CASH FLOWS AND OPERATING LOSS IN A PARASTATAL

– A STUDY OF AIR NAMIBIA FOR THE PERIOD

FROM 01 APRIL 2006 TO 31 MARCH 2011

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ABSTRACT

The purpose of this study was to study the cash flows and operating loss in a parastatal – Air Namibia (Pty) Ltd for the period 01 April 2006 to 31 March 2011. This problem was chosen by the researcher to investigate the root causes of operational loss and cash flow problem faced by the parastatal.

The study revealed that the Air Namibia (Pty) Ltd had been incurring losses for all financial years starting from 01 April 2006 to 31 March 2011. The airline's direct operating expenses exceeded the sales revenues prohibiting the airline to breakeven. The airline needed funds to finance its operations and to be able to remain afloat. If it was not the government bailout, the national airline would have been closed and liquidated. The airline experienced going concern problem, because its liabilities exceeded the assets.

Air Namibia (Pty) Ltd was the worst performing airline and was the only airline that made operational losses throughout the study period. Air Namibia (Pty) Ltd is 100 per cent owned by the government, contrasting Kenya Airways, for example, which is privately owned. The operational decisions taken by Kenya Airways are more of profit oriented, while the ones for Air Namibia (Pty) Ltd are more of social oriented and

politically influenced. Kenya Airways only flies to routes which are profitable and eliminated those routes which were not profitable, while Air Namibia (Pty) Ltd would fly routes depending on the social needs irrespective whether it is profitable or not.

The researcher concluded that if the management and the shareholder, which is the government, do not come up with a strategic plan that will turn around the airline operations in order to move from loss making to profitable one, the airline might continue to struggle and incur huge losses and require government bailouts in foreseeable future.

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DEDICATION

I dedicate this entire thesis wholeheartedly to my parents, Mr. Ndeshimwene Hishitongo and my late mother Mrs Veronica Hishitongo, for their continued support throughout my studies. They have been supporting me from the onset. This thesis is also dedicated to my wife Mrs. Letta Hishitongo and my son Mr. Ian Shetu Hishitongo for their unwavered support in the course of my study for Master of Science in Accounting and Finance.

Above all, I am deeply indebted to the Almighty God.

DECLARATION

I, Jeremia Tileni Hishitongo, declare hereby that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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Jeremia Tileni Hishitongo

CHAPTER 1

1. Introduction

1.1 Background

A parastatal, a state-owned enterprise, is a legal entity created by a government to undertake commercial activities on behalf of government (Kowalski, Max, Monika and Matias, 2003). Air Namibia (Pty) Ltd is one of the state-owned enterprises established by the Government of the Republic of Namibia. All the shares of Air Namibia (Pty) Ltd are owned by Government of Namibia. Air Namibia is a company incorporated in terms of the Companies Act of Namibia as a Proprietary (Pty) Limited Company with Government of the Republic of Namibia as sole shareholder. The shareholding Ministry is the Minister of Works and Transport. Its business operations primarily involve provision of air transport services to passengers and cargo.

Air Namibia (Pty) Ltd has a history of growth through mergers and acquisitions. The South West Air Transport was formed in 1946 and after a year it became South West Airways. In 1959 through amalgamation between ‘‘South West Air Transport’’ and ‘‘Oryx Aviation’’ it became ‘‘Suidwes Lugdiens’’. In 1966 ‘‘Namib Air’’ of Walvis Bay became subsidiary of ‘‘Suidwes Lugdiens’’ and in 1978 ‘‘Suidwes Lugdiens’’ became “Namib Air”. In 1982 South West Africa/ Namibia acquired the majority shareholding in Namib Air. In October 1991 following Namibia’s independence, Namib

Air was renamed Air Namibia. A twice weekly schedule between Frankfurt and Windhoek was launched and initially a Boeing B747SP was used on the route.

Through its subsidiary, Ground Handling (Pty) Ltd, Air Namibia (Pty) Ltd provides ground handling services for passengers and aircraft at Windhoek's Hosea Kutako International Airport. Air Namibia handles all business operations at Hosea Kutako International Airport through Ground Handling (Pty) Ltd as a subsidiary of Air Namibia. The operations of Ground Handling (Pty) Ltd such as the revenue and administration expenses are consolidated on the financial statements of Air Namibia (Pty) Ltd every financial year.

The mandate of Air Namibia (Pty) Ltd's was determined by its shareholder, the Government of the Republic of Namibia, previously represented by the Ministry of Finance and now by the Ministry of Works and Transport. The national airline is member of International Air Transport Association (IATA) and accredited to safely carry passengers and cargo internationally. The company operates air services between Namibia and destinations in Europe (Frankfurt), Africa (Accra, Johannesburg, Cape Town, Lusaka, Victoria Falls and Luanda), as well as major towns within Namibia.

The airline mandate is to be a major contributor towards the attraction and promotion of tourism, as well as promotion and facilitation of trade to Namibia by providing air transport, cargo, Charter and freight services between Namibia and other countries, as well as by operating flights within the boundaries of Namibia. Air Namibia made a positive net economic (value) contribution to the national economy, in line with its mandate. The value added is measured in terms of contribution to GDP and employment, and comes in the form of visitor expenditure as well as jobs created in resorts and facilities frequented by these visitors. The airline aimed to be a safe, reliable and profitable airline by providing excellent air transport services, helping tourism to thrive, and encouraging business investments in Namibia. The Travel and Satellite Account (TSA) prepared for the World Travel and Tourism Council (WTTC) shows that in 2005, the Namibian Tourism sector, in which Air Namibia is one of the major players, contributed an estimated N$9 billion to the national economy. According to the same report, the value added to the Namibian National economy directly from traffic carried by Air Namibia during the same period was N$ 903 million (2005). With a 15% increase per year, the amount is estimated to be around N$ 1.2 billion (2007), while the amount of money allocated to the airline through budgetary allocations of the Government was only N$150 million in 2005 financial year (Turner, 2006).

All the airports in Namibia are under the supervision of the Namibia Airports Company (NAC), a State Owned Enterprise (SOE) that was established in line with the Airports

Company Act, Act 25 of 1998. It commenced operations in February 1999. The main objectives are to ensure that the following operations run efficiently: The arrival, surface movement, parking or departure of aircraft; the servicing of aircraft, including the supply of fuel and lubricants; ground handling of aircraft, passengers, baggage and cargo; providing passengers safety while in the airport's facilities (Kangueehi, 2007).

Namibia Airports Company is a separate entity from Air Namibia (Pty) Ltd. The company charges airports tax, which is levied to Air Namibia (Pty) Ltd and the national airline, passes on the tax burden to consumer through tickets sales. Namibia Airports Company charges landing fees and parking fees on every aircraft that is landing and parked at all the airports. Air Namibia (Pty) Ltd is paying over the passenger taxes collected through tickets sales and for the landing and parking fees for Air Namibia (Pty) Ltd aircraft on monthly basis.

Before independence of Namibia on 21 March 1990, Namib Air was a department in TransNamib, which is a fellow state owned enterprise that was mandated to transport passengers and cargo by rail and air transport. Namib Air was making operational losses, when it was under the care of TransNamib. The continued loss making necessitated the separation of Namib Air from TransNamib to be a separate parastatal and Namib Air later became Air Namibia (Pty) Ltd. Since the time of TransNamib, the national airline

had been performing poorly and it could not sustain itself. Hence, it needed the government to step in with cash injections in order to keep the airline operating.

Current status of the national airline as at 01 June 2013 is that, in line with its vision statement of being a safe, reliable, efficient and caring airline, Air Namibia operates its fleet carefully on selected routes to meet expectations of its stakeholders. These expectations include performance dependability and comfort. All aircraft in the fleet are all cabin pressurized, provide immense comfort offered by the generous legroom, modern interiors and trend setting features. These aircraft are subjected to high levels of safety ensured through the meticulous maintenance programmes, and highly trained flight deck and cabin crews. The fleet comprises of; 2 x Airbus A340-300 aircraft, 4 x Airbus A319-100 aircraft and 4 x Embraer ERJ 135.

The national airline employed 584 personnel as at 01 June 2013, of which 341 are the flight staff while 243 are the ground staff. The majority of the ground staff is working at Air Namibia (Pty) Ltd head office in Windhoek, Hosea Kutako International Airport and Eros Airport, and the rest at different airports country wide. The flight routes operated by Air Namibia (Pty) Ltd cover Southern Africa, Africa, and Europe besides Namibia.

Southern Africa: Air Namibia (Pty) Ltd coverage of Southern African cities is comprehensive, with direct Air Namibia flights operated between Windhoek and Walvis Bay, Lusaka, Maun, Victoria Falls, Cape Town, Johannesburg and Luanda; with a clear sight of expanding their route network to include other Southern African destinations in the next 12 months (Masule, 2013). Flights between Windhoek and Luanda offer convenient connecting time and competitive fare via Windhoek and Cape Town, Johannesburg and Frankfurt. This provides Luanda passengers optimum travel ease connecting to Johannesburg, Cape Town, as well as to Frankfurt via Windhoek.

Africa: Air Namibia affords its clients access and travel solutions, through partner airlines, to more African destinations from Windhoek via Johannesburg to Nairobi, Harare, Mauritius, Lilongwe, George, Port Elizabeth and Durban. Air Namibia (Pty) Ltd clients from Southern Africa going via Accra get convenient and seem, less connections to Lagos and Abidjan.

Europe: The flagship route into Europe, on flights between Windhoek and Frankfurt, enables passengers from Namibia to go further than Frankfurt into the rest of Europe. Flights beyond Frankfurt are operated by partner airlines offering clients convenient connecting times to key cities such as London, Paris, Rome, Milan, Lisbon, Helsinki, Stockholm, Gothenburg, Kiev, Innsbruck Oslo, Warsaw, Moscow, Baltic, Prague, and Budapest.

Europe - Added Services: Flights from Europe into Windhoek also offer a number of magnificent connections via Windhoek to Walvis Bay, Maun, Victoria Falls, Cape Town, Johannesburg and Luanda.

Safety is the airline's cornerstone and at the centre of everything they do, making sure they comply with all countries regulatory and environmental requirements and laws. Air Namibia (Pty) Ltd is committed by providing all their stakeholders and passengers, the highest level of safety and comfort. The entire fleet is serviced by some of the most advanced technical teams in the industry, with a safety record second to none. Air Namibia (Pty) Ltd was awarded the ''Feather Awards'' for Best Regional Airline by the Airports Company of South Africa, during six years in the last 8 years, for airlines operating into either Johannesburg and / or Cape Town.

Air Namibia (Pty) Ltd faced the challenge of attracting enough passengers to book their flights to maximum capacity, therefore is only able to book few seats and fly half to capacity. The airline is also challenged by the unavailability of qualified local pilots, the increasing price of jet fuel and weakening of Namibian Dollar against foreign currencies.

Current financial and operational status of Air Namibia (Pty) Ltd

Air Namibia has been making losses since its inception. But under a new government funded five-year turnaround strategy, the carrier is slowly moving towards financial sustainability through investment in new aircraft and improved revenue management systems. Air Namibia has a long history of government assistance to remain operational. A previous turnaround attempt used nearly N$2 billion in government bailout funds between 2003 and 2009. The current plan, which was announced in 2011, is expected to see the carrier breakeven by 2016 at an expected cost of N$1,6 billion to the taxpayer (Masule, 2013).

The carrier also signed its one and only code share agreement with Kenya Airways in July 2013, covering services between Lusaka and Johannesburg and Windhoek and Nairobi. The partnership provides valuable access to the important East African hub of Nairobi, while also extending Kenya Airways' presence in southern Africa through its strategy of working with smaller African carriers. Air Namibia operates a network of 17 destinations including Frankfurt. It operates a network largely focused on Southern Africa including eight domestic destinations and a similar number of regional points from the nation's capital, Windhoek, located in the centre of the county. In addition, Air Namibia maintains its links with former colonial ruler, Germany, through a daily service to Frankfurt as its only intercontinental route. The carrier deploys the bulk of its capacity by seats to South Africa, which it serves with 6 048 seats per week, split evenly between Johannesburg and Cape Town. Those routes are also Air Namibia's largest regional

routes. Germany accounts for a further 1 946 seats per week, while Angola to the north is served with 1 512 seats per week.

Windhoek Hosea Kutako International Airport handles an estimated 650 000 passengers per year. In the three months to March 2013, the airport handled a total of 166 329 passengers, according to Namibia Airport Company (NAC) figures. South African Airways (SAA) dominates three foreign airlines that service Windhoek. SAA is the largest of three foreign carriers operating from Hosea Kutako with 7 034 seats per week.

Air Namibia has a monopoly on all but four of its 17 routes from Windhoek with the exceptions being Johannesburg, Cape Town, Luanda and Lusaka-Harare. As part of its five-year turnaround plan, Air Namibia completed a rationalisation of its schedule in March 2013 to bring capacity into line with demand across its network. The carrier also received a further equity injection from the government late last year in the form of two new A319-100 aircraft, configured with 112 seats in two classes, which have been deployed on regional routes. The aircraft replaced the older Boeing 737-500. But the government's patience with funding Air Namibia appears to be wearing thin. In February 2013, Finance Minister Saara Kuugongelwa-Amadhila expressed concern at Air Namibia's ongoing need for financial support from taxpayers by mentioning. “I must emphasise that the perpetual lifeline extended to Air Namibia is a cause of national concern’’ (Kuugongelwa-Amadhila, 2013).

British Airways' services are operated to Johannesburg by franchisee, privately owned South African carrier, Comair. Air Namibia has increased capacity between Windhoek and Luanda by 37% since October 2012 and operates the daily service offering 756 one-way seats per week using an Airbus A319. Air Namibia has been criticised by business passengers for increasing fares between Eros Airport and Ondangwa (Masule, 2013). But the carrier claimed fares had been kept artificially low since 2010 in order to stimulate demand and "develop a culture of flying in Namibia" after the Beechcraft B1900Ds were replaced with Embraer ERJ-135 regional jets. The 37-seat ERJ 135s almost doubled capacity on the route (Masule, 2013).

The positive qualitative factors of operating a national airline

There are good reasons that the Government of the Republic of Namibia sees it necessary to maintain the airline operating despite continues bailout, accumulated deficit and the public outcry to liquidate the airline or privatise it. Air Namibia (Pty) Ltd has been making huge losses since the airline name change from Namib Air in 1990. From that time Air Namibia (Pty) Ltd had not made any profit and was not able to generate revenue to sustain itself but relied only on Government bailout. The Government is aware that the financial operation of the Air Namibia (Pty) Ltd is not stable when comparing with other parastatals. Some people wonder why the government does not want to get rid of the airline since it is a burden to maintain it operationally. The government's focus is based on economic growth, increasing spendings to reduce unemployment and maintaining other economic factors such as stable inflation rate.

Air Namibia (Pty) Ltd is a major indirect contributor to national economic prosperity. The airline provides the only rapid air transportation network, which makes it essential for global business and tourism. It plays a vital role in facilitating economic growth particularly in a developing country like Namibia. There are benefits that are accruing to stakeholders including the government, for the country to have its national airline, and these benefits overweight the cost of maintaining Air Namibia (Pty) Ltd, even though it is running into huge losses. Therefore, for Namibia to have its own national airline to fulfil the government objective of increased economic growth is one of the reasons why Air Namibia (Pty) Ltd is still operating and is likely to operate in future. Thus the rationale for Air Namibia (Pty) Ltd to operate in spite of losses is:

1. The airline facilitates the delivery of emergency and humanitarian aid relief anywhere in the country and the swift delivery of medical supplies and organs for transplantation.
2. Air Namibia (Pty) Ltd facilitates world trade, helping local producers to participate in the global economy by increasing access international market to and allowing globalisation of production.
3. Air Namibia (Pty) Ltd is indispensable for tourism industry, which is a major engine of economic growth particularly in Namibia.
4. Air Namibia (Pty) Ltd operation is vital to the economy, because it helps to increase globalisation of economy, international investment, and connecting people across continents.

5. Air Namibia (Pty) Ltd helps local business to improve productivity, by encouraging investment and innovation; improving business operations and efficiency; and allowing companies to attract high quality employees.
6. Air Namibia (Pty) Ltd contributes to sustainable development, by facilitating tourism trade. It generates economic growth, provides jobs, improves living standards, alleviates poverty, and fosters the conservation of protected areas.
7. The airline provides means of transportation to/from remote areas and promotes social inclusion by connecting those living in such communities with the rest of the world.
8. Air Namibia (Pty) Ltd improves quality of life by broadening people's leisure and cultural experiences. It provides a wider choice of holiday destinations around the world and an affordable means to visit distant friends and relatives.
9. The airline is a major direct generator of employment and economic activity, in airline and airport operations, aircraft maintenance, air traffic control and management and activities directly serving air passengers, such as check-in, baggage-handling, on-site retail and catering facilities. All these activities contribute to reduction in unemployment and stimulate economic growth.
10. The Air Namibia (Pty) Ltd's stakeholders also provide employment. The activities of supplier to the air transport industry such as aviation fuel suppliers, construction companies that build airport facilities, supplier of sub-components used in aircraft, manufacturers of goods sold in airport retail outlets, and a wide variety of activities in the business services sector such as call centres,

information technology, and accountancy. The spending on activities of supplier in the economy supports jobs in those industries.

11. Despite, the huge losses the airline is still operating, because it brings foreign tourist into Namibia. When foreign visitors come to Namibia, they bring foreign currency in Namibia, which is good for the foreign exchange market. The visitors boost the spending in local market, which increases demand for local goods and currency. Their spending in local economy helps create demand that leads to extra jobs and reduces unemployment. The visitors bring in foreign currency into Namibia in exchange for local currency and the foreign currency is used to pay for the country imports, which are in foreign currency.
12. Air Namibia (Pty) Ltd helps the country to market the country in other countries and the country's products especially the wildlife. By helping attract more investors and visitors to Namibia it helps the government to achieve its objective of economic growth.
13. The airline carries Namibian within the country for holidays and also for business purposes and around the country in more convenient and faster way.

Besides some other advantage of air transports that encourage use of Air Namibia (Pty) Ltd are:

a) High Speed: Air transport is the fastest mode of transport and therefore suitable carriage of goods over a long distance requiring less time. There is no substitute for air transport when the transport of goods is required urgently.

b) Quick Service: Air transport provides comfortable, efficient and quick transport service. It is regarded as best mode of transport for transporting perishable goods.

c) No Infrastructure Investment: Air transport does not give emphasis on construction of tracks like railways as no capital investment in surface track is needed; it is a less costly mode of transport.

d) Easy Access: Air transport is regarded as the only means of transport in those areas which are not easily accessible to other modes of transport. It is therefore accessible to all areas regardless of the obstruction of land.

e) No Physical Barrier: Air transport is free from physical barriers because it follows the shortest and direct routes where seas, mountains and forests do not obstruct.

f) Natural Route: Aircraft travels to any place without any natural obstacles or barriers. Because the custom formalities are complied with very quickly, it avoids delay in obtaining clearance.

With all these benefits the government continues to bailout the airline since the government economic objectives cannot be achieved without the benefits accruing to the community. Thus the airline is not monitored on financial performance but by the combination of financial, economic and social performance.

Negative factors of operating a national airline

Air transport is regarded as the costlier mode of transport, as the operating cost of aeroplanes is higher and it involves a great deal of expenditure on the construction of aerodromes and purchase of aircrafts. As a result the fare of air transport is so high that it becomes beyond the reach the common people. In the context of Namibia some of the negative factors of operating a national airline are:

1. Namibians regard air transportation as high cost and expensive. The majority of the citizens cannot fly on Air Namibia (Pty) Ltd since they are unable to afford the ticket prices, limiting the number of passengers flying on Air Namibia (Pty) Ltd.
2. Operating an aircraft in the air space contributes to pollution and global warming, which has negative effect on environment. The noise pollution can also be heard on the ground when an aircraft is flying in the air space.
3. Air transport is a risky form of transport as even a minor accident may result in substantial loss of goods, passengers and the crew. The chances of accidents are greater in comparison to other modes of transport.
4. The aircrafts have small carrying capacity and therefore, these are not suitable for carrying bulky and cheaper goods. The load capacity cannot be increased as it is possible in case of rail transport. Air transport requires huge investment for construction and maintenance of aerodromes. It also requires trained, experienced and skilled personnel which involves a substantial investment.

5. The air transport is uncertain and unreliable because this is controlled by weather conditions. It is seriously affected by adverse weather conditions, fog, snow and heavy rain. Weather may cause cancellation of some flights.
6. Air transport requires huge investment for construction and maintenance of aerodromes. It requires trained, experienced and skilled personnel which involves substantial investment.

In view of the limitations of air transportation national airlines are politically run and not run as independent entities. Every project the airline wants to engage into needs to go through the Ministry of Finance and the Ministry of Works and Transport for approval. A national airline is not independent to decide incentives for opening and closing of routes and the responsible ministry has always to be consulted.

1.2 Statement of the problem

Air Namibia (Pty) Ltd has not performed according to the expectations of the Government and the general public. Every year the parastatal has been receiving funds from government in order to keep it afloat. The parastatal is reported to have continuously received Government bailout, which amounts to N$ 1,1158 Billion (2007:153 Million, 2008:536,8 Million, 2009:150 Million, 2010:156 Million, and 2011: 120 Million). The Government may continue to pump in Millions of dollars to Air Namibia (Pty) Ltd in order to sustain its operations. This research on the operations of

Air Namibia (Pty) Ltd was done to establish why the organisation is not able to generate sufficient profits and cash flows in order to finance its operations. The organization has been making losses for the past several years (2007:233.4 Million, 2008:154.5 Million, 2009:478.9 Million, 2010:247 Million and 2011:405.5 Million). The purpose of the research was to determine the causes of operational expenditure exceeding operational income, and the cash inflows falling short of cash outflows, at times creating liquidity problems.

Stakeholders are concerned on the performance of Air Namibia (Pty) Ltd. It is worrying that the airline is using tax payers' money to finance its daily operating costs. In the view of the stakeholders, the parastatal is under performing, which is resulting in operating losses and cash flow problems. The research focuses on cash flows and operating loss of Air Namibia (Pty) Ltd. This organisation has been in media consistently for Government bailouts. The stakeholders want the organisation to be privatised in order to lessen the dependency on Government bailouts and be able to generate sufficient cash flows to sustain its operations.

The Air Namibia (Pty) Ltd stakeholders especially the tourism sector is interested to know whether the Air Namibia (Pty) Ltd is a going concern. If Air Namibia (Pty) Ltd stops operating all sectors will be negatively affected and the economy of Namibia shall suffer. The privatization of the national airline will also negatively affect different sector

in the economy. This is a dilemma that the government and the stakeholders are faced with.

1.3 Objectives of the study

1. To evaluate the financial performance of Air Namibia (Pty) Ltd over the years.
2. To determine the factors that causes cash flow problems and operating loss.
3. To assess the going concern of Air Namibia (Pty) Ltd over the years.

1.4 Hypotheses of the study

Air Namibia (Pty) Ltd has high operating costs in relation to revenues generated from operations and the shortage requires Government to bailout the parastatal to meet its operating costs' requirement. Therefore, the airline will continue to make losses and will continue to receive Government bailout for a foreseeable future.

1.5 Significance of the study

The study is significant to various stakeholders. It investigated the reasons for the lack of profit making by Air Namibia (Pty) Ltd. The findings of the study provides guidance to Air Namibia (Pty) Ltd management on specific cash flow activities such as operating cash flows, investing cash flows and financing cash flows, which are failing the

parastatal and have unfavourable impact on the operations. The research recommend to the management on efficient operations that might need to be considered and implemented. The study provides assurance to the Government, airline customers, suppliers, employees and the tourism industry on the continuing existence of Air Namibia (Pty) Ltd, its operational efficiency and service quality. It also examines in depth implications of the public and political statement that Air Namibia (Pty) Ltd should be privatised.

The study provides information on the operations of Air Namibia (Pty) Ltd, the challenges that the airlines is facing in providing services to passengers and cargo. It also informs the stakeholders about the role Air Namibia is playing in the economy, especially for transportation of passengers into and out of Namibia, on what impact it had on the local business and local spending.

The research report provides reasons to the tax payers that the national airline is mandated in terms of the act of the Parliament and the airline activities are partly business and partly social by providing services to the passengers at a price even below the cost. This is expected to create an understanding that Air Namibia (Pty) Ltd contributes to the economic growth of Namibia, and the economic growth is likely to descend, when Air Namibia (Pty) Ltd is out of operation; and the money that the

national airline had been receiving from the government as bailout is not being wasted but put at right use to develop the country.

The research provides literature, information and guidelines to the fellow researchers on the topic and is expected to clarify misunderstanding during and after the research.

1.6 Limitations of the study

This research mainly focuses on cash flows and operating losses in Air Namibia (Pty) Ltd. The research examined the annual financial statements of Air Namibia (Pty) Ltd. Errors and misstatement in the annual financial statements and non-disclosure of important financial information in the annual financial statement may lead to biased and misinformed conclusions of research findings. The researcher had a challenge due to non-availability of latest annual financial statements; which contain latest information and relate to present situation of the operations. The researcher relied largely on evidence gathered from annual financial statements. The time allocated to the researcher to conduct research was limited. This limited the scope of research to an extent.

1.7 Conclusion

The present study is about the profitability and cash flow problems faced by Air Namibia (Pty) Ltd. The airline has been making loss year to year on since its

establishment. It faced cash flow problems in meeting its operational costs out of the sales revenue and the government has to bail out the airline. It is a matter of concern for its stakeholder and this research undertakes an in depth analysis of all aspects related with this problem.

CHAPTER 2

Literature Review

2.1 Introduction

This chapter presents the reviews of literature on role and functions of parastatals, parastatals in aviation, comparison of Air Namibia (Pty) Ltd with other airlines, corporate governance, performance of parastatals, privatisation of parastatals and factors impacting performance of airlines, factors impacting performance of Air Namibia (Pty) Ltd, airline bailout, profitability of airlines and cash flows of airlines.

2.2 Literature review

Literature review is a written and systematic summary of the research which is conducted on a particular topic. It summarizes the background and context of the research. Literature review exercises to analyze the area of the research, which has been resolved in the study. It is the outline of the research. It also shows the gap between the researcher's curiosity and knowledge of the subject area (Boswell & Cannon 2009). A literature review is a text written by someone to consider the critical points of current knowledge including substantive findings, as well as theoretical and methodological contributions to a particular topic (Lawrence and Brick, 2008). Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Also, a literature review can be interpreted as a review of abstract accomplishment.

Most literature reviews are associated with academic-oriented literature, such as a thesis. A literature review usually precedes a research proposal and results section. Its main goals are to situate the current study within the body of literature and to provide context for the particular reader. A new research depends on past knowledge. A well created literature review establishes creditability of the researcher of the study, so he can get the entire benefit of his work (Leary 2004). Literature review discloses appropriate theoretical structure of the study that helps to understand it easily. It verifies that it has not been already done. It is the best way to establish the importance of the study (Houser 2007).

Literature review is important as it describes how the proposed research is related to prior researches, shows the originality and relevance of the research problem to prior research problems, justifies the methodology used, and demonstrates the researchers' preparedness to complete the research (Lawrence and Brick, 2008). Literature review is important to identify the problem of the study, which can be solved by collection of data. It is very important to know that the work being done by researcher in a new research. Literature review observes the work that is done is not repeating unintentionally. It also helps to avoid the mistakes, which were earlier done by another researcher so that the researcher can improve the research design and instrumentation, which was not done successfully at the last time (Cottrell & McKenzie 2011). Literature review is also important to judge research questions and to provide latest research material for the

readers. Literature review makes it sensible because it uses both the sides. In the literature review, researcher uses supportive arguments as well as opposite arguments.

a) Role and functions of parastatals

There is renewed interest in the role parastatals play in promoting economic development. This role of parastatals is vital for economic development, as it provide essential infrastructure, public goods and related services such as electricity, airports, seaports, water, air and rail transport etc. Parastatals have made significant contribution to the economic development of Namibia since independence. The parastatals initiated the provision of essential infrastructure and related services that are critical to Namibia's economic development and have played a key role in enhancing skills and entrepreneurship. Some parastatals in Namibia operate in monopoly position such as NamPower, NamWater, Road Fund Administration and TransNamib, while others operate in competitive market such as Air Namibia (Pty) Ltd, Namibia Wildlife Resorts and National Broadcasting Corporation.

Economic and business experience has taught that parastatals such as Air Namibia function under competitive market conditions, which tend to be more responsive to demand signals and make more efficient use of scarce resources than parastatals functioning in a monopolistic situation such as NamPower, Road Fund Administration and NamWater. Therefore, these organisations tend to achieve better economic and financial results. This effect is generally ascribed to behavioural influence of risk of

failure arising from a mismatch between the organisation's offering and prices on the one hand and the preferences of consumers with choices on the other hand. In case of parastatals it is generally accepted that the positive (potential) influence of risk of failure is further accentuated by transferring ownership to private sector, as such entities are then forced to compete for capital in open market without access to government funding or guarantees. It is generally believed that divestment to private sector promotes efficiency through the introduction of modern management techniques, product and service innovation and general exposure to the dynamics associated with private ownership. Regulation and competition go hand in hand (Boardman and Vining, 1989).

In case of both public and private monopolies, regulation often has to substitute for competition, providing scrutiny, incentives and disincentives to promote effective and efficient operations at entity level. To mention one example – regulation of monopolies should encourage profitability commensurate with the cost of capital but not to the extent of accommodating excessive customer pricing by such parastatal. In case of market liberalisation, regulation remains necessary to ensure a level playing field between incumbents.

The Government of the Republic of Namibia owns these enterprises that provide public goods such as water, electricity and airline, which cannot be provided by private sector companies or can be provided only at a higher price, which the public may not afford. The main objective of the Government in owning Air Namibia (Pty) Ltd has been to

keep it afloat so that it may contribute to economic development by transporting foreign tourists to Namibia and develop tourism that contributes to Gross Domestic Product (GDP). This improves standard of living of people.

According to Kangueehi (2007), ‘‘State-owned enterprises in Namibia play crucial role in the provision of important goods and services to all our people as well as in the promotion of economic growth for the development of our country and improving the standard of living of citizens. Article 98 of the Namibian constitution prescribes the economic order of Namibia, which shall be based on the principles of mixed economy. This type of economy has its main objective of securing economic growth, prosperity and human dignity for all Namibians’’.

Kangueehi (2007) also emphasised, that public tends to focus on profits and losses as performance indicators. When both profit and loss are used as performance indicators, some state-owned enterprises generate profit, because they are monopoly, while those that record losses operate in competitive market. Therefore, it is senseless to use profit and loss as the performance indicator, but to include other benefits and contribution to the economy of Namibia. It is further said that, many governments around the globe have undertaken various reforms initiatives, ranging from changing the external policy environment in which public enterprises operate from one based largely on government commands to one in which market forces function. They include policies aimed at rationalizing the less than optimal portfolio composition, reducing its burden on the

economy, and enhancing management and system capabilities so that the enterprises may carry out their operations more efficiently.

It is also mentioned by Kangueehi (2007) that, many African parastatals particularly those in infrastructure, have a long history of poor performance. There are so many reasons why there has been great reliance on parastatals in most African states, especially when it comes to their development strategies. Firstly, at independence most African states inherited the notion that extensive government involvement in the economy and society was the natural order of the day. Secondly, colonial governments, especially in the period from 1945 to 1960, had created economic planning bodies and agricultural marketing boards, instituted wage and price controls, and started industrial parastatal enterprises. In the 1960s and 1970s a number of theoretical justifications for public enterprises were in the air, lending intellectual support to what governments in Africa (and Asia and Latin America) were strongly inclined to do for social and political reasons. Thirdly, in many African countries ideology played a more silent role. Socialism was seen as the more just, the more effective, and the more culturally relevant approach to economic affairs. There were two compelling factors which also justified public intervention: the very small size and limited capital, and generally non-African nature of local private sector.

Van der walle (2009) mentioned that, the international track record of parastatals in delivering goods and services effectiveness and efficiency are in general viewed

critically. The major contributing factor to this has been parastatals' closeness to corrupt political regimes and concomitant introduction of political considerations into their operational management. In addition, parastatals are often perceived as being sheltered from competitive market conditions. As a result, parastatals worldwide have become strongly associated with operational inefficiencies, low service levels and productivity and bureaucratic structures. This has led to large-scale adoption of policies, which are aimed at transferring ownership of parastatals into private sector, although the latter has not always been with significant success, especially in African countries.

As per Kangueehi (2007), in the absence of large-scale nationalization programmes in the past, parastatals in Namibia make a relatively small contribution to the economy in terms of percentage contribution to gross domestic products and in terms of employment contribution. However, they play a dominant role in certain sectors, especially in infrastructure and in the promotion of socio-economic development. The history of parastatals establishment shows that states have opted to own and control parastatals in specific sectors for a variety of reasons. In most cases, the key consideration for the establishment of parastatals has been to address perceived allocated inefficiencies in the provision of products and services to a country's population. In the quest of maximizing national welfare through Government intervention, state ownership was seen as the best way to encourage development and growth while maintaining basic services to all.

Van der walle (2009) further said, the alleged state interference in parastatals that by creation these are owned by the state and utilize public assets, hence the involvement of the government in ensuring their efficiency and productivity. The state interference is towards greater decision making, autonomy for boards and executive management in line with South African King Reports (King Report I 1994; II 2002; and III 2009) and the UK's Cadbury Committee Report on good governance. Namibia has moved towards less government interference in the operational decision making of parastatals. Commercialisation means that parastatals should be run on business principles rather than political principles. Van der walle (2009) continued to say that, Government input into parastatals decision making is seen as political interference, something, which should be actively discouraged. This is even more than the case once parastatals become even partly privatised.

