Garadagh Cement
Open Joint Stock Company

Financial Statements

Year ended 31 December 2011
with Independent Auditors' Report

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Open Joint Stock Company

Financial Statements

Year ended 31 December 2011

Contents

GENERAL INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS
Garadagh Cement Open Joint Stock Company
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AZ-1083, Baku, Azerbaijan

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PricewaterhouseCoopers Audit Azerbaijan LLC

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AZ-1005, Baku, Azerbaijan

Bank Standard CJSC
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AZ-1005, Baku, Azerbaijan

Technica Bank OJSC
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AZ-1063, Baku, Azerbaijan

Yapi Kredi Bank Azerbaijan CJSC
32/12 Jafar Jabbarli Street
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Independent Auditors' Report to the Supervisory Board of Garadagh Cement Open Joint Stock Company:

We have audited the accompanying financial statements of Garadagh Cement Open Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statement of 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 2011, 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.

17 February 2012

Garadagh Cement OJSC
Statement of Financial Position
(Amounts presented are in Azerbaijani Manats)

	Notes	31 December 2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	**346,096,025**	267,481,314
Intangible assets	4	**1,500,000**	-
Non-current prepayments	7	**1,692,692**	1,204,591
Non-current inventory	8	**5,466,087**	5,730,629
Other assets	5	**3,000,000**	-
Total non-current assets		**357,754,804**	274,416,534
Current assets			
Inventories, net	8	**9,908,203**	8,711,682
Trade and other receivables, net	9	**1,593,326**	2,696,651
Taxes receivable	10	**1,079,197**	14,319,210
Prepayments and advances	7	**1,199,167**	2,848,129
Receivable from related parties	18	**-**	21,782
Cash and cash equivalents	11	**47,316,843**	21,318,623
Total current assets		**61,096,736**	49,916,077
TOTAL ASSETS		**418,851,540**	324,332,611
EQUITY AND LIABILITIES			
Equity			
Authorized capital	12	**31,812,880**	31,812,880
Additional paid-in capital	12	**3,301,937**	3,301,937
Retained earnings		**154,215,326**	115,284,814
Total equity		**189,330,143**	150,399,631
Non-current liabilities			
Loans due to related party	13,18	**73,699,865**	53,302,563
Loans due to third parties	13	**84,997,222**	60,263,324
Accrued liabilities	16	**490,441**	4,172,217
Provisions	14	**2,844,129**	829,452
Deferred income tax liability	6	**4,568,364**	1,624,046
Total non-current liabilities		**166,600,021**	120,191,602
Current liabilities			
Trade payables	15	**6,791,624**	17,394,348
Other short-term loans payable	13	**1,205,832**	2,639,625
Loans due to related party	13,18	**3,279,757**	195,813
Loans due to third parties	13	**16,435,391**	1,180,752
Accrued liabilities due to related parties	18	**1,900,035**	2,329,059
Accrued liabilities	16	**25,328,339**	20,974,254
Payroll and related taxes		**13,279**	154,745
Dividends payable		**17,782**	21,423
Income tax payable		**3,799,592**	5,363,985
Advances received from customers		**1,763,978**	812,346
Provisions	14	**2,385,767**	2,675,028
Total current liabilities		**62,921,376**	53,741,378
TOTAL EQUITY AND LIABILITIES		**418,851,540**	324,332,611

Signed and authorized for release on behalf of Management on 17 February 2012:

Raoul Waldburger	**General Director**
Oliver Wilke	**Chief Financial Officer**
Dilbar Sultanova	**Chief Accountant**

Azərbaycan Respublikası «QARADAĞ SEMENT» Açıq Səhmdar Cəmiyyəti «GARADAGH CEMENT» Open Joint Stock Company Azerbaijan Republic

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

Garadagh Cement OJSC
Statement of Comprehensive Income
(Amounts presented are in Azerbaijani Manats)

	Notes	Year ended 31 December 2011	2010
Revenue			
Sale of goods		**119,086,799**	114,605,019
Total revenue		**119,086,799**	114,605,019
Cost of sales	**21**	**(53,970,002)**	(54,987,168)
Gross profit		**65,116,797**	59,617,851
Distribution expenses	**22**	**(12,192,748)**	(13,020,540)
General and administrative expenses	**23**	**(8,406,183)**	(7,966,205)
Loss on disposal of property, plant and equipment		**(255,563)**	(771,870)
Selling expenses		**(1,111,274)**	(2,258,881)
Foreign exchange gain		**7,811,100**	1,748,169
Operating profit		**50,962,129**	37,348,524
Finance cost, net	**24**	**(634,602)**	(3,142,055)
Profit before tax		**50,327,527**	34,206,469
Income tax expense	**6**	**(11,397,015)**	(8,602,165)
Profit for the year		**38,930,512**	25,604,304
Other comprehensive income		**-**	-
Total comprehensive income		**38,930,512**	25,604,304

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

Garadagh Cement OJSC
Statement of Cash Flows
(Amounts presented are in Azerbaijani Manats)

