
ÎS „CALEA FERATA DIN MOLDOVA”

**Financial statements
For the year ending 31 December 2021**

**Submitted in accordance with
International Financial Reporting Standards ("IFRS")**

ÎS „CALEA FERATA DIN MOLDOVA”
FINANCIAL STATEMENTS
For the financial year ending 31 December 2021

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Revenue

9. As disclosed in Note 5 "Revenue" to the Financial Statements, the Entity recorded for the year ended 31 December 2021, revenue in the amount of 535,105 thousand lei. This item, significant in terms of its value and the complexity of the systems used, is subject to an inherent risk as to the completeness and accuracy of the revenue recognized for the year ended 31 December 2021. The internal control system over information technology is not sufficient to ensure the reasonableness of revenue recognition and customer receivables as required by IFRS 15 "Revenue from Contracts with Customers". The information systems used are outdated and not adequately maintained. Considering the nature and level of the inherent risk associated with revenue recognition, it was not possible to perform alternative audit procedures to obtain sufficient evidence of the completeness and accuracy of revenue and receivables from customers. The effect of this departure from the International Financial Reporting Standards on the Entity's statement of financial position has not been determined for the year ended 31 December 2021. The audit opinion on the Financial Statements as of 31 December 2020 also contains a paragraph in the Basis for disclaimer of opinion on this issue.

Related parties

10. As disclosed in Note 26 "Related party transactions" to the Financial Statements, the Entity does not maintain sufficient records to enable Management to identify all related party transactions for the year ended 31 December 2021, and balances as of 31 December 2021. Accordingly, we were unable to determine whether additional disclosures are required in the notes regarding related party transactions in accordance with International Accounting Standard 24 "Related Party Disclosures". The audit opinion on the Financial Statements as of 31 December 2020 also contains a paragraph in the Basis for disclaimer of opinion on this issue.

Other information - Statement on the management report

11. The Entity's management is responsible for the preparation and presentation of the Management Report in accordance with the Accounting and Financial Reporting Law No. 287 of 15.12.2017 (Law No. 287/2017), Article 23 and for such internal control as management determines is necessary to enable the preparation and presentation of the Management Report that is free from material misstatement, whether due to fraud or error.
12. The management report is not considered a part of the individual financial statements.
13. In connection with the audit of the individual financial statements for the year ended 31 December 2022, our responsibility is to read the Management Report and in connection therewith to assess whether there are material inconsistencies between the Management Report and the individual financial statements, whether the Directors' Report includes, in all material respects, the information required by Law No. 287/2017, Article 23 and whether based on our knowledge and understanding acquired during the audit of the individual financial statements with respect to the Entity and its environment, the information included in the Management Report is materially misstated.
14. We are asked to report on these issues. Based on the work carried out, we report that:
- We have not identified any information in the Management Report that is not consistent in all material respects with the information presented in the accompanying individual financial statements;
 - The Management Report identified above includes, in all material respects, the information required by Law No. 287/2017, Article 23.

Furthermore, based on our knowledge and understanding obtained during our audit of the individual financial statements for the year ended 31 December 2022 with respect to the Entity and its environment, we have not identified any information included in the Management Report that is materially misstated.

ÎS „CALEA FERATA DIN MOLDOVA”
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the financial year ending 31 December 2021
All amounts are expressed in thousands of MDL unless otherwise specified

	Note	2021 MDL '000	2020 MDL '000
Revenue	5	535,105	499,025
Cost of sales	7	(629,087)	(659,079)
Gross margin		(93,982)	(160,054)
Other income	6	147,181	119,008
Other expenses	9	(74,146)	(68,668)
Administrative expenses	8	(45,035)	(45,330)
Provisions and depreciation expenses	10	(8,966)	(52,554)
Operational loss		(74,948)	(207,598)
Financial result	13	621	(65,892)
Income tax expenses (savings)	14	2,871	6,552
Net loss		(71,456)	(266,938)
Other comprehensive income			
Change in revaluation reserves		-	-
Other comprehensive income of the year		-	-
Total comprehensive income (loss) for the year		(71,456)	(266,938)

On 19 January 2024 the ÎS Calea Ferată din Moldova approved these financial statements for issue.

General Director



Financial Director

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ÎS „CALEA FERATA DIN MOLDOVA”
STATEMENT OF FINANCIAL POSITION
For the financial year ending 31 December 2021
All amounts are expressed in thousands of MDL unless otherwise specified

	Note	31 December 2021 MDL '000	31 December 2020 MDL '000
ASSETS			
Non-current assets			
Property, plant and equipment	15	3,141,428	3,257,164
Intangible assets	16	1,296	2,758
Financial assets	17	4,778	7,666
Total non-current assets		3,147,502	3,267,588
Current assets			
Inventories	18	137,974	148,313
Trade and other receivables	19	37,321	32,190
Cash and cash equivalents	20	28,798	7,312
Total current assets		204,093	187,815
TOTAL ASSETS		3,351,595	3,455,403
EQUITY AND LIABILITIES			
Equity			
Share capital	21	2,475,231	2,475,230
Retained earnings		(1,158,320)	(1,082,021)
Revaluation reserve		969,421	969,461
Total equity		2,286,332	2,362,670
Non-current liabilities			
Loans	22	306,219	386,817
Deferred income	25	115,188	116,645
Provisions for other liabilities	23	31,330	31,129
Deferred tax		74,542	77,413
Total non-current liabilities		527,279	612,004
Current liabilities			
Trade and other payables	24	330,855	308,081
Loans	22	147,772	112,290
Deferred income	25	59,357	60,358
Total current liabilities		537,984	480,729
Total liabilities		1,065,263	1,092,733
TOTAL EQUITY AND LIABILITIES		3,351,595	3,455,403

On 19 January 2024, the ÎS Călea Ferată din Moldova approved these financial statements for issue.

General Director



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Financial Director

ÎS „CALEA FERATA DIN MOLDOVA”
STATEMENT OF CHANGES IN EQUITY
For the financial year ending 31 December 2021
All amounts are expressed in thousands of MDL unless otherwise specified

	Share Capital	Other reserves	Retained earnings	Total
	MDL '000	MDL '000	MDL '000	MDL '000
On 1 January 2020	2,208,097	969,493	(815,169)	2,362,421
Share capital increase	267,134	-	-	267,133
Net loss for the year	-	-	(266,938)	(266,938)
Revaluation of Property, Plant and Equipment	-	(32)	-	(32)
Other movements	-	-	86	86
On 31 December 2020 / 1 January 2021	2,475,231	969,461	(1,082,021)	2,362,670
Share capital increase	-	-	-	-
Net loss for the year	-	-	(71,456)	(71,456)
Revaluation of Property, Plant and Equipment	-	(39)	-	(39)
Other movements	-	-	(4,843)	(4,843)
On 31 December 2021	2,475,231	969,422	(1,158,320)	2,286,332

On 19 January 2024 the ÎS Calea Ferata din Moldova approved these financial statements for issue.



General Director

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Financial Director

ÎS „CALEA FERATA DIN MOLDOVA”

STATEMENT OF CASH FLOWS

For the financial year ending 31 December 2021

All amounts are expressed in thousands of MDL unless otherwise specified

	Note	2021 MDL '000	2020 MDL '000
CASH FLOW FROM OPERATING ACTIVITIES			
Result before taxation		(71,456)	(266,938)
Adjustments for:			
Depreciation of property, plant and equipment	14	120,684	108,546
Unrealised foreign exchange losses/(profits)		(83,662)	(28,779)
Depreciation of intangible assets	15	830	1,212
Provisions for future losses from litigations		6,424	1,217
Interest expenses	13	11,043	11,807
Dividends received		-	-
Income from obtaining property, plant and equipment free of charge		(5,425)	(1,824)
Result of previous year's corrections		87,667	(131,113)
Impairment of other assets		(637)	51,337
		65,468	(254,535)
Cash flow from operations before change in working capital			
Changes in inventories		10,339	16,432
Changes in trade and other receivables		(5,131)	178,874
Changes in trade and other payables		22,775	75,688
Net cash flow from operating activities		93,451	16,459
CASH FLOW FROM INVESTMENT ACTIVITY			
Payments for the acquisition of property, plant and equipment		-	-
Proceeds from the sale of property, plant and equipment		-	-
Dividends received		-	-
Net cash flow from investing activities		-	-
CASH FLOW FROM FINANCIAL ACTIVITY			
Repayments of borrowings		(60,922)	(101,368)
Proceeds from borrowings		-	95,454
Interest paid		(11,043)	(11,807)
Net cash flow from financial activities		(71,965)	(17,721)
Net increase/(decrease) in cash and cash equivalents		21,486	(1,262)
Cash and cash equivalents:			
At the beginning of the year		7,312	8,574
At the end of the year	19	28,798	7,312

On 19 January 2024, the ÎS Calea Ferată din Moldova approved these financial statements for issue.

