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SERBIA AND MONTENEGRO AIR TRAFFIC SERVICES SMATSA llc

ANNUAL REPORT 2016

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Foreword by the CEO

For SMATSA llc, 2016 was a year of challenges but also the year of success.

Intensive cooperation with regional Air Navigation Service Providers (ANSP) continued and helped implementation and also further development of projects within the European Unions' Single European Sky Initiative, regardless of national borders.

At the very beginning of the year, 11 options of direct, long-distance cross-border routes (LRDS) entered into force, ranging over the airspace of 5 ANSPs: Croatia Control Ltd - CCL, Slovenian Control, Bosnia and Herzegovina Air Navigation Services Agency (BHANSA), Bulgarian Air Traffic Service Provider Agency – BULATSA, and SMATSA llc. Apart from the aforementioned ANSPs, AUSTROCONTROL also participated in the project as an associate member.

In parallel with this project, we continued to work on implementation of the South East Axis Free Flight Planning (SEAFRA) concept. I would like to emphasize that, as of December 8, 2016, together with our colleagues from Croatia Control Ltd - CCL and Bosnia and Herzegovina Air Navigation Services Agency we have been offering to our users a possibility to freely plan and carry out flights, around the clock, above the flight level 325, regardless of the airspace division or borders of state's Area of Responsibility (AoR). The project was initiated in 2015 and its implementation covers the air space above the territories of four states - two FAB CE members (Republic of Croatia and Bosnia and Herzegovina), on the one side, and the Republic of Serbia and the State of Montenegro, on the other side, which are not part of the FAB initiative. On the one hand, the idea behind the concept is to improve the security and efficiency of air navigation service provision, while on the other hand it also deals with the environmental protection, decreasing the fuel consumption, emissions of CO2 and nitrogen oxide. Special curiosity is the fact that the activities relating to

Radojica Rovcanin,
CEO, SMATSA llc

SEAFRA have been carried out in conformity with the Regulation 716/2014, 7 years ahead of the planned date for unlimited use of the air space in excess of 9000m over Europe.

It is worth mentioning that activities have been undertaken and that the cooperation was established, aiming at expansion of the aforementioned concept to the South East Axis Route of Air Traffic in Europe (SAXFRA), in order for it to also include the area of responsibility of other ANSPs from the region.

SMATSA llc continued to cooperate with numerous regional and non-regional ANSPs, as well as within the Centralized Services, a completely new concept in the provision of certain services developed by EUROCONTROL. Last year, SMATSA llc also intensified cooperation with partners from the SESAR Program.

In the summer of 2016, we were the hosts of the 19th International Flight Inspection Symposium (IFIS 2016), which is traditionally held biannually under the auspices of the International Committee for Airspace Standards and Calibration (ICASC). During the five-day conference we hosted more than 230 representatives of the ANSPs from around the world and companies dealing with calibration in different forms, starting from the production of the equipment and airplanes for calibration to those performing calibration services, who had an opportunity, apart from participating in the conference, to also enjoy natural beauties and the sights of Belgrade.

The trend of traffic increase continued and, accordingly, the number of flights registered in the course of the year in the SMATSA llc's area of responsibility was 611,000, all of which received excellent quality of service. Compared to the previous year, the increase of traffic was 2.3%, and on August 13th peak day, total number of flights reached 2,768.

It also gives me pleasure to note that we are among the first organizations in the Republic of Serbia and the State of Montenegro that are certified according to the new version of ISO standard for environmental management. Namely, the Environmental Management System (EMS), established in SMATSA llc as per the requirements of ISO 14001 standard of 2015, was successfully adopted in August 2016, and the certificate was issued for all locations in the Republic of Serbia and the State of Montenegro where SMATSA llc operates. By acquiring this Certificate we have clearly demonstrated our commitment and performance in the area of environmental protection, accomplished by controlling the impact of our activities, all in accordance with the policy and objectives of the environmental protection.

Aiming to be a modern, high qualified and responsible company, SMATSA llc is constantly improving the level of air navigation service provision, in order to enable safe, orderly and efficient air traffic in its area of responsibility, even in the cases of a larger volume and number of service beneficiaries. We have continued activities on the multiyear project of comprehensive modernization of the flight control system, and simultaneously set in motion the activities relating to infrastructure projects. In parallel with this project, the projects of modernization and infrastructure projects that had been already initiated were brought to end successfully.

Our humanitarian activity also continued. Total amount of money donated during 2016 amounted to 35.000.000 RSD. Significant sums were donated to the University Child Clinic of Belgrade, „St. Sava" Special Hospital of Belgrade, Oncology and Radiology Institute of Serbia, Clinical-Hospital centers Zvezdara and Bezanijska Kosa. We also took part in the humanitarian campaign „Heart for Children"; financial assistance was provided to the Serbia Olympic Committee, the soup kitchens in Kosovo and Metohija, a large number cultural institutions, and we also responded to lots of appeals for help sent by individuals. SMATSA llc, as a socially responsible company will in the forthcoming period continue to provide help, within its possibilities, to those who need the most.

SMATSA llc continued to provide successfully calibration services of ground-based radio-navigation devices from the air, based on earlier concluded contracts, and also to participate in international tenders invited for the provision of this type of services. A number of new contracts were concluded during the year; we enrolled the third class of self-financing candidates for flight controllers-34 candidates in total. In 2016, more than 120 candidates attended various types of trainings at SMATSA Aviation Academy.

Numerous challenges and further implementation of numerous initiated projects are ahead of us also in 2017. However, SMATSA llc will also by its future activities do its best to justify the trust of its beneficiaries.

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About Serbia and Montenegro Air Traffic Services SMATSA llc

2.1 Organization Profile

Serbia and Montenegro Air Traffic Services Agency, SMATSA llc Belgrade (hereinafter referred to as: SMATSA llc) was founded for the purpose of providing air navigation services in the air space of its responsibility, and other activities in the scope of air navigation.

Founders of SMATSA llc are Governments of the Republic of Serbia and the State of Montenegro.

By the Agreement signed by both Governments in 2012, after the Agreement on Cooperation in Air Traffic Area concluded by and between the Republic of Serbia and the State of Montenegro, the continuity of joint air navigation service provider - SMATSA llc was confirmed.

SMATSA llc operates in full accordance with national and international regulations and foreign treaties. Moreover, SMATSA llc participates in the work of the most important international aviation organisations and represents the Republic of Serbia and the State of Montenegro in the best possible way.

SMATSA llc mission is to provide high quality services in the field of air navigation (those in the ATM, CNS, MET, AIS domains) to civil and military aircrafts with a view to maintain and improve a safe, orderly and expeditious air traffic in the FIR/UIR air space Belgrade, and the air space of other states based on international treaties. In addition, SMATSA llc provides ANSP personnel training services, pilot training, calibration of devices and systems from the air, and aircraft maintenance services.

2.2 Air Navigation Services (ANS)

SMATSA llc's main business activity is the provision of air navigation services (ANS) that include:

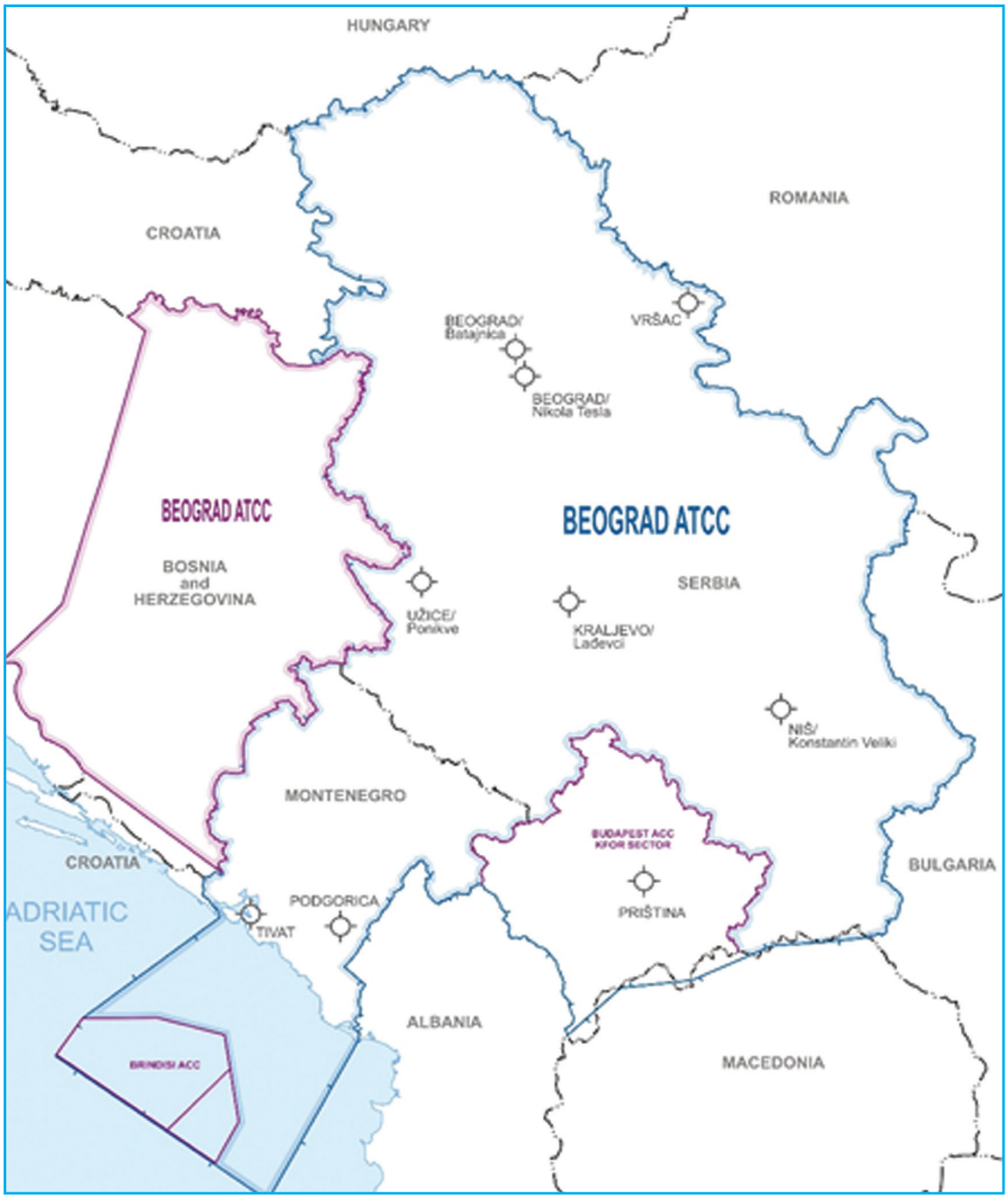
1. **Air Traffic Services (ATS),**
2. **Communication, Navigation and Surveillance (CNS) Services,**
3. **Aeronautical Information Services (AIS) and**
4. **Aeronautical Meteorological Services (MET).**

Serbia, Montenegro and Bosnia and Herzegovina have entrusted SMATSA llc with the provision of air navigation services.

1. **SMATSA llc's area of responsibility encompasses the airspace above The Republic of Serbia**
2. **The State of Montenegro,**
3. **International waters in the Adriatic Sea, and**
4. **Eastern part of Bosnia and Herzegovina, above flight level 325 (FL325).**

source: Eurocontrol

Figure 1. Territory covered by SMATSA llc air navigation services



2.3 Additional Services

Apart from air navigation services, SMATSA llc also provides additional services that involve:

1. **ANS Personnel and Pilot Training,**
2. **Flight Calibration of Ground Based Radio Navigation Aids and**
3. **Aircraft Maintenance.**

