United Continental Holdings, Inc.
Form 10-K
February 23, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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, Principal Executive Office Address, Zip Code and Telephone Number, Including Area Code	State of Incorporation	I.R.S. Employer Identification No.
001-06033	**United Continental Holdings, Inc.** **233 South Wacker Drive** **Chicago, Illinois 60606** **(872) 825-4000**	Delaware	36-2675207
001-10323	**United Airlines, Inc.** **233 South Wacker Drive** **Chicago, Illinois 60606** **(872) 825-4000**	Delaware	74-2099724

Securities registered pursuant to Section 12(b) of the Act:

	Title of Each Class	Name of Each Exchange on Which Registered
United Continental Holdings, Inc.	Common Stock, $0.01 par value	New York Stock Exchange
United Airlines, Inc.	None	None

Securities registered pursuant to Section 12(g) of the Act:

United Continental Holdings, Inc.	None
United Airlines, Inc.	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

United Continental Holdings, Inc.
United Airlines, Inc.

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

United Continental Holdings, Inc.	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
United Airlines, Inc.	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company

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

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

The aggregate market value of common stock held by non-affiliates of United Continental Holdings, Inc. was $12,558,237,332 as of June 30, 2016, based on the closing price of $41.04 on the New York Stock Exchange reported for that date. There is no market for United Airlines, Inc. common stock.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of February 13, 2017.

United Continental Holdings, Inc.	314,622,651 shares of common stock ($0.01 par value)
United Airlines, Inc.	1,000 (100% owned by United Continental Holdings, Inc.)

This combined Form 10-K is separately filed by United Continental Holdings, Inc. and United Airlines, Inc.

OMISSION OF CERTAIN INFORMATION

United Airlines, Inc. meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format allowed under that General Instruction.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Items 10, 11, 12 and 13 of Part III of this Form 10-K are incorporated by reference for United Continental Holdings, Inc. from its definitive proxy statement for its 2017 Annual Meeting of Stockholders.

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United Continental Holdings, Inc. and Subsidiary Companies

United Airlines, Inc. and Subsidiary Companies

Annual Report on Form 10-K

For the Year Ended December 31, 2016

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This Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements represent our expectations and beliefs concerning future events, based on information available to us on the date of the filing of this Form 10-K, and are subject to various risks and uncertainties. Factors that could cause actual results to differ materially from those referenced in the forward-looking statements are listed in Part I, Item 1A, Risk Factors and in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. We disclaim any intent or obligation to update or revise any of the forward-looking statements, whether in response to new information, unforeseen events, changed circumstances or otherwise, except as required by applicable law.

PART I

ITEM 1. BUSINESS.

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). 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.

UAL was incorporated under the laws of the State of Delaware on December 30, 1968. Our principal executive office is located at 233 South Wacker Drive, Chicago, Illinois 60606 (telephone number (872) 825-4000).

The Company s website is www.unitedcontinentalholdings.com. The information contained on or connected to the Company s website is not incorporated by reference into this annual report on Form 10-K and should not be considered part of this or any other report filed with the U.S. Securities and Exchange Commission (SEC). Through this website, the Company s filings with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as well as our proxy statement for our annual meeting of stockholders, are accessible without charge, as soon as reasonably practicable, after such material is electronically filed with or furnished to the SEC. Such filings are also available on the SEC s website at www.sec.gov.

Operations

The Company transports people and cargo through its mainline and regional operations. With key global aviation rights in North America, Asia-Pacific, Europe, Middle East and Latin America, UAL has the world s most comprehensive global route network. UAL, through United and its regional carriers, operates more than 4,500 flights a day to 339 airports across five continents from the Company s hubs at Newark Liberty International Airport (Newark), Chicago O Hare International Airport (Chicago O Hare), Denver International Airport (Denver), George Bush Intercontinental Airport (Houston Bush), Los Angeles International Airport (LAX), A.B. Won Pat International Airport (Guam), San Francisco International Airport (SFO) and Washington Dulles International Airport (Washington Dulles).

All of the Company s domestic hubs are located in large business and population centers, contributing to a large amount of origin and destination traffic. The hub and spoke system allows us to transport passengers between a large number of destinations with substantially more frequent service than if each route were served directly. The

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hub system also allows us to add service to a new destination from a large number of cities using only one or a limited number of aircraft. As discussed under *Alliances* below, United is a member of Star Alliance, the world s largest alliance network.

Financial information on the Company s operating revenues by geographic regions, as reported to the U.S. Department of Transportation (the DOT), can be found in Note 17 to the financial statements included in Part II, Item 8 of this report.

