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FACULTAD DE TURISMO Y FINANZAS**

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TÍTULO:

FINANCIAL STATEMENT ANALYSIS OF AIRCRAFT AND SPACECRAFT INDUSTRY

AUTOR:

JOSE ALEJANDRO ARENAS CARMONA

TUTOR:

MARÍA CRISTINA ABAD NAVARRO

DEPARTAMENTO:

CONTABILIDAD Y ECONOMÍA FINANCIERA

ÁREA DE CONOCIMIENTO:

ECONOMÍA FINANCIERA Y CONTABILIDAD

RESUMEN:

Para este Trabajo Fin de Grado he realizado un análisis financiero, que incluye la rentabilidad, la liquidez y solvencia de empresas importantes del sector aeronáutico y aeroespacial que tengan sede o alguna línea de negocio establecida en Sevilla. El período de tiempo elegido está comprendido entre 2010 y 2014.

Para el análisis, he obtenido los datos de las cuentas anuales de las distintas empresas, haciendo uso de la herramienta SABI.

Además, he profundizado tanto en la descripción de cada una de las empresas, como su situación en el mercado.

Aparte he comparado a las empresas analizadas con otras tantas del mismo sector, escogidas según el nivel de facturación. Para finalizar, he llegado a una conclusión en base a todos los datos analizados.

PALABRAS CLAVE:

Rentabilidad; liquidez; solvencia; situación; sector.

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CHAPTER 1

INTRODUCTION

The objective of this project is to carry out a complete and comprehensive analysis on the financial statements of three important firms located in Sevilla belonging to the Aircraft and Spacecraft sector, comparing them to each other, and their industry.

The sector chosen is the Aircraft and Spacecraft, the firms are from Sevilla or have a factory in our aeropolis. I have chosen this sector because it's very important and a growing one in Sevilla, which helps the city and citizens by providing a lot of employment and investment. 75% of the Andalusian aeronautic sector remains in Sevilla according to the Agencia de Innovación y Desarrollo de Andalucía.

In addition, this is one of the most important sectors in the world because of the continuous investment, creating new airplanes that are more efficient and bigger, helping people to travel around the world in a faster or more comfortable way. This is why it is relevant to study its evolution throughout the period 2010-2015.

The firms chosen are: Airbus Defence and Space (Airbus hereafter); Aernnova Aerospace (Aernnova hereafter); Alestis Aerospace (Alestis hereafter); and Alestis Manufacturing. Airbus and Aernnova have a factory and a testing area in Sevilla, while Alestis is a company from Sevilla.

For the analysis we have chosen subsidiaries or parent companies moreover these companies are part of a bigger group; Airbus and Alestis are part of the most important group of the whole sector, the Airbus Group while Aernnova is part of Synergy Industry and Technology group.

In addition have to notice that the companies have differences, Airbus is the undisputed leader of the sector in our country, while Aernnova is a big enterprise. Finally Alestis is the biggest enterprise from Sevilla in the sector.

I'm going to assess the actual position of each one of the companies in the sector and make a complete comparison between them and the average in the industry. Performing it by selecting the ten most representative companies of the Aircraft and Spacecraft industry using the magnitudes of the last five years:

For this purpose, we will perform an individual financial analysis for the chosen companies, in it I will analyse their business models, profitability, liquidity and solvency, calculating and analyzing the ratios.

This work is divided into 6 chapters. In the first chapter there's a short introduction about the sector and companies chosen as well as the methodology carried out. In chapter two there's an explanation about the sector, a brief history about the companies, their business models and their corporate purpose. In the third chapter, we will show the single analysis of profitability, liquidity and solvency. In the fourth one, there's a comparison of the selected companies respect to the sector. The two last chapters will contain the conclusion and the bibliography, respectively.

CHAPTER 2

PRESENTATION OF THE SECTOR AND THE COMPANIES

2.1 AIRCRAFT & SPACECRAFT SECTOR. ECONOMIC AND FINANCIAL SITUATION.

Nowadays, the Aircraft & Spacecraft sector is one of the most important sectors in the world. It has experienced a huge increase in the last 35 years with a little recessions in the periods of crisis. The huge increase in the sector was led mainly by the two big groups worldwide, Airbus and Boeing. In Spain specifically, Airbus is leading by far away from the followers, Industria de Turbopropulsores, Aernnova Aerospace and Alestis Aerospace. Boeing is not present in Spain.

Following the CNAE-2009 (Clasificación Nacional de Actividades Económicas), the sectors comprise the following areas:

- Construction of aircraft for commodities, passengers, military objectives or sportive.
- Construction of spacecraft, satellites, space probes, orbital stations.
- Manufacture of launchers and rockets.
- Manufacture of spacecraft pieces and accessories.
- Manufacture of flying simulators in land.
- Fixing and maintenance of spacecraft and engines.

From this point and on, I will going to try to explain why the Aircraft & Spacecraft sector is one of the biggest and most important in the world and why it can be expected that it will have a continuous growth.

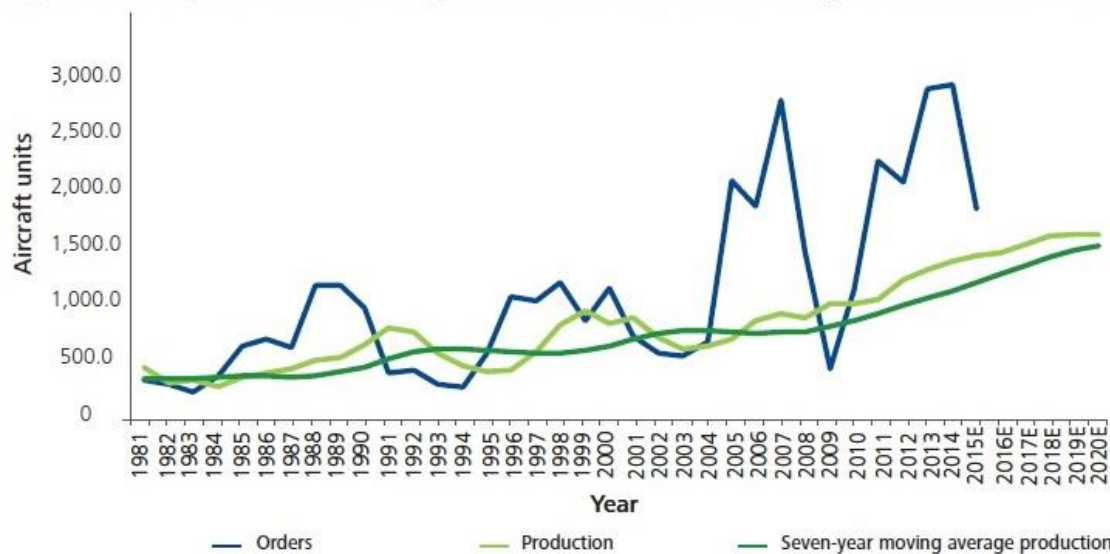


Figure 2.1 History and forecast for large commercial aircraft orders and production

Source: Captain (2016)

Figure 2.1 shows the evolution of the orders, production, and the average production each seven-year. According to Captain (2016) we can observe with the green light line that the “Production” has been increasing during the whole period. It is a tendency except for those little recessions in the period of crisis.

There were many factors affecting this increase of production, one that we find is the investment in defense from different countries, but the tendency of defense these last years had been decreasing since a cessation of periods of armed conflict like Afghanistan or Iraq. According to Captain (2016; page 5) there is a main factor which is the Commercial aerospace subsector *“The global commercial aerospace subsector is likely to experience strong revenue and operating earnings growth in 2016, due to continued record production levels driven by strong demand for next-generation aircraft and growing passenger traffic...The worldwide commercial passenger and cargo aircraft fleet, as well as the annual number of passengers are forecast to double over the next two decades.”*

As we can analyze from those words the air travel demand is continuously increasing because of the wealth creation from countries, and the development in the aerospace transports like bigger or faster planes or even planes with lower consumption. These factors supported by the tendency created in the actual society of “Low Cost enterprises” have helped the emergence of that “Low Cost commercial flights” that we know like Ryanair, EasyJet, etc....which makes people take more commercial flights to enjoy leisure or business trips around the world.

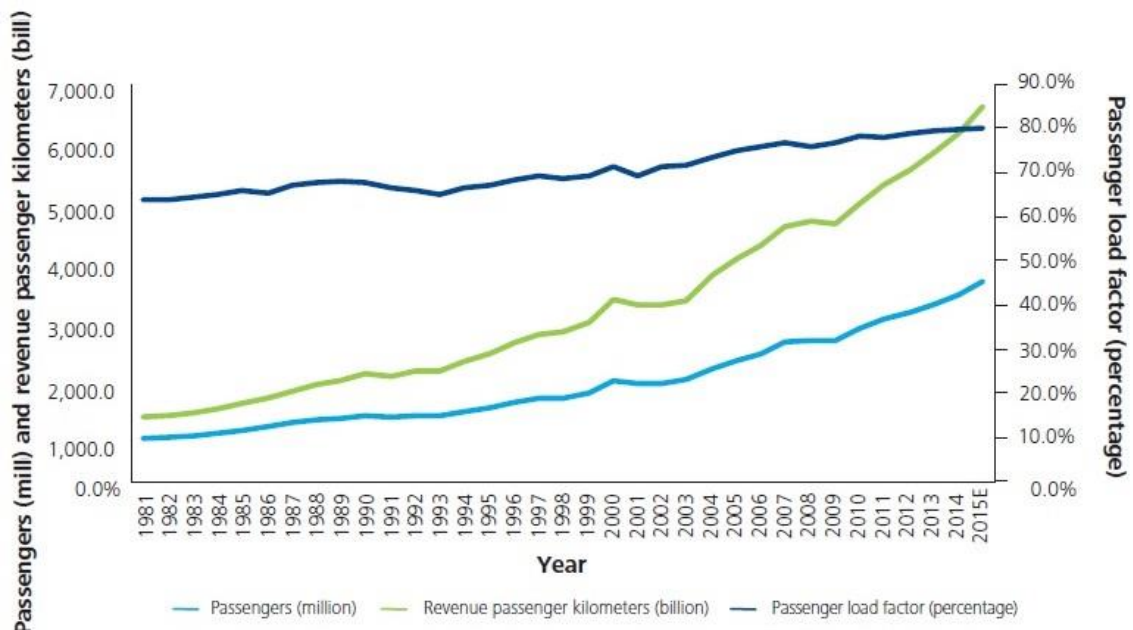


Figure 2.2 Global airline traffic

Source: Captain (2016)

In the figure above we can observe the Global airline traffic. The passengers in millions have grown from over 5,000 to more than 6,000 in the period, increasing almost by 20%. In addition the revenue from passengers kilometers expressed have grown from about 1.500 billion to almost 6.500 billion, which is an increase of a 333%. This figure expresses the reason why the Aircraft and Spacecraft sector has been growing among the last 35 years and will keep growing in the future.

Going further and supported in the following figure, another important factor for the sector, is the petrol price, Pearce (2015) indicate that *“in 2015 the plane tickets cut the average ticket price by 5%, and we will estimate similar reductions in 2016”*. Thus, according to IATA (International Air Transport Association) the commercial airlines future contracts in the securities market expires in mid-term of 2016, so from beyond that point there will be a decrease of the tickets prices and an increase in passengers.



Figure 2.3 Petrol price in USD
Source: Moreno (2015)

Regarding the most recent development of the industry. We can state that the Aircraft and Spacecraft industry is in its “expansion life cycle” point within the business life cycle, just after the “established cycle”, because the companies in the sector already have being matured. They have a place in the market and loyal clients, so the expansion cycle become since the strong competition existing in the industry and the high expenditure companies make in Research & Development. They are already improving the manufacturing processes, material, delivering, and make growing the market looking for new revenue and profit channels.

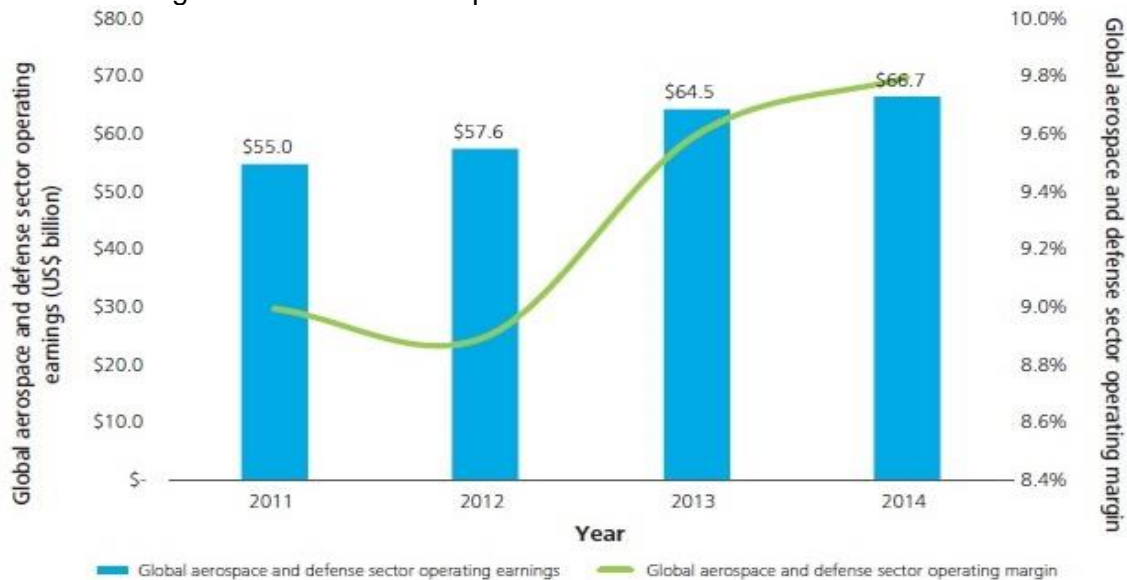


Figure 2.4 Global aerospace and defence sector operating earnings and margin
Source: Captain (2016)

From figure 2.4 we can observe that since 2011 the Global aerospace and defence sector operating earnings have been growing from 55\$ billion in 2011 reaching 66.7\$ billion in 2014. This is the result in the improvement of the operating efficiencies that results in higher earnings. Margin has grown from 8.8% in 2012 to 9.8% in 2014 as a result of the efforts put by the companies in cutting the costs.

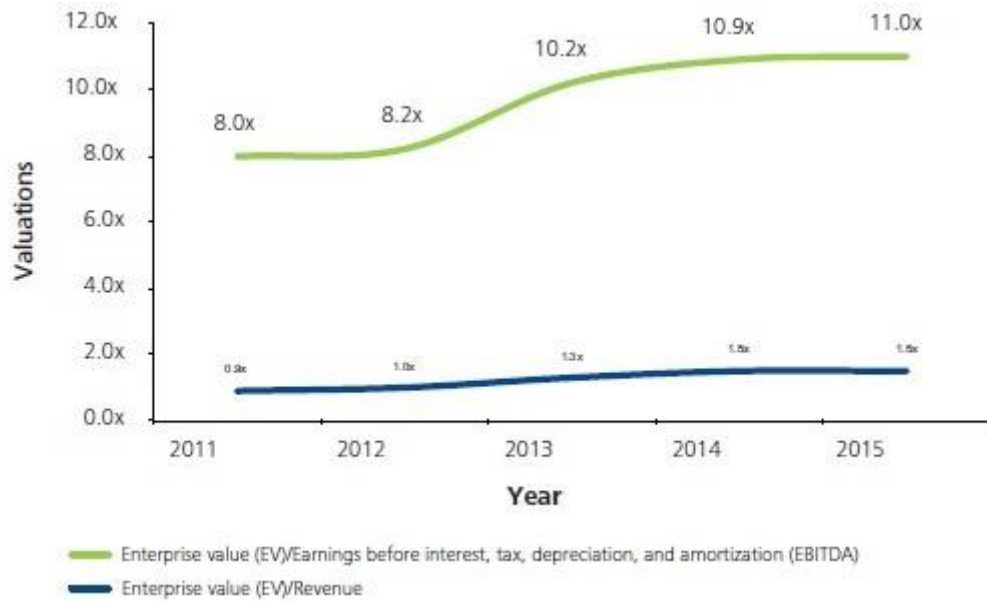


Figure 2.5: Global aerospace and defence sector valuations
Captain (2016)

As we can observe from figure 2.5 and since the EBITDA and Revenue were growing or at least being staying stable, we can imagine that the Enterprise Value have been growing 3 times EBITDA since 2011 and 0.6 times the revenue.

