

**Holcim (Azerbaijan)
Open Joint Stock Company**

Financial Statements

Year ended 31 December 2012
with Independent Auditors' Report

**Holcim (Azerbaijan)
Open Joint Stock Company**

Financial Statements

Year ended 31 December 2012

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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

PricewaterhouseCoopers Audit Azerbaijan LLC

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-1085, Baku, Azerbaijan

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

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

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 2012, 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 2012, 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.

18 February 2013

Holcim (Azerbaijan) OJSC
Statement of Financial Position
(Amounts presented are in Azerbaijani Manats)

ASSETS	Notes	31 December	
		2012	2011
Non-current assets			
Property, plant and equipment, net	3	364,339,054	346,096,025
Intangible assets	4	4,500,000	1,500,000
Non-current prepayments	6	1,653,987	1,692,692
Non-current inventory	7	4,925,575	5,466,087
Other assets		-	3,000,000
Total non-current assets		375,418,616	357,754,804
Current assets			
Inventories, net	7	9,085,341	9,908,203
Trade and other receivables, net	8	1,032,630	1,593,326
Taxes receivable	9	1,098,440	1,079,197
Prepayments and advances	6	810,318	1,199,167
Receivable from related parties	17	173,455	-
Cash and cash equivalents	10	25,598,544	47,316,843
Total current assets		37,798,828	61,096,736
TOTAL ASSETS		413,217,444	418,851,540
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		192,323,667	154,215,326
Total equity		227,438,484	189,330,143
Non-current liabilities			
Loans due to related party	12,17	68,088,869	73,699,865
Loans due to third parties	12	17,878,951	84,997,222
Accrued liabilities		1,040,366	490,441
Provisions	13	3,649,291	2,844,129
Deferred income tax liability	5	11,333,612	4,568,364
Total non-current liabilities		101,991,089	166,600,021
Current liabilities			
Trade payables	14	2,260,539	6,791,624
Other short-term loans payable	12	100,000	1,205,832
Loans due to related party	12,17	7,729,503	3,279,767
Loans due to third parties	12	43,806,705	18,435,391
Accrued liabilities due to related parties	17	1,802,780	1,900,035
Accrued liabilities	15	18,837,223	25,328,339
Payroll and related taxes		23,106	13,279
Dividends payable		17,782	17,782
Income tax payable		-	3,799,592
Advances received from customers		2,062,049	1,763,978
Provisions	13	7,148,184	2,385,767
Total current liabilities		83,787,871	62,921,376
TOTAL EQUITY AND LIABILITIES		413,217,444	418,851,540

Signed and authorized for release on behalf of Management on 18 February 2013:

Raoul Waldburger

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 Comprehensive Income
(Amounts presented are in Azerbaijani Manats)

	Notes	Year ended 31 December	
		2012	2011
Sale of goods		156,719,836	119,086,799
Cost of sales	20	(67,399,054)	(53,970,002)
Gross profit		89,320,782	65,116,797
Distribution expenses	21	(15,589,193)	(12,192,748)
General and administrative expenses	22	(9,745,501)	(8,406,183)
Loss on disposal of property, plant and equipment		(890,414)	(255,563)
Selling expenses		(1,854,178)	(1,111,274)
Foreign exchange (loss)/gain		(2,409,715)	7,811,100
Operating profit		58,831,781	50,962,129
Finance income		807,973	-
Finance cost	23	(8,534,892)	(834,602)
Profit before tax		51,104,862	50,327,527
Income tax expense	5	(12,996,521)	(11,397,015)
Profit for the year		38,108,341	38,930,512
Other comprehensive income		-	-
Total comprehensive income		38,108,341	38,930,512

