



SERBIA AND MONTENEGRO AIR TRAFFIC SERVICES AGENCY LTD.

ANNUAL REPORT 2008



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AT A GLANCE

SMATSA (SERBIA AND MONTENEGRO AIR TRAFFIC SERVICES AGENCY LTD.) IS A LEGAL ENTITY AND CARRIES OUT ITS ACTIVITY ADHERING TO NATIONAL AND INTERNATIONAL AIR TRAFFIC REGULATIONS AND AGREEMENTS. IT WAS FOUNDED BY THE REPUBLIC OF SERBIA (92%) AND THE STATE OF MONTENEGRO (8%). SMATSA OPERATES AS A COMPANY WITH LIMITED LIABILITY.

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The purpose of the Annual Report is to give a brief overview of the SMATSA's performance information including major activities during 2008, as well as to present operational facts, financial data and key investments for 2008.

SMATSA Annual Report is organized in the following manner:

- Message from the President of the Managing Board & CEO – an overview of SMATSA activities in 2008.
- Managing Bodies – basic information about the assembly, the managing board, managerial team and SMATSA's organizational structure.
- Company Profile – a brief description of SMATSA's founders, legal status, membership in international organizations and corporate values, defined by SMATSA's vision, mission and strategic objectives.
- Traffic data – essential information about SMATSA's airspace and airports it is responsible for, traffic figures for 2008 regarding capacity, delays and route network development. In addition, information about basic and adjustable unit rates for 2008, including an analysis of the relevant unit rate indicators in comparison to other ANSP's information about basic and adjustable unit rate in 2008 including comparison between SMATSA's and other ANSP's unit rates, the number of service units in 2008 and the number of departures and charges in 2008.

- Operational Review – all SMATSA's services, both Air Navigation Services (ANS) and additional services, as well as all relevant functions indispensable for SMATSA's growth and development are presented herein.
- Key Performance Indicators – figures and targets demonstrating how SMATSA carries out its activities in several key performance areas, such as safety, traffic and delays and cost effectiveness.
- Development and Investments – information about investments for the Future Air Traffic Management Modernization and Upgrade System Project (FAMUS) as well as other significant investments in 2008.
- Major Events – a summary of the most important achievements that have marked the year 2008 and further defined SMATSA's profile.
- Financial Reports – balance sheet, income statement and cash flow statement. The financial statements in Euros are shown in Annex 2.
- Auditor's Report – contains independent external auditor's opinion about the accuracy of SMATSA's financial reports.
- Abbreviations – a list of the abbreviations used in this document.

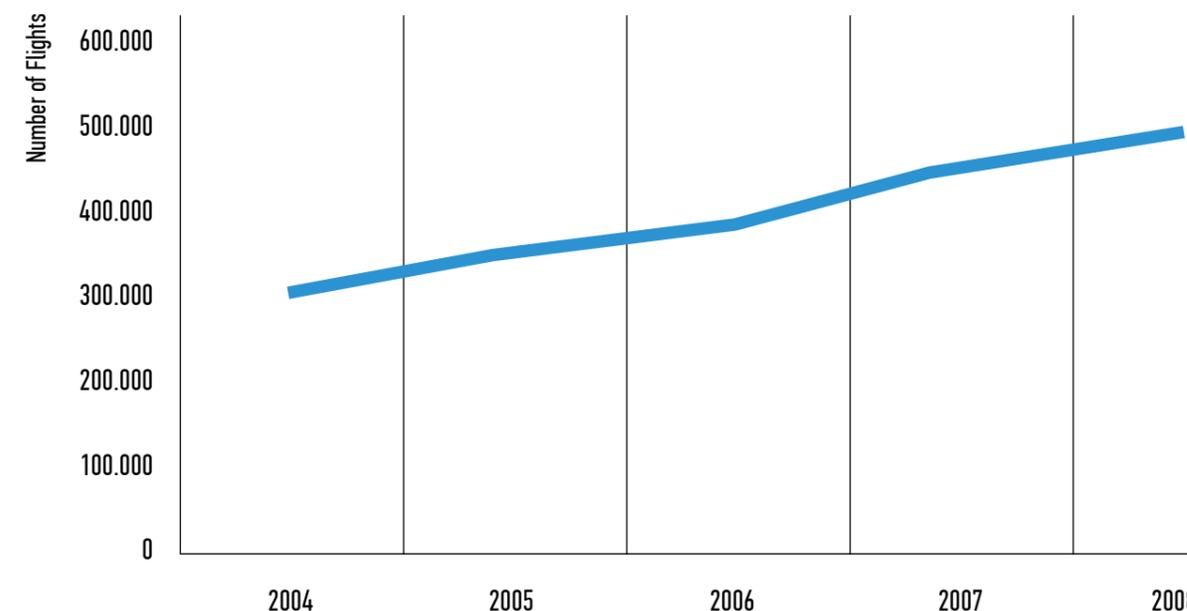


Figure 1. ACC Beograd - Annual Number of Flights

	in 000 RSD		in 000 EUR	
	2007	2008	2007	2008
Total assets	7,477,412	8,438,364	93,368	103,021
Operating revenues	5,415,198	5,149,936	67,617	62,874

Table 1. Financial Statements Summary

MESSAGE FROM THE PRESIDENT OF THE MANAGING BOARD AND CEO

The results we produced in 2008 once again gave leverage to our drive to become a leader in the region as an innovation-driven ANS service provider and an organization that employs, educates and nurtures a highly skilled workforce.

Reflecting on the year behind us, despite growing economic turmoil and hardship that had taken toll on the aviation industry, SMATSA had recorded a significant increase in traffic in comparison to the previous year. At an increase of 8.6% in 2008 as compared to the year 2007, and an overall increase of 92% for the period between 2003 and 2008, SMATSA rightfully earns the reputation of an accomplished ANS service provider. Furthermore, SMATSA's market share in terms of traffic has been steadily increasing for the last several years, leading to a high point in August of 2008, when SMATSA's share of traffic passing through its area of responsibility as a percentage of total traffic for all of Europe reached 6.3%.

We have launched and implemented a number of crucial projects, highlighting our dedication to high safety standards and superior service quality. The implementation of our pinnacle project - the Future ATM Modernization and Upgrade System (FAMUS) - is well underway. Aside from its primary objective, which is to further improve the safety and quality of SMATSA's services, it will also facilitate operational and technical integration of SMATSA's air traffic management system into a broader European network, as envisioned by the SES initiative. The FAMUS project represents a key undertaking for SMATSA's assimilation effort with the SES initiative, and apart from accommodating the procedural and regulatory requirements of that program, it will also bring SMATSA closer to some of the major operational goals of the SES concept, such as interoperability and collaborative decision-making. The implementation of state-of-the-art technology, conjoined with a remarkable professional expertise in that field, will allow SMATSA to take part in research and development efforts coordinated and integrated under the SESAR Project as an esteemed and desirable partner.

Our Training Centre has also made a great contribution to the excellent performance in 2008. During the year, a training cycle for the 47th generation of Ab Initio had commenced, while the basic and rating training

cycle for the 46th generation of ATCO students had been successfully completed. The year was enhanced by additional activities in the Training Centre, through the provision of training services to external users like Bosnia Herzegovina and the FYROM, once again depicting SMATSA's opportunity and capacity to become a leader in the Balkans on more than one account.

The results for 2008 represent a milestone in the achievements of SMATSA and an accomplishment worthy of notice. However, countered by the threat of an expanding and deepening economic crisis, the period that stands before us will be a testing factor for SMATSA's ability to cope with "the perfect storm". While this Annual Report has given us an excellent opportunity to assess and reflect on our past performance, it will also serve as a solid foundation for a strategy of dealing with anticipated obstacles in the aviation industry - a strategy that is consistent, enduring and responsive to its stakeholders.

ORGANIZATIONAL STRUCTURE

SMATSA'S ORGANIZATIONAL STRUCTURE FULLY RESPONDS TO THE NEEDS OF A MODERN ANSP (AIR NAVIGATION SERVICE PROVIDER). A MATRIX ORGANIZATIONAL STRUCTURE ENABLES SMATSA TO RESPOND AND ADAPT TO THE COMPLEX WORLD OF AVIATION. IN ORDER TO ACHIEVE EFFICIENT AND RATIONAL PERFORMANCE SMATSA'S ORGANIZATIONAL UNITS ARE DIVIDED INTO:

- DEVELOPMENT,
- OPERATIONAL AND
- SUPPORT UNITS.

Besides these there is the Safety committee, as well as various project teams and a project implementation unit that through their work contribute to the overall SMATSA's performance. SMATSA's organizational structure is depicted in Annex 1.

MANAGING BODIES

SMATSA's managing bodies include an Assembly, a Managing Board and a Managerial Team that are responsible for overseeing and managing SMATSA's activities.

ASSEMBLY AND MANAGING BOARD

SMATSA's Assembly is comprised of five representatives of the founding states. Representatives are appointed from the ministries in charge of transport (Ministry of Infrastructure in the Republic of Serbia and the Ministry of Maritime Affairs, Transportation and Telecommunication in the State of Montenegro), ministry of finance, other government bodies and relevant organizations. Decisions are made by a majority vote in the Assembly. The President of the Assembly is Minister Mr. Milutin Mrkonjić, Minister of Infrastructure in the Republic of Serbia.

The Managing Board consists of seven members appointed by the Assembly and proposed by the Government of Serbia and the Government of Montenegro, for a period of five years. The Assembly has a supervisory authority over the Managing Board. The President of the Managing Board and CEO is Mr. Nikola Stankov, while the Vice President is Mr. Lazo Maksimović.

MANAGERIAL TEAM

SMATSA's managerial team is comprised of experienced and highly skilled experts that emphasize team-building and communication, as well as the development of assertiveness and confidence among employees.

Branislava Čulajević
Acting ATM Director

Luka Pavlović
CNS Director

Milanče Blažić
MET Director

Vanja Škobić
Acting HR Director

Bruno Genal
Executive Director for ACC

Boris Bročić
Financial Director

Stobodan Cvijan
IA Director

Milenko Majstorović
Safety and Security Director

Vlatko Jovanović
Executive Director for TMC

COMPANY PROFILE





MISSION

OUR MISSION IS HIGH QUALITY PROVISION OF AIR NAVIGATION SERVICES FOR CIVIL AND MILITARY USERS IN ORDER TO MAINTAIN AND ENHANCE AIR TRAFFIC CONTROL IN A SAFE, ORDINARY AND EFFICIENT WAY IN THE BEOGRAD FIR/UIR AND FOR SURROUNDING COUNTRIES, BASED ON BILATERAL STATE AGREEMENTS, AS WELL AS PROVISION OF STANDARDIZED STAFF TRAINING AND FLIGHT INSPECTION SERVICES. WORKING TOGETHER WITH OUR REGIONAL, PAN-EUROPEAN AND INSTITUTIONAL PARTNERS, WE STRIVE TO IMPLEMENT SES (SINGLE EUROPEAN SKY) CONCEPT AND DEVELOP REGIONAL FABS (FUNCTIONAL AIRSPACE BLOCKS)

VALUES

QUALITY AND EFFICIENCY	We ensure high quality air navigation services in a safe and efficient manner
ENVIRONMENTAL RESPONSIBILITY	We are committed to active participation in initiatives and programs designed to mitigate the harmful impact of aviation on the environment
PARTNERSHIPS	We are dedicated to developing partnerships with domestic and international stakeholders as an effective mean of fulfilling our mission and our vision
INNOVATION	We strive to apply technological and operational innovations of the industry to our operations, in order to develop a uniform air traffic management system for civil and military users
STAFF DEVELOPMENT	We are devoted to the professional development of our employees through continuous training and skills' improvement
EQUAL EMPLOYMENT OPPORTUNITY	We are committed to provide a safe and stimulating working environment for our staff, one that values worker rights, better working conditions, free of any form of discrimination

VISION

OUR VISION IS TO BE A KEY PARTICIPANT IN THE REGION, MARKING OUR WAY AS A SAFE AND EFFICIENT PROVIDER OF AIR NAVIGATION SERVICES THROUGH CONTINUOUS IMPROVEMENT PRACTICES, AND PARTNERSHIPS WITH RELEVANT DOMESTIC AND INTERNATIONAL BODIES.

STRATEGY

SMATSA's strategy is defined as one that utilizes all material, financial and human resources in the course of fulfilling the goals embedded in its vision, assessing and adjusting in response to a changing environment and service standards. This strategy is aligned with the strategies of EUROCONTROL ATM2000+, ECIP (European Convergence and Implementation Plan), and the vision for One Sky for Europe and SES (Single European Sky). SMATSA is attentive to the importance of building an efficient corporate structure as it applies great efforts in order to shape and optimize organizational processes, build reliable human resources, maintain efficient systems and launch innovative projects.

The relevant strategic objectives take into account continuous improvement in terms of service provision, organizational and technological development and entail the following:

- Achieve SES certification,
- Achieve the highest possible level of safety and security,
- Increase of capacity as required,
- Achieve common level of cost efficiency,
- Fulfil environment protection requirements,
- Attain defined performance in quality,
- Implement Interoperability across the service in line with ECIP and SES regulations and
- Human resources development and management.

ATM SYSTEM

Successful business development requires a multi-disciplinary approach in order to create a clear and comprehensive strategy for a growing business. This involves the commitment of highly skilled people who are able to cope with the challenges of tomorrow.

Integration of SMATSA into a developing European ATM System is a challenge which SMATSA had faced with great success during the year 2008. As in previous years, SMATSA had devoted great attention to the implementation of the Single European Sky. The second package of legislative proposals under the SES project was launched in 2008, aiming to contribute to future improvements in areas of safety, cost reduction and delay limits in air traffic. SMATSA keeps abreast with SES packages II contents and requirements, which are:

- Amendments to regulations (EC) No. 549/2004, (EC) No. 550/2004, (EC) No. 551/2004, (EC) No. 552/2004,
- The ATM Master Plan,
- Amendment to regulation (EC) No. 216/2008 regarding the European Aviation Safety Agency (EASA), and
- Measures to increase airport capacity.



SMATSA's Future ATM Modernization and Upgrade System project is aligned with the SESAR (SES ATM Research) project, the main objective of the two being the development and implementation of a new generation ATC system in Europe. Starting from 2005, SMATSA's representatives have been actively involved in the work of FASTI OFG (First ATC Support Tools Implementation Operational Focus Group). FASTI will bring operational improvements that pertain to the work of controllers, which will ultimately allow them to successfully complete their tasks (conflict detection, planning, co-ordination and monitoring by means of automated support). This effort will provide both capacity and safety benefits to SMATSA's system, thereby contributing to the implementation of the Single European Sky initiative. SMATSA FASTI Newcomer Workshop was organized in Belgrade on the November

27th and 28th, 2008. A critical step was made at the end of 2008, when SMATSA committed to signing the FASTI Implementation Support – Project Management Plan (Phase 1 Definition) with EUROCONTROL. SMATSA had taken significant action in implementing the Flexible Use of Airspace (FUA), a concept that was introduced with the aim of increasing the capacity of the overall air traffic system, thereby benefiting both civil and military aviation. In the course of applying the FUA concept, SMATSA had developed a plan for the formation of a special organizational unit within its structure, consisting of military and civil experts. On June 19th, 2008, an FUA workshop was organized in the Beograd Area Control Centre, in the presence of representatives of EUROCONTROL, SMATSA, the Civil Aviation Directorate and the Ministry of Defence of the Republic of Serbia.

TRAFFIC DATA

OUR AIRSPACE

SMATSA is responsible for the provision of air traffic services over an area of 144,676 square kilometres, in the airspace of the Republic of Serbia, the State of Montenegro, a part of international waters of the Adriatic Sea, as well as 55% of upper airspace of Bosnia and Herzegovina. The Beograd FIR/UIR is surrounded by FIR's of eight states: Tirana FIR (Albania), Brindisi FIR (Italia), Sarajevo FIR (Bosnia and Herzegovina), Zagreb FIR (Croatia), Budapest FIR (Hungary), Bucharest FIR (Romania), Sofia FIR (Bulgaria), and Skopje FIR (FYROM). Airspace is generally divided into uncontrolled and controlled sections, whereas the uncontrolled ("free flight layer") extends from GND to 450m and outside the CTRs. The rest of the airspace is controlled, classified between FL195 and FL660 as ICAO's Class C airspace. Airspace classification below FL195 is currently under development.

