IS CA AIR MOLDOVA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(together with independent auditor's report)

CONTENTS:

Deloitte.

Deloitte & Touche SRL
Bd. Ştefan cel Mare, 65,
Office 300
Chişinău, MD-2001
Moldova

Tel: + 373 222 70310
Fax: + 373 222 70311
www.deloitte.md

To the Board of Administration of
IS CA Air Moldova

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

1. We have audited the accompanying financial statements of IS CA Air Moldova ("the Company"), which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. 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.

Auditor's Responsibility

3. 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 whether the financial statements are free from material misstatement.

4. 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.

Deloitte.

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

Basis for Qualified Opinion – Limitation on Scope

6. The Company's ticketing system has certain limitations that place restrictions on the Company's ability to assess its revenues from expired tickets and tickets 'sold not flown'. Due to the nature of the Company's records, we were not able to estimate the reasonableness of deferred revenue in amount of MDL 59,926 thousand , the effect on retained earnings as at 31 December 2012 and as a result the reasonableness of revenue from expired tickets in the amount of MDL 20,903 thousand recognized in 2013.

7. In accordance with the Company's accounting policies the buildings and aircrafts are stated at revalued amounts. Due to the lack of certain information in the valuation reports to assess the fair value of buildings and aircrafts, we were unable to obtain sufficient appropriate audit evidence, through other audit procedures, as to the carrying amount of buildings and aircrafts, related revaluation reserves, deferred tax implications as at 31 December 2013 and depreciation expense for 2013.

Qualified Opinion

8. In our opinion, except for the possible effects of the matters described in the Limitation of audit scope and Basis for Qualified Opinion, paragraphs 6 and 7, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Emphasis of Matter

9. As described in Note 13.1 to the financial statements, we draw attention to the Company's non-compliance with the debts covenants as of December 31, 2013. No waiver letter was received at the reporting date. Our opinion is not qualified in respect of this matter.

Deloitte & Touche SRL

Deloitte & Touche SRL
Chisinau, Republic of Moldova
30 September 2016

IS CA AIR MOLDOVA
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in thousands of Moldovan lei)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Non-current assets			
Intangible assets	4	974	818
Property, plant and equipment	5	505,093	563,502
Available for sale investments	6	642	642
Long-term financial assets	7	18,045	6,768
Deferred tax asset	18	4,120	-
Total non-current assets		**528,874**	**571,730**
Current assets			
Inventories	8	20,485	18,318
Trade and other receivables	9	96,002	73,418
Cash and cash equivalents	10	3,030	5,242
Other assets		888	169
Total current assets		**120,405**	**97,147**
Total assets		**649,279**	**668,877**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	11	148,561	148,561
Revaluation reserves	12	97,285	97,285
Accumulated deficit		(263,635)	(278,692)
Total equity/(deficit)		**(17,789)**	**(32,846)**
Non-current liabilities			
Deferred tax liabilities	18	-	983
Long-term borrowings	13	248,625	271,432
Long-term payables	14	7,102	17,002
Provisions	15	21,405	25,054
Total non-current liabilities		**277,132**	**314,471**
Current liabilities			
Trade and other payables	16	247,413	251,397
Short-term borrowings	13	58,778	75,929
Deferred revenue	17	83,745	59,926
Total current liabilities		**389,936**	**387,252**
Total liabilities		**667,068**	**701,723**
Total equity and liabilities		**649,279**	**668,877**

These financial statements were authorized for issue on September 30, 2016:

Iulian Scorpan
General Manager

Victor Sula
Vice-Director

Notes attached form an integral part of these financial statements.

IS CA AIR MOLDOVA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in thousands of Moldovan lei)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Revenue	19	1,218,646	1,105,179
Cost of sales	20	(1,053,579)	(1,045,777)
Gross profit/(loss)		**165,067**	**59,402**
Other operating income	21	26,424	36,095
Other gains and (losses)	22	(32,613)	(19,599)
Selling and marketing expenses	23	(54,007)	(56,639)
General and administrative expenses	24	(40,101)	(40,054)
Other operating expenses	25	(18,494)	(27,449)
Financing costs	26	(33,377)	(34,123)
Profit/ (loss) before tax		**12,899**	**(82,367)**
Income tax expenses	27	2,156	(983)
PROFIT / (LOSS) FOR THE YEAR		**15,055**	**(83,350)**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		**15,055**	**(83,350)**

These financial statements were authorized for issue on September 30, 2016:

Iulian Scorpan
General Manager

Victor Sula
Vice-Director

ÎNTREPRINDEREA DE STAT COMPANIA AVIA «AIR MOLDOVA» REPUBLICA MOLDOVA mun. CHIŞINĂU 1002600001718

Notes attached form an integral part of these financial statements.

IS CA AIR MOLDOVA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in thousands of Moldovan lei)

	Issued capital	Revaluation reserve	Accumulated deficit	Total
Balance at January 1, 2012	**148,561**	**97,285**	**(195,342)**	**50,504**
Profit appropriation	-	-	-	-
Profit for the year	-	-	(83,350)	(83,350)
Comprehensive loss for the year , net of income tax	-	-	-	-
Balance at December 31, 2012	**148,561**	**97,285**	**(278,692)**	**(32,846)**
Profit appropriation	-	-	-	-
Profit for the year	-	-	15,055	15,055
Comprehensive loss for the year , net of income tax	-	-	-	-
Balance at December 31, 2013	**148,561**	**97,285**	**(263,637)**	**(17,791)**

These financial statements were authorized for issue on September 30, 2016:

Iulian Scorpan
General Manager

Victor Sula
Vice-Director

Notes attached form an integral part of these financial statements.

IS CA AIR MOLDOVA
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in thousands of Moldovan lei)

	Year ended December 31, 2013	Year ended December 31, 2012
	MDL	*MDL*
Cash flow from operating activities:		
Profit / (loss) for the year	15,055	(83,350)
Adjustments for:		
Income tax expenses recognized in profit or loss	(2,156)	983
Financing cost recognized in profit or loss	34,123	34,123
Investment income recognized in profit or loss	-	-
Impairment loss recognized on inventory	(726)	1,320
Impairment loss recognized on trade receivables	(2,733)	(1,130)
Reversal of impairment loss on inventory	-	
Depreciation and amortization of non-current assets	94,602	92,095
Net foreign exchange (gains)/losses	32,611	19,600
Income from expired tickets	(10,574)	(38,765)
Expenses with recognition of provision	-	4,955
Income from write off of payables	-	-
Operating profit/(loss) before working capital Changes	**160,202**	**29,831**
Movements in working capital:		
Decrease/(increase) in trade and other receivables	(17,887)	(2,665)
Decrease/(increase) in inventories	(1,444)	(2,666)
Decrease/(increase) in long term financial assets	(10,278)	409
Decrease/(increase) in other assets	(717)	-
Increase/(decrease) in trade and other payables	(9,980)	73,530
Increase/(decrease) in provisions	(3,813)	
Increase/(decrease) in deferred revenue	23,819	(30,434)
Cash generated from operations	**139,902**	**68,005**
Interest paid	(34,123)	(34,123)
Income taxes paid	(2,946)	-
Net cash generated by operating activities	**102,833**	**33,882**
Cash flow from investing activities:		
Payments for property, plant and equipment	(35,912)	(25,437)
Payments for intangible assets	(439)	(177)
Net cash (used in)/generated by investing activities	**(36,351)**	**(25,614)**
Cash flow from financing activities:		
Proceeds from borrowings	-	35,300
Repayments of borrowings	(67,638)	(42,591)
Profit appropriation to the State	-	-
Net cash (used in) / provided by financing activities	**(67,638)**	**(7,291)**

Notes attached form an integral part of these financial statements.