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	
		2012	2011
Operating activities			
Profit before tax		51,104,862	50,327,527
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation		13,893,680	6,903,943
Finance income		(807,973)	-
Finance cost	23	8,346,845	368,280
Loss on disposal of property, plant and equipment		890,414	255,563
Foreign exchange loss/(gain)		2,409,715	(8,599,190)
Provision for slow-moving items		-	550,000
Demolishment provision	13	4,220,000	-
Bonuses provision	13	2,434,841	2,385,767
Other tax charges	13	461,121	-
Injures provision		98,992	849,240
Operating profit before working capital changes		83,052,497	53,041,130
Changes in operating assets and liabilities:			
Inventories		1,402,079	(1,970,080)
Trade and other receivables		560,696	1,103,325
Receivable from related parties		(173,455)	21,782
Taxes receivable		(394,149)	3,222,922
Trade and other payables		(2,534,033)	2,971,135
Payroll and related taxes		9,827	(141,466)
Accrued liabilities		3,986,573	-
Accrued liabilities due to related parties		(132,668)	(445,646)
Advances received from customers		298,071	951,632
Provisions		(2,035,314)	(2,822,522)
Cash generated from operations		84,040,124	55,932,212
Income taxes paid		(9,655,959)	-
Interest received		807,973	-
Interest paid		(8,657,053)	(7,628,176)
Net cash flows provided by operating activities		66,535,085	48,304,036
Cash flows from investing activities			
Purchase of property, plant and equipment		(38,903,979)	(86,348,760)
Proceeds from sale of property, plant and equipment		1,572	278,210
Purchase of intangible assets		(2,500,000)	(1,000,000)
Purchase of other assets		-	(1,000,000)
Net cash flows used in investing activities		(41,402,407)	(88,070,550)
Cash flows from financing activities			
Dividends paid to shareholders		-	(3,641)
Loan origination fee		-	(221,270)
Repayments of interest-bearing loans		(55,262,877)	(65,043,147)
Proceeds from interest-bearing loans		8,412,000	131,032,792
Net cash flows (used in)/provided by financing activities		(46,850,877)	65,764,734
Net (decrease)/increase in cash and cash equivalents		(21,718,199)	25,998,220
Cash and cash equivalents at beginning of year	10	47,316,843	21,318,623
Cash and cash equivalents at end of year	10	25,598,644	47,316,843

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)

	<u>Authorized capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
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
Profit for the year	-	-	38,108,341	38,108,341
Balance as at 31 December 2012	<u>31,812,880</u>	<u>3,301,937</u>	<u>192,323,667</u>	<u>227,438,484</u>

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

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements

(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

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 2012 and 31 December 2011 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 Auslandsbeteiligungs 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.

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 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 the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Other amendments did not have any impact on the accounting policies, financial position or performance of the Company:

IFRS 1 First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters,

International Accounting Standard ("IAS") 12 Income Taxes– Deferred Taxes: Recovery of Underlying Assets,

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

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 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1:*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.
- *IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32:*
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.
- *IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7:*
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.
- *IFRS 9 Financial Instruments: Classification and Measurement:*
IFRS 9, as issued, reflects the first phase of the IASB's 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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 the final standard including all phases is issued.
- *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, but based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- *International Financial Reporting Interpretations Committee ("IFRIC") 20 Stripping Costs in the Production Phase of a Surface Mine:*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The Company is currently assessing the impact that this interpretation will have on the financial position and performance, but based on preliminary analysis no material impact is expected.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

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

- *Annual improvements May 2012*

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

These improvements are effective for annual periods beginning on or after 1 January 2013.

The Company expects no impact on its financial position, performance, disclosures or stated accounting policies from the adoption of these amendments.

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.

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.

Obsolete and Slow-moving Inventory

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.

Useful life of Property, Plant and Equipment

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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

Significant accounting Judgments, Estimates and Assumptions (continued)

Long-term Provisions

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.

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 the Azerbaijani Manat ("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 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 2012 and 2011, the official rates of exchange were AZN 1.0377 = EURO 1 and AZN 1.0178 = EURO 1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction. At 18 February 2013 the exchange rate was AZN 1.0463 = EURO 1.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

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 2012 and 2011.

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.

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 comprehensive income.

