Profitability Analysis of Ethiopian Airlines from 2009 to 2012

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The main objective of this thesis is to study the financial statements of the commissioning company and analyze its financial performance from 2009 to 2012 financial years.

The case company is one of the big players in the African aviation industry with many countries as its destinations all over the world. On many occasions, world Airline Awards have ranked it as one of the best five airlines on the African continent.

Since 2009, the case company's net profit declined as its income statements show even though the company has managed to generate higher sales revenue year after year.

Theory part of the research discussess about the format of the case company's Income statement, profitability analysis tools, benchmarking and a general overview of the Airline industry.

This research paper analyzes the income statement items of the commissioning company and,through benchmarking against its direct competitors and using financial statement analysis ratios, creates a summary on its overall profitability performance in the four fiscal years covered.

In this period, the case company expanded its service to many international destinations through latest airplanes purchased, alliance and code share agreements signed with different airlines and airline groups.

The data analysis revealed that an increase of flying cost is the major cause for declining profit of the case company. In addition, slight cuttings of marketing & sales expense and weak results from non-operating activities have contributed to the poor profit reports.

The benchmarking analysis and other ratios indicate that the case company's profitability during the four fiscal years covered is higher than its direct competitors.

Keywords
Revenue, Operating expenses, Operating income, Net income, Horizontal analysis, Trend percentages, Vertical analysis, Benchmarking, Ratio analysis

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1 Introduction

This thesis presents profitability analysis of Ethiopian Airlines from 2009 till 2012 fiscal years. Financial statement analysis ratios are implemented inorder to assess the performance of the company.

In addition, the case company's profitability performance is compared to its direct competitors South African & Kenyan airways in the above specified accounting period. For benchmarking purpose common size income statement of these companies are calculated.

The following table contains all the abbrevations and their definitions that are used in the thesis.

Abbreviations	Definitions
EAL	**Ethiopian Airlines**
SA	**South African Airways**
KA	**Kenyan Airways**
NPM	**Net Profit Margin**
OPM	**Operating Profit Margin**
ROA	**Return on Assets**
ROE	**Return on Equity**
OPEC	**Organization of Petroleum Exporting Countries**

1.1 Background to thesis topic

Efficient management of Operating expenses is one of the main success factors for any business company and it is also an issue in the center of operations that is either for profit or non profit organization.

Pricing, profitability, outsourcing or manufacturing in house and many other managements decisions rely on the cost information available. This makes the issue very important and sensitive that needs a proper understanding to efficiently and effectively manage it.

Ethiopian Airlines is one of the company that is prospering and growing icon in the African aviation industry. World Airline Awards have ranked EAL as one of the best five airlines on African continent.

However, EAL's financial statement specifically the profit and loss account indicates that its net profit is in consistent decline since the outbreak of the 2008 financial crisis. Operating expenses are increasing higher and higher every year in comparison to the increase of revenue. This caused a significant reduction to the company's profit from its operation.

Ethiopian Airlines enjoyed a sustained 10% and above increase of revenue even though it was a period of financial crisis where many other companies got tested and struggled to survive. However, the company also incurred a higher operating expenses.

So, the thesis analysed operating expenses of the company and its overall profitability trend from 2009 untill 2012 accounting period throuh financial statement analysis tools.

1.2 Case company introduction

Ethiopian Airlines is found in December 21, 1946 however, the company started its operation in the following year on April 08, 1947. The company is state owned and its headquarter is located in Bole international Airport Addis Abeba, Ethiopia.

The company is one of the best 10 arlines in the African continent on its overall operations and had won African Airliner of the year awards from African Airlines Association in the past five years from 2009 to 2013.

Currently, Ethiopian Airlines has fleet operations in eighty intenational and seventeen domestic destinations. Most of the international destinations are african countries, then middle Middle East & Asia, and it serves to 11 destinations in Europe & USA.

The company's main business service offerings through its 7,642 employees are passengers transport, Cargo, airplanes maintenance for other airliners and aviation academy. The aviation academy offers a training for pilots, aircraft technicians, cabin crews, marketing, sales, management and finance staffs.

At the moment the company owns 69 aircrafts including 9 the latest 787 dreamliners, 12 boeing 767-300, 6 boeing 777-200, 2 boeing 777-300 and others. It also had made orders of 32 aircrafts in total, and among these 8 are 787 dreamliners and 14 from airbus A350-900.

The company's vision is to be competent and a leader in, the whole continent of Africa, its customers focused and safe airline services.

Its mission statement is to: -

- Be a strong competitior in the aviation industry
- Ensure to be the best choice for its customers, employees, and investors.
- Contributing to the socio economic development of Ethiopia.

Picture 1: - Ethiopian Airlines world wide destinations.

1.3 Research Objectives

The research is targeting to accomplish three main objectives. First, to identify and clarify main reasons for the consistent increase of costs or expenses that impacted net profit of Ethiopian Airlines in the specified financial period.

Second, Analyse the income statement of EAL using Financial statement analysis tools that implicate profitability of the company. This is also to analyse effects of consistently increasing operating expenses to profits from operations.

Third, is to compare the results found from the income statement analysis with the direct competitors of the company in the continent.

1.4 Research Problem (RP)

There is a rapid and consistently increasing expenses in the air transport service industry which has left the airlines with options to charge a higher price for their service offerings and search for ways to minimize costs in order to sustain their survival in the business. This has been one of the main reasons that made many companies in the industry lose their competitiveness and hugely reduced their sales revenue & profitability.

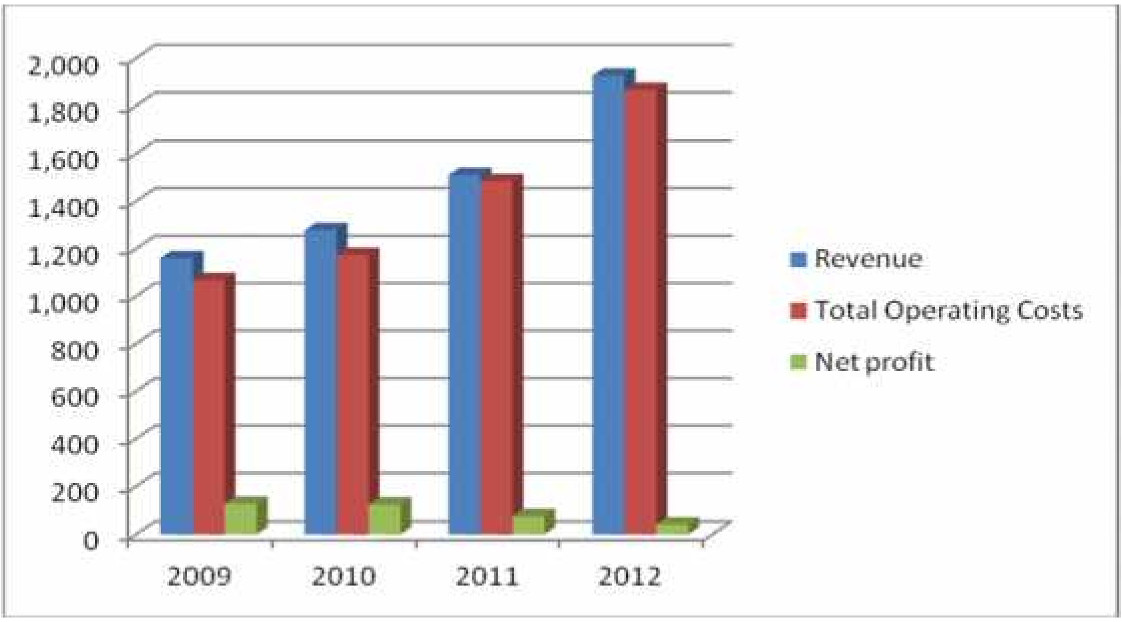
As an international air transport service provider Ethiopian Airlines is experiancing the consequenses of increasing operating expenses that affected its profitability. This is well revealed in its profit and loss statements and there is a steady increase of expenses impacting its net profits.

Even though the company managed to report positive results since its existance, its profitability is in consistent dicline since the recent past economic crisis of the world economy.

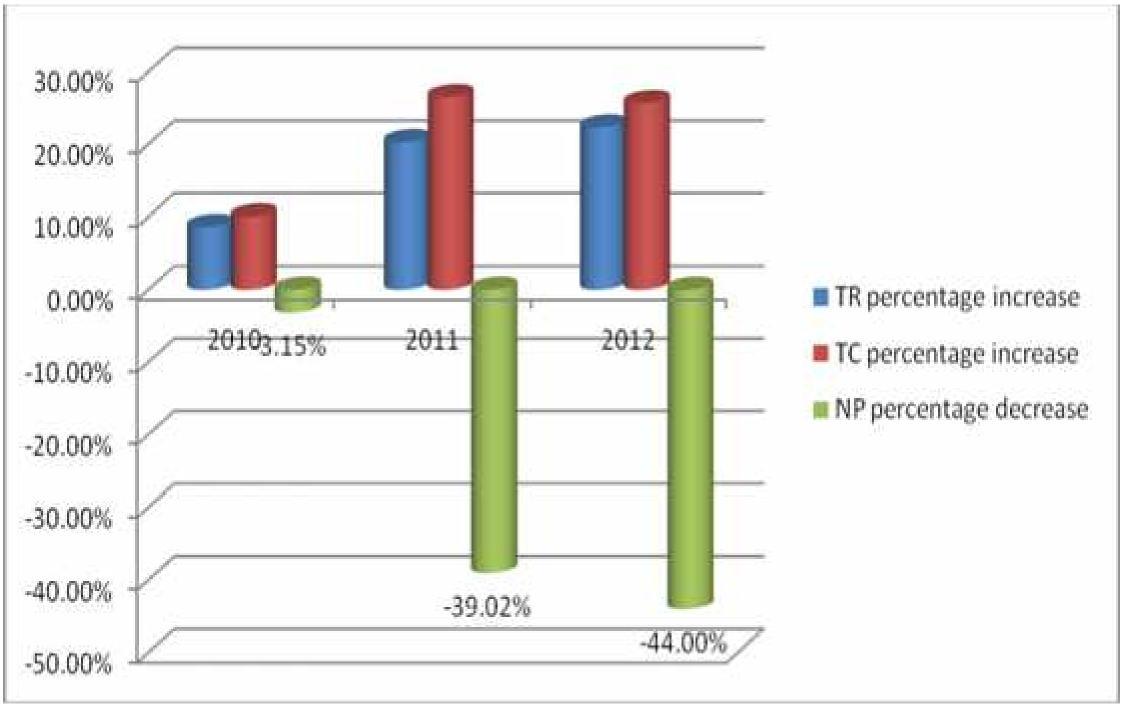
The following two graphs will demonstrate in detail the research problem of this thesis. Both Figure 1 & 2, summerizes the financial performance of the company from 2009 till 2012. In these fisical years 2009-2012 respectively, EAL's Total revenue were 1159, 1278, 1510 & 1926, Total Costs were 1067, 1174, 1485 & 1866 and the Net profits were 128, 124, 75 & 42 millions of dollars.

In these financial figures there is a patern of consistent increase in both total revenue generated and total costs incurred however, the net profit has fallen in great margin. This mainly is because of the fact that the increasing amount of total cost each year is greater than the increase of total revenue.

From 2010 till 2012 respectively, Total revenue increased in 8.63%, 20.28% & 22.31%, Total costs increased in 10.03%, 26.49% & 25.66% and the decrease of Net profits is 3.15%, 39.02% and 44%.



Graph 1, Ethiopian Airlines Income statement summary 2009-2012



Graph 2, Ethiopian Airlines Income statement summary in percentage from 2009-2012

1.5 Research Question (RQ)

Why net profit of Ethiopian airlines kept declining despite an increase of revenue ?

