Holcim (Azerbaijan)
Open Joint Stock Company

Financial Statements

Year ended 31 December 2014
with Independent Auditors' Report

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Open Joint Stock Company

Financial Statements

Year ended 31 December 2014

Contents

Holcim (Azerbaijan)
Open Joint Stock Company

General Information

Registered office and principal place of business

Holcim (Azerbaijan) Open Joint Stock Company
Sahil district, Salyan highway,
AZ-1083, Baku, Azerbaijan

Auditors

Ernst & Young Holdings (CIS) B.V.
Branch in the Republic of Azerbaijan
Port Baku Towers Business Centre,
South Tower, 9th floor,
153 Neftchilar avenue,
AZ-1010, Baku, Azerbaijan

Tax advisors

Ernst & Young Holdings (CIS) B.V.
Branch in the Republic of Azerbaijan

PricewaterhouseCoopers Audit Azerbaijan LLC
The Landmark Office Plaza III, 12th floor,
90A Nizami street,
AZ-1010, Baku, Azerbaijan

Legal advisors

Baker and McKenzie CIS Ltd,
Azerbaijan branch,
96 Nizami street,
The Landmark Building
AZ-1010, Baku, Azerbaijan

Main bankers

International Bank of Azerbaijan OJSC
67 Nizami street,
AZ-1005, Baku, Azerbaijan

Bank Standard CJSC
4 Azerbaijan avenue,
AZ-1005, Baku, Azerbaijan

Yapi Kredi Bank Azerbaijan CJSC
32/12 Jafar Jabbarli street,
AZ-1065, Baku, Azerbaijan

PASHA Bank OJSC
15 Y. Mammadaliyev street,
AZ-1005, Baku, Azerbaijan

Expressbank OJSC
21 Ajami Nakhchivani street,
AZ-1130, Baku, Azerbaijan

Building a better working world

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Independent auditors' report to the Supervisory Board of Holcim (Azerbaijan) Open Joint Stock Company

We have audited the accompanying financial statements of Holcim (Azerbaijan) Open Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

19 February 2015

Holcim (Azerbaijan) OJSC

Statement of Financial Position

(Amounts presented are in Azerbaijani Manats)

	Notes	31 December 2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	**349,465,222**	359,917,304
Intangible assets	4	**4,500,000**	4,500,000
Non-current prepayments	6	**1,569,373**	1,613,109
Non-current inventory	7	**4,760,165**	4,891,391
Total non-current assets		**360,294,760**	370,921,804
Current assets			
Inventories, net	7	**14,193,479**	10,796,429
Trade and other receivables, net	8	**14,338,699**	6,066,855
Taxes receivable	9	**410,241**	820,377
Prepayments and advances	6	**1,059,022**	1,529,874
Receivable from related parties	17	**5,467**	155,134
Cash and cash equivalents	10	**4,600,060**	4,550,630
Total current assets		**34,606,968**	23,919,299
TOTAL ASSETS		**394,901,728**	394,841,103
EQUITY AND LIABILITIES			
Equity			
Authorized capital	11	**31,812,880**	31,812,880
Additional paid-in capital	11	**3,301,937**	3,301,937
Retained earnings		**232,057,670**	243,911,735
Total equity		**267,172,487**	279,026,552
Non-current liabilities			
Loans due to related party	12,17	**69,438,975**	41,776,115
Accrued liabilities		**613,370**	865,681
Provisions	13	**4,847,117**	4,971,317
Deferred income tax liability	5	**17,654,455**	14,379,106
Total non-current liabilities		**92,553,917**	61,992,219
Current liabilities			
Trade payables	14	**2,215,146**	4,559,268
Other short-term loans payable	12	**559,281**	100,000
Loans due to related party	12, 17	**15,286,376**	17,621,238
Accrued liabilities due to related parties	17	**2,313,830**	3,927,463
Accrued liabilities	15	**10,514,825**	14,253,395
Payroll and related taxes		–	54,198
Dividends payable		**103,006**	17,782
Income tax payable		**1,280,349**	5,546,336
Advances received from customers		**1,001,917**	1,259,027
Provisions	13	**1,900,594**	6,483,625
Total current liabilities		**35,175,324**	53,822,332
TOTAL EQUITY AND LIABILITIES		**394,901,728**	394,841,103

Signed and authorized for release on behalf of Management on 19 February 2015:

Rossen Papazov, General Director

Oliver Wilke, Chief Financial Officer

Dilbar Sultanova, Chief Accountant

The accompanying notes form an integral part of these financial statements.

Holcim (Azerbaijan) OJSC

Statement of Profit or Loss and Other Comprehensive Income

(Amounts presented are in Azerbaijani Manats)

	Notes	Year ended 31 December 2014	2013
Sale of goods		**134,061,584**	176,500,152
Cost of sales	20	**(56,004,420)**	(69,033,715)
Gross profit		**78,057,164**	107,466,437
Distribution expenses	21	**(13,325,531)**	(16,542,252)
General and administrative expenses	22	**(12,696,329)**	(14,741,274)
(Loss)/gain on disposal of property, plant and equipment		**(112,561)**	72,198
Selling expenses		**(1,912,121)**	(1,843,338)
Foreign exchange gain/(loss)		**5,330,742**	(2,728,308)
Operating profit		**55,341,364**	71,683,463
Finance income		**-**	91,806
Finance cost	23	**(4,779,697)**	(6,647,619)
Profit before tax		**50,561,667**	65,127,650
Income tax expense	5	**(10,847,054)**	(13,539,582)
Profit for the year		**39,714,613**	51,588,068
Other comprehensive income		**-**	-
Total comprehensive income		**39,714,613**	51,588,068

The accompanying notes form an integral part of these financial statements.

