

## A340 Exhaust system Product life and Certification : A340/ Trent 500 Spares

[Oral evidence on 8 June 2009](#) (p.73) with regard to Mr Neill's email dated 29 March 2007 - see page 5

Mr Bobbi No, that's not. Because a component has a "lifespan" **does not mean necessarily it will be replaced by something new, it can be repaired.**

Mr Lynch Yes. **Well, no,** I think the whole point is this, it's not, Dr Thamburaj's point was not a question that they will need repairs after that period, Dr Thamburaj's point was that around 40,000 flying hours was indeed the lifespan of the unit. **That after that, its lifespan was spent and should be replaced.** That was the point. *<40,000 flying hours>*

Mr Bobbi **Well, and if that was the case, he should have informed the customers.**

Mr Lynch Well, whether or not AIRCELLE was aware of that is another matter.

Mr Bobbi **I think it's an absolutely incredibly important matter, if he believed that.**

[Mr Shannon MP raised the matter directly with the CAA on 24 January 2011 and EASA – see pages 1 -4](#)

**From:** JIM SHANNON [mailto:jim.shannon1@btopenworld.com]  
**Sent:** 14 November 2011 12:13  
**To:** Copigneaux Frederic  
**Cc:** jackie@fortfield.com; Brian Little; Gretchen.Burrett@caa.co.uk  
**Subject:** Re: RE: Re: Your letter dated 11 August 2011

Dear Frederic

Many thanks for your response which I have read carefully. I am reassured by your and Airbus response and thank you for the investigation and advice on its outcomes.

I have copied Mr and Mrs Little on your email. Now that Mr Little is feeling considerably better and unless he can provide any further relevant information for consideration by your subject matter expert I would agree that you have discharged your professional and regulatory obligations satisfactorily.

As a matter of record I will also relay this to my party MEP, Mrs Diane Dodds MEP, so that she is aware of our satisfaction in the way this has been professionally handled by EASA since your involvement in June 2011

Many thanks

Jim

*Jim Shannon, MP for Strangford  
Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN  
Mob – 07792805356*

----- Forwarded Message -----

**From:** Copigneaux Frederic <[frederic.copigneaux@easa.europa.eu](mailto:frederic.copigneaux@easa.europa.eu)>  
**To:** JIM SHANNON <[jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)>  
**Sent:** Monday, 14 November 2011, 11:30  
**Subject:** RE: RE: Re: Your letter dated 11 August 2011

Dear Mr. Shannon,

Thank you very much for your email. I have also received directly parts of this email directly from Mr. Little.

The situation is presently as follows:

1. Magellan has so far not sent us any form 44, nor contacted us directly. I understand from your mail that they have no further technical information to give to us and that they will not contact us by means of a form 44,
2. We have in between proceeded with additional technical investigations with Airbus, which have liaised with Aircelle. The conclusions of these investigations are:

**Quote**

*“The Trent 500 Exhaust System has been certified for a fatigue life capability of 20Kcycle (equivalent to 100K flight hours for average A340-500/600 mission type). It shall be noted that the results provided at the time of certification showed the effect on ductility and on structural strength capability associated with thermal cycle exposure representative of A340-500/600 specified thermal environment. The material allowable used to size the exhaust system was based on these results.*

***Airbus has no tangible data or fact that may question the full life capability of the Exhaust System.***

***Therefore, Airbus confirms that there is no reduction of the original A340-500/600 exhaust design life of 100.000 Fh.”***

**Unquote**

Following the present state of the case taking into account:

- the previous investigations,
- the lack of in service events related to this exhaust system,
- the above quoted statement from Airbus, which is not challenged by any fact,
- and the lack of further technical communication by Magellan or other parties,

we stick to the conclusion reached earlier this year that there is no safety issue nor any maintenance related issue with the A340-500/600 exhaust system and that no further action is needed from the Agency.

This conclusion was already communicated to you on 1<sup>st</sup> August 2011 (letter D53751) and further confirmed on 15<sup>th</sup> September 2011 (letter D54474).

We would therefore close the case, but it could be reopened if new safety related information is brought to our attention.