	Notes	Year ended 31 December 2011	2010
Operating activities			
Profit before tax		**50,327,527**	34,206,469
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation	**21,22,23**	**6,903,943**	7,267,586
Finance cost	**24**	**368,280**	3,142,055
Loss on disposal of property, plant and equipment		**255,563**	771,870
Foreign exchange gain		**(8,599,190)**	(3,352,819)
Provision for slow moving items	**8**	**550,000**	616,334
Bad debt provision	**9**	**-**	931,642
Injures provision		**849,240**	-
Operating profit before working capital changes		**50,655,363**	43,583,137
Changes in operating assets and liabilities:			
Inventories		**(1,970,080)**	2,320,173
Trade and other receivables		**1,103,325**	628,001
Prepayments and advances		**-**	(26,305)
Receivable from related parties		**21,782**	(3,137)
Taxes receivable		**3,222,922**	(10,891,870)
Trade and other payables		**2,971,135**	(2,933,449)
Payroll and related taxes		**(141,466)**	114,864
Accrued liabilities		**-**	5,489,576
Accrued liabilities due to related parties		**(445,646)**	(179,072)
Advances received from customers		**951,632**	(259,534)
Provisions		**(436,755)**	1,131,439
Cash generated from operations		**55,932,212**	38,973,823
Income taxes paid		**-**	(438,831)
Interest paid		**(7,628,176)**	(3,142,055)
Net cash flows provided by operating activities		**48,304,036**	35,392,937
Cash flows from investing activities			
Purchase of property, plant and equipment		**(86,348,760)**	(105,348,453)
Proceeds from sale of property, plant and equipment		**278,210**	15,424
Purchase of intangible assets		**(1,000,000)**	-
Purchase of other assets		**(1,000,000)**	-
Net cash flows used in investing activities		**(88,070,550)**	(105,333,029)
Cash flows from financing activities			
Dividends paid to shareholders		**(3,641)**	(3,558)
Loan origination fee		**(221,270)**	-
Repayments of interest-bearing loans		**(65,043,147)**	(61,040,717)
Proceeds from interest-bearing loans		**131,032,792**	141,081,803
Net cash flows provided by financing activities		**65,764,734**	80,037,528
Net increase in cash and cash equivalents		**25,998,220**	10,097,436
Cash and cash equivalents at beginning of year	**11**	**21,318,623**	11,221,187
Cash and cash equivalents at end of year	**11**	**47,316,843**	21,318,623

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

Garadagh Cement 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 2009	31,812,880	3,301,937	89,680,510	124,795,327
Profit for the year	-	-	25,604,304	25,604,304
Balance as at 31 December 2010	31,812,880	3,301,937	115,284,814	150,399,631
Profit for the year	**-**	**-**	**38,930,512**	**38,930,512**
Balance as at 31 December 2011	**31,812,880**	**3,301,937**	**154,215,326**	**189,330,143**

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

1. Corporate information

Garadagh Cement Open Joint Stock Company ("Garadagh Cement OJSC" or the "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 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 2011 and 31 December 2010 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.

The Company's principal activity is to manufacture and sell cement and clinker. Its registered office address 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.

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 2011:

<u>International Accounting Standard ("IAS") 24 Related Party Transactions (Amendment)</u>
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

<u>IAS 32 Financial Instruments: Presentation (Amendment)</u>
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company because the Company does not have any type of above mentioned instruments.

2. Significant Accounting Policies (continued)

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Company.

IFRS 7 *Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements in Note 19.

IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

IFRS 3 *Business Combinations (Measurement options available for non-controlling interest);*
IFRS 3 *Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008));*
IFRS 3 *Business Combinations (Un-replaced and voluntarily replaced share-based payment awards);*
IAS 27 *Consolidated and Separate Financial Statements;*
IAS 34 *Interim Financial Statements.*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

International Financial Reporting Interpretations Committee ("IFRIC") 13 *Customer Loyalty Programmes (determining the fair value of award credits);*
IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment);*
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments.*

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 when they become effective.

- IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income:* The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

- IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements:* The amendment requires additional disclosure about financial assets that have been transferred, but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

2. Significant Accounting Policies (continued)

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

- IFRS 9 *Financial Instruments: Classification and Measurement:*
  IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- IFRS 13 *Fair Value Measurement:*
  IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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>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 refinancing rate of the Central Bank of the Republic of Azerbaijan ("Central Bank") to discount the amount of future cash outflows. 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 Management uses the risk free rate, which is calculated as the Swiss risk free rate plus the difference between inflation rates in the Republic of Azerbaijan and Switzerland.

<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 percentage thresholds applied to obsolete or slow-moving inventory depending on the frequency of use.

2. Significant Accounting Policies (continued)

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 the Azerbaijani Manat ("AZN") as the majority of the Company's revenues, costs, property and equipment 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 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. 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 2011 and 2010, the official rates of exchange were AZN 1.0178 = EURO 1 and AZN 1.056 = EURO 1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction. At 17 February 2012 the exchange rate was AZN 1.0323 = 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 2011 and 2010.

Value Added Tax

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

Value added tax ("VAT") payable represents a tax related to sales payable to tax authorities upon collection of receivables from customers net of VAT on purchases, which have been settled at the statement of financial position date. In addition, VAT related to sales, which have not been settled at the statement of financial position date (VAT deferred), 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.

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.

Financial Assets

<u>Initial Recognition and Measurement</u>
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.

2. Significant Accounting Policies (continued)

Financial Assets (continued)

Subsequent Measurement
The subsequent measurement of financial assets depends on their classification:

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 comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income.

Derecognition
A financial asset (or, where applicable a part of a financial asset) 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.

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.

If there is objective evidence that an impairment loss has incurred, the amount of the loss 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 assets original effective interest rate.

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.

