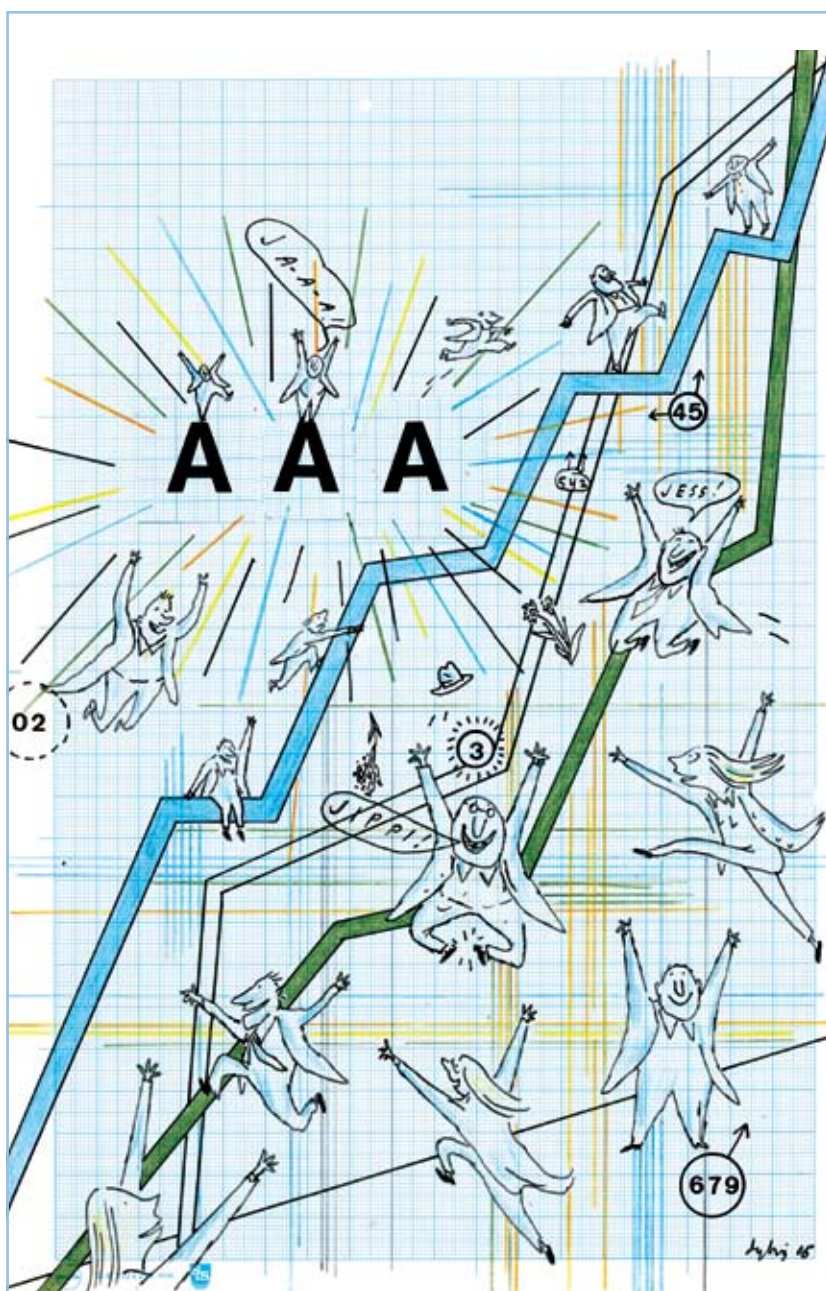


Annual Report 2005



Reasons to be cheerful!

2005 – ALL EXPECTATIONS EXCEEDED

Our equity funds delivered returns of between 40 and 60 percent. Both subscriptions and inflows of new clients were record high, also for our fixed income funds which delivered competitive returns in a market characterised by low interest rates.

The rating agency Standard & Poor's upgraded SKAGEN Global from AA to AAA in 2005. The fund is one of ten global funds with this distinction.

A nose for shares

- I have only been in the business for 35 years, says investment director J. Kristoffer C. Stensrud. Over the last 13 years his funds-baby has become the largest in Norway.

Read more on page 12

The party isn't over...

2005 was fantastic: for you as investors and for us as managers. 2006 should also be fun.

Read why in the portfolio managers' report on page 17

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LARGEST IN NORWAY, STRONG GROWTH IN SWEDEN:

– We aim to be the best

ANOTHER RECORD YEAR

The return for the three equity funds, SKAGEN Vekst, Global and Kon-Tiki, ended up in the 40-60 percent range. All the funds beat their respective benchmarks, and with good margins.

For the third year in a row, the fixed income fund SKAGEN Avkastning delivered a return in the region of six percent, with moderate price fluctuations. SKAGEN Høyrente achieved a return well over the best rates offered for deposit accounts in the country's largest banks. In its second full operating year, SKAGEN Høyrente Institusjon again managed to beat its benchmark.

For all equity funds, the average annual return was above the overall 20 percent target. Both subscriptions and the inflow of new clients were record high. The business in Sweden had its first full operating year, with great results.

World-class

Based on returns during the last five-year period, SKAGEN Global is the best global equity fund. SKAGEN Kon-Tiki is the best global emerging market funds based on returns over the last three years, and SKAGEN Vekst is the second best equity fund with a Norwegian or Norwegian/international mandate.

Staying true to our investment philosophy

Our good performance is first and foremost due to the fact that we have a strong and solid investment philosophy



– Thank you for the confidence you have shown us once again this year. It inspires to do our utmost to make 2006 a year where we provide our unit holders with the highest possible return at the lowest possible risk, says managing director Harald Espedal.

to which we have stayed true ever since start-up in 1993, regardless of changing times and market sentiments.

We have an extremely competent and stable team of portfolio managers. We are paid to deliver extraordinary returns to our unit holders, but not at the expense of good

risk management. Our independent business model allows us the freedom to choose what is best for our clients.

Adapting to the desired risk profile

One nice trend in 2005 was that increasing numbers of our unit holders chose to have all or significant parts of their financial assets invested in SKAGEN Funds. Our asset managers help clients put together a portfolio of fixed income and equity funds which is adapted to each individual client's unique risk profile.

The use of savings agreements is still increasing. At the turn of the year there were approximately 20,000 clients who had established an agreement with us for regular saving in equity and/or fixed income funds. For those in the later "harvesting" phase of life, redemption agreements are a very good alternative which are used by an increasing number of people. Such agreements may also be favourable with respect to payment of interest and repayment of loans.

Strong growth and great potential in Sweden

The Swedish fund market was good in 2005, and we benefited from this. Helped by good returns and communication, as well as capable SKAGEN employees, we strengthened our position significantly in the Swedish market. Net subscriptions in equity funds amounted to SEK 2.1 billion, corresponding to 7.9 percent of total net inflows to equity funds in Sweden.

With a market share of the Swedish equity fund market of 0.4 percent (as of September 30th, 2005), the potential is great. As of 2006, Sweden is defined as a home market for us.

Record subscriptions in a poor Norwegian fund market

Even though our subscriptions reached record highs, the fund market in Norway in general was poor. In recent years we have increasingly been competing with players offering property syndicates, guaranteed products and annuities.

In total, subscriptions to our funds were NOK 10.5 billion. Combined with good equity markets and strong asset management, total assets doubled to NOK 39.5 billion. For the first time since 2000, we experienced that the savings and high net worth market constituted the majority of net subscriptions.

With a market share of 23.2 percent, we are now Norway's biggest equity fund manager. We thank you for your confidence in us and keep reminding ourselves that nobody

puts money into our funds because we are growing or are the largest in the Norwegian market. People invest with us because they are confident that we will manage their money in a safe and profitable manner.

Pensions for everybody

The introduction of mandatory company pensions as of 2006 led to a significant expansion of the market for defined contribution pensions. For cost reasons practically all companies that do not have a pension scheme will probably choose a defined contribution pension. A product which SKAGEN Funds has offered since 2001.

We believe that more and more good and profitable companies will gradually start to extend their pension schemes beyond the mandatory minimum level. Attractive pension schemes are becoming an increasingly important tool to attract competent employees. Through contributory schemes, companies are able to offer pension schemes that are both

competitive with the current defined benefit schemes and cheaper and more flexible for the enterprise.

Employees are not only dependent on high contributions from their employer to receive the highest possible pensions. It is also important for them that their contributions are invested with a manager that is able to provide the best possible return at the lowest possible risk – based on individual

risk profiles (time remaining to retirement).

We hope and believe that SKAGEN Funds will continue to deliver good results, to the benefit of many future retirees.

Strengthening communications

We continue to increase resources to improve communication with our unit holders. The market report was extended by four pages. Our website was re-launched in a new format, in Norwegian, Swedish, Danish and English. Our news and media production increased significantly in scope.

Towards the end of the year, we received authorisation to market our funds in Luxembourg. In 2006 we will use resources to cultivate this market, together with the Danish market.

Thank you for the confidence you have shown us once again this year. It inspires us to do our utmost to make 2006 a year where we provide our unit holders with the highest possible return at the lowest possible risk, as well as good service, communication and competent follow-up.

"Our good performance is first and foremost due to the fact that we have a strong and solid investment philosophy to which we have stayed true ever since start-up in 1993."

World-class returns

2005 was another record-breaking year for SKAGEN Funds. All of our equity funds achieved new all-time highs and our fixed income funds delivered competitive results.

SKAGEN Global

Manager
Start

Filip Weintraub
8th August 1997

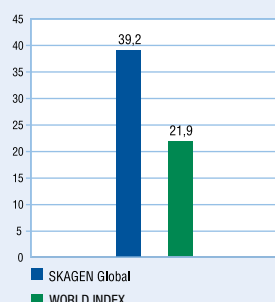
Total assets (MNOK)

13 828 (2005) and 6 958 (2004)

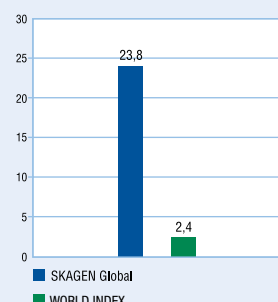
Number of unit holders

52 715 (2005) and 35 971 (2004)

RETURN 2005



AVERAGE ANNUAL RETURN SINCE START



SKAGEN Avkastning

Manager
Start

Ross Porter
16th September 1994

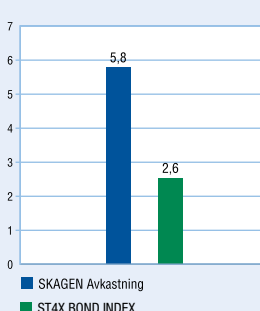
Total assets (MNOK)

2 827 (2005) and 575 (2004)

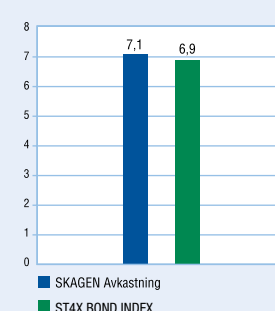
Number of unit holders

6 385 (2005) and 2 363 (2004)

RETURN 2005



AVERAGE ANNUAL RETURN SINCE START



SKAGEN Vekst

Manager
Start

Kristian Falnes
1st December 1993

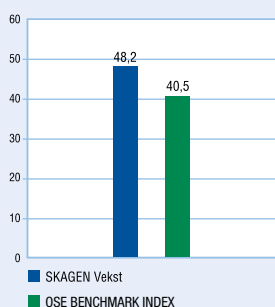
Total assets (MNOK)

8 254 (2005) and 5 712 (2004)

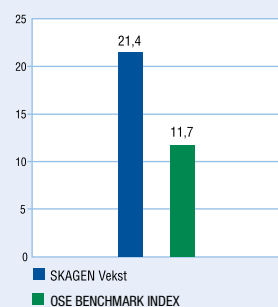
Number of unit holders

61 792 (2005) and 51 781 (2004)

RETURN 2005



AVERAGE ANNUAL RETURN SINCE START



SKAGEN Høyrente

Manager
Start

Torgeir Høyen
18th September 1998

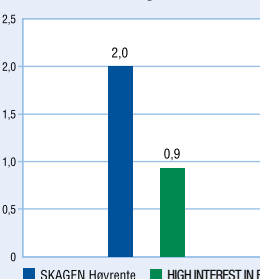
Total assets (MNOK)

2 420 (2005) and 1 174 (2004)

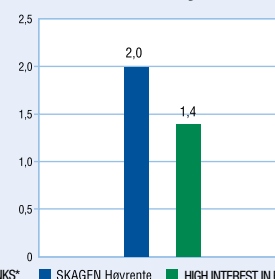
Number of unit holders

7 210 (2005) and 5 086 (2004)

RETURN 2005 DEPOSITS OVER 50 000 NOK



RETURN 2005 DEPOSITS OVER 150 000 NOK



*Interest rate for high-interest accounts is Dine Penger's average for the nine largest banks in Norway

SKAGEN Kon-Tiki

Manager
Start

J. Kristoffer C. Stensrud
5th April 2002

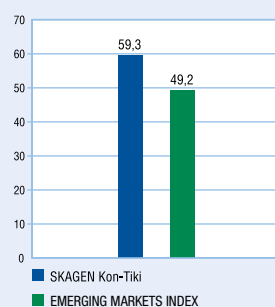
Total assets (MNOK)

8 749 (2005) and 3 227 (2004)

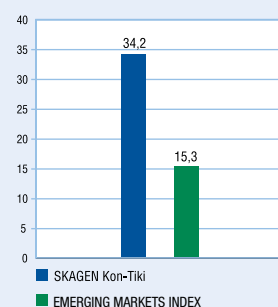
Number of unit holders

29 553 (2005) and 16 259 (2004)

RETURN 2005



AVERAGE ANNUAL RETURN SINCE START



SKAGEN Høyrente Institusjon

Manager
Start

Torgeir Høyen
14th March 2003

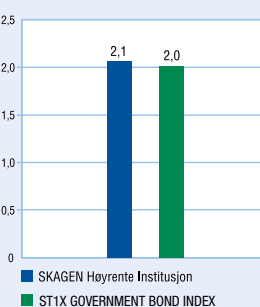
Total assets (MNOK)

375 (2005) and 198 (2004)

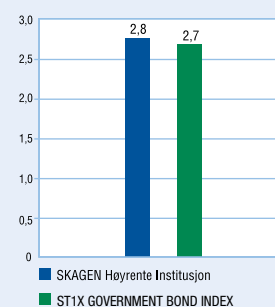
Number of unit holders

54 (2005) and 29 (2004)

RETURN 2005



AVERAGE ANNUAL RETURN SINCE START



Strong growth – strong results

BOARD OF DIRECTORS' REPORT

Strong results from both the equity and fixed income funds lead to an increasing inflow of assets to our funds – quite contrary to the negative trend experienced by the Norwegian funds market in general. At the end of last year we passed DnB Nor as the country's largest equity fund manager and strengthened our position towards the turn of the year. During the year, total assets doubled to 39.5 billion NOK.

All three of our equity funds reached new highs after appreciations in the range of 40 to 60 percent.

The fixed income fund SKAGEN Avkastning was able to please its unit holders with six percent appreciation, with only small price fluctuations on the way. SKAGEN Høyrente achieved better returns than the average high interest deposit account offered by the country's biggest banks. SKAGEN Høyrente Institusjon was able to provide a better return than its benchmark.

We experienced a record high inflow of assets from our clients, and more than doubled the inflow from 2004 to 2005.

The first operating year for our office in Sweden confirmed that this initiative has been very successful.

Correct prediction

As we predicted in the 2004 Directors' report, 2005 turned out to be a year with very high growth for the world economy. China and India were important drivers of the global economy. Strong economic activity has resulted in continued high commodity prices, lead by oil, as well as sustained shipping rates. China's export of low priced goods to the rest of the world has been a strong contributor to keeping global prices and interest rates down. A dream situation for Norway, the oil nation.

Japan and Europe surprised positively with higher economic growth than expected. If we adjust for population growth,



Board of Directors in Stavanger Fondsforvaltning AS. Back row from left: Barbro Johansson, Tor Dagfinn Veen, Ulrik Scheen and Sigve Erland. Front row from left: Martin Gjelsvik and Anne Sophie K. Stensrud. Jan Henrik Hatlem was not present.

Photo: Tom Haga

these regions are almost at the same level as the U.S. in terms of economic growth.

Interest rates out of step

In line with what we wrote in last year's Directors' report, 2005 saw a more differentiated interest rate picture. This is due to the fact that the world is now moving in different phases with respect to cyclical development. After a number of interest rate increases from the U.S. Federal Reserve, the short-term rates in the U.S. now seem to be near the peak in this cycle. We are talking about a discount rate of 4.50 percent, which is a historically low peak.

The United Kingdom was the first western country to increase its discount rate, but it has already reduced the rate a notch. In Europe and Japan, careful rate increases are expected, but from very low levels.

Neither strong global economic growth nor record high oil prices have, so far, resulted in higher core inflation.

At the end of 2005, long bond yields in the most important economic regions and countries were at about the same level as at the start of the year. Thus, returns on alternatives to equity investments are still low.

In spite of ever more equity investors focusing on value oriented investing, we also managed in 2005 to find good undervalued, under-researched and unpopular companies. At the start of 2006 we are therefore of the opinion that our equity funds have portfolios of companies that have valuations that are too low in relation to the actual values of the companies.

Continued good prospects for the global economy and low returns on alternative investments means that 2006 will also be a good year for the global equity markets.

SKAGEN Vekst best in relative terms

With a return of 59.3 percent, SKAGEN Kon-Tiki was our best performing equity fund. In comparison, the fund's benchmark, the Global Emerging Market index, rose 49.2 percent. SKAGEN Global provided its unit holders with the best return relative to its benchmark. The fund rose 39.2 percent, compared to 21.9 percent for the World Index.

SKAGEN Vekst was the equity fund providing the best risk-adjusted return, with risk being measured by the fluctuations in the price of the fund throughout the year. In spite of oil-heavy Oslo Stock Exchange being one of the best exchanges in the world also in 2005, SKAGEN Vekst managed to turn in a better performance.

SKAGEN Vekst rose 48.2 percent, compared to 40.5 percent for the Oslo Stock Exchange. This is impressive given the fact that the fund has had close to 50 percent of its assets invested outside the country (the mandate stipulates a minimum of 50 percent in Norwegian equities). If we split the return of SKAGEN Vekst in to Norwegian and global parts of the portfolio, they both provided a significantly higher return than their respective benchmarks.

Price fluctuations for our equity funds, measured by the standard deviation, have been somewhat higher in 2005 than in 2004. However, if we split the price fluctuations into components, we see that the funds fall less than or in line with the market (benchmark) in downturns, whereas they rise more than the markets during recoveries.

BEST MARKS FROM S&P

This summer, SKAGEN Global was upgraded from AA to AAA by Standard & Poor's (S&P). What that really means is that S&P is of the opinion that the fund, and the management of it, represents the best quality there is in the global equity fund market. Only ten global equity funds have this highest of distinctions, AAA, from S&P.

SKAGEN Vekst was upgraded by S&P from A to AA, and rose with that to the same level as SKAGEN Kon-Tiki.

In their considerations, S&P puts most emphasis on the quality of the management organisation, the investment philosophy and how the investment process is managed. Consistent returns and continuity among the managers behind the results of the fund are also very central criteria.

Strong increase in the fixed income funds

Good management provided strong results for our fixed income funds. This has led to an ever-increasing inflow of money to the funds. Total assets increased from NOK 2.0 billion to NOK 5.6 billion at the turn of the year. (All figures regarding total assets and net subscriptions in the Directors' report are reported in line with the Norwegian Mutual Fund Association's standards for market statistics.)

SKAGEN Høyrente achieved a return of 2.04 percent, which is well above the average high interest rate offered by the largest banks, and in line with the three-month money market rate. The fund's price fluctuations were negligible. The fund increased its total assets from 1.2 billion NOK to 2.4 billion NOK. The number of unit holders increased from 5,086 to 7,210. As of 2006, the management fee of the fund is reduced from 0.3 to 0.25 percent annually.

The return of SKAGEN Høyrente Institusjon ended up at 2.06 percent, which was better than the index for Treasury bills with three months' lock-in period.

The fund's price fluctuations were negligible. The fund's total assets increased from 198 to 375 million NOK. As of January 2006, the management fee of the fund is reduced from 0.25 to 0.15 percent annually. At the same time, the minimum subscription amount has been increased from one to five million NOK.

SKAGEN Høyrente Institusjon is the only fund marketed by SKAGEN Funds that has a minimum subscription amount higher than NOK 1,000 for one-time contributions and NOK 250 for savings agreements.

In spite of moderate price fluctuations, SKAGEN Avkastning achieved a return of 5.82 percent. Throughout the year, the fund has had 80-85 percent of its assets invested in short-term Norwegian fixed income securities. The rest of the assets have been invested in foreign government securities.

The foreign portfolio has given excess return above risk-free interest, whereas the Norwegian portion has provided risk reduction. The fund's price fluctuations are low and

"This summer, SKAGEN Global was upgraded from AA to AAA by Standard & Poor's. Only ten global equity funds have been awarded this highest of distinctions."

below the level of other Norwegian bond funds. The fund experienced very strong growth. Total assets increased from 581 million NOK to over 2.8 billion NOK. The number of unit holders increased from 2,363 to 6,385.

Alternative to bank

We are pleased to note that an increasing number of SKAGEN Funds clients are availing themselves of our fixed income funds. They are making use of them both as pure liquidity investments, as an alternative to bank deposits and as a part of their asset management. By putting together a combination of our equity and fixed income funds, clients may achieve an asset allocation that is suited to their desired risk profile.

Record subscriptions

SKAGEN Funds achieved record inflows of assets in 2005. Net subscriptions were 10.5 billion NOK, which is more than double the previous record from 2004. Increased net subscriptions from existing clients are signalling that we have fewer outflows of assets to guaranteed products and property syndicates. Additionally, we know that an increasing number of clients use our fixed income funds to reduce risk, in order to achieve the desired return and risk profile on their financial assets.

Net subscriptions in our equity funds were 6.9 billion NOK, compared to 3.1 billion NOK the previous year. Together with a total appreciation of 9.2 billion NOK, the total assets of the equity funds doubled to 33.9 billion NOK. In terms of total assets under management, that means that we are now the biggest equity fund manager in Norway. The equity fund market share is 23.2 percent, versus 18.5 percent at the start of the year.

Net subscriptions in the fixed income funds were 3.6 billion NOK, compared with 988 million the year before. Total assets in the fixed income funds more than doubled to 5.6 billion NOK.

The total assets of SKAGEN Funds increased from 19.6 to 39.5 billion NOK. The number of unit holders increased from 63,000 to 86,000. Half of this increase came from our partner banks.

The subscription situation was only a minor disturbance for the management of the portfolios. Overall, fluctuations in subscriptions fell, and for the individual equity funds they were smaller than before and simultaneously more predictable. This is due to the funds' larger size and the inflows from the Swedish market which reduce fluctuations in the Norwegian market.

Good inflow of assets from the banks

If we look at our channels of distribution in Norway, our own distribution, Asset Management, is the most important. In addition, our partner banks have made important contributions to the excellent subscription achievements.

After strong growth in the number of new bank distribution agreements for our funds in 2004, focus this year was directed at consolidating and strengthening the



A helping hand: half of our new clients came via our partner banks, such as Spareskillingsbanken in Kristiansand.

Photo: Spareskillingsbanken

partnerships. However, we have entered into new and important agreements in 2005, with Handelsbanken, Sparebanken Hedmark and Sparebanken Øst.

We have already experienced a good client inflow from the defined contribution pension market (please refer to separate paragraph), both through our own distribution and sales of our funds through Handelsbanken Liv and Storebrand. The Unit Link market now constitutes a markedly smaller part of our net subscriptions in Norway.

"Customer is king"

In order to have more relevant information on savings in general and our funds in particular, four extra pages were added to the market report. We are happy with this expansion, as it has made it possible to increase the amount of information we provide to our unit holders about different forms of saving and inheritance/tax issues, and our views with respect to our investments as well as economic developments.

Our website was launched in a new format in Norwegian, Swedish, Danish and English. We have experienced in part significantly increased traffic on our website, in all languages. On average, well over 1,000 Swedes visit our Swedish web pages each month. In Norway we had on average 51,000 unique users, versus 44,000 the year before. The news section was significantly strengthened during 2005. This stimulates increased use of the website to learn more about us, our funds, our investment views, etc.

We regularly conduct user surveys among our clients in order to get their view of the market report and our website. This is to ensure that they are always as good and customer friendly as possible.

In 2005 we conducted 124 information meetings all over the country, in two batches, one during the winter and one

in the autumn. 6000 people participated at the meetings. Topics included a status review for all our funds, our view of the future and savings advice.

WARM RECEPTION IN SWEDEN

2005 was the first year when our international activities constituted a significant part of our business. Throughout its first whole year of operation, our office in Sweden has exceeded all our expectations. SKAGEN Funds has been well received by all customer segments in Sweden.

We have received a lot of press attention, and several distinctions for good performance. In addition, we have been able to publish a Swedish market report and launch a website faster than anticipated. There are three employees in Stockholm, and incoming calls and e-mails from Swedish clients are answered in Swedish in Stavanger.

represented by the members of the Swedish Mutual Fund Association.

We have been authorised to market our funds in Denmark for over three years. Even though the level of subscriptions is relatively modest in Denmark, we are getting a good return on a limited deployment of resources. We have participated in the Danish 'Folkebørsen' ("People's Exchange"), which started in 2005 as a kind of parallel to the Swedish government pension scheme, PPM. We have achieved a surprisingly good market share at Folkebørsen, but the scheme has not achieved the same overall scope as in Sweden. Subscriptions from Denmark consist of pension assets from private Danish clients and assets from Danish institutions. Danish regulations still practice fiscal and administrative discrimination of free assets in foreign funds.

In 2005 we also received significant subscriptions from clients in countries outside Scandinavia, who have independently found out that we are an attractive manager for investing their money.



Home market: our office in Stockholm has completed its first year of operations, and results have exceeded all expectations.

Photo: Luth

In addition to our own distribution we have developed a distributor network within finance and insurance. We have 2,005 direct clients and a great number of indirect clients through our distributors. Just through PPM, the government pension scheme, over 50,000 Swedes have invested their pension assets in our funds.

Net subscriptions from the Swedish market were 2.1 billion NOK, which constituted 7.9 percent of total net subscriptions in the Swedish equity fund market,

Towards the end of 2005 we received authorisation to market our funds in Luxembourg. We are now working on establishing separate distribution agreements and channels of communication of fund prices and performance history. In addition we face challenges finding good accommodations between legislation in Norway and Luxembourg.

Mandatory company pensions provide opportunities
During 2005, mandatory company pensions were

introduced in Norway, requiring start-up during 2006. It is expected that nearly all companies not currently having a pension scheme will choose schemes with defined contributions rather than defined benefits. For the first time, long-term management of pension assets has been systemised in Norway. Given the fact that pension assets are long-term savings, benefit-based pension schemes have had a far too short-term framework to relate to.

In spite of all attempts to complicate defined contribution pensions with professional insurance terminology, it is important to remember that the main part of the product is savings – divided into two elements. A savings agreement that lasts for the rest of the employee's occupational life, and a redemption agreement that will last all or part of his/her retirement. These are forms of saving which we have experience with.

In addition, there are requirements regarding contribution exemptions in the case of disability pension connected to the mandatory part of the company pension. This and any other risk products which clients may demand, are provided by us through a life insurance partner.

In 2005 much of the focus around contributory pensions has been on the mandatory minimum scheme. We think the focus gradually will be directed towards the opportunity to extend the scheme to become an equal or better alternative to the current defined benefit schemes. Both for the employee and the employer.

SKAGEN Funds offers defined contribution pensions as an independent product, but our funds are also included in the product range of Handelsbanken Liv, If, SpareBank1 and Storebrand.

FROM 51 TO 61 EMPLOYEES

The number of employees of the management company, Stavanger Fondsforvaltning AS, increased from 51 to 61 in 2005. The increase has taken place within most areas of competence in the organisation. We will see a further strengthening of the organisation already from the start of 2006.

Throughout the year, a study program was implemented under the auspices of Norges Handelshøyskole (Norwegian School of Economics and Business Administration) for all employees involved with communication and client contact. Furthermore, certification has been implemented

in order to comply with Swedish consulting regulations, both for our personnel in Sweden and in Stavanger. On an individual basis, we use skill-enhancing training that is relevant for individuals in their work situation. We are also conducting monthly sessions of the SKAGEN School for topical internal company training.

The work environment is stimulating and demanding. Incentive models stimulate the employees to strive for a highest possible return for our clients. No models are being used that tie compensation directly to subscription results.

The Directors would like to thank the employees for a great effort in a very successful year. The skills and attitude of our employees are vital for our results.

SKAGEN Funds organisation

The manager of each of the SKAGEN Funds is Stavanger Fondsforvaltning AS, with Handelsbanken

as custodian and The Norwegian Central Securities Depository as registrar. The risk of the funds arises as a consequence of market movements, currency, interest rate and cyclical developments, as well as company specific issues. Legislation stipulates specific requirements with respect to the number of securities in the spread of a portfolio and limits on unlisted securities. These requirements have been met during the year.

The management company's investment strategy has requirements with respect to industry balance and the liquidity of the underlying securities. These requirements have also been met during the year. The spread of the equity portfolios' investments is a result of our investment strategy, which contains requirements for company valuation, product/market matrix, gearing and the liquidity of the security.

Legal matters

The Norwegian Parliament passed a new tax reform in December 2004, and in 2005 it has made several clarifications regarding the tax regulations related to fund savings. Overall, the tax reform has made fund savings more profitable:

- For the 2005 tax year, all types of securities funds were only valued at 65 percent of the market value in the calculation of taxable assets (versus 100 percent previously). For the 2006 tax year securities funds will be valued at 80 percent of market value with respect to taxable assets.
- As of 2005, corporations were able to realise gains in equity funds without triggering taxation (whereas losses were not deductible).
- As of 2006, a portion of a private individual's realised

"Over 50,000 Swedes have invested their pension assets in our funds via PPM, the government pension scheme."

gains on equity funds is tax-free. As of 2006, private individuals will only pay 28 percent tax on that portion of their realised return on equity funds exceeding the so-called base rate (which will be approximately at the same level as the average high interest rate offering from banks after tax).

The introduction of the so-called base rate replaces the former RISK deduction, which only applied to the Norwegian equity investments of SKAGEN Vekst. However, for private individuals investing in equity funds with holdings of equities outside Norway, the new tax rules are unambiguously more favourable than the previous regulations.

The Right of Cancellation Act

In October 2005, some changes to the Norwegian Right of Cancellation Act became effective. Among other things, there is now a requirement that new private clients that subscribe for units in securities funds with the aid of remote communications (mail, fax, Internet, etc.) must receive certain statutory pieces of information. This is information that on the whole is already contained in the prospectus of the fund.

Simplified prospectus and periodical reporting

The authorities' introduction of requirements for the preparation of simplified prospectus and periodic reporting have been postponed repeatedly. A proposal for changes in these regulations was sent out for comments early in the summer, but the industry is still waiting for the authorities to determine the final regulations.

