

Jan. 20, 2005

EMPLOYEE BULLETIN NO. 3

CO issued the following news release today:

**CONTINENTAL AIRLINES ANNOUNCES
FOURTH QUARTER AND 2004 RESULTS**

Reports \$206 million fourth quarter net loss; \$363 million net loss for the year

HOUSTON, Jan. 20, 2005 -- Continental Airlines (NYSE: CAL) today reported a fourth quarter 2004 net loss of \$206 million (\$3.12 diluted loss per share). The net loss includes special items of \$32 million (\$14 million primarily due to the retirement of aircraft and \$18 million related to a change in expected future costs for frequent flyer reward redemptions on alliance carriers).

Excluding the special items, Continental recorded a net loss of \$174 million (\$2.62 diluted loss per share) for the quarter, which compares favorably to the First Call mean estimate of \$3.29 loss per share.

For the full year 2004, Continental incurred a net loss of \$363 million (\$5.55 diluted loss per share) compared to net income of \$38 million in 2003. The company's 2004 results were adversely impacted by weak domestic yields and record breaking fuel prices. Excluding special items, Continental recorded a net loss of \$255 million for 2004 (\$3.91 diluted loss per share), compared to a net loss of \$209 million (\$3.20 diluted loss per share) in 2003.

“Even though we closed 2004 with a significant loss, Continental took many steps last year that are helping to position us for a stronger future,” said Chairman and Chief

-more-

Executive Officer Larry Kellner. “Continental employees continue to deliver outstanding, industry-leading service, and that consistency is a solid foundation for our efforts to restore profitability.”

Fourth Quarter Revenue and Capacity

Fourth quarter passenger revenue was \$2.2 billion, 6.7 percent higher than the same period in 2003. Consolidated revenue passenger miles (RPMs) for the quarter increased 11.1 percent year-over-year on a capacity increase of 7.7 percent. Consolidated load factor for the quarter was up 2.4 points over the same period in 2003 to 77.3 percent. Consolidated revenue per available seat mile (RASM) was down 0.9 percent year-over-year for the quarter.

Mainline RPMs in the fourth quarter were up 10.1 percent on increased capacity of 6.6 percent versus the same period in 2003. Mainline load factor in the fourth quarter increased 2.4 points over the fourth quarter 2003 to 77.9 percent. With the continuing erosion of fares in the domestic and Caribbean markets, mainline yields during the quarter declined 4.2 percent year-over-year. The increase in load factor was not enough to offset the decline in yields, resulting in a 1.0 percent year-over-year decline in mainline RASM for the quarter.

During the quarter, Continental continued its domestic length-of-haul adjusted yield and RASM premiums to the industry. Passenger revenue for the fourth quarter 2004 and period to period comparisons of related statistics by geographic region for the company's mainline and regional operations are as follows:

-more-

<u>2003</u>	Passenger Revenue (in millions)	Percentage Increase (Decrease) in <u>Fourth Quarter 2004 vs. Fourth Quarter</u>		
		Passenger Revenue	RASM	ASMs
Domestic	\$ 1,085	(0.4)%	(1.3)%	0.9%
Transatlantic	330	26.4%	2.0%	24.0%
Latin America	224	5.9%	(2.9)%	9.1%
Pacific	150	11.0%	2.1%	8.7%
Total Mainline	\$ 1,789	5.4%	(1.0)%	6.6%
Regional	\$ 400	12.9%	(3.6)%	17.1%
Consolidated	\$ 2,189	6.7%	(0.9)%	7.7%

Operational Accomplishments

Continental continued its outstanding operational performance in 2004, with the airline reporting a record 108 days without a single flight cancellation. For the quarter, Continental recorded a U.S. Department of Transportation (DOT) on-time arrival rate of 80.3 percent and a completion factor of 99.8 percent.

"Our co-workers' operational performance was stellar this past quarter, earning them two on-time bonuses, including a bonus for being the number one on-time carrier in the heavy travel month of December," said President Jeff Smisek. "Our co-workers continue to focus on what matters most to our customers – clean, safe and reliable service."

For the seventh year in a row, the company outperformed all of its U.S. competition in international long-haul service and comfort, according to results of a survey of Condé Nast Traveler readers published in the magazine's October 2004 edition.

-more-

On transatlantic and transpacific flights, Continental Airlines ranked higher than all U.S. carriers on the magazine's lists of "Top Airlines."

Continental Airlines also received the highest overall score of all airlines surveyed in the 2004 Business Travel News Annual Airlines Survey. The airline garnered top marks in five of the 10 categories, including corporate pricing, quality of airline communication and value of sales representative visits.

