



ANNUAL REPORT 2018

**SERBIA AND
MONTENEGRO AIR
TRAFFIC SERVICES SMATSA
LLC**

CONTENTS

FOREWORD BY THE CEO

05



ABOUT THE SERBIA
AND MONTENEGRO
AIR TRAFFIC SERVICES

09

2018 IN FIGURES

11



BUSINESS RESULTS
IN 2018

18



INFORMATION
TECHNOLOGY
MANAGEMENT
SYSTEMS

43

CONSULTATION WITH
USERS

46

FINANCIAL STATEMENTS

49



Contents

Contents 3

1. Foreword by the CEO 5
 - 1.1 Highlights of 2018 7
2. About the Serbia and Montenegro Air Traffic Services 9
 - 2.1 Organization Profile 9
 - 2.2 Air Navigation Services (ANS) 9
 - 2.3 Additional services 10
3. 2018 in Figures 11
 - 3.1 Traffic Data (SMATSA LLC's Area of Responsibility) 11
 - 3.2 Staff Fluctuations and structure in 2018 16
4. Business Results in 2018 18
 - 4.1 Improvement of Air Navigation Services Management 18
 - 4.1.1 Improvements in the field of ATM 18
 - 4.1.2 Improvement of Equipment, System and Infrastructure 19
 - 4.1.3 Improvement of AIS Services 20
 - 4.1.4 Improvement of MET Services 21
 - 4.2 Improvement of Cooperation with Relevant Organizations, Regulatory Bodies and State Bodies 22
 - 4.3 Development of Competitive Commercial Services 22
 - 4.3.1 Calibration of the GRNS from the Air 22
 - 4.3.2 ANS Staff Training Center 22
 - 4.3.2.1 Training in operating air traffic control units 24
 - 4.3.2.2 SMATSA Aviation Academy 24
 - 4.3.3 SMATSA Aviation Academy 24
 - 4.3.4 Development of Competitive Commercial Services in Air Navigation 25
 - 4.4 Improvement of Social Responsibility and Environment 25
 - 4.5 Improvement of Safety Management System 26
 - 4.6 Improving the Performance of the Organization and Resource Management System 27
 - 4.7 Improvement and Development of Human Potential 27
 - 4.8 Business Performance 28
 - 4.8.1 Operation Compliant with SES Objectives 28
 - 4.8.1.1 Safety 28
 - 4.8.1.2 Cost Efficiency 34
 - 4.8.1.3 Capacity 35
 - 4.8.1.4 Environmental protection 37
 - 4.8.2 Quality of Provided Services 38
 - 4.8.3 Additional Performance Indicators 41
5. Information Technology Management Systems 43
 - 5.1 Information Technology 43
 - 5.2 Security 44
6. Consultation with Users 46
 - 6.1 Air traffic management – ATM 46
 - 6.2 Aeronautical Information Service – AIS 46
 - 6.3 Aeronautical Meteorological Service – MET 47

6.4	SMATSA Aviation Academy	47
6.5	Calibration of GRNS from the air	47
7.	Financial Statements	49
7.1	Income Statement	49
7.2	Balance Sheet	51
7.3	Cash Flow Report	52
7.4	Ratio indicators	54
7.5	Notes to Financial Statements	56
7.5.1	The basis for preparing the financial statements	56
7.5.2	Overview of Key Accounting Policies	58
7.5.2.1	Intangible investments	58
7.5.2.2	Property, Plant and Equipment	60
7.5.2.3	Tools and inventory	62
7.5.2.4	Spare parts	62
7.5.2.5	Supplies	62
7.5.2.6	Short-term receivables and lending	63
7.5.2.7	Cash and cash equivalents	64
7.5.2.8	Off-balance-sheet assets and liabilities	64
7.5.2.9	Equity	64
7.5.2.10	Reserves	64
7.5.2.11	Revaluation reserves	64
7.5.2.12	Retained earnings	64
7.5.2.13	Provisions	65
7.5.2.14	Liabilities	65
7.5.2.15	Current and deferred profit tax	66
7.5.2.16	Revenues and expenses	67
7.5.2.17	Interests and other borrowing costs	68
7.5.2.18	Subsequently identified errors	68
7.5.2.19	Functional currency and presentation currency	68
7.5.3	Financial risk management	68
7.5.3.1	Financial risk factors	68
7.5.3.2	Goals of managing financial risks	69
7.5.3.2.1	Market risk (FX and interest risk)	69
7.5.3.2.1.1	FX risk	70
7.5.3.2.1.2	Interest risk	71
7.5.3.2.2	Credit risk	71
7.5.3.2.3	Liquidity risk	72
8.	Marks and abbreviations	73
9.	Table, scheme, and figure index	76
9.1	Table index	76
9.2	Figure index	77
10.	Appendices	78
10.1	Appendix 1- Organizational Structure of SMATSA LLC	79
10.2	Appendix 2 - Decision of the Enlarged Committee of EUROCONTROL No. 148 of 01/12/2017	80
	Unit tariffs applicable from 1 January 2018	81
10.3	Appendix 3 – Decision of the Enlarged Committee of EUROCONTROL No. 152 of 21/09/2018	82
10.4	Appendix 4 – Independent Auditor's Report	83



1. Foreword by the CEO



For Serbia and Montenegro Air Traffic Services SMATSA llc, 2018 was an exceptionally important year, full of challenges, important events, and business results.

It was a very intensive and the most demanding traffic season so far in an operational sense, with the implementation of a comprehensive modernization plan, changes in management and internal organization.

In 2018, we have recorded several historical results: for the first time, we had over 700,000 civil aircraft operations performed under instrument flight rules.

On several occasions, we have reached historical records of over 3,000 flights in a day, and there were quite a few hours when we handled over 200 aircrafts in the SMATSA's area of responsibility.

We handled this volume of traffic with a high level of safety and efficiency, with minimum delay generated by SMATSA.

In addition, we should not forget the operations of military aircrafts in the air space of Serbia and Montenegro. The SMATSA LLC has excellent cooperation with the Air Force and Air Defense of the Serbian Armed Forces and the Air Force of Montenegro, and through the mechanism of civil-military coordination, it provides for the flying of such important users in accordance with their specific requirements.

On 1 February 2018, the operational implementation of the South East Common Sky Initiative Free Route Airspace (SECSI FRA) project began, which SMATSA developed with air navigation service providers from Austria, Slovenia, Bosnia and Herzegovina, and Croatia.

The importance of the project was recognized by the European Commission, so the project received the "Single European Sky Award 2019", which was handed to SMATSA and corresponding partners in the ceremony at the World ATM Congress, held in Madrid on 12-14 March 2019.

In 2018, the funds for the SUSAN Modernization Program were provided, and the implementation of the most important projects of this program has started.

The first phase of the improvement of the system for processing and displaying of aircrafts flight data has been completed and the new software has been operational since May 2018, thus the required level of interoperability has been reached. The second phase of the improvement of the system for processing and displaying of aircrafts flight



data, with an extension, is currently in progress. This also includes the construction of the annex building, next to the air traffic control center at the Belgrade Nikola Tesla Airport, with a new control tower, the expansion of the control tower building and the access to the air traffic control facility in Podgorica, installation of the new radar system at Besna Kobila, terminal radar in Belgrade, etc.

In July 2018, the second phase of the improvement of the backup system for processing and displaying of aircrafts flight data was completed. The SMATSA cooperated with the manufacturer on developing an improving the functionality of the Fallback system and thus has achieved the capacity of a backup system that not even the largest and that most influential European providers have at their disposal.

At the end of 2018, changes were introduced in the organizational structure of the SMATSA. The new organization will increase the efficiency of individual business processes, primarily planning and implementation of investments.

The certification process of the SMATSA LLC by the European Aviation Safety Agency continued. On 28 March 2019, the EASA issued a certificate, which is the best confirmation that the SMATSA LLC meets the high regulatory requirements applicable in the countries of the European Union.

In 2018, foundations for SMATSA's financial consolidation were set. The analysis of several business segments was completed and the recommended cost rationalization measures are expected to be implemented in 2019.

In particular, I would like to point out that SMATSA, as a socially responsible company, through its donation program, has helped healthcare organizations and local governments throughout Serbia, including Kosovo and Metohia, with equipment and financial resources.

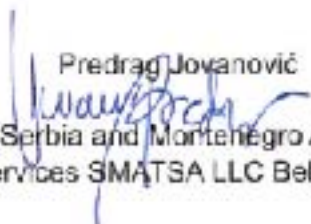
Such a relationship with the State and the society whose resources we use will be cherished and further developed in the future.

We put a special emphasis on rejuvenating staff at all levels of the company. In the course of 2018, preparations and analyses of the human resources plan were completed, creating the conditions for the recruiting of new professional staff in 2019. First of all, new candidates for air traffic controllers, as well as engineers to work in the aviation and technical segment, and expert profiles with an education background in the economic and legal fields.

All this was achieved thanks to the engagement of competent, experienced and dedicated SMATSA's employees, the management, as well as management bodies, whom I'd like to thank once again on this occasion.

I am convinced that, thanks to the undergoing changes, the result in 2019 will be even better.

I wish you every success in further work.


Predrag Jovanović
CEO, Serbia and Montenegro Air Traffic
Services SMATSA LLC Belgrade



1.1 Highlights of 2018

These important activities highlighted the period from January to December of 2018:



1. On 1 February 2018, the South East Common Sky Initiative Free Route Airspace (SECSI FRA) was successfully implemented.

2. On 25 April 2018, the SMATSA signed an agreement with the European Investment Bank (EIB) for a loan worth up to 45 million euros. In the next four years, the funds from the concluded agreement will be used for the



modernization of the air traffic services system

in Serbia and Montenegro, fulfilling the requirements and the standards arising from the Single European Sky Initiative.

3. As part of the SUSAN modernization program (SMATSA Upgrade of the System for Air Navigation), in 2018, the software and hardware upgrade of the TopSky-ATC system step 1 - phase 1 was launched. The implementation of new tools and the improvement of TopSky-ATC system functions allows for the increase of the interoperability of the system with adjacent air traffic services and is prerequisite for the system to support the expected increase in traffic.

4. As of 30 June 2018, SMATSA LLC increased the level of security in providing air traffic services by launching phase 2 of the "Fallback ATM" system, the first of its kind in Europe.

5. On 11 September 2018, a new class of pilots was enrolled at the SMATSA Aviation Academy in Vrsac. Fifteen attendees from Serbia, Germany, Libya, Montenegro, Bosnia and Herzegovina and Croatia will attend ATP (A) INTEGRATED training - commercial pilot with MEP (Multi-Engine Piston) and IR / ME (Instrument rating / multi-engine) authorisation, including MCC (Multi-Crew Cooperation) course.



6. Ambassador of the People's Republic of China in Serbia Li Manchang and his



associates visited SMATSA Aviation Academy in Vrsac on November 16.

7. In December 2018, SMATSA llc signed two EWA agreements with the European Satellite Service Provider (ESSP), which enable the implementation of precise approach procedures based on EGNOS service at airports in the Republic of Serbia and the state of Montenegro. This is a unique case of signing two agreements for two countries with an air navigation service provider and a first

agreement signed with a non-EU member state in the Balkans.

8. On 24 December 2018, at the ceremonial academy on the occasion of the Air Force and Air Defense Day held at the Air Force Hall in Zemun, upon the decision of the Commander of the AF and AD, SMATSA LLC was awarded the AF and AD plaque, that General Žarković duly handed to the SMATSA CEO Predrag Jovanović.





2. About the Serbia and Montenegro Air Traffic Services

2.1 Organization Profile

The Serbia and Montenegro Air Traffic Services SMATSA LLC Belgrade provides air navigation services in the airspace of its responsibility and other activities in the field of air navigation.

The founders of SMATSA LLC are the governments of the Republic of Serbia and the state of Montenegro.

After the conclusion of the Agreement on cooperation in the field of air traffic between the Republic of Serbia and the state of Montenegro, in 2012, the agreement signed

by both governments confirmed the continuity of the existence of a joint air navigation service provider - SMATSA LLC.

SMATSA LLC operates in full compliance with national and international regulations and international agreements. In addition, SMATSA LLC participates in the work of the most important international aviation organizations and represents the Republic of Serbia and the state of Montenegro in the best manner.

2.2 Air Navigation Services (ANS)

The main activity of SMATSA LLC is the provision of air navigation services (ANS), including:

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

Area of responsibility of SMATSA LLC includes airspace above:

1. 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).





Figure 1 SMATSA's area of responsibility

2.3 Additional services

In addition to air navigation services, SMATSA LLC also provides the following services:

1. ANS personnel and pilots training;
2. Flight Calibration of Ground-Based Radio Navigation systems, and
3. Aircraft maintenance.