Focusing on Spanish Aircraft & Spacecraft sector according to the website marcaespana.es, our sector is the “5th of Europe in turnover and employability with a high intensity of investment. 7th strength in satellite’s manufacture and successfully helped projects like Rosetta’s Mission and the exploration of Mars”. Some of the participants in the Rosetta’s Mission were Airbus which we will be working about and the IAA-CSIC which is the Instituto de Astrofísica de Andalucía. In addition, “The Spanish government has created various I+D centers because they believe that Aircraft & Spacecraft sector is one of the mainly strategic industries in the country

The sector in Spain has grown in 2014 by 3%, but in Andalucía in 2013 has grown by 11% (reaching 2,060 m. Turnover) and in 2014 by nearly 9%, reaching 2.243 m. Euro. Andalucía represents 1/3 of the Spanish turnover in the sector, moreover, have created 1,000 employments, an increasing of 8.6% reaching 12,700 employees in a region with a 33% of unemployment. According to the study of the Fundación Hélice, “the sector represent 1.58% GDP of Andalucía and 20% industrial GDP of the region. It is creating an Andalusian brand in the international markets and when we reach the targets will be an historic moment of this Andalusian industry”.

If we took all these information and add what I have said in the introduction that “the 75% of the Andalusian aeronautic sector remains in Sevilla according to the Agencia de Innovación y Desarrollo de Andalucía”, we can start to imagine how important the Aircraft and Spacecraft sector is for the city and citizens and why the people have to help the sector to keep growing in the city and bringing investment.

2.2 COMPANIES ANALYZED



Figure 2.6: Companies

2.2.1 AIRBUS DEFENCE AND SPACE S.A.

Airbus Defence and Space is an important section of the big European group AIRBUS. The Airbus group has its legal headquarter in Leiden, a city in the Netherlands and was founded known as EADS in July 2000 and rebranded in January 2014 to Airbus Group.

The section Defence and Space has headquarters throughout the five continents, the most important are the French one in Toulouse and German in Friedrichshafen. In Spain they have three important headquarters: Madrid, Barcelona and Sevilla.

The Airbus Group has been growing since its creation and now in Europe, is the most important company, leading the Aircraft and Spacecraft sector and in hard competition worldwide with its main competitor Boeing. Since year 2000 they have grown employees from 80,000 to over 138,000 today.

The Section Defence and Space was created in January 2014, in September 2014 the news of the company in his website were "Reinforce Airbus Defence and Space as a sustainable and successful pillar of Airbus Group. Activities in Space as launchers and satellites, military aircraft, missiles and related systems and services are core and to be strengthened." They also said that the investment in that part of the group will be made to keep the leading position in the market.

Actually they had the 28% market share of the telecom satellites being the market leader. The turnover in 2015 for Defence and Space was 14 billion euro and has 40,000 employees throughout the world with over 85 nationalities. Earnings before interest and taxes are more than 900 million Euro.

2.2.2 AERNNOVA ANDALUCIA ESTRUCTURAS AERONÁUTICAS S.A.

Aernnova was created in 1986, with its first factory called Fibertecnic in Vitoria-Gasteiz. The Group Aernnova was founded in 2006 with the acquisition of the Spacecraft division of Gamesa. 47% of the company's share belong to their executive team, and also the same amount belongs to Springwater Capital LLC which is a private investment firm with its headquarters in Geneva, Switzerland and Luxembourg. The remaining 6% to other small shareholders.

Aernnova has its main headquarter in Spain but they have expanded its activities worldwide to UK or Finland in Europe, also in America, countries like Mexico and U.S.A. has headquarters and finally in Asia, India and China. They have been growing since its creation, and now they are one of the top three supplier for Airbus, they have more than 4,700 employees, over a thousand engineers, 23 fabrics and are working in almost 25 programs. Apart all of that the 10% of the benefits are invested in the R&D area of the enterprise. Their turnover for 2015 is over six hundred million euro.

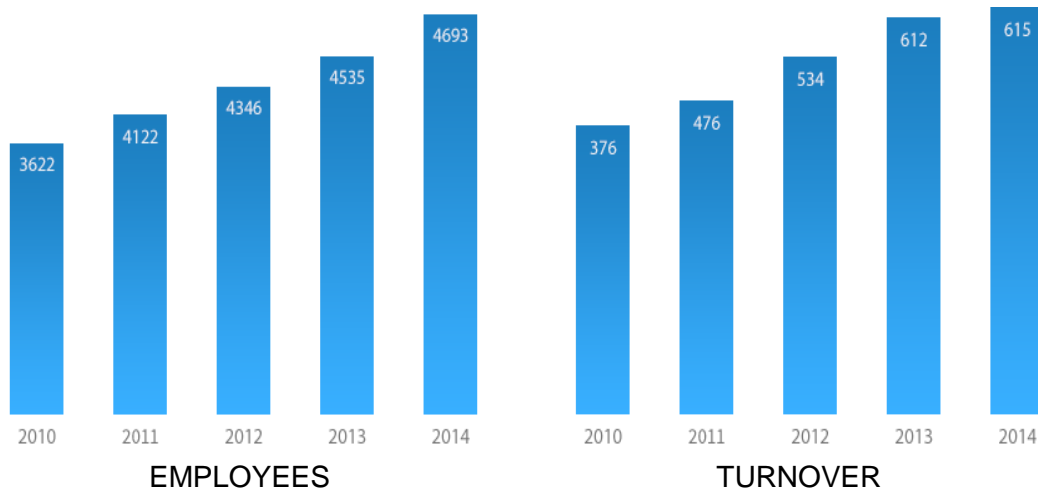


Figure 2.7: Aernnova Employees and turnover

Source: Aernnova website

They had four pillars in the enterprise divided in:

Assembly Plants: Aernnova has four assembly plants located in Spain, Mexico and Brazil, has over 1.500 employees. One of the plant and the one who is going to be analyzed is located in the Aerópolis of Sevilla since 2008 which main activity is focused on the assembly of aerostructures. They employ more than 230 worker, and its turnover for 2014 was nearly 14.5 million.

Engineering Plants: The group has eight engineering plants located mainly in Europe, countries like Spain, United Kingdom and Romania but also in Brazil and United States of America. They employ more than a thousand engineers and also spend more than 11 million hours of experience in product engineering and over 2 million hours of experience in manufacturing engineering. Headquarter is located in Miñano (Álava).

Composite Plants: They have also four plants of composite including the first plant of the group the fiberternic one, all of them are in Spain. Headquarter is in Toledo. They employ more than a thousand people.

Metallic components plants: Aernnova has also eight plants of metallic components distributed in Spain, Mexico and Finland, employing more than seven hundred employees, specialized in machining, sheet metal forming, surface treatments and metallic raw material management. Headquarters is aerometallic which is established also in Álava.

2.2.3 ALESTIS AEROSPACE S.L.

Alestis Aerospace was created in 2007, in 2009 got the integration of the companies Alcor and SACESA that provide over 20 years of experience in the sector. The creator was the Alcor group and Agencia Idea with the support of Junta de Andalucía and other financial institutions like Caixabank, Unicaja and the European Finances Bank. Alestis is part of the more relevant programs of the aircraft and spacecraft sector working for Airbus, Boeing and Embraer, also is known like other of the top three suppliers of spacecraft manufacturers.

The company was divided in 2010 by the sections Alestis Aerospace, Alestis Manufacturing, Alestis Engineering and Alestis do Brazil, throughout that sections they employ more than 1,500 workers in their nine workplaces located mainly in Spain but also in Brazil.

By May 2012, Alestis Aerospace entered in a voluntary creditor process to obtain time to solve their economic and financial problems. *“The not achievement of the financing needed to the investments of the group and the financing difficulties derivated made the group to enter in a voluntary creditor process. They maintain the faculties of administration under the supervision of the assigned process administrators which were Ernst & Young and Airbus Operations.*

Those companies presented in November 2013, the final report included also the debts by the absorption of the subsidiaries companies. Previously to that they also presented a guaranteed payment plan and viability plan which were approved by the General Board of creditors. A 100% payment with a waiting period of seven years.”

The judge let Alestis Aerospace go out of the creditor process by February 2014. By May 2014 Alestis Manufacturing and Alestis Engineering are absorbed by its parent company Alestis Aerospace.

By 2014 and 2015 the shareholding structure has changed, Airbus Group bought the shares part of Alcor group and caixabank and obtained the main control of the company with almost 62% of the shares, Unicaja still keeping the 14% of it and Junta de Andalucía gave his part which are 24% to SEPI an organization of the Central government.

The General Manager of Airbus Defence and Space in December of 2014 after controlling Alestis along that year said: “The first year of management went very well, but I would like a higher progression of the firm. There is structural optimization and costs problems that need to be solved, we hope in 2016 there will be equilibrium and from that point and on starts to grow.”¹ as we can found in the note 1.4 from the Management report of 2014.

2.2.4 ALESTIS AEROSPACE MANUFACTURING S.L (EXTINCT)

Alestis Aerospace Manufacturing was a subsidiary company from the Alestis Group. The Group was created in 2007 and divided by 2010 in Alestis Aerospace, Alestis Manufacturing, Alestis Engineering and Alestis do Brazil.

Alestis Manufacturing was responsible firm of the production and assembly needed in Alestis Group to provide the pieces ordered by their clients some of them are Airbus, Embraer or Boeing.

In 2013, Alestis Group started to absorb their subsidiaries Manufacturing and Engineering to reorder the group in one company controlled by the executive team. The main reason to this absorption was the serious problems with their economic and finances that lead to pay their employees a downsizing plan.

Moreover the restructuration of the firm was done to facilitate the control of Alestis Aerospace by their integration in 2014 to the Airbus Group. By this reason Alestis Manufacturing disappeared in 2013 and got absorbed by 2014.

1. Source: www.20minutes.com

2.3 ANALYSIS OF THE BUSINESS MODEL

Analyzing the business model of those enterprises we can find that their activities are mainly based in the manufacturing of pieces for the Aircraft and Spacecraft sector mainly used by Airbus, Boeing and Embraer.

Talking in a certain concrete way, we can say that **Airbus Defence and Space** has four business lines which are: Military aircraft; Space systems; Intelligence and Security; and finally Electronics.

Military aircraft: According to Airbus website, “Designs, develops, delivers and supports military aircraft, and it’s the leading fixed-wing military aircraft centre in Europe. Also is one of the market leaders for combat, transport and tanker aircraft worldwide. It is the most important for the group and which gives more revenue”

Space Systems: Also according to the announcement of Airbus “Cover the full range of civil and defence space systems with its unique expertise. Its satellite system solutions for telecommunications, earth observation, navigation and science include spacecraft ground segments and payloads. As the European prime contractor for launchers, orbital systems and space exploration”

Communication, Intelligence & Security (CIS): Airbus said “Is the new “one-stop-shop” for satellite and terrestrial communication, intelligence and security services and solutions. The customer base encompasses both the government sector and commercial sector including transportation, energy, mining and agriculture.”

Electronics: following what airbus said “Will provide high performance equipment for system integrators serving both himself as well as external customers worldwide. Products are mainly for civil, defence, and security markets covering ground, maritime, airborne and space applications.”

As said before, Aernnova has 4 business lines: Assembly; Engineering; Composite and Metallic components Line, but the section of Andalucia only use as business models two of them: Metallic components and his assembly.

The **Metallic component line** is specialized in machining, sheet metal forming, surface treatments and metallic raw material management, following the specialized website Hélice more concrete the INTECAIR which is the plant in Andalucia is “specializing in aeronautical sheet metal and final processes, accustomed to integral management operations and high delivery data and quality standards, his processes are continually evolving, using new technologies with investments in cutting-edge machinery.”

The main goal of **Assembly line** in Sevilla according to the specialized website Hélice is “to ensure customer satisfaction by compliance with deadlines and a guarantee of cost-efficiency. Its primary fields of activity are structural assemblies like metal, kevlar, fibre glass and carbon, providing integral programmed management”

Alestis Aerospace has a business model according to Hélice: “Alestis Aerospace, is a leader in the carbon fiber and composites technologies, takes full responsibility for the design, development, certification, manufacturing and support of complex carbon fiber aerostructures. Advance automatic processes as Automated Tape Lay-up (ATL), Fiber Placement (FP), Out of Autoclave (Resin Transfer Molding RTM), guarantee our commitment with innovation and technology.”

Analyzing all these information obtained from the business model of the companies we can state that there are two kinds of sources of income in the sector, one is the manufacturing and selling of the products like military aircraft, the ariane’s launcher in Airbus or the cone tail manufacturing and assembling for the Airbus A350 in Alestis Aerospace.

The other source of income is about the supply of services which is implanted in the companies, this turnover involves the use of composites and other services like

systems in Airbus Defence and Space, but is small compared to the manufacturing and selling of products as we can see in the following figure.

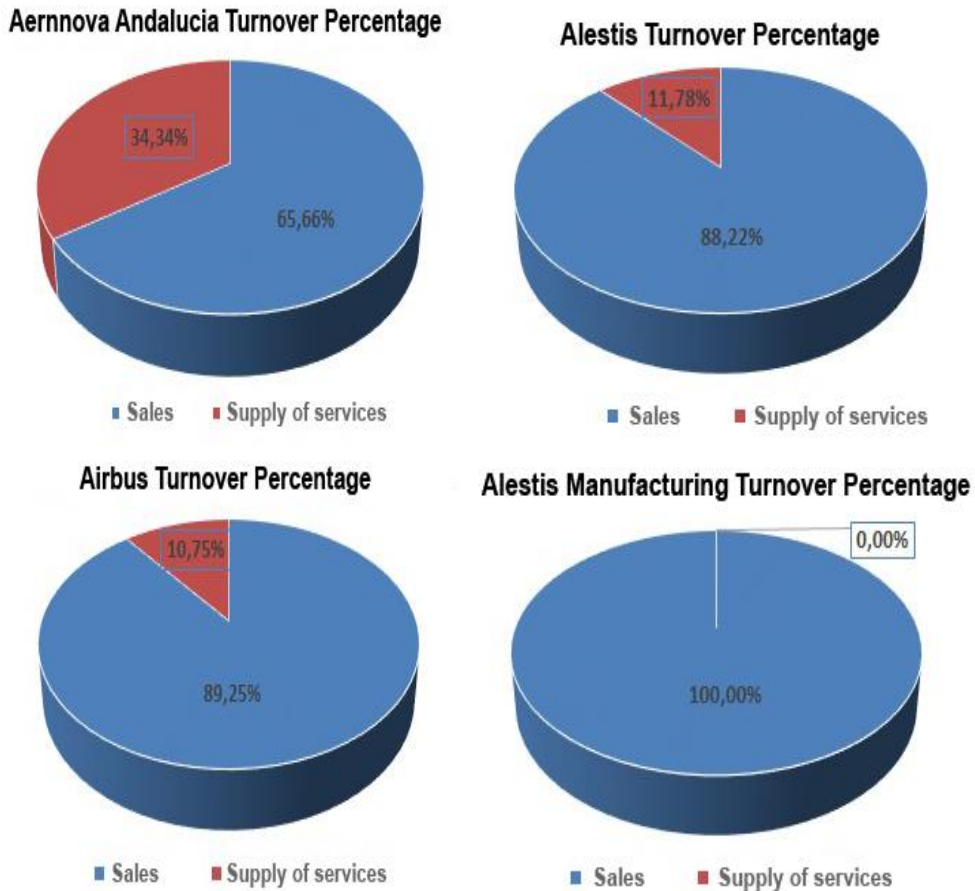


Figure 2.8: Analyzed companies turnover percentage
Source: Compiled by author

This figure represents the turnover for the companies analyzed, as we can observe, although Aernnova has 34% of Supply of services, there is a huge difference between the sales and the supply, reaching sales in Alestis Manufacturing the 100% of the turnover, so that is the reason which the subsidiary is called Manufacturing, they don't have any kind of supply of services.

