

## **Corporate Travel Manager Survey: Outlook for 2007**

### ■ **Corporates still bullish on air travel**

Travel managers are as bullish for y/y air travel spend in 2007 as they were for 2006. The vast majority do not expect a change in their firm's travel policies in 2007—a positive indicator since travel policies are typically targeted for cuts early in a softening economy.

### ■ **Top U.S. airline picks: LCC, CAL, AMR**

We remain bullish on U.S. airline fundamentals. We expect tight seat supply, decent air travel demand (particularly from corporates), and modest non-fuel cost inflation in 2007. Oil prices are always a wildcard, but even at \$65/bbl we see good value in the sector. We favor US Airways (LCC), Continental (CAL), and American (AMR).

### ■ **Lodging corporate pre-negotiated room rates up in 2007**

About 95% of the responses indicated that pre-negotiated room rates would increase in 2007, of which 60% expect rates to increase at least 5%. Based upon this survey and our survey of hotel managers, we believe the public lodging companies will obtain 8-10% pre-negotiated corporate rate increases in their key bi-coastal urban markets.

### ■ **Top U.S. lodging picks: HST, KPA, HLT**

We believe continued strong business travel demand in 2007 should continue the multiyear recovery in lodging stocks. We remain bullish on the U.S. lodging sector, and our top picks in the group are Host Hotels (HST), Innkeepers (KPA), and Hilton Hotels (HLT).

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## Executive Summary

We completed our most recent survey of corporate travel managers in November 2006 in an attempt to gain insight into the trends heading into 2007. Analysis of the survey results is presented in two sections, one dedicated to the airline industry and another dedicated to lodging.

### Airlines—Outlook Remains Robust

#### Travel Spend Looks Promising

Despite much tougher comparisons, travel managers appear to be nearly as bullish for y/y air travel spend in 2007 as they were for 2006. The vast majority do not expect a change in their firm's travel policies in 2007—a positive indicator since travel policies are typically targeted for cuts early in a softening economy.

**Travel managers are still bullish for air travel spend**

#### jetBlue's Progress With Corporate Travel

jetBlue is starting from scratch with its emphasis on the corporate customer. We believe the company will likely never be a major player in corporate travel, but we also believe it doesn't need to be to reap some benefits. About half of the corporate travel managers surveyed expect to give jetBlue more business in 2007 thanks to Global Distribution System participation. Overall, we expect jetBlue to have reasonable success in its corporate travel pursuits, with network breadth being the most significant impediment.

**We expect jetBlue to have some success in growing its corporate travel business**

#### Rating International Service

The U.S. airlines are woefully behind international competitors with regard to the perception of their international service—even when pricing is factored into the equation. Singapore Airlines, Cathay Pacific, British Airways, and Virgin Atlantic all scored substantially higher than any U.S. carrier. This result is not a surprise to us, but it does explain the product investments (e.g., lie flat seats) being made by the U.S. carriers.

**Service provided by U.S. airlines remains far behind international competitors**

#### Top Picks

We remain bullish on the U.S. airline industry with corporate travel being a key investment theme. Our top picks remain the large network carriers: US Airways (LCC), Continental (CAL), American (AMR), and United (UAUA).

## **Lodging: Responses Confirm Bullish Thesis**

### **We Believe Pre-Negotiated 2007 Corporate Rates Increase 8-10%**

Nearly 95% of the corporate travel managers anticipate an increase in corporate pre-negotiated room rates in 2007. About 60% of the travel managers indicated that pre-negotiated 2007 corporate rates would increase at least 5%. We believe the urban markets along the East and West Coast should experience the greatest increases in pre-negotiated corporate rates. This is especially important for the public lodging companies.

**Nearly 95% of the corporate travel managers anticipate an increase in corporate pre-negotiated room rates in 2007**

### **Restriction of Who Can Travel Best Indicator for Slowdown**

Most importantly, only 5% of corporate travel managers are restricting who can travel. We believe a significant increase in the restriction on who can travel is the policy that has the greatest “signal” for a downturn in business travel. As a result, we believe 2007 should be another strong year for the public lodging companies from a corporate travel perspective.

**Only 5% of corporate travel managers are restricting who can travel**

### **Top Picks**

We remain bullish on the lodging industry through 2009; our top lodging picks remain Host Hotels (HST), Innkeepers USA Trust (KPA), and Hilton Hotels (HLT).