Holcim (Azerbaijan) OJSC

Statement of Cash Flows

(Amounts presented are in Azerbaijani Manats)

	Notes	Year ended 31 December 2014	2013
Operating activities			
Profit before tax		**50,561,667**	65,127,650
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation	3	**16,955,094**	16,863,680
Finance cost	23	**4,577,428**	6,198,373
Loss/(gain) on disposal of property, plant and equipment		**112,561**	(72,198)
Foreign exchange (gain)/loss		**(5,330,742)**	2,728,308
Provision for slow moving items	7	**200,000**	74,130
Provision for bad debts	8	**154,088**	467,699
Bonuses provision	13	**1,600,594**	2,591,381
Movement in injures provision	13	**(419,040)**	872,106
Other tax charges	13	**–**	346,380
Finance income		**–**	(91,806)
Operating profit before working capital changes		**68,411,650**	95,105,703
Changes in operating assets and liabilities:			
Inventories		**(3,422,088)**	(1,710,156)
Trade and other receivables		**(8,425,932)**	(5,501,924)
Prepayments and advances		**470,852**	(719,556)
Receivable from related parties		**149,667**	18,321
Taxes receivable		**410,136**	34,670
Trade and other payables		**(2,343,860)**	2,294,749
Payroll and related taxes		**(54,198)**	31,092
Accrued liabilities		**(4,350,058)**	(792,299)
Accrued liabilities due to related parties		**(1,703,799)**	2,125,072
Advances received from customers		**(257,110)**	(803,022)
Provisions		**(6,373,489)**	(3,425,690)
Cash generated from operations		**42,511,771**	86,656,960
Income taxes paid		**(12,007,632)**	(4,704,359)
Interest paid		**(7,544,857)**	(4,111,958)
Interest received		**–**	91,806
Net cash flows provided by operating activities		**22,959,282**	77,932,449
Cash flows from investing activities			
Purchase of property, plant and equipment		**(6,149,640)**	(16,076,902)
Proceeds from sale of property, plant and equipment		**25,000**	98,500
Net cash flows used in investing activities		**(6,124,640)**	(15,978,402)
Cash flows from financing activities			
Dividends paid to shareholders		**(51,483,454)**	–
Repayments of interest-bearing loans		**(16,450,549)**	(83,002,061)
Proceeds from interest-bearing loans		**51,148,791**	–
Net cash flows used in financing activities		**(16,785,212)**	(83,002,061)
Net increase/(decrease) in cash and cash equivalents		**49,430**	(21,048,014)
Cash and cash equivalents at beginning of year	10	**4,550,630**	25,598,644
Cash and cash equivalents at end of year	10	**4,600,060**	4,550,630

The accompanying notes form an integral part of these financial statements.

Holcim (Azerbaijan) OJSC

Statement of Changes in Equity

(Amounts presented are in Azerbaijani Manats)

	Authorized capital	Additional paid-in capital	Retained earnings	Total
Balance as at 31 December 2012	31,812,880	3,301,937	192,323,667	227,438,484
Profit for the year	–	–	51,588,068	51,588,068
Balance as at 31 December 2013	31,812,880	3,301,937	243,911,735	279,026,552
Profit for the year	**–**	**–**	**39,714,613**	**39,714,613**
Dividends on ordinary shares	**–**	**–**	**(51,568,678)**	**(51,568,678)**
Balance as at 31 December 2014	**31,812,880**	**3,301,937**	**232,057,670**	**267,172,487**

The accompanying notes form an integral part of these financial statements.

1. Corporate Information

Holcim (Azerbaijan) Open Joint Stock Company ("Holcim (Azerbaijan) OJSC" or the "Company"), former Garadagh Cement Open Joint Stock Company, was formed under the laws of the Republic of Azerbaijan on 7 September 1999 as a result of an investment tender held by the State Property Committee of the Republic of Azerbaijan.

The primary shareholder and ultimate parent of the Company is Holcim Ltd., ("Holcim"), formerly Holderbank, which acquired its 86% interest in accordance with the Sale and Purchase Agreement ("Sale and Purchase Agreement") for shares in Open Joint Stock Company "Garadagh Cement" sold at the Investment Tender. The Sale and Purchase Agreement was signed between the State Property Committee of the Republic of Azerbaijan and Holderbank on 7 September 1999.

In accordance with Sale and Purchase Agreement signed on 21 December 2006, Holcim sold 10% of the Company's shares to European Bank for Reconstruction and Development ("EBRD"). Further, on 14 February 2008, Holcim sold 10% of the Company's shares to Azerbaijan Investment Company ("AIC").

As at 31 December 2014 and 31 December 2013 Holcim owned 66% of outstanding shares of the Company. The remaining shares belong to individuals (mainly employees of the Company) and legal entities, including Holcim Auslandbeteiligungs GmbH ("HAB"), a subsidiary of Holcim, as detailed in Note 11.

On 20 April 2012 based on resolution of the shareholders the legal name of the Company changed from Garadagh Cement Open Joint Stock Company to Holcim (Azerbaijan) OJSC.

The Company's principal activity is to manufacture and sell cement and clinker. Its registered office address and location of operations is Salyan Highway, Sahil Settlement, Baku, the Republic of Azerbaijan.

2. Significant Accounting Policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared under the historical cost convention unless described otherwise in the accounting policy below. The financial statements are presented in Azerbaijani Manat ("AZN").

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new amendments to the standards adopted by the Company on 1 January 2014:

- *Investment Entities* – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*;
- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation*;
- *Recoverable Amount Disclosures for Non-financial Assets* – Amendments to IAS 36 *Impairment of Assets*;
- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*;
- IFRIC 21 *Levies*;
- *Improvements to IFRSs – 2010-2012 Cycle:* Amendments to IFRS 13 – *Short-term receivables and payables*;
- *Improvements to IFRSs – 2011-2013 Cycle:* Amendments to IFRS 1 – *Meaning of 'effective IFRSs'*.

2. Significant Accounting Policies (continued)

Changes in accounting policies (continued)

All of these standards and amendments did not have any impact on the accounting policies, financial position or performance of the Company.

New standards and amendments issued, but not yet effective

Standards issued, but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards, if applicable when they become effective.

- *IFRS 9 Financial Instruments*

  In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Company will quantify the effect of adoption of IFRS 9 on the Company's financial statements.

- *IFRS 14 Regulatory Deferral Accounts*

  IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company is an existing IFRS preparer, this standard would not apply.

- *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

  IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Company, since the Company has not defined benefit plans with contributions from employees or third parties.

- *IFRS 15 Revenue from Contracts with Customers*

  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

2. Significant Accounting Policies (continued)

New standards and amendments issued, but not yet effective (continued)

- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

  The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*

  The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

  The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

- *Amendments to IAS 27: Equity Method in Separate Financial Statements*

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

2. Significant Accounting Policies (continued)

New standards and amendments issued, but not yet effective (continued)

- *Annual improvements 2010-2012 Cycle*

  These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

  - IFRS 2 *Share-based Payment* – This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
    - A performance condition must contain a service condition;
    - A performance target must be met while the counterparty is rendering service;
    - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
    - A performance condition may be a market or non-market condition;
    - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
  - IFRS 3 *Business Combinations* – The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable);
  - IFRS 8 *Operating Segments* – The amendments are applied retrospectively and clarifies that:
    - An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
    - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
  - IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset;
  - IAS 24 *Related Party Disclosures* – The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- *Annual improvements 2011-2013 Cycle*

  These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

  - IFRS 3 *Business Combinations* – The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
    - Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
    - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
  - IFRS 13 *Fair Value Measurement* – The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

2. Significant Accounting Policies (continued)

New standards and amendments issued, but not yet effective (continued)

Annual improvements 2011-2013 Cycle (continued)

- IAS 40 *Investment Property* – The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying notes to the financial statements. On an on-going basis, Management evaluates their estimates, including those related to contingencies. Management bases their estimates on various market specific assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making assumptions about the carrying values of assets that are not readily apparent from other sources. Actual results may differ significantly from these estimates under different assumptions or conditions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

<u>Trade accounts receivable</u>

Trade accounts receivable are stated net of an allowance for accounts identified as doubtful. The Company provides an allowance for doubtful accounts based on Management's review of trade accounts receivable and an assessment of the likelihood of delinquency of these account balances.

