

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

**Financial Statements**  
Year ended 31 December 2013  
with Independent Auditors' Report

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

**Financial Statements**

**Year ended 31 December 2013**

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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-1065, Baku, Azerbaijan

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

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



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## **Independent Auditors' Report to the Supervisory Board of Holcim (Azerbaijan) Open Joint Stock Company**

We have audited the accompanying financial statements of Holcim (Azerbaijan) Open Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2013, 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 2013, 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 2014



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

ASSETS	Notes	31 December	
		2013	2012
<b>Non-current assets</b>			
Property, plant and equipment, net	3	359,917,304	364,339,054
Intangible assets	4	4,500,000	4,500,000
Non-current prepayments	6	1,613,109	1,653,987
Non-current inventory	7	4,891,391	4,925,575
<b>Total non-current assets</b>		<b>370,921,804</b>	<b>375,418,616</b>
<b>Current assets</b>			
Inventories, net	7	10,796,429	9,085,341
Trade and other receivables, net	8	6,066,855	1,032,630
Taxes receivable	9	820,377	1,098,440
Prepayments and advances	6	1,529,874	810,318
Receivable from related parties	17	155,134	173,455
Cash and cash equivalents	10	4,550,630	25,598,644
<b>Total current assets</b>		<b>23,919,299</b>	<b>37,798,828</b>
<b>TOTAL ASSETS</b>		<b>394,841,103</b>	<b>413,217,444</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Authorized capital	11	31,812,880	31,812,880
Additional paid-in capital	11	3,301,937	3,301,937
Retained earnings		243,911,735	192,323,667
<b>Total equity</b>		<b>279,026,552</b>	<b>227,438,484</b>
<b>Non-current liabilities</b>			
Loans due to related party	12,17	41,776,115	68,088,869
Loans due to third parties	12	-	17,878,951
Accrued liabilities		865,681	1,040,366
Provisions	13	4,971,317	3,649,291
Deferred income tax liability	5	14,379,106	11,333,612
<b>Total non-current liabilities</b>		<b>61,992,219</b>	<b>101,991,089</b>
<b>Current liabilities</b>			
Trade payables	14	4,559,268	2,260,539
Other short-term loans payable	12	100,000	100,000
Loans due to related party	12,17	17,621,238	7,729,503
Loans due to third parties	12	-	43,806,705
Accrued liabilities due to related parties	17	3,927,463	1,802,780
Accrued liabilities	15	14,253,395	18,837,223
Payroll and related taxes		54,198	23,106
Dividends payable		17,782	17,782
Income tax payable		5,546,336	-
Advances received from customers		1,259,027	2,062,049
Provisions	13	6,483,625	7,148,184
<b>Total current liabilities</b>		<b>53,822,332</b>	<b>83,787,871</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>394,841,103</b>	<b>413,217,444</b>

Signed and authorized for release on behalf of Management on 18 February 2014:

Rossen Papazov

General Director

Oliver Wilke

Chief Financial Officer

Dilbar Sultanova

Chief Accountant



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

**Holcim (Azerbaijan) OJSC**  
**Statement of Comprehensive Income**  
*(Amounts presented are in Azerbaijani Manats)*

	Notes	Year ended 31 December	
		2013	2012
Sale of goods		<b>176,500,152</b>	156,719,836
Cost of sales	20	<b>(69,033,715)</b>	(67,399,054)
<b>Gross profit</b>		<b>107,466,437</b>	89,320,782
Distribution expenses	21	<b>(16,542,252)</b>	(15,589,193)
General and administrative expenses	22	<b>(14,741,274)</b>	(9,745,501)
Gain / (loss) on disposal of property, plant and equipment		<b>72,198</b>	(890,414)
Selling expenses		<b>(1,843,338)</b>	(1,854,178)
Foreign exchange loss		<b>(2,728,308)</b>	(2,409,715)
<b>Operating profit</b>		<b>71,683,463</b>	58,831,781
Finance income		<b>91,806</b>	807,973
Finance cost	23	<b>(6,647,619)</b>	(8,534,892)
<b>Profit before tax</b>		<b>65,127,650</b>	51,104,862
Income tax expense	5	<b>(13,539,582)</b>	(12,996,521)
<b>Profit for the year</b>		<b>51,588,068</b>	38,108,341
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>51,588,068</b>	38,108,341