We do have regular continued airworthiness review meetings with Airbus on all their programmes and safety related issues are brought to our knowledge during those meetings. This is an obligation set by CE regulation 1702/2003 (part 21A.3A) onto the type certificate holder (Airbus) and the complete implementation of this obligation is duly and continuously checked by EASA in the frame of its on-going surveillance of the Airbus design organisation approval.

I remain at your disposal for any additional information.

Best regards, Meilleures salutations, Mit freundlichen Grüßen

Frédéric Copigneaux

**From:** JIM SHANNON [<mailto:jim.shannon1@btopenworld.com>]

**Sent:** 14 November 2011 11:39

**To:** Copigneaux Frederic

**Cc:** Brian Little

**Subject:** Fw: RE: Re: Your letter dated 11 August 2011

Dear Frederic

I met with my constituents on Friday afternoon. During which we agreed certain actions. As a result Mr Little has subsequently sent me the two emails in the trail below and copied you. The contents should be self-explanatory. I have also spoken to him this morning and gained his agreement that you or your staff can speak directly with him at the contact details below.

Telephone 0044 28427 88054

Fax 0044 28427 88054

Mobile 0044 789 4445920

Skype whitechurch176

You will also be aware that I wrote in an 29 September 2011 email to Mr Dimma (copy you) requesting that Magellan provide any further technical information available and/or file a Form 44 to enable EASA to contact them directly. They have recently advised me that there is no further technical information which needs to be disclosed or considered by your EASA subject matter expert to enable EASA to conclude its finding of facts in relation to the product certification and/or safety of the T500 plug and nozzle.

When your investigation has been completed can you please ensure that you do advise me of the outcome to reassure everyone that the Aircraft Maintenance documentation is valid and there are no substantive problems with the use of BETA21S in the T500 (or on A380 / A318) which would require the widespread replacement of plugs and nozzles with new OEM parts for aircraft in service. I particularly note this could be a real issue at Lufthansa in Germany in the next year.

Many thanks for your and EASA's professional and proactive regulatory approach on these matters and I look forward to hearing your final conclusions."

*Jim Shannon, MP for Strangford*

*Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN Mob – 07792805356*

The above pages 1 to 3 was the final update on the investigation commenced in mid June 2011 by EASA following referral by the CAA/Mr Shannon MP in mid June 2011. A copy of this letter was provided as part of an email to the Uk Employment Tribunal dated 19 September 2011 at 15.42. Magellan also have been advised accordingly



European Aviation Safety Agency

Frédéric Copigneaux • Certification Deputy Director

NAOMI ADVISED ON 18 NOV 2011  
THAT COPY OF LETTER  
PROVIDED TO TRIBUNAL  
WITH MR SHANNON MP  
EMAIL DATED 19 SEPT 2011 AT  
15.42

Cologne, 15 September 2011  
FCO/seg/C.0 2011(D)54474

Mr. Jim Shannon, MP  
Constituency Advice Centre  
34a Frances Street  
Newtownards  
BT23 7DN  
United Kingdom

**Subject:** Your letter dated 11 August 2011  
**Our ref:** A/7330 follow up of (D)53751

Dear Mr. Shannon,

Thank you very much for your letter and the explanations it contains.

As you indicated yourself, the material in your letter does not contain new technical elements which would lead us to revising our opinion on the case, as indicated in our previous letter on the subject. We also acknowledge that you and your constituent had come to the same conclusion.

I have nevertheless forwarded your letter and its enclosures to our expert who dealt with the case in the first instance, in order for him to further investigate, as appropriate.

In this respect, I would only come back to you if these complementary investigations have resulted in any safety related considerations, or if you bring to our knowledge any new technical elements.

I hope this is acceptable to you and would like to thank you again for your assistance in our safety mission.

Yours sincerely,

F. COPIGNEAUX

Copies: Dr. Norbert Lohl, Mrs. Rachel Daeschler, Mr. Alain Leroy, Mr. Laurent Gruz,  
Mr. Frank Manuhutu (EASA)

Tel: +49 221 89990 4014 Fax: +49 221 89990 4514 frederic.copigneaux@easa.europa.eu

**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.**

Page 1 of 2

**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*

*f doc  
365  
16 Feb 2007*

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 profitability 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 and 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.