2. Significant Accounting Policies (continued)

Financial Liabilities (continued)

Initial Recognition and Measurement (continued)
All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

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 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 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, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Refer to Note 19 for further details on financial assets and liabilities.

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. 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 comprehensive income as incurred.

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.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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 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.

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.

The prepayments made in connection with construction activities are also included in CIP.

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 selling costs.

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. 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.

2. Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of 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.

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 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.

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.

Trade Accounts Receivable

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.

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 of the amount can be made.

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)

<u>Site Restoration Provision</u>
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 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.

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

<u>Current Income Tax</u>
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.

<u>Deferred Income Tax</u>
Deferred income 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.

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

- Where the deferred income tax liability arises from goodwill amortization or 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 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.

Deferred income 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 assets and unused tax losses can be utilized except:

- Where the deferred income 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.

2. Significant Accounting Policies (continued)

Income Tax (continued)

The carrying amount of deferred income 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 income tax asset to be utilized.

Deferred income 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.

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.

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. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Title generally passes to the buyer at the moment of the cement products shipment from the plant.

Reclassifications and revisions

A reclassification has been made to the prior year's amounts in the Statement of Financial Position and corresponding notes to conform to the current year presentation. The reclassification has been made for comparative presentation only and has no effect on financial position, results of operations and equity in any of the prior periods.

Statement of Financial Position	**Amount**
Accrued interest on long-term loans due to related party was reclassified from "Accrued liability due to related parties" to "Loans due to related party" (Current liabilities)	195,813

3. Property, Plant and Equipment, net

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

	2011	2010
Cost:		
Buildings and installations	**76,667,723**	78,018,494
Machinery and equipment	**64,762,083**	63,322,159
Vehicles, furniture and tools	**22,630,238**	23,427,065
Land and mineral reserves	**2,176,983**	892,366
CIP	**292,483,387**	210,089,118
	458,720,414	375,749,202
Accumulated depreciation:		
Buildings and installations	**49,134,829**	48,660,084
Machinery and equipment	**48,822,324**	46,216,806
Vehicles, furniture and tools	**14,559,013**	13,365,517
Land and mineral reserves	**108,223**	25,481
	112,624,389	108,267,888
Net book value	**346,096,025**	267,481,314

An analysis of movement in property, plant and equipment for the year ended 31 December 2011 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 2010	29,358,410	17,105,353	10,061,548	866,885	210,089,118	267,481,314
Additions	-	-	-	1,284,617	84,848,595	86,133,213
Disposals	-	-	(533,172)	-	-	(533,173)
Transfers from CIP	254,133	1,439,924	760,269	-	(2,454,326)	-
Depreciation charge for the year	(2,079,649)	(2,605,518)	(2,217,420)	(82,742)	-	(6,985,329)
Net book value as at 31 December 2011	**27,532,894**	**15,939,759**	**8,071,225**	**2,068,760**	**292,483,387**	**346,096,025**

In January 2008 Holcim's Management Board approved the project for construction of the new kiln line ("Kiln 6") with the purpose to increase the existing clinker production capacity. As at 31 December 2011 total expenditures capitalized under Kiln 6 amounted AZN 287,595,888 (in 2010: AZN 210,089,118) of which AZN 4,352,827 (in 2010: AZN 16,016,774) represented a balance of advance payments. The major portion of balance remaining on advances as at 31 December 2011 is represented by advances of AZN 2,635,018 (in 2010: AZN 14,444,339) made to CBMI Construction Co. Ltd. ("CBMI") for the construction of the new kiln line. The total value of the contract with CBMI is EURO 172.4 million.

The legislation of the Republic of Azerbaijan requires the Company to obtain certain permits from different governmental authorities before the commencement of the operations of the new kiln line. The new kiln line, upon the completion of its construction, is subject to the final acceptance by the State Commission of the Republic of Azerbaijan. While there is always a theoretical risk associated with the absence of all required permits, Management believes that all required permits will be obtained in a due course. The kiln is expected to be commissioned in the second half of 2012.

As at 31 December 2011 finance charges capitalized to the cost of the new kiln project amounted AZN 12,906,608 (2010: 5,182,330).

As mentioned in Note 2, the Company assesses the remaining useful lives of its property, plant and equipment on an ongoing basis. As a result of such assessment during 2009 the Company revised, the useful lives of old kilns and auxiliary equipment with net book value of AZN 5,137,416 as at 31 December 2009. The effect of this revision in estimate led to increase in depreciation expense by AZN 1,786,615 in 2011 (2010: AZN 2,679,922). Old kilns were fully depreciated during 2011.

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

In accordance with the contract with CBMI and in order to secure the parties from non-performance of contractual obligations, CBMI delivered to the Company unconditional and irrevocable bonds (advance payment, performance and warranty bonds allocated by the stages of construction and installation process) from Industrial and Commercial Bank of China. The remaining balance of advance payments bond issued by CBMI constituted EURO 8,279,000 and EURO 16,000,000 as at 31 December 2011 and 2010, respectively.

The Company has secured the supply of equipment by CBMI by a bank guarantee of EURO 25,000,000 issued by the International Bank of Azerbaijan ("IBA") on behalf of the Company. The guarantee covers approximately 40% of the total payment for equipment supplied. The guarantee was reduced to EURO 5,000,000 in November 2010 and remained effective until May 2011.

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.

