

## **NOTE 2 ACCOUNTING ESTIMATES AND JUDGMENTAL CONSIDERATIONS**

Management has used estimates and assumptions in the preparation of the financial statements. This applies for assets, liabilities, income, 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.

### **Determination of the fair value of financial assets**

The balance sheet of the Ferd includes a large part of financial assets at fair value. The fair value assessment of financial assets will at 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

Fair value on financial assets with standard terms traded in active and liquid markets are determined at noted market prices on the balance sheet date (the official closing price of the market).

#### Unlisted shares and investments in other equity instruments

The class "Unlisted shares and bonds" comprises private shares and investments in private equity funds. Fair value is determined by applying well-known valuation models. The input to the valuation models is related to future estimates and assessments of a number of factors existing on the balance sheet date.

Ferd is of the opinion that estimates of fair value reflect estimates and assumptions that the parties in an independent transaction are expected to consider relevant, including the factors impacting expected cash flows and the degree of risk associated with them.

#### 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.

#### Investments in debt instruments

The fair value of interest-bearing 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 subsidiaries with properties**

Ferd has subsidiaries with significant 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.

### **Determination of fair value of other subsidiaries**

Ferd has subsidiaries with investments of the same character as Ferd AS. The fair value of these subsidiaries are set to the carrying value of equity, adjusted for non-recognised unrealised gain on the underlying investments. The underlying investments are value according to the same principles and methods as Ferd AS' direct investments.

**Pension funds and obligations**

The calculation of pension obligations implies the use of judgements and estimates on a number of financial and demographical assumptions. [Note 15](#) has details on the assumptions used. Changes in assumptions can result in significant changes in pension obligations and funds in the balance sheet.