3. 2018 in Figures

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



Figure 2 Number of flights from 2010 to 2018

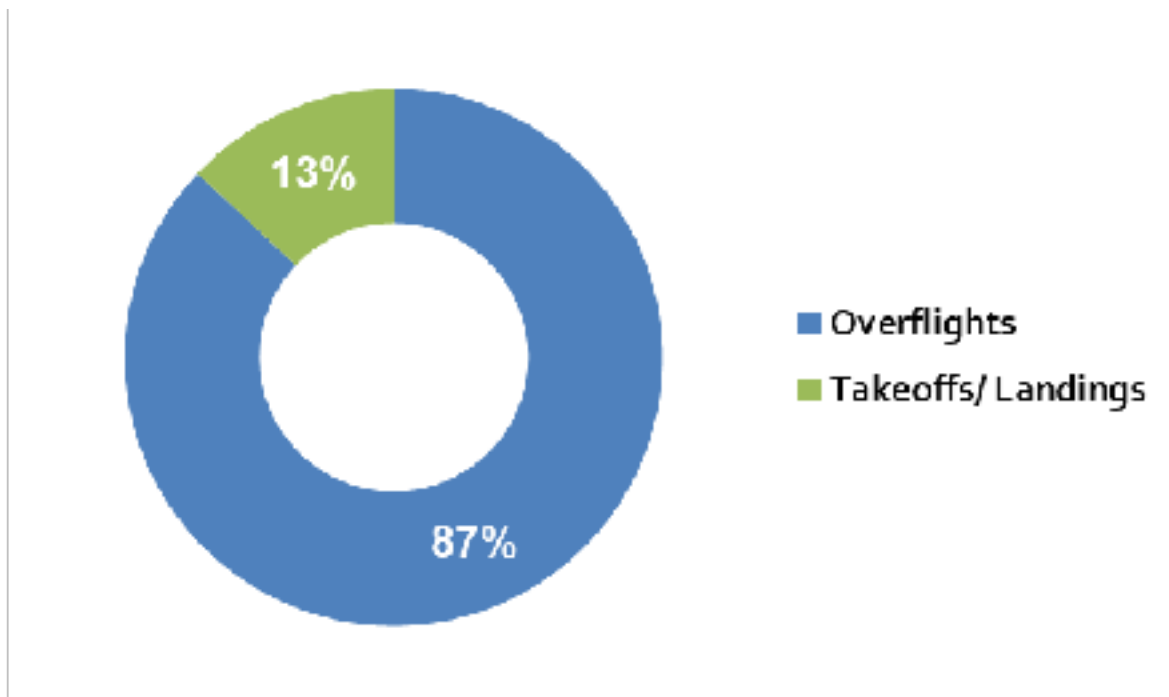


Figure 3 Flights Distribution in 2018

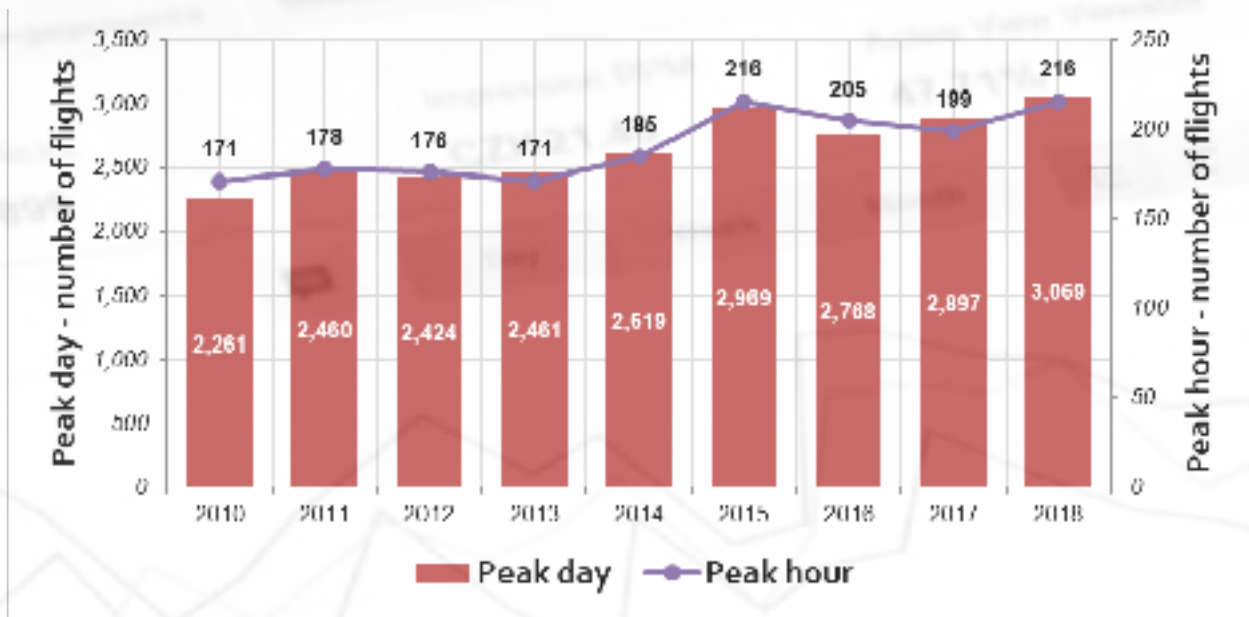


Figure 4 Peak day and peak hour from 2010 to 2018

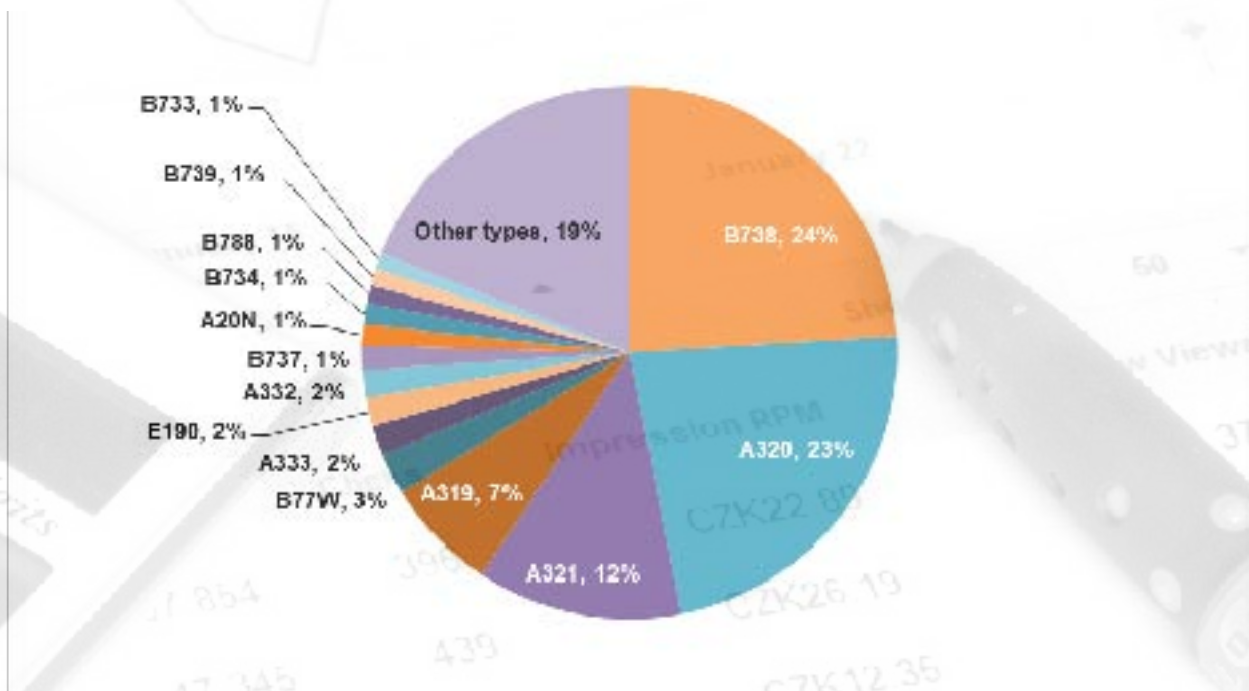


Figure 5. Share of some aircraft types in 2018



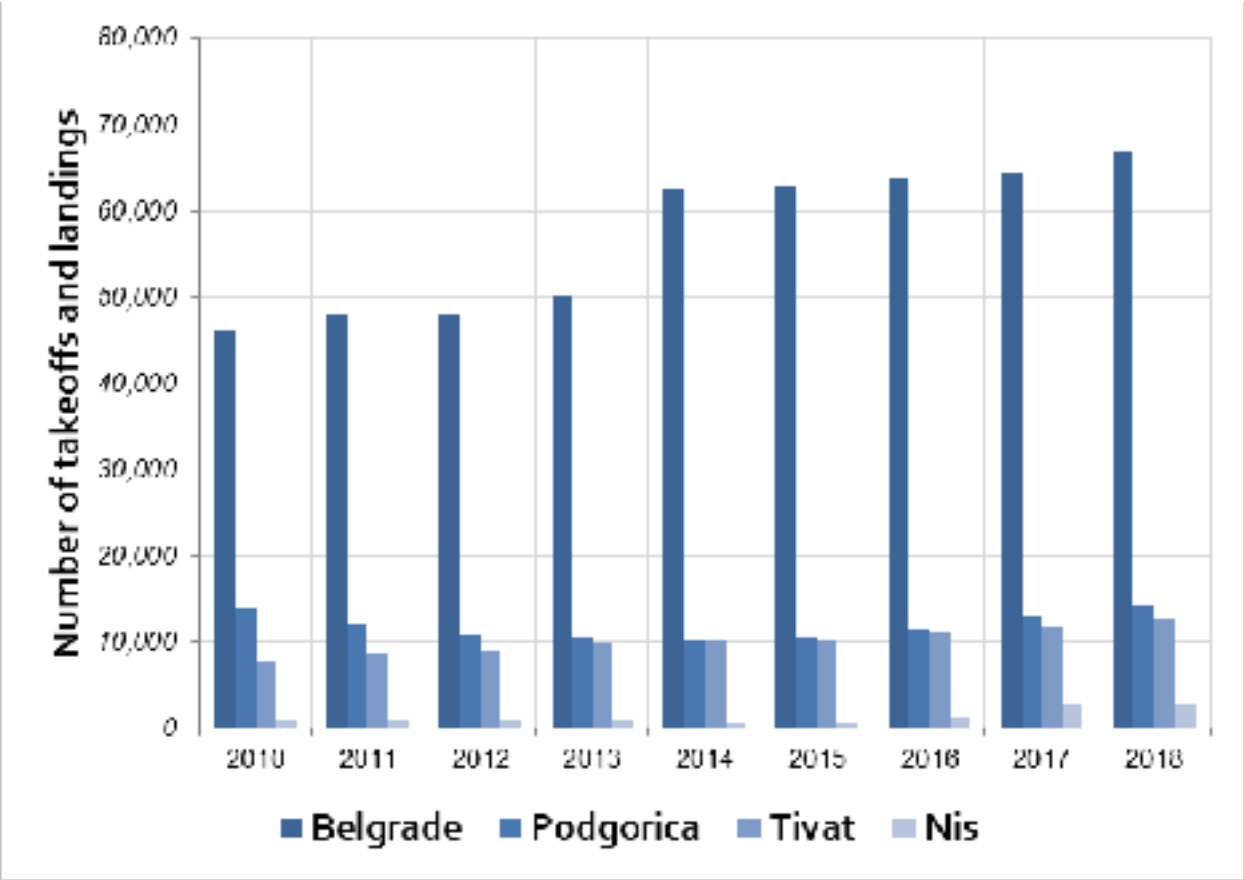


Figure 6. Number of Takeoffs and Landings per airport from 2010 to 2018

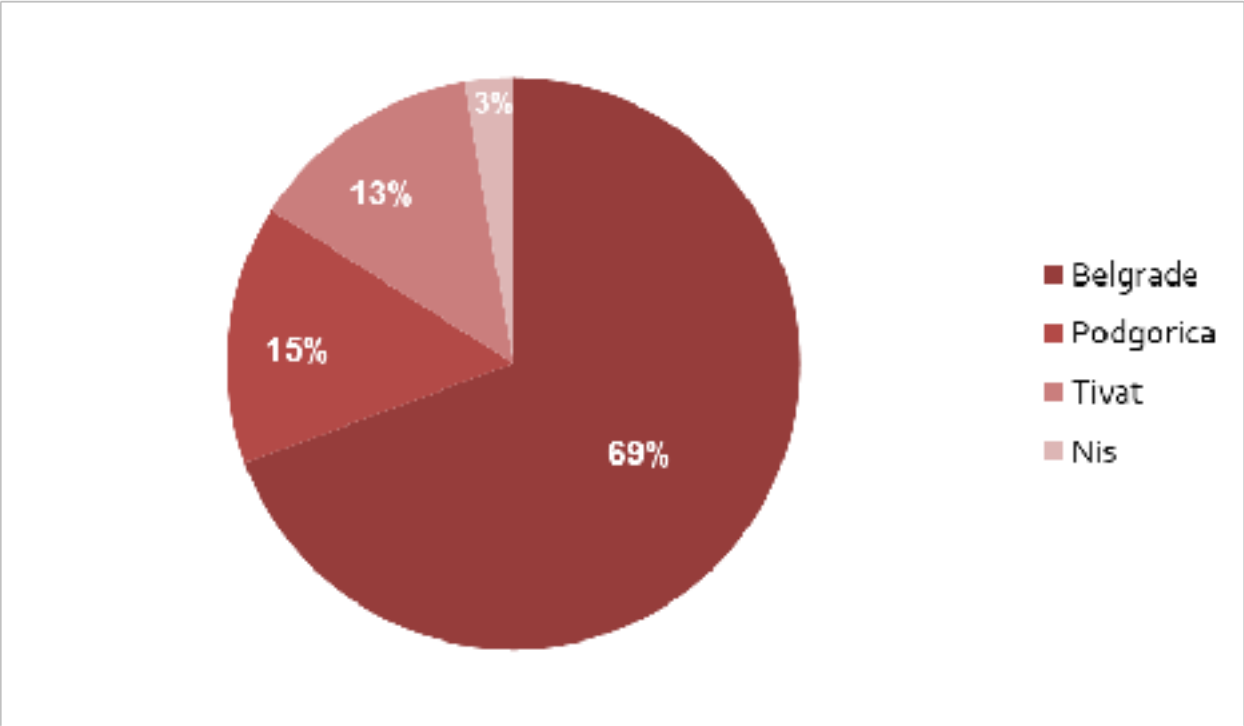


Figure 7 Traffic Distribution at the Airports in 2018

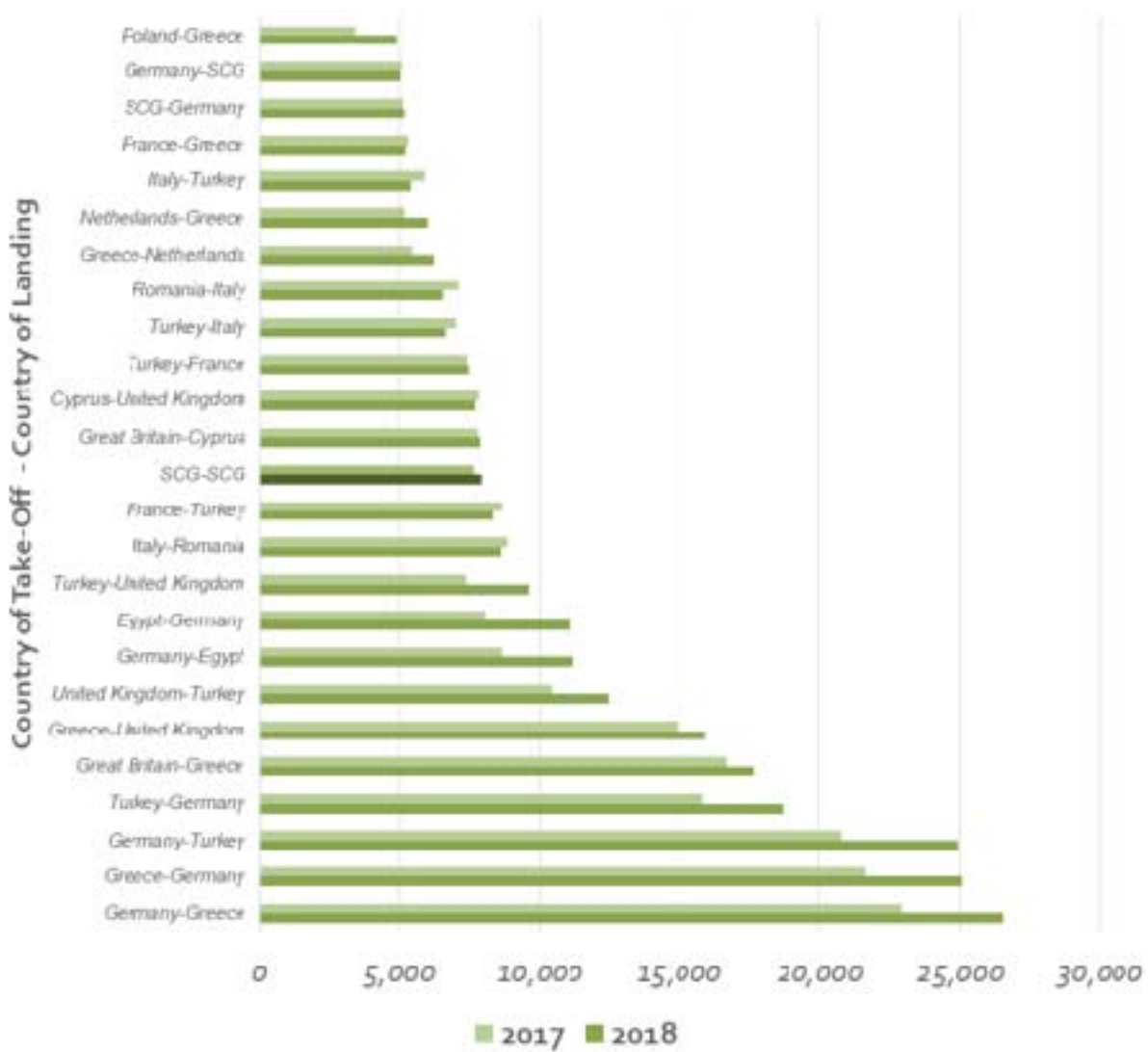


Figure 8 Number of flights in the SMATSA LLC's area of responsibility by country of take-off/landing in 2017 and 2018

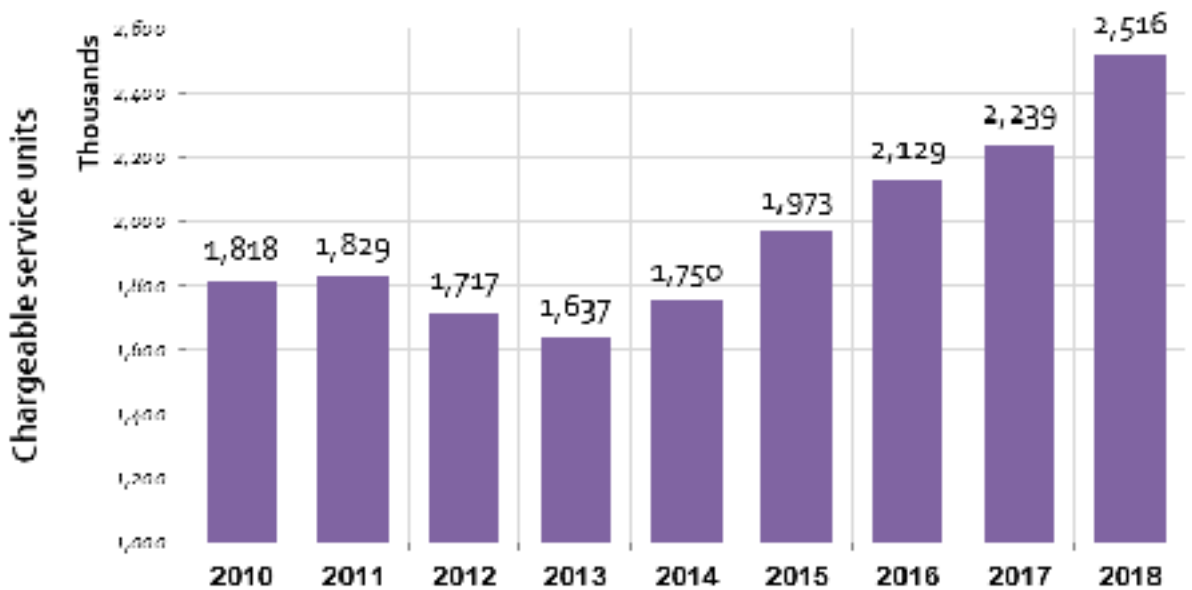


Figure 9 Number of Service Units from 2010 to 2018

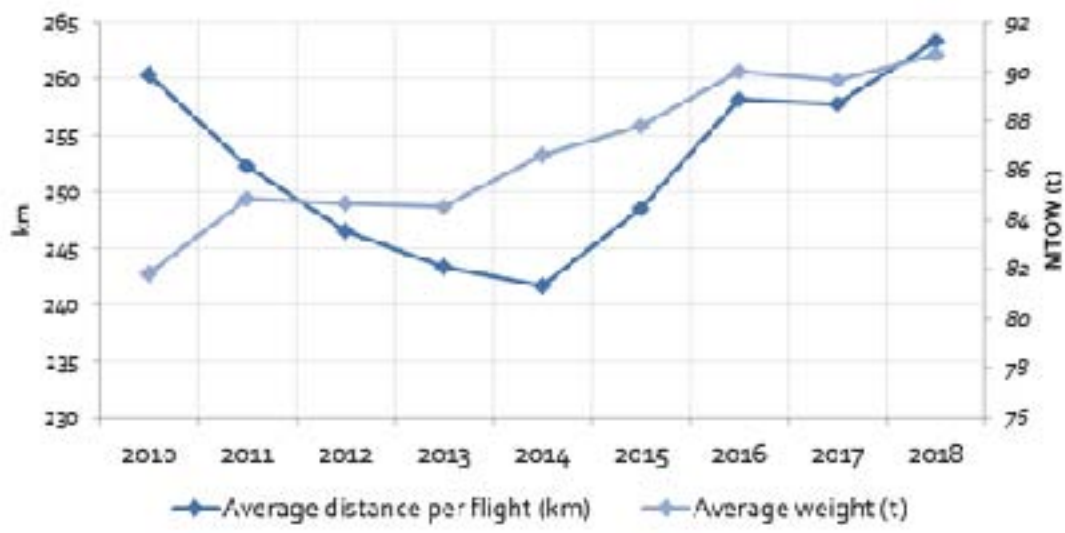


Figure 10 Average distance per flight and average MTOW in FIR Belgrade from 2010 to 2018

