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ANNUAL REPORT 2013

SERBIA AND MONTENEGRO AIR TRAFFIC SERVICES SMATSA llc, BELGRADE

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Company Name:
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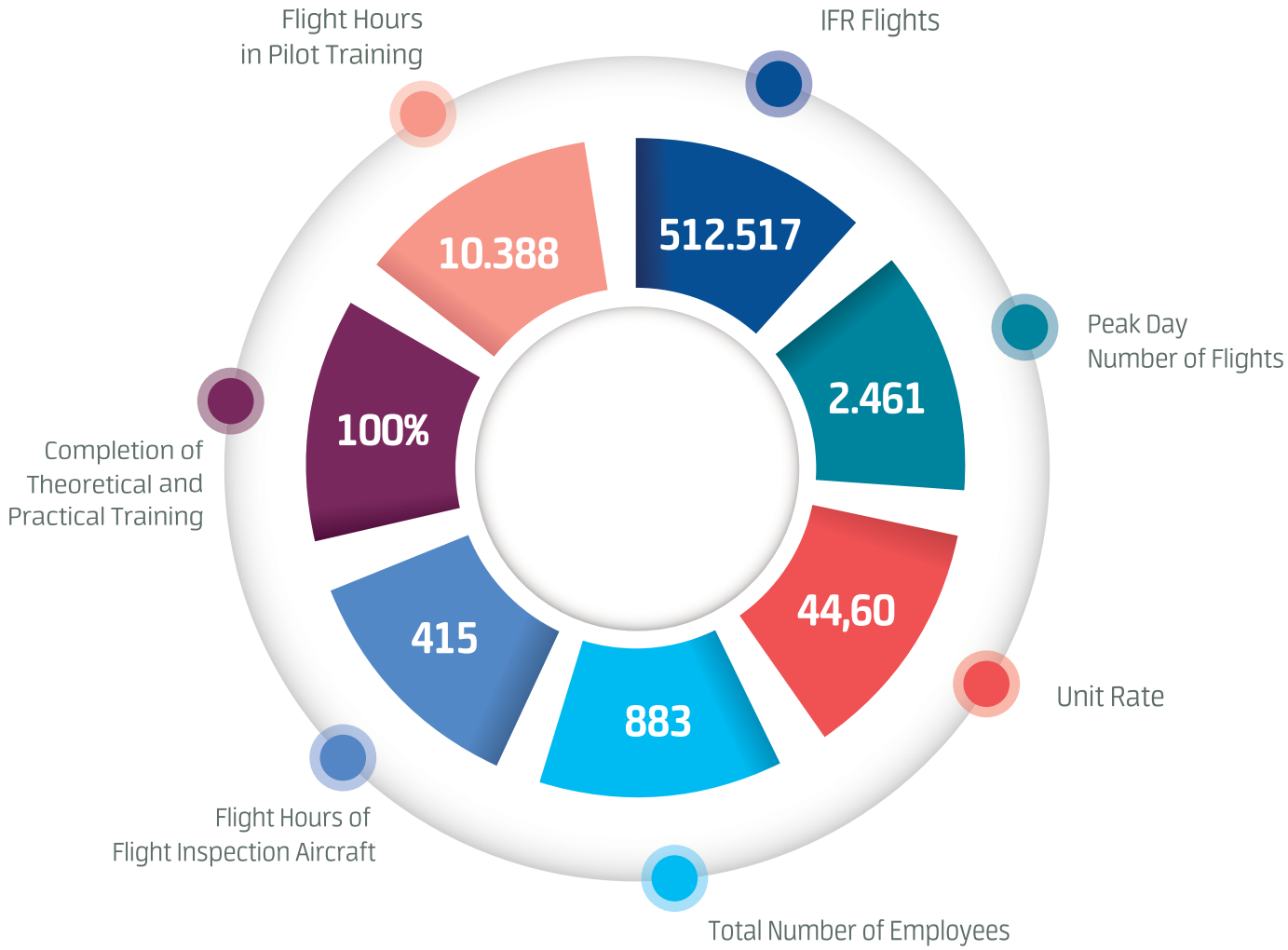
Figure 1. SMATSA llc in numbers in 2013



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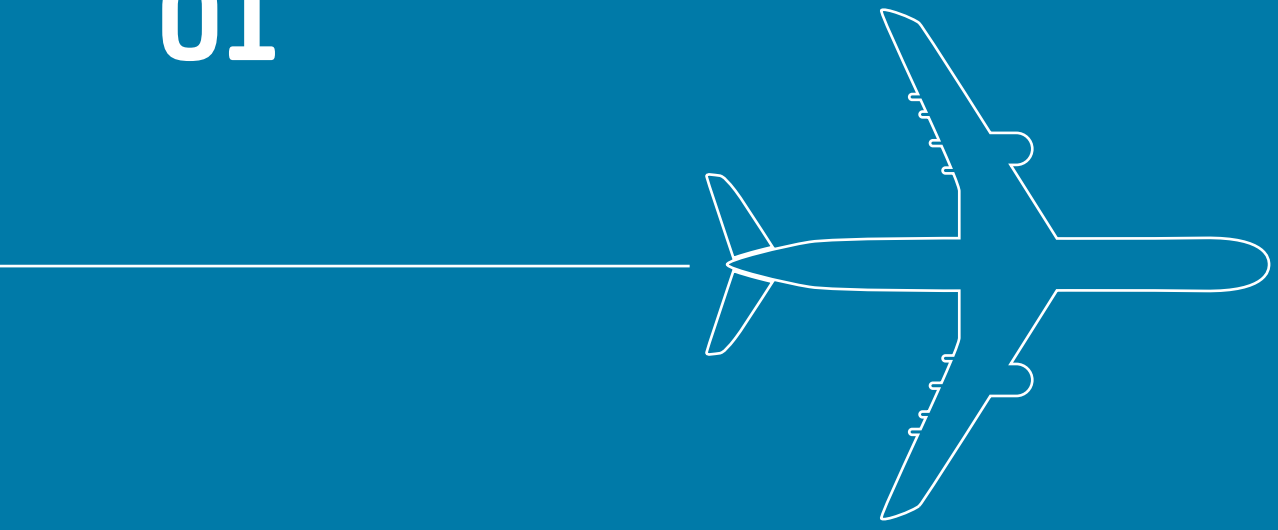

ABOUT SMATSA

Serbia and Montenegro Air Traffic Services SMATSA llc (SMATSA llc) was established in order to provide air traffic services within the area of its jurisdiction, and to perform other air navigation activities.
The founders of SMATSA llc are the Governments of the Republic of Serbia and of the State of Montenegro. Upon signing the Agreement on Cooperation in the Air Traffic Domain concluded between the Republic of Serbia and the State of Montenegro in 2012, the Governments of the Republic of Serbia and of the State of Montenegro concluded the Contract on Confirmation of the Continuity of Air Navigation Services Provision within the airspace of Serbia and Montenegro. The Contract confirms the continuity of mutual air traffic control services provider - SMATSA llc, in order to provide air traffic services and other air navigation services in the airspace of the Republic of Serbia and the State of Montenegro.

A primary business activity of SMATSA llc certified by the Civil Aviation Directorate of the Republic of Serbia is Air Navigation Services (ANS) provision, while additional services include ANS personnel training, flight calibration of ground-based radio navigation aids from the air, as well as aircraft maintenance and hangar services.
SMATSA llc managing bodies are the following:

The Assembly,
The Supervisory Board and
The CEO.

SMATSA llcincludes the following regional organisational units :

Air Traffic Control Centre «Belgrade»
Terminal Control Centre «Belgrade»
Terminal Control Centre «Kraljevo» and
Terminal Control Centre «Podgorica».

The jurisdiction of Terminal Control Centre "Belgrade" and Terminal Control Centre "Kraljevo" is over the territory of the Republic of Serbia.
Terminal Control Centre "Belgrade" comprises Airport Control units "Belgrade", "Batajnica" and "Vršac," while the Terminal Control Centre "Kraljevo" comprises Airport Control units "Kraljevo", "Niš", "Ponikve" and "Priština".

The Terminal Control "Podgorica", registered in accordance with the regulations of the founders and in charge over the territory of the State of Montenegro is composed of Airport Control units "Podgorica" and "Tivat".
SMATSA llc operates fully in accordance with the national and international regulations and international agreements and participates in the work of the most important international aviation organizations.
The mission of SMATSA llc is the provision of high quality air navigation services (the services in ATM, CNS, MET and AIS domains) to civil and military aircraft, in order to maintain and enhance safe, regular, and expeditious air traffic within the airspace of the FIR/UIR Belgrade and in the airspace of other countries, in compliance with the bilateral state agreements. Its mission also includes the provision of ANSP personnel training, pilot training, flight calibration services of ground-based navigation aids and systems and aircraft maintenance services.

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SERBIA AND MONTENEGRO AIR TRAFFIC SERVICES SMATSA LLC (SMATSA LLC) WAS ESTABLISHED IN ORDER TO PROVIDE AIR TRAFFIC SERVICES WITHIN THE AREA OF ITS JURISDICTION, AND TO PERFORM OTHER AIR NAVIGATION ACTIVITIES.

1.1 AIR NAVIGATION SERVICES (ANS)

A primary business activity of SMATSA llc is the provision of air navigation services (ANS) comprising the following:

Air Traffic Management – ATM,

Communication, Navigation and Surveillance – CNS,

Aeronautical Information Services – AIS and

Aeronautical Meteorological Services – MET

Serbia, Montenegro and Bosnia and Herzegovina entrusted SMATSA llc with the provision of aeronautical services. The SMATSA llc area of jurisdiction covers the airspace over:

The Republic of Serbia,

The State of Montenegro,

A part of international airspace over the Adriatic Sea, and

A part of Bosnia and Herzegovina.

In 2013, SMATSA llc continued to provide air navigation services in its area of jurisdiction, in a safe, regular and efficient manner.

Figure 2. Territory under SMATSA llc's Jurisdiction

Figure 3. Air Traffic Control Centre Belgrade

1.2 ADDITIONAL SERVICES

In addition to provision of ANS, SMATSA llc provides the following services:

ANS Personnel and Pilot Training, Flight Calibration of Ground-Based Radio Navigation Aids and Aircraft Maintenance.

1.2.1 ANS Personnel and Pilot Training

A long-lasting tradition of more than 40 years and an impressive reputation that the Training Centre has widely achieved are the result of high-quality training standards. The training for acquiring air traffic controller licences is conducted according to syllabi and curricula complying with ESARR 5 requirements and other relevant documents. More than 1,900 ATCOs have been trained in the Training Centre with the success rate above 90%. Besides ATCO training, the trainings of CNS and MET personnel are also conducted in the Training Centre.

Pilot training is conducted in SMATSA Aviation Academy which is certified in accordance with the Joint Aviation Authorities standards. Upon completion of the training, candidates can obtain a Commercial Pilot Licence (CPL) and a Private Pilot Licence (PPL) with various levels of authorisation. So far, more than 2,000 pilots who finished their training in the Academy have been employed by more than 30 international airlines.

1.2.2 Flight Calibration of Ground-Based Radio Navigation Aids

SMATSA llc owns technical facilities, equipment and resources required for provision of Flight Calibration services of ground-based radio navigation aids, as well as for flight procedures check-ups, for both SMATSA llc's internal and the external users' needs.
The Hawker Beechcraft King Air 350 aircraft equipped with the latest generation Flight Calibration system, AD-AFIS-260, ensures a highly competitive position in the market.
The checks and the Flight Calibration of the aids are performed in accordance with the requirements and recommendations defined by the ICAO documents Annex 10 and Annex 14, as well as Doc 8071.

1.2.3 Aircraft Maintenance

Aircraft maintenance and hangar services are provided within SMATSA Aviation Academy. The high quality aircraft maintenance services are guaranteed by the Certificate of Compliance with the European Union Standards - EASA Part 145, the document allowing the provision of services to clients all over Europe.
The maintenance of SMATSA Aviation Academy's aircraft is carried out by a team of experienced experts who are certified by the Civil Aviation Directorate of the Republic of Serbia and licensed by the aircraft manufacturers. Apart from the maintenance of SMATSA Aviation Academy fleet, the maintenance team can provide services to other aircraft in private possession.

Figure 4. Aircraft for Ground-Based Radio Navigation Aids Flight Calibration – Hawker Beechcraft King Air 350

IMPORTANT EVENTS IN 2013

02

August 2013 – ETIHAD REPRESENTATIVES VISITED SMATSA AVIATION ACADEMY

Etihad Airways Representatives visited SMATSA Aviation Academy (SAA) in Vršac to become acquainted with the Academy's capacities for pilot training. Potential opportunities for cadet pilot training were discussed with the SAA representatives. Earlier, Etihad representatives had visited the Air Traffic Control Center in Belgrade, where they had an opportunity to learn everything about the services provided by SMATSA llc.

August 2013 – ALGERIAN PILOTS FINISHED THEIR TRAINING IN SAA

45 Algerian pilots obtained their licences in SMATSA Aviation Academy (SAA). They had been sent to SAA by the Algerian government to be trained for pilot jobs in state airlines and for the needs of agricultural aviation. The certificates were awarded by the Algerian Ambassador, Mr. Abdelkader Mesdua, and by the Acting Director of SMATSA llc, Mr. Slobodan Cvijan.

Figure 5. Algerians in SMATSA Aviation Academy

September 2013 – RECORD NUMBER OF STUDENTS ENROLLED IN SAA

SMATSA Aviation Academy in Vrsac held entry tests for the admission of a new generation of self-financing students. 28 prospective students passed the entry tests. 27 were enrolled in a course for air transport pilot licence ATPL (A) and one in a private pilot (PPL) course. New SAA students come from France, Moldova, Slovenia, Bosnia and Herzegovina, Montenegro, Jordan, the United States, Great Britain and Serbia.

Figure 6. The New Generation of Student Pilots in SMATSA Aviation Academy

September 2013 - SAA TOOK PART AT NOVI SAD 2013 AIR SHOW

SMATSA Aviation Academy (SAA) aircraft took part in Novi Sad 2013 Air Show in a non-competition part of the program. The team overflew the Danube, in the part between Varadin and Sloboda bridges..

Figure 7.SMATSA Aviation Academy Aircraft at Novi Sad 2013 Air Show

October 2013 - OPENING OF AIRPORTPONIKVE NEAR UŽICE

After more than 14 years of being out of service, Ponikve Airport near Užice was opened for flight operations in civil air transport. The "Flight Day" event was organised to honour he occasion with about 25 aircraft participating. At the opening ceremony of Ponikve Airport, Mr Slobodan Cvijan, the Acting Director of Serbia and Montenegro Air Traffic Services SMATSA llc, addressed the audience.

Figure 8. Opening of Ponikve Airport near Uzice

October 2013 – CERTIFICATES AWARDED TO BIH ATCOs

Mr. Slobodan Cvijan, the Acting Director of SMATSA llc, and Mr. Damir Hadžić, Minister of Communication and Transport of Bosnia and Herzegovina, awarded certificates and licences with radar endorsements to 18 en-route air traffic control officers in Sarajevo who had been trained in the ATCO Training Centre in Belgrade as a part of the BIH Air Traffic Management Project.

Figure 9. Ceremony of Certificates Awarding to BIH ATCOs

November 2013 - BIH DELEGATION AND THE MINISTER OF TRANSPORT'S VISIT TO SMATSA llc

Mr Damir Hadžić, Minister of Communication and Transport of Bosnia and Herzegovina, was the head of the delegation who visited SMATSA llc and announced the continuation of their staff training in Serbia for the purpose of assuming the independent air traffic control over Bosnia and Herzegovina's airspace next year. Expressing their satisfaction with the mutual cooperation so far, he also stressed their opinion that SMATSA llc is the most modern ANSP in the region. The Minister of Transport of the Republic of Serbia, Mr Aleksandar Antic, expressed his agreement on the subject.

Figure 10. BIH Delegation Visit to ATCC Belgrade

November 2013 – INITIATIVE ON FUTURE FUNCTIONAL AIRSPACE BLOCK (FAB) FORMATION

The representatives of Serbia and Montenegro Aviation Authorities and SMATSA llc signed the Memorandum of Understanding which refers to the initiative on forming of future (Functional Airspace Block-FAB). The Memorandum of Understanding was signed by the directors of Civil Aviation Directorate of the Republic of Serbia, Montenegro Civil Aviation Agency and Serbia and Montenegro Air Traffic Services SMATSA llc respectively, Mr. Milan Živanović, Mr. Dragan Đurović and Mr. Slobodan Cvijan.

Figure 11. Signing of the Memorandum of Understanding for Future FAB Formation

December 2013 – PROCUREMENT OF THE SECOND AIRCRAFT FOR FLIGHT CALIBRATION OF GROUND-BASED RADIO NAVIGATION AIDS

The aircraft with incorporated Flight Calibration system which is compatible with the existing one was delivered to SMATSA llc at Aerodata Company from Braunschweig in Germany for the purpose of full substitutability in case of malfunction or engagement in other assignments.

Figure 12. New Beechcraft King Air 350 Aircraft for Ground Based Radio Navigation Aids Flight Calibration

AIR TRAFFIC MANAGEMENT

03

In accordance with the tendency of air traffic increase, user's expectations, Single European Sky (SES) requirements and ICAO international standards, SMATSA llc has been working on flexibility improvement and cost reduction, keeping at the same time the required safety level through its full engagement which includes the ATM development activities.
The ATM development activities comprise:

- **Airspace management including preparation of navigational procedures (PANS-OPS),**
- **Operational technology of ATC operational units – preparation of operational concepts, operational procedures and instructions, and**
- **Air traffic flow and air traffic capacity management based on planning and strategic perspective.**

The development of ATM system components includes organizational - technological and infrastructural improvements with the full exploitation of new technologies and solutions developed in 2013.
Complying with international standards and the provisions of laws of the Republic of Serbia and the State of Montenegro, SMATSA llc made preparations and began drafting the Guidelines for procedures planning in the event of unforeseen circumstances pertaining to air navigation services provision and maintenance of the service continuity in case of catastrophic scenarios. In relation to this, a strategic approach to policy-making, to operational concepts and contingency plans, as well as to the implementation of crisis management were defined.
In 2013, route network improvement within the airspace under SMATSA llc's jurisdiction meant L/UL5 airway dualization and modifications made to provide for shorter route options pertaining to traffic flows from Montenegro to the Russian Federation and vice versa. A meeting with the representatives of ROMATSA was held at the beginning of 2013 to discuss that issue.
. As a part of the fourth phase of the Free Route concept in the area of SMATSA llc's jurisdiction, 19 night crossborder DCT options were introduced in cooperation with BHANSA.
In order to make preparations for the opening of the airspace over Kosovo and Metohija for civil air transport and the necessary changes within the airspace, a series of meetings with NATO, Eurocontrol and HungaroControl were held in 2013. In relation to that, computer and real-time simulations were performed, continuous consultations with operational units were conducted, along with LOA preparation and modification, and the instructions on the coordination of the entities within SMATSA llc, etc.
Upon completion of the FAMUS project modernization and the expiration of the warranty period, there was a need for the conclusion of a new contract for the maintenance of ARTAS, RMCDE, ADR, RRR, AFTN/AMHS systems, as well as for the system improvement with the new standard of MET messages – GRIB2 To that purpose, the documentation was prepared and the procurement procedure for signing of the Maintenance Support Agreement was conducted in 2013.
For the purpose of slots monitoring improvement at ADC Tivat, a computer directly connected to Eurocontrol systems in Brussels was installed in the period from April to June 2013. The system gets the information about the allocated slots. .
In order to expand the capacity of VCS simulator and to purchase a 2D/3D simulator, the project terms of reference and the investment program, as well as the operational requirements of the procurement procedure, were prepared in 2013.
A transition plan, airspace charts, activities plan and human and material resources plan completion marked the beginning of the process of establishing the provision of services in the airspace of Bosnia and Herzegovina by BHANSA in 2013, which, in the first phase, involves the provision of services up to FL325.
In order to monitor the business performance in the field of air traffic management, the ATM indicators were defined and their planned and actual values are presented in the table below:

Table 1. ATM Indicators

Indicator	Planned	Actual
ATFM Delays in 2013	**0.3 minutes per flight**	**0.01776 minutes per flight**
Realization of Air Traffic Flow Measures	**over 83% of flights taking-off within the given slot**	**Niš 100% Podgorica 96.8% Tivat 92.8% Belgrade 86.4%**

In accordance with the Activities plan, the following activities were performed in the field of Air Traffic Management:

- The project of the lower airspace re-organization.

