CROATIA CONTROL

Annual Report 2012


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CROATIA CONTROL
2012

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1. Message from the Director General

Dragan Bilać

Director General

I am very pleased to present a comprehensive Annual Report on the performance of Croatia Control Ltd (CCL) in 2012. The utmost transparency of our approach to the Company's performance reporting demonstrates our commitment to the best European practices of communication with relevant partners, in accordance with the requirements and recommendations of SES legislation.

Fast and dynamic changes in air traffic pose new challenges to all relevant stakeholders of this particular industry. The implementation of the Single European Sky, as one of priority objectives in the region, requires from all participants to invest extra efforts in the interaction, cooperation and responsibility for the compliance with newly imposed requirements of operational, technological and regulatory nature. In this context, CCL gives high priority to the improvement of cooperation with other ANSPs in order to achieve the objectives of high traffic safety and quality levels, which is the best way to meet user expectations.

In 2012, CCL underwent some changes in the Management: Mr. Nino Karamatić took over the position of Director General from Mr. Dražen Ramljak in June 2012, and I was appointed Director General on 8 March 2013.

Since 2000, when CCL started operating as a limited liability company, the year 2012 was the first year in which the Company recorded a small decrease in traffic, mainly due to economic recession in Europe where the figure was even more negative. Such trend in 2012 affected the Company's financial result. In the same period, air traffic delays were further reduced by another 50% as compared to 2011, when the same result was achieved as an example of successful operationalization of high quality plans and good preparation for the summer season.

A major milestone in 2012 was the establishment of FAB CE (Functional Airspace Block Central Europe)in accordance with Regulation 176/2011, within the common initiative of seven countries and air navigation service providers in Central Europe, following the conclusion and verification of the Agreement on the Establishment of FAB CE. CCL is playing an active role as a member of FAB CE, participating in all its bodies and working groups.

In 2012 CCL also participated in the COOPANS initiative, thus becoming an important contributor in the community consisting of five ANSPs.

In the forthcoming period, CCL will – in addition to proper strategic guidance, optimum use, as well as further development and improvement of all its human and material resources - enhance its business processes, maintain and raise the level of air traffic safety, quality of services and the overall performance.

2. Company profile

CCL is a state-owned limited liability company providing air navigation services and was founded in 1998, a year after Croatia acceded to Eurocontrol (the European Organisation for the Safety of Air Navigation) Croatia was already a member of the International Civil Aviation Organisation (ICAO) and the European Civil Aviation Conference (ECAC) since 1992.

2.1. History of CCL

The key founding steps in the history of CCL are:

- September 1991: the Zagreb Area Control Centre is operated within the Federal Air Traffic Control Authority.
- January 1992: the Air Traffic Services Authority (ATSA) of Croatia is founded as part of the Ministry of Maritime Affairs, Transport and Communications.
- May 1992: Croatia's accession to ICAO.
- July 1992: Croatia's accession to ECAC.
- March 1997: Croatia's accession to EUROCONTROL.
- February 1998: CCL founded as a limited liability company.
- December 1999: CCL registered as a limited liability company at the Commercial Court.
- March 2009: CCL certified as air navigation service provider by the Ministry of the Sea, Transport and infrastructure.
- May 2011:CCL signed the Agreement on the Establishment of Functional Airspace Block Central Europe (FAB CE) covering the airspace of Austria, Bosnia & Herzegovina, Croatia, Czech Republic, Hungary, Slovak Republic and Slovenia.
- June 2011:CCL became a full member of the initiative of ANSPs of Ireland, Denmark, Sweden and Austria called COOPANS. The COOPANS Members are committed by a Framework Agreement aiming at reduced development costs, and required human and financial resources for the upgrading of their air traffic control systems.

Over the years, the traffic in Croatia was undergoing strong growth. At the same time the SES initiative was developed resulting in a large number of requirements.Croatian Air Traffic Management Project (CroATMP) was a relevant and well-planned response to these changes,. The most important project within CroATMP was the implementation of ATM system Eurocat 2000E (CroaATMS). In 2011 and 2012 were also intensified activities associated with the launching of a new investment cycle including CroATMS upgrade and modernisation / COOPANS projects as the most significant within the programme CroATMP.

2.2. Mission

Our mission is to provide Air Navigation Services of the best quality, compliant with National and International Regulations to the full satisfaction of our customers. This is being done in co-operation with our partners in the European ATM network, by maintaining the highest safety levels, through knowledge, reliability and efficiency in operations, while paying respect to the environment.

2.3. Vision

CCLtd will achieve and maintain excellent performance and become one of the ANSPs with best practises in Europe. Our goal is to be a modern, efficiently structured organisation, capable of meeting its customers' needs while maintaining high safety level and paying full respect to the environment.

Our objectives will be accomplished by our motivated, highly skilled professionals who will continue to provide top quality services to the full satisfaction of our customers and stakeholders.

2.4. Core business

CCL's operation in 2012 was based on its 2012 Business Plan and its services to the customers were provided in a genuinely transparent and non-discriminatory manner.

The core business of CCL:

- provision of air navigation services which includes: performance of air traffic services, particularly air traffic control, alerting service, flight information and pre-flight information service, all aimed at providing a safe, orderly and smooth air traffic, as well as flight data processing and storage, promulgation of safety-related information, management of air traffic flow and airspace utilisation;
- provision of communication, navigation and surveillance services (CNS);
- provision of aeronautical information services (AIS);
- provision of aeronautical meteorological services (MET).
- provision of air traffic services, particularly air traffic control, alerting service, flight information and pre-flight information service, all aimed at providing a safe, orderly and smooth air traffic, as well as flight data processing and storage, promulgation of safety-related information, management of air traffic flow and airspace utilisation;
- collecting, processing and issuing of aeronautical information, including special publications;

- specifying the operating requirements for air traffic management, control and monitoring systems, equipment, infrastructure, etc.;
- responsibility for the airspace and flight procedures design, minding the interests of military and civil users, as well as environmental protection;
- development, construction, maintenance, monitoring and checking the function of air navigation and meteorological facilities, systems and equipment;
- aeronautical meteorological and aerodrome climatology observations, as well as drafting and exchange of aeronautical meteorological reports;
- preparation of aviation weather forecasts, as well as special information and warnings for the airports and routes in Croatian airspace, preparation of aeronautical meteorological documentation and performance of other tasks as specified by the ICAO documents;
- implementation and coordination of specific engagements in various international organizations, particularly in ICAO and Eurocontrol;
- professional and life-long training of the staff;
- export and import of goods for own needs.

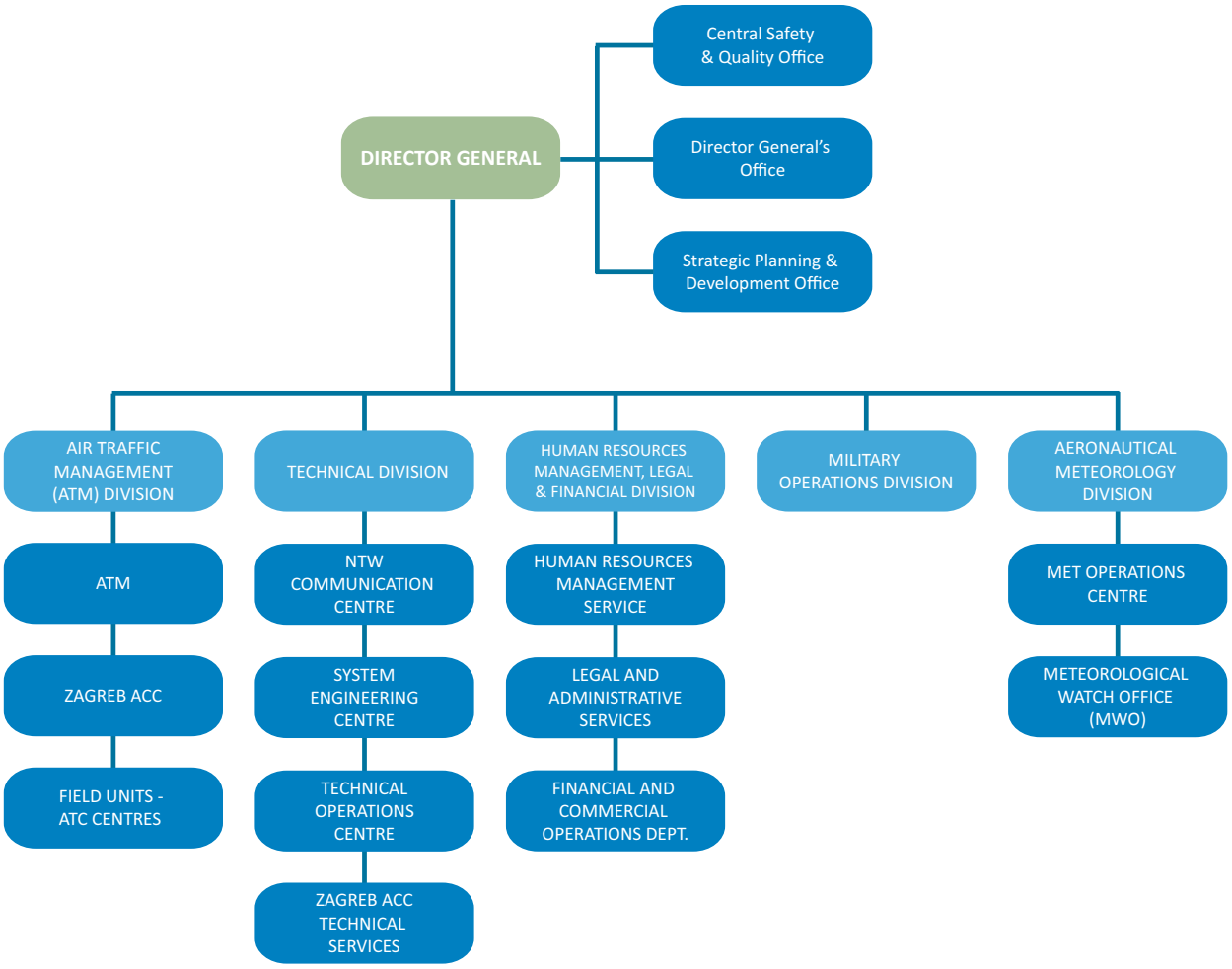
2.5. Organisational structure

CCL's headquarters are located in Zagreb. The company is organised into five divisions. These are:

- Air Traffic Management,
- Technical Division,
- Aeronautical Meteorology,
- Military Operations,
- Human Resources Management, Legal and Financial Affairs.

The Air Traffic Management division includes, in addition to the Zagreb Air Traffic Control Centre, the regional ATC centres Pula, Rijeka, Lošinj, Split/Brač, Zadar, Dubrovnik and Osijek. These operational units are responsible for the provision of air traffic control, technical support, meteorological and administrative services required for smooth air traffic flow.

CCL headquarters and regional ATC units



Main divisions and departments of Croatia Control Ltd

2.6. International activities

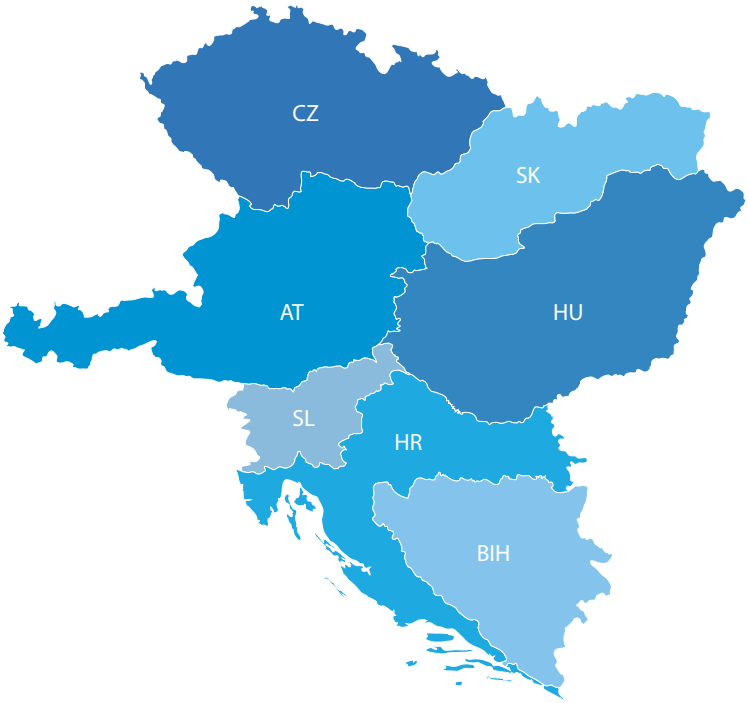
Services for Bosnia and Herzegovina

CCL has been providing air traffic services in the western half of upper airspace and in the whole lower airspace of Bosnia and Herzegovina since 2000 and 2001 responding, under a bilateral agreements undertaken between the governments. CCL is supporting B&H in providing aeronautical information and MET services too.

Regional co-operation

Croatia is involved in the FAB CE.

FAB CE is a joint project of seven states – Austria, Bosnia and Herzegovina, Croatia, Czech Republic, Hungary, Slovak Republic and Slovenia with their respective ANSPs Austrocontrol, BHDCA, CCL, ANS CZ, HungaroControl, LPS SR, and Slovenia Control. The activities of the participating ANSPs have been organised in six Working Groups: - Operational, Technical, Financial, Human Resources, Institutional/ Legal/Regulatory and Safety Management. The FAB CE Agreement as well as FAB CE ANSP Cooperation Agreement were signed in May 2011.



COOPANS

COOPANS involving 5 ANSPs from Denmark, Ireland, Sweden , Austria and Croatia with a common ATM system procurement strategy. CCL joined the COOPANS initiative as its full member in 2011.

The COOPANS system, being the most advanced ATM system in Europe, with new operational functionalities such as 4D MTCD (Medium-Term Conflict Detection) and CPDLC (Controller-Pilot Data Link Communications), will facilitate CCL to follow a path to the Single European Sky.

The partnership in COOPANS together with LFV, Naviair, IAA and Austro Control, has already brought significant economic and operational benefits to CCL by sharing cost, resources and know-how through all phases of the project.

3. Corporate governance

CCL's governance structure comprises the Assembly, the Supervisory Board and the Management.

3.1. Assembly

The Assembly is made up of the Minister of Maritime Affairs, Transport and Infrastructure as the Chairman and members are the Minister of Finance and the Minister of Defence.

3.2. Supervisory Board

The Supervisory Board monitors the company's activities. The Supervisory Board appoints the Director General of the company under open competition for a period of five years and the same person can be re-appointed as Director General.

The Supervisory Board consists of five members, four of whom are appointed and may be recalled by the Assembly and one of whom is a company employee. Members can be re-appointed. The Director General of the company cannot be a member of the Supervisory Board.

The members of the Supervisory Board are:

- **Prof. Darko Prebežac , Ph.D**
  Chairman of the Supervisory Board
- **Dinko Staničić**
  Vice Chairman
- **Željko Gojko**
  Employee Representative
- **Marijana Muller**
  Member
- **Hrvoje Filipović**
  Member

3.3. Management

The Management of the Company comprises: **Dragan Bilać**, Director General[1] .

3.4. Division Directors

There are five main divisions in CCL, managed by the following directors:

- Milivoj Sever Cuglin[2]
  Director, Air Traffic Management (ATM) Division

1 Note: Status March 2013. Directors General were Mr Dražen Ramljak until June 2012 and Mr Nino Karamatić from June 2012 to March 2013

2 Note: Status April 2013. Directors of ATM Division were Mr Ivan Rosić until August 2012 and Mr Nenad Galić from August 2012 to April 2013.

- Boris Gaćina
  Director, Technical Division
- Anka Nikić
  Director, Human Resources Management, Legal & Financial Division
- Vladimir Rajtar
  Director, Military Operations Division
- Alen Sajko
  Director, Aeronautical Meteorology Division

3.5. Executive Directors

There are three Executive Directors within the ATM Divison:

- Mihajlo Jelisavčić
  Executive Director, Air Traffic Management (ATM)
- Siniša Belošević
  Executive Director, Zagreb FIR
- Josip Josipović
  Executive Director, Regional ATC Centres

4. Operations and infrastructure

4.1. Operational units

CCL's main operational units are as follows:

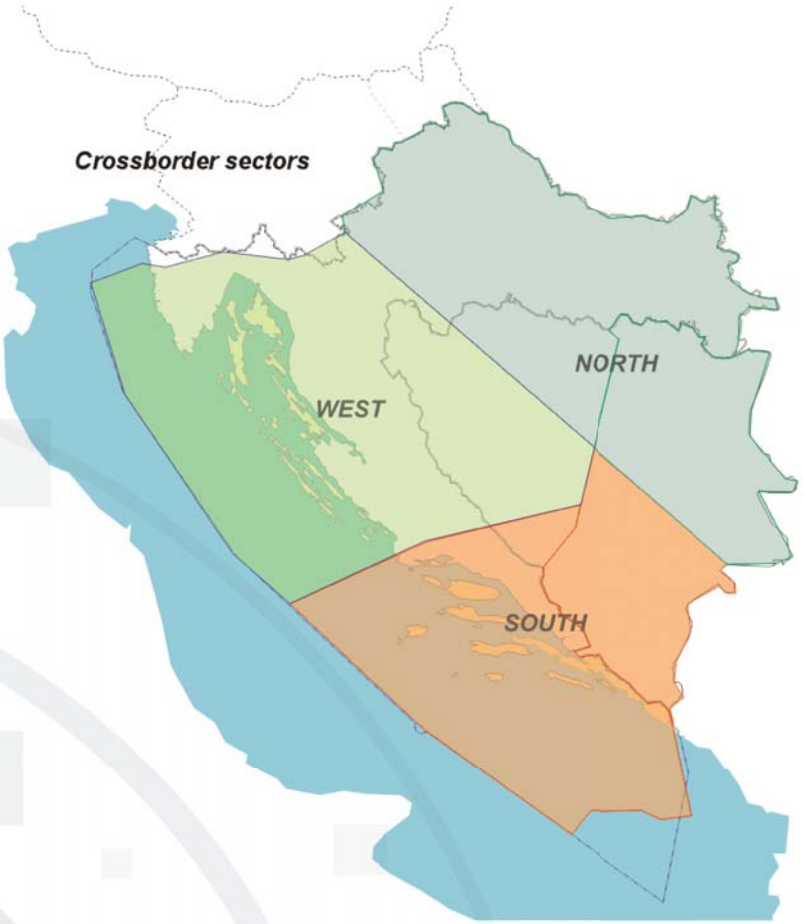
- **Zagreb ATCC**: Zagreb Air Traffic Control Centre provides area control services for both Zagreb Control Area (CTA) and a part of the Control Area (CTA) in Sarajevo FIR. It also provides approach control services in Zagreb TMA.;
- **Zagreb/Lučko Aerodrome Control**: provides tower control in Zagreb Control Zone and Lučko aerodrome Control Zone (CTR);
- **Eight regional ATC units providing approach and tower control**: Osijek, Rijeka, Pula, Zadar, Split, Dubrovnik, Lošinj , Brač .

Main operational units

ATS operational units provide the following services:

- Air Traffic Control services;
- Flight Information Services;
- Aeronautical Information Services;
- Traffic flow management services;
- Airspace Management Service through AMC;
- Communication services;
- Alerting services.

Zagreb ACC provides air traffic services in the control area of Zagreb FIR and in small parts airspace of neighbouring countries where the responsibility for air traffic control has been delegated to CCL under relevant international agreements. In a part of Zagreb FIR airspace, the responsibility for ATS has been delegated to neighbouring countries, also under relevant international agreements on mutual delegation of ATS provision. Zagreb ACC also provides air traffic services in the airspace of Bosnia and Herzegovina from Flight Level 100 to Flight Level 285 in the whole of Sarajevo FIR, and additionally from Flight Level 285 to Flight Level 660 in the Western part of Sarajevo FIR as provided in the relevant international agreements.

