



RESEARCH OPINION

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Independent Research Opinion regarding the Airbus A380 aircraft

European Aeronautic Defence & Space Co. NV (PAR/CAC: EAD.PA)

Backgrounder

Airbus S.A.S. has positioned the A380 as a “game changer” in the market for long haul, high capacity widebody aircraft (referred to often as “very large aircraft”). Launched in 1999 as the A3XX and formally designated as the A380 in 2001, Airbus has managed only 159 firm orders for both the passenger and cargo versions, along with 70 options, from 15 airlines and one aircraft leasing firm. This week at the Farnborough International Airshow in England, Airbus predicted more sales would soon be booked for its super-sized aircraft.

Former Airbus CEO Noël Forgeard stated that the company would eventually sell 750 A380s, with breakeven estimated in the range of 250 to 300 units. With sales at that level, Airbus is positioning the A380 to capture 60 percent of the world’s market for very large aircraft by the year 2023.

But with production delays announced twice over the past year that have pushed back some deliveries by up to one year, AirTrav Inc. believes that increased production costs along with potential penalties charged by customers awaiting deliveries will push that breakeven level higher.

Market for Very Large Aircraft

There are definite high-density routes in which the A380 will make sense. Especially at airports with significant air space and airport congestion, the ability to move a higher number of passengers or freight tones on one aircraft will certainly be beneficial. In fact, and as Airbus itself predicts, the majority of very large aircraft will be seen at only a couple of dozen of the world’s top airports.

In AirTrav’s opinion, the total market size for this ultra high capacity aircraft is limited and less than that predicted by Airbus. Airbus has predicted that by the year 2023, the market for very large passenger aircraft such as the A380 will be 1,250 units. In contrast, in its current outlook Boeing predicts a market for only 990 very large airplanes, such as the newest version of its successful B747, the B747-8. That outlook represents 260 less units than the Airbus forecast.

Conclusions

AirTrav predicts that while total orders will surpass their breakeven level, the A380 will sell somewhere in the range of 400 to 500 aircraft. Although Boeing has yet to sell the passenger version of its stretched B747-8 (it has won orders for the freighter version, including eight from Emirates Airlines that was announced this week at Farnborough), we believe Boeing will begin to hit its stride as airlines look to replace retiring B747-400 and Airbus A330/340 aircraft.

The market for very large aircraft that can handle passenger volumes approaching the low end of the A380 but small enough to service busy airport city pairs beyond the top 20 will likely be a niche market for Boeings B747-8. As such, we predict that this market sector targeted by Boeing will produce volume unit sales for the B747-8 that will eventually exceed, albeit by a small margin, Airbus sales of the A380 that targets only the extreme upper end of the very large aircraft market.

Stalled sales by Airbus of its other long range, widebody aircraft – the A340, A330 and A350, the last of which was just re-launched as the A350-XWB (“Extra Wide Body”) due to initial design criticisms – may signal further good news to come for Boeing.

AirTrav noted in a Research Opinion issued earlier this week that Airbus and its parent, European Aeronautic Defence & Space Co N.V. (“EADS”), may be down but they are definitely far from being out. The A350-XWB may begin to pick up sales in the B787 market – its A350-800 and A350-900 series targets the B787 market – while its just unveiled larger A350-1000 series will target similar capacity models in Boeing’s larger B777 series (still to be announced from Boeing, the launch of the higher capacity B787-10 series that would compete against the A350-1000). As well, sales in the A320 family have continued to post respectable results.

And should its own predictions that the A380 will be a “game changer” and that the market for very large aircraft will be as large as it believes, Airbus will have the last laugh.

All said and done, AirTrav predicts that A380 sales will ultimately not reach the level so confidently predicted by Airbus.

Per AIRTRAV INC.

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