Continental Airlines




"five years of working together"

1999 Annual Report

1999 Accomplishments

Fly to Win

- Added four destinations in Europe and the Middle East, giving us more transatlantic routes from New York than any other carrier
- Continued to enjoy domestic length-of-haul adjusted RASM premium to the industry
- Joined with dozens of other airlines to create the leading Internet portal for booking travel, to be launched in 2000
- Continued our profitable growth from our underdeveloped hubs
- Drove up on-line bookings on Continental's website by 173 percent, with E-Ticket sales rising to 47 percent of total sales by the end of the year

Fund the Future

- Ended fourth consecutive year with more than $1 billion in cash and short-term investments ($1.6 billion)
- Took delivery of 58 new Boeing jets and retired 61 older planes, giving Continental one of the youngest jet fleets in the industry, just 7.4 years
- Continued stock buy-backs, spending $751 million through December 31, 1999 of an authorized $1.2 billion share repurchase program
- Started operations at a third Newark terminal and updated facilities throughout our franchise hubs
- Achieved significant income from the sale of non-strategic assets, including our interest in Amadeus and a portion of Equant N.V.

Make Reliability a Reality

- Implemented Customer First, putting our service promises into plain English for our customers
- Expanded our Presidents Clubs by adding three lounges
- Added larger bins to permit our customers to carry on their bags
- Working to convince Congress to modernize and privatize the air traffic control system

Working Together

- Paid fifth consecutive year of profit sharing
- Delivered on our compensation promises and pay for performance
- Negotiated "Best in Market" health care plans, reducing the cost of health care to most employees
- Gave away 16 more new Ford Explorers for perfect attendance
- Signed Continental and Continental Express mechanic contracts

Awards and Recognition

- Named to *Fortune's* "100 Best Companies to Work For in America" list for second consecutive year, moving up to the No. 23 position
- Ranked as the No. 2 most admired global airline by *Fortune* magazine
- Ranked as the No. 2 most admired U.S. airline by *Fortune* magazine
- Called the "best airline in the U.S." by *Fortune* magazine
- Named the top-rated U.S. airline for business travel by *The Wall Street Journal's Smart Money* magazine
- *Frequent Flyer*/J.D. Power and Associates - No. 1 in customer satisfaction on long-haul flights (ranked No. 1 or No. 2 for four consecutive years)
- *InsideFlyer's* Freddie Awards - OnePass won four awards, including "Program of the Year" and "Best Elite-Level Program"
- Forrester PowerRankings, Gomez Advisors and NPD Research - No. 1 website
- OAG Awards - Best Short Haul Executive/Business Class and Best Frequent Flyer Program, only U.S. carrier to win an OAG award
- *Nikkei Business* Magazine - Best foreign-flag carrier to North America
- *Travel Trade Gazette Europa* - Top airline to North America
- Inflight Research Services - Top U.S. airline
- *Condé Nast Traveler* - Best Transatlantic and Transpacific Business Class among U.S. airlines
- *Hispanic* magazine - one of the 100 Best Companies providing the most opportunities for Hispanics
- National Airline Quality Rating Study -Ranked No. 2 (up from No. 3 last year and last three years ago)

FINANCIAL HIGHLIGHTS AND OPERATING STATISTICS

(In millions of dollars, except per share data)

	Year Ended December 31, 1999	1998	1997	1996	1995
Operating Revenue	$ 8,639	$ 7,927	$ 7,194	$ 6,347	$ 5,816
Total Operating Expenses	8,039	7,226	6,478	5,822	5,431
Operating Income	600	701	716	525	385
Income Before Income Taxes, Minority Interest, Cumulative Effect of Accounting Changes, Extraordinary Charge and Special Items[1]	553	770	640	556	202
Income Before Cumulative Effect of Accounting Changes and Extraordinary Charge	488	387	389	325	224
Net Income	455	383	385	319	224
Income Applicable to Common Shares	$ 455	$ 383	$ 383	$ 314	$ 215
Earnings per Common Share	$ 6.54	$ 6.34	$ 6.65	$ 5.75	$ 4.07
Earnings per Common Share Assuming Full Dilution	$ 6.20	$ 5.02	$ 4.99	$ 4.17	$ 3.37

1 Special items include a fleet disposition/impairment loss of $81 million and a net gain on the sale of non-strategic assets of $326 million in 1999, a fleet disposition/impairment loss of $122 million in 1998, a fleet disposition charge of $128 million in 1996 and a gain on the sale of System One of $108 million in 1995.

OPERATING STATISTICS

(Jet operations only, excluding regional jets operated by Continental Express)

	1999	1998	1997	1996	1995
Revenue passengers (thousands)	45,540	43,625	41,210	38,332	37,575
Revenue passenger miles (millions) (a)	60,022	53,910	47,906	41,914	40,023
Available seat miles (millions) (b)	81,946	74,727	67,576	61,515	61,006
Passenger load factor (c)	73.2%	72.1%	70.9%	68.1%	65.6%
Breakeven passenger load factor (d), (e)	65.6%	61.6%	60.1%	60.7%	60.8%
Passenger revenue per available seat mile	9.06¢	9.23¢	9.29¢	9.01¢	8.26¢
Operating cost per available seat mile (e)	9.03¢	8.89¢	9.04¢	8.75¢	8.35¢
Average yield per revenue passenger mile (f)	12.37¢	12.79¢	13.11¢	13.22¢	12.59¢
Average price per gallon of fuel	47.31¢	46.83¢	62.91¢	60.92¢	55.02¢
Fuel gallons consumed (millions)	1,542	1,487	1,357	1,228	1,203
Actual aircraft in fleet at end of period (g)	363	363	337	317	309

(a) The number of scheduled miles flown by revenue passengers.
(b) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.
(c) Revenue passenger miles divided by available seat miles.
(d) The percentage of seats that must be occupied by revenue passengers in order for the airline to breakeven on income before income taxes, excluding non-recurring charges, nonoperating items and other special items.
(e) 1999, 1998 and 1996 exclude a fleet disposition/impairment loss totaling $81 million, $122 million and $128 million, respectively.
(f) The average revenue received for each mile a revenue passenger is carried.
(g) 1999 excludes four all-cargo 727 CMI aircraft and one A300, three 747, three DC-9-30, three DC-10-30 and two 727 Continental aircraft that have been removed from service. 1998 excludes six all-cargo 727 CMI aircraft and one A300 and one 747 Continental aircraft that were removed from service. 1997 excludes six all-cargo 727 CMI aircraft and two 737-100s that were removed from service in 1997 and three DC-10-30 Continental aircraft that were delivered in 1997, but were not placed into service until 1998. 1996 excludes four all-cargo 727 aircraft at CMI, three A300 and one 747 Continental aircraft that were removed from service in 1995 and four DC-10-30 Continental aircraft that were delivered in 1996, but were not placed into service until 1997.

The Go Forward Plan
1995-1999

Five years ago, we told you we needed to act like a real airline. We started with the basic understanding that "what gets measured and rewarded gets done." This led to the development of the Go Forward Plan. Its four cornerstones are Fly to Win (our market plan), Fund the Future (our financial plan), Make Reliability A Reality (our product plan), and Working Together (our people plan). Each of these is practical, measurable, flexible and, most importantly, makes sense to our co-workers.

The Go Forward Plan is more relevant than ever as we face new opportunities and challenges.

TO OUR CO-WORKERS, CUSTOMERS AND STOCKHOLDERS

1999 was our fifth straight banner year!

The highlight of the year was once again being recognized as an airline that has the essential elements for long term success - a consistent, high-quality product proudly delivered by people who enjoy coming to work every day.

In January 2000, we again appeared as one of *Fortune* magazine's "100 Best Companies to Work For in America," moving up to number 23 on the list. In 1999, which was our first year ever to even be invited for consideration, we ranked number 40, so we climbed 17 spots while 35 other companies on the same list dropped off as others passed them for this coveted award. Many of our competitors have expressed their ambition to be on this prestigious list, but in both years only one managed to make it. We are proud that *Fortune* and our co-workers once again recognized Continental in this manner.

In addition, customers again voted us as the top customer satisfaction airline in 1999, awarding us the *Frequent Flyer* magazine/J.D. Power Award. We now have won this highly regarded award three times in the last four years. No other airline has managed to show this level of consistent, award-winning performance.

In fact, our trophy case is bursting at the seams with awards. We won the prestigious 1999 Freddie Award for the third straight year for delivering the best frequent flyer program, and we've received multiple accolades recognizing Continental's BusinessFirst product as best in class across the Atlantic and the Pacific from highly regarded publications such as *The Wall Street Journal*, *Nikkei Business*, and *Condé Nast Traveler*.

We also had a stellar year financially. In 1999, we delivered our fifth straight year of profitability and led the industry in stock price appreciation. Our stock price increased 32.5 percent over the course of the year. We finished the year with $1.6 billion of cash and short-term investments while financing all of our new aircraft at an average rate under 7 percent and our new hub facilities under 6.5 percent.

No matter how you measure us - as a co-worker, customer or stockholder - we can say unequivocally that Continental is one of the best companies anywhere in the world.

"Over 50 thousand co-workers, in 40 countries, working together to make the plan succeed"


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We entered the new millennium with lots of momentum and big plans. Over the past five years, the world's greatest employees have done the near-impossible and taken Continental from "Worst to First." As we look at the opportunities of the next five years, we are confident our team can soar to even greater heights.

Fly To Win - The Last Five Years

Our airline had a pre-tax loss excluding special charges of $204 million in 1994 and radical surgery was required. We hired the best managers in the world and stopped doing things that lost money. We canceled unprofitable routes, and reduced the purchase price and financing costs of expensive airplanes. We returned needed amenities to the product that our customers were willing to pay for, made our flights clean, safe, and reliable, and began treating employees fairly. Well … it worked! We made $202 million in pre-tax income in 1995, $556 million in 1996, $640 million in 1997, $770 million in 1998, and $553 million this year (all special gains and charges excluded) - a total of $2.7 billion over the last five years.

Once we stabilized the operation and became profitable, we began growing. We grew our capacity 10 percent in both 1997 and 1998 while maintaining a 10 percent operating margin (a first in the airline industry). In 1999, we also grew at 10 percent while maintaining an operating margin slightly below our 10 percent target (8 percent), due in large part to weak European yields and higher oil prices. In addition, we have turned our domestic unit revenue (RASM) deficit to the industry (79 percent in 1994) into a premium (107 percent in 1999) over the past five years.

We accomplished these record-setting results by continuing to build and expand our underdeveloped franchise hubs in New York, Houston, Cleveland, and Guam. The impact on our route structure over the past five years has been amazing, including:

- Growing revenue out of our hubs from $4 billion to $8 billion
- Increasing destinations served out of our hubs from 142 to 213

1995-1999
Fly to Win

1995
Domestic Revenue per Available Seat Mile, load factor and yield exceed industry average — a first for Continental

1995
Continental starts jet service to 10 cities, and they're all cash positive

1995
Continental restores First Class seating on all airplanes and restores its award-winning frequent flyer program to former award levels

1995
Continental introduces new financial concept: profitability

1996
Productivity improves in every Continental work group

1997
23.6 percent international growth leads the industry as Continental capitalizes on its New York and Houston hubs

1997
70.9 percent load factor is an all-time record

1997

The awards start flowing as OnePass wins six of nine Freddie Awards, including Program of the Year and Best Elite-Level Program

1998

The regional jet is successfully integrated into the fleet, producing stellar profits and marking the "beginning of the end" of turboprops at Continental Express

1998

Work Hard. Fly Right. A new advertising slogan sums up the Continental story in just four words

1998

E-Ticket begins international roll-out, helping to make automated self-service a universally accepted process

1999

Growth in New York makes Continental the area's leader in transatlantic destinations

1999

Continental joins with dozens of other airlines to create the leading internet portal for booking travel

- Entering 54 new destinations out of New York - 29 domestic, 13 European, 11 Latin, and one Pacific, including Amsterdam, Brussels, Zurich and Tel Aviv, which we added in mid-1999
- Increasing the destinations served out of Houston from 84 to 139, including Tokyo and Sao Paulo, which we added in 1999
- Doubling the cities served out of Cleveland while making it the fastest growing hub in the United States, and now featuring daily non-stop service to London.

In addition, we now offer more transatlantic departures from New York than any other carrier and we firmly have established Continental as the number two carrier to Latin America.

Fly to Win - The Next Five Years

Our franchise hubs still are undersized relative to competing hubs and, while we will be slowing our growth in 2000 to help allow our operating margins to return to our 10 percent target, we will continue to grow our hubs profitably. Over the next five years, our team will focus on maintaining 10 percent operating margins while:

- Growing revenue out of our franchise hubs from $8 billion to over $12 billion
- Growing destinations served out of our franchise hubs from 213 to 241
- Increasing service from New York to Europe, the Caribbean, and the transcontinental U.S.
- Increasing service from Houston to Mexico, Europe, and the southeastern U.S.
- Building regional jet service in Cleveland to feed additional larger jet service into more long-haul markets

As the Internet dramatically changes the landscape of every industry, we are positioning Continental to lead the way for airlines on the Internet. We recognize that the web is changing how customers want to buy their tickets and manage their travel expenses, and we're aggressively pursuing opportunities that the Internet makes available to us.


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Both Continental and our customers can save money as hundreds of millions of dollars of non-value-added costs can be removed from the current distribution system.

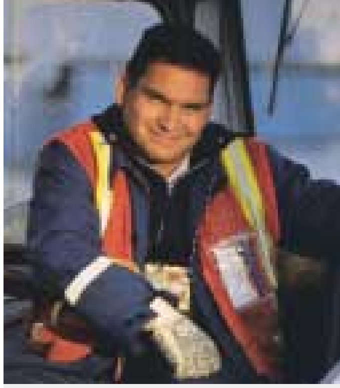
Each type of customer approaches the Internet differently, and we are developing web-based solutions for every customer. For example, strictly price-sensitive customers are moving away from the exclusive use of wholesalers and consolidators to take advantage of the weekly web specials on our award-winning website, www.continental.com, and other airline-sponsored web sites. Loyal Continental customers soon will be able to visit our website and get the guaranteed lowest available published fare we have to offer. Finally, customers who want to access all the published inventory available throughout the industry will be able to go to an expansive website we are building with our alliance partner Northwest, and Delta and United.

Continental is also working hard to develop a global alliance network in order to give our customers great service and OnePass frequent flyer mileage credit no matter where they fly. These alliances also give our exclusive Presidents Club members the opportunity to enjoy an expanding network of clubs worldwide.

Our alliance with Northwest is off to a great start. By the end of the first year of operation, more than 2,000 customers a day connected between Continental and Northwest. We also expanded our long-standing relationship with Alitalia, and we are working with KLM on a codeshare that we hope will pave the way for a global alliance called "Wings" to be launched later this year. Our existing alliances with America West, Gulfstream, Alaska/Horizon, COPA of Panama, Avant of Chile, Aserca/Air Aruba of Venezuela, CSA Czech, Virgin Atlantic, EVA, and Air China round out our growing global network.

Fund the Future - The Last Five Years

When we arrived five years ago, we were uncertain of our ability to meet all of our financial obligations. Since that time, our team not only has delivered a record five years of profit, but it also has generated significant cash flow. We ended 1999 with $1.6 billion in cash and short-term investments, up from 1996, 1997 and 1998 year end balances of $1.1 billion, $1 billion and $1.4 billion, respectively. We clearly have the financial strength to weather the challenges ahead.



1995-1999
Fund The Future

1995
Business Week's NYSE "Stock of the Year"

1996
Five-Year Flexible Fleet Plan is developed, and orders for 757s and various 737 models began to make Continental's fleet one of the youngest in the industry

1996
Go Forward Plan focuses on growing underdeveloped hubs

1996
Year-end cash balance: $1.1 billion

1997
Continental places orders for new-generation 737s, 767s and 777s

1997
$2.7 billion of new financings for airplanes and facilities at an average interest rate of 7 percent

1997
Year-end cash balance: $1 billion

1995-1999
Fund The Future

1998

Continental completes $2.9 billion of financing at an average rate of 6.6 percent

1998

Year-end cash balance: $1.4 billion

1998

Continental repurchases $223 million of its stock

1999

Continental repurchases $528 million of its stock

1999

Continental ends the year with $1.6 billion in cash and short-term investments

1999

Continental grows into a third Newark terminal and starts work on a third major concourse for Terminal C

1999

Continental takes delivery of 58 new Boeing jets and retires 61 older aircraft, dropping the jet fleet age to just 7.4 years

Since 1995, we have used our credibility in the financial markets to competitively finance new airplanes and new facilities in our hubs. We have financed/refinanced $10.9 billion in debt at an average interest rate of 7 percent versus the sky-high interest rates we used to pay.

During 1999, we successfully opened new terminal facilities in our franchise hubs. In Houston, Terminal B and the TerminaLink between Terminals B and C became fully operational. In Cleveland, we opened the brand-new "best in industry" regional jet passenger terminal. In Newark, we transitioned to new gates in Terminal A and added to the gates we use in Terminals B and C. We also continued to add many new support facilities - such as longer runways, more taxiways, maintenance hangars, parts warehouses, cargo buildings, training centers and simulators, and new crew lounges and breakrooms - to provide our co-workers with the proper tools to do their jobs well.

Fund the Future - The Next Five Years

Our long-term goal is to maintain a cash balance of $1 billion, and we have been very aggressive in returning excess cash to our shareholders. During 1999, we announced an increase of $900 million in planned stock buybacks, bringing the total program to $1.2 billion. We plan to use the $449 million remaining in the program as of December 31, 1999, to continue to repurchase our common stock. Shareholders also should look for us to repurchase stock with half our future net income as well as the net cash proceeds generated from future sales of non-strategic assets. For example, we sold over $460 million worth of non-strategic assets in 1999 including our stakes in Amadeus and a portion of our stake in Equant.

We would like to acquire our Class A common stock, including all the shares held by Northwest Airlines. While we are very happy with the alliance with Northwest, and committed to its continued performance, we do not believe it's necessary for them to hold our equity, as a simplification of our ownership structure would benefit both companies and all shareholders.