PROSPECTS

The Directors confirm that the assumption of the management company as a going concern is still present.

Proposals for distribution of profits and coverage of losses in the funds have been included in the financial statements of each fund on page ____.

Our value-based investment philosophy has served the unit holders and ourselves well in 2005. We believe that our philosophy through changing times will provide our unit

holders with the best possible return at the lowest possible risk. Our philosophy has been fixed since the start in 1993, and our managers are experienced in applying it.

In order to ensure good quality during a time when we are growing strongly, we will continuously strengthen our staffing in both Norway and Sweden.

"We promise that we will continue to do our utmost to ensure that unit holders receive the best possible return at the lowest possible risk."

In Norway we will direct increased resources towards servicing existing clients in the best possible manner, through individual meetings, information meetings, market reports and not least, our website www.skagenfondene.no. We will increase the scope of our client surveys in order to get feedback and insights into our improvement potential.

As of 2006, Sweden will be defined as a home market,

along the same lines as Norway. Thus, our international activities will be comprised by activities outside Norway and Sweden. Activities in the Swedish market will be further prioritised in 2006.

In the international markets, our efforts will be primarily directed at Denmark and Luxembourg.

Continued good prospects

We expect continued good global economic growth in 2006. The short-term interest rate reflects that major countries are in different phases of the cycle. Of these, the U.S. and the U.K. seem to have put the period of interest rate increases behind them. In other countries there does not seem to be a need for significant interest rate increases.

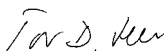
The long-term interest rates remain at the same low level in major parts of the world, reflecting confidence in inflation management. We are expecting continued good earnings growth for our companies in 2006. The pricing of our companies is still at a relatively low level. The significant risk premium existing in the equity markets relative to the fixed income markets makes us optimistic regarding the coming year.

We are very grateful for the confidence that has been shown in us by our clients over many years. We promise that we will continue in the future to do our utmost for the unit holders of SKAGEN Funds by providing the best possible return at the lowest possible risk – in addition to good communication, service and competent follow-up.

Stavanger, 24th January 2006


Martin Gjelsvik


Ulrik Scheen


Tor Dagfinn Veen


Sigve Erland


Jan Henrik Hatlem

ABOUT STAVANGER FONDSFORVALTNING AS

Most people who know us use the name SKAGEN Funds. This is the brand that is marketed and communicated to the outside world. However, the company's correct legal name is Stavanger Fondsforvaltning AS. The management company currently manages six funds, the three equity funds SKAGEN Vekst, SKAGEN Global, SKAGEN Kon-Tiki and the three fixed income funds SKAGEN Avkastning, SKAGEN Høyrente and SKAGEN Høyrente Institusjon. The custodian of the funds' securities and bank accounts is Handelsbanken. The assets of the equity funds are broadly invested in the global equity markets. The SKAGEN Funds fundamental active investment philosophy has been the basis for the management of its portfolios since the start in December 1993.

Stavanger Fondsforvaltning AS is owned, directly or indirectly, by its founders, Kristoffer Stensrud (35.25%), Åge Westbø (23.5%), Tor Dagfinn Veen (35.25%), managing director Harald Espedal (2.0%) and portfolio managers Kristian Falnes (2.0%) and Filip Weintraub (2.0%). They have large parts of their personal assets invested in the funds, and are therefore in the same boat as the unit owners.

Towards the end of 2005 there were 61 employees in Stavanger Fondsforvaltning, but the number is rising. The main office is in Stavanger, with branch offices in Oslo, Bergen, Trondheim, Ålesund and Stockholm.

OWNERSHIP STRUCTURE:

Stavanger Fondsforvaltning AS is owned by:

T.D. Veen AS	35,25 %
Solbakken AS	25,25 %
MCM Westbø AS	13,5 %
Månebakken AS	10 %
Åge Westbø AS	10 %
Kristian Falnes AS	2 %
Harald Espedal AS	2 %
Labrusca AS	2 %

REPRESENTATIVES' UNITS:

Name	Number of units	Function
Martin Gjelsvik	4 797	Chairman
Ulrik Scheen	5 400	Board member
Tor Dagfinn Veen	272 205	Board member and owner
Sigve Erland	3 860	Board member
Barbro Johansson	96	Deputy board member
Anne Sophie K. Stensrud	1 831	Deputy board member and owner
Jan Henrik Hatlem	0	Deputy board member functioning as board member
Harald Espedal	34 754	Managing director and owner
J. Kristoffer C. Stensrud	1 270 850	Investment director and owner
Åge. K. Westbø	383 056	Deputy managing director and owner
Kristian Falnes	134 386	Portfolio manager and owner
Filip Weintraub	28 375	Portfolio manager and owner

BOARD

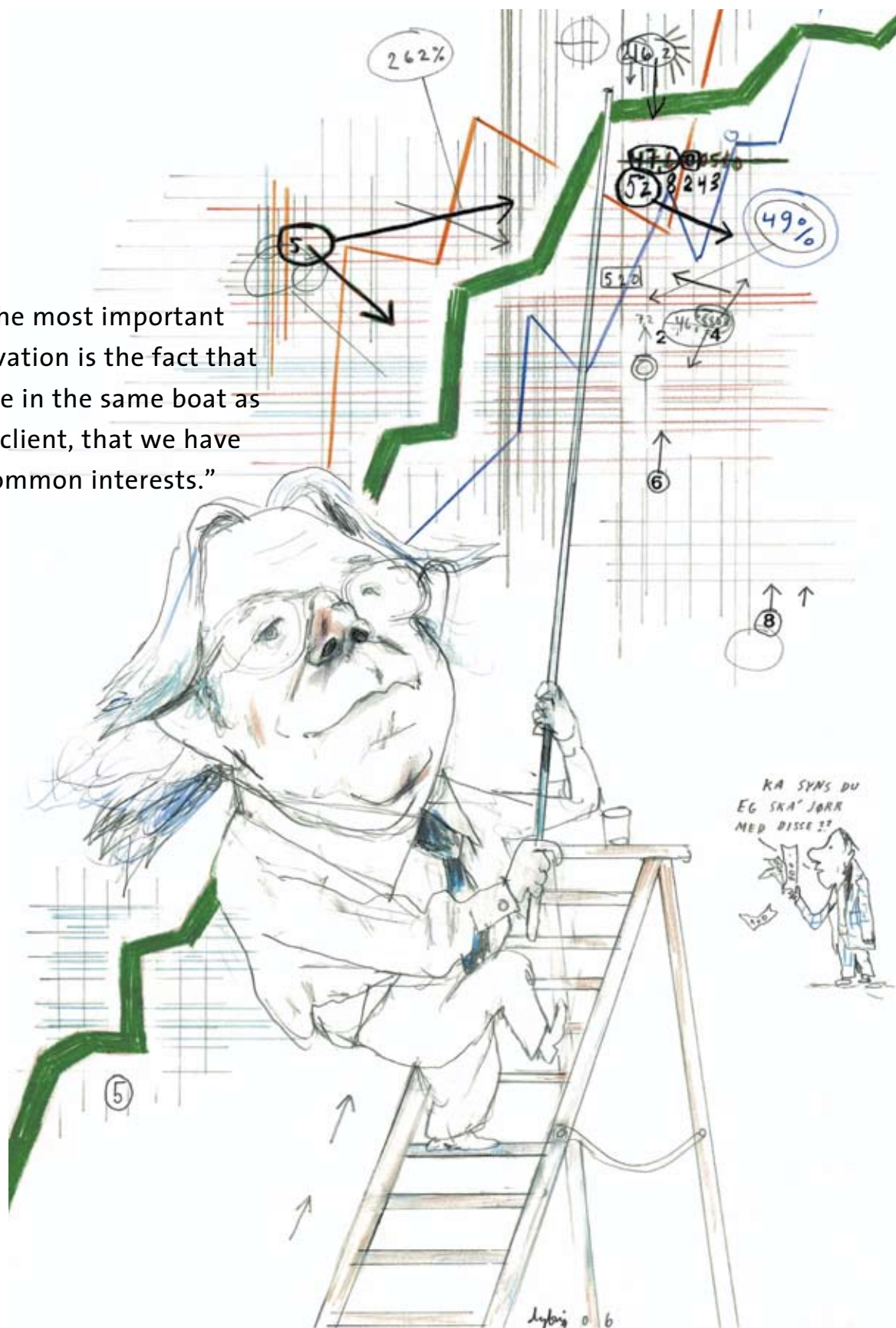
Chairman of the Board Martin Gjelsvik
 Shareholders' member Ulrik Scheen
 Shareholders' member Tor Dagfinn Veen
 Unit holders' member Sigve Erland
 Unit holders' deputy member, functioning as board member Jan Erik Hatlem
 Unit holders' member – vacant, up for election in February 2006
 Share holders' deputy member Barbro Johansson
 Share holders' deputy member Anne Sophie K. Stensrud

ELECTION COMMITTEE

The Election Committee was elected at the electoral meeting in 2005. The Electoral Committee consists of Harald Sig Pedersen (chairman), Truls Holthe and Britt S. U. Mikkelsen. Their task is to propose candidates for the positions as unit holders' members of the board in Stavanger Fondsforvaltning AS.

The founding father

"The most important motivation is the fact that we are in the same boat as the client, that we have common interests."



12 YEARS SERVING OUR UNIT HOLDERS, 40 BILLION NOK UNDER MANAGEMENT

Success has many fathers, but in the case of SKAGEN Funds, there is no doubt that it is the founding father, Johan Kristoffer Cappelen Stensrud, who has been the driving force behind SKAGEN Funds' prosperity.

SKAGEN Funds is the tale of the miracle that should never have happened. For the past twelve years Stavanger, a small town off the beaten track, has been home to a company that, over the period, has grown from nothing to become Norway's largest equity fund manager, a success in Sweden, and a company which, year in and year out, delivers world-class returns.

Long and winding road to success

– In the beginning we had what we called “reverse bonus”. Every quarter the owners received a bank giro for additional equity, so that we could pay employees' salaries, recounts one of the other founders, Åge Westbø. But now the rewards are generous. In the financial world Stensrud receives numerous accolades and honours, whilst his equity funds receive increasing distinctions for excellent quality in the form of A's and stars from some of the world's leading rating agencies. According to the press he is one of the richest people in Norway, but this is a topic that is not of great interest to the otherwise enthusiastic investor.

– Wealth has not affected me at all. I just read in the Financial Times that you need 15 years to learn how to live as a rich person. I am still in training, he chuckles.

The growing financial assets are the tangible proof of success. However, to Kristoffer Stensrud, human capital, his own and others', is just as important. Knowledge shall be the foundation for development of the company and the funds' unit holders. Substance is one of Stensrud's favourite words.

– The objective of SKAGEN Funds is to be best at communication, service and follow-up – in addition to be best at providing risk-adjusted return. We have knowledgeable unit holders, and we will show them respect by providing them with substance. Our goal is to enable the unit holder to make rational choices.

Kristoffer generously shares his seemingly inexhaustible knowledge built up over a long life in front of Bloomberg and Reuters screens in Copenhagen, London, Oslo and Stavanger. Financial analyses, macro economic perspectives, history and social studies combined with an apt turn of phrase ensure informative reports and entertaining lectures. He is a favourite subject of the financial press, even though there may be “information overload”.

– Kristoffer sometimes tries my patience. A half-hour lecture about the global economy is not necessarily appropriate when deadline is approaching and we are looking for a quick comment. But that is something we just have to live with. Usually we are able to put together a couple of lines that both parties are satisfied with. Besides, Kristoffer and the other SKAGEN Funds managers are almost always available. That is something the press appreciate, says journalist Morten Ånestad at the Stavanger office of the business daily Dagens Næringsliv.

The client is king

Contact with the unit holder is the *raison d'être* of SKAGEN Funds, and the foundation of a solid commitment. The SKAGEN values have been formulated on the basis of the interest of the unit holders.

– We have a direct contract with the unit holder. For us, that is the most important thing. Here too we have been a pioneer company. We were the first in our business to invite unit holders in, and gave them steak and red wine at unit holder meetings. Admittedly enough with borrowed money, Stensrud reminisces.

– The most important motivation is the fact that we are in the same boat as the client, that we have common interests. Ideally, we should also have the same time horizon, but that is difficult since clients come and go. However, over time we have become a colourful community, which should have the prerequisites to blossom very well together. We have many different clients, but all of them should be treated the same. These are the main values.

– With this starting point, our internal values are self-evident – we must be inclusive, everything we do must be transparent and we will maintain a high ethical standard. And then we shall “walk the narrow path”. We will not speculate in the client's poor taste, Stensrud says with reference to the discipline he always subjects himself and his co-workers to with regards not yielding to the temptation of being carried away by fashionable trends.

The Holy Grail

The value-based investment philosophy is holy at SKAGEN Funds. That means that SKAGEN Funds searches for individual high quality companies with low valuations. The three U's are the starting point for selecting shares: Undervalued, Under-researched and Unpopular. The mandates are broad and globally focused.

– So, are the three U's a magic formula that will endure forever?

– Values will always work. Values never go out of fashion. I have been part of six, seven financial market cycles. During long periods of SKAGEN Funds existence, finance has been popular – and that has been expressed through the law of mediocrity in the form of an index. We have

benefited tremendously from this. This has provided us with the opportunity to provide stable returns at moderate risk.

– During periods with strong inflows to the equity markets, as for example from 1997 to 2000, equities take the path of least resistance, and that is always up. In the short term, this phenomenon may make other forms of management more successful than ours. Fashionable trends create tremendous disruptions. Investments in so-called big caps were very popular in the nineties. Then stable earnings became very popular, and then the rerating of the world's most unstable earnings in technology came rumbling along afterwards. Neither does the equity market have any collective memory. That provides us with massive opportunities.

– *Where did the inspiration to the three U's come from?*

Kristoffer Stensrud presents John Gabriel Borkmann, Henrik Ibsen's well-known character from the time of the break-through of industrial capitalism, who was a "miner's son". As a boy he "heard the ore sing in joy when it broke free", because it wanted to "come up into daylight and serve humanity".

In action since 1970

– The nice thing about growing old is that you can reminisce, says Stensrud, who bought his first share in 1970, 16 years old.

– At that time, when you bought a share, there was a certainty that there was a soul behind it, something creative. That was still at the start of the financial age in Norway. A share represented perhaps 500 men and a smelting furnace. It was fascinating that something was happening, something was being created. The companies grew and developed.

– When you get a little older and more commercially oriented, you find that it also manifests itself in pricing. The cheaper you buy high quality, the more interesting it gets. Underlying value creation is always very fascinating.

– *From time to time there is talk about the ever-increasing global capital base chasing investment opportunities. Will the market dry up at some point*

– No. But we are seeing shifting trends. As I mentioned, big companies were fashionable for a long time. Now there is a greater interest in smaller companies, so things have become more balanced. Perhaps it is even in the process of tilting over to the other side. The value-based investment philosophy has gained ground.

– *SKAGEN has also grown – we have to increasingly find more and more companies meeting our criteria. You have yourself warned against "convergence towards mediocrity"?*

– I am not worried about it. We just have to be alert. And we have to be pragmatic, not dogmatic. We cannot lose the ability to change perspectives, and to see new opportunities.

Independent thinking

It has been said about Kristoffer Stensrud that at one time during the conclusion of a large internal get-together, when everybody was granted one wish each, his wish was to have freedom to change his mind. He has strict requirements for intellectual independence and integrity, for himself and others. Being a contrarian – with the willingness and ability to always see the other side of the issue – is highly regarded at SKAGEN Funds.

– For the determined curmudgeon it is always nice to be able to refer to the fact that one was right. It is like a epitaph for hypochondriacs, Stensrud laughs, but adds: I approach each day as an intellectual challenge. Each day there is something that is genuinely new, and some things you have seen before. We learn something every day. And of course you should not be a contrarian just to be contrary.

– I have been in this business for 35 years; some have been at it for 30 more. Experience means that you recognise the cycles. That is important. As time goes by you also get less pompous. It is easier to see your mistakes. There is not as much prestige associated with trivial issues.

The SKAGEN Funds portfolio managers are a diversified group with very different backgrounds. – We have a common research platform, but take independent decisions. Each and every one is personally responsible. There is no room for committees here. Every day we have to be able to, as individuals, look our unit holders in the eyes, Stensrud ascertains.

– *It seems you have been as successful picking employees as you have been at picking shares. What do you look for?*

– Independent thinking. That is the main criteria. You always have to be willing to stand up to the majority and rise above the fashionable. You have to be able to think laterally and be untraditional. It has helped us that we have a very different background with respect to education and experience. And we will continue doing that. We will not have ghettos from the Norwegian School of Economics and Business Administration, or from any other place for that matter.

The blessings of globalisation

Only about 15 percent of the SKAGEN Funds investments are in Norwegian companies, the rest are located all over the world. SKAGEN Kon-Tiki invests at least 50 percent of its assets in so-called emerging markets or in companies that have the majority of its activities directed at such markets. The investment director is a true liberalist in the Adam Smith tradition, in the sense that he unreservedly believes in the blessings of free trade for humanity.

– The world is heading towards globalisation regardless. That is why the Norwegian opposition to the WTO is futile. Western industrial goods are now being extensively outsold. Has this lead to a lower standard of living for most people? No, it has not. People have got higher real wages, lower inflation and greater certainty in their investment

decisions. In short, we have been provided with a welfare gain in all areas, Stensrud thunders.

At the same time, he has a positive attitude to Brazil's president Lula, and the other left-wing political leaders in today's Latin America, because their political agenda is to improve the living conditions for people in general. That means economic development, and that is good – for the financial markets as well as for the collective happiness of the people.

– In order to have democratic credibility, you have to do something about spreading the wealth. It is fascinating to follow developments in Latin America just now. These are countries with feudal, or corporatist traditions, which are managing to develop a social market economy. What we are seeing in Brazil today is an emerging economy that is taking care of elementary social rights, at the same time as resource allocation still is taking place at market terms.

– Some of the Latin American economies were quite developed as long ago as 100 years ago. Prior to the First World War, Argentina was the second richest country in the world. Then came the war, and afterwards a period of tremendous setbacks, without free movement of means of production, and a world full of trade barriers. This created enormous imbalances, and impoverished everybody on the periphery. Everybody got poorer.

– If you doubt the blessings of free trade, all you have to do is to ask a Chinese about life 20 years ago, Stensrud states. Today, Shanghai has the same standard of living as Eastern Oslo.

China has long exported cheap goods and thus low inflation to the West. Now the demand from China is also being felt by the world economy. The trade in goods has been globalised. The next exciting phase will be the globalisation of the financial markets.

– In the next couple of years we will see dramatic changes, in that great government business assets will be privatised. Chinese capital will be internationalised, at the same time as foreign money will go into China. Such processes are never without friction, but as we know, the old Chinese character for crisis also means opportunities. Such a situation will provide opportunities for buying quality at an acceptable price.

And the rumours of the imminent demise of the USA?

– I do not believe them. The U.S. has its own dynamics.

And, as all other democratic societies, they are able to reinvent themselves.

The curses of greed

The word financier is no longer a designation of respect. Towards the end of the last recovery, the world experienced a number of financial scandals, with the U.S. companies Enron and WorldCom among the worst examples.

– Were you surprised?

– This repeats itself in every cycle. Each market sequence breeds its own “wild children”. With respect to Enron, which we too researched, the company had a market valuation that was twice that of the assets of the power and gas they actually generated. Quite absurd. 200 years had been used to develop an infrastructure. At the end of the day what mattered was the water that went through the turbines.

– The uptake of “the new economy” was that the added value was in the speculation. That was the harsh part – and it will reappear. The fantasy with respect to getting rich quick knows no bounds.

– How is that possible in a business that attracts so many capable people?

– There are 20 times more people in the financial industry today compared to 20 years ago, but are there 20 times as many capable ones?

– Where are the best environments today?

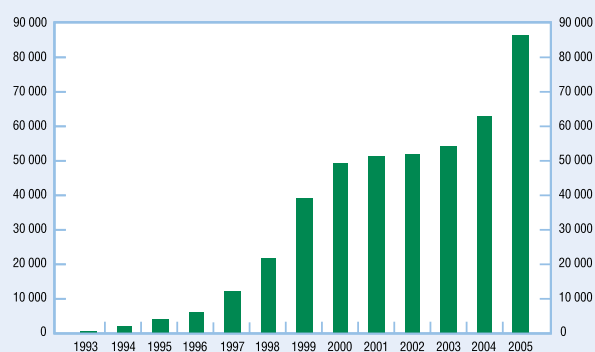
– I do not believe they exist in the great financial centres – where they are too concerned about personal positioning. There they are more concerned with each other than their clients and the investment opportunities. They use too much time on internal processes. That is the private hell of big organisations, and an issue that will be the big test for SKAGEN Funds.

Kristoffer Stensrud often emphasises the advantage of being located in Stavanger. Here you have to think for yourself, because there is no large financial community. The weather is generally so bad that it does not inspire to do much beside work.

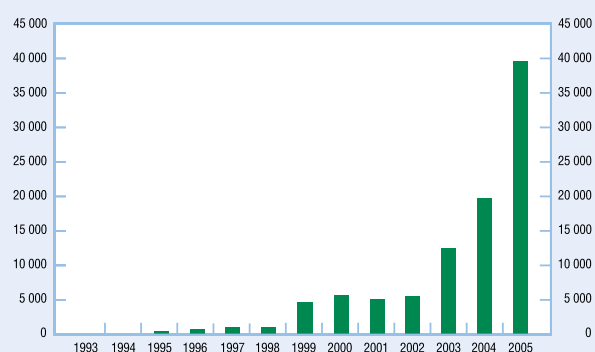
– Do you have time for a life outside of SKAGEN Funds?

– No.

NUMBER OF UNIT HOLDERS



ASSETS UNDER MANAGEMENT (MNOK)



MILESTONES FOR SKAGEN FUNDS

1993

- Stavanger Fondsforvaltning AS receives approval from the Financial Supervisory Authority of Norway to manage securities funds
- Equity fund SKAGEN Vekst started 1st December
- 448 unit holders and 20 MNOK in assets under management

1994

- Bond fund SKAGEN Avkastning launched 16th September
- SKAGEN Vekst as best AMS-fund of the year out of 22 funds

1995

- SKAGEN Avkastning as best bond fund of the year

1996

- SKAGEN Avkastning once again best bond fund of the year

1997

- SKAGEN Vekst voted as best AMS-fund by the media as a result of good returns and low risk
- SKAGEN Global launched 8th August
- Office established in Ålesund
- Assets under management pass one billion NOK

1998

- SKAGEN Vekst once again best AMS-fund in the market
- SKAGEN Global becomes best fund for investors outside of Norway
- Money market fund SKAGEN Høyrente launched 18th September
- Office established in Oslo

1999

- SKAGEN Global number one in its class

2001

- Offices established in Bergen and Trondheim
- Contribution pensions offered for first time
- Assets under management pass 5 billion NOK

2002

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

2003

- SKAGEN Høyrente Institusjon launched 14th March
- All of our three equity funds receive A-rating from Standard & Poor's
- Assets under management pass 12 billion NOK

2004

- SKAGEN Global and SKAGEN Kon-Tiki upgraded to AA rating by Standard & Poor's
- We are second largest equity fund manager in Norway
- Office opened in Stockholm
- Assets under management almost 20 billion NOK

2005

- SKAGEN Global upgraded to AAA rating by Standard & Poor's
- We are the largest equity fund manager in Norway
- Our funds approved for sale in Luxembourg
- Assets under management pass 39 billion NOK

PORTFOLIO MANAGERS' REPORT

We had a terrific year... ...and the party isn't over...

2005 **was** fantastic: for you as investors and for us as managers.

2006 should also be fun:

- the world economy is strong
- inflation is low
- interest rates are rising, but not enough to spoil the party
- savings are high and investors are looking for more excitement

On every measure, our equity funds had a great year: SKAGEN Global, + 39.2%; SKAGEN Vekst, + 48.2%; SKAGEN Kon-Tiki, + 59.3%. Benchmarks: beaten. Excess returns (risk-adjusted): substantial.

SKAGEN Avkastning, our bond fund, returned 5.8%, beating both competitors and the Norwegian bond market, with very modest volatility. Our Hoyrente money funds also did their jobs satisfactorily.

It helped, of course, that there were good investment opportunities, especially for our value-oriented investment style. The Oslo stockmarket gained 40%, the world equity market average, 22%.

The world: in good shape

Economists are paid to worry. Investment managers are paid to ignore them (well, mostly). A year ago, the world looked troubled, but 2005 actually turned out rather well, with good growth and low inflation, despite soaring energy prices.

Why:

- the world's economic centre of gravity moved eastward, lowering product prices
- cheap labour moved westward and northward, suppressing service inflation
- corporate productivity was driven higher by technology and reorganisation
- company profits and industrial confidence soared
- short term interest rates rose, but long rates didn't

SKAGEN FUNDS AND MARKETS IN 2005

Colombia	+ 150 %
Russia	+ 104 %
Turkey	+ 76 %
Korea	+ 75 %
Mexico	+ 61 %
Brazil	+ 61 %
SKAGEN Kon-Tiki	+ 59 %
India	+ 53 %
EM Index	+ 49 %
SKAGEN Vekst	+ 48 %
Austria	+ 46 %
Canada	+ 40 %
Norway (OSEBX)	+ 41 %
SKAGEN Global	+ 39 %
Japan	+ 39 %
South Africa	+ 42 %
Denmark	+ 33 %
Switzerland	+ 28 %
China (Hong Kong)	+ 25 %
Singapore	+ 24 %
Germany	+ 23 %
Netherlands	+ 22 %
Indonesia	+ 22 %
World Index	+ 22 %
France	+ 20 %
Sweden	+ 20 %
England	+ 16 %
Hong Kong	+ 16 %
Taiwan	+ 15 %
USA (SP500)	+ 14 %
Spain	+ 14 %
USA (Nasdaq)	+ 13 %
Thailand	+ 11 %
SKAGEN Avkastning	+ 6 %
Norwegian govt. 3 year	+ 2 %
3 month NIBOR	+ 2 %
SKAGEN Høyrente	+ 2 %
China (local)	+ 4/1 %
Slovenia	- 9 %
Venezuela	- 32 %

In global terms, 2005 was a good year. At the top of the list are emerging markets from different continents: Latin America, Asia and Europe. All SKAGEN Funds equity funds beat their benchmarks with a good margin.

Reasons to be cheerful

2006 looks like another good year for equity investors, because:

- last year's favourable influences are still operating
- valuations are still reasonable: stockmarket gains have resulted mainly from profits growth and takeovers
- shares are cheap compared with long bonds
- memories of previous bad experiences are fading
- perceived risk is lower and risk appetite is higher

Conclusion: for the time being, strong corporate profits, continued takeover activity and gains in valuations have the capacity to make equity investors even happier.

GLOBAL TRENDS

AMERICA

The Homer Simpson/Bush administration school of economics sees no danger in America borrowing 100% of the world's spare savings to finance its huge deficits. Other economists (and Marge) are more worried.

In 2005, Homer right, doomsayers wrong. The economy outperformed expectations: growth was sustained and core inflation subdued, helped by sustained productivity growth; public finances showed signs of (albeit, cyclical) improvement. Helped by small, frequent, Fed rate hikes, the dollar actually gained.

So far, 2006 is also Homer's. Consumer spending will level off (Marge is resisting further equity withdrawal as the house price has stalled), but capital investment and exports should take up the slack. No alarms, no surprises.

Capital flows into the U.S., though, are down, and bulls of the dollar are looking less convinced, which is not a bad thing: the dollar needs to weaken, a lot, eventually.

Held back by rising interest rates, U.S. equities, overall, were about as interesting as watching the grass grow. Combined with strong corporate profits, valuation multiples therefore fell.

America is still big, but it no longer completely dominates the global economy; in portfolio investment terms, its share of world market capitalisation is shrinking and, as we saw in 2005, other markets can enjoy a bull run with Wall Street standing jealously on the sidelines.

The U.S. has some great companies, though— agile, adaptable and entrepreneurial. Many are major multinationals with balanced global businesses and a bottom line that would gain from faster non-U.S. growth and/or a weaker dollar. Most importantly, our value screens are now identifying many more of these as cheap. Result: an increasing weighting for U.S. stocks in SKAGEN portfolios.

EUROPE

Restructuring the West...

A year ago, commentators were describing old Europe as a dejected welfare junky, a protectionist loser living on past glories and unwilling to adapt to a dynamic free trading world. For part of the year, it was difficult to disagree, but westward labour migration and eastward capital migration have begun to tip the balance towards adaptation. Much resisted corporate restructurings (even, horror!, foreign takeovers of household names) are introducing a new dynamic at the same time that opportunities in eastern Europe and the fast-growth developing economies are appearing.

As a result, we expect positive economic surprises in 2006, positive productivity developments and the continuation of the pleasing profits growth trend already evident last year. Better growth should benefit fiscal balances; Europe's external accounts are healthy; and modest interest rate rises should underwrite the euro's rising reserve currency status.

European equities outperformed in 2005 but are still inexpensive in relation to our earnings growth and corporate acquisition expectations.

...Revaluating the East

Eastern European economies continue to do well and their equity markets had another good year. Energy heavyweight Russia performed very strongly, helped by the revaluation of some major companies. Expansive economic policies and an appreciating currency are increasing the risk of subsequent economic setbacks.

Turkey continued its integration into Europe. Tight monetary and financial policies provided high but reasonably balanced growth. 2005's bull market should continue into 2006, helped by convergence with Europe.

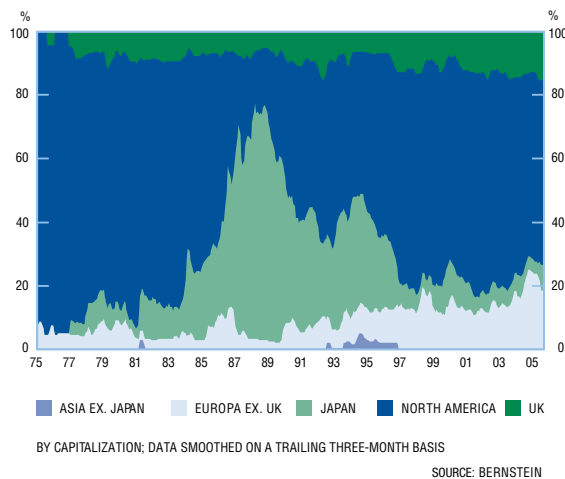
The rest of Eastern Europe performed well. Hungary's huge external imbalances were reduced; both the equity and fixed income markets were revalued upwards. In general, corporate valuations appear demanding, but most companies beat analyst's forecasts.

ASIA

China drives world growth

China's turbocharged development is a phenomenon unique in economic history. Another year of stunning growth with surprisingly low inflation reverberated around the world economy. Better balance is now being achieved; the excesses of the investment boom of 2003-2005 are over; surging private consumption has taken over.