<u>Obsolete and slow-moving inventory</u>

The Company reviews and if required reduces the carrying value of inventory for the amount of obsolete and slow-moving items at each statement of financial position date. Such amount is estimated based on the value of obsolete inventory and percentage thresholds applied to slow-moving inventory depending on the frequency of use.

<u>Useful life of property, plant and equipment</u>

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

<u>Long-term provisions</u>

In assessment of the fair value of the provision for injury payments to employees, Management uses life expectancy of disabled employees based on the data from the State Statistical Committee of the Republic of Azerbaijan and escalates salary levels considering the forecasted inflation in the future and the timing of future payments.

In assessment of the present value of the provision for site restoration and provision for injury payments to employees Management uses the risk free rate, which is calculated as the Swiss risk free rate plus the difference between long-term inflation rates in the Republic of Azerbaijan and Switzerland.

2. Significant Accounting Policies (continued)

Significant accounting judgments, estimates and assumptions (continued)

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Foreign currency translation

According to IAS 21 *The Effects of Changes in Foreign Exchange Rates* and its interpretations, the Company's functional currency, which reflects the economic substance of the underlying events and circumstances of the Company, is AZN as the majority of the Company's revenues, costs, inventory purchased, and trade liabilities are either priced, incurred, payable or otherwise measured in AZN.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date.

All differences are taken to the statement of profit or loss and other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

AZN is not a fully convertible currency outside the territory of the Republic of Azerbaijan. Within the Republic of Azerbaijan, official exchange rates are determined daily by the Central Bank of the Republic of Azerbaijan ("Central Bank"). Market rates may differ from the official rates, but the differences are, generally, within narrow parameters monitored by the Central Bank. As at 31 December 2014 and 2013, the official rates of exchange were AZN 0.9522 = EURO 1 and AZN 1.0780 = EURO 1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction. At 19 February 2015 the exchange rate was AZN 0.8968 = EURO 1.

State Social Protection Fund

In accordance with the Law on Social Insurance of the Republic of Azerbaijan, as amended, the Company is obligated to contribute to the State Social Protection Fund on behalf of its employees. The Company's contributions represented 22% of employees' salaries as reflected in the tax records both in 2014 and 2013.

Value added tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

2. Significant Accounting Policies (continued)

Value added tax (continued)

VAT payable represents VAT related to sales net of VAT on purchases which have been settled at the reporting date. VAT related to sales is payable to tax authorities either upon receipt of payment, if payment is received prior to or within 30 days from the date of sale, or at recognition of sales to customers, if payment is received after 30 days from the date of sale. VAT related to sales which have not been settled at the statement of financial position date (VAT deferral) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT recoverable relates to purchases which have not been settled at the statement of financial position date. VAT recoverable can be offset against sales VAT payable upon payment of the purchases.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually at the moment of the product shipment from the plant.

Interest income

For all financial instruments measured at amortized cost interest income is recorded using the effective interest rate. Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss and other comprehensive income.

Fair value measurement

Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset from inception to the date of these financial statements.t or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

2. Significant Accounting Policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment loss. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense are not presented separately and are included in the carrying values of related statement of consolidated financial position items.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, or as derivatives.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

2. Significant Accounting Policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the statement of profit or loss and other comprehensive income in finance cost for loans and in cost of sales or other operating expenses for receivables.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

2. Significant Accounting Policies (continued)

Financial assets (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss and other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings and accrued liabilities.

The Company has not designated any financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in finance cost in the statement of profit or loss and other comprehensive income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

Refer to Note 18 for further details on financial assets and liabilities.

2. Significant Accounting Policies (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Property, plant and equipment

Property, plant and equipment is stated at initial cost, net of accumulated depreciation and/or impairment losses, if any. Such costs include the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of profit or loss and other comprehensive income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and installations	20-40 years
Machinery and equipment	10-30 years
Vehicles, furniture and tools	3-10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units ("CGU") are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less cost of sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognized.

Mineral reserves represent site restoration provision valued at cost and depreciated based on the physical unit-of-production method over their estimated commercial lives. Land is not depreciated.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress

Construction-in-progress ("CIP") represents capital construction of projects not yet completed. The CIP balance includes the assets being constructed by the Company, the assets constructed by third parties and complete assets which are not yet ready for intended use. The assets are transferred from CIP to the respective category of property, plant and equipment and depreciation of these assets commences at the time when the assets are put into operation.

2. Significant Accounting Policies (continued)

Construction-in-progress (continued)

The prepayments made and major spare parts purchased in connection with construction activities are also included in CIP.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the comprehensive income when the asset is derecognized.

Inventories

Inventories are valued at the lower of cost (determined using the weighted average method) and net realizable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials	–	Purchase / extraction cost on an average basis;
Semi-finished and finished goods	–	Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of non-financial assets

The Company assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2. Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand as well as the VAT deposit account with an original maturity of three months or less.

Prepayments

Prepayments are recognized and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Prepayments are classified as either current or non-current depending on the expected period of expiration and the nature of goods and services purchased.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2. Significant Accounting Policies (continued)

Provisions (continued)

Site restoration provision

Provision for site restoration is recognized when there is legal or constructive obligation to re-establish the surface and underground of a quarry after extraction. A corresponding fixed asset of an amount equivalent to the initial provision for site restoration, which represents the present value of the expenditures expected to be incurred to settle the obligation, is capitalized immediately after the stripping operation is complete. The unwinding of the discount is expensed as incurred and recognized in the statement of profit or loss and other comprehensive income as a finance cost. The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Demolishment provision

Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for demolishment costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided, using the balance sheet method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related party transactions

For the purposes of IFRS financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arms' length basis.

Dividends

Dividends payable are recognized as an appropriation of retained earnings in the period when declared.