Continental

In the meantime, as a result of our new financial strength and fleet modernization program, we've reduced Continental's average jet fleet age to only 7.4 years, one of the youngest in the industry. The net effect is that our customers now get a much better product at an overall lower cost to Continental. Our fleet orders, coupled with lease expirations and extensions, have been designed to drive fleet commonality and allow us to grow anywhere from 0 to 8 percent annually. These new airplanes all are Boeing and include the 737-500 (104 seats); the newer, faster 737-700 (124 seats); 737-800 (155 seats); 737-900 (167 seats); 757 (183 seats); and the new "Queen of the Skies," the 777 (283 seats). In 2000, we will retire over a third of our DC10-30s and replace them with brand new 767-200s (174 seats) and the all new 767-400s (235 seats). The remainder of our DC10-30s will be retired by 2003. Continental Express continues to move toward its goal of having a common all-jet fleet utilizing the fast, quiet Embraer 145 (50 seats) and 135 (37 seats) aircraft. Today, over half of Continental Express capacity is on regional jets.

Over the next few years, our customers can look forward to a new international terminal with up to 15 new gates and an expanded TerminaLink in Houston, and completion of the New York Global Gateway project. The New York project includes implementing train service from New York's Penn Station and World Trade Center to Newark Airport, beginning airplane-to-high-speed-train connections to many cities within a two-hour train ride of Newark; a three-level parking garage in front of Terminal C and expanding the roadway from three to eight lanes; a new terminal that can handle 12 widebody or 20 narrowbody aircraft, including a new customs clearance facility; a new bag delivery system to handle the increased volume; and many other improvements.

Make Reliability a Reality - The last five years

We have focused for the last five years on the basics of our business. This means getting you to your destination safely, on time and with your bags; serving you good food at meal times; installing comfortable new seats with headrests and GTE phones; and providing you with the largest closets and overhead bins allowable to safely store your

1995-1999
Make Reliability A Reality

1995
For the first time in more than a decade, all aircraft and airport facilities carry a common corporate identity

1995
Continental gets serious about DOT performance statistics, ranking No. 1 in on-time arrivals and baggage in the fourth quarter

1996
We could get used to this: Continental wins its first J.D. Power Award

1996
Continental wins *Air Transport World's* "Airline of the Year" award

1996
Continental gets taste as a gourmet coffee, a microbrew and Coca-Cola all get on board

1997
Continental wins an unprecedented, second consecutive J.D. Power Award

1997

Most improved company of the 1990s on *Fortune* magazine's annual Most Admired Companies list

1997

Continental says "hello" to GTE airfones throughout the fleet

1998

Continental integrates new Boeing 737-700, 737-800 and 777 aircraft into its fleet

1999

Customer First puts service promises into plain English for customer reference

1999

Employees earn the on-time arrival bonus for seven out of 12 months

1999

Continental wins J.D. Power award for third time, more than any other airline ever

bags. We also show you movies and videos on most of our longer flights. In addition, we've expanded our Presidents Club network from 12 clubs in 1994 to 24 clubs in 1999. While we constantly are working hard to make the product better, we don't see any need to change the way we think: Our customers' and co-workers' preferences come first, not as an afterthought. It is this focus that has won us so many awards in the past and will continue to win us awards in the future.

We've worked hard to serve our customers even when we make a mistake. For instance, we added a customer service hotline (1-800-WECARE2), a baggage hotline to help locate lost bags (1-800-335-BAGS) and a 1-800 employee hotline so that reported problems can be fixed right away. In 1999, we wrote down the promises we have been delivering on for the past five years in a Customer First document that is available on-line and filed with the U.S. Department of Transportation. These promises serve as a measuring stick for what we strive to live up to every day.

Make Reliability a Reality - The Next Five Years

But, as always, we do need our customers' help. Continental can serve customers better if they include their name and address on the inside of their bag, instead of only on an outside bag tag. Though we have one of the best baggage delivery rates in our industry, occasionally bag tags are lost or torn from bags. Without a tag, we cannot identify the owner of the luggage. Simply including contact information inside the bag will allow us to return many bags to their rightful owners. You'll be glad you did.

We also need help in convincing Congress to invest the necessary money and create the right structure to modernize the air traffic control system and run it efficiently. The system is outdated and, in spite of the hard work of the thousands of men and women who serve as air traffic controllers, it is near gridlock. It now takes much longer than it

"Our customers' and co-workers' preferences come first ... It is this focus that will continue to win us awards."

did a decade ago to make many popular trips. Customers currently pay billions of dollars each year in ticket taxes, but precious little of this money is spent to improve the flow of air traffic. Our air traffic control system needs to be put in private hands, as has been done in Canada and other countries, so that the funds can be spent and incentives can be put in place to solve this problem before customer delays get any worse.

Working Together - The Catalyst of Our Success

Continental has proven beyond a shadow of a doubt that Working Together works! Making *Fortune* magazine's "100 Best Companies to Work For in America" list two years in a row says it all. Our focus has remained on setting direction and then letting everyone do their job without interference from management. We've encouraged our co-workers to make decisions based on what benefits the customer and the Company. This focus, along with treating everyone with the dignity and respect they deserve and holding frequent forums where we can get feedback from our co-workers, is what has made Continental a truly great place to work.

We also have delivered on our compensation promises and pay for performance. By July 2000, all of our co-workers will be at industry average pay, just as we promised three years ago. We made this promise because it was the right thing to do, as we simply refused to allow our Company to be financed on the backs of our co-workers. In addition, we rewarded everyone with on-time bonuses and profit sharing so when our customers and investors win, we all win.

We have continued to work to improve benefits, as well. We used our buying power to negotiate "Best in Market" health care plans that actually have reduced the costs of health care to most of our employees at a time when the cost of health care at other companies is increasing dramatically. We added an additional holiday for everyone and an extra week of vacation for our most senior employees.

1995-1999
Working Together

1995
Profit-sharing program makes largest-ever payment to employees

1995
Continental reaches a contract with pilots for the first time in 12 years

1996
Continental reaches agreement with all work groups, including flight attendants (IAM), mechanics, airport agents, ramp agents, reservations agents,material specialists and clerical staff

1997
Sick time, employee turnover and on-the-job injuries continue to drop

1998
Continental moves to new downtown headquarters

1998
Continental signs a five-year pilot contract, and a three-year extension to dispatcher contract

1998
Continental wins place on *Fortune's* "100 Best Companies to Work For in America" list

1998
Aviation Week and Space Technology says Continental is "Best Managed" among U.S. carriers

1999
For a second year in a row, Continental is voted as one of *Fortune's* "100 Best Companies to Work For in America," moving up to the No. 23 slot

1999
Over 120,000 people apply for approximately 8,400 jobs

1999
Continental gives away another 16 Ford Explorers for Perfect Attendance, bringing the total to 66 cars

1999
Continental signs mechanic contract

Working Together - The Next Five Years

In 2000, now that we are at industry-average pay, we plan to benchmark all of our benefits against our industry competitors so that we can make the appropriate improvements. It is not surprising that everyone wants to work at Continental these days and no one really wants to leave. In 1999, we had more than 120,000 applications for approximately 8,400 jobs and turnover was at an all-time low rate of 7 percent.

Working Together has given us careers, not just jobs, at the best airline in the world. We are proud to be on the Continental team!

Five years ago, we told you we needed to act like a real airline. We had no momentum and had barely avoided a total financial collapse. Today we can look forward to the next five years with a profitable route structure that has room for significant growth, a healthy balance sheet with more than enough cash, a brand-new aircraft fleet purchased and financed at best-in-market rates and the world's greatest co-workers. We have all the momentum in the world. Our job isn't done; it has barely begun.

We're a successful team with a winning culture, and we're going no place but up in the years ahead.

Stick with us. You'll be glad you did.

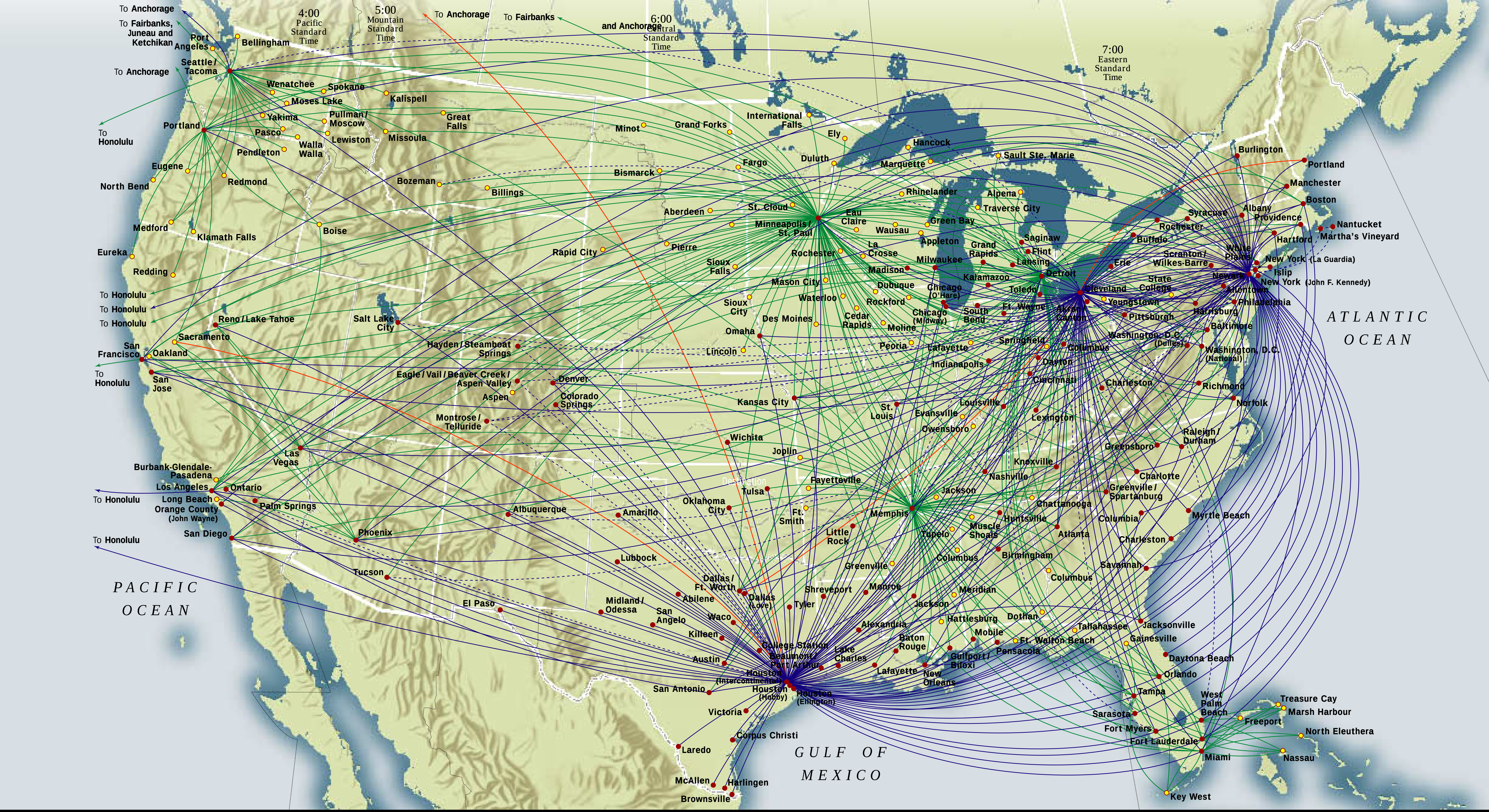
Gordon

Gordon Bethune
Chairman of the Board and Chief Executive Officer

Greg

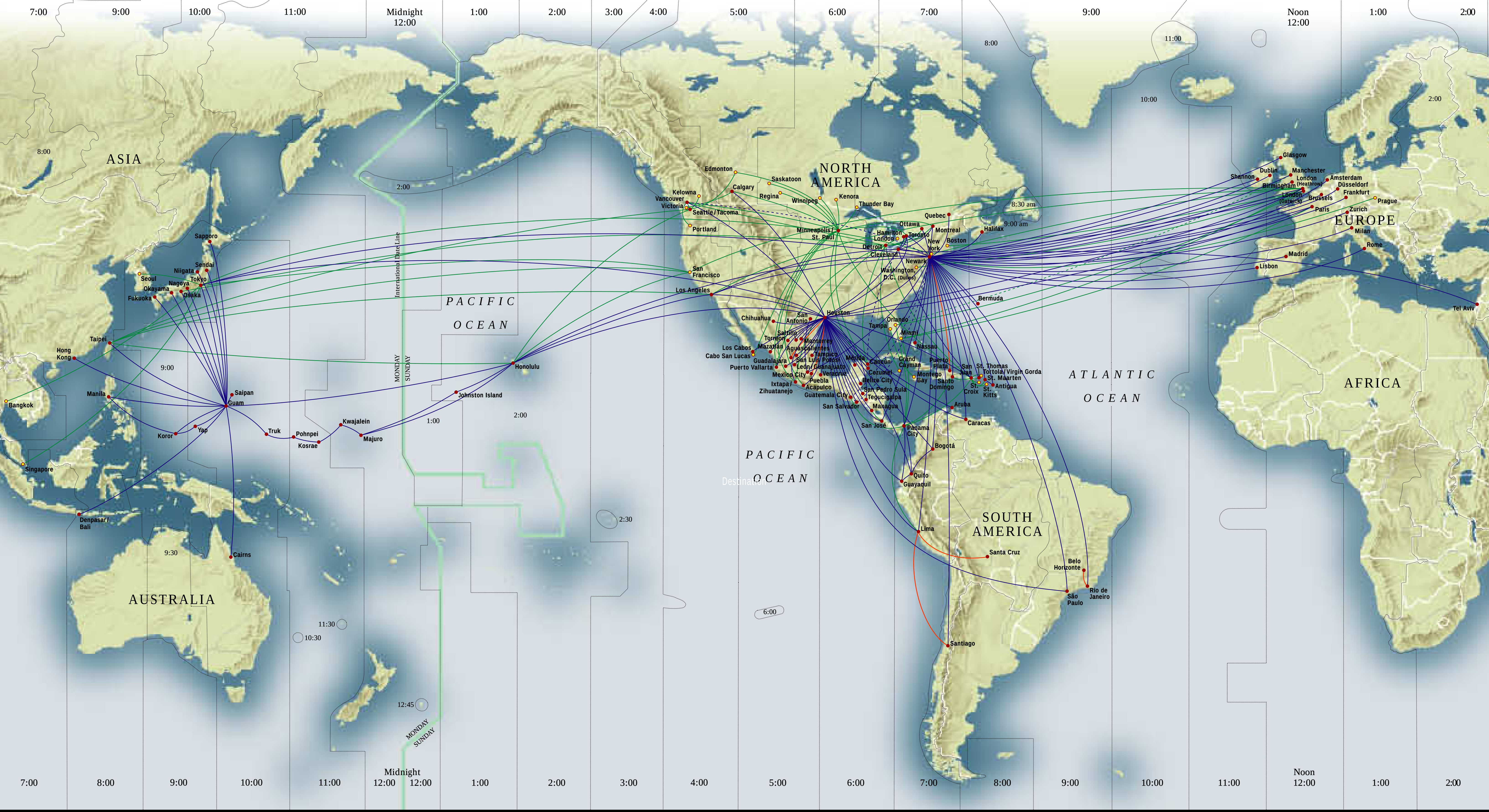
Greg Brenneman
President and Chief Operating Officer

"For the second year in a row, Continental was named one of the '100 Best Companies to Work For in America' by *Fortune* magazine."



