

smatsa

2009

Annual Report



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Serbia and Montenegro Air Traffic Services Agency Ltd.

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	in 000 RSD	
	2008	2009
Total assets	8,438,364	11,874,635
Operating revenues	5,149,936	5,557,256

Table 1. Financial Statements Summary

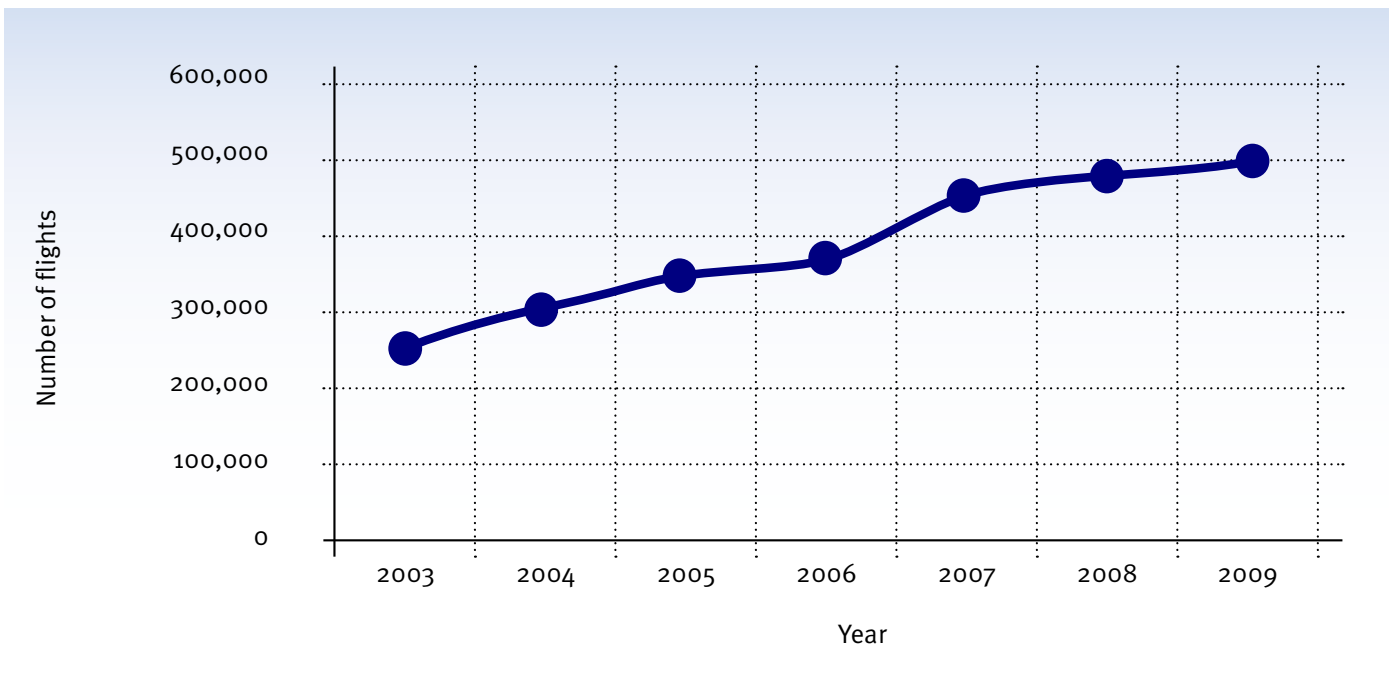


Figure 1. ACC Beograd – Number of Flights in the Period from 2003 to 2009

1 Message from the CEO



The road to success is always under construction, and the year 2009 has been a year of progress and construction for SMATSA, indeed. Great projects, plans, people and actions that support a clear vision, safety as the means of accomplishing our goals, and quality as the essence of our business idea, have all been the inspiration of our “construction project”, on our road to success.

Quality and safety go hand-in-hand, and by shaping our services to adhere to best practices, we are constantly improving, growing and learning. In 2009, our focus on quality was enhanced by the addition of a Quality Management System Department to our organizational structure. The new department showed its readiness and enthusiasm immediately by tackling one of SMATSA’s prime objectives - ISO 9001 certification. With the epitome of quality in mind, SMATSA also commenced activities on a project that will inevitably lead to certification for provision of air navigation services by 2010.

As part of our planning for the demanding summer season, SMATSA introduced new ATS routes and adjusted several existing ones, in an effort to increase capacity, ensure safety and preserve the environment. Through these changes, the aim was also to reduce flying time and increase efficiency for our customers. This initiative resulted in a reduction of over 220,000 nautical miles of flying routes, a cut of nearly 1,300 tons of fuel consumed, a reduction of 4,000 tons of CO2 emissions, and only 2000 minutes of delay time.

A project that has been at the centre of attention for much of the year 2009 is the construction of the new tower at the Batajnica military airport (LYBT). It had taken SMATSA only six months to carry this project from the mere idea to build a new tower, to the final result. In September 2009, the new tower at LYBT became operational, following the launch of construction works only 74 days earlier. This project was one that showed SMATSA’s determination, accuracy and strength in project execution, despite the many obstacles and a rigorous deadline. The product of this effort was evident on September 13th, when all of Serbia and the aeronautical industry interest groups from around the world watched the “Belgrade Air Show 2009”.

SMATSA also welcomed an addition to its Flight Inspection Team with the arrival of a Hawker-Beechcraft King-Air 350 state of the art aircraft, equipped with an integrated flight inspection system AD-AFIS-260, designed to deliver superior calibration services of NAVAIDS with efficiency and precision. Not only does the new aircraft bring a new dimension to SMATSA’s calibration service quality for its own needs, but it also greatly contributes to the overall safety and quality of service provision in the region, as SMATSA currently provides calibration services to Serbia, Montenegro, Macedonia and Bosnia and Herzegovina.

Our pillar development project – the FAMUS project – remains to be a most-awaited, nurtured and prized project. The project envisions an air traffic control infrastructure that would successfully bear with the anticipated trend of traffic demand. The FAMUS project will ultimately allow SMATSA to provide air traffic control services that go even beyond its current area of responsibility and in line with the SESAR initiative. Through the funds made available from EBRD and EIB, SMATSA’s implementation of the FAMUS project includes the purchase of a data processing system, a voice communication system, a digital voice recording and playback system, a time reference system, an AFTN/AMHS message switching system and a communication network, as well as the construction of a new Area Control Centre in Belgrade. Public procurement procedures for the entire project had led SMATSA to sign a contract with Thales S.A. on March 6th for the system, and on March 9th with a consortium led by Projektomontaza d.o.o., for the construction of the new ACC in Belgrade.

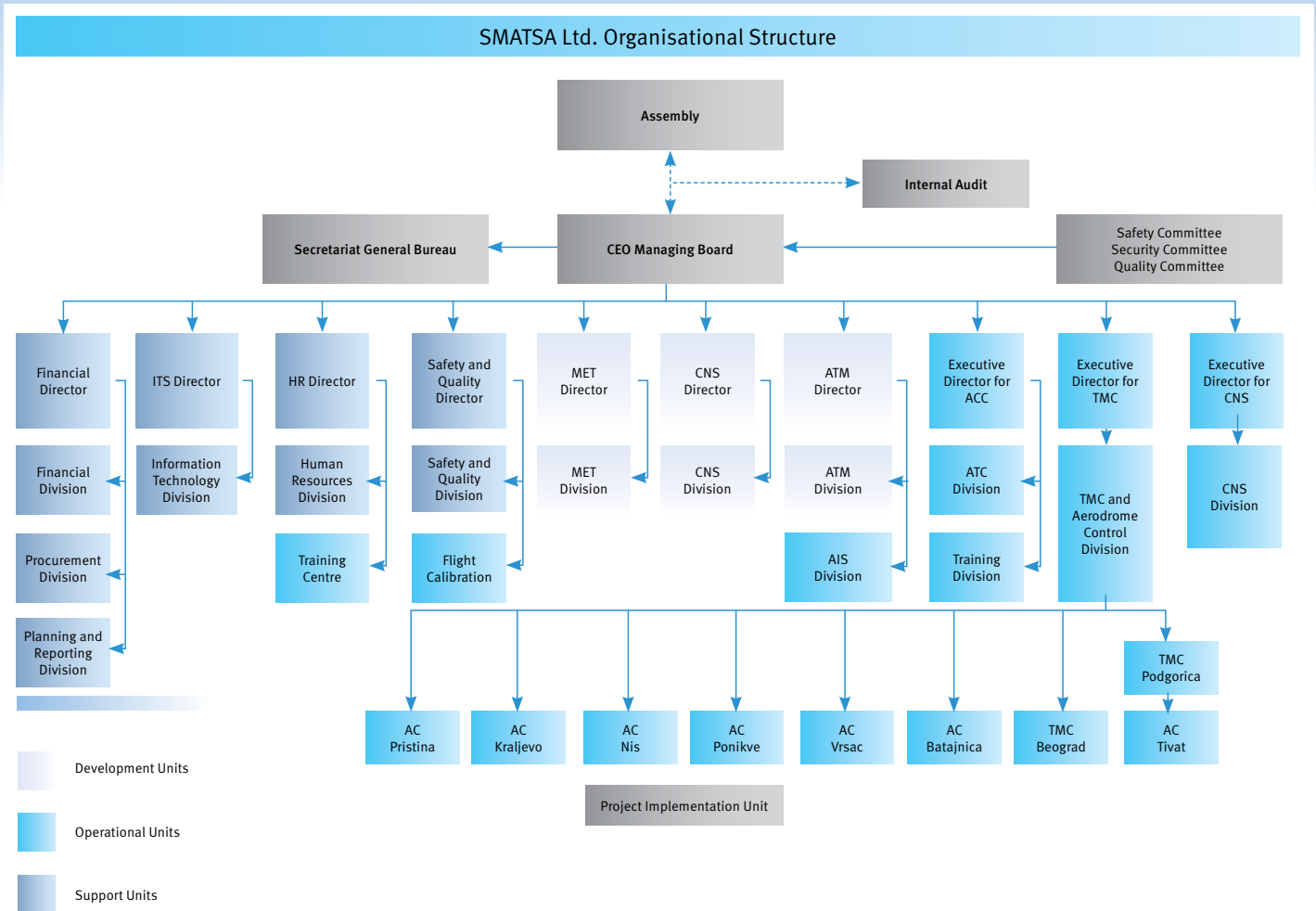
While we proudly look behind at the projects initiated in 2009, it is evident that the following year will be equally demanding as we progress and bring to a close our many projects. However, armed with the people and the organization that make up SMATSA, we have the competence to accomplish our goals, the capacity to truly transform the way in which air navigation services are delivered in the region, and the strength to construct and define the road to success.

Organisational Structure





2 Organisational Structure



Organisational Structure Scheme

The matrix organisational form complying to contemporary business requirements was improved during 2009.

- Safety and Security Division was improved by integration of both Quality Assurance Division and Flight Inspection Division into it, and, thus, became Safety and Quality Division,
- Information and Analytic Division (IAT) was transformed into Information Technologies and Protection (ITP) Division,
- ATM Division was improved by integration of Control, Protection and Allocation of Airspace Division, and
- Planning and Information Division was formed.



MANAGING BODIES

The Managing Bodies of Serbia and Montenegro Air Traffic Agency Ltd. are the Assembly and the Managing Board. The Assembly comprise 5 members who are the representatives of the founding states i.e. their relevant ministries in charge of transport (The Ministry of Infrastructure in the Republic of Serbia and The Ministry of Maritime Affairs, Transportation and Telecommunication in the State of Montenegro), Ministry of Finance and other government bodies, departments and relevant organisations. The President of the Assembly is

Mr Milutin Mrkonjić, the Minister of Infrastructure in the government of the Republic of Serbia.

The Managing Board comprise seven members who are appointed and revoked by SMATSA Ltd. Assembly. The members of the Managing Board are appointed by the Government of the Republic of Serbia and the Government of the State of Montenegro. The President of the Managing Board is Mr Nikola Stankov, M. Sci., and the Vice President of the Managing Board is Mr Lazo Maksimović.

Managerial Team: Branislava Čulajević, ATM Director; Boris Bročić, Financial Director; Milanče Blažić, MET Director; Luka Pavlović, CNS Director; Milenko Majstorović, Safety and Quality Director; Danijel Gavrilović, Executive Director CNS; Vlatko Jovanović, Executive Director TMC; Slobodan Cvijan, Director ITP; Bruno Genal, Executive Director ACC Beograd; Vanja Škobić, Acting HR Director.



COMPANY
PROFILE





3.1 ABOUT US

SMATSA Ltd. provides services of importance to safety, regularity and efficiency of air traffic at airports and within the airspace of the Republic of Serbia and the State of Montenegro, the airspace above the part of the Adriatic Sea and past the territorial waters of its member states up to the international borders defined by relevant international agreements, as well as within the airspace of other states accrediting SMATSA Ltd. for provision of air traffic services on the basis of international agreements.

