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ANNUAL REPORT

2010


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ANNUAL REPORT 2010

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	in 000 RSD		
	2008	2009	2010
Total assets	8,438,364	11,835,243	16,200,733
Operating revenues	5,149,936	5,557,256	7,072,781

Table 1: Financial Statement Summary

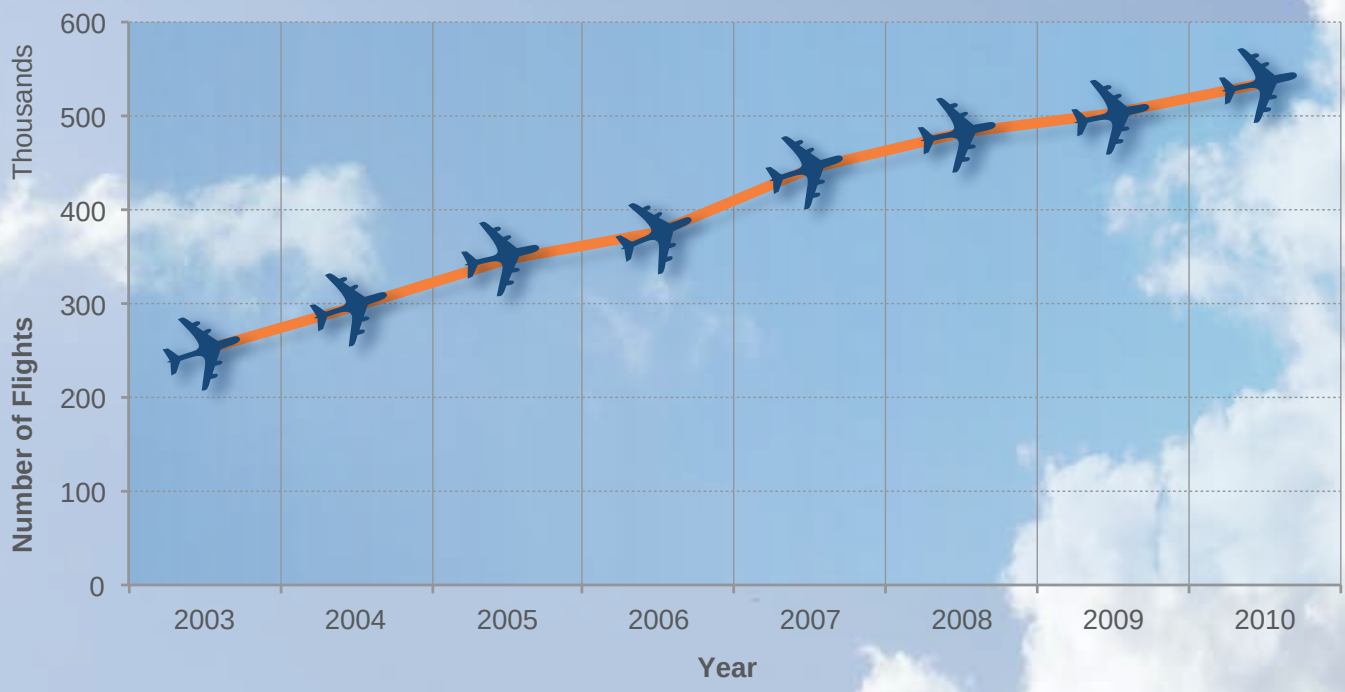


Figure 1: ACC Beograd - Number of Flights in the Period from 2003 to 2010

MESSAGE FROM THE PRESIDENT OF THE MANAGING BOARD AND CEO

If we look back at a year like 2010 – a year that was demanding, excruciating and at times exposed to crises, I cannot feel anything but pleasure when I say that the year, above all else, has been extremely successful for the Serbia and Montenegro Air Traffic Services Agency Ltd. The crown of our success revealed its luster on October 27th, when we opened the doors of our new Area Control Center in Belgrade in a gala opening ceremony.

We received many compliments for architecture, functionality of space, security systems and for many other features that make this building special. We were successful in the endeavor because our preparations were lengthy, detailed and studious.
It is due to this groundwork that we succeeded in our attempt to build this building from the ground up. We had proven that what may appear to be impossible, is, in fact, realistic and feasible. To name an example, at a moment when civil works were only 60% complete, the technical and operational rooms were fully completed, equipped and ready for training. Similarly, in only eighteen months, we managed to build a building with an area of nearly 10 000 square meters, all as a result of our belief in ourselves, our maximum efforts applied and excellent organization.

I will also take the liberty to classify as successful our management of the crisis situation that had disturbed air traffic across Europe when the Eyjafjallajokull volcano in Iceland erupted. This crisis revealed in first hand that our system functions effectively. Through coordination of all departments, cooperation with peers in the region and the rest of Europe, we carried out procedures that enabled a minimal reduction of air traffic. Despite this crisis and the economic crisis which continued on throughout 2010, we recorded an increase in traffic of 6.8%. We will also gladly look back on August 21st 2010, when we recorded the largest number of flights in a single day – 2261, but also at the fact that as many as 1890 different airlines used our services throughout last year.

Besides the increase in traffic, we had also expanded our scope of business activities. After more than 40 years of conducting training of air traffic controllers, as of September 23rd 2010, a pilot training facility in Vrsac had also become a part of our business. The pilot training facility will, following receipt of certification as a Flight Training Organization, be named the “SMATSA Aviation Academy”.
I believe in the potential of this training center with a tradition of many decades. I am convinced that the cooperation, and the merger of two successful training centers – the training center for air traffic controllers and that of pilots – will produce many qualified, high-caliber professionals that will contribute to the development of aviation in our country, as well as all of Europe.

When I speak of quality, I am compelled to mention that last year, we received two important certificates: an ISO 9001:2008 Certificate and a Certificate for Provision of Air Navigation Services in accordance with Single European Sky requirements.
We also indulged in many small victories: we won an international tendering procedure for the procurement of calibration services in Croatia, which now joins the company of Serbia, Montenegro, Macedonia and Bosnia Herzegovina; we reaffirmed our ties to our regional peers through Agreements on Operational-Technical Cooperation with Slovenia and Albania; we organized and attended a large number of international conferences; we purchased a EUROCAT-E simulator for training needs of air traffic controllers and other operational staff for operating on the EUROCAT-E DPS system, as well as a simulator for our voice communication system.

In sum, I can say that a great deal of work has been completed. However, there is much more that awaits us in the year to come. For the establishment that I lead, the most important task ahead is that of equipment installation and operational trials, which will bring to a close a multi-year modernization process. Together with my team, I will do my best for us to be in a position to be proud of yet another successful venture.
This is why I will take this opportunity to thank all my employees for being responsible, and for their readiness to realize the greatness and importance of challenges ahead. I am also grateful to our business partners for their kind support as we continue on our road to success.

EVENTS THAT HAVE MARKED 2010

MARCH

Agreement on Business Cooperation with Slovenia Air Traffic Control

Cooperation with Slovenia Air Traffic Control covers areas of providing flight inspection, information technologies, CNS, security, as well as quality management services. The Agreement is primarily related to mutual cooperation in the area of education, as well as training of aviation personnel and exchanging training personnel.

APRIL

Agreement on Operational-Technical Cooperation with ANTA

Agreement with ANTA (Albanian National Air Traffic Agency) created the conditions to meet European initiatives, where a framework for improvement of mutual relations and operational-technical cooperation in ATM, CNS, safety, personnel training, and providing flight calibration services, was made.

Compliance with the Requirements of Single European Sky (SES)

Having been certified by the Civil Aviation Directorate of the Republic of Serbia, SMATSA Ltd. confirmed that the services it provides are in compliance with the requirements of Single European Sky – SES. The Certification is related to ATS services (air traffic control services, flight information services and alerting services), communication, navigation and surveillance services (CNS); aeronautical information services and aeronautical meteorological services.

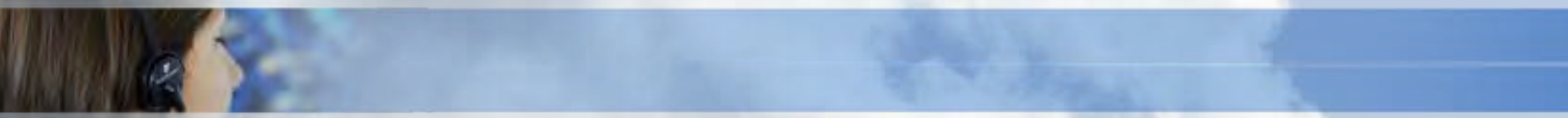
CANSO Quality Management Workshop (QMWG 4)

The fourth CANSO Quality Management Workgroup Workshop (QMWG) was held in Belgrade and gathered 30 QMS directors and managers from almost all European ANSPs, members of CANSO and FAA from Egypt.

Figure 3: Participants of CANSO Quality Management Workgroup in Belgrade

Purchase of EUROCAT-E Simulator

In this month a Contract for the purchase and installation of EUROCAT-E simulator, together with appropriate supply of spare parts, was signed. Simulator is the most complex part of the system purchased within the FAMUS project and it will serve to train air traffic controllers and other aviation personnel.



MAY

ATM Security Methods Workshop

ATM Security Methods Workshop, about the methods of aviation security, was organised as a part of technical support for implementation of ECCA Agreement. A method of so-called “out-door” work was used for the first time outdoors at Ada Ciganlija.

According to the opinion of Energomash International Ltd. from Israel, who was the organiser, 19 participants showed a high level of positive energy, motivation, communication and cooperation; i.e.: understanding of the importance of synergy and the possibility of acquired knowledge and skills implementation.

Figure 4: “ATM Security Methods” Workshop

“Belgrade Victor” Reward

The Chamber of Commerce Professional Jury recognised SMATSA Ltd.’s business results as the ones that contribute to strengthening of Serbia’s reputation in the world and thus, awarded it with “Belgrade Victor”.

Figure 5: Presentation of the award “Belgrade Victor” to ATM Director, Ms. Branislava Culajevic

ISO 9001:2008 Certification

“Societe Generale de Surveillance” Belgrade office, conducted an external audit of established quality management system, after which SGS Head Office in Zurich issued the ISO 9001:2008 Certificate in June 2010.

Purchase of Voice Communication Simulator with Accompanying Services

The Contract for purchase of voice communication simulator with accompanying services was signed with the aim of training air traffic controllers and other operational personnel.

SEPTEMBER

Flight Academy in Vršac as a Part of SMATSA Ltd.

By signing the Debt Settlement Agreement with Jat Airways, SMATSA Ltd. took over Flight Academy in Vršac with the aim of improving quality of pilots' and controllers' training and creating conditions for the training of aviation personnel both from this region and the whole of Europe.

OCTOBER

European Conference for Air Traffic Safety Management

SMATSA Ltd. hosted the European Conference for Air Traffic Safety Management, organised by EUROCONTROL in Belgrade. Various aspects of aviation safety from the top management's perspective were emphasised at the Conference. General Managers of ANSPs from 12 European countries attended the Conference, together with EUROCONTROL General Manager, Mr. David McMillan and FAA Safety Executive Director, Mr. Joseph Teixeira.

Opening of the New Air Traffic Control Centre Building

Mr. Mirko Cvetković, Prime Minister of the Republic of Serbia and Mr. Nikola Stankov, President of SMATSA Ltd. Board of Directors, opened the new ATCC building on October 27th. Mr. Boris Tadić, President of the Republic of Serbia, senior officials from the Governments of the Republic of Serbia and the State of Montenegro and more than 20 ATC directors from the whole of Europe attended the opening ceremony.

The construction of this complex building consisting of 9,500 square metres was completed in only 18 months, instead of the planned 24 months. It began in May 2009 and was completed on October 11th 2010, thanks to additional engagement of investors – SMATSA Ltd. and a consortium of construction contractors consisting of four domestic companies, all within estimated budget. 38 companies altogether participated in this project with more than 2,900 workers. The building is classified as environmental, i.e.: a “smart building”, since it’s equipped with necessary installations that manage energy depending on need.

Figure 8: Interior of the New ATC Centre Building

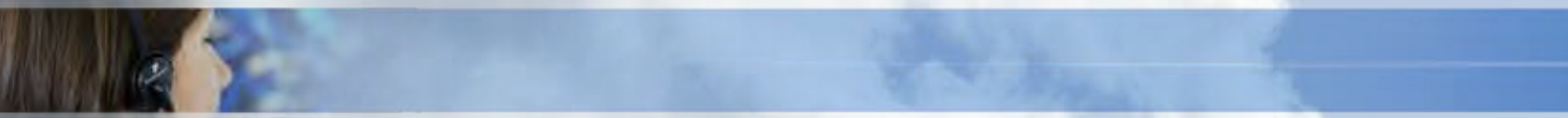
Figure 9: New ATC Centre Building

Operational Room

The Operational Room, consisting of a single area of 750 square metres, with a span of 22.6 square metres, a length of 33.0 metres and a variable ceiling height from 6 to 7 metres, is without pillars and represents a unified space without visual obstacles. The construction was performed in compliance with regulations related to design and construction of engineering structures in seismic areas, reinforced by security quotients prescribed for objects of the greatest importance. The Room is insulated both from interior and exterior noise, while the air conditioning system enables air heating and cooling of the interior. The total volume of air in the room may be replaced in 10 minutes time, while the room temperature is maintained within a range of plus/minus 1 degree C. In order to improve fire protection and the efficient extinguishing of fire, a system for stable and automatic fire extinguishing is provided in raised floors of the Operational and Technical Rooms. This is a pure, ecological material, able to extinguish fire within 10 seconds.

The workspace is organised into 22 sectors where 50 air traffic controllers will be able to work simultaneously and handle 4,000 aircraft daily.

Figure 10: Operational Room in ATC Centre building



NOVEMBER

First Flight Calibration of Ground NAV Aids in Croatia

In November, the Flight calibration Division completed its first flight calibration of ground radio-navigational aids on the territory of the Republic of Croatia, covering airports in Zagreb, Rijeka, Pula, Zadar, Osijek, Split, Brač and Dubrovnik. SMATSA Ltd. obtained this work on an international tender.

COMPANY PROFILE

ABOUT US

SMATSA Ltd.'s core business is to provide safe, efficient and timely air traffic service provisions at airports and within the airspace of the Republic of Serbia and the State of Montenegro, the airspace above part of the Adriatic Sea and beyond territorial waters of its member states.
The mentioned activities refer to:

- ***Air Traffic Management - ATM***
- ***Communication, Navigation and Surveillance - CNS***
- ***Aeronautical Information Services - AIS***
- ***Aeronautical Meteorological Services - MET***

SMATSA Ltd. provides air traffic services and services within airspace of other states accrediting SMATSA Ltd. for provision of air traffic services based on international agreements.
In addition to provision of air traffic services, SMATSA Ltd. also provides the following:

- ***Flight Calibration Services of Ground NAV Aids***
- ***Training of ANS related personnel***
- ***PANS OPS and***
- ***Charting***

The founders of SMATSA Ltd. are the Governments of the Republic of Serbia and the State of Montenegro. SMATSA Ltd., as an ANS provider (ANSP), is an independent entity not associated in any way with aviation regulatory bodies; however: internal acts of SMATSA Ltd. fully comply with the laws and regulations enforced within the Republic of Serbia and the State of Montenegro.

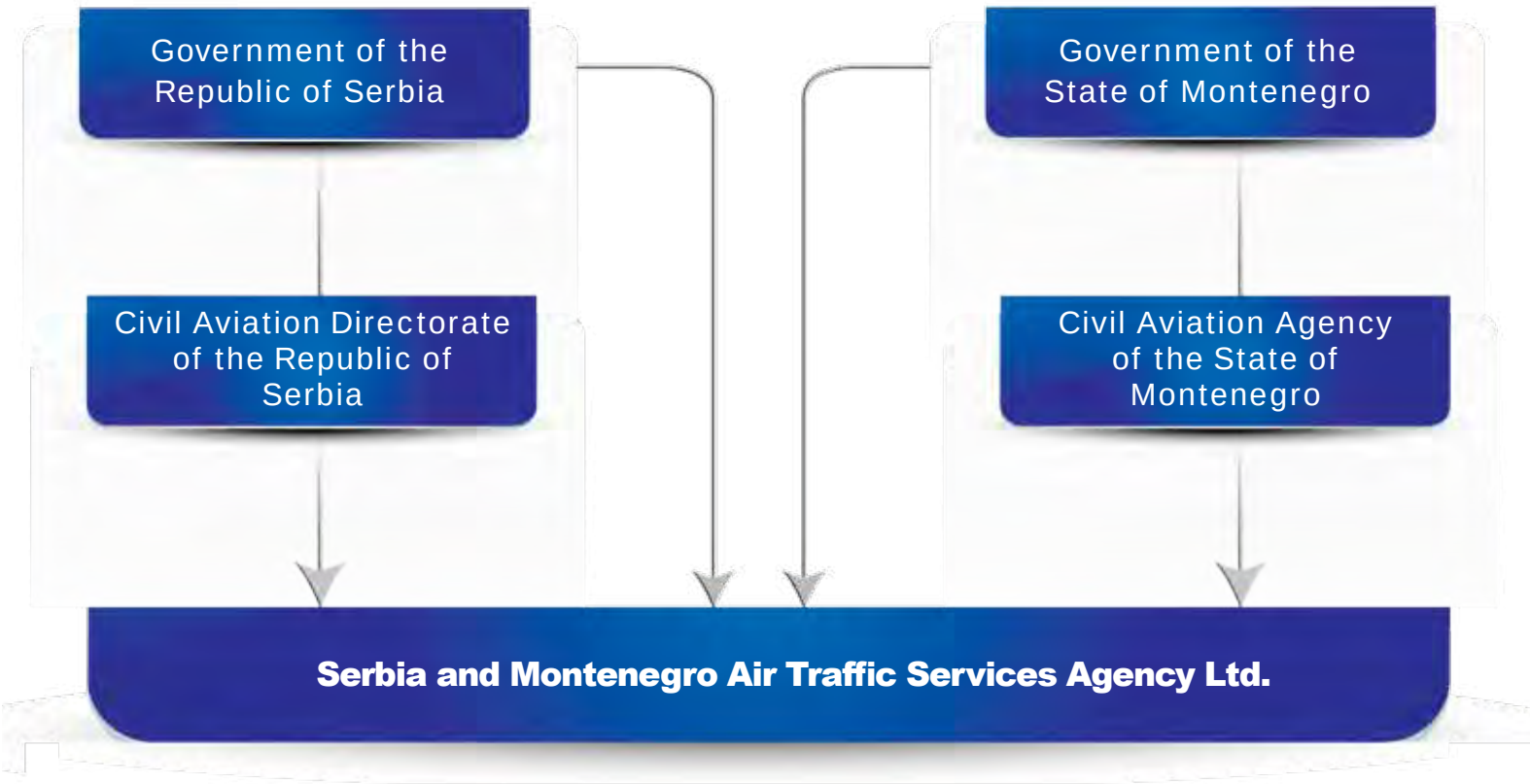


Figure 11: Links with Government Institutions

Thanks to permanent investments in the competency of its personnel and to the following of technical and technological developments, SMATSA Ltd. operates in accordance with recommended world practice and EU rules. SMATSA Ltd. actively monitors activities of the most important aviation organizations, where it represents the Republic of Serbia and the State of Montenegro in the best possible manner:

- International Civil Aviation Organization (ICAO)
- European Organization for the Safety of Air Navigation (EUROCONTROL)
- European Civil Aviation Conference (ECAC)
- Central Route Charges Office (CRCO)
- International Air Carrier Association (IACA)
- Civil Air Navigation Services Organisation (CANSO)

Mission

Our mission is to provide: high quality air navigation services in order to maintain and enhance safe, orderly, expeditious and efficient flow of air traffic, training of ATS, CNS, MET and AIS personnel, and flight calibration services of ground navigational aids from the air within the airspace of FIR/UIR Beograd and within the airspace of other neighbouring countries based on the bilateral state agreements. Jointly with our regional and Pan-European business and institutional partners, we strive to implement the Single European Sky (SES) concept and develop regional Funcional Airspace Blocks (FABs).

Vision

Our vision is to stand out as a leading ANS provider in the region, as well as a preferred partner to our users and other business partners.