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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

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 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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

Financial Assets (continued)

Financial Assets Carried at Amortized Cost (continued)

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.

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

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

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

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 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 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.

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

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

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.

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.

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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

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 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.

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.

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 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 demolition 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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

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 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 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;
- 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 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:

- Where 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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

2. Significant Accounting Policies (continued)

Income Tax (continued)

Deferred Tax (continued)

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.

Reclassifications and revisions

A reclassification has been made to the prior year's amounts in the Statement of Cash Flows 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 Cash Flows	Amount
Non-cash adjustments to reconcile profit before tax to net cash flows:	
Bonus provision	2,385,767
Changes in operating assets and liabilities:	
Provision	(2,385,767)

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)

(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

3. Property, Plant and Equipment, net

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

	<u>2012</u>	<u>2011</u>
Cost:		
Buildings and installations	201,175,332	76,867,723
Machinery and equipment	165,541,643	64,762,083
Vehicles, furniture and tools	30,970,897	22,830,238
Land and mineral reserves	2,412,990	2,176,983
CIP	55,493,434	292,483,387
	<u>455,594,296</u>	<u>458,720,414</u>
Accumulated depreciation:		
Buildings and installations	44,032,243	49,134,829
Machinery and equipment	30,453,137	48,822,324
Vehicles, furniture and tools	16,456,369	14,559,013
Land and mineral reserves	313,493	108,223
	<u>91,255,242</u>	<u>112,624,389</u>
Net book value	<u>364,339,054</u>	<u>346,096,025</u>

An analysis of movement in property, plant and equipment for the year ended 31 December 2012 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 2011	27,532,894	15,939,759	8,071,225	2,068,760	292,483,387	346,096,025
Additions	-	-	-	236,007	32,199,497	32,435,504
Disposals	(221,385)	-	(17,339)	-	-	(238,724)
Transfers from CIP	134,495,402	125,541,059	9,152,989	-	(269,189,450)	-
Depreciation charge for the year	(4,683,822)	(6,392,312)	(2,692,347)	(205,270)	-	(13,953,751)
Net book value as at 31 December 2012	<u>157,143,089</u>	<u>135,088,506</u>	<u>14,514,528</u>	<u>2,099,497</u>	<u>55,493,434</u>	<u>364,339,054</u>

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 2012 total expenditures capitalized under Kiln 6 amounted AZN 317,756,703 (2011: AZN 287,595,888) of which AZN 2,016,864 (2011: AZN 4,352,827) represented a balance of advance payments. The major portion of balance remaining on advances as at 31 December 2012 is represented by advances of AZN 1,253,758 (2011: AZN 2,635,018) 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 166.4 million.

On 27 September 2012 final statement was signed between CBMI and the Company according to which provisional taking over for first part "Limestone Crusher to Clinker Transport" was done. Expenditure capitalized under first part amounted AZN 264,421,484 (in 2011: nil). Provisional taking over for second part "Traditional Fuel Preparation and Handling Department and Packing and Shipping Department (Cement Silo)" is expected in the second half of 2013. Based on final statement EURO 16,277,012 (AZN 16,464,198) was defined as due to the CBMI of which as of 31 December 2012 EURO 8,138,506 (AZN 8,232,099) was paid. The payment of the rest amount is expected in the first half of 2013.

As at 31 December 2012 finance charges capitalized to the cost of the new kiln project amounted AZN 3,866,440 (2011: AZN 12,906,608). Finance charges for the loans borrowed for the new kiln construction accrued till March 2012 have been fully capitalized. Starting from April 2012, accrued interest was capitalized in proportion of the new kiln related CIP balance to total cost of the new kiln project, the remaining amount of accrued interest was recognized in the Statement of Comprehensive Income under finance cost (see Note 23).

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)

(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

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

Depreciation of the new kiln line related assets brought into commercial use started from March 2012. Old kilns were fully depreciated during 2011.

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 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 due course in 2013.