The primary activity of SMATSA Ltd. is provision of air traffic services - ANS comprising the following:

- Air Traffic Management - ATM,
- Communication, Navigation and Surveillance - CNS,
- Aeronautical Information Services – AIS, and
- Aeronautical Meteorological Services - MET.
- In addition to provision of air traffic services, SMATSA Ltd. also provides for the following:
- Flight Inspection Services,
- Training,
- PANS OPS and
- Mapping.

SMATSA Ltd. is a member of the most important world aviation organisations where it actively represents the Republic of Serbia and the State of Montenegro:

- European Civil Aviation Conference - ECAC,
- European Organisation for the Safety of Air Navigation - Eurocontrol,
- Central Route Charge Office - CRCO,
- International Civil Aviation Organisation - ICAO,
- International Air Carrier Association – IACA, and



3.2 LEGAL FRAME

Internal acts of SMATSA Ltd. such as: Articles of Association, Regulations on Accounting and Accounting Policies and Collective Agreement are fully in compliance with the laws and regulations in force in the Republic of Serbia and the State of Montenegro.

SMATSA Ltd., as an ANS provider (ANSP), is an independent entity not associated in any way with aviation

regulatory bodies. The regulatory bodies are the Civil Aviation Directorate of the Republic of Serbia and the Civil Aviation Agency of Montenegro. These regulatory bodies are in charge of aviation regulations, monitoring of safety performance, certification, personnel licencing, safety recommendations and instructions and aircraft incidents and accidents investigation.

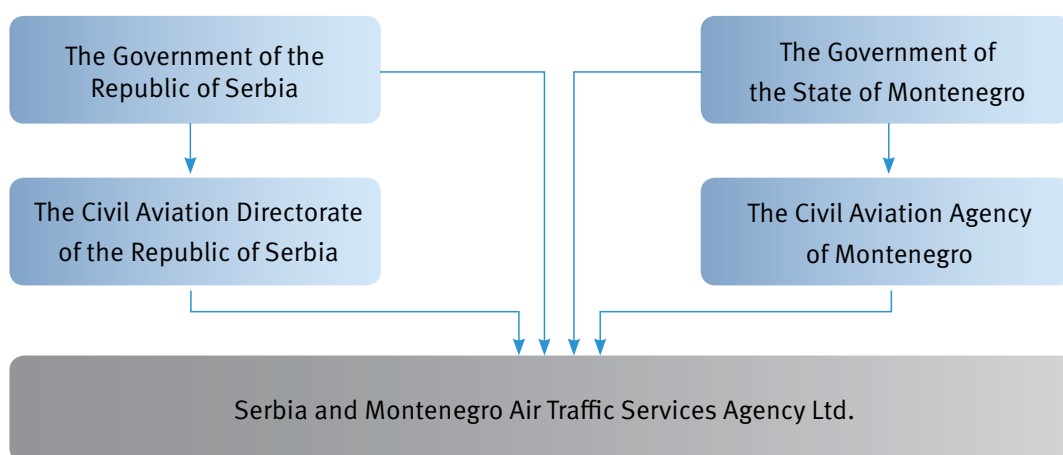


Figure 2. The Scheme of Institutional Arrangements and Links

3.3 MISSION

Our mission is provision of high quality air navigation services to civil and military aircraft in order to maintain and enhance safe, orderly and expeditious flow of air traffic within the airspace of FIR/UIR Beograd and within the airspace of other neighbouring countries based on the bilateral state agreements, provision of high quality training of aviation personnel as well as provision of flight inspection services. Jointly with our regional Pan-European business and institutional partners, we strive to implement the Single European Sky (SES) concept and develop regional Functional Airspace Blocks (FAB).

3.4 VISION

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

3.5 OBJECTIVES

SMATSA Ltd. objectives are to achieve the following:

- Acquire and hold the SES certification,
- Keep up and advance the safety level in provision of services,
- Increase its capacity of services provision as required,
- Achieve high level of cost efficiency,
- Fulfill environment protection requirements,
- Obtain ISO 9001 certification,
- Implement interoperability across the service in compliance with ECIP (Eurocontrol Convergence and Implementation Plan) and SES regulations, and
- Human resources development and management.





4 Activities





4.1 CERTIFICATION PURSUANT TO SES REQUIREMENTS

Formation of the project teams for the implementation of Certification and Harmonisation of ANS to SES (CHANSS) meant that SMATSA Ltd. commenced with a systematic assessment of compatibility with SES regulations. The areas requiring improvement were identified and the plans made how to acquire compliance with the Common Requirements (Regulation No.2096), i.e. with the requirements emanating from the Regulations on certification and safety monitoring of ANS providers. The defined plan was successfully realised. On the basis of the compatibility analysis, 24 documents were updated and 112 documents were prepared.

All activities accomplished by CHANSS teams representatives in 2009, aimed at provision of professional assistance for the implementation of European regulations and recommended practices into the system. SMATSA Ltd. had been providing services in accordance with the European recommended practices till the date of submission for certification, so obtaining of the certificate would actually verify such an aspect of performing activities. The application for certification was submitted on 24th September 2009.



4.2 AIR TRAFFIC MANAGEMENT

SMATSA Ltd. provides air traffic services within the area of its jurisdiction and at controlled airports in a safe, orderly and expeditious manner. The ATM is based on aviation industry standard technologies keeping pace with actual standards in aviation industry, and implies implementation of latest generation systems.

During 2009, experts from ATM Division took part in several projects aiming to prepare and propose legal and sub-legal acts of the Republic of Serbia all in accordance with the SES requirements.

As from September 2009, the experts from ATM Division participated in different activities related to BHRTS₂ (Bosnia and Herzegovina Real Time Simulation), CRDS in CEATS Research, Development and Simulation Centre in Budapest, Hungary.

The Future ATM Modernisation and Upgrade System (FAMUS) project also implies FASTI (First ATC Support Tool Implementation). The ATM Division experts took an active part in the most relevant activities related to FASTI both in the assessment phase and in the support phase of the same.

During 2009, the Voice Communication System SMART VCS 3020X R.e.l. 6.o. of FREQUENTIS made, was installed both at AC Batajnica and AC Vršac and the technical and operative personnel underwent the necessary training. Apart from it, the radar surveillance in provision of air traffic services was implemented at TMC Podgorica.

As far as setting of procedures is concerned, the 2009 activities include: implementation of new STAR procedures for Belgrade and Niš airports, issuance of new SID and STAR procedures for Batajnica and Kraljevo airports, development

of new IFR procedures for Podgorica airport, configuration of new VFR routes for Niš and Vršac airports, improvement and revision of existing procedures and development of the new ones for VFR flights to VFR aerodromes in Serbia.



4.3

COMMUNICATION, NAVIGATION AND SURVEILLANCE SERVICES

2009 can be characterised as a year of significant advancements of communication and navigation systems for provision of services.

In order to ensure better coverage of its area of jurisdiction, especially pertaining to a multiple coverage of the airspace under ACC Beograd responsibility and the coverage of lower flight levels under TMCs responsibility, an advancement and extension of the VHF/UHF radio system for ground-to-air voice communication was completed during 2009. The old generation and technologically outdated systems for ground-to-ground and ground-to-air voice communication were replaced with the new digital voice communication systems for the requirements of AC Batajnica and AC Vršac, thus facilitating connection with other SMATSA Ltd. operational units through utilisation of telephone lines that provide for all the functions recommended by Eurocontrol, as well as for more efficient and more flexible use of radio system resources.

During 2009, the existing SMATSA Ltd. telecommunication network was extended to new sites, the introduction of back-up paths and migration to fibre optics for crucial

services (air-to-ground voice communication and radar sensors). In addition, the DPS (Data Processing System) that is used for ACC Beograd provision of services under its area of responsibility, was connected to ACC Brindisi, Italy, in order to provide the OLDI (On Line Data Interchange) service between these two ACC units. At the end of 2009, a project task for procurement of OLDI messages distributor was finalised. The task of the same would be to facilitate the transition of the existing OLDI service to a new DPS within the scope of the FAMUS project. A new international tender for procurement and installation of the ILS (Instrument Landing System) and the DME (Distance Measuring Equipment) was announced for the requirements of the FAMUS project.

4.4 AERONAUTICAL – METEOROLOGICAL SERVICES

SMATSA Ltd. proceeded with all necessary activities for the purpose of improvement of monitoring and of the quality control of aeronautical meteorological services. The cooperation with the Hydro Meteorological Institute of the Republic of Serbia pertaining to reception of particular meteorological data was successfully pursued. From the events taking part in 2009, we can distinguish the following:

- commissioning of automatic weather station AWS-200 "MikroStep" at AC Batajnica in August 2009, and
- commissioning of automatic weather observation system software for comprehensive meteorological data output - SAWAS (Serbia and Montenegro Automatic Weather Aviation System) at AC Batajnica in September 2009.

4.5 AERONAUTICAL INFORMATION SERVICES

SMATSA Ltd. provides aeronautical information services for Serbia and Montenegro in accordance with ICAO standards and practices with the purpose of enabling safe, regular and efficient air navigation. SMATSA Ltd.'s provision of AIS complies with the newly signed SLA with internal and external data sources. In addition to that, SMATSA Ltd. AIS renders a part of its services via European AIS Database (EAD). SMATSA Ltd.'s AIS Division prepared Aeronautical Information Package (AIP) for Visual Flight Rules (VFR). The first edition became effective as of 4th June 2009. That event was a very significant step in provision of AIS for VFR because it simplified the acquisition of the required data.

In 2009, SMATSA Ltd.'s AIS Division commenced work on two very important projects related to the implementation of the pre-flight Briefing Facility system and the electronic AIP (eAIP). The integration of the eAIP is expected to be completed during 2010.



4.6

TRAINING CENTRE

In 2009, SMATSA Ltd. Training Centre went on with successful performance of its activities related to training and upgrading of operational staff and other personnel requiring additional training due to specific work requirements. Apart from that, SMATSA Ltd. Training Centre accomplished the training of the candidates from Bosnia and Herzegovina and aims to expand its services all over the region.

SMATSA Ltd. Training Centre, as being certified for training in accordance with the so far effective regulations, undertook in 2009 all necessary activities to fully conform to the requirements for obtaining the certificate of competency for aviation personnel training. That would enable its full compliance with the ICAO Annex 1 (Personnel Licensing) and European regulations. SMATSA Ltd. Training Centre provides ATCO modular type trainings at all levels.

The training of the 47th class of Basic ATCO Training candidates was conducted all in accordance with the new training plans and programmes for ADI (Aerodrome Instrumental).

SMATSA Ltd. Training Centre continued with its activities pertaining to upgrading of the level of competency in the English language for the purpose of the implementation of the ICAO Language Proficiency Requirements (LPRs)

and the successful acquisition of ATCOs' English language endorsement:

- RDR simulator,
- PROC simulator,
- Flight simulator,
- Part Task Trainer - PTT,
- Language Laboratory,
- CBT/CWBT classrooms, and
- Digital (Teaching) Board.
-

In 2009 SMATSA Ltd. kept on with the enhancement of teaching techniques and training aids. In May 2009, the installation of RST 2.3 – PTT – version B (produced by IANS Luxembourg) was accomplished in the PTT training classroom, thus, facilitating the performances of the existing software to improve. SMATSA Ltd. Training Centre is the first one to take part in the testing of a new version, and therefore, the accumulated experiences with the PTT advanced version shall be utilised in the further improvement of the subject software and the training technique.



Figure 3. Hawker Beechcraft King Air 350

4.7 FLIGHT INSPECTION

Keeping up with overall modernisation, SMATSA Ltd. made an investment plan for the procurement of a new aircraft and the accompanying equipment. Therefore, during 2009, the contract on procurement of a new aircraft was realised and the "Hawker Beechcraft King Air 350" aircraft with integrated AD-AFIS-260 flight inspection system was purchased. This aircraft will improve the quality of flight inspection services and reduce cost of the same, ranking SMATSA Ltd. as a competitive provider of flight inspection services in the market.

Through utilisation of up-to-date flight inspection technical solutions and by continuous improvement of flight inspection procedures, the following objectives will be accomplished:

- High precision of measured parameters,
- Possible repetition of a procedure during flight inspection,
- Minimal required flight time and a minimal number of engaged personnel.

Owing to the new aircraft, the Flight Inspection Division shall be in position to provide flight inspection services as for the following:

- Instrument Landing System (ILS) Category I, II, III,
- ILS Markers,
- Tactical Air Navigation (TACAN),
- VHF Omni Directional Radio Range (VOR) - DVOR, CVOR,
- Distance Measuring Equipment (DME),
- Non-Directional Beacon (NDB),
- VHF, UHF Communications,
- VHF Direction Finding (VDF),
- UHF Direction Finding (UDF),
- Secondary Surveillance Radar (SSR),
- Precision Approach Radar (PAR),
- Visual Approach Slope Indicator (VASI),
- Precision Approach Path Indicator (PAPI),
- Area Navigation (RNAV, RNP) and
- Instrument Flight Procedures (SID, STAR).