Continental introduced self-service international check-in during the fourth quarter, and this service is now available at 233 self-service kiosks throughout its network. Online international check-in will be available on continental.com starting in the first quarter of 2005.

In the fourth quarter, Continental continued to boost its international network by launching new daily nonstop service between Honolulu and Nagoya, Japan, between Los Angeles International Airport and three Mexican destinations – Aguascalientes, Guanajuato and Morelia – and between Laredo, Texas, and Mexico City. The airline also began service between its hub at George Bush Intercontinental Airport in Houston and Huatulco, Mexico, the airline's 29th Mexican destination. Continental serves more Mexican destinations nonstop from the U.S. than any other airline.

Fourth Quarter Financial Results

Continental's mainline cost per available seat mile (CASM) increased 4.7 percent in the fourth quarter compared to the same period last year, primarily due to high fuel prices. Excluding special items and holding fuel rate constant, CASM decreased 3.8 percent due to the continued success of the carrier's cost savings initiatives. For the full

-more-

year, Continental's CASM increased 3.1 percent compared to 2003. Holding fuel rate constant and excluding special items, CASM decreased 4.2 percent year-over-year.

"Our cost control efforts continue to be a major focus for us," said Executive Vice President and Chief Financial Officer Jeff Misner. "We have now realized over \$900 million of our \$1.1 billion effort, including achieving approximately \$300 million of savings from our best business partners and suppliers."

Continental continues to suffer from the relentless burden of excessive fees and non-income related taxes. In the fourth quarter, the company incurred \$258 million in fees and non-income related taxes charged on passenger tickets by various governmental entities, totaling \$1.05 billion for the full year.

During the quarter, Continental began meeting with its employee work groups to discuss implementing \$500 million of annual payroll and benefit cost reductions effective Feb. 28, 2005. The company has finalized changes to wages, work rules and benefits for executives and U.S.-based management and clerical, reservations, food services, airport and cargo agents and customer service employees totaling \$169 million. The company continues to meet with each remaining work group to discuss a package of pay and benefits cuts appropriate for each group.

In January, Continental announced a significantly enhanced profit-sharing program that will share with employees 30 percent of the first \$250 million of pre-tax income, 25 percent of the next \$250 million and 20 percent of amounts over \$500 million. Continental's enhanced profit-sharing program is now the best in the industry.

In line with its previously announced cost savings initiatives, Continental retired

-more-

five MD-80 aircraft during the fourth quarter and the remaining two MD-80s in January 2005. The company has now retired its entire fleet of MD-80 aircraft, reducing the fleet to just three Boeing aircraft types – the 777, 767/757 and 737 models.

Continental ended the fourth quarter with approximately \$1.46 billion in unrestricted cash and short-term investments.

2004 Highlights

- Continental was the most admired airline among FORTUNE magazine's annual list of Most Admired Global Companies. The carrier ranked No. 1 in several key categories including employee talent, innovation, quality of management, use of corporate assets, long-term investment value, globalness and social responsibility. In addition, Continental is the only U.S. airline ranked on FORTUNE's Global Most-Admired "Top 50" list, which ranks companies in a wide variety of industries.
- Continental signed an unprecedented partnership accord with its pilots union, the Air Line Pilots Association (ALPA), to codify key aspects of its labor/management relations.
- Continental won top honors in the OAG Airline of the Year Awards 2004. Continental was the first North American airline to win "Airline of the Year," in addition to "Best Executive/Business Class" and "Best Airline Based in North America."
- Continental became a member of SkyTeam, giving its global travelers a broad choice of 658 global destinations in more than 130 countries.

-more-

Passengers may accrue and redeem frequent flyer miles on all of the nine member airlines: Continental, Aeroméxico, Air France, Alitalia, CSA Czech Airlines, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air and Northwest Airlines.

- Continental realized over \$900 million of the \$1.1 billion of previously announced revenue and cost savings initiatives, including approximately \$300 million from its business partners and suppliers. These measures are in addition to the recently announced need for \$500 million in wage and benefit reductions.
- Continental significantly boosted its international service by increasing frequency on several transatlantic routes and adding other new routes, including:
 - New York/Liberty-Edinburgh, Scotland
 - New York/Liberty-Oslo, Norway
 - New York/Liberty-Punta Cana, Dominican Republic
 - Houston-Port of Spain, Trinidad
 - Houston-Roatan, Honduras
 - Houston-Montego Bay, Jamaica
 - Honolulu-Nagoya, Japan
- In December, Continental reached an agreement with Boeing to become the first major U.S. airline to order the Boeing 7E7 aircraft, with the first 7E7 to be delivered in 2009. The company's initial 7E7 order is for 10 aircraft. Continental also agreed to lease eight 757-300 aircraft to be delivered beginning in July 2005, and accelerate into 2006 the delivery of six 737-800 aircraft that were previously scheduled to be delivered in

-more-

2008. These aircraft deliveries are subject to the approval of Continental's board of directors. In addition, Continental took delivery of two Boeing 737-800s in the fourth quarter.

