

Management has used estimates and assumptions in the preparation of the consolidated financial statements. This applies for assets, liabilities, expenses and disclosures. The underlying estimates and assumptions for valuations are based on historical experience and other factors considered to be relevant for the estimate on the balance sheet date. Estimates can differ from actual results. Changes in accounting estimates are recognised in the period they arise. The main balances where estimates have a significant impact on disclosed values are mentioned below. The methods for estimating fair value on financial assets are also described below.

In Ferd's opinion, the estimates of fair value reflect reasonable estimates and assumptions for all significant factors expected to be emphasised by the parties in an independent transaction, including those factors that have an impact on the expected cash flows, and by the degree of risk associated with them.

Determination of the fair value of financial assets

A large part of the Ferd Group's balance sheet comprises financial assets at fair value. The fair value assessment of financial assets will to varying degrees be influenced by estimates and assumptions related to factors like future cash flows, the required rate of return and interest rate level. The most significant uncertainty concerns the determination of fair value of the unlisted financial assets.

Listed shares and bonds

The fair value of financial assets traded in active and liquid markets is determined at noted market prices on the balance sheet date (the official closing price of the market). Accordingly, the determination of the value implies limited estimation uncertainty.

Unlisted shares and bonds

The class "Unlisted shares and bonds" comprises private shares and investments in private equity funds. The fair value is determined by applying well-known valuation models. The use of these models requires input of data that partly constitutes listed market prices (like interest) and partly estimates on the future development, as well as assessments of a number of factors existing on the balance sheet date.

Hedge funds

The hedge funds are managed by external parties providing Ferd with monthly, quarterly or half-yearly estimates of the fair value. The estimates are verified by independent administrators. In addition, the total return from the funds is assessed for reasonableness against benchmark indices. In addition, the reported value of the hedge funds managed in the SI (Special Investments) portfolio must normally be adjusted for an estimate on liquidity discount.

Interest investments

The fair value of interest investments is determined on the basis of quoted prices. If such prices are not available, the investment is valued in accordance with price models based on the current yield curve and external credit ratings.

Derivatives

The fair value of derivatives is based on quoted market prices. If such prices are not available, the investment is valued in accordance with price models based on the current yield curve and other relevant factors.

Determination of the fair value of investment properties

The Ferd Group has several investment properties recognised at fair value. The fair value is based on the discounted value of future cash flows, and the estimate will be impacted by estimated future cash flows and the required rate of return. The main principles for deciding the cash flows and required rates of return are described below.

Future cash flows are based on the following factors:

1. Existing contracts
2. Expected future rentals
3. Expected vacancies

The required rate of return is based on a risk-free interest with the addition of a risk premium for the property.

The risk premium is based on:

1. Location
2. Standard
3. Expected market development
4. Rent level compared to the rest of the market
5. The tenant's financial strength
6. Property specific knowledge

In the event that transactions concerning comparable properties close to the balance sheet date have taken place, these values are applied as a cross-reference for the valuation.

Business premises not hired out and properties included in development projects are normally valued by independent appraisals.

Impairment considerations of goodwill

Goodwill is tested annually for impairment by discounting expected future cash flows of the cash-generating unit to which goodwill is allocated. If the discounted value of future cash flows is lower than the carrying value, goodwill is written down to the recoverable amount. The impairment tests are based on assumptions of future expected cash flows and estimates of the discount interest rate.

Note 8 has details on the impairment considerations for goodwill.

Depreciation and impairment of tangible and intangible assets

Tangible and intangible assets with definite lives are recognised at cost. The acquisition cost less the residual value is depreciated over the expected useful economic life. The carrying values will depend on the the Group's estimates on useful lives and residual values. These assumptions are estimated on the basis of experience, history and judgemental considerations. The estimates are adjusted if the expectations change.

Testing for impairment is undertaken when indicators of a permanent decline in value of tangible or intangible assets are identified. These tests are based on estimates and assumptions on future cash flows and discount interest rate.

Pension funds and obligations

The calculation of pension obligations implies the use of judgement and estimates on a number of financial and demographical assumptions. Note 17 has details on the assumptions used. Changes in assumptions can result in significant changes in pension obligations and funds in the balance sheet.

Deferred tax assets

Deferred tax assets of tax losses to carry forward and other tax-reducing differences are recognised in the balance sheet to the extent that it is probable that the deferred tax assets can be utilised against future taxable income. Management is required to use significant judgement to determine the size of the deferred tax assets recognised in the balance sheet. The assessment shall take into account expectations of future taxable income, the points in time for utilising the deferred tax asset and future tax planning strategies.

Provision for losses on receivables

The provision for losses on receivables is estimated on the risk for not recovering the outstanding amounts due. The assessment is based on historical experience, the aging of the receivable and the counterparty's financial situation.