IS CA AIR MOLDOVA
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2013
(all amounts are expressed in thousands of Moldovan lei)

	Year ended December 31, 2013	Year ended December 31, 2012
Net increase / (decrease) in cash and cash equivalents	**(1,155)**	**977**
Cash and cash equivalents at the beginning of the financial year	**5,242**	**5,717**
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1,057)	(1,452)
Cash and cash equivalents at the end of the financial year	**3,030**	**5,242**

These financial statements were authorized for issue on September 30, 2016:

Iulian Scorpan
General Manager

Victor Sula
Vice-Director

Notes attached form an integral part of these financial statements.

1. GENERAL INFORMATION

State enterprise IS CA Air Moldova ("the Company") was created in 1992 and reorganised on February 1995 when the airline company Air Moldova was separated from Chisinau International Airport.

In June 2000 the Company was reorganised as a Moldovan-German joint venture with the State Administration of Civil Aviation (SACA) owing 51% and remaining shares acquired by Unistar Ventures GmbH, a company registered in Germany. A court decision resulting from disagreement between the shareholders of the joint venture, ruled in restoring the Company to its initial structure of a state enterprise. SACA issued order No. 61/GEN of September 19, 2002 whereby the Company was registered as a state enterprise on September 25, 2002 under registration No. 104018776. Up to December 31, 2008 the Company was under supervision of the State Administration of Civil Aviation of the Republic of Moldova, starting from January 1, 2009 supervision of the Company is exercised by Transport Agency of the Republic of Moldova. Subsequently, according to the Government's resolution nr 695/18.11.2009 the supervision function of the Company was delegated to the Ministry of Transport and Roads Infrastructure of the Republic of Moldova.

Principal activities of the Company were to provide passenger and other flight services from the Republic of Moldova to several destinations in Central and Western Europe. The company operates a fleet of owned and leased aircrafts.

The registered office of the Company is located at Airport Boulevard MD-2026, Chisinau, Republic of Moldova and employed 502 employees for the year ended December 31, 2011 (499 for the year ended December 31, 2010).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1. Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- IFRS 1 - First-time Adoption of International Financial Reporting Standards – Government Loans (effective for annual periods beginning on or after 1 January 2013),
- IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- IFRS 12 - Disclosures of Interests in Other Entities - (effective for annual periods beginning on or after 1 January 2013),
- IAS 19 - Employee Benefits – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- IFRS 7 - Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- IFRS 10 - Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13 - Fair Value Measurement - (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 - "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

2.1. Standards and Interpretations effective in the current period (continued)

- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Entity's accounting policies.

2.2. Standards and Interpretations in issue not yet effective

At the date of authorization of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective:

- IFRS 9 "Financial Instruments" and subsequent amendments (effective date was not yet determined),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

2.2. Standards and Interpretations in issue not yet effective (continued)

- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

The Entity has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the certain categories of property plant and equipment, which are stated at revalued amounts.

The Company maintains its accounting records in the currency of the Republic of Moldova, being the Moldovan Lei (MDL) and prepares its statutory accounting records in accordance with National Accounting Standards (NAS) and regulations set by the Ministry of Finance of the Republic of Moldova.

The Company's functional currency is MDL. The Company considers that MDL has a dominant impact on the Company's operations, is used to a greater extent than other currencies and better reflects the economic substance of the underlying events and circumstances of the Company.

Going Concern

The Company's current liabilities exceed its current assets by MDL 292,118 thousand (2011: MDL 295,589 thousand), further the Company has an accumulated deficit of MDL 278,693 thousand, even if it recorded profit for the current year. These conditions indicate the existence of a material uncertainty that the Company will be able to meet its liabilities when they fall due, however management believes that it has adequate cash management plans to mitigate this uncertainty and the shareholder will offer the ongoing support to sustain operations. Therefore, these financial statements have been prepared under the assumption that the Company will continue as a going concern.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-compliance with bank covenants

According to paragraph 3.3 "Financial Covenants" from the both Loan Agreements ("Agreements") concluded between BC Moldova-Agroindbank SA ("Creditor") and IS CA Air Moldova ("Borrower"), the borrower has to maintain Liquidity rate, Debt per equity rate and Debt coverage ratio within certain limits. During the current year, the company did not comply with the above-specified covenants. As per paragraph 3.5 "Borrower non-compliance with covenants", in case of non-compliance with the covenants specified in the agreements, the creditor has the right to declare part or the total amount of principal, including calculated interest, as overdue and payable immediately of at the first request.

At the reporting date, no waiver letter was received from BC Moldova-Agroindbank SA. In this condition, the current portion of related loan in amount of MDL'000 7,104 was reclassified to current portion from non-current portion, in accordance with IAS 1. At the date of the approval of these Financial Statements, no loan restructuring process was initiated by the bank.

The principal accounting policies are set out below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue from flights is recognized when tickets sold are flown by passengers. Revenue from rendering of services is recognized when services are rendered.

The validity period of ticket is one year from the sale date. Tickets not flown and unreturned within one year are considered as expired tickets and the revenue should be recognized.

Leasing income

Operating lease income is recognized as income on a straight-line basis over the lease term. Lease income from leasing and sub-leasing of aircrafts is recognized based on actual number of hours flown by the leased aircraft.

Dividend income

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The company as lessee

Assets held under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lesser is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

The company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Foreign Currencies

Transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

Employee benefits

The Company contributes in respect of its employees to the Government health, retirement benefit and unemployment scheme at the statutory rates in force during the year at 23% and 3.5% to the Medical Insurance Fund (2011: 23% and 3.5%), based on gross salary payments. The cost of these payments is charged to income statement in the same period as the related salary cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

The company has no other obligations to provide pensions or other postretirement benefits to any of its management or staff and, accordingly, no provision for future pension costs is required.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Tax rate for the year 2013 is 12% (2012: 12%).

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

In accordance with current tax legislation, unused tax losses can be carried forward for the period of 5 years, every year the Company can use only one fifth of total tax loss carried forward.

Property, plant and equipment

Buildings mainly used for administrative purposes and engines and aircrafts, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Company has performed a revaluation of Buildings and Engines and Aircrafts as of November 1, 2006 and recorded the corresponding revaluation surplus. According to company policy regarding the revaluation of property, the next revaluation will be done in 2012.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Any revaluation increase arising on the revaluation of such buildings is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognized impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. For the classes of assets mentioned below, depreciation is charged using the following useful lives:

Buildings	40 years
Machinery and Equipment	5-10 years
Vehicles	5 years
Overhauls and major inspections	2-10 years
Other	4-10 years

Depreciation for aircrafts and engines is computed using the highest of sum-of-the-units method based on the number of actual hours flown / remaining to the total expected flying hours over the useful life of the aircraft jets and engines or useful life of the aircraft jets and engines.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

Intangible Assets

Intangible assets are measured initially at cost. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives from 3 to 5 years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, directs labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost formulae. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Long-term financial assets

Long-term financial assets do not carry interest and are stated at their nominal value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale Investments

All investments are initially recognized at cost including acquisition changes associated with the investment. After initial recognition , investment, which are classified as available for sale, are measured at fair value if fair value is available (if shares are quoted); otherwise they are measured at cost subject to permanent impairment in value. Investments in associates are carried at cost less a provision for permanent impairment in value. Gain and loss on available-for-sale investments measured at fair value are recognized as a separate component of equity Until investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Financial Liability and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Cash and Cash Equivalents

Cash includes cash on hand, cash with banks and cash in-transit. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Provisions

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

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with International Reporting Financial Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to Transport sales in advance, impairment of assets, recoverability of deferred tax assets and recoverability of receivables and obsolescence of inventories. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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:

- **Work in progress**

Work in progress is stated at cost plus any attributable profit less any foreseeable losses and less amounts received or receivable as progress payments. The cost of work in progress includes materials, labor and direct expenses plus attributable overheads based on a normal level of activity. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of financial position date.