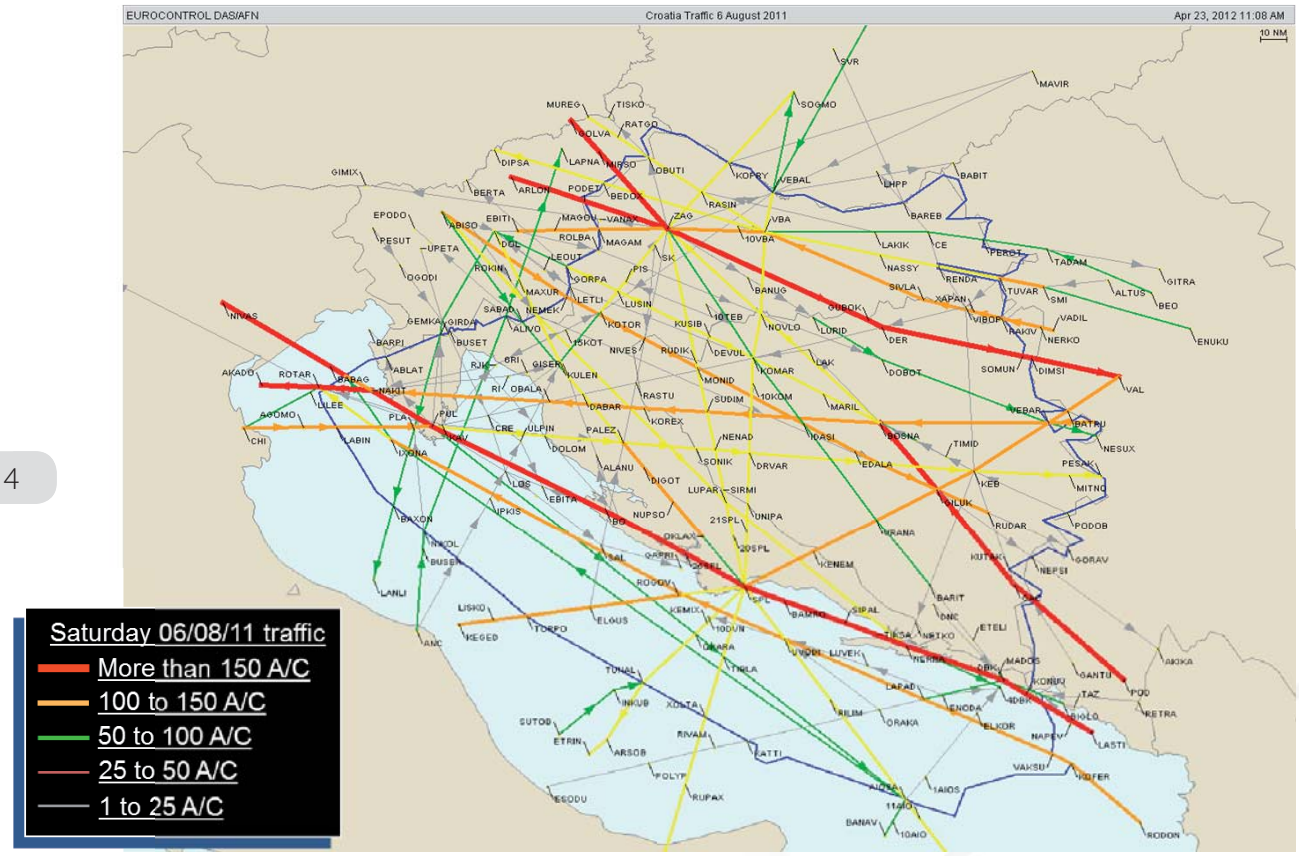


ACC Zagreb area of responsibility (AoR)

Through its provision of air traffic services for Bosnia and Herzegovina, CCL has been providing air navigation services in the context of an early example of the Functional Airspace Blocks that are a key feature of the Single European Sky. This means that operational borders of certain sector groups extend across national borders contributing to better efficiency and better flow of international air traffic.

4.2. Traffic flows and seasonality

The main traffic flows over Croatia in 2012 are shown in the picture below. The numbers represent the total number of IFR GAT operations on a particular route on the busiest day of summer 2012 in the upper airspace above FL 285.



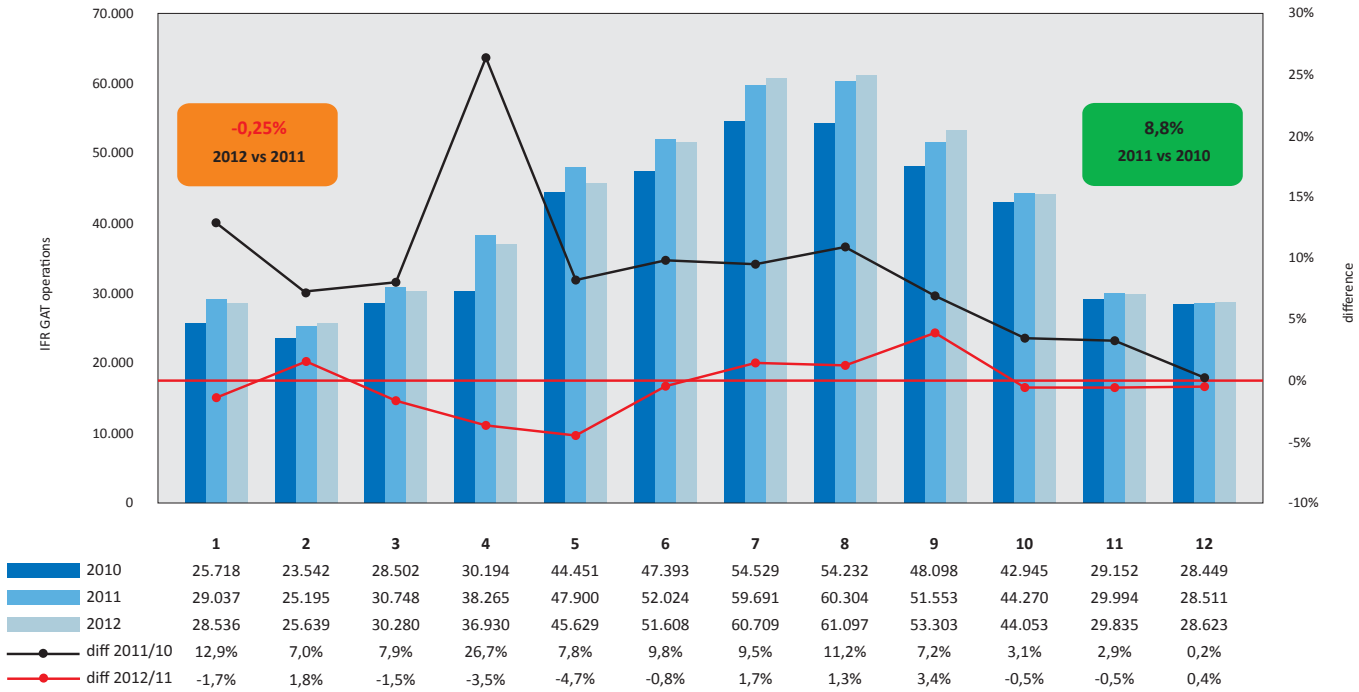
Main traffic flows over Croatia

Traffic in Croatian airspace is highly seasonal and the main flows run in South West – North East direction. The volume of traffic in the period May-October is three times greater than the volume in the rest of the year. This seasonality of traffic means that CCL faces particular challenges in achieving a balance between the required capacity and use of resources throughout the year.

Traffic routes over the entire South-East axis of the European airspace are already very close to the shortest routes, which is an advantage both in terms of flight efficiency and in terms of reduced harmful emissions.

The figure below shows the total number of IFR GAT flights controlled by CCL, including the flights in the airspace of Bosnia and Herzegovina, where provision of service is delegated to CCL.

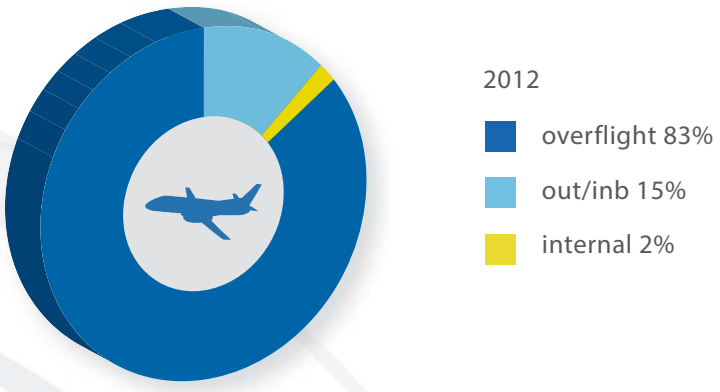
LDZO TOTAL IFR GAT operations, 2012 vs 2011



	1	2	3	4	5	6	7	8	9	10	11	12
2010	25.718	23.542	28.502	30.194	44.451	47.393	54.529	54.232	48.098	42.945	29.152	28.449
2011	29.037	25.195	30.748	38.265	47.900	52.024	59.691	60.304	51.553	44.270	29.994	28.511
2012	28.536	25.639	30.280	36.930	45.629	51.608	60.709	61.097	53.303	44.053	29.835	28.623
diff 2011/10	12,9%	7,0%	7,9%	26,7%	7,8%	9,8%	9,5%	11,2%	7,2%	3,1%	2,9%	0,2%
diff 2012/11	-1,7%	1,8%	-1,5%	-3,5%	-4,7%	-0,8%	1,7%	1,3%	3,4%	-0,5%	-0,5%	0,4%

Traffic seasonality

In 2012, 83% of the flights in Croatia were overflights, 2% were domestic flights within Croatia and the remaining 15% were international flights, arriving at or departing from Croatian airports.



Distribution of flights in Croatia

4.3. Civil/Military coordination

In Croatian airspace, CCL is also responsible for ANS provision to the Ministry of Defence of the Republic of Croatia, all in accordance with Air Traffic Law and other applicable regulations. For the purpose of maintaining a high level of safety and quality, relevant air traffic data are regularly exchanged between these two parties, which is a basis for creating conditions for an efficient protection of the airspace without affecting the safety of all users.

4.4. Operational improvements

In the last decade Croatia has recorded one of the highest increases of IFR GAT operations in the ECAC region. Overflights account for 83% of all operations, or the ENR phase, while the remaining 17% of all IFR GAT operations take place in the TMA phase of flight. This relationship has not changed significantly in the last 10 years.

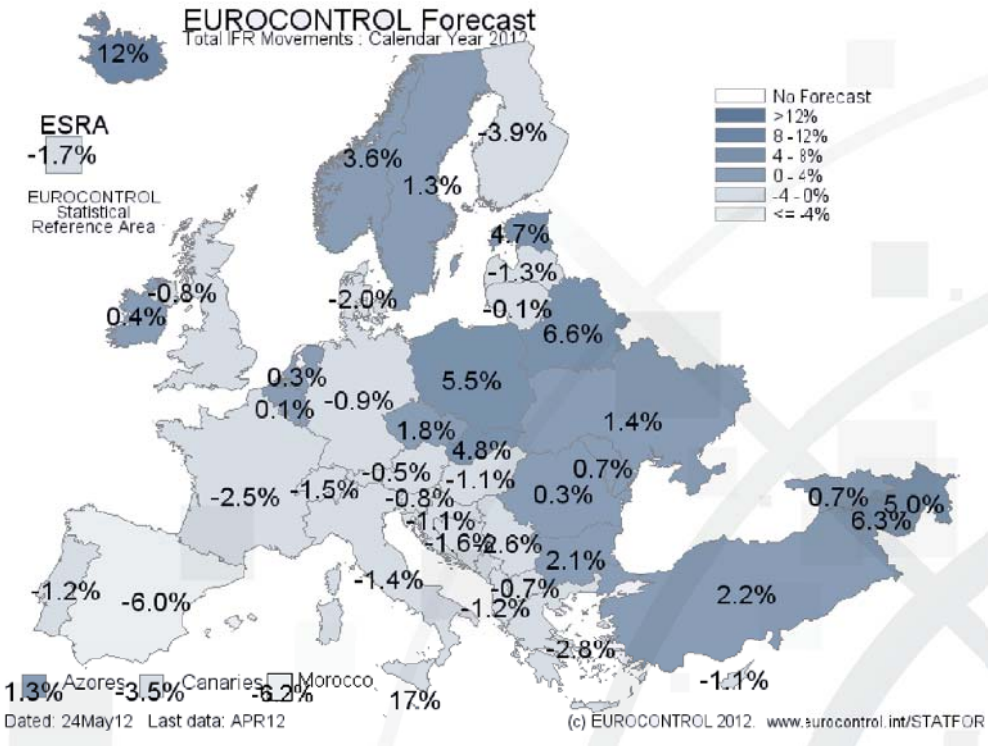
In 2012, with the aim of further increasing the efficiency of ATM and in line with other developments within the EATMN, CCL implemented some 30 night DCT planning options, which had a direct positive impact on AO's, increased the quality of our service and contributed to reducing the greenhouse emissions.

Our rolling Capacity Plan for a continuous increase of the number of IFR GAT operations, as well as the gradual increase of Zagreb ATCC Baseline Capacity is performed every year in coordination with DNM/CEF (Capacity Enhancement Function) on the basis of STATFOR forecasts.

STATFOR produces short (STF), medium (MTF) and long (LTF) forecasts of the number of IFR GAT operations and chargeable Service Units, and regularly updates these forecasts to allow for economic and other influences on the Air Transport industry. These forecasts and revisions thereof often show a significant variation in the forecast number of operations for the same geographical area, which presents a significant challenge in planning the resources for the busy summer period.

As an example highlighting the nature of such challenges, the first forecast for 2012 (published 05/2011), based on positive indicators for summer 2011, anticipated an 8% increase in the number of IFR GAT operations for Croatia in 2012. Following a revision undertaken in January 2012, the originally forecast increase figure was reduced to 3.6% on account of economic downturn which had been evident through 2011. Finally, the last revision of the same STF forecast (published in May 2012) indicated a drop in the planned number of operations of about -1.1% for Croatia in 2012.

Of course, forecasting a complex function such as the air traffic trends in Europe is challenging and requires a certain level of flexibility, which clearly reflects some of the issues and challenges we have cope with while making plans of the number of IFR GAT operations in the coming year, as well as for allocating resources to cover the expected traffic demand.



FREE ROUTE AIRSPACE OF ZAGREB

29 night DCT routes, and one H24 DCT route were implemented in 2012, as a first step in the process of gradual transition to Free Route Airspace concept in Zagreb ACC AoR.

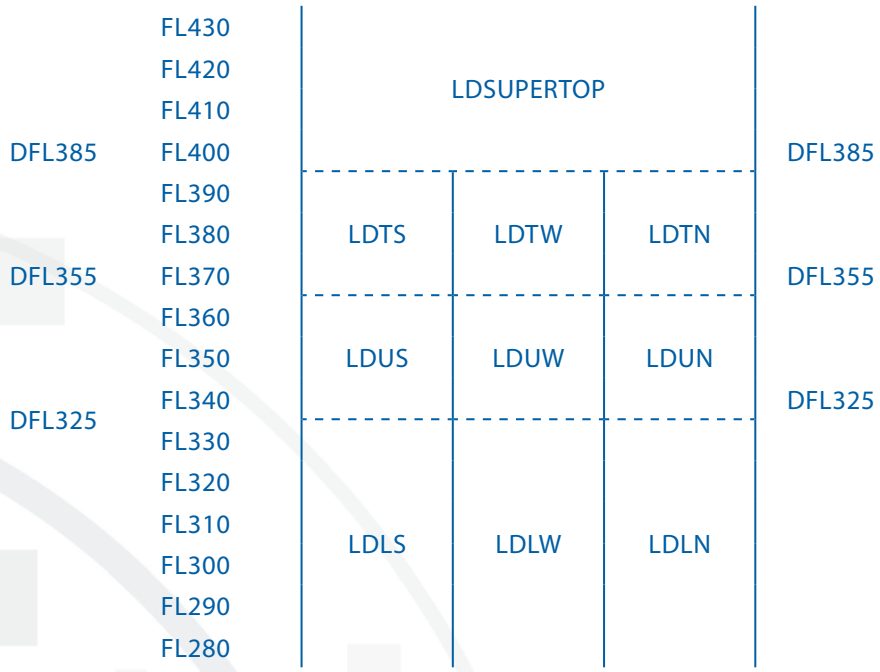
Utilisation of DCT routes has a direct impact on efficiency of CCL, while reducing adverse impacts on the environment. Continuous monitoring of usage of these planning options (routes) and comparing the results with those of flying along RNAV routes, allow us to track changes in fuel consumption, which in turn means less harmful emissions.

DFL CHANGE AND INTRODUCTION OF A FOURTH LAYER

During the summer season 2011, the measures from the Action Plan 2011 allowed for frequent availability of 9 elementary sectors of Zagreb ACC. It was noted that the LOWER sectors were unevenly loaded as compared to UPPER and TOP sectors. On a number of occasions analyses were performed tactically and it was confirmed that by increasing the DFL between LOWER and UPPER sector layers - a much better spread of traffic in the elementary sectors could be achieved.

Even though the last correction in the DFL was done before summer 2009, this last summer has shown that traffic flows and cruising levels changed over time. Aircraft Operators use newer and better (more economic) aircraft types which perform better on higher levels. Furthermore, the traffic increase that has been recorded in our AoR also impacts the load of certain cruising levels.

The DFL's were set to 325-355-385 as shown in the figure below. A new SUPERTOP sector was introduced, which allows for further expansion of elementary sectors in the future. This was not possible initially, as we were not able to secure the frequencies- or the staff required to split these top sectors along the lateral limits which exist in other layers.



The new sector opening scheme has achieved more flexibility in the performance of Zagreb ACC Operations Room, better use of human and technical resources, reduced pressure on the most complex ENR sectors with resulting further increase of the safety level.

CAPACITY

Capacity is defined as the ability to provide ATS in a defined volume of airspace, taking into consideration the high safety standards achievable without significant operational changes, impact on the environment and economy. It is the maximum number of aircraft which can safely transit through an airspace within a defined time frame.

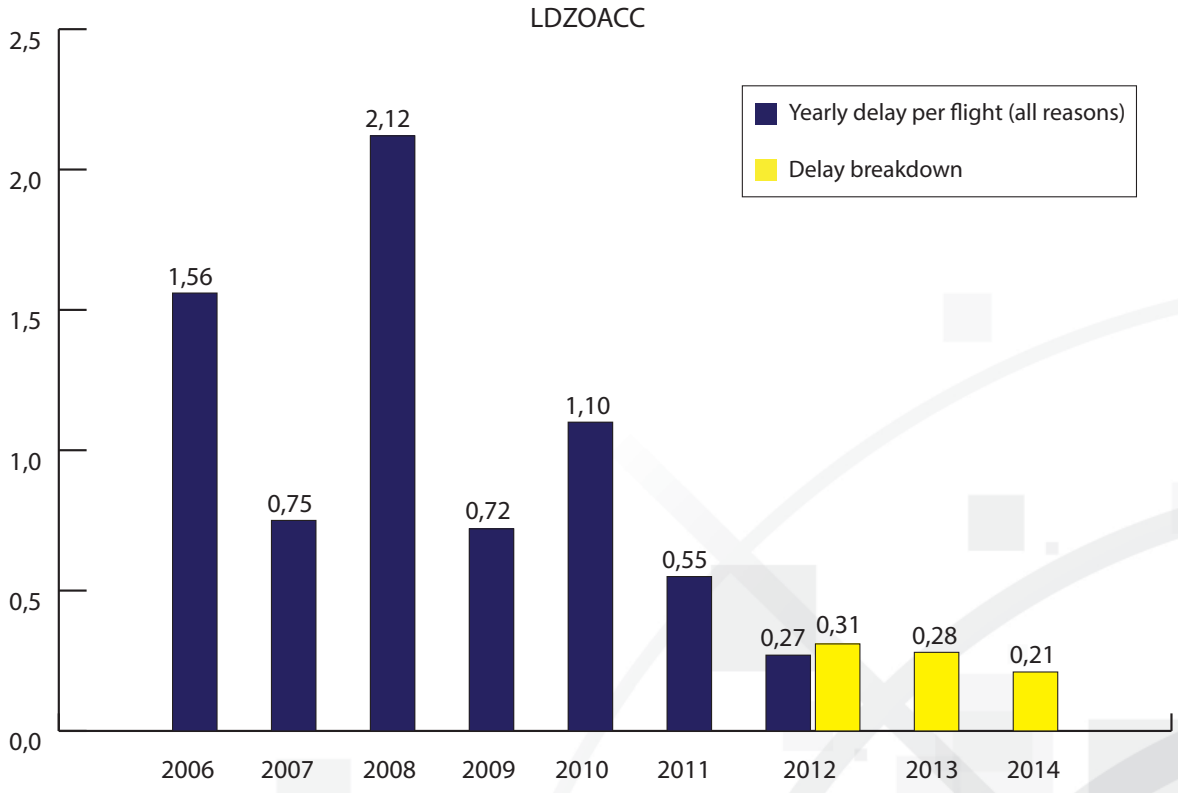
Capacity planning is one of the most important aspects in the provision of ATS and an important factor reflecting on the overall performance.

Baseline capacity

Baseline capacity is defined as effective capacity which can be delivered and maintained in peak traffic periods and is determined annually by NM ACCESS process. Delay is measured for all regulations used throughout the year, and basically reflects lack of capacity. Delay costs falling on the back of operators are rather high,, with some studies showing a cost of 81 EUR per minute of ATFM delay for all delays exceeding 15 minutes.

EU delay target value for ENR delay amounts to 0.7 [min/flight in 2012], which, when broken down by state amounts 0.31 [min/flight] for Croatia in 2012.

CCL's delay target was set to 0.35 min/flight because of expected growth in the number of operations. The year 2012 ended with a result (0.27min/flight) which was better than that indicated in the breakdown target for Croatia (0.31min/flight).



Delay per flight achieved and in yellow broken down for Croatia for the coming period

4.5. The environment

To comply with LSSIP requirements and in coordination with Croatia Airlines as the major Croatian air carrier, the implementation of Continuous Descent Approach (CDA) procedures has been initiated at the Zagreb Airport.

4.6. Technical infrastructure

Croatia, as a member of EUROCONTROL, shall comply with the European Single Sky Implementation Plan (ESSIP) / Local Single Sky Implementation Plan (LSSIP), actually being five-year plans including the actions to be taken by ECAC countries with a view to achieving the ESSIP objectives and improving the performance of their respective ATM systems. These Plans also include a report to be submitted by each country on the level of its compliance with SES regulations. Besides, certain investments are required to comply with EC Implementation Rules and ICAO mandates.

