09	100,07	50 000 000	06-03-09	3,8	06-03-09	62 000	1,66 %	5		
50 062 444	84 444	99,96	0,2	4,05	99,96	50 000 000	15-12-09	3,8	15-03-07	-22 000	1,66 %	5		
40 411 000	353 000	100,14	0,01	3,98	100,14	40 000 000	03-01-07	3,53	03-10-11	84 000	1,34 %	5		
40 187 600	135 000	100,47	0,16	4,19	100,47	40 292 000	01-03-07	4,05	01-09-09	-104 400	1,34 %	5		
40 035 200	210 889	100,11	0,09	4,02	100,11	40 023 200	09-02-07	3,65	09-11-10	12 000	1,33 %	5		
40 032 400	166 667	100,08	0,14	4,01	100,08	40 002 000	21-02-11	3,75	21-02-11	30 400	1,33 %	5		
39 985 200	204 933	99,96	0,11	3,9	99,96	40 006 000	08-05-07	3,48	08-02-07	-20 800	1,33 %	5		
39 988 000	196 356	100,12	0,09	4,14	100,12	39 988 000	14-05-10	3,76	14-02-07	0	1,33 %	5		
39 951 600	144 311	99,88	0,16	4,07	99,88	40 084 000	27-05-09	3,82	27-02-07	-132 400	1,33 %	5		
39 978 000	78 200	99,94	0,19	4,21	99,94	39 990 000	13-09-10	3,91	13-03-07	-12 000	1,33 %	5		
38 570 840	46 350	100,18	0,2	4,1	100,18	38 626 436	17-06-09	3,94	21-03-07	-55 596	1,28 %	5		
35 052 500	198 382	100,15	0,01	4,06	100,15	35 080 500	05-08-09	3,71	05-02-07	-28 000	1,17 %	5		
35 077 350	75 639	100,22	0,19	4,16	100,22	35 020 980	12-03-12	3,89	12-03-07	56 370	1,16 %	5		
35 004 200	33 775	100,01	0,22	4,0	100,01	35 021 000	22-06-07	3,86	22-03-07	-16 800	1,16 %	5		
33 229 680	265 430	100,37	0,04	4,04	100,37	33 140 520	15-10-09	3,81	15-01-07	89 160	1,11 %	5		
33 114 180	252 890	100,35	0,04	3,95	100,35	33 122 100	15-07-09	3,63	15-01-07	-7 920				

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Continuation **SKAGEN Avkastning** Note 8. Securities portfolio as of 31st December 2006**PORTFOLIO KEY FIGURES**

Effective underlying return	5.65 %
Effective return to clients*	5.15 %
Interest rate sensitivity**	1.37

\* Effective underlying return adjusted for management fee.

\*\* Interest rate sensitivity is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

\*\*\* With the exception of foreign government bonds, all securities are traded on the Norwegian market. The Mexican government bonds are traded in Mexico and denominated in Mexican Pesos (MXN), the Brazilian government bonds are traded in Luxembourg and are denominated in BRL, Icelandic government are traded in Reykjavik and are denominated in Icelandic kroner (ISK). World Bank and the European Investment Bank are traded via EuroClear and denominated in Turkish lire (TRY).

\*\*\*\* Effective interest is the average annual return of an interest bearing security until maturity.

\*\*\*\*\* Securities are divided into six risk classes according to their credit risk. Class one has the lowest, and class six the highest credit risk.

Risk class 1: Supranational organisations

Risk class 2: Government, and government guaranteed within the EEA

Risk class 3: Government, and government guaranteed outside the EEA

Risk class 4: County and local government

Risk class 5: Bank and financial institutions

Risk class 6: Industry

\*\*\*\*\* For liquidity in the portfolio per 31.12.2006, please refer to balance sheet

Unit price as of 29.12.2006: 128.0571

133 431 317,- NOK is allocated for distribution to unit holders. This will result in a reduction in the unit price equal to the distribution per unit at time of distribution.