General Director



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Financial Director

1. GENERAL INFORMATION

The financial statements of ÎS „CALEA FERATA” DIN MOLDOVA ("the Entity") for the financial year ended 31 December 2021 have been authorised for issue in accordance with the Administrator's resolution of 22 December 2023.

1.1. Country of registration

The Moldovan Railways ("Entity") was registered in the Republic of Moldova on 22 April 1993 as a state-owned enterprise. The registered office of the Entity is located at Vlaicu-Pârcălab 48, Chisinau, Republic of Moldova.

1.2. Main activities

The Entity's main activity is the transport of goods and passengers. The average number of employees for the year ended December 31, 2021, was of 6,096 (2020: 6,345).

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently for all years presented in these financial statements except where otherwise stated.

2.1. Going concern principle

The financial statements are prepared on a going concern basis as described in note 29 to the financial statements.

2.2. Declaration of conformity

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

2.3. Statement of comprehensive income and statement of cash flows

The entity presents the statement of comprehensive income with classification of expenses by function. The entity reports cash flows from operating activities using the indirect method. Cash flows from investing and financing activities are determined using the direct method.

2.4. Preparation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations thereof. The financial statements have been prepared on a historical cost basis as adjusted subsequently when revaluing certain properties and financial instruments..

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates and requires the Entity's management to exercise professional judgement in the process of applying the Entity's accounting policies. It also requires the use of certain assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

ÎS „CALEA FERATA DIN MOLDOVA”
NOTES TO THE FINANCIAL STATEMENTS
For the financial year ending 31 December 2021
All amounts are expressed in thousands of MDL unless otherwise specified

2. ACCOUNTING POLICIES (CONTINUED)

2.5. Revenue recognition

Revenue earned by the Entity is recognised as follows:

2.5.1. Provision of services

Sales of services are recognised in the accounting period in which the services are rendered with reference to the purpose of the specific transaction, measured on the basis of the percentage of the services actually rendered of the total services to be rendered.

2.5.2. Rental income

Rental income is recognised on an accruals basis in accordance with the content of the relevant agreements.

2.5.3. Revenue from the sale of goods

Revenue from the sale of goods is recognised if the criteria set out below are met:

- The entity has transferred the significant risks and rewards of ownership of the assets to the buyer;
- The entity no longer manages the assets sold at the level that it would normally do if it owned them, nor does it have effective control over the assets sold;
- The amount of revenue can be reliably assessed;
- It is probable that economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in connection with the transaction can be measured reliably.

In general, revenue from the sale of goods is recognised when the goods are delivered and when ownership of the goods is transferred.

2.6. Employee benefits

The entity and its employees contribute to the Social Insurance Fund on the basis of employees' salaries. Entity contributions are recognised as an expense when incurred and are included in personnel costs. The entity has no legal or constructive obligation to pay additional contributions unless sufficient assets are held to pay all employee benefits related to employee services rendered in the current and prior periods.

2.6.1. Short-term employee benefits

Short-term employee benefits include allowances, salaries and social security contributions, and in the case of management bonuses payable within twelve months of the end of the employee's period of service and non-monetary benefits in the case of expatriates (such as cars, payment for accommodation and travel expenses). Short-term benefits are recognised as an expense as the service is rendered.

According to the Law of the Republic of Moldova, the Entity is obliged to pay short-term benefits to employees for compensated leaves. According to the current legislation leaves (such as annual leave) are carried forward and can be used in future periods if the current period's entitlements are not fully used. The Entity's employees are therefore entitled to receive a cash payment for unused entitlement on leaving the Entity.

2. ACCOUNTING POLICIES (CONTINUED)

2.7. Foreign currency conversion

2.7.1. *Functional and presentation currency*

Items included in the Entity's financial statements are valued using the currency of the primary economic environment in which the Entity operates ("functional currency"). The financial statements are presented in thousands of lei ('000 MDL), which is the Entity's functional and presentation currency.

2.7.2. *Transactions and balances*

Foreign currency transactions are denominated in the functional currency at the exchange rate applicable on the transaction date. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Exchange differences on available-for-sale financial assets are recognised in other comprehensive income and subsequently included in the fair value reserve in equity.

As at 31 December 2021, the exchange rates were as follows:

USD 1 = MDL 17.7452 (2020: 17.2146)

EUR 1 = MDL 20.0938 (2020: 21.1266)

2.8. Taxes

Tax expense for the period comprises current tax and deferred tax. Taxes are recognised in the statement of comprehensive income unless they relate to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity.

2.9. Current tax

Current income tax is calculated on the basis of tax legislation in force or substantially enacted at the reporting date in the country in which the Entity operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations where applicable tax regulations are interpretable. Where the applicable tax regulations are subject to interpretation, provisions are established, as appropriate, based on the amounts expected to be paid to the tax authorities.

2.10. Deferred tax

Deferred income tax is recognised for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax base used in determining taxable income and taking into account unused tax exemptions and losses. A deferred income tax liability is recognised for all taxable temporary differences. A deferred income tax asset is recognised for the amounts of deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary differences arise from goodwill or on initial recognition of other assets and liabilities relating to a contract that has no impact on the amount of tax or accounting profit (except for business combinations). A deferred liability is recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except when the entity controls the reversal of the temporary difference and when it is probable that the temporary difference will not reverse in the foreseeable future. A deferred asset for deductible temporary differences arising from such investments and shares is recognised to the extent that it is probable that future taxable profit will be available against which the differences can be utilised and it is probable that the temporary differences will reverse in the foreseeable future.

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NOTES TO THE FINANCIAL STATEMENTS
For the financial year ending 31 December 2021
All amounts are expressed in thousands of MDL unless otherwise specified

2. ACCOUNTING POLICIES (CONTINUED)

2.10. Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting period and when it is probable that future taxable income will not be sufficient to recover the assets or a portion of them, an appropriate provision for impairment is recognised.

Deferred tax is determined using the tax rates that are expected to apply when the asset is realized or the liability becomes due. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences of realising and recognising the carrying amount of assets and liabilities as estimated by the Entity at the reporting date.

2.11. Property, plant and equipment

Property, plant and equipment are recognised at historical cost less accumulated depreciation and/or accumulated impairment losses.

Assets under construction, for rental or administrative purposes, or for purposes not yet determined, are stated at cost less any recognised impairment loss.

Cost includes professional fees and borrowing costs capitalised in accordance with the Entity's accounting policies. Depreciation of these assets, like other non-current assets, commences when the assets are ready for their intended use.

Depreciation is calculated using the straight-line method so as to write down the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

- Buildings 2%
- Wheels 6%
- Equipment and machinery 5% - 50%
- Office furniture, fittings and equipment 14% - 33%

In the case of land, depreciation is not calculated.

The residual value and useful lives of assets are reviewed and adjusted, if necessary, at each reporting date.

If the carrying amount of an asset is greater than the estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenses on repairs and maintenance of property, plant and equipment is included in the statement of comprehensive income for the financial year in which the expenditure is incurred. The cost of major refurbishments and other subsequent expenditure is included in the carrying amount of the asset when it is probable that further economic benefits will flow from the asset than originally expected.