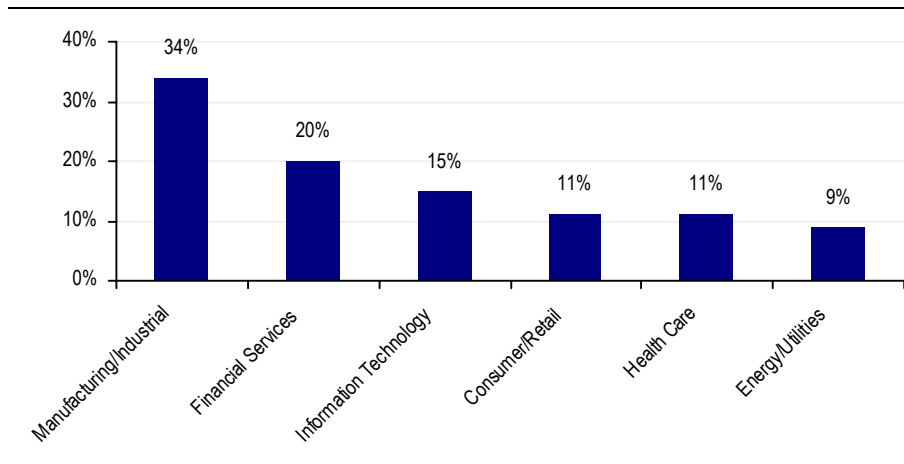
# Demographics of Respondents

Our survey was directed to travel managers from the about 1,000 companies, including all of the Fortune 500. The 20-question survey was completed by 96 travel managers.

## By Industry

Recipients were segmented into six broad industries. Industrial and financial corporations represented the largest component, followed by a relatively even distribution of IT, consumer, healthcare, and energy companies.

**Chart 1: Industries—Survey Respondents**

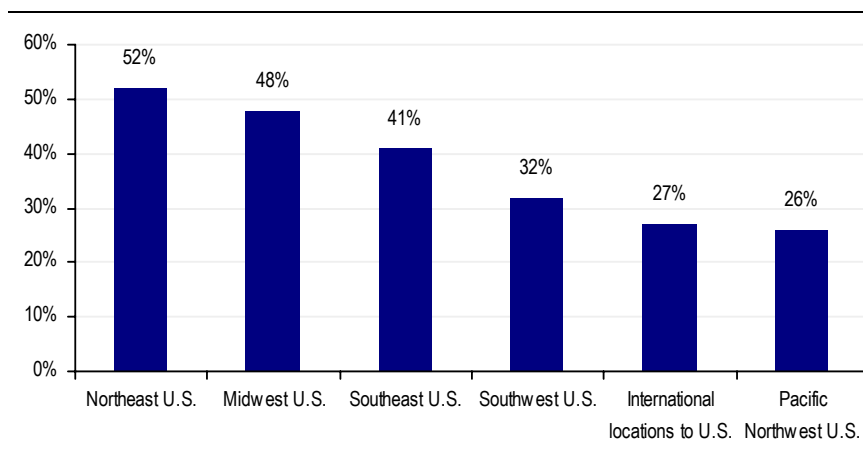


Source: November TM Survey

## By Geographic Region

We asked survey participants where their firms originate travel. Multiple selections were permitted so the results don't total 100%. The Northeast and Midwest had the highest representation.

**Chart 2: Geographic Regions From Which Travel Originates—Survey Respondents**

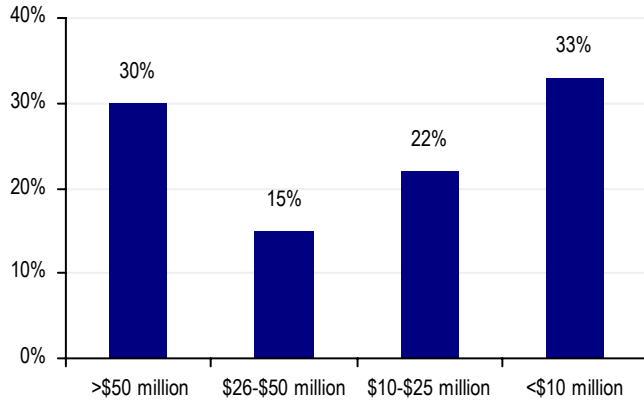


Source: November TM Survey

## By Annual Spend

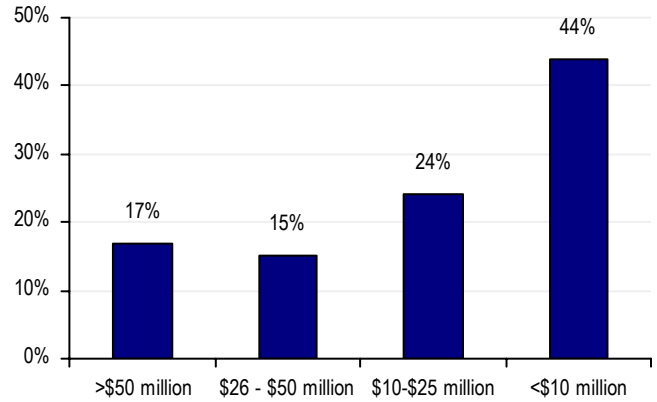
Companies both large and small are well represented in our survey.

