

Attachment C.1

Document 3597 : an email from Mr Neill (former CEO / now Vice Chairman) to PwC just hours before the MAC Board resolution was passed for the approval and public release of the MAC FY2006 Financial statements.

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John Furbay

From: Rich Neill
Sent: Thursday, March 29, 2007 12:09 AM
To: stephen.r.moore@ca.pwc.com
Cc: John Furbay; John Dekker
Subject: RE: A340 Requests

*item 1
and
item 2*

Stephen and Stephanie ; Further to our conversation tonight I have the following comments on the forecasts,

The answers to the questions provided to you in the prior E Mail related to the EAC number of 1247 units that had been used in the projections of profitably and the recovery of the NRC amounts invested in the program. In mid 2006 the requirement indicated 1155 units would be produced as original equipment hence the balance of 190 would be produced as Spares However and Independently John Furbay was asked to produce a forecast of spares required based on the Engineering work completed by Dr Thamburaj which concluded that the useful life of the exhaust system was approx 35000 hrs [To provide a margin of safety John Furbay's analysis used 40000 hrs as the useful life] This analysis showed that the likely spares requirement was in excess of 800 units over the period 2007 to 2021 so to achieve a volume of only 190 units was an extremely safe number to use in the EAC analysis This data was sent to you on the 14th March Now with the latest FAI forecast it suggests the original equipment number will be reduced and with it the forecast for spares will also reduce by a corresponding amount ,but the requirement for spares still exists andh will provide a total quantity in excess of the 1247 used in the 2006 EAC 6 Hence the amortisation methods used in the EAC are still valid and the conclusion that the program will be profitable overall still correct

To attempt to explain the terminology "Spares and Repairs" generally if an exhaust achieves its predicted and recommended life it will be taken out of service and a new one will replace it. As far as I know there are no mandatory FAA or JAA service lives on the exhaust to mandate this type of replacement so it will be an Engineering and Maintenance decision made by the Airline and the Overhaul Centre that causes this to happen. If an exhaust is damaged or suffers other forms of premature failure [e.g mechanic's errors] then the decision could be made to repair the parts rather than replace This has already occurred and a small number of exhaust parts have been repaired under these conditions Clearly economics also enter this situation and if the repair cost is sufficiently high then the part would be scrapped and a new one fitted We find it difficult to predict the business that would arise from these Repairs and hence we would choose to ignore this in any EAC analysis being done But the business is there and will happen As an aside on other programs we have completed repairs when new spares have not been available where the cost of the repair has been close to the original equipment price but the margin significantly better

Some other factors to consider are Titanium Beta 21s is a difficult alloy to work with and hence it will be difficult for overhaul bases to repair these components and so we will likely see more returned to the factory for repairs than you would see with an inconel/steel exhaust

The Forecast International Data assumes Airbus will be unavailable to further improve the A340-500/600. and yet history has seen the opposite and the example I would use is the A300 which first entered service in the early 1970s and production is only now ceasing
I hope this deals with points raised in the telecon tonight.

from: stephen.r.moore@ca.pwc.com [mailto:stephen.r.moore@ca.pwc.com]
Sent: Wed 3/28/2007 5:48 PM
To: Rich Neill
Cc: stephanie.leblanc@ca.pwc.com
Subject: A340 Requests

Mr. Neill - as discussed this evening. Many Thanks.

Stephen Moore | PricewaterhouseCoopers | Services Conseils / Advisory Services | Directeur / Manager
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stephen_r.moore@ca.pwc.com

----- Forwarded by Stephen Moore/CA/FAS/PwC on 03/28/2007 05:47 PM -----

"Rich Neill" <rich.neill@magellan.aero>

To Stephen Moore/CA/FAS/PwC@Americas-CA

cc

03/22/2007 04:42 PM

Subject FW: Response to PwC

Stephen ; Here are the answers to your questions I cannot think of anything else we can do to support your work in this area and believe that's it as they say. I hope its OK

From: John Furbay
Sent: Thu 3/22/2007 3:41 PM
To: Rich Neill
Cc: John Dekker; Joyce Stuttard; Susan Baker
Subject: Response to PwC

Rich,

Proposed response as requested. I am out tomorrow, but reachable on my cell, and will be here late this evening.

