2010 Industry Forecast *Q1 Update*

ADVITO

Introduction

Advito is pleased to present its first quarter 2010 update to the 2010 Industry Forecast, originally released in October 2009. Throughout the year, Advito's quarterly forecast updates reassess the economic parameters on which its initial forecast was based, analyze year-over-year booking data from the previous quarter and issue revisions as appropriate.

Additionally, this quarterly update provides a high-level view into key recent industry and market developments that may have an impact on corporate travel buyers.

In the first quarter of 2010, Advito saw a double-digit increase in overall demand for corporate travel – although demand levels vary significantly across regions. This development is in line with macroeconomic and other industry data.

The macroeconomic scenario upon which Advito based its 2010 forecast called for sluggish but sustained growth, with world economic output expanding by about 3 percent, in line with the International Monetary Fund's (IMF) October 2009 *World Economic Outlook*.

In its January 2010 *World Economic Outlook*, the IMF calls for an upward revision of ¾ percentage point in world economic output, and states: "In most advanced economies, the recovery is expected to remain sluggish by past standards, whereas in many emerging and developing economies, activity is expected to be relatively vigorous, largely driven by buoyant internal demand." In its March 2010 *Financial Forecast*, the International Air Transport Association (IATA) also alludes to a two-speed recovery, noting that "airline markets rose strongly at the end of last year and early in 2010, but growth remains concentrated in the emerging markets of Asia, Latin America and the Middle East."

This distinction in recovery between advanced and emerging economies plays a role in several of the category-specific forecast revisions noted in this quarterly update by Advito.

For more detailed information on key trends in travel management practices for 2010, as well as recommendations for travel buyers, please refer back to the original 2010 Industry Forecast, available at www.advito.com.

Key Findings

- Two-speed recovery in advanced and emerging markets reflected in category-specific updates
- Asia-Pacific airfares to show stronger than anticipated growth across all categories
- Regional business-class airfares to fall in Europe
- Rising supply and sluggish year-over-year recovery in key markets to contribute to further drops in hotel ADR
- No-show fees for rental cars likely to have impact in 2010

Category Outlook for 2010

Air | Hotel | Car Rental

Methodology

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Air Outlook for 2010

Advito's original 2010 forecast called for a general slight rise in average ticket prices as a result of either small fare increases or – more commonly – reductions in the availability of lowest priced tickets as airlines begin closing lower fare classes earlier than in 2009.

Our review of Q4 2009 economic and passenger data indicates that the original forecast remains unchanged in North America and Latin America. However, we are revising overall predictions for the Asia-Pacific region, as well as class-specific predictions for Europe, Africa and the Middle East (see Figure 1).

In Asia-Pacific, Q4 2009 saw faster than anticipated recovery from the general economic downturn, driven by relatively buoyant growth in China. As a result, we now predict that 2010 airfares will increase by 1 to 2 percentage points over previous forecast figures across all categories of travel.

In Europe and in Africa, we are expecting a drop in regional business class airfares, moving from a slight increase to a net decrease in both regions, as a result of a continuing fall in demand.

Although we have begun to see a slow return to business class for long-haul flights, indicating that passenger numbers in 2010 will at least exceed the exceptionally low levels of 2009, Advito does not expect short-haul premium cabins to recover. The business case for using them is weak: continuing pressure on costs within travel programs mean that corporate travel policies in some regions are now following a trend established in the U.S., whereby class of travel is predicated on travel time. In recent years, Advito has seen companies shift the cutoff for economy class from six hours to eight and, increasingly to 10 or 12 hours.

Reflecting this mindset, within Europe, several airlines (Air France, bmi and CityJet) have announced the elimination of business-class service on domestic or regional routes.

In the Middle East, heavy capacity increases will leave carriers struggling to fill seats, leading to our revised intercontinental economy class airfare forecast, shifting from a 3.5 percent increase to parity (0 percent).

As both global economic data and demand data currently support our initial forecast assumptions of an improving macroeconomic situation and increasing corporate demand, we see a real possibility that airlines may begin to reinstate capacity that had been removed during the past 18 months. This potential new capacity will temper airlines' ability to raise fares and yields over the rates we have updated. However, Advito will continue to monitor capacity developments and adjust our forecast in future quarterly updates as necessary.

The price of fuel, a major variable to consider in airfare forecasting, did not require a change in Advito's predictions. For the purpose of this forecast, Advito has assumed an average price of crude oil to be within the range of US$70 and US$85 in 2010. In its *World Economic Outlook*, published in February 2010, the IMF is predicting an average crude oil price of US$76 a barrel.

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Fig 1 – Airline Key Performance Indicators (KPI) by Region

Increasing demand and load factors in most regions will mean fare increases and less availability of lowest fare tickets

Global

Airline KPIs	
Traffic (RPK)	+7.3% ◄
Capacity (ASK)	+2.8% ◄

North America$

Airline KPIs	
Traffic (RPK)	+6.2% ◄
Capacity (ASK)	+3.3% ◄

Airfare Predictions	Business	Economy
Inter-continental	+5.0%	+3.0%
Regional	+3.0%	+6.0%

Europe€

Airline KPIs	
Traffic (RPK)	+4.2% ◄
Capacity (ASK)	-1.0% ◄

Airfare Predictions	Business	Economy
Inter-continental	+3.5%	+2.5%
Regional	-2.0% ◄	+2.0%

Asia-Pacific$

Airline KPIs	
Traffic (RPK)	+12.0% ◄
Capacity (ASK)	+7.3% ◄

Airfare Predictions	Business	Economy
Inter-continental	+6.0% ◄	+4.0% ◄
Regional	+2.0% ◄	+5.0% ◄

Middle East€

Airline KPIs	
Traffic (RPK)	+15.2% ◄
Capacity (ASK)	+14.5% ◄

Airfare Predictions	Business	Economy
Inter-continental	+3.5%	±0% ◄
Regional	+3.0%	+2.0%

Latin America$

Airline KPIs	
Traffic (RPK)	+12.2% ◄
Capacity (ASK)	+8.1% ◄

Airfare Predictions	Business	Economy
Inter-continental	+4.0%	+6.0%
Regional	+3.0%	+5.0%

Africa€

Airline KPIs	
Traffic (RPK)	+1.6% ◄
Capacity (ASK)	+7.8% ◄

Airfare Predictions	Business	Economy
Inter-continental	+3.5%	+1.5%
Regional	-1.0% ◄	+2.0%

◄ Arrow indicates revision to original forecast

RPK (Revenue Passenger Kilometers) measures actual passenger traffic
ASK (Available Seat Kilometers) measures available passenger capacity
Source: IATA
Forecast of average development of air fares used by corporate clients 2010 against 2009 (in $ USD or € EUR)
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Fig 2 – Regional Air Cost per Mile Year-on-Year 2009 vs. 2008: Europe