CHAPTER 3

FINANCIAL ANALYSIS OF THE ENTERPRISES

3. PROFITABILITY, LIQUIDITY AND SOLVENCY ANALYSIS

3.1 AIRBUS DEFENCE AND SPACE S.A.

BALANCE SHEET:

- Economic Structure:

The total assets of the firm used to stay more less stable for the three first years analyzed but to a decreasing of 11% each of the two last year let it going down from 5.348.054.000 € to 4.382.493.000 € in 2014 suffering during the period a total reduction of more than 18%.

The non-current assets have been stable for all the period analyzed from 1.226.669.000 € which represent the 23% of the total in 2010 to 1.266.176.000 € in 2014 which is a 29%, this slightly increase in the percentage was produced because the reduction of the current assets. The most representative account is the tangible fixed assets which represents in 2014 the 13% of the total assets followed by deferred tax assets which is a 9%.

Regarding the current assets they represent during the period more than 70% of total assets, getting reduced from 77% in 2010 to 71% in 2014, led total current assets from 4.121.385.000 to 3.116.317.000 €. Inventories, trade account receivable and other receivables, and cash and equivalents are the most significant accounts representing 33%, 21% and 14% respectively from the total assets.

The reduction was led in 2013 by the reduction of trade accounts receivables and other receivables in 30%, a reduction of almost 400 million, because the decrease of receivables for sale and services in almost 50%. The decrease is led by the reshaping of Airbus supplier from external companies to companies of the group, as we can observe in the change from trade accounts receivable from subsidiaries and associated between 2013 and 2014 who got increased in a 77%.

The reduction in the current assets is also led by the decrease in cash and equivalents which has a reduction of 53% starting at 1.309.926.000 € in 2013 and get decreased to 619.760.000 € in 2014 because of the combination of all cash transactions made by the company.

- Financial Structure:

The main source of financing for Airbus are the customer advances which represents the 34% of the total equity and liabilities. Also their supplier which represents 18% of the total equity and liabilities with the account trade account payables for purchases and services.

Equity has decreased since 2010 by 44.15% from 620.556.000 € to 346.611.000 € mainly because the reduction of reserves in 2013 which have been made because the negative result in the income for the year obtained in 2012 and the accumulated prior year's negative income. Equity is 8% of total assets in 2014.

Respect to liabilities the non-current liabilities have been increasing during the whole period from 768 million to 1.053 million mainly led by the increasing of the account other provisions which is the most significant representing the 15% of the total equity and liabilities. The growth in provision was made because the agreement to the redistribution of the future losses from program A400M, is the percentage corresponding to Airbus Defence and Space from the whole loss for the group as we can see in section 4 of notes from company annual report of 2012.

As we can observe the current liabilities have been reduced from almost 4 billion in

2010 to almost 3 billion in 2014, the main reason is the reduction in the trade accounts payables from more than 3'9 billion to almost 2'7 billion in 2014 led by the reductions in 2013 and 2014. The current liabilities also have remained stable during the last three years representing 68% of total assets. The most significant accounts are the mentioned before: customer advances and trade account payables for purchases and services.

INCOME STATEMENT:

Net turnover has increased throughout the period, from around 2'2 billion in the first three years to reach almost 2'9 billion 2013 and 2'9 million in 2014. This increase is mainly due to the increase of sales which is the most representative part of the income, representing 89% from Airbus income. The increase in sales is more than 31%, in addition the services rendered also got increased by 80%

Taking a look at the income statement we can observe that analysis can be divided in two periods, before 2012 and after 2012. Before 2012, we observe that operating income is positive, around 3%-4% of the net turnover being more than 60 million in 2010 and more than 90 million in 2011. In 2012 there's a turning point for the firm, in that year they had a negative operating income of more than 246 million, the main reason is the new provision made because of the program A400M, which increases the provisions for trade operation within the other operating expenses in 334 million € as we can see in section 4 of the notes from the 2012 management's report.

In the period after 2012, the operating income got increased to over 170 million and 140 million, representing the 6% and 5% respectively for 2013 and 2014. This can be explained with the increase in the Net turnover which get increased from around 2.200 million € in the period 2010-2012 to nearly 2.900 million € in 2013-2014, even though the increase in procurements in more than 300 million, personnel expenses in nearly 100 million and the decrease in the financial revenues who lead to a first negative financial income in 2014 of minus nearly 19 million. Also because there is no other provision to have made to the contrary than in 2012.

The financial revenues and therefore the financial income have had a decreasing tendency throughout the period. Financial revenues started in 28 million in 2010 and be decreased to 4 million in 2014 that lead the financial income to get a negative tendency from nearly 23 million to nearly -19 million in the same period. The decrease in the financial income is also supported in the tendency for exchange differences which passed from being positive in the period 2010-2013 with a medium of 8'65 million in that period getting decreased to -9'5 million in 2014.

The most important accounts in the operating income are: Sales which represent the 89% of net turnover for 2013 and 2014 which have increased in a 35% from the period 2010-2012 to 2013-2014; procurements which represent the 63% of the expenses and have increased in a 21% for the period 2013-2014 respect to the other period, and which more representative accounts are consumption of raw materials and other consumables, and the works performed by other companies which represent the 31% and 33% respectively of the expenses. Also have to mention the wages, salaries and similar expenses which represent around the 14% of expenses and the outside services which represents around 13% of the expenses.

Income for the year has followed the same trend than operating income because is the main source of income for Airbus, but Income for the year has a big decline in the trend in 2014. The main reason can be found in the management report of 2014, section 22 of notes, that says "*The corporate tax have been modified getting reduced from 30% actual to a 28% in 2015, and 25% in subsequent periods. In consequence, the firm has registered the old deferred assets in function of the current tax. The effect has made adjust of increase in the corporate tax, so the income for the year have been reduced in 39.978.000 €.*"

CASH-FLOW STATEMENT:

Regarding the cash flow, cash flow from operating activities varies throughout the period, 2010 is positive over 318 million, in 2011 has a negative result of almost 283 million mainly due to the extremely variation of accounts payables and other payables within the changes in working capital. It varies from 832 million positive to a negative result of almost -146 million and that's the main driver of the variation in the changes in working capital for 2011.

In 2012 CFO become again positive by nearly 190 million mainly due to the collection of 127 million from accounts receivables and other receivables, and the reduction by almost 50% of the increase in inventories by more than 81 million. As we can observe in 2012 the negative income before taxes don't affect the CFO since the reason of that result is the provision made, which not implies a payment of cash consequently they have made an adjustment to income for the total of the provision.

In 2013 the CFO is again negative leded by the huge reduction of 800 million in the accounts payable which consequently suppose a cash payment palliated mainly with the collection of accounts receivables, the reduction of payment for other current assets and the collection from inventories and other non-current assets and liabilities which passed from 0 in 2012 to more than 176 million in 2013.

Finally in 2014 there's a huge increase of the negative CFO changing from -164 million to more than -450 million even though the account payable got reduced by 84%, the accounts receivable also got reduced, the negative result is mainly due to the increase of inventory by 469 million.

Regarding the cash flow from investment activities it have a tendency of reduction during the period 2010-2013 passes from -132 million to only -10 million in 2013 a reduction of the 92'5%, but in 2014 it suffers a huge increase reaching -242 million mainly due to the increase in payment for investments in: intangible assets by 86'5 million, tangible fixed assets by almost 72 million and other financial assets by almost 86'5 million.

Concerning the cash flow from financing activities is positive throughout the whole period. During the two first year results were 17 million on average not giving dividends, got a peak in 2012 of 101 million and also giving more than 91 million of dividends because the collection by issuing of other debt of more than 177 million.

In 2013 it get reduced in a half to more than 56 million because of the reduction in the issuing of other debt for 75 million, they don't gave dividends this year. Also in 2014 the cash flow from operations get reduced to 13 million, but in this case they gave dividends of 92 million, likewise as above they could give it because of the issuing of other debt for a value of 118 million.

To summarize Airbus could have a problem regarding the cash flow from operations since in three of the five years analyzed they had negative CFO and that negative result is not covered neither cash flow from investment nor cash flow from financing.

Is important to notice that in 2014 the majority of the negative CFO was generated because the increase in inventories, that could be bad in another kind of company, but in the case of Airbus is not a problem since as we explained in the business model, they work with contracts with their clients. The meaning is that they will generate inventories to assembly the materials to sell their products.

In any case, Airbus have to put efforts in generate positive CFO, balancing its collections of money from customers with their generation of inventories or at least cover its negative results with some investment or financing cash flows.

PROFITABILITY ANALYSIS:

PROFITABILITY ANALYSIS	2010	2011	2012	2013	2014
EBIT	101.341	120.490	152.650	188.705	136.750
ROA (Return on Assets)	1,89%	2,30%	2,75%	3,83%	3,12%
Profit Margin	4,63%	5,31%	7,16%	6,56%	4,71%
Assets turnover	0,41	0,43	0,38	0,58	0,66
Return on Operating Assets	1,78%	2,33%	3,19%	4,88%	3,96%
Operating Profit Margin	3,01%	4,18%	6,48%	6,70%	5,50%
Operating Assets Turnover	0,59	0,56	0,49	0,73	0,72
ROE	14,47%	17,49%	34,47%	41,29%	35,62%
Decomposition ROE:					
ROA	1,89%	2,30%	2,75%	3,83%	3,12%
FINANCIAL LEVERAGE	7,62	7,27	12,55	10,54	11,64
AIR	0,24%	0,21%	0,22%	0,28%	0,33%
SPREAD	1,65%	2,09%	2,53%	3,55%	2,79%
ROA + (FLEV* SPREAD)	14,47%	17,49%	34,47%	41,29%	35,62%

Figure 3.1

Source: Compiled by the author

The trend in return on assets is positive and increasing during the period until 2014 which get a little reduction, follows a similar trend than the operating income because they are related but excluding the provision made in 2012. During the whole period varies from 1.89% top to 3.83% in 2013, the increase is related to the increase in EBIT of the firm by more than 86% while the total assets remain stable.

In 2014, ROA is 3.12%. The reduction is leaded by the decrease of EBIT, but the effect is lower than it might be, because the continuous reduction of total assets during 2013 and 2014.

The profit margin varies throughout the period around 4.5% and 6.5%, the trend depends on EBIT that moves very related to the Net turnover, because both moves in similar proportion. Regarding assets turnover it gets increased because both, the reduction of assets during the period and the increase in net turnover of the firm.

The return on operating assets has a positive tendency, starting in 1.78% in 2010, reaching 4.88% and almost 4% respectively in 2013 and 2014. This increase is mainly focused in the increase of sales obtained by the firm.

ROE follows the same trend than ROA. Before 2012, ROE is 14.47% and 17.49% respectively, closely related to the financial leverage which are 7.62 and 7.27 while the AIR is maintained more or less constantly during the period 2010-2012 around ~0.22%.

In 2012 the financial leverage increased because of the reduction in the equity since income for the year is negative, and the increase in non-current liabilities since increase in provision. In this year, the increase in leverage affects in very positive way to the shareholders, leading an increase in the result of ROE who skyrocketed the ROA from almost 2.75% to reach a ROE by 34.47%. Furthermore the financial leverage have keeps over 10.5, and over 11.5 respectively in 2013 and 2014, which made the increase in ROA boosts ROE to 41.29% and 35.62% each year respectively.

In my opinion Airbus Defence and Space is a solid firm, is profitable during whole period and also are improving the results for the company and shareholders. The result in 2012 is not to be worried about, was due to the provision and the company was aware about it. Airbus is a successful company with a good management taking care of improvement the results and everything will be going well in the future.

LIQUIDITY ANALYSIS:

LIQUIDITY ANALYSIS (In thousand euro)	2010	2011	2012	2013	2014
OWCR	-1.434.785	-1.029.133	-1.074.929	-742.052	-287.928
WC	162.246	165.865	375.500	287.786	133.697
WC-OWCR = WC Surplus/Deficit	1.597.031	1.194.998	1.450.429	1.029.838	421.625
Financial Current Liabilities	42.284	49.159	52.220	192.689	231.116
WC Surplus + Short Term Debt	1.639.315	1.244.157	1.502.649	1.222.527	652.741
DIFFERENCE	1.639.315	1.244.157	1.502.649	1.332.773	723.715
Liquidity Stock Ratios					
Current Ratio	1,04	1,04	1,10	1,09	1,04
Quick Ratio	0,74	0,69	0,72	0,67	0,56
Cash Ratio	0,41	0,32	0,39	0,40	0,24
Activity Ratios					
Inventory Turnover of raw material		5,60	5,02	6,30	5,88
Days Inventory Held of raw material		64,24	71,72	57,16	61,19
Accounts Receivable turnover		1,80	1,70	2,93	3,71
Days Receivable Outstanding		199,99	211,97	122,73	97,06
Accounts Payables turnover		1,93	2,20	3,00	1,75
Days Payables Outstanding		186,39	163,43	119,98	205,27
Average length of the operating cycle		77,85	120,26	59,91	-47,02
Liquidity flow measures					
CFO	318.730	-282.889	189.378	-164.511	-452.740
FFO	174.524	204.419	-81.524	168.173	99.485
Cash flow Ratio (CFO/Current Liabilities)	0,08	-0,07	0,05	-0,05	-0,15
Current financial liabilities / CFO	0,13	-0,17	0,28	-1,17	-0,51
Current financial liabilities / FFO	0,24	0,24	-0,64	1,15	2,32

Figure 3.2

Source: Compiled by the author

The operating working capital requirements are negative and has a tendency of reduction throughout the period from 1'4 billions to almost 288 million in 2014, mainly due the reduction of the operating current liabilities, that means the firm are putting efforts in improving the performance of the firm. In addition the working capital being more or less stable during the period, but to a 126% increase in 2012 and a reduction to its normal amount again in 2014. Both together shows that Airbus has a high WC surplus during the first years but to a tendency of reduction passing from almost 1'6 billion in 2010 to 421 million in 2014. Based on those result we can state that Airbus has financial equilibrium. Difference is equal to the non-operating current assets.

Concerning the liquidity stock ratios, we observe that current ratio remain stable over 1 during the period, which means they can cover their current debt as they become due. Quick Ratio has a trend of decreasing, which means that, without inventories, they can't cover their current debt as they become due. There's not to worry about it, since Airbus is creditworthiness and also their inventory is work in process which are to be sold as they become ready, because they work under contract.

Cash Ratio has a trend to decrease, its results are very low and they have to keep it in mind because they could have problems if they have an emergency. The decrease was mainly due to the reduction of cash and cash equivalent in 2012 because the provision mentioned in the management report of that year.