Major refurbishments are depreciated over the remaining useful life of the asset.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds from disposals with the carrying amount and are included in the statement of comprehensive income.

2.12. Deferred income

Deferred income recognition is guided by the IFRS 15 standard. IFRS 15 establishes the principles to apply when recognizing revenue from contracts with customers. Deferred income is the amount received by the Entity in advance of the delivery of goods or services, based on an obligation to fulfil the terms of the contract at a later date. Typically, deferred income is recorded as a liability on the balance sheet until the goods or services are delivered, and revenue can be recognized. As the Entity fulfils its obligations, the deferred income is gradually recognized as revenue. This process is often linked to the completion of specific milestones or the passage of time.

ÎS „CALEA FERATA DIN MOLDOVA”
NOTES TO THE FINANCIAL STATEMENTS
For the financial year ending 31 December 2021
All amounts are expressed in thousands of MDL unless otherwise specified

2. ACCOUNTING POLICIES (CONTINUED)

2.12. Deferred income (continued)

Government grants relating to the acquisition of property, plant and equipment are reflected in the statement of comprehensive income in instalments over the estimated useful economic lives of the related assets. This is done by deducting the grant from the carrying amount of these assets and recognising the income through reduced depreciation expense. Government grants that relate to expenditure are recognised in the statement of comprehensive income as income when received.

2.13. Computer programs

Costs that are directly associated with identifiable and unique software products controlled by the Entity and that are likely to generate economic benefits in excess of costs over a period of more than one year are recognised as intangible assets.

Subsequently, software is valued at cost less accumulated depreciation and any accumulated impairment losses. Expenditure that enhances or extends the performance of computer software beyond the original specification is recognised as a capital improvement and capitalised. Costs associated with software maintenance are recognised as an expense when incurred. Software costs are depreciated using the straight-line method over the useful life of the software, which does not exceed a period of three years. Depreciation begins when the software is available for use and is included in administrative expenses.

2.14. Operational leasing

Leases in which a significant part of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

2.15. Financial instruments

2.15.1. Recognition and derecognition of financial instruments

Financial instruments, other than derivative financial instruments, are recognised on the Entity's statement of financial position when the Entity becomes a party to the contractual provisions of the instrument.

Financial assets that are regular way purchased or sold are recognised using the trade date accounting i.e. that is when the Entity commits to purchase or sell.

Financial instruments that are not trade receivables are initially measured at fair value, which generally equates to acquisition cost, which includes transaction costs for financial instruments not subsequently measured at fair value.

Financial assets are derecognised when:

- The contractual rights to cash flows from the financial asset expire, or
- The asset is transferred such that contractual rights to cash flows of the assets and the risks and rewards of ownership are transferred.

On de-recognition, the Entity recognised the differences between carrying amount and consideration.

Financial liabilities (or a part of) are derecognised when, and only when the obligation is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires. The gain or loss between the carrying value and amount paid is recognised in profit or loss.

If the terms of an existing financial liability (loans and borrowings) are substantially modified this will be considered to meet the criteria for derecognition of the original liability, and a new financial liability is recognised

2. ACCOUNTING POLICIES (CONTINUED)

2.15. Financial instruments (continued)

2.15.2. Classification and subsequent measurement of financial assets

Measurement of financial assets depends on the classification, which is determined by the business model for holding the asset and characteristics of its cash flows.

i) Amortised cost

Assets are held for the purpose of obtaining contractual cash flows, which are solely interest and principal, such as vanilla debt instruments, loans and receivables including contract assets. Interest is calculated using effective interest method and included in finance income in profit or loss. Impairment is presented in a separate line in profit or loss.

ii) Fair value through other comprehensive income (FVOCI)

If in addition to above, if the business model also includes selling the assets, then these assets are measured at fair value with changes in fair value flowing through OCI. Interest income is calculated and presented as above. Impairment is included in profit or loss and reduces/ increases the fair value gain/ loss recognised in OCI reserve.

On derecognition, gains and losses are recycled to profit or loss and included in other gains/ losses.

iii) Fair value through profit or loss (FVTPL).

Assets that do not meet the criteria above are measured as FVTPL with changes in fair value presented in other gains/ losses.

For equity investments that the Entity considers to be long term strategic investments, the Entity has taken the election in IFRS 9 to present the changes in fair value through other comprehensive income. Unlike ii) above however, on sale of investments, the cumulative OCI gain/ loss will be transferred within equity and will not be recycled through profit or loss.

Dividends are recognised as other income when there is a right to receive payment.

2.15.3. Classification and measurement of financial liabilities

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities, which are measured at amortised cost. Financial liabilities are classified at fair value through profit or loss if they are either held for trading or they are otherwise designated within this classification. Gains and losses on such financial liabilities are recognised within other gains and losses in the statement of comprehensive income.

A financial liability is classified as held for trading if (a) it has been acquired principally for the purposes of subsequent short-term repurchase; (b) on initial recognition it is part of a portfolio of identified financial instruments which have a pattern of short-term profit taking; or (c) it is a derivative financial instrument that is not designated and effective as a hedging instrument.

ÎS „CALEA FERATA DIN MOLDOVA”
NOTES TO THE FINANCIAL STATEMENTS
For the financial year ending 31 December 2021
All amounts are expressed in thousands of MDL unless otherwise specified

2. ACCOUNTING POLICIES (CONTINUED)

2.15. Financial instruments (continued)

2.15.3. Classification and measurement of financial liabilities (continued)

A financial liability may otherwise be designated at fair value through profit or loss upon initial recognition if such designation eliminates or reduces significantly a measurement or recognition inconsistency that would otherwise arise; or (b) the financial liability forms part of a group of financial assets, financial liabilities or both, which is managed and its performance evaluated on a fair value basis as a part of the Entity's documented risk management and investment strategies; and (c) it forms part of a contract containing one or more embedded derivatives and the entire contract can be so designated in accordance with applicable financial reporting standards.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, within finance costs in the statement of comprehensive income.

The Entity derecognises financial liabilities when the obligations of the Entity are discharged, cancelled or have expired.

2.15.4. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Currently the Entity does not offset financial assets and financial liabilities.

2.16. Trade receivables

Trade receivables are amounts owed by customers for goods sold or services rendered in the normal course of business. Trade receivables are financial assets stated initially at fair value which is taken to be their transaction cost and subsequently at their amortised cost less any loss allowance. Loss allowance is based on lifetime expected credit losses assess and determined at initial recognition and subsequently adjusted for any changes in expectation.

2.16.1. Debtors and loss allowance for doubtful receivables

Doubtful receivables are to be recognised in the statement of comprehensive income and a specific loss allowance is formed if deemed necessary. From 1 January 2018, the Entity has applied IFRS 9: Financial Instruments which replaces IAS 39: Financial Instruments. The new standard introduces new requirements on classification and measurement, impairment and hedge accounting. Trade receivables are presented after deducting the specific allowance for doubtful and impaired receivables, if any.

2.17. Investments

The entity classifies its investments in equity and debt securities into the following categories: financial assets at fair value through profit or loss, held-to-maturity assets and available-for-sale financial assets. The classification depends on the purpose for which these investments were acquired. Management determines the classification of investments at initial recognition and reviews this classification at each financial reporting date.

2.18. Cash and cash equivalents

For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, demand deposits held at banks and bank overdrafts. In the statement of financial position bank overdrafts are included in short-term loans.

ÎS „CALEA FERATA DIN MOLDOVA”
NOTES TO THE FINANCIAL STATEMENTS
For the financial year ending 31 December 2021
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2. ACCOUNTING POLICIES (CONTINUED)

2.19. Loans and borrowings

Loans and borrowings are initially recorded at the amounts received, net of transaction costs incurred. Loans and borrowings are subsequently carried at amortised cost. Any differences between the amounts received (excluding transaction costs) and the redemption value are recognised in the statement of comprehensive income over the term of the loan and of the borrowing using the effective interest method.

