

Edgar Filing: United Continental Holdings, Inc. - Form 10-Q

United Continental Holdings, Inc.

Form 10-Q

October 17, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM

10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

| Commission File Number | Exact Name of Registrant as Specified in its Charter<br>Principal Executive Office Address and Telephone Number | State of Incorporation | I.R.S. Employer Identification No. |
|------------------------|---|------------------------|------------------------------------|
| 001-06033              | United Continental Holdings, Inc.<br>233 South Wacker Drive, Chicago, Illinois 60606<br>(872) 825-4000          | Delaware               | 36-2675207                         |
| 001-10323              | United Airlines, Inc.<br>233 South Wacker Drive, Chicago, Illinois 60606<br>(872) 825-4000                      | Delaware               | 74-2099724                         |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

United Continental Holdings, Inc. Yes  No  United Airlines, Inc. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

United Continental Holdings, Inc. Yes  No  United Airlines, Inc. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                                   |   |  |  |   |  |
|-----------------------------------|---|--|--|---|--|
| United Continental Holdings, Inc. | Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/>            | Emerging growth company <input type="checkbox"/> |
| United Airlines, Inc.             | Large accelerated filer <input type="checkbox"/>            | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input checked="" type="checkbox"/> | Emerging growth company <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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United Airlines, Inc.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

United Continental Holdings, Inc. Yes  No

United Airlines, Inc. Yes  No

The number of shares outstanding of each of the issuer's classes of common stock as of October 12, 2018 is shown below:

United Continental Holdings, Inc. 272,464,412 shares of common stock (\$0.01 par value)

United Airlines, Inc. 1,000 shares of common stock (\$0.01 par value) (100% owned by United Continental Holdings, Inc.)

**OMISSION OF CERTAIN INFORMATION**

This combined Quarterly Report on Form 10-Q is separately filed by United Continental Holdings, Inc. and United Airlines, Inc. United Airlines, Inc. meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

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United Continental Holdings, Inc.  
 United Airlines, Inc.  
 Quarterly Report on Form 10-Q  
 For the Quarterly Period Ended September 30, 2018

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## UNITED CONTINENTAL HOLDINGS, INC.

## STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

(In millions, except per share amounts)

|  | Three Months<br>Ended September<br>30, |             | Nine Months<br>Ended September<br>30, |          |
|--|--|-------------|---------------------------------------|----------|
|  | 2018                                   | 2017<br>(a) | 2018                                  | 2017 (a) |
| Operating revenue:                                 |  |             |                                       |          |
| Passenger revenue                                  | \$10,120                               | \$9,069     | \$28,150                              | \$25,873 |
| Cargo  | 296                                    | 279         | 903                                   | 790      |
| Other operating revenue                            | 587                                    | 551         | 1,759                                 | 1,670    |
| Total operating revenue                            | 11,003                                 | 9,899       | 30,812                                | 28,333   |
| Operating expense:                                 |  |             |                                       |          |
| Salaries and related costs                         | 2,930                                  | 2,785       | 8,534                                 | 8,263    |
| Aircraft fuel                                      | 2,572                                  | 1,809       | 6,927                                 | 5,038    |
| Regional capacity purchase                         | 663                                    | 567         | 1,963                                 | 1,652    |
| Landing fees and other rent                        | 596                                    | 585         | 1,757                                 | 1,670    |
| Depreciation and amortization                      | 564                                    | 556         | 1,662                                 | 1,610    |
| Aircraft maintenance materials and outside repairs | 455                                    | 451         | 1,333                                 | 1,377    |
| Distribution expenses                              | 427                                    | 377         | 1,162                                 | 1,081    |
| Aircraft rent                                      | 109                                    | 145         | 355                                   | 476      |
| Special charges (Note 10)                          | 17                                     | 50          | 186                                   | 145      |
| Other operating expenses                           | 1,467                                  | 1,436       | 4,293                                 | 4,126    |
| Total operating expenses                           | 9,800                                  | 8,761       | 28,172                                | 25,438   |
| Operating income                                   | 1,203                                  | 1,138       | 2,640                                 | 2,895    |
| Nonoperating income (expense):                     |  |             |                                       |          |
| Interest expense                                   | (187 )                                 | (169 )      | (540 )                                | (498 )   |
| Interest capitalized                               | 18                                     | 20          | 51                                    | 64       |
| Interest income                                    | 28                                     | 17          | 70                                    | 41       |
| Miscellaneous, net                                 | (1 )                                   | (13 )       | (119 )                                | (82 )    |
| Total nonoperating expense, net                    | (142 )                                 | (145 )      | (538 )                                | (475 )   |
| Income before income taxes                         | 1,061                                  | 993         | 2,102                                 | 2,420    |
| Income tax expense                                 | 225                                    | 348         | 435                                   | 855      |
| Net income   | \$836                                  | \$645       | \$1,667                               | \$1,565  |
| Earnings per share, basic                          | \$3.07                                 | \$2.15      | \$6.02                                | \$5.10   |
| Earnings per share, diluted                        | \$3.06                                 | \$2.15      | \$5.99                                | \$5.09   |

(a) Amounts adjusted due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) and Accounting Standards Update No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. See Note 1 to the financial statements contained in Part I, Item 1 of this report for additional information.

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

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UNITED CONTINENTAL HOLDINGS, INC.  
 STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)  
 (In millions)

|   | Three<br>Months<br>Ended<br>September<br>30, |             | Nine Months<br>Ended<br>September 30, |             |
|---|--|-------------|---------------------------------------|-------------|
|   | 2018   | 2017<br>(a) | 2018                                  | 2017<br>(a) |
| Net income  | \$836  | \$645       | \$1,667                               | \$1,565     |
| Other comprehensive income (loss), net change related to: |  |             |                                       |             |
| Employee benefit plans, net of taxes                      | 12   | 3           | 54                                    | (1 )        |
| Investments and other, net of taxes                       | 1  | 17          | 4                                     | 6           |
| Total other comprehensive income, net                     | 13   | 20          | 58                                    | 5           |
| Total comprehensive income, net                           | \$849  | \$665       | \$1,725                               | \$1,570     |

(a) Amounts adjusted due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) and Accounting Standards Update No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. See Note 1 to the financial statements contained in Part I, Item 1 of this report for additional information.

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

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UNITED CONTINENTAL HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
(In millions, except shares)

|   | September 30,<br>2018 | December<br>31, 2017<br>(a) |
|---|-----------------------|-----------------------------|
| <b>ASSETS</b>   |                       |                             |
| Current assets:   |                       |                             |
| Cash and cash equivalents   | \$ 2,621              | \$ 1,482                    |
| Short-term investments  | 2,314                 | 2,316                       |
| Receivables, less allowance for doubtful accounts (2018 — \$6; 2017 — \$7)                        | 1,752                 | 1,340                       |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2018 — \$396; 2017 — \$394) | 1,501                 | 924                         |
| Prepaid expenses and other  | 973                   | 1,071                       |
| Total current assets  | 8,671                 | 7,133                       |
| Operating property and equipment:   |                       |                             |
| Owned—  |                       |                             |
| Flight equipment  | 30,516                | 28,692                      |
| Other property and equipment  | 7,765                 | 6,946                       |
| Total owned property and equipment  | 38,281                | 35,638                      |
| Less — Accumulated depreciation and amortization  | (12,487)              | (11,159)                    |
| Total owned property and equipment, net   | 25,794                | 24,479                      |
| Purchase deposits for flight equipment  | 1,101                 | 1,344                       |
| Capital leases—   |                       |                             |
| Flight equipment  | 1,221                 | 1,151                       |
| Other property and equipment  | 23                    | 11                          |
| Total capital leases  | 1,244                 | 1,162                       |
| Less — Accumulated amortization   | (831)                 | (777)                       |
| Total capital leases, net   | 413                   | 385                         |
| Total operating property and equipment, net   | 27,308                | 26,208                      |
| Other assets:   |                       |                             |
| Goodwill  | 4,523                 | 4,523                       |
| Intangibles, less accumulated amortization (2018 — \$1,363; 2017 — \$1,313)                       | 3,382                 | 3,539                       |
| Restricted cash   | 105                   | 91                          |
| Investments in affiliates and other, net  | 848                   | 852                         |
| Total other assets  | 8,858                 | 9,005                       |
| Total assets  | \$ 44,837             | \$ 42,346                   |

(continued on next page)





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UNITED CONTINENTAL HOLDINGS, INC.  
 CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
 (In millions, except shares)

|  | September 30,<br>2018 | December<br>31, 2017<br>(a) |
|--|-----------------------|-----------------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                             |
| Current liabilities:   |                       |                             |
| Advance ticket sales   | \$ 5,193              | \$ 3,940                    |
| Accounts payable   | 2,581                 | 2,196                       |
| Frequent flyer deferred revenue  | 2,275                 | 2,192                       |
| Accrued salaries and benefits  | 2,004                 | 2,166                       |
| Current maturities of long-term debt   | 910                   | 1,565                       |
| Current maturities of capital leases   | 136                   | 128                         |
| Other  | 585                   | 576                         |
| Total current liabilities  | 13,684                | 12,763                      |
| Long-term debt   | 12,218                | 11,703                      |
| Long-term obligations under capital leases   | 1,116                 | 996                         |
| Other liabilities and deferred credits:  |                       |                             |
| Frequent flyer deferred revenue  | 2,712                 | 2,591                       |
| Postretirement benefit liability   | 1,577                 | 1,602                       |
| Pension liability  | 1,611                 | 1,921                       |
| Deferred income taxes  | 639                   | 204                         |
| Lease fair value adjustment, net   | 82                    | 198                         |
| Other  | 1,729                 | 1,634                       |
| Total other liabilities and deferred credits   | 8,350                 | 8,150                       |
| Commitments and contingencies  |                       |                             |
| Stockholders' equity:  |                       |                             |
| Preferred stock  | —                     | —                           |
| Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 272,464,412 and 286,973,195 shares at September 30, 2018 and December 31, 2017, respectively | 3                     | 3                           |
| Additional capital invested  | 6,105                 | 6,098                       |
| Retained earnings  | 6,203                 | 4,549                       |
| Stock held in treasury, at cost  | (1,753                | ) (769 )                    |
| Accumulated other comprehensive loss   | (1,089                | ) (1,147 )                  |
| Total stockholders' equity   | 9,469                 | 8,734                       |
| Total liabilities and stockholders' equity   | \$ 44,837             | \$ 42,346                   |

(a) Amounts adjusted due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). See Note 1 to the financial statements contained in Part I, Item 1 of this report for additional information.

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



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UNITED CONTINENTAL HOLDINGS, INC.  
 CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)  
 (In millions)

|   | Nine Months<br>Ended<br>September 30,<br>2018    2017 |          |
|---|---|----------|
| Cash Flows from Operating Activities:   |   |          |
| Net cash provided by operating activities                                       | \$5,080   | \$2,685  |
| Cash Flows from Investing Activities:   |   |          |
| Capital expenditures  | (2,592 )  | (2,900 ) |
| Purchases of short-term and other investments                                   | (1,975 )  | (2,584 ) |
| Proceeds from sale of short-term and other investments                          | 1,979   | 2,380    |
| Investment in affiliates  | (139 )  | —        |
| Proceeds from sale of property and equipment                                    | 30  | 8        |
| Other, net  | 94  | 142      |
| Net cash used in investing activities   | (2,603 )  | (2,954 ) |
| Cash Flows from Financing Activities:   |   |          |
| Proceeds from issuance of long-term debt and airport construction financing     | 1,332   | 2,119    |
| Repurchases of common stock   | (1,010 )  | (1,291 ) |
| Payments of long-term debt  | (1,519 )  | (722 )   |
| Principal payments under capital leases   | (98 )   | (84 )    |
| Other, net  | (47 )   | (77 )    |
| Net cash used in financing activities   | (1,342 )  | (55 )    |
| Net increase (decrease) in cash, cash equivalents and restricted cash           | 1,135   | (324 )   |
| Cash, cash equivalents and restricted cash at beginning of the period           | 1,591   | 2,303    |
| Cash, cash equivalents and restricted cash at end of the period (a)             | \$2,726   | \$1,979  |
| Investing and Financing Activities Not Affecting Cash:                          |   |          |
| Property and equipment acquired through the issuance of debt and capital leases | \$139   | \$918    |
| Airport construction financing  | 12  | 41       |
| Operating lease conversions to capital lease                                    | 52  | —        |

(a) The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the consolidated balance sheet:

| Reconciliation of cash, cash equivalents and restricted cash: |         |         |
|---|---------|---------|
| Current assets:   |         |         |
| Cash and cash equivalents                                     | \$2,621 | \$1,870 |
| Restricted cash included in Prepaid expenses and other        | —       | 13      |
| Other assets:   |         |         |
| Restricted cash   | 105     | 96      |
| Total cash, cash equivalents and restricted cash              | \$2,726 | \$1,979 |

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



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## UNITED AIRLINES, INC.

## STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

(In millions)

|  | Three Months<br>Ended September<br>30, |             | Nine Months<br>Ended September<br>30, |          |
|--|--|-------------|---------------------------------------|----------|
|  | 2018                                   | 2017<br>(a) | 2018                                  | 2017 (a) |
| <b>Operating revenue:</b>                          |  |             |                                       |          |
| Passenger revenue                                  | \$10,120                               | \$9,069     | \$28,150                              | \$25,873 |
| Cargo  | 296                                    | 279         | 903                                   | 790      |
| Other operating revenue                            | 587                                    | 551         | 1,759                                 | 1,670    |
| Total operating revenue                            | 11,003                                 | 9,899       | 30,812                                | 28,333   |
| <b>Operating expense:</b>                          |  |             |                                       |          |
| Salaries and related costs                         | 2,930                                  | 2,785       | 8,534                                 | 8,263    |
| Aircraft fuel                                      | 2,572                                  | 1,809       | 6,927                                 | 5,038    |
| Regional capacity purchase                         | 663                                    | 567         | 1,963                                 | 1,652    |
| Landing fees and other rent                        | 596                                    | 585         | 1,757                                 | 1,670    |
| Depreciation and amortization                      | 564                                    | 556         | 1,662                                 | 1,610    |
| Aircraft maintenance materials and outside repairs | 455                                    | 451         | 1,333                                 | 1,377    |
| Distribution expenses                              | 427                                    | 377         | 1,162                                 | 1,081    |
| Aircraft rent                                      | 109                                    | 145         | 355                                   | 476      |
| Special charges (Note 10)                          | 17                                     | 50          | 186                                   | 145      |
| Other operating expenses                           | 1,467                                  | 1,435       | 4,292                                 | 4,124    |
| Total operating expense                            | 9,800                                  | 8,760       | 28,171                                | 25,436   |
| Operating income                                   | 1,203                                  | 1,139       | 2,641                                 | 2,897    |
| <b>Nonoperating income (expense):</b>              |  |             |                                       |          |
| Interest expense                                   | (187 )                                 | (169 )      | (540 )                                | (498 )   |
| Interest capitalized                               | 18                                     | 20          | 51                                    | 64       |
| Interest income                                    | 28                                     | 17          | 70                                    | 41       |
| Miscellaneous, net                                 | —                                      | (13 )       | (119 )                                | (82 )    |
| Total nonoperating expense, net                    | (141 )                                 | (145 )      | (538 )                                | (475 )   |
| Income before income taxes                         | 1,062                                  | 994         | 2,103                                 | 2,422    |
| Income tax expense                                 | 225                                    | 348         | 435                                   | 856      |
| Net income   | \$837                                  | \$646       | \$1,668                               | \$1,566  |

(a) Amounts adjusted due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) and Accounting Standards Update No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. See Note 1 to the financial statements contained in Part I, Item 1 of this report for additional information.

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



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UNITED AIRLINES, INC.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In millions)

|   | Three<br>Months<br>Ended<br>September<br>30, |             | Nine Months<br>Ended<br>September 30, |             |
|---|--|-------------|---------------------------------------|-------------|
|   | 2018   | 2017<br>(a) | 2018                                  | 2017<br>(a) |
| Net income  | \$837  | \$646       | \$1,668                               | \$1,566     |
| Other comprehensive income (loss), net change related to: |  |             |                                       |             |
| Employee benefit plans, net of taxes                      | 12   | 3           | 54                                    | (1 )        |
| Investments and other, net of taxes                       | 1  | 17          | 4                                     | 6           |
| Total other comprehensive income, net                     | 13   | 20          | 58                                    | 5           |
| Total comprehensive income, net                           | \$850  | \$666       | \$1,726                               | \$1,571     |

(a) Amounts adjusted due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) and Accounting Standards Update No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. See Note 1 to the financial statements contained in Part I, Item 1 of this report for additional information.

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

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UNITED AIRLINES, INC.  
 CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
 (In millions, except shares)

|   | September 30,<br>2018 | December<br>31, 2017<br>(a) |
|---|-----------------------|-----------------------------|
| <b>ASSETS</b>   |                       |                             |
| Current assets:   |                       |                             |
| Cash and cash equivalents   | \$ 2,615              | \$ 1,476                    |
| Short-term investments  | 2,314                 | 2,316                       |
| Receivables, less allowance for doubtful accounts (2018 — \$6; 2017 — \$7)                        | 1,752                 | 1,340                       |
| Aircraft fuel, spare parts and supplies, less obsolescence allowance (2018 — \$396; 2017 — \$394) | 1,501                 | 924                         |
| Prepaid expenses and other  | 973                   | 1,071                       |
| Total current assets  | 8,665                 | 7,127                       |
| Operating property and equipment:   |                       |                             |
| Owned—  |                       |                             |
| Flight equipment  | 30,516                | 28,692                      |
| Other property and equipment  | 7,765                 | 6,946                       |
| Total owned property and equipment  | 38,281                | 35,638                      |
| Less — Accumulated depreciation and amortization  | (12,487               | ) (11,159 )                 |
| Total owned property and equipment, net   | 25,794                | 24,479                      |
| Purchase deposits for flight equipment  | 1,101                 | 1,344                       |
| Capital leases—   |                       |                             |
| Flight equipment  | 1,221                 | 1,151                       |
| Other property and equipment  | 23                    | 11                          |
| Total capital leases  | 1,244                 | 1,162                       |
| Less — Accumulated amortization   | (831                  | ) (777 )                    |
| Total capital leases, net   | 413                   | 385                         |
| Total operating property and equipment, net   | 27,308                | 26,208                      |
| Other assets:   |                       |                             |
| Goodwill  | 4,523                 | 4,523                       |
| Intangibles, less accumulated amortization (2018 — \$1,363; 2017 — \$1,313)                       | 3,382                 | 3,539                       |
| Restricted cash   | 105                   | 91                          |
| Investments in affiliates and other, net  | 849                   | 852                         |
| Total other assets  | 8,859                 | 9,005                       |
| Total assets  | \$ 44,832             | \$ 42,340                   |

(continued on next page)



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UNITED AIRLINES, INC.  
 CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
 (In millions, except shares)

|  | September 30,<br>2018 | December<br>31, 2017<br>(a) |
|--|-----------------------|-----------------------------|
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>  |                       |                             |
| Current liabilities:   |                       |                             |
| Advance ticket sales   | \$ 5,193              | \$3,940                     |
| Accounts payable   | 2,581                 | 2,196                       |
| Frequent flyer deferred revenue  | 2,275                 | 2,192                       |
| Accrued salaries and benefits  | 2,004                 | 2,166                       |
| Current maturities of long-term debt   | 910                   | 1,565                       |
| Current maturities of capital leases   | 136                   | 128                         |
| Other  | 590                   | 581                         |
| Total current liabilities  | 13,689                | 12,768                      |
| Long-term debt   | 12,218                | 11,703                      |
| Long-term obligations under capital leases   | 1,116                 | 996                         |
| Other liabilities and deferred credits:  |                       |                             |
| Frequent flyer deferred revenue  | 2,712                 | 2,591                       |
| Postretirement benefit liability   | 1,577                 | 1,602                       |
| Pension liability  | 1,611                 | 1,921                       |
| Deferred income taxes  | 666                   | 231                         |
| Lease fair value adjustment, net   | 82                    | 198                         |
| Other  | 1,729                 | 1,634                       |
| Total other liabilities and deferred credits   | 8,377                 | 8,177                       |
| Commitments and contingencies  |                       |                             |
| Stockholder's equity:  |                       |                             |
| Common stock at par, \$0.01 par value; authorized 1,000 shares; issued and outstanding 1,000 shares at both September 30, 2018 and December 31, 2017 | —                     | —                           |
| Additional capital invested  | 822                   | 1,787                       |
| Retained earnings  | 9,807                 | 8,146                       |
| Accumulated other comprehensive loss   | (1,089)               | (1,147)                     |
| Receivable from related parties  | (108)                 | (90)                        |
| Total stockholder's equity   | 9,432                 | 8,696                       |
| Total liabilities and stockholder's equity   | \$ 44,832             | \$42,340                    |

(a) Amounts adjusted due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). See Note 1 to the financial statements contained in Part I, Item 1 of this report for additional information.

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



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## UNITED AIRLINES, INC.

## CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

(In millions)

|   | Nine Months<br>Ended<br>September 30,<br>2018    2017 |          |
|---|---|----------|
| Cash Flows from Operating Activities:   |   |          |
| Net cash provided by operating activities                                       | \$5,063   | \$2,671  |
| Cash Flows from Investing Activities:   |   |          |
| Capital expenditures  | (2,592 )  | (2,900 ) |
| Purchases of short-term investments and other investments                       | (1,975 )  | (2,584 ) |
| Proceeds from sale of short-term and other investments                          | 1,979   | 2,380    |
| Investment in affiliates  | (139 )  | —        |
| Proceeds from sale of property and equipment                                    | 30  | 8        |
| Other, net  | 94  | 142      |
| Net cash used in investing activities   | (2,603 )  | (2,954 ) |
| Cash Flows from Financing Activities:   |   |          |
| Proceeds from issuance of long-term debt and airport construction financing     | 1,332   | 2,119    |
| Dividend to UAL   | (1,010 )  | (1,291 ) |
| Payments of long-term debt  | (1,519 )  | (722 )   |
| Principal payments under capital leases   | (98 )   | (84 )    |
| Other, net  | (30 )   | (63 )    |
| Net cash used in financing activities   | (1,325 )  | (41 )    |
| Net increase (decrease) in cash, cash equivalents and restricted cash           | 1,135   | (324 )   |
| Cash, cash equivalents and restricted cash at beginning of the period           | 1,585   | 2,297    |
| Cash, cash equivalents and restricted cash at end of the period (a)             | \$2,720   | \$1,973  |
| Investing and Financing Activities Not Affecting Cash:                          |   |          |
| Property and equipment acquired through the issuance of debt and capital leases | \$139   | \$918    |
| Airport construction financing  | 12  | 41       |
| Operating lease conversions to capital lease                                    | 52  | —        |

(a) The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the consolidated balance sheet:

| Reconciliation of cash, cash equivalents and restricted cash: |         |         |
|---|---------|---------|
| Current assets:   |         |         |
| Cash and cash equivalents                                     | \$2,615 | \$1,864 |
| Restricted cash included in Prepaid expenses and other        | —       | 13      |
| Other assets:   |         |         |
| Restricted cash   | 105     | 96      |
| Total cash, cash equivalents and restricted cash              | \$2,720 | \$1,973 |

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



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UNITED CONTINENTAL HOLDINGS, INC. AND UNITED AIRLINES, INC.  
COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

United Continental Holdings, Inc. (together with its consolidated subsidiaries, "UAL" or the "Company") is a holding company and its principal, wholly-owned subsidiary is United Airlines, Inc. (together with its consolidated subsidiaries, "United"). This Quarterly Report on Form 10-Q is a combined report of UAL and United, including their respective consolidated financial statements. As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL, unless otherwise noted. United's operating revenues and operating expenses comprise nearly 100% of UAL's revenues and operating expenses. In addition, United comprises approximately the entire balance of UAL's assets, liabilities and operating cash flows. When appropriate, UAL and United are named specifically for their individual contractual obligations and related disclosures and any significant differences between the operations and results of UAL and United are separately disclosed and explained. We sometimes use the words "we," "our," "us," and the "Company" in this report for disclosures that relate to all of UAL and United.

The UAL and United unaudited condensed consolidated financial statements shown here have been prepared as required by the U.S. Securities and Exchange Commission (the "SEC"). Some information and footnote disclosures normally included in financial statements that comply with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted as permitted by the SEC. The financial statements include all adjustments, including normal recurring adjustments and other adjustments, which are considered necessary for a fair presentation of the Company's financial position and results of operations. The UAL and United financial statements should be read together with the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The Company's quarterly financial data is subject to seasonal fluctuations and historically its second and third quarter financial results, which reflect higher travel demand, are better than its first and fourth quarter financial results.

**NOTE 1 - RECENTLY ISSUED ACCOUNTING STANDARDS**

The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (the "New Revenue Standard"), effective January 1, 2018 using the full-retrospective method. Topic 606 prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the Company, the most significant impact of the standard is the reclassification of certain ancillary fees from other operating revenue into passenger revenue on the statement of consolidated operations. These ancillary fees are directly related to passenger travel, such as ticket change fees and baggage fees, and are no longer considered distinct performance obligations separate from the passenger travel component. In addition, the ticket change fees, which were previously recognized when received, are now recognized when transportation is provided. Adoption of the standard had no impact on the Company's consolidated cash flows statements.

The Company adopted Accounting Standards Update No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (the "New Retirement Standard"), effective January 1, 2018 using the full-retrospective method. The New Retirement Standard requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost, including interest cost, expected return on plan assets, amortization of prior service cost/credit and actuarial gain/loss, and settlement and curtailment effects, are to be presented outside of any subtotal of operating income. The Company elected to apply the practical expedient and use the amounts disclosed in Note 5 to the financial statements included in Part I, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 as the estimation basis for applying the retrospective presentation requirements of the standard.



