

## 9. CONSOLIDATED FINANCIAL STATEMENTS

### OA O TMK

#### Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

#### 30) Financial Risk Management Objectives and Policies (continued)

##### Fair Value of Financial Instruments Carried at Fair Value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following financial instruments recorded at fair value:

	2014	2013
Embedded Conversion Option	–	(2,080)
<b>Total current derivative financial instruments</b>	<b>–</b>	<b>(2,080)</b>
Interest rate swaps	(2,076)	(3,501)
<b>Total non-current derivative financial instruments</b>	<b>(2,076)</b>	<b>(3,501)</b>

Financial instruments at fair value were measured by the Group using valuation techniques based on observable market data (Level 2 fair value measurement hierarchy).

The Group's derivative financial instruments comprised of interest rate swaps and currency forwards. The use of derivatives was governed by the Group's policies consistent with the overall risk management strategy of the Group. The derivatives were designated as hedging instruments in cash flow hedges. The valuation techniques applied to derivatives included forward pricing and swap models, using present value calculations. The models incorporated various inputs including the credit quality of counterparties, foreign exchange forward rates and interest rate curves.

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurement hierarchy, and no transfers into and out of Level 3 fair value measurement hierarchy.

##### Fair Value of Financial Instruments not Carried at Fair Value

For financial assets and financial liabilities that are liquid or having a short-term maturity (cash and cash equivalents, short-term accounts receivable, short-term loans) the carrying amounts approximate their fair value.

### OA O TMK

#### Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

#### 30) Financial Risk Management Objectives and Policies (continued)

##### Fair Value of Financial Instruments not Carried at Fair Value (continued)

The following table shows financial instruments which carrying values differ from fair values:

	2014		2013	
	Par value	Fair value	Par value	Fair value
<b>Financial liabilities</b>				
Fixed rate long-term bank loans	1,161,283	1,089,008	1,489,452	1,489,888
Variable rate long-term bank loans	408,379	405,099	497,756	480,429
5.25 per cent convertible bonds	311,000	289,043	412,500	415,993
6.75 per cent loan participation notes due 2020	500,000	291,665	500,000	506,755
7.75 per cent loan participation notes due 2018	500,000	320,000	500,000	523,315

For quoted debt instruments (bonds and loan participation notes) the fair values were determined based on quoted market prices. The fair values of unquoted debt instruments were estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

#### 31) Subsequent events

##### Acquisition of ChermetServis-Snabzhenie

On February 9, 2015, the Group acquired 100% ownership interest in ChermetServis-Snabzhenie specialising on scrap supply to steel plants, which includes not only collection, processing and distribution of ferrous scrap, but also comprehensive procurement services.

##### Convertible Bonds

The Group fully redeemed its convertible bonds due 2015.