Low inflation and more balanced development should ensure that growth and momentum will still be strong through 2006 and 2007. In 2005, the Chinese "freed" their currency from the previous dollar peg and allowed a minor revaluation. In 2006, more capital market reforms and a new five year economic plan are expected. We remain optimistic.

BETTER GLOBAL BALANCE BETWEEN REGIONS

The graph shows how the capitalisation of the world's hundred highest valued companies is distributed by region.

The domestic Chinese equity markets have been in a slump for five years. Financial liberalisation and stock market reforms, plus share valuations which are no longer in the stratosphere, are setting the scene for a bull market.

Statisticians discover services

Estimates of the size of the Chinese economy were revised dramatically upwards in 2005, mainly because the authorities had previously forgotten to count the rapidly growing services economy. The new measurements rank China third in the world in terms of purchasing power.

The excessively modest currency revaluation means that China is still a big exporter of deflation to the world. From now on, increased consumption in China will be a continuously strong driver of the global economy, not least because of a continued high demand for raw materials.

India's surprising resilience

India was a positive surprise in 2005. Most commentators had expected a traditional "boom-bust cycle", but this time growth accelerated without boosting inflation and interest rates. Heavy investment in infrastructure and continued domestic deregulation (although much more of both is still essential) raised the sustainable long term growth rate.

The equity market performed well for a fourth year in a row, but general opinion holds that the market is now expensive. Reason: highly rated software and pharmaceutical companies are a distortingly large part of stockmarket capitalisation.

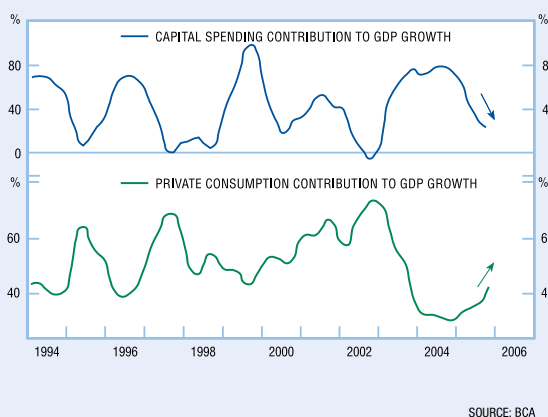
Prospects for 2006 are mixed. Weak development of the external economy and the need for continuous deregulation sustains the risk of overheating and subsequent economic tightening. But we still see selective opportunities.

Japan: out of the rut

Japan was one of the exciting stories of the year as the economy finally started to recover. Near zero interest rates and an increasing belief in the future finally drove rising domestic activity, while exports simultaneously took off. In 2005, the Tokyo equity market was the developed world's best performer. In 2006, prospects are less certain as the equity market adapts to prospectively positive interest rates. But Japanese equity valuations are low relative to the rest of the world and in terms of the Tokyo market's own historical norms. If Japan now enters a high growth phase it would have very positive effects on the world economy.

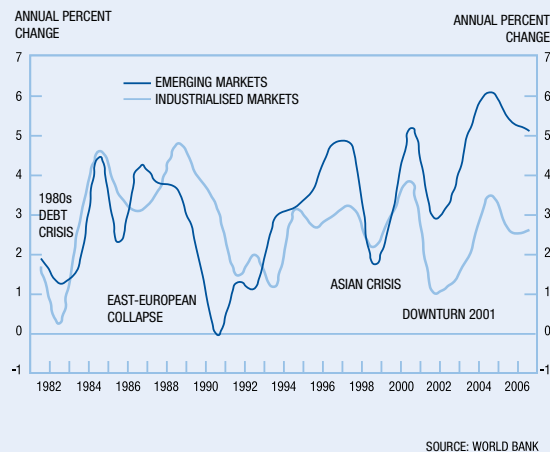
Catch-up in greater China

A strong domestic economy and historically low ratings finally drove a major revaluation of Korean shares. Elsewhere, despite sober valuations and very positive economic developments the other Asian markets were dull. China-related markets such as Taiwan and Hong Kong were especially unexciting. We have therefore increased our weightings, focusing on undervalued quality companies that will benefit from continued Chinese reforms.

BETTER BALANCE IN CHINESE GROWTH – STRONG INCREASE IN CONSUMPTION

Chinese GDP growth has become more balanced. Growth was previously dominated by very high investment, but now private consumption has increased in importance.

EMERGING MARKET GDP GROWTH THE DRIVER OF GLOBAL PERFORMANCE



World economic growth has been strong in recent years, at the same time as global inflation has been low. Above all, it is GDP growth in emerging markets that has increased strongly.

LATIN AMERICA

Elections increase political worries

Latin America was also fun last year. Growth disappointed in Brazil, but inflation fell strongly towards the end of the year, creating room for falling interest rates and continued revaluation of cheap, high quality companies in 2006. Elsewhere the commodity boom and responsible economic policies contributed to improving confidence in the future.

Venezuela and Bolivia lurched leftwards in 2005 and this year, presidential or congressional elections in the major countries will focus investors' attention on both fundamental and rhetorical risks.

The development of a social market economy is well under way in most of the countries in the region, with Chile leading the way. If this continues successfully, there is still room for a significant upward revaluation of the region. Meanwhile, 2006 will be a year of greater uncertainty.

Still overweight in Brazil

In 2005 we had a significant overweight position in Brazil. This is being maintained into 2006, as a structurally lower interest rate level is expected to allow a further upward revaluation of the many global quality companies identifiable in this big country.

NORWAY

Good growth, low inflation

Norway, 2005: continued good growth and inflation that surprised on the downside. During the first three quarters, the real GDP of the mainland economy was 3.8 percent up on 2004, with much the same expected for the fourth quarter.

Growth was driven mainly by productivity, in the mainland economy 2.3 percent up in 2005. This in turn was attributable to more effective resource utilisation (following an increased international division of labour), plus technological innovations.

Effective employment, i.e. the number of hours worked, increased by 1.5 percent in 2005. Productivity and employment trends will continue through 2006, resulting in much the same GDP growth as last year. The economy was boosted last year by higher oil export prices and lower import prices, but this will gradually fade.

Increased political risk?

The new government's need to make its mark increases political risk in 2006, but we don't expect significant adverse effects in the short term. Moreover, most Norwegian listed companies are increasingly international in scope, making domestic developments less significant than global trends.

Savings being put to work

In recent years, the savings rate in the Norwegian economy has been very high: through the first three quarters of 2005, savings constituted 31 percent of GDP, related to an unexpectedly large increase in oil revenues as well as the government's desire to accumulate foreign assets through the Oil Fund.

For several years, investment has been significantly lower than savings. This is the counterpart to a large export surplus and the accumulation of net claims on foreign countries. However, the high growth and improved terms of trade have at last resulted in rising domestic capital formation.

Through the first three quarters of last year, private and public investments constituted 21.5 percent of GDP, from 19.7 percent in 2004. Higher investment means and increased capital stock and potentially greater production of goods and services. Investment is likely to increase its share of GDP even more during 2006; much of this is related to oil and gas extraction.

Stability isn't boring

Due to the high taxes on petrol in Norway, the huge surge in the price of oil has had only a limited impact on the general price level. Core inflation, which excludes taxes and

energy prices, increased very little during 2005, reaching only 1.1% by November.

Norges Bank (the Norwegian central bank) believes that core inflation will rise slightly and only reach the 2.5 percent target by the middle of 2008. The central bank hiked the policy rate from 1.75 percent to 2.25 percent in 2005. Signals from the Bank indicate that there will be a moderate rate increase in 2006: we expect the policy rate to be 3 percent by the end of the year.

Long Norwegian interest rates are staying low as a result of low international rates and because of low, stable domestic inflation. Nor should they increase much in 2006, even when the discount rate rises. The long end also indicates how high short interest rates may go: the policy rate will probably be neutral at 3.75 percent. Continued high global growth and increased investment abroad may pull up long rates over time, but probably not by more than half a percent.

GLOBAL INTEREST RATES

Low inflation here to stay

Globally, inflation is now at a low and stable level, independent of business cycles and asset prices. The period of high and variable inflation, into which the wealthy economies slid towards the end of the 1960s, is long behind us. Central bank aims of containing inflation within narrow bands are now credible.

This has very significant implications for global interest rate developments. The belief, by bond market investors, that they know where inflation will be over time, is resulting in low inflation premiums and therefore expectations of low and stable nominal long interest rates.

10 to 20 years' ago, when the financial markets' confidence in central banks was weak, an energy shock like that of 2005 would have resulted in a huge jump in long interest rates. As we know, this did not happen. As long as the financial markets have confidence in the central banks, interest rate shocks are very unlikely.

Increased capital investment rising money costs?

Long real rates of interest, i.e. long nominal rates of interest minus expected inflation, moved very little during 2005 (Such interest rates maybe read directly from the return of so-called inflation adjusted government bonds, which are issued by the U.S., U.K., France and others). In the U.S., real rates of interest rose by approximately 30 basis points in 2005 and were at 2.1 percent at the end of the year. In the U.K. and France, real rates of interest fell by approximately 40 basis points, and ended at 1.3 and 1.2 percent respectively.

Low international real rates of interest are due to a juxtaposition of two influences: high global savings and low global investment. Demographics drives a high rate of savings in many countries: the population is getting older and many are saving for old age. In spite of good

economic conditions and many companies reporting strong profitability and significant cash positions, real corporate investment has remained at a low level.

If global growth continues high, and in particular the economies in the euro zone and Japan pick up as we expect, capital investment will increase in the medium term. This will raise the demand for capital and real rates of interest. The effect will likely be moderate: we see a rise in real interest rates of approximately 50 basis points on average through 2006 and 2007.

Fed rate near peak?

In the U.S., the Fed managed to make frequent rate increases predictable and boring throughout 2005. At the start of 2006, the federal funds rate was 4.25 percent. The policy rate has been raised from a low of 1.0 percent as a result of slightly increasing inflation and because the Fed wanted to head off any second round impact on the general price level of increased energy prices. The financial market is at the time of writing discounting one last rate increase to 4.75 percent in March.

Core inflation was 1.8 percent at the last measurement and it has been diminishing slowly during recent months. If core inflation continues to decline towards 1.5 percent throughout 2006, that newly appointed Federal Reserve Bank governor, Ben Bernanke, may want to cut the policy rate a little before the end of the year. There is great suspense regarding whether Mr. Bernanke will introduce a pure inflation target in the U.S., as an increasing number of countries, including Norway, have done.

Both long and short nominal rates of interest would end up lower than otherwise if the U.S. introduces an inflation target of 1.5 percent.

The ECB finally stirs

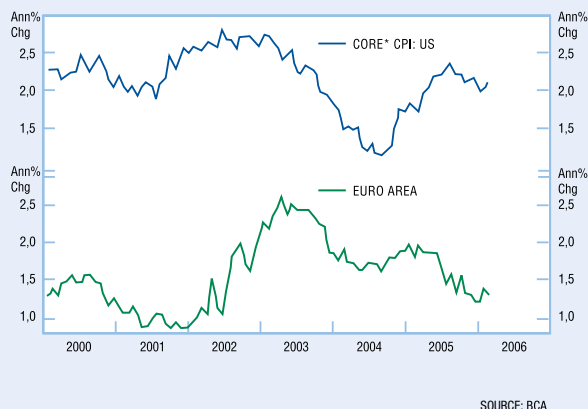
Having been stuck at 2.0 percent since the summer of 2003, the eurozone policy rate was increased to 2.25 percent in 2005. Even though core inflation is low, headline inflation is above the ECB inflation target of 2.0 percent and the Bank fears increased inflation in the wake of rising energy prices. We believe that there may be three rate increases of 0.25 percentage points during 2006. Similar to what we saw in the U.S. in 2005, increased policy rates will probably not impact long bond yields without a simultaneous investment boom (see above).

We expect a cut of the discount rate in the U.K. and an increase in Sweden. In Japan the zero interest policy is expected to continue into 2006, in spite of signs of price inflation turning positive.

In 2005, Turkey, Brazil, Mexico and Hungary, in step with falling inflation, began journeys towards lower discount rates.

We believe 2006 will be a year when confidence in global monetary policy will improve. As inflation management and flexible currency exchange rates become a global concept, the globalisation of the fixed income markets will become even more pronounced.

CORE INFLATION LOW AND FALLING (2000-2005)...



Global inflation pressure is still low. In spite of increased energy and commodity prices, core inflation in the U.S. and the eurozone is at a low level, which in turn reduces the risk of aggressive tightening of monetary policy.

One risk for the bond markets in 2006 will be continued price escalation in the commodity markets, led by oil, and a tighter labour market, which may generate greater inflationary risks than in 2005.

RISKS AND OPPORTUNITIES IN 2006

No disasters in America

For several years the doomsayers have gloated about the future problems of the U.S. economy. However, no disasters have occurred. Lenders ignored the deficits. Inflation has not increased. Productivity growth, which was the biggest surprise of the 1990s has continued at a high rate.

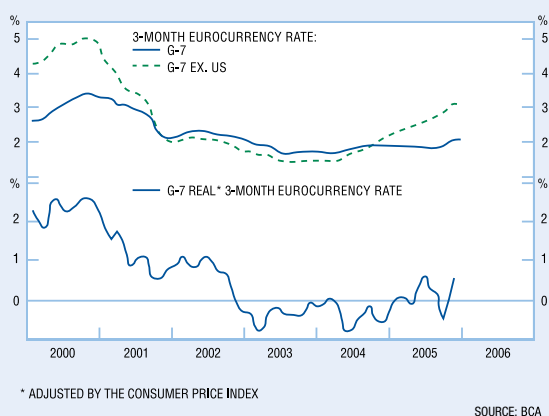
The property bubble?

We see price increases in the housing market in recent years as an adjustment to a durably low level of worldwide real rates of interest. Experience in Britain and Australia, which are both far ahead in the property price cycle, is encouraging: flattening property prices have resulted in initially lower consumption growth followed by a gradual recovery.

The commodity 'super cycle'

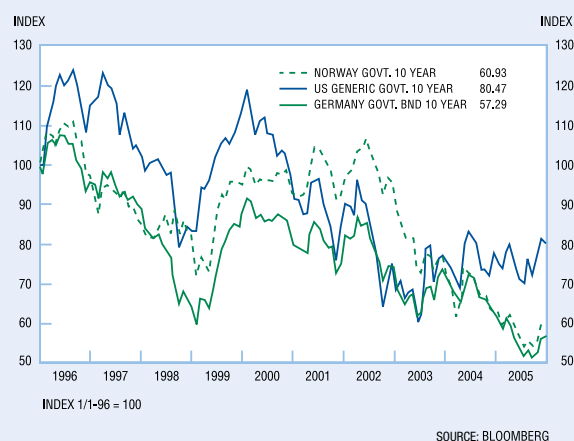
Are global commodity prices, particularly industrial raw materials, in a 'super cycle'? The main argument in favour is low investment during the 1980's and 90's, when the developed world moved from an industry-based to a

...RESULTING IN LOW DISCOUNT RATES...



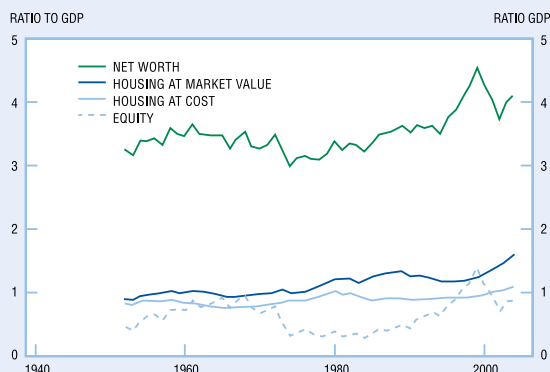
As a consequence of the low inflation pressure, discount rates are still low in the major economies. Excluding the U.S., short interest rates have remained at approximately the same level since 2002. The short real rate of interest is just above zero.

...AND LOW AND STABLE BOND YIELDS



Bond yields are low and relatively stable. They have been almost halved from 2000 to 2005. The decline has been particularly pronounced in Europe. A small increase occurred in the latter part of 2005.

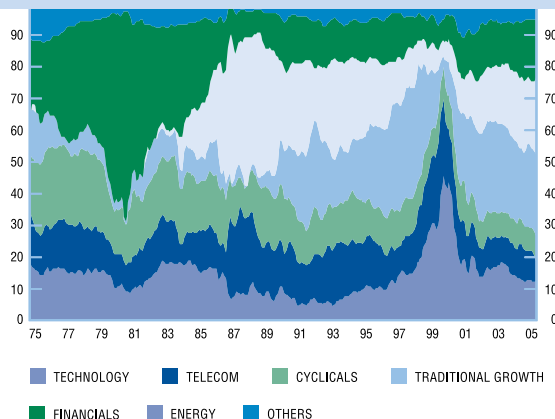
ARE AMERICANS REALLY POOR?



SOURCE: DAVID BACUS ET. AL., CURRENT ACCOUNT FACT AND FICTION, UNPUBLISHED (DEC, 2005)

The value of the assets owned by U.S. consumers has again started to increase after the equity market collapse at the start of the new millennium. Higher market value of housing is the chief reason.

GOOD SECTOR BALANCE INDICATES LOW DEGREE OF SPECULATION



BY CAPITALIZATION; DATA SMOOTHED ON A TRAILING THREE-MONTH BASIS
SOURCE: BERNSTEIN

The graph shows how the capitalisation of the world's one hundred most highly valued companies is distributed over individual industries. There are few "bubble" tendencies like those seen during the oil crisis in the 70s, the Japan crisis in the late 80s and the IT bubble at the start of the 2000s.

service-based economy. The supply side was subsequently unprepared for the strongly rising demand from rapidly industrialising emerging countries. Traditionally, rising energy prices have had a very negative impact on global economic development, but that connection now seems to be broken. Generally higher commodity prices in 2005 had modest effects on consumer prices. In contrast to the 1970's, changes in relative prices seem to affect general price levels very modestly.

SECTORS

SKAGEN philosophy adds balance

The SKAGEN Funds investment philosophy is that we do not bet that some industries will outperform others. Our belief is that there can at any time be good investment opportunities in any sector. We are not influenced by specific industry trends in the market: value creation in companies is our focus; our main job is to find quality companies at cheap prices before our competitors.

Energy

Energy markets were hot in 2005. During the year prices of all carriers rose markedly, but towards the end of the year we saw a stabilisation and then decline in some energy prices.

The oil price rose significantly during last year. In contrast to the previous 20 years, there has been a fall in oil production outside OPEC. This has resulted in increased market power for OPEC. Traditionally, OPEC has not been good at adjusting supply to demand. Production capacity is limited and it takes time to increase production, which means that oil price risk going forward is on the upside.

In 2005, the internationalisation of the market for electrical power and CO2 limitation contributed to a very volatile electricity market. This has created investment opportunities that we will seek to exploit further in the years ahead.

Our funds are overweight in oil service companies and others that will benefit from the rehabilitation of global energy production capacity. Typical examples are German giant Siemens and Korean shipyards. Companies with low valuations based on existing production capacity are: in Brazil, Eletrobras; in Norway, Norsk Hydro; and the Russian UES (United Energy Systems).

Pure oil investments are concentrated on companies where we can see the opportunity for strong growth in physical production, such as Brazil's Petrobras, which increased production by over ten percent in 2005, at the same time that its reserves also rose.

Commodities up on capacity shortages

Commodity prices rose further in 2005, especially metal prices. This is partially related to rising energy prices, but global undercapacity was an important factor. 2005 was also characterised by many production interruptions. Supply growth was therefore less than expected.

The commodity sector is now starting to overheat. Even the Norwegian Government Pension Fund has received permission to speculate in commodities, currently at historically high levels. We are therefore being very careful with respect to investments in this sector. We prefer companies which are able to increase production at a lower cost, making them less sensitive to marginal price changes. Examples are Grupo Mexico and Vale Rio Doce (Brazil), which are both increasing production at lower unit costs.

Down in shipping, up in shipbuilding

In 2005 we reduced our direct exposure to transportation, but increased our position significantly in subcontractors, such as shipyards. Activity in the global transportation market will develop well also in 2006, but the supply side is growing, creating considerable uncertainty regarding rates. This applies in particular to container and tank shipping, although this scenario seems to be generally discounted in market prices.

We reduced our weighting of the most market sensitive companies at good prices last year. The remaining shipping companies have, in our opinion, a good upside resulting from triggers for revaluation, particularly with respect to restructuring: Korean company Hyundai Merchant Marine and Stolt Nielsen are examples.

Much traditional industry has had problems in recent years because commodity prices have increased while wholesale prices of their own products have stagnated. Over time, the valuation of some of these companies has become low, which may provide good opportunities in the times ahead. One possible trigger: good demand from end-users and falling raw material costs may result in positive earnings surprises.

We like revenue-stable companies

During a recovery, companies with stable revenues are often overlooked. We have therefore increased our research efforts in this area. U.S. pharmaceuticals, in particular, have been hard hit. In 2005 we took advantage of a revaluation of Eastern Europe and Asian pharmaceutical manufacturers.

Increased consumption in emerging countries, as well as better and cheaper services in developed markets, will be a hot topic in the years ahead. Our task will be to find companies with low valuations which are able to benefit from this development. In electronic media and technology, both hard hit by the technology crash at the start of this decade, there are good investment opportunities. Here, too, company focus is the key to adding investment value.

Utilities received a lot of attention five years ago. The combination of stable earnings and expansion of services to a big customer base over-stimulated the imagination of many investors. Today there is another focus. Utility services, such as electricity and gas, have high alternative costs and, sometimes, monopoly pricing potential.

The valuation of several companies in the sector does not reflect the cost associated with alternative energy or the replacement cost of the companies' assets. In some countries, new legislation and the need for new investments are the spur to re-aligning output prices and thus

opportunities for extraordinary gains for investors; Brazilian company Eletrobras is a good example.

SKAGEN Global

Another world-class year

In its ninth year, SKAGEN Global delivered a return of 39.2 percent. In comparison, the Morgan Stanley Capital International World Index, adjusted for dividends and measured in Norwegian Kroner, rose by 21.9 percent. The total value creation by the fund in 2005 was NOK 3.3 billion.

The performance of SKAGEN Global since its launch in 1997 is world-class, both with respect to absolute and relative returns and measured against underlying risk. In 2005, Standard & Poor's (S&P) upgraded the fund to triple A, which is the highest rating by S&P: there are only ten global equity funds in the world with this top rating. Our ambition, though, is not just to remain in this class, but to climb to the absolute top.

All our holdings delivered solid earnings, in many cases well above our expectations. All industries and regions made positive contributions.

Loss in only seven of 109 companies

SKAGEN Global invested in 109 companies last year. Of these, only seven lost us money. Even in a year with a very good investment climate, this is a satisfying result. Although the fund has increased significantly in size, it has not lost freedom of action or opportunities for making desired investments, partly because we are still small and agile compared with our major global competitors.

Many triggers released

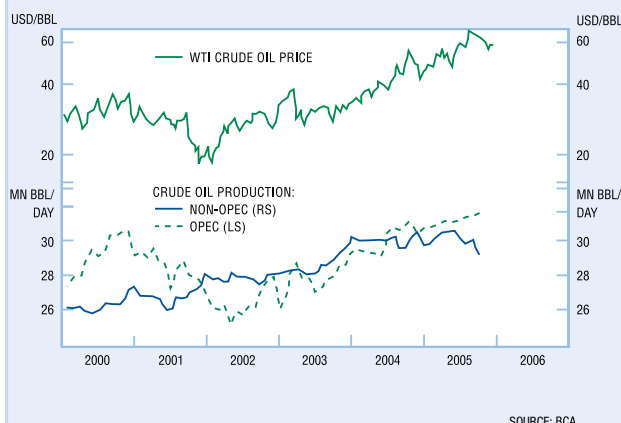
The SKAGEN Funds investment philosophy is not just about low valuations. There must also be opportunities for revaluation set off by potential triggers, such as ownership change or restructuring.

In 2005, 21 of our companies were involved in such events. In isolation, these resulted in value creation of NOK 886 million. There was great acquisition activity in Europe and we were involved in the two biggest deals. One was the biggest European financial merger ever, when Italian bank Unicredito acquired the German bank HVB and Bank Austria. This is the second time SKAGEN Funds has invested in Bank Austria and the second time the company has been acquired.

In the spring Tele Danmark was taken out in a gigantic deal organised by a U.S. fund syndicate. This provided us with a useful capital gain.

The major contributors in 2005 to overall portfolio gain (measured in NOK) were Samsung Electronics (377 million), Petrobras (324 million), Komatsu (150 million), Bank Austria (139 million) and Pride International (116 million). The biggest negative contributors were Grupo

OPEC USED TO BE A MARKET REGULATOR – NOW THE TAPS ARE OPEN WIDE TO COVER FALLING PRODUCTION OUTSIDE OPEC



In step with increased world oil consumption, oil production has increased to record levels. The oil price has trebled since the start of 2002. To cover falling production in other countries, the OPEC countries are becoming even more important suppliers.

Elektra (-9 million), Neurosearch (-6 million), UCOM (-3 million), Irsa (-3 million) and Kemira Grow How (-3 million).

Doubled weighting in America

We continue to position the fund in major companies which in many cases we have found to be more attractively priced than smaller companies in the same industry. This has already yielded good results. A good example is the Japanese company Komatsu, which, with a return of 172 percent measured in local currency, was the top performer among the world's 500 largest companies.

As U.S. companies have become more attractively valued, we have gradually increased our exposure, although Europe still is our biggest region. The portion of the portfolio invested in the U.S. equity market was doubled to 18 percent during the year. A good example is Hewlett-Packard, the component of the Dow Jones Index with the best performance in the past year.

Among other large global companies that we believe will provide continued performance are German major Siemens and the U.S. pharmaceutical giant, Pfizer.

Up in oil service, down in oil

We have increased our investments in oil service and reduced them in energy producers. The two biggest holdings in this sector are both American, Pride International and Transocean. These are now more attractive and less exposed to geopolitical risk than oil producer Petrobras, which has been reduced after a wonderful performance. We also sold all our holdings in Spanish oil company Repsol.

Primarily as a consequence of its good price performance, the energy sector's share of our portfolio increased in 2005, but not to more than this sector's share of the World Index.

Hard into soft

The commodity sector was characterised by ever-higher metal prices and a still-gloomy forestry sector. After a boom for copper producer Antofagasta of 700 percent since 1994, we decided to sell: we invested the proceeds in Grupo Mexico and Swedish mining company Boliden. In spite of doubling our money in Boliden, the company is still one of the cheapest mining companies in Europe.

We increased our position in SCA. The company is still struggling with a margin squeeze in Europe but is lowering its cost level by moving production to Eastern Europe. In addition, the company is about to get support for some price increases. In an otherwise generally poor performance by the forestry sector, we had two of the global winners in our portfolio, Longview Fibre and Hansol Paper. We increased our holdings in Louisiana-Pacific and Votorantim Cellulose.

Up in lifts, out of shipping

As in 2004, capital goods were the biggest contributor to performance in 2005. Of companies that provided particularly good returns were equipment manufacturer Komatsu, which is big in excavators, among other things, and lift manufacturer Kone. Kone was demerged from Cargotec, a manufacturer of harbour equipment. Harbour operator P&O Steam was acquired.

We reduced our positions significantly in shipping, which was a great performer in 2003 and 2004. Some of the proceeds were invested in shipyards, such as Samsung Heavy Industries, which has already provided us with a formidable performance.

Going to town

In 2007, for the first time in history, more people will live in cities than in the countryside. This will generate increased investment demands in the energy, transportation, water and communications sectors. This is good news for companies such as German conglomerate Siemens, big in global infrastructure and whose new management appears to have come to grips with high cost levels. One trigger is increased volume and profitability, another the chance of the company being split into several units.

Investments in soybean processor Bunge, air line Air France-KLM and Japanese glass manufacturer Asahi increased significantly in the past year.

VW (finally) a winner

Volkswagen was the winner in consumer goods. As mentioned in both market reports and in the last annual report, we entered Volkswagen a little bit too early, underestimating how long the restructuring would take. Ironically, it was a corruption case, involving both the former group management and the board, which caused the restructuring to accelerate.

Car sales in Europe are now showing solid growth and the new VW models have been well received. Porsche AG has come in as one of the company's major owners. Last summer we were decided that the market was a little bit too enthusiastic about the company's short-term prospects and consequently reduced our position.

We have increased our exposure to U.S. media company McGraw-Hill and Irish media conglomerate Independent News & Media. We purchased a holding in Indian company Mahindra&Mahindra.

Back to the dull

Within defensive consumer goods, we realised a good return from major holdings Nutreco (please see SKAGEN Vekst) and U.K. company J. Sainsbury. Aarhus United merged with Swedish company Karlshamn, and formed a fat production giant. We are excited about further developments and will follow them closely.

Pills with potential

Both Christian Hansen (now Alk-Abello) and Eisai were winners within global pharmaceuticals, a sector that has disappointed in the last couple of years. We made major downward adjustments of our holdings in both companies. The proceeds have been reinvested in the biggest pharmaceutical company in the world, Pfizer, now being traded at low earnings multiples. Problems with new products, the risk of lawsuits, high cost and weak returns on the many billions spent on product development have made the company unpopular.

Management has come to grips with the operational side, and has formed a new and more shareholder-friendly strategy. The latter entails, among other things, an increase in dividends from the very solid cash flow generated by Pfizer. Efforts will also be made to increase the rate of repurchase of its own shares. Both measures will lead, from an already higher level, to higher direct returns to shareholders.

The fund's investment in Korean pharmaceutical companies Yuhan and LG Life contributed useful profits.

Staying with Bank Austria

When the Italian financial group made an acquisition offer to the shareholders of Bank Austria, we chose to say "No thanks." We think that the Austrian bank is still undervalued, primarily based on continued strong growth and earnings opportunities in Eastern Europe. In spite of the bank having a more conservative strategy and balance

sheet than its competitors to the east, the price tag is less than half.

Newcomers Sabanaci Holding, Osaka Securities Exchange and Japan Securities made a useful contribution. BanColombia was sold after a fantastic gain of 1,000 %.

Samsung beats the cycle

After a pause in 2004, the price advance continued for our biggest portfolio holding, Samsung Electronics, in 2005. The company's mobile phone division experienced good, but not hugely profitable growth. However, in memory chips and LCD panels, sales really took off, with good profit margins.

The thing that impresses us most about Samsung Electronics is its so-called "yield management" in memory chips. This is a very cyclical business, but the company has managed to generate good profits even in bad times. Samsung has stuck to its strategy of not expanding beyond its core activities and in doing so managed to achieve high returns

on equity. Our holding was significantly increased during the year: 2006 looks like it will be a good year on all fronts.