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The new standards had the same impact on the financial statements of United as they had on the financial statements of UAL. The table below presents the impact of the adoption of the New Revenue Standard and the New Retirement Standard on select accounts and captions of the statement of consolidated operations for the three months ended September 30, 2017 (in millions, except per share amounts):

|                                 | Three Months Ended September 30, 2017 |                                  |                                     |             |
|---------------------------------|---------------------------------------|----------------------------------|-------------------------------------|-------------|
|                                 | As Previously Reported                | New Revenue Standard Adjustments | New Retirement Standard Adjustments | As Adjusted |
| Passenger revenue               | \$8,528                               | \$ 541                           | \$ —                                | \$ 9,069    |
| Cargo                           | 257                                   | 22                               | —                                   | 279         |
| Other operating revenue         | 1,093                                 | (542 )                           | —                                   | 551         |
| Total operating revenue         | 9,878                                 | 21                               | —                                   | 9,899       |
| Salaries and related costs      | 2,812                                 | —                                | (27 )                               | 2,785       |
| Distribution expenses           | 352                                   | 25                               | —                                   | 377         |
| Other operating expenses        | 1,459                                 | (23 )                            | —                                   | 1,436       |
| Total operating expenses        | 8,786                                 | 2                                | (27 )                               | 8,761       |
| Operating income                | 1,092                                 | 19                               | 27                                  | 1,138       |
| Interest expense                | (164 )                                | (5 )                             | —                                   | (169 )      |
| Miscellaneous, net              | 15                                    | (1 )                             | (27 )                               | (13 )       |
| Total nonoperating expense, net | (112 )                                | (6 )                             | (27 )                               | (145 )      |
| Income before income taxes      | 980                                   | 13                               | —                                   | 993         |
| Income tax expense              | 343                                   | 5                                | —                                   | 348         |
| Net income                      | 637                                   | 8                                | —                                   | 645         |
| Earnings per share, basic       | 2.12                                  | 0.03                             | —                                   | 2.15        |
| Earnings per share, diluted     | 2.12                                  | 0.03                             | —                                   | 2.15        |

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The table below presents the impact of the adoption of the New Revenue Standard and the New Retirement Standard on select accounts and captions of the statement of consolidated operations for the nine months ended September 30, 2017 (in millions, except per share amounts):

|                                 | Nine Months Ended September 30, 2017 |                                  |                                     |             |
|---------------------------------|--------------------------------------|----------------------------------|-------------------------------------|-------------|
|                                 | As Previously Reported               | New Revenue Standard Adjustments | New Retirement Standard Adjustments | As Adjusted |
| Passenger revenue               | \$24,324                             | \$ 1,549                         | \$ —                                | \$25,873    |
| Cargo                           | 731                                  | 59                               | —                                   | 790         |
| Other operating revenue         | 3,243                                | (1,573 )                         | —                                   | 1,670       |
| Total operating revenue         | 28,298                               | 35                               | —                                   | 28,333      |
| Salaries and related costs      | 8,341                                | —                                | (78 )                               | 8,263       |
| Distribution expenses           | 1,021                                | 60                               | —                                   | 1,081       |
| Other operating expenses        | 4,199                                | (73 )                            | —                                   | 4,126       |
| Total operating expenses        | 25,529                               | (13 )                            | (78 )                               | 25,438      |
| Operating income                | 2,769                                | 48                               | 78                                  | 2,895       |
| Interest expense                | (472 )                               | (26 )                            | —                                   | (498 )      |
| Miscellaneous, net              | (3 )                                 | (1 )                             | (78 )                               | (82 )       |
| Total nonoperating expense, net | (370 )                               | (27 )                            | (78 )                               | (475 )      |
| Income before income taxes      | 2,399                                | 21                               | —                                   | 2,420       |
| Income tax expense              | 848                                  | 7                                | —                                   | 855         |
| Net income                      | 1,551                                | 14                               | —                                   | 1,565       |
| Earnings per share, basic       | 5.06                                 | 0.04                             | —                                   | 5.10        |
| Earnings per share, diluted     | 5.04                                 | 0.05                             | —                                   | 5.09        |

The table below presents the impact of the adoption of the New Revenue Standard on UAL's balance sheet accounts and captions as of December 31, 2017 (in millions):

|  | At December 31, 2017   |                                  |             |        |
|--|------------------------|----------------------------------|-------------|--------|
|  | As Previously Reported | New Revenue Standard Adjustments | As Adjusted |        |
| Prepaid expenses and other                   | \$1,051                | \$ 20                            | \$ 1,071    |        |
| Total current assets                         | 7,113                  | 20                               | 7,133       |        |
| Total assets                                 | 42,326                 | 20                               | 42,346      |        |
| Advance ticket sales                         |                        | 3,876                            | 64          | 3,940  |
| Frequent flyer deferred revenue              |                        | 2,176                            | 16          | 2,192  |
| Other  |                        | 569                              | 7           | 576    |
| Total current liabilities                    |                        | 12,676                           | 87          | 12,763 |
| Frequent flyer deferred revenue - long-term  |                        | 2,565                            | 26          | 2,591  |
| Deferred income taxes                        |                        | 225                              | (21)        | 204    |
| Total other liabilities and deferred credits |                        | 8,145                            | 5           | 8,150  |



|  |        |      |        |
|--|--------|------|--------|
| Retained earnings                          | 4,621  | (72) | 4,549  |
| Total stockholders' equity                 | 8,806  | (72) | 8,734  |
| Total liabilities and stockholders' equity | 42,326 | 20   | 42,346 |

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The Company adopted Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10) effective January 1, 2018. This standard makes several changes, including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in earnings. The Company reclassified to retained earnings \$7 million of unrealized loss on the Company's investment in Azul, S.A. ("Azul") which was previously classified as an available-for-sale security. See Notes 4 and 7 to the financial statements included in this Part I, Item 1 for additional information.

Accounting for Leases. In February 2016, the FASB amended the FASB Accounting Standards Codification and created a new Topic 842, Leases (the "New Lease Standard"). The guidance requires lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) at the commencement date and recognize expenses on their income statements similar to the current Topic 840, Leases. The New Lease Standard is effective for fiscal years and interim periods beginning after December 15, 2018. We will adopt this standard effective January 1, 2019. We have not finalized our assessment but believe this standard will have a significant impact on our consolidated balance sheets. The standard is not expected to have a material impact on the Company's results of operations or cash flows. The primary effect of adopting the New Lease Standard will be to record assets and obligations for our operating leases.

NOTE 2 - REVENUE

The Company presents Passenger revenue, Cargo revenue and Other operating revenue on its income statement. Passenger revenue is recognized when transportation is provided and Cargo revenue is recognized when shipments are delivered. Other operating revenue is recognized as the related performance obligations are satisfied.

The Company sells passenger ticket and related ancillary services for mainline and regional flights primarily via credit cards with payments collected by the Company in advance of the performance of related services. The Company initially records ticket sales in its Advance ticket sales liability, deferring revenue recognition until the travel occurs. For travel that has more than one flight segment, the Company deems each segment as a separate performance obligation and recognizes revenue for each segment as travel occurs. Tickets sold by other airlines where the Company provides the transportation are recognized as passenger revenue at the estimated value to be billed to the other airline when travel is provided. Differences between amounts billed and the actual amounts may be rejected and rebilled or written off if the amount recorded was different from the original estimate. When necessary, the Company records a reserve against its billings and payables with other airlines based on historical experience.

The Company sells certain tickets with connecting flights with one or more segments operated by its other airline partners. For segments operated by its other airline partners, the Company has determined that it is acting as an agent on behalf of the other airlines as they are responsible for their portion of the contract (i.e. transportation of the passenger). The Company, as the agent, recognizes revenue within Other operating revenue at the time of the travel for the net amount representing commission to be retained by the Company for any segments flown by other airlines.

Refundable tickets expire after one year from the date of issuance. Non-refundable tickets generally expire on the date of the intended travel, unless the date is extended by notification from the customer on or before the intended travel date.

The Company records breakage revenue on the travel date for its estimate of tickets that will expire unused. To determine breakage, the Company uses its historical experience with refundable and nonrefundable expired tickets and other facts, such as recent aging trends, program changes and modifications that could affect the ultimate expiration patterns of tickets. Fees charged in association with changes or extensions to non-refundable tickets are considered part of the Company's passenger travel obligation. As such, those fees are deferred at the time of collection and recognized at the time the travel is provided.

United initially capitalizes the costs of selling airline travel tickets and then recognizes those costs as Distribution expense at the time of travel. Passenger ticket costs include credit card fees, travel agency and other commissions

paid, as well as global distribution systems booking fees.

**Ticket Taxes.** Certain governmental taxes are imposed on the Company's ticket sales through a fee included in ticket prices. The Company collects these fees and remits them to the appropriate government agency. These fees are recorded on a net basis and, as a result, are excluded from revenue.

**Accounts Receivable.** Accounts receivable primarily consist of amounts due from credit card companies, non-airline partners, and cargo transportation customers. We provide an allowance for uncollectible accounts equal to the estimated losses expected to be incurred based on historical write-offs and other specific analyses. Bad debt expense and write-offs were not material for the three and nine months ended September 30, 2018 and 2017.

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**Advance Ticket Sales.** Advance ticket sales represent the Company's liability to provide air transportation in the future. In the three and nine months ended September 30, 2018, the Company recognized approximately \$3.2 billion and \$2.3 billion, respectively, and in the three and nine months ended September 30, 2017, the Company recognized approximately \$2.9 billion and \$2.3 billion respectively, of passenger revenue for tickets that were included in Advance ticket sales at the beginning of those periods. All tickets sold at any given point of time have travel dates extending up to twelve months. As a result, the balance of the Company's Advance ticket sales liability represents activity that will be recognized in the next twelve months.

**Frequent Flyer Accounting.** United's MileagePlus program builds customer loyalty by offering awards, benefits and services to program participants. Members in this program earn miles for travel on United, United Express, Star Alliance members and certain other airlines that participate in the program. Members can also earn miles by purchasing the goods and services of our network of non-airline partners. We have contracts to sell miles to these partners with the terms extending from one to eight years. These partners include domestic and international credit card issuers, retail merchants, hotels, car rental companies and our participating airline partners. Miles can be redeemed for free (other than taxes and government imposed fees), discounted or upgraded air travel and non-travel awards. Miles expire after 18 months of member account inactivity.

**Miles Earned in Conjunction with Travel.** When frequent flyers earn miles for flights, the Company recognizes a portion of the ticket sales as revenue when the travel occurs and defers a portion of the ticket sale representing the value of the related miles as a separate performance obligation. The Company determines the estimated selling price of travel and miles as if each element is sold on a separate basis. The total consideration from each ticket sale is then allocated to each of these elements, individually, on a pro rata basis. At the time of travel, the Company records the portion allocated to the miles to Frequent flyer deferred revenue on the Company's consolidated balance sheet and subsequently recognizes it into revenue when miles are redeemed for air travel and non-air travel awards.

The Company's estimated selling price of miles is based on an equivalent ticket value less breakage, which incorporates the expected redemption of miles, as the best estimate of selling price for these miles. The equivalent ticket value is based on the prior 12 months' weighted average equivalent ticket value of similar fares as those used to settle award redemptions while taking into consideration such factors as redemption pattern, cabin class, loyalty status and geographic region. The estimated selling price of miles is adjusted by breakage that considers a number of factors, including redemption patterns of various customer groups. The Company reviews its breakage estimates annually based upon the latest available information regarding redemption and expiration patterns. The Company's estimate of the expected expiration of miles requires significant management judgment. Current and future changes to expiration assumptions or to the expiration policy, or to program rules and program redemption opportunities, may result in material changes to the deferred revenue balance as well as recognized revenues from the program. For the portion of the outstanding miles that we estimate will not be redeemed, we recognize the associated value proportionally as the remaining miles are redeemed.

**Co-Brand Agreement.** United has a significant contract to sell MileagePlus miles to its co-branded credit card partner Chase Bank USA, N.A. ("Chase"). Chase awards miles to MileagePlus members based on their credit card activity. United identified the following significant separately identifiable performance obligations in the co-brand agreement: MileagePlus miles awarded - United has a performance obligation to provide MileagePlus cardholders with miles to be used for air travel and non-travel award redemptions. The Company records Passenger revenue related to the travel awards when the transportation is provided and records Other revenue related to the non-travel awards when the goods or services are delivered. The Company records the cost associated with non-travel awards in Other operating revenue.

**Marketing** - United's marketing performance obligation is to provide Chase access to its customer list and the use of its brand. Marketing revenue is recorded to Other operating revenue as miles are delivered to Chase.

Advertising - United has a performance obligation to provide advertising in support of the MileagePlus card in various customer contact points such as United's website, email promotions, direct mail campaigns, airport advertising and in-flight advertising. Advertising revenue is recorded to Other operating revenue as miles are delivered to Chase.

Other travel-related benefits - United's performance obligations are comprised of various items such as waived bag fees, seat upgrades, and lounge passes. Lounge passes are recorded to Other operating revenue as customers use the lounge passes. Bag fees and seat upgrades are recorded to Passenger revenue at the time of the associated travel.