The prerequisite for the project realization is the commencement of the enforcement of the Regulation on the Classes of Airspace of the Republic of Serbia and the Conditions for their Use, which is planned for March 2014. During 2013, the activities included defining and amendments to the proposal of the Regulation prepared by CAD, as well as participation in meetings and seminars related to this topic.

- Implementation of Continuous Descent Concept (20%)

In 2013, activities on the preparation of the test STAR PBN navigation procedures for airport Niš were undertaken. The procedures will contain the recommended heights for the three-phase Continuous Descent Approach (CDA) and will be published in April 2014.

- Application of P-RNAV (RNAV 1 and Basic RNP 1) procedure (60%)

Following the introduction of the Performance-Based Navigation Plan (PBN Plan) which was adopted in December 2013, the trial PBN SID and STAR navigation procedures for airports Belgrade and Niš will be published in April 2014.

- Forwarding of correlated radar data (CPR) to the central Eurocontrol computer for air traffic flow management (100%).

In late April 2013, the transmission of radar data to the ATM central unit was performed thus enabling the adjacent ANSPs to get better air traffic predictions at the tactical level.

3.1 CIVIL-MILITARY COORDINATION

Civil-military cooperation is based on a flexible use of airspace, a clear division of responsibility and coordination. Operations in connection with control, protection and allocation of airspace - the civil-military coordination at the pre-tactical and tactical levels are performed. Provision of services for military aircraft flying as OAT is performed on the sectors intended for military aircraft use.

In 2013, the Department for control, protection and allocation of airspace within SMATSA llc worked on the project which included the purchase of CIMACT system (Civil/Military ATM/Air Defence Coordination Tool), including the installation of hardware and software within SMATSA llc, the Command and the Air Defence of Serbian Armed Forces and the Air Force Base of the Army of Montenegro.

Cooperation between SMATSA llc and the Ministry of Defence of Montenegro resulted in the signing of the agreement on business-technical cooperation between the two entities. The agreement regulates the obligations in the field of FUA Concept, as well as in the control and protection of airspace, cooperation in the development of regulations regarding the provision of services and airspace management and all other activities of mutual interest.

In 2013, at the requests of the Air Force Command and the Air Defence pertaining to the introduction of new air defence areas for military flying in the Republic of Serbia, consultations were held and technical support rendered in relation with proposals for the air defence areas and preparation of relevant maps and publications.

3.2 TRAFFIC FIGURES

Figure 13. Number of Flights in the Period from 2006 to 2013

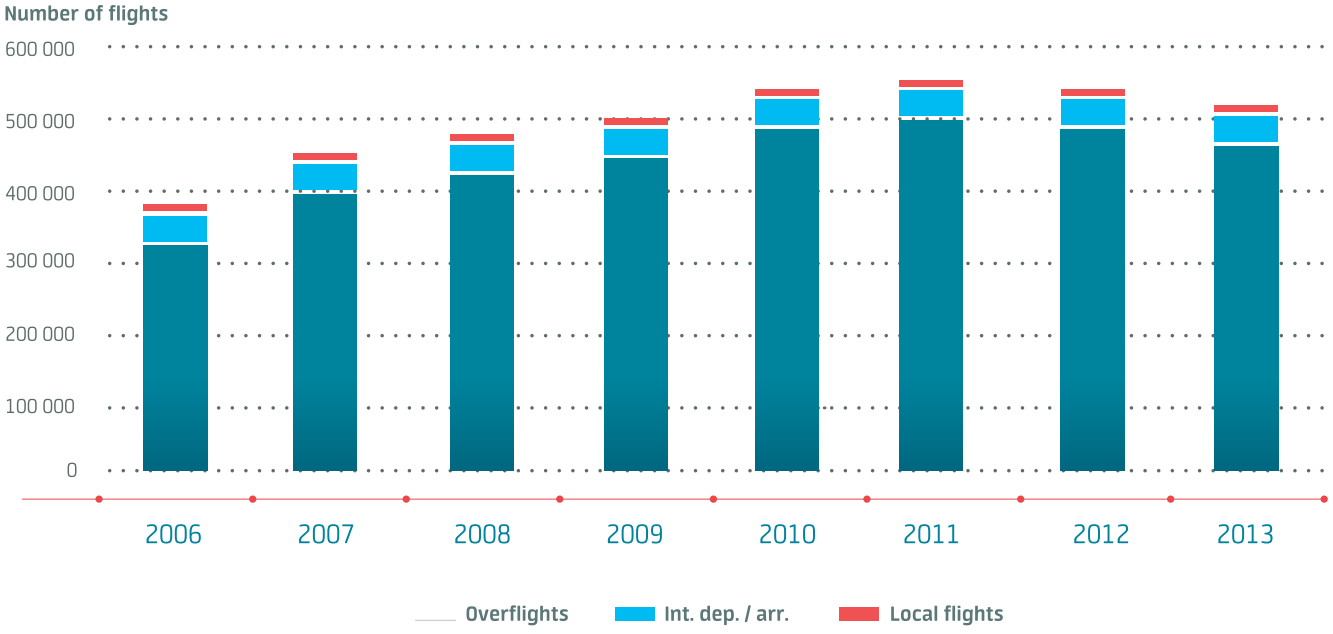


Figure 14. Distribution of Flights in 2013

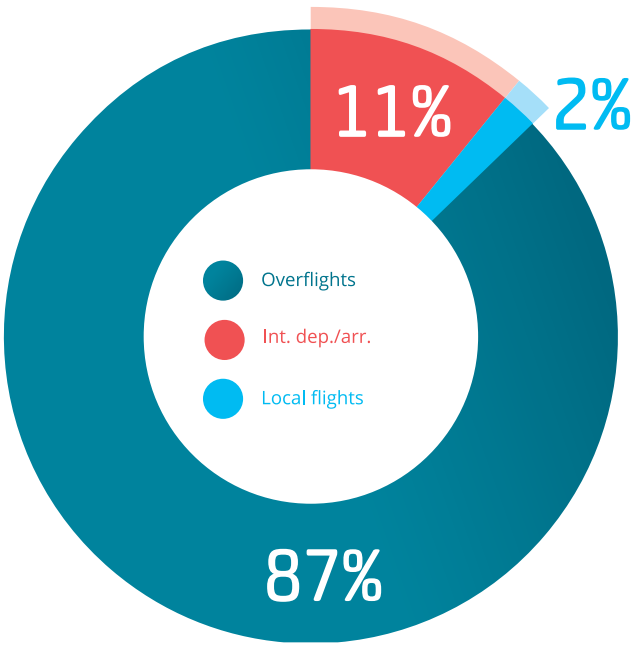


Figure 15. Peak Day and Peak Hour in the Period from 2006 to 2013

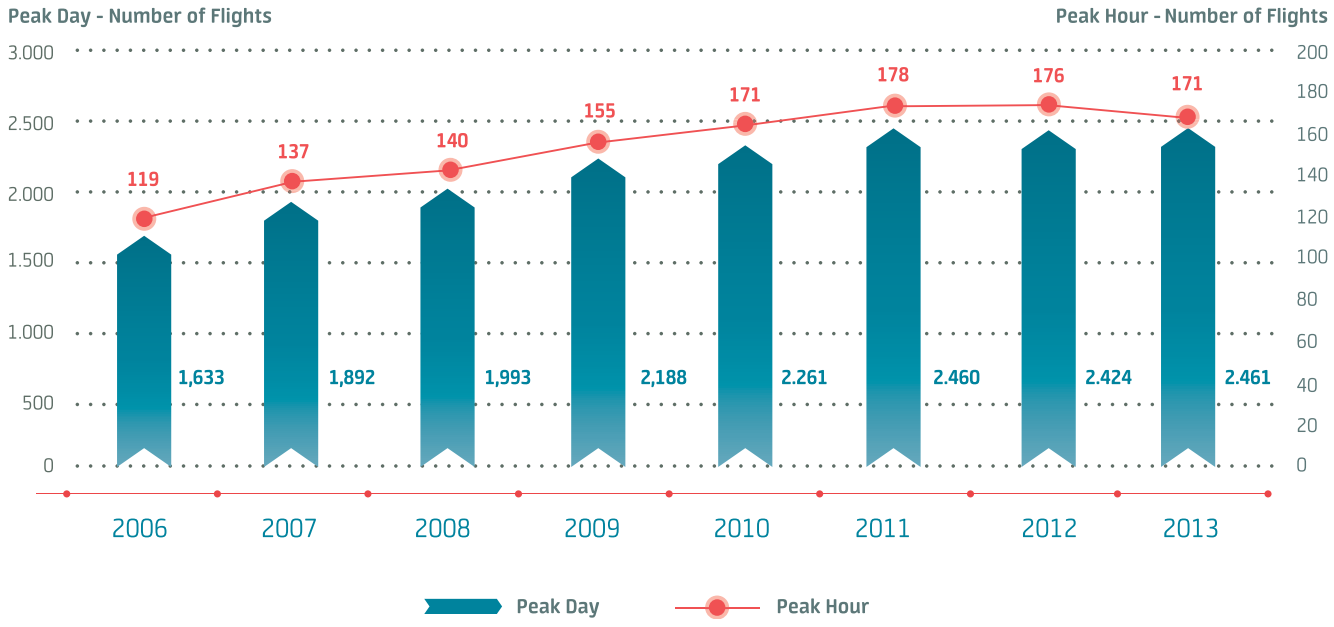


Figure 16. Participation of Different Aircraft Types in 2013

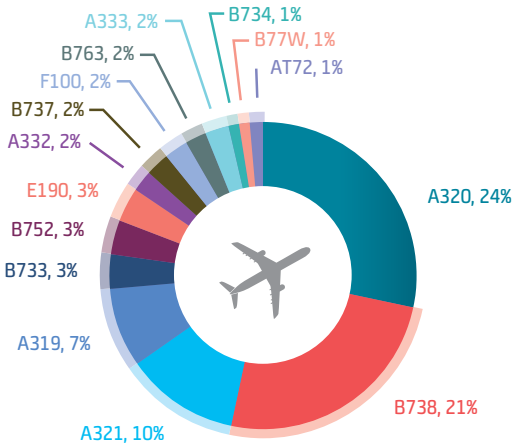


Figure 17. An Average ATFM Delay per Flight in the Area of SMATSA llc's Jurisdiction from 2007 to 2013

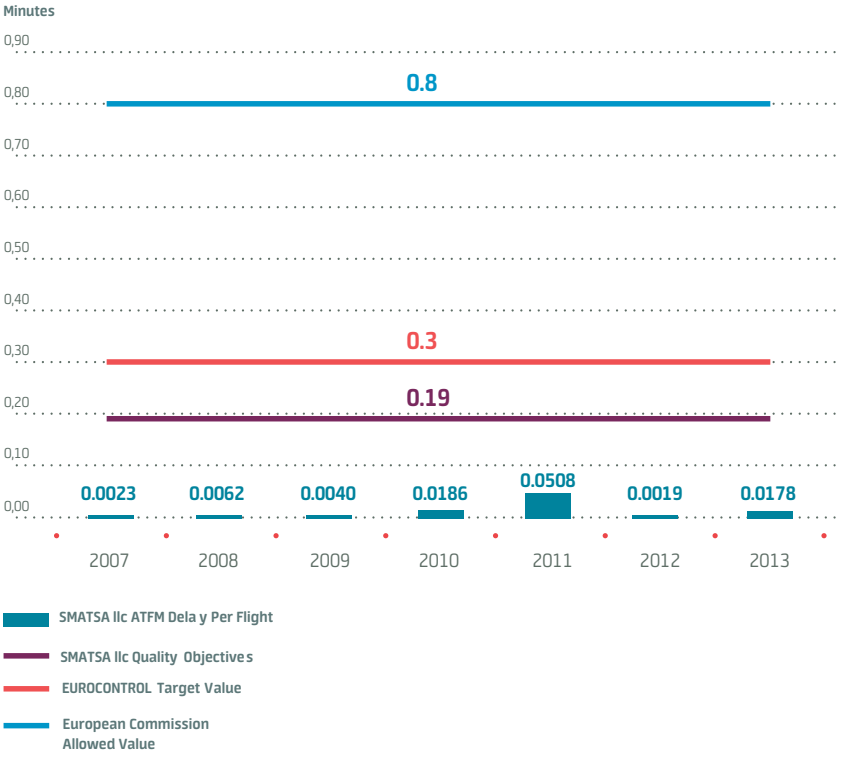


Figure 18. Number of Take-offs and Landings per Airports from 2006 to 2013

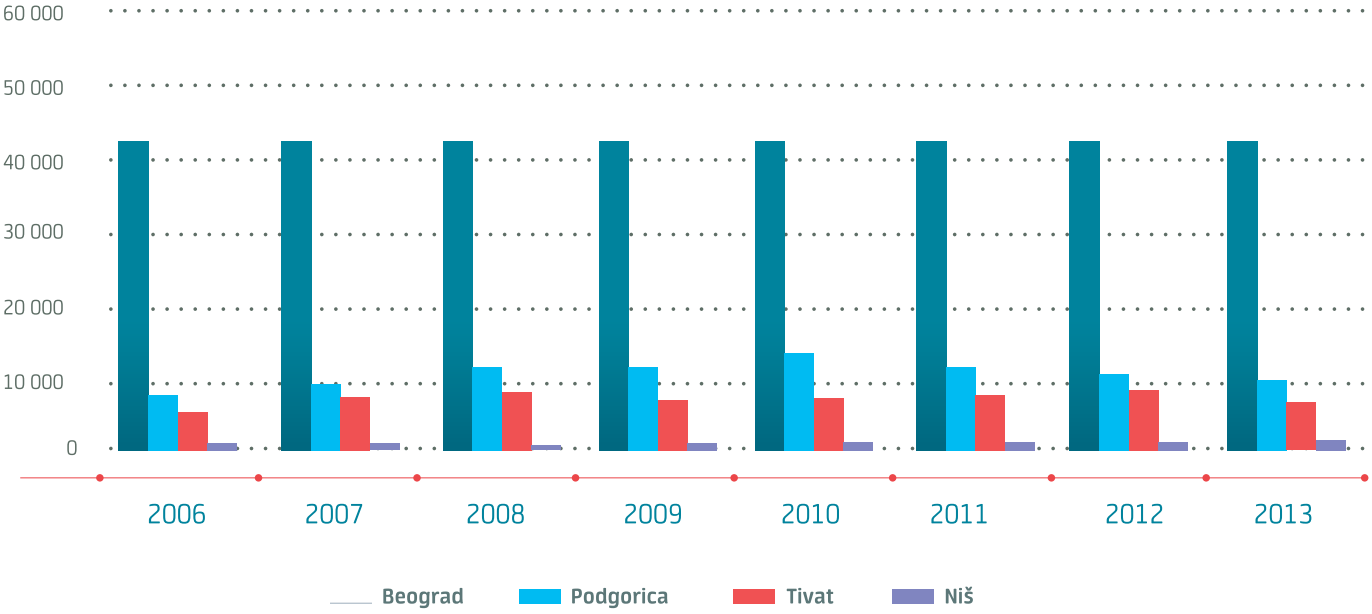


Figure 19. Participation of Traffic at some Airports in 2013

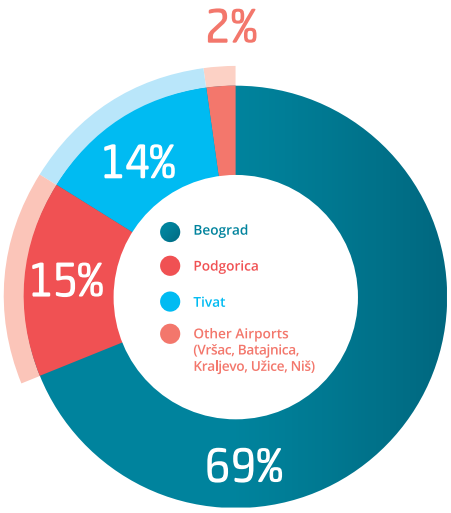


Figure 20. The Number of Chargeable Service Units from 2008 to 2013

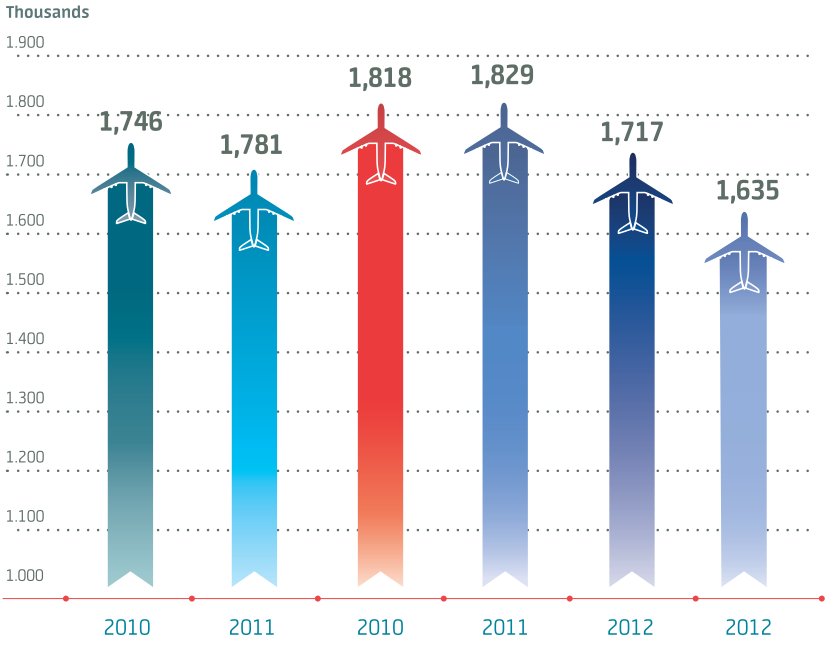


Figure 21. An Average Flight Length within FIR Beograd and an Average MTOW from 2008 to 2013

