

NOTE 13

GOODWILL AND INFORMATION ON BUSINESS COMBINATIONS

Pursuant to IFRS 3 Business combinations, the net assets of acquired companies have been assessed at fair value at the acquisition date. The remaining part of the consideration after allocating the consideration to identifiable assets and liabilities, is recognised as goodwill. The tables below show the values and movements in the the various goodwill items in the Group.

2015

NOK 1 000	Interwell	Servi	Elopak Europa	Seco Invest (Tele-Computing)	Other	Total
	1 212					2 773
Cost at 1 January	016	386 289	541 404	612 607	20 905	221
Additions		2 000		6 327		8 327
Disposals						
Reclassified to assets held for sale				- 618 934		- 618 934
Exchange differences			38 060		11	38 071
Cost at 31 December	1 212	388 289	579 464		20 916	2 200 685
Accumulated impairment at 1 January			55 980			55 980
Write-downs		200 000				200 000
Disposals						
Exchange differences			3 626			3 626
Accumulated impairment at 31 December		200 000	59 606			259 606
Carrying amount at 31 December	1 212 016	188 289	519 858		20 916	1 941 079

Changes in 2015

There were no significant additions of goodwill in 2015. Goodwill related to TeleComputing has been reclassified to assets held for sale as a consequence of the coming sale of the business.

Ferd has decided to write down goodwill related to Servi by MNOK 200, recognised as depreciation and write-down in other comprehensive income. The reason for the write-down is the negative development in the oil price and the resulting market challenges for Servi.

2014

NOK 1 000	Interwell	Servi	Elopak Europa	Seco Invest (Tele-Computing)	Other	Total
						1 505
Cost at 1 January		386 289	508 398	593 969	16 680	336
Additions	1 212			18 638	4 330	1 234 984
Disposals	016				- 105	- 105
Exchange differences			33 006			33 006
Cost at 31 December	1 212	386 289	541 404	612 607	20 905	2 773 221
Accumulated impairment at 1 January			52 047			52 047
Additions						
Write-downs						
Disposals			3 933			3 933
Exchange differences			55 980			55 980
Accumulated impairment at 31 December						
Carrying amount at 31 December	1 212 016	386 289	485 424	612 607	20 905	2 717 241

Changes in 2014

In 2014, Ferd increase its stake from 34 % to 58 % in Interwell and thereby achieved control over the company. The acquisition was made with accounting effect from 1 January 2014. The purchase has increased Ferd's patents and rights by MNOK 298 ([note 7](#)), capitalised development costs by MNOK 36, customer relations by MNOK 250, in addition to a goodwill of appr. MNOK 1212. The goodwill is not deductible for tax purposes. The cost for the shares in Interwell AS constitutes appr. MNOK 895, of which MNOK 496 were paid cash in 2014 and MNOK 399 were the value of the shares before the acquisition. Before the purchase, the shares in Interwell were measured at fair value with value changes over profit and loss. MNOK 601 in non-controlling interest at the acquisition date have been recognised, calculated as their proportionate share of the enterprise's identifiable net assets. Interwell's impact on Ferd's consolidated financial statements amounted to MNOK 856 in operating income and MNOK 315 in EBITDA in 2014.

Impairment testing for goodwill

Goodwill is allocated to the Group's cash generating units, and is tested for impairment annually or more frequently if there are indications of impairment. Testing for impairment implies determining the recoverable amount of the cash generating unit. The recoverable amount is determined by discounting future expected cash flows, based on the cash generating unit's business plans. The discount rate applied to the future cash flows is based on the Group's weighted average cost of capital (WACC), adjusted to the market's appreciation of the risk factors for each cash generating unit. Growth rates are used to project cash flows beyond the periods covered by the business plans.

Cash generating units

The goodwill items specified above relate to Ferd Capital's investments in the group companies Elopak, TeleComputing, Interwell, Servi, in addition to some minor goodwill items in the sub-groups Swix and Mestergruppen.

Goodwill concerning Elopak is allocated to the cash generating unit Europa, which consists of Elopak's European markets, including the in-house production and supply organisation. This goodwill has a carrying value of MNOK 520 at 31 December 2015. The rationale for determining Europe as one cash-generating unit is the dynamics of this market. The trend is that customers are merging, and have easy access to the supplies all over Europe. Elopak adapts to its customers by distributing the production of cartons for the various markets according to the optimal production efficiency in Europe. The historical geographical criteria for production and demands from customers are no longer as important. As a consequence of this development, the split of margins along Elopak's value chain will be subject to change from one year to another. Hence, one European business unit will be the best indicator for assessing any impairment of goodwill.

