Emirates’ figures tell us that for every

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Emirates' profitabilitydeclined sharply when compared to previous years. The net profit margin (NPM)and return on assets (ROA) were used to analyse the firm's performance. NPMconcerns a company's ability to generate earnings after taxes relative to itsrevenue. This fell from 8.

76% in 2016 to 1. 73% in 2017. The reason for thelarge decline in NPM is due to the significant increase in operating costs. Oneof the main contributors were Emirates' funding 23 new aircrafts on operating lease, increasing operating costs by just under 6 billion AED (The Emirates Group , 2017). Revenue increased marginally and as such did notmatch the substantial rise in costs. The airlines ROA has fallen over the last4 years.

When comparing 2016 and 2017 figures, we see a 4. 95 percentage point decreasein ROA. The decline in ROA symbolises that Emirates are not using their assetsto generate their profit as effectively as before. Furthermore, Emirates' ROE decreased significantly this financial year. The ROE portrays howmuch profit the airline generated with shareholders' investments. This isimportant to investors as net profit adds value to shareholders. The ROE fellfrom 22.

72% in 2016 to 4. 26% in 2017 (Appendix A). These figures tell us thatfor every 1 AED the owner invested, the business made a profit of 0. 23 AED in2016 however in 2017 this was only 0. 04 AED.

A lower ROE could make Emirates'look less attractive from a shareholder's point of view. The firm'sliquidity position weakened as shown by the decrease in the current ratio andquick ratio. A company's liquidity is central

as it gives them the ability tomeet unexpected changes in financial requirements. The current ratio decreasedfrom 0. 82 in 2016 to 0.

73 in 2017 (Appendix C). This occurred because of thesignificant decline in assets, with the decline in cash being the biggest contributorto this. Cash held decreased by 3. 2 billion AED (The Emirates Group , 2017). This reduction could be a problem forEmirates if faced with a tough financial period, as they may not have enoughcash to cover their operations and be more at risk paying back their short-termliabilities. Efficiency isanother area in which the firm struggled this year. The asset turnover decreasedby 0. 2 (Appendix B).

The main contributor to the decline is the increase in equity, this decline is a problem as it suggests that the company's assets aren'tgenerating as much revenue as they should, especially with the increase inassets from the previous year. Despite allthis, Emirates' long term financial structure is improving. The gearing ratio, which compares the company's borrowings to their equity, has been decreasingover the past couple years, as seen in Appendix D where the gearing value decreasedfrom 155% in 2016 to 145% in 2017.

Even though the airline increased theirborrowing in the past year, the gearing ratio reduced because of the growth inequity. This shows that although Emirates struggled with profitability, theyhave reduced their leverage which will make long term growth more sustainable.   Part BEmirates areone of the world leaders in the aviation industry. They have had constantgrowth over the years which has lead them to be one of the

dominant figures intheir sector. The wide range of destinations which they fly to (141 destinations)has increased their customer basis and strengthened revenue. (The Emirates Group , 2017). Another strength of Emirates istheir strong advertising and sponsorship list, especially in sport (Emirates 2017). whichgives them a platform to increase brand awareness and build a connection withtheir consumers.

Other strengths include, excellent customer service and astrong workforce of 64, 768 employees (The Emirates Group , 2017). A weakness of Emiratesis their loss in profits in the 2016/2017 financial year. Their profitssignificantly dropped by just under 6 billion AED (The Emirates Group , 2017). Thisemphasises the poor management in finances as they should have been prepared forchange. Another weakness is the exclusion of customers which cannot afford theticket price of an international airline which stops the airline fromincreasing revenue.

Emirates havemany opportunities to raise their status and boost their brand identity in theindustry. The Dubai world expo which takes place in 2020 is great opportunity, withmillions of tourists visiting Dubai. With Emirates being one of the mainsponsors of this event, the expo last 6 months bringing people from around theworld to showcase their new discoveries (Expo2020Dubai , 2017). Furthermore, improvements in technology and the use of big data in the future will improvecustomer experience during air travel, this analysis of customer behaviour and willallow Emirates to make improvements in these areas.   An increase infuel prices is a threat for Emirates, as the rise in fuel costs reduces theamount of profit attainable.

In addition to this, the government are putting inplace projects, such as tree planting, in order to reduce CO_2 emissions (Harrabin , 2016). Thisthreatens the airline industry as these projects will increase their costs. Therehas also been an increase in strong competition due to the relatively lowbarriers to entry the industry (Cederholm, 2014).