Regional. The Company has contractual relationships with various regional carriers to provide regional jet and turboprop service branded as United Express. These regional operations are an extension of the Company s mainline network. This regional service complements our operations by carrying traffic that connects to our mainline service and allows flights to smaller cities that cannot be provided economically with mainline aircraft. Republic Airlines (Republic), Champlain Enterprises, LLC d/b/a CommutAir (CommutAir), ExpressJet Airlines (ExpressJet), GoJet Airlines (GoJet), Mesa Airlines (Mesa), Shuttle America (Shuttle), SkyWest Airlines (SkyWest) and Trans States Airlines (Trans States are all regional carriers, which operate most of their capacity contracted to United under capacity purchase agreements (CPAs) with United. Under these CPAs, the Company pays the regional carriers contractually agreed fees (carrier-controlled costs) for operating these flights plus a variable reimbursement (incentive payment for operational performance) based on agreed performance metrics. The fees for carrier-controlled costs are based on specific rates for various operating expenses of the regional carriers, such as crew expenses, maintenance and aircraft ownership, some of which are multiplied by specific operating statistics (e.g., block hours, departures) while others are fixed monthly amounts. Under these CPAs, the Company is responsible for all fuel costs incurred as well as landing fees, facilities rent and other costs, which are either passed through by the regional carrier to the Company without any markup or directly incurred by the Company. In return, the regional carriers operate this capacity exclusively for United, on schedules determined by the Company. The Company also determines pricing and revenue management, assumes the inventory and distribution risk for the available seats and permits mileage accrual and redemption for regional flights through its MileagePlus® loyalty program.

Alliances. United is a member of Star Alliance, a global integrated airline network and the largest and most comprehensive airline alliance in the world. As of January 1, 2017, Star Alliance carriers served 1,300 airports in 190 countries with 18,450 daily departures. Star Alliance members, in addition to United, are Adria Airways, Aegean Airlines, Air Canada, Air China, Air India, Air New Zealand, All Nippon Airways (ANA), Asiana Airlines, Austrian Airlines, Avianca, Avianca Brasil, Brussels Airlines, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, SAS Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAP Portugal, THAI Airways International and Turkish Airlines. In October 2016, Star Alliance announced the future inclusion of Juneyao Airlines as a new connecting partner.

United has a variety of bilateral commercial alliance agreements and obligations with Star Alliance members, addressing, among other things, reciprocal earning and redemption of frequent flyer miles, access to airport lounges and, with certain Star Alliance members, codesharing of flight operations (whereby one carrier s selected flights can be marketed under the brand name of another carrier). In addition to the alliance agreements with Star Alliance members, United currently maintains independent marketing alliance agreements with other air carriers, including Aeromar, Aer Lingus, Air Dolomiti, Azul, Cape Air, Eurowings, Germanwings, Great Lakes Airlines, Hawaiian Airlines, Island Air, Jet Airways and Silver Airways. In addition to the marketing alliance agreements with air partners, United also offers a train-to-plane codeshare and frequent flyer alliance with Amtrak from Newark on select city pairs in the northeastern United States.

United also participates in three passenger joint ventures, one with Air Canada and the Lufthansa Group (which includes Lufthansa and its affiliates Austrian Airlines, Brussels Airlines, Eurowings and SWISS) covering transatlantic routes, one with ANA covering certain transpacific routes and one with Air New Zealand covering certain routes between the United States and New Zealand. These passenger joint ventures enable the participating carriers to integrate the services they provide in the respective regions, capturing revenue synergies and delivering highly competitive flight schedules, fares and services. United has also begun implementation of a

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cargo joint venture with ANA for transpacific cargo services. This cargo joint venture offers expanded and more seamless access to cargo space across the carriers respective combined networks.

Loyalty Program. United s MileagePlus program builds customer loyalty by offering awards, benefits and services to program participants. Members in this program earn miles for flights 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, such as credit card issuers, retail merchants, hotels and car rental companies. Members can redeem miles for free (other than taxes and government imposed fees), discounted or upgraded travel and non-travel awards.

The Company has an agreement with Chase Bank USA, N.A. (Chase), pursuant to which members of the Company s MileagePlus loyalty program who are residents of the United States can earn miles for making purchases using a MileagePlus credit card issued by Chase. The agreement also provides for joint marketing and other support for the MileagePlus credit card and provides Chase with other benefits such as permission to market to the Company s customer database.

Approximately 5.2 million and 5.0 million MileagePlus flight awards were used on United in 2016 and 2015, respectively. These awards represented 7.7% and 7.5% of United s total revenue passenger miles in 2016 and 2015, respectively. Total miles redeemed for flights on United in 2016, including class-of-service upgrades, represented approximately 84% of the total miles redeemed. In addition, excluding miles redeemed for flights on United, MileagePlus members redeemed miles for approximately 2.0 million other awards in 2016 as compared to 1.8 million in 2015. These awards include United Club memberships, car and hotel awards, merchandise and flights on other air carriers.

Aircraft Fuel. The table below summarizes UAL s aircraft fuel consumption and expense during the last three years.