Three telecom hits

In 2005 we had three enjoyable hits in telecommunications. Telenor made an offer for Thai service provider Total Access Telecom (TAC). We chose to say "No thank you," however, preferring to accompany Telenor on its Thai journey. With a solid major shareholder, still great growth potential and a favourable position when the country implements

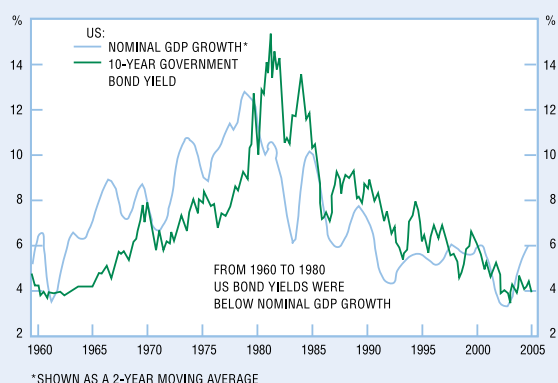
its telecom reforms, the company has lots of scope for improvement.

Bharti Televentures is now the leading mobile company in India. The company's major owners recruited some top American management (who had previously guided MCI to a position as the second biggest telecom in the U.S. prior to being sold. It now looks like they may succeed again.) British company Vodafone has subsequently purchased enough shares to become one of the major owners alongside Singapore Telekom.

Our third hit in telecom was Tele Danmark, the price of which rose strongly in connection with the acquisition of the company. We invested the proceeds from the sale in Hungarian company Magyar Telekom, which has a dominating position in its home market, achieves good margins and is about to grow further in Eastern Europe. With a well-capitalised and growth-seeking Deutsche Telecom as majority shareholder, this may be a very interesting investment.

"Samsung has stuck to its strategy of not expanding beyond its core activities, thereby achieving a high return on equity."

LOW GLOBAL INTEREST – A NORMALISATION. INVESTORS HAVE BEEN (TOO) WELL PAID FOR NOT ASSUMING RISK



The decline of long interest rates may be seen as a reversion back to previous norms. Between 1960 and 1980, long interest rates in the U.S. were lower than nominal GDP growth.

More Eletrobras

We significantly upped our holding in the Brazilian power company Eletrobras, which is now among the fund's ten largest holdings. Brazil is in the middle of a process of liberalisation and privatisation of its domestic market. The combination of lack of capacity in Brazil, and the fact that Eletrobras is one of the lowest-valued electricity suppliers globally, makes this investment particularly interesting.

2006

In spite of SKAGEN Global gaining almost 40 percent last year, and the global equity market rising 22 percent, average valuation ratios of global equities have not increased. Several markets have, in fact, become cheaper, since growth in company earnings has been stronger than share price gains.

Equities as an investment have not become more popular either: quite the contrary. This is promising with respect to 2006. The ten biggest investments of SKAGEN Global, which constitute 34 percent of the fund's portfolio, are now valued at under 11 times earnings and only 1.6 times book value. That is cheap!

SKAGEN Vekst

Oslo and the world

In 2005, SKAGEN Vekst achieved a return to unit holders of 48.2 percent, which compares with an Oslo Stock Exchange Benchmark Index gain of 40.5 percent. The Norwegian part of the portfolio (54 percent of assets) performed 13.6 percent better than Oslo Index, whereas the global part of the fund outperformed the Morgan Stanley

Capital International World Index, adjusted for dividends and measured in Norwegian Kroner, by 33.8%. (Wow!)

Last year, Oslo was among the world's top performers. Yet the global part of the fund performed better than the Norwegian part. We chose to invest in foreign competitors in typical Norwegian sectors like oil, oil services, shipping and fish farming, all industries that did exceptionally well in 2005.

The fund's degree of risk, as measured by its overall ups and downs, averaged less than those of the Oslo market: in 2005, the fund's standard deviation was 17.5 percent, compared to 17.9 percent for the Oslo Stock Exchange Benchmark Index. The fund's objective of a higher risk-adjusted return than the Oslo Stock Exchange was therefore achieved.

Better industry balance than the Oslo Stock Exchange

The fund's exposure to oil and energy related companies increased during 2005, from 22 to 33 percent of the fund, both through net purchases and through a strong price performance. Compared to the Oslo Stock Exchange, which has a value-weighted energy share of between 55 and 60 percent, SKAGEN Vekst has a significantly better industry spread.

The sector shares for capital goods/service/transportation, as well as finance, were reduced during last year.

Sectorwise, energy-related companies were the biggest positive contributors to the fund's performance in both absolute and relative terms. The fund's energy shares achieved a value-weighted appreciation of over 90 percent. During a time when the general price performance for global pharmaceuticals were poor, the fund managed a return on its pharmaceuticals holdings of almost 60 percent.

Few disappointments

No sectors of the portfolio were particularly awful. The worst was telecommunications, with a return of just over 20 percent, not bad considering that many global telecoms (e.g. Europeans) lost money last year.

Continued high energy weighting

The fund's major contributors in 2005 were, not surprisingly, from the energy sector. We start 2006 with, for us, a high energy weighting of 33 percent. Oil companies in general are valued on the assumption that the oil price will fall. In the short term we have problems seeing why the oil price should retreat very much. The oil market is still tight, with almost no free production capacity.

Longer term, large investments both exploration and development will probably lead to an increased global production capacity. The demand side is less encouraging. Smaller engines in America, yes; but oil consumption in the emerging world will continue to rise.

Despite strong appreciation, our big investments in the sector still have low valuations. At the time of writing, Norsk Hydro, Petrobras and Anadarko were valued at

11, 7 and 8 times expected 2006 earnings, respectively. Common to all these companies is their credible growth strategies, which means volume growth well above the industry average. For Norsk Hydro there is still a degree of conglomerate discount as it straddles two different business areas, oil and aluminium.

Oil services to star again?

In last year's annual report we asked whether oil services would be a winner in 2005. A year later, the answer is a clear yes. Rig and supply rates, order quantities, profit margins – and share prices – all increased formidably. The big industry drivers, in the form of increased investment by oil companies, are at least as strong as a year ago.

Significant new orders for drilling rigs, supply ships and seismology ships have already materialised. For the time being, even increased supply will not be able to meet the high demand. Many service companies will deliver fantastic earnings in both 2006 and 2007.

There is a danger that service companies will become overconfident about their own investment plans, however. This applies in particular to segments like supply ships and jack-up rigs, where there are many players who are able easily to increase capacity. We are sceptical about shares valued on the basis of record profits lasting forever.

Rigs cheaper in the U.S.

Current valuations still favour investments in the American rig companies rather than many of the Norwegian ones. In the supply ship segment, the opposite is the case. Due to the typically closed ownership structure of the Norwegian companies, they are on significantly lower valuations than their U.S. counterparts.

Our principal exposure to the rig sector is therefore in the U.S. companies Transocean and Pride International, whereas in the supply ship segment we have positions in Norway in Solstad Offshore, Dof, Eidesvik Offshore and Farstad Shipping. In the seismology segment, our main investment is Cie Generale de Geophysique.

Upturn with Fred Olsen

Exchange newcomer Seadrill was included in the portfolio during 2005. We believe in the company's ability to create shareholder value through proactive and transaction oriented management. During the past year we have enjoyed a 150 percent price appreciation for Fred Olsen-shares Ganger Rolf and Bonheur. But in spite of this price performance, the discount relative to value-adjusted equity is the same as a year ago, about 50 percent.

Gold in steel and metal

Within commodities, mining and smelting companies Boliden and Korea Zinc were good contributors last year. However, German steel company Salzgitter, which was a newcomer to the portfolio, stood out with a gain of 220 percent. Even after this spectacular performance, Salzgitter is valued at only six times expected 2006 earnings.

The jewel in the Salzgitter crown was its 25 percent

ownership of the world's largest provider of steel pipe to the offshore industry, the French company Vallourec, which topped the French charts with a price appreciation of 330 percent.

Like the oil service industry, steel and other metals and several raw material sectors are in a major investment period, taking place after the industry had been underinvested for decades. Demand growth is due to massively increased consumption in China and other emerging economies. It takes time to develop new capacity, though, and high profit margins will be sustained in several raw material areas for a good while ahead.

Gloom in the forest

Our major disappointment last year was wood processing, where capacity utilisation remained too low to enable manufacturers to implement desired price increases. In addition, manufacturers ended up in a margin squeeze as a consequence of price increases for several of their cost components.

Even after a good fourth quarter performance, Norske Skog, our principal investment in the sector, ended down a bit on the year. However, we increased our holding in the company in connection with a private placement in the autumn. Capacity utilisation should improve in 2006 and 2007, while American manufacturers have been able to implement significant price increases for newsprint. Conditions should therefore enable Norske Skog to deliver better earnings over the next couple of years.

With a price gain of 50 percent, Hansol Paper was among the better global paper plays last year. We used the opportunity to take profits and sold our holding at the end of the year. Brazilian pulp producer Votorantim was a newcomer to the portfolio last year. So far its share price performance has been disappointing, mainly due to the strong appreciation of the Brazilian currency.

Out of moving, into making

Wilh. Wilhelmsen and Stolt Nielsen are the fund's largest holdings in capital goods, service and transportation; both are among the leaders in their niches, car and chemical transport respectively. High returns on capital should be more durable in segments where barriers to entry are highest, as they are in the transportation of cars and chemicals.

After a period with many new orders for tank and bulk ships, we have reduced our exposure in this segment: Euronav, CMB, Concordia Maritime and AP Moller were sold, while we reduced our holdings in tank companies Brostrom and Premuda.

Surging activity in shipping, rigs and offshore vessels has finally restored acceptable profit margins to shipyards. For a couple of years they have been depressed due to high steel prices and low prices on new construction. A low valuation, combined with prospects for very good profits, convinced us to buy into the world's largest shipyard group, Hyundai Heavy Industries.

In agricultural equipment, our holding in Swiss company

Bucher Industries was reduced in favour of Kverneland. Even in a difficult agricultural market, Bucher has been a good investment for the fund. However, valuation relative to equity had risen to double that of Kverneland at the same time as Kverneland is implementing a much-needed restructuring. This was also why we chose both to subscribe to and act as underwriter for a new issue by Kverneland towards the end of last year.

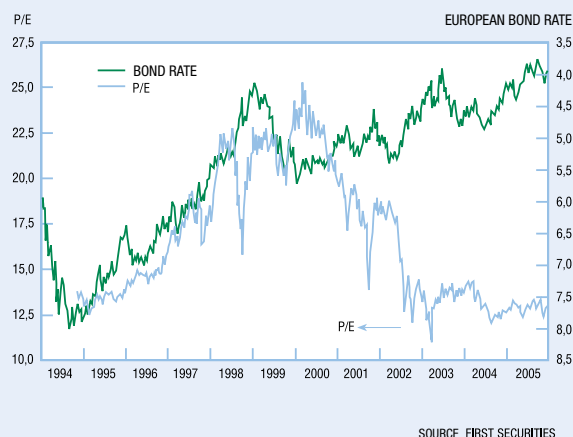
Benefiting from the digital revolution

No great changes were made in the discretionary consumer goods group. We still believe in electronics retailers DSG International (owner of Elkjøp) and Expert. Both carry low valuations, at the same time as sales prospects for flat screen monitors and other products of the digital revolution are rocketing. For the travel industry companies OVDS, which after the merger with TFDS becomes Hurtigruten, as well as hotel chain Rica, we expect marked earnings improvements in 2006. A good product combined with higher capacity utilisation is a recipe for a good investment result.

Nibbles in 2005 – will the fish still bite in 2006?

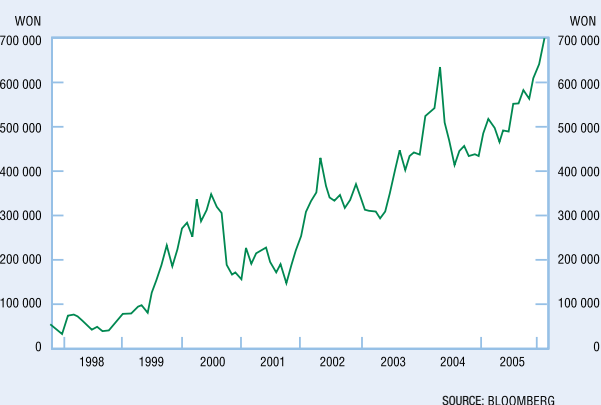
In last year's annual report we said that fish farming companies would provide positive surprises with their 2005 earnings. We were right. Low production growth, combined with continued good demand, resulted in a strongly rising price for farmed salmon. The fish farming industry turned swiftly from crisis to profitability. We believe, that this is still a very volatile sector and we expect overproduction,

LOW INTEREST RATES, STRONG CORPORATE BALANCE SHEETS AND LOW VALUATIONS SHOULD LEAD TO HIGH ACQUISITION ACTIVITY IN EUROPE



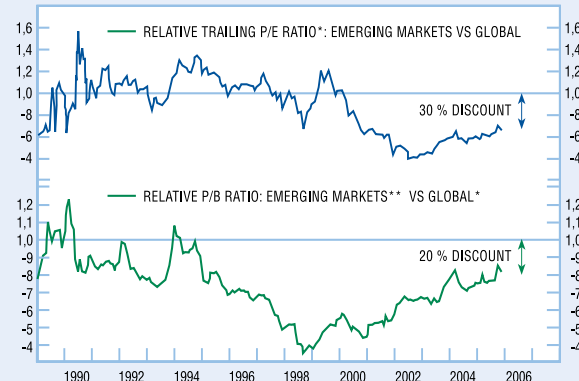
Low interest rates, strong corporate balance sheets and low valuations have resulted in high acquisition activity. P/E ratios for European shares have been almost halved from 2000, at the same time as bond yields in Europe have been reduced by a couple of percentage points.

PRICE PERFORMANCE OF SAMSUNG ELECTRONICS ORDINARIES



Our investment in Samsung Electronics has been multiplied many times since the first time we bought shares in the company, during the Asian crisis of 1997/1998.

STILL ATTRACTIVE DISCOUNTS IN EMERGING MARKETS



* SOURCE: MORGAN STANLEY CAPITAL INTERNATIONAL
** S&P/IFC INVESTABLE INDEX

SOURCE: BCA

Stock exchanges in emerging markets are still cheap relative to those of western countries. Since 2000, they have carried lower valuations than the exchanges in developed countries, going by P/E ratios. If you look at valuations based on book value, there have been discounts in place since the middle of the 1990s.

falling prices and lower profits eventually to re-appear. Meanwhile, the upturn should carry through strongly into 2006.

Due to their stodgy image, Nutreco and Leroy Seafood Group, which we hold, are not popular among fish speculators. However, both have very low valuations of production capacity. We are looking forward to this year's listing of the Nutreco subsidiary, Marine Harvest, in Oslo. This will make visible the great discount inherent in the current price of Nutreco, and hopefully result in a revaluation of the company.

We like unpopular pharmaceuticals

Unpopularity and a low valuation do not guarantee, of course, a good investment result in the short term. Pharmaceutical giant Pfizer was a case in point. In spite of a direct return of four percent from dividends and a modest P/E ratio of 12, the U.S. pharmaceutical giant experienced a price decline last year.

Pfizer exemplifies that it is not currently fashionable to invest in large, index-heavy companies, even in industries with good growth prospects and high profit margins. However, we find these companies more interesting the cheaper they get, which is the reason for us increasing our holding in Pfizer last year, and also why we took oil giant BP in from the cold.

Less banking

Acquisition activity resulted in our principal banking investments, BN-Bank and Bank Austria, disappearing from the fund last year. A newcomer is the Turkish conglomerate Sabanci Holding, which, among other things, is the major owner of Turkish bank Akbank. After a fantastic price performance, we chose to halve our holding in Korean Reinsurance.

In total, the portfolio's exposure to banking/finance is significantly below the corresponding weighting in the broad global indices. Low interest rates, low risk premiums, low bank losses and good global growth means that it is a great challenge to find companies in the sector that are undervalued in relation to assumed normal earnings.

Samsung

Within technology, Samsung Electronics(see also SKAGEN Global) is still our top investment. In spite of 2005 earnings falling sharply from the record profits of 2004, Samsung Electronics was one of the fund's major contributors in 2005. Most Korean shares did well but Samsung's own good prospects for the key product areas of memory chips, flat screen monitors and mobile telephony should result in a strong profit increase in 2006.

Even though Samsung Electronics now has joined the exclusive club of companies with a capitalisation of over USD 100 billion, the valuation is not frighteningly high

in relation to assets and earnings. The preferred shares are valued at 1.7 times equity and 8 times expected 2006 earnings, far lower than the average the Oslo Stock Exchange. This is cheap in relation to the uniquely strong position the company has in several of its product and market categories.

Poor dialling tone

Many telecommunication companies will experience great challenges in connection with the introduction of new technology. Among other things, increased use of IP telephony will have severe adverse consequences for companies that have had fixed lines as their great cash cow.

Within mobile telephony too, many markets are starting to mature. We expect to see more revaluations of companies, from being considered growth machines to being valued as stable providers of utility services. We have therefore chosen to focus on emerging markets, where mobile phone penetration is still low, share valuations sober and customer growth high. Our principal investment is Telkom Indonesia, with Thai company TAC as runner-up. Telecoms represent just over two percent of our portfolio, much lower than the sector's weight in the global indices.

Cheap Brazilian power

We almost doubled our holding in the Brazilian power company Eletrobras(see Skagen Global) during 2005. The valuation of the company is still as extraordinarily low as it was a year ago. The company was a good contributor to the fund's 2005 performance, but mostly as a consequence of the strong appreciation of the Brazilian currency. The current price of Eletrobras corresponds to just under one third of book equity. Dividend return is almost eight percent and the 2006 price/earnings ratio is just seven, the kind of numbers that warm the heart of a value oriented portfolio manager.

We believe that, over time, power prices in Brazil will be forced upwards to justify and finance investment in new capacity, and that, as a result, the company will provide the fund's unit holders with good returns.

Betting on takeover targets

The macro-economic backdrop for 2006 is good. Continued strong economic growth and low-ish interest rates, combined with continued low corporate valuations, are a mix which excites the M&A departments of investment banks. 2005 was a big year for issues and IPO's in Oslo, but 2006 will see takeover specialists working harder.

The portfolio of SKAGEN Vekst contains a number of potential takeover targets which ought to be attractive to both industrial and financial players. These are stocks with low valuations relative to book values and 2006 earnings. Secondly, many of them have attractive product and market positions, implying that potential buyers should be prepared to pay strategic premiums.

SKAGEN Kon-Tiki

Riding a superbull

SKAGEN Kon-Tiki achieved a 2005 return of 59.3 percent, versus an increase of 49.2 percent for Morgan Stanley Emerging Market Index, adjusted for dividends and measured in Norwegian Kroner. Our choice of companies led to a high concentration in markets like Brazil, Korea and Turkey, which were all high on the list of last year's winners.

In contrast with previous years, it was not the choice of companies, but the performance of the individual countries that was the major factor behind the performance of the fund. However, this does not change our basic company-focused investment philosophy. Selection of undervalued companies of high quality is what it takes to create returns for SKAGEN Kon-Tiki, not speculation about which countries are going up or down. It is thorough research of companies, not ice berg jumping, that will provide our unit holders with good risk-adjusted returns in the long term.

Samsung contributes big

Measured in NOK, the top contributors in 2005 were Samsung Electronics (265 million), Hanmi Pharma (189 million), Yatzicilar Holding (141 million), Sabanci Holding (137 million), Petrobras (133 million) and Samsung Heavy Industries (127 million).

We lost money on Votorantim Cellulose (-14 million) and Grupo Financiera Galicia (- 10 million). Investors and portfolio managers alike underestimate the importance of avoiding losers, which is just as great as picking winners, and so we are pleased that our losses were few and small in this very good year for global emerging markets. With respect to capital gains, there was a healthy spread both in terms of industry and geography.

Continued great values

Even though the emerging market index has risen strongly over the past three years, companies have only to a limited extent been revalued. Many comparable companies still carry lower valuations in the emerging markets than in developed countries.

Russia, Korea and India, however, were significantly revalued upwards during the year. The China-related markets, such as China itself, Taiwan and Hong Kong depreciated during the period. The difference in valuations between markets has become smaller, with the possible exception of high interest rate countries Turkey and Brazil.

Upping late cyclical

Throughout 2005, in SKAGEN Kon-Tiki, we increased our weighting of companies that make the most money relatively late in the business cycle. By purchasing shares in Pride International, Seadrill and Smedvig, the weighting in oil service has increased, at the expense of oil production. The commodity weighting was cut during 2005. In

transportation and manufacturing, we reduced our holdings in shipping in favour of Korean shipyards.

We increased our share in consumer goods, pharmaceuticals and finance. In pharmaceuticals we "weighted up" in large, global companies, which have become very cheap in recent years. Our investments in technology are in companies that focus on consumer and branded goods. We increased our holding in Samsung Electronics and purchased its Korean little brother, LG Electronics, which is primarily a provider of branded mobile telephones. TV's and white goods.

The telecom share was reduced a bit, whereas the relatively high utilities weighting was maintained.

Petrobras beyond comparison

The good contributors for the year predictably included the energy sector, led by Petrobras. The Brazilian oil company managed to reach an increasing number of investors with its production and shareholder friendly message. In the coming five years, the company will increase its production from 2.2 to 3.5 [million] barrels a day, and is investing almost as much as its own capitalisation. This is a production profile that is almost beyond comparison with respect to other major global oil companies. At the same time, the company is providing good direct returns and has a shareholder friendly dividend policy.

Within oil service one of our major companies is China Oilfield Service, which we expect to be revalued during 2006 due to the winning of international contracts, which are significantly better paid than their contracts in the domestic market. The company is among the few which will have idle rigs during the next couple of years, which may be very lucrative in a market screaming for drilling rigs.

A leader in iron ore

Our biggest commodity holding is Cia Vale Rio Doce. The company is the world's leading producer of iron ore and alumina (the raw material used in the production of aluminium) and a significant producer of basic metals. With an expected annual volume growth of at least 20 percent in the next few years, at falling unit costs, the company is in a unique situation.

Grupo Mexico was restructured in 2005, which had little impact on the valuation of the company. Good earnings and record high copper prices, as well as willingness to pay dividends, should result in the company being upgraded during 2006.

Offshore sunshine

During 2005 we sold most of our shares in shipowners, but we kept Hyundai Merchant Marine and Ship Finance Ltd. Both companies have restructuring potential, lower valued assets and good direct returns through dividends.

In transportation we have switched to shipyards. Increasing willingness to enter into contracts, better pricing power and an exploding market for offshore installations may provide a couple of years of sunshine for shipbuilding.

A newcomer in the portfolio is the Slovakian airline SKYEurope. The company is focused on Eastern Europe and has a significantly lower cost base than its competitors.

Disappointment of the year was IDT International, which was unable to transfer its OEM skills to brand building.

Indian traction

In discretionary consumer goods, our principal holding was Mahindra & Mahindra. In the past year the company's production and sale of tractors and cars grew strongly. Non-consolidated subsidiaries also became more visible, making it easier to value the company. In 2006 and 2007 a number of subsidiaries will be listed, which should reveal "hidden values" in the conglomerate.

In 2005, SsangYong Motor was the car manufacturer in Korea with the poorest stock exchange performance. However, the underlying development of the company was particularly good: the product range was renewed, with very good customer reception; the international dealer network was extended, resulting in a doubling of export sales. The company is still free of debt. With new, exciting models and a lot of free capacity both in terms of production and distribution, 2006 looks promising for SsangYong Motor. The shares are cheap, both in absolute terms and relative to other Korean auto companies.

Profitable McTurk

This year's winner in the consumer sector was Turkish company Yatzicilar Holding. The company is the majority shareholder in the beverage division of the EFES Group in Eastern Europe, Turkey and Russia. In addition to the good performance of this business, the acquisition of the McDonalds franchise rights for Turkey, as well as the Turkish state lottery, were the key price triggers. The company is now emerging as the leading Turkish consumer goods conglomerates.

Our Balkan consumer goods companies Pivo Lasko and Podravka delivered poor investment results in the past year. However, the companies have developed according to expectations and we expect that 2006 will shed more light on the underlying values and the strategic potential.

Pharmaceuticals: up in a down sector

Our pharmaceutical portfolio was a winner in the past year, all the more unexpected in a year dominated by energy and cyclical stocks.

Our companies, Hanmi Pharma and Gedeon Richter, became stars. The former was honoured for its

breakthrough with super generic products, which has great global potential. Gedeon Richter continued its good performance in a buoyant environment for generics. This provides us with further confirmation that Eastern European companies do not lag the speed of innovation of the pharmaceutical companies of developed countries.

Even though both Hanmi Pharma and Gedeon Richter no longer appear grossly undervalued, continued good implementation skills in the companies should provide for further gains in 2006.

Contrarian on Pfizer

Expiring patents, public regulations, actions for damages and a high cost level has driven many of the western pharmaceutical companies from low to low. However, valuations are now starting to become interesting.

In December SKAGEN Kon-Tiki bought a holding in U.S. company Pfizer (see also SKAGEN Global), equivalent of 4.5 percent of the fund's net assets. After the purchase, the company launched the first stage in a cost cutting program, as well as an objective of paying bigger dividends. The revaluation of the company seems to be under way.

Niche financials

Our niche bets on financial enterprises proved to be sensible in the past year. Whereas the big financial groups were still struggling with the after-effects of the 2000-2003 downturn, many

niche players got a boost in 2005.

Our bets on Korean brokerages, asset manager Aberdeen Asset Management and Korean Reinsurance turned in sparkling performances. Our big holding in Turkish financial holding company Sabanci Holding also contributed strongly.

The banking industry winner, BanColombia, was sold during the first half of the year. In retrospect, that proved to be half a year too early. Our holding in Bank Austria was reduced in connection with the offer from Italian company Unicredito. Afterwards we bought back part of our holding. The bank has a very low valuation in relation to competitors and is growing rapidly (please refer to SKAGEN Global).

In 2006 we are betting on a revaluation of our Taiwanese brokerages, Polaris and KGI Securities. They are priced in line with the valuation of their Korean colleagues at the start of 2005.

Contrary to what we expected, the Argentinean bank

"Minimising losers is very important because it allows your winners to impact more strongly, which they did in this great year for global emerging markets."

Grupo Galicia was not revalued in connection with the Argentinean debt restructuring in 2005. The underlying operation of the bank, however, has been better than expected.

High wire for Eletrobras

Investments in LCD equipment manufacturer Top Engineering, and the Hungarian software company Graphisoft, disappoint.

In the telecom sector, the principal investments were Bharti Televenture, Indosat and Thai company TAC, all of which delivered the goods. The sector's share of the portfolio declined a little.

On main utilities exposure was to the Brazilian electric power company Eletrobras (see also Skagen Global and Skagen Vekst). Auctions of electric power led to a rising price level for the next five years, a period in which Eletrobras will increase its capacity significantly. New investments will be made on the basis of a real annual return of 10 percent. With expectations for further Brazilian interest rate declines through 2006, the price potential for Eletrobras share is considerable.

Our holding in Russian company UES was doubled.

Big bets

In spite of considerable capital appreciation during 2005, we maintained a high degree of concentration. The 10-12 largest companies still constitute half the fund's portfolio and holdings of over two percent constitute more than 70 percent of the assets. We want a relatively heavy concentration on good ideas, without this being at the expense of necessary distribution of risk.

Into 2006

2006 will be another good year for the global emerging markets. Companies typically carry low valuations, they are generally making more money than last year and interest rate and risk developments are expected to be less of a problem. We see the biggest risks as being elections in Latin America and Russia, but we expect these to be more rhetorical than fundamental.

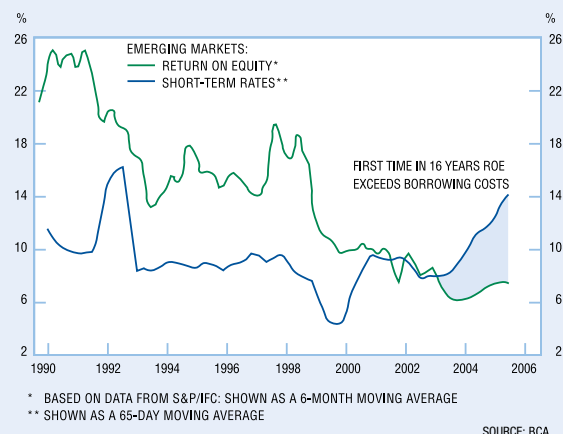
SKAGEN Høyrente Institusjon

A bit better than benchmark

In 2005, SKAGEN Høyrente Institusjon achieved a return of 2.06 percent, versus 2.01 percent for its benchmark. In a relatively calm and predictable money market we were careful in our management of the duration, which was typically between 0.15 and 0.25 during the year.

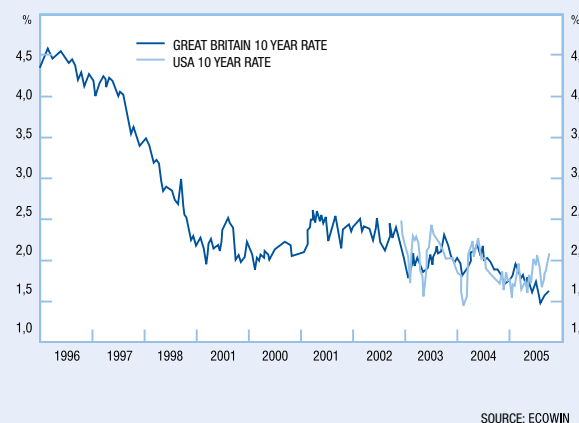
Norges Bank kept the discount rate low during 2005, with only a moderate increase from 1.75 percent to 2.25 percent during the second half. In 2006, we expect a cautious tightening of monetary policy, with a rate increase of 25 basis points each time Norges Bank presents an inflation report. This indicates a discount rate of 3.0 percent at the end of the year.

FOR THE FIRST TIME EVER, CORPORATE EARNINGS IN EMERGING MARKETS ARE NOW HIGHER THAN THE INTEREST RATE LEVEL – POINTING TO FURTHER EQUITY MARKET POTENTIAL



For the first time in 16 years, the return on capital in emerging markets now exceeds the average borrowing rate. This indicates continued strength of equity markets.

HIGH SAVING RATE KEEPS THE GLOBAL REAL RATE OF INTEREST DOWN AT 1.5 – 2.0 PERCENT, EVEN IF GOOD GROWTH PULLS UP INVESTMENTS



A high saving rate means that the global real rate of interest has been pushed down to 1.5-2 percent. This compares with over 4.5 percent in the U.K. in the middle of the 1990s.

Norges Bank estimates that core inflation will increase to approximately 1.7 percent by the end of 2006. We see risk factors indicating that Norges Bank may be shooting both over and under the target with respect to the discount rate. However, we think it would take a lot for Norges Bank to deviate from its signalled cautious rate increases. If the markets make different assumptions, we will adjust the duration of the fund in order to achieve excess returns.

As of January 1st 2006, the management fee of the fund was reduced to 0.15 percent per annum.

SKAGEN Høyrente

Will beat the banks

In 2005, SKAGEN Høyrente achieved a return of 2.04 percent, which was higher than what a depositor would have achieved in most high interest accounts in the country's banks. The three month NIBOR, which is the interest rate that banks apply to loans among themselves, provided a return of 2.22 percent in 2005. It is the objective of SKAGEN Høyrente, over time, to beat the three month NIBOR.

Expansive monetary policy, good corporate profitability and a relatively low investment level has resulted in very good liquidity in the money market. Many companies have therefore enjoyed cheap financing in 2005: the spread between the corporate borrowing rate and three month NIBOR has been low.

