Continental Airlines 2000 Annual Report

2000 Accomplishments

FLY TO WIN

- Earned $562 million pre-tax income
- Captured 112% of industry average revenue per available seat mile
- Attracted 47.6% of revenue from business ticket sales
- Reduced distribution cost as a percent of sales
- Motivated 54% of travelers to choose an eTicket
- Placed eService Centers in 60 cities
- Booked more than $320 million in revenue through www.continental.com

FUND THE FUTURE

- Reached agreement to acquire all CAL.A shares
- Maintained cash balances of at least $1 billion, ending year at $1.4 billion
- Bought back stock worth $449 million in open market
- Prepaid over $400 million of debt
- Financed $2.7 billion at an average rate of 7.45%, including aircraft deliveries through third quarter 2001

MAKE RELIABILITY A REALITY

- Ranked No. 1 in on-time arrivals among all U.S. airlines
- Completed 98.3% of all flights scheduled
- Named No. 1 in Customer Satisfaction on Long Haul and Short Haul Flights by J.D. Power and Associates
- Paid on-time bonuses (worth $785 per employee) in 11 out of 12 months
- Delivered on our Customer First promises and implemented new service recovery procedures
- Introduced into service the all-new 767-400/200

WORKING TOGETHER

- Climbed to the No. 18 position on *Fortune's* list of "The 100 Best Companies to Work For in America." Placed on list for third straight year
- Delivered on promise to bring wages to industry standard
- Completed company-wide health initiative with no increase in health care costs to employees
- Successfully completed and ratified four-year agreement with the Flight Attendants
- Gave away another 17 Ford Explorers (Eddie Bauer Edition with taxes paid) under the employee perfect attendance program (total of 83 since 1996)
- Improved work environment by completing 27 breakroom remodeling projects in CLE,IAH, EWR

arrived ontime

After six years of working the Go Forward Plan, Continental Airlines has secured its position at the top of the industry by delivering consistently high-quality, on-time, passenger-friendly service.

Financial Highlights

(in millions of dollars, except per share data)

	Year Ended December 31,				
	2000	1999	1998	1997	1996
Operating Revenue	$ 9,899	$ 8,639	$ 7,927	$ 7,194	$ 6,347
Total Operating Expenses	9,215	8,039	7,226	6,478	5,822
Operating Income	684	600	701	716	525
Income Before Income Taxes, Minority Interest, Cumulative Effect of Accounting Changes, Extraordinary Charges and Special Items[1]	562	553	770	640	556
Income Before Cumulative Effect of Accounting Changes and Extraordinary Charge	348	488	387	389	325
Net Income	342	455	383	385	319
Basic Earnings per Share	$ 5.62	$ 6.54	$ 6.34	$ 6.65	$ 5.75
Diluted Earnings per Share	$ 5.45	$ 6.20	$ 5.02	$ 4.99	$ 4.17
Diluted Earnings per Share Adjusted for Cumulative Effect of Accounting Changes, Extraordinary Charges and Special Items[1]	$ 5.45	$ 4.61	$ 6.03	$ 5.03	$ 5.21

[1] Special items include a gain on the sale of non-strategic assets of $9 million in 2000, 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, and a fleet disposition charge of $128 million in 1996.

Operating Statistics

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

	2000	1999	1998	1997	1996
Revenue passengers (thousands)	46,896	45,540	43,625	41,210	38,332
Revenue passenger miles (millions) (a)	64,161	60,022	53,910	47,906	41,914
Available seat miles (millions) (b)	86,100	81,946	74,727	67,576	61,515
Passenger load factor (c)	74.5%	73.2%	72.1%	70.9%	68.1%
Breakeven passenger load factor (d)(e)	66.3%	64.7%	61.6%	60.1%	60.7%
Passenger revenue per available seat mile	9.84¢	9.12¢	9.23¢	9.29¢	9.01¢
Operating cost per available seat mile (e)	9.76¢	8.99¢	8.89¢	9.04¢	8.75¢
Average yield per revenue passenger mile (f)	13.20¢	12.45¢	12.79¢	13.11¢	13.22¢
Average price per gallon of fuel	86.69¢	47.31¢	46.83¢	62.91¢	60.92¢
Fuel gallons consumed (millions)	1,537	1,542	1,487	1,357	1,228
Actual aircraft in fleet at end of period	371	363	363	337	317

(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 nonrecurring 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.

To Our Co-workers, Customers and Stockholders

Gordon Bethune
Chairman of the Board and
Chief Executive Officer

Just when you started thinking that things really couldn't get any better...they did.

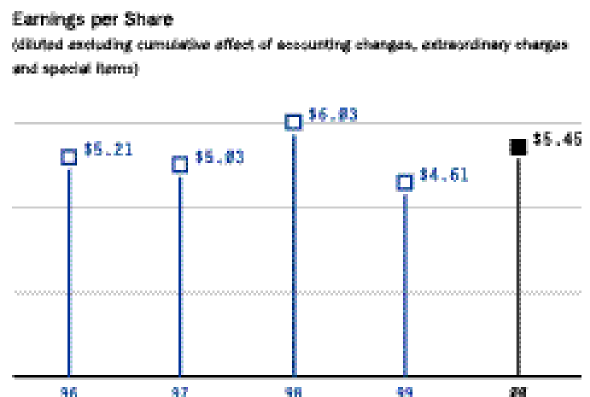
2000 was a truly outstanding year for us, no matter how you care to measure it.

We generated record revenue and exceeded our own record operational performance while we increased earnings per share (excluding special items). Capping those achievements was our agreement with Northwest Airlines to repurchase our Class A stock held by them and to reclassify the Class A stock into Class B stock, thereby freeing us to pursue our own destiny.

For many, many years Continental has had various controlling stockholders who often have clouded our future.Going all the way back to Continental's acquisition by Texas Air Corporation in 1982, we've had a succession of controlling stockholders including Texas Air, Air Partners, Air Canada and Northwest Airlines.

Now, for the first time, all stockholders will have an equal voice and equal treatment. Our employees will know that our agenda includes only what's best for them, our customers and the broad-based owners of our common stock. We all now will share a common goal and a common approach to success. We only win when we all win together — employees,customers and stockholders.

That approach has been responsible for our record six straight years of profitability and success. We've put our trust and confidence in each other and it has paid us all huge dividends. We continue to grow the gap between ourselves and our competitors on key metrics for financial performance,customer satisfaction and employee relations.



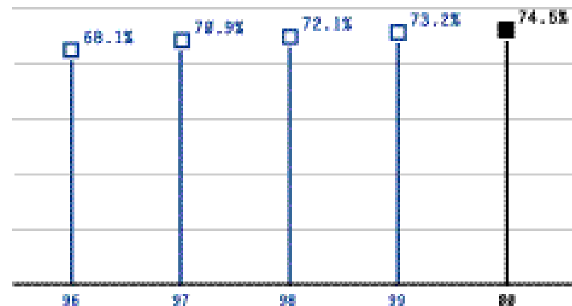
Our employees have created a culture and atmosphere of dignity and respect for one another. That foundation has put us among *Fortune* magazine's "100 Best Companies to Work For in America" for the past three years. No other airline, save Southwest Airlines, has ever achieved such long-term recognition.

For our customers,that meant six straight years of award winning customer service — no other airline has ever achieved this consistently high degree of customer satisfaction and public recognition of operational excellence. J.D. Power has awarded us the top customer satisfaction award four of the past five years. This year we won both long-haul and short-haul categories, shutting out the competition entirely.

Our stockholders have reaped the rewards of our collective approach to winning with 23 consecutive profitable quarters and six straight years of profitable performance. We've used our earnings to repurchase millions of our shares, thereby increasing the earnings of the remaining shares.

We know that by ensuring that our employees,customers and stockholders all win or lose together, we can continue to maintain success for each of us.

GO FORWARD PLAN — For the past six years, we have proven that what gets measured and rewarded gets done. The Go Forward Plan has provided us a practical, measurable and flexible way to get all of our co-workers in our huddle and communicate the direction we want to take the Company.



Its four cornerstones — 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) — are as relevant today as they were six years ago.

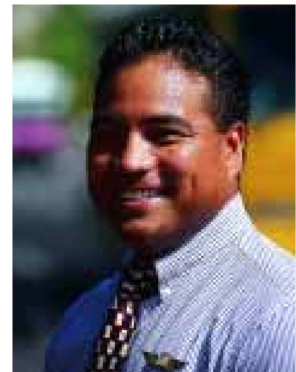
In the pages ahead we'll summarize what has been accomplished and what is to come.

Greg Brenneman
President and
Chief Operating Officer

FLY TO WIN — focuses us on meeting the needs of the marketplace. For the past six years, Continental has concentrated on flying to places people want to go in a clean, safe and reliable manner. We add to our product only those things that customers value such as new airplanes with large baggage bins, an award-winning frequent flyer program and good food. We let customers buy tickets the way they want to, while using technology to eliminate non-value-added costs. In short, we run an airline the way you would run an airline.

win

FLY TO WIN — We continue to deliver industry-leading financial results by leveraging our hubs in New York, Houston, Cleveland and Guam. Flying to places people want to go has allowed us to consistently grow our operation faster than our competitors while maintaining attractive profit margins.



(Left to Right) Houston MD-80 First Officer Roscoe Edwards ▪ 767-400 BusinessFirst cabin featuring 2-1-2 configuration ▪ Guam International Service Manager Gerard Damian ▪ Cleveland Lead Customer Service Agent James Johnson ▪ Continental Express First Officer Marco Johnson and Captain James Nelson ▪ Newark Customer Service Agent Diana Giron

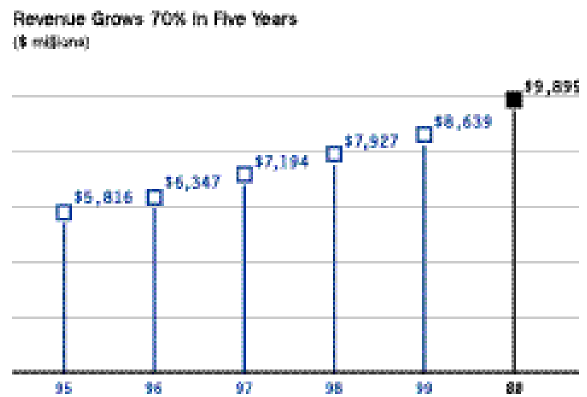
The results of our efforts include:

- growing our revenue from $5.8 billion in 1995 to $9.9 billion in 2000
- firmly establishing Continental as the number one player in the transcontinental U.S.market and the strong number two player to Latin America
- offering more transatlantic destinations out of New York than any other carrier in history
- doubling the cities served out of Cleveland while making it the fastest growing hub in the United States
- increasing the percentage of our revenue from high-yield business passengers

In addition, our unit-revenue premium to the industry continues to increase and averaged 112% in 2000 — 3.5 points higher than 1999.

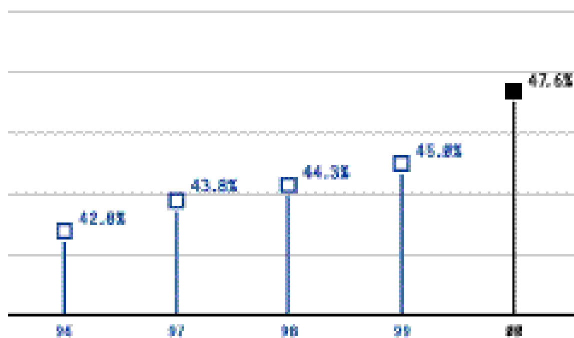
Over the course of 2001, we look forward to finishing our entire $1 billion New York Global Gateway project at Newark International Airport. The Global Gateway project will allow us to double the passenger volume through Newark over the next several years. The project centerpieces are a new terminal and international arrival hall that

Revenue Grows 70% in Five Years
($ millions)



will allow us to add many more international flights and a quick 30-minute monorail/train connection from the airport to Manhattan's Penn Station or to the World Trade Center. The project also includes new roadways, a parking garage, a new arrival hall and many new operations build-

Revenue Derived from Business Travelers



ings to provide our co-workers with the tools they need to do their jobs.

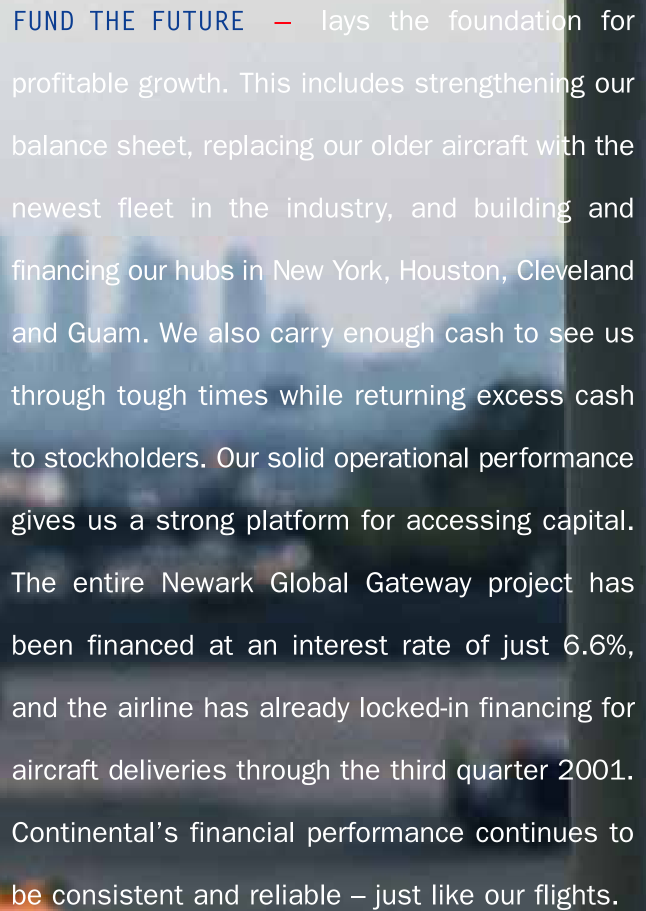
We also look forward to our new international services from Newark to Hong Kong; Stansted, England; and Buenos Aires, Argentina,that will be launched in 2001.

Our alliance partners allow us to provide a broader network for our customers. We are particularly pleased with the extension of our alliance with Northwest to 2025. The Northwest alliance has been good for both companies and for our joint customers.

The Internet and electronic tickets are rapidly changing how our customers want to buy tickets and manage their travel experience. This is a positive for both Continental and our customers as hundreds of millions of dollars of non-value-added costs can be removed from the current distribution system.