1.6 Investigative Questions (IQ)

1. What is the trend of revenues, operating expenses, income from operations and Net income from 2009-2012 ?
2. What are the main operating expenses for EAL?
3. What expenses incresed most consistently in the past 4 years since 2009? Why?
4. Benchmarking of EAL profitability to competitors?

1.7 Demarcation

This thesis studied income statement reports of Ethiopian Airlines for the past 4 years to investigate in detail the research problem defined above. It mainly focuses on analyzing profitability, reviewing operating expenses that increased immensely and reduced profitability of the company during this financial period and compare its profitability performance with competitors in the region.

Income statement of the case company and its competitors are used to analyze the financial performance. In addition balance sheet of the four years period are used to some extent specifically, to calculate financial ratios. However, analysis of the Cash flow statement and other financial statements aren't included in the thesis.

2 Theoretical Framework

2.1 Financial statements analysis

The process of reviewing and evaluating a company's financial statements (such as the balance sheet or profit and loss statement), thereby gaining an understanding of the financial health of the company and enabling more effective decision making. Financial statements record financial data; however, this information must be evaluated through financial statement analysis to become more useful to investors, shareholders, managers and other interested parties. (www.investopedia.com, Quoted 09.12.2014)

Financial statement analysis is an evaluative method of determining the past, current and projected performance of a company. Several techniques are commonly used as part of financial statement analysis including horizontal analysis, which compares two or more years of financial data in both dollar and percentage form; vertical analysis, where each category of accounts on the balance sheet is shown as a percentage of the total account; and ratio analysis, which calculates statistical relationships between data. (www.investopedia.com, Quoted 09.12.2014)

2.1.1 Horizontal analysis

The study of percentage changes from year to year is called horizontal analysis. Computing a percentage change takes two steps:

1. Compute the dollar amount of the change from one period (the base period) to the next.
2. Divide the dollar amount of change by the base period amount.

Many decisions hinge on the trend of revenue, expenses, income from operations and so on. Have revenue increased from last year? By how much? Suppose net sales have increased by $50,000. Considered alone this fact is not very helpful, but knowing the long-term percentage change in net sales helps a lot. It's better to know that net sales have increased by 20% than to know that the increase is $50,000. It's even better to know that percentage increases in net sales for the past several years have been rising year over year. (Financial Accounting, Eighth edition, Walter T.Harrison, Charles T.Horngren, C.William Thomas, Themin Suwardy 2011, 786)

2.1.2 Trend Percentages

Trend percentages are a form of horizontal analysis. Trends indicate the direction a business is taking. How have revenues changed over a five-year period? What trend does net income show? These questions could be solved through trend percentage over a representative period, such as the most recent five years.

Trend percentages are computed by selecting a base year whose amounts are set equal to 100%. The amount for each following year is stated as a percentage of the base amount. To compute a trend percentage, divide an item for a later year by the base-year amount. (Financial Accounting, Eighth edition, Walter T.Harrison, Charles T.Horngren, C.William Thomas, Themin Suwardy 2011, 789)

2.1.3 Vertical Analysis

"Vertical analysis or component analysis shows the relationship of financial statement items relative to a total, which is the 100% figure. All items on the particular financial statement are reported as a percentage of the base. For the income statement, total revenue (sales) usually the base. Suppose under normal conditions a company's net income is 8% of revenue." (Financial Accounting, Eighth edition, Walter T.Harrison, Charles T.Horngren, C.William Thomas, Themin Suwardy 2011, 790)

"The most common use of vertical analysis is within a financial statement for a single time period, so that you can see the relative proportions of account balances. Vertical analysis is also useful for timeline analysis, where you can see relative changes in accounts over time, such as on a comparative basis over a five-year period. For example, if the cost of goods sold has a history of being 40% of sales in each of the past four years, then a new percentage of 48% would be a cause for alarm." (www.accountingtools.com, Quoted 10.10.2014)

2.1.4 Benchmarking Analysis

It's quite a common business process that's used to analyse any company's performance against another or to the industry. The main goals are to have a further detailed understanding of information available about a company's financial performance, production process, product quality or etc.

"Benchmarking simply means comparing two different companies. Usually benchmarks are selected as because they are either direct competitor in the same industry or market, peers in the broader market, or just any other aspiration entities." (Financial Accounting, Eighth edition, Walter T.Harrison, Charles T.Horngren, C.William Thomas, Themin Suwardy 2011, 786)

One of the technique used in order to make a meaningful comparison of the different companies financial performance is common size financial statements. It's converting of companie's income statements to common size and compare the percentages.

"Common size income statement analysis allows an analyst to determine how the various components of the income statement affect a company's profit." (www.investopedia.com, Quoted 10.08.2014)

2.1.5 Financial ratio analysis

Financial ratios are a major tool of financial analysis. A number of different financial ratios are calculated to analyse the performance of a company from various perspectives.

Financial ratios are mathematical comparisons of financial statement accounts or categories. These relationships between the financial statement accounts help investors, creditors, and internal company management understand how well a business is performing and areas of needing improvement.

Financial ratios are the most common and widespread tools used to analyse a business' financial standing. Ratios are easy to understand and simple to compute. They can also be used to compare different companies in different industries. Since a ratio is simply a mathematically comparison based on proportions, big and small companies can be use ratios to compare their financial information. In a sense, financial ratios don't take into consideration the size of a company or the industry. Ratios are just a raw computation of financial position and performance.

Ratios allow us to compare companies across industries, big and small, to identify their strengths and weaknesses. Financial ratios are often divided up into six main categories: liquidity, solvency, efficiency, profitability, market prospect, investment leverage, and coverage. (www.myaccountingcourse.com, Quoted 09.29.2014)

Profitability ratios: - "is a measure of profitability, which is a way to measure a company's performance. Profitability is simply the capacity to make a profit, and a profit is what is left over from income earned after you have deducted all costs and expenses related to earning the income. The formulas you are about to learn can be used to judge a company's performance and to compare its performance against other similarly situated companies." (www.education-portal.com Quoted 09.29.2014)

"Profitability ratios compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios show how well companies can achieve profits from their operations.

Investors and creditors can use profitability ratios to judge a company's return on investment based on its relative level of resources and assets. In other words, profitability ratios can be used to judge whether companies are making enough operational profit from their assets. In this sense, profitability ratios relate to efficiency ratios because they show how well companies are using their assets to generate profits. Profitability is also important to the concept of solvency and going concern."
(www.myaccountingcourse.com, Quoted 09.29.2014)

Main financial ratios computed to overview the profitability of a company are:

- **Operating profit margin**

It is a ratio of operating profit, a company's revenue left after paying for variable costs of production such as wages and raw materials, to total sales revenue.

"Operating margin gives analysts an idea of how much a company makes (before interest and taxes) on each dollar of sales. When looking at operating margin to determine the quality of a company, it is best to look at the changes in operating margin over time and to compare the company's yearly or quarterly figures to those of its competitors. If a company's margin is increasing, it's earning more per dollar of sales."

Operating margin = Operating income / Revenue

- **Net Profit margin**

Net profit margin is a ratio of net profit (the amount of money that a company managed to retain after adding net of non-operating gains or losses) to the total sales revenue of a company in specific accounting period. It indicates how much of company's revenue is retained as a net income and the percentage of each sales amount earned as net income. The higher the percentage, the more profit generated from the total sales revenue of a company.

Net profit margin = Net profit / Revenue

Return on Asset

"The rate of return on total assets, or simply return on assets (ROA, measures a company's success in using assets to earn a profit. Creditors have loaned money, and the interest they receive is their return on investment. Shareholders have bought the company's shares, and net income is their return. The sum of interest expense and net income are the returns to the two groups that have financed the company. This sum is the numerator of the ratio. Average total asset is the denominator" (Financial Accounting, Eighth edition, Walter T.Harrison, Charles T.Horngren, C.William Thomas, Themin Suwardy 2011, 804)

This ratio explains what the company was able to make with the asset it has in a specific fiscal period. In addition, a very important ratio to compare competing companies and a specific company against industry average.

Return on Assets = (Net income + Interest expense)/Average total assets

Return on Equity

"A popular measure of profitability is rate of return on ordinary shareholder's equity and often shortened to ROE. This ratio shows the relationship between net income and ordinary shareholder's investment in the company. How much income is earned for every $1 invested?" (Financial Accounting, Eighth edition, Walter T.Harrison, Charles T.Horngren, C.William Thomas, Themin Suwardy 2011, 805)

Return on Equity = (Net income - Preference dividends)/Average Ordinary shareholder's

2.2 Operating Expenses

Operating costs are a mixture of both fixed and variable cost categories. The main purpose for this category is for the analysis of how costs are associated with revenue generating activities.This cost category contains all the daily expenses of the company that are incurred for generating of revenues.

Operating costs as defined by investopedia.com:

> "Expenses associated with administering a business on a day to day basis. Operating costs include both fixed costs and variable costs. Fixed costs, such as overhead, remain the same regardless of the number of products produced; variable costs, such as materials, can vary according to how much product is produced." (www.investopedia.com, Quoted 05.24.2014)

2.3 Income statement

Income statement is a financial statements that is often prepared quarterly, semi-annually and annually to show the performance of a company.

It is a financial statement, which measures a company's financial performance in a specific accounting period. Financial performance is a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period, typically over a fiscal quarter or year.

The income statement is the one of the three major financial statements also known as the "profit and loss statement" or "statement of revenue and expense". The other two are the balance sheet and the statement of cash flows. The income statement contains two parts the operating and non-operating sections.

The portion of the income statement that deals with operating items is interesting to investors and analysts alike because this section discloses information about revenues and expenses that are a direct result of the regular business operations. For example, if a business creates sports equipment, then the operating items section would talk about the revenues and expenses involved with the production of sports equipment.

The non-operating items section discloses revenue and expense information about activities that are not tied directly to a company's regular operations. For example, if the sport equipment company sold a factory and some old plant equipment, then this information would be in the non-operating items section. (www.investopedia.com, Quoted 09.12.2014)

The contents of income statements that are prepared by companies varies based on their operations and daily transactions they are involved however, the basic items of the profit and loss account are Revenue, Operating expenses, Operating profit, non-operating income & expenses, and Net profit.

Company XYZ Income Statement For the year ended 20xy		
Revenue		**xxx**
Operating expenses		
Flying costs	xx	
Passenger services	xx	
Traffic and sales	xx	
Ownership costs	xx	
Other overhead costs	xx	
Total operating expenses		**(xx)**
Operating profit		**xx**
Non-operating net		xx
Profit for the year		**xx**

Table1, Ethiopian airlines income statement

“Because the income statement measures performance over a period of time, whether it is a month, a quarter or a year, it must always indicate the exact period covered. Decision makers, both inside and outside the company use income statements to assess the company’s performance over a span of time. The income statement shows how the entity’s operations for the period have increased net assets through revenues and decreased net assets through expenses. Net income measures the amount by which the increase in net assets (Revenues) exceeds the decrease in net assets (expenses). Of course, expenses could exceed revenues, in which case the company experiences a net loss.

In essence, net income or net loss is one measure of the wealth an entity creates or loses from its operation during the accounting period. Tracking net income or loss from period to period and examining changes in its components helps investors and other decision makers evaluate the success of the period's operations."(Introduction to Financial Accounting, Tenth edition, Gary L. Sundem , Charles T.Horngren, John A. Elliott, Donn R. Philbrick, 2012, 70)

2.4 Airline Economics

2.4.1 Capital intensive

Unlike many service businesses, airlines need more than storefronts and telephones to get started. They need an enormous range of expensive equipment and facilities, from airplanes to flight simulators to maintenance hangars. As a result, the airline industry is a capital-intensive business, requiring large sums of money to operate effectively.