Regarding activity ratios, the average length of the operating cycle varies from positive in the first 4 years to negative by -47 days in 2014 due to increase in accounts receivable turnover that means they convert its accounts receivables in cash quicker than they have to pay its account payables which turnover also have been increased.

Cash flow ratio shows bad result due to the negative CFO in the two last years, especially in 2014, Airbus have to put efforts to improve that cash flow from operations. Regarding Current financial liabilities can't be covered with CFO in 2011, 2013 and 2014 due to its negative results, but can be covered with FFO.

To Summarize Airbus with its business model is a liquid firm but has a

potential risk of liquidity, they have to put efforts since the CFO is negative during the last two years mainly due to the inventories accumulated, but they are extending the payment period and reducing the collection period to approach that problems. During the whole period they can cover the current financial liabilities due to CFO or FFO, but as said before they need as soon as possible to start generating positive CFO and reduce the risks derivate from their huge amount of inventory.

SOLVENCY ANALYSIS:

SOLVENCY ANALYSIS (In thousand euro)	2010	2011	2012	2013	2014
Solvency Stock Measures					
Total Assets	5.348.054	5.236.190	5.555.362	4.926.294	4.382.493
EQUITY	620.556	633.424	409.974	426.936	346.611
Total Liabilities	4.727.498	4.602.766	5.145.388	4.499.358	4.035.882
T.A. / T.L.	1,13	1,14	1,08	1,09	1,09
EQUITY / T.L.	0,13	0,14	0,08	0,09	0,09
Solvency Flow Measures					
EBIT / Interest Expense	8,77	12,41	-19,57	15,17	10,29
CFO	318.730	-282.889	189.378	-164.511	-452.740
FFO	174.524	204.419	-81.524	168.173	99.485
CFO / T.L.	0,07	-0,06	0,04	-0,04	-0,11
Total Financial Liabilities / CFO	0,77	-0,90	2,29	-3,54	-1,30
Total Financial Liabilities / FFO	1,40	1,24	-5,31	3,46	5,93
(Total Financial Liabilities - NoA) / CFO	-4,72	3,79	-5,99	4,96	0,45
(Total Financial Liabilities - NoA) / FFO	-8,61	-5,25	13,92	-4,85	-2,05

Figure 3.3

Source: Compiled by the author

The total assets to liabilities ratio are good enough despite the reduction over the years, it's a safety cushion to creditors if the firm goes bankrupt. The equity to liabilities ratio follow the same trend since they are related.

The interest coverage ratio seems good for all the period except for 2012 because of the negative EBIT for that year. Concerning the cash flow ratio to total liabilities its negative in 2011, 2013 and 2014 since it is related to CFO.

Regarding the coverage of financial liabilities, due to the bad results in CFO during the period it means that took long time to Airbus to cover its total liabilities, since they can cover only with FFO.

To summarize, Airbus has to put a lot of efforts on improving their cash flow from operating activities since they are not generating enough cash to cover their financial liabilities and it could make them have solvency problems in the future.

CONCLUSION:

In conclusion, Airbus Defence and Space is a solid firm within the industry, is the absolutely leader, is profitable, they have some problems of liquidity but they are approaching solutions to that and also are a creditworthiness company, but if they don't solve the problems with CFO they might have some problems of liquidity and solvency in the future. They just have to focus on improving their CFO because they have a lack of it leaded by the increase in inventory who will be solved controlling the amount of inventories or as they actually do reducing the collection periods and extending the payments periods in addition they are accumulating cash and equivalents. But it's not critical situation, since they manufacture inventory to assembly within the contracts with their customers because it took time to serve the orders to them.

3.2 AERNNOVA ANDALUCIA ESTRUCTURAS AERONÁUTICAS S.A.

BALANCE SHEET:

- Economic Structure:

The economic structure of Aernnova suffered a huge reduction of more than 36% in 2011 passing from 24 million of total assets in 2010 to more than 15 million in 2011, mainly led by the huge reduction of over 65% in the receivables from subsidiaries and associated companies. After that, they have been growing every year, 13%, 6% 9% each year respectively, reaching almost 20 million, led by receivables from subsidiaries. As we can read in the management report, the most part of the net turnover comes from operations with subsidiaries or associated companies.

In percentage, the structure have been modified during the whole period analyzed but actually in 2014 is the same than in 2010, around 48% of non-current assets and 52% of current assets.

The non-current assets most representative account during the whole period is tangible fixed assets, more concretely the Land and structures which represent more than 73% of it. Regarding current assets, as said before represents 52% of the total assets and the most representative account is receivable from subsidiaries and associated companies which represents 92.5% of the total current assets.

- Financial Structure:

Equity of the company have been growing throughout the period analyzed, starting in 2010 in -389.000 € and reaching in 2014 3.518.000 €. The reasons for that movement are the reduction of the losses in the income for the year which have been reduced from -4'6 million to a positive income for the year in 2014 of 315.000 €, and the losses accumulated in the prior years' negative income which have been compensated with other owners contributions of 2'5 million in 2011, 1.342.000 in 2012 and also 3'8 million in 2013 as we can see in section 9.2 of the note from the management report of 2013.

Regarding liabilities, they have been reduced throughout the period. In absolute terms the non-current liabilities have been reduced from 8'6 million in 2010 to 5'5 million in 2014 a global reduction throughout the period of more than 36% due to the reduction of long-term debt payable to credit institutions. In percentage it has passed from 36% of the structure in 2010 to 28% in 2014. Its most representative account is the mentioned Long-term debt payable to credit institutions that represent more than 76% of the non-current liabilities.

On the other hand, the current liabilities also have been reduced in absolute terms from 15'8 million in 2010 to almost 11 million in 2014 a reduction of almost 31%. It represents 55% of the structure in 2014 while Equity passes from negative in the three first years to reach 18% in 2014. Its most representative account is short-term debt payable to subsidiaries and associated companies that represents de 71.66% of the current liabilities.

The main sources of financing comes primarily from short-term debt from subsidiaries and associated companies representing the 39% of the total, also from long-term debt payable to credit institutions that represents 21% of the total. In addition have to notice that during the first three years there were negative Equity but in 2014, the capital from shareholders represents the 18% of the financial structure.

INCOME STATEMENT:

Net turnover has increased throughout the period, from 10'9 million in 2010 until reach more than 14 million in 2014, this increase is mainly due to the improvement in the contracts obtained during the period 2012-2014 to increase the manufacture of pieces for Eurocopter, Embraer, Agusta Westland and Airbus as we can read in the page 25 of the notes from the manager report.

Taking a closer look to the income statement, we can observe that the operating income has followed an ascendant trend throughout the whole period analyzed, started in almost -4 million in 2010, reaching a positive result in 2014 over 1 million of € being the 8% of the Net turnover. This positive trend can be explained as following:

Sales have increased by almost 58% in 2014 compared to 2010 maintaining the services rendered, in addition they have reduced the cost of procurements in more than 50% mainly due to the reduction of the outsourcing of work while it represents more than 92% of procurements during the period. Furthermore they had reduced the fixed assets depreciation expense in almost 62% during the period from almost 2 million to 755.000 €, all of these are the drivers of the ascending operating income even though the personnel expenses and the operating expenses have growth to support that increase in net turnover.

Concerning the financial income, it remains stable during the period, started at 5 or 6% of the net turnover in the first two years, but gets reduced in percentage to 4% due to the increase of net turnover over the period. The majority of the financial expense is from subsidiaries and associated companies representing between 62% and 85% of it. In addition there's no financial revenues.

Following aforementioned before let us understand why the income for the year followed the same trend than operating income, being -4'6 million in 2010 and reaching a positive result of 315.000 € in 2014.

CASHFLOW STATEMENT:

Regarding the cash flow statement, CFO varies during the period analyzed, in 2010 has a result of more than -10 million, mainly due to the increase in accounts receivables, that made a change in working capital of -7'5 million also supported by the negative income for the year. In 2011 returned a positive result of 5'3 million because the collection of receivables and by 58% reduction from result of income before taxes.

In 2012 and 2013 also a negative result of -1'3 million and -819.000 respectively in CFO driven by the increase of accounts receivables in both years despite the funds from operations finally turned positive. Finally in 2014 has again a result of almost -2 million driven by the same reason than years before but in addition they also had to do payments of their account payables.

Concerning the cash flow from investment activities, except for the first year they had a negative result during the whole period analyzed. In 2010 they had a positive result of 4'1 million driven by the disinvestment of tangible assets to approach the possible problems of liquidity due to the bad results. Following years they had negative results around 200 and 800 thousand euros due to payments for investing in assets.

In addition respecting the cash flow from financing activities, in 2010 they obtained almost 7'7 million by the issuing of long-term debt payable to subsidiaries and associated companies to afford the liquidity problems because of the bad year so the effect in net decrease in cash and equivalents were only -14.000 €

Furthermore in 2011 they issued equity instruments that in addition to the mentioned above collection of receivables by 7'6 million let them to refund the whole long-term debt payable to subsidiaries and associated companies and the corresponding long-term debt payable to credit institutions. During the following three years they obtained funds from both, the issuing of long-term debt payable to subsidiaries and issuing of equity instruments. Reporting a result of cash flow from financing activities of 2'1 million, 1'2 million and almost 2'4 million each year respectively.

To sum up, Aernnova despite the negative results of income for the year in the period 2011-2013, has positive cash-flows since they have been supported by their parent group injecting long-term debt. Have been improving their results of income during the period but the management has to put efforts to continue the improvement of the net turnover until they can cover the cash flows with its own activity.

PROFITABILITY ANALYSIS	2010	2011	2012	2013	2014
EBIT	-3.976	-1.293	-297	-35	1.081
ROA (Return on Assets)	-16,54%	-8,42%	-1,71%	-0,19%	5,42%
Profit Margin	-36,47%	-13,47%	-2,17%	-0,24%	7,57%
Assets turnover	0,45	0,63	0,79	0,79	0,72
Return on Operating Assets	-16,62%	-8,46%	-1,72%	-0,19%	5,44%
Operating Profit Margin	-66,86%	-20,00%	-2,91%	-0,37%	11,56%
Operating Assets Turnover	0,25	0,42	0,59	0,52	0,47
ROE	-	-	-	-19,49%	16,09%
Decomposition ROE:					
ROA	-16,54%	-8,42%	-1,71%	-0,19%	5,42%
FINANCIAL LEVERAGE	-62,79	-78,14	-135,35	4,61	4,67
AIR	2,43%	3,90%	2,99%	4,00%	3,13%
SPREAD	-18,97%	-12,32%	-4,70%	-4,19%	2,28%
ROA + (FLEV* SPREAD)	1174,55%	954,27%	634,88%	-19,49%	16,09%

Figure 3.4

Source: Compiled by author

PROFITABILITY ANALYSIS:

ROA is negative throughout the majority of the period starting at -16.54% with a trend of reduction until 2014 where turns positive by 5.42%, this change was led by the EBIT which turned from negative results to positive during the period. Profit margin has the same tendency as ROA but with higher results since they are linked by EBIT but related to net turnover instead of total assets. Starting at -36.47% and finishing in 2014 with positive 7.57%.

Return on operating assets is closely linked to ROA and are almost the same following the same trend at all since operating assets during the whole period represents almost 100% of total assets

Regarding operating PM, follows the same tendency with higher numbers than profit margin since both uses the recurring operating income but in the case of OPM was related to sales instead of net turnover.

Concerning ROE, during period 2010-2012 there is huge positive ROE since both recurring EBT and equity were negative for the company, but it's a fictitious result.

Since 2013 there is equity again in the company by almost 3.3 million and more than 3.5 million each year respectively. In those two year we can observe that the financial leverage affects in both ways to shareholders. Negatively in the first year driving negative ROA of -0.19% to a negative ROE of -19.49%, and positive in second year where financial leverage helps the shareholders due to ROA is higher than the AIR. It drives the result of ROA by 5.42% to reach the ROE by 16.09%.

To summarize, company was in a bad situation since start of period analyzed, especially in its first year due to the huge bad EBIT. They were not profitable firm but throughout the years they have been reducing the bad results supported in the parent company. In 2014 Aernnova Andalucía seems starting to be profitable, but they must keep an eye on how the management works the next years trying to increase their net turnover to increase their ROA and starts to grow.

LIQUIDITY ANALYSIS (In thousand euro)	2010	2011	2012	2013	2014
OWCR	9.221	2.648	3.736	4.842	7.878
WC	-3.177	-4.090	-4.642	-1.433	-507
WC-OWCR = WC Surplus/Deficit	-12.398	-6.738	-8.378	-6.275	-8.385
Financial Current Liabilities	12.457	6.797	8.453	6.302	8.394
WC Surplus + Short Term Debt	59	59	75	27	9
DIFFERENCE	59	59	75	27	9
Liquidity Stock Ratios					
Current Ratio	0,80	0,54	0,59	0,85	0,95
Quick Ratio	0,77	0,50	0,59	0,85	0,95
Cash Ratio	0,00	0,01	0,01	0,00	0,00
Activity Ratios					
Accounts Receivable turnover		1,16	2,46	1,98	1,56
Days Receivable Outstanding		309,36	146,57	182,12	230,43
Accounts Payables turnover		0,07	-0,01	0,00	0,00
Days Payables Outstanding		0,00	0,00	0,00	0,00
Average length of the operating cycle		309,36	146,57	182,12	230,43
Liquidity flow measures					
CFO	-10.236	5.346	-1.318	-819	-1.952
FFO	-2.649	-1.273	-70	449	1.070
Cash flow Ratio (CFO/Current Liabilities)	-0,65	0,60	-0,12	-0,08	-0,18
Current financial liabilities / CFO	-1,22	1,27	-6,41	-7,69	-4,30
Current financial liabilities / FFO	-4,70	-5,34	-120,76	14,04	7,84

Figure 3.5

Source: Compiled by author

LIQUIDITY ANALYSIS:

Concerning liquidity analysis, OWCR varying have a positive trend during the whole period starting at 9 million in 2010, reduced to 2.6 million in 2011 and a growing trend until reach 7.8 million in 2014. Working capital has negative results during the period but to a reducing trend, reaching -507.000 in 2014. Both reasons leads to a working capital deficit of quantities comprehend between 12'4 million in 2010 and 8'4 million in 2014. Deficit is covered with short-term debt reaching positive differences.

Concerning liquidity stock ratios, current ratio starts in 0.80 decreasing until 2012 and growing from that point to 0.95 in 2014 mainly due to the reduction of total current liabilities despite the reduction of total current assets. Quick ratio is in the majority of years the same as current ratio since they don't have inventories nor accruals. Cash Ratio is 0 during the period, meaning they haven't cash nor equivalents and will have difficulties if there's an emergency, won't dealing with the problem.

Regarding activity ratios, company has the most part of their payables as services not as purchases, that's why the average length of the cycle is always positive.

CFO is negative during all years except in 2011 that reach 5'3 million, in 2010 has the highest negative result by -10.2 million, but got a trend of reduction in three last year's reaching in 2014, -1'95 million. In opposite, FFO starts in -2.65 million and being reduced during the period upon reach 1 million positive result in 2014.

Cash flow ratio has negative results but decreasing trend, from -0.65 in 2010 upon reaching -0.18 in 2014, mainly due to negative CFO obtained. CFO can't cover the financial current liabilities neither year, except 2011 due its positive result, to the contrary, the positive tendency of FFO bring it to cover the financial current liabilities in the two last years. So current financial liabilities can't be covered neither CFO nor FFO in 2010 and 2012. Coverage ratios tell us what we were thinking, they need to improve CFO to be a solid firm.

