

NOTE 5 FINANCIAL INSTRUMENTS AND THE USE OF FAIR VALUE

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

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 at 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

The value of subsidiaries is determined on the basis of the companies' recorded equity and adjusted for changes in value not recognised. Underlying investments are valued according to the same principles as investments directly owned by Ferd AS, as described below.

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 the peer group. 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.

Special Investments has acquired hedge funds in the second-hand market, often at a considerable discount compared to the reported value from the funds (NAV). In the measurement of these hedge funds, estimates from several external brokers are obtained to evaluate at which discount these hedge funds are traded, compared to the most recently reported NAV. Ferd makes an assessment of the broker estimates, makes a best estimate for discount and uses this estimate in the valuation of the hedge funds.

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.

	Financial instruments measured at amortised cost			TOTAL	Fair value
	Investments at fair value over profit and loss	Loans and receivables	Financial liability		
NOK 1 000					
Non-current assets					
Investments in					

subsidiaries	10 824 395		10 824 395	10 824 395
Other non-current receivables		841	841	841
Total 2014	10 824 395	841	10 825 236	10 825 236
Total 2013	11 403 639	42 663	11 446 302	11 446 302

Current assets

Short-term receivables on group companies		724 687	724 687	724 687
Other short-term receivables	34 964	765 884	800 849	800 849
Listed shares and bonds	6 622 552		6 622 552	6 622 552
Unlisted shares and bonds	2 215 184		2 215 184	2 215 184
Hedge funds	4 629 081		4 629 081	4 629 081
Bank deposits		371 542	371 542	371 542
Total 2014	13 501 782	1 862 113	15 363 895	15 363 895
Total 2013	12 539 232	499 598	13 038 830	13 038 830

Short-term debt

Short-term interest-bearing debt		500 000	500 000	500 000
Trade accounts payable		1 611	1 611	1 611
Public duties etc.		6 926	6 926	6 926
Debt to group companies		909 732	909 732	909 732
Other short-term debt	3 079	20 782	23 862	23 862
Total 2014	3 079	1 439 052	1 442 132	1 442 132
Total 2013		196 153	196 153	196 153

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 by Special Investments, where reported NAV has to be adjusted. 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 Ferd has become aware of the change.

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 2014
Investments in subsidiaries			10 824 395	10 824 395
Other short-term receivables		34 964		34 964
Listed shares and bonds	6 622 552			6 622 552
Unlisted shares and bonds			2 215 184	2 215 184
Hedge funds		2 869 671	1 759 410	4 629 081
Other short-term debt		- 3 079		- 3 079
Total 2014	6 622 552	2 901 556	14 798 989	24 323 097

NOK 1 000	Level 1	Level 2	Level 3	Total 2013
Investments in subsidiaries			11 403 639	11 403 639
Listed shares and bonds	5 241 213			5 241 213
Unlisted shares and bonds			2 922 904	2 922 904
Hedge funds		2 360 531	2 001 380	4 361 911
Interest-bearing investments		13 205		13 205
Total 2013	5 241 213	2 373 736	16 327 923	23 942 871

Reconciliation of movements in assets on level 3

NOK 1 000	Op.bal.1 Jan. 2014	Purchases/share issues	Sales and proceeds from investments	Transfers to and from level 3	Unrealised gain and loss, recognised in the result	Gain and loss recognised in the result	Closing bal. on 31 Dec. 2014
Investments in subsidiaries	11 403 639	1 325 568	- 150		-1 904 662		10 824 395
Unlisted shares and bonds	2 922 904	153 471	- 647 684		- 93 388	- 120 119	2 215 184
Hedge funds	2 001 380	91 680	- 901 293		567 643		1 759 410
Total	16 327 923	1 570 719	-1 549 127		-1 430 407	- 120 119	14 798 989

NOK 1 000	Op.bal.1 Jan. 2013	Purchases/share issues	Sales and proceeds from investments	Transfers to and from level 3	Unrealised gain and loss, recognised in the result	Gain and loss recognised in the result	Closing bal. on 31 Dec. 2013
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Investments in subsidiaries	8 610 741	450 360	- 130 697	2 473 235		11 403 639
Unlisted shares and bonds	5 619 273	221 876	-3 364 254	409 528	36 481	2 922 904
Hedge funds	1 461 746	503 209	- 631 165	386 655	280 935	2 001 380
Total	15 691 760	1 175 445	-4 126 116	3 269 418	317 416	16 327 923

Specification of applied indata and sensitivity analysis

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. 2014	Applied and implicit EBITDA multiples	Value, if the multiple is reduced by 10 %	Value, if the multiple is increased by 10 %	Applied discount rate	Value, if the interest is increased by 1 percentage point	Value, if the interest is reduced by 1 percentage point
Investment in Ferd Eiendom AS 1)	2 130 528				7,5% - 9,0%	1 797 528	2 574 428
Other investments in subsidiaries	8 693 867	7,4 - 10,7	7 387 867	9 999 867			
Unlisted private equity funds 2)	969 759	7,2 - 13,0	822 402	1 117 116			
Other unlisted shares and bonds 2)	1 245 425						
NOK 1 000	Balance sheet value at 31 Dec 2014				Estimated discounts acc. to broker (interval)	Value if discount increased by 10 %	Value if discount reduced by 10 %
Hedge funds 3)	1 759 410				11 % - 80 %	1 597 900	1 898 598

1) Appr. 52% of Ferd Eiendom AS' portfolio constitutes rental property and sensitive for changes in the discount interest rate.

2) Appr. 44 % of the value of unlisted shares and bonds are sensitive for a change in multiple. The other investments are valued on the basis på reported NAV whereby Ferd cannot calculate the sensitivity, even though multiples probably have been applied in determining NAV.

3) Appr. 72 % of the investments are sensitive for a change in discount. These investments were made only by the business area Special Investments.