Trade payable, accrued liabilities and advances from customers

Trade payable and accrued liabilities are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company. Advances from customers represent prepayments for supply of cement.

2. Significant Accounting Policies (continued)

Reclassifications and revisions

Reclassifications have been made to the prior year's amounts in the Statement of Cash Flows to conform to the current year presentation. The reclassifications have been made for comparative presentation only and have no effect on financial position, results of operations and equity in any of the prior periods.

Statement of Cash Flows for the year ended 31 December 2013

	Prior to reclassification	Reclassification	After reclassification
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Provision for slow moving items	-	74,130	74,130
Changes in operating assets and liabilities:			
Inventories	(1,636,026)	(74,130)	(1,710,156)
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Provision for bad debts	-	467,699	467,699
Changes in operating assets and liabilities:			
Trade and other receivables	(5,034,225)	(467,699)	(5,501,924)

3. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following as at 31 December:

	2014	2013
Cost:		
Buildings and installations	**222,808,459**	217,640,864
Machinery and equipment	**189,955,368**	184,855,570
Vehicles, furniture and tools	**32,677,129**	32,700,355
Land and mineral reserves	**3,028,457**	2,511,221
CIP	**24,458,703**	30,067,492
	472,928,116	467,775,502
Accumulated depreciation:		
Buildings and installations	**54,815,889**	49,752,609
Machinery and equipment	**47,253,286**	38,678,695
Vehicles, furniture and tools	**20,707,377**	18,749,038
Land and mineral reserves	**686,342**	677,856
	123,462,894	107,858,198
Net book value	**349,465,222**	359,917,304

An analysis of movement in property, plant and equipment for the year ended 31 December 2014 was as follows:

	Buildings and installations	**Machinery and equipment**	**Vehicles, furniture and tools**	**Land and mineral reserves**	**CIP**	**Total**
Net book value as at 31 December 2013	167,888,255	146,176,875	13,951,317	1,833,365	30,067,492	359,917,304
Additions	–	–	–	**517,238**	**6,153,392**	**6,670,630**
Disposals	**(11,912)**	**(65,388)**	**(90,318)**	–	–	**(167,618)**
Transfers from CIP	**6,040,555**	**5,226,290**	**495,336**	–	**(11,762,181)**	–
Depreciation charge for the year	**(5,924,328)**	**(8,635,695)**	**(2,386,583)**	**(8,488)**	–	**(16,955,094)**
Net book value as at 31 December 2014	**167,992,570**	**142,702,082**	**11,969,752**	**2,342,115**	**24,458,703**	**349,465,222**

3. Property, Plant and Equipment, net (continued)

In January 2008 Holcim's Management Board approved the construction of the new kiln line ("Kiln 6") with the purpose to increase the existing clinker production capacity. As at 31 December 2014 total expenditures capitalized under Kiln 6 amounted to AZN 336,005,582 (2013: AZN 324,660,018). The major portion of works has been performed by CBMI Construction Co. Ltd. ("CBMI").

On 27 September 2012 final statement was signed between CBMI and the Company ("the Parties") according to which provisional taking over for the first part "Limestone Crusher to Clinker Transport" was done. Final taking over for second part "Traditional Fuel Preparation and Handling Department and Packing and Shipping Department (Cement Silo)" was done according to the final statement dated 26 October 2014 signed between the Parties.

No finance charges capitalized to the cost of the new kiln project during the year ended 31 December 2014 (2013: AZN 820,899).

4. Intangible Assets

On 23 June 2011 the Company acquired "Inter-Vulkan" LLC – a non-operating company with the sole asset represented by the license to mine volcanic sand. The cost of this acquisition amounted to AZN 1,500,000. "Inter-Vulkan" LLC has a 99 year lease agreement with local Executive Power of Absheron region and the land mining license issued by the Ministry of Ecology of the Republic of Azerbaijan on 7 September 2011. The mining license has been granted for a period of 5 years and has an option to be renewed subject to the Company meeting the terms of the license.

On 16 December 2011 the Company acquired "Shahgaya Quarry" LLC – a non-operating company with the sole asset represented by the right to mine limestone. The cost of this acquisition amounted to AZN 3,000,000. "Shahgaya Quarry" LLC has a 49 year lease agreement with local Executive Power of Absheron region and the mining license issued by the Ministry of Ecology of the Republic of Azerbaijan on 30 January 2012. The mining license has been granted for a period of 5 years and has an option to be renewed subject to the Company meeting the terms of the license.

No operation under both licenses has been made from inception to the date of these financial statements.

5. Income Taxes

Major components of income tax expense were as follows for the year ended 31 December:

	2014	2013
Current income tax	**7,571,705**	10,494,088
Deferred tax:		
Relating to origination and reversal of temporary differences	**3,275,349**	3,045,494
Income tax expense reported in the statement of profit or loss and other comprehensive income	**10,847,054**	13,539,582

During 2014 and 2013 the Republic of Azerbaijan was the only tax jurisdiction in which the Company's profits were subject to taxation.

5. Income Taxes (continued)

The following is a reconciliation of the income tax expense to the amount that arose by applying the statutory tax rate to the profit before income tax reported in the accompanying financial statements as at 31 December 2014 and 2013, respectively:

	2014	2013
Profit before income tax	**50,561,667**	65,127,650
Statutory tax rate	**20%**	20%
Expected income tax expense at the statutory tax rate	**10,112,333**	13,025,530
Non-deductible expenses	**694,721**	614,070
Other non-taxable income and non-deductible expenses	**40,000**	(100,018)
Income tax expense reported in the accompanying financial statements	**10,847,054**	13,539,582

The following deferred tax assets/liabilities were calculated by applying the statutory enacted tax rate of 20% for 2014 and 2013. The rate in effect at the statement of financial position dates resulted in the temporary differences between the tax basis of assets and liabilities and the amounts reported in the accompanying financial statements as at 31 December:

	2014	2013
Deferred income tax liabilities		
Property, plant and equipment	**(20,834,712)**	(18,304,852)
Other assets	**(28,000)**	(28,000)
	(20,862,712)	(18,332,852)
Deferred income tax assets		
Inventories	**567,263**	350,291
Accounts receivable	**423,686**	392,868
Other current liabilities	**1,125,211**	2,043,187
Provisions	**1,092,097**	1,167,400
	3,208,257	3,953,746
Net deferred tax liability	**(17,654,455)**	(14,379,106)

6. Prepayments

Current prepayments

Current prepayments as at 31 December 2014 and 2013 are primarily represented by prepayments made to suppliers for raw materials, parts and supplies, equipment and services.