2.19.1. Financial costs

Interest and other borrowing costs used to finance the construction or production of assets are capitalized, as the asset is prepared for its intended use. All other borrowing costs are covered as incurred during the reporting period.

2.20. Trade payables

Trade payables are obligations to pay for goods and services that have been purchased in the normal course of business. Payables are classified as current if payment is made within one year or less. Otherwise they are presented as long-term liabilities. Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

2.21. Impairment of assets

Assets that have an indefinite useful life and are not depreciated are tested annually for impairment. Assets that are depreciated are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and the asset's value in use. For the purpose of assessing impairment, assets are grouped into the smallest groups for which there are separately identifiable cash flows (cash-generating units).

2.22. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less costs of completion and selling expenses.

2.23. Share capital

In accordance with the Law on State-owned Enterprises, the share capital of the Entity is 100% contribution of the Government of the Republic of Moldova and is not divided into shares. The Entity is 100% owned by the State.

2.24. Provisions

Provisions are recognised when the Entity has a 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. If the entity expects to reimburse a provision, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only if reimbursement is virtually certain.

2.25. Non-current liabilities

Non-current liabilities are amounts that will be due beyond a period exceeding 12 months from the reporting date.

2.26. Events after the reporting date

Subsequent events that provide additional information about the Entity's position at the financial reporting date or those that indicate that the going concern principle is not appropriate (events requiring adjustment) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

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2. ACCOUNTING POLICIES (CONTINUED)

2.27. Contingent liabilities

Contingent liabilities are not recognised in these financial statements. They are disclosed unless the possibility of an outflow of resources affecting future economic benefits is remote.

2.28. Related parties

A party is considered a related party when, whether through ownership, contractual rights, family relationships or otherwise, it has the ability to exercise control directly or indirectly or has significant influence in the Entity.

2.29. Comparatives

Comparative information that relates to the prior period is presented for all numerical information in the financial statements. Comparative information is also included for narrative and descriptive information when relevant to a better understanding of the current period financial statements.

2.30. New standards and amendments effective in the period on or after 1 January 2021

The following standards and amendments have become effective for the annual periods commencing on or after 1 January 2021.

- Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 & IAS 39 - Interest Rate Benchmark Reform – Phase 2
- Amendments to IFRS 16 - Covid-19-Related Rent Concessions

Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 & IAS 39 Interest Rate Benchmark Reform – Phase 2

As a result of these amendments, among other matters, an entity:

- will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

Amendments to IFRS 16 ‘Leases’ Covid-19 Related Rent Concessions

Amendments to IFRS 16 ‘Leases’ provide a practical expedient that permits lessees to account for the rent concessions, that occur as a direct consequence of the COVID - 19 pandemic and meets specified conditions, as if they were not lease modifications.

The amendment is effective 1 June 2021.

Amendments to IFRS 16 ‘Leases’ Covid-19 Related Rent Concessions beyond 30 June 2021

This amendment extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The amendment is effective 1 April 2021. Earlier application is permitted, including in financial statements not authorised for issue at the date this Standard was issued.

2. ACCOUNTING POLICIES (CONTINUED)

2.31. New standards and amendments issued but not yet effective for years ending 31 December 2021

- Amendments to IFRS 16 - Covid-19-Related Rent Concessions
- IFRS 17 - Insurance Contracts
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current
- Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before intended use
- Amendments to IFRS 3 - Reference to the Conceptual Framework
- Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies
- Amendments to IAS 8 - Disclosure of Accounting Policies and Definition of Accounting Estimates
- Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction

Amendments to IFRS 16 ‘Leases’ Covid-19 Related Rent Concessions beyond 30 June 2021

This amendment extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2021, provided the other conditions for applying the practical expedient are met.

The amendments are applicable for annual periods commencing on or after 1 April 2021.

IFRS 17 ‘Insurance contracts’ establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 is effective for annual periods commencing on or after 1 January 2023.

Amendments to IAS 1 ‘Presentation of financial statements’ clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. The meaning of settlement of a liability is also clarified. The amendments are applicable for annual periods commencing on or after 1 January 2023.

Amendments to IAS 16 ‘Property, plant and equipment’ require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related costs in profit or loss, instead of deducting the amounts received from the cost of the asset. The amendments are applicable for annual periods commencing on or after 1 January 2022.

Amendments to IFRS 3 ‘Business combinations’ update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are applicable for annual periods commencing on or after 1 January 2022.

Amendments to IAS 37 ‘Provisions, contingent liabilities and contingent assets’ specify the costs that an entity includes when assessing whether a contract will be loss-making. The amendments are applicable for annual periods commencing on or after 1 January 2022.

2. ACCOUNTING POLICIES (CONTINUED)

2.31. New standards and amendments issued but not yet effective for years ending 31 December 2021 (continued)

Annual Improvements to IFRS Standards 2018–2020 amend:

- IFRS 1 to simplify the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences;
- IFRS 9 to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability;
- IFRS 16 illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements.
- IAS 41 to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in other accounting standards.

The amendments are applicable for annual periods commencing on or after 1 January 2022.

Amendments to IFRS 10 ‘Consolidated financial statements’ and IAS 28 ‘Investments in associates’ clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. Otherwise, the gain or loss is recognised by the investor only to the extent of the other investor’s interests in the associate or joint venture. The amendments have been deferred until IASB has finalised its research project on the equity method.

Amendments to Disclosure of Accounting Policies and Definition of Accounting Estimates modify:

- IFRS 7, to clarify that information about measurement bases for financial instruments is expected to be material to an entity’s financial statements;
- IAS 1, to require entities to disclose their material accounting policy information rather than their significant accounting policies;
- IAS 8, to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates;
- IAS 34, to identify material accounting policy information as a component of a complete set of financial statements; and
- IFRS Practice Statement 2 Making Materiality Judgements, to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to Deferred tax related to assets and liabilities arising from a single transaction modify IAS 12 to clarify the accounting for deferred tax on transactions that, at the time of the transaction, give rise to equal taxable and deductible temporary differences. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments clarify that the exemption does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal taxable and deductible temporary differences. This may be the case for transactions such as leases and decommissioning, restoration and similar obligations. Entities are required to recognise deferred tax on such transactions.

The Standard amends IFRS 1 to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to International Accounting Standards, despite the exemption set out in IAS 12.

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3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The entity is exposed to market risk, interest rate risk, credit risk, liquidity risk, foreign exchange risk, operational risk, compliance risk, litigation risk, reputational risk and capital management risk arising from the financial instruments it holds. The risk management policies used by the Entity's management are set out below:

3.1.1. Market risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Entity's available-for-sale financial assets and financial assets at fair value through profit or loss are sensitive to market price risk arising from uncertainties about future investment prices. The market risk to which the Entity is exposed is managed through diversification of the investment portfolio.

3.1.2. Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates. Borrowings at variable rates expose the Entity to cash flow interest rate risk. Fixed rate loans expose the Entity to fair value interest rate risk. The Entity's management monitors interest rate fluctuations on an ongoing basis and acts accordingly.

At the reporting date the interest rate profile of interest-bearing financial instruments was:

	2021	2020
	MDL '000	MDL '000
Floating rate instruments		
Financial liabilities	11,043	11,807

Any increase/(decrease) in interest rates by one percentage point will have an effect on the Entity's results and equity.

	2021	2020
	MDL '000	MDL '000
Floating rate instruments		
Financial liabilities	11,043	11,807
Impact on result (profit or loss)	147	157

3.1.3. Credit risk

Credit risk arises when a party's failure to meet its obligations may reduce future cash inflows from financial assets held at the reporting date. The entity has no financial instruments that involve significant concentration of credit risk. The entity has policies to ensure that sales of products and services are made to customers with an adequate credit history and continuously monitors the ageing of its receivables. Cash is held in performing financial institutions, and the Entity has policies that involve limiting credit exposure to any one financial institution.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.3. Credit risk (continued)

The carrying amount of financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the reporting date was:

	2021	2020
	MDL '000	MDL '000
Financial assets	4,778	7,666
Trade and other receivables	37,321	32,190
Current banks accounts	28,463	6,982
Other accounts	335	330
Total	70,897	47,168

Trade receivables consist mainly of a widespread customer base. The Entity monitor the financial position of their customers on an on-going basis.