*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	
		2013	2012
<b>Operating activities</b>			
Profit before tax		65,127,650	51,104,862
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation		16,863,680	13,893,680
Finance income		(91,806)	(807,973)
Finance cost	23	6,198,373	8,346,845
(Gain) / loss on disposal of property, plant and equipment		(72,198)	890,414
Foreign exchange loss		2,728,308	2,409,715
Demolishment provision	13	-	4,220,000
Bonuses provision	13	2,591,381	2,434,841
Other tax charges	13	346,380	461,121
Injures provision		872,106	98,992
<b>Operating profit before working capital changes</b>		<b>94,563,874</b>	<b>83,052,497</b>
Changes in operating assets and liabilities:			
Inventories		(1,636,026)	1,402,079
Trade and other receivables		(5,034,225)	560,696
Prepayments and advances		(719,556)	388,849
Receivable from related parties		18,321	(173,455)
Taxes receivable		34,670	(394,149)
Trade and other payables		2,294,749	(2,534,033)
Payroll and related taxes		31,092	9,827
Accrued liabilities		(792,299)	3,986,573
Accrued liabilities due to related parties		2,125,072	(132,668)
Advances received from customers		(803,022)	298,071
Provisions		(3,425,690)	(2,035,314)
<b>Cash generated from operations</b>		<b>86,656,960</b>	<b>84,428,973</b>
Income taxes paid		(4,704,359)	(9,655,959)
Interest received		91,806	807,973
Interest paid		(4,111,958)	(8,657,053)
<b>Net cash flows provided by operating activities</b>		<b>77,932,449</b>	<b>66,923,934</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(16,076,902)	(39,292,828)
Proceeds from sale of property, plant and equipment		98,500	1,572
Purchase of intangible assets		-	(2,500,000)
<b>Net cash flows used in investing activities</b>		<b>(15,978,402)</b>	<b>(41,791,256)</b>
<b>Cash flows from financing activities</b>			
Repayments of interest-bearing loans		(83,002,061)	(55,262,877)
Proceeds from interest-bearing loans		-	8,412,000
<b>Net cash flows used in financing activities</b>		<b>(83,002,061)</b>	<b>(46,850,877)</b>
Net decrease in cash and cash equivalents		(21,048,014)	(21,718,199)
Cash and cash equivalents at beginning of year	10	25,598,644	47,316,843
<b>Cash and cash equivalents at end of year</b>	<b>10</b>	<b>4,550,630</b>	<b>25,598,644</b>

*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 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	31,812,880	3,301,937	192,323,667	227,438,484
<b>Profit for the year</b>	-	-	<b>51,588,068</b>	<b>51,588,068</b>
<b>Balance as at 31 December 2013</b>	<b><u>31,812,880</u></b>	<b><u>3,301,937</u></b>	<b><u>243,911,735</u></b>	<b><u>279,026,552</u></b>

*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 2013 and 31 December 2012 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 2013:

##### 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. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.



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

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

**2. Significant Accounting Policies (continued)**

*Changes in Accounting Policies (continued)*

International Accounting Standard (“IAS”) 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Company’s financial position or performance.

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

*IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7;*

*IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements;*

*IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures;*

*IFRS 12 Disclosure of Interests in Other Entities;*

*IAS 1 Presentation of Items of Other Comprehensive Income (“OCI”) – Amendments to IAS 1;*

*IAS 19 Employee Benefits (Revised 2011);*

*International Financial Reporting Interpretations Committee (“IFRIC”) 20 Stripping Costs in the Production Phase of a Surface Mine;*

*New standards and amendments issued, but not yet effective*

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

▶ *IFRS 9 Financial Instruments:*

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.

**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)*

- ▶ *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27):*  
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company.
- ▶ *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" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. 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.
- ▶ *Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36 Impairment of Assets:*  
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Company does not expect that these amendments will have material financial impact in future financial statements.
- ▶ *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39:*  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Company.
- ▶ *IFRIC 21 Levies:*  
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

*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.



**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)*

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.

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.



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

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

**2. Significant Accounting Policies (continued)**

*Foreign Currency Translation (continued)*

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 2013 and 2012, the official rates of exchange were AZN 1.0780 = EURO 1 and AZN 1.0377 = EURO 1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction. At 18 February 2014 the exchange rate was AZN 1.0759 = EURO 1.

