

NOTE 11 FINANCIAL INSTRUMENTS AND THE USE OF FAIR VALUE

Ferd applies the following principles in the measurement of fair value in the financial statements:

Ferd applies the valuation method that is considered to be the most representative estimate of an assumed sales value. Such a sale is assumed to 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 by business area management, 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 through the application of the market method. The quoted price of the last transaction carried out at the stock exchange, is used.

Investments in unlisted shares managed in-house are normally valued on the basis of an earnings multiple. In calculating the value (Enterprise Value - EV), EV/EBITDA, EV/EBITA and EV/EBIT can be applied, adjusted by a liquidity discount reduction and the addition of a control premium. In companies where Ferd has significant influence on the decisions made, the liquidity discount and control premium normally counterbalance. The corrections are made directly on the multiple. The company's income figure applied in the valuation is normalised for non-recurring 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 often used as a basis for our valuation.

Several of the venture investments constitute companies with no positive cash flows. This implies a greater degree of uncertainty in the valuations of the companies. The assessments are based on international valuation principles (EVCA guidelines). The investment is measured at cost, but the pricing is adjusted for progress in accordance with a business plan or if a transaction has taken place.

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 fair value, based on the characteristics of the fund. In many instances, the reported NAV must be adjusted, at a liquidity discount, as an example. Special Investments purchase hedge funds in the secondary market, often with a considerable discount compared to the reported value from the funds (NAV). In measuring these hedge funds, estimates from external brokers are obtained in order to assess the discount used at the trading of these hedge funds, compared to the most recently reported NAV.

Rental properties are valued by discounting future expected cash flows. The value of properties that are 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. In the calculation, it is assumed that the property is utilised in the best possible way. Other properties are valued on the basis of independent appraisals.

The table below is an overview of carrying and fair value of the Company's financial instruments 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	Financial instruments measured at amortised cost		TOTAL	Fair value
	Financial instruments measured at fair value over profit and loss	Lending and receivables		
Non-current assets				
Investments in subsidiaries	11 403 639		11 403 639	11 403 639
Loans to group				

companies

Other non-current
receivables

42 663

42 663

42 663

Total 2013	11 403 639	42 663	11 446 302	11 446 302
Total 2012	8 610 741	743 007	9 353 748	9 353 748

Current assets

Short-term receivables on group
companies

66 907

66 907

66 907

Other short-term
receivables

157 821

157 821

157 821

Listed shares and
bonds

5 241 213

5 241 213

5 241 213

Unlisted shares and
bonds

2 922 904

2 922 904

2 922 904

Hedge
funds

4 361 911

4 361 911

4 361 911

Interest-bearing
investments

13 205

13 205

13 205

Bank
deposits

274 870

274 870

274 870

Total 2013	12 539 232	499 598	13 038 830	13 038 830
Total 2012	12 320 087	1 107 027	13 427 114	13 427 114

Long-term debt

Long-term interest-
bearing debt

Total 2013				
Total 2012		2 493 514	2 493 514	2 493 514

Short-term debt

Trade accounts payable

1 891

1 891

1 891

Public duties etc.

8 757

8 757

8 757

Debt to group
companies

83 064

83 064

83 064

Other short-term debt

20 648

20 648

20 648

Total 2013	114 360	114 360	114 360	114 360
Total 2012	299 136	299 136	299 136	299 136

Fair value hierarchy - financial assets and liabilities

Ferd classifies assets and liabilities measured at fair value by a hierarchy based on the underlying basis 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 owned by Ferd Invest and allocated to the Small Caps mandate 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. Some funds in Ferd's hedge fund portfolio are considered to meet the requirements of level 2. These funds comprise composite portfolios of shares, unit trust funds, interest securities, commodities 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. The valuation is based on valuation models where parts of the utilised information cannot be observed in the market. Securities valued on the basis of quoted prices or reported value (NAV), but where significant adjustments are required, are assessed on level 3. Shares with little or no trading, where an internal valuation is required to determine the fair value, are assessed on level 3. For Ferd this concerns all venture investments, private equity investments and funds 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 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 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	2 001 381	4 361 911
Interest-bearing investments		13 205		13 205
Total 2013	5 241 213	2 373 736	16 327 923	23 942 871

NOK 1 000	Level 1	Level 2	Level 3	Total 2012
Investments in subsidiaries			8 610 741	8 610 741
Listed shares and bonds	3 476 584			3 476 584
Unlisted shares and bonds		6 448	5 619 273	5 625 721
Hedge funds		1 600 948	1 461 746	3 062 694
Interest-bearing investments		155 088		155 088
Total 2012	3 476 584	1 762 484	15 691 760	20 930 828

Reconciliation of movements in assets on level 3

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
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	- 631 164		386 655	280 935	2 001 381
Total	15 691 760	1 175 445	-4 126 115		3 269 418	317 416	16 327 924

NOK 1 000	Op.bal.1 Jan. 2012	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. 2012
Investments in subsidiaries	6 483 565	469 949	- 5 100		1 662 327		8 610 741
Unlisted shares and bonds	4 603 667	186 454	- 390 765	- 6 448	1 363 961	- 137 596	5 619 273
Hedge funds	1 477 781	690 982	- 490 577	- 375 735	61 247	98 048	1 461 746
Total	12 565 013	1 347 385	- 886 442	- 382 183	3 087 535	- 39 548	15 691 760

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 2013	Applied and implicit EBITDA multiples	Value, if the multiple is reduced by 10 %	Applied discount rate	Value, if the interest is increased by 1 percentage point	Estimated discounts according to broker (interval)	Value if the discount is increased by 10 percentage points
Investment in Ferd Eiendom AS 1)	1 304 661			7,5% - 9,0%	1 142 661		
Other investments in subsidiaries	10 098 978	7,3 - 10	8 702 978				
Unlisted shares and bonds 2)	2 922 904	7,6 - 9,5	2 641 504				
Hedge funds 3)	2 001 381					12 % - 76 %	1 767 679

1) Appr. 35% of Ferd Eiendom AS' portfolio constitutes rental property sensitive for changes in the discount interest rate.

2) Appr. 63 % of the investments are sensitive for a change in multiple. The other investments are valued by other methods.

3) Appr. 92 % of the hedge funds are sensitive for a change in discount. The other investments are valued by other methods.