We plan to be able to electronically transfer tickets back and forth from Continental and several other major carriers by the end of 2001. Customers will find this very appealing, and the process will help pave the way for a complete elimination of paper tickets, thereby again saving millions of dollars of non-value-added costs.

fund the future

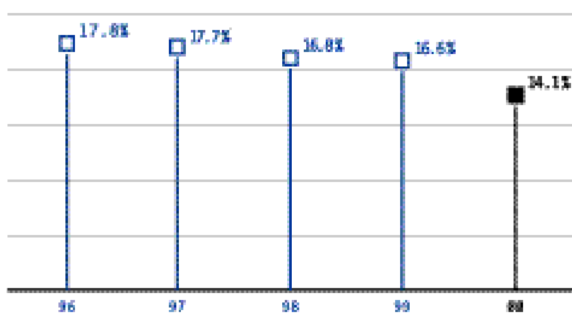


FUND THE FUTURE – lays the foundation for profitable growth. This includes strengthening our balance sheet, replacing our older aircraft with the newest fleet in the industry, and building and financing our hubs in New York, Houston, Cleveland and Guam. We also carry enough cash to see us through tough times while returning excess cash to stockholders. Our solid operational performance gives us a strong platform for accessing capital. The entire Newark Global Gateway project has been financed at an interest rate of just 6.6%, and the airline has already locked-in financing for aircraft deliveries through the third quarter 2001. Continental's financial performance continues to be consistent and reliable – just like our flights.

Newark Senior Manager of Corporate Real Estate Ed O'Sullivan and Program Principal Richard Smyth

In 2001, we'll also provide web-based solutions for each of our three basic types of customers. Our most extremely price-sensitive customers will continue to move away from the traditional consolidators as they take advantage of web specials on www.continental.com and on sites

Falling Distribution Expenses Improve Return on Revenue
(distribution expense as a percent of revenue)



like Hotwire.com. Loyal Continental customers will see a dramatic improvement in our web site to include services such as frequent flyer redemption and improved account information. Finally, we expect Orbitz.com — the airline co-sponsored web site — to be operational mid-year for those customers who want an unbiased comparison of inventory available on all carriers.

FUND THE FUTURE — In spite of the highest fuel prices since the Gulf War, we generated $562 million in pretax income in 2000 and have delivered 23 straight quarters of profit. We also generated significant cash flow and ended 2000 with $1.4 billion in cash. This marks the fifth consecutive year we have exceeded our $1 billion cash balance target. We certainly retain our financial strength,and have done so despite record fuel prices.

We also have been very aggressive about paying down debt and returning cash to our stockholders. In 2000, we added $272 million to our stock buyback program, bringing the total to $1.5 billion. We completed $1.2 billion of this buyback by year-end. On January 22, 2001, we bought back $450 million of our Class A shares from Northwest and reclassified all Class A shares into 1.32 Class B shares. We now have one class of stock (CAL) and

believe this simplified ownership structure will benefit all stockholders. You can expect us to use half of future net income,all the proceeds of purchases of our stock by employees and any cash generated from sales of non-strategic assets to repurchase our stock on an ongoing basis. We also pre-paid more than $400 million of debt during 2000 from our strong cash flow.

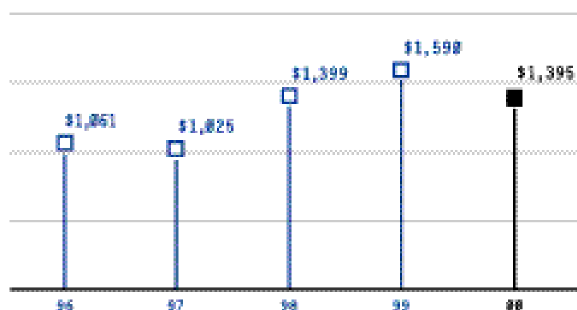
We continued to use our credibility in the financial markets to finance new airplanes and new facilities in our hubs. During 2000, we financed $2.7 billion in debt at an average interest rate of 7.45%, giving us the cost structure to compete with anyone in our industry.

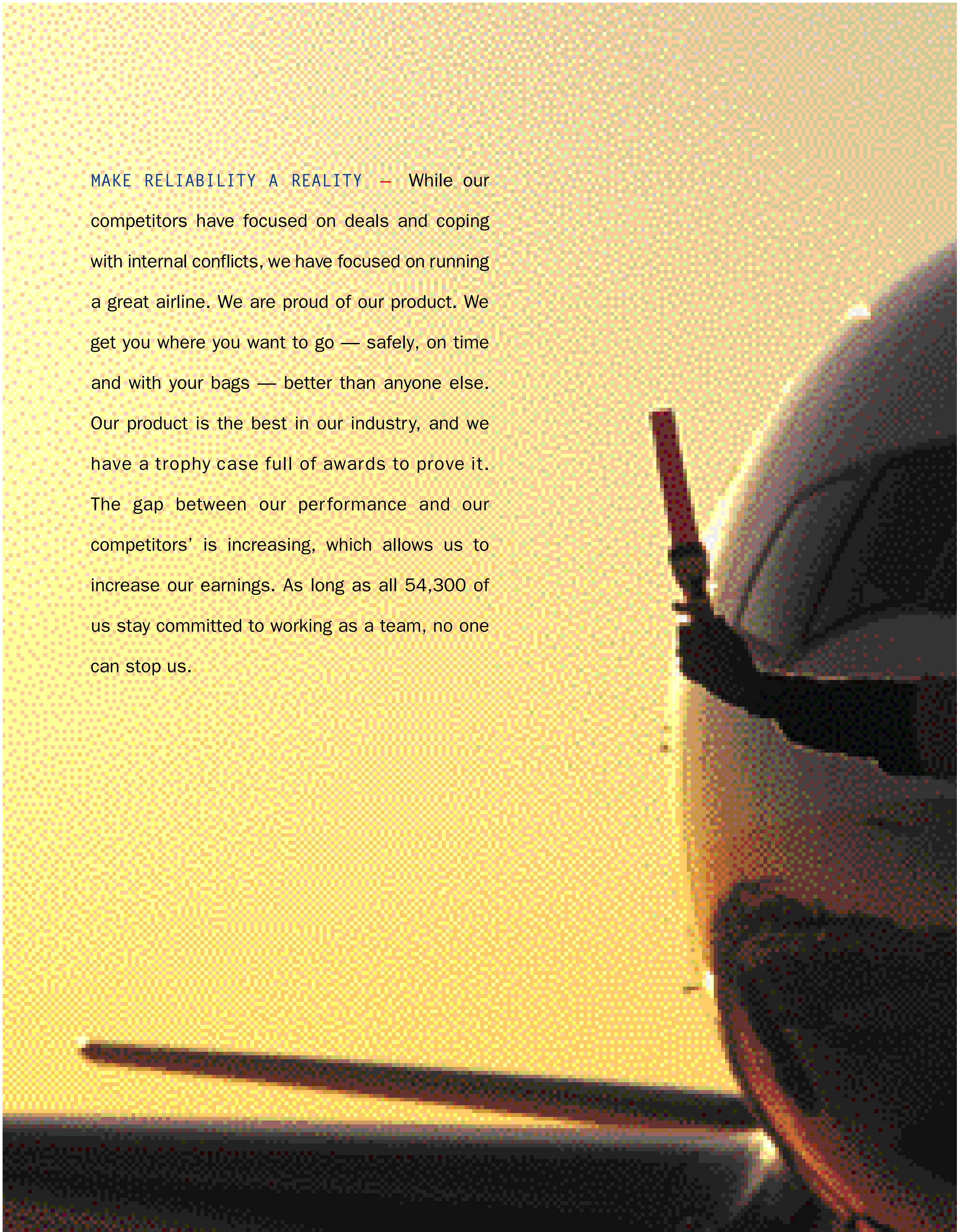
As a result, Continental's average jet fleet age is only 6.7 years, one of the youngest in the industry. The net effect is that our customers now get a much better product at an overall lower cost to Continental. In fact, the fuel efficiency of this new all-Boeing fleet is the best long-term hedge we have against higher oil prices. In addition, we recorded a $44 million gain from fuel-hedging strategies for the year.

We took our first deliveries in 2000 of the all-new Boeing 767-400 and the 767-200 aircraft. These airplanes, along with the 16 Boeing 777s we have, will allow us to

(Left to Right) Senior Vice President-Airport Services Mark Erwin and Senior Vice President-Technical Operations George Mason ▪ Senior Vice President-Scheduling Glen Hauenstein and Executive Vice President-Operations C.D. McLean ▪ Senior Vice President-Human Resources Mike Campbell and Vice President-Domestic Revenue Management Leon Kinloch ▪ Manager of Diversity and Fair Employment Practices Kim Harris, Senior Director of International Business Development Ai-Phuong Dang and Managing Director of Financial Systems Dan Morales ▪ Senior Vice President-Sales and Distribution Bonnie Reitz

Healthy Cash Balance Provides a Cushion
(cash and short-term investments, $ millions)





MAKE RELIABILITY A REALITY — While our competitors have focused on deals and coping with internal conflicts, we have focused on running a great airline. We are proud of our product. We get you where you want to go — safely, on time and with your bags — better than anyone else. Our product is the best in our industry, and we have a trophy case full of awards to prove it. The gap between our performance and our competitors' is increasing, which allows us to increase our earnings. As long as all 54,300 of us stay committed to working as a team, no one can stop us.

make
reliability
a reality

retire all of our DC-10s by 2003. In addition, we ordered 15 brand new Boeing 757-300s, which along with the 737-800s and 737-900s we currently have on order, are part of our plan to retire all our MD-80s by 2005. We plan to grow at 5-10% annually subject to achieving our

(Left to Right) Tampico Airport Sales Agent Alejandra Rebullosa ▪ Houston Cargo Agent Antheyl Johnson ▪ Cleveland First Officer Mark Wido ▪ Houston Mechanic Marocha Vishua ▪ Houston Airport Sales Agent Janie Zimont

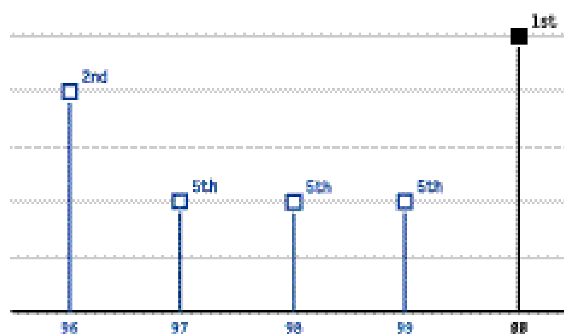
profit margin targets, but our flexible fleet plan allows us to adjust this growth as appropriate.

Continental Express continues to rapidly move toward an all-jet fleet utilizing the fast, quiet Embraer regional jet. At year-end, Continental Express had 96 of these jets in service and 178 more on order.

In addition to the completion of the Newark Global Gateway project in 2001, we will begin construction of a new 15-gate international terminal and arrivals hall in Houston. We expect this important project to be completed by 2003.

MAKE RELIABILITY A REALITY — We continued to widen the gap between the service level we provide and that of our competitors. Continental had its best operational year ever in 2000. We did this by focusing on the basics of our business, ranking first among U.S. airlines for on-time

Top-Tier Performance in On-Time Arrivals Ranking



arrivals. This also means getting you to your destination safely and with your bags, serving you good food at meal times and showing you movies and videos on most of our longer flights.

We continue to make decisions that benefit you, such as

opening new Presidents Clubs, providing you with the largest closets and bins allowable so you can carry your bags on the plane,fighting other airlines' efforts to install baggage sizers at security checkpoints and buying new airplanes with better seats to make your flight mo re comfortable.

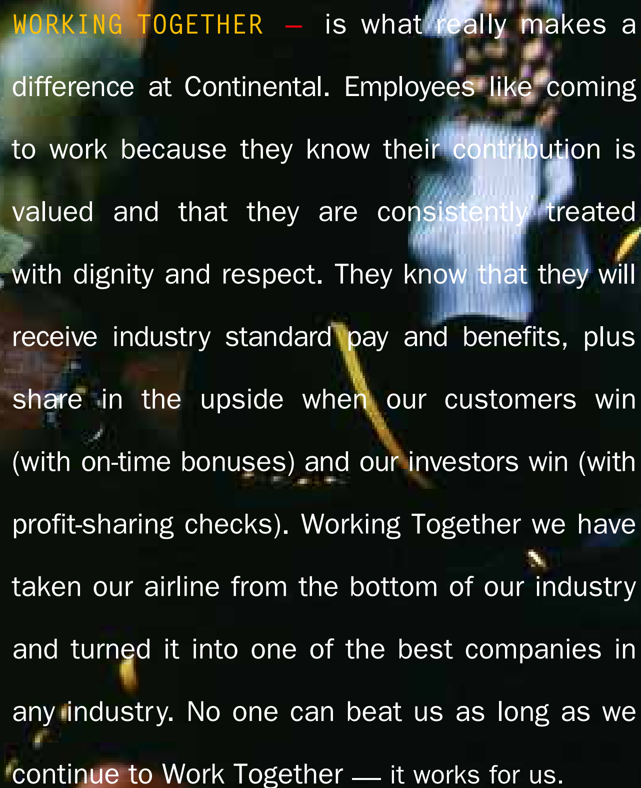
We work very hard to serve you even when we make a mistake. That's why we put in a customer service hotline (1-800-WE-CARE2), a bag hotline (1-800-335-BAGS) and a 1-800 employee hotline so that problems can be fixed right away. Please help us serve you better by putting your name and

address on the inside of your bag. We do not lose many bags, but if we happen to lose yours it is usually because the tags came off the outside of the bag, and there's no ID inside the bag.

No part of our operation improved more in 2000 than did our operation in Newark. There is no tougher airspace to fly into than the airspace around New York City. Our 13,000 employees in Newark along with our partners at the FAA and the Port Authority have worked to make Newark the preferred airport in the New York/New Jersey region.