Khoza and Adam (2007) argued that there are benefits for government if it conducts business through parastatals that are established as separate companies. The benefits enumerated are: the opportunity for improved governance, encouraging entrepreneurial flair and attracting appropriate skills and talent, avoiding government bureaucracy, and attaining a more focused business direction. They further mentioned that, in recent years, the performance of the parastatals has in many countries received considerable criticism. The Governments around the world are increasingly dissatisfied with the performance of their parastatals. Managements of these parastatals have not shown interest in changing the parastatals performance by responding to market challenges.

b) Parastatals in aviation

As per Schmidt (2009) there are several negative influences on airlines of state ownership:

- ‘‘There are general economic crises that hit the volatile aviation industry harder than other industries. There is a proportional relationship between the world Gross Domestic Products growth and the growth of the world demand for air travel. The estimation is for every two per cent increase in world Gross Domestic Product the aviation industry will increase by one per cent.
- Major political events can influence airlines performance. The civil war and political instability in the country may affect the airline operator. It affects the willingness to travel of passengers, because passengers will not travel to a destination which is perceived as security risk. Airlines that are from countries which are perceived as security risk experience decrease in revenue, because travellers do not want to risk their lives. Therefore, they travel to places where they feel secured.
- Technology influences aviation directly through its impact on operational cost, security and productivity. Technology influences the airline operations delivery, air ticket distribution, air navigation systems and baggage services. The airline that is in line with the technology responds quickly to its passengers’ demand and provide quality services; and it will result in low operational cost compared to the airlines that are not in line with the latest technology.

- Legislation influences the aviation market both on national and global level. It affects the operations, the conditions to market the airline for both national and global users in the way the market process can take place. International airlines are still subject to significant international legislative constraints, even in the recent open skies agreement between European Union and the United States.
- Airlines are subject to competition from other airlines within the framework of macro-economic, political, technological and legislative conditions. With on-going globalization and the continuous growth of international economic connections creating one global economic environment and a continuous decrease of Government intervention in the course of liberalization. There is new competition on the supply side, which influences demand patterns over time. Changes in demand patterns may also arise from general changes in the economic environment''.

Schmidt (2009) furthers his argument with some other challenges on airline business. Firstly, airlines are subject to strong fluctuations in their market that occur in significant and unpredictable frequency as well as magnitude. Secondly, the underlying reason is that the nature of the airline business remains both cyclical and volatile; Airlines produce services that perish completely and instantaneously if not used and that need to match the timing and space of the customer in need for the service. He also highlight that airline customers basically buy the movement of himself and his luggage. Furthermore, the passengers also take advantage of explicit

and implicit services connected to the mere act of transportation. Explicit services include the use of websites and travel agents for booking, transport to and from the airports, various kinds of paid and unpaid in-flight services, such as entertainment and catering. Implicitly an airline needs to provide a safe, reliable and competitive service. The safety concern is paramount as an airline posing a significant risk to its passengers of losing life or limb should not expect to find many customers and can be considered as a high risk airline. The major challenges for aviation industry also originate in part from manageable areas such as innovative competitors, new technology and from events beyond managerial control with potentially very significant impact.

c) Air Namibia (Pty) Ltd an aviation parastatal

Menges (2006) suggests that Air Namibia (Pty) Ltd should initiate a commercialisation programme with a new board of highly qualified business professionals, such as chartered accountants, lawyers and aeronautical engineers, who have experience and actually know how to manage such a business. This will end the dependency on bailout. He further stresses that, Air Namibia (Pty) Ltd should sell off some stake in the airline, say 60 per cent, to some international airline that can turn around the airline and offer additional funds for its expansion. Further, Air Namibia (Pty) Ltd should stop relying only on a few routes such as Angola, Germany, England and South Africa, but should add other parts of Africa like Nigeria, Kenya and the rest of the world. It is also expressed that, Air Namibia (Pty) Ltd should engage experts to develop a good

turnaround strategy that will help the Airline to make profit. Once Air Namibia (Pty) Ltd is profitable its shares can be listed on the Namibia Stock Exchange to raise more capital for expansion. This will allow Namibian people to own some shares in the national airliner.

About South African Airways, Jefferson (2012) states that the only way to stop bailout of South African Airways is by privatisation, because South African Airways have requested for a bailout between R4.7 and R6 billion. He argued that, it cannot continue using public money while so many South Africans are without clean drinking water, basic sanitation and housing. South African national airline has become dependent on government bailout. There has been an element of "sloppy accounting and lack of know-how" in the airline. More stringent accounting and oversight measures would need to be put in place and it will only be possible with privatisation.

However, Forfas (2010) warns that privatisation is not an automatic solution to improving airline performance, unless if the quality of goods and services improve on privatisation. If privatisation is to improve the airline performance, the quality of goods and services delivery should be improved over the longer period. Privatisation needs to be complemented by policies that promote competition and effective regulation of the industry. Privatising parastatal should not be guided by high performance only. The parastatal is required to attain, a meaningful contribution to country's economic development. Kenya Airlines started in 1977 as a government-owned airline and at that

time the airline was struggling to maintain its operations from cash it generated from operations. It had been receiving Government bailout until in 1996 when it was privatised. Kenya Airlines was privatised in 1996 when 25 per cent of its shares were bought by an international airline KLM. Since then, the airline has been profitable and Kenya government has stopped bailout of the airline.

Zhou (2012) reported that privatizing Air Zimbabwe is the only way to save that airline from falling into debt. ‘‘The long-term solution for Air Zimbabwe is to privatise the airline, because the airline is struggling to generate the necessary cash flows. It is under huge debt, because of mismanagement’’. The Government of Zimbabwe had to bailout the airline with US$ 2.8 million in order for the airline to pay operating expenditure, because suppliers were refusing to supply needed commodities to Air Zimbabwe, due to unsettled account balances. The Zimbabwean Government has been reluctant to privatize the airline, which is sinking in huge debt. One of the planes of Air Zimbabwe was impounded at Gatwick International Airport in London over unsettled debts and it was only released after the government paid US$ 1.2 million to parts suppliers, American General Supplier.

Doganis (2006) writes that for three decades, India heavily regulated its airline industry. It restricted foreign and private domestic commercial airlines from operating scheduled services within the country, while the state-owned domestic air carrier, the Indian airlines enjoyed monopoly. This was in keeping with the country’s socialist-oriented

approach towards economic development, which restricted private sector participation. For two decades, Indian Government contemplated whether or not to deregulate the airline industry. With this consideration present, the Government faced issues such as changing structure of the economy (transition from planned economy to liberalized economy), role of foreign players (to what extent should foreign players be allowed to participate in the airline industry) and ownership (who shall have ownership of the state-owned air carriers, the airports, the private domestic carriers etc.). The issues associated with the deregulation of the airline industry were political in nature not only because they affect the economic growth and development of India, but also because such policy changes create an arena where different interests, having different priorities, compete with each other to maximize their relative gains. Unlike the case in Eastern Europe, where countries not only transitioned from a socialist economy to free-market economy but also transitioned from communism to democracy (Doganis, 2006). In India the liberalization of the economy was not associated with concurrent change in the political system. This made India a unique politico-economic case. The deregulation of the airline represented an excellent case for expanding the role of markets, private capital, reforming state-owned enterprises, bureaucratic reorganization, decentralization and globalization. Part of the reasons for opening up airline industry was the increased demand for domestic air travel. This trend has continued till the present. In recent years, air traffic to and from India has been among the fastest growing in the world. To keep up pace with the demand, required India to modernize and develop its civil aviation sector through measures that included liberalization of air transport services and attracting

private domestic airlines. Today, it is hard to keep track of India's domestic air transport market with new airlines entering the field every year. These new players in the airline industry expanded passenger choices regarding frequency of flights, routes, destinations and fares.

d) Corporate governance in parastatals

Corporate governance in parastatals is a key issue. Government is facing a major challenge to address the practices, which are leading to corporate governance failure in parastatals. Parastatals are expected to hold to higher standards of accountability than private organisations, because parastatals are owned by the taxpayers. State ownership does not automatically guarantee state control over the performance of parastatal. Unlike private organisations whose main goal is shareholder wealth maximisation, parastatals' goals are typically more complex mixture of social, political and commercial objectives. There is a widespread acceptance regarding best practices of corporate governance for parastatals. In essence, good corporate governance of parastatal is characterised by (Daniel, 2009):

a) Strong oversight by State – this requires the development of specific mandates to ensure that parastatal has clear objectives and targets, which can be reported and monitored over time.
b) Accountability of parastatal – this is the guide to state ownership in obtaining assurances of sound management such as audit reports from external audits.

c) Independent boards – potential exists to ensure that boards of directors comprise of relevant expertise and clear obligations. It requires specific qualifications such as finance, legal and human resources.
d) High levels of transparency and disclosure – that is public reporting on the financial and non-financial work conducted by parastatal. More structured public reporting on the financial and non-financial information of parastatal improves transparency and public trust in a parastatal.

Gross and Mukandala (1994), report that in the mid 1970s, Togo undertook a large and rapid expansion of its industrial sector, in the form of parastatal enterprises. This expansion was financed first by commodity boom and then by borrowing. By the end of the 1970s, Togo's economy was engulfed by mountain of debt, and the new enterprises were placing heavy demands on the budget. Togo had no choice but to turn to the International Monetary Fund (IMF) and World Bank for assistance. For Togo's industrial sector, the most immediate impact of the reforms had been the liquidation or privatisation of many of Togo's previous parastatals and by the end of 1987s, nine (9) parastatals were liquidated and eleven (11) were privatised. The transfer of parastatals to private ownership did not entail any significant restructuring of those parastatals. Although the privatisation effort may have reduced the Togolese Government's immediate financial burden, these efforts did not adequately address the long-term structural problems that limit industry's contribution to national development.

Over the last few years, the issue of corporate governance in state owned enterprises has become a major area of concern all over the world. The corporate governance in parastatal has to deal with the complex relationship between the Government as shareholder and the Board of Directors of the public enterprise. The challenge faced by parastatal in Namibia is creating a balance between Government's inclination to control public enterprises, and the business imperative to achieve excellent performance. The Government focus on control, rather than performance, often re-inforces these weaknesses in a parastatal. The success of a parastatal depends on striking an appropriate balance between control and accountability on one hand, and performance and entrepreneurship on the other (Khoza & Adam, 2007).

e) Performance of parastatals

The authority and autonomy to parastatals is assigned by the Government. It is very essential for economic development if parastatals operate effectively and efficiently as intended by the Government. However, for the Government to ensure that parastatal performance is not politically interfered, it is critical that parastatals have clear strategic goals and that those goals are monitored over time. The primary indicator of performance of parastatal should be focused on the financial results including profitability and use of resources. However, the conventional, measures of parastatal profitability and use of resources are unfair, because some parastatals fail to make profit from their operations such as Air Namibia (Pty) Ltd and Namibia Wildlife Resorts. Moreover, the non-financial contribution to economic development especially to the

tourism industry cannot be quantified in profit terms. Therefore, the performance of parastatals should be evaluated transparently with a strong focus on trends as well as financial and non-financial indicators that measure quality, cost of service, effect on society and effect on the economy, which provide rationale for the establishment of many of these parastatals (Kangueehi, 2007).

f) Privatisation of parastatals

There are different objectives to privatisation, which affect the form and pace of economic growth. Some of the more common objectives, which governments usually hope to achieve through privatisation, are:

a) To liberate the economy
b) To reduce the role of the state in the economy
c) To enable greater integration into the global economy
d) To gain access to international capital and markets
e) To develop a strong private sector
f) To increase competitiveness in the market
g) To comply with lender/donor conditionality
h) To decrease government spending so that taxes can be cut (to win votes and encourage investment)
i) To redirect subsidies to other areas of service delivery
j) To externalise problems of service delivery
k) To relieve the fiscal to reduce borrowing

l) To increase efficiency, performance and productivity

m) To commercialise or improve the management of the parastatals

n) To undermine collective bargaining and union organisation

o) To downsize the public sector

p) To remove parastatals from political interference and sever links between politicians and management

q) To enable higher salaries for executives and directors

r) To legitimise the parasitic use of state resources

s) To widen share ownership

t) To create job/business opportunities for politicians and their allies

u) To facilitate black economic empowerment in the case of African nations

v) To increase competition in the market (Kangueehi, 2007).

The performance of several parastatals suggests that they spend too much on personnel costs and achieve insufficient output. This lends credence to the privatisation lobby. Trade unions need to face the problem head on. The parastatals are inefficient in performance and service delivery; therefore, there is urgent need of restructuring. The parastatals need to get to the root of the problem that is causing poor performance, such as lack of management capacity, lack of co-ordination, lack of resources etc. They should ensure that they improve the performance either by downsizing or by privatisation. In most nations, privatisation has improved performance and service delivery; while in others it worsened the plight of the poor. After, privatisation

unemployment has increased, poverty and inequality has sky rocketed (Labour Resource and Research Institute, 2009).

Pohl, Anderson, and Djankov (1997) compared the extent of privatisation in over 6,300 parastatals in seven Eastern European countries during 1992-95. They found that privatisation dramatically increased the success of parastatals. Parastatals that have been privatized for four years showed increased productivity three to five times more than similar other parastatals. They also found that there was little difference in performance based on method of privatization. However, ownership and financing affected the performance of parastatals. There was also evidence that, while performance improved for firms, especially smaller firms, in the immediate aftermath of privatisation, over a period of time this performance declined and this was believed to be primarily due to increased competition as time passed on.

Boardman and Vining (1989), in their recent empirical studies on public and private ownership, also suggested that parastatals were relatively less profitable and productive than private firms. Competition and deregulation are just as important as privatization in improving performance of parastatals. They demonstrated how in the case of Poland, there was no immediate resort to large scale privatization. Instead, the Polish Government depended on deregulation of prices, introduction of foreign competition in many industries, and tight monetary and fiscal policies to improve economic

performance. The studies also pointed to the role of incentive contracts for management and workers as a way to improve performance in the parastatals.

Groves, Hong, Mcmillan and Naughton, (1994) found that there were significant improvements in total productivity of parastatals when they were given more autonomy. This study pointed to the fact that deregulation policies were also capable of improving economic performance across industrial sectors. In their study of privatization they mentioned of British Airlines which had international competitors and made significant changes to their strategy in the aftermath of its privatization. They mentioned that it brought significant benefits to consumers who were charged lower prices for the tickets. The study also found that privatization led to cost reduction and necessary benefits to consumers.

As per Bai, Li and Wang (2000), the Chinese Government relied less on privatisation and more on deregulation of industrial sector while pursuing economic reforms. Incentives and decentralization in economic decision making were resorted to when it came to improving the performance of Chinese state-owned enterprises. The largest benefits of state-owned enterprises in China were that these enterprises served as social security net for the country. Chinese state-owned enterprises were responsible for providing social welfare and thus privatization of these enterprises would have been difficult. The Chinese case demonstrated that achieving the goals of increased competition, increasing economic efficiency, increasing revenues, decreasing

government interference may also be possible through deregulation programs and not just through privatization programs.

g) Factors impacting performance of airlines

Most of the parastatals have been incurring operational losses and have not generated adequate cash flows to meet their requirement. Some of the reasons that have resulted in poor performance of parastatals are: lack of spelt out expectations from parastatals, lack of checks over performance, confusion created by the system in which Ministry of Finance and Ministry of Works and Transport are equally responsible for the same parastatal, lack of accountability among parastatals, as they continue to make losses and the Ministry of Finance has to bail out.

In response to these failures, the Government of the Republic of Namibia, through the cabinet, had established the State-Owned Enterprises Governance Act No. 2, 2006. This Act created the establishment of State-Owned Governance Council, which is responsible for the following functions:

a) To establish generally accepted common principles of corporate governance and good practices governing state-owned enterprises;
b) To develop common policy framework for the operations of State-owned enterprises, including policy on issues relating to human resources, assets and finance;

c) To determine criteria for the performance measurement and evaluation of State-owned enterprises, and develop appropriate means for monitoring their performance (Government Gazette, 2006).

Exchange rates have a significant effect on companies that do business globally. When companies exchange products or services across borders causing two or more currencies to become involved, fluctuation in exchange rates can lead to gains or losses for the business.

According to Forsyth (2006), international airlines are amongst the most exposed to international trade on international routes. Airlines from one country compete directly with airlines from other countries. As liberalisation of international aviation market has proceeded, the competition is becoming more intense. Even on those routes which remain regulated, it is mostly no longer the case, as it was in the past, that airlines from one country operated jointly with airlines from other countries. Nowadays, airlines face competition from those other airlines which are permitted to serve a route. The ability of an airline to compete depends critically on its costs relative to those of other airlines. A key determinant of the relative costs faced by an airline, and thus its cost competitiveness, is the exchange rate in the home economy. If the exchange rate of the home country appreciates, the competitive pressure on the airline will increase, since its costs rise relative to those of its competitors. The airline experiences difficulty with foreign currency. For instance, the airline might be profitable in foreign currency, but

when the currency is translated into home currency the exchange loss is so huge that the airline will incur loss due to exchange rate. Some airlines in the world open up several bank accounts in those countries currencies that the airline receives revenue and it uses those currencies to settle supplies in those markets which invoice in those currencies in order to reduce exchange rate loss. They also take advantage of exchange rate when the rate poses gain on translating into home currency. Airlines try to reduce the impact of foreign exchange rate by entering into derivatives markets, which provide instruments for management of financial risk through hedging, such as options and future contracts.

Lafrance, Osakwe and St-Amant (1998) mention that airlines are affected by exchange rates in a number of ways. Changes in exchange rates will affect the flows of passengers. If a country's exchange rate rises, it is likely to attract fewer inbound visitors, but outbound travel is likely to increase. The airlines of the country might gain or lose passengers on balance, because of exchange rate. Exchange rate changes can also have an impact on airlines thorough their capital structure in what countries' currencies they have borrowed, and in which currencies they hold investments. Exchange rate changes will affect the prices they pay for inputs relative to the prices their competitors are paying. Airlines supply products on international markets. They supply services on international routes, and invariably face competition from airlines based in other countries. Thus an airline based in Australia, such as Qantas, competes against airlines based in Singapore, the US, the UK and the UAE, amongst others. Airlines buy their inputs on international markets and in home markets. Thus Qantas will hire staff in

Australia, buy fuel in Singapore and aircraft in the US. As exchange rates change, the relative prices of these inputs will change. If the Australian dollar rises relatively to other currencies, the input costs of Qantas will rise relative to other airlines' costs. In terms of other currencies, the cost of the Australian purchased inputs will increase, and in terms of Australian currency, its costs will fall. But those of its competitors, which purchase (nearly) all of their inputs outside Australia, will fall by more. A rise in the exchange rate will unambiguously lessen the competitiveness of home country airlines. It is important to be explicit about what "home priced" and ''internationally priced" or "foreign priced" inputs mean. The important distinction is where the price of the inputs is set.

Lafrance, Osakwe and St-Amant (1998), argued further that, it is not important in which country's currency an input is purchased. An airline might pay for an input in US dollar or in Euro, but these currencies are quite convertible. The Australian dollar might raise vis a vis the US dollar but not the Euro, but this need not affect the price an Australian airline pays for an input. If it is buying fuel, for example, a change in the US dollar/Euro rate will lead to a change in the US and Euro prices of fuel. It is also not important where the input is purchased. Fuel might be purchased in Australia and Singapore. Fuel is priced internationally, and if exchange rates change, prices in all countries markets will change.

Wayne (2008) found that, U.S. scheduled commercial airlines transported over 666 million passengers and made a combined net profit of nearly $2.5 billion in the year 2000. In 2001, the year in which terrorists used commercial airliners to attack the U.S. on September 11, the total number of passengers dropped to 622 million and the year's net profit quickly turned into a net loss of over $8.27 billion. In 2005, the number of passengers had rebounded to over 738 million, but the combined bottom line, a net loss of over $5.67 billion, had not shown a similar recovery. While shocks to the passenger airline system like the 2001 terrorist attacks and the rapid, steady increase in the price of crude oil that began in early 2002 have negatively impacted its ability to maintain profitability, the increase in annual passengers of more than 116 million between 2001 and 2005 has not resulted in airlines returning to profitability, which demonstrated that additional measures need to be undertaken to help move the industry back toward profitability.

Passengers must be persuaded to fly in sufficient numbers before airline profitability can even be considered to be possible, the various wants and needs of those passengers, and the technologies that deal with them, are addressed first. In general, passengers want flights that are reasonably priced, convenient and secure. Providing prospective passengers with the ability to use one or more of a wide variety of internet-based search mechanisms designed to compare and select from among a variety of flight options significantly increases the likelihood that the selected flight will be considered to be reasonably priced by an individual passenger. Although, the technologies behind

currently available on-line flight search mechanisms are relatively well developed, enhancing their ease-of-use, availability and reliability will help turn more prospective passengers into actual passengers, thus helping keep airplanes full. In addition, inclusion of the widest range of possible alternatives regarding airline companies, flight schedules, seating classifications and even area airports in the relevant databases and possible search criteria significantly increases the likelihood that passengers will believe they are paying reasonable prices to fly.

There are two major issues that contribute to a passenger's perception of convenience, flight schedules and the smoothness and speed with which the passenger flows through the actual transportation system. In the context of flight schedules, passengers generally prefer non-stop, or at least direct, flights between their origination and destination locations. Of course, they may be open to considering alternative itineraries that include changing airplanes and/or airlines, and even significant airport layovers, if substantial differences in ticket prices exist. A group of technologies collectively known as business intelligence is particularly useful in providing the kind of detailed analysis of available customer and competitor information that an airline needs to engage in effective yield management – an effort to fill every seat on every flight with passengers who have purchased their tickets at the highest price possible (McNerney, 2006).

Netessin and Shumsky (2002) write that large airlines have built hub-and-spoke systems under which passengers are carried from smaller "spoke" airports to larger "hub"

airports and then on to either another spoke on the same hub or another hub. Those airlines are faced with an additional level of complexity in their efforts to develop effective yield management systems. By its very nature, the hub-and-spoke system significantly limits the ability of an airline to address passengers' desires for direct flights, even when those passengers may be willing to pay somewhat higher price for that convenience. Passengers who would prefer to have direct flights, but are forced to make connections, generally expect to pay less for the inconvenience. At the same time, it must be recognized that some passengers are more interested in low prices than convenience. This means that to successfully compete in what is generally a more lucrative short-to-middle distance direct flight arena; large airlines must integrate additional direct flights into their overall schedules to create an optimum mix of direct and hub-and-spoke flight schedules. Although creating such a schedule is a rather complex task, the business intelligence technologies that a number of airlines employ should be particularly well suited to such an effort. Smoothness and speed, with which passengers flow through the actual transportation system, including checking in for flights, moving through security checkpoints, boarding in the departure terminal, deplaning and moving through the arrival or transfer point terminal, and claiming baggage. The application of technology to each of these facets of a passenger's movement through the system, along with making associated changes to relevant business practices, can significantly improve the passenger experience. Enabling passengers to check in early via the internet has proven to be an excellent first step in smoothing the check-in process by allowing the passengers to accomplish part of the

process prior to their arrival at the airport. The creation of self-service check-in kiosks in the general vicinity of the ticket counters can also improve the flow of passengers in those areas by separating those who have already purchased their tickets from those who haven't. Baggage check kiosks, with a relatively high self-service component, are a logical next step in reducing congestion in the ticketing area and improving passenger flow through the initial check in process (Netessin & Shumsky, 2002).

Wyld, Jones and Totten (2005) mention that, the security check activity is in the hands of the government. The application of new technologies can speed the movement of both passengers and their baggage through the necessary security checks. Enhanced scanners that both "sniff" for explosive material and quickly evaluate x-ray images using intelligent software can increase both the accuracy and speed of the security checking process. Although aircraft boarding procedures vary from one airline to another, increased use of intelligent systems that consider family groupings, special needs passengers, carry-on bags when setting the boarding order can both reduce the total boarding time and smoothen the process for individual passengers. While in-flight, the integration of wireless technologies into various passenger audio/video systems can significantly reduce the number of problems, and passenger complaints, related to those systems, and can even help smooth the arrival/connection process by providing up-to-date gate and baggage claim information tailored to individual passengers. While, the use of machine readable bar codes on boarding passes and baggage tags are reasonably effective in moving passengers and baggage through the system, they generally require

less human intervention to ensure that they are read correctly. Updated flight information and even the location/status of their baggage when they are anywhere in the terminal simply by presenting their boarding passes to a barcode reader in a kiosk. The use of barcode baggage tags can make it possible to increase the level of automation in moving baggage from the check-in point to the correct aircraft. Because increased automation in the handling of baggage means reduced opportunities for human error, baggage is much less likely to be misrouted, and any rerouting of baggage required because of late gate changes can be accommodated much more readily. Tying baggage tags to boarding passes can make it possible for passengers to check on the status of their baggage at any time.

As per Jeeva (2011), volatility in oil prices and a possible over supply in capacity within the Asia-Pacific will cap earnings growth of airlines. Some airlines have cut their earnings forecast due to higher fuel bill. Oil price volatility could be more damaging than actual high oil prices, since the airlines normally priced their tickets one to three months forward, and these forward profits are easily wiped out due to oil price swings. Some airline are fighting back with host of measures to cut costs and boost revenue and they survive the increase by passing the cost to consumer, and by doing so have impacted on the movement of passengers. Airlines announce cut in flights to less profitable routes, and some have turned to the governments for financial assistance in order to maintain the operations and keep ticket price stable. Airlines have protected themselves from volatility of fuel price by engaging in advance fuel hedging, which

reduces the risk of fuel volatility. Airlines have come up with more innovative methods to reduce cost and one option is by reducing fuel burn. This can be possible if the airline minimizes the weight of cargo, flying at slower speed and lease aeroplane which consume less fuel for the same output. European airlines have gained efficiency through consolidation. Air France's merger with KLM, and Lufthansa's with Swiss International Airlines helped the airlines maximize number of passengers per plane as well as cut back-office costs. Airlines work together in an alliance to sell tickets aboard of each other's flights. A traveller flies one leg of a trip with one airline and the next leg on another. As a result, the arrangement boosts sales for airlines, without adding costs.

Walsh (2011) observed that airlines had slashed their global profit forecasts in half after warning that high oil prices, the Japanese tsunami and the Arab spring will remove $4bn (£2.43bn) from the industry's bottom line that year. He warned that European carriers will bear the brunt of the impact from high fuel costs, with some operators going out of business. He estimated that carriers will make worldwide profit of $4bn that year, down from the previous estimate of $8.6bn. After recording a net profit of $18bn in the previous years, the industry slipped perilously close to its loss-making years of 2008 and 2009, with a profit margin of just 0.7% expected in 2011. Asked if some carriers will go under, as happened to dozens of airlines in the wake of the 2008 oil spike when prices hit $147 a barrel, Walsh said: "I fully expect that to happen." Referring to the current price for Brent crude of $115 a barrel, he added, "I think the high oil price is something that poses a real challenge to the industry. There are many airlines that will struggle in a

high oil price environment." Fuel will account for nearly a third of industry costs this year. Walsh said the world economy was in better shape than during the previous oil spike, but Europe is in a weaker state than the Americas and the Asia-Pacific regions. "Some will suffer more than others, such as those airlines operating in economies that are weaker. The strength of the global economy is driven by Asia and Latin America to a large degree that airlines operating in those areas will be less affected than airlines operating in a European context. It is likely to have more of an impact in Europe than in other parts of the world."

Sanderson (2012) mentioned that the outlook for the industry is also heavily linked to oil prices, although signs show that some relief will be seen on this front, with oil prices expected to decline in 2013. In 2013, fuel prices are expected to decline to USD 105/barrel (Brent), which will hold the industry's fuel bill to USD 208 billion (the same as is expected for 2012) even when factoring-in industry growth. Since airline industry profitability peaked in 2010, oil price has raised from USD 79 to a historically-high USD110 on average in 2012, or USD 127.7 a barrel for jet fuel. That 40% rise alone added around USD 50 billion to un-hedged fuel costs. The global airline industry's fuel bill is forecast to total over USD 200 billion in 2012 (accounting for a third of operating expenses), almost five times 2003's fuel bill. As a result, fuel surcharges have become commonplace, less transparent and more expensive in the past few years.

Sanderson (2012) continued that, despite the increases in the cost of travel related to increased fuel and ancillary charges and passenger taxes in some countries, average worldwide fares have declined in 2012 and are yet to return to pre-crisis levels. In contrast, US airline yields have increased strongly since the lows of mid-2009, although their strong rise is showing signs of stalling. Globally, passenger yield is expected to remain stable in 2013, following growth of 2% in 2012, while cargo yield is expected to decline 1.5% in 2013 following estimated yield declines of 2% in 2012. The signs of a minor recovery that were evident in air freight markets early in 2012 are fading, reflecting waning consumer confidence in major economies, weakening demand for air freighted consumer goods. Reflecting reduced demand levels, freight capacity is also being reduced, both through the retiring of aircraft and a reduction in aircraft utilisation rates.

Tyler (2012) stated that, looking to trends in the industry in 2013, airlines will continue to adapt to the challenges presented in the current operating climate. Even six years ago, generating a profit with oil at $110/barrel (Brent) would have been unthinkable. The industry has re-shaped itself to cope by investing in new fleets, adopting more efficient processes, carefully managing capacity and consolidating. But despite these efforts, the industry's profitability still balances on a knife-edge, with profit margins that do not cover the cost of capital. Airlines will continue to be focused on pursuing new revenue sources and building ancillary revenue streams, while also increasing competition with code-share and alliance partners, while at the same time reducing costs wherever

possible. Airlines are continuing with cost reduction and transformation plans to strip out costs, with industrial unrest likely to continue in the coming years. Growth in 2013 will likely continue to be focused around emerging markets, with more cautious growth in the mature aviation markets of North America and Western Europe. Some 48% of global aircraft orders are from airlines in Asia Pacific or the Middle East, with 41% of narrow bodies being from airlines from these regions, mainly from Asia Pacific. The difference between developed and emerging nations becomes even starker when only looking at the orders for wide body aircraft with 63% of wide body aircraft being ordered by airlines from these two regions. This promises to reshape the face of aviation in the next decade.

h) Factors impacting performance of Air Namibia (Pty) Ltd

The Namibia population is estimated at about 2.1 million (2012). The population size of the country has positive direct impact on the performance of the airlines. It can be assumed that population size have direct proportions to the demand of the airline ticket, higher the population of the country higher is the possibility of demand for airline tickets. In terms of Air Namibia (Pty) Ltd the demand for its services is limited due to small population in comparison to other countries such as South Africa and Angola. Air Namibia (Pty) Ltd's most passengers are foreigners and the majority are making Namibia as a transit point either to Europe or to South Africa and neighbouring countries. Namibians are not using Air Namibia (Pty) Ltd for holiday travel, since the majority of the population is living in villages and travelling by plane is regarded a

luxury and for the rich minority only. The majority of the population prefers to have their holidays in their village close to their friends and family and mostly make use of public transport rather than flying with Air Namibia (Pty) Ltd (Nashipena, 2012). This significantly affects the performance of the airline. Namibia's population is made up of young people and ageing population, which do not use airline for travel.

Nashipena, (2012) said that, Namibia has more than 51 per cent people unemployed, the level of income is low and they cannot afford holidays and buy air tickets. The low level of income is affecting the demand for tickets of Air Namibia (Pty) Ltd.

Namibia's geographical area is about 825,400 km^2. There is too much open space which is occupied by farms. People of Namibia prefer to travel by road or by train, because these cost less and are simple to use. The places to which people might travel are at short distance from each other unlike some other countries. Travelling by road and train is convenient for passengers, because of short distance between destinations. This affects the demand for airline tickets.

i) Airlines bailout

South African airways received an emergency loan to cover fuel costs, preventing the grounding of its local and international flights. The South African Government signed off a guarantee that allowed the national carrier to secure a R550 million bank facility for fuel and other short term commitments. The grounding of the airline would have left

local and overseas passengers stranded after the festive season holidays. The airline had foreseen it when previously requested R5 billion guarantees (Gigaba, 2013).

Kuugongelwa-Amadhila (2013) announced that Air Namibia (Pty) Ltd will receive over the next two fiscal years at least more than half a billion - N$ 362.2 million in 2014-15 and N$ 304.1 million in 2015-16. It was reasoned that bailout is needed for Air Namibia (Pty) Ltd's business plan updates and to pay outstanding debts. It was mentioned that, ''Air Namibia (Pty) Ltd cause is of national concern''. In 2006 budget speech, the then Minister of Finance had expressed that the airline remained a concern and that its financial situation continued to deteriorate and turnaround strategy is in dire need. Air Namibia (Pty) Ltd has an important role to play, especially in the tourism market. To realise that, the company needs to transform itself to be better able to face challenges of highly competitive industry in which it operates.

j) Profitability of airlines

According to Tyler (2012), Airline profitability prospects have improved for 2012, with International Air Transport Association (IATA) upwardly revising its 2013 financial forecast, predicting a USD4.1 billion profit for 2013 compared to USD3 billion forecasts 2012. However, he cautioned that "we should not get too excited" about the revision, with profits still to be less than half the USD8.4 billion earned in 2011 and considerably lower than the USD19.2 billion achieved in 2010. A return to those levels is not anticipated any time in the near future. Despite the upward revision, profit margins also

remain anaemic, noting that the revision only increased net profit margins from 0.5% to a still “miniscule” 0.6%. Airline industry profitability is expected to pick up modestly to USD7.5 billion in 2013, amid slightly faster growth, lower oil prices combined and an upwardly revised GDP forecast. But in general, airlines are continuing their ‘cautious capacity growth’ mantra to the benefit of load factors, yields and profitability. However, as Mr Tyler (2012) noted, this level of profitability still equates to a net margin of just 1.1%, indicating the relative unattractiveness of investment in this sector. He further noted that with the forecast profitability, “airlines will be able to pay their bills and service their debt, but there is very little left over for the shareholder”. The estimates return on capital will be 3% on average in 2013, “but investors would expect to earn a return of 7-8% in an industry with a similar risk profile to airlines”. The fact that the airline industry persistently earns less than its cost of capital is a measure of the intensely competitive environment. Consolidation in the US and Europe, including Joint Ventures on many long-haul markets, is starting to make a difference. There is still a long way to go before normal profits are earned.