- **Impairment of trade and other receivables**

The Company reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record, the customer's overall financial position and any other market information concerning the client which becomes available. If indications of irrecoverability exist, the recoverable amount is estimated and a respective impairment of trade and other receivables is made. The amount of the provision is charged through the consolidated statement of comprehensive income. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly. Where there are litigations in progress, balances are provided accordingly.

- **Write down of inventories**

The Company reviews its inventory records for evidence regarding the salability of inventory and its net realizable value on disposal. The amount of write down for obsolete and slow-moving inventory is based on management's past experience, taking into consideration the value of inventory items close to expiry as well as the movement and the level of stock of each category of inventory.

The amount of write down is recognized in the statement of comprehensive income. The review of the net realisable value of the inventory is continuous and the methodology and assumptions used for estimating the amount of write down for obsolete and slow-moving inventory are reviewed regularly and adjusted accordingly.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgements (continued)

- **Income taxes**

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts thatwere initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Impairment of available-for-sale financial assets**

The Company follows the guidance of IAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

- **Impairment of intangible asset**

Intangible assets are initially recorded at acquisition cost and are amortized on a straight line basis over their useful economic life. Intangible assets that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with indefinite useful life are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Company estimates the recoverable amount of the cash generating unit in which the asset belongs to.

- **Useful lives**

The Company depreciates its property, plant and equipment over their estimated useful lives which are assessed on an annual basis. The actual lives of these assets can vary depending on a variety of factors. Technological innovation, product life cycles, and maintenance programs all impact the useful lives and residual values of the assets.

- **Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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. Where the carrying amount of an asset 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, 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.

(all amounts are expressed in thousands of Moldovan lei)

4. INTANGIBLE ASSETS

	Year ended December 31, 2013	Year ended December 31, 2012
Cost		
Balance at January 1, 2013	**1,675**	**1,499**
Additions	439	176
Disposals	(255)	-
Balance at December 31,2013	**1,859**	**1,675**
Accumulated amortization		
Balance at January 1, 2013	**(857)**	**(668)**
Amortization expense	(283)	(189)
Disposal	255	-
Balance at December 31, 2013	**(885)**	**(857)**
Carrying amount		
Balance at December 31, 2013	**974**	**818**

(all amounts are expressed in thousands of Moldovan lei)

5. PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions	Engines and aircrafts	Machinery and equipment	Vehicles	Other assets	Assets in progress	Total
Cost or valuation							
Balance as at 1 January 2012	**40,600**	**975,344**	**21,457**	**7,301**	**2,743**	**292**	**1,047,737**
Additions	-	23,395	395	1,079	-	787	25,656
Transfers to account	-	-	-	-	-	-	-
Disposals	-	(18,944)	(142)	-	(87)	-	(19,173)
Balance as at 1 January 2013	**40,600**	**979,795**	**21,710**	**8,380**	**2,656**	**1,079**	**1,054,220**
Additions	-	35,399	404	7	161	-	35,971
Transfers to account	-	-	-	787	-	(787)	-
Disposals	-	(29,333)	(70)	(85)	(54)	-	(29,542)
Balance as at 31 December, 2013	**40,600**	**985,861**	**22,044**	**9,089**	**2,763**	**292**	**1,060,649**

(all amounts are expressed in thousands of Moldovan lei)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and constructions	Engines and aircrafts	Machinery and equipment	Vehicles	Other assets	Assets in progress	Total
Accumulated depreciation							
Balance as at 1 January 2012	**9,382**	**382,519**	**17,839**	**6,004**	**2,240**	**-**	**417,984**
Impairment losses charged to profit or loss	-	-	68	-	-	292	360
Charge for the year	1,874	87,929	1,033	546	164	-	91,546
Elimination on disposal	-	(18,944)	(142)	-	(86)	-	(19,172)
Balance as at 1 January 2013	**11,254**	**451,504**	**18,798**	**6,550**	**2,318**	**292**	**490,718**
Impairment losses charged to profit or loss	-	-	-	-	-	-	-
Charge for the year	1,874	90,701	956	671	117	-	94,319
Elimination on disposal	-	(29,272)	(69)	(85)	(54)	-	(29,480)
Balance as at 31 December 2013	**13,128**	**512,933**	**19,688**	**7,135**	**2,382**	**292**	**555,557**
Carrying value							
As at 31 December 2012	**29,344**	**528,291**	**2,912**	**1,830**	**338**	**787**	**563,502**
As at 31 December 2013	**27,472**	**472,928**	**2,357**	**1,954**	**381**	**-**	**505,093**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company entered into an Aircraft Purchase Agreement (the "Agreement"), pursuant to which Embraer Brasileira de Aeronautica SA ("Embraer") has agreed to manufacture and sell two Embraer EMB 145 LU Aircrafts (the "Aircrafts"). In order to receive financing for the purchase price, the Company entered into certain financing arrangements with a German operating leasing company ("GOAL") and with Dresdner Bank AG. Subsequently, GOAL and Dresdner Bank ceased financing operations and the Company did not complete the purchase of the aircrafts. For this reason, Embraer decided to terminate the Agreement, claiming that the Company violated certain provisions of it. Moreover, Embraer invoked Article 20.3 of the agreement and retained all amounts previously paid by the Company for the Aircrafts, totaling USD 3,724 thousand as compensation for claimed incurred damages. The company received correspondence from Embraer indicating that the total amount of liquidated damages due to it under the Agreement is limited to the amounts prepaid. In 2004, management of the Company has decided to write-off these prepaid amounts, which were classified as assets under construction. During the year 2008 the company ended the process of negotiating the use of these prepaid amounts as prepayments for future purchases with Embraer. According to letter agreement as of January 28, 2008 Embraer agreed to grant a special discount in amount of USD 1,500 thousand for the purchase of one aircraft and a special credit in amount of USD 650 thousand for the purchase of spare parts, technical publications, trainings in relation to that aircraft. Embraer 190 aircraft was received in May 2010.

Considering the fact, that acquisition of Embraer 190 meets the recognition criteria of qualified assets, the Company capitalized the interest on loans directly attributable to the acquisition of qualifying asset in amount of MDL 12,676 thousands.

During the year 2013 Company used 2 aircrafts in dry long-term operational lease.

In 2011 company signed an addendum with Top Flight 741 Owner Statutory Trust for the rent of Airbus A 320 ER-AXP, approving prolongation of the lease agreement till 6 March 2015, rent payments constituted fixed fee in amount of USD 165 thousands per month. According to the contract the Company is liable to pay on the monthly basis the Airframe Reserves, the Engine Restoration Reserve, the Engine Life Limited Parts Reserves, the Landing Gear and Auxiliary Power Unit Reserves. The contract is considered as non-cancellable as the early termination could be caused only by one of events of default. Contract does not contain any significant financial covenants restrictions.

A new aircraft lease agreement was signed on 29 March 2013 with Meteor Aviation Investments Ltd. for the dry lease of Embraer EMB 190 LR ER-ECC. The term of leasing commenced in April 2013 and continues for 60 months, till April 2018, with an option to be extended for a period of 24 months. On 7 November was signed an addendum approving the prolongation with 12 months, till April 2019. Monthly rent payments constituted fixed fee in amount of USD 207 thousands. According to the agreement the Company is responsible for and shall pay all costs, expenses, fees, charges and taxes incurred in the operation of the aircraft during the lease term, for profit or otherwise, including, but not limited to, the costs of flights crews, cabin personnel, fuel, oil, lubricants, maintenance, insurance, repairs, repairmen's liens, landing and navigation fees, airport charges, passenger services and any all other expenses of any kind of nature, directly or indirectly, in connection with or related to the use, movement and operation of the aircraft.