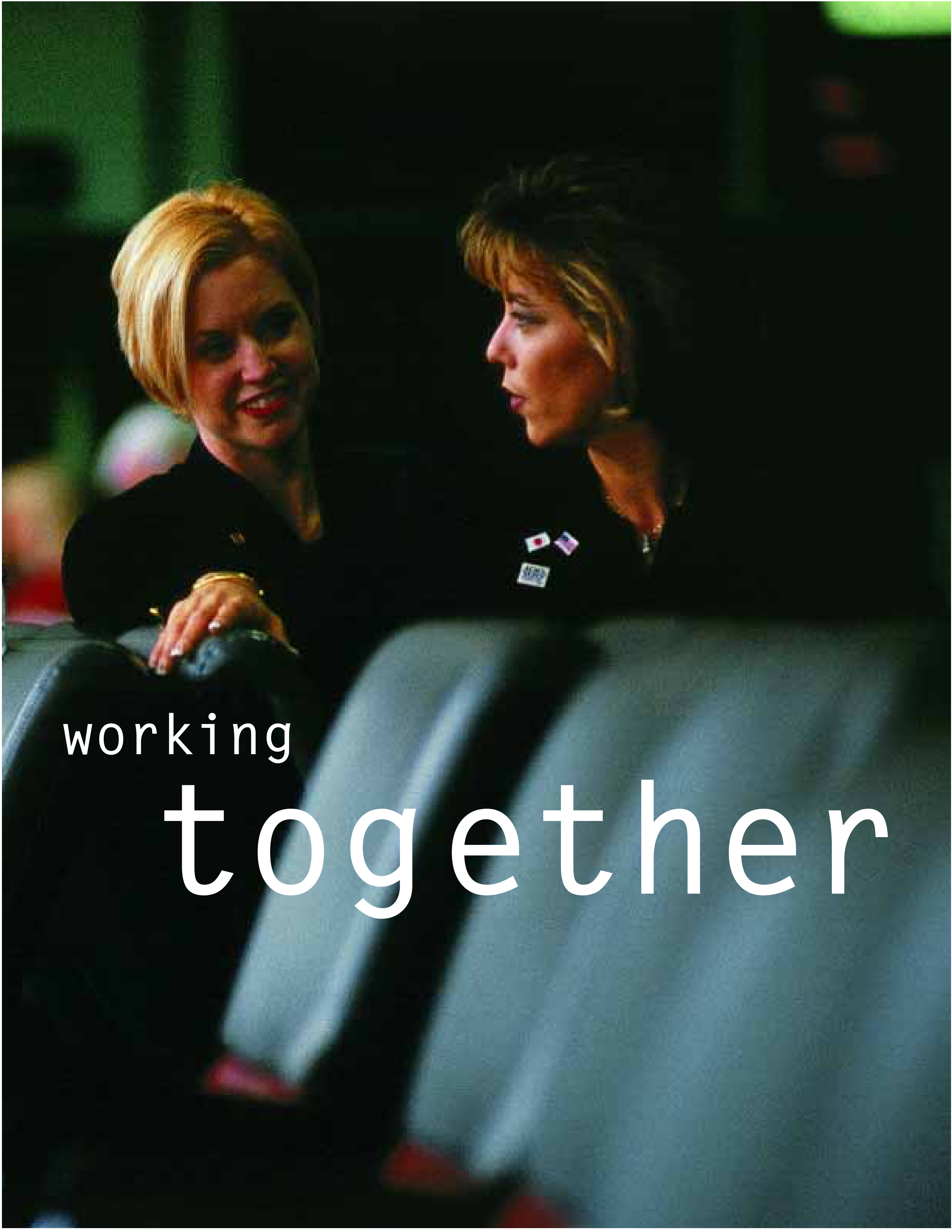
All of this focus showed up in the awards we received in 2000. In addition to sweeping the J.D. Power Awards for having the best product, we also won our fourth straight Freddie Award for delivering the best frequent flyer program. We also were once again recognized for our BusinessFirst product as best-in-class by highly regarded publications such as *The Wall Street Journal*, *Nikkei Business* and *Condé Nast Traveler*.

We also need your help in convincing your elected officials to spend the high tax on your tickets to upgrade the air traffic control system. The system is near gridlock and needs to be controlled by a responsive, independent entity like has been done in Canada and is being done in the U.K. This will allow the hard working men and women who serve as air traffic controllers to get the incentives and equipment they deserve and will allow the public's ever-growing demand for air travel to be met safely and efficiently. We recognize that no one wins when we're all caught in gridlock in our airports and in the air.



WORKING TOGETHER — is what really makes a difference at Continental. Employees like coming to work because they know their contribution is valued and that they are consistently treated with dignity and respect. They know that they will receive industry standard pay and benefits, plus share in the upside when our customers win (with on-time bonuses) and our investors win (with profit-sharing checks). Working Together we have taken our airline from the bottom of our industry and turned it into one of the best companies in any industry. No one can beat us as long as we continue to Work Together — it works for us.

Houston Flight Attendants Tammy Mauzey, James Jones Jr., Joy Wiitala, Renee Guillemot and Andie Doherty


working
together

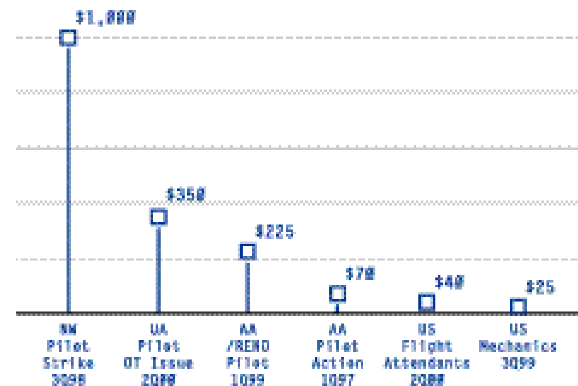
WORKING TOGETHER — Working together works for us! While our competitors have been spending millions reaccommodating passengers when they run late or cancel flights due to labor unrest and internal fighting, we have been treating each other with dignity and respect. Our focus remains on setting direction and then letting everyone do their job based on what benefits the customer and the Company, without interference from management. Being named to *Fortune* magazine's "100 Best Companies to Work For in America" list three years in a row says it all.

We continue to provide forums where we listen to the feedback from our co-workers, and we continue to deliver on our promises.

By July 2000, we fully implemented the promise we made in July 1997 that all of our co-workers would be at industry standard pay. We made this promise because we refuse to finance our Company on the backs of our co-workers. Continental also began implementing a plan to bring benefits to industry standard,and we'll continue to adjust pay as the market changes and on the amendable date of contracts for employees who are represented by labor unions. In addition, we continue to reward everyone with on-time bonuses and profit sharing so when our customers and investors win, we all win. In 2000, the professional men and women of

(Left to Right) Houston Sous Chef Victor Diaz and Executive Chef Gerry McLoughlin of Chelsea Catering ▪ Cleveland Flight Attendant Maggie Robinson and Newark Inflight Supervisor B.J. Stroupe ▪ Houston Lead Customer Service Agent Susan Thrasher ▪ Houston (Richmond Ave.) Reservation Agent Joanna Couch

Avoiding the Expense of Poor Labor Relations
(pre-tax impact - $ millions)



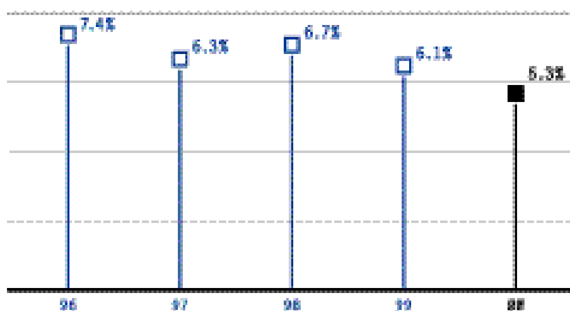
Continental earned bonus checks in 11 out of 12 months — worth $785 per employee — for on-time performance as measured by the Department of Transportation.

It is not surprising that everyone wants to work at Continental these days and almost no one wants to leave. In

In January 2001 we completed the NWA transaction and celebrated our new-found freedom with a systemwide Independence Day celebration for employees.

Our new airplanes, new routes and expanded facilities will further our growth and broaden our appeal to customers

Employees Stick with Continental
(voluntary turnover percentages of active employees, jet operations only)



2000, our turnover was an all-time low rate of 5.3%.

Working Together we have made Continental the best airline in the world. We are all proud to be on the Continental team.

2001 holds much promise for us all.

and investors in 2001.

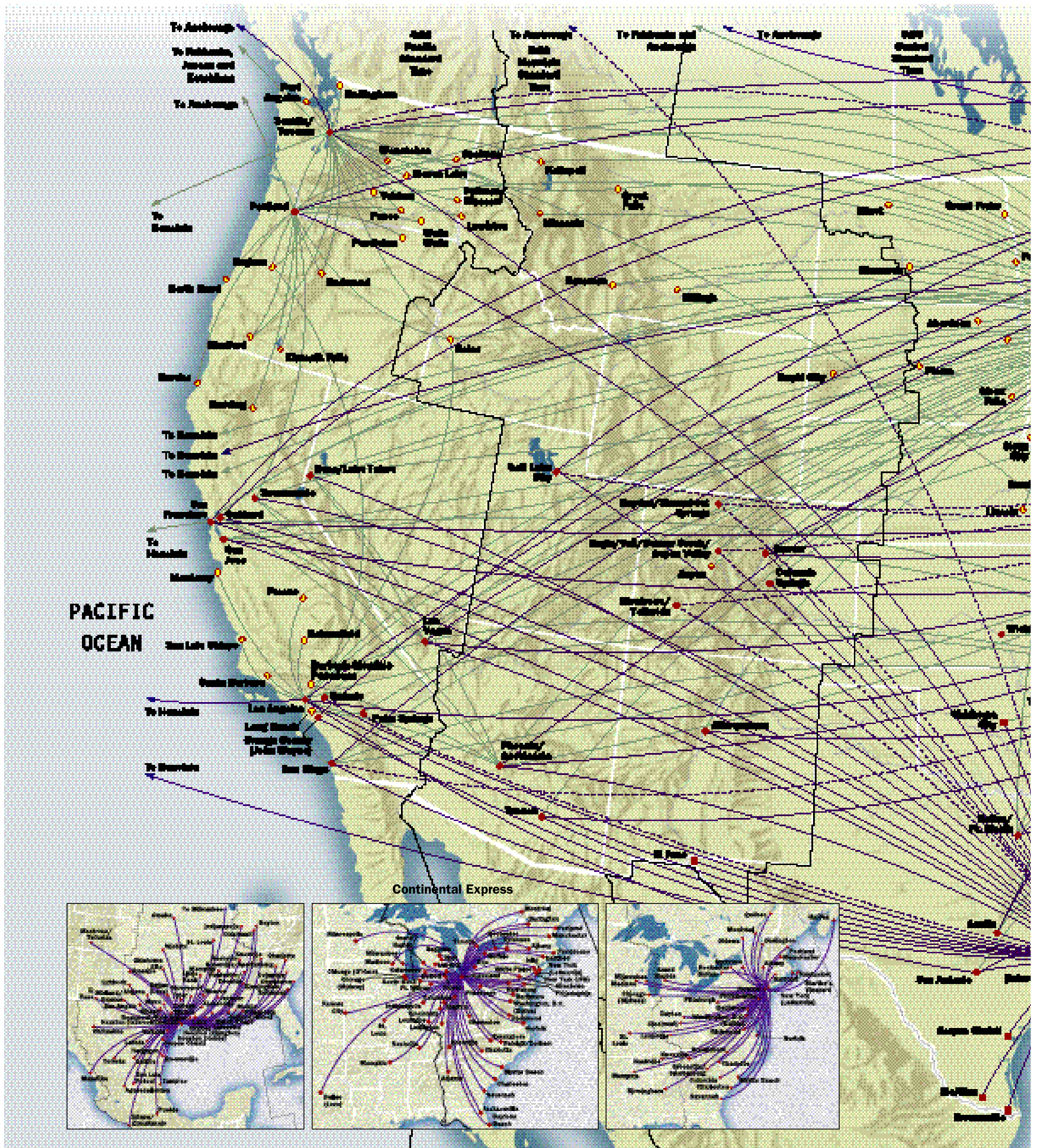
Most importantly, we will continue to build on the trust and confidence we have in each other. We remain committed to ensuring that when we win, we all win — employees, customers and stockholders alike.

"Work Hard. Fly Right" is more than a catchy slogan. It exemplifies who we are and what we do.

As we've often said before — stick with us, we're going no place but up.