Year	Gallons Consumed (in millions)	Fuel Expense (in millions)	Average Price Per Gallon	Percentage of Total Operating Expense
2016	3,904	$ 5,813	$ 1.49	18%
2015	3,886	$ 7,522	$ 1.94	23%
2014	3,905	$ 11,675	$ 2.99	32%

Our operational and financial results can be significantly impacted by changes in the price and availability of aircraft fuel. To provide adequate supplies of fuel, the Company routinely enters into purchase contracts that are customarily indexed to market prices for aircraft fuel, and the Company generally has some ability to cover short-term fuel supply and infrastructure disruptions at some major demand locations. The price of aircraft fuel has fluctuated substantially in the past several years and in order to lower its exposure to unpredictable increases in the market prices of aircraft fuel, the Company has historically hedged a portion of its planned fuel requirements. As of December 31, 2016, the Company did not have any outstanding fuel hedging contracts. The Company s current strategy is to not enter into transactions to hedge its fuel consumption, although the Company regularly reviews its strategy based on market conditions and other factors.

Third-Party Business. United generates third-party business revenue that includes frequent flyer award non-air redemptions, maintenance services, catering and ground handling. Third-party business revenue is recorded in Other operating revenue. Expenses associated with third-party business are recorded in Other operating expenses.

Distribution Channels. The Company s airline seat inventory and fares are distributed through the Company s direct channels, traditional travel agencies and on-line travel agencies. The use of the Company s direct sales website, united.com, the Company s mobile applications and alternative distribution systems, provides the Company with an opportunity to de-commoditize its services, better present its content, make more targeted offerings, better retain its customers, enhance its brand and lower its ticket distribution costs. Agency sales are

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primarily sold using global distribution systems (GDS). United has developed capabilities to sell certain ancillary products through the GDS channel to provide an enhanced buying experience for customers who purchase in that channel. To increase the Company s opportunities to sell its full range of products and services and lower distribution costs, the Company will continue to develop new selling capabilities in third-party channels and expand the capabilities of its website and mobile applications.

Industry Conditions

Domestic Competition. The domestic airline industry is highly competitive and dynamic. The Company s competitors consist primarily of other airlines and, to a certain extent, other forms of transportation. Currently, any U.S. carrier deemed fit by the DOT is free to operate scheduled passenger service between any two points within the United States. Competition can be direct, in the form of another carrier flying the exact non-stop route, or indirect, where a carrier serves the same two cities non-stop from an alternative airport in that city or via an itinerary requiring a connection at another airport. Air carriers cost structures are not uniform and there are numerous factors influencing cost structure. Carriers with lower costs may offer lower fares to passengers, which could have a potential negative impact on the Company s revenues. Decisions on domestic pricing are based on intense competitive pressure exerted on the Company by other U.S. airlines. In order to remain competitive and maintain passenger traffic levels, we often find it necessary to match competitors discounted fares. Since we compete in a dynamic marketplace, attempts to generate additional revenue through increased fares oftentimes fail.

International Competition. Internationally, the Company competes not only with U.S. airlines, but also with foreign carriers. International competition has increased and may increase in the future as a result of airline mergers and acquisitions, joint ventures, alliances, restructurings, liberalization of aviation bilateral agreements and new or increased service by competitors, including government subsidized competitors from certain Middle East countries. Competition on international routes is subject to varying degrees of governmental regulation. The Company s ability to compete successfully with non-U.S. carriers on international routes depends in part on its ability to generate traffic to and from the entire United States via its integrated domestic route network and its ability to overcome business and operational challenges across its network worldwide. Foreign carriers currently are prohibited by U.S. law from carrying local passengers between two points in the United States and the Company generally experiences comparable restrictions in foreign countries. Separately, fifth freedom rights allow the Company to operate between points in two different foreign countries and foreign carriers may also have fifth freedom rights between the U.S. and another foreign country. In the absence of fifth freedom rights, or some other extra-bilateral right to conduct operations between two foreign countries, U.S. carriers are constrained from carrying passengers to points beyond designated international gateway cities. To compensate partially for these structural limitations, U.S. and foreign carriers have entered into alliances, joint ventures and marketing arrangements that enable these carriers to exchange traffic between each other s flights and route networks. See *Alliances,* above, for additional information.

Seasonality. The air travel business is subject to seasonal fluctuations. Historically, demand for air travel is higher in the second and third quarters, driving higher revenues, than in the first and fourth quarters, which are periods of lower travel demand.

Industry Regulation

Domestic Regulation

All carriers engaged in air transportation in the United States are subject to regulation by the DOT. Absent an exemption, no air carrier may provide air transportation of passengers or property without first being issued a DOT certificate of public convenience and necessity. The DOT also grants international route authority, approves international codeshare arrangements and regulates methods of competition. The DOT regulates consumer protection and maintains jurisdiction over advertising, denied boarding compensation, tarmac delays, baggage liability and other areas and may add additional expensive regulatory burdens in the future. The DOT has launched investigations or claimed rulemaking authority to regulate commercial agreements among carriers or between carriers and third parties in a wide variety of contexts.