Non-current prepayments

Non-current prepayments as at 31 December 2014 and 2013 are represented by prepayments made to one of the suppliers for purchase of permanent rights to possession and use of the limestone. The prepayment is expected to be utilized within the next thirty years, throughout the period of the delivery of the limestone to the Company.

7. Inventories, net

Current inventories

Current inventories, net comprised the following as at 31 December:

	2014	2013
Raw materials	**1,025,112**	1,263,213
Packing materials	**1,088,441**	677,852
Parts and supplies, net	**4,237,551**	4,202,712
Semi-finished and finished goods	**7,842,375**	4,652,652
	14,193,479	10,796,429

The carrying value of parts and supplies as at 31 December 2014 has been decreased by an allowance for slow-moving and obsolete inventories of AZN 1,859,747 (2013: AZN 1,659,747).

Allowance for slow-moving and obsolete inventories was as follows:

As at 31 December 2012	1,585,617
Charge for the year	74,130
Utilized	-
As at 31 December 2013	1,659,747
Charge for the year	200,000
Utilized	-
As at 31 December 2014	**1,859,747**

Non-current inventories

Non-current inventory of AZN 4,760,165 as at 31 December 2014 (2013: AZN 4,891,391) represents a limestone purchased from one of the suppliers for long-term use.

8. Trade and Other Receivables, net

Trade and other receivables comprised the following as at 31 December:

	2014	2013
Trade accounts receivables	**16,358,111**	7,966,044
Other receivables	**99,017**	65,152
Allowances for doubtful accounts	**(2,118,429)**	(1,964,341)
	14,338,699	6,066,855

Trade receivables are non-interest bearing and are generally on 15 to 90 day terms.

See below for the movement in allowance for doubtful accounts:

As at 31 December 2012	1,496,642
Charge for the year	467,699
Utilized	-
As at 31 December 2013	1,964,341
Charge for the year	154,088
Utilized	-
As at 31 December 2014	**2,118,429**

9. Taxes Receivable

Taxes receivable comprised the following as at 31 December:

	2014	2013
VAT receivable	**406,093**	813,696
Other taxes	**4,148**	6,681
	410,241	820,377

VAT and current tax receivable are recoverable from the tax authorities by means of an offset against future tax liabilities or as a direct cash refund. Management periodically reviews the recoverability of the balance of taxes receivable and believes they are fully recoverable within one year.

10. Cash and Cash Equivalents

Cash and cash equivalents comprised the following as at 31 December:

	2014	2013
Cash at bank, AZN	**2,990,265**	3,664,945
Cash at bank, US Dollars ("USD")	**43,327**	30,988
Cash at bank, EURO	**73,608**	106,685
Cash at bank, Swiss Francs ("CHF")	**7,278**	3,600
Cash at bank, Russian Rubles ("RUR")	**90**	165
Cash at bank, Great Britain Pounds ("GBP")	**358**	2,143
VAT deposit account, AZN	**1,485,134**	742,104
	4,600,060	4,550,630

Effective 1 January 2008 the tax authorities introduced VAT deposit accounts and enforced payments of input and output VAT via these accounts. In order to comply with new tax regulation, the Company has opened a VAT deposit account. In accordance with this regulation, the balance on VAT deposit account may only be withdrawn with a 45 days' notice to the tax authorities.

11. Equity

Authorized capital

As at 31 December 2014 and 2013, the authorized and outstanding number of the Company's shares was 1,590,644. The par value of each share is AZN 20. All issued shares have been paid in full. During 2014 HAB purchased additional 9,865 shares of the Company from individual shareholders at par value and increased its ownership percentage by 0.62%. The share capital comprised the following as at 31 December 2014 and 2013:

2014	**Number of shares issued and outstanding**	**Ownership %**
Holcim	**1,049,874**	**66.00**
EBRD	**159,064**	**10.00**
AIC	**159,064**	**10.00**
HAB	**67,339**	**4.24**
Other shareholders	**155,303**	**9.76**
	1,590,644	**100.00**

11. Equity (continued)

2013	Number of shares issued and outstanding	Ownership %
Holcim	1,049,874	66.00
EBRD	159,064	10.00
AIC	159,064	10.00
HAB	57,474	3.62
Other shareholders	165,168	10.38
	1,590,644	100.00

Additional paid-in capital

The amount of AZN 3,301,937 included in Additional paid-in capital as at 31 December 2014 and 2013 represents the outstanding balance (along with the capitalized interest) of a loan borrowed from HAB in accordance with a Loan Agreement dated 1 October 1999 and further forgiven to the Company in accordance with the letter received from HAB in 2007.

Dividends on ordinary shares

During 2014 the Company declared dividends in the total amount of AZN 51,568,678 (2013: nil). Dividend per share was AZN 32.42.

12. Interest-bearing Loans

Current interest-bearing loans and borrowings

	Maturity date	Original currency	Balance as at 31 December 2014	2013
EURO 20 million HAB loan (Subordinated loan)	10 October 2017	EURO	**4,761,000**	5,390,000
EURO 30 million HAB loan (Subordinated loan)	10 October 2017	EURO	**7,141,500**	8,085,000
Current portion of Interest accrued under HAB loan (Subordinated loan)	10 October 2017	EURO	**2,852,548**	3,235,446
Interest accrued under HAB loans		EURO	**531,328**	910,792
Current portion of loans due to related party			**15,286,376**	17,621,238
IBA[1] credit facility	12 December 2014	AZN	**–**	100,000
Standard Bank credit facility	18 February 2015	AZN	**559,281**	–
Other short-term loans payable			**559,281**	100,000
Total short-term loans			**15,845,657**	17,721,238

[1] *International Bank of Azerbaijan ("IBA").*

12. Interest-bearing Loans (continued)

Long-term interest-bearing loans and borrowings

	Maturity date	Original currency	Balance as at 31 December 2014	2013
EURO 60 million HAB revolving credit line	31 March 2019	USD	**44,313,961**	-
EURO 20 million HAB loan (subordinated loan)	10 October 2017	EURO	**8,331,750**	13,475,000
EURO 30 million HAB loan (subordinated loan)	10 October 2017	EURO	**12,497,625**	20,212,500
Interest accrued under HAB loans	10 October 2017	EURO	**4,295,639**	8,088,615
Non-current portion of loans from related party			**69,438,975**	41,776,115
Total long-term loans			**69,438,975**	41,776,115

EURO 30 million HAB loan (Subordinated loan)

On 8 July 2010 the Company entered into a loan agreement with HAB for EURO 30 million. Interest rate determined as 7% plus 3 month EURIBOR per annum. The loan is repayable in 16 equal installments on 10 January, 10 April, 10 July, 10 October after 31 December 2013. On 27 December 2013 on top of scheduled repayments the Company made an advance payment in the amount of EUR 3,750,000 (AZN 4,040,625).