Most equipment financed through loans or the issuance of stock. Increasingly, airlines are also leasing equipment, including equipment they owned previously but sold to someone else and leased back. Whatever arrangements an airline chooses to pursue, its capital needs require consistent profitability. (www.avjobs.com, Quoted 10.24.2014)

2.4.2 High Cash flow

Because airlines own large fleets of expensive aircraft, which depreciates over time, they typically generate a substantial positive cash flow (profits plus depreciation). Most airlines use their cash flow to repay debt or acquire new aircraft. When profits and cash flow decline, an airline's ability to repay debt and acquire new aircraft is jeopardized. . (www.avjobs.com, Quoted 10.24.2014)

2.4.3 Labor intensive

Airlines also are labor intensive. Each major airline employs a virtual army of pilots, flight attendants, mechanics, baggage handlers, reservation agents, gate agents, security personnel, cooks, cleaners, managers, accountants, lawyers, etc. Computers have enabled airlines to automate many tasks, but there is no changing the fact that they are a service business, where customers require personal attention. More than one-third of the revenue generated each day by the airlines goes to pay its workforce. Labor costs per employee are among the highest of any industry. (www.avjobs.com, Quoted 10.24.2014)

2.4.4 Seasonal

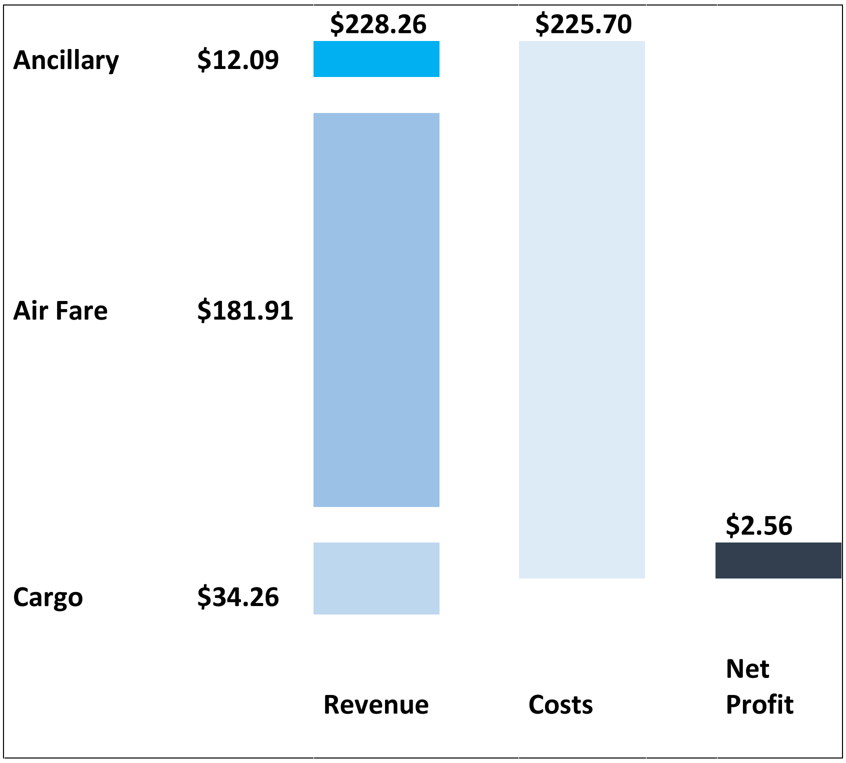
The airline business historically has been very seasonal. The summer months were extremely busy, as many people took vacations at that time of the year. Winter, on the other hand, was slower, with the exception of the holidays. The result of such peaks and valleys in travel patterns was that airline revenues also rose and fell significantly through the course of the year. This pattern continues today, although it is less pronounced than in the past. The growth in the demand for air transportation since deregulation has substantially lessened the valleys. (www.avjobs.com, Quoted 10.24.2014)

2.4.5 Thin Profit margins

The bottom line result of all of this is thin profit margins, even in the best of times. Airlines, through the years, have earned a net profit between one and two percent, compared to an average of above five percent industry as a whole. (www.avjobs.com, Quoted 10.24.2014)

Despite the clear value created for customers, the airline industry has found it difficult to make an adequate level of profits. Last year was typical point in the middle of the cycle. Airlines generated revenue averaging a little over $228 per passenger. That included just over $12 per passenger in ancillary revenues. However, after paying tax and debt interest, net profits per passenger were just $2.56. It does not take much of a rise in costs, government tax or demand shock to eliminate such a thin level of profit.

The net profit figure in the chart below is after airlines have paid interest costs on their debt as well as payments of tax to governments. It shows there was little left to pay equity investors in 2012 for risking their capital. Profit is of course a reward for risk.



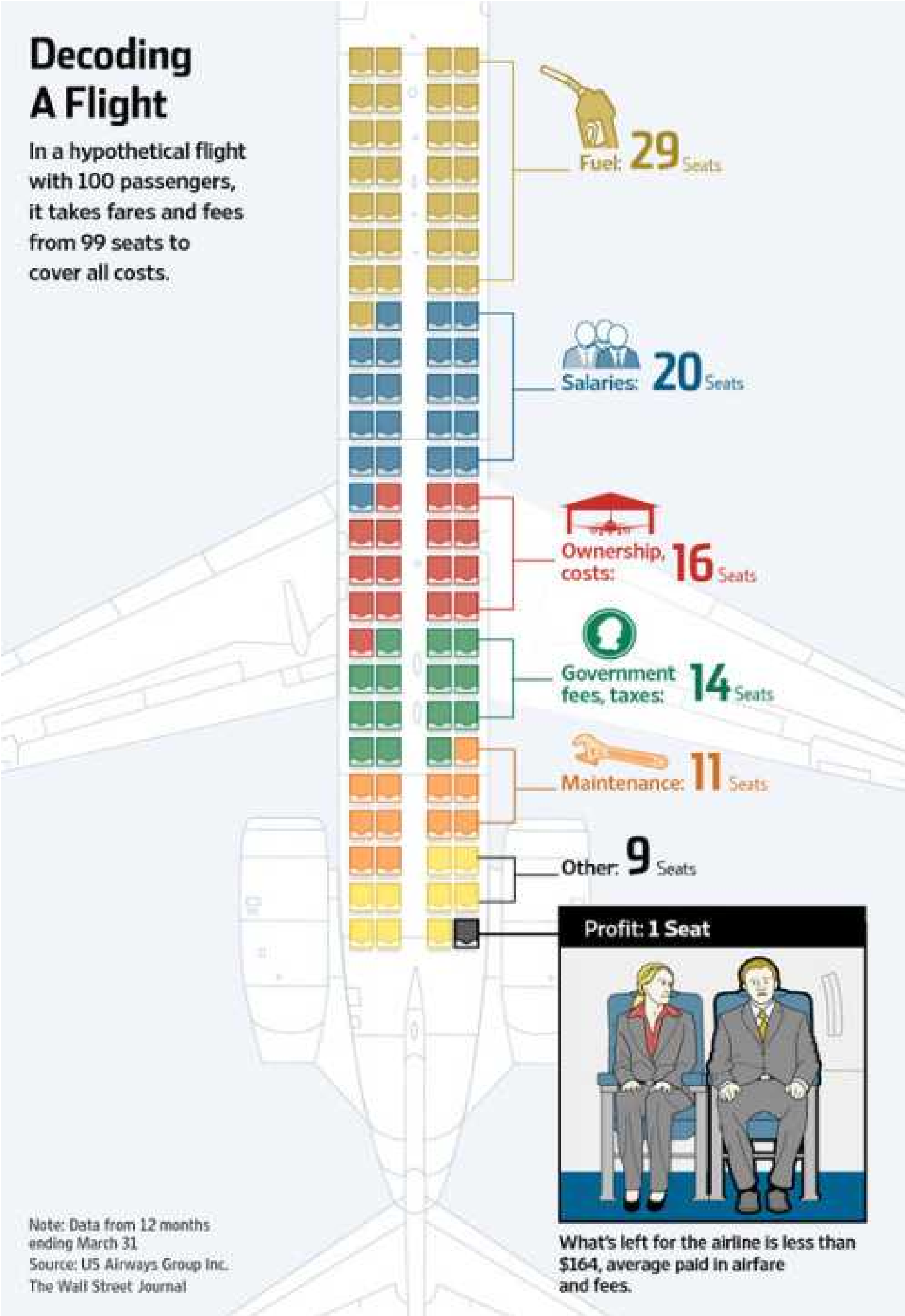
2012 Worldwide Airline Financial Results per departing passenger

(IATA, Profitability and the air transport value chain, Brian Pearce, June 2013)

2.4.6 Airline Revenue- Where the money comes from

About 75 percent of the U.S. airline industry's revenue comes from passengers; about 15 percent from cargo shippers, the largest of which is the U.S. Postal Service. The remaining 10 percent comes from other transport-related services. For the all-cargo carriers, of course, cargo is the sole source of transportation revenue. For the major passenger airlines, which also carry cargo in the bellies of their planes, less than 10 percent of revenue comes from cargo (in many cases far less). (www.avjobs.com, Quoted 10.24.2014)

2.4.7 Airline Expenses- Where does the money goes?



Picture 2, Airliners Expenses

The article in question (How Airlines Spend Your Airfare, Jun 6) attempts to map to what fraction of costs covered by what fraction of passengers. Thus with 100 passengers on the flight all-paying the same amount, 29% of passengers and hence revenue goes to covering fuel.

There are some interesting things here. First, one wonders to the extent this analysis mixes fixed and variable costs. For example, the maintenance costs the airlines face are largely fixed independent of the number of passengers on the plane. Similarly, although extra passengers add weight and thus require more fuel, it is not a one-for-one trade off. (operationsroom.wordpress.com, Quoted 10.24.2014)

3 Research Methods

In this thesis a qualitative research method is implimented. Seconday sources of data are the main inputs for this research, all nececssary informations were gathered from these sources and to be specific these source of informations are Ethiopian airlines 4 years (2009 till 2012) Financial statements along with auditors report, Ethiopian Airline's website, financial reports of competitors (South African and Kenyan Airways), and different important websites.

These datas are used to analyze the financial performance of EAL along with its immediate competitors through horizontal analysis, benchmarking, vertical analysis and standard financial ratios.

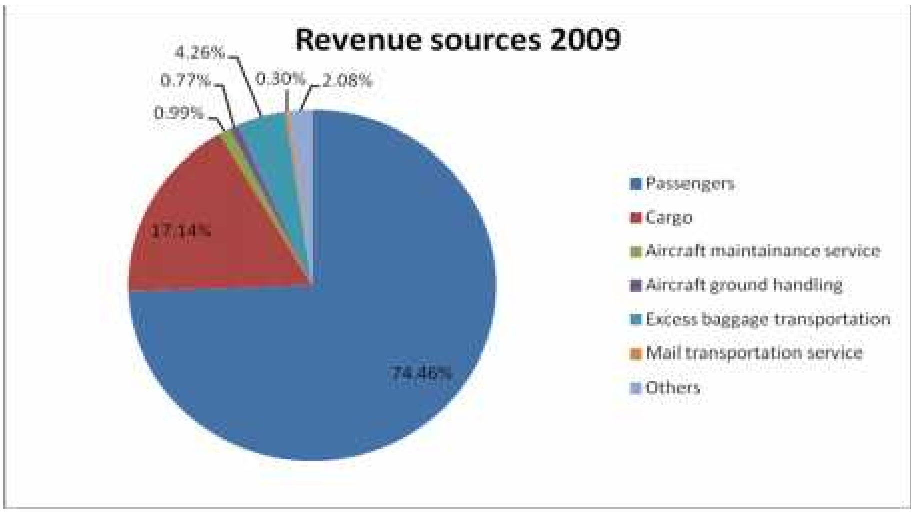
By using the above mentioned financial statement analysis tools the research problem is studied in depth to review and evaluate profitability of Ethiopian airlines in the four year financial period.