A loss allowance is calculated based on expected credit losses from day one, but the impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Entity applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For other financial instruments, we expect the loss to be calculated based on 12 month expected credit losses unless there are indicators of significant increase in credit risk. as we have not noted any indicators that there has been a significant increase in credit risk.

3.1.4. Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities do not match. An unmatched position potentially improves profitability, but can also increase the risk of loss. The entity has procedures in place to minimise such losses, such as maintaining sufficient cash and other highly liquid current assets and having an adequate amount of committed credit facilities available.

The following tables contain details of the Entity's remaining contractual maturity for financial liabilities. The tables have been prepared based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Entity can be required to pay.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.4. Liquidity risk (continued)

The table includes both interest and principal cash flows.

31 December 2021	Book value	Contractual cash flows	3 months or less	Between 3- 12 months	Between 1- 5 years	More than 5 years
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cash and cash equivalents	28,798	28,798	28,798	-	-	-
Trade and other receivables	37,321	37,321	37,321		-	-
Loans	(453,991)	(453,991)	(36,943)	(110,829)	(306,219)	-
Trade and other payables	(330,855)	(330,855)	(82,714)	(248,141)	-	-
	(718,727)	(718,727)	(53,538)	(358,970)	(306,219)	-

31 December 2020	Book value	Contractual cash flows	3 months or less	Between 3- 12 months	Between 1- 5 years	More than 5 years
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cash and cash equivalents	7,312	7,312	7,312	-	-	-
Trade and other receivables	32,190	32,190	32,190	-	-	-
Loans	(499,107)	(499,107)	(28,073)	(84,218)	(386,817)	-
Trade and other payables	(308,080)	(308,080)	(77,020)	(231,060)	-	-
	(767,685)	(767,685)	(65,591)	(315,278)	(386,817)	-

3.1.5. Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions together with recognised assets and liabilities are denominated in a currency that is not the Entity's functional currency. The Entity is exposed to foreign exchange risk arising from changes in currencies mainly USD, EUR and Swiss Franc. The Entity's management monitors exchange rate fluctuations and acts accordingly. Management also mitigates risk exposure by ensuring a balance between foreign and domestic currency funding.

Sensitivity analysis

A 10% strengthening of the leu against the following currencies at 31 December 2020 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, especially interest rates, remain constant. A 10% decrease in the leu against this currency would have generated an equal and opposite impact on profit or loss and equity.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.5. Currency risk (continued)

	Profit or loss	
	2021	2020
	MDL '000	MDL '000
Euro	20,522	(44,941)
US Dollar	(60)	(1,126)
Swiss Francs	(28)	(889)
Russian Ruble	(190)	740
	20,244	(46,216)

3.1.6. Operational risk

Operational risk is the risk arising from weaknesses in the Entity's information technology and control systems, as well as the risk of human error and natural disasters. The Entity's systems are continuously assessed, maintained and updated.

3.1.7. Compliance risk

Compliance risk is the risk of financial loss, including fines and other penalties, arising from non-compliance with state laws or regulations. The risk is minimized due to monitoring controls applied by the Entity.

3.1.8. Litigation risk

Litigation risk is the risk of financial loss, disruption of the Entity's business or any other undesirable situation arising from the possibility of non-performance or breach of legal contracts and consequently legal proceedings. The risk is minimised through the contracts used by the Entity.

3.1.9. Reputational risk

The risk of loss of reputation that may arise from negative publicity related to the Entity's operations (whether true or false) may result in a reduction in customers, revenues and legal actions brought against the Entity. The Entity applies procedures to minimise this risk.

3.1.10. Capital risk management

The Entity's objectives in managing capital are to safeguard the Entity's ability to continue as a going concern in order to provide quality services to the general public in a profitable manner, to provide returns to shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The entity monitors capital on the basis of leverage. This ratio is calculated as the ratio of net debt to total capital. Net debt is calculated as total borrowings. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt.

The Entity's debt ratio is calculated as follows:

	2021	2020
	MDL '000	MDL '000
Total loans (Note 22)	453,991	499,107
Minus: Cash and cash equivalents (Note 20)	(28,798)	(7,312)
Net debt	425,193	491,795
Total share capital	2,475,231	2,475,231
Total equity	2,900,424	2,967,026
Degree of indebtedness	14,66%	16,58%

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.10. Capital risk management (continued)

Estimating fair value

	Book value		Fair value	
	2021	2020	2021	2020
	MDL '000	MDL '000	MDL '000	MDL '000
Financial assets				
Financial assets	4,778	7,666	4,778	7,666
Trade and other receivables	37,321	32,190	37,321	32,190
Financial liabilities				
Trade and other payables	(330,855)	(308,080)	(330,855)	(308,080)
Loans	(453,991)	(499,107)	(453,991)	(499,107)
Total	(742,747)	(767,331)	(742,747)	(767,331)

3.1.10.1. Recognition of fair value measurement in the statement of financial position

Fair values are primarily determined using quoted market prices or standard valuation models using observable market data when available and are presented to reflect expected gross cash flows. The entity classifies the fair value of its financial instruments in a three-level hierarchy based on the source and observability of market data.

The table below analyses financial instruments carried at fair value through profit or loss.

The different levels have been defined as follows:

Level 1 - market prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 - input values other than quoted market prices included in Level 1 that are observable for assets and liabilities, either directly (price) or indirectly (derived from price).

Level 3 - input values for assets and liabilities that are not based on observable market information (unobservable inputs).

3.1.10.2. Recognition of fair value measurement in the statement of financial position

Classification Level 1 primarily includes financial assets and liabilities that are traded on a stock exchange, while Classification Level 2 primarily includes financial assets and liabilities whose fair value is derived primarily from stock exchange quotations and readily observable quotes. Classification Level 3 primarily includes financial assets and liabilities whose fair value is predominantly derived from models using market-based estimates of location, quality and credit spreads. In cases where the entity cannot verify fair value using observable market data (Level 3 fair value), it is possible that another valuation model may produce a significantly different estimate of fair value.

In accordance with the Entity's policy, transactions and activities relating to financial instruments related to business activities are concluded under arrangements or confirmations for balances to/from a joint counterparty to be netted in the event of default, insolvency or bankruptcy of the party involved.

The following table shows the fair value of financial assets and liabilities at 31 December 2021 and 2020. Other assets and liabilities that are measured at fair value on a continuing basis include cash and cash equivalents. There are no fair values that are measured on a discontinued basis.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.10. Capital risk management (continued)

3.1.10.2. Recognition of fair value measurement in the statement of financial position (continued)

31 December 2021

	Level 1	Level 2	Level 3	Total
	MDL '000	MDL '000	MDL '000	MDL '000
Financial assets				
Financial assets	-	-	4,778	4,778
Trade and other receivables	-	-	37,321	37,321
Total	-	-	42,099	42,099
Financial liabilities				
Trade and other payables	-	-	(330,855)	(330,855)
Loans	-	-	(453,991)	(453,991)
Total	-	-	(742,747)	(742,747)

31 December 2020

	Level 1	Level 2	Level 3	Total
	MDL '000	MDL '000	MDL '000	MDL '000
Financial assets				
Financial assets	-	-	7,666	7,666
Trade and other receivables	-	-	32,190	32,190
Total	-	-	39,856	39,856
Financial liabilities				
Trade and other payables	-	-	(308,080)	(308,080)
Loans	-	-	(499,107)	(499,107)
Total	-	-	(767,331)	(767,331)

4. CRITICAL ACCOUNTING ESTIMATES AND PROFESSIONAL JUDGEMENTS

Professional estimates and judgments are evaluated on an ongoing basis and are based on historical experience and other factors including future events that are believed to be reasonable under the circumstances.