Goodwill related to TeleComputing concerns TeleComputing's operations in Norway and Sweden. The goodwill has a carrying amount of MNOK 618 as at 31 December 2015. For impairment purposes, TeleComputing is considered to be one cash generating unit due to similar activities and the synergy effects achieved acrosss the companies under Seco Invest AS. TeleComputing was sold in 2016 and therefore reclassified to assets held for sale as at 31 December 2015.

Goodwill identified at the acquisition of Servi is allocated to Servi in total as the cash generating unit. This is a consequence of Servi's co-ordinated and well integrated activities. The carrying value at 31 December 2015 is MNOK 188 following a write-down of MNOK 200 (cf. above for details).

The acquisition of Interwell in 2014 has implied a recognition of goodwill of MNOK 345 for Ferd. This goodwill is allocated to the whole of Interwell as one joint cash-generating unit, which is the level on which Ferd is following up Interwell. In the Interwell group, however, there are an additional MNOK 867 in goodwill from acquisitions carried out by Interwell. This goodwill is allocated to two separate cash-generating units, Interwell Norge and Interwell Technology, as these business areas generate ingoing cash-flows separately.

Impairment testing and assumptions

The recoverable amount for the cash generating unit is calculated on the basis of the present value of expected cash flows. The cash flows are based on assumptions about future sales volumes, selling prices and direct costs. The background for these assumptions is historical experience from the market, adopted budgets and the Group's expectations of market changes. Having carried out impairment testing, the Group does not expect significant changes in current trade. This implies that expected future cash flows mainly are a continuation of observed trends.

Determined cash flows are discounted at a discount interest rate. The rate applied and other assumptions are shown below.

For Servi, the calculated recoverable amount indicates a write-down of MNOK 200. The recoverable amount is the company's value in use based on estimated cash-flows discounted at the company's required rate of return (cf. the table below for applied assumptions).

For the other cash-generating units, the calculated recoverable amount in the impairment tests are positive, and based on these tests, the conclusions are that there is no impairment requiring write-downs in 2015. The uncertainty connected with the assumptions on which the impairment testing is based is illustrated by sensitivity analyses. The conclusions are tested for changes in discount and growth rates. The sensitivity analyses indicate that a large gap is required before there can be any question of impairment.

Detailed description of the assumptions applied:

	Discount rate after tax (WACC)		Discount rate before tax		Growth rate 2-5 years	Long-term growth rate		
	2015	2014	2015	2014	2015	2014	2015	2014
Elopak Europa	3,9 %	4,0 %	5,5 %	5,7 %	2,0 %	2,0 %	0,0 %	0,0 %
Seco Invest	4,0 %	4,4 %	5,4 %	5,9 %	8,0 %	8,0 %	0,0 %	0,0 %
Servi			10,0 %	5,9 %	5,0 %	3,5 %	2,5 %	2,5 %
Interwell Norge	9,0 %	10,0 %			5,0 %	5,0 %	2,0 %	2,0 %
Interwell Technology	9,0 %	10,0 %			10,0 %	25,0 %	2,0 %	2,0 %

The discount rate reflects the market's assessment of the risk specific to the cash generating unit. The rate is based on the weighted average cost of capital for the industry. This rate has been further adjusted to reflect the specific risk factors related to the cash generating unit, which has not been reflected in the cash flows. As Elopak's functional currency is euro, the basis has also been a euro interest significantly lower than NOK interest rates.

The average growth rate in the period 2 to 5 years is based on Ferd's expectations for the development in the market in which the business operates. Ferd uses a stable growth rate to extrapolate the cash flows beyond 5 years.

EBITDA represents operating profit before depreciation and is based on the expected future market development. Committed operating efficiency improvement measures are taken into account. Changes in the outcomes for these initiatives may influence future estimated EBITDA.

Investment costs necessary to meet expected future growth are taken into account. Based on management's assessment, the estimated investment costs do not include investments that improve the current assets' performance. The related cash flows are treated correspondingly.