**Chart 3: Annual AIR Travel Spend—Survey Respondents**



Source: November TM Survey

**Chart 4: Annual LODGING Travel Spend—Survey Respondents**



Source: November TM Survey

# Airline Analysis

This section details the results of the corporate travel manager survey from an airline investor point of view. The questions and responses can be broken into three broad categories:

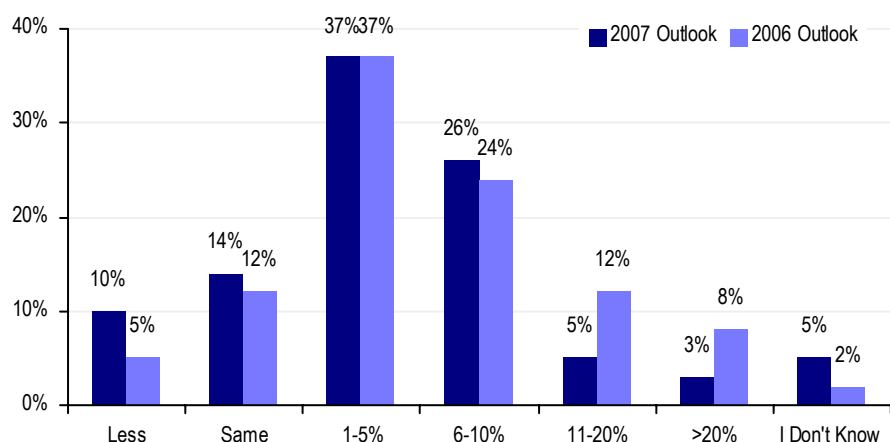
- (1) Outlook for air travel spend
- (2) jetBlue’s progress with corporate travel
- (3) Rating international service

## Outlook for Air Travel Spend

We asked travel managers to predict the growth in their organization’s air travel spend. While the absolute figures provide insight, we were most interested in how the responses compared to last year. As Chart 5 shows, despite much tougher comparisons, *travel managers are nearly as bullish for air travel in 2007 as they were in May for 2006 (a more bullish consumer environment).*

*Travel managers are nearly as bullish for y/y air spend in 2007 as they were for 2006...despite much tougher comps*

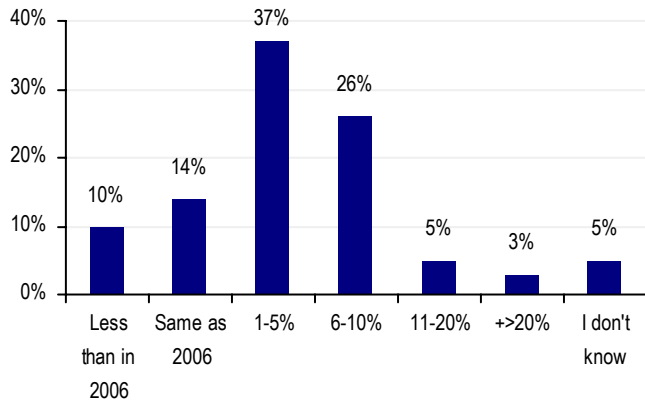
**Chart 5: Outlook for Total Air Travel Spend, 2006 vs. 2007**



Source: May 2006 Travel Manager Survey (2006 Outlook), November TM Survey (2007 outlook)

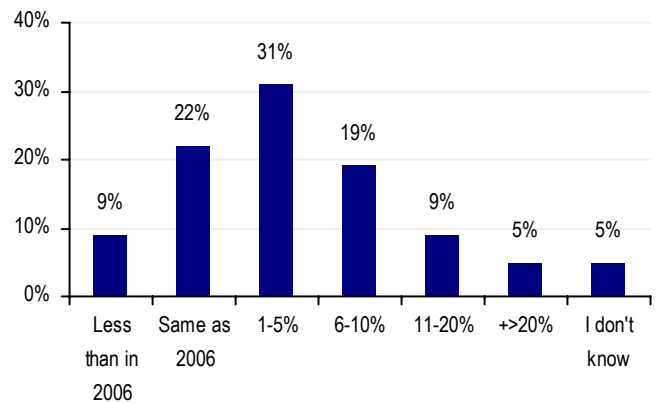
Travel managers do not anticipate any significant y/y difference in spend domestically versus internationally in 2007.