We account for all the payments received (including monthly and one-time payments) under the co-brand agreement by allocating them to the separately identifiable performance obligations. The fair value of the separately identifiable performance obligations is determined using management's estimated selling price of each component. The objective of using the estimated selling price based methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, we determine our best estimate of selling price by considering multiple inputs and methods

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including, but not limited to, discounted cash flows, brand value, volume discounts, published selling prices, number of miles awarded and number of miles redeemed. The Company estimated the selling prices and volumes over the term of the co-brand agreement in order to determine the allocation of proceeds to each of the components to be delivered. We also evaluate volumes on an annual basis, which may result in a change in the allocation of the estimated consideration from the co-brand agreement on a prospective basis.

Frequent flyer deferred revenue. Miles in MileagePlus members' accounts are combined into one homogeneous pool and are thus not separately identifiable, for award redemption purposes, between miles earned in the current period and those in their beginning balance. Of the miles expected to be redeemed, the Company expects the majority of these miles to be redeemed within two years. The table below presents a roll forward of Frequent flyer deferred revenue (in millions):

|   | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |          |
|---|--|---------|---------------------------------------|----------|
|   | 2018                                   | 2017    | 2018                                  | 2017     |
| Total Frequent flyer deferred revenue - beginning balance | \$4,989                                | \$4,891 | \$4,783                               | \$4,889  |
| Total miles awarded                                       | 616                                    | 525     | 1,826                                 | 1,544    |
| Travel miles redeemed (Passenger revenue)                 | (580 )                                 | (556 )  | (1,508 )                              | (1,489 ) |
| Non-travel miles redeemed (Other operating revenue)       | (38 )                                  | (42 )   | (114 )                                | (126 )   |
| Total Frequent flyer deferred revenue - ending balance    | \$4,987                                | \$4,818 | \$4,987                               | \$4,818  |

In the three and nine months ended September 30, 2018, the Company recognized, in Other operating revenue, \$480 million and \$1.5 billion, respectively, related to the marketing, advertising, non-travel miles redeemed (net of related costs) and other travel-related benefits of the mileage revenue associated with our various partner agreements including, but not limited to, our Chase co-brand agreement. The Company recognized \$441 million and \$1.3 billion, respectively, in the three and nine months ended September 30, 2017, related to those revenues. The portion related to the MileagePlus miles awarded of the total amounts received from our various partner agreements is deferred and presented in the table above as an increase to the frequent flyer liability.

Passenger Revenue by Geography. The Company further disaggregates passenger revenue by geographic regions. The following table presents passenger revenue by geographic region for the three and nine months ended September 30 (in millions):

|               | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended September<br>30, |          |
|---------------|--|---------|---------------------------------------|----------|
|               | 2018                                   | 2017    | 2018                                  | 2017     |
| Domestic      | \$6,253                                | \$5,443 | \$17,403                              | \$15,752 |
| Atlantic      | 1,933                                  | 1,724   | 5,009                                 | 4,456    |
| Pacific       | 1,163                                  | 1,125   | 3,335                                 | 3,242    |
| Latin America | 771                                    | 777     | 2,403                                 | 2,423    |
| International | 3,867                                  | 3,626   | 10,747                                | 10,121   |
| Consolidated  | \$10,120                               | \$9,069 | \$28,150                              | \$25,873 |

Ancillary Fees. The Company charges fees, separately from ticket sales, for certain ancillary services that are directly related to passengers' travel, such as ticket change fees, baggage fees, inflight amenities fees, and other ticket-related fees. These ancillary fees are part of the travel performance obligation and, as such, are recognized as passenger revenue when the travel occurs. The Company recorded \$572 million and \$1.6 billion of ancillary fees within

passenger revenue in the three and nine months ended September 30, 2018, respectively, and recorded \$538 million and \$1.5 billion of such fees in the three and nine months ended September 30, 2017, respectively.

**NOTE 3 - EARNINGS PER SHARE**

The computations of UAL's basic and diluted earnings per share are set forth below (in millions, except per share amounts):

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|   | Three<br>Months<br>Ended<br>September<br>30, |        | Nine Months<br>Ended<br>September 30, |         |
|---|--|--------|---------------------------------------|---------|
|   | 2018   | 2017   | 2018                                  | 2017    |
| Earnings available to common stockholders   | \$836  | \$645  | \$1,667                               | \$1,565 |
| Basic weighted-average shares outstanding   | 272.4  | 299.8  | 277.0                                 | 306.8   |
| Effect of employee stock awards             | 1.2  | 0.8    | 1.0                                   | 0.8     |
| Diluted weighted-average shares outstanding | 273.6  | 300.6  | 278.0                                 | 307.6   |
| Earnings per share, basic                   | \$3.07                                       | \$2.15 | \$6.02                                | \$5.10  |
| Earnings per share, diluted                 | \$3.06                                       | \$2.15 | \$5.99                                | \$5.09  |

The number of potentially dilutive securities excluded from the computation of diluted earnings per share amounts was not material.

In the three and nine months ended September 30, 2018, UAL repurchased approximately 0.5 million and 14.8 million shares, respectively, of UAL common stock in open market transactions for \$34 million and \$1.0 billion, respectively. As of September 30, 2018, the Company had approximately \$2.0 billion remaining to purchase shares under its share repurchase program. UAL may repurchase shares through the open market, privately negotiated transactions, block trades or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of UAL common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.



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## NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The tables below present the components of the Company's accumulated other comprehensive income (loss), net of tax ("AOCI") (in millions):

| UAL                                       | Pension and<br>Other<br>Postretirement<br>Liabilities | Investments<br>and Other | Income<br>Taxes | Total     |
|---|---|--------------------------|-----------------|-----------|
| Balance at June 30, 2018                  | \$ (1,048 )   | \$ (2 )                  | \$ (52 )        | \$(1,102) |
| Changes in value                          | —   | 1                        | —               | 1         |
| Amounts reclassified to earnings          | 15  | —                        | (3 )            | 12        |
| Net change                                | 15  | 1                        | (3 )            | 13        |
| Balance at September 30, 2018             | \$ (1,033 )   | \$ (1 )                  | \$ (55 )        | \$(1,089) |
| Balance at December 31, 2017              | \$ (1,102 )   | \$ (6 )                  | \$ (39 )        | \$(1,147) |
| Changes in value                          | 24  | (2 )                     | (6 )            | 16        |
| Amounts reclassified to earnings          | 45  | —                        | (10 )           | 35        |
| Amounts reclassified to retained earnings | —   | 7                        | —               | 7         |
| Net change                                | 69  | 5                        | (16 )           | 58        |
| Balance at September 30, 2018             | \$ (1,033 )   | \$ (1 )                  | \$ (55 )        | \$(1,089) |
| Balance at June 30, 2017                  | \$ (860 )   | \$ (16 )                 | \$ 32           | \$(844 )  |
| Changes in value                          | (9 )  | 26                       | (6 )            | 11        |
| Amounts reclassified to earnings          | 14  | —                        | (5 )            | 9         |
| Net change                                | 5   | 26                       | (11 )           | 20        |
| Balance at September 30, 2017             | \$ (855 )   | \$ 10                    | \$ 21           | \$(824 )  |
| Balance at December 31, 2016              | \$ (854 )   | \$ (1 )                  | \$ 26           | \$(829 )  |
| Changes in value                          | (42 )   | 9                        | 12              | (21 )     |
| Amounts reclassified to earnings          | 41  | 2                        | (17 )           | 26        |
| Net change                                | (1 )  | 11                       | (5 )            | 5         |
| Balance at September 30, 2017             | \$ (855 )   | \$ 10                    | \$ 21           | \$(824 )  |

| Details for AOCI Components Reclassified to Income                             | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 | Affected Line Item<br>in the Statements of<br>Consolidated<br>Operations |
|--|--|---|--|
| Pension and other postretirement liabilities                                   |  |   |  |
| Amortization of unrecognized losses and prior service cost (a)                 | \$ 15  | \$ 14   | \$ 45  |
| Investments and Other  |  |   | \$ 41  |
| Reclassifications of losses into earnings related to fuel derivative contracts | —  | —   | 2  |
|  |  |   | Aircraft fuel  |

(a) This AOCI component is included in the computation of net periodic pension and other postretirement costs (see Note 6 to the financial statements included in this Part I, Item 1 for additional information).

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## NOTE 5 - INCOME TAXES

The Company's effective tax rate for the three and nine months ended September 30, 2018 was 21.2% and 20.7%, respectively, and the effective tax rate for the three and nine months ended September 30, 2017 was 35.0% and 35.3%, respectively. The effective tax rate represents a blend of federal, state and foreign taxes and included the impact of certain nondeductible items. The effective tax rate for the three and nine months ended September 30, 2018 also reflects the reduced federal corporate income tax rate as a result of the enactment of the Tax Cuts and Jobs Act (the "Tax Act") in December 2017 and the impact of a change in the Company's mix of domestic and foreign earnings. The Company continues to analyze the different aspects of the Tax Act which could potentially affect the provisional estimates that were recorded at December 31, 2017.

## NOTE 6 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension and Other Postretirement Benefit Plans. The Company's net periodic benefit cost includes the following components for the three months ended September 30 (in millions):

|  | Pension Benefits |       | Other Postretirement Benefits |       | Affected Line Item in the Statements of Consolidated Operations |
|--|------------------|-------|-------------------------------|-------|---|
|  | 2018             | 2017  | 2018                          | 2017  |   |
| Service cost   | \$57             | \$48  | \$ 3                          | \$ 4  | Salaries and related costs                                      |
| Interest cost  | 54               | 55    | 16                            | 16    | Miscellaneous, net  |
| Expected return on plan assets   | (73 )            | (61 ) | (1 )                          | —     | Miscellaneous, net  |
| Amortization of unrecognized (gain) loss and prior service cost (credit) | 32               | 32    | (17 )                         | (18 ) | Miscellaneous, net  |
| Settlement loss  | —                | 3     | —                             | —     | Miscellaneous, net  |
| Total  | \$70             | \$77  | \$ 1                          | \$ 2  |   |

The Company's net periodic benefit cost includes the following components for the nine months ended September 30 (in millions):

|  | Pension Benefits |        | Other Postretirement Benefits |       | Affected Line Item in the Statements of Consolidated Operations |
|--|------------------|--------|-------------------------------|-------|---|
|  | 2018             | 2017   | 2018                          | 2017  |   |
| Service cost   | \$171            | \$146  | \$ 9                          | \$ 10 | Salaries and related costs                                      |
| Interest cost  | 162              | 165    | 46                            | 50    | Miscellaneous, net  |
| Expected return on plan assets   | (219 )           | (182 ) | (1 )                          | (1 )  | Miscellaneous, net  |
| Amortization of unrecognized (gain) loss and prior service cost (credit) | 97               | 95     | (52 )                         | (54 ) | Miscellaneous, net  |
| Settlement loss  | —                | 5      | —                             | —     | Miscellaneous, net  |
| Total  | \$211            | \$229  | \$ 2                          | \$ 5  |   |

During the three and nine months ended September 30, 2018, the Company contributed \$240 million and \$400 million to its U.S. domestic tax-qualified defined benefit pension plans, respectively.

Share-Based Compensation. In the nine months ended September 30, 2018, UAL granted share-based compensation awards pursuant to the United Continental Holdings, Inc. 2017 Incentive Compensation Plan. These share-based compensation awards include 1.8 million RSUs consisting of 1.1 million time-vested RSUs and 0.7 million performance-based RSUs. The time-vested RSUs vest pro-rata, on February 28th of each year, over a three-year period from the date of grant. These RSUs are generally equity awards settled in stock for domestic employees and liability awards settled in cash for international employees. The cash payments are based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The performance-based RSUs vest based

on the Company's relative improvement in pre-tax margin, as compared to a group of industry peers, for the three years ending December 31, 2020. If this performance condition is achieved, cash payments will be made after the end of the performance period based on the 20-day average closing price of UAL common stock immediately prior to the vesting date. The Company accounts for the performance-based RSUs as liability awards.