Airlines are also regulated by the Federal Aviation Administration (the FAA), an agency within the DOT, primarily in the areas of flight safety, air carrier operations and aircraft maintenance and airworthiness. The FAA issues air carrier operating certificates and aircraft airworthiness certificates, prescribes maintenance procedures, oversees airport operations, and regulates pilot and other employee training. From time to time, the FAA issues directives that require air carriers to inspect or modify aircraft and other equipment, potentially causing the Company to incur substantial, unplanned expenses. The airline industry is also subject to numerous other federal laws and regulations. The U.S. Department of Homeland Security (DHS) has jurisdiction over virtually every aspect of civil aviation security. The Antitrust Division of the U.S. Department of Justice (DOJ) has jurisdiction over certain airline competition matters. The U.S. Postal Service has authority over certain aspects of the transportation of mail by airlines. Labor relations in the airline industry are generally governed by the Railway Labor Act (RLA), a federal statute. The Company is also subject to investigation inquiries by the DOT, FAA, DOJ, DHS and other U.S. and international regulatory bodies.

Airport Access. Access to landing and take-off rights, or slots, at several major U.S. airports and many foreign airports served by the Company are, or recently have been, subject to government regulation. Federally mandated domestic slot restrictions that limit operations and regulate capacity currently apply at Reagan National Airport in Washington, D.C. and at John F. Kennedy International Airport and LaGuardia Airport in the New York City metropolitan region. Additional restrictions on airline routes and takeoff and landing slots at these and other airports may be proposed in the future that could affect the Company s rights of ownership and transfer. In April 2016, the FAA announced that it was lifting slot controls at Newark as of the winter 2016 season. This change may result in additional congestion at Newark and in the New York City metropolitan region airspace as a whole. If slots are eliminated at an airport, or if the number of hours of operation governed by slots is reduced at an airport, the lack of controls on takeoffs and landings could result in greater congestion both at the affected airport or in the regional airspace (e.g., the New York City metropolitan airspace) and could significantly impact the Company s operations.

Legislation. The airline industry is subject to legislative activity that may have an impact on operations and costs. In 2017, the U.S. Congress will continue to consider legislation to reauthorize the FAA, which encompasses all significant aviation tax and policy-related issues. As with previous reauthorization legislation, the U.S. Congress may consider a range of policy changes that could impact operations and costs. Finally, aviation security continues to be the subject of legislative and regulatory action, requiring changes to the Company s security processes, potentially increasing the cost of its security procedures and affecting its operations.

International Regulation

International air transportation is subject to extensive government regulation. In connection with the Company s international services, the Company is regulated by both the U.S. government and the governments of the foreign countries the Company serves. In addition, the availability of international routes to U.S. carriers is regulated by aviation agreements between the U.S. and foreign governments, and in some cases, fares and schedules require the approval of the DOT and/or the relevant foreign governments.

Legislation. Foreign countries are increasingly enacting passenger protection laws, rules and regulations that meet or exceed U.S. requirements. In cases where this activity exceeds U.S. requirements, additional burden and liability may be placed on the Company. Certain countries have regulations requiring passenger compensation and/or enforcement penalties from the Company in addition to changes in operating procedures due to canceled and delayed flights.

Airport Access. Historically, access to foreign markets has been tightly controlled through bilateral agreements between the U.S. and each foreign country involved. These agreements regulate the markets served, the number of carriers allowed to serve each market and the frequency of carriers flights. Since the early 1990s, the U.S. has pursued a policy of Open Skies (meaning all U.S.-flag carriers have access to the destination), under which the

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U.S. government has negotiated a number of bilateral agreements allowing unrestricted access between U.S. and foreign markets. Currently, there are more than 100 Open Skies agreements in effect. However, even with Open Skies, many of the airports that the Company serves in Europe, Asia and Latin America maintain slot controls. A large number of these slot controls exist due to congestion, environmental and noise protection and reduced capacity due to runway and air traffic control (ATC) construction work, among other reasons. London Heathrow International Airport, Frankfurt Rhein-Main Airport, Shanghai Pudong International Airport, Beijing Capital International Airport, Sao Paulo Guarulhos International Airport and Tokyo Haneda International Airport are among the most restrictive foreign airports due to slot and capacity limitations.

The Company s ability to serve some foreign markets and expand into certain others is limited by the absence of aviation agreements between the U.S. government and the relevant foreign governments. Shifts in U.S. or foreign government aviation policies may lead to the alteration or termination of air service agreements. Depending on the nature of any such change, the value of the Company s international route authorities and slot rights may be materially enhanced or diminished.

Environmental Regulation

The airline industry is subject to increasingly stringent federal, state, local and international environmental requirements, including those regulating emissions to air, water discharges, safe drinking water and the use and management of hazardous substances and wastes.

Climate Change. There is an increasing global regulatory focus on greenhouse gas (GHG) emissions and their potential impacts relating to climate change. In October 2013, the International Civil Aviation Organization (ICAO), a United Nations body, agreed to develop a global market based measure to address carbon emissions from international aviation, which was adopted in October 2016. The program, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), is intended to create a single global market-based measure to achieve carbon-neutral growth for international aviation after 2020, which will be achieved through airline purchases of carbon offset credits. Certain CORSIA program details remain to be developed and the impact of CORSIA cannot be fully predicted, but CORSIA is expected to increase operating costs for airlines that operate internationally. In 2016, ICAO also adopted a carbon dioxide (CO2) emission standard for aircraft and the U.S. Environmental Protection Agency has started the process required to adopt the standard. While the precise timing and final form of these various programs and requirements continue to evolve, the Company is taking various actions that are expected to help to reduce its CO2 emissions over time such as fleet renewal, aircraft retrofits and the commercialization of aviation alternative fuels.