## SKAGEN Høyrente Note 8. Securities portfolio as of 31st December 2006

MARKET VALUE INCL. ACCRUED INTEREST														MARKET VALUE	ACCURED INTEREST	MARKET PRICE	INTEREST RATE SENSITIVITY**	EFFECTIVE INTEREST**	COST PRICE	FACE VALUE	INTEREST ADJUSTMENT POINT	COUPON	MATURITY	RISK CLASS**	SHARE OF THE FUND
FLOATING RATE SECURITIES																									
FINANCIAL BONDS																									
BN BANK	24-08-07	3,67	26-02-07	110000000	109 999 500	4,05	0,15	99,95	414 914	109 949 400	110 364 314	-50 100	5,02	5											
NES PRESTEGJELD SPAREBANK	14-05-07	3,94	14-02-07	5000000	5 008 215	4	0,12	100,08	25 719	5 004 250	5 029 969	-3 965	0,23	5											
ETNE SPAREBANK	18-06-07	4,17	16-03-07	7000000	7 015 540	4,05	0,21	100,13	10 541	7 008 890	7 019 431	-8 650	0,32	5											
SANDNES SPAREBANK	20-06-07	5,3	21-03-07	6000000	6 046 800	4,18	0,21	100,59	9 717	6 035 520	6 045 237	-11 280	0,27	5											
SPAREBANKEN MØRE	17-04-07	4,81	17-01-07	5000000	5 025 000	4,16	0,05	100,32	50 104	5 016 200	5 066 304	-8 800	0,23	5											
INDUSTRIAL BONDS																									
SAS	19-01-07	4,38	19-01-07	83000000	83 000 981	4,3	0,05	99,99	737 178	82 988 380	83 725 558	-12 601	3,81	6											
TELENOR	05-02-07	4,45	05-02-07	79500000	79 706 220	3,98	0,1	100,03	540 490	79 527 030	80 067 520	-179 190	3,64	6											
TELENOR	20-08-07	3,63	20-02-07	70000000	69 969 400	4,03	0,14	99,94	289 392	69 960 800	70 250 192	-8 600	3,20	6											
AKER YARDS	12-10-07	7,41	12-01-07	60000000	62 037 680	4,18	0,04	102,68	988 000	61 606 800	62 594 800	-430 880	2,85	6											
COLOR GROUP	05-10-07	5,12	05-01-07	42000000	42 614 600	4,07	0,02	101,09	519 680	42 459 480	42 979 160	-155 120	1,95	6											
STEEN & STRØM	16-04-07	4,21	16-01-07	23000000	23 079 546	3,95	0,05	100,02	204 419	23 005 520	23 209 939	-74 026	1,06	6											
DOF ASA	15-11-07	5,64	15-02-07	20500000	20 837 560	4,3	0,13	101,36	147 737	20 778 185	20 925 922	-59 375	0,95	6											
STEEN & STRØM	14-09-07	3,84	15-03-07	10000000	9 999 000	4,1	0,2	99,96	17 067	9 995 700	10 012 767	-3 300	0,46	6											
AKER ASA	05-03-07	5,45	05-03-07	150000000	151 251 680	4,36	0,17	100,22	590 417	150 328 500	150 918 917	-923 180	6,86	6											
ENTRA EIENDOM	02-03-07	3,66	02-03-07	100000000	99 970 640	4,03	0,16	99,95	274 500	99 954 000	100 228 500	-16 640	4,56	6											
DNO ASA	29-11-07	4,17	28-02-07	25000000	24 950 000	4,72	0,16	99,77	92 667	24 943 750	25 036 417	-6 250	1,14	6											
NORGANI HOTELS	17-12-07	4,82	19-03-07	21000000	21 000 000	5,06	0,2	99,96	36 552	20 992 650	21 029 202	-7 350	0,96	6											
POWER GENERATION BONDS																									
TROMS KRAFT	27-04-07	4,28	29-01-07	30000000	30 131 125	3,96	0,08	100,21	231 833	30 062 700	30 294 533	-68 425	1,38	6											
NOTES																									
POWER GENERATION NOTES																									
HAFLUND ASA	16-05-07	6,25		28000000	28 377 720	4,18	0,36	100,73	1 097 945	28 204 400	29 302 345	-173 320	1,33	6											
INDUSTRIAL NOTES																									
POSTEN NORGE	28-02-07	3,5		60000000	59 957 220	4,02	0,16	99,92	701 918	59 949 600	60 651 518	-7 620	2,76	6											
ENTRA EIENDOM	10-01-07	3		50000000	49 932 550	3,92	0,03	99,97	1 458 904	49 984 000	51 442 904	51 450	2,34	6											
NORGESGRUPPEN	15-01-07	3,43		50000000	50 004 900	3,94	0,04	99,98	507 452	49 988 500	50 495 952	-16 400	2,30	6											
RIEBER	27-04-07	3,22		40000000	39 886 800	4,14	0,31	99,69	871 6																

TOTAL EQUITY PORTFOLIO*****	1 990 120 399	15 579 277	1 987 636 105	2 003 215 382	-2 484 294	91,11 %
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## PORTFOLIO KEY FIGURES

Effective underlying return	4.26 %
Effective return to clients*	4.01 %
Interest rate sensitivity**	0.13

\* Effective underlying return adjusted for management fee.