EURO 20 million HAB loan (Subordinated loan)

On 31 March 2010 the Company entered into a loan agreement with HAB for EURO 20 million. Interest rate determined as 7% plus 3 month EURIBOR per annum. The loan is repayable in 16 equal installments on 10 January, 10 April, 10 July, 10 October after 31 December 2013. On 27 December 2013 on top of scheduled repayments the Company made an advance payment in the amount of EUR 2,500,000 (AZN 2,693,750).

The interest accrued under the above mentioned subordinated HAB loans shall be due and payable quarterly on 10 January, 10 April, 10 July, 10 October. Interests accrued till 7 October 2013 was capitalized as long term and repayable in 16 equal installments. On top of scheduled repayments on 27 December 2013 the Company made an advance payment in the amount of EUR 1,500,690 (AZN 1,616,994). As of 31 December 2014 outstanding balance AZN 7,148,187 (2013: AZN 11,324,061) of which AZN 2,852,548 (2013: AZN 3,235,446) is classified as short term and AZN 4,295,639 (2013: AZN 8,088,615) is classified as long-term in the Statement of Financial Position.

USD 60 million HAB revolving credit line

On 1 April 2014 the Company entered into revolving credit line agreement with HAB for USD 40 million. On 20 November 2014 the Company signed an amendment to the agreement to increase the credit line from USD 40 million to USD 60 million. Interest is paid quarterly and defined as any day which is 31 March, 30 June, 30 September, 31 December in each year. The principal portion of the loan is repayable in full or in part at the option of the Company. During 2014 the Company in aggregate drew down USD 64,499,950 (AZN 50,589,511) and repaid USD 8,000,000 (AZN 6,275,550). Interest rate determined as 2.97% plus 3 month USD LIBOR per annum. Interest accrued in 2014 amounted to USD 910,062 (AZN 713,820). The credit facility is committed with commitment fee of 1.04% calculated on daily undrawn amount.

12. Interest-bearing Loans (continued)

Standard Bank credit facility

On 18 February 2013 the Company entered into AZN 5,5 million credit line agreement with Standard Bank. The credit facility is unsecured and bears an interest of 14% per annum. Interest accrued in 2014 amounted to AZN 152,735 (2013: AZN 9,447).

PASHA Bank credit facility

On 25 July 2012 the Company entered into AZN 10 million credit line agreement with PASHA Bank. The credit facility is unsecured and bears an interest of 11% per annum. Interest accrued in 2014 amounted to AZN 272,815 (2013: AZN 160,722). As of 31 December 2014 and 2013 the Company has no outstanding balance under the credit facility. The maturity date of the credit facility is 19 December 2015.

IBA credit facility

On 12 December 2005 the Company entered into AZN 10 million credit line agreement with IBA. During 2014 the Company did not make any new drawdowns and repaid AZN 100,000 balance outstanding as at 31 December 2013. On 8 February 2013 the Company signed an amendment to the agreement and decreased credit line from AZN 10 million to AZN 5 million. The credit facility is unsecured and bears an interest of 11% per annum. The maturity date of the credit facility is 12 December 2014. The Company has not prolonged the agreement.

13. Provisions

Long-term provisions

Long-term provisions comprised the following:

	Site restoration	Provision for injuries	Other tax charges	Total
As at 31 December 2012	2,078,792	1,109,378	461,121	3,649,291
Utilized during the year	–	(169,750)	–	(169,750)
Accretion charge	115,890	59,169	–	175,059
Additional provision	–	698,055	346,380	1,044,435
Change in estimate	98,231	174,051	–	272,282
As at 31 December 2013	2,292,913	1,870,903	807,501	4,971,317
Utilized during the year	–	(189,864)	(169,940)	(359,804)
Accretion charge	75,666	61,740	–	137,406
Additional provision	667,057	–	–	667,057
Change in estimate	(149,819)	(419,040)	–	(568,859)
As at 31 December 2014	**2,885,817**	**1,323,739**	**637,561**	**4,847,117**

Site restoration provision

In accordance with the Law on Mineral Reserves of the Republic of Azerbaijan, the Company is obliged to re-establish the surface of the quarries after extraction. The Company calculated the present value of the site restoration cost using a discount rate of 3.1% (in 2013: 3.3%). The Company estimates that the related costs will be incurred in 2064 through 2082. The following inflation rates were applied in calculation of discounted cash flows:

Year	2015	2016	2017	2018	2019	2020 after
Inflation rate	1.96%	3.28%	3.48%	3.53%	3.44%	2.69%

13. Provisions (continued)

Long-term provisions (continued)

Provision for injures

In accordance with the Labor Code of the Republic of Azerbaijan, employees who have been injured and whose health has been adversely affected (occupational disease) as a result of an accident during the production process must be compensated for the loss associated with such accident or disease if, and only if, an employer is found guilty (partially or fully) based on the results of investigation carried out by the authorities. The Company calculated the present value of the long-term injury payments to employees using a discount rate of 3.1% (in 2013: 3.3%). For the purpose of calculation of the lifetime payments to injured employees, the Company estimated a life expectancy as 71 and 77 for men and women, respectively. The inflation rates used for Site Restoration Provision were applied to match the escalation in average salaries.

Management expects that the related injury payments will occur until 31 December 2042.

Short-term provisions

Short-term provisions comprised the following:

	Bonuses	Demolishment provision	Total
As at 31 December 2012	2,928,184	4,220,000	7,148,184
Utilized during the year	(2,993,032)	(262,908)	(3,255,940)
Additional provision	2,591,381	-	2,591,381
As at 31 December 2013	2,526,533	3,957,092	6,483,625
Utilized during the year	(2,526,533)	(3,657,092)	(6,183,625)
Additional provision	1,600,594	-	1,600,594
As at 31 December 2014	**1,600,594**	**300,000**	**1,900,594**

Demolishment provision represents costs associated with demolishment of old kilns. Due to commissioning of the new kiln line, production on old kilns has been permanently stopped. Management expects to complete demolishment of old kilns in the first half of 2015.

14. Trade Payables

Trade payables as at 31 December 2014 and 2013 represent amounts due to suppliers for purchases of inventories, production machinery and equipment.

15. Accrued Liabilities

Short-term accrued liabilities comprised the following as at 31 December:

	2014	2013
Third party accruals	**4,653,311**	10,298,066
Other tax liabilities	**5,844,734**	3,938,549
Other accruals	**16,780**	16,780
	10,514,825	14,253,395

Main portion of third party accruals as at 31 December 2014 and 2013 represents accruals made for deferral of certain predefined percentage of the total billings relating to work performed and goods supplied in accordance with the terms of the agreement with vendors.