The entity makes estimates and assumptions about the future. The results of accounting estimates will rarely equal actual results. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities during the next financial year are set out below:

4.1. Revenue recognition

The entity applies IAS 18 for accounting for revenue from the rendering of services, under which revenue and costs of sales are recognised at the time of delivery and when all risks have been transferred to the buyer.

4.2. Loss allowance for impairment of receivables

The entity analyses trade and other receivables to ensure their recoverability. Such evidence includes the customer's payment history and overall financial position. If there are indications of non-recovery, the recoverable amount is estimated, and a loss allowance is made for the receivable. The amount of the loss allowance is recorded in the statement of comprehensive income. The review of credit risk is ongoing, and the methodology and assumptions used to estimate the loss allowance are reviewed regularly and adjusted accordingly.

4 CRITICAL ACCOUNTING ESTIMATES AND PROFESSIONAL JUDGEMENTS (CONTINUED)

4.3. Depreciation of inventories

The entity reviews its inventories to identify evidence of the likelihood of sale of the inventories and of their net realisable value on disposal. The depreciation amount for obsolete or slow-moving inventories is based on past experience, taking into account the value of inventories as well as the movement and level of stock for each category. The amount of the depreciation for impairment is recognised in the Statement of Comprehensive Income. The review of the net realisable value of inventories is ongoing, and the methodology and assumptions used to estimate the amount of the depreciation for obsolete and slow-moving inventories are reviewed regularly and adjusted accordingly.

4.4. Income tax

Significant professional judgement is required in determining the income tax provision. There are transactions and calculations for which the determination of final income tax is uncertain in the normal course of business. The entity recognizes in advance liabilities that may arise in the event of a tax audit based on estimates of whether additional taxes will be due. If the final tax result is different from the amounts originally recorded, such differences will affect income tax and deferred tax provisions for the period in which such determinations are made.

4.5. Useful life

The entity depreciates property, plant and equipment over their estimated useful lives, which are reviewed annually. The useful lives of assets can vary depending on a large number of factors. Technological innovation, product life cycles and maintenance schedules all have an impact on the useful lives and residual values of assets.

4.6. Depreciation of investments in related parties

The entity periodically assesses the recovery of investments in subsidiaries/associated entities whenever impairment indicators are present. Impairment indicators include items such as decreases in revenues, profits, cash flows or significant adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. Where circumstances and facts indicate that investments in subsidiaries/associated entities may be impaired, the discounted cash flow associated with these investments will be compared to their carrying amount to determine whether an impairment to fair value of the investments is required.

4.7. Valuation of unquoted investments

The entity uses various methods to value unquoted investments. These methods are based on the manager's assumptions, which are based on market information at the reporting date.

4.8. Impairment of non-financial assets

At each reporting period the entity assesses whether there is any indication that an asset is impaired. If such an indication exists, or when it is necessary to test the annual impairment of an asset, the Entity makes an estimate of the recoverable amount of that asset. The recoverable amount of an asset is the higher of its fair value or the cash-generating unit's fair value less cost to sell and its value in use that is determined individually for each asset, unless the asset does not generate cash flows that are predominantly independent of the cash flows of other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In the process of assessing value in use, 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 cost to sell, an appropriate valuation model is used. These calculations are corroborated with valuation multiples, share prices for listed subsidiaries or other available indicators of fair values.

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5. REVENUE

	2021	2020
	MDL '000	MDL '000
Transportation of Passenger	10,369	24,328
Transportation of Goods	524,736	474,698
Total	535,105	499,026

6. OTHER INCOME

	2021	2020
	MDL '000	MDL '000
Use of rolling material by other railway administration institutions	72,786	72,531
Other rental income (1)	10,416	13,793
Proceeds from the sale of property, plant and equipment	19,131	5,229
Sale of current assets	92	98
Other income (2)	44,756	27,357
Total	147,181	119,008

- (1) Rental income includes the rental of wagons a service provided by the Entity to its customers.
(2) Other revenue represents additional services provided to customers that are related to the freight service.

7. COST OF SALES

	2021	2020
	MDL '000	MDL '000
Staff salaries	266,921	259,109
Social insurance and contributions	54,943	51,392
Communal services	24,860	27,655
Depreciation	121,175	108,772
Expenses on materials	(26,191)	139,802
Fuel costs	66,072	25,934
Other costs (1)	121,307	46,415
Total	629,087	659,079

- (1) Other costs are costs related to labour protection, improvement, and maintenance.

8. ADMINISTRATIVE EXPENSES

	2021	2020
	MDL '000	MDL '000
Staff salaries	16,158	14,448
Social insurance and contributions	3,813	3,177
Depreciation	638	987
Other administrative expenditure	24,426	26,718
Total	45,035	45,330

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9. OTHER EXPENSES

	2021	2020
	MDL '000	MDL '000
Use of rolling materials by other railway administration institutions	34,596	33,095
Other staff remuneration and incentives	10,358	12,269
Cost of current assets sold	7,028	783
Cost of medical institutions	1,058	824
Other expenses	21,107	21,698
Total	74,147	68,669

10. PROVISIONS AND DEPRECIATION EXPENSES

	2021	2020
	MDL '000	MDL '000
Provision for unused leave	(6,223)	(2,811)
Impairment charges - non-current assets	1,132	-
Loss allowance for doubtful receivables	2,047	-
Depreciation of slow-moving inventories	5,586	54,148
Provision for future litigation losses	6,424	1,217
Total	8,966	52,554

11. EXPENSES BY NATURE

	2021	2020
	MDL '000	MDL '000
Staff expenses (Note 12)	341,836	328,127
Depreciation	121,812	109,759
Fuel costs	66,072	25,934
Other expenses (1)	227,515	361,812
Total	757,235	825,632

(1) Other expenses mean expenses relating to labour protection, improvement, current repairs and maintenance.

12. STAFF EXPENSES

	2021	2020
	MDL '000	MDL '000
Staff salaries	283,080	273,557
Social security and other contributions	58,755	54,570
Total	341,835	328,127

13. FINANCIAL RESULT

	2021	2020
	MDL '000	MDL '000
Net foreign exchange losses (gains)	(11,664)	47,757
Interest expense	11,043	11,807
Expenses related to value adjustments on long-term and current financial investments	-	6,328
Total	(621)	65,892

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14.INCOME TAX

The entity had a tax loss for the year 2021. Thus, in this respect, no current income tax liability arises.

	2021	2020
	MDL '000	MDL '000
Opening balance - liability	77,413	83,965
Deferred tax expense (savings) (Note 14.1)	(2,871)	(6,552)
Closing balance - debt	74,542	77,413

14.1 DEFERRED TAX LIABILITIES

Assets and liabilities*		Book value	Tax base	Temporary difference	
				taxable*	deductible*
Property, plant and equipment	A	2,088,245,678	1,238,505,463	849,740,215	-
Trade and other receivables	A	122,700,071	42,701,884	-	79,998,188
Provision for unused holidays	D	8,987,096	-	-	8,987,095
Provision for litigation losses	D	22,343,350	-	-	22,343,350
Depreciation of inventories	D	117,230,763	-	-	117,230,763
Total		-	-	849,740,215	228,559,396

Assets and liabilities*	Deferred income tax liability	Deferred income tax claim
Property, plant and equipment	101,968,826	-
Trade and other receivables	-	9,599,783
Provision for unused holidays	-	1,078,451
Provision for litigation losses	-	2,681,202
Depreciation of inventories	-	14,067,692
Total	101,968,826	27,427,128

31.12.2020	31.12.2021	The difference
MDL	MDL	MDL
77,413,043	74,541,698	2,871,345

As of 31 December 2021, the deferred income tax liability amounted to MDL 74,541,698 and the difference compared to the previous year was reported in the income statement.

