

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).

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.

NOK 1 000	Investments at fair value over profit and loss	Investments at fair value over comprehensive other income	Financial instruments measured at amortised cost		Other valuation methods	TOTAL
			Loans and receivables	Financial liability		
Non-current assets						
Intangible assets	-	-	-	-	3 802 321	3 802 321
Deferred tax assets	-	-	-	-	251 594	251 594
Tangible assets	-	-	-	-	2 193 335	2 193 335
Investments accounted for by the equity method						
Tangible assets	-	-	-	-	551 317	551 317
Investment property	2 700 500	-	-	-	-	2 700 500
Pension funds	-	-	-	-	4 415	4 415
Other financial non-current assets	-	-	243 328	-	-	243 328
Total 2016	2 700 500	-	243 328	-	6 802 983	9 746 811
Total 2015	2 235 900	-	137 883	-	6 192 742	8 566 525
Current assets						
Inventories	-	-	-	-	3 219 085	3 219 085

Short-term receivables	31 051	29 103	2 491 344	-	-	2 551 499
Listed shares and bonds	7 411 217	-	-	-	-	7 411 217
Unlisted shares and bonds	3 978 545	-	-	-	-	3 978 545
Hedge funds	4 868 791	-	-	-	-	4 868 791
Investments in interest-bearing debt	-	-	-	-	-	-
Bank deposits	-	-	1 628 513	-	-	1 628 513
Total 2016	16 289 605	29 103	4 119 857	-	3 219 085	23 657 651
Total 2015	15 652 095	61 075	4 228 300	-	2 635 545	22 577 015

Non-current liabilities

Pension obligation	-	-	-	-	176 129	176 129
Deferred tax	-	-	-	-	938 759	938 759
Long-term interest-bearing debt	-	-	-	3 681 337	-	3 681 337
Other long-term debt	-	-	-	212 749	-	212 749
Total 2015	-	-	-	3 894 086	1 114 888	5 008 974
Total 2014	-	-	-	4 183 034	1 019 652	5 202 686

Current liabilities

Short-term interest-bearing debt	-	-	-	1 154 914	-	1 154 914
Tax payable	-	-	-	-	197 079	197 079
Other short-term debt	6 571	14 375	-	3 276 583	-	3 297 529
Total 2015	6 571	14 375	-	4 431 497	197 079	4 649 522
Total 2014	196 537	-	-	3 494 377	143 752	3 834 666

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 2016
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Assets

Investment property	-	-	2 700 500	2 700 500
Short-term receivables	-	60 155	-	60 155
Listed shares and bonds	7 411 217	-	-	7 411 217
Unlisted shares and bonds	-	-	3 978 545	3 978 545
Hedge funds	-	3 707 612	1 161 178	4 868 791
Investments in interest-bearing debt	-	-	-	-
Liabilities				
Other short-term debt	-	20 946	-	20 946
Total 2016	7 411 217	3 746 821	7 840 224	18 998 262

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	-	-	3 071 612	3 071 612
Hedge funds	-	3 887 561	1 315 420	5 202 981
Investments in interest-bearing debt	-	94 484	-	94 484
Liabilities				
Other short-term debt	-	92 407	104 129	196 536
Total 2015	7 283 017	3 950 713	6 518 803	17 752 534

Reconciliation of movements in assets on level 3

NOK 1 000	Op.bal.1 Jan. 2016	Purchases/share issues	Sales and proceeds from investments*	Reclassified to assets held for sale	Unrealised gain and loss, recognised in the result	Gain and loss recognised in the result	Closing bal. on 31 Dec. 2016
Investment property	2 235 900	1 070 695	-273 192	-917 500	584 597	-	2 700 500
Unlisted shares and bonds	3 071 613	1 352 888	-299 135	-	-173 167	26 346	3 978 545
Hedge funds	1 315 420	179 113	-384 131	-	-59 248	110 224	1 161 378
Total 2016	6 622 933	2 602 696	-956 458	-917 500	352 182	136 570	7 840 423

NOK 1 000	Op.bal.1 Jan. 2015	Purchases/share issues	Sales and proceeds from investments*	Reclassified to assets held for sale	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 2015	7 255 616	1 048 958	-1 816 188	-	-417 346	551 893	6 622 933

Overview of applied input 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. 2016	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⁾	2 700 500	-	-	-	7 % - 13 %	2 355 400	3 093 069
Unlisted shares and bonds sensitive for multiple ²⁾	1 014 000	10.6 - 13.0	745 000	1 284 000	-	-	-
Other unlisted shares and bonds sensitive for multiple ²⁾	2 964 545	-	-	-	-	-	-
NOK 1 000	Balance sheet value at 31 Dec 2016				Estimated discounts acc. to broker (interval)	Value if discount increased by 10 %	Value if discount reduced by 10 %
Hedge fund ³⁾	1 161 178				20 % - 88 %	1 096 907	1 222 271

1) Appr. 69 % of Ferd Eiendom AS' portfolio constitutes rental property and development projects sensitive for changes in the discount interest rate.

2) Appr. 25 % 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.

3) Appr. 50 % of the hedge funds on level 3 are sensitive for a change in discount.