**Chart 6: Anticipated Change in TOTAL Air Spend in 2007**



Source: November TM Survey

**Chart 7: Anticipated Chg. in INTERNATIONAL Air Spend in 2007**



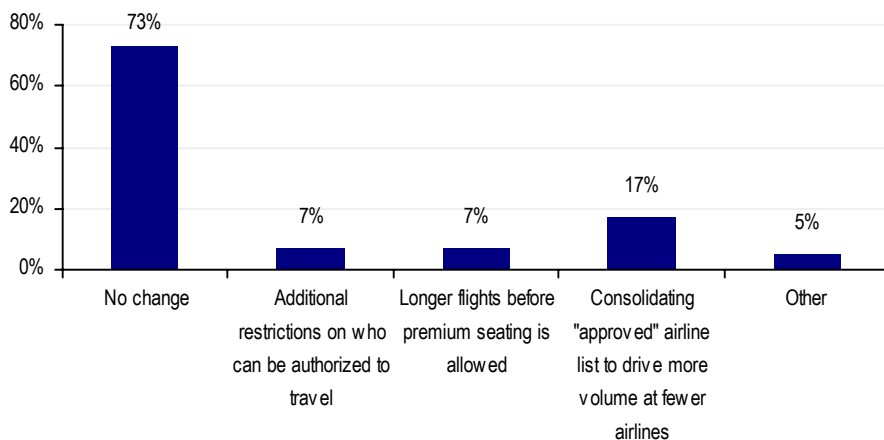
Source: November TM Survey

**Few Travel Policy Changes Planned**

Perhaps as important as their outlook for air travel spend are travel managers' impressions of pending travel policy changes. Travel policies typically get more restrictive in soft economic environments (one of the first belt-tightening strategies) so changes that limit travel are obviously a bearish demand signal. *The vast majority (73%) of travel managers do not expect any change to air travel policies in 2007, a bullish indicator.* Seventeen percent expect to try to drive more business to fewer airlines (in an attempt to get better discounts). This is benign, in our view, as corporate travel managers should be doing this in good and bad times. Our concern was really that more dramatic steps would be taken, such as increased restrictions on who can fly and requiring longer flights before premium seating (e.g., business class) is allowed.

**Restrictive changes to travel policies do not appear imminent**

**Chart 8: What U.S. Air Travel Policy Changes Are Planned for 2007?**



Source: November TM Survey

## jetBlue's Progress With Corporate Travel

jetBlue is targeting the corporate traveler much more than in the past. Its network has expanded to include many more business destinations (e.g., Boston; Washington, D.C.; Charlotte; and Richmond), advertisements are directed at the business traveler, and the company has signed agreements with SABRE and other Global Distribution Systems (GDS) to facilitate corporate sales. It is clearly very early days for this effort, but we wanted to assess the responsiveness of corporate travel managers to jetBlue's efforts.

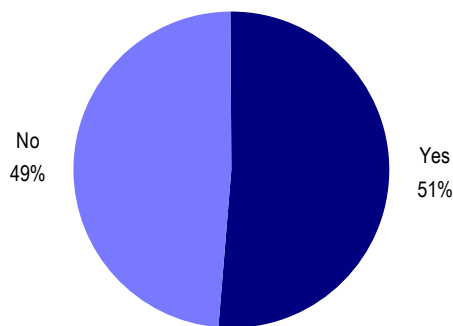
### Starting From a Low Base

Seventy-one percent of corporate travel managers indicated that their organization currently gives jetBlue no business or nearly no business.

However, just over 50% of respondents believe their firms will spend more with jetBlue in 2007. The magnitude of the anticipated increase ranged from "a slight increase, perhaps 1-2%" to "double our business." Almost universally the reason for the planned growth was "due to GDS availability."

### Chart 9: Increase Spend With jetBlue in 2007?

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Source: November TM Survey

The other half of corporate travel managers, those that *do not* expect their organizations to spend more with jetBlue in 2007, identified three reasons why. They are pretty logical with emphasis on the first two.

#### (1) Limited route network

- "jetBlue is a national carrier and we are global."
- "jetBlue's cities are not in line with the majority of our air travel."

#### (2) Corporate agreements tied to other airlines

- "We maintain corporate agreements for overall savings to the corporation."

- “We have strong negotiated fares with a supplier who has a hub in our market.”

**(3) Lack of premium cabin**

- “Lack of a premium cabin for trans-con is always an issue.”
- “Only coach class.”

**Conclusion for JBLU’s Corporate Travel Efforts**

jetBlue is starting from scratch with its emphasis on the corporate customer. A New York hub helps, but we believe jetBlue will likely never be a major player in the corporate travel arena. That said, we believe it doesn’t need to be a major player for it to reap some benefits. The jetBlue brand is viewed positively by corporate travel managers, and some expect to give jetBlue more business. The all-coach configuration is a slight disadvantage for jetBlue but generally not a major impediment. *Bottom line: We expect jetBlue to have reasonable success generating more corporate travel as its network broadens.*

## Rating International Service

International expansion is the latest strategy for U.S. network carriers. Continental has been aggressive on this front but has been meaningfully joined by Northwest, Delta, and United. The problem is that U.S. airlines' product is inferior to international competitors. Investments are being made by most U.S. international carriers (e.g., lie-flat or near flat seats) to improve the experience, but the gap is large and international carriers are not standing still (e.g., British Airways' new Club World bed). This is financially relevant because U.S. carriers typically have to offer some sort of incentive to corporate accounts to win their business (e.g., larger discount or free first class upgrades).