The equipment obsoleteness and the resulting compromised reliability make its replacement imperative for CCL to be able to proceed with the provision of its core services. The costs of its day-to-day maintenance are getting higher and higher and in many cases the spare parts are no more available. Besides, the impracticability of installing new software into the existing hardware makes the compliance with newly emerging requirements even more difficult.

CCL has in place a plan for the modernization and replacement of capital equipment required for the provision of its services. This plan covers critical facilities including:

- Navigation aids;
- Communications;
- Ground links;
- Surveillance sensors and processors; and
- Central ATM system comprising all tools used by CCL's ATCOs for the provision of ATC services.

The projects included in the investment plan for 2012 have been categorised as follows:

- CroATMS upgrade (including Emergency ATM system implementation project – ARES);
- Infrastructure replacement;
- Compliance; and
- Performance-related.

4.6.1. CroATMS upgrade and related projects

CroATMS upgrade projects are capital investments required for imperative hardware replacement and software upgrade of the main CroATMS system. This system is the heart of the CCL's most important infrastructure and represents the most significant item of the capital investments to be achieved through the following projects.

Consoles for simulator and COOPANS

In May 2012, the first phase of this project was completed, which included twenty five new consoles or fifty three modules for COOPANS, simulator and test system.

Designing activities are currently under way for the second phase of the manufacture, supply and installation, scheduled to be completed in October 2014.

Adaptation of various systems to COOPANS

For COOPANS implementation a number of externally provided interfaces and functionalities are required. Some of these items are required for the product itself and some for the system users. This capital investment is necessary in order to facilitate the integration into other CCL's systems of the CroATMS version as updated within the COOPANS initiative. In addition to COOPANS, the time synchronisation system shall be available to all systems at all CCL sites that need its support.

Relevant contracts for the supply of ARTAS equipment, time synchronisation system and FIXER – a system integrating all other functionalities of the interface to COOPANS - concluded in 2011, have been successfully completed in 2012. The remaining work on the systems is mainly related to system configuration, tuning and validation activities, which will take place in 2013.

CroATMS upgrade to COOPANS

While CCL has been operating CroATMS successfully, maintaining an operational ATC system is an ongoing activity requiring well-defined arrangements for software and hardware maintenance to keep the system operating optimally, as well as carrying out upgrades to the basic functionality in response to day-to-day operational needs and newly arising regulatory requirements. The challenges faced by CCL going forward include hardware obsolescence, sub optimal software upgradability and maintaining commonality and control of upgrades of remote tower systems. A HW upgrade contract and SW upgrade contract with COOPANS partners were concluded in 2011. In 2012 the system was designed, hardware procured and installed and COOPANS software configured for CCL needs in accordance with initial plans. In parallel, common COOPANS contracts for on-going system developments in order to keep the system up-to-date and comply with new SES regulations, as well as with local requirements to enhance and harmonize operational use of the ATM system, have been concluded and are in development phase. The number of new functionalities will be available for CCL's commissioning in February 2014, such as Elementary Mode S support, CCAMS, FPL2012, GRIB2 and ATM system support for CPDLC. Moreover, some of the most advanced functionalities will be available in the late 2014, notably Enhanced Mode S (DAP) and support for ADS-B and WAM.

Emergency ATM system implementation project - ARES (ATM radar emergency system)

Following needs to provide operational continuity in case of CroATMS system failure ARES system will provide all the relevant information to the Air Traffic Controller. ARES system will provide aircraft position, with the current flight plan received from main system while the main system is working. After the main system fails ARES system will continue to work with that data and maintain all the relevant flight information entered by system user. Independent systems will be used in Zagreb, Pula, Zadar, Split and Dubrovnik on ACC and APP working positions.

As addition to ensuring operational continuity, the system will have an integrated Search And Rescue function, providing fast and precise last known aircraft position based on the data received from radars or sensors connected to the system.

4.6.2. Infrastructure replacement projects

Infrastructure replacement projects are capital investments required for the replacement of obsolete and worn out equipment in order to enable CCL to continue to provide ATM services and will be achieved through the following projects:

Automatic Meteorological Station System Upgrade/Replacement (AMS Split, Pula)

This investment project covers the replacement of obsolete hardware and software upgrade to cope

with new user needs. The new adapted AMS systems will enable fully automatic data acquisition and transfer from the field sensor and automatic conversion of data to the required ICAO format. The new equipment, infrastructure and functionalities of the system will be designed and implemented in accordance with national and international aviation legislation currently in effect. By the end of 2012, the tender documentation for the new AWOS systems for Pula and Split airports was prepared. Contract award is expected in 2013. The old systems were originally delivered in 1997 and have come to the end of their useful life. The new systems are expected to improve overall reliability and enable new MET functions thus allowing a more flexible use of the systems. Delivery of the systems is expected in early 2014 and its full operations are scheduled to be achieved by the end of the same year.

CCL's MW link transmission network development

The microwave links are required to interconnect various CCL operations sites, especially the crucial ACC/TMA radio centres. The purpose of this upgrade is to move the CCL's operating frequencies of microwave links away from military frequencies as required by the regulator. In 2011, open tendering procedure for the procurement of goods and services was conducted, relevant contract was concluded and the upgrade od MW link equipment (radio 1+1) was completed resulting in improved technical availability of the system, particularly in view of impracticability of closing the Japetić communication ring. All deliverables have already been completed except for the upgrade and the installation of Japetić system, which is expected to commence in early 2014.

Procurement, commissioning and installation of VRRS

This is an infrastructure replacement project driven by the age of the existing equipment. The project also includes necessary adaptation of the wired passive equipment to host the new equipment and to ensure efficient implementation and reliable services. ICAO Annex 10 (Vol II Chapter 3.5 Record of Communication) establishes standards and recommended practices for recording and storage of messages („legal recording"). Where the recording of communications is not possible, the provision of ATC services may be suspended. The scope of this project is a phased complete replacement and modernisation of these systems both at Zagreb ACC and regional ATC units (Pula, Zadar, Split, Dubrovnik). All systems were delivered and installed during 2012. The equipment and systems are currently under test. Putting into operations is anticipated to be coordinated with that of other interdependent systems in late 2013.

NAV system replacement and modernisation

The NAV system procurement project includes the modernisation of depreciated and obsolete VOR/DME systems in Zagreb and Split, ILS systems in Split, Rijeka and Zadar, as well as the procurement of new DME systems for Split, Lošinj and Brač and DME system for the implementation of P-RNAV at Zagreb TMA. The installation of new DME system at Zagreb TMA Zagreb, in combination with the existing DME system, will facilitate the implementation of P-RNAV procedures, thus ensuring a more accurate navigation service, improved landing capacity and safety. For all other DME sites, microlocations have been identified and the process of clearing title issued is still under way.

Procurement and replacement of old NDBs

This is a replacement project driven by the age of the current NDB in use. These obsolete systems are difficult to maintain due to elevated failure rate, spare parts unavailability and lack of manufacturer's support. In 2011, the actual conditions of the existing sites were reviewed in order to identify the required actions. The open tender procedure has been completed and contract award with subsequent project execution is expected in early 2013.

Procurement, commissioning and installation of VCCS

The VCCS enables CCL to control and manage all voice communications at the ACC and the airport sites, as well as to manage the radio equipment off-site. The old VCCS does not support some essential and mandatory services, such as MFS and ATS-QSIG, hence the need to invest in a new VCCS which will be also VoIP capable. The procurement project includes VCCS and BVCS at Zagreb, Split, Zadar, Dubrovnik and Pula, for TMA and TWRs. During the year, the new VCS ACC/APP simulator facility with 36 VCS positions has been completed and put into use. Most of the stipulated VCS installation works are scheduled for 2013 and 2014.

Aeronautical Information Database and Meteorological System Modernisation Programme

This programme consists of two sub-projects. With these projects CCL is replacing current systems, which have come to the end of their useful life, with new systems offering a more robust system design accompanied with modern software. These new systems will not only ensure continuity of current services, but will also enable CCL to meet request to introduce new services and to easily adopt changes in EU regulations.

4.6.3. Compliance projects

Compliance projects involve investments that are necessary to ensure compliance with applicable global and regional regulations currently in effect, to be achieved through the following projects:

Implementation of an International Aeronautical Message Handling Service (AMHS)

This project should enable the transition of existing AFTN and CIDIN users and systems to a more modern technology, using the ATSMHS application, defined by ICAO to replace the AFTN telegraphic style of working with a store-and-forward Message Handling System based on international Standards and providing enhanced functionality. Actually this is an upgrade of the existing AFTN system with AMHS functionality with AMHS GW. This project will also cover the system for FPLP2012 conversion. The amendments to the flight plan content announced by ICAO for worldwide implementation in November 2012 go to the core of flight plan processing. The relevant Invitation for Tenders was published on EBRD website and some other media and the scheduled tender opening date was in early January 2012. The system was factory accepted in June 2012. Installation and Site acceptance were successfully completed by September 2012 and AMHS Interoperability Tests with Austrocontrol performed in early October 2012. After that milestone, putting into operation was suspended due to delayed performance of another project preventing the putting of the new network into operational use.

4.6.4. Performance improvement projects

Performance related projects cover the investments to be made by CCL in order to improve its performance in terms of improved and more efficient provision of services to its users and include:

Old ACC building renovation

The purpose of this investment is essential renovation to the ACC building in order to host the new ATM simulator and test systems long term. The entire building will be completely renovated, but the part intended for the installation of equipment has been given priority.

Civil works include exterior wall plastering, new windows, thermal insulation, fire protection, installation of new power/water/gas supply and other systems, new flooring, sanitary equipment, wall and ceiling refurbishing, new lighting fittings, elevators etc. The first phase includes all civil, electrical and

mechanical works which are prerequisites for the installation of the ATM simulator and test systems and were close to completion at the end of 2011.

Planned continuation of the building reconstruction works was not achieved in 2012, because the building permit had not been obtained. The works are expected to be resumed in 2014.

RWY fiber optic cabling project

This is a project of extending the present structure cabling system with the new fiber optic infrastructure around RWY at Split, Pula, Dubrovnik and Zadar. RWY Fiber Optic Cabling Project consists of installation of fiber optic infrastructure between CCL locations around RWY and central location in OTE (Online Technical Equipment room). The contract for Split RWY fiber optic cabling was concluded in late 2011.

Invitation for Tenders for Pula RWY fiber optic cabling was published in May 2012. Tender opening took place in the second half of July 2012. By the end of August 2012, tender evaluation was completed, the relevant report submitted to EBRD for review and no objection and final report received from EBRD with no objection. The contract award and signature were achieved in the first half of October 2012. The equipment was delivered by mid November 2012 and the installation started immediately thereafter. Installation, testing and issue of the relevant documentary evidence were finished by the end of 2012. Site acceptance and commissioning are scheduled for February 2013.

ACC/TMA VHF/UHF Radio sites expansion project

The purpose of this project is to ensure VHF/UHF coverage of Zagreb FIR in accordance with the requirements of the Zagreb ACC (without these new radio systems, the ACC would be unable to open new sectors during peak traffic hours) as well as the coverage of Zadar and Dubrovnik TMAs. The procurement of a new generation equipment and modernisation of the existing equipment is expected to yield a number of benefits in terms of increased operational and technical capabilities, implementation of new standards, implementation of EUROCONTROL's projects regarding horizontal and vertical expansion of 8.33 kHz frequencies as well as of some forthcoming projects (CPDLC, 8.33 Climax, 8.33kHz above FL195, 8.33kHz below FL195, etc.), solution of the problems caused by poor flexibility of operating frequency reallocation, technical availability of frequencies and impracticability of installation of new frequencies. During 2012. the first wave of sites has been equipped with the new radios and supporting equipment: Psunj, Biokovo, Rijeka, Zagreb TWR and Lučko.

CCL IP Network modernisation project - CART/IWAN & Implementation & NTW equipment

This project includes redesigning of the data network with the aim to meet important requirements for IP services pending the CroAN implementation. The project includes consultancy support (including the development of a low level design document and network implementation plan) to integrate the technologies on IP in a most efficient way while ensuring the highest possible reliability. The project consists of two parts: (i) Campus Zagreb and LAN for Remote Towers (CART) – required to replace outdated CAMPUS Zagreb network equipment and to provide basic access functionality for LANs on remote towers; and (ii) CCL Integrated WAN (IWAN) – required to replace present WAN infrastructures (Frame Relay and MetroEthernet) and to provide integrated WAN with enough capacities pending the CroAN implementation. During the implementation of the Contract and the Proof of Concept (PoC) testing in 2012, the project was divided into two phases due to unexpected equipment behaviour, showing that the times required for re-establishing of certain network functions were above the specification limits. The Phase 1 data network without unsatisfactory network functions was successfully validated in December 2012 and should be transferred into operational environment by CCL experts in 2013. The Phase 2 data network addressing the rest of the required network functions shall be delivered afterwards in 2013.

CCL IP Network modernization project – NMS

This project aims to fulfil all important requirements for supervising all NTW equipment inside CCL network (CAMPUS network, EXCO network, remote TWR LANs, IWAN). The Network Management System (NMS) is a combination of hardware and software used to monitor and administer a network. NMS systems are also used for collecting device statistics over a given period of time and as reporting tool. Validation of the NMS configuration was performed in LAB (TEST) environment during May 2012 and the project was successfully finalised with Provisional SAT in September 2012. Transfer of NMS stations into operational NTW environment will be done by CCL experts in 2013.

Construction of wind speed and direction measurement system at Osijek and Brač airports

This project includes construction of infrastructure and installation of wind speed and direction measuring equipment in accordance with ICAO requirements and recommendations, with a view to achieving better integrity of wind data which directly improves the safety of landing at Osijek and Brač airports. In 2011, tendering procedure was conducted and relevant contract for the system supply was concluded. The infrastructure construction and equipment installation were completed in accordance with the project. During 2012. the systems are put into operations.

Terminal telecommunication equipment modernisation project

The procurement of TDM multiplexor equipment under the Framework Agreement was scheduled to be completed in 2011. The equipment installation schedule will be adapted to the requirements of new projects (Pleso radar station, CroATMS extension to remote sites) as well to the progress of VHF/UHF radio sites expansion project, with anticipated completion date in 2014. This project covers the implementation of subprojects MUX pair Zagreb-RS Pleso, MUX star Zagreb-Zadar and MUX star Zagreb-Dubrovnik; a sub-project of centralised monitoring and control of multiplexers and their adaptation for international communication. The above mentioned sub-projects of multiplexer and centralised monitoring system implementation were completed in 2011.

SUR System Upgrade (TMA Pula and TMA Dubrovnik)

The project goal is to improve the quality level of ATC service in Pula and Dubrovnik terminal manoeuvring area and indirectly to comply with the Commission Regulation 1207/2011 (SPI IR) and 552/2004 (Interoperability) requirements of future EATMN network. According to these requirements, all ANSPs shall ensure effective service in their AoR and buffer zones, with at least the minimum set of standards achieved for the aircraft separation. Surveillance data provided by the sensors shall comply with the regulation requirements in respect of the scope, while ensuring accuracy, availability, integrity and continuity of the data provided. considering that the existing sensors are not providing the sufficient level of radar coverage in parts of the mentioned airspace volumes, the only possible solution is the implementation of the new sensors.

According to the study conclusions, as regards operational, technical and economic aspects two solutions have been identified as the most appropriate:

1. Procurement and Implementation of the new Mode S MSSR in TMA Pula, and
2. Procurement and implementation of ADS-B/WAM surveillance system in TMA Dubrovnik.

Due to the evident difference in the scope, complexity and priorities, this long-term project has been divided in two parts, whilst the implementation dynamics will depend on timely provision of necessary resources.

4.6.5. 2012 Investment Plan

Projects scheduled for implementation in 2012.

Project name	Start	Operational
CCL centralised technical monitoring and control system	Before 2011	2016
ACC/TMA VHF/UHF radio system expansion project	Before 2011	2015
RRL replacement project at Zagreb ACC and Split TMA	Before 2011	2013
CCL MW link transmission network development	Before 2011	2013
NAV system replacement and upgrade project	Before 2011	2014
Terminal telecommunication equipment modernisation project	Before 2011	2014
Document management project	Before 2011	2015
ERRS Business information systems implementation project	Before 2011	2015
AMS system upgrade/replacement project (Pula, Split, Zagreb)	Before 2011	2014
Old ACC building renovation project	Before 2011	2016
Consultancy support for the projects P-2008-14 and P-2008-18	Before 2011	2015
Radar dana sharing and distribution project	2011	2014
Flexible use of airspace (FUA) project	2011	2015
RWA fiber optig cabling project	2011	2015
VRRS replacement project	2011	2013
Upgrade of VCCS at Zagreb ACC as a part of CroATMMP	2011	2015
Project of AFTN/CIDIN upgrade to AMHS	2011	2014
IP network modernisation project	2011	2013
CroATMS upgrade to COOPANS	2011	2014
Old server replacement, domain upgrade and ANS syst. Upgrade	2011	2013
UPS units replacement at TWR DU,TWR RI, TWR ZG	2011	2013
RF mast replacement project (Cavtat, Koločep, Kozala)	2011	2013
Project of air-conditioning system reconstruction at ATC Zadar	2011	2013
Procurement of consoles for simulator and COOPANS	2011	2016
Project of different systems adjustment to COOPANS	2011	2014
Modernisation and replacement of VCCS and emergency VCS systems	2011	2015
New ACC building and TWR infrastruct. adapt. As a part of CroATM modern	2011	2013
Adaptation of FPM function of ANAIS system	2011	2012
Emergency ATM system implementation project - ARES	2012	2014
Project of modernisation of AIS data base and MET computer system	2012	2014
NDB (beacons) procurement and replacement project	2012	2014
SUR system upgrade (TMA Pula and TMA Dubrovnik)	2012	2013
Relocation or administr. equipment from new techn. room OTE to old techn. room TTE	2012	2014
Project of muldimedia equipment upgrade in conference rooms	2012	2013
Centralised monitoring room upgrade at ATC Pula	2012	2014
Fire alarm system replacement project (RS Kozjak, ATC Rijeka and ATC Lošinj)	2012	2013

Procurement and implement. of SW support for prevent. & corr. action management	2012	2012
Centralised AMS data display project	2012	2013
Remote surveilance of MET conditions on RWY	2012	2013
Upgrade of FPS-117 radars to EMS standard	2012	2014
Procurement and installation of Flight Procedure Design Tool	2012	2012

4.6.6. 2013 Investment Plan

Projects scheduled for implementation during 2013.

Project name	Start	Operational
CCL centralised technical monitoring and control system	Before 2011	2017
ACC/TMA VHF/UHF radio system expansion project	Before 2011	2015
RRL replacement project at Zagreb ACC and Split TMA	Before 2011	2013
CCL MW link transmission network development	Before 2011	2014
NAV system replacement and upgrade project	Before 2011	2014
Terminal telecommunication equipment modernisation project	Before 2011	2014
Document management project	Before 2011	2015
ERRS Business information systems implementation project	Before 2011	2015
AMS system upgrade/replacement project (Pula, Split, Zagreb)	Before 2011	2014
Old ACC building renovation project	Before 2011	2016
Consultancy support for the projects P-2008-14 and P-2008-18	Before 2011	2015
Radar dana sharing and distribution project	2011	2014
Flexible use of airspace (FUA) project	2011	2015
RWA fiber optig cabling project	2011	2015
VRRS replacement project	2011	2013
Upgrade of VCCS at Zagreb ACC as a part of CroATMMP	2011	2015
Project of AFTN/CIDIN upgrade to AMHS	2011	2014
IP network modernisation project	2011	2013
CroATMS upgrade to COOPANS	2011	2014
UPS units replacement at TWR DU,TWR RI, TWR ZG	2011	2013
Procurement of consoles for simulator and COOPANS	2011	2016
Project of different systems adjustment to COOPANS	2011	2014
Modernisation and replacement of VCCS and emergency VCS systems	2011	2015
New ACC building and TWR infrastruct. adapt. As a part of CroATM modern.	2011	2013
Emergency ATM system implementation project - ARES	2012	2014
Project of modernisation of AIS data base and MET computer system	2012	2014
NDB (beacons) procurement and replacement project	2012	2014
SUR system upgrade (TMA Pula and TMA Dubrovnik)	2012	2019

Relocation or administr. equipment from new techn. room OTE to old techn. room TTE	2012	2014
Project of muldimedia equipment upgrade in conference rooms	2012	2013
Centralised monitoring room upgrade at ATC Pula	2012	2014
Fire alarm system replacement project (RS Kozjak, ATC Rijeka and ATC Lošinj)	2012	2013
Remote surveilance of MET conditions on RWY	2012	2014
Upgrade of FPS-117 radars to EMS standard	2012	2014
CMMS software procurement and instalation	2013	2014
Video surveilance of maneuvering area at LDZD	2013	2014
Structured cabling upgrade: fiber-optic OTE-TTE-WTE connections	2013	2013
Administrative network WiFi modification	2013	2013
Administrative WAN capacity increasing	2013	2013
Remote units - TMA and TWR areas approach control project	2013	2014
Administrative system Internet segment upgrade project	2013	2013
ID cards and digital signature PKI subsystem upgrade project	2013	2014
Air-condition systems at PU, RI and DU upgrade project	2013	2013
Kurilovec radar site dismantling project	2013	2014
Fire alarm system project at Dubrovnik ATC unit	2013	2013
MWO relocation project	2013	2015
WEB cameras for VFR purpose instalation project	2013	2016
MET to ATM support system development project	2013	2017

5. Safety, Quality and Security

Air traffic safety is given the highest priority in CCL.