*State Social Protection Fund*

In accordance with the Law on Social Insurance of the Republic of Azerbaijan, as amended, the Company is obligated to contribute to the State Social Protection Fund on behalf of its employees. The Company's contributions represented 22% of employees' salaries as reflected in the tax records both in 2013 and 2012.

*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.

**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)*

Initial Recognition and Measurement (continued)

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

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification:

*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.



**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 Carried at Amortized Cost*

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

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

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.



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

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

**2. Significant Accounting Policies (continued)**

*Financial Liabilities (continued)*

Derecognition (continued)

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

*Property, Plant and Equipment*

Property, plant and equipment is stated at initial cost, net of accumulated depreciation and/or impairment losses, if any. Such costs include the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. 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**

	<b>Prior to reclassification</b>	<b>Reclassification</b>	<b>After reclassification</b>
Cash flows from investing activities:			
Purchase of property, plant and equipment	(38,903,979)	(388,849)	(39,292,828)
Changes in operating assets and liabilities:			
Prepayments and advances	-	388,849	388,849

**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>2013</u>	<u>2012</u>
Cost:		
Buildings and installations	217,640,864	201,175,332
Machinery and equipment	184,855,570	165,541,643
Vehicles, furniture and tools	32,700,355	30,970,897
Land and mineral reserves	2,511,221	2,412,990
CIP	30,067,492	55,493,434
	<u>467,775,502</u>	<u>455,594,296</u>
Accumulated depreciation:		
Buildings and installations	49,752,609	44,032,243
Machinery and equipment	38,678,695	30,453,137
Vehicles, furniture and tools	18,749,038	16,456,369
Land and mineral reserves	677,856	313,493
	<u>107,858,198</u>	<u>91,255,242</u>
<b>Net book value</b>	<u><b>359,917,304</b></u>	<u><b>364,339,054</b></u>

An analysis of movement in property, plant and equipment for the year ended 31 December 2013 was as follows:

	<u>Buildings and installations</u>	<u>Machinery and equipment</u>	<u>Vehicles, furniture and tools</u>	<u>Land and mineral reserves</u>	<u>CIP</u>	<u>Total</u>
Net book value as at 31 December 2012	157,143,089	135,088,506	14,514,528	2,099,497	55,493,434	364,339,054
Additions	-	-	-	98,231	12,365,882	12,464,113
Disposals	-	-	(22,183)	-	-	(22,183)
Transfers from CIP	16,465,532	19,313,927	2,012,365	-	(37,791,824)	-
Depreciation charge for the year	(5,720,366)	(8,225,558)	(2,553,393)	(364,363)	-	(16,863,680)
<b>Net book value as at 31 December 2013</b>	<u><b>167,888,255</b></u>	<u><b>146,176,875</b></u>	<u><b>13,951,317</b></u>	<u><b>1,833,365</b></u>	<u><b>30,067,492</b></u>	<u><b>359,917,304</b></u>

In January 2008 Holcim's Management Board approved the construction of the new kiln line ("Kiln 6") with the purpose to increase the existing clinker production capacity. As at 31 December 2013 total expenditures capitalized under Kiln 6 amounted to AZN 324,660,018 (2012: AZN 317,756,703) of which AZN 2,220,254 (2012: AZN 2,016,864) represented a balance of advance payments. The major portion of balance remaining on advances as at 31 December 2013 is represented by advances of AZN 964,220 (2012: AZN 1,253,758) 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 the first part "Limestone Crusher to Clinker Transport" was done. Expenditure capitalized under the first part amounted to AZN 264,421,484. 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 2014. Based on final statement EURO 16,277,012 (AZN 17,546,619) was defined as due to the CBMI of which during the year ended on 31 December 2013 EURO 2,929,862 (AZN 3,158,391) was paid (2012: EURO 8,138,506 (AZN 8,445,328)). The payment of the remaining amount is expected in the first half of 2014.



**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)**

As at 31 December 2013 finance charges capitalized to the cost of the new kiln project amounted to AZN 820,899 (2012: AZN 3,866,440). 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).

Depreciation of the new kiln line related assets brought into commercial use started from March 2012.