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The table below presents information related to share-based compensation (in millions):

|  | Three Months Ended<br>September 30, |       | Nine<br>Months<br>Ended<br>September<br>30, |       |
|--|-------------------------------------|-------|---|-------|
|  | 2018                                | 2017  | 2018  | 2017  |
| Share-based<br>compensation<br>expense | \$ 70                               | \$ 10 | \$ 73                                       | \$ 66 |

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
| Unrecognized<br>share-based<br>compensation | \$ 69                 | \$ 53                |

**NOTE 7 - FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

The table below presents disclosures about the financial assets and liabilities measured at fair value on a recurring basis in UAL's financial statements (in millions):

|   | September 30, 2018 |            |            | December 31, 2017 |         |            |            |            |
|---|--------------------|------------|------------|-------------------|---------|------------|------------|------------|
|   | Total              | Level<br>1 | Level<br>2 | Level<br>3        | Total   | Level<br>1 | Level<br>2 | Level<br>3 |
| Cash and cash equivalents   | \$2,621            | \$2,621    | \$ —       | \$ —              | \$1,482 | \$1,482    | \$ —       | \$ —       |
| Short-term investments:   |                    |            |            |                   |         |            |            |            |
| Corporate debt  | 1,013              | —          | 1,013      | —                 | 958     | —          | 958        | —          |
| Asset-backed securities   | 822                | —          | 822        | —                 | 753     | —          | 753        | —          |
| U.S. government and agency notes  | 106                | —          | 106        | —                 | 113     | —          | 113        | —          |
| Certificates of deposit placed through an account registry<br>service ("CDARS") | 49                 | —          | 49         | —                 | 120     | —          | 120        | —          |
| Other fixed-income securities   | 137                | —          | 137        | —                 | 188     | —          | 188        | —          |
| Other investments measured at net asset value ("NAV")                           | 187                | —          | —          | —                 | 184     | —          | —          | —          |
| Restricted cash   | 105                | 105        | —          | —                 | 109     | 109        | —          | —          |
| Long-term investments:  |                    |            |            |                   |         |            |            |            |
| Equity securities   | 160                | 160        | —          | —                 | 99      | 99         | —          | —          |
| Enhanced equipment trust certificates ("EETC")                                  | 18                 | —          | —          | 18                | 22      | —          | —          | 22         |

Available-for-sale investment maturities - The short-term investments shown in the table above are classified as available-for-sale, with the exception of investments measured at NAV. As of September 30, 2018, asset-backed securities have remaining maturities of less than one year to approximately 16 years, corporate debt securities have remaining maturities of less than one year to approximately three years and CDARS have maturities of less than one year. U.S. government and other securities have maturities of less than one year to approximately two years. The EETC securities mature in 2019.

Restricted cash - Restricted cash primarily includes collateral for letters of credit and collateral associated with facility leases and other insurance related obligations.

Equity securities - Equity securities represent United's investment in Azul. In April 2018, through a wholly-owned subsidiary, the Company invested \$138 million in Azul thus increasing its preferred equity stake to approximately 8% (approximately 2% of the total capital stock of Azul). The Company recognizes changes to the fair market value of its equity investment in Azul in Miscellaneous, net in its statements of consolidated operations.

Investments presented in the table above have the same fair value as their carrying value. The table below presents the carrying values and estimated fair values of financial instruments not presented in the tables above (in millions):



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Fair Value of Debt by Fair Value Hierarchy Level

September 30, 2018

December 31, 2017

Carrying Amount Fair Value

Carrying Amount Fair Value

|                | Total    | Level 1  | Level 2 | Level 3 | Total   | Level 1  | Level 2  | Level 3 |          |         |
|----------------|----------|----------|---------|---------|---------|----------|----------|---------|----------|---------|
| Long-term debt | \$13,128 | \$13,230 | \$ -    | \$9,736 | \$3,494 | \$13,268 | \$13,787 | \$ -    | \$10,115 | \$3,672 |

Fair value of the financial instruments included in the tables above was determined as follows:

Description Fair Value Methodology

Cash and cash equivalents The carrying amounts approximate fair value because of the short-term maturity of these assets.

Short-term investments, Equity securities, EETC and Restricted cash Fair value is based on (a) the trading prices of the investment or similar instruments, (b) an income approach, which uses valuation techniques to convert future amounts into a single present amount based on current market expectations about those future amounts when observable trading prices are not available, or (c) broker quotes obtained by third-party valuation services.

Other investments measured at NAV In accordance with the relevant accounting standards, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The investments measured using NAV are shares of mutual funds that invest in fixed-income instruments including bonds, debt securities, and other similar instruments issued by various U.S. and non-U.S. public- or private-sector entities. The Company can redeem its shares at any time at NAV subject to a three-day settlement period.

Long-term debt Fair values were based on either market prices or the discounted amount of future cash flows using our current incremental rate of borrowing for similar liabilities.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

Commitments. As of September 30, 2018, United had firm commitments and options to purchase aircraft from The Boeing Company ("Boeing"), Airbus S.A.S. ("Airbus") and Embraer S.A. ("Embraer") presented in the table below:

| Aircraft Type    | Number of Firm Commitments (a) |
|------------------|--------------------------------|
| Airbus A350      | 45                             |
| Boeing 737 MAX   | 154                            |
| Boeing 777-300ER | 1                              |
| Boeing 787       | 27                             |
| Embraer E175     | 25                             |

(a) United also has options and purchase rights for additional aircraft.

The aircraft listed in the table above are scheduled for delivery through 2027. To the extent the Company and the aircraft manufacturers with whom the Company has existing orders for new aircraft agree to modify the contracts governing those orders, the amount and timing of the Company's future capital commitments could change. For the remainder of 2018, the Company expects to take delivery of three Boeing 787 aircraft, three Boeing 737 MAX aircraft and one Boeing 777-300ER aircraft. United also has an agreement to purchase 20 used Airbus A319 aircraft with expected delivery dates scheduled in 2020 and 2021.

During the third quarter of 2018, United entered into an agreement with the lessor of 54 Embraer ERJ 145 aircraft to purchase those aircraft in 2019. The provisions of the new lease agreement resulted in a change in accounting classification of these new leases from operating leases to capital leases up until the purchase date.

The table below summarizes United's commitments as of September 30, 2018, which primarily relate to the acquisition of aircraft and related spare engines, aircraft improvements and include other capital purchase commitments. Any additional firm

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aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

|                           |                  |
|---------------------------|------------------|
|                           | (in<br>billions) |
| Last three months of 2018 | \$ 1.1           |
| 2019                      | 4.1              |
| 2020                      | 4.2              |
| 2021                      | 2.9              |
| 2022                      | 1.7              |
| After 2022                | 9.8              |
|                           | \$ 23.8          |

Facility and Other Operating Leases. In March 2018, United entered into a new Airline Use and Lease Agreement at Chicago O'Hare International Airport ("Chicago O'Hare") with the City of Chicago with a lease term of approximately 15 years, effective May 12, 2018 through December 31, 2033. In the second quarter of 2018, United entered into several new ground and facility leases at Chicago O'Hare, effective May 12, 2018, for hangars, a ground equipment maintenance building, and employee parking with lease terms ranging from 15 years to 30 years.

The table below summarizes the Company's scheduled future minimum lease payments under facility operating leases having initial or remaining noncancelable lease terms of more than one year as of September 30, 2018 (in millions):

|                           |  |
|---------------------------|--|
|                           | Facility<br>and Other<br>Operating<br>Leases |
| Last three months of 2018 | \$ 345                                       |
| 2019                      | 1,244  |
| 2020                      | 1,338  |
| 2021                      | 1,104  |
| 2022                      | 966  |
| After 2022                | 7,934  |
|                           | \$ 12,931                                    |

Guarantees. As of September 30, 2018, United is the guarantor of approximately \$2.0 billion in 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 under long-term agreements with the respective governing bodies. The leasing arrangements associated with approximately \$1.4 billion of these obligations are accounted for as operating leases with the associated expense recorded on a straight-line basis resulting in ratable accrual of the lease obligation over the expected lease term. The leasing arrangements associated with approximately \$466 million of these obligations are accounted for as capital leases. All of these bonds are due between 2019 and 2038.

Increased Cost Provisions. In the Company's financing transactions that include loans, the Company typically agrees to reimburse lenders for any reduced returns with respect to the loans due to any change in capital requirements and, in the case of loans in which the interest rate is based on the London Interbank Offered Rate, for certain other increased costs that the lenders incur in carrying these loans as a result of any change in law, subject, in most cases, to obligations of the lenders to take certain limited steps to mitigate the requirement for, or the amount of, such increased costs. At September 30, 2018, the Company had \$3.2 billion of floating rate debt and \$35 million of fixed rate debt with remaining terms of up to 10 years that are subject to these increased cost provisions. In several financing transactions involving loans or leases from non-U.S. entities, with remaining terms of up to 10 years and an aggregate balance of \$3.1 billion, the Company bears the risk of any change in tax laws that would subject loan or lease payments thereunder to non-U.S. entities to withholding taxes, subject to customary exclusions.

As of September 30, 2018, United is the guarantor of \$148 million of aircraft mortgage debt issued by one of United's regional carriers. The aircraft mortgage debt is subject to similar increased cost provisions as described above for the Company's debt, and the Company would potentially be responsible for those costs under the guarantees.



Labor Negotiations. As of September 30, 2018, United had approximately 90,900 employees, of whom approximately 82% were represented by various U.S. labor organizations. UNITE HERE is attempting to organize United's Catering Operations

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employees, who are currently unrepresented. The National Mediation Board authorized a union election for United's Catering Operations employees with voting concluding October 23, 2018.

## NOTE 9 - DEBT

As of September 30, 2018, a substantial portion of the Company's assets, principally aircraft, certain route authorities and airport slots, was pledged under various loan and other agreements. As of September 30, 2018, UAL and United were in compliance with their respective debt covenants. In May 2018, the Company's Amended and Restated Credit and Guaranty Agreement (as amended, the "2017 Credit Agreement") was amended to reduce the interest rate on the term loan by 0.25%. As of September 30, 2018, United had its entire capacity of \$2.0 billion available under the revolving credit facility of the 2017 Credit Agreement.

EETCs. In February and May 2018, United created three new EETC pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates are used to purchase equipment notes issued by United and secured by its aircraft. The Company records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. The pass-through certificates represent fractional undivided interests in the respective pass-through trusts and are not obligations of United. The payment obligations under the equipment notes are those of United. Proceeds received from the sale of pass-through certificates are initially held by a depository in escrow for the benefit of the certificate holders until United issues equipment notes to the trust, which purchases such notes with a portion of the escrowed funds. These escrowed funds are not guaranteed by United and are not reported as debt on our consolidated balance sheet because the proceeds held by the depository are not United's assets. Certain details of the pass-through trusts with proceeds received from issuance of debt in 2018 are as follows (in millions, except stated interest rate):

| EETC Date     | Class | Principal | Final expected distribution date | Stated interest rate | Total proceeds received from issuance of debt during 2018 and recorded as debt as of September 30, 2018 |
|---------------|-------|-----------|----------------------------------|----------------------|---|
| February 2018 | AA    | \$ 677    | March 2030                       | 3.50%                | \$ 677  |
| February 2018 | A     | 258       | March 2030                       | 3.70%                | 258   |
| May 2018      | B     | 226       | March 2026                       | 4.60%                | 226   |
|               |       | \$ 1,161  |                                  |                      | \$ 1,161  |

The table below presents the Company's contractual principal payments (not including debt discount or debt issuance costs) at September 30, 2018 under then-outstanding long-term debt agreements (in millions):

|                           |           |
|---------------------------|-----------|
| Last three months of 2018 | \$ 208    |
| 2019                      | 1,205     |
| 2020                      | 1,242     |
| 2021                      | 1,230     |
| 2022                      | 1,565     |
| After 2022                | 7,838     |
|                           | \$ 13,288 |



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## NOTE 10 - SPECIAL CHARGES AND MARK-TO-MARKET ADJUSTMENTS

For the three and nine months ended September 30, special charges consisted of the following (in millions):

|  | Three<br>Months<br>Ended<br>September<br>30, |       | Nine<br>Months<br>Ended<br>September<br>30, |       |
|--|--|-------|---|-------|
|  | 2018   | 2017  | 2018  | 2017  |
| Operating:   |  |       |   |       |
| Impairment of assets   | \$11   | \$15  | \$145                                       | \$15  |
| Severance and benefit costs  | 9  | 23    | 34  | 101   |
| (Gains) losses on sale of assets and other special charges                     | (3 )   | 12    | 7   | 29    |
| Total special charges  | 17   | 50    | 186   | 145   |
| Nonoperating mark-to-market ("MTM") (gains) losses on equity investments       | (29 )  | —     | 61  | —     |
| Total special charges and MTM (gains) losses on equity investments             | (12 )  | 50    | 247   | 145   |
| Income tax expense (benefit)   | 3  | (18 ) | (55 )                                       | (52 ) |
| Total special charges and MTM (gains) losses on equity investments, net of tax | \$(9 )                                       | \$32  | \$192                                       | \$93  |

In May 2018, the Brazil–United States open skies agreement was ratified, which provides air carriers with unrestricted access between the United States and Brazil. The Company determined that the approval of the open skies agreement impaired the entire value of its Brazil route authorities because the agreement removes all limitations or reciprocity requirements for flights between the United States and Brazil. Accordingly, the Company recorded a \$105 million special charge (\$82 million net of taxes) to write off the entire value of the intangible asset associated with its Brazil routes. This asset is not part of any collateral pledged against any of the Company's borrowings. The Company continues to maintain its slot assets related to Brazil since airport access is still regulated by slot allocations that are limited by airport facility constraints. For the three and nine months ended September 30, 2018, the Company also recorded \$11 million (\$9 million net of taxes) and \$40 million (\$31 million net of taxes), respectively, of fair value adjustments related to aircraft purchased off lease, write-off of unexercised aircraft purchase options and other impairments related to certain fleet types and international slots no longer in use.

During the three months ended September 30, 2017, the Company recorded a \$15 million (\$10 million net of taxes) intangible asset impairment charge related to a maintenance service agreement.