A significant structural shift by business travelers from premium to economy seats within Europe accentuated the decline in premium travel and moderated the fall in economy

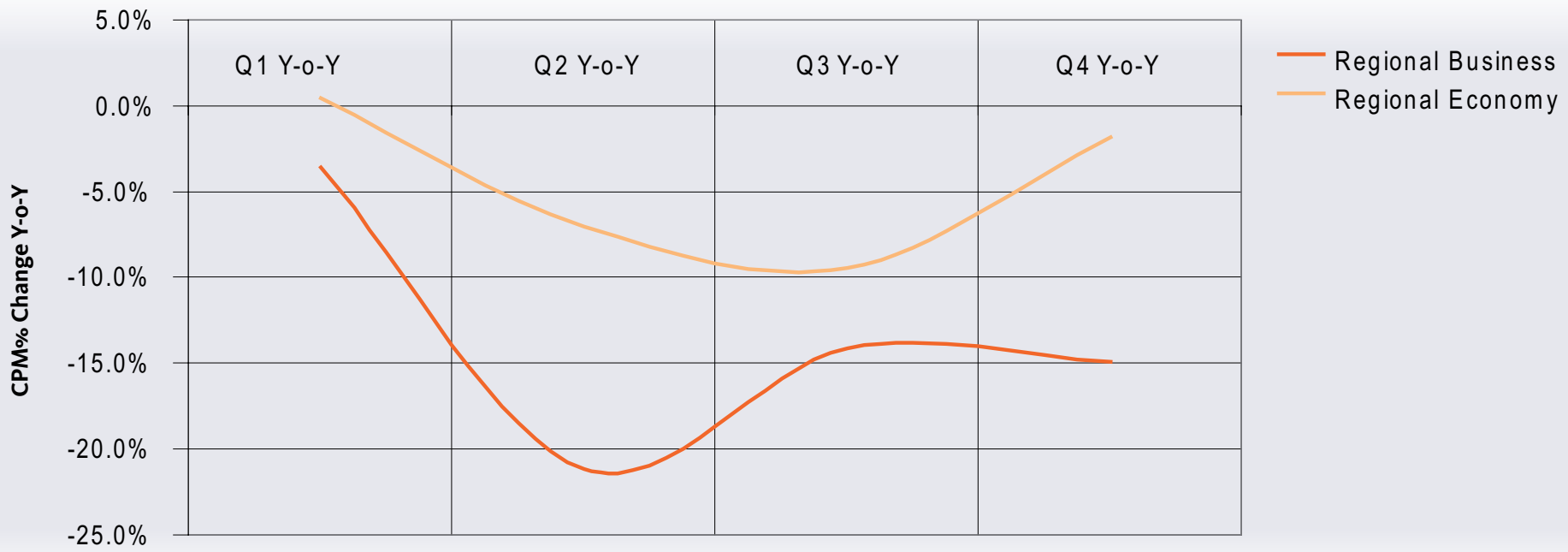

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Fig 3a – Cost per Mile Year-on-Year 2009 vs. 2008: Asia Pacific

Q4 2009 saw faster than anticipated recovery from the general economic downturn

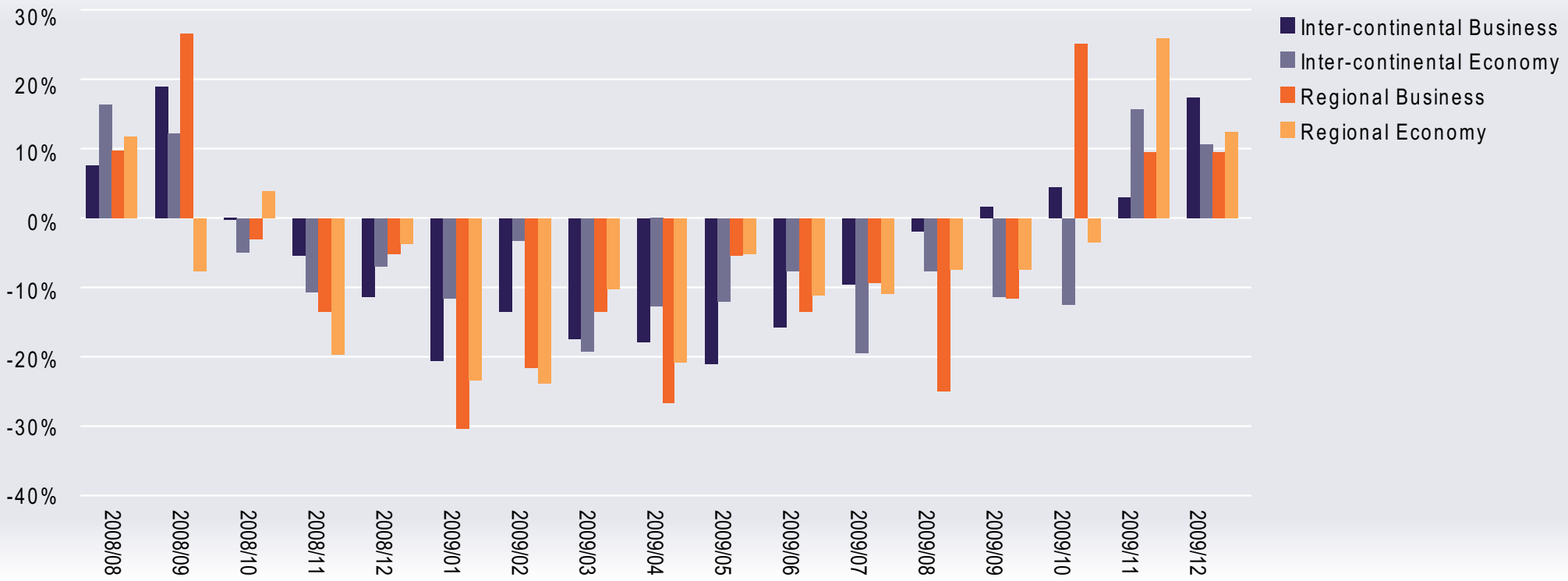

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Fig 3b – Cost per Mile Year-on-Year 2009 vs. 2008: Europe

While the intercontinental business class market may slowly recover, European regional business class may not