The Company has pledged property, plant and equipment to secure loan facilities granted to the Company by BC Victoriabank SA, BCA Banca de Economii SA, BC Banca de Finante si Comert SA, BC Moldova-Agroindbank SA and BC Banca Comerciala Romana SA (Note 13).

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2013 Company carried out overhauls of the owned aircrafts (Airbus ER- AXV: Engine off wings – MDL 5,520 thousand, Wheels,Tires&Brakes – MDL 3,289 thousand, Rotables&repair - 449 thousand; Embraer 120:C-checks –MDL 11,054 thousand; Engine off wing – MDL 5,281 thousand; Embraer ERJ 190-100- C-Checks – MDL 2,286 thousand; Wheels,Tires&Brakes – MDL 2,212 thousand) and leased aircrafts (Airbus ER - AXP: C-Checks – MDL 2,215 thousand, Wheels,Tires&Brakes – MDL 1,098 thousand; Embraer ERJ 190 ER- ECC : Aircarft painting – MDL 779 thousand; Wheels,Tires&Brakes - MDL 971 thousand).

In 2012 Company carried out overhauls of the owned aircrafts (Airbus ER- AXV:C-Checks - – MDL 9,545 thousand, Engine off wing – MDL 943 thousand, Aircraft painting – MDL 719 thousand, AC painting – MDL 407 thousand; Embraer 120: Engine off wing – MDL 3,792 thousand; Embraer ERJ 190-100- C-Checks – MDL 3,352 thousand) and leased aircrafts (Airbus ER - AXP: AD Hoc Assistance – MDL 1,391 thousand, C-Checks – MDL 3,229 thousand).

Overhauls depreciation period was assessed by technical department based on the expected intensity of the use of aircrafts in future (forecast number of take-offs and landings, flights hours). For the leased aircrafts period of depreciation is also adjusted to the term of the operational lease contract.

(all amounts are expressed in thousands of Moldovan lei)

6. INVESTMENTS

	Principal activity	Country of incorporation	Shareholding as at December 31, 2013	December 31, 2013	Shareholding as at December 31, 2012	December 31, 2012
Available-for-sale investments						
SITA INC NV	IT and telecommunications solutions provider to the air transport companies	Belgium	19,328 shares at nominal value USD 1 per share	-	19,328 shares at nominal value USD 1 per share	-
"Afes M" SRL	Insurance company	Republic of Moldova	5%	640	5%	640
Other			-	2	-	2
Total				**642**		**642**

All investments are carried at cost since no fair value was determinable due to the fact that these investments are not quoted. Management believes that the fair value of the Company's investments approximates their carrying amount.

(all amounts are expressed in thousands of Moldovan lei)

7. LONG TERM FINANCIAL ASSETS

Long-term financial assets in the amount of MDL 18,045 thousand include: guarantee deposit placed by the company Meteor Aviation Investments LTD under leasing agreement signed in 2013 in amount of USD 821 thousand (MDL 10,720 thousand); guarantee deposit placed by the company with Top Flight 741 Owner Statutory Fund under leasing agreement signed in 2009 for USD 495,000 (MDL 6,463 thousand) and guarantee deposit placed with main supplier of aircraft maintenance services AJ Walter Aviation of USD 64,750 (MDL 845 thousand).

8. INVENTORIES

	December 31, 2013	December 31, 2012
Raw materials and fuel	5,669	4,260
Low-value items	778	785
Spare parts	21,571	20,080
	28,018	**25,125**
Less: provision for slow-moving and obsolete inventory	(7,533)	(6,807)
	20,485	**18,318**

The movements in the provision for slow-moving and obsolete inventory can be specified as above:

	December 31, 2013	December 31, 2012
Balance at beginning of the year	6,807	5,487
Expense/(release) of the year	726	1,320
Balance at end of the year	**7,533**	**6,807**

9. TRADE AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012
Trade receivables from ticketing agencies, airlines and other	61,011	40,268
Receivable from fiscal authorities	11,427	12,181
Prepayments	14,524	5,859
Receivable from lease contracts	-	8,761
Current guarantee deposit	-	-
Other receivables	29,967	24,885
	116,929	**91,954**
Allowance of doubtful debts	(20,927)	(18,536)
	96,002	**73,418**

(all amounts are expressed in thousands of Moldovan lei)

9. TRADE AND OTHER RECEIVABLES (continued)

Out of other receivables MDL 15,561 thousand represents the presented and / or accepted claims of third parties.

Ageing of past due but not impaired	December 31, 2013	December 31, 2012
90-180 days	1,997	2,769
	1,997	**2,769**

Receivables past due but not impaired relate to other receivables

The movement in the allowance for bad and doubtful debts can be specified as follows:

	December 31, 2013	December 31, 2012
Balance at the beginning of the year	18,536	17,250
Impairment losses recognized on receivables	2,733	1,130
Amounts written off during the year as uncollectible	(693)	
Foreign exchange translation gains and losses	350	156
	20,927	**18,536**

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade and other receivables. The impairment recognized represents the difference between the carrying amount of these receivables and the present value of the expected proceeds. The Company does not hold any collateral over these balances.

Ageing of impaired trade and other receivables	December 31, 2013	December 31, 2012
90 - 365 days	2,710	1,130
365 + days	18,217	17,406
	20,927	**18,536**

Management considers that the carrying amount of trade and other receivables approximates their fair value.

(all amounts are expressed in thousands of Moldovan lei)

10. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012
Cash in bank	3,014	5,156
Cash in transit	16	86
	3,030	**5,242**

11. ISSUED CAPITAL

Air Moldova was initially established as a state enterprise based on decision of the State Administration of Civil Aviation (SACA) number 14 of May 22, 1995. In June 2000 the company was reorganised into a German-Moldovan joint venture with 51% share owned by SACA and 49% share owned by Unistar Ventures GmbH. During 2002 the company was restored to a state enterprise following disagreement between the shareholders (see Note 20). Since then the Company was wholly owned by SACA.

On December 14, 2006 SACA, the only shareholder of the Company, issued an order according to which the statutory capital of the Company is increased by MDL 277,394 thousand that represents SACA contribution to the purchase of Airbus A320-211 MSN 622. The actual cash contribution amounted to MDL 93,100 thousand and the remaining MDL 184,294 thousand remained unpaid as "Unpaid capital".

Starting from January 1, 2009 supervision of the Company was exercised by Transport Agency of the Republic of Moldova. Subsequently, according to the Government's resolution nr. 695/18.11.2009 the supervision function of the Company was delegated to the Ministry of Transport and Roads Infrastructure of the Republic of Moldova.

In accordance with The Decision of the Council of Administration of IS CA Air Moldova dated April 9, 2010, was decided to increase the share capital of the company from the statutory reserves.

The increase in share capital was of MDL 35,832 thousands. Also the statutory capital of the company was increased by MDL 420,478 thousand that represents shareholder contribution to the purchase of Embraer 190. No cash was received in relation to the respective increase in share capital, the amount of MDL 420,478 thousand remaining unpaid as "Unpaid capital".