Gordon Bethune
Chairman of the Board
and Chief Executive Officer

Greg Brenneman
President and Chief
Operating Officer

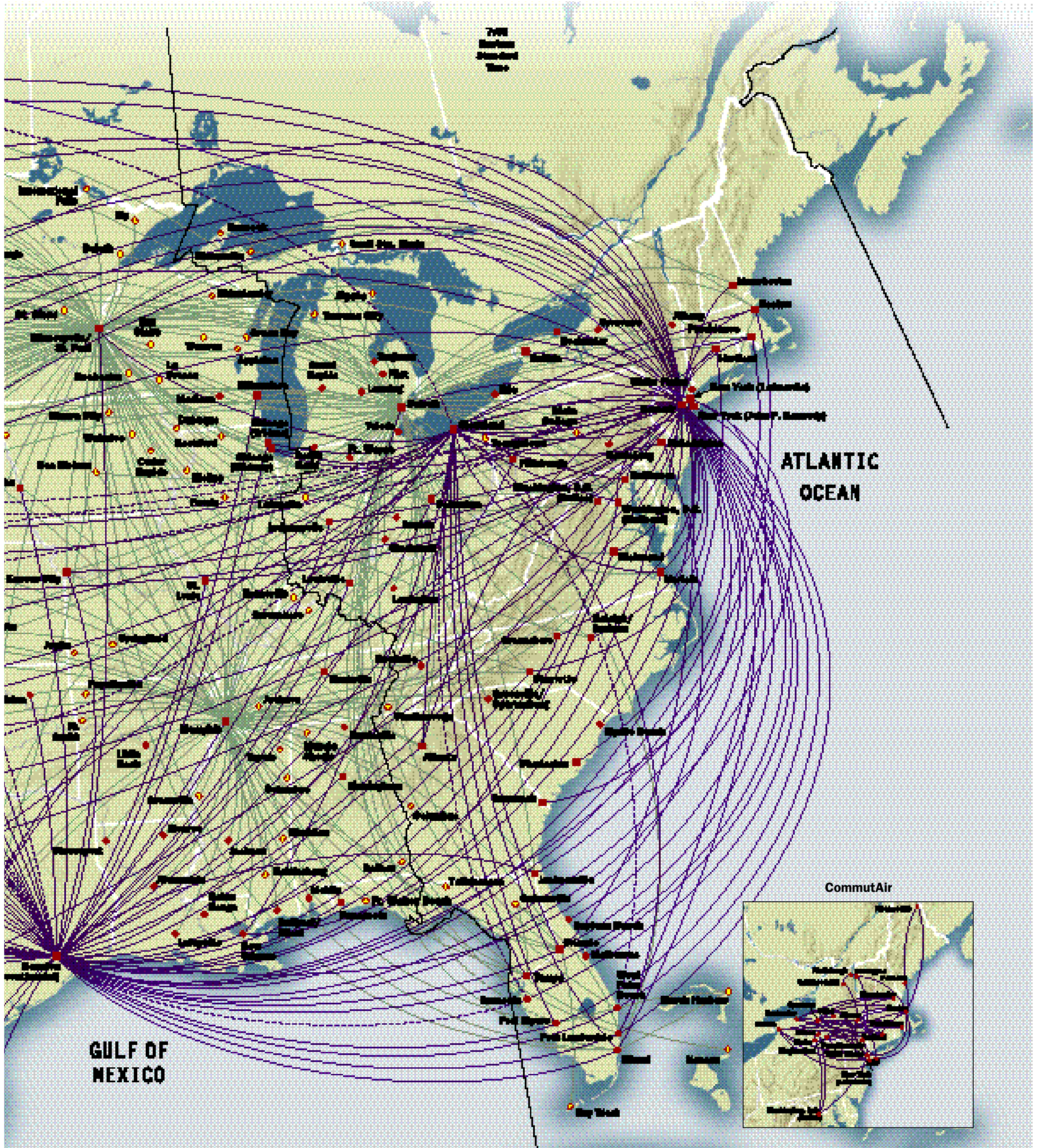


United States Route System

Continental Route

Cooperative Services Operated by Partner Airlines

Seasonal Service

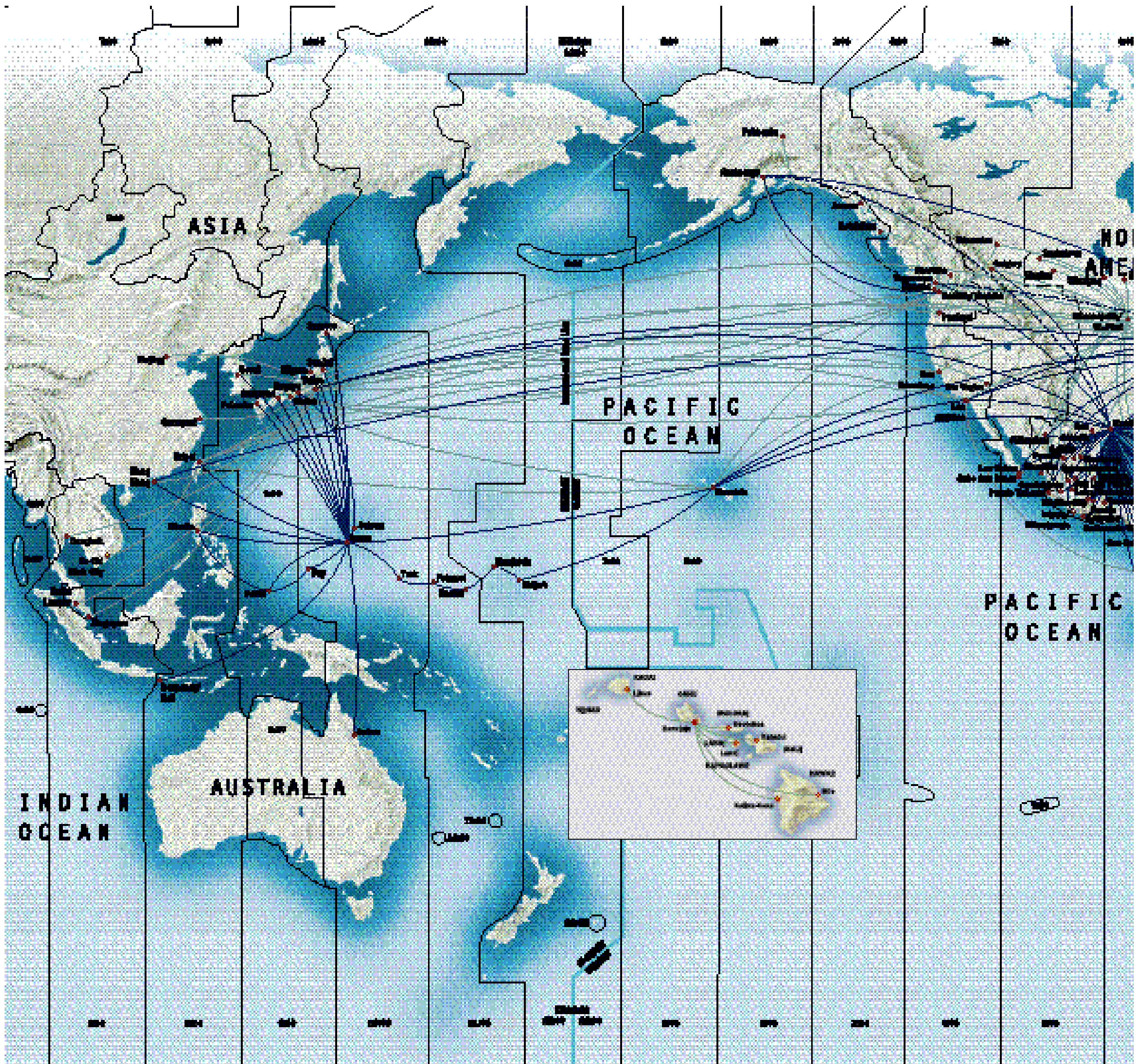


Time Zone Boundary

Continental Destination

Continental/Continental Express Destination

Cooperative Airline Destination (Alaska Airlines, America West, CommutAir, Gulfstream International, Hawaiian Airlines, Horizon Air and Northwest)

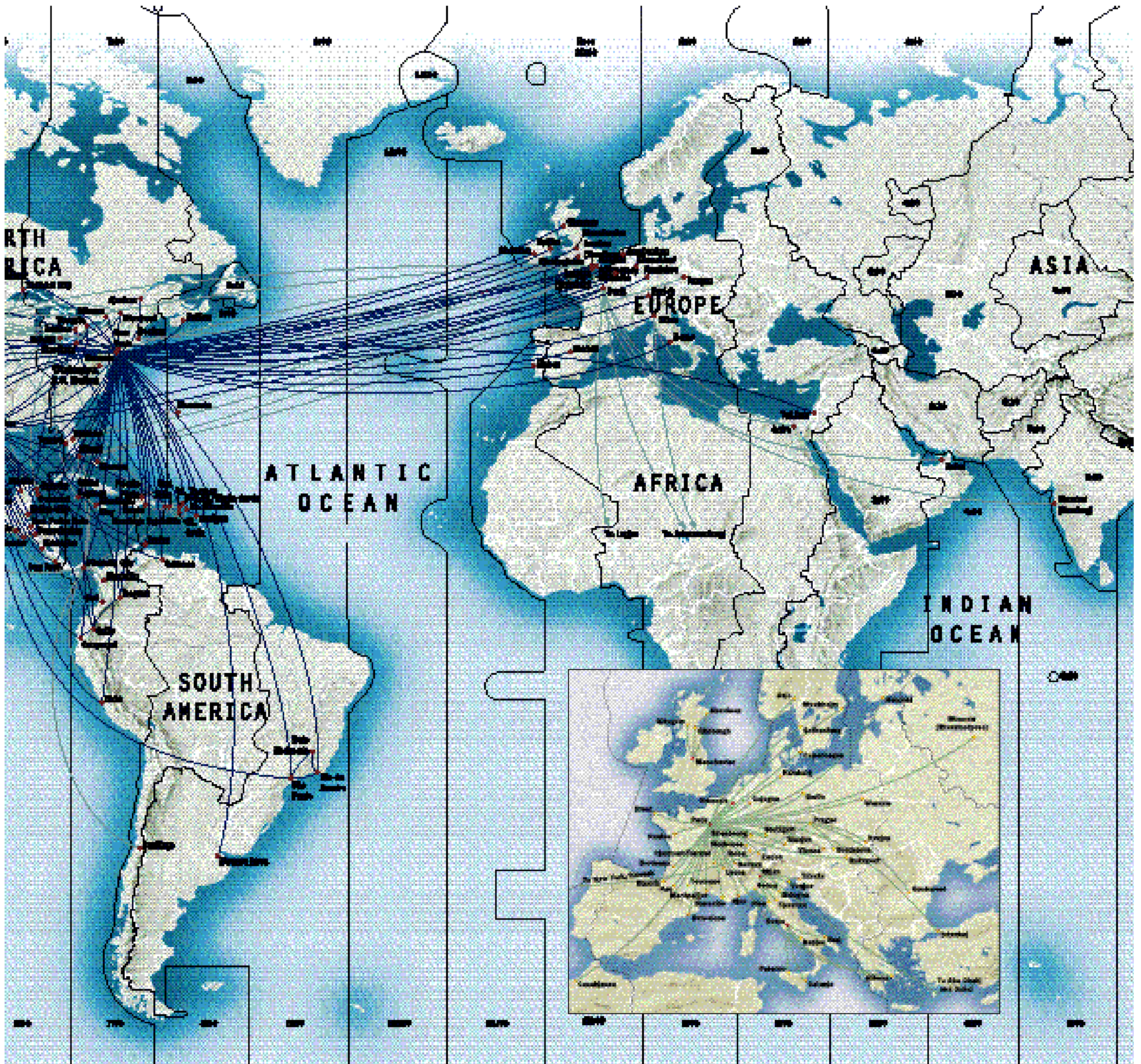


International Route System

Continental Route

Cooperative Services Operated by Partner Airlines

Seasonal Service



Time Zone Boundary

Continental Destination

Continental/Continental Express Destination

Cooperative Airline Destination (Air France, Alitalia, British Midland, Copa Airlines, CSA/Czech, Eva Air, Gulfstream International, Hawaiian Airlines, Virgin and Northwest)

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Management's Discussion and Analysis of Financial Condition and Results of Operations

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, 2000, which identify 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. Rising jet fuel prices significantly impacted results of operations in 2000. However, management believes the Company is well positioned to respond to market conditions in the event of a sustained economic downturn due to its flexible fleet plan, a strong cash balance 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, 2000.

Comparison of 2000 to 1999. The Company recorded consolidated net income of $342 million and $455 million for the years ended December 31, 2000 and 1999, respectively. Net income in 2000 included a $6 million after-tax gain on the sale of a right of first refusal and the Company's investment in America West Holdings Corporation ("America West Holdings") and a $6 million extraordinary charge from the early repayment of debt. Net income in 1999 was significantly impacted by several non-recurring items, including $200 million of after-tax gains on the sale of the Company's interest in AMADEUS Global Travel Distribution S.A. ("AMADEUS") and other investments, a $50 million after-tax fleet disposition/impairment loss related to the early retirement of several DC-10-30's and other items and 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.

Passenger revenue increased 14.7%, $1.2 billion, during 2000 as compared to 1999. The increase was principally due to new transatlantic and Latin American destinations served as well as an improvement in yield and load factor.

Cargo and mail revenue increased 18.8%, $57 million, in 2000 as compared to 1999 primarily due to increased international volumes resulting from new markets.

Wages, salaries and related costs increased 13.3%, $335 million, during 2000 as compared to 1999, primarily due to a 5.8% increase in average full-time equivalent employees to support increased flying, increased employee incentives 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 86.5%, $667 million, in 2000 as compared to the prior year. The average price per gallon increased 83.2% from 47.31 cents in 1999 to 86.69 cents in 2000. In addition, jet fuel consumption decreased 0.3% even with increased flight operations principally reflecting the fuel efficiency of the Company's younger fleet. During 2000 and 1999, the Company recognized gains of approximately $44 million and $90 million, respectively, related to its fuel hedging program.

Aircraft rentals increased 9.5%, $73 million, during 2000 as compared to 1999, due to the addition of newer aircraft.

Maintenance, materials and repairs increased 7.1%, $43 million, in 2000 as compared to 1999 due to an increase in line maintenance and the volume and timing of engine overhauls as part of the Company's ongoing maintenance program.

Landing fees and other rentals increased 7.0%, $35 million, in 2000 as compared to 1999 primarily due to higher facilities rent and landing fees resulting from increased operations.

Commissions expense decreased 8.7%, $50 million, during 2000 as compared to 1999 due to a lower volume of commissionable sales and lower rates resulting from international commission caps.

Reservations and sales expense increased 9.9%, $41 million, in 2000 as compared to 1999 primarily due to higher credit card fees resulting from increased sales.

Depreciation and amortization expense increased 11.7%, $42 million, in 2000 compared to 1999 primarily due to the addition of new aircraft and related spare parts.

Passenger servicing expense increased 4.0%, $14 million, in 2000 compared to 1999 primarily due to an increase in food costs caused by an increase in passengers.

During 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. In addition, the market value of certain Boeing 747 aircraft no longer operated by the Company had 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 1999.

Other operating expense increased 5.2%, $57 million, in 2000 as compared to the prior year, primarily as a result of increases in outsourced services, travel and other incidental costs, and other miscellaneous expense.

Interest expense increased 7.7%, $18 million, in 2000 as compared to 1999 due to an increase in long-term debt resulting from the purchase of new aircraft, partially offset by interest savings due to the conversion of the Company's 6¾% Convertible Subordinated Notes into Class B common stock, par value $.01 per share ("Class B common stock"), in the second quarter of 1999 and the repurchase of the Company's remaining 9½% senior unsecured notes in 2000.

Interest income increased 22.5%, $16 million, in 2000 as compared to 1999 due to higher average balances of cash, cash equivalents and short-term investments and due to higher interest rates.

The Company's other nonoperating income (expense) in 2000 included a $9 million gain related to the sale of a right of first refusal and the Company's remaining investment in America West Holdings, partially offset by foreign currency losses of $8 million. Other nonoperating income (expense) in 1999 included a $33 million gain on the sale of a portion of the Company's interest in Equant N.V. ("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.com, Inc.

In 2000, an extraordinary charge of $6 million (net of income tax benefit) was recorded related to the early extinguishment of debt.

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 $200 million of after-tax gains on the sale of the Company's interest in AMADEUS and other investments, a $50 million after-tax fleet disposition/impairment loss related to the early retirement of several DC-10-30s and other items and 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. Net income in 1998 was significantly impacted by a $77 million after-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 2.7% decrease in yield. Both yield pressures in the transatlantic markets and a 6.7% increase in average stage length caused the decrease in 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 $90 million recognized during 1999 related to the Company's fuel hedging program. 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.

Landing fees and other rentals increased 20.0%, $83 million, during 1999 as compared to 1998 primarily due to higher facilities rent due to increased rates and volume and higher landing fees resulting from increased operations.

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.

Reservations and sales expense increased 12.8%, $47 million, in 1999 compared to 1998 primarily due to an increase in credit card discount fees and computer reservation system fees as a result of higher sales.

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.

Passenger servicing expense increased 13.9%,$43 million, in 1999 compared to 1998 primarily due to an increase in food costs caused by an increase in passengers.

Other operating expense increased 16.1%, $153 million, in 1999 as compared to the prior year, primarily as a result of increases in aircraft servicing expense and outsourced services.

Interest expense increased 30.9%, $55 million, in 1999 as compared to 1998 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 6¾% Convertible Subordinated Notes into Class B common stock.

Interest income increased 20.3%, $12 million, in 1999 as compared to 1998 due to higher average balances of cash, cash equivalents and short-term investments and due to higher interest rates.

CERTAIN STATISTICAL INFORMATION — An analysis of statistical information for Continental's jet operations, excluding regional jets operated by Continental Express, Inc.("Express"), a wholly owned subsidiary of the Company, for each of the three years in the period ended December 31, 2000 is as follows:

	2000	Net Increase/ (Decrease) 2000-1999	1999	Net Increase/ (Decrease) 1999-1998	1998
Revenue passengers (thousands)	46,896	3.0%	45,540	4.4%	43,625
Revenue passenger miles (millions) (1)	64,161	6.9%	60,022	11.3%	53,910
Available seat miles (millions) (2)	86,100	5.1%	81,946	9.7%	74,727
Passenger load factor (3)	74.5%	1.3 pts.	73.2%	1.1 pts.	72.1%
Breakeven passenger load factor (4)(5)	66.3%	1.6 pts.	64.7%	3.1 pts.	61.6%
Passenger revenue per available seat mile (cents)	9.84	7.9%	9.12	(1.2)%	9.23
Total revenue per available seat mile (cents)	10.67	8.2%	9.86	(0.9)%	9.95
Operating cost per available seat mile (cents) (5)	9.76	8.6%	8.99	1.1%	8.89
Average yield per revenue passenger mile (cents) (6)	13.20	6.0%	12.45	(2.7)%	12.79
Average price per gallon of fuel, excluding fuel taxes (cents)	86.69	83.2%	47.31	1.0 %	46.83
Average price per gallon of fuel, including fuel taxes (cents)	91.00	76.7%	51.51	0.6%	51.20
Fuel gallons consumed (millions)	1,537	(0.3)%	1,542	3.7%	1,487
Average fare per revenue passenger	$180.66	10.1%	$164.11	3.9%	$158.02
Average length of aircraft flight (miles)	1,159	4.0%	1,114	6.7%	1,044
Average daily utilization of each aircraft (hours) (7)	10:36	1.1%	10:29	2.6%	10:13
Actual aircraft in fleet at end of period (8)	371	2.2%	363	—	363

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 does not include the statistics for the capacity that was purchased by another carrier.