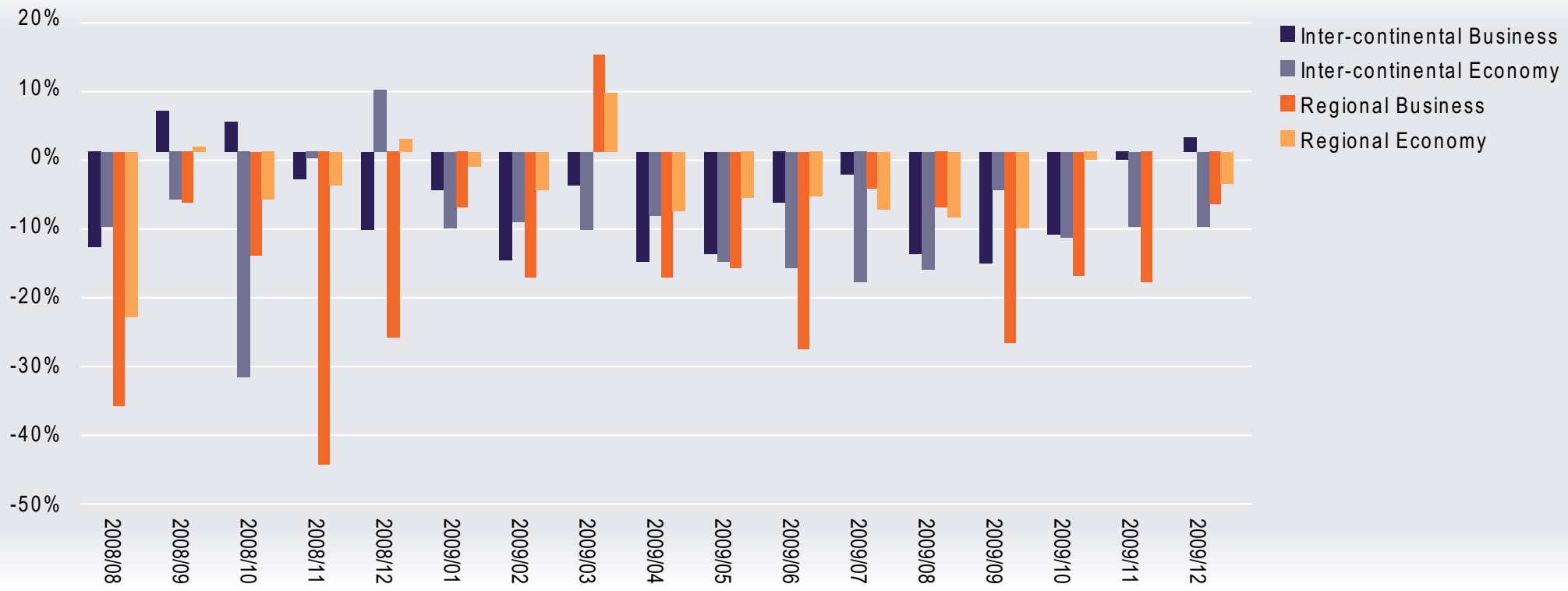

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Fig 3c – Cost per Mile Year-on-Year 2009 vs. 2008: Latin America

Q4 2009 showed a gradual increase in demand and fares moving up compared to weak Q4 2008

