CENTRAL EUROPEAN OFFICE

J U N E 2011

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MARKET INTELLIGENCE / TRENDS

Good Holiday Sales in May

German travel agents enjoyed good business last month with a 10% rise in holiday bookings compared to April, according to the latest monthly GfK survey. The 10.3% revenue increase in May included a 9.9% rise for summer 2011 while winter 2011/12 sales are currently 26.4% higher, although on a low basis figure. There were relatively few late bookings last month and more advance bookings for the summer than at the same time last year.

Cumulative bookings for summer 2011 (May to October) are now up by 12.6%. The peak months of July (+11.7%) and August (+20.9%) both show strong growth. June is up by 27% on last year, which was negatively impacted by the World Cup in South Africa, while May is down by 8.4%. Sales for September are 21.4% higher and October is up by 6%.

The figures were mirrored in the May survey of leisure and business travel agencies by the TATS travel industry services organization which showed that travel agents increased sales in all areas. Booked revenues were 21.1% higher in May, leaving January-May up by 13.1%. Leisure travel sales rose 9.2%, up by 6.3% over the first five months of the year.

German Holiday Bookings Get Moving Again

This year's "rollercoaster" holiday bookings in Germany are picking up again after a "high-speed" start and then "a full brake" in March, according to tour operators. The year started with high double-digit growth rates and then faded away from mid-March to the end of April with the North Africa crisis and nuclear catastrophe in Japan. But bookings have picked up again since mid-May and operators now expect to end the year with "mid-range single-digit" growth rates. However, there is still plenty of available capacity for late sales, even for the Canary Islands, Majorca, Turkey and Greece. This means tour operators will again be relying on good late sales to secure acceptable growth rates this year.

Thomas Cook tourism chief Michael Tenzer said about 20% of customers would book holidays at most four weeks before departure, which he described as "an absolutely normal last-minute proportion". But, he said he could not understand why some operators were offering discount prices for Turkey in view of the "very good" demand for the destination. On North Africa, he commented: "Despite the good prices, demand for Tunisia and Egypt is still missing. The market will stay 30-35% below last year."

Rewe Touristik chief Sören Hartmann claimed that the German market leader for Tunisia would be able to compensate the downturn for the North African destination. "We have sold a similar volume for Bulgaria and Turkey. We can compensate for Tunisia," he said. Hartman remained optimistic of reaching this year's target of 2-3% more customers and a 5% revenue increase.

Markus Orth, head of late sales specialist L'Tur, commented: "There are definitely more available offers than was to be expected in February. We are confident that we will have enough to offer in June and July."

In terms of destinations, Turkey and Spain have profited most from North Africa and capacity there could get tight in the summer in some areas. Bulgaria has also won additional customers as a cheap family destination and Greece is recovering without reducing prices. Germany's North Sea and Baltic Sea coastlines are set to be full this year thanks to the good weather.

Strong Growth for German Online Travel Retailers

Online travel retailers in Germany again grew strongly last year, fvw's annual dossier on the country's travel agency market shows. But all players are under strong competitive pressure to maintain their booking levels. In 2010, the 31 largest online travel agencies increased their sales by about 23% to €6.4 billion, according to the fvw survey. The figures are only partly complete, however, since many portals do not release their sales figures and their figures have to be estimated from diverse sources. Nevertheless, the growth rate showed that online retailers again increased their importance as a sales channel last year.

Deutsche Bahn was again the dominant travel retailer in Germany last year with online sales of €1.4 billion. However, about 98% of this turnover was generated by sales of its own rail tickets, and bookings for hotels, flights and other travel products were very low.

The largest all-round online travel retailer is Unister, which operates several portals including 'Ab in den Urlaub', 'Travel 24.com' and 'Fluege.de'. The Leipzig-based company's revenues are estimated to have more than doubled to €950 million from €460 million in 2009. Growth drivers include its tour operator brand Urlaubstours and other in-house packages.

Expedia has dropped back to third place despite increasing revenues to an estimated €745 million from €605 million the previous year. It, too, sold more of its own holidays in addition to its traditional retailing business. Other major online retailers include travel agency chain Schmetterling (€488 million), Opodo (€468 million) and Holidaycheck (€410 million). Tour operators TUI (with estimated online sales of €225 million) and Thomas Cook (with an estimated €110 million in online revenues) are relatively small in comparison to the leading online players in Germany.

All online retailers are under strong pressure to retain their sales given the very low look-to-book conversion rates. More and more are starting to acquire advertising as an additional revenue source and are integrating Google Adwords into their portals.