(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 four all-cargo 727 aircraft at Continental Micronesia, Inc.,a wholly owned subsidiary of the Company, in 1999.

LIQUIDITY AND CAPITAL RESOURCES — As of December 31, 2000, the Company had $1.4 billion in cash, cash equivalents and short-term investments, compared to $1.6 billion as of December 31, 1999. Net cash provided by operating activities increased $128 million during the year ended December 31, 2000 compared to the same period in the prior year primarily due to an increase in operating income. Net cash used by investing activities for the year ended December 31, 2000 compared to the same period in the prior year decreased $591 million, primarily as a result of the proceeds from the sale of short-term investments in 2000, partially offset by proceeds received from the sale of AMADEUS in 1999. Net cash used by financing activities increased $345 million primarily due to an increase in payments on long-term debt and capital lease obligations.

As of December 31, 2000, Continental had approximately $3.7 billion (including current maturities) of long-term debt and capital lease obligations, and had approximately $1.9 billion of Continental-obligated mandatorily redeemable preferred securities of trust, redeemable common stock and common stockholders' equity, a ratio of 2.0 to 1, at December 31, 2000 and 2.1 to 1 at December 31, 1999.

In March 2000, the Company completed an offering of $743 million of pass-through certificates to be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of 21 Boeing aircraft. All of these aircraft were placed in service in 2000.

In November 2000, the Company completed an offering of $176 million of floating enhanced aircraft trust securities to be used to finance the debt portion of the acquisition cost of four Boeing aircraft. All of these aircraft were placed in service by January 2001.

In November 2000, the Company completed an offering of $841 million of pass-through certificates to be used to finance (through either leveraged leases or secured debt financings) the debt portion of the acquisition cost of 23 new Boeing aircraft scheduled for delivery from February 2001 to December 2001.

Also in November 2000, the Company completed the placement of 5,000,000 6% Convertible Preferred Securities, known as Term Income Deferrable Equity Securities. The net proceeds of the private placement totaled $242 million and were used as part of the purchase price for approximately 6.7 million shares of Class A common stock, par value $.01 per share ("Class A common stock") held by Northwest Airlines Corporation ("Northwest") and an affiliate.

Also in November 2000, the Company completed an offering of $177 million special facilities revenue bonds issued by the New Jersey Economic Development Authority. The bonds will finance the construction of a maintenance facility, cargo facility, ground service equipment maintenance facility, terminal improvements, and other various projects related to the Company's Global Gateway expansion at Newark.

In January 2001, the Company obtained a 3-year $200 million pre-delivery payment facility to be used to finance manufacturer progress payments on 156 new Boeing aircraft.

During 2000, the Company's Board of Directors increased the size of its common stock repurchase program by the amount of cash proceeds received by the Company for the purchase of common stock by employees and other participants under the Company's employee stock purchase and stock option plans after January 1, 2000. The program also permits the expenditure of one half of future net income (excluding special gains and charges), plus all the proceeds from the sale of non-strategic assets, to repurchase common stock. Of the approximately $287 million available in the program as of December 31, 2000, $200 million was used as a part of the purchase price for approximately 6.7 million shares of Class A common stock held by Northwest.

A significant amount of Continental's assets are encumbered.

Deferred Tax Assets. As of December 31, 2000, the Company had deferred tax assets aggregating $677 million, including $366 million related to net operating losses ("NOLs"), and a valuation allowance of $263 million.

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 occurred, 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 5.39% for December 2000). 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 $174 million per year other than through the recognition of future built-in gain transactions.

In November 1998, Northwest 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 other investors, totaling 8,661,224 shares of the Class A common stock. On January 22,2001, Continental repurchased 6,685,279 shares of Continental Class A common stock from Northwest and an affiliate. In addition, each issued share of Continental Class A common stock was reclassified into 1.32 shares of Class B common stock in a nontaxable transaction. The Company does not believe that these transactions 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 December 31, 2000, 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. As of December 31, 2000, Continental had approximately $890 million in financing arranged for such Boeing deliveries. Continental also has commitments or letters of intent for backstop financing for approximately 23% of the anticipated remaining acquisition cost of such Boeing deliveries. In addition, at December 31, 2000, Continental had firm commitments to purchase 26 spare engines related to the new Boeing aircraft for approximately $158 million, which will be deliverable through March 2005. 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 December 31, 2000, the estimated aggregate cost of Express's firm commitments for Embraer regional jets is approximately $3 billion. Neither Express nor Continental will have any obligation to take any such firm Embraer aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 2001 capital expenditures, exclusive of fleet plan requirements, to aggregate approximately $326 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 net capital expenditures during 2000 aggregated $203 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.

Bond Financings. Continental has entered into agreements with the City of Houston, Texas, the City of Cleveland, Ohio, the New Jersey Economic Development Authority, the Department of Transportation of the State of Hawaii, the Regional Airports Improvement Corporation, and the Harris County (Houston) Industrial Development Corporation to provide funds for constructing, improving and modifying facilities and acquiring equipment which have been or will be leased to Continental. In connection therewith, Continental has unconditionally guaranteed the principal and interest on certain bonds totaling approximately $1.6 billion and has entered into long-term leases with the respective authorities under which rental payments will be sufficient to service the related bonds. The leases generally have terms ranging from 20 to 30 years.

Employees. In July 2000, the Company completed a three-year program bringing all employees to industry standard wages and also announced and began to implement a phased plan to bring employee benefits to industry standard levels by 2003. The plan provides for increases in vacation, paid holidays, increased 401(k) Company matching contributions and additional past service retirement credit for most senior employees.

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	1,500	IACP	October 2002
Dispatchers	150	Transport Workers Union of America	October 2003
Continental Mechanics	3,500	International Brotherhood of Teamsters ("Teamsters")	January 2002
Express Mechanics	400	Teamsters	January 2003
CMI Mechanics	100	Teamsters	March 2001
Continental Flight Attendants	8,100	International Association of Machinists and Aerospace Workers ("IAM")	September 2004
Express Flight Attendants	550	IAM	December 2004
CMI Flight Attendants	350	IAM	(Negotiations for amended contract ongoing)
CMI Fleet and Passenger Service Employees	450	Teamsters	March 2001

In March 2000, CMI and the IAM began collective bargaining negotiations to amend the CMI flight attendants' contract (which became amendable in June 2000). The parties reached a tentative agreement, which was not ratified by the flight attendants. Negotiations will resume in early 2001. The Company continues to believe that mutually acceptable agreements can be reached with such employees, although the ultimate outcome of the negotiations is unknown at this time.

The pilots are in the process of considering whether they wish to merge their independent union, IACP, into the Air Line Pilots Association, which would be subject to ratification by the Continental pilots.

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

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 and debt 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 2000 and 1999, aircraft fuel accounted for 15.6% and 9.7%, 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, 2000, the Company had hedged approximately 23% of its projected 2001 fuel requirements using petroleum call options, which represents 95% of projected first quarter fuel requirements, compared to approximately 24% of its projected 2000 fuel requirements hedged at December 31, 1999. Subsequent to December 31, 2000, the Company entered into jet fuel and heating oil call options, jet fuel swap contracts and jet fuel purchase commitments. The Company estimates that a 10% increase in the price per gallon of aircraft fuel would not have a material impact on the fair value of the petroleum call options existing at December 31, 2000 or 1999.

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 attempts 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 12 months at specified exchange rates. As of December 31, 2000, the Company had entered into forward contracts to hedge approximately 75% of its 2001 projected yen-denominated net cash flows, as compared to having in place forward contracts to hedge approximately 95% of its 2000 projected yen-denominated net cash flows at December 31, 1999. The Company estimates that at December 31, 2000, 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 $15 million as compared to an $18 million increase in the fair value of existing forward contracts at December 31, 1999.

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 $754 million and $690 million of variable-rate debt as of December 31, 2000 and 1999, respectively. The Company has mitigated its exposure on certain variable-rate debt by entering into interest rate cap and swap agreements. The interest rate cap had notional amounts of $84 million and $106 million as of December 31, 2000 and 1999, respectively. Caps outstanding at December 31, 2000 are effective through July 31, 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. The interest rate swap outstanding at December 31, 2000 had a notional amount of $176 million. The interest rate swap effectively

locks the Company into paying a fixed rate of interest on a portion of its floating rate debt securities through 2005. If average interest rates increased by 100 basis points during 2001 as compared to 2000, the Company's projected 2001 interest expense would increase by approximately $7 million. At December 31, 1999, an interest rate increase of 100 basis points during 2000 as compared to 1999 was projected to increase 2000 interest expense by approximately $6 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, 2000 and 1999, the fair value of $2.2 billion and $2.2 billion (carrying value) of the Company's fixed-rate debt was estimated to be $2.2 billion and $2.2 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 $136 million and $91 million as of December 31, 2000 and 1999, respectively. The fair value of the remaining fixed-rate debt at December 31, 2000 and 1999, (with a carrying value of $453 million and $248 million, respectively), was not practicable to estimate.

If 2001 average short-term interest rates decreased by 100 basis points over 2000 average rates, the Company's projected interest income from cash, cash equivalents and short-term investments would decrease by approximately $12 million during 2001, compared to an estimated $11 million decrease during 2000 measured at December 31, 1999.

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, 2000 and 1999, the carrying value of the investment in Copa was $48 million and $49 million, respectively. At December 31, 2000 and 1999, the carrying value of the investment in Gulfstream was $8 million and $10 million, respectively.

At December 31, 2000, the Company owned approximately 357,000 depository certificates convertible, subject to certain restrictions, into an equivalent number of shares of the common stock of Equant, which completed an initial public offering in July 1998. As of December 31, 2000 and 1999,the estimated fair value of these depository certificates was approximately $9 million and $40 million, respectively, 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, 2000 or 1999.

Consolidated Statements of Operations

(In millions, except per share data)

	Year Ended December 31,		
	2000	1999	1998
Operating Revenue:			
Passenger	$ 9,308	$ 8,116	$ 7,456
Cargo and mail	360	303	275
Other	231	220	196
	9,899	8,639	7,927
Operating Expenses:			
Wages,salaries and related costs	2,845	2,510	2,218
Aircraft fuel	1,438	771	727
Aircraft rentals	844	771	659
Maintenance,materials and repairs	646	603	582
Landing fees and other rentals	532	497	414
Commissions	526	576	583
Reservations and sales	455	414	367
Depreciation and amortization	402	360	294
Passenger servicing	366	352	309
Fleet disposition/impairment losses	—	81	122
Other	1,161	1,104	951
	9,215	8,039	7,226
Operating Income	684	600	701
Nonoperating Income (Expense):			
Interest expense	(251)	(233)	(178)
Interest income	87	71	59
Interest capitalized	57	55	55
Gain on sale of AMADEUS	—	297	—
Other, net	(6)	8	11
	(113)	198	(53)
Income before Income Taxes, Cumulative Effect of Accounting Changes and Extraordinary Charge	571	798	648
Income Tax Provision	(222)	(310)	(248)
Distributions on Preferred Securities of Trust,net of applicable income taxes of $1 and $7 in 2000 and 1998, respectively	(1)	—	(13)
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge	348	488	387
Cumulative Effect of Accounting Changes, Net of Applicable Income Taxes of $19 (1)	—	(33)	—
Extraordinary Charge,net of applicable income Taxes of $3 and $2 in 2000 and 1998	(6)	—	(4)
Net Income	$ 342	$ 455	$ 383
Earnings per Common Share:			
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge	$ 5.71	$ 7.02	$ 6.40
Cumulative Effect of Accounting Changes	—	(0.48)	—
Extraordinary Charge	(0.09)	—	(0.06)
Net Income	$ 5.62	$ 6.54	$ 6.34
Earnings per Common Share Assuming Dilution:			
Income before Cumulative Effect of Accounting Changes and Extraordinary Charge	$ 5.54	$ 6.64	$ 5.06
Cumulative Effect of Accounting Changes	—	(0.44)	—
Extraordinary Charge	(0.09)	—	(0.04)
Net Income	$ 5.45	$ 6.20	$ 5.02

(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, 2000	December 31, 1999
Current Assets:		
Cash and cash equivalents	$ 1,371	$ 1,198
Short-term investments	24	392
Accounts receivable,net of allowance for doubtful receivables of $20 and $20, respectively	495	506
Spare parts and supplies,net of allowance for obsolescence of $67 and $59, respectively	280	236
Deferred income taxes	137	145
Prepayments and other	152	129
Total current assets	2,459	2,606
Property and Equipment:		
Owned property and equipment:		
Flight equipment	4,597	3,593
Other	990	814
	5,587	4,407
Less: Accumulated depreciation	1,025	808
	4,562	3,599
Purchase deposits for flight equipment	404	366
Capital leases:		
Flight equipment	226	300
Other	138	88
	364	388
Less: Accumulated amortization	167	180
	197	208
Total property and equipment	5,163	4,173
Other Assets:		
Routes, gates and slots, net of accumulated amortization of $395 and $345, respectively	1,081	1,131
Other assets,net	498	313
Total other assets	1,579	1,444
Total Assets	$ 9,201	$ 8,223

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2000	December 31, 1999
Current Liabilities:		
Current maturities of long-term debt and capital leases	$ 304	$ 321
Accounts payable	1,016	856
Air traffic liability	1,125	1,042
Accrued payroll and pensions	297	299
Accrued other liabilities	238	257
Total current liabilities	2,980	2,775
Long-Term Debt and Capital Leases	3,374	3,055
Deferred Credits and Other Long-Term Liabilities:		
Deferred income taxes	787	590
Other	208	210
Total deferred credits and other long-term liabilities	995	800
Commitments and Contingencies		
Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Subordinated Debentures (1)	242	—
Redeemable Common Stock	450	—
Common Stockholders' Equity:		
Class A common stock — $.01 par, 50,000,000 shares authorized; 10,963,538 and 11,320,849 shares issued and outstanding in 2000 and 1999, respectively	—	—
Class B common stock — $.01 par, 200,000,000 shares authorized; 64,073,431 and 63,923,431 shares issued in 2000 and 1999, respectively	1	1
Additional paid-in capital	379	871
Retained earnings	1,456	1,114
Accumulated other comprehensive income (loss)	13	(1)
Treasury stock — 16,586,603 and 9,763,684 Class B shares in 2000 and 1999, respectively, at cost	(689)	(392)
Total common stockholders' equity	1,160	1,593
Total Liabilities and Stockholders' Equity	$ 9,201	$ 8,223

(1) The sole assets of the Trust are convertible subordinated debentures with an aggregate principal amount of $250 million, which bear interest at the rate of 6% per annum and mature on November 15,2030. Upon repayment,the Continental-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust will be mandatorily redeemed.