United States Route System

Continental Route
Future Service
Seasonal Service
Codeshare Service
Continental Destination
Partner Airline Destination



International Route System

Continental Route

Future Service

Seasonal Service

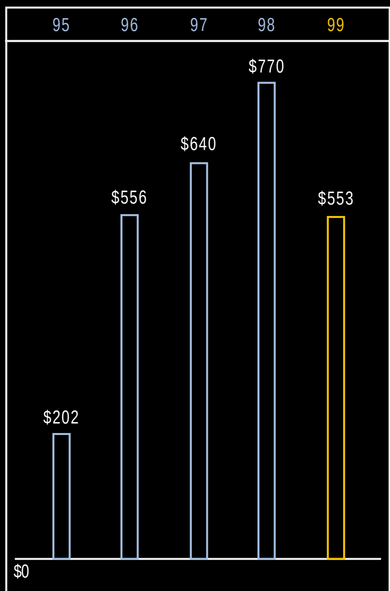
Codeshare Service

Continental Destination

Partner Airline Destination

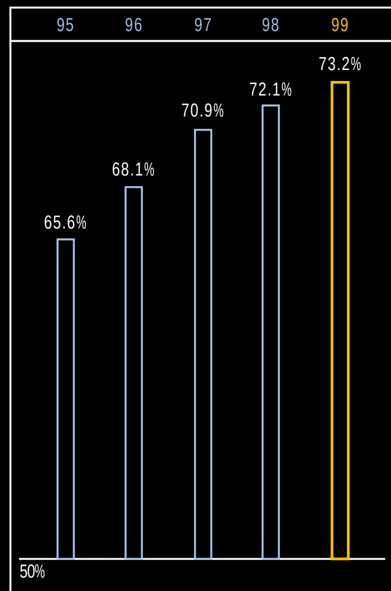
CONTINENTAL AT A GLANCE

Pre-Tax Income

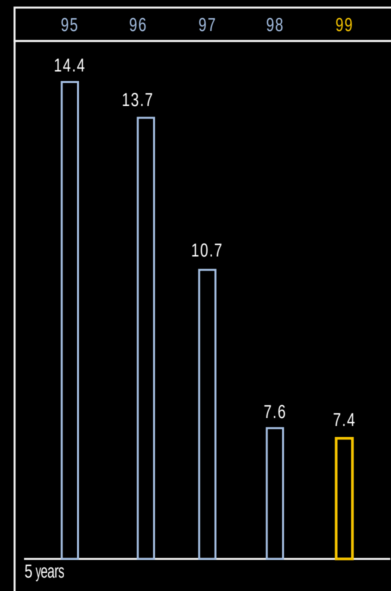


Millions of dollars, excluding special items and gains

Load Factor Improvement

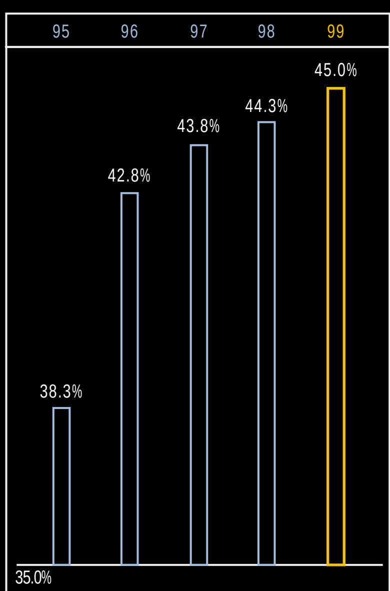


Average Jet Fleet Age

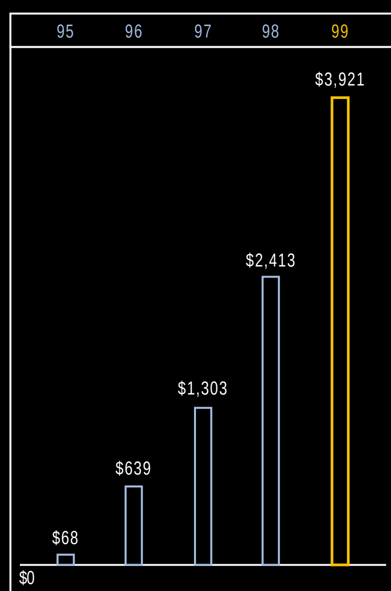


At year end, including CMI and CO Express

Revenue Derived from Business Travelers

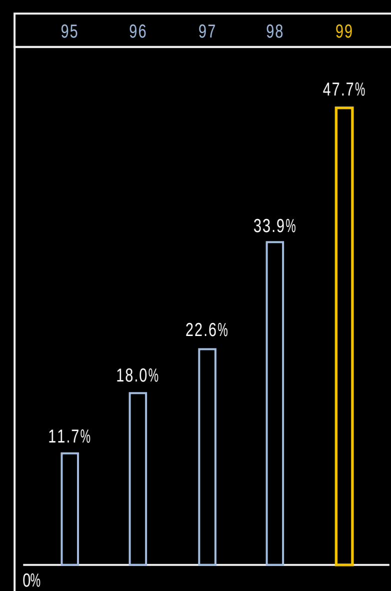


E-Ticket Sales



Millions of dollars

Percent of Fleet with Video



Including CMI

Financial Information

The following discussion may contain forward-looking statements. In connection therewith, please see the cautionary statements contained in Continental Airlines, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999, which identifies important factors that could cause actual results to differ materially from those in the forward-looking statements. Hereinafter, the terms "Continental" and the "Company" refer to Continental Airlines, Inc. and its subsidiaries, unless the context indicates otherwise.

Continental's results of operations are impacted by seasonality (the second and third quarters are generally stronger than the first and fourth quarters) as well as numerous other factors that are not necessarily seasonal, including the extent and nature of competition from other airlines, employee job actions (including at other airlines), fare sale activities, excise and similar taxes, changing levels of operations and capacity, fuel prices, weather, air traffic control delays, foreign currency exchange rates, changes in regulations and aviation treaties and general economic conditions. Recently, jet fuel prices have increased dramatically. If high fuel costs continue without an improvement in the revenue environment, the Company may not post a profit in the first quarter of 2000. In addition, industry capacity and growth in the transatlantic markets (including block space arrangements where Continental is obligated to purchase capacity at a fixed price) have resulted in lower yields and revenue per available seat mile in those markets, which trend is expected to continue in 2000. Although the results in Asia of Continental Micronesia, Inc. ("CMI"), a wholly owned subsidiary of the Company, have declined in recent years, the Company successfully redeployed CMI capacity into stronger domestic markets and CMI's recent results continue to improve. Continental will continue to critically review its growth plans in light of industry conditions and will adjust or redeploy resources, including aircraft capacity, as necessary, similar to its recent decision to accelerate the retirement of certain DC-10-30 aircraft and replace them with narrowbody aircraft on certain transatlantic routes. In addition, management believes the Company is well positioned to respond to market conditions in the event of a sustained economic downturn for the following reasons: underdeveloped hubs with strong local traffic, a flexible fleet plan, a strong cash balance, a $225 million unused revolving credit facility and a well developed alliance network.

Results of Operations

The following discussion provides an analysis of the Company's results of operations and reasons for material changes therein for the three years ended December 31, 1999.

Comparison of 1999 to 1998. The Company recorded consolidated net income of $455 million and $383 million for the years ended December 31, 1999 and 1998, respectively. Net income in 1999 was significantly impacted by several non-recurring items, including a $182 million gain on the sale of the Company's interest in AMADEUS Global Travel Distribution S.A. ("AMADEUS") ($297 million pre-tax), a $50 million fleet disposition/impairment loss ($81 million pre-tax) related to the early retirement of several DC-10-30's and other items, the cumulative effect of accounting changes ($33 million, net of taxes) related to the write-off of pilot training costs and a change in the method of accounting for the sale of mileage credits to participating partners in the Company's frequent flyer program, a $20 million gain ($33 million pre-tax) on the sale of a portion of the Company's interest in Equant N.V. ("Equant") and a $3 million loss ($4 million pre-tax) on the sale of the Company's warrants to purchase common stock of priceline.com, Inc. ("Priceline"). Net income in 1998 was significantly impacted by a $77 million ($122 million pre-tax) fleet disposition/ impairment loss resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft.

Passenger revenue increased 8.9%, $660 million, during 1999 as compared to 1998. The increase was due to an 11.3% increase in revenue passenger miles, partially offset by a 3.3% decrease in yield. Both yield pressures in the transatlantic markets and a 6.7% increase in average stage length negatively impacted yield.

Cargo and mail revenue increased 10.2%, $28 million, in 1999 as compared to 1998 due to increased domestic and international volumes and new markets added in 1999.

Other operating revenue increased 12.2%, $24 million, in 1999 compared to the prior year primarily due to an increase in fees charged to customers to change advance purchase tickets and also due to an increase in Presidents Club revenue as a result of a larger number of these airport private clubs.

Wages, salaries and related costs increased 13.2%, $292 million, during 1999 as compared to 1998, primarily due to an 8.3% increase in average full-time equivalent employees to support increased flying and higher wage rates resulting from the Company's decision to increase employee wages to industry standard by the year 2000.

Aircraft fuel expense increased 6.1%, $44 million, in 1999 as compared to the prior year. The average price per gallon increased 1.0% from 46.83 cents in 1998 to 47.31 cents in 1999. This increase is net of gains of approximately $105 million recognized during 1999 related to the Company's fuel hedging program. See "Fuel Hedging" below. In addition, the quantity of jet fuel used increased 3.7% principally reflecting increased capacity offset in part by the increased fuel efficiency of the Company's younger fleet.

Aircraft rentals increased 17.0%, $112 million, during 1999 as compared to 1998, due to the delivery of new aircraft.

Commissions expense decreased 1.2%, $7 million, during 1999 as compared to 1998 due to lower rates resulting from international commission caps and a lower volume of commissionable sales, partially offset by increased passenger revenue.

Other rentals and landing fees increased 20.0%, $83 million, primarily due to higher facilities rent due to increased rates and volume and higher landing fees resulting from increased operations.

Depreciation and amortization expense increased 22.4%, $66 million, in 1999 compared to 1998 primarily due to the addition of new aircraft and related spare parts. These increases were partially offset by approximately a $5 million reduction in the amortization of routes, gates and slots resulting from the recognition of previously unbenefitted net operating losses ("NOLs") during 1998.

During the fourth quarter of 1999, the Company made the decision to accelerate the retirement of six DC-10-30 aircraft and other items in 1999 and the first half of 2000 and to dispose of related excess inventory. The DC-10-30's will be replaced by Boeing 757 and Boeing 737-800 aircraft on certain routes, and by Boeing 777 aircraft on other routes. In addition, the market value of certain Boeing 747 aircraft no longer operated by the Company has declined. As a result of these items and certain other fleet-related items, the Company recorded a fleet disposition/impairment loss of $81 million in the fourth quarter of 1999.

Approximately $52 million of the $81 million charge relates to the impairment of owned or capital leased aircraft and related inventory held for disposal with a carrying amount of $77 million. The remaining $29 million of the charge relates primarily to costs expected to be incurred related to the return of leased aircraft. As of December 31, 1999, the remaining accrual for the 1999 fleet disposition/impairment loss totaled $12 million. The Company expects to finance the cash outlays primarily with internally generated funds.

Other operating expense increased 14.9%, $243 million, in 1999 as compared to the prior year, primarily as a result of increases in passenger services expense, aircraft servicing expense, reservations and sales expense and other miscellaneous expense, principally due to a 9.7% increase in available seat miles.

Interest expense increased 30.9%, $55 million, due to an increase in long-term debt resulting from the purchase of new aircraft and $200 million of 8% unsecured senior notes issued in December 1998, partially offset by interest savings of $9 million due to the conversion of the Company's 6-3/4% Convertible Subordinated Notes into Class B common stock.

Interest income increased 20.3%, $12 million, due to higher average balances of cash, cash equivalents and short-term investments and due to higher rates.

The Company's other nonoperating income (expense) in 1999 includes a $33 million gain on the sale of a portion of the Company's interest in Equant, partially offset by foreign currency losses of $13 million, losses on equity investments of $7 million and a $4 million loss on the sale of the Company's warrants to purchase common stock of Priceline. Other nonoperating income (expense) in 1998 included a $6 million gain on the sale of certain stock of America West Holdings Corporation ("America West Holdings").

Comparison of 1998 to 1997. The Company recorded consolidated net income of $383 million and $385 million for the years ended December 31, 1998 and 1997 (including special charges), respectively. Net income in 1998 was significantly impacted by a $77 million ($122 million pre-tax) fleet disposition/impairment loss resulting from the Company's decision to accelerate the retirement of certain jet and turboprop aircraft. Management believes that the Company benefitted in the first quarter of 1997 from the expiration of the aviation trust fund tax (the "ticket tax"). The ticket tax was reinstated on March 7, 1997. Management believes that the ticket tax has a negative impact on the Company, although neither the amount of such negative impact directly resulting from the reimposition of the ticket tax, nor the benefit realized by its previous expiration, can be precisely determined.

Passenger revenue increased 10.7%, $723 million, during 1998 as compared to 1997. The increase was due to a 12.5% increase in revenue passenger miles, partially offset by a 2.4% decrease in yield. The decrease in yield was due to lower industry-wide fare levels and an 8% increase in average stage length.

Cargo and mail increased 6.6%, $17 million, due to an increase in freight revenue resulting from strong international volumes and strong growth in Continental's express delivery service.

Wages, salaries and related costs increased 22.3%, $404 million, during 1998 as compared to 1997, primarily due to an 11.2% increase in average full-time equivalent employees to support increased flying and higher wage rates resulting from the Company's decision to increase employee wages to industry standards by the year 2000.

Aircraft fuel expense decreased 17.9%, $158 million, in 1998 as compared to the prior year. The average price per gallon decreased 25.6% from 62.91 cents in 1997 to 46.83 cents in 1998. This reduction was partially offset by a 9.6% increase in the quantity of jet fuel used principally reflecting increased capacity.

Aircraft rentals increased 19.6%, $108 million, during 1998 as compared to 1997, due primarily to the delivery of new leased aircraft.

Maintenance, materials and repairs increased 8.4%, $45 million, during 1998 as compared to 1997. Aircraft maintenance expense in the second quarter of 1997 was reduced by $16 million due to the reversal of reserves that were no longer required as a result of the acquisition of 10 aircraft previously leased by the Company. In addition, maintenance expense increased due to the overall increase in flight operations offset by newer aircraft and the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Depreciation and amortization expense increased 15.7%, $40 million, in 1998 compared to 1997 primarily due to the addition of new aircraft and related spare parts. These increases were partially offset by an approximate $18 million reduction in the amortization of reorganization value in excess of amounts allocable to identifiable assets and routes, gates and slots resulting from the recognition of previously unbenefitted NOLs.

In August 1998, Continental announced that CMI would accelerate the retirement of its four Boeing 747 aircraft by April 1999 and its remaining thirteen Boeing 727 aircraft by December 2000. The Boeing 747s were replaced by DC-10-30 aircraft and the Boeing 727 aircraft were replaced with a reduced number of Boeing 737 aircraft. In addition, Continental Express, Inc. ("Express"), a wholly owned subsidiary of the Company, announced that it would accelerate the retirement of certain turboprop aircraft by December 2000, including its fleet of 32 Embraer 120 turboprop aircraft, as regional jets are acquired to replace turboprops. As a result of its decision to accelerate the retirement of these aircraft, Continental recorded a fleet disposition/impairment loss of $77 million ($122 million pretax) in the third quarter of 1998.

Other operating expense increased 10.3%, $152 million, in 1998 as compared to the prior year, primarily as a result of increases in passenger and aircraft servicing expense, reservations and sales expense and other miscellaneous expense, primarily due to the 10.6% increase in available seat miles.

Interest expense increased 7.2%, $12 million, due to an increase in long-term debt resulting from the purchase of new aircraft.

Interest capitalized increased 57.1%, $20 million, due to increased capital spending and a higher average balance of purchase deposits for flight equipment.

The Company's other nonoperating income (expense) in 1998 included a $6 million gain on the sale of America West Holdings stock.

Certain Statistical Information

An analysis of statistical information for Continental's jet operations, excluding regional jets operated by Express, for each of the three years in the period ended December 31, 1999 is as follows:

	1999	Net Increase/ (Decrease) 1999-1998	1998	Net Increase/ (Decrease) 1998-1997	1997
Revenue passenger miles (millions) (1)	60,022	11.3%	53,910	12.5 %	47,906
Available seat miles (millions) (2)	81,946	9.7%	74,727	10.6 %	67,576
Passenger load factor (3)	73.2%	1.1 pts	72.1%	1.2 pts.	70.9%
Breakeven passenger load factor (4), (5)	65.6%	4.0 pts	61.6%	1.5 pts.	60.1%
Passenger revenue per available seat mile (cents)	9.06	(1.8)%	9.23	(0.6)%	9.29
Total revenue per available seat mile (cents)	9.81	(1.4)%	9.95	(1.1)%	10.06
Operating cost per available seat mile (cents) (5)	9.03	1.6%	8.89	(1.7)%	9.04
Average yield per revenue passenger mile (cents) (6)	12.37	(3.3)%	12.79	(2.4)%	13.11
Average fare per revenue passenger	$163.07	3.2%	$158.02	3.7%	$152.40
Revenue passengers (thousands)	45,540	4.4%	43,625	5.9%	41,210
Average length of aircraft flight (miles)	1,114	6.7%	1,044	8.0%	967
Average daily utilization of each aircraft (hours) (7)	10:29	2.6%	10:13	0.0%	10:13
Actual aircraft in fleet at end of period (8)	363	—	363	7.7%	337

Continental has entered into block space arrangements with certain other carriers whereby one or both of the carriers is obligated to purchase capacity on the other. The table above excludes 2.6 billion, 1.9 billion and 738 million available seat miles, together with related revenue passenger miles and enplanements, operated by Continental but purchased and marketed by the other carriers in 1999, 1998 and 1997, respectively, and includes 1.0 billion and 358 million available seat miles, together with related revenue passenger miles and enplanements, operated by other carriers but purchased and marketed by Continental in 1999 and 1998, respectively.

(1) The number of scheduled miles flown by revenue passengers.

(2) The number of seats available for passengers multiplied by the number of scheduled miles those seats are flown.

(3) Revenue passenger miles divided by available seat miles.

(4) The percentage of seats that must be occupied by revenue passengers in order for the airline to break even on an income before income taxes basis, excluding nonrecurring charges, nonoperating items and other special items.

(5) 1999 and 1998 exclude fleet disposition/impairment losses totaling $81 million and $122 million, respectively.

(6) The average revenue received for each mile a revenue passenger is carried.

(7) The average number of hours per day that an aircraft flown in revenue service is operated (from gate departure to gate arrival).

(8) Excludes all-cargo 727 aircraft (four in 1999 and six in 1998 and 1997) at CMI.

Liquidity and Capital Resources

During 1999, the Company completed a number of transactions intended to strengthen its long-term financial position and enhance earnings:

In February 1999, the Company completed an offering of $806 million of pass-through certificates used to finance (either through leveraged leases or secured debt financings) the debt portion of the acquisition cost of 22 aircraft delivered in 1999.

In March 1999, the Company completed a $160 million Credit Facility, with a maturity date of March 2001, to finance pre-delivery deposits for certain new Boeing aircraft to be delivered between March 1999 and March 2002.

In April 1999, the Company exercised its right and called for redemption in May 1999, all $230 million of its 6-3/4% Convertible Subordinated Notes due 2006. The notes were converted into 7.6 million shares of Class B common stock during May 1999.

Also, in June 1999, the Company completed an offering of $742 million of pass-through certificates used to finance (either through leveraged leases or secured debt financings) the debt portion of the acquisition cost of 21 new Boeing aircraft delivered in 1999.

In October 1999, Continental sold its interest in AMADEUS for $409 million, including a special dividend.

During 1999, the Company's Board of Directors increased the size of its common stock repurchase program by $900 million, bringing the total size of the program to $1.2 billion. As of January 21, 2000, the Company has repurchased 18,853,600 Class B common shares for $804 million since the inception of the program in March of 1998.