*→ Doc  
365H  
14 MARCH 2007  
- overleaf -*

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.

*→ Doc 365H  
overleaf*

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

That 14 March 2007 (below) was not disclosed until the end of August 2009 - AFTER Mr Neill gave his evidence

PRODUCED BY JOHN PUNSBY ON INSTRUCTIONS FROM CEO MR R NEILL

**AERONCA, INC.**  
**AIRCELLE A340 PROGRAM**  
 ACTUAL/ESTIMATED QUANTITIES (ENGINE SETS)  
 AS OF: 3/14/07 14 MARCH 2007

Engine	Application	Actual Through 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Subtotal	A340 Trent 500/600 Total
Rolls-Royce Trent 500 Production	A340-500/600	434	52	40	36	0	0	0	0	0	0	0	0	0	0	0	0	128	1466
Spares and Repairs	A340-500/600	18	8	9	6	81	90	70	86	81	52	40	36	81	90	70	86	886	

↳ END OF CURRENT COMMERCIAL CONTRACT = 282

Airbus Wing Delivery Schedule based on sold aircraft, no projections beyond 2009.
Aeronca Estimates based upon exhaust system life of 40,000 hours. **
Actuals

⇒ TOTAL 562-20 Dev = 542 = TOTAL BUILD OF 135 A/C (equal to BL - JAN 2007 new)

Engine	Application	Actual Through 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Subtotal	A340 Trent 500/600 Total
Rolls-Royce Trent 500 Production	A340-500/600	434	44	60	32	52	40	0	0	0	0	0	0	0	0	0	0	228	1666
Spares and Repairs	A340-500/600	18	8	9	6	81	90	70	86	81	44	60	32	133	130	70	86	986	

Airbus Website based on sold aircraft, no projections beyond 2011.
Aeronca Estimates based upon exhaust system life of 40,000 hours.
Actuals

⇒ NOT RIGHT DATA (160.5) AIRBUS Website = 153 AIRCRAFT (cancellations not considered)

- 3605H -

**Information item 1 : sets out the frequency/consistency of Mr Lynch's mindset/line of questioning**

Mr Lynch QC "What I suggest to you is this : that although, within that context, he once uses the word "repair", towards the very end of the email, what I suggest to you is that on a fair reading of that email it's plain that what Dr Thamburaj is saying is that the **durability or lifespan of those units is 40,000 flying hours.** That's right, that's a fair view?"

*and on page 63 Line 3+ states*

Mr Lynch QC "Exactly, good, and **that relates to replacement, doesn't it, spares rather than repairs. If that's the lifespan of the unit, then once the lifespan is over it's a question of a replacement, other than repairs,** that's right, isn't it?"

Mr Bobbi *Not necessarily*

Mr Lynch QC "Well, but that would be the obvious inference to draw, wouldn't it, from what Dr Thamburaj is saying. The obvious inference to draw is that that is the service limit, that's the lifespan of the unit, and obviously, if the lifespan is that, **then one needs a new unit when the lifespan is spent.** That's the obviously sensible reading of Dr Thamburaj's email, that's right, isn't it?"

Mr Bobbi *He is still confusing spares and repairs.*

Mr Lynch QC "I don't think he is, and that's my point. If we look again at his email isn't it perfectly obvious that what **Dr Thamburaj is saying is that that is the lifespan of the unit, that's exactly what he says.**"

and [then continuing on 27 July 2009 at Page 109+](#)

Mr Lynch And it's certainly right that Mr Little did say to me, this is a very, very serious regulatory aspect, and do you understand.

Mr Little I specifically wanted you to affirm and you did.

Mr Lynch That's not the point, I don't know the regulations that apply to the industry, the point of importance is I was simply putting Dr Thamburaj's research to Mr Bobbi, Dr Thamburaj certainly doesn't suggest a regulatory mandatory 40 thousand hour limit. **I was talking about the service, the predictions as to likely service durability.** That's what I was trying to put.