\*\* Interest rate sensitivity is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

All securities are traded in the Norwegian market.

\*\*\* Effective interest is the average annual return of an interest bearing security until maturity.

\*\*\*\* Securities are divided into six risk classes according to their credit risk. Class one has the lowest, and class six the highest credit risk.

#### Risk class 1: Supranational organisations

Risk class 2: Government, and government guaranteed within the EEA

Risk class 3: Government, and government

Risk class 4: County and local government

Risk class 5: Bank an

Risk class 6: Industry

Unit price as of 29.12.2006: 103.7699

62 013 825.- NOK is allocated for distribution to unit holders. This will result in a reduction in the unit price equal to the distribution per unit at time of distribution.



## SKAGEN Høyrente Institusjon Note 8. Securities portfolio as of 31st December 2006

[illegible]

## PORTFOLIO KEY FIGURES

Effective underlying return	4.24 %
Effective return to clients*	4.09 %
Interest rate sensitivity**	0.23

\* Effective underlying return adjusted for management fee.

\*\* Interest rate sensitivity is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

All securities are traded in the Norwegian market.

\*\*\* Effective interest is the average annual return of an interest bearing security until maturity.

\*\*\* Securities are divided into six risk classes according to their credit risk. Class one has the lowest, and class six the highest credit risk.

**Risk class 1: Supranational organisations**

Risk class 2: Government, and government guaranteed within the EEA

Risk class 3: Government, and government guaranteed outside the EEA

Risk class 4: County and local government

Risk class 5: Bank and financial institutions

Risk class 6: Industry

\*\*\*\*\* For liquidity in the portfolio per 31.12.2006, please refer to balance sheet

Unit price as of 29.12.2006: 102.6155

10 606 795.- NOK is allocated for distribution to unit holders. This will result in a reduction in the unit price equal to the distribution per unit at time of distribution.

# SKAGEN Tellus

This information is not part of the official accounts and has not been audited.

SKAGEN Tellus is an actively managed global bond fund which invests in bonds issued by governments, regional authorities and financial institutions all over the world. The fund's strategy is to use thorough research to find undervalued bonds with potential for good returns in the form of capital gains.

SKAGEN Tellus is a good option for investors who wish to invest in global bonds and who have an investment horizon of at least 12 months. Investors must be tolerant of currency exchange rate fluctuations. The fund is well suited to be part of a long-term investment portfolio.

<b>Fund start date</b>	29th September 2006
<b>Return since start</b>	0.66 %
<b>Net asset value</b>	574 MNOK
<b>Number of unit holders</b>	2 557
<b>Subscription fee</b>	0 %
<b>Redemption fee</b>	0 %
<b>Management fee</b>	0.8 % p.a.
<b>Minimum subscription amount</b>	One-time subscription NOK 1 000
<b>Tax schemes</b>	Unit Link
<b>Authorised for marketing in</b>	Norway, Sweden, Denmark and the Netherlands
<b>Benchmark</b>	Lehman Global Treasury Index 3 - 5 years.
<b>UCITS fund</b>	Yes
<b>Portfolio Manager</b>	Torgeir Høyen