As of December 31, 1999, Continental had approximately $3.4 billion (including current maturities) of long-term debt and capital lease obligations, and had approximately $1.6 billion of common stockholders' equity, a ratio of 2.1 to 1, at both December 31, 1999 and 1998.

As of December 31, 1999, the Company had $1.6 billion in cash and cash equivalents and short-term investments, compared to $1.4 billion as of December 31, 1998. Net cash provided by operating activities decreased $100 million during the year ended December 31, 1999 compared to the same period in the prior year primarily due to a decrease in operating income. Net cash used by investing activities for the year ended December 31, 1999 compared to the same period in the prior year decreased $39 million, primarily due to proceeds received from the sale of AMADEUS and increased proceeds received from the sale of equipment offset by the purchase of short-term investments in 1999. Net cash used by financing activities increased $514 million primarily due to an increase in the purchase of the Company's Class B common stock and a decrease in proceeds received from the issuance of long-term debt.

Continental has unused lines of credit totaling $225 million. A significant amount of Continental's assets are encumbered.

Deferred Tax Assets. As of December 31, 1999, the Company had deferred tax assets aggregating $611 million, including $266 million of NOLs, and a valuation allowance of $263 million.

As a result of NOLs, the Company will not pay United States federal income taxes (other than alternative minimum tax) until it has recorded approximately an additional $700 million of taxable income following December 31, 1999. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change". In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. In the event that an ownership change should occur, utilization of Continental's NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax exempt rate (which was 5.72% for December 1999). Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by the Company at the time of the change that are recognized in the five-year period after the change. Under current conditions, if an ownership change were to occur, Continental's annual NOL utilization would be limited to approximately $172 million per year other than through the recognition of future built-in gain transactions.

On November 20, 1998, an affiliate of Northwest Airlines, Inc. completed its acquisition of certain equity of the Company previously held by Air Partners, L.P. and its affiliates, together with certain Class A common stock of the Company held by certain other investors, totaling 8,661,224 shares of the Class A common stock (the "Air Partners Transaction"). The Company does not believe that the Air Partners Transaction resulted in an ownership change for purposes of Section 382.

Purchase Commitments. Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of January 14, 2000, Continental had agreed to acquire a total of 74 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 28 Boeing jet aircraft in 2000. Continental also has options for an additional 118 aircraft (exercisable subject to certain conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately $4 billion. Continental currently plans to finance its new Boeing aircraft with a combination of enhanced pass through trust certificates, lease equity and other third-party financing, subject to availability and market conditions. Continental has commitments or letters of intent for backstop financing for approximately 18% of the anticipated remaining acquisition cost of future Boeing deliveries. In addition, at January 14, 2000, Continental has firm commitments to purchase 34 spare engines related to the new Boeing aircraft for approximately $219 million which will be deliverable through March 2005. However, further financing will be needed to satisfy the Company's capital commitments for other aircraft and aircraft-related expenditures such as engines, spare parts, simulators and related items. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments. Deliveries of new Boeing aircraft are expected to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

As of January 14, 2000, Express had firm commitments for 43 Embraer ERJ-145 ("ERJ-145") regional jets and 19 Embraer ERJ-135 ("ERJ-135") regional jets, with options for an additional 100 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 15 ERJ-145 and 12 ERJ-135 regional jets in 2000. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 or ERJ-135 aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 2000 capital expenditures, exclusive of fleet plan requirements, to aggregate $207 million, primarily relating to software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment. Continental's capital expenditures during 1999 aggregated $213 million, exclusive of fleet plan requirements.

The Company expects to fund its future capital commitments through internally generated funds together with general Company financings and aircraft financing transactions. However, there can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments.

Continental has certain block-space arrangements whereby it is committed to purchase capacity on other carriers at an aggregate cost of approximately $159 million per year. These arrangements are currently scheduled to expire over the next eight years. Pursuant to other block-space arrangements, other carriers are committed to purchase capacity at a cost of approximately $95 million per year on Continental.

Year 2000. The Year 2000 issue arose as a result of computer programs having been written using two digits (rather than four) to define the applicable year, among other problems. Any information technology ("IT") systems with time-sensitive software might recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations and system failures. The problem could also extend to many "non-IT" systems; that is, operating and control systems that rely on embedded chip systems. In addition, the Company was at risk from Year 2000 failures on the part of third party-suppliers and governmental agencies with which the Company interacts.

The Company uses a significant number of computer software programs and embedded operating systems that are essential to its operations. For this reason, the Company implemented a Year 2000 project in late 1995 so that the Company's computer systems would function properly in the year 2000 and thereafter. The Company's Year 2000 project involved the review of a number of internal and third-party systems. Each system was subjected to the project's five phases which consisted of systems inventory, evaluation and analysis, modification implementation, user testing and integration compliance. The Company completed its system review and made certain modifications to its existing software and systems and/or conversions to new software. As a result, the Year 2000 issue did not pose any operational problems.

The Company completed its extensive communications and on-site visits with its significant suppliers, vendors and governmental agencies with which its systems interface and exchange data or upon which its business depends. The Company coordinated efforts with these parties to minimize the extent to which its business would be vulnerable to their failure to remediate their own Year 2000 problems. The Company's business is dependent upon certain domestic and foreign governmental organizations or entities such as the Federal Aviation Administration that provide essential aviation industry infrastructure. The systems of such third parties on which Continental relies did not pose significant operational problems for the Company. Management updated its day-to-day operational contingency plans for possible Year 2000-specific operational requirements. Although passenger travel was lower in the latter part of December and early January due in part, the Company believes, to Year 2000 concerns, the Company does not believe that it has continued exposure to the Year 2000 issue.

The total cost of the Company's Year 2000 project (excluding internal payroll) was $20 million and was funded through cash from operations. In addition, the Company estimates that the negative revenue impact in the latter part of December and early January attributable to the Year 2000 concerns approximated $20 million and $10 million, respectively. The cost of the Year 2000 project was limited by the substantial outsourcing of the Company's systems and the significant implementation of new systems since 1993.

Bond Financings. In July 1996, the Company announced plans to expand its gates and related facilities into Terminal B at Bush Intercontinental Airport, as well as planned improvements at Terminal C and the construction of a new automated people mover system linking Terminal B and Terminal C. The majority of the Company's expansion project has been completed. In April 1997 and January 1999, the City of Houston completed the offering of $190 million and $46 million, respectively, aggregate principal amount of tax-exempt special facilities revenue bonds (the "IAH Bonds") to finance such expansion and improvements. The IAH Bonds are unconditionally guaranteed by Continental. In connection therewith, the Company has entered into long-term leases (or amendments to existing leases) with the City of Houston providing for the Company to make rental payments sufficient to service the related tax-exempt bonds, which have a term no longer than 30 years.

Continental substantially completed the expansion of its facilities at its Hopkins International Airport hub in Cleveland in the third quarter of 1999. The expansion, which included a new jet concourse for the regional jet service offered by Express, as well as other facility improvements, cost approximately $156 million and was funded principally by a combination of tax-exempt special facilities revenue bonds (issued in March 1998) and general airport revenue bonds (issued in December 1997) by the City of Cleveland, Ohio (the "City of Cleveland"). Continental has unconditionally guaranteed the special facilities revenue bonds and has entered into a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds.

In September 1999, the City of Cleveland completed the issuance of $71 million aggregate principal amount of tax-exempt bonds. The bond proceeds were used to refinance $75 million aggregate principal amount in bonds originally issued by the City of Cleveland in 1990 for the purpose of constructing certain terminal and other improvements at Cleveland Hopkins International Airport. Continental has unconditionally guaranteed the bonds and has a long-term lease with the City of Cleveland under which rental payments will be sufficient to service the related bonds, which have a term of 20 years. Continental estimates that it will save approximately $44 million in debt service payments over the 20-year term as a result of the refinancing.

Also, in September 1999, the New Jersey Economic Development Authority completed the offering of $730 million aggregate principal amount of tax-exempt special facility revenue bonds to finance a portion of Continental's Global Gateway Program at Newark International Airport. Major construction began in the third quarter of 1999 and is scheduled to be completed in 2002. The program includes construction of a new concourse in Terminal C and other facility improvements. Continental has unconditionally guaranteed the bonds and has entered into a long-term lease with the New Jersey Economic Development Authority under which rental payments will be sufficient to service the related bonds, which have a term of 30 years.

Employees. In September 1997, the Company announced a plan to bring all employees to industry standard wages no later than the end of the year 2000. Wage increases began in 1997, and will continue to be phased in through 2000. The Company is in the process of formulating a plan to bring employees to industry standard benefits over a multi-year period.

The following is a table of the Company's, Express's and CMI's principal collective bargaining agreements, and their respective amendable dates:

Employee Group	Approximate Number of Full-time Equivalent Employees	Representing Union	Contract Amendable Date
Continental Pilots	5,000	Independent Association of Continental Pilots ("IACP")	October 2002
Express Pilots	1,350	IACP	October 2002
Dispatchers	150	Transport Workers Union of America	October 2003
Continental Mechanics	3,300	International Brotherhood of Teamsters ("Teamsters")	January 2002
Express Mechanics	350	Teamsters	January 2003
CMI Mechanics	150	Teamsters	March 2001
Continental Flight Attendants	7,800	International Association of Machinists and Aerospace Workers ("IAM")	(Negotiations for amended contract ongoing)
Express Flight Attendants	500	IAM	(Negotiations for amended contract ongoing)
CMI Flight Attendants	350	IAM	June 2000
CMI Fleet and Passenger Service Employees	475	Teamsters	March 2001

In February 2000, the Company announced a 54-month tentative collective bargaining agreement with its Continental Airlines flight attendants. The agreement is subject to ratification by the Continental Airlines flight attendants. In September 1999, Express and the IAM began collective bargaining negotiations to amend the Express flight attendants' contract (which became amendable in November 1999). The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time.

The other employees of Continental, Express and CMI are not covered by collective bargaining agreements.

Other. The Department of Transportation has proposed the elimination of slot restrictions at high density airports other than Ronald Reagan Washington National Airport in Washington, D.C. Legislation containing a similar proposal, which could eliminate slots as early as 2002 at O'Hare International Airport in Chicago and 2007 at LaGuardia Airport and John F. Kennedy International Airport in New York has passed the full House of Representatives and the full Senate and is currently being considered by a conference committee. The Company cannot predict whether any of these proposals will be adopted. However, if legislation or regulation eliminating slots were adopted, the value of such slots could be deemed to be permanently impaired, resulting in a loss being charged to earnings for the relevant period. Moreover, the elimination of slots could have an adverse effect upon future results of operations of the Company. At December 31, 1999, the net book value of slots at these three airports was $64 million.

Management believes that the Company's costs are likely to be affected in the future by (i) higher aircraft ownership costs as new aircraft are delivered, (ii) higher wages, salaries, benefits and related costs as the Company compensates its employees comparable to industry average, (iii) changes in the costs of materials and services (in particular, the cost of fuel, which can fluctuate significantly in response to global market conditions), (iv) changes in distribution costs and structure, (v) changes in governmental regulations and taxes affecting air transportation and the costs charged for airport access, including new security requirements, (vi) changes in the Company's fleet and related capacity and (vii) the Company's continuing efforts to reduce costs throughout its operations, including reduced maintenance costs for new aircraft, reduced distribution expense from using Continental's electronic ticket product, E-Ticket and the internet for bookings, and reduced interest expense.

Market Risk Sensitive Instruments and Positions

The Company is subject to certain market risks, including commodity price risk (i.e., aircraft fuel prices), interest rate risk, foreign currency risk and price changes related to investments in equity securities. The adverse effects of potential changes in these market risks are discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions management may take to mitigate the Company's exposure to such changes. Actual results may differ. See the notes to the consolidated financial statements for a description of the Company's accounting policies and other information related to these financial instruments.

Aircraft Fuel. The Company's results of operations are significantly impacted by changes in the price of aircraft fuel. During 1999 and 1998, aircraft fuel accounted for 9.7% and 10.2%, respectively, of the Company's operating expenses (excluding fleet disposition/impairment losses). In order to provide short-term protection (generally three to six months) against a sharp increase in jet fuel prices, the Company from time to time enters into petroleum call options, petroleum swap contracts and jet fuel purchase commitments. The Company's fuel hedging strategy could result in the Company not fully benefiting from certain fuel price declines. As of December 31, 1999, the Company had hedged approximately 24% of its projected 2000 fuel requirements, including 93% related to the first quarter and 8% related to the second quarter using petroleum call options, compared to approximately 25% of its projected 1999 fuel requirements hedged at December 31, 1998 using petroleum swap contracts and purchase commitments. The Company estimates that at December 31, 1999, a ten percent increase in the price per gallon of aircraft fuel would not have a material impact on the fair value of the existing petroleum call options, as compared to an $8 million increase in the fair value of the petroleum swap contracts existing at December 31, 1998.

Foreign Currency. The Company is exposed to the effect of exchange rate fluctuations on the U.S. dollar value of foreign currency denominated operating revenue and expenses. The Company's largest exposure comes from the Japanese yen. However, the Company is attempting to mitigate the effect of certain potential foreign currency losses by entering into forward contracts that effectively enable it to sell Japanese yen expected to be received from yen-denominated net cash flows over the next twelve months at specified exchange rates. As of December 31, 1999, the Company had entered into forward contracts to hedge approximately 95% of its 2000 projected yen-denominated net cash flows, as compared to having in place average rate options and forward contracts to hedge 69% of its 1999 projected yen-denominated net cash flows at December 31, 1998. The Company estimates that at December 31, 1999, a 10% strengthening in the value of the U.S. dollar relative to the yen would have increased the fair value of the existing forward contracts by $18 million as compared to a $7 million increase in the fair value of existing average rate options and forward contracts at December 31, 1998.

Interest Rates. The Company's results of operations are affected by fluctuations in interest rates (e.g., interest expense on debt and interest income earned on short-term investments).

The Company had approximately $690 million and $599 million of variable-rate debt as of December 31, 1999 and 1998, respectively. The Company has mitigated its exposure on certain variable-rate debt by entering into an interest rate cap (notional amount of $106 million and $125 million as of December 31, 1999 and 1998, respectively) which expires in July 2001. The interest rate cap limits the amount of potential increase in the LIBOR rate component of the floating rate to a maximum of 9% over the term of the contract.

If average interest rates increased by 100 basis points during 2000 as compared to 1999, the Company's projected 2000 interest expense would increase by approximately $6 million. At December 31, 1998, an interest rate increase of 100 basis points during 1999 and compared to 1998 was projected to increase 1999 interest expense by approximately $5 million. The interest rate cap does not mitigate this increase in interest expense materially given the current level of such floating rates.

As of December 31, 1999 and 1998, the fair value of $2.2 billion and $1.5 billion (carrying value) of the Company's fixed-rate debt was estimated to be $2.2 billion and $1.5 billion, respectively, based upon discounted future cash flows using current incremental borrowing rates for similar types of instruments or market prices. Market risk, estimated as the potential increase in fair value resulting from a hypothetical 100 basis points decrease in interest rates, was approximately $91 million and $70 million as of December 31, 1999 and 1998, respectively. The fair value of the remaining fixed-rate debt at December 31, 1999 and 1998, (with a carrying value of $248 million and $287 million, respectively, and primarily relates to aircraft modification notes and various loans with immaterial balances) was not practicable to estimate due to the large number and small dollar amounts of these notes.

If 2000 average short-term interest rates decreased by 100 basis points over 1999 average rates, the Company's projected interest income from cash, cash equivalents and short-term investments would decrease by approximately $11 million during 2000, compared to an estimated $13 million decrease during 1999 measured at December 31, 1998.

Investments in Equity Securities. The Company has a 49% equity investment in Compania Panamena de Aviacion, S.A. ("COPA") and a 28% equity investment in Gulfstream International Airlines, Inc. ("Gulfstream") which are also subject to price risk. However, since a readily determinable market value does not exist for either COPA or Gulfstream (each is privately held), the Company is unable to quantify the amount of price risk sensitivity inherent in these investments. At December 31, 1999 and 1998, the carrying value of COPA was $49 million and $53 million, respectively.