Judge So there we go. There will have to be submissions if you want to make that point. It's not Mr Neill's evidence that there is a 40 thousand limit.

Mr Little Which would be my understanding.

Judge Absolutely, so what you're **suggesting is that Mr Lynch was putting a false point** and we'll have to make a finding on that whether or not he, without knowing the position, was **putting a point falsely to Mr Bobbi which you assert he was.**

**Replicated 1.4 and on Pages 72 and 73 line 1-3 states** Line 10 - 13

Mr Lynch QC "Right. So it's plain, isn't it, that PwC did indeed examine and accepted for accountancy purposes, the validity of Dr Thamburaj's calculations, yes?"

Mr Bobbi "No, that's not. Because a component has a "lifespan" does not mean necessarily it will be replaced by something new, it can be repaired."

Mr Lynch QC "Yes. Well, no, I think the whole point is this, it's not, **Dr Thamburaj's point was not a question that they will need repairs after that period,** Dr Thamburaj's point was around 40,000 flying hours was indeed the lifespan of the unit. That after that, **it's lifespan was spent and should be replaced.** That was the point."

**As you can read Mr Lynch QC conduct in his questioning is asserting the exact case of my constituent, in that Mr Neill was LYING to PwC within his 29 March 2007 email, on the need for replacement spares when referring to the 14 March forecast produced on his instruction for 800+ spares.**

continued Page 116 – Line 23-25 and Page 117 Line 1-22

Mr Little No, I'm suggesting to you you're lying, because that says to anybody, a replacement. The calculation of 800 stacks together with that, it only makes sense in that context. It can't mean anything else, and they then go off and say that's how they've done their calculations, but can't even get the maths right. (overspeaking)

Judge Wait, please. You're suggesting he's lied in the email?

Mr Little Yes, he's deliberately lied and given that impression.

Judge In the email.

Mr Little **In the email relating to the 800 and he then conditions** --<referring to doc 3605H>

Judge No....

Mr Lynch Wait.

Judge In the email, what you're suggesting is that he's lying to PwC.

Mr Little **He's deliberately given the impression of that 40,000 hours replacement.**

Judge I hear what you say but I want to make a note of it. **I suggest that you are lying in the email. Not anywhere else, but in that email.** That's what's been suggested to you, I think. That that's a lie.

Had PwC used the third party consensus forecast of 135 aircraft /540 units (and the 14 March 2007 scenario PwC put to MAC ; identical to my constituents view) the maths would of course have been

1247 less 540/542 = **707 / 705 spare units required for amortization.** (Oct 2011 = 723)

Can I now recommend you access and open this document [untruthful/ industry PwC logic+maths wrong](#)

< [in re-examination by Mr Lynch QC page 136 Line 9 – 25 and page 137 Lines 1-12](#)

Mr Lynch *Why did you consider it important to make it clear to PwC <that there are not regulatory provisions>*

Mr Neill *Because I did not want anybody to misunderstand the basis of the forecasts that we were assuming. Remember the analysis was, did we – would we have enough units in the forecast to recover all of the money invested in non recurring costs/ And I thought I took almost a worst case scenario and 190 units, and the best case scenario with 800 units, and said , between these two numbers , there will be quantity produced in support of spares and repairs which will more than satisfy the non-recurring costs. Let me add on other thing. Brian picked me up on the second paragraph on the word recommended but if you look at the phrase its says quite clearly it'd predicted and recommended life, and I think that should have given a signal to PwC that 60 (40?) thousand hours was not a regulated or mandatory life for the components.*

Mr Lynch *In that same paragraph you say that you ignore repairs because they're rather uncertain, in terms of predictions, what did you have in mind when you used that word repairs?*

Mr Neill *This is when I made the 20/20 comment. I was really talking about the repairs that an airline on an overhaul centre would make, it was in their own premises, and only called on to plant for spare parts to support that, I was really not talking about the major or heavy repairs that would be undertaken by Aeronca as the manufacturer.*