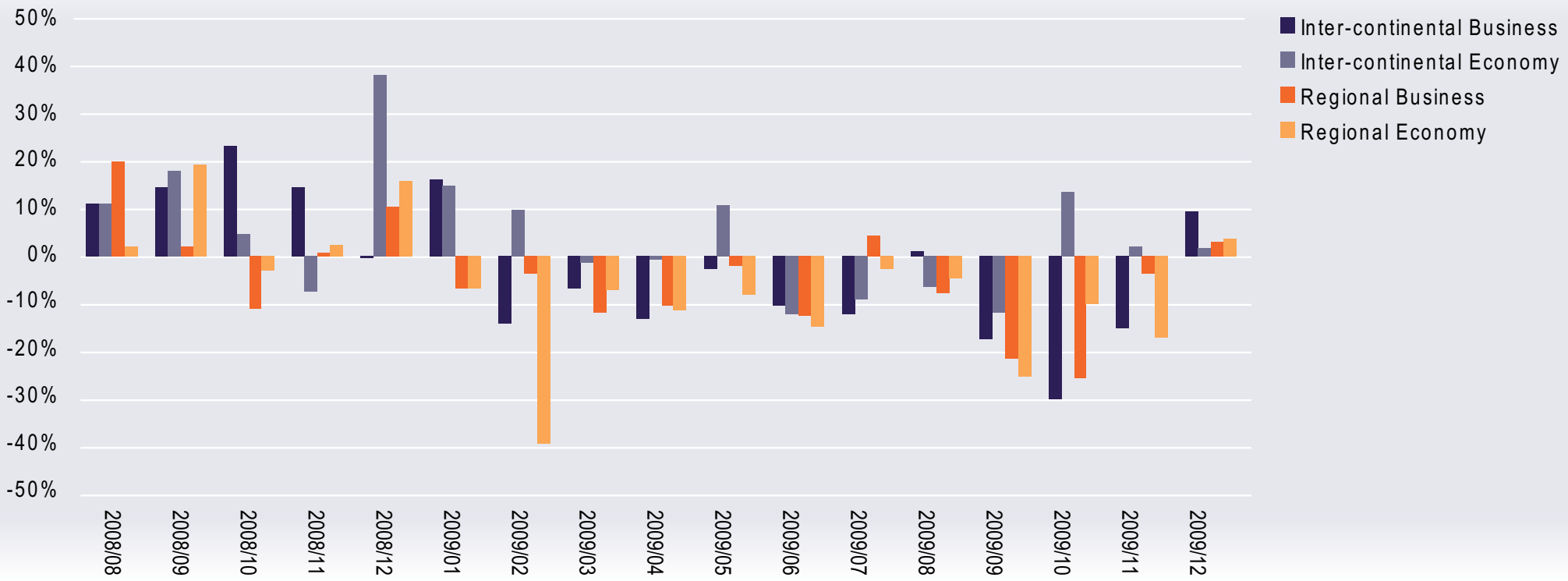

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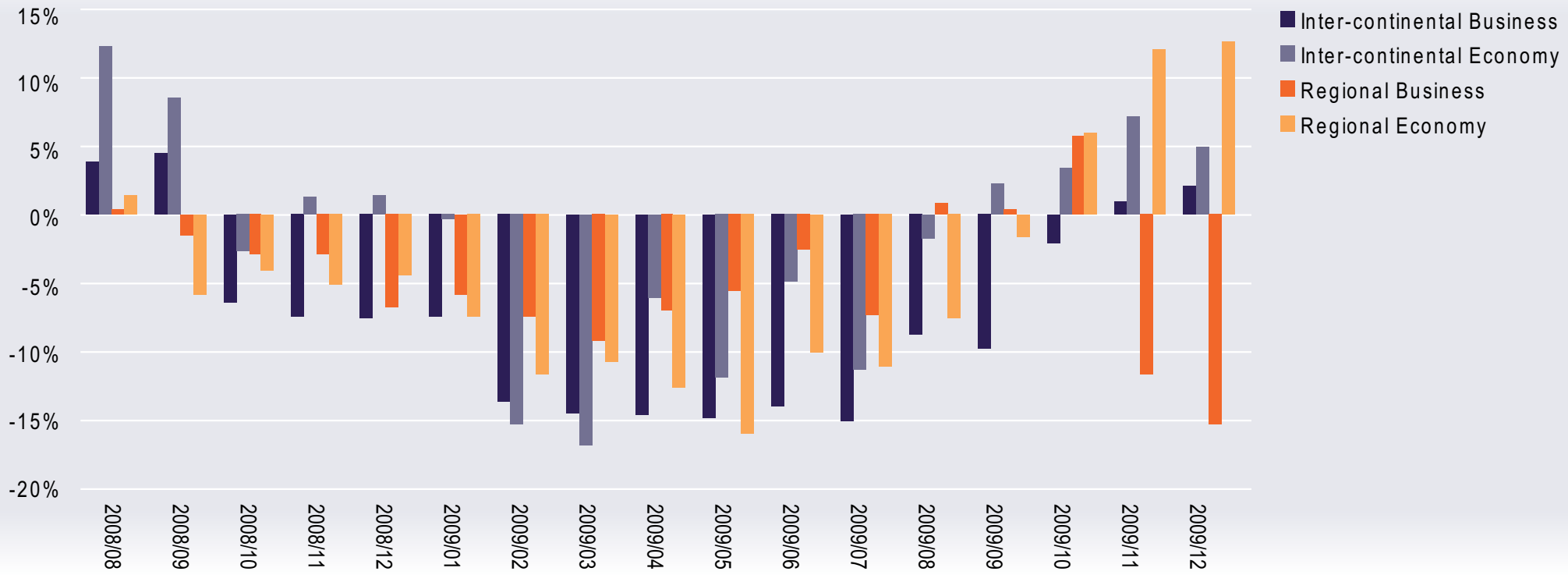
Fig 3d – Cost per Mile Year-on-Year 2009 vs. 2008: North America

CPM increased year-over-year following gradual increase in demand and suppression of low fare availability by carriers



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Alliance contracts: A poisoned gift for buyers?

The growing dominance of anti-trust immune joint ventures among members of the three major airline alliances (Star Alliance, SkyTeam and Oneworld) is changing the way airlines sell services to corporate travel buyers. Advito is increasingly seeing pressure being placed on buyers to accept joint venture contracts in place of contracts negotiated with individual carriers.

Alliance members are claiming a number of benefits in joint venture contracting, citing broader networks, account management through a single point, easier-to-manage contract targets and better pricing. However, companies should understand that contracting with an alliance rather than with individual carriers contains a significant risk of program dilution or cannibalization. The cardinal rule of airline contracting for corporations is to achieve maximum coverage with minimum carriers; in the new joint venture/alliance contracting environment, Advito is seeing this rule being subverted to the detriment of corporate clients.

Joint-venture contracts mean more carriers than needed in the program, harder-to-hit targets and preferred carriers in direct competition – leading to a risk of program dilution.

Alliance contracting can be of interest to a corporation IF the program's preferred carriers are already aligned within a single alliance – but this is rare. More generally, the discount from the whole is less than discounts previously offered separately by individual members of the joint venture.

Advito advises its clients to continue pursuing independent negotiations with carriers to ensure optimal coverage, to – with the added caveat that these contracts should be based on discounts and targets on citypairs operated by the carriers in question and should not include codeshare flights from fellow alliance members.

Although alliance breadth of coverage has expanded significantly, for large corporate buyers with diverse travel requirements across the globe, individual alliances still usually lack sufficient coverage for all of the customers' business.

Worse, much of that coverage comes at the cost of convenience, forcing buyers to accept connections or double connections compared with competitor nonstops.

The move by alliance members from tactical harmonization measures (e.g., code-sharing and multilateral frequent flyer programs) toward joint contractual negotiations is still in its early days. Although there are still as many questions as answers, Advito feels it is key for corporations to enter into these negotiations with their eyes open and a clear understanding of the risks.

Current joint-venture contracting discussions have centered on the domestic American and transatlantic markets; the latest development, in mid-February, saw the U.S. Department of Transportation on Feb. 13 granted to tentative approval to establish an antitrust-immunized alliance to American Airlines, British Airways and three other Oneworld partners. However, recent applications for anti-trust immunity by American Airlines (AA)/Japan Airlines (JAL) and Continental Airlines (CO)/United Airlines (UA)/ANA All Nippon Airways (NH) may carry the debate to the transpacific market in 2010.

Advito believes that the discussion will play out slightly differently in this market, as geographical constraints will mean that each alliance will dominate its gateways and overlap in markets like New York, Los Angeles and Chicago. The impact of transpacific joint ventures may depend largely on growth in the China market and concomitant demand for service to secondary Chinese markets; Tokyo or Seoul could serve as a convenient hub for such flights, and airlines could reduce their current dependence on Chinese partners to reach those markets.

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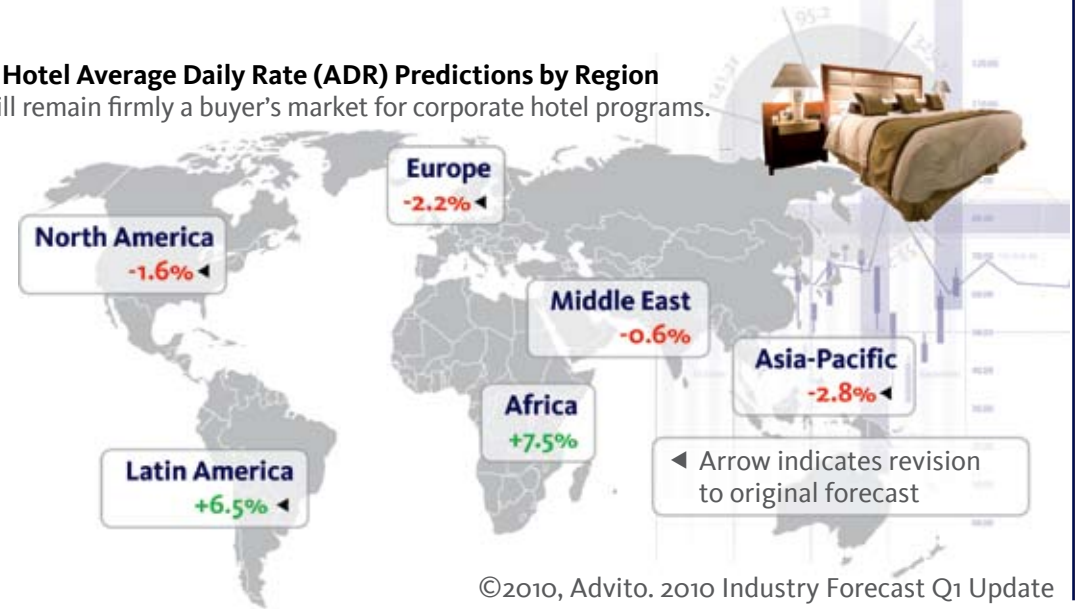
Hotel Outlook for 2010

As predicted in the original forecast, 2010 will remain firmly a buyer's market for corporate hotel programs. Economic recovery continues to be gradual in many key markets, especially in advanced economies, and hotels are increasing their supply through the completion of building projects commissioned during the boom years.

