



May 30, 2012

EMPLOYEE BULLETIN: HOUSTON CITY COUNCIL VOTES

TO EXPAND HOBBY FOR INTERNATIONAL FLIGHTS

Houston City Council today voted overwhelmingly to expand Hobby Airport for international flights, rejecting our argument that dividing the City's international air service is the wrong decision for Houston's future. The Council voted 16-1 in favor of a memorandum of understanding to build gates and a Federal Inspection Services (FIS) facility to allow Southwest Airlines to begin AirTran-subsidary flights to Latin America from Hobby Airport. Mayor Annise Parker and Houston Airport System Director Mario Diaz strongly supported today's action.

The only City Council member who supported preserving Bush Intercontinental (IAH) role as Houston's single international gateway was Council Member Jerry Davis, who represents District B, which includes IAH.

The Mayor's and Council's decision reverses 43 years of aviation policy that has made Bush Intercontinental one of the world's leading gateways.

The Council acted after Southwest changed the original proposal and said it would pay more than \$100 million to fund the expansion at Hobby. While Southwest advocated to "Free Hobby," the decision will cost the city of Houston by putting IAH at a competitive disadvantage compared with other major international gateway airports in the southern U.S., such as Atlanta and Dallas/Ft. Worth.

This will directly harm our IAH hub. Based on a comprehensive economic study, we said throughout the Council's deliberation that the diversion of traffic from IAH would cause us to reduce our planned capacity at IAH by 10 percent, costing 1,300 jobs.

Houston co-workers supported our education effort by sending hundreds of messages to Council members and by attending meetings every week to show concern about the proposal.

"I am deeply disappointed that Mayor Parker and the City Council have taken this action that harms United and Houston's international gateway at IAH," said Jeff. "I want to thank all of my Houston co-workers who helped us try to get a different result."

Jeff said we will do all we can to mitigate job loss through voluntary programs and relocation to other positions in the company. "This will harm us and IAH, but IAH will continue to be a strong hub for

United. Unfortunately, the city of Houston will suffer the consequences of this decision for decades to come," he said.

What happens now and why?

We expect to begin a 10 percent reduction in planned IAH capacity beginning with the fall 2012 schedule change. We have been maintaining some unprofitable flying at IAH based on our projections that future growth at the hub would make those routes profitable. Since that growth won't occur, because there will be less international connecting traffic at IAH, we will have to reallocate that flying where it can earn a profit. The rest of the reduction will come from future planned capacity, including not flying our previously announced service from IAH to Auckland, New Zealand. That flight was heavily dependent on connecting traffic through IAH. As a result of the Mayor's and the Council's action, it will no longer be economically feasible to fly the 787 on that route, since there will be a drain on international traffic from IAH.

When will job loss happen?

We regret the job loss, but we will be forced to reduce employment at IAH as a direct result of the Mayor's and Council's action. We expect job loss will begin this fall and occur over time, and we will do all we can to mitigate the impact through voluntary programs and relocation to other jobs across the system. As always, we will keep you informed as we take actions.

What does this mean for the future of our IAH hub?

IAH will remain one of our strongest hubs, and our Houston co-workers remain critically important to us. We will continue to compete vigorously for Houston customers with all carriers serving both airports.

Why will the Hobby expansion impact our operations – and jobs – at IAH?

The sound public policy of maintaining IAH as the single international airport ensured that passengers for all international airlines serving Houston connect at one place, helping all of us fill the large planes necessary to economically fly to Asia, Europe and Latin America. The approval of the Hobby expansion by the Mayor and the Council changes the premise on which Continental, now United, based more than \$1 billion in investments since 1996 to make IAH a world-class international gateway. It reverses the policy on which we relied in deciding United would go forward with the first phase of a \$700 million project to redevelop Terminal B.

Does this mean we won't build the rest of the Terminal B project?

We have commenced the first phase, so it's too late to stop. However, this decision puts the need for the remaining \$600 million investment in significant doubt. Future demand will ultimately determine whether we can justify proceeding with the remainder of the project.