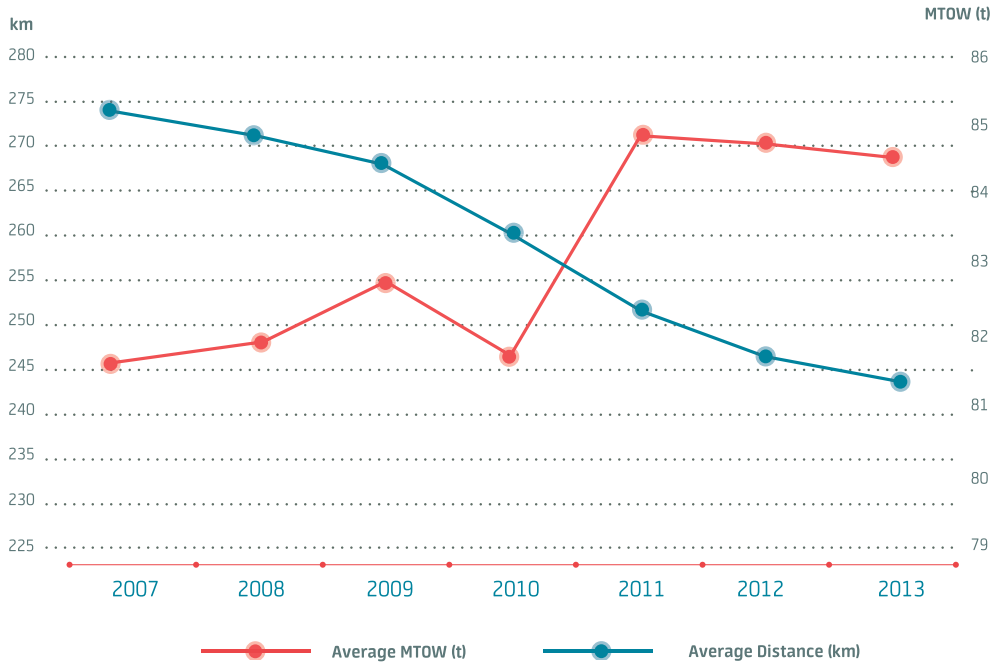
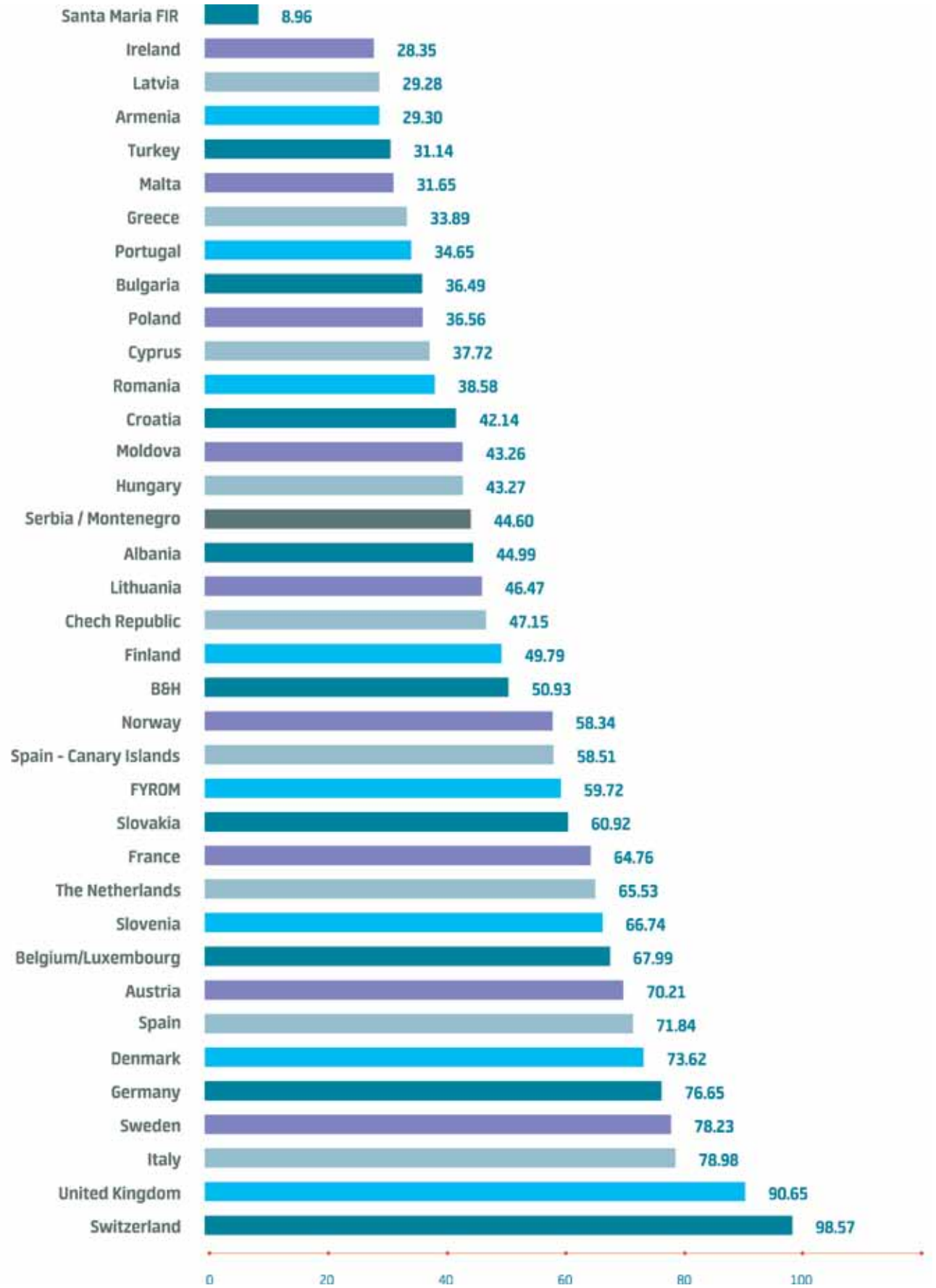


Figure 22. National Unit Rate Value in 2013



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04

COMMUNICATION, NAVIGATION AND SURVEILLANCE

SMATSA llc's aeronautical technical infrastructure comprises accurate, reliable and durable technical systems with a high level of automation and low expert maintenance requirements complying with the modern requirements of environmental protection. The investments in the air navigation services provision system and its improvement in the previous period enabled the current state of infrastructure to fully meet international standards and requirements in terms of its capacity and functionality. The activities carried out on the implementation of the Activities plan for 2013 contributed to increase of the level of services in the fields of communications, navigation and surveillance complying with the users' needs:

- **The project of procurement and installation of VHF / UHF radio systems for ATCC Belgrade in order to replace the VHF / UHF radio equipment of the previous generation (70%)**

  The first phase of the Project was completed. The installation of the equipment as planned at the location of the Transmitter centre Rudnik was postponed due to unforeseen delays in the Transmitter centre Rudnik construction works.

Figure 23. Transmitter Centre Rudnik Antenna

- **The Project preparation and installation of optical cables to connect ADC/TMC facilities with local radio centres (50%)**

  Works on the construction of optic cables were executed connecting the TMC Podgorica (the RS Srpska Gora and the Reception centre) and ADC Tivat (the Reception centre). The main project on setting optic cables at Rudnik Telecommunication centre was completed and the work on preparation of project documentation for the connection of facilities near RWY Niš was commenced. The works on the construction of optic cables at the stated locations will be finished in 2014.

- **The procurement and installation of ATIS/VOLMET system (100%)**

  As a part of the Project realization, the training for ATIS VOLMET system was held and the participants obtained the Certificate of successful factory training completion.

- **Procurement and installation of ground-to-ground communication radio stations for ADC requirements (70%).**

  In 2013, the technical documentation was prepared, the procurement procedure was completed, the equipment was delivered and installed on all planned locations and all other activities relating to the Project were planned for realization in 2014.

- **The project of the expansion of the voice communication system simulator capacity**

Towards the end of 2013, the Contract on expansion of the voice communication system simulator capacity was concluded with the manufacturer Frequentis AG from Austria. The contract will fulfil, in addition to the existing needs, the training needs of the Tower 2D / 3D simulator and the new Radar simulator. The Project will be realised in 2014.

- **Procurement of maintenance services and technical support for VCS, DIVOS and TRS telecommunication systems in the post warranty period (100%)**

An Agreement on the system maintenance in the 12 months of post-warranty period was concluded with the manufacturer Frequentis AG from Austria.

- **Procurement of telecommunication network technical support services in the post-warranty period (95%)**

In 2013, the subject procurement procedure was initiated with the authorized representative of the equipment manufacturer ALCATEL-LUCENT SERBIA OFFICE BELGRADE, and the conclusion of the contract is expected in 2014.

- **Procurement and installation of the system for continuous analysis of surveillance sensors in real time**

In November 2013, the procurement procedure was initiated by preparation of tender documents and invitation to bidders to submit their bids. The realization of the Project is planned for 2014.

- **Procurement of TopSky-ATC system maintenance services in the post-warranty period (100%).**

A contract with THALES AIR Systems S.A.S. was concluded for the period of three years.

- **Procurement procedure on acquisition of CS-DPS and AFTN/AMHS systems maintenance services in the post-warranty period**

The procurement procedure on acquisition of maintenance services was concluded with the equipment manufacturer, COMSOFT GMBH Company from Germany, for the period of three years.

- **Radar system improvement at Radar station Koviona (90%)**

The hardware and software improvement of primary and secondary radar processors at RS Koviona was performed, as well as the installation of a redundant weather channel on primary radar B chain at Radar station Murtenica and other minor associated activities at other stations (software update, surveillance and management system improvement). The completion of the project involves the improvement of reference transponders (in progress), as well as the implementation of the second phase of Thales MSTS trackers fine-tuning in 2014.

- **Setting up the ARTAS system for receiving radar data from adjacent air traffic controls (Vitosha and Sofia TAR (BULATSA, Bulgaria), Skopje Banjski Rid (M-NAV, Macedonia) and Manastur (ROMATSA, Romania) (100%)**

After completion of the procurement procedure, a Contract with the bidder Comsoft Gmbh, Germany was signed. The project was fully completed and a new version of the ARTAS system software V8A1, a new set of parameters and a new database were installed and activated.

- **Implementation of the Entry Node system - forwarding CPRs, generated by TopSky-ATC system main (ARTAS) and backup (MSTS) trackers, as well as FSA messages, to ETFMS central server in Brussels (100%)**

The Entry Node system located in the ATCC Belgrade technical room was put into service and was connected with TopSky-ATC and AFTN/AMHS systems.

- **The procurement procedure for the hardware components for the CIMACT (Civil-Military Air Traffic Management Coordination Tool) system for improving the civil-military coordination procedure between the Serbian Armed Forces and the Army of Montenegro at three locations: Belgrade Airport, Zemun and Podgorica Airport was initiated in 2013. The continuation of this procurement procedure as well as the components procurement, are planned for the year 2014.**

- **Implementation of the FMT Protocol with individual OLDI partners (25%)**

Although it was planned to make the transition with four neighbouring countries, due to the inability to make the transition on time, the connection was established only with the ANSP ROMATSA (Bucharest, Arad).

- **Implementation of the first phase of the external IP network for transmission and receiving OLDI, AFTN and radar data (100%)**

- **Implementation of AFTN link Belgrade - Sofia**

Testing of AFTN messages exchange between AFTN/AMHS system in Belgrade and AFTN system in Sofia was performed, followed by the implementation of the operational AFTN/AMHS system. The EUROCONTROL AMC database was updated using route indicators in accordance with the introduction of the new AFTN link.

- **Interoperability tests of SMATSA llc AMHS system with AMHS systems of the adjacent ACCs (100%)**

AMHS testing of the interoperability of the link Belgrade – Banja Luka was successfully performed.

- **DVOR/DME - installation of the devices at the new locations within "Nikola Tesla" Airport in Belgrade and Vrsac Airport**

In order to improve the aviation procedures, the project of the procurement and installation of DVOR/DME equipment for "Nikola Tesla" Airport in Belgrade and Vrsac Airport was initialized during the course of the year and the realization of the project is expected in 2014 and 2015.

- **Purchase of a secondary surveillance radar (35%)**

Upon completion of the public procurement procedure, a Contract for the purchase and installation of the secondary surveillance radar at the radar station Srpska Gora was signed in December with the bidder Thales Air Systems S.A.S., France. The activities on the execution of the Contract will be conducted in 2014, and the final implementation in the first half of 2015.

- **Procurement of maintenance and technical support services for the Ground Radio Navigation Systems in post-warranty period (100%)**

The Contracts on the system maintenance in the post warranty period were concluded for a period of 36 months, with the manufacturer Moog Fernau Ltd from Great Britain for DME systems, and with the manufacturer Indra Navia AS from Norway for ILS systems.

- **Spare anemometers installation and putting into service**

The Contract for the purchase of the spare anemometers for ADC Belgrade, ADC Batajnica, ADC Ponikve, TMC Podgorica, ADC Kraljevo and ADC Vrsac which was signed in 2012, was executed in 2013.

- **Procurement of laser silometers and visibility measuring instruments**

The procurement procedure for the delivery of laser silometers and visibility measuring instruments for ADC Batajnica, ADC Ponikve, TMC Podgorica, ADC Tivat, ADC Nis, ADC Kraljevo and ADC Vrsac, was completed and the Contract with the bidder VAISALA Oyi, Finland, was concluded. It is planned to implement the project in several phases during the period 2014 - 2016.

05

AERONAUTICAL INFORMATION

In 2013, the domain of the aeronautical information services provision was marked by the implementation of EAD BF (Briefing Facility), which is one of the EAD DU pre-flight information application tools (International NOTAM Operation Data User - INO DU). It enables the reception, processing and transmission of the flight plans (FPL) with the automatic creation of the pre-flight information bulletins (Pre-Flight Information Bulletin - PIB), necessary for the safe and expeditious execution of flights.

In 2013, SMATSA llc representatives took active part in the working groups such as OPADD FG, consisting of NOTAMs experts who had been assigned the task of drafting a new OPADD (Operating Procedures for Dynamic AIS Data) based on the analysis of ICAO Doc and a current practice. Furthermore, last year was marked by the participation in the AI OPS, AIS leading forum, where the guidelines and standards for the operation of AIS operational services were established.

The business performance in the aeronautical information services provision domain is marked by the following indicators:

Table 2. Indicators in the Aeronautical Information Services Provision Domain

Indicator	Planned	Realized
Data quality assessment	0,78[1]	0,78
Errors in the published NOTAMs		circa 1,5%
Resolved complaints (AIS.SCO)		100%
Data errors/inconsistencies in the EAD SDO		0%
Files content errors in the EAD PAMS		0%

1 The quality objective whichis evaluatedin relation to a predefined formula

The following table shows the review of the planned and performed activities in 2013, with the appropriate level of accomplishment:

Table 3. Review of the Performed Activitiesin the Aeronautical Information Services Provision Domain in 2013

Planned Activity	Level of Activity Accomplishment	Rationale
Implementation of the electronic Visual Flight Rules Aeronautical Information Publication (eVFR AIP).	100%	The electronic VFR AIP was placed on the company web site and EAD PAMS and is available to all interested users. The CD ROM with this publication and PDF files is also available.
Implementation of the information management security system.	0%	The implementation of the activities will follow the adoption of the European Regulation (EC/73/2010) within the framework of the national legislation.
Activities related to the initiated project that aims at complying with the requirements of the European Regulation on the Quality of Aeronautical Data and Aeronautical Information (EC/73/2010, the Regulation was adopted within the framework of the Single European Sky - SES initiative.	15%	The Analysis of the compliance with ADQ was performed. The continuation of the activities will follow the adoption of the European Regulation (EC/73/2010) within the framework of the national legislation.

06

AERONAUTICAL METEOROLOGICAL SERVICES

In 2013, the domain of the aeronautical meteorological services provision was marked by the installation of the display for local regular and special reports from Vrsac Airport in the Aeronautical Meteorological Centre (AMC). Issuing TREND forecasts for Vrsac Airport was also introduced.

Further improvements of the meteorological data processing and distribution system through a software upgrade with SAWAS Web application, installation of the panoramic cameras at all airports and improvement of the integrated automated system are planned for the following period.

During 2013, a SMATSA llc representative participated in the 23rd meeting of the Meteorological Group (METG) held at the ICAO European and North Atlantic Office in Paris, from 17th to 20th September, 2013.

In order to monitor business performance in the aeronautical meteorological services provision domain, specific indicators have been defined, and their planned and actual values are presented in the following table:

The indicator of the accuracy of the terminal aerodrome forecasts is also defined among SMATSA llc quality objectives related to the aeronautical meteorological services provision processes.
The results of the analysis of the achieved TAF accuracy for the airports under SMATSA llc jurisdiction are shown in Table 7.

Table 4. Indicators in the Aeronautical Meteorological Services Provision Domain

Indicator	Planned	Realized
Promptness of the distribution of the documents necessary for the operational work	100%	96%
Accuracy of the Terminal Aerodrome Forecasts (TAF)	100%	100%

07 HUMAN RESOURCES

SMATSA llc continuously creates business and organizational environment for the implementation and improvement of knowledge, skills and abilities of its employees. Relying on the experiences of the world's best practice, and improving internal processes and corporate culture, SMATSA llc strives to achieve its business goals. Accordingly, recruitment and retention of high-quality employees has been identified as a priority of the employer, since creativity, expertise and employees' satisfaction are directly related to the overall business result.

SMATSA llc organizational structure was established in a manner which enables creating the opportunity for conducting SMATSA llc activities in accordance with the strategic objectives and the business principles. SMATSA llc organizational structure is shown in Appendix 2.

Implementation of the human resource policy in terms of average number of employees was in line with the plan. The average number of employees in 2013 was 883, which is higher by almost 1% from the projected average number of the employees - of 875, for the year 2013. Due to the increased workload of some organizational units, a certain number of people were temporarily employed in 2013, which caused the average number of the employees to be slightly above planned. However, other employees' fluctuations caused the number of the employees to stay at the same level at the end of the year, as it had been during the previous years. Thus, it seems safe to say that the human resources policy has been stable.

Staffstructure according by education, age and gender is presented in the following figures.

Figure 24. Staff Structure by the Level of Education

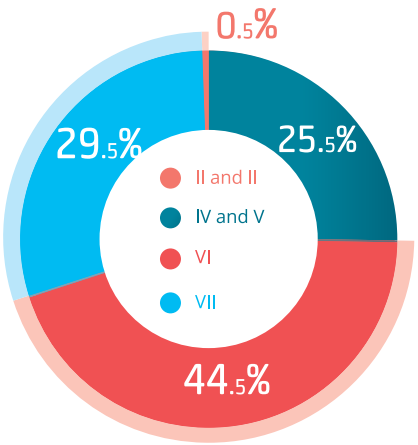


Figure 25. Staff Structure by Age

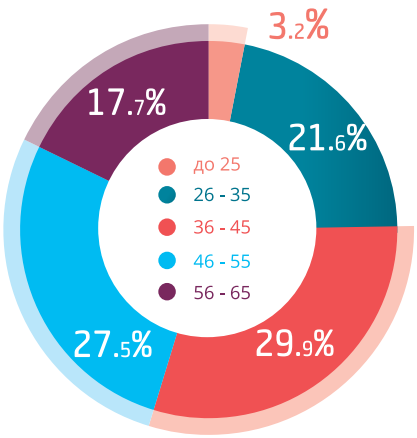
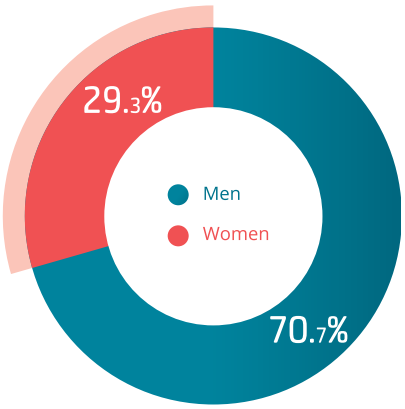


Figure 26.Staff Structure by Gender



SAFETY

08

The established SMATSA llc safety management system provides guarantees and creates conditions for the safe air traffic flow in Belgrade FIR. The main objective of SMATSA llc Air Traffic Safety Department is to implement the recommendations made by EUROCONTROL and CANSO representatives with the purpose of achieving the highest possible level of SMS maturity. In an effort to meet the demands of its users, SMATSA llc continuously strives to improve the safety management system in accordance with the highest standards and recommended practices.

