

August 2007

- 8.114 PwC Observation: The assumptions used in projecting future overhead costs on the programme are not considered unreasonable.

NRC

- 8.115 As summarised above (paragraph 8.17), NRC of USD 29.6 million is carried in inventory pertaining to the A340 programme. An additional USD 8.6 million is held as production inventory, for a total inventory of USD 38.2 million to be amortised by the end of the programme's life.
- 8.116 The amortisation of inventoried costs is based on management's assessment that the programme will achieve, at a minimum, a break-even position. In 2006, the NRC has been amortised by a fixed amount (approximately USD 30,000) per unit shipped. Based on the EAC assumptions, the main benefits of the learning curve should have been achieved and costs of production should start decreasing in FY2007 and thereafter.
- 8.117 The A340 programme is currently being accounted for on the basis of a break-even assumption for the entire programme life, where the total cost of sales, including NRC amortisation, approximates to the sales prices as each unit is shipped. Current production costs per unit are such that at present the pre-NRC amortisation margin generated per unit is not sufficient to absorb an amortisation of USD 30,000 per unit and still break-even. In order for MAC to report an overall break-even position, while at the same time amortising NRC inventory, it has been capitalising that amount of production costs that is necessary to achieve the break-even position each year. For this reason, 'production inventory' for the A340 programme has been increasing. The following table summarises the historic A340 programme inventory balances since Q4 FY2004.

	NRC Inventory USD'000	Production Inventory USD'000	Total Inventory USD'000
Q4 FY2004	31,490	5,781	37,271
Q4 FY2005	31,584	7,176	38,760
Q4 FY2006	29,614	8,631	38,245

Note: Table prepared by PwC based on information provided by Aeronca

- 8.118 PwC believes that MAC's NRC and production inventories should be considered collectively (for a total inventory of USD 38.2 million) and then amortised from this basis onward. Aeronca should also review the NRC amortisation factor. We believe that this factor should vary with the profitability of each unit. As increasing labour and material cost efficiencies are realised in the production process, furthermore, the amortisation rate should increase.