

**NOTE 20 THE USE OF FAIR VALUE AND FINANCIAL INSTRUMENTS**

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.

**Financial instruments measured at amortised cost**

NOK 1 000	Investments at fair value over profit and loss	Investments at fair value over extended result	Loans and receivables	Financial liability	Other valuation methods	TOTAL
<b>Non-current assets</b>						
Intangible assets					2 276 314	2 276 314
Deferred tax assets					150 634	150 634
Tangible assets					1 915 068	1 915 068
Investments at the equity method					647 167	647 167
Investment property	1 828 917					1 828 917
Pension funds					9 805	9 805
Other financial non-current assets			58 270		104 521	162 791
<b>Total 2013</b>	<b>1 828 917</b>		<b>58 270</b>		<b>5 103 509</b>	<b>6 990 696</b>
<b>Total 2012</b>	<b>1 981 853</b>		<b>233 660</b>		<b>3 960 485</b>	<b>6 175 998</b>

<b>Current assets</b>						
Inventories					2 063 998	2 063 998
Short-term receivables	16 704	11 710	1 895 213			1 923 627
Listed shares and bonds	5 241 213					5 241 213
Unlisted shares and bonds	5 446 096					5 446 096
Hedge funds	4 377 613					4 377 613
Interest investments						
Bank deposits			1 332 095			1 332 095
<b>Total 2013</b>	<b>15 081 626</b>	<b>11 710</b>	<b>3 227 308</b>		<b>2 063 998</b>	<b>20 384 642</b>
<b>Total 2012</b>	<b>15 439 785</b>	<b>15 434</b>	<b>3 295 573</b>		<b>1 609 254</b>	<b>20 360 046</b>

<b>Non-current liabilities</b>						
Pension obligation					146 973	146 973
Deferred tax					379 720	379 720
Long-term interest-bearing debt				3 516 977	- 8 373	3 508 604
Other long-term debt		42 239		251 554	7 411	301 204
<b>Total 2013</b>		<b>42 239</b>		<b>3 768 531</b>	<b>525 731</b>	<b>4 336 501</b>
<b>Total 2012</b>		<b>30 612</b>		<b>5 633 412</b>	<b>592 434</b>	<b>6 256 458</b>

<b>Current liabilities</b>						
Short-term interest-bearing debt				525 844		525 844
Tax payable					167 049	167 049
Other short-term debt		49 842		2 066 133	348 590	2 464 565
<b>Total 2013</b>		<b>49 842</b>		<b>2 591 977</b>	<b>515 639</b>	<b>3 157 458</b>
<b>Total 2012</b>		<b>45 917</b>		<b>2 218 133</b>	<b>230 688</b>	<b>2 494 738</b>

**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
<b>Assets</b>				
Investment property			1 828 917	1 828 917
Short-term receivables		16 704	11 710	28 414
Listed shares and bonds	5 241 213			5 241 213
Unlisted shares and bonds			5 446 096	5 446 096
Hedge funds		2 360 531	2 017 082	4 377 613
<b>Liabilities</b>				
Other long-term debt			- 42 239	- 42 239
Other short-term debt			- 49 842	- 49 842
<b>Total 2013</b>	<b>5 241 213</b>	<b>2 377 235</b>	<b>9 211 724</b>	<b>16 830 172</b>

NOK 1 000	Level 1	Level 2	Level 3	Total 2013
<b>Assets</b>				
Investment property			1 981 853	1 981 853
Short-term receivables			15 434	15 434
Listed shares and bonds	3 476 584			3 476 584
Unlisted shares and bonds		6 448	8 744 368	8 750 816
Hedge funds		1 600 948	1 477 773	3 078 721
Interest investments		133 664		133 664
<b>Liabilities</b>				
Other long-term debt			- 30 612	- 30 612
Other short-term debt			- 45 917	- 45 917
<b>Total 2012</b>	<b>3 476 584</b>	<b>1 741 060</b>	<b>12 142 899</b>	<b>17 360 543</b>

#### Reconciliation of movements in assets on level 3

NOK 1 000	Op.bal.1 Jan. 2013	Purchases/ share issues	Sales and proceeds from investments	Unrealised gain and loss, recognised in comprehensive income	Unrealised gain and loss, recognised in the result	Gain and loss recognised in the result	Closing bal. on 31 Dec. 2013
Investment property	1 981 853	641 408	- 814 807		- 11 141	31 604	1 828 917
Short-term receivables	15 434			- 514	- 5 155	1 945	11 710
Unlisted shares and bonds	8 744 368	235 239	-3 418 186		- 151 806	36 481	5 446 096
Hedge funds	1 477 773	503 208	- 643 837		388 679	291 259	2 017 082
Liabilities	- 76 529			- 1 470	- 13 001	- 1 081	- 92 081
<b>Total</b>	<b>12 142 899</b>	<b>1 379 855</b>	<b>-4 876 830</b>	<b>- 1 984</b>	<b>207 576</b>	<b>360 208</b>	<b>9 211 724</b>

NOK 1 000	Op.bal.1 Jan. 2012	Purchases/ share issues	Sales and proceeds from investments	Unrealised gain and loss, recognised in comprehensive income	Unrealised gain and loss, recognised in the result	Gain and loss recognised in the result	Closing bal. on 31 Dec. 2012
Investment property	1 514 927	130 554	- 6 963		343 335		1 981 853
Short-term receivables	18 300			- 2 104		- 762	15 434
Unlisted shares and bonds	6 696 942	186 454	- 410 758		2 383 646	- 111 916	8 744 368
Hedge funds	1 118 074	690 982	- 490 577		61 246	98 048	1 477 773
Liabilities	- 83 245			6 253		463	- 76 529
<b>Total</b>	<b>9 264 998</b>	<b>1 007 990</b>	<b>- 908 298</b>	<b>4 149</b>	<b>2 788 227</b>	<b>- 14 167</b>	<b>12 142 899</b>

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 discounts according to broker (interval)	Estimated discount is increased by 10 percentage points
Investment property 1)	1 828 917			7,5% - 9,0%	1 666 917	
Unlisted shares and bonds 2)	5 446 096	7,6 - 9,5	4 702 696			
Hedge funds 3)	2 017 082					12 % - 76 %
						1 783 380

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.