There are now signs of increasing willingness by businesses to invest. In combination with a gradual tightening of monetary policy, this will, after a while, result in a bigger spread between the corporate borrowing rate and the money market rate. SKAGEN Høyrente will then have more opportunities for again delivering returns above three month NIBOR.

As of January 1st 2006, the management fee of the fund was reduced to 0.25 percent per annum.

Returns up with interest rates

The fund's return consists mainly of interest income from solid issuers of industrial and financial notes. When the general interest rate level goes up, so will the return of SKAGEN Høyrente. Lenders to banks often have to wait for a long time before the interest on deposits is adjusted up, but higher discount rates and market rates have an almost immediate upward impact on the return of SKAGEN Høyrente.

significantly better than the average money market return of 2.1 percent. Fluctuations, measured by the standard deviation, were also low, 1.6 percent versus 1.2 percent in 2004. In 2005 SKAGEN Avkastning had the highest risk-adjusted return of all Norwegian bond funds.

The share of foreign investments last year constituted an average of 19 percent of the fund. The bulk of the fund's assets is safely invested in good Norwegian government and financial securities with short interest rate sensitivity. In 2005, Norwegian investments provided a return of 2.1 percent, whereas the foreign portion achieved 22.1 percent.

Expensive Norway

Based on the view that the interest rate spread of long bond yields between countries with inflation targets should diverge only by the difference between the inflation targets of individual countries, as well as the countries' credit rating, we have identified both cheap and expensive bond markets. Of the bond markets we follow, Norway is the most expensive, followed closely by Switzerland and the Czech Republic. The cheapest markets in our portfolio are Brazil, Mexico and Iceland.

Cheap South Korea

At the start of 2005 we were of the opinion that Mexico would be the best of the stable and accessible bond markets. We were spot on. Our nine percent holding in Mexican long maturity government bonds was last year's best contributor, with a return of 30 percent. We also got good contributions from government bonds in Hungary, Poland, the U.K., South Africa and Iceland.

We are particularly pleased with the realisation of our government bond positions in Hungary and Iceland, which have now been bought back at considerably low prices, although they are now minor holdings of the fund.

In 2006 we believe investments in long Mexican government bonds will continue to provide good returns and that our South Korean government bonds may become a major contributor. We now think that the latter are cheap. Since Norwegian long maturity bonds are expensive, we are maintaining a short duration for our fixed income investments in Norway. This duration is, at the time of writing, in line with the money market fund SKAGEN Høyrente.

Good prospects

In our opinion, the prospects for SKAGEN Avkastning are just as good at the start of 2006 as they were a year ago. The fact that the frequent hikes of the U.S. discount rate now seem to be coming to an end should be good fuel for the foreign investments of SKAGEN Avkastning.

SKAGEN Avkastning

High stable return

Last year, SKAGEN Avkastning achieved a return of 5.8 percent, which was in line with the prior year and



"We make big bets on our best ideas, but not at the expense of sensible diversification."

J. Kristoffer C. Stensrud



"The portfolio of SKAGEN Vekst contains a number of potential takeover targets that ought to be attractive to both industrial and financial players."

Kristian Falnes



"Equities as an investment have not become more popular, quite the contrary. This is promising with respect to 2006."

Filip Weintraub



"SKAGEN Hoyrente is a safe alternative to bank saving, paying a better rate of interest."

Torgeir Høien



"2006 will be another good year for global emerging markets."

Beate Bredesen



"The prospects for SKAGEN Avkastning are as good at the start of 2006 as they were a year ago."

Ross Porter

J. Kristoffer C. Stensrud

Kristian Falnes

Filip Weintraub

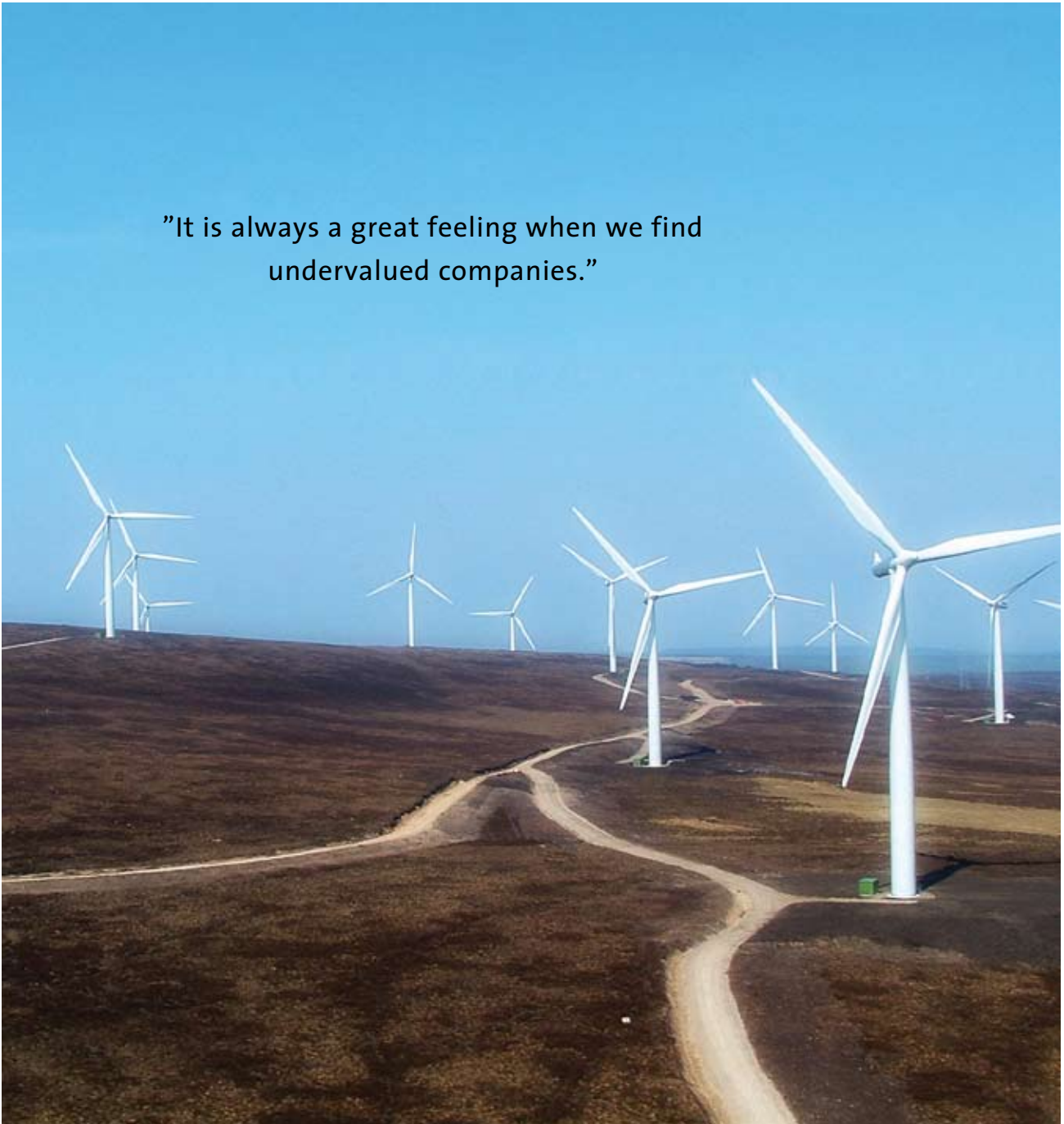
Torgeir Høien

Beate Bredesen

Ross Porter

No short cuts to success

"It is always a great feeling when we find
undervalued companies."



Bargain: Wind power is a focus area for Ganger Rolf and Bonheur.

Photo: Fred Olsen

THE HUNT FOR GOOD INVESTMENTS



Drilling ship: Fred Olsen Energy represents the largest shipping company in Ganger Rolf and Bonheur. The photo shows the drilling ship "Belford Dolphin", which in 2006 will be operating in India.

Photo: Fred Olsen

– They have been clever, says Kristian Falnes, the SKAGEN Vekst portfolio manager. The Fred Olsen owned companies Ganger Rolf ASA and Bonheur ASA have been among his most profitable investments in recent years.

– They are the companies that have contributed most to the performance of SKAGEN Vekst in 2005, says Falnes.
– We have had them in the portfolio for quite a while and increased our holdings slightly in 2005. The valuation discount is huge, almost 50 percent. They will be money machines and do enormously well over the next 2-3 years, adds the portfolio manager.

Ganger Rolf is a conglomerate of companies with activities in the sectors oilrigs, floating production, wind power and tankers. Bonheur is part of the same conglomerate, and both companies own shares in each other. Within rigs the companies, through the part-owned Fred Olsen Energy, are in the process of filling their order books at fantastic rates. In addition they are developing wind power as a new focus area. The conglomerates are the biggest holdings in the SKAGEN Vekst portfolio after Norsk Hydro, because they satisfy most of the requirements of the SKAGEN Funds investment philosophy. The philosophy is the same for all our funds: Under-researched, unpopular and undervalued. Bonheur and Ganger Rolf are close to being classic SKAGEN investments:

Undervalued

– Ganger Rolf and Bonheur satisfy all the U's. First of all, they are undervalued. We bought Ganger Rolf at almost half price. Market value of our ownership in the two companies is about 400 MNOK, whilst historic cost price

is 140 MNOK. This means that there is an unrealised gain on our shares of NOK 260 million. Even though the share price has increased considerably the last year, the companies are still valued at a discount of almost 50 percent compared to value-adjusted equity. Such discounts vary and fluctuate as interests change. In general, the discount for investment companies or conglomerates is around 20 percent.

Under-researched

– The companies are under-researched. Few analysts have followed them properly. I think this is because investors often want unadulterated and comparable companies. Not many others bother to do as thorough analyses of this type of companies as we do.

Unpopular

– Conglomerates are currently unpopular. The cross-ownership between Ganger Rolf and Bonheur in a closely held company is not all that attractive, and it is not 'in' to organise companies this way any more. Share liquidity has also at times not been so great.

- A good feeling

Falnes started to become interested in Bonheur before 2001 when he already then started to buy shares according to the 'slowly in, slowly out' principle. So far there are few signs indicating a slow exit. Most shares in Bonheur were purchased in 2004 and 2005, while the shares in Ganger Rolf were mostly purchased in 2004.

– We are on the lookout for good undervalued companies all the time. That is why it is always a good feeling when we find them, says Falnes.

– *How do you go about finding companies?*

– With respect to Ganger Rolf and Bonheur, these are companies that have been on my radar screen ever since I started taking an interest in equities 25 years ago. Generally however, we simply pay attention to what is happening in the world. We read annual reports, monitor Bloomberg and other news services and pay attention to key figures. Now and again we get good ideas from the newspapers. With respect to finding good companies, some periods are easier than others. During the tough stock exchange winter of 2003 it was quite easy to find good candidates.

– *Do you ever find good companies that you want to keep to yourself?*

– No, it is very important to share tips with the other portfolio managers. We sit together and have a close dialogue so that we don't have to reinvent the wheel every time.

Even though the six SKAGEN Funds portfolio managers deliver world-class performance, there are no flashy offices or mahogany desks. All six sit together in an open-plan office, and that makes it easy to swap tips and ideas. The managers are seldom looking for short-term gains. They think long-term when they invest.

– When we entered Bonheur and Ganger Rolf I was looking at a time-frame of around 2007. But as always, things can happen. They may do stupid things or become stock exchange favourites. In that case we have to reconsider. Many speculators, small and large, have burnt their fingers buying too late and selling too soon. This is a risk the portfolio managers try to avoid.

– We have no advantages with respect to timing, but we reduce the timing risk through careful entry into and exit from the companies.

– *You are not afraid that others will copy your successful recipe?*

– A “copy-cat” effect is always a possibility, but the important thing is that value is created in the underlying companies. If you own companies that at the outset are lowly valued, that are soundly managed and focus on generating values for their owners, sooner or later you will get rewarded in the form of a higher share price. As long as there is a large selection of companies, we will be doing OK, smiles Falnes.

Employees back to school

– Our objective is to be the best. This requires continual competence development and further education, says Mette Helgevold Årstad, head of competence development/HR.

– Competence development is important throughout the organisation. We are working in an increasingly difficult market, and our clients’ are becoming more and more demanding. This challenges us as an organisation. We want to deliver the best communication, service and competent follow-up, and that means we have to pay attention in class, says Mette Helgevold Årstad, head of competence development/HR.

SKAGEN Funds takes internal competence development seriously and ensures that each employee has sufficient and updated knowledge to carry out their work and provide good client advice. For several years, SKAGEN employees have been sent back to the school bench as part of a continual competence development program.

– We will always have our clients’ best interests at heart. The raison d’être of SKAGEN Funds is satisfied clients, Årstad explains.

Further education in Norway is organised in cooperation with Norges Handelshøyskole (NHH – The Norwegian School of Economics and Business Administration) in Bergen. In Sweden we have established collaboration with Financial Education – one of Sweden’s leading institutes for certification and education of financial advisors. In addition there is an internal “SKAGEN School” for all employees. One evening a month we arrange lectures with topics varying from ethics and private finances to rhetoric.

– In 2005 we started our own “SKAGEN School” directed at our partner banks, and during 2006 we will initiate



Knowledge company: Mette Helgevold Årstad makes sure that SKAGEN Funds employees maintain a high level of competence.

Photo: Odd Atle Edvardsen

measures to make “SKAGEN School” available to our clients, says Helgevold Årstad.

Competence development is a continuous process involving everybody.

– In addition to a strong client focus, we want to be a social and attractive place to work. Consequently, we invest in our employees, says Mette Helgevold Årstad.

Our employees

								
Elisabeth A. Gausel Retail sales	Maren Jakobsen Unit settlement From 1st January 06	Arlid Risanger Sunde Retail sales From 1st March 06	Lise Holm Jacobsen Institutional sales	Bodil Hauge Økland Retail sales	Eli Guttormsen Anda Unit settlement	Christian Bethuelson Unit settlement	May Silje Bjørkhaug Security settlement	Beate Bredesen Portfolio management
								
Helge Braaten Institutional sales	Lisen Dybdahl Communication	Ellen K. Erslund Retail sales	Kristian Følness Portfolio management	Synnøve Fjeld Accounting	Marianne Gillies Client host	Stein T. Haben Pensions	Harald Espedal Managing director	Torgeir Høien Portfolio management
			<p>"It has helped us that we have very different backgrounds with respect to education and experience. This will continue."</p> <p>Investment director Kristoffer Stensrud</p>					
Stian Ikdal Unit settlement	Pål Kjeldsen IT	Kristen Kvame Institutional sales				Jan Kjetil Nystrom Mid-office manager	Rikard Persson Retail sales	Ross Porter Portfolio management
								
Synnøve Hellestø Ramsli Retail sales	Solve Rasmussen Retail sales	Margrethe Vika Communication From 1st January 06				Leiv Erik Nes Institutional sales	Wenche Skorge Communication director	Samantha Dean Skurtveit Communication
								
Berly Sleire Security settlement	Eva Marie Sollie Client host	Nicolai M. Stærfeldt Board secretary	Janniken Støldal Head of settlement	Trond Svela Market analysis	Brit Sør-Reime Accounting	Sølvi Marie Tønning Project management	Asbjørn Vagle Head of sales	Signe Vaala Communication
								
Filip Weintraub Portfolio management	Åge Kristiansen Westbo Deputy managing director	Marit Østhus Lea Finance manager	Trond Østrådt IT manager	Mette Helgevold Årstad Human resources manager	Anne Grete Løvås Unit settlement	Kristoffer Stensrud Investment director	Bjørn Tjemsland Project management From 1st March 06	Frances Eaton Board secretary From 1st April 06
								
Anne S. Langhelle Communication	Ole-Christian Tronstad Communication	Tom Gamlem Institutional sales, Trondheim	Hans Petter Hammernes Institutional sales, Trondheim	Johan Frisvold Institutional sales, Ålesund	Arlid Rødal Institutional sales, Ålesund	Fredrik Astrup Manager, Oslo	Haakon N. Allum Institutional sales, Oslo	Johan Aasen Head of pensions, Oslo From 1st January 06
								
Jonas A. Eriksson Manager, Stockholm	Michael Gobitschek Manager, Stockholm	Per Wennberg Managing director, Stockholm	Marit Bjørsvik Institutional sales, Bergen	Petter Sandtorv Institutional sales, Bergen	Birthe Jensen Pensions, Oslo	Tore Bang Manager, Oslo	Truls Langballe Institutional sales, Oslo	Vibeke Monsen Langaard Institutional sales, Oslo

Dream became reality



Smart saving: After four years of construction, the garage is completed and I haven't borrowed a penny, says a satisfied Kjartan Helland in front of his magnificent garage.

Photo: André Johan Pedersen

– It has to be the most expensive garage in town, laughs Kjartan Helland. Eight years ago he and his wife started saving, and now he has been able to realise his dream of a great big garage, thanks to a savings plan and lots of dynamite.

– It will probably never be completely finished, but at least last year we were able to put in a garage door, Kjartan Helland explains.

It took four years to blast, drain, build supporting walls, reroute telephone and TV cables and finally build the magnificent garage. But it was worth it, Helland thinks. He would not been able to pull it off without a keen Ålesund representative for SKAGEN Funds.

– I had five tours of Lebanon behind me, and had managed to save some money. We were camped far out in the bush and there was little to spend money on. When I returned home, I started to save in funds and read about SKAGEN Funds in the magazine Dine Penger. That was the start of a productive relationship between Kjartan Helland and SKAGEN Funds' man in Ålesund, Arild Rødal.

– Around Christmas 1997 I moved our money over to SKAGEN Vekst. We decided to save up to a certain amount and not use any of it before I had reached my goal.

Mr. Helland started saving when the equity market went into a three year slump. Not exactly optimal, but Mr. Helland used the opportunity to buy more units.

– In spite of the bear market, we chose to up the stake a little. Arild advised me to take it easy and think long-term. In hindsight it proved to be smart, because suddenly the market turned up again, and the going was good, Mr. Helland chuckles.

After a few years of saving, the prison officer was able to not only afford to build his garage, but also to buy a new car and a small motorcycle. The value of the house has increased, and Kjartan and his wife do not have to risk frozen fingers by scraping ice from the car during winter.

– I had an old Mazda that some of my co-workers joked I had received as a christening gift. Now, both the wife and I have new cars and a new garage, without having to borrow money. I'm not from Sunnmøre for nothing, Kjartan Helland laughs happily.

Another stamp of quality

Standard & Poor's ranks SKAGEN Global and SKAGEN Kon-Tiki as the best funds in the world, measured by the return over the past five and three years respectively. – This inspires and commits us to even greater efforts in the future in order to safeguard the interests of our clients, says Åge Westbø, deputy managing director of SKAGEN Funds.

Standard & Poor's (S&P) is the world's leading company for qualitative assessment of funds, and regularly rank similar funds on a worldwide basis. Measured by the performance over the past five years, SKAGEN Global provided the best return relative to 1173 other global funds. Measured by the return over the past three years, SKAGEN Kon-Tiki is the number one among 472 funds with emerging market portfolios. Since it was only started in April of 2002, SKAGEN Kon-Tiki does not have a five-year history. In 2005, SKAGEN Kon-Tiki was number 13 of 519 funds.

An investment philosophy that works

– This rating from S&P is difficult to achieve and the distinction is thus a nice confirmation that our investment philosophy works, says Åge Westbø, deputy managing director of SKAGEN Funds.

– It should reassure our clients that a third party considers and is able to document that our overall goal – to provide our clients with the highest possible return at the lowest possible risk, as well as providing the best possible communication, service and competent follow-up – works in practice, says Mr. Westbø and adds that world-class returns create an obligation. This ranking will inspire us to try even harder in the future to safeguard our clients' interests.

In 2005, SKAGEN Global delivered a return of 39.2 percent. Total value creation was 3.3 billion NOK. This means that the fund was number 29 out of a selection of 1775 funds in the S&P ranking for 2005.

OWNERSHIP STRUCTURE

Ownership structure safeguards client interests

The strength of SKAGEN Funds is long-term, value-based investments and an active investment philosophy. Our investment style is possible because the management company is privately owned and organised in such a way that we may devote our full attention to providing clients with the highest possible return at the lowest possible risk – as well as providing the best possible communication, service and competent follow-up.

The management company behind SKAGEN Funds, Stavanger Fondsforvaltning AS, is privately owned by five key employees and one director. We are free to focus on the best possible long-term management of client assets, and are not distracted by short-term considerations.

Funds are the only business

An investment fund is an appropriate organisation form for asset management. All clients of the fund receive equal treatment. Integrity, equality, independence and a variable management fee give us a unique commonality of interest with our unit holders.

Own-account trading and good business practices

Employee trading in the funds must not be in conflict with the investments of the funds. Employees may not redeem units in SKAGEN Vekst, SKAGEN Global, SKAGEN Kon-Tiki and SKAGEN Avkastning until one week after the subscription date for all units in the fund in question. There is no lock-in period for SKAGEN Høyrente. The managing director may suspend the right of employees to trade in the funds for their own account.

Trading in other securities may not take place if it is in conflict with the funds' investment activities or current laws and regulations. With the exception of units in the funds, securities may only be traded with the prior consent of the managing director and may not be sold until one year after acquisition, at the earliest. Even stricter rules for trading in the funds for their own account are imposed on employees with insider knowledge of the funds' securities trading. These restrictions also apply to trades executed on behalf of close relations of the employee.

Ethical norms and guidelines

SKAGEN Funds will not assume financial risk in the investment of the assets of our unit holders by investing in companies that through their activities may incur significant and unwanted obligations or losses due to health related claims, legislative changes or environmental abuse.

SKAGEN Funds does not accept investments in companies that deliberately harm the local population, environment or chosen system of government. These factors will be considered prior to investing in a new company. In the evaluation of companies, their intentions shall count more than the companies' record.

If it should become apparent that SKAGEN Funds invests in companies that, in spite of their intentions and declared purpose, break our ethical guidelines, this will be a basis for considering selling, but sales will take place in such a way that it does not forfeit values for our unit holders.

Fund ranking

FUND RANKING	SKAGEN Global	SKAGEN Vekst	SKAGEN Avkastning	SKAGEN Høyrente	SKAGEN Kon-Tiki
Morningstar (5 = Best rating) (Source: Morningstar.no; 31st Dec. 2005)	★★★★★	★★★★★	★★★	★★★	★★★★★
Wassum (5 = Best rating)	W W W W W		W W W		
Standard & Poor's Stars (5 = Best) (Source: Standard & Poor, 31st Dec. 2005)	☆☆☆☆☆	☆☆☆☆☆	☆☆☆	☆☆☆	☆☆☆☆☆
Standard & Poor's Rating (Source: Standard & Poor; 31st Dec. 2005)	AAA	AA			AA
Dine Penger (DP dice) DP Index / Return last 12 months No. 11 2005	1,87 No. 1 of 47	1,29 No. 1 of 6	6,10 %	2,0 %	1,44 No. 1 of 10
Funds Barometer (Source: Stavanger Aftenblad; 31st Dec. 2005)	No. 1 of 27	No. 1 of 30			

Empty fields means that ratings have not been carried out for this fund.

NOTICE

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

Subscription fee equity funds: max. 0.7%. Annual management fee for SKAGEN Vekst and SKAGEN Global is 1% + variable management fee. In SKAGEN Vekst returns above 6% are shared 90/10 between shareholders and the management company. With SKAGEN Global the variable part comes into play when the return exceeds the benchmark, Morgan Stanley Daily Net \$ World Index, measured in NOK. The management fee for SKAGEN Kon-Tiki is 2.5% p.a. plus/minus a variable management fee: The accumulated return exceeding Morgan Stanley Daily Net \$ Emerging Markets (in NOK) is shared 90/10 between the shareholders and the management company. However, the total annual management fee has an upper ceiling of 4% of average net asset value. In case of a lower return than the world index, the loss is similarly shared 90/10. However, the reduction of the annual management fee is limited so that it is a minimum of 1% of average net asset value.

SKAGEN Global and SKAGEN Kon-Tiki may be charged a variable management fee even if the fund's return has been negative, as long as the fund has outperformed the benchmark. In the opposite case, the fund may have a positive return without being charged a variable management fee, as long as there is no outperformance of the benchmark. The fixed management fee is calculated daily and is charged on a quarterly basis. The variable management fee is calculated daily and charged on an annual basis.

For SKAGEN Avkastning, SKAGEN Høyrente and SKAGEN Høyrente Institusjon there are no costs associated with the purchase and sale of shares. Neither are there any withdrawal limits. The annual management fee is 0.5% for SKAGEN Avkastning. The annual management fee for SKAGEN Høyrente was 0.3% up until 31.12.2005. As of 01.01.2006 it is 0.25% per year. The annual management fee for SKAGEN Høyrente Institusjon was 0.3% up until 31.12.2005. As of 01.01.2006 it is 0.15% per year.

Please refer to the product sheets and prospectuses for a detailed description of the cost, etc. They are available upon request from SKAGEN Funds.

RIGHT OF CANCELLATION

When you buy fund units, you basically have no right of cancellation (ref. §22b, litra a). However, when subscriptions are sent to us by mail/fax or are carried out via the Investor client at VPS (My Account), this is considered remote communications and we do assume obligations according to the Right of Cancellation Act (Act no. 105 of 2000-12-21). As a client, you are entitled, among other things, to information about the fund and the management company (ref. §7a) prior to, and latest immediately after, the purchase (ref. §9a).

The information is available in the fund's product sheet (simplified prospectus) and the general commercial terms. These documents have been prepared in Norwegian, Swedish, Danish and English. Statutory information is sent to unit holders in the welcome letter immediately after the first subscription. After this, unit holders find all information on our website www.skagenfunds.com, as well as in market reports and the annual report that is distributed to unit holders a total of eight times a year.

RETURN AND RISK MEASUREMENTS

RETURNS AS OF 31.12.2005	12 MONTHS	24 MONTHS	36 MONTHS	48 MONTHS	60 MONTHS	SINCE START
SKAGEN VEKST	48,15 %	39,71 %	48,05 %	26,17 %	20,12 %	21,42 %
OSE BENCHMARK INDEX	40,47 %	39,46 %	42,38 %	18,76 %	10,66 %	11,69 %
SKAGEN GLOBAL	39,21 %	31,68 %	41,33 %	21,34 %	15,73 %	23,81 %
MORGAN STANLEY WORLD INDEX (NOK)	21,93 %	12,86 %	17,71 %	0,29 %	-3,22 %	2,42 %
SKAGEN KON-TIKI	59,25 %	45,18 %	62,32 %			34,17 %
MORGAN STANLEY EMERGING MARKETS INDEX (NOK)	49,23 %	30,62 %	36,75 %			15,32 %
SKAGEN AVKASTNING	5,82 %	5,77 %	5,90 %	6,11 %	6,12 %	7,06 %
ST4X BOND INDEX	2,55 %	4,01 %	6,33 %	6,72 %	6,89 %	6,85 %
SKAGEN HØYRENTE	2,04 %	2,06 %	2,97 %	3,93 %	4,64 %	5,24 %
0,5 STATE BOND INDEX	2,07 %	2,12 %	3,25 %	4,12 %	4,80 %	5,27 %
SKAGEN HØYRENTE INSTITUSJON	2,06 %	2,15 %				2,77 %
0,25 STATE BOND INDEX	2,01 %	1,98 %				2,68 %
DIFFERENTIAL RETURN AS OF 31.12.2005						
SKAGEN VEKST	7,68 %	0,26 %	5,68 %	7,41 %	9,46 %	
SKAGEN GLOBAL	17,28 %	18,82 %	23,62 %	21,05 %	18,95 %	
SKAGEN KON-TIKI	10,02 %	14,56 %	25,57 %			
SKAGEN AVKASTNING	3,27 %	1,76 %	-0,44 %	-0,61 %	-0,77 %	
SKAGEN HØYRENTE	-0,04 %	-0,06 %	-0,27 %	-0,19 %	-0,16 %	
SKAGEN HØYRENTE INSTITUSJON	0,05 %	0,16 %				
STANDARD DEVIATION AS OF 31.12.2005						
SKAGEN VEKST	17,45	16,01	16,83	20,02	21,25	
OSE BENCHMARK INDEX	17,89	17,39	19,17	22,50	23,06	
SKAGEN GLOBAL	17,03	16,17	17,23	19,64	22,69	
MORGAN STANLEY WORLD INDEX (NOK)	11,96	11,42	13,20	16,99	17,39	
SKAGEN KON-TIKI	24,94	22,28	22,80			
MORGAN STANLEY EMERGING MARKETS INDEX (NOK)	18,29	18,23	18,63			
SKAGEN AVKASTNING	1,65	1,45	1,40	1,65	1,94	
ST4X BOND INDEX	1,94	2,43	2,84	2,87	2,73	
SKAGEN HØYRENTE	0,08	0,08	0,43	0,62	0,68	
0,5 STATE BOND INDEX	0,16	0,20	0,59	0,73	0,77	
SKAGEN HØYRENTE INSTITUSJON	0,07	0,10				
0,25 STATE BOND INDEX	0,10	0,10				
RELATIVE VOLATILITY AS OF 31.12.2005						
SKAGEN VEKST	6,89	7,51	7,66	7,16	7,00	
SKAGEN GLOBAL	8,72	7,83	8,28	8,35	10,31	
SKAGEN KON-TIKI	9,36	7,59	9,81			
SKAGEN AVKASTNING	2,17	2,14				
SKAGEN HØYRENTE	0,14	0,15	0,28	0,30	0,28	
SKAGEN HØYRENTE INSTITUSJON	0,09	0,09				
SHARPE INDEX AS OF 31.12.2005						
SKAGEN VEKST	2,66	2,31	2,66	1,11	0,72	
OSE BENCHMARK INDEX	2,16	2,10	2,01	0,66	0,27	
SKAGEN GLOBAL	2,18	1,78	2,17	0,88	0,50	
MORGAN STANLEY WORLD INDEX (NOK)	1,52	0,79	0,87	-0,31	-0,50	
SKAGEN KON-TIKI	2,29	1,89	2,53			
MORGAN STANLEY EMERGING MARKETS INDEX (NOK)	2,39	1,33	1,58			
SKAGEN AVKASTNING	2,31	2,61	2,14	1,31	0,78	
ST4X BOND INDEX	0,22	0,78	1,18	0,95	0,83	
SKAGEN HØYRENTE	0,41	0,97	0,15	0,11	0,10	
0,5 STATE BOND INDEX	0,36	0,65	0,57	0,33	0,30	
SKAGEN HØYRENTE INSTITUSJON	0,83	1,64				
0,25 STATE BOND INDEX	0,00	0,00				
INFORMATION RATIO AS OF 31.12.2005						
SKAGEN VEKST	1,11	0,03	0,74	1,04	1,35	
SKAGEN GLOBAL	1,98	2,40	2,85	2,52	1,84	
SKAGEN KON-TIKI	1,07	1,92	2,61			
SKAGEN AVKASTNING	1,51	0,82				
SKAGEN HØYRENTE	-0,27	-0,41	-0,98	-0,62	-0,56	
SKAGEN HØYRENTE INSTITUSJON	0,53	1,82				

The standard deviation provides us with a measure of the fluctuation of the return of the fund/index over a given period. Each monthly return is compared with the average return for the period (the last 12, 24, 36, 48 and 60 months). The higher the standard deviation, the higher the average fluctuation for the fund/index, which indicates higher risk. For you, as a unit holder, a low standard deviation means that the probability of losing money on the investment is lower.