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2016 in Figures

3.1 Traffic Data (SMATSA llc's Area of Responsibility)

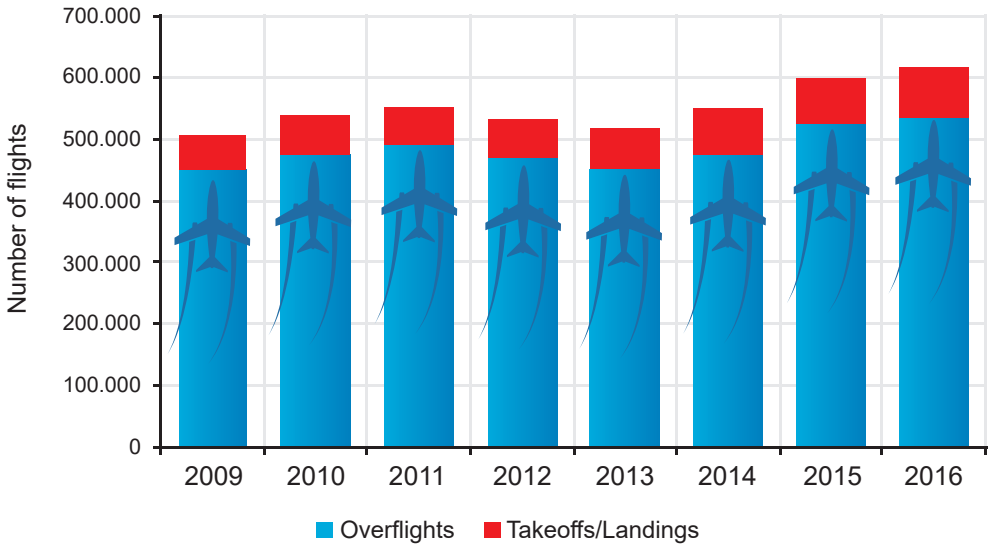


Figure 2. Number of Flights from 2009 to 2016

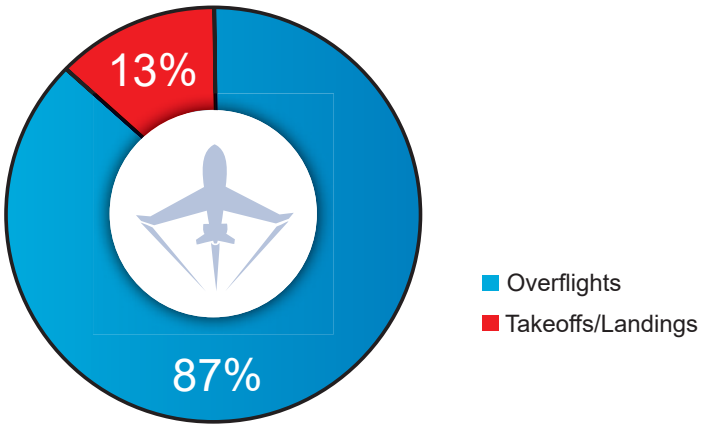


Figure 3. Flight Distribution in 2016

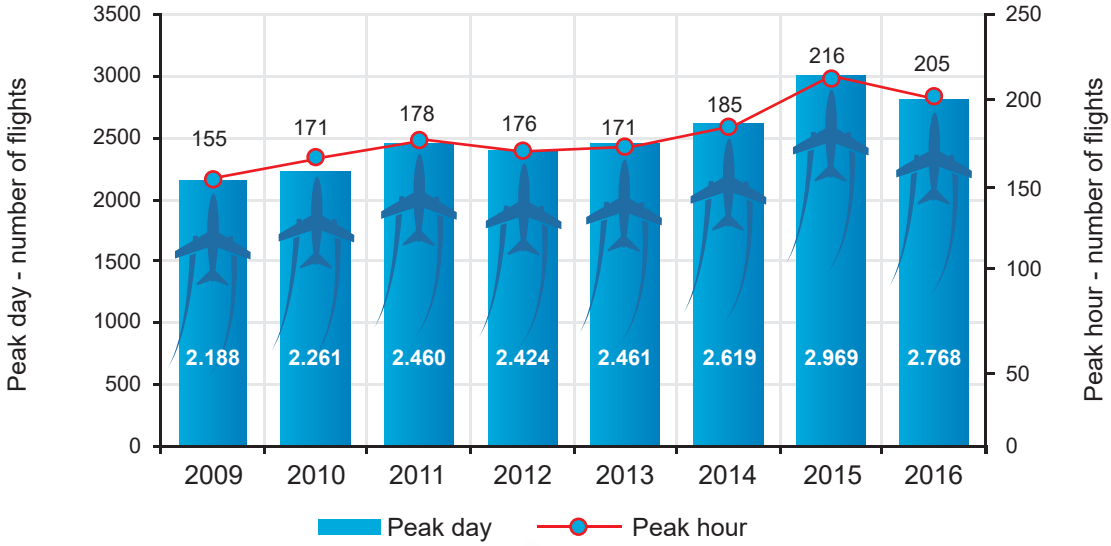


Figure 4. Peak day and peak hour from 2009 to 2016

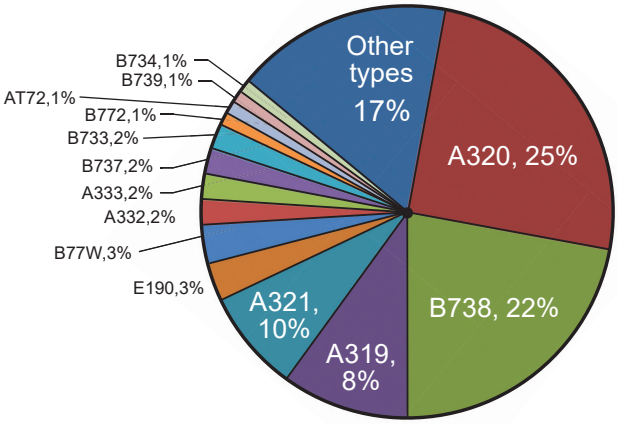


Figure 5. Share of some Aircraft Types in 2016

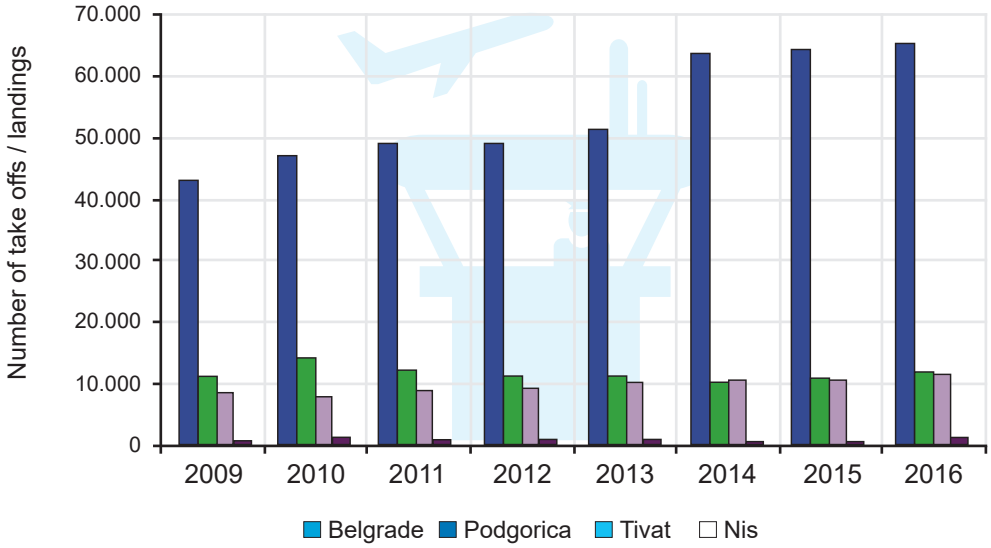


Figure 6. Number of Take-Offs and Landings, per Airport, from 2009 to 2016

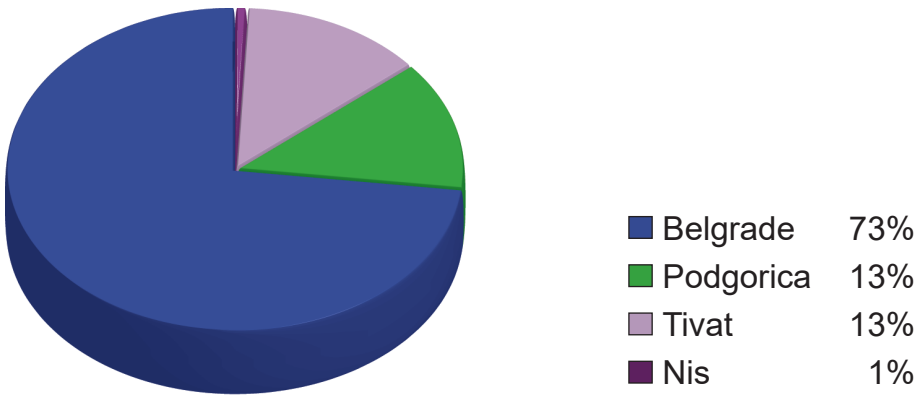


Figure 7. Traffic Distribution at the Airports in 2016

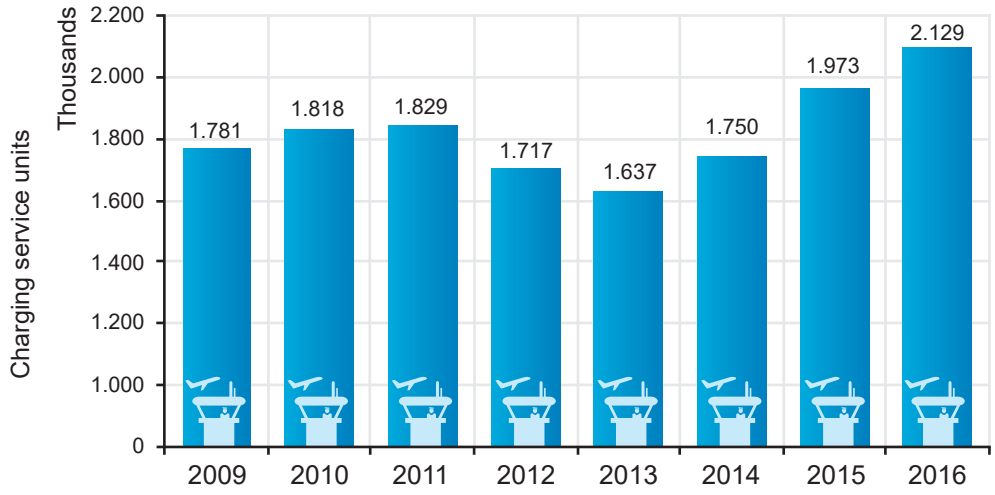


Figure 8. Number of Service Units from 2009 to 2016

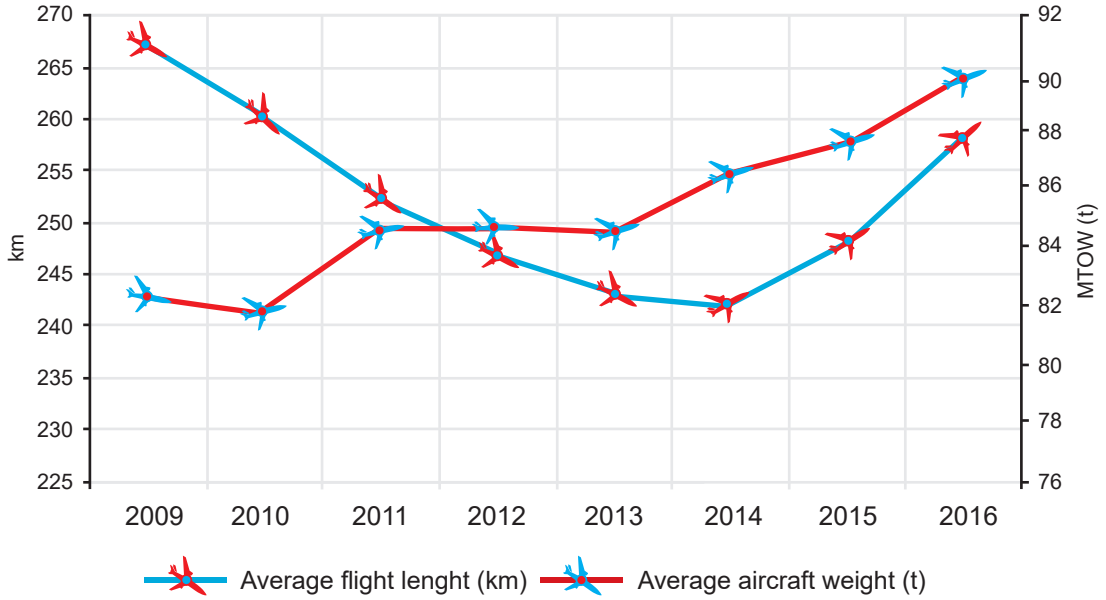


Figure 9. Average Flight Length and Average MTOW in FIR Belgrade from 2009 to 2016

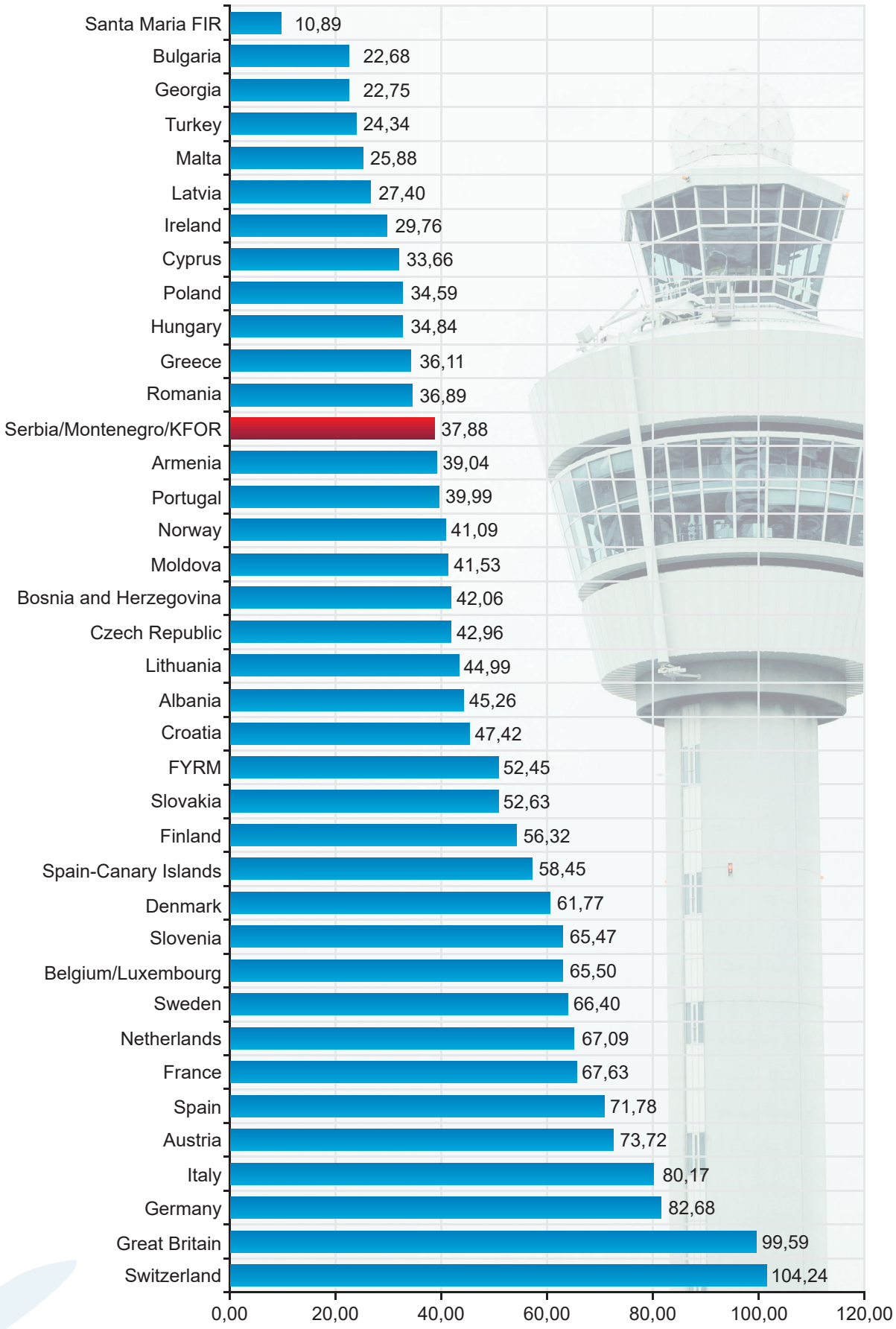


Figure 10. Unit Rates in 2016

3.2 Staff Fluctuation and Structure in 2016

Recruitment of an appropriate number of employees was conditioned by the needs of SMATSA llc's technical and administrative services, as well as by the retirement of some staff members.

The number of outgoing staff members was insignificantly above the number of newly employed workers. As a result, the annual average number of employees is at the planned level.

Table 1. Staff Fluctuations in 2016, per Month

Fluctuations	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
Incoming (+)	1	1	1	2	0	0	1	2	0	8	2	8	**26**
Outgoing (-)	0	2	2	2	0	3	3	0	4	3	1	8	**28**

The figures below present the staff structure at the end of 2016, per gender, qualification groups and age.

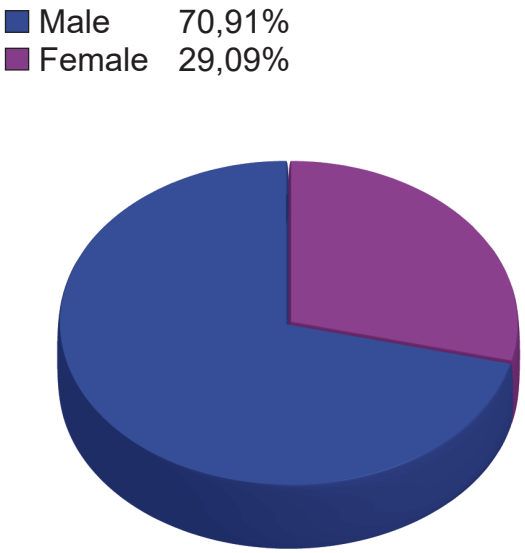


Figure 11. Staff Structure per Gender

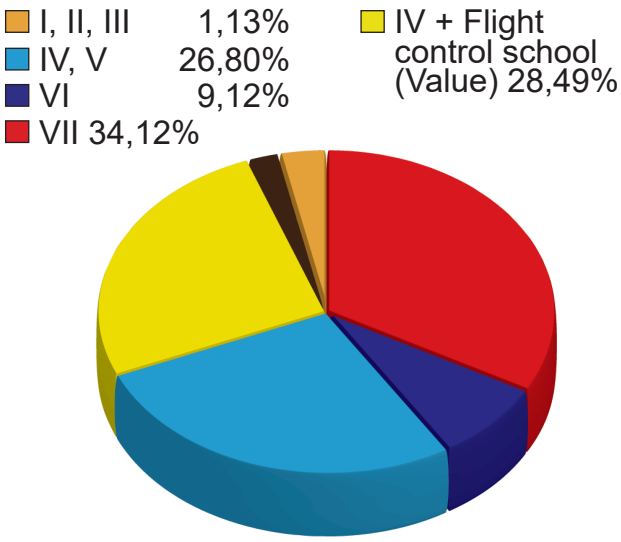
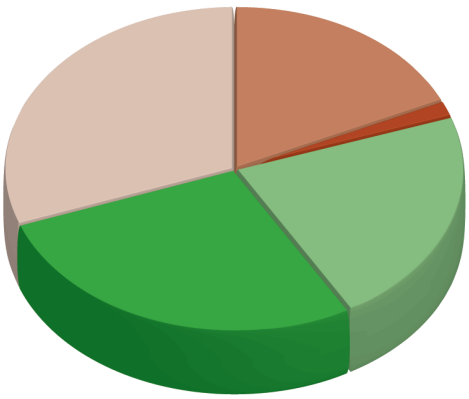


Figure 12. Staff Structure per Qualification Groups



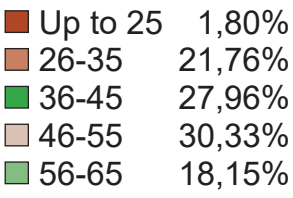


Figure 13. Staff Age Structure

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Air Traffic Management

In 2016, SMATSA llc implemented a series of activities that contributed to a better quality of services provided in air navigation.
Investments in ANS system, upgrade and implementation of the activities planned in the domains of ATM, CNS, MET and AIS contribute significantly to safety, regularity and efficiency of the air traffic, and to optimization of the flow management and air traffic capacity.

4.1 Improvement of ATM Area

In the frameworks of the project for route establishment for planning LRD – Long Range DCTs, on 4 February 2016 was successfully brought to end the implementation of 11 LRD options, extending from the Slovenian-Austrian to Bulgarian-Turkish borders. The initiative that put together the representatives of ANSP's from Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Serbia, Bulgaria and Austria resulted in introduction of five daytime routes and six night routes.

In order to increase the air space capacity, a new sector division within the Belgrade regional flight control was set in operation on 4 February 2016. The start of the operational application passed off smoothly.

Activities continued in the course of 2016 within the Free Route Airspace Planning project, one of the key improvements within the EU Single European Sky Initiative. Technological and system solutions applied at introduction of the SEAFRA concept (South-East Axis Free Route Airspace)[1] in the night time were tested through a real time simulation at the CRDS Hungarocontrol centre in Budapest. Based on the simulation results modifications were made that adapted the night time concept of free route planning to all-day application. On 8 December 2016, the free planning of routes on south-east axis above the flight level FL325 was expanded to 24-hour period.

Moreover, the activities concerning the planning and validation of the initiative for the expansion of SEAFRA horizontal borders were set in motion. On 29 November 2016, after a series of consultations, the first official meeting of five ANSPs providing services in 6 states (Serbia, Montenegro, Bosnia and Herzegovina, Croatia, Slovenia and Austria) was held in Ljubljana where readiness to join two cross-border concepts of free route airspace - SEAFRA and SAXFRA[2] was confirmed.

Apart from analyzing the actions that are necessary to implement this initiative, directors of the five providers agreed upon the text of the cooperation agreement that is expected to be signed in 2017.

In 2016, the design-investment documentation was also prepared, the procurement procedure of the software and hardware upgrade of TopSky-ATC system step 1 was carried out within the SUSAN modernization program, and the contract was signed with the system producer, the French company Thales Air System SAS. Implementation of the software and hardware upgrade of the TopSky-ATC system step 1 will increase the system interoperability with neighboring countries, which will allow new tools and improved functions. This will provide additional support to FRA 24h concept, which creates preconditions for the system to support the announced increase in traffic. By introducing the DISPLAY of downlinked parameters of Enhanced Mode S from the aircraft and by implementing the IODE interface for linking the TopSky-ATC system with the Fallback ATM system, the level of safety of the services provided by SMATSA llc will be raised. The phases of the system design, validation, installation, integration, draw-up of safety and system documentation, as well as of the preparation for operational work will be carried out in the course of 2017. Operational work has been planned to start in February 2018.

In the first quarter of 2016, the procurement was carried out and a Contract was concluded with the Swedish company SiATM. Within the first phase of the contract, the basic version of Fallback ATM system, which supports the operational concept of the TopSky-ATC system (operational system with remote radio stations in AFC Belgrade and AFC Podgorica), was implemented. Implementation of the first phase of the Fallback ATM system has enabled a more reliable operation of the flight control service provider, continuity of service provision in the air traffic with reduced capacity, and the provision of air traffic services until the traffic regulation measures are applied. Fallback ATM system was put into operation on 8 December 2016.