ORGANISATIONAL STRUCTURE

SMATSA Ltd.'s organizational structure, as one of the determiners that define efficient operations and future development, and which implies adequate distribution of available human and material resources, depends on the types of activities and is fully focused on requirements of air traffic services users. Such a structure functions in the matrix organizational form enabling an easy link of internal organizational units in order to achieve maximum results and required safety and quality objectives.

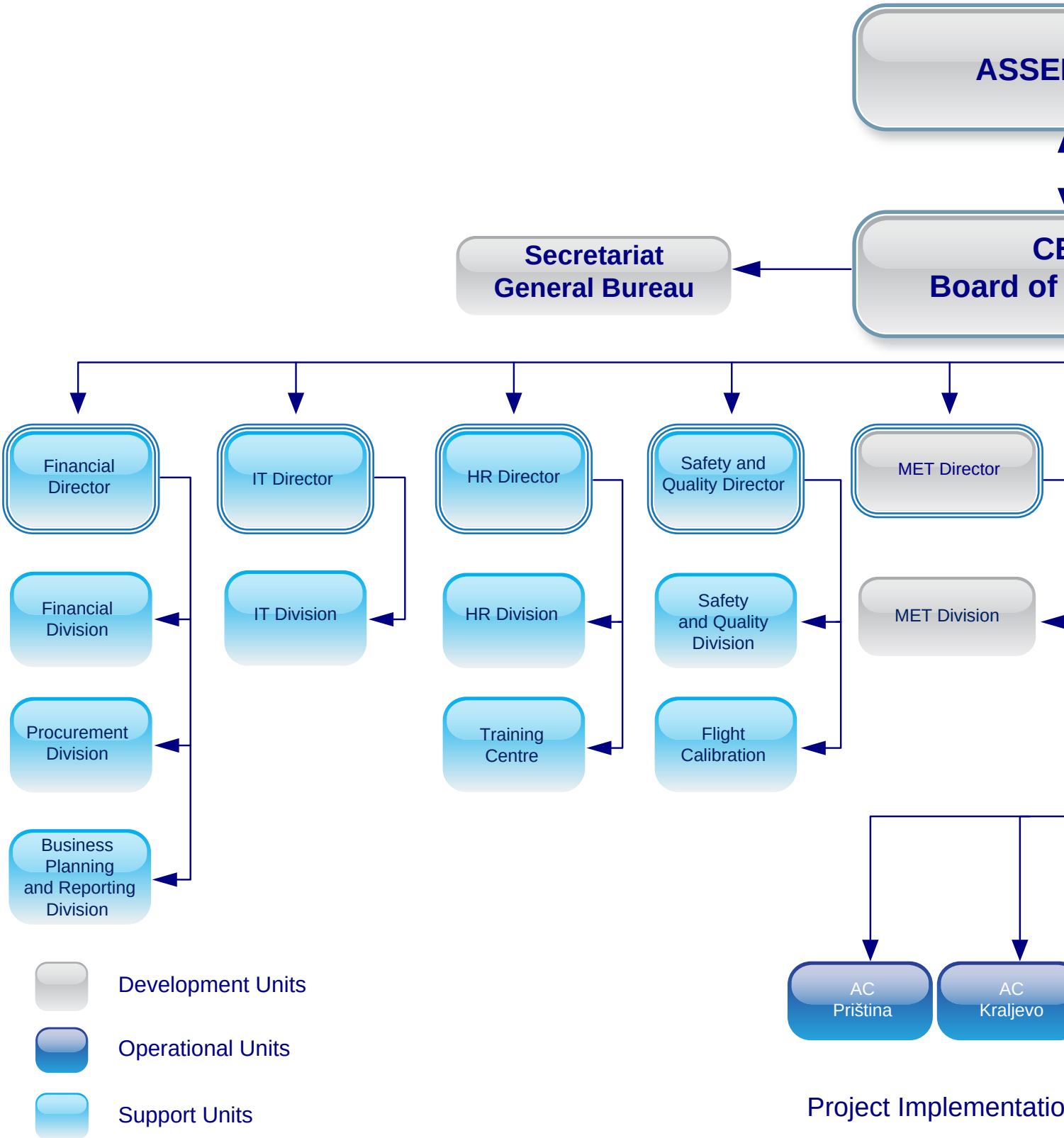
SMATSA Ltd.'s organizational units are divided according to their roles into the following:

- Development,
- Operational, and
- Support units

Aviation Safety Committee, Quality Committee, Security Committee, as well as project teams and project implementation teams contribute to improving organizational structure and its functioning. They are timely formed with the aim of enabling more efficient business operations and improved productivity. In September 2010, SMATSA Ltd. took over Jat Airways Flight Academy in Vršac after which it formed a division within SMATSA Ltd. Training Centre with the aim of continuing pilot and aircraft maintenance personnel training. In this way, SMATSA Ltd.'s organizational structure is improved, while the Training Centre's scope of work is expanded. With further investments in teaching resources, infrastructure, as well as teaching personnel, the quality of training will be increased together with competitiveness in domestic and international markets.

Strategic goals

- Maintaining of the SES certificates,
- Achieving the highest possible safety level of the air traffic,
- Increasing the air traffic capacity,
- Achieving a high level of cost efficiency,
- Fufillment of environment protection requirements,
- Application of QMS in accordance with ISO 9001:2008 requirements,
- Harmonisation of the business policy with ESSIP and SES regulations in all segments of service provision,
- Human resourses development and management.


ASSE
CE
Board of
Secretariat
General Bureau
Financial
Director
IT Director
HR Director
Safety and
Quality Director
MET Director
Financial
Division
IT Division
HR Division
Safety
and Quality
Division
MET Division
Procurement
Division
Training
Centre
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AC
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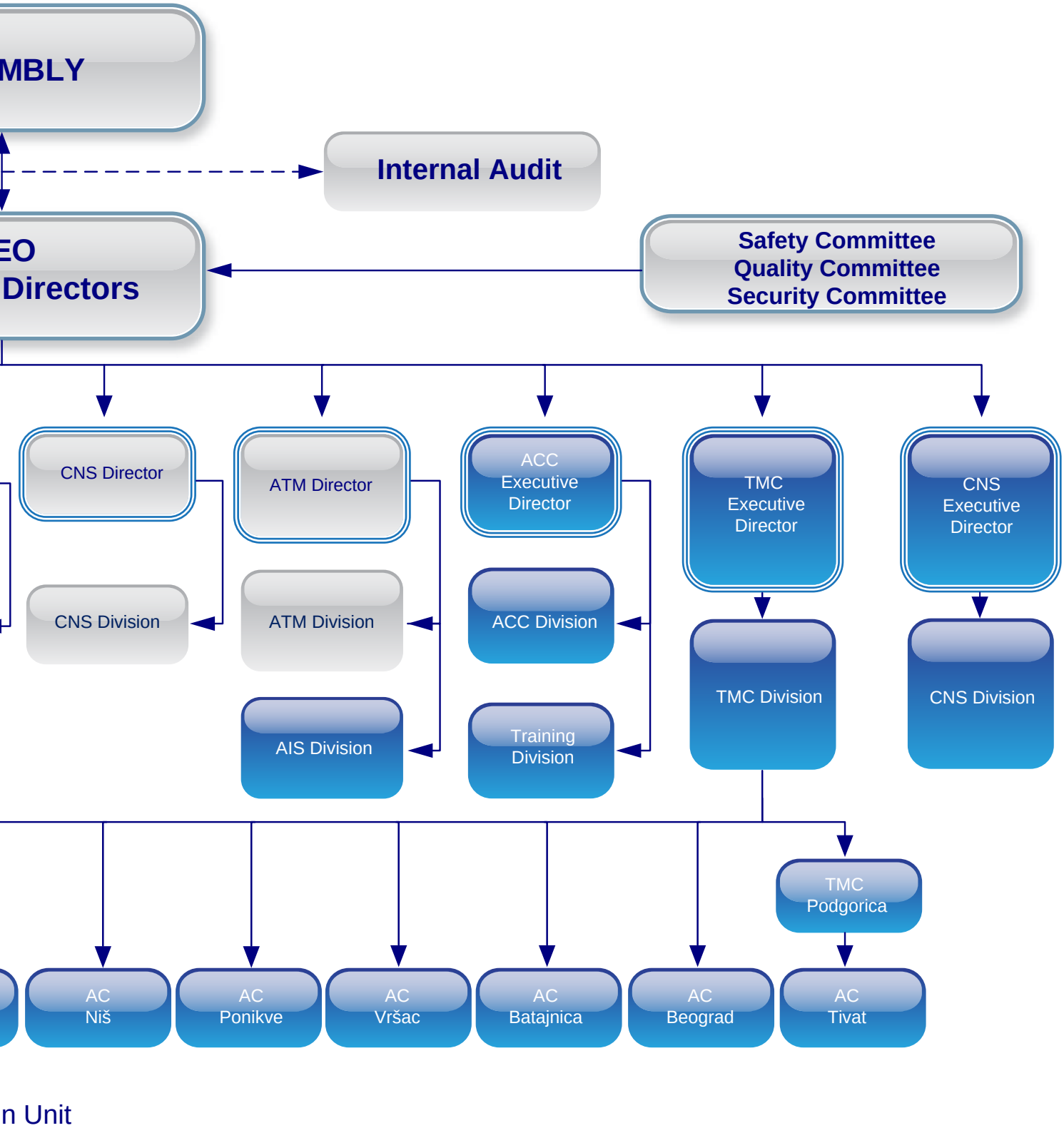
Kraljevo
Development Units
Operational Units
Support Units
Project Implementatio



n Unit

Figure 13: SMATSA Ltd. Organizational Structure

MANAGING BODIES

The Managing bodies of Serbia and Montenegro Air Traffic Services Agency Ltd. are the Assembly and the Board of Directors.

The Assembly is comprised of five members, who are the representatives of the founding states, i.e.: their relevant ministers in charge of transport, finance and other government bodies, departments and relevant organisations. The President of the Assembly is Mr. Milutin Mrkonjić, the Minister of infrastructure of the Government of the Republic of Serbia.

The Board of Directors is comprised of seven members who are appointed and evoked by SMATSA Ltd.'s Assembly. Five members are appointed by the proposal of the Government of the Republic of Serbia and two by the proposal of the Government of the State of Montenegro. The President of the Board of Directors is Mr. Nikola Stankov and the Vice President of the Board of Directors is Mr. Lazo Maksimović.

ACTIVITIES

AIR TRAFFIC MANAGEMENT

Air Traffic Management development activities consist of the following areas:
- Air Space Management including making navigational procedures (PANS-OPS),
- Operational technology of the ATC operational units – making operational concepts, operational procedures and instructions, and
- Air traffic flow and air traffic capacity management based on planning and strategic perspectives.

Within Air Traffic Management the following duties are performed: the duties of air space control, protection and allocation – civil-military coordination at pretactic and tactic level.

During 2010, the ATM Division created the following strategic documents: Operational Concept Document – OCD 2011+, which represents a vision of sustainable development and improvement of components of SMATSA Ltd. ATM systems in line with the trend of increasing traffic and customer expectation, as well as the Concept of Operations – ConOps 2011+, which defines the roles and responsibilities of direct participants in the provision of air traffic services.

Within the FAMUS project, ATM experts took part in on-the-job training for the systems whose implementation is in progress, as well as in Factory Acceptance Tests and Site Acceptance Tests of certain systems. Beside the above mentioned, a number of meetings were held with systems suppliers in order to define details for final configuration and design, as well as for system adjustment to the characteristics of airspace within SMATSA Ltd.'s area of jurisdiction and to the operational technology aspects. In accordance with the acquired knowledge during Project FAMUS activities, a Transition Plan was coordinated with the system manufacturer, together with all defined prerequisites, which should allow safe and smooth transition from the old to the new ATM systems.

During 2010, a process of centralizing operations from both Area Control Centre Beograd and Approach Control Beograd was initialized by creating a joint Air Traffic Control Centre (ATCC).

Air Traffic Management directors were holders of the work on harmonization of air traffic services provision with the SES requirements and regulations (SES certification), within which a close cooperation with Civil Aviation Directorate of the Republic of Serbia and Montenegro Civil Aviation Agency was achieved. The project was successfully completed.

Air Traffic Management and the creation of navigational procedures are closely related to the Quality Management System, regarding the nature of work. During 2010, ATM managers and experts took an active part in activities for obtaining the certificate of compliance of the established SMATSA Ltd. Quality Management System with ISO 9001:2008 standard requirements. ATM managers and experts closely cooperated with and assisted the CAD of the Republic of Serbia and the CAA of Montenegro during ICAO audits concerning the level of compliance of the Republic of Serbia and the State of Montenegro with standards and recommended ICAO practice - USOAP (Universal Safety Oversight Audit Programme). Cooperation with Aviation Authorities was done through preparation and development of the proposal of the Air Transport Law of the Republic of Serbia, which became effective on 20th October 2010, and throughout the development process of a series of subsidiary legislations from the aeronautical domain.ATM managers and experts participated in preparation and development of the Draft Agreement on operational-technical cooperation with neighbouring ANSPs – ANTA, BULATSA and Hungarocontrol. In cooperation with Eurocontrol and other participants, a final report from BHRTS2 simulation (Bosnia and Herzegovina real time simulation) was prepared.

ATM Division's present tasks involve conduct of regular coordination with the neighbouring ANS providers and cooperation with ANS providers in aviation companies at regional and European levels. During 2010, SMATSA Ltd. representatives took an active part in several international and regional meetings including the following:

- 69, 70. and 71. 69th, 70th and 71st Meeting of RNDSG sub-division, and
- 10th and 11th Regional South-East Europe Meeting.

During 2010, the following regular activities took place in the field of navigational procedures:

- Preparation of consent for navigational procedures for the following VFR airports: Pančevo, Nikšić/Kapino Polje, Podgorica/Ćemovsko Polje and Berane/Dolac.
- Development of temporary procedures for Standard Instrument Departures for Podgorica and Tivat airports during the World Parachute Jumping at Nikšić/Kapino Polje Airport.

- Changing of navigational procedures for Belgrade, Podgorica and Tivat airports.
- Revision and checking of contents of all published aeronautical charts for airports in Serbia and Montenegro, updated due to changes of magnetic variation.
- Analysis of performed check reports for the newly installed DME equipment at POD, NIS, VAL, TPL, KRV, BLC, TIV, SMI, and their effect on published navigational procedures, and
- Preparation and production of documentation in the field of the initial security assessment.

Beside regular activities in the domain of navigational procedures, in 2010, experts in the production of aviation procedures and practices were actively involved in a number of different development activities and other SMATSA Ltd. activities:

- Analysis of the condition of the manoeuvring areas and objects at Vršac airport, location and preparation of proposals for the future development of the airport,
- Preparation of tender documents for international tenders for the development of procedures and NAV Aids calibration and flight inspection,
- Development of Plan for the introduction of aerial navigation in the Republic of Serbia and,
- Preparation of working papers in the air traffic domain for participation at meetings of negotiating team for Kosovo and Metohija.

COMMUNICATION, NAVIGATION AND SURVEILLANCE SERVICES

In 2010, the Aeronautical technical and Operational aeronautical technical service actively participated in the process of certification of ANSP by the Civil Aviation Directorate, as well as in the process of standardization and obtaining the ISO 9001 certificate, when a great number of procedures, operational manuals and safety evaluations were made.

Within the FAMUS project, the technical personnel training was conducted by the system manufacturer, together with different systems FATs and SATs.

In 2010, the following activities and projects were realized within the CNS services:

Communications

■ In the period from January to March, the training for optical multiplexers, radio-relay links and multiplex equipment was conducted at manufacturer Alcatel-Lucent premises, after which FAT and installation were conducted as well. The complete new radio relay network (7 radio relay links in total), as well as all optical multiplexers (8 OMSN devices), were tested.

■ Within the FAMUS project, the training at manufacturer's premises was conducted, together with FAT for the following systems:

- Time reference system (TRS),
- Voice communication system (VCS),
- Digital voice recording and playback system (DVRPS), and
- System for commutation of AFTN/AMHS messages in aviation telecommunication network.

After training and acceptance, the systems were installed in the new ATCC building and the testing on location was conducted.

■ The Contract on purchase of equipment for OLDI messages distribution was signed with SiATM Company from Sweden. This equipment was installed in the new ATC building during last year.

■ The installation and testing of VHF/UHF radio systems was performed at the locations of Tivat and Batajnica Aerodrome Control and Višegrad. By the end of March, FAT of VHF/UHF radio instruments for Batajnica and Kraljevo Aerodrome Control, as well as for Višegrad and Sveti Ilija was conducted.

■ The new Frequentis VCS simulator was purchased and installed, and technical personnel received training for its maintenance and configuration. Simulator testing and SAT were performed in October in ATCC.

■ In October 2010, within the project of connecting locations onto the independant optical infrastructure of Telecom Serbia Ltd., the telecommunication network of SMATSA Ltd. was extended by introducing the redundant relay path towards the location of radar station Koševac.

Navigation

■ A Contract was signed with the Northrop Grumman Park Air Systems for purchase and installation of instrument landing systems (ILS) and distance measuring equipment (DME). In the period from October to December, new DMEs were installed to replace old ones, collocated with VORs in Valjevo, Topola, Sremska Mitrovica, Niš, Blace, Kraljevo, Podgorica, as well as DME collocated with LOC in Tivat.

■ FAT for MIDAS IV systems upgrading equipment was conducted together with relevant training in VAISALA OYJ factory in Helsinki and the installation of new sensors was performed at "Nikola Tesla" airport in Belgrade, after which it was put into trial work.

■ During June and July, the installation of silometers and transmissiometers was conducted at Batajnica airport. In October, the cabinet with the equipment for collection and processing of meteorological information was moved to the new tower technical room at Batajnica airport..

Surveillance

■ During February, the training of technical personnel for ARTAS, RMCDE, ADR and RRR systems was conducted at Comsoft manufacturer's premises, and FAT was successfully performed during March. The training of technical personnel for Eurocat-E system at Thales' premises was conducted in April and June, followed by FAT of relevant systems at Thales' premises as well. The installation of systems in the new ATCC building, Belgrade Tower building and Podgorica Tower building was conducted in the period from June to November.

■ In March 2010, a Contract was signed with Thales for purchase and installation of Eurocat-E simulator. The installation and training of technical personnel for system maintenance was conducted afterwards.

■ During regular activities regarding preventive and corrective maintenance, in 2010, reparation and replacement of inoperative engines of antenna rotation mechanisms in Koševac radar station were conducted.

■ The distributors of data and weather radar information were purchased for the needs of forwarding information from radar stations towards the new ATCC building.

■ Radars of radio stations Koševac and Koviona were configured and put into operation in Mode S.

■ With the presence of two representatives from Comsoft Company, a temporary installation (for the period of 6 months) of an ADS-B receiver was conducted in the new ATCC building.

AERONAUTICAL METEOROLOGICAL SERVICES

SMATSA Ltd. provides aeronautical – meteorological services in accordance with ICAO Annex 3 in order to contribute to safe, orderly and efficient air traffic flow. The aeronautical – meteorological service provides implementation of regulations resulting from established international and national regulations and corresponding agreements with users so that all the equipment and systems are in accordance with technological advancement.

In 2010, the representatives of Aeronautical–Meteorological Division actively participated in international and national activities for the purpose of improvement of aeronautical – meteorological services and thus directly contributed to the development of corresponding regulations and new technology which is applied in providing aeronautical – meteorological services.

In 2010, MIDAS IV VAISALA systems upgrading equipment was purchased and the license for use was obtained (the equipment will be put into operation after the technical room has been moved to the new ATCC building). Likewise, the new version of software package 'MESSIR NET' was purchased and implemented, which has enabled all operational units to prepare all flight documentation and file all the issued flight documentation in accordance with regulations.

SMATSA Ltd. representatives participated in the following seminars and meetings in 2010:

- Seminar on MET services for flights on low altitudes in EUR/NAT region and the Project team meeting for flights on low altitudes. The seminar and meeting were held in Berlin, from 23rd to 25th March 2010.
- MET support to ATM' workshop, held in Eurocontrol organization from 18th to 20th May 2010, in Brussels.
- Second Meeting of the Volcanic Ash Task Force - VATF/2. The meeting was held from 8th to 10th June 2010, in Paris.
- Regular annual meeting of the Meteorology Group (METG), which, as a part of European Air Navigation Planning Group (EANPG), monitors the situation and coordinates the deployment of all systems in aeronautical meteorology in the European region. The meeting was held at ICAO office for Europe and North Atlantic, in Paris from 5th to 10th September 2010.