On the basis of SMATSA Ltd. Flight Inspection Division's proposal, the relevant authorities passed the Regulations on Flight Inspection and legislated this field of aviation. As a result, the Flight Inspection Division applied to the CAD of the Republic of Serbia for certification of Flight Inspection Services provision.

4.8

SAFETY

Safety is the highest priority in provision of ANS, as well as in the advancement of future activities. SMATSA Ltd. administers and maintains an efficient, formal and proactive SMS (Safety Management System), all in accordance with international and national regulations requirements. The fundamental task is to ensure that all operational equipment and procedures are safe and that all operational personnel are properly trained, aware of their role in provision of services and competent to perform their respective duties. All parts of the ATM system in terms of design, manufacture, operation and maintenance are closely supervised and monitored. The process of risk identification, assessment and mitigation, when introducing and/or planning certain changes to the system, is always applied.

During 2009, as in compliance with SMATSA Ltd.'s Safety Policy and the SMS, Safety and Quality Division undertook measures to monitor the SMS functioning and prepare whatever necessary for ANSP certification by the CAD of the Republic of Serbia. As a result of their activities, the CAD of the Republic of Serbia approved the use of the SMM covering procedures, instructions and patterns of safe ANS provision, as of 5th November 2009.

4.9

INFORMATION TECHNOLOGIES AND SECURITY

During 2009, the newly established Information Technologies and Security Division prepared and passed the Security Manual elaborating and operationalising the postulates and objectives defined by SMATSA Ltd.'s Security Policy. The technical security level of some of the crucial objects was significantly increased by introduction and installation of additional video surveillance systems, intrusion detection systems and access control systems.

The IT infrastructure modernisation was finalised

resulting in configuration of an integrated corporate computer network. All important sites in the territory of the Republic of Serbia and the State of Montenegro were interconnected. The relevant appropriate services were released through the network, including therewith the applications of reliable methods of data security protection and access denial. In addition to configuring the aforesaid infrastructure, the latest generation of IP telephony platform was realised and its distribution completed at all sites.

The project of implementation of the Microsoft Office Sharepoint document management system was initiated in order to facilitate and enable different divisions and project teams to perform the coordination pertaining to preparation of documents and their work demands more efficiently, as well as to implement the work process requirements more successfully. A pilot project, entered into jointly with AIP Division, was successfully realised, upon which, they continued to spread its availability to other SMATSA Ltd.'s divisions.

4.10

HUMAN RESOURCES

The programmes conducted by SMATSA Ltd. for the purpose of developing human resources continued in 2009, ensuring that an adequate number of experts, air traffic controllers, engineers and technicians of all profiles acquire and hold their respective competences and successfully meet all assumed requirements. During 2009, several new plans and programmes for relevant ATCO licences were prepared and approved. In addition, the training programmes for operational supervisors and instructors accessors were completed. In 2009, SMATSA Ltd. started with the implementation of the approved ATCO training plans: the Unit Training Plan (UTP) and the Unit Competence Scheme (UCS) in ACC Beograd, TMC Beograd,

AC Batajnica, AC Niš, AC Kraljevo, AC Ponikve and AC Vršac. In that way, the training process was standardised and updated and made fully compliant with the requirements set in the Rules on Air Traffic Licences and Training Centres.

The recruitment process for the 48th Ab initio class of student controllers commenced in November 2009. The objective was to make selection of 34 candidates for ATCO training and licensing for operation in Belgrade, Niš, Podgorica and Tivat sites. More than 800 candidates entered for the competition, and the selection process was conducted in accordance with the recruitment and selection procedure documents. The commencement of the training was foreseen as in the second part of 2010.

In the second part of 2009, six student controllers from the 46th Ab initio class of ATCO training acquired ACS/RAD (Area Control Surveillanace/Radar) licences in a period of less than three years' time from their training commencement.

In 2009, a negotiation procedure with the authorised representatives of respective Trade Unions was conducted, the result of which was the conclusion of a new Collective Agreement coming into force on September 1st 2009. The average number of 853 employees remained in 2009 at a constant level and was nearly the same as in previous years.

4.11

QUALITY MANAGEMENT

During 2009 SMATSA Ltd. continued with implementation of the Quality Management System (QMS) in compliance with the ISO 9001 standard. The Quality Management Division's employees underwent training for internal QMS surveillance in Societe General de Surveillance (SGS).

In August 2009, a public bid was announced for the procurement of consultancy services for implementation of QMS in compliance with the ISO 9001 standard. On the basis

of the mentioned bid, SMATSA Ltd. concluded an agreement with the Institute of research and design in the economy (IIPP) and starting from the end of October 2009, a nine month's project commenced for the purpose of preparing SMATSA Ltd. for certification in compliance with the ISO 9001:2008 standards. As planned, the certification scope would include an entire range of services that SMATSA Ltd. provides (provision of air traffic management - ATM services, communication, navigation and surveillance – CNS services, aeronautical meteorological – MET services, as well as training of ANS personnel and flight inspection services. Pursuant to a new organisation and systematisation in force in SMATSA Ltd., the Quality Assurance Division became the Quality Management Division within the scope of Safety and Security Division.

4.12

RISK MANAGEMENT

In 2009, the FAMUS project risk management team proceeded with performing the activities resulting from the Risk Management Plan for the purpose of foreseeing risks, diminishing their negative effects and creating risk mitigation plans.

Also, in 2009, SMATSA Ltd. finalised the identification and assessment of risks process pertaining to on-the-job safety and the working environment, all in line with the Law on health and security at work. In connection with that, on 29th April 2009, the Act on work risk assessment in relation to work conditions was adopted in SMATSA Ltd. Also, in 2009, SMATSA Ltd. made a new agreement with the insurance company for provision of property insurance and the insurance of employees.

5 Operational Indicators





5 Operational Indicators

5.1 OUR AIRSPACE AND AIRPORTS

The Beograd FIR/UIR, which covers the airspace of the Republic of Serbia and the airspace of the State of Montenegro, is surrounded by eight states: Albania, Italy, Bosnia and Herzegovina, Croatia, Hungary, Romania, Bulgaria and Macedonia.

Smatsa Ltd. is responsible for the provision of the air traffic services over an area of 144,676 square kilometres,

in the airspace of the Republic of Serbia, the State of Montenegro, a part of international waters of the Adriatic Sea, as well as 55% of the upper airspace of Bosnia and Herzegovina territory.



Figure 4. ACC Beograd Area of Responsibility



Figure 5. ACC Operating Room

The Beograd Area Control Centre, which is located at the Belgrade Nikola Tesla airport, provides en-route services between FL145 and FL660. The ACC Beograd has the capacity to provide en-route services by 12 sectors.

There are two terminal controls and eight aerodrome controls in SMATSA Ltd. area of responsibility. The lower limits of all TMA's are 450m surface, while the upper limit is FL145.

Airspace under SMATSA Ltd. responsibility includes the following airports:

- Nikola Tesla Airport (Beograd),
- Podgorica Airport (Podgorica),
- Tivat Airport (Tivat),
- Konstantin Veliki Airport (Niš),
- Vršac Airport (Vršac),
- Ponikve Airport (Užice),
- Lađevci Airport (Kraljevo),
- Batajnica Airport (Batajnica), and
- Priština Airport (Priština).



Figure 6. Airports under SMATSA Ltd. Responsibility

5 Operational Indicators

5.2 TRAFFIC FIGURES

At the end of 2008, great impact of world economic crisis on air traffic industry was evident. The beginning of the crisis, in the last quarter of 2008 and during 2009 forced many airlines to reduce their capacities, thus causing decrease of air traffic in Europe for 6.6%.

In comparison with most European countries, which recorded fall in air traffic in 2009, according to SMATSA Ltd. data, air traffic in the airspace under Area Control Centre - ACC Beograd responsibility, with 502,386 IFR flights, has

achieved the growth of 4.2% compared to 2008 (overflights recorded increase of 5.6%, while international departures/arrivals and local flights recorded fall of 5.5%). Taking into consideration the number of conducted flights in 2003, in 2009 traffic increase of more than 100% was recorded.

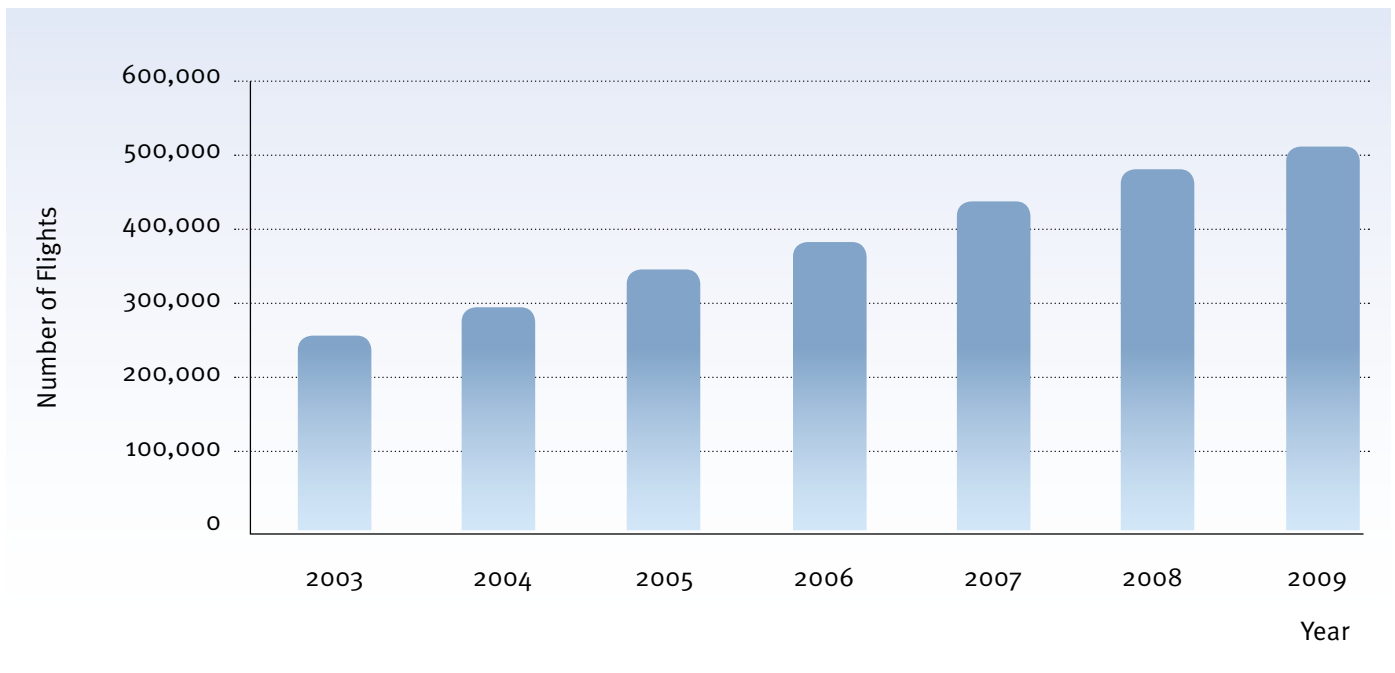


Figure 7. ACC Beograd – Number of Flights from 2003 to 2009

The most of flights are overflights, then international departures/arrivals, and the least number makes local flights among airports where SMATSA Ltd. provides air traffic services.

Traffic growth, which has started in the second part of the year, reached its peak in December, when overflights and international departures/arrivals recorded maximum growth from the beginning of the year. Most of the countries which faced traffic fall in the course of the year, recorded larger number of flights in December 2009 compared to the same period in 2008. The reason for this outstanding growth in the number of international departures/arrivals is abolishing of visas for Serbian and Montenegrin citizens for travelling to European Union countries.

