

NOTE 5 FINANCIAL INSTRUMENTS AND THE USE OF FAIR VALUE

Ferd's principles in the measurement of fair value, generally

Ferd applies the valuation method that is considered to be the most representative estimate of an assumed sales value. Such a sale shall be carried out in an orderly transaction at the balance sheet date. As a consequence, all assets for which there is observable market information, or where a transaction recently has been carried out, these prices are applied (the market method). When a price for an identical asset is not observable, the fair value is calculated by another valuation method. In the valuations, Ferd applies relevant and observable data to the largest possible extent.

For all investments where the value is determined by another method than the market method, analyses of changes in value from period to period are carried out. Thorough analyses on several levels are made, both overall within the business area, by Ferd's group management and finally by Ferd's Board. Sensitivity analyses for the most central and critical input data in the valuation model are prepared, and in some instances recalculations of the valuation are made by using alternative valuation methods in order to confirm the calculated value.

Ferd is consistent in the application of valuation method and normally does not change the valuation principles. A change of principles will deteriorate the reliability of the reporting and weaken the comparability between periods. The principle for the valuation and use of method is determined for the investment before it is carried out, and is changed only exceptionally and if the change results in a measurement that under the circumstances is more representative for the fair value.

Valuation methods

Investments in listed shares are valued by applying the market method. The quoted price for the most recent carried-out transaction on the market place is the basis.

Investments in unlisted shares managed in-house are normally valued on the basis of an earnings multiple. In calculating the value (Enterprise Value - EV), ratios like EV/EBITDA, EV/EBITA, EV/EBIT and EV / EBITDA-CAPEX are applied.. Ferd obtains relevant multiples for comparable companies. The multiples for the portfolio companies are adjusted if the assumptions are not the same as for peer groups. Such assumptions can include a control premium, a liquidity discount, growth assumptions, margins or similar. The company's result applied in the valuation is normalised for one-off effects. Finally, the equity value is calculated by deducting net interest-bearing debt. In the event that an independent transaction has taken place in the security, this is normally used as a basis for our valuation

The valuation of investments in externally managed private equity and hedge funds is based on value reports received from the funds (NAV). Ferd makes a critical assessment of whether the reported NAV can be used as a basis.

Rental properties are valued by discounting future expected cash flows. The value of properties being part of building projects is valued at an assumed sales value on a continuous basis. There is often a shift in value at achieved milestones. Our calculated values are regularly compared to independent valuations.

The table below is an overview of carrying and fair value of the Group's assets and liabilities and how they are valued in the financial statements. It is the starting point for additional information on the Company's financial risk and refers to notes to follow.

	Investments at fair value over comprehensive profit and loss	Investments at fair value over other income	Financial instruments measured at amortised cost		Other valuation methods	TOTAL
			Loans and receivables	Financial liability		
NOK 1 000						
Non-current assets						
Intangible assets					3 153 719	3 153 719
Deferred tax assets					257 916	257 916
Tangible assets					2 175 360	2 175 360
Investments accounted for by the equity method					494 635	494 635
Investment property	2 235 900					2 235 900
Pension funds					25 370	25 370
Other financial non-current assets			137 883		85 742	223 625

Total 2015	2 235 900	137 883	6 192 742	8 566 524
Total 2014	2 386 449	190 409	7 291 683	9 868 541

Current assets

Inventories			2 635 545	2 635 545
Short-term receivables	61 075	2 375 563		2 436 638
Listed shares and bonds	7 283 017			7 283 017
Unlisted shares and bonds	3 071 613			3 071 613
Hedge funds	5 202 980			5 202 980
Investments in interest-bearing debt	94 484			94 484
Bank deposits		1 852 737		1 852 737

Total 2015	15 652 095	61 075	4 228 300	2 635 545	22 577 015
Total 2014	14 361 391	11 565	4 087 298	2 556 300	21 016 554

Non-current liabilities

Pension obligation			193 138	193 138
Deferred tax			847 312	847 312
Long-term interest-bearing debt		4 035 847	- 20 798	4 015 050
Other long-term debt		147 187		147 187

Total 2015		4 183 034	1 019 652	5 202 686
Total 2014	52 281	3 939 461	963 402	4 955 144

Current liabilities

Short-term interest-bearing debt		661 163		661 163
Tax payable			143 752	143 752
Other short-term debt	196 537	2 833 214		3 029 751

Total 2015	196 537	3 494 377	143 752	3 834 665
Total 2014	15 503	58 167	4 166 278	359 718 4 599 666

Fair value hierarchy - financial assets and liabilities

Ferd classifies assets and liabilities measured at fair value in the balance sheet by a hierarchy based on the underlying object for the valuation. The hierarchy has the following levels:

Level 1: Valuation based on quoted prices in active markets for identical assets without adjustments. An active market is characterised by the fact that the security is traded with adequate frequency and volume in the market. The price information shall be continuously updated and represent expected sales proceeds. Only listed shares are considered to be level 1 investments.

Level 2: Level 2 comprises investments where there are quoted prices, but the markets do not meet the requirements for being characterised as active. Also included are investments where the valuation can be fully derived from the value of other quoted prices, including the value of underlying securities, interest rate level, exchange rate etc. In addition, financial derivatives like interest rate swaps and currency futures are considered to be level 2 investments. Ferd's hedge fund portfolio is considered to meet the requirements of level 2. These funds comprise composite portfolios of shares, interest securities, raw materials and other negotiable derivatives. For such funds the value (NAV) is reported on a continuous basis, and the reported NAV is applied on transactions in the fund.