16. Contingencies and Operating Environment

Current business environment

The Company's operations are conducted in the Republic of Azerbaijan. As an emerging market, at the present time the Republic of Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Whilst there have been improvements in economic trends in the Republic of Azerbaijan, the country continues to display certain characteristics of an emerging economy. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Republic of Azerbaijan. The tax, currency and customs legislation within the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Azerbaijan Government, together with tax, legal, regulatory, and political developments. Management is unable to predict all developments in the economic environment which would have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Azerbaijan Government has introduced a range of stabilization measures, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects. While Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company's results and financial position in a manner not currently determinable.

The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

The Company's financial position will continue to be affected by Azerbaijan political developments, including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in the Republic of Azerbaijan. The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes was unclear, the Company has accrued tax liabilities based on Management's best estimate. The Company's policy is to accrue for contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Azerbaijani tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed and accrued to date.

Environmental liability

The enforcement of environmental regulation in the Republic of Azerbaijan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, Management believes that there are no significant liabilities for environmental damage above site restoration provision currently made by the Company (see Note 13).

Litigations

In the ordinary course of business the Company is involved in lawsuits, claims, investigations and proceedings, including tax, environmental and anti-monopoly matters.

Management believes that there are no matters that will have a material adverse impact on the Company's business, financial position or results of operations.

17. Related Party Transactions

Amounts owed by/to related parties were as follows at 31 December:

	Amounts owed by related parties		Amounts owed to related parties	
	2014	2013	**2014**	2013
Holcim LTD	–	106,047	–	–
Holcim Technology LTD	–	–	**1,214,799**	2,651,279
Holcim Emerging Europe Service	–	–	**535,594**	411,432
Holcim Services EMEA, S.L	**5,467**	–	**347,256**	603,464
Holcim(Bulgaria) AD	–	–	**58,718**	80,355
Holcim Espana S.A.	–	–	**59,106**	69,582
Holcim Philippines	–	–	**69,713**	69,713
Holcim Slovensko A.S.	–	–	**20,344**	20,344
Other Holcim entities	–	49,087	**8,300**	21,294
	5,467	155,134	**2,313,830**	3,927,463
HAB loans – principal	–	–	**77,045,836**	47,162,500
HAB loans – short-term interest	–	–	**3,383,876**	4,146,238
HAB loans – long-term interest	–	–	**4,295,639**	8,088,615
	–	–	**84,725,351**	59,397,353

The balance of AZN 1,214,799 (2013: AZN 2,651,279) represents an accrual to Holcim Technology for international franchising fee and management services performed by Holcim technology in the amount of AZN 1,214,799 (2013: AZN 2,651,279). During the year ended 31 December 2014 the Company's transactions with Holcim Technology relating to international franchising fee and management services amounted to AZN 4,907,904 (2013: AZN 5,860,458).

The balance of AZN 535,594 (2013: AZN 411,432) represents an accrual to Holcim Emerging Europe Service for costs sharing fee (costs of Holcim Emerging Europe Service allocated to the Company). During the year ended 31 December 2014 the Company's transactions with Holcim Emerging Europe Service amounted to AZN 1,474,724 (2013: AZN 900,229).

The balance of AZN 347,256 (2013: AZN 603,464) represents an accrual to Holcim Services EMEA, S.L for European Business Model ("EBM") project costs. During the year ended 31 December 2014 the Company's transactions with Holcim Services EMEA, S.L amounted to AZN 1,349,165 (2013: AZN 1,563,539).

Transactions related to HAB loans are disclosed in Note 12 to the financial statements.

Compensation of key management personnel

Key management personnel comprise members of the Management Board of the Company, totaling 5 persons as at 31 December 2014 and 31 December 2013. Total compensation to key management personnel including bonuses approximated AZN 1,654,840 and AZN 1,713,367 for the years 2014 and 2013, respectively.

18. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities comprise trade payables, accrued liabilities, loans due to related party and third parties. The main purpose of these financial liabilities is to raise finance for the Company's operations and construction. Cash and cash equivalents and trade receivables represent Company's financial assets arising directly from its operations.

18. Financial Risk Management Objectives and Policies (continued)

The Company believes the amounts presented as financial instruments in the accompanying financial statements are reasonable estimates of their fair values. The fair value of cash and cash equivalents, payables, receivables and other monetary current assets and liabilities is estimated to approximate carrying value due to their short-term nature. The carrying value of the borrowings from related and third parties approximates their fair values as their interest rates under these borrowings are directly linked to the market indices. As at 31 December 2014 and 2013 the amount of such borrowings was not materially different from their calculated fair values.

The main risks arising from the Company's financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk. Management reviews and agrees policies for managing each of the following risks:

- Market risk – the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise the following types of risk: currency risk and interest rate risk.
- Credit risk – the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.
- Liquidity risk – representing a maturity analysis for financial liabilities that shows the remaining contractual maturities and a description of how the Company manages the inherent liquidity risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

The Company's operations are carried out primarily in the Republic of Azerbaijan, and as such, a significant portion of the Company's business is transacted in AZN.

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's construction activities, operating activities and related borrowings denominated in a currency other than the Company's functional currency. The foreign currency risk, in particular, relates to cash and cash equivalents, accrued liabilities, trade and other payables including the long-term loans due to HAB.

The Company did not hedge the financial instruments denominated in foreign currencies.

The Company's sensitivity analysis has been determined based on the Company's net transaction exposure as at 31 December 2014 and 2013, respectively.

The following tables demonstrate the sensitivity to a reasonably possible change in USD, EURO, RUR, CHF and GBP exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on the Company's equity:

	Change in foreign exchange rate		**Effect on profit before tax**	
2014	**Increase**	**Decrease**	**After increase**	**After decrease**
USD	**10%**	**10%**	**(4,438,757)**	**4,438,757**
EURO	**10%**	**10%**	**(4,305,361)**	**4,305,361**
RUR	**10%**	**10%**	**(248)**	**248**
CHF	**10%**	**10%**	**(122,470)**	**122,470**
GBP	**10%**	**10%**	**(46)**	**46**

18. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk (continued)

	Change in foreign exchange rate		Effect on profit before tax	
2013	Increase	Decrease	After increase	After decrease
USD	10%	10%	(54,005)	54,005
EURO	10%	10%	(6,616,551)	6,616,551
RUR	10%	10%	(255)	255
CHF	10%	10%	(265,590)	265,590
GBP	10%	10%	(429)	429

Interest rate risk

The Company's exposure to the risk of changes in interest rate relates to the HAB loans due as at 31 December 2014 and 2013. The related interest expense was calculated based on 7% plus 3 month EURIBOR and 2.97% plus 3 month USD LIBOR as discussed in Note 12.