AERONAUTICAL INFORMATION SERVICES

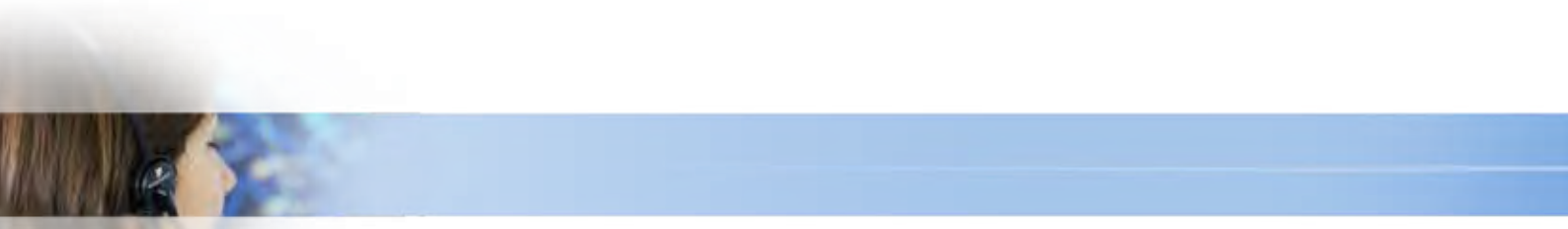
SMATSA Ltd. provides aeronautical information services for Serbia and Montenegro in accordance with ICAO standards and recommended practice with the purpose of enabling safe, regular and efficient air navigation.

In 2010, the AIS Division conducted the analysis of operational methodology compliance with regulation of European Commission on requests for quality of aeronautical data and information for Single European Sky (EC 73/2010, adopted in January 2010). This regulation introduces significant changes in the aeronautical information system. During the analysis, AIS Division recognized the advantages, which may result from implementation of these regulations and gave recommendations for the changes in procedures of services provisions.

In the meantime, the quality management system was checked several times. The most important audits, which confirmed the compliance of the system with international standards and recommended practice, are:

- SES certification audit by CAD (April 2010),
- Several internal audits by QMS Division during preparations for certification of quality management system (spring 2010),
- Certification audit of compliance with regulations ISO 9001 – SGS (May 2010), and
- Internal audit conducted by internal audit team (November 2010).

In December 2010, AIS Division published the first Amendment to Aeronautical Information Publication (AIRAC AIP AMDT 3/10) by using the completely new technologies – FrameAPS, i.e.: applications based on European AIS data base system (EAD). Main advantages of FrameAPS application and basic improvements in relation to 'Word' application are the decrease of manual writing of critical and important aeronautical information (link with SDO database), protected access to files being processed and file versioning.



The development of the SharePoint platform was continued so that it now has a larger number of basic processes, together with the library, necessary for the operation of the Division. While the documents were being made, from September 2009 to April 2010, the procedures, which had at that moment been based on SharePoint, were described. Since then, the compilation of aeronautical publications (AIP, MIL AIP and VFR AIP) has been based on SharePoint. Likewise, SharePoint was improved by Wiki pages (type of AIS knowledge base), 'Dopisi' library (library in test phase for the purpose of saving records in electronic, pdf format) and tools for changes management – AIScmt® (in test phase).

AIS Division successfully presented the activities taken for the purpose of applying the Regulation of European Commission on quality of aeronautical data in Serbia and Montenegro at the meeting dedicated to Single European Sky Regulation (EC 73/2010), held in Brussels on June 7th and 8th, in joint organization between EUROCONTROL and European Commission. SMATSA Ltd.'s presentation was rated as excellent and the contribution of AIS Division was recognized by EUROCONTROL, other AISP, AIS Aviation Authorities and FAA. The meeting was attended by more than 130 representatives of EUROCONTROL member states, Aviation Authorities, data sources, ANSP/AISP, FAA, as well as software manufacturers.

Figure 14: Aircraft for Flight Calibration of Ground NAV Aids - Hawker Beechcraft King Air 350

FLIGHT CALIBRATION

Flight Calibration Division is qualified to perform calibration of ground radio navigation aids from the air and checking of flight procedures for its own needs and for the needs of the surrounding Air Traffic Controls. The flight Calibrations and calibrations are done in accordance with the requirements and recommendations given in ICAO Annex 10, Annex 14 and ICAO Doc 8071.

During 2010, and after the purchase of a new Beechcraft King Air 350 aircraft, Flight Calibration Division was engaged in the realization of the following activities:

- Certification of Flight Calibration Division for providing services from the air (calibration of ground radio navigation aids),
- Certification of organization for maintaining of continuous airworthiness and organization for aircraft maintenance, within the Flight Calibration Division,
- Certification of Flight Calibration Division for the adoption of quality standards ISO 9001:2008,
- Working on Regulation of the calibration of ground radio navigational aids proposal adopted by the competent Ministry, Flight Calibration services according to the renewed contract with DCA of Bosnia and Herzegovina for providing calibration services of ground radio navigational aids, for the period of one year at Sarajevo, Mostar and Tuzla airports.
- Flight Calibration services according to valid contract with the Republic Directorate of Air Traffic of the Republic of Serbia for providing calibration services of ground radio navigational aids at Banja Luka airport,
- Flight Calibration services according to valid contract with Civil Aviation Directorate of the Republic of Macedonia for providing calibration services of ground radio navigational aids at Skopje and Ohrid airports,
- Flight Calibration services of VHF\UHF equipment according to contract with BH DCA,
- Flight Calibration services according to contract with Croatian Air Traffic Control on providing calibration services of ground radio navigational aids at Zagreb, Rijeka, Pula, Zadar, Osijek, Split, Brač and Dubrovnik airports,,
- Regular and unscheduled calibrations of the ground radio navigational aids for our own needs at Belgrade, Batajnica, Kraljevo, Vršac, Niš, Podgorica and Tivat airports, and
- Tender preparation for provision of flight Calibration services of ground radio navigational aids at Ferihegy Airport in Budapest, Hungary.

SAFETY

In 2010, the modernization project – FAMUS, engaged all resources of SMATSA Ltd. The continuous safety challenge was the installation of equipment and systems with permanent training of all employees at executive positions, together with increased engagement in providing services due to increase in air traffic.

The results of safety evaluation of functional systems such as DPS, VCS, AFTN\AMHS, DVRPS and TRS have shown that the safety of providing services using new systems will be raised to a higher level. Safety risk evaluation was also conducted for entirely newly installed DME equipment, distributors of OLDI messages and upgraded system MIDAS IV at "Nikola Tesla" airport in Belgrade.

In 2010, the Safety and Quality Division realized the following activities:

- Based on an annual plan, 15 safety checks were conducted in all operational units. Detected irregularities and problems in work were dealt with, or the remedial process has been started in cooperation with the particular divisions.
- The specialists from the safety department provided help during the audit of compliance with the requirements for air traffic services provision in Montenegro.
- Overall evaluation of safety maturity of SMATSA Ltd. will be given in relation to the completed questionnaire and telephone call for the programme "Overview of ICAO EUR Region ANSPs 2010 ATM Safety Framework Maturity". The expectations are that our previous year's percentage (93.4%) should be maintained or increased.
- The programme for safety evaluation training was made and necessary assistance was provided during work on safety evaluations.
- The permanent and continuous work on realization of LSSIP goals was maintained. The establishment of AST (Airport Safety Team) at "Nikola Tesla" Airport is in its final phase.
- The acceptable level of safety was maintained which is shown by safety indicators in Chapter "Safety KPIs".

INFORMATION TECHNOLOGIES AND SECURITY

The work of the Information Technologies and Security Division during 2010 was in accordance with set goals and tasks. Main tasks meant the maintenance of ITS structure and support to the existing processes in terms of their availability, reliability and security. A significant effort was made so that all services are available, reliable and protected from the external attacks.

In 2010, Information Technologies and Security Division realized the following projects and tasks:

- The installation, testing and receipt of the integrated security system of the new ATCC building was performed, including:
  - Video surveillance system,
  - Systems for access control,
  - System for perimeter protection,
  - System for anti-theft protection,
  - System for fire protection.
- The IP telephone system in the new ATCC building was expanded.
- The multimedia systems in conference halls of the new ATCC building, were installed and they are:
  - Audio and video conference system,
  - Translation system,
  - Central sound system and
  - Matrix displays for presentations.
- The implementation of the complete computer and network infrastructure was conducted in the new building of Air Traffic Control Centre.
- The system for central installation, update, management and supervision of the applications on computers with Microsoft operational system was put into work.
- The connection and integration of Flight Academy in Vršac into corporate computer network and its connection on IP telephone system was conducted.
- The computer network and VOIP telephone of Flight Academy in Vršac was integrated into corporate network of SMATSA Ltd.
- The complete migration of AD infrastructure was conducted in cooperation with our Microsoft partner.
- A support was given in the process of certification of SMATSA Ltd. through CMS based on SharePoint platform.
- The ICAO training for introduction of ECAIP data base was conducted.
- The system for authorization and authentication of the users of corporate computer network was installed.

The basic acquisition of the system for introducing virtualization into the corporate network of SMATSA Ltd. had its first phase during 2010. In the following years, it should bring more efficient, more economically acceptable and safer computer and communication infrastructures.

HUMAN RESOURCES MANAGEMENT

Bearing in mind that competent and motivated employees are the basis of a successful business strategy, SMATSA Ltd. pays significant attention to continuous education and training through different means of education, following air traffic control system development and other forms of service provision in aviation.

By timely selection and recruitment of candidates, by conducting adequate training and by maintaining the already established level of expertise of employees, the adequate availability and competence of human resources was provided.

The following Figures show the structure of employees in 2010 according to the level of education, age and gender.

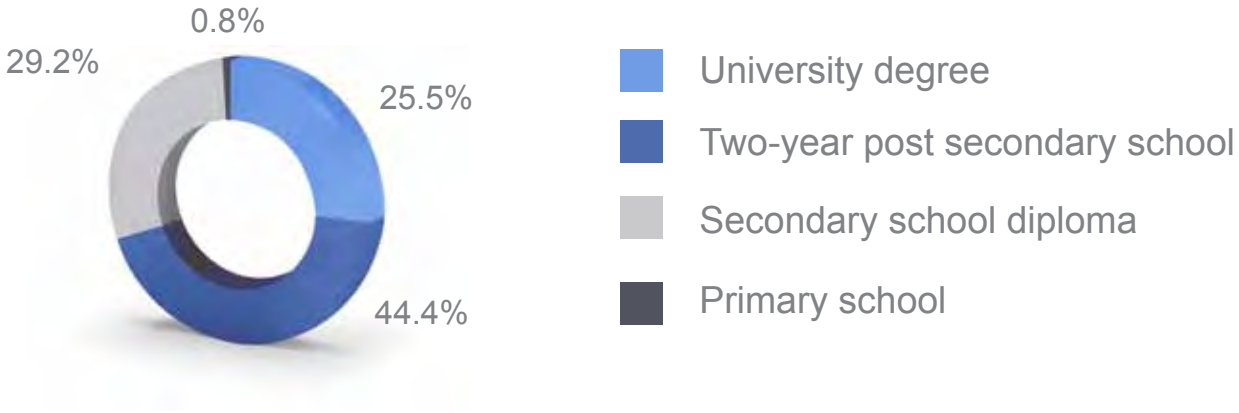


Figure 15: Employee Structure According to the Level of Education in 2010

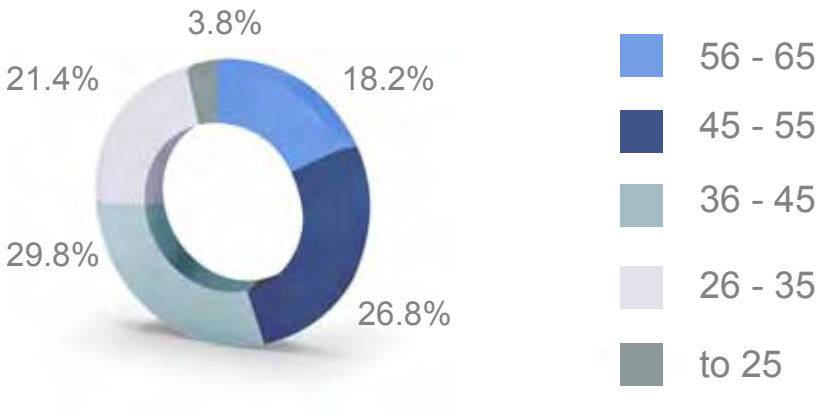


Figure 16: Employee Structure by Age in 2010

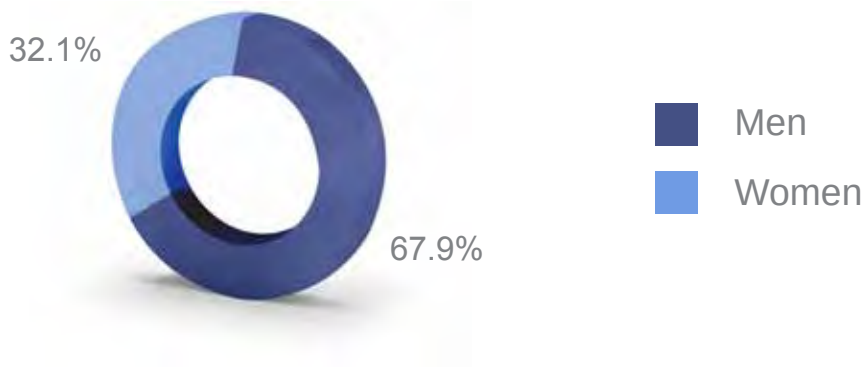


Figure 17: Employee Structure by Gender in 2010

In 2010 the Training Centre was presented with the Certificate of Competency for Aviation Personnel Training, all in accordance with the Regulation on Air Traffic Controller Licensing and Training Providers, thus officially confirming that the Training Centre's activities are fully in compliance with the ICAO Annex 1 (Personnel Licensing) and European regulations.

All planned trainings in 2010 were successfully completed. The recruitment and selection process of the candidates for the 48th class for Basic ATCO Training was also completed and their training commenced. Simultaneously, the training of the 46th and 47th class of student ATCOs continued, as well as the training of other aviation personnel. In 2010, 11 student ATCOs from the 46th class acquired their new licenses with the endorsement of ACS/RDR. Out of the total number of 20 students from the 47th class, 17 candidates completed their On-the-Job Training (OJT) and acquired the ADI GMC AIR endorsement.

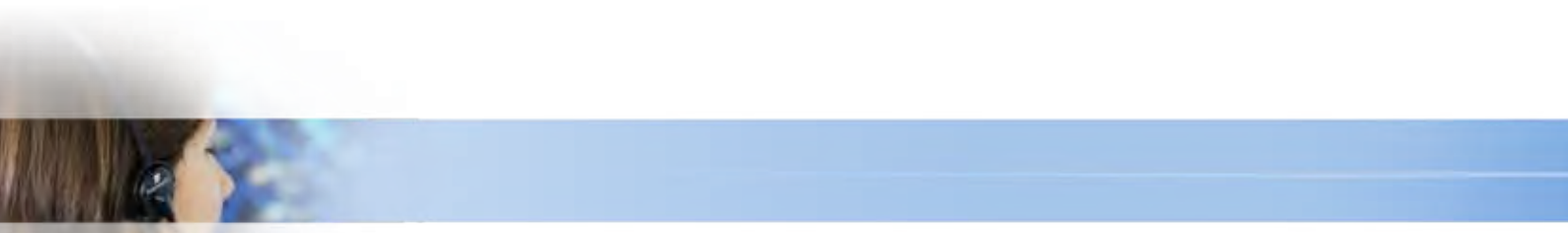
In addition to the training of new ATCO classes, different upgrade trainings and refresher courses were also conducted. In relation to that, 16 candidates successfully completed the ATCO Instructor training course, and 4 candidates completed courses for the APS endorsement.

In order to improve and refresh the knowledge of the CNS Division personnel, several relevant courses were conducted in 2010. The courses comprised the training for NDB G142, NDB NX250/1000/2000, PARK AIR, 1511 AN, HDSL 1512 PL and AWS – 200.

Opening of the new ATCC building had implied the purchase and installation of the most advanced equipment and systems. In order to enable the proper utilization of the same, a great number of trainings were performed, improving thus the level of competency of human resources in SMATSA Ltd., as well as enabling a successful meeting of future requirements and trends.

By taking over Flight Academy from JAT Airways, SMATSA Ltd. expanded its scope of work related to the provision of training services. It now comprises the training of pilots and of the aircraft maintenance personnel as well.

The process of improvement of comprehensive service was initialized, all with the purpose of satisfying the current, as well as the future requirements, of the users, in accordance with national and international standards.



QUALITY MANAGEMENT

In the first half of 2010, SMATSA Ltd. finished the implementation of the Quality Management System (QMS) in compliance with the ISO 9001 standard, all in accordance with the relevant Quality Management Division's schedule of activities for the same.

The team of auditors from the Belgrade Office of the Societe Generale de Surveillance (SGS) certification company made an external audit of the implemented Quality Management System (QMS) in SMATSA Ltd. on May 27th and 28th 2010, and confirmed the compliance with the ISO 9001:2008 standards.

By the mentioned audit, the certification of SMATSA Ltd., in compliance with the ISO 9001:2008 standards, was practically successfully completed, as for the following activities:

- Air Traffic Management - ATM (ATS, ASM, ATFCM) including the preparation of navigational procedures.
- Commmunication, Navigation and Surveillance Services (CNS).
- Aeronautical - Meteorological Services (MET).
- Aeronautical Information Services (AIS) including the preparation of aeronautical charts.
- Flight Calibration Services.
- Training of ANS related Personnel.

By Quality Management System's (QMS) certification, SMATSA Ltd. confirms its orientation to constant fulfilment of its users' requirements, as well as to the improvement of its business processes. The ISO 9001 certificate was issued by SGS Zurich Head Office in June 2010, with the validity period of 3 years and mandatory annual audits.

In July 2010, 22 employees from different organisational units underwent training in Lloyd's Register Quality Assurance (LRQA) certification company for the purpose of performing the internal surveillance of the QMS.

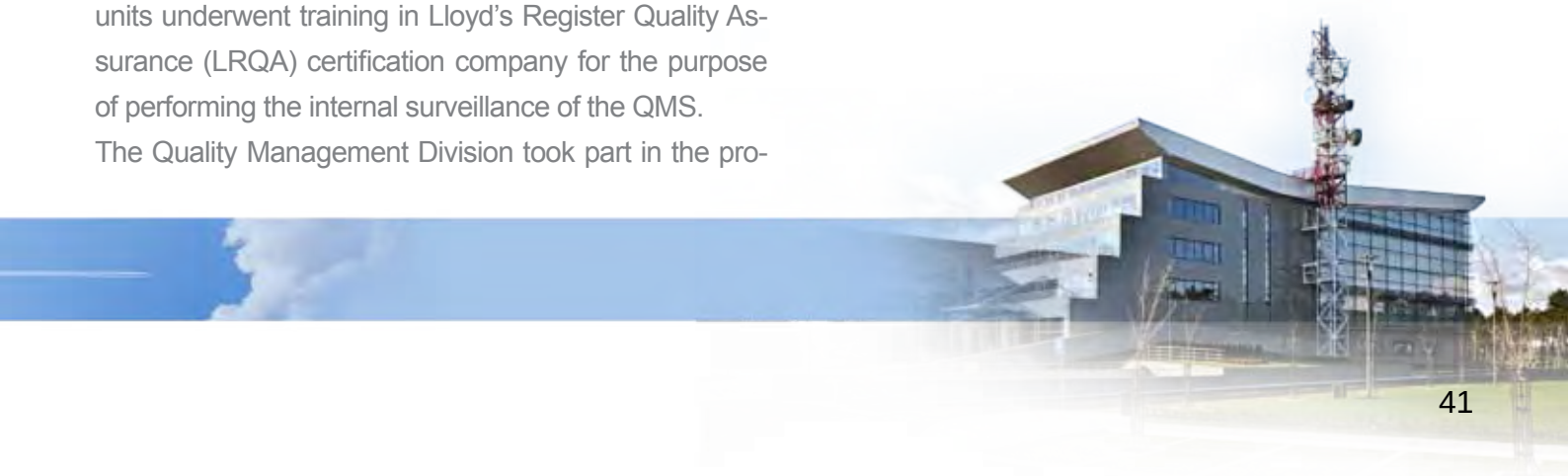
The Quality Management Division took part in the process of Air Navigation Service Provider's certification and preparations for the same (in compliance with the Regulations on Certification and Safety Monitoring of ANS Providers), as well as in the process of the Training Centre's certification and preparation for the same (in compliance with the Regulation on Air Traffic Controller Licensing and Training Providers).