Level 3: All Ferd's other securities are valued on level 3. This concerns investments where all or parts of the information about value cannot be observed in the market. Ferd is also applying valuation models for investments where the share has little or no trading. Securities valued on the basis of quoted prices or reported value (NAV), but where significant adjustments are required, are assessed on level 3. For Ferd this concerns all private equity investments and funds

investments made in the second-hand market, where reported NAV has to be adjusted for discounts. A reconciliation of the movements of assets on level 3 is shown in a separate table.

Ferd allocates each investment to its respective level in the hierarchy at the acquisition. Transfers from one level to another are made only exceptionally and only if there have been changes of significance for the level classification concerning the financial asset. This can be the case when an unlisted share has been listed or correspondingly. A transfer between levels will then take place when the change has been known to Ferd.

The table shows at what level in the valuation hierarchy the different measurement methods for the Group's financial instruments at fair value is considered to be:

NOK 1 000	Level 1	Level 2	Level 3	Total 2015
Assets				
Investment property			2 235 900	2 235 900
Short-term receivables		61 075		61 075
Listed shares and bonds	7 283 017			7 283 017
Unlisted shares and bonds			3 071 613	3 071 613
Hedge funds		3 887 561	1 315 420	5 202 980
Investments in interest-bearing debt		94 484		94 484
Liabilities				
Other short-term debt		- 92 407	- 104 129	- 196 537
Total 2015	7 283 017	3 950 712	6 518 803	17 752 533

NOK 1 000	Level 1	Level 2	Level 3	Total 2014
Assets				
Investment property			2 386 449	2 386 449
Short-term receivables		11 565		11 565
Listed shares and bonds	6 622 553			6 622 553
Unlisted shares and bonds			3 086 854	3 086 854
Hedge funds		2 869 671	1 782 313	4 651 984
Liabilities				
Other long-term debt		- 52 281		- 52 281
Other short-term debt		- 73 670		- 73 670
Total 2014	6 622 553	2 755 285	7 255 616	16 633 454

Reconciliation of movements in assets on level 3

NOK 1 000	Op.bal.1 Jan. 2015	Purchases/share issues	Sales and proceeds from investments*	Unrealised gain and loss, recognised in comprehensive income	Unrealised gain and loss, recognised in the result	Gain and loss recognised in the result	Closing bal. on 31 Dec. 2015
Investment property	2 386 449	215 561	- 556 228		190 117		2 235 900
Unlisted shares and bonds	3 086 854	634 328	- 529 564		- 164 691	44 687	3 071 613
Hedge funds	1 782 313	199 069	- 730 396		- 442 772	507 206	1 315 420
Total	7 255 616	1 048 958	-1 816 188		- 417 346	551 893	6 622 933

NOK 1 000	Op.bal.1 Jan. 2014	Purchases/share issues	Sales and proceeds from investments*	Unrealised gain and loss, recognised in comprehensive income	Unrealised gain and loss, recognised in the result	Gain and loss recognised in the result	Closing bal. on 31 Dec. 2014
Investment property	1 828 917	390 609	- 2 435		169 358		2 386 449
Unlisted shares and bonds	5 446 096	553 599	-1 425 596		-1 383 158	- 104 087	3 086 854
Hedge funds	2 017 082	92 895	- 901 293		573 629		1 782 313
Total	9 292 095	1 037 103	-2 329 324		- 640 171	- 104 087	7 255 616

*Included in sales and disposals are MNOK 686 for Interwell AS, that in 2014 was reclassified from unlisted shares measured at fair value to subsidiary.

The table below gives an overview over the most central assumptions used when measuring the fair value of Ferd's investments, allocated to level 3 in the hierarchy. We also show how sensitive the value of the investments is for changes in the assumptions.

NOK 1 000	Balance sheet value at 31 Dec. 2015	Applied and implicit EBITDA multiples	Value, if multiple reduced by 10%	Value, if multiple increased by 10%	Applied discount rate	Value, if interest rate increased by 1 percentage point	Value, if interest rate reduced by 1 percentage point
Investment property 1)	2 235 900				7.0 % - 11.7 %	1 907 000	2 724 000
Unlisted shares and bonds sensitive for multiple 2)	868 777	9,2 - 15,7	610 777	1 126 777			
Other unlisted shares and bonds sensitive for multiple 2)	2 202 836						
NOK 1 000	Balance sheet value at 31 Dec 2015				Estimated discounts acc. to broker (interval)	Value if discount increased by 10 %	Value if discount reduced by 10 %
Hedge fund 3)	1 315 420				1 % - 83 %	1 215 775	1 415 064

1) Appr. 68% of Ferd Eiendom AS' portfolio constitutes rental property and development projects sensitive for changes in the discount interest rate.

2) Appr. 28 % of the value of unlisted shares and bonds are sensitive for a change in multiple. The other investments are valued on the basis of reported NAV whereby Ferd cannot calculate the sensitivity, even though multiples probably have been applied in determining NAV.

2) Appr. 80 % of the investments are sensitive for a change in discount.