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,		
	2000	1999	1998
Cash Flows from Operating Activities:			
Net income	$ 342	$ 455	$ 383
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	224	293	224
Depreciation and amortization	402	360	294
Fleet disposition/impairment losses	—	81	122
Gain on sale of AMADEUS	—	(297)	—
Gain on sale of other investments	(9)	(29)	(6)
Cumulative effect of accounting changes	—	33	—
Other, net	(49)	(83)	(4)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	6	(53)	(102)
Increase in spare parts and supplies	(72)	(99)	(71)
Increase in accounts payable	159	8	59
Increase in air traffic liability	163	110	108
Increase (decrease) in accrued payroll and pensions	(132)	34	107
Other	(130)	(37)	(238)
Net cash provided by operating activities	904	776	876
Cash Flows from Investing Activities:			
Purchase deposits paid in connection with future aircraft deliveries	(640)	(1,174)	(818)
Purchase deposits refunded in connection with aircraft delivered	577	1,139	758
Capital expenditures	(511)	(706)	(610)
Sale (purchase) of short-term investments	368	(392)	—
Proceeds from sale of AMADEUS,net	—	391	—
Proceeds from disposition of property and equipment	135	77	46
Proceeds from sale of other investments	11	35	9
Investment in and advances to partner airlines	—	(23)	(53)
Other	(8)	(6)	(30)
Net cash used in investing activities	(68)	(659)	(698)
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt,net	157	453	737
Proceeds from issuance of preferred securities of trust,net	242	—	—
Purchase of Class B common stock	(450)	(528)	(223)
Payments on long-term debt and capital lease obligations	(707)	(295)	(423)
Proceeds from issuance of common stock	92	38	56
Proceeds from sale-leaseback transactions	3	14	71
Dividends paid on preferred securities of trust	—	—	(22)
Net cash (used in) provided by financing activities	(663)	(318)	196
Net Increase (Decrease) in Cash and Cash Equivalents	173	(201)	374
Cash and Cash Equivalents — Beginning of Period	1,198	1,399	1,025
Cash and Cash Equivalents — End of Period	$ 1,371	$ 1,198	$ 1,399

	Year Ended December 31,		
	2000	1999	1998
Supplement Cash Flows Information:			
Interest paid	$ 276	$ 221	$ 157
Income taxes paid	$ 7	$ 18	$ 25
Investing and Financing Activities Not Affecting Cash:			
Property and equipment acquired through the issuance of debt	$ 808	$ 774	$ 425
Conversion of 6¾% Convertible Subordinated Notes into Class B common stock	$ —	$ 230	$ —
Conversion of Trust Originated Preferred Securities into Class B common stock	$ —	$ 111	$ 134
Capital lease obligations incurred	$ 53	$ 50	$ 124
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 Common Stockholders' Equity

(In millions)

	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Comprehensive Income	Treasury Stock, At Cost
Balance, December 31, 1997	$ 641	$ 276	$ (2)	$ 381	$ —
Net Income	—	383	—	383	—
Additional Minimum Pension Liability, net of applicable income taxes of $41	—	—	(76)	(76)	—
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	—	(10)	(10)	—
Balance, December 31,1998	634	659	(88)	297	(13)
Net Income	—	455	—	455	—
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
Other	(6)	—	5	5	3
Balance, December 31,1999	871	1,114	(1)	542	(392)
Net Income	—	342	—	342	—
Purchase of Common Stock	(1)	—	—	—	(449)
Reissuance of Treasury Stock pursuant to Stock Plans	(45)	—	—	—	137
Reclass for Redeemable Common Stock	(450)	—	—	—	—
Other	4	—	14	14	15
Balance, December 31, 2000	$ 379	$ 1,456	$ 13	$ 356	$ (689)

Consolidated Statements of Common Stockholders' Equity

Number of Shares (in thousands)

	Class A Common Stock	Class B Common Stock	Treasury Stock
Balance, December 31,1997	8,379	50,512	—
Purchase of Common Stock	—	(4,453)	4,453
Reissuance of Treasury Stock pursuant to Stock Plans	—	859	(859)
Reissuance of Treasury Stock pursuant to Conversion of Trust Originated Preferred Securities	—	3,182	(3,182)
Conversion of Class A to Class B Common Stock	(12)	12	(12)
Issuance of Common Stock pursuant to Stock Plans	—	235	—
Conversion of Trust Originated Preferred Securities into Common Stock	—	2,377	—
Exercise of warrants	3,040	247	—
Balance, December 31, 1998	11,407	52,971	400
Purchase of Common Stock	—	(13,134)	13,134
Reissuance of Treasury Stock pursuant to Stock Plans	—	1,854	(1,854)
Reissuance of Treasury Stock pursuant to Conversion of Class A to Class B Common Stock	(86)	86	(86)
Issuance of Common Stock pursuant to Stock Plans	—	13	—
Conversion of 6¾% Convertible Subordinated Notes into Common Stock	—	6,132	—
Reissuance of Treasury Stock pursuant to Conversion of 6¾% Convertible Subordinated Notes	—	1,485	(1,485)
Conversion of Trust Originated Preferred Securities into Common Stock	—	4,408	—
Reissuance of Treasury Stock pursuant to Conversion of Trust Originated Preferred Securities	—	345	(345)
Balance, December 31, 1999	11,321	54,160	9,764
Purchase of Common Stock	—	(10,545)	10,545
Reissuance of Treasury Stock pursuant to Stock Plans	—	3,365	(3,365)
Reissuance of Treasury Stock pursuant to Conversion of Class A to Class B Common Stock	(357)	357	(357)
Issuance of Common Stock pursuant to Stock Plans	—	150	—
Balance, December 31,2000	10,964	47,487	16,587

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

Notes to Consolidated Financial 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 2000 revenue passenger miles) and, together with its wholly owned subsidiaries, Continental Express, Inc. ("Express"), and Continental Micronesia, Inc. ("CMI"), each a Delaware corporation, served 230 airports worldwide at January 16, 2001. As of December 31, 2000, Continental flies to 136 domestic and 94 international destinations and offers additional connecting service through alliances with domestic and foreign carriers. Continental directly served 16 European cities, seven 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, and are classified as held-to-maturity securities.

(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 31,2000	Accumulated Amortization at December 31,2000
Routes	$ 711	$ 179
Gates	285	162
Slots	85	54
	$ 1,081	$ 395

(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 issuance of 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.

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

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

Actual per share amounts are shown below for comparative purposes:

	1999	1998
Income before Cumulative Effect of Accounting Change and Extraordinary Charge	$ 488	$ 387
Earnings per Common Share	$ 7.02	$ 6.40
Earnings per Common Share Assuming Dilution	$ 6.64	$ 5.06
Net Income	$ 455	$ 383
Earnings per Common Share	$ 6.54	$ 6.34
Earnings per Common Share Assuming Dilution	$ 6.20	$ 5.02

(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 $60 million, $82 million and $78 million for the years ended December 31, 2000, 1999 and 1998, 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):

	2000	1999	1998
Numerator:			
Income before cumulative effect of accounting changes and extraordinary charge	$ 348	$ 488	$ 387
Cumulative effect of accounting changes,net of tax	—	(33)	—
Extraordinary charge, net of tax	(6)	—	(4)
Numerator for basic earnings per share — net income	342	455	383
Effect of dilutive securities:			
Preferred Securities of Trust	1	—	11
6¾% Convertible Subordinated Notes	—	4	9
	1	4	20
Numerator for diluted earnings per share — net income after assumed conversions	$ 343	$ 459	$ 403
Denominator:			
Denominator for basic earnings per share — weighted-average shares	60.7	69.5	60.3
Effect of dilutive securities:			
Employee stock options	1.1	1.4	1.7
Preferred Securities of Trust	0.6	0.1	9.8
Potentially Dilutive Shares (Northwest Repurchase)	0.4	—	—
6¾% Convertible Subordinated Notes	—	2.9	7.6
Warrants	—	—	0.9
Dilutive potential common shares	2.1	4.4	20.0
Denominator for diluted earnings per share — adjusted weighted-average and assumed conversions	62.8	73.9	80.3

Approximately 1.1 million in 2000, 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):

	2000	1999
Secured		
Notes payable,interest rates of 5.00% to 8.50%,payable through 2019	$ 2,325	$ 1,817
Floating rate notes,interest rates of LIBOR plus 0.49% to 1.0%, Eurodollar plus 0.87% or Commercial Paper plus 0.40% to 0.60%,payable through 2012	532	241
Credit facility, floating interest rate of LIBOR plus 1.0%, payable through 2002	150	215
Floating rate note,interest rate of LIBOR plus 1.25%,payable through 2004	72	74
Notes payable,interest rates of 8.49% to 9.46%,payable through 2008	39	51
Revolving credit facility totaling $160 million,floating interest rate of LIBOR plus 1.375%,payable through 2001	—	160
Unsecured		
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
Senior notes payable,interest rate of 9.5%, payable through 2001	—	242
Other	14	23
	3,442	3,133
Less: current maturities	272	278
Total	$ 3,170	$ 2,855

At December 31, 2000 and 1999, both the LIBOR and Eurodollar rates associated with Continental's indebtedness approximated 6.4% and 6.0%, respectively. The Commercial Paper rate was 6.5% and 6.1% as of December 31, 2000 and 1999, respectively.

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

The Company has certain debt and credit facility agreements, which contain financial 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.

At December 31, 2000, 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 $898 million and was restricted from paying cash dividends in excess of $904 million.

On April 15, 1999, the Company exercised its right and called for redemption on May 25, 1999, all $230 million of its 6¾% Convertible Subordinated Notes due 2006. The notes were converted into approximately 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,	
2001	$ 272
2002	305
2003	211
2004	277
2005	537

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, 2000, 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,		
2001	$ 47	$ 859
2002	47	814
2003	31	766
2004	28	709
2005	29	688
Later years	180	6,387
Total minimum lease payments	362	$10,223
Less: amount representing interest	126	
Present value of capital leases	236	
Less: current maturities of capital leases	32	
Long-term capital leases	$ 204	

Not included in the above operating lease table is approximately $567 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 approximately $1.6 billion aggregate principal amount of tax-exempt special facilities revenue bonds and interest thereon. 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, 2000, the Company, including Express, had 386 and 12 aircraft under operating and capital leases, respectively. These leases have remaining lease terms ranging from one month to 23 years.

The Company's total rental expense for all operating leases, net of sublease rentals, was $1.2 billion, $1.1 billion and $922 million in 2000, 1999 and 1998, respectively.

NOTE 5 — FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As part of the Company's risk management program, Continental uses or has used a variety of financial instruments, including petroleum call options, petroleum swap contracts, jet fuel purchase commitments, foreign currency average rate options, foreign currency forward contracts and interest rate

cap and swap 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") and accordingly recognizes all derivatives on the balance sheet at fair value.

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.

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 up to 100% of 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 recorded at fair value with the offset to accumulated other comprehensive income (loss), net of applicable income taxes and hedge ineffectiveness, and 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 as well as the change in the time value of the options. Hedge ineffectiveness is included in fuel expense in the accompanying consolidated statement of operations and was not material for the years ended December 31, 2000, 1999 and 1998. For the years ended December 31, 2000 and 1999, the Company recognized approximately $44 million and $15 million, respectively, of net losses related to the portion of the hedging instrument excluded from the assessment of hedge effectiveness (primarily time value). These losses are also included in fuel expense in the accompanying consolidated statement of operations.

The Company had petroleum call options outstanding with an aggregate notional amount of approximately $329 million and $310 million at December 31, 2000 and 1999, respectively. The fair value of these hedges was not material.

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 its forecasted Japanese yen-denominated net cash flows for the following 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 recorded at fair value with the offset to accumulated other comprehensive income (loss), net of applicable income taxes and hedge ineffectiveness, and 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 currency. Hedge ineffectiveness was not material during 2000, 1999 or 1998.

At December 31, 2000, the Company had yen forward contracts outstanding with an aggregate notional amount of $188 million and an unrealized gain of $22 million. The notional amount of the Company's yen forward contracts outstanding at December 31, 1999 was $197 million with an unrealized loss of $5 million. Unrealized gains (losses) are recorded in other current assets (liabilities) with the offset to other accumulated comprehensive income, net of applicable income taxes and hedge ineffectiveness. The unrealized loss at December 31, 2000 will be recognized in earnings within the next twelve months.

Interest Rate Risk Management — The Company entered into interest rate cap and interest rate swap agreements to reduce the impact of potential increases on floating rate debt. The interest rate cap had a notional amount of $84 million and $106 million as of December 31,2000 and 1999, respectively, and is effective through July 31, 2001. The interest rate swap, which was entered into during 2000,had a notional amount of $176 million at December 31, 2000. The Company accounts for the interest rate cap and swap as cash flow hedges whereby the fair value of the interest rate cap and swap is reflected in other assets in the accompanying consolidated balance sheet with the offset, net of income taxes and any hedge ineffectiveness (which is not material), recorded as accumulated other comprehensive income (loss). The fair value of the interest rate cap and swap was not material as of December 31, 2000 or 1999. Amounts recorded in accumulated other comprehensive income are amortized as an adjustment to interest expense over the term of the related hedge. Such amounts were not material during 2000,1999 or 1998.

Other Financial Instruments

(a) Cash equivalents — Cash equivalents are carried at cost and 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. The Company classifies these investments as held-to-maturity securities.

(c) Investment in Equity Securities — Continental's investment in America West Holdings Corporation ("America West Holdings") was classified as an available-for-sale security and was carried at an aggregate market value of approximately $3 million at December 31, 1999. In December 2000, the Company sold its investment in America West Holdings and a right of first refusal, resulting in a gain of $9 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, 2000 and 1999, the excess of the amount at which the investment is carried and the amount of underlying equity in the net assets was $41 million and $40 million, respectively. This difference is treated as goodwill and 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.

At both December 31, 2000 and 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, 2000 and 1999, the estimated fair value of these depository certificates was approximately $9 million and $40 million, respectively, 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, 2000 or 1999.

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. At December 31,2000 and 1999,the carrying value of the investment in Gulfstream was $8 million and $10 million, respectively. The Company has also guaranteed approximately $25 million of debt for Gulfstream as of December 31, 2000.

In 1999, Continental received 1,500,000 warrants to purchase common stock of priceline.com, Inc. 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 $2.9 billion and $2.8 billion at December 31, 2000 and 1999, 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,approximated $2.7 billion and $2.5 billion, respectively.

The fair value of the remaining debt (with a carrying value of $567 million and $383 million at December 31, 2000 and 1999, respectively), was not practicable to estimate.

(e) Preferred Securities of Trust — As of December 31, 2000, the fair value of the Company's 5,000,000 6% Convertible Preferred Securities, Term Income Deferrable Equity Securities ("TIDES"), with a carrying value of $242 million, estimated based on market quotes, approximated $259 million.

(f) Warrants — The Company is the holder of warrants in a number of start-up eCommerce companies focused on various segments of the travel distribution network. The warrants are recorded at fair value with the offset recorded to non-operating income. The fair value of these warrants was not material at December 31, 2000 or 1999.