The legislation of the Republic of Azerbaijan requires the Company to obtain certain permits from various governmental authorities before the commencement of the operations of the new kiln line. As of 31 December 2013 all necessary permits to operate the new kiln were received by the Company. The new kiln line is subject to the final acceptance by the State Commission of the Republic of Azerbaijan and Management believes that all required documents will be obtained in due course in 2014.

In accordance with the contract with CBMI and in order to secure the parties from non-performance of contractual obligations, 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 8,966,322). 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 2013 and 2012.

**5. Income Taxes**

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

	<u>2013</u>	<u>2012</u>
Current income tax	<b>10,494,088</b>	6,231,273
Deferred tax:		
Relating to origination and reversal of temporary differences	<u>3,045,494</u>	<u>6,765,248</u>
Income tax expense reported in the Statement of Comprehensive Income	<u><b>13,539,582</b></u>	<u>12,996,521</u>

During 2013 and 2012 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 2013 and 2012, respectively:

	<u>2013</u>	<u>2012</u>
Profit before income tax	<b>65,127,650</b>	51,104,862
Statutory tax rate	<b>20%</b>	20%
Expected income tax expense at the statutory tax rate	<b>13,025,530</b>	10,220,972
Non-deductible expenses	<b>614,070</b>	3,018,278
Other non-taxable income and non-deductible expenses	<b>(100,018)</b>	(242,729)
Income tax expense reported in the accompanying financial statements	<b><u>13,539,582</u></b>	<u>12,996,521</u>

The following deferred tax assets/liabilities were calculated by applying the statutory enacted tax rate of 20% for 2013 and 2012. 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>2013</u>	<u>2012</u>
Deferred income tax liabilities:		
Property, plant and equipment	<b>(18,304,852)</b>	(14,459,803)
Trade payables	<b>(28,000)</b>	(49,784)
Long-term financing liability	-	(124,135)
Short-term financing liability	-	(61,341)
	<b><u>(18,332,852)</u></b>	<u>(14,695,063)</u>
Deferred income tax assets:		
Inventories	<b>350,291</b>	406,081
Accounts receivable	<b>392,868</b>	299,328
Other current liabilities	<b>2,043,187</b>	1,718,111
Provisions	<b>1,167,400</b>	937,931
	<b><u>3,953,746</u></b>	<u>3,361,451</u>
<b>Net deferred tax liability</b>	<b><u>(14,379,106)</u></b>	<u>(11,333,612)</u>

**6. Prepayments**

*Current prepayments*

Current prepayments as at 31 December 2013 and 2012 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 2013 and 2012 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>2013</u>	<u>2012</u>
Raw materials	1,263,213	1,512,169
Packing materials	677,852	337,134
Parts and supplies, net	4,202,712	2,703,396
Semi-finished and finished goods	4,652,652	4,532,642
	<u>10,796,429</u>	<u>9,085,341</u>

The carrying value of parts and supplies as at 31 December 2013 has been decreased by an allowance for slow-moving and obsolete inventories of AZN 1,659,747 (2012: AZN 1,585,617). In 2012 inventories related to old kilns already provided in full have been written off in total amount of AZN 2,354,641, there were no items related to old kilns written off in 2013.

*Non-current inventories*

Non-current inventory of AZN 4,891,391 as at 31 December 2013 (2012: AZN 4,925,575) represents a limestone purchased from one of the suppliers for long-term use.

**8. Trade and Other Receivables, net**

	<u>2013</u>	<u>2012</u>
Trade accounts receivables	7,966,044	2,343,904
Other receivables	65,152	185,368
Allowances for doubtful accounts	(1,964,341)	(1,496,642)
	<u>6,066,855</u>	<u>1,032,630</u>

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

**9. Taxes Receivable**

	<u>2013</u>	<u>2012</u>
VAT receivable	813,696	830,011
Current tax receivable	-	243,393
Other taxes	6,681	25,036
	<u>820,377</u>	<u>1,098,440</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>2013</u>	<u>2012</u>
Cash at bank, AZN	3,664,945	23,749,138
Cash at bank, US Dollars ("USD")	30,988	143,975
Cash at bank, EURO	106,685	274,021
Cash at bank, Swiss Francs ("CHF")	3,600	20,532
Cash at bank, Russian Rubles ("RUR")	165	4,553
Cash at bank, Great Britain Pounds ("GBP")	2,143	5,598
VAT deposit account, AZN	742,104	1,400,827
	<u>4,550,630</u>	<u>25,598,644</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 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 2013 and 2012, 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 2013 and 2012:

	<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 2013 and 2012 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.