In addition, the personnel of the Quality Management Division took an active part in the work and meetings of CANSO Quality Management Work Group. On the initiative of the

Quality Management Division representatives, and by their arrangement, SMATSA Ltd. was the host of the QMWG#4 meeting held April 14th-16th, 2010. in Belgrade. The meeting was one of the most highly attended meetings, represented by 30 Quality Directors and Managers from nearly all European CANSO ANSP members, and from the FAA of Egypt as well.

The representatives of SMATSA's Quality Management Division also took an active part in the QMWG#5 meeting held on October 13th and 14th in Madrid. The presentation held by SMATSA Ltd.'s representatives, "Auditing/Compliance: Experience - Lessons Learnt", was evaluated as excellent by the QMWG Chairman and other participants, and it prompted a very interesting and beneficial discussion pertaining to experience of other ANSPs with regard to performance of internal surveillances.

During autumn, another series of internal surveillances were performed covering all existing processes in SMATSA Ltd.



CONSTRUCTION, DESIGNING, RECONSTRUTION, UPGRADING, ADAPTATION AND TECHNICAL MAINTENANCE

In 2010, the Technical Support Group within SMATSA Ltd.'s CNS Division participated intensively in all works pertaining to modification of the existing buildings for the purpose of new equipment installation and regular maintenance of the same, so as to provide adequate working conditions. In relation to that, the Technical Support Group took an active part in the FAMUS Project.

Construction of New ATCC Building

The new ATCC Beograd building, the construction of which had commenced in April 2009, was completed in October 2010. The facility comprises two corpora: the technical one containing a technical room and an operational room, and the administrative one containing offices. Power supply systems (power substation and UPS), heat substation, air conditioning chambers, fire extinguishers, vacuum cleaning station, pump station and water tank for fire extinguishing and other auxiliary premises are situated in the basement. A parking lot accommodating 120 vehicles and an underground garage with 38 car park spaces are provided at the location. The most modern high quality materials were used in the architectural and building realisation. Exterior design, landscaping, lighting, mobile accessories, greenery and completed sports ground, together with the ATCC building make a unique and harmonious entity. The degree of works completed: 100%.

Designing of the New Aerodrome Control Facility at Airport Ladjevci in Kraljevo

The FAMUS project anticipates the construction of the new Aerodrome control facility in Kraljevo. In the course of 2010, "Mašinoprojekt" company prepared the preliminary design and completed 90% of the final design. The completion of the final design on the whole, the preparation of tender documents and the announcement of public procurement for the construction of the new Kraljevo Aerodrome control facility, are planned for February 2011.

Reconstruction and Extension of TCL Podgorica Existing Facility

The reconstruction and extension of the Terminal control facility situated within the complex of Podgorica airport, made provision for more room for technological and administration requirements. By extending the ground floor using light steel structures, an additional 460 m2 were obtained. The new facade was made on the front walls of the ground floor and of the extended floor. Within the ground floor, offices for ARO and MET departments were designated. On the extended floor, rooms for controllers and administrative personnel were provided for. The tower was slightly adapted in terms of the space and sanitary ware. Under the cab, a new arrangement of space was made, with controlled access to the same. Upon completed reconstruction and extension, the total area of the facility equals 1,065 m2. The works were completed in September 2010 with the degree of 100% of works executed.

Adaptation of Technical Room and Construction of Container Stand and UHF/VHF Antenna Support in ACL Tivat

Within the scope of VHF and UHF radio systems purchase and installation for the purpose of ground to air communication, an adaptation of technical room was executed enabling the instalment of new telecommunications equipment. The construction of the container stand as well as the antenna support were performed as well. The degree of executed works is 100%.

Construction of Container Stand and UHF/VHF Antenna Support in ACL Batajnica

Within the scope of VHF and UHF radio systems purchase and installation, for the purpose of ground to air communication, the construction of the container stand was performed and the containers for equipment housing and antenna mounting were placed. Within the same project, the construction and mounting of antenna supports at Višegrad, a location near Niš, as well as of the support for the new link antenna at Koviona radar station, were executed. The degree of executed works is 100%.

Works on Vršac Airport Tower Cab

For reasons of very poor visibility from the Vršac tower cab, due to damaged glass, the windows were replaced and the external and internal casings around the same were performed. The degree of executed works is 100%

Adaptation of Aircraft Spare Parts Storage in TCL Beograd

Rooms for housing of spare aircraft tyres and batteries, as well as for spare parts shelves and lockers together with the tables for minor repairs, have been provided in the aircraft spare parts storage. All rooms are ventilated and with heating, and in the room for aircraft charger housing, there is a work table with metal sink, together with cold and hot water supply.

CONSULTATIONS WITH USERS

Several times a year, SMATSA Ltd. holds regular consultations with the users of its services, as well as with their associations. SMATSA Ltd. signed various agreements and contracts on business-technical cooperation with domestic and foreign partners, as well as LOAs (Letter of Agreement), which were regularly reviewed, thus getting feedback from their partners.

As a result of negotiations realised in 2009, four Turkish charter companies, with which SMATSA Ltd. had had outstanding claims, settled their debts in 2010, by payment in monthly instalments.

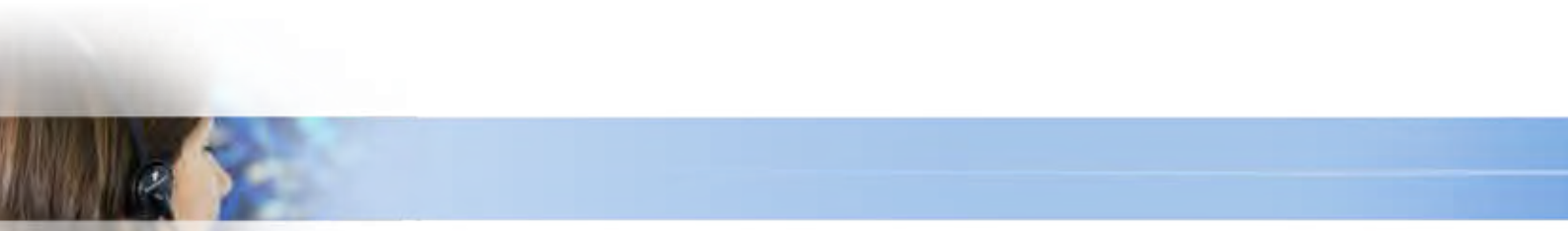
At the end of 2010, the meeting with the representatives of IATA and CRCO was held in Brussels.

In the course of 2010, the negotiations with JAT Airways, the debtor with the biggest outstanding amount, were held, and the Settlement Agreement was concluded (SEC.00 No. 272/5 of 23.09.2010.).

SOCIAL RESPONSIBILITY OF SMATSA LTD.

SMATSA Ltd. is a socially responsible organization dedicated to activities positively influencing the environment and the quality of life in the society. In line with the position that SMATSA Ltd. holds in the society, as well as with the responsibilities arising out of it, the year 2010 wascharacterized by the following humanitarian activities in Serbia and Montenegro:

- Donations to citizens of Kraljevo and SMATSA Ltd. employees who suffered physical damages due to earthquake;
- Donations pertaining to recoveries due to floods in Montenegro;
- Subventions for New Years' presents for children treated in The Institute of Oncology and Radiology of the Republic of Serbia;
- Assistance with "Belgrade Baby Club" project management, and
- Support to students of the Technical Faculty and the Faculty of Philology from the University of Novi Sad.



ENVIRONMENT

SMATSA Ltd. greatly considers environmental protection. By direct routes provision, whenever possible, and introduction of new, shorter routes, SMATSA Ltd. contributes to an increase of overall efficiency, reduction of average fuel consumption per flight, that is: reduction of noxious gasses emissions levels.

Due to interventions performed in 2010, the route network under SMATSA Ltd.'s responsibility was made shorter for approximately 9 nautical miles. Based on that, the planned flight time was made shorter, as well as the fuel consumption and CO_2 emission. In view of the number of flights executed on the mentioned shortened routes, the emission of CO_2 was reduced by about 60 tons and around 19 tons of fuel was saved.

Due to implemented changes in the route network, since 2007, the emission of CO_2 has been reduced by about 3,000 tons, and the airlines have saved around 9,000 tons of fuel. At the same time, the planned flight time has been shortened over 522,000 nautical miles.

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OPERATIONAL INDICATORS REVIEW

AIRSPACE AND AIRPORTS

Smatsa Ltd. 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 the upper airspace of Bosnia and Herzegovina territory.

The Area Control Centre Beograd, which is located at Belgrade “Nikola Tesla” airport, provides en-route services and has the capacity to provide en-route services by 12 sectors.

The following figure shows airports and the airspace under SMATSA Ltd.’s area of jurisdiction.

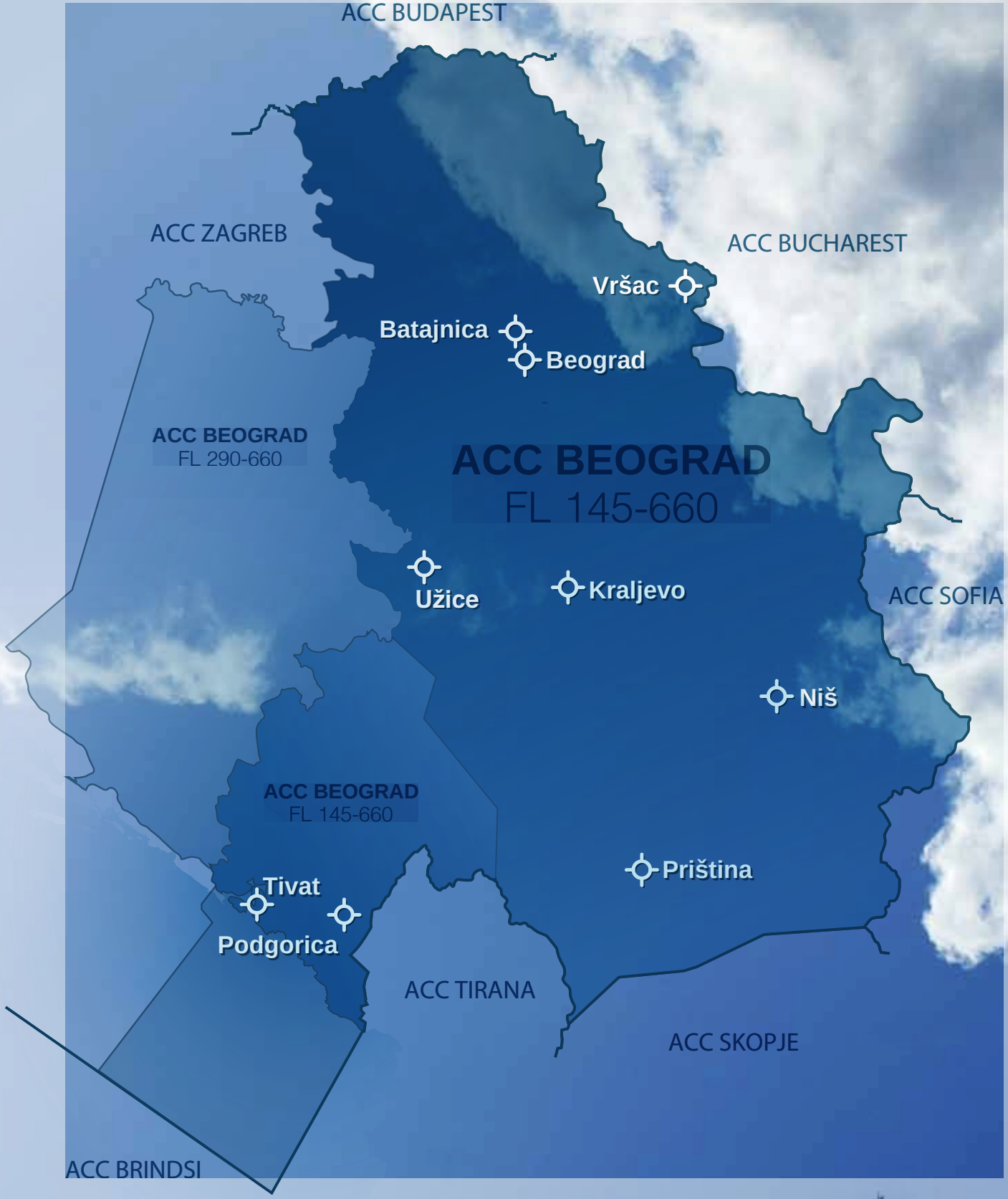


Figure 18: Airports and Airspace under SMATSA Ltd.'s Area of Jurisdiction

TRAFFIC FIGURES

Having been characterised by a multi-day suspension of air traffic in Europe due to the Eyjafjallajökull volcano eruption in Iceland, the year 2010 ended with 536,426 IFR flights executed within the airspace of ACC Beograd's area of responsibility. In comparison with the year 2009, the number of flights increased by approximately 7%. If we take into consideration the number of executed flights from 2003, we can see that the traffic was more than doubled (114%), and the average increase by 12% per year was recorded. December 2010 was a unique case, showing a decrease in air traffic due to highly unfavourable weather conditions followed by snow storms, which resulted in approximately 35,000 cancelled flights in Europe.

Figure 19: ACC Beograd – Number of Flights from 2003 to 2010

The increase in the number of executed flights within the airspace of ACC Beograd's area of responsibility was mostly influenced by air traffic between Turkey and some western European countries (Germany, Great Britain, France). In 2010, the mentioned traffic flows recorded the highest growth. The abolishing of visa requirements for citizens of Serbia and Montenegro travelling to European Union countries provoked a substantial increase in international flight departures/arrivals in 2010, especially from/to Belgrade Airport "Nikola Tesla".

	2009	2010	Difference in 2010/2009 (%)
Overflights	447,949	475,395	6.1%
International Flights Departures/Arrivals	46,414	52,781	13.7%
Local Flights	8,023	8,250	2.8%
Total	502,386	536,426	6.8%

Table 2: ACC Beograd – Number of Flights in 2009 and 2010

The highest percentage of total traffic goes to overflights, recording an increase by 6.1%, international flight departures/arrivals by 13.7% and the smallest increase was recorded in local traffic, between airports in Serbia and Montenegro, by 2.8%.

Figure 20: Overflights, International Flight Departures/Arrivals, Local Flights in 2010

Similar to previous years, the greatest number of flights was executed during summer months, especially in July and August, when approximately 25% of the total number of flights in 2010 was recorded. The average number of flights during that period was more than 2,040 flights per day, whereas the greatest increase in traffic was recorded in May and June, by 11% and 9% respectively. The peak day in 2010 was August 21st when 2,261 flights were recorded, whereas the peak hour was recorded on June 5th when 171 flights were conducted in the airspace under ACC Beograd's area of jurisdiction.

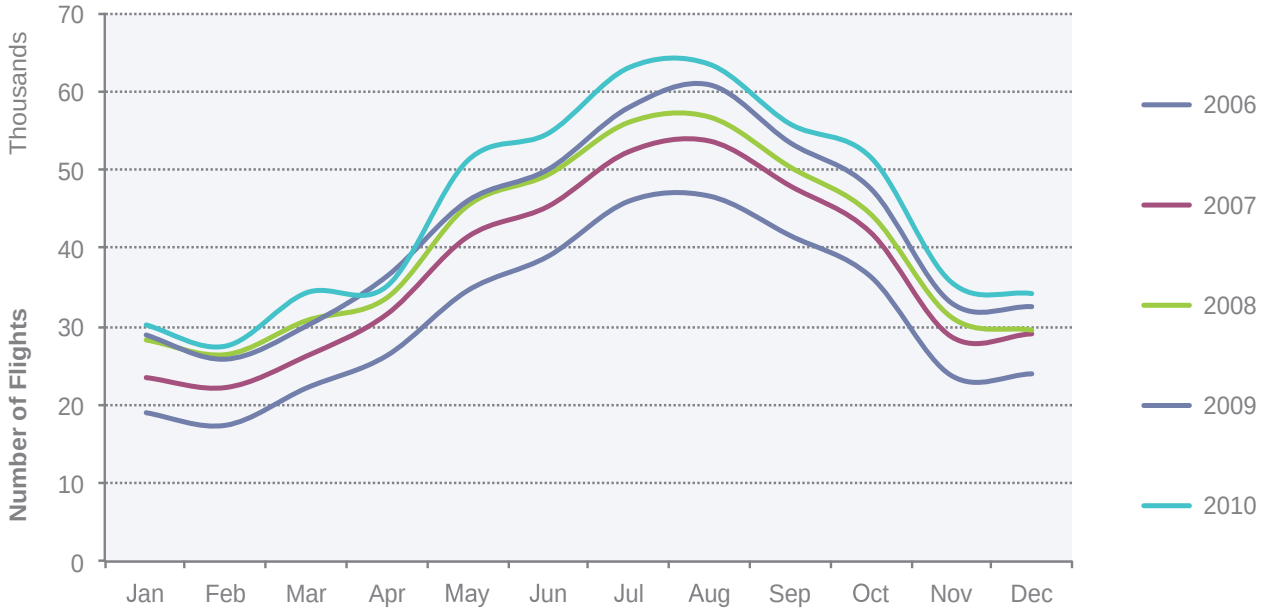


Figure 21: Number of Flights per Month from 2006 to 2010

The trend of noticeable increases in traffic of low cost airlines continued in 2010, as well. The low cost companies conducted one fourth of all executed flights and thus made an increase of 28% in comparison to 2009. Business aviation recorded a significant traffic growth of 14%. In 2010, scheduled flights of airlines decreased by approximately 1%.

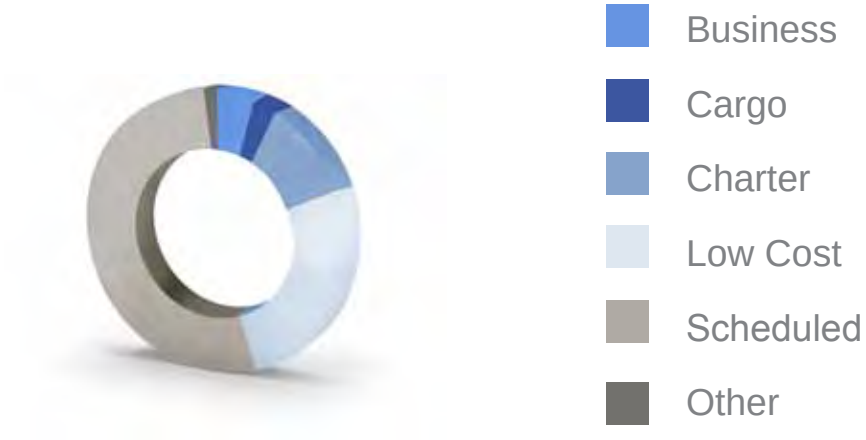


Figure 22: Share of Certain Categories in Total Traffic in 2010

More than 50% of executed flights in 2010 were conducted by the airlines shown in the following figure. Of all, the greatest increase in 2010 goes to Pegasus Turkey (44%) and Wizz Air Hungary (36%).

Figure 23: Number of Flights per Airlines in 2009 and 2010

Upon the abolition of visa requirements for citizens of Serbia and Montenegro travelling to European Union countries, the traffic at airports under SMATSA Ltd.'s area of jurisdiction recorded a significant growth. On the basis of the Financial Division's data, in 2010, a total of 30,505 IFR takeoffs were executed in the Terminal area, thus recording an increase of 11% compared to 2009. The low cost airlines NIKI LUFTFAHRT GMBH and WIZZ AIR HUNGARY started flying from Belgrade airport to different western and northern European countries. Some other airlines conducting scheduled flights, previously not present in the market, also appeared. In 2010, the low cost airlines WIND JET SPA, also, flew to Italy from Niš airport.