Tyler (2012) expressed that ‘‘the situation for European airlines has, however, worsened and their performance has deteriorated substantially, reflecting weak home markets due to the Eurozone crisis, with the region also suffering under high taxes, inefficient air traffic management infrastructure and regulatory restrictions. In June 2012, European airlines were forecasting a USD1.1 billion loss, now revised to a USD1.2 billion loss. Not only is the economy weak with the Eurozone crisis, Europe has some very

unfriendly conditions for doing business due to onerous regulations, high taxes, insufficient capacity at many key airports and an air traffic management system badly in need of modernisation," The forecast for Latin America remains unchanged.

Branchard (2012) revealed that global economic recovery is continuing but has weakened and that the economic recovery has "suffered new setbacks, and uncertainty weighs heavily on the outlook". He said the downside risks are now judged to be more elevated than in its previous September 2011 and April 2012 forecasts. Relative to its April 2012 forecasts, the October 2012 forecasts for 2013 growth have been revised from 2.0% to 1.5% for advanced economies, and from 6.0% to 5.6% for emerging market and developing economies. Blanchard (2012) noted that the forces pulling growth down in advanced economies are fiscal consolidation and a still-weak financial system, which is still not functioning efficiently. He also noted that the outlook for 2013 globally is highly dependent on whether European and U.S. policymakers deal proactively with their major short-term economic challenges. Blanchard (2012) added that low growth and uncertainty in advanced economies are affecting emerging markets and developing economies. Although economic growth in the Euro area is likely to contract overall in 2012, the US is expected to improve on 2011 performance, as is Japan. Growth in emerging markets continues to significantly outpace western economies, with robust expansion anticipated throughout Asia Pacific, MENA, sub-Saharan Africa and Latin America in 2012. Western economies continue to be limited

by tightening fiscal policy, while the governments of Brazil, Russia, India and China maintain a relatively looser fiscal position.

k) Cash Flows of airlines

Arpey, 2002 stated that, America's airlines had received hefty bailout from Congress of multibillion-dollar package. The airlines had been struggling to sustain the airline operations with their own funds. In the wake of the September 11 terrorist attacks on the United States, in which four airplanes were hijacked and crashed, prospects for the industry looked bleak. With tourists and business travellers expected to shy away from the suddenly unfriendly skies, domestic carriers have already announced almost 100,000 layoffs and reduced their schedules, while the major airlines' stock prices had plummeted.

The airlines requested congress about $24 billion in cash and loans during meetings with Congress. But the House and Senate both passed a $15 billion package consisting of a $5 billion cash payment to the industry, with a potential $10 billion or so in guaranteed loans if problems persist, and a lessening of liability costs for American Airlines and United Airlines, whose planes were hijacked on September 11. The government's aid included $3 billion in security costs not included in the cash grant or loans.

Although there was less than their desired figure, the plan addressed the most pressing problem that the airlines were facing at the moment: cash flow. Compared to some other

industries, the major airlines do not keep a great deal of cash on hand — usually anywhere from three weeks to three months of reserves. Even the grounding of all flights for about two days cut into those reserves substantially.

The terrorist attack came at a time when the airlines were facing imminent retrenchment anyway. The sputtering economy had led to a decline in revenue for several airlines, especially due to a downturn in business travel.

As a result, the industry as a whole lost money in the second quarter of 2001 — traditionally its strongest part of the year — for only the third time in 30 years. In that period, American Airlines, the nation's largest carrier, lost $507 million after a profit of $321 million in the second quarter of 2000. The second-biggest domestic carrier, United Airlines, lost $292 million after a second-quarter profit of $336 million the year before.

2.3 Gap in existing research

It is evident from the literature review that the aspects of role and functions, corporate governance, performance, profitability, cash flows, bailout by government of parastatals in general and of airlines attracted attention of the researchers all over the world. All these researches were based on economic analysis of their operations. This research based on the accounting and financial analysis of operation of Air Namibia (Pty) Ltd and its comparison with four (4) peer airlines from industry was undertaken to fill in this gap existing literature.

2.4 Conclusion

The Government of the Republic of Namibia has created parastatals with sole aim of providing goods and services to its people. These parastatals were created in different sectors and within these sectors some have gained monopoly power while others remained in the competitive market. There is a general expectancy from stakeholders that parastatals within their jurisdiction should at least generate funds in order to finance their operations and lessen the dependence on the Government funding while meeting their objectives. This was not the case with some of the parastatals especially those operating in the competitive market, because some have incurred massive losses and some have performed very well.

The parastatals continuing incurring losses have led to public and politician to demand to the Government to sell ownership in loss making parastatals so that they can become profitable and saving tax payers' money. The Government considers that the contribution of these parastatals will be forfeited if the parastatals are sold to private sector. It is not only in Namibia where parastatals are considered burden to the Government, even some other Southern African countries have similar problems especially in the airline industry where the airlines are not performing financially, but have depended on Governments' bailout to fulfil their mandate.

Aviation industry is a volatile industry, whose performance is affected by a number of factors that either hinder the performance or enhance the performance. The previous studies indicated that operating in the aviation industry had more hindering factors than enhancing factors. Hindering factors are such as legislations in different countries, jet fuel price fluctuations, and countries' political instability. Since, the airline trades on global economies; they are subjected by the international competition from other airlines and these competitions affect the performance of each individual airline.

Some literature indicates that an airline can be more efficient if the airlines' board of directors consists of qualified professionals in their fields such as chartered accountants, lawyers, aeronautical engineers and business professionals, and if the board of directors complies with the corporate governance requirements. An airline with a board of directors consisting of professionals has a greater chance of being managed prudently than an airline whose board of directors does not have professional management competencies.

The majority of the airlines in all the continents experience cash flow problems due to escalating operating costs, which in some airlines exceeds the revenue generated by airline. The majority rely on their government to bail them out in order to finance operations and others rely on their government to provide the guarantee for business

loan. However, such measures are feasible only in short run. In the long run, like other commercial enterprises they have to breakeven and raise resources from their revenue.

CHAPTER 3

Research Methodology

3.1 Introduction

This chapter covers the research design and methodology, including population sampling, data analysis and ethical considerations in research. Research methodology in common parlance refers to a method used in search for knowledge. Redman and Mory (2004) define research methodology as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge". They further state that research means a "systematized effort to gain new knowledge". Some people consider research as a movement, a movement from the known to the unknown (Redman & Mory, 2004). It is actually a voyage of discovery. We all possess the vital instinct of inquisitiveness for, when the unknown confronts us, we wonder and our inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which a person employs for obtaining the knowledge of whatever the unknown, can be termed as research. Research is an academic activity and as such the term should be used in a technical sense.

According to Clifford and Woody (2003), research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organising and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulated hypothesis.

Slesinger and Stephenson (2006) define research as "the manipulation of things, concepts or symbols for the purpose of generalising to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art. Research is, thus, an original contribution to the existing stock of knowledge making for its advancement. It is the pursuit of truth with the help of study, observation, comparison and experiment. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research. The systematic approach concerning generalisation and the formulation of a theory is also research. As such the term 'research' refers to the systematic method consisting of enunciating the problem, formulating a hypothesis, collecting the facts or data, analysing the facts and reaching certain conclusions either in the form of solution(s) towards the concerned problem or in certain generalisations for some theoretical formulation. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation.

The purpose of research is to discover answers to questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet. Though each research study has its own specific purpose, we may think of research objectives as falling into following broad groupings:

- To gain familiarity with a phenomenon or to achieve new insights into it (studies with this objective in view are termed as exploratory research studies);

- To portray accurately the characteristics of a particular individual, situation or a group (studies with this objective in view are known as descriptive research studies);
- To determine the frequency with which something occurs or with which it is associated with something else (studies with this objective in view are known as diagnostic research studies);
- To test a hypothesis of a causal relationship between variables (such studies are known as hypothesis-testing research studies).

3.2 Research Design

Research design can be thought of as the structure of research. It is the glue that holds all of the elements in a research study together. Burns and Grove (2003) define a research design as "a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings". Parahoo (1997) describes a research design as "a plan that describes how, when and where data are to be collected and analysed". He further defines a research design as "the researcher's answering the research question or testing the research hypothesis".

Non-experimental research

According to Burns and Grove (2003), non-experimental research is used in studies whose purpose is description and where it is unethical to manipulate the independent variable. Non-experimental research is suitable for the study of people in nursing for

several reasons. First, due to ethical considerations manipulation of the human variable is not acceptable because of the potential for physical or mental harm to the participants. Secondly, human characteristics are inherently not subject to experimental manipulation, such as health beliefs and opinions. Thirdly, research constraints such as time, personnel and the type of participants, make non-experimental research more feasible. Lastly, qualitative studies do not interfere with the natural behaviour of participants being studied; the type of research questions would not be appropriate for an experimental research.

Qualitative research

Burns and Grove (2003) describe a qualitative approach as "a systematic approach used to describe life experiences and situations to give them meaning". They further state that qualitative research focuses on the experiences of people as well as stressing uniqueness of the individuals. Holloway and Wheeler (2002) refer to qualitative research as "a form of social enquiry that focuses on the way people interpret and make sense of their experiences and the world in which they live". Researchers use the qualitative approach to explore the behaviour, perspectives, experiences and feelings of people and emphasise the understanding of these elements.

Exploratory research

According to Holloway and Wheeler (2002), explorative studies are undertaken when a new area is being investigated or when little is known about an area of interest. It is used to investigate the full nature of the phenomenon and other factors related to it.

Descriptive research

According to Burns and Grove (2003), descriptive research is designed to provide a picture of a situation as it naturally happens. It may be used to justify current practice and make judgment and also to develop theories.

Quantitative research

Quantitative research refers to the systematic empirical investigation of social phenomena via statistical, mathematical or numerical data or computational techniques. The objective of quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. Quantitative data is any data that is in numerical form such as statistics and percentages (Babbie, 2010).

This research is mainly a quantitative study on cash flows and operating losses of a parastatal focused on Air Namibia (Pty) Ltd. The research study focused on five year

period starting from 01 April 2006 to 31 March 2011. The quantitative design used was mainly based on ratio analysis, interpretation of those ratios and qualitative information relevant to the operations of the airline. The ratios were calculated using Microsoft Excel. The study was based on quantitative and qualitative information mainly to explore the subject stated above. The research study provides a good understanding of the state of affairs and its operations to Air Namibia (Pty) Ltd management, the Government as sole shareholder and other stakeholders interested in research subject. The management, shareholder and stakeholders shall get an opportunity from this research to learn from other airlines on their financial performance. Other airlines such as Kenya Airways, British Airways, Fly Emirates and US Airways and their financial information was studied together with Air Namibia (Pty) Ltd and comparisons among these airlines were drawn. The research provides information to stakeholders for understanding Air Namibia (Pty) Ltd's operations and reasons why Air Namibia (Pty) Ltd continues to face cash flow problems, continues to receive government bailout and continues making losses in comparison with other airlines.

3.3 Population

The population for a study is the total members of a defined class of people, objects, places or events selected, because they are relevant to the research study. Population for this study consisted of the entire airlines industry in Africa, Europe, Asia and North America. The population was viewed from different continents with the sole purpose to highlight the factors that might have been impacting on one airline in the continent in

comparison to another airline in another continent. The researcher also tried to determine the similarities and differences in airlines performance in different continents.

3.4 Sample

A sample is a subset of the population that is used to represent the entire group as a whole. When doing research, it is often impractical to survey every member of a particular population because the sheer number of entities may be simply too large. Therefore, sampling is the process of selecting units (e.g. people, organizations) from a population of interest so that by studying the sample one may fairly generalize the results back to the population from which they were chosen. There are several different ways of choosing sample from population, from simple to complex. The sampling techniques can be broadly divided into two groups, non probability sampling techniques and probability sampling techniques (Labarre, 2013).

Non-probability Sampling Techniques

Non-probability sampling is a sampling technique where the samples are gathered in a process that does not give all the individuals in the population equal chances of being selected. Commonly used methods are reliance on available subjects, purposive or judgement sampling, snow ball sampling and quota sampling (Doherty, 1994).

Reliance on Available Subjects - Relying on available subjects, such as stopping people on a street corner as they pass by, is one method of sampling. It is an extremely

risky method and comes with many cautions. This method, sometimes referred to as a convenience sample, does not allow the researcher to have any control over the representativeness of the sample. It is only justified if the researcher wants to study the characteristics of people passing by the street corner at a certain point in time or if other sampling methods are not possible. The researcher must also take caution to not use results from a convenience sample to generalize to a wider population (Crossman. 2011).

Purposive or Judgmental Sample - A purposive, or judgmental sample is one that is selected based on the knowledge of a population and the purpose of the study. For example, if a researcher is studying the nature of school spirit as exhibited at a school pep rally, he or she might interview people who did not appear to be caught up in the emotions of the crowd or students who did not attend the rally at all. In this case, the researcher is using a purposive sample because those being included in the sample fit the specific purpose or description (Tongco, 2007).

Purposive sampling method was applied for the selection of the airlines, and the airlines were selected based on the knowledge of the population and the purpose of the study. The airlines selected included besides Air Namibia (Pty) Ltd, one airline from Africa, Kenya Airways, one from Europe British Airways, one from North America US Airways, and one from Asia Fly Emirates. These four airlines were selected each from a different continent and their financial information was studied and analysed for better

understanding of different airlines' operations. The airlines in sample were purposively selected by the researcher based on their performance background or known for better or worse performance in the airline industry. They were also selected based on their ownership, because some were government owned and some were privately owned. The airlines selected were based on different continents, because the research was to determine whether all the airlines were exposed to similar industry risks or these were only relating to specific continents or airlines. These four airlines were thus selected so that their results of operations could be compared to Air Namibia (Pty) Ltd to draw meaningful conclusions.

3.5 Research Instruments

Quantitative information was gathered from the five (5) airlines annual financial statements for the period 01 April 2006 to 31 March 2011. Reports of auditors, consultants and expert groups were also consulted. Secondary data from Air Namibia (Pty) Ltd annual financial statements for the period 01 April 2006 to 31 March 2011 were analysed first to determine the existing trends of income flows, profitability flows and operating, financing and investing cash flows. Income statements for the same period were also analysed to identify significant trends in income flows, cost flows and profitability. For the same period the annual financial statements of Kenya Airways, British Airways, Fly Emirates and US Airways were also gathered and the same analysis was applied on these statements also. The annual financial statements of all the airlines were reduced to financial ratios to eliminate any difference in size and difference in

currency, and to make them comparable to each other. The information used in reducing the annual financial statements into comparable ratios was obtained from each respective airlines website. The qualitative information about the operations of the airlines was also obtained from the airlines website and financial statements. The abridged financial statements from 1st April 2006 to 31st March 2011 are given as Annexure I containing Income Statement and Statement of Financial Position and Annexure II containing Cash Flow Statement respectively.

3.6 Procedure

The researcher collected secondary data from Air Namibia (Pty) Ltd's annual financial statements for five years starting from 01 April 2006 to 31 March 2011. Similar data were collected from each of the airlines such as Kenya Airways, British Airways, Fly Emirates and US Airways for the same period and similar analysis was applied to the financial statements of all the airlines and interpreted as such.

3.7 Data analysis and Interpretation

The data analysis was done using ratio analysis on Microsoft Excel. Ratio analysis evaluates relationships among financial statements items and identifies existing trends. The ratios were compared between different statements for five financial years to get the trend and relationship over the financial years. The researcher applied the same ratios to each of the airline's annual financial statements for the same period and the existing trends and relationships were compared to Air Namibia (Pty) Ltd. Besides ratio analysis

three management models, DuPont analysis, Benchmark analysis and Root cause analysis were used to provide greater depth to the analysis.

The researcher interpreted the financial ratios according to the meaning of the financial ratios. The researcher tried to understand the financial ratios actual meaning and the results of the financial ratios were interpreted as they should be and proper explanations were provided by the researcher. This provided a firm basis for the identification of root cause of the profitability and cash flow problems faced by Air Namibia (Pty) Ltd. This formed the basis of suggested plan of action.

3.8 Validity and Reliability

Validity and reliability form the core requirement of financial analysis.

Validity

Validity refers to measurement of a variable. A finding is said to be valid if the method, approach and technique used for measurement of a variable accurately measures it. To ensure validity of measurement the standard financial analysis techniques and measures recognised for reliable and correct indication of status and change were used. Ratios used as indicators were supported with definitions from standard texts (Sarndal, Swensson and Wretman, 2004).

Reliability

Reliability refers to consistency in collection, analysis and interpretation of data. It is a measurement of variability of results over repeated trials. To ensure reliability data were drawn directly from annual financial statements and other reports available on the websites of the airline companies. Further, the data were checked for their comparability. The information drawn from various sources has been appropriately cited in the text (Sarndal et al, 2004).

3.9 Research Ethics

Ethics in the context of research is referred to as a set of standards that guide researcher on how the researcher interacts with research participants. The ethics guidelines of the University of Namibia were observed by the researcher in the process of collection of data, data analysis and drawing conclusions.

Ethics are norms or standards of behaviour that guide moral choices about our behaviour and our relationships with others. The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities. This objective is usually expected to be achieved in all research. However, unethical activities are pervasive and include violating non-disclosure agreements, breaking respondent confidentiality, misrepresenting results, deceiving people, invoicing irregularities, etc.

In the present study the ethic guidelines of the University of Namibia were observed, by obtaining informed consent of participants and maintaining anonymity and confidentiality of information at all levels of research.

Informed Consent

All research participants were provided with information about the research, its purpose, how it would be carried out and their right to participate or not participate in research. The research findings will be shared with the participants.

Anonymity:

All participants were assured that their names will not be revealed in the report, and their identity was protected. All information relating to airlines financial statements were kept under strict confidentiality and none other than the researcher was allowed to have access to it. Only publicly available information is disclosed in this report.

Confidentiality:

Financial records were not shared with anyone. These were securely stored and were destroyed after the research was completed. The information in researcher's computer was password protected. There was no unauthorized access to the information. A definite assurance was given to all participants and their trust was maintained.

3.10 Conclusion

The sample airlines were selected from different continents and financial information drawn from their annual financial statements for the relevant period was analysed and compared in this research with the sole aim to study and point out the factors that might have prevented Air Namibia (Pty) Ltd from being profitable and avoid cash flow problems. Purposive sampling method was used for this purpose. Only secondary data were used in this research. The relevant data drawn were analysed and interpreted to necessary conclusions.

CHAPTER 4

Analysis and Discussion

4.1 Introduction

Airline industry is one of the fastest growing and highly competitive industries of the world. In the wake of globalisation air travel has grown and expanded in domestic as well as international sector. At the same time competition has forced airlines to adopt a variety of strategies to cut costs and remain profitable. Smaller airlines have merged with other airlines; a new segment 'budget airlines' or 'no frills airlines' has emerged to provide low fare air travel; some public sector airlines have been privatised etc. However, national airlines in Asia and Africa are trying hard to survive and grow facing the hot winds of competition. Air Namibia is one such airline. Besides domestic sector, it is active in international sector also. However, since inception, it has been making losses and facing cash flow problems. Comparative analysis of profitability and cash flows in Air Namibia (Pty) Ltd with its peers is the subject matter of this chapter.

The analysis focuses on profitability and cash flows both. Ratio analysis has been used as a primarily technique for analysis of profitability and cash flows. Three management models, DuPont analysis, benchmark analysis and root cause analysis/ Pareto analysis have been used to sharpen the focus of the analysis of profitability and cash flows.

The research is based on a comparative study of Air Namibia with four other airlines viz. Kenya Airways, British Airways, Fly Emirates and US Airways each from a

different continent, to identify the factors driving profitability and cash flows in airline industry. Data for analysis have been drawn from published annual financial statements of the companies for five years period from the financial year ending 31st March 2007 to 31st March 2011.

Data for same financial years were taken in order to ensure comparability. It was observed that for Air Namibia (Pty) Ltd, Kenya Airways, British Airways and Fly Emirates the financial years were 01 April - 31 March and for US Airways the financial year was 01 January - 31 December each year. Thus, US Airways' had financial year end which was different from other airlines. For US Airways therefore the data of year ending 31 December 2006 to 2010 were compared with rest of the airlines as on 31 March 2007 to 2011. The researcher did not perceive any difference in comparability due to such an adjustment. The abridged financial statements of five airlines for five years period are given as annexure I.

The airlines under study have different denominated currencies: Air Namibia information was reported in Namibia Dollar, Kenya airways in Kenya Shilling, British Airways in British Pound Sterling, Fly Emirates in Dirham, and US Airways in US Dollar. The data analysis disregarded these differences in currencies since ratio analysis was used for comparison, which eliminated the difference in currencies and made the ratios comparable to each other.

Air Namibia's source of funds has been the bailouts from the government and overdrafts from local banks. Since the airline is wholly owned by the Government of Namibia it cannot raise funds by issuing shares. The airline does not own valuable assets and as such, is not able to borrow on long term basis, but can only borrow on short term basis with the guarantees provided by the government. Kenya Airways raised funds by borrowing on both long term and short term as the airline had assets, which can be given as security for the loans. Kenya Airways also raised funds by issuing shares to public and the shares provided most of the capital. Kenya Airways is owned by the European airline KLM. It, therefore, does not get government bailouts. British Airways also borrows on short term and long term basis, since it has assets to be held as security for the loans and the airline has also issued shares to public to raise needed equity funds. British Airways also does receive government bailouts. Fly Emirates borrows on short term and long term basis both, but did not issue shares, neither receives government bailouts. US Airways borrows on long term and short term basis both. But, it did not issue shares to public. It raised additional capital from existing owners. US Airways receives no government bailouts. The airlines that borrow on short term and long term basis pay market related interest on borrowed money and those that issued shares pay dividend to their shareholders, while for government bailouts and interest free loans no payback is required

Air Namibia (Pty) Ltd leases all its aircraft, while Kenya Airways, British Airways, Fly Emirates and US Airways have acquired through purchase the aircrafts that they are

using in operations. Air Namibia (Pty) Ltd pays monthly rental and maintenance on leased aircraft, while other airlines pay only for the maintenance of the aircraft.

All airlines are required to pay taxes to their governments. Kenya Airways, British Airways, Fly Emirates and US Airways all paid income tax to their governments in the years they realised profit. Air Namibia is not required to pay for income tax, as the airline does not make profit. Thus, none of the airlines is exempted from paying income tax. Only when an airline did not make profit it is not required to pay income tax.

None of the airline received subsidy on fuel from their government. Each airline purchased fuel at market price. The jet fuel price per litter differs from country to country depending on the country's jet fuel supply.

4.2 Data Analysis

Financial analysis was used for the analysis of data. In this form of analysis data from different sources are gathered, reviewed, and then analyzed to form some sort of findings or conclusions. There are a variety of ratios identified by their focus as profitability ratios, activity ratios, financial ratios, solvency ratios, owners' ratios, creditors' ratios; by period of analysis as long term ratios and short term ratios.

The researcher calculated financial ratios using Microsoft Excel. Air Namibia (Pty) Ltd, British Airways, Kenya Airways, Fly Emirates and US Airways annual financial statements were analysed using ratio analysis technique and compared. The researcher

also evaluated the relationship among financial statement items and identified trend and composition of data.

4.3 Ratio Analysis

The process of evaluating data using analytical and logical reasoning to examine each component of the data provided is known as ratio analysis (Levine, 1982). Ratio analysis is an important tool for analyzing the company's financial performance. The following are the reasons why the accounting ratio analysis was used in this study:

- Analyzing financial statements

Ratio analysis is an important technique of financial statement analysis. Accounting ratios are useful for understanding the financial position of the company. Different users such as investors, management, bankers and creditors use the ratios to analyze the financial situation of the company for their decision making purpose.

- Judging Efficiency

Accounting ratios are important for judging the company's efficiency in terms of its operations and management. They help judge how well the company has been able to utilize its assets and earn profits.

- Locating Weakness

Accounting ratios are also used in locating weakness of the company's operations, even though its overall performance may be quite good. Management can then pay attention to the weakness and take remedial measures to overcome them.

- Formulating Plans

Although accounting ratios are used to analyze the company's past financial performance, they can also be used to establish future trends of its financial performance. As a result, they help formulate the company's future plans.

- Comparing Performance

It is essential for a company to know how well it is performing over the years and as compared to the other firms of similar nature and in the same risk class. Besides, it is also important to know how well its different divisions are performing among themselves in different years. Ratio analysis facilitates such comparison (Loth, 2004).

4.4 Profitability Analysis

Profitability analysis is the process of comparing income to output or income to investment and determining how much profit was made during a specific time period (Loth, 2004). This helps determine the effectiveness of management, identify areas that need to be re-evaluated and decide the viability of business as a whole. When completing profitability analysis, it is also important to analyse the costs. This includes

hard costs such as supplies, buildings, utility bills, advertising payments, salaries, and so forth and also soft costs such as cost of capital etc.

Profitability has been analysed here in terms of earnings before interest, depreciation and amortization, earnings before interest and tax, earnings before tax, earnings after tax and, other comprehensive incomes. The profitability of the five airlines under study is shown under comparative form in table 4.1 to table 4.5.

4.4.1 Earnings before Interest, Tax, Depreciation and Amortization

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) is an approximate measure of company's operating cash flow based on data from company's income statement (Crowd, 2008). This is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation, and amortization. This earnings measure is of particular interest in cases where companies have large amounts of fixed assets which are subject to heavy depreciation charge such as manufacturing companies or in cases where a company has a large amount of acquired intangible assets on its books and is thus subject to large amortization charge such as a company that has purchased a brand or a company that has recently made a large acquisition (Crowd, 2008). Since the distortion of accounting and financing effects on company earnings do not factor into EBIDTA, it is a good way of comparing companies within and across industries. This measure is also of interest to company's creditors, since EBIDTA is essentially the income that a company has free for interest payments.

Table 4.1: Earnings before Interest, Tax, Depreciation and Amortization of selected Airlines (EBITDA)

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
Revenue (N$)	854,122	1,028,590	1,298,043	1,165,463	1,218,708	1,112,985
Expenditure	-1,097,162	-1,237,600	-1,835,102	-1,452,422	-1,613,382	-1,447,134
Depreciation	2,152	1,210	2,735	2,114	3,657	2,374
EBITDA	**-240,888**	**-207,800**	**-534,324**	**-284,845**	**-391,017**	**-331,775**
Kenya Airways						
Revenue (KES)	58,792	60,471	62,947	62,838	85,836	66,177
Expenditure	-41,335	-43,924	-67,787	-68,904	-80,021	-60,394
Depreciation	594	593	3,917	4,632	3,894	2,726
EBITDA	**18,051**	**17,140**	**-923**	**-1,434**	**9,709**	**8,509**
British Airways						
Revenue (£)	8,492	8,753	8,992	7,994	9,987	8,844
Expenditure	-7,936	-7,878	-9,212	-8,225	-9,469	-8,544
Depreciation	714	692	694	732	683	703
EBITDA	**1,270**	**1,567**	**474**	**501**	**1,201**	**1,003**
Fly Emirates						
Revenue (AED)	28,643	36,441	42,674	42,477	53,098	40,667
Expenditure	-25,834	-33,630	-41,122	-39,890	-48,943	-37,884
Depreciation	1,352	1,701	2,211	2,811	3,600	2,335
EBITDA	**4,161**	**4,512**	**3,763**	**5,398**	**7,755**	**5,118**
US Airways						
Revenue (US$)	279	12,118	10,458	11,908	13,294	9,611
Expenditure	-238	-13,918	-10,340	-11,127	-12,928	-9,710
Depreciation	8	215	242	248	292	201
Amortization		622				
EBITDA	**50**	**-963**	**360**	**1,029**	**658**	**102**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had negative earnings before interest, tax, depreciation and amortization of about N$ -331.7 million on average. The rest of the airlines had positive earnings before interest, tax, depreciation and amortization. This indicated that Air Namibia (Pty) Ltd is not generating enough earnings in order to be able to pay interest on borrowing as it falls due. The earnings are not enough to cover non-cash items such as depreciation. Air Namibia (Pty) Ltd's direct expenditures are high and are exceeding the revenue generated and resulted in negative earnings. Air Namibia (Pty) Ltd negative earnings are as such financed by Government bailouts. With the government bailouts it is able to pay interest it falls due. Other airliners are generating enough earnings and are able to pay interest, and tax these falls due.

4.4.2 Earnings before Interest and Tax

Levine (1982) defines, Earnings before Interest and Taxes (EBIT), as a ‘‘measure of company's earning power from ongoing operations, equal to earnings before deduction of interest payments and income taxes’’. However, EBIT excludes income and expenditure from unusual, non-recurring or discontinued activities.

Table 4.2: Earnings before Interest and Tax of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
Revenue (N$)	854,122	1,028,590	1,298,043	1,165,463	1,218,708	1,112,985
Expenditure (N$)	-1,097,162	-1,237,600	-1,835,102	-1,452,422	-1,613,382	-1,447,134
EBIT (N$)	**-243,040**	**-209,010**	**-537,059**	**-286,959**	**-394,674**	**-334,148**
Kenya Airways						
Revenue (KES)	58,792	60,471	62,947	62,838	85,836	66,177
Expenditure (KES)	-41,335	-43,924	-67,787	-68,904	-80,021	-60,394
EBIT (KES)	**17,457**	**16,547**	**-4,840**	**-6,066**	**5,815**	**5,783**
British Airways						
Revenue (£)	8,492	8,753	8,992	7,994	9,987	8,844
Expenditure (£)	-7,936	-7,878	-9,212	-8,225	-9,469	-8,544
EBIT (£)	**556**	**875**	**-220**	**-231**	**518**	**300**
Fly Emirates						
Revenue (AED)	28,643	36,441	42,674	42,477	53,098	40,667
Expenditure (AED)	-25,834	-33,630	-41,122	-39,890	-48,943	-37,884
EBIT (AED)	**2,809**	**2,811**	**1,552**	**2,587**	**4,155**	**2,783**
US Airways						
Revenue (US$)	279	12,118	10,458	11,908	13,294	9,611
Expenditure (US$)	-238	-13,918	-10,340	-11,127	-12,928	-9,710
EBIT (US$)	**42**	**-1,800**	**118**	**781**	**366**	**-99**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd have negative earnings before interest and tax of about N$ -334.1 million on average. This indicates that Air Namibia (Pty) Ltd is not able to breakeven, as its earnings before interest and tax are negative, its direct expenditure exceeded generated revenues from operations and it depends on government bailouts in order to be able to pay direct operating expenses as they fall due. Other airliners are able to generate positive earnings from operational activities and are capable of paying direct operating expenses as this fall due without government assistance.

4.4.3 Earnings before Tax

Earnings before taxes (EBT) can be defined as the money retained by a company before deducting the money due to be paid as taxes (Crowd, 2008). The Earnings before Tax quantifies the operating and non-operating profits of a company before taxes are considered. It is similar to profits before taxes. Moreover, this performance indicator provides a level measure to compare companies in distinctive tax jurisdictions. The EBT holds great significance for investment analysts as it provides them with useful information required for evaluating a business entity's operating performance without considering the tax implications. By removing the tax factor, Earnings before Tax are helpful in minimizing a variable which might differ for various companies, so as to focus the analysis on operating profitability as a remarkable quantification of performance. This type of analysis is important, specifically, when comparing companies across a single industry.

Table 4.3: Earnings before Tax of selected Airlines

Air Namibia	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
EBT (N$)	**-104 823**	**-377 063**	**-323 658**	**-95 311**	**-405 465**	**-261 264**
Kenya Airways						
EBT (KES)	**5 975**	**5 513**	**-5 664**	**2 671**	**5 002**	**2 699**
British Airways						
EBT (£)	**611**	**883**	**-401**	**-531**	**679**	**248**
Fly Emirates						
EBT (AED)	**3 326**	**5 104**	**9 602**	**3 665**	**5 543**	**5 448**
US Airways						
EBT (US$)	**37**	**-2 210**	**-243**	**502**	**115**	**-360**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd earnings before tax is N$ -261.2 million on average. This indicated that the airline had been making loss throughout the period before it could pay for interest and tax. Kenya Airways had only made negative EBT in 2009 with an amount of -5 664 Million Kenya Shillings. British Airways had negative EBIT in 2009 and 2010 and for other years it had positive EBT. Fly Emirates had positive EBT throughout the study period and US Airways had negative EBT in 2008 and 2009.

4.4.4 Earnings after Tax

Earnings after tax (EAT) can be defined as the money retained by a company after deducting tax (Loth, 2004). The Earnings after Tax may be used by an organisation to reinvest and pay dividend to shareholders.

Table 4.4: Earnings after Tax of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
Loss before Tax (N$)	-104,823	-377,063	-323,658	-95,311	-405,465	-261,264
Tax (N$)	0	0	0	0	0	0
EAT (N$)	**-104,823**	**-377,063**	**-323,658**	**-95,311**	**-405,465**	**-261,264**
Kenya Airways						
Profit (loss) before Tax (KES)	5,975	5,513	-5,664	2,671	5,002	2,699
Tax (KES)	-1,877	-1,644	1,581	-636	-1,464	-808
EAT (KES)	**4,098**	**3,869**	**-4,083**	**2,035**	**3,538**	**1,891**
British Airways						
Profit (loss) before Tax (£)	611	883	-401	-536	679	247
Tax (£)	-173	-187	43	106	-7	-44
EAT (£)	**438**	**696**	**-358**	**-430**	**672**	**204**
Fly Emirates						
Profit before Tax (AED)	3,326	5,104	9,602	3,665	5,543	5,448
Tax (AED)	-163	-29	-85	-50	-78	-81
EAT (AED)	**3,163**	**5,076**	**9,517**	**3,615**	**5,465**	**5,367**
US Airways						
Profit (loss) before Tax (US$)	37	-2,210	-243	502	115	-360
Tax (US$)	-26	0	38	0	0	2
EAT (US$)	**11**	**-2,210**	**-205**	**502**	**115**	**-357**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had negative earnings after tax of N$ - 261.2 million. Since, the airline was not making profit and was not expected to pay tax and its earnings remained equal to earnings before tax. US Airways also did not generate profit for all the five years under study. Therefore it paid tax for two years it generated profit and for three years it got tax shield. The rest of the airlines were generating profit after tax which was attributable to their shareholders.