Other Regulations. Our operations are subject to a variety of other environmental laws and regulations both in the United States and internationally. These include noise-related restrictions on aircraft types and operating times, which have or could in the future, result in curtailments in services, increased operating costs or limits on expansion. Certain foreign airports and/or governments either have or are seeking to establish environmental fees applicable to carbon emissions, local air quality pollutants and/or noise. In the United States, new regulations affecting underground storage tanks became effective in 2015, which are expected to affect certain airport fuel hydrant systems, potentially impacting operating costs. The implementation of revised national ambient air quality standards for ozone by individual affected states, scheduled for early 2020, is expected to trigger restrictions on mobile sources such as cars, trucks and airport ground support equipment in those jurisdictions where ozone levels exceed the new standards. Finally, environmental cleanup laws can require the Company to undertake or subject the Company to liability for investigation and remediation costs at owned or leased locations or third party disposal locations.

Until applicability of new regulations to our specific operations is better defined and/or when new regulations are finalized, future costs to comply with such regulations will remain uncertain but are likely to increase our operating costs over time. While we continue to monitor these developments, the precise nature of future requirements and their applicability to the Company are difficult to predict, but the financial impact to the Company and the aviation industry could be significant.

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Employees

As of December 31, 2016, UAL, including its subsidiaries, had approximately 88,000 employees. Approximately 80% of the Company s employees were represented by various U.S. labor organizations as of December 31, 2016.

Collective bargaining agreements between the Company and its represented employee groups are negotiated under the RLA. Such agreements typically do not contain an expiration date and instead specify an amendable date, upon which the agreement is considered open for amendment. In 2016, the Company finalized new or extension agreements with all 11 of its U.S. employee groups, including joint collective bargaining agreements with its flight attendants and technicians and related employees.

The following table reflects the Company s represented employee groups, the number of employees per represented group, union representation for each of United s employee groups, and the amendable date for each employee group s collective bargaining agreement as of December 31, 2016:

Employee Group	Number of Employees	Union	Agreement Open for Amendment
Flight Attendants	22,779	Association of Flight Attendants (the AFA)	August 2021
Fleet Service	12,812	International Association of Machinists and Aerospace Workers (the IAM)	December 2021
Passenger Service	12,012	IAM	December 2021
Pilots	11,454	Air Line Pilots Association, International	January 2019
Technicians and Related & Flight Simulator Technicians	9,521	International Brotherhood of Teamsters (the IBT)	December 2022
Storekeeper Employees	977	IAM	December 2021
Dispatchers	396	Professional Airline Flight Control Association	December 2021
Fleet Tech Instructors	128	IAM	December 2021
Load Planners	67	IAM	December 2021
Security Officers	50	IAM	December 2021
Maintenance Instructors	42	IAM	December 2021

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ITEM 1A. RISK FACTORS.

The following risk factors should be read carefully when evaluating the Company s business and the forward-looking statements contained in this report and other statements the Company or its representatives make from time to time. Any of the following risks could materially and adversely affect the Company s business, operating results, financial condition and the actual outcome of matters as to which forward-looking statements are made in this report.

Global economic, political and industry conditions constantly change and unfavorable conditions may have a material adverse effect on the Company s business and results of operations.

The Company s business and results of operations are significantly impacted by global economic and industry conditions. The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the U.S. and global economies. The Company is a global business with operations outside of the United States from which it derives significant operating revenues. The Company s international operations are a vital part of its worldwide airline network. Volatile economic, political and market conditions in these international regions may have a negative impact on the Company s operating results and its ability to achieve its business objectives.

Robust demand for the Company s air transportation services depends largely on favorable economic conditions, including the strength of the domestic and foreign economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. Air transportation is often a discretionary purchase that leisure travelers may limit or eliminate during difficult economic times. In addition, during periods of unfavorable economic conditions, business travelers usually reduce the volume of their travel, either due to cost-saving initiatives or as a result of decreased business activity requiring travel. During such periods, the Company s business and results of operations may be adversely affected due to significant declines in industry passenger demand, particularly with respect to the Company s business and premium cabin travelers, and a reduction in fare levels.

Stagnant or weakening global economic conditions either in the United States or in other geographic regions, and any future volatility in U.S. and global financial and credit markets may have a material adverse effect on the Company s revenues, results of operations and liquidity. If such economic conditions were to disrupt capital markets in the future, the Company may be unable to obtain financing on acceptable terms (or at all) to refinance certain maturing debt and to satisfy future capital commitments.

Recently, United Kingdom (UK) voters voted for the UK to exit the European Union (the EU), a non-binding referendum that, if passed into law, could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British pound and European euro, additional travel restrictions on passengers traveling between the UK and other EU countries and legal uncertainty and potentially divergent national laws and regulations. These adverse effects in European market conditions could negatively impact the Company s business, results of operations and financial condition.