**U.S. airlines have an inferior international product, which can require incentives to get corporate accounts**

To get a sense of the service differential, we asked corporate travel managers to rate the major airlines international service. Specifically we asked: *Factoring in all aspects (in-flight product, network, pricing, etc.), please rate each airline's Trans-Atlantic, Trans-Pacific, and Latin American service. Note that price should have been factored into this rating but we suspect a heavier emphasis was placed on the in-flight product.*

**The results were ugly for the U.S. carriers.**

### Trans-Atlantic

Top marks to Virgin Atlantic, British Airways, and Lufthansa—without a single poor rating.

**Table 1: Trans-Atlantic Service Rating**

Airline	Excellent	Above Average	Average	Below Average	Poor
American	7%	23%	57%	13%	0%
Continental	4%	32%	57%	6%	1%
Delta	1%	18%	66%	10%	<b>4%</b>
Northwest	3%	7%	61%	<b>22%</b>	<b>7%</b>
United	6%	21%	54%	14%	<b>4%</b>
US Airways	0%	3%	61%	<b>27%</b>	<b>9%</b>
Air France/KLM	3%	36%	59%	2%	0%
British Airways	<b>24%</b>	<b>49%</b>	28%	0%	0%
Lufthansa	<b>16%</b>	<b>57%</b>	28%	0%	0%
Virgin Atlantic	<b>28%</b>	<b>51%</b>	19%	1%	0%

Note: Bold indicates a notable result.

Source: November TM Survey

## Trans-Pacific

Singapore dominated this category, but Cathay Pacific did well also.

**Table 2: Trans-Pacific Service Rating**

Airline	Excellent	Above Average	Average	Below Average	Poor
American	6%	20%	57%	16%	1%
Continental	4%	24%	58%	13%	0%
United	8%	32%	47%	11%	1%
Northwest	0%	26%	57%	13%	3%
All Nippon	13%	27%	58%	3%	0%
Cathay Pacific	<b>22%</b>	<b>52%</b>	24%	1%	0%
Japan Airlines	10%	39%	49%	1%	0%
Korean Air	2%	21%	67%	8%	2%
Qantas	19%	40%	39%	1%	0%
Singapore Airlines	<b>47%</b>	<b>38%</b>	15%	0%	0%

Source: November TM Survey

## Latin America

American and Continental rated reasonably well to Latin America.

**Table 3: Latin American Service Rating**

Airline	Excellent	Above Average	Average	Below Average	Poor
Alaska	5%	6%	74%	13%	2%
American	8%	<b>34%</b>	51%	8%	0%
Continental	2%	<b>37%</b>	54%	8%	0%
Delta	3%	18%	65%	11%	3%
Northwest	0%	6%	65%	<b>25%</b>	5%
United	0%	15%	68%	15%	2%
US Airways	0%	3%	65%	<b>22%</b>	<b>10%</b>

Source: November TM Survey

## **Top U.S. Airline Picks: LCC, CAL, AMR, UAU**

We remain bullish on the U.S. airline industry. We expect decent air travel demand and tight seat supply (available seat miles up only 3%) to create a positive pricing environment in 2007. On the cost side, we expect non-fuel costs should remain well contained, and oil prices are currently below our \$65/bbl forecast.

Our investment focus continues to be on network carriers with a corporate travel focus. This survey only adds to our conviction. U.S. carriers clearly have an “opportunity” on the international service front (code for lousy service that is unlikely to get worse and may get a bit better), and travel managers appear bullish for 2007 spend. Our top picks in the sector remain US Airways (LCC), Continental (CAL), American (AMR), and United (UAUA).

**We are still bullish on the industry and prefer network carriers**

# Lodging Analysis

This section details the results of the corporate travel manager from a lodging investor point of view. Before we begin the analysis, we believe it is important to discuss the limits of this analysis.

## Limits of Corporate Travel Manager Analysis

It is important to note that the travel compliance level for lodging is roughly 50%, far lower than the compliance level for airlines. The primary difference is that there are only so many airports in a market compared with the many sub-markets within a market. For example, a business traveler leaving from Los Angeles (LAX) to Atlanta (ATL) has a hard time justifying why he or she should not comply with the corporate air policy. However, if the meeting is in the Buckhead submarket of Atlanta, the traveler can justify staying in Buckhead rather than at the pre-approved downtown hotel.