The Company's sensitivity analysis for interest rate has been determined based on 0.1% (2013: 0.1%) change in EURIBOR and USD LIBOR representing Management's assessment of a reasonably possible change.

The table below summarizes effect on profit before tax of +/-0.1% shift in EURIBOR and USD LIBOR as at 31 December 2014 and effect on profit before tax of +/-0.1% shift in EURIBOR as at 31 December 2013. There is no material impact on the Company's equity:

	Change in floating variable		**Effect on profit before tax**	
2014	**Increase**	**Decrease**	**After increase**	**After decrease**
EURIBOR	**0.1%**	**(0.1)%**	**(34,710)**	**34,710**
USD LIBOR	**0.1%**	**(0.1)%**	**(4,881)**	**4,881**

	Change in floating variable		Effect on profit before tax	
2013	Increase	Decrease	After increase	After decrease
EURIBOR	0.1%	(0.1)%	(52,832)	52,832

Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. The extent of the Company's credit exposure is represented by the aggregate balance of cash and cash equivalents and trade and other receivable as at 31 December 2014 and 2013. The Company has established a Credit Committee that periodically meets to consider the status of all debtors account. The Company evaluates the concentration of risk with respect to trade receivables as low, as it deals only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

The requirement for impairment is analyzed at each statement of financial position date on an individual basis for major customers. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the statement of financial position date is the carrying value of each class of financial assets disclosed in Note 8 and Note 10. The Company does not hold collateral as security.

18. Financial Risk Management Objectives and Policies (continued)

Credit risk (continued)

The following table demonstrates an analysis by class of the age of trade and other receivables that are past due but not impaired as at 31 December:

	Not past due	30-90 days	90-180 days	180-360 days	> 360 days
2014	**7,827,259**	**1,954,117**	**2,901,786**	**1,637,165**	**18,372**
2013	918,779	2,553,603	2,588,833	5,640	–

The following table demonstrates the balance on bank accounts as at 31 December:

	2014	2013
IBA bank	**1,569,679**	727,543
Yapi Kredi Bank	**384,306**	1,031,905
Bank Standard	**151,924**	1,376,377
PASHA Bank	**160,539**	618,481
Express Bank	**848,478**	54,220
VAT deposit account	**1,485,134**	742,104
	4,600,060	4,550,630

The Company places its cash with reputable financial institutions in the Republic of Azerbaijan. The Company does not expect any counterparties to fail to meet their obligations.

Liquidity risk

The Company monitors its risk to a shortage of funds by reviewing its net financial debt indicator on a regular basis. The net financial debt represents the difference between total financial liabilities and cash and cash equivalents.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts.

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payments:

Year ended 31 December 2014	On demand	Less than 3 months	3 to 12 months	1-5 years	>5 years
Accrued interest due to related party	–	2,190,567	4,742,896	7,359,424	–
Loans due to related party	–	2,975,625	8,926,875	67,888,736	–
Trade payables	–	2,215,146	–	–	–
Accrued liabilities	16,780	10,230,483	556,390	–	–
Accrued liabilities due to related parties	–	2,313,830	–	–	–
Dividends payable	103,006	–	–	–	–
Other short-term loans payable	–	559,281	–	–	–
Accrued interest on short-term loans payable	–	–	–	–	–
Long-term accrued liabilities	–	–	–	876,564	–
	119,786	**20,484,932**	**14,226,161**	**76,124,724**	–

18. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Year ended 31 December 2013	On demand	Less than 3 months	3 to 12 months	1-5 years	>5 years
Accrued interest due to related party	-	1,708,494	4,641,176	11,486,167	-
Loans due to related party	-	3,368,750	10,106,250	33,687,500	-
Trade payables	-	4,559,268	-	-	-
Accrued liabilities	16,780	13,976,907	505,770	-	-
Accrued liabilities due to related parties	-	3,927,463	-	-	-
Dividends payable	17,782	-	-	-	-
Other short-term loans payable	-	-	100,000	-	-
Accrued interest on short-term loans payable	-	2,750	8,250	-	-
Long-term accrued liabilities	-	-	-	1,243,188	-
	34,562	**27,543,632**	**15,361,446**	**46,416,855**	**-**

19. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, within the limits allowed by the relevant loan agreements, obtain additional borrowing on the market, adjust the amount of dividends paid to shareholders or issue new shares.

The Company monitors its capital using gearing ratio, which is net financial debt divided by total equity. The Company includes only interest bearing loans from financial institutions and related parties for calculating the financial liabilities. During 2014 and 2013 the Company's policy was to maintain a gearing ratio in the range of no more than 100%.

	2014	2013
Cash and cash equivalent	**4,600,060**	4,550,630
Total financial liabilities	**85,284,632**	59,497,353
Net financial debt	**80,684,572**	54,946,723
Total equity	**267,172,487**	279,026,552
Gearing %	**30.20%**	19.69%

20. Cost of Sales

Cost of sales comprised the following:

	2014	2013
Production materials	**11,434,184**	14,939,131
Fuel expenses	**9,364,211**	10,651,468
Maintenance expenses	**6,076,634**	5,398,574
Electricity expenses	**5,891,347**	7,143,724
Personnel expenses	**6,953,997**	7,047,573
Depreciation	**16,010,050**	16,013,662
Property tax expenses	**1,931,280**	2,675,821
Other production expenses	**(1,657,283)**	5,163,762
	56,004,420	69,033,715

21. Distribution Expenses

Distribution expenses comprised the following:

	2014	2013
Third party transportation	**6,386,307**	9,228,615
Packing materials	**2,984,704**	3,646,496
Personnel expenses	**2,000,191**	1,960,558
Depreciation	**783,471**	679,151
Diesel and gasoline	**128,976**	123,656
Other expenses	**1,041,882**	903,776
	13,325,531	16,542,252

22. General and Administrative Expenses

General and administrative expenses comprised the following:

	2014	2013
Personnel expenses	**4,557,320**	4,869,942
Third party services	**2,182,049**	2,744,095
Management fee	**4,744,218**	6,320,340
Depreciation	**132,466**	150,247
Other expenses	**1,080,276**	656,650
	12,696,329	14,741,274

23. Finance Costs

Finance costs comprised the following:

	2014	2013
Interest expense	**4,440,022**	6,023,314
Bank commissions	**202,269**	449,246
Accretion charge	**137,406**	175,059
	4,779,697	6,647,619