5. Other assets

On 16 December 2011 the Company acquired "Shahgaya West" partnership - a non-operating company with the sole asset represented by the right to mine limestone for 49 year issued by local Executive Power of Absheron region. The cost of this acquisition amounted to AZN 3,000,000. On 30 January 2012 this mining right was further confirmed by the license issued by the Ministry of Ecology of the Republic of Azerbaijan. 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.

6. Income Taxes

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

	2011	2010
Current income tax	**8,452,697**	7,902,774
Deferred income tax:		
Relating to origination and reversal of temporary differences	**2,944,318**	699,391
Income tax expense reported in the Statement of Comprehensive Income	**11,397,015**	8,602,165

During 2011 and 2010 the Republic of Azerbaijan was the only tax jurisdiction in which the Company's profits were subject to taxation.

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 2011 and 2010, respectively:

	2011	2010
Profit before income tax	**50,327,527**	34,206,469
Statutory tax rate	**20%**	20%
Expected income tax expense at the statutory tax rate	**10,065,505**	6,841,294
Non-deductible expenses	**1,182,245**	1,374,508
Non-deductible provisions and accruals	**149,265**	386,363
Income tax expense reported in the accompanying financial statements	**11,397,015**	8,602,165

6. Income Taxes (continued)

The following deferred tax assets/liabilities were calculated by applying the statutory enacted tax rate of 20% for 2011 and 2010. 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:

	2011	2010
Deferred income tax liabilities:		
Property, plant and equipment	**(5,827,974)**	(2,179,880)
Trade payables	**(49,784)**	(21,785)
Inventories	**-**	(8,708)
Long-term financing liability	**(211,015)**	(619,335)
Short-term financing liability	**(168,539)**	-
	(6,257,312)	(2,829,708)
Deferred income tax assets:		
Inventories	**16,094**	-
Accounts receivable	**299,328**	299,328
Other current liabilities	**706,612**	740,444
Provisions	**666,914**	165,890
	1,688,948	1,205,662
Net deferred tax liability	**(4,568,364)**	(1,624,046)

7. Prepayments

Current prepayments

Current prepayments as at 31 December 2011 and 2010 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 2011 and 2010 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.

8. Inventories, net

Current inventories

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

	2011	2010
Raw materials	**934,935**	1,197,258
Packing materials	**1,142,767**	661,856
Parts and supplies, net	**4,785,638**	3,946,487
Semi-finished and finished goods, net	**3,044,863**	2,906,081
	9,908,203	8,711,682

The carrying value of parts and supplies at 31 December 2011 has been decreased by an allowance for slow-moving and obsolete inventories of AZN 3,940,258 (2010: AZN 3,390,258).

Non-current inventories

Non-current inventory of AZN 5,466,087 as at 31 December 2011 (2010: AZN 5,730,629) represents a limestone purchased from one of the suppliers for long-term use.

9. Trade and Other Receivables, net

	2011	2010
Trade accounts receivables	**2,680,921**	3,980,883
Other receivables	**409,047**	212,410
Allowances for doubtful accounts	**(1,496,642)**	(1,496,642)
	1,593,326	2,696,651

Trade receivables are non-interest bearing and are generally on 15 to 30 day terms.

Change in allowance for doubtful accounts charged to the Statement of Comprehensive Income in 2010 was AZN 931,642.

10. Taxes Receivable

Taxes receivable comprised VAT receivable in total amount of AZN 1,079,197 as at 31 December 2011 (2010: AZN 14,319,210). VAT is 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.

11. Cash and Cash Equivalents

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

	2011	2010
Cash at bank, AZN	**24,058,703**	8,785,811
Cash at bank, US Dollars ("USD")	**91,018**	31,901
Cash at bank, EURO	**11,809,041**	6,539,443
Cash at bank, Swiss Francs ("CHF")	**10,019**	26,621
Cash at bank, Russian Rubles ("RUR")	**9,589**	1,922
Cash at bank, Great Britain Pounds ("GBP")	**14,843**	724
Cash on hand	**1,993**	10,410
VAT deposit account	**11,321,637**	5,921,791
	47,316,843	21,318,623

Effective 1 January 2008 the state 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.

12. Equity

Authorized capital

As at 31 December 2011 and 2010, 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. The share capital comprised the following as at 31 December 2011 and 2010:

	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 2011 and 2010 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.

13. Interest-bearing Loans

Current interest-bearing loans and borrowings

	Maturity date	Interest rate	Original currency	Balance as at 31 December 2011	2010
EURO 20 million HAB loan (Senior loan)	5 October 2015	EURIBOR +6%	EURO	**2,908,000**	-
Interest accrued under HAB loans			EURO	**371,757**	195,813
Current portion of loans due to related party				**3,279,757**	195,813
EURO 30 million EBRD loan (A1 loan)	5 October 2015	EURIBOR +7%	EURO	**2,878,784**	-
EURO 20 million EBRD loan (A2 loan)	5 October 2014	EURIBOR +6.5%	EURO	**2,612,975**	-
EURO 20 million EBRD loan (B1 loan)	5 October 2015	EURIBOR +7%	EURO	**1,919,189**	-
EURO 20 million ADB [1] loan	5 October 2015	EURIBOR +6%	EURO	**2,831,378**	-
EURO 15 million DEG [2] loan	5 October 2015	EURIBOR +6%	EURO	**2,123,512**	-
EURO 15 million OFID [3] loan	5 October 2015	7%	EURO	**2,094,747**	-
Interest and commitment fee accrued under EBRD loans			EURO	**1,051,286**	1,180,752
Interest accrued under ADB loan			EURO	**371,757**	-
Interest accrued under DEG loan			EURO	**293,496**	-
Interest accrued under OFID loan			EURO	**258,267**	-
Current portion of loans due to third parties				**16,435,391**	1,180,752
IBA credit facility	12 December 2012	16%	AZN	**99,999**	200,000
Yapi Kredi Bank credit facility	5 November 2012	15%	AZN	**1,105,833**	2,439,625
Other short-term loans payable				**1,205,832**	2,639,625
Total short-term loans				**20,920,980**	4,016,190