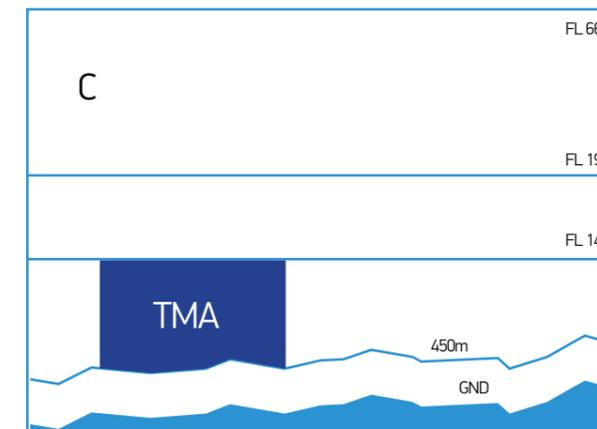


Figure 3. Airspace Classification

The Beograd Area Control Centre, located at the Belgrade Nikola Tesla airport, provides en-route services between FL145 and FL660. The Beograd ACC has the capacity to provide services by 12 civil area control sectors. There are two terminal control areas and eight aerodrome controls in SMATSA area of responsibility. TMA Beograd comprises aerodrome controls Beograd, Batajnica, Vrsac, Kraljevo, Nis and Ponikve, while Podgorica TMA includes aerodrome controls Podgorica and Tivat. The lower limits of all TMA's are 450m surface, while the upper limit is FL145.

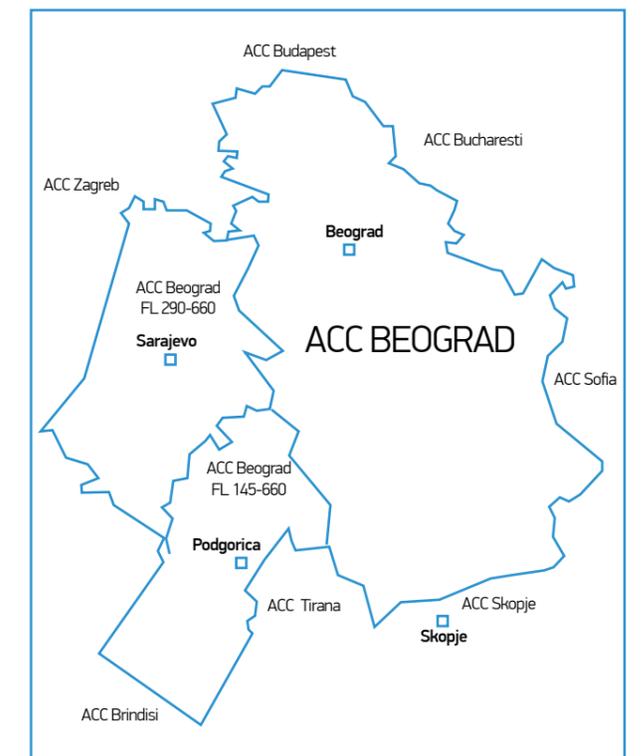


Figure 4. ACC Beograd Area of Responsibility

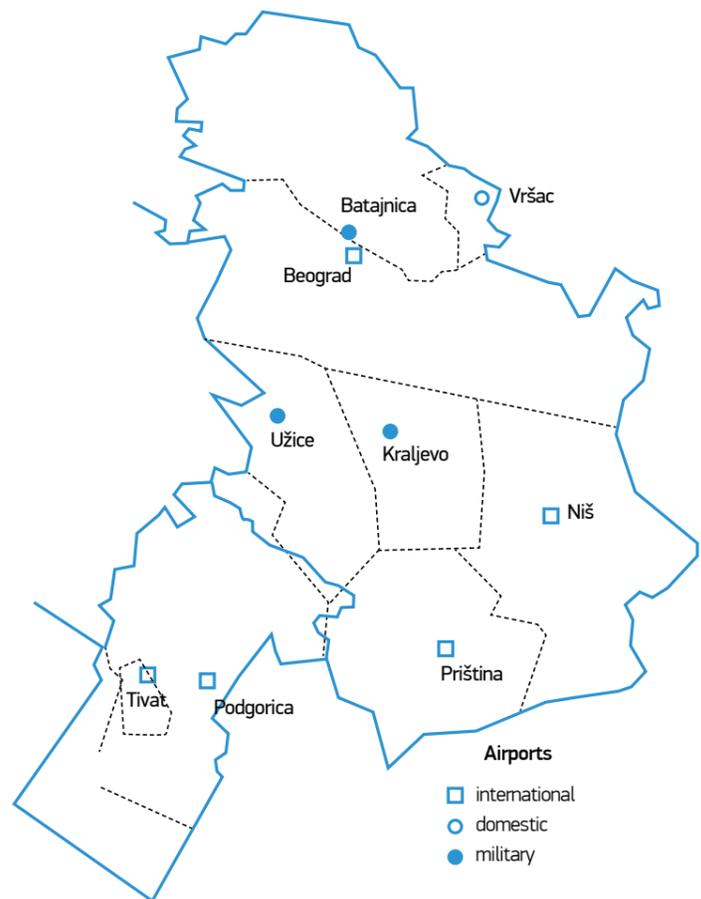


Figure 5. Airports

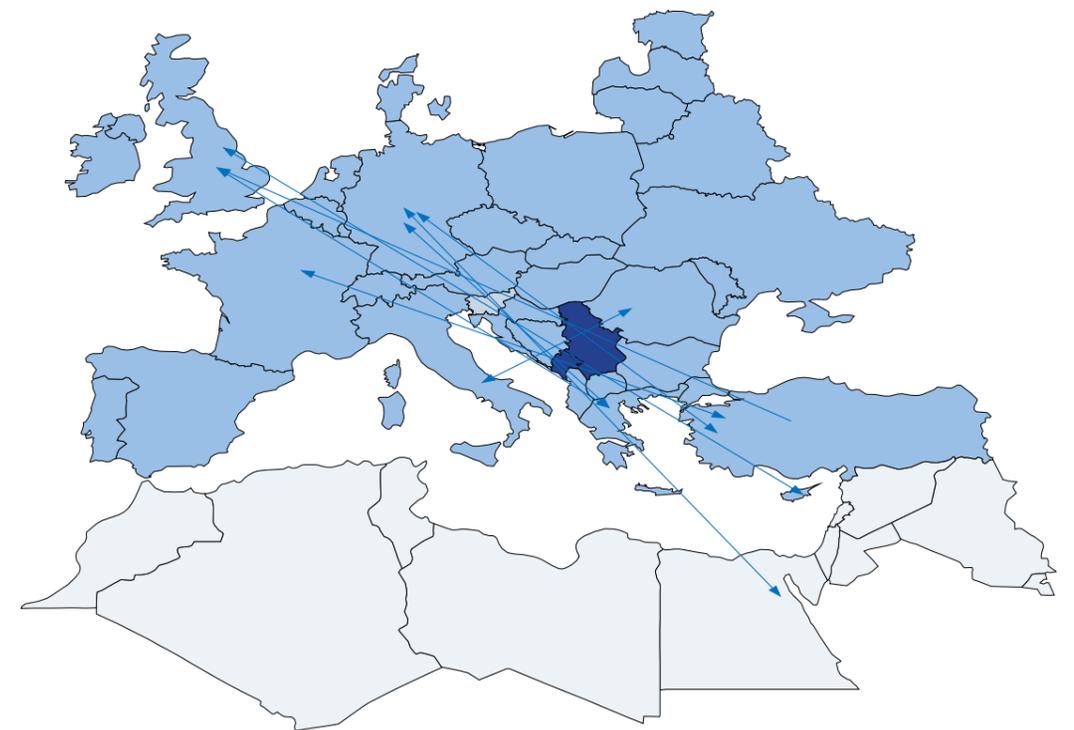


Figure 6. The Most Frequent Traffic Flows over Serbia and Montenegro in 2008

AIRPORTS

Airspace under the responsibility of SMATSA includes nine airports (six civil and three military):

- Beograd (Nikola Tesla airport),
- Podgorica,
- Tivat,
- Nis (Konstantin Veliki airport),
- Vrsac,
- Uzice (Ponikve airport),
- Kraljevo (Ladjevci airport),
- Batajnica and
- Pristina.

The Belgrade airport is the largest of all airports under SMATSA's area of responsibility, with 68% of terminal traffic handled in 2008. The airport in Podgorica participated with 17%, while the airport in Tivat generated 13% of all operations. The peak period took place during the period between June and September, when more than 60% of all operations were performed. The Konstantin Veliki airport in Nis served 1% of terminal civil air traffic, though it has the potential to boost its operations in the period to come. The airport in Vrsac is one of the busiest airports in terms of aviation training and sporting in Serbia, where a majority of flights are performed under VFR. The Batajnica airport is used for military purposes, although there is a strong possibility of it becoming a civil airport.

TRAFFIC FIGURES

The airspace under the responsibility of SMATSA is located at the heart of regional flows, which can be considered as one of the main reasons for a pronounced increase in traffic recorded in previous years. This segment of European airspace belongs to the Southeast European region and mostly involves Northwest - Southeast flows (and vice-versa), with significant seasonal traffic variations. Statistics show that 60% of the total traffic consists of flights between the countries of Central and Western Europe and the tourist destinations of Turkey, Greece and Egypt.

In 2008, traffic growth in the airspace controlled by SMATSA was achieved in the framework of forecasted values. The traffic volume increased by 8.6% compared to 2007 and the number of IFR ACC movements recorded 481,936, representing a growth of more than 38,000 flights over the previous year. In reviewing 2008 data for the surrounding region, SMATSA had achieved the highest growth in terms of traffic.

In fact, during the period that dates between the years 2003 and 2008, traffic had increased by an impressive 92%.

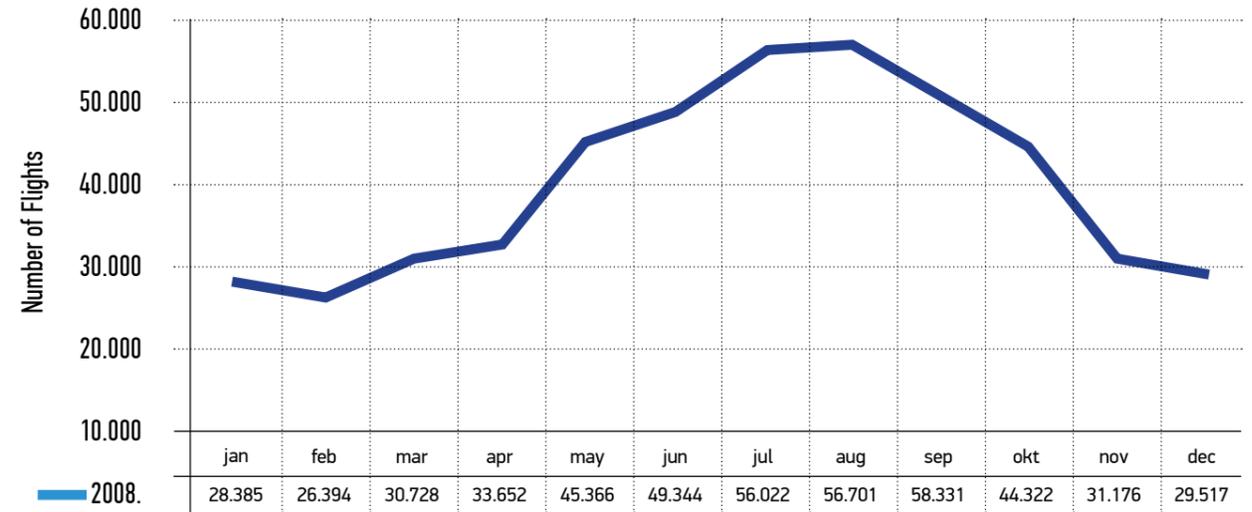


Figure 9. ACC Beograd - Seasonal Traffic Variation

Since the world economic crisis hit the air traffic industry in 2008, traffic growth did not reach the levels of previous years, but still a significant increase remains to be evident. During this period, airlines reduced costs, flight frequency and announced lay-offs, while aircraft manufacturers cut production. Airlines faced very poor financial results for 2008. Despite this situation, however, air traffic in the airspace under the responsibility of SMATSA recorded growth, in contrast to most European countries.

The main contributing factors to the growing traffic in comparison to 2007 are overflights at a growth rate of 8.8%, international arrivals/departures at 8%, while local flights recorded growth at 5.8%. The chart on Figure 8. shows the breakdown of IFR ACC movements in 2008.

Traffic volume is higher in the summer period due to tourism activities. As seen in the graph on Figure 9, significant seasonal traffic variation took place during the year, with the season peaking in July and August.

An analysis of the distribution of flights by category shows that scheduled flights made up the largest portion of total traffic, with a recorded increase of approximately 8% in 2008. The greatest increase was marked by low-cost flights at 26% compared to the previous year. The following picture shows the share of certain categories in total traffic, according to STATFOR.

SMATSA's contribution of traffic passing through its area of responsibility to European traffic is increasing every year. The peak point, at 6.3%, took place in August. The figures had been released by STATFOR (EUROCONTROL Air Traffic Statistic Forecast Unit).

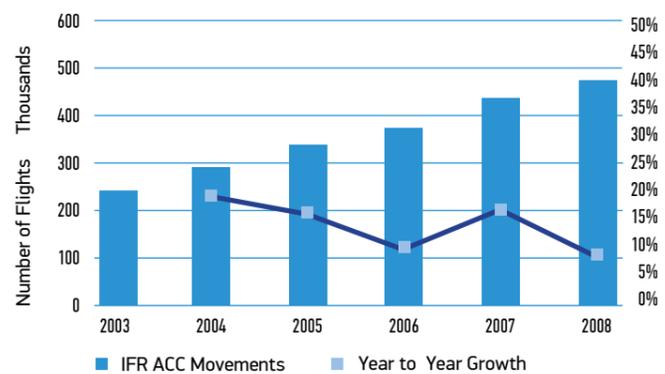


Figure 7. ACC Beograd - IFR ACC movements and year-to-year growth

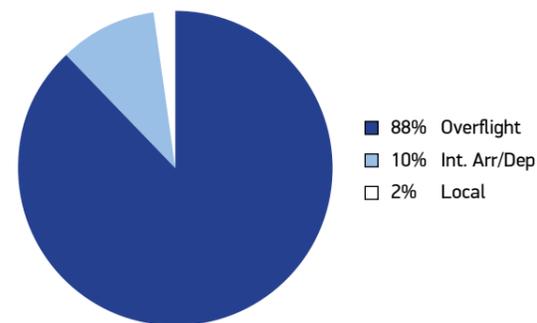


Figure 8. Breakdown of IFR ACC Movements in 2008

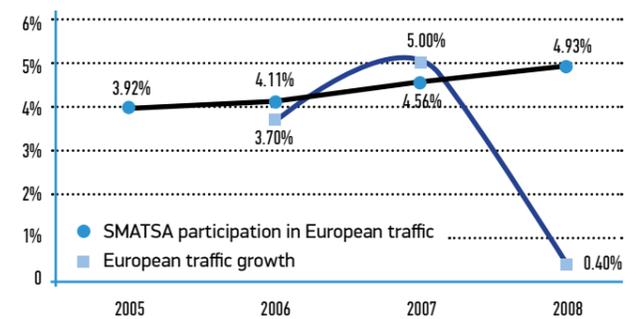


Figure 10. SMATSA's Participation in European Traffic/European Traffic Growth

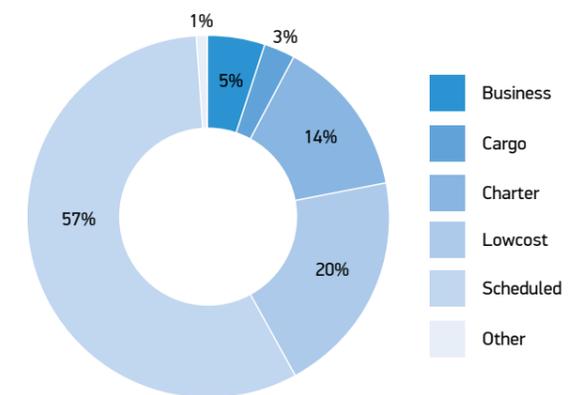


Figure 11. ACC Beograd - Traffic Distribution by Category

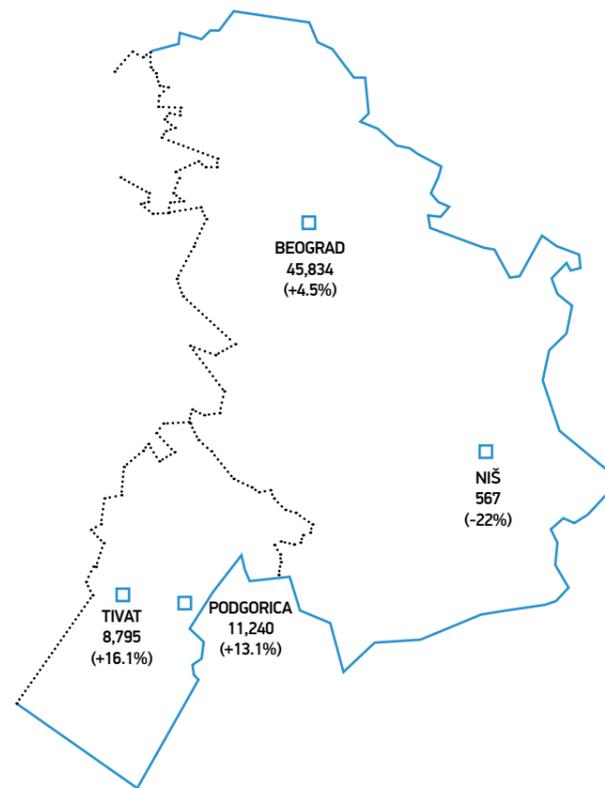


Figure 12. ACC Beograd - International Airports

ROUTE NETWORK AND CAPACITY

In 2008, a total of 66,436 takeoffs and landings were registered at the four international airports in Serbia and Montenegro. At the airport in Belgrade, traffic rose by 4.5%, while the airport in Tivat recorded the most substantial increase with 16.1%, followed by the airport in Podgorica, with 13.1%. The airport in Belgrade hosted over 400 different aircraft operators, while 97% of all takeoff and landing operations were carried out by only 70 operators. In contrast, the airport in Nis recorded a decrease of operations in 2008. To conclude, the overall takeoff and landing operations on international airports in SMATSA's area of responsibility increased by 7% in 2008.