Original predictions assumed that the pace of decline of the average daily rate (ADR) would stabilize in Q3 and Q4 of 2009. However, demand data during these quarters indicates that in some key markets, this stabilization was either more sluggish than anticipated or, in fact, did not happen at all, as ADR continued to drop precipitously.

Based on this historical data and on general economic trending, Advito is revising its ADR development predictions downward for:

Fig 4 – Hotel Average Daily Rate (ADR) Predictions by Region
2010 will remain firmly a buyer's market for corporate hotel programs.



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- **Brazil** – Actual demand from Q3 and Q4 2009 showed continuing year-over-year declines as well as a decline from Q1 and Q2
- **China** – Macroeconomic indicators are on the rise, but will be offset by significant additional capacity coming online in 2010
- **France** – Demand and GDP are growing more slowly than in other regions
- **Germany** – Demand and GDP are growing more slowly than in other regions
- **India** – Macroeconomic indicators are on the rise, but will be offset by significant additional capacity coming online in 2010
- **Spain** – GDP is forecast to fall, and actual demand from Q3 and Q4 2009 showed continuing year-over-year declines
- **United Kingdom** – Demand and GDP are growing more slowly than in other regions
- **United States** – While demand and GDP are trending upward, this is offset by an increase in capacity in many markets that is resulting in higher discounting (and lower corporate rates)

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Fig 5 – Hotel Average Daily Rate (ADR) Predictions by Key Market
2010 will remain firmly a buyer's market for corporate hotel programs