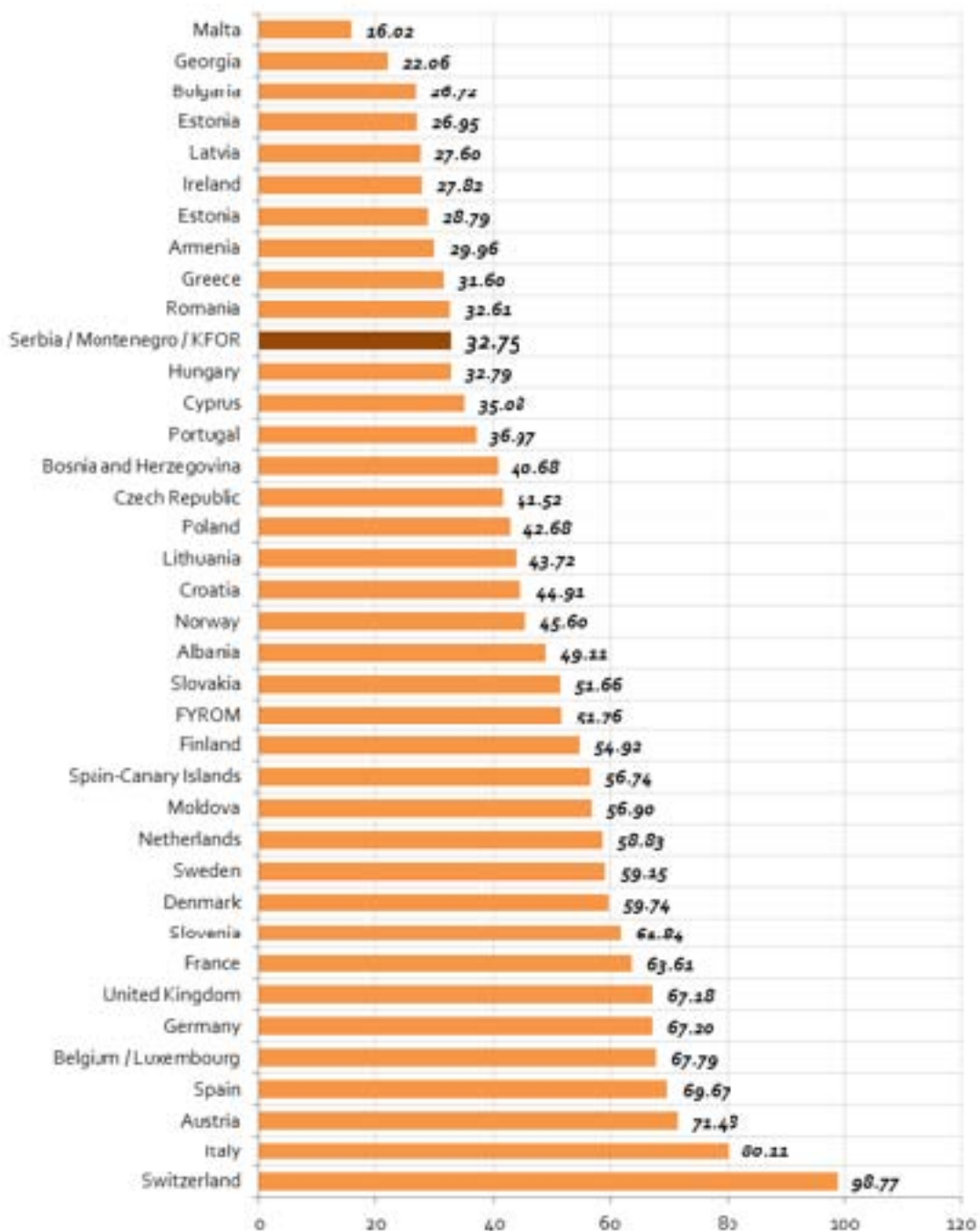


Figure 11. Unit rates per Countries in 2018 (EUR)

3.2 Staff Fluctuations and structure in 2018

The needs for professional services coupled with the expected retirement of employees and other departures affected the total number of employees in 2018.

Table 1 Staff Fluctuations in 2018 per Month

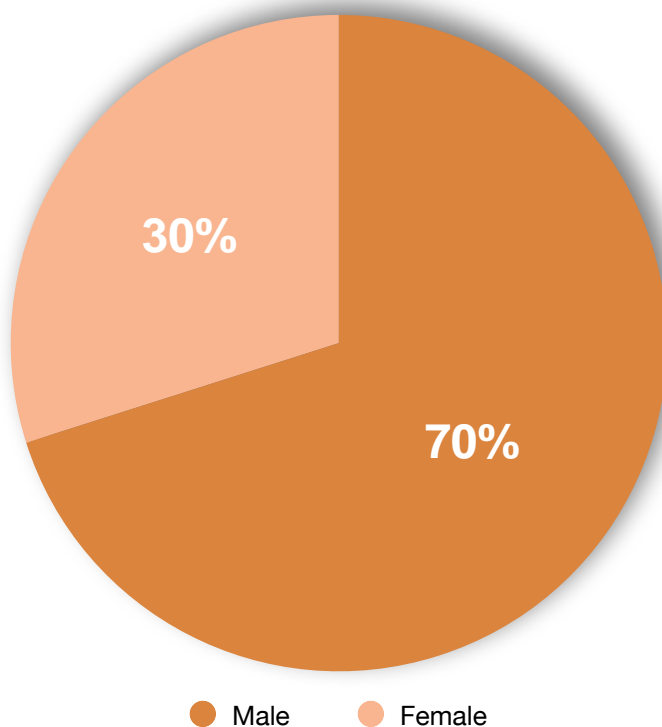
Fluctuations	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Total
Incoming (+)	4	0	3	1	6	0	1	4	1	2	1	9	32
Outgoing (-)	0	1	2	0	1	1	1	6	3	2	1	0	18

As in previous years, females represent about 30% of the workforce, while males' share in the total workforce is about 70%. When it comes to the qualification structure of employees, about 65% of employees are licensed flight controllers and employees with seventh-degree of education.

The age structure shows that almost 65% of employees are in the age group up to 50 years old.

The following figures show the structure of employees at the end of 2018, based on gender, qualification groups, and age structure.

Figure 12 Staff Structure per gender







4. Business Results in 2018

Business results achieved in comparison to the goals defined in the Strategic Business Plan 2018-2022 and the Annual Plan for 2018 are presented below in relation to the strategic areas.

4.1 Improvement of Air Navigation Services Management

In 2018, SMATSA LLC implemented a number of activities that contributed to the improvement of the quality of services provided in air navigation.

Investments in the improvement of the air navigation system and the realization of planned activities in the areas of ATM, CNS, MET and AIS contributed significantly to the safety, accuracy and efficiency of the air traffic at the highest level, optimization of flow management and air traffic capacity.

4.1.1 Improvements in the field of ATM

In accordance with the planned timeline, the implementation of the South East Common Sky Initiative Free Route Airspace (SECSI FRA) was completed on 1 February 2018.

Within cooperation of the participants in the initiative, two meetings of five ANS providers were held in Belgrade in 2018, during which the work results and problems observed in the initial phase of the SECSI FRA initiative were discussed.

At the first meeting held on 27 March 2018, it was concluded that the implementation process, as well as the first two months of the implementation of the SECSI FRA, were going smoothly and without any significant difficulties encountered by airspace users. In

addition, the information on the problems recorded at the initial stage of the application, in particular, information regarding the planning of flights by airlines and some of the difficulties encountered by air traffic controls in operational work were considered. At the meeting held at the end of 2018, the SLA was signed, regulating the exchange of aviation information necessary for the normal functioning of air navigation service providers and also information was exchanged on air traffic flow management measures planned for the next summer season.

As part of the SUSAN-modernization program (SMATSA Upgrade of the System for Air Navigation)), in 2018, the software and hardware upgrade of TopSky-ATC system step 1 - phase 1 was commissioned. Implementation of new tools and improvement of TopSky-ATC system functions allow for the increase of the interoperability of the system with adjacent air traffic controls. It is also a prerequisite for the system to support the expected increase in traffic.

Immediately after the commissioning of the upgrade of the TopSky-ATC system, the implementation of Phase II ATM Fallback FASOS system was carried out, which ensured the continuous provision of air traffic control services in the event of failure of the main system.



In the framework of the improvement of instrument flight procedures at the Nis and Belgrade airports, that is, meeting the requirements of resolution A37-11 of the ICAO Assembly, the SMATSA completed the implementation of the PBN Baro-VNAV procedure for instrument-based approaches for all take-off/landing runways (LNAV / VNAV minimum). These procedures represent a part of the RNP APCH navigation specification and provide 3D approaches to airports, along with a vertical component of aircraft guidance, allowing for the lower operational landing minimum. Also, for the first time, a set of PBN STAR procedures was introduced, which provided for arrival and landing at Nis Airport from the runway 29 direction to the LNAV and LNAV / VNAV minimum.

In December 2018, SMATSA LLC signed two EWA agreements with the European Satellite Service Provider (ESSP), enabling the implementation of precise approach procedures based on EGNOS service at airports in the Republic of Serbia and the state of Montenegro. This is a unique case of signing two agreements for two countries with an air navigation service provider and a first agreement signed with a non-EU member state in the Balkans. In this way it is possible to define the so-called Localizer Performance with Vertical Guidance (LPV) minimum up to 200ft (~ 60m), which corresponds to a minimum for ILS CAT I operations, but without the need for installing terrestrial equipment, thereby avoiding the cost of procurement, maintenance and operational use of the navigation system.

4.1.2 Improvement of Equipment, System and Infrastructure

In accordance with the requirements of the Single European Sky, the implementation of new technologies is one of SMATSA's basic objectives, requiring continuous investment in equipment, systems and infrastructure, as

well as the implementation of new technological solutions, which is most often realised through multi-year projects providing for the improvement of facilities, infrastructure, and systems. In such cases, through the implementation report for one year, only partial results of the realization of the complete goal can be noticed.

After the procurement process was completed in 2018 and the conclusion of the contract for the improvement of the AMHS system, the site acceptance test (SAT) was successfully completed, and it is planned that the operational use of this functionality will begin in 2019. SAT of the new Surveillance Front-end processor has been successfully completed and it is planned that its operational use will begin in 2019, together with the implementation of the TopSky-ATC system step 1 - phase 2 upgrade. In accordance with the contract concluded in 2017, the realization of the improvement of the navigation systems continued - the acceptance at the location DVOR Podgorica, ILS / DME Nis and DME for runway 12 Belgrade was successfully completed.

In the course of 2018, the procurement was carried out, the contract was concluded and the improvement of the VHF/UHF radio system at the locations of Sveti Ilija and Dobra Voda was successfully completed. Upgraded systems at these locations are in operational use.

In addition, installation of equipment in the field of electrical power (UPS, DC, DEA) has continued at 11 locations. The work on the electricity and telecommunication infrastructure around runway Tivat was completed. The technical documentation for the adaptation of the TS 10/0.4 kV within the ACC Belgrade electrical power station was completed, on the basis of which the public procurement of the adaptation works was published, and at the end of 2018, the contract was signed for the execution of these works.



The technical specification and tender documents for the procurement and installation of Mode S MSSR and PSR radar systems at the location of Besna Kobilica and the location of Terminal Area Radar Belgrade was completed, and a public call for the procurement of these systems was published at the end of 2018.

The procurement of the service of technical documents development for the Terminal Area Radar Belgrade and the leading infrastructure was carried out, and it is envisaged that the realization of the contract in question will be completed in 2019.

The reconstruction of the Radar station Koviona, which started in 2017, was successfully completed in 2018.

Nevertheless, certain delays were noted in the prescribed deadlines for the realization of certain activities due to external factors, in the following cases:

1. Installation of equipment within the project implementation of the SMATSA IP network for the transmission of air traffic control services (voice and data) was completed, but only the part related to the first phase of the project. The site acceptance (SAT) within the first phase of the project was not realized by the end of 2018, as planned, because within the foreseen deadlines the problems discovered during the factory reception were not resolved, and an adequate stability and preparedness of the network part for the implementation of the SAT test was not achieved. A delay was noted in the implementation of the first phase of the project of 210 days, and at the end of the year, it became evident that in addition to this, there would be an additional delay in the realization of both the first and the second phase of the project. Regardless of the aforementioned delays in the implementation of certain

stages, it is anticipated that the completed project be completed within the contractual deadline.

2. The technical documents for the improvement of telecommunication and electrical infrastructure in the runway ATC Batajnica zone, which was the subject of the Agreement concluded on 8 August 2016, was adopted on 28 December 2017. The execution of the subject works specified by the adopted technical documents has not started during 2018, since the issues with the Serbian Armed Forces were not formally solved pertaining to ownership of the infrastructure that would be built on land owned by the Ministry of Defense. For this reason, the implementation of activities has been shifted from 2022 to 2024 in order to establish a mutually acceptable solution.
3. Preparation of technical documents for the construction of a radar station and ancillary infrastructure at the Vrsuta location for the purpose of installing the radar system (SSR) in order to improve the radar overlap of the southwestern area of SMATSA LLC's area of responsibility, was moved to the beginning of 2019, as property-legal relations were resolved only at the end of 2018.

4.1.3 Improvement of AIS Services

The provision of aeronautical information necessary for the safe, regular, and expedited air navigation is provided via Aeronautical Information Services (AIS).

Aeronautical information processes are in line with international standards and recommended practices contained in the Single European Sky requirements.



Regarding the improvement of aeronautical information, in 2018, proposals for an agreement on the delivery and publishing of aeronautical data between the AIS and the following data sources were concluded: Public Enterprise Airports of Montenegro as operator of airports in Podgorica and Tivat, Air Force and Air Defense of the Republic of Serbia as the source of data for MIL AIP Serbia and the operator of Batajnica and Kraljevo airports, Air Force and Air Defense of Montenegro, as a source of data for the future development of MIL AIP Montenegro, SMATSA Aviation Academy as the operator of the airport in Vrsac. Drafting agreements with the rest of the data sources is ongoing.

In July 2018, the representatives of the SMATSA LLC participated in the International ICAO EUR/NAT/MID workshop dedicated to the new versions of ICAO documents from the AIS domain. At this workshop, it was concluded that the planning and implementation of new standards and recommended practices requires intensive coordination between subjects at both international and national levels. States will have to revise the deviations in relation to ICAO SARPs in Annexes 4 and 15, which in the case of the Republic of Serbia includes amendments of domestic regulations by which ICAO SARPs are adopted (Air Transport Law - Definitions and Notions, Rulebook on Airports, Rulebook on Aeronautical Information).

When it comes to acquiring software maintenance services for EAD, it was necessary to provide maintenance according to the appropriate specification for the next three years. Since only the bidder FREQUENTIS has exclusive right to provide this service, with the approval of the Public Procurement Directorate, an exemption has been made, and the negotiated procedure has been successfully concluded.

In October 2018, the participation in the first FREQUENTIS AIM Roadmap Workshop took

place. The workshop was organized with a view to discussing future strategies and new challenges that will arise in the coming years (2019-2022) related to the transition from AIS to AIM.

4.1.4 Improvement of MET Services

In order to improve the safety, regularity, and expeditiousness of air navigation, SMATSA LLC provides aeronautical meteorological services in accordance with national and international standards and regulations.

Together with regional ANS providers, SMATSA LLC took an active part in the realization of eGAFOR project. During the work on the eGAFOR Project, several formal meetings with the users were organized in the Republic of Serbia and in the state of Montenegro. During these meetings, a real low-altitude flight route network was defined for which the eGAFOR product will be generated. During the past year, the following activities were undertaken within this project:

1. Defining MET elements to be forecasted in eGAFOR;
2. Defining content and presentation of eGAFOR;
3. Defining the criteria for forecasting individual MET elements;
4. Defining the concepts;
5. Defining the network of routes;
6. Defining the eGAFOR release protocol in order to harmonize the product;
7. Defining the Web interface in English for common creating of eGAFOR, and
8. Defining eGAFOR user views.

During 2018, representatives of SMATSA LLC participated in several international meetings such as METG and International Meteorological Technologies World Expo 2018. In direct contact with other



meteorological service providers and meteorological equipment manufacturers, the guidelines for the future development of this area have been obtained, as well as

information on the latest technological equipment and software whose procurement is planned in the coming years.

4.2 Improvement of Cooperation with Relevant Organizations, Regulatory Bodies and State Bodies

Implementation of appropriate regulations, policies and technological solutions of importance for the business of SMATSA LLC are carried out continuously. Strengthening partnerships and enhancing cooperation with relevant organizations and users of SMATSA LLC is a process that requires constant improvement.

4.3 Development of Competitive Commercial Services

4.3.1 Calibration of the GRNS from the Air

Thanks to modern equipment and professional personnel, SMATSA LLC possesses all the necessary resources for providing calibration of ground-based radio navigation systems (GRNS) from the air, checking the flight procedures, as well as providing a test service related to the selection of the location for setting up a new GRNS. For this purpose, the modern Hawker Beechcraft King Air 350 aircraft with built-in calibration equipment (AD-AFIS-260) is used by SMATSA LLC for its own needs, but it also provides services to external users.

Service provision is performed in accordance with the requirements and recommendations defined in the documents of the International Civil Aviation Organization (ICAO) - Annex 10, Annex 14 and Doc 8071.

In 2018, regular and extraordinary calibrations and airborne validation procedures were performed based on the concluded contracts. A total of 421 hours of flight time took place, out of which 298 hours were abroad, while 123 hours of calibration were realized in Serbia and Montenegro.

4.3.2 ANS Staff Training Center

ANS Staff Training Center is an authorized centre for training and improvement of flight controllers, aeronautical technical and aviation meteorological staff. Training programs are in line with the requirements of ESARR, national and international regulations, as well as with ICAO standards.

The ANS Staff Training Center provides training for its own needs, while also providing training services to external users, both to organizations and to individuals.