At December 31, 1999, the Company owned approximately 357,000 depository certificates convertible, subject to certain restrictions, into the common stock of Equant, which completed an initial public offering in July 1998. As of December 31, 1999, the estimated fair value of these depository certificates was approximately $40 million, based upon the publicly traded market value of Equant common stock. Since the fair value of the Company's investment in the depository certificates is not readily determinable (i.e., the depository certificates are not traded on a securities exchange), the investment is carried at cost, which was not material as of December 31, 1999 or 1998.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Year Ended December 31, 1999	1998	1997
Operating Revenue:			
Passenger	$ 8,116	$ 7,456	$ 6,733
Cargo and mail	303	275	258
Other	220	196	203
	8,639	7,927	7,194
Operating Expenses:			
Wages, salaries and related costs	2,510	2,218	1,814
Aircraft fuel	771	727	885
Aircraft rentals	771	659	551
Maintenance, materials and repairs	603	582	537
Commissions	576	583	567
Other rentals and landing fees	497	414	395
Depreciation and amortization	360	294	254
Fleet disposition/impairment losses	81	122	—
Other	1,870	1,627	1,475
	8,039	7,226	6,478
Operating Income	600	701	716
Nonoperating Income (Expense):			
Interest expense	(233)	(178)	(166)
Interest income	71	59	56
Interest capitalized	55	55	35
Gain on sale of AMADEUS	297	—	—
Other, net	8	11	(1)
	198	(53)	(76)
Income before Income Taxes, Cumulative Effect of Accounting Changes and Extraordinary Charge	798	648	640
Income Tax Provision	(310)	(248)	(237)
Distributions on Preferred Securities of Trust, net of applicable income taxes of $7 and $8 in 1998 and 1997, respectively	—	(13)	(14)
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge	488	387	389
Cumulative Effect of Accounting Changes, Net of Applicable Income Taxes of $19 (1)	(33)	—	—
Extraordinary Charge, net of applicable income taxes of $2 in 1998 and 1997	—	(4)	(4)
Net Income	455	383	385
Preferred Dividend Requirements and Accretion to Liquidation Value	—	—	(2)
Income Applicable to Common Shares	$ 455	$ 383	$ 383
Earnings per Common Share:			
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge	$ 7.02	$ 6.40	$ 6.72
Cumulative Effect of Accounting Changes	(0.48)	—	—
Extraordinary Charge	—	(0.06)	(0.07)
Net Income	$ 6.54	$ 6.34	$ 6.65
Earnings per Common Share Assuming Dilution:			
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge	$ 6.64	$ 5.06	$ 5.03
Cumulative Effect of Accounting Changes	(0.44)	—	—
Extraordinary Charge	—	(0.04)	(0.04)
Net Income	$ 6.20	$ 5.02	$ 4.99

(1) See Note 1(I) for the proforma effect of retroactive application of the accounting change.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(In millions, except for share data)

Assets	December 31, 1999	December 31, 1998
Current Assets:		
Cash and cash equivalents	$ 1,198	$ 1,399
Short-term investments	392	—
Accounts receivable, net of allowance for doubtful receivables of $20 and $22, respectively	506	449
Spare parts and supplies, net of allowance for obsolescence of $59 and $46, respectively	236	166
Deferred income taxes	145	234
Prepayments and other assets	129	106
Total current assets	2,606	2,354
Property and Equipment:		
Owned property and equipment:		
Flight equipment	3,593	2,459
Other	814	582
	4,407	3,041
Less: Accumulated depreciation	808	625
	3,599	2,416
Purchase deposits for flight equipment	366	410
Capital leases:		
Flight equipment	300	361
Other	88	56
	388	417
Less: Accumulated amortization	180	178
	208	239
Total property and equipment	4,173	3,065
Other Assets:		
Routes, gates and slots, net of accumulated amortization of $345 and $295, respectively.	1,131	1,181
Investments	71	151
Other assets, net	242	335
Total other assets	1,444	1,667
Total Assets	$ 8,223	$ 7,086

Liabilities and Stockholders' Equity	December 31, 1999	December 31, 1998
Current Liabilities:		
Current maturities of long-term debt	$ 278	$ 184
Current maturities of capital leases	43	47
Accounts payable	856	843
Air traffic liability	962	854
Accrued payroll and pensions	299	265
Accrued other liabilities	337	249
Total current liabilities	2,775	2,442
Long-Term Debt	2,855	2,267
Capital Leases	200	213
Other Long-Term Liabilities:		
Deferred income taxes	590	372
Accruals for aircraft retirements and excess facilities	69	95
Other	141	393
Total other long-term liabilities	800	860
Commitments and Contingencies		
Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures	—	111
Common Stockholders' Equity:		
Class A common stock - $.01 par, 50,000,000 shares authorized; 11,320,849 shares issued and outstanding in 1999 and 11,406,732 shares issued and outstanding in 1998	—	—
Class B common stock - $.01 par, 200,000,000 shares authorized; 63,923,431 shares issued in 1999 and 53,370,741 shares issued in 1998	1	1
Additional paid-in capital	871	634
Retained earnings	1,114	659
Accumulated other comprehensive income	(1)	(88)
Treasury Stock - 9,763,684 and 399,524 Class B shares, respectively, at cost	(392)	(13)
Total common stockholders' equity	1,593	1,193
Total Liabilities and Stockholders' Equity	$ 8,223	$ 7,086

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Year Ended December 31, 1999	1998	1997
Cash Flows From Operating Activities:			
Net income	$ 455	$ 383	$ 385
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	293	224	212
Depreciation	284	211	162
Amortization	76	83	92
Fleet disposition/impairment losses	81	122	—
Gain on sale of AMADEUS	(297)	—	—
Gain on sale of other investments	(29)	(6)	—
Cumulative effect of change in accounting principles	33	—	—
Other, net	(83)	(4)	34
Changes in operating assets and liabilities:			
Increase in accounts receivable	(53)	(102)	(1)
Increase in spare parts and supplies	(99)	(71)	(38)
Increase in accounts payable	8	59	71
Increase in air traffic liability	110	108	85
Other	(3)	(131)	(103)
Net cash provided by operating activities	776	876	899
Cash Flows from Investing Activities:			
Purchase deposits paid in connection with future aircraft deliveries	(1,174)	(818)	(409)
Purchase deposits refunded in connection with aircraft delivered	1,139	758	141
Capital expenditures	(706)	(610)	(417)
Purchase of short-term investments	(392)	—	—
Proceeds from sale of AMADEUS, net	391	—	—
Proceeds from disposition of property and equipment	77	46	29
Proceeds from sale of other investments	35	9	—
Investment in and advances to partner airlines	(23)	(53)	—
Other	(6)	(30)	(1)
Net cash used by investing activities	(659)	(698)	(657)
Cash Flows From Financing Activities:			
Proceeds from issuance of long-term debt, net	453	737	517
Purchase of Class B common stock	(528)	(223)	—
Payments on long-term debt and capital lease obligations	(295)	(423)	(676)
Proceeds from issuance of common stock	38	56	24
Proceeds from sale-leaseback transactions	14	71	39
Dividends paid on preferred securities of trust	—	(22)	(22)
Purchase of warrants to purchase Class B common stock	—	—	(94)
Redemption of redeemable preferred stock	—	—	(48)
Other	—	—	(18)
Net cash (used) provided by financing activities	(318)	196	(278)
Net (Decrease) Increase in Cash and Cash Equivalents	(201)	374	(36)
Cash and Cash Equivalents Beginning of Period	1,399	1,025	1,061
Cash and Cash Equivalents End of Period	$ 1,198	$ 1,399	$ 1,025

	Year Ended December 31, 1999	1998	1997
Supplemental Cash Flows Information:			
Interest paid	$ 221	$ 157	$ 156
Income taxes paid	$ 18	$ 25	$ 12
Investing and Financing Activities Not Affecting Cash:			
Property and equipment acquired through the issuance of debt	$ 774	$ 425	$ 207
Conversion of 6-3/4% Convertible Subordinated Notes	$ 230	$ —	$ —
Conversion of trust originated preferred securities	$ 111	$ 134	$ —
Capital lease obligations incurred	$ 50	$ 124	$ 22
Sale-leaseback of Beech 1900-D aircraft	$ 81	$ —	$ —

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY

(In millions)

	Redeemable Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Comprehensive Income	Treasury Stock, at Cost
Balance, December 31, 1996	$ 46	$ 688	$ (109)	$ 2	$ 329	$ —
Net Income	—	—	385	—	385	—
Purchase of Warrants	—	(94)	—	—	—	—
Accumulated Dividends on Series A 12% Cumulative Preferred Stock	2	(2)	—	—	—	—
Redemption of Series A 12% Cumulative Preferred Stock	(48)	—	—	—	—	—
Additional Minimum Pension Liability, net of applicable income taxes of $2	—	—	—	(4)	(4)	—
Other	—	49	—	—	—	—
Balance, December 31, 1997	—	641	276	(2)	381	—
Net Income	—	—	383	—	383	—
Cumulative Effect of Adopting SFAS 133 (see Note 5) as of October 1, 1998, net of applicable income taxes of $1	—	—	—	1	1	—
Net loss on derivative instruments designated and qualifying as cash flow hedging instruments, net of applicable income taxes of $4	—	—	—	(7)	(7)	—
Additional Minimum Pension Liability, net of applicable income taxes of $41	—	—	—	(76)	(76)	—
Unrealized loss on Marketable Equity Securities, net of applicable income taxes of $1	—	—	—	(4)	(4)	—
Purchase of Common Stock	—	—	—	—	—	(223)
Reissuance of Treasury Stock pursuant to Stock Plans	—	—	—	—	—	50
Issuance of Common Stock pursuant to Stock Plans	—	19	—	—	—	—
Conversion of Trust Originated Preferred Securities into Common Stock	—	(32)	—	—	—	160
Other	—	6	—	—	—	—
Balance, December 31, 1998	—	634	659	(88)	297	(13)
Net Income	—	—	455	—	455	—
Net gain on derivative instruments designated and qualifying as cash flow hedging instruments, net of reclassification adjustments and applicable income taxes of $2	—	—	—	4	4	—
Unrealized gain on marketable equity securities, net of applicable income taxes	—	—	—	1	1	—
Reduction in additional minimum pension liability, net of applicable income taxes of $43	—	—	—	82	82	—
Purchase of Common Stock	—	—	—	—	—	(528)
Reissuance of Treasury Stock pursuant to Stock Plans	—	(18)	—	—	—	69
Conversion of 6¾% Convertible Subordinated Notes into Common Stock	—	161	—	—	—	66
Conversion of Trust Originated Preferred Securities into Common Stock	—	100	—	—	—	11
Conversion of Class A Common Stock to Class B Common Stock	—	(3)	—	—	—	3
Other	—	(3)	—	—	—	—
Balance, December 31, 1999	$ —	$ 871	$ 1,114	$ (1)	$ 542	$ (392)

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY

(Number of Shares)

	Redeemable Preferred Stock	Class A Common Stock	Class B Common Stock	Treasury Stock
Balance, December 31, 1996	447,082	9,280,000	47,943,343	—
Conversion of Class A to Class B Common Stock	—	(900,536)	900,536	—
Purchase of Common Stock	—	—	(154,882)	154,882
Reissuance of Treasury Stock pursuant to Stock Plans	—	—	154,882	(154,882)
Issuance of Preferred Stock Dividends on Series A 12% Cumulative Preferred Stock	13,165	—	—	—
Redemption of Series A 12% Cumulative Preferred Stock	(460,247)	—	—	—
Issuance of Common Stock pursuant to Stock Plans	—	—	1,646,419	—
Conversion of Trust Originated Preferred Securities into Common Stock	—	—	21,712	—
Balance, December 31, 1997	—	8,379,464	50,512,010	—
Purchase of Common Stock	—	—	(4,452,700)	4,452,700
Reissuance of Treasury Stock pursuant to Stock Plans	—	—	859,080	(859,080)
Reissuance of Treasury Stock pursuant to Conversion of Trust Originated Preferred Securities	—	—	3,181,896	(3,181,896)
Conversion of Class A to Class B Common Stock	—	(12,200)	12,200	(12,200)
Issuance of Common Stock pursuant to Stock Plans	—	—	235,290	—
Conversion of Trust Originated Preferred Securities into Common Stock	—	—	2,376,753	—
Exercise of warrants	—	3,039,468	246,688	—
Balance, December 31, 1998	—	11,406,732	52,971,217	399,524
Purchase of Common Stock	—	—	(13,133,700)	13,133,700
Reissuance of Treasury Stock pursuant to Stock Plans	—	—	1,853,478	(1,853,478)
Reissuance of Treasury Stock pursuant to Conversion of Class A to Class B Common Stock	—	(85,883)	85,883	(85,883)
Issuance of Common Stock pursuant to Stock Plans	—	—	13,227	—
Conversion of 6¾% Convertible Subordinated Notes into Common Stock	—	—	6,132,055	—
Reissuance of Treasury Stock pursuant to Conversion of 6¾% Convertible Subordinated Notes	—	—	1,485,065	(1,485,065)
Conversion of Trust Originated Preferred Securities into Common Stock	—	—	4,407,408	—
Reissuance of Treasury Stock pursuant to Conversion of Trust Originated Preferred Securities	—	—	345,114	(345,114)
Balance, December 31, 1999	—	11,320,849	54,159,747	9,763,684

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Continental Airlines, Inc. (the "Company" or "Continental") is a major United States air carrier engaged in the business of transporting passengers, cargo and mail. Continental is the fifth largest United States airline (as measured by 1999 revenue passenger miles) and, together with its wholly owned subsidiaries, Continental Express, Inc. ("Express"), and Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, serves 219 airports worldwide at January 17, 2000. As of December 31, 1999, Continental flies to 132 domestic and 87 international destinations and offers additional connecting service through alliances with domestic and foreign carriers. Continental directly serves 16 European cities, eight South American cities, Tel Aviv and Tokyo and is one of the leading airlines providing service to Mexico and Central America, serving more destinations there than any other United States airline. Through its Guam hub, CMI provides extensive service in the western Pacific, including service to more Japanese cities than any other United States carrier.

As used in these Notes to Consolidated Financial Statements, the terms "Continental" and "Company" refer to Continental Airlines, Inc. and, unless the context indicates otherwise, its subsidiaries.

Note 1 - Summary of Significant Accounting Policies

(a) Principles of Consolidation —
The consolidated financial statements of the Company include the accounts of Continental and its operating subsidiaries, Express and CMI. All significant intercompany transactions have been eliminated in consolidation.

(b) Use of Estimates —
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents —
Cash and cash equivalents consist of cash and short-term, highly liquid investments which are readily convertible into cash and have a maturity of three months or less when purchased.

(d) Short-Term Investments —
The Company invests in commercial paper with original maturities in excess of 90 days but less than 270 days. These investments are classified as short-term investments in the accompanying consolidated balance sheet. Short-term investments are stated at cost, which approximates market value.

(e) Spare Parts and Supplies —
Inventories, expendable parts and supplies relating to flight equipment are carried at average acquisition cost and are expensed when incurred in operations. An allowance for obsolescence is provided over the remaining estimated useful life of the related aircraft, for spare parts expected to be on hand the date the aircraft are retired from service, plus allowances for spare parts currently identified as excess. These allowances are based on management estimates, which are subject to change.

(f) Property and Equipment —
Property and equipment are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. The estimated useful lives and residual values for the Company's property and equipment are as follows:

	Estimated Useful Life	Estimated Residual Value
Jet aircraft	25 to 30 years	10-15%
Turboprop aircraft	18 years	10%
Ground property and equipment	2 to 30 years	0%
Capital lease - flight and ground	Lease Term	0%

(g) Routes, Gates and Slots —
Routes are amortized on a straight-line basis over 40 years, gates over the stated term of the related lease and slots over 20 years. Routes, gates and slots are comprised of the following (in millions):

	Balance at December 31, 1999	Accumulated Amortization at December 31, 1999
Routes	$ 732	$ 157
Gates	306	141
Slots	93	47
	$1,131	$ 345

(h) Air Traffic Liability —
Passenger revenue is recognized when transportation is provided rather than when a ticket is sold. The amount of passenger ticket sales not yet recognized as revenue is reflected in the accompanying Consolidated Balance Sheets as air traffic liability. The Company performs periodic evaluations of this estimated liability, and any adjustments resulting therefrom, which can be significant, are included in results of operations for the periods in which the evaluations are completed.

(i) Frequent Flyer Program —
Continental sponsors a frequent flyer program ("OnePass") and records an estimated liability for the incremental cost associated with providing the related free transportation at the time a free travel award is earned. The liability is adjusted periodically based on awards earned, awards redeemed and changes in the OnePass program.

The Company also sells mileage credits in the OnePass program to participating partners, such as hotels, car rental agencies and credit card companies. During 1999, as a result of the recently issued Staff Accounting Bulletin No. 101 - "Revenue Recognition in Financial Statements," the Company changed the method it uses to account for the sale of these mileage credits. This change, which totaled $27 million, net of tax, was applied retroactively to January 1, 1999. Under the new accounting method, revenue from the sale of mileage credits is deferred and recognized when transportation is provided. Previously, the resulting revenue, net of the incremental cost of providing future air travel, was recorded in the period in which the credits were sold. This change reduced net income for the year ended December 31, 1999 by $21 million ($32 million pre-tax). The Company believes the new method is preferable as it results in a better matching of revenues with the period in which services are provided.

The pro forma results, assuming the accounting change is applied retroactively, is shown below (in millions except per share data):

	1999	1998	1997
Income before Cumulative Effect of Accounting Change and Extraordinary Charge	$ 488	$ 382	$ 385
Earnings per Common Share	$7.02	$6.32	$6.65
Earnings per Common Share Assuming Dilution	$6.64	$5.00	$4.98
Net Income	$ 482	$ 378	$ 381
Earnings per Common Share	$6.93	$6.26	$6.58
Earnings per Common Share Assuming Dilution	$6.57	$4.95	$4.93

Actual per share amounts are shown below for comparative purposes.

Income before Cumulative Effect of Accounting Change and Extraordinary Charge	$ 488	$ 387	$ 389
Earnings per Common Share	$7.02	$6.40	$6.72
Earnings per Common Share Assuming Dilution	$6.64	$5.06	$5.03
Net Income	$ 455	$ 383	$ 385
Earnings per Common Share	$6.54	$6.34	$6.65
Earnings per Common Share Assuming Dilution	$6.20	$5.02	$4.99

(j) Passenger Traffic Commissions - Passenger traffic commissions are recognized as expense when the transportation is provided and the related revenue is recognized. The amount of passenger traffic commissions not yet recognized as expense is included in Prepayments and other assets in the accompanying Consolidated Balance Sheets.

(k) Deferred Income Taxes - Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(l) Maintenance and Repair Costs - Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expense as incurred, except engine overhaul costs covered by power by the hour agreements, which are accrued on the basis of hours flown.

(m) Advertising Costs - The Company expenses the costs of advertising as incurred. Advertising expense was $82 million, $78 million and $78 million for the years ended December 31, 1999, 1998 and 1997, respectively.

(n) Stock Plans and Awards - Continental has elected to follow Accounting Principles Board Opinion No. 25 - "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its employee stock options and its stock purchase plans because the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123 - "Accounting for Stock-Based Compensation" ("SFAS 123") requires use of option valuation models that were not developed for use in valuing employee stock options or purchase rights. Under APB 25, since the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, generally no compensation expense is recognized. Furthermore, under APB 25, since the stock purchase plans are considered noncompensatory plans, no compensation expense is recognized.

(o) Measurement of Impairment - In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"), the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets.

(p) Start-Up Costs - Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), requires start-up costs to be expensed as incurred. Continental adopted SOP 98-5 in the first quarter of 1999. This statement requires all unamortized start up costs (e.g., pilot training costs related to induction of new aircraft) to be expensed upon adoption, resulting in a $6 million cumulative effect of a change in accounting principle, net of tax, in the first quarter of 1999.