[1] Cross-border space of free route planning, which covers the airspace of Serbia, Montenegro, Croatia and Bosnia and Herzegovina

[2] Cross-border space of free route planning, which covers the airspace falling under the competence of service provides in air navigation of Austria and Slovenia

4.2 Improvement of Equipment, System and Infrastructure

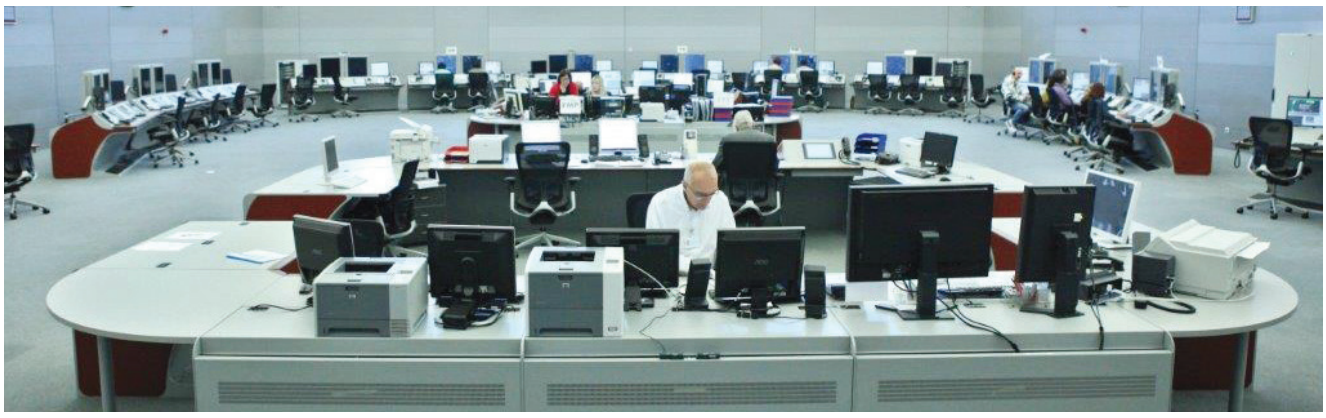
Implementation of new technologies in accordance with the Single European Sky requirements is the primary task of SMATSA llc, requiring a continuous investment in the equipment, systems and infrastructure. Projects that enable the upgrade of facilities, infrastructure and systems often cover a period of several years in a row. In such cases, the reports on implementation during one year can only give a picture of partial results of the achievement of the entire objective.
In 2016, SMATSA llc successfully completed several large projects that were previously initiated:

- Reconstruction of TWR Tivat was completed, and the outcome was the increased floor area of the facility and improvement of relevant infrastructure,
- Implementation of LLZ device at the Tivat Airport was completed. The device has been in operational use since 07 January 2016,
- Implementation of DVOR/DME devices at the airports in Belgrade and Vrsac was completed. The devices have been in operational use since September (Vrsac Airport) and November (Belgrade Airport) of last year respectively,
- Planned upgrade of telecommunication and electric power infrastructure within PSS AKL Nis was over, by which the facilities of the PSS AKL Nis Receiving Centre and goniometers were linked with the AKL Nis facility,
- The surveillance and management system (TMCS) within the voice communication system (VCS) were also upgraded. Implementation of relevant test tools by using a virtual infrastructure has been envisaged for next year.

Moreover, in 2016, the implementation a couple of large infrastructure projects were either initiated or resumed:

- Acquisition of the land necessary for installing a terminal radar for the needs of TMA Belgrade, as well as a land for the construction of a radar station to cover the south-east space of responsibility,
- Reconstruction of the power sub-stations, electric power installations and facilities on the locations of AKL Ponikve and RS Kosevac started
- Implementation of the project of construction of an annex to the building of CKL Belgrade with a tower of AKL Belgrade continued
- Implementation started of the SMATSA IP communication network project, which represents a part of the activities relating to introduction of voice and data transmission by using the IP protocol
- The project of ILS/DME and DVOR device procurement and installation was initiated.

During 2016 a Decision was made to change the purpose of the facility „School Center Building with an Annex on the Ground Floor and Additional Part for Simulator“ into a „Flight Control Technical Centre“, to be used for the needs of installing technical devices and systems serving the flight control function. The use of this facility has also been envisaged, among the other things, for dislocation of the transmitter center Belgrade and, in accordance with that, the corresponding terms of reference for the reconstruction of this part of the facility was prepared. At the same time, preparation of adequate technical documentation was launched by the draw-up of the Project Design.



4.3 Improvement of AIS Services

source: Eurocontrol

Aeronautical Information Services (AIS) involve the provision of aeronautical information/data necessary for safe, orderly and expeditious air navigation.

The processes of aeronautical information are regulated by international standards and recommended practice as contained in joint Single European Sky requirements.

In early 2016, the Agreement was signed for software maintenance for EAD, the basic system used in the provision of aeronautical information. The new maintenance agreement has enabled unhampered continued use of the system.

With a view to improving the aeronautical information services, in 2016 was successfully completed the procedure of procuring consultancy services concerning the making of a road map for full harmonization of the processes in SMATSA llc with ADQ, drawing-up of a feasibility study on implementation of aeronautical data storing system, and a direct electronic link with the sources of data.

4.4 Improvement of MET Services

In order to upgrade safe, orderly and expeditious air navigation, SMATSA llc is providing aeronautical meteorological services in accordance with national and international standards and regulations.

In 2016, SMATSA llc joined the initiative of the Croatian Air Traffic Control (Crocontrol) in the project eGAFOR. The purpose of the project is to develop, establish and incorporate in MET services a new product eGAFOR, principally intended for flights at lower altitudes, which are particularly sensitive taking into account the orography, the size of aircraft, the flying experiences of pilots, etc. Eight METSP from the region and IBL Software Engineering as an industrial partner are participating in the planning of the eGAFOR project.

In the framework of the project for forecast function centralization, the latest version of MESSIR software was purchased and implemented in 2016. At the locations of AKL Nis and AKL Kraljevo the system for pre-takeoff information was put in trial operation, while the system's operational use has been planned to start next year.

05

Development of Competitive Commercial Services

The activities taken to implement the planned targets relating to the development of competitive commercial services in air navigation, centralized services, training of aviation staff, calibration of ground-based radio navigation system (GRNS) from air, etc. were carried out at the level of relevant organizational units.

5.1 Calibration of the Ground Based Radio Navigation Systems from the Air

Contemporaneous equipment and the competent professional staff make it possible for SMATSA llc to provide the services of calibration of ground-based radio navigation systems (GRNS) from air, to check the flight procedures, and to provide the testing services relating to the selection of the location for installing a new GRNS. For such purposes, a modern aircraft Hawker Beechcraft King Air 350 is used with built-in calibration equipment (AD-AFIS-260). It is used by SMATSA llc for its own needs, but it also provides services to external users.

Services are provided in accordance with the requirements and recommendations as defined in the documents of the International Civil Aviation Organization - ICAO - Annex 10, Annex 14, and Doc 8071.

Under patronage of SMATSA llc, International Calibration (Flight Inspection) Symposium – IFIS 2016, was organized in Belgrade between 13 and 17 June 2016. It was the first event of this type in the region that brought together a total of 293 representatives from 50 countries with 6 planes. SMATSA llc was awarded the highest grade by the president of the International Committee for Aviation Standards and Calibration (ICASC) for the organization of the five-day symposium.

5.2 ANS Personnel Training Center

SMATSA llc Personnel Training Center is a center authorized for conducting the training and upgrading of flight controllers, aviation technical and aviation meteorological staff. The training programs are harmonized with the ESARR requirements, national and international regulations, as well as with the ICAO standards.

Apart from the training for its own needs, SMATSA llc Personnel Training Center also provides the training services to external users, both organizations and individuals.

The most important trainings implemented in 2016 in accordance with the Training Implementation Plan for ANS staff are shown in the table below.

Table 2. Degree of ANS Staff Training Implementation at the Centre

Name of Training	Degree of Implementation and Explanation
II Self-financing class CL – II ADI/TWR Rating Training group	Number of planned training candidates: 10 Training completed by: 10 candidates Number of theoretical instruction classes: 210 - Implemented: 100%
III Self-financing class CL – I Basic Training group	Number of planned training candidates: 21 Training completed by: 21 candidates Number of theoretical instruction classes: 346 – Implemented: 100%
Training for Acquiring APS - RAD/SRA/PAR authorizations	Number of planned training candidates: 5 Training completed by: 5 candidates Number of theoretical instruction classes: 96 - Implemented: 100%
Training for acquiring Terminal approach control – procedural (APP) authorization	Number of planned training candidates: 4 Training completed by: 4 candidates Number of theoretical instruction classes: 190 - Implemented: 100%
Training for on-the-job Instructors (OJTI)	Number of planned training candidates: 8 Training completed by: 8 candidates Number of theoretical instruction classes: 84 - Implemented: 100%

5.2.1 ATCO Training in Operational Units

In addition to the training implemented at the Centre for ANS personnel training, during 2016 trainings at operational units were also carried out as presented in the table below:

Table 3. Trainings in Operational Units in 2016

Name of Training	Degree of Implementation and Explanation
Training for acquiring APS-TCL LYBA (CKL Belgrade) authorization	6 candidates, training track record 100%
Training for acquiring ADI-GMC/AIR LYBE authorization (AKL Belgrade)	17 candidates, 15% done. Track record of conducted evaluations is 100%. Training terms were extended for two training, and the trainings will continue in 2017.
Training for FALLBACK radar system; LVP phase 1 and changes in the system of light marking, VOR/DME BGD and new APP procedures; changes in the use of CCO – block 6 (Deicing platform „N“) (AKL Belgrade)	67 candidates, training track record was 100%.
Training for acquiring ADI-TWR and APP Batajnica authorizations (AKL Batajnica)	1 candidate for ADI-TWR, 2 candidates for APP, training track record was 100%.
Training for acquiring APS-TCL (AKl Podgorica) authorization	6 candidates, training track record was 100%.

5.2.2 SMATSA Aviation Academy

In 2016, SMATSA Aviation Academy realized 4.089 hours of theoretical teaching, while the originally planned number of hours was 3.801 hours. The reason of higher than planned realization was additional courses in: PPL, MCC, aviation English language, as well as additional instruction.

Moreover, the number of candidates enrolled during 2016 was 49. However, 125 candidates were constantly present throughout the period.

Realized flight time in 2016 was 7.044 hours, which was by 8% more against the plan of 6.528.

SMATSA Aviation Academy also provides services of aircraft maintenance. In this respect, in 2016 were concluded new service provision contracts with the companies from Bulgaria and Serbia.

5.3 Development of Competitive Commercial Services in Air Navigation

In order to ensure the conditions for the provision of competitive services in air navigation in SMATSA llc area of responsibility, the year 2016 saw continuation of the cooperation in expanding the concept of free route airspace with the providers in the region.

The program SESAR (Single European Sky ATM Research) enables implementation of the technological aspect of the Single European Sky policy. Launched back in 2003, in the phase of the program definition, the European ATM Master Plan document was generated. Thereafter, in the development phase of the SESAR program were identified two phases: SESAR 1 (2008-2016) and SESAR 2020 – covering the time period from 2016 to 2020, and beyond.

As a result of the negotiations of SMATSA llc and the company Thales on the conditions for SMATSA llc participation in pilot common projects (PCP) in the framework of SESAR 2020, on 30 May 2016 was concluded the Cooperation Agreement based on which SMATSA llc will participate through the Thales Air System SAS consortium in Pilot Common Projects (PCP), in the status of „linked third party".

The Cooperation Agreement between SMATSA llc and THALES regulated the rights and obligations, as well as the basic principles of cooperation at bilateral level within the SESAR 2020 program. By signing the bilateral agreement SMATSA llc simultaneously accepted also the rights and obligations regulated by the Membership Agreement. In the course of October 2016 were signed four individual pilot projects in which SMATSA llc representatives will participate actively:

- **Trajectory Based Free Routing — PJ06 ToBeFREE,**
- **Advanced Separation Management PJ10 PROSA,**
- **4D Trajectory Management — PJ18 4DTM,**
- **PJ24 VLD Network Collaborative Management PJ24 NCM.**

5.4 Centralized Services

In the past period, SMATSA llc participated actively in the Eurocontrol project concerning centralized services. SMATSA llc joined various consortia and submitted joint bids for 7 CFT (Call for Tender):

- **CS1 (Flight Plan and Airport Slot Consistency Service - FAS),**
- **CS6.2 (Management of Common Network Resources Service/Mode S Interrogator Code Allocation - CNR/MICA),**
- **CS6.3 (Management of Common Network Resources Service/Radio Frequency Function - CNR/RFF),**
- **CS6.5 (Management of Common Network Resources Service/European IPS Repository - CNR/EIPR),**
- **CS6.6 (Management of Common Network Resources Service/Security Certificate Service - CNR/SCS),**
- **CS6.7 (Management of Common Network Resources Service/Operation and Coordination of Network Security - CNR/OCNS) and**
- **CS7.1 (Network Infrastructure Performance monitoring and analysis Service/Performance monitoring of Data-link communication, Surveillance avionics, TCAS and RVSM - NIPS/CNS-PERF).**

In 2016, for the CSs 6.3 and 6.7 Eurocontrol selected as first ranking the consortia where SMATSA llc is a member, and for CS6.2 and CS1 as second-ranking. Despite the completed evaluation of the bids and the selection made by Eurocontrol for some CSs, the conclusion of agreements has not been approved as yet for any CS (approval is made by the Provisional Council).

Evaluation of the bids, and/or negotiations with the bidders for CSs 6.5 and 7.1 did not finalize in 2016.

In early October 2016, an invitation was published (CFT) for CS5 – European ATM Information Management Service (EAIMS), and SMATSA llc joined a new consortium.

06

Improvement of Social Responsibility and Environment Protection

In 2016, SMATSA llc successfully brought to end certification of the environment protection system according to the requirements of ISO 14001:2004 standard. The issuance of the certificate was preceded by the preparation for certification, pre-certification external control, and the certification procedure as such.
In the course of 2016, electromagnetic radiation in the environment was measured on SMATSA llc devices and instruments deployed on 25 locations in Serbia.
At the close of 2016, a meeting was held with representatives of the Ministry of Agriculture and Environment Protection, which was dedicated to the topic of monitoring and measurement of ionizing radiation. Based on the documented official note, representatives of SMATSA llc CNS division were invited to get involved in the public debate to be carried out on the occasion of the discussion on expected amendments of the Law on Protection against Non-Ionizing Radiation.
In the waste management area, SMATSA llc is fully compliant with the legal requirements of Serbia and Montenegro. Entire dangerous and non-dangerous waste is stored adequately in appropriate vessels. Contracts have been signed with authorized operators for the waste takeover and definitive disposal within the life cycle. The Agencies for Environment Protection in Serbia and in Montenegro were furnished with the obligatory annual reports in this respect.
Improvement in the segment of monitoring the decommissioned property, useful wastes and waste in general will be carried out through software application for the making of which public procurement procedure was launched at the close of 2016. The application will also include the flows of electrical-electronic and other products that are imported and which are also subject to reporting and payment of the ecological fee for special waste flows. The application will bind up the lists of expenditures, legal and internal forms that will in a documented manner follow up the flows of decommissioned fixed assets, property and waste.

07

Business Performance

In accordance with the European Commission's Regulations, monitoring of ANSPs business performance is conducted in line with the Performance Scheme. This process involves monitoring of key performance indicators (KPI) in 4 areas: safety, capacity, cost efficiency and environment protection.

The regulations of the European Commission relating to the second reference period (EU) 390/2013 and 391/2013 have not been transposed as yet in the legislation of the Republic of Serbia and the State of Montenegro and, accordingly, SMATSA llc has no duty of reporting in connection with them. However, in view of the activities in connection with possible integration of ECAA partners in the third reference period (from 2020), and taking into account the objectives listed in the Strategic Operation Plan for the period 2016-2020 and Annual Operation Plan for 2016, an overview of the implementation against the targets set is presented in the next chapter.

7.1 Operation Compliant with SES Objectives

7.1.1 Safety

Assessment and monitoring of the safety level in the system of SMATSA llc is based on monitoring of safety indicators in different parts of the organization.
Safety indicators, in the context of the Performance Scheme in the second reference period, enable monitoring of the state of the safety management system on the part of service providers in air navigation (SMS indicators), and relate to:

- **efficiency of the safety management system,**
- **level of utilization of RAT methodology, and**
- **level of application of the culture of equity and trust (Just Culture).**

Gathering of information and assessment of the situation in the domain of SMS indicators is done by filling-out standardized questionnaires. Monitoring of these indicators by SMATSA involves annual analysis of the EASA estimate based on the information provided by the questionnaires. If necessary, SMATSA takes appropriate corrective measures based on the estimate.
SMS indicators are followed up on a voluntary basis for the purpose of preparing implementation of the regulations which are for the time being not obligatory for the Republic of Serbia and the State of Montenegro, but the implementation of which is expected in the legal system in the forthcoming period.

Table 4. Targeted and Accomplished Values of SMS Indicators per Civil Aviation Directorate's request for 2016

Group of SMS Indicators		Acceptable safety level	Accomplished
I.1.	*Safety Management System (SMS) Effectiveness*	ACCOMPLISHED FOR 2015 (for 2016, is done during 2017) THERE ARE NO PRESCRIBED COMPARATIVE VALUES FOR 2015	1. Managing safety policy and safety objectives: **D** 2. Managing safety risks: **D** 3. Safety guarantees: **D** 4. Safety improvement: **D** 5. Safet culture: **C**
I.2.	*Application of RAT Methodology*	THERE ARE NO PRESCRIBED COMPARATIVE VALUES FOR 2016	1. Endangering safe aircraft separation: **Major - B5x1 event /B4x1 event;** (100% applied RAT) 2.Unauthorized entry on takeoff and landing runway: **No event reported** 3. ATM specific events: ● Ability to provide safe but degraded ATM services:**C5x5 events;** ● No effect on ATM services: **E5x4 events**; ● Not determined: **D5x1 event** (100% applied RAT to the reported events)
I.3.	*Application of Just Culture*	THERE ARE NO PRESCRIBED COMPARATIVE VALUES FOR 2015	Filled-out questionnaire submitted to Civil Aviation Directorate

Table 5. Targeted and Accomplished Values of SMS Indicators per ACV Request for 2016

SMS Effectivness of service providers in air navigation (Group of SMS indicators)		Acceptable safety level	Acceptable safety level accomplished/not accomplished
SI.1.	*SMS Effectiveness*	ACCOMPLISHED FOR 2015 (for 2016, is done during 2017) THERE ARE NO PRESCRIBED COMPARATIVE VALUES FOR 2015	1. Managing safety policy and safety objectives: **D** 2. Managing safety risks: **D** 3. Safety guarantees: **D** 4. Safety improvement: **D** 5. Safety culture: **C**
SI.2.	Application of RAT Methodology	THERE ARE NO PRESCRIBED COMPARATIVE VALUES FOR 2016	1. Endangering safe aircraft separation: **No event reported** 2. Unauhorized entry on takeoff and landing runway: **No event reported** 3. Events specific for ATM: ● Ability to provide safe but degraded ATM services: **C4x1 event;** ● No effect on ATM services: **E5x4 events;** ● Not determined: **D5x1 event** (100% applied RAT to reported events)
SI.3.	Application of Just Culture	THERE ARE NO PRESCRIBED COMPARATIVE VALUES FOR 2015	Filled-out questionnaire submitted to Civil Aviation Agency

Moreover, the efficiency of the safety management system is evaluated based on safety indicators prescribed at national level by the aviation authorities (CAD and CAA). Analysis of safety indicators is done annually, and the 2016 results are presented in the Table.