The most important training realized in 2018 in accordance with the Training Plan in the ANS Staff Training Center is shown in the following table.



Table 2. The degree of realization of training within the ANS Staff Training Center in 2018

Name of training	Degree of realization and clarification
Initial Training for air traffic controllers Number of trainings 8, number of participants 60.	Initial ATCO training was realized with a success rate of 89%. Within this type of training, four trainings related to the enrollment of a new national air traffic controller class planned by the Aviation Training Sector in the spring of 2018 was not realized. The new class of air traffic controllers is scheduled for 2019.
Unit Training Number of trainings 4, number of participants 12.	Unit Training was realized with a success rate of 100%.
Continuation & Development Refresher Training Number of trainings 21, number of participants 187.	Continuation & Development Refresher Training was realized with a success rate of 100%.
ATSEP Training Number of trainings 3, number of participants 15.	The training of the aviation meteorology staff was realized with a success rate of 100%.
MET Training Number of trainings 2, number of participants 6.	The training of the aviation meteorology staff was realized with a success rate of 100%.
Other trainings (preparation and evaluation through TEA test; Training of PVL for work in the Department for control, protection and allocation of VP; Knowledge refresher workshop for ITT (instructors of theoretical training); Refresher workshop for continuing education in the operational unit; Training of pseudo-pilots; Additional training after previous assessment of competence; Practical training for Aviation Academy students) Number of trainings 8, number of participants 171.	Other trainings were realized with an increase of 267%. Within this type of training, previously unplanned 5 trainings were realized as follows: <ul style="list-style-type: none"> o Knowledge refresher workshop for continuing education in the operational air traffic control unit, II group, III SF class CL; o Additional training required for continuing education; o Testing of the previous assessment of competence for continuing education for acquiring ACS authorization of 3 trainees from R. Macedonia; o Practical training for students of the Aviation Academy; and o Training of pseudo-pilots for 5 trainees (in progress).
Development Training Number of trainings 0, number of participants 0.	Development Training was not realized, due to operational engagement of the air traffic controllers.





4.3.2.1 Training in operating air traffic control units

In addition to the training that was carried out at the ANS Staff Training Center, during 2018, training was also carried out in the operating units, as presented in the table:

Table 3. Trainings in Operational Units in 2018

Name of training	Degree of realization and clarification
Training for acquiring competencies ACS LYBA (ATC Belgrade)	8 candidates, success rate 37.5%
Training for acquiring competencies ADI-GMC/AIR (ATC Belgrade)	10 candidates, success rate 90%
Training for acquiring competencies APS-SRA/PAR LYBT (ATC Batajnica)	3 candidates, success rate 100%
Training for acquiring competencies ADI-TWR LYBT (ATC Batajnica)	5 candidates, success rate 100%
Training for acquiring competencies APS-PAR/SRA LYKV (ATC Kraljevo)	2 candidates, success rate 100%
Training for acquiring competencies APP LYVR (ATC Vršac)	2 candidates, success rate 100%
Training for acquiring competencies ADI-TWR LYVR (ATC Vršac)	2 candidates, success rate 100%
Training for acquiring competencies ADI-TWR LYPG (ATC Podgorica)	7 candidates, success rate 100%

4.3.3 SMATSA Aviation Academy

The SMATSA Aviation Academy, in the regular and supplementary training in 2018, realized 31,207 classes of theoretical lessons, which is 5.78% more than the planned number of hours. The realized number of flight hours in 2018 was 5,218 hours, which is 19% less than the plan, or about 22% less than the number of hours that was realized in 2017. In 2018, the SMATSA Aviation Academy enrolled 51 candidates, while throughout the year there were 134 candidates present.

The difference in the achieved and planned impact was due to the fact that four flight instruction instructors left the SMATSA

Aviation Academy, the poor presence of the candidates in flight training, and poor weather conditions.

The new comprehensive software-enabled complete digital management of the process of theoretical training (electronic diaries, attendance management), practical training (digital flight orders, digital flight plans and forms, etc.) and the financial segment.

The program of theoretical training is supplemented by a program that enables candidates to successfully master part of the theoretical exam in PBN - Performance Based Navigation.



In accordance with the business policy of SMATSA LLC pertaining to the provision of aircraft maintenance and hangar services to third parties, in the course of the year the following contracts were signed:

1. Aircraft maintenance contract with Hamed-Mohamed-AhmedMirghani, BiH, Tuzla;
2. Maintenance contract with GENERAL AVIATION APPLICATIONS-3D S.A.;
3. Aircraft hangar contract with NEW AGE INVESTMENTS CO, and
4. Servicing contract for aircrafts purchased from JAT FLYCOOP-KFT.

4.3.4 Development of Competitive Commercial Services in Air Navigation

Successful implementation of the South East Common Sky Initiative Free Route Airspace (SECSI FRA) is another confirmation of successful cooperation between the SMATSA LLC and other air navigation service providers.

The implementation of the SECSI FRA initiative in the common airspace of five air navigation service providers in six Southeast European countries fulfilled the European Commission's goal of implementing the Use of Free Route, while the ability to plan and realize flights through direct (shortest) routes contributed to significant savings for airspace users.

In 2018, SMATSA participated in Gate One initiative and SESAR 2020 program in which as linked third party gave a contribution to the technological aspect of the Single European Sky.

4.4 Improvement of Social Responsibility and Environment

At the end of May 2018, external supervisory control of quality management system (QMS) and environmental management system (EMS) was integrated in accordance with ISO 9001: 2015 and ISO 14001: 2015 standards.

After successful integration of the supervisory control by the SGS Belgrade LLC certification company, at SMATSA Training Center (QMS), ATC Belgrade (ATS, AIS, EMS in calibration), Central Warehouse (EMS in GEN), ATC Nis (ATS, CNS, MET, AIS, EMS) and ATC Kraljevo (ATS, CNS, MET, AIS, EMS), a certificate was issued according to the new version of the ISO 9001: 2015 standard, while confirming the validity of the ISO 14001: 2015 certificate.

The QMS department performed the procurement of the service and provided support in organizing and maintaining the

"Overview of Regulation (EU) 2017/373" course (held by a lecturer from Eurocontrol IANS) for 48 employees from different business domains of SMATSA LLC.

The coordination of activities on the filling out of the Compliance Lists at the level of SMATSA LLC and the preparation for the ICAO standardization verification check in Montenegro took place between October and November 2018.

Preparation related to requirements and documentation in the field of environmental protection, related to the extension of the unique "Antenna" application for CNS device records with data on the measurement of non-ionizing radiation in the environment, was carried out in November and December 2018.



October and November 2018 marked the establishment of activities to monitor the levels of ionizing radiation from landing radars used at military airports at locations in ATC Kraljevo and ATC Batajnica where two landing radars "Mark V" are in use, that contain within the equipment the closed sources of ionizing radiation. Given that both radars are in use, according to legal requirements, it is necessary to measure the equivalent radiation dose in the environment of the device and to develop a protection program against ionizing radiation.

In 2018, waste management procedures have been improved and, accordingly, waste management plans have been updated through the following documents:

1. EMS.PLN.002 - Waste Management Plan for SMATSA sites in the territory of the Republic of Serbia
2. EMS.PLN.003 - Waste Management Plan for SMATSA locations in the state of Montenegro, where the documentation was updated in relation to the legal deadlines.

By extending the existing application for registering data on CNS devices and systems where all necessary data related to environmental documentation are collected, for which non-ionizing radiation measurements are performed, has been completed. Based on this data record for each device, in some future period, it will be possible to know the zones of increased sensitivity, as well as the results of measurement of non-ionizing radiation within the test zone and outside the controlled zone (in the environment).

The implementation of environmental protection projects (EMS), in order to comply with legal requirements, such as the reconstruction of the wastewater treatment plant, was postponed for 2019 (adopted under the Procurement Plan for 2019).

Regarding the existing ATM initiatives in the field of environmental protection, they are all monitored and harmonized based on published data within the LSSIP plan for Serbia and the Annual Business Report, while the formation of the Working Group that will coordinate the collection and processing of initiatives and data is postponed for the next year.

4.5 Improvement of Safety Management System

In 2018, the development of the Safety Management System continued in accordance with the requirements and recommendations of domestic and international legislation and recognized or accepted good practices of other ANSPs.

The activities of SMATSA LLC in this domain that marked the previous year, important for the system of increasing the safety of air traffic management, are as follows:

1. Organizing a regional meeting in Belgrade, in order to increase the level of safety in air

traffic management, attended by representatives of Macedonia, Croatia, Slovenia, Bosnia and Herzegovina. The meeting was organized by the Safety Management Sector in order to exchange experiences with colleagues from the safety management system and environment, in mid-May 2018.

2. Holding of Just Culture Training in Podgorica (Montenegro) on the 24th of April 2018, with the presentation of Austrocontrol on the topic of Just Culture, which provided positive impressions and



exchange of experience with colleagues from the regional ANSP's.

3. Attending the ASMT User Group meeting in Vilnius, Lithuania, in late April 2018, as SMATSA LLC is an ASMT EventIdentification Tool user.
4. In May 2018, at the EUROCONTROL headquarters, one of the periodical meetings of the Safety Team (representatives of all ANSPs) of Europe was held.
5. Engagement of the two SMATSA employees at the EUROCONTROL

headquarters in Brussels, throughout the Secondment Agreement Program in the period from 1st August 2018 to 1st February 2019 at the EVAIR project with the following activities: collecting ATM-related events, entering data into EVAIR databases, statistical data processing, preparation material for EVAIR Safety Bulletins using specific tools for TOKAI, INCAS, ASMIT events analysis. Upon their return from Eurocontrol, the employees applied the acquired knowledge in the daily activities of the Safety Management Sector.

4.6 Improving the Performance of the Organization and Resource Management System

Designing the information system of SMATSA LLC, analysis of business processes and business activities at the strategic planning level were key activities in terms of improving the performance of the organization and resource management system of SMATSA LLC.

In the course of 2018, the realization of the electronic registry office project and the document management system began, as the first phase of the development of the new information system of SMATSA LLC.

In order to perform the analysis of business processes and business activities improvement, SMATSA LLC has also harmonized all business processes and documentation with the new version of the ISO 9001:2015 standard through the end of May 2018. After this process, a regular annual inspection check of the certification company SGS Belgrade LLC was performed and a new certificate ISO 9001:2015 was issued.

4.7 Improvement and Development of Human Potential

Activities that were realized in the observed period, during 2018, in the part of development and improvement of human potential through the systematic career development, created the business environment for achieving the goals defined by the business strategy through the process of systematization of job positions, continuous

process of making the necessary and adequate organizational documents, improvement of job descriptions / organizational units, creation of new job catalogs. The new Rulebook on Organization and Systematisation of Operations in the Serbia and Montenegro Air Traffic Services SMATSA LLC Belgrade, OU/DIR-235/28,



entered into force on the 21st of December 2018.

A detailed analysis of the knowledge and skills needed for the key positions for the development of the SMATSA LLC business operations was carried out in line with the Law on Education (occupational nomenclature) and the improvement of job descriptions. On this issue, an external consultant was

engaged who carried out the process of defining of the "incumbent profile and the necessary requirements" for jobs in accordance with the new Rulebook on the Organization and Job Systematisation. The process of amending and supplementing the job descriptions in the document HUM.ORG.KAT.002 - Directory of jobs and job positions, version 5.0, HUM.00-235 / 30 of 21/12/2018, was also carried out.

4.8 Business Performance

4.8.1 Operation Compliant with SES Objectives

4.8.1.1 Safety

Assessment and monitoring of the level of safety in the SMATSA LLC system is based on monitoring the safety indicators in different parts of the system.

Monitoring of the status of the safety management system of the air navigation service provider is based on the monitoring of the safety indicators (SMS indicators) defined in the Performance Schemes in the second reference period, which are evaluated:

1. The efficiency of the safety management system;
2. Level of use of the RAT methodology and
3. The level of implementation of the culture of justice and trust (Just Culture).

Given that the regulation related to the Performance Scheme is not yet binding for the Republic of Serbia and for the state of Montenegro, the SMS indicators are monitored voluntarily in order to prepare for the implementation of the legislation in the legal system that is expected in the upcoming period.

Monitoring of these indicators by SMATSA implies an annual analysis of the EASA assessment of the status based on information provided by SMATSA through standardized questionnaires. Based on the EASA assessment results, SMATSA LLC takes appropriate corrective measures.



Table 4 – Targeted and Accomplished Values of SMS Indicators as requested by the CAD for 2018

Group of SMS Indicators	Accomplished safety level
I.1. SMS Effectiveness	1. Managing security policy and security goals:D 2. Security risk management:D 3. Security guarantees:D 4. Security enhancement :D 5. Security culture:B
I.2. Application of RAT Methodology	1. Infringement of safe aircraft separation: RAT A1 2. Unauthorized entry to runway: RAT C3, RAT E2, RAT E3, RAT E5. 3. ATM specific events: Ability to provide safe but degraded ATM services: RAT C5x4, RAT C4x1. No effect on ATM services: RAT E5x3
I.3. Application of Just Culture	C



Table 5. Targeted and Accomplished values of SMS Indicators as requested by the CAA for 2018

Effectiveness of the SMS system of the air navigation service provider (SMS indicator group)	Acceptable safety level	Fulfilled/not fulfilled Acceptable level of security
SI.1 SMS Effectiveness	FULFILLED FOR 2017 (for 2018 is performed in 2019) NO PRESCRIBED COMPARATIVE VALUES	1. Managing safety policy and security goals: D 2. Security risk management: D 3. Security guarantees: D 4. Security enhancement : D 5. Security culture: B
SI.2 Application of RAT Methodology	NO PRESCRIBED COMPARATIVE VALUES FOR 2018	1. Infringement of safe aircraft separation: There were no reported events 2. Unauthorized entry to runway: There were no reported events 3. ATM specific events: ▪ <i>Ability to provide safe but degraded ATM services: C5x1, C4x1</i> ▪ <i>Partial inability to provide safe ATM services: B5x1</i> ▪ <i>Not determined: D5x5</i> (100% applied RAT for the events for which the application was submitted)
SI.3 Application of Just Culture	NO PRESCRIBED COMPARATIVE VALUES FOR 2018.	C

In addition, the assessment of the effectiveness of the security management system is performed based on security indicators prescribed at the national level by the aviation authorities (CAD and CAA). The analysis of security indicators is performed annually, and the results for 2018 are presented in the table.



Table 6 – Targeted and Accomplished Values of Safety Indicators as Requested by the CAD for 2018

Group of ATM indicators (events with direct ATM participation)		Acceptable safety level	Accomplished values
I.4	ATM caused Accidents	0.00377	0 ATM caused Accidents
I.5	ATM caused Serious Incidents	3	1 ATM caused Serious Incidents
I.6	ATM caused Major Incidents	37	5 ATM caused Major Incidents
Group of CNS indicators (ATM specific/special emergency events)		Acceptable safety level	Accomplished values
I.7	Number of DPS outages	<8 events (break-downs) per year	0.66 break-downs per year, on average
I.8	Total duration of SSR radar stations shutdown	<500 minutes per year	value of the indicator is 9.25 minutes
I.9	Total duration of PSR radar stations shutdown	<2,000 minutes per year	value of the indicator is 86.21 minutes
I.10	MTBO- Mean Time Between Outages LOC ILS 12 (CAT III)	>4,500 hours per year	No outages –MTBO[h]=/
I.11	MTBO- Mean Time Between Outages LOC ILS 30 (CAT I)	>1,500 hours per year	No outages –MTBO[h]=/
I.12	Number of losses or degradation of one or more operating frequencies	<50 events per year	on average 9.66 interruptions of services on an annual basis
Group of targeted indicators		Acceptable safety level	Accomplished values
I.15	Collisions related (MID-AIR, on the ground between acf/ vehicle/ person/ obstruction)		Three-year average 0
I.16	Separation related (Separation minima infringement, Inadequate separation)	The movement is monitored in relation to the last years' value	Three-year average 3.67
I.17	Runway related (Runway excursion, Runway Incursion where avoiding action was necessary/ not necessary)		Three-year average 3.33



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 15.33
I.19	Altitude related (Level Bust LB, Controlled Flights Into Terrain/CFIT, Near Controlled Flight Into Terrain/CFIT)	Three-year average 1.00
I.20	Unauthorised penetration of airspace related	Three-year average 15.33
Trends in relation to last year's value are monitored		
I.21	Communication related (Prolonged Loss of Communication/PLOC, inadequate usage of phraseology, language issues)	Three-year average 6.67
I.22	Loss of control in flight related (MET conditions, Wake turbulence...)	0
I.23	Other (Other services within ANSP, like AIS, SEC and other)	148.67



Table 7. Targeted and Accomplished Values of Security Indicators as Requested by the CAA for 2018

Events with direct ATM participation (Group of ATM indicators)		Acceptable safety level	Accomplished values (fulfilled/not fulfilled acceptable safety level)
SI.4	ATM caused Accidents	0.00377	0 ATM caused Accidents
SI.5	ATM caused Serious Incidents	3	0 ATM caused Serious Incidents
SI.6	ATM caused Major Incidents	37	0 ATM caused Major Incidents
ATM specific/special emergency indicators (Group of CNS indicators)		Acceptable safety level	Accomplished values (fulfilled/not fulfilled Acceptable safety level)
SI.7	Availability of communication function	< 50 service losses per year	FULFILLED 2 service losses per year
SI.8	Availability of control function of SSR radar stations operation	<500 minutes per year	FULFILLED (Koviona:0.66 minutes Murtenica: 6.61 minute Koševac: no interruptions Srpska Gora: no interruptions)
SI.9	Availability of control function of PSR radar stations operation	<2,000 minutes per year	FULFILLED (Koviona:3,61 minutes Murtenica:47,95 minutes Srpska Gora: 283.13)
SI.10	Availability of data processing and distribution functions	< 8 outages per year	FULFILLED 0 outages
SI.11	Availability of navigation function LOC 36 (CAT I) on LYPG	>1,500 hours per year	FULFILLED no outages – MTBO[h]= /
SI.12	Availability of navigation function LOC TIV	>1,500 hours per year	FULFILLED no outages – MTBO[h]= /
SI.13	Energy systems Availability	>0.9999% per year	FULFILLED (There was no complete interruption of the power supply of operating devices)
SI.14	Endangering safety of the ATM system	acceptable values are not determined	MONITORED No events that endangered the safety of the ATM system

4.8.1.2 Cost Efficiency

The unit rate for the "Serbia - Montenegro - KFOR" charging zone for 2018 was approved and adopted at the EUROCONTROL's Enlarged Committee session in November 2017. The Decision of the Enlarged Committee No. 148, dated 1 December 2017 (Appendix No. 2), determined the amount of the unit rate at 32.62 EUR (National Unit Rate) and 32.75 EUR (Global Unit Rate), including EUROCONTROL Administrative Unit Rate.