All the fraction values in the financial ratios and figures calculated are rounded to whole numbers, aiming to ease the analysis process and reduce complication to readers of the thesis.

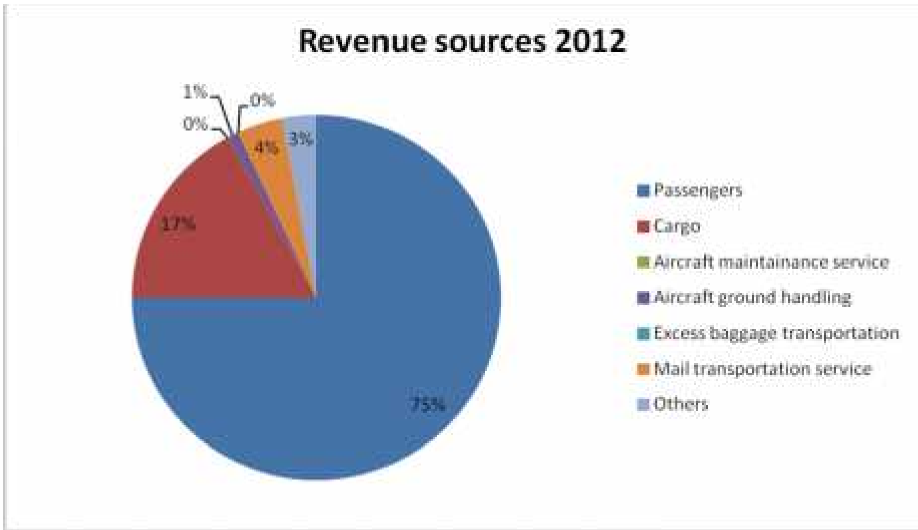
4 Data Analysis

Before heading into detailed profitability analysis of Ethiopian airlines, it will be necessary to give explanations about Income statement items of the company. In addition, the pie charts will show in detail sources of revenues and expenses of the case company with their respective percentage share of the total amount.

Revenue: - There are different sources of revenue for Ethiopians airlines however, like other companies in the industry main ones are passengers and cargo transportation services. As it's demonstrated below in the chart over 90% of sales revenue are coming from these two sources.



Graph 3, Ethiopian Airlines Revenue of 2009 and Sources percentage

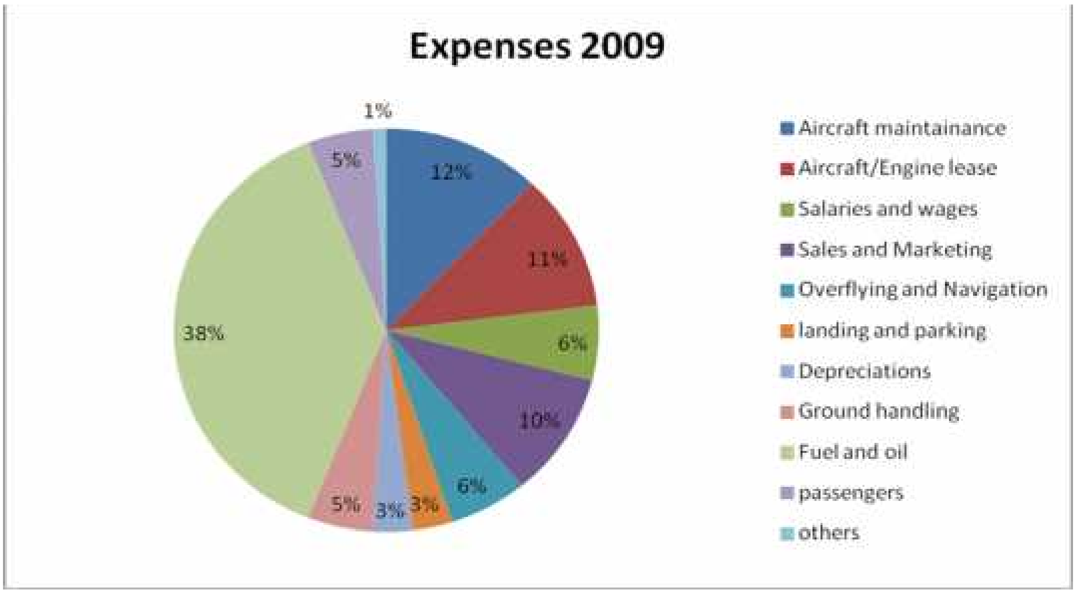


Graph 4, Ethiopian Airlines Revenue of 2012 and Sources percentage

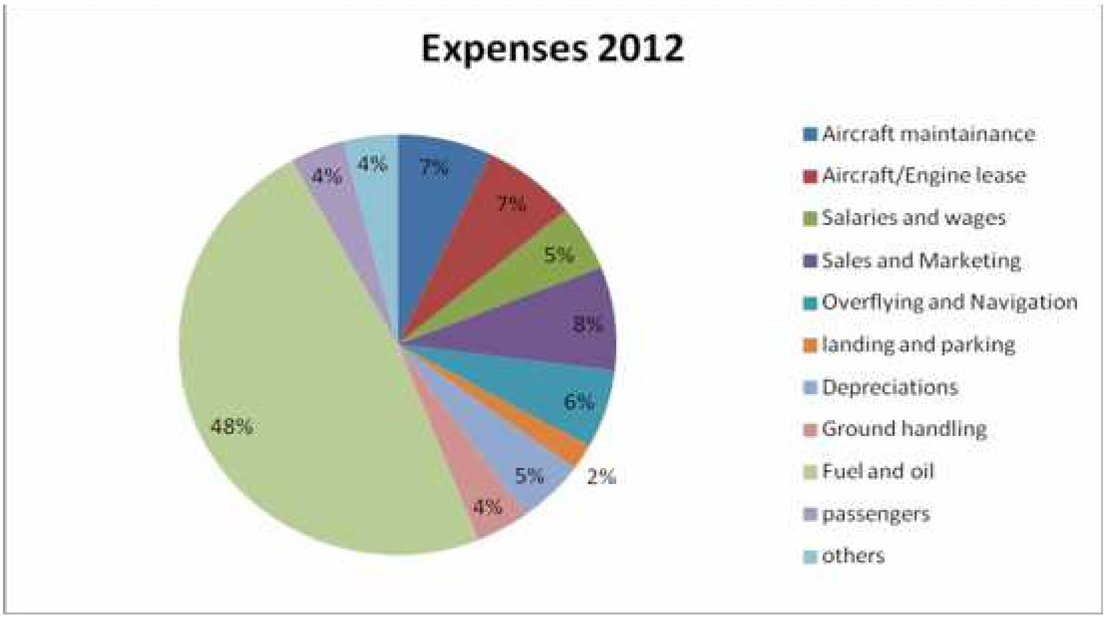
Expenses: - In comparison to other business sectors an airline industry is a service rendering business that creates a very low net profit, even in the best of times. This is because of a need to enormous range of expensive equipment & facilities, and a very high operating expenses it consumes to generate a revenue. Fuel & oil, ownership costs (airplane leasing), airplane maintenance and operating expenses together take the vast percentage of the total expenses.

In Ethiopian airlines Income statement, expense items that are categorized in the sub-title of flying costs are fuel & oil, aircraft maintenance, landing & parking, salaries to pilots & cabin crews and overflying & navigation. Aircraft or engine lease and depreciation expenses are included in ownership costs. Traffic & sales expenses in the income statement of the company comprises marketing, sales and ground handling expenses.

In the pie chart below it is indicated that oil price is the highest operating expense for Ethiopian airlines and it has increased exactly 10% in 2012 when comparing to the 38% in 2009. Obviously, this is an expense item that negatively influences much the financial performance of airlines and managers have very limited power to control it.



Graph 5, Ethiopian Airlines Operating Expenses percentage in 2009



Graph 5, Ethiopian Airlines Operating Expenses percentage in 2012

4.1 Horizontal Analysis

Ethiopian Airlines
Income statement
Financial year ended December 31

in millions of US$	2010	2009	Increase (Decrease) Amount	%
Total Revenue	**1278**	**1159**	**119**	**10%**
Operating Costs				
Flying costs	555	536	**19**	**4%**
Passenger services	68	63	**5**	**8%**
Traffic and sales	112	66	**46**	**70%**
Ownership costs	147	146	**1**	**1%**
Other overhead costs	292	256	**36**	**14%**
Total operating costs	**1174**	**1067**	**107**	**10%**
Operating profit	**104**	**92**	**12**	**13%**
Non-Operating net	19	35	**-16**	**-46%**
Profit for the year	**123**	**127**	**-4**	**-3%**

Table 2, Ethiopian Airlines Horizontal analysis between 2009 & 2010

Even though both revenue and total operating expenses increased by same amount of 10%, the net difference resulted 13% rise of operating income from 2009 to 2010. This is a very significant increase and it does represent positive result for Ethiopian airlines.

Traffic and sales expense increased by 70% in 2010 from recorded amount of previous financial year. This indicates that the company have made an aggressive sales promotion or a higher marketing campaign to increase its market shares.

The performance of the company from its operation generated an impressive result however, the net effect from non-operating activities (net of interest income and expense) shrunken profit for the year by 3%.

Ethiopian Airlines
Income statement
Financial year ended December 31

in millions of US$	2011	2010	Increase (Decrease) Amount	%
Total Revenue	**1510**	**1278**	**232**	**18%**
Operating Costs				
Flying costs	773	555	**218**	**39%**
Passenger services	72	68	**4**	**6%**
Traffic and sales	138	112	**26**	**23%**
Ownership costs	200	147	**53**	**36%**
Other overhead costs	302	292	**10**	**3%**
Total operating costs	**1485**	**1174**	**311**	**26%**
Operating profit	**25**	**104**	**-79**	**-76%**
Non-Operating net	50	19	**31**	**163%**
Profit for the year	**75**	**123**	**-48**	**-39%**

Table 3, Ethiopian Airlines Horizontal analysis between 2010 & 2011

In 2011 total revenue generated increased by 18% comparing to a year before result recorded. This indicates that air travel market was on its way to recovery. However, the revenue generated by Ethiopian airlines in this fiscal year was much less to pay for total operating expenses that increased by 26% in comparison to previous year expenses.

Direct operating expenses flying costs has increased the most with 39% and followed by an increase of ownership costs by 36%. Fuel costs are the main source for increase of direct operating expenses. It has increased due to instability in the Middle East and it accounts for about 40 percent of the airline industry's expenses, up from about 30 percent just a year before.

Operating profit has declined with 76 percent in comparison to previous year performance. This is mainly because of a very high percentage increase in operating expenses that offset the increase in sales revenue.

An income from non-operating activity of the company has increased by 163% and this has maintained lifting up to 39% decline of net profit. The decline of net income with the percentage indicated above would have been worse if there were just 0 incomes from non-operating activity.