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). The remaining balance of advance payments bond issued by CBMI delivered from Industrial and Commercial Bank of China constituted EURO 8,279,000 (AZN 8,426,366) as at 31 December 2011. Advance payment bond expired on 31 July 2012. On 20 December 2012 CBMI delivered to the Company irrevocable retention money guarantee from Commerzbank AG Frankfurt Am Main in total amount of EURO 8,317,553 (AZN 8,631,125). The guarantee is valid until either one month after issue of final taking over certificate or until October 2014, whichever is earlier.

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 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.

No operation under both licenses has been made during 2012.

5. Income Taxes

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

	2012	2011
Current income tax	6,231,273	8,452,697
Deferred tax:		
Relating to origination and reversal of temporary differences	6,765,248	2,944,318
Income tax expense reported in the Statement of Comprehensive Income	12,996,521	11,397,015

During 2012 and 2011 the Republic of Azerbaijan was the only tax jurisdiction in which the Company's profits were subject to taxation.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

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 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
Profit before income tax	61,104,862	50,327,527
Statutory tax rate	20%	20%
Expected income tax expense at the statutory tax rate	10,220,972	10,065,505
Non-deductible expenses	3,018,278	1,182,245
Other non-taxable income and non-deductible expenses	(242,729)	149,265
Income tax expense reported in the accompanying financial statements	<u>12,996,521</u>	<u>11,397,015</u>

The following deferred tax assets/liabilities were calculated by applying the statutory enacted tax rate of 20% for 2012 and 2011. 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:

	<u>2012</u>	<u>2011</u>
Deferred income tax liabilities:		
Property, plant and equipment	(14,459,803)	(5,827,974)
Trade payables	(49,784)	(49,784)
Long-term financing liability	(124,135)	(211,015)
Short-term financing liability	(61,341)	(168,539)
	<u>(14,695,063)</u>	<u>(6,257,312)</u>
Deferred income tax assets:		
Inventories	406,081	16,094
Accounts receivable	299,328	299,328
Other current liabilities	1,718,111	706,612
Provisions	937,931	666,914
	<u>3,361,451</u>	<u>1,688,948</u>
Net deferred tax liability	<u>(11,333,612)</u>	<u>(4,568,364)</u>

6. Prepayments

Current prepayments

Current prepayments as at 31 December 2012 and 2011 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 2012 and 2011 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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

7. Inventories, net

Current inventories

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

	<u>2012</u>	<u>2011</u>
Raw materials	1,512,169	934,935
Packing materials	337,134	1,142,767
Parts and supplies, net	2,703,396	4,785,638
Semi-finished and finished goods	4,532,642	3,044,863
	<u>9,085,341</u>	<u>9,908,203</u>

The carrying value of parts and supplies as at 31 December 2012 has been decreased by an allowance for slow-moving and obsolete inventories of AZN 1,585,617 (2011: AZN 3,940,259). In 2012 inventories related to old kilns already provided in full have been written off in total amount of AZN 2,354,641.

Non-current inventories

Non-current inventory of AZN 4,925,575 as at 31 December 2012 (2011: AZN 5,466,087) represents a limestone purchased from one of the suppliers for long-term use.

8. Trade and Other Receivables, net

	<u>2012</u>	<u>2011</u>
Trade accounts receivables	2,343,904	2,680,921
Other receivables	185,368	409,047
Allowances for doubtful accounts	(1,496,642)	(1,496,642)
	<u>1,032,630</u>	<u>1,593,326</u>

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

9. Taxes Receivable

	<u>2012</u>	<u>2011</u>
VAT receivable	830,011	1,079,197
Current tax receivable	243,393	-
Other taxes	25,036	-
	<u>1,098,440</u>	<u>1,079,197</u>

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:

	<u>2012</u>	<u>2011</u>
Cash at bank, AZN	23,749,138	24,058,703
Cash at bank, US Dollars ("USD")	143,975	91,018
Cash at bank, EURO	274,021	11,809,041
Cash at bank, Swiss Francs ("CHF")	20,532	10,019
Cash at bank, Russian Rubles ("RUR")	4,553	9,589
Cash at bank, Great Britain Pounds ("GBP")	5,598	14,843
Cash on hand	-	1,993
VAT deposit account, AZN	1,400,827	11,321,637
	<u>25,598,644</u>	<u>47,316,843</u>

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

10. Cash and Cash Equivalents (continued)

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.