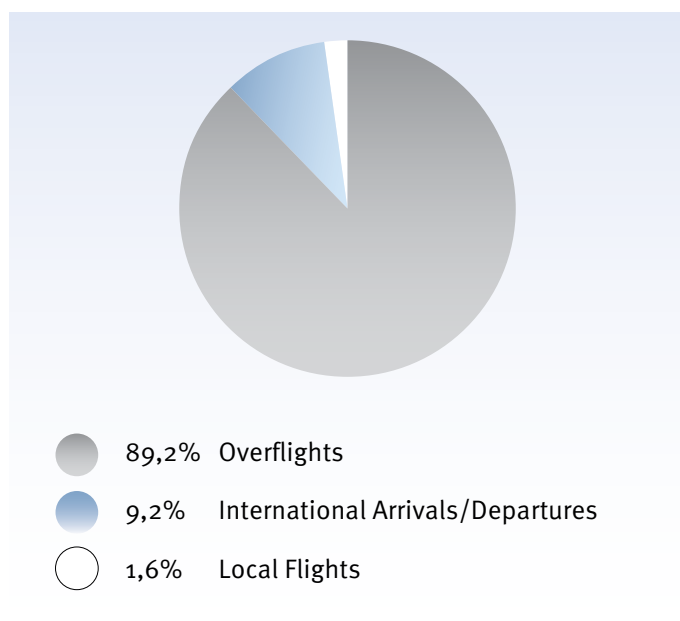


Figure 8. Breakdown of All Flights in Total Traffic for 2009

5 Operational Indicators

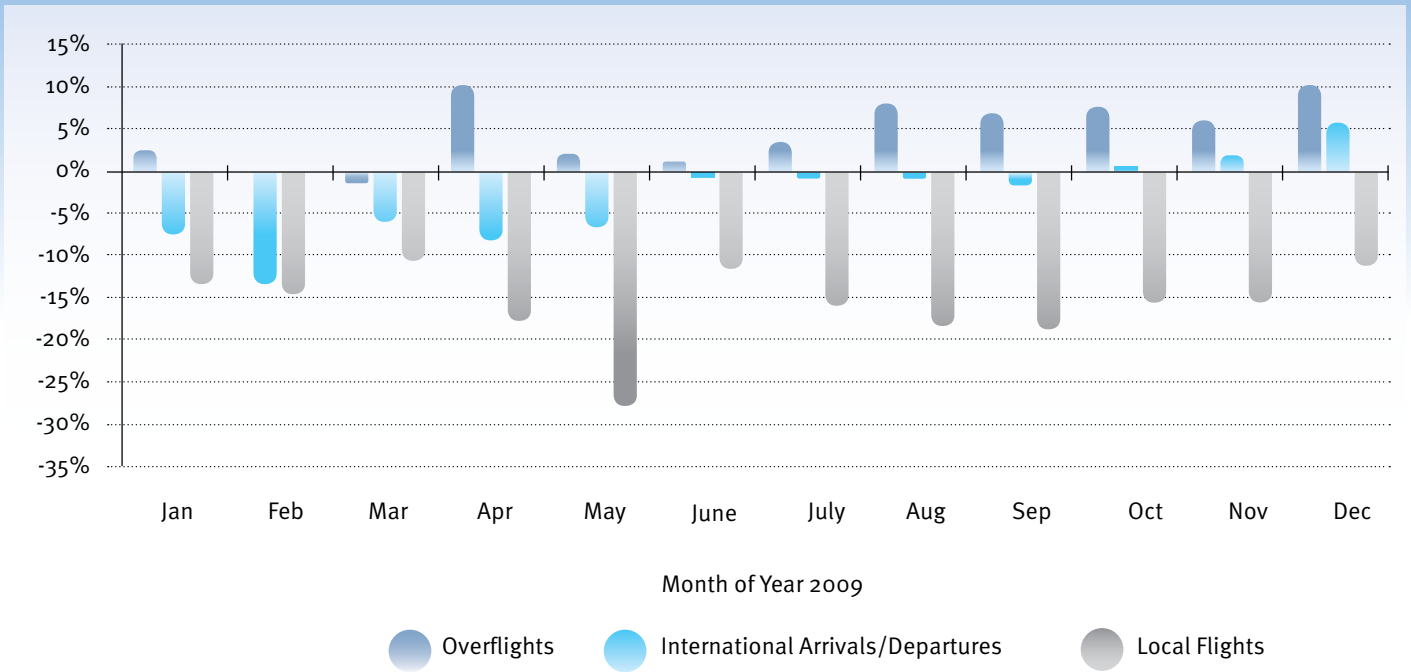


Figure 9. Breakdown of Increase/Decrease in All Flights in 2009 Compared to 2008

Volume of European Traffic passing through airspace under SMATSA Ltd. responsibility has increased from 4.93% in 2008 to 5.45% in 2009. The biggest percent of 7.1% was recorded in August, when every 14th flight in Europe used SMATSA Ltd. airspace.

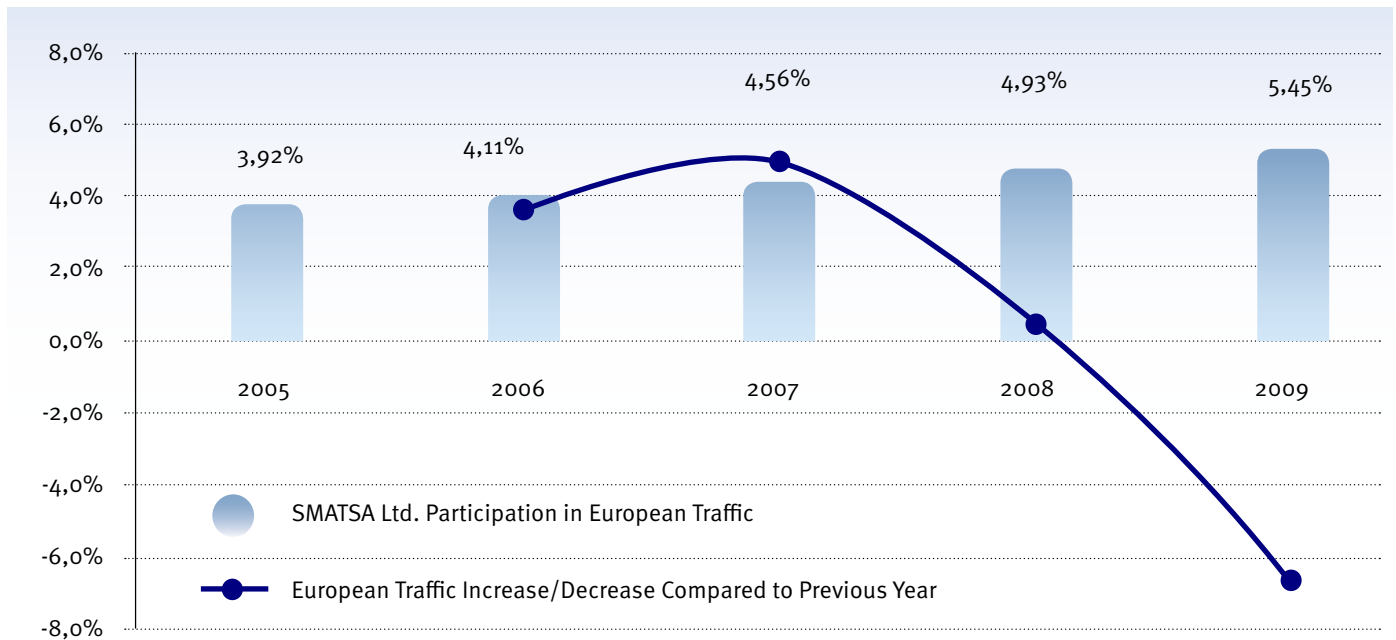


Figure 10. SMATSA Ltd. Participation in European Traffic from 2005 to 2009

Whatsoever, in 2009 more than 2,000 IFR overflights, in one day, were recorded for the first time in SMATSA Ltd. airspace. Most flights were conducted on 22 August 2009 i.e. 2,188 flights, while the peak hour was on 7th August 2009, when 155 aircraft flew through SMATSA Ltd. airspace.

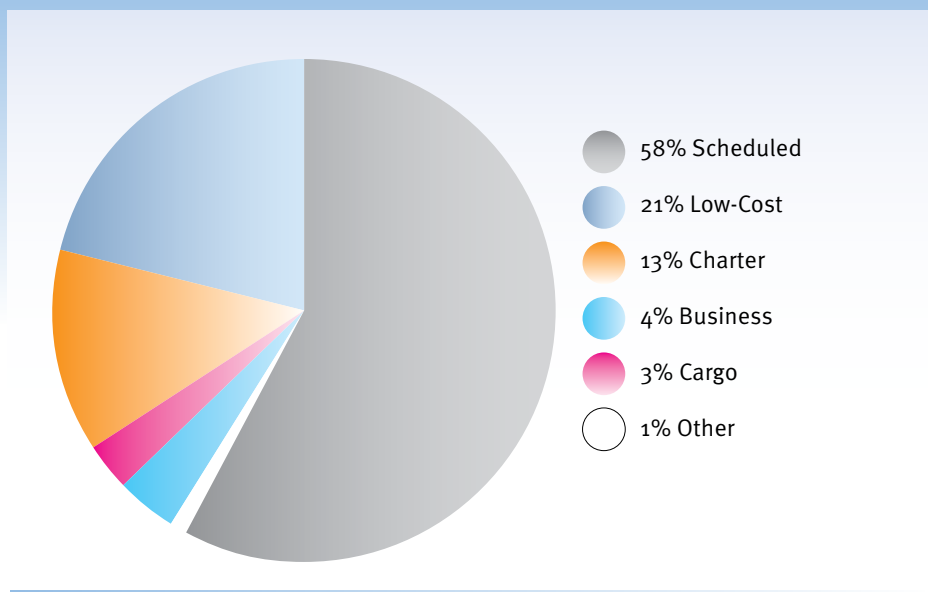


Figure 11. Share of Certain Categories in Total Traffic in 2009

Apart from other traffic, which makes 1% of total traffic, the biggest fall in 2009 had business traffic with decrease of 13% of flights compared to 2008. In the last three months of 2009, this category recorded increase of traffic. The following categories did not have traffic decrease in 2009: “low-cost“ and scheduled flights, whose total flights make 80% of the traffic under SMATSA Ltd. responsibility.

In 2009, total of 30,121 IFR takeoffs were executed in Terminal area, from which SMATSA Ltd. earned an income, thus recorded decrease of operations of 7.7% compared to the same period in 2008. For the first time, terminal traffic achieved positive, increasing trend in December compared to the same period in the previous year, after abolishing visas for Serbian and Montenegrin citizens for travelling to European Union countries.

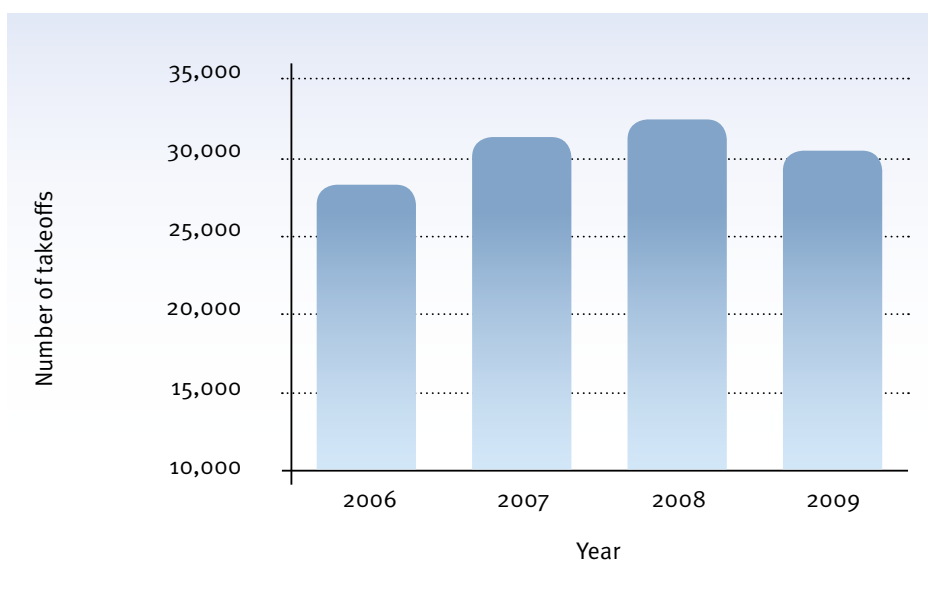


Figure 12. No. of IFR Takeoffs in Terminal from 2006 to 2009

5 Operational Indicators

Out of the total number of takeoffs in 2009, 68% was carried out from Belgrade Airport Nikola Tesla, 18% from Podgorica airport, while airports in Tivat and Niš participate respectively with 13% and 1%.

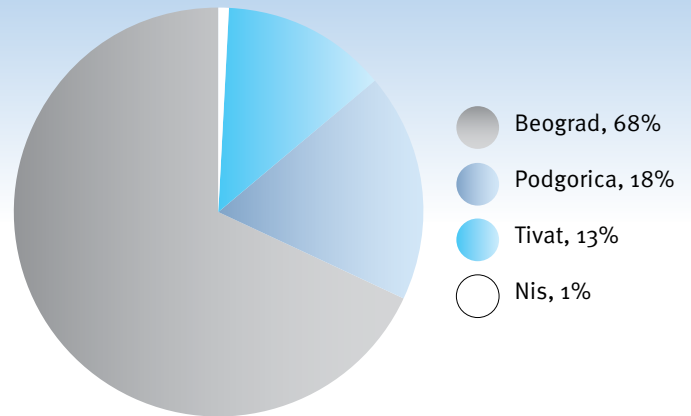


Figure 13. Airports Traffic Share in Total Terminal Traffic in 2009

5.3 DELAYS

In spite of global economic crisis, traffic in the airspace of SMATSA Ltd. responsibility continues its growth in 2009. However, SMATSA Ltd. generated some negligible delays, amounting to approximately 2,000 minutes.