In May 2018, HungaroControl / KFOR launched an initiative to correct the amount of the unit rate for the "Serbia - Montenegro -

KFOR" charging zone, in order to lower the amount of over-recovery. The Decision of the Eurocontrol Enlarged Committee No. 152 as of 21 September 2018 (Appendix 3), determined the reduction of the unit rate to 25.34 EUR (National Unit Rate) and 25.47 EUR (Global Unit Rate), which came into effect on 1 September 2018.

The average monthly adjusted unit rate for 2018 is EUR 30.44 (National Unit Rate), which is 12% lower than the average value from 2017. Monthly adjusted unit rates in 2017 and 2018 for the "Serbia-Montenegro-KFOR" charging zone are shown below.

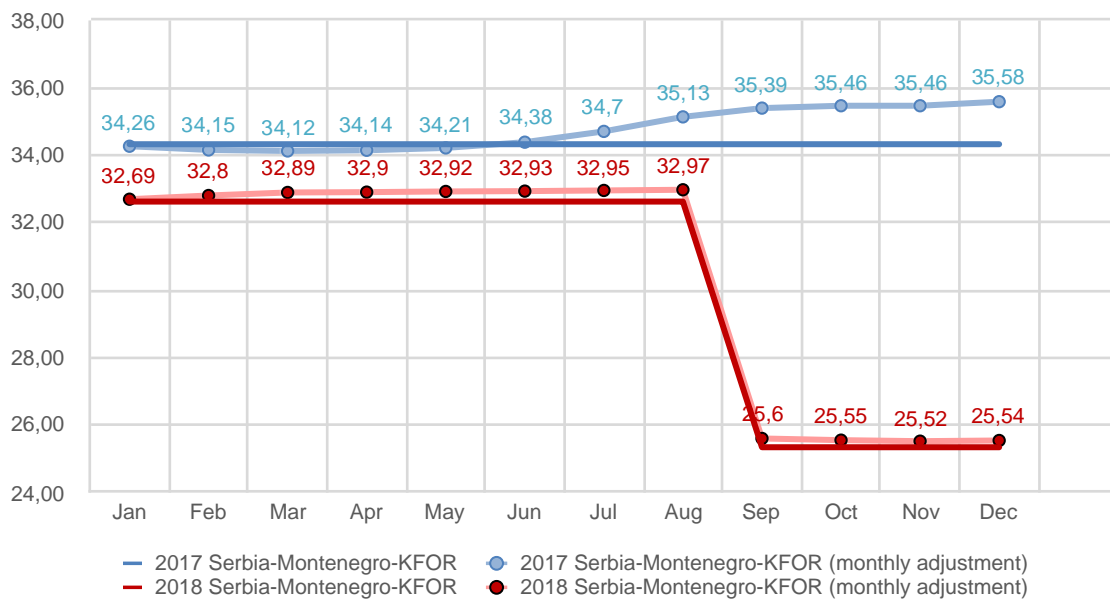


Figure 15. Unit rates for the "Serbia-Montenegro-KFOR" charging zone in 2017 and 2018

The determined value of the unit rate, which belonged exclusively to SMATSA LLC, amounted to approximately EUR 27.07 in the first eight months of 2018. After correction of the unit rate in the "Serbia-Montenegro-KFOR" charging zone, beginning in September 2018, part of the unit rate belonging to SMATSA LLC was reduced to EUR 22.28. Graphical presentation, on a monthly basis, of unit rate belonging exclusively to SMATSA is given below.

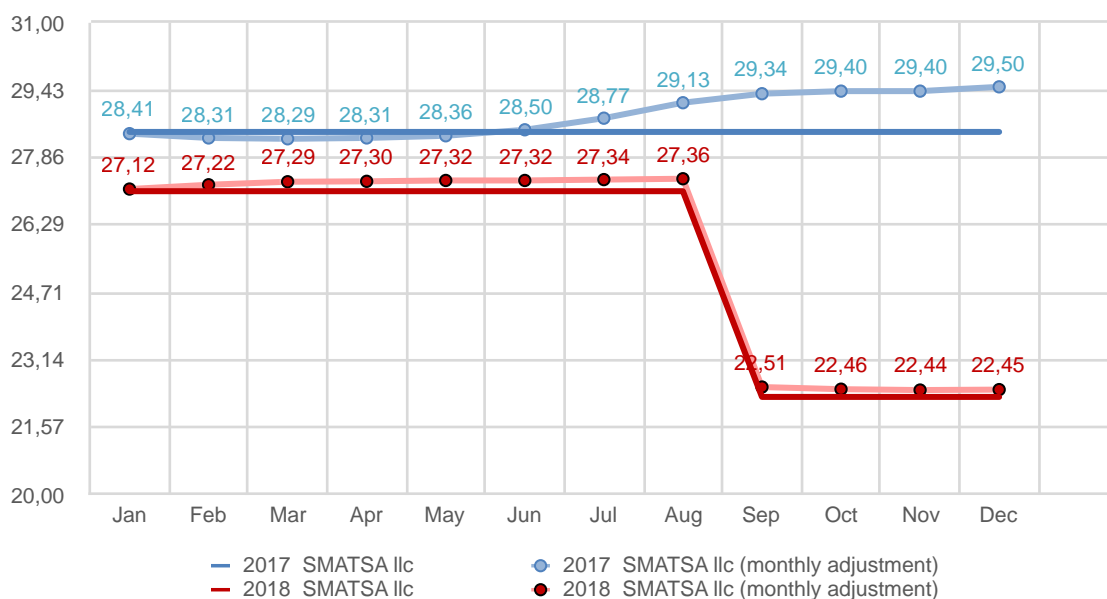


Figure 16. The unit rate for SMATSA Ilc in 2017 and 2018

4.8.1.3 Capacity

The capacity indicator assesses the efficiency of service provision in the area of responsibility of ANS providers. Efficiency is assessed based on the average delay time per IFR flight at FIR Belgrade generated by ATM. The document "European Network Operations Plan 2015-2019" defines the delay value for SMATSA LLC, which is less than 0.1 minutes per flight. Capacity indicators and their acceptable values are also defined at the national level by the aviation authorities of the Republic of Serbia.

Acceptable and accomplished values of the capacity indicators for 2018 are given in the following table.

Table 8. Capacity Indicators in 2018

Capacity indicator	Acceptable value	Accomplished value
Average delay time per IFR flight at FIR Belgrade generated by ATM	<0.1 minute / IFR flight	0.3 minute / IFR flight

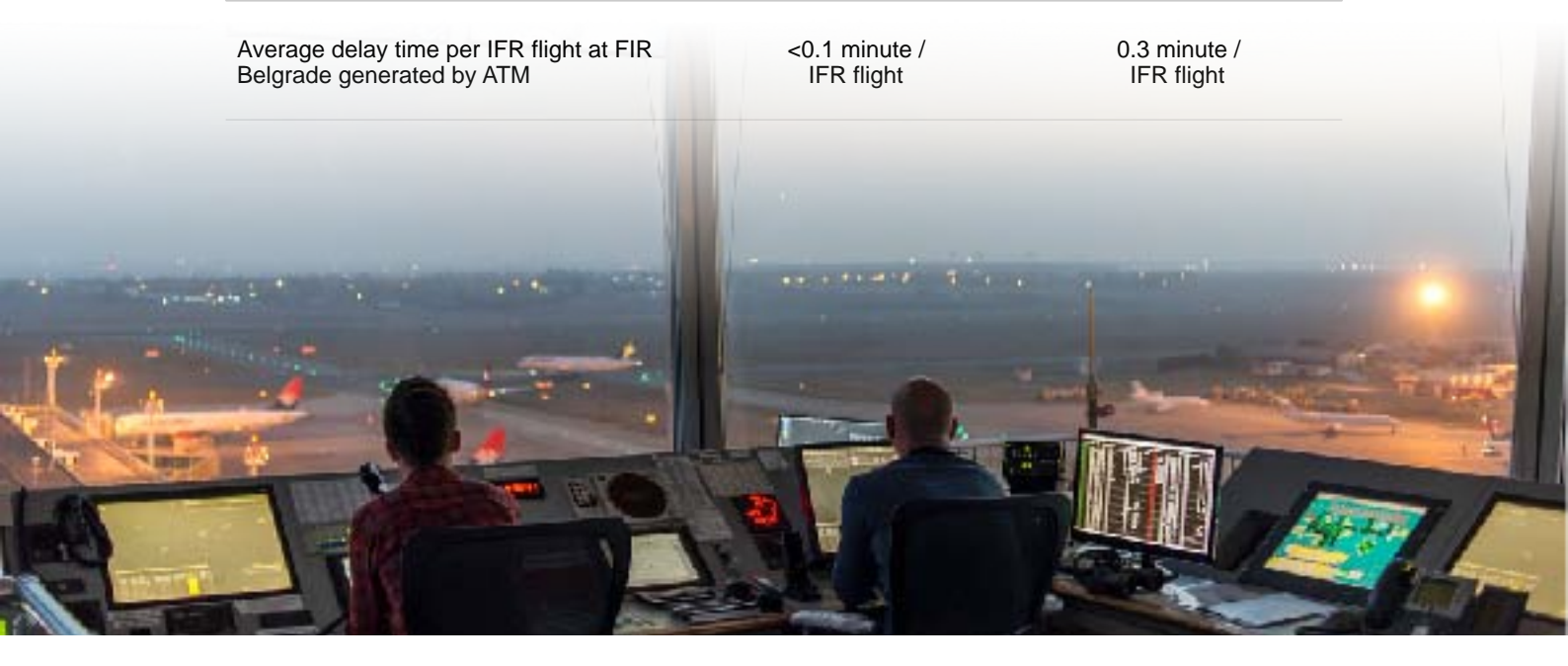




Figure 17. Average delay time per IFR flight at FIR Belgrade generated by ATM from 2015 to 2018.

The delay in 2018 was primarily influenced by extremely unfavourable meteorological conditions during the summer months, on the basis of which 158,516 minutes of delay were generated.

The following figure shows countries that in 2018 generated delays greater than 0.1 minutes per flight.



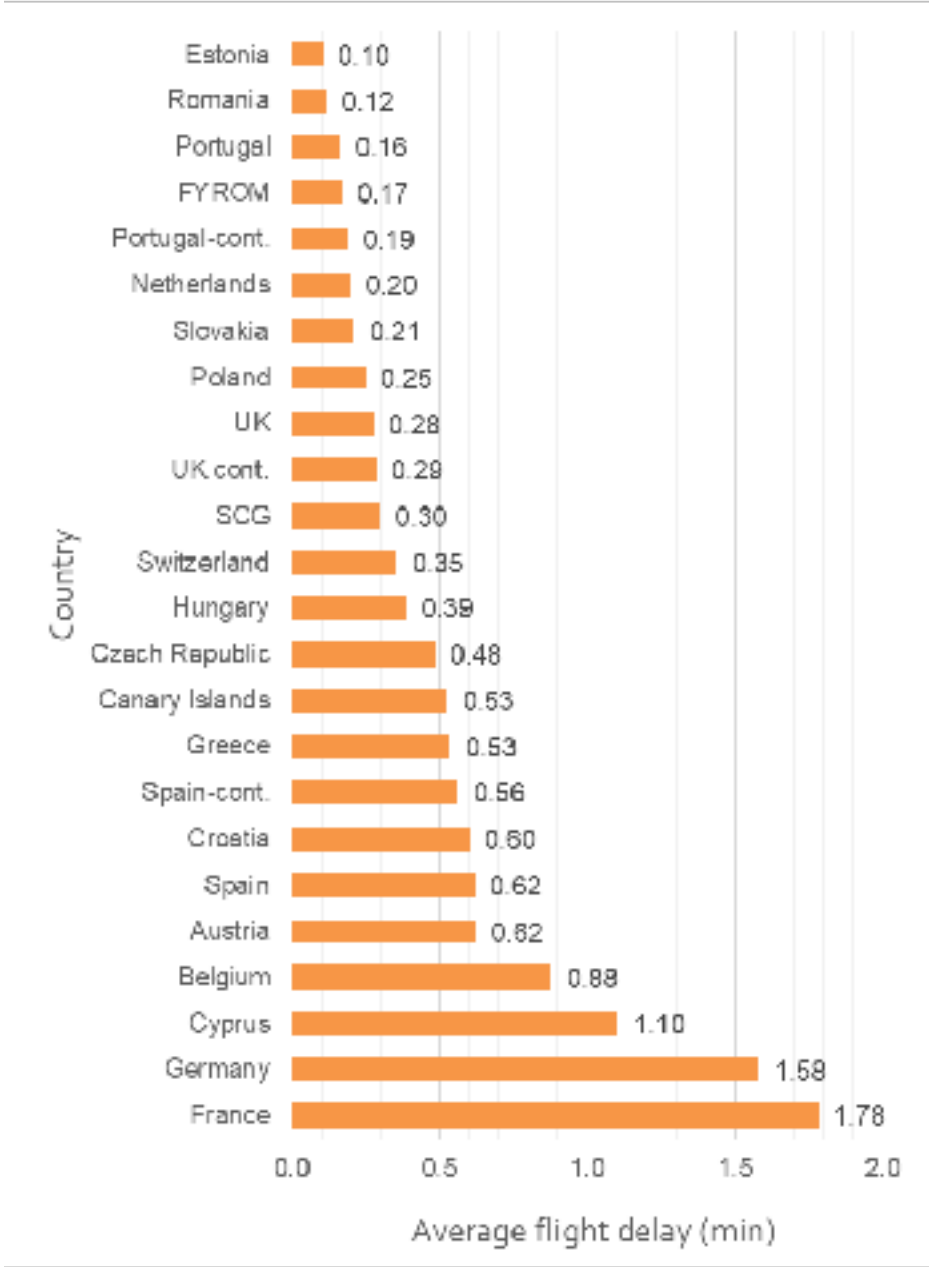


Figure 18. Average Delay per IFR flight generated by ATM in 2018 per country

4.8.1.4 Environmental protection

The assessment of the level of environmental protection is based on the average efficiency of the horizontal flight, indicator recognized in the regulations concerning the Performance Scheme under the Single European Sky regulation. In the second reference period (2015-2019), the target values of the indicators are defined in the following manner:

1. Key performance Environment indicator based on Actual trajectory. The average efficiency of the horizontal flight by 2019 is the deviation of the actual trajectory of 2.6% in relation to the long-circuit route.



Figure 19. KEA - Key performance Environment indicator based on Actual trajectory in Serbia and Montenegro in 2018

2. KEP - Key performance Environment indicator based on last filed flight plan. The average efficiency of the horizontal flight by 2019 is the deviation of the last delivered trajectory of 4.1% in relation to the long-circuit route.



Figure 20. KEP - Key performance Environment indicator based on last filed flight plan in Serbia and Montenegro in 2018

As shown in the figures, the values of KEA and KEP indicators for Serbia and Montenegro for 2018 are within the permitted values prescribed by the regulations.

4.8.2 Quality of Provided Services

The analysis of the quality objectives of SMATSA LLC is carried out on an annual basis. The results of the analysis of the fulfilment of the quality objectives for 2018, as set out in the regular meeting of the Quality Committee, are presented in the following table.

⁴¹⁵ Source of data: European ANS Performance Data Portal (<http://ansperformance.eu/>).



Table 9. Analysis of the fulfillment of quality goals for 2018

Service	Target	Planned	Realized	Note
	Average delay per IFR flight generated by SMATSA Ilc at annual level	Less than 0.095 minutes	NO	According to the source of the EUROCONTROL NMOC Database (Traffic and Delay per Country) during 2018, the average delay per one IFR flight generated by SMATSA Ilc amounted to 0.30497 min per IFR flight. The stated goal was not fulfilled because it was influenced by the weather conditions that were extremely unfavorable last year (many days of unfavorable activities that generated 158,513 minutes, or 74.76% of the total delay for the whole year).
ATM	Percentage of aircrafts taking off from the area of jurisdiction of SMATSA Ilc within the time tolerance of the issued slot	Higher than 83%	YES	According to the source of the EUROCONTROL NMOC database (Daily Slot Adherence to ATFM Slots per ADEP), in 2018, a value of 92.01% aircrafts taking off from the area of jurisdiction of SMATSA Ilc within the time tolerance of the issued slot, is achieved annually.
	The number of serious incidents, which were determined by an analysis as being caused by the ATM	Less than 5	YES	By inspecting the event database, which is kept in SAF.00 for 2018, it was found that a total of 371 events were reported, of which 16 required further analysis by department SAF.00. In the same period, there were 3 aircraft accidents, none with ATM participation. There was one event involving ATM that belongs to the category of serious incidents (a close encounter between airplane MGX200 (E190) and airplane YU-DZZ (PA28R) in Belgrade on 24/06/2018).
CNS	System availability of technical devices and systems within the competence of SMATSA Ilc directly affecting the provision of services	A(t) = 99.9%	YES	Despite the exceptions (individual deviations) from the desired system availability values, due to the application of individual and group redundancy of CNS devices and systems during 2018, it can be considered that the quality goal from the CNS domain has been met for all devices, systems and services that directly affect the provision of the services..
MET	Terminal Aerodrome Forecast (TAF)	According to ICAO Annex 3, Attachment B	YES	Results of the analysis of the Terminal Aerodrome Forecast (TAF): for LYBT 94.4%, for LYBE 94.6%, for LYVR 92.0%, for LYKV 95.4%, for LYNI 96.4%, for LYUZ 90.2%, for LYPG 97.1%, for LYTV 96.0%, or average for all airports 94.5%, thus achieving the desired operational accuracy provided in ICAO Annex 3, Attachment B.
AIS	Data Quality Assessment (Q)	Higher than 0.77	YES	Evaluation of quality is performed on a sample of 100 data. Average rating for this sample is 0.778.
TRE	Number of hours of theoretical instruction for the current year, for each enrolled group of candidates in the ANS Staff Training Canter	100%	YES	Theoretical training hours have been carried out in accordance with the appropriate Training Decisions. Initial Training was realized with 89%. Within this type of training, 4 trainings related to the admission of a new national class of CL class that were planned by the TRE in the spring of 2018 did not take place. The new CL class is planned for 2019.