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15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Assets under construction	Wheels	Equipment and machinery	Automotive	Office furniture, accessories, and equipment	Investment properties	Biological Assets	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000		MDL '000	MDL '000
Cost									
31 December 2020 / 1 January 2021	3,454,839	2,293	146,594	661,083	2,706,838	47,401	-	1,674	7,020,722
Additions	935	21,974	6,897	2,782	21,648	3,272	6,415	-	63,921
Disposals	(7,162)	(15,543)	(8,799)	(2,743)	(91,690)	(131)	(6,415)	-	(132,482)
Transfer (reclassification)	-	-	-	(75)	453	(378)	-	-	-
31 December 2021	3,448,612	8,724	144,692	661,048	2,637,249	50,164	0	1,674	6,952,161
Depreciation									
31 December 2020 / 1 January 2021	1,384,120	-	59,375	625,655	1,657,248	36,784	-	375	3,763,557
Calculated over the year	45,041	-	17,178	10,441	70,393	2,572	57	77	145,763
Related to disposals	(393)	-	(3,444)	(2,870)	(91,688)	(131)	(57)	-	(98,586)
Transfer (reclassification)	(3)	-	-	(449)	453	-	-	-	-
31 December 2021	1,428,765	-	73,109	632,777	1,636,406	39,225	(0)	452	3,810,734
Carrying amount									
31 December 2020 / 1 January 2021	2,070,719	2,293	87,219	35,428	1,049,590	10,617	-	1,299	3,257,165
31 December 2021	2,019,847	8,724	71,583	28,271	1,000,843	10,939	0	1,222	3,141,427

As of 31 December 2021, the value of tangible assets pledged to commercial banks: Victoriabank SA contract no. C 1845; MAIB SA contract no. C180670, C190551 was in the amount of 305,250 MDL '000.

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16. INTANGIBLE ASSETS

	Computer programs	Other intangible assets	Total
	MDL '000	MDL '000	MDL '000
Cost			
31 December 2020 / 1 January 2021	5,109	7,894	13,003
Additions	500	(632)	(132)
Disposals	-	(500)	(500)
Depreciation	-	-	-
31 December 2021	5,609	6,762	12,371
Depreciation			
31 December 2020 / 1 January 2021	4,001	6,244	10,245
Calculated over the year	395	435	830
Related to disposals	-	-	-
31 December 2021	4,395	6,679	11,074
Book value			
As of 31 December 2020	1,108	1,650	2,758
As of 31 December 2021	1,214	83	1,296

17. FINANCIAL ASSETS

	2021	2020
	MDL '000	MDL '000
On January 1st		
Impairment charges	7,666	7,666
Sales of financial assets	5,361	-
Depreciation expenses	(8,249)	-
On December 31st		
	4,778	7,666

	Fair value 2021	Cost 2020	Fair value 2021	Cost 2020
	MDL '000	MDL '000	MDL '000	MDL '000
Unlisted securities	4,778	7,666	4,778	7,666
Total	4,778	7,666	4,778	7,666

The details of the investments are as follows:

	2021	2020
	MDL '000	MDL '000
Company name		
Moldasig SA	3,000	3,000
SP Moldromukrtrans	1,300	1,300
Victoria Asigurari SA	-	-
Moldindconbank SA	-	2,842
Other	478	524
Total	4,778	7,666

18. INVENTORIES

	2021	2020
	MDL '000	MDL '000
Finished products	680	635
Goods	1,832	1,772
Spare parts and other consumables, net	252,693	257,551
Depreciation of slow-moving inventories	(117,231)	(111,645)
Total	137,974	148,313

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19. TRADE AND OTHER RECEIVABLES

	2021	2020
	MDL '000	MDL '000
Trade receivables	28,450	27,390
Minus: Loss allowance of doubtful receivables	(29,148)	(27,102)
Trade receivables - net	(698)	288
Advances paid to suppliers	29,126	26,048
Receivables related to budget settlements	8,319	4,571
Contributions not paid by the employer	46	46
Other receivables	51,377	52,086
Other receivables and advances - net	88,170	83,039
Minus: Impairment of other receivables and advances	(50,849)	(50,849)
Trade and other receivables - net	37,321	32,190

Movements in the loss allowance for impairment of receivables:

	2021	2020
	MDL '000	MDL '000
On January 1st	77,951	78,215
Loss allowance of doubtful receivables	29,149	27,102
Derecognition of doubtful receivables	(27,102)	(27,366)
On December 31st	79,998	77,951

The Entity's exposure to credit and impairment risk in relation to trade and other receivables is reported in Note 3 to the financial statements.

	2021	2020
	MDL '000	MDL '000
Euro	13,647	(6,128)
US Dollar	462	226
Russian Ruble	170	-
Swiss Francs	5,808	-
Romanian Leu	81	(34)
Moldovan Leu	17,153	38,126
Total	37,321	32,190

20. CASH AND CASH EQUIVALENTS

	2021	2020
	MDL '000	MDL '000
Cash at cash desk	40	5
Current bank accounts	28,423	6,977
Cash transfers in dispatch	335	330
Total	28,798	7,312

Cash and cash equivalents by category:

	2021	2020
	MDL '000	MDL '000
Euro	-	-
Swiss Francs	10,458	6
Moldovan Leu	18,340	7,287
US Dollar	-	19
Russian Ruble	0	-
Total	28,798	7,312

The Entity's exposure to credit and impairment risk in relation to cash and cash equivalents is reported in Note 3 to the financial statements.

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21. SHARE CAPITAL

	2021	2020
	MDL '000	MDL '000
Issued capital		
On January 1st	2,475,231	2,208,097
Increase of share capital	-	267,134
On December 31st	2,475,231	2,475,231

22. LOANS

	2021	2020
	MDL '000	MDL '000
Short-term portion of long-term loans	147,772	112,290
Long-term loans	306,219	386,817
Total	453,991	499,107

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22. LOANS (CONTINUED)

Bank	Contract	Date	End Date	Objective	2021	2020
Moldova Argoindbank SA	C12-533	27-Dec-2012	31-Dec-2018	Financing of the modernization project of 4 plots of land and payment of debts	-	-
Moldova Argoindbank SA	C17-0232	23-May-2017	25-Oct-2018	Financing of operational activities	-	-
Moldova Argoindbank SA	C18-0144	04-Apr-2018	25-Mar-2020	Financing operational activities	-	-
Moldova Argoindbank SA	C18-0670	29-Nov-2018	25-Nov-2020	Financing operational activities	3,848	30,354
Moldova Argoindbank SA	C19-0551	26-Dec-19	23-Dec-22	Financing operational activities	100,000	100,000
Victoriabank SA	1845	3-Nov-2015	11-Nov-22	Purchase of equipment	1,306	9,930
EBRD / Ministry of Finance	6/1	9-Nov-16	20-Aug-29	Implementation of the project to renew the locomotive fleet and rehabilitate the railway infrastructure	348,837	358,823
Total loans					453,991	499,107
Maturity:					2021	2020
within a year					147,772	112,290
between 1 and 5 years					306,219	386,817
					453,991	499,107

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22. LOANS (CONTINUED)

The weighted average effective interest rates at the reporting date were as follows:

	2021	2020
Bank loans	8,60%	8,60%

The Entity's loans are denominated in the following currencies:

	2021	2020
	MDL '000	MDL '000
Euro	350,143	368,753
US Dollar	-	-
Moldovan lion	103,848	130,354
Total	453,991	499,107

Loans are secured as follows:

- Land and building located on bd. Decebal 2/1, cadastral no. 0100104.535/01 - pledge value MDL 56,098,000.
- Land and building located on bd. Decebal 2, mun. Chisinau cadastral no. 0100104.443/01, Land and building located at Str. Șos. Muncești, mun. Chisinau cadastral no. 0100301.470/01-13, Land and administrative building located at Alea Gării 6, mun. Chisinau, cadastral number 0100301.289/01, non-locative room located at str. N. Titulescu 1 mun. Chisinau cadastral number 0100106.113.01.256, non rentable room located at str. N. Titulescu 1 mun. Chisinau cadastral number 0100106.113.01.250, land and unoccupied room located at str. șos. Muncești 15, mun. mun. Chisinau cadastral number 0100301.248/01 - pledge value MDL 93,290,700.
- Diesel train Mr M002 from Mr 751 - pledge value MDL 17,285,789.
- Diesel train Mr M003 from Mr 681 - pledge value MDL 14,404,754.
- Diesel train Mr M004 from Mr 699 - pledge value MDL 17,932,817.
- Diesel train Mr M005 from Mr 695 - pledge value MDL 20,166,755.
- Diesel train D1M001 2 sections - refrigerator wagons ZB-5 and 8 refrigerator wagons ZB-5 - pledge value MDL 10,891,696.