SMATSA has taken necessary actions to ensure that the system has the capacity and endurance in order to work in a safe and reliable manner. On March 13th, 2008, a new airway - Y/UY575 (VAGEN – EKSER – GOLIP – BEO) - was introduced, together with a set of RAD restrictions. The operational goal was to prompt AOs to use the shortest available route options in flight plans. These measures had a significant impact on the capacity of the relevant sector, due to a reduction of unnecessary conflicts, thereby improving overall traffic flow management. As a result, SMATSA did not encounter any capacity shortages in 2008. Moreover, according to the latest LCIP, SMATSA foresees no capacity deficiencies in the next five year period. Lower and upper en-route charts are shown in Annex 3.

DELAYS

Despite significant growth of traffic in 2008, the ATM system handled the challenge of increased demand with success. In 2008, the number of delays that were caused by SMATSA is negligible. Some delays can be attributed to activation of military areas, but this issue was quickly addressed and resolved in coordination with the CFMU. Procedures to overcome these types of delays have been developed in the interim period, leading to zero delays caused by military activities. SMATSA plans to instil and apply the zero delay policy in its operations in the coming years as well.

ECOLOGY

Scientific studies have shown that the aviation industry has a large impact on the climate system. Presently, it accounts for 4% to 9% of the total climate change impact of human activity. A special characteristic of aircraft emissions is that most of them are produced at cruising altitudes, high in the atmosphere. Scientific studies have shown that these high-altitude emissions have significantly harmful impact on climate. SMATSA makes a great effort at maintaining air traffic environmentally friendly, 365 days a year. By making use of direct routing whenever possible and introducing new, shorter routes in 2008, SMATSA contributed to the preservation of the environment by increasing overall efficiency reducing average fuel consumption per flight, and consequently, reducing emission levels. The measures introduced have resulted in savings between 0.4 NM and 5.5 NM in flight planned distance. The total savings in distance, flying time, fuel burn and CO₂ emissions are provided in the table below.

	Distance (NM)	Flying time (min)	Fuel (t)	CO ₂ (t)
Savings 2008	96,018	12,802	534	1,655

Table 2. Total Savings in Distances, Flying Time, Fuel Consumption and CO₂ Emissions

EN-ROUTE CHARGES

Unit Rate

The unit rate is the basis for calculation of charges per aircraft, which vary according to weight and distance travelled, as set out by EUROCONTROL member countries each year. It is computed based on the forecasted cost of providing air navigation services and facilities and the projected number of service units for a given period.

In July 2007, the Republic of Serbia and the State of Montenegro became members of CRCO, an institution that charges and collects en-route charges on behalf of EUROCONTROL member states. The unit rate for Serbia and Montenegro amounted to € 38.96 in 2008, representing one of the lowest unit rates in Europe (only 7 among 36 countries participating in the EUROCONTROL charging system had lower unit rate than SMATSA in 2008). Through effective and efficient utilization of its resources, SMATSA has been able to successfully keep its unit rate stable over the years. The following graph depicts the development of monthly adjusted unit rates for en-route navigation services, compared to the published global unit rate for 2008, adjusted each month to reflect currency exchange rate fluctuation.

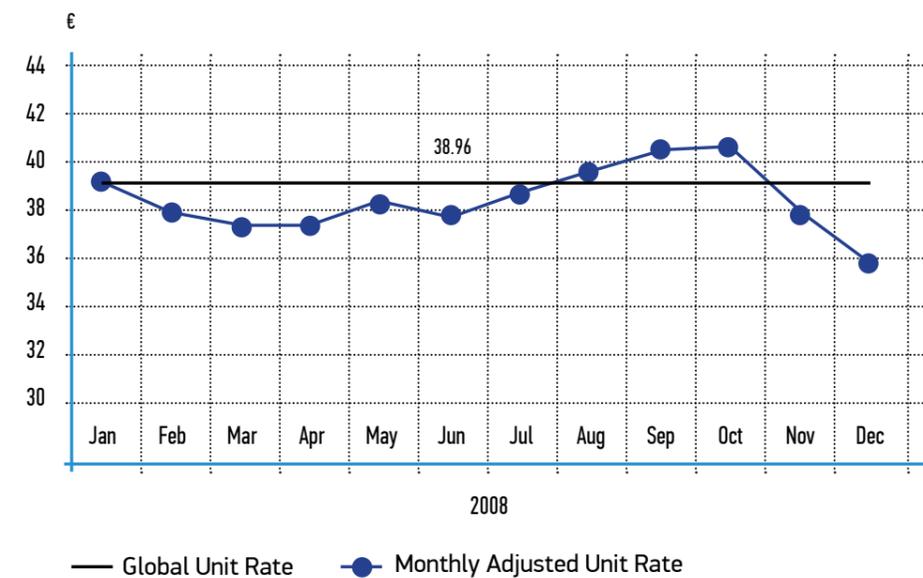


Figure 13. Serbia and Montenegro - Global and Monthly Adjusted Unit Rates in 2008

An overview of the level of charges for en-route navigation services by individual EUROCONTROL member states is shown in the graph below.

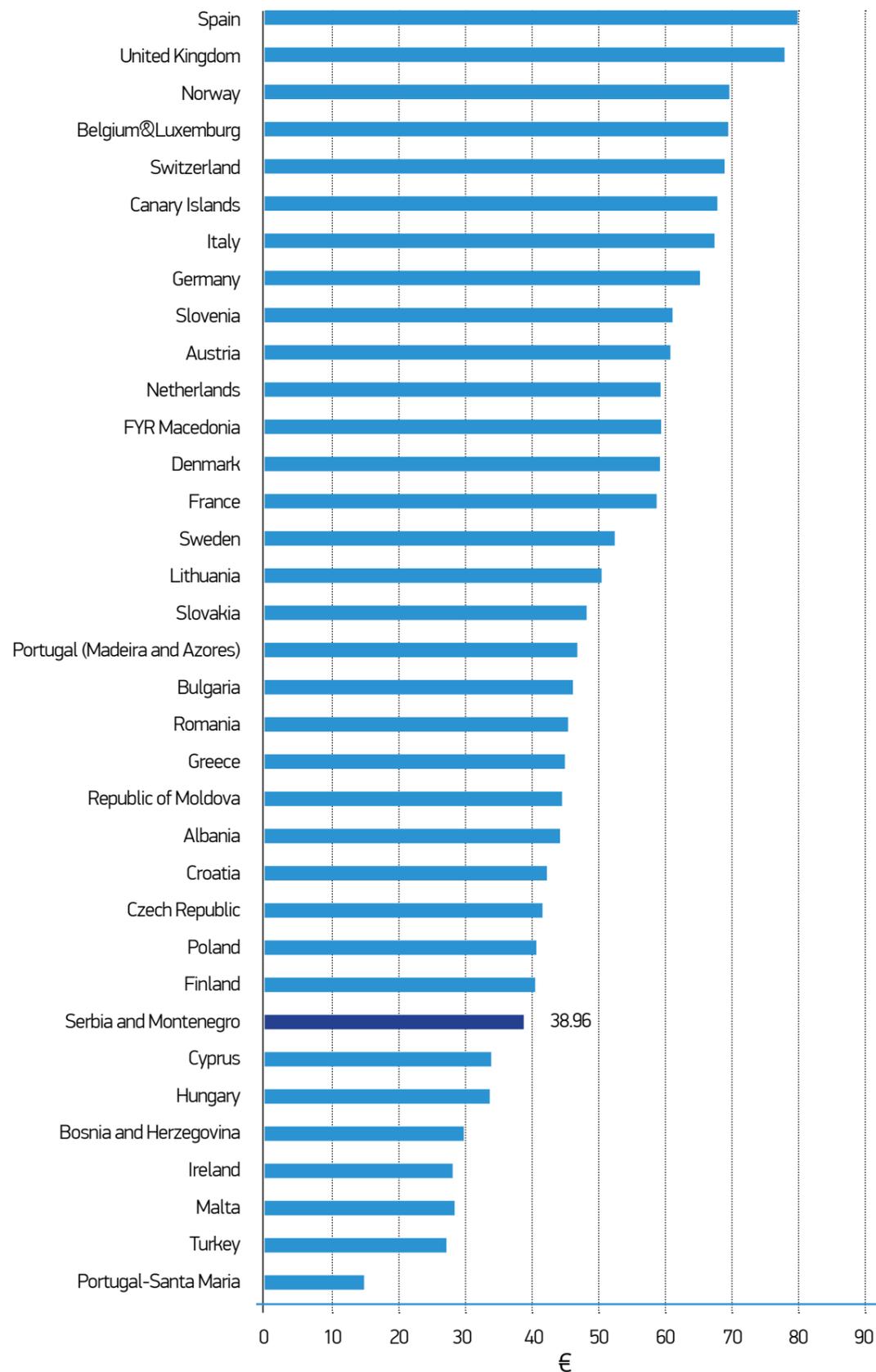


Figure 14. Global Unit Rate per Country in 2008

SERVICE UNITS

The basis for calculating en-route navigation charges is through a function using the unit rate and the number of applicable service units. A service unit is defined by the number of kilometres flown in the great circle distance, divided by 100, multiplied by the square root of 1/50 of the maximum take-off weight (MTOW) of the aircraft in tons. The number of chargeable service units for flights in SMATSA's area of responsibility in 2008 increased on a year-on-year basis by 12%. A total of 1,747,513 service units were collected in 2008, of which 1,745,856 units were chargeable. The figure 15. on the right, shows the number of service units generated in recent years.

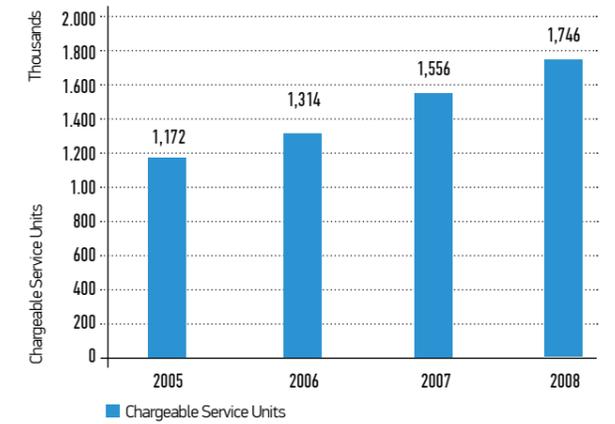


Figure 15. Chargeable Service Units

Based on the number of service units provided in 2008, Serbia and Montenegro ranks 19th out of the 35 countries for which CRCO collects and bills route charges.

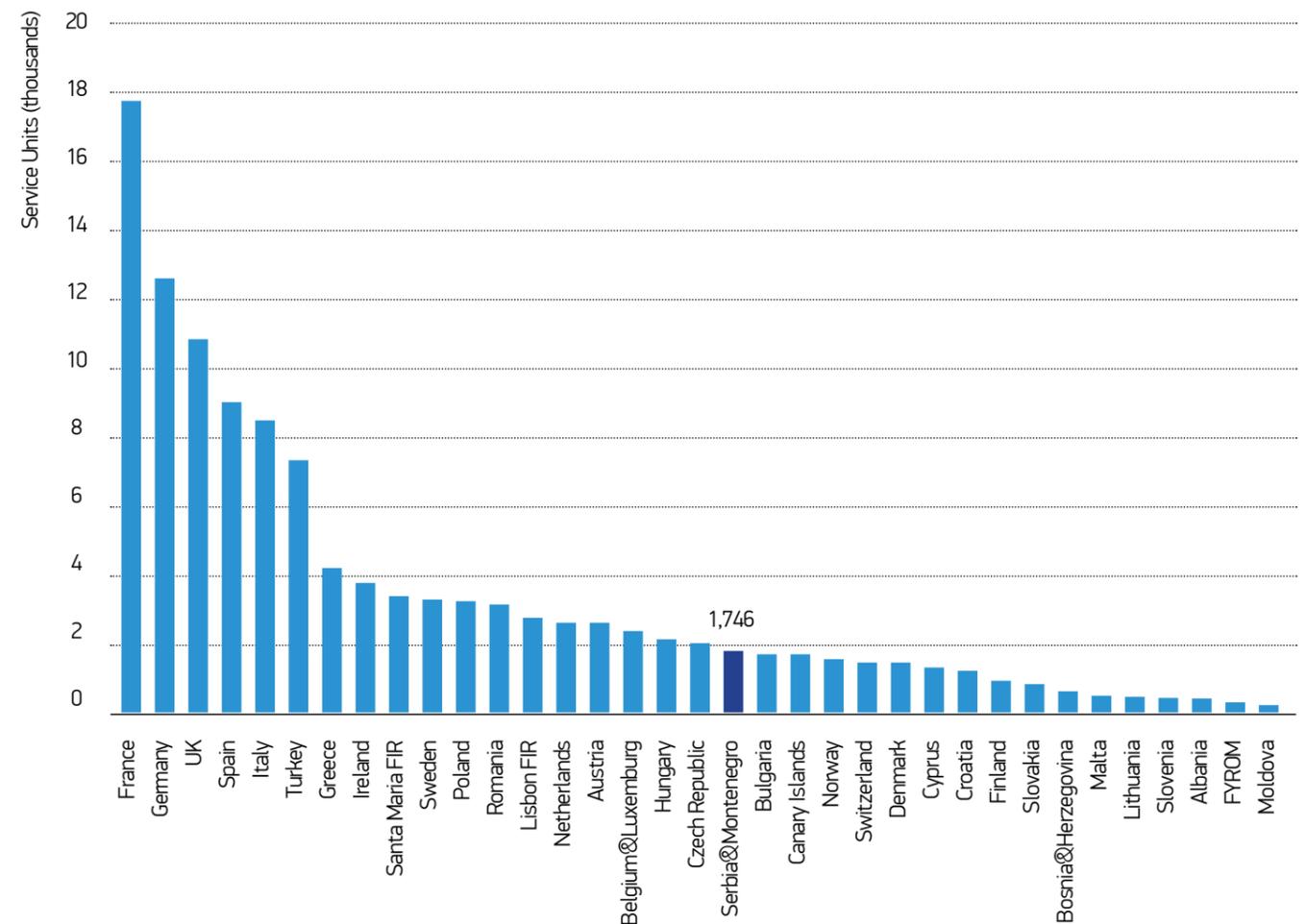


Figure 16. Sum of Chargeable Service Units per Country in 2008



TERMINAL CHARGES

Terminal charges are applied to air traffic control services provided to aircraft that take-off from airports in Belgrade, Nis, Podgorica, Tivat and Vrsac.

It is calculated by applying the following formula:

$$R = p \times t$$

(R – charge, p – weight factor, t – unit rate).

To calculate the weight factor for IFR flights, the number of metric tons in the maximum certified take-off mass (MTOM) as set in the Certificate of Airworthiness, Flight Manual or other document, is divided by 50, all raised to the power of 0.7. This formula is expressed as $p = (MTOM/50)^{0.7}$. The weight factor for VFR flights is calculated by taking the square root of the number of metric tons in the maximum certified take-off mass (MTOM) as set in the Certificate of Airworthiness, Flight Manual or other document, divided by 50:

$$p = \sqrt{\frac{MTOM}{50}}$$

The value of the unit rate (t) is:

- € 90 for IFR flights of aircraft with a maximum certified take-off mass (MTOM) of 2 – 10 tons,
- € 175 for IFR flights of aircraft with a maximum certified take-off mass (MTOM) of 10 tons or more, and
- € 50 for VFR flights.