(q) Reclassifications - Certain reclassifications have been made in the prior years' financial statements to conform to the current year presentation.

Note 2 - Earnings Per Share

Basic earnings per common share ("EPS") excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share (in millions):

	1999	1998	1997
Numerator:			
Income before cumulative effect of accounting changes and extraordinary charge	$ 488	$ 387	$ 389
Cumulative effect of accounting changes	(33)	—	—
Extraordinary charge, net of applicable income taxes	—	(4)	(4)
Net income	455	383	385
Preferred stock dividends	—	—	(2)
Numerator for basic earnings per share — income available to common stockholders	455	383	383
Effect of dilutive securities:			
Preferred Securities of Trust	—	11	14
6¾% convertible subordinated notes	4	9	11
	4	20	25
Other	—	—	(4)
Numerator for diluted earnings per share — income available to common stockholders after assumed conversions	$ 459	$ 403	$ 404
Denominator:			
Denominator for basic earnings per share - weighted-average shares	69.5	60.3	57.6
Effect of dilutive securities:			
Employee stock options	1.4	1.7	1.6
Warrants	—	0.9	3.5
Preferred Securities of Trust	0.1	9.8	10.3
6¾% convertible subordinated notes	2.9	7.6	7.6
Restricted Class B common stock	—	—	0.4
Dilutive potential common shares	4.4	20.0	23.4
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions	73.9	80.3	81.0

Approximately 1.1 million in 1999 and 1.4 million in 1998 of weighted average options to purchase shares of the Company's Class B common stock, par value $.01 per share ("Class B common stock"), were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would have been antidilutive.

Note 3 - Long-Term Debt

Long-term debt as of December 31 is summarized as follows (in millions):

	1999	1998
Secured		
Notes payable, interest rates of 5.00% to 7.73%, payable through 2019	$ 1,817	$ 886
Floating rate notes, interest rates of LIBOR plus 0.75% to 1.25%, Eurodollar plus 1.0%, or Commercial Paper, payable through 2009	241	223
Revolving credit facility totaling $160 million, floating interest rates of LIBOR or Eurodollar plus 1.125% to 1.375%, payable through 2001	160	57
Notes payable, interest rates of 8.49% to 9.46%, payable through 2008	51	66
Notes payable, interest rates of 7.13% to 7.15%, payable through 1999	—	86
Unsecured		
Senior notes payable, 9.5%, payable through 2001	242	250
Credit facility, floating interest rate of LIBOR or Eurodollar plus 1.0%, payable through 2002	215	245
Senior notes payable, interest rate of 8.0%, payable through 2005	200	200
Notes payable, interest rate of 8.125%, payable through 2008	110	110
Floating rate note, interest rate of LIBOR or Eurodollar plus 1.25%, payable through 2004	74	74
Convertible subordinated notes, interest rate of 6.75%	—	230
Other	23	24
	3,133	2,451
Less: current maturities	278	184
Total	$ 2,855	$ 2,267

At December 31, 1999 and 1998, the LIBOR and Eurodollar rates associated with Continental's indebtedness approximated 6.0% and 5.1% and 6.0% and 5.1%, respectively. The Commercial Paper rate was 6.1% and 5.5% as of December 31, 1999 and 1998, respectively.

A majority of Continental's property and equipment is subject to agreements securing indebtedness of Continental.

In July 1997, Continental entered into a $575 million credit facility (the "Credit Facility"), including a $275 million term loan, the proceeds of which were loaned to CMI to repay its existing $320 million secured term loan. In connection with this prepayment, Continental recorded a $4 million after tax extraordinary charge relating to early extinguishment of debt. The Credit Facility also includes a $225 million revolving credit facility with a commitment fee of 0.225% per annum on the unused portion, and a $75 million term loan commitment with a current floating interest rate of Libor or Eurodollar plus 1.25%. At December 31, 1999 and 1998, no borrowings were outstanding under the $225 million revolving credit facility. During 1998, the Credit Facility became unsecured due to an upgrade of Continental's credit rating by Standard and Poor's Corporation.

The Credit Facility does not contain any financial covenants relating to CMI other than covenants restricting CMI's incurrence of certain indebtedness and pledge or sale of assets. In addition, the Credit Facility contains certain financial covenants applicable to Continental and prohibits Continental from granting a security interest on certain of its international route authorities and its stock in Air Micronesia, Inc., CMI's parent company.

In April 1998, the Company completed an offering of $187 million of pass-through certificates to be used to refinance the debt related to 14 aircraft currently owned by Continental. In connection with this refinancing, Continental recorded a $4 million after tax extraordinary charge to consolidated earnings in the second quarter of 1998 related to the early extinguishment of such debt.

At December 31, 1999, under the most restrictive provisions of the Company's debt and credit facility agreements, the Company had a minimum cash balance requirement of $600 million, a minimum net worth requirement of $972 million and was restricted from paying cash dividends in excess of $576 million.

On April 15, 1999, the Company exercised its right and called for redemption on May 25, 1999, all $230 million of its 6-3/4% Convertible Subordinated Notes due 2006. The notes were converted into 7.6 million shares of Class B common stock during May 1999.

Maturities of long-term debt due over the next five years are as follows (in millions):

Year ending December 31,	
2000	$ 278
2001	592
2002	266
2003	170
2004	239

Note 4 - Leases

Continental leases certain aircraft and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, sales offices, maintenance facilities, training centers and general offices. Most leases also include both renewal options and purchase options.

At December 31, 1999, the scheduled future minimum lease payments under capital leases and the scheduled future minimum lease rental payments required under aircraft and engine operating leases, that have initial or remaining noncancellable lease terms in excess of one year, are as follows (in millions):

	Capital Leases	Operating Leases
Year ending December 31,		
2000	$ 59	$ 851
2001	50	823
2002	46	753
2003	28	700
2004	26	652
Later years	96	6,080
Total minimum lease payments	305	$9,859
Less: amount representing interest	62	
Present value of capital leases	243	
Less: current maturities of capital leases	43	
Long-term capital leases	$200	

Not included in the above operating lease table is approximately $493 million of annual average minimum lease payments for each of the next five years relating to non-aircraft leases, principally airport and terminal facilities and related equipment.

Continental is the guarantor of $1.2 billion aggregate principal amount of tax-exempt special facilities revenue bonds. These bonds, issued by various airport municipalities, are payable solely from rentals paid by Continental under long-term agreements with the respective governing bodies.

At December 31, 1999, the Company, including Express, had 382 and 19 aircraft under operating and capital leases, respectively. These leases have remaining lease terms ranging from one month to 22 years.

The Company's total rental expense for all operating leases, net of sublease rentals, was $1.1 billion, $922 million and $787 million in 1999, 1998 and 1997, respectively.

Note 5 - Financial Instruments and Risk Management

As part of the Company's risk management program, Continental uses or used a variety of financial instruments, including petroleum call options, petroleum swaps, jet fuel purchase commitments, foreign currency average rate options, foreign currency forward contracts and interest rate cap agreements. The Company does not hold or issue derivative financial instruments for trading purposes.

Effective October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 133 - "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The adoption of SFAS 133 on October 1, 1998 did not have a material impact on results of operations but resulted in the cumulative effect of an accounting change of $2 million pretax being recognized as income in other comprehensive income.

Notional Amounts and Credit Exposure of Derivatives

The notional amounts of derivative financial instruments summarized below do not represent amounts exchanged between parties and, therefore, are not a measure of the Company's exposure resulting from its use of derivatives. The amounts exchanged are calculated based upon the notional amounts as well as other terms of the instruments, which relate to interest rates, exchange rates or other indices.

The Company is exposed to credit losses in the event of nonperformance by counterparties to these financial instruments, but it does not expect any of the counterparties to fail to meet their obligations. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined Company guidelines, and monitors the market position with each counterparty.

Fuel Price Risk Management

The Company uses a combination of petroleum call options, petroleum swap contracts, and jet fuel purchase commitments to provide some short-term protection against a sharp increase in jet fuel prices. These instruments generally cover the Company's forecasted jet fuel needs for three to six months.

The Company accounts for the call options and swap contracts as cash flow hedges. In accordance with SFAS 133, such financial instruments are marked-to-market using forward prices and fair market value quotes with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness and then subsequently recognized as a component of fuel expense when the underlying fuel being hedged is used. The ineffective portion of these call options and swap agreements is determined based on the correlation between West Texas Intermediate Crude Oil prices and jet fuel prices, which was not material for the years ended December 31, 1999 and 1998. For the year ended December 31, 1999, the Company recognized approximately a $105 million net gain on its fuel hedging program. The gain is included in fuel expense in the accompanying consolidated statement of operations.

At December 31, 1999, the Company had petroleum call options outstanding with an aggregate notional amount of approximately $310 million and an immaterial fair value. The notional value of the Company's petroleum swap contracts outstanding at December 31, 1998 was $82 million with a fair value of $6 million loss, which was recorded in other current liabilities with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness. The loss was recognized in earnings during 1999.

Foreign Currency Exchange Risk Management

The Company uses a combination of foreign currency average rate options and forward contracts to hedge against the currency risk associated with Japanese yen-denominated net cash flows for the next nine to twelve months. The average rate options and forward contracts have only nominal intrinsic value at the time of purchase.

The Company accounts for these instruments as cash flow hedges. In accordance with SFAS 133, such financial instruments are marked-to-market using forward prices and fair market value quotes with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness and then subsequently recognized as a component of other revenue when the underlying net cash flows are realized. The Company measures hedge effectiveness of average rate options and forward contracts based on the forward price of the underlying commodity. Hedge ineffectiveness was not material during 1999 or 1998.

At December 31, 1999, the Company had yen forward contracts outstanding with an aggregate notional amount of $197 million and a fair value loss of $5 million. The notional amount of the Company's yen average rate options and forward contracts outstanding at December 31, 1998 was $78 million and $76 million, respectively, with a total fair value loss of $3 million. Unrealized losses are recorded in other current liabilities with the offset to other comprehensive income, net of applicable income taxes and hedge ineffectiveness. The unrealized loss at December 31, 1999 will be recognized in earnings within the next twelve months.

Interest Rate Risk Management

The Company entered into an interest rate cap agreement to reduce the impact of potential increases on floating rate debt. The interest rate cap had a notional amount of $106 million and $125 million as of December 31, 1999 and 1998, respectively, and is effective through July 31, 2001. The Company accounts for the interest rate cap as a cash flow hedge whereby the fair value of the interest rate cap is reflected as an asset in the accompanying consolidated balance sheet with the offset, net of any hedge ineffectiveness (which is not material) recorded as interest expense and net of applicable income taxes, to other comprehensive income. The fair value of the interest rate cap was not material as of December 31, 1999 or 1998. As interest expense on the underlying hedged debt is recognized, corresponding amounts are removed from other comprehensive income and charged to interest expense. Such amounts were not material during 1999 or 1998.

Accumulated Derivative Gains or Losses

The following table summarizes activity in other comprehensive income related to derivatives classified as cash flow hedges held by the Company during the period October 1 (the date of the Company's adoption of SFAS 133) through December 31, 1998 and for the year ended December 31, 1999 (in millions):

	1999	1998
Accumulated derivative loss included in other comprehensive income at beginning of period	$ (6)	$ —
Cumulative effect of adopting SFAS 133 as of October 1, 1998, net	—	1
(Gains)/losses reclassified into earnings from other comprehensive income, net	(63)	—
Change in fair value of derivatives, net	67	(7)
Accumulated loss included in other comprehensive income, net	$ (2)	$ (6)

Other Financial Instruments

(a) Cash equivalents —

Cash equivalents consist primarily of commercial paper with original maturities of three months or less and approximate fair value due to their short maturity.

(b) Short-term Investments —

Short-term investments consist primarily of commercial paper with original maturities in excess of 90 days but less than 270 days and approximate fair value due to their short maturity.

(c) Investment in Equity Securities —

Continental's investment in America West Holdings Corporation is classified as available-for-sale and carried at an aggregate market value of approximately $3 million at both December 31, 1999 and 1998. Included in stockholders' equity at both December 31, 1999 and 1998 are net unrealized gains of $1 million.

In May 1998, the Company acquired a 49% interest in Compania Panamena de Aviacion, S.A. ("COPA") for $53 million. The investment is accounted for under the equity method of accounting. As of December 31, 1999 and 1998, the excess of the amount at which the investment is carried and the amount of underlying equity in the net assets was $40 million and $43 million, respectively. This difference is being amortized over 40 years.

On October 20, 1999, Continental sold its interest in AMADEUS Global Travel Distribution, S.A. ("AMADEUS") for $409 million, including a special dividend. The sale, which occurred as part of AMADEUS's initial public offering resulted in a gain of approximately $297 million. As of December 31, 1998, Continental's investment in AMADEUS was carried at cost ($95 million), since a readily determinable market value did not exist.

At December 31, 1999, the Company owned approximately 357,000 depository certificates convertible, subject to certain restrictions, into the common stock of Equant N.V. ("Equant"), which completed an initial public offering in July 1998. As of December 31, 1999, the estimated fair value of these depository certificates was approximately $40 million, based upon the publicly traded market value of Equant common stock. Since the fair value of the Company's investment in the depository certificates is not readily determinable (i.e., the depository certificates are not traded on a securities exchange), the investment is carried at cost, which was not material as of December 31, 1999 or 1998.

In December 1999, the Company acquired a 28% interest in Gulfstream International Airlines, Inc. ("Gulfstream"). The investment is accounted for under the equity method of accounting.

In 1999, Continental received 1,500,000 warrants to purchase common stock of priceline.com, Inc. ("Priceline") at an exercise price of $59.93 per share (the "Warrants"). In the fourth quarter of 1999, the Company sold the Warrants for $18 million, resulting in a loss of approximately $4 million.

(d) Debt —

The fair value of the Company's debt with a carrying value of $2.75 billion and $1.98 billion at December 31, 1999 and 1998, respectively, estimated based on the discounted amount of future cash flows using the current incremental rate of borrowing for a similar liability or market prices, approximate $2.53 billion and $1.88 billion, respectively. The fair value of the remaining debt (with a carrying value of $383 million and $473 million, respectively, and primarily relating to aircraft modification notes and various loans with immaterial balances) was not practicable to estimate due to the large number and small dollar amounts of these notes.

Note 6 - Preferred Securities of Trust

Continental Airlines Finance Trust, a Delaware statutory business trust (the "Trust") with respect to which the Company owned all of the common trust securities, had 2,298,327 8-1/2% Convertible Trust Originated Preferred Securities ("TOPrS") outstanding at December 31, 1998. In November 1998, the Company exercised its right and called for redemption approximately half of its outstanding TOPrS. The TOPrS were convertible into shares of Class B common stock at a conversion price of $24.18 per share of Class B common stock. As a result of the call for redemption, 2,688,173 TOPrS were converted into 5,558,649 shares of Class B common stock. In December 1998, the Company called for redemption the remaining outstanding TOPrS. As a result of the second call, the remaining 2,298,327 TOPrS were converted into 4,752,522 shares of Class B common stock during January 1999.

Distributions on the preferred securities were payable by the Trust at the annual rate of 8-1/2% of the liquidation value of $50 per preferred security and are included in Distributions on Preferred Securities of Trust in the accompanying Consolidated Statements of Operations. At December 31, 1998, outstanding TOPrS totaling $111 million are included in Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures in the accompanying Consolidated Balance Sheets.

The sole assets of the trust were 8-1/2% Convertible Subordinated Deferrable Interest Debentures ("Convertible Subordinated Debentures") with an aggregate principal amount of $115 million at December 31, 1998.

The Convertible Subordinated Debentures and related income statement effects are eliminated in the Company's consolidated financial statements.

Note 7 - Preferred, Common and Treasury Stock

Preferred Stock

Continental has 10 million shares of authorized preferred stock, none of which was outstanding as of December 31, 1999 or 1998.

Common Stock

Continental has two classes of common stock issued and outstanding, Class A common stock, par value $.01 per share ("Class A common stock") and Class B common stock. Each share of Class A common stock is entitled to 10 votes per share and each share of Class B common stock is entitled to one vote per share. In addition, Continental has authorized 50 million shares of Class D common stock, par value $.01 per share, none of which is outstanding.

The Company's Certificate of Incorporation permits shares of the Company's Class A common stock to be converted into an equal number of shares of Class B common stock. During 1999 and 1998, 85,883 and 12,200 shares of the Company's Class A common stock, respectively, were so converted.

Treasury Stock

The Company's Board of Directors has authorized the expenditure of up to $1.2 billion to repurchase shares of the Company's Class A common stock and Class B common stock or securities convertible into Class B common stock. The Company's Board of Directors also authorized the Company to use up to one-half of its 2000 and later adjusted net income, and all of the net proceeds of future sales of non-strategic assets, for additional stock repurchases. Subject to applicable securities law, such purchases occur at times and in amounts that the Company deems appropriate. No time limit was placed on the duration of the repurchase program. As of December 31, 1999, the Company had repurchased 17,586,400 shares of Class B common stock for $751 million since the inception of the repurchase program in March 1998.

Stockholder Rights Plan

Effective November 20, 1998, the Company adopted a stockholder rights plan (the "Rights Plan") in connection with the disposition by Air Partners, L.P. ("Air Partners") of its interest in the Company to an affiliate of Northwest Airlines, Inc. (together with such affiliate, "Northwest").

The rights become exercisable upon the earlier of (i) the tenth day following a public announcement or public disclosure of facts indicating that a person or group of affiliated or associated persons has acquired beneficial ownership of 15% or more of the total number of votes entitled to be cast generally by the holders of the common stock of the Company then outstanding, voting together as a single class (such person or group being an "Acquiring Person"), or (ii) the tenth business day (or such later date as may be determined by action of the Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in any person becoming an Acquiring Person. Certain persons and entities related to the Company, Air Partners or Northwest at the time the Rights Plan was adopted are exempt from the definition of "Acquiring Person."

The rights will expire on November 20, 2008 unless extended or unless the rights are earlier redeemed or exchanged by the Company.