To further improve the quality of service provided to our users, a Central Safety and Quality Office has been established at corporate level, reporting directly to the Director General.

The Central Safety and Quality Office covers the areas of:

- Safety management
- Quality management
- Security management
- Internal control and auditing.

5.1. Safety Management

5.1.1. Safety Management System

A safety management system (SMS), including a safety management function has been in place since 01.01.2007. A Safety Committee, which is the highest corporate body responsible for safety issues, meets on a monthly basis and comprises Director General, Division Directors, Executive Directors and the Safety Manager.

The main component of the SMS is the Safety Management Manual which defines the SMS organisation and processes as well as basic SMS procedures, in order to comply with the SMS requirements laid down in national regulations, Single European Sky requirements, Eurocontrol Safety Regulatory Requirements (ESARRs) setting out European safety standards.

Intensive SMS-related activities were undertaken in CCL during 2012. These included:

- Safety Occurrence Reporting and Investigations;
- Safety Surveys;
- Safety Assessments;
- External Services Safety Impact;
- Safety Monitoring;
- Competence Assurance;
- Safety Promotion;
- Safety Records;
- SMS Documentation.

5.1.2. Safety Performance Indicators

As per regulation 691/2010 on performance scheme, there are 3 KPIs in the safety key performance area:

a) the effectiveness of safety management (Safety Maturity);

b) the application of the severity classification of the Risk Analysis Tool (RAT);

c) the reporting of just culture.

During 2010, 2011 and 2012, these KPIs were discussed between CCL and Croatian Civil Aviation Agency (CCAA). Relevant EU-wide targets as well as those at national level have not as yet been set. In 2011, European Commission, EASA and Eurocontrol elaborated the metrics related for the above mentioned KPIs, allowing for subsequent setting of adequate performance targets.

Based on Eurocontrol's concept and guidance, the new methodology for the Safety Maturity Study was applied in 2011, in which CCL took part as well.

In investigating/analysing the occurrences, CCL has used the ESARR 2 classification for years because it is a part of national regulation which has applied the matrix from ESARR 2 guidance material EAM2GUI1, which means that two types of occurrences are dealt with (those relating to safe a/c operations and those relating the ability to provide safe ATM services).

During 2012., CCL took part in RAT training for safety and quality staff. In late 2012, CCL was using the RAT methodology for severity classification for all reported occurrences with ATM ground involvement.

A list of occurrences, including their classification, causes and other relevant data for 2012 was sent by National Aircraft Accident/Incident Investigation Agency to Eurocontrol by means of Annual Summary Template Report.

As regards the just culture, it has been disseminated to the staff and the Management through safety promotion workshops in order to develop a culture in which front line operators and others are not punished for actions, omissions or decisions taken by them that are commensurate with their experience and training but where gross negligence, wilful violations and destructive acts are not tolerated (as per the definition laid down in Art. 2 of the Commission Regulation (EU) 691/2010 and the Croatian Regulation Establishing a Performance Scheme for Air Navigation Services and Network Functions). Such approach makes employees accountable for deliberate violations of the rules but encourages and rewards them for providing essential safety-related information not blaming or punishing them for "honest mistakes". However, the efficient development of just culture needs the involvement of other entities outside CCL.

In 2012 CCL's safety activities were focused on the following objectives: decrease the number of serious incidents, improvement of effectiveness of safety and the first measurement of safety culture (Safety Culture Survey).

5.1.3. International safety activities

As part of its commitment to safety, CCL participates in a number of safety projects at European level.

Focusing its outcomes on the needs of SES and SESAR, Eurocontrol's European Safety Programme (European Safety Programme – ESP-Plus) aims to facilitate SMS regulation support in the deployments required by the European ATM Master Plan from now until 2014. ESP-Plus has been used to guide CCL's SMS activities and many of its objectives have been successfully implemented in CCL.

Eurocontrol's ES2 Project includes ANSPs from more than 20 countries and supports them in SMS implementation. Experts from CCL have participated in ES2 training sessions and workshops.

During 2012, HKZP continued its active role in a number of international initiatives and processes in the safety domain, including the participation of its representative in Eurocontrol Safety Team (comprising the safety managers of European air navigation service providers).

As a part of its contribution to the FAB CE Implementation Phase, CCL has actively participated in the Safety Sub-Committee.

5.2. Quality management

A Quality Management System (QMS) has been established, documented, applied and maintained by CCL, in compliance with the requirements of the international standard ISO 9001:2008. and certificate was issued to CCL by Bureau Veritas Croatia in July 2011.

The scope of activities covered by ISO 9001:2008 certificate includes the provision of all four services (ATS, CNS, AIS, MET).

All these services are managed in compliance with applicable national and international standards. The criteria for efficient management of CCL's business processes are set by the Quality Management Manual, while the services provided to the users are described in relevant operating manuals.

The Company Management ensures, by means of the established Quality Policy, that user requirements are identified and complied with in order to increase their measurable satisfaction.

The quality of CCL's services is granted by an integrated QMS, which is periodically reviewed and assessed for its long-term suitability, adequacy and effectiveness.

5.3. Security Management

CCL contributes to maintaining high levels of security in air transport.

During 2012, CCL continued to upgrade its SecMS in all key areas. Security awareness campaign was introduced in the headquarters and the branch offices. CCL representatives participated in the drafting of a new National Civil Aviation Security Programme.

The following key activities were also undertaken as a part of CCL Security Management System during 2012:

- ensuring the security of personnel and facilities;
- ensuring the protection of operative and administrative data and systems (new challenges are to be dealt with, considering the accessibility of some CCL services via internet and vulnerability of links between some operational systems and internet), and communication systems between its sites;
- ensuring coordination between military and civil authorities to secure airspace against acts of unlawful interference.

5.4. SES certification and safety oversight

In March 2009, CCL was certified by the Ministry of the Sea, Transport and Infrastructure, in accordance with the Regulation on the Terms and Conditions for the Certification of Air Navigation Service Providers, which is compliant with SES legislation, in particular the EC Regulation No. 550/2004 (as amended by the Regulation No. 1070/2009), Regulation No. 2096/2005 (as amended by the Regulation No. 1035/2011) and Regulation No. 1315/2007 (as amended by the Regulation No. 1034/2011).

Afterwards, an extensive safety oversight programme was undertaken by the Croatian Civil Aviation Agency in which CCL contributed by allocating significant resources in order to facilitate the relevant audits.

6. Additional services

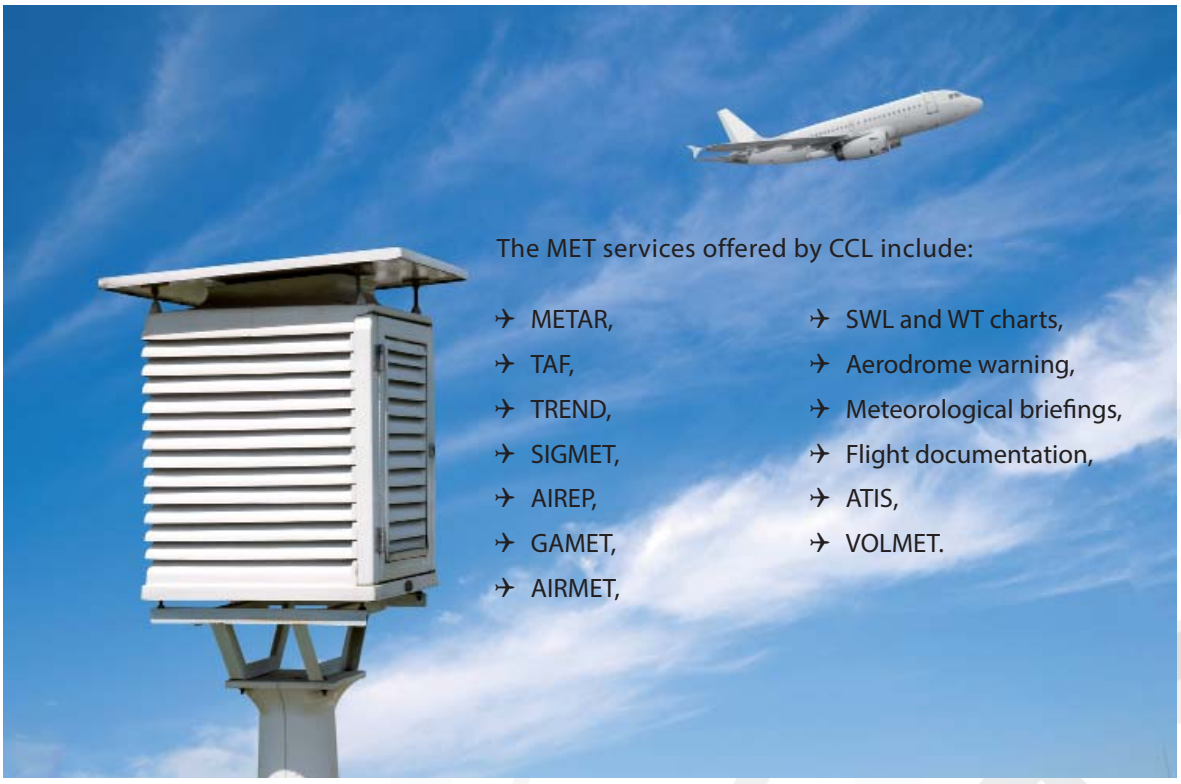
In addition to air traffic management, which comprises air traffic services, flow management and airspace management, CCL also provides aeronautical meteorology and aeronautical information services.

6.1. Aeronautical Meteorology (MET)

CCL MET Division provides meteorological services to air navigation. The provision of meteorological observations, forecasts and warnings, contributes towards safe, regular and efficient international air navigation, whilst respecting the regulations set by the International Civil Aviation Organization (ICAO) and the World Meteorological Organization (WMO).

The MET operational service comprises Meteorological Watch Office (MWO) located in Zagreb which is operational 24 hours a day, and Meteorological Offices in Zagreb, Split, Pula, Dubrovnik, Zadar, Rijeka and Osijek. Service is also available in Brač and Lošinj.

The users of the service are airlines, airports, general aviation, air traffic control and other aeronautical users whose operations depend on weather conditions. The process of formal consultation with users is held every autumn.



6.2. Aeronautical Information Services (AIS)

The aeronautical information service (AIS) department is located in Zagreb and it provides the aeronautical data and information necessary for the safety, regularity and efficiency of both international and national air navigation in Croatian airspace.

It had been certified to ISO 9001:2000 standard from 2005-2011. Current CCL certificate for all services, including the AIS, confirms compliance with requirements of ISO 9001:2008.

The AIS department comprises:

- International NOTAM office, operational 24 hours a day;
- Publications office.

Charts are prepared by the Aeronautical navigation, procedure design and cartography department located in Zagreb. Preflight briefing is provided by the ATS reporting offices (ARO) located at each aerodrome where the Aerodrome Control Service is available.

The Croatian AIS provides all elements of the Integrated Aeronautical Information Package - IAIP - (AIP AMDT/SUP, AIC, NOTAM and PIB, a list of valid NOTAMs and checklists) and additional publications such as VFR Manuals and VFR Chart with recommended VFR routes. All products are available in English or as bilingual publications, except for AICs series B that are in Croatian and for that reason distributed in Croatia only.

Since late 2007, AIS department has been fully migrated to the European Aeronautical Database (EAD), where all aeronautical information is available in electronic format via the EAD SDO, INO and PAMS modules. All the elements from the IAIP are based on the same data source in the database (SDO), except for charts that are currently provided from a separate source and as such incorporated in the eAIP. The electronic AIP of the Republic of Croatia has been available, both in English and Croatian, since early 2012. The preparation of eAIP related charts using the EAD chart module is planned to commence by the end 2013 and afterwards to be gradually implemented.

The ATS reporting offices (ARO) are using a local system NOTAM database for the pre-flight briefing and combine it with other relevant documentation for the briefing purposes. Further evolution is planned through the Project of modernisation of the AIS Data Base stated under 4.6.6.

Access to the up-to-date aeronautical information is provided through the CCL / AIS web pages and a link to the EAD, but CCL is investigating further possibilities for enhanced accessibility.

Preparatory activities for the implementation of the EC IR 73/2010 were conducted to the highest possible extent during 2012., due to recognised limitations on national and wider scale, in accordance with the Change Management Procedure.

7. Performance

7.1. Traffic

CCL reported a total of 496,242 IFR GAT operations in 2012, which is a 0.25% decrease compared to 2011.

Even though STATFOR calculations anticipated another increase in 2012., this decrease became apparent only during 2012, in the update to the STF, issued in May 2012. This is the first traffic drop after a long period of steady growth in this area and is a direct result of a global economic downturn, which was encountered in all corners of the EATMN (network).

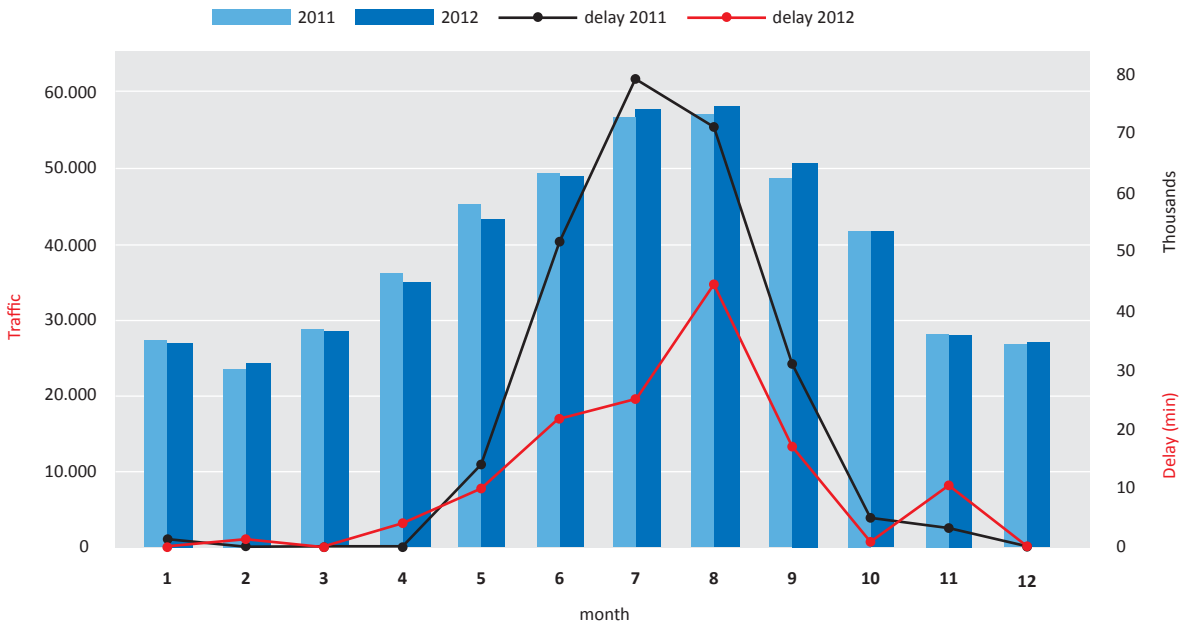
Year	GAT Traffic (IFR Operations)	% change
2007	385,594	+16.9%
2008	411,553	+6.7%
2009	419,826	+2.0%
2010	457,205	+8.9%
2011	497,492	+8.8%
2012	**496,242**	**-0.25%**

The growth in Croatia (source: NW DWH through FMP)

7.2. Delay

In 2012, the delays were reduced by further 50% as compared to 2011, when the same result was achieved as an example of successful operationalisation of high quality plans and good preparation for summer season.

The delay reduction in 2012 is a direct consequence of the actions implemented for the summer season 2012, and to a lesser part, a consequence of a reduction of IFR GAT traffic figures, tied with the fall in the global economy. These mentioned actions include a successful social dialogue, a change of DFL and implementation of a fourth layer in LDZO airspace.



Traffic and delay 2012 vs 2011

Recorded 2012 delay level of 0,27 min/flight was a significan 50% delay reduction on top of already recorded 50% delay reduction executed during 2011 compared to 2010 performance.

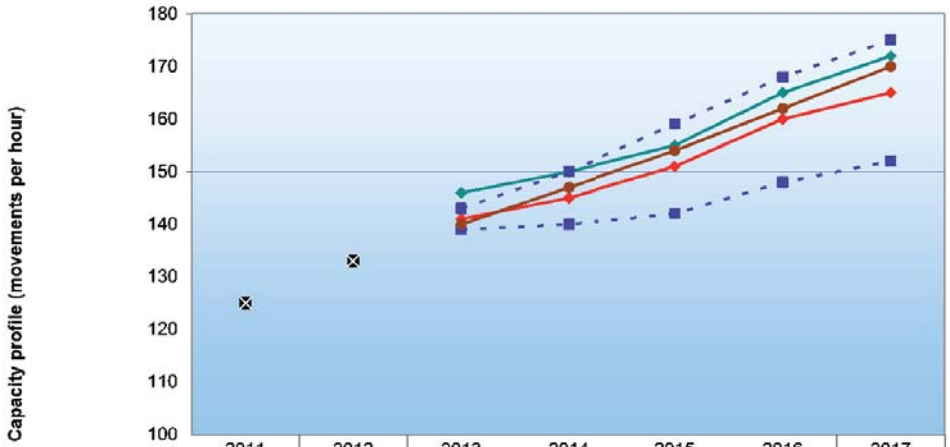
Capacity improvements

Zagreb ACC baseline capacity has grown by 6% in 2012 and now amounts to 133 IFR GAT operations per hour.

This increase of ACC capacity is the result of many combined efforts like social dialogue, intense training of ATCOs, technological improvements such as DFL change, increase of sector capacities, dynamic management of optimal sector configurations and other airspace improvements in line with the recommendations contained in the ARN Version 7 Catalogue.

All these achievements bring us very close to overcoming the capacity gap in 2013, which is a great achievement after many years of a significant imbalance between the Planned Reference (ACC) Capacity and the Baseline Capacity.

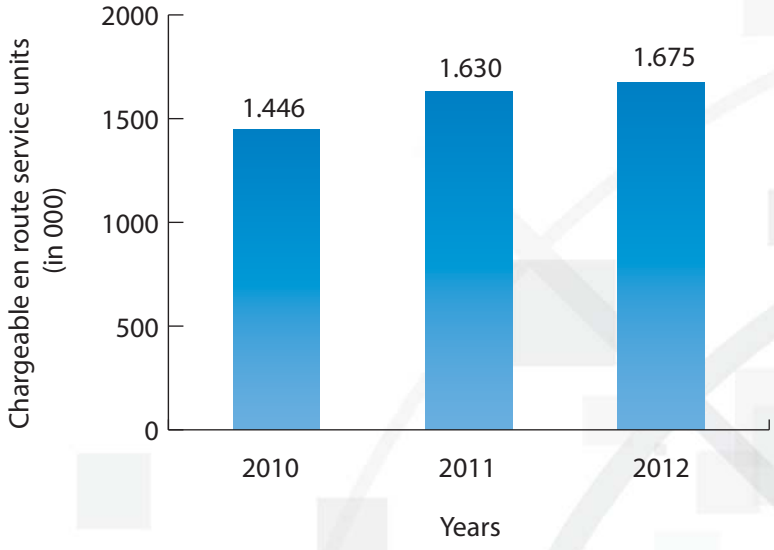
LDZOCTA - Reference capacity profile and alternative scenarios



	2011	2012	2013	2014	2015	2016	2017
2013-2017 Reference Capacity Profile			141	145	151	160	165
Capacity Profile - Current Routes			146	150	155	165	172
Capacity Profile - High			143	150	159	168	175
Capacity Profile - Low			139	140	142	148	152
Capacity Baseline	125	133					
2013 - 2017 Plan			140	147	154	162	170

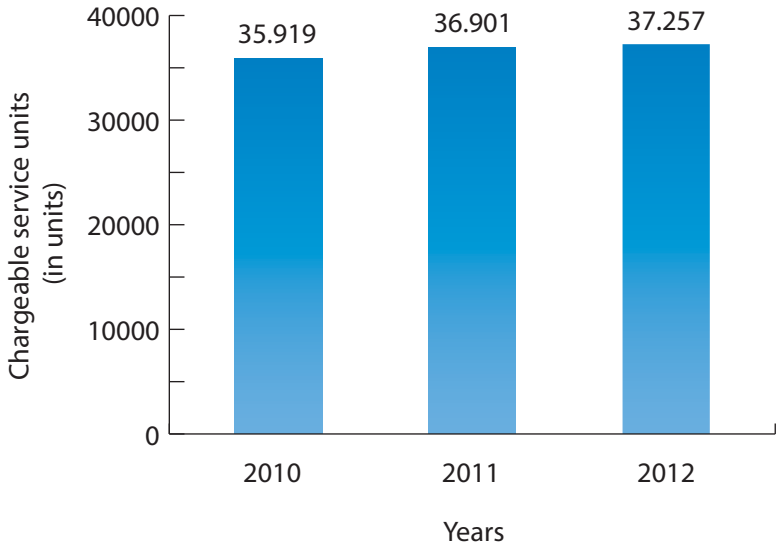
7.3. Service units and unit rate

Following a significant 2011 increase (of 12.,7%) and given the highly adverse both regional and EU wide air traffic development during 2012, the Company still managed to increase its 2012 performance by further 2.8%, reaching a historical high of some 1.68 million of chargeable en route service units provided to the airspace users. Annual increase rates in 2009 and 2008 were 2.3% and 5.7% respectively with lower growth of chargeable service units in 2009 due to adverse effects of global economic crisis on the European air traffic.