In 2008, 32,637 take-offs had taken place, with an invoiced value of € 4,452,147. The majority of take-offs were carried out in the summer months as a result of an increase of tourist activities, especially through charter flights directed to the airport in Tivat and destinations in Greece, Turkey and Egypt.

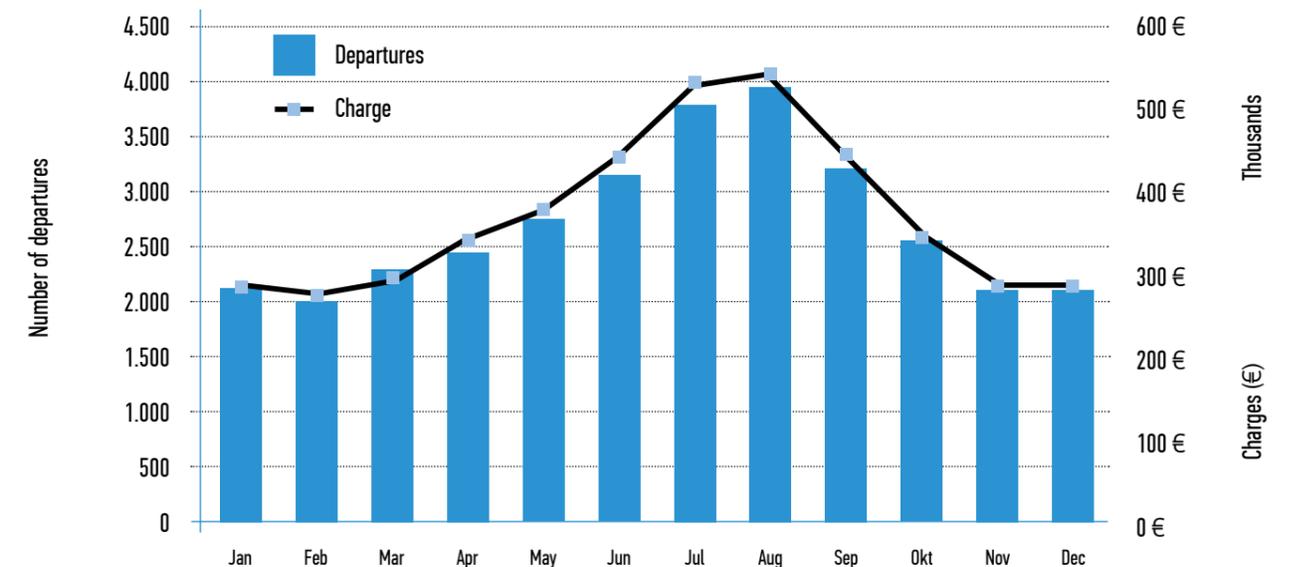


Figure 17. Number of Departures and Charges in 2008



Figure 18. The Former Operational Concept of Beograd ACC



Figure 19. The New Operational Concept for Beograd ACC

OPERATIONAL REVIEW

THE SCOPE OF SMATSA'S ACTIVITIES INCLUDES AIR NAVIGATION SERVICES AS WELL AS ADDITIONAL SERVICES. THE AIR NAVIGATION SERVICES ENTAIL THE FOLLOWING:

- AIR TRAFFIC MANAGEMENT (AIR TRAFFIC SERVICES, AIR TRAFFIC FLOW MANAGEMENT AND AIR SPACE MANAGEMENT),
- COMMUNICATION, NAVIGATION AND SURVEILLANCE SERVICES,
- AERONAUTICAL INFORMATION SERVICES, AND
- AERONAUTICAL METEOROLOGICAL SERVICES.

ADDITIONAL SERVICES INCLUDE:

- FLIGHT INSPECTION SERVICES,
- TRAINING SERVICES,
- PANS OPS, AND
- CARTOGRAPHY.

AIR TRAFFIC MANAGEMENT

The main priority of air traffic management operations is the provision of high quality air traffic services through all SMATSA's control centres, emphasizing the highest levels of safety, punctuality and efficiency. At SMATSA, air traffic management, supported by a newly implemented system, is based on technologies that represent industry standards. The system integrates safety nets and On-Line Data Interchange (OLDI) functions, capable of meeting the expected growing traffic demand for many years to come.

SMATSA pays special attention to airspace design and route network development issues, bearing in mind their impact on the entire aviation community. SMATSA's representatives actively participated in several international and regional meetings in 2008 concerning these matters, including:

- Route Network Development SUB-GROUP (63rd, 64th and 65th meetings),
- South East Europe regional meeting (6th and 7th meetings).

Knowledge and experience gained through these activities were used to reach capacity targets, to keep delays at a zero-minute level and to improve the route network by introducing new route options and increasing flight efficiency in the area of responsibility. Furthermore, on May 8th, 2008, enhanced SID and STAR procedures were implemented together with recommended VFR routes for TMA/CTR Podgorica and

Tivat. The improved traffic flow organization enabled the separation of VFR and IFR traffic flows. The redesigned Temporary Segregated Area 03 (TSA03) was introduced on August 28th, bringing about the fulfilment of all military training and exercise needs and avoiding disruption of major traffic flows.

On April 8th, 2008, SMATSA introduced a new operational concept for the Beograd ACC, with the following critical objectives:

- Increasing traffic demand,
- Operational concept consistency with adjacent ACCs,
- Transition to the FAMUS system, and
- Harmonization with the FASTI operational concept and the EC Directive 2006/23.

The former operational concept of Beograd ACC was based on traditional practice and procedures concerning the following positions: ASS, PROC PLN and EXE.

The new operational concept for Beograd ACC includes the following positions: planning controller (PC), executive controller (EC) and assistant (ASS) when applicable



Figure 20. Ground (GND) Control Position

In 2008, the Nikola Tesla airport in Belgrade acquired a license issued by the Civil Aviation Directorate of the Republic of Serbia, allowing it to operate in low visibility conditions CAT II, CAT IIIa and CAT IIIb, concerning runway approach direction 12. SMATSA has fulfilled all the necessary requirements relating to service provision in low visibility conditions, with a great effort applied to the implementation of CAT IIIb.

Other activities carried out by SMATSA that have taken place in 2008 include:

- Implementation of the Ground (GND) control position.
- Addition of a frequency of 118.300 MHz in order to facilitate operational tasks for the GND control position at the Belgrade terminal control.
- Compilation of technical documentation concerning specifications, maintenance and inspection of SMATSA's equipment and systems.
- Assembly of low visibility, operational and contingency procedures. Low visibility procedures were published in AIP (AD 4 LYBE and AD 2.22).
- Signing of a Service Level Agreement between the Nikola Tesla airport in Belgrade and SMATSA.
- Creation of a training programme for task performance in low visibility conditions. ATCO training and controllers' competency assessment had been conducted.
- Execution of ATCO training relating to desk remote control and lighting system control for RWY and TWY.
- Evaluation of operational performance at the Nikola Tesla airport in Belgrade in low visibility conditions, taking into account predefined procedures and service-level agreements among various units.

COMMUNICATION, NAVIGATION AND SURVEILLANCE SERVICES

Communication services within SMATSA encompass voice (ground-ground and air-ground) and data communication services (AFTN and OLDI).

The CNS Division of SMATSA is responsible for maintenance and provision of voice and data communication services for en-route, approach and airport applications. An equipment maintenance strategy and various procedures have been developed in order to ensure maximum availability of services. SMATSA provides navigation services for both en-route and terminal operations, using various technologies to deliver those services. Navigation infrastructure for en-route operations exploits VOR/DME and NDB equipment. While the VOR/DME infrastructure supports en-route RNAV operations, NDBs support en-route operations for state aircraft and civil aircraft equipped with lower capability navigation systems.

Surveillance services entail the generation and distribution of surveillance data to both external and internal users from SMATSA. Surveillance data originates from the PSR and the MSSR.

The CNS Division is constantly engaged in activities involving the implementation of new requirements, recommendations, standards, international agreements and laws defined by ICAO, EUROCONTROL and the Civil Aviation Directorate of the Republic of Serbia and the Civil Aviation Agency of Montenegro. An assessment of activities of the CNS Division indicates that task forces and user groups are applied to a great extent in the course of accomplishing departmental objectives.

During 2008, SMATSA's communication network evolved through its extension to new locations, the introduction of back-up paths and migration to fibre optics for crucial services (air-ground voice and radar sensors). Likewise, the foundation for VHF/UHF radio network enhancement and extension has been set. The CNS Division also actively participated in tasks related to the FAMUS modernization project.

AERONAUTICAL INFORMATION SERVICES

SMATSA provides aeronautical information services for Serbia and Montenegro in accordance with ICAO standards and practices, enabling safe, regular and efficient air navigation. All elements of the Integrated Aeronautical Information Package (IAIP) are made available for three different categories of users: civil, military and pilots flying according to visual flight rules (VFR). The quality of aeronautical data is checked by SMATSA's AIS experts at multiple levels prior to publication.

In 2008, AIS for Serbia and Montenegro was made available to the European AIS Database (EAD), where all IAIP's of ECAC states are publicly available in digital form. The EAD enables users to access and download real-time data from the Internet.

Aside from the full operational provision of aeronautical information services, AIS Serbia and Montenegro is continuously engaged in European initiatives and activities for improvement of aeronautical information services. In this way, SMATSA is directly involved in the development and deployment of international regulations, standards and new technologies adapted and applied in the domain of aeronautical information. In addition, SMATSA has started to publish an AIS Newsletter in order to inform users from the Republic of Serbia and the State of Montenegro about new services, products, procedures and events regarding AIS Serbia and Montenegro, European and worldwide AIS, the Integrated Aeronautical Information Package, the European AIS Database (EAD), aeronautical data quality, etc.

AERONAUTICAL METEOROLOGICAL SERVICES

SMATSA provides aeronautical meteorological services with an objective of “contributing towards the safety, regularity and efficiency of air navigation”, as stipulated in ICAO Annex 3.

Aeronautical meteorological services involve:

- Aeronautical meteorological observations and reports,
- Continuous survey of meteorological conditions at airports and ACC Beograd area of responsibility,
- Aeronautical forecasts and warnings,
- Briefing, consultation and flight documentation,
- Supply of other meteorological information to aeronautical users,
- Exchange of meteorological information, and
- Continuous VHF VOLMET broadcast.

Activities in 2008 focused on improvement of real-time and non-real-time monitoring and quality-control of airport observations, reports, aeronautical forecasts and warnings. At the Belgrade airport, automatic systems for acquisition, processing, distribution and display of wind, pressure, temperature and due-point in real-time were installed at all aeronautical meteorological stations, extended with RVR and cloud height (CAT IIIb). All airport MET offices and the Meteorological Watch Office (MWO) in Belgrade receive all the relevant meteorological information needed for aircraft operations and forecasting purposes by SADIS and EUMETSAT. The SYNOP and upper wind/temperature data are received from the National Hydro Meteorological Institute (NHMI). Aviation OPMET messages are sent to NHMI, which distributes the messages to international operational meteorological data banks. AFTN at MWO in Belgrade is used as back-up for sending and receiving information from international operational meteorological data banks. The technical features outlined above have been set up in such a manner that could be easily improved by a mere installation of new hardware and upgraded software.

SAFETY AND SECURITY

Safety is the highest priority of every ANSP and it is a leading parameter governing current ATC operations and future activities. SMATSA has implemented and strives to maintain an effective, formal and proactive safety management system in accordance with ICAO, EC, EUROCONTROL and national regulation requirements. The basic task is ensuring that all operational equipment and procedures are safe and that all operational personnel are properly trained and competent to perform their respective duties.

The Safety and Security Division of SMATSA has a fundamental role in setting safety standards and assuring compliance with those standards. All parts of the ATM system in terms of design, manufacture, operation and maintenance are closely monitored. The process of risk identification, assessment and mitigation pertaining to the use of a qualitative or quantitative risk-based approach in SMATSA when introducing and/or planning changes to the system, has been installed. SMATSA's intentions are to raise awareness regarding causes of safety incidents, in order to reduce the probability of recurrence. The objective behind this intent is to eventually eliminate the probability of incident recurrence through the use of training, lesson dissemination, briefing sessions, refresher training and general safety awareness.

Operatively, security has been enhanced in the last few years and everyone with access to restricted areas/zones must have valid security clearance. Other safety tasks for the future include the implementation of an open safety culture through a number of processes. The benefits of an open safety culture shall be reflected through the number of reporting events and better use of just culture principles. A well-structured process of analysis is tailored to satisfy ICAO Annex 13 and ESARR 2 requirements through operation manuals and procedures.



Figure 21. JAK-40

FLIGHT INSPECTION

SMATSA's Flight Inspection Division is qualified to perform GRNA flight inspection as well as inspection of flight procedures. Flight inspection services of Ground Radio Navigation Aids (GRNAs) are performed for SMATSA's own needs as well as for air traffic requirements of other neighbouring countries (territory of Serbia, Montenegro and Bosnia and Herzegovina). Inspection services are performed in accordance with the requirements and recommendations of ICAO Annex 10, Annex 14 and ICAO Doc 8071, using current technologies.

Flight inspection services of GRNA's and flight procedures inspection services are conducted on various terms, including: commissioning, periodic inspections, special inspections, and site-verification. Since founding of the Flight Inspection Division, one DC/3 and two JAK-40 aircraft had been exploited for the purpose of providing flight inspection services. In 2008, one JAK-40 with an integrated NORMARC NFIS system 3625B was used for flight inspection of GRNA's. Since 1976 and up to the present-day, more than 11,000 flights, a total of 13,000 flight hours, have been carried out by the active JAK-40.

Through the use of up-to-date technological solutions within the flight inspection system, and through continuous improvement of GRNA flight inspection procedures, the most important operational goals will be accomplished as a result of:

- High precision of measured parameters,
- Possibility of repeating inspection procedures and
- Minimal required flight time and minimal number of engaged personnel.

In accordance with general modernization objective, SMATSA invested into new aircraft and accompanying equipment. Thus, a public procurement procedure was conducted in 2008 resulting with a signature of a contract with the selected aircraft supplier. The new aircraft - Beech King Air 350 - with an integrated AD-AFIS-260 system will improve the quality of flight inspection services.



Figure 22. RDR Simulator



Figure 23. Part Task Trainer (PTT)

TRAINING CENTRE

SMATSA's Training Centre for over 40 years in operation has developed a reputation of having the highest training standards. The Centre is certified by the Civil Aviation Directorate of the Republic of Serbia. It is fully compliant with ICAO standards and offers training to all SMATSA's operational staff. Moreover, the Centre provides training for external users from Bosnia and Herzegovina as well as FYROM, striving to extend its services to the entire region.

Air traffic controllers have been trained according to training syllabi and plans that are aligned with CCC (Common Core Content), ESARR 5 and other relevant documents. Through a modular approach, the Training Centre provides all levels of training:

- Basic,
- Rating and
- Continuation.

Currently, CNS, MET and AIS staff training is based on ICAO standards and recommendations. However, a new training plan and program is in the making, aligned with the requirements of ESARR 5, WMO and EATMP. Training methods and tools are in compliance with the required standards and the capacity of the Training Centre corresponds to national and international requirements. The Centre is equipped with:

- An RDR simulator,
- A PROC simulator,
- A Part Task Trainer (licensed by IANS),
- A language laboratory,
- CBT/CWBT classrooms and
- A digital wall display.

SMATSA's Training Centre employs a large number of ATS experts, professors, and ANS experts engaged in training, course and exercise design and development of training methods.

Training Courses (short description)	Trainees	Number of trainees
RDR Course	SMATSA ACC/PROC controllers	11
RDR Course	SMATSA APP controllers	4
Instructor's course	SMATSA controllers	6
Basic and Rating (ACS/RDR)	46 class of Ab Initio	39
RDR Course	SMATSA ACC/PROC controllers	8
TWR Course	SMATSA ACC/PROC controllers	5
Refresher Course	MK CAA Controllers	44
Refresher Course	BHDCA Controllers	7
Basic and Rating (ACS/RDR)	BHDCA Controllers	14
Refresher Course	BHDCA Controllers (Republic of Srpska)	8
VCS 3020X	SMATSA employees	4
LISTEER 3-15Kva	SMATSA employees	7
Refresher courses for RDR systems	SMATSA employees	14
VOR TAH 511 B	SMATSA employees	5
ALCATEL 1511AN	SMATSA employees	10
DME BNC 1020	SMATSA employees	3
AWS-200	SMATSA employees	2
MARK V	SMATSA employees	7
Refresher course VCS PARK AIR	SMATSA employees	12
System Familiarization Course for Airspace Security, Control and Allocation Experts	SMATSA employees	11

Table 3. Training Courses Conducted in 2008

Aside from the above listed courses, several refresher courses for approach controllers have been conducted in 2008.