	Number of departures	Difference in comparison to previous year
2008	32,637	4.7 %
2009	30,121	-7.7 %
2010	33,505	11.2 %

Table 3: Number of departures in terminal from 2008 to 2010

Out of the total number of takeoffs in 2010, 68% were carried out from Belgrade Airport "Nikola Tesla" and 20% from Podgorica airport, while airports in Tivat and Niš participated with 11% and 1% respectively. The highest growth of traffic was recorded at Niš airport - 138%. At Podgorica airport it was 28%, Belgrade airport recorded 9%, whereas at Tivat airport the number of executed flights decreased by 7% comparing to 2009.

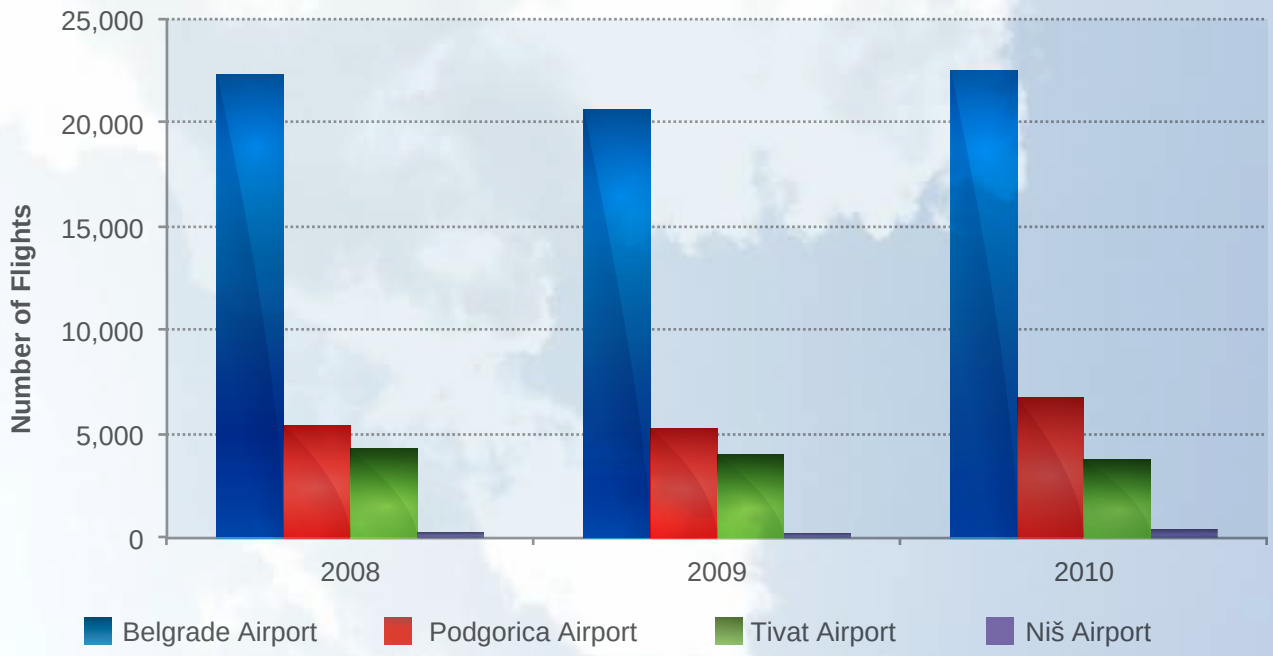


Figure 24: Number of departures in terminal per aerodrome from 2008 to 2010

ROUTE NETWORK AND AIRSPACE CAPACITY

During the course of the year 2010 the route network under SMATSA Ltd.'s area of jurisdiction didn't change significantly. On January 14th 2010, the additional segments of the airway UY520 (BEO– TADAM – PEROT) were introduced, while the following months were spent on making the structural changes of the airspace related to civil – military coordination and on the improvements in the ATC operational units' infrastructure. Namely, the priority in the implementation process was given to those changes in the airspace which will result in a safer and more efficient transition to the new ATS system, planned for the spring of the year 2011.

Owing to some additional changes in the airspace of the Republic of Croatia and Slovenia (ZAG – GIMIX – ERKIR), the new route option (UY520 BEO – TADAM – PEROT) offered the airlines a very attractive connection between the Istanbul region and airports in Western Europe and Southern Great Britain. Furthermore, due to the reorganization of the air traffic flows from the airport in Sophia, the operational problems, caused by technical (inadequate radar coverage) and technological (noncompliance with the provisions of the Agreement on coordination of Bulgarian ATCOs) shortcomings, were overcome. The reorganization of the air traffic flows from the airport in Sophia can be considered as a temporary measure, introduced for the purpose of safe transition to the new system. The direct negotiations and the cooperation of the ANSPs will result in overcoming all the shortcomings and the new reorganization of these air traffic flows in order to optimize them as much as possible.

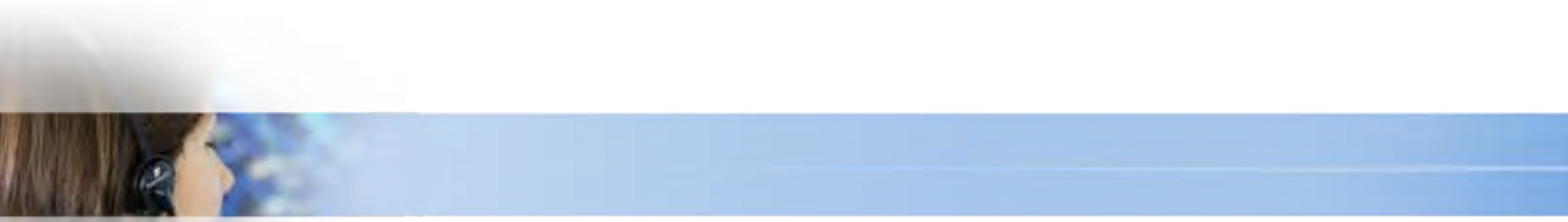
On July 1st 2010 the change in the design of the TSA02 zone was introduced, thus continuing the process of the civil – military coordination improvement and the optimization of the concurrent use of the airspace. The project of the change in the TSA02 zone design utilized the standards and experiences gained during the realization of the project of the TSA03 zone design change.

EN-ROUTE CHARGES

The cost of providing en-route services for the Republic of Serbia and the State of Montenegro is established according to the principles for determining cost base and unit rate, approved by the Enlarged Committee of Eurocontrol. SMATSA Ltd.'s revenues are determined by the number of flights, number of service units for a given period and unit rate value.

Unit Rate

As the unified charging zone, Serbia and Montenegro had, in 2010, the unit rate of 39.21€. The national unit rate value for Serbia and Montenegro in 2010, in comparison to unit rate values of other participating states in the EUROCONTROL CRCO system, is given in the following figure.



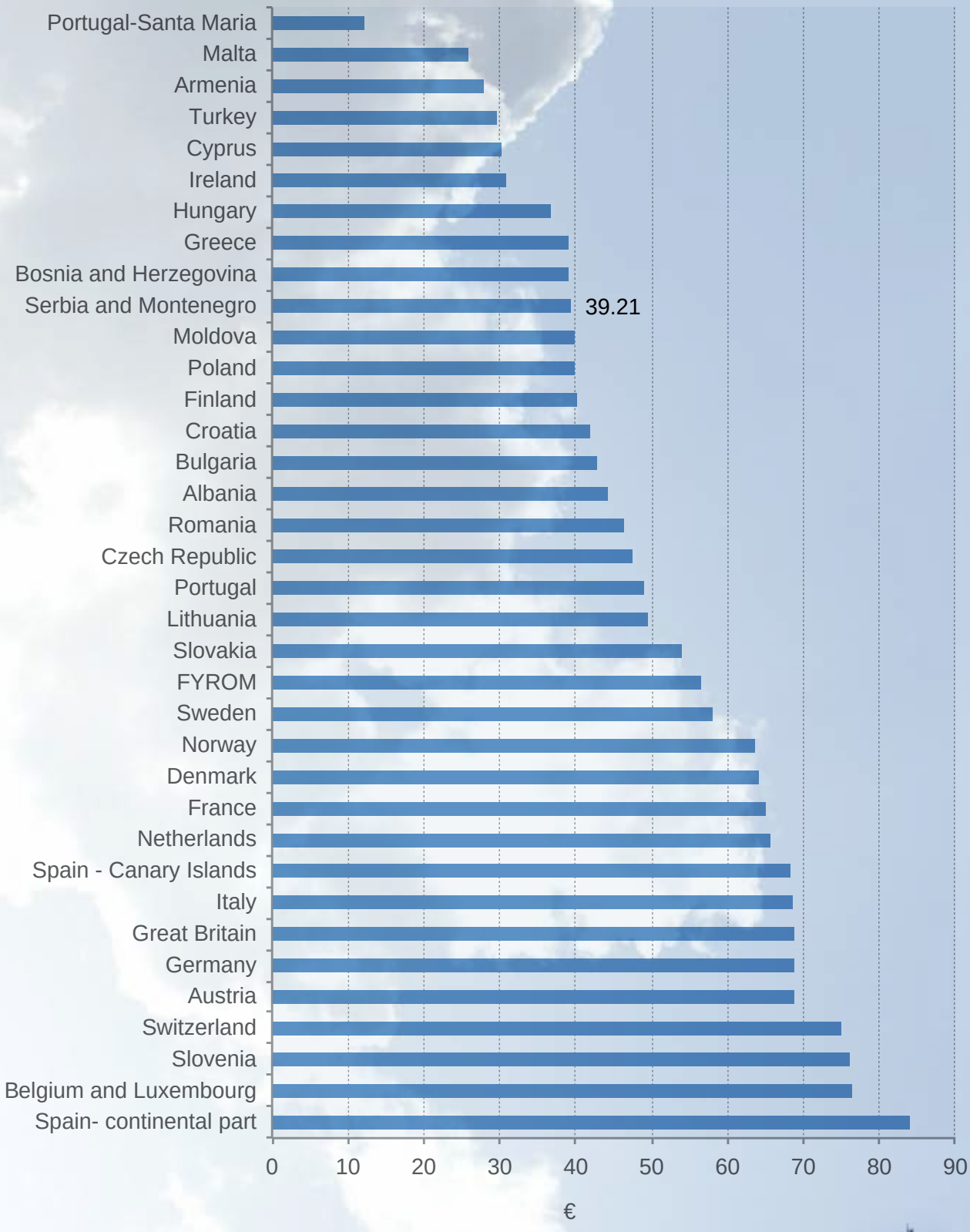


Figure 25: National Unit Rate Value in 2010 per Country

Service Units

In the year 2010, the airlines used shorter routes for overflights of the airspace under SMATSA Ltd.'s area of jurisdiction. Based on these data, a disproportion in the increasing number of flights and the increase in the service units has been noted. Due to the reduction in the average flight duration of 3% compared to 2009, the service units have been increased by 2%, notwithstanding the increase in the number of flights of 7%. A total of 1,819,215 service units were collected in 2010, of which 1,817,638 units were chargeable. The average value of the service unit per flight was reduced from 3.59 in 2009 to 3.38 in 2010, which represents the decrease of 3.5%. The following figure represents the number of chargeable service units in the last few years, comprising the basis for the generated revenue of SMATSA Ltd.

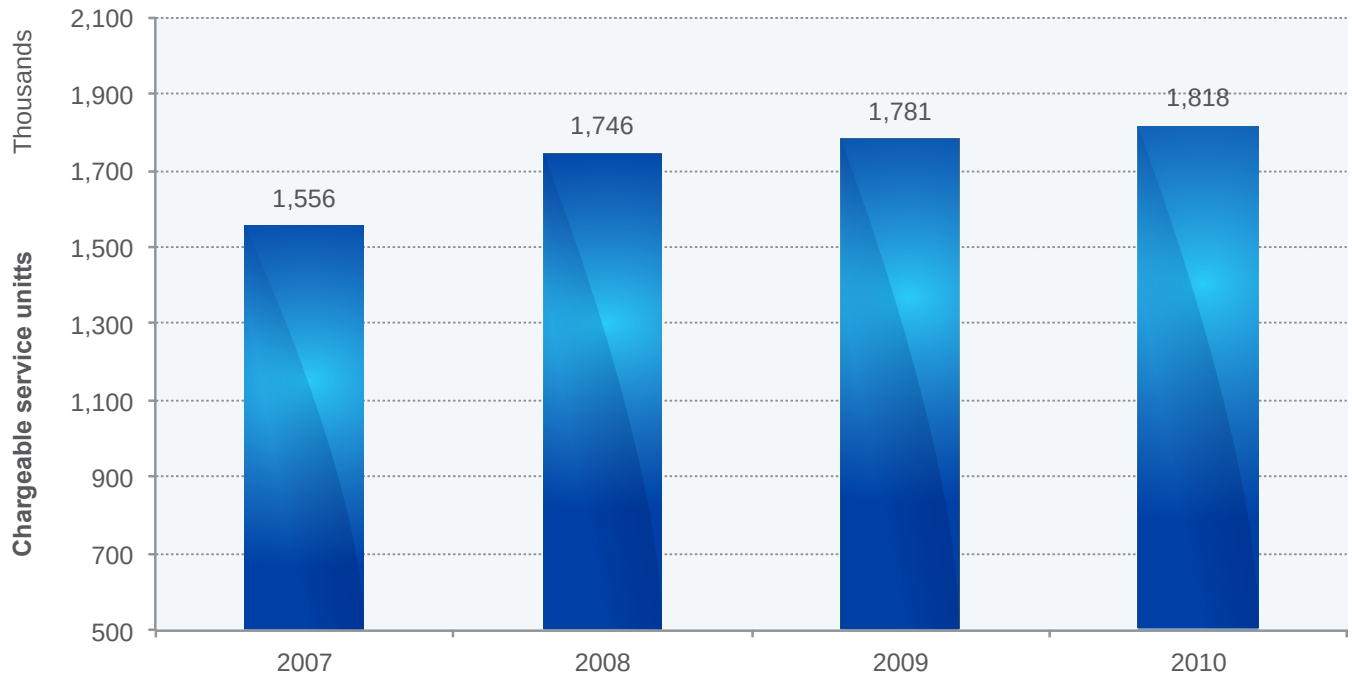
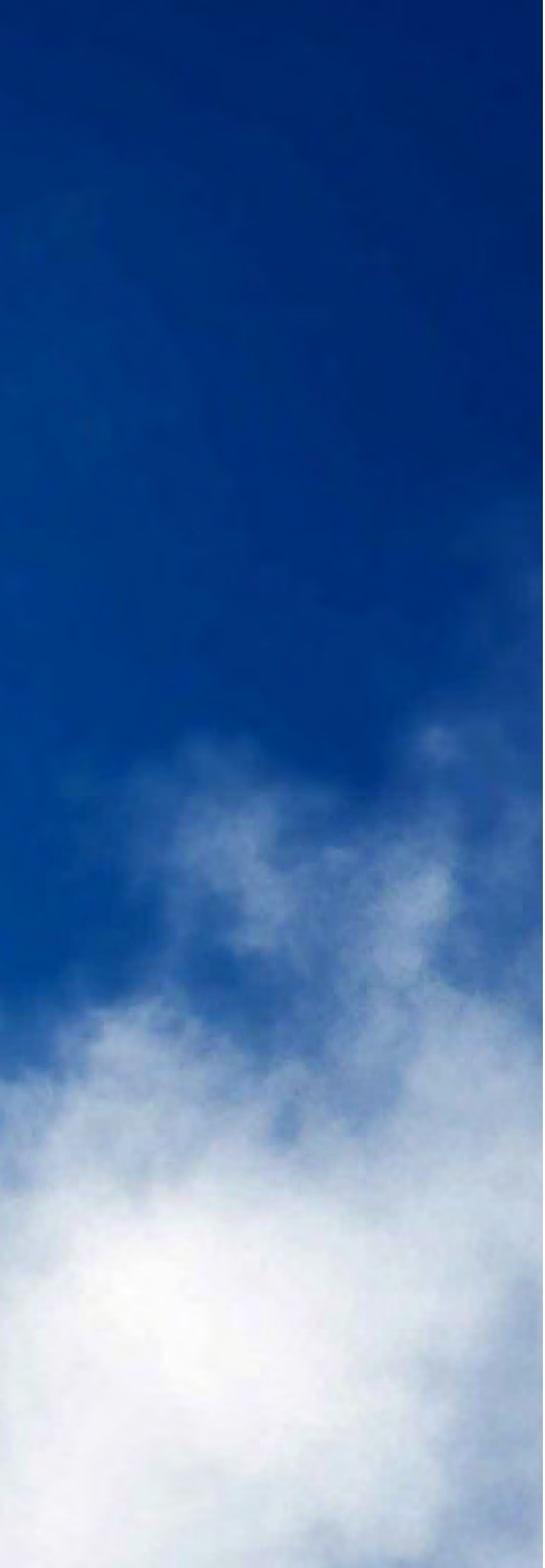


Figure 26: Number of Chargeable Service Units from 2007 to 2010



THE KEY PERFORMANCE INDICATORS

The Key Performance Indicators (KPIs), which are in full conformance with certain areas defined in the Business Strategic Plan, are presented in this chapter. The Key Performance Indicators are as follows:

- Safety
  - the number of critical incidents per 100,000 operations,
  - the number of major incidents per 100,000 operations,
  - the number of runway incursions per 100,000 operations,
  - safety KPIs for DPS,
  - safety KPIs for SSR radar stations, and
  - safety KPIs for PSR radar stations.
- Services provided
  - average and the highest daily number of flights per year,
  - number of IFR flights in ACC Beograd's area of responsibility,
  - the average flight time in ACC Beograd's area of responsibility,
  - ATFM delays.
- Cost-effectiveness
  - national value of unit rate, and
  - cost of ATFM delays > 15 minutes.

SAFETY KPIs

The Civil Aviation Directorate of the Republic of Serbia (CAD) determined the national safety KPIs and their permitted values. SMATSA Ltd. performed the analysis of the KPIs for the period from January 1st 2010 to December 31st 2010 in accordance with SMATSA Ltd.'s Safety Management Manual (item 5.1.5.2 Safety Indicators). In compliance with that, the key performance indicators, represented in this chapter, are:

- KPIs related to ATM occurrences (Figure 27, Figure 28 and Figure 29),
- KPIs related to ATM typical occurrences – air traffic control automatic systems (Figure 30),
- KPIs related to ATM typical occurrences – radar group (Figure 31 and Figure 32).

KPIs related to ATM important occurrences - Two critical incidents were reported in 2010 in the airspace under SMATSA Ltd.'s area of jurisdiction, representing the value of 0.37 in comparison to the realized number of flights. The acceptable safety limit defined by CAD of RS is 0.83 critical incidents per 100,000 aircraft operations, whereas ECAC's objective for 2015 is 0.50.

The following Figure represents the number of critical incidents per 100,000 operations, expressed as the three-year average.

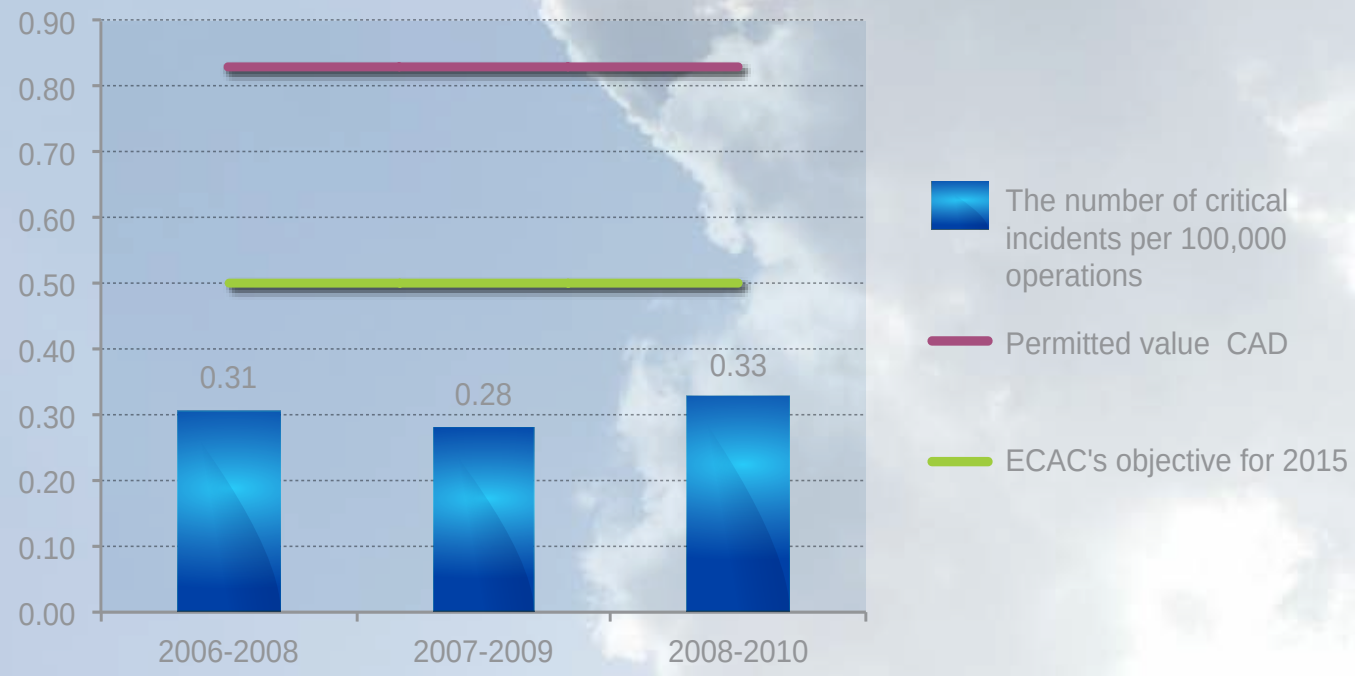


Figure 27: The Number of Critical Incidents per 100,000 Operations

The following Figure represents the number of major incidents per 100,000 operations, related to CAD's permitted value, expressed as the three-year average. ECAC's objective for 2015 is 5 major incidents per 100,000 operations.