12. REVALUATION RESERVES

	December 31, 2013	December 31, 2012
Balance at beginning of the year	97,285	97,285
Balance at end of the year	**97,285**	**97,285**

(all amounts are expressed in thousands of Moldovan lei)

13. BORROWINGS

	December 31, 2013	December 31, 2012
Bank overdrafts	-	2,050
Bank loans	307,403	345,311
	307,403	**347,361**
Current	58,778	75,929
Non-current	248,625	271,432
	307,403	**347,361**

Analysis of borrowings by currency

	Total	MDL	EUR	USD
As at December 31, 2013				
Bank overdrafts	-	-	-	-
Bank loans	307,403	16,750	111,336	179,317
	307,403	**16,750**	**111,336**	**179,317**
As at December 31, 2012				
Bank overdrafts	2,050	2,050	-	-
Bank loans	345,311	36,000	108,474	200,837
	347,361	**38,050**	**108,474**	**200,837**

The bank loans and overdrafts are presented below:

Creditor	CCY	Interest rate, %	Principal outstanding as at December 31, 2013	Principal outstanding as at December 31, 2012
Current				
BCA Banca de Economii (a)	USD		10,410	9,372
BC Victoriabank SA (b)	USD/EUR		12,033	10,309
BC Victoriabank SA (c)	MDL		16,750	21,250
BC Banca de Finante si Comert SA (d)	USD		3,771	3,749
BC Victoriabank SA (e)	MDL		-	2,050
Banca Comerciala Romana (f)	USD		8,125	7,506
BC Moldova-Agroindbank (g)	USD		-	2,741
BC Moldova-Agroindbank (h)	USD		7,689	18,952
			58,778	**75,929**
Non-current				
BCA Banca de Economii (a)	USD		81,879	85,130
BC Victoriabank SA (b)	USD/EUR		95,850	95,275
BC Victoriabank SA (c)	MDL		-	14,750
BC Banca de Finante si Comert SA (d)	USD		32,775	34,128
BC Banca Comerciala Romana (f)	USD		38,121	42,149
			248,625	**271,432**
			307,403	**347,361**

13. BORROWINGS (continued)

The main features of the bank loans of Air Moldova are presented below:

a) A bank loan received from BCA Banca de Economii SA on 28 January 2008, amounting USD 10,000 thousand, represents a part of consolidated loan from BCA Banca de Economii SA, BC Victoriabank SA and Banca de Finante si Comert SA amounting USD 25,000 thousand for the purpose of acquisition of Embraer 190 aircraft. Loan is disbursed in installments up to March 2010. The loan carries a floating annual interest rate of 11%. According to the schedule of repayment the loan is repayable monthly during the period of August 29, 2008 up to January 28, 2020. As a guarantee for the loan the Company pledged building placed on Negruzzi 10 street (carrying amount as at December 31, 2012 is of MDL 7,495 thousand), building placed on Negruzzi 8 street (carrying amount is of MDL 2,674 thousand), aircraft Airbus A 320-211 (carrying amount is of MDL 134,413 thousand) and aircraft Embraer 190 (carrying amount is of MDL 375,871 thousand).

b) A bank loan received from BC Victoriabank SA on 28 January 2008, amounting to USD 10,000 thousand, represents a part of consolidated loan from BCA Banca de Economii SA, BC Victoriabank SA and Banca de Finante si Comert SA amounting USD 25,000 for the purpose of acquisition of Embraer 190 aircraft. In 2010, the loan was extended to the amount of USD 11,000 thousand. Initially the loan carried a floating annual interest rate of 11%, but starting with January 01, 2010 the interest rate was set as 13.5% for both currencies and subsequently changed to 11% and finally set as 9.5% from November 10, 2010. According to the schedule of repayment the loan is repayable monthly during the period of August 31, 2008 up to January 28, 2020. As a guarantee for the loan the Company pledged building placed on Negruzzi 10 street (carrying amount as at December 31, 2012 is of MDL 7,495 thousand), building placed on Negruzzi 8 street (carrying amount is of MDL 2,674 thousand), aircraft Airbus A 320-211 (carrying amount is of MDL 134,413 thousand) and aircraft Embraer 190 (carrying amount is of MDL 375,871 thousand).

c) A bank loan received from BC Victoriabank SA on 12 December 2012, amounting to MDL 36,000 thousand. The purpose of the loan is to finance working capital (payments for operational leasing of aircrafts, payments for fuel, insurance premiums etc.). The loan carried a floating interest rate of 10.5%. According to the schedule of repayment the loan is repayable monthly, starting from March 2013 till June 2014, in installments amounting between MDL 500 thousand to MDL 3,500 thousand according to repayment schedule. As a guarantee for the loan, the Company pledged the following: - aircrafts (hulls and engines) located on Chisinau airport, collateral value being MDL 28,615 thousand; - inventories (spare parts for aircrafts) located on Chisinau airport (street Aeroportului 135, building ATB-3, collateral value being MDL 8,540 thousand.

d) A bank loan received from BC Banca de Finante si Comert SA on 28 January, 2008, amounting USD 4,000 thousand, represents a part of consolidated loan from BCA Banca de Economii SA, BC Victoriabank SA and Banca de Finante si Comert SA amounting USD 25,000 for the purpose of acquisition of Embraer 190 aircraft. Loan is disbursed in installments up to March 2010. Initially the loan carried a floating annual interest rate of 11.5%, which was subsequently changed to 13% for the year 2009 and to 11.5 % starting from December 1, 2009. Starting from November 15, 2010, interest rate was set at 10%. According to the schedule of repayment the loan is repayable monthly during the period of August 31, 2008 up to January 28, 2020. As a guarantee for the loan the Company pledged building placed on Negruzzi 10 street (carrying amount as at December 31, 2012 is of MDL 7,495 thousand), building placed on Negruzzi 8 street (carrying amount is of MDL 2,674 thousand), aircraft Airbus A 320-211 (carrying amount is of MDL 134,413 thousand).

13. BORROWINGS (continued)

e) Overdraft received from BC Victoriabank SA on December 28, 2012 amounting MDL 2,050 thousand. The purpose of the loan is to finance working capital of the Company. The overdraft carries an annual interest rate of 21.5 %.

f) A bank loan received from BC Banca Comerciala Romana on May 4, 2010 amounting USD 5,600 thousand for the purpose of replenishment of working capital. Initially the loan carried a floating annual interest rate of 11%, which was subsequently changed to 9.5% starting with December 2010. According to schedule of repayment the loan is repayable monthly during the period of May 31, 2010 up to December 31, 2019. As a guarantee for the loan serves aircraft Embraer E120RT (carrying amount is of MDL 6,391 thousand).

g) A bank loan received from BC Moldova Agroindbank on March 26, 2010 amounting USD 2,500 thousand for the purpose of capital repair of an aircraft's engine. Loan carries a floating interest rate of 11.75%. According to schedule of repayment the loan is repayable monthly during the period of June 30, 2010 up to February 28, 2013. As a guarantee for the loan the Company pledged its Head Office placed on Dacia 80/2 street (carrying amount is of MDL 1,925 thousand), building ATB-3 (carrying amount is of MDL 9,933 thousand), service building (carrying amount is of MDL 84 thousand) and Garage (carrying amount is of MDL 122 thousand).

h) A bank loan received from BC Moldova Agroindbank on December 12, 2011 amounting USD 2,500 thousand for the purpose of capital repair of an aircraft's engine. Loan carries a floating interest rate of 9%. According to schedule of repayment the loan is repayable monthly during the period of March 30, 2012 up to October 31, 2014. As a guarantee for the loan the Company pledged its Head Office placed on Dacia 80/2 street (carrying amount is of MDL 1,925 thousand), building ATB-3 (carrying amount is of MDL 9,933 thousand).

BC Moldova Agroindbank has included in the loan agreements a loan covenants clause. The other banks loans do not include in the loan agreements loan covenants clauses.