11. Equity

Authorized capital

As at 31 December 2012 and 2011, 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 2012 and 2011:

	<u>Number of shares issued and outstanding</u>	<u>Ownership %</u>
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
	<u>1,590,644</u>	<u>100.00</u>

Additional paid-in capital

The amount of AZN 3,301,937 included in Additional paid-in capital as at 31 December 2012 and 2011 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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

12. Interest-bearing Loans

Current interest-bearing loans and borrowings

	Maturity Date	Original Currency	Balance as at 31 December	
			2012	2011
EURO 20 million HAB loan (Senior loan)	5 October 2015	EURO	7,590,034	2,908,000
Interest accrued under HAB loans		EURO	139,469	371,757
Current portion of loans due to related party			7,729,503	3,279,757
EURO 30 million EBRD loan (A1 loan)	5 October 2015	EURO	9,919,271	2,878,784
EURO 20 million EBRD loan (A2 loan)	5 October 2014	EURO	6,941,727	2,612,975
EURO 20 million EBRD loan (B1 loan)	5 October 2015	EURO	6,612,847	1,919,189
EURO 20 million ADB ¹ loan	5 October 2015	EURO	7,539,050	2,831,378
EURO 15 million DEG ² loan	5 October 2015	EURO	6,073,029	2,123,512
EURO 15 million OFID ³ loan	5 October 2015	EURO	6,055,618	2,094,747
Interest and commitment fee accrued under EBRD loans		EURO	318,482	1,051,286
Interest accrued under ADB loans		EURO	139,469	371,757
Interest accrued under DEG loans		EURO	94,137	293,496
Interest accrued under OFID loans		EURO	113,075	258,267
Current portion of loans due to third parties			43,806,705	16,435,391
IBA ⁴ credit facility	12 December 2013	AZN	100,000	99,999
Yapi Kredi Bank	05 November 2016	AZN	-	1,105,833
Other short-term loans payable			100,000	1,205,832
Total short-term loans			51,636,208	20,920,980

¹ Asian Development Bank ("ADB")

² Deutsche Investitions- und Entwicklungsgesellschaft mbH ("DEG")

³ OPEC Fund for International Development ("OFID")

⁴ International Bank of Azerbaijan ("IBA")

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Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

12. Interest-bearing Loans (continued)

Long-term interest-bearing loans and borrowings

	Maturity Date	Original Currency	Balance as at 31 December	
			2012	2011
EURO 20 million HAB loan (Senior loan)	5 October 2015	EURO	6,878,468	17,448,000
EURO 20 million HAB loan (subordinated loan)	Final maturity date (see below)	EURO	20,754,000	20,356,000
EURO 30 million HAB loan (subordinated loan)	Final maturity date (see below)	EURO	31,131,000	30,534,000
Interest accrued under HAB loans		EURO	9,325,401	5,361,865
Non-current portion of loans from related party			68,088,869	73,699,865
EURO 30 million EBRD loan (A1 loan)	5 October 2015	EURO	2,017,150	18,224,567
EURO 20 million EBRD loan (A2 loan)	5 October 2015	EURO	-	11,293,710
EURO 20 million EBRD loan (B1 loan)	5 October 2015	EURO	1,344,767	12,149,716
EURO 20 million ADB	5 October 2015	EURO	6,710,094	17,346,802
EURO 15 million DEG	5 October 2015	EURO	3,905,517	13,010,152
EURO 15 million OFID	5 October 2015	EURO	3,901,423	12,972,275
Non-current portion of loans from third parties			17,878,951	84,997,222
Total long-term loans			85,967,820	158,697,087

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 an 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 an 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.