4.4.5 Other Comprehensive Income

Other comprehensive income represents income from activities other than normal business operations, such as interest on investment, foreign exchange gains, rent income, profit from sale of non-inventory assets etc.

Table 4.5: Other Comprehensive Income of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
Other Comprehensive Income	9,605	54,481	58,204	40,711	10,161	34,632
Sales Revenue	854,122	1,028,590	1,298,043	1,165,463	1,218,708	1,112,985
Other Comprehensive Income as % of Sales Revenue	**1%**	**5%**	**4%**	**3%**	**1%**	**3%**

Kenya Airways Other Comprehensive Income	71	54	658	372	172	265
Sales Revenue	58,792	60,471	71,829	70,743	85,836	69,534
Other Comprehensive Income as % of Sales Revenue	**0%**	**0%**	**1%**	**1%**	**0%**	**0%**
British Airways Other Comprehensive Income	611	596	483	464	527	536
Sales Revenue	7,881	8,157	8,509	7,530	9,460	8,307
Other Comprehensive Income as % of Sales Revenue	**8%**	**7%**	**6%**	**6%**	**6%**	**6%**
Fly Emirates Other Comprehensive Income	530	2,369	1,021	978	1,286	1,237
Sales Revenue	28,643	36,441	42,674	42,477	53,098	40,667
Other Comprehensive Income as % of Sales Revenue	**2%**	**7%**	**2%**	**2%**	**2%**	**3%**

US Airways						
Other Comprehensive Income	6	395	342	347	356	289
Sales Revenue	279	12,118	10,458	11,908	13,294	9,611
Other Comprehensive Income as % of Sales Revenue	**2%**	**3%**	**3%**	**3%**	**3%**	**3%**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had an average of 3 per cent of other comprehensive income over sales revenue, which was equivalent to Fly Emirates and US Airways. British Airways had 6 per cent other comprehensive income, which was highest ratio among all, while, Kenya Airways had no other comprehensive income.

Profitability Ratio Analysis

Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well (Loth, 2004). The basis for measuring the profitability may be sales revenue or net investment in assets or equity. When measured on the basis of sales revenue it is sometimes called margin or margin on sales.

4.4.6 Gross Profit (Loss) Margin

The gross profit margin is used as an indicator of a business financial health. It shows how efficiently a business is using its materials and labours in the production process. It also gives an indication of the pricing, cost structure and production efficiency of the business. The higher the gross profits margin better the business performance. The lower the gross profit margin the worse the business performance. The gross profit margin is determined as:

$$= \frac{\text{Gross Profit (Loss)} \times 100}{\text{Sales Revenue}}$$

Table 4.6: Gross Profit Margin of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	-243 040	-209 010	-537 059	-286 958	-394 673	-334 148
	854 122	1 028590	1 298 043	1 165463	1 218 708	1 112 985
Gross Loss Margin	**-28.45%**	**-20.32%**	**-41.37%**	**-24.62%**	**-32.38%**	**-30.02%**
Kenya Airways						
	17 457	16 547	4 042	1 839	5 815	9 140
	58 792	60 471	71 829	70 743	85 836	69 534
Gross Profit Margin	**29.69%**	**27.36%**	**5.63%**	**2.60%**	**6.77%**	**13.14%**
British Airways						
	602	875	-220	-231	518	309
	8 492	8 157	8 992	7 994	9 987	8 724
Gross Profit Margin	**7.09%**	**10.73%**	**-2.45%**	**-2.89%**	**5.19%**	**3.54%**

Fly Emirates

	3 338	5 180	2 573	3 565	5 441	4 019
	28 643	36 441	42 674	42 477	53 098	40 667
Gross Profit Margin	**11.65%**	**14.21%**	**6.03%**	**8.39%**	**10.25%**	**9.88%**

US Airways

	142	795	1 949	2 652	2 586	1 625
	27 910	12 118	10 458	11 908	13 294	15 138
Gross Profit Margin	**0.51%**	**6.56%**	**18.64%**	**22.27%**	**19.45%**	**10.73%**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd made losses throughout the period under study. The airline had gross loss ranging from 20% to 41%. The gross loss indicated that the airline's direct operating cost exceeded the revenue generated by the airline. The airline had the highest gross loss in 2009 at 41%, lowest in 2008 at 20% and average gross loss of 30%. This gross loss is before administrative expenses are paid and for the airline to be able to pay for its expenses government bailout was required. Kenya Airways had gross profit margin average of 13%. The airline throughout the period realised gross profit, which indicated that the airline revenue exceeded the operating costs. The airline had the highest gross profit margin in 2007 at 29% and the lowest gross profit margin in 2010 at 2%. British Airways realised gross profit for 2007, 2008 and 2011, while in 2009 and 2010 the airline realised gross losses. Fly Emirates and US Airways both had gross profit margin throughout the period.

4.4.7 Operating Profit Margin

The operating profit margin also known as earnings before interest and tax indicates how much profit a company makes after paying for variable costs of production such as wages and raw materials. It is expressed as a percentage of sales revenue and shows the efficiency of a company in controlling the costs and expenses associated with business operations. It is a measurement of what proportion of a company's revenue is left over, before taxes and other indirect costs (such as rent, bonus, interest, etc.), but after paying for variable costs of production such as wages, raw materials, etc. A wholesome operating margin is needed for a company to be able to pay for its fixed costs, such as interest on debt. A higher operating margin means that the company has less financial risk (Wilkinson & Kashkari, 2013). The operating profit margin is determined as:

$$= \frac{\text{Earnings before Interest and Tax x 100}}{\text{Sales Revenue}}$$

Table 4.7: Operating Profit Margin of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	-243 040	-209010	-537 059	-286958	-394 673	-334 148
	854 122	1028590	1298043	1165463	1218708	1112985
Operating Loss Margin	**-28.45%**	**-20.32%**	**-41.37%**	**-24.62%**	**-32.38%**	**-30.02%**

Kenya Airways						
	17 457	16 547	4 042	1 839	5 815	9 140
	58 792	60 471	71 829	70 743	85 836	69 534
Operating Profit Margin	**29.69%**	**27.36%**	**5.63%**	**2.60%**	**6.77%**	**13.14%**
British Airways						
	602	875	-220	-231	518	309
	8 492	8 157	8 992	7 994	9 987	8 724
Operating Profit Margin	**7.09%**	**10.73%**	**-2.45%**	**-2.89%**	**5.19%**	**3.54%**
Fly Emirates						
	3 338	5 180	2 573	3 565	5 441	4 019
	28 643	36 441	42 674	42 477	53 098	40 667
Operating Profit Margin	**11.65%**	**14.21%**	**6.03%**	**8.39%**	**10.25%**	**9.88%**
US Airways						
	142	795	1 949	2 652	2 586	1 625
	27 910	12 118	10 458	11 908	13 294	15 138
Operating Profit Margin	**0.51%**	**6.56%**	**18.64%**	**22.27%**	**19.45%**	**10.73%**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The operating profit margin figures were the same as the gross profit margin for all the airlines.

4.4.8 Returns to Total Assets

Returns to total assets are a measure of company's earnings after interest and tax (EAT) against its net assets (Kenon, 2007). The ratio is considered indicator of effectiveness of

a company using its assets to generate earnings after contractual obligations are paid. The greater a company's net earnings are in proportion to its assets the more effective the company is using its assets to generate earnings. The return to total assets is determined as:

$$= \frac{\text{Earnings after Interest and Tax or Net Profit /Loss}}{\text{Total Assets}}$$

Table 4.8: Returns to Total Assets of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	-233 435	-154 529	-478 855	-246 248	-384 512	-299 516
	187 089	336 944	386 157	347 164	358 733	323 217
Return to Total Assets	**-125%**	**-46%**	**-124%**	**-71%**	**-107%**	**-93%**
Kenya Airways						
	4 098	3 869	-4 083	2 035	3 538	1 891
	73 291	77 034	76 380	74 621	76 003	75 466
Return to Total Assets	**6%**	**5%**	**-5%**	**3%**	**5%**	**3%**
British Airways						
	304	694	-358	-425	672	177
	11 724	11 254	10 806	10 583	11 023	11 078
Return to Total Assets	**3%**	**6%**	**-3%**	**-4%**	**6%**	**2%**
Fly Emirates						
	3 164	5 075	1 046	3 615	5 465	3 673
	34 676	42 235	46 981	51 498	60 319	47 142
Return to Total Assets	**9%**	**12%**	**2%**	**7%**	**9%**	**8%**
US Airways						
	5	-2 210	-205	502	115	-359
	343	3 784	7 334	7 637	7 738	5 367
Return to Total Assets	**1%**	**-58%**	**-3%**	**7%**	**1%**	**-7%**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The Air Namibia (Pty) Ltd realised the worst returns on its total assets, with an average of -93 per cent. The loss was equal to 93 per cent on average dollar value of the average assets of airline. However, on average Kenya airways, British airways, Fly emirates and US airways realised 3, 2, 8 and -7 per cent respectively for each dollar value of their average assets. Air Namibia (Pty) Ltd increased its assets progressively over the years and the net loss also increased as the assets increased. As the assets increase, a company is expected to realise better returns from the assets. Conversely, in Air Namibia (Pty) Ltd as the assets base increased the loss increased realising diminishing returns on assets. The airline returns were reciprocal to the assets of the airline. The rest of the airlines were able to generate positive returns but in some years they also recorded loss. In Fly Emirates as the assets increased the returns also increased and when the assets reduced the returns also reduced, and as a result the returns were proportionate to its assets.

4.4.9 Other Comprehensive Income to Earnings before Interest and Tax

The other comprehensive income to earnings before interest and tax ratio shows the contribution of other comprehensive income towards the earnings before interest and tax. Other comprehensive income to earnings before interest and tax ratio is calculated as:

$$= \frac{\text{Other Comprehensive Income}}{\text{Earnings before Interest and Tax}}$$

Table 4.9: Other Comprehensive Income to Earnings before Interest and Tax of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	-4%	-35%	-12%	-17%	-3%	-14%
Kenya Airways	1%	1%	-27%	43%	3%	4%
British Airways	100%	67%	-120%	-87%	78%	7%
Fly Emirates	6%	6%	46%	15%	5%	16%
US Airways	1%	-9%	48%	6%	10%	11%

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Fly Emirates had the highest average ratio of 16 per cent of other comprehensive income over earnings before interest and tax, followed by US Airways with the average ratio of 11 per cent, British Airways with average ratio of 7 per cent and Kenya Airways with average ratio of 4 per cent. This indicated that Fly Emirates was holding huge investment portfolio of assets from which it derived comprehensive income. Air Namibia (Pty) Ltd also had high other comprehensive income to earnings before interest and tax ratio with average of about 14 per cent, as a result its loss was reduced, and otherwise it would have been more.

4.4.10 Income from Investments to Investments

Air Namibia (Pty) Ltd made certain investment to cover its specific requirements such as security towards the fleet taken on lease, lease payments etc. the term of investment is as

per the term of lease. Other airlines though they have their own fleet make some short term investments. The ratio of income from investments to investments is calculated as:

$$= \frac{\text{Income from Investments}}{\text{Investments}}$$

Table 4.10: Income from Investments to Investments of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	9 605	54 481	58 204	40 711	10 161	34 632
	47 350	155 487	152 141	136 755	56 676	109 682
Income to Investments	**20%**	**35%**	**38%**	**30%**	**18%**	**32%**
Kenya Airways						
	71	54	658	372	172	265
	2 106	1 879	2 981	2 877	2 952	2 559
Income to Investments	**3%**	**3%**	**22%**	**13%**	**6%**	**10%**
British Airways						
	611	596	483	464	527	536
	2 232	2 307	2 212	2 314	2 853	2 384
Income to Investments	**27%**	**26%**	**22%**	**20%**	**18%**	**22%**
Fly Emirates						
	530	2 369	1 021	978	1 286	1 237
	11 235	29 423	18 546	17 458	22 456	19 824
Income to Investments	**5%**	**8%**	**6%**	**6%**	**6%**	**6%**
US Airways						
	6	395	342	347	356	289
	152	5 965	6 036	6 012	7 152	5 063
Income to Investments	**4%**	**7%**	**6%**	**6%**	**5%**	**6%**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had the highest average income over investments at 32 per cent, followed by British Airways with 22 per cent while the rest of the airlines had it either 10 per cent or below. The high percentage indicated that Air Namibia (Pty) Ltd held more investments that generated revenue for the airline. This is because the airline is engaged in the operational lease of aircraft which are used for transporting passengers and cargo. The airline is required to maintain security deposits for the leasing and these investments produced income. Likewise British Airways had high income over investments. If an airline has higher investments then its funds position is tight. The rest of the airlines had lower comprehensive income over investments. This may be attributed to airlines owning their own aircraft and not required to provide security deposits on the aircraft.

From 2008 through to 2010, Air Namibia (Pty) Ltd was also engaged in fuel hedge in order to minimize the impact of fluctuating global fuel price. These fuel hedge delivered huge fuel gain for the period and resulted in higher returns on investments from 2008 to 2010.

4.4.11 Net Profit (Loss) Margin

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends except common stock dividends have been deducted from a company's total revenue (Crowd, 2008). Shareholders look at net profit margin closely because it shows how good a company is converting revenue into profits

available for shareholders (Crowd, 2008). In general, when a company's net profit margin is declining over time, a myriad of problems could be to blame, ranging from decreasing sales to poor customer experience to inadequate expense management. Net profit margin is often used to compare companies within the same industry, in a process known as "margin analysis" (Crowd, 2008). Net profit margin is a percentage of sales, not an absolute number, so it can be extremely useful to compare net profit margins among a group of companies to see which are most effective at converting sales into profits. The net profit margin is determined as:

$$= \frac{\text{Net (Loss) Profit}}{\text{Sales revenue}}$$

Table 4.11: Net Profit (Loss) Margin of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	-233 435	-154 529	-478 855	-246 248	-384 512	-299 516
	854 122	1028 590	1 298 043	1165 463	1 218 708	1 112 985
Net Loss Margin	**-27.33%**	**-15.02%**	**-36.89%**	**-21.13%**	**-31.55%**	**-26.91%**
Kenya Airways						
	4 098	3 869	-4 083	2 035	3 538	1 891
	58 792	60 471	71 829	70 743	85 836	69 534
Net Profit Margin	**6.97%**	**6.40%**	**-5.68%**	**2.88%**	**4.12%**	**2.72%**

British Airways

	304	694	-358	-425	672	177
	8 492	8 157	8 992	7 994	9 987	8 724
Net Profit Margin	**3.58%**	**8.51%**	**-3.98%**	**-5.32%**	**6.73%**	**2.03%**

Fly Emirates

	3 164	5 075	1 046	3 615	5 465	3 673
	28 643	36 441	42 674	42 477	53 098	40 667
Net Profit Margin	**11.05%**	**13.93%**	**2.45%**	**8.51%**	**10.29%**	**9.03%**

US Airways

	5	-2 210	-205	502	115	-359
	27 910	12 118	10 458	11 908	13 294	15 138
Net Profit Margin	**0.02%**	**-18.24%**	**-1.96%**	**4.22%**	**0.87%**	**-2.37%**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd made constant loss for five years under review, while Fly Emirates made profit for the five years and other airlines such as Kenya Airways, British Airways and US Airways made profit in some years and loss in others. On average, Air Namibia (Pty) Ltd and US Airways made loss for five years, while, rest of the airlines made on average profit for the five years under review. Perhaps, 2009, was not a good year for airline industry, since all the four airlines recorded loss, except for Fly Emirates which recorded small profit.

4.4.12 DuPont Model

DuPont analysis examines the return on equity (ROE) analyzing profit margin, total asset turnover, and financial leverage. It determines what is driving a company's ROE; Profit margin shows the operating efficiency, asset turnover shows the asset use efficiency, and leverage factor shows leverage being used. Bernhardt (2010) stated that the method goes beyond profit margin to understand how efficiently a company's assets generate sales or cash and how well a company uses debt to produce incremental returns. Using these three factors, a DuPont analysis allows analysts to company performance, efficiently determine where the company is weak and where strong and quickly know what areas of the business to look at, such as inventory management, debt structure, margin on sale for more answers. The model detects the reasons for high or low returns on equity. If problems are identified, corrective action can be taken. Also if evidence of good management is identified from the model, rewards can be given to encourage such behaviour.

DuPont analysis is an extended analysis of a company's returns on equity. It concludes that a company can earn a high return on equity if:

- It earns a high net profit margin;
- It uses its assets effectively to generate more sales; and/or
- It has a high financial leverage;

Thus DuPont equation provides a broader picture of the returns the company is earning on its equity, tells where a company's strength lies and where there is a room for improvement; DuPont equation could be further extended by breaking up net profit margin into EBIT margin, tax burden and interest burden. This five-factor analysis can provide an even deeper insight.

The DuPont ratio is determined as:

$$\text{Return on Equity} = \frac{\text{Earnings}}{\text{Sales Revenue}} \times \frac{\text{Sales Revenue}}{\text{Average Total Assets}} \times \frac{\text{Total Assets}}{\text{Total Equity}} \times 100$$

= (Returns on Sale x Assets Turnover x Equity Multiplier) x 100

Table 4.12: DuPont Ratios of selected Airlines

Air Namibia (Pty) Ltd

2007	-233 435 / 854 122	X	854 122 / 187 089	X	187 089 / -486 565			
	-0.27	X	**4.57**	X	**-0.38**	=	**48%**	
2008	-154 529 / 1 028 590	X	1 028 590 / 336 944	X	336 944 / -96 082			
	-0.15	X	**3.05**	X	**-3.51**	=	**161%**	
2009	-478 855 / 1 298 043	X	1 298 043 / 386 157	X	386 157 / -415 711			
	-0.37	X	**3.36**	X	**-0.93**	=	**115%**	
2010	-246 248 / 1 165 463	X	1 165 463 / 347 164	X	347 164 / -511 020			
	-0.21	X	**3.36**	X	**-0.68**	=	**48%**	
2011	-384 512 / 1 218 708	X	1 218 708 / 358 733	X	358 733 / -821 410			
	-0.32	X	**3.40**	X	**-0.44**	=	**47%**	

Kenya Airways

2007	4 098 / 58 792	X	58 792 / 73 291	X	73 291 / 21 640			
	0.07	X	**0.80**	X	**3.39**	=	**19%**	
2008	3 869 / 60 471	X	60 471 / 77 034	X	77 034 / 25 873			
	0.06	X	**0.78**	X	**2.98**	=	**15%**	
2009	-4 083 / 71 829	X	71 829 / 76 380	X	76 380 / 17 176			
	-0.06	X	**0.94**	X	**4.45**	=	**-24%**	
2010	2 035 / 70 743	X	70 743 / 74 621	X	74 621 / 19 973			
	0.03	X	**0.95**	X	**3.74**	=	**10%**	
2011	3 538 / 85 836	X	85 836 / 76 003	X	76 003 / 23 090			
	0.04	X	**1.13**	X	**3.29**	=	**15%**	

British Airways

2007	304 / 8 492	X	8 492 / 11 724	X	11 724 / 2 411			
	0.04	X	**0.72**	X	**4.86**	=	**13%**	
2008	694 / 8 753	X	8 753 / 11 254	X	11 254 / 3 233			
	0.09	X	**0.78**	X	**3.48**	=	**23%**	
2009	-358 / 8 992	X	8 992 / 10 806	X	10 806 / 1 846			
	-0.04	X	**0.83**	X	**5.85**	=	**-19%**	
2010	-425 / 7 994	X	7 994 / 10 583	X	10 583 / 2 113			
	-0.05	X	**0.76**	X	**5.01**	=	**-20%**	
2011	672 / 9 987	X	9 987 / 11 023	X	11 023 / 2 782			
	0.07	X	**0.91**	X	**3.96**	=	**24%**	

Fly Emirates

2007	3 164 / 28 643	X	28 643 / 34 676	X	34 676 / 13 170			
	0.11	X	**0.83**	X	**2.63**	=	**24%**	
2008	5 075 / 36 441	X	36 441 / 42 235	X	42 235 / 16 843			
	0.14	X	**0.86**	X	**2.51**	=	**30%**	

2009	1 046 / 42 674	X	42 674 / 46 981	X	46 981 / 16 568			
	0.02	X	**0.91**	X	**2.84**	=	**6%**	
2010	3 615 / 42 477	X	42 477 / 51 498	X	51 498 / 17 475			
	0.09	X	**0.82**	X	**2.95**	=	**21%**	
2011	5 465 / 53 098	X	53 098 / 60 319	X	60 319 / 20 902			
	0.10	X	**0.88**	X	**2.89**	=	**26%**	
US Airways								
2007	5 / 27 9	X	279 / 343	X	343 / -776			
	0.00	X	**0.81**	X	**-0.44**	=	**0%**	
2008	-2 210 / 12 118	X	12 118 / 3 784	X	3 784 / -765			
	-0.18	X	**3.20**	X	**-4.95**	=	**289%**	
2009	-205 / 10 458	X	10 458 / 7 334	X	7 334 / -355			
	-0.02	X	**1.43**	X	**-20.66**	=	**58%**	
2010	502 / 11 908	X	11 908 / 7 637	X	7 637 / 84			
	0.04	X	**1.56**	X	**90.92**	=	**598%**	
2011	115 / 13 294	X	13 294 / 7 738	X	7 738 / 199			
	0.01	X	**1.72**	X	**38.88**	=	**58%**	

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The results of DuPont analysis for Air Namibia (Pty) Ltd are misleading. The analysis shows that the DuPont ratio was positive throughout the five year period under study, while the airline returns on sales revenue were negative throughout the period. Further, the equity multiplier was also negative throughout the period. Only the airline's assets turnover was positive. Two negative results in the DuPont ratio created this misleading situation. Air Namibia (Pty) Ltd's assets turnover remained positive throughout the

period and it was also high as the airline's asset base was small. The returns on sale were negative throughout the period as the airline made loss throughout the period. The equity multiplier was negative throughout the period as the airline's total equity was negative throughout the period. Negative returns resulted in negative equity. This should be a matter of grave concern for management.

Kenya Airways returns on sales revenue had been positive throughout the period except for in 2009 when it had negative returns on sales. The positive returns on sales revenue indicated that the airline produced sales revenues, which were more than operational expenditure except for in 2009 when the operational expenditure exceeded the sales revenue. Kenya Airways' turnover of assets was positive with a minimum ratio of 0.78:1 and maximum of 1.13:1 that is for, 1 Kenya Shilling worth of assets value the airline yielded 0.78 Kenya Shilling worth of sales revenue to 1.13 Kenya Shilling worth of sales revenue. The airline equity multiplier ratio ranged from a minimum of 2.98:1 to maximum of 4.45:1, means the airline's total assets exceeded the airlines' equity. The airlines' DuPont ratio was high in 2007 at 19% and negative in 2009 at -24%. The result for 2009 of -24% was due to negative returns on sales revenue in 2009. This resulted in the DuPont ratio to be negative for 2009.

British Airways returns on sales revenue were positive but relatively small for the five year period under study; except for in 2009 and 2010 when it had negative returns on sales revenue. This means the airline sales revenues were approximately equal to

operational expenditure, resulting in smaller returns on sales revenue. The turnover on assets were positive with the minimum of 0.72:1 and maximum of 0.91:1, that is for every 1 British Pound worth of assets the airline yielded 0.72 to 0.91 British Pound worth of sales revenue. The airline equity multiplier ratio ranged between 3.48:1 and 5.85:1 for the five years period, which means for every 1 British Pound equity, the airline had about British Pound 3.48 to British Pound 5.85 worth of assets. DuPont ratio was negative in 2009 and 2010 as a result of negative returns on sales revenue for 2009 and 2010.

Fly Emirates' returns on sales revenue were positive through the period under study, which means the airline produced sales revenue which exceeded the operational expenditure and the airline was breaking even. The airline turnover on assets ratio ranged between 0.82:1 and .91:1, means the airline realized sales revenue of 0.82 to 0.91 Dirham for 1 Dirham worth of assets. The airline equity multiplier ranged from 02.51:1 to 2.95:1, which means the assets exceeded the airlines' equity. DuPont ratio was low in 2009 at 6% and high in 2008 at 30%. The low DuPont ratio for 2009 was as a result of low returns on sales revenue in that year.

US Airways returns on sales revenue were zero in 2007, negative in 2008 and 2009 and positive in 2010 and 2011. In 2010 and 2011, it was positive and relatively small in relation to the sales revenue. The turnover on total assets of the airline was positive throughout the period. The airline equity multiplier ratio was negative in 2009 at -

20.66% and high in 2010 at 90.92%. The equity multiplier in 2009 was negative (-20.66%) due to negative capital and reserves. The equity multiplier was high in 2010 due to low capital and reserves in relation to total assets. DuPont ratio was zero for 2007 and 598% in 2010 due to effect of high equity multiplier.

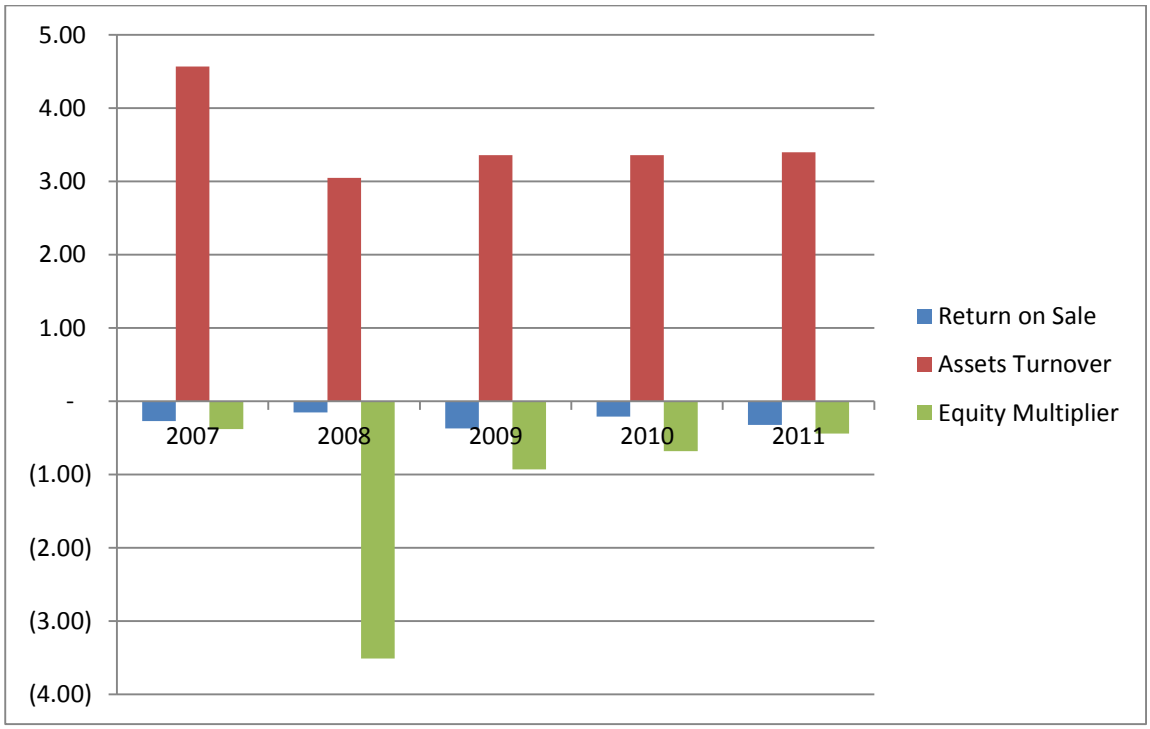

Figure 1. DuPont/ Components of Returns on Equity of Air Namibia (Pty) Ltd

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Figure 1 on DuPont analysis indicated that Air Namibia (Pty) Ltd average returns on sale revenue and average equity multiplier were negative for the period, while, the average assets turnover was positive for the period.

4.4.13 Internal Benchmark Analysis of Income Statement items of Air Namibia (Pty) Ltd

Internal benchmark analysis is based on a comparison of performance and practices within parts of an organisation. The benchmark analysis gives insight into the strengths and weaknesses of the organisation; its objective; uncovers problems; indicates possible improvements; points out norms; provides guidelines and fresh ideas to improve the organisations' performance (Wright, 2003). In this analyse, the researcher compared the averaged actual income statement items of Air Namibia (Pty) Ltd for the five years period, with averaged planned performance of income statement items for the five years period and determined the average variance for the five years period.

Table 4.13: Internal Benchmark Analysis of Air Namibia (Pty) Ltd

Benchmark Parameter	**Average Actual Mar 07 - Mar 11** 000	**Average Planned Performance Mar 07 - Mar 11** 000	**Average Variance Mar 07 - Mar 11** 000
Revenue	1 112 985	1 225 000	(112 015)
Expenditure	(1 447 133)	(1 180 000)	(267 133)
Operating Profit/Loss	(334 148)	45 000	(379 148)
Other Income	35 133	32 000	3 133
Operating Profit/Loss before financing costs and financial assistance	(303 707)	77 000	(380 707)
Government financial assistance	223 962	245 000	(21 038)
Net financing	(51 266)	(15 000)	(36 266)
Profit Profit/Loss before taxation	(110 439)	307 000	(417 439)
Taxation	-	-	-
Profit/Loss for the period	(110 439)	307 000	(417 439)

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Internal benchmark analysis of Air Namibia (Pty) Ltd showed that the airline could not perform up to the set standards. For instance for five years period the airline planned to realise a sales revenue of N$ 1.2 billion but managed sales revenue of N$ 1.1 billion only, showing N$ 0.1 billion as negative variance. As the actual performance in terms of sales revenue did not match up the planned performance, the airline performed below its set target. The expenditure was set at N$ 1.2 billion for sales revenue of N$ 1.18 billion but it recorded operational expenditure at sales revenue N$ 1.1 billion of N$ 1.45 billion, the expenditure exceeding what was planned by N$ 0.26 billion. Though the airline planned for the operational expenditure to be below the sales revenue, but the expenditure exceeded the revenue, which resulted in the airline recording operational loss of N$ 0.33 billion against the planned profit of N$ 0.45 billion. The airline's other income of course exceeded planned income by N$ 0.3 billion, indicating that it invested well to earn higher other income. The government provided less than planned financial assistance to the airline as cash bailout by N$ 0.21 billion. Since the airline is heavily dependent on the government bailout this affected the cash flows negatively. Overall, the airline planned a profit of N$ 0.3 billion but it turned out a loss of N$ 0.11 billion. The factors that contributed negatively on the financial performance of the airline were such as an increase in fuel price, fluctuating exchange rate, international passenger safety and airline logistics.

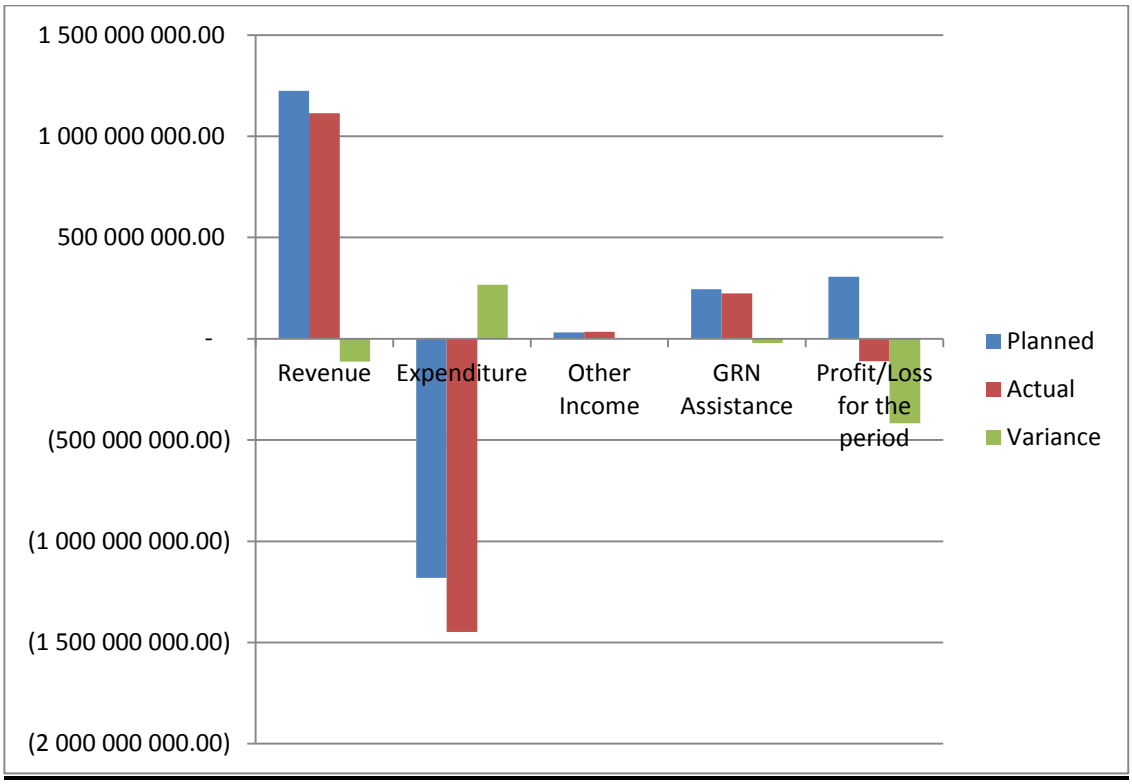

Figure 2. Internal Benchmark Analysis of Air Namibia (Pty) Ltd

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Figure 2 on internal benchmark gives comparison of Air Namibia (Pty) Ltd performance with internal set standards. The figure indicated that the sales revenue of the airline was below the planned performance. The operating expenditure had exceeded the planned performance of the airline. Airline planned to have a positive operating profit but ended up with operating loss. The government bailout was also below the expected bailout from the government. The airline planned to realise profit for the period but managed only to record loss for the period. The overall airline performance thus was not

according to its own standards. The prime factors that contributed to poor results were lower sales revenue, higher operating expenditure and lower government bailout.