The Sharpe Index compares the return of the fund/index and the standard deviation with risk free return, and provides a picture of the risk adjusted return of the fund/index. Since both the historical return and the risk are important factors that should be considered before making an investment in a fund, the Sharpe Index is an important key figure for comparing different funds. The higher the Sharpe Index, the higher the risk adjusted return for the fund/index.

The Information Ratio (IR) is an alternative measure of risk adjusted return. As opposed to the Sharpe Index, the return of the fund is deducted

the return of a benchmark (this is called outperformance) with a measure of how much the fund fluctuates in relation to the benchmark (this is called relative volatility). In other words, it is not only the performance of the fund that influences the IR, but also the performance of the benchmark. The higher the IR, the higher the relative risk adjusted return is for the fund/index.

IR as a measure of risk adjusted return is most appropriate if you are concerned with relative risk (i.e. danger of achieving a lower risk than the benchmark). At SKAGEN Funds we are more concerned about absolute risk (i.e. the risk of losing money) and are therefore of the opinion that Sharpe provides a better picture of risk adjusted return. Per definition, the IR is not calculated for indices.

*The benchmark index for SKAGEN Kon-Tiki was the World Index until 31.12.2003 and the Emerging Markets Index thereafter. Return statistics for the benchmark index are therefore a combination of these indices

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NOTES	SKAGEN VEKST		SKAGEN GLOBAL		SKAGEN KON-TIKI		SKAGEN AVKASTNING		SKAGEN HØYRENT		SKAGEN HØYRENT INST.		
INCOME STATEMENT (ALL FIGURES IN 1,000 NOK)	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
PORTFOLIO EARNINGS AND COSTS													
INTEREST EARNINGS AND COSTS	91	2 291	-5 515	2 493	358	335	114 332	22 512	60 288	28 871	8 695	5 701	
DIVIDENDS RECEIVED	218 383	127 263	288 350	164 571	143 850	69 048	-	-	-	-	-	-	
PROFIT / LOSS AT REALISATION	799 575	453 615	696 153	427 348	382 137	232 630	11 464	4 158	-2 996	-1 723	-842	-469	
CHANGE UNREALISED PROFIT / LOSS	8 2 027 439	931 581	2 629 079	776 640	2 149 120	434 960	35 339	5 036	-1 904	-583	274	-499	
OTHER REVENUE	538	70	-	-	-	-	-	-	-	-	-	-	
BROKER'S FEE	-6 021	-5 631	-16 192	-9 562	-13 514	-7 849	-	-	-	-	-	-	
AGIO/DISAGIO	-23 404	37 258	-20 401	9 718	-44 506	8 622	-9 928	100	-	-	-	-	
PORTFOLIO RESULT	5	3 016 602	1 546 446	3 571 473	1 371 207	2 617 445	737 747	151 206	31 806	55 388	26 565	8 127	4 733
MANAGEMENT FEES AND COSTS													
MANAGEMENT FEE - FIXED	9 -69 976	-50 629	-96 068	-57 144	-125 555	-60 781	-6 763	-1 592	-3 900	-3 493	-584	-519	
MANAGEMENT FEE - VARIABLE	9 -251 771	-127 762	-147 344	-112 160	-33 037	-36 468	-	-	-	-	-	-	
ASSETS MANAGEMENT PROFIT/LOSS	-321 747	-178 391	-243 415	-169 306	-158 595	-97 248	-6 763	-1 592	-3 900	-3 493	-584	-519	
RESULT BEFORE TAX		2 694 855	1 368 056	3 328 058	1 201 901	2 458 850	640 499	144 443	30 215	51 488	23 072	7 543	4 214
TAX COST	4 -14 896	-6 890	-37 954	-17 469	-15 807	-4 065	-	-	-	-	-	-	
ANNUAL PROFIT/LOSS		2 679 960	1 361 166	3 290 104	1 184 432	2 443 043	636 434	144 443	30 215	51 488	23 072	7 543	4 214
FOR WHICH PROVISIONS ARE MADE AS FOLLOWS													
TRANSFER TO/FROM RETAINED EARNINGS		2 679 960	1 361 166	3 290 104	1 184 432	2 443 043	636 434	35 339	5 036	-1 904	-583	274	-499
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS		-	-	-	-	-	-	109 104	25 179	53 392	23 655	7 269	4 713
TOTAL		2 679 960	1 361 166	3 290 104	1 184 432	2 443 043	636 434	144 443	30 215	51 488	23 072	7 543	4 214
BALANCE SHEET													
		31-12-05	31-12-04	31-12-05	31-12-04	31-12-05	31-12-04	31-12-05	31-12-04	31-12-05	31-12-04	31-12-05	31-12-04
ASSETS													
NORWEGIAN SECURITIES AT COST PRICE	3,8	2 332 115	2 022 105	-	-	209 085	87 682	2 092 096	463 873	1 759 365	1 118 051	344 821	197 545
FOREIGN SECURITIES AT COST PRICE	3,8	2 152 925	2 012 826	9 361 042	5 483 539	5 026 934	2 261 675	426 592	78 148	-	-	-	-
UNREALISED CAPITAL GAINS	8	3 688 562	1 661 122	4 012 021	1 382 942	2 903 507	754 387	41 771	6 432	-2 188	-284	-240	-514
ACCURED INTEREST	8	-	-	-	-	-	-	20 277	6 508	9 354	5 701	1 250	1 637
TOTAL SECURITIES PORTFOLIO		8 173 602	5 696 053	13 373 063	6 866 481	8 139 526	3 103 743	2 580 735	554 961	1 766 531	1 123 468	345 831	198 669
ACCURED DIVIDENDS		25 115	10 736	56 496	20 371	69 697	20 596	-	-	-	-	-	-
TAX RECEIVABLE ON DIVIDENDS		4 655	2 676	15 042	8 135	838	514	-	-	-	-	-	-
ACCURED INCOME, NOT RECEIVED		29 770	13 412	71 537	28 505	70 535	21 110	-	-	-	-	-	-
ACCOUNTS RECEIVABLE - BROKERS		16 431	8 795	-	-	-	-	-	17 621	-	-	-	7 064
ACCOUNTS RECEIVABLE - MANAGEMENT COMPANY		136	93	128	76	89	45	10	80	14	9	1	1
OTHER RECEIVABLES		-	-	43 250	3 090	566	-	-	-	-	25 984	-	-
TOTAL OTHER RECEIVABLES		16 568	8 887	43 378	3 166	655	45	10	17 701	14	25 994	1	7 065
BANK DEPOSITS		349 499	146 050	785 117	254 243	754 070	198 509	257 702	28 500	746 061	31 225	59 202	-
TOTAL ASSETS		8 569 439	5 864 403	14 273 096	7 152 395	8 964 786	3 323 408	2 838 447	601 162	2 512 606	1 180 687	405 034	205 734
EQUITY CAPITAL													
UNIT CAPITAL AT FACE VALUE	10	790 402	810 314	2 311 968	1 609 613	2 915 695	1 711 656	2 209 598	459 830	2 348 067	1 144 678	368 129	195 365
PREMIUM	10	1 602 256	1 716 305	6 100 287	3 138 126	2 390 252	513 275	467 146	90 224	19 837	11 684	-443	23
TOTAL PAID-IN EQUITY CAPITAL		2 392 658	2 526 619	8 412 255	4 747 740	5 305 947	2 224 931	2 676 744	550 054	2 367 904	1 156 362	367 686	195 388
RETAINED EARNINGS	10	5 864 839	3 184 880	5 500 653	2 210 548	3 444 779	1 001 736	41 471	6 457	-2 175	-271	-262	-514
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	10	-	-	-	-	-	-	109 104	25 179	54 292	23 655	7 269	4 713
TOTAL EQUITY CAPITAL		8 257 497	5 711 498	13 912 908	6 958 288	8 750 726	3 226 667	2 827 319	581 690	2 420 021	1 179 746	374 693	199 587
DEBT													
BANK WITHDRAWALS		-	-	-	-	-	-	-	-	-	-	-	6 012
OWED TO BROKERS		24 662	7 065	172 220	19 621	95 687	18 359	-	17 127	54 282	-	30 157	-
ACCOUNTS PAYABLE - MANAGEMENT COMPANY		272 450	142 264	180 069	129 274	77 991	54 731	2 546	607	1 022	941	184	134
OTHER DEBT		14 830	3 576	7 900	45 212	40 383	23 651	8 582	1 738	37 280	-	-	-
TOTAL DEBT		311 942	152 904	360 188	194 107	214 060	96 741	11 128	19 472	92 585	941	30 341	6 146
TOTAL DEBT AND EQUITY CAPITAL		8 569 439	5 864 403	14 273 096	7 152 395	8 964 786	3 323 408	2 838 447	601 162	2 512 606	1 180 687	405 034	205 734
NUMBER OF UNITS ISSUED		7 904 023	8 103 142	23 119 679	16 096 133	29 156 949	17 116 562	22 095 984	4 598 299	23 480 674	11 446 783	3 681 289	1 953 652
REDEMPTION PRICE PER UNIT 30.12 /31.12		1044,47	704,99	601,81	432,31	300,16	188,49	127,96	126,46	103,07	103,12	101,79	102,16
CASH FLOWS STATEMENT													
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
BANK DEPOSITS AS OF 1.1.													
		146 050	492 219	254 243	314 941	198 509	159 375	28 500	7 325	31 225	41 298	-6 012	1 832
INFLOWS													
NET SUBSCRIPTIONS (INCL. SUBSCRIPTION AND REDEMPTION FEES)	+/-	-133 958	95 859	3 664 516	1 367 460	3 081 016	861 122	2 126 690	416 145	1 211 542	528 840	172 298	33 692
NET REALIZED GAINS	+/-	799 575	453 615	696 153	427 348	382 137	232 630	11 464	4 158	-2 996	-1 723	-842	-469
INTEREST AND DIVIDENDS RECEIVED (AFTER TAX)	+/-	174 692	154 360	208 288	149 750	70 381	66 092	104 404	22 612	60 288	28 871	8 695	5 701
TOTAL INFLOWS	=	840 309	703 835	4 568 956	1 944 558	3 533 534	1 159 844	2 242 558	442 915	1 268 834	555 988	180 151	38 924
APPLICATION													
NET PURCHASES OF SECURITIES	+/-	-450 109	-830 476	-3 877 503	-1 875 808	-2 886 663	-1 051 188	-1 976 667	-406 634	-641 314	-501 484	-147 276	-33 269
CHANGE IN UNSETTLED ITEMS	+/-	134 999	-41 134	82 836	39 859	67 285	27 726	-4 422	-4 224	113 971	-25 919	37 658	-7 390
OPERATING EXPENSES	-	-321 750	-178 392	-243 415	-169 306	-158 595	-97 248	-6 763	-1 592	-3 900	-3 493	-584	-519
NET DISTRIBUTION TO UNIT HOLDERS	-	-	-	-	-	-	-	-25 504	-9 290	-22 755	-35 165	-4 735	-5 591
TOTAL ALLOCATION	=	-636 860	-1 050 003	-4 038 082	-2 005 255	-2 977 973	-1 120 710	-2 013 355	-421 740	-553 999	-566 061	-114 937	-46 769
BANK DEPOSITS AS OF 31.12.	=	349 499	146 050	785 117	254 243	754 070	198 509	257 702	28 500	746 061	31 225	59 202	-6 012

GENERAL NOTES

NOTE 1: ACCOUNTING PRINCIPLES

Financial Instruments:	All financial instruments, such as shares, bonds and certificates, are valued at fair value (market value).
Determination of fair value:	Securities are valued at market prices as of 30.12.2005. 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 30.12.2005.
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 outside of Norway.

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 units. 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 2005 was:

SKAGEN Vekst	0,28
SKAGEN Global	-0,04
SKAGEN Kon Tiki	-0,13
SKAGEN Avkastning	0,81
SKAGEN Høyrente	1,95
SKAGEN Høyrente Institusjon	0,88

NOTE 7: SUBSCRIPTION FEES

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 percentage points 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 GLOBAL

NOTE 8. SEE PAGE 47.

NOTE 9. ANNUAL MANAGEMENT FEE

The fixed management fee constitutes 1% p. a. of net asset value, calculated on a daily basis, 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 1.1.2005	1 609 613	3 138 126	2 210 548	6 958 288
ISSUE OF UNITS	1 202 234	4 938 773		6 141 007
REDEMPTION OF UNITS	-499 879	-1 976 613		-2 476 492
ANNUAL PROFIT/LOSS			3 290 104	3 290 104
EQUITY CAPITAL AS OF 31.12.2005	2 311 968	6 100 287	5 500 653	13 912 908

NOTES TO SKAGEN VEKST

NOTE 8. SEE PAGE 50.

NOTE 9. ANNUAL MANAGEMENT FEE

The fixed management fee constitutes 1% p.a. of net asset value, calculated on a daily basis, in addition to the variable management fee: 1/10 of the return above 6 % p. a.

NOTE 10. EQUITY RECONCILIATION

	UNIT CAPITAL	PREMIUM	RETAINED EARNINGS	TOTAL
EQUITY CAPITAL AS OF 1.1.2005	810 314	1 716 305	3 184 880	5 711 498
ISSUE OF UNITS	297 621	2 262 444		2 560 066
REDEMPTION OF UNITS	-317 533	-2 376 493		-2 694 027
ANNUAL PROFIT/LOSS			2 679 960	2 679 960
EQUITY CAPITAL AS OF 31.12.2005	790 402	1 602 256	5 864 839	8 257 497

NOTE 11. RISK AMOUNT

RISK amount determined as of 01.01.1994:	-0,35	RISK amount determined as of 01.01.1999:	1,26
RISK amount determined as of 01.01.1995:	-0,37	RISK amount determined as of 01.01.2000:	3,62
RISK amount determined as of 01.01.1996:	3,28	RISK amount determined as of 01.01.2001:	3,77
RISK amount determined as of 01.01.1997:	-0,50	RISK amount determined as of 01.01.2002:	0,51
RISK amount determined as of 01.01.1998:	1,73	RISK amount determined as of 01.01.2003:	2,03
		RISK amount determined as of 01.01.2004:	3,10

NOTES TO SKAGEN KON-TIKI

NOTE 8. SEE PAGE 53.

NOTE 9. ANNUAL MANAGEMENT FEE

The fixed management fee constitutes 2.5% p.a. of net asset value, calculated on a daily basis, 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 1.1.2005	1 711 656	513 275	1 001 736	3 226 667
ISSUE OF UNITS	2 225 243	3 173 366		5 398 609
REDEMPTION OF UNITS	-1 021 204	-1 296 389		-2 317 593
ANNUAL PROFIT/LOSS			2 443 043	2 443 043
EQUITY CAPITAL AS OF 31.12.2005	2 915 695	2 390 252	3 444 779	8 750 726

NOTE 11. RISK-AMOUNT

RISK amount determined as of 01.01.2003:	3,26
RISK amount determined as of 01.01.2004:	1,80

NOTES TO SKAGEN HØYRENT

NOTE 8. SEE PAGE 55.

NOTE 9. ANNUAL MANAGEMENT AND SUBSCRIPTION FEE

The management fee constitutes 0.3% of average daily net asset value. No subscription fee is charged.

NOTE 10. EQUITY RECONCILIATION

	UNIT CAPITAL	PREMIUM	RETAINED EARNINGS	ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	TOTAL
EQUITY CAPITAL AS OF 1.1.2005	1 144 678	11 684	-271	23 655	1 179 746
ISSUE OF UNITS	4 372 104	33 211			4 405 315
REDEMPTION OF UNITS	-3 168 715	-25 058			(3 193 773)
REINVESTED FOR UNIT HOLDERS				(22 755)	(22 755)
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS				53 392	53 392
ANNUAL PROFIT/LOSS AFTER DISTRIBUTIONS TO UNIT HOLDERS			-1 904		(1 904)
EQUITY CAPITAL AS OF 31.12.2005	2 348 067	19 837	-2 175	54 292	2 420 021

NOTES TO SKAGEN AVKASTNING

NOTE 8. SEE PAGE 60.

NOTE 9. ANNUAL MANAGEMENT AND SUBSCRIPTION FEE

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

NOTE 10. EQUITY RECONCILIATION

	UNIT CAPITAL	PREMIUM	RETAINED EARNINGS	ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS	TOTAL
EQUITY CAPITAL AS OF 1.1.2005	459 830	90 224	6 457	25 179	581 690
ISSUE OF UNITS	3 040 832	655 381			3 696 213
REDEMPTION OF UNITS	-1 291 064	-278 459			-1 569 523
REINVESTED FOR UNIT HOLDERS				-25 179	-25 179
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS				109 104	109 104
CORRECTION OF PRIOR YEARS' PROVISIONS FOR DISTRIBUTIONS TO SHAREHOLDERS			-325		-325
ANNUAL PROFIT/LOSS AFTER DISTRIBUTIONS TO UNIT HOLDERS			35 339		35 339
EQUITY CAPITAL AS OF 31.12.2005	2 209 598	467 146	41 471	109 104	2 827 319

NOTES TO SKAGEN HØYRENT INSTITUSJON

NOTE 8. SEE PAGE 71.

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 1.1.2005	195 365	23	-514	4 713	199 587
ISSUE OF UNITS	443 981	-1 205			442 777
REDEMPTION OF UNITS	-271 218	739			-270 478
REINVESTED FOR UNIT HOLDERS				-4 713	-4 713
ALLOCATED FOR DISTRIBUTION TO UNIT HOLDERS				7 269	7 269
CORRECTION OF PRIOR YEARS' PROVISIONS FOR DISTRIBUTIONS TO SHAREHOLDERS			-22		-22
ANNUAL PROFIT/LOSS AFTER DISTRIBUTIONS TO UNIT HOLDERS			274		274
EQUITY CAPITAL AS OF 31.12.2005	368 129	-443	-262	7 269	374 693

SKAGEN Global

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

The SKAGEN Global equity fund invests in stocks worldwide – except Norway. As with the other equity funds, the investment philosophy is to achieve the highest possible return at the lowest possible risk, through investment in undervalued companies, industries or countries. 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 "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.

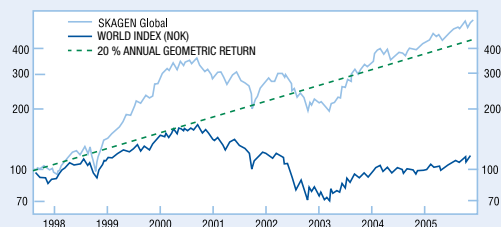
Fund start date	8th August 1997
Return since start	501,81 %
Average annual return	23,81 %
S&P qualitative rating	AAA
Net asset value	13 828 mill MNOK
Number of unit holders	52 715
Subscription fee	0,0 – 0,7 % (dependent on amount)
Redemption fee	0%
Management fee	1,0 % p.a. + 10 % of the return exceeding the return of the benchmark
Minimum subscription amount	One-time subscription NOK 1,000, savings agreement NOK 250
Tax schemes	IPA, Unit Link
Authorised for marketing in	Norway, Sweden, Denmark and Luxembourg
Benchmark	MSCI Daily Net \$ World Index measured in NOK.
UCITS fund	Yes
Portfolio Manager	Filip Weintraub

YEAR	RETURN ON INVESTMENT	BENCHMARK	NET ASSET VALUE*	NUMBER OF UNIT HOLDERS	TOTAL COST
2005	39,21 %	21,93 %	13 828	52 715	2,53 %
2004	24,55 %	4,46 %	6 958	35 971	2,96 %
2003	62,82 %	28,04 %	4 387	28 772	3,84 %
2002	-23,20 %	-37,97 %	2 176	26 465	3,61 %
2001	-4,24 %	-16,07 %	2 660	24 767	2,57 %
2000	-4,65 %	-5,12 %	2 863	22 093	1,79 %
1999	113,41 %	30,73 %	2 092	9 983	6,37 %
1998	47,16 %	26,52 %	237	1 017	2,60 %
1997**	-3,08 %	-8,21 %	32	24	2,84 %

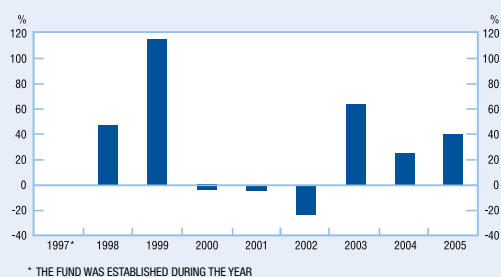
*MNOK

**The fund was established during the year

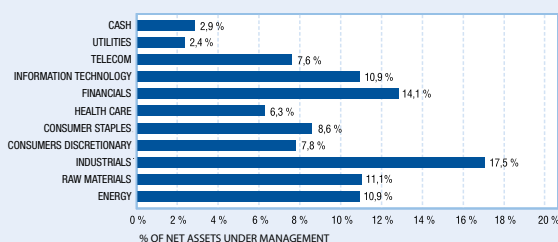
HISTORIC PRICE DEVELOPMENT



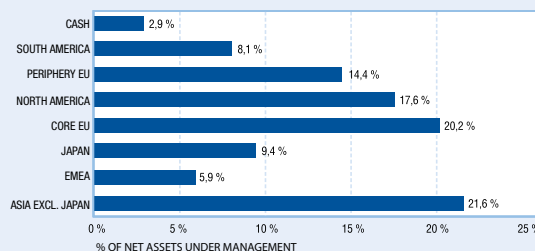
ANNUAL RETURN



SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN Global Note 8. Securities portfolio as of 31st December 2005

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK- EXCHANGE
ENERGY									
PRIDE INTERNATIONAL	2 549 031	417 925 810	30,75	USD	529 867 074	111 941 264	3,85 %	1,61 %	NEW YORK
PETROBRAS PREF. ADR	1 147 000	207 170 328	64,37	USD	499 106 956	291 936 629	3,63 %	0,25 %	NEW YORK
TRANSOCEAN	351 200	71 853 221	69,69	USD	165 451 865	93 598 644	1,20 %	0,11 %	NEW YORK
FOREST OIL CORP	534 300	106 770 725	45,57	USD	164 592 825	57 822 100	1,20 %	0,96 %	NEW YORK
BP ADR	165 300	75 442 839	64,22	USD	71 761 226	(3 681 613)	0,52 %	0,00 %	NEW YORK
BP	713 660	50 461 791	6,19	GBP	51 343 038	881 247	0,37 %	0,00 %	LONDON
FMC TECHNOLOGIES	82 700	16 072 164	42,92	USD	23 994 512	7 922 348	0,17 %	0,12 %	NEW YORK
TOTAL ENERGY		945 696 877			1 506 117 496	560 420 620	10,94 %		
RAW MATERIALS									
SVENSKA CELLULOSA B	2 137 550	506 629 121	297,00	SEK	539 624 497	32 995 377	3,92 %	1,09 %	STOCKHOLM
BOLIDEN	3 802 500	105 103 381	65,00	SEK	210 088 125	104 984 744	1,53 %	1,31 %	STOCKHOLM
LOUISIANA-PACIFIC	1 098 700	177 617 179	27,47	USD	204 025 514	26 408 335	1,48 %	1,04 %	NEW YORK
VOURANTIM CELLULOSE ADR	1 548 000	123 646 934	12,29	USD	128 608 459	4 961 525	0,93 %	1,80 %	NEW YORK
KEMIRA GROWHOW	2 593 980	127 644 745	5,98	EUR	123 770 251	(3 874 494)	0,90 %	4,53 %	HELSINKI
GRUPO MEXICO SA B	7 193 220	46 125 452	24,80	MXN	113 903 200	67 777 748	0,83 %	0,28 %	MEXICO
ALCAN	223 721	60 346 035	47,76	CAD	61 867 795	1 521 760	0,45 %	0,06 %	TORONTO
HARMONY GOLD MINING ADR	629 000	66 451 245	13,05	USD	55 489 122	(10 962 123)	0,40 %	0,16 %	NEW YORK
ERAMET	74 948	29 064 288	81,00	EUR	48 438 817	19 374 529	0,35 %	0,29 %	PARIS
HANSOL PAPER	375 000	18 771 924	17 550,00	KRW	44 094 375	25 322 451	0,32 %	0,86 %	SEOUL
ASIA PULP&PAPER	86 600	4 565 292	0,01	USD	5 854	(4 559 438)	0,00 %	0,03 %	NEW YORK
TOTAL RAW MATERIALS		1 265 965 596			1 529 916 010	263 950 414	11,11 %		
INDUSTRIALS									
HYUNDAI MERCHANT MARINE	3 618 770	224 774 171	13 600,00	KRW	329 742 322	104 968 151	2,40 %	3,51 %	KOREA
BUNGE LIMITED	754 764	247 739 988	56,61	USD	288 835 805	41 095 816	2,10 %	0,68 %	NEW YORK
KOMATSU LIMITED	2 173 000	92 258 705	1 951,00	JPY	243 348 620	151 089 915	1,77 %	0,22 %	TOKYO
SIEMENS AG	416 400	214 160 773	72,40	EUR	240 545 785	26 385 012	1,75 %	0,05 %	FRANKFURT
SAMSUNG HEAVY INDUSTRIES	1 962 490	121 589 193	17 750,00	KRW	233 389 123	111 799 930	1,70 %	0,85 %	KOREA
AIR FRANCE KLM	1 570 926	166 761 874	18,09	EUR	226 747 632	59 985 757	1,65 %	0,58 %	AMSTERDAM
KONE CORPORATION B	752 600	131 020 557	33,53	EUR	201 347 496	70 326 939	1,46 %	0,69 %	HELSINKI
ASAHI GLASS	1 523 400	100 172 261	1 523,00	JPY	133 175 933	33 003 672	0,97 %	0,13 %	TOKYO
CMB	516 821	29 139 526	27,85	EUR	114 845 456	85 705 930	0,83 %	1,48 %	BRÜSSELS
FINNLINES OYJ	683 600	70 655 893	14,40	EUR	78 543 999	7 888 106	0,57 %	1,68 %	HELSINKI
FURUKAWA ELECTRIC	1 484 000	69 753 989	922,00	JPY	78 537 435	8 783 447	0,57 %	0,21 %	TOKYO
BUCHER INDUSTRIES AG	128 845	30 312 841	104,80	CHF	69 246 156	38 933 315	0,50 %	1,22 %	ZÜRICH
EXMAR	67 624	12 706 730	82,45	EUR	44 487 703	31 780 972	0,32 %	1,01 %	BRÜSSELS
STOLT NILSEN ADR	188 300	21 853 345	33,02	USD	42 031 422	20 178 077	0,31 %	0,29 %	NASDAQ
BROSTRØM B	225 200	7 000 117	160,00	SEK	30 627 200	23 627 083	0,22 %	0,74 %	STOCKHOLM
TAIHEI DENGYO KAISHA	494 000	26 529 575	1 007,00	JPY	28 554 089	2 024 514	0,21 %	1,12 %	TOKYO
EURONAV SA	91 027	2 238 418	24,51	EUR	17 801 722	15 563 304	0,13 %	0,17 %	BRÜSSELS
AIR FRANCE WARRANT	185 825	-	1,36	EUR	2 016 469	2 016 469	0,01 %	0,42 %	AMSTERDAM
TOTAL INDUSTRIALS		1 568 667 957			2 403 824 367	835 156 411	17,46 %		
CONSUMER DISCRETIONARY									
TUI AG	2 010 978	252 305 575	17,30	EUR	277 588 767	25 283 192	2,02 %	0,80 %	FRANKFURT
MCGRAW-HILL COMPANIES INC	755 198	231 653 519	51,63	USD	263 578 300	31 924 781	1,91 %	0,20 %	NEW YORK
INDEPENDENT NEWS & MEDIA	7 735 056	118 065 932	2,54	EUR	156 763 750	38 697 818	1,14 %	1,04 %	LONDON
VOLKSWAGEN	211 500	83 424 384	44,61	EUR	75 281 985	(8 142 399)	0,55 %	0,07 %	FRANKFURT
VOLKSWAGEN PREF.	290 000	67 453 784	32,43	EUR	75 040 101	7 586 317	0,55 %	0,28 %	FRANKFURT
SHANGRI-LA ASIA	6 138 207	50 433 194	12,95	HKD	69 434 323	19 001 130	0,50 %	0,24 %	HONG KONG
MAHINDRA & MAHINDRA LTD GDR	585 000	20 732 338	11,37	USD	44 963 802	24 231 464	0,33 %	0,25 %	LONDON INT.
SSANGYONG MOTOR CO.P-NOTE	605 000	14 820 823	8 130,00	KRW	32 954 955	18 134 132	0,24 %	0,50 %	KOREA
SSANGYONG MOTOR CO.	523 900	21 485 846	8 130,00	KRW	28 537 357	7 051 511	0,21 %	0,43 %	KOREA
LI & FUNG	2 145 000	27 264 077	14,95	HKD	28 011 180	747 102	0,20 %	0,07 %	HONG KONG
DANUBIUS HOTELS	98 897	11 728 576	5 845,00	HUF	18 266 474	6 537 898	0,13 %	1,19 %	BUDAPEST
TOTAL CONSUMER DISCRETIONARY		899 368 047			1 070 420 993	171 052 946	7,77 %		
CONSUMER STAPLES									
J SAINSBURY	10 320 634	354 728 048	3,16	GBP	379 286 860	24 558 812	2,75 %	0,61 %	LONDON
NUTRECO HOLDING	1 066 453	242 093 452	37,31	EUR	317 479 315	75 385 863	2,31 %	3,06 %	AMSTERDAM
YAZEC	666 964	46 545 060	36,25	TRY	121 128 999	74 583 939	0,88 %	1,67 %	ISTANBUL
KIKKOMAN CORP	1 523 700	79 805 905	1 145,00	JPY	100 142 135	20 336 230	0,73 %	0,77 %	TOKYO
UNITED INTL ENTERPRISES	176 074	20 082 647	400,00	DKK	75 500 531	55 417 884	0,55 %	3,42 %	KØBENHAVN
ROYAL UNIBREW A/S	92 000	31 588 687	532,00	DKK	52 467 968	20 879 281	0,38 %	1,44 %	KØBENHAVN
AARHUS KARLSHAMN	319 520	14 726 702	185,00	SEK	50 244 520	35 517 818	0,36 %	0,78 %	KØBENHAVN
RAISIO PLC	2 131 800	40 285 760	2,26	EUR	38 441 769	(1 843 991)	0,28 %	1,63 %	HELSINKI
LANNEN TEHTAAT	210 350	23 235 921	18,00	EUR	30 210 888	6 974 966	0,22 %	3,33 %	HELSINKI
HOKUTO CORP	127 000	13 337 436	1 871,00	JPY	13 639 216	301 780	0,10 %	0,38 %	TOKYO
TOTAL CONSUMER STAPLES		866 429 618			1 178 542 201	312 112 583	8,56 %		
HEALTH CARE									
PFIZER	1 801 200	283 792 552	23,32	USD	283 946 932	154 380	2,06 %	0,02 %	NEW YORK
EISAI CO LTD	748 300	165 181 689	4 950,00	JPY	212 614 479	47 432 790	1,54 %	0,25 %	TOKYO
GIDEON RICHTER GDR	89 800	46 341 537	180,00	USD	109 268 640	62 927 103	0,79 %	0,48 %	LONDON INT.
ALK-ABELLO A/S	117 730	34 600 089	674,00	DKK	85 063 221	50 463 133	0,62 %	1,28 %	KØBENHAVN
LG LIFE SCIENCES	239 900	46 210 634	49 400,00	KRW	79 402 102	33 191 468	0,58 %	1,45 %	SEOUL
GIDEON RICHTER	36 979	28 082 446	38 315,00	HUF	44 772 472	16 690 026	0,33 %	0,20 %	BUDAPEST
YUHAN CORPORATION	34 871	12 063 092	182 000,00	KRW	42 522 159	30 459 067	0,31 %	0,41 %	SEOUL
NEUROSEARCH	75 000	17 629 207	171,50	DKK	13 788 600	(3 840 607)	0,10 %	0,96 %	KØBENHAVN
TOTAL HEALTH CARE		633 901 245			871 378 606	237 477 360	6,33 %		