During the three and nine months ended September 30, 2018, the Company recorded severance and benefit costs related to a voluntary early-out program for its technicians and related employees represented by the International Brotherhood of Teamsters of \$5 million (\$4 million net of taxes) and \$19 million (\$15 million net of taxes), respectively. In the first quarter of 2017, approximately 1,000 technicians and related employees elected to voluntarily separate from the Company and will receive a severance payment, with a maximum value of \$100,000 per participant, based on years of service, with retirement dates through 2018. Also during the three and nine months ended September 30, 2018, the Company recorded other management severance of \$4 million (\$3 million net of taxes) and \$15 million (\$12 million net of taxes), respectively.

During the three and nine months ended September 30, 2017, the Company recorded \$16 million (\$10 million net of taxes) and \$73 million (\$47 million net of taxes), respectively, of severance and benefit costs related to the voluntary early-out program for its technicians and related employees, and \$7 million (\$5 million net of taxes) and \$28 million (\$18 million net of taxes), respectively, of management severance.

During the three and nine months ended September 30, 2018, the Company recorded \$3 million (\$2 million net of taxes) of gains primarily related to the sale of aircraft engines and \$7 million (\$5 million net of taxes) of losses primarily related to contract termination of regional aircraft operations in Guam, respectively.

During the three months ended September 30, 2017, the Company recorded \$12 million (\$7 million net of taxes) of charges primarily related to damages from tropical storms. During the nine months ended September 30, 2017, in addition to the \$12 million of third-quarter charges, the Company recorded \$17 million (\$11 million net of taxes) of charges primarily associated with aircraft gains and losses.

During the three and nine months ended September 30, 2018, the Company recorded gains of \$29 million (\$23 million net of taxes) and losses of \$61 million (\$47 million net of taxes), respectively, for the change in market value of certain of its equity investments. For equity investments subject to MTM accounting, the Company records gains and losses to Nonoperating income (expense): Miscellaneous, net in its statements of consolidated operations.

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## Accrual Activity

The severance-related accrual as of September 30, 2018 is primarily related to severance and other compensation expense associated with voluntary employee early retirement programs and is expected to be mostly paid by the end of 2018. The accrual balance for future lease payments on permanently grounded aircraft as of September 30, 2018 is expected to be mostly paid through 2025. Activity related to these accruals is as follows (in millions):

|                               | Severance and Benefits | Permanently Grounded Aircraft |
|-------------------------------|------------------------|-------------------------------|
| Balance at December 31, 2017  | \$ 37                  | \$ 22                         |
| Accrual                       | 34                     | —                             |
| Payments                      | (42 )                  | (2 )                          |
| Balance at September 30, 2018 | \$ 29                  | \$ 20                         |
|                               | Severance and Benefits | Permanently Grounded Aircraft |
| Balance at December 31, 2016  | \$ 14                  | \$ 41                         |
| Accrual                       | 101                    | —                             |
| Payments                      | (84 )                  | (13 )                         |
| Balance at September 30, 2017 | \$ 31                  | \$ 28                         |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

United Continental Holdings, Inc. (together with its consolidated subsidiaries, "UAL" or the "Company") is a holding company and its principal, wholly-owned subsidiary is United Airlines, Inc. (together with its consolidated subsidiaries, "United"). This Quarterly Report on Form 10-Q is a combined report of UAL and United including their respective consolidated financial statements. As UAL consolidates United for financial statement purposes, disclosures that relate to activities of United also apply to UAL, unless otherwise noted. United's operating revenues and operating expenses comprise nearly 100% of UAL's revenues and operating expenses. In addition, United comprises approximately the entire balance of UAL's assets, liabilities and operating cash flows. When appropriate, UAL and United are named specifically for their individual contractual obligations and related disclosures and any significant differences between the operations and results of UAL and United are separately disclosed and explained. We sometimes use the words "we," "our," "us," and the "Company" in this report for disclosures that relate to all of UAL and United.

The Company transports people and cargo through its mainline operations, which utilize jet aircraft with at least 118 seats, and regional operations, which utilize smaller aircraft that are operated under contract by United Express carriers. The Company serves virtually every major market around the world, either directly or through participation in Star Alliance®, the world's largest airline alliance. UAL, through United and its regional carriers, operates approximately 4,700 flights a day to 356 airports across five continents.

Third Quarter Highlights

Third quarter 2018 net income was \$836 million, or \$3.06 diluted earnings per share, as compared to net income of \$645 million, or diluted earnings per share of \$2.15, in the third quarter of 2017.

Passenger revenue increased 11.6% to \$10.1 billion during the third quarter of 2018 as compared to the third quarter of 2017.

Third quarter 2018 aircraft fuel cost increased \$763 million, 42.2% year-over-year.

Consolidated traffic increased 7.2% and consolidated capacity increased 5.1% during the third quarter of 2018 as compared to the third quarter of 2017. The Company's load factor for the third quarter of 2018 was 86.0%.

Outlook

In 2018, the Company expects its consolidated available seat miles to grow approximately 4.9% year-over-year. Most of this growth will be concentrated in our domestic network, especially in our mid-continent hubs. We believe greater scale and connectivity at our hubs reinforces our relevance and value proposition to our customers. Rebanking at our hubs is expected to drive significant additional connection opportunities. We will also expand flights in non-peak times of the year to more efficiently use our aircraft and facilities with the objective of driving an increase in profitability.

The price of jet fuel remains volatile. Based on projected fuel consumption in 2018, a one dollar change in the price of a barrel of crude oil would change the Company's annual fuel expense by approximately \$98 million.

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## RESULTS OF OPERATIONS

The following discussion provides an analysis of our results of operations and reasons for material changes therein for the three months ended September 30, 2018 as compared to the corresponding period in 2017.

## Third Quarter 2018 Compared to Third Quarter 2017

The Company recorded net income of \$836 million in the third quarter of 2018 as compared to net income of \$645 million in the third quarter of 2017. The Company considers a key measure of its performance to be operating income, which was \$1.2 billion for the third quarter of 2018, as compared to \$1.1 billion for the third quarter of 2017, a \$65 million increase year-over-year. Significant components of the Company's operating results for the three months ended September 30 are as follows (in millions, except percentage changes):

|                               | 2018     | 2017    | Increase<br>(Decrease) | %<br>Change |
|-------------------------------|----------|---------|------------------------|-------------|
| Operating revenue             | \$11,003 | \$9,899 | \$ 1,104               | 11.2        |
| Operating expense             | 9,800    | 8,761   | 1,039                  | 11.9        |
| Operating income              | 1,203    | 1,138   | 65                     | 5.7         |
| Nonoperating income (expense) | (142 )   | (145 )  | (3 )                   | (2.1 )      |
| Income tax expense            | 225      | 348     | (123 )                 | (35.3 )     |
| Net income                    | \$836    | \$645   | \$ 191                 | 29.6        |

Certain consolidated statistical information for the Company's operations for the three months ended September 30 is as follows:

|  | 2018   | 2017   | Increase<br>(Decrease) | % Change |
|--|--------|--------|------------------------|----------|
| Passengers (thousands) (a)                                     | 42,886 | 39,302 | 3,584                  | 9.1      |
| Revenue passenger miles ("RPMs") (millions) (b)                | 63,393 | 59,145 | 4,248                  | 7.2      |
| Available seat miles ("ASMs") (millions) (c)                   | 73,681 | 70,083 | 3,598                  | 5.1      |
| Passenger load factor (d)                                      | 86.0 % | 84.4 % | 1.6 pts.               | N/A      |
| Passenger revenue per available seat mile ("PRASM") (cents)    | 13.73  | 12.94  | 0.79                   | 6.1      |
| Average yield per revenue passenger mile ("Yield") (cents) (e) | 15.96  | 15.33  | 0.63                   | 4.1      |
| Cost per available seat mile ("CASM") (cents)                  | 13.30  | 12.50  | 0.80                   | 6.4      |
| Average price per gallon of fuel, including fuel taxes         | \$2.32 | \$1.70 | \$ 0.62                | 36.5     |
| Fuel gallons consumed (millions)                               | 1,111  | 1,065  | 46                     | 4.3      |
| Average full-time equivalent employees                         | 89,000 | 87,300 | 1,700                  | 1.9      |

(a) The number of revenue passengers measured by each flight segment flown.

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

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

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

(e) The average passenger revenue received for each revenue passenger mile flown.



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Operating Revenue. The table below shows year-over-year comparisons by type of operating revenue for the three months ended September 30 (in millions, except for percentage changes):

|                         | 2018     | 2017    | Increase<br>(Decrease) | % Change |
|-------------------------|----------|---------|------------------------|----------|
| Passenger revenue       | \$10,120 | \$9,069 | \$ 1,051               | 11.6     |
| Cargo                   | 296      | 279     | 17                     | 6.1      |
| Other operating revenue | 587      | 551     | 36                     | 6.5      |
| Total operating revenue | \$11,003 | \$9,899 | \$ 1,104               | 11.2     |

The table below presents selected third quarter passenger revenue and operating data, broken out by geographic region, expressed as year-over-year changes:

|                                 | Domestic | Atlantic | Pacific | Latin  | Consolidated |
|---------------------------------|----------|----------|---------|--------|--------------|
| Increase (decrease) from 2017:  |          |          |         |        |              |
| Passenger revenue (in millions) | \$ 810   | \$ 209   | \$ 38   | \$(6)  | \$ 1,051     |
| Passenger revenue               | 14.9 %   | 12.1 %   | 3.4 %   | (0.8)% | 11.6 %       |
| Average fare per passenger      | 3.5 %    | 1.7 %    | 12.2 %  | 1.5 %  | 2.3 %        |
| Yield                           | 5.0 %    | 1.3 %    | 5.1 %   | (1.2)% | 4.1 %        |
| PRASM                           | 6.7 %    | 7.1 %    | 5.3 %   | (3.4)% | 6.1 %        |
| Passengers                      | 11.0 %   | 10.3 %   | (7.9)%  | (2.2)% | 9.1 %        |
| RPMs (traffic)                  | 9.4 %    | 10.7 %   | (1.6)%  | 0.4 %  | 7.2 %        |
| ASMs (capacity)                 | 7.6 %    | 4.7 %    | (1.9)%  | 2.7 %  | 5.1 %        |
| Passenger load factor (points)  | 1.4      | 4.7      | 0.3     | (1.9)  | 1.6          |

Passenger revenue in the third quarter of September 30, 2018 increased \$1.1 billion, or 11.6%, as compared to the year-ago period primarily due to a 7.2% increase in traffic and a 1.6 point increase in load factor. Third quarter 2018 PRASM and yield increased 6.1% and 4.1%, respectively, compared to the third quarter of 2017, primarily as a result of improved close in demand in the domestic markets and premium cabin demand improvements in the Atlantic and Pacific markets.

Cargo revenue increased \$17 million, or 6.1%, in the third quarter of 2018 as compared to the year-ago period primarily due to higher yields and higher Pacific freight volumes.

Other operating revenue increased by \$36 million, or 6.5%, in the third quarter of 2018 as compared to the year-ago period primarily due to increased MileagePlus related revenue. See Note 2 to the financial statements included in Part I, Item 1 of this report for additional information related to revenue.

Operating Expenses. The table below includes data related to the Company's operating expenses for the three months ended September 30 (in millions, except for percentage changes):

|  | 2018    | 2017    | Increase<br>(Decrease) | %<br>Change |
|--|---------|---------|------------------------|-------------|
| Salaries and related costs                         | \$2,930 | \$2,785 | \$ 145                 | 5.2         |
| Aircraft fuel                                      | 2,572   | 1,809   | 763                    | 42.2        |
| Regional capacity purchase                         | 663     | 567     | 96                     | 16.9        |
| Landing fees and other rent                        | 596     | 585     | 11                     | 1.9         |
| Depreciation and amortization                      | 564     | 556     | 8                      | 1.4         |
| Aircraft maintenance materials and outside repairs | 455     | 451     | 4                      | 0.9         |
| Distribution expenses                              | 427     | 377     | 50                     | 13.3        |
| Aircraft rent                                      | 109     | 145     | (36)                   | (24.8)      |
| Special charges                                    | 17      | 50      | (33)                   | NM          |
| Other operating expenses                           | 1,467   | 1,436   | 31                     | 2.2         |
| Total operating expenses                           | \$9,800 | \$8,761 | \$ 1,039               | 11.9        |

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Salaries and related costs increased \$145 million, or 5.2%, in the third quarter of 2018 as compared to the year-ago period primarily due to contractually higher pay rates and benefit expenses driven by collective bargaining agreements, and a 1.9% increase in average full-time equivalent employees.

Aircraft fuel expense increased \$763 million, or 42.2%, in the third quarter of 2018 as compared to the year-ago period primarily due to a 36.5% increase in the average price per gallon of aircraft fuel and a 5.1% increase in capacity.

Regional capacity purchase increased \$96 million, or 16.9%, in the third quarter of 2018 as compared to the year-ago period primarily due to increased regional flying related to the Company's initiative to improve connectivity at its domestic hubs, as well as rate increases under various capacity purchase agreements with regional carriers.

Distribution expenses increased \$50 million, or 13.3%, in the third quarter of 2018 as compared to the year-ago period primarily due to higher credit card fees as a result of the overall increase in passenger revenue including premium cabin tickets.