Holcim (Azerbaijan) OJSC

Notes to the Financial Statements (continued)

(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

12. Interest-bearing Loans (continued)

Long-term interest-bearing loans and borrowings (continued)

Financing from EBRD (continued)

On 27 December 2011 the Company signed an 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 calculated as EURIBOR + margin. The margin 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 2012 the effective interest rates under A1, A2 and B1 loans were 8.3%, 9.6% and 8.2%, respectively, (2011: A1 was 9.2%, A2 was 9.5% and B1 was 9.2%).

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 did not record commitment fee payable as at 31 December 2012 (2011: AZN 25,110).

EURO 20 million ADB loan

On 23 August 2011 the Company entered into a loan agreement with ADB for EURO 20 million. 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. The interest rate under the ADB loan agreement is calculated as EURIBOR + margin. During 2012 the effective interest rate under ADB loan was 6.3% (2011: 7.8%).

EURO 15 million DEG loan

On 23 August 2011 the Company entered into a loan agreement with DEG for EURO 15 million. 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. The interest rate under the DEG loan agreement is calculated as EURIBOR + margin. During 2012 the effective interest rate under DEG loan was 6.5% (2011: 7.7%).

EURO 15 million OFID loan

On 23 August 2011 the Company entered into a loan agreement with OFID for EURO 15 million. 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 2012 the effective interest rate under OFID loan was 7.1% (2011: 7.7%).

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.

Hoicim (Azerbaijan) OJSC

Notes to the Financial Statements (continued)

(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

12. Interest-bearing Loans (continued)

Long-term interest-bearing loans and borrowings (continued)

EURO 20 million HAB loan (Subordinated loan)

On 31 March 2010 the Company entered into a loan agreement with HAB for EURO 20 million. 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 April 2015. Accordingly, interest accrued under these loans in the total amount of AZN 9,325,401 (2011: AZN 5,361,865) is classified as long-term in the Statement of Financial Position as at 31 December 2012.

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 repayment of the Senior loan shall be made in equal installments ending no later than 5 October 2015. The Company started repayment of the loan on 5 July 2012.

IBA credit facility

On 12 December 2005 the Company entered into AZN 10 million credit line agreement with IBA. During 2012 the Company did not make any new draw down or repayment. Interest accrued in 2012 amounted to AZN 15,999 (2011: loan received - AZN 2,182,370; principle repaid - AZN 2,282,371; accrued interest repaid - AZN 64,045). 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 12%. The maturity date of the credit facility is 12 December 2013.

Yapi Kredi Bank credit facility

On 11 August 2011 the Company entered into AZN 3.5 million credit line agreement with Yapi Kredi Bank. During 2012 the Company repaid all principal and accrued interest (2011: loan received - AZN 6,200,000, principle repaid - AZN 7,624,954, accrued interest repaid - AZN 109,208). 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 2016.

Hoicim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

13. Provisions

Long-term Provisions

Long-term Provisions comprised the following:

	Site restoration	Provision for injuries	Other tax charges	Total
As at 31 December 2010	435,449	394,003	-	829,452
Utilized during the year	-	(147,494)	-	(147,494)
Accretion charge	28,298	68,984	-	95,280
Additional provision	21,341	202,197	-	223,538
Change in estimate	1,263,294	580,059	-	1,843,353
As at 31 December 2011	1,748,380	1,095,749	-	2,844,129
Utilized during the year	-	(142,890)	-	(142,890)
Accretion charge	94,412	57,527	-	151,939
Additional provision	99,665	89,382	461,121	650,168
Change in estimate	136,335	9,610	-	145,945
As at 31 December 2012	2,078,792	1,109,378	461,121	3,649,291

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 5.3% (in 2011: 5.4%). 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:

	2013	2014	2015	2016	2017	2018 and after
Inflation rate	2.4%	4.7%	5.0%	5.2%	6.3%	5.0%