CONTINUED NEXT PAGE



Continuation SKAGEN Global Note 8. Securities portfolio as of 31st December 2005

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK- EXCHANGE
FINANCIALS									
BANK AUSTRIA CREDITANSTALT	572 565	178 610 224	93,99	EUR	429 392 952	250 782 728	3,12 %	0,39 %	WIEN
HANNOVER RUECKVERSICHERUNG	1 054 880	216 118 952	29,93	EUR	251 917 443	35 798 492	1,83 %	0,87 %	FRANKFURT
SABANCI HOLDING (HACI OMER)	5 795 000	154 646 964	7,65	TRY	222 102 067	67 455 104	1,61 %	0,48 %	ISTANBUL
KINNEVIK INV AB, SER B	2 443 800	92 787 004	74,25	SEK	154 234 327	61 447 323	1,12 %	1,14 %	STOCKHOLM
KOREAN REINSURANCE	2 145 080	33 879 883	10 600,00	KRW	152 343 582	118 463 699	1,11 %	1,95 %	KOREA
ABERDEEN ASSET MANAGEMENT	9 328 000	74 531 423	1,34	GBP	145 004 634	70 473 212	1,05 %	1,54 %	LONDON
JAPAN SECURITIES FINANCE	1 740 500	119 534 989	1 358,00	JPY	135 670 583	16 135 594	0,99 %	1,75 %	TOKYO
IRSA SA	1 609 810	134 945 546	12,08	USD	131 458 372	(3 487 174)	0,95 %	4,37 %	NEW YORK
OSAKA SECURITIES EXCHANGE	2 196	73 559 260	740 000,00	JPY	93 277 296	19 718 036	0,68 %	2,44 %	TOKYO
WELLINGTON UNDERWRITING PLC	5 210 701	54 535 510	0,97	GBP	58 744 531	4 209 021	0,43 %	1,08 %	LONDON
INVIK B	757 980	37 539 138	84,50	SEK	54 441 913	16 902 775	0,40 %	3,52 %	STOCKHOLM
BANCO DO BRASIL	345 900	37 251 541	42,20	BRL	42 250 959	4 999 417	0,31 %	0,04 %	SAO PAULO
YAPI KREDI BANK	1 004 000	42 546 508	4,70	USD	31 899 088	(10 647 420)	0,23 %	0,13 %	LONDON INT.
AAREAL BANK	119 600	15 603 228	32,07	EUR	30 604 029	15 000 801	0,22 %	0,31 %	FRANKFURT
ABERDEEN ASSET MANAGEMENT PREF. 6.25	557	6 648 625	1 550,00	GBP	10 034 285	3 385 660	0,07 %	0,74 %	LONDON
TOTAL FINANCIALS		1 272 738 793			1 943 376 063	670 637 270	14,12 %		
INFORMATION TECHNOLOGY									
SAMSUNG ELECTRONICS GDR	187 866	142 726 572	329,50	USD	418 456 486	275 729 914	3,04 %	0,06 %	LONDON INT.
SAMSUNG ELECTRONICS PREF.	115 693	241 730 816	491 000,00	KRW	380 595 262	138 864 446	2,76 %	0,51 %	KOREA
KYOCERA	460 000	281 809 759	8 600,00	JPY	227 074 400	(54 735 359)	1,65 %	0,24 %	TOKYO
SAMSUNG ELECTRONICS PREF. GDR	117 310	107 678 284	242,00	USD	191 909 775	84 231 491	1,39 %	0,26 %	LONDON INT.
HEWLETT-PACKARD	971 800	161 639 236	28,63	USD	188 081 006	26 441 770	1,37 %	0,03 %	NEW YORK
SAMSUNG SDI GDR	232 525	24 746 117	28,50	USD	44 798 266	20 052 150	0,33 %	0,13 %	LONDON INT.
KYOCERA ADR	45 000	39 350 661	73,18	USD	22 261 326	(17 089 335)	0,16 %	0,02 %	NEW YORK
TRAVELSKY TECHNOLOGY	2 731 000	17 143 833	7,15	HKD	17 056 529	(87 305)	0,12 %	0,88 %	HONG KONG
PROACT IT GROUP AB	240 220	9 299 795	24,10	SEK	4 920 907	(4 378 888)	0,04 %	2,04 %	STOCKHOLM
TOTAL INFORMATION TECHNOLOGY		1 026 125 074			1 495 153 956	469 028 883	10,86 %		
TELECOM									
TELEKOMUNIK INDONESIA ADR	1 780 950	124 120 387	23,86	USD	287 255 837	163 135 450	2,09 %	0,35 %	NEW YORK
TOTAL ACCESS TELECOMMUNICATION	9 934 900	153 544 211	3,24	USD	217 598 154	64 053 943	1,58 %	2,09 %	SINGAPORE
MAGYAR TELEKOM	6 880 477	206 316 392	955,00	HUF	207 639 035	1 322 643	1,51 %	0,66 %	BUDAPEST
BHARTI TELEVENTURES PART.CERT. SSB	3 167 262	69 968 151	7,80	USD	167 003 391	97 035 240	1,21 %	0,17 %	LONDON INT.
INDOSAT TBK.ADR	750 700	80 063 745	29,09	USD	147 623 954	67 560 209	1,07 %	0,70 %	NEW YORK
PAKISTAN TELECOM	29 500	9 323 239	109,50	USD	21 836 490	12 513 251	0,16 %	0,00 %	OTC
TOTAL TELECOM		643 336 125			1 048 956 860	405 620 736	7,62 %		
UTILITIES									
ELEKTROBRAS PREFERED	2 838 686	238 812 797	39,60	BRL	325 376 434	86 563 637	2,36 %	0,00 %	SAO PAULO
TOTAL UTILITIES		238 812 797			325 376 434	86 563 637	2,36 %		
TOTAL EQUITY PORTFOLIO*		9 361 042 128			13 373 062 987	4 012 020 859	96,99 %		

BASIS PRICE AS OF 30.12.2005

601,8126

*FOR LIQUIDITY IN THE PORTFOLIO PER 31.12.2005, PLEASE REFER TO BALANCE SHEET.

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 made by the magazine Dine Penger and by Morningstar place SKAGEN Vekst among the best performing equity funds in terms of returns relative to risk. The fund's risk profile is, seen in isolation, among the lowest in its "class".

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.

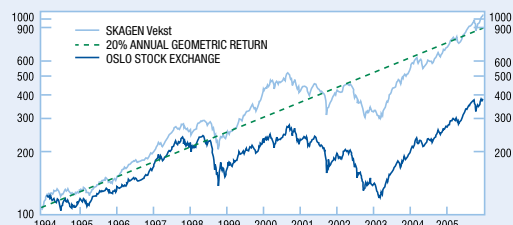
SKAGEN Vekst is suitable for investors who want an equity fund with a good balance between Norwegian and global companies. The fund has a broad mandate which gives it the freedom to invest in a number of companies, industries and regions.

Fund start date	1st December 1993
Return since start	944.47 %
Average annual return	21.42 %
S&P qualitative rating	AA
Net asset value	8 254 MNOK
Number of unit holders	61 792
Subscription fee	0,0 – 0,7 % (dependent on amount)
Redemption fee	0%
Management fee	1,0 % p.a + 10 % of the return exceeding 6 % p.a.
Minimum subscription amount	One-time subscription NOK 1,000, savings agreement NOK 250
Tax schemes	IPA, Unit Link
Authorised for marketing in	Norway, Sweden, Denmark and Luxembourg
Benchmark	Oslo Stock Exchange Benchmark Index
UCITS fund	Yes
Portfolio Manager	Kristian Falnes

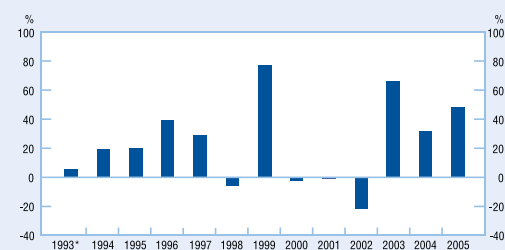
YEAR	RETURN ON INVESTMENT	BENCHMARK	NET ASSET VALUE*	NUMBER OF UNIT HOLDERS	TOTAL COST
2005	48,15 %	40,47 %	8 254	61 792	4,60 %
2004	31,75 %	38,45 %	5 712	51 781	3,52 %
2003	66,25 %	48,40 %	4 238	47 334	6,17 %
2002	-21,91 %	-31,09 %	2 146	46 153	1,00 %
2001	-1,33 %	-16,57 %	2 594	46 283	1,47 %
2000	- 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	1,78 %

*MNOK

HISTORIC PRICE DEVELOPMENT

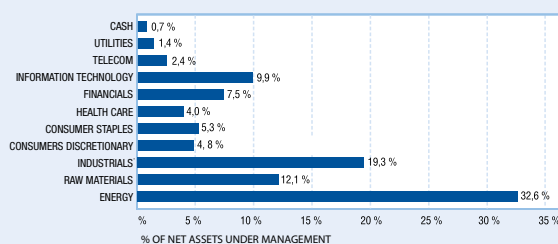


ANNUAL RETURN

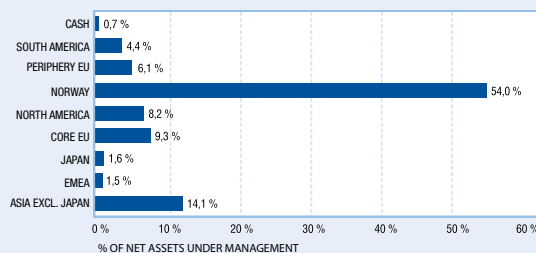


*THE FUND WAS ESTABLISHED DURING THE YEAR

SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN Vekst Note 8. Securities portfolio as of 31st December 2005

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK- EXCHANGE
ENERGY									
NORSK HYDRO	600 175	189 470 710	693,00	NOK	415 921 275	226 450 565	5,05 %	0,23 %	OSLO BØRS
BONHEUR	371 000	82 590 037	647,00	NOK	240 037 000	157 446 963	2,91 %	3,64 %	OSLO BØRS
CIE GENERALE DE GEOPHYSIQUE	319 015	99 428 361	74,90	EUR	190 565 990	91 137 629	2,31 %	1,87 %	PARIS
SOLSTAD OFFSHORE	1 901 100	80 559 420	96,00	NOK	182 505 600	101 946 180	2,22 %	5,03 %	OSLO BØRS
PRIDE INTERNATIONAL	850 000	115 268 041	30,72	USD	176 610 717	61 342 676	2,14 %	0,54 %	NEW YORK
PETROBRAS PREF. ADR	400 000	57 037 370	63,53	USD	171 876 208	114 838 838	2,09 %	0,09 %	NEW YORK
GANGER ROLF	268 700	58 032 280	579,50	NOK	155 711 650	97 679 370	1,89 %	2,96 %	OSLO BØRS
TRANSOCEAN	316 500	48 627 365	69,70	USD	149 205 011	100 577 646	1,81 %	0,10 %	NEW YORK
ANADARKO PETROLEUM	230 000	74 012 919	94,14	USD	146 446 483	72 433 564	1,78 %	0,10 %	NEW YORK
DOF	3 775 300	33 995 650	36,00	NOK	135 910 800	101 915 150	1,65 %	4,92 %	OSLO BØRS
SEADRILL	2 000 000	60 367 646	54,25	NOK	108 500 000	48 132 354	1,32 %	0,87 %	OSLO BØRS
SMEDVIG B	671 100	34 304 735	156,00	NOK	104 691 600	70 386 865	1,27 %	0,82 %	OSLO BØRS
TGS NOPEC GEOPHYSICAL CO	275 000	19 471 829	317,00	NOK	87 175 000	67 703 171	1,06 %	1,05 %	OSLO BØRS
EIDESVIK OFFSHORE ASA	1 180 200	56 687 747	50,50	NOK	59 600 100	2 912 353	0,72 %	3,91 %	OSLO BØRS
FARSTAD SHIPPING	598 600	34 813 854	97,00	NOK	58 064 200	23 250 346	0,71 %	1,53 %	OSLO BØRS
FMC TECHNOLOGIES	125 000	23 717 598	42,29	USD	35 753 998	12 036 401	0,43 %	0,18 %	NEW YORK
BP ADR	75 000	32 484 840	63,83	USD	32 378 970	(105 871)	0,39 %	0,00 %	NEW YORK
BP	405 081	26 280 104	6,19	GBP	29 153 536	2 873 432	0,35 %	0,00 %	LONDON
CONSAFE OFFSHORE	217 320	12 344 100	119,00	NOK	25 861 080	13 516 980	0,31 %	0,78 %	OSLO BØRS
LISME	500 000	9 250 000	50,00	NOK	25 000 000	15 750 000	0,30 %	1,70 %	UNOTERT
REVUS ENERGY	500 000	21 244 450	50,00	NOK	25 000 000	3 755 550	0,30 %	1,52 %	OSLO BØRS
HITEC INDUSTRIES AS	1 000 000	10 130 429	23,50	NOK	23 500 000	13 369 571	0,29 %	6,87 %	UNOTERT
DEEP OCEAN	1 239 000	21 657 100	18,30	NOK	22 673 700	1 016 600	0,28 %	1,76 %	UNOTERT
MINOR ITEMS*		64 311 107			84 809 493	20 498 386	1,03 %		
TOTAL ENERGY		1 266 087 691			2 686 952 410	1 420 864 719	32,63 %		
RAW MATERIALS									
NORSKE SKOGINDUSTRIER	2 700 000	270 541 644	107,25	NOK	289 575 000	19 033 356	3,52 %	1,42 %	OSLO BØRS
YARA INTERNATIONAL	1 500 175	65 100 106	98,25	NOK	147 392 194	82 292 087	1,79 %	0,47 %	OSLO BØRS
BOLIDEN	2 500 000	51 216 726	64,50	SEK	137 019 140	85 802 414	1,66 %	0,86 %	STOCKHOLM
SALZGITTER	225 000	30 142 685	45,61	EUR	81 845 549	51 702 864	0,99 %	0,36 %	FRANKFURT
KOREA ZINC	200 000	29 227 316	51 000,00	KRW	68 382 738	39 155 422	0,83 %	1,06 %	KOREA
VOTORANTIM CELLULOSE ADR	513 700	39 462 292	12,24	USD	42 527 309	3 065 016	0,52 %	0,60 %	NEW YORK
GRUPO MEXICO SA B	2 250 000	13 019 954	25,12	MXN	35 927 093	22 907 139	0,44 %	0,09 %	MEXICO
CREW GOLD CORPORATION	3 599 667	24 264 117	9,32	NOK	33 548 896	9 284 780	0,41 %	1,66 %	OSLO BØRS
CREW KONV. 6% 12/10	20 000 000	20 000 000	107,00	NOK	21 400 000	1 400 000	0,26 %	1,66 %	OSLO BØRS
LOUISIANA-PACIFIC	175 000	27 621 001	27,48	USD	32 526 078	4 905 077	0,39 %	0,17 %	NEW YORK
HINDALCO INDUSTRIES	1 500 000	28 263 541	3,11	USD	31 552 121	3 288 580	0,38 %	0,13 %	LONDON INT.
ALCAN	101 239	27 363 002	47,45	CAD	27 864 675	501 673	0,34 %	0,03 %	TORONTO
HEXAGON COMPOSITES	3 000 000	5 187 030	7,10	NOK	21 300 000	16 112 970	0,26 %	2,39 %	OSLO BØRS
MINOR ITEMS*		22 843 981			25 122 003	2 278 022	0,31 %		
TOTAL RAW MATERIALS		654 253 396			995 982 796	341 729 400	12,09 %		
INDUSTRIALS									
WILH WILHELMSEN LTD A	1 000 000	57 718 538	248,50	NOK	248 500 000	190 781 462	3,02 %	2,71 %	OSLO BØRS
STOLT-NIELSEN	981 900	100 990 943	223,50	NOK	219 454 650	118 463 707	2,66 %	1,50 %	OSLO BØRS
KONGSBERG GRUPPEN	944 700	81 439 325	124,00	NOK	117 142 800	35 703 475	1,42 %	3,15 %	OSLO BØRS
TOMRA SYSTEMS	1 903 500	50 199 251	48,30	NOK	91 939 050	41 739 799	1,12 %	1,07 %	OSLO BØRS
HYUNDAI HEAVY INDUSTRIES	168 000	55 935 802	76 900,00	KRW	86 612 771	30 676 970	1,05 %	0,22 %	KOREA
I.M. SKAUGEN	199 000	7 277 679	235,50	NOK	46 864 500	39 586 821	0,57 %	6,87 %	OSLO BØRS
I.M. SKAUGEN KONVERTIBEL OBLIGASJON	14 500 000	14 598 958	426,00	NOK	62 775 068	48 176 110	0,76 %	6,87 %	OSLO BØRS
BROSTRØM B	450 000	24 390 446	161,50	SEK	61 754 208	37 363 762	0,75 %	1,48 %	STOCKHOLM
HANJIN SHIPPING	400 000	25 364 610	23 000,00	KRW	61 678 548	36 313 938	0,75 %	0,56 %	KOREA
HYUNDAI MERCHANT MARINE	641 000	33 821 167	13 600,00	KRW	58 444 447	24 623 280	0,71 %	0,62 %	KOREA
FURUKAWA ELECTRIC	1 000 000	25 909 896	922,00	JPY	52 902 544	26 992 647	0,64 %	0,14 %	TOKYO
KVERNELAND	688 676	56 103 936	74,00	NOK	50 962 024	(5 141 912)	0,62 %	4,46 %	OSLO BØRS
KOREA LINE	281 550	27 882 932	25 800,00	KRW	48 699 169	20 816 237	0,59 %	2,82 %	KOREA
FAIRMOUNT HEAVY TRANSPORT B.V.	2 154 000	27 003 162	16,50	NOK	35 541 000	8 537 838	0,43 %	0,72 %	OTC
ODFJELL A	255 000	5 557 830	137,00	NOK	34 935 000	29 377 170	0,42 %	0,39 %	OSLO BØRS
SOLVANG	1 045 415	17 173 392	31,00	NOK	32 407 865	15 234 473	0,39 %	4,24 %	OSLO BØRS
SAS	370 000	28 056 649	87,00	NOK	32 190 000	4 133 351	0,39 %	0,22 %	OSLO BØRS
KOREAN AIR CO. LTD.	150 000	13 896 563	31 900,00	KRW	32 079 549	18 182 986	0,39 %	0,21 %	KOREA
TTS MARINE	1 000 000	18 060 455	31,00	NOK	31 000 000	12 939 545	0,38 %	5,00 %	OSLO BØRS
GLAMOX KONV. 6% 27/2 2007	5 852 348	5 852 348	400,00	NOK	23 419 974	17 567 626	0,28 %	9,00 %	UNOTERT
REDERI AB TRANSATLANTIC	850 000	18 925 368	32,40	SEK	23 401 594	4 476 226	0,28 %	2,93 %	STOCKHOLM
PREMUDA	1 600 000	13 109 326	1,69	EUR	21 591 003	8 481 677	0,26 %	1,14 %	MILANO
MINOR ITEMS*		64 409 149			112 515 374	48 106 225	1,37 %		
TOTAL INDUSTRIALS		773 677 725			1 586 811 139	813 133 414	19,27 %		

CONTINUED NEXT PAGE



Continuation SKAGEN Vekst Note 8. Securities portfolio as of 31st December 2005

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK- EXCHANGE
CONSUMER DISCRETIONARY									
DSG INTERNATIONAL PLC	4 163 244	72 239 661	1,64	GBP	79 263 251	7 023 590	0,96 %	0,23 %	LONDON
OFOTEN & VESTERÅLEN D/S	953 619	53 862 323	65,00	NOK	61 985 235	8 122 912	0,75 %	8,17 %	UNOTERT
RICA HOTELS	1 287 100	40 439 771	38,20	NOK	49 167 220	8 727 449	0,60 %	5,36 %	OSLO BØRS
VOLKSWAGEN PREF.	160 000	36 763 887	32,43	EUR	41 382 756	4 618 868	0,50 %	0,15 %	FRANKFURT
EXPERT	550 000	22 990 668	71,50	NOK	39 325 000	16 334 332	0,48 %	1,71 %	OSLO BØRS
NORGES HANDELS OG SJØFATRTIDENDE	32 022	19 984 619	950,00	NOK	30 420 900	10 436 281	0,37 %	2,76 %	UNOTERT
MAHINDRA & MAHINDRA LTD GDR	400 000	13 797 277	11,14	USD	30 138 532	16 341 255	0,37 %	0,17 %	LONDON INT.
SSANGYONG MOTOR CO.	517 940	21 409 178	8 130,00	KRW	28 230 353	6 821 175	0,34 %	0,43 %	KOREA
MINOR ITEMS*		21 053 700			32 078 792	11 025 092	0,39 %		
TOTAL CONSUMER DISCRETIONARY		302 541 084			391 992 039	89 450 955	4,76 %		
CONSUMER STAPLES									
NUTRECO HOLDING	680 000	133 902 424	37,42	EUR	202 938 838	69 036 415	2,46 %	1,95 %	AMSTERDAM
LERØY SEAFOOD GROUP	1 813 100	45 435 363	73,00	NOK	132 356 300	86 920 937	1,61 %	4,60 %	OSLO BØRS
J SAINSBURY	611 962	21 822 815	3,15	GBP	22 430 464	607 649	0,27 %	0,04 %	LONDON
MINOR ITEMS*		75 780 721			81 143 458	5 362 738	0,99 %		
TOTAL CONSUMER STAPLES		276 941 322			438 869 061	161 927 739	5,33 %		
HEALTH CARE									
Pfizer	400 000	66 591 198	23,33	USD	63 123 181	(3 468 018)	0,77 %	0,01 %	NEW YORK
AXIS-SHIELD	927 900	21 564 201	35,80	NOK	33 218 820	11 654 619	0,40 %	3,15 %	OSLO BØRS
ALK-ABELLO A/S	40 000	13 923 342	679,00	DKK	29 042 731	15 119 389	0,35 %	0,43 %	KØBENHAVN
PHOTOCURE	500 000	20 423 365	49,00	NOK	24 500 000	4 076 635	0,30 %	2,84 %	OSLO BØRS
AXIS-SHIELD (LONDON)	600 000	20 637 642	3,04	GBP	21 207 210	569 568	0,26 %	3,15 %	LONDON
HANMI PHARMACEUTICAL CO LTD	22 729	4 074 125	139 000,00	KRW	21 181 081	17 106 957	0,26 %	0,29 %	KOREA
MINOR ITEMS*		88 237 840			136 718 997	48 481 157	1,66 %		
TOTAL HEALTH CARE		235 451 713			328 992 020	93 540 307	4,00 %		
FINANCIALS									
HANNOVER RUECKVERSICHERUNG	410 000	82 073 819	29,93	EUR	97 868 526	15 794 707	1,19 %	0,34 %	FRANKFURT
OLAV THON EIENDOMSSKAP	189 000	33 665 260	470,00	NOK	88 830 000	55 164 740	1,08 %	1,77 %	OSLO BØRS
SABANCI HOLDING (HACI OMER)	2 000 000	48 279 953	7,65	TRY	76 615 690	28 335 737	0,93 %	0,17 %	ISTANBUL
KOREAN REINSURANCE	897 180	11 484 662	10 600,00	KRW	63 757 571	52 272 909	0,77 %	0,82 %	KOREA
KINNEVIK INV AB, SER B	780 300	13 358 036	74,00	SEK	49 065 343	35 707 307	0,60 %	0,33 %	STOCKHOLM
AAREAL BANK	175 000	23 077 745	32,07	EUR	44 759 939	21 682 194	0,54 %	0,45 %	FRANKFURT
NORGANI HOTELS	550 700	30 839 200	56,00	NOK	30 839 200	-	0,37 %	1,80 %	OSLO BØRS
ABG SUNDAL COLLIER ASA	2 980 000	15 180 399	8,80	NOK	26 224 000	11 043 601	0,32 %	1,11 %	OSLO BØRS
NORWEGIAN ENERGY AND MARINE INSURANCE	500 000	8 994 667	52,00	NOK	26 000 000	17 005 333	0,32 %	3,73 %	OSLO BØRS
YAPI KREDI BANK	760 000	30 507 591	4,66	USD	23 953 911	(6 553 680)	0,29 %	0,10 %	LONDON INT.
BLUEWATER INSURANCE	499 000	13 013 021	43,00	NOK	21 457 000	8 443 979	0,26 %	5,19 %	OSLO BØRS
MINOR ITEMS*		46 927 611			66 718 251	19 790 640	0,81 %		
TOTAL FINANCIALS		357 401 963			616 089 430	258 687 467	7,48 %		
INFORMATION TECHNOLOGY									
SAMSUNG ELECTRONICS PREF. GDR	101 500	53 752 336	241,00	USD	165 447 421	111 695 085	2,01 %	0,22 %	LONDON INT.
SAMSUNG ELECTRONICS GDR	60 000	23 654 760	329,50	USD	133 716 064	110 061 304	1,62 %	0,02 %	LONDON INT.
TANDBERG TELEVISION	900 000	11 981 685	89,25	NOK	80 325 000	68 343 315	0,98 %	1,21 %	OSLO BØRS
GLOBAL IP SOUND	2 340 000	7 808 931	28,00	NOK	65 520 000	57 711 069	0,80 %	4,41 %	UNOTERT
NERA	4 036 500	73 105 290	15,70	NOK	63 373 050	(9 732 240)	0,77 %	3,27 %	OSLO BØRS
KYOCERA	120 000	86 707 798	8 600,00	JPY	59 214 127	(27 493 671)	0,72 %	0,06 %	TOKYO
SAMSUNG SDI GDR	205 280	21 556 895	28,50	USD	39 570 215	18 013 320	0,48 %	0,11 %	LONDON INT.
Q-FREE	1 700 000	26 778 847	21,30	NOK	36 210 000	9 431 153	0,44 %	3,34 %	OSLO BØRS
VMETRO	934 300	18 929 047	26,30	NOK	24 572 090	5 643 043	0,30 %	4,07 %	OSLO BØRS
TELESTE	400 000	20 887 312	7,54	EUR	24 053 806	3 166 495	0,29 %	2,31 %	HELSINKI
MINOR ITEMS*		122 499 250			126 594 623	4 095 373	1,54 %		
TOTAL INFORMATION TECHNOLOGY		467 662 152			818 596 397	350 934 246	9,94 %		
TELECOM									
TELEKOMUNIK INDONESIA ADR	725 000	40 385 359	23,71	USD	116 264 326	75 878 966	1,41 %	0,14 %	NEW YORK
TOTAL ACCESS TELECOMMUNICATION	2 000 000	8 863 830	3,24	USD	43 828 027	34 964 197	0,53 %	0,42 %	SINGAPORE
MINOR ITEMS*		25 607 850			34 156 101	8 548 251	0,41 %		
TOTAL TELECOM		74 857 039			194 248 454	119 391 415	2,36 %		
UTILITIES									
ELEKTROBRAS PREFERED	1 000 000	76 166 081	39,60	BRL	115 068 215	38 902 134	1,40 %	0,00 %	SAO PAULO
TOTAL UTILITIES		76 166 081			115 068 215	38 902 134	1,40 %		
TOTAL EQUITY PORTFOLIO**		4 485 040 167			8 173 601 961	3 688 561 794	99,26 %		

BASIS PRICE 30.12.2005

1 044,4701

* PLEASE CONTACT THE MANAGEMENT COMPANY, STAVANGER FONDSFORVALTNING AS, FOR AN OVERVIEW OF COMPANIES INCLUDED HERE (WILL BE SENT BY EMAIL).

** *FOR LIQUIDITY IN THE PORTFOLIO PER 31.12.2005, PLEASE REFER TO BALANCE SHEET.

SKAGEN Kon-Tiki

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

Like our two other equity funds, SKAGEN Vekst and SKAGEN Global, SKAGEN Kon-Tiki has as its overall objective to achieve the highest possible return at the lowest possible risk.

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, 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 their substantial business area. SKAGEN Kon-Tiki is a company oriented fund focusing on geographical areas with high growth and companies with low valuations

Like our other equity funds, the focus of the investments of the SKAGEN Kon-Tiki fund is directed at individual companies, independent of markets and industries. A balanced industry exposure is sought, however. This fund also has strong cash flow and/or low gearing as 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.