Service	Target	Planned	Realized	Note
	The number of hours of practical training for the current year for each enrolled group of candidates in the ANS Staff Training Center	100%	YES	Practical training classes have been implemented in accordance with the appropriate Training Decisions.
	Percentage of realized classes of theoretical lessons in relation to the planned number of hours for the current year, for each enrolled group of candidates in the SMATSA Aviation Academy	100%	YES	The target has been realized 111%. In the regular and supplementary training courses and lectures in 2018, SMATSA Academy realized 4083 classes in theoretical lessons of the planned 3679 classes, which is being 5.78% more than the planned number of classes of PPL course, MCC course, lessons in aviation English language, as well as additional lectures. During the year, the Academy enrolled a total of 51 candidates, while throughout the period there were 134 candidates who were present constantly.
ATO	Respecting the planned deadlines for completing theoretical training for the current year at the SMATSA Aviation Academy	100%	YES	The deadline for all enrolled groups was met. All groups completed theoretical classes: JULIET 17, KILO 17, LIMA 17, PPL, FI, MEP and MCC. The new integrated software enabled the complete digital management of the theoretical training process (electronic diaries, attendance management), practical training (digital flight orders, digital flight plans and forms, etc.) and the financial segment in one integrated software package. The program of theoretical training is supplemented by a program that enables candidates to successfully master part of the theoretical exam in PBN Performance Based Navigation.
	Percentage of realized flight time in relation to the planned number of hours of flight for the current year, for each enrolled group of candidates in the SMATSA Aviation Academy	100%	NO	The realized flight time in 2018 was 5,266 hours, which is 16.7% less than planned (the plan was 6,315 hours), or less by about 22%, compared to the number of hours realized in the previous year. The difference in the achieved and planned flight time was due to the fact that four flight instruction trainers left the SMATSA Aviation Academy, the poor presence of the candidates (80%) in flight training, and poor weather conditions.
	Respecting the planned deadlines for completing flight instruction for the current year at the SMATSA Aviation Academy	100%	YES	The deadlines for all enrolled groups were met for all candidates who were regular in flight training.



Service	Target	Planned	Realized	Note
CAL	Realization of annual calibration plan	100%	YES	Annual calibration plan by assets has been realized 117%. The Calibration Service implemented a total of 335 regular calibrations and 29 extraordinary calibrations or 421h of flight time, of which 123h for own needs and 298 hours, or 232 calibrations, according to contracts with external users. The planned flight time was 508h, but the realization was lower due to the decision not to participate in the tender for Croatia.
MO	Fulfillment of work norms expressed in percentages in relation to the norms prescribed by the aircraft manufacturer	Higher than 97%	YES	The fulfillment of work norms was 100%. The goal was achieved due to better organization of work in accordance with the norms prescribed by aircraft manufacturers.
MO	Maximum Down Time due to technical malfunctioning of aircraft used by SMATSA Aviation Academy annually	Less than 120 business days	YES	Total Down Time due to technical malfunctioning of aircraft used by SMATSA Aviation Academy was 0 business days. In 2018, this result was achieved because there were no malfunctions outside the scope of periodicals on aircraft.

4.8.3 Additional Performance Indicators

In addition to the performance indicators covered by European and domestic regulations, i.e. quality objectives, SMATSA LLC monitors the performance of operations of certain areas based on internally determined business indicators. The values of additional indicators in relation to the set goals are shown in the following table.

Table 10 Additional Indicators/Performance Indicators in 2018

Indicators	Target value for 2018	Realized
STO 01- Improvement of air navigation management		
Number of overloads reported by flight controllers	< 20 per year	0
Respect of slots at Belgrade Airport (LYBE)	> 83%	89.7%
Respect of slots at Tivat Airport (LYTV)	> 83%	96.3%
Respect of slots at Podgorica Airport (LYPG)	> 83%	97.4%
Respect of slots at the Niš Airport (LYNI)	> 83%	100.0%
Air quality data score	> 0.77	0.78
Number of complaints from AIS users	< 13 per year	2
STO 03- Development of competitive commercial services		
Number of projects related to SESAR	> 1	2
Number of meetings held per year with flight control representatives in the environment	> 2	4
Number of projects within centralized services	> 2	N/A



Indicators	Target value for 2018	Realized
STO 04- Enhancing corporate social responsibility and environmental protection		
The percentage of waste that is handed over for some form of reuse or recycling in relation to the total amount of waste	40%	99.5%
STO 06- Improving the performance of the organization and resource management system		
Realization of procurement plan	>80%	58,54%
STO 07- Improvement and development of human potential		
Average number of days per year per employee spent at conferences or creative workshops	> 1.5	1.90
Average number of days in the year spent on training for operational posts (expressed per person)	> 3	3.38





5. Information Technology Management Systems

5.1 Information Technology

Within the information technology, a large number of activities have been implemented, which have contributed to the process of automation, protection of data and the corporate network, as well as the simplification of everyday activities and operations.

Throughout the entire year, the work was performed on a design of a comprehensive integrated information system, that is, the creation of documentation and the launching of a procurement process for the introduction of the information system in SMATSA LLC. The preparation of the tender documents for the implementation of the electronic registry office was also carried out.

In order to improve business processes, a new billing server was installed, which enabled the transfer and processing of data from the operating network into the administrative one, as well as the provision of specific data to certain services within SMATSA LLC.

For the needs of the SMATSA Aviation Academy, a new information system was installed to support the students' education process. This system covers all aspects of theoretical and practical teaching, exams, pilot academy students' flight time, as well as the keeping of all records on the status and obligations of students.

The LDAP system has been enhanced, enabling centralized storage and administration of data on users, work stations, groups, contacts and other objects, as well as centralized authentication. The transition of

servers, application solutions and data storage systems to FOSS (Free and Open Source Software) technologies has been completed.

For the needs of ATC Belgrade and ATC Podgorica, implementation of the application for creating the daily schedule used by the Shift Supervisors, as well as the implementation of the display of the daily schedule in real-time on the monitors, was performed. In Aerodrome Flight Controls, the Roster application was adapted and implemented, which allows the creation of a monthly schedule and effects.

An external computer application for entering and updating frequencies of active sectors of adjacent air traffic control units has been developed and implemented. It is possible to display these data in real-time at the operative control positions of the TopSky-ATC system. A hosting system for this application has been installed and maintained.

In 2018, the following systems were installed:

1. The latest generation of advanced protection of IT resources (Next-Generation Firewall);
2. The system for protecting critical web applications and defending against advanced HTTP attacks (Web Application Firewall);
3. The system for recovering user data and profiles;
4. Box portal for storing and sharing files.



In support of business processes in SMATSA LLC, the following application services were also being worked on:

1. The application for monitoring Contracts implementation was improved;
2. For the needs of the ACC Belgrade, a web application was developed and

implemented to familiarize with and verify unread INFO documents;

3. A new application service has been created for displaying Daily Lists of NOTAM Series A and Series C on the SMATSA LLC web site;
4. The new application service AIS-Publications was created for the user record of publications, printing, and invoicing.

5.2 Security

SMATSA LLC's strategic orientation is to achieve and maintain a high level of security within all business activities, and it relates to the security of employees, facilities and equipment, operational data and other important information, in order to prevent acts of unlawful interference targeting the services providing. This is accomplished through the establishment, maintenance and continuous improvement of the Security Management System SeMS, which in the most efficient way defines the organization, hierarchy, obligations and responsibilities from the aspect of security, as well as the monitoring, evaluation, modification and improvement of the established aviation security measures.

As part of the security, in 2018, a number of activities were implemented in terms of improving security - control of access to facilities, remote and video surveillance, physical security, as well as activities related to fire protection and safety and health at work.

During the year, installation of a video surveillance system in the technical room and the operating room of the ACC Belgrade was carried out and in the control cab of the ATC Belgrade. An access control system for the simulator room was installed and programmed in the ANS Training Center. The testing and

functional trial of the fire alarm and fire extinguishing system were carried out in the facilities: ATC Ponikve, ANS Training Center, and EE Station Belgrade.

The representatives of SMATSA LLC participated in the inspection and checking of the CAD of the Republic of Serbia, the CAA of Montenegro, the Mol of Serbia - Emergencies Sector as well as the labour inspections. In order to improve aviation security measures, coordinate their implementation and harmonize the activities of the authorities and organizations responsible for the implementation of aviation security measures, during the year, SMATSA took part in the meetings of the National Aviation Safety Committee, Airport Safety Committees as well as in a full-scale security exercise "Abduction of aircraft" organized by the CAA of Montenegro at Podgorica airport.

In the area of safety, in mid-2018, the following employee training courses in the SMATSA LLC were conducted:

1. Aviation Safety Training for SMATSA staff that has access to restrictive airport zones and critical information technology, conducted by a security service trainer -



an authorized trainer in the field of aviation security (a total of 18 employees),

2. Training in aviation safety according to the National Civil Aviation Safety Program of Montenegro (19 SMATSA employees in Montenegro were trained),
3. Basic training in fire protection, safety and health at work and aviation safety for all new employees.





6. Consultation with Users

6.1 Air traffic management - ATM

On the occasion of the implementation of the SECSI FRA initiative, SMATSA LLC held a meeting with representatives of domestic users on January 22, 2018, presenting the possibilities that the new SECSI FRA initiative provides, with a special preview of the expected effects that it should have on daily operations of airlines. The meeting was attended by representatives of national supervisory bodies and representatives of most of the airlines registered in Serbia and Montenegro (Air Serbia, Montenegro Airlines, Aviation service of the Government of the RS, Aviation service of of the Government of Montenegro, Airpink, Prince Aviation, Infinity Aviation, Eagle Express).

6.2 Aeronautical Information Service - AIS

User satisfaction survey analysis is performed on the basis of quarterly reports on the quality of data from INO, SDO and PAMS applications of the European AIS database, user complaints, and on the basis of User Satisfaction Questionnaire.

1. INO module of the European AIS database

The analysis of published NOTAM, which is made by the EAD quarterly in the period October 2017 - September 2018, covered 359 NOTAMs. Nine errors were found, which is 0.75 errors per month. The cause of these errors is human error, not inadequate procedure. Following the analysis, every three months a conversation with the agents of the NOTAM Bureau is conducted, particularly indicating the errors made, in order to avoid repeating such errors. The trend of errors made varies, but the average of 0.75 errors per month seems acceptable.

2. User complaints

In accordance with the valid procedure, the complaint analysis was completed

conclusive with 31 December 2018. In 2018, two complaints were received regarding the provision of aeronautical information services. No objection was related to security threats due to errors in the provision of aeronautical information services (one complaint relates to incomplete and the other one to untimely information). The analysis did not determine the existence of any systemic problem or objection of a higher frequency.

3. Customer satisfaction questionnaire

AIS checks customer satisfaction regularly by sending standardized questionnaires. When it comes to 2018, 26 completed questionnaires on user satisfaction were received. Of these, 19 respondents rated our service with the rating - excellent, 6 with the rating - good, and 1 with the rating - satisfactory. The individual requests of the users are regularly matched responded to. The individual requests of the users are regularly responded to.



6.3 Aeronautical Meteorological Service - MET

During the work on the eGAFOR Project, in the first half of 2018, several formal meetings with users in the Republic of Serbia and Montenegro were organized. During these meetings, a real low-altitude flight route network was defined for which the eGAFOR product will be generated. At the same time, by filling out a questionnaire prepared in advance, the users expressed their needs for forecasting certain meteorological elements in the future eGAFOR product.

6.4 SMATSA Aviation Academy

User satisfaction survey in 2018 was carried out through a questionnaire after the completion of the training. The results of the polling sample of 23 candidates for pilots training are presented in the following table.

Table 11. Results of the Pilot Training User Satisfaction Survey within SMATSA Aviation Academy in 2018

Domain	Not satisfied	Neutral	Satisfied	Very satisfied
Knowledge before arriving at the Academy	6	8	4	5
Knowledge after completion of the Academy	1	1	7	14
Theoretical instructors	1	2	12	8
Teaching and learning aids	1	5	9	8
Textbooks	4	4	9	6
Flying skills acquired	1	0	7	15
Flight instructors	1	1	6	15
Flight training organization	3	3	10	7
Daily organization	2	4	10	7
Briefings and debriefings	1	1	9	11
General assessment of the entire training	1	0	12	10

6.5 Calibration of GRNS from the air

The satisfaction of users regarding calibration of GRNS from the air is carried out on the basis of data obtained from the survey, which was filled out by 8 users from Hungary, Bosnia and Herzegovina and FYROM in 2018. Based on the survey data, the average rating of the quality of the calibration of GRNS from the air is 4.94 for 2018.

Table 12. Results of the User Satisfaction Survey on calibration of GRNS from the air in 2018

Activity	Average rating
Degree of coordination of activities before, during, and after the calibration of GRNS	5.0
Quality of crew communication with the technical staff on the ground during the calibration of GRNS	5.0
Quality, completeness, and timeliness of reports on calibration of GRNS	4.9
Coordination of planned and realized activities	4.8
Response to additional requests	5.0

Based on the ratings obtained from the survey, it can be concluded that the calibration GRNS from the air for foreign contracting authority were performed very professionally and with high quality in 2018.





7. Financial Statements

Financial statements of SMATSA LLC. represent a pool of information on the financial position, profitability, capital changes and cash flows of SMATSA LLC. That is a functionally and timely completed whole of business processes taking place in one year and makes the basis of each rational analysis.

Hereunder, there are Financial Statements for 2018, covering the income statement, balance sheet and cash flow report.

There is a comparison of the results with the results of previous years, and the 2018 plan with the aim to follow the trend of business indicators of operations and realisation of the set goals.

7.1 Income Statement

Table 13, Income Statement for the period 1 January – 31 December 2018 (in 000 RSD)

Elements	2017 Realization	2018 Plan	2018 Realization	2018 Realization/ 2018 Plan	2018 Realization/ 2017 Realization
I Operating income	9,964,261	9,702,303	9,664,818	100%	97%
Income from sale	9,578,438	9,298,956	9,316,494	100%	97%
Domestic market	382,608	432,783	364,251	84%	95%
Foreign market	9,195,830	8,866,173	8,952,243	101%	97%
Other operating income	385,823	403,347	348,324	86%	90%
II Operating expenditures	9,199,785	9,695,500	9,245,732	95%	100%
Costs of material	74,490	70,500	66,323	94%	89%
Fuel and energy	141,269	148,000	143,663	97%	102%
Wages, wage compensations and other personal expenditures	5,799,412	6,170,000	5,998,004	97%	103%
Cost of production services	1,059,681	1,136,500	1,106,801	97%	104%
Depreciation costs	1,227,123	1,222,000	1,071,073	88%	87%
Long-term provisions	87,747	90,000	128,620	143%	147%
Non-production costs	810,063	858,500	731,248	85%	90%
III Operating profit	764,476	6,803	419,086	6160%	55%
IV EBITDA	1,991,599	1,228,803	1,490,159		
% EBITDA	19.99%	12.67%	15.42%		
VI Effect of financial revenues and expenditures	134,823	-109,885	-34,956		
VII Effect of other revenues and expenditures	22,374	226,230	-67,277		
VIII Profit from regular operation before tax	921,673	123,148	316,853		
IX Net loss of discontinued operation, correction of errors, etc.	-22,527	0	-72,127		
X Tax expenditure	203,500	109,202	212,748		
XI Net profit	695,646	13,946	31,978	229%	5%



The year ended with the operating profit of RSD 419,086 thousand. On the one hand, the result is significantly better than the planned one, and on the other hand, the operating profit in 2018 was 55% of the realised profit in the previous year. The net profit, though higher than planned, is significantly lower compared to 2017.

Compared to 2017, in 2018 there was a reduction of the EBITDA margin from 20% to a bit higher than 15% which is above the planned value of almost 13%. The EBITDA margin is an estimation of the operating profitability of a company, which can be obtained by dividing the EBITDA by the operating income.

Operating income is on the level of the planned value in 2018, while the realisation of revenues in 2018 make 97% compared to 2017.

Observed by categories, 84% of the planned income were realised from sale on the domestic market, and the realised income in this category is 5% lower than the one of the last year. This is a consequence of lower participation of domestic companies in the terminal than expected. The income from sale on foreign market in 2018 is on the level of the planned but compared to 2017 it is lower by around 3%. Realisation of income from sale on foreign market is primarily the result of reduced income from provision of services in the airspace of Bosnia and Herzegovina, as the income from route fees in the Serbia/Montenegro/KFOR billing area is at the level of 2017, while the income from foreign customers in the terminal is higher than in 2017.