Adhering to the basic principles of safety, SMATSA llc implements the appropriate operating procedures to ensure better understanding, acceptance and implementation of high air traffic safety standards. According to the plan defined in the Annual Action Plan, the work on achieving the objectives set in the aviation safety domain was continued during 2013.

Table 5. Relation between the Accomplished and Planned Activities Set in the Annual Action Plan for2013

Planned Activity	Level of Activity Accomplishment	Note/Rationale
Development of the safety cases related to the most important segments in the services provision with the aim of demonstrating safety	100%	All changes in the functional system are treated in a timely manner in accordance with the Procedure for risk identification and mitigation. In 2013, there was no need for the development of the safety cases, however, the input parameters, the initial safety analyses and safety assessments were made in accordance with the prescribed regulations.
Event analyses, assessment and mitigation of the risk in the air traffic control services provision system, preparation and execution of the safety audits	100%	Event analysis is performed for the events that are, according to the consequences or participants in the event, related to the provision of the services by SMATSA llc. Recommendations, lessons learned and good practices are distributed to the employees, and their feedback is received thereafter.
Monitoring of the current processes for the implementation of the defined safety policy, as well as the improvement of the existing procedures and guidelines in accordance with the requirements and the recommendations	80%	The procedures were amended in accordance with the regulatory requirements and SMATSA llc organizational changes. The amendment process, in accordance with the defined preventive measures, is still in progress.
Monitoring of the prescribed procedures for prevention of the runway incidents	70%	The operating procedures that are applied at "Nikola Tesla" Airport and in SMATSA llc, as well as markings and devices on/for manoeuvring areas have certainly contributed to the reduction of the number of runway incidents at "Nikola Tesla" Airport. Forming of the Runway Safety Team for "Nikola Tesla" Airport, prescribed by the international regulations, is still at an early stage because of the problems in arranging a trilateral agreement. However, the representatives of the "Nikola Tesla" Airport organisation, JAT/Air Serbia and SMATSA llc meet as necessary (deicing at platforms, ILS/cat III, LVP procedures) and make joint decisions in order to improve safety and efficiency of the air traffic operations.
Initiating the activities in order to meet the obligations as per the ESSIP objective - Level Bust	80%	The obligations set in the "European Action Plan for the Prevention of Level Bust" were mainly fulfilled. The items not fulfilled are related to the introduction of AIM. This objective was deleted from the list of Safety ESSIP goals for 2013 since it had been fulfilled in many countries.
Integrating the technical protection systems into a single platform that provides centralized notification of the events, timely response, as well as the accurate notification and reporting about the order of the activities in the system		The integration will be performed after equipping the locations with technical protection systems, the procurement and commissioning of which is expected in the future period.

Furthermore, as a part of the continuous safety management system improvement, some further activities were carried out in 2013:

- SMATSA llc representatives participated in the workshop "Safety Culture Regional Workshop", held in Brussels, where the state of the safety culture (Safety Culture Measurement) within the ECAC region was presented, as well as the plans, suggestions and best practices for the future development in this area.
- The Protocol on the Airspace Management and Air Traffic Flow and Capacity Management (ASM/ATFCM) supervision process activities and the Protocol on the activities related to the functional system changes were drawn up under the guidance of the Coordination team, members of which are SMATSA llc representatives as well as the representatives of CAD and CAA.
- The audit of the implemented safety management system (CAD) and the audit of events analysis implementation, together with the audit of the implementation level of the regulatory requirements regarding the performance of the safety checks, the transfer of the knowledge gained from the event analyses, the record-keeping and the event reports submission (AAC) were carried out within the framework of the periodic audits conducted by the Civil Aviation Authorities. Furthermore, during the visit to SMATSA llc, the audit of the compliance of the internal event reporting and analysis procedure with the regulatory requirements and standards was performed as a part of the standard inspection of CAD by EASA.
- The workshop on the risk management of ATCO training in the operational units, as well as the workshop on the safety management, security and critical situations management, were held within the context of SMATSA llc operational personnel training in ATCC Belgrade.

The system performance measurement in accordance with the defined requirements and recommendations provides transparency and a high level of safety performance. During 2013, the measuring of the development level in the field of the established safety management system was performed (EUROCONTROL CANSO SMS Standard of Excellence Measurement 2013).

The Safety Culture Measurement was also performed in SMATSA llc. The results of the research, conducted among the employees and processed and validated by the London School of Economics (LSV), were presented at the workshop organized by EUROCONTROL in SMATSA llc.

8.1 SAFETY INDICATORS

In accordance with the regulations of the Civil Aviation Authorities – the Civil Aviation Directorate of the Republic of Serbia (CAD) and the Civil Aviation Agency of Montenegro (Montenegro CAA), the appropriate SMATSA llc safety indicators and safety objectives have been set for the purposes of the evaluation and monitoring of the system safety level increase.

The safety indicators analysis is performed on an annual basis, taking into consideration the data for the last three years.
The results of the safety indicators analysis for 2013 are presented below.

8.1.1 Event Indicators

8.1.1.1 Accidents Indicators

The acceptable safety level for the accidents in which the ATM participated is less than 0.007 accidents per year. The safety objective up to 2015 is to have less than 0.005 accidents per year.

The average of 6.33 events, falling within the "aircraft accident" category, were reported annually, in the period from 2011 to 2013, in the airspace under SMATSA llc area of jurisdiction. Since "ATM had no participation" in any of the accidents i.e. not one accident was the consequence of the error in SMATSA llc operations, the acceptable level of safety was reached as per this criterion.

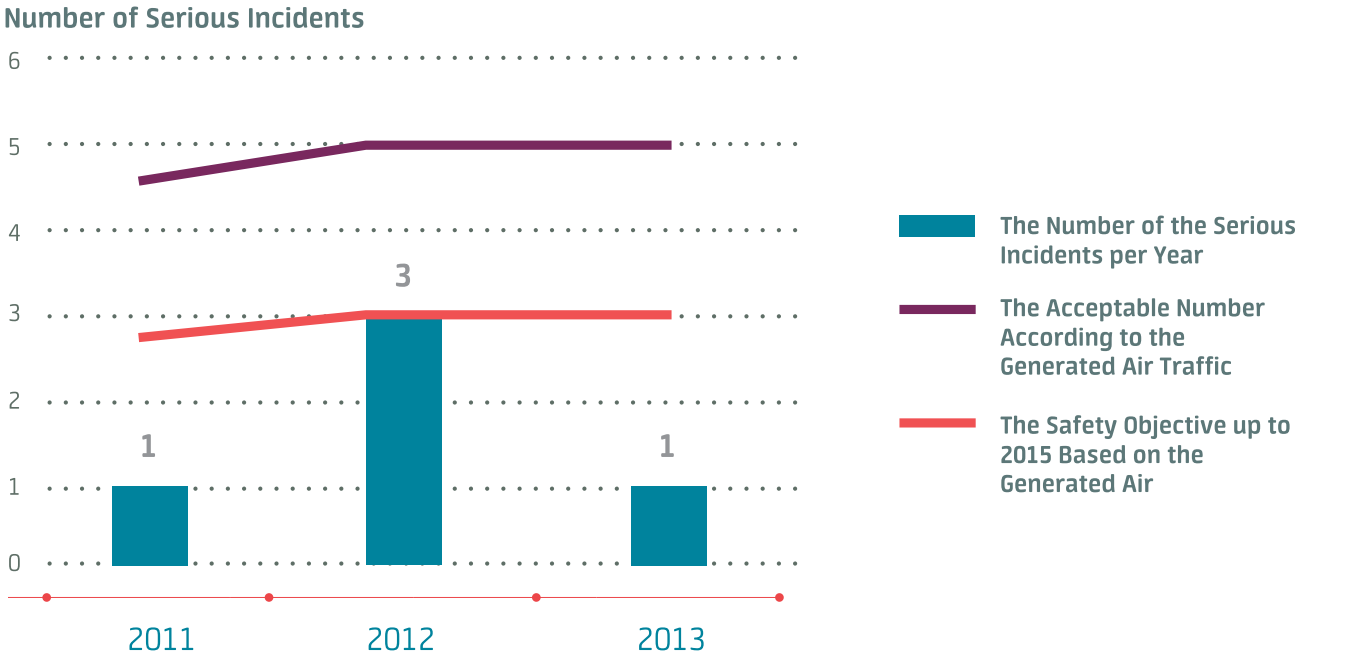
Table 6. Number of the Accidents per Year

Year	2011.	2012.	2013.
The number of the aircraft accidents without ATM influence	10	4	5
The number of the aircraft accidents with ATM influence	0	0	0

8.1.1.2 Serious Incidents Indicator

The acceptable safety level defined according to the serious incidents indicators, determined by CAA, is less than 5 serious incidents per year.
The safety objective up to 2015 is to have less than 3 serious incidents per year.
The average of 2 events falling within the "serious incident" category, were reported annually in the period from 2011 to 2013, in the airspace under SMATSA llc area of jurisdiction, therefore the safety criterion was fulfilled.

Figure 27. The Number of the Serious Incidents in the Period from 2011 to 2013

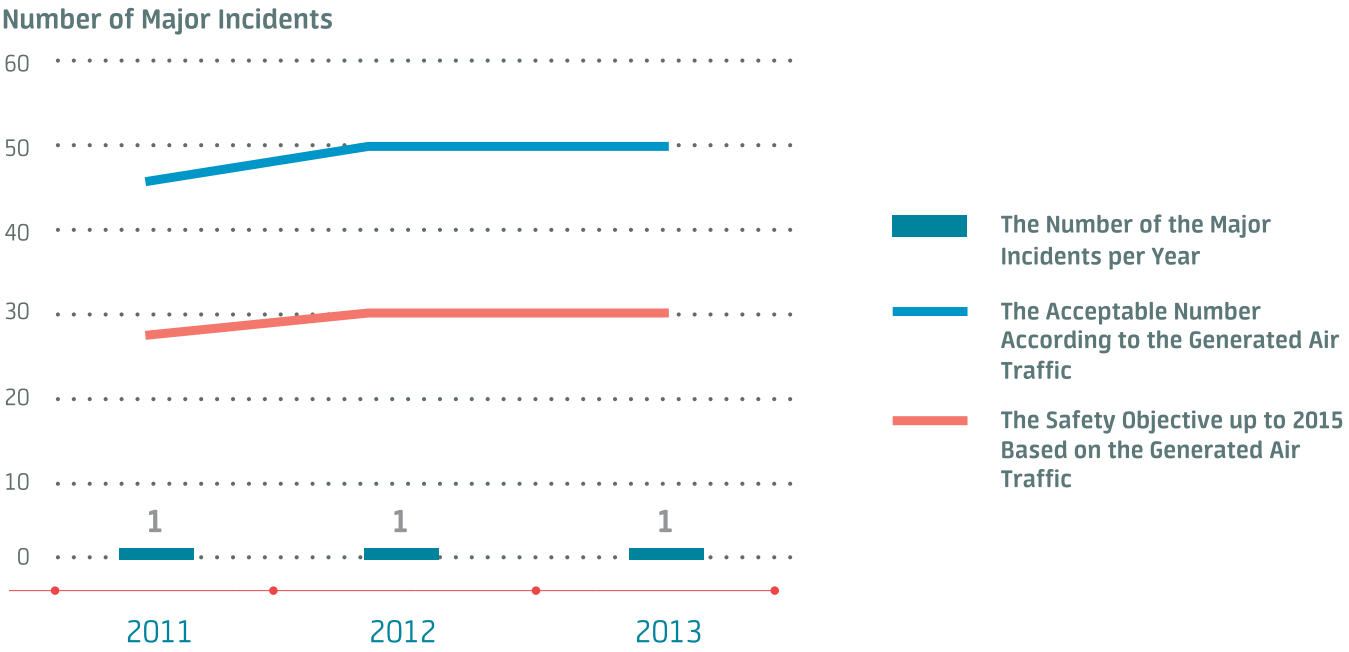


8.1.1.3 Major Incidents Indicator

The acceptable safety level defined according to the major incidents indicators, determined by CAA, is less than 50 major incidents per year. The safety objective for 2015 is to have less than 30 major incidents per year.

With one event falling within the major incident category per year, according to the report for the airspace under SMATSA llc area of jurisdiction in the period from 2011 to 2013, the acceptable safety level was reached.

Figure 28. The Number of the Major Incidents in the Period from 2011 to 2013



8.1.1.4 Runway Incursions Indicator

The acceptable safety level defined by the CAA regulations is less than 3 runway incursions per year. The safety objective for 2015 is less than 2 runway incursions per year.

Considering that in the period from 2011 to 2013 there were no reported events falling within the runway incursion category in the airspace under SMATSA llc area of jurisdiction, the safety level was reached.

8.1.2 ATM Specific Event Indicators Connected to the Availability of CNS Equipment and Systems

8.1.2.1 DPS (TopSky-ATC) System Failure Indicator

The acceptable safety level defined by the indicator for radar data and flight plans processing (TopSky-ATC) operating system is less than 10 failures per year.

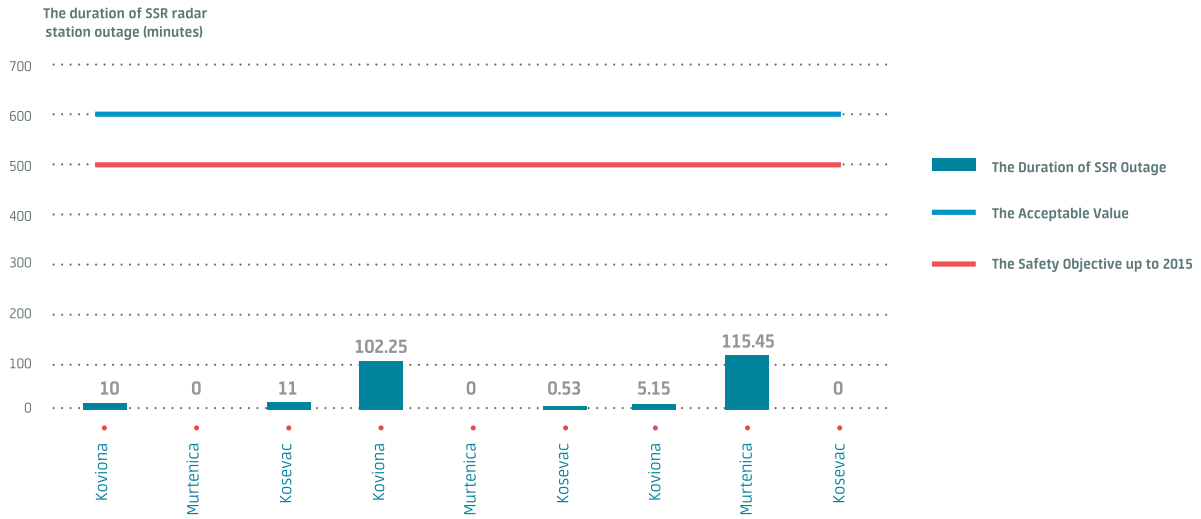
The safety objective up to 2015, determined by CAD, is to keep the value of the acceptable safety level below 8 failures per year, while following the adopted EUROCONTROL recommendations for the required system availability.
Since there were no failures of DPS system in the period from 2011 to 2013, the safety indicator for the DPS system (TopSky-ATC) falls within the acceptable safety level.

8.1.2.2 SSR Radar Stations Outage Duration Indicator

According to the recommendation of the EUROCONTROL, the acceptable safety level value for SSR radar stations is the value which amounts to less than 600 minutes per year, calculating the accumulated time of SSR radar outage. The safety objective up to 2015 is to keep the accumulated time of SSR radar systems outage per year (excluding the planned outages) below 500 minutes.

The safety indicator value, derived from the triennial sample for three SSR radar stations (Koviona, Kosevac and Murternica), falls within the acceptable safety level set by CAD.

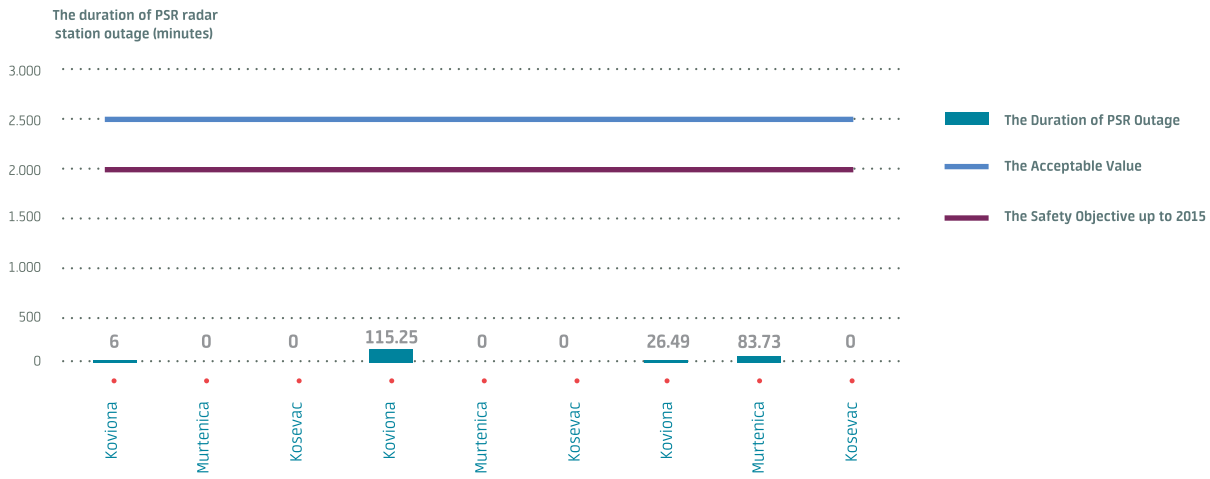
Figure 29. Duration of SSR Radar System Outage in the Period between 2011 and 2013



8.1.2.3 PSR Radar Stations Outage Duration Indicator

According to the CAD requirements, the acceptable safety level value for PSR radar stations is the value which amounts to less than 2,400 minutes per year. The safety objective up to 2015 is to keep the accumulated time of PSR radar systems outage per year below 2,000 minutes.
In the period between 2011 and 2013 the average duration of the outage of three PSR radar stations (Koviona, Kosevac and Murtenica) fell within the acceptable safety level.