The firm can have problems of liquidity since they're covering the OWCR with short term debt which is not a good idea to maintain a financial equilibrium, they must tend to refinancing it to long-term debt. Moreover the firm is producing negative CFO during the last three years which is a situation to be worried about, the main problem is that

they're not collecting receivables from their customers whilst they were paying the receivables to their creditors. They must start to collect those receivables from their customers to obtain positive CFO and being a liquid company without financial problems.

SOLVENCY ANALYSIS (In thousand euro)	2010	2011	2012	2013	2014
Solvency Stock Measures					
Total Assets	24.037	15.350	17.331	18.354	19.946
EQUITY	-389	-199	-129	3.273	3.518
Total Liabilities	24.426	15.549	17.460	15.081	16.428
T.A. / T.L.	0,98	0,99	0,99	1,22	1,21
EQUITY / T.L.	-0,02	-0,01	-0,01	0,22	0,21
Solvency Flow Measures					
EBIT / Interest Expense	-6,70	-2,13	-0,57	-0,06	2,10
CFO	-10.236	5.346	-1.318	-819	-1.952
FFO	-2.649	-1.273	-70	449	1.070
CFO / T.L.	-0,42	0,34	-0,08	-0,05	-0,12
Total Financial Liabilities / CFO	-1,98	2,37	-10,48	-13,49	-6,87
Total Financial Liabilities / FFO	-7,66	-9,94	-197,29	24,61	12,53

Figure 3.6

Source: Compiled by author

SOLVENCY ANALYSIS:

Concerning solvency, total assets to liabilities ratios are below 1 during first three years which means company is in bankruptcy. There's negative equity but with contributions from owners during 2011, 2012 and 2013 make it change and turns positive reporting a ratios of 1.22 and 1.21 each year respectively. As the Equity to total liabilities ratio is linked to the one above, it passed from negative to positive by 0,21 in 2014.

The interest coverage ratio have a positive tendency by the same reasons mentioned above, passing from -6.70 in 2010 to a positive 2.10 in 2014, it's a good results meaning that EBIT can cover two times the interest expenses for its debts.

Regarding the CFO to total liabilities ratio it varies during the period reported, obtaining negative results in 2010, 2012, 2013 and 2014 due to the lack of positive CFO that can be solved if they collect part of the accounts receivables due.

To summarize the company have been in serious solvency problems. They have improved their total assets respect to total liabilities with contributions by owners, due to bad management. They must put a lot of efforts changing negative CFO to positive like reducing the period of collection of receivables or starting to support the income from operating activities with some long-term financial income.

CONCLUSION:

Aernnova Andalucia is a firm which have serious problems of profitability, liquidity and solvency, that with the contributions of the owners and the support of the parent company is turning slowly into a profitable firm. They have improved the profitability of the firm and are working on improving the liquidity of the company. They must focus on reduce the time to collect the accounts receivables and improve as much as possible the net turnover with new contracts as they're doing. Also they must try to change the short-term financial debt to long-term debt to be also a solvent company, trying to be in a financial equilibrium which they're not.

They have the advantage of being part of the second higher group of the industry and get support of them, e.g. their short-term debt to subsidiaries and associated companies can be refinanced to long-term as the parent company will.

3.3 ALESTIS AEROSPACE S.L.

BALANCE SHEET:

- Economic Structure:

Economic structure have been growing throughout the period analyzed even though current assets have been decreased in more than 43% from 136 million to 76 million from 2010 to 2014. Total assets have grown from almost 334 million reaching 415 million in 2014, a growth of more than 24% mainly due to the increasing of non-current assets in 71%, reaching more than 338 million in 2014 which represents a higher result than the total assets in 2010. All these changes have critically modified the percentage structure, which in 2010 were 59% non-current assets and 41% current assets turned in 2014 into 82% for non-current assets and only 18% for current assets.

Going deeper in the analysis, non-current assets have grown mainly based in the growth of the intangible fixed assets by 56 million in 2011 due to “*costs activation from developing engineering designs due to the contract of cone tail from Airbus A350M*” as we can see in the section 5 of the management report of 2011. Also due to the increase in deferred tax assets produced in 2012 and 2014. In addition the increase in non-current assets is also mainly due to tangible fixed assets which have grown more than 49% from 2013 to 2014 because of the acquisition of Alestis Manufacturing (which is going to be analyzed later) as we can observe in the section 1.2, business combinations and section 6 of the management report from 2014.

Decrease in current assets has its basis mainly in the 100% decrease of the loans to companies within the short-term investment in subsidiaries and associated companies which have been reduced from 44 million to 0 throughout the period, the explanation can be found in section 8.2 of the notes from Managements report for years 2012 and 2014, “*Impairment of short-term loans to Alestis do Brasil*”. Also by the huge reduction of cash and equivalents in 2011 from 37’5 million to only 54 thousand almost a 100% due to high payments for investments. Finally due to the reduction of trade account receivables whilst inventories have grown from 0 to more than 40 million because the business combination as aforementioned above.

- Financial Structure:

Regarding financial structure, we observe that equity have been decreasing since 2010 from almost 200 million to only 14’5 million, a reduction of almost 93%. In 2010 the equity represents 59% whilst now represents only 3% of financial structure. Reduction is mainly led by negative income for the year results obtained during first four years, especially in 2011 and 2012. This situation lead shareholders’ equity to almost -14 million, led as we can found in section 10.1 of the notes from management report of 2014 because the reduction of nominal value for shares from 1€ to 0.348 €.

Concerning non-current liabilities have grown from 79’6 million which represents the 24% of financial structure in 2010 top to almost 343 million in 2014 which represents 83%, a growth of more than 330%. It was mainly led by the increase in other financial liabilities account which is the most representative account of non-current assets representing more than 62%. The explanation of increase can be found in section 13 of the note from management report of 2013 and 2014 as part of the arrangement with creditors according to Spanish legislation. The rise in non-current liabilities is also due to the increase by 100 million of Long-term debt payable to subsidiaries and associated companies which represent more than 29% of it. So we can state that creditors are the main source of financing followed by parent company.

Concerning current liabilities, have been doubled in 2012 and 2013 driven by the increase of 259% in trade accounts payable to subsidiaries and associated companies which is the most representative account during that period, but to an equal decrease in 2014 by the reduction of them. It represents 14% of financial structure. Trade account payables and other payables is the most representative account which is the 60’5% of current liabilities.

INCOME STATEMENT:

Net turnover have been increasing from 55 million to almost 133 million in the period between 2010 and 2012, but to a decline trend during the last two years reaching 88 million in 2014. Trends moves because of contracts established with their customers, they're negotiating new contracts with Airbus, Boeing and Embraer to improve their net turnover, according to first page of notes from management report 2014 we can see that *"With 200 million investments made between 2009 and 2015, they are negotiating new contracts which will report 1.000 million net turnover over the next 6 years"*.

Regarding operating income, we observe that during the period analyzed has negative trends, starting at -1 million in 2010 and getting the worst result in 2014 which is -19'5 million €. The main problem was that procurements were higher than net turnover, even only the consumption of goods for sale were almost equal to net turnover, that in addition to the high amount of other operating expenses returns that bad results. As we can see in the second page on the notes from management report *"Repayment of debt after waiting period of 7 years, will be approach by obtaining a free cash flow of 105 million, throughout surplus of ordinary operations...to do it possible they need an improvement in profitable programs and a reduction of costs"*.

Procurements is one of the most representative account, being reduced in percentage from 101% of net turnover to 47% in 2014, at the same time personnel expense is the other most representative being 66% of the net turnover and have been increasing from almost 5 million to 58'4 million. The increasing is due to that employees have been increased from 69 to 1450 leaded by the absorption of Alestis Manufacturing. In addition other operating expenses represents 36% of net turnover and have been reduced to half in the period 2010-2014. All of these is the result of restructuration of the company and the improvements in the reduction of costs aforementioned before. I have to notice also the increase in the fixed assets depreciation expense and the income generated by change in inventory of finished goods and works performed for own assets.

Concerning financial income, follows a negative trend from 2010 to 2012 reaching -24 million in 2012 but from that point apart it begin reducing and turned to a positive result in 2014 of almost 21 million. Starting negative tendency were because the negative income from impairment and losses especially in 2012 as aforementioned before due to the impairment of debt from Alestis do Brasil, because the financial expenses were covered with financial revenues.

In 2013 despite reduction on impairment and losses, still a negative result of financial income mainly due reduction of the financial revenues whilst financial expenses stayed stable. But in 2014 even with increase by 67% from the negative result of financial expenses, they took a positive result in the financial income, the main reason can be found in the huge increase from 0 to almost 62 million in 2014 of other financial revenues and costs, the explanation can be found in section 1.4 of the notes from management report of 2014 where it says *"these revenues come from the reevaluation of amortization to the credits obtained by the agreement to delay payment time by seven years with creditors, because of creditor process that the firm and their subsidiaries took part in voluntary basis according to Spanish legislation"* as we mentioned in the introduction of the firm and can be found in the note 1.4 from the Management Report of 2014.

Income for the year have followed a similar trend than financial income, in addition the bad results of operating income increased their negative income for the year until 2013, from that point apart finally obtaining a positive result in 2014 by almost 21 million because of the agreement mentioned before.

CASHFLOW STATEMENT:

Concerning CFO, analysis can be divide it in two terms, the first term is between 2010 and 2012 where CFO is positive. In 2010 the result of changes in working capital is more than 30 million mainly due to accounts payables that helps to obtain a result in CFO by nearly 31 million. In 2011 the payables increased in only 2'7 million, but CFO still positive due to collection of accounts receivable by more than 12 million, in addition has the help from corrections of value from impairment.

Furthermore in 2012 despite the bad result of income before taxes with negative result of more than 37 million, Alestis has a positive result in CFO mainly due to value correction for impairment within adjustments to income by 31'5 million led by activation of costs from development of manufactures to Airbus and Embraer. In addition to obtain the best result in CFO during period despite the increase in accounts receivables is mainly due to increase of accounts payables to 37'7 million.

Second term is about 2013-2014 where the CFO is negative in both years. In first year mainly due payment of accounts payable by 14'5 million and also due to the increase in receivables by 8'8 millions. In 2014 the main problem was about result of adjustment to income made by financial revenues by -60'5 million, problem which comes from the agreement with creditors aforementioned in the income statement.

Regarding cash flow from investment, as we can observe has a trend of reduction throughout the period from -97'2 million in 2010 to -19'25 million in 2014 mainly driven by the global reduction of nearly -91%, -83'4% and -55'8% in Subsidiaries and associated companies, intangible assets and tangible assets respectively during the whole period. Reduction from intangible assets is the most important from -66 million to nearly -11 million, a reduction of 55 million. This investments were part of the 200 million investments needed to obtain the new contracts with a net turnover value of 1.000 million aforementioned in the first paragraph of income statement analysis.

Concerning cash flow from financing activities we observe that there's a big decline in 2011 respecting 2010, there are two reasons. One is the reduction from issues of cash receipts like long-term debt payable to credit institutions and long-term debt to subsidiaries which have been reduced from 11 and 15'3 million to 0 respectively, and also the reduction of other debt by almost the half from 39 million to 20. In addition there's also a reduction of grants, donations and legacies from 35 million to almost 0.

During the rest of the period analyzed the cash flow from financing activities were growing from the 15'4 million in 2011 to 47'4 million in 2014, mainly due to increase in issuing of other debt which have grown from 2011 by 146%, reaching 51 million due to the agreement accomplished of creditor process .

To summarize, despite the reductions of bad result they generate only positive results in the first three years, in 2010 they don't have problems since their negative CFI was balanced by cash flow from financing, but in the following years they have problems since CFI were much higher than CFF since they can't find funds, according to page 1 of the notes from management report 2014.

In the last two years Alestis can't generate positive CFO whilst CFI got reduced but remains negative which is a problem to the successful of the firm and drive it to a creditor process whilst there's a total reduction of cash and equivalents throughout the period from 37.'5 million to only 604 thousand so they could have liquidity problems.

I have to emphasize that during 2014 Alestis have been bought by Airbus group and passed to integrate the leader within industry, according to Airbus CEO "*The first year of management went well, but I would like a higher progression. There's structural optimization and costs problems, we hope in 2016 there will be equilibrium and from that point and on starts to grow*"¹. They expect to generate positive CFO during 2016.

1. Source: www.20minutes.com

PROFITABILITY ANALYSIS:

PROFITABILITY ANALYSIS	2010	2011	2012	2013	2014
EBIT	13	4.521	-10.173	-8.307	42.321
ROA (Return on Assets)	0,00%	1,32%	-2,70%	-2,29%	10,20%
Profit Margin	0,02%	3,91%	-7,65%	-10,18%	48,07%
Assets turnover	0,17	0,34	0,35	0,22	0,21
Return on Operating Assets	-0,44%	-0,86%	-3,94%	-1,82%	-4,83%
Operating Profit Margin	-1,98%	-2,15%	-11,00%	-9,03%	-25,17%
Operating Assets Turnover	0,22	0,40	0,36	0,20	0,19
ROE	-0,37%	-0,11%	-9,67%	-12,53%	170,92%
Decomposition ROE:					
ROA	0,00%	1,32%	-2,70%	-2,29%	10,20%
FINANCIAL LEVERAGE	0,68	0,82	1,40	2,22	27,68
AIR	0,55%	3,07%	2,27%	2,33%	4,39%
SPREAD	-0,55%	-1,74%	-4,97%	-4,62%	5,81%
ROA + (FLEV* SPREAD)	-0,37%	-0,11%	-9,67%	-12,53%	170,92%

Figure 3.7

Source: Compiled by author

ROA varies during period from 0% to 10.20% in 2014, reports negative results in years 2012 and 2013 by -2.70% and -2.29% respectively. Results are driven by changes in EBI. The main reason to good result in 2014 is the agreement in the creditor process aforementioned before, without it the ROA had been -4.70% continuing with negative trend during the period and probably the enterprise will be settled.

Profit Margin follows the same negative trend as ROA because they're closely linked since uses the EBIT, as aforementioned for ROA, the agreement with creditors helps turning the negative tendency to a huge positive.

Return on operating assets follows a negative trend, with its highest peak in 2014 by -4.83% since firm it not obtaining positive operating income during the period analyzed.

Regarding ROE, follows a negative trend but exponential due to the leverage like ROA since they're related, passes from -0.37% to -12.53% due to reduction of equity. In 2014 reports a positive result of almost 171% since equity is reduced to only 15 million while income before taxes increases to over 24 million.

Financial leverage affects in both bad and good way to ROE. It's bad in period 2010-2013 since AIR is higher than ROA, and in a positive way in 2014 due that ROA more than double AIR. Despite AIR increases it's beneficial to drive the increase in ROE.

Alestis despite EBIT obtained in last year, is not a profitable company. They have several problems with its costs that don't let them obtain continuous positive EBIT to start being profitable. Supported in the refinancing obtained and the new contracts with customers they hope to obtain a potential net turnover value of 1.000 million which will help Alestis to start being a profitable and solid firm within the industry. The acquisition of the company from Airbus group in 2014 seems its results are changing.