Thank You,
John

FURBAY / R NEILL ANSWERS TO PWC DATED

Outstanding Questions (ATTACHMENT TO 22 MARCH E-MAIL)

PWC

1. What is management's best estimate of the volume of units to be delivered from 2007 to end of program?

NEILL

Answer] All our EAC's have been done around a volume of 1247 units. We believe this to be a conservative number based on our understanding of the new build requirements, and the demand that will be created through use for spares and repaired items. Other forecast data supplied to you on numerous occasions indicates volumes greater than 1247 and this is potential upside in the program, but we have chosen not to use these figures in our business projections.

2. Of the units which remain to be delivered – what is the split between production and spares / repairs units?

Answer] 1,155 production units and 190 spares/repairs as provided to you on our initial projection dated 2/16/2007.

3. On what basis does management's judgment on the volume of units to be used in the EAC going forward differ from the estimate used in the EAC at 31-Dec-06? What new information has become available to management today which was not available at 31-Dec-06?

Answer] Management's judgment does not differ from the estimate used at 12/31/06. Please see #1 above. Any alternative projections produced were at the request of PwC or E&Y and were provided for their reference purposes only. New information that has become available has not changed our well established and consistent estimate and is therefore not pertinent.

4. Provide source evidence for the third party document (Forecast International), dated Feb-07 which supports a forecast for 188 A340 aircraft (2007-2016). This was forwarded by email by Rich Neill to PwC on 21-03-07 – the email originated from Paul Heide

Answer] We are unaware of other sources beyond Forecast International and access by account and password has been given to PwC. The data described in the spreadsheet forwarded by Paul Heide is an extract from Forecast International November 2006 issue.

5. The engineering report prepared by Dr Raj Thumburaj makes reference to repairs being required (not necessarily spares). What is management's view on the distinction between spares and repairs and the implications for future revenues / costs? Would the selling price for a repair approximate to the selling price for a spare? We understand this may be case by case but perhaps we could draw on experience from the Boeing exhausts

Answer] This is a huge subject and there is no quick answer. Generally, repairs may be less expensive than the price of a spare. It depends upon the extent of the repair. A full up repair will cost the same as a spare. Airlines and Overhaul Shops make decisions based on their own criteria on whether to repair or replace. Also there are fleet hour agreements in place that would also influence this decision. Industry practice is to charge higher prices for spares compared to new build which also influence this decision.

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For these reasons we build conservatism into the forecast of spare sales recognizing that there will be some reduction in quantities because of repairs. Not recognized in our estimate to complete is the sales and margins that come from repairs since this is much harder to predict.

6 What is the estimate of the future selling price of spares and repairs? Important given that spares / repairs may not necessarily be ordered by HH / Aircelle – orders may be directly from the airline carriers / overhaul shops, etc

Answer] Currently Spares are sold at the same price as original build, and are subject to the same escalation. While there have been discussions with Aircelle on aftermarket pricing we have no agreement to change the current arrangement. As was the case with Boeing it is anticipated that this will change to allow direct dealing with airlines, etc, with fees being paid to Aircelle. Generally, sales to the end user are priced 30% to 50% higher and fees in the range 10 to 15% given higher margins overall. The EAC computations do not recognize any of these opportunities.

7. Please provide narrative / analysis supporting the assumptions in the EAC relating to learning-curve cost efficiencies (labor and overhead).

Answer] Attached please find labor hour saving opportunity initiatives currently in process which support our EAC. Lower overhead is supported by projected increased sale volumes and resultant higher direct labor hour base resulting in an estimated 364% overhead rate in line with our estimate to complete.

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