En route chargeable service units

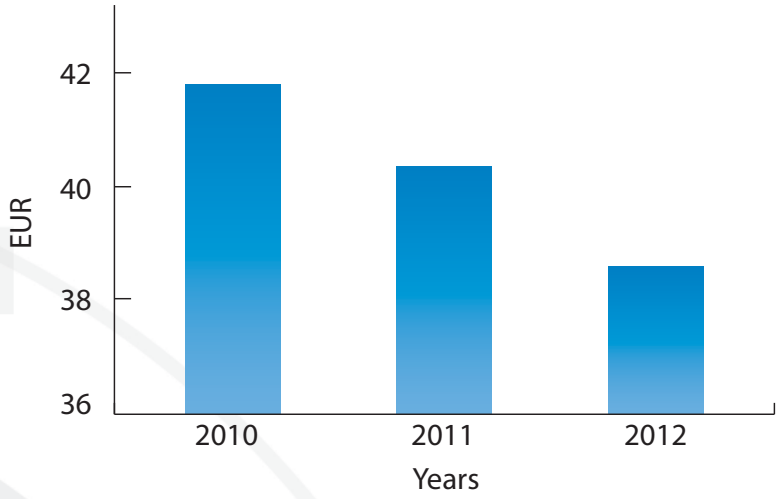
In regard to terminal traffic activities, the Company continued its upward service units production trend. During 2012, the Company managed to further increase total number of terminal chargeable service units by 1%, reaching a historical high of some 37.3 thousand.



Terminal chargeable service units

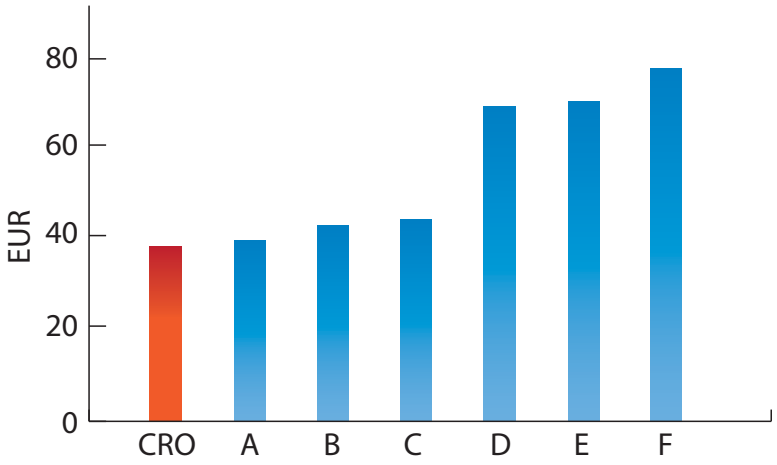
With a view to ensuring a required level of operational capacity and safety, total budgeted 2012 en route cost base was increased as compared to 2011, but less than budgeted 2012 increase in targeted traffic volume (which the Company committed to), resulting in en route unit rate forecast being further reduced by some 4% at budgeted 2012 level of €38.65.

The foregoing is a further evidence of the Company's ongoing trend of improved cost efficiency.



Croatia en route unit rates

Furthermore, as was the case during the previous periods too, Croatia has managed to offer a highly competitive en route unit rate during 2012. According to final budgeted figures of en route unit rates for 2012, following are the values for the state of Croatia and neigbouring states:



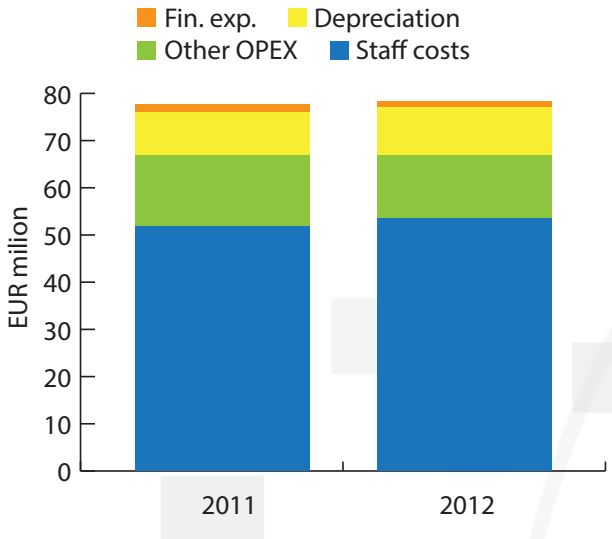
2012 budget en route unit rates

7.4. Costs and income

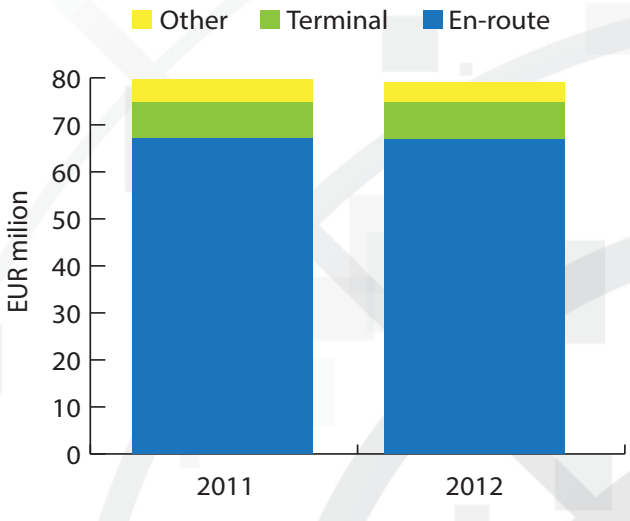
Even though the Company has delivered significant additional capacity to its users, with further halving down 2011 ATFM en route delay level, all additionally supported by increased service unit provision compared to 2011, the Company has fully managed to control its total cost incurred in 2012 which resulted in total of EUR 78.3 million (0.9% increase over the 2011 records). Aforementioned cost discipline proves even more substantial given the increased 2012 traffic demand handled during the high investment cycle activities focused on modernisation and upgrade of the existing Croatia air traffic management system.

Furthermore, the Company has continued its cost efficiency improvement trend for a third consecutive year now, vividly supported by 2012 additional en route unit rate reduction of (further) 4%.

Most important part of the Company's total cost base relates to staff costs (being some 2/3 of total with recorded 2012 increase around the 2012 inflation level). During 2012 the Company has successfully managed to deliver significant operational savings (some 10% savings in other OPEX) with incurring some 10% of additional depreciation costs due to new assets been put in operation during the year which allowed for the capacity increase and significant delay reduction. Financial expenses account for insignificant part of the Company's total costs (around 2%).



Total costs development



Total revenues development

In spite of delivering additional cost efficiency, capacity and significant delay reduction to its respective users during 2012, and even though the planned 2012 air traffic development proved to be substantially lower (up to 7%) than the traffic finally projected by STATFOR (which projections the Company had committed to deliver on and according to which the Company had planned the magnitude and dynamic of its 2012 operations), the Company reported around EUR 79.1 million in total revenues (presenting 0.7% reduction as compared to the preceding period).

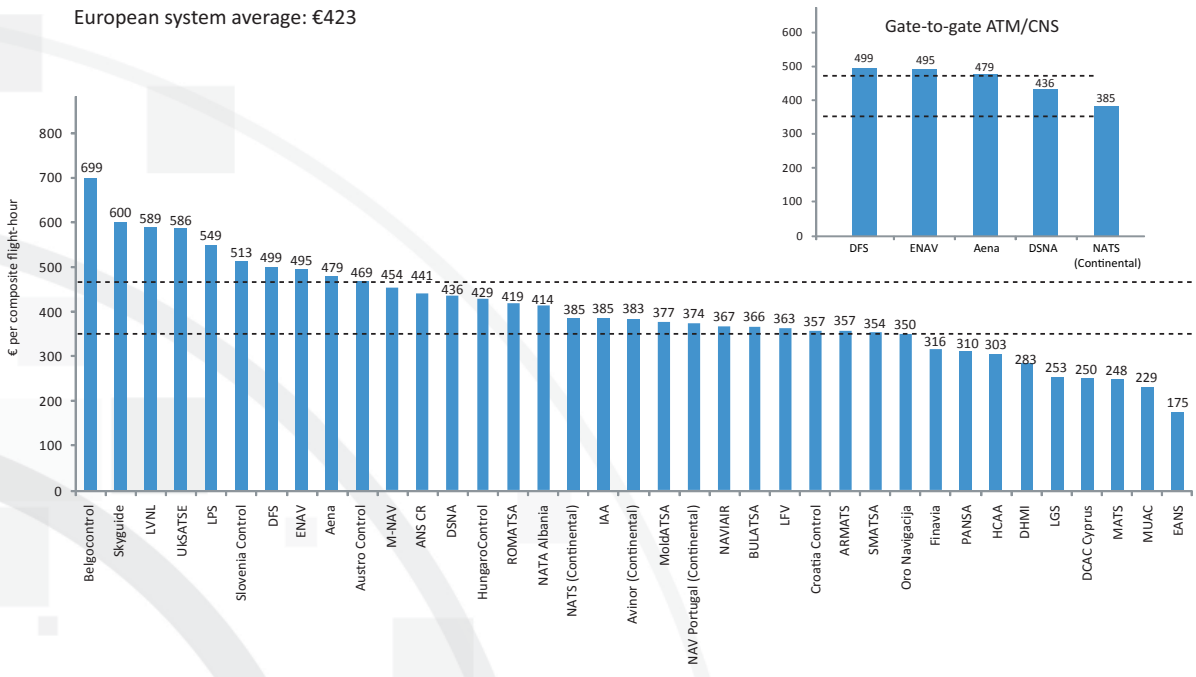
En route charges (inclusive of the charges related to Company's ATS operations provided in the airspace of Bosnia and Herzegovina) accounted for 84%, terminal charges accounted for some 10% while other income accounted for approximately 6% comprising mostly reversal of long-term provisions.

7.5. Cost effectiveness

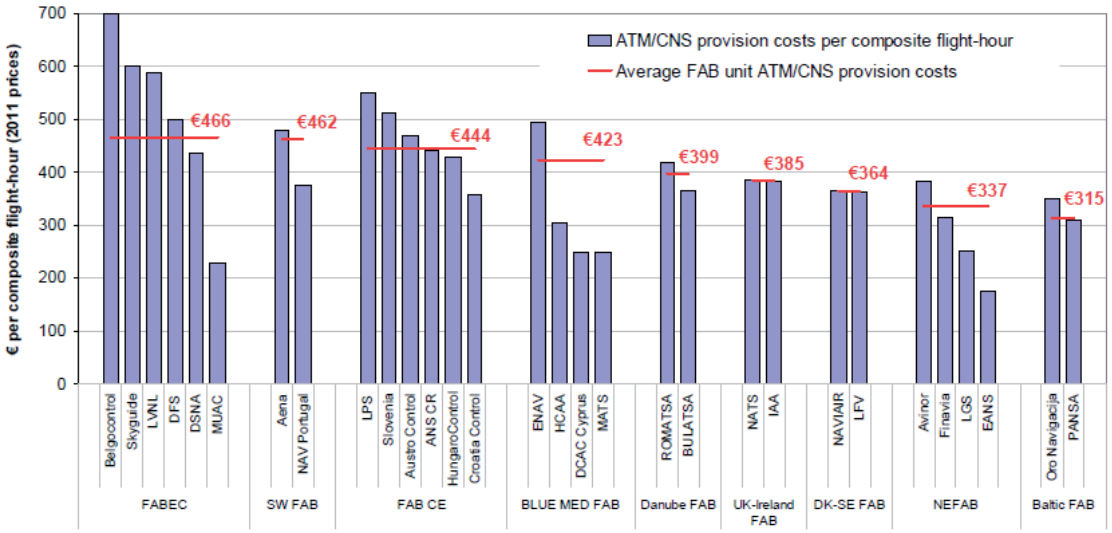
European ATM performance is regularly monitored by the Performance Review Unit (PRU). The PRU's financial cost-effectiveness indicator gives an indication of how well air navigation service providers are performing in providing a cost-effective service.

According to the ATM Cost-Effectiveness (ACE) 2011 Benchmarking Report dated April 2013, Pan-European system-wide gate-to-gate ATM/CNS provision cost per composite flight-hour ("CFH") as well as FAB CE respective indicator were both EUR 423 and EUR 444 respectively. During the same period, the Company performed almost 16% more cost efficiently compared to European system average, and almost 20% more cost efficiently compared to FAB CE system average, resulting in CCL's 2011 ATM/CNS provision cost per CFH amounting to EUR 357. Presented performance pushed the Company on the very edge of the bottom quartile, meaning that the Company joins the group of 25% best performing companies given the indicator in question.

Although PRU's financial cost-effectiveness indicators for 2012 are not yet available, it is quite reasonable to assume that given the 2012 total costs and air traffic development records, CCL's 2012 cost efficiency performance will have delivered further improvements.



Comparison of the financial cost-effectiveness indicator; 2011



ANSPs financial cost-effectiveness aggregated by FAB; 2011

7.6. Performance indicators

In 2012, CCL achieved the following performance indicators:

Financial stability, indebtedness and liquidity indicators	2011	2012
1. Coverage of fixed assets and inventories by equity capital and long-term sources	1.02	1.13
2. Share of equity capital in the sources of funding, in %	56.55	51.03
3. Debt factor, number of years	4	5
4. Total asset turnover coefficient	0.76	0.67
5. Overall liquidity coefficient	1.31	2.05
6. Time of collection of short-term receivables, in days	61	62
7. Inventories, in days kept	2	2

Business performance indicators	2011	2012
1. Total income-expenditure ratio	1.03	1.01
2. Profit/loss share in total income, in %	1.89	0.73
3. Profit/loss share in assets, in %	1.43	0.49
4. Profit/loss share per employee, in HRK	15,413	5,826

Source of data: Financial Agency - FINA, BON – 1 Form – Creditworthiness Information

The overall liquidity coefficient as on 31.12.2011 shall be taken with some reservation, because the Current Liabilities included accounts payable to foreign suppliers in the amount of HRK 50.3 million, which were settled in January 2012 by means of a long-term loan.


8
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8. Human resources

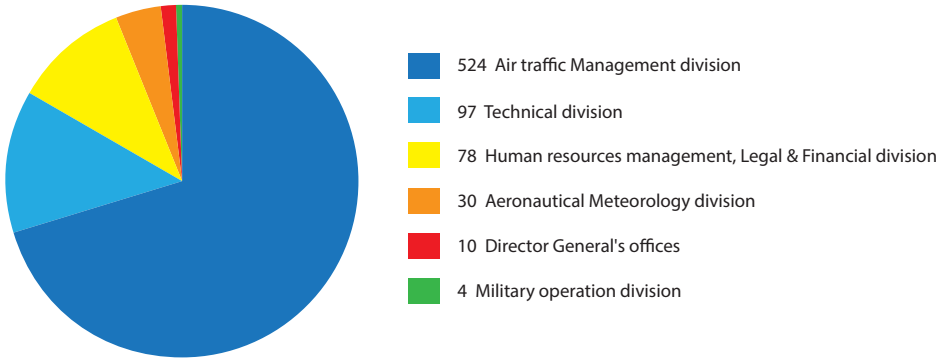
8.1. Human resources management policy

CCL pays special attention to human resources management, with a training system geared to ensure training, acquiring and continuous maintaining of competencies and experience in a way to achieve international and national standards. The Company employs the staff with adequate qualifications, to enable safe, high quality and continuous provision of services.

8.2. Employees

In 2012, the total number of employees in the Company was 743, with 522 males and 221 females.

The following graph shows the number of employees in individual divisions:



Air traffic controllers and on-the-job trainees (OJT) make the largest share of the workforce. Their numbers at different operational units are shown below

Location	ATCOs	ATCOs with other assignments	OJTs
Zagreb ACS	90	7	10
Zagreb APS	18	2	0
Zagreb ADI/TWR	21	2	0
Osijek ATC	3	1	0
Pula ATC	18	2	4
Split/Brač ATC	29	2	0
Zadar ATC	20	2	2
Dubrovnik ATC	19	2	6
Rijeka ATC	9	1	2
Lošinj ATC	3	2	0
TOTAL	**230**	**23**	**24**

8.3. Social dialogue

In March 2012 the collective negotiations with social partners were completed, and the Collective Agreement for the Company employees was concluded, to be applicable until end of December 2014.

8.4. Employment and recruiting

CCL is fully committed to the principle of equal opportunities and dignity of every individual in its recruiting and employment policy.

The selection of candidates for air traffic controllers, administrative and assisting aeronautical staff was conducted in compliance with the predefined testing procedures. The FEAST (First European Air Traffic Controller Selection Test) program was used for the recruitment of air traffic controller candidates.

The selection of candidates for technical and administrative staff was conducted in CCL and was also outsourced from an institution specialising in employment psychological testing as required.

8.5. Training

The basic training of air traffic controllers was conducted at the Faculty of Traffic and Transport Engineering, University of Zagreb, while the rating training was conducted at Entry Point North (EPN), Sweden. In 2012, eight candidates completed the Area Rating Training and eight candidates completed the Approach Rating Training at EPN. The Unit Training for these ratings starts at the beginning of 2013. Furthermore, ten air traffic controllers completed the On-the-Job Training Instructor (OJTI) Course.

All training plans (for ATCOs, ATSEP and all other staff) comply with the ESARR 5.

As mentioned above, in the provision of basic training CCL cooperates with the Faculty of Transport and Traffic Engineering, University of Zagreb. Staff development, refresher and emergency training courses are also provided either by CCL or in cooperation with Deutsche Flugsicherung (DFS), EPN and the Eurocontrol Training Institute in Luxembourg (IANS).

8.5.1. Retirement scheme

Pursuant to valid regulations and the Retirement Plan, 26 employees retired in 2012.

9. Outlook and priorities for 2013

Following its 5 year Business plan which aims at defining a long term and strategic future Company's orientation, the Company has decomposed those strategic goals and guidelines into short term goals and priorities which for the year of 2013 comprise the following :

- Safety
  - continuing improvement of SMS effectiveness and maturity,
- Capacity
  - further improvement of ATFM en route delay performance and
  - further improvement of baseline capacity,
- Environment
  - introduction of CDO concept,
- FUA
  - introduction of Airspace Management Cell,
- FAB CE:
  - further continual and proactive engagement and cooperation in FAB CE bodies and projects with aim of full implementation of FAB CE,
- Quality management systems:
  - introduction of health and safety management system based on BS OHSAS 18001 standard,
- Meteorology:
  - further and continuous development of the required MET services,
- Cooperation with Ministry of Defence of the Republic of Croatia
  - further and continual fulfilment of the Ministry's requirements while respecting the predefined operational requirements and preserving the highest level of airspace safety,
- Human resource management
  - further and continual process of staff education with the aim of fully delivering the required service quality to airspace users.

10. Financial Statements and Auditor's Report

Responsibility for the Financial Statements

Management Board of the Company Croatia Control Ltd., Velika Gorica, Rudolfa Fizira 2 (''the Company") is responsible for ensuring that the annual financial statements for the year 2012 are prepared in accordance with the Accounting Law (Official Gazette No 109/07) and the International Financial Reporting Standards (Official Gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12) issued by the Committee for Financial Reporting Standards, nominated by the Government of the Republic of Croatia, to give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows of the Company for that period.

After making enquiries, the Management has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management has adopted the going concern basis in preparing the financial statements of the Company.

In preparing those financial statements, the Management shall ensure that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless such assumption is not appropriate.

The Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and the results of operations of the Company and their compliance with the Accounting Law (Official Gazette No 109/07) and the International Financial Reporting Standards (Official Gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12) issued by the Committee for Financial Reporting Standards. The Management is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management:

Dragan Bilać, Director General

Croatia Control Ltd.
Rudolfa Fizira 2
10 410 Velika Gorica
12 April 2013

Independent Auditor's report

To the owners of the company Croatia Control Ltd., Zagreb

1. We have audited the enclosed annual financial statements of the company Croatia Control Ltd., Velika Gorica, Rudolfa Fizira 2 ("the Company") for the year ended 31 December 2012, which comprise of the Balance Sheet/ Statement of Financial Position as of that date, the Statement of Income / Statement of Comprehensive Income, the Statement of Changes in Subscribed Capital and the Statement of Cash Flows for the year then ended, and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

Responsibility of the Company's Management

2. The preparation and a fair presentation of the enclosed financial statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's Management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's Management.

Responsibility of Auditor

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

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

   We believe that auditing proof and evidence being collected by us are sufficient and suitable as the basis for our opinion.