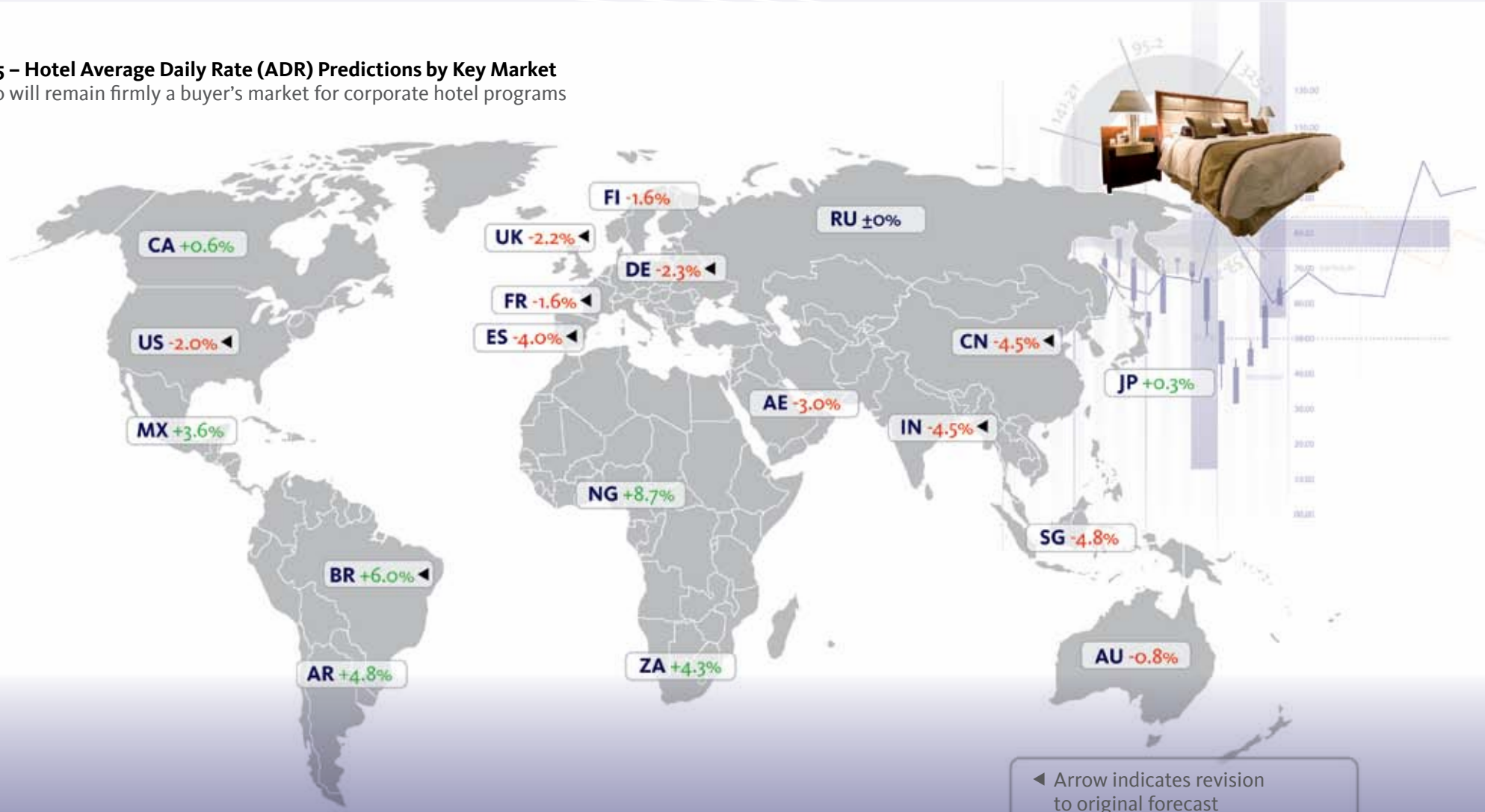

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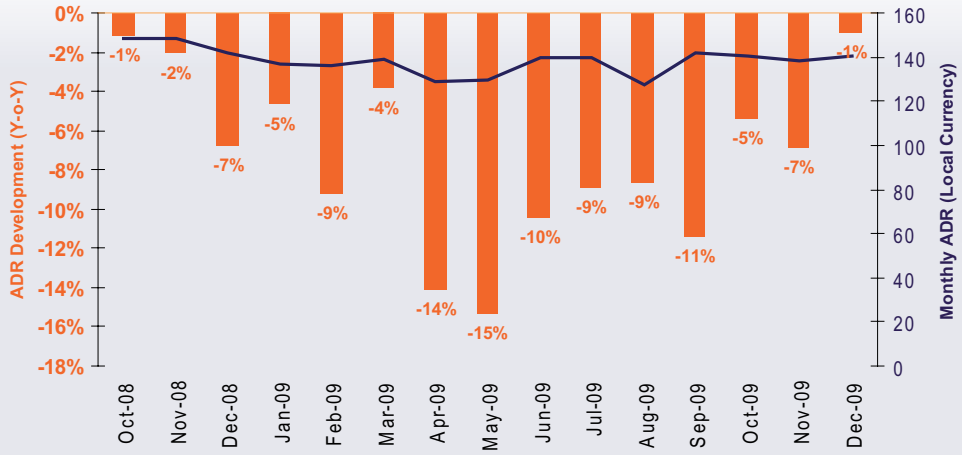
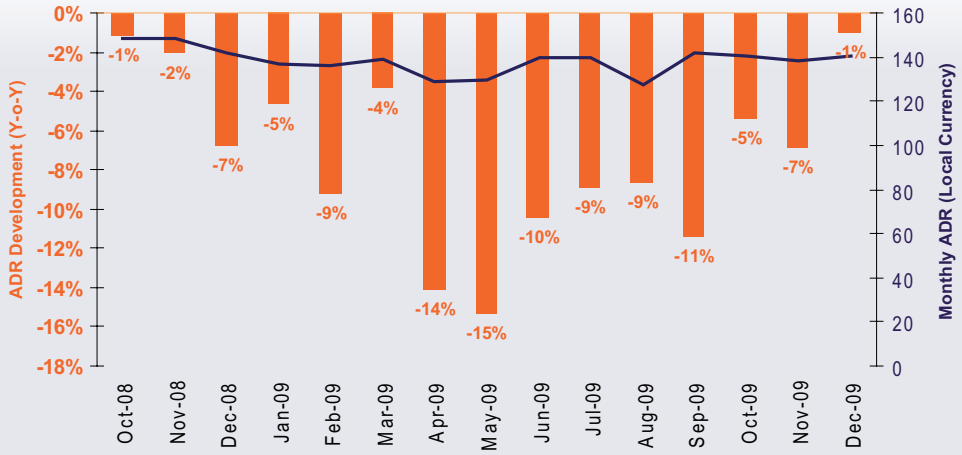
Fig 6a – Historical Average Daily Rate (ADR) Development in 2009