In addition, significant or volatile changes in exchange rates between the U.S. dollar and other currencies may have a material adverse impact upon the Company s liquidity, revenues, costs and operating results.

The airline industry is highly competitive and susceptible to price discounting and changes in capacity, which could have a material adverse effect on the Company.

The U.S. airline industry is characterized by substantial price competition including from low-cost carriers. The significant market presence of low-cost carriers, which engage in substantial price discounting, may diminish our ability to achieve sustained profitability on domestic and international routes.

Airlines also compete for market share by increasing or decreasing their capacity, including route systems and the number of markets served. Several of the Company s domestic and international competitors have increased

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their international capacity by including service to some destinations that the Company currently serves, causing overlap in destinations served and therefore increasing competition for those destinations. This increased competition in both domestic and international markets may have a material adverse effect on the Company s results of operations, financial condition or liquidity.

Terrorist attacks or international hostilities, or the fear of terrorist attacks or hostilities, even if not made directly on the airline industry, could negatively affect the Company and the airline industry.

The terrorist attacks on September 11, 2001 involving commercial aircraft severely and adversely impacted the Company s financial condition and results of operations, as well as the prospects for the airline industry. Among the effects experienced from the September 11, 2001 terrorist attacks were substantial flight disruption costs caused by the FAA-imposed temporary grounding of the U.S. airline industry s fleet, significantly increased security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and passenger revenue.

Additional terrorist attacks, even if not made directly on the airline industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights) could materially and adversely affect the Company and the airline industry. Wars and other international hostilities could also have a material adverse impact on the Company s financial condition, liquidity and results of operations. The Company s financial resources may not be sufficient to absorb the adverse effects of any future terrorist attacks or other international hostilities.

Increasing privacy and data security obligations or a significant data breach may adversely affect the Company s business.

The Company is subject to increasing legislative, regulatory and customer focus on privacy issues and data security. Also, a number of the Company s commercial partners, including credit card companies, have imposed data security standards that the Company must meet and these standards continue to evolve. The Company will continue its efforts to meet its privacy and data security obligations; however, it is possible that certain new obligations may be difficult to meet and could increase the Company s costs. Additionally, the Company must manage evolving cybersecurity risks. The loss, disclosure, misappropriation of or access to customers , employees or business partners information or the Company s failure to meet its obligations could result in legal claims or proceedings, liability or regulatory penalties. A significant data breach or the Company s failure to meet its obligations may adversely affect the Company s reputation, business, results of operations and financial condition.

The Company relies heavily on technology and automated systems to operate its business and any significant failure or disruption of the technology or these systems could materially harm its business.

The Company depends on automated systems and technology to operate its business, including computerized airline reservation systems, flight operations systems, revenue management systems, accounting systems, telecommunication systems and commercial websites, including www.united.com. United s website and other automated systems must be able to accommodate a high volume of traffic, maintain secure information and deliver important flight and schedule information, as well as process critical financial transactions. These systems could suffer substantial or repeated disruptions due to various events, some of which are beyond the Company s control, including natural disasters, power failures, terrorist attacks, equipment or software failures, computer viruses or cyber security attacks. Substantial or repeated systems failures or disruptions, including failures or disruptions related to the Company s complex integration of systems, could reduce the attractiveness of the Company s services versus those of its competitors, materially impair its ability to market its services and operate its flights, result in the unauthorized release of confidential or otherwise protected information, result in increased costs, lost revenue and the loss or compromise of important data, and may adversely affect the Company s business, results of operations and financial condition.

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Current or future litigation and regulatory actions, or failure to comply with the terms of any settlement, order or arrangement relating to these actions, could have a material adverse impact on the Company.

From time to time, we are subject to litigation and other legal and regulatory proceedings relating to our business or investigations or other actions by governmental agencies, including as described in Part I, Item 3 Legal Proceedings of this annual report on Form 10-K. No assurances can be given that the results of these or new matters will be favorable to us. An adverse resolution of lawsuits, arbitrations, investigations or other proceedings or actions could have a material adverse effect on our financial condition and results of operations, including as a result of non-monetary remedies. Defending ourselves in these matters may be time-consuming, expensive and disruptive to normal business operations and may result in significant expense and a diversion of management s time and attention from the operation of our business, which could impede our ability to achieve our business objectives. Additionally, any amount that we may be required to pay to satisfy a judgment, settlement, fine or penalty may not be covered by insurance. If we fail to comply with the terms contained in any settlement, order or agreement with a governmental authority relating to these matters, we could be subject to criminal or civil penalties, which could have a material adverse impact on the Company. Under our charter and certain indemnification agreements that we have entered into (and may in the future enter into) with our officers, directors and certain third parties, we could be required to indemnify and advance expenses to them in connection with their involvement in certain actions, suits, investigations and other proceedings. There can be no assurance that any of these payments will not be material.

Disruptions to the Company s regional network and United Express flights provided by third-party regional carriers could adversely affect the Company s operations and financial condition.