Ethiopian Airlines
Income statement
Financial year ended December 31

in millions of US$	2012	2011	Increase (Decrease) Amount	%
Total Revenue	**1926**	**1510**	**416**	**28%**
Operating Costs				
Flying costs	1066	773	**293**	**38%**
Passenger services	95	72	**23**	**32%**
Traffic and sales	153	138	**15**	**11%**
Ownership costs	190	200	**-10**	**-5%**
Other overhead costs	362	302	**60**	**20%**
Total operating costs	**1866**	**1485**	**381**	**26%**
Operating profit	**60**	**25**	**35**	**140%**
Non-Operating net	-18	50	**-68**	**-136%**
Profit for the year	**42**	**75**	**-33**	**-44%**

Table 4, Ethiopian Airlines Horizontal analysis of 2012 financial year

Total sales revenue has maintained its consistent increase and Ethiopian airlines recorded a 28% increase in comparison to previous fiscal year. Both direct and indirect operating expenses has increased however, the overall increase is less than total revenue generated.

4.2 Trend Percentages

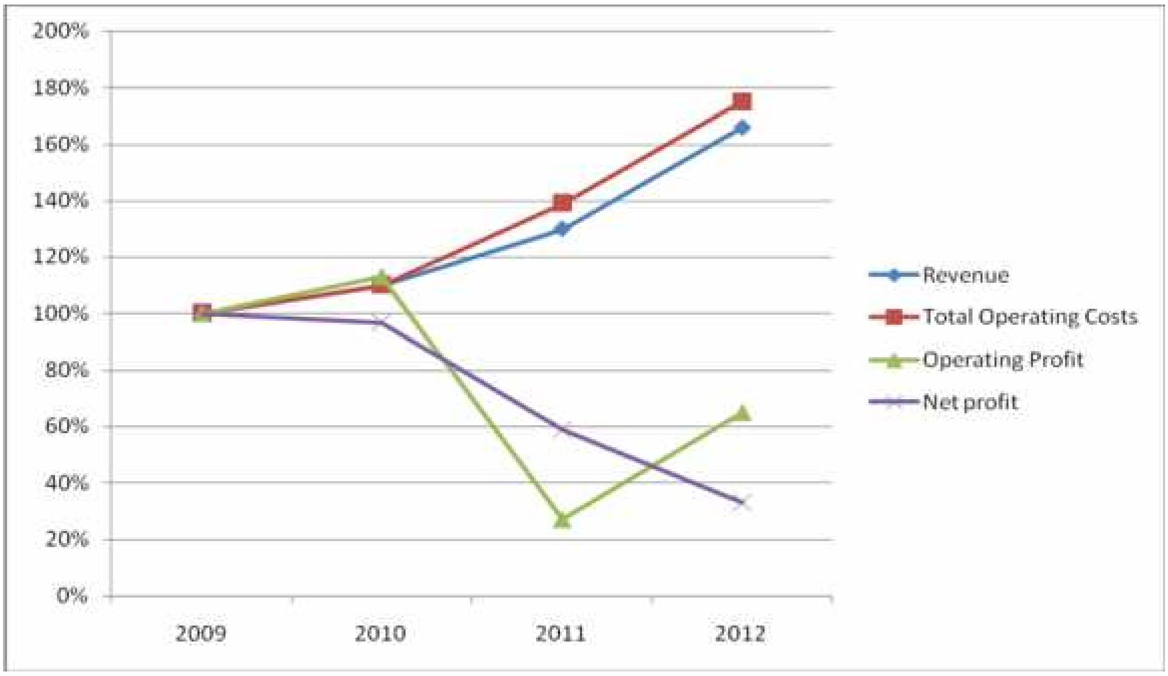
Ethiopian airlines
Income statement summary

	2012	2011	2010	2009
Revenue	1,926	1,510	1,278	1,159
Total Operating Costs	1,866	1,485	1,174	1,067
Operating Profit	60	25	104	92
Net profit	42	75	123	127

Table 5, Ethiopian airlines income statement summary in millions of US$

	2009	2010	2011	2012
Revenue	100%	110%	130%	166%
Total Operating Costs	100%	110%	139%	175%
Operating Profit	100%	113%	27%	65%
Net profit	100%	97%	59%	33%

Table 6, Ethiopians airlines income statement items trend percentages.



Graph 6, Ethiopians airlines income statement items trend percentages.

The graph above clearly indicates the trend of income statement items for Ethiopian airlines since the base year of 2009. Both Revenue and total operating costs have increased consistently in these 4 years period. On the other hand both operating profit and net income have weakened. Operating profit has fallen deep down in 2011 in comparison to the consistently declining net income since 2009.

Recovery of global economy from its deep recession in 2008 triggered consistent increase of revenue generated by Ethiopian airlines in the four year period and air transportation is also becoming one of the fastest growing sectors in the continent though the industry is experiencing consistent growth in passenger numbers.

The above trend analysis demonstrates clearly that a combined effect from a higher percentage increase of total operating expenses in each fiscal year and negative results from net of non-operating activities caused the consistent decline for net profit. In addition, fuel and oil costs have made the highest influence on the increase of total operating expenses. Indeed this is a big concern for the entire companies in the airline industry.

4.3 Vertical analysis

Ethiopian Airlines Sc. Income statement Financial year ended December 31								
in millions of US$	**2012**	**% of total**	**2011**	**% of total**	**2010**	**% of total**	**2009**	**% of total**
Total Revenue	**1926**	**100%**	**1510**	100%	**1278**	100%	**1159**	100%
Operating Costs								
Flying costs	1066	**55%**	773	51%	555	43%	536	46%
Passenger services	95	**5%**	72	5%	68	5%	63	5%
Traffic and sales	153	**8%**	138	9%	112	9%	66	6%
Ownership costs	190	**10%**	200	13%	147	12%	146	13%
Other overhead costs	362	**19%**	302	20%	292	23%	256	22%
Total operating costs	**1866**	**97%**	**1485**	98%	**1174**	92%	**1067**	92%
Operating profit	**60**	**3%**	**25**	2%	**104**	8%	**92**	8%
Non-operating net	-18	**-1%**	50	3%	19	1%	35	3%
Profit for the year	**42**	**2%**	**75**	5%	**123**	10%	**127**	11%

Table 7 income statement items as a percentage of total revenue.

Like many other airliners in the air transport industry Ethiopian airlines highest percentages of revenue is spent on operating expenses. Total operating expenses were 92%, 92%, 98% and 97% of the total revenue generated for the financial years in 2009, 2010, 2011 and 2012 respectively.

Flying costs are the highest operating expenses and they were about 43%-55% of sales revenue. Passengers service were exactly 5% of sales revenue in all financial years. Traffic and sales expenses were about 6%-9%, ownership costs about 10%-13% and other overhead costs about 19%-23%.

Operating profits were 2% and 3% of the sales revenue in 2011 and 2012 respectively. These results are much lower than 8% operating profit of both 2009 and 2010.

Net incomes to sales revenue ratio in the financial years 2009 and 2010 were 11% & 10%. These results indicate that the company were able to generate a very impressive net profit that is much higher than the 8% industry average. However, on following two consecutive fiscal years these figures declined to 5% and 2%.

So, what we understood from analysing the company's income statement through the vertical analysis is: -

- For each 1US$ sales revenue generated, Ethiopian airlines have enjoyed 11 cents and 10 cents net profit in 2009 and 2010 fiscal years. However, these impressive results declined to 5 cents and 2 cents in 2011 and 2012 respectively.

  This is mainly because of the increase in flying costs consuming above 50 % of the total revenue generated. As it's explained at the beginning part of the data analysis this operating cost category contains expenses for fuel & oil, aircraft maintenance, landing & parking, salaries to pilots & cabin crews and overflying & navigation.

- Operating profit were 8 cents for each 1US$ in revenue for both 2009 and 2010. In 2011 and 2012 operating profit were 2 cents and 3 cents respectively.

4.4 Benchmarking Analysis

Both South African airways and Kenyan airways are direct competitors to Ethiopian airlines in the region. This part of the data analysis will look at financial performance of Ethiopian airlines against these two companies. For benchmarking analysis purpose these three companies income statement is calculated to common size.

Kenyan airways were founded in 1977 and its head office is located in Nairobi. The company was wholly owned by the government of Kenya till it was privatized in 1996.

Government of Kenya and KLM own 29.8% & 26.73% of the company respectively. The rest of the shares are held by private owners. Its sales revenue in 2011 & 2012 fiscal years was 750 and 943 million Euros.

South African airway is a winner of "best airline in Africa" award in the regional category for over ten years consecutively. The history of South African Airways dates back to 1 February 1934, when the South African government took over the assets and liabilities of Union Airways. The company is 100% owned by the government and had sales revenue of 1,634 & 1,724 million Euros in 2011 & 2012 fiscal years.

Common size Income statement
Ethiopian Airlines S.C. VS South African airways Group & Kenyan airways

	2012				2011		
	EAL	SA	KA		EAL	SA	KA
Total Revenue	100%	100%	100%		100%	100%	100%
Operating expenses	97%	106%	99%		98%	96%	93%
Operating profit	3%	-6%	1%		2%	4%	7%
Non-operating net	-1%	6.24%	1%		3%	-1%	-3%
Profit for the year	2%	0.24%	2%		5%	3%	4%

	2010				2009		
	EAL	SA	KA		EAL	SA	KA
Total Revenue	100%	100%	100%		100%	100%	100%
Operating expenses	92%	94%	97%		92%	93%	94%
Operating profit	8%	6%	3%		8%	7%	6%
Non-operating net	1%	-4%	0%		3%	-6%	-12%
Profit for the year	10%	2%	3%		11%	1%	-6%

Table 8 Common size income statement of Ethiopian Airlines, South African & Kenyan Airway.

The table above shows common size financial statements of Ethiopian airlines and its direct competitors, South African airways and Kenyan airways. It contains the summary of four years common size income statement of these competing companies and it shows a clear picture about the standing point of Ethiopian airlines regarding its financial performance against its main competitors in the four year period.

Profit for the year percentages to Ethiopian airlines were 11% and 10% of sales revenue generated in the financial years 2009 & 2010 respectively. These are the highest net profit in the 4 years period mainly because of demand to air transport began to recover and lower operating expenses. However the following two financial year's net income declined to 5% and 2% respectively mainly because of an increase of fuel price in the world market.

Despite the fact that Ethiopian airlines profit for the year have declined in the four year period, the company actually created a very high margin of net profit in comparison to its direct competitors South African and Kenyan airways.

The net profit margin gap between Ethiopian airlines and its competitors is narrowed very much in 2012. Kenyan airways even have matched with Ethiopian airlines 2% net profit of sales.

Having no reports of loss, Ethiopian airlines were still a better side of its competitors when it comes to income margin from operating activities. South African airways operating income were falling since 2009 and in the fiscal year 2012 it reported a 0.06 cents loss for each 1ZAR(South African rand).

Operating expenses are the highest costs for these companies and often it has taken over 90% of sales revenue. The highest that operating expense has been for Ethiopian airlines were 97%, in 2011. Apart from that year the company has a lower operating expense in relative to both South African and Kenyan airways.

South African airways operating expense consistently risen resulting a decline to its operating profit. In 2012 the company even reported a loss from its operating activities. South Africa hosted the 2010 FIFA world cup, the first time when African country getting a chance to host such a big event of the planet, surely it boosted the number of tourists flying in to Africa and positive image to the continent however, it seems to have less impact on contributing to the profitability of the airway.