(g) Other — The Company has a compensation plan for certain employees that provides a cash benefit that is indexed to the appreciation in fair value of a number of underlying equity securities of eCommerce businesses. The benefit formula meets the definition of a derivative, and is accordingly accounted for at fair value, with the offset recorded to non-operating expense. The fair value of the derivative was not material at December 31, 2000.

Credit Exposure of Financial Instruments — The Company is exposed to credit losses in the event of non-performance by issuers of financial instruments. To manage credit risks, the Company selects issuers based on credit ratings, limits its exposure to a single issuer under defined Company guidelines, and monitors the market position with each counterparty.

NOTE 6 — PREFERRED SECURITIES OF TRUST

In November 2000, Continental Airlines Finance Trust II, a Delaware statutory business trust (the "Trust") with respect to which the Company owns all of the common trust securities, completed a private placement of 5,000,000 6% Convertible Preferred Securities, Term Income Deferrable Equity Securities. The TIDES have a liquidation value of $50 per preferred security and are convertible at any time at the option of the holder into shares of Class B common stock at a conversion rate of $60 per share of Class B common stock (equivalent to approximately 0.8333 share of Class B common stock for each preferred security). Distributions on the preferred securities are payable by the Trust at an annual rate of 6% of the liquidation value of $50 per preferred security and are included in Distributions on Preferred Securities of Trust in the accompanying Consolidated Statement of Operations. The proceeds of the private placement, which totaled $242 million (net of $8 million of underwriting commissions and expense) 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 are 6% Convertible Junior Subordinated Debentures ("Convertible Subordinated Debentures") with an aggregate principal amount of $250 million issued by the Company and which mature on November 15, 2030. The Convertible Subordinated Debentures are redeemable by Continental, in whole or in part, on or after November 20,2003 at designated redemption prices. If Continental redeems the Convertible Subordinated Debentures, the Trust must redeem the

TIDES on a pro rata basis having an aggregate liquidation value equal to the aggregate principal amount of the Convertible Subordinated Debentures redeemed. Otherwise, the TIDES will be redeemed upon maturity of the Convertible Subordinated Debentures, unless previously converted.

Taking into consideration the Company's obligations under (i) the Preferred Securities Guarantee relating to the TIDES, (ii) the Indenture relating to the Convertible Subordinated Debentures to pay all debt and obligations and all costs and expenses of the Trust (other than U.S. withholding taxes) and (iii) the Indenture, the Declaration relating to the TIDES and the Convertible Subordinated Debentures, Continental has fully and unconditionally guaranteed payment of (i) the distributions on the TIDES, (ii) the amount payable upon redemption of the TIDES, and (iii) the liquidation amount of the TIDES.

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

Continental Airlines Finance Trust, a Delaware statutory business 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 Continental Airlines Finance Trust at the annual rate of 8½% 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.

NOTE 7 — REDEEMABLE COMMON, PREFERRED, COMMON AND TREASURY STOCK

Redeemable Common Stock — On November 15, 2000, the Company entered into a number of agreements with Northwest Airlines Corporation ("Northwest") and some of its affiliates under which the Company would, among other things, repurchase approximately 6.7 million shares of Class A common stock, par value $.01 per share ("Class A common stock"), of Continental owned by Northwest for $450 million. As a result of the Company's commitment to repurchase these Class A shares, such amounts are included in Redeemable Common Stock in the accompanying Consolidated Balance Sheets at December 31, 2000. See Note 16.

Preferred Stock — Continental has 10 million shares of authorized preferred stock, none of which was outstanding as of December 31, 2000 or 1999.

Common Stock — Continental has two classes of common stock issued and outstanding, 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. See Note 16.

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 2000 and 1999, 357,311 and 85,883 shares of the Company's Class A common stock, respectively, were so converted. See Note 16.

Treasury Stock — Continental began a stock repurchase program in 1998 under which it repurchased a total of 28.1 million shares of Class B common stock for a total of approximately $1.2 billion through December 31, 2000. Of the approximately $287 million available in the program as of December 31, 2000, $200 million will be used as part of the purchase price of 6,685,279 shares of Class A common stock held by Northwest. See Note 16. The Company plans to use the remaining balance in the program,along with (i) one-half of future net income (excluding special gains and charges), (ii) all the proceeds from the sale of non-strategic assets and (iii) the amount of cash proceeds received by the Company for the purchase of common stock by employees and other participants under its employee stock purchase and stock option plans to continue to repurchase its common stock in the future.

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 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% (20% in the case of an Institutional Investor) 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 shares of Class B common stock 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. See Note 16.

NOTE 8 — STOCK PLANS AND AWARDS

Stock Options — On May 23, 2000, the stockholders of the Company approved the Continental Airlines, Inc. Incentive Plan 2000 (the "2000 Incentive Plan"). 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 2000 Incentive Plan, the aggregate number of shares of Class B common stock that may be issued under the 2000 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 2000 Incentive Plan and the Plans at December 31, 2000 was 2.5 million. 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 table below summarizes stock option transactions pursuant to the Company's 2000 Incentive Plan and the Plans (share data in thousands):

	2000		1999		1998	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at Beginning of Year	9,005	$ 32.69	9,683	$ 30.31	5,998	$ 22.62
Granted	1,514	$ 42.20	1,055	$ 33.38	6,504	$ 43.75
Exercised	(2,885)	$ 25.65	(1,464)	$ 16.54	(807)	$ 19.53
Cancelled	(166)	$ 34.35	(269)	$ 37.41	(2,012)	$ 55.18
Outstanding at End of Year	7,468	$ 37.30	9,005	$ 32.69	9,683	$ 30.31
Options exercisable at end of year	3,318	$ 35.47	4,845	$ 29.13	5,174	$ 23.56

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, 2000 (share data in thousands):

Options Outstanding

Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$4.56–$29.19	1,722	2.18	$27.55
$29.25–$32.13	853	2.81	$31.77
$32.25–$35.00	2,272	2.96	$34.96
$35.13–$43.31	1,501	4.47	$41.72
$43.50–$56.81	1,120	3.05	$55.36
$4.56–$56.81	7,468	3.08	$37.30

Options Exercisable

Range of Exercise Prices	Exercisable	Weighted Average Exercise Price
$4.56–$29.19	1,197	$26.83
$29.25–$32.13	290	$31.11
$32.25–$35.00	1,140	$34.97
$35.13–$43.31	103	$40.64
$43.50–$56.81	588	$55.28
$4.56–$56.81	3,318	$35.47

Employee Stock Purchase Plan — 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 2000 and 1999, 481,950 and 526,729 shares, respectively, of Class B common stock were issued at prices ranging from $27.73 to $38.30 in 2000 and $27.84 to $49.41 in 1999. During 1998, 305,978 shares of Class B common stock were issued at prices ranging from $29.33 to $49.41.

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 2000, 1999 and 1998, respectively: risk-free interest rates of 6.5%, 4.9% and 4.9%, dividend yields of 0%; volatility factors of the expected market price of the Company's Class B common stock of 47% for 2000, 43% for 1999 and 40% for 1998, and a weighted-average expected life of the option of 3.6 years, 3.1 years and 3.0 years. The weighted average grant date fair value of the stock options granted in 2000, 1999 and 1998 was $17.37, $11.13 and $13.84 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 2000, 1999 and 1998, respectively: risk free interest rates of 5.9%, 4.7% and 4.7%; dividend yields of 0%, expected volatility of 47% for 2000, 43% for 1999 and 40% for 1998; and an expected life of .25 years for each of 2000, 1999 and 1998. The weighted-average fair value of the purchase rights granted in 2000, 1999 and 1998 was $10.18, $7.72 and $9.10, 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 transferable. 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 periods, net income would have been reduced by $20 million, $24 million and $18 million for the years ended December 31, 2000, 1999 and 1998, respectively. Basic EPS would have been reduced by 33 cents, 35 cents and 30 cents for the years ended December 31, 2000, 1999 and 1998, respectively, and diluted EPS would have been reduced by 32 cents, 33 cents and 23 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/(LOSS)

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

	Minimum Pension Liability	Unrealized Gain/(Loss) on Investments	Unrealized Gain/(Loss) on Derivative Instruments	Total
Balance at December 31, 1997	$ (6)	$ 4	$ —	$ (2)
Current year net change in accumulated other comprehensive income (loss)	(76)	(4)	(6)	(86)
Balance at December 31, 1998	(82)	—	(6)	(88)
Current year net change in accumulated other comprehensive income (loss)	82	1	4	87
Balance at December 31, 1999	—	1	(2)	(1)
Current year net change in accumulated other comprehensive income (loss)	—	(1)	15	14
Balance at December 31, 2000	$ —	$ —	$ 13	$ 13

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, 2000, 1999 and 1998, total expense for the defined contribution plan was $17 million, $14 million and $8 million, respectively.

The following table sets forth the defined benefit pension plans' change in projected benefit obligation for 2000 and 1999:

	2000	1999
	(in millions)	
Projected benefit obligation at beginning of year	$ 1,300	$ 1,230
Service cost	93	66
Interest cost	113	90
Plan amendments	54	54
Actuarial (gains) losses	(16)	(47)
Benefits paid	(56)	(93)
Projected benefit obligation at end of year	$ 1,488	$ 1,300

The following table sets forth the defined benefit pension plans' change in the fair value of plan assets for 2000 and 1999:

	2000	1999
	(in millions)	
Fair value of plan assets at beginning of year	$ 1,013	$ 781
Actual return on plan assets	(33)	138
Employer contributions	282	187
Benefits paid	(56)	(93)
Fair value of plan assets at end of year	$ 1,206	$ 1,013

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

	2000	1999
	(in millions)	
Funded status of the plans — net underfunded	$ (282)	$ (287)
Unrecognized net actuarial loss	270	152
Unrecognized prior service cost	178	143
Net amount recognized	$ 166	$ 8
Prepaid benefit cost	$ 184	$ 12
Accrued benefit liability	(27)	(78)
Intangible asset	9	74
Net amount recognized	$ 166	$ 8

Net periodic defined benefit pension cost for 2000, 1999 and 1998 included the following components:

	2000	1999	1998
		(in millions)	
Service cost	$ 93	$ 66	$ 55
Interest cost	113	90	69
Expected return on plan assets	(103)	(84)	(64)
Amortization of prior service cost	18	13	6
Amortization of unrecognized net actuarial loss	3	13	4
Net periodic benefit cost	$ 124	$ 98	$ 70

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

	2000	1999	1998
		(in millions)	
Weighted average assumed discount rate	8.00%	8.25%	7.00%
Expected long-term rate of return on plan assets	9.50%	9.50%	9.50%
Weighted average rate of compensation increase	4.98%-5.27%	4.98%-5.27%	5.30%

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 $39 million, $26 million and $0, respectively, as of December 31, 2000, and $1.3 billion, $1.1 billion and $1.0 billion, respectively, as of December 31, 1999.

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, 2000,1999 and 1998 was $66 million, $62 million and $86 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, 2000, 1999 and 1998 are as follows (in millions):

	Amount			Percentage		
	2000	1999	1998	2000	1999	1998
Income tax provision at United States statutory rates	$ 199	$ 279	$ 227	35.0%	35.0%	35.0%
State income tax provision (net of federal benefit)	10	12	10	1.8	1.5	1.5
Meals and entertainment disallowance	10	11	10	1.8	1.3	1.5
Other	3	8	1	0.3	1.1	0.3
Income tax provision, net	$ 222	$ 310	$ 248	38.9%	38.9%	38.3%

The significant component of the provision for income taxes for the year ended December 31, 2000, 1999 and 1998 was a deferred tax provision of $224 million, $293 million and $231 million, respectively. The provision for income taxes for each of the years ended December 31, 2000, 1999 and 1998 also reflects a current tax provision (benefit) in the amount of $(2) million, $17 million and $17 million, respectively, 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, 2000 and 1999 are as follows (in millions):

	2000	1999
Spare parts and supplies, fixed assets and intangibles	$ 812	$ 590
Deferred gain	67	61
Capital and safe harbor lease activity	90	73
Other, net	95	69
Gross deferred tax liabilities	1,064	793
Accrued liabilities	(223)	(254)
Net operating loss carryforwards	(366)	(266)
Investment tax credit carryforwards	(45)	(45)
Minimum tax credit carryforward	(43)	(46)
Gross deferred tax assets	(677)	(611)
Valuation allowance	263	263
Net deferred tax liability	650	445
Less: current deferred tax asset	(137)	(145)
Non-current deferred tax liability	$ 787	$ 590

At December 31, 2000, the Company had estimated tax net operating losses ("NOLs") of $1 billion for federal income tax purposes that will expire through 2021 and federal investment tax credit carryforwards of $45 million that will expire through 2001. Due to an ownership change of the Company on April 27, 1993, the ultimate utilization of the Company's NOLs and investment tax credits may be limited. Reflecting this limitation, the Company had a valuation allowance of $263 million at December 31, 2000 and 1999.

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. In addition, the market value of certain Boeing 747 aircraft no longer operated by the Company had 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 related 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 related primarily to costs expected to be incurred related to the return of leased aircraft. As of December 31,2000, the remaining accrual for the 1999 fleet disposition/impairment loss totaled $8 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. 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, 2000, the remaining accrual for the 1998 fleet disposition/impairment loss totaled $17 million.

The remaining balance of accruals for aircraft retirements and excess facilities at December 31, 2000 relates to the 1994 accrual for fleet disposition/impairment loss and underutilized facilities of $29 million.

Significant activity related to these accruals during the years ended December 31, 2000, 1999 and 1998 were limited to cash payments incurred.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Continental has substantial commitments for capital expenditures, including for the acquisition of new aircraft. As of December 31,2000, Continental had agreed to acquire or lease a total of 86 Boeing jet aircraft through 2005. The Company anticipates taking delivery of 35 Boeing jet aircraft in 2001. Continental also has options for an additional 105 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. As of December 31, 2000, Continental had approximately $890 million in financing arranged for such Boeing deliveries. Continental also has commitments or letters of intent for backstop financing for approximately 23% of the anticipated remaining acquisition cost of future Boeing deliveries. In addition, at December 31, 2000, Continental has firm commitments to purchase 26 spare engines related to the new Boeing aircraft for approximately $158 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 December 31,2000, Express had firm commitments for 178 Embraer regional jets with options for an additional 100 Embraer regional jets exercisable through 2007. Express anticipates taking delivery of 41 regional jets in 2001. The estimated cost of the Company's firm commitments for Embraer regional jets is approximately $3 billion. Neither Express nor Continental will have any obligation to take any such firm Embraer aircraft that are not financed by a third party and leased to Continental.

Continental expects its cash outlays for 2001 capital expenditures, exclusive of fleet plan requirements, to aggregate approximately $326 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 $196 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.