Aircraft rent decreased \$36 million, or 24.8%, in the third quarter of 2018 as compared to the year-ago period, primarily due to the purchase of leased aircraft.

Details of the Company's special charges include the following for the three months ended September 30 (in millions):

|  | 2018 | 2017 |
|--|------|------|
| Impairment of assets                                       | \$11 | \$15 |
| Severance and benefit costs                                | 9    | 23   |
| (Gains) losses on sale of assets and other special charges | (3)  | 12   |
| Special charges  | \$17 | \$50 |

See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information.

Nonoperating Income (Expense). The following table illustrates the year-over-year dollar and percentage changes in the Company's nonoperating income (expense) for the three months ended September 30 (in millions, except for percentage changes):

|                      | 2018    | 2017    | Increase<br>(Decrease) | %<br>Change |
|----------------------|---------|---------|------------------------|-------------|
| Interest expense     | \$(187) | \$(169) | \$18                   | 10.7        |
| Interest capitalized | 18      | 20      | (2)                    | (10.0)      |
| Interest income      | 28      | 17      | 11                     | 64.7        |
| Miscellaneous, net   | (1)     | (13)    | (12)                   | (92.3)      |
| Total                | \$(142) | \$(145) | \$(3)                  | (2.1)       |

Interest expense increased \$18 million, or 10.7%, in the third quarter of 2018 as compared to the year-ago period, primarily due to \$13 million of additional expense related to 54 Embraer ERJ 145 aircraft that converted from operating leases to capital leases. During the third quarter of 2018, United entered into an agreement with the lessor of 54 Embraer ERJ 145 aircraft to purchase those aircraft in 2019. The provisions of the new lease agreement resulted in a change in accounting classification of these new leases from operating leases to capital leases up until the purchase date.

Income Taxes. See Note 5 to the financial statements included in Part I, Item 1 of this report for information related to income taxes.

#### First Nine Months 2018 Compared to First Nine Months 2017

The Company recorded net income of \$1.7 billion in the first nine months of 2018 as compared to net income of \$1.6 billion in the first nine months of 2017. The Company considers a key measure of its performance to be operating income, which was \$2.6 billion for the first nine months of 2018, as compared to \$2.9 billion for the first nine months of 2017, a \$255 million decrease year-over-year. Significant components of the Company's operating results for the nine months ended September 30

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are as follows (in millions, except percentage changes):

|                               | 2018     | 2017     | Increase<br>(Decrease) | %<br>Change |
|-------------------------------|----------|----------|------------------------|-------------|
| Operating revenue             | \$30,812 | \$28,333 | \$ 2,479               | 8.7         |
| Operating expense             | 28,172   | 25,438   | 2,734                  | 10.7        |
| Operating income              | 2,640    | 2,895    | (255 )                 | (8.8 )      |
| Nonoperating income (expense) | (538 )   | (475 )   | 63                     | 13.3        |
| Income tax expense            | 435      | 855      | (420 )                 | (49.1 )     |
| Net income                    | \$1,667  | \$1,565  | \$ 102                 | 6.5         |

Certain consolidated statistical information for the Company's operations for the nine months ended September 30 is as follows:

|  | 2018    | 2017    | Increase<br>(Decrease) | %<br>Change |
|--|---------|---------|------------------------|-------------|
| Passengers (thousands) (a)                             | 118,439 | 110,654 | 7,785                  | 7.0         |
| RPMs (millions) (b)                                    | 173,187 | 163,112 | 10,075                 | 6.2         |
| ASMs (millions) (c)                                    | 206,360 | 197,358 | 9,002                  | 4.6         |
| Passenger load factor (d)                              | 83.9 %  | 82.6 %  | 1.3 pts.               | N/A         |
| PRASM (cents)  | 13.64   | 13.11   | 0.53                   | 4.0         |
| Yield (cents) (e)                                      | 16.25   | 15.86   | 0.39                   | 2.5         |
| CASM (cents)   | 13.65   | 12.89   | 0.76                   | 5.9         |
| Average price per gallon of fuel, including fuel taxes | \$2.23  | \$1.68  | \$ 0.55                | 32.7        |
| Fuel gallons consumed (millions)                       | 3,101   | 2,998   | 103                    | 3.4         |
| Average full-time equivalent employees                 | 87,100  | 86,200  | 900                    | 1.0         |

(a) The number of revenue passengers measured by each flight segment flown.

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

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

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

(e) The average passenger revenue received for each revenue passenger mile flown.

#### Operating Revenue

The table below shows year-over-year comparisons by type of operating revenue for the nine months ended September 30 (in millions, except for percentage changes):

|                         | 2018     | 2017     | Increase<br>(Decrease) | % Change |
|-------------------------|----------|----------|------------------------|----------|
| Passenger revenue       | \$28,150 | \$25,873 | \$ 2,277               | 8.8      |
| Cargo                   | 903      | 790      | 113                    | 14.3     |
| Other operating revenue | 1,759    | 1,670    | 89                     | 5.3      |
| Total operating revenue | \$30,812 | \$28,333 | \$ 2,479               | 8.7      |

The table below presents selected passenger revenue and operating data, broken out by geographic region, expressed as year-over-year changes for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017:

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|                                 | Domestic | Atlantic | Pacific | Latin   | Consolidated |
|---------------------------------|----------|----------|---------|---------|--------------|
| Increase (decrease) from 2017:  |          |          |         |         |              |
| Passenger revenue (in millions) | \$1,651  | \$553    | \$93    | \$(20)  | \$2,277      |
| Passenger revenue               | 10.5     | % 12.4   | % 2.9   | % (0.8) | % 8.8        |
| Average fare per passenger      | 1.7      | % 1.5    | % 10.0  | % 2.5   | % 1.6        |
| Yield                           | 2.9      | % 1.1    | % 2.5   | % (0.8) | % 2.5        |
| PRASM                           | 3.4      | % 7.8    | % 2.5   | % (0.3) | % 4.0        |
| Passengers                      | 8.6      | % 10.7   | % (6.5) | % (3.2) | % 7.0        |
| RPMs (traffic)                  | 7.4      | % 11.2   | % 0.3   | % —     | % 6.2        |
| ASMs (capacity)                 | 6.8      | % 4.3    | % 0.4   | % (0.5) | % 4.6        |
| Passenger load factor (points)  | 0.5      | 5.0      | (0.1)   | 0.4     | 1.3          |

Consolidated passenger revenue in the first nine months of 2018 increased \$2.3 billion, or 8.8%, as compared to the year-ago period primarily due to a 6.2% increase in traffic. Consolidated PRASM and consolidated yield for the first nine months of 2018 increased 4.0% and 2.5%, respectively, as compared to the first nine months of 2017 as a result of improved close in demand in the domestic markets and premium cabin demand improvements in the Atlantic and Pacific markets.

Cargo revenue increased \$113 million, or 14.3%, in the first nine months of 2018 as compared to the year-ago period primarily due to higher yield and higher Atlantic and Pacific freight volumes.

Other operating revenue increased \$89 million, or 5.3%, in the first nine months of 2018 as compared to the year-ago period primarily due to increased MileagePlus related revenue. See Note 2 to the financial statements included in Part I, Item 1 of this report for additional information related to revenue.

Operating Expenses

The table below includes data related to the Company's operating expenses for the nine months ended September 30 (in millions, except for percentage changes):

|  | 2018     | 2017     | Increase<br>(Decrease) | %<br>Change |
|--|----------|----------|------------------------|-------------|
| Salaries and related costs                         | \$8,534  | \$8,263  | \$ 271                 | 3.3         |
| Aircraft fuel                                      | 6,927    | 5,038    | 1,889                  | 37.5        |
| Regional capacity purchase                         | 1,963    | 1,652    | 311                    | 18.8        |
| Landing fees and other rent                        | 1,757    | 1,670    | 87                     | 5.2         |
| Depreciation and amortization                      | 1,662    | 1,610    | 52                     | 3.2         |
| Aircraft maintenance materials and outside repairs | 1,333    | 1,377    | (44)                   | (3.2)       |
| Distribution expenses                              | 1,162    | 1,081    | 81                     | 7.5         |
| Aircraft rent                                      | 355      | 476      | (121)                  | (25.4)      |
| Special charges                                    | 186      | 145      | 41                     | NM          |
| Other operating expenses                           | 4,293    | 4,126    | 167                    | 4.0         |
| Total operating expenses                           | \$28,172 | \$25,438 | \$ 2,734               | 10.7        |

Salaries and related costs increased \$271 million, or 3.3%, in the first nine months of 2018 as compared to the year-ago period primarily due to higher pay rates and benefit expenses driven by collective bargaining agreements, and a 1.0% increase in average full-time equivalent employees, partially offset by a decrease in employee incentive programs expense.

Aircraft fuel increased \$1.9 billion, or 37.5%, in the first nine months of 2018 as compared to the year-ago period primarily due to a 32.7% increase in the average price per gallon of aircraft fuel and a 4.6% increase in capacity. Regional capacity purchase increased \$311 million, or 18.8%, in the first nine months of 2018 as compared to the year-ago period primarily due to increased regional flying related to the Company's initiative to improve connectivity at its domestic hubs, as well as rate increases under various capacity purchase agreements with regional carriers. Landing fees and other rent increased \$87 million, or 5.2%, in the first nine months of 2018 as compared to the year-ago period, primarily due to increased rates and capacity growth.



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Distribution expenses increased \$81 million, or 7.5%, in the first nine months of 2018 as compared to the year-ago period, primarily due to higher credit card fees as a result of the overall increase in passenger revenue including premium cabin tickets.

Aircraft rent decreased \$121 million, or 25.4%, in the first nine months of 2018 as compared to the year-ago period, primarily due to the purchase of leased aircraft and lease term expirations.

Other operating expenses increased \$167 million, or 4.0%, in the first nine months of 2018 as compared to the year-ago period due to increases in purchased services related to our airport operations, technology initiatives, and trucking and handling of cargo shipments.

Details of the Company's special charges include the following for the nine months ended September 30 (in millions):

|  | 2018   | 2017   |
|--|--------|--------|
| Impairment of assets                                       | \$ 145 | \$ 15  |
| Severance and benefit costs                                | 34     | 101    |
| (Gains) losses on sale of assets and other special charges | 7      | 29     |
| Special charges  | \$ 186 | \$ 145 |

See Note 10 to the financial statements included in Part I, Item 1 of this report for additional information.

Nonoperating Income (Expense). The following table illustrates the year-over-year dollar and percentage changes in the Company's nonoperating income (expense) for the nine months ended September 30 (in millions, except for percentage changes):

|                      | 2018    | 2017    | Increase<br>(Decrease) | %<br>Change |
|----------------------|---------|---------|------------------------|-------------|
| Interest expense     | \$(540) | \$(498) | \$ 42                  | 8.4         |
| Interest capitalized | 51      | 64      | (13)                   | (20.3)      |
| Interest income      | 70      | 41      | 29                     | 70.7        |
| Miscellaneous, net   | (119)   | (82)    | 37                     | 45.1        |
| Total                | \$(538) | \$(475) | \$ 63                  | 13.3        |

Miscellaneous, net includes, in the first nine months of 2018, a \$61 million loss for the change in market value of certain of the Company's equity investments.

Income Taxes. See Note 5 to the financial statements included in Part I, Item 1 of this report for information related to income taxes.

**LIQUIDITY AND CAPITAL RESOURCES****Current Liquidity**

As of September 30, 2018, the Company had \$4.9 billion in unrestricted cash, cash equivalents and short-term investments, as compared to \$3.8 billion at December 31, 2017. As of September 30, 2018, the Company had its entire commitment capacity of \$2.0 billion under the revolving credit facility of the Amended and Restated Credit and Guaranty Agreement (as amended, the "2017 Credit Agreement") available for borrowings. In May 2018, the 2017 Credit Agreement was amended to reduce the interest rate on the term loan by 0.25%. At September 30, 2018, the Company also had \$105 million of restricted cash and cash equivalents, which is primarily collateral for letters of credit and collateral associated with facility leases and other insurance related obligations.

We have a significant amount of fixed obligations, including debt, aircraft leases and financings, leases of airport property and other facilities, and pension funding obligations. As of September 30, 2018, the Company had approximately \$14.4 billion of debt and capital lease obligations, including \$1.0 billion that will become due in the next 12 months. In addition, we have substantial noncancelable commitments for capital expenditures, including the acquisition of certain new aircraft and related spare engines. As of September 30, 2018, our current liabilities exceeded our current assets by approximately \$5.0 billion. However, approximately \$7.5 billion of our current liabilities are related to our advance ticket sales and frequent flyer deferred revenue, both of which largely represent revenue to be recognized for travel in the near future and not actual cash outlays. The deficit in working capital does not have an adverse impact to our cash flows, liquidity or operations.



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As of September 30, 2018, United had firm commitments and options to purchase aircraft from The Boeing Company ("Boeing"), Airbus S.A.S. ("Airbus") and Embraer S.A. ("Embraer") presented in the table below:

| Aircraft Type    | Number of<br>Firm<br>Commitments<br>(a) |
|------------------|---|
| Airbus A350      | 45                                      |
| Boeing 737 MAX   | 154                                     |
| Boeing 777-300ER | 1                                       |
| Boeing 787       | 27                                      |
| Embraer E175     | 25                                      |

(a) United also has options and purchase rights for additional aircraft.