[1] Asian Development Bank ("ADB")
[2] Deutsche Investitions- und Entwicklungsgesellschaft mbH ("DEG")
[3] OPEC Fund for International Development ("OFID")

13. Interest-bearing Loans (continued)

Long-term interest-bearing loans and borrowings

	Maturity date	Interest rate	Original currency	Balance as at 31 December 2011	2010
EURO 20 million HAB loan (Parallel loan)	5 October 2015	EURIBOR +7%	EURO	-	10,137,600
EURO 20 million HAB loan (Senior loan)	5 October 2015	EURIBOR +6%	EURO	**17,448,000**	-
EURO 20 million HAB loan (Subordinated loan)	Final maturity date (see below)	EURIBOR +7%	EURO	**20,356,000**	10,137,600
EURO 30 million HAB loan (Subordinated loan)	Final maturity date (see below)	EURIBOR +7%	EURO	**30,534,000**	31,680,000
Interest accrued under HAB loans			EURO	**5,361,865**	1,347,363
Non-current portion of loans from related party				**73,699,865**	53,302,563
EURO 30 million EBRD loan (A1 loan)	5 October 2015	EURIBOR +7%	EURO	**18,224,567**	15,136,220
EURO 20 million EBRD loan (A2 loan)	5 October 2014	EURIBOR +6.5%	EURO	**11,293,710**	35,082,326
EURO 20 million EBRD loan (B1 loan)	5 October 2015	EURIBOR +7%	EURO	**12,149,716**	10,044,778
EURO 20 million ADB	5 October 2015	EURIBOR +6%	EURO	**17,346,802**	-
EURO 15 million DEG	5 October 2015	EURIBOR +6%	EURO	**13,010,152**	-
EURO 15 million OFID	5 October 2015	7%	EURO	**12,972,275**	-
Non-current portion of loans from third parties				**84,997,222**	60,263,324
Total long-term loans				**158,697,087**	113,565,887

13. Interest-bearing Loans (continued)

Financing from EBRD
On 29 September 2009, the Company signed a loan agreement with EBRD (the "EBRD loan agreement") to finance the construction of Kiln 6 (see Note 3). The loan initially consisted of two parts, A1 loan in the amount of EURO 50 million and A2 loan in the amount of EURO 70 million. On 24 June 2010 the Company signed amendment agreement #1 to the EBRD loan agreement whereas loan A1 was split between A1 and B1 loans in the amount of EURO 30 million and EURO 20 million, respectively. On 23 August 2011 the Company signed the amendment agreement #2 to the EBRD loan agreement whereas A2 loan was decreased to EURO 20 million. Decrease in A2 loan was compensated by new ADB loan EURO 20 million, DEG loan EURO 15 million, OFID loan EURO 15 million. As a result, the Company repaid EURO 35,417,000 (AZN 39,153,493) and drew down EURO 20 million under ADB loan agreement and EURO 15 million under each DEG and OFID loan agreement.

As of 31 December 2011 the Company drew down EURO 49,583,000 (AZN 50,465,577) under the EBRD loan agreement (2010 EURO 60 million or AZN 63,360,000).

On 27 December 2011 the Company signed the amendment agreement #3 to the EBRD loan agreement whereas the first repayment date was moved from 5 January 2012 to 5 July 2012. The repayment of A1, A2 and B1 loans shall be made in equal installments ending no later than 5 October 2015 for A1 and B1 loans, and 5 October 2014 for A2 loan. The interest rate under the EBRD loan agreement is linked to the ratio of Senior Debt (as defined in the EBRD loan agreement) to the Company's EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization).

In accordance with the EBRD loan agreement, the Company paid a non-refundable loan origination fee in the amount of EURO 3 million (AZN 3,525,160) in 2009. This fee is recognized at amortized cost over the life of the loan agreement. During 2011 the effective interest rates under A1, A2 and B1 loans were 9.2%, 9.5% and 9.2%, respectively, (2010: A1 was 8%, A2 was 7.6% and B1 was 8%).

In accordance with the EBRD loan agreement the Company shall accrue and pay commitment fee of 0.5% on unused portion of the loan. The Company recorded AZN 25,110 (2010: AZN 82,940) as commitment fee payable as at 31 December 2011.

EURO 20 million ADB loan
On 23 August 2011 the Company entered into a loan agreement with ADB for EURO 20 million. The Company drew down the total amount of EURO 20,000,000 (AZN 20,356,000) as at 31 December 2011. In accordance with the ADB loan agreement, the Company paid a non-refundable loan origination fee in the amount of EURO 200,000 (AZN 226,620) in 2011. This fee is recognized at amortized cost over the life of the loan agreement. During 2011 the effective interest rate under ADB loan was 7.8%.