In key markets, economic recovery was gradual and ADR stabilization was sluggish

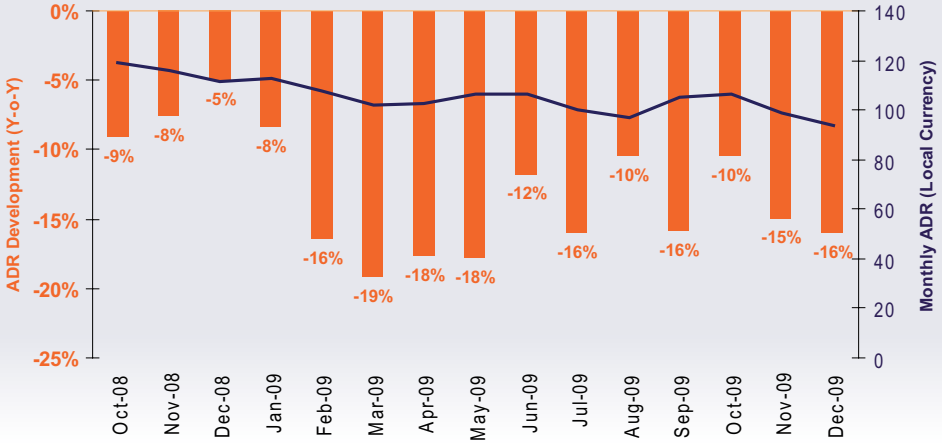
United States



United Kingdom



Spain



India

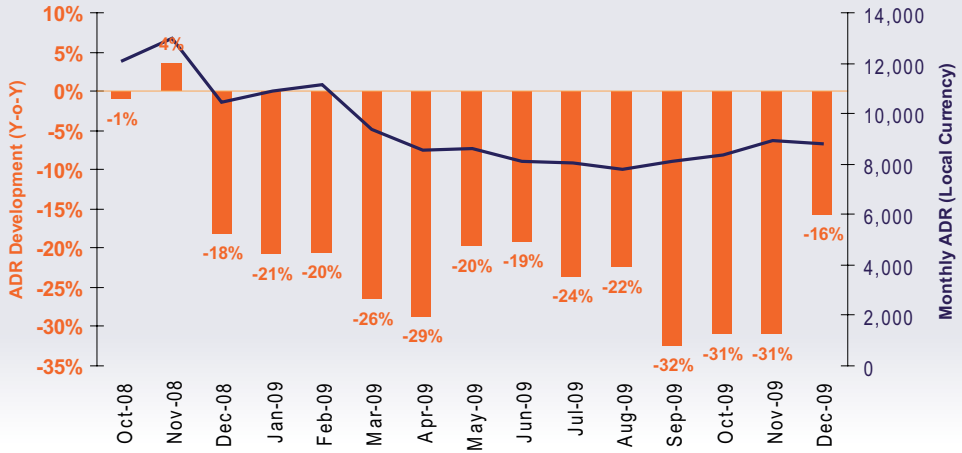


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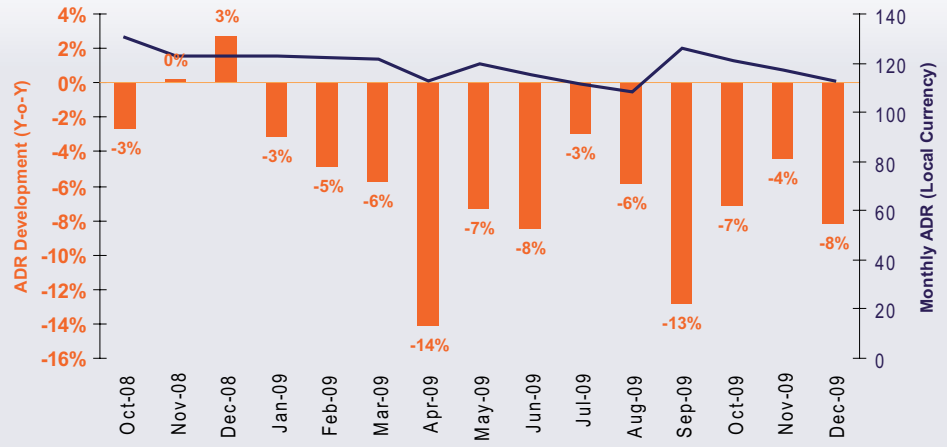
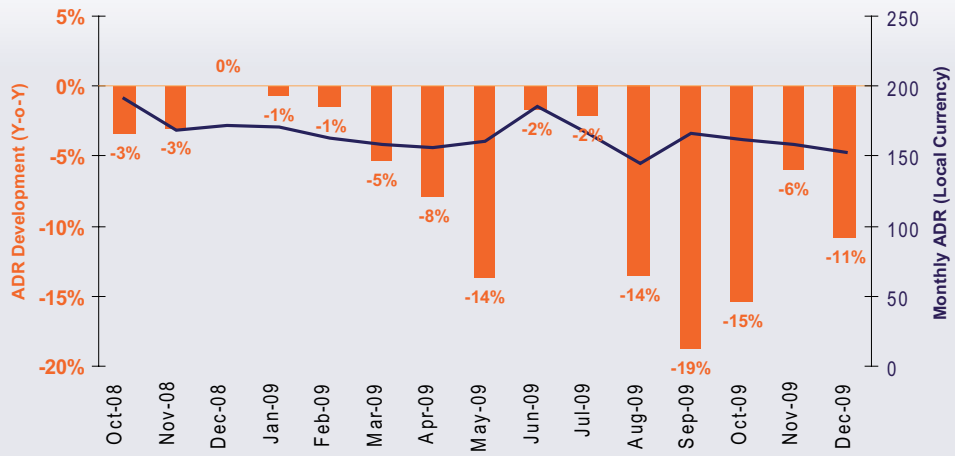
Fig 6b – Historical Average Daily Rate (ADR) Development in 2009

In key markets, economic recovery was gradual and ADR stabilization was sluggish

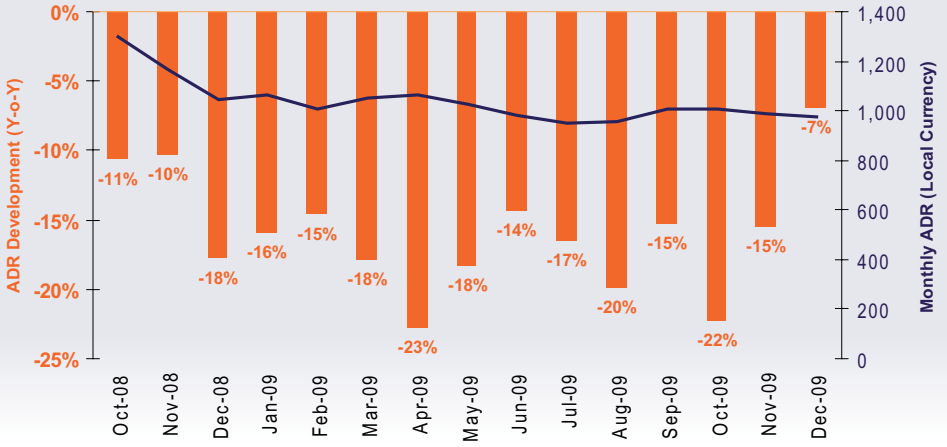
Germany



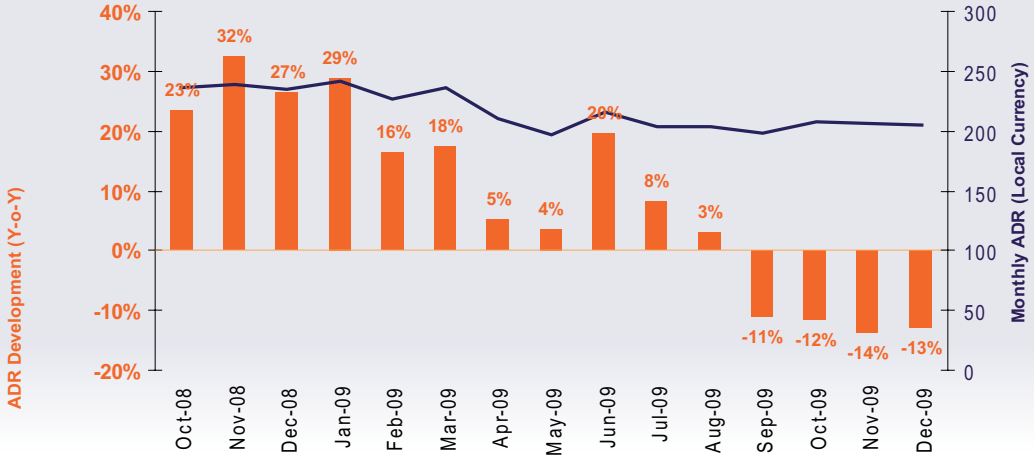
France



China



Brazil



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Meetings and events on the rebound

After a significant fall in 2009, meetings and events appear to be back in fashion. The year 2010 opened with a dramatic surge in meetings reservations in some countries, but the good news for buyers is that prices have not followed the upward trend – yet.

Meetings and events bookings in the United States to date in 2010 are not only way up on last year, but they are also 10 percent higher than for the same period in 2008.

While this is good news for meetings suppliers, and a promising indication of an improving economy, it could set alarm bells ringing for corporate clients that their buyer's market is coming to an end. In 2009, volumes and spend were down but savings rose as hotels and other meeting vendors slashed prices to compete for a dwindling market.

Yet in spite of the recent spike in demand, pricing has not started to shift upwards. At least a partial explanation for the fact that rates have stayed depressed is that there are still major holes to fill in 2010. Many of the bookings result from pent-up demand that has finally been released by companies making new marketing or meetings budgets available for 2010. This has allowed events that were postponed last year to go ahead this year. However, Advito is seeing some indications of supplier confidence that prices will trend upwards as the year goes on: Suppliers are making an effort to include stricter penalties and attrition clauses in their meetings and events contracts, and are increasingly unwilling to sign multi-year contracts.

