

Gordon Bethune, Chairman and CEO, Continental Airlines
BABi Breakfast, London
12 June 2003

- Thank you Alison, and welcome.
- On behalf of Continental's 48,000 employees worldwide, 254 based here in the United Kingdom and 642 in Europe, it is an honor to speak to such a prestigious group as BritishAmerican Business Inc.
 - BABi leadership
 - Board of Directors
 - International Advisory Board
 - Thank you for inviting me to speak.
- As you probably know, the past 21 months have been a whirlwind of activity for the airline industry.
- Some dramatic changes have taken place, and not many of them have been for the better.
- Frankly, I can't remember a worse time in our industry.
- U.S. industry crisis
 - Since 9/11, U.S. airlines have lost \$19 billion, eliminated 100,000 jobs.
 - CO alone has parked more than 20 aircraft, eliminated thousands of jobs and has lost hundreds of millions of dollars.
 - 2 major airlines have declared bankruptcy, and others are struggling to avoid it.
 - A weakened economy and stubbornly high fuel prices continue to plague our operations.
 - High taxes continued after 9/11 and the U.S. government also imposed some hugely expensive security mandates.
- The recent war in Iraq further exacerbated the already bad set of circumstances.
 - Before the war in Iraq began, the Air Transport Association predicted that the airlines could lose as much as \$13 billion in 2003.
 - CO, along with other airlines, saw a dramatic decrease in demand for domestic and international travel due to the conflict in the Middle East.
 - Because of this decrease in demand, we needed to reduce our summer capacity by 2 percent.
 - Right now, demand for travel to Europe is gradually returning, but still is not normal.

- SARS
 - Our bookings in Asia have plummeted due to the outbreak of SARS.
 - As a result, we've temporarily suspended our Hong Kong routes.
 - We expect to reinstate service in August.
- The major air carriers are racing to survive.
- And it's not pretty. We kind of look like a bunch of three-legged horses on a muddy track.
- But there will still be a winner and a loser.
- I'm betting on Continental to win the race.
- We will survive this financial crisis.
- How to Survive:
- We were grateful that the U.S. government finally eased up on their taxation policy in April when the Iraq War Supplemental was approved.
- Iraq War Supplemental
 - Provided reimbursement of \$2.3 billion in airline security fees.
 - \$100 million to reimburse for the cost of installing fortified cockpit doors.
 - An extension of War Risk insurance for one year.
 - Additional 26 weeks of relief for unemployed airline-industry related workers.
- This legislation relieved some of the massive tax burden placed on the airlines since 9/11.
- Although some folks here in Europe thought this legislation created an uneven playing field among world carriers, it was only meant to give back some of the money taken from the U.S. airlines after 9/11 — and it's nobody's ticket to survival.
- There are still carriers out there who will not be able to get through these tough times.
- Some of the airlines are so far underwater, it'll be hard for them to come up for air.

- Don't get me wrong, we're all drowning and it doesn't feel good, but there's a difference between drowning in six inches of water versus sixty feet of water.
- For example, Continental lost \$221 million in the first quarter of 2003.
- That's a lot of money, but compare it to our competitors:
 - \$1.3 billion at United
 - \$1.04 billion at American
 - \$466 million at Delta
 - \$396 million at NW
- Our results prove that not all airlines are alike.
- We are taking the necessary steps to ensure our survival, while preserving the integrity of our superior product.
- We won't sit idly by, waiting for others to save us.
- In March we announced \$500 million in cost-cutting and revenue generating measures over the next year.
- This comes in addition to the \$400 million in cuts we made after 9/11.
- Some of these cuts were painful
 - We were forced to reduce our senior management by 25 percent
 - Furlough 1,200 other employees
- However, the cuts will never affect the fundamentals of our business — to provide clean, safe and reliable air transportation.
- We're working hard to find innovative solutions to the obstacles we face right now.
- To guide us, we have operated under a solid business plan that makes sense for the past nine years.
- The Go Forward Plan
 - Fly to Win (market)
 - Fund the Future (finance)
 - Make Reliability a Reality (product)
 - Working Together (people)
- I think it works really well, and so do our customers.

- I know that most of you here have probably flown Continental for business or leisure, especially between the United Kingdom and the United States.
- I'm proud to tell you that even despite the challenging times the industry is facing, Continental was recognized at the recent OAG awards here in London as having the Best Business Class in the world.
- We won this award for our BusinessFirst product based on votes by global travelers, and I gotta tell you that it says a lot about what we value and preserve for our customers — the very best global service.
- This service can't be discussed without recognizing a big part of our global network, the United Kingdom.
- CO puts a lot of effort into our service between the U.S. and U.K.
- With stations in London Gatwick, Birmingham, Manchester and Glasgow, CO operates from more cities in the United Kingdom to the U.S. than any other airline, providing the most convenient options for air travel.
- We've been serving the U.K. with unwavering support for 19 years, and look forward to our 20th anniversary flying between the United States and London-Gatwick next year.
 - This, incidentally, was our first transatlantic route
- It's a route that we have built into quite a comprehensive route structure in Europe and the Middle East.
- Now, we're working to connect the dots around the globe to allow our customers more access than they've ever had before.
 - We serve more international destinations than any other U.S. carrier
 - We continue to develop our United States hubs, making them accessible to international travelers
 - Terminal E
 - EWR Global Gateway and AirTrain
 - Our scheduling team consistently pursues routes that make sense for CO customers
 - EWR-Geneva
 - IAH-Amsterdam
 - I think you'll see some exciting new destinations offered in the near future
 - And we work hard to build alliances with other carriers so that Continental can provide the broadest route network of any airline.
 - Most recently, we forged an alliance with TAP Air Portugal, which will give our customers access to Lisbon and various cities throughout Europe and Africa.

- Subject to government approval, CO customers can start flying TAP Air Portugal in October.
- But we wouldn't be able to provide this service alone.
- The support of our customers worldwide is what allows us to continue offering our superior product and extensive route structure, which will bring us into the future.
- Together with the best team of co-workers in the industry, we'll make sure this support doesn't go unnoticed.
- Thank you again for the invitation to speak here this morning.
- With that, I'll answer any questions.