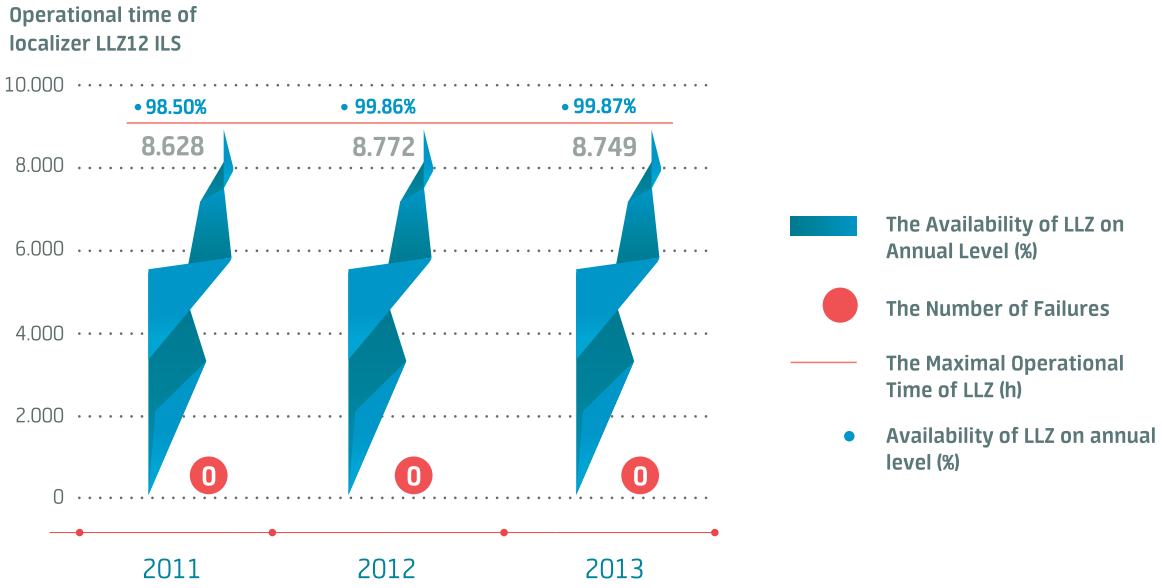
Figure 30. Duration of PSR Radar System Outage in the Period between 2011 and 2013



8.1.2.4 LLZ ILS 12 (CAT III) Failure Indicator

During 2013, the LLZ12 (CAT III) localizer was in full operation for 8,749 out of maximum of 8,760 hours (availability 99.87%). With the average operational time of 8,716 hours per year, without any failures, in the period between 2011 and 2013, the MTBO (Mean Time between Outages) indicator for LLZ ILS 12 (CAT III) falls within the acceptable safety level set by CAD and the accepted value according to ICAO recommendation (more than 4,000 hours per triennium).

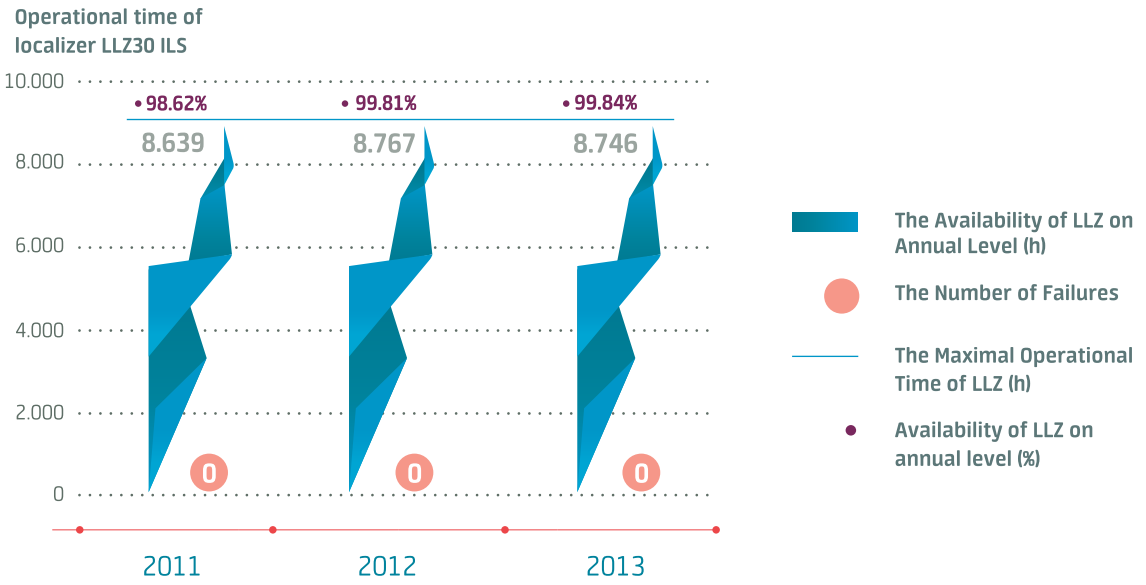
Figure 31. Operational Time and the Number of LLZ12 (CAT III) Failures in the Period between 2011 and 2013



8.1.2.5 LLZ ILS 30 (CAT I) Failure Indicator

During 2013, localizer LLZ30 (CAT I) was in full operation for 8,746 hours (availability 99.84%). Taking into account the average operational time of 8,717 hours per year, and 1 failure, in the period between 2011 and 2013, the indicator MTBO (Mean Time Between Outages) for LLZ ILS 30 (CAT III) falls within the acceptable safety level set by CAD and accepted value according to ICAO recommendation (more than 1,000 hours per triennium).

Figure 32. Operational Time and Number of Failures of LLZ30 (CAT I) in the Period between 2011 and 2013



8.1.2.6 Ground-Air Voice Communication Indicator

In the period between 2011 and 2013 the number of losses and degradations of ground-air voice communication service was on average 7.33 losses of service per year, which falls within the acceptable safety level set by CAD and equals to less than 60 losses (incidents) or degradations of service per year. The safety objective by 2015 is to keep the number of service losses below 50per year.

09

QUALITY MANAGEMENT

In order to fulfil the requirements of its users in the best possible way, SMATSA llc pays significant attention to constant improvement of the quality in all phases of operational processes. On the basis of the requirements contained in the ISO standard, the Quality Management System (QMS) was established. The structure of the QMS has been adjusted to SMATSA llc's internal organisation thus securing that all activities which may have an effect on the quality of products and services are documented and efficiently applied and at the same time ensuring efficient functioning of the whole system.

The successful recertification audit of the established Quality Management System was conducted in May 2013, by certification company Societe Generale de Surveillance (SGS), which confirmed good Quality Management System establishment, in compliance with ISO 9001:2008 standard.

ISO 9001:2008 Certificate covers all services that SMATSA llc provides i.e..: Air Traffic Management - ATM (ATS, ASM, ATFCM) including development of navigational procedures; Communication, Navigation and Surveillance (CNS); Meteorology (MET); Aeronautical Information Services (AIS), including development of navigation charts; calibration of the systems and equipment from the air; training of air navigation services provider staff as well as training of the pilots and aircraft maintenance in compliance with the approved operation scope.

Full control, supervision and permanent improvement of the SMATSA llc's efficient business operations, as well as the accomplishment of the quality policy and objectives have been facilitated by

- **Upgrade of documented procedures,**
- **Maintenance and upgrade of QMS internal checks system,**
- **Application and upgrade of preventive and corrective measures procedures while performing activities in regular processes,**
- **Work on management system (QMS/SMS) audit/surveillance integration and application of preventive and corrective measure procedures within SMS,**
- **Monitoring, measuring and adjusting of the process performance basic indicators**

implementation, upkeep and constant improvement of the established and certified QMS.

On the ground of the quality objectives defined on an annual basis by the Quality Committee, SMATSA llc monitors the feasibility of the objectives realisation and identifies opportunities for improvement. The realisation of the quality objectives in 2013 is presented in the Table 7.

During the establishment of ANS project in Bosnia and Herzegovina, a special attention was paid to exchange experiences concerning implementation and upgrade of Quality Management System with other air traffic control services providers (Croatia Control and BHANSA).

Table 7. SMATSA llc Realisation of Quality Objectives in 2013

No.	Quality Objective	Planned Value	Realised	Remark
ATM Services Quality Objectives:				
1.	Delay per flight, generated by SMATSA llc	< 0,19 minutes per flight	Yes	As per EUROCONTROL NMOC data (Traffic and Delay per Country) in 2013, a delay per flight generated by SMATSA llc was 0,017 minutes per IFR flight. All delays are generated by ATCC Belgrade. Aerodrome Controls didn't generate delays.
2.	The number of aircraft taking off within slot	> 81%	Yes	As per EUROCONTROL NMOC data (Traffic and Delay per Country) in 2013, the value of 88,0% per year was achieved.
3.	The number of serious incidents, by analysis proved to have been caused by the ATM	< 5	Yes	According to occurrences database, kept in SQS.10, it was established that one runway excursion after landing was recorded, without consequences for aircraft and crew. Analysis showed that it wasn't caused by the ATM.
CNS Services Quality Objectives:				
4.	Operational availability of technical equipment and systems directly affecting the provision of services	99,9%	Yes	Notwithstanding the exceptions to the system availability desirable values, which were due to the individual and group redundancy of the CNS equipment and systems, there were no interruptions in the CNS services provision in 2013. Therefore, it can be considered that the CNS quality objective was fulfilled.
MET Services Quality Objectives:				
5.	Accuracy of aerodrome forecasts (TAF)	As per ICAO Annex 3, Attachment B	Yes	The results of performed aerodrome forecasts (TAF) analysis: for LYBT 98.8%, for LYBE 98,8%, for LYVR 98.2%, for LYKV 95.2%, for LYNI 96.7%, for LYUZ 93.4%, for LYPG 97.8%, for LYTV 95.5%, the average value for all airports being 96.8%, thus representing total fulfilment of quality objective (100%).
AIS Services Quality Objectives:				
6.	Quality evaluation Q	≥ 0,78	Yes	Quality evaluation was performed as on 32 data items sample. The average score for the hereto sample is 0.78.
TRE Services Quality Objectives:				
7.	Realisation of the planned number of theoretical classes for current year, for every group of candidates having commenced their training in SMATSA Training Centre	100%	Yes	The objective realisation was 100%. There were 18 conducted courses all together.
8.	Realisation of the planned number of practical training for current year, for every group of candidates having commenced their training in SMATSA llc Training Centre	100%	Yes	All trainings performed in TRE were carried out in compliance with the approved plans, programmes and procedures on training performance, as well as in accordance with the anticipated schedule of performance defined in the plans.
FTO Services Quality Objectives:				
9.	Realisation of the planned number of theoretical classes for current year, for every group of candidates having commenced their training in SMATSA Aviation Academy.	100%	Yes	The objective realisation was 117%. Planned: 6,192 classes: realised: 7,240 classes. Due to additional training, there were more realised classes than planned ones.
10.	Realisation of the planned theoretical training dead-lines for current year in SMATSA Aviation Academy	100%	Yes	All training completion deadlines for all groups were met.

Table 7. SMATSA llc Realisation of Quality Objectives in 2013

No.	Quality Objective	Planned Value	Realised	Remark
11.	Realisation of the planned number of flying hours for every group of candidates having commenced their training in SMATSA Aviation Academy for current year	100%	No	The objective realisation was 85%. Planned flight hours number: 12,249, realised flight hours number: 10,387. The failure to meet the objective was due to enrolment of fewer candidates for the training than planned.
12.	Realisation of the planned flight training completion deadlines in SMATSA Aviation Academy for current year.	100%	Yes	PAll training completion deadlines for all groups of candidates attending flight training were met.
CAL Services Quality Objectives:				
13.	Realisation of the Calibration Annual Plan	100%	Yes	Realisation of the Calibration Annual Plan was 113%. As per Annual Plan there were 326 calibrations, 3 calibrations as per new Contracts, as well as 13 non-scheduled calibrations.
14.	Extension of existing contracts of calibration	Bosnia and Herzegovina, Republic of Srpska and Albania	No	Contracts on Calibration Services for ground-based radio navigation aids were extended with Bosnia and Herzegovina and Republic of Srpska. The contract with Albania had expired and since the official authorities did not submit bid for calibration services, new contract was not concluded.
MO Services Quality Objectives:				
15.	Realisation of the work norms compared to work norms prescribed by aircraft manufacturer	100%	No	The realisation of the objective was 97.8%. The failure to meet the objective was due to some accompanying activities during performance, which were not included in work norms.
16.	Extension of existing contracts with the maintenance services users	100%	Yes	All previous contracts with aircraft maintenance services users are in force.
17.	Signing and realisation of the contracts on Aircraft Maintenance Services provision	Три корисника	No	There was no new contract signed. The failure to meet the objective was due to increase of work scope on aircraft maintenance used by SMATSA llc.
QMS Services Quality Objectives:				
18.	Realisation of the Internal Audits Annual Plan	100%	No	The realisation of the objective was 92%. There were 25 planned audits, 23 were realised. Two non-scheduled internal audits were performed. The failure to meet the objective was due to retired executor in SQS.20, who was not adequately replaced.
19.	Realisation of the QMS Training Plan	100%	Yes	The realisation of the objective was 100%. All planned training on established QMS system in SMATSA llc was conducted.

INFORMATION TECHNOLOGIES AND SECURITY

10

TIn the course of 2013, set objectives and tasks of the information technologies domain were successfully realised, keeping up with international standards and achievements in this domain. Almost all activities from Annual Plan for 2013 were fully accomplished.

Major tasks included IT infrastructure maintenance and upgrading, developing applications and support for the current business processes in terms of availability, reliability and protection.

The following projects and tasks marked 2013 in the information technologies domain:

- **Virtual infrastructure was enhanced**

  The Data Centre was enhanced with new servers and Data Storage software on the servers in data centre was enhanced and the number of VDI infrastructure users was increased.

- **Equipment configuration for external IP network**

  Design of network infrastructure was developed, as well as configuration of network infrastructure and IPv4/IPv6 rutting for connecting with neighbours.

- **Replacement of AT&T numbers with CISCO numbers**

  The old AT&T telephone system was switched off and all telephone traffic was transferred on to the new, technologically upgraded IP system.

- **Application for ATCOs work schedule on simulator in SMATSA llc Training Centre was developed**

  Developed application enables design of ATCOs work in shifts and the sectors.

- **The system for mail storage was upgraded**

  Installation and configuration of e-mail messages storage and search software were conducted.

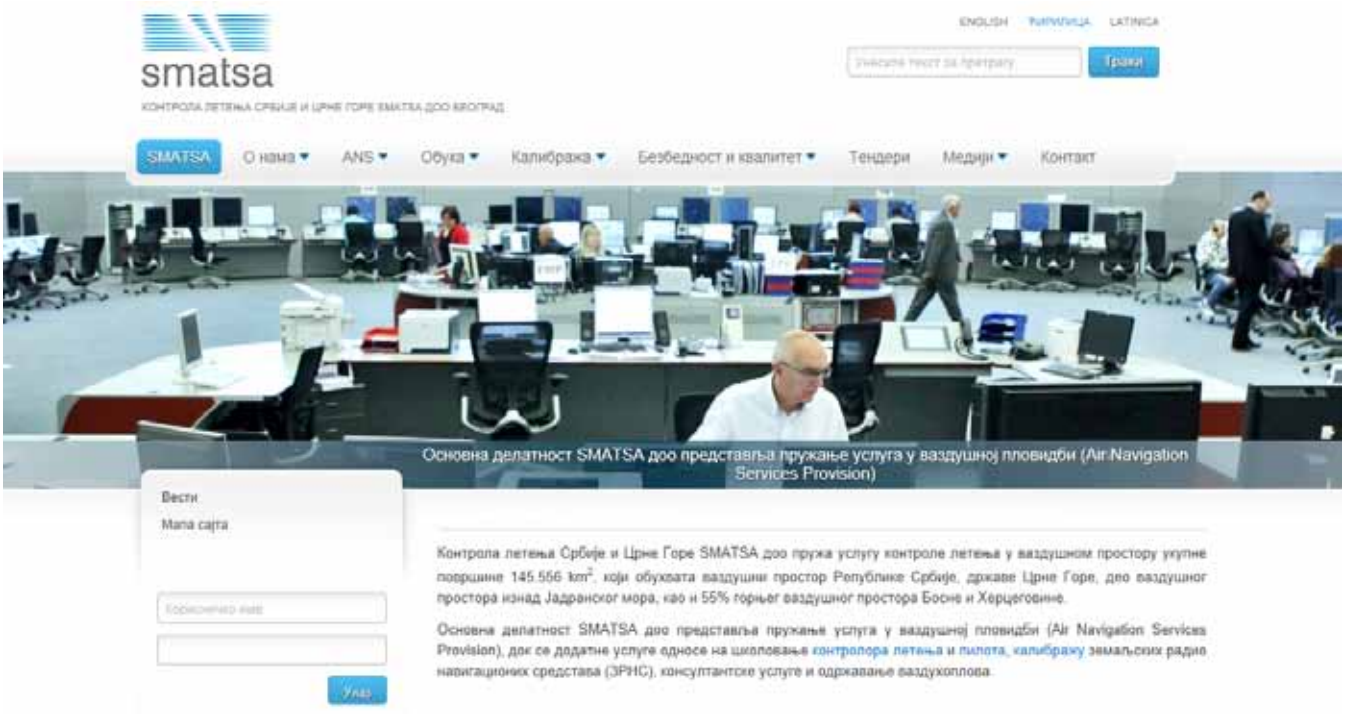
- **Support of ATIS/VOLMET installation**

  Minimal failure possibility architecture design was defined and configuration and connecting of the planned equipment, compliant with the project, was done.

- **New SMATSA llc internet presentation was introduced on the address www.smatsa.rs, based on Microsoft SharePoint 2013 technology.**

  New web site has modern design, supports many languages and displays certain contents for authorised users only. Apart from providing some basic data regarding the company and services provision, AIP and VFR AIP electronic versions are available, as well as documents regarding SMATSA llc public bids. There is a plan to enable METEO data display by using the server for processing METEO reports developed for that purpose.

Figure 33. Web page of the new SMATSA llc internet presentation



- **SCCM (System Centre Configuration Manager) server upgrade**

  The server was upgraded for easier software distribution and application upgrade by clients.

- **Solution for METEO briefing for remote locations**

  Design and solution implementation for web conference and presentation at remote locations were developed. This solution is based on Open Source Big Blue Button solution, but it was adjusted to meet the requirements.

Figure 34. Meteo online briefing

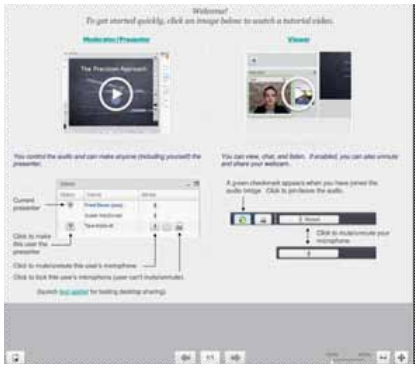


Table 8. Indicators in Information Technologies Domain

Indicator	Planned	Realised
The ratio of physical to virtual servers	**90%**	**95%**
The ratio of employees who use physical working stations to those who use virtual VDI computers	**50%**	**40%**
The availability time of the key IT services (SharePoint, e-mail server, CMS services for data exchange with external entities)	**99,7%**	**99,9%**

In order to monitor the effectiveness in information technologies domain, certain indicators have been defined, and their planned and realised values are presented in the following table.

Achieving and maintaining high level of aviation security, within its all business activities, is SMATSA llc main strategic goal.

In compliance with international requirements stipulated in ICAO Annex 17, ECAC Doc. 30, as well as with national regulations and National Civil Aviation Security Program, Security Management System was established, which is defined by Aviation Security Policy and Aviation Security Program.

Permanent Security Management System is maintained by constant conducting of all planned activities and its further development enables monitoring and upgrade of system effectiveness and efficiency. Aviation Security Policy is accomplished by:

- **Planning, designing and development,**
- **Documented procedures upgrade,**
- **Conducting of internal checks,**
- **Security domain training,**
- **Planning, implementation and maintenance of technical protection devices and equipment,**
- **Analysis and constant upgrade of current condition.**

11

FLIGHT INSPECTION

SMATSA llc owns technical facilities, equipment and adequate resources required for the provision of calibration of ground-based radio navigation aids from the air, and for the check of flight procedures, for its own needs, as well as for the needs of the external users. The check and calibration of the equipment are performed in accordance with the international and national requirements and recommendations, which is confirmed by successful Civil Aviation Directorate (CAD) audit as well as by verification body (SGS) audit for compliance with ISO standard.

SMATSA llc owns Hawker Beechcraft King Air 350 aircraft equipped with the state-of-the-art calibration system, (AD-AFIS-260) for 2013 as well as another Hawker Beechcraft King Air 350 aircraft, equipped with AD-AFIS-112 system. In this way, SMATSA llc ensures a highly competitive position in the market and can guarantee execution of contracted services.