Price Rises and Air Cruises

Two topics dominated last month's PowWow in San Francisco for the German travel industry: price increases and an innovative product in the form of 'air cruises'.

Bookings are mixed for the USA this year, according to German tour operators. Specialists such as Canusa and America Unlimited have double-digit increases, but major tour operators have only single-digit growth or stagnating figures.

The signs for next year are discouraging at the moment, since price hikes are on the horizon. Domestic demand for U.S. holidays is good, meaning that prices are rising. Hotels in New York City, for example, are hiking rates significantly. "When everything goes well for the Americans, then it's more difficult for us because there are price increases," commented Per Illian, North America product manager for Dertour. "Some destinations are more self-confident. It was much easier for us last year," added TUI product manager Antje Perret.

Overall, tour operators expect increases for land programs of up to 10% as the low dollar will compensate for some of the increases. Flights, however, are a challenge. "Capacity is there and you can get flights without a problem, but only at a very high price," said Illian.

One rare product innovation made a big impression on German participants at PowWow. From June onwards, sightseeing airline Mauiva will offer so-called 'air cruises' in cooperation with incoming agency Tourico Holidays. Groups of up to 30 fly with their tour guide in a private jet on a fixed route across the USA. At each destination there is an excursion program. Meals, excursions and accommodation in four-star hotels are included in the price, which starts at $1,500 per person for a six-day tour. "This is a product that will find its place," said Dertour manager Illian. Canusa chief Tilo Krause-Dünow added: "This is a really innovative idea that we should keep an eye on." FTI product manager Heike Pabst found the product so good that she signed up at PowWow to include air cruises in the forthcoming winter brochure. "This product is definitely something for the future. It will allow us to reach new target groups," she declared optimistically.

Air Berlin: Code-Shares with British Airways and American

Air Berlin has stepped up cooperation with future Oneworld partners British Airways and American Airlines through new code-sharing deals. Germany's second-largest airline is due to join Oneworld early next year and hopes membership of the international airline alliance will help it to increase sales and improve its financial performance.

As of July 5th, Air Berlin (AB) and British Airways (BA) will have joint codes on flights to more than 40 European destinations served. Passengers will be able to reserve flights with an Air Berlin flight number from various German airports to London Heathrow, with the flights themselves being operated by British Airways. The code share also applies to non-stop British Airways flights from Frankfurt and Zurich to London City Airport and flights from Salzburg to London Gatwick. Connecting flights within Britain will be available to passengers from the three London airports of Heathrow, Gatwick and London City Airport, as well as flights to Aberdeen, Edinburgh, Glasgow and the Canary Islands. In return, British Airways will be code-sharing on the Air Berlin flights from London Gatwick to Nuremberg, as well as those from London Stansted to Paderborn and Münster/Osnabrück under its own

flight number. British Airways passengers will also gain access to Air Berlin's network within Germany and Europe.

Joachim Hunold, CEO airberlin, said: "British Airways is our sponsoring airline within Oneworld. That makes this new agreement a milestone for us. Thanks to these code-share flights with British Airways, our passengers will now have available to them two further airports, in addition to Gatwick and Stansted, from which they can continue their journey towards other destinations in the UK."

Meanwhile, Air Berlin and American Airlines have expanded their code-share relationship to include Air Berlin's new four-weekly services between Berlin-Tegel and New York-JFK. The joint code agreement between the two airlines now encompasses all five U.S. destinations of Air Berlin. In return, the German airline is code-sharing on American Airlines' flights from Frankfurt to Dallas/Fort Worth as well as from Zürich to New York-JFK.

CFO Ulf Hüttmeyer said: "The U.S. is an increasingly important market for Air Berlin with 26 weekly nonstop flights from our two German gateways Berlin and Düsseldorf. The code-share agreement with American Airlines will help Air Berlin to further strengthen our position in that growing market and allow passengers to make use of the extensive American Airlines network. We look forward to intensifying our partnership with American Airlines and signing more code shares in the future."

SALES ACTIVITIES

Postponed: Travel Agent Roundtables (June 21st – 22nd, 2011):
We were informed on short notice this month that unfortunately the organizer had to postpone the German travel agent roundtable training seminars from June to September. We informed all partners accordingly and changed our travel reservations. On September 13th we will visit Erfurt and on September 14th we will be in Cottbus in cooperation with Visit Orlando and SeaWorld Parks & Entertainment. A table top marketplace will be held prior to an intensive PowerPoint training session on St. Pete/Clearwater. The evening events in both cities will culminate in a quiz session followed by a giveaway raffle including a major travel prize. Thanks to the generous support of our area's hoteliers, we are pleased to be able to present travel prizes to our area for both events!