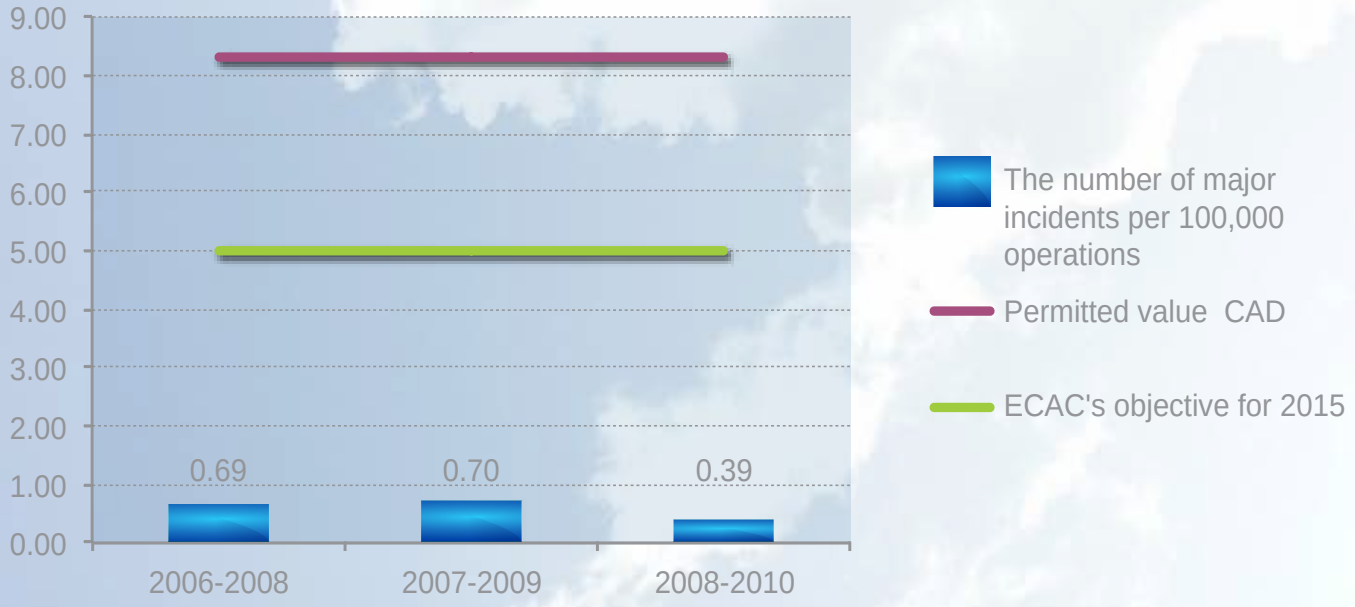


Figure 28: The Number of Major Incidents per 100,000 Operations

There were no reported occurrences falling into the “Runway Incursion” category in the airspace under SMATSA Ltd.’s area of jurisdiction in 2010. The three-year average (2008 – 2010) is 1.13, which represents the acceptable value according to CAD’s and ECAC’s criteria.

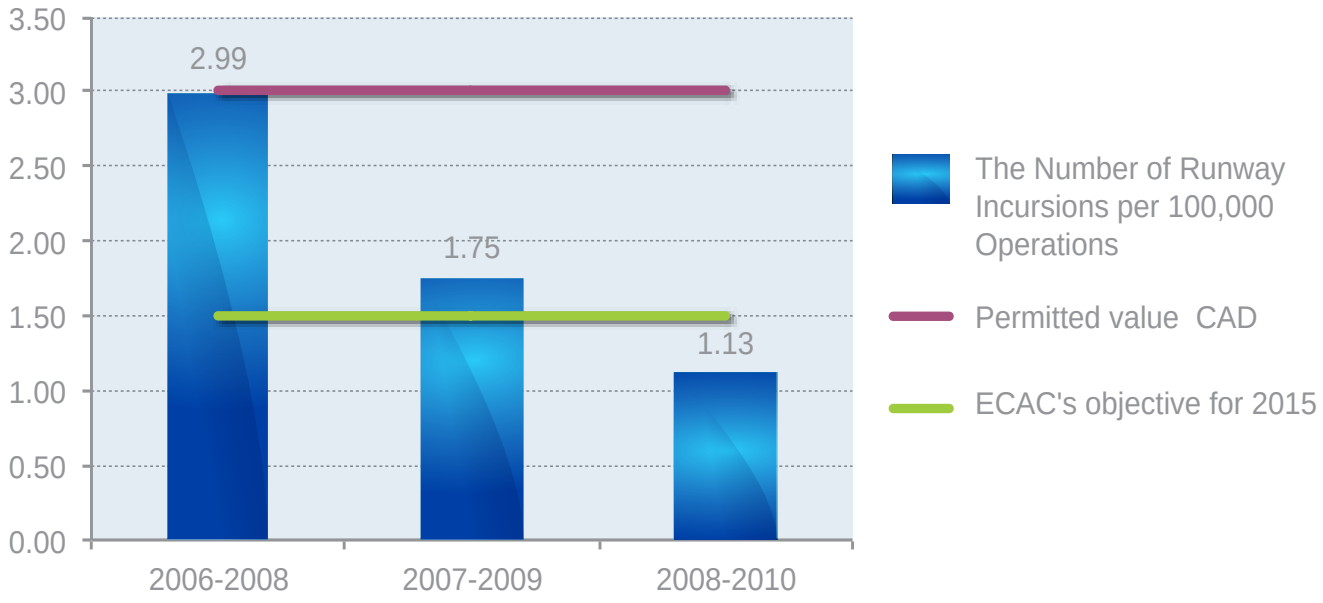


Figure 29: Number of Runway Incursions per 100,000 Operations

The availability of the TRACVIEW system was within prescribed limits in 2010 and it amounted to 99.991%. According to data from the previous three years, the safety indicator for DPS-TRACVIEW systems equals 1.33 failures per year, which falls under the acceptable safety level set by CAD.

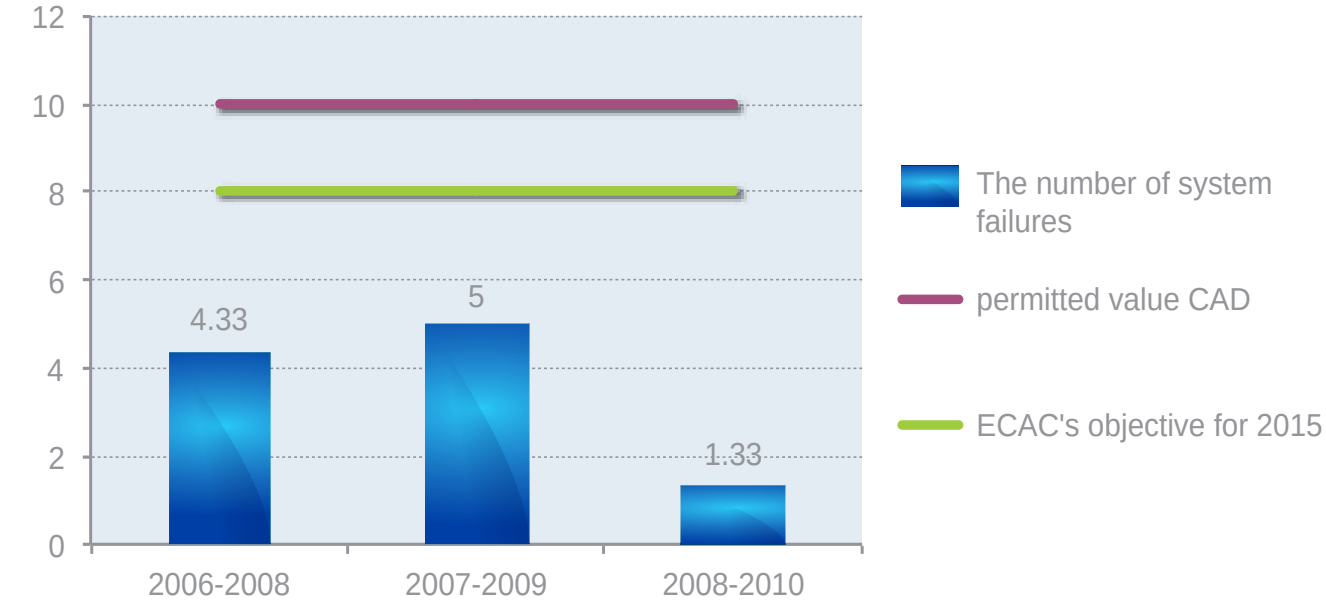


Figure 30: Safety KPI for DPS

Safety KPIs for SSR and PSR radar stations (Koviona, Murtenica, Koševac and Podgorica), depicted as average time of failure per one radar in 2010, are shown in the following two figures.

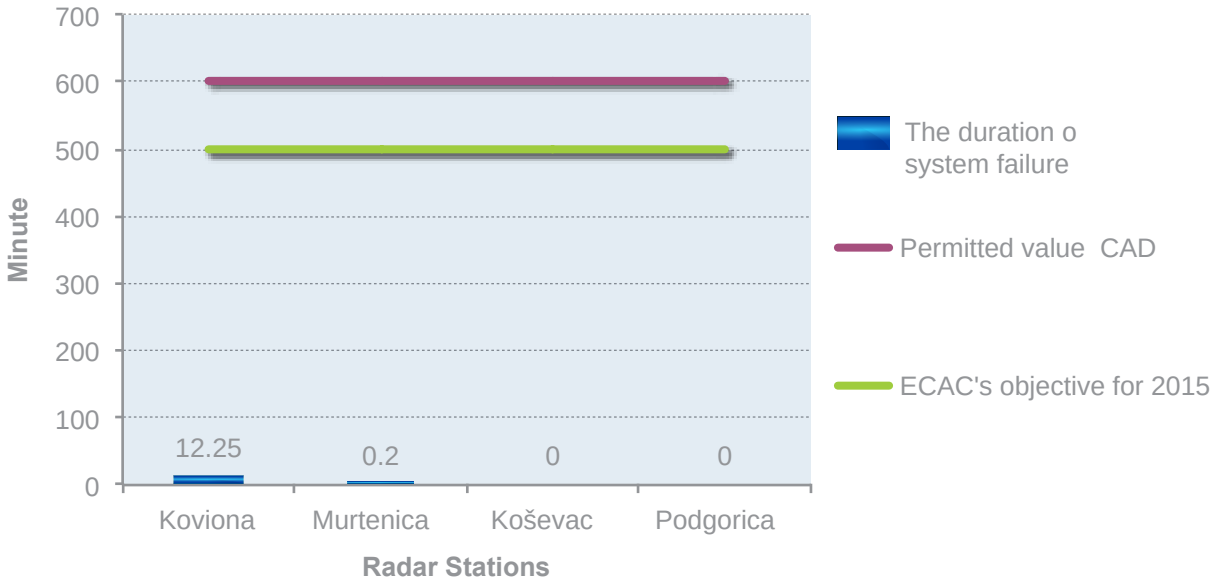


Figure 31: Safety KPI for SSR Radar Stations

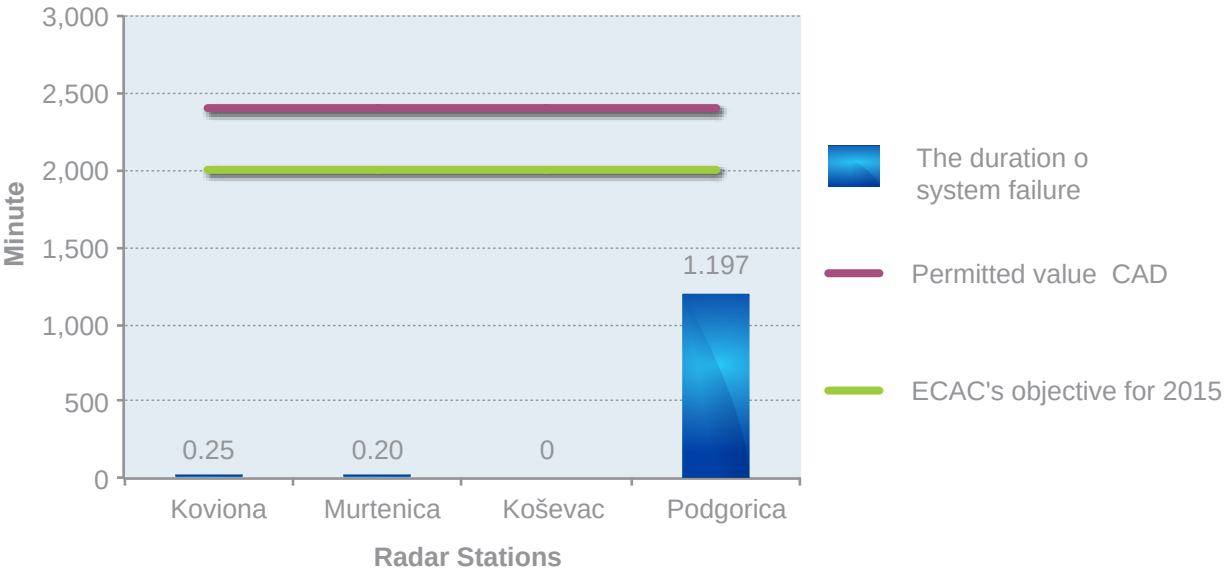


Figure 32: Safety KPI for PSR Radar Stations

SERVICE PROVISION
KPIs

Monitoring the quality of provided services implies indicators which are directly or indirectly related to all services provided by SMATSA Ltd.

The maximum number of flights per day was recorded on August 21st 2010, when 2,261 aircraft were flying in ACC Beograd's area of responsibility. Compared to the busiest day in 2009, this represents an increase of 73 flights, or 3%. The average daily number of flights per year has increased by 6.8% comparing to 2009.

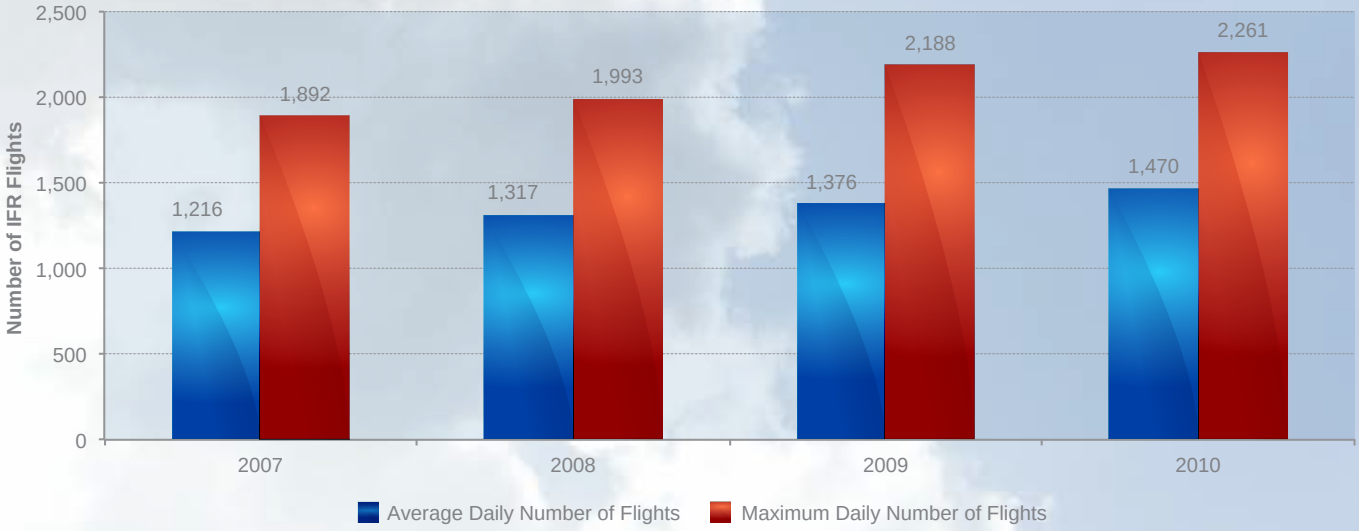


Figure 33: Average and Maximum Daily Number of Flights from 2007 to 2010

In 2010, 204,857 IFR flight-hours were executed in ACC Beograd's area of responsibility which represents an increase of 3.8%, in comparison to 2009.

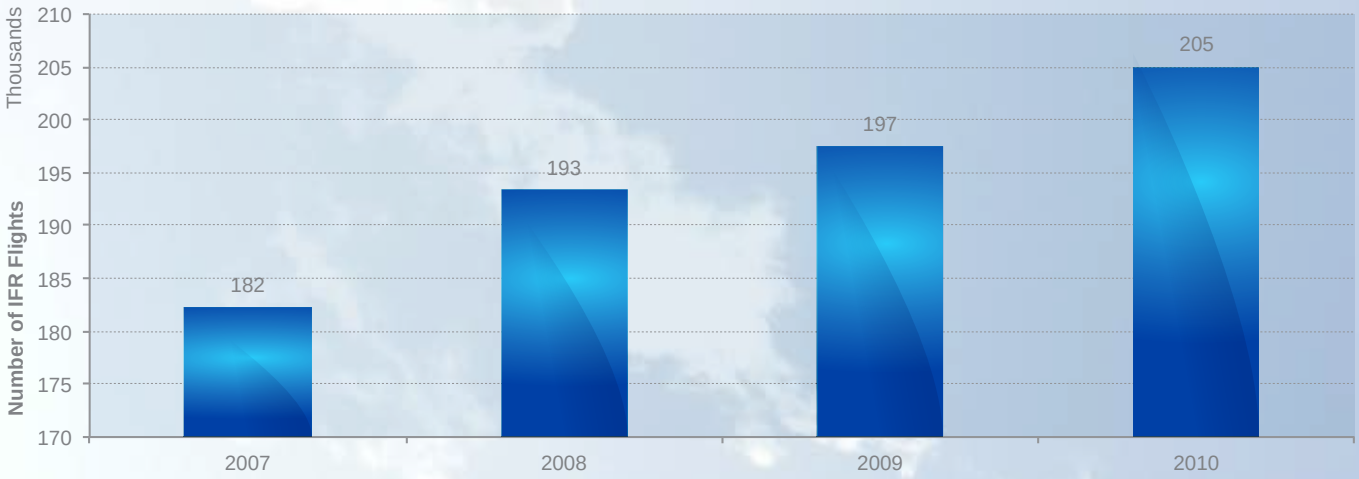


Figure 34: ACC Beograd – Number of IFR Flight-hours from 2007 to 2010

The following figure shows average flight-times in ACC Beograd's area of responsibility. As can be seen in the figure, this time decreases on a yearly basis, and in 2010 it amounted to 23 minutes.