**12. Interest-bearing Loans**

*Current interest-bearing loans and borrowings*

	<u>Maturity Date</u>	<u>Original Currency</u>	<u>Balance as at 31 December</u>	
			<u>2013</u>	<u>2012</u>
EURO 20 million HAB loan (Senior loan)	5 October 2015	EURO	-	7,590,034
EURO 20 million HAB loan (Subordinated loan)	Final maturity date (see below)	EURO	5,390,000	-
EURO 30 million HAB loan (Subordinated loan)	Final maturity date (see below)	EURO	8,085,000	-
Current portion of Interest accrued under HAB loan (Subordinated loan)	Final maturity date (see below)	EURO	3,235,446	-
Interest accrued under HAB loans		EURO	910,792	139,469
<b>Current portion of loans due to related party</b>			<u>17,621,238</u>	<u>7,729,503</u>

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

**12. Interest-bearing Loans (continued)**

*Current interest-bearing loans and borrowings (continued)*

	<u>Maturity Date</u>	<u>Original Currency</u>	<u>Balance as at 31 December</u>	
			<u>2013</u>	<u>2012</u>
EURO 30 million EBRD loan (A1 loan)	5 October 2015	EURO	-	9,919,271
EURO 20 million EBRD loan (A2 loan)	5 October 2014	EURO	-	6,941,727
EURO 20 million EBRD loan (B1 loan)	5 October 2015	EURO	-	6,612,847
EURO 20 million ADB <sup>1</sup> loan	5 October 2015	EURO	-	7,539,050
EURO 15 million DEG <sup>2</sup> loan	5 October 2015	EURO	-	6,073,029
EURO 15 million OFID <sup>3</sup> loan	5 October 2015	EURO	-	6,055,618
Interest and commitment fee accrued under EBRD loans		EURO	-	318,482
Interest accrued under ADB loans		EURO	-	139,469
Interest accrued under DEG loans		EURO	-	94,137
Interest accrued under OFID loans		EURO	-	113,075
<b>Current portion of loans due to third parties</b>			-	43,806,705
IBA <sup>4</sup> credit facility	12 December 2014	AZN	<b>100,000</b>	100,000
<b>Other short-term loans payable</b>			<b>100,000</b>	100,000
<b>Total short-term loans</b>			<b>17,721,238</b>	51,636,208

<sup>1</sup> Asian Development Bank ("ADB")

<sup>2</sup> Deutsche Investitions- und Entwicklungsgesellschaft mbH ("DEG")

<sup>3</sup> OPEC Fund for International Development ("OFID")

<sup>4</sup> International Bank of Azerbaijan ("IBA")



**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*

	<u>Maturity Date</u>	<u>Original Currency</u>	<u>Balance as at 31 December</u>	
			<u>2013</u>	<u>2012</u>
EURO 20 million HAB loan (Senior loan)	5 October 2015	EURO	-	6,878,468
EURO 20 million HAB loan (subordinated loan)	Final maturity date (see below)	EURO	<b>13,475,000</b>	20,754,000
EURO 30 million HAB loan (subordinated loan)	Final maturity date (see below)	EURO	<b>20,212,500</b>	31,131,000
Interest accrued under HAB loans		EURO	<b>8,088,615</b>	9,325,401
<b>Non-current portion of loans from related party</b>			<b><u>41,776,115</u></b>	<u>68,088,869</u>
EURO 30 million EBRD loan (A1 loan)	5 October 2015	EURO	-	2,017,150
EURO 20 million EBRD loan (A2 loan)	5 October 2015	EURO	-	-
EURO 20 million EBRD loan (B1 loan)	5 October 2015	EURO	-	1,344,767
EURO 20 million ADB	5 October 2015	EURO	-	6,710,094
EURO 15 million DEG	5 October 2015	EURO	-	3,905,517
EURO 15 million OFID	5 October 2015	EURO	-	3,901,423
<b>Non-current portion of loans from third parties</b>			<u>-</u>	<u>17,878,951</u>
<b>Total long-term loans</b>			<b><u>41,776,115</u></b>	<u>85,967,820</u>

*Financing from EBRD*

On 29 September 2009, the Company signed a loan agreement with EBRD (the "EBRD loan agreement") to finance the construction of the 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. EBRD loans were fully repaid by the Company as of 31 December 2013.