TUI/ArkeFly Courtesy Club Familiarization Tour (June 24th – 27th, 2011):
TUI Netherlands launched a new charter (ArkeFly) from AMS to SFB on June 24th. Frequency is 2x/wk on Mondays and Fridays, Boeing 767-300, 283 seats. The flight pattern will be AMS-SFB-MIA-AMS. On the occasion of the inaugural flight, TUI's CEO, COO and "Courtesy Club" members traveled to Orlando (6/24-25) and Visit St. Petersburg/ Clearwater (6/26 -27) for a very VIP fam trip. TUI's "Courtesy Club" members are directors and owners of TUI´s top travel agencies, so we were very pleased to have secured this opportunity!

As reported by Karin van der Laan, Product Manager North America for TUI Nederland:
"The Courtesy Club trip was a big success and everybody really enjoyed themselves. Unfortunately the weather was not too good, so we had to move the farewell dinner inside. Happily we could still do the cocktails outside, so everyone enjoyed the sunset after all. The choice of the band was very good and they managed to get everybody on the dance floor, so

after all it was not really a problem to go inside! The next morning it was sunny, so most of the agents enjoyed some time on the beach before they had to drive back to the airport.
Everyone thought it was a good beach hotel and the quality of the food during dinner and breakfast was well received. What surprised me was that while a lot of the agents were not first-time visitors to Florida, they were surprised and impressed about the area's very beautiful and wide beaches. I think the Clearwater area made a very good impression. One of the agents made a video of the whole trip which he placed on You Tube, which might give you an impression: http://www.youtube.com/watch?v=NzYG3pfbVhI.
Many thanks for all your help in this and thank you so much for sponsoring this fantastic band."

Ongoing: Willy Scharnow Foundation Familiarization Tour (October 6th – 12th, 2011):
Preparations continue for our 18th annual Willy Scharnow Foundation FAM to be conducted next fiscal year. Our destination partner will be Visit Orlando with United Airlines being our cosponsoring carrier. Dates have been confirmed by the carrier with the sponsorship of 12 seats + 1 escort seat for this tour.
An industry opportunity has been circulated to solicit sponsorship participation. This was followed up with personal promotion of the event with industry partners during Pow Wow. Invitations were distributed to select agents and this month; responses are pending. The Foundation has been sent our release and waiver form for distribution to the participants. The itinerary is in the process of development. Updates to be forthcoming.

See America Workshop Netherlands (October 12th, 2011):
We registered for this important Dutch travel trade event this month, which will be a very special one this year. The workshop will be held aboard the luxury vessel *SS Rotterdam* to include a table top marketplace followed by intensive agent training sessions. 150 retail travel agents are expected to attend.
This cruise ship formerly belonged to the Holland America Line which was known for its important travel connection to America. Even the Dutch royal family members traveled from Rotterdam to New York aboard the *SS Rotterdam*, which added glamour to its reputation. The ship's rich history and connection to the USA along with the elegant hospitality facilities, including excellent catering, hotel rooms and professional event rooms makes this ship a truly perfect venue for the See America Workshop 2011.

Postponed: Central Florida German Sales Mission (October 17th – 21st, 2011):
Pursuant to Visit Orlando having reported that only a few partner registrations were received by the required deadline, it was decided this month to postpone the Central Florida Sales Mission to September 2012.
Together with Visit Orlando, we will partner with three German tour operators in three German cities to stage intensive travel agent training evening events and conduct several in-house reservation agent training sessions. Dertour, Meier's Weltreisen and Thomas Cook confirmed their cooperative participation for the following targeted cities: Stuttgart, Düsseldorf and Frankfurt. Approximately 100 agents are expected to attend in each city.
A new opportunity will be circulated among our VSPC industry partners as soon as the September 2012 dates have been confirmed.

Ongoing: Visit USA Germany Halloween Event 2011 (October 22nd – 23rd, 2011):
As members of the Visit USA Committee Germany, we have again been selected to participate in the planning sub-committee to assist with the organization of this extraordinary weekend travel agent training program. After a very successful event at the Lufthansa

Training Center in Seeheim last year, we plan to conduct this Halloween-themed seminar weekend at the Swissotel Düsseldorf/Neuss.
Negotiations with the hotel were completed with the Visit USA Committee Board signing applicable contractual agreements. An official event registration form was distributed among the membership last month; registrations are coming in slowly as many members are awaiting budget approvals from their headquarters offices. To date, 25 members have registered; 33 are required. A second round of invitations was distributed among the retail trade this month with yet another round planned for the end of August. Updates to be forthcoming.