Table 6. Targeted and Accomplished Values of Safety Indicators per CAD Request for 2016

Group of ATM indicators (events with direct ATM share)		Acceptable safety level	Accomplished values
I.4.	*ATM caused Accidents/incidents*	0,00335	0 incident with ATM share
I.5.	*ATM Caused Serious Incidents*	3	0 serious incidents with ATM share
I.6.	*ATM Caused Major Incidents*	33	2 major incidents with ATM share
Grtoup of CNS indicators (ATM specific/special extraordinary events)		**Acceptable safety level**	**Accomplished values**
I.7.	Number of DPS failures	<8 events (break-down) per year	0,33 break-downs per year, on average
I.8.	Total duration of interrupted operation of SSR radar stations	<500 minutes per year	indicators' value is 61,4 minutes
I.9.	Total duration of interrupted operation of PSR radar stations	<2000 minutes per year	indicators' value is 337,9 minutes
I.10.	MTBO-mean time between failures of LOC ILS 12 (CAT III)	>4.500 hours per year	No failure - MTBO[h]= /
I.11.	MTBO-mean time between failures of LOC ILS 30 (CAT I)	>1.500 hours per year	No failure - MTBO[h]= /
I.12.	Number of losses or degradation of one or more operation frequencies	<50 events per year	On average, 14,66 interruptions of services at annual level
Targeted indicators group		**Acceptable safety level**	**Accomplished values**
I.15.	**Collisions related** (MID-AIR, on the ground between acf/ vehicle/ person/obstruction)	MOVEMENT AGAINST PREVIOUS YEAR'S VALUE IS FOLLOWED UP	Three-year average 0,333 (1 event in 2014)
I.16.	**Separation related** (Separation minimal infringement, Inadequate separation)		Three-year average 2,666
I.17.	**Runway related** (Runway excursion, Runway Incursion where avoiding action was necessary/ not necessary)		Three-year average 1

Group of ATM indicators (events with direct ATM share)		Acceptable safety level	Accomplished values
I.18.	Aircraft deviations related (Acf deviation from ATC clearance, Acf deviation from applicable ATM regulation, Acf deviations from applicable published ATM procedures, Deviations from aircraft ATM-related equipment carriage and operations, as mandated in applicable regulation(s))		Three-year average 7
I.19.	Altitude related (Level Bust LB, Controlled Flights Into Terrain/CFIT, Near Controlled Flight Into Terrain/CFIT)		Three-year average 1,666
I.20.	**Unauthorised penetration of airspace related**		Three-year average 5,333
I.21.	**Communication related** (Prolonged Loss of Communication/ PLOC, inadequate usage of phraseology, language issues)		Three-year average 9,333
I.22.	**Loss of control in flight related** (MET conditions, Wake turbulence…)		N/A
I.23.	**Other** *(Other services within ANSP, like AIS, SEC and other)*		**MET:** ● in 2015: 11 events; ● in 2016: 36 events; **MED:** ● in 2015: 19 events; ● in 2016: 18 events; **SEC:** ● in 2015: 3 events; ● in 2016: 2 events.

Table 7. Targeted and Accomplished Security Indicators Value per CAA Request for 2016

Indicators for events with direct ATM share (Group of ATM indicators)		Acceptable safety level	Accomplished values (accomplished/non-accomplished aceptable safety level)
SI.4.	*ATM caused Accidents*	0,00335	0 accident with ATM share
SI.5.	Number of ATM caused Serious Incidents	3	0 serious incidents with ATM share
SI.6.	*Number of ATM Caused Major Incidents*	33	0 incidents with ATM share
Indicators for events characteristic for ATM serving to monitor the CNS system condition		**Acceptable safety level**	**Accomplished values (accomplished/non-accomplished aceptable safety level)**
SI.7.	Accessibility of communication function	< 50 service loss at annual level	15 service losses at annual level
SI.8.	Accessibility of surveillance function of SSR radar stations' operation	<500 mintes per year	**ACCOMPLISHED** (Koviona: 9,1 minutes Murtenica: 82,13 minutes Kosevac: without interruption Srpska Gora: without interruption)
SI.9.	Accessibility of surveillance function of PSR radar stations	<2000 minutes per year	**ACCOMPLISHED** (Koviona: 113,81 minutes Murtenica: 290,75 minutes Srpska Gora: without interruption)
SI.10.	Accessibility of functions for data processing and distribution	< 8 failures per year	0 break-downs
SI.11.	Accessiblity of navigation function LOC 36 (CAT I) on LYPG	>1.500 hours per year	**ACCOMPLISHED** No failure - MTBO[h]= /
SI.12.	Accessibility of navigation function LOC TIV	>1.500 hours per year	**ACCOMPLISHED** (no failure - MTBO[h]= /)
SI.13.	Accessibility of power systems	>0,9999% at annual level	**ACCOMPLISHED** (Not a single complete failure of electric power supply of operational devices)
SI.14.	Endangering the ATM system safety	Acceptable value are not determined	**1 event** (on 14/03/2016 – raid on NDB GO facility of Gostilj, theft of cables)

7.1.2 Capacity

Capacity indicator evaluates the efficiency in providing services in the ANSP's area of responsibility. Efficiency is in line with the Performance Scheme and is monitored on the basis of average delay per IFR flight, whose target value for SMATSA llc is set in the framework of the document „European Network Operations Plan 2015-2019", and/or in the framework of LSSIP 2015.
In addition, SMATSA llc monitors the compliance indicator for ATFM slots for out-bound traffic from FIR Belgrade at annual level in accordance with the CAD Rulebook („Safety and Capacity Indicators and Acceptable Safety Levels until 2020"). Corresponding indicator was not recognized in the CAA requirements. Capacity indicators, their target and accomplished values for 2016 are presented in the table below.

Table 8. Target and Accomplished Values of Capacity Indicators in 2016, per CAD Request

Group of Capacity Indicators	Acceptable safety level	Accomplished values
Average time of delay per IFR flight in FIR Belgrade generated by ATM	<0.1 minute/IFR flight	0.00859
Percentage of compliance with ATFM slots for outbound traffic from FIR Belgrade (LYBE and LYNI)	>80%	90,8%

7.1.3 Cost Efficiency

At the November 2015 session of the EUROCONTROL's Enlarged Committee, 2016 unit rate for „Serbia - Montenegro – KFOR" charging zone was approved and adopted (Decision number 138 of 9/12/2015 enclosed in Attachment 2, published in the „Official Gazette of the Republic of Serbia", number 3/16). By the Decision, unit rate was determined at 37,79 EUR (National Unit Rate), and/or 37,88 EUR (Global Unit Rate), including the EUROCONTROL Administrative Unit Rate. Average value of the monthly adjusted unit rate for 2016 was 36,91 EUR, which is 2,3% lower than the adopted charge (National Unit Rate). In 2016, SMATSA's unit rate share was around 30,80 EUR.
Monthly adjusted unit rates (National Unit Rate) for the „Serbia - Montenegro – KFOR" charging zone and SMATSA llc are graphically presented on the next graph:

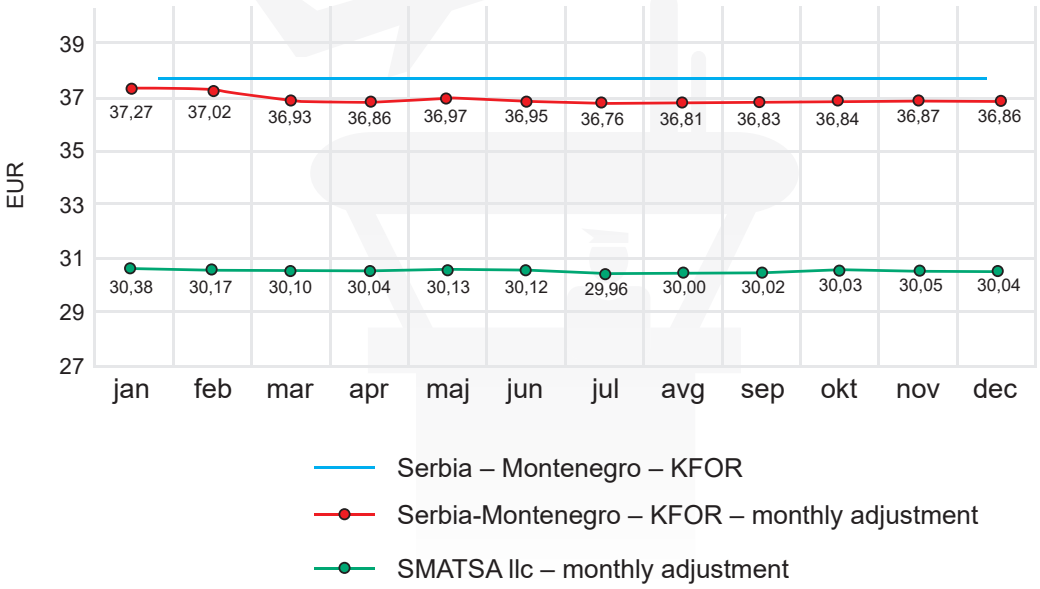


Figure 14. Unit rates for ''Serbia - Montenegro – KFOR'' charging zone and SMATSA llc in 2016

Basic cost effectiveness indicator for the determined cost model calculation in the second reference period at the European Union level is the average determined value of the unit rate (determined unit costs), brought down to the level of EUR = year 2009. The Decision 2014/132/EC of the European Commission defined the goal of the cost efficiency, which involves a decrease of 3,3% of the determined unit rate for each year in the second reference period (2015-2019). For the European countries applying the determined cost model, average monthly unit rate for 2016 was 54,95 EUR.

Planned unit rate for „Serbia - Montenegro – KFOR" charging zone was in 2016 below the average European value.

7.1.4 Environmental Protection

The level of environmental protection is evaluated based on average horizontal flight efficiency, an indicator recognized in the regulations concerning the performance Scheme within the Single European Sky regulations. In the second reference period (2015-2019), target indicator values are defined as follows:

1. KEA (Key Performance Environmental indicator based on Actual trajectory) – indicator of deviation of actual flight trajectory in relation to the great circle path. Average horizontal flight efficiency until 2019 represents the deviation of the actual trajectory of 2,6% against the great circle path,

2. KEP (Key Performance Environmental indicator based on last filed flight plan) – indicator of deviation of the last filed flight trajectory against the great circle path. Average horizontal flight efficiency until 2019 represents the deviation form the last filed flight trajectory of 4,1% relative to great circle path.

The values of horizontal flight efficiency indicators for Serbia and Montenegro in 2016 satisfy in full the required values, as shown in the next graph.

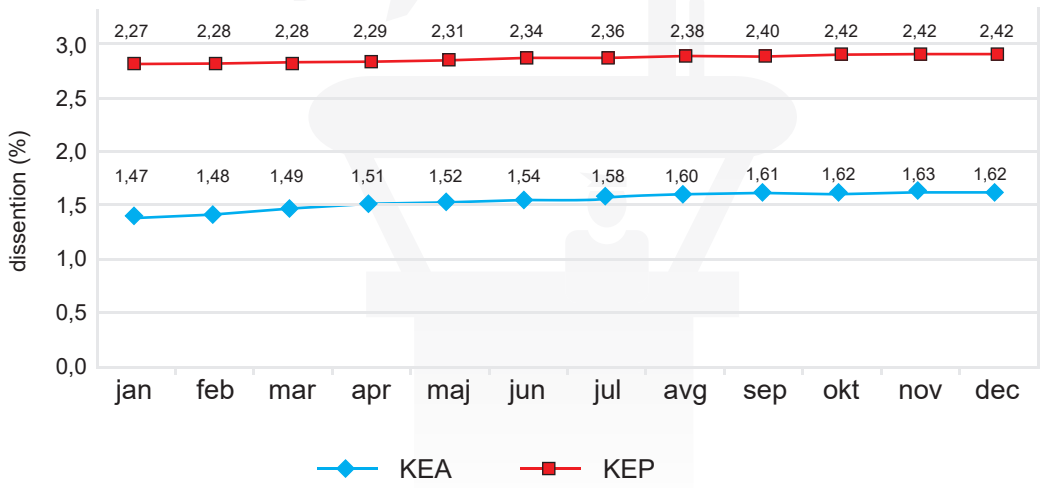


Figure 15. Horizontal flight efficiency in 2016 for Serbia and Montenegro (source: EUROCONTROL/PRU)

The above facts confirm once again that SMATSA llc contributes significantly to the environmental protection by constantly upgrading the route network, organization of the airspace and work technology, as well as by introduction of new procedures.

7.2 Operation Relative to other Objectives

7.2.1 Quality of provided services

SMATSA llc sets and/or analyzes the annual quality targets at a regular meeting of the Quality Committee. The table below shows the analysis of the accomplished quality objectives set for 2016:

Table 9. Analysis of Accomplished Quality Objectives Set for 2016

Service	Objective	Planned	Accomplished	Note
ATM	Average delay per IFR flight generated by SMATSA llc at annual level	Less than 0,095 minutes	YES	According to the source EUROCONTROL NMOC database (Traffic and Delay per Country – delay in 2016 per one IFR flight generated by SMATSA llc was **0.00859 minutes.**
	Percentage of aircraft taking off from the SMATSA llc area of responsibility within the time tolerance of issued slot	Higher than 83%	YES	According to the source EUROCONTROL NMOC database (the extract from which, in the form of slot observance statistics, during 2016 was accomplished the value of 90.8% aircraft taking off from SMATSA llc area of responsibility within the time tolerance of issued slot, at annual level.
	Number of serious incidents, confirmed by the analysis to have been caused by ATM	Less than 5	YES	*Perusal of the database of events, maintained at SAF.00 for 2016 confirmed that total number of reported events was 266 of which 7 required a further analysis by SAF.00 department. To accidents were recorded without ATM participation. Moreover, not a single event classified under Serious Incident category has been recorded.*
CNS	System availability of technical devices and systems under SMATSA llc competence, having direct impact on the provision of services	A(t) = 99,9%	YES	In spite of exceptions, individual dissentions from the desired values of system availability enumerated in the attachments, and due to the applied individual and group redundancy of CNS devices and systems, all devices, systems and services may be deemed to have accomplished the quality objective from the CNS domain.
MET	Terminal aerodrome forecast (TAF)	As per ICAO Annex 3, Attachment B	YES	Results of the analysis of terminal aerodrome forecast (TAF) accomplishment: for LYBT 92,3%, for LYBE 92,8%, for LYVR 91,4%, for LYKV 95,2%, for LYNI 96,0%, for LYUZ 87,6%, for LYPG 97,3%, for LYTV 98,1%, and/or, on average, for all aerodromes 94% having been thereby achieved the desirable operational terminal aerodrome forecast provided in ICAO Annex 3, Attachment B
AIS	Data quality assessment (Q)	Higher than 0,77	YES	Quality evaluation was carried out on a sample of 46 data. Average grade for this sample is **0,778**
TRE	Number of realized theoretical teaching hours for current year, for each starting group of candidates at the Center for ANS staff training	100%	YES	All courses initiated during 2016 were completed in accordance with the approved plans and programs, and the planned number of theoretical training hours
	Realized number of practical training hours for current year, for each starting group of candidates at the Centre for ANS staff training	100%	YES	All courses initiated during 2016 were completed in accordance with the approved plans and programs, and the planned number of practical training hours

Service	Objective	Planned	Accomplished	Note
ATO	Percentage of realized theoretical instruction classes against the planned number of classes for current year, for each starting group of candidates at SMATSA Aviation Academy	100%	YES	Accomplishment of the objective was 106%. Planned: 3.801 classes, implemented: 4.061. The increase is due to non-planned courses: PPL course, MCC course, aviation English language course, and additional teaching.
	Observance of the deadlines set for completion of theoretical training planned for current year at SMATSA Aviation Academy	100%	YES	Deadline for all groups starting the training were observed. All groups, i.e. : BRAVO 15, DELTA 15, ECHO 15, FOXTROT 15, PPL DL completed the theoretical instruction within the planned deadlines
	Percentage of realized flight time hours against planned number of flight time hours for the current year, for each group of candidates starting training at SMATSA Aviation Academy	100%	YES	Objective accomplished 108% Planned number of flight time hours: 6.528, realized number of flight time hours: 7.044. The increase is due to the larger number of enrolled candidates, 107 instead of 94.
	Observance of planned deadlines set for completion of flying training for current year at SMATSA Aviation Academy	100%	YES	Deadlines for the completion for all groups that started the training were observed for all candidates regularly attending the flying training.
CAL	Implementation of annual calibration plan	100%	YES	Accomplishment of annual plan of calibration per assets: 106%. Number of implemented calibrations according to annual plan was 413 (of which, 279 calibrations were contract-based), and 24 extraordinary calibrations, and/or 437 in total.
MO	Fulfillment of working norms expressed in percentage against the norms set by aircraft manufacturer	Higher than 97%	YES	Working norms fulfillment was 99,38%. The objective was accomplished thanks to better organization of accompanying actions not comprised by working norms
	Maximum „Down Time“ due to technical failure of aircraft, used by SMATSA Aviation Academy at annual level	Less than 120 working days	YES	Total „Down Time“ due to technical failure of aircraft, used by SMATSA Aviation Academy, was 55 working days. Such result was achieved by expeditious removal of technical failures exceeding the scope of periodical works performed on aircraft.

7.2.2 Additional Operational Track Records

Apart from the operational track record indicators comprised by European and national regulations, and/or quality objectives, SMATSA llc monitors the operational track record of certain areas based on the internally set operational indicators. The values of additional indicators against the targets set are presented in the table below.