The Company has contractual relationships with various regional carriers to provide regional jet and turboprop service branded as United Express. These regional operations are an extension of the Company s mainline network and complement the Company s operations by carrying traffic that connects to mainline service and allows flights to smaller cities that cannot be provided economically with mainline aircraft. The Company s business and operations are dependent on its regional flight network, with regional capacity accounting for approximately 11% of the Company s total capacity as of December 31, 2016.

Although the Company has agreements with its regional carriers that include contractually agreed performance metrics, the Company does not control the operations of these carriers. A number of factors may impact the Company s regional network, including weather-related effects and seasonality. In addition, the decrease in qualified pilots driven by federal regulations has adversely impacted and could continue to affect the Company s regional flying. For example, the FAA s expansion of minimum pilot qualification standards, including a requirement that a pilot have at least 1,500 total flight hours, as well as the FAA s revised pilot flight and duty time rules, effective January 2014, have contributed to a smaller supply of pilots available to regional carriers. The decrease in qualified pilots resulting from the regulations as well as factors including a decreased student pilot population and a shrinking U.S. military from which to hire qualified pilots, could adversely impact the Company s operations and financial condition, and also require the Company to reduce regional carrier flying.

If a significant disruption occurs to the Company s regional network or flights or if one or more of the regional carriers with which the Company has relationships is unable to perform their obligations over an extended period of time, there could be a material adverse effect on the Company s business, financial condition and operations.

The Company s business relies extensively on third-party service providers. Failure of these parties to perform as expected, or interruptions in the Company s relationships with these providers or their provision of services to the Company, could have an adverse effect on the Company s financial position and results of operations.

The Company has engaged third-party service providers to perform a large number of functions that are integral to its business, including regional operations, operation of customer service call centers, distribution and sale of airline seat inventory, provision of information technology infrastructure and services, transmitting or uploading of data, provision of aircraft maintenance and repairs, provision of various utilities and performance of aircraft

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fueling operations, among other vital functions and services. The Company does not directly control these third-party service providers, although it does enter into agreements with most of them that define expected service performance. Any of these third-party service providers, however, may materially fail to meet their service performance commitments to the Company, may suffer disruptions to their systems that could impact their services, or the agreements with such providers may be terminated. For example, flight reservations booked by customers and travel agencies via third-party GDSs may be adversely affected by disruptions in the business relationships between the Company and GDS operators. Such disruptions, including a failure to agree upon acceptable contract terms when contracts expire or otherwise become subject to renegotiation, may cause the Company s flight information to be limited or unavailable for display, significantly increase fees for both the Company and GDS users and impair the Company s relationships with its customers and travel agencies. The failure of any of the Company s third-party service providers to perform their service obligations adequately, or other interruptions of services, may reduce the Company s revenues and increase its expenses, prevent the Company from operating its flights and providing other services to its customers or result in adverse publicity or harm to its brand. In addition, the Company s business and financial performance could be materially harmed if its customers believe that its services are unreliable or unsatisfactory.

Orders for new aircraft typically must be placed years in advance of scheduled deliveries, and changes in the Company s route network over time may make aircraft on order less economic for the Company, but any modification or termination of such orders could result in material liability for the Company.

The Company s orders for new aircraft are typically made years in advance of actual delivery of such aircraft, and the financial commitment required for purchases of new aircraft is substantial. At December 31, 2016, the Company had firm commitments to purchase 257 new aircraft from The Boeing Company (Boeing), Airbus S.A.S (Airbus) and Embraer S.A. (Embraer), as well as related agreements with engine manufacturers, maintenance providers and others. At December 31, 2016, the Company s commitments relating to the acquisition of aircraft and related spare engines, aircraft improvements and other related obligations aggregated $23.6 billion.

Subsequent to the Company placing an order for new aircraft, the Company s route network may change, such that the aircraft on order become less economic to operate flights in the Company s network. As a result, the Company s preference for a particular aircraft that it has ordered, often years in advance, may be decreased or eliminated. If the Company were to seek to modify or terminate its existing aircraft order commitments, it may be responsible for material obligations to its counterparties arising from any such change. However, the Company expects that any such change that it makes would be in the long-term best economic interest of the Company.

The Company could experience adverse publicity, harm to its brand, reduced travel demand and potential tort liability as a result of an accident, catastrophe, or incident involving its aircraft, the aircraft of its regional carriers or the aircraft of its codeshare partners, which may result in a material adverse effect on the Company s results of operations or financial position.

An accident, catastrophe, or incident involving an aircraft that the Company operates, or an aircraft that is operated by a codeshare partner or one of the Company s regional carriers, could have a material adverse effect on the Company if such accident, catastrophe, or incident created a public perception that the Company s operations, or the operations of its codeshare partners or regional carriers, are not safe or reliable, or are less safe or reliable than other airlines. Such public perception could in turn result in adverse publicity for the Company, cause harm to the Company s brand and reduce travel demand on the Company s flights, or the flights of its codeshare partners or regional carriers.