4.4.14 External Benchmark Analysis

External benchmark analysis is a technique for measuring performance against external standards. Generally, external benchmark analysis is used to ensure that a particular business or a part of its operations functions at a level that measure up to external best practices. External benchmark analysis based on external best practices, uses industry standards or performance standards set by industry leaders as guidelines. In this research external benchmark was based on comparison of performance of Air Namibia (Pty) Ltd with its peers namely Kenya Airways, British Airways, Fly Emirates and US Airways. Average for the peers was used as the benchmark due to the non availability of industry averages. Seven profitability parameters were used for external benchmark analysis. These were comprehensive income to investment, other comprehensive income to sales revenue, other comprehensive income to earnings ratio, operating ratio, net profit margin, earnings per passenger travelled and earnings per kilometer travelled.

Table 4.14: External Benchmark Analysis of Profitability of Air Namibia (Pty) Ltd

Profitability Parameters	**Kenya Airways**	**British Airways**	**Fly Emirates**	**US Airways**	**Standard/Average**	**Air Namibia (Pty) Ltd**
	Average	Average	Average	Average	Average	Average
Comprehensive Income to Investments	10%	22%	6%	6%	11%	32%
Other Comprehensive Income to Sales Revenue	0%	6%	3%	3%	3%	3%
Other Comprehensive Income to Earnings Ratio	4%	7%	16%	11%	10%	-14%
Operating Ratio	87%	97%	93%	98%	94%	129%
Net Profit Margin	3%	2%	9%	-2%	3%	-27%
Earnings Per Passenger Travelled	71	115	29	(8)	52	(115)
Earnings Per Kilometer Travelled	5 530	639	639	45	1 713	(4 414)

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd average comprehensive income to investment at 32% was more than the benchmark average at 11%, as the airline was getting higher income from investments (Security Deposit and Fuel Hedge) than its peers. Air Namibia (Pty) Ltd matched the industry benchmark on other comprehensive income to sales revenue at 3%. On other comprehensive income to earnings, with benchmark at 10% the Air Namibia (Pty) Ltd performance at -14%, indicated very poor performance. Against the operating ratio standard at 94% Air Namibia (Pty) Ltd was at 129%. This indicated that the operating costs exceeded the sales revenue by 29% resulting in operating loss of 29% for

Air Namibia (Pty) Ltd. The net profit margin for peers was at 3% while for Air Namibia (Pty) Ltd it was -27%, indicating negative net earnings. The earnings per passenger travelled for peers was for peers at 52, while for Air Namibia (Pty) Ltd the earnings per passenger travelled was -115, as a result Air Namibia (Pty) Ltd was losing -115 per passenger travelled and the airline could not breakeven per passenger travelled. The realised earnings per kilometre travelled for peers was 1713, while for Air Namibia (Pty) Ltd the realised earnings was at -4 414 per kilometre travelled. This indicated poor financial performance on the part of airline.

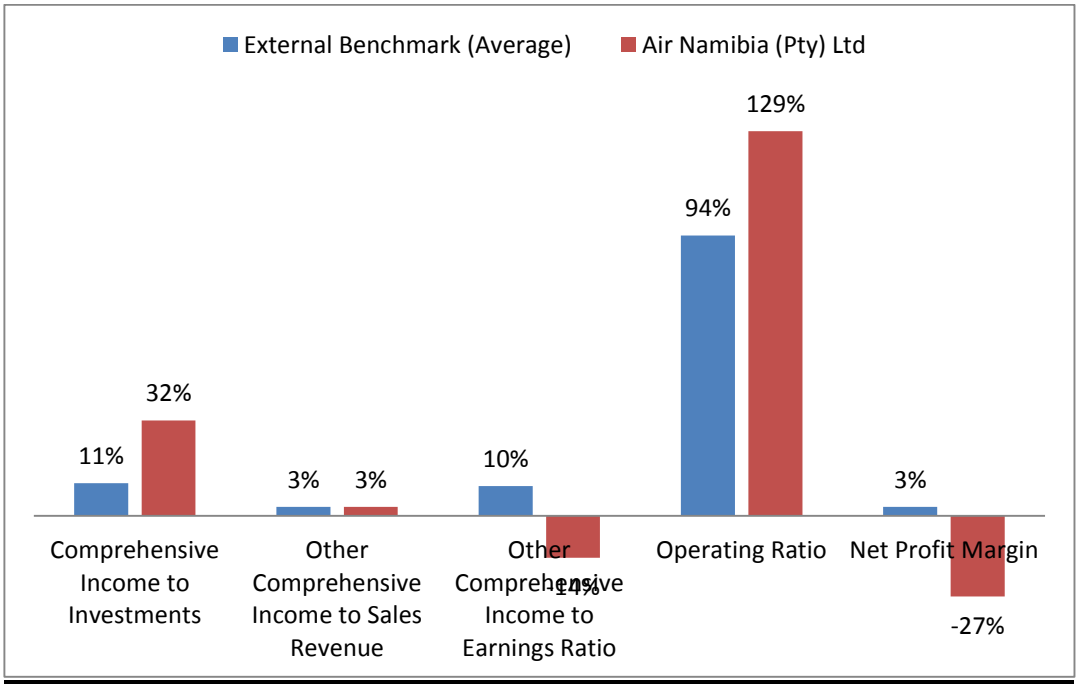

Figure 3. External Benchmark Analysis of Profitability of Air Namibia (Pty) Ltd

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Figure 3 indicated that the Air Namibia (Pty) Ltd comprehensive income to investment exceeded the standard. Other comprehensive income to sales revenue was equal at 3%, while the other comprehensive income to earnings, operating ratio, net profit margin, earnings per passenger travelled and earnings per kilometer travelled were all below the standard.

4.5 Relating Profitability with Efficiency

Efficiency in operations contributes to profitability. To determine whether efficiency in operations contributed to profitability of an airline eight efficiency measures were analysed. These were, total assets turnover, inventory turnover, receivable turnover, payables turnover, earnings per passenger travelled, earnings per kilometre travelled, earnings per passenger per kilometre travelled, and average passengers travelled to capacity.

4.5.1 Total Assets Turnover

The amount of sales revenue generated for every dollar's worth of assets is known as total assets turnover. It is calculated by dividing sales revenue in dollars by assets in dollars. Asset turnover measures a firm's efficiency at using its assets in generating sales revenue. The higher the turnover the better it is. It also indicates pricing strategy of a company. With lower profit margins companies tend to have higher asset turnover, while those with higher profit margins have lower asset turnover. The total assets turnover ratio is determined as:

$$= \frac{\text{Sales Revenue}}{\text{Average Total Assets}}$$

Table 4.15: Total Assets Turnover of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	854 122	1028 590	1 298 043	1165 463	1 218 708	1 112 985
	187 089	336 944	386 157	347 164	358 733	323 217
Total Assets Turnover	**4.57**	**3.05**	**3.36**	**3.36**	**3.40**	**3.44**
Kenya Airways						
	58 792	60 471	71 829	70 743	85 836	69 534
	73 291	77 034	76 380	74 621	76 003	75 466
Total Assets Turnover	**0.80**	**0.78**	**0.94**	**0.95**	**1.13**	**0.92**
British Airways						
	8 492	8 753	8 992	7 994	9 987	8 844
	11 724	11 254	10 806	10 583	11 023	11 078
Total Assets Turnover	**0.72**	**0.78**	**0.83**	**0.76**	**0.91**	**0.80**
Fly Emirates						
	28 643	36 441	42 674	42 477	53 098	40 667
	34 676	42 235	46 981	51 498	60 319	47 142
Total Assets Turnover	**0.83**	**0.86**	**0.91**	**0.82**	**0.88**	**0.86**
US Airways						
	279	12 118	10 458	11 908	13 294	9 611
	343	3 784	7 334	7 637	7 738	5 367
Total Assets Turnover	**0.81**	**3.20**	**1.43**	**1.56**	**1.72**	**1.79**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had total assets turnover ranging from 3.05 to 4.57 with an average of 3.44 times. Thus the airline could use its assets to generate sales revenue more than three times per dollar value of assets. The airline had higher turnover of assets compared to other airlines, as it did not own aircraft but took aircraft on operating lease.

The rest of the airlines had sales turnover of less than one on average, except for US airways which had average of 1.79 times. The airlines that realised sales turnover at less than one were the airlines which own aircraft and their assets base was relatively higher in comparison to airlines which do not own aircraft.

4.5.2 Inventory Turnover

The inventory turnover ratio shows how many times a company's inventory is sold and replaced over a period (Irfanullah, 2009). This ratio should be compared against industry average. A lower turnover implies poor sales and excess inventory, while a higher ratio implies either strong sales or ineffective buying. Higher inventory levels are unhealthy because they represent an investment with a rate of return of zero. It also opens the company up to trouble should prices begin to fall. The airline inventory consist of inflight catering and aircraft spare parts. The inventory turnover ratio is determined as under.

$$= \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Table 4.16: Inventory Turnover of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	1 097 162	237 600	1 835 102	1452 422	1 613 382	1 447 134
	3 766	5 149	6 722	7 470	8 512	6 324
Inventory Turnover	**291.37**	**240.38**	**273.02**	**194.43**	**189.54**	**228.85**

Kenya Airways						
	41 335	43 924	67 787	68 904	80 021	60 394
	883	1 110	1 366	1 509	1 725	1 318
Inventory Turnover	**46.84**	**39.57**	**49.62**	**45.68**	**46.39**	**45.81**
British Airways						
	7 936	7 878	9 212	8 225	9 469	8 544
	75	94	120	113	119	104
Inventory Turnover	**105.81**	**83.81**	**77.09**	**73.11**	**79.91**	**82.23**
Fly Emirates						
	25 834	33 630	41 122	39 890	48 943	37 884
	511	646	902	1 069	1 187	863
Inventory Turnover	**50.61**	**52.06**	**45.59**	**37.33**	**41.23**	**43.91**
US Airways						
	238	11 323	8 509	9 256	10 708	8 007
	18	273	214	229	249	197
Inventory Turnover	**13.20**	**41.48**	**39.76**	**40.42**	**43.00**	**40.73**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had higher inventory turnover among all airliners. The higher inventory turnover indicated better performance in terms of utilising the inventory into sales. Air Namibia (Pty) Ltd could realise more sales times than the rest of the airlines. British Airways was the next airline with second higher inventory turnover, while the lowest was US Airways. US Airways held higher stock, which limited its inventory turnover. The lower inventory turnover ratio indicated inefficiency in controlling inventory levels or over stocking, which may pose risk of obsolete and increased inventory holding costs.

4.5.3 Receivables Turnover

Receivables turnover ratio measures company's efficiency in collecting its sale on credit and effectiveness of collection policy. This ratio takes into consideration only the credit sales. If the cash sales are included, the ratio will be affected and may lose its significance. It is better to use average accounts receivable to avoid seasonality effect. If the company uses discounts, those discounts must be taken into consideration when calculating net accounts receivable. Accounts receivable represent the indirect interest free loan that the company is providing to its clients. Therefore, it is very important to know how "costly" these loans are for the company (Ward, 2010).

A **high receivables turnover ratio** implies either that the company operates on cash basis or that its extension of credit and collection of accounts receivable are efficient. Also, a high ratio reflects a shorter lapse of time between sales and collection of cash from clients. A **low receivables turnover ratio** implies that the company should re-assess its credit policy in order to ensure timely collection of credit sales that is not earning interest for the firm. A ratio that is low by industry standards will generally indicate that the business needs to improve its credit policy and collection procedures. If the ratio is going up, either collection efforts may be improving, or sales may be raising or receivables are being reduced. The receivable turnover ratio is calculated as:

$$= \frac{\text{Sales Revenue}}{\text{Average Accounts Receivable}}$$

Table 4.17: Receivables Turnover of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	854 122	1 028590	1 298 043	1165 463	1 218 708	1 112 985
	84 312	131 193	154 703	148 358	170 839	137 881
Receivable Turnover	**10.13**	**7.84**	**8.39**	**7.86**	**7.13**	**8.07**
Kenya Airways						
	58 792	60 471	71 829	70 743	85 836	69 534
	5 854	6 849	8 633	9 545	10 102	8 197
Receivable Turnover	**10.04**	**8.83**	**8.32**	**7.41**	**8.50**	**8.48**
British Airways						
	8 492	8 753	8 992	7 994	9 987	8 844
	645	620	558	515	480	563
Receivable Turnover	**13.18**	**14.12**	**16.11**	**15.54**	**20.83**	**15.70**
Fly Emirates						
	28 643	36 441	42 674	42 477	53 098	40 667
	4 787	6 300	7 145	7 059	6 745	6 407
Receivable Turnover	**5.98**	**5.78**	**5.97**	**6.02**	**7.87**	**6.35**
US Airways						
	279	12 118	10 458	11 908	13 294	9 611
	12	154	289	298	329	216
Receivable Turnover	**23.25**	**78.84**	**36.19**	**39.96**	**40.41**	**44.43**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The analysis indicated that the US Airways managed to turnover 44.43 times its accounts receivable on average, followed by British Airways with 15.70 times, while the

lowest was Fly Emirates with 6.35 times. Air Namibia (Pty) Ltd had 8.07 times turnover of account receivables on average. Thus the US Airways with the highest accounts receivable turnover was more efficient in collecting its credit sales followed by British Airways. Kenya Airways, Fly Emirates and, Air Namibia (Pty) Ltd, which had the lowest accounts receivable turnover indicating inefficiency in collecting outstanding credit sales. US Airways managed its accounts receivable very well compared to other airlines and was able to convert outstanding credit sales into cash, and enhance its cash inflows more quickly than other airlines. Fly Emirates was not managing its accounts receivable well in comparison with US Airways, and it had build-up balance into accounts receivable, Air Namibia (Pty) Ltd was fourth among its peers in turnover of accounts receivable and as such was inefficient in converting credit sales into cash inflows.

4.5.4 Payables Turnover

Payables turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. Accounts payable turnover ratio is calculated by taking the total credit purchases from suppliers and dividing it by the average accounts payable amount during the same period. Accounts payable turnover ratio also indicates creditworthiness of a company. A higher ratio means prompt payment to suppliers for the goods purchased on credit and a lower ratio may be a sign of delayed payment. Accounts payable turnover ratio depends on the credit terms allowed by suppliers. Companies which enjoy longer credit periods allowed by suppliers usually have lower

ratio as compared to others. A higher ratio indicates prompt payment but company should always avail the credit facility allowed by the suppliers to full extent. This ratio can be used by suppliers when deciding to advance credit on sales to the purchasers. The suppliers prefer to sell on credit to a customer who has higher accounts payable turnover; as such customers are able to pay their suppliers more quickly than the rest. The payables turnover ratio is calculated as:

$$= \frac{\text{Net Credit Purchase}}{\text{Average Accounts Payable}}$$

Table 4.18: Payables Turnover of selected Airlines

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Average**
	000	000	000	000	000	000
	987 446	1 113840	1 651 592	1 307180	1 452 044	1 302 420
	291 330	283 167	251 663	212 200	202 035	248 079
Payables Turnover	**3.39**	**3.93**	**6.56**	**6.16**	**7.19**	**5.25**
Kenya Airways						
	37 202	39 532	61 008	62 014	72 019	54 355
	6 376	5 822	4 972	5 875	8 017	6 212
Payables Turnover	**5.83**	**6.79**	**12.27**	**10.56**	**8.98**	**8.75**
British Airways						
	7 142	7 090	8 291	7 403	8 522	7 690
	3 343	2 667	2 693	2 853	3 014	2 914
Payables Turnover	**2.14**	**2.66**	**3.08**	**2.59**	**2.83**	**2.64**
Fly Emirates						
	23 251	30 267	37 010	35 901	44 049	34 095
	8 380	11 427	13 041	16 766	19 276	13 778
Payables Turnover	**2.77**	**2.65**	**2.84**	**2.14**	**2.29**	**2.47**

US Airways						
	214	10 191	7 658	8 330	9 637	7 206
	15	405	567	362	417	353
Payables Turnover	**14.45**	**25.15**	**13.51**	**23.04**	**23.11**	**20.41**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The analysis of payables indicated that US Airways had 20.41 times accounts payable turnover followed by Kenya Airways with 8.75 times, Air Namibia (Pty) Ltd with 5.25 times, British Airways with 2.64 times and finally by Fly Emirates with 2.47 times on average. US Airways, with the highest accounts payable turnover, indicated that it was able to repay its suppliers more quickly than other airlines. While, Fly Emirates with the lowest accounts payable turnover indicated slower payments to suppliers of credit purchases. Fly Emirates with lower accounts payable turnover indicated that it had a higher chance of defaulting on payments or will only be able to pay on or after the due date. Fly Emirates perhaps had adopted a management policy whereby it collected accounts receivables as quick as possible and paid suppliers as late as possible to enhance its cash flow. But by doing so it may be damaging the credit worthiness of the airline when considering acquiring stock on credit from suppliers. The airline should weigh the benefit of holding on to cash versus paying suppliers in time to have good credit record. The position of Air Namibia (Pty) Ltd in respect of payables turnover may be considered as satisfactory compared to its peers. The 5.25 payables turnover indicated that on the average it enjoyed credit of 70 days from its suppliers in a year.

4.5.5 Earnings per Passenger Travelled

Earnings per passenger travelled indicated the average earnings for each passenger travelled by the airline for the period. The ratio shows the earnings realised by carrying each passenger. A higher ratio indicates that the airline was having higher earnings on each passenger travelled, while a lower ratio indicates that the airline was realising lower earnings from each passenger travelled. The earnings per passenger travelled are calculated as:

$$= \frac{\text{Earnings before Interest and Tax}}{\text{Number of Passengers Carried}}$$

Table: 4.19: Earnings per Passenger Travelled of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd (N$)	-95.138	-61.847	-176.042	-96.907	-147.207	-115.4
Kenya Airways (KES)	171.7	153.0	-141.0	65.0	108.0	71.3
British Airways (£)	112.9	118.4	114.3	110.9	117.3	114.8
Fly Emirates (AED)	27.8	29.8	32.1	26.1	28.3	28.8
US Airways (US$)	2.578	-90.129	-9.599	0.189	58.017	-7.8

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The earnings per passenger travelled for Air Namibia (Pty) Ltd was negative, meaning that on average it is costing Air Namibia (Pty) Ltd to carry one passenger about N$ -115.40 more than its revenue. Thus instead for the airline to realize positive earnings per passenger carried the airline realized loss on each passenger carried. The airline will be

better off if they increase the number of passengers travelling in order to avoid the loss incurred when carrying passengers. The rest of the airlines were realizing positive earnings on per passenger carried. British Airways was earning on average about £114.80, followed by Kenya Airways 71.30 Kenya Shilling, Fly Emirates on average 28.80 Dirhams and US Airways on average was losing per passenger -7.8 US Dollar. The position of Air Namibia (Pty) Ltd was worse between 2009 and 2011 with the loss per passenger carried at N$ -176.042 in 2009, N$-96.907 in 2010 and N$ -147.207 in 2011. US Airways' worst years were 2008 and 2009 when it incurred loss per passenger travelled, but it recovered thereafter. Kenya Airways also made loss on per passenger carried in 2009 of KES -141 but later recovered. The ratios for Air Namibia (Pty) Ltd and US Airways indicated that the airlines were not breaking even from operations and had to cover the cost from some other source; Air Namibia (Pty) Ltd did it from Government bailout. British Airways and Fly Emirates realized positive earnings throughout five years.

4.5.6 Earnings per Kilometer Travelled

Earnings per kilometer travelled indicate earnings realised by an airline from each kilometer travelled by the airline. Higher ratio indicates that the airline was realising higher earnings per kilometer and lower ratio indicates that the airline was earning lower earnings per kilometer travelled. The earnings per kilometer travelled are calculated as:

$$= \frac{\text{Earnings before Interest and Tax}}{\text{Kilometer Travelled}}$$

Table: 4.20 Earnings per Kilometer Travelled of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd (N$)	-4,852.0	-4,321.0	-4,658.0	-4,129.0	-4,112.0	-4,414.4
Kenya Airways (KES)	7,479.0	7,724.0	-4,520.0	8,071.0	8,896.0	5,530.0
British Airways (£)	637.0	643.0	638.0	618.0	657.0	638.6
Fly Emirates (AED)	637.0	644.0	641.0	618.0	657.0	639.4
US Airways (US$)	241.0	-196.0	-182.0	148.0	216.0	45.4

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd realized loss before interest and tax on average of N$ -4,414.4 per kilometre travelled by the airlines aircrafts. The airline made loss in all the years but it was worse in 2007 and 2009. Kenya Airline had positive earnings before interest and tax per kilometer travelled with average for five years at KES 5,530. British Airways and Fly Emirates had earnings before interest and tax of £638.60 and 639.4 Dirhams while the US Airways earned 45.4 USD per kilometer travelled. US Airways had negative earnings per kilometer travelled in 2008 and 2009. Kenya Airways had negative earnings per kilometer travelled in 2009 otherwise its average earnings could have been higher. Air Namibia (Pty) Ltd incurred huge loss of N$4 414.40 per kilometer travelled while other airlines were realizing positive earnings per kilometer travelled. This indicated that the airline had high operating costs in comparison with other airlines resulting in operating loss.

4.5.7 Earnings per Passenger Kilometer Travelled

Earnings per passenger per kilometer travelled consider two aspects at the same time, the travel distance and the number of passengers. This is as such considered a superior measure of earnings efficiency. The earnings per passenger per kilometer travelled are calculated as:

$$= \frac{\text{Earnings per passenger}}{\text{Kilometer Travelled per Passenger}}$$

Table 4.21: Earnings per Passenger per Kilometer Travelled of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia	-0.020	-0.014	-0.038	-0.023	-0.036	-0.026
Kenya Airways	0.023	0.020	-0.031	0.008	0.012	0.006
British Airways	0.177	0.184	0.179	0.179	0.179	0.180
Fly Emirates	0.044	0.046	0.050	0.042	0.043	0.045
US Airways	0.011	-0.460	-0.053	0.001	0.269	-0.046

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The analysis indicated that while British Airway, Kenya Airways and Fly Emirates realized positive earnings per passenger per kilometer travelled, Kenya Airways lost on earnings in 2009 but for the rest of the years it had positive earnings per passenger per kilometer travelled. Air Namibia (Pty) Ltd incurred loss throughout the five years and as such was the worst performing airline among its peers followed by US Airways.

4.5.8 Average Passengers Travelled to Capacity

Average passengers travelled to capacity indicates the number of passengers travelled in relation to the available capacity to travel for passengers or the ratio of passengers travelled to available capacity for passengers. This show whether the aircraft was filled to capacity or the proportion of passengers to capacity. Average passengers travelled to capacity were determined as:

$$= \frac{\text{Average Daily Passengers Travelled}}{\text{Total Passenger Capacity}}$$

Table 4.22: Average Passengers Travelled to Capacity of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	68%	71%	72%	76%	78%	73%
Kenya Airways	97%	95%	98%	96%	98%	97%
British Airways	94%	95%	93%	92%	96%	94%
Fly Emirates	98%	97%	98%	96%	96%	97%
US Airways	74%	72%	69%	70%	73%	72%

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd managed an of average 73% passengers to capacity of its aircraft. This indicates that the airlines did not attract enough passengers to fill its aircrafts and its aircrafts were not flying full to capacity. The sales revenue that the airline recorded was based on the passengers travelled, which was below the operating costs and it rendered the airline to record negative profit margin. When the seats remain unoccupied sales

revenue is forgone and this may be a reason that the airline was recording losses. Kenya Airways had most of its flights almost too full capacity, with the average of 97%, with British Airways 94%, Fly Emirates 97% and US Airways 72%. That was the reasons why Kenya Airways, British Airways and Fly Emirates had positive profit margins. US Airways was equally struggling to fill its aircraft. Its 72% capacity was far below the full capacity.

Table 4.23: External Benchmark Analysis of Efficiency of Air Namibia (Pty) Ltd

Efficiency Parameters	**Kenya Airways**	**British Airways**	**Fly Emirates**	**US Airways**	**Standard/ Average**	**Air Namibia (Pty) Ltd**
	Average	Average	Average	Average	Average	Average
Returns on Total Assets	3%	2%	8%	-7%	2%	-93%
Total Assets Turnover	0	6	3	3	3	3
Inventory Turnover	46	82	44	41	53	229
Receivables Turnover	8	16	6	44	19	8
Payables Turnover	9	3	2	20	9	5
Average Passenger Travelled to Capacity	97%	94%	97%	72%	90%	73%

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The analysis shows that the returns on total assets for the peer stood at 2%, while Air Namibia (Pty) Ltd returns on total assets was at -93%, which means its 93% negative returns on assets resulting in huge loss on its small assets. Air Namibia (Pty) Ltd matched the peers with total assets turnover at 3 times, as the airline realised 3 times

sales returns on its total assets. Against the inventory turnover for peer at 53 times Air Namibia (Pty) Ltd managed turnover of inventory 229 times, which was much better than the peers. Air Namibia (Pty) Ltd accounts receivables turnover at 8 times was however lower than peers 19 times, which means the airline was slower in collecting its outstanding accounts receivables. The accounts payables turnover for peers was 9 times while for Air Namibia (Pty) Ltd it was 5 times, which also indicated that the airline was making payment to its supplies faster than its peers.

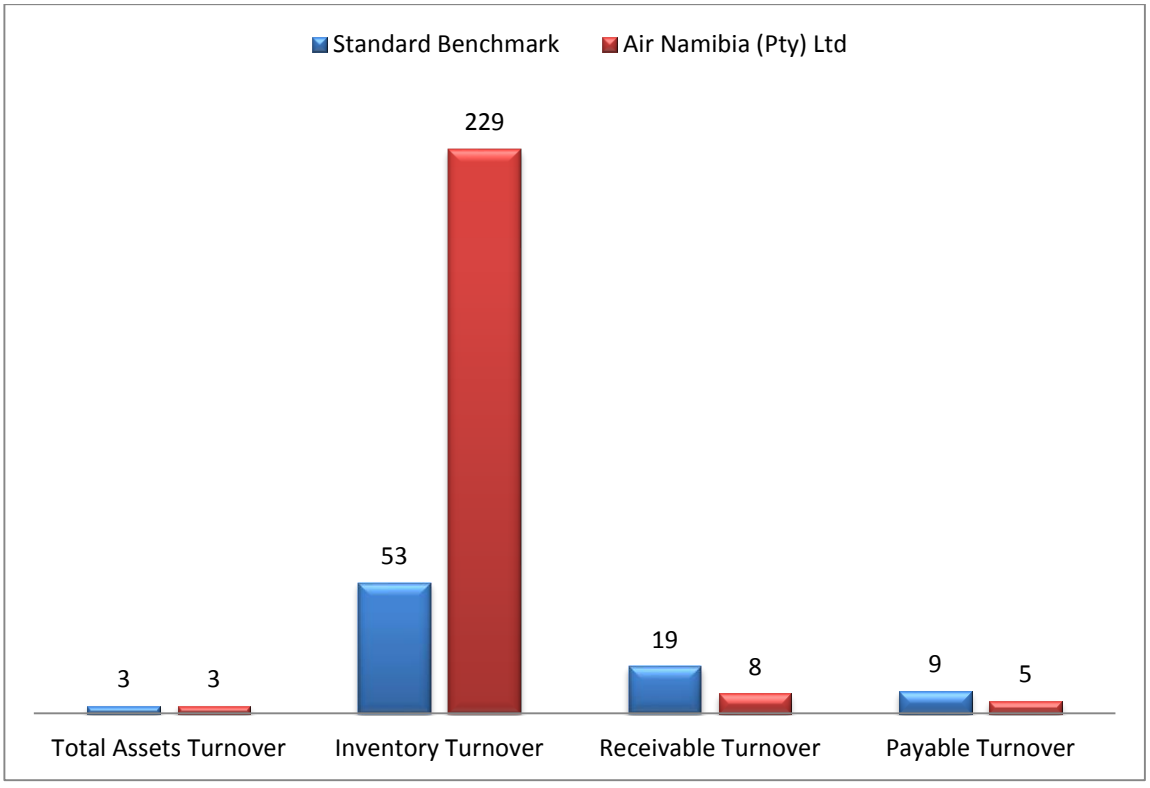

Figure 4. External Benchmark Analysis of Air Namibia (Pty) Ltd Efficiency

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Figure 4 shows the external benchmark analysis of efficiency of Air Namibia (Pty) Ltd. This indicated that Air Namibia (Pty) Ltd total assets turnover, receivables turnover and payables turnover were all below the standards, which indicated poor performance and control at Air Namibia (Pty) Ltd. The inventory turnover was the only benchmark where Air Namibia (Pty) Ltd managed to exceed the standard.

4.6 Relating Cost Factors with Profitability

To determine which cost factors contributed to total cost and to what extent analysis of cost factors was done. The cost factors considered included operating costs, interest, tax, ground staff costs, flight staff costs, petroleum costs, maintenance costs and fleet costs.

4.6.1 Operating Ratio

Operating ratio shows the efficiency of a company's management by comparing operating expenses to net sales. It is also used for expense control, and in measuring profitability and financial soundness of a firm, by expressing each income statement item as a percentage of sales revenue. The operating ratio is calculated as:

$$= \frac{\text{Production costs + Administrative costs}}{\text{Net Sales Revenue}}$$

Table 4.24: Operating Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	128%	120%	141%	125%	132%	129%
Kenya Airways	87%	89%	83%	85%	93%	87%
British Airways	93%	90%	102%	103%	95%	97%
Fly Emirates	90%	92%	96%	94%	92%	93%
US Airways	85%	115%	99%	93%	97%	98%

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

For an airline to break even it needs to have operating ratio at 100 per cent. If it is more than 100% then its operating cost is more than revenue generated by the airline resulting in loss. Kenya Airways, British Airways and Fly Emirates were the airlines with operating ratio below 100 per cent throughout the five years. Air Namibia (Pty) Ltd's operating ratio was more than 100 per cent throughout the five years means the airlines operating costs exceeded the revenue generated by the airline. This could be the attributed to management's failing to control or keep the cost at lower level or the airline generated less revenue in comparison to its capacity. US Airways also had its operating ratio above 100 per cent in 2008, but in other years it was below 100 per cent.

4.6.2 Interest to Earnings Ratio

The interest to earnings ratio indicated the ratio of interest expense expressed over the earnings before interest and tax. The ratio shows the proportion of interest expense in earnings before interest and tax or the availability of earnings for meeting interest

expense. If the ratio is more than 1.00 it shows that the company is highly geared and is having interest expense more than its earnings. On other hand, if the ratio is less than 1.00 it means that the company is able to cover its interest expense as it falls due from its earnings. The negative ratio shows that as the earnings were negative, it will not be able to meet interest expense as it falls due. The reciprocal of interest to earnings ratio is known as interest coverage ratio. The interest to earnings ratio is calculated as:

$$= \frac{\text{Interest Expense}}{\text{Earnings before Interest Tax}}$$

Table 4.25: Interest to Earnings Ratio of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	-0.11	-0.07	-0.06	-0.02	-0.06	-0.07
Kenya Airways	0.10	0.11	-0.12	0.28	0.14	0.10
British Airways	0.27	0.20	-0.45	-0.30	0.24	-0.01
Fly Emirates	0.03	0.03	0.03	0.03	0.03	0.03
US Airways	0.11	-0.14	2.58	0.42	0.78	0.75

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd and British Airways had average interest to earnings ratios of -0.07 and -0.01 respectively, which indicated that the two airlines were not in a position to cover their interest expense with their earnings before interest and tax. However, in case of Air Namibia (Pty) Ltd, if the airline is not able to cover the interest expense, the government assists with settling the debt and the corresponding interest. Kenya Airways

had a ratio of 0.10 which showed that it had low interest expense in relation to its earnings. Fly Emirates had average ratio of 0.03, which indicated that for the interest expense of 0.03 Dirham, the airline had 1 Dirham available to cover interest expense. US Airways had average interest expense over earnings ratio of 0.75, which was high. High interest expense threatens the profitability of the airline.

4.6.3 Tax to Earnings Ratio

Tax to earnings ratio indicates the proportion of tax in earnings and the availability of earnings before interest and fax to meet the tax liability – the higher the ratio the better the coverage. The tax to earnings ratio is calculated as under:

$$= \frac{\text{Tax}}{\text{Earnings before Interest and Tax}}$$

Table: 4.26: Tax to Earnings Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.00	0.00	0.00	0.00	0.00	0.00
Kenya Airways	0.31	0.30	-0.28	0.24	0.29	0.17
British Airways	0.28	0.21	-0.11	-0.20	0.01	0.04
Fly Emirates	0.05	0.01	0.03	0.01	0.01	0.02
US Airways	0.02	0.00	-0.32	0.00	0.00	-0.06

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd is not expected to pay tax to the Government, due to the consistent losses. That is the reason the tax to earnings ratio is zero. The airlines with negative tax to earnings ratios get tax shield from their respective governments. Fly Emirates had low tax to earnings ratios in comparison with British Airways and Kenya Airways. The smaller tax to earnings ratio helps the airline as the cash flows remain available to pay the suppliers.