Table 10. Additional Operational Track Records in 2016

Area	Indicator name	Target value	Accomplished	Explanation
AIS	Number of objections of AIS users	15	5	Objections are most frequent in the case of errors or due to lack of clarity in published aviation data. Smaller than planned number of objections can be an indicator of the improved process of data processing, and also of improved quality of aviation information.
HUM	Average number of days in each year per employee spent at conferences or creative workshops[2]	> 1.5	1,54	A pro-active manner is necessary in designing the training of all employee categories, by making the training function more meaningful and by applying it as such to education of candidates
HUM	Average number of days in a year spent at training for operating work posts (expressed per person)[3]	> 3	2,90	Training of employees holding flight controller licenses and corresponding authorizations need to be designed in a pro-active manner by taking into account the importance of professional upgrading function and training of aviation personnel.

[3] For the needs of this Report, average number of days per employee spent at conference or creative workshops was done based on the number of employees deployed to work posts not requiring a flight controller license.
[2] For the needs of this Report, operating work posts mean the jobs requiring a flight controller license

08

Consultations with Service Users

SMATSA llc dedicates a great attention to the follow-up of the service users' satisfaction both within its core activity and additional services. Through the established quality management system and by continuously working on upgrading of operation processes, SMATSA llc seeks to fulfill all users' requirements. SMATSA llc provides its services to users such as airlines, business and military aviation, airports and other flight controls, individuals and groups in the framework of ANS staff and pilot training, and companies within aircraft maintenance services.

8.1 Air Traffic Management - ATM

The reports of service users from the RNDSG meeting, as well as NM EUROCONTROL show that carriers are satisfied with the level and quality of the services provided by SMATSA llc. A conclusion can be drawn from the mere fact that SMATSA llc is not mentioned in the report dedicated to the delays and non-fulfilled expectations of service users. In the report of Air Carrier Association and NM EUROCONTROL on the summer season, support was given to the planned all-day application of cross-border FRA concept.

8.2 Aeronautical Information Service - AIS

The analysis of user satisfaction is done based on quarterly reports about the quality of data from SDO, PAMS and INO applications of the European AIS database, users' objections, and on the grounds of the User Satisfaction Questionnaire.

- The trend of errors in EAD applications was analyzed for the period ranging from the last quarter of 2015 to the third quarter of 2016. The analysis of 294 published NOTAMs identified 6 errors, which represents 0,5 errors per month.

- In conformity with the disclosed mode of contacts in the case of detected errors or shortcomings in aeronautical publications, the Aeronautical Information Department gathers, analyzes and treats the objections in accordance with the established procedure. In the course of 2016, five objections were received that concerned the provision of aeronautical information services. There was not a single objection that would relate to endangered safety due to the errors in providing the aeronautical information service. The analysis did not find, either, any systemic issue or frequently repeated identical or similar objection.

- Analysis of the User Satisfaction Questionnaire showed that the provision of aeronautical information services received the highest grade from the users. Namely, 14 filled-out User Satisfaction Questionnaires were received, of which 12 received the excellent grade while 2 had the good grade.

8.3 Meteorological Services – MET

In 2016 was tested by a questionnaire the satisfaction of users of MET services. The conclusion of the questionnaire's analysis was that meteorological service was provided whenever needed by the users, at expected time, and in the manner convenient for them. Also, the users evaluated the cooperation with meteorological staff as excellent, while general assessment of meteorological services was that they were either good or excellent (Table 11).

Table 11. Answers to Questions from the Questionnaire about SMATSA llc Efficiency of Aeronautical Meteorological Services for 2016

Question	Excellent	Good	Satisfactory	Poor
What is the cooperation like with SMATSA llc meteorological staff?	82%	15%	3%	0%
Aggregate assessment of meteorological services in SMATSA llc in 2016	59%	32%	3%	0%

During the year was also held a series of meetings with the Army of Serbia representatives, which were dedicated to improvement of the relations and to provision of specific services for the needs of the Army of Serbia needs.

8.4 SMATSA Aviation Academy

Users' satisfaction in 2016 was tested by way of a questionnaire upon the completion of the training. The results of the questionnaire are presented in the table below.

Table 12. Results of Questionnaire on Pilot Training Service Users within SMATSA Aviation Academy in 2016

Domain	Unsatisfied	Neutral	Satisfied	Very satisfied
Knowledge prior to joining the Academy	30%	5%	15%	50%
Knowledge upon graduation from the Academy	0%	0%	25%	75%
Theory instructors	5%	5%	35%	55%
Classroom devices and teaching aids	10%	5%	25%	60%
Books	10%	5%	35%	50%
Acquired flying skills	0%	0%	35%	65%
Flying instructors	0%	5%	25%	70%
Flying training organization	15%	15%	10%	60%
Daily organization	0%	25%	10%	65%
Briefings and debriefings	0%	5%	30%	65%
General assessment of the entire training	0%	5%	30%	65%

8.5 Ground-Based Radio Navigation System Calibration from Air

User Satisfaction Questionnaire comprised 14 respondents, foreign orderers of ground-based radar navigation system calibration from air. The questions raised were answered by the respondents who are directly in charge of the orderly state and quality of operation of all ground-based radar navigation systems under their competence, and one calibration service realization coordinator between CCL and SMATSA llc. Service users were giving grades from 1 to 5 to the questions asked. The average quality grade of the ground-based radio navigation system calibration from air is 4.93 for 2016.

Table 13. Results of User Satisfaction Questionnaire Relating to Ground-Based Radio Navigation System Calibration Service from Air in 2016

No.	Question	Average grade
1.	Coordination degree before, during and after performed ground-based radio navigation system calibration	5,00
2.	Quality in communication of the crew with ground technical staff on the occasion of ground-based radio navigation system calibration	5,00
3.	Quality, completeness and timeliness of the reports on performed ground-based radar navigation calibration	4,87
4.	Synchrony of planned and implemented activities	4,80
5.	Response to additional requirements	5,00

Based on the grades given in the Table, calibration of the ground-based navigation system from air was carried out in a professional and good quality manner. Lower grade given to question number 4 is mainly the impact of meteorological conditions on the preparation and execution of the calibration.

In order to improve the grade given to question number 3, organization of the report on calibration was changed on SMATSA server, which will contribute to a more detailed and more qualitative manner of submission of the reports to all users of the calibration from air service.

09

Financial Statements

9.1 Income Statement

Table 14. Income Statement, in thousand RSD

ITEM	ADP	Amount	
		2016	2015
INCOME OPERATIONS			
A. OPERATING INCOME (1002 + 1009 + 1016 + 1017)	1001	9.951.913	10.001.482
I Sales of merchandise (1003 + 1004 + 1005 + 1006 + 1007+ 1008)	1002	0	0
1. Sales of merchandise to parent companies and subsidiaries – domestic	1003		
2. Sales of merchandise to parent companies and subsidiaries - foreign	1004		
3. Sales of merchandise to other associated companies - domestic	1005		
4. Sales of merchandise to other associated companies - foreign	1006		
5. Sales of merchandise to domestic customers	1007		
6. Sales of merchandise to foreign customers	1008		
II SALES OF GOODS AND SERVICES RENDERED (1010 + 1011 + 1012 + 1013 + 1014 + 1015)	1009	9.607.029	9.586.995
1. Sales of finished goods and services rendered to parent companies and subsidiaries - domestic	1010		
2. Sales of finished goods and services rendered to parent companies and subsidiaries - foreign	1011		
3. Sales of finished goods and services rendered to other associated entities - domestic	1012		
4. Sales of finished goods and services rendered to other associated entities - foreign	1013		
5. Sales of finished goods and services rendered to domestic customers	1014	408.421	397.878
6. Sales of finished goods and services rendered to foreign customers	1015	9.198.608	9.189.117

ITEM	ADP	Amount	
		2016	2015
III INCOME FROM PREMIUMS, SUBSIDIES, DONATIONS, GRANTS, ETC.	1016	1.413	585
IV OTHER OPERATING INCOME	1017	343.471	413.902
EXPENDITURES OF REGULAR OPERATION			
B. OPERATING EXPENSES (1019 – 1020 – 1021 + 1022 + 1023 + 1024 + 1025 + 1026 + 1027 + 1028+ 1029) ≥ 0	1018	9.396.392	8.947.731
I COST OF GOODS SOLD	1019		
II INCOME FROM UNDERTAKING OF OUTPUTS AND GOODS FOR OWN PURPOSES	1020		
III INCREASE OF FINISHED GOODS, WORK IN PROGRESS AND SERVICES IN PROGRESS	1021		
IV DECREASE OF FINISHED GOODS, WORK IN PROGRESS AND SERVICES IN PROGRESS	1022		
V COSTS OF MATERIAL	1023	98.922	91.602
VI COSTS OF FUEL AND ENERGY	1024	142.280	144.983
VII COSTS OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025	5.793.303	5.560.053
VIII COSTS OF PRODUCTION SERVICES	1026	1.157.611	1.114.143
IX DEPRECIATION COSTS	1027	1.194.140	1.196.698
X COSTS OF LONG-TERM PROVISIONS	1028	137.465	108.595
XI NON-PRODUCTION COSTS	1029	872.671	731.657
V. OPERATING PROFIT (1001 – 1018) ≥ 0	1030	555.521	1.053.751
G. OPERATING LOSS (1018 – 1001) ≥ 0	1031		
D. FINANCIAL REVENUES (1033 + 1038 + 1039)	1032	112.360	110.335
I FINANCIAL REVENUES FROM RELATED ENTITIES AND OTHER FINANCIAL REVENUES (1034 + 1035 + 1036 + 1037)	1033	0	0
1. Financial revenues from parent and subsidiary legal entities	1034		
2. Financial revenues from other related legal entities	1035		
3. Revenues from interest in the profit of affiliated legal entities and joint ventures	1036		
4. Other financial revenues	1037		
II INTEREST INCOME (FROM THIRD PARTIES)	1038	8.422	22.327
III FOREIRN EXCHANGE GAINS AND Income from foreign currency clause efects	1039	103.938	88.008
DJ. FINANCIAL EXPENSES (1041 + 1046 + 1047)	1040	179.052	186.485
I FINANCIAL EXPENSES FROM RELATIONS WITH RELATED LEGAL ENTITIES AND OTHER FINANCIAL EXPENDITURES (1042 + 1043 + 1044 + 1045)	1041	0	0
1. Financial expenditures from relations with parent and subsidiary legal entities	1042		
2. Financial expenditures from relations with other related legal entities	1043		
3. Expenditures from share in the loss of affiliated legal entities and joint ventures	1044		

ITEM	ADP	Amount	
		2016	2015
4. Other financial expenditures	1045		
II COSTS OF INTEREST (TO THIRD PARTIES)	1046	89.745	114.484
III FOREIGN EXCHANGE LOSSES AND COSTS OF FOREIGN CURRENCY CLAUSE EFECTS (TO THIRD PARTIES)	1047	89.307	72.001
E. GAIN FROM FINANCING (1032 – 1040)	1048		
Ž. LOSS FROM FINANCING (1040 – 1032)	1049	66.692	76.150
Z. INCOME FROM ADJUSTING VALUE OF OTHER PROPERTY SHOWN AT FAIR VALUE THROUGH INCOME STATEMENT	1050	445.403	150.179
I. EXPENSES FROM ADJUSTING VALUE OF OTHER PROPERTY SHOWN AT FAIR VALUE THROUGH INCOME STATEMENT	1051	133.857	165.842
J. OTHER REVENUES	1052	11.374	54.272
K. OTHER EXPENSES	1053	70.794	621.514
L. PROFIT FROM REGULAR OPERATIONS BEFORE TAX (1030 – 1031 + 1048 – 1049 + 1050 – 1051 + 1052 – 1053)	1054	740.955	394.696
LJ. LOSS FROM REGULAR OPERATION BEFORE TAX (1031 – 1030 + 1049 – 1048 + 1051 – 1050 + 1053 – 1052)	1055		
M. NET PROFIT OF DISCONTINUED OPERATION, EFFECTS OF ACCOUNTING POLICY CHANGES, AND CORRECTION OF ERRORS FROM PREVIOUS PERIODS	1056		
N. NET LOSS OF DISCONTINUED OPERATION, EXPENDITURES OF ACCOUNTING POLICY CHANGE, AND CORRECTION OF ERRORS FROM PREVIOUS PERIODS	1057	25.162	
NJ. PROFIT BEFORE TAX (1054 – 1055 + 1056 – 1057)	1058	715.793	394.696
O. LOSS BEFORE TAX (1055 – 1054 + 1057 – 1056)	1059		
P. PROFIT TAX			
I TAX EXPENDITURE OF THE PERIOD	1060	187.463	197.130
II DEFERRED TAX EXPENDITURE OF THE PERIOD	1061	4.343	
III DEFERRED TAX REVENUES OF THE PERIOD	1062		22.852
R. PAID OUT EMPLOYER'S PERSONAL INCOME	1063		
S. NET PROFIT (1058 – 1059 – 1060 – 1061 + 1062)	1064	523.987	220.418
T. NET LOSS (1059 – 1058 + 1060 + 1061 – 1062)	1065		
I NET PROFIT BELONGING TO MINORITY INVESTORS	1066		
II NET PROFIT BELONGING TO MAJORITY OWNER	1067		
III EARNING PER SHARE			
1. Basic earnings per share	1068		
2. Decreased (diluted) earnings per share	1069		

9.2 Balance Sheet

Table 15. Assets, Balance Sheet, in thousand RSD

ITEM	ADP	Amount	
		2016	2015
ASSETS			
A. SUBSCRIBED CAPITAL UNPAID	0001		
B. FIXED ASSETS (0003 + 0010 + 0019 + 0024 + 0034)	0002	**12.920.482**	**12.329.351**
I. INTANGIBLE ASSETS (0004 + 0005 + 0006 + 0007 + 0008 + 0009)	0003	**83.035**	**27.775**
1. Research and development costs	0004		
2. Concessions, patents, licenses and similar rights	0005	78.833	25.484
3. Goodwill	0006		
4. Other intangible assets	0007		
5. Intangible assets in progress	0008	4.202	2.291
6. Advances for intangible assets	0009		
II. PROPERTY, PLANTS AND EQUIPMENT (0011 + 0012 + 0013 + 0014 + 0015 + 0016 + 0017 + 0018)	0010	**12.835.598**	**12.299.727**
1. Land	0011	548.536	548.314
2. Buildings	0012	5.710.597	5.314.671
3. Plant and equipment	0013	5.767.770	5.996.681
4. Investment property	0014		
5. Other property, plant and equipment	0015	5.198	4.284
6. Property, plant and equipment under construction	0016	616.275	357.356
7. Investment in other parties property, plant and equipment	0017	1.064	2.240
8. Advances for property, plant and equipment	0018	186.158	76.181
III. NATURAL ASSETS (0020 + 0021 + 0022 + 0023)	0019	**1.849**	**1.849**
1. Forests and plantations	0020	1.849	1.849
2. Livestock	0021		
3. Natural assets under construction	0022		
4. Advances for natural assets	0023		
IV. LONG-TERM FINANCIAL INVESTMENTS (0025 + 0026 + 0027 + 0028 + 0029 + 0030 + 0031 + 0032 + 0033)	0024	**0**	**0**
1. Shares in capital of subsidiary legal entities	0025		
2. Share in capital of affiliated legal entities and joint ventures	0026		
3. Shares in capital of other legal entities and other securities available for sale	0027		
4. Long-term placements to parent and subsidiary legal entities	0028		
5. Long-term placements to other related legal entities	0029		

ITEM	ADP	Amount	
		2016	2015
6. Long-term placements in the country	0030		
7. Long-term placements abroad	0031		
8. Securities held to maturity	0032		
9. Other long-term financial investments	0033		
V. LONG-TERM CLAIMS (0035 + 0036 + 0037 + 0038 + 0039 + 0040 + 0041)	0034	**0**	**0**
1. Claims on parent and subsidiary legal entities	0035		
2. Claims on other related entities	0036		
3. Claims based on sale on commodity credit	0037		
4. Claims for sale based on financial leasing contracts	0038		
5. Claims based on warranty	0039		
6. Disputable and suspicious claims	0040		
7. Other long-term claims	0041		
V. DEFERRED TAX ASSETS	0042		
G. CURRENT ASSETS (0044 + 0051 + 0059 + 0060 + 0061 + 0062 + 0068 + 0069 + 0070)	0043	**4.466.488**	**5.105.927**
I. Inventory (0045 + 0046 + 0047 + 0048 + 0049 + 0050)	0044	**163.013**	**146.275**
1. Material, spare parts, and tools	0045	162.473	138.060
2. Production-in-process and services-in-process	0046		
3. Finished products	0047		
4. Goods	0048		
5. Non-current assets intended for sale	0049		
6. Advances paid for inventories and services	0050	540	8.215
II. RECEIVABLES FROM SALES (0052 + 0053 + 0054 + 0055 + 0056 + 0057 + 0058)	0051	**1.429.641**	**1.001.567**
1. Trade receivables - domestic - parent companies and subsidiaries	52		
2. Trade receivables - foreign - parent companies and subsidiaries	53		
3. Trade receivables - other associated entities – domestic	54		
4. Trade receivables - other associated entities - foreign	55		
5. Trade receivables - domestic	56	57.401	31.614
6. Trade receivables - foreign	57	1.372.240	969.953
7. Other trade receivables	58		
III. RECEIVABLES FROM SPECIFIC BUSINESS OPERATIONS	59		
IV. OTHER RECEIVABLES	60	161.758	203.083
V. FINANCIAL ASSETS VALUED BY FAIR FALUE THROUGHT INCOME STATEMENT	61		
VI SHORT-TERM FINANCIAL INVESTMENTS (0063 + 0064 + 0065 + 0066 + 0067)	62	**0**	**0**
1. Short-term credit investments – parent and subsidiary legal entities	63		

ITEM	ADP	Amount	
		2016	2015
2. Short-term credit investments – other related legal entities	64		
3. Short-term credits and loans in the country	65		
4. Short-term credits and loans abroad	66		
5. Other short-term financial investments	67		
VII CASH EQUIVALENTS AND CASH	68	2.629.516	3.638.462
VIII VALUE ADDED TAX	69	57.177	68.887
IX PREPAYMENTS AND ACCRUED INCOME	70	25.383	47.653
D. TOTAL ASSETS (0001 + 0002 + 0042 + 0043)	71	**17.386.970**	**17.435.278**
DJ. OFF-BALANCE SHEET ASSETS	72	716.454	204.934