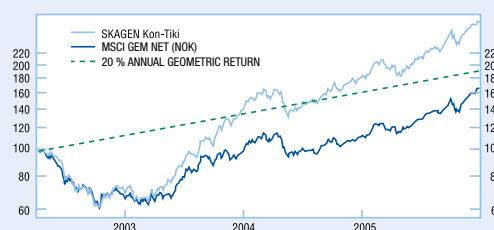
Fund start date	5th April 2002
Return since start	200,16 %
Average annual return	34,17 %
S&P qualitative rating	AA
Net asset value	8 749 MNOK
Number of unit holders	29 553
Subscription fee	0,0 % - 0,7 % (dependent on amount)
Redemption fee	0%
Management fee	2,5 % p.a. plus/minus variable management fee
Minimum subscription amount	One-time subscription NOK 1,000, savings agreement NOK 250
Tax schemes	IPA, Unit Link
Authorised for marketing in	Norway, Sweden, Denmark and Luxembourg
Benchmark	MSCI Daily Net \$ EM Index
UCITS fund	Yes
Portfolio Manager	J. Kristoffer C. Stensrud

YEAR	RETURN ON INVESTMENT	BENCHMARK	NET ASSET VALUE*	NUMBER OF UNIT HOLDERS	TOTAL COST
2005	59,25 %	49,23 %	8 749	29 553	3,16 %
2004	32,35 %	14,33 %	3 227	16 259	4,00 %
2003	102,93 %	50,41 %	1 711	9 835	4,00 %
2002**	-29,82 %	-33,41 %	250	4 190	4,00 %

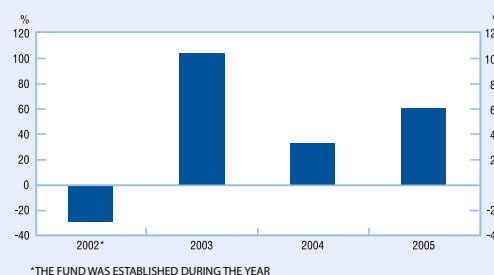
*MNOK

**The fund was established during the year

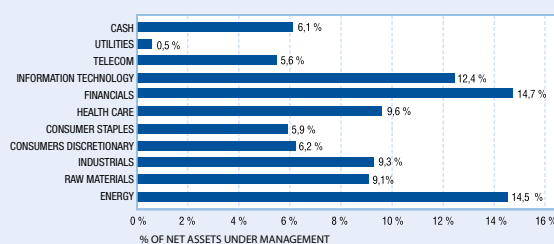
HISTORICAL PRICE DEVELOPMENT



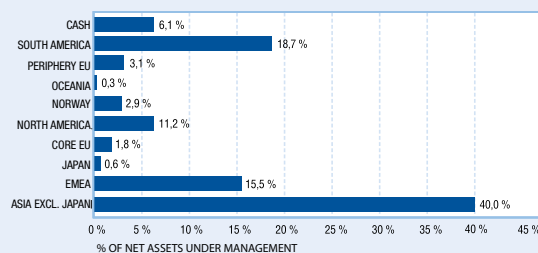
ANNUAL RETURN



SECTOR DISTRIBUTION



GEOGRAPHICAL DISTRIBUTION



SKAGEN Kon-Tiki Note 8. Securities portfolio as of 31st December 2005

SECURITY	NUMBER	ACQUISITION VALUE NOK	MARKET- PRICE	CURRENCY	MARKET- VALUE NOK	UNREALISED GAIN/LOSS	SHARE OF FUND	SHARE IN COMPANY	STOCK- EXCHANGE
ENERGY									
PRIDE INTERNATIONAL	2 850 100	465 419 034	30,75	USD	592 450 287	127 031 253	6,83 %	1,80 %	NEW YORK
CHINA OILFIELD SERVICES	78 236 000	182 575 073	3,12	HKD	213 559 831	30 984 758	2,46 %	5,10 %	HONG KONG
PETROBRAS PREF. ADR	449 700	90 060 589	64,37	USD	195 682 998	105 622 409	2,26 %	0,10 %	NEW YORK
SEADRILL	3 000 000	110 728 061	54,25	NOK	162 750 000	52 021 939	1,88 %	2,73 %	OSLO BØRS
TREFOIL	842 600	39 536 750	43,30	NOK	36 484 580	(3 052 170)	0,42 %	3,63 %	UNOTERT
SMEDVIG B	200 000	21 221 150	156,00	NOK	31 200 000	9 978 850	0,36 %	0,72 %	OSLO BØRS
HARDMAN RESOURCES LTD	2 850 334	28 154 749	0,74	GBP	24 514 725	(3 640 024)	0,28 %	0,43 %	LONDON
TOTAL ENERGY		937 695 406			1 256 642 421	318 947 015	14,50 %		
RAW MATERIALS									
VALE RIO DEL DOCE ADR PREF	1 100 000	209 246 418	36,25	USD	269 555 000	60 308 582	3,11 %	0,26 %	NEW YORK
GRUPO MEXICO SA B	15 070 000	129 341 488	24,80	MXN	238 630 436	109 288 948	2,75 %	0,58 %	MEXICO
VOTORANTIM CELLULOSE ADR	1 370 200	105 207 941	12,29	USD	113 836 764	8 628 823	1,31 %	1,59 %	NEW YORK
KOREA ZINC	250 000	52 825 623	51 000,00	KRW	85 425 000	32 599 377	0,99 %	1,32 %	KOREA
HARMONY GOLD MINING ADR	693 000	34 868 011	13,05	USD	61 135 074	26 267 063	0,71 %	0,18 %	NEW YORK
AKCANS CIMENTO	500 000	10 252 190	8,20	TRY	20 541 000	10 288 810	0,24 %	0,30 %	ISTANBUL
RIDGE MINING PLC	250 000	4 396 259	0,36	GBP	1 046 025	(3 350 234)	0,01 %	0,56 %	LONDON
TOTAL RAW MATERIALS		546 137 929			790 169 299	244 031 370	9,12 %		
INDUSTRIALS									
SAMSUNG HEAVY INDUSTRIES	2 038 750	116 816 454	17 750,00	KRW	242 458 344	125 641 890	2,80 %	0,88 %	KOREA
HYUNDAI MERCHANT MARINE	2 600 000	141 329 354	13 600,00	KRW	236 912 000	95 582 646	2,73 %	2,52 %	KOREA
HYUNDAI HEAVY INDUSTRIES	250 000	87 674 438	76 900,00	KRW	128 807 500	41 133 062	1,49 %	0,33 %	KOREA
THAI AIRWAYS INTERNATIONAL	5 479 700	42 408 095	44,00	THB	39 903 175	(2 504 920)	0,46 %	0,32 %	BANGKOK
TOYO KANETSU CORP	2 000 000	20 955 232	331,00	JPY	37 998 800	17 043 568	0,44 %	1,44 %	OSLO BØRS
STOLT-NIELSEN	150 000	16 786 469	223,50	NOK	33 525 000	16 738 531	0,39 %	0,23 %	OSLO BØRS
SHIP FINANCE INTL	262 400	25 709 769	16,90	USD	29 977 626	4 267 857	0,35 %	0,35 %	NEW YORK
GOLDEN OCEAN GROUP	5 344 000	20 187 694	3,80	NOK	20 307 200	119 506	0,23 %	2,38 %	OSLO BØRS
SKYEUROPE	450 000	21 000 098	5,10	EUR	18 311 805	(2 688 293)	0,21 %	2,25 %	WIEN
KOKUSAI KOGYO	250 000	6 694 780	567,00	JPY	8 136 450	1 441 670	0,09 %	0,66 %	TOKYO
IDT INTERNATIONAL	10 000 000	15 466 166	0,57	HKD	4 978 950	(10 487 216)	0,06 %	0,48 %	HONG KONG
KURIBAYASHI STEAMSHIP CO.	100 000	1 229 337	575,00	JPY	3 300 500	2 071 163	0,04 %	0,78 %	TOKYO
TOTAL INDUSTRIALS		516 257 884			804 617 350	288 359 466	9,28 %		
CONSUMER DISCRETIONARY									
MAHINDRA & MAHINDRA LTD GDR	2 923 510	63 969 935	11,36	USD	224 506 858	160 536 923	2,59 %	1,26 %	LONDON INT.
SSANGYONG MOTOR CO.	2 700 000	122 743 645	8 130,00	KRW	147 071 700	24 328 055	1,70 %	2,24 %	KOREA
SHANGRI-LA ASIA	8 100 731	53 425 333	12,95	HKD	91 634 051	38 208 719	1,06 %	0,32 %	HONG KONG
INDEPENDENT NEWS & MEDIA	1 019 047	19 055 317	2,54	EUR	20 652 679	1 597 362	0,24 %	0,14 %	LONDON
SHOPRITE HOLDINGS	1 000 000	14 487 010	18,43	ZAR	19 710 885	5 223 875	0,23 %	0,18 %	JOHANNESB.
DANUBIUS HOTELS	100 000	11 483 516	5 845,00	HUF	18 470 200	6 986 684	0,21 %	1,21 %	BUDAPEST
FOTEX	710 000	3 527 181	347,00	HUF	7 785 292	4 258 111	0,09 %	1,00 %	BUDAPEST
CONVENIENCE RETAIL ASIA	3 000 000	4 955 899	2,65	HKD	6 944 325	1 988 426	0,08 %	0,45 %	HONG KONG
TOTAL CONSUMER DISCRETIONARY		293 647 836			536 775 990	243 128 154	6,19 %		
CONSUMER STAPLES									
YAZIC	1 308 736	83 759 133	36,25	TRY	237 682 817	153 923 684	2,74 %	3,27 %	ISTANBUL
PODRAVKA	275 915	71 234 733	318,00	HRK	94 847 989	23 613 255	1,09 %	5,09 %	ZAGREB
PIVOVARNA LASKO	331 725	84 412 135	7 400,00	SIT	81 805 044	(2 607 092)	0,94 %	3,79 %	LJUBLJANA
ROYAL UNIBREW A/S	47 800	16 380 705	532,00	DKK	27 260 531	10 879 826	0,31 %	0,75 %	KØBENHAVN
UNITED INTL ENTERPRISES	60 000	8 509 583	400,00	DKK	25 728 000	17 218 417	0,30 %	1,17 %	KØBENHAVN
AARHUS KARLSHAMN	158 100	9 795 808	185,00	SEK	24 861 225	15 065 417	0,29 %	0,39 %	KØBENHAVN
PATERSON ZOCHONIS	120 000	16 600 527	14,30	GBP	19 944 210	3 343 683	0,23 %	0,56 %	
TOTAL CONSUMER STAPLES		290 692 624			512 129 815	221 437 191	5,91 %		
HEALTH CARE									
PFIZER	2 208 000	319 768 456	23,32	USD	348 076 186	28 307 729	4,02 %	0,03 %	NEW YORK
HANMI PHARMACEUTICAL CO LTD	288 750	56 534 698	139 000,00	KRW	268 912 875	212 378 177	3,10 %	3,65 %	KOREA
GIDEON RICHTER	67 000	50 118 387	38 315,00	HUF	81 120 518	31 002 131	0,94 %	0,36 %	BUDAPEST
ECZACIBASI ILAC SANAYI VE	2 200 000	46 299 082	4,34	TRY	47 835 480	1 536 398	0,55 %	1,20 %	ISTANBUL
GIDEON RICHTER GDR	38 790	26 496 379	180,00	USD	47 199 672	20 703 293	0,54 %	0,21 %	LONDON INT.
ECZACIBASI YATIRIM HOLDING	1 500 631	27 787 636	5,40	TRY	40 598 071	12 810 435	0,47 %	3,79 %	ISTANBUL
TOTAL HEALTH CARE		527 004 637			833 742 802	306 738 164	9,62 %		
FINANCIALS									
SABANCI HOLDING (HACI OMER)	10 000 000	251 624 948	7,65	TRY	383 265 000	131 640 052	4,42 %	0,83 %	ISTANBUL
BANCO DO BRASIL	1 680 000	154 421 263	42,20	BRL	205 208 472	50 787 209	2,37 %	0,21 %	SAO PAULO
ABERDEEN ASSET MANAGEMENT	8 862 500	69 295 250	1,34	GBP	138 025 904	68 730 655	1,59 %	1,46 %	LONDON
ABERDEEN ASSET MANAGEMENT PREF. 6.25	939	11 208 364	1 550,00	GBP	16 915 968	5 707 604	0,20 %	1,25 %	LONDON
BANK AUSTRIA CREDITANSTALT	175 000	64 118 255	93,99	EUR	131 240 587	67 122 332	1,51 %	0,12 %	WIEN
KOREAN REINSURANCE	1 300 000	18 632 127	10 600,00	KRW	92 326 000	73 693 873	1,07 %	1,18 %	KOREA
GRUPO FINANCIERO GALICIA ADR	1 300 000	70 862 247	6,91	USD	60 725 080	(10 137 167)	0,70 %	1,35 %	NASDAQ
KIWOOM.COM	200 000	8 106 549	38 600,00	KRW	51 724 000	43 617 451	0,60 %	1,63 %	KOREA
KGI SECURITIES CO LTD (P-NOTE)	20 000 000	43 139 547	12,00	TWD	49 440 000	6 300 453	0,57 %	0,78 %	TAIPEI
POLARIS SECURITIES CO LTD (P-NOTE)	16 000 000	39 791 620	14,85	TWD	48 945 600	9 153 980	0,56 %	1,15 %	TAIPEI
YAPI KREDİ BANK	1 300 000	28 674 947	4,70	USD	41 303 600	12 628 653	0,48 %	0,17 %	LONDON INT.
BANK OF EAST ASIA	1 014 473	19 548 982	23,45	HKD	20 780 034	1 231 052	0,24 %	0,07 %	HONG KONG
STATE BANK OF INDIA (P-NOTE)	50 000	3 846 269	50,50	USD	17 069 000	13 222 731	0,20 %	0,02 %	BOMBAY
SVB HOLDINGS	2 350 000	10 807 330	0,33	GBP	9 013 249	(1 794 081)	0,10 %	0,64 %	LONDON
TRIMEGAH SECURITIES	50 000 000	4 762 686	145,00	IDR	4 981 373	218 687	0,06 %	1,37 %	JAKARTA
SVB HOLDINGS PLC KONVERTIBEL OBLIGASJON	324 400	3 764 023	94,00	GBP	3 555 849	(208 174)	0,04 %	0,65 %	LONDON
TOTAL FINANCIALS		802 604 407			1 274 519 715	471 915 308	14,70 %		
INFORMATION TECHNOLOGY									
SAMSUNG ELECTRONICS PREF. GDR	265 000	203 194 392	242,00	USD	433 518 800	230 324 408	5,00 %	0,58 %	LONDON INT.
SAMSUNG ELECTRONICS PREF.	70 000	165 932 183	491 000,00	KRW	230 279 000	64 346 817	2,66 %	0,31 %	KOREA
LG ELECTRONICS PREF.	740 000	205 808 069	59 500,00	KRW	295 001 000	89 192 931	3,40 %	0,53 %	KOREA
ERICSSON NIKOLA TESLA	24 603	29 944 813	1 914,00	HRK	50 904 444	20 959 631	0,59 %	1,85 %	ZAGREB
TOP ENGINEERING	700 000	43 525 660	8 050,00	KRW	37 754 500	(5 771 160)	0,44 %	4,71 %	KOREA
GRAPHISOFT SE	434 904	21 742 939	1 575,00	HUF	21 645 172	(97 767)	0,25 %	4,09 %	BUDAPEST
TRAVELSKY TECHNOLOGY	1 000 000	6 159 388	7,15	HKD	6 245 525	86 137	0,07 %	0,32 %	HONG KONG
OFFICE LINE	17 400	625 300	58,25	NOK	1 013 550	388 250	0,01 %	0,94 %	OSLO BØRS
TOTAL INFORMATION TECHNOLOGY		676 932 743			1 076 361 991	399 429 248	12,42 %		
TELECOM									
BHARTI TELEVENTURES PART.CERT. SSB	5 100 000	94 155 827	7,80	USD	268 912 800	174 756 973	3,10 %	0,28 %	LONDON INT.
INDOSAT TBK.ADR	631 900	84 074 790	29,09	USD	124 262 124	40 187 334	1,43 %	0,59 %	NEW YORK
TOTAL ACCESS TELECOMMUNICATION	3 826 200	36 428 816	3,24	USD	83 802 963	47 374 147	0,97 %	0,81 %	SINGAPORE
PAKISTAN TELECOM	10 000	2 718 037	109,50	USD	7 402 200	4 684 163	0,09 %	0,00 %	OTC
TOTAL TELECOM		217 377 471			484 380 087	267 002 616	5,59 %		
UTILITIES									
ELETRONBRAS PREFERRED	3 964 900	339 415 459	39,60	BRL	454 465 561	115 050 102	5,24 %	0,00 %	SAO PAULO
UNIFIED ENERGY SYSTEMS REG GDR	250 000	55 885 118	42,70	USD	72 163 000	16 277 882	0,83 %	0,06 %	LONDON
TOTAL UTILITIES		395 300 578			526 628 561	131 327 983	6,08 %		
INTEREST BEARING INSTRUMENTS									
ARGENTINIAN GOVT BOND	14 779 404	29 126 697	117,40	ARS	38 736 153	9 609 456	0,45 %		OTC
ARGENTINIAN GOVT BOND	43 855 797	3 240 930	4,92	ARS	4 821 972	1 581 042	0,06 %		OTC
TOTAL INTEREST BEARING INSTRUMENTS		32 367 627			43 558 125	11 190 498	0,50 %		
TOTAL EQUITY PORTFOLIO*		5 236 019 141			8 139 526 155	2 903 507 014	93,89 %		

BASIS PRICE AS OF 30.12.2005

300,1631

SKAGEN Høyrente

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

SKAGEN Høyrente is a good alternative to a high interest account in a bank. The fund has low costs, which contributes to higher returns for the fund's unit holders. The return follows the money market interest rates, which are normally higher than the best interest rates on offer in the bank market. Saving in SKAGEN Høyrente is suitable for investors with a short time horizon for their savings, and for investors with a longer investment horizon who want minimum risk.

SKAGEN Høyrente is a money market fund that invests in notes and bonds with a remaining duration of less than one year, as well as bank deposits. The fund only lends money to the safest issuers in the banking, power generation and manufacturing sectors. The fund seeks to provide the best possible return in the shortest end of the interest market. The fund has an international investment mandate, but has so far only been invested in Norway.

The fund may be compared with a high interest account in a bank, but since the money is invested in securities where the rates are determined by the market, the value of these securities may fluctuate somewhat.

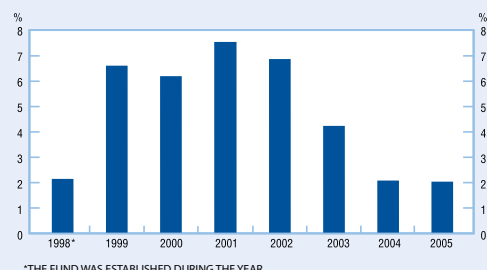
Fund start date	18th September 1998
Return since start	45,07 %
Average annual return	5,24 %
S&P qualitative rating	***
Net asset value	2 420 MNOK
Number of unit holders	7 210
Subscription fee	0 %
Redemption fee	0 %
Management fee	0,3 % p.a. until 31/12-05 0,25 % p.a. as of 1/1-06
Minimum subscription amount	One-time subscription NOK 1 000, savings agreement NOK 1 000
Tax schemes	IPA, Unit Link
Authorised for marketing in	Norway
Benchmark	Oslo Stock Exchange Government Bond Index
UCITS fund	No
Portfolio Manager	Torgeir Høyen

YEAR	RETURN ON INVESTMENT	BENCHMARK	NET ASSET VALUE*	NUMBER OF UNITHOLDERS
2005	2,04 %	2,07 %	2 420	7 210
2004	2,08 %	2,17 %	1 174	5086
2003	4,23 %	4,92 %	661	3741
2002	6,86 %	6,77 %	517	2498
2001	7,54 %	7,57 %	206	1263
2000	6,17 %	6,04 %	114	707
1999	6,59 %	6,29 %	73	273
1998**	2,16 %	2,00 %	20	64

*MNOK

**The fund was established during the year

ANNUAL RETURN



PORTFOLIO KEY FIGURES	
Effective underlying return	2,71 %
Effective return to customers*	2,41 %
Interest rate sensitivity**	0,13

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

Unit price as of 30.12.2005 103,0747

53,392,047 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 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. This entails, for example, that the fund, during periods when the interest level is expected to increase more than what is discounted by the market, may have a duration (the remaining time to maturity for the loans) much like a money market fund.

We limit the price risk for unitholders when we regard this as necessary. This flexibility 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.

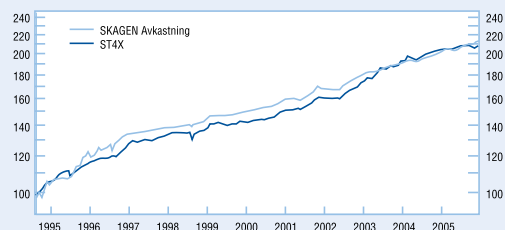
Fund start date	16th September 1994
Return since start	115,99 %
Average annual return	7,06 %
S&P qualitative rating	***
Net asset value	2 827 MNOK
Number of unit holders	6 385
Subscription fee	0 %
Redemption fee	0 %
Management fee	0,5 % p.a.
Minimum subscription amount	One-time subscription NOK 1 000, savings agreement NOK 1 000
Tax schemes	IPA, Unit Link
Authorised for marketing in	Norway, Sweden, Denmark and Luxembourg
Benchmark	Oslo Stock Exchange Government Bond Index
UCITS fund	Yes
Portfolio Manager	Ross Porter

YEAR	RETURN ON INVESTMENT	BENCHMARK	NET ASSET VALUE*	NUMBER OF UNITHOLDERS
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

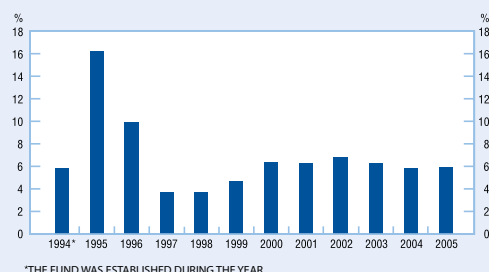
*MNOK

**The fund was established during the year

HISTORICAL PRICE DEVELOPMENT



ANNUAL RETURN



CONTINUED NEXT PAGE



109,104,397 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

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

SKAGEN Høyrente is a money market fund which only invests in money market instruments within finance and government. Up to 20 percent can be invested in bonds with floating interest rates with a maturity over one year. The fund can have varying interest rate sensitivity, but this cannot exceed 0.33. The fund satisfies a BIS risk weighting of 20 percent because it does not invest in industry certificates.

The fund in the main consists of certificates in quality banks which have been thoroughly researched and analysed by the fund. The minimum subscription is 5 million NOK, and the fund is most suitable for institutions which want a secure return in the money market which is higher than the money market interest rate and than the interest rate available in high interest bank accounts. There is no restriction on the number of withdrawals during the year, and there are no transaction costs.

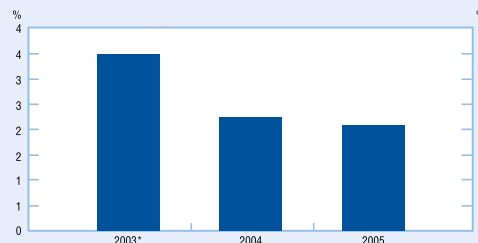
Fund start date	14th March 2003
Return since start	7,94 %
Average annual return	2,77 %
S&P qualitative rating	Not ranked
Net asset value	375 MNOK
Number of unit holders	54
Subscription fee	0 %
Redemption fee	0 %
Management fee	0,25 % p.a. until 31/12-05 0,15 % p.a. as of 1/1-06
Minimum subscription amount	5,000,000 NOK
Tax schemes	None
Authorised for marketing in	Norway
Benchmark	Oslo Stock Exchange State Bond Index 0,5
UCITS fund	No
Portfolio Manager	Torgeir Høyen

YEAR	RETURN ON INVESTMENT	BENCHMARK	NET ASSET VALUE*	NUMBER OF UNITHOLDERS
2005	2,06 %	2,01 %	375	54
2004	2,23 %	1,95 %	198	29
2003**	3,45 %	3,55 %	167	20

*MNOK

**The fund was established during the year

ANNUAL RETURN



*THE FUND WAS ESTABLISHED DURING THE YEAR

Unit price as of 30.12.2005 101,7884

7,269,227 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 2005

**PricewaterhouseCoopers AS**

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

Auditor's report for 2005

We have audited the annual financial statements of the mutual funds as of 31 December, 2005, showing the following results:

SKAGEN Vekst	kr	2 679 959 602
SKAGEN Global	kr	3 290 104 453
SKAGEN Kon-Tiki	kr	2 443 043 167
SKAGEN Avkastning	kr	144 443 040
SKAGEN Høyrente	kr	51 487 888
SKAGEN Høyrente Institusjon	kr	7 542 911

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 financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to produce 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 the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den Norske Revisorforening. 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 good auditing practice an audit also comprises a review of the management of the mutual funds financial affairs and accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are 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 31 December, 2005, and the results of operations and cash flows for the year then ended, in accordance with good accounting practice 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 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, 24 January 2006
PricewaterhouseCoopers AS

Gunnar Slettebø

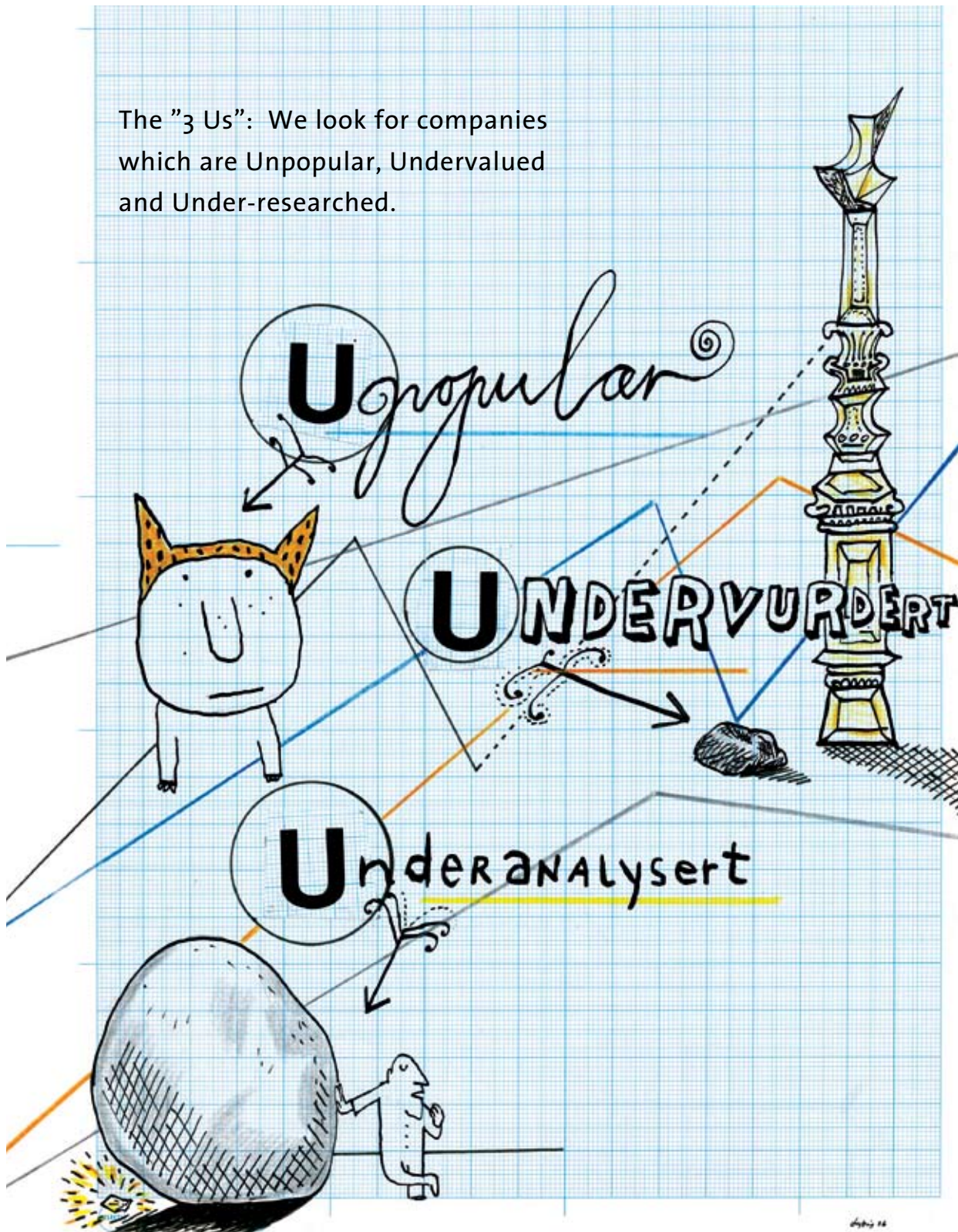
State Authorised Public Accountant (Norway)

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

Kontorer: Arendal Bergen Drammen Fredrikstad Førde Hamar Kristiansand Mo i Rana Molde Måløy Narvik Oslo Stavanger Stryn Tromsø Trondheim Tønsberg Ålesund
PricewaterhouseCoopers navnet refererer til individuelle medlemsfirmaer tilknyttet den verdensomspennende PricewaterhouseCoopers organisasjonen
Medlemmer av Den norske Revisorforening | Foretaksregisteret: NO 987 009 713
www.pwc.no

Funds are different

The "3 Us": We look for companies which are Unpopular, Undervalued and Under-researched.



The objective of SKAGEN Funds is to provide our clients with the best possible return at the lowest possible risk – as well as providing the best possible communication, service and competent follow-up. We are true to our value-based investment philosophy and do not follow trends and fads.

Our value creation shall take place through investments in high quality companies with a low price tag. Such companies are often characterised by being Undervalued, Under-researched and Unpopular. However, the precondition for success is that there are one or more triggers that can release the companies' values.

Experience and thorough research

Our investments are based on thorough research and long experience from the global fixed income and equity markets. In order to achieve the lowest possible risk, we maintain a spread of our companies in terms of both industries and geographic region. The companies have to work for its shareholders, just like we work for our unit holders.

Not like everyone else

We carefully evaluate political and other risk elements, pay attention to geographic and industry imbalances and keep a keen eye on the companies' debt exposure. We seek to create performance by analysing and emphasising things that other investors do not consider.

Exploiting market distortions

We do not invest in a company just because it is represented in an index. On the contrary, we use the distortions created by index management to invest in companies with low valuations that over time will provide high return combined with low risk. It is the companies' value creation that counts, not the market value they represent in some index.

Do not follow fashions and trends

Our investment decisions are based on research and facts. We do not follow fashion and trends. We will not speculate by offering funds directed at individual industries or geographic areas during times when these are popular among investors. That just means high risk for the client. For us, broad investment mandates are always paramount.

Long-term thinking benefits clients

Our owners and management are more concerned with long-term investment success than short-term performance. That provides us with the freedom to focus on the long-term in everything we do, to the benefit of our clients.

Ethically responsible

We will not take risk by investing in companies that consciously break laws, damage the local population, the environment or the chosen form of government.

Each client is unique

Clients will receive advice based on their own free will and desire to assume risk. We offer six funds, three equity funds and three fixed income funds. These cover the clients' investments needs, and make the choice easy.

In the same boat as our clients

We have low transaction costs and we have low fixed fees. We are paid for the added value that we create. Our ownership structure as an independent company allows us the freedom to choose what is best for our clients. These conditions provide us with a unique commonality of interest with our unit holders.

Competent choices

Our goal is to enable our clients to make the right choice for his or her investments. That is why we put so much emphasis on good communication, service and competent follow-up. Our values are to be *cheerful, inclusive, proud, trustworthy and different*. If we can live up to them, we stand a better chance of reaching our overall goal – to provide the highest possible return at the lowest possible risk – and to facilitate cooperation and provide good communication.

HEAD OFFICE

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Stockholm Kungsgatan 72A, 111 22 Stockholm, Sweden

Note! Branch staff outside Stavanger are often out visiting clients. Therefore the branch offices are not always manned. It may be smart to make an appointment in advance on telephone +47 04001.