4.6.4 Ground Staff Costs to Operating Cost Ratio

Ground staff costs to operating cost ratio indicate the proportional contribution of ground staff costs to operating cost. Ground staff costs are mainly administrative and supervisory services costs. The ground staff cost to operating cost ratio is calculated as:

$$= \frac{\text{Ground Staff Costs}}{\text{Operating Cost}}$$

Table 4.27: Ground Staff Costs to Operating Cost Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.12	0.13	0.13	0.14	0.15	0.13
Kenya Airways	0.15	0.14	0.18	0.16	0.17	0.16
British Airways	0.11	0.12	0.11	0.10	0.11	0.11
Fly Emirates	0.15	0.16	0.16	0.17	0.18	0.16
US Airways	0.09	0.10	0.11	0.11	0.12	0.11

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The ground staff costs to operating cost ratio for Air Namibia (Pty) Ltd showed average ratio of 0.13:1. The airline had the highest ratio in 2011 at 0.15:1 and the lowest in 2007. This ratio means that the airline ground staff costs in 2007 was less compared to ground staff costs of 2011. This can be due to increase in staff or increase in staff salary. Kenya Airways and Fly Emirates both had average ratio of 0.16:1. Kenya Airways and Fly Emirates had the highest ratios on ground staff costs compared to peers. British Airways and US Airways were having average ratio of 0.11:1, which was the lowest among the peers.

4.6.5 Flight Staff Costs to Operating Cost Ratio

The flight staff costs to operating cost ratio indicate the proportionate contribution of flight staff costs toward operating costs. The flight staff cost to operating cost is calculated as:

$$\frac{\text{Flight Staff Costs}}{\text{Operating Cost}}$$

Table 4.28: Flight Staff Costs to Operating Cost Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.20	0.21	0.22	0.21	0.19	0.21
Kenya Airways	0.21	0.20	0.19	0.20	0.21	0.20
British Airways	0.23	0.22	0.23	0.22	0.21	0.22
Fly Emirates	0.22	0.21	0.21	0.22	0.23	0.22
US Airways	0.22	0.22	0.21	0.20	0.19	0.21

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had average flight staff costs to operating cost ratio at .21:1. The airline had the highest flight staff costs to operating cost ratio in 2009 at 0.22:1 and the lowest in 2011 at 0.19:1. Kenya Airways had the lowest average flight staff costs to operating cost ratio at 0.20:1, British Airways and Fly Emirates had the highest average ratios at 0.22:1. The flight staff costs ratio indicated the proportion of flight staff costs of the airline towards its operating cost.

4.6.6 Petroleum Costs to Operating Cost Ratio

The petroleum costs to operating cost shows the proportion of petroleum costs over operating cost. Though the petroleum prices are the same for all airlines in international market the costs may be different due tax, transport costs, handling costs and consumption level. The petroleum cost to operating cost ratio is calculated as:

$$= \frac{\text{Petroleum Cost}}{\text{Operating Cost}}$$

Table 4.29: Petroleum Costs to Operating Cost Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.24	0.25	0.23	0.25	0.26	0.25
Kenya Airways	0.18	0.19	0.20	0.19	0.21	0.19
British Airways	0.24	0.26	0.27	0.26	0.27	0.26
Fly Emirates	0.22	0.23	0.23	0.24	0.25	0.23
US Airways	0.25	0.24	0.26	0.25	0.26	0.25

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd and US Airways had average petroleum costs to operating cost ratio at 0.25:1. Kenya Airways had average petroleum costs to operating costs ratio of 0.19:1, which was the lowest among the peers. British Airways had average petroleum costs to operating cost at 0.26:1, which was the highest ratio. These ratios indicated the cost of petroleum items that were used by each airline and how the petroleum costs contributed to the airline operating cost. The higher the ratio the higher the petroleum costs contributed to airline's operating cost and the lower the ratio of petroleum costs to operating cost the lower the airline petroleum costs contributed to the airline operating cost.

4.6.7 Maintenance Costs to Operating Cost Ratio

The maintenance costs to operating cost ratio indicate the proportion of maintenance costs to operating cost. Maintenance costs to operating cost is the indication of how much is the maintenance costs for the airline and how much maintenance costs contributed to the airline operating cost (Taylor, 2006). The maintenance cost to operating costs is calculated as:

$$= \frac{\text{Maintenance Costs}}{\text{Operating Cost}}$$

Table 4.30: Maintenance Costs to Operating Cost Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.09	0.10	0.11	0.10	0.12	0.10
Kenya Airways	0.14	0.13	0.15	0.16	0.15	0.15
British Airways	0.16	0.15	0.16	0.17	0.18	0.16
Fly Emirates	0.12	0.11	0.12	0.13	0.12	0.12
US Airways	0.16	0.15	0.17	0.16	0.15	0.16

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had average maintenance costs to operating cost ratio at 0.10:1, which was the lowest among the peers. British Airways and US Airways had the highest average maintenance costs to operating cost ratios at 0.16:1 followed by Kenya Airways and Fly Emirates at 0.15:1 and 0.12:1 respectively. The airlines maintenance depends on the airlines maintenance schedule. Each maintenance schedule is fixed according to the number of hours flown by the aircraft. This means, the more the airline uses the aircrafts the more the aircrafts will go for service maintenance and this may have different proportion contribution towards operating cost of each airline. Air Namibia (Pty) Ltd had the lowest maintenance costs to operating cost ratio. This means may be the airline was not utilising the aircraft optimally and as such required less maintenance.

4.6.8 Fleet Costs/ Lease Rent to Operating Cost Ratio

The fleet costs/ lease rent to operating cost ratio shows the proportion of fleet costs/ lease rent to operating cost (Taylor, 2006). The fleet costs/ lease rent to operating cost ratio is calculated as:

$$= \frac{\text{Fleet Costs/ Lease Rent}}{\text{Operating Cost}}$$

Table 4.31: Fleet Costs/ Lease Rent to Operating Cost Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.35	0.31	0.31	0.30	0.28	0.31
Kenya Airways	0.32	0.34	0.28	0.29	0.26	0.30
British Airways	0.26	0.25	0.23	0.25	0.23	0.24
Fly Emirates	0.29	0.29	0.28	0.24	0.22	0.26
US Airways	0.28	0.29	0.25	0.28	0.28	0.28

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd aircrafts are leased from Regional Compagnie Aerienne European on operating lease. Air Namibia (Pty) Ltd does not own airplanes. Air Namibia (Pty) Ltd had the highest average fleet cost/ lease rent ratio at 0.31:1 followed by Kenya Airways with a ratio of 0.30:1, US Airways with a ratio of 0.28:1, Fly Emirates with a ratio of 0.26:1 and British Airways with a ratio of 0.24:1. British Airways thus had the lowest fleet cost/ lease rent ratio at 0.24:1. Air Namibia (Pty) Ltd incurred the highest fleet cost/ lease rent, because its aircrafts were on operating lease and more expensive a acquiring

the aircraft. Air Namibia (Pty) Ltd fleet costs/ lease rent however was declining each year. This could be due to the airline leasing aircraft on better contract terms.

4.6.9 Fleet Costs to Total Assets Ratio

The fleet costs to total assets ratio compares the fleet cost to total assets. It determines the proportion of fleet costs to total assets as under:

$$= \frac{\text{Fleet Costs}}{\text{Total Assets}}$$

Table 4.32: Fleet Costs to Total Assets Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.00	0.00	0.00	0.00	0.00	0.00
Kenya Airways	0.57	0.57	0.62	0.63	0.58	0.59
British Airways	0.54	0.54	0.57	0.54	0.51	0.54
Fly Emirates	0.45	0.46	0.61	0.61	0.61	0.55
US Airways	0.44	0.46	0.51	0.48	0.45	0.47

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd does not own airplanes. That is how the fleet costs to total assets ratio was zero. The rest of the airlines owned aeroplanes. Kenya airways fleet costs were 59 per cent of the total airline assets, Fly emirates had 55 per cent fleet costs to total assets, British Airways had 54 per cent fleet costs of total assets and US Airways had 47 per cent.

Table 4.33: Analysis of Operating Costs of Air Namibia (Pty) Ltd

	2007	2008	2009	2010	2011
Ground Staff Costs	12%	13%	13%	14%	15%
Flight Staff Costs	20%	21%	22%	21%	19%
Petroleum Costs	24%	25%	23%	25%	26%
Maintenance Costs	9%	10%	11%	10%	12%
Fleet Costs/ Lease Rent	35%	31%	31%	30%	28%
Total Operating Costs	100%	100%	100%	100%	100%

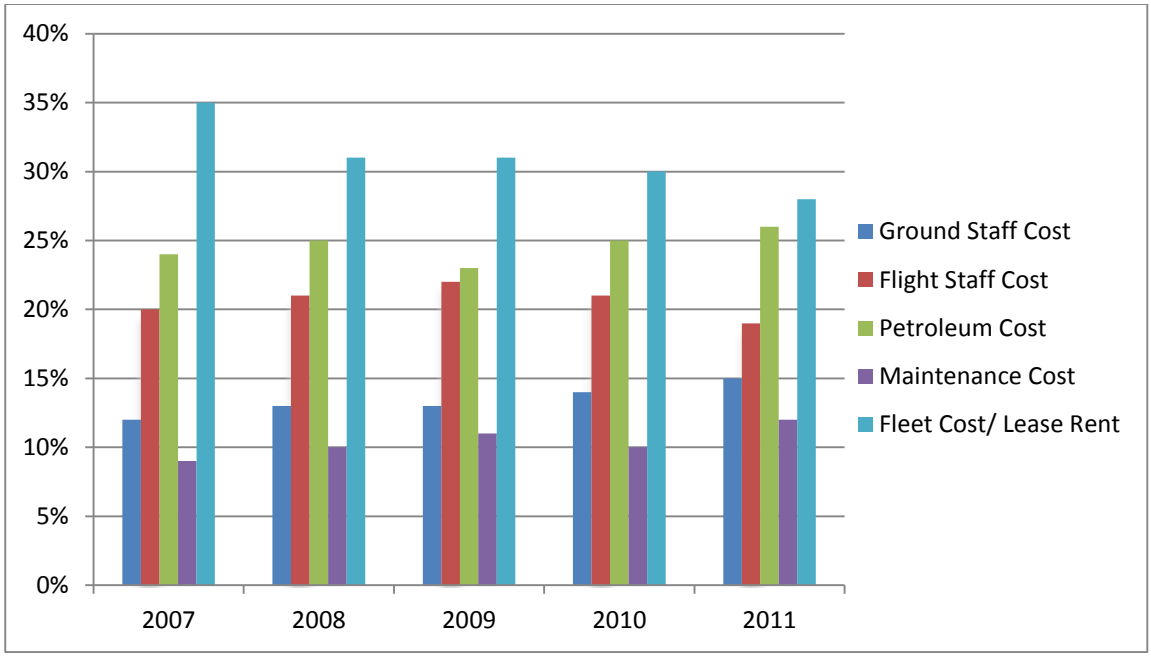

Figure 5. Analysis of Operating Costs of Air Namibia (Pty) Ltd

Source: Calculations based on data collected from Air Namibia (Pty) Ltd website during June 2013.

Figure 5 indicated that, fleet costs/ lease rent was the highest contributor to airline operating cost, followed by petroleum costs, flight staff costs, ground staff costs and maintenance costs.

Table 4.34: External Benchmark Analysis of Operating Costs of selected Airlines

	Average/ Standard	Air Namibia (Pty) Ltd
Ground Staff Cost	14%	13%
Flight Staff Cost	21%	21%
Petroleum Cost	24%	25%
Maintenance Cost	15%	10%
Fleet Cost/ Lease Rent	27%	31%
Total Operating Costs	100%	100%

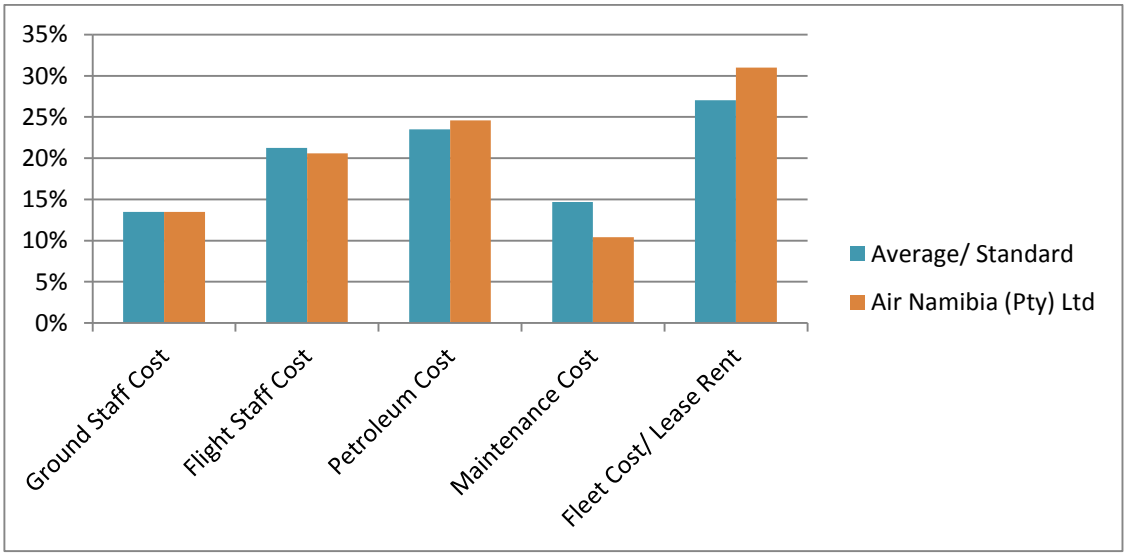

Figure 6. External Benchmark Analysis of Operating Costs of Air Namibia (Pty) Ltd

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Figure 6 indicated that proportion of Air Namibia (Pty) Ltd ground staff costs to operating cost was equal to the average ground staff costs of the peers. Proportions of average flight staff costs and maintenance costs were below the average flight staff costs and maintenance costs of the peers, while, the proportions of petroleum costs and fleet costs/ lease rent exceeded the petroleum costs and fleet costs/ lease rent of the peers. Higher proportions of average petroleum costs and fleet costs/ lease rent are matters of grave concern and the management should initiate appropriate measures to bring down these costs. This is necessary for ensuring viability of the airline.

4.7 Decomposition Analysis of Revenues, Costs and Profitability

Decomposition analysis is done using vertical or common size statement analysis (Loth, 2004). For decomposition of revenue, costs and profitability of each item is reported as a percentage of revenue. This technique expresses quantities as a percentage of revenue as base figure. Common size income statements are basically used for analysis purposes where each item on the face of income statement is expressed in relation to revenue so that users can easily understand that how different expenses and other incomes and gains adds up to gross profit and net profit. This is widely used in ratio analysis and serves as a vital tool for financial analysis of key areas of performance.

Table 4.35: Decomposition Analysis of Revenues, Costs and Profitability of Air Namibia (Pty) Ltd (% of Revenue)

Air Namibia (Pty) Ltd	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Revenue	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Expenditure	**-128.45**	**-120.32**	**-141.37**	**-124.62**	**-132.38**
Operating Loss	**-28.45**	**-20.32**	**-41.37**	**-24.62**	**-32.38**
Other Income	**1.12**	**5.30**	**4.48**	**3.57**	**0.97**
Operating loss before financing costs and financial assistance	**-27.33**	**-15.02**	**-36.89**	**-21.13**	**-33.27**
Government financial assistance	**17.92**	**0.03**	**11.56**	**13.73**	**9.85**
Net financing	**-2.86**	**0.00**	**0.40**	**-0.51**	**-18.54**
Profit (Loss) before taxation	**-12.27**	**-0.03**	**-24.93**	**-8.18**	**-33.27**
Taxation	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Loss for the year	**-12.27**	**-0.03**	**-24.93**	**-8.18**	**-33.27**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd website during June 2013.

Air Namibia (Pty) Ltd operating expenditure was more than the revenue generated by the airline for all years resulting in operating loss. The airline had no single dollar left to pay dividend to the shareholder or to pay tax to the government. Additionally, the airline was not able to pay for finance costs on bank overdraft since it failed to breakeven. Air Namibia (Pty) Ltd had to receive government financial assistance in order to pay for apart of the direct operating expenditure and meet the finance costs. The government assistance was also not sufficient for the airline to cover the loss and it had to carry over the loss from year to year. This created cash flow problems. The airline management

failed to keep the operating expenditure at minimum or to attract enough passengers for the airline to breakeven. This indicated that the airline management should be active on both the fronts, on one hand increasing the revenue and on the other hand keeping the operating expenditure down.

4.8 Trend Analysis

Trend analysis is a financial analysis technique aimed at detecting improvements or deterioration of financial ratios over time (Rosenberg, 2009). This process compares the firm's performance during the most recent year with prior years. For instance, the financial analyst may notice that a ratio is lower (or higher) than before. Considered alone, the ratio may not give useful indication but when compared over several years, a rising (or declining) trend may be detected and the financial analyst may conclude that the firm is becoming healthier or weaker as the case may be.

Trend analysis (*Horizontal analysis*) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time (Rosenberg, 2009). It is a useful tool to evaluate the trend situation. The statements for two or more periods are used in trend analysis. The earliest period is usually used as the base period and the items on the statements for all later periods are compared with items on the statement of the base period. The changes are generally shown both in dollars or percentage.

4.9 Trend Analysis of Revenues, Costs and Profitability

Table 4.36: Trend Analysis of Revenues, Costs and Profitability of Air Namibia (Pty) Ltd

Air Namibia (Pty) Ltd	Mar-07 000	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11
Revenue	854 122	100	120.43	151.97	136.45	142.69
Expenditure	(1 097 162)	100	112.80	167.26	132.38	147.05
Operating Loss	(243 040)	100	86.00	220.98	118.07	162.39
Other Income	9 605	100	567.21	605.98	432.85	122.87
Operating loss before financing costs and financial assistance	(233 435)	100	66.20	205.13	105.49	173.70
Government financial assistance	153 050	100	350.71	98.01	104.54	78.41
Net financing	(24 438)	100	21.15	-21.27	24.42	924.61
Profit (Loss) before taxation	(104 823)	100	-359.71	-308.77	-90.93	-386.81
Taxation	-	-	-	-	-	-
Loss for the year	(104 823)	100	-359.71	-308.77	-90.93	-386.81

Source: Calculations based on data collected from Air Namibia (Pty) Ltd website during June 2013.

The trend analysis indicated that Air Namibia (Pty) Ltd revenue had been increasing relative to 2007 base year. It increased 42.69% over five years. But the operating expenditure had been increasing more than the increase in revenue. This resulted in increased operating loss of 62.39% over 5 years. The operating loss had been increasing every year. Other incomes also increased the highest being in 2009 about 605% compared to 2007 base year. Since the airline operating expenditure exceeded the

revenue generated, there was a need for the government to inject cash into the airline to help with payments for operating activities. The government injected more cash every year. The airline managed to reduce its net financing costs with government assistance. The loss before government assistance had been increasing. After government assistance it increased in some years and reduced in other years. The airline solely depended on the government assistance to carry on its operations.

4.10 Forecasting Air Namibia (Pty) Ltd Financial Performance by 2015 and 2020

The researcher forecasted Air Namibia (Pty) Ltd performance for 31 March 2015 and 2020 financial year. This indicates the position if the present trend continues.

Table 4.37: Forecasting of Air Namibia (Pty) Ltd Performance by 31 March 2015 and 2020

Air Namibia (Pty) Ltd	Mar-07 000	Mar-11	Average Mar 2015	Average Mar 20	Mar-15	Mar-20
Revenue	854 122	142.69	137.88	157.88	1 177 701	1 348 525
Expenditure	(1 097 162)	147.05	139.87	159.87	(1 534 626)	(1 754 059)
Operating Loss	(243 040)	162.39	146.86	166.86	(356 925)	(405 533)
Other Income	9 605	122.87	432.23	452.23	41 516	43 437
Operating loss before financing costs and financial assistance	(233 435)	173.70	137.63	157.63	(321 275)	(367 962)
Government financial assistance	153 050	78.41	157.92	177.92	241 690	272 300
Net financing	(24 438)	924.61	247.86	267.86	(60 572)	(65 459)
Profit (Loss) before taxation	(104 823)	386.81	286.55	306.55	(300 375)	(321 339)
Taxation	-	-	-	-	-	-
Loss for the year	(104 823)	386.81	286.55	307	(300 375)	(321 339)

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

The researcher used average figures for 2008 to 2011, to determine the performance for 31 March 2015 and used figures for 2008 to 2015, to determine the performance for 31 March 2020 by applying the average to March 2007 figures. On the assumption that the trend continues as at present Air Namibia (Pty) Ltd performance was forecasted. Air Namibia (Pty) Ltd revenue is expected to be over N$ 1 Billion for 31 March 2015 and 31 March 2020, while the expenditure is also expected to be over N$ 1 Billion. As per

the projection for March 2015 and March 2020 direct operating expenditure will continue to exceed the revenue generated by the airline and the airline will continue to realise operating losses from operations. The airline other incomes was not sufficient enough to offset the losses realised from operations. The airline till by March 2015 and 2020 will continue to depend upon government bailout in order for the airline to continue operating. The airline will continue to incur losses until 31 March 2020 unless it manages to acquire aircraft that will change the status quo, enhance the passenger travel, and reduce the operating costs to boost the airline operating profits. Until the airline depends on leased aircrafts for operations and the marketing strategy continues to attract fewer passengers, the situation will remain the same.

The airline industry is highly competitive and is exposed to many risks; among them fuel price volatility, rigorous regulated environment and safety compliance are main. Passengers travel preferences and buying decisions have evolved over time to such an extent that today's travellers have become better informed and sophisticated. These factors have made airline to make crucial decisions to improve financial performance, operational efficiency and compliance with safety and regulatory requirements. However, the factors affecting Air Namibia (Pty) Ltd negatively have remained beyond its control. The airline has to reduce the impact of all these factors. Otherwise, with these impacting factors, Air Namibia (Pty) Ltd will continue to make losses from operations and will continue to receive the government bailout until March 2020 and beyond.

4.11 Root Cause Analysis of Profitability

Root cause analysis is a class of problem solving method aimed at identifying the root causes of problems or events. The root cause analysis is a structured process that uncovers the physical, human and latent causes of any undesirable event or problems (Tronskar, 2010).

The analysis shows that Air Namibia (Pty) Ltd root causes of negative profitability are the followings:

1. Lack of Demand: The airline does not have full demand for the air tickets and cargo to utilise the aircraft to full capacity. Lack of filling the aircraft to capacity resulted in realising less sales revenue.
2. Operating Costs: The airline had high direct operating costs, which exceeded the sales revenue realised from airline operations. The high direct costs resulted in the airline realising operating loss from operations and failing to breakeven. Some of the costs that relate to passengers safety are statutory that the airline cannot avoid or minimize, but the scope for cost reduction in other areas needs to be explored and implemented.
3. Leased Aircraft: The airline does not own aircraft for the operations and generating sales revenue. It leases the aircraft, which bear high lease rent and interest payments and minimizes the airline profit.
4. Management Skill: The existing management lack ability to manage airline operations successfully. This leads to airline outsourcing management to

professional consultants, which are costly for the airline. The burden of staff costs is high due to skill deficit.

5. Security Deposit: The airline has made high security deposits against the aircraft leased. This resulted in high interest costs.
6. Competition: The airline has to face competition on all international routes. It has monopoly on domestic flights but they are not profitable as the ticket prices are kept low to promote air travel.

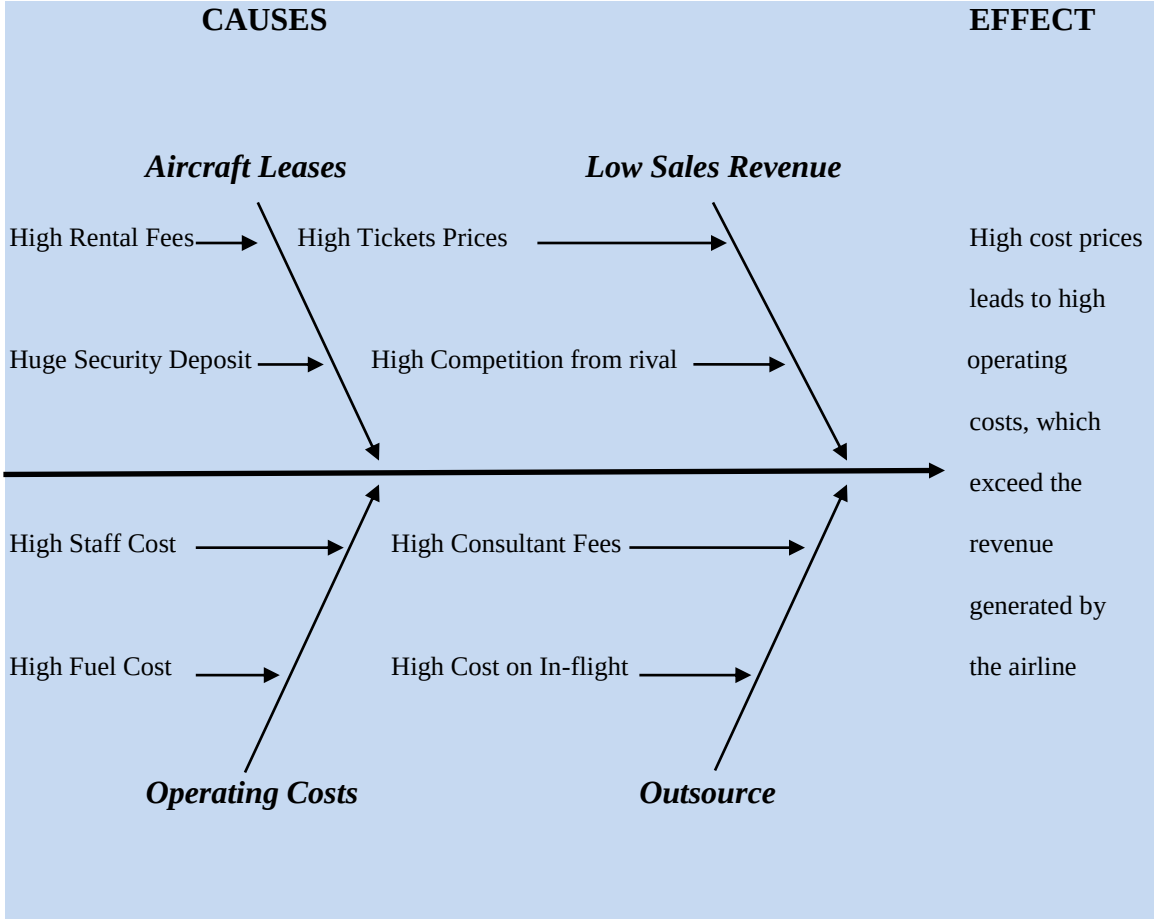

Figure 7. Root Cause Analysis of Profitability of Air Namibia (Pty) Ltd

Source: Data collected from Air Namibia (Pty) Ltd website during June 2013.

4.12 Overall Discussion and Findings on Profitability

Air Namibia (Pty) Ltd had recorded losses in all the years under study. The airline had to depend upon government bailout in order for it to sustain the operations. The researcher noted that the airline expenditure was high in relation to revenue generated from operations and the airline could not pay its creditors and employees on time. The government had to provide the needed funds to cover the deficit. In case of other airlines the situation was better. They could raise enough revenue from airline operations to meet the operating expenditure and show operating profit.

4.13 Cash Flows Analysis

Cash flow analysis is an examination of a company's cash inflows and outflows during a specific period. A firm's cash flow is the movement of cash in and out of the firm in the form of payments to suppliers and collections from customers. Cash flows typically arise from three sources: operations, investing, and financing (Peavler, 2012). The analysis begins with the cash balance and ends with the cash balance after accounting for all cash receipts and cash payments during the period. The cash flow analysis is an essential component of annual financial report of a company. Cash flow forecasts are used for cash planning and to determine the future cash flow deficit or surplus.

The cash flows shown in a cash flow statement are classified into three parts – cash flows from operations, cash flows from financing and cash flows from investing activities (Peavler, 2012). Cash flows from financing activities show the cash inflows

and outflows related to transactions with the providers of finance i.e. the owners, financiers and creditors of the company. Thus, cash flows from financing activities include the following basic components:

a) Proceeds from borrowings (both short-term and long-term)
b) Cash received from owners usually on issuance of stock
c) Repayments of borrowings
d) Repayments to owners

Operating cash flows or cash from operations is a measure of cash generated by a company's normal business operations. Operating cash flow is important because it indicates whether a company is able to generate sufficient positive cash flow to maintain and grow its operations, or whether it may require external financing. Operating cash flow is calculated by adjusting net income for items such as depreciation, changes to accounts receivable and changes in inventory (Peavler, 2012).

Cash flows from investing activities shows the details of cash flows related to acquisition and disposal of a company's long-term investments, such as property, plant and equipment, investment in subsidiaries and associates. Cash flows from investing activities inform the users of the financial statements whether the company is investing in resources that are expected to result in increased profits in future or whether it is disposing out resources already owned. The following are cash flows that are typically reported as cash flows from investing activities:

a) Cash payments to acquire or construct long-term fixed assets such as plant and machinery, vehicles and equipment.
b) Cash receipts from sale of property, plant and equipment and intangible assets such as buildings, and copyrights.
c) Cash payments to purchase bonds or shares of other companies (subsidiaries, associates and joint ventures).
d) Cash receipts from sale of bonds and shares of other companies.
e) Cash payments in the form of loans and advances and receipts related to payback of such loans and receivables.

The cash flow statements of Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways for five years from April 2006 to March 2011 are given in annexure 2.

To identify the factors driving cash flows in airline industry and determine the cash flow problems faced by Air Namibia (Pty) Ltd analysis of cash flow statements of the airlines for five year period from April 2006 to March 2011 was done. The cash flows were also compared with cash flows of other airlines.

Table: 4.38: Cash Flows Analysis of Air Namibia (Pty) Ltd (N$ 000)

Year	**Mar 07**	**Mar 08**	**Mar 09**	**Mar 10**	**Mar 11**
Net increase in cash and cash equivalents	**(91 996)**	**432 084**	**(75 470)**	**(51 578)**	**(302 845)**
Cash and cash equivalents at beginning of year	**(167 440)**	**(259 436)**	**172 648**	**97 178**	**45 600**
Cash and cash equivalents at end of year	**(259 436)**	**172 648**	**97 178**	**45 600**	**(257 245)**
Net cash in (out) flow from operating activities	(243 870)	(94 456)	(230 294)	(256 478)	(393 385)
Cash flow from investing activities	(1 176)	(10 220)	4 824	9 972	(28 794)
Cash flows from financing activities	153 050	536 760	150 000	194 928	119 334
Total	**(91 996)**	**432 084**	**(75 470)**	**(51 578)**	**(302 845)**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd website during June 2013.

Researcher observed that Air Namibia (Pty) Ltd struggled with the cash flows as it had more net cash outflows on the operating activities and investing activities, and was receiving net cash inflows from financing activities. The net cash outflows on the operating activities were the result of payments to suppliers and employees being more than what the airline could generate from operating activities. The airline also had more net cash outflow on the investing activities in 2007 and 2008; caused by the airline settling the accounts payable by paying cash and paying cash for replacement of equipments. For 2009, 2010 and 2011 the airline had net cash inflow from investing activities from the proceeds of disposal of assets and reduction of long term deposits.

The airline had net cash inflow from financing activities from government bailout since it was struggling with the availability of cash to settle debts. Overall the cash and cash equivalents resulted in negative bank balance in 2007 and 2011 while for the rest of the years the airline had positive cash and cash equivalents.

Table 4.39: Cash Flows Analysis of Kenya Airways (KES 000)

Year	**Mar 07**	**Mar 08**	**Mar 09**	**Mar 10**	**Mar 11**
Net (decrease) increase in cash and cash equivalents	**(1 367)**	**(7 094)**	**(4 792)**	**(1 327)**	**1 938**
Cash and cash equivalents at beginning of year	**11 144**	**9 777**	**2 683**	**(2 109)**	**(3 436)**
Cash and cash equivalents at end of year	**9 777**	**2 683**	**(2 109)**	**(3 436)**	**(1 498)**
Net cash generated from operating activities	7 349	6 650	4 683	7 592	9 214
Net cash used in investing activities	(9 082)	(2 314)	(5 057)	(4 850)	(3 797)
Net cash generated from financing activities	366	(11 430)	(4 418)	(4 069)	(3 479)
Total	**(1 367)**	**(7 094)**	**(4 792)**	**(1 327)**	**1 938**

Source: Calculations based on data collected from Kenya Airways website during June 2013.

Kenya airways had cash inflows from 2007 through to 2011 from operating activities, the airline generating more cash from its operations than it paid to the suppliers and employees. The airline used the money generated from operations to settle debts as it fell due. The airline had cash outflows due to purchase of property plant and equipment and providing security deposit for the aircraft. Acquired assets were used in the operations to generate more cash inflows from operations. The airline had cash inflows in 2007 from long term borrowings, in 2008 to 2011 the airline had cash outflow as a result of

repaying the long term debts, investing in short term deposits, investments held to maturity and paying dividends to shareholders. The airline thus had been busy settling debts and investing for future use.