Central Flow Management Unit is being constantly monitored in order to minimise the delays. SMATSA Ltd. is keeping pace with new, Eurocontrol procedures, inventing new methods for upgrading air traffic management flow and eliminating delays. SMATSA Ltd. plans to insist on and apply the zero delay policy in its operations in the coming years as well.

5.4 ROUTE NETWORK AND CAPACITY

SMATSA Ltd. is constantly initiating necessary actions to ensure that the system has the capacity and endurance in order to work in a safe and reliable manner. On March 12th, 2009, the new airways - Y/UY505 (BEO –RAVAK – NISVA) and T/UT23 (BABIT – TADAM – RISTU – INRES – SOSEK – VAGEN) were introduced, together with adjusting several airways in connection with main air flows (L/UL603, M/UM19, N/UN128, N/UN 131, N/UN132, N/UN739). The operational goal was to use the shortest available route

options in flight plans and increase flying capacity. Apart from this, these route network changes made possible for RND SG (Route Network Development Sub-Group) project to find optimal solution for airspace design in order to reduce impact of air traffic flow measures for more than 50 cities pair and enable free traffic lowering towards airport in Sofia. These measures had a significant impact on the capacity increase of the relevant sector, due to reduction of unnecessary conflicts, thereby improving overall traffic flow management. As a result, SMATSA Ltd. did not encounter any capacity shortages in 2009. Moreover, according to the latest LCIP, (Local Convergence and Implementation Plan), SMATSA Ltd. foresees no capacity deficiencies in the next five years period.



5.5 ECOLOGY

According to its capacities, SMATSA Ltd. makes a great effort at maintaining its business operation in accordance with modern ecological standards. SMATSA Ltd. is aware that better organisation and airspace management can result in gas emission reduction from 6% to 12%. By using direct routes, whenever possible, and introducing new, shorter routes in 2009, as well as keeping aircraft on the ground with engines shut down until the slot is given, SMATSA Ltd. contributed to the preservation of the environment by increasing overall efficiency, reducing average fuel consumption per flight, and consequently, reducing emission levels.

5.6 EN-ROUTE CHARGES

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

5.6.1 Unit Rate

In 2009, the unit rate for Serbia and Montenegro, which was approved by Enlarged Committee, amounted to € 39.24, representing one of the lowest unit rates in Europe. Compared to 2008, the unit rate increase was only 1.1%, thus showing that, through effective and efficient utilisation of its resources, SMATSA Ltd. has been able to successfully keep its unit rate stable in the last two years. Global world crisis, as well as Serbia economy situation in 2009, had great impact on domestic currency depreciation in comparison to euro, thus contributing to reduction of unit rates value for en-route navigation services, on monthly basis.

In 2009, national unit rate value for the Republic of Serbia and the State of Montenegro, in comparison to unit rates values of other participating states in EUROCONTROL CRCO system is depicted in the following figure.



5 Operational Indicators

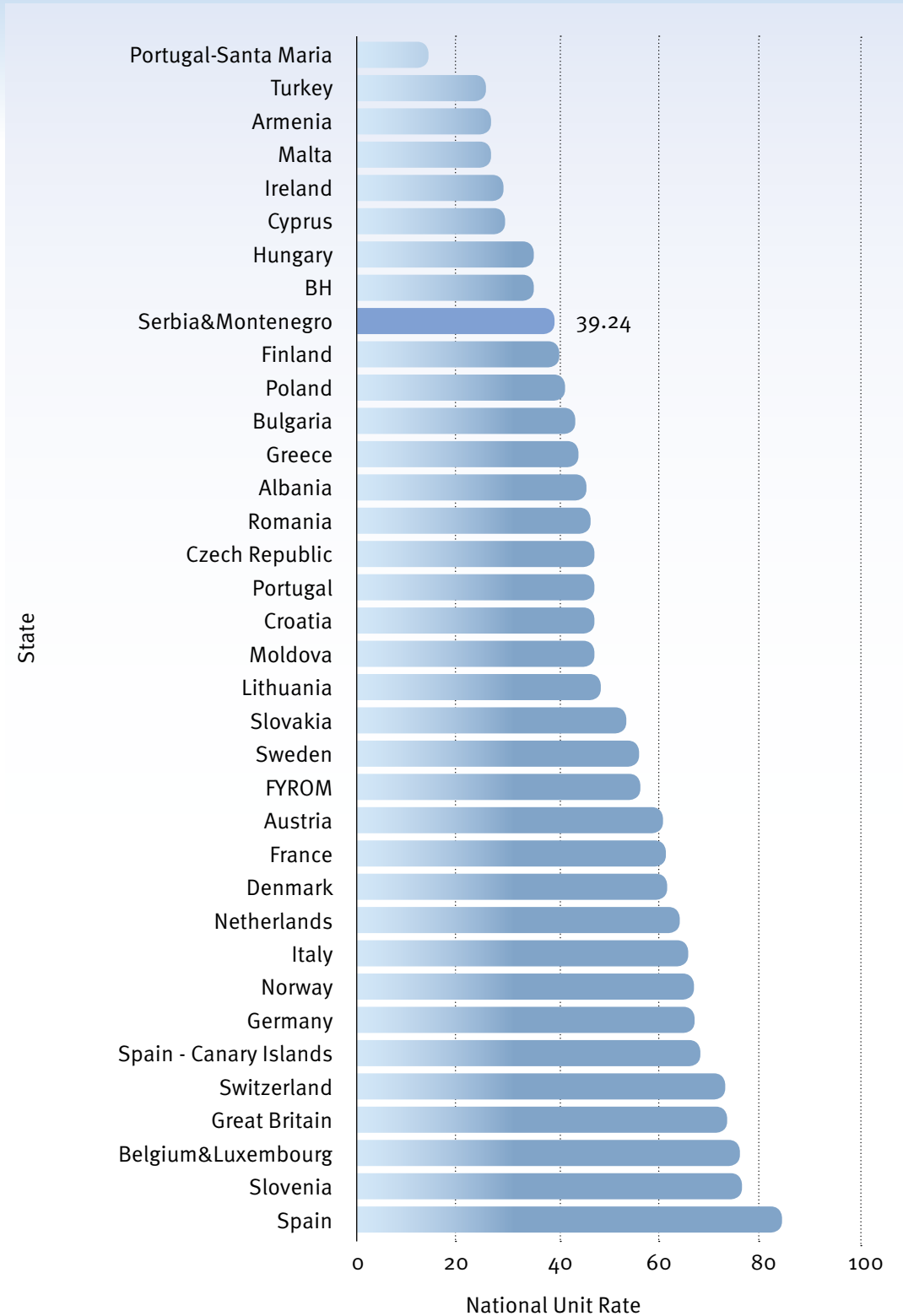


Figure 14. Unit Rate in 2009 per County

5.6.2 Service Units

According to CRCO data, a total of 1,782,884 service units were collected in 2009, of which 1,781,113 units were chargeable. Compared to previous year, an increase of approximately 2% was achieved.

Out of the total number of service units generated in 2009, 95% were collected from overflights conducted in SMATSA Ltd. airspace of responsibility, 4% from international takeoffs/landings, while 1% of service units were generated from local traffic.

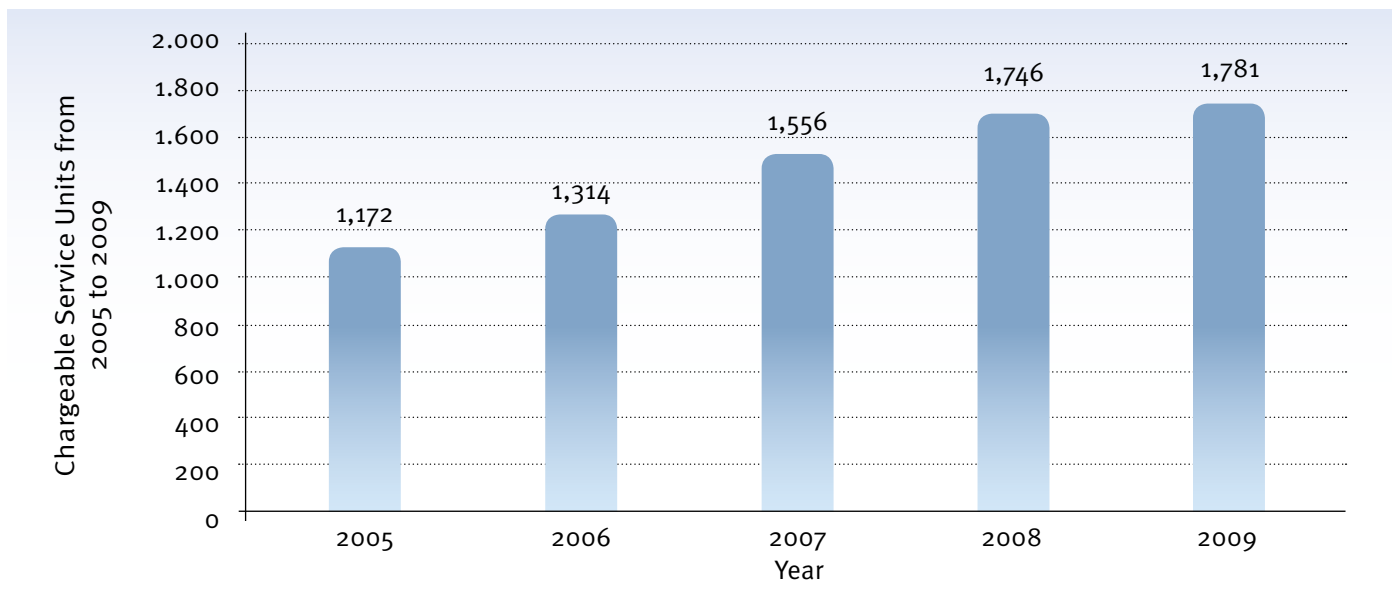


Figure 15. Chargeable Service Units from 2005 to 2009

5.7 CONSULTATIONS WITH USERS

Several times per year, SMATSA Ltd. provides regular consultations with the users of its services, through various formal and informal meetings and consultations with individual users of the services, as well as with their associations. Participating at various international forums organised by ICAO, Eurocontrol, CANSO and other organisations concerning air traffic domain, SMATSA Ltd. obtains useful information from the users. SMATSA Ltd. signed various agreements and contracts on business-technical cooperation with domestic and foreign partners,

as well as LOAs (Letters of Agreement), which have been regularly reviewed, thus getting feedback from their partners.

In the course of 2009, successful negotiation with Turkish charter companies, with which SMATSA Ltd. has outstanding claims, took place. Furthermore, an agreement was made with fifteen airliners for settling outstanding claims for provided services.

6 Performance Indicators





6 Performance Indicators

Following an analysis of SMATSA Ltd.'s operations in 2009, Key Performance Areas (KPAs) have been identified. An effort has been made to assign key performance indicators (KPIs) that are feasible and measurable. These KPAs are defined in Business Strategic Plan and they are:

- Safety,
- Provided services, and
- Cost-effectiveness.

Each KPA consists of relevant performance indicators.

6.1 SAFETY KPIS

National Civil Aviation Directorate determined safety KPIs and its permitted limits. SMATSA Ltd has developed KPIs monitoring process in all parts of its system. Furthermore, Safety KPIs and its permitted limits are defined in SMATSA Ltd.'s Safety Management Manual.

In compliance with that, the most important key performance indicators, represented in this document are:

KPIs related to ATM occurrences (Figure 16. and Figure 17.), KPIs related to ATM typical occurrences – air traffic control automatic systems (Figure 18.), and KPIs related to ATM typical occurrences – radar group (Figure 19.).

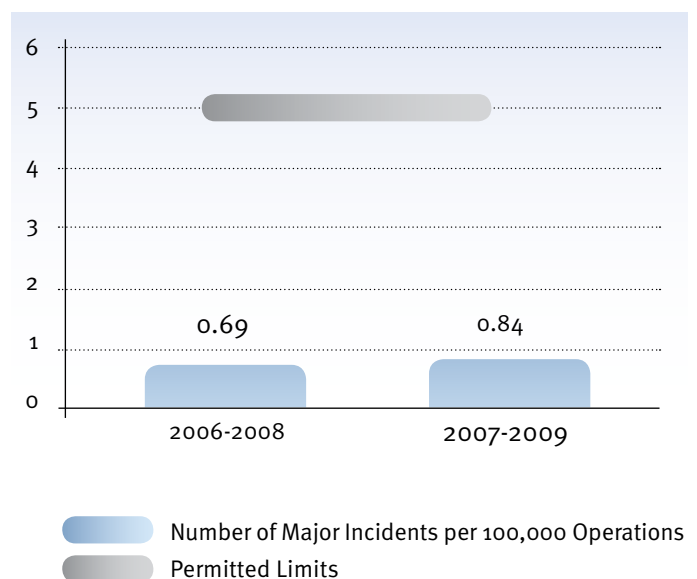


Figure 16. Number of Major Incidents per 100,000 Operations

Number of RWY Incursions is shown as average for three years period, and according to last monitoring period it is less than in previous period.