Opinion

4. In our opinion, the accompanying financial statements, in all material respects, give true and fair presentation of the financial position of the Company as of 31 December 2012, the results of operations and the cash flows of the Company for the year 2012 in accordance with the Accounting Law and the International Financial Reporting Standards effective in the Republic of Croatia.

Other legal and regulatory requirements

5. The preparation of the annual financial statements of the Company for the year ended 31 December 2012 in the form as established by Regulation on the Structure and Content of the Annual Financial Statements (Official Gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is the responsibility of the Company's Management. Financial information set out in standard annual financial statements of the Company are identical to information stated in the annual financial statements of the Company shown on pages 3 to 31, which are the subject of our opinion as set out in section Opinion, above.

Audit d.o.o., Zagreb

Zoran Vuk, Certified Auditor, member of the Management

Zagreb, 12 April 2013

STATEMENT OF INCOME / STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 in HRK	2011 in HRK
Sales revenues	3	562,845,418	563,630,002
Other operating revenues	4	31,098,112	29,092,408
Operating revenues		**593,943,530**	**592,722,410**
Raw material and material costs	5	(9,846,478)	(9,514,643)
Other external costs	6	(46,968,592)	(41,857,162)
Material costs		(56,815,070)	(51,371,805)
Net salaries and wages		(183,258,473)	(177,605,508)
Costs for taxes and contributions from salaries		(147,620,208)	(139,437,743)
Contributions on gross salaries		(71,181,343)	(72,644,382)
Staff costs	7	(402,060,024)	(389,687,633)
Depreciation	8	(76,559,952)	(69,368,086)
Other costs	9	(29,534,684)	(38,668,816)
Impairment of short-term assets		(1,437,801)	(2,452,746)
Impairment	10	(1,437,801)	(2,452,746)
Provisions	11	(10,363,235)	(15,924,685)
Other operating expenses	12	(2,814,806)	(4,320,829)
Operating expenses		**(579,585,572)**	**(571,794,600)**
Interest income, foreign exchange gains, dividends and similar income from non-related parties and other entities		803,612	6,395,200
Other financial income		13,153	9,995
Financial income	13	**816,765**	**6,405,195**
Interest expenses, foreign exchange losses and similar expenses from non-related parties and other entities		(9,185,911)	(11,755,131)
Financial expenses	14	**(9,185,911)**	**(11,755,131)**
TOTAL INCOME		**594,760,295**	**599,127,605**
TOTAL EXPENSES		**(588,771,483)**	**(583,549,731)**
PROFIT BEFORE TAXATION		**5,988,812**	**15,577,874**
Profit tax	15	(1,642,546)	(4,264,693)
PROFIT FOR THE PERIOD	30	**4,346,266**	**11,313,181**
NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**-**	**-**
COMPREHENSIVE INCOME FOR THE PERIOD		**4,346,266**	**11,313,181**

The accompanying Notes from 1 to 46 set out below form an inseparable part of these financial statements.

BALANCE SHEET / STATEMENT OF FINANCIAL POSITION

As of 31 December 2012

	Note	At 31 Dec 2012 in HRK	At 31 Dec 2011 in HRK
ASSETS			
Concessions, patents, license fees, merchandise and service brands, software and other rights		59,501,785	**83,733,902**
Advance payments for the acquisition of intangible assets		7,041,700	-
Intangible property in the course of preparation		152,848,594	89,514,012
Intangible assets	16	**219,392,079**	**173,247,914**
Land		48,649,949	48,649,949
Buildings		127,599,208	133,950,515
Plant and equipment		115,519,798	117,603,951
Instruments, plant inventories and transportation assets		10,155,257	7,048,376
Tangible assets in preparation		88,139,688	30,693,902
Prepayments for tangible assets		12,636,099	4,238,652
Tangible assets	17	**402,699,999**	**342,185,345**
Loans, deposits and similar assets		40,378,900	39,930,397
Other long-term financial assets		535,577	521,334
Financial assets	18	**40,914,477**	**40,451,731**
LONG-TERM ASSETS		**663,006,555**	**555,884,990**
Raw material and supplies		3,506,861	3,311,481
Prepayments for inventories		-	226,824
Inventories	19	**3,506,861**	**3,538,305**
Accounts receivable	20	96,449,197	96,485,554
Receivables from employees and shareholders	21	55,359	86,109
Receivables from government and other institutions	22	11,905,828	19,114,242
Other receivables	23	399,173	389,807
Receivables		**108,809,557**	**116,075,712**
Loans, deposits and similar		30,951,683	45,182,520
Financial assets	24	**30,951,683**	**45,182,520**
Cash at bank and in hand	25	**73,449,690**	**65,589,955**
SHORT-TERM ASSETS		**216,717,791**	**230,386,492**
Prepaid expenses and accrued income	26	**4,534,928**	**3,969,561**
TOTAL ASSETS		**884,259,274**	**790,241,043**
OFF-BALANCE SHEET NOTES	39	**532,461,683**	**507,100**

	Note	At 31 Dec 2012 in HRK	At 31 Dec 2011 in HRK
LIABILITIES AND CAPITAL			
Subscribed capital	27	**352,759,600**	**352,759,600**
Other reserves		48,822,120	48,822,120
Reserves from net income	28	**48,822,120**	**48,822,120**
Retained earnings	29	**45,313,181**	**34,000,000**
Profit for the current year	30	**4,346,266**	**11,313,181**
CAPITAL AND RESERVES		**451,241,167**	**446,894,901**
Provisions for pensions, severance pays and similar liabilities		12,696,338	25,635,778
Other reserves		210,150	1,697,644
Provisions	31	**12,906,488**	**27,333,422**
Liabilities to banks and other financial institutions		303,782,570	125,154,033
Long-term liabilities	32	**303,782,570**	**125,154,033**
Liabilities to banks and other financial institutions	33	38,900,851	50,556,341
Accounts payable	34	22,413,920	61,218,242
Liabilities to employees	35	16,703,132	24,750,392
Liabilities for taxes, contributions and similar fees	36	19,413,677	30,304,819
Other short-term liabilities	37	8,534,234	9,038,885
Short-term liabilities		**105,965,814**	**175,868,679**
Deferred settlement of charges and income deferred to future period	38	**10,363,235**	**14,990,008**
TOTAL CAPITAL AND LIABILITIES		**884,259,274**	**790,241,043**
OFF-BALANCE SHEET NOTES	39	**532,461,683**	**507,100**

The accompanying notes from 1 to 46 set out below form an inseparable part of these financial statements.

STATEMENT OF CHANGES IN SUBSCRIBED CAPITAL

For the year ended 31 December 2012

	At 31 December 2010	Distribution of profit	Profit for the current year	At 31 December 2011
	in HRK	in HRK	in HRK	in HRK
Subscribed capital	**352,759,600**	-	-	**352,759,600**
Other reserves	**46,236,842**	2,585,278	-	**48,822,120**
Retained earnings	**20,000,000**	14,000,000	-	**34,000,000**
Profit for the current year	**16,585,278**	(16,585,278)	11,313,181	**11,313,181**
Total	**435,581,720**	**-**	**11,313,181**	**446,894,901**

	Note	At 31 Dec 2010	Distribution of profit	Profit for the current year	At 31 Dec 2011
		in HRK	in HRK	in HRK	in HRK
Subscribed capital	27	**352,759,600**	-	-	**352,759,600**
Other reserves	28	**48,822,120**	-	-	**48,822,120**
Retained earnings	29	**34,000,000**	11,313,181	-	**45,313,181**
Profit for the current year	30	**11,313,181**	(11,313,181)	4,346,266	**4,346,266**
Total		**446,894,901**	**-**	**4,346,266**	**451,241,167**

The accompanying notes from 1 to 46 set out below form an inseparable part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2012

		Note	2012 in HRK	2011 in HRK
I	**CASH FLOW FROM OPERATING ACTIVITIES**			
	Profit before tax		5,988,812	15,577,874
	Depreciation		76,559,952	69,368,086
	Increase in short-term liabilities		-	47,412,865
	Decrease in short-term receivables		5,623,609	-
	Decrease in inventories		31,444	536,453
	Other cash flow increases		-	5,807,569
	Total increase in cash flow from operating activities		88,203,817	138,702,847
	Decrease in short-term liabilities		(58,247,375)	-
	Increase in short-term receivables		-	(15,569,269)
	Increase in inventories		-	-
	Other cash flow decreases		(19,619,074)	(18,326,969)
	Total decrease in cash flow from operating activities		(77,866,449)	(33,896,238)
	NET CASH FLOW FROM OPERATING ACTIVITIES		**10,337,368**	**104,806,609**
II	**CASH FLOW FROM INVESTING ACTIVITIES**			
	Cash outflows for purchase of long-term tangible and intangible assets		(183,218,771)	(161,699,351)
	Total cash outflows from investing activities		(183,218,771)	(161,699,351)
	NET CASH FLOW FROM INVESTING ACTIVITIES		**(183,218,771)**	**(161,699,351)**
III	**CASH FLOW FROM FINANCING ACTIVITIES**			
	Cash inflows from loans, debentures, credits and other borrowings		166,973,047	4,338,879
	Other inflows from financial activities		14,230,837	42,664,797
	Total cash inflows from financing activities		181,203,884	47,003,676
	Cash outflows for repayment of loans and bonds		-	-
	Other cash outflows from financing activities		(462,746)	(2,285,243)
	Total cash outflows from financing activities		**(462,746)**	**(2,285,243)**
	NET CASH FLOW FROM FINANCING ACTIVITIES		**180,741,138**	**44,718,433**
	TOTAL NET CASH FLOW		**7,859,735**	**(12,174,309)**
	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	25	**65,589,955**	**77,764,264**
	CASH AND CASH EQUIVALENTS AT END OF PERIOD	25	**73,449,690**	**65,589,955**
	INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**7,859,735**	**(12,174,309)**

The accompanying notes from 1 to 46 set out below form an inseparable part of these financial statements

Notes to the Financial Statements

For the Period 01.01. - 31.12.2012

Introduction

CCL has been established by the Act on Establishing the Croatian Air Navigation Services(Official Gazette No 19/98) as a limited liability company for the provision of air navigation services in the Republic of Croatia (hereinafter: "the Company").

The founder and owner of CCL is the Republic of Croatia.

1. General

1.1. Activity

CCL, Rudolfa Fizira 2, Velika Gorica ("the Company") is involved in the following activities:

- Provision of air navigation services (ATS);
- Provision of air traffic services, particularly air traffic control, alerting service, flight information and pre-flight information service, all aimed at providing a safe, orderly and smooth air traffic, as well as flight data processing and storage, promulgation of safety-related information, management of air traffic flow and airspace utilisation;
- Collecting, processing and issuing of aeronautical information, including special publications;
- Identifying the operating requirements for air traffic management, control and monitoring systems, equipment, infrastructure, etc.;
- Responsibility for the airspace and flight procedures design, minding the interests of military and civil users, as well as environmental protection;
- Development, construction, maintenance, monitoring and checking the function of air navigation and meteorological facilities, systems and equipment;
- Aeronautical meteorological and aerodrome climatology observations, as well as drafting and exchange of aeronautical meteorological reports;
- Preparation of aviation weather forecasts, as well as special information and warnings for the airports and routes in Croatian airspace, preparation of aeronautical meteorological documentation and performance of other tasks as specified by the ICAO documents;
- Implementation and coordination of specific engagements in various international organizations, particularly in ICAO and Eurocontrol;
- Professional and life-long training of the staff;
- Export and import of goods for own needs;
- Other operations in function of safe air traffic.

1.2. Number of staff

The number of staff employed by the company at 31 December 2012 was 743 employees (749 employees at 31 December 2011).

Staff structure by qualification level is presented below.

	At 31 December 2012	At 31 December 2011
University degree	212	204
Two-year post secondary school diploma	272	272
Secondary school certificate	244	255
Skilled workers	10	11
Unskilled workers	5	7
Total	**743**	**749**

The number of newly employed workers in 2012 is 29 and 35 employees left the Company (8 upon termination of employment contract by mutual consent, 1 - death, 26 - retired).

1.3. Supervisory Board and the Management of the Company

The members of the Supervisory Board of the Company are as follows:

	from - to
Darko Prebežac, president	7 December 2012 – 6 December 2016
Dinko Staničić, vice president	7 December 2012 – 6 December 2016
Željko Gojko, member	18 December 2007 – 27 June 2015
Hrvoje Filipović, member	4 June 2012 – 3 June 2016
Marijana Müller, member	7 December 2012 – 6 December 2016
Branka Vine	4 June 2012 – 6 December 2012
Sanja Steiner	4 June 2012 – 6 December 2012
Damir Šprem	4 June 2012 – 6 December 2012
Ante Čajić, president	15 December 1999 – 3 June 2012
Đurđa Hunjet, member	15 December 1999 – 3 June 2012
Petar Barać, member	20 December 2002 – 3 June 2012
Jure Šarić, member	28 June 2011 – 3 June 2012

The Management of the Company:

	from - to
Dragan Bilać, Director General	8 March 2013 –
Nino Karamatić, Director General	6 June 2012 – 7 March 2013
Dražen Ramljak, Director General	23 July 2010 – 5 June 2012

The amount of remuneration to members of the Management and the Supervisory Board of the Company is specified in Notes 7 and 9 to the Financial Statements.

2. Summary of significant accounting policies

Set out below are the principal accounting policies.

2.1. Statement of adjustment and basis of presentation

The financial statements of the Company for 2012 are prepared in accordance with the Accounting Law (Official gazette 109/07) and the International Financial Reporting Standards (''IFRS") (Official Gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12) issued by the Committee for Financial Reporting Standards nominated by the Government of the Republic of Croatia, and in accordance with the Regulation on the structure and content of annual financial statements (National gazette No 38/08, 12/09, 130/10).

Financial statements are prepared with the application of the basic accounting assumption of the occurrence of a business event upon which the effects of operations are recognized when arisen and are shown in the financial statements for the period to which they relate and with the application of the basic accounting assumption of the going concern concept.

2.2. Key estimates and uncertainty of estimates

Certain estimates are used during the preparation of the financial statements which have inflow to the statement of property and liabilities of the Company, income and expenses of the Company and the disclosure of potential liabilities of the Company.

Future events and their inflows cannot be predicted with certainty, thus the real results may differ from those estimated. The estimates utilized during the preparation of the financial statements are subject to changes by the occurrence of new events, by gathering additional experience, obtaining additional information and comprehensions and by a change of environment in which the Company operates.

Key estimates used by the application of accounting policies during the preparation of the financial statements relate to the depreciation count of long-term intangible and tangible property, value decrease of property, value provision of inventories, value provision of receivables and provisions and the disclosure of potential liabilities.

2.3. Reporting currency

The financial statements of the Company are prepared in the Croatian kuna as a measuring and reporting currency of the Company.

2.4. Revenue recognition

Sales of goods and services are recognized when goods are delivered and services are rendered, and the title has passed. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

Income from construction contracts, subsequently to the estimate of the results of contract, is recognized according to a degree of finalization of the works contracted, and on the basis of portion of contract's costs, recognized until the end of the balance sheet date/statement of financial position in relation to the totally estimated contract's costs. If it is likely that totally estimated contract's costs will exceed total contract's income, the expected loss is recognized as expense of the period.

2.5. Borrowing costs

Borrowing costs are charged to the Statement of Income in the period in which they were incurred.

2.6. Foreign currency transactions

Transactions in currencies other than the Croatian kuna are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets, receivables and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet / statement of financial position date. Gains and losses arising on translation are included in the income statement / statement of comprehensive income for the current year.

At 31 December 2012 the official rate of the Croatian kuna was 7.55 HRK for 1 EUR (At 31 December 2011 was 7.53 HRK) and 5.73 HRK for 1 USD (At 31 December 2011 was 5.82 HRK).

2.7. Income tax

The tax currently payable is based on the result for the year, adjusted by non-taxable and tax non-deductible items (70% of entertainment expenses, 30% of costs for the use of personal cars, etc.). Income tax is calculated using tax rates that were valid on the balance sheet / statement of financial position date.

2.8. Long-term intangible and tangible assets

Long-term intangible and tangible assets initially are carried at historical acquisition cost which comprises purchase price, import duties and non-refundable sales taxes, after the deduction of commercial discounts and rebates, as well as all other costs directly attributable to bringing the asset to its working condition for its intended use.

Long-term intangible and tangible assets are recognized if it is likely that future benefits attributable to the property will inflow to the Company, and if the cost of the acquisition of an asset can be reliably measured, and if a single purchase value of property exceeds HRK 3,500.

After first recognition, the property is carried at historical acquisition cost less accumulated depreciation and any accumulated impairment losses.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Where it is obvious that expenses incurred resulted in an increase of expected future economic benefits to be derived from the use of an item of long-term intangible or tangible property in excess of the originally assessed standard performance of the asset, they are added to the carrying amount of the asset. Gains or losses on the retirement or disposal of long-term intangible and tangible asset are included in the statement of income / statement of comprehensive income in the period in which they occur.

Depreciation commences when an asset is put into use, i.e. when it is at the location and in the condition necessary for utilization. The depreciation count of property ceases when the property is classified as property held for sale. Depreciation is charged so as to write-off the cost or valuation of each asset, other than land and long-term intangible and tangible assets under construction, over their estimated useful lives, using the straight-line method, on the following basis:

	Depreciation rate 2012 (from – to %)
Concessions, patents, licence fees, software, etc.	14.28
Buildings	5
Plant and equipment	14.28
Instruments, plant inventories and transportation assets	14.28
Other material assets	12.50

2.9. Financial assets

Financial assets include cash, cash investments, investments in kind and assignment of rights with a view to making income and are classified, on the date of the Balance Sheet / Statement of Financial Position, as follows:

- financial assets intended for trade; any changes of their fair value fair value are recognized in the Profit and Loss Account / Statement of Comprehensive Income;
- loans and receivables.

2.10. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories comprises all purchase costs, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the First-in-first-out (''FIFO'') method.

Net realisable value represents the estimated selling price during a normal course of operations less all estimated costs of completion and necessary costs to be incurred in selling.

If the value of inventories is higher than the estimated net selling price, an allowance is created and charged to income statement for the current year.

Small inventories, packing and car tyres are written-off by 100% at the moment when they are put into use.

2.11. Receivables

Short-term receivables are stated at initially recognized nominal amounts as reduced by appropriate allowances for estimated irrecoverable amounts and value decreases.

The value of receivables is decreased and impairment losses arise only and exclusively if objective evidence exists in respect of a value decrease resulted from one or more events which occurred after the initial recognition of property, when such an event has the impact on the estimated future cash flows from receivables which can be reliably determined. On the date of each balance sheet / statement of financial position, it is estimated whether there is objective evidence in respect of a value decrease of a single receivable. If objective evidence exists in respect of a value decrease of receivables, the amount of loss is measured as a difference between the net book value and the estimated future cash flows. The net book value of receivables will be decreased directly or by using a separate account of value provision. The amount of a loss is recognized by charging the profit and loss account / statement of comprehensive income for the current year.

2.12. Cash with banks and in hand

Cash consists of balances with banks and cash in hand, demand deposits and securities payable at call or with maturities of up to three months.

2.13. Impairment

On the date of each balance sheet / statement of financial position, the Company reviews the carrying amounts of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Loss from the decrease in value of property is recognized as expense in the profit and loss account/statement of comprehensive income.

2.14. Financial instruments

Financial instruments are classified as assets, liabilities or equity instruments in accordance with applicable contracts. Interest, dividends, gains and losses on financial instruments classified as financial assets or liabilities are recognized as income or expense when they arise.

Financial assets and financial liabilities are recognized on the Company's balance sheet / statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Receivables are reported at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Liabilities are reported at their nominal amounts.

Investments are recognized on a trade-date basis of accounting and initially are measured at cost, which includes transaction costs. Investments are classified as held for trading which change in fair value is recognized in the Income Statement / Statement of Comprehensive Income or as investments available for sale which change in fair value is recognized in capital as revaluation reserve.

Interest-bearing bank borrowings and overdrafts are recorded at the proceeds received and to the extent of approved overdraft facility.

The Management of the Company believes that the fair values of all assets and liabilities stated in the Balance Sheet / Statement of Financial Position are not materially different from their carrying amounts.

2.15. Leases

Leases are classified as financial leases if all the risks and economic benefits connected with ownership are transferred from lessor to the lessee. A financial lease is recognized in the balance sheet/ statement of financial position of the lessee as property and liability for the financial lease.

Leases are classified as business/operating leases if all the risks and economic benefits connected with ownership are not transferred from the lessor to the lessee. Business/operative lease is recognized as an expense in the profit and loss account / statement of comprehensive income of the lessee on the uniform basis during the period of lease.

2.16. Provisions

A provision is recognized only when the Company has a present obligation as a result of a past event and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet / statement of financial position date and adjusted to reflect the current best estimate.

Reservations are determined for costs of legal proceedings, costs of severance pays, costs of regular jubilee awards to employees and retirement costs (regular jubilee awards and severance pays) and also the costs of stimulating severance pays based on a staff restructuring plan of the Company.

Reservations of costs of regular jubilee awards to employees and retirement costs (regular jubilee awards and severance pays) are determined as a net book value of the future pay-offs using a discount rate equal to the interest rate on government bonds.

2.17. Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements but disclosed in Notes to the Financial Statements.