LIQUIDITY ANALYSIS:

LIQUIDITY ANALYSIS (In thousand euro)	2010	2011	2012	2013	2014
OWCR	9.602	-5.528	-38.390	-18.055	41.264
WC	80.128	39.996	-18.831	-30.013	19.129
WC-OWCR = WC Surplus/Deficit	70.526	45.524	19.559	-11.958	-22.135
Financial Current Liabilities	13.663	6.598	18.644	31.059	17.740
WC Surplus + Short Term Debt	84.189	52.122	38.203	19.101	-4.395
DIFFERENCE	84.189	52.122	38.203	25.183	604
Liquidity Stock Ratios					
Current Ratio	2,43	1,78	0,82	0,73	1,33
Quick Ratio	2,43	1,77	0,82	0,73	0,63
Cash Ratio	1,51	1,01	0,36	0,22	0,01
Activity Ratios					
Accounts Receivable turnover		4,00	3,72	1,90	2,40
Days Receivable Outstanding		90,11	96,69	189,17	149,96
Accounts Payables turnover		9,01	6,72	6,46	4,13
Days Payables Outstanding		39,96	53,58	55,74	87,13
Average length of the operating cycle		50,15	43,11	133,43	62,83
Liquidity flow measures					
CFO	30.963	20.009	26.744	-24.870	-27.729
FFO	72	-3.704	-26.038	-18.316	34.150
Cash flow Ratio (CFO/Current Liabilities)	0,55	0,39	0,25	-0,22	-0,48
Current financial liabilities / CFO	0,44	0,33	0,70	-1,25	-0,64
Current financial liabilities / FFO	189,76	-1,78	-0,72	-1,70	0,52

Figure 3.8

Source: Compiled by author

Concerning liquidity, the OWCR varies during period, is positive in 2010 and 2014 and need to be covered with the WC, while period 2011-2013 is negative that's good because means there's more operating current liabilities than operating current assets.

WC also varies during period, being positive in 2010, 2011 and 2014 that represents the part of long-term financing that's available to cover the investments in current assets so there was financial equilibrium. In addition is negative in 2012 and 2013 mainly due to the reduction of the equity of the firm. There's a liquidity problem with WC being negative since there's more accounts receivable than payables.

There's a WC deficit in 2013 that have been covered with financial current liabilities, despite they has to be covered with long-term financial liabilities instead short-term. The main problem found is that in 2014 financial current liabilities can't cover the WC deficit, so we can state that Alestis Aerospace have financial disequilibrium. Going further looking at balance sheet we observe that inventory plus the accounts receivables plus accruals are higher than accounts payables plus accruals that lead Alestis to have liquidity problems.

Current ratio and quick ratio have the same results in period 2010-2013 since there's no inventories nor accruals. Results are positive until 2011 with a reduction trend, passing to bad results in 2012 and 2013 due results are below 1, which means they had liquidity problems within the company. In 2014 by absorption of Alestis Manufacturing appears inventory which turns current ratio to 1.33 which make disappear the possible liquidity problems but quick ratio remain decreasing. Alestis has to be worried about result of cash ratio which have been reduced from over 1.50 to almost 0 throughout the period. In case of emergency Alestis Aerospace will have liquidity problems and they can't deal with them.

Average length of operating cycle despite an increase in 2013 due to an increase in receivable from subsidiaries, remain stable during period, between 40 and 60 days.

Cash flow ratio to current liabilities have been reduced throughout the period from 0.55 to -0.22 in 2013 and -0.48, driven by negative CFO obtained that years meaning they will never can pay the current liabilities with actual CFO generated.

FFO follow a negative trend until 2012, from that point it have been reducing reaching a positive result in 2014 driven by the fixed assets depreciation expense increase by absorption of Alestis Manufacturing.

Coverage of current financial liabilities can be done in almost all year with CFO or FFO depending on year, but in 2013 which both result CFO and FFO were negative and the current financial liabilities can't be covered.

Alestis has liquidity problems mainly due to lack of turnover and his business model of externalization part of work. Problems has been partially covered with refinancing of debt by creditors in the process which entered in 2013. Now the firm is being restructured by Airbus Group, reducing that externalization, the procurements and other operating expenses, in addition they're working for the Group and it seems the net turnover is expected to grow over the time.

SOLVENCY ANALYSIS:

SOLVENCY ANALYSIS (In thousand euro)	2010	2011	2012	2013	2014
Solvency Stock Measures					
Total Assets	333.722	341.596	376.626	362.965	415.087
EQUITY	198.203	187.512	156.791	112.889	14.472
Total Liabilities	135.519	154.084	219.835	250.076	400.615
T.A. / T.L.	2,46	2,22	1,71	1,45	1,04
EQUITY / T.L.	1,46	1,22	0,71	0,45	0,04
Solvency Flow Measures					
EBIT / Interest Expense	0,02	0,96	-2,04	-1,42	2,41
CFO	30.963	20.009	26.744	-24.870	-27.729
FFO	72	-3.704	-26.038	-18.316	34.150
CFO / T.L.	0,23	0,13	0,12	-0,10	-0,07
Total Financial Liabilities / CFO	2,45	4,45	4,19	-5,99	-11,97
Total Financial Liabilities / FFO	1053,71	-24,03	-4,30	-8,13	9,72
(Total Financial Liabilities - NoA) / CFO	-0,27	1,84	2,74	-4,96	-11,58
(Total Financial Liabilities - NoA) / FFO	-116,90	-9,93	-2,82	-6,73	9,40

Figure 3.9

Source: Compiled by author

Concerning solvency analysis, total assets to total liabilities have been drastically reduced throughout the period from 2.46 to 1.04 in 2014 due to reduction of equity. The Equity to liability ratio its linked to the one above and have the same tendency, passes from 1.46 to 0.04, mainly due to the problem within company who lead to a reduction of the nominal value of the shares from 1 € to 0.348 € to compensate the losses from the year, also from the prior year's and the creation of a provision as we can see in the management report of 2013.

The coverage of interest varies during the period based on EBIT obtained, so it's negative in 2012 and 2013 but positive again in 2014 where EBIT can cover 2.41 time the interest expense for that year.

CFO is positive between 2010 and 2012 and went negative in 2013 and 2014, so CFO can't cover anything of total liabilities in those two years. FFO is negative in the period between 2011 and 2013 and turns positive again in 2014 with a result of 34 million. So the coverage of the total financial liabilities can be done in almost all the years with CFO or FFO except in 2013 where it can't be.

To summarize Alestis Aerospace has solvency problems due to bad results obtained throughout the period and especially due to negative CFO obtained two last years, in 2014 was covered with the refinancing of the creditors debt. They have to put efforts in turn the CFO situation and make it positive again and establish it due obtaining more contracts to improve their net turnover. Seems they could do it with the acquisition from Airbus Group as subsidiary company.

CONCLUSION:

They have several problems with its structure and its costs since they can't found external financing, due to that they have entered in a creditor process according to Spanish legislation and have obtained an agreement to refinance their debts, obtaining a waiting period of seven years.

Alestis Aerospace is not a profitable firm, neither liquid nor solvent. They have serious problems of income and costs, also net turnover need to be increased and expenses being reduced, in addition the company needs a restructuration in business model terms. Aforementioned before the investments in first years are going to be balanced with increase in net turnover with the new contracts that they're negotiating.

Recent news state that the entrance of Airbus Group within the management of Alestis Aerospace is doing well to the company by 2014, 2015 and 2016 they're improving their results. Mainly due to the restructuration of business model, reducing costs and the support of Airbus are turning the situation into a good one e.g. "*net turnover has increased in 2015 to 140 million*"², but is not yet profitable nor liquid nor solvent. They expect company turns profitable by the year 2017, and from that point starting to be liquid and solvent, but they need to generate 105 million of free cash flow to repay the debts becoming due in 2021.

3.4 ALESTIS MANUFACTURING S.L. (EXTINCTED)

BALANCE SHEET:

- Economic Structure:

Total assets was varying throughout period analyzed going up and down each year, it started at 164 million getting decreased to 137'5 million in 2013, a global reduction of 16'5%. Both current and non-current assets followed the same trend than total assets.

Regarding non-current assets throughout the period it has a global reduction of 7'57% reporting 55'9 million in 2013 mainly based in decrease by 5 million in debt instruments within Long-term financial investments. The most representative account are tangible fixed assets which represent more than 93% of Alestis Manufacturing non-current assets, also more concrete and in order, Plant and Machinery which is almost 53%, and Land and Structures which represents 32%.

Concerning current assets it has a global decrease of almost 22% going from 104 million to 81'6 million. Decrease was due to global reduction of inventories by 21%, and the short-term investments in subsidiaries and associated by almost 57% during period analyzed. The most representative accounts are trade accounts receivable from subsidiaries and associated within the trade account receivables which represents almost 40% of current assets and inventories that are more than 33%.

- Financial Structure:

Taking a closer look to the financial structure we observe that equity has a big problem within the company. It has a global decreasing throughout the period of 357% started in 26'5 million but to a decrease to reach a negative result of more than -68 million. The huge reduction was guided by the negative income for the year results, especially in 2012 and 2013 due to decreasing in net turnover whilst costs continue increasing throughout the period, in addition the losses by the provision generated to pay the Redundancy Dismissal Procedure (in Spanish known as ERE) made by Alestis that we can observe in section 12 of notes from management report of 2012. In percentage equity represents in 2013 the -50% of the financial structure.

Regarding non-current liabilities, it has a global reduction throughout period of more than 87%, started at 69'4 million representing 42% of financial structure and reaching in 2013, 8'8 million being only 6%. Reduction in 2012 is due to change of other financial liabilities which his maturity is placed from that point in the short-term.

Finally, concerning current liabilities it has a global growth of more than 186% during period, from almost 69 million representing 42%, ending in 2013 being 197 million, representing 144% of financial structure. Most representative accounts are other financial liabilities within the short-term debt which represent the 43% of financial structure, whilst trade account payables and other payables represent almost 47%. The increasing in 2012 is due to the changing of other financial liabilities from long-term to short-term as said in the paragraph before.

Main sources of financing in 2013 were some public authorities within other financial liabilities like Ministerio de Economía y Competitividad, Ministerio de Industria, Energía y Turismo or IDEA, which represents 62% of total assets. Also the customers with their accounts payable represents 36% of total assets. Finally accounts payable to subsidiaries that represents 11%. We can found this information in section 13 of the notes from management report from 2012 and 2013

INCOME STATEMENT:

Concerning income statement, we observe that net turnover increase from 2010 to 2011 a 9% reaching 137'8 million, but to a decline trend in the two following years, a reduction by 16% and a huge one by -35% being 115'6 million and 75'5 million respectively each year leads the company to its absorption by parent company.

Operating income starts positive in 2010 but got a negative trend during the rest of the period analyzed, -259.000 € in 2011. In 2012 and 2013 they obtained the worst results by -43'6 million and -33 million respectively. The negative tendency can be explained by the bad management of the company and the reduction of net turnover.

In 2012, net turnover got reduced, in addition to remaining high expense in procurements and personnel, moreover the negative other results that are explained in the section 12 of the notes from management report, that says "*It's a provision made for restructuring the workforce by more than 11 million €*", results in the worst operating income by the whole period.

In 2013 neither the reduction of procurements nor personnel expenses helped to improve the situation mainly due to the huge decrease in the net turnover that was reduced by 35% respect to the year before.

Regarding financial income, negative result throughout the period and a decline of the financial revenues every year. Worst year was 2012 by the reduction of grants and donations within the financial revenues, in addition the financial expense got increased by debts with third parties lead to an increase in the negative financial income by around 3 million €. The best was 2013 because the 56% reduction of financial expenses of third parties and the income from exchange differences

Income for the year in this manufacturing firm was closely related to the operating income so follows the same trend from positive by 758.000 € in 2010 to a negative result of -34'2 million in 2013.

CASHFLOW STATEMENT:

Regarding cash flow from operating activities, the two first years has a positive result of 2'6 million and almost 18 million respectively, mainly due to the adjustments to income, more concrete the financial expense adjustment and the depreciation expense adjustment, in addition 2011 has that increase to almost 18 million due to the collection of receivables by almost 14'7 million and the increase also in accounts payables.

The two following years CFO reports negative results of -2'4 million and -450 thousand respectively, due to bad results in the income before taxes which were for that two years more than -50 million and nearly -34 million respectively. We observe that in 2012, negative income before taxes was balanced by the increase of adjustment to income in more than 20 million mainly due to change in provision by 15 million and the value correction for impairment.

In addition other factors that balanced the negative income by 2012 was the increase in accounts payable and other payables by more than 51 million led by that parent company Alestis Aerospace increased net turnover with this subsidiary as we can observe in section 17.1 of the notes from management report of 2012, despite the increase in accounts receivable by 34 million within the changes in working capital made the result of that account to be positive of more than 19 million €

In 2013, bad result of income before taxes was balanced partially with the adjustments to income due to depreciation, but especially because the collection of money from accounts receivable and other receivables by nearly 17 million within the changes in working capital, also the accounts payable and other payables keeps increasing since Alestis Manufacturing were not paying its suppliers. Accounts payables were growing each year since 2011.

Regarding cash flow from investment was around -2 million in 2010 and 2013, but got increased in 2012-2013 to around -8'5 million mainly due to payments for investments in tangible fixed assets and in subsidiaries respectively each year.

Cash flow from financing activities were negative for the majority of years except to 2011. The reason is that result of cash receipts and payments for debt instruments in 2011 got a collection of 10 million from subsidiaries and another 10 million from other debts. The rest of the years have higher refunds to credit institutions than receipts of money. There is no dividends throughout the period.

PROFITABILITY ANALYSIS	2010	2011	2012	2013
EBIT	6.121	43	-42.779	-30.347
ROA (Return on Assets)	3,71%	0,03%	-25,05%	-22,07%
Profit Margin	4,83%	0,03%	-37,00%	-40,20%
Assets turnover	0,77	0,88	0,68	0,55
Return on Operating Assets	3,32%	-0,20%	-28,86%	-27,91%
Operating Profit Margin	3,32%	-0,19%	-37,71%	-43,85%
Operating Assets Turnover	1,00	1,07	0,77	0,64
ROE	3,81%	-16,05%	151,67%	49,49%
Decomposition ROE:				
ROA	3,71%	0,03%	-25,05%	-22,07%
FINANCIAL LEVERAGE	5,20	5,82	-6,16	-3,01
AIR	3,70%	2,79%	3,62%	1,67%
SPREAD	0,02%	-2,76%	-28,67%	-23,74%
ROA + (FLEV* SPREAD)	3,81%	-16,05%	151,67%	49,49%

Figure 3.10

Source: Compiled by the author

PROFITABILITY ANALYSIS:

Regarding profitability analysis, EBIT passes from positive in 2010-2011 to a huge negative results in 2012 by almost -43 million and in 2013 by more than -30 million, that leads ROA from positive result of 3.71% in 2010 to -25.05% and -22.07% in 2012 and 2013 respectively. Furthermore Profit Margin passes from positive to negative by -37% and -40.2% those years by EBIT results.

Assets turnover got reduced from 0.77 in 2010 to 0.55 in 2013 lead by the reduction of net turnover. Also Return on Operating Assets goes negative by -28.86% and 27.91% respectively in 2012 and 2013 led by the negative trend of recurring operating income in 2013 which was driven by the reduction in net turnover and the increase in personnel expense and other expenses.

The ROE is fictitious positive in 2012 and 2013 due to the negative equity of the firm which means they had serious financial problems and that's why they got absorbed by the parent company in that moment Alestis Aerospace, the real result of ROE is 0% since they had no equity on the company.

To summarize, bad management of the firm costs and the reduction of the net turnover, have change a profitable firm in 2010 to a non-profitable one during rest of the period until absorption.