YEAR	RETURN ON INVESTMENT %	BENCHMARK INDEX %	NET ASSET VALUE*	NUMBER OF UNIT HOLDERS
2006	0,66	-2,87	574	2 557

\* MNOK

\*\* The fund was established during the year

## SKAGEN Tellus Note 8. Securities portfolio as of 31st December 2006

	MATURITY	COUPON	INTEREST ADJUSTMENT POINT	FACE VALUE	COST PRICE	EFFECTIVE INTEREST**	INTEREST RATE SENSITIVITY**	MARKET PRICE	ACQUIRED INTEREST	MARKET VALUE	MARKET VALUE INC. ACQUIRED INTEREST	UNRAISED GAIN/LOSS	SHARE OF THE FUND	RISK CLASS***
<b>FLOATING RATE SECURITIES</b>														
<b>GOVERNMENT BONDS</b>														
NORSKE STAT	15-05-15	5		9 000 000	9 488 800	4,26	6,62	104,71	283 562	9 423 900	9 707 462	-64 900	1,69 %	2
<b>FOREIGN GOVERNMENT BONDS</b>														
BRASILIANSK STAT	05-01-16	12,5		14 000 000	43 548 677	10,06	5,3	334,61	2 498 026	46 844 806	49 342 832	3 296 129	8,59 %	3
BRASILIANSK STAT	05-01-22	12,5		1 800 000	5 589 985	10,56	6,98	335,19	197 085	6 033 415	6 230 499	443 430	1,09 %	3
BELGISKE STAT	28-03-08	5,75		2 000 000	16 982 743	3,83	1,13	839,63	719 413	16 792 665	17 512 078	-190 078	3,05 %	2
DEN EUROPEISKE INVESTERINGSBANKEN (AAA)	05-07-16	14		5 000 000	20 744 298	14,25	4,73	433,02	1 509 129	21 650 826	23 159 955	906 528	4,03 %	1
FINSKE STAT	04-07-07	5		2 000 000	16 651 477	3,7	0,49	825,99	405 049	16 519 813	16 924 862	-131 665	2,95 %	2
FRANSKE STAT	25-04-07	5,25		2 000 000	16 955 069	3,55	0,29	825,73	590 697	16 514 556	17 105 253	-440 513	2,98 %	2
ISRAELSK STAT	31-01-16	0		14 000 000	23 459 631	5,63	6,46	165,63	-	23 188 491	23 188 491	-271 139	4,04 %	3
ISLANDSK STAT	17-03-10	7		310 000 000	27 796 845	9,8	2,56	8,12	1 507 318	25 169 711	26 677 028	-2 627 135	4,65 %	2
ISLANDSK STAT	17-05-13	7,25		280 000 000	25 877 802	8,81	4,63	8,12	1 112 444	22 727 791	23 840 235	-3 150 011	4,15 %	2
MEXIKANSK STAT	29-12-11	9		30 000 000	19 105 185	7,29	4,04	61,94	8 639	18 581 800	18 590 440	-523 384	3,24 %	3
MEXIKANSK STAT	28-12-23	8		41 000 000	23 894 046	7,5	9,43	60,35	15 743	24 743 364	24 759 107	849 318	4,31 %	3
NEDERLANDSKE STAT	28-02-07	0		2 000 000	16 548 576	3,51	0,16	816,96	-	16 339 116	16 339 116	-209 461	2,85 %	2
NEW SOUTH WALES STAT	01-03-17	5,25		4 000 000	19 435 838	6,17	7,46	468,02	345 450	18 720 839	19 066 289	-714 999	3,32 %	3
SØR AFRIKANSK STAT	15-09-15	13,5		10 000 000	11 687 905	7,81	5,47	120,61	352 262	12 060 909	12 413 171	373 004	2,16 %	3
THAILANDSKE STAT	27-07-16	5,4		130 000 000	23 739 838	5,38	7,23	17,25	520 865	22 424 610	22 945 475	-1 315 228	4,00 %	3
TYSKE STAT	23-03-07	2,5		2 000 000	16 409 208	3,43	0,21	819,54	318 414	16 390 861	16 709 274	-18 347	2,91 %	2
UK STAT	07-09-16	4		4 700 000	55 263 278	4,73	7,77	1152,35	729 284	54 160 370	54 889 654	-1 102 908	9,56 %	2
US STAT	15-02-25	7,62		6 300 000	54 073 852	4,92	10,67	824,07	1 123 281	51 916 368	53 039 650	-2 157 484	9,24 %	3
ØSTERISK STAT	15-01-08	5		2 000 000	17 127 297	3,84	0,95	830,92	787 596	16 618 375	17 405 970	-508 923	3,03 %	2
<b>NOTES</b>														
<b>FINANCIAL NOTES</b>														
DANSKE BANK	08-09-11	3,73	08-03-07	2 000 000	16 666 504	3,73	0,25	821,76	39 178	16 435 213	16 474 391	-231 291	2,87 %	5
DNB NOR	11-04-11	3,57	11-01-07	1 500 000	12 473 472	3,57	0,25	821,35	98 962	12 320 250	12 419 212	-153 222	2,16 %	5
FINANCE FOR DANISH IND	03-11-09	3,86	05-02-07	2 000 000	16 828 653	3,86	0,25	821,72	102 237	16 434 392	16 536 629	-394 260	2,88 %	5
HSBC FINANCE CORP	28-10-13	3,78	29-01-07	2 500 000	20 774 888	3,77	0,25	822,17	142 224	20 554 284	20 696 507	-220 605	3,61 %	5
OKO BANK PLC	21-06-11	3,78	21-03-07	2 000 000	16 502 345	3,78	0,25	822,17	17 267	16 443 427	16 460 694	-58 918	2,87 %	5
SAMPO BANK PLC	17-10-13	3,65	17-01-07	2 000 000	16 842 982	3,65	0,25	823,52	124 879	16 470 367	16 595 247	-372 615	2,89 %	5
<b>TOTAL EQUITY PORTFOLIO*****</b>					<b>564 469 195</b>			<b>13 572 098</b>	<b>555 480 519</b>	<b>569 052 726</b>	<b>-8 988 677</b>	<b>99,12 %</b>		