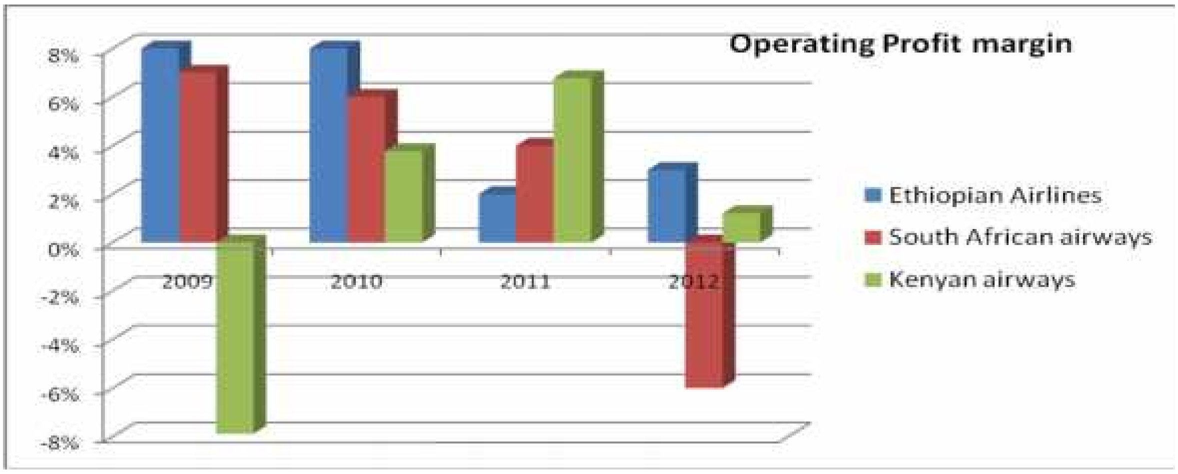
When looking at the operating results of Kenyan airways, it shows that the company were having up and downs in order to keep its operating expenses as low as possible in order to maintain stable positive results from its operations. The company improved gradually since 2009 managing their non-operating activities and it has produced an interest income that contributed for an impressive development of net income throughout the 4 years period.

4.5 Ratio Analysis

4.5.1 Operating profit margin

	2009	2010	2011	2012
Ethiopian Airlines	8%	8%	2%	3%
South African airways	7%	6%	4%	-6%
Kenyan airways	-8%	4%	7%	1%

Table 9, Operating profit margin of Ethiopian Airlines, South African & Kenyan Airways



Graph 7, Operating profit margin of Ethiopian Airlines, South African & Kenyan Airways

It's explained in the theoretical part of this thesis that operating profit margin indicates how much a company makes (before interest and taxes) on each dollar of sales revenue. Accordingly, the table and graph above shows that Kenyan airways improved its profitability of its operation from the loss of 8 cents it incurred on each dollar of sales in 2008. The company has made 7 cents of operating margin that being the highest in the 4 years period. However, it followed by a fall down to 1 cent a year after in 2012.

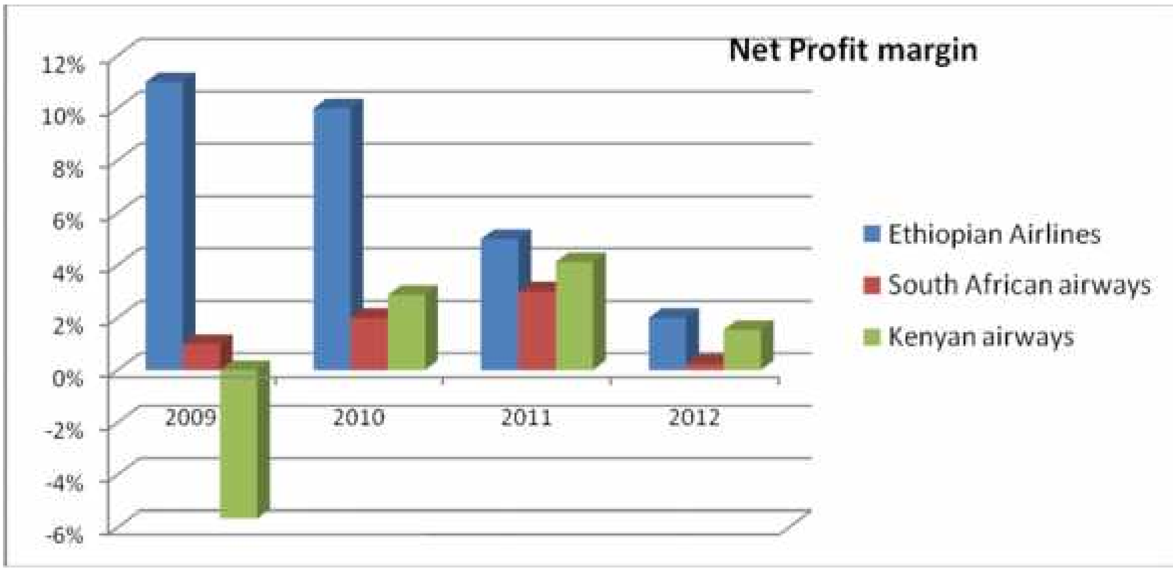
Ethiopian airlines results from its operation stood taller in the operating profit margin graph above in comparison to the two competing companies throughout the period in exception to its report of the 2011 fiscal year where the margin fallen to 2 cents for each US$ in sales revenue.

The operating profit margin graph indicates that both Ethiopian airlines and South African airways income from operation have declined since 2009. In fiscal year 2012 Ethiopian airlines looked getting back on track by generating a higher operating margin from previous year however, for South African airways it's the other way round and it recorded loss from the operation. One thing to keep in consideration is that the financial statements of South African airways reported in 2012 is the result of the group including its subsidiaries (Mango airlines, Air chefs, SAA technical & South African travel centre), the operating and net profit margin of the airway might not be as bad as it may looks in that specific year, if Income statement of the company were prepared separately.

4.5.2 Net profit margin

	2009	2010	2011	2012
Ethiopian Airlines	11%	10%	5%	2%
South African airways	1%	2%	3%	0.24%
Kenyan airways	-6%	3%	4%	2%

Table 10, Net profit margin of Ethiopian Airlines, South African & Kenyan Airways



Graph 8, Net profit margin of Ethiopian Airlines, South African & Kenyan Airways

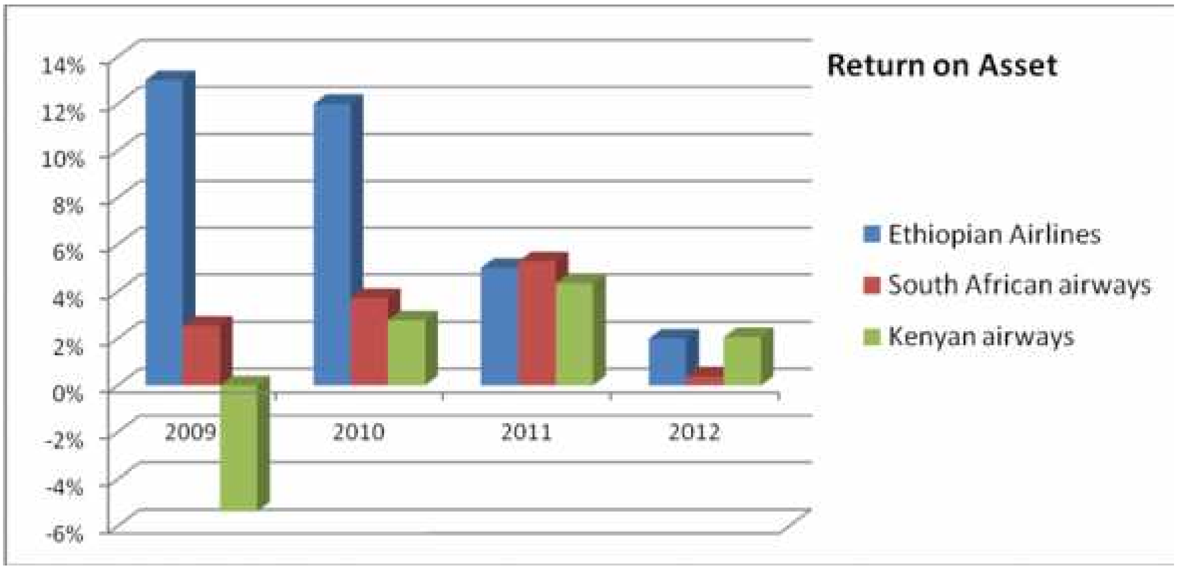
The net profit margin's purpose is to show the company's profit of each dollar in sales revenue after paying interest & taxes. Airline industry in general is the least in generating a higher net profit margin and the graph above demonstrates that being same case for African airliners.

In the four years analysis of net profit margin, the highest net profit margin was generated by Ethiopian airlines in 2009 and 2010 financial years. In these fiscal years the company made over 10 cents of net profit to each US$ in sales revenue. Both Kenyan and South African airways have managed to make maximum of 4 cents and less net profit to each US$ in sales revenue.

4.5.3 Return on Asset (ROA)

	2009	2010	2011	2012
Ethiopian Airlines	13%	12%	5%	2%
South African airways	3%	4%	5%	0.39%
Kenyan airways	-5%	3%	4%	2%

Table 11, Return on Asset of Ethiopian Airlines, South African & Kenyan Airways



Graph 9, Return on Asset of Ethiopian Airlines, South African & Kenyan Airways

The return on asset (ROA) calculated for the three competing companies indicate that how much profit each asset of a company makes in specific accounting period. In other words return on assets (ROA) measures the operating efficiency of employing assets to generate profit.

The graph above indicates that Ethiopian airlines efficiency in generating profit with its asset has consistently diminished. This is mainly because of the declining net profit.

South African airways ROA has improved as the world economy began to recover from the 2008 recession resulting in growing demand for air transportation. However, in 2012 the company's ROA is the lowest of previous year's results and when comparing it to its direct competitors.

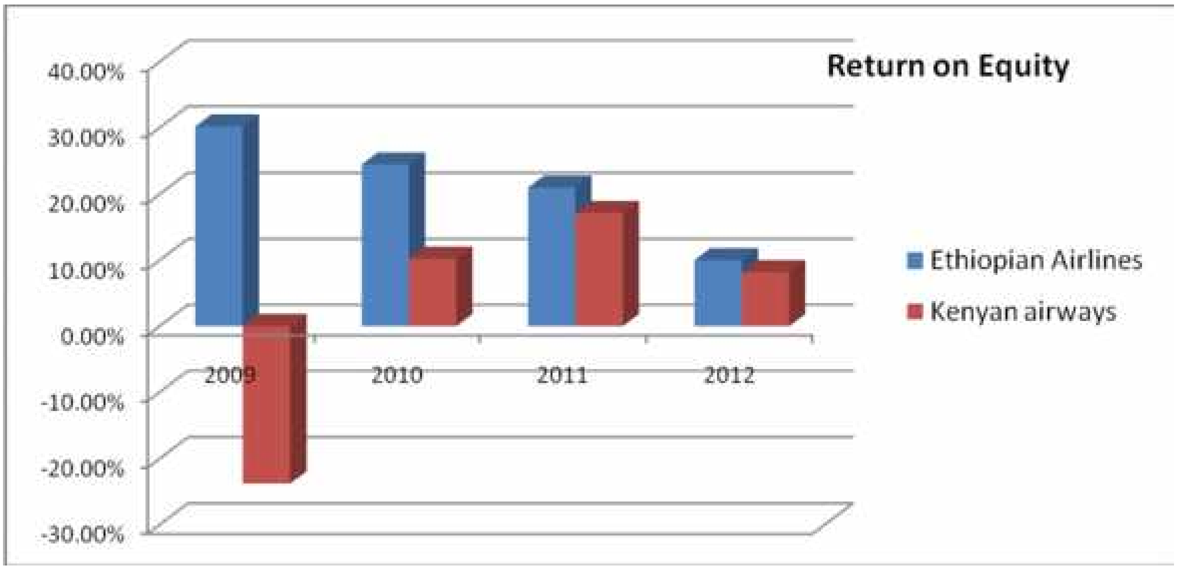
Ethiopians airlines generated 13, 12, 5, & 2 cents profits for each US$ of Asset in 2009, 2010, 2011 & 2012 respectively. South African airways profited 3, 4, 5 & 0.39 cents for each ZAR of Asset in 2009, 2010, 2011 & 2012 respectively and Kenyan airways made a profit of (5), 3, 4, & 2 cents for each KES of Asset in 2009, 2010, 2011 & 2012 respectively.

