

**Gordon Bethune  
Chairman and CEO, Continental Airlines  
International Aviation Club Speech  
September 15, 2003**

Thank you. On behalf of my 42,000 co-workers, thank you for the opportunity to speak to the members of the International Aviation Club. I'd like to give a special thanks to the IAC's board of directors, its members and their distinguished guests here today.

When I received your invitation to speak today, it wasn't hard for me to decide what to talk about. In the history of aviation, we've never seen the kinds of changes or faced the kind of challenges we've confronted over the last few years. Of course, two years ago, September 11 changed our industry in the blink of an eye. Public confidence was shaken to the core, and would be slow to return. As a result, record profits earned in the late '90s turned into record losses. And during these last two years, two of the so-called "legacy airlines" have filed for bankruptcy, while at least two cut-rate airlines have had their wings clipped too.

Clearly, as much as ever, this remains a highly cyclical and brutally competitive business.

But against this backdrop of challenge and change, I have been fascinated by the public discussion that has developed concerning the roles of traditional hub-and-spoke carriers like Continental, and other carriers – the ones commonly referred to as low-cost carriers – that are trying to fit a different mold.

In particular, I am fascinated when I pick up the papers – or turn on the TV – and am told over and over that the traditionally structured carriers are dinosaurs on the verge of extinction. You know, "the big guys operating the big hubs are things of the past." They've taken to calling us "legacy" carriers – like we're some kind of obsolete computer with a monochrome monitor and a "286" processor.

The right way to do business, or so we hear, is point-to-point service with a low-cost workforce and a low-cost operating style. We all oughtta just give up our hubs and fly every plane from big cities to other big cities. I hear these statements every day, and I gotta tell you: I think they are way off base, to say the least.

The truth is that whether you're selling airline seats, shoes, watches or fish, the seller doesn't define what is needed and what isn't. That's because the market does. Every day, billions of choices are made that are shaping the airline industry tomorrow. The smart guys, the airlines that are going to be survivors, are the ones who listen to the market – who focus on what their customers want – and then deliver it in the most cost-effective and reliable manner.

Every day, for example, the market tells us people still want to fly to Asia, Europe, Latin America and Africa ... and that people in Beaumont and Brainerd need to be connected to big cities in the U.S. and overseas.

Every day, the market also tells us people in Corpus Christi, Texas need to get to Sarasota, Florida, as much as the people in New York City need to get to Fort Lauderdale. And the people in Daytona Beach want one-stop service to Europe and Asia.

Who's going to take them there?

I'll tell you who: the same airlines that some industry observers describe as dinosaurs.

Those other cut-rate airlines will be glad to get you from JFK to Disney World, or from the suburbs of San Francisco to the suburbs of Washington on a red-eye. And while they do a good job at what they do, they will never serve the nation's small or rural cities, and won't have the global networks that the six biggest airlines offer today.

But try to get one of those cut-rate airlines to take you nonstop from New York to London. The price might be good, but I don't know anybody who wants to land in the North Atlantic and swim the rest of the way, no matter how cheap it is. And remember, every minute out is a three-day swim back!

Now, every day, in all kinds of ways, the market tells us our world needs more than just one kind of airline – and that there is a place for a good airline that offers good service and good value on a large network.

If you look around the world, you'll see the hub-and-spoke carriers are the engines of the global economy. And we're not going to go away. Without the access that large network carriers provide to small and large communities around the world, global trade would not exist at the accelerated level and universal scope it does today.

For example, Cleveland wouldn't be able to compete for international business without convenient access. Oil company execs in Houston would have a hard time getting to the Middle East if they had to first stop in Birmingham, Nashville, Raleigh and Baltimore to get to a connecting flight in New York.

You'd be wasting your time trying to start a car without an engine – and in the same way, the global economy will not be revived without us and our services.

Yes, the effects of 9/11, high fuel prices, a war in Iraq, SARS and a weakened economy have dealt the airline industry a brutal body blow. And these challenges have had a more staggering effect on the traditional carriers for several reasons:

- One, it costs more to run a 60-year-old airline than a 6-year-old airline. Let's be realistic. Continental can hire employees and get planes at JetBlue prices. The difference is that we've also got an experienced 59-year-old pilot who's worked his way up the ladder and earns a better salary and benefits than the new-hires at the cut-rate airlines. Put another way, in 2002 Continental posted a net loss of about \$350 million, even after we posted profits during a few months of the year. Not too long ago, I asked our CFO to run our P&L numbers using our network and revenues, but JetBlue's labor cost structure, which is much lower than ours because its employees are very junior. When he did that analysis, we went from that \$350 million loss to about a \$450 million profit. That's an \$800 million swing in the bottom line. All of a sudden, we were making money hand over fist. And the difference is directly attributable to wage rates and seniority levels. The maintenance holiday that comes with a new fleet wouldn't hurt either. Now, relax. We're not trying to cut that 59-year-old pilot's pay to the 2-year wage of a