This is visible throughtheir decline in the world best airline rankings, they have fallen from firstplace in the year before to fourth place in 2017. (Top 100 Airlines, 2017). Part CFinancialreporting and analysis has limitations to its use.

One issue is the lack ofqualitative information which financial analysis provides. The ratios calculatedignore how the non-financial factors could affect the way the businessfunctions. For example the reason for the decline in the Emirates’ net profitmargin from 8. 82% to 1. 78% could have been affected by non-financial factorswhich we are unaware of. Factors such as , poor management skills and declinein customer satisfaction are some possible contributors to the outcome of theseratios, as they effect the amount of revenue the airline receives andultimately the amount of profit they make.

This is an issue as it doesn’t provideus with the full scope of information, so we ae not able to make effectivedecisions to improve as we are not taking into account all the causes. The differentaccounting practices businesses use causes limitations to arise when analysingtheir performance. For example, there are several different techniques whencalculating deprecation in financial reporting such as, straight linedepreciation and reducing balance

deprecation (Lodhia K, 2017). The different methods providedifferent values when calculated. For example Emirates and their competitorsmay use opposing methods which causes the deprecation value in their financialstatements to differ.

This affects stakeholders when analysing their statementsas the comparisons would not be accurate. Finally, financialreporting allows firms to manipulate their statements to make their performancelook better than it is. When a firm manipulates it affects the economy as therelative stakeholders which have invested in the firm which they believe are performinglose out on a lot money if the company becomes bankrupt.

For example, if theEmirates lied about their revenue in order to window dress their finicalfailure this tear this could have detrimental effects in the future on thestaff within the firm as they could suddenly lose their jobs if they became bankrupt. AppendixAProfitabilityRatios Ratio 2014 2015 2016 2017 Return on Equity (profit after tax) 3, 417×100= 13. 42% 25, 471 4, 728×100= 16. 71% 28, 286 7, 318×100= 22.

58% 32, 405 1, 450×100= 4. 13% 35, 094 Net profit margin 3, 417×100= 4. 23% 80, 717 4, 728×100= 5.

45% 86, 278 7, 318×100 = 8. 76% 83, 500 1, 450×100= 1. 73% 83, 739 Return on assets 3, 417×100= 3. 36% 101, 604 4, 728×100= 4. 25% 111, 362 7, 318×100= 6. 14% 119, 179 1, 450×100= 1.

19% 121, 558 Ratio Formula Return on Equity (profit after tax) ROE = Net Profit After Tax x100 Total Equity Net profit margin

NPV = Net Profit After Tax x100 Revenue Return on assets

ROA = Net Profit After Tax x100 Total Assets

Appendix BEfficiencyratios Ratio 2014 2015 2016 2017 Asset turnover

80, 717 = 3. 2 25, 471 86, 728 = 3. 1 28, 286 83, 500 = 2. 6 32, 405

83, 739 = 2. 4 35, 094 Average debtors’ collection period 9086 x365 =

41days 80, 717 8589 x365 = 36 days 86, 728 9321 x365 = 41 days 83, 500

9922 x365 = 43 days 83, 739 Ratio Formula Asset turnover Asset

Turnover = Revenue Equity Average debtors’

collection period Average debtor’s collection period = Trade Receivables

x365 Revenue Appendix CLiquidityRatios Ratio 2014

2015 2016 2017 Current Ratio 27, 354 = 0. 84 32, 428 27, 735 = 0. 80

34, 481 31, 427 = 0.

82 38, 524 27, 836 = 0. 73 38, 382 Quick Ratio 27, 354 – 1706 = 0. 79

32, 428 27, 735 – 1919 = 0. 75 34, 481 31, 427 -2106 = 0. 77 38,

324 27, 836 -2238 = 0. 67 38, 382 Ratio Formula Current Ratio

Current Ratio = Current Assets Current Liabilities Quick

Ratio Quick Ratio = Current Assets – Inventory

Current Liabilities AppendixDLongterm financial structure Ratios

Ratio 2014 2015 2016 2017 Gearing Ratio 42, 431 x100 = 167% 25,

471 47, 808 x100= 169% 28, 286 50, 105 x100= 155% 32, 405

51, 002 x100= 145% 35, 094 Total Borrowings (short + long) 38,

500+3931= 42431 42, 426+5382= 47808 40845+9260= 50105

40171+10831= 51002 Ratio Formula Gearing Ratio Gearing Ratio =

Total Borrowings Total Equity

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