Realisation of costs of wages, wage compensations and other personal expenditures makes 97% of the value that was planned in the Financial plan for 2018, i.e. it is by 3% lower primarily due to the lower realisation of costs of wages and wage compensations, costs of temporary service

contracts, costs of business trips and severance costs. In addition to that, the realisation of costs of wages and wage compensations was also affected by a lower realisation of the human resource plan in 2018.

The realisation of costs of depreciation is 88% of the planned value, i.e. it is by 12% lower than the planned value in 2018, due to the realisation of the investments in 2018 of around 60% of the planned amount. In addition to that, the reduction of costs of depreciation was also affected by the correction of assessment of the life span of devices and equipment.

The realisation of intangible costs in 2018 is 85% of the planned value, i.e. it is by 10% lower than in 2017. This result was mostly affected by the planned Euro exchange rate of RSD 121.70 and consequently planned negative exchange rate differences that were not realised.

The realisation of costs of material in 2018 is 94% of the planned value, i.e. it is by 11% lower than in 2017, which is particularly due to the delay in carrying out public procurement procedures and the dynamics of the requisition of spare parts from the warehouse.

Small deviations have been registered in the items of costs of manufacturing services and costs of fuel and energy.





7.2 Balance Sheet

Table 14. Balance Sheet on 31 December 2018 (in 000 RSD)

Assets		2017	2018
Fixed assets		14,241,070	14,967,560
I	Intangible investments	90,120	90,966
II	Property, plants and equipment	14,150,950	14,876,594
III	Long-term financial placement	0	0
Long-term receivables			
Current assets		3,840,375	3,108,257
I	Inventory	179,077	177,095
II	Receivables from sales	1,483,012	1,362,005
III	Claims from specific deals and other claims	20,088	14,962
IV	Short-term financial placement	0	0
V	Cash	1,969,208	1,427,318
VI	Value added tax	147,005	56,783
VII	Prepayments and accrued income	41,985	70,094
Total assets		18,081,445	18,075,817
Off-balance sheet assets		885,440	837,082
Liabilities		2017	2018
Capital		14,148,794	14,148,874
I	Original capital	1,873,820	1,873,820
II	Reserves	507,044	507,044
III	Revaluation reserves	3,431,245	3,418,341
IV	Non-realized gains/losses	-26,268	-58,961
V	Retained profit	8,362,953	8,408,630
	Retained profit of earlier years	7,514,952	8,362,953
	Retained profit of current year	848,001	45,677
Long-term provisions and liabilities		1,693,535	2,207,996
I	Long-term provisions	818,786	916,198
II	Long-term liabilities	874,749	1,291,798
Deferred tax liabilities		598,471	589,101
Short-term liabilities		1,640,645	1,129,846
Short-term financial liabilities		483,653	430,982
Received advances		210,592	141,051
Liabilities from operation		471,995	502,897
Other short-term liabilities		430,925	15,279
Liabilities based on VAT, other public revenues		40,427	34,667
Accruals and deferred income		3,053	4,970
Total liabilities		18,081,445	18,075,817
Off-balance sheet liabilities		885,440	837,082



The Balance sheet reflects the financial structure/strength of the company, in terms of changes in what the company owns (assets) and what it owes (liabilities). The elements of the Balance sheet are assets, capital and liabilities.

Fixed assets in 2018 were almost 5% higher than in 2017, mostly based on the investment in the improvement of the TopSky system, reconstruction of the radar station Koviona, construction of electrical energy plants and power transformer stations.

In the structure of current assets, receivables from sale and cash make almost 90%.

Total liabilities are almost at the same level as in the previous year.

In 2018, SMATSA LLC withdrew funds from a loan amounting to RSD 887,406 thousand, while in the same year it paid RSD 519,621 thousand for loan servicing.

Retained profit of the current year was RSD 45,677 thousand, while this item in the previous year was RSD 848,001 thousand.

7.3 Cash Flow Report

Table 15. Cash Flow Report for the period 1 January – 31 December 2018 (in 000 RSD)

Item	ADP	Amount	
		Current year	Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash flow from operating activities (1 to 3)		10,241,126	10,805,199
1. Sale and advances received	3001		
1. Sale and advances received	3002	9,422,937	9,971,886
2. Received interests from operating activities	3003	4,561	28,463
3. Other inflows from operating activities	3004	813,628	804,850
II. Cash outflows from operating activities (1 to 5)	3005	9,356,268	8,881,468
1. Payments to suppliers and advances made	3006	2,507,750	2,609,021
2. Wages, wage compensations and other personal expenditures	3007	6,577,568	6,148,997
3. Paid interests	3008	47,014	63,462
4. Profit tax	3009	223,936	59,988
5. Outflows based on other public revenues	3010		
III. Net cash inflow from operating activities (I-II)	3011	884,858	1,923,731
IV. Net cash outflow from operating activities (II-I)	3012		
B. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from investment activities (1 to 5)	3013	-	-
1. Sale of shares and stakes (net inflows)	3014		
2. Sale of intangible assets, buildings, plants, equipment and biological assets	3015		



3. Other financial placement (net inflows)	3016		
4. Interest received from investment activity	3017		
5. Received dividends	3018		
II. Cash outflows from investment activity (1 to 3)	3019	1,794,060	1,754,120
1. Purchase of shares and stakes (net outflows)	3020		
2. Purchase of intangible assets, buildings, plants, equipment and biological assets	3021	1,794,060	1,754,120
3. Other financial placements (net inflows)	3022		
III. Net cash inflow from investment activity (I-II)	3023		
IV. Net cash outflow from investment activity (II-I)	3024	1,794,060	1,754,120
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (1 to 5)	3025	887,406	-
1. Increase of original capital	3026		
2. Long-term credits (net inflows)	3027	887,406	
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	519,621	822,830
1. Redemption of own shares and stakes	3032		
2. Long-term credits (outflows)	3033	519,621	822,830
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	367,785	
IV. Net cash outflow from financing activity (II-I)	3039		822,830
G. TOTAL CASH INFLOW (3001 + 3013 + 3025)	3040	11,128,532	10,805,199
D. TOTAL CASH OUTFLOW (3005 + 3019 + 3031)	3041	11,669,949	11,458,418
Đ. NET CASH INFLOW (3040 – 3041)	3042		
E. NET CASH OUTFLOW (3041 – 3040)	3043	541,417	653,219
Ž. CASH AT BEGINNING OF THE ACCOUNTING PERIOD	3044	1,969,208	2,629,516
Z. EXCHANGE RATE GAINS BASED ON CASH CONVERSION	3045		
I. EXCHANGE RATE LOSSES BASED ON CASH CONVERSION	3046	473	7,089
J. CASH AT THE END OF THE ACCOUNTING PERIOD	3047	1,427,318	1,969,208



7.4 Ratio indicators

Table 16. Liquidity indicators – recommended, realized and target values

Liquidity indicators	Recommended value	Realized in 2017	Realized in 2018	Target value in the Financial Plan for 2018
General liquidity ratio (Current assets / Short-term liabilities)	>2	2,34	2,75	2,04
Special liquidity ratio (Claims and cash / Short-term liabilities)	>1	2,12	2,48	/

General liquidity ratio (current liquidity ratio) is the ability of a company to use the total available current assets to settle its short-term liabilities (in the period of one year). If a company has the results of the general liquidity ratio over 2, it means that it has a good ability to service short-term liabilities. General liquidity ratio also shows the amount of RSD of current assets that covers the RSD amount of short-term liabilities.

In 2017, the general liquidity ratio for SMATSA LLC was 2.34, and in 2018 it increased to 2.75, i.e. every single dinar of short-term liabilities in 2018 was covered by 275 dinars of current assets.

Special liquidity ratio (reduced/rigid liquidity ratio) I used when analysing the abilities of a company to use the assets that can be quickly turned into cash (most liquid assets) to cover short-term liabilities. The stocks are not included in the indicator since they are considered difficult to sell in the short-term period. Special liquidity ratio shows how many dinars is each dinar of short-term liabilities covered- if a company has the result of the general liquidity ratio over 1, it means that it operates successfully.

In 2017, special liquidity ratio for SMATSA LLC was 2.12, while in 2018, an increase was registered to 2.48, i.e. each dinar of short-term liabilities was covered by 2.48 dinars of liquid assets.



Table 17. Indicators of financial security – recommended, realized and target values.

Indicators of financial security	Recommended value	Realized in 2017	Realized in 2018	Target value in the Financial plan for 2018
Ratio of financial security (Own resources / Resource sources)	the bigger the ratio value, the better	0.7825	0.7828	/
Ratio of long-term debt towards personal capital Long-term liabilities/ fixed capital	<1	0.47	0.69	1.09
Indebtedness ratio (Borrowed sources/total sources (%))	the lower percentage of borrowed assets the better	13.91%	13.40%	19.64%
Debt ratio (EBRD) Long-term+short-term / Personal capital	<1	0.10	0.12	/
Debt ratio (EIB) Total borrowed sources – Cash / EBITDA (Business profit +Depreciation)	<3.5	-0.31	0.20	/

A higher value of the ratio of financial security shows that a larger part of the assets is financed by personal sources of financing. In the observed years, SMATSA LLC has the value of this ratio on the range 0.7825-0.7828, which shows that a larger part of the funds is financed by own sources of financing, i.e. that there is a smaller financial risk due to a lower presence of borrowed sources in the asset structure.

It is desirable that the value of the ratio of long-term debt towards the fixed assets is lower than 1 since otherwise, the value of long-term liabilities exceed the value of the fixed assets. The value of the ratio of long-term debt towards the fixed assets in case of SMATSA LLC was less than 1 both in 2017 and in 2018, which is a positive indicator of this ratio.

When it comes to the indebtedness ratio, a smaller percentage of borrowed funds shows that a smaller part of the funds was financed from borrowed sources of financing. In case of indebtedness ratio, in 2017, the borrowed funds make 13.91% of the total sources of funds, while that percentage is insignificantly lowered next year so in 2018 it is 13.40%, which means that the indebtedness is almost at the same level in the observed period.

EBRD debt ratio indicates the fact of what percentage of borrowed funds, i.e. with which level of indebtedness the procurement of funds i.e. property was financed. The level of indebtedness shows the ability of a company to cover all its liabilities towards creditors and investors. A higher level of indebtedness also means a higher investment risk in the company. The value determined by the Loan Agreements between SMATSA LLC and EBRD means that the value of the ratio should not be higher than 1. In the case of SMATSA LLC, in 2017, the number of liabilities compared to the total assets is 10%, while in 2018 the liabilities were 12% of the total assets.

EIB debt ratio shows how many years it takes for the company to settle its financial liabilities if the net debt and EBITDA are kept constant (not more than 3.50).



Table 18. Profitability indicators – recommended, realized and target values

Profitability indicators	Recommended value	Realized in 2017	Realized in 2018	Target value in the Financial plan for 2018
Business loss rate (Business profit /Business revenues)	the higher the rate the better	7,67%	4,34%	/
Net profit rate (Net profit / Business revenues)	the higher the rate the better	6,98%	0,33%	/

Business profit rate excludes the effects of financial and other revenues and expenditures on operations and is positive in 2017 with 7.67% and in 2018 with 4.34%.

Net profit rate (profit margin) contains the data on which part of each dinar of the net sale revenues remains for a concrete inter-result (gross, business or net). As demonstrated in the tables the net profit rate in 2017 is significantly higher than in 2018, but in both mentioned years, a positive financial result was achieved.

7.5 Notes to Financial Statements

7.5.1 The basis for preparing the financial statements

Financial statements for 2018 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, guidelines, comments, opposing opinions, developed examples, nor other supplementary, explanatory material that can be adopted in relation to standards and interpretations, unless explicitly stated that such material is an integral part of the standard i.e. interpretation. Based on 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 2015 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”.

According to the aforementioned, and having in mind the potential financial effects that a non-compliance of the accounting regulations of the Republic of Serbia with the IFRS and IAS may have on reality and objectivity of financial statements of SMATSA LLC, the submitted financial statements may not be considered financial statements fully aligned with IFRS and IAS.

Financial statements are prepared in line with the concept of historic expenses, modified for revaluation of property, plants 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 2018 of the Flight Control of Serbia and Montenegro SMATSA LLC Beograd for the accounting period ending 31.12.2018, 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.

The 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 effective 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, which are applicable to the periods shown in the enclosed financial statements.

Audit of financial statements of SMATSA LLC for 2017 was performed by the audit and consulting firm Moore Stephens Revision and Accounting LLC, Studentski trg 4/V, Beograd. 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 31.12.2017, 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 2017, together with the Report of the independent auditor Moore Stephens Revision and Accounting LLC, Decision of the General Meeting of Shareholders of SMATSA LLC on adopting the Financial Statements for 2017, the Decision of the General Meeting of Shareholders of SMATSA LLC on distribution of profit into retained earnings and the Business Results report for 2017 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 the application of certain key accounting estimates. It also requires that the Management use its judgment in applying accounting policies of SMATSA LLC.

Errors from previous years did not affect the financial statements for 2017 but were recorded in accounts of group 59 and 69 in the financial statements for 2018.

7.5.2 Overview of Key Accounting Policies

7.5.2.1 Intangible investments

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

Procurement of intangible investments 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. The cost price of intangible assets produced by the company itself consists of direct cost and the relevant indirect costs that relate to those investments.

Cost of borrowing that has 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 investments 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 investments 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 investments and are subject do depreciation.

The subsequent loss that relates to the already recognized intangible investments 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 the sale and the stated amount and is recognized as revenue or expenses in the profit&loss account.

Impairment of intangible investments 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.

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 investments 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 investments that are subject to depreciation is done by implementing the proportional method within five years, except for the investment 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 the calculation of depreciation of intangible investments is the purchase value reduced by the accumulated depreciation and total loss due to impairment.

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

Name	Depreciation rate %
Licenses	14,28-100
Licensed software	10-33,33
Project documentation	14,28-20



The depreciation rate for intangible assets can be amended and supplemented only based on 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 based on 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 – Intangible assets. The license agreement regulates the item that is licensed by the licensor and the obligation of the licensee. The fee payable by the licensee is an intangible investment 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 the software are capitalized as a part of a software product. Another cost of development that cannot meet the criteria is recognized as an 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.

7.5.2.2 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. The 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. The 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 or investments whose amount is maybe significant, and which consist primarily of the cost of labour, 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 the 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 – Property, plant, and equipment, 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 – Property, plant and equipment, 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 life 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.

The last evaluation of the value of property, plant and equipment was carried out on 1 January 2017.

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

Name	Depreciation rate 2018	Depreciation rate 2017
Buildings	0,24 - 100 %	0,24 - 100 %
Equipment	5,56 - 50 %	5,56 - 50 %
Vehicles	10 – 50 %	10 – 50 %
Computer equipment	14,28 - 50 %	14,29 - 50 %
Furniture	10 – 50 %	10 – 50 %
Other equipment	2,50 – 50 %	2,50 – 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 the tax is performed 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 a 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 based on 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 any indication of whether an asset is maybe impaired. If such an indication exists, SMATSA LLC estimates the number 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 another purpose, the expense for the period is recognized as a loss amount from decreased value.

If on the balance sheet date there are indications that the previously recognized loss from a 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 performed by a licensed assessor, 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.

7.5.2.3 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, but 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 calculatedly 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.

7.5.2.4 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.

7.5.2.5 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.



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.

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 the consumer price index, in accordance with IAS 29 – Financial reporting in hyperinflation economies.

7.5.2.6 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 the collectability 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 an 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. The 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 based on 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 Beograd (FIR Beograd) 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.



7.5.2.7 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.

7.5.2.8 Off-balance-sheet assets and liabilities

Off-balance-sheet asset/liabilities include a record of:

- received guarantees, issued guarantees, counter-guarantees and liabilities related to it.

7.5.2.9 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 the euro exchange rate, although the value entered in the register is in euros.

7.5.2.10 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 the provision of services in air traffic in the space of Serbia and Montenegro.

7.5.2.11 Revaluation reserves

Revaluation reserves include positive effects of changes in the (fair) value of property, plant, equipment, intangible investments and other financial instruments. According to IAS 16 – Property, plant and equipment and IAS 38 – Intangible property, 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. The 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.

7.5.2.12 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 – Accounting policy, 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

7.5.2.13 Provisions

Long-term provisions include 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),

Long-term provisions 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 number of future expenses necessary for settlement is 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 – Employee Benefits, payments for severance pays and jubilee pays are not recorded as an expense for the period in which 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.

7.5.2.14 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 another 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 qualifiable 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 – Borrowing costs, 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 date 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 short-term financial liabilities).
- short-term operating liabilities (suppliers and other operating liabilities). SMATSA LLC has booked all liabilities to local and foreign suppliers;
- other short-term 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

During initial recognition, SMATSA LLC measures the 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 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.

7.5.2.15 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 the capital. In that case, tax is also recognized in the capital.

Current profit tax is calculated on the balance sheet date based on the applicable tax laws of the Republic of Serbia, where SMATSA LLC operates and generates taxable profit.

Deferred profit tax is factored in full amount, by using a liabilities method, for a temporary difference that arises between the tax basis



for assets and liabilities and their carrying value in financial statements.

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.

7.5.2.16 Revenues 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. Profits are recognized on a nett basis, after being reduced for the relevant expenses.

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 the 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.

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 service on the day of netting.

Interest revenue is recorded on a time proportionate basis.

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

SMATSA LLC records on the account 692 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 692 are reclassified at the expense of the retained earnings account if they constitute a materially significant error.

Total operating expenses are the 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 a decrease 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 a disaster, 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 the exchange rate of 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 a net basis, after a decrease for the relevant revenue.

7.5.2.17 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 another 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).

7.5.2.18 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.

7.5.2.19 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.