23. PROVISIONS FOR OTHER LIABILITIES

At the end of the year, the Entity has established the following provisions:

	2021	2020
	MDL '000	MDL '000
Provision for unused leave	8,987	15,210
Provision for future litigation losses	22,343	15,919
Total	31,330	31,129

24. TRADE AND OTHER PAYABLES

	2021	2020
	MDL '000	MDL '000
Trade payables	127,864	148,539
Social insurance and other taxes	53,794	31,365
Advances received	60,319	48,018
Calculated salaries	80,705	69,179
Other creditors	8,173	10,979
Total	330,855	308,080

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24 TRADE AND OTHER PAYABLES (CONTINUED)

The entity's liabilities are denominated in the following currencies:

	2021	2020
	MDL '000	MDL '000
Euro	47,978	57,049
US Dollar	(48,131)	(45,675)
Swiss Francs	16,361	5,860
Russian Ruble	5,663	6,400
Moldovan Leu	308,945	284,446
Romanian Leu	39	-
Total	330,855	308,080

The fair value of trade and other short-term liabilities approximate the carrying amounts shown above.

25. DEFERRED INCOME

	2021	2020
	MDL '000	MDL '000
Government subsidies	20,712	20,762
EBRD Grant	96,988	98,394
Other deferred income (locomotive spare parts)	56,068	56,477
Other deferred income	777	1,370
Total	174,545	177,003

By Government Decision no.126 of February 19, 2013, a total amount of 20 million lei was allocated for the improvement of intersections on public roads. Although there was no legal obligation to keep the unused subsidy in a separate bank account, the Entity used the granted amount for other purposes, which could cause the advance repayment of the subsidy.

According to the Non-reimbursable Financing Agreement concluded between the Republic of Moldova, the Moldovan Railways and the European Bank for Reconstruction and Development No. 44085 of November 10, 2015, the Ministry of Finance of the Republic of Moldova in 2018 subsidized the amount of EUR 4,000,000 representing 13% of the payment made to the supplier WABTEC TRANSPORTATION SYSTEMS LLC under the Project for the purchase of locomotives and restructuring of railway infrastructure. In addition, the Entity received from the supplier spare parts for the purchased locomotives, free of charge, in the amount of MDL 56,476 thousand.

26. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

26.1 Revenue from services rendered

	2021	2020
	MDL '000	MDL '000
Metalferos SA	1,542	696
ÎM Moldromukrtrans SRL	13,304	13,063
Moldtelecom SA	85	84
Total	14,931	13,843

26.2 Procurement of goods and services

	2021	2020
	MDL '000	MDL '000
Moldtelecom SA	1,625	1,561
Total	1,625	1,561

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26 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

26.3 Receivables from related parties

	2021	2020
	MDL '000	MDL '000
ÎM Moldromukrtrans SRL	40	77
Moldtelecom SA	89	12
Total	129	89

26.4 Payables from related parties

	2021	2020
	MDL '000	MDL '000
Metalferos SA	13	215
ÎM Moldromukrtrans SRL	1,802	612
Moldtelecom SA	-	308
Total	1,815	1,135

27. CONTINGENT LIABILITIES

The entity had no contingent liabilities at 31 December 2021 other than those described in these notes.

28. COMMITMENTS

The entity had no capital commitments as at 31 December 2021.

29. GOING CONCERN

The financial statements for the year ended December 31, 2021, have been prepared on a going concern basis. The entity recorded a loss of MDL 71,456 thousand for the year ended 31 December 2021, and of MDL 266,938 thousand for 31 December 2020, the Entity's current liabilities exceeded current assets by MDL 333,890 thousand.

Such issues indicate uncertainty about business continuity. Therefore, the Entity's ability to continue as a going concern depends on its ability to generate sufficient future income, based on the financial support of creditor banks and shareholders.

These financial statements do not include adjustments arising from the outcome of such going concern uncertainty.

30. RECENT VOLATILITY IN GLOBAL FINANCIAL MARKETS

The process of risk re-pricing during 2007-2009 in international financial markets has affected the performance of these markets, including the financial and banking market in Moldova, and has increased the level of uncertainty about future economic development.

The current global liquidity crisis that began in the second half of 2007 and is still ongoing has led, among other things, to low capital market funding, low liquidity in the banking sector, and higher interbank lending rates.

Uncertainties in global financial markets have also led to bank failures and bailouts in the United States, Western Europe, Russia and other regions. Such situations could affect the Entity's ability to borrow or re-finance its existing operations on terms and conditions similar to those applicable to previous transactions. Indeed, the extent of the impact of the financial crisis has demonstrated that it is impossible to fully anticipate or protect against its effects.

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30 RECENT VOLATILITY IN GLOBAL FINANCIAL MARKETS (CONTINUED)

The Entity's debtors or creditors may also be affected by a liquidity crisis situation which could impact their ability to repay amounts due. Deteriorating operating conditions for debtors or creditors may also impact management's cash flow forecasts and impairment analysis of financial and non-financial assets.

To the extent information is available, management has reflected revised estimates of future cash flows with respect to its impairment assessments. Management cannot reliably estimate the effects on the Entity's financial position due to the continued deterioration of liquidity in the financial markets and increased volatility in the money and capital markets. Management believes that all necessary steps are being taken to support the sustainability and growth of the Entity's business in the current environment.

Country and business risk in the Republic of Moldova

The Entity's operations are subject to country risk being the economic, political and social risk related to business in the Republic of Moldova. These risks include matters arising from government policies, economic conditions, the imposition or modification of taxes and regulations, currency fluctuations and the enforceability of contractual rights. The accompanying financial statements reflect management's assessment of the impact of the Moldovan business environment on the Entity's operations and financial position. The future business environment may differ from management's assessment. The impact of such differences on the Entity's operations and financial position may be material.

31. POLITICAL ENVIRONMENT

The Entity's operations and revenues continue to be highly volatile, affected by the political, legislative and fiscal environment in the Republic of Moldova.

Among other things, a significant impact on the Entity's operations has been the political crisis in the Eastern region of Ukraine that escalated in early 2014. The military conflict and the ongoing economic embargo, together with economic sanctions, have caused declines in sales. The Entity's management cannot predict what changes and conditions may occur and what effect these changes will have on the Entity's financial statements.

In October 2017, the Government of the Republic of Moldova approved the Concept for the restructuring of the railway sector and the Moldovan Railways for 2018-2021. The aim of the Concept is to transform the sector into a financially, technically and socially sustainable one, able to compete in the future with other modes of transport both in the country and the region. To this end, it is planned to initiate the reorganisation by splitting up the "Moldovan Railways" (Entity) into three independent joint-stock companies for infrastructure, passengers and freight.

32. SUBSEQUENT EVENTS

On October 28, 2022, the Republic of Moldova and the French Development Agency (AFD) signed a Memorandum, which involves a credit facility agreement in the amount of 60 million euros to mitigate the impact of the energy crisis and increase the sustainability of the railway sector, as well as supporting reforms in railway and energy sectors. The project will have a duration of 11 months, and among its specific objectives is the development of a Roadmap for the digitalization of the railway sector and the Î.S. "Moldova Railway", as well as the identification of the investment needs and priorities of the sector, and their consolidation in a Strategic Investment Plan for the modernization of the enterprise and the improvement of the railway infrastructure. The entity considers this event as one subsequent to the reporting date, which does not lead to the adjustment of the financial statements.