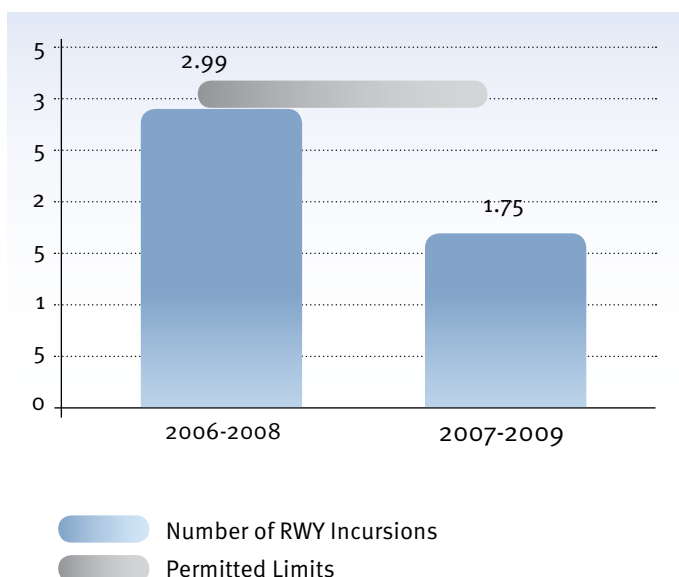


Figure 17. Number of Runway Incursions



Safety KPIs for SSR radar stations (Koviona, Koševac and Murtenica) and PSR radar stations (Koviona and Murtenica), depicted as average time of failure per one radar in 2009 are shown in the following figure.

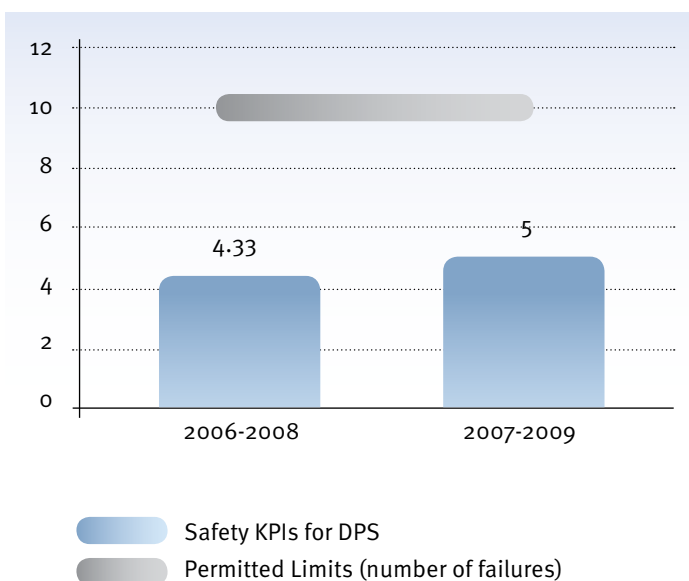


Figure 18. Safety KPIs for DPS

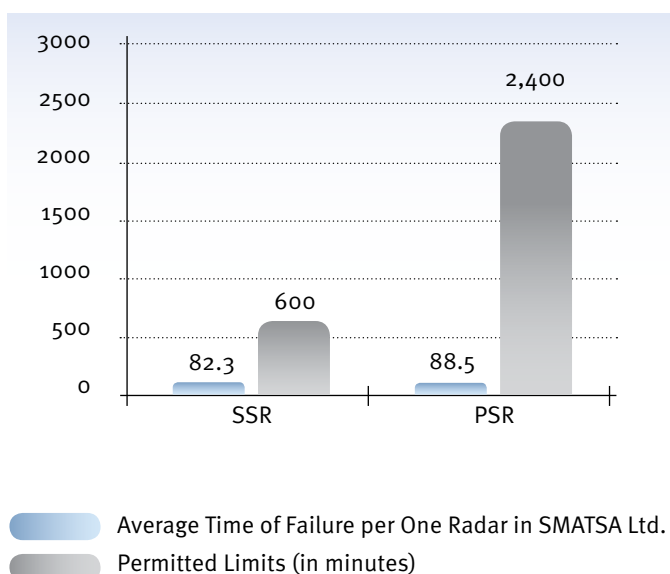
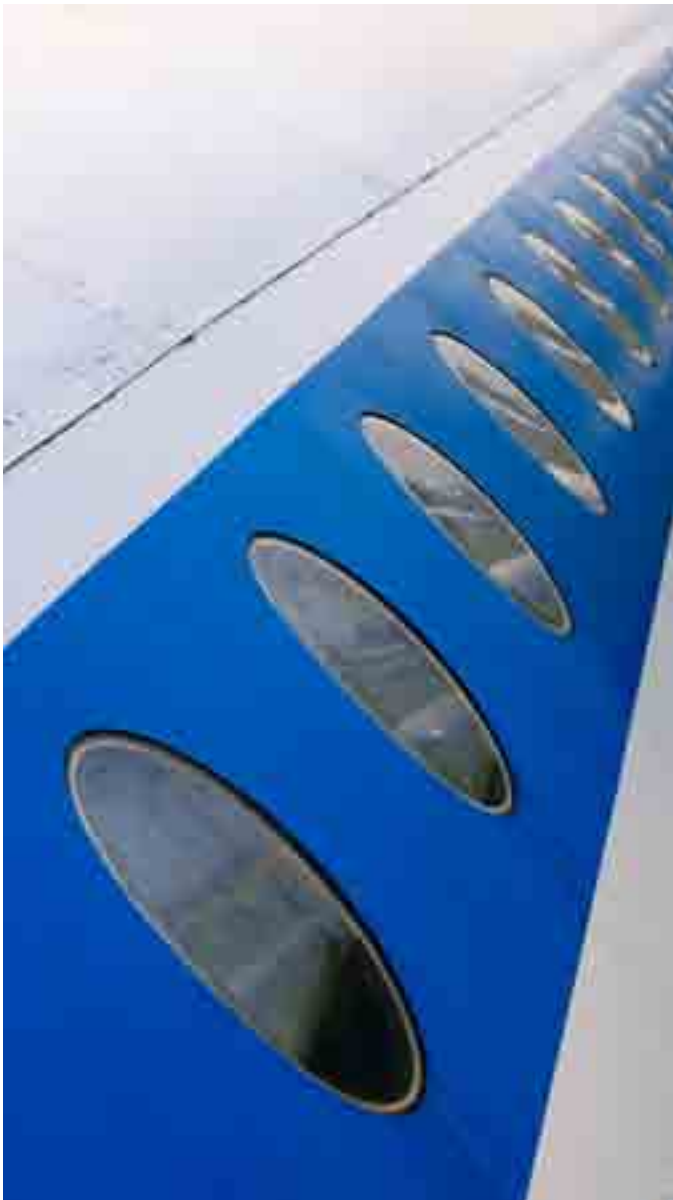


Figure 19. Safety KPIs for SSR and PSR radar stations

6 Performance Indicators



6.2 SERVICE PROVISION KPIS

Monitoring the quality of provided services is the most complex field and implies indicators which are directly or indirectly related to all services provided by SMATSA Ltd. Indicators which are related to traffic and delays are shown in this part and they are:

- Average and the biggest daily number of flights per year,
- Total IFR flight-hours per year,
- Average flight time in ACC Beograd area of responsibility,
- Traffic complexity score,
- ATFM delays of SMATSA Ltd. (referring time).

In 2009 more than 2,000 flights in one day were recorded in ACC Beograd area of responsibility, for the first time. The following figure shows the average and maximum daily number of flights in last three years.

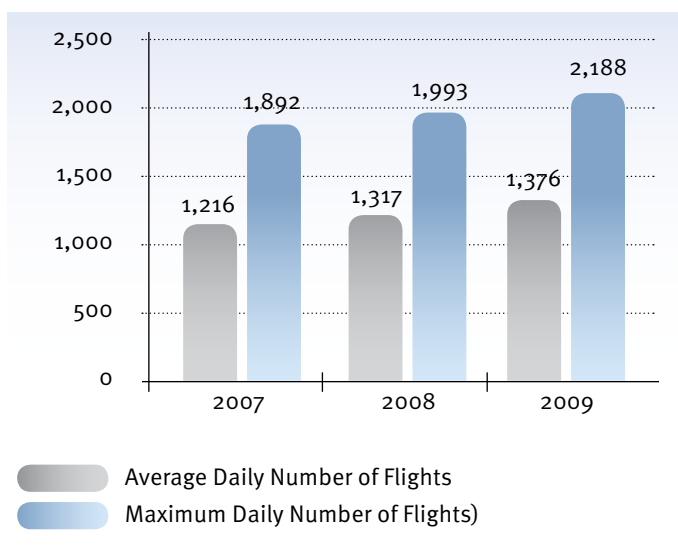


Figure 20. Average and Maximum Daily Number of Flights from 2007 to 2009

As per CFMU data, in 2009, 197,449 IFR flights hours were executed in ACC Beograd area of responsibility which represents an increase of 2% in comparison to 2008.

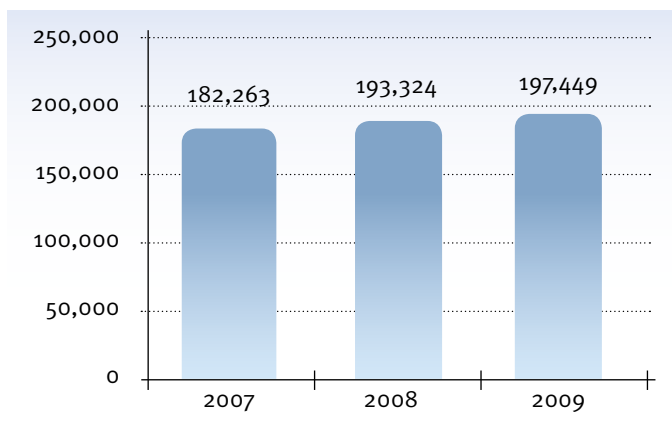


Figure 21. ACC Beograd – Number of IFR Flight-hours from 2007 to 2009

6 Performance Indicators



The following figure shows average flight-time in ACC Beograd area of responsibility. As it can be seen in the figure, it hasn't been considerably changed in last three years.

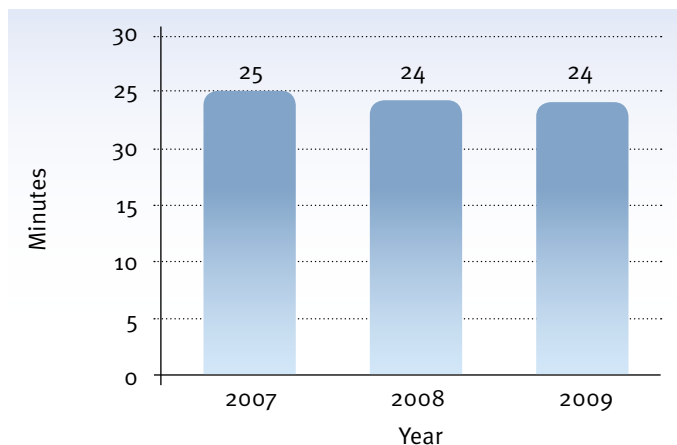


Figure 22. ACC Beograd – Average Flight - time from 2007 to 2009

Traffic complexity score is the product of two components:

- Traffic density, and
- Structural Index.

Traffic density indicator is a measure of the potential number of interactions between aircraft. The indicator is defined as the total duration of all interactions (in minutes) per flight-hour controlled in a given volume of airspace.

The structural complexity originates from horizontal, vertical, and speed interactions. The Structural index is computed as the sum of the three indicators.

As it is shown in the table, traffic complexity score is increasing each year but it is still below European average.

Year	2007	2008	2009
Traffic adjusted density	7.80	8.20	8.60
Vertical interactions	0.05	0.05	0.05
Horizontal interactions	0.44	0.45	0.46
Speed interactions	0.07	0.07	0.06
Structural index	0.56	0.58	0.57
Traffic complexity score	4.40	4.71	4.90
European Average traffic complexity score	6.18	6.40	6.00

Table 2. Traffic complexity score from 2007 to 2009

The values of SMATSA Ltd.'s ATFM delays are among the lowest in Europe. In spite of the traffic increase in 2009, delays were reduced over 30% compared to 2008.