Provision for Injuries

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 5.3% (in 2011: 5.25%). 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	Tax penalties	Demolishment provision	Total
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
Utilized during the year	(1,892,424)	-	-	(1,892,424)
Additional provision	2,434,841	-	4,220,000	6,654,841
As at 31 December 2012	2,928,184	-	4,220,000	7,148,184

Demolishment provision represents costs associated with demolition of old kilns. Due to commissioning of the new kiln line, production on old kilns has been permanently stopped. Management expects to complete demolition of old kilns till the end of 2013.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

14. Trade Payables

Trade payables as at 31 December 2012 and 2011 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:

	<u>2012</u>	<u>2011</u>
Third party accruals	14,822,840	24,733,153
Other tax liabilities	3,996,813	572,846
Other accruals	17,570	22,340
	<u>18,837,223</u>	<u>25,328,339</u>

Third party accruals as at 31 December 2012 and 2011 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 the period of construction until provisional taking over of the new kiln line (see Note 3) and submission of the necessary documentation by CBMI. The Company accrued AZN 7,262,087 as short-term payable to CBMI as at 31 December 2012 (2011: AZN 15,655,702).

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 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.

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.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

16. Contingencies and Operating Environment (continued)

Current business environment (continued)

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.

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	
	2012	2011	2012	2011
Holcim Group Support Ltd ("HGRS")	-	-	1,710,339	1,786,950
Holcim IP Ltd	173,455	-	-	-
Holcim Romania S.A	-	-	-	36,644
Holcim Slovensko A.S.	-	-	20,344	69,334
Holcim Philippines	-	-	69,713	-
Other Holcim entities	-	-	2,384	7,107
	173,455	-	1,802,780	1,900,035
HAB loans – principal	-	-	66,353,502	71,246,000
HAB loans – short-term interest	-	-	139,469	371,757
HAB loans – long-term interest	-	-	9,325,401	5,361,865
	-	-	75,818,372	76,979,622

The balance of AZN 1,710,339 represents an accrual for HGRS management fee, trademark fee and services performed by HGRS in respect of construction the new kiln line in the amount of AZN 623,030 (2011: AZN 931,011), AZN 816,607 (2011: nil) and AZN 270,702 (2011: AZN 855,939), respectively. During the year ended 31 December 2012 the Company's transactions with HGRS relating to the management fee, trademark fee and construction services amounted AZN 1,855,205 (2011: AZN 1,564,338), AZN 816,607 (2011: nil) and AZN 1,878,014 (2011: AZN 2,609,080), respectively.

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 4 and 6 persons as at 31 December 2012 and 31 December 2011, respectively. Total compensation to key management personnel including bonuses approximated AZN 1,990,976 and AZN 2,180,953 for the years 2012 and 2011, respectively.

Holcim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

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.

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 5% for 2012 (2011: 7%), which is close to market rate). As at 31 December 2012 and 2011 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 2012 and 2011, respectively.

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Notes to the Financial Statements (continued)

(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

18. 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:

2012	Change in foreign exchange rate		Effect on profit before tax	
	Increase	Decrease	After increase	After decrease
USD	10%	10%	(80,996)	80,996
EURO	10%	10%	(14,584,296)	14,584,296
RUR	10%	10%	(694)	694
CHF	10%	10%	(176,159)	176,159
GBP	10%	10%	(560)	560

2011	Change in foreign exchange rate		Effect on profit before tax	
	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

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 2012 and 2011. The related interest expense was calculated based on EURIBOR + margin as discussed in Note 12.

The Company's sensitivity analysis for interest rate has been determined based on 0.1% (2011: 0.5%) change in EURIBOR representing Management's assessment of a reasonably possible change.

The table below summarizes effect on profit before tax of +/-0.1% and +/-0.5% shift in EURIBOR as at 31 December 2012 and 2011, respectively. There is no material impact on the Company's equity:

2012	Change in floating variable		Effect on profit before tax	
	Increase	Decrease	After increase	After decrease
EURIBOR	0.1%	(0.1)%	(145,078)	145,078

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

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 receivables as at 31 December 2012 and 2011. 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.