- JetBlue pilot -- and we're not trying to dump his pension -- but the fact remains an experienced workforce costs more.
- The second reason the challenges of the last couple of years have hurt the so-called legacy carriers more is that overseas travel dropped. In the early spring, our Transatlantic fliers didn't want to go to Europe because of the run-up to the war, and the SARS epidemic clearly caused many of our Transpacific fliers to postpone and cut back their travel plans. I don't believe any of the cut-rate airlines faced these problems. The point is: our bottom line is affected not only by what's happening in the U.S. economy, but also by what is going on in Mexico City, London, Tel Aviv and Tokyo.
  - And the third reason for some of our challenges frankly lies at the feet of our government. The entire airline industry paid a hefty price for the breach of national security breach that happened on 9/11. After having our operations shut down for four days, we were slammed with heavier taxes and sky-high insurance rates. On top of this, we were also forced to bear a staggering number of new security costs – and we can argue about how fair that is. After all, the security of our citizens on the ground, and in the air, is the responsibility of our federal government. Terrorists are targeting our national ideals, not our airplanes. That was evident on 9/11.

Don't get me wrong. After 9/11, Congress immediately recognized that it needed to preserve the aviation system and prevent the chaos that the terrorists sought to create. We're grateful for their support then – and today. We're glad they repealed the security fee temporarily earlier this year – although it should be repealed permanently instead of being mindlessly re-imposed this fall. That's not a bailout, but rather the recognition that defending the homeland is, in fact, the federal government's responsibility.

And for the record, we're not depending on any more government bailouts, including any bailouts of our pension fund obligations. What we want is for the government to do their part to get our customers in and out of airports quickly, efficiently and safely.

The world is certainly different than it was two years ago, and I recognize that our government has a massive new job to tackle. The task facing Homeland Security is beyond difficult – and a thankless task at that – but I gotta say that the TSA has been doing a pretty good job of being both efficient and customer-friendly. We all have a responsibility to our customers and to the national economy to provide good security in a way that is focused on the needs of the customer, and I salute the TSA for their hard work under trying circumstances.

The best security system for the domestic traveler, or the customer arriving from an international destination, is one that works **not** because of arbitrary deadlines or mandates -- but because it is developed and implemented intelligently and efficiently.

Which brings me to the experience of the customers arriving from an international destination. Just as the TSA has set up a 10-minute “goal” for passengers waiting at security checkpoints, we believe a similar goal needs to be established for other areas of national security, like immigration and customs. We believe the time has come for

Homeland Security to establish a 30-minute goal for customers arriving at our nation's airports from overseas.

Without it, getting our passengers in and out of the U.S. will become increasingly difficult, which will result in less and less commerce as our customers choose to fly to and through other countries and gateways. We have already lost about 100,000 jobs in aviation, and the recent statistics I've seen say those jobs are probably gone forever. We need to make sure that the government's policies and procedures not only protect American lives and jobs, but also the American way of life.

Again, our government has to participate actively in providing good, safe and secure customer service. I think Homeland Security is moving in the right direction, and I hope that they will continue to work with us to provide the traveling public with both a high level of security – and the necessary efficiency – that they deserve. The stakes are high because if they fail in this important mission, we will all suffer.

This brings me to the topic of value. As I said earlier, customers want value, and customers always get what they want and are willing to pay for.

But what is value? Is it just low fares? Not if Continental's past experience is any guide.

Back in the '80s and early '90s, Continental was the lowest-cost hub-and-spoke airline – and we lost a fortune. We were charging our customers the least, and paying our employees the least. Yet, we still took two trips into bankruptcy – and were on our way into a third – when we decided to start listening to the customer, instead of telling the customer what we wanted.

Back then, we took so much cheese off of the pizza, that eventually nobody wanted to order from us anymore. When we went back to looking at value instead of solely at fares, customers came back to us in droves. We offered more frequent flyer program benefits; more flights to Europe, Asia and Latin America; faster connections at our hubs in New York, Houston and Cleveland; and in one year, we went from worst airline in the country to the best.

At Continental, we're still committed to providing high service levels and value.

In fact, it was 10 years ago this month that we revolutionized the industry with our BusinessFirst product. It's a first-class product at a business class price.

At the time, a few critics came out of the woodwork saying the "real business traveler" wanted a First Class product. They were both right and wrong. Business travelers did indeed want a First Class product – but at Business Class price. We had that formula, and before you knew it, competitors began to copy our international business product.

For the past five years, the most frequent business travelers have voted BusinessFirst the best international business class of all the U.S. airlines. This month, BusinessTraveler International magazine did "Flight Check" ratings of many airlines' business class services, and none scored higher than BusinessFirst. We listened to what the market demanded, and we delivered.