**So Mr Lynch QC was consciously aware that Mr Neill has now given his 27 July 2009 evidence that the numbers are for BOTH Factory Repairs and Spares and the accounting position relating to Spares only. Despite that 27 July 2009 evidence Maqellan's solicitors and Mr Lynch QC subsequently repeat the Spares theme.**

**Brian Little**

**From:** RAE Charles [Charles.Rae@pinsentmasons.com]  
**Sent:** 05 May 2009 18:07  
**To:** Brian Little  
**Subject:** Documents  
**Attachments:** Scanned\_.pdf

REPRESENTATIONS/  
ASSERTIONS

Brian

I am coming back to you, as promised, concerning your Document request "1B". My clients have been carrying out a search for the document that you have asked for. The document does exist, therefore we are disclosing it to you - it is attached at page 1.

As you know, both Ernst & Young and PricewaterhouseCoopers were comfortable with the manner in which the Respondent justified the quantity of units expected to be delivered. For the sake of clarity, we also attach (at page 2) a document that our client has recently prepared, which shows at a glance the assessment that would be carried out by the Auditors in order to satisfy themselves that the accounting on this matter was appropriate. We trust it is of assistance.

We are, of course, disclosing these documents to you in connection with this litigation, therefore the implied undertaking as to the use of disclosed documents (i.e. only in connection with these tribunal proceedings) applies.

Regards

**Charles Rae**  
Senior Associate  
Pinsent Masons LLP

**DDI +44 (0) 121 623 8693**  
Mobile +44 (0) 7776 205 793  
Internal Ext - 838693

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1

Quantities specified in the updated "Q4.2006 gross margin breakeven" as the A340:Summary of Best Information Available for Production and Spares/Repairs at 31 December 2006. The column on the right are the quantities (and prices) used in the Q4.2006 EAC. whilst the reader will observe in Mr Dekker's schedule under the left hand column heading % of Units Justification the "identical" quantities information from FY2007-FY2021 for Trent 500/A340 Production of 60 + 661 = Sub-total = 721 and Spares and Repairs = 6 + 166 = Sub-total = 172 to that contained and submitted to PwC and E&Y in the Aeronca document 3605 dated 16 February 2007 referred to above was then to appear in May 2009 (See my A340 Written and oral evidence at Report:P79-80 in April 2008 and further A340 document (doc3605A) - in May 2009 - with a comment from the Magellan UK solicitors in which they state.....

PinsentMasons, on behalf of Mr Dekker, the MAC Chief Financial Officer described this document /schedule for production and spares on 5 May 2009 as

“At a glance the assessment that would have been carried out by the auditors in order to satisfy themselves that the accounting on this matter was appropriate.”

**Aeronca, Inc.  
A340 Summary of Best Information Available  
at December 31, 2006**

year	# of units justification			initial cost to complete basis		
	production	spares/repairs	total	units	unit price	total revenue
2008	69	7	76	156	201,396	31,417,776
2009	53	7	60	162	210,828	34,154,136
2010	127	8	135	162	221,170	35,829,540
2011	117	9	126	162	232,501	37,665,162
2012	103	11	114	151	244,970	36,990,470
2013	85	12	97			
2014	63	14	77			
2015	37	14	51			
2016	7	14	21			
2017		14	14			
2018		14	14			
2019		14	14			
2020		14	14			
2021		14	14			
	<b>661</b>	<b>166</b>	<b>827</b>	<b>793</b>		<b>176,057,084</b>

Aeronca A340

page 2 of 2

This was superseded with a further disclosure on 8 June 2009 for increased production on 1 March 2007

MAC A340 forecasts - Aeronca Inc Aircelle A340 Program - Actual / Estimated Quantities  
(Engine Sets) - 1 March 2007 (UK document 3605B/D to E&Y for FY2006 audit)

(and to PwC for "independent forensic investigation" - 3605 E/G) - Disclosed 8th June 2009  
see also A340 my On the Record Document pages 98 - 99

**1 March 2007** - (MAC Projected sales and build of almost 300 production A340 -500/600 aircraft through to FY2016: of which the MAC Production Plan for 2010 = 29 aircraft or 116 engine exhaust systems) . The lower schedule (1831A) is the representation made by MAC to E&Y in the Q4.FY2006 Estimate at Completion (EAC). As per the PwC report para 8.61 **“The Q4 FY2006 EAC was also used by EY for year-end audit testing purposes.”** The Estimate at Completion (EAC) process/documents are the MAC management “most reasoned view and likely outcome – oral evidence :Dekker” and showed in this Q4.2006 EAC submission to the auditors E&Y and PwC an improvement over Q2.2006 of a **\$5.2m loss** to a miniscule \$0.1m gross profit on \$250m program revenues.