Table 16. Liabilities, Balance Sheet, in thousand RSD

ITEM	ADP	Amount	
		2016	2015
LIABILITIES			
A. CAPITAL (0402 + 0411 – 0412 + 0413 + 0414 + 0415 – 0416 + 0417 + 0420 – 0421) ≥ 0 = (0071 – 0424 – 0441 – 0442)	401	**12.783.828**	**12.226.886**
I. ORIGINAL CAPITAL (0403 + 0404 + 0405 + 0406 + 0407 + 0408 + 0409 + 0410)	402	**1.873.820**	**1.873.820**
1. Share capital	403		
2. Stakes in limited liability companies	404	355	355
3. Stakes	405		
4. State-owned capital	406	1.862.848	1.862.848
5. Socially-owned capital	407		
6. Stakes in co-operatives	408		
7. Share premium	409		
8. Other capital	410	10.617	10.617
II. SUBSCRIBED BUT NON-PAID-IN CAPITAL	411		
III. REDEEMED OWN SHARES	412		
IV. RESERVES	413	507.044	507.044
V. REVALUATION RESERVES BASED ON REVALUATION OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT	414	2.869.560	3.179.315
VI. NON-REALIZED GAINS UNDER SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE RESULT (credit balances of account group 33, except 330)	415	18.452	13.132

ITEM	ADP	Amount	
		2016	2015
VII. NON-REALIZED LOSSES UNDER SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE RESULT (debit balances of account group 33, except 330)	416		
VIII. RETAINED PROFIT (0418 + 0419)	417	**7.514.952**	**6.653.575**
1. Retained profit from earlier years	418	6.653.575	6.210.293
2. Retained profit from current year	419	861.377	443.282
IX. SHARE WITHOUT CONTROL RIGHT	420		
X. LOSS (0422 + 0423)	421	**0**	**0**
1. Loss of earlier years	422		
2. Loss of current year	423		
B. LONG-TERM PROVISIONS AND LIABILITIES (0425 + 0432)	424	**2.197.094**	**2.943.325**
I. LONG-TERM PROVISIONS (0426 + 0427 + 0428 + 0429 + 0430 + 0431)	425	**743.857**	**692.151**
1. Provisions for costs in warranty period	426		
2. Provisions for costs of renewal of natural resources	427		
3. Provisions for restructuring costs	428		
4. Provisions for compensation and other employee benefits	429	712.592	660.768
5. Provision for cost of litigation	430	31.265	31.383
6. Other long-term provisions	431		
II. LONG-TERM LIABILITIES (0433 + 0434 + 0435 + 0436 + 0437 + 0438 + 0439 + 0440)	432	1.453.237	2.251.174
1. Liabilities which can be converted into capital	433		
2. Liabilities to parent companies and subsidiaries	434		
3. Liabilities to other associated companies	435		
4. Liabilities for long-term securities	436		
5. Long-term loans and borrowings - domestic	437		
6. Long-term loans and borrowings - foreign	438	1.453.237	2.251.174
7. Finance lease liabilities	439		
8. Other long-term liabilities	440		
V. DEFERRED TAX LIABILITIES	441	534.195	565.197
G. SHORT-TERM LIABILITIES (0443 + 0450 + 0451 + 0459 + 0460 + 0461 + 0462)	442	**1.871.853**	**1.699.870**
I. SHORT-TERM FINANCIAL LIABILITIES (0444 + 0445 + 0446 + 0447 + 0448 + 0449)	443	**820.956**	**1.201.618**
1. Short-term credits from parent and subsidiary legal entities	444		
2. Short-term credits from other related legal entities	445		
3. Short-term credits and loans in the country	446		

ITEM	ADP	Amount	
		2016	2015
4. Short-term credits and loans abroad	447		
5. Liabilities under non-current assets and assets of discontinued operation intended for sale	448		
6. Other short-term financial liabilities	449	820.956	1.201.618
II. RECEIVED ADVANCES, SHORT-TERM DEPOSITS AND CAUTION MONEY	450	167.954	113.980
III. LIABILITIES FROM BUSINESS OPERATIONS (0452 + 0453 + 0454 + 0455 + 0456 + 0457 + 0458)	451	**337.304**	**315.185**
1. Trade payables - parent companies and subsidiaries - domestic	452		
2. Trade payables - parent companies and subsidiaries - foreign	453		
3. Trade payables - other associated companies – domestic	454		
4. Trade payables - other associated companies – foreign	455		
5. Trade payables – domestic	456	135.564	116.345
6. Trade payables - foreign	457	201.624	198.725
7. Other liabilities from business operations	458	116	115
IV. OTHER SHORT-TERM LIABILITIES	459	533.444	22.742
V LIABILITIES BASED ON VALUE ADDED TAX	460		
VI LIABILITIES FOR OTHER TAXES, CONTRIBUTIONS AND OTHER DUTIES	461	6.513	30.845
VII ACCRUALS AND DEFERRED INCOME	462	5.682	15.500
D. LOSS ABOVE CAPITAL LEVEL (0412 + 0416 + 0421 – 0420 – 0417 – 0415 – 0414 – 0413 – 0411 – 0402) ≥ 0 = (0441 + 0424 + 0442 – 0071) ≥ 0	463		
DJ. TOTAL LIABILITIES (0424 + 0442 + 0441 + 0401 – 0463) ≥ 0	464	**17.386.970**	**17.435.278**
E. OFF-BALANCE SHEET LIABILITIES	465	716.454	204.934

9.3 Cash Flow Statement

Table 17. Cash Flow Statement, in thousand RSD

ITEM	ADP	Amount	
		2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash flow from operating activities (1 to 3)	3001	10.402.309	10.923.495
1. Sales and advances received	3002	9.456.233	10.093.928
2. Received interests from operating activities	3003	8.422	22.327
3. other inflows from regular operation	3004	937.654	807.240
II. Cash outflows from operating activities (1 to 5)	3005	8.456.527	9.317.064
1. Payments to suppliers and advances made	3006	2.793.420	2.843.732
2. Wages, wage compensations and other personal expenditures	3007	5.394.955	5.769.664
3. Paid interests	3008	92.935	217.111
4. Profit tax	3009	175.217	486.557
5. Outflows based on other public revenues	3010		
III. Net cash inflow from operating activities (I -II)	3011	1.945.782	1.606.431
IV. Net cash outflow from operating activities (II-I)	3012		
B. CASH FLOWS FROM INVESTMENT ACTIVITIES			
I. Cash inflows from investment activities (1 to 5)	3013	-	1.094.757
1. Sale of shares and stakes (net inflows)	3014		
2. Sale of intangible assets, buildings, plants, equipment and biological assets	3015		1.094.757
3. Other financial investments (net inflows)	3016		
4. Interest received from investment activity	3017		
5. Received dividends	3018		
II. Cash outflows from investment activity (1 to 3)	3019	1.740.413	809.609
1. Purchase of shares and stakes (net outflows)	3020		
2. Purchase of intangible assets, buildings, plants, equipment and biological assets	3021	1.740.413	809.609
3. Other financial investments (net outflows)	3022		
III. Net cash inflow from investment activity (I-II)	3023		285.148
IV. Net cash outflow from investment activity (II-I)	3024	1.740.413	
B. CASH FLOWS FROM INVESTMENT ACTIVITIES			
I. Cash inflows from financing activities (1 to 5)	3025	-	-
1. Increase of original capital	3026		

ITEM	ADP	Amount	
		2016	2015
2. Long-term credits (net inflows)	3027		
3. Short-term credits (net inflows)	3028		
4. Other long-term liabilities	3029		
5. Other short-term liabilities	3030		
II. Cash outflows from financing activities (1 to 6)	3031	1.218.789	1.113.317
1. Redemption of own shares and stakes	3032		
2. Long-term credits (outflows)	3033	1.218.789	1.113.317
3. Short-term credits (outflows)	3034		
4. Other liabilities (outflows)	3035		
5. Financial leasing	3036		
6. Paid dividends	3037		
III. Net cash inflow from financial activity (I - II)	3038		
IV. Net cash outflow from financing activity (II-I)	3039	**1.218.789**	**1.113.317**
G. TOTAL CASH INFLOW (3001 + 3013 + 3025)	3040	**10.402.309**	**12.018.252**
D. TOTAL CASH OUTFLOW (3005 + 3019 + 3031)	3041	**11.415.729**	**11.239.990**
DJ. NET CASH INFLOW (3040 – 3041)	3042		778.262
E. NET CASH OUTFLOW (3041 – 3040)	3043	1.013.420	
Ž. CASH AT BEGINNING OF THE ACCOUNTING PERIOD	3044	3.638.462	2.857.298
Z. EXCHANGE RATE GAINS BASED ON CASH CONVERSION	3045	4.474	10.233
I. EXCHANGE RATE LOSSES BASED ON CASH CONVERSION	3046		7.331
J. CASH AT THE END OF THE ACCOUNTING PERIOD	3047	2.629.516	3.638.462

9.4 Notes to Financial Statements

9.4.1 Basis for preparing the financial statements

Financial statements for 2016 have been prepared in the manner and in accordance with the legislation.
Legal entities and entrepreneurs in the Republic of Serbia are obliged to keep accounts, recognize and value the assets and liabilities, revenue and expenses, prepare, present, submit and disclose financial statements in compliance with the Law on Accounting (RS Official Gazette No. 62/2013) and in accordance with the other applicable secondary legislation. SMATSA llc, as a large legal entity, is obliged to apply International Financial Reporting Standards (IFRS), which in terms of this law include: Framework for Preparation and Presentation of Financial Statements (the Framework), International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations related to them, issued by the International Financial Reporting Interpretations Committee (IFRIC),, subsequent amendments to those standards and interpretations related to them, approved by the International Accounting Standards Committee (the Committee), the translation of which has been determined and published by the ministry in charge of financial affairs.
Decision of the Ministry of 13 March 2014, published in RS Official Gazette No. 35 of 27 March 2014 (hereinafter: "Decision on Determining the Translation") determined and published the translations of the key texts of the IAS and IFRS, Conceptual Framework for Financial Reporting (Conceptual Framework) adopted by the Committee, as well as related IFRIC interpretations. These translations published in the Decision on determining the translation do not include the basis for conclusion, illustration examples, nor other supplementary, explanatory material that can be adopted in relation to standards and interpretations, except unless explicitly stated that such material is an integral part of the standard i.e. interpretation. On the basis of the Decision on determining the translation of the Conceptual Framework, IAS, IFRS, IFRIC and interpretations related to them that have been translated, are applicable as of the financial statements prepared as of 31 December 2014. Amended or issued IFRS and interpretations of the standard, after this date, have not been translated and published and have, therefore, not been applied when preparing the enclosed financial statements.
However, until the date the enclosed financial statements were prepared, all the amendments to the IAS/FRS and IFRS interpretations that have been in effect as of 1 January 2014 had not been translated. Apart from this, certain laws and secondary legislation regulate accounting procedures, valuations and disclosures that, in certain cases, depart from the requirements of IAS/IFRS and IFRIC Interpretations.
Apart from this, the enclosed financial statements depart from IAS and IFRS in the following items:

- "Off-balance-sheet assets and liabilities" are presented in the form of the balance-sheet. These items, according to IFRS definition, are neither assets nor liabilities.

- SMATSA llc prepared these financial statements in the form prescribed by the Ministry of Finance, that is not consistent with the IAS requirements – "Presentation of financial statements".

Financial statements are prepared in line with the concept of historic expenses, modified for revaluation of property, plant and equipment, as well as financial assets and liabilities whose effects of changes in fair values are shown in the profit and loss account.
When preparing these financial statements SMATSA llc applied the adopted accounting policies.
In accordance with the Law on Accounting, the financial statements of SMATSA llc were presented in RSD thousands. The Dinar is the official reporting currency in the Republic of Serbia.
Preparation of financial statements for 2016 of the Serbia and Montenegro Air Traffic Services Agency SMATSA llc Belgrade for the accounting period ending 31.12.2016, was done, for all materially significant issues, in accordance with the Law on Accounting (RS Official Gazette No. 62/2013) that requires the implementation of International Accounting Standards and International Financial reporting Standards (IAS/IFRS), as well as the regulations passed by the Ministry of Finance of the Republic of Serbia.
Decision by the Ministry of finance of the Republic of Serbia (NO. 401-00-380/2010 of 25.10.2010) determined and published the Framework and Translation of IAS that applied as of 31 December

2014 and on which the Law on Accounting is based. Management of SMATSA llc assesses the effect of amendments to IAS, new IFRS, as well as interpretations of standards for preparation of consolidated financial statements. The amendments and supplements to the existing IAS, new IFRS and interpretations of standards, replacement of existing IAS with the new ones that became effecting on 1 January 2014, as well as implementation of new interpretations that became effective during 2014 did not result in significant changes in accounting policies of SMATSA llc, nor did they have materially significant effect on financial statements during initial application. Despite the fact that many of these changes are not applicable to the operation of SMATSA llc, the management of SMATSA llc does not make an explicit and unreserved statement of compliance of financial statements with IFRS, that are applicable to the periods shown in the enclosed financial statements.

Audit of financial statements of SMATSA llc for 2015 was performed by the audit and consulting firm Moore Stephens Revizija i Računovodstvo d.o.o. Studentski trg 4/V, Belgrade. According to the report of the independent auditor, the financial statements present truly and objectively, on all materially significant issues, the financial conditions of SMATSA llc as of 31.12.2015, as well as the result of its business and cash flows for the business year then ended, in accordance with the accounting regulations applicable in the Republic of Serbia and accounting policies disclosed in the Notes to Financial Statements.

In accordance with the provisions of Article 34 of the Law on Accounting, the financial statements for 2015, together with the Report of the independent auditor Moore Stephens Revizija i Računovodstvo d.o.o, Decision of the General Meeting of Shareholders of SMATSA llc on adopting the Financial Statements for 2015, the Decision of the General Meeting of Shareholders of SMATSA llc on distribution of profit into retained earnings and the Business Results report for 2015 have been submitted to the Business registers Agency for the purpose of posting them on the website – Financial Statements Register.

Preparation of financial statements in accordance with IFRS requires application of certain key accounting estimates. It also requires that the Management uses its judgment in applying accounting policies of SMATSA llc.

Errors from previous years did not affect the financial statements for 2016, but were recorded in accounts of group 57 and 67 in the financial statements for 2016.

9.4.2 Overview of Key Accounting Policies

9.4.2.1 Intangible assets

Intangible assets are determinable nonmonetary assets without physical contents:

- **that is used for production or delivery of goods or services, for lease to other persons or is used for administrative purposes;**
- **that SMATSA llc controls as a result of past events and**
- **which is expected to generate economic benefit in the future.**

Intangible assets consist of: investment in development; concessions, patents, licenses and similar rights; other intangible assets; intangible assets in preparation and advances for intangible assets.

Procurement of intangible assets during the year is recorded at purchase value. Purchasing value consists of invoiced value increased for all attendant costs of procurement and all costs of bringing it into a condition of functional readiness. Cost price of intangible assets produced by the company itself consists of direct cost and the relevant indirect costs that relate to those assets.

Cost of borrowing that have arisen up to the moment of putting the intangible assets into use are capitalized i.e. are included in the purchase value.

After they are recognized as assets, intangible assets are recorded at purchase value or at the cost price reduced by the total amount of calculated depreciation and the total amount of loss due to impairment.

Intangible assets that meet the conditions set in the revised IAS 38 Intangible Assets and have a useful life that is longer than a year are recognized as intangible assets and are subject do depreciation.
Subsequent loss that relates to the already recognized intangible assets is accrued to the recorded amount of those assets, if it is likely that the inflow of future economic benefit will be higher than the originally estimated rate of return for those assets.
SMATSA llc recognizes the carrying value of intangible assets, the cost of replacing certain parts of these items, at the moment that cost arises and when the criteria for recognition from IAS 38 – Intangible Assets (Paragraph 21) are met.
Every other subsequent expenditure is recognized as an expense in the period when it arose.
If there are indicators that show that there was a reduction in value, the carrying value of intangible assets is appraised and if there is a reduction, the value of assets is reduced to the recoverable amount.
Profit or loss arising from disposal or alienation is determined as the difference between the estimated net receipts from sale and the stated amount and is recognized as revenue or expenses in the profit&loss account.
Impairment of intangible assets is recognized by reducing the value of investment while at the same time recognizing the expenses in the profit&loss account, in accordance with the IAS 36 – Reduction in assets value.
If there are indicators that show there was a decrease in value, the carrying value of intangible assets is appraised and if there is a decrease, the value of an asset is reduced to the recoverable amount.
The residual value of intangible assets is considered to equal zero, except if:

- **there is a contractual obligation of the third party to purchase that asset at the end of its remaining useful life or**

- **there is an active market for that asset, where the residual value can be determined and that this market will exist also at the end of the useful life of an asset.**

Depreciation of intangible assets that are subject to depreciation is done by implementing the proportional method within five years, except for the asset whose time is specified in a contract, when the write-off is done within deadlines specified in the contract. The calculation of depreciation of intangible investment is done from the start of the following month, compared to the month when the intangible asset was put into use. The basis for calculation of depreciation of intangible assets is the purchase value reduced by the accumulated depreciation and total loss due to impairment.

The key depreciation rates for certain intangible assets are as follows:

Name	Depreciation rate
Licenses	14,28-100
Licensed software	10-100
Project documentation	20

Depreciation rate for intangible assets can be amended and supplemented only on the basis of a written order issued by the competent unit, at the order of the Director for Aeronautical Engineering and with the approval of the Director of SMATSA llc, as well as on the basis of the adopted report from an independent appraiser.
Intangible assets i.e. the right to use in accordance with the license agreement, is recognized in accounting terms in accordance with IAS 38. The license agreement regulates the item that is licensed by the licenser and the obligation of the licensee. The fee payable by the licensee is an intangible asset for them (on condition that the right which is the subject of the agreement is used for more than a year).
Expenses that can be directly attributed to software are capitalized as a part of software product. Other cost of development that cannot meet the criteria is recognized as expense at the moment it arises.
Intangible assets stop being shown in the balance-sheet after their alienation or when the asset has been permanently withdrawn from use and when no future economic benefit is expected of it.