The company Aerodata from Germany participated in the new aircraft realization project in 2013. Thus an excellent international cooperation was established and an initiative was developed for SMATSA llc to be the host of international calibration symposium in 2016.
High-quality service was provided by using the latest technical solutions and permanent upgrade of procedures, resulting in full completion of all planned calibrations in 2013, as confirmed by the following indications:

Table 9. Business indicators in 2013

Indicator	Planned	Realised
Number of realized calibrations of ground based radio navigation aids according to Flight Calibration Department Annual plan	**299**	**299**
Number of realized calibrations of ground based radio navigation aids according to contracts	**216**	**216**
Number of realized non-scheduled calibrations of ground based radio navigation aids	**0**	**39**

In the course of 2013, calibration services were provided in compliance with contracts with the following entities:

Table 10. Planned activities in 2013 performance level

Planned activities in 2013	Performance level (%)	Remarks
Calibration services in Serbia (Belgrade, Nis and Kraljevo Airports)	118	non-scheduled calibrations of ground-based radio navigation aids 14
Calibration services in Montenegro (Podgorica and Tivat Airports)	100	-
Calibration services in Bosnia and Herzegovina (Sarajevo, Tuzla, Mostar, and Banjaluka Airports)	112	non-scheduled calibrations of ground-based radio navigation aids 6
Calibration services in Croatia (Zagreb, Osijek, Dubrovnik, Split, Zadar, Pula, Rijeka and Brač Airports)	118	non-scheduled calibrations of ground-based radio navigation aids 14
Calibration services in Macedonia (Skoplje and Ohrid Airports)	100	-
Calibration services in Hungary (Budapest Airports, Hungaro Control)	113	non-scheduled calibrations of ground-based radio navigation aids 4
Calibration services in Slovenia (Ljubljana, Maribor, Portorož and Cerklje Airports)	105	non-scheduled calibrations of ground-based radio navigation aids 1
Calibration services in Albany (Tirana Airport)	100	-

12

ANS PERSONNEL TRAINING CENTRE

SMATSA llc invests actively in advancement of knowledge and skills of the employees. By implementing the system of high-quality and continuous training, SMATSA llc offers its employees an opportunity to enhance their knowledge and skills in line with European and international standards in air navigation service provision domain.

The Training Centre, which is primarily engaged in training air traffic control officers, gained Approval Certificates for providing training of aeronautical MET personnel and CNS personnel. The additional advantage of SMATSA llc Training Centre is the Certificate for testing air traffic control officers' level of English language, which is used in aviation communication, by using MayFlower TEA test.

A large number of successfully completed inspection audits and checks, provided by aviation authorities, with minimum discrepancy, confirmed compliance with national and international standards.

In 2013, training courses were provided in compliance with Training Centre Training Plan. In compliance with the set objectives for 2013, the following results were achieved:

Table 11. Objectives for 2013

Indicator	Planned	Realised
Realised number of theoretical classes for current year, for every group of candidates having commenced their training in SMATSA llc Training Centre	**100%**	**100%**
Realised number of practical classes for current year, for every group of candidates having commenced their training in SMATSA llc Training Centre	**100%**	**100%**

Furthermore, some of the most significant training courses, workshops and meetings, with educational importance, attended by SMATSA llc employees in 2013, that led to the upgrade of their knowledge, are shown in the following table:

Table 12. The Most Significant Workshops, Training Courses and Meetings in 2013

Title of the Corse/Meeting/Workshop	Date
Course for ICAO Rater/Interlocutor for TEA test at Myflower College	17-21.06.2013
Workshop – Presentation of RAT TOOL version 2, conducted by EUROCONTROL instructors	03-04.04.2013.
Training for new calibration system AD-AFIS-113 in Aerodata Company in Braunschweig, Germany	08-12.12.2013.
23th meeting of Meteorological Group (METG) within European Air Navigation Planning Group (EANPG)	17-20. 09. 2013.
Safety Culture Regional Workshop	26-27.11.2013.
OPADD FG	19-20.3.2013.
AIOPS-8	19-20.6.2013.
EAD Technical Symposium	12-13.09.2013.

12.1 EXTERNAL USERS TRAINING IN THE TRAINING CENTRE

Apart from providing trainings for personal needs, the Training Centre offers training services for external users as well.
In relation to this, in the course of 2013, the following training services were provided in the Training Centre:

- **Initial training for MET forecaster, for 2 candidates from RS CAD and FED CAD,**
- **MET forecaster-instructor rating training, for 3 candidates from RS CAD an FED CAD,**
- **Chief of the shift/Supervisor training course for 3 air traffic control officers from BHDCA (for Banja Luka location),**
- **OJT Instructor training course for 9 air traffic control officers from BHDCA.**

13

SMATSA AVIATION ACADEMY

Apart from air navigation services, SMATSA llc provides additional services, which comprisepilot training for obtaining relevant licences, conducted in the SMATSA Aviation Academy.

One of the most significant undertakings of the SMATSA Aviation Academy in 2013 was the training of 45 candidates from Algeria, who successfully completed the training and obtained professional pilot licences. Apart from this particular training, during 2013, 9 groups of students were enrolled for the training for different licences and type ratings.

The realisation rate in 2013 with respect to the number of candidates, who commenced training compared to the number of applicants, is given in the table below:

TTable 13. SMATSA Aviation Academy Training Realisation Rate for 2013

COURSE	Realisation rate
ATP(A) int.	**99%**
CPL/IR	**100%**
CPL int.	**94%**
FI	**100%**
ATPL mod.	**100%**
CPL mod.	**100%**
IR mod.	**100%**
MCC	**100%**
PPL	**80%**
Additional ATP	**100%**
Total realisation	**97%**

SMATSA Aviation Academy also conducts aircraft maintenance activities. In this regard, the following activities were carried out in 2013:

- Expanding the sphere of activity of the CAMO department as to include independent service of renewal of aircraft airworthiness certificate,
- Harmonisation of the approval of MOE by EASA and CAD RS,
- A total of 207 aircraft maintenance work orders executed,
- FNPT II flight simulator maintenance successfully carried out. Over 40 work orders executed.

For the purpose of upgrading the technical infrastructure, equipment and operational technology, the following activities were carried out in 2013:

- Audio panels were installed in 10 Cessna 172 aircraft and in 2 Cessna T310R aircraft,
- The entire Operating Manual and Training Manual were brought into line with the new EASA Part FCL regulations,
- The Compliance Monitoring System and Safety Management System were organised and established in accordance with the EASA CS-FSTD and EASA Part FSTD.

Positive business results of the SMATSA llc Aviation Academy are shown in the table below:

Table 14. SMATSA Aviation Academy Business Results

Indicator [2]	Planned	Realised
100 % of realisation of work standards presented in percentage, as compared to the work standards prescribed by the manufacturer	100 %	97.8 %
Percentage of realised theoretical training lessons as compared to the planned number of lessons for the current year, for each group of candidates that commenced the training	6,192 lessons	7,240 lessons (117%)
Meeting set deadlines for completion of theoretical training for the current year	6 groups of candidates	6 groups of candidates
Percentage of realised flight hours as compared to the planned number of flight hours for the current year, for each group of candidates that commenced the training	100%	100%
Meeting set deadlines for completion of flight training for the current year	100%	85% [3]
Firefighting, search and rescue, and medical support to flying activities	All set completion deadlines for groups that commenced the training were met, for candidates who regularly attended flight training sessions.	---
Maintenance of manoeuvring areas in accordance with the possibilities	100 %	100 %

[2] Some of the given indicators and goals are included in the Realisation of quality objectives table.
[3] The realisation rate is 85% due to lower number of candidates in F(1) and O(3) groups than initially planned, caused by quitting of 4 candidates from Algeria, and by the training of 4 C-310 instructors not being conducted.

14

ENVIRONMENTAL PROTECTION

With a view of mitigating a negative impact of its activities, products and services, SMATSA llc makes significant efforts by carrying out activities which contribute to the reduction of negative environmental impacts. SMATSA llc further demonstrates its dedication to the environmental protection by making constant endeavours to achieve compliance with the requirements prescribed by the relevant regulations.

SMATSA llc supports its commitment to contributing to the environmental protection in the most efficient manner possible by continuing work on the route network optimisation, the airspace organisation and on the upgrading of the operational technology. By trying to make the routes in the area of its jurisdiction shorter, SMATSA llc creates opportunities for significant savings to be achieved by the users, such as shortening flight duration and reduction of fuel consumption, which consequently result in the reduction of the CO2 emission.

During 2013, within the improvement of the route network in the SMATSA llc jurisdiction, several new direct route options were introduced, which caused the total length of routes in the SMATSA llc jurisdiction to be reduced by 264 kilometres. By using direct, hence shorter routes in the area of SMATSA llc jurisdiction, in 2013, the airlines achieved savings of 400,000 km in the length of the routes covered, 490 flight hours (around 0.4 minutes per flight), 1,2 thousands of tonnes of fuel, whereas over 3,8 thousands of tonnes less of CO2 were emitted into the atmosphere.

Furthermore, in cooperation with the air traffic service provider in Croatia (Croatia Control Ltd), cross-border direct route options were activated, available during the night period, which allowed for further savings to be achieved by air carriers.

Actions and procedures which air traffic controllers apply in their work have been devised in such a manner that, whenever the traffic situation allows it, the aircraft are allowed to take direct routes, which significantly shortens the aircraft flight path and reduces the CO2 emission.

Apart from that, being an aircraft operator, SMATSA llc is an active participant of the EU Emission Trading Scheme (EU ETS), which was established for the purpose of pollution reduction and mitigation of global climate changes.

In an effort to comply with the ISO 14001:2004 requirements in the shortest time possible, during 2013, activities regarding the introduction of the environmental protection management system were undertaken, that is, the initial review was conducted, while the initiation of other activities has been postponed for the following period.

15

CONSULTATIONS WITH USERS

SMATSA llc performs regular consultations both with individual users of its services, and with users' associations.

In order to obtain transparency connected to the route charges, SMATSA llc regularly, on a yearly basis, consults the representatives of International Air Transport Association – IATA in cooperation with the Central Route Charges Office - CRCO.

Through participation in international forums organized by EUROCONTROL, CANSO and other organizations from the air traffic domain, useful information is obtained.

SMATSA llc has signed agreements and contracts on business-technical cooperation with domestic and foreign partners, as well as agreements on coordination - LOA (Letter of Agreement) which are regularly revised, thus obtaining feedback from partners.

FINANCIAL STATEMENTS

Table 15. Income Statement 2013-2012, in 000 RSD

ITEM	AOP	Note number	Amount	
			31.12.2013.	Previous year
2	3	4	6	7
A. REVENUES AND EXPENSES FROM REGULAR OPERATIONS				
I. OPERATING REVENUES (202+203+204-205+206)	201		**9,326,613**	**8,618,076**
1. Sales revenues	202		8,948,619	8,452,701
2. Revenues from the use of own products and services and goods	203			
3. Increase in value of work-in-progress and finished products	204			
4. Decrease in value of work-in-progress and finished products	205			
5. Other operating revenues	206		377,994	165,375
II. OPERATING EXPENSES (208 - 212)	207		7,499,659	7,602,965
1. Cost value of sold goods	208			
2. Cost of materials	209		193,019	214,429
3. Cost of salaries, fringe benefits and other personal expenses	210		4,556,837	4,819,391
4. Costs of depreciation and provisions	211		1,177,144	1,112,610
5. Other operating expenses	212		1,572,659	1,456,535
III. OPERATING PROFIT (201-207)	213		1,826,954	1,015,111
IV. OPERATING LOSS (207-201)	214			
V. FINANCIAL REVENUES	215		170,829	533,180
VI. FINANCIAL EXPENSES	216		339,135	1,071,884
VII. OTHER REVENUES	217		26,033	152,642
VIII. OTHER EXPENSES	218		495,824	398,709
IX. PROFIT FROM REGULAR ACTIVITIES BEFORE TAXATION (213-214+215-216+217-218)	219		1,188,857	230,340
X. LOSS FROM REGULAR ACTIVITIES BEFORE TAXATION (214-213-215+216-217+218)	220			
XI. NET PROFIT FROM DISCONTINUED OPERATIONS	221			16,474
XII. NET LOSS FROM DISCONTINUED OPERATIONS	222			
B. PROFIT BEFORE TAXATION (219-220+221-222)	223		**1,188,857**	**246,814**
C. LOSS BEFORE TAXATION (220-219+222-221)	224			
D. INCOME TAX				
1. Tax expenses of the period	225		201,935	42,530
2. Deferred tax expenses of the period	226		909	203,560
3. Deferred tax revenues of the period	227			
E. Personal earnings paid to the employer	228			
F. NET PROFIT (223-224-225-226+227-228)	229		986,013	724
G. NET LOSS (224-223+225+226-227+228)	230			
H. NET PROFIT ATTRIBUTABLE TO MINOR SHAREHOLDERS	231			
I. NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	232			
J. EARNINGS PER SHARE				
1. Basic earnings per share	233			
2. Diminished (diluted) earnings per share	234			

Table 16. Assets, 2013-2012, in 000 RSD

ITEM	AOP	Amount	
		31.12.2013.	Previous year
2	3	4	5
ASSETS			
A. FIXED ASSETS (002+003+004+005+009)	001	**13,656,008**	**13,660,828**
I. SUBSCRIBED CAPITAL UNPAID	002		
II. GOODWILL	003		
III. INTANGIBLE ASSETS	004	10,050	22,906
IV. PROPERTY, PLANT, EQUIPMENT AND BIOLOGICAL ASSETS (006+007+008)	005	13,645,958	13,637,922
1. Property, plant and equipment	006	13,644,109	13,636,073
2. Investment property	007		
3. Biological assets	008	1,849	1,849
V. LONG-TERM FINANCIAL INVESTMENTS (010+011)	009		-
1. Investments in capital	010		
2. Other long-term financial investments	011		
B. CURRENT ASSETS (013+014+015)	012	**3,465,759**	**3,579,918**
I. INVENTORIES	013	159,656	157,301
II. FIXED ASSETS AVAILABLE FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS	014		
III. SHORT-TERM RECEIVABLES, INVESTMENTS AND CASH (016+017+018+019+020)	015	3,306,103	3,422,617
1. Receivables	016	1,343,828	1,360,159
2. Receivables from over-paid income tax	017		16,846
3. Short-term financial investments	018		
4. Cash and cash equivalents	019	1,927,235	1,924,221
5. Value added tax and prepayments and accrued income	020	35,040	121,391
C. DEFERRED TAX ASSETS	021		**825**
D. OPERATING ASSETS (001+012+021)	022	**17,121,767**	**17,241,571**
E. LOSS ABOVE EQUITY	023		
F. TOTAL ASSETS (022+023)	024	**17,121,767**	**17,241,571**
G. OFF-BALANCE SHEET ASSETS	025	**39,620**	**111,473**

Table 17. Liabilities, 2013-2012, in 000 RSD

ITEM	AOP	Amount	
		31.12.2013.	Previous year
2	3	4	5
LIABILITIES			
A. EQUITY (102+103+104+105+106-107+108-109-110)	101	**10,095,870**	**9,121,926**
I. SHARE CAPITAL	102	1,873,820	1,873,820
II. SUBSCRIBED CAPITAL UNPAID	103		
III. RESERVES	104	507,044	507,044
IV. REVALUATION RESERVES	105	2,888,579	3,062,580
V. UNREALISED GAINS ON SECURITIES	106		
VI. UNREALISED LOSSES ON SECURITIES	107		
VII. RETAINED EARNINGS	108	4,826,427	3,678,482
VIII. LOSS	109		
IX. REPURCHASED OWN SHARES	110		
B. LONG-TERM PROVISIONS AND LIABILITIES (112+113+116)	111	**6,517,895**	**7,611,727**
I. LONG-TERM PROVISIONS	112	622,451	627,684
II. LONG-TERM LIABILITIES (114 + 115)	113	**4,287,607**	**5,237,610**
1. Long-term loans	114	4,287,607	5,237,610
2. Other long-term liabilities	115		
III. SHORT-TERM LIABILITIES (117+118+119+120+121+122)	116	1,607,837	1,746,433
1. Short-term financial liabilities	117	1,017,798	827,780
2. Liabilities from assets available for sale and assets from discontinued operations	118		
3. Liabilities from business activities	119	391,919	248,103
4. Other short-term liabilities	120	27,872	654,045
5. Liabilities for Value Added Tax and other public revenues and accruals and deferred income	121	2,100	11,701
6. Liabilities for Corporate Income Tax	122	168,148	4,804
C. DEFERRED TAX LIABILITIES	123	508,002	507,918
D. TOTAL LIABILITIES (101+111 +123)	124	**17,121,767**	**17,241,571**
E. OFF-BALANCE SHEET LIABILITIES	125	39,620	111,473

Table 18. Cash Flow Statement 2013-2012, in 000 RSD

ITEM	AOP	Amount	
		12/31/2013	Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflows from operating activities (1 to 3)	301	**9,351,618**	**8,753,758**
1. Sales and advances received	302	8,637,975	8,148,528
2. Interest received from operating activities	303	5,308	6,325
3. Other inflows from regular operations	304	708,335	598,905
II. Cash outflows from operating activities (1 to 5)	305	**7,443,595**	**7,329,032**
1. Payments to suppliers and prepayments	306	1,919,582	2,289,372
2. Salaries, fringe benefits and other personal expenses	307	5,335,549	4,785,004
3. Interest paid	308	149,874	193,547
4. Income tax	309	38,590	61,109
5. Payments of other public revenues	310	-	-
III. Net cash inflow from operating activities (I - II)	311	**1,908,023**	**1,424,726**
IV. Net cash outflow from operating activities (II - I)	312		
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (1 to 5)	313	-	-
1. Sales of shares and stakes (net inflows)	314		
2. Sales of intangible assets, property, plant, equipment and biological assets	315		
3. Other financial investments (net inflows)	316		
4. Interest received from investing activities	317		
5. Dividends received	318		
II. Cash outflows from investing activities (1 to 3)	319	**1,093,651**	**1,145,440**
1. Purchase of shares and stakes (net outflows)	320		
2. Purchase of intangible assets, property, plant, equipment and biological assets	321	1,093,651	1,145,440
3. Other financial investments (net outflow)	322		
III. Net cash inflow from investing activities (I - II)	323		
IV. Net cash outflow from investing activities (II - I)	324	**1,093,651**	**1,145,440**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (1 to 3)	325	-	476,978
1. Initial capital increase	326		
2. Long-term and short-term loans (net inflows)	327		476,978
3. Other long-term and short-term liabilities	328		
II. Cash outflows from financing activities (1 to 4)	329	**802,806**	**654,109**
1. Repurchased own shares and stakes	330		
2. Long-term and short-term loans and other liabilities (net outflows)	331	802,806	654,109
3. Financial leasing	332		
4. Dividends paid	333		
III. Net cash inflow from financing activities (I - II)	334		
IV. Net cash outflow from financing activities (II - I)	335	**802,806**	**177,131**
D. TOTAL CASH INFLOWS (301+313+325)	336	**9,351,618**	**9,230,736**
E. TOTAL CASH OUTFLOWS (305+319+329)	337	**9,340,052**	**9,128,581**
F. NET CASH INFLOWS (336-337)	338	**11,566**	**102,155**
G. NET CASH OUTFLOWS (337-336)	339		
H. OPENING CASH BALANCE OF THE ACCOUNTING PERIOD	340	**1,924,221**	**1,805,027**
I. POSITIVE FOREIGN EXCHANGE DIFFERENCES FROM TRANSLATION OF CASH	341	**66,080**	**230,851**
J. NEGATIVE FOREIGN EXCHANGE DIFFERENCES FROM TRANSLATION OF CASH	342	**74,632**	**213,812**
K. CLOSING CASH BALANCE OF THE ACCOUNTING PERIOD (338 - 339 + 340 +341 - 342)	343	**1,927,235**	**1,924,221**

16.1 NOTES TO FINANCIAL STATEMENTS

16.1.1 Basis for Preparation of Financial Statements

Preparation of SMATSA llc`s 2013 Financial Statements for the accounting period ending on 31st December, 2013, was carried out, in all materially significant respects, in accordance with the Law on Accounting ("RS Official Gazette" No. 62/2013), which implies using the International Accounting Standards, as well as International Financial Reporting Standards (IAS/IFRS), and in accordance with the regulations issued by the Ministry of Finance of the Republic of Serbia. With respect to the differences between these two regulations, these financial statements deviate from the IFRS in the following:

1. "Off-balance sheet equity and liabilities"are shown in the balance sheet form. According to the definition given in the IFRS, these items represent neither equity nor liabilities.