The aircraft listed in the table above are scheduled for delivery through 2027. To the extent the Company and the aircraft manufacturers with whom the Company has existing orders for new aircraft agree to modify the contracts governing those orders, the amount and timing of the Company's future capital commitments could change. For the remainder of 2018, the Company expects to take delivery of three Boeing 787 aircraft, three Boeing 737 MAX aircraft and one Boeing 777-300ER aircraft. United also has an agreement to purchase 20 used Airbus A319 aircraft with expected delivery dates scheduled in 2020 and 2021.

As of September 30, 2018, UAL and United have total capital commitments primarily related to the acquisition of aircraft and related spare engines, aircraft improvements and include other capital purchase commitments for approximately \$23.8 billion, of which approximately \$1.1 billion, \$4.1 billion, \$4.2 billion, \$2.9 billion, \$1.7 billion and \$9.8 billion are due in the last three months of 2018 and for the full year for 2019, 2020, 2021, 2022 and thereafter, respectively. Any additional firm aircraft orders, including through the exercise of purchase options and purchase rights, will increase the total future capital commitments of the Company.

Financing may be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures. The Company has secured backstop financing commitments from certain of its aircraft manufacturers for a limited number of its future aircraft deliveries, subject to certain customary conditions. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information on aircraft financing.

As of September 30, 2018, a substantial portion of the Company's assets, principally aircraft, certain route authorities and airport slots, was pledged under various loan and other agreements. We must sustain our profitability and/or access the capital markets to meet our significant long-term debt and capital lease obligations and future commitments for capital expenditures, including the acquisition of aircraft and related spare engines.

Credit Ratings. As of the filing date of this report, UAL and United had the following corporate credit ratings:

|        | S&P | Moody's | Fitch |
|--------|-----|---------|-------|
| UAL    | BB  | Ba2     | BB    |
| United | BB  | *       | BB    |

\* The credit agency does not issue corporate credit ratings for subsidiary entities.

These credit ratings are below investment grade levels. Downgrades from these rating levels, among other things, could restrict the availability or increase the cost of future financing for the Company.

#### Sources and Uses of Cash

Operating Activities. Cash flow provided by operations was \$5.1 billion for the nine months ended September 30, 2018 compared to \$2.7 billion in the same period in 2017. Operating income for the first nine months of 2018 was \$2.6 billion, compared to \$2.9 billion in the same period in 2017. Changes in working capital items increased \$2.6 billion year-over-year, which accounted for the increase in cash flow from operations, including a \$0.4 billion increase in advance ticket sales associated with our overall traffic growth, a \$1.0 billion increase in mileage sales, of which \$0.7 billion are due to our co-branded credit card partner fully utilizing its pre-purchased miles in 2017, a \$0.3 billion



increase related to timing of accounts payable, a \$0.3 billion decrease in employee incentive payments in the first nine months of 2018 as compared to the year-ago period, and a \$0.5 billion increase in prepayments in the first nine months of 2017.

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**Investing Activities.** Capital expenditures were approximately \$2.6 billion and \$2.9 billion in the nine months ended September 30, 2018 and 2017, respectively. Capital expenditures for the nine months ended September 30, 2018 were primarily attributable to additions of new aircraft, aircraft improvements, and increases in facility and information technology assets.

**Financing Activities.** During the nine months ended September 30, 2018, the Company made debt and capital lease payments of \$1.6 billion.

In the nine months ended September 30, 2018, United received and recorded \$1.2 billion of proceeds as debt from the EETC pass-through trusts established in February and May 2018. See Note 9 to the financial statements included in Part I, Item 1 of this report for additional information.

**Share Repurchase Programs.** In the three and nine months ended September 30, 2018, UAL repurchased approximately 0.5 million and 14.8 million shares, respectively, of UAL common stock in open market transactions for \$34 million and \$1.0 billion, respectively. As of September 30, 2018, the Company had approximately \$2.0 billion remaining to purchase shares under its share repurchase program.

UAL may repurchase shares through the open market, privately negotiated transactions, block trades or accelerated share repurchase transactions from time to time in accordance with applicable securities laws. UAL will repurchase shares of UAL common stock subject to prevailing market conditions, and may discontinue such repurchases at any time. See Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds of this report for additional information.

**Commitments, Contingencies and Liquidity Matters.** As described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the "2017 Annual Report"), the Company's liquidity may be adversely impacted by a variety of factors, including, but not limited to, pension funding obligations, reserve requirements associated with credit card processing agreements, guarantees, commitments and contingencies.

See the 2017 Annual Report and Notes 6, 8, 9 to the financial statements contained in Part I, Item 1 of this report for additional information.

### CRITICAL ACCOUNTING POLICIES

See "Critical Accounting Policies" in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2017 Annual Report. Also see Note 2 to the financial statements contained in Part I, Item 1 of this report for a discussion of the Company's updated accounting policies on Revenue Recognition and Frequent Flyer Accounting.

### FORWARD-LOOKING INFORMATION

Certain statements throughout Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report are forward-looking and thus reflect the Company's current expectations and beliefs with respect to certain current and future events and anticipated financial and operating performance. Such forward-looking statements are and will be subject to many risks and uncertainties relating to the Company's operations and business environment that may cause actual results to differ materially from any future results expressed or implied in such forward-looking statements. Words such as "expects," "will," "plans," "anticipates," "indicates," "believes," "estimates," "forecast," "guidance," "outlook," "goals" and similar expressions are intended to identify forward-looking statements.

Additionally, forward-looking statements include statements that do not relate solely to historical facts, such as statements which identify uncertainties or trends, discuss the possible future effects of current known trends or uncertainties, or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this report are based upon information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except as required by applicable law.

Our actual results could differ materially from these forward-looking statements due to numerous factors including, without limitation, the following: general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aircraft fuel and energy refining capacity in relevant markets); economic and political instability and other risks of doing business globally, including political developments that may impact our operations in certain countries; demand for travel and the impact that global

economic and political conditions have on customer travel patterns; competitive pressures on pricing and on demand; demand for transportation in the markets in which we operate; our capacity decisions and the capacity decisions of our competitors; the effects of any hostilities, act of war or terrorist attack; the effects of any technology failures or cybersecurity breaches; the impact of regulatory, investigative and legal proceedings and legal compliance risks; disruptions to our regional network; the ability of other air carriers with whom we have alliances or

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partnerships to provide the services contemplated by the respective arrangements with such carriers; costs associated with any modification or termination of our aircraft orders; potential reputational or other impact from adverse events in our operations, the operations of our regional carriers or the operations of our code share partners; our ability to attract and retain customers; our ability to execute our operational plans and revenue-generating initiatives, including optimizing our revenue; our ability to control our costs, including realizing benefits from our resource optimization efforts, cost reduction initiatives and fleet replacement programs; the impact of any management changes; our ability to cost-effectively hedge against increases in the price of aircraft fuel if we decide to do so; any potential realized or unrealized gains or losses related to any fuel or currency hedging programs; labor costs; our ability to maintain satisfactory labor relations and the results of any collective bargaining agreement process with our union groups; any disruptions to operations due to any potential actions by our labor groups; an outbreak of a disease that affects travel demand or travel behavior; U.S. or foreign governmental legislation, regulation and other actions (including Open Skies agreements and environmental regulations); industry consolidation or changes in airline alliances; our ability to comply with the terms of our various financing arrangements; the costs and availability of financing; our ability to maintain adequate liquidity; the costs and availability of aviation and other insurance; weather conditions; our ability to utilize our net operating losses to offset future taxable income; the impact of changes in tax laws; the success of our investments in airlines in other parts of the world; and other risks and uncertainties set forth under Part I, Item 1A., Risk Factors, of our 2017 Annual Report, as well as other risks and uncertainties set forth from time to time in the reports we file with the U.S. Securities and Exchange Commission (the "SEC").

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes in market risk from the information provided in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2017 Annual Report.

**ITEM 4. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Control and Procedures**

UAL and United each maintain controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted by UAL and United to the SEC is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The management of UAL and United, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation to conclude with reasonable assurance that UAL's and United's disclosure controls and procedures were designed and operating effectively to report the information each company is required to disclose in the reports they file with the SEC on a timely basis. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of UAL and United have concluded that as of September 30, 2018, disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting during the Quarter Ended September 30, 2018**

During the three months ended September 30, 2018, there were no changes in UAL's or United's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, their internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

See Part I, Item 3, Legal Proceedings, of the 2017 Annual Report for a description of legal proceedings.

## ITEM 1A. RISK FACTORS

See Part I, Item 1A, Risk Factors, of the 2017 Annual Report for a detailed discussion of the risk factors affecting UAL and United.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) None

(b) None

(c) The following table presents repurchases of UAL common stock made in the third quarter of fiscal year 2018:

| Period         | Total number of shares purchased (a)(b) | Average price paid per share (b)(c) | Total number of shares purchased as part of publicly announced plans or programs (a) | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (a) |
|----------------|---|-------------------------------------|--|--|
| July 2018      | 479,289                                 | \$ 70.94                            | 479,289  | \$ 1,990   |
| August 2018    | —                                       | —                                   | —  | 1,990  |
| September 2018 | —                                       | —                                   | —  | 1,990  |
| Total          | 479,289                                 |                                     | 479,289  |  |

(a) In December 2017, UAL's Board of Directors authorized a \$3.0 billion share repurchase program to acquire UAL's common stock. As of September 30, 2018, the Company had approximately \$2.0 billion remaining to purchase shares under its share repurchase program. UAL may repurchase shares through the open market, privately negotiated transactions, block trades or accelerated share repurchase transactions from time to time in accordance with applicable securities laws.

(b) The table does not include shares withheld from employees to satisfy certain tax obligations due upon the vesting of restricted stock awards and restricted stock units. The United Continental Holdings, Inc. 2017 Incentive Compensation Plan and the United Continental Holdings, Inc. 2008 Incentive Compensation Plan each provide for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock. However, these plans do not specify a maximum number of shares that may be withheld for this purpose. A total of 8,704 shares were withheld under these plans in the third quarter of 2018 at an average price per share of \$79.57. These shares of common stock withheld to satisfy tax withholding obligations may be deemed to be "issuer purchases" of shares that are required to be disclosed pursuant to this Item.

(c) Average price paid per share is calculated on a settlement basis and excludes commission.

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ITEM 6. EXHIBITS.

EXHIBIT INDEX

Exhibit  
Registrant Exhibit  
No.

|                        |  |
|------------------------|--|
| UAL<br>101.1<br>United | <u>Supplemental Agreement No. 11, including exhibits and side letters, to Purchase Agreement No. 03776, dated as of September 25, 2018, between The Boeing Company and United Airlines, Inc.</u> |
| UAL                    | <u>United Continental Holdings, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges</u>  |
| United                 | <u>United Airlines, Inc. and Subsidiary Companies Computation of Ratio of Earnings to Fixed Charges</u>  |
| BIAL                   | <u>Certification of the Principal Executive Officer of United Continental Holdings, Inc. Pursuant to 15U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)</u>               |
| BIAL                   | <u>Certification of the Principal Financial Officer of United Continental Holdings, Inc. Pursuant to 15U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)</u>               |
| BUnited                | <u>Certification of the Principal Executive Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)</u>                          |
| BUnited                | <u>Certification of the Principal Financial Officer of United Airlines, Inc. Pursuant to 15 U.S.C. 78m(a) or 78o(d) (Section 302 of the Sarbanes-Oxley Act of 2002)</u>                          |
| BUAL                   | <u>Certification of the Chief Executive Officer and Chief Financial Officer of United Continental Holdings, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)</u>  |
| BUnited                | <u>Certification of the Chief Executive Officer and Chief Financial Officer of United Airlines, Inc. Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)</u>              |
| UAL<br>101.1<br>United | XBRL Instance Document   |
| UAL<br>101.2<br>United | XBRL Taxonomy Extension Schema Document  |
| UAL<br>101.3<br>United | XBRL Taxonomy Extension Calculation Linkbase Document  |
| UAL<br>101.4<br>United | XBRL Taxonomy Extension Definition Linkbase Document   |
| UAL<br>101.5<br>United | XBRL Taxonomy Extension Labels Linkbase Document   |
| UAL<br>101.6<br>United | XBRL Taxonomy Extension Presentation Linkbase Document   |

^ Confidential portion of this exhibit has been omitted and filed separately with the SEC pursuant to a request for confidential treatment.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United Continental Holdings, Inc.  
(Registrant)

Date: October 17, 2018 By: /s/ Gerald Laderman  
Gerald Laderman  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: October 17, 2018 By: /s/ Chris Kenny  
Chris Kenny  
Vice President and Controller  
(Principal Accounting Officer)

United Airlines, Inc.  
(Registrant)

Date: October 17, 2018 By: /s/ Gerald Laderman  
Gerald Laderman  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: October 17, 2018 By: /s/ Chris Kenny  
Chris Kenny  
Vice President and Controller  
(Principal Accounting Officer)