HUMAN RESOURCES

The development of human resources is an important aspect in building a successful organization, and SMATSA, in recognizing this notion, applies recommended guidelines and tools in key HR processes such as manpower planning, recruitment and selection, licence record keeping and supervising, training, career development and reward systems. SMATSA launched an HR program which ensures that a sufficient number of experts, air traffic controllers, engineers and technicians with the relevant education, abilities and skills, are available at the right place and time to provide all services accepting and facing future changes.

Training plans for ATCO and other operational staff have been developed in accordance with actual standards and requirements defined in ESARR 5, WMO and all relevant documents. The recruitment and selection system that follows human resources planning procedures was carried out in accordance with ICAO Annex 1 and the National Regulation. New selection criteria were established and integrated with existing criteria concerning ATCO's and other staff categories. SMATSA looks forward to motivating and

attracting experts of all profiles, to encourage young people to apply and become members of SMATSA's successful team.

SMATSA has implemented the FEAST (First European ATCO Selection Test Package) tool in order to select the best candidates for ATCO training. This tool has been successfully used throughout 2008 for selection purposes of the 47th class of Ab Initio. The recruitment and selection process ended in May 2008, and by October 2008, 20 new trainees started attending classes at the Training Centre.

ELPAC test accreditation was gained in 2008, allowing SMATSA's representatives to participate in the execution of the testing process of ATCOs. The average number of people employed by SMATSA at the end of 2008 totalled 852 persons. They were assigned to various organizational units at SMATSA to provide following services and duties: ATM, CNS, Training, ADM, AIS and MET.

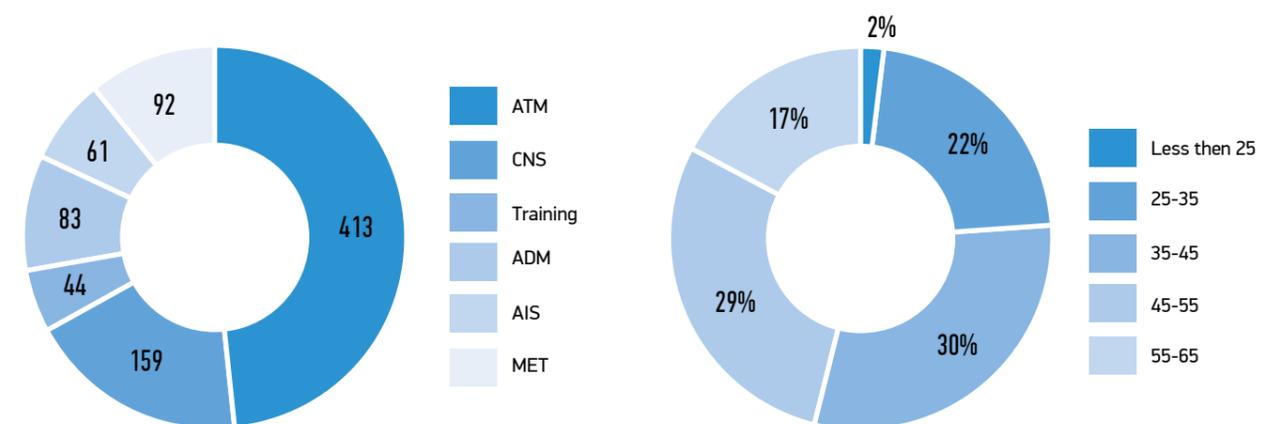


Figure 24. Staff Allocation

Figure 25. Staff Age Structure

SMATSA's employees actively participated in many workshops and meetings in 2008 in order to enhance knowledge and stay tuned to the latest, factual information regarding current industry issues.

Workshop/Meeting	Place
Accreditation course for ELPAC examiners/administrators/markers	IANS Luxembourg
TOD WG (5th meeting)	Brussels
SAIP Meeting	Brussels
HUM-ULA Course	IANS Luxembourg
AIP WG	Brussels
GEN-CNS-STRAT	IANS Luxembourg
AI Team (28th Meeting)	Brussels
Workshop on xNOTAM	Brussels
TOD WG (6th meeting)	Langen
SDO-DP Training	Frankfurt
PAM-DP Training	Frankfurt
INO-DP Training	Frankfurt
AIP-Ef Training	Edinburgh
ATC Familiarization and Radiotelephony with English for Aviation Teaching Methodology	Bournemouth
Aeronautical Chart –ICAO (1st FG meeting)	Frankfurt
RELTA Workshop	Amsterdam
ARO (1st Workshop)	Brussels
ELPAC test (Refresher Course)	IANS Luxembourg
EAD SSG (8th meeting)	Brussels
ECIP INF 06 (2nd meeting)	Wien
ALSOPS Meeting	Brussels
Aeronautical Chart –ICAO (2nd FG meeting)	Frankfurt
FASTI Operational Focus Group (OFG 11)	Zagreb
FASTI Operational Focus Group (OFG 12)	Brest
FASTI Operational Focus Group (OFG 13)	Bretigny
Route Network Development SUB-GROUP (63rd meeting)	Brussels
Route Network Development SUB-GROUP (64th meeting)	Brussels
Route Network Development SUB-GROUP (65th meeting)	Innsbruck
6th South East Europe Regional Meeting	Brussels
7th South East Europe Regional Meeting	Brussels

Table 4. Workshops and Meetings

Aside from the above listed courses, several refresher courses for approach controllers have been conducted in 2008.



QUALITY MANAGEMENT

SMATSA has commenced implementation of a Quality Management System (QMS), compliant to the requirements of ISO 9001 standard, in 2008. The main goal is to certify by 2010, an entire range of services that SMATSA provides, such as: provision of air traffic management (ATM), communication, navigation and surveillance services (CNS), aeronautical information services (AIS), aeronautical meteorological services (MET), as well as training of ANS personnel and flight inspection services. SMATSA will strive to maintain and continually improve QMS, once obtained an ISO 9001 certificate. The Quality Assurance Division has actively joined in on activities of EUROCONTROL and CANSO quality management work groups.

RISK MANAGEMENT

Risk management was implemented in SMATSA with the aim of foreseeing risks, estimating effectiveness, reducing the negative effects of risk and creating response plans for risk mitigation. A risk management plan regarding the FAMUS project was created at the end of 2007 in order to identify, assess, minimize, monitor, and control the probability and/or impact of unfortunate events and to maximize the ability to take advantage of opportunities.

The FAMUS risk management team was formed on April 21st 2008 in order to perform the tasks and duties identified in the risk management plan. It consists of one team leader, team coordinators, a safety and security director and work-group leaders that are experts in various fields that are relevant to the project. Apart from this, SMATSA has taken basic steps in 2008, to identify and assess the risks relating to on-the-job safety and the working environment. This process, aligned with the Book of Regulations for assessing risks in the working environment, is expected to be finalized by the beginning of 2009.

SMATSA has also created a committee for health and security matters, consisting of union and SMATSA representatives. SMATSA maintains a human resources plan in order to minimize the risk of deficiencies in human resources.

SMATSA is insured with Dunav Insurance and Delta Generali Insurance through policies that cover the following risks:

- Property insurance – fixed assets (buildings, equipment, motor vehicles and aircraft) and inventory: from damage caused by fire and other accidents; from theft and vandalism; from breakage of glass surfaces; electronic computers, processors and similar technology; motor vehicle full coverage insurance, passenger insurance and compulsory insurance for damage caused to third parties; aircraft full coverage insurance.
- Insurance for employees – collective insurance for employees (against the risk of accidents) and employee insurance in cases of illness and surgery as well as additional private health insurance.
- General liability insurance from all events that may emerge from the course of carrying out regular business activities and any other related activities, as well as from legal liability of the insured from public accountability.

KEY PERFORMANCE INDICATORS



KEY PERFORMANCE INDICATORS

Following an analysis of SMATSA's operations, key performance areas (KPA) have been identified. An effort has been made to assign key performance indicators (KPIs) that are feasible and measurable. These KPAs are:

- Safety,
- Traffic and delay and
- Cost – effectiveness.
- Average ACC transit time (in minutes),
- Aggregated complexity indicator,
- ATFM delays,
- Global unit rate,
- Cost of ATFM delays,
- ANSP ATCO productivity, and
- ACC ATCO productivity.

The most important key performance indicators represented in this document are:

- Breakdown of incident reports per year,
- Average daily number of flights per year,
- IFR flight-hours controlled by the ANSP,

SAFETY KPIs

A total of 56 incident reports were investigated in 2008, and of those, 42 were classified as ATM-related (various incidents)

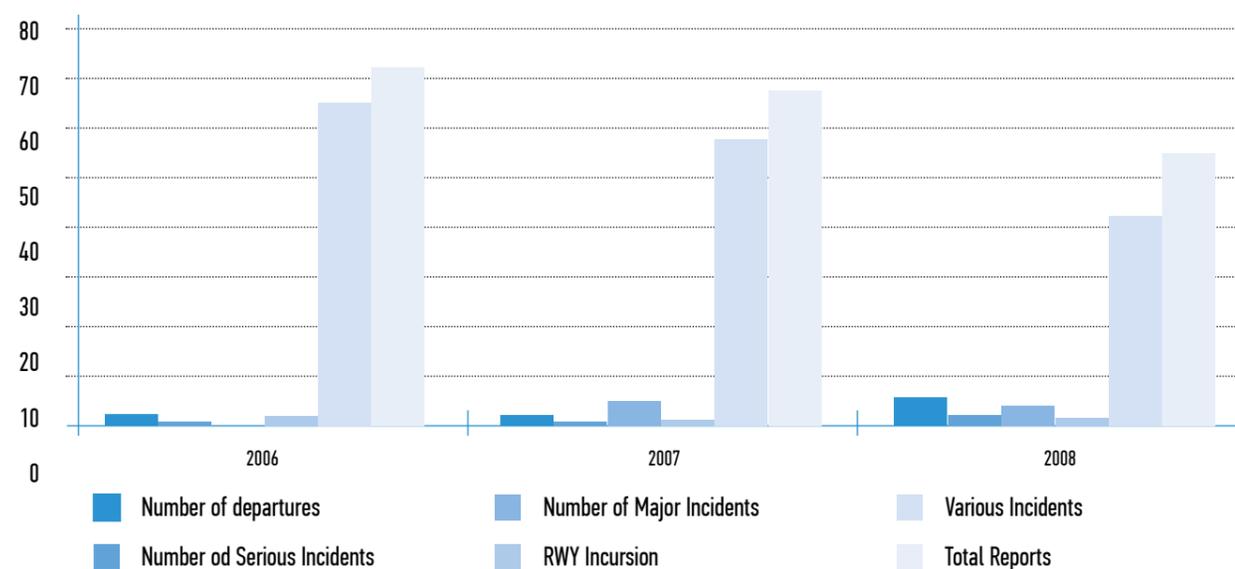


Figure 26. Breakdown of Incident Reports per Year



TRAFFIC AND DELAY KPIs

The following figure shows the average daily number of flights per year. In 2008, the average daily number of flights amounted to 1,317, which represents an increase of 8% in comparison to the same parameter recorded for 2007.

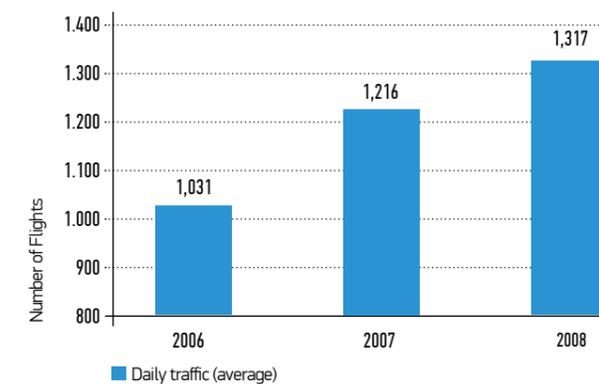


Figure 27. Average Daily Number of Flights per Year

Next figure shows the sum of flight hours over the course of the year by flights controlled by the operational ATC units (ACC, APP or TWR). For any given flight, the number of flight hours controlled is defined as the difference between the entry time and the exit time in the controlled airspace, based on the last flight plan received.

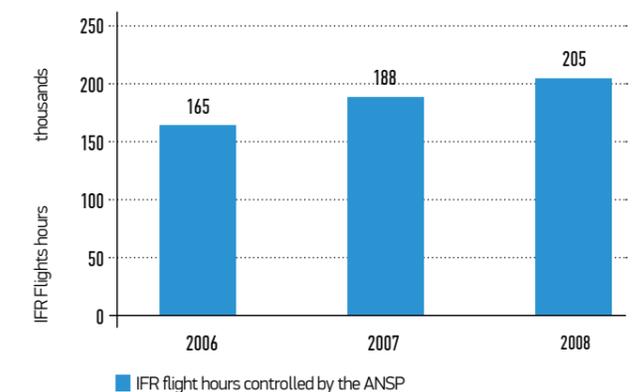


Figure 28. Total IFR Flight-Hours Controlled by the ANSP



The average ACC transit time, shown in the next figure, has been stable for the last three years.

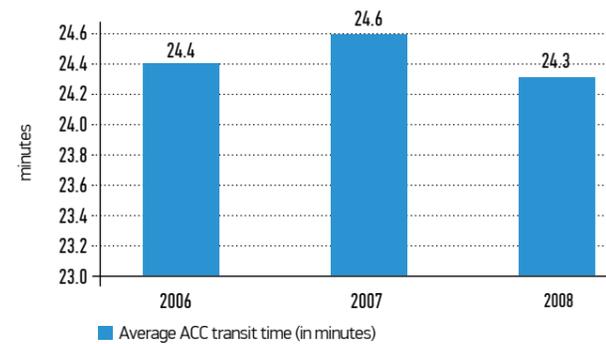


Figure 29. Average ACC Transit Time (in minutes)

Traffic complexity is one of the main (measurable) factors that affect the performance of an ANSP. A number of traffic characteristics that might be expected to have an impact on the cost-effectiveness KPI performance have been grouped together under the generic label of "aggregated complexity score". This indicator is a combination of two elements: adjusted density and a structural complexity index.

Traffic complexity indicator at ACC level	2006	2007	2008
Adjusted density	4.90	7.80	8.16
Vertical interactions	0.06	0.05	0.05
Horizontal interactions	0.04	0.44	0.45
Speed interactions	0.09	0.07	0.07
Structural complexity indicator	0.55	0.56	0.58
Aggregated complexity score	2.70	4.40	4.71
European Average Aggregated complexity score	6.02	6.32	6.18

Table 5. Traffic Complexity Indicator at ACC Level



Figure 30. Aggregated Complexity Indicator

The values of SMATSA's ATFM delays are among the lowest in Europe. The delays in the European system amounted to 18,158,000 minutes.

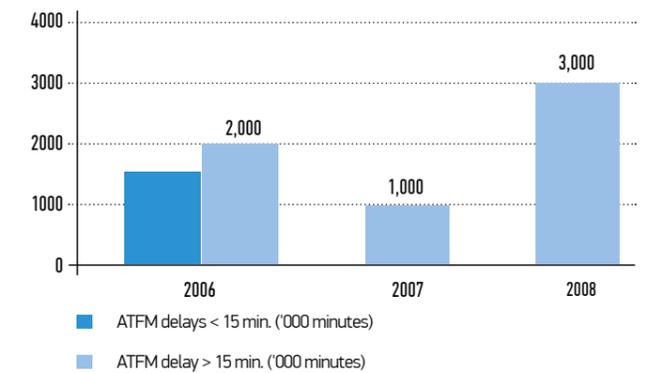


Figure 31. SMATSA's ATFM Delays



COST-EFFECTIVENESS KPIs

The following figure depicts the global unit rate value, per year. As shown, there have been no major fluctuations in terms of the value of the unit rate during the last three years.

The cost of SMATSA's ATFM delays increased in 2008, but still amounted to a value far below the costs of most ANSP's. The total cost of ATFM delays in the entire European system summed up to € 1,434,504,000.

ATCO hourly productivity illustrates efficiency of ATCO deployment by an ANSP. Composite flight hours accumulated by all ATCOs represent productivity at the ANSP level. ATCO productivity rose by 13% in 2008, a close mark to the European average (0.78).

ACC ATCO productivity also rose by 5% in 2008 in comparison to the previous year. Its value is almost the same as the value of the European average (0.97).