2. SMATSA llc has prepared these financial statements in the form prescribed by the Ministry of Finance, which is not in compliance with the IAS-1 requirements – "Presentation of Financial Statements".

3. Errors attributable to previous years were not reported in the financial statements for 2012, but were recorded in the groups 59 and 69 in the financial statements for 2013.

16.1.2 Summary of Significant Accounting Policies

16.1.2.1 Intangible Assets

Intangible asset is an identifiable non-monetary asset without physical substance:

- held for use in the production or supply of goods or services, for rental to others or for administrative purposes;
- that is controlled by SMATSA llc as a result of past events; and
- from which future economic benefits are expected to flow to the entity.

Intangible assets include: development investments, concessions, patents, licences and similar rights; other intangible assets; intangible assets in preparation and prepayments for intangible assets.
The acquisition of intangible assets during the year is recorded at cost value. The cost value comprises invoice value plus all dependent purchase costs and all costs of bringing the asset to its working condition for its intended use. The cost price of an internally generated intangible asset comprises direct costs and the associated indirect costs, pertaining to the particular asset.

Borrowing costs incurred until the time of the intangible asset being put into use, are capitalised, that is, are included in the cost value.

After initial recognition, an intangible asset is carried at its cost value or at its cost price less the accumulated amortisation and the accumulated impairment losses.

An intangible asset is recognised and is subject to amortisation if it meets the recognition criteria prescribed by the revised IAS 38, Intangible Assets, and has a useful life that exceeds the period of one year.

Any additional cost associated to an already recognised intangible asset, is credited to the presented amount of the asset, if the flow of the future economic benefits is likely to be larger than the initially estimated rate of return of the asset.

SMATSA llc recognises that carrying value of an item of intangible asset will include the cost of replacing the part of such an item when that cost is incurred if the recognition criteria prescribed by the IAS 38 – "Intangible Assets", (paragraph 21), are met.

Any other additional cost is recognised as expense for the period when it was incurred. Gains or losses arising from writing off or disposal are calculated as the difference between the estimated net sales revenues and the presented amount of the asset, and are recognised as Revenues or Expenses in the Income Statement.

If there are indicators that suggest that there has been a reduction of value, carrying value of an intangible assets is calculated and, if it is determined that there has been a reduction, the value of the asset is reduced to its recoverable amount.

Residual value of an intangible asset is assumed to be zero, unless:
there is a commitment of a third party to purchase the asset at the end of its remaining useful life, or there is an active market for the asset, and the residual value can be determined by reference to that market, and it is probable that such a market will exist at the end of the useful life of the asset.

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 the terms specified in the contract.

The amortisation of an intangible asset is calculated as of the beginning of the month following the month that the intangible asset was put into use. The basis of the amortisation calculation is the cost value less the accumulated amortisation and total loss due to impairment.

Table 19. Base Amortisation Rates for Intangible Assets

Item	Amortisation rate
Licences and application programmes	**20-33,33 %**
Other intangible assets	**20-33,33 %**

Amortisation rates pertaining to intangible assets can be altered and amended only upon an order in the written form issued by a competent department, and with the approval given by the SMATSA llc CEO, as well as upon the accepted independent assessor`s report.

Intangible assets and/or the right of use under a licensing agreement are accounted for in accordance with the IAS 38. Licensing agreement regulates the right of use which is being granted by the licensor and the licensee`s obligations. The royalty that the licensee pays is regarded by the licensee as an intangible asset (provided that the right which is the subject matter of the contract is used longer than one year).

Costs which can be directly attributed to software are capitalised as a part of a software product. Other development costs which cannot meet the criteria are recognised as expenses when they arise.

An intangible asset is no longer presented in the balance sheet after its disposal or after the asset has permanently been taken out of service, and when no future economic benefits are expected from its disposal.

16.1.2.2 Property, Plant and Equipment

Tangible assets are recognised as property, plant and equipment and are subject to depreciation if they meet the recognition criteria prescribed by the IAS 16, Property, Plant and Equipment, and have useful lives that exceed a period of one year. An item of property, plant and equipment that meets the fixed asset recognition criteria is initially measured at cost value or at cost price. Any additional cost associated to an already recognised property, plant and equipment is credited to the presented amount of the asset if the flow of the future economic benefits is likely to be larger than the initially estimated rate of return of the asset. Any other additional cost is recognised as the expense for the period when it was incurred.

Additional costs of possibly significant value, which comprise mainly labour costs, costs of operating supplies and costs of minor spare parts, are presented as costs of current maintenance. Replacing major spare parts, whose shelf lives are shorter than one year, is presented as maintenance cost, because such spare parts do not meet the asset recognition criteria.

Considering the fact that the constituent building construction parts may need to be replaced prior to the expiry of the lifetime of a building as a whole, paragraph 13 of the revised IAS 16 allows the entity to recognise the asset which is replaced as a separate item of asset if it meets two basic conditions prescribed by the paragraph 7 of this standard (a) – it is probable that the future economic benefits associated with the asset will flow to the entity, and (b) – the cost value, or the cost price of the asset can be measured reliably. The recognition is done at the time when the replacement costs are incurred, while the carrying value of the parts which are replaced is derecognised, regardless of the replaced part being depreciated or not. If it is not appropriate to determine the carrying value of a replaced part the paragraph 70 of the revised IAS 16 stipulates that the replacement costs can be used as the information on the amount of the costs of the replaced part at the time of its purchase or construction.

If the part which is replaced is not recorded as a separate item of asset, and has a life which is different from the life of an asset, and if the carrying value is determined by using the replacement method, the written-off value (accrued depreciation) is determined by applying the rate used for depreciation of the asset comprising that part, and not by applying the rate arising from the life of the part which is replaced. Property, plant and equipment are depreciated using the straight-line method, as of the date of the asset being made available for use.

The base depreciation rates pertaining to particular groups of property, plant and equipment are given in the following table:

Table 20. Base Depreciation Rates for Property, Plant and Equipment

Item	2013 Depreciation Rate	2012 Depreciation Rate
Buildings	2 –20%	2 –20%
Equipment	6,67 – 50%	6,67 – 50%
Vehicles	12 – 50%	12 – 50%
Computer equipment	16,67 – 50%	16,67 – 50%
Furniture	10 – 50%	10 – 50%
Other equipment	8,33 – 50%	8,33 – 50%
Investments in other entity`s equipment	20%	20%

Calculation of depreciation for tax purposes is done in accordance with the Corporate Income Tax Law of the Republic of Serbia, and the Regulations on the Classification of Fixed Assets and the Method of Determining Depreciation for Tax Purposes, which results in deferred taxes.

Investments in other entity`s capital assets for the purpose of performing business operations are recognised and presented in a different account as capital assets provided their useful lives are longer than one year.

Investments in other entity`s assets are amortised based on their estimated utilisation lives.

Property, plant and equipment are not accounted into the balance sheet after their disposal or when the asset is permanently withdrawn from use and when no further economic benefit is expected from its disposal.

Gains or losses arising from writing off or disposal of property, plant and equipment, are calculated as the difference between the estimated net sales revenues and the presented amount of the asset, and are recognised as Revenues or Expenses in the Income Statement.

When revalued assets are sold, the revaluation amount included in the revaluation reserve is transferred to retained earnings.
Property, plant and equipment withdrawn from active use and held for disposal, are presented in the amounts as presented on the date of the asset being withdrawn from active use.

On the date of issue of each balance sheet SMATSA llc assesses whether there is any indication that the asset may have been impaired. If any such indication exists, SMATSA llc assesses the amount of the asset that can be recovered. If the recoverable amount of the asset is lower than its carrying value, the carrying value is reduced to recoverable amount and previously established revaluation reserves pertaining to that asset are consequently reduced. If no revaluation reserves pertaining to the asset whose value is reduced have been established, or if such reserves have been used for other purposes, impairment loss is recognized as the expense of the period.

If, on the balance sheet date, there are any indications that the previously recognised impairment loss does not exist or that it has been reduced, the assessment of the recoverable amount of that asset is made. The impairment loss recognised in the previous years is recognised as revenue, in case when the basic method of measuring property, plant and equipment is applied, that is as increase of revaluation reserve if the alternative method of evaluation of property, plant and equipment is applied, and the carrying value is increased to the recoverable amount.

The assessments of the fair value and of the remaining value of the asset (as well as residual value) are performed by an authorised assessor, in accordance with the IAS 16 – Property, Plant and Equipment, with the assessment results being recorded under revenues or expenses.

Any additional cost associated to an already recognised item of property, plant and equipment, is credited to the presented amount of the asset, if it is likely that the flow of the future economic benefits will be larger than the initially estimated rate of return of the asset and that the cost value/ cost price of the additional cost can be measured reliably.

16.1.2.3 Tools and Accessories

It is mandatory that tools and accessories with utilisation lives shorter than one year, are presented as current assets (as inventories), regardless of their cost value. These assets are not depreciated, but their total value is transferred to expenses when they are put into use.

Tools and accessories which are written off by calculation are recognised as fixed assets and are subject to depreciation if their useful lives are longer than one year.
Items of tools and accessories which do not meet these conditions are presented as current assets (inventories).

The individual value of tools and accessories of the same type which are jointly used is calculated as the sum of the individual values of all tools and accessories of the same type.

16.1.2.4 Spare Parts

Installed spare parts are recognized as fixed assets if their useful lives are longer than one year.

Such spare parts, upon being installed, increase the carrying amount of the assets that they have been installed in.
Spare parts which do not satisfy the conditions from the paragraph 1 of this article, at the time of the installation, shall be presented as an operating cost.

16.1.2.5 Inventories

Inventories are accounted for in accordance with the IAS 2, 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 used in the production process, or in the course of rendering services.

Supplies of materials purchased from suppliers are measured at the lower of the cost value and the net sale value.

The cost value or cost price of inventories comprises all costs of a purchase, and other costs incurred in bringing the inventories to their present location and condition.

The costs of purchase of materials include purchase price, import duties and other taxes (except the taxes that can subsequently be refunded to the entity by the tax authorities, such as VAT, which can be deducted as prior tax), transport charges, handling charges and other costs which can be directly attributed to the purchase of material. Reductions, discounts and other similar items are deducted when calculating purchase costs.

The assessment of the net sale value of the supplies of materials is made by a special committee established by the President of the Supervisory Board of SMATSA llc.

The calculation of the output of supplies of materials (material used) is made by employing the weighted average cost method.

The weighted average cost is calculated upon every new input of material.

In case of operating in hyperinflationary environment, the value of the inventories is adjusted by applying a price index, in accordance with the IAS 29.

16.1.2.6 Short-term Receivables and Investments

Short-term receivables comprise domestic and foreign trade receivables for the sale of goods and services rendered.

Short-term investments comprise loans, securities and other short-term investments whose date of maturity and/or sale is one year from the balance sheet date.

Short-term accounts receivable are measured at their original invoice value.
If the invoice value is denominated in a foreign currency, the value is calculated into the statement currency at the average

exchange rate applicable on the date of the 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.
Receivables denominated in a foreign currency on the balance date are translated by applying the applicable middle exchange rate, and exchange rate differences are recognised as revenues or expenses of the period.

Indirect write-off and/or correction of value of the accounts receivable at the expense of the operating expenditures of the period, at the account of correction of value, is done for accounts receivable, in accordance with the statutory deadline applicable as of the invoice due date, with the estimate of collectibility of each individual account receivable. The decision on indirect write-off and/or correction of value of the accounts receivable, at the account of correction of value, upon the proposal made by the committtee for record-keeping of receivables and short-term investments, is made by the Supervisory Board of SMATSA llc. Direct write-off of receivables at the expense of the operating expenditure of the period is done if uncollectibility is certain and documented – the entity failed to collect the receivables by legal means, and the account receivable was previously included in the entity`s revenues.

The decision on direct write-off of the trade receivables is made by the Supervisory Board of SMATSA llc, upon the proposal made by the committee for record-keeping of receivables and short-term investments and/or as per the annual report produced by EUROCONTROL. The calculation and collection of air traffic service provision charges in the FIR Beograd are done in accordance with the current regulations and the set amount of air traffic service charge in the terminal control areas.

16.1.2.7 Cash and cash equivalents

Cash equivalents and cash constitute a part of the current (operating) assets of a legal entity, which are measured at nominal, i.e. 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 - Statement of Cash Flows). Cash and cash equivalents comprise: cash in hand, demand deposits, other short-term highly liquid investments 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.

16.1.2.8 Off-Balance Sheet Assets and Liabilities

Off-Balance sheet assets/liabilities comprise records of the following:

- received guarantees, issued guarantees, counter guarantees and respective liabilities.

16.1.2.9 Owner's Equity

Owner's equity originates from the incorporation based on the founder's stake in SMATSA llc. The founders of SMATSA llc are the Republic of Serbia (92%) and the State of Montenegro (8%). Owner's equity is initially stated in the amount of the estimated stake in SMATSA llc (it comprises both the capital paid in and the accounted unpaid capital). Changes in the owner's equity are carried out exclusively according to the rules prescribed by the Law on the Business Organisations. All changes in the owner's equity are registered with the appropriate Register. Owner's equity stated in dinars is not changed according to changes of EUR exchange rates, although it is stated in Euros in the Register.

16.1.2.10 Reserves

SMATSA llc has the reserve formed from the retained earnings until the reserve reaches at least 20% of the owner's equity as governed by the Contract on Confirmation of the Continuity of Air Navigation Services Provision within the Airspace of Serbia and Montenegro.

16.1.2.11 Revaluation Reserves

Revaluation reserves comprise the positive effects of changes in the fair value of property, plants, equipment, intangible assets and other financial instruments. In accordance with IAS 16 and IAS 38, when an asset's carrying amount is increased as a result of revaluation, the positive effect of revaluation is credited directly to equity, as the revaluation reserve. Decrease in revaluation reserves arises from negative revaluation of an asset, for which the revaluation reserve was previously created. Negative effects of revaluation in case of realisation (disposal and decommissioning of assets) arise if the revaluation reserve was carried regarding that specific asset.

16.1.2.12 Retained Earnings

Retained earnings are carried as retained earnings from prior years and retained earnings of the current year. The cumulated retained earnings from prior years and the effects from change in the accounting policy and correction of material fundamental error, in accordance with IAS 8 and adopted accounting policies, are carried in account Retained earnings from prior years.
Retained earnings of the current year arise from transfer of a result from current year to the account of retained earnings. Realised revaluation reserves are transferred to Retained earnings of the current year in the Balance Sheet.

16.1.2.13 Provisions

Long-term provisions comprise provisions in warrantee period, provisions for retained caution money and deposits, provisions for restructuring of companies, provisions for employee benefits (IAS 19 – Employee benefits) and other long-term provisions for coverage of liabilities (legal or actual), arisen as a result of past events, which are likely to cause the outflow of resources of economic benefits for the purpose of their settlement and which may be reliably measured (e.g. litigations in progress), and provisions for guarantees issued and other forms of bond. Long-term provisions for costs and risks are monitored at their types, and their respective reduction or termination are credited to the income.

Provisions are not recognised for future operating losses.

Provisions differ from other liabilities, such as accounts payable and calculated liabilities, since they are uncertain in respect to their origination date or the sum of future expenditures required for their settlement. Provisions are measured in the amount recognised as the provision, which represents the best estimation of expenditures required for settlement of the present liability as the balance sheet date.

Provisions are tested as at each balance sheet date and corrected so as to present the best present estimate. If it is not likely that the outflow of resources of economic benefit is required for settlement of liabilities, the respective provision is abolished.
Provision represents the liability (legal or constructive), existing as at the balance sheet date, but is of uncertain maturity date and amount.

Within the account Long-term provisions for employee benefits, SMATSA llc records long-term provisions for employee benefits (retirement indemnities and jubilee awards) paid in line with the rights acquired during employment and post-employment, in accordance with the IAS 19 – Employee

benefits. According to IAS 19, payments for retirement indemnities and jubilee awards are not to be charged to period when payment was effected to employees, but the acquired right for such payments is to be calculated during the employment, that is from the employment date throughout the respective payment under the acquired right. SMATSA llc records provisions there under in accordance with the estimation done by the accredited actuary.

16.1.2.14 Liabilities

Liabilities are considered as:

- Long-term liabilities (liabilities to related entities and entities with intercompany interest, long-term loans, liabilities arising from the long-term securities and other long-term liabilities). Long-term liabilities become due and payable in the period longer than a year from the date when incurred, i.e. from the balance sheet date, respectively, and are recognized and measured in accordance with IAS 39 - Financial instruments: recognition and measurement and other relevant IAS. SMATSA llc has created the long-term liability for the long-term cross border loans.

When recognising the long-term liabilities for loans, SMATSA llc was guided by the guidelines of IAS 23 - Borrowing Costs. Interest expenses and other borrowing costs that are directly attributable to the acquisition, construction or development of qualifying asset must be capitalised (attributed) to the purchase value (cost) of that asset.
The capitalisation period is the period from the beginning of the investment in the qualifying asset (beginning of the capitalisation) to the moment when all activities necessary to prepare the asset for the planned use or sale (cessation of the capitalisation) are essentially completed. Borrowing costs incurred before and after the capitalisation period, regardless of whether they are incurred by the loans with or without the special purpose for the acquisition of the specific asset, are recognised as the expense of the period.

According to the paragraph 23 of IAS 23, the capitalisation of the borrowing costs is suspended during the extended periods in which active development of the qualifying asset is interrupted. The borrowing costs incurred during an extended period in which the activities necessary to prepare the asset for its planned use or sale are suspended, cannot be capitalised, but are shown as an expense of that period (e.g. temporary suspension of the initiated facility construction).

Given that the loan is recorded in the foreign currency, such liability is calculated on the balance sheet date according to the middle exchange rate of that currency, and the respective exchange rate gains and losses arising thereunder are recorded.

- Short-term financial liabilities (liabilities towards related legal entities and legal entities with intercompany interests, short-term loans and other short-term financial liabilities), SMATSA llc recorded the liability towards the Civil Aviation Directorate of the Republic of Serbia under the signed Protocol TOP04, number 184/9, dated 20th August 2007,

- Short-term liabilities from business operations (suppliers and other liabilities from business operations), SMATSA llc recorded all liabilities towards domestic and foreign suppliers,

- Other short-term liabilities (liabilities for salaries, comission earnings, fringe benefits for SMATSA llc Supervisory Board and Assembly members, liabilities to physical persons related to contractual fees) and

- Liabilities for Value Added Tax (VAT).
Short-term liabilities are liabilities which are due within one year from the date of financial statements preparation.