An Ethiopian airline is the profitable company in generating highest return on asset in 2009 and 2010 fiscal years. South African airways profited just 0.39 cents of net profit in respect to each ZAR in assets, in 2012. Kenyan airways improved its ROA persistently since the deep fall of net profit in 2009.

4.5.4 Return on Equity (ROE)

	2009	2010	2011	2012
Ethiopian Airlines	30%	24%	21%	10%
Kenyan airways	-24%	10%	17%	8%

Table 12, Return on Equity of Ethiopian Airlines & Kenyan Airways



Graph 10, Return on Equity of Ethiopian Airlines & Kenyan Airways

For each 1US$ in equity Ethiopian airlines had generated return of 30, 24, 21 & 10 cents in 2009, 2010, 2011 & 2012 respectively. Kenyan airways had generated (24), 10, 17 & 8 cents in 2009, 2010, 2011 & 2012 respectively.

On each US$ of equity Ethiopian airlines made a higher return to shareholder's equity in all 4 years against results reported by Kenyan airways. Even though Kenyan airways return to equity improved quite impressively from a loss in 2009. Its highest recorded ROE was in the fiscal year 2011, which was 17 cents for each KES in equity.

The two main reasons for Ethiopian airlines ROE consistently decline are a decrease in net profit and an increase of investment amount in equity. Ideally, greater investment in the company should yield higher return on equity since the company is able to take equity gained and use it in areas where profits can be made. However, in a mature industry such as the airline industry, increased investment isn't always possible as there may be very few areas that could generate new profits.

5 Conclusion

5.1 Key Findings

All the data analysed indicates main sources for consistent decline of operating and net profit of Ethiopian airlines in these financial years. The benchmarking part of the analysis gives a clear picture about the standing point of the company's ability of generating profit in comparison to its direct competitors in the region.

Sales revenue: - Sales revenue of Ethiopian airlines increased in consistent during the four years. It has increased in 10% and over in comparison to preceding years mainly because of: -

- Strategies implemented to increase the number of flight destinations and as a result, the case company expanded its service to new international destinations like Hangzhou-China, Melaka-Southern Sudan, Milan-Italy, Beijing, Pointe Noire, and Muscat-Oman.

- The case company purchased a number of latest airplanes. Among these were three Boeing 777-200LLRs and nine Boeing 787 dream liners.

- It signed code-sharing agreements with Scandinavian Airlines, Singapore airlines and Asian Airlines. In addition, the case company joined Star alliance to provide travelers with better connectivity and a broad range of services between Europe and Africa.

- Increase of air transport demand by business travelers to the country, following the start of recovery to the world economy and impressive development of Ethiopian economy.

Operating Expenses: - Total operating expenses increased very high reaching to 97% of the total revenue. This basically means that the case company has to expend 97 cents in order to generate 1US$.

- Flying costs went up from 43% to 55% of the total revenue. This indicates that the case company spends over 50 cents just alone to jet fuel and oil expense for making of 1 US$. In other words flying costs consume over 50% of revenue it generates.

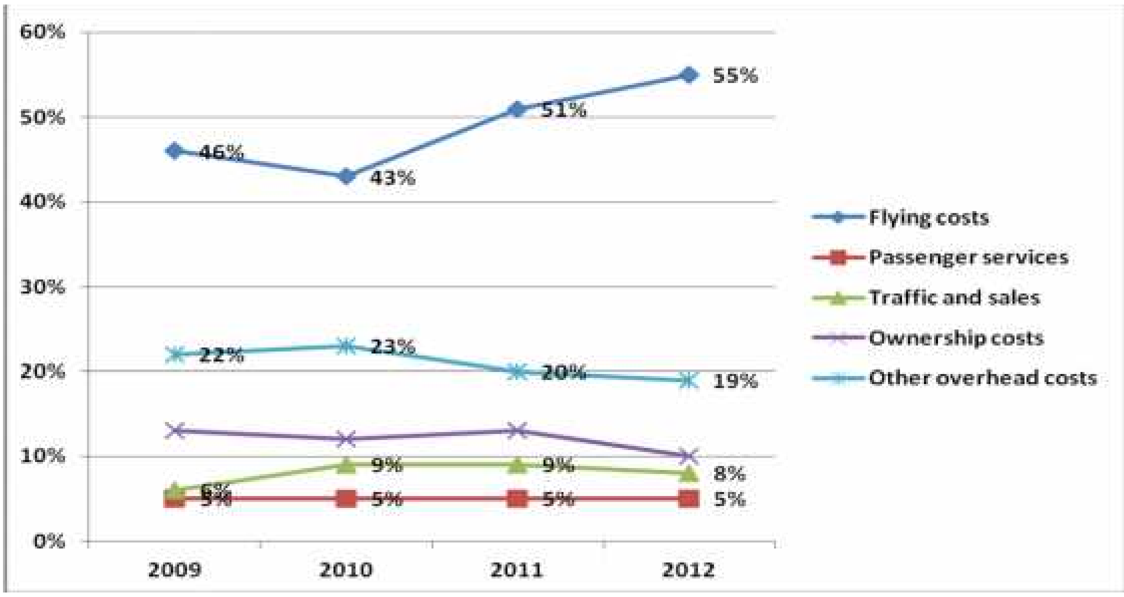
  This is an operating expense that affected profitability of the company heavily however; the management of the company has no power to control its influence since price is sated by OPEC. In this period the price of jet fuel has increased worldwide and this is reflected in the case company's income statement.

- Passenger service expense remained constant 5% of the total revenue in all four years and ownership costs were

- Other overhead expenses decreased from 23% to 19% of the total revenue. In addition, the management reduced slight amount of marketing and sales expenses. These shows that the case company's intention of reducing operating expenses to improve its profit.

Operating Profit: - Operating profits declined in 2011 and 2012 financial years in comparison to previous year's results mainly due to an increase of flying costs. Particularly, jet fuel expense with a great magnitude affected the operating results produced by the company.

The following graph gives a further explanation to the statements above. The graph is made out from the vertical analysis table and indicates the trend of Ethiopian airlines operating expenses



Graph 10, Operating Expenses as a percentage of sales revenue

The graph above shows that other overhead expense items in the income statement have declined continuously since its highest amount in 2010 and same is for traffic & sales expense; these two trends reflect efforts of the company to cut controllable expenses in the post years of world's financial crisis to raise profitability. On the other hand flying costs have increased very high and it took over 50% of the total revenue of the company.

Non-operating activities: - The case company generated interest income for three years in the period accounting 1-3% of the total revenue and it contributed to the net profit. However, this has declined in 2012 when the company incurred an interest expense higher than interest income produced.

Benchmarking: - The benchmarking and ratio analysis conducted indicate that the overall performance of Ethiopian airlines profitability in the four years financial period were better than its direct competitors.

5.2 Summary

The main objective of the thesis were to analyse trends of all income statement items of Ethiopian Airlines, investigate the consistent declining net profit and compare the performance of the company with its direct competitors in the region.

An increase of flying cost, that is part of operating expense of Ethiopian Airlines, is found as the main reason for declining of Operating profit in the four years financial period.

The case company's revenue increased consistently with 10% and higher every year in the period however, the percentage increase of revenue was less than the percentage increase of operating expenses. As a result operating income of the case company has declined.

Income from non-operating activities of the company accounted up to 1-3% of total revenue. In the 2012 financial year, it's the only occasion where the company incurred an interest expense from non-operating activities and that accounts 1% of the total revenue.

For benchmarking purpose operating margin, Net profit margin, Return on asset (ROA), and Return on equity (ROE) ratios of EAL, SA and KA were calculated. The ratios revealed that the case company had a better profitability results in the period in comparison to the both competitors.

5.3 Recommendation

The main factor to the decline of Ethiopian Airlines profit is sourced from uncontrollable expense and as a consequence the company has very less room to adjust its influence on the company's financial performance.

The decrease of marketing and sales expenses in the period is noticed and it definitely has contributed to some level for the decline of net profit. Perhaps, this wasn't a wise decision by the management since the company faced a tough competition from competitors to acquire market shares and utilize its full capacity of transportation service offering. So, the case company have to consider increasing of marketing and sales expenses to improve operating revenue and profit.

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Appendix 1

FINANCE AND STATISTICS

Four Year Summary of Financial Highlights (Millions)

	2012		2011		2010		2009	
	ETB	US$	ETB	US$	ETB	US$	ETB	US$
Turnover:-								
Passenger (inc. Ex. Bag)	25,385	1,474	18,993	1,158	12,811	974	9,538	905
Freight & Mail	4,540	950	3,097	189	1,744	133	1,113	106
Charter (PAX and CGO)	2,099	120	1,836	112	1,614	123	1,126	107
Other Revenues	1,291	73	834	51	647	49	437	41
Total	33,815	1,926	24,759	1,510	16,816	1,278	12,214	1,159
Costs:-								
Flying Costs	19,066	1,086	12,678	773	7,297	555	5,652	536
Passenger Services	1,314	75	1,179	72	890	68	659	63
Traffic & Sales	2,693	153	2,261	138	1,473	112	695	66
Ownership Costs	3,338	190	3,283	200	1,933	147	1,536	146
Other overhead costs	6,355	362	4,945	302	3,844	292	2,698	256
Total	32,766	1,866	24,346	1,485	15,436	1,174	11,240	1,067
Operating Profit	1,049	60	413	25	1,380	105	974	92
Non-operating Net	(315)	(18)	819	50	246	19	371	35
Profit for the year	734	42	1,232	75	1,626	124	1,345	128

Appendix 2

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Consolidated Income Statement for the year ended 31 March 2010

	Notes	2010 KShs'million	2009 KShs'million
Turnover	4	70,743	71,629
Direct costs	5(a)	(44,376)	(47,793)
Fleet ownership costs	5(b)	(9,102)	(7,294)
GROSS PROFIT		7,265	6,040
Overheads	5(c)	(5,726)	(2,001)
Finance costs	6(a)	(1,403)	(1,394)
Finance income	6(b)	572	508
Realised losses on fuel derivatives	7(a)	(3,770)	(1,372)
Fair value gains/(losses) on fuel derivatives	7(b)	6,170	(7,532)
Other (losses)/gains	8	(500)	72
Share of results of associated company	17(c)	77	62
PROFIT/(LOSS) BEFORE TAXATION	9	2,671	(5,664)
TAXATION (CHARGE)/CREDIT	10(a)	(636)	1,581
PROFIT/(LOSS) FOR THE YEAR		2,035	(4,083)
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Equity holders of the company		2,034	(4,083)
Non-controlling interest		1	-
		2,035	(4,083)
EARNINGS/(LOSS) PER SHARE (KShs) - Basic & diluted		4.70	(8.84)

Appendix 3

Report of the Independent Auditor to the members of Kenya Airways Limited

Report on the consolidated financial statements

[illegible]

Directors' responsibility for the financial statements

[illegible]

Auditor's responsibility

[illegible]

Opinion

[illegible]

Report on other legal requirements

[illegible]