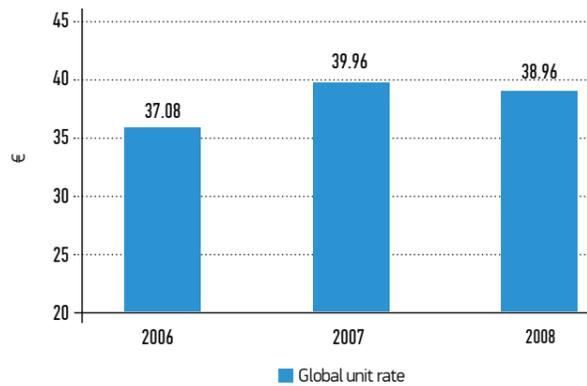


Figure 32. SMATSA's Global Unit Rate

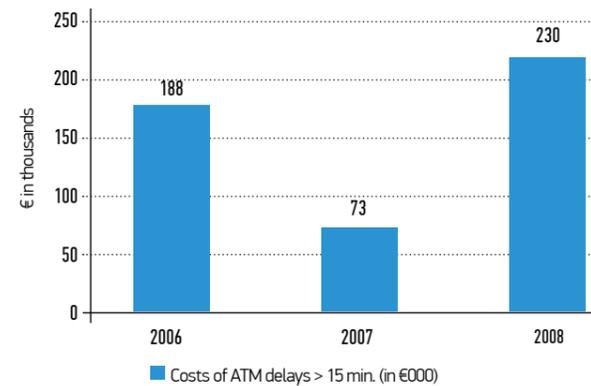


Figure 33. Cost of SMATSA's ATFM Delays

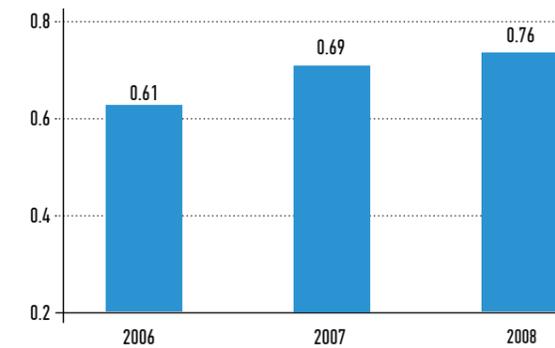


Figure 34. ANSP ATCO Productivity

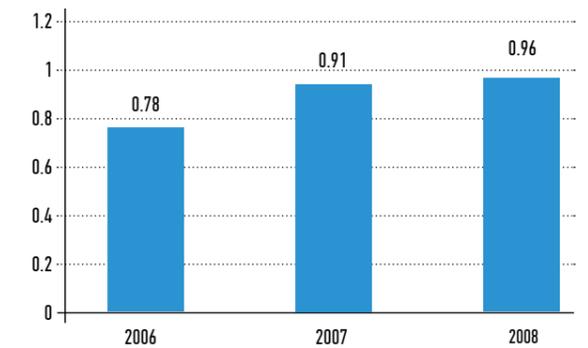


Figure 35. ACC ATCO Productivity

DEVELOPMENT AND INVESTMENTS





Figure 36. The New Area Control Centre Building in Belgrade

DEVELOPMENT AND INVESTMENTS

SMATSA HAS UNDERTAKEN COMPREHENSIVE MODERNIZATION ACTIVITIES IN ORDER TO REMAIN EFFICIENT AND ADAPTIVE. AS A RESULT, CONSIDERABLE CAPITAL INVESTMENTS TOOK PLACE IN 2008, AS WAS THE CASE IN THE PAST YEARS AS WELL.

FAMUS

The most important national ATM modernization project within the category of ANS provision, referred to as FAMUS, was launched in 2002 and is expected to be completed by 2011. This project aims to increase SMATSA's operative capacity in order to effectively deal with the challenge of growing air traffic volume. The FAMUS project encompasses:

- A new ACC building and
- New ANS systems (DPS, VCS, DVRPS, TRS, COM Network, AFTN/AMHS).

All systems to be deployed through the FAMUS project are compliant with SESAR. The first phase of the FAMUS project entails the renewal of resources destroyed in 1999. The second phase of modernization involves the implementation of a new system and equipment and the construction of a new Area Control Centre building. The new ACC building is intended to facilitate the needs of FIC and MWO units as well as the needs of technical and administrative staff. The entire project has been jointly financed by the EBRD, EIB and SMATSA.

An important milestone that has been achieved in 2008 in terms of the FAMUS project is the completion of the tender bid selection process for the construction of the new Area Control Centre building in Belgrade and provision of DPS (Data Processing System).

OTHER INVESTMENTS

Besides the FAMUS project, other key investments that took place in 2008 include:

Initiation of the procurement process of an aircraft equipped with an Automatic Flight Inspection System (AFIS). The new flight inspection aircraft Beech King Air 350 with an integrated AD-AFIS-260 system will enable SMATSA Flight Inspection Department to increase the quality and efficiency of its services.

Procurement of a VHF and UHF radio system for air-ground communication. The main goal of this investment is to cover a wider territory with a VHF/UHF radio system, increase capacity and harmonisation with EUROCONTROL standards.

Radio communication back-up system for ACC Belgrade and Voice Communication Systems (VCS's) for Vrsac and Batajnica towers.

MAJOR EVENTS AND COMPANY PRIORITIES IN 2008

JANUARY	January 13th – 19th: Accreditation course for ELPAC (English Language Proficiency for Aeronautical Communication) examiners, administrators and markers took place in Luxembourg.
FEBRUARY	The Quality Assurance Division has been staffed. These representatives actively joined in the activities of EUROCONTROL and CANSO quality management work groups.
MARCH	March 15th: By introducing the new airway Y/UY575 sector capacity was increased and air traffic flow management was improved.
APRIL	April 1st – 3rd: An OPADD focus group meeting was held in Belgrade. The main objective of this group was the improvement and clarification of the EUROCONTROL document "Operating Procedures for AIS Dynamic Data" (OPADD). OPADD represents a European instruction for NOTAM publishing, archiving and processing. April 8th: SMATSA introduced a new operational concept for Belgrade ACC. The new operational concept includes the following positions: PC, EC and ASS when required.
MAY	May 8th: Enhanced SID and STAR procedures were implemented together with recommended VFR routes for TMA/CTR Podgorica and Tivat. With improved traffic flow organization, the separation of VFR and IFR traffic flows was enabled.
JUNE	June 4th – June 5th: A EUROCONTROL training focus group took place in Belgrade. The report concerning the last TFG/28 meeting was presented, as well as achievements of the ATCO CCC task force, OJTI users' group, Radar Skills Trainer Group and ELPAC task force. June 19th: A Flexible Use of Airspace (FUA) workshop was organized in ACC Belgrade, in the presence of EUROCONTROL, SMATSA, Civil Aviation Directorate of the Republic of Serbia and Ministry of Defence representatives.
AUGUST	August 28th: A redesigned Temporary Segregated Area (TSA03) was introduced, enabling fulfilment of all military training and exercise needs without disruption of major traffic flows occurring at the same time.
SEPTEMBER	September 9th – September 11th: SMATSA hosted two international meetings: the Regional eTOD workshop and the 7th meeting of the TOD working group. The focus was on introduction and implementation of electronic Terrain and Obstacle Data (eTOD), which is an important element in flight safety improvement. The meetings were well attended by more than 100 aviation and geodesy experts from Europe, Russia and America.
OCTOBER	The 47th class of Ab Initio commenced training in October at SMATSA's Training Centre.
NOVEMBER	November 27th – 28th: A SMATSA FASTI newcomer workshop was organised in Belgrade. The workshop consisted of a plenary session, seminars and demonstrations. It was attended by FASTI managers, SMATSA, Skyguide and Croatia Control experts.
DECEMBER	In 2008, AIS for Serbia and Montenegro was made available to the European AIS Database (EAD). EAD is the largest and most sophisticated worldwide system for provision of aeronautical information. December 25th: A contract was signed with an aircraft supplier. Procurement of an aircraft – Beech King Air 350 with an integrated AD-AFIS-260 flight inspection system – will enable SMATSA Flight Inspection Services to increase the quality and efficiency of assistance. December 8th – 9th: Airspace Security Post-9/11 Conference and exhibition that took place in EUROCONTROL was attended by SMATSA's representatives.

Table 6. Major Events in 2008

FINANCIAL REPORTS



FINANCIAL REPORTS

INCOME STATEMENT, IN 000 RSD

Item	2007	2008
Operating Revenues	5,415,198	5,149,936
Revenues from ANS services	5,373,536	5,108,910
Other operating revenues	41,662	41,026
COGS	-	-
Material and energy expense	80,139	161,382
Salaries expense	2,994,602	3,377,914
Other operating expenses	1,118,470	688,510
EBITDA	1,221,987	922,130
Depreciation and amortization	867,666	910,346
EBIT	354,321	11,784
Financial revenues	227,449	567,371
Financial expenses	241,351	375,067
Other and extraordinary revenues	199,039	37,652
Other and extraordinary expenses	465,583	122,611
EBT	73,875	119,129
Corporate tax	34,157	33,326
Net Income- EAT	39,718	85,803

Table 7. Income Statement, in 000 RSD

BALANCE SHEET

Item	2007	2008
Assets		
Subscribed capital unpaid	-	-
Intangible assets (net value)	55,843	43,027
Tangible assets (net value)	4,711,798	5,346,265
Equity investments	-	-
Other long-term financial assets	-	-
Long-term financial assets	-	-
Fixed Assets	4,767,641	5,389,292
Inventories	98,972	118,592
Short-term financial investments	-	-
Account receivables	1,365,417	1,549,869
Other receivables	-	3,241
Cash and cash equivalents	958,778	1,130,705
VAT and accrued items	100,160	60,221
Deferred tax	186,444	186,444
Current Assets	2,709,771	3,049,072
Operating Assets	7,477,412	8,438,364
Capital gains/losses	-	-
Total Assets	7,477,412	8,438,364
Off-Balance sheet assets	15,222	5,335

Table 8. Assets, in 000 RSD

Item	2007	2008
Liabilities and Equity		
Issued capital	1,873,820	1,873,820
Subscribed capital unpaid	-	-
Statutory reserves	347,044	347,044
Revaluation reserves	1,706,403	1,694,780
Retained earnings	1,865,783	1,960,435
Less: Loss	-	-
Less: Repurchased shares	-	-
Equity	5,793,050	5,876,079
Long-term Provisions	520,528	641,600
Long-term debt	422,725	472,686
Other Long-term liabilities	-	-
Long-term Liabilities	422,725	472,686
Short-term financial liabilities	63,234	25,248
Accounts payable	118,526	932,293
Salaries payable	402,363	389,710
VAT and other tax payables	5,769	4,510
Other operating liabilities	34,230	5,094
Deferred tax	116,987	91,144
Short-term Liabilities	741,109	1,447,999
Total Liabilities	1,684,362	2,562,285
Total Liabilities and Equity	7,477,412	8,438,364
Off-Balance sheet liabilities	15,222	5,335

Table 9. Liabilities and Equity, in 000 RSD

STATEMENT OF CASH FLOW

Item	2007	2008
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	4,960,384	5,426,847
Cash receipts from customers	4,800,332	5,012,272
Interest received from operating activities	-	15,190
Other inflows from operations	160,052	399,385
Cash outflow from operating activities	4,271,961	4,843,482
Cash paid to suppliers	1,136,480	995,769
Salaries and other personal expenses	2,779,517	3,433,113
Interest paid	20,444	18,846
Corporate tax paid	35,008	90,255
Other taxes	300,512	305,499
Net cash inflow from operating activities	688,423	583,365
Net cash outflow from operating activities	-	-
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflows from investment activities	-	103
Sale of equity or debt instrument of other enterprises	-	-
Proceeds from sale of intangible assets, buildings, facilities, equipment	-	103
Other financial investments	-	-
Received interest from investment activities	-	-
Received dividends	-	-
Cash outflows from investment activities	240,369	525,298
Acquisition of shares (net outflows)	-	-
Capital expenditures	240,369	525,298
Other financial investments (net outflow)	-	-
Net cash inflow from investing activities	-	-
Net cash outflow from investing activities	240,369	525,195
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	-	-
Initial capital increase	-	-
Proceeds from long-term and short-term debt	-	-
Other long-term and short-term liabilities	-	-
Cash outflow from financing activities	-	-
Repurchased own shares and stakes	-	-
Payment of Long-term and short term debt and other liabilities	-	-
Payment of financial leasing	-	-
Dividends paid	-	-
Net cash inflow from financing activities	-	-
Net cash outflow from financing activities	-	-
TOTAL CASH INFLOW	4,960,384	5,426,950
TOTAL CASH OUTFLOW	4,512,330	5,368,780
NET CASH INFLOW	448,054	58,170
NET CASH OUTFLOW	-	-
CASH AT THE BEGINNING OF THE ACCOUNTING PERIOD	436,103	958,778
POSITIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH	169,993	202,132
NEGATIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH	95,372	88,375
CASH AT THE END OF THE PERIOD	958,778	1,130,705

Table 10. Statement of Cash Flow, in 000 RSD



NOTES TO FINANCIAL STATEMENTS

Basis of preparation of the financial statements

Preparation of the financial statements for 2008 for the Serbia and Montenegro Air Traffic Services Agency Ltd. for the accounting period ending December 31st, 2008 has been carried out, in all material respects, in accordance with the Accounting and Auditing Law ("RS Official Gazette" no. 46/2006), which implies the implementation of the following: International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and legislation of the Republic of Serbia.

Items included in the financial statements of SMATSA are measured and presented using the currency of a primary economic environment in which SMATSA operates (the functional currency). The financial statements are presented in dinars (RSD), which is SMATSA functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates valid at the dates of the transactions or accounting item entry. Foreign exchange gains and losses resulting from the settlement of such transactions and from the conversion of at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses that relate to the borrowings and cash equivalents are presented in the income statement within the items financial income or expenses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Intangible Assets

Intangible assets represent non-monetary assets without physical substance, from which future benefits are expected to flow into the entity (during a period longer than one year).

Intangible assets recognised and subject to depreciation are intangible assets that meet the criteria prescribed by IAS 38 Intangible Assets, which have useful lives of more than one year, and an individual purchase price when acquired that is higher than the average gross salary per employee in the Republic of Serbia, according to the latest data published by the Statistical Office of the Republic of Serbia. Intangible assets are measured initially at cost. After initial recognition, intangible assets are carried at cost less accumulated allowance for impairment.

Intangible assets subject to amortization are amortized using the straight-line method over the course of a five year period, except for assets whose life is determined by a contract in which case they are written-off arising out of the relative contract. Amortization of intangible assets is calculated from the beginning of the month following the month when the intangible asset is put into use. The amortized amount is the cost of an intangible asset less its residual value.



The intangible assets implemented by January 1st, 2005 are appreciated using the following rates:

Type of intangible asset	Rate%
Licensed software	20%
Patents	20%
Licences	20%
Intellectual property	20%
Project documentation	20%
Other	20%

Table 11. Intangible Assets

2. Property, Plant and Equipment

Property, plant and equipment recognized and subject to depreciation are tangible items that qualify for recognition as prescribed by IAS 16 Property, Plant and Equipment, which have the useful lives beyond one year, and a higher individual purchase price when acquired than the average gross salary per employee in the Republic of Serbia, according to the latest data published by the Statistical Office of the Republic of Serbia.

Land is not depreciated. Property, Plant and Equipment are depreciated using the straight-line method over the estimated useful life of each asset as follows:

Asset	Period
Buildings and infrastructure	25 years
Plant and equipment	5 – 15 years

Table 12. Depreciation of Property, Plant and Equipment

Investments in other entity's assets are depreciated based on their estimated useful lives.

3. Tools

It is mandatory that the tools whose useful lives are shorter than one year are accounted for as current assets (as inventories), notwithstanding their purchase cost. These assets are not depreciable but their value is transferred to expenses when put to use.

4. Spare Parts

Spare parts are recognized as fixed assets if their useful lives are longer than one year and if their individual purchase price when acquired is higher than the average gross salary per employee in the Republic of Serbia, according to the latest data published by the Statistical Office of the Republic of Serbia.

5. Inventories

Inventories are assets in the form of material or supplies to be consumed in the production process or through the course of rendering services. Materials purchased from suppliers are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

6. Short-Term Account Receivables and Investments

Short-term receivables comprise account receivables, domestic and foreign, for sale of merchandise and services rendered. Short-term investments comprise loans, securities and other short-term investments having a maturity date or sale date of one year from the date of the balance sheet. Short-term account receivables are recorded at original invoice value.

If the invoiced value is denominated in the foreign currency, the value is translated in the presentation currency at the middle exchange rate prevailing as at the date of transactions. Changes in the exchange rate from the date of the transaction to the receivables collection date are recorded as exchange rate gains and losses and credited to revenues or charged against expenses.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise a part of the current assets of the legal entity recorded at nominal amounts or fair value, in accordance with IAS 39 - Financial Instruments - Recognition and Measurement, and other relevant standards (IAS 32 - Financial Instruments - Disclosure and Presentation and IAS 7- Cash Flow Statement).

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturity dates of three months or less (cheques and bills received for collection, current investments in securities), and bank overdrafts. Bank overdrafts are included in borrowing liabilities within current liabilities in the balance sheet.

8. Off-Balance Sheet Items

Off-balance sheet assets/liabilities comprise: investments in other entities' fixed assets financed from the budget and investments into the Aviation Museum. These assets and liabilities are not owned by SMATSA.