CMT Stuttgart Super Sweepstakes (January 19th – 22nd, 2012):
Known as one of Germany's largest and most important consumer shows, CMT Stuttgart attracted last year over 223,000 visitors. In addition to our joining forces with the Visit USA Committee Germany in promoting our product via brochure distribution to consumers, we again will co-sponsor the popular CMT Super Sweepstakes at this important fair.
The sweepstakes will be published in a 12-page, 4-color visitor brochure (circulation 350,000) which will be distributed at 1,800 outlets throughout the State of Baden Württemberg prior to the show and among consumers visiting the fair. The sweepstakes will also be advertised in the fair catalog (circulation 10,000) and promoted to the media. Active promotion of the CMT Super Sweepstakes will start in November 2011 with the official sweepstakes website going live.
This month an industry opportunity was circulated among our industry for purposes of soliciting sponsorship of a 7-night stay in the St. Petersburg/Clearwater area. The interest was indeed so immense that we successfully negotiated promotion of two 7-night stays with the organizer. We are ever so grateful to our industry for the tremendous support! Our prize (2nd of 100) will be combined with flights for two from Karawane Reisen and a one-week car rental. All necessary materials such as hotel sponsor logos, gift certificates, sweepstakes questions, VSPC destination text and logo were forwarded to the organizer this month as well.

Visit USA Seminar Switzerland (February 1st, 2012):
We registered for this important seminar this month, which is known as one of Switzerland's leading travel agent training seminars. Over the course of an entire day, we shall participate in the seminar workshop distributing material and engaging in sales discussions with travel agency decision makers, Switzerland's top tour operators and airline representatives. More than 400 travel agents from the greater Zurich area are expected to attend.

MARKETING INITIATIVES

Our efforts continued again this month in developing and completing marketing promotions and advertising programs, which included:

Tour Operators:

- DERTOUR (Germany)
  - **2011 Summer Catalog Value-Added Promotion** – July thru October 2011
    We presented a unique value-added offer in the summer 2011 catalog (circ. 1 million) to serve as a booking incentive. One gift card with a face value of $20 will be given to each booking for travel to VSPC from July thru the end of October 2011. The offer is prominently teased on the summer catalog's *Florida's West Coast* introductory page

with our logo and image. In addition, notation of our value-added promo is made with each VSPC hotel featured in the catalog. This is the only value-added offer of this kind that Dertour is promoting! The 2011 summer catalog was launched October 2010 with a circ. of 1 million.
Gift cards were hand-delivered to the tour operator. A mass-activation of the gift cards was conducted on June 1st by the CVB.

- ITG COMPANIES/WERELDCONTACT (Netherlands)
  - **Reis Magazin** – August 2011
    In cooperation with Visit Orlando, we have secured a 4-page placement in the Reis Magazin, which is Wereldcontact Reisen's club magazine. Content will comprise general information on both destinations including five images per destination and several travel offers. With a circulation of 20,000, the publication is distributed to all Wereldcontact Reisen club members.
    We will be featured in the prominent August 2011 edition, which will have a slightly higher circulation rate as an overrun will be printed for the Wereldcontact Travel Market scheduled on November 12th. All necessary elements have been supplied from our end. A draft layout is expected the beginning of July.

Travel Trade/Consumer Publications:

- America Journal (Germany) – circ. 42,000 *Consumer*
  - **2/3 page, 4c advertorial sweepstakes** in the 5/11 issue (September / Florida Special)
    Preparation is underway for our full page insertion in the Florida Special issue. We provided the publisher with our logo, destination text and a selection of images the end of this month. In addition, we secured a special email address for reader responses to the sweepstakes. A sweepstakes opportunity has been developed for circulation to our industry next month. Receipt of final layout is expected from the publisher by mid-July. This sweepstakes advertorial will be placed in the Florida special segment and will be visible to a readership of 140,000.
    This German high-gloss consumer publication is dedicated exclusively to the USA providing in-depth coverage on American travel, culture and customs as well as insider tips and helpful hints.
    Pub frequency: 6x/yr

A Dolphin Tale Movie Launch (November 10th, 2011):
The Warner Bros. movie will launch in German movie theaters on November 10th as "*Mein Freund der Delfin*" (translates to 'My friend the dolphin'). In an effort to maximize exposure for VSPC, we are in negotiations with some tour operators, cinema complexes, TV and movie magazines as to promotional possibilities. We are also working closely with our German public relations firm as related to positioning.

We are currently negotiating special deals with various partners in preparation for development of our suggested marketing initiatives for FY 11/12.

All activities, projects and programs described herein have been duly completed.