13.1 Breach of loan covenants

According to paragraph 3.3 "Financial Covenants" from the both Loan Agreements ("Agreements") concluded between BC Moldova-Agroindbank SA ("Creditor") and IS CA Air Moldova ("Borrower"), the borrower has to maintain Liquidity rate, Debt per equity rate and Debt coverage ratio within certain limits. During the current year the company did not comply with the above specified covenants. As per paragraph 3.5 "Borrower non-compliance with covenants", in case of non-compliance with the covenants specified in the agreements, the creditor has the right to declare part or the total amount of principal, including calculated interest, as overdue and payable immediately of at the first request. At the reporting date, no waiver letter was received from BC Moldova-Agroindbank SA. At the date of the approval of these Financial Statements no loan restructuring process was initiated by the bank. The entire amount outstanding with this bank as of December 31, 2013 is MDL 7,689 thousand.

(all amounts are expressed in thousands of Moldovan lei)

14. LONG-TERM PAYABLES

	December 31, 2013	December 31, 2012
Payable to Autoritatea Aeronautica Civila	7,102	17,002
	7,102	**17,002**

Based on agreement regarding payable rescheduling no. 85 dated 25 October 2012 signed between Air Moldova ISCA and Autoritatea Aeronautica Civila a Republicii Moldova ("ASAC") the total payable amount owed to ASAC by Air Moldova constitutes MDL 32,192 thousand which was agreed to be paid in tranches till December 2015. The amount of MDL 7,102 thousand represents the long term portion of debt.

15. PROVISIONS

	December 31, 2013	December 31, 2012
Re-delivery of aircrafts	16,449	16,285
Penalties from Fiscal Authority	4,956	8,769
	21,405	**25,054**

Based on the Leasing Agreement concluded between IS CA Air Moldova and Top Flight 741 Owner Statutory Trust for the rent of Airbus A 320 ER-AXP, at the end of the leasing period the leasee has to incur certain expenses in relation to the aircraft in order to meet the necessary conditions of transfer from leasee to lessor, part of which are covered through monthly payments of reserves. The remaining expenses which are not covered by the reserves are related to re-delivery check (6Y+C) and both engines overhaul. Management calculated the amount of the expenses, based on prior years' experience, and booked a provision, in correspondence with Property, plant and equipment account amounting to MDL 16,285 thousand (equivalent of EUR 1,300 thousand).

According to Fiscal Authority's decision No. 276 dated 20 August 2012, the Company should pay in state budget undistributed profit related to fiscal year 2011 in amount of MDL 4,855 thousand and a penalty in amount of MDL 102 thousand for non-compliance with Government Decision nr.110 from 23.02.2011 regarding net profit distribution of state companies. The company contested the Fiscal Authority Decision by starting a Court case in amount of MDL 4,855 thousand and which is still in progress.

(all amounts are expressed in thousands of Moldovan lei)

16. TRADE AND OTHER PAYABLES

	December 31, 2013	December 31, 2012
Trade payables	126,497	130,932
Payable to related party (Note 27)	91,852	80,815
Salaries and other payables to staff	10,418	15,871
Lease guarantee deposits	8,805	16,270
Payables to the budget	4,171	2,184
Agencies' guarantee deposits	5,503	4,480
Other payables	167	845
	247,413	**251,397**

Management considers that the carrying amount of trade and other payables approximates its fair value.

Salaries and other payables to staff include the provision for not taken vacations for the year 2012 in amount of MDL 5,816 thousand (year 2011: MDL 7,172 thousand).

Lease guarantee deposit represents the security deposit paid by lessees to Air Moldova in accordance with lease agreements.

17. DEFERRED REVENUE

	December 31, 2013	December 31, 2012
Revenue deferred in respect of Frequent Flyer Program	1,702	1,755
Tickets sold not flown	82,043	58,171
	83,745	**59,926**

During 2012 and 2013 the Company assessed income from expired tickets (comprising of tickets 'sold not flown' and expired tickets) based on the information available in the current system, and realized such income to the statement of comprehensive income Note 19.

18. DEFERRED TAX

The differences between fiscal regulations and the accounting rules applied in preparing these financial statements give rise to differences between the carrying value of certain assets and liabilities for financial reporting and statutory tax purposes. The tax rate used for reconciliations above is the corporate tax rate of 12 % payable by corporate entities in Moldova on taxable profits under tax law in this jurisdiction starting January 1, 2012.

Deferred income taxes are calculated on all temporary differences determined under the liability method as of December 31, 2013 using a principal tax rate of 12%.

(all amounts are expressed in thousands of Moldovan lei)

18. DEFERRED TAX (continued)

Deferred tax asset/(liability) components

Deferred tax assets/(liabilities) arise from the following temporary differences:

	December 31, 2012	Increase/ (decrease) through profit or loss	Increase/ (decrease) through OCI	Net foreign currency exchange differences	December 31, 2013
Deferred tax asset					
Property, plant and equipment	-	2,145	-	-	2,145
Other	1,954	21	-	-	1,975
Total deferred tax asset	**1,954**	**2,166**	**-**	**-**	**4,120**
Deferred tax liability					
Property, plant and equipment	(2,937)	2,937	-	-	-
Other	-		-	-	
Total deferred tax liabilities	**(2,937)**	**2,937**	**-**	**-**	**-**
Deferred tax assets / (liabilities)	**(983)**	**5,103**	**-**	**-**	**4,120**

(all amounts are expressed in thousands of Moldovan lei)

19. SALES

	December 31, 2013	December 31, 2012
Scheduled flights	1,001,432	908,775
Charter flights	57,393	65,344
Excess luggage	11,117	6,276
Cargo and mail	12,425	14,643
Leasing of aircrafts	104,524	84,494
Income from expired tickets (Note 17)	31,477	25,495
Technical maintenance	278	152
	1,218,646	**1,105,179**

During the year 2013 the Company made regular flights to Sochi, Athens, Bologna, Bucharest, Dublin, Frankfurt, Kiev, Istanbul, Larnaca, St. Petersburg, Lisbon, London, Madrid, Milan, Moscow, Paris, Rome, Surgut, Venice and Verona.

During the year 2013 charter flights contained regular charters amounting to MDL 35,985 thousand made for Holiday Service to Turkey and regular charters amounting to MDL 14,388 thousand made for Bridges Worldwide Ltd. to Bucharest and non-regular charters amounting to MDL 14,108 thousand.

During the year 2012 the Company made regular flights to Sochi, Athens, Bologna, Bucharest, Dublin, Frankfurt, Kiev, Istanbul, Larnaca, St. Petersburg, Lisbon, London, Madrid, Milan, Moscow, Paris, Rome, Surgut, Venice, Vienna and Verona.

During the year 2012 charter flights contained regular charters amounting to MDL 38,350 thousand made for Holiday Service to Turkey, and non-regular charters amounting to MDL 26,994 thousand.