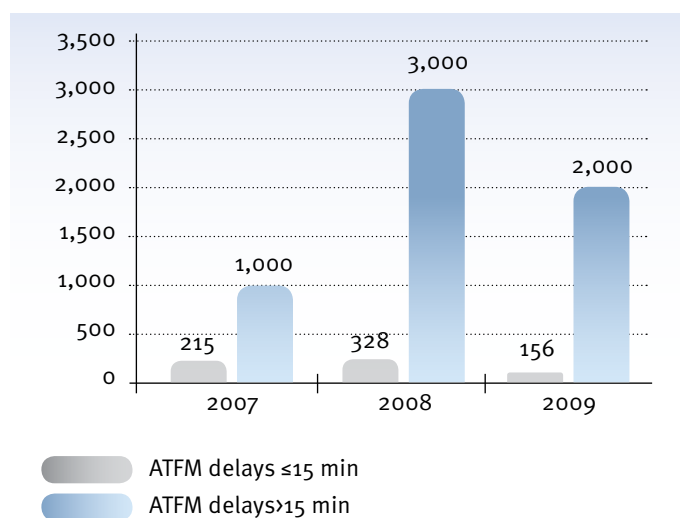


Figure 23. SMATSA Ltd.'s ATFM Delays from 2007 to 2009





6.2 COST-EFFECTIVENESS

Cost-effectiveness represented here is almost the same as indicators defined in ACE Benchmarking report.

The following indicators are given:

- National unit rate per year,
- Total cost of SMATSA ATFM delays, and
- ACC ATCO productivity.

There have been no major fluctuations in terms of the value of the unit rate during the last three years. In 2009, it was 39.24€, that is 44 eurocent more than in 2008.

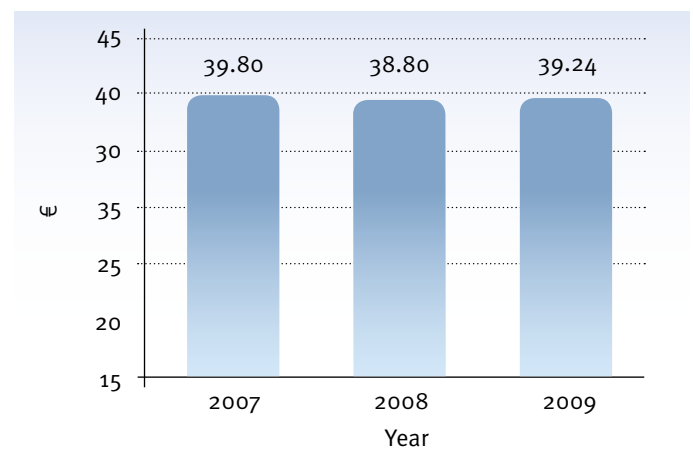


Figure 24. National Unit Rate Value from 2007 to 2009



SMATSA Ltd.'s ATFM delays in 2009 were decreased compared to 2008. Therefore the cost of SMATSA Ltd.'s ATFM delays was decreased too, and in 2009 they amounted to a value 164,000€ approximately. For delays cost calculation the value from 2008 was taken and it was 82€ per minute, for delays over 15 minutes.

ATCO-hourly productivity illustrates efficiency of ATCO deployment by an ANSP at certain ACC level or at all operational centres level within its organisational structure. ATCO hourly productivity at ACC level is stable in three last years and it is shown in the following figure.

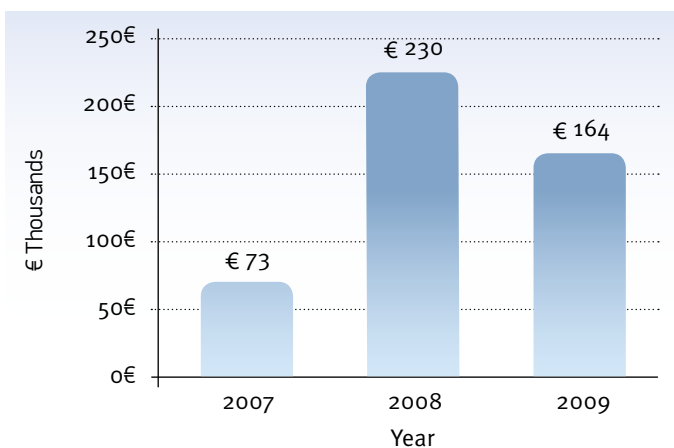


Figure 25. Costs of ATM Delays > 15 min, from 2007 to 2009

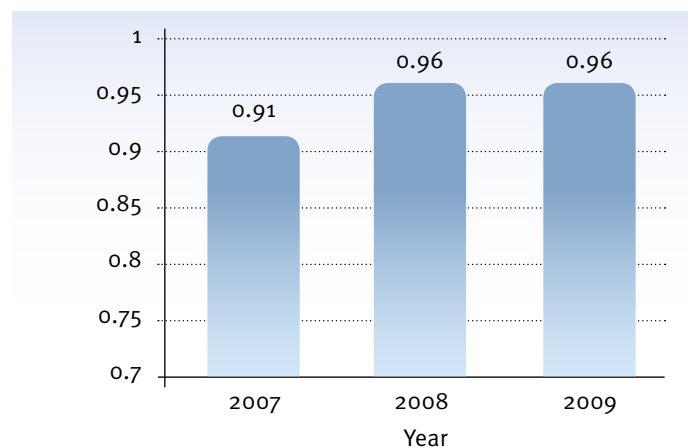


Figure 26. ACC ATCO Productivity from 2007 to 2009

7

Development and Investment





7 Development and Investment

Total investments in 2009, grouped into certain categories are given in the following table.

DESCRIPTION	Sum (RSD)
Project documentation	17,051,691
Purchase of the land and facilities, construction and reconstruction of the facilities	219,994,124
Electroenergetics, air conditioning and fire protection	4,937,701
Automatic ATC systems	11,975
Telecommunications	340,741,984
Meteorological equipment	6,328,109
PC and protecting equipment	24,957,942
Calibrating equipment	707,584,061
Motor vehicles	8,413,681
Administrative equipment	13,756,303
Total in 2009	1,343,777,570
FAMUS project	1,255,211,674
Total with FAMUS project	2,598,989,244

Table 3. Investments carried out in 2009

Within certain categories, the following biggest investments, which marked 2009 are:

DESCRIPTION	Sum (RSD)
New TWR construction at Airport Batajnica	183,319,218
Reconstruction and upgrade of TCL Podgorica existing facility	34,226,430
Procurement and installation of VHF and UHF radio system for air-to-ground communication	245,413,088
Procurement of an aircraft with an integrated flight inspection system	706,433,146
Completion of the works on the new ACC Beograd building (Within FAMUS project)	668,684,956
Purchase of the equipment for Future Air Traffic Management Modernisation and Upgrade system of Serbia and Montenegro (Within FAMUS project)	566,359,813
Total	2,404,436,650

Table 4. Biggest Investments in 2009

7.1 BIGGEST INVESTMENTS IN THE COURSE OF 2009

Considerable investments in development of infrastructure and equipment took place in the previous period as well as in 2009.

constructed in compliance with Annual plan for 2009. New TWR construction at Airport Batajnica lasted only 3 months. This facility became operational in September 2009.

7.1.1 New TWR Construction at Airport Batajnica

Bid process coordination was executed in the first part of 2009 while in the second half of 2009, the tower was



Figure 27. New TWR Construction at Airport Batajnica

7.1.2 Reconstruction and Upgrade of TCL Podgorica Existing Facility

In June 2009, the contract for Reconstruction and upgrade of TCL Podgorica, was signed. As per Annual plan for 2009, tender process coordination was executed in the first part of 2009 while in the second half the execution of the contract was initiated and 60% of project planned works have been conducted.

7.1.3 Procurement and Installation of VHF/UHF Radio System for Air-to-Ground Communication per Phases (2008-2010)

Replacing technically obsolete radio systems at radar station Koševac and aerodrome controls Ponikve, Niš and Vršac sites, VHF and UHF radio system network for air-to-ground communication provision was upgraded.



Figure 28. Reconstruction and Upgrade of TCL Podgorica Existing Facility

7.1.4 Procurement of an Aircraft with an Integrated Flight Inspection System

In the course of 2009 the contract for the purchase of an aircraft equipped with an Automatic Flight Inspection System (AFIS) was executed. The new flight inspection aircraft “Hawker Beechcraft King Air 350” with an integrated AD-AFIS-260 system, was imported in September 2009 and it will enable SMATSA Ltd. Flight Inspection Department to increase the quality and efficiency of its services.



Figure 29. Aircraft “Hawker Beechcraft King Air 350” with an Integrated Flight Inspection System

7 Development and Investment

7.2 FAMUS

Implementation of Future ATM Modernisation and Upgrade System – (FAMUS) is carried on in 2009 according to the schedule.

Tender procedures for purchase of equipment and systems, as well as for selection of Bidders for civil works execution, took place in the course of 2009. The new ACC

Beograd building will be situated opposite the existing ACC facility.

Starting from April, when Contractor entered into the whole business, until the end of 2009, all works have been performed in percentage shown in the following table:

Civil works	72%
External plumbing and sewage installations	90%
Internal plumbing and sewage installations	50%
Thermotechnical installations	62%
Electroenergetic installations	39%
Telecommunication installations	13%





Figure 30. Future New Area Control Centre Building Image

Financial Statements

8





8.1

INCOME STATEMENT

Item	2008	2009
Operating Revenues	5,149,936	5,557,256
Revenues from ANS services	5,108,910	5,541,840
Other operating revenues	41,026	15,416
Material and energy expense	161,382	161,634
Salaries expense	3,377,914	3,696,766
Other operating expenses	688,510	800,632
EBITDA	922,130	898,224
Depreciation and amortization	910,346	812,631
EBIT	11,784	85,593
Financial revenues	567,371	347,704
Financial expenses	375,067	292,656
Other and extraordinary revenues	37,652	148,678
Other and extraordinary expenses	122,611	216,602
EBT	119,129	72,717
Income tax	33,326	26,781
Net Income- EAT	85,803	45,936

Table 6. Income Statement, in 000 RSD

8.2

BALANCE SHEET

Item	2008	2009
Assets		
Subscribed capital unpaid	-	-
Intangible assets (net value)	43,027	27,016
Tangible assets (net value)	5,346,265	8,865,904
Equity investments	-	-
Other long-term financial investments	-	-
Long-term financial investments	-	-
Fixed Assets	5,389,292	8,892,920
Inventories	118,592	77,538
Short-term financial investments	-	-
Account receivables	1,549,869	1,665,250
Other receivables	3,241	3,241
Cash and cash equivalents	1,130,705	982,821
VAT and accrued items	60,221	252,865
Deferred tax	186,444	-
Current Assets	3,049,072	2,981,715
Operating Assets	8,438,364	11,874,635
Loss above initial capital	-	-
Total Assets	8,438,364	11,874,635
Off-Balance sheet assets	5,335	-

Table 7. Assets, in 000 RSD

Item	2008	2009
Liabilities and Equity		
Initial capital	1,873,820	1,873,820
Subscribed capital unpaid	-	-
Statutory reserves	347,044	347,044
Revaluation reserves	1,694,780	3,611,298
Retained earnings	1,960,435	2,111,287
Less: Loss	-	-
Less: Repurchased own shares	-	-
Equity	5,876,079	7,943,449
Long-term Provisions	641,600	652,476
Long-term loans	472,686	2,132,350
Other Long-term liabilities	-	-
Long-term Liabilities	472,686	2,132,350
Short-term financial liabilities	25,248	181,995
Accounts payable	932,293	383,704
Salaries payable and other liabilities	389,710	460,982
VAT and other tax payables	4,510	4,462
Other operating liabilities	5,094	28,270
Deferred tax	91,144	86,947
Short-term Liabilities	1,447,999	1,146,360
Total Liabilities	2,562,285	3,931,186
Total Liabilities and Equity	8,438,364	11,874,635
Off-Balance sheet liabilities and equity	5,335	-

Table 8. Liabilities and Equity, in 000 RSD



8.3

CASH FLOW STATEMENT

Item	2008	2009
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	5,426,847	5,821,653
Cash receipts from customers	5,012,272	5,391,157
Interest received from operating activities	15,190	7,794
Other inflows from operations	399,385	422,702
Cash outflow from operating activities	4,843,482	5,146,156
Cash paid to suppliers	995,769	1,390,883
Salaries and other personal expenses	3,433,113	3,720,665
Interest paid	18,846	303
Income tax paid	90,255	34,305
Other taxes	305,499	-
Net cash inflow from operating activities	583,365	675,497
Net cash outflow from operating activities	-	-
CASH FLOW FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	103	438
Sale of equity or debt instrument of other enterprises	-	-
Proceeds from sale of intangible assets, buildings, facilities, equipment	103	438
Other financial investments	-	-
Received interest from investment activities	-	-
Received dividends	-	-
Cash outflows from investment activities	525,298	2,617,696
Acquisition of shares and stakes (net outflows)	-	-
Purchase of equity or debt instrument of other enterprises	525,298	2,617,696
Other financial investments (net outflow)	-	-
Net cash inflow from investing activities	-	-
Net cash outflow from investing activities	525,195	2,617,258
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	-	1,771,407
Initial capital increase	-	-
Proceeds from long-term and short-term debt	-	1,771,407
Other long-term and short-term liabilities	-	-
Cash outflow from financing activities	-	39,021
Repurchased own shares and stakes	-	-
Payment of Long-term and short term debt and other liabilities	-	39,021
Payment of financial leasing	-	-
Dividends paid	-	-
Net cash inflow from financing activities	-	1,732,386
Net cash outflow from financing activities	-	-
TOTAL CASH INFLOW	5,426,950	7,593,498
TOTAL CASH OUTFLOW	5,368,780	7,802,873
NET CASH INFLOW	58,170	-
NET CASH OUTFLOW	-	209,375
CASH AT THE BEGINNING OF THE ACCOUNTING PERIOD	958,778	1,130,705
POSITIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH	202,132	82,582
NEGATIVE FOREIGN EXCHANGE EFFECTS FROM CONVERSION OF CASH	88,375	21,091
CASH AT THE END OF THE PERIOD	1,130,705	982,821

Table 9. Cash Flow Statement, in 000 RSD



8.4 NOTES TO THE FINANCIAL STATEMENTS

8.4.1 The Basis of Preparation of the Financial Statements

The preparation of the SMATSA Ltd. 2009 financial statements for the accounting period ending 31.12.2009, was carried out, in all material respects, in accordance with the Accounting and Auditing Law ("Official Gazette RS", No. 46/2006), which implies applying of International Accounting Standards (IAS) as well as International Financial Reporting Standards (IFRS), and in accordance with the regulations issued by the Ministry of Finance of the Republic of Serbia.