Consolidated income statement

For the year ended 31 March 2012

	Notes	Year ended 31 March 2012 KShs million	2011 KShs million
Revenue	[illegible]	[illegible]	[illegible]
Direct costs	[illegible]	[illegible]	[illegible]
Fleet ownership costs	[illegible]	[illegible]	[illegible]
Overheads	[illegible]	[illegible]	[illegible]
Operating profit		[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	-
Profit before income tax	[illegible]	[illegible]	[illegible]
Income tax expense	[illegible]	[illegible]	[illegible]
Profit for the year	12	1,660	3,538
Attributable to:			
Owners of the parent		[illegible]	[illegible]
Non-controlling interest		[illegible]	[illegible]
		1,660	3,538
Earnings per share attributable to the equity holders of the Company [illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Appendix 4

Pg 71

Consolidated statement of financial position

As at 31 March 2012

ASSETS	Notes	As at 31 March 2012 KShs million	2011 KShs million
Non-current assets			
Property, plant and equipment	15	[illegible]	50,794
Intangible assets	16	1,423	1,029
Prepaid operating lease rentals	17	5	5
Investment in associate	18(i)	232	338
Deferred expenditure	19	94	-
Aircraft deposits	20	4,364	[illegible]
Fuel derivatives	2	10	32
		55,599	**55,095**
Current assets			
Inventories	22	2,683	1,917
Trade and other receivables	23	10,219	11,159
Current income tax recoverable	11	764	835
Fuel derivatives	21	1,327	2,452
Bank and cash balances	24	6,840	7,254
		21,833	**23,617**
TOTAL ASSETS		**77,432**	**78,712**
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	25	2,308	2,308
Reserves	26	20,280	20,089
Proposed dividend		374	693
		22,962	**23,090**
Non controlling interest	27	61	53
Total equity		**23,023**	**23,143**
Liabilities			
Non-current liabilities			
Borrowings	28	19,154	21,750
Deferred tax liability	29	8,318	8,277
Deferred income	30	2,158	2,232
Finance lease obligations	31	1,023	1,101
		30,653	**33,360**
Current liabilities			
Sales in advance of carriage	32	6,628	9,010
Finance lease obligations	31	199	335
Trade and other payables	33	9,040	8,991
Deferred income	30	174	174
Borrowings	28	7,715	3,699
		23,756	**22,209**
Total liabilities		**54,409**	**55,569**
TOTAL EQUITY AND LIABILITIES		**77,432**	**78,712**

The financial statements on pages 69 to 124 were approved for issue by the board of directors on 13 June 2012 and signed on its behalf by:

Evanson Mwaniki

Director

Titus Naikuni

Director

Appendix 5

56 Kenya Airways Annual Report & Accounts

Consolidated Statement of Financial Position 31 March 2010

	Notes	2010 KShs million	2009 KShs million
ASSETS			
Non current assets			
Property, plant and equipment	14(a)	49,856	[illegible]
Intangible assets	15	899	550
Prepaid operating lease rentals	19	1,541	1,662
Investment in associated company	17(c)	526	449
Aircraft deposits	16	2,351	2,532
Deferred tax asset	25	32	26
Fuel derivatives	20(b)	100	-
		55,405	**56,270**
Current assets			
Inventories	21	1,543	1,474
Trade and other receivables	22	9,045	10,045
Due from related companies	35(b)	6	3
Corporate tax recoverable	10(c)	832	[illegible]
Fuel derivatives	20(b)	[illegible]	
Deposits with financial institutions	23	3,011	7,077
Bank and cash balances	24	3,112	2,373
		17,858	19,709
TOTAL ASSETS		**73,263**	**75,979**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	2,308	2,308
Revenue reserve	26(a)	17,541	16,069
Cash flow hedging reserve	26(b)	[illegible]	[illegible]
Equity attributable to equity holders of parent company		19,923	17,176
Non controlling interest	27	50	-
Total equity		**19,973**	**17,176**
Non-current liabilities			
Borrowings	28(b)	23,386	28,257
Deferred tax liability	29	6,918	5,871
Fuel derivatives	20(c)	-	714
Deferred income	33	2,065	2,239
		32,369	**37,081**
Current liabilities			
Fuel derivatives	20(c)	-	5,715
Sales in advance of carriage	30	8,700	6,886
Trade and other payables	31	7,151	4,599
Accruals for staff leave entitlements	32	1,253	741
Deferred income	33	174	174
Unclaimed dividends	13	109	40
Corporate tax payable	10(c)	-	16
Borrowings	28(b)	3,534	3,851
		20,921	**21,722**
		73,263	**75,979**

The financial statements on pages 54 to 100 were approved by the board of directors on 3rd June 2010 and were signed on its behalf by:

Evanson Mwaniki (Director) **Titus Naikuni** (Director)

Appendix 6

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2010

		Group		Company	
		2010	2009	2010	2009
Rand million	Notes		Restated		Restated
REVENUE	6	22 462	26 829	21 521	25 786
Turnover	6	16 941	20 045	15 792	18 732
Other airline income	6 & 7	5 322	6 331	5 393	6 409
Total airline income		22 263	26 376	21 185	25 141
Operating costs		21 036	24 478	20 016	23 582
Aircraft lease costs	8	1 623	2 266	1 623	2 266
Accommodation and refreshments		741	706	1 054	950
Depreciation and amortisation	8	760	683	709	644
Distribution costs		1 321	1 728	1 279	1 680
Electronic data costs		574	553	570	548
Energy		5 148	8 601	4 921	8 266
Employee benefit expenses	9	4 095	3 582	2 614	2 508
Material		2 117	1 772	2 926	2 522
Navigation, landing and parking fees		1 161	1 214	1 108	1 166
(Profit) loss on sale and scrapping of property, aircraft and equipment and assets held for sale	8	(53)	2	(54)	1
Net impairment write-off (reversal)	10	143	(331)	286	(178)
Other operating costs		3 406	3 702	2 780	3 209
Profit before fair value movements and translation losses	8	1 227	1 898	1 169	1 559
Fair value movements and translation losses	11	(601)	(1 564)	(533)	(1 501)
Operating profit before finance costs and investment income		626	334	636	58
Finance costs	12	(229)	(363)	(265)	(404)
Investment income	13	199	453	336	645
Profit before taxation		596	424	707	299
Taxation	14	(15)	(22)	(10)	(16)
Profit for the year		581	402	697	283
Other comprehensive income:					
Actuarial losses on defined benefit plans	17	(35)	(48)	(35)	(48)
Taxation related to components of other comprehensive income	17	10	16	10	16
Other comprehensive loss for the year net of taxation	17	(25)	(32)	(25)	(32)
Total comprehensive income		556	370	672	251
Total comprehensive income/(loss) attributable to:					
Equity holders of the parent		323	11	439	(108)
Subordinated loan providers		233	359	233	359
Basic and diluted earnings per share (cents)	16	5	4	–	–

Appendix 7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2012

R MILLION	Notes	GROUP 2012	GROUP 2011 RESTATED	COMPANY 2012	COMPANY 2011 RESTATED
Revenue		**23 861**	22 608	**22 445**	21 609
Turnover	5 & 6	**18 450**	17 767	**17 031**	16 746
Other income	7	**5 411**	4 841	**5 414**	4 863
Operating costs		**25 176**	21 602	**23 444**	20 652
Aircraft lease costs	8	**1 797**	1 686	**1 795**	1 686
Accommodation and refreshments		**793**	656	**1 114**	970
Depreciation and amortisation	5 & 8	**530**	845	**474**	791
Distribution costs		**1 231**	1 227	**1 178**	1 182
Electronic data costs		**557**	492	**553**	489
Energy		**8 302**	6 086	**7 882**	5 814
Employee benefit expenses	9	**4 711**	4 417	**3 129**	2 972
Material	5	**1 739**	1 316	**2 735**	2 521
Navigation, landing and parking fees		**1 476**	1 248	**1 368**	1 173
Gains on disposal of property, aircraft and equipment	8	**(25)**	(4)	**(25)**	(10)
Net impairment write-off	10	**44**	71	**(228)**	13
Other operating costs	5	**4 021**	3 560	**3 469**	3 051
Operating (loss)/profit before fair value movements and translation profit/(loss)	8	**(1 315)**	1 006	**(999)**	957
Fair value movements and translation profit/(loss)	11	**63**	(202)	**62**	(171)
(Loss)/profit before finance costs and investment income		**(1 252)**	804	**(937)**	786
Finance costs	12	**(147)**	(168)	**(172)**	(200)
Investment income	13	**42**	156	**42**	142
(Loss)/profit before taxation		**(1 357)**	792	**(1 067)**	728
Taxation	14	**514**	(13)	**-**	(13)
(Loss)/profit for the year		**(843)**	779	**(1 067)**	715
Other comprehensive income:					
Actuarial gains and losses on defined benefit plans		**80**	(45)	**80**	(45)
Gains and losses on property revaluations		**935**	-	**433**	-
Taxation related to components of other comprehensive income		**(112)**	13	**-**	13
Other comprehensive income/(loss) for the year net of taxation	16	**903**	(32)	**513**	(32)
Total comprehensive income/(loss)		**60**	747	**(554)**	683
Total comprehensive income/(loss) attributable to:					
Owners of the parent		**(32)**	646	**(646)**	582
Subordinated loan provider		**92**	101	**92**	101
		60	747	**(554)**	683
Basic and diluted earnings per share (cents)	15	**(7)**	6		

Appendix 8

STATEMENTS OF FINANCIAL POSITION

for the year ended 31 March 2010

		Group		Company	
		2010	2009	2010	2009
Rand million	Notes		Restated		Restated
ASSETS					
Non-current assets					
Property, aircraft and equipment	18	6 673	[illegible]	[illegible] 909	6 327
Intangible assets	19	[illegible]	103	85	79
Investments in subsidiaries	20	–	–	338	358
Reimbursement right	21		75		75
Deferred taxation asset	22	18	23	–	–
Total non-current assets		6 731	7 274	5 332	6 839
Current assets					
Inventories	23	606	593	57	77
Investments in subsidiaries	20 & 24			1 653	1 798
Derivative financial assets	25	75	140	76	140
Trade and other receivables	26	3 155	4 084	2 683	3 284
Investments	27	122	319	122	319
Cash and cash equivalents	28	3 412	2 778	3 111	3 635
Total current assets		7 371	8 944	7 702	9 281
Assets and disposal Group held for sale	29	10	80	10	11
TOTAL ASSETS		14 162	16 298	14 044	16 131
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	30	12 882	11 313	13 126	11 577
Non-distributable reserves		(100)	(75)	(100)	(75)
Shareholder restructuring fund		663	[illegible]	658	683
Accumulated loss		(13 705)	(14 055)	(14 233)	(14 697)
Shareholder's deficit		(250)	(2 152)	(554)	(2 512)
Subordinated loan guaranteed by government	31	1 300	2 884	1 300	2 864
Total capital and reserves		1 048	752	746	322
Liabilities					
Non-current liabilities					
Long-term loans	32	2 139	3 000	2 139	3 000
Employee benefit obligations	33	41	242	41	242
Provisions	34	399	344	399	344
Deferred revenue on ticket sales	37	1 159	1 352	1 159	1 352
Other long-term liabilities	35	63	53	–	–
Total non-current liabilities		3 801	[illegible]	3 738	5 018
Current liabilities					
Derivative financial liabilities	25	–	227	–	227
Trade and other payables	36	4 423	5 127	4 818	5 490
Provisions	34	785	1 054	697	1 080
Deferred revenue on ticket sales	37	3 540	3 314	3 402	3 261
Short-term portion of long-term loans	32	553	588	553	688
Finance lease obligations	38	19	29	19	29
Total current liabilities		9 321	10 419	9 560	10 791
Liabilities included in disposal Group held for sale	29	–	35	–	–
TOTAL LIABILITIES		13 122	[illegible]	13 298	15 809
TOTAL EQUITY AND LIABILITIES		14 162	15 290	14 044	16 131