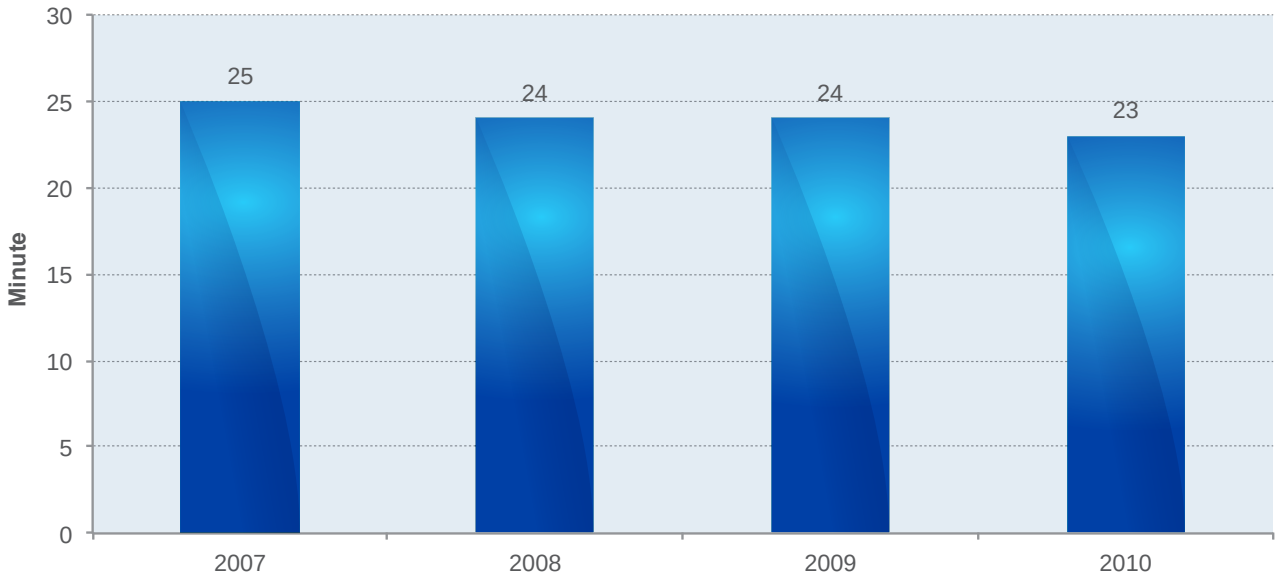


Figure 35: ACC Beograd – Average Flight-time from 2007 to 2010

The delays in 2010, shown in the following figure, were caused mostly by the European airspace closure in April, due to the Iceland volcano eruption. In the last few years, the values of SMATSA Ltd.`s ATFM delays were among the lowest in Europe.

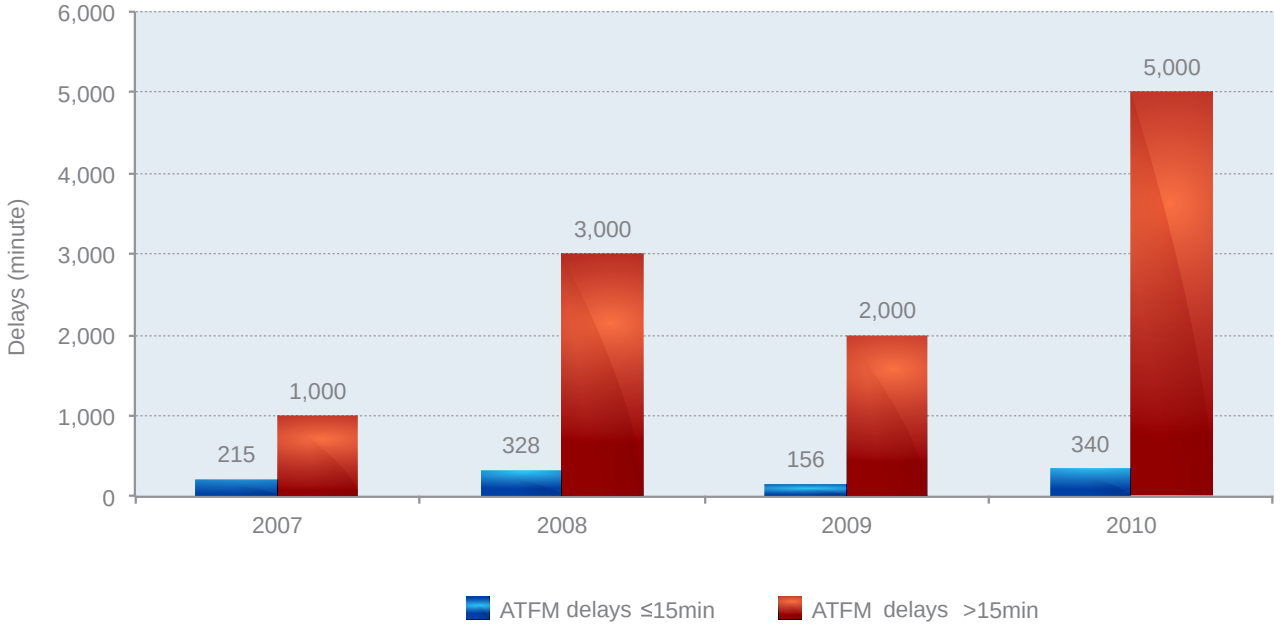


Figure 36: SMATSA Ltd.`s ATFM Delays from 2007 to 2010

COST-EFFECTIVENESS

There were no major fluctuations in terms of the value of the national unit rate during the last several years. In 2010, it was 39.21€.

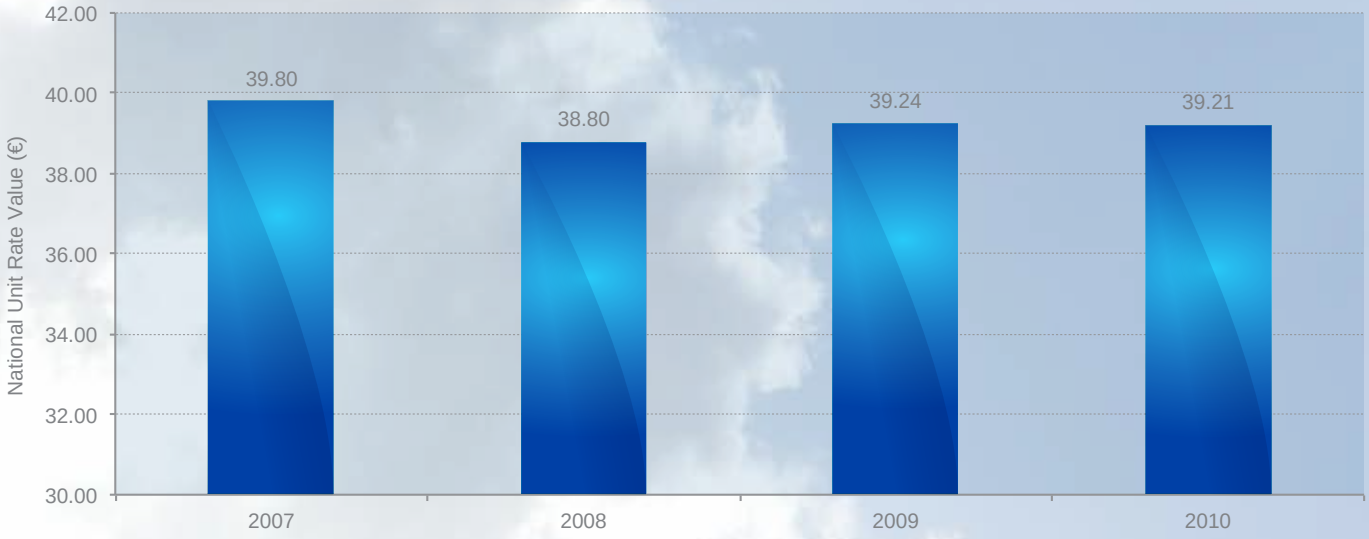


Figure 37: The National Unit Rate Value from 2007 to 2010, in EUR

As previously mentioned, SMATSA Ltd.'s ATFM delays in 2010 were caused by the European airspace closure, lasting several days in April. Although due to these delays, costs were increased in 2010, they nevertheless remained among the lowest in Europe. The value of 72€ per minute (for delays over 15 minutes), was taken for the delay cost calculation.

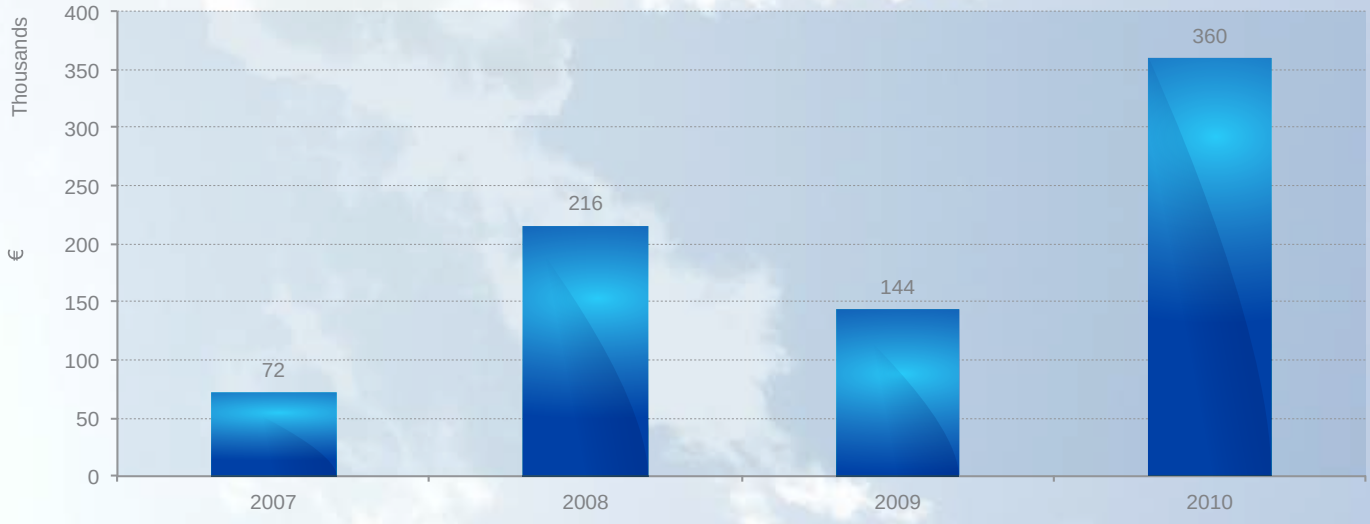


Figure 38: Costs of ATM Delays > 15 min, from 2007 to 2010, in EUR

DEVELOPMENT AND INVESTMENTS IN THE YEAR 2010

FAMUS

Future Air Traffic Management Modernisation and Upgrade System Project (FAMUS), has entered into the final phase of its implementation. The new ATCC Beograd building was finished in 2010. The equipment necessary for the modernisation and upgrade of the ATM system in the new ATCC building was purchased in accordance with the Contract FAM.00-77/120 from March 9th 2010, after which the installation works and testing of the main system commenced. It is anticipated that commissioning of the new equipment will take place in 2011. Furthermore, the following activities were also performed as part of this project in 2010:

- The Contract for purchase and installation of the Digital Voice Recording and Playback System – DVRPS was concluded in March, with Frequentis AG from Austria. This system was delivered during the course of 2010, and it is expected that commissioning will take place in 2011.
- The Contract for the purchase and installation of the EUROCAT-E simulator, together with support services and spare parts, was concluded in April, with THALES AIR SYSTEMS S.A. from France. The equipment was delivered, tested and commissioned during the course of 2010.
- The Contract for purchase and installation of the VCS simulator, together with support services, was also concluded in April, with Frequentis AG from Austria. The equipment was delivered, tested and commissioned during last year.
- The Contract for purchase and installation of the Instrument Landing System and Distance Measuring Equipment (ILS and DME) was concluded in June, with Northrop Grumman Park Air Systems AS from Norway. DME was delivered in the last quarter of 2010, whereas the delivery and commissioning of ILS is expected in 2011.
- The Contract for purchase and installation of equipment for distribution of OLDI messages was concluded in November, with SiATM from Sweden. The equipment was delivered at the end of 2010, and installation and commissioning is expected to take place in 2011.

OTHER SIGNIFICANT INVESTMENTS

There were some significant investments in the development of infrastructure and equipment in the last year.

- The new ATCC Beograd building was connected by an optical infrastructure with the locations set in the Contract on commercial and technical cooperation with Telekom Srbija a.d. from Serbia..
- The Contract for delivery and installation of 2 diesel electric generators for the new ATCC Beograd building was concluded in December, with MLS Exing and Montprojekt consortium from Belgrade.

Furthermore, it is worth noting that the reconstruction and upgrade of the existing facility of TCL Podgorica was finalized in December 2010. The following table shows the total realized investments in 2010, grouped according to certain categories.

Item	000 RSD
Project documentation	5,744
Purchase of land and facilities, construction and reconstruction of the facilities	157,177
Electroenergetics, air conditioning and fire protection	40,139
Automated ATC systems	298,246
Telecommunications	230,549
Meteorological equipment	9,362
Radar equipment	1,228
PC and protective equipment	31,306
Calibration equipment	150,795
Motor vehicles	18,484
Administrative equipment	7,246
Total in 2010	**950,276**
FAMUS project	**1,866,769**
Total with FAMUS project	**2,837,045**

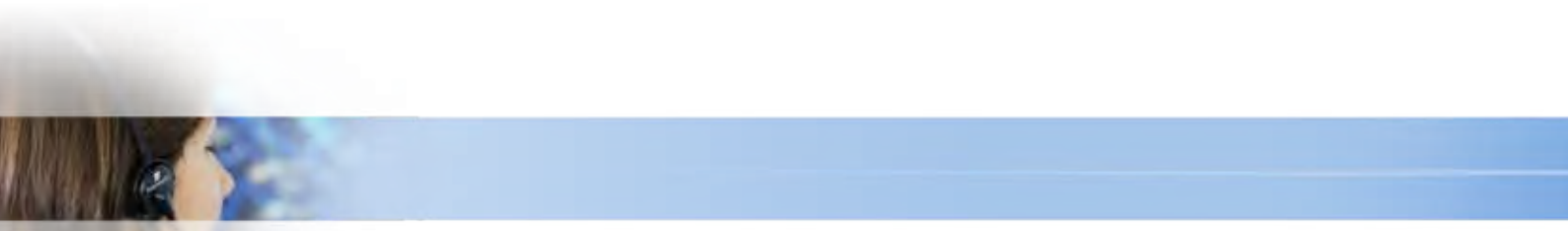
Table 4: Realised Investments in 2010, in 000 RSD

FINANCIAL STATEMENTS

INCOME STATEMENT

Item	2009	2010
Operating revenues	**5,557,256**	**7,072,781**
Revenues from ANS services	5,541,840	7,010,323
Other operating revenues	15,416	62,458
COGS	-	-
Material and energy expenses	161,634	94,192
Salary expenses	3,696,766	4,093,819
Other operating expenses	800,632	1,016,015
EBITDA	**898,224**	**1,868,755**
Depreciation and amortization	812,631	1,143,492
EBIT	**85,593**	**725,263**
Financial revenues	347,704	369,759
Financial expenses	292,656	473,703
Other and extraordinary revenues	148,678	572,084
Other and extraordinary expenses	216,602	502,511
EBT	**72,717**	**690,892**
Income tax	26,781	160,772
Net Income - EAT	**45,936**	**530,120**

Table 5: Income Statement, 2009-2010, in 000 RSD



BALANCE SHEET

Item	2009	2010
Assets		
Subscribed capital unpaid	-	-
Intangible assets (net value)	27,016	12,900
Tangible assets (net value)	8,826,512	13,598,221
		-
Equity investments	-	-
Other long-term financial investments	-	-
Long-term financial investments	-	-
Fixed assets	**8,853,528**	**13,611,121**
Inventories	77,538	93,805
Receivables	1,665,250	1,216,544
Excess profits tax receivables	3,241	-
Cash and cash equivalents	982,821	907,720
VAT and accrued items	252,865	371,543
Current assets	**2,981,715**	**2,589,612**
Deferred tax	-	-
Operating assets	**11,835,243**	**16,200,733**
Capital gains/losses	-	-
Total assets	**11,835,243**	**16,200,733**
Off-balance Sheet Assets	-	1,913,315

Table 6: Assets, 2009-2010, in 000 RSD

Item	2009	2010
Liabilities and Equity		
Initial capital	1,873,820	1,873,820
Subscribed capital unpaid	-	-
Statutory reserves	347,044	347,044
Revaluation reserves	3,582,286	3,819,765
Retained earnings	2,104,130	2,685,349
Less: Loss	-	-
Less: Repurchased shares	-	-
Equity	**7,907,280**	**8,725,978**
Long-term provisions	**652,476**	**611,576**
Long-term loans	2,132,350	3,710,426
Other long-term liabilities	-	-
Long-term liabilities	**2,132,350**	**3,710,426**
Short-term financial liabilities	181,995	492,176
Operating liabilities	383,704	1,964,223
Other short-term liabilities	460,982	439,260
VAT and other tax payables	4,462	10,162
Profit tax liabilities	28,270	54,484
Short-term liabilities	**1,059,413**	**2,960,305**
Deferred tax	83,724	192,448
Total Liabilities	**3,927,963**	**7,474,755**
Total Liabilities and Equity	**11,835,243**	**16,200,733**
Off-Balance sheet liabilities	-	1,913,315

Table 7: Liabilities and Equity, 2009-2010, in 000 RSD

CASH FLOW STATEMENT

Item
CASH FLOW FROM OPERATING ACTIVITIES
Cash inflow from operating activities
Cash receipts from sale and received advance payments
Interest received from operating activities
Other inflows from operations
Cash outflow from operating activities
Cash paid to suppliers and advance payments given
Salaries, salary compensations and other personal expenses
Interest paid
Income tax paid
Other taxes
Net cash inflow from operating activities
Net cash outflow from operating activities
CASH FLOW FROM INVESTING ACTIVITIES
Cash inflows from investment activities
Sale of equity and stakes (net inflows)
Proceeds from sale of intangible assets, buildings, facilities, equipment and biological assets
Other financial investments (net inflows)
Received interest from investment activities
Received dividends
Cash outflows from investment activities
Acquisition of shares and stakes (net outflows)
Purchase of intangible assets, buildings, facilities, equipment and biological assets
Other financial investments (net outflow)
Net cash inflow from investing activities
Net cash outflow from investing activities
CASH FLOW FROM FINANCING ACTIVITIES
Cash inflow from financing activities
Initial capital increase
Proceeds from long-term and short-term loans (net inflows)
Other long-term and short-term liabilities
Cash outflow from financing activities
Repurchased own shares and stakes
Payment of long-term and short-term loans and other liabilities (net outflows)
Payment of financial leasing
Dividends paid
Net cash inflow from financing activities
Net cash outflow from financing activities
TOTAL CASH INFLOW
TOTAL CASH OUTFLOW
NET CASH INFLOW
NET CASH OUTFLOW
CASH AT THE BEGINNING OF THE ACCOUNTING PERIOD
POSITIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH
NEGATIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH
CASH AT THE END OF THE PERIOD

2009	2010
5,821,653	**7,641,978**
5,391,157	6,645,503
7,794	3,807
422,702	992,668
5,146,156	**5,860,633**
1,390,883	1,634,813
3,720,665	4,164,989
303	8,611
34,305	52,220
-	-
675,497	**1,781,345**
438	**1,841**
438	1,841
2,617,696	**2,739,059**
2,617,696	2,739,059
2,617,258	**2,737,218**
1,771,407	**1,129,053**
1,771,407	1,129,053
39,021	**127,373**
39,021	127,373
1,732,386	**1,001,680**
7,593,498	**8,772,872**
7,802,873	**8,727,065**
	45,807
209,375	**-**
1,130,705	982,821
82,582	176,567
21,091	297,475
982,821	**907,720**

Table 8: Cash Flow Statement, 2009-2010, in 000 RSD

NOTES TO THE FINANCIAL STATEMENTS

The Basis of Preparation of the Financial Statements

The preparation of the SMATSA Ltd. financial statements for the accounting period ending on December 31st 2010, was carried out, in all material respects, in accordance with the Accounting and Auditing Law ("Official Gazette RS", No. 46/2006 and 111/2009) which implies applying International Accounting Standards (IAS) as well as International Financial Reporting Standards (IFRS), and in accordance with the regulations issued by the Ministry of Finance of the Republic of Serbia.