LIQUIDITY ANALYSIS (In thousand euro)	2010	2011	2012	2013
OWCR	43.219	25.075	296	-28.511
WC	35.513	23.686	-76.119	-115.360
WC-OWCR = WC Surplus/Deficit	-7.706	-1.389	-76.415	-86.849
Financial Current Liabilities	37.751	24.692	90.820	94.319
WC Surplus + Short Term Debt	30.045	23.303	14.405	7.470
DIFFERENCE	32.790	23.834	18.936	18.061
Liquidity Stock Ratios				
Current Ratio	1,52	1,38	0,59	0,41
Quick Ratio	1,02	0,75	0,39	0,28
Cash Ratio	0,48	0,39	0,10	0,09
Activity Ratios				
Accounts Receivable turnover		5,91	3,42	1,78
Days Receivable Outstanding		60,92	105,13	202,60
Accounts Payables turnover		2,81	1,28	0,25
Days Payables Outstanding		128,04	280,27	1421,48
Average length of the operating cycle		-67,12	-175,14	-1218,89
Liquidity flow measures				
CFO	2.566	17.936	-2.400	-450
FFO	4.822	2.157	-44.144	-26.713
Cash flow Ratio (CFO/Current Liabilities)	0,04	0,29	-0,01	0,00
Current financial liabilities / CFO	14,71	1,38	-37,84	-209,60
Current financial liabilities / FFO	7,83	11,45	-2,06	-3,53

Figure 3.11

Source: Compiled by the author

LIQUIDITY ANALYSIS:

Analyzing the liquidity, we can observe that the OWCR has a reduction tendency from more than 43 million in 2010 to a negative result of -28'5 million in 2013 the change is driven by the constant increase of operating current liabilities due to not repaying its accounts payables. The Working capital follows a similar trend of reduction, but it turns negative in 2012 instead in 2013, the reason is that in 2012 the equity of the firm have turned negative. The 2013 result for WC is more than -115 million due to the huge reduction of non-current liabilities and the negative equity.

During the whole period we observe a working capital deficit with an increasing negative trend reaching almost -76.5 million in 2012 and more than 86'5 million in 2013. Deficit was covered by financial current liabilities which is a bad idea to maintain a financial equilibrium, would be better if they had renegotiated the short-term financial liabilities to long-term.

Regarding liquidity stock ratios, the Current Ratio, Quick Ratio and the Cash Ratio starts in a good position being 1.52, 1.02 and 0.48 respectively but had a negative trend reaching 0.41, 0.28 and 0.09 in 2013 mainly due to the increase in the current liabilities, producing liquidity problems within the company.

Concerning liquidity flow measures, cash flow ratio starts in 0.04 in 2010 get an improve in 2011 but to a negative decreasing by -0.01 in 2012 and 0 in 2013, they can't cover the current liabilities with the CFO. FFO passes from positive in 2010 and 2011 to negative of -44 million and -26'7 million in 2012 and 2013 respectively, so they can't cover the current financial liabilities neither with CFO nor FFO.

To summarize they have had liquidity problems since they don't make enough forecasting and control of the costs to not exceed the income from net turnover.

SOLVENCY ANALYSIS (In thousand euro)	2010	2011	2012	2013
Solvency Stock Measures				
Total Assets	164.778	157.033	170.804	137.476
EQUITY	26.576	23.028	-33.076	-68.253
Total Liabilities	138.202	134.005	203.880	205.729
T.A. / T.L.	1,19	1,17	0,84	0,67
EQUITY / T.L.	0,19	0,17	-0,16	-0,33
Solvency Flow Measures				
EBIT / Interest Expense	1,20	0,01	-5,79	-8,85
CFO	2.566	17.936	-2.400	-450
FFO	4.822	2.157	-44.144	-26.713
CFO / T.L.	0,02	0,13	-0,01	0,00
Total Financial Liabilities / CFO	38,96	5,06	-40,45	-223,34
Total Financial Liabilities / FFO	20,73	42,07	-2,20	-3,76
(Total Financial Liabilities - NoA) / CFO	24,23	3,45	-32,21	-181,38
(Total Financial Liabilities - NoA) / FFO	12,89	28,69	-1,75	-3,06

Figure 3.12

Source: Compiled by the author

SOLVENCY ANALYSIS:

Regarding the total assets to total liabilities there's a decrease during the period from 1.19 to 0.67 due to the increase in payables and debts of the firm. Equity to liabilities follow the same trend as the above, starting in 0.19 and reaching in 2013, -0.33.

EBIT covers the interest expense only in 2010, going down throughout the period reaching -5.79 and -8.85 respectively in 2012 and 2013. Also there's almost no coverage of total liabilities with CFO during the period 0.02 in 2010, a little increase in 2011 to 0.13 and negative in 2012 and 2013.

To sum-up Alestis have had a huge increase in solvency problems during the period and that is the driver to the absorption by Alestis Aerospace.

CONCLUSION:

In conclusion, analyzing the enterprise we could understand that they don't keep an accurate forecasting of the costs and the net turnover, so in the moment the net turnover got reduced, they don't make enough income to cover the expenses, for this reasons they started to have problems of liquidity and solvency, and finally they got absorbed by the parent company Alestis Aerospace.

CHAPTER 4

COMPARISON BETWEEN THE INDUSTRY AVERAGE AND THE FIRMS



Figure 4.1

Source: Compiled by the author

4.1 Introduction

To perform the comparative analysis between the industry average and the firms analyzed, we have chosen the ten most representative companies in terms of net turnover within the industry to obtain the average and compare with the four companies chosen. Two of the companies analyzed are part of those ten most representatives.

The companies chosen are: Airbus Defence & Space S.A.; Airbus Military S.L.; Airbus Operations S.L.; Industria de Turbopropulsores S.A.; Aernnova Aerospace S.A.; Aciturri Composites S.L.; EADS Casa Espacio S.L.; Alestis Aerospace S.L.; Internacional de Composites S.A.; Compañía Española de Sistema Aeronáuticos S.A.; The companies represents more than 85% of the Net turnover for the industry.

The data compiled to perform this comparison was obtained from SABI, and the magnitudes compared will be: Net turnover; EBIT; total assets; financial structure; return on assets; and return on equity.

Might be noticed that Alestis manufacturing don't have results for 2014 since it been absorbed by Alestis Aerospace in 2013.

4.2 Comparison of the size (Net turnover and total assets).

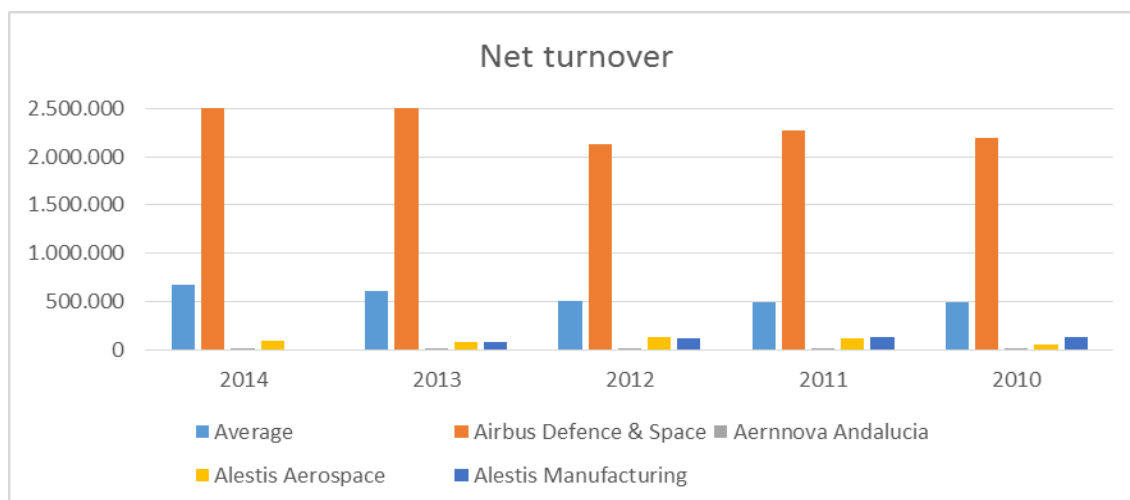


Figure 4.2

Source: Compiled by the author (Thousands of Euros)

Regarding Net turnover, Airbus throughout whole period has at least 4'5 times the average of the industry, being the top one of the industry, far away from the follower.

Aernnova Andaluca has a net turnover between the 2% and 2.5% in comparison with the average, is a small firm within industry, they have to work to be an important firm for the industry, but must have to notice that is part of the Aernnova Group.

Alestis aerospace and Alestis manufacturing in 2010 were different, while Aerospace was around 11% of average net turnover, Manufacturing had 26% of it, but during the rest of the period both follows the same trend having around the 23%-27% of the average in 2011 and 2012 and got reduced to around 13% in 2013 and 2014.

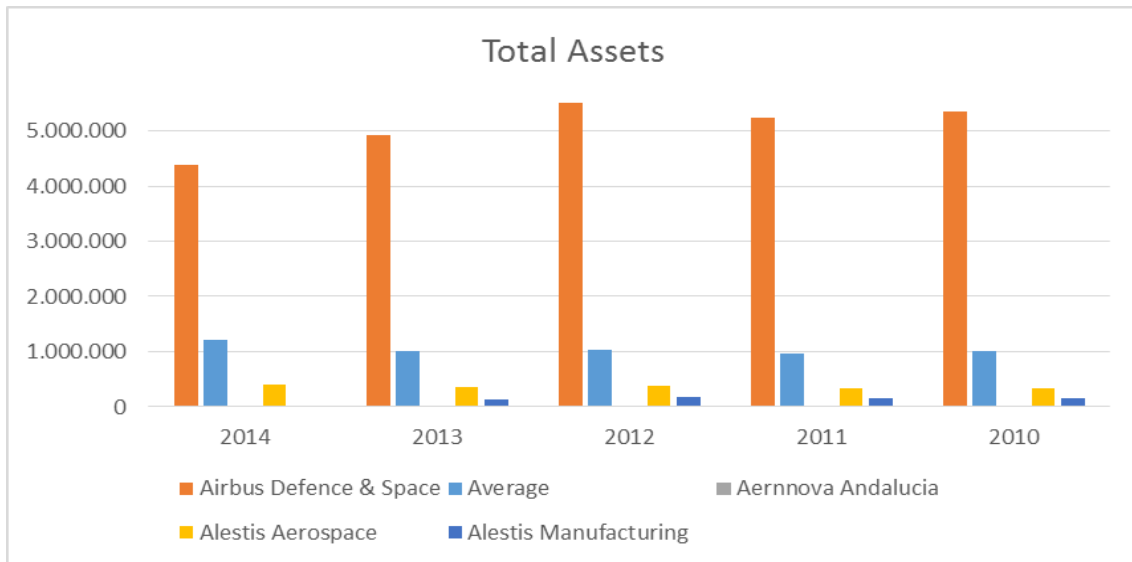


Figure 4.3

Source: Compiled by the author (Thousands of Euros)

As we can observe in the figure 4.3, the average of the industry is above one thousand million euro throughout the period, also in 2014 gets increased to over 1.2 million.

Airbus is the leader of the industry, reaching more than 5 thousand million in the period 2010-2012, almost 5 thousand million in 2013 but to a decreasing to almost 4'4 thousand million in 2014 which suppose a reduction from 5.3 times the average in 2010 to 3.6 times in 2014 also due to the mentioned before increasing of the average.

Alestis Manufacturing represent more than 16% of the average in the period 2010-2012, getting a decrease in 2013 to 13.5%. Alestis Aerospace remains stable during the period between a 33% and a 35'6% throughout the whole period, despite the increase of assets from period 2013 to 2014 who passes from 362.965 to 415.087, the percentage respect to average is maintained due to increase in the average.

Aernnova represents a 2.38% in 2010 but has a reduction to around 1.6%-1.8% throughout rest of the period analyzed, is the little company of the group, and must to put efforts trying to grow year to year.

CONCLUSION:

In conclusion we can state that Airbus Defence & Space is not only the leader respecting the size of the whole aircraft and spacecraft industry but that also is the main driver of the average for the industry, its results affects in a direct way to the industry since is the bigger and most important in the sector.

Also might be mentioned that despite the size of Defence & Space, another important companies which drives the average are his parent companies, Airbus Military and Airbus Operations.

4.3 Comparison of the financial structure.

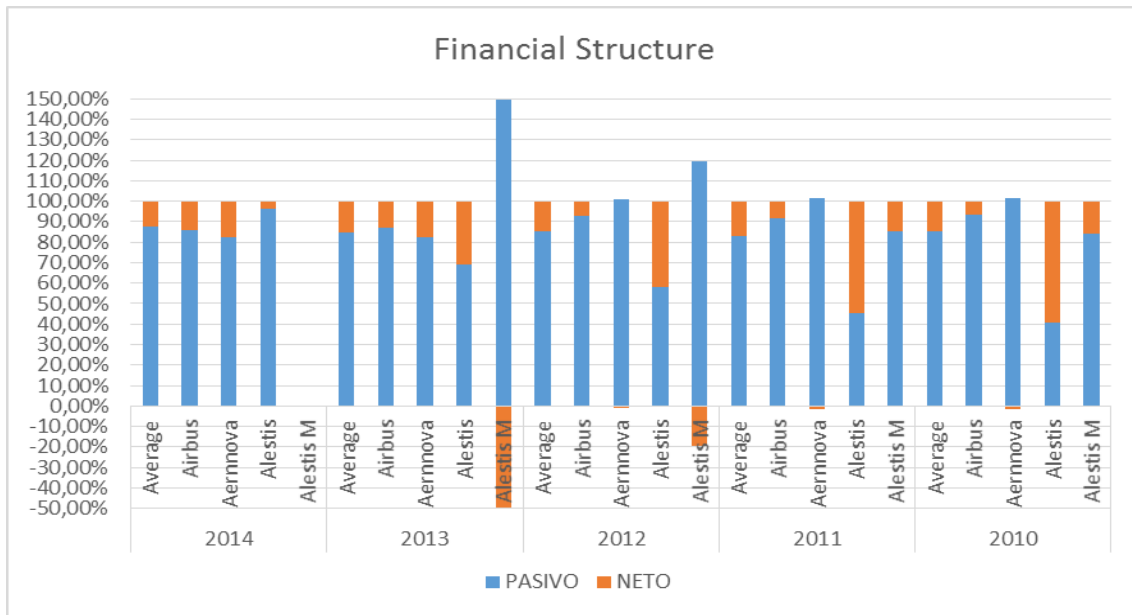


Figure 4.4

Source: Compiled by the author

As we can observe in the figure 4.4, in 2010 Aernnova has negative a low negative equity and Alestis Aerospace more equity than liabilities. Manufacturing remains in the average whilst Airbus has an equity lower than the average.

In 2011 the results in terms of percentage all the companies obtained a reduction of their equity in comparison to the total assets.

In 2012 Alestis Manufacturing started to obtaine negative equity and that negative equity got increased in 2013, also the company got absorbed in 2014. Moreover Alestis Aerospace got a continuous reduction of equity during the whole period, mainly due to bad results but also to the absorption of the negative equity from Alestis Manufacturing and Engineering.

Equity by Airbus got increased in 2013 and 2014 due to the reduction of the liabilities and the total assets.

CONCLUSION:

We can summarize that observing the figure 4.4 of the financial structure and the previous analysis, the companies needs an equilibrium of external financing regards to equity to be successful companies since Alestis has a high amount of equity and its not successful firm neither Aernnova which has negative equity in their first two years. With the information obtained by press regarding Aernnova and Alestis Manufacturing, both has established a good point between external and internal financing and started or are in their way to be successful companies.