Subject to certain adjustments, if any person becomes an Acquiring Person, each holder of a right, other than rights beneficially owned by the Acquiring Person and its affiliates and associates (which rights will thereafter be void), will thereafter have the right to receive, upon exercise thereof, that number of Class B Common Shares having a market value of two times the exercise price ($200, subject to adjustment) of the right.

If at any time after a person becomes an Acquiring Person, (i) the Company merges into any other person, (ii) any person merges into the Company and all of the outstanding common stock does not remain outstanding after such merger, or (iii) the Company sells 50% or more of its consolidated assets or earning power, each holder of a right (other than the Acquiring Person and its affiliates and associates) will have the right to receive, upon the exercise thereof, that number of shares of common stock of the acquiring corporation (including the Company as successor thereto or as the surviving corporation) which at the time of such transaction will have a market value of two times the exercise price of the right.

At any time after any person becomes an Acquiring Person, and prior to the acquisition by any person or group of a majority of the Company's voting power, the Board of Directors may exchange the rights (other than rights owned by such Acquiring Person which have become void), in whole or in part, at an exchange ratio of one share of Class B common stock per right (subject to adjustment).

At any time prior to any person becoming an Acquiring Person, the Board of Directors may redeem the rights at a price of $.001 per right. The Rights Plan may be amended by the Board of Directors without the consent of the holders of the rights, except that from and after such time as any person becomes an Acquiring Person no such amendment may adversely affect the interests of the holders of the rights (other than the Acquiring Person and its affiliates and associates). Until a right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

Note 8 - Stock Plans and Awards

Stock Options

On October 4, 1999, the Board of Directors adopted the Continental Airlines, Inc. Incentive Plan 2000 (the "2000 Incentive Plan"), subject to approval by the stockholders of the Company at the annual stockholders meeting in May 2000. The 2000 Incentive Plan provides that the Company may grant awards (options, restricted stock awards, performance awards or incentive awards) to non-employee directors of the Company or employees of the Company or its subsidiaries. Subject to adjustment as provided in the Incentive Plan, the aggregate number of shares of Class B common stock that may be issued under the Incentive Plan may not exceed 3,000,000 shares, which may be originally issued or treasury shares or a combination thereof.

The stockholders of the Company have approved the Company's 1998 Stock Incentive Plan, 1997 Stock Incentive Plan and 1994 Incentive Equity Plan (collectively, the "Plans") under which the Company may issue shares of restricted Class B common stock or grant options to purchase shares of Class B common stock to non-employee directors and employees of the Company or its subsidiaries. Subject to adjustment as provided in the Plans, the aggregate number of shares of Class B common stock that may be issued may not exceed 16,500,000 shares, which may be originally issued or treasury shares or a combination thereof. Options granted under the Plans are awarded with an exercise price equal to the fair market value of the stock on the date of grant. The total shares remaining available for grant under the Plans at December 31, 1999 was 969,327. No options may be awarded under the 1994 Incentive Equity Plan after December 31, 1999. Stock options granted under the Plans generally vest over a period of three to four years and have a term of five years.

Under the terms of the Plans, a change of control would result in all outstanding options under these plans becoming exercisable in full and restrictions on restricted shares being terminated.

The following table summarizes stock option transactions pursuant to the Company's Plans (share data in thousands):

	1999		1998		1997	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at Beginning of Year	9,683	$ 30.31	5,998	$ 22.62	5,809	$ 17.37
Granted	1,055	$ 33.38	6,504	$ 43.75	1,968	$ 29.34
Exercised	(1,464)	$ 16.54	(807)	$ 19.53	(1,582)	$ 11.72
Cancelled	(269)	$ 37.41	(2,012)	$ 55.18	(197)	$ 22.49
Outstanding at End of Year	9,005	$ 32.69	9,683	$ 30.31	5,998	$ 22.62
Options exercisable at end of year (1)	4,845	$ 29.13	5,174	$ 23.56	1,229	$ 20.61

(1) On November 20, 1998, Air Partners disposed of its interest in the Company to Northwest, resulting in a change of control under the terms of the Plans. As a result, all options and restricted stock then outstanding under these plans became exercisable and fully vested, respectively.

The following tables summarize the range of exercise prices and the weighted average remaining contractual life of the options outstanding and the range of exercise prices for the options exercisable at December 31, 1999 (share data in thousands):

Options Outstanding

Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$4.56-$8.00	208	0.68	$7.80
$8.19-$22.13	183	2.03	$16.64
$22.38-$28.63	2,468	1.76	$26.12
$28.75-$32.13	2,616	3.45	$30.31
$32.25-$56.81	3,530	3.92	$41.35
$4.56-$56.81	9,005	3.08	$32.69

Options Exercisable

Range of Exercise Prices	Exercisable	Weighted Average Exercise Price
$4.56-$8.00	208	$ 7.80
$8.19-$22.13	183	$16.64
$22.38-$28.63	2,468	$26.12
$28.75-$32.13	917	$29.71
$32.25-$56.81	1,069	$41.90
$4.56-$56.81	4,845	$29.13

Employee Stock Purchase Plans

All employees of the Company are eligible to participate in the Company's stock purchase program under which they may purchase shares of Class B common stock of the Company at 85% of the lower of the fair market value on the first day of the option period or the last day of the option period. During 1999 and 1998, 526,729 and 305,978 shares, respectively, of Class B common stock were issued at prices ranging from $27.84 to $49.41 in 1999 and $29.33 to $49.41 in 1998. During 1997, 218,892 shares of Class B common stock were issued at prices ranging from $19.55 to $29.33.

Pro Forma SFAS 123 Results

Pro forma information regarding net income and earnings per share has been determined as if the Company had accounted for its employee stock options and purchase rights under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 4.9%, 4.9% and 6.1%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 43% for 1999, 40% for 1998 and 34% for 1997; and a weighted-average expected life of the option of 3.1 years, 3.0 years and 2.5 years. The weighted average grant date fair value of the stock options granted in 1999, 1998 and 1997 was $11.13, $13.84 and $7.87 per option, respectively.

The fair value of the purchase rights under the stock purchase plans was also estimated using the Black-Scholes model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk free interest rates of 4.7%, 4.7% and 5.2%; dividend yields of 0%; expected volatility of 43% for 1999, 40% for 1998 and 34% for 1997; and an expected life of .25 years for 1999, .25 years for 1998 and .33 years for 1997. The weighted-average fair value of the purchase rights granted in 1999, 1998 and 1997 was $7.72, $9.10 and $7.38, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferrable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and purchase rights have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and purchase rights.

Assuming that the Company had accounted for its employee stock options and purchase rights using the fair value method and amortized the resulting amount to expense over the options' vesting period, net income would have been reduced by $24 million, $18 million and $11 million for the years ended December 31, 1999, 1998 and 1997, respectively. Basic EPS would have been reduced by 35 cents, 30 cents and 18 cents for the years ended December 31, 1999, 1998 and 1997, respectively, and diluted EPS would have been reduced by 33 cents, 23 cents and 14 cents for the same periods, respectively. The pro forma effect on net income is not representative of the pro forma effects on net income in future years because it did not take into consideration pro forma compensation expense related to grants made prior to 1995.

Note 9 - Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are as follows (in millions):

	Minimum Pension Liability	Unrealized Gain/(Loss) on Investments	Unrealized Gain/(Loss) on Derivative Instruments	Total
Balance at December 31, 1996	$ (2)	$ 4	$ —	$ 2
Current year net change in other comprehensive income	(4)	—	—	(4)
Balance at December 31, 1997	(6)	4	—	(2)
Current year net change in other comprehensive income	(76)	(4)	(6)	(86)
Balance at December 31, 1998	(82)	—	(6)	(88)
Current year net change in other comprehensive income	82	1	4	87
Balance at December 31, 1999	$ —	$ 1	$ (2)	$ (1)

Note 10 - Employee Benefit Plans

The Company has noncontributory defined benefit pension and defined contribution (including 401(k) savings) plans. Substantially all domestic employees of the Company are covered by one or more of these plans. The benefits under the active defined benefit pension plan are based on years of service and an employee's final average compensation. For the years ended December 31, 1999, 1998 and 1997, total expense for the defined contribution plan was $14 million, $8 million and $6 million, respectively.

The following table sets forth the defined benefit pension plans' change in projected benefit obligation for 1999 and 1998:

	1999	1998
	(in millions)	
Projected benefit obligation at beginning of year	$ 1,230	$ 846
Service cost	66	55
Interest cost	90	69
Plan amendments	54	110
Actuarial (gains) losses	(47)	178
Benefits paid	(93)	(28)
Projected benefit obligation at end of year	$ 1,300	$ 1,230

The following table sets forth the defined benefit pension plans' change in the fair value of plan assets for 1999 and 1998:

	1999	1998
	(in millions)	
Fair value of plan assets at beginning of year	$ 781	$ 633
Actual return on plan assets	138	75
Employer contributions	187	101
Benefits paid	(93)	(28)
Fair value of plan assets at end of year	$ 1,013	$ 781

Pension cost recognized in the accompanying consolidated balance sheets is computed as follows:

	1999	1998
	(in millions)	
Funded status of the plans — net underfunded	$ (287)	$ (449)
Unrecognized net actuarial loss	152	256
Unrecognized prior service cost	143	113
Net amount recognized	8	(80)
Prepaid benefit cost	12	2
Accrued benefit liability	(78)	(320)
Intangible asset	74	113
Accumulated other comprehensive income	—	125
Net amount recognized	$ 8	$ (80)

The $125 million charge to other comprehensive income in 1998 was reversed in 1999 due to favorable asset performance and an increase in the weighted average assumed discount rate.

Net periodic defined benefit pension cost for 1999, 1998 and 1997 included the following components:

	1999	1998	1997
		(in millions)	
Service cost	$ 66	$ 55	$ 38
Interest cost	90	69	51
Expected return on plan assets	(84)	(64)	(49)
Amortization of prior service cost	13	6	1
Amortization of unrecognized net actuarial loss	13	4	—
Net periodic benefit cost	$ 98	$ 70	$ 41

The following actuarial assumptions were used to determine the actuarial present value of the Company's projected benefit obligation:

	1999	1998	1997
Weighted average assumed discount rate	8.25%	7.0%	7.25%
Expected long-term rate of return on plan assets	9.50%	9.50%	9.25%
Weighted average rate of compensation increase	4.98%-5.27%	5.30%	4.90%

The projected benefit obligation, accumulated benefit obligation and the fair value of plan assets for the pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets were $1.3 billion, $1.1 billion and $1.0 billion, respectively, as of December 31, 1999, and $1.2 billion, $1.1 billion and $771 million, respectively, as of December 31, 1998.

During 1999 and 1998, the Company amended its benefit plan as a result of changes in benefits pursuant to new collective bargaining agreements.

Plan assets consist primarily of equity securities, long-term debt securities and short-term investments.

Continental's policy is to fund the noncontributory defined benefit pension plans in accordance with Internal Revenue Service ("IRS") requirements as modified, to the extent applicable, by agreements with the IRS.

The Company also has a profit sharing program under which an award pool consisting of 15% of the Company's annual pre-tax earnings, subject to certain adjustments, is distributed each year to substantially all employees (other than employees whose collective bargaining agreement provides otherwise or who otherwise receive profit sharing payments as required by local law) on a pro rata basis according to base salary. The profit sharing expense included in the accompanying Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997 was $62 million, $86 million and $105 million, respectively.

Note 11 - Income Taxes

The reconciliations of income tax computed at the United States federal statutory tax rates to income tax provision for the years ended December 31, 1999, 1998 and 1997 are as follows (in millions):

	Amount			Percent		
	1999	1998	1997	1999	1998	1997
Income tax provision at United States statutory rates	$ 279	$ 227	$ 224	35.0%	35.0%	35.0%
State income tax provision	12	10	9	1.5	1.5	1.4
Meals and entertainment disallowance	11	10	9	1.3	1.5	1.4
Net operating loss not previously benefitted	—	—	(15)	—	—	(2.3)
Other	8	1	10	1.1	0.3	1.6
Income tax provision, net	$ 310	$ 248	$ 237	38.9%	38.3%	37.1%

The significant component of the provision for income taxes for the year ended December 31, 1999, 1998 and 1997 was a deferred tax provision of $293 million, $231 million and $220 million, respectively. The provision for income taxes for each of the years ended December 31, 1999, 1998 and 1997 also reflects a current tax provision in the amount of $17 million, as the Company is in an alternative minimum tax position for federal income tax purposes and pays current state and foreign income tax.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the related amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 1999 and 1998 are as follows (in millions):

	1999	1998
Spare parts and supplies, fixed assets and intangibles	$ 590	$ 536
Deferred gain	61	57
Capital and safe harbor lease activity	73	46
Other, net	69	39
Gross deferred tax liabilities	793	678
Accrued liabilities	(254)	(347)
Net operating loss carryforwards	(266)	(372)
Investment tax credit carryforwards	(45)	(45)
Minimum tax credit carryforward	(46)	(37)
Other	—	(2)
Gross deferred tax assets	(611)	(803)
Deferred tax assets valuation allowance	263	263
Net deferred tax liability	445	138
Less: current deferred tax asset	(145)	(234)
Non-current deferred tax liability	$ 590	$ 372

At December 31, 1999, the Company had estimated tax net operating losses ("NOLs") of $700 million for federal income tax purposes that will expire through 2009 and federal investment tax credit carryforwards of $45 million that will expire through 2001. As a result of the change in ownership of the Company on April 27, 1993, the ultimate utilization of the Company's net operating losses and investment tax credits may be limited. Reflecting this limitation, the Company had a valuation allowance of $263 million at December 31, 1999 and 1998.

The Company has consummated several transactions which resulted in the recognition of NOLs of the Company's predecessor. To the extent the Company were to determine in the future that additional NOLs of the Company's predecessor could be recognized in the accompanying consolidated financial statements, such benefit would reduce the value ascribed to routes, gates and slots.

Note 12 - Accruals for Aircraft Retirements and Excess Facilities

During the fourth quarter of 1999, the Company made the decision to accelerate the retirement of six DC-10-30 aircraft and other items in 1999 and the first half of 2000 and to dispose of related excess inventory. The DC-10-30's will be replaced by Boeing 757 and Boeing 737-800 aircraft on certain routes, and by Boeing 777 aircraft on other routes. In addition, the market value of certain Boeing 747 aircraft no longer operated by the Company has declined. As a result of these items and certain other fleet-related items, the Company recorded a fleet disposition/impairment loss of $81 million in the fourth quarter of 1999.

Approximately $52 million of the $81 million charge relates to the impairment of owned or capital leased aircraft and related inventory held for disposal with a carrying amount of $77 million. The remaining $29 million of the charge relates primarily to costs expected to be incurred related to the return of leased aircraft. As of December 31, 1999, the remaining accrual for the 1999 fleet disposition/impairment loss totaled $12 million.

In August 1998, the Company announced that CMI planned to accelerate the retirement of its four Boeing 747 aircraft by April 1999 and its remaining thirteen Boeing 727 aircraft by December 2000. The Boeing 747s have been replaced by DC-10-30 aircraft and the Boeing 727 aircraft will be replaced with a reduced number of Boeing 737 aircraft. In addition, Express accelerated the retirement of certain turboprop aircraft to the year 2000, including its fleet of 32 EMB-120 turboprop aircraft, as regional jets are acquired to replace turboprops. In connection with its decision to accelerate the replacement of these aircraft, the Company performed evaluations to determine, in accordance with SFAS 121, whether future cash flows (undiscounted and without interest charges) expected to result from the use and eventual disposition of these aircraft would be less than the aggregate carrying amount of these aircraft and the related assets. As a result of the evaluation, management determined that the estimated future cash flows expected to be generated by these aircraft would be less than their carrying amount, and therefore these aircraft are impaired as defined by SFAS 121. Consequently, the original cost basis of these aircraft and related items was reduced to reflect the fair market value at the date the decision was made, resulting in a $59 million fleet disposition/impairment loss. In determining the fair market value of these assets, the Company considered recent transactions involving sales of similar aircraft and market trends in aircraft dispositions. The remaining $63 million of the fleet disposition/impairment loss includes cash and non-cash costs related primarily to future commitments on leased aircraft past the dates they will be removed from service and the write-down of related inventory to its estimated fair market value. The combined charge of $122 million was recorded in the third quarter of 1998. As of December 31, 1999, the remaining accrual for the 1998 fleet disposition/impairment loss totaled $40 million.

The remaining balance of accruals for aircraft retirements and excess facilities at December 31, 1999 relates to the 1996 fleet disposition/impairment loss accrual of $21 million and the 1994 accrual for fleet disposition/impairment loss and underutilized facilities of $47 million.

The following represents the activity within these accruals during the three years ended December 31, 1999 (in millions):

	1999	1998	1997
Total accruals at beginning of year	$ 155	$ 151	$ 205
Net cash payments:			
Aircraft related	(32)	(34)	(27)
Underutilized facilities and other	(20)	(30)	(13)
Increase/(decrease) in accrual for grounded aircraft	—	—	(16)
Fleet disposition/impairment loss for costs of return of leased aircraft	20	—	—
Fleet disposition/impairment loss for the retirement of aircraft	—	63	—
Other	(3)	5	2
Total accruals at end of year	120	155	151
Portion included in accrued other liabilities	(51)	(60)	(28)
Accrual for aircraft retirements and excess facilities	$ 69	$ 95	$ 123

The remaining accruals relate primarily to anticipated cash outlays associated with (i) underutilized airport facilities (primarily associated with Denver International Airport), (ii) the return of leased aircraft and (iii) the remaining liability associated with the grounded aircraft. The Company has assumed certain sublease rental income for these closed and underutilized facilities and grounded aircraft in determining the accrual at each balance sheet date. However, should actual sublease rental income be different from the Company's estimates, the actual charge could be different from the amount estimated. The remaining accrual represents cash outlays to be incurred over the remaining lease terms (from one to 19 years). The Company expects to finance the cash outlays primarily with internally generated funds.