EURO 15 million DEG loan
On 23 August 2011 the Company entered into a loan agreement with DEG for EURO 15 million. The Company drew down the total amount of EURO 15,000,000 (AZN 15,267,000) as at 31 December 2011. In accordance with the DEG loan agreement, the Company paid a non-refundable loan origination fee in the amount of EURO 150,000 (AZN 171,045) in 2011. This fee is recognized at amortized cost over the life of the loan agreement. During 2011 the effective interest rate under DEG loan was 7.7%.

EURO 15 million OFID loan
On 23 August 2011 the Company entered into a loan agreement with OFID for EURO 15 million. The Company drew down the total amount of EURO 15,000,000 (AZN 15,267,000) as at 31 December 2011. In accordance with the OFID loan agreement, the Company paid a non-refundable loan origination fee in the amount of EURO 225,000 (AZN 256,568) in 2011. This fee is recognized at amortized cost over the life of the loan agreement. During 2011 the effective interest rate under OFID loan was 7.7%.

13. Interest-bearing Loans (continued)

The EBRD, ADB, DEG, OFID loan agreements also contain various affirmative and negative covenants, which require the Company to maintain certain financial ratios, maintain environmental and social compliance, obtain EBRD, ADB, DEG and OFID, consent before undertaking new capital expenditures over predefined thresholds as well as a number of other covenants. The financial ratio covenants become effective upon the commencement of repayment, while other covenants mentioned above are effective from the date of the first disbursement of funds under the EBRD, ADB, DEG, OFID loan agreements.

EURO 30 million HAB loan (Subordinated loan)
On 8 July 2010 the Company entered into a loan agreement with HAB for EURO 30 million. This loan has a term which is one year longer than the remaining maturity of EBRD A1 loan. In accordance with Amended and Restated Project Funds and Subordination Agreement (the "PFA") signed among the Company, HAB, EBRD, OFID, DEG and ADB dated 23 August 2011, the payment of all or any part of the loan shall be postponed until the Senior indebtedness (as defined in the PFA) has been paid in full.

EURO 20 million HAB loan (Subordinated loan)
On 31 March 2010 the Company entered into a loan agreement with HAB for EURO 20 million. The Company drew down the total amount of EURO 20,000,000 (AZN 20,356,000) as at 31 December 2011 (in 2010: EURO 9,600,000 (AZN 10,137,600)). In accordance with the PFA, the payment of all or any part of the loan shall be postponed until the Senior indebtedness has been paid in full.

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. In accordance with PFA the payment of interest shall be postponed until the Senior indebtedness has been paid in full. Management expects to commence the interest repayment on 10 January 2016. Accordingly, interest accrued under these loans in the total amount of AZN 5,361,865 (2010: AZN 1,347,363) is classified as long-term in the Statement of Financial Position as at 31 December 2011.

EURO 20 million HAB loan (Senior loan)
On 22 August 2011 the Company entered into a loan agreement with HAB for EURO 20 million. The Company drew down the total amount of EURO 20,000,000 (AZN 20,356,000) as at 31 December 2011. The repayment of the Senior loan shall be made in equal installments ending no later than 5 October 2015. The first repayment date is expected on 5 July 2012.

EURO 20 million HAB loan (Parallel loan)
On 8 December 2009 the Company entered into a loan agreement with HAB for EURO 20 million. The agreement deemed to take effect from 29 September 2009 and has the same terms and conditions as EBRD A1 Loan. The Company drew down the total amount of EURO 9,600,000 (AZN 10,137,600) as at 31 December 2010. In accordance with the loan agreement the Company shall accrue and pay commitment fees on unused portion of the loan. The Company recorded AZN 14,103 as commitment fee payable as at 31 December 2010. This agreement was fully repaid during 2011 and was terminated upon repayment.

IBA credit facility
On 12 December 2005 the Company entered into AZN 10 million credit line agreement with IBA. During 2011 the Company drew down a total amount of AZN 2,182,370 and repaid AZN 2,282,371 of principal and AZN 64,045 accrued interest. (2010: loan received - AZN 3,777,000; principle repaid - AZN 16,076,652; accrued interest repaid - AZN 1,106,218). The credit facility is unsecured and bears an interest of 16%. The maturity date of the credit facility is 12 December 2012.

The credit line available as of 31 December 2010 in amount of AZN 4 million has been closed during 2011.

Yapi Kredi Bank credit facility
On 11 August 2010 the Company entered into AZN 3.5 million credit line agreement with Yapi Kredi Bank. During 2011 the Company drew down a total amount of AZN 6,200,000 and repaid AZN 7,624,954 of principal and AZN 109,208 accrued interest (2010: loan received - AZN 7,801,911, principle repaid - AZN 5,362,286, accrued interest repaid - AZN 317,894). On 22 December 2011 the Company signed an amendment to the agreement and increased credit line from AZN 3.5 million to AZN 3.9 million. The credit facility is unsecured and bears an interest of 15%. The maturity date of the credit facility is 5 November 2012.