A liability represents any contractual liability for:

1. the transfer of cash or any other financial asset to another company, or

2. exchange of financial instruments with another company under potentially adverse conditions.

Upon initial recognition, SMATSA llc measures its financial liability as per its purchase value, which represents the fair value of the compensation received for it. Transaction costs are included in the initial measurement of all financial liabilities.

Liabilities denominated in foreign currencies, as well as the liabilities with the index clause are measured as at the financial statements preparation date according to the foreign currency middle exchange rate. The differences calculated then are accounted for as expense or revenue of the period.

Reduction of the liabilities under the law, extrajudicial settlement and alike is performed through a direct write-off.

16.1.2.15 Current and deferred income tax

Tax expenses for a period comprise the current and the deferred tax. The tax is recognized in the income statement, except to the extent to which it relates to the items recognized directly in the equity. In this case, the tax is also recognized in the equity. Current income tax is calculated at the balance sheet date, based on the valid statutory tax-related regulations of the Republic of Serbia, where SMATSA llc operates and generates taxable income. The management periodically reviews the items in the tax return, with respect to the situations in which the applicable tax regulation is subject to the interpretation, and makes reservation of funds, if appropriate, based on the amounts expected to be paid to the tax authorities.

Deferred income tax is calculated in the full amount, using the liability method, for the temporary differences arising between the tax basis of assets and liabilities and their book values in the financial statements. However, if the deferred income tax, provided it has not been entered into the accounting records, arises from the 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 income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and which are expected to be implemented in the period in which the deferred tax assets are to be realized or the deferred income tax liabilities settled.

Deferred tax asset is recognized to the amount expected to be covered by the future taxable profit, and the temporary differences are expected to be settled out of that profit.

16.1.2.16 Revenues and Expenses

Revenues comprise revenues from the ordinary course of SMATSA Llc's activities and gains. Revenues from the ordinary course of activities are revenues gained from providing services in air traffic, revenues from providing flight calibration services, from training of pilots and air traffic control officers, 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 qualified as revenues, and may arise, though not necessarily, from the ordinary course of SMATSA Llc'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. the ones resulting from an increase in book value of long-term assets. Gains are recognized on a net basis, after being reduced for the respective expenses.

Various types of assets may be received or increased through revenues, for example cash, receivables and goods and services received as compensation for delivered products and services. In addition, revenues may arise from settlement of liability from repayment of residual debt.

SMATSA Llc recognises revenues when the revenue may be reliably measured, when it is likely that SMATSA Llc's will have the economy benefits therefrom in the future and when separate criteria are met for each respective activity. The revenue is not deemed as reliably measured until all prospective liabilities, which may arise from sale, are settled. SMATSA Llc bases its estimates on results from prior operations, given the type of customer, type of transaction and specific nature of every transaction.

Revenues from contracts with fixed pricing (for services relative to pilots and controllers training and flight calibration services) are recognised at the completion rate method. In accordance with that method, the revenue is generally recognised based on the services rendered by that respective date.
Interest income is recognised on a time-proportion basis.

Revenues from foreign currency clause include the positive effect of contracted revaluation and foreign currency clause. SMATSA Llc carries Revenues, effect of changes in accounting policies and correction of immaterial errors from prior years which are not materially important on the account 691.

Expenses comprise costs arising from costs of material, wages, salaries and other personnel expenses, depreciation and provisions, producing and intangible costs, irrespective of the payment date.

Expenditures for advertising and entertainment must be reliable, that is documented, in respect of their occurrence and payment. The reliably documented costs are recognised as entertainment expenditures, arisen under the following grounds: restaurant services for business partners in respect to conclusion and realisation of the agreement or any other form of business collaboration, giving product to business partners, catering services for jubilee celebrations and the like.

Losses represent other items qualifying as expenses, and may arise, though not necessarily, from the ordinary course of SMATSA Llc `s activities. Losses represent reduction in economic benefits, and as such are not different in nature from other expenses.

Losses comprise, for example, the loss resulting from catastrophes, such as fire and flood, and the ones resulting from the sale of long-term assets. Furthermore, by definition the expense comprises unrealised loss, for example the loss originating from effects of increase in foreign currency exchange rate in respect to creating debt in that respective currency. When loss is recognised in the income statement, it is carried separately, since the acknowledgement thereof is useful when passing the economy-related decisions. The loss is usually carried at the net basis, after its reduction by the respective revenue.

16.1.2.17 Interest and Other Borrowing Costs

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

Interest expense and other borrowing costs directly attributable to the acquisition, construction or development of an eligible asset must be capitalised (attributed) to the purchase value (cost) of that asset.

Borrowing costs incurred during extended period in which the activities necessary to prepare the asset for the planned use or sale are suspended, can't be capitalised, but are shown as expenses of the period (e.g. temporary suspension of the building construction).

16.1.2.18 Subsequently Detected Errors

Subsequently found material errors are corrected through the account of retained earnings from previous years, that is, through the retained losses from previous 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.

Subsequently found errors that are not material are restated for correction against expenses, or, in favour of revenues in the period when identified.

16.1.2.19 Financial Risk Management

Financial Risk Factors

SMATSA llc`s activities are exposed to various financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest risk, price risk), credit risk, liquidity risk and cash flow risk. The main focus of the risk management within SMATSA llc is on the strive to minimise the potential adverse effects on the company`s financial performance in the conditions of unpredictability of financial markets. SMATSA llc uses derivative financial instruments to hedge certain risk exposures.

The risk management is carried out by the management of SMATSA llc in line with the recommendations of the Supervisory Board. The management of SMATSA llc identifies and evaluates financial risks, and defines risk protection methods in cooperation with the company`s operating units.

The management of SMATSA llc passes its business decisions duly and accurately thereby protecting itself from credit and market risks.

Financial Risk Management Objectives

Financial risks comprise:

•market risk (currency risk and interest risk),
•credit risk, and
•liquidity risk.

Financial risks are reviewed on a time basis and are primarily hedged by reduction of SMATSA llc exposure to such risks. SMATSA llc does not use any financial instruments whatsoever in order to hedge the impact of financial risks on its operations, due to the fact that such instruments are not widely used, and that no organized market of such instruments exists in the Republic of Serbia.

• Market risk (currency risk and interest risk)

In its business activities, SMATSA llc is exposed to financial risks pertaining to foreign currency exchange risks arising from various currency fluctuations (SMATSA llc operates internationally) and variations of interest rates. The risk arises from future commercial transactions, recognised assets or liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in currency that is not the SMATSA llc's functional currency.

The market risk exposure is reviewed by the

sensitivity analysis. There were no significant changes in SMATSA llc's exposure to the market risk or in the manner of SMATSA llc's management or measurement of such a risk.

SMATSA llc is obliged to hedge its total exposure to exchange rate risk by passing duly and timely decisions.

Basic financial instruments of SMATSA llc are cash and cash equivalents, receivables, financial investments originating directly from SMATSA llc's activities and the long-term and short-term borrowings, accounts payable and other liabilities whose primary purpose is financing of SMATSA llc's current operations. Accounts receivable have been partially settled in January and February 2014.

The policy of SMATSA llc's management in respect to risk management is to hedge between 90% and 100% of expected cash flow (mainly revenues from services rendered and costs of acquisition of equipment and spare parts) in every major currency within the following 12 months. Approximately 98.60% (2012. 98,14%) of the planned income from services rendered to foreign companies in every major currency are qualified as "highly probable" forecast of transaction for the accounting hedging purposes.

• Foreign exchange rate risk

SMATSA llc is exposed to foreign exchange rate risk primarily through cash and cash equivalent, trade receivables, long-term credits and payables which are denominated in foreign currency. SMATSA llc does not use some special financial instruments against risk since this kind of instruments is not common in the Republic of Serbia. Economic environment stability, in which SMATSA llc is performing its activities, depends great deal of founders' measures in economy, including as well establishment of relevant legal framework.

SMATSA llc is influenced by Euro (EUR) and American dollar (USD) change rate. Structure of the financial means is mainly composed of trade receivables (mostly foreign companies' debts) and cash and cash equivalents (foreign currency account).

Liabilities are composed of long-term credits and payables. Long-term credits are recorded in foreign currency while payables for equipment and spare parts are also recorded in foreign currency and payables for fixed monthly liabilities (electricity, telephone, fuel etc.) are recorded in domestic currency.

Stated means and liabilities are expressed in foreign currency on 31 December of the current year and according to that exchange difference is registered. Business result depends partly from financial revenues and expenses. Financial revenues participation percentage (favourable exchange difference) in total revenues in 2013 was 1,42% (in 2012 it was 5,64%).

Financial expenses participation percentage (negative exchange difference) in total expenses in 2013 was 1,96% (in 2012 it was 11,63%).

• Interest risk

SMATSA llc is exposed to interest rate change of the liabilities with variable interest rate. This risk depends of financial market so SMATSA llc does not have available instruments to mitigate its influence.

• Credit risk

Credits which are given with changeable interest rate expose SMATSA llc to cash flow interest risk. Credits which are given with fixed interest rate expose SMATSA llc to fair market value interest rate risk. In the course of 2013 and 2012 SMATSA llc credits with fix and chanegable interest rate were expressed in foreign currency.

Sensitivity analyses showed that the interest rate changes in respect of the loan from the EBRD do not expose SMATSA llc to the interest rate risk. The management reasonably estimates that the possible changes in the interest rates could comprise the increase or decrease of 1%. The conclusion is that such change would not have a significant impact on SMATSA llc financial result.

In 2005, SMATSA llc concluded agreements with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) on financing the procurement of the equipment, services and works for the modernization of the air traffic control system. The Government of the Republic of Serbia and the Government of Montenegro provided counter-guarantees for these agreements, whereas the guarantee was provided by the State Union of Serbia and Montenegro. Furthermore, the authorized representatives of the Republic of Serbia and Montenegro signed (with the aforementioned banks) the Project Support Agreements, which stipulate for the founders to enable the smooth functioning and performance of SMATSA llc activities, as well as the planned Project implementation.

Since SMATSA llc has obtained the loans in the amount higher than the amount of cash and cash equivalents (RSD 5,280,158 and 1,927,235 thousand), this means that SMATSA llc has a gearing ratio that can be represented in two ways:

$$\frac{\text{Borrowed Funds}}{\text{Total Funds}} \times 100 = \frac{5{,}672{,}078}{17{,}122{,}592} \times 100 = 33{,}13\%$$

$$\frac{\text{Long-term Loans}}{\text{Capital + Long-term Liabilities}} \times 100 = \frac{5{,}280{,}158}{15{,}884{,}028} \times 100 = 33{,}24\%$$

The first ratio is used to show the borrowed funds share in the total capital and the contribution of the borrowed capital to the financing of the assets. The debt ratio (gearing ratio) shows that every RSD of SMATSA llc available funds contains RSD 0.3313 of foreign funds (absolutely), i.e. the indebtedness of the company amounts to 33.13% of the total financing funds (relatively). This means that the creditors have the right to use available company assets up to the amount of the indebtedness.

The second ratio is used to show the borrowed long-term capital share in the total long-term capital (owned and borrowed), which is closely related to the degree of profitability and the capital release speed through the capital write-off (depreciation). The long-term loans share in the total long-term funds amounts to 33.24%. The high share of the liabilities in the total capital and of the long-term liabilities in the equity is acceptable and will not jeopardize the safety and liquidity since the level of available cash equivalents is high.

SMATSA llc has not pledged any assets in order to secure the loan.

17 INDEPENDENT AUDITOR`S REPORT

MOORE STEPHENS
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BEOGRAD - NOVI SAD - NIŠ - ZRENJANIN

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This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR'S REPORT

To the stakeholders of Serbia and Montenegro Air Traffic Services SMATSA LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Serbia and Montenegro Air Traffic Services SMATSA LLC, which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the current accounting regulations in effect in the Republic of Serbia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the stakeholders of Serbia and Montenegro Air Traffic Services SMATSA LLC

Report on the Financial Statements - *Continued*

Opinion

In our opinion, the financial statements, in all material respects, give a true and fair view of the financial position of Serbia and Montenegro Air Traffic Services SMATSA LLC as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with the current accounting regulations in effect in the Republic of Serbia and accounting policies disclosed in the notes to the financial statements.

Other Matter

The financial statements of the Serbia and Montenegro Air Traffic Services SMATSA LLC for the year ended 31 December 2012 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 09 May 2013.

Belgrade, 16 May 2014

„MOORE STEPHENS
Revizija i Računovodstvo" d.o.o. Beograd

Bogoljub Aleksić
Managing Partner

ACRONYMS

ACRONYMS	
ADR	All-Purpose Data Stream Replicator
AFIS	Aerodrome Flight Information Services
AFTN	Aeronautical Fixed Telecommunication Network
AIP	Aeronautical Information Publication
AIS	Aeronautical Information Services
ALR	Alerting Services
AMHS	Aeronautical Message Handling System
ARTAS	ATM suRveillance Tracker And Server
ASM	Airspace Management
ATC	Air Traffic Control
ATFCM	Air Traffic Flow and Capacity Management
ATFM	Air Traffic Flow Management
ATIS	Automatic Terminal Information Service
ATM	Air Traffic Management
ATP	Airline Pilot Training
ATS	Air Traffic Services
BHANSA	Bosnia and Herzegovina Air Navigation Service Agency
CANSO	Civil Air Navigation Services Organisation
CAT	Category
CDA	Continuous Decision Approach
CIMACT	Civil Military ATM Co-ordination Tool
CPL	Commercial Pilot Licence
CPR	Correlated Position Report
DME	Distance Measuring Equipment
DPS	Data Processing System
DVOR	Doppler VOR
EASA	European Aviation Safety Agency
ECAC	European Civil Aviation Conference
ESARR	Eurocontrol Safety Regulatory Requirements
ETFMS	Enhanced Tactical Flow Management System
EUROCONTROL	European Agency for the Safety of Air Navigation
FAB	Functional Airspace Block
FAMUS	Future ATM Modernisation and Upgrade System

18 ACRONYMS

FIR	Flight Information Region
FIS	Flight Information Services
FMTP	Flight Message Transfer Protocol
FUA	Flexible Use of Airspace
GRIB	Gridded Binary
ICAO	International Civil Aviation Organisation
ILS	Instrument Landing System
LOA	Letter of Agreement
LVP	Low Visibility Procedures
MET	Meteorology or Meteorological
MTOW	Maximum Take of Weight
NATO	North Atlantic Treaty Organisation
OAT	Operational Air Traffic
OLDI	On-Line Data Interchange
PANS OPS	Procedures for Air Navigation Services-Aircraft Operations
PBN	Performance Based Navigation
PBN SID	Performance Based Navigation Standard Instrument Departures
PBN STAR	Performance Based Navigation Standard Arrival
PPL	Private Pilot Licence
PSR	Primary Surveillance Radar
RMCDE	Radar Message Conversion and Distribution Equipment
ROMATSA	Romanian Air Traffic Services
RRR	Radar Data Recording & Replay System
SAA	SMATSA llc Aviation Academy
SES	Single European Sky
SMATSA	Serbia and Montenegro Air Traffic Services SMATSA llc
SMS	Safety Management System
SSR	Secondary Surveillance Radar
TRS	Time Reference Signal
TSA	Temporary Segregated Area
VCS	Voice Communication System
ADC	Aerodrome Control Centre
Montenegro CAA	Civil Aviation Agency of Montenegro
AMC	Aeronautical Meteorological Centre
CAD	Civil Aviation Directorate of the Republic of Serbia
Ground RNA	Ground Radio Navigation Aids
LLZ	Localizer
AAD	Anti-Air Defence
RWY	Runway
TMC	Terminal Control Centre
ATCC	Air Traffic Control Centre

smatsa

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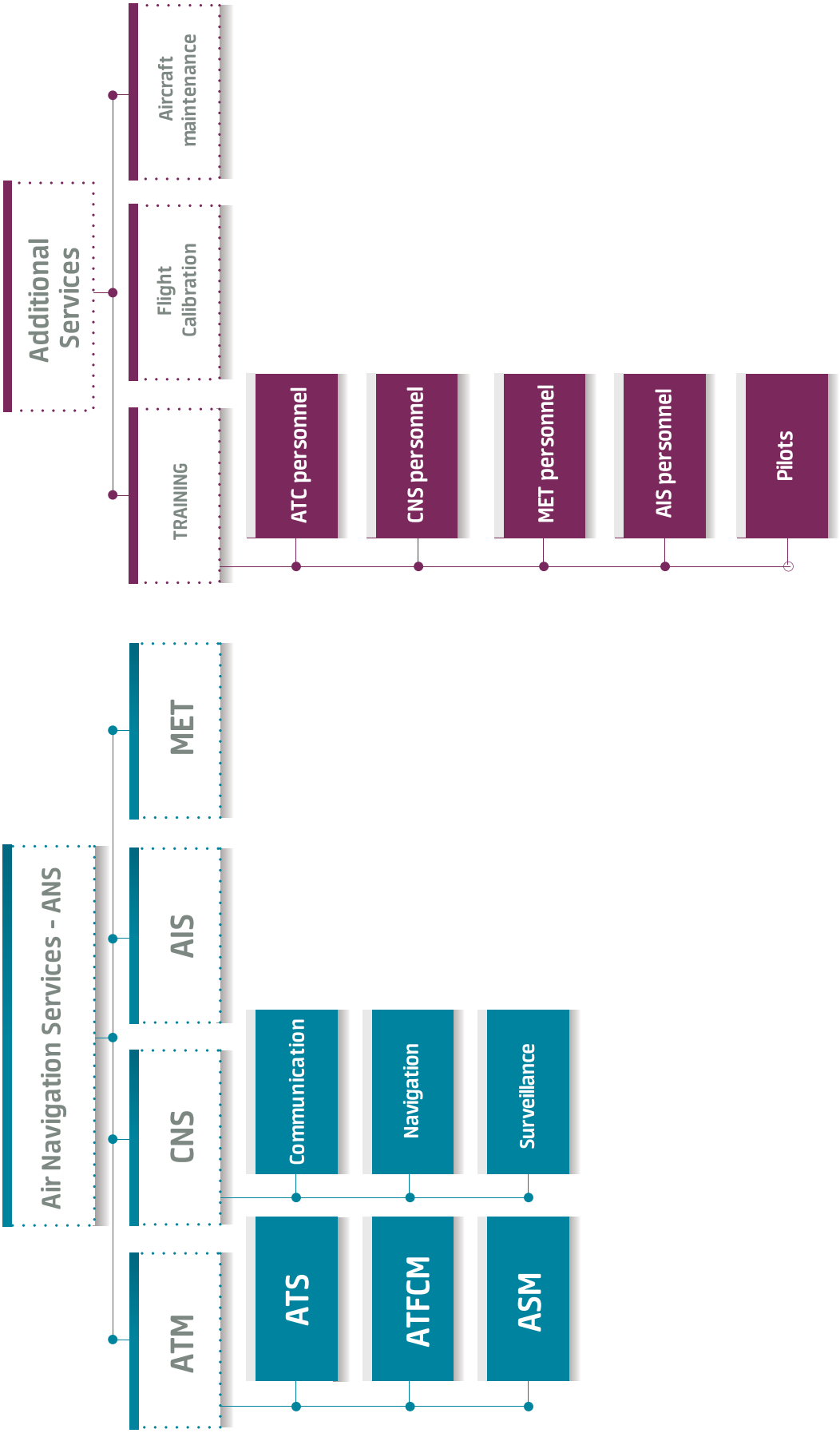
ANNEX 1: SMATSA SERVICES



20 SMATSA ORGANIZATIONAL CHART