Table 4.40: Cash Flows Analysis of British Airways (£ 000)

Year	**Mar 07**	**Mar 08**	**Mar 09**	**Mar 10**	**Mar 11**
Net (decrease) increase in cash and cash equivalents	**315**	**(30)**	**(281)**	**384**	**(216)**
Cash and cash equivalents at beginning of year	**398**	**713**	**683**	**402**	**786**
Cash and cash equivalents at end of year	**713**	**683**	**402**	**786**	**570**
Cash generated from operations	756	303	133	331	836
Net cash flow from investing activities	36	(42)	(257)	(337)	(826)
Net cash flow from financing activities	(477)	(291)	(157)	390	(226)
Total	**315**	**(30)**	**(281)**	**384**	**(216)**

Source: Calculations based on data collected from British Airways website during June 2013.

British Airways had cash inflows generated from operations in all the years, as a result of profits realised and write back of non cash items such as depreciation. The net cash inflow from investing activities occurred only in 2007 and in rest of the financial years there were cash outflows due to acquisition of property, plant and equipment, intangible assets and purchase of a subsidiary. The airline recorded also net cash outflows from

financing activities in all the years except for in 2010, as a result of repayment of long term borrowings, payment for finance lease and payment of dividends to shareholders. The airline also made payments of long term borrowings.

Table 4.41: Cash Flow Analysis of Fly Emirates (AED 000)

Year	**Mar 07**	**Mar 08**	**Mar 09**	**Mar 10**	**Mar 11**
Net (decrease) increase in cash and cash equivalents	**818**	**(5 356)**	**1 833**	**4 775**	**865**
Cash and cash equivalents at beginning of year	**7 252**	**8 070**	**2 714**	**4 547**	**9 322**
Cash and cash equivalents at end of year	**8 070**	**2 714**	**4 547**	**9 322**	**10 187**

Net cash used in operating activities	5 765	7 335	5 016	8 328	11 004
Net cash used in investing activities	(4 749)	(8 869)	1 897	(577)	(5 092)
Net cash used in financing activities	(198)	(3 822)	(5 080)	(2 976)	(5 047)
Total	**818**	**(5 356)**	**1 833**	**4 775**	**865**

Source: Calculations based on data collected from Air Namibia (Pty) Ltd Fly Emirates website during June 2013.

Fly Emirates had net cash inflow from operations for all the years as a result of profit margin, depreciation write back, and finance cost write back and increase in accounts payable. The airline recorded net cash outflow on investing activities, in all years except for in 2009 when it recorded net cash inflow as a result of the acquisition of intangible assets, acquisition of property, plant and equipment and investment in associates. Fly emirates also had net cash outflow from financing activities as a results of aircraft

financing costs, other finance charges, net lease liability, and dividend payment to minority shareholders. Thus, the net movement in cash and cash equivalent was negative only in 2008 and for the rest of the year's cash and cash equivalents were positive.

Table 4.42: Cash Flow Analysis of US Airways (US$)

Years	**Mar 07**	**Mar 08**	**Mar 09**	**Mar 10**	**Mar 11**
Net (decrease) increase in cash and cash equivalents	**16**	**(914)**	**479**	**579**	**(516)**
	-	-	-	-	-
Cash and cash equivalents at beginning of year	**22**	**38**	**(876)**	**(397)**	**182**
	-	-	-	-	-
Cash and cash equivalents at end of year	**38**	**(876)**	**(397)**	**182**	**(334)**
Net cash used in operating activities	28	(980)	476	823	173
Net cash used in investing activities	(14)	(915)	(495)	63	(350)
Net cash used in financing activities	2	981	498	(307)	(339)
Total	**16**	**(914)**	**479**	**579**	**(516)**

Source: Calculations based on data collected from US Airways website during June 2013.

US Airways recorded net cash inflow from operations in all years except for in 2008 when it recorded net cash outflow from operations. The airline had net cash outflow from investing activities due to capital expenditure on acquisitions, which were paid in cash. The airline had net cash outflow in 2010 and 2011 from financing activities due to payments for borrowings and other financing charges.

Thus, while all other airlines managed their cash flows and generated net surplus cash and the surplus funds were used for asset acquisitions, repayment of debt, payment of dividend etc. However, Air Namibia (Pty) Ltd faced cash flow deficit and had to seek cash flow bailout from the government.

4.13.1 Liquidity Analysis

Liquidity ratios are a set of ratios or figures that measure a company's ability to pay off its short-term debt obligations (Peavler, 2012). Liquidity analysis is done by measuring a company's liquid assets including those that might easily be converted into cash against its short-term liabilities. There are a number of different liquidity ratios, which measure different features of liquidity. More conservative measures exclude assets that need to be converted into cash. In general, the greater the coverage of liquid assets to short-term liabilities, the more likely a business will be able to pay debts as they become due while still funding ongoing operations. On the other hand, a company with a low liquidity position might have difficulties in meeting obligations while funding vital ongoing business operations. Current ratio, acid test ratio and cash to non-cash assets ratio have been used for liquidity analysis here.

4.13.2 Current Ratio

Current ratio matches current assets with current liabilities and indicated whether the current assets are enough to settle current liabilities. Current ratio below 1.00 shows critical liquidity problems as total current liabilities exceed total current assets

(inventory, cash and marketable securities). A general rule is that, the higher the current ratio the better the liquidity, but there is a limit to this. Abnormally high value of current ratio may indicate existence of idle or underutilized resources in the airline. The year to year and average current ratios are shown here for comparison of liquidity of airlines. The current ratio is determined as:

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 4.43: Current Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.27	0.85	0.43	0.43	0.26	0.45
Kenya Airways	1.39	1.38	0.91	0.85	0.97	1.10
British Airways	0.95	0.97	0.57	0.71	0.75	0.79
Fly Emirates	1.46	1.22	1.10	1.01	1.07	1.17
US Airways	0.43	0.79	0.84	1.02	0.91	0.80

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd with 0.45, British Airways with 0.79 and US Airways with 0.80 average current ratios were the airlines that experienced liquidity problems. Other two airlines Kenya Airways with 1.10 and Fly Emirates with 1.17 had better liquidity situation. Air Namibia (Pty) Ltd with only N$ 0.45 for every N$ 1.00 owed to supplier faced critical liquidity crisis and was unable to settle its debts as they fell due and needed government funds to continue operating. British Airways and US Airways also

faced difficulties in maintaining liquidity, with GBP 0.79 for every GBP 1.00 owed to suppliers and US Airways with USD 0.80 for every USD 1.00 owed to suppliers.

4.13.3 Acid Test Ratio

Acid test ratio also known as quick ratio measures the liquidity of airline by matching its cash and near cash current assets with its total current liabilities. It helps to determine whether the airline would be able to pay off all its debts by using its liquid assets (i.e. cash, marketable securities and accounts receivable). A quick ratio of 1.00 means liquid assets of business are equal to its total short term debts and the airline will just manage to repay all its debts by using its cash, marketable securities and accounts receivable. A quick ratio of more than one indicates that the liquid assets of the airline exceed its total short term debts. On the opposite side, a quick ratio of less than one indicates that the airline would not be able to repay all its debts by using its most liquid assets. Thus generally, a higher quick ratio is preferable, of course not very high as it indicated inefficiency in proper use of liquidity. The acid test ratio is determined as:

$$= \frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$$

Table 4.44: Quick Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.26	0.84	0.42	0.42	0.25	0.44
Kenya Airways	1.33	1.31	0.84	0.78	0.90	1.03
British Airways	0.93	0.94	0.54	0.69	0.72	0.76
Fly Emirates	1.41	1.17	1.02	0.95	1.00	1.11
US Airways	0.40	0.73	0.75	0.94	0.82	0.73

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd with 0.44, British Airways with 0.76 and US Airways with 0.73, average quick ratio, which was less than 1.00 indicated that the airlines would not be able to repay all their short term debts by using their liquid assets. Kenya Airways with 1.03 and Fly Emirates with 1.11 of course were in a position to settle their current liabilities by using liquid assets. For Air Namibia (Pty) Ltd it could be possible with government bailing out or by government providing guarantee for borrowing from financial institutions. Still it is a difficult situation for an entity's management as postponement of payments for short term liabilities is not possible always, and it creates credibility problems.

4.13.4 Cash to Non Cash Current Assets Ratio

The cash to non cash current assets ratio indicates the proportion of cash and cash equivalent in relation to non cash current assets. Ratio at more than 1.00 indicates that the current assets have a large proportion of cash and cash equivalent, while, below 1.00

means having less cash on its current assets. The cash to non cash current ratio is determined as:

$$= \frac{\text{Cash (Cash and Bank)}}{\text{Current Assets} - \text{Cash (Cash and Bank)}}$$

Table 4.45: Cash to Non-Cash Current Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	-1.97	0.79	0.67	0.27	-1.34	-0.32
Kenya Airways	0.93	0.07	0.61	0.52	0.44	0.51
British Airways	2.19	1.45	1.43	1.79	1.94	1.76
Fly Emirates	1.45	0.17	0.41	1.00	0.87	0.78
US Airways	0.64	0.75	1.26	1.77	1.40	1.16

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd with -0.32, Kenya Airways with 0.51 and Fly Emirates with 0.78 were the airlines with average cash to non-cash current ratios below 1.00. This means these airlines had cash flows problems. British Airways and US Airways with average cash to non-cash current ratio of more than 1.00 faced no such problems. Air Namibia (Pty) Ltd had negative cash to non cash current ratio due to overdrafts.

4.14 Analysis of Capital Structure

A capital structure is a combination of a company's long-term debt, specific short-term debt, common equity and preferred equity. The capital structure shows how the firm

finances its overall operations and growth by using different sources of funds. The debt may come in the form of bond issues or long-term notes payable, while equity may be in common stock, preferred stock or retained earnings. Short-term debt if held as permanent working capital may be also considered part of capital structure. The capital structure is also referred as debt-to-equity ratio, which provides insight into how risky a company is. Usually a company more heavily financed by debt poses greater risk, as the firm is relatively highly levered. Firms use debt or equity or both to finance their assets. The best choice is a mix of debt and equity. To understand how the capital structure and its constituents contributed to financial soundness, profitability, cash flows and liquidity comparative analysis of capital structures and its constituents for Air Namibia (Pty) Ltd and other airlines was undertaken.

4.14.1 Debt-to-Equity Ratio

The debt to equity ratio reveals the proportion of assets purchased with investors' money, and acquired with creditors' money. Equity acts as a buffer to creditors in the event of liquidation. The higher the leverage (more debt), the greater the risk that rigid interest and debt payments cannot be made by fluctuating profit returns. The debt to equity ratio is determined as:

$$= \frac{\text{Total debts}}{\text{Total equity}}$$

Table 4.46: Debt to Equity Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	-1.45	-5.72	-1.77	-1.73	-1.42	-2.42
Kenya Airways	2.57	2.20	3.42	2.67	2.41	2.65
British Airways	4.06	2.60	5.25	4.48	3.33	3.94
Fly Emirates	0.81	1.78	1.88	2.20	2.14	1.76
US Airways	15.47	-15.29	-22.00	20.65	37.48	7.26

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd's equity was negative, due to accumulated losses. More over its debt to equity ratio was negative at more than one, which indicated that the airline's total debts exceeded total equity. For all other airlines the average debt to equity ratio was more than one, which indicated that the airlines were financed from debts more than equity. US Airways had the highest average ratio at 7.26. British Airways, Kenya Airways and Fly Emirates had average ratios of 3.94, 2.65 and 1.76 respectively. Thus, all airlines had higher debt in relation to equity and were required to pay interest on borrowings creating higher risk, especially due to higher interest rates. However, since debt is lower cost source of funds it created financial leverage and higher rate of return on investment for shareholders.

4.14.2 Owners Funds to Total Debt Ratio

The owners' funds to total debt ratio indicates the ratio of owners' funds over total debts, that is whether the funds provided by shareholders are more or less than funds

borrowed from outside. An airline with lower owners' funds to total debt ratio is subject to higher interest risk, due to lower equity from shareholders. The owners' funds to total debt ratio is determined as:

$$= \frac{\text{Owners' funds}}{\text{Total debts}}$$

Table 4.47: Owners Funds to Total Debt Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	-0.69	-0.17	-0.57	-0.58	-0.71	-0.54
Kenya Airways	0.39	0.45	0.29	0.37	0.42	0.39
British Airways	0.25	0.38	0.19	0.22	0.30	0.27
Fly Emirates	0.50	0.56	0.53	0.45	0.47	0.50
US Airways	0.10	-0.07	-0.05	0.01	0.03	0.00

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

All airlines had owners' funds to total debt ratios of less than 1.00 meaning the airlines depended on more borrowed funds for their operations. Air Namibia (Pty) Ltd depended on borrowing like the rest of the airlines while it was also getting financial assistance from the government. US Airways had the lowest average ratio of 0.00 followed by British Airways with 0.27, Kenya Airways with 0.39 and Fly Emirates with 0.50. Air Namibia (Pty) Ltd with -0.54 had negative average ratio, as the owners' funds were negative due to accumulated losses.

4.14.3 Owners Funds to Total Assets

The owners' funds to total assets ratio indicates the extent of use of owners' funds for creating assets. In all enterprises generally the initial capital for assets is contributed by owners. At a later stage the assets built from owners' funds may form the basis of debt. Proportion of owners' funds to total assets shows the strength and stability of the enterprise. Owners' funds to total assets indicate the relationship of funds provided by the shareholders to total assets employed by the airlines to generate income. If the ratio is less 1.00 it means the airline has used fewer owners' funds for assets. The owners' fund to total assets is determined as:

$$= \frac{\text{Owners' funds}}{\text{Total assets}}$$

Table 4.48: Owners' Funds to Total Assets of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	-2.21	-0.21	-1.30	-1.36	-2.40	-1.50
Kenya Airways	0.28	0.32	0.23	0.27	0.29	0.28
British Airways	0.19	0.27	0.16	0.18	0.23	0.21
Fly Emirates	0.14	0.36	0.35	0.31	0.32	0.29
US Airways	0.06	-0.07	-0.05	0.01	0.03	-0.00

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

US Airways had average owners' funds to total assets ratio of 0.00, meaning, owners' funds were insignificant relative to total assets. Fly Emirates had the highest owners'

funds relative to its total assets with average ratio of 0.29, followed by Kenya Airways with average ratio of 0.28. Air Namibia (Pty) Ltd had average ratio of -1.50, due to negative owners' funds. This indicated that it possessed assets that have heavy charge of borrowings.

4.14.4 Total Debts to Total Assets Ratio

Total debt to total assets ratio shows the proportion of debt in total assets. The average ratio of more than 1.00 means the airline had more debt than total assets, while, the average ratio of less than 1.00 mean the airline had more total assets than total debts. The total debt to total assets ratio is determined as:

$$= \frac{\text{Total debt}}{\text{Total Assets}}$$

Table 4.49: Total Debt to Total Assets Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	3.21	1.21	2.30	2.36	3.40	2.50
Kenya Airways	0.72	0.69	0.77	0.73	0.71	0.72
British Airways	0.79	0.71	0.82	0.80	0.76	0.78
Fly Emirates	0.28	0.64	0.65	0.69	0.68	0.59
US Airways	0.88	1.07	1.05	0.99	0.97	0.99

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd's average ratio of 2.50 indicated that it had 2.5 times more total debt than total assets. If the airline was to be liquidated, Air Namibia (Pty) Ltd would not have sufficient assets to sell off to settle the debts. The rest of the airlines with average ratio below 1.00 had more total assets than total debts. US Airways had the highest ratio of 0.99, which showed that the airline's debt were almost equal to total assets.

4.14.5 Long Term Debt to Short Term Debt

Generally, long term debt is obtained to create long term assets and short term debt is obtained for working capital. However, sometimes a part of the working capital (permanent working capital) is also provided from long term funds to minimize the total cost of funds, as the cost of long term debt is lower. The proportion between the long term debt and short term debt depends upon the nature of industry; some require more long term debt while others require more short term debt. Airline industry requires long term heavy investment in aircraft. The ratio of more than 1.00 means the airline had more long term debt compared to short term debt. An airline with the ratio at less than 1.00 means the airline had more short term debt compared to long term debt. The ratio of long term debt to short term debts is determined as:

$$= \frac{\text{Long term debt}}{\text{Short term debt}}$$

Table 4.50: Long Term Debt to Short Term Debt Ratios of selected Airlines

	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Average
Air Namibia (Pty) Ltd	0.12	0.19	0.21	0.23	0.19	0.19
Kenya Airways	2.82	2.17	1.71	1.55	1.21	1.89
British Airways	1.48	1.43	1.09	1.29	1.33	1.32
Fly Emirates	1.34	0.92	1.19	1.06	1.16	1.13
US Airways	1.07	1.19	1.44	1.41	1.22	1.27

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

All airlines except for Air Namibia (Pty) Ltd had more long term debt than short term debt. The average ratio of Kenya Airways at 1.89, British Airways at 1.32, US Airways at 1.27 and Fly Emirate at 1.13, were all more than 1. Air Namibia (Pty) Ltd with average ratio of 0.19 was less than 1.00, as it had more short term debt than long term debt. Air Namibia (Pty) Ltd did not have aircrafts assets to require long term debt. It relied more on overdraft facilities to fund operations. The government provided security on short term borrowings.

4.14.6 External Benchmark Analysis of Liquidity and Capital Structure

External benchmark analysis is comparing of the performance of an organization against its peers, which provides a much better picture of how well the organization is doing (McKesson, 2010). External benchmark analysis of liquidity and capital structure of Air Namibia (Pty) Ltd and its peers was done to determine how well it performed in relation

to other airlines in relation to liquidity and capital structure. The average for the other four airlines was taken as standard for comparison of Air Namibia (Pty) Ltd.

Table 4.51: External Benchmark Analysis of Liquidity and Capital Structure of Air Namibia (Pty) Ltd

EXTERNAL BENCHMAKING	Kenya Airways	British Airways	Fly Emirates	US Airways	Standard/ Average	Air Namibia (Pty) Ltd
Current Ratio	1.10	0.79	1.17	0.80	0.97	0.45
Acid Test Ratio	1.03	0.76	1.11	0.73	0.91	0.44
Cash to Non Cash Current Assets	0.51	1.76	0.78	1.16	1.05	0.32
Debt to Equity Ratio	2.65	3.94	1.76	7.26	3.90	- 2.42
Owners Funds to Total Debts	0.39	0.27	0.50	-	0.29	- 0.54
Owners Funds to Total Assets	0.28	0.21	0.29	-	0.20	- 1.50
Long Term Debts to Short Term Debts	1.89	1.32	1.13	1.27	1.40	0.19
Total Debts to Total Assets	0.72	0.78	0.59	0.99	0.77	2.50

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

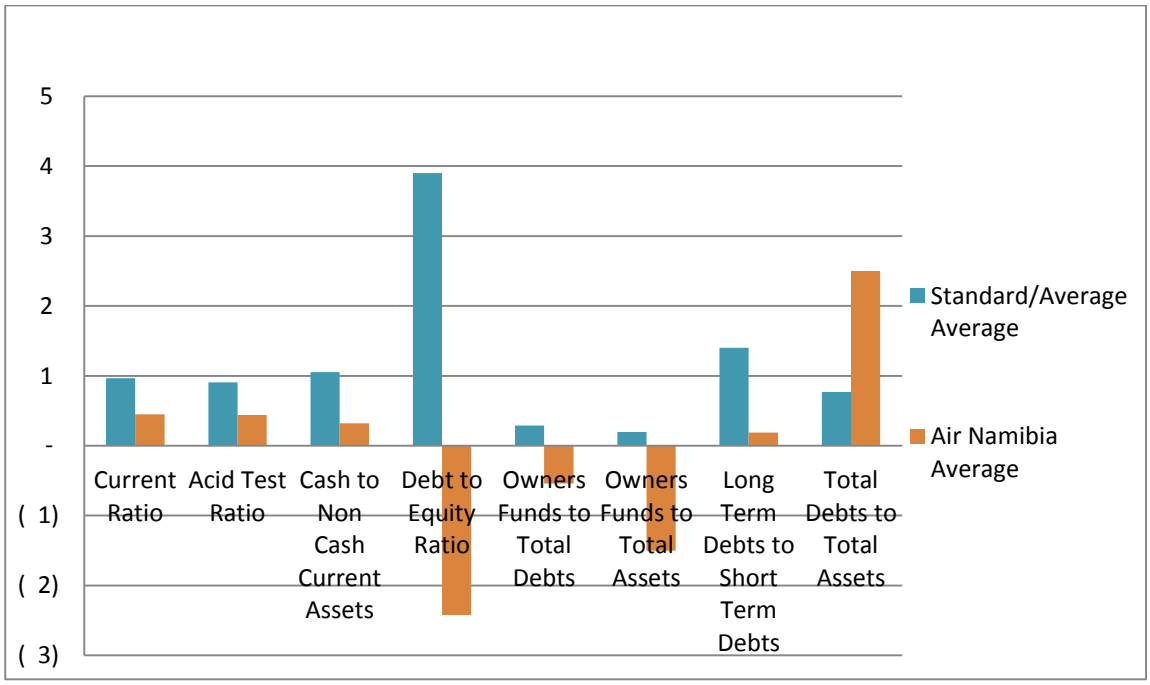

Figure 8. External Benchmark Analysis of Liquidity and Capital Structure of Air Namibia (Pty) Ltd.

Source: Calculations based on data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

Air Namibia (Pty) Ltd had lower liquidity compared to its peers as the current ratio, acid test ratio, and cash to non cash current assets were lower. This indicated that the airline was not in a position to pay for its debts as they may fall due from its current assets. Regarding the capital structure, Air Namibia (Pty) Ltd had negative owners' funds to total assets, owners' funds to total debt and debt to equity ratio. It had more debt to total asset creating doubt about its solvency and going concern position. However, it survives

and operates with the funds provided by the government to meet losses and take care of cash flow problems.

4.14.7 Root Cause Analysis of Cash Flows and Liquidity

The root cause analysis of cash flows of Air Namibia (Pty) Ltd highlighted the following:

1. The cash flows problems of the airline were caused by the slower inflow from receipts and faster outflows on payments.
2. The airline has to make periodic payments on aircraft leases, office rentals and employees' salaries, which caused mismatch between cash inflows and outflows.
3. The airline had more burden of suppliers' payments than the customers paying it. This caused mismatch between cash flows from operations.
4. The airline was granted overdraft facility on short term basis, which required the airline to settle the overdrafts in twelve months. This created a burden on the cash flows.
5. The airline could not borrow on long term or raise funds by issuing shares. It relied on inflows from ticket sales and government bailout, which did not match with the outflows creating cash flow deficit.
6. The management of accounts receivable and accounts payable of the airline was poor and it struggled in the making payments to the suppliers.

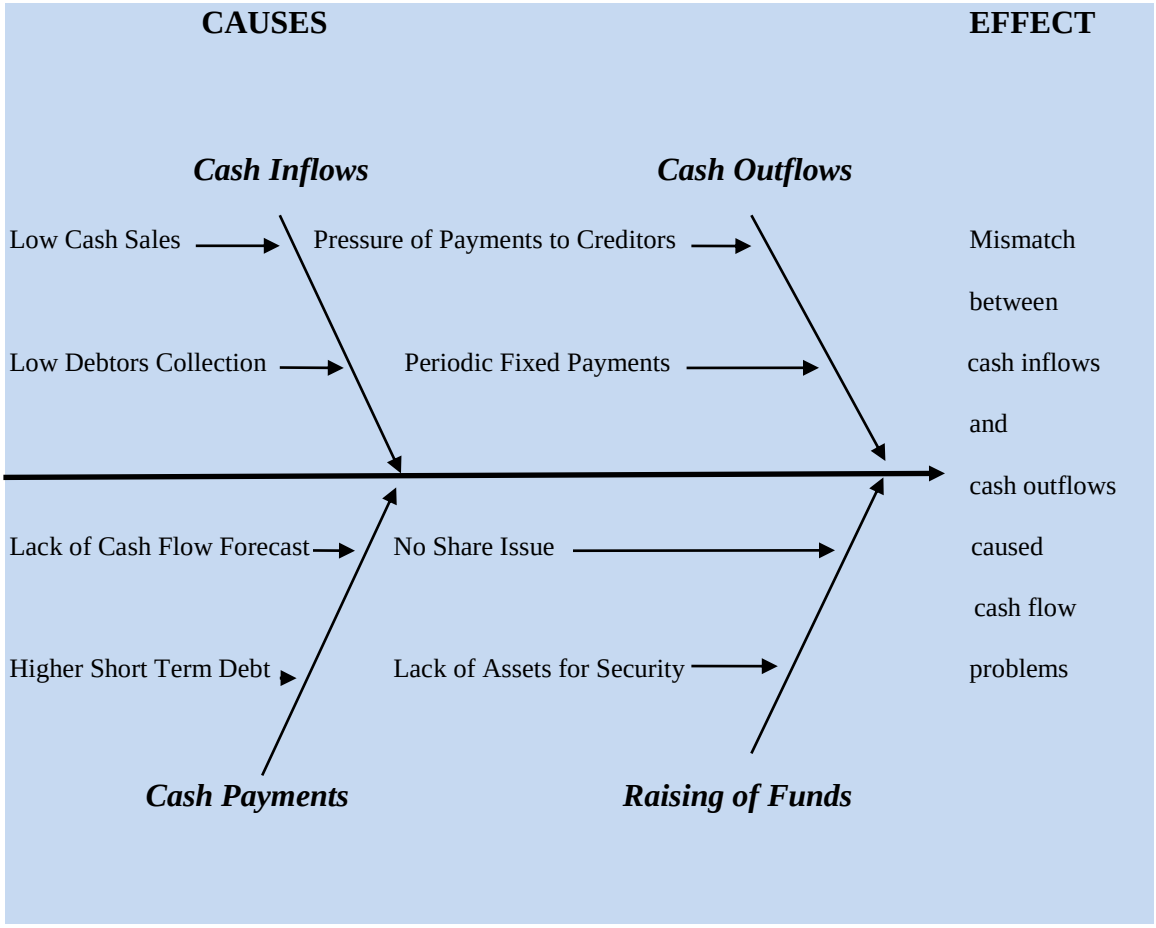

Figure 9. Root Cause Analysis of Cash Flows and Liquidity of Air Namibia (Pty) Ltd

Source: Data collected from Air Namibia (Pty) Ltd, Kenya Airways, British Airways, Fly Emirates and US Airways website during June 2013.

4.14.8 Overall Discussion and Findings on Cash flows

Air Namibia (Pty) Ltd struggled with the cash flows for the five years under study. The cash flow problems were mainly caused by the lack of sales revenue, as the airline struggled to generate revenue by fully booking its aircraft. The airline had a lot of fixed operating costs that it had to pay irrespective of whether or not the airline generated revenue. The fixed costs created cash outflows more than the airline generated cash

inflows. This caused deficit for the airline. For the airline to remain in business the government had to inject cash in Air Namibia (Pty) Ltd in order to reduce the mismatch between cash inflows and cash outflows. The main areas the airline was experiencing cash flows problems were cash flows from operating and cash flows from investing activities. These two areas caused cash flows problem. The cash flows from financing activities were not sufficient to offset the cash outflows created by cash flows from operations and investing activities.

4.15 Conclusion

The analysis of profitability and cash flows of Air Namibia (Pty) Ltd showed that the operation of the airline is not profitable due to both the lower revenue generation from air ticket bookings and high operating costs. The recurring history of loss from year to year created cash flow problems. However, the airline survived from government bailout and guarantees for borrowings.

CHAPTER 5

Findings, Recommendations and Conclusion

5.1 Introduction

This Chapter outlines the findings of the study, provides the recommendation to the management of Air Namibia (Pty) Ltd, and finally gives conclusion of the study.

5.2 Findings

a) Profitability

- Air Namibia (Pty) Ltd earnings before interest, tax, depreciation and amortization were negative for the five years consecutively as the operating expenditure exceeded the sales revenue from operations. The airline failed to generate sales revenue more than the operational expenditure and also failed to maintain the operating expenditure at the minimum. The other airlines however had positive earnings before interest, tax, depreciation and amortization.
- The earnings before interest and tax for Air Namibia (Pty) Ltd were negative throughout the study period as a results of expenditure exceeding the sales revenue, while other airlines had positive earnings before interest and tax.
- Air Namibia (Pty) Ltd earnings after tax was negative throughout the five years under study. The airline did not pay tax to the government since its earnings after tax were negative. Other airlines paid tax and yet their earnings were positive.

- Air Namibia (Pty) Ltd had high other income from fuel hedge, which the airline engaged in order reduce the impact of fuel price fluctuation.
- Air Namibia (Pty) Ltd made operating losses for the period starting from 1 April 2006 to 31 March 2011, while, other airlines made profits.
- Air Namibia (Pty) Ltd gross profit (loss) margin was negative throughout the five years under study. The negative gross profit margin indicated that the airline could not generate sales revenue in excess of the direct operating costs i.e. the airline did not breakeven for the period from April 2007 to March 2011, as the operating costs exceeded the sales revenue.
- Air Namibia (Pty) Ltd realized high other income on investments, as the airline invested in securities that yielded returns. Some of these airline investments were used as security deposits for the aircraft the airline was leasing. Other airlines had no such income from security deposits.
- Air Namibia (Pty) Ltd earnings before interest were negative for the whole period of study resulting from earnings per passenger travelled being negative. This indicated that the airline did not have enough passengers to cover the cost of flying the aircrafts. The airline could not attract enough passengers that would have enabled it to breakeven and show positive earnings before interest and tax.
- Air Namibia (Pty) Ltd incurred loss of more than N$ 4 000 on every kilometer the aircraft travelled, and had to depend on bailout from government in order to pay for the costs incurred.

- Air Namibia (Pty) Ltd had negative earnings per passenger per kilometer travelled throughout the period of under study.
- Air Namibia (Pty) Ltd operations and administration costs were more than net sales revenue generated by the airline, as the costs of transporting passengers and cargo exceeded the revenue received. The airline needed to get funds from the government in order to pay the costs to keep it operating. The rest of the airlines had recorded operations cost and administrative cost combined less than the revenue generated during the specific financial years.
- Air Namibia (Pty) Ltd's tax to earnings ratio was zero, as the airline did not make positive earnings to pay tax to the government.

b) Efficiency

- Air Namibia (Pty) Ltd's returns on assets were negative due to operating losses for the period starting 01 April 2006 to 31 March 2011, while other airlines had positive returns on assets.
- Air Namibia (Pty) Ltd had a high total assets turnover ratio as its operating assets were small compared to other airlines. Aircrafts used in the operations of Air Namibia (Pty) Ltd were on lease. The other airlines had their own assets and that was the reason for total assets turnover being lower than Air Namibia (Pty) Ltd.
- Air Namibia (Pty) Ltd fleet costs to total assets was zero since the airline did not have any fleet on its books and all the fleet used in the operations were leased.

All other airlines had fleets they used in the operations and their fleet costs were made up of more than 50 per cent the airlines total assets.

- The DuPont model indicated that asset turnover was efficient and was the one that was driving Air Namibia (Pty) Ltd profit margin for five years under study, while the operating efficiency and leverage had negative impact on the returns for the same periods. For other airlines' the operating efficiency, assets turnover and leverage had positive contribution towards the returns on owners' equity for five years under study.
- The trend analysis of income statement of Air Namibia (Pty) Ltd indicated that the airline's sales revenue was increasing. But as the operational expenditure was increasing at a higher rate, it wiped out the gains of increased sales revenue.
- The internal benchmark analysis of operations indicated that Air Namibia (Pty) Ltd could not perform as per its own internal benchmarks. The airline on average for five years planned to realise a sale of N$ 1.2 billion but only managed average of N$ 1.1 billion, performing below its benchmark. The airline planned on the sales revenue of N$ 1.2 billion to incur operational expenditure of N$ 1.18 billion, but exceeded it by N$ 0.26 billion. This indicated poor performance on sales revenue and expenditure control.
- External benchmark analysis of profitability indicated that Air Namibia (Pty) Ltd performed better than its peers only on comprehensive income to investment and operating profit. Other comprehensive income to earnings ratio, net profit margin, earnings per passenger travelled and earnings per kilometer travelled

were below the benchmark and negative. This indicated poor earnings performance of Air Namibia (Pty) Ltd compared to its peers.

- External benchmark analysis of efficiency indicated that the returns on total assets were negative and below the standard for Air Namibia (Pty) Ltd. The airline inventory turnover exceeded the standard clocking at 229 times compared to the standard 53 times. Total assets turnover was more than the standard, while receivable turnover and payable turnover were less than the standard.

c) Liquidity and Cash Flows

- Air Namibia (Pty) Ltd had more short term debts and less long term debts. The short term debts were mainly from overdraft facilities with local banks and short term borrowings from local financial institutions.
- Air Namibia (Pty) Ltd total debts exceeded total assets, while for rest of the airlines total assets exceeded their total debts.
- The Air Namibia (Pty) Ltd non-current liabilities increased and in 2011 it was double the liabilities for 2007.
- Air Namibia (Pty) Ltd had low payables turnover ratio in comparison to other airlines. This indicated that Air Namibia (Pty) Ltd's accounts payable management was effective.
- Air Namibia (Pty) Ltd had higher inventory turnover ratio compared to other airlines, which indicated its ability to turn the inventory into sales and better performance of the airline.

- Air Namibia (Pty) Ltd had low receivables turnover ratio as compared to the rest of the airlines, which indicated lower efficiency in receivables management.
- The common size analysis of Air Namibia (Pty) Ltd indicated that the non-current assets were a small proportion of the airlines total assets and a major part of the airline assets were current assets. The airline's accumulated loss was more than equity.

d) Capital Structure

- Air Namibia (Pty) Ltd is wholly owned by the Government of the Republic of Namibia. The airline did not issue shares to public, but issued only ordinary shares with the value of N$ 100 to the government, its shareholder. The airline does not own assets that it can pledge as security for long term debt, but relied only on government bailout and short term borrowing with the security provided by the government.
- The government bailout helped the airline to survive to stay afloat and operating; otherwise Air Namibia (Pty) Ltd would have shut down long back. However, government bailout may be acceptable in short run. In the long run, the airline is expected to operate independently and as a viable and profit making entity.