14. Provisions

Long-term Provisions

Long-term Provisions comprised the following:

	Site restoration	Provision for injuries	Total
As at 31 December 2009	169,672	389,170	558,842
Utilized during the year	-	-	-
Accretion charge	14,083	71,996	86,079
Additional provision	48,240	-	48,240
Change in estimate	203,454	(67,163)	136,291
As at 31 December 2010	**435,449**	**394,003**	**829,452**
Utilized during the year	-	(147,494)	(147,494)
Accretion charge	28,296	66,984	95,280
Additional provision	21,341	202,197	223,538
Change in estimate	1,263,294	580,059	1,843,353
As at December 31 2011	**1,748,380**	**1,095,749**	**2,844,129**

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 5.4% (in 2010: 6.5%). The Company estimates that the related costs will be incurred in 2080 through 2082. The following inflation rates were applied in calculation of discounted cash flows:

Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 and later**
Inflation rate	6.5%	5.3%	5.0%	4.6%	4.5%	5.0%

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 5.25% (in 2010: 17%). For the purpose of calculation of the lifetime payments to injured employees, the Company estimated a life expectancy as 71 and 76 for men and women, respectively. The above inflation rates 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	Tax penalties	Total
As at 31 December 2009	1,405,036	143,384	1,548,420
Utilized during the year	(1,405,036)	-	(1,405,036)
Additional provision	2,373,644	158,000	2,531,644
As at 31 December 2010	**2,373,644**	**301,384**	**2,675,028**
Utilized during the year	(2,373,644)	(301,384)	(2,675,028)
Additional provision	2,385,767	-	2,385,767
As at 31 December 2011	**2,385,767**	**-**	**2,385,767**

15. Trade Payables

Trade payables as at 31 December 2011 and 2010 represent amounts due to suppliers for purchases of inventories, production machinery and equipment.

16. Accrued Liabilities

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

	2011	2010
Third party accruals	**24,733,153**	20,036,372
Other tax liabilities	**572,846**	923,448
Other accruals	**22,340**	14,434
	25,328,339	20,974,254

Third party accruals as at 31 December 2011 and 2010 mainly related to the construction of the new kiln line (see Note 3).

In accordance with the terms of the agreement with CBMI, the Company shall defer a certain predefined percentage of the total billings relating to work performed and goods supplied by CBMI during 2010 and 2011 until the provisional taking over of the new kiln line (see Note 3) and submission of the necessary documentation by CBMI. The Company accrued AZN 15,655,702 as short-term payable to CBMI as at 31 December 2011 (2010: long-term portion AZN 4,172,217 and short-term portion AZN 6,500,120).

17. 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 market. 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.

17. Contingencies and Operating Environment (continued)

Current Regulatory Environment (continued)

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.

Legislation and regulations regarding taxation, foreign currency transactions and licensing of foreign currency loans in the Republic of Azerbaijan are constantly evolving as the central government manages the transformation to a market-oriented economy. Also, the various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of tax inspectors, Central Bank officials and the Ministry of Finance.

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.

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.

18. 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**	
	2011	2010	**2011**	2010
Holcim Group Support Ltd ("HGRS")	-	-	**1,786,950**	2,206,458
Holcim Romania S.A	-	-	**36,644**	37,939
Holcim Slovensko A.S.	-	-	**69,334**	17,112
Holcim Philippines	-	-	-	67,550
Other Holcim entities	-	21,782	**7,107**	-
	-	21,782	**1,900,035**	2,329,059
HAB loans – principal	-	-	**71,246,000**	51,955,200
HAB loans – short-term interest	-	-	**371,757**	195,813
HAB loans – long-term interest	-	-	**5,361,865**	1,347,363
	-	-	**76,979,622**	53,498,376

The balance of AZN 1,786,950 represents an accrual for HGRS management fee and services performed by HGRS in respect of construction the new kiln line in the amount of AZN 931,011 (2010: AZN 1,396,980) and AZN 855,939 (2010: AZN 809,478), respectively. During the year ended 31 December 2011 the Company's transactions with HGRS relating to the management fee and construction services amounted AZN 1,564,338 (2010: AZN 1,541,390) and AZN 2,609,080 (2010: AZN 2,363,904), respectively.

Transactions related to HAB loans are disclosed in Note 13 to the financial statements.

18. Related party transactions (continued)

Compensation of Key Management Personnel

Key management personnel comprise members of the Management Board of the Company, totaling 6 and 5 persons as at 31 December 2011 and 31 December 2010, respectively. Total compensation to key management personnel including bonuses approximated AZN 2,180,953 and AZN 2,038,146 for the years 2011 and 2010, respectively.

19. 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. Cash and cash equivalents and trade receivables represent Company's financial assets arising directly from its operations.

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 (except for OFID loan with fixed rate of 7%, which is close to market rate). As at 31 December 2011 and 2010 amount of such borrowings were 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, EBRD, ADB, DEG and OFID.

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 2011 and 2010, respectively.

19. Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

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**	
2011	**Increase**	**Decrease**	**After increase**	**After decrease**
USD	**10%**	**10%**	**(53,863)**	**53,863**
EURO	**10%**	**10%**	**(21,097,083)**	**21,097,083**
RUR	**10%**	**10%**	**(959)**	**959**
CHF	**10%**	**10%**	**(180,151)**	**180,151**
GBP	**10%**	**10%**	**(2,838)**	**2,838**

	Change in foreign exchange rate		Effect on profit before tax	
2010	Increase	Decrease	After increase	After decrease
USD	10%	10%	(42,412)	42,412
EURO	10%	10%	(15,562,261)	15,562,261
RUR	10%	10%	(12,449)	12,449
CHF	10%	10%	(363,466)	363,466
GBP	10%	10%	(836)	836

Interest Rate Risk

The Company's exposure to the risk of changes in interest rate relates to the EBRD, ADB, DEG and HAB loans due as at 31 December 2011 and EBRD and HAB loans due as at 31 December 2010. The related interest expense was calculated based on EURIBOR + margins indicated in Note 13.