9. Issued Capital

Issued capital is initial investment of the founders and represents their stake in SMATSA. The founders of SMATSA are the Republic of Serbia (92%) and the State of Montenegro (8%).

10. Statutory Reserves

SMATSA has a mandatory provision formed from retained earnings, until the provision reaches at least 10% of the issued capital, as governed by SMATSA Articles of Association.

11. Revaluation Reserves

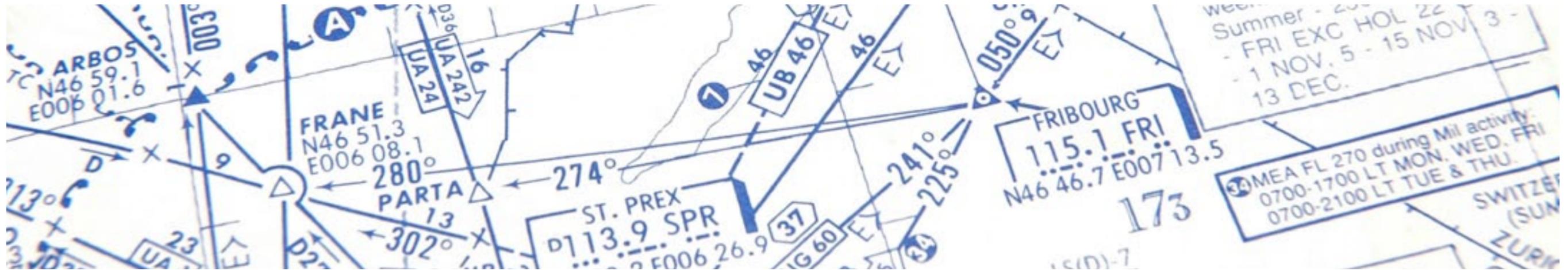
Revaluation reserves comprise the positive effects of changes in the fair value of property, plants, equipment, intangible assets and other financial instruments.

12. Retained Earnings

Retained earnings are recorded as retained earnings from prior years and retained earnings of the current year.

13. Provisions

Long-term provisions comprise provisions for warranty periods, provisions for retained caution money and deposits, provisions for restructuring of companies, provisions for employee benefits (IAS 19 - Employee benefits) and other long-term provisions for coverage of liabilities (legal or actual), arisen as a result of past events, which are likely to cause an outflow of resources of economic benefit, for the purpose of their settlement and which may be reliably measured (e.g. ongoing litigations), and provisions for guarantees issued and other forms of surety.



14. Liabilities

Liabilities are considered as:

- Long-term liabilities (liabilities to related entities and entities with intercompany interest, long-term loans, liabilities arising from long-term securities and other long-term liabilities).
- Short-term financial liabilities (liabilities towards related entities and entities with intercompany interests, short-term loans and other short-term financial liabilities). SMATSA recorded a liability towards the Civil Aviation Directorate of the Republic of Serbia under a signed Protocol.
- Short-term operating liabilities (accounts payable and other operating liabilities). SMATSA recorded all account payables-domestic and foreign.
- Other short-term liabilities (liabilities for salaries, fringe benefits, fringe benefits to members of the Managing Board and Assembly, liabilities to individuals in respect to contractual fees).
- Liabilities for Value Added Tax.

Short-term liabilities are liabilities that become due and payable up to a year following the preparation date of financial statements.

A liability is any obligation represented by a contract:

- Transfer of cash or any other financial asset to another company or
- Exchange of financial instruments with another company under potentially adverse conditions.

15. Revenues and Expenses

Revenue comprises revenue from the ordinary course of SMATSA's activities and other revenues. Revenues from the ordinary course of SMATSA's activities are revenues gained from rendering services in air traffic, revenues from subsidies, donations, compensations and recovery of duties under the sale of services and other revenues calculated in the accounting document, irrespective of their payment time.

Other revenue represents gains qualifying as revenue that may arise, though not necessarily, from the ordinary course of SMATSA's activities. Gains represent an increase in economic benefit and as such, they do not differ from revenues. Gains include gains originating from sale of long-term assets, unrealized gains; e.g. the ones resulting from an increase in book value of long-term assets. Gains are recognized on a net basis, after being reduced for respective expenses.

Expenses comprise costs arisen from the ordinary course of SMATSA's activities and losses. Costs arising from the ordinary course of SMATSA's activities comprise expenses of direct material and goods and other operating expenses, irrespective of the payment date.

A loss represents the other item qualifying as an expense and may arise, though not necessarily, from the ordinary course of SMATSA's activities. A loss represents a reduction in economic benefits, and as such, it does not differ from other expenses. Losses comprise, for example, losses resulting from catastrophes such as fire and flood, and those resulting from the sale of long-term assets. Furthermore, the expense comprises unrealized losses, for example, a loss originating from effects of an increase of a foreign currency exchange rate in respect to an incurred in that respective currency.

16. Interest and other Borrowing Costs

Interest and other borrowing costs of SMATSA are accounted for at the basic procedure in accordance with the IAS 23 - Borrowing costs, charged to expense of the period when incurred, respectively.

17. Subsequent Errors

Subsequent material fundamental errors are corrected through the account of retained earnings from prior years and retained losses from prior years, respectively, in the manner established by the IAS 8 - Accounting policies, changes in accounting estimates and errors. A material fundamental error is an error, which individually or cumulatively with other errors, exceeds 3% of total revenues. Subsequent errors that are not fundamental are restated against the expense, or to a period when identified, respectively.

18. Functional Currency and Presentation Currency

Functional currency and presentation currency of SMATSA is the Serbian dinar (RSD), in accordance with IAS 21 - The Effects of changes in foreign exchange rates.

19. Exchange Rates

The official foreign exchange rates (the official mid-rates of exchange of the National Bank of Serbia), used for conversion of balance sheet items into their respective dinar equivalents were the following:

Currency	As at December 31st 2008	As at December 31st 2007
EUR	88.6010	79.2362
USD	62.9000	53.7267
CHF	59.4040	47.8422
GBP	90.8635	107.3080

Table 13. Exchange Rates

AUDITOR'S REPORT

19:40 FRANKFURT HAN	FR9989	7	21:55 LON
19:45 LONDON LHR	BD132	2	22:00 LON
19:45 PISA FLORENCE	FR9908	7	22:30 GAT
19:50 LONDON LHR	EI184	14	22:55 LI
20:00 BIRMINGHAM	FR668	6	06:00 AM
20:20 LONDON LGW	BA8089	2	06:00 GD
20:30 BRISTOL	FR508	6	06:10 FR

AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

AGENCIJA ZA KONTROLU RASPLAĆA
SRBIJE I CRNE GORE
DRUŠTVO SA OGRANIČENOM ODGOVORNOŠĆU
BEOGRAD, Bulevar Oslobođenja br. 10

PROJEKTOVANJE I
27 MAY 2009
DOP. 04 295/7

To the Board of Directors and Founders of the
"Serbia and Montenegro Air Traffic Services Agency" Ltd, Belgrade

We have audited the accompanying financial statements of the "Serbia and Montenegro Air Traffic Services Agency" Ltd, Belgrade (hereinafter: the "Agency") which comprise the balance sheet as of 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and explanatory notes on financial statements.

Management's Responsibility for the financial statements

Management of the Agency is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making the best possible accounting estimates.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and Law on Accounting and Auditing of the Republic of Serbia. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidences we have obtained are sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

To the Board of Directors and Founders of the
"Serbia and Montenegro Air Traffic Services Agency" Ltd, Belgrade

Opinion

In our opinion, the accompanying financial statements present truly and fairly, in all material respects, the financial position of the Agency as of 31 December 2008, and its financial performance, changes in equity and cash flows for the year then ended, in accordance with the accounting regulations prevailing in the Republic of Serbia.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the following matters:

On February 28th 2005 the Agency passed the decision number 333/7 on adopting the Authorised Evaluator's Report on evaluation of property, plant and equipment as of January 1, 2004. The evaluation was recorded on January 1, 2004 in accordance with IAS 16 "Property, Plant and Equipment" and revaluation reserves were formed thereunder. In the same decision, under section 2, the Agency's Assembly adopted for the initial capital of the Agency be increased based on the evaluation of the property, plant and equipment as of January 1, 2004, in accordance with the Authorised Evaluator's Report. On September 30, 2005 the Agency filed the application number SEC.00-965/1 with the Serbian Business Registers Agency to register the amendment, increase in initial capital, respectively, based on the Authorised Evaluator's Report on evaluation of property, plant and equipment as of January 1, 2004. On October 21, 2005 the Serbian Business Registers Agency issued the Decision number 93493/2005 whereby the amendment of the initial capital of the Agency was registered. The subject Decision states the subscribed initial capital in assets as per the evaluated amount of EUR 52,387,860.00, in accordance with the Authorised Evaluator's Report, that is, the initial capital of the Agency was increased by the amount of the increase in property, plant and equipment carried as a part of own capital in the revaluation reserves account in the respective accounting records. The registered increase in initial capital of the Agency on those grounds was expressed as a non-monetary part of capital in assets. Such an increase in initial capital has not been carried out in the accounting records of the Agency, but only with the Serbian Business Registers Agency, since it does not comply with IAS 16 "Property, Plant and Equipment".

In accordance with IAS 16 "Property, Plant and Equipment", the revaluation reserves are the new category of reserves with special purpose and are formed when increase in the carrying amount of an asset increases as a result of revaluation (evaluation). The same standard prescribes the use and realisation of revaluation reserves. Revaluation reserves may be directly credited to retained earnings, when the reserves are realized. The entire revaluation reserves may be realized when an asset is derecognized or disposed, and a part of the reserves may be realized during the use of an asset. The subject standard does not prescribe that revaluation reserves can be used to increase initial capital.

In respect to the matters stated above, on February 14, 2008 the Agency's Assembly passed the Decision on Decrease of Initial Capital of the Agency- non-monetary part, as of December 31, 2007 by the amount of EUR 28,739,327.00 in dinar equivalent under the middle rate of exchange of the National Bank of Serbia pertaining as at the balance sheet date.

INDEPENDENT AUDITOR'S REPORT (continued)

To the Board of Directors and Founders of the
"Serbia and Montenegro Air Traffic Services Agency" Ltd, Belgrade

Emphasis of matter (continued)

On April 2, 2008 the Serbian Business Registers Agency passed the Resolution numbered 27420-1/2008 on rejection of the Agency's application for the amendment of initial capital, due to incomplete documentation.

In accordance with the Agency's Secretariat Statement number SEC.00-295/3 of March 31, 2009, there are 33 labour suits and four new suits brought against the Agency in 2008. The subjects of the disputes are either fringe benefits or controller bonuses payments originating from the period prior to the existence of the Agency, dating back when the Federal Flight Control Department existed (FFCD), respectively. The plaintiffs have changed the suits brought against the FFCD indicating the Agency as the defendant, under the presumption that the Agency is the legal successor of the FFCD, but the Agency has objected to the change of the suits in this respect. It is not possible to estimate the value of those litigations at this time. The Agency expects the litigations to be finalized in such a manner that the Agency is not involved as party to the suits.

Furthermore, the ownership suit has been brought in Montenegro against the FFCD, the Agency respectively, for the purpose of transfer of real estate property to possession. It is not possible to estimate the outcome of the subject dispute at this time.

The Agency has lodged a suit against Jat Airways, Belgrade for determining the property rights over the Air Traffic Services' building. The value of this dispute is 30,000 thousand dinars. The verdict in favour of the Agency had been passed and was appealed on. The ruling on appeal is expected to be reached in favour of the Agency.

In 2007 the Agency initiated the court collection of receivables from Montenegro Airlines, amounting to 288,611 thousand dinars on account of debts from 2004, 2005, 2006 and 2007, and against MAT- Macedonian Air Transport, amounting to 71,549 thousand dinars (EUR 807,537.45) on account of debts from 2004, 2005, 2006 and 2007.

Furthermore, as of the Agency's incorporation date, the Agency has registered its claims against seventeen foreign airliners in bankruptcy or liquidation, totally amounting to 25, 465 thousand dinars (EUR 283,903.88 and USD 4,949.94).

Belgrade, May 19, 2009


Certified auditor
Marina Protić PhD

ABBREVIATIONS

A.D.O.	Stock corporation for insurance
Ab Initio candidate	Candidate attending ATCO basic training for the first time
AC	Aerodrome Control
ACC	Area Control Centre
ACS	Area Control Surveillance
ADM	Administration
AFIS	Automatic Flight Inspection System
AFTN	Aeronautical Fixed Telecommunication Network
AIP	Aeronautical Information Publication
AIS	Aeronautical Information Services
AMHS	ATS Message Handling System
ANS	Air Navigation Services
ANSP	Air Navigation Service Provider
APP	Approach
ASS	Assistant
ATC	Air Traffic Control
ATCO	Air Traffic Controllers
ATFM	Air Traffic Flow Management
ATM	Air Traffic Management
ATS	Air Traffic Services
CAA	Civil Aviation Authority
CANSO	Civil Air Navigation Services Organization
CAT	Category

CBT	Computer Based Training
CCC	Common Core Content
CEO	Chief Executive Officer
CFMU	Central Flow Management Unit
CNS	Communication, Navigation and Surveillance
COM	Communication
CRCO	Central Route Charges Office
CTR	Control Zone
CWBT	Computer Web Based Training
DC	Douglas
DME	Distance Measuring Equipment
DPS	Data Processing System
DVRPS	Digital Voice Recording and Playback System
EAD	European AIS Database
EASA	European Aviation Safety Agency
EATMP	European ATM Programme
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EC	Executive Controller
ECAC	European Civil Aviation Conference
ECIP	European Convergence and Implementation Plan
EIB	European Investment Bank

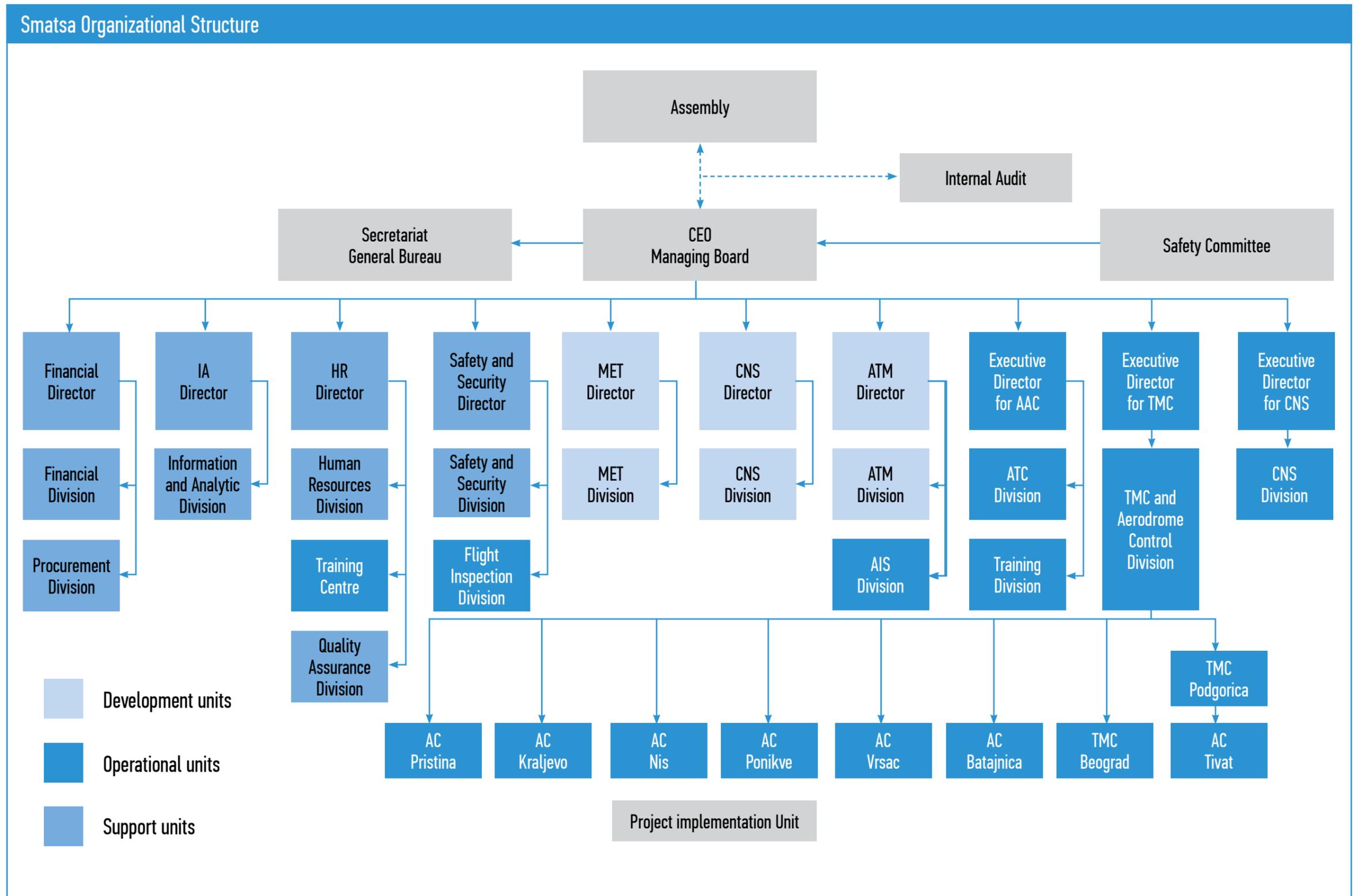
ELPAC	English Language Proficiency for Aeronautical Communication
ESARRs	EUROCONTROL Safety Regulation Requirements
ESRA	European Statistical Reference Area
eTOD	electronic Terrain and Obstacle Data
EUMETSAT	European Organisation for the Exploitation of Meteorological Satellites
EUROCONTROL	European Agency for the Safety of Air Navigation
EXE	Executive
FAB	Functional Airspace Block
FAMUS	Future ATM Modernization and Upgrade System
FASTI	First ATC Support Tools Implementation
FIC	Flight Information Centre
FIR	Flight Information Region
FL	Flight Level
FUA	Flexible Use of Airspace
GND	Ground
GRNA	Ground Radio Navigation Aid
HR	Human Resources
IA	Information and Analytic
IACA	International Air Carrier Association
IAIP	Integrated Aeronautical Information Package
IANS	Institute of Air Navigation Services
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IFR	Instrumental Flight Rules
KPA	Key Performance Area
KPI	Key Performance Indicators
LCIP	Local Convergence and Implementation Plan
Ltd	Limited Liability Company
MET	Meteorology or Meteorological
MTOM	Maximum Take-off Mass
MTOW	Maximum Take-off Weight
MWO	Meteorological Watch Office
NAV	Navigation
NDB	Non Directional Radio Beacon