*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%. The loan was fully repaid by the Company as of 31 December 2013.

*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%. The loan was fully repaid by the Company as of 31 December 2013.

*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%. The loan was fully repaid by the Company as of 31 December 2013.

The EBRD, ADB, DEG, OFID loan agreements also contained various affirmative and negative covenants, which required 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 7 October 2013 when the Senior indebtedness (as defined in the PFA) was paid in full. The loan is repayable in 16 equal installments on 10 January, 10 April, 10 July, 10 October. On top of scheduled repayments on 27 December 2013 the Company made an advance payment in the amount of EUR 3,750,000 (AZN: 4,040,625).



**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)*

*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 was paid in full (7 October 2013). The loan is repayable in 16 equal installments on 10 January, 10 April, 10 July, 10 October. On top of scheduled repayments on 27 December 2013 the Company made an advance payment in the amount of EUR 2,500,000 (AZN: 2,693,750).

The interest accrued under the above mentioned subordinated HAB loans shall be due and payable quarterly on 10 January, 10 April, 10 July, 10 October. In accordance with PFA the payment of interest shall be postponed until the Senior indebtedness was paid in full (7 of October 2013). Interests are repayable in 16 equal installments. On top of scheduled repayments on 27 December 2013 the Company made an advance payment in the amount of EUR 1,500,690 (AZN: 1,616,994). As of 31 December 2013 outstanding balance AZN 11,324,061 (2012: AZN 9,325,401) of which AZN 3,235,446 (2012: nil) is classified as short term and AZN 8,088,615 (2012: AZN 9,325,401) is classified as long-term in the Statement of Financial Position.

*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 loan was fully repaid by the Company as of 31 December 2013.

*IBA credit facility*

On 12 December 2005 the Company entered into AZN 10 million credit line agreement with IBA. During 2013 the Company did not make any new drawdowns or repayments. Interest accrued in 2013 amounted to AZN 14,545 (2012: AZN 15,999). On 8 February 2013 the Company signed an amendment to the agreement and decreased credit line from AZN 10 million to AZN 5 million. The credit facility is unsecured and bears an interest of 11%. The maturity date of the credit facility is 12 December 2014.

*Yapi Kredi Bank credit facility*

On 22 December 2011 the Company entered into AZN 3.9 million credit line agreement with Yapi Kredi Bank. As of 31 December 2013 and 2012 the Company has no outstanding balance under the credit facility. The credit facility is unsecured and bears an interest of 11%. The maturity date of the credit facility is 5 November 2016.

**13. Provisions**

*Long-term Provisions*

Long-term Provisions comprised the following:

	<b>Site restoration</b>	<b>Provision for injuries</b>	<b>Other tax charges</b>	<b>Total</b>
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
<b>As at 31 December 2012</b>	<b>2,078,792</b>	<b>1,109,378</b>	<b>461,121</b>	<b>3,649,291</b>
Utilized during the year	-	(169,750)	-	(169,750)
Accretion charge	115,890	59,169	-	175,059
Additional provision	-	698,055	346,380	1,044,435
Change in estimate	98,231	174,051	-	272,282
<b>As at 31 December 2013</b>	<b>2,292,913</b>	<b>1,870,903</b>	<b>807,501</b>	<b>4,971,317</b>

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

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

**13. Provisions (continued)**

*Long-term Provisions (continued)*

Site Restoration Provision

In accordance with the Law on Mineral Reserves of the Republic of Azerbaijan, the Company is obliged to re-establish the surface of the quarries after extraction. The Company calculated the present value of the site restoration cost using a discount rate of 3.3% (in 2012: 5.3%). The Company estimates that the related costs will be incurred in 2080 through 2082. The following inflation rates were applied in calculation of discounted cash flows:

Year	2014	2015	2016	2017	2018	2019 after
Inflation rate	4.26%	4.66%	4.56%	4.45%	4.34%	3.00%

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 3.3% (in 2012: 5.3%). For the purpose of calculation of the lifetime payments to injured employees, the Company estimated a life expectancy as 71 and 77 for men and women, respectively. The inflation rates used for Site Restoration Provision were applied to match the escalation in average salaries.