7.5.3 Financial risk management

7.5.3.1 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. SMATSA LLC is most often faced with joint actions of several financial risks, which consequently brings to the situation that SMATSA LLC cannot fully foresee them. SMATSA LLC's risk management is focused on efforts to minimize potential adverse effects on the financial operation of SMATSA LLC in the situation of unpredictable financial 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.

SMATSA LLC's management makes its business decisions in a timely and precise manner and in doing so protects itself from credit risk and market risk.

7.5.3.2 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 (in line with the planning and strategic documents of SMATSA LLC) 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.

7.5.3.2.1 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 an international environment) and changes in interest rates. 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.

SMATSA LLC has the obligation to protect its total exposure to the risk of a change in the exchange rate of foreign currencies by the adoption of a rulebook and timely decisions.

Categories of financial instruments (in 000 RSD)

	31 December 2018	31 December 2017
Financial funds		
Receivables from buyers	1,362,005	1,483,012
Other receivables	14,962	20,088
Given advances	12,555	12,455
Cash and cash equivalents	1,427,318	1,969,208
	2,816,840	3,484,763
Financial liabilities		
Long-term loans	1,291,798	874,749
Part of long-term loans which mature in one year	430,982	483,653
Liabilities to suppliers	502,808	471,906
Other liabilities and received advances	141,140	210,681
	2,366,728	2,040,989



Key financial instruments of SMATSA LLC are cash and cash equivalents, receivables, 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 2019.

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 99.76%

The percentage of collection for terminal services provided to foreign customers was approximately 90.35% (Montenegro Airlines paid 11 out of 12 invoices for 2018) and from local customers approximately 99%.

7.5.3.2.1.1 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, largely, 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 slightly to the changes in the exchange rate of the US dollar (USD). Financial assets are structurally composed mostly of uncollected receivables from buyers (mostly debts of 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 mostly recorded in a foreign currency and liabilities to suppliers for fixed monthly liabilities (electricity, telephone and mail, fuel, etc.) are recorded in the local currency. These assets and liabilities are subject to the exchange rate as of 31.12 of the current year and exchange rate gains or losses are booked on that basis. The business result depends partly on financial revenues and expenses. The percentage of share of positive exchange difference in the total revenue in 2018 was 0.16% (in 2017 1.73%).

Percentage of the share of negative exchange difference in the total expenses in 2018 was 0.19% (in 2017 2.14%).

Carrying value of monetary assets and liabilities denominated in a foreign currency on the date of financial statements in SMATSA LLC was the following:

	Assets in 000 RSD		Liabilities in 000 RSD	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
EUR	3,638,948	4,733,823	2,122,310	1,779,712
CAD				
USD		31	3,783	346
GBP	127	200	223	38
CHF		161		
	3,639,075	4,734,215	2,126,316	1,780,96



7.5.3.2.1.2 Interest risk

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

Carrying value of financial assets and liabilities at the end of the observing period is provided in the overview below:

In 000 RSD

	31 December 2018	31 December 2017
Financial asset		
<i>Non-interest bearing</i>		
Receivables from buyers	1,362,005	1,483,012
Other receivables	14,962	20,088
Given advances	12,555	12,455
Cash and cash equivalents	1,427,318	1,969,208
	2,816,840	3,484,763
Financial liabilities		
<i>Non-interest bearing</i>		
Liabilities towards buyers	502,808	471,906
Long-term provisions for remunerations and other benefits for employees	916,198	818,786
Other liabilities and received advances	196,056	685,086
<i>Fixed interest rate (EIB)</i>		
Long-term loans	404,710	874,749
Part of long-term loans which mature in one year	430,982	483,653
<i>Variable interest rate (EBRD)</i>		
Long-term loans	887,088	
Part of long-term loans which mature in one year		
	3,337,842	3,334,180

7.5.3.2.2 Credit risk

SMATSA LLC assesses that out of all risks the financial instruments may be exposed to, the biggest one is the credit risk, which is a risk which can lead to the situation when debtors will not be able to settle their debts fully and timely, which would consequently lead to a

financial loss for SMTSA LLC. Exposure of SMATSA LLC to this risk is limited to the number of receivables from buyers on the accounting reference date.

SMATSA LLC harmonises its receivables only a year, with the state on 31 October of the



current year, or more than once during the same year for certain customers, if necessary.

The higher percentage of participation of certain buyers in the total receivables, the higher credit risk, especially if those buyers have unstable liquidity and, on that basis, exceeded the agreed payment deadline.

7.5.3.2.3 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 (government) system.

Liquidity means coverage of short-term liabilities by working capital.

Management of SMATSA LLC has maintained its operation liquid by harmonizing the dynamics of a collection of receivables with the dynamics of maturity of short-term liabilities.

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.



8. Marks and abbreviations

ACS	Area Control Surveillance
ADI	Aerodrome Control Instrument
AFIS	Aerodrome Flight Information Services
AIP	Aeronautical Information Publication
AIR	Air Control
AIRAC	Aeronautical Information Regulation And Control
AIS	Aeronautical Information Services
AMHS	Aeronautical Message Handling System
ANS	Air Navigation Services
ANSP	Air Navigation Services Provider
APCH	Approach
APP	Approach Control
ARTAS	ATM Surveillance Tracker And Server
ASMT	Automatic safety monitoring tool
ATC	Air Traffic Control
ATFM	Air Traffic Flow Management
ATM	Air Traffic Management
ATS	Air Traffic Services
BSO	Basic Strategic Objective
C-ATCC	Contingency Air Traffic Control Center
CAT	Category
CCL	Croatia Control
CIMACT	Civil Military ATM Coordination Tool
CNS	Communication , Navigation and Surveillance
COOPANS	An international partnership between the air navigation service providers of Austria, Croatia, Denmark, Ireland and Sweden
DC	Direct Current
DCT	Direct (in relation to flight plan clearances and type of approach)
DEA	Direct Electronic Access
DME	Distance Measuring Equipment
DPS	Data Processing System
DVOR	Doppler VOR
EAD	European AIS Database
EASA	European Aviation Safety Agency



EGAFOR	Electronic General Aviation Forecast
EMS	Environmental Management System
ENV	Environment
ESARR	Eurocontrol Safety Regulatory Requirements
EUROCONTROL	European Agency for the Safety of Air Navigation
FAMUS	Future ATM Modernization and Upgrade System
FASOS	Fallback/contingency system for en-route, approach and tower for Belgrade and Podgorica
FIR	Flight Information Region
FL	Flight level
FRA	Free Route Airspace
GMC	Ground Movement Control
ICAO	International Civil Aviation Organization
IFR	Instrument flight rules
ILS	Instrument Landing System
INO	International NOTAM Operations
IP	Internet Protocol
ISO	International Organization for Standardization
LARA	Local and sub-Regional Airspace Management Support System
LDAP	Directory Access Protocol
LSSIP	Local Single Sky Implementation
LYBE	Belgrade Airport
LYKV	Kraljevo Airport
LYNI	Niš Airport
LYPG	Podgorica Airport
LYTV	Tivat Airport
LYUZ	Užice Airport
LYVR	Vršac Airport
MCC	Multi Crew Coordination
MET	Aeronautical Meteorological Services
MTBO	Mean Time Between Outages
MTOW	Maximum take of weight
NM	Network Manager
NOTAM	A Notice to Airmen
PBN	Performance-based navigation
PENS	Pan-European Network Services
PPL	Private Pilot License
PreOJT	Pre -On the Job Training



PSR	Primary Surveillance Radar
RAT	Risk Analysis Tool
RNP	Required navigation performance
SARP(S)	Standards and recommended practices ICAO
SEAFRA	South East Axis Free Route Airspace
SECSI FRA	South East Common Sky Initiative Free Route Airspace
SES	Single European Sky
SESAR	Single European Sky ATM Research
SMATSA	Serbia and Montenegro Air Traffic Services SMATSA IIC
SMS	Safety Management System
SSR	Secondary Surveillance Radar
STAR	Standard instrument arrival
SUSAN	SMATSA Upgrade of System for Air Navigation
TAF	Aerodrome forecast
UHF	Ultra-High Frequency
UPS	Uninterruptible power supply
VDF	Variable frequency drive
VHF	Very High Frequency
VOR	Very High Frequency Omni-directional Range
ATC	Air Traffic Control
CAA	Civil Aviation Agency of Montenegro
CAD	Civil Aviation Directorate of the Republic of Serbia
EE	Electrical Power
GRNS	Ground Radio Navigation Systems
OU	Organizational unit
RUNWAY	Take-Off / Landing Runway
TC	Telecommunications
TCC	Telecommunications Center
ATCC	Air Traffic Control Center



9. Table, scheme, and figure index

9.1 Table index

Table 1. Fluctuations of employees in 2018 by months

Table 2. The degree of realization of training within the ANS Staff Training Center in 2018

Table 3. Trainings in operating air traffic control units in 2018

Table 4. Targeted and accomplished values of SMS indicators as requested by the CAD for 2018

Table 5. Targeted and accomplished values of SMS indicators as requested by the CAA for 2018

Table 6. Targeted and accomplished values of safety indicators as requested by the CAD for 2018

Table 7. Targeted and accomplished values of security indicators as requested by the CAA for 2018

Table 8. Value of capacity indicators in 2018

Table 9. Analysis of the fulfilment of quality goals for 2018

Table 10. Additional indicators/Performance Indicators in 2018

Table 11. Results of the Pilot Training User Satisfaction Survey within SMATSA Aviation Academy in 2018

Table 12. Results of the User Satisfaction Survey on the calibration of TRNS from the air in 2018

Table 13. Income statement for the period from 01/01. to 31/12/2018 (in 000 RSD)

Table 14. The balance sheet as on 31/12/2018 (in 000 RSD)

Table 15. Cash Flow Statement in the period from 01/01 to 31/12/2018 (in 000 RSD)

Table 16. Liquidity indicators - recommended, realized, and target values

Table 17. Financial security indicators - recommended, realized, and target values

Table 18. Profitability indicators - recommended, realized, and target values



9.2 Figure index

Figure 1 The territory above which SMATSA LLC provides services in air navigation

Figure 2. Number of flights in the period from 2010 to 2018

Figure 3. Distribution of flights in 2018

Figure 4. Peak day and peak hour in the period from 2010 to 2018

Figure 5. Participation of individual aircraft types in 2018

Figure 6. Number of take-offs and landings at airports in the period from 2010 to 2018

Figure 7. Traffic distribution per airports in 2018

Figure 8. Number of flights in the airspace of SMATSA's jurisdiction per country of take-off/landing in 2017 and 2018

Figure 9. Number of service units in the period from 2010 to 2018

Figure 10. The average length of the flight and average MTOW in FIR Belgrade in the period from 2010 to 2018

Figure 11. Route charge unit in 2018 (EUR)

Figure 12. Structure of employees according to gender

Figure 13. Structure of employees according to qualification groups

Figure 14. The age structure of employees

Figure 15. The unit route charge for the "Serbia-Montenegro-KFOR" collection zone in 2017 and 2018

Figure 16. The unit route charge for the SMATSA LLC in 2017 and 2018

Figure 17. Average delay time per IFR flight at FIR Belgrade generated by ATM in the period 2015 to 2018

Figure 18. Average delay time per IFR flight generated by ATM in 2018 per country

Figure 19. KEA - Key performance Environment indicator based on an actual trajectory in relation to the long-circuit route in Serbia and Montenegro in 2018

Figure 20. KEP - Key performance Environment indicator based on the last filed flight plan in relation to the long-circuit route in Serbia and Montenegro in 2018



10. Appendices

No.	Title of Appendix	No. of pages of Appendix
1.	Organizational structure of SMATSA Ilc	1
2.	Decision of the Enlarged Committee of EUROCONTROL No. 148 of 01/12/2017	2
3.	Decision of the Enlarged Committee of EUROCONTROL No. 152 of 21/09/2018	1
4.	Independent Auditor's Report	1



10.2 Appendix 2 - Decision of the Enlarged Committee of EUROCONTROL No. 148 of 01/12/2017

EUROPEAN ORGANIZATION FOR THE SAFETY OF AIR NAVIGATION

EUROCONTROL

-Decisions of the Enlarged Committee-

DECISION no. 148

regarding determination of unit tariffs for the period of application starting on 1 January 2018

ENLARGED COMMITTEE,

Taking into consideration the International Convention of EUROCONTROL related to the cooperation in the safety of air navigation, amended in Brussels on 12 February 1981 and particularly Article 5.2 of the same;

Taking into consideration the multilateral contract related to route charges, dated 12 February 1981, and particularly Articles 3.2(e) and 6.1(a);

on the proposal of the Enlarged Committee and the Provisional Council,

ISSUES THE FOLLOWING DECISION:

Sole Article

Unit tariffs in the annex of this Decision have been approved and shall enter into force on 1 January 2018.

In Brussels, 1 December 2017

[Signed, signature illegible]

P.SAMSON
Committee President

148-SR

**Unit tariffs applicable from 1 January 2018**

ZONE	General unit tariff in euros	Applied currency rate 1 euro =
Belgium/Luxembourg *	67,79	-/-
Germany *	69,20	-/-
France *	63,61	-/-
United Kingdom	67,18	0.894200 GBP
Netherlands *	58,83	-/-
Ireland *	27,82	-/-
Switzerland	98,77	1.14557 CHF
Portugal – Lisbon *	36,97	-/-
Austria *	71,48	-/-
Continental Spain *	69,67	-/-
Spanish Canary Islands *	56,74	-/-
Portugal – Santa Maria *	9,52	-/-
Greece *	31,60	-/-
Turkey	28,95	3.32475 TRL
Malta *	16,02	-/-
Italy *	80,11	-/-
Cyprus *	35,08	-/-
Hungary	32,79	308.190 HUF
Norway	45,60	9.32847 NOK
Denmark	59,74	7.43851 DKK
Slovenia *	61,84	-/-
Romania	32,61	4.59632 RON
Czech Republic	41,52	26.0558 CZK
Sweden	59,15	9.53139 SEK
Slovakia *	51,66	-/-
Croatia	44,91	7.46152 HRK
Bulgaria	26,72	1.95529 BGN
Macedonia	51,76	61.2533 MKD
Moldavia	56,90	20.9452 MDL
Finland *	54,92	-/-
Albania	49,11	133.209 ALL
Bosnia and Herzegovina	40,68	1.95160 BAM
Serbia / Montenegro / KFOR	32,75	119.165 RSD
Lithuania *	43,72	-/-
Poland	42,68	4.27093 PLN
Armenia	29,96	568.130 AMD
Latvia *	27,60	-/-
Georgia	22,06	2.92792 GEL
Estonia *	28,79	-/-



10.3 Appendix 3 – Decision of the Enlarged Committee of EUROCONTROL No. 152 of 21/09/2018

EUROPEAN ORGANISATION FOR THE SAFETY OF AIR NAVIGATION

EUROCONTROL

- Decisions of the enlarged Commission

DECISION No. 152

relating to the modification of the unit rate for Serbia / Montenegro / KFOR as from 1 September 2018

THE ENLARGED COMMISSION,

Having regard to the EUROCONTROL International Convention relating to Co-operation for the Safety of Air Navigation amended at Brussels on 12 February 1981, and in particular Article 5.2 thereof;

Having regard to the Multilateral Agreement relating to Route Charges, dated 12 February 1981, and in particular Articles 3.2(a) and 8.1(a) thereof;

Having regard to enlarged Commission Decision No. 148, dated 1 December 2017, relating to the determination of the unit rates for the period of application commencing 1 January 2018;

On the proposal of the enlarged Committee and the Provisional Council;

HEREBY TAKES THE FOLLOWING DECISION:

Single article

The unit rate for the charging zone "Serbia / Montenegro / KFOR" shall be EUR 25,47 as from 1 September 2018.

Done at Brussels on 21.9.2018.

Mirjana ČIZMAROV
President of the Commission

152 EN



10.4 Appendix 4 – Independent Auditor's Report

“Serbia and Montenegro Air Traffic Services → F

SMATSA” llc Belgrade

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SMATSA llc Belgrade			
received: 07 JUN 2019			
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MOORE STEPHENS
AUDIT AND ACCOUNTING

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INDEPENDENT AUDITOR'S REPORT ON THE COMPLIANCE OF THE ANNUAL BUSINESS REPORT WITH FINANCIAL STATEMENTS

To stakeholders of „Serbia and Montenegro Air Traffic Services SMATSA“ llc Belgrade

We have performed the audit of the respective annual financial statements of the company „Serbia and Montenegro Air Traffic Services SMATSA“ llc Belgrade (hereinafter also: the Company) for 2018, regarding which we have issued an opinion on 31 May 2019.

In accordance with the requirements stemming from Article 30 of the Law on Auditing (“Off. Gazette of RS” no. 62/2013 and 30/2018), and Rulebook on the conditions for conducting audit of financial statements of public companies (“Off. Gazette of RS” no. 114/2013 and 92/2018), we have performed the verification of the harmonization of the annual business reports with the annual financial statements of the Company.

The management of the Company is responsible for the drawing up and the accuracy of the annual business report (which includes information both for respective and the consolidated financial statements) in accordance with the valid regulations.

It is our responsibility to state our conclusion regarding the harmonization of the business reports with the financial statements of the Company for 2018 by conducting the auditing procedures in accordance with the International Auditing Standard 720 – Responsibility of the Auditor with regard to other information in documents containing financial statements that were the subject of auditing.

Based on the conducted auditing procedures, we have not observed materially significant inconsistencies, which would indicate that the annual business report for 2018 is not harmonized with the annual financial statements of the Company for the same financial year.

In Belgrade, 05 June 2019

“MOORE STEPHENS
Audit and Accounting” llc Belgrade
[Signed, signature illegible]

“MOORE STEPHENS
Audit and Accounting” llc Belgrade
[Signed, signature illegible]

Nelinda Karanjac Nikolić
Licensed Authorized Auditor

Bogoljub Aleksić
Director
[Seal: Belgrade, II, the rest is illegible]

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