In addition, any such accident, catastrophe, or incident could expose the Company to significant tort liability. Although the Company currently maintains liability insurance in amounts and of the type the Company believes to be consistent with industry practice to cover damages arising from any such accident or catastrophe, and the Company s codeshare partners and regional carriers carry similar insurance and generally indemnify the

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Company for their operations, if the Company s liability exceeds the applicable policy limits or the ability of another carrier to indemnify it, the Company could incur substantial losses from an accident, catastrophe or incident which may result in a material adverse effect on the Company s results of operations or financial position.

If we experience changes in, or are unable to retain, our senior management team or other key employees, our operating results could be adversely affected.

Much of our future success depends on the continued availability of skilled personnel with industry experience and knowledge, including our senior management team and other key employees. If we are unable to attract and retain talented, highly qualified senior management and other key employees, or if we are unable to effectively provide for the succession of senior management, our business may be adversely affected.

High and/or volatile fuel prices or significant disruptions in the supply of aircraft fuel could have a material adverse impact on the Company s strategic plans, operating results, financial position and liquidity.

Aircraft fuel is critical to the Company s operations and is one of its single largest operating expenses. The timely and adequate supply of fuel to meet operational demand depends on the continued availability of reliable fuel supply sources, as well as related service and delivery infrastructure. Although the Company has some ability to cover short-term fuel supply and infrastructure disruptions at some major demand locations, it can neither predict nor guarantee the continued timely availability of aircraft fuel throughout the Company s system. The Company generally sources fuel at prevailing market prices.

Aircraft fuel has historically been the Company s most volatile operating expense due to the highly unpredictable nature of market prices for fuel. Market prices for aircraft fuel have historically fluctuated substantially in short periods of time and continue to be highly volatile due a dependence on a multitude of unpredictable factors beyond the Company s control. These factors include changes in global crude oil prices, the balance between aircraft fuel supply and demand, natural disasters, prevailing inventory levels and fuel production and transportation infrastructure. Prices of fuel are also impacted by indirect factors that may potentially impact fuel supply or demand balance, such as geopolitical events, economic growth indicators, fiscal/monetary policies, fuel tax policies, environmental concerns and financial investments in energy markets. Both actual changes in these factors, as well as changes in market expectations of these factors can potentially drive rapid changes in fuel price levels in short periods of time.

Given the highly competitive nature of the airline industry, the Company may not be able to increase its fares and fees sufficiently to offset the full impact of increases in fuel prices, especially if these increases are significant, rapid and sustained. Further, such fare and fee increases may not be sustainable, may reduce the general demand for air travel and may also eventually impact the Company s strategic growth and investment plans for the future. In addition, decreases in fuel prices for an extended period of time may result in increased industry capacity, increased competitive actions for market share and lower fares or surcharges in general. If fuel prices were to then subsequently rise quickly, there may be a lag between the rise in fuel prices and any improvement of the revenue environment.

To protect against increases in the market prices of fuel, the Company may hedge a portion of its future fuel requirements. However, the Company s hedging program may not be successful in mitigating higher fuel costs, and any price protection provided may be limited due to choice of hedging instruments and market conditions, including breakdown of correlation between hedging instrument and market price of aircraft fuel and failure of hedge counterparties. To the extent that the Company decides to hedge a portion of its future fuel requirements and uses hedge contracts that have the potential to create an obligation to pay upon settlement if fuel prices decline significantly, such hedge contracts may limit the Company s ability to benefit fully from lower fuel costs in the future. If fuel prices decline significantly from the levels existing at the time the Company enters into a hedge contract, the Company may be required to post collateral (margin) beyond certain thresholds. There can be no assurance that the Company s hedging arrangements will provide any particular level of protection against

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rises in fuel prices or that its counterparties will be able to perform under the Company s hedging arrangements. Additionally, deterioration in the Company s financial condition could negatively affect its ability to enter into new hedge contracts in the future.

See Note 10 to the financial statements included in Part II, Item 8 of this report for additional information on the Company s hedging activities.

Union disputes, employee strikes or slowdowns, and other labor-related disruptions could adversely affect the Company s operations and could result in increased costs that impair its financial performance.

United is a highly unionized company. As of December 31, 2016, the Company and its subsidiaries had approximately 88,000 active employees, of whom approximately 80% were represented by various U.S. labor organizations.

There is a risk that unions or individual employees might pursue judicial or arbitral claims arising out of changes implemented as a result of the Company entering into collective bargaining agreements with its represented employee groups. There is also a possibility that employees or unions could engage in job actions such as slowdowns, work-to-rule campaigns, sick-outs or other actions designed to disrupt the Company s normal operations, in an attempt to pressure the Company in collective bargaining negotiations. Although the RLA makes such actions unlawful until the parties have been lawfully released to self-help, and the Company can seek injunctive relief against premature self-help, such actions can cause significant harm even if ultimately enjoined. In addition, collective bargaining agreements with the Company s represented employee groups increase the Company s labor costs, which increase could be material for any applicable reporting period.

See Notes 15 and 16 to the financial statements included in Part II, Item