9.4.2.2 Property, Plant and Equipment

Tangible assets that meet the criteria for recognition set by IAS 16 Property, Plant and Equipment and whose useful life is longer than a year are recognized as property, plant and equipment and are subject to depreciation. Initial measurement of property, plant and equipment that meet the conditions for recognition as a fixed asset is done at purchase value or at cost price. Subsequent expense that relates to the already recognized property, plant and equipment is attributed to the stated amount of that asset if it is probable that the inflow of future economic benefits will be higher than the initially estimated rate of return for that asset. Any other subsequent expenditure is recognized as an expense in the period in which it arose.

Subsequent expenditures whose amount is maybe significant and which consist primarily of the cost of labor, disposables and smaller spare parts are shown as the cost of current maintenance. Replacement of larger spare parts, whose useful life is shorter than a year, is shown as cost of maintenance as such spare part does not meet the criteria to be recognized as an asset.

Given that integral parts of buildings may require a replacement before the expiration of the useful life of the building as a whole, paragraph 13 of revised IAS 16 allows for a possibility for the asset that is being replaced to be recognized as a special asset if it meets two basic conditions from paragraph 7 of this standard (a) – that it is likely that the future economic benefits related to that asset will come to the company, and (b) – that the purchase value or the cost price of an asset can be reliably measured. Recognition is done at the moment when the replacement expenses arise, but the book value of parts that are being replaced is derecognized, regardless of whether the replaced part is depreciated or not. If it is not appropriate to establish the book value of the replaced part, according to paragraph 70 of the revised IAS 16, the cost of replacement can be used as information on what the cost of replaced part was at the time of its procurement or construction.

If the part that is being replaced is not recorded in the accounting as a separate asset, and has a useful live that is different from the useful life of an asset, and if the carrying value is established according to the replacement method, the amount of written off value (calculated depreciation) is established by applying the rate at which the asset whose part it is written off, and not at the rate that arises from the useful life of the part that is being replaced.

Depreciation of property, plant and equipment is done by applying the proportional method and starts at the moment an asset is available for use.

Basic depreciation rates for certain groups of property, plant and equipment are as follows:

Name	Depreciation rate 2016	Depreciation rate 2015
Buildings	0,24 – 50%	0,24 – 50%
Equipment	2,50 – 50%	5,56 – 50%
Vehicles	10 – 50%	10 – 50%
Computer equipment	14,28 – 50%	14,28 – 50%
Furniture	10 – 50%	10 – 50%
Other equipment	2,50 – 50%	4 – 50%
Aircraft	2,86 – 12,50%	2,86 – 12,50%
Investment in someone else's equipment	6,66 – 20%	6,66 – 20%

Calculation of depreciation for the purpose of tax is done in accordance with the Law on Corporate Profit Tax of the Republic of Serbia and the Rulebook on the manner of classifying permanent assets into groups and the manner of determining the depreciation for tax purposes, which results in deferred taxes.

Investment into other's fixed assets for the purpose of performing business activity is recognized and shown in a special account as fixed assets, on condition that their useful life is longer than a year.

Depreciation of investment in other's fixed assets is done on the basis of estimated useful life.

Property, plant and equipment cease to be shown in the balance-sheet after alienation or when the asset is permanently withdrawn from use and when no future economic benefit is expected from its alienation.

Profit or loss that arises from disposal or alienation of property, plant and equipment is established as a difference between the estimated net income from the sale and the stated amount of assets and are recognized as revenue or expense in the balance-sheet.

When the revalued assets are sold, the revaluation

amount that is included in revaluation reserve is transferred to retained earnings.
Property, plant and equipment withdrawn from active use and held for alienation are shown in the amounts at which they were shown on the day the asset was withdrawn from active use.
On every balance-sheet date SMATSA llc estimates if there is an indication of whether an asset is maybe impaired. If such an indication exists, SMATSA llc estimates the amount of funds that can be recovered. If the recoverable value of an asset is lower than its carrying value, the carrying value is reduced to recoverable value and, at the same time, the previously formed revaluation reserves for that asset are reduced. If revaluation reserves for the asset whose value reduced are not formed or have been used for other purpose, the expense for the period is recognized as loss amount from decreased value.
If, on the balance-sheet date there are indications that the previously recognized loss from decrease in value does not exist or is reduced, the recoverable value of that asset is then appraised. The loss from decrease in value recognized in previous years is recognized as revenue, in case the basic valuation procedure for property, plant and equipment has been applied or as an increase in revaluation reserve if an alternative procedure for valuation of property, plant and equipment has been applied and the carrying value increases up to the recoverable value.
Estimation of fair value and the residual value of an asset (as well as residual value) is done by a licensed valuer, in accordance with IAS 16 – Property, Plant and Equipment and valuation results are recorded as revenue or expenses.
Subsequent expenditure that relates to the already recognized property, plant and equipment is attributed to the stated amount of that asset if it is probable that future economic benefit would be higher than the originally estimated rate of return on that asset and that the purchase value/cost price of the subsequent expenditure can be reliably determined.

9.4.2.3 Tools and inventory

Tool and inventory assets, whose useful life is shorter than a year are obligatorily recorded as working assets (as supplies), irrespective of their purchase value. No depreciation is made for these assets. By putting them into use their total value is transferred to expenses.
Tools and small inventory assets are recognized as a fixed asset, are subject to depreciation and are written off if their useful life is longer than a year.
Tool and inventory assets that do not meet these conditions are recorded as working capital (supplies).
For the same type of tools and inventory that is used jointly, the individual value is established as the sum of individual values of all tools and inventory of the same type.

9.4.2.4 Spare Parts

Installed spare parts whose useful life is longer than a year are recognized as a fixed asset.
Such spare parts, upon installation, increase the carrying value of the asset they are installed into.
Spare parts that do not meet the conditions from Paragraph 1 of this Article are recorded as operating expense upon installation.

9.4.2.5 Supplies

In accounting terms, Supplies are included in accordance with IAS 2 Supplies.
Supplies are assets in the form of material or ancillary assets that are depleted in the production process or when rendering services.
Supplies include basic and ancillary material that will be used in the production process or when rendering services.
Supplies of material that is purchased from the supplier are measured at purchase value or net sale value, if lower.
Purchase value or cost price of supplies is made up of all the procurement expenses and other expenses arisen from bringing the supplies to their current location and balance.
The cost of procurement of material includes purchasing price, import duties and other taxes (except for those the company may subsequently recover from tax authorities, such as VAT that can be deducted as past tax), cost of transportation, handling expenses

and other expenses that can be directly attributed to the purchase of material. Discounts, rebates and other similar items are deducted when determining the cost of procurement.
Appraisal of net sales value of supplies of material is done by a special commission set up by the director of SMATSA llc.
Calculation of output (consumption) of the supply of material is done using the average weighted price method.
Determining the weighted average price is done after each new input of material.
In an operating environment of hyperinflation the value of supplies is adjusted according to the increase in consumer price index, in accordance with IAS 29.

9.4.2.6 Short-Term Receivables and Lending

Short-term receivables include receivables from national and international buyers for the sale of goods and services.
Short-term lending includes loans, securities and other short-term loans with a maturity or sale period of one year from the balance-sheet date.
Short-term receivables from buyers are measured at the value from the original invoice.
If a value in the invoice is stated in a foreign currency, it is converted into the reporting currency at the medium exchange rate valid on the transaction date.
Change in the exchange rate from the transaction date to the collection date is shown as exchange rate gains or loss.
Receivables stated in a foreign currency on the balance-sheet date are recalculated according to the applicable medium exchange rate and exchange rate gains or losses are recognized as income or expenses for the period.
Indirect write-off or impairment of receivables from the buyers at the expense of the expenses for the period through the impairment account is done for receivables from buyers, in accordance with the deadline set by the law, from maturity of the invoice for collection, with the estimation of collect ability of each individual receivable. The decision on indirect write-off or impairment of receivables from buyers, through the impairment account is made by the Supervisory Board of SMATSA llc, at the proposal of the commission for inventory of receivables and short-term lending. Direct write-off of receivables from buyers at the expense of the expense for the period is done if it is certain and documented that the receivables cannot be collected – the company has failed to collect them through a court procedure and the receivables were previously included in the company's revenue. Decision on direct write-off of receivables from buyers is made by the Supervisory Board of SMATSA llc at the proposal of the commission for inventorying the receivables and short-term lending and/or on the basis of the annual report of EUROCONTROL. Calculation and collection of air traffic security services in the airspace of the Republic of Serbia – Area of Inflight Information Belgrade (FIR Belgrade) is done in accordance with the applicable regulations and the amount of fee for the use of airspace security services in the area of terminal flight controls.

9.4.2.7 Cash and Cash Equivalents

Cash equivalents and cash make up the working (current) assets of a legal entity, that is valued at nominal or fair value in accordance with IAS 39 – Financial Instruments: recognition and measurement in other relevant standards (IAS 32 – Financial Instruments: disclosure and presentational and IAS 7 – Statement of Cash flow).
Cash and cash equivalents include: cash in hand, sight deposits in banks, other short-term highly liquid investments with the initial maturity of up to three months or less (checks and bills of exchange received for collection, current investment into securities) and overdrafts. Current account overdrafts are included in the liabilities for loans as part of the current liabilities, in the balance-sheet.

9.4.2.8 Off-Balance-Sheet Assets and Liabilities

Off-balance-sheet assets/liabilities include a record of:
- received guarantees, issued guarantees, counter guarantees and liabilities related to it.

9.4.2.9 Equity

Equity is generated when founding a company as a result of the stake of a founder into SMATSA llc. The founders of SMATSA llc are the Republic of Serbia (92%) and the Republic of Montenegro (8%).
Initially, equity is stated in the amount of estimated stake in SMATSA llc (i.e. it is composed of the paid-in capital and subscribed unpaid capital).

Changes in equity are made exclusively according to the rules set by the Company Law and all the changes in equity are registered in the appropriate Register.
Equity stated in dinars is not changed in line with the changes in euro exchange rate, although the value entered in the register is in euros.

9.4.2.10 Reserves

SMATSA llc has a reserve formed from retained earnings until the reserve reaches at least 20% of equity, which is regulated by the Contract on confirming the continuity in provision of services in air traffic in the space of Serbia and Montenegro.

9.4.2.11 Revaluation reserves

Revaluation reserves include positive effects of changes in fair value of property, plant, equipment, intangible assets and other financial instruments. According to IAS 16 and IAS 38, when the carrying value of an asset increases due to revaluation, the positive effect of revaluation is recorded in favour of equity as a revaluation reserve. Decrease in revaluation reserve occurs as a result of a negative revaluation of assets for which revaluation reserve was previously established. The negative effect of revaluation in case of realization (alienation and disposal of assets) occurs if the revaluation reserve was recorded for the specific asset.

9.4.2.12 Retained earnings

Retained earnings are recorded as earnings retained from previous years and earnings retained from the current year. Accumulated retained earnings from previous years as well as the effect of change in accounting policy and correction of materially significant error are recorded as earnings retained from previous years, in accordance with IAS 8 and the adopted accounting policies. Retained earnings from the current year arise from the transfer of results from the current year to the retained earnings account. Realized revaluation reserves are transferred to Retained earnings from the current year through the balance-sheet.

9.4.2.13 Provisions

Long-term provisions include provisions in the warranty period, provisions for withheld deposits and down payments, provisions for the cost of restructuring the companies, provisions related to employee benefits (IAS 19 – Employee Salaries) and other long-term provisions for settling the obligations (legal or actual), arisen as a result of past events for which it is probable that they would cause the outflow of resources that contain economic benefit, for the purpose of their settlement and which can be reliably appraised (e.g. disputes that are underway), as well as provisions for issued guarantees and other guarantees.

Long-term provisions for expenses and risks are monitored by type and their reduction or abolishment is done in favour of revenue.

Provisions are not recognized for future operating losses.

Provisions differ from other liabilities, such as, e.g. liabilities to suppliers and calculated liabilities, as the period they arise or the amount of future expenses necessary for settlement are uncertain.

Measurement of provisions is done in the amount that is recognized as provision and it is the best possible estimate of the expense needed to settle the current liabilities as of the balance-sheet date.

Provisions are checked on the day of each balance-sheet and adjusted so as to reflect the best current estimate. If it is no longer probable that the outflow of resources that have economic benefit will be needed for the settlement of liabilities, the provision is abolished.

A provision is a liability (legal or derived) that exists as of the balance-sheet date, but has uncertain maturity and amount.

SMATSA llc records long-term provisions for fringe benefits (severance pay, jubilee pays in the account Provisions for Salaries and Other Employee benefits, that are paid in accordance with the rights acquired during or after the employment, in accordance with IAS 19 – Employee Benefits. According to IAS 19, payments for severance pays and jubilee pays are not recorded as an expense for the period in which a payment was made to the employees, but are factored in from the employment start date to the payment date of the acquired right. On this basis, SMATSA llc reserves the funds according to the estimate of a licensed actuary.

9.4.2.14 Liabilities

Liabilities are:

- Long-term liabilities (liabilities to related legal entities and legal entities with mutual equity, long-term loans, liabilities for long-term securities and other long-term liabilities). Long-term liabilities are due within a period longer than a year from the date they arise i.e. from the balance-sheet date and are recognized and valued in accordance with IAS 39 – Financial Instruments: recognition and measurement and other relevant IAS. SMATSA llc has a formal long-term liability for long-term loans abroad.

When recognizing long-term liabilities for loans, SMATSA llc was governed by the IAS 23 guidelines – Borrowing Costs. Interest expenses and other borrowing costs that can be directly attributed to acquisition, construction or preparation of a qualified asset must be capitalized (accrued) to the purchase value (cost price) of an asset.

Capitalization period is the period from the start of investment into a qualifying asset (start of capitalization) until the moment when essentially all activities necessary for an asset to be prepared for the planned use or sale are completed (end of capitalization). Borrowing costs that arose before and after the capitalization period, regardless of whether they arose as a result of special-purpose or general-purpose loans for acquisition of a specific asset, are recognized as the expense for the period.

According to Paragraph 23 IAS 23 capitalization of the borrowing costs is halted during extended periods where active development has been stopped. Borrowing costs that arose during the extended period where activities necessary for the preparation of an asset for the planned use or sale were stopped cannot be capitalized, but are recorded as an expense for the period (e.g. temporary stopping the construction of a building).

Given that the loan is recorded in a foreign currency, it is converted into the middle exchange rate of the currency on the balance of liabilities and on that basis exchange-rate gains and losses arise and are booked.

- Short-term financial liabilities (liabilities to related legal entities and legal entities with mutual equity, short-term loan and other shot-term financial liabilities). SMATSA llc recorded the liability to the Civil Aviation Directorate of the Republic of Serbia, in accordance with the signed protocol TOP04 No. 184/9 of 20.08.2007;

- Short-term operating liabilities (suppliers and other operating liabilities). SMATSA llc has booked all liabilities to local and foreign suppliers;

- Short-term operating liabilities (liabilities for salaries and salary allowances, liabilities to the members of the Supervisory Board and the General Meeting of Shareholders of SMATSA llc, liabilities to private individuals for contractual fees) and
- Liabilities for value added tax.

Short-term liabilities are liabilities that are due within a year from the date of preparation of financial statements. .

Liability is each contracted obligation to:

a) give cash or another financial asset to another company, or
b) exchange of financial instruments with another company on potentially unfavorable terms.

During initial recognition, SMATSA llc measures financial liability at its purchasing value that is the fair value of the fee received for it. Transaction expenses are included in the initial measurement of all financial liabilities.
Liabilities in a foreign currency, as well as liabilities with the currency clause are appraised at the middle exchange rate of a foreign currency on the day the financial statements are prepared. Differences that are calculated in the process are included as expense or revenue for the period.
Decrease in liabilities in accordance with the law, out-of-court settlement, etc. is done through direct write-off.

9.4.2.15 Current and Deferred Profit Tax

Cost of tax for the period includes the current and deferred tax, Tax is recognized in the profit&loss, up to the amount that refers to the items that are directly recognized in capital. In that case, tax is also recognized in capital.
Current profit tax is calculated on the balance-sheet date on the basis of the applicable tax laws of the Republic of Serbia, where SMATSA llc operates and generates taxable profit. The management periodically estimates the items in the tax return from the viewpoint of circumstances in which he applicable tax laws are subject to interpretation and allocates provisions, if appropriate, on the basis of the amount for which it is expected to be paid to tax authorities.
Deferred profit tax is factored in full amount, by using a liabilities method, for temporary difference that arises between the tax basis for assets and liabilities and their carrying value in financial statements. However, if the deferred profit tax, on condition that it is not covered in accounting terms, arises from initial recognition of an asset or a liability in some other transaction except for the business combination which, at the moment of transaction does not affect either the accounting or the taxable profit or loss, than it is not covered in accounting terms. Deferred profit tax is measured according to tax rates (and the law) that are effective until the balance-sheet date and for which it is expected to apply in the period in which the deferred tax assets will materialize or deferred tax liabilities will be settled.
A deferred tax asset is recognized up to the amount for which it is probable that the future taxable profit will be available and that the temporary differences will be settled at the expense of that profit.

9.4.2.16 Revenue and Expenses

Revenues include those from the usual activities of SMATSA llc and profits. Revenues from the usual activities are revenues from rendering aviation services, revenues from providing calibration services, education of pilots and controllers, revenues from subsidies, donations, compensations and refund of claims from the sale of services and other revenue presented in the books, irrespective of the time of collection.

Profits are other items that qualify for the definition of revenue and can, but do not have to arise from the usual activities of SMATSA llc. Profits are an increase in economic benefit and, as such, they do not differ from revenue. Profits include profits from the sale of long-term assets, unrealized profits; e.g. those that result from the increase in recorded value of long-term assets. Profits are recognized on net basis, after being reduced for the relevant expenses.

Different types of assets can be received or increased through revenue. Examples include cash, receivables and goods and services received in exchange for the products and services delivered. Revenue may also arise from the settlement of liability on the basis of repayment of a residual debt.

SMATSA llc recognizes revenue when the amount of revenue can be measured reliably, when it is likely that in the future SMATSA llc will have economic benefit and when special criteria for each of the activities are met. The amount of revenue is not considered to be reliably measurable until all potential liabilities that might arise in relation to the sale are settled. SMATSA llc bases its estimates on the results from the previous operation, bearing in mind the type of buyer, type of transaction and specific characteristics of each business transaction.

Revenue from a fixed-price contract (for provision of training services for controllers, pilots and for calibration services) is recognized according to the degree of completion. Revenues from services are shown proportionate to the degree of completion of a service on the day of netting.

