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.

2016

NOK 1 000	**Interwell**	**Servi**	**Elopak Europa**	**Byggtorget and Nordek**	**Other**	**Total**
Cost at 1 January	1 212 016	388 289	579 464	-	20 916	2 200 685
Additions	-	1 600	-	426 832	-	428 432
Disposals	-	-	-	-	-	-
Exchange differences	-	-	-38 021	-	- 237	-38 258
Cost at 31 December	1 212 016	389 889	541 444	426 832	20 679	2 590 860
Accumulated impairment at 1 January	-	200 000	59 606	-	-	259 606
Write-downs	3 899	720	-	-	-	4 619
Disposals	-	-	-	-	-	-
Exchange differences	-	-	-3 062	-	- 119	-3 181
Accumulated impairment at 31 December	3 899	200 720	56 544	-	- 119	261 043
Carrying amount at 31 December	**1 208 117**	**189 169**	**484 899**	**426 832**	**20 798**	**2 329 816**

Changes in 2016

Mestergruppen purchased 100% of Byggtorget with accounting effect from 24 May 2016 and 100% of Nordek with accounting effect from 21 November 2016. In connection to that, goodwill of MNOK 56 for Byggtorget and MNOK 370 for Nordek, respectively, was recognised. Mestergruppen is expecting a considerable synergy potential from these acquisitions, and they have strengthened Mesterguppen’s position in the market by gaining access to additional competence and achieving a stronger brand related to the chain stores XL-Bygg, Blink-Hus and Byggtorget.

Nordek’s and Byggtorget’s impact on Ferd’s consolidated financial statements amounted to a total of MNOK 545 in income and MNOK 14 in EBITDA in 2016.

2015

NOK 1 000	**Interwell**	**Servi**	**Elopak Europa**	**Seco Invest (Tele-Computing)**	**Other**	**Total**
Cost at 1 January	1 212 016	386 289	541 404	612 607	20 905	2 773 221
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	1 212 016	388 289	579 464	-	20 916	2 200 685
Accumulated impairment at 1 January	-	-	55 971	-	-	55 971
Write-downs	-	200 000	-	-	-	200 000
Disposals	-	-	-	-	-	-
Exchange differences	-	-	3 635	-	-	3 635
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.

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, Interwell, Mestergruppen and Servi, in addition to some minor goodwill items.

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 485 at 31 December 2016. 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 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 2016 is MNOK 188 following an impairment of MNOK 200.

The acquisition of Interwell in 2014 resulted in 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 863 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.

In connection with the acquisitions in 2016, goodwill on two cash-generating units was recognised: MNOK 56 concerning Byggtorget and MNOK 370 concerning Nordek

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 all the cash-generating units, the calculated recoverable amounts in the impairment tests are positive, and based on these tests, the conclusions are that there is no impairment requiring write-downs in 2016. 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.

Detailed description of the assumptions applied:

	Discount rate after tax (WACC)		Growth rate 2-5 years		Long-term growth rate	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Elopak Europa	4.2 %	3.9 %	0.0 %	2.0 %	0.0 %	0.0 %
Servi	6.5 %	6.5 %	5.0 %	5.0 %	2.0 %	2.5 %
Interwell Norge	7.3 %	9.0 %	5.0 %	5.0 %	2.0 %	2.0 %
Interwell Technology	7.3 %	9.0 %	10.0 %	10.0 %	2.0 %	2.0 %
Byggtorget	5.4 %	0.0 %	2.5 %	0.0 %	2.0 %	0.0 %
Nordek	5.4 %	0.0 %	2.5 %	0.0 %	2.0 %	0.0 %

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.