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

*Short-term Provisions*

Short-term provisions comprised the following:

	<u>Bonuses</u>	<u>Demolishment provision</u>	<u>Total</u>
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
<b>As at 31 December 2012</b>	<b>2,928,184</b>	<b>4,220,000</b>	<b>7,148,184</b>
Utilized during the year	(2,993,032)	(262,908)	(3,255,940)
Additional provision	2,591,381	-	2,591,381
<b>As at 31 December 2013</b>	<b>2,526,533</b>	<b>3,957,092</b>	<b>6,483,625</b>

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 2014.

**14. Trade Payables**

Trade payables as at 31 December 2013 and 2012 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>2013</u>	<u>2012</u>
Third party accruals	10,298,066	14,822,840
Other tax liabilities	3,938,549	3,996,813
Other accruals	16,780	17,570
	<b>14,253,395</b>	<b>18,837,223</b>



## **Holcim (Azerbaijan) OJSC**

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

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

#### **15. Accrued Liabilities (continued)**

Third party accruals as at 31 December 2013 and 2012 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 4,495,856 as short-term payable to CBMI as at 31 December 2013 (2012: AZN 7,262,087).

#### **16. Contingencies and Operating Environment**

##### *Current business environment*

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

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

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

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

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

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

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

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

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

**16. Contingencies and Operating Environment (continued)**

*Environmental Liability*

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

*Litigations*

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

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

**17. Related party transactions**

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

	<b>Amounts owed by related parties</b>		<b>Amounts owed to related parties</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
Holcim Group Support Ltd ("HGRS")	-	-	-	1,710,339
Holcim LTD	<b>106,047</b>	173,455	-	-
Holcim Technology LTD	-	-	<b>2,651,279</b>	-
Holcim Emerging Europe Service	-	-	<b>411,432</b>	-
Holcim Services EMEA, S.L	-	-	<b>603,464</b>	-
Holcim(Bulgaria) AD	-	-	<b>80,355</b>	-
Holcim Espana S.A.	-	-	<b>69,582</b>	-
Holcim Philippines	-	-	<b>69,713</b>	69,713
Holcim Slovensko A.S.	-	-	<b>20,344</b>	20,344
Other Holcim entities	<b>49,087</b>	-	<b>21,294</b>	2,384
	<b>155,134</b>	173,455	<b>3,927,463</b>	1,802,780
HAB loans – principal	-	-	<b>47,162,500</b>	66,353,502
HAB loans – short-term interest	-	-	<b>4,146,238</b>	139,469
HAB loans – long-term interest	-	-	<b>8,088,615</b>	9,325,401
	-	-	<b>59,397,353</b>	75,818,372

The balance of AZN 2,651,279 represents an accrual to Holcim Technology for international franchising fee and management services performed by Holcim technology in the amount of AZN 2,573,277 (2012: nil) and AZN 78,002 (2012: nil), respectively. During the year ended 31 December 2013 the Company's transactions with Holcim Technology relating to international franchising fee and management services amounted to AZN 5,324,267 (2012: nil) and AZN 536,191 (2012: nil), respectively.

The balance of AZN 1,710,339 as of 31 December 2012 represented 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, AZN 816,607 and AZN 270,702, 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 to AZN 1,855,205, AZN 816,607 and AZN 1,878,014, respectively.



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

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

**17. Related party transactions (continued)**

The balance of AZN 411,432 (2012: nil) represents an accrual to Holcim Emerging Europe Service for costs sharing fee (costs of Holcim Emerging Europe Service allocated to the Company). During the year ended 31 December 2013 the Company's transactions with Holcim Emerging Europe Service amounted to AZN 900,229 (2012: nil).

The balance of AZN 603,464 (2012: nil) represents an accrual to Holcim Services EMEA for European Business Model ("EBM") project costs. During the year ended 31 December 2013 the Company's transactions with Holcim Services EMEA amounted to AZN 1,563,539 (2012: nil).

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

*Compensation of Key Management Personnel*

Key management personnel comprise members of the Management Board of the Company, totaling 5 and 4 persons as at 31 December 2013 and 31 December 2012, respectively. Total compensation to key management personnel including bonuses approximated AZN 1,713,367 and AZN 1,990,976 for the years 2013 and 2012, respectively.