**The travel compliance level for lodging is roughly 50%, far lower than the compliance level for airlines**

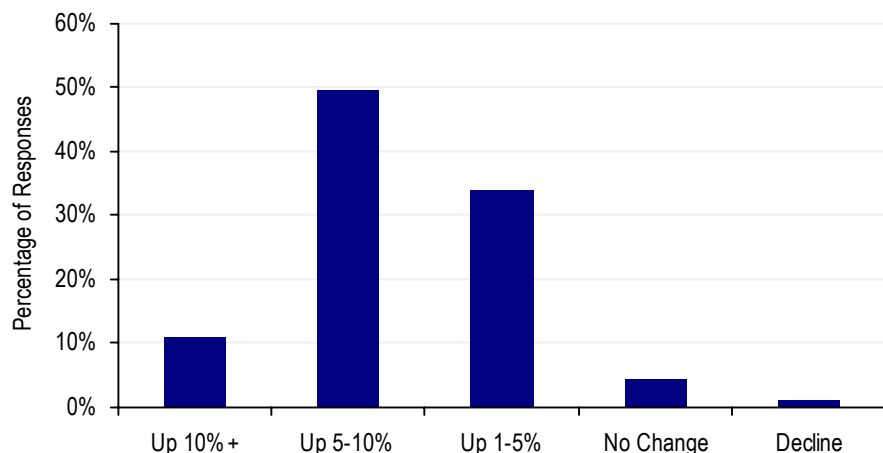
As a result, we believe investors should take caution in reading too much into corporate travel manager policies. Based on our experience, we believe corporate travel managers have a great deal of insight into pricing trends and policy trends. They have less insight into trends in volume, which is more a function of business activity levels. Finally, corporate travel managers almost always suggest they are asking travelers to trade down to reduce spending. While we believe there is some impact, most luxury hotel managers tell us that the impact is minimal because those travelers who stay at luxury hotels tend to routinely violate travel policy because of their high-level positions within the company.

**We believe corporate travel managers have a great deal of insight into pricing trends and policy trends**

## Pre-Negotiated Room Rates Moving Higher

About 95% of corporate travel managers expect pre-negotiated corporate room rates are moving higher in 2007. (See Chart 10.)

**Chart 10: Corporate Room Rates Moving Higher in 2007**



Source: UBS November 2006 Corporate Travel Manager Survey

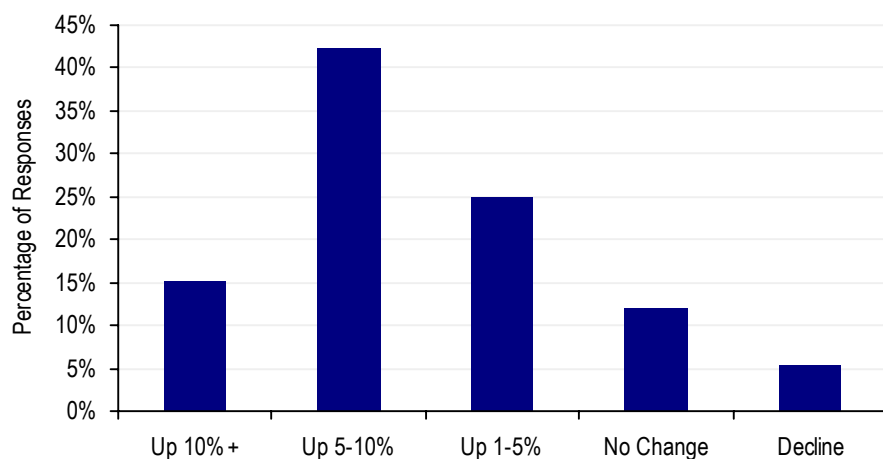
While Chart 10 shows the trends on an industry-wide basis, the increases vary by market. Based on our discussions with lodging executives, we believe the East and West Coast urban markets will obtain 8-10% pre-negotiated corporate room rate increases in 2007. This is particularly important for the public lodging companies because they tend to either own or manage hotels in the coastal urban markets.

**We believe the East and West Coast urban markets will obtain 8-10% pre-negotiated corporate room rate increases in 2007**

## Lodging Spending Increasing in 2007

Corporate travel managers are expecting that overall spending in travel to increase in 2007. (See Chart 11.) It is important to note that the spending increases are slightly less bullish than the increase in pre-negotiated corporate rates.