A contingent asset is not recognized in the financial statements but disclosed at the moment when an inflow of economic benefits is probable.

2.18. Subsequent events

After the Balance Sheet date events that provide additional information about the Company's position at the Balance Sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the Notes to the Financial Statements when material.

3. Sales revenues

	2012	2011
	in HRK	in HRK
Income from sale in Croatia	35,209,350	37,229,787
Income from sale abroad	527,636,068	526,400,215
Total	**562,845,418**	**563,630,002**

Income from sale abroad accounts for 93% revenues of the Company, while income from domestic sale accounts for 7%. Actual income relates to charges for the use of the Company's facilities and services in the territory of the Republic of Croatia. Income from core activity amounts to HRK 561,715,542. Of this amount, income from en-route charges in the Republic of Croatia amounts to HRK 448,114,054; income from terminal charges amounts to HRK 59,582,093 and income from en-route charges in Bosnia and Herzegovina HRK 54,019,395. Other operating income amounts to HRK 1,129,876.

4. Other operating income

	2012	2011
	in HRK	in HRK
Income from sale of long-term fixed assets	18,937	15,323
Income from reversal of provisions	29,416,943	28,282,091
Income from subsidies, subventions, grants etc.	59,637	71,499
Rental income	67,472	67,487
Income from subsequently identified income	-	202,632
Income from indemnifications	91,571	35,016
Income from subsequent suppliers' rebates and discounts	1,086,694	-
Other income	356,858	418,360
Total	**31,098,112**	**29,092,408**

Income from cancellation of provisions in 2012 includes cancellation of provisions for unused annual vacations from previous year in the amount of HRK 14,990,008; cancellation of provisions for severance payments and jubilee awards to employees in the amount of HRK 12,939,441 and the cancellation of provisions on court disputes in progress in the amount of HRK 1,487,494.

Income from subsequent credit notes from suppliers in the amount of HRK 1,086,694 relates to credit note issued by Eurocontrol for the CEATS membership contribution paid in 2010.

5. Raw material and supplies costs

	2012	2011
	in HRK	in HRK
Raw material and supplies costs	1,916,854	1,922,379
Spare parts	2,405,562	2,766,053
Small inventory	393,650	228,075
Energy	5,130,412	4,598,136
Total	**9,846,478**	**9,514,643**

Costs of raw material and supplies in the amount of HRK 1,916,854 relate to office supplies, OHS equipment and supplies, cleaning products and other materials.

Energy costs in the amount of HRK 5,130,412 comprise electric energy costs, heating costs and costs of fuel for all the Company vehicles.

Costs of spare parts in the amount of HRK 2,405,562 relate to regular and extraordinary maintenance of equipment and facilities.

6. Other external costs

	2012	2011
	in HRK	in HRK
Telephone cost, postal services and transport	18,751,090	16,990,721
Maintenance (services)	19,451,827	18,491,290
Rental and lease costs	963,174	742,875
Intellectual and personal services	4,454,243	1,617,216
Municipal services (utilities) costs	1,256,839	1,190,530
Other external costs	2,091,419	2,824,530
Total	**46,968,592**	**41,857,162**

In the total costs of telephone, postal services and transport amounting to HRK 18,751,090 the most significant item refers to domestic link lease in the amount of HRK 7,411,117 and international link lease in the amount of HRK 3,250,510. Other costs relate to transport services, inland and abroad, postal and other services.

In the maintenance costs amounting to HRK 19,451,827 the biggest item relates to the equipment maintenance costs in the amount of HRK 3,295,066 and software maintenance costs in the amount of HRK 8,880,950 and the rest relates to current and investment maintenance of facilities and equipment, cleaning services, security and other services.

The biggest part of intellectual and personal service costs in 2012 relates to the provision of air space simulation services (the ATC procedure) in the real time for the purpose of airspace research and development in the amount of HRK 3,499,714 (in 2011 this service was not provided). Other costs of intellectual and personal services relate to consultancy, lawyer, notarial and other services.

7. Staff costs

	2012	2011
	in HRK	in HRK
Net wages and salaries	183,258,473	177,605,508
Pension insurance contribution, pillars I and II	55,610,353	55,066,934
Taxes and surtaxes on income	92,009,855	84,370,809
Contributions on salaries	147,620,208	139,437,743
Staff costs	71,181,343	72,644,382
Total	**402,060,024**	**389,687,633**

Net salaries in the amount of **HRK 183,258,473** (2011: in the amount of **HRK 177,605,508**) consist of the remuneration to the Company's Management which comprise salaries of the Management in the amount of HRK 193,474 (2011: in the amount of HRK 250,392), net amount of severance pays amounting to HRK 8,727, 864, as well as remuneration in kind in the amount of HRK 285,124.

According to International accounting standards 16 and 19, a part of costs of gross salaries of employees in the amount of HRK 2,598,163 is capitalised to the relevant projects (COOPANS and 3D simulator).

8. Depreciation

	2012	2011
	in HRK	in HRK
Depreciation of intangible assets	26,887,037	23,762,165
Depreciation of tangible assets	49,672,915	45,605,921
Total	**76,559,952**	**69,368,086**

Annual depreciation rates are applied pursuant to the Decision on depreciation accounting dated 30 October 2010, applicable as of 1 January 2011.The depreciation costs have increased by the amount of HRK 7,191,866 due to the completion of the Pleso radar station construction project, CroATM system upgrade and extension to remote sites and NAV system replacement and upgrade (ILS Zadar) and their putting into operation.

9. Other costs

	2012	2011
	in HRK	in HRK
Daily allowances and travelling costs	4,259,136	3,632,959
Compensation of costs to employees, gifts and support	6,989,006	6,649,155
Remuneration to members of the Supervisory Board (gross)	381,175	387,085
Insurance premiums	6,835,446	12,727,210
Banking services and payment transaction charges	1,025,566	5,921,659
Utilization rights' costs – licences and radio frequencies	1,314,817	941,613
Contributions, memberships and similar appropriations	1,501,863	1,889,282
Education and training	6,215,728	5,720,593
Other costs	1,011,947	799,260
Total	**29,534,684**	**38,668,816**

Insurance premiums in 2012 include the insurance of Company vehicles, insurance of property, insurance of persons against accidents and liability insurance and are lower by HRK 5,891,764. The reason for this decrease is due to the fact that 2011 financial statements included the amount of premiums contributed to the voluntary supplementary pension scheme. Under the modified Collective Agreement from 2012, it is possible to contribute severance pays not only to pension fund, but to transfer them to the employees current account, charging the account of staff costs (see Note 7).

Banking service charges and the payment transaction charges in 2012 are lower by HRK 4,896,093 because in 2011 bank fees on the EBRD loan were paid in the amount of HRK 3,522,324 as well as the fee for issuing the sovereign guarantee, paid to the state budget of the Republic of Croatia in the amount of HRK 1,764,139

10. Impairment

	2012	2011
	in HRK	in HRK
Impairment of short-term receivables	253,225	1,749,661
Impairment of inventories	1,184,576	703,085
Total	**1,437,801**	**2,452,746**

Impairment of short-term receivables relates to Eurocontrol, due to uncertainty of collection and the circumstances suggesting bad and doubtful receivables as well as the expiry of the period of prescription for receivables in the amount of HRK 253,225 on the basis of the Report and accounting of Croatian terminal charges.

Impairment of spare part inventories relate to inventories older than one year, which had no turnover.

The impairment charges the Profit and Loss account of the current year.

11. Provisions

	2012	2011
	in HRK	in HRK
Provisions for regular severance pays and jubilee awards	-	934,677
Provisions for unused annual vacations	10,363,235	14,990,008
Total	**10,363,235**	**15,924,685**

Based on actuarial tables, in 2012 there was a decrease of the provisions costs for jubilee awards and severance pays according to the International accounting standard 19. By a Decision of the Director General of the Company, the provisions in the amount of HRK 852,891 for jubilee awards and in the amount of HRK 95,500 for severance pays were credited to the income.

Pursuant to Art.11, paragraph 5 of the Income Tax Law short-term provisions in the amount of HRK 10,363,235 were allocated for unused annual vacations of employees.

12. Other operating expenses

	2012	2011
	in HRK	in HRK
Write-off of uncollected receivables	1,979,100	3,377,541
Net book value of fixed assets sold	84,324	121,378
Deficit	172,220	157,316
Write-off of inventories	117,840	17,902
Penalties, fines, damages, etc.	357,162	17,883
Subsequently established expenses	-	342,008
Other operating expenses	104,160	286,801
Total	**2,814,806**	**4,320,829**

On the basis of Report and the reconciliation with Eurocontrol, receivables on account of en-route charges amounting to HRK 1,170,829 as well as receivables for the interest on en-route charges amounting to HRK 477,463 were definitively written off and removed from the records as uncollectable. Also, the receivables from the Eurocontrol Statement for en-route services provided in Bosnia and Herzegovina in the amount of HRK 295,846 were definitively written off as well as the receivables for interest (Bosnia and Herzegovina) in the amount of HRK 34,711.

Fines, penalties and indemnifications, etc. in the amount of HRK 357,162 relate mainly to judicial and extrajudicial settlement in the amount of HRK 338,596.

13. Financial income

	2012	2011
	in HRK	in HRK
Interest income	803,612	2,401,167
Foreign exchange gains	-	3,994,033
Other financial income	13,153	9,995
Total	**816,765**	**6,405,195**

Interest income relates to income from time deposits with commercial banks, interest at sight and interest on late payments for the receivables reported in the Eurocontrol Statement. Interest income decreased in 2012 because, as compared to 2011, the time deposits in commercial banks were reduced both in number and value.

14. Financial expenses

	2012	2011
	in HRK	in HRK
Interest expense	7,682,648	7,726,034
Foreign exchange losses	1,503,263	4,029,097
Total	**9,185,911**	**11,755,131**

Interest expenses relate to

	2012
	in HRK
Interest on loans – EIB	3,303,106
Interest on loans – EBRD	623,693
Interest on loans – PBZ	2,846,037
Interest on loans – EBRD-42754	218,133
Interest on not drawn-down loan amount – EBRD – 42754	682,276
Interests – other	9,403
Total	**7,682,648**

The foreign exchange gains/losses are accounted by application of net principle. In 2012, the foreign exchange gains were set-off against foreign exchange losses. The foreign exchange gains resulted in reduced foreign exchange losses.

15. Profit tax

The reconciliation of accounting profit to taxable profit has been made as follows

	2012	2011
	in HRK	in HRK
Accounting profit (profit before tax)	5,988,812	15,577,874
Tax non-deductible expenses	4,254,594	7,535,677
Tax incentives	(2,030,675)	(1,790,084)
Tax basis	8,212,731	21,323,467
Tax liability	**1,642,546**	**4,264,693**

The applicable profit tax rate in 2012 and 2011 was 20%.

For the purpose of establishing the taxable income basis, the accounting profit was taken as the initial tax basis, which was subsequently increased by items listed in art. 7 of the Law (70% of entertainment costs in the amount of HRK 112,448; 30% of costs for personal transport in the amount of HRK 417,613), impairment and the write-off of receivables according to Art. 9 and Art.10 of the Law in the amount of HRK 3,416,649 and decreased by the items listed in Art. 6 of the Income Tax Law (state subsidy for education and training in the amount of HRK 1,978,531).

16. Intangible assets

in HRK	Concessions, patents, licence fees, software and other rights	Assets in preparation	Prepayments	Total
Cost				
At 31 December 2011	206,778,488	89,514,012	-	296,292,500
Additions	-	65,989,502	7,041,700	73,031,202
Transfer	2,654,920	(2,654,920)	-	-
Disposals or retirements	(11,017)	-	-	(11,017)
At 31 December 2012	209,422,391	152,848,594	7,041,700	369,312,685
Accumulated depreciation				
At 31 December 2011	123,044,586	-	-	123,044,586
Depreciation charge for 2012	26,887,037	-	-	26,887,037
Disposals or retirements	(11,017)	-	-	(11,017)
At 31 December 2012	149,920,606	-	-	149,920,606
Net book value				
At 31 December 2012	59,501,785	152,848,594	7,041,700	219,392,079
At 31 December 2011	83,733,902	89,514,012	-	173,247,914

Intangible investments in the course of preparation in the amount of HRK 152,848,594 consist of:

Project Ref. No.	Name of project	Value
P-2004-12	CCL centralised technical monitoring and control system	101,280
P-2011-08	CroATMS upgrade to COOPANS	152,682,395
P-2011-25	Various systems adjustment to COOPANS	64,919
	Total	**152,848,594**

The project-2011-08- CroATMS upgrade to COOPANS – assets in preparation is - financed from EBRD loan in the amount of HRK 123,768,375 and from the Company's funds in the amount of HRK 28,914,020.

17. Tangible assets

in HRK	Land	Buildings	Plant and equipment	Instruments, plant inventories and transportation assets	Assets in preparation	Prepayments	Total
Cost							
At 31 December 2011	48,649,949	259,270,318	363,299,801	34,935,693	30,693,902	4,238,652	741,088,315
Additions	-	-	-	-	101,874,443	18,790,059	120,664,502
Transfer	-	6,421,095	31,956,736	6,050,826	(44,428,657)	-	-
Disposals or retirements	-	(448,813)	(3,562,692)	(753,584)	-	(10,392,612)	(15,157,701)
At 31 December 2012	48,649,949	265,242,600	391,693,845	40,232,935	88,139,688	12,636,099	846,595,116
Accumulated depreciation							
At 31 December 2011	-	125,319,803	245,695,850	27,887,317	-	-	398,902,970
Depreciation charge for 2012	-	12,711,952	34,034,187	2,926,776	-	-	49,672,915
Disposals or retirements	-	(388,363)	(3,555,990)	(736,415)	-	-	(4,680,768)
At 31 December 2012	-	137,643,392	276,174,047	30,077,678	-	-	443,895,117
Net book value							
At 31 December 2012	48,649,949	127,599,208	115,519,798	10,155,257	88,139,688	12,636,099	402,699,999
At 31 December 2011	48,649,949	133,950,515	117,603,951	7,048,376	30,693,902	4,238,652	342,185,345

The procedure of establishment and registration of ownership rights over real estate recorded in the books of accounts has not been finalised. Procedures aimed at resolving the ownership rights' issues are under way.

Immovable property / real estate in preparation:

Project Ref. No.	Name of project	Value (HRK)
P-2007-01	CCL MW link transmission network development project	580,197
P-2008-01	NAV system replacement and upgrade project	76,083
P-2012-14	Other investment projects	55,515
P-2011-27	New ACC building and TWR infrastructure adaptation as a part of CroATM system modernisation project	286,200
P-2004-14	VHF/UHF radio system expansion project	5,000
P-2011-03	RWY fiber optic cabling project	129,759
	Total	**1,132,754**

Tangible assets in preparation:

Project Ref. No.	Name of project	Value (HRK)
P-2004-14	VHF/UHF radio system expansion project	6,836,053
P-2008-08	Terminal telecommunication equipment modernization project	555,637
P-2012-15	Purchase of long-term asset items – gen. purpose computer equipment	802,893
P-2004-12	CCL centralised technical monitoring and control system	160,776
P-2012-22	Purchase of long-term asset items -other long term assets	422,256
P-2012-23	Purchase of long-term asset items –network equipment	467,661
P-2011-08	CroATMS upgrade to COOPANS project	61,810,711
P-2012-08	Fire-alarm system replacement project	11,000
P-2011-07	IP network modernisation program	5,233,581
P-2011-24	Procurement of consoles for simulator and COOPANS	32,393
P-2011-25	Various systems adaptation to COOPANS	1,172,812
P-2011-05	Upgrade of VCCS at Zagreb ACC as a part of CroATM modernisation	701,479
P-2012-05	Relocation of admin.equipment from new tech. room OTE to old techn. room TI	135,852
P-2011-06	AFTN/CIDIN upgrade to AHMS project	6,136,913
P-2004-21	RRL replacement project at Zagreb ACC and Split TMA	390,043
P-2012-14	Other investment projects	102,332
P-2012-02	AIS data base and the MET computer system modernisation project	2,034,542
	Total	**87,006,934**

The project 2011-08 - CroATMS upgrade to COOPANS project - assets in preparation (in progress) amounting to HRK 61,810,711 has been fully financed under EBRD loan.

18. Long-term financial assets

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Deposit with Zagrebačka banka d.d., Zagreb – security deposit	40,378,900	39,930,397
Investment into the fund ZB Invest d.o.o.,Zagreb	535,577	521,334
Total	**40,914,477**	**40,451,731**

Long-term financial assets comprise of:

- time-deposits with Zagrebačka banka under the Contract on special purpose deposit in HRK with currency clause as also the investments in ZB Invest investment fund.

The funds deposited with ZB Invest fund have been withdrawn and transferred to the Company's bank account before the preparation of these Financial Statements. The return on such investment in 2012 amounted to HRK 13,153.

19. Inventories

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Inventories		
Raw material and supplies	385,706	440,773
Spare parts	14,976,869	13,618,913
Small inventory at stock	190,500	113,433
Less: Spare part value adjustment	(12,046,214)	(10,861,638)
	3,506,861	3,311,481
Prepayments for stocks		
Prepayments to suppliers for spare parts	-	226,824
Total	**3,506,861**	**3,538,305**

According to par.6 and par.25 to 30 of the International Accounting Standard 2, the impairment of spare part inventories amounted to HRK 1,184,576. Spare parts inventories older than one year without any turnover, charge the Profit and Loss account of the current year, while the amount of HRK 12,046,214 (value adjustment of inventories) is the previous year's cumulative sum as of 31 December 2012.

Inventories are carried at the acquisition cost and include the inventories of spare parts, office supplies, cleaning products, OHS equipment and small inventory. Spare parts' inventories account for 96% of the total inventory structure, which is due to specific nature of the Company's operations involving sophisticated equipment and technology, for which the spare parts are purchased abroad and their purchase costs are very high.

20. Accounts receivable

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Domestic accounts receivable	48,443	29,923
Foreign accounts receivable	98,437,547	98,235,606
Less: Value adjustment	(2,036,793)	(1,779,975)
Total	**96,449,197**	**96,485,554**

The largest portion foreign account receivables as at 31 December 2012 relate to receivables from Eurocontrol for en-route services, in particular:

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
En-route charges	80,219,487	10,631,260
Terminal charges	7,607,005	1,008,135
En-route charges – Bosnia and Herzegovina	10,222,615	1,354,774
Total	98,049,107	12,994,169

On the basis of the Report and calculation of terminal charges for Croatia for the year ended on 31 December 2012, the impairment of receivables from Eurocontrol due to uncertainty of collection and the conditions which suggest to bad and doubtful receivables was assessed in the amount of HRK 253,225. The amount of HRK 2,036,793 represents the previous year's cumulative sum as reported in 2012.

21. Amounts due from employees and shareholders

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Amounts due from employees	55,359	86,109
Total	**55,359**	**86,109**

Receivables from employees relate to cash receivables, remuneration in kind for the use Company cars as well as receivables from employees for mobile call costs exceeding the approved limit.

22. Current receivables from government and other institutions

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Receivables for income tax	5,186,070	4,234,624
Receivables for a value added tax	6,485,638	14,372,004
Receivables for taxes and surtaxes from salaries and wages	6,962	6,034
Receivables for a value added tax not yet recognized	87,197	424,054
Receivables for the sick leave amends from the Croatian Health Insurance Institute	124,578	77,526
Other receivables	15,383	-
Total	**11,905,828**	**19,114,242**

Receivables for a value added tax in the amount of HRK 6,485,638 represent the VAT receivables for November and December 2012, but collected on 30.01.2013 and 02.03.2013 respectively.

Receivables on account of reimbursement of sick-leave amends by the Croatian Health Insurance Institute relate to the receivables for sick-leaves exceeding 42 days.

The overpaid income tax in the amount of HRK 5,186,070 derives from advance payments.

23. Other short-term receivables

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Prepayments for services	58,354	15,613
Other short-term receivables	340,819	374,194
Total	**399,173**	**389,807**

Other short-term receivables include receivables from the Croatian Civil Aviation Agency on account of difference of 0.04% for 2011 in the amount of HRK 191,935 and for the difference of 0.02% for 2012 in the amount of HRK 83,476 as well as VAT receivables from the Croatian Civil Aviation Agency and National Protection and Rescue Directorate.

24. Current financial assets

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Given loans, deposits, etc.		
Privredna banka Zagreb d.d., Zagreb (3-12 month deposit)	30,182,496	45,182,520
Other financial assets	769,187	-
Total	**30,951,683**	**45,182,520**

The amount of HRK 30,182,520 represents contract-based foreign currency time deposits with Privredna banka Zagreb d.d., Zagreb. The time deposit amounts to EUR 4 million, equivalent to HRK 30,182,496. The funds were withdrawn in February and March 2013.

Other financial assets include a loan granted to Osijek Airport in the amount of HRK 400,000. The contract was concluded on 5 July 2012 with a repayment period until 31 March 2013. The amount of HRK 369,187 (EUR 48,927.30) is the amount paid by a Letter of Credit to the company SITTI under the contract for the design, supply and installation of consoles for the Croatian air traffic management system.