And today, because we continue to listen to the market, we've taken the next step to deliver value and service to our best customers. Earlier today, we announced a new product called EliteAccess – and we believe it, too, could help revolutionize the industry.

Why EliteAccess?

When we look at the back cabin of our airplane, we know that 40 percent of our customers frankly don't care that they're flying Continental. We happened to have the lowest fare or the best schedule that day, and on the next trip those people will be just as likely to book their travel on somebody else's airline.

But 60 percent of our customers in coach are flying Continental because they **do** care who they fly with. They're OnePass members, corporate customers, or just people who know a good product when it's offered.

Of those 60 percent of travelers, a lot of them aren't able to book far enough in advance to get the cheapest seats. And because we listen, we know that, for them, paying more means they should get more. We agree. We've been working for months now on systems that use technology to separate our most frequent and highest-yielding customers from the ones who don't know they're on Continental. And we're going to give the best customers the best services. That's the idea behind EliteAccess – more value for your money.

Continental has a well-established position with its cabin service – clean airplanes and professional crews with free food. The whole idea with EliteAccess is to “kick it up a notch” on the ground, at the airport. We set and maintained the highest standards for our cabin service, and now we are taking the next step to make the airport experience faster and easier for our best customers.

The main difference you'll see is at our boarding gates. Starting today, we will begin reconfiguring every gate from Tel Aviv to Tokyo two access lanes. One is for general boarding. The other lane is for EliteAccess. Look for the monogrammed blue carpet, and the brushed gold stanchions with the EliteAccess sign. We're the only airline that has this. If you are in EliteAccess, you get to cut to the head of the line using your EliteAccess privilege. It's printed on your boarding pass, and the gate agent knows you're hot stuff. So does everyone else in the other line. You go right on down the jetway.

This is a solid enhancement to the tried-and-true advance boarding privilege. Maybe you don't get to the gate in time for advance boarding. EliteAccess gives you priority even while general boarding is in progress and lets you get to the front of the line.

We're taking the same concept and applying it to other phases of the airport process as well. Special check-in for EliteAccess. And where the TSA will let us – priority clearance to the front of the security screening line. Your checked bags are specially tagged each time you fly so that when you get to your destination, your bags are the first ones sent to the carousel in baggage claim.

As you might imagine, we've made a considerable effort to get this right. We've programmed 754 eService Centers in 124 airports, trained more than 10,000 airport employees and reconfigured gates at 150 airports around the world. And because we continue to listen to our customers, there's more to come.

Who gets these new EliteAccess benefits? About 20 percent of our customers. When you get down to it, these are the folks who are paying the freight. It's all of the OnePass frequent flyers who have Elite status. It includes anyone traveling in First Class or BusinessFirst. And it includes anyone traveling on an unrestricted Y-fare ticket.

In fact, we need to do more for the man or woman who buys “full coach.” Starting now, these people are being made “Elite for the Day,” qualifying for an upgrade

to First Class where available, and getting all the other EliteAccess privileges, regardless of whether they're in OnePass. They're also getting our new "No Middle Seat Assignment Guarantee." If you buy a full-fare, unrestricted ticket in one of our coach class cabins, Continental's going to guarantee that you get a window or an aisle seat. If not, we'll give you 1,000 OnePass bonus miles.

This program is just the latest way that we separate ourselves from the pack. Last year, Condé Nast Traveler ranked U.S. airlines for value. Continental was the only major hub-and-spoke airline on the list. That's not an accident. We made that list because we are there for the 40 percent of customers who just want to get from point A to point B, and we are there to give preferred service to the 60 percent of our customers who are looking for something more than just a ride from Houston to New York – but also the best service on the ground and in the skies.

Continental is going to survive these harsh economic times – and we will continue to be a strong competitor on every level. I can say this with confidence because we are committed to doing what works: listening to our customers and giving them what they want. As I said, the customer always gets what he wants and is willing to pay for. If Brand X doesn't offer it, they'll get it from Brand Y. If the Jet Blues and Americans don't offer it, the 42,000 dedicated men and women at Continental will.

And just as important: we'll be here to do it. Dinosaur or not – our legacy status notwithstanding – we're not going away.

I'll be glad to take your questions; but before I do, here's the bottom line. I think we would all agree that the best air transportation system in the world is one that fosters healthy competition, provides different levels of service or value at different prices, and is as free of government over-regulation and taxation as possible.

Frankly, there is room for legacy airlines and cut-rate carriers to compete in the marketplace so long as the government gives us a level playing field. But only those legacy carriers like Continental who listen to the market – and focus on providing the services our customers want and are willing to pay for – will be able to compete and survive.

Thank you very much. I'm happy to take a few questions.