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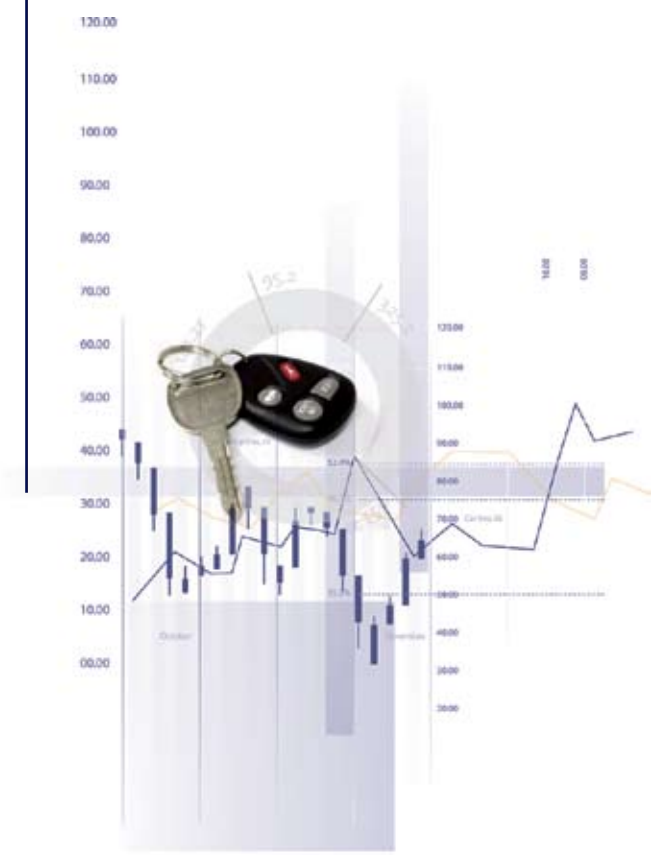
Car Rental Outlook for 2010

Advito's original 2010 Industry Forecast called for corporations to prepare for a potential increase in ancillary revenues and penalty charges – and recent developments make that scenario seem increasingly likely. In November 2010, the Avis Budget Group began working with global distribution system operators to implement the addition of credit card information to rental car bookings with the group. This move opens the door for Avis and Budget to assess a no-show fee to travelers who fail to cancel their rental car reservation with sufficient notice.

Avis and Budget have not set a timeline for implementing such a fee; nor have they said publicly whether the fee would be a flat rate or the average daily rate including applicable taxes and surcharges. However, we anticipate that they will begin assessing no-show fees in the U.S. market during 2010.

The rental car industry is a latecomer to the practice of assessing no-show fees, at least in the U.S. (as opposed to the hotel industry, where travelers have long been accustomed to providing credit card numbers to guarantee reservations and to paying a penalty fee if they do not cancel their booking far enough in advance). The practice of penalizing no-shows in Europe, however, began gaining ground in 2009.



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Automotive recalls contribute to temporary fleet shortages

Following the recall of over 8 million Toyota vehicles in late January, the four largest rental operators in North America all announced that they would stop renting Toyota vehicles that could be affected by sticky accelerator pedals.

Roughly 8 percent of the North American rental car fleet overall – or about 104,000 vehicles – was pulled off lots belonging to Hertz, Enterprise, Avis, Budget, National and Alamo in the month following the massive recall. In the U.S., the country's largest rental car company, Enterprise Holdings, which operates the Alamo, Enterprise and National brands, said about 4.1 percent of its fleet was affected. Hertz did not state publicly how many of its vehicles were affected, but the company's 2008 annual report states that Toyota models make up 13 percent of its fleet worldwide.

The recall may have had a particular impact on clients seeking to integrate a "green" element in their rental car program, as Toyota popular hybrid model, the Prius, disappeared temporarily from car rental lots.

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Methodology

A number of assumptions have been adopted for the predictions featured in the Industry Forecast. It has been assumed (as working hypotheses rather than predictions) that:

- The price of oil per barrel will be within the range of U.S. $70 and U.S. $85 over a three months period in 2010;
- World economic output will expand by about 3 percent in 2010 with a sluggish but sustained growth;
- Impact of the long-term structural reduction of travel intensity for most sectors will be insignificant in 2010 (i.e., organizations will not further reduce their number of trips in relation to their business volume).

For more detailed information on the assumptions, please refer to the 2010 Industry Forecast.

The broader trends have been identified based on Advito research throughout 2009 and an analysis of in-depth interviews of experts in international corporate travel and meetings management with additional insight by the respective Advito practice leaders.

The category-specific predictions are based on an Advito analysis of aggregated transaction data of BCD Travel's corporate clients world-wide.

The analysis and forecast is based on dynamic baskets using the actual number of room nights, car rental bookings and air segments for the period in question to reflect potential shifts in travel pattern and booking behavior. The level of aggregation used for the trend analysis was determined based on the validity of the data pool in question with a minimum threshold for year-to-date and historical number of transaction for each unit.

Averages per month are weighted by category transactions for each of the unit in question – the exception is the area/region average for hotel which is a simple average across all countries in that area/region. Quarterly averages are simple averages of months in the quarter. Unless stated differently price developments are based on local currencies and are therefore subject to foreign exchange fluctuations. Local currency transaction data has been normalized into leading world currencies using the daily average conversion rate on the date of travel (for air and rental car) or planned checkout date (for hotel).

Hotel market tiers assignments are following Advito's proprietary classification scheme.
Air cabin classes are based on the Advito master table of booking classes for airlines.

In addition to the BCD Travel client data the following sources have been used as parameter input to the trend analysis and forecasting:

- International Air Transport Association (IATA) for airline capacity and traffic;
- International Monetary Fund (IMF) for macro-economic predictions and oil price;
- Lodging Econometrics for hotel construction pipeline;
- OANDA for foreign currency exchange rates;
- Official Airline Guide (OAG) for airline capacity;
- Organisation for Economic Co-operation and Development (OECD) for historic macro-economic indicators;
- Smith Travel Research (STR) for hotel occupancy level.

The estimates and predictions are based on data available through early March 2010.

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For more information please contact

1505 LBJ Freeway, Suite 325
Dallas
Texas 75234

www.advito.com
advice@advito.com

About Advito
Advito provides travel-management advisory, procurement and outsourcing services that guide clients through a complex travel environment. Advito's focus on consulting delivers proven value, unbiased counsel and a customized approach for every client and every engagement, together with industry expertise and access to data to drive quantifiable decision-making. Advito is headquartered in Dallas, Texas, and London, Great Britain, and operates in key business markets around the world. Advito is an independent operating unit of BCD Travel, the world's third-largest travel-management company, owned by BCD Holdings N.V.

About BCD Holdings N.V.
BCD Holdings N.V., a Dutch family-owned company founded in 1975 by John Fentener van Vlissingen, is a market leader in the travel industry. The BCD Holdings' companies are: BCD Travel (global corporate travel management), Park 'N Fly (off-airport parking), TRX (travel transaction processing and data integration services) and Airtrade (leisure travel). The company employs approximately 15,000 people and operates in more than 90 countries with total sales, including franchising, of US$ 15 billion. For more information visit: www.bcd-nv.com.

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