25. Cash at bank and in hand

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Current account balance	3,846,674	2,112,775
Foreign currency account balance	69,556,682	59,545,003
Cash in hand – HRK	31,181	28,700
Cash in hand – foreign currency	15,153	11,993
Deposits up to 3 months	-	3,891,484
Total	**73,449,690**	**65,589,955**

The amount of HRK 3,891,484 in 2011 represents time deposits with Zagrebačka banka, which were withdrawn on 13 July 2012.

26. Prepaid expenses and accrued income

The amount of **HRK 4,534,928** (**HRK 3,969,561** on 31.12.2011) relates to prepaid expenses of the future period. Prepaid maintenance costs in the amount of HRK 1,165,598 and prepaid insurance costs in the amount of HRK 1,222,992 represent the biggest items.

27. Registered capital

The registered capital has been established in the nominal amount of 352,759,600HRK (same amount as reported as at 31 December 2011) and represents a stake of a sole founder and owner, the Republic of Croatia.

28. Other reserves

	in HRK
At 31 December 2011	48,822,120
At 31 December 2012	48,822,120

Other reserves are the result of appropriation of net income from previous years and based on the Decision of Company's Assembly on the use of net income.

29. Retained earnings

		in HRK
At 31 December 2011		34,000,000
Part of 2011 income	(see Note 30)	11,313,181
At 31 December 2012		45,313,181

Retained earnings in the amount of HRK 45,313,181 include the appropriation of net income based on the Decisions of the Company's Assembly from previous years.

30. Profit for the current year

In 2012 the Company generated net profit in the amount of **HRK 4,346,266** (**HRK 11,313,181** in 2011).

Based on the decision of the Assembly, 2011 profit in the amount of HRK 11,313,181 was allocated into retained earnings for investments (see Note 29).

Traffic decrease in 2012, as compared to 2011 and to the 2012 forecast, resulted in lower income. Since 2000, the year 2012 has been the first year in which the Company recorded a fall in traffic. As the air traffic in Croatia greatly depends on the European air traffic, the decrease of the air traffic volume in Europe, attributable to economic crisis, reflected upon the traffic volume in Croatia. Such traffic decrease trend in 2012 resulted in reduced income and had a significant impact upon the Company's financial result as a whole.

31. Provisions

	Costs of jubilee awards and severance pays	Costs of stimulating severance pays	Costs of legal proceedings	Total
	in HRK	in HRK	in HRK	in HRK
At 31 December 2011	9,778,887	15,856,891	1,697,644	27,333,422
Reversal of provisions	(948,390)	(11,991,050)	(1,487,494)	(14,426,934)
At 31 December 2012	8,830,497	3,865,841	210,150	12,906,488

At 31 December 2011 the Company had HRK 27,333,422 of provisions on account of court disputes, jubilee awards, regular and incentive severance pays.

Income from reversal of provisions relate to paid out severance pays and jubilee awards to employees in the amount of HRK 12,939,441 for the employees who retired and for whom provisions had been made for severance pays according to International Accounting Standards 19 and 37.

Income from reversal of provisions in 2012 include the provisions for court disputes in progress in the amount of HRK 1,487,494 based on the risk assessment and the lawyer's opinion.

The resulting final amount of the provisions is HRK 12,906,488.

32. Long-term borrowings

	Interest rate	Currency	At 31 December 2012	At 31 December 2011
European Investment Bank, Luxembourg	3.104-3.597 % depending on tranche	EUR	68,120,219	80,010,715
European Bank for Reconstruction and Development, London	3.479-4.99 % depending on tranche	EUR	244,380,706	50,517,139
Privredna banka Zagreb d.d., Zagreb	6.70%	EUR	30,182,496	45,182,520
			342,683,421	175,710,374
Less: Current portion (see Note 33)			(38,900,851)	(50,556,341)
Total			**303,782,570**	**125,154,033**

Movements in liabilities to banks and other financial institutions during the year may be summarised as follows:

	in HRK
At 31 December 2011	175,710,374
New borrowings	178,628,537
Foreign exchange differentials	(11,655,490)
	342,683,421
Less: Current portion	(38,900,851)
At 31 December 2012	303,782,570

The repayment schedule of long-term liabilities to banks and other financial institutions is as follows:

	in HRK
Due in one to two years	27,143,286
Due in two to three years	53,774,900
Due in three to four years	53,774,900
Due in four to five years	169,089,484
Total	**303,782,570**

The loan of the European Investment Bank is based on Financing Agreement No 21677 dated 12 September 2002 in the amount of EUR 20,000,000 (the Guarantor is the Republic of Croatia).These loan proceeds were used for the design, building and implementation of the improvement of air traffic control services in the Republic of Croatia, with a view to maintain the international safety standards and increasing the service provision capacity in accordance with anticipated air traffic growth. The full repayment of this loan is scheduled in May 2025.

Two Loan Agreements have been signed with the European Bank for Reconstruction and Development. The first was the Loan Agreement No 25800 dated 5 September 2002 in the amount of EUR 25,000,000 (Guarantor is the Republic of Croatia). The Loan was applied to ATM system modernisation which includes flight data processing system, radar data processing system, controller working posi-

tions and the controller consoles. The full repayment of this loan was scheduled in May 2013.

Loan Agreement No. 42754 with the European Bank for Reconstruction and Development was concluded in 2011 in the amount of EUR 47,000,000 for the purpose of Croatian air traffic management system modernisation, with a view to increasing air navigation safety and the service provision capacity. From the total Loan amount, by 31 December 2012 EUR 30,828,881 have been withdrawn (equivalent to HRK 232,623,141). The full repayment of this loan is scheduled in November 2023.

Contract concluded with Privredna banka Zagreb in June 2010 in the amount of EUR 8,000,000 has been used for the financing of CroATMS Upgrade and Extension to Remote Sites. The full repayment of this loan is scheduled in October 2014.

33. Liabilities to banks and other financial institutions

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Current portion of long-term borrowings		
European Investment Bank, Luxembourg	12,052,038	12,027,754
European Bank for Reconstruction and Development, London	11,757,565	23,467,747
Privredna banka Zagreb d.d., Zagreb	15,091,248	15,060,840
Total	**38,900,851**	**50,556,341**

Short-term liabilities under EIB loan fall due in May and November 2013.

For the EBRD loan the final instalment falls due in May 2013.

The liability under PBZ loan falls due in October 2013.

Loans are duly repaid in accordance with the agreed repayment schedule.

34. Accounts payable

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Domestic accounts payable	8,459,442	7,353,231
Foreign accounts payable	13,954,478	53,865,011
Total	**22,413,920**	**61,218,242**

The major portion of liabilities towards domestic suppliers in the amount of HRK 8,459,442 relates to:

- Hrvatski telekom – HRK 1,937,634 – lease costs of domestic and foreign links and other telephone costs for December
- Primat-RD d.o.o. – HRK 659,519 - purchase of furniture
- Euroherc osiguranje d.d. – HRK 932,073 –Company liability insurance policy
- CompING d.o.o. – HRK 768,896 – purchase of the Micro-soft products licence lease services

- Zagreb Airport– HRK 288,265 - overheads
- Odašiljači i veze d.o.o. – HRK 307,053 - maintenance of TC lines for December
- Croatia airlines – HRK 288,265 – air tickets

The major portion of liabilities towards suppliers abroad in the amount of HRK 13,954,478 relates to:

- Ultra Electronics-Audiosoft – HRK 1,747,616 - liability under the contract for the supply and installation of Voice Recording and Reproduction System
- IBL Software Engineering – HRK 1,633,133 – liability under the contract for the supply and installation of MET system
- Entry Point North – HRK 2,424,975 – liabilities under the contract for the air traffic controller training services
- Comsoft GmbH – HRK 1,012,701 - liability under the contract for the supply and installation of International Aeronautical Message Handling System (AMHS) and Flight Plan 2012 converter
- Frequentis GmbH – HRK 4,106,197 – liability under the contract for the supply and installation Voice Communication Systems (VCS), Simulator Communication Facility/Test and Development System (SIM/TDS) and Back-up Voice Communication Systems (BVCS)

All the liabilities towards domestic and foreign suppliers have been duly settled within the agreed time schedules.

35. Current liabilities to employees

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Amounts due to employees	40,000	1,709,161
Liabilities for net wages and salaries	16,582,455	22,982,762
Other liabilities	80,677	58,469
Total	**16,703,132**	**24,750,392**

Liabilities for net salaries relate to the salary for December 2012, which was paid out in January 2013. Liabilities to employees relate to liabilities for the reimbursement of costs of business trips, for salaries which are to be reimbursed by the Croatian Health Insurance Institute and other liabilities to employees.

36. Current liabilities for taxes, contributions and similar appropriations

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Liabilities for taxes and surtaxes	8,787,552	13,270,859
Liabilities for contributions	10,545,700	16,030,325
Liabilities for income tax	-	746,200
Other liabilities and similar appropriations	80,425	257,435
Total	**19,413,677**	**30,304,819**

Liabilities for taxes, surtaxes and contributions relate to the salary for December 2012 which was paid out in January 2013.

37. Other current liabilities

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Liabilities for interest	2,316,444	3,204,906
Other liabilities	6,217,790	5,833,979
Total	**8,534,234**	**9,038,885**

Interest liability as of 31 December 2012 consists of interest on EIB loan in the amount of HRK 1,484,097, PBZ loan in the amount of HRK 337,344 and the EBRD loan in the amount of HRK 494,968.

Other liabilities in the amount of HRK 5,904,451 mostly arise from multilateral relations between CCL and the Croatian Civil Aviation Agency, National Protection and Rescue Directorate and also Eurocontrol, on the basis of participation in the Eurocontrol route charges system.

38. Deferred settlement of charges and income deferred to future period

The amount of **HRK 10,363,235** (as of 31 December 2011: **HRK 14,990,008**) relates to short-term provisions for unused annual vacations.

39. Off-balance sheet notes

	At 31 December 2012	At 31 December 2011
	in HRK	in HRK
Eurocontrol – equipment for ETFMS	147,626	147,626
Investments in tangible rights	360,200	359,474
Warranties of borrowers as payment security instrument	113,354,537	-
Debentures received	2,500,000	-
Debentures issued	416,099,320	-
Total	**532,461,683**	**507,100**

The amount of HRK 147,626 relates to equipment for ETFMS. The equipment is the property of Eurocontrol. It has been put at the Company's temporary disposal and is carried as such in the off-balance sheet records.

Investments in tangible rights in the amount of HRK 360,200 relate to the life insurance in case of death and survival. The Company is the policy holder.

Debtor's guarantees as the payment security instrument in the amount of HRK 113,354,537 relate to securities - bank guarantees issued in favour of the Company and in place as of 31 December 2012 which include in particular Performance Securities issued under the contracts with domestic and foreign suppliers.

Debentures in the amount of HRK 416,099,320 relate to the debentures and guarantees issued by the Company as payment security instruments. Of this amount, the amount of HRK 415,009,320 relates to debentures issued for loan EBRD-42754 and the PBZ loan and the amount of HRK 1,090,000 as a guarantee to the suppliers: INA d.o.o., Odašiljači i veze d.o.o., Astra International d.d., HEP-Elektra and HEP-Opskrba.

40. Statement of changes in subscribed capital

	At 31 December 2011	Distribution of profit	Profit for the current year	At 31 December 2012
	in HRK	in HRK	in HRK	in HRK
Subscribed capital	352,759,600	-	-	352,759,600
Other reserves	48,822,120	-	-	48,822,120
Retained earnings	34,000,000	11,313,181	-	45,313,181
Profit for the current year	11,313,181	(11,313,181)	4,346,266	4,346,266
Total	**446,894,901**	**-**	**4,346,266**	**451,241,167**

Changes in capital relate only to actual net income of the current year in the amount of HRK 4,346,266 which has to be appropriated according to the Assembly Decision in 2013.

41. Cash flow statement

The 2012 Cash Flow Statement was prepared on the basis of the so called indirect method.

In 2012 the Company had a positive cash flow amounting to HRK 7,859,735 (2011: negative cash flow of -HRK 12,174,309). Such total cash flow in 2012 is the result of:

a) *HRK 10,337,368 of the positive operating cash flows which are the result of the following:*

- the increase of operating cash flow on the basis of achieved positive gross operating result of HRK 5,988,812 and self-accumulation of assets on the basis of depreciation cost of HRK 76,559,952 and
- the decrease of operating cash flow on the basis of orderly and regularly servicing of matured short term liabilities of the Company as a result of the decrease of other short term liabilities.

b) *Negative cash flows from investing activities of HRK 183,218,771*

Predominantly resulting from intensive investing cycle into long term tangible and intangible assets in accordance with COOPANS/CroATM project implementation plan.

c) *Positive cash flow from financial activities of HRK 180,741,138*

Based on the net loan drawdowns (reduced by matured and duly repaid principal instalments) of HRK 166,973,047 and also on disinvesting of short term financial assets amounting to HRK 14,230,837

42. Financial instruments and risk management

42.1. Financial risk

Financial risks arise from various financial transactions, but having into regard that all the risks have before or after the financial effects, we can say that all the risks indirectly are financial. The financial

risks is narrow sense, which the Company monitors and manages are solvency risk, currency risk and interest risk. But, beside this the Company monitors and manages the other risks significant for its business operations - market risk, credit risk and other risks.

42.2. Market risk

The Company operates at united European market of services in air flight, in competition of other service renders from the member countries of the EUROCONTROL route and terminal charges system. Legal framework inside which the Company operated represents the group of international and national regulations, which are applied while performing the basic activity of the Company and of which, for the system of financing are the most significant. Decision of the Republic of Croatia Government dated 27 December 1996 on the admission to International convention for the collaboration on the air flight security - EUROCONTROL from 1960 (hereinafter: Convention) together with the Protocols from 1970, 1978 and 1981 and the Multilateral agreement relating to Route Charges (Multilateral Agreement relating to Route Charges); International agreements: 14/1996; (hereinafter: Multilateral agreement) by which the Republic of Croatia became the member of EUROCONTROL route charges system (hereinafter: EUROCONTROL system), as well as the very Convention and the Multilateral agreement.

As a result of membership in the EUROCONTROL system, the Republic of Croatia applies the Regulations of European commission and the regulations of EUROCONTROL which relate to the route and terminal charges.

The Regulation of European commission 1794/2006 and the Regulation 1191/2010 which it changes, Regulation on the establishing route and terminal charges (National gazette 37/2008 and 132/2008, hereinafter: Regulation),as also the referential documents of EUROCONTROL: "Principles of establishing the cost basis of the route charges and the repayment unit count", "Guide for the route charges" and "Conditions for application of the route charges system and the conditions for payment", prescribe the referential regulations of functioning the stated EUROCONTROL system, including its subjects.

The stated regulations suggest the Company to establish the cost basis for the route and terminal services for each business year, prognostication of air traffic and forming of unit rate of services, at which to the users the rendered services are collected.

Turnover, as a factor of market operations is significant from aspect of realization of planned income, maintenance of necessary solvency and the stability of financial and business system. By the market turnover risk is managed through the provisions of regulations in the way that to the renders of services in air navigation, who are financed at the full recovery model, through the adaptation mechanism and the recognition of additional income at the level of possible losses, respectively, as well as the return of the excess received assets at the level of profit realized from route charges, assures the full refund of costs. As the Company is depending on the level of turnover, till 2015 realizes the income at the full recovery cost model, the market risk is reduced to its influence to liquidity risk and the possible costs in relation to this. Thus, of the greatest importance, beside the efficacious control and the cost planning, of the most importance is the forecast-air traffic planning, as an element which determines unit rates of services and the annual income of the Company

42.3. Interest rate risk

Interest rate risk is a risk that the value of a financial instrument will fluctuate due to changes in market rates relative to the interest rate applicable to the financial instrument. Interest rate cash flow risk is the risk that the interest cost of an instrument will fluctuate over time. There were no significant changes of interest risk influence to Company's operations.

42.4. Credit risk

Credit risk is a risk that the other contractual party would not be able to perform its financial liabilities and thus cause financial losses for the Company. Financial assets that potentially expose the Com-

pany to credit risk consist mainly of cash, money equivalents and trade receivables. Trade receivables have been adjusted for the allowance for bad and doubtful accounts. There were no significant changes of credit risk influence to Company's operations.

42.5. Currency risk

The official currency of the Company is the Croatian kuna (''HRK''). However, certain transactions denominated in foreign currencies are translated into Croatian kuna by applying the exchange rates in effect at the date of the Balance sheet / Statement of financial position, and is consequently, the Company potentially exposed to risks of changes in currency rates. The originated foreign exchange differences are booked by crediting or charging the income statement, but do not affect the cash flow.

42.6. Solvency risk

Solvency risk is risk that the Company would not be able to fulfil its financial liabilities to the other contractual party.

Company manages solvency risk in the way that observes continuously and analyses expected and actual cash flow on the basis of maturity of financial property and liabilities, as well as maintenance of adequate amounts of cash and deposits, to cover the unexpected cash outflows.

42.7. Joint responsibility risk

The Company has no subsidiary companies and as a result has no joint responsibility risk commitments.

43. Potential liabilities

As of 31 December 2012, provisions for potential liabilities upon court proceedings in progress amounted to **HRK 210,150** (see Note 31).

44. Events after the balance sheet date

There were no such events after the date of the Balance sheet which could significantly affect the Company's 2012 Annual Financial Statements and which would therefore be subject to reporting.

45. Preparation and approval of the financial statements

The financial statements, set out on previous pages, had been prepared by the Management of the Company, and approved / released on 12 April 2013.

46. Audit of the financial statements

The Company's Financial Statements for 2012 have been audited by the auditing firm AUDIT d.o.o., Baštijanova 52A Zagreb, for a fee stipulated at HRK 44.000 plus Value Added Tax.

For and on behalf of Croatia Control Ltd., Velika Gorica

Dragan Bilać

Director General

11. Glossary

ACC	Area Control Centre
ACS	Area Control Service
ACE	Air Traffic Management Cost-Effectiveness
AFTN	Aeronautical Fixed Telecommunications Network
AIC	Aeronautical Information Circular
AIP	Aeronautical Information Publication
AIS	Aeronautical Information Services
ANS	Air Navigation Services
ANSP	Air Navigation Services Provider
APP	Approach Control Procedure
APS	Approach Control Surveilance
ARN	Aeronautical route network
ARO	ATS Reporting Office
ATC	Air Traffic Control
ATCC	Air Traffic Control Centre
ATCO	Air Traffic Controller
ATM	Air Traffic Management
ATS	Air Traffic Services
ATSEP	Air Traffic Safety Engineering Professional
CCL	Croatia Control Limited
CNS	Communication, Navigation and Surveillance
COOPANS	COOPeration between ANS providers
CroATMP	Croatian Air Traffic Management Project
CroATMS	Croatian Air Traffic Management System
DFL	Division Flight Levels
DFS	Deutsche Flugsicherung
DME	Distance Measuring Equipment
EAD	European Aeronautical Information Database
eAIP	Electronic AIP
EC	European Commission
ECAA	European Common Aviation Area

ECAC	European Civil Aviation Conference
ESARRs	Eurocontrol Safety Regulatory Requirements
ESP	European Safety Programme (Eurocontrol)
EU	European Union
EUROCONTROL	European Organisation for the Safety of Air Navigation
FAB	Functional Airspace Block
FAB CE	FAB Central Europe
FIR	Flight Information Region
HR	Human Resources
HRK	Croatian Kuna
ICAO	International Civil Aviation Organisation
IFR	Instrument Flight Rules
ISO	International Organisation for Standardisation
Ltd	Limited
MET	Meteorological services
MWO	Meteorological Watch Office
NDB	Non-Directional Beacon
NOTAM	Notice to Airmen
OJT	On the Job Trainee
P-RNAV	Precision R-NAV
PRU	Performance Review Unit
QMS	Quality Management System
SASI	Support to ANSPs for SMS Implementation (Eurocontrol)
SMM	Safety Management Manual
SMS	Safety Management System
STATFOR	EUROCONTROL Statistics & Forecasting Service
SWC	Significant Weather Chart
TMA	Terminal Manoeuvring Area
TWR	Tower Control Unit (Aerodrome Control Tower)
UN	United Nations
UNMIK	United Nations Mission in Kosovo
VFR	Visual Flight Rules
VHF	Very High Frequency
WAFC	World Area Forecast Centre

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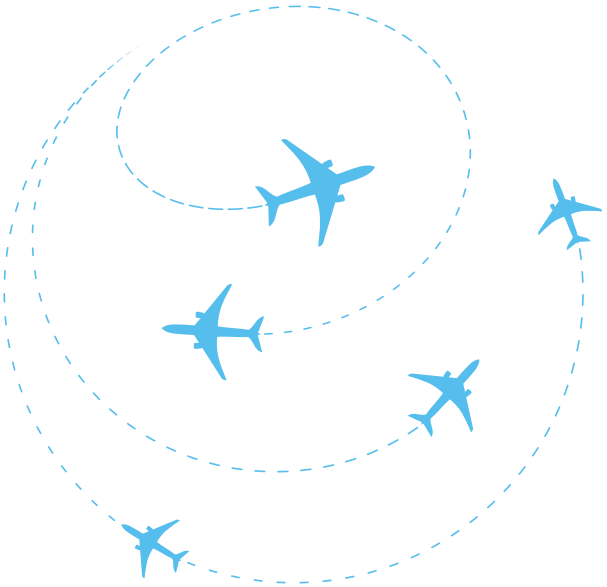

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