- The airline announced new international routes, beginning in 2005, from its New York/Liberty hub to:
 - Bristol, England
 - Belfast, Northern Ireland
 - Berlin, Germany
 - Hamburg, Germany
 - Lagos, Nigeria
 - Stockholm, Sweden

- Continental applied to begin two routes to China from its New York hub at Newark Liberty International Airport. In a filing with the U.S. Department of Transportation, the carrier requested permission to inaugurate service to Beijing in the spring of 2005 and to Shanghai in the spring of 2006, subject to government approval.

- Despite high load factors and severe weather that posed significant operational challenges for the entire industry, Continental continued to run a superb operation, recording a U.S. Department of Transportation (DOT) on-time arrival rate of 78.9 percent and a completion factor of 99.4 percent for the year.

- Continental continued to enhance its fuel efficient fleet, taking delivery of 11 Boeing 737-800s and five Boeing 757-300s, and retiring the last of its MD-80 aircraft.

-more-

- The company installed blended winglets on 17 Boeing 737-800s. Continental expects to have winglets on 29 aircraft by the end of the first quarter of 2005.
- Continental was the first airline to complete installation of self service check-in kiosks at all of its airport terminal check-in areas in the United States and offer free wireless Internet access to all of its airport lounge clubs worldwide.
- Continental implemented interline electronic ticketing with several airlines including Air France, British Airways, Finnair, Emirates, Qantas and Hawaiian Airlines, allowing customers to use a single electronic ticket when their itineraries include both carriers. At year's end, the company had interline electronic ticketing agreements with 24 carriers and plans to implement agreements with approximately 40 additional carriers in 2005.

Corporate Background

Continental Airlines is the world's sixth-largest airline with more than 3,000 daily departures throughout the Americas, Europe and Asia. Continental serves 153 domestic and 119 international destinations – more than any other airline in the world – and nearly 400 additional destinations are served via SkyTeam alliance airlines. With more than 41,000 employees, the airline has hubs serving New York, Houston, Cleveland and Guam, and carried approximately 56 million passengers in 2004.

In 2004, Continental earned awards and critical acclaim for both its operation and its corporate culture. *FORTUNE* ranks Continental as the top airline in its Most Admired Global

-more-

Companies in 2004. The carrier won major awards at the 2004 OAG Airline of the Year Awards including "Airline of the Year," "Best Airline Based in North America" and "Best Executive/Business Class." For more company information, visit continental.com.

Continental Airlines will conduct a regular quarterly telephone briefing today to discuss these results and the company's financial and operating outlook with the financial community and news media at 9:30 a.m. CT/10:30 a.m. ET. To listen to a live broadcast of this briefing, go to continental.com/company.

This press release may contain forward-looking statements that are not limited to historical facts, but reflect the company's current beliefs, expectations or intentions regarding future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ from those in the forward-looking statements. For examples of such risks and uncertainties, please see the risk factors set forth in the company's 2003 10-K and its other securities filings, which identify important matters such as the consequences of failing to obtain the \$500 million reduction in annual payroll and benefit costs by Feb. 28, 2005, terrorist attacks, domestic and international economic conditions, the significant cost of aircraft fuel, labor costs, competition and industry conditions including the demand for air travel, airline pricing environment and industry capacity decisions, regulatory matters and the seasonal nature of the airline business. In addition to the foregoing risks, there can be no assurance that the company will be able to achieve the needed cost savings and revenue enhancements and payroll and benefits reductions and productivity improvements discussed in this news release, which will depend, among other matters, on successful discussions with employees and their representatives, and other third parties. Continental undertakes no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

The financial statement deconsolidation of ExpressJet in November 2003 affects the comparability of quarter-to-quarter financial results. Post-deconsolidation, Continental's proportionate share of ExpressJet's net income is reflected in income from affiliates. Payments made to ExpressJet under Continental's capacity purchase agreement, previously eliminated in consolidation, are reported in ExpressJet capacity purchase, net, in 2004. See the attached table "ExpressJet Deconsolidation Impact" for a year-over-year comparison of individual items excluding the impact of ExpressJet deconsolidation.

For more information and the full news release, including GAAP to non-GAAP reconciliations for all the non-GAAP financial measures discussed, go to continental.com < About Continental < News Releases.

###