## Magellan two “ Management “ Assertions on A340

In a separate paper I compiled and set out an analysis of the PwC report and the management assertion contained within it in relation to A340 quantities.

I found that PwC made five errors which cumulatively represent **“forensic deceit”**

1. **PwC basic mathematics errors**
2. **PwC logic – failed to use aircraft in service dates**
3. **PwC use wrong average annual flying hours**
4. **PwC used only ONE production build forecast** (*consciously ignoring the customer production plan, 6 other third party forecasts , A340-600 cancellations from airline customers which PwC audit, general and specialist press publications and MAC Board approved 30 March 2007 Management Discussion and Analysis, at page 14 (MD&A/AIF.p12) which states*  
*“The Corporation relies on customers' delivery projections as well as external market forecasts to determine the number of units over which to amortize non-recurring costs. Should deliveries not reach the number projected, any unamortized balance that remains would then need to be charged to cost of revenues which could have a material adverse impact on the Corporation.”*
5. **Detail technical data for BETA21S materials**

I now turn my attention to the A340 pricing and financial analysis done by PwC on the A340. Here I also identify four points which likewise represent forensic deceit and a failure to basically audit and test the documents and management assertion at PwC para 8.62B.

1. **Revenue increases from Q2-Q4.2006 of C\$8470K for FY2007-FY2012 could not support Magellan management assertion to PwC / basic analysis by PwC**
2. **PwC basic mathematics errors / audit testing failures in sales prices in Q4.2006 EAC**
3. **PwC fail to obtain BETA21A material quotes to support Q4.2006 independent verification and assumed increases from Q2.2006 – 10% p/a increase from FY2007 to FY2012.**
5. **Amortisation \$ per unit shipped in FY2006 –PwC analysis.. approval of MAC and E&Y prior conduct**

Point 4. Other information and Pricing status at August 2006 prior to my termination which is relevant in Q2.2006 and to my state of knowledge prior to my termination at Toronto Airport.

In referring to the table at Paragraph 8.62 and the increased total revenues of C\$8470K (b) from FY2007 – FY2012 between the Q2.006 Estimates at Completion (EAC) and Q4.2006 EAC PwC state at paragraph 8.62 (b) reproduced overleaf ...“The increased revenue for the remainder of the programme was due to management’s assertion that a higher percentage of future sales will be generated in later years, when MAC can expect to benefit from the impact of compound price escalation.... *full PwC table and text reproduced below. MAC CFO Mr Dekker assertion to PwC in 2007? ... when he was challenged that, whilst it may have been asserted to PwC, it was factually false based on the pricing used in the Q2.2006 and Q4.2006 EAC documents disclosed just before this evidence on 10 June 2009*

**Judge** It doesn’t look as if they’ve brought that into the equation in terms of the report?

Mr Dekker They certainly haven’t documented it in that fashion.

**"We are astonished that PwC appeared not to recognize an amber light that flashed so brightly."**

Extract from PwC written evidence to the House of Lords Economic Affairs Committee – at para 24

**"Professional scepticism is fundamental to what auditors do. It is defined in auditing standards as *"an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."*** and at para 25

**It is the job of the auditor, as established by internationally agreed auditing standards, to challenge management's assertions and ensure that they are backed with evidence that is appropriate, supportable and capable of independent verification.** It is not the auditor's job to develop alternative views and then try to persuade management to adopt them in preference to theirs."