5.3 Recommendations

The researcher recommends the following measures for Air Namibia (Pty) Ltd management in order to facilitate the process of turning the airline into a profitable airline.

a) Operations

- The airline management should look at the ticket pricing strategies, as the Air Namibia (Pty) Ltd tickets are considered more expensive even by local people, Namibians prefer to travel using other airlines such as British Airways and South African Airways. The ticket pricing should be made competitive. Specials discounts may be offered on bulk buy of tickets for the same destination.
- The airline should acquire its own aircrafts which they can operate, because currently the airline is leasing all the aircraft. The operating lease payments are a burden for the airline. Besides the security deposits required as the guarantees for those aircraft are also affecting the airline's cash flows.
- The airline management should thoroughly scrutinize the entire contracts that it enters, as some of the contracts contain clauses that are difficult for the airline to comply with in case the airline would like to terminate the contract.
- The airline should improve passenger's safety. As per reports sometimes the customer's luggage are lost, stolen and tempered with and items are removed from the luggage. This creates bad image of the airline and also causes financial burden in the form of reimbursements.

- The airline should only pursue routes that are profitable and those that will be profitable in the near future even though it is difficult for the airline to select specific routes to fly due to political reasons. All routes destroying airline resources should be eliminated or avoided by all means.
- The airline should minimize on contracting out and outsourcing the services if these prove to be expensive as compared to using its own resources to provide the required support.
- Contracting out may be done for services such as providing transport to staff members to airports, providing catering, logistics and selling tickets to local people, instead of the airline providing the service itself. The airline should weigh costs versus benefits before making any serious decisions.

b) Costs

- The airline management should relook at the cost drivers, by re-evaluating the profitability or benefits derived from the routes the airline is flying to in relation to the costs to maintain those routes. The study of cost drivers will be able to pick up the inefficient routes and by eliminating such inefficient routes this will actually save the airline lots of costs.
- The airline should engage the stakeholders such as the Namibia Airports Company and Ministry of Works and Transport so that they reduce the passengers' tax and landing, parking and navigation fees. These are the airline

major expenses and if management attempts to reduce them it will have huge savings for the airline.

- The management should try and minimize the administration expenses especially those that are not in line with the strategic goals attainment and avoid unnecessary expenditure.
- The airline management should adopt a control mechanism that will enable the management to control the costs. Mechanism such as budgetary control will help the airline to spend only on items that had been budgeted for and all unnecessary expenditure will be avoided by all means. This will save the airline from non-required costs.
- The airline management should refrain from flying overseas on business trips unnecessarily, and alternatively make use of telephone calls, Web 2.0 tools (video conferencing and Skype), and social networks (Facebook) because some of these services are provided for free. This will have significant impact on the airline's profitability and cash flows.
- The airline is expected to comply with certain statutory regulations. However, the airline should try to do it at the minimum cost while complying with the required regulations.
- The airline should try to avoid and minimize costs when flying over different countries, because for every country the airline is flying over, it has to pay for overflying navigations. The airline should rather consider flying over

international waters where it will not be required to pay for overflying navigation to countries.

- The airline should have a well thought out policy regarding where to fill up the aircraft fuel tank, by considering the fuel costs whether at local fuel point or at the destination, where the jet fuel is cheaper. This will reduce the airline fuel costs and boost the profit margin.

c) Marketing and Promotion

- The management should effectively market the airline products so that the airline can attract potential customers to improve revenue. The airline's marketing and promotion policy and its implementation should be more creative and innovative. For example it may launch holiday packages for potential customers using the airline to fly to holiday destinations in Namibia and outside.
- The airline should improve its customer services and on board catering in order to attract more customers. This is an important value point for people flying to and from African countries, as well as tourists.
- The airline should enter into code share agreement with other airlines in order to market its services. It has code sharing agreement with Kenya airlines. This will boost sales revenue, because passengers will have more convenient connections using Air Namibia (Pty) Ltd.
- The airline management should market the airline beyond the Namibian borders in order to attract passengers to fly and connect with Air Namibia (Pty) Ltd. This

way the airline can fill the aircraft and generate additional revenue that will boost profit margins and cash flows.

- The airline should avoid or minimize entering into barter agreements with companies that do not assist the airline in its goal attainment. The barter agreements do not improve cash sales revenue and cash flows, as the tickets are paid for in kind instead of cash.
- Marketing and promotion in Namibia should be more informative and personalized in terms of airline fares, routes, departure time, arrival time and safety, so that every Namibians may feel proud in flying with Air Namibia (Pty) Ltd instead of flying with other airlines.
- The airline should run promotions whereby passengers can win tickets to fly with Air Namibia (Pty) Ltd. The airline current promotion of frequent flyers should be revised and a passenger possessing five boarding passes instead of ten boarding passes should be given the incentive to get a free ticket. By doing so the airline sales revenue and cash flows both will be boosted.

d) Human Resources

- The airline should recruit local pilots and flight crew, because foreign pilots have to be remunerated on international salary and benefit scales, which are expensive for the airline as compared to local pilots and flight crew. In that way the airline can reduce its direct costs.

- The airline should engage in training programs in order to train and retain the local pilots instead of recruiting already qualified and experienced pilots from foreign countries, without compromising on the airline safety standards.
- The airline should slash the number of administrative staff and flying staff especially when some of the routes are to be abandoned like the London route. When the London route was abandoned the airline kept the staff assigned to that route instead of slashing them to reduce the administrative and direct operating costs. In that way the airline can boost its gross profit margin.
- Air Namibia (Pty) Ltd should train and educate the airports staff on what impact it has on passengers and airline if the flights are delayed or cancelled. The airline should strive for minimum flight delays and cancelations, because delays and cancellations have financial implications on the airline, inconvenience is caused to the passengers and it creates bad image of the airline. If all staffs are made sensitive to the impact of delays and cancellations, the airline will save lots of unnecessary costs associated with delays and cancelations.
- The airline should reduce overtime costs by not requiring staff to work beyond allowed working hours as per the labour laws.

e) Strategic Planning and Control

- Air Namibia (Pty) Ltd management should go for strategic planning, which will contribute strategic advantages. Understanding the airlines' current situation identifying the airline's strengths and weaknesses will help in strategic planning.

Analysis of the current financial situation will also provide management understanding of operating problems, aid in identifying strengths and in focusing on, areas needing improvements.

- The researcher recommends that the airline management should review the existing strategic plan and initiate continuous improvements on the strategic plan to help the airline to achieve better performance. The airline should also realign the organisational structure to the strategic plan, identify critical gaps in it and restructure the organisation as per the changing requirements.
- The airline's decisions and planning should be ahead of the time and should be clearly understood by everyone involved in order to avoid ad-hoc decision making, which may not be favourable to the airline in terms of time and costs.

5.4 Conclusion

The study revealed that Air Namibia (Pty) Ltd is vital for the development of Namibian economy in terms of tourism, job creation and transportation of goods. However, the airline is struggling with cash flows and profitability problems for the past several years and depended heavily on government bailouts. If the management of Air Namibia (Pty) Ltd does not come up with strategic improvements that will change the fortune of the airline, the status quo will prevail for unforeseen future and the dependence on government will increase. The management should therefore implement strategies that lead to improved performance of the airline, reduce the dependence on government for funds and generate funds to finance its operations. The researcher compared the

performance of Air Namibia (Pty) Ltd with four other airlines operating under similar environment among which Namibia (Pty) Ltd came out as the lowest performer. Air Namibia (Pty) Ltd has a small market, is flying to limited destinations and did not acquire its own aircraft for operations. Given these limitations, the management should develop appropriate strategies to turnaround the airline and make it a profitable national carrier.

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Annexure I

Abridged Financial Statements of Airlines

Air Namibia (Pty) Ltd (N$)

Statement of Comprehensive Income	**Mar-07** 000	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Revenue	854 122	1 028590	1 298 043	1 165463	1 218708
Expenditure	(1 097 162)	(1237600)	(1835102)	(1452422)	(1613381)
Operating Loss	(243 040)	(209 010)	(537 059)	(286 958)	(394 674)
Other Income	9 605	54 481	58 204	41 575	11 802
Operating loss before financing costs and financial assistance	(233 435)	(154 529)	(478 855)	(246 248)	(405 466)
Government financial assistance	153 050	351	150 000	160 000	120 000
Net financing	(24 438)	21	5 197	(5 967)	(225 955)
Profit (Loss) before taxation	(104 823)	(360)	(323 658)	(95 311)	(405 466)
Taxation	-	-	-	-	-
Loss for the year	(104 823)	(360)	(323 658)	(95 311)	(405 466)

Statement of Financial Position	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Assets	000				
Property and equipment	3 963	6 471	5 471	28 589	33 134
Other investment	2 962	4 597	3 464	-	-
Long term deposit	44 388	50 890	48 677	33 728	53 772
Total non-current assets	**51 313**	**61 958**	**57 612**	**65 344**	**89 811**
Inventories	4 679	5 618	7 825	7 115	9 909
Trade and other receivable	89 751	172 635	136 771	159 944	181 733
Cash and cash equivalents	74 871	172 739	116 853	142 863	60 746
Total current assets	**169 301**	**391 294**	**261 449**	**309 922**	**252 388**
Total Assets	**220 614**	**453 252**	**319 061**	**375 266**	**342 199**
Equity and liabilities					
Capital and reserves	000				

Share capital				1	2 800 000
Non-distributable Reserve		13 420			
Accumulated loss	(486 565)	(109502)	(415711)	(511021)	(3621410)
Total capital reserves	**(486 565)**	**(96 082)**	**(415711)**	**(511020)**	**(821 410)**
Non-current liabilities					
Employee benefit liability	75 466	88 532	127 506	168 189	184 436
Total non-current liabilities	**75 466**	**88 532**	**127 506**	**168 189**	**184 436**
Current liabilities					
Trade and other payables	297 428	268 905	389 215	394 701	432 800
Unflown ticket liabilities		191 806	185 876	213 631	215 877
Amount owe to shareholder			12 500	12 500	12 500
Bank overdraft	334 307	91	19 675	97 264	317 995
Total current liabilities	**631 735**	**460 802**	**607 266**	**718 096**	**979 172**
Total equity and liabilities	**220 636**	**453 252**	**319 061**	**375 266**	**342 199**

Kenya Airways (KES)

Statement of Comprehensive Income	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Turnover	58 792	60 471	71 829	70 743	85 836
Direct expenditure	(41 335)	(43 924)	(55 786)	(53 478)	(63 041)
Gross profit	17 457	16 547	24 037	17 265	22 795
Other income	71	54	(81)	240	172
Overheads	(9 818)	(9 968)	(12 001)	(15 426)	(16 980)
Operating profit	7 710	5 513	4 042	1 839	5 815
Share of results of associates company	185	65	62	62	(188)
Finance costs	(1 920)	(1 185)	(1 594)	(1 485)	(1 379)
Profit before taxation	5 975	5 513	(5 664)	2 671	5 002
Taxation	(1 877)	(1 644)	1 581	(636)	(1 464)
Net profit for the year	4 098	3 869	(4 083)	2 035	3 538

Statement of Financial Position	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Assets	000				
Property, plant and equipment	54 106	52 518	51 051	49 856	50 794
Intangible assets	248	301	550	899	1 029
Prepaid operating lease rental	118	116	166	164	5
Invest in associates	322	387	449	526	338
Deferred expenditure	84	146	26	32	26
Aircraft Deposits	2 106	1 879	2 532	2 351	338
Total non-current assets	**56 984**	**55 347**	**56 270**	**55 405**	**55 121**
Inventories	962	1 258	1 474	1 543	1 907
Trade and other receivable	6 477	7 221	9 045	9 045	1 159
Amount due from Related party	41	-	3	6	-
Taxation recoverable	639	712	737	832	840
Short term investments	2 407	10 625	-	309	2 462
Bank and cash balances	9 777	1 617	7 450	6 123	7 254
Total current assets	**20 303**	**21 433**	**19 709**	**17 858**	**23 622**
Total Assets	**77 287**	**76 780**	**75 979**	**73 263**	**78 743**
Equity and liabilities					
Capital and reserves	000				
Share capital	2 308	2 308	2 308	2 308	2 308
Revenue reserve	17 190	20 251	16 069	17 641	20 089
Hedge reserve	2 142	3 314	(1 201)	(26)	693
Total capital reserves	**21 640**	**25 873**	**17 176**	**19 973**	**23 090**
Non-current liabilities					
Borrowings	31 287	25 190	28 257	23 386	21 750
Deferred tax	7 210	9 191	5 871	6 918	8 303
Deferred income	2 587	2 413	2 953	2 065	2 232
Total non-current liabilities	**41 084**	**36 794**	**32 369**	**32 369**	**33 386**
Current liabilities					
Sales in advance of carriage	4 156	4 640	6 886	8 700	9 010
Trade and other payables	6 299	5 344	4 599	7 151	8 882
Accruals for staff leave	530	738	741	1 253	214 090
Unclaimed dividend	40	174	40	109	109
Deferred income	174	40	174	174	174
Borrowings	3 346	3 177	3 851	3 534	3 699
Taxation payable	18	-	16	-	5

Total current liabilities	**14 563**	**14 113**	**21 722**	**20 921**	**22 214**
Total equity and liabilities	**77 287**	**76 780**	**75 979**	**73 263**	**78 743**

British Airways (£)

Statement of Comprehensive Income	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Turnover	8 492	8 753	8 992	7 994	9 987
Expenditure	(7 936)	(7 878)	(9 212)	(8 225)	(9 469)
Non-recurring items	46	-	-	-	-
Operating Profit (loss)	602	875	(220)	(231)	518
Finance costs	(168)	(175)	(182)	(157)	(161)
Finance income	129	111	95	20	32
Share of associates	5	26	4	(32)	(6)
Fuel derivative	43	46	(98)	(131)	296
Profit (loss) before tax	611	883	(401)	(531)	679
Taxation	(173)	(187)	43	106	(7)
Profit after tax from continuing operations	438	696	(358)	(425)	672
Profit (loss) from discontinue operations	(134)	(2)	-	-	-
Profit after tax	304	694	(358)	(425)	672

Statement of Financial Position	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Assets	000				
Property, plant and equipment	7 365	7 263	7 233	6 904	6 828
Intangible assets	212	221	267	269	347
Invest in associates	125	227	209	197	232
Other investments	107	80	65	103	45
Employee benefits	116	85	340	483	1 100
Other financial assets	28	99	28	47	28
Total non-current assets	**7 953**	**7 975**	**8 142**	**7 973**	**8 580**

Inventories	76	112	127	98	139
Trade and other receivable	654	586	530	499	460
Other current assets	346	586	268	289	273
Interest bearing deposits	1 642	1 181	1 019	1 002	1 259
Cash and cash equivalent	713	683	402	786	643
Total current assets	**3 431**	**3 148**	**2 346**	**2 674**	**2 774**
Total Assets	**11 384**	**11 123**	**10 488**	**10 677**	**11 369**
Equity and liabilities					
Capital and reserves					
Share capital	288	288	288	288	290
Share premium	933	937	937	937	937
Investment in own shares	(10)	(10)	(9)	(4)	-
Other reserve	1 000	1 818	430	692	1 355
Minority Interest	200	200	200	200	200
Total capital reserves	**2 411**	**3 233**	**1 846**	**2 113**	**2 782**
Non-current liabilities					
Interest bearing long term	2 929	2 751	3 074	3 446	3 358
Employee benefit obligations	1 142	330	191	208	232
Provisions for deferred tax	930	1 154	652	774	778
Other provisions	153	210	256	169	179
Other long term liabilities	194	201	327	232	357
Total non-current liabilities	**5 348**	**4 646**	**4 500**	**4 824**	**4 904**
Current liabilities					
Current portion of long term	417	423	689	556	385
Trade and other payables	2 744	2 590	2 796	2 910	3 117
Current tax payable	54	170	4	2	12
Short term loans	410	4	653	272	169
Total current liabilities	**3 625**	**3 244**	**4 142**	**3 740**	**3 683**
Total equity and liabilities	**11 384**	**11 123**	**10 488**	**10 677**	**11 369**

Fly Emirates (AED)

Statement of Comprehensive Income	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Revenue	28 643	36 441	42 674	42 477	53 098
Other operating income	530	2 369	1 021	978	1 286
Operating costs	(25 834)	(33 630)	(41 122)	(39 890)	(48 943)
Operating Profit	3 339	5 180	2 573	3 565	5 441
Finance costs - net	(88)	(137)	(676)	23	11
Share of associates	75	61	62	77	91
Profit before tax	3 326	5 104	960	3 665	5 543
Taxation	(163)	(29)	85	(50)	(78)
Profit for the year	3 163	5 075	1 046	3 615	5 465

Statement of Financial Position	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Assets	000				
Property, plant and equipment	17 174	21 369	29 086	33 753	39 848
Intangible assets	841	863	923	927	901
Invest in associates	435	615	441	461	386
Advance lease rental	231	223	192	233	384
Available for sale financial assets	1 941	1 944	113	-	-
Held-to-maturity investment	398	200	-	-	-
Loans and receivable	341	1 228	1 039	1 432	1 704
Derivatives financial instruments	1 169	1 377	125	64	-
Total non-current assets	**22 530**	**27 721**	**31 919**	**36 870**	**43 223**
Inventories	541	751	1 053	1 084	1 290
Trade and other receivable	5 420	7 180	7 109	7 008	6 481
Held-to-maturity investment	137	216	200	-	-
Derivative financial instruments	207	188	-	74	123
Cash and cash equivalent	9 123	2 715	7 168	10 511	13 973
Total current assets	**15 428**	**18 790**	**15 530**	**18 677**	**21 867**
Total Assets	**37 958**	**46 512**	**47 449**	**55 547**	**65 090**
Equity and liabilities					
Capital and reserves					
Share capital	801	801	801	801	801
Other reserve	1 156	782	-	(321)	(565)
Retained Earnings	11 083	15 104	15 609	16 794	20 459

Minority Interest	130	156	159	201	207
Total capital reserves	**13 170**	**16 843**	**16 568**	**17 475**	**20 902**
Non-current liabilities					
Borrowing and lease liability	12 409	12 301	15 140	16 753	20 502
Provisions	454	570	547	364	390
Deferred credits	701	600	492	460	2 123
Deferred tax liabilities	51	20	13	4	2
Trade and other payables	84	13	25	21	31
Derivative financial instruments	511	703	538	467	642
Total non-current liabilities	**14 210**	**14 206**	**16 755**	**19 552**	**23 690**
Current liabilities					
Trade and other payables	9 304	13 550	12 531	15 475	17 551
Income tax liabilities	159	162	23	19	22
Borrowings and lease liabilities	929	1 416	1 372	2 852	2 728
Deferred credits	178	165	169	162	136
Derivative financial instruments	8	170	31	12	61
Total current liabilities	**10 578**	**15 463**	**14 125**	**18 520**	**20 498**
Total equity and liabilities	**37 958**	**46 512**	**47 449**	**55 547**	**65 090**

US Airways (US$)

Statement of Comprehensive Income	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Revenue	6 791	12 118	10 458	11 908	13 294
Cost of sale	(5 370)	(11 323)	(8 509)	(9 256)	(10 708)
Gross profit	1 421	795	1 949	2 652	2 586
Total expenses	(551)	(13 918)	(10 340)	(11 127)	(12 928)
Interest expense	(8)	96	247	379	322
Pre tax income	862	(2 210)	(243)	502	115
Income tax expense	(11)	-	(38)	-	-
Income after tax	851	(2 210)	(205)	502	115

Statement of Financial Position	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Assets	000				
Property, plant and equipment	3 286	3 250	3 584	3 796	3 854
Intangible assets	545	549	503	477	477
Long term operating assets	965	865	1 036	648	637
Total non-current assets	**4 796**	**4 680**	**7 454**	**4 921**	**4 968**
Inventories	201	182	227	231	267
Trade and other receivable	293	302	285	311	347
Other short term assets	890	820	200	508	610
Cash and cash equivalent	1 034	952	1 299	1 859	1 567
Total current assets	**2 418**	**2 218**	**2 331**	**2 909**	**2 690**
Total Assets	**7 214**	**7 012**	**9 632**	**7 819**	**7 409**
Equity and liabilities					
Capital and reserves					
Share capital	1 479	1 479	2 107	2 115	2 115
Treasury stock	(13)	(9)	(13)	-	-
Retained Earnings	(2 307)	(1 852)	(2 541)	(2 047)	(1 932)
Other equity	65	61	90	14	54
Total capital reserves	**(776)**	**(765)**	**(355)**	**84**	**199**
Current liabilities					
Other current liabilities	1 885	2 012	1 950	460	2 123
Short term debt	362	400	502	4	2
Trade and other payables	797	810	337	21	31
Total non-current liabilities	**3 044**	**2 852**	**2 789**	**19 552**	**23 690**
Current liabilities					
Long term debt	4 623	4 750	12 531	3 861	3 175
Long term operating liabilities	323	320	377	219	322
Total current liabilities	**4 946**	**4 823**	**7 809**	**4 385**	**5 042**
Total equity and liabilities	**7 214**	**7 012**	**9 632**	**7 819**	**7 409**

Annexure II

Cash Flow Statement of Airlines

Air Namibia (Pty) Ltd (N$)	**Mar-07** 000	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Cash receipts from customers	852 927	945 706	1 318 584	1 122 687	1 197 412
Cash paid to suppliers and employees	(1 072359)	(1 034 994)	(1 554075)	(1374102)	(1 569844)
Cash absorbed by operations	**(219 432)**	**(89 288)**	**(235 491)**	**(251 415)**	**(372 432)**
Interest received	2 018	5 770	5 492	863	1 641
Interest paid	(26 456)	(10 938)	(295)	(5 926)	(22 594)
Net cash in (out) flow from operating activities	**(243 870)**	**(94 456)**	**(230 294)**	**(256 478)**	**(393 385)**
Receivables	(1 042)	-	-	-	-
Purchase of property and equipment	-	-	-	(1 520)	(8 756)
Decrease in long term deposit	-	(6 502)	2 213	14 948	(20 043)
Purchase of subsidiary	-	-	-	(3 675)	-
Proceeds from disposal of equipment	-	-	3 546	219	5
Equipment replacements	(134)	(3 718)	(935)	-	-
Cash flow from investing activities	**(1 176)**	**(10 220)**	**4 824**	**9 972**	**(28 794)**
Government financial assistance received	153 050	536 760	150 000	156 000	120 500
Repayment of long term loan	-	-	-	(1 072)	(1 166)
Proceeds from other financial liabilities	-	-	-	40 000	-
Cash flows from financing activities	**153 050**	**536 760**	**150 000**	**194 928**	**119 334**
Net increase in cash and cash equivalents	**(91 996)**	**432 084**	**(75 470)**	**(51 578)**	**(302 845)**

Cash and cash equivalents at beginning of year	**(167 440)**	**(259 436)**	**172 648**	**97 178**	**45 600**
Cash and cash equivalents at end of year	**(259 436)**	**172 648**	**97 178**	**45 600**	**(257 245)**

Net cash in (out) flow from operating activities	(243 870)	(94 456)	(230 294)	(256 478)	(393 385)
Cash flow from investing activities	(1 176)	(10 220)	4 824	9 972	(28 794)
Cash flows from financing activities	153 050	536 760	150 000	194 928	119 334
Total	**(91 996)**	**432 084**	**(75 470)**	**(51 578)**	**(302 845)**

Kenya Airways (KES)	**Mar-07** 000	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Cash generated from operations	8 706	6 907	6 419	9 286	10 537
Taxation paid	(212)	(257)	(142)	(209)	(116)
Interest paid	(1 717)	-	(1 594)	(1 485)	(1 379)
Interest received	572	-	-	-	172
Net cash generated from operating activities	**7 349**	**6 650**	**4 683**	**7 592**	**9 214**
Purchase of PPE	(10 831)	(1 896)	(4 147)	(3 929)	(3 186)
Purchase of intangible assets	-	(126)	-	(1 113)	(371)
Deferred expenditure	(84)	(208)	(7)		
Deposit refunds received	5 105	-	-	55	
Deposit paid for aircraft purchases	(3 338)	(98)	(1 019)	(72)	(287)
Proceeds of disposal of PPE	11	14	116	209	47
Additional aircraft subsidy received	55	-	-	-	-
Net cash used in investing activities	**(9 082)**	**(2 314)**	**(5 057)**	**(4 850)**	**(3 797)**
Proceeds of long term borrowing	7 807	-	-	-	-
Repayment of long term borrowings	(4 226)	(3 470)	(3 610)	(3 676)	(3 824)

Dividends paid	(808)	(808)	(808)	(393)	(462)
Investment held to maturity	-	(5 340)			807
Investment in short term deposits	(2 407)	(1 812)	-	-	-
Net cash generated from financing activities	**366**	**(11 430)**	**(4 418)**	**(4 069)**	**(3 479)**
Net (decrease) increase in cash and cash equivalents	**(1 367)**	**(7 094)**	**(4 792)**	**(1 327)**	**1 938**
Cash and cash equivalents at beginning of year	**11 144**	**9 777**	**2 683**	**(2 109)**	**(3 436)**
Cash and cash equivalents at end of year	**9 777**	**2 683**	**(2 109)**	**(3 436)**	**(1 498)**

Net cash generated from operating activities	7 349	6 650	4 683	7 592	9 214
Net cash used in investing activities	(9 082)	(2 314)	(5 057)	(4 850)	(3 797)
Net cash generated from financing activities	366	(11 430)	(4 418)	(4 069)	(3 479)
Total	**(1 367)**	**(7 094)**	**(4 792)**	**(1 327)**	**1 938**

British Airways (£)	**Mar-07** 000	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Operating profit	602	875	(220)	(231)	518
Operating (loss)/profit from discontinued operations	(122)	(2)	-	-	-
Credit arising on changes to pension scheme	(396)	-			
Depreciation and amortization	834	692	694	732	683
Operating cash flow before working capital changes	**918**	**1 565**	**474**	**501**	**1 201**
Decrease/(Increase) in inventories	61	96	32	(181)	(460)
Decrease/(Increase) in payable	(15)	(354)	(136)	241	404
Cash payment to NAPS pension	(240)	(610)		(81)	(11)

scheme					
Provision for settlement of competition investigation	350	-			
Payment to DOJ in settlement of competition	-	(149)	(64)	(19)	(147)
Other non-cash movements	(2)	3	1	-	-
Cash generated from operations	**1 072**	**551**	**307**	**461**	**987**
Interest paid	(188)	(182)	(177)	(136)	(147)
Taxation paid	(128)	(66)	3	6	(4)
Net cash flow from operating activities	**756**	**303**	**133**	**331**	**836**
Purchase of PPE	(331)	(596)	(547)	(492)	(702)
Purchase of intangible assets	(36)	(33)	(24)	(13)	(67)
Purchase of minority interest	(13)	-			
Purchase of subsidiary	-	-	(34)	(9)	(27)
Proceeds from sale of associated companies	3	(54)	-	7	
Proceeds from sale of other investments	52	1	7		
Cash outflow disposal of subsidiary	(149)		-	-	-
Dividend received	1	3	17		
Decrease/(Increase) interest bearings	389	509	214	51	(86)
Proceeds of disposal of PPE	7	11	5	102	28
Interest received	113	117	105	17	28
Net cash flow from investing activities	**36**	**(42)**	**(257)**	**(337)**	**(826)**
Proceeds of long term borrowing	-	172	377	1 053	236
Repayment of long term borrowings	(485)	(68)	(66)	(160)	(188)
Payment of finance lease	-	(356)	(402)	(609)	(296)
Exercise of share options	50	4	1	-	1
Net foreign exchange	(16)	(29)	8	40	46
Redemption of own shares	(12)	-		84	(7)
Dividends paid	(14)	(14)	(75)	(18)	(18)
Net cash flow from financing activities	**(477)**	**(291)**	**(157)**	**390**	**(226)**

Net (decrease) increase in cash and cash equivalents	**315**	**(30)**	**(281)**	**384**	**(216)**
Cash and cash equivalents at beginning of year	**398**	**713**	**683**	**402**	**786**
Cash and cash equivalents at end of year	**713**	**683**	**402**	**786**	**570**
Cash generated from operations	756	303	133	331	836
Net cash flow from investing activities	36	(42)	(257)	(337)	(826)
Net cash flow from financing activities	(477)	(291)	(157)	390	(226)
Total	**315**	**(30)**	**(281)**	**384**	**(216)**

Fly Emirates (AED)	**Mar-07** 000,000	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Operating Activities					
Profit before Income Tax	3 326	5 104	960	3 665	5 543
Depreciation and amortization	1 352	1 700	2 210	2 962	3 677
Finance Costs	88	137	104	25	(15)
Loss (Profit) on sale of property and equipment	1	(567)	(14)	(258)	(454)
Profit on sale of business units	(34)	-	143		(195)
Share of results in associates	(75)	(61)	(63)	(77)	(106)
Provision for Impairment	9	22	(79)	123	42
Provision for employee benefits	247	315	236	301	373
Net movement on derivative financial instruments	387	(115)	2 027	(347)	(36)
Employee benefits payment	(192)	(243)	(315)	(304)	(347)
Income Tax	(56)	(56)	(61)	(63)	(77)
Changes in inventory	(62)	(210)	(301)	(32)	(204)
Changes in receivable	(937)	(2 263)	415	(316)	133
Changes in payables and deferred credits	1 711	3 572	(246)	2 649	2 670
Net cash generated from operations	**5 765**	**7 335**	**5 016**	**8 328**	**11 004**
Investing Activities					
Proceeds from sale PPE	3	3 337	117	883	3 241
Proceeds from sale of business units	41	-	-	-	-

Addition to intangible assets	(70)	(70)	(82)	(72)	(49)
Addition to PPE	(4 183)	(6 115)	(5 573)	(3 416)	(6 504)
Investment in associates	(11)	(123)	(71)	(18)	82
Additional investment in a subsidiary	(187)	-	(51)	-	-
Disposal of Minority interest	-	-	(1)	-	-
Addition to available for sale assets	(1 837)	-	1 837	-	195
Movement in the short term bank deposits	884	(6 592)	5 026	1 443	(2 601)
Net purchase of held to maturity investments	(2)	119	216	200	-
Interest income	541	531	379	308	451
Dividend from associates companies	72	44	100	95	93
Net cash used in investing activities	**(4 749)**	**(8 869)**	**1 897**	**(577)**	**(5 092)**
Financing Activities					
Net proceeds from issue/repayment of bonds	1 247	-	-	(122)	(1 837)
Net loan drawdown	250	(157)	(383)	-	739
Aircraft financing costs	(326)	(368)	(272)	(319)	(412)
Other finance charges	(359)	(391)	(295)	(103)	(59)
Net lease liabilities	(593)	(2 381)	(1 161)	(1 447)	(1 083)
Dividend paid	(386)	(488)	(2 918)	(956)	(2 308)
Effects of exchange rate	-	(2)	9	6	(1)
Dividend paid to minority shareholder	(31)	(35)	(60)	(35)	(86)
Net cash used in financing activities	**(198)**	**(3 822)**	**(5 080)**	**(2 976)**	**(5 047)**
Net (decrease) increase in cash and cash equivalents	**818**	**(5 356)**	**1 833**	**4 775**	**865**
Cash and cash equivalents at beginning of year	**7 252**	**8 070**	**2 714**	**4 547**	**9 322**
Cash and cash equivalents at end of year	**8 070**	**2 714**	**4 547**	**9 322**	**10 187**

Net cash used in investing activities	5 765	7 335	5 016	8 328	11 004
Net cash used in financing activities	(4 749)	(8 869)	1 897	(577)	(5 092)
Net cash used in financing activities	(198)	(3 822)	(5 080)	(2 976)	(5 047)
Total	**818**	**(5 356)**	**1 833**	**4 775**	**865**

US Airways (US$)	Mar-07 000	Mar-08	Mar-09	Mar-10	Mar-11
Operating Activities					
Net income	6	(2 210)	(205)	502	115
Depreciation and amortization	5	240	273	292	312
Impairment of goodwill	(7)	836	104	25	(15)
Other non cash adjustments	-	-	82	(14)	-
Deferred income	-	341	143		(195)
Changes in receivable	12	74	8	(34)	(36)
Changes in inventory	(3)	49	(29)	(10)	(36)
Changes in prepayments	9	(255)	(39)	-	-
Changes in payables	8	96	55	62	28
Changes other current liabilities	(2)	(151)	84	-	-
Net cash generated from operations	**28**	**(980)**	**476**	**823**	**173**
Investing Activities					
Capital expenditures	(10)	(929)	(683)	(201)	(350)
Proceeds from sale of business units	(1)	210	76	261	-
Addition to intangible assets	(3)	(196)	112	3	-
Net cash used in investing activities	**(14)**	**(915)**	**(495)**	**63**	**(350)**
Financing Activities					
Cash payment for borrowings	(133)	179	-	(297)	-
Cash received from borrowings	145	852	512	-	(397)
Short term debt issuance	-	-	-	-	58
Dividends paid	(6)	-	-	-	-
Other finance charges	(4)	(50)	(14)	(10)	-
Net cash used in financing activities	**2**	**981**	**498**	**(307)**	**(339)**
	-	-	-	-	-
Net (decrease) increase in cash and cash equivalents	**16**	**(914)**	**479**	**579**	**(516)**
	-	-	-	-	-
Cash and cash equivalents at beginning of year	**22**	**38**	**(876)**	**(397)**	**182**

	-	-	-	-	-
Cash and cash equivalents at end of year	**38**	**(876)**	**(397)**	**182**	**(334)**

Net cash used in investing activities	28	(980)	476	823	173
Net cash used in financing activities	(14)	(915)	(495)	63	(350)
Net cash used in financing activities	2	981	498	(307)	(339)
Total	**16**	**(914)**	**479**	**579**	**(516)**