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Convertible bonds - accounting changes from revised interpretation of "IAS 39 value changes derivatives"

In March 2004, Bonheur invested a nominal amount of 149,8 million in a 4.5% convertible bond issued by its associate company Fred.Olsen Energy ASA (FOE). The bonds can be converted at a price of NOK 68 per share and mature in March 2009. The market value of Bonheur's investment in the convertible bonds issued by FOE per 3rd quarter 2005 was 456 million (based on the FOE share price of 207.-). At year-end 2005 the market value of the bonds were 535 million (FOE share at 243.-).

As a consequence of a revised IAS 39 interpretation, previously reported financial income and tax costs related to this investment will be reversed. In addition, an adjustment will be made to reflect that Bonheur consolidates Ganger Rolf (which has a parallel investment in FOE's convertible bonds) as an associated company with its share of 49.5% of the net result after tax.

The company emphasises that the accounting changes described below are only related to IFRS interpretation, and **there are no changes in the underlying economic value of this investment compared to what has previously been reported.**

The net accounting changes which will be implemented in the already reported financial statements for 2004 and for the 1st, 2nd and 3rd quarter 2005 are estimated to be:

NOK million	**2004**	**1Q05**	**2Q05**	**3Q05**	**Accumulated effect 2005**
Net effect on result after tax	**(33)**	**(66)**	**(110)**	**(93)**	**(269)**
Hereof crossowner effect	(11)	(22)	(36)	(31)	(89)
Accumulated changes in equity					**(315)**

Bonheur has in the past, with the support of external IFRS advisors, accounted for this investment partly as a receivable (the coupon element of the bond) and partly as an embedded derivative (the conversion element). Both of these elements have been accounted for in accordance with IAS 39. For the coupon element this has been accounted as an "Available-for-sale financial asset " and hence value changes recorded directly against equity. The conversion option has been recorded as "IAS 39 value changes derivatives" and hence any changes in the market value of the conversion option have been recorded as a financial item in the company's quarterly Profit and Loss accounts. The estimated tax effects of these value changes have been reported as tax income/cost.

Following a revised interpretation of IAS 39, it appears that the correct accounting of this investment should be to record the conversion option as an *investment in an associate company* (and not as an IAS 39 derivative). The main reasoning behind this is that the convertible bonds in question are issued by an associate company of Bonheur. The accounting treatment of the interest element of the bond (coupon) will continue to be recorded as an IAS 39 item, but only with a minor P&L-element.

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