### PORTFOLIO KEY FIGURES

Effective underlying return	6.05 %
Effective return to clients*	5.25 %
Interest rate sensitivity**	4.47

\* Effective underlying return adjusted for management fee.

\*\* Interest rate sensitivity is a simplified expression of how much the price of the security will change if the interest rate changes by one percentage point.

\*\*\* Effective interest is the average annual return of an interest bearing security until maturity.

\*\*\*\* Securities are divided into six risk classes according to their credit risk. Class one has the lowest, and class six the highest credit risk.

Risk class 1: Supranational organisations

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Risk class 3: Government, and government guaranteed outside the EEA

Risk class 4: County and local government

Risk class 5: Bank and financial institutions

Risk class 6: Industry

\*\*\*\*\* For liquidity in the portfolio per 31.12.2006, please refer to balance sheet

Unit price as of 29.12.2006: 100.6618

9 035 310,- NOK is allocated for distribution to unit holders. This will result in a reduction in the unit price equal to the distribution per unit at time of distribution.

## AUDITOR'S REPORT FOR 2006



**PricewaterhouseCoopers AS**  
 Forus Atrium  
 Postboks 8017  
 N-4068 Stavanger  
 Telefon 02316  
 Telefaks +47 23 16 10 00

**Auditor's report for 2006**

We have audited the annual financial statements of the mutual funds as of 31 December, 2006, showing the following results:

SKAGEN Vekst	NOK	2 685 489 600
SKAGEN Global	NOK	3 745 441 603
SKAGEN Kon-Tiki	NOK	2 302 925 897
SKAGEN Avkastning	NOK	102 419 483
SKAGEN Høyrente	NOK	61 717 445
SKAGEN Høyrente Institusjon	NOK	9 473 752
SKAGEN Tellus	NOK	46 633

We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements are the responsibility of the Fund Management Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the mutual funds as of December 31, 2006, and the results of operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway.
- the information given in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit in each mutual fund are consistent with the financial statements and comply with the law and regulations.

Stavanger, 29 January 2007  
**PricewaterhouseCoopers AS**

Gunnar Slettebø  
 State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only

Kontorer: Arendal Bergen Drammen Fredrikstad Ferde Hamar Kristiansand Mo i Rana Molde Målsøy Narvik Oslo Stavanger Stryn Tromsø Trondheim Tønsberg Ålesund  
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 www.pwc.no



Thank you: Investment Director Kristoffer Stensrud receives the Lipper European Fund Award presented to SKAGEN as the best equity fund manager among smaller fund managers in 2006.

## Awards and commendations

SKAGEN Funds has received international recognition and several awards in 2006. For the third year in a row, SKAGEN Global and Portfolio manager Filip Weintraub, was named “Star Manager of the Year” in the global fund category by Swedish business daily Dagens Industri and fund rating company Morningstar.

“In broader categories, such as global funds, I think that it is amazing that the same person – Filip Weintraub – has managed to win three years in a row,” Morningstar’s Jonas Lindmark remarked at [morningstar.se](http://morningstar.se).

During 2006, the funds, the company and the portfolio managers have been awarded a number of prizes and honours. In Sweden, the [fondmarknaden.se](http://fondmarknaden.se) market awarded SKAGEN Funds the prize for best global fund and best emerging market fund for 2006.