The financial statements are presented in Dinars (RSD), which is SMATSA Ltd.'s functional and presentation currency. Foreign currency transactions are recalculated into the functional currency using the exchange rates ruling at the dates of the transactions or accounting item entry validation. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the conversion of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognised in the income statement. Foreign exchange gains and losses that relate to liabilities and cash and cash equivalents are presented in the income statement within the financial revenues item or the financial expenses item.

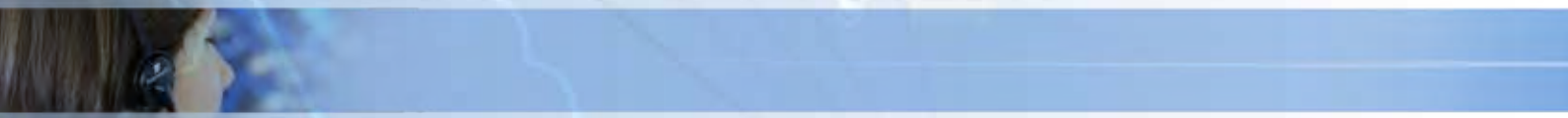
A Summary of Significant Accounting Policies

Intangible Assets

Intangible assets are non-monetary assets without physical substance, the future benefits of which are expected to flow to the entity (in the period longer than one year).

An intangible asset is recognised and is subject to amortisation if the asset meets the recognition criteria prescribed by the IAS 38 (Intangible Assets), has a useful life that exceeds the period of one year, and an individual purchase price, when acquired, is higher than the average gross income per employee in the Republic of Serbia, according to the latest data made available by the Statistics Office of the Republic of Serbia. An intangible asset is initially measured (recognised) at cost value or cost price. After the initial recognition, an intangible asset is measured at cost, less any accumulated depreciation.

Intangible assets subject to amortisation are amortised using the straight-line method over the course of five years, except for assets whose life is determined by a contract, in which case they are written off within terms specified in the contract. The amortisation of an intangible asset is calculated as of the beginning of the month following the month when an intangible asset was put into use. The basis of the amortisation calculation is the cost value less the residual value with written value for accumulated amortisation and total loss due to impairment. Intangible assets' additional charges, after their purchase or life-end, increase intangible asset's



value if the asset meets the recognition criteria for fixed assets, i.e.: has a useful life that exceeds the period of one year and if additional charges value is higher than the average gross income per employee in the Republic of Serbia, according to the latest data made available by the Statistical Office of the Republic of Serbia. Purchase price is adjusted according to additional charges increasing intangible assets value.

Base amortisation rates which apply to individual intangible assets are the following:

Title	Amortisation rates
Licenses and application software	20-33.33 %
Other intangible assets	20 %

Table 9: Base Amortisation Rates for Intangible Assets

Property, Plant and Equipment

A tangible asset is recognised as property, plant and equipment and is subject to depreciation if it meets the recognition criteria prescribed by the IAS 16 (Property, Plant and Equipment), has a useful life that exceeds the period of one year, and an individual purchase price when acquired is higher than the average gross income per employee in the Republic of Serbia, according to the latest data made available by the Statistics Office of the Republic of Serbia.

Property, plant and equipment are depreciated using the straight-line method, as of the date of the asset being made available for use.

Base amortisation rates which apply to individual property, plant and equipment are:

Title	Amortisation rates
Constructions	0.15 – 12.04%
Equipment	2.08 – 30.22%
Vehicles	6.82 – 16.67%
Computer equipment	4.26 – 24.65%
Furniture	2.22 – 24.37%
Other equipment	2.22 – 33.00%
Other entity equipment investments	20%

Table 10: Base Amortisation Rates for Property, Plant and Equipment

Investments in other entities` assets are depreciated based on their estimated useful lives. Property, Plant and Equipment are not accounted into the balance sheet after alienation or when the asset is withdrawn from usage permanently and when no further economic benefit is expected from its alienation.

Tools and Accessories

It is mandatory that the tools and accessories, which have useful lives shorter than one year, are accounted for as current assets (as inventories), regardless of their cost value. These assets are not depreciated, but their value is transferred to expenses when they are put to use.

Spare Parts

Spare parts are recognised as fixed assets if their useful lives exceed the period of one year, and their individual purchase price, when acquired, is higher than the average gross income per employee in the Republic of Serbia, according to the latest data made available by the Statistics Office of the Republic of Serbia. Such spare parts, upon being installed, increase the book value of the assets they have been installed in.

Inventories

Inventories are assets in the form of materials or supplies to be consumed in the production process, or in the course of rendering services. Inventories include raw materials and consumables, which shall be consumed in the production process, or in the course of rendering services. Materials purchased from suppliers are measured by the lower of the two – purchase cost value or selling value. The purchase cost value or cost price of inventories comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition.

Short-term Receivables and Investments

Short-term receivables comprise accounts receivable, domestic and foreign, for sale of merchandise and services rendered. Short-term investments comprise loans, securities and other short-term investments having date of maturity or sale of one year from the balance sheet date. Short-term accounts receivable are measured by original invoice value. If the invoice value is denominated in a foreign currency, the value is calculated into the presentation currency at the average exchange rate prevailing at the date of transaction. Changes in the exchange rate from the transaction date to the receivables collection date are presented as exchange rate gains and losses and credited to revenues, or charged against expenses.

Cash and Cash Equivalents

Cash and cash equivalents comprise a part of the current (operating) assets of a legal entity, which are measured by nominal, or fair value, in accordance with the IAS 39 (Financial Instruments: Recognition and Measurement) and other relevant standards, the IAS 32 (Financial Instruments Presentation) and the IAS 7 (Cash Flow Statements).

Cash and cash equivalents comprise of: cash on hand, demand deposits, other short-term highly liquid invest-

ments with an original maturity period of up to three months, or shorter (cheques and bills received for collection, current investments in securities) and bank overdrafts. In the balance sheet, bank overdrafts are included in borrowing liabilities, within current liabilities.

Initial Capital

Initial capital is the initial investment of SMATSA Ltd. founders. The founders of SMATSA Ltd. are the Republic of Serbia (92%) and the State of Montenegro (8%). First, initial capital is disclosed in the amount of initial investment in the SMATSA Ltd. (i.e.: it consists of paid-in capital and issued unpaid capital).
Initial capital changes are only executed according to the prescribed rules of Law on Business Associations, and all these initial capital changes are registered in relevant Register. Although initial capital value is disclosed in Register in Euros, initial capital value disclosed in dinars does not change according to Euros exchange rate changes.

Statutory Reserves

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

Revaluation Reserves

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

Retained Earnings

Retained earnings are recorded as the prior years' retained earnings and the current year's retained earnings.

Provisions

Long-term provisions comprise warranty provisions, provisions for retained caution money and deposits, provisions for restructuring of a company, provisions for employee benefits, the 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), as well as provisions for issued guarantees, and other forms of surety.

Liabilities

The term liabilities, refers to:

- Long-term liabilities (liabilities to associated entities, and entities with intercompany interests, long-term loans, liabilities for long-term securities, and other long-term liabilities),
- Short-term financial liabilities (liabilities to associated entities, and entities with intercompany interests, short-term loans, and other short-term financial liabilities). SMATSA Ltd. recorded a liability to the Civil Aviation Directorate of the Republic of Serbia under the provisions of the signed Protocol.
- Short-term operating liabilities (suppliers, and other operating liabilities). SMATSA Ltd. recorded all accounts payable to domestic and foreign suppliers.
- Other short-term liabilities (liabilities for salaries and salary benefits, liabilities to SMATSA Ltd. Managing Board and the Assembly, liabilities to physical persons in respect to contractual fees).
- Liabilities for VAT.

Short-term liabilities are liabilities that become due and payable within a year following the financial statements' preparation date.

A liability is any obligation which is a contractual obligation:

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

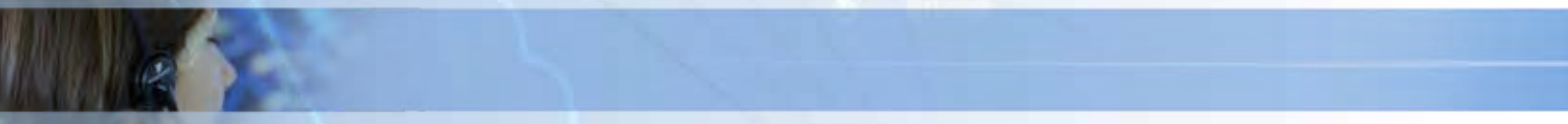
Current and Deferred Income Tax

Taxes for the period comprise current and deferred tax. Tax is recognised in the income statement, except for the value that relates to the items which are directly recognised in the equity. In that case, tax is recognised in the equity as well.

Deferred tax is calculated in full amount using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if deferred income tax, provided it has not been accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination, that, at the time of the transaction, affects neither the accounting nor the taxable profit or loss, then the deferred tax is not accounted for. Deferred tax is measured using tax rates (and the Law) applicable until the balance sheet date, and that are expected to apply in the period when the deferred tax assets are realised, or deferred tax liabilities settled.

Revenues and Expenses

Revenues comprise revenues from the ordinary course of SMATSA Ltd.`s activities, and gains. Revenues from the ordinary course of activities are revenues gained from rendering services in air traffic, revenues from subsidies, grants, compensations and recovery of duties based on the sale of services, and other revenues calculated in the accounting document, irrespective of their payment time.



Gains represent other items qualifying as revenues, and may arise, though not necessarily, from the ordinary course of SMATSA Ltd.`s activities. Gains represent an increase in economic benefit, and as such are not different in nature from revenues. Gains include gains on disposal of long-term assets, unrealised gains; e.g.: those resulting from an increase in book value of long-term assets. Gains are recognised on a net basis, after being reduced for respective expenses.

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

Losses represent other items qualifying as expenses, and may arise, though not necessarily, from the ordinary course of SMATSA Ltd.`s activities. Losses represent reduction in economic benefits, and as such are not different in nature from other expenses. Losses comprise, for example, losses resulting from catastrophes, such as fire and flood, and those resulting from disposal of long-term assets. Furthermore, expenses comprise unrealised losses, for example, those originating from the effects of an increase of a foreign currency exchange rate in respect to the debiting in the respective currency.

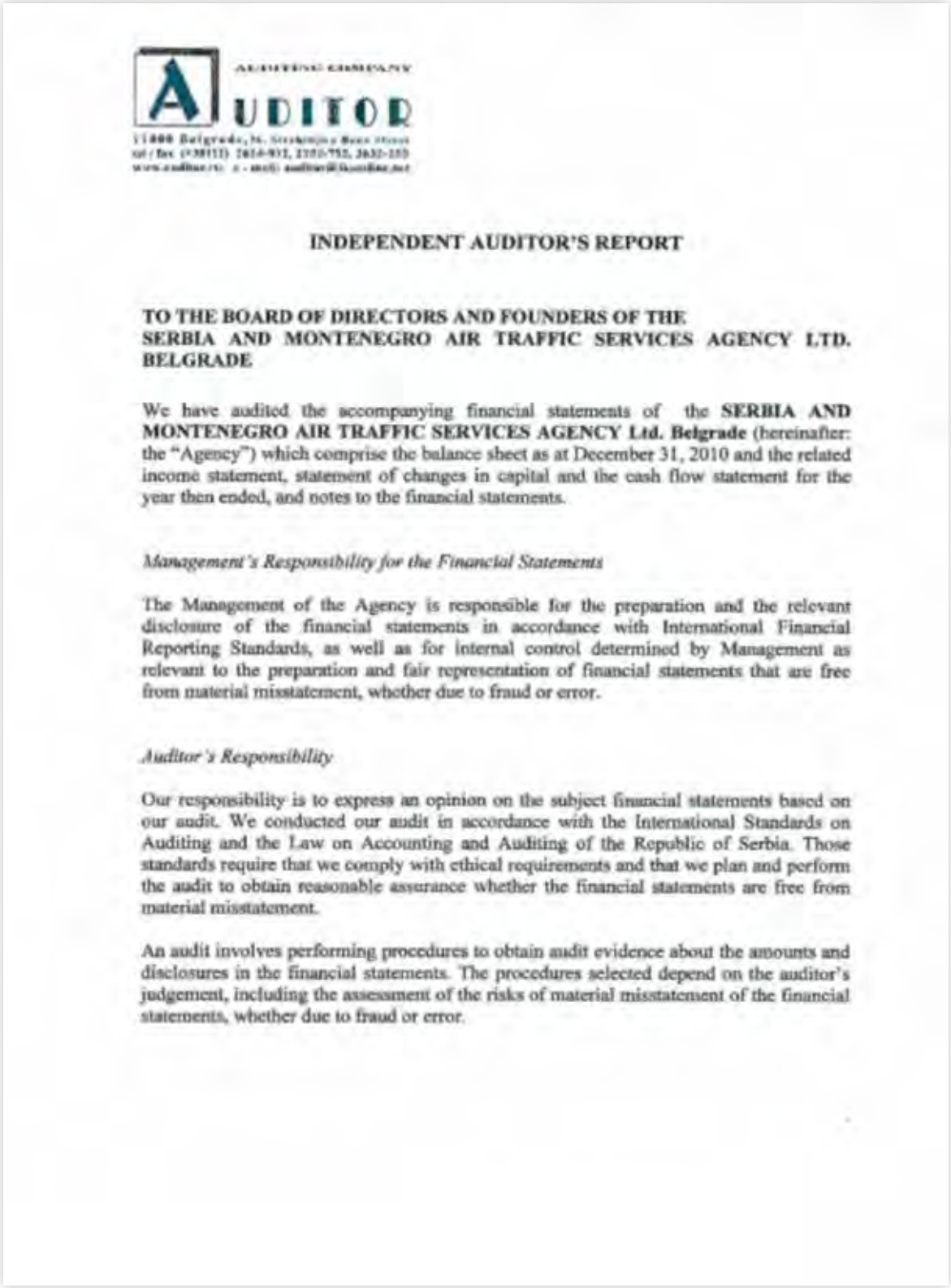
Interest and Other Borrowing Costs

Interest and other borrowing costs of SMATSA Ltd. are accounted for per the basic procedure in accordance with the IAS 23 (Borrowing Costs).

Subsequent Errors

Subsequent material errors are corrected through the account of retained earnings from prior years and retained losses from prior years, in the manner established by the IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). A material error is an error which individually, or cumulatively with other errors, exceeds 3% of total revenues. Subsequent errors that are not material are restated for correction against expenses, or in favour of revenues in the period when identified.

INDEPENDENT AUDITOR`S REPORT



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INDEPENDENT AUDITOR'S REPORT

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 at December 31, 2010 and the related income statement, statement of changes in capital and the cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Management of the Agency is responsible for the preparation and the relevant disclosure of the financial statements in accordance with International Financial Reporting Standards, as well as for internal control determined by Management as relevant to the preparation and fair representation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the subject financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing and the Law on Accounting and Auditing of the Republic of Serbia. Those standards require that we comply with ethical requirements and that we 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

TO THE BOARD OF DIRECTORS AND FOUNDERS OF THE SERBIA AND MONTENEGRO AIR TRAFFIC SERVICES AGENCY LTD. BELGRADE

Auditor's Responsibility (Continued)

Making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present truly and objectively, for all materially significant respects, the financial position of the Agency on December 31, 2010, and its results of operations, changes in capital and cash flow for the year then ended in accordance with the accounting regulations of the Republic of Serbia.

Belgrade, April 19, 2011

Certified Auditor

Vejko Topalović

ABBREVIATIONS

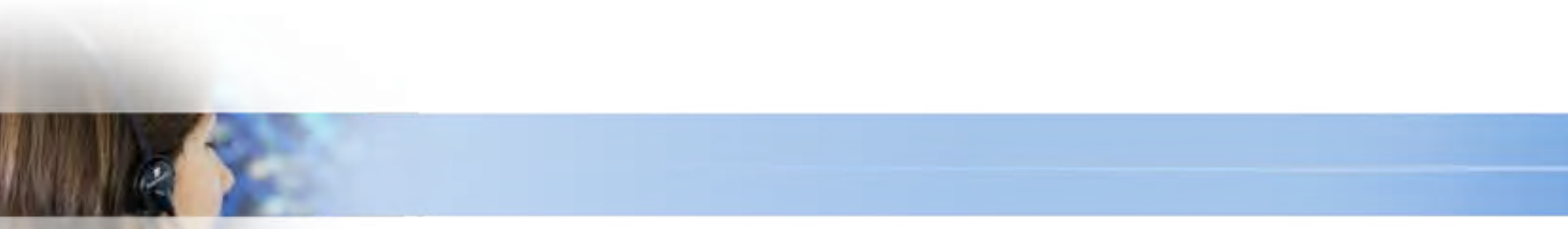
Acronyms and Abbreviations

Ab Initio Candidate	Candidate attending the ATCO basic training for the first time
ACC	Area Control Centre
ACS	Area Control Surveillance
ADR	All-Purpose Data Stream Replicator
ADS-B	Automatic Dependent Surveillance-Broadcast
AFTN	Aeronautical Fixed Telecommunication Network
AIP	Aeronautical Information Publication
AIS	Aeronautical Information Services
AMHS	Aeronautical Message Handling System
ANS	Air Navigation Services
ANSP	Air Navigation Service Provider
ARTAS	ATM suRveillance Tracker And Server
ASM	Airspace Management
ATC	Air Traffic Control
ATCO	Air Traffic Officer
ATFM	Air Traffic Flow Management
ATM	Air Traffic Management
ATS	Air Traffic Services
AWS	Automatic Weather System
CANSO	Civil Air Navigation Services Organization
CEO	Chief Executive Officer
CFMU	Central Flow Management Unit
CNS	Communication, Navigation and Surveillance
ConOps	Concept of Operations
CRCO	Central Route Charges Office
DME	Distance Measuring Equipment
DPS	Data Processing System
DVRPS	Digital Voice Recording and Playback System
EAD	European AIS Database
EANPG	European Air Navigation Planning Group
EBRD	European Bank for Reconstruction and Development

ECAC	European Civil Aviation Conference
EIB	European Investment Bank
Eurocontrol	European Agency for the Safety of Air Navigation
FAA	Federal Aviation Administration
FAB	Functional Airspace Block
FAMUS	Future ATM Modernisation and Upgrade System
FASTI	First ATC Support Tools Implementation
FAT	Factory Acceptance Test
FIR	Flight Information Region
HUM	Human Resources
IACA	International Air Carrier Association
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IFR	Instrumental Flight Rules
ILS	Instrument Landing System
ISO	International Organization for Standardization
SC Ltd	Slovenia Control, Limited
LCIP	Local Convergence and Implementation Plan
LOC	Localizer
LSSIP	Local Single Sky Implementation Plan
Ltd	Limited Liability Company
MET	Meteorology or Meteorological
NATA	National Air Traffic Agency Albania
NAV	Navigation
NDB	Non Directional Radio Beacon
OCD	Operational Concept Document
OLDI	On-Line Data Interchange
OMSN	Optical Multi-Service Node
PANS OPS	Procedures for Air Navigation Services
RS	Radar System
PSR	Primary Surveillance Radar

QMWG	Quality Management Workgroup
RMCDE	Radar Message Conversion & Distribution Equipment
RNDSG	Route Network Development Sub-Group
RRR	Radar Data Recording & Replay System
SAT	Site Acceptance Test
SES	Single European Sky
SESAR	Single European Sky ATM Research
SGS	Société Générale de Surveillance
SID	Standard Instrument Departure
SSR	Secondary Surveillance Radar
STAR	Standard Terminal Arrival Route
TRS	Time Reference Signal
TSA	Temporary Segregated Area
UHF	Ultra High Frequency
USOAP	Universal Safety Oversight Audit Programme
UTP	Unit Training Plan
VCS	Voice Communication System
VFR	Visual Flight Rules
VHF	Very High Frequency
VOIP	Voice over Internet Protocol
VOR	VHF Omnidirectional Radio Range
ACL	Aerodrome Control
Ltd	Limited Liability Company
CAD	Civil Aviation Directorate of the Republic of Serbia
Ground NAV-Aids	Ground Navigational Aids
KiM	Kosovo and Methohia
ТКЛ	TCL
ACC	Area Control Centre

Table 11: Acronyms and Abbreviations



LIST OF FIGURES

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