**18. Financial Risk Management Objectives and Policies**

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

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, which is close to market rate). As at 31 December 2013 and 2012 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.

**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 (continued)**

*Foreign Currency Risk (continued)*

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 2013 and 2012, respectively.

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

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

  

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

*Interest Rate Risk*

The Company's exposure to the risk of changes in interest rate relates to the HAB loans due as at 31 December 2013 and EBRD, ADB, DEG and HAB loans as at 31 December 2012. 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% (2012: 0.1%) change in EURIBOR representing Management's assessment of a reasonably possible change.

The table below summarizes effect on profit before tax of +/-0.1% shift in EURIBOR as at 31 December 2013 and 2012. There is no material impact on the Company's equity:

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

  

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

*Credit Risk*

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. The extent of the Company's credit exposure is represented by the aggregate balance of cash and cash equivalents and trade and other receivable as at 31 December 2013 and 2012. 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.



**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 (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>&gt; 360 days</u>
<b>2013</b>	<b>918,779</b>	<b>2,553,603</b>	<b>2,588,833</b>	<b>5,640</b>	-
2012	980,590	33,510	17,210	1,320	-

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

	<u>2013</u>	<u>2012</u>
IBA bank	<b>727,543</b>	4,096,345
Yapi Kredi Bank	<b>1,031,905</b>	11,399,929
Bank Standard	<b>1,376,377</b>	7,604,586
PASHA Bank	<b>618,481</b>	847,330
Express Bank	<b>54,220</b>	249,627
VAT deposit account	<b>742,104</b>	1,400,827
	<b>4,550,630</b>	25,598,644

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

*Liquidity Risk*

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

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

The tables below summarize the maturity profile of the Company's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted payments:

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

## 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 (continued)

*Liquidity Risk (continued)*

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
	<b>35,352</b>	<b>43,844,908</b>	<b>32,452,967</b>	<b>77,781,577</b>	<b>27,919,486</b>

#### 19. Capital Management

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

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

The Company monitors its capital using gearing ratio, which is net financial debt divided by total equity. The Company includes only interest bearing loans from financial institutions and related parties for calculating the financial liabilities. During 2013 and 2012 the Company's policy was to maintain a gearing ratio in the range of no more than 100%.

	2013	2012
Cash and cash equivalent	4,550,630	25,598,644
Total financial liabilities	59,497,353	137,604,028
<b>Net financial debt</b>	<b>54,946,723</b>	<b>112,005,384</b>
Total equity	279,026,552	227,438,484
<b>Gearing %</b>	<b>19.69%</b>	<b>49.25%</b>

#### 20. Cost of Sales

Cost of Sales comprised the following:

	2013	2012
Production materials	14,939,131	15,864,536
Fuel expenses	10,651,468	10,104,444
Maintenance expenses	5,398,574	4,779,021
Electricity expenses	7,143,724	6,669,850
Personnel expenses	7,047,573	6,297,267
Depreciation	16,013,662	13,119,578
Demolishment provision expenses	-	4,220,000
Property tax expenses	2,675,821	2,928,152
Other production expenses	5,163,762	3,416,206
	<b>69,033,715</b>	<b>67,399,054</b>



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

**21. Distribution Expenses**

Distribution expenses comprised the following:

	<u>2013</u>	<u>2012</u>
Third party transportation	9,228,615	8,437,542
Packing materials	3,646,496	3,492,229
Personnel expenses	1,960,558	2,215,479
Depreciation	679,151	562,718
Diesel and gasoline	123,656	119,472
Other expenses	903,776	761,753
	<u>16,542,252</u>	<u>15,589,193</u>

**22. General and Administrative Expenses**

General and administrative expenses comprised the following:

	<u>2013</u>	<u>2012</u>
Personnel expenses	4,869,942	4,682,730
Third party services	2,744,095	1,147,524
Management fee	6,320,340	3,211,161
Depreciation	150,247	211,384
Other expenses	656,650	492,702
	<u>14,741,274</u>	<u>9,745,501</u>

**23. Finance Costs**

Finance costs comprised the following:

	<u>2013</u>	<u>2012</u>
Interest expense	6,023,314	8,194,906
Bank commissions	449,246	188,047
Accretion charge	175,059	151,939
	<u>6,647,619</u>	<u>8,534,892</u>