Each year the Standard & Poor’s (S&P) rating agency ranks all global equity funds and global emerging market funds according to

returns. In this ranking, SKAGEN Kon-Tiki was among the best 30 per cent in 2006, and SKAGEN Global was among the top two percent. According to five-year returns, S&P ranks SKAGEN Global as number one out of a total of 1352 funds worldwide. SKAGEN Kon-Tiki is number two out of 316 since launch in 2002.

During the Lipper European Fund Awards 2006, SKAGEN Funds was awarded the prize for the best equity fund manager among smaller fund companies. In addition, our equity funds won five awards, which recognise funds and fund managers who have achieved the strongest and most consistent performance relative to competitors in the same class. Lipper uses quantitative methods to

evaluate the funds, in the same way as e.g. Morningstar.

Global Investor Magazine selected SKAGEN Funds as “Equity firm to watch”, when it awarded prizes to outstanding investments in 2006. Kristoffer Stensrud was nominated as one of three candidates to European Investment Director of the Year by 2006 Funds Europe Awards.

These nominations, awards and prizes are recognition of the fact that our investment philosophy works. Our way of managing funds makes us stand out from the many thousands of funds in this market and enables us to deliver world-class performance.



## Community contribution

When the funds' performance and results are as good as they were in 2006, both our clients and the company itself benefit. SKAGEN believes that it is only right to share some of our profits with organisations and projects working to improve society, locally, nationally and globally.

In 2006 we contributed a total of 16 MNOK to various projects. SOS Children's Villages will receive 4 MNOK for an assistance project in Eastern Europe, Doctors Without Borders will receive 3 MNOK to strengthen its work in Africa, and the Children at Risk Foundation will receive 3 MNOK so they may help children in the poor areas around Sao Paulo in Brazil.

Other major contributions in 2006 included reinforcement of the work we do with the Stavanger City history project with 2 MNOK. The money will primarily be used to communicate the Stavanger City history to children and young people.

In December 2005, the management company announced that it would support the Stavanger Tourist Association with a further 4 MNOK for the construction of a new Preikestolen mountain lodge. Three million will be contributed in 2006 and one million in 2007. In total SKAGEN has contributed 8 MNOK to the project.

Other major sponsorship contributions in 2006 were the Tangaroa Expedition and our partnership with the Kon-Tiki Museum in Oslo, Norway.



## Client communication in SKAGEN

Our objective is to offer our clients the best possible communication. To achieve this, we provide a number of various communication channels to our clients.

### **www.skagenfunds.com**

SKAGEN launched an improved version of its English language web-pages in 2006 which is an important source of information for both existing and potential clients. On the website you will find most of the information that you need about SKAGEN Funds, including information on the funds available in different countries, instructions regarding how to buy and sell our fund units, daily price information, commentaries and status reports for our funds as well as important news and replies to frequently asked questions. For existing clients we offer the "My Account" web service. This provides clients with an overview of their SKAGEN holdings, and for those clients with Norwegian bank accounts it is also possible to use "My Account" to subscribe and redeem units online. Subscription and redemption forms can also be downloaded from our website.

### **Market Report**

Our client newspaper is published electronically seven times a year. In the Market Report, you will find important news, savings tips and the portfolio managers' own opinions about investments, markets and prospects. In addition, you will find a complete summary of prices and the investments of all our funds.

### **Customer Services**

Between 09.00 and 17.00 (GMT+1), Monday to Friday, you may drop by one of our offices in Stavanger, Oslo, Bergen, Trondheim, Tønsberg, Ålesund, Stockholm and Copenhagen. Our advisors will assist you with whatever queries you may have regarding fund saving. You may also call Customer Services between 09.00 and 17.00 (GMT+1), Monday to Friday with your queries. If you send an e-mail to [contact@skagenfunds.com](mailto:contact@skagenfunds.com) you will receive an answer within one business day.

## HEAD OFFICE



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Customer Services is open from Monday to Friday from 9 a.m. to 5 p.m. (GMT+1). Either visit us at one of our offices, send an e-mail or call us and we will do our utmost to help you.

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# SKAGEN Funds Offices:

Our goal is to be the best possible investment manager for our clients. We will do this by providing clients with the highest risk adjusted returns and the best possible service, in terms of client communication and follow-up. International clients are welcome to contact our head office in Stavanger. In the Nordic region we operate the following offices:



### ÅLESUND

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