20. COST OF SALES

	December 31, 2013	December 31, 2012
Fuel	350,211	315,561
Technical maintenance	84,260	79,314
Operating lease	102,680	109,675
Air Navigation	86,917	74,232
Handling	78,659	85,680
Commissions	24,686	31,393
Personnel costs	70,549	74,517
Insurance of aircrafts	27,593	27,825
Catering	15,422	38,847
Airport charges	78,191	67,416
Contributions to Social Fund	13,099	12,402
Depreciation and amortization	89,990	86,163
Code-share	862	13,134
Training of pilots	5,757	5,217
Travel	2,742	5,095
Other	21,961	19,306
	1,053,579	**1,045,777**

(all amounts are expressed in thousands of Moldovan lei)

21. OTHER OPERATING INCOME

	December 31, 2013	December 31, 2012
Penalties	7,875	5,622
Commissions	3,886	7,021
Rent of premises and utilities	2,058	2,425
Telecommunication	323	643
Income from trainings provided	666	51
Marketing income	140	200
Other	11,476	20,133
	26,424	**36,095**

22. OTHER GAINS AND LOSSES

	December 31, 2013	December 31, 2012
Net foreign exchange gains/(losses)	(32,613)	(19,599)
	(32,613)	**(19,599)**

23. SELLING AND MARKETING EXPENSES

	December 31, 2013	December 31, 2012
Telecommunication systems	38,974	36,958
Representation offices	853	8,253
Salary costs	8,901	7,360
Advertising and promotion	881	1,726
IATA clearing house	2,985	1,039
Other	1,413	1,303
	54,007	**56,639**

24. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2013	December 31, 2012
Salary costs	15,239	15,919
Bank charges	9,713	8,643
Professional services	1,577	1,803
Contributions to Social Insurance Fund	3,515	3,356
Taxes and fees	3,651	4,732
Depreciation	2,039	1,881
Telecommunication	585	957
Repair and maintenance	2,374	1,031
Travel	251	399
Rent and utilities	-	523
Other	1,157	810
	40,101	**40,054**

(all amounts are expressed in thousands of Moldovan lei)

25. OTHER OPERATING EXPENSES

	December 31, 2013	December 31, 2012
Penalties and fines	1,159	6,518
Utilities and rent	815	766
Provision and write off of obsolete inventory	726	1,321
Impairment losses recognized on receivables	1,785	1,325
Impairment loss of property, plant and equipment	-	291
Other operating expenses	14,009	17,228
	18,494	**27,449**

26. FINANCING COSTS

	December 31, 2013	December 31, 2012
Interest expense	(33,377)	(34,123)
	(33,377)	**(34,123)**

27. INCOME TAX EXPENSE

Tax charge (credit) for the year ended December 31, 2013 comprises:

	December 31, 2013	December 31, 2012
Current year income tax expense	2,946	-
Deferred tax / (release)	(5,102)	983
	(2,156)	**983**

(all amounts are expressed in thousands of Moldovan lei)

28. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transaction with related parties:

	Relation	Sales of goods and service		Purchases of goods and services		Amounts owed by related parties		Amounts owed to related parties	
		2013	2012	2013	2012	2013	2012	2013	2012
Ministerul Transporturilor şi Infrastructurii Drumurilor a Republicii Moldova	(1)	-	-	-	-	-	25	-	-
Chisinau International Airport	(2)	-	3	109,837	80,013	-	-	84,065	67,756
Aeroport Catering SA	(3)	2	11	9,174	27,911	-	-	679	4,642
Aeroport Handling SA	(3)	332	639	18,349	16,372	140	202	3,688	3,174
Sky Alliance SA*	(3)	-	-	-	-	12,032	12,032	-	-
Civil Aviation Authority (ASAC)	(4)	1,162	582	45	438	-	-	16,883	30,337
IS MoldATSA	(4)	19	9	13,815	12,117	-		3,359	5,175
IS Centrul Aeronautic de Instruire	(4)	11	8	6	86	-	-	1	7
IS Centrul de Medicina a Aviatiei Civile a RM	(4)	-	5	357	335	6	-	-	1
IS Moldaeroservice	(4)	4	9	-	-	263	263	-	-
IS Agroavia	(4)	-	-	-	-	-	-	-	-
Patronatul Aviatiei Civile din R Moldova	(5)	-	-	-	-	-	-	59	59
		1,530	**1,266**	**151,583**	**137,272**	**12,441**	**12,522**	**108,734**	**111,151**

* *Sky Alliance SA is a company absorbed by Chisinau International Airport and the probability of recoverability of the receivable is low. Management provisioned the amount of receivable related to Sky Alliance SA.*

(1) According to the Government's resolution nr. 1188/21.10.2008 the Company's supervision was delegated from the State Administration of Civil Aviation of the Republic of Moldova to the State Transport Agency of the Republic of Moldova. Subsequently, according to the Government's resolution nr. 695/18.11.2009 the supervision function of the Company was delegated to the Ministry of Transport and Roads Infrastructure of the Republic of Moldova.

(2) The Company is a member of Administrative Council of Chisinau International Airport, state-controlled enterprise, wholly owned by the Ministry of Economy of the Republic of Moldova.

(all amounts are expressed in thousands of Moldovan lei)

28. RELATED PARTY TRANSACTIONS (continued)

(3) According to the Government's resolution nr. 1188/21.10.2008 the State's shareholding of this joint – stock company was transferred to the State Transport Agency of the Republic of Moldova. Subsequently, according to the Government's resolution nr. 695/18.11.2009 the State's shareholdings were transferred to the Ministry of Transport and Roads Infrastructure of the Republic of Moldova.

(4) According to the Government's resolution nr. 1188/21.10.2008 this state-controlled entity's supervision was delegated to the State Transport Agency of the Republic of Moldova. Subsequently, according to the Government's resolution nr. 695/18.11.2009 the supervision function was delegated to the Ministry of Transport and Roads Infrastructure of the Republic of Moldova.

(5) Starting from July 2007 the Company owns 10% of social capital of the entity.

Remuneration of key management

The remuneration of the directors, which make up the key management of the Company, is set below:

	December 31, 2013	December 31, 2012
Salaries	9,303	8,137
	9,303	**8,137**

29. FINANCIAL INSTRUMENTS

Exposure to interest rate, credit and currency risk arises in the normal course of the Company's business.

	December 31, 2013	December 31, 2012
Financial assets		
Interest free receivables and cash and cash equivalents	64,041	45,510
Available for sale investments	642	642
Long-term financial assets	18,045	6,768
Aircraft operating lease guarantee deposit	-	-
	82,728	**52,920**
Financial liabilities		
Agencies' guarantee deposits	5,503	4,480
Payable to Autoritatea Aeronautica Civila	7,102	17,002
Trade payables	218,516	212,592
Salaries and other payables to staff	10,418	15,871
Floating interest rate instruments (bank loans)	307,403	347,361
	548,942	**597,306**

(all amounts are expressed in thousands of Moldovan lei)

29. FINANCIAL INSTRUMENTS (continued)

Liquidity of financial liabilities

	Weighted average interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 year	5+ years	Total
2013							
Agencies' guarantee deposits	-	-	-	5,503	-	-	5,503
Payable to Autoritatea Aeronautica Civila	-	-	-	-	7,102	-	7,102
Trade payables	-	99,848	39,356	66,576	12,735	-	218,514
Salaries and other payables to staff	-	10,418	-	-	-	-	10,418
Floating interest rate instruments (bank loans) (i)	10.05%	8,786	8,005	41,986	169,296	79,330	307,403
		119,052	**47,361**	**114,065**	**189,133**	**79,330**	**548,940**
2012							
Agencies' guarantee deposits	-	-	-	4,480	-	-	4,480
Payable to Autoritatea Aeronautica Civila	-	-	-	-	17,002	-	17,002
Trade payables	-	124,387	74,948	13,257	-	-	212,592
Salaries and other payables to staff	-	15,871	-	-	-	-	15,871
Floating interest rate instruments (bank loans) (i)	10.13%	9,409	7,091	52,324	153,499	125,038	347,361
		149,667	**82,039**	**70,061**	**170,501**	**125,038**	**597,306**

(i) *The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes principal cash flows.*

(all amounts are expressed in thousands of Moldovan lei)

29. FINANCIAL INSTRUMENTS (continued)

Liquidity of financial assets

	Weighted average interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 year	5+ years	Total
2013							
Cash and cash equivalents	-	3,030	-	-	-	-	3,030
Available for sale investments	-	-	-	-	-	642	642
Long-term financial assets	-	-	-	-	-	-	-
Aircraft operating lease guarantee deposit	-	-	-	-	18,045	-	18,045
Interest free receivables (i)	-	10,336	50,675	-	-	-	61,011
		13,366	**50,675**	**-**	**18,045**	**642**	**82,728**
2012							
Cash and cash equivalents	-	5,242	-	-	-	-	5,242
Available for sale investments	-	-	-	-	-	642	642
Long-term financial assets	-	-	-	-	-	-	-
Aircraft operating lease guarantee deposit	-	-	-	-	6,768	-	6,768
Interest free receivables (i)	-	5,315	34,953	-	-	-	40,268
		10,557	**34,953**	**-**	**6,768**	**642**	**52,920**

(i) *Receivables include trade receivables and other receivables, as disclosed in Note 9.*

(all amounts are expressed in thousands of Moldovan lei)

29. FINANCIAL INSTRUMENTS (continued)

Capital risk management

The Company manages its capital to ensure that entity will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2010.