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

8.4.2 A Summary of Significant Accounting Policies

Intangible Assets

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

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

Intangible assets subject to amortisation are amortised using the straight-line method over the course of five years, except for assets whose life is determined by a contract, in which case they are written off within terms specified in the contract. The amortisation of an intangible asset is calculated as of the beginning of the month following the month of an intangible asset being put into use. The basis of the amortisation calculation is the cost value less the residual value.

Base amortisation rates which apply to individual intangible assets range from 20% to 33.33%.

Property, Plant and Equipment

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

Property, plant and equipment are depreciated using the straight-line method, as of the date of the asset being made available for use. Land is not depreciated. Investments in other entity's assets are depreciated based on their estimated useful lives.

Tools and Accessories

It is mandatory that the tools and accessories which have useful lives shorter than one year are accounted for as current assets (as inventories), regardless of their cost value. These assets are not depreciated, but their value is transferred to expenses when they are put to use. The assets in the form of tools and accessories that have useful lives longer than one year qualify as property, plant and equipment if their individual cost value is higher than the average gross income per employee in the Republic of Serbia (at the moment of acquisition). If the individual cost value of the assets is lower than the average gross income in the Republic of Serbia (at the moment of acquisition), the assets are accounted for as current assets, i.e. as inventories.

Spare Parts

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

Inventories

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

Short-term Receivables and Investments

Short-term receivables comprise accounts receivable, domestic and foreign, for sale of merchandise and services rendered. Short-term investments comprise loans, securities and other short-term investments having date of maturity or sale of one year from the balance sheet date. Short-term accounts receivable are measured at original invoice value. If the invoice value is denominated in a foreign currency, the value is translated into the presentation currency at the

average exchange rate prevailing at the date of transaction. Changes in the exchange rate from the transaction date to the receivables collection date are presented as exchange rate gains and losses and credited to revenues or charged against expenses.

Cash and Cash Equivalents

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

Cash and cash equivalents comprise: cash on hand, demand deposits, other short-term highly liquid investments with original maturity period of up to three months or shorter (cheques and bills received for collection, current investments in securities) and bank overdrafts. In the balance sheet, bank overdrafts are included in borrowing liabilities, within current liabilities.

Initial Capital

Initial capital is the initial investment of the SMATSA Ltd. founders. The founders of SMATSA Ltd. are the Republic of Serbia (92%) and the State of Montenegro (8%).

Statutory Reserves

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

Revaluation Reserves

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

Retained Earnings

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

Provisions

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

Liabilities

The term liabilities refers to:

- Long-term liabilities (liabilities to associated entities, and entities with intercompany interests, long-term loans, liabilities for long-term securities, and other long-term liabilities).
 - Short-term financial liabilities (liabilities to associated entities, and entities with intercompany interests, short-term loans, and other short-term financial liabilities). SMATSA Ltd. recorded a liability to the Civil Aviation Directorate of the Republic of Serbia under the provisions of the signed Protocol.
 - Short-term operating liabilities (accounts payable, and other operating liabilities). SMATSA Ltd. recorded all accounts payable, domestic and foreign.
 - Other short-term liabilities (liabilities for salaries and fringe benefits, liabilities to SMATSA Ltd. Managing Board and the Assembly, liabilities to physical persons in respect to contractual fees).
- Current and Deferred Income Tax
 - Taxes for the period comprise current and deferred tax. Tax is recognised in the income statement, except for the value that relates to the items which are directly recognised in the equity. In that case, tax is recognised in the equity as well.

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

Liabilities for VAT.

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

A liability is any obligation which is a contractual obligation:

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

Revenues and Expenses

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

Gains represent other items qualifying as revenues, and may arise, though not necessarily, from the ordinary course

of SMATSA Ltd.'s activities. Gains represent an increase in economic benefit, and as such are not different in nature from revenues. Gains include gains on disposal of long-term assets, unrealised gains; e.g. the ones resulting from an increase in book value of long-term assets. Gains are recognised on a net basis, after being reduced for respective expenses.

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

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

Interest and Other Borrowing Costs

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

Subsequent Errors

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

Independent Auditor`s Report

9





9 Independent Auditor's Report



AGENCIJA ZA NEKRETNOSTI
SRBIJE I MONTENEGRO
BEOGRAD, (ul. Cvetkovska bica 20) 11000
BEOGRAD

11.05.2010
31 MAY 2010
FIN.01

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the "SERBIA AND MONTENEGRO AIR TRAFFIC SERVICES AGENCY" Ltd Belgrade (hereinafter: the "Agency") which comprise the balance sheet as at December 31, 2009 and the related income statement, statement of changes in capital and the cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Management of the Company is responsible for the preparation and the relevant disclosure of the financial statements. The management's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair representation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. 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.



INDEPENDENT AUDITOR'S REPORT (continued)

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

Auditor's Responsibility (Continued)

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

Opinion

In our opinions, the accompanying financial statements present truly and objectively, for all materially significant respects, the financial position of the Agency on December 31, 2009, and its results of operations, changes in capital and cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Emphasis of matter

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

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



INDEPENDENT AUDITOR'S REPORT (continued)

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

Emphasis of matter (continued)

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

In respect to the matters stated above, on February 14, 2008 the Agency's Assembly passed the Decision on Decrease of Initial Capital of the Agency- non-monetary part, as of December 31, 2007 by the amount of EUR 28,739,327.70 in dinar equivalent under the middle rate of exchange of the National Bank of Serbia pertaining as at the balance sheet date. On April 2, 2008 the Serbian Business Registers Agency passed the Resolution numbered 27420-1/2008 on rejection of the Agency's application for the amendment of initial capital, due to incomplete documentation.

Furthermore, on December 24, 2008 the Agency's Assembly passed the Decision on Decrease of Initial Capital of the Agency- non-monetary part, as of December 31, 2007 by the amount of EUR 28,739,327.70 in dinar equivalent under the middle rate of exchange of the National Bank of Serbia pertaining as at the balance sheet date. On April 28, 2009 the registration application was submitted to reduce the initial capital of the Agency in the regular procedure, under which the Serbian Business Registers Agency passed a Resolution no. HD 53731/2009 as at April 29, 2009 which made entry notes - Decisions of the Agency's Assembly as of 12/24/2008.



INDEPENDENT AUDITOR'S REPORT (continued)

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

Emphasis of matter (continued)

In accordance with the Agency's Secretariat Statement number SEC.00-185/2 of May 11, 2010, there are 23 labour suits brought against the Agency. The subjects of the disputes are either fringe benefits or controller bonuses payments originating from the period prior to the existence of the Agency, dating back when the Federal Flight Control Department existed (FFCD), or the cancellation of the Labour Agreement. It is not possible to estimate the value of those litigations at this time. The Agency expects the positive outcome of these litigations bearing in mind the fact that, when it comes to litigations raised in the period when FFCD existed, the change of these litigations to the Agency was refused.

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

Furthermore, as of the Agency's incorporation date, the Agency has registered its claims against seventeen foreign airlines in bankruptcy or liquidation, totally amounting to RSD 33,541 thousand (EUR 346,345.63 and USD 4,948.94).

Belgrade, May 27, 2010

Certified Auditor

 Miro Petković



10 Abbreviations

Ab Initio candidate	Candidate attending the ATCO basic training for the first time	AWS	Automatic Weather System
ACC	Area Control Centre	BHDCA	Bosnia and Herzegovina Directorate of Civil Aviation
ACS	Area Control Surveillance	BHRTS	Bosnia and Herzegovina Real Time Simulation
ADC	Aerodrome Control	CAA	Civil Aviation Authority
AFIS	Automatic Flight Inspection System	CAD RS	Civil Aviation Directorate of the Republic of Serbia
AFTN	Aeronautical Fixed Telecommunication Network	CANSO	Civil Air Navigation Services Organisation
AIP	Aeronautical Information Publication	CBT	Computer Based Training
AIS	Aeronautical Information Services	CEO	Chief Executive Officer
ANS	Air Navigation Services	CFMU	Central Flow Management Unit
ANSP	Air Navigation Service Provider	CHANSS	Certification and Harmonisation of ANS to SES
APP	Approach	CNS	Communication, Navigation and Surveillance
ASM	Airspace Management	COM	Communications
ASS	Assistant	CRCO	Central Route Charges Office
ATC	Air Traffic Control	CRDS	CEATS Research, Development and Simulation Centre
ATCO	Air Traffic Control Officer	CWBT	Computer Web Based Training
ATFM	Air Traffic Flow Management	DME	Distance Measuring Equipment
ATM	Air Traffic Management	DPS	Data Processing System
ATS	Air Traffic Services	DVRPS	Digital Voice Recording and Playback System

EAD	European AIS Database	IACA	International Air Carrier Association
EASA	European Aviation Safety Agency	IANS	Institute of Air Navigation Services
EBRD	European Bank for Reconstruction and Development	IAT	Information and Analytic Division
EC	Executive Controller	IATA	International Air Transport Association
ECAA	European Common Aviation Area	ICAO	International Civil Aviation Organisation
ECAC	European Civil Aviation Conference	IFR	Instrument Flight Rules
ECIP	European Convergence and Implementation Plan	ILS	Instrument Landing System
EIB	European Investment Bank	LCIP	Local Convergence and Implementation Plan
ESARRs	Eurocontrol Safety Regulatory Requirements	LSSIP	Local Single Sky Implementation Plan
Eurocontrol	European Organisation for the Safety of Air Navigation	Ltd	Limited Liability Company
FAB	Functional Airspace Block	MET	Meteorology or Meteorological
FAMUS	Future ATM Modernisation and Upgrade System	NAV	Navigation
FASTI	First ATC Support Tools Implementation	NDB	Non-Directional Radio Beacon
FIN	Finance	NOTAM	Notice to Airmen
FIR	Flight Information Region	NSA	National Supervisory Authority
FL	Flight Level	OLDI	On-Line Data Interchange
GRNAs	Ground Radio Navigation Aids	PANS-OPS	Procedures for Air Navigation Services – Aircraft Operations
HUM	Human Resources	PRC	Performance Review Commission

10 Abbreviations

PSR	Primary Surveillance Radar	STATFOR	Eurocontrol Air Traffic Statistic Forecast Unit
PTT	Part Task Trainer	TCL	Terminal Control
RAD	Route Availability Document	TMA	Terminal Control Area
RNAV	Area Navigation	TWR	Tower
RNDSG	Route Network Development Sub-Group	UCS	Unit Competence Scheme
SAWAS	Serbia and Montenegro Automatic Weather Aviation System	UHF	Ultra High Frequency
SES	Single European Sky	UIR	Upper Information Region
SESAR	Single European Sky ATM Research	UTP	Unit Training Plan
SGS	Société Générale de Surveillance	VCS	Voice Communication System
SID	Standard Instrument Departure	VFR	Visual Flight Rules
SLA	Service Level Agreements	VHF	Very High Frequency
SMM	Safety Management Manual	VOR	VHF Omnidirectional Radio Range
SMS	Safety Management System		
STAR	Standard Terminal Arrival Route		



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