FRC/APB – "Audit is essential to public and investor confidence in companies... The application of an appropriate degree of professional scepticism is a crucial skill for auditors. **Unless auditors are prepared to challenge management's assertions** they will not act as a deterrent to fraud nor be able to confirm, with confidence, that a company's financial statements give a true and fair view." Mr Paul George – FRC /POB Director : Daily Telegraph July 2011 "Biggest audit firms hit by scathing regulator's verdict"

### Mr Brian Little

#### True to type, innumerate accountants PWC {+E&Y} bent "reality" to suit client's needs

Will Edwards stand by Magellan?

Magellan accused of inflating project size

Magellan sails into rough seas – stock pops, former executive threatens action

PwC reported to accounting regulator after taking criticism of client from report

**"Financial Control within MAC and MALUK in relation to the areas we have examined is poor and needs to be improved: this is particularly acute given that MAC is a public company."**

#### **Brian Little's turbulent battle with Magellan Aerospace**

By "**Forensic Deceit**" I mean that it is **NOT TRUSTWORTHY**, because the intention of PwC, and the effect of their **less than rigorous investigation or audit standards, was to mislead the reader in their "findings of fact" and conclusions from its "forensic investigation".....Beyond Belief.** As you can hear, should PwC with their assertion of "great skills in holding a mirror up" **actually firstly look in that mirror themselves**, prior to trying to credibly convene and participate in this important public debate?

You may also wish to reflect on their **Chairman's Speech, Mr Powell, in Oct 2010 on "Building Public Trust"** and his recognition, as PwC leader, of his "personal responsibility to imbue his organization with integrity and professionalism". Also read **UK Financial Times letter**.

**8.0 Accountancy/Auditors – perceptions of “independent forensic accountants”**

*I understand from other people within Big 4 audit firms that Forensic accounting people consider themselves to be amongst the “elite” members in their accounting/audit profession. I also believe from my research that most lay people would attribute such roles in such people and firms as having the following characteristics:*

- 8A Numeracy / finance skills** – basic logic and mathematics – see paragraphs 9.1 and 9.2
- 8B Reliance on them – comprehensive/thorough** = truth / trust underpinned by independence / Objectivity –see paragraphs 9.3, 9.4 and 9.5
- 8C Access to information** – global knowledge management / other audit clients and public information underpinned by technology in access to documents and records – see paragraphs 9.6, 9.7 and 9.8
- 8D Professional scepticism , checking and validity:**audit testing and deep technical skills – paragraphs 9.9 & 9.10

"Both Ernst & Young and PricewaterhouseCoopers were comfortable with the manner in which Magellan Aerospace justified the quantity of units expected to be delivered. For the sake of clarity we also attach a document that Magellan has recently prepared, which shows at a glance the assessment that would have been carried out by the auditors in order to satisfy themselves that the accounting on this matter was appropriate." - As at Feb 2007  
When PwC asked Magellan to prepare projections based on my information on 29 January 2007 for a total A340 -500/600 build of 135 aircraft Mr Neill instructed that the MAC 16 February 2007 Spares numbers be substantially uplifted by 500%+ to meet the EAC amortization quantities.

**Some of the PwC steps in their act of A340 “Forensic deceit” Private Eye**

- 9.1 A340 500/600 Pricing - numeracy and logic
- 9.2 A340 500/600 Volumes/ Quantities - numeracy and logic
- 9.3 A340 Customer delivery projections from Airbus – totally excluded in PwC analysis / assessment
- 9.4 A340 External Market forecasts from third parties – PwC not comprehensive / thorough
- 9.5 Independence/Objectivity – professionally compromised
- 9.6 A340 500/600 External market forecasts - failure to access global information
- 9.7 A340 500/600 Data from other Publications – including the file provided by MAC CEO, Mr Neill
- 9.8 Airbus Aircraft A340-500/600 “Website” Order Book - wrong analysis / assessment
- 9.9 Airbus A340-500/600 Unit Delivery projections - failure to check and audit testing validity
- 9.10 A340-500/600 pricing projections – failure to check and audit testing validity

**The day before the MAC FY2006 financial results were announced Mr Neill told PwC that despite his knowledge that the A340 500/600 upgrade programme had been cancelled from August 2006 in an email that**

"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."