Approximately 41% of the Company's employees are covered by collective bargaining agreements. The Company's collective bargaining agreements with its CMI flight attendants (representing approximately 1% of the Company's employees) became amendable in June 2000. The parties reached a tentative agreement, which was not ratified by the flight attendants. Negotiations will resume in early 2001. The Company continues to believe 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 — On July 25, 2000, a Concorde aircraft operated by Societe Air France ("Air France") crashed shortly after takeoff from France's Charles de Gaulle Airport, killing 114 people and destroying the aircraft. The interim investigation conducted by French authorities suggests that one of the aircraft's tires burst and that portions of the resulting debris struck the underside of a wing of the aircraft which caused the rupture of a fuel tank, leading to a fire and the crash. In early September 2000, Continental learned that a small piece of metal found on the runway after the Concorde took off is believed by the French authorities to have caused or contributed to the tire failure and is suspected by investigators to have come from a Continental DC-10 aircraft that had taken off on the same runway a short time before the Concorde.

Several lawsuits involving Continental have been filed to date in connection with the accident, and Continental anticipates that additional suits will be filed against the Company in the future. This pending litigation is in pre-

liminary stages. Continental is cooperating with French and U.S. authorities in the investigation of the accident. Although the outcome of these suits or any future litigation cannot be known at this time, Continental's costs to defend these matters and, the Company believes, any potential liability exposure are covered by insurance. Consequently, the Company does not expect this litigation or any additional suits that may arise from the accident to have a material adverse effect on the Company's financial position or results of operations.

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 2000, 1999 and 1998, other than those discussed elsewhere in the Notes to Consolidated Financial Statements.

In December 2000, the Company sold its remaining investment in America West Holdings, a company in which David Bonderman, a director and stockholder of the Company, holds a significant interest. The Company and America West Airlines, Inc. ("America West"), a subsidiary of America West Holdings entered into a series of agreements during 1994 related to code-sharing and ground handling that have created substantial benefits for both airlines. The services provided are considered normal to the daily operations of both airlines. As a result of these agreements, Continental paid America West $28 million, $25 million and $20 million in 2000, 1999 and 1998, respectively, and America West paid Continental $33 million, $31 million and $27 million in 2000, 1999 and 1998, respectively.

In November 2000, Continental entered into a number of agreements with Northwest and some of its affiliates under which it would repurchase most of its Class A common stock owned by Northwest. See Note 16. In November 1998, the Company and Northwest Airlines, Inc. ("Northwest Airlines"), 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 $10 million in 2000 and $7 million in 1999, respectively, and Northwest paid Continental $14 million in 2000 and $9 million in 1999, respectively.

Also in November 2000, Continental entered into an agreement to pay 1992 Air, Inc. $10 million in cash for its sale to Continental of its right of first offer to purchase the shares of Class A common stock that the Company purchased from Northwest.1992 Air, Inc.is an affiliate of David Bonderman, one of Continental's directors. See Note 16.

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. The services provided are considered normal to the daily operations of both airlines. Copa paid Continental $8 million in 2000 and $4 million in 1999, and Continental paid Copa approximately $1 million in each of 2000 and 1999.

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 short-term $3 million secured note, with interest paid quarterly. During 2000 and

1999, Continental paid Gulfstream $1 million and $1 million, respectively, and Gulfstream paid Continental $16 million and $13 million, respectively, 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 operating revenues by principal geographic areas is as follows (in millions):

	2000	1999	1998
Domestic (U.S.)	$6,835	$6,066	$5,596
Atlantic	1,370	1,102	995
Latin America	1,022	860	769
Pacific	672	611	567
	$9,899	$8,639	$7,927

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 — SUBSEQUENT EVENTS

On November 15, 2000, Continental entered into a number of agreements with Northwest and some of its affiliates under which it would, among other things, repurchase approximately 6.7 million shares of Class A common stock owned by Northwest, reclassify all issued shares of Class A common stock into Class B common stock, make other adjustments to its corporate and alliance relationship with Northwest Airlines, and issue to Northwest Airlines one share of preferred stock, designated as Series B preferred stock ("Series B preferred stock") with blocking rights relating to certain change of control transactions involving Continental and certain matters relating to Continental's rights plan. The transactions closed on January 22, 2001. The consideration paid to repurchase the Class A common stock owned by Northwest and to reclassify the issued Class A common stock to Class B common stock will be accounted for as an equity transaction. Under the agreements relating to the recapitalization, Continental and Northwest agreed to seek dismissal of the antitrust litigation brought by the U.S. Department of Justice against Northwest and Continental, which dismissal was granted on January 22, 2001.

Repurchase of Shares of Class A Common Stock. On January 22, 2001, Continental repurchased from Northwest and an affiliate 6,685,279 shares of Continental Class A common stock for an aggregate purchase price of $450 million in cash (or approximately $67 per share).

The shares repurchased represented approximately 77% of the total number of shares of Class A common stock owned by Northwest, excluding shares subject to a limited proxy held by Northwest. This limited proxy terminated upon the closing of the recapitalization. After giving effect to the repurchase and the reclassification of the issued shares of Class A common stock into Class B common stock, Northwest's general voting power with respect to Continental, including Northwest's right to vote certain shares under a limited proxy, was reduced from approximately 59.6% to approximately 7.2%. This percentage does not include the share of Series B preferred stock issued to Northwest Airlines in the recapitalization, which does not have general voting rights but instead has a special class vote on certain change of control transactions as described below.

Reclassification of Shares of Class A Common Stock. At the effective time of the recapitalization, the remaining 1,975,945 shares of Class A common stock owned by Northwest that Continental did not purchase, as well as all other issued shares of Class A common stock, were reclassified into Class B common stock at an exchange rate of 1.32 shares of Class B common stock per share of Class A common stock.

Issuance of Series B Preferred Stock. In connection with the transactions described above, including the amendment of the master alliance agreement, Continental issued to Northwest Airlines one share of Series B preferred stock for consideration of $100 in cash. The Series B preferred stock gives Northwest Airlines the right to vote,as a separate class, during the term of the master alliance agreement or, if earlier, until the Series B preferred stock becomes redeemable, on:

- any amendment to article seven of Continental's certificate of incorporation which relates, in general, to the requirement to obtain the approval of the holder of the Series B preferred stock to amend Continental's rights agreement;
- certain business combinations and similar change of control transactions involving Continental and a third party major air carrier with respect to which the stockholders of Continental are entitled to vote;
- any dividend or distribution of all or substantially all of Continental's airline assets; and
- certain reorganizations and restructuring transactions involving Continental.

Except for the right to vote on any amendment to Continental's certificate of incorporation that would adversely affect the Series B preferred stock, and on any other matter as may be required by law, the Series B preferred stock does not have any other voting rights.

Purchase of Right of First Offer. In connection with the recapitalization, Continental paid 1992 Air, Inc.$10 million in cash for its sale to Continental of its right of first offer to purchase the shares of Class A common stock that the Company purchased from Northwest (which right terminated immediately after the recapitalization). 1992 Air, Inc. is an affiliate of David Bonderman, one of Continental's directors.

Standstill Agreement. In connection with the recapitalization, Northwest and certain of its affiliates have entered into a standstill agreement with the Company that contains standstill and conduct restrictions that are substantially similar to those previously contained in the corporate governance agreement that had been in place between the parties. Under the agreement, Northwest agreed to vote neutrally all of Continental's common stock owned by it after the recapitalization, except that Northwest will be free to vote its shares in its discretion with respect to a change of control of the Company, as defined in the Series B preferred stock certificate of designations, and will vote neutrally or as recommended by Continental's board of directors with respect to the election of directors. The standstill agreement provides that Northwest will be released from its obligations if Continental publicly announces that it is seeking, or has entered into an agreement with, a third party to acquire a majority of Continental's voting securities or all or substantially all of Continental's airline assets.

Amendment of the Rights Agreement. Continental has also amended its rights agreement to take into account, among other things, the effects of the recapitalization and to eliminate Northwest's status as an exempt person that would not trigger the provisions of the rights agreement.

NOTE 17 — QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 2000 and 1999 is as follows (in millions, except per share data):

	Three Months Ended			
	March 31	June 30	September 30	December 31
2000				
Operating revenue	$ 2,277	$ 2,571	$ 2,622	$ 2,429
Operating income	54	279	254	97
Nonoperating income (expense),net	(31)	(29)	(30)	(23)
Net income	14	149	135	44
Earnings per common share:				
Income before extraordinary charge (a)	$ 0.21	$ 2.52	$ 2.29	$ 0.74
Extraordinary charge,net of tax (a)	—	(0.08)	(0.03)	—
Net income (a)	$ 0.21	$ 2.44	$ 2.26	$ 0.74
Earnings per common share assuming dilution:				
Income before extraordinary charge (a)	$ 0.21	$ 2.46	$ 2.24	$ 0.70
Extraordinary charge, net of tax (a)	—	(0.07)	(0.03)	—
Net income (a)	$ 0.21	$ 2.39	$ 2.21	$ 0.70

	Three Months Ended			
	March 31	June 30	September 30	December 31
1999				
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 (a)	$ 1.25	$ 1.85	$ 1.47	$ 2.46
Cumulative effect of accounting changes,net of tax	(0.48)	—	—	—
Net income (a)	$ 0.77	$ 1.85	$ 1.47	$ 2.46
Earnings per common share assuming dilution:				
Income before cumulative effect of accounting changes (a)	$ 1.13	$ 1.73	$ 1.44	$ 2.42
Cumulative effect of accounting changes, net of tax	(0.42)	—	—	—
Net income (a)	$ 0.71	$ 1.73	$ 1.44	$ 2.42

(a) 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 fourth quarter of 2000, Continental recorded a $6 million gain ($9 million pre-tax) on the sale of a right of first refusal and the Company's remaining investment in America West Holdings.

During the third quarter of 2000, Continental repurchased the remainder of its 9½% senior unsecured notes, in addition to the early extinguishment of other debt, resulting in a $2 million extraordinary charge (net of income tax benefit) for early debt repayment.

During the second quarter of 2000, Continental repurchased $188 million of its 9½% senior unsecured notes, in addition to the early extinguishment of other debt, resulting in a $4 million extraordinary charge (net of income tax benefit) for early debt repayment.

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).

Report of Independent Auditors

The Board of Directors and Stockholders of Continental Airlines, Inc.

We have audited the accompanying consolidated balance sheets of Continental Airlines, Inc. (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, common stockholders' equity and cash flows for each of the three years in the period ended December 31,2000. 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, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, 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.

Houston, Texas

January 16, 2001

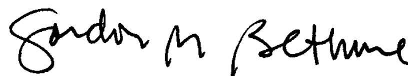
except for Note 16, as to which the date is January 22, 2001

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.

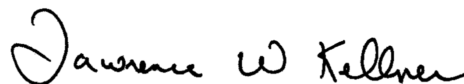
The Company maintains a system of internal controls to provide reasonable assurance that its financial records can be relied upon in the preparation of financial statements and that its assets are safeguarded against loss or unauthorized use. The Company's internal audit program monitors the effectiveness 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

Chairman of the Board and Chief Executive Officer



Lawrence W. Kellner

Executive Vice President and Chief Financial Officer

Executive Officers

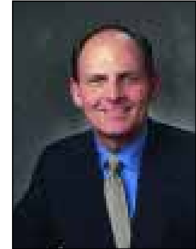
Lawrence W. Kellner
Executive Vice President and Chief Financial Officer

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

James Compton
Senior Vice President Pricing and Revenue Management

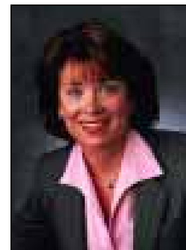

Mark A. Erwin
Senior Vice President Airport Services

J. David Grizzle
Senior Vice President Corporate Development

Glen W. Hauenstein
Senior Vice President Scheduling

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

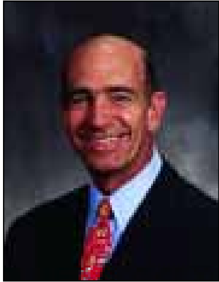
Barry P. Simon
Senior Vice President International

Kuniaki Tsuruta
Senior Vice President Purchasing and Material Services

John E. “Ned” Walker
Senior Vice President Worldwide Corporate Communications

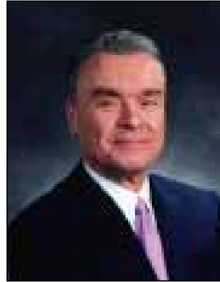
Janet P. Wejman
Senior Vice President and Chief Information Officer

Board of Directors



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

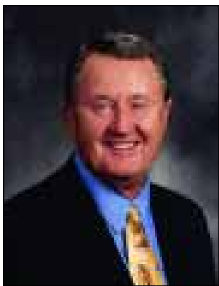
Managing Partner, Texas Pacific Group

Gregory D. Brenneman

President and Chief Operating Officer, Continental Airlines, Inc.

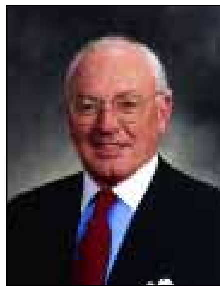
Kirbyjon H. Caldwell

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



Patrick Foley

Former Chairman, President and Chief Executive Officer of DHL Airways, Inc.



Douglas H. McCorkindale

Chairman, President and CEO, 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

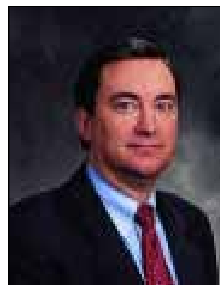
Managing Partner, Texas Pacific Group

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

Stockholder Information

HEADQUARTERS

Continental Airlines, Inc.
1600 Smith Street
Houston, TX 77002
(713) 324-5000

INVESTOR INFORMATION

To obtain a Form 10-K or other financial information, visit the Company's website at: www.continental.com
or write:
Investor Relations
Continental Airlines, Inc.
P.O. Box 4607
Houston, TX 77210-4607

TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
Attn: Shareholder Services
(888) 711-6201

INDEPENDENT ACCOUNTANTS

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

COMMON STOCK

On January 22, 2001, Continental repurchased for $450 million approximately 6.7 million shares of its Class A common stock from Northwest Airlines Corporation and its affiliates. Also at that time, Continental's stockholders approved a recapitalization pursuant to which each share of Class A common stock was reclassified into 1.32 shares of Class B common stock. As a result, Continental now has a single class of common stock outstanding (Class B).

Continental's Class B common stock trades on the New York Stock Exchange under the symbol CAL. As of February 1, 2001, there were 53,528,119 shares of Class B common stock outstanding, with approximately 16,452 holders of record.

Holders of Class B common stock are entitled to one vote 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. 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 2000 and 1999:

CLASS B AND CLASS A STOCK PRICES FOR 2000 AND 1999

	Class B				Class A			
	2000		1999		2000		1999	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$46 5/8	$29	$41 11/16	$30	$46 1/2	$29 1/16	$44 15/16	$34 1/8
Second Quarter	$50	$37 5/8	$48	$36 7/16	$49 1/8	$38 3/16	$48	$36 13/16
Third Quarter	$54 13/16	$43 1/8	$44 9/16	$31 5/8	$54 3/4	$43 3/8	$44 3/8	$31 13/16
Fourth Quarter	$54 9/16	$40 1/2	$44 3/8	$32 3/8	$68 1/2	$40 13/16	$44 11/16	$32 3/16

Continental Airlines