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Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

18. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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.

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:

	<u>Not past due</u>	<u>30-90 days</u>	<u>90-180 days</u>	<u>180-360 days</u>	<u>> 360 days</u>
2012	980,590	33,510	17,210	1,320	-
2011	770,526	101,170	85,821	579,251	56,558

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

	<u>2012</u>	<u>2011</u>
IBA bank	4,096,345	9,507,950
Yapi Kredi Bank	11,399,929	23,461,983
Bank Standard	7,604,586	2,102,854
Bank Technique	-	351,425
PASHA Bank	847,330	570,994
Express Bank	249,627	-
VAT deposit account	1,400,827	11,321,637
	<u>25,598,644</u>	<u>47,316,843</u>

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.

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Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

18. 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 2012 and 2011 based on contractual undiscounted payments.

Year ended 31 December 2012	On demand	Less than 3 months	3 to 12 months	1-5 years	>5 years
Accrued interest due to related party	-	139,469	273,723	17,577,093	7,616,350
Loans due to related party	-	3,142,749	4,447,286	39,306,594	19,456,875
Accrued interest due to third parties	-	665,162	1,155,874	459,944	-
Loans due to third parties	-	17,062,753	26,411,887	18,474,271	-
Trade payables	-	2,260,539	-	-	-
Accrued liabilities	17,570	18,767,456	52,197	-	-
Accrued liabilities due to related parties	-	1,802,780	-	-	-
Dividends payable	17,782	-	-	-	-
Other short-term loans payable	-	-	100,000	-	-
Accrued interest on short-term loans payable	-	4,000	12,000	-	-
Long-term accrued liabilities	-	-	-	1,963,675	846,261
	35,352	43,844,908	32,452,967	77,781,577	27,919,486
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	-	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

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.

Holcim (Azerbaijan) OJSC

Notes to the Financial Statements (continued)

(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

19. 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 2012 and 2011 the Company's policy was to maintain a gearing ratio in the range of no more than 100%.

	2012	2011
Cash and cash equivalent	25,598,644	47,316,843
Total financial liabilities	137,604,028	179,618,067
Net financial debt	112,005,384	132,301,224
Total equity	227,438,484	189,330,143
Gearing %	49.25%	69.88%

20. Cost of Sales

Cost of Sales comprised the following:

	2012	2011
Production materials	15,864,536	13,629,055
Fuel expenses	10,104,444	13,544,238
Maintenance expenses	4,779,021	4,181,156
Electricity expenses	6,669,850	5,260,195
Personnel expenses	6,297,267	7,049,281
Depreciation	13,119,578	6,037,032
Demolishment provision expenses	4,220,000	-
Property tax expenses	2,928,152	150,396
Other production expenses	3,416,206	4,118,649
	67,399,054	53,970,002

21. Distribution Expenses

Distribution expenses comprised the following:

	2012	2011
Third party transportation	8,437,542	6,053,171
Packing materials	3,492,229	2,683,686
Personnel expenses	2,215,479	1,975,784
Depreciation	562,718	653,974
Diesel and gasoline	119,472	117,935
Other expenses	761,753	708,198
	15,589,193	12,192,748

22. General and Administrative Expenses

General and administrative expenses comprised the following:

	2012	2011
Personnel expenses	4,682,730	4,228,271
Third party services	1,147,524	1,307,359
Management fee	3,211,161	1,655,423
Depreciation	211,384	212,937
Other expenses	492,702	1,002,193
	9,745,501	8,406,183

Hoicim (Azerbaijan) OJSC
Notes to the Financial Statements (continued)
(Amounts presented are in Azerbaijani Manats, unless otherwise stated)

23. Finance Costs

Finance costs comprised the following:

	2012	2011
Interest expense	8,194,906	273,000
Bank commissions	188,047	266,322
Accretion charge	151,939	95,280
	8,534,892	634,602

24. 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).