Interest revenue is recorded on a time proportionate basis.

Revenue from the effect of currency clause includes the positive effect of the agreed revaluation and currency clause.

SMATSA llc records on the account 692 he Revenue from correction of errors from previous years that are not materially significant. On the netting date (31.12) the business events recorded in the account 692 are reclassified in favour of the retained earnings account if they constitute a materially significant error.

Total operating expenses are: cost of material, cost of salaries, salary allowances and other personnel expenses, cost of depreciation and provisions, cost of production services and intangible expenses, irrespective of the time of payment.

Cost of advertising and entertainment must be credible and documented, showing that they have arisen and have been paid. The following can be recognized as credible and documented entertainment expenses: catering services for business partners for the purpose of signing and executing a contract or another form of business cooperation, giving products to business partners, catering services for the celebration of jubilees, etc.

SMATSA llc records on the account 592 the Expenses for correction of errors from previous years that are not materially significant. On the netting date (31.12), the business events recorded on the account 592 are reclassified at the expense of the retained earnings account if they constitute a materially significant error.

Losses are other items that meet the definition of expense and may, do not have to, arise from the usual activities of SMATSA llc. Losses are decreases in economic benefit and, as such, do not differ, in their nature, from other expenses.

Losses include, for example, those that are the result of catastrophe, such as fire or flood, but also those that resulted from the sale of long-term assets The definition of an expense also includes unrealized losses, for example, those resulting from the effects of an increase in exchange rate of a foreign currency, related to indebtedness in that currency. When losses are recognized in the profit&loss, they are shown separately because the knowledge of them is useful when making economic decisions. Losses are usually expressed on net basis, after decrease for the relevant revenue.

9.4.2.17 Interests and Other Borrowing Costs

Interest and other borrowing costs of SMATSA llc are covered in accordance with IAS 23 Borrowing Costs.
Interest expenses and other cost of borrowing that can be directly attributed to acquisition, construction or preparation of a qualified asset must be capitalized (attributed) to the purchase value (cost price) of an asset.
Borrowing costs that arose over an extended period in which the activities necessary for the preparation of an asset for the planned use or sale are halted cannot be capitalized, but are shown as an expense for the period (e.g. temporary halting the construction of a building).

9.4.2.18 Subsequently Identified Errors

Correction of subsequently identified materially significant errors is done through the account of earnings retained from previous years or loss retained from previous years, in the manner specified in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
A materially significant error is an error that in individual amount or in a cumulative amount with other errors amounts to more than 3% of total revenue.
Subsequently identified errors that are not of material significance are corrected at the expense of expenses or in favour of revenue for the period in which they were identified.

9.4.2.19 Functional Currency and Presentation Currency

Functional currency and presentation currency of SMATSA llc is the dinar, in accordance with IAS 21 Effects of Changes in Foreign Exchange Rates.

9.4.3 Financial Risk Management

9.4.3.1 Financial Risk Factors

Operation of SMATSA llc is exposed to various financial risks: market risk (that includes the risk of changes in exchange rates of foreign currencies, risk of change in fair value of interest rate, interest risk from cash flow, risk of a change in price), credit risk, liquidity risk and cash flow risk), credit risk, liquidity risk and cash flow risk. SMATSA llc's risk management is focused on efforts to reduce to minimum the adverse effects on SMATSA llc's financial operation in the environment of unpredictable financial markets. SMATSA llc uses derived financial instruments in order to hedge against some forms of risks.
Risks are managed by the management of SMATSA llc, in accordance with the recommendations of the Supervisory Board. Management of SMATSA llc identifies and estimates the financial risks and defines manners of hedging against risks in cooperation with the business units of SMATSA llc.
SMATSA llc's management makes it business decisions in a timely and precise manner and in doing so protects itself from credit risk and market risk.

9.4.3.2 Goals of Managing Financial Risks

Financial risks include:

- market risk (FX and interest risk),
- credit risk and
- liquidity risk

Financial risks are analyzed on a time basis and are avoided primarily by decreasing the exposure of SMATSA llc to these risks. SMATSA llc does not use any financial instruments in order to avoid the effect of financial risks on its operation as such instruments are not widely used, nor is there an organized market for such instruments in the Republic of Serbia.

9.4.3.2.1 Market Risk (FX and interest risk)

In its operation, SMATSA llc is exposed to financial risks of changes in exchange rates of foreign currencies (SMATSA llc operates in international environment) and changes in interest rates. The risk arises from future trade transactions, recognized assets and liabilities and net investment into operations abroad. Risk of a change in the exchange rate of foreign currencies arises when future transactions and recognized assets and liabilities are expressed in a currency that is not the functional currency of SMATSA llc.

Exposure to market risk is considered through an analysis of sensitivity. There were no major changes in the exposure of SMATSA llc to market risk, nor in the manner in which SMATSA llc manages or measures that risk.

Key financial instruments of SMATSA llc are cash and cash equivalents, receivables, financial lending that arise directly from the operation of SMATSA llc, as well as long-term and short-term loans, liabilities to suppliers and other liabilities whose basic purpose is to finance the current operations of SMATSA llc. Liabilities to suppliers were partially settled during January and February 2017.

The policy of SMATSA llc's management regarding risk management is to protect between 90% and 100% of expected cash flows (mostly revenue from performed services and the cost of procurement of equipment and spare parts) in each of the key currencies during the next 12 months. The percentage of collection of route fees for services provided to foreign customers was approximately 99.48%. Percentage of collection for terminal services to foreign customers was approximately 84% and from local customers approximately 99%.

9.4.3.2.1.1 FX risk

SMATSA llc is exposed to FX risk primarily through cash and cash equivalents, receivables from buyers, long-term loans and liabilities to suppliers denominated in a foreign currency. SMATSA llc does not use special financial instruments to hedge against risk, given that such instruments are not common in the Republic of Serbia.

Stability of economic environment in which SMATSA llc operates depends, to a great extent, on the measures that the Government introduces in the economy, including also the establishment of the adequate legal and legislative framework.

SMATSA llc is sensitive to changes in the exchange rate of the euro (EUR) and US dollar (USD). Financial assets are structurally composed mostly of uncollected receivables from buyers (mostly debts to foreign companies) and on cash and cash equivalents (FX account). Liabilities consist of long-term loans and liabilities to suppliers. Long-term loans are recorded in foreign currency, while liabilities to suppliers for equipment and spare parts are recorded in a foreign currency and liabilities to supplies for fixed monthly liabilities (electricity, telephone and mail, fuel, etc.) are recorded in the local currency. These assets and liabilities are subject to exchange rate as of 31.12 of the current year and exchange rate gains or losses are booked on that basis. Business result depends partly on financial revenues and expenses. The percentage of share of financial revenues (FX gains) in total revenue in 2016 was 0.99% (in 2015 0.85%).

Percentage of share of financial expenses (FX losses) in total expenses in 2016 was 0.91% (0.72% in 2015).

9.4.3.2.1.2 Interest Risk

SMATSA llc is exposed to risk of change in interest rates on liabilities with variable interest rate. This risk depends on the financial market and SMATSA llc does not have instruments at its disposal to mitigate such risk.

9.4.3.2.2 Credit Risk

Loans granted at variable interest rates expose SMATSA llc to cash flow interest risk. Loans granted at fixed interest rates expose v to the risk of change in fair value of credit rates. In 2015 and 2016 loans to SMATSA llc with fixed and variable interest rate were expressed in a foreign currency.
Sensitivity analyses have showed that changes in interest rates for loans from EBRD do not place SMATSA llc at interest risk. Increase or decrease of 1% is, according to the management, an estimate of realistically possible change in interest rates. The conclusion is that such a change would not have a significant effect on financial result of SMATSA llc.

9.4.3.2.2.1 Indebtedness Ratio

Given that the company has a larger amount of loans than the amount of cash and cash equivalents (2,248,945 and 2,629,516 thousand dinars), this means that SMATSA llc has an indebtedness ratio that can be expressed in two ways:

- Borrowed funding sources/Total funding sources x 100 = 3,294,044/17,380,302 x 100 = 18,95%
- Long-term loans/Capital + Long-term liabilities x 100 = 2,248,945/15,032,774 x 100 = 14,96%

The first one is used to show the share of borrowed funding sources in the total capital and contribution of borrowed capital to the asset financing. Indebtedness ratio shows that in each dinar of funding sources available to SMATSA llc 0.1895 dinars comes from other sources (in absolute terms) i.e. that he company's indebtedness amounts to 18.95% of total funding sources (in relative terms). This means that the company's creditors lay claim over the company's available assets to the degree of indebtedness.
The second ratio is used to show the share of long-term borrowed capital in the total long-term capital (own or borrowed), which is closely related to the degree of efficiency and the speed of release of capital through write-off (depreciation). The share of long-term loans in total long-term funding sources is 14.96%. High share of liabilities in the total capital and the high share of long-term liabilities in core capital are acceptable and will not threaten the safety and liquidity as the level of available cash equivalents is high.
SMATSA llc has not pledged any of its assets as collateral for a loan.

9.4.3.2.3 Liquidity Risk

Liquidity is defined as the company's capacity to settle its cash liabilities in full amount and in a timely manner while preserving the required volume and structure of working capital for current operations and credit rating. Maintaining the capacity to pay (liquidity) is a request that was imposed on SMATSA llc by the creditors i.e. the legal system.
Liquidity means coverage of short-term liabilities by working capital.
Management of SMATSA llc has maintained its operation liquid with adequate financing of the real part of working capital (supplies), long-term capital and making sure that nominal assets (receivables + cash) are always financed by short-term liabilities on condition of an equal turnover speed, which means on condition that the maturity speed of short-term liabilities corresponded to the receivables collection speed.
Careful management of liquidity risk means maintaining a sufficient amount of cash, as well as ensuring adequate funding sources through the appropriate amounts of loan liabilities.

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Independent Auditor's Report

MOORE STEPHENS
REVIZIJA I RAČUNOVODSTVO

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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 annual financial statements of Serbia and Montenegro Air Traffic Services SMATSA LLC (the Company), which comprise the balance sheet as at 31 December 2016, the income statement, statement of other comprehensive income, 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.

INDEPENDENT AUDITOR'S REPORT

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 2016, and its financial performances 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.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 30 of the Law on Auditing ("Official Gazette" no. 62/2013), we have investigated the compliance of the Annual Report and the Financial Statements. Management is responsible for the preparation the annual report in accordance with the current regulations in effect. Our responsibility is to express our finding in relation to compliance of the annual report and the financial statements, conducting audit procedures in accordance with the International Standard on Auditing 720 - The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.

Based on our audit procedures used, no material inconsistency has been identified which would indicate that the annual report for 2016 is not in compliance with the financial statements for the same financial year.

Belgrade, 26 May 2017

„MOORE STEPHENS
Revizija i Računovodstvo" doo, Beograd

Bogoljub Aleksić
Managing Partner

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Symbols and Abbreviations

ADI	Airport control-instrumental
ADQ	Aeronautical Data Quality
AFIS	Aerodrome Flight Information Services
AIP	Aeronautical Information Publication
AIS	Aeronautical Information Services
ANS	Air Navigation Services
ANSP	Air Navigation Service Provider
APP	Approach Control
APS	Approach Control Authorization-Surveillance
ATC	Air Traffic Control
ATFM	Air Traffic Flow Management
ATM	Air Traffic Management
ATS	Air Traffic Services
BHANSA	Bosnia and Herzegovina Air Navigation Service Agency
BSO	Basic Objective
CAT	Category
CCL	Croatia Control (Croatian Air Traffic Control)
CNS	Communication, Navigation and Surveillance services
CRCO	Central Route Charges Office
CRDS	Centre of Research, Development and Simulation (Hungarocontrol)
CS	Centralized Services
EAIMS	European ATM Information Management Service
DCT	Direct(in relation to flight plan clearances and type of approach)
DME	Distance Measuring Equipment
DPS	Data Processing System
DVOR	Doppler VOR
EAD	European AIS Database
EASA	European Aviation Safety Agency
EMS	Environment Management System
ENV	Environment
ESARR	Eurocontrol Safety Regulatory Requirements
EUROCONTROL	European Agency for the Safety of Air Navigation
FIR	Flight Information Region
FL	Flight level
FRA	Free Route Airspace
ICAO	International Civil Aviation Organization
ICASC	International Committee for Aviation Standards and Calibration
IFIS	International Flight Inspection Symposium
IFR	Instrument Flight Rules
ILS	Instrument Landing System
INO	International NOTAM Operations

IP	Internet Protocol
ISO	International Standardization Organization
LLZ	Localizer
LRD	Long Range DCTs
LSSIP	Local Single Sky Implementation
LVP	Low Visibility Procedures
LYBE	Belgrade Airport
LYNI	Nis Airport
MCC	License for a pilot of a multimember crew aircraft
MED	Medical
MET	Aeronautical Meteorological Services
METSP	MET Service Providers
MTBO	Mean Time Between Failures
MTOW	Maximum take off weight
NM	Network Manager
NOTAM	Message distributed by telecommunication means which includes information about establishment, state or change of aircraft, service, procedure or danger, timely awareness of which is necessary for the staff participating in the preparation and execution of flying
OJTI	On-the-job training for instructors of flight controllers
PAMS	Published AIP Management System
PPL	Private Pilot License
PRU	Performance Review Unit
PSR	Primary Surveillance Radar
RAT	Risk Analysis Tool
SAF	Air Traffic Safety Department
SDO	Static Data Operations
SEAFRA	South East Axis Free Route Airspace
SES	Single European Sky
SESAR	Single European Sky ATM Research
SMATSA	Serbia and Montenegro Air Traffic Services SMATSA llc
SMS	Safety Management System
SSR	Secondary Surveillance Radar
SUSAN	SMATSA Upgrade of System for Air Navigation
TAF	Aerodrome Forecast
TCL	Terminal Control Rating Training
UIR	Upper Information Region – Flight information on higher altitudes
VCS	Voice Communication System
VOR	Very High Frequency Omni-directional Range
AKL	Aerodrome Flight Control
ACV	Civil Aviation Agency of Montenegro
DCV	Civil Aviation Directorate of the Republic of Serbia
ZRNS	Ground-based Radio Navigation System
KL	Flight Control
PSS	Takeoff-Landing Runway
CKL	Flight Control Center

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12.2 Index of Figures

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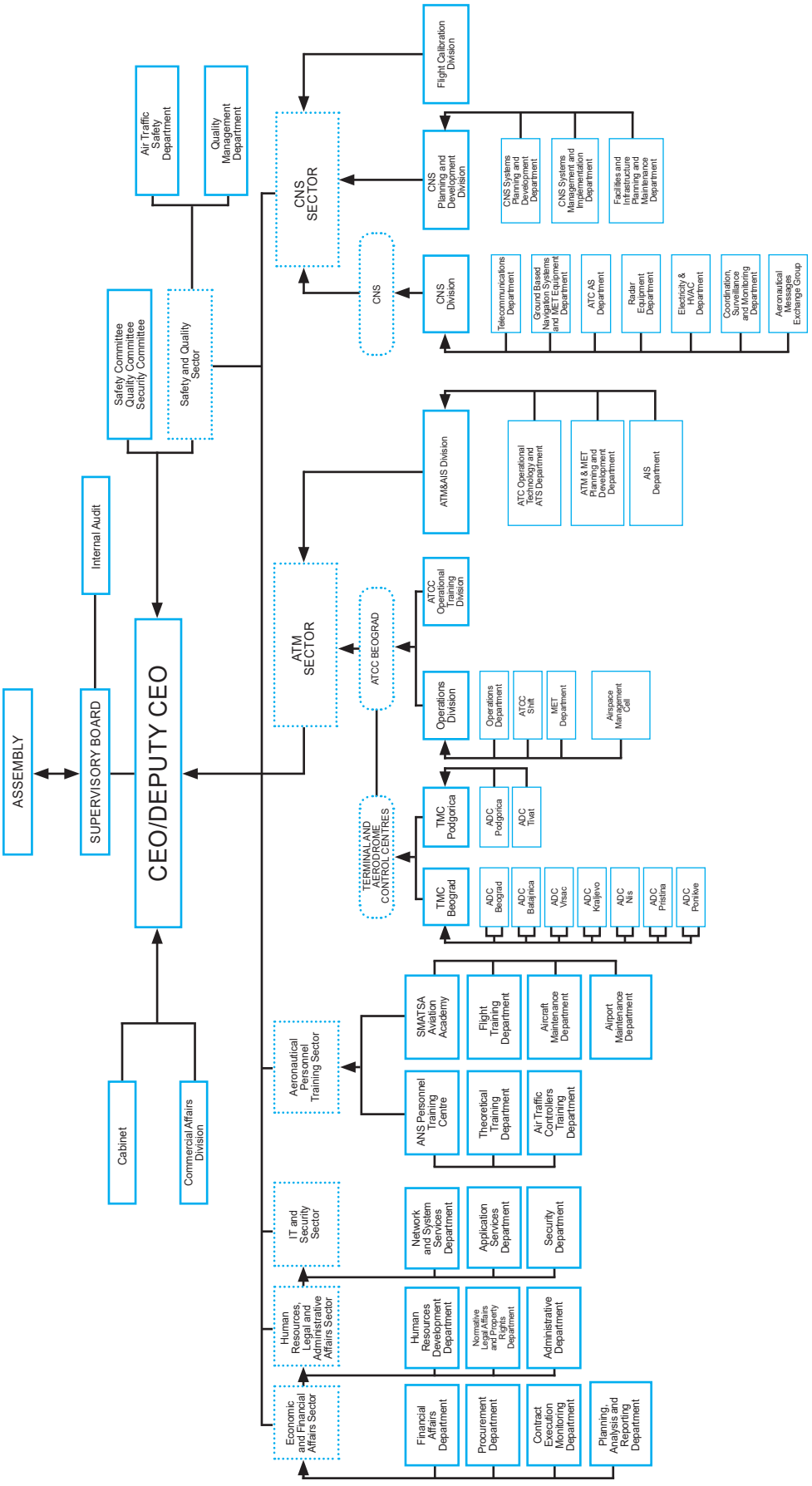
Attachments

No.	Attachment Name	Attachment page numbers
1	SMATSA llc Organization Structure	1

Attachment 1 SMATSA llc Organization Structure



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