4.4 Comparison of Profitability (EBIT, ROA and ROE).

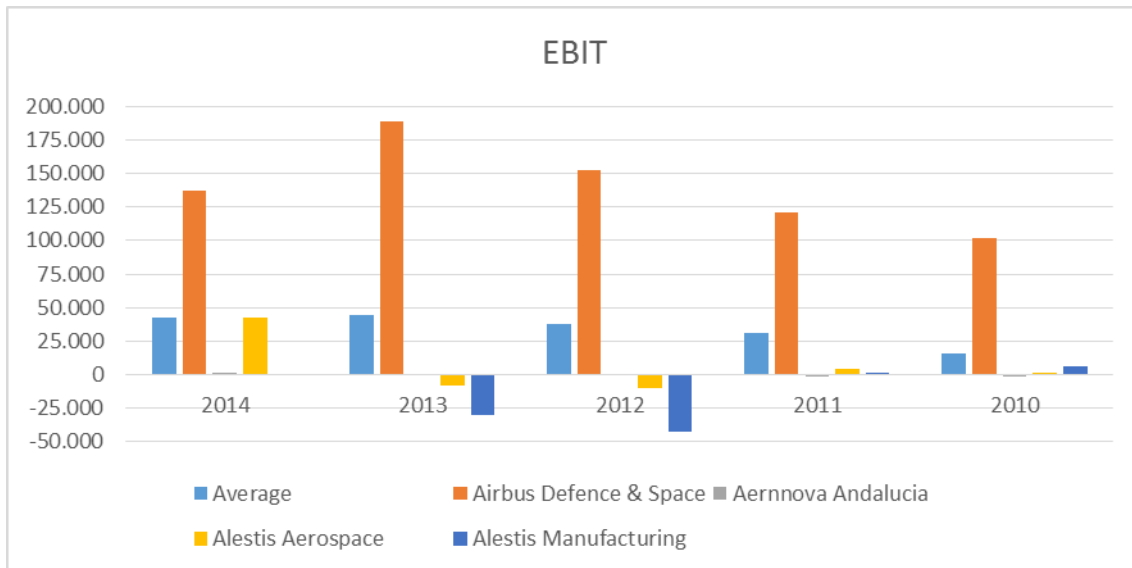


Figure 4.5

Source: Compiled by the author (Thousands of Euros)

Concerning EBIT, as we can observe from figure 4.5, Airbus also is the top one in this magnitude. During 2010 the average of EBIT was almost 16 million, Airbus got almost 6.4 times that EBIT, Aernnova obtained -8% compared to average, Alestis Aerospace almost 0% and Alestis Manufacturing more than 38.6%. Average EBIT got almost doubled in 2011, EBIT obtained by Airbus increased but due to the increase in the average it only represents 3.9 times, while Aernnova still having a negative EBIT -4% of the average for the industry.

In 2012 and 2013 the average EBIT follow the increasing trend reaching almost 38 and 45 million respectively, mainly due to increased EBIT obtained by Airbus Group. All the others companies analyzed obtained negative results. The worst results obtained was for Alestis manufacturing due to the increase in the procurements and personnel expenses leading to disappearing in 2014.

In 2014 the average EBIT decreased to over 40 million. Airbus obtained 3.2 times the EBIT in 2014, the best results again. In 2013 both Alestis and aernnova obtained negative results but turned into positive in 2014, in that year Alestis almost reach the same EBIT as average for the industry a 99% respecting of it.

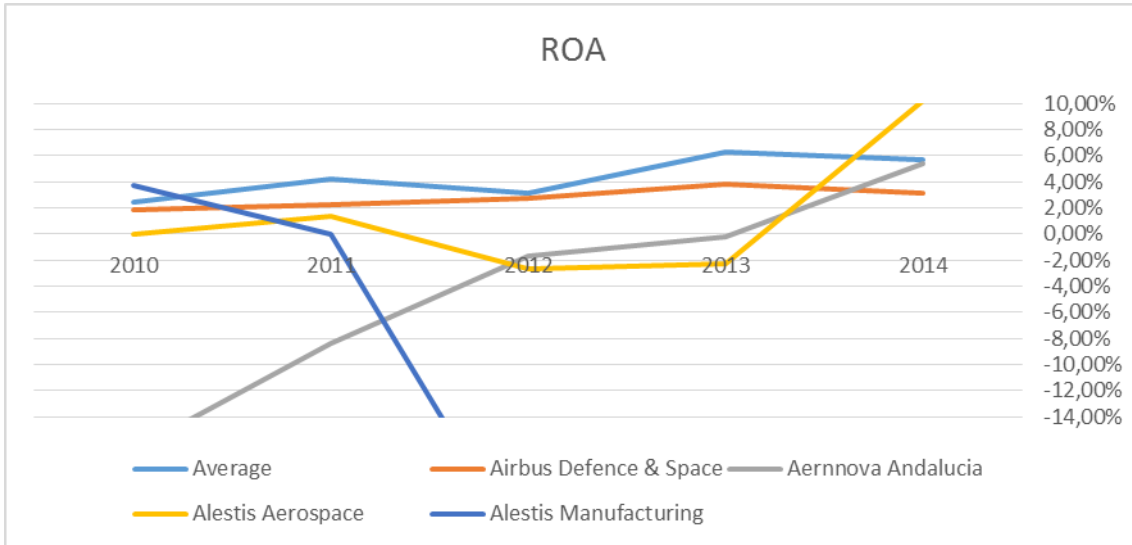


Figure 4.6

Source: Compiled by the author

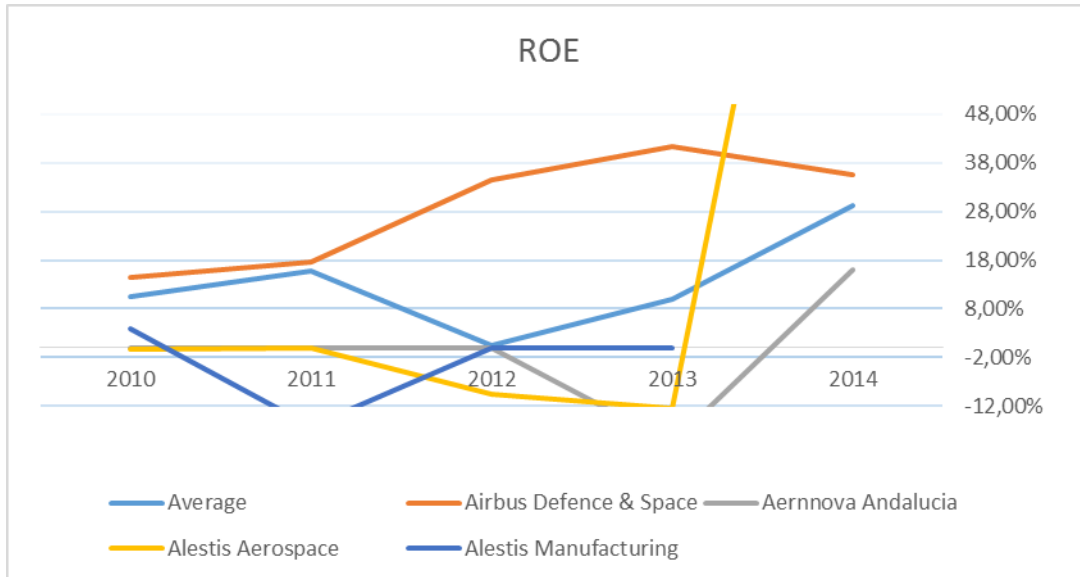
Regarding ROA, have been increasing throughout the period from 2.45% in 2010 reaching 6.29% and 5.66% in 2013 and 2014 respectively. In this element surprisingly Airbus is not the leader, during the whole period is under the average despite the increase in ROA throughout the period. Passes from 1.89% in 2010 to 3.12% in 2014.

Aernnova ROA have been following the same trend as EBIT since they are related, have been reducing the negative result from -16.5% in 2010 to -0.19% in 2013, turning to a positive result in 2014 of 5.42%, close to average of the industry.

Alestis Aerospace started in 0%, obtained 1.32% in 2011, turns to negative in 2012 and 2013 and finally obtained the best results of the companies analyzed obtaining 1'8 times average, mainly due to waiting period obtained in their debts.

Alestis Manufacturing started in positive by 1'5 times the average but due to bad management they turned into negative increasing trend during the period until its absorption in 2013. They made the worst result regarding ROA of companies analyzed -25% in 2012.

To Summarize we can say that all the firms are below the average for the aircraft and spacecraft industry thus there are other higher drivers for this magnitude, the drivers are Airbus Operations and Airbus Military who drove the average results higher than the obtained by the companies analyzed.

**Figure 4.7**

Source: Compiled by the author

Concerning ROE, it has been varying during the period from 10.45% in 2010, 15.67% in 2011, almost doubled in 2014 reaching more than 29%. In 2012 and 2013 the result was low 0.52% or negative 10.08% respectively mainly driven by the results obtained by Airbus Group.

Airbus is the best company of the four analyzed in this magnitude, starting in 14.5% in 2010 and increasing until reach 41.29% and 35.62% in 2013 and 2014 respectively. ROE of Airbus is over the average in the whole period.

Regarding Aernnova, they had no ROE during the period 2010-2012 since their equity was negative. Then, they obtained -19.5% in 2013 and a positive 16.1% in 2014.

Concerning Alestis passes from negative ROE during the period 2010-2013 and obtaining -12.5% in the last year to a positive result of almost 171%, the best result of all companies during the period analyzed, due to the waiting period mentioned in the Income Statement.

Alestis Manufacturing in the period passes from a positive 3.7% in 2010 to a negative in 2012 and 2013 of -25.05% and -22.07% respectively who drive it to the absorption by parent company.

CONCLUSION:

We can summarize that Airbus is the best company of the analyzed in this magnitudes, except to ROA in 2014 due to the help made by creditors to Alestis Aerospace so it can survive. Airbus Group as mentioned in the point before is the drivers of the average of this magnitudes in the industry.

4.5 Comparison of Liquidity Current Ratio (CA/CL)

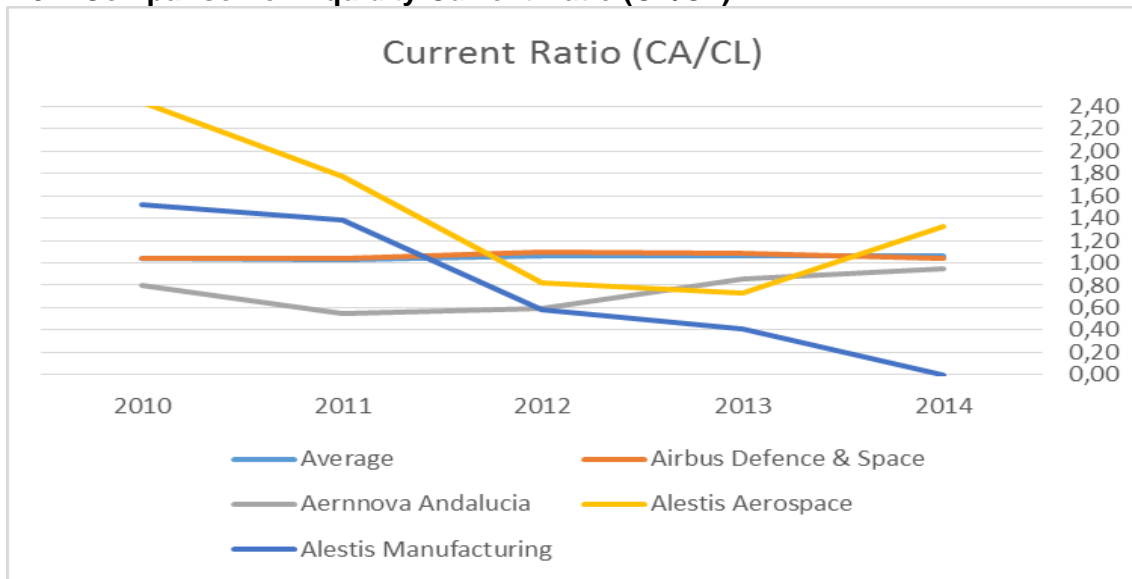


Figure 4.8

Source: Compiled by the author

It's difficult to observe in the figure 4.8 but the average for the aircrafts and spacecraft industry lies together to the Airbus line since they were closed during the whole period.

Alestis Aerospace started far above the average, more than double it but with a negative trend of reducing until 2013, in 2014 it grows again over the average, the main reason were the problems of liquidity the company suffered during 2011-2013 and remain suffering in 2014 but partially solved by the agreement with creditors.

Alestis Manufacturing follows a negative trend during the whole period until bankruptcy in 2013 and its absorption by Alestis Aerospace.

Regarding Aernnova Andalucia, it started in a bad way below 1 with high probability of liquidity problems, but with the help of its parent company Aernnova Aerospace, they were solving those liquidity problems during the period and in 2014 it's closely to 1 and growing year to year.

CONCLUSION:

Alestis Aerospace has the best result of the period in 2010, but the company which has the best and stable results is Airbus again for this magnitude.

4.6 GLOBAL CONCLUSION ABOUT COMPARISON

The global conclusion of the comparison between the average of the industry and the companies analyzed are that Airbus Defence & Space is the leader of the sector and one of the highest drivers of all the magnitudes. It is also supported by the other companies of the group like Airbus Operations and Airbus Military. Those three companies are the really drivers of the whole average of the magnitudes since they are quite bigger than any others companies and forms a big profitable, liquid and solvent group.

Alestis Manufacturing is a medium sized company within the aircraft and spacecraft sector, they were in problems but with the acquisition by the Airbus Group and the agreement in the creditor process seems to be converted into a profitable, liquid and solvent company.

Regarding Aernnova Andalucia, they are improving its results over the years but was in serious trouble. They were lucky since are part of the Aernnova Group which is one of the biggest groups in the industry.

CHAPTER 5

CONCLUSIONS

To conclude, there were difficult times within the industry in the period analyzed since we are immersed in a period of crisis around the world but especially in countries like Spain. Moreover there were also a lot of restructuration within the companies, looking for a more efficient way to accomplish their objectives, being successful companies, profitable, liquid and solvent.

The different companies analyzed can't be assessed in an economic nor financial way without taking in mind the global situation for the industry, all of them had to do restructuration of the efficiency, of costs or employees to afford the situation.

The companies within the industry has heavy fixed costs depending on size to continue with their normal production, they are trying to survive, but they can't even found a good external financing support to establish a plan to successful as we can see e.g. the concrete case for Alestis Aerospace.

The "solutions" that are found in this project take part of being part of a big group within the industry, as Airbus Defence & Space is part of Airbus Group, Aernnova Andalusia is part of the Aernnova Group, and even Alestis which tried to be a single group but had to be bought by Airbus Group to start the restructuration and being supported by them to turn slowly the company into a solid, profitable, liquid and solvent one.

Being small firm within the aircrafts and spacecraft sector is so difficult, all the assembly pieces are established to concrete companies, and there's only residual work to those little companies

More concrete, Airbus Defence & Space is the top one, the leader firm of the industry, also even far away from other companies of the corporate group, as Airbus Military or Airbus Operation. It's a solid, profitable, liquid since has creditworthiness and also solvent company, but they have to keep an eye on those CFO generated year by year. The three companies of the group are the mainly drivers of the average for the industry since the three of them are the bigger within the industry.

Aernnova Andalusia is a medium size company that were in troubles with its administration form. They had the support to reverse the bad situation of their parent group, the Aernnova Group which is also a big group within the industry and since 2014, it seems they are turning back the bad situation into a good one since they are reducing part of their fixed costs and increasing by negotiation of new contracts the net turnover for the company. So it's expectative are good.

Regarding Alestis Aerospace we can concluded that since they were in a bad situation because the difficulties to obtain external financing to afford their needs of investments, management had the eye to start a voluntary creditor process. That process helped the company to survive and by the acquisition of the firm by the Airbus Group and its management and viability plan are turning the situation in a good way and it seems they will be in 2016 or 2017 a solid, profitable, liquid and solvent company, in any case they have to keep on eye in put efforts to improve that CFO generated year by year.

CHAPTER 6

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