The Company's sensitivity analysis for interest rate has been determined based on 0,5% change in EURIBOR representing Management's assessment of a reasonably possible change.

The table below summarizes effect on profit before tax of +/-0.5% shift in EURIBOR as at 31 December 2011 and 2010. There is no material impact on the Company's equity:

	Change in floating variable		**Effect on profit before tax**	
2011	**Increase**	**Decrease**	**After increase**	**After decrease**
EURIBOR	**0.5%**	**(0.5)%**	**(725,498)**	**725,498**

	Change in floating variable		Effect on profit before tax	
2010	Increase	Decrease	After increase	After decrease
EURIBOR	0.5%	(0.5)%	(209,876)	209,876

19. Financial Risk Management Objectives and Policies (continued)

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 receivable as at 31 December 2011 and 2010. The Company has established a Credit Committee that meets every two weeks 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 9 and Note 11. The Company does not hold collateral as security.

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
2011	**770,526**	**101,170**	**85,821**	**579,251**	**56,558**
2010	405,731	1,298,432	251,677	667,218	73,593

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

	2011	2010
IBA bank	**9,507,950**	4,799,215
Yapi Kredi Bank	**23,461,983**	7,429,165
Bank Standard	**2,102,854**	1,684,575
Technica Bank	**351,425**	1,483,877
PASHA Bank	**570,994**	-
VAT deposit account	**11,321,637**	5,921,791
	47,316,843	21,318,623

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.

19. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted payments:

Year ended 31 December 2011	On demand	Less than 3 months	3 to 12 months	1-5 years	>5 years
Accrued interest due to related party	-	371,756	1,078,773	10,849,277	20,683,152
Loans due to related party	-	-	2,908,000	30,170,500	38,167,500
Accrued interest due to third parties	-	1,974,806	6,563,415	12,671,224	-
Loans due to third parties	-	-	14,460,586	84,997,221	-
Trade payables	-	6,791,624	-	-	-
Accrued liabilities	22,340	25,305,999	-	-	-
Accrued liabilities due to related parties	-	1,900,035	-	-	-
Dividends payable	17,782	-	-	-	-
Other short-term loans payable	-	-	1,205,832	-	-
Accrued interest on short-term loans payable	-	45,219	135,656	-	-
Long-term accrued liabilities	-	-	-	168,745	321,696
	40,122	**36,389,439**	**26,352,262**	**138,856,967**	**59,172,348**

Year ended 31 December 2010	On demand	Less than 3 months	3 to 12 months	1-5 years	>5 years
Accrued interest due to related party	-	195,813	476,031	1,448,883	25,987,044
Loans due to related party	-	-	-	10,137,600	41,817,600
Accrued interest due to third parties	-	1,658,837	2,457,478	10,381,044	-
Loan due to third parties	-	-	-	60,263,324	-
Trade payables	-	17,394,348	-	-	-
Accrued liabilities	-	13,125,294	6,911,078	-	-
Accrued liabilities due to related parties	-	2,329,059	-	-	-
Dividends payable	21,423	-	-	-	-
Other short-term loans payable	-	2,639,625	-	-	-
Accrued interest on short-term loans payable	-	105,585	-	-	-
Long-term accrued liabilities	-	-	-	4,172,217	-
	21,423	37,448,561	9,844,587	86,403,068	67,804,644

20. 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.

20. Capital Management (continued)

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 2011 and 2010 the Company's policy was to maintain a gearing ratio in the range of no more than 200%.

	2011	2010
Cash and cash equivalent	**47,316,843**	21,318,623
Total financial liabilities	**179,618,067**	117,386,264
Net financial debt	**132,301,224**	96,067,641
Total shareholders, equity	**189,330,143**	150,399,631
Gearing %	**69.88%**	63.87%

21. Cost of Sales

Cost of Sales comprised the following:

	2011	2010
Production materials	**13,629,055**	12,789,722
Fuel expenses	**13,544,238**	12,538,976
Maintenance expenses	**4,181,156**	6,107,082
Electricity expenses	**5,260,195**	5,261,333
Personnel expenses	**7,049,281**	6,222,130
Depreciation	**6,037,032**	6,176,665
Cost of finished goods purchased	**-**	1,079,768
Other production expenses	**4,269,045**	4,811,492
	53,970,002	54,987,168

22. Distribution Expenses

Distribution expenses comprised the following:

	2011	2010
Third party transportation	**6,053,171**	6,659,668
Packing materials	**2,683,686**	2,766,147
Personnel expenses	**1,975,784**	1,845,422
Depreciation	**653,974**	813,511
Diesel and gasoline	**117,935**	121,942
Other expenses	**708,198**	813,850
	12,192,748	13,020,540

23. General and Administrative Expenses

General and administrative expenses comprised the following:

	2011	2010
Personnel expenses	**4,228,271**	3,807,532
Third party services	**1,307,359**	1,199,560
Management fee	**1,655,423**	1,693,694
Depreciation	**212,937**	277,410
Other expenses	**1,002,193**	988,009
	8,406,183	7,966,205

24. Finance Costs, net

Finance costs, net, comprised the following:

	2011	2010
Interest expense	**273,000**	2,710,171
Bank commissions	**266,322**	345,805
Accretion charge	**95,280**	86,079
	634,602	3,142,055

25. 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 14).