Note 13 - Commitments and Contingencies

Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of January 14, 2000, Continental had agreed to acquire a total of 74 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 28 Boeing jet aircraft in 2000. Continental also has options for an additional 118 aircraft (exercisable subject to certain conditions). The estimated aggregate cost of the Company's firm commitments for Boeing aircraft is approximately $4 billion. Continental currently plans to finance its new Boeing aircraft with a combination of enhanced pass through trust certificates, lease equity and other third-party financing, subject to availability and market conditions. Continental has commitments or letters of intent for backstop financing for approximately 18% of the anticipated remaining acquisition cost of future Boeing deliveries. In addition, at January 14, 2000, Continental has firm commitments to purchase 34 spare engines related to the new Boeing aircraft for approximately $219 million, which will be deliverable through March 2005. However, further financing will be needed to satisfy the Company's capital commitments for other aircraft and aircraft-related expenditures such as engines, spare parts, simulators and related items. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures not covered by firm financing commitments. Deliveries of new Boeing aircraft are expected to increase aircraft rental, depreciation and interest costs while generating cost savings in the areas of maintenance, fuel and pilot training.

As of January 14, 2000, Express had firm commitments for 43 Embraer ERJ-145 ("ERJ-145") 50-seat regional jets and 19 Embraer ERJ-135 ("ERJ-135") 37-seat regional jets, with options for an additional 100 ERJ-145 and 50 ERJ-135 aircraft exercisable through 2008. Express anticipates taking delivery of 15 ERJ-145 and 12 ERJ-135 regional jets in 2000. Neither Express nor Continental will have any obligation to take any of the firm ERJ-145 or ERJ-135 aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 2000 capital expenditures, exclusive of fleet plan requirements, to aggregate $207 million primarily relating to software application and automation infrastructure projects, aircraft modifications and mandatory maintenance projects, passenger terminal facility improvements and office, maintenance, telecommunications and ground equipment.

Continental remains contingently liable until December 1, 2015, on $202 million of long-term lease obligations of US Airways, Inc. ("US Airways") related to the East End Terminal at LaGuardia Airport in New York. If US Airways defaulted on these obligations, Continental could be required to cure the default, at which time it would have the right to occupy the terminal.

Continental has certain block space arrangements whereby it is committed to purchase capacity on other carriers at an aggregate cost of approximately $159 million per year. These arrangements are currently scheduled to expire over the next eight years. Pursuant to other block-space arrangements, other carriers are committed to purchase capacity at a cost of approximately $95 million per year on Continental.

Approximately 42% of the Company's employees are covered by collective bargaining agreements. The Company's collective bargaining agreements with its Express flight attendants and Continental Airlines flight attendants (representing approximately 18% of the Company's employees) became amendable in November and December 1999, respectively. Negotiations began in September 1999 to amend these contracts. The Company believes that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the Company's negotiations is unknown at this time.

Legal Proceedings

United States of America v. Northwest Airlines Corp. & Continental Airlines, Inc.: The Antitrust Division of the Department of Justice is challenging under Section 7 of the Clayton Act and Section 1 of the Sherman Act the acquisition by Northwest of shares of Continental's Class A common stock bearing, together with certain shares for which Northwest has a limited proxy, more than 50% of the fully diluted voting power of all Continental stock. The government's position is that, notwithstanding various agreements that restrict Northwest's ability to exercise voting control over Continental and are designed to assure Continental's competitive independence, Northwest's control of the Class A common stock will reduce actual and potential competition in various ways and in a variety of markets. The government seeks an order requiring Northwest to divest all voting stock in Continental on terms and conditions as may be agreed to by the government and the Court. No specific relief is sought against Continental. Trial is currently set for October 2000.

The Company and/or certain of its subsidiaries are defendants in various lawsuits, including suits relating to certain environmental claims, the Company's consolidated Plan of Reorganization under Chapter 11 of the federal bankruptcy code which became effective on April 27, 1993, and proceedings arising in the normal course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the Company's financial position, results of operations and cash flows, it is the opinion of management, after consulting with counsel, that the ultimate disposition of such suits will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 14 - Related Party Transactions

The following is a summary of significant related party transactions that occurred during 1999, 1998 and 1997, other than those discussed elsewhere in the Notes to Consolidated Financial Statements.

The Company and America West Airlines, Inc. ("America West"), a subsidiary of America West Holdings Corporation, in which David Bonderman holds a significant interest, entered into a series of agreements during 1994 related to code-sharing and ground handling that have created substantial benefits for both airlines. Mr. Bonderman is a director and stockholder of the Company. The services provided are considered normal to the daily operations of both airlines. As a result of these agreements, Continental paid America West $25 million, $20 million and $16 million in 1999, 1998 and 1997, respectively, and America West paid Continental $31 million, $27 million and $23 million in 1999, 1998 and 1997, respectively.

In November 1998, the Company and Northwest, a significant stockholder of the Company, began implementing a long-term global alliance involving extensive code-sharing, frequent flyer reciprocity and other cooperative activities. The services provided are considered normal to the daily operations of both airlines. As a result of these activities, Continental paid Northwest $7 million in 1999, and Northwest paid Continental $9 million in 1999.

During December 1999, Continental entered into an equipment sales agreement with COPA for $8 million. The resulting note receivable is payable in quarterly installments through October 2002. During 1999, COPA paid Continental $4 million for services considered normal to the daily operations of both airlines.

In connection with Continental's investment in Gulfstream, Continental purchased from Gulfstream, a ten-year $10 million convertible note, payable in quarterly installments of principal and interest totaling $0.4 million. Continental also purchased a six month $3 million secured note, with interest paid quarterly and principal due at the end of the six months. During 1999, Continental paid Gulfstream $1 million and Gulfstream paid Continental $13 million for services considered normal to the daily operations of both airlines.

Also during December 1999, under a sale and leaseback agreement with Gulfstream, Express sold 25 Beech 1900-D aircraft to Gulfstream in exchange for Gulfstream's assumption of $81 million in debt. Express is leasing these aircraft from Gulfstream for periods ranging from eight to 23 months.

Note 15 - Segment Reporting

Information concerning principal geographic areas is as follows (in millions):

	1999 Operating Revenue	1998 Operating Revenue	1997 Operating Revenue
Domestic (U.S.)	$6,066	$5,596	$5,196
Atlantic	1,102	995	778
Latin America	860	769	572
Pacific	611	567	648
	$8,639	$7,927	$7,194

The Company attributes revenue among the geographical areas based upon the origin and destination of each flight segment. The Company's tangible assets consist primarily of flight equipment which is mobile across geographic markets and, therefore, has not been allocated. Continental has one reportable operating segment (air transportation).

Note 16 - Quarterly Financial Data (Unaudited)

Unaudited summarized financial data by quarter for 1999 and 1998 is as follows (in millions, except per share data):

	Three Months Ended			
	March 31	June 30	September 30	December 31
1999 (a)				
Operating revenue	$ 2,042	$ 2,181	$ 2,264	$ 2,152
Operating income (loss)	153	247	202	(2)
Income before cumulative effect of accounting changes	85	132	104	167
Cumulative effect of accounting changes:				
Start-up costs	(6)	—	—	—
Sale of frequent flyer miles	(27)	—	—	—
Net income	52	132	104	167
Earnings per common share:				
Income before cumulative effect of accounting changes (b)	$ 1.25	$ 1.85	$ 1.47	$ 2.46
Cumulative effect of accounting changes, net of tax	(0.48)	—	—	—
Net income (b)	$ 0.77	$ 1.85	$ 1.47	$ 2.46
Earnings per common share assuming dilution:				
Income before cumulative effect of accounting changes (b)	$ 1.13	$ 1.73	$ 1.44	$ 2.42
Cumulative effect of accounting changes, net of tax	(0.42)	—	—	—
Net income (b)	$ 0.71	$ 1.73	$ 1.44	$ 2.42
1998				
Operating revenue	$ 1,848	$ 2,030	$ 2,110	$ 1,939
Operating income	150	280	143	128
Nonoperating income (expense), net	(13)	(5)	(18)	(17)
Net income	81	163	73	66
Earnings per common share:				
Income before extraordinary charge	$ 1.38	$ 2.74	$ 1.21	$ 1.08
Extraordinary charge, net of tax	—	(0.06)	—	—
Net income (b)	$ 1.38	$ 2.68	$ 1.21	$ 1.08
Earnings per common share assuming dilution:				
Income before extraordinary charge	$ 1.06	$ 2.11	$ 0.97	$ 0.91
Extraordinary charge, net of tax	—	(0.05)	—	—
Net income (b)	$ 1.06	$ 2.06	$ 0.97	$ 0.91
Proforma Effect Assuming Accounting Change – Sale of Frequent Flyer Miles – is Applied Retroactively:				
Income before Extraordinary Charge	$ 79	$ 166	$ 71	$ 66
Earnings per Common Share (b)	$ 1.34	$ 2.72	$ 1.18	$ 1.07
Earnings per Common Share Assuming Dilution (b)	$ 1.04	$ 2.09	$ 0.96	$ 0.90
Net Income	$ 79	$ 162	$ 71	$ 66
Earnings per Common Share (b)	$ 1.34	$ 2.66	$ 1.18	$ 1.07
Earnings per Common Share Assuming Dilution (b)	$ 1.04	$ 2.05	$ 0.96	$ 0.90

(a) During the fourth quarter of 1999, the Company changed its method of accounting for the sale of mileage credits under its frequent flyer program. Therefore, effective January 1, 1999, the Company recorded a $27 million cumulative effect of a change in accounting principle, net of tax, and has restated the quarterly information for 1999 presented herein.

(b) The sum of the four quarterly earnings per share amounts does not agree with the earnings per share as calculated for the full year due to the fact that the full year calculation uses a weighted average number of shares based on the sum of the four quarterly weighted average shares divided by four quarters.

During the first quarter of 1999, Continental recorded a $6 million cumulative effect of a change in accounting principle, net of tax, related to the write-off of pilot training costs.

In addition, during the first quarter of 1999, Continental recorded a $12 million gain ($20 million pre-tax) on the sale of a portion of the Company's interest in Equant.

During the fourth quarter of 1999, the Company changed its method of accounting for the sale of mileage credits under its frequent flyer program. Therefore, effective January 1, 1999, the Company recorded a $27 million cumulative effect of this change in accounting principle, net of tax.

During the fourth quarter of 1999, Continental recorded a $182 million gain ($297 million pre-tax) on the sale of its interest in AMADEUS and a $6 million net gain ($9 million pre-tax) on other asset sales, including a portion of its interest in Equant.

Also during the fourth quarter of 1999, Continental recorded a fleet disposition/impairment loss of $50 million ($81 million pre-tax).

During the second quarter of 1998, Continental recorded a $4 million after tax extraordinary charge relating to prepayment of debt.

During the third quarter of 1998, Continental recorded a fleet disposition/impairment loss of $77 million ($122 million pre-tax) relating to its decision to accelerate the retirement of certain jet and turboprop aircraft.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Continental Airlines, Inc.

We have audited the accompanying consolidated balance sheets of Continental Airlines, Inc. (the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of operations, redeemable preferred stock and common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 1999, the Company changed its method of accounting for the sale of mileage credits to participating partners in its frequent flyer program.

Ernst & Young LLP

Houston, Texas
January 17, 2000

REPORT OF MANAGEMENT

Continental Airlines, Inc. is responsible for the preparation and integrity of the financial information presented in this Annual Report. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States and reflect certain judgments and estimates of management.

The Company maintains a system of internal controls to provide reasonable assurance that its financial records can be relied upon in the preparation of financial statements and that its assets are safeguarded against loss or unauthorized use. The Company's internal audit program monitors the effectiveness of the internal controls and recommends possible improvements to management and the Board of Directors. Ernst & Young LLP, independent auditors, are engaged to audit the Company's financial statements. Ernst & Young obtains an understanding of the internal control structure and conducts the tests and other auditing procedures they consider necessary to render an opinion on the financial statements being audited. The Audit Committee of the Board of Directors, composed entirely of directors not employed by the Company and who meet the independence criteria now required by the New York Stock Exchange, provides oversight of the financial reporting process through regular meetings with management, the Company's internal auditors and Ernst & Young.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system can change with circumstances.

Gordon M. Bethune

Gordon M. Bethune
Chairman and Chief Executive Officer

Lawrence W. Kellner

Lawrence W. Kellner
Executive Vice President and Chief Financial Officer

Lawrence W. Kellner

Executive Vice President and Chief Financial Officer

C.D. McLean

Executive Vice President — Operations

Jeffery A. Smisek

Executive Vice President, General Counsel and Secretary

Michael H. Campbell

Senior Vice President — Human Resources and Labor Relations

Mark A. Erwin

Senior Vice President — Airport Services

J. David Grizzle

Senior Vice President — Corporate Development

Gerald Laderman

Senior Vice President — Finance

George L. Mason

Senior Vice President — Technical Operations

Deborah L. McCoy

Senior Vice President — Flight Operations

James B. Ream

President, Continental Express, Inc.

Bonnie S. Reitz

Senior Vice President — Sales and Distribution

Barry P. Simon

Senior Vice President — International

Kuniaki Tsuruta

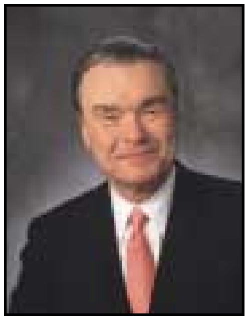
Senior Vice President — Purchasing and Material Services

Janet P. Wejman

Senior Vice President and Chief Information Officer

Thomas J. Barrack, Jr.

Chairman and Chief Executive Officer, Colony Advisors, Inc.



Gordon M. Bethune

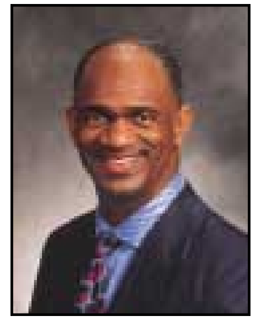
Chairman and Chief Executive Officer, Continental Airlines, Inc.

David Bonderman

Managing Partner, Texas Pacific Group

Gregory D. Brenneman

President and Chief Operating Officer, Continental Airlines, Inc.

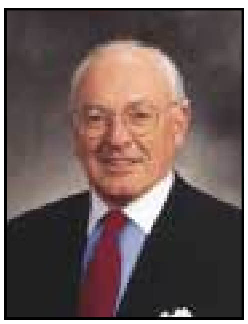


Kirbyjon H. Caldwell

Reverend, The Windsor Village–St. John's United Methodist Church

Patrick Foley

Chairman, Eventsource.com

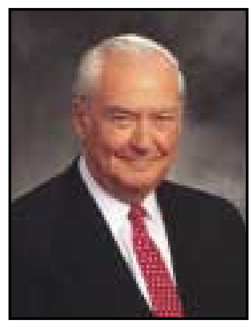


Douglas H. McCorkindale

Vice Chairman and President, Gannett Co., Inc.

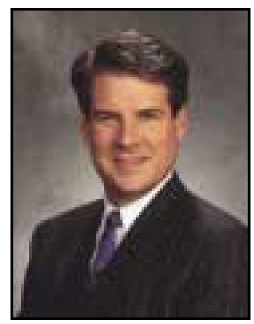
George G. C. Parker

Assoc. Dean for Academic Affairs and Dir. of the MBA Program, Graduate School of Business, Stanford University



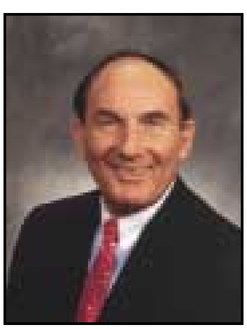
Richard W. Pogue

Senior Advisor, Dix & Eaton



William S. Price III

Managing Partner, Texas Pacific Group



Donald L. Sturm

Chairman and Chief Executive Officer, Sturm Group, Inc.

Karen Hastie Williams

Partner, Crowell & Moring

Charles A. Yamarone

Executive Vice President, U.S. Bancorp Libra

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Investor Information
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Houston, TX 77210-4607

Transfer Agent and Registrar
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P.O. Box A3504
Chicago, IL 60690-3504
Attn: Shareholder Services
Tel. (800) 846-2914

Independent Accountants
Ernst & Young LLP
One Houston Center
1221 McKinney
Houston, TX 77010-2007

Common Stock
Continental's Class B and Class A common stock trade on the New York Stock Exchange under the symbols CAL and CAL.A. As of February 16, 2000, there were 52,001,821 shares of Class B and 11,262,949 shares of Class A common stock outstanding, with approximately 14,668 holders of record of Class B and 2,884 holders of record of Class A.

Holders of Class B common stock are entitled to one vote per share, and holders of Class A common stock are entitled to ten votes per share, on all matters submitted to a vote of common stockholders, subject to restrictions governing voting rights of holders who are not United States citizens. Shares of Class A common stock are convertible at any time into an equal number of shares of Class B common stock. The Company has not paid cash dividends on its common stock and has no current intention to do so. Certain of the Company's credit agreements and indentures limit the ability of the Company and certain of its subsidiaries to pay cash dividends.

Below are the high and low sale prices for the Class B and Class A common stock as reported on the New York Stock Exchange for 1999 and 1998:

Class B and Class A Stock Prices for 1999 and 1998

	Class B				Class A			
	1999		1998		1999		1998	
	High	Low	High	Low	High	Low	High	Low
First Quarter	\$41 11/16	\$30	\$62 1/16	\$44	\$44 15/16	\$34 1/8	\$64 1/4	\$47 3/4
Second Quarter	\$48	\$36 7/16	\$64	\$54 1/16	\$48	\$36 13/16	\$64 1/2	\$55 3/4
Third Quarter	\$44 9/16	\$31 5/8	\$65 1/8	\$35 3/4	\$44 3/8	\$31 13/16	\$64 3/4	\$36 1/2
Fourth Quarter	\$44 3/8	\$32 3/8	\$42 13/16	\$28 7/8	\$44 11/16	\$32 3/16	\$43 5/16	\$30 7/8