The net debt to equity structure of the Company consists of debt, which includes the borrowings disclosed in Note 13, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The gearing ratio at the year-end was as follows:

	December 31, 2013	December 31, 2012
Debt (i)	307,403	347,361
Less cash and cash equivalents	3,030	5,242
Net debt	304,373	342,119
Equity(ii)	(22,671)	(32,846)
Net debt to equity ratio	**(13.43)**	**(10.42)**

(i) Debt is defined as long- and short-term borrowings
(ii) Equity includes all capital and reserves

Interest rate risk

The Company is exposed to interest rate risk on its bank loans and borrowings provided by a number of banks.

The sensitivity analysis below has been determined based on exposure to interest rate for interest rate financial instruments at the balance sheet date. The analysis is prepared assuming the amount of liability outstanding as at the balance sheet date was outstanding for the whole year. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2013 would decrease/increase by MDL 1,537 thousands (2012: decrease/increase by MDL 1,737 thousands) This is mainly attributable to the Company's exposure to interest rates on its floating rate borrowings. The Company's sensitivity to interest rates has decreased during the current period mainly due to loan repayment in compliance with repayment schedule.

Credit risk

In the normal course of its business, the Company incurs credit risk from trade debtors. At the balance sheet date, there were no significant concentrations of credit risk.

Foreign exchange risk

The Company's transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of income. These exposures comprise the monetary assets and monetary liabilities to the Company that are not denominated in the measurement currency. The Company does not enter into transactions to hedge its foreign exchange risk.

(all amounts are expressed in thousands of Moldovan lei)

29. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets	
	December 31, 2013	December 31, 2012
Moldovan Leu	42,189	18,779
EURO	48,777	13,971
US Dollar	98,876	19,704
Other	30,924	15,919
	220,766	**68,373**

	Liabilities	
	December 31, 2013	December 31, 2012
Moldovan Leu	274,683	257,996
EURO	144,106	147,009
US Dollar	242,409	253,209
Other	1,926	1,654
	663,124	**659,868**

The Company is mainly exposed to EURO and the US Dollar. The following table details the Company's sensitivity to a 10% increase and decrease in the Moldovan Leu against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where the Moldovan Leu depreciates 10% against the relevant currency. For a 10% strengthening of the Moldovan Leu against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Impact of EURO		Impact of USD	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Profit or loss	9,533	13,304	14,353	23,350

(all amounts are expressed in thousands of Moldovan lei)

29. FINANCIAL INSTRUMENTS (continued)

Fair values

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recorded at cost in the financial statements approximate their fair values:

	December 31, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Floating interest rate instruments (bank loans	307,402	326,093	347,361	390,665

Political and Economic risk

Company operates in a political and economic environment that is continuously changing and therefore the operations and earnings of the Company continue, from time to time and to a certain degree to be affected by political, legislative, fiscal and regulatory developments in the Republic of Moldova. The impact of such changes on the financial statements is uncertain on the operations of the Company and management is unable to predict what changes and conditions may occur.

30. COMMITMENTS

The Company has the following commitments:

	December 31, 2013	December 31, 2012
Commitments for insurance	21,107	14,260
	21,107	**14,260**

Commitments for insurance relate to contracts with Moldovan insurance company Galas S.A in 2013 and Moldasig SNA SRL in 2012 and represent installments on current insurance premiums for own aircrafts, not yet due as at the date of the report.

31. OPERATING LEASE ARRANGMENTS

Operational lease relates to dry and wet lease of aircrafts used by the Company for providing of passengers transportation services. The Company does not have an option to purchase the leased assets at the expiry of the lease period.

During the year 2012 the Company used 2 aircrafts in dry long-term operational lease. In 2010 company signed an addendum with Top Flight 741 Owner Statutory Trust for the rent of Airbus A 320 ER-AXP, approving prolongation of the lease agreement till 6 March 2015, rent payments constituted fixed fee in amount of USD 165 thousands per month. According to the contract the Company is liable to pay on the monthly basis the Airframe Reserves, the Engine Restoration Reserve, the Engine Life Limited Parts Reserves, the Landing Gear and Auxiliary Power Unit Reserves. The contract is considered as non-cancellable as the early termination could be caused only by one of events of default. Contract does not contain any significant financial covenants restrictions.

(all amounts are expressed in thousands of Moldovan lei)

31. OPERATING LEASE ARRANGMENTS (continued)

A new aircraft lease agreement was signed on 29 March 2013 with Meteor Aviation Investments Ltd. for the dry lease of Embraer EMB 190 LR ER-ECC. The term of leasing commenced in April 2013 and continues for 60 months, till April 2018, with an option to be extended for a period of 24 months. On 7 November was signed an addendum approving the prolongation with 12 months, till April 2019. Monthly rent payments constituted fixed fee in amount of USD 207 thousands. According to the agreement the Company is responsible for and shall pay all costs, expenses, fees, charges and taxes incurred in the operation of the aircraft during the lease term, for profit or otherwise, including, but not limited to, the costs of flights crews, cabin personnel, fuel, oil, lubricants, maintenance, insurance, repairs, repairmen's liens, landing and navigation fees, airport charges, passenger services and any all other expenses of any kind of nature, directly or indirectly, in connection with or related to the use, movement and operation of the aircraft.

The lease payments and maintenance reserve payments are recognized as expense for the year and are disclosed in Note 19.

Non-cancellable operational lease commitments:

	December 31, 2013	December 31, 2012
No longer than 1 year	58,286	23,886
Longer than 1 year and not longer than 5 years	144,854	30,162

32. SUBSEQUENT EVENTS

There have been signed new loan agreements subsequent to 31 December 2012:

- Loan agreement no. C15032 dated 31-Jan-2015; addendum C15119 dated 03-Mar-2015 „Moldova-Agroindbank" SA, due date 31-Oct-2017 at an interest rate 8%;
- loan agreement no. C15644 dated 30-Dec-2015 „Moldova Agroindbank" SA, due date 31-Dec-2018 at interest rates 5.9% for EUR and 17% for MDL;
- loan agreement no. C/94493567100 from 3-Dec-2015 „MOBIASBANCA – Groupe Societe Generale" SA, due date 28-Jan-2020 at an interest rate 5.9%;
- loan agreement no. 5507 dated 24-Jan-14, „Victoriabank" SA at a daily interest rate of 0.06%;
- loan agreement no. 5526 dated 21-Feb-14, „Victoriabank" SA, collateral at a daily interest rate – 0.06%;
- loan agreement no. 5563 dated 09-Apr-14, „Victoriabank" SA, at an interest rate – 14.5%;
- loan agreement no. 5809 dated 19-Nov-15, „Victoriabank" SA interest rate – 17%.