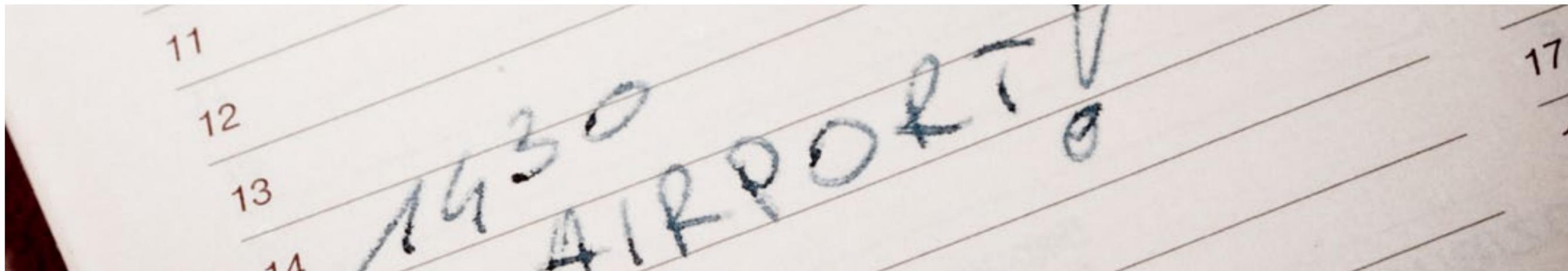
NHMI	National Hydro Meteorological Institute
NM	Nautical Mile
NOTAM	Notice to Airman
NSA	National Supervisory Authority
OFG	Operational Focus Group
OJTI	On-the-job Training Instructor
OLDI	On-Line Data Interchange
OPADD	Operating procedures for AIS Dynamic Data
OPMET	Operational Meteorological
PANS OPS	Procedures for Air Navigation Services
PC	Planning Controller
PLAN	Planner
PROC	Procedural
QMS	Quality Management System
RAD	Route Availability Document
RNAV	Area Navigation
RWY	Runway
SADIS	Satellite Distribution System
SES	Single European Sky
SESAR	Single European Sky ATM Research
SID	Standard Instrument Departure
STAR	Standard Terminal Arrival Route
STATFOR	EUROCONTROL Air Traffic Statistic Forecast Unit
SYNOP	Report of surface observations from fixed land stations
TMA	Terminal Control Area
TRS	Time Reference System
TSA	Temporary Segregated Area
TWR	Tower
TWY	Taxi Way
UHF	Ultra High Frequency
UIR	Upper Information Region
VCS	Voice Communication System
VFR	Visual Flight Rules
VHF	Very High Frequency
VOR	VHF Omni-directional Radio Range
WMO	World Meteorological Organization

Table 14. Abbreviations

ANNEX 1

ORGANIZATIONAL SCHEME





ANNEX 2: FINANCIAL STATEMENTS IN EUROS

INCOME STATEMENT, IN 000 EUR

Item	2007	2008
Operating Revenues	67,617	62,874
Revenues from ANS services	67,097	62,373
Other operating revenues	520	501
COGS	-	-
Material and energy expense	1,001	1,970
Salaries expense	37,392	41,240
Other operating expenses	13,966	8,406
EBITDA	15,258	11,258
Depreciation and amortization	10,834	11,114
EBIT	4,424	144
Financial revenues	2,840	6,927
Financial expenses	3,014	4,579
Other and extraordinary revenues	2,485	460
Other and extraordinary expenses	5,814	1,497
EBT	922	1,454
Corporate tax	427	407
Net Income- EAT	496	1,048

Table 15. Income Statement, in 000 EUR

Item	2007	2008
Assets		
Subscribed capital unpaid	-	-
Intangible assets (net value)	697	525
Tangible assets (net value)	58,834	65,271
Equity investments	-	-
Other long-term financial assets	-	-
Long-term financial assets	-	-
Fixed Assets	59,532	65,796
Inventories	1,236	1,448
Short-term financial investments	-	-
Account receivables	17,049	18,922
Other receivables	-	40
Cash and cash equivalents	11,972	13,804
VAT and accrued items	1,251	735
Deferred tax	2,328	2,276
Current Assets	33,836	37,225
Operating Assets	93,368	103,021
Capital gains/losses	-	-
Total Assets	93,368	103,021
Off-Balance sheet assets	190	65

Table 16. Assets, in 000 EUR

Item	2007	2008
Liabilities and Equity		
Issued capital	23,398	22,877
Subscribed capital unpaid	-	-
Statutory reserves	4,333	4,237
Revaluation reserves	21,307	20,691
Retained earnings	23,297	23,934
Less: Loss	-	-
Less: Repurchased shares	-	-
Equity	72,336	71,739
Long-term Provisions	6,500	7,833
Long-term debt	5,278	5,771
Other Long-term liabilities	-	-
Long-term Liabilities	5,278	5,771
Short-term financial liabilities	790	308
Accounts payable	1,480	11,382
Salaries payable	5,024	4,758
VAT and other tax payables	72	55
Other operating liabilities	427	62
Deferred tax	1,461	1,113
Short-term Liabilities	9,254	17,678
Total Liabilities	21,032	31,282
Total Liabilities and Equity	93,368	103,021
Off-Balance sheet liabilities	190	65

Table 17. Liabilities and Equity, in 000 EUR

Item	2007	2008
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	61,938	66,254
Cash receipts from customers	59,940	61,193
Interest received from operating activities	-	185
Other inflows from operations	1,999	4,876
Cash outflow from operating activities	53,342	59,132
Cash paid to suppliers	14,191	12,157
Salaries and other personal expenses	34,707	41,914
Interest paid	255	230
Corporate tax paid	437	1,102
Other taxes	3,752	3,730
Net cash inflow from operating activities	8,596	7,122
Net cash outflow from operating activities	-	-
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflows from investment activities	-	1
Sale of equity or debt instrument of other enterprises	-	-
Proceeds from sale of intangible assets, buildings, facilities, equipment	-	1
Other financial investments	-	-
Received interest from investment activities	-	-
Received dividends	-	-
Cash outflows from investment activities	3,001	6,413
Acquisition of shares (net outflows)	-	-
Capital expenditures	3,001	6,413
Other financial investments (net outflow)	-	-
Net cash inflow from investing activities	-	-
Net cash outflow from investing activities	3,001	6,412
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	-	-
Initial capital increase	-	-
Proceeds from long-term and short-term debt	-	-
Other long-term and short-term liabilities	-	-
Cash outflow from financing activities	-	-
Repurchased own shares and stakes	-	-
Payment of Long-term and short-term debt and other liabilities	-	-
Payment of financial leasing	-	-
Dividends paid	-	-
Net cash inflow from financing activities	-	-
Net cash outflow from financing activities	-	-
TOTAL CASH INFLOW	61,938	66,256
TOTAL CASH OUTFLOW	56,344	65,546
NET CASH INFLOW	5,595	710
NET CASH OUTFLOW	-	-
CASH AT THE BEGINNING OF THE ACCOUNTING PERIOD	5,445	11,705
POSITIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH	2,123	2,468
NEGATIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH	1,191	1,079
CASH AT THE END OF THE PERIOD	11,972	13,804

Table 18. Statement of Cash Flow, in 000 EUR

ANNEX 3: EN-ROUTE CHARTS

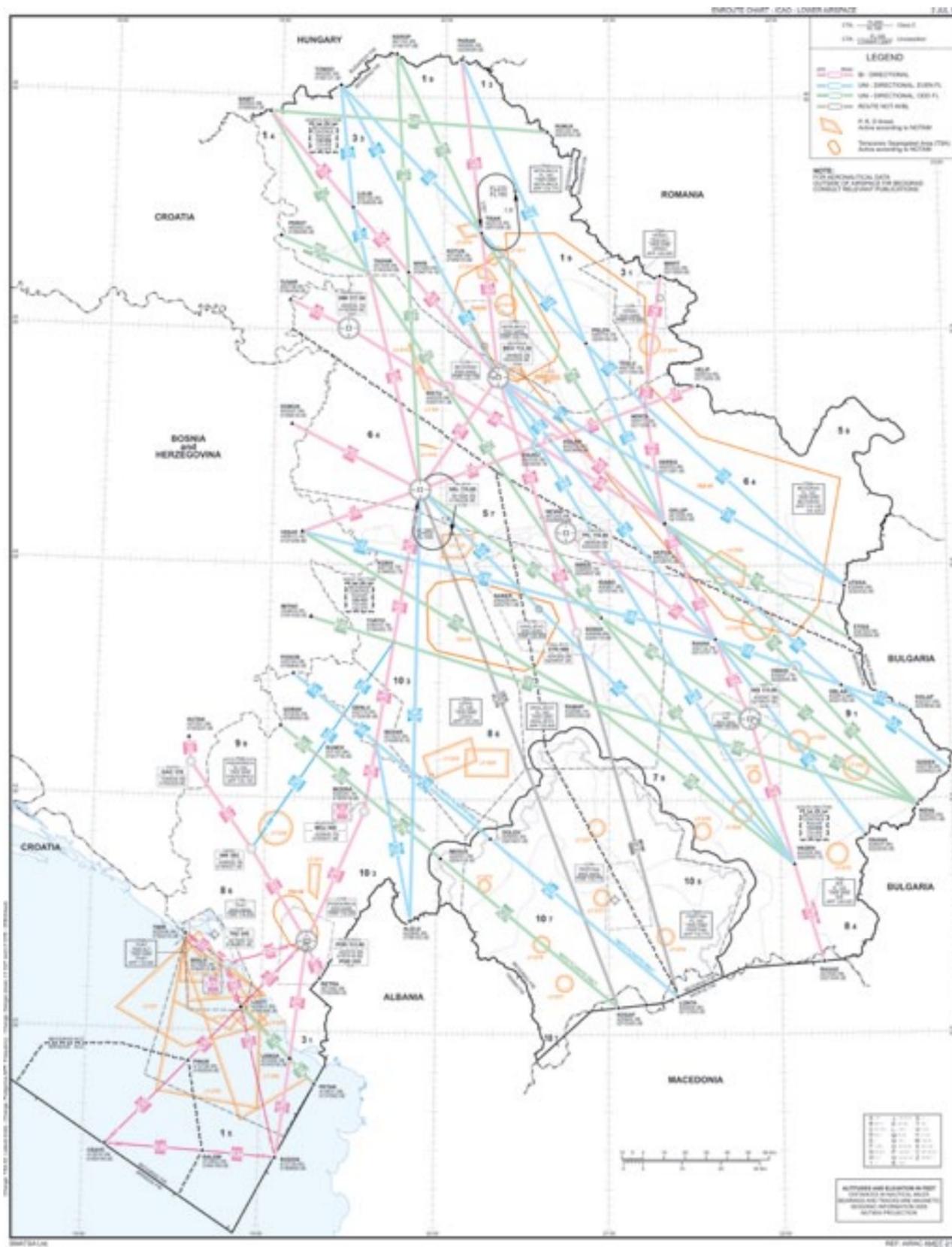


Figure 38. ACC Beograd - En-route Chart for Lower Airspace

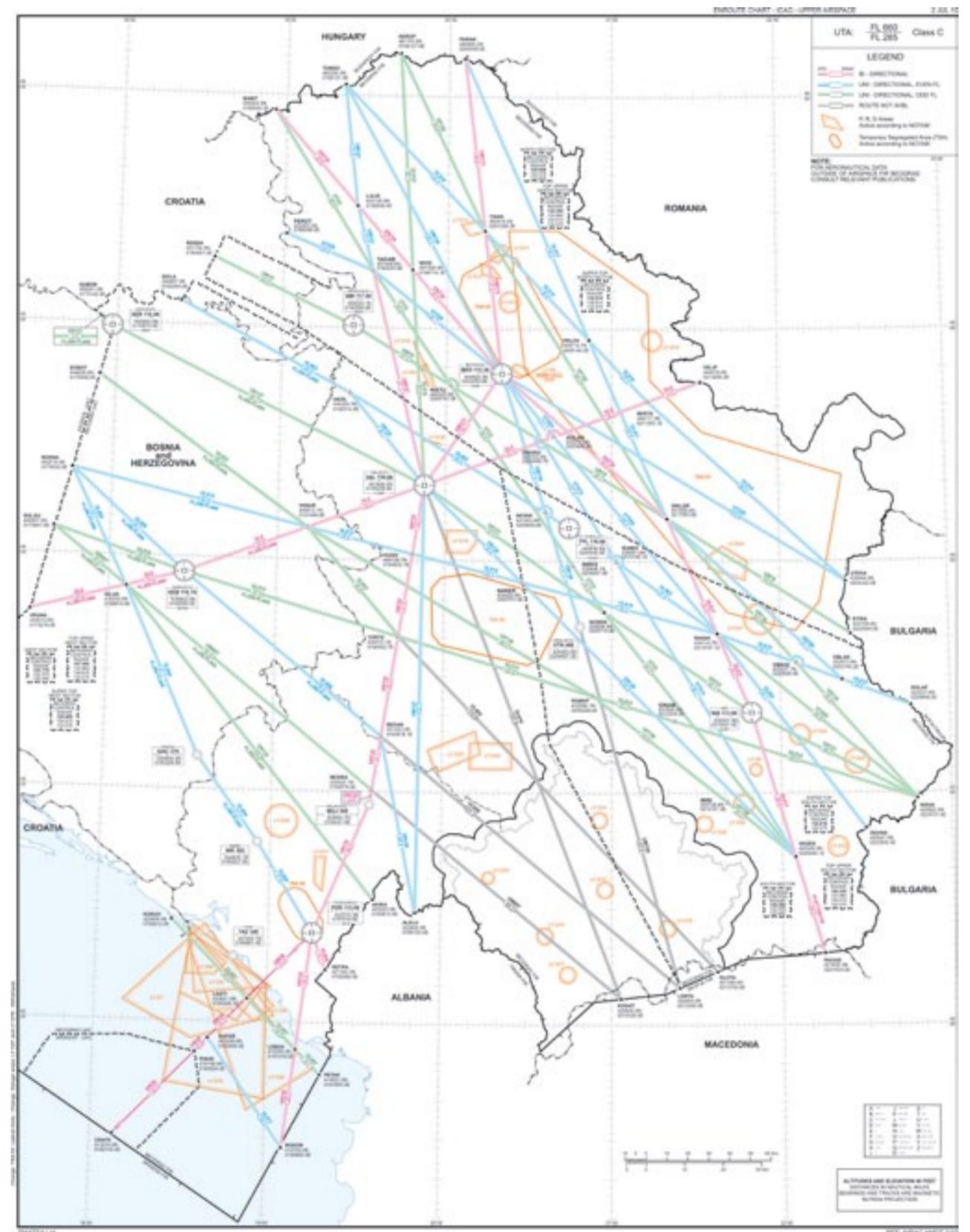


Figure 39. ACC Beograd En-route Chart for Upper Airspace

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