**Chart 11: Overall Lodging Spending Also Moving Higher, but Not as Much as Room Rates**

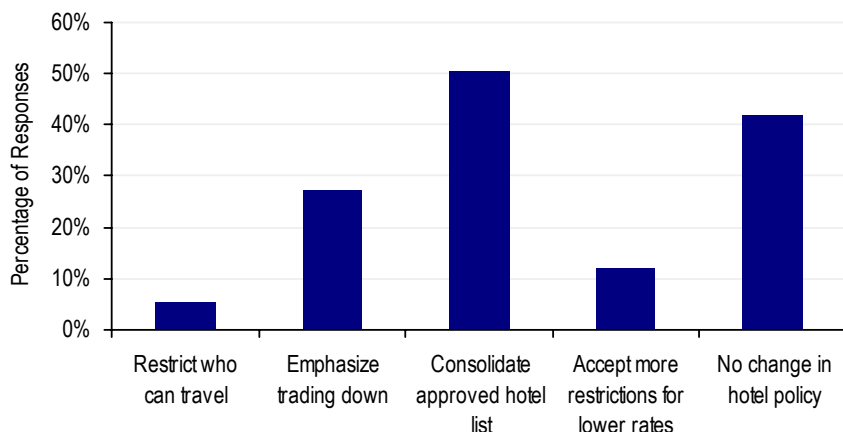


Source: UBS November 2006 Corporate Travel Manager Survey

There are several ways to hold back spending while room rates are moving higher. An obvious answer is that non-room spending growth should be limited (e.g., phones, food). We expect total hotel revenues in 2007 to increase slightly less than room revenues for this very reason. However, there are some policies that can travel managers can try to implement:

- (1) Limit which employees can travel to lower volume of travel;
- (2) Require “trading down” in quality to lower room rates;
- (3) Drive more volume at fewer hotels to limit room rate growth; and
- (4) Agree to more restrictions to obtain a lower room rate.

**Chart 12: Most Travel Managers Consolidating Approved Hotels to Deliver More Volume**



Source: UBS November 2006 Corporate Travel Manager Survey

Please note that the results in Chart 12 exceed 100% because we allowed corporate travel managers to select multiple answers, as their organizations could be implementing multiple strategies to hold down hotel spending.

### Only a Few Restricting Travel

The policy change that we believe has the greatest “signal” is a restriction on who can travel. Generally speaking, corporate travel managers lack the authority to implement this policy without input from senior executives. Hence, when corporate travel managers respond that they are restricting who can travel, the reality is that senior executives have become more cautious about the future and are cutting costs.

**The policy change that we believe has the greatest “signal” is a restriction on who can travel**

Luckily, only 5% of corporate travel managers are implementing a “restrict who can travel” policy. As a result, we believe 2007 will be another strong year for lodging spending. Indeed, about 40% of corporate travel managers said there was no change in their hotel policy for 2007.

### Impact of Emphasizing “Trading Down”

Almost every year we hear about different companies emphasizing a “trading down” strategy to lower the average room rates. This survey suggests that 2007 is no different. There are several problems corporate travel managers face when trying to make this policy effective.

The biggest problem in making this policy effective is traveler preference. It is very difficult to suggest to a business traveler that they can no longer stay at a quality level to which they have grown accustomed. Even harder is getting senior executives to not stay at the luxury hotels, as these types of employees tend to violate travel policies the most.

This is not to say that trading down does not happen. Indeed, we hear from various clients that they no longer can stay at certain types of hotels. Based on discussions we had with luxury hotel operators in the previous cycle, we believe the overall financial impact from trading down is rather minimal.

**We believe the overall financial impact from trading down is rather minimal**

## **Consolidating Preferred Hotel Lists**

The top response from corporate travel managers was that they were consolidating their list of approved hotels. The effect of this change will be to deliver more volume to fewer hotels, which in theory should help in 2007 corporate rate negotiations.

Consolidating the preferred hotel list has been going on for the past several years, and it is no surprise to us to see it the top policy response once again. This is the one area where corporate travel managers can have the greatest impact on holding down rate increases.

**Consolidating the preferred hotel list has been going on for the past several years**

From a public lodging company perspective, it also has a positive impact. First, the hotels are building even stronger relationships with their best customers. Second, the hotels are eliminating marginal customers with the hopes of filling those rooms with transient business travelers who will pay higher room rates.

## **Brand Preferences**

Finally, we asked corporate travel managers if they plan to change their spending at various hotel chains. It should be noted that we attempted to limit the brands to high-end hotels because these tend to be owned or managed by many of the public lodging companies we cover.

As seen in Table 4, corporate travel managers suggest that their spending at luxury hotels will decline. We believe this likely overstates the reality, as almost every year we have talked to corporate travel managers they have indicated a move away from luxury hotels. As a result, we caution investors from making too much from the shift in brand preferences.

**Table 4: Luxury Hotels Could See Some Impact From “Trading Down”**

Brand	Increase	Decrease	No Change
Embassy Suites	17%	9%	74%
Four Seasons	7%	48%	45%
Hilton	29%	12%	58%
Hyatt	16%	22%	61%
InterContinental	15%	19%	65%
Marriott	32%	22%	47%
Omni	11%	24%	65%
Renaissance	11%	26%	63%
Ritz-Carlton	13%	41%	46%
Sheraton	21%	11%	68%
St. Regis	6%	40%	54%
W	9%	36%	56%
Westin	14%	27%	59%

Source: UBS November 2006 Corporate Travel Manager Survey

## Top Lodging Picks: HST, KPA, HLT

This survey confirmed our bullish outlook for the U.S. lodging industry for 2007. As a result, we believe many lodging stocks will outperform the market. However, our top picks are Host Hotels (HST), Innkeepers USA Trust (KPA), and Hilton Hotels (HLT).

Our top lodging pick is Host Hotels (HST). In our view, Host has one of the best lodging asset portfolios in the industry. Furthermore, it has about 7% of its earnings in New York City, where we expect significant near-term RevPAR growth. Finally, HST is trading at 12x our forward EBITDA estimate, roughly in line with its same-store EBITDA growth rate.

Our other top lodging pick for 2007 is Innkeepers USA Trust (KPA). As mentioned earlier, we believe the company will benefit from higher corporate pre-negotiated rates for 2007. Finally, we anticipate the company will raise its quarterly common dividend to \$0.30 from \$0.20 in 3Q07.

Our third pick is Hilton Hotels (HLT), which is a lodging c-corporation. Hilton is the one lodging c-corporation with 9% of its earnings from New York City. Furthermore, we believe continued asset sales should result in significant debt reduction. We believe the asset sales could have a minor dilutive impact on 2007 EPS estimates, but it is the right strategy. When the asset sales are completed by year-end 2007, we believe HLT should be in a position for substantial share repurchases and should see its valuation multiple improve as it generates more earnings from more valuable fees.

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## ■ Statement of Risk

Over the long term, a diversified portfolio of airline stocks has reliably underperformed broader market averages. Our estimates--which form the basis for our valuations and share price targets--are subject to a very high degree of error and may be materially inaccurate. This forecast error is primarily driven by revenue volatility--a function of unpredictable business travel spending combined with significant operating and financial leverage. Other sources of error include but are not limited to jet fuel price volatility, labor disruptions, discount carrier growth, bankruptcy risk, and significant event risk associated primarily with terrorist actions. All of these risk factors combine to make our estimates statistically unreliable. Our predictability level of 2 for airline stocks reflects the sector's earnings volatility and limited forecast horizon.

Lodging demand is highly dependent on business travel, which is dependent on changes in the demand for businesses products and services and their profits. To the extent that business travel slows, the earnings of the publicly traded lodging companies may be lower than expected.

## ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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### UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage <sup>1</sup>	IB services <sup>2</sup>
<b>Buy 1</b>	FSR is > 6% above the MRA, higher degree of predictability	<b>Buy 2</b>	FSR is > 6% above the MRA, lower degree of predictability	<b>Buy</b>	49%	34%
<b>Neutral 1</b>	FSR is between -6% and 6% of the MRA, higher degree of predictability	<b>Neutral 2</b>	FSR is between -6% and 6% of the MRA, lower degree of predictability	<b>Hold/Neutral</b>	38%	32%
<b>Reduce 1</b>	FSR is > 6% below the MRA, higher degree of predictability	<b>Reduce 2</b>	FSR is > 6% below the MRA, lower degree of predictability	<b>Sell</b>	12%	27%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 30 September 2006.

### KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Predictability Level** The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

### EXCEPTIONS AND SPECIAL CASES

**US Closed-End Fund ratings and definitions are:** Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

## Companies mentioned

Company Name	Reuters	Rating	Price	Price date/time
<b>Alaska Air Group</b> <sup>16,20</sup>	ALK.N	Neutral 2 (CBE)	US\$40.72	04 Dec 2006 19:40 EST
<b>AMR Corporation</b> <sup>2a,4a,6a,6c,7,13,16,20,23</sup>	AMR.N	Buy 2 (CBE)	US\$33.32	04 Dec 2006 19:40 EST
<b>Continental Airlines</b> <sup>2a,4b,5,6a,13,16,20</sup>	CAL.N	Buy 2 (CBE)	US\$41.81	04 Dec 2006 19:40 EST
<b>Hilton Hotels</b> <sup>2b,4a,6a,6b,16</sup>	HLT.N	Buy 2	US\$33.96	04 Dec 2006 19:40 EST
<b>Host Hotels</b> <sup>2a,4b,16</sup>	HST.N	Buy 2	US\$25.35	04 Dec 2006 19:40 EST
<b>Innkeepers USA Trust</b> <sup>16</sup>	KPA.N	Buy 2	US\$16.21	04 Dec 2006 19:40 EST
<b>JetBlue Airways</b> <sup>2a,4b,16,20</sup>	JBLU.O	Reduce 2 (CBE)	US\$13.83	04 Dec 2006 19:40 EST
<b>UAL Corp.</b> <sup>16,20</sup>	UAUA.O	Buy 2 (CBE)	US\$41.85	04 Dec 2006 19:40 EST
<b>US Airways Group</b> <sup>13,16,20,23</sup>	LCC.N	Buy 2 (CBE)	US\$58.17	04 Dec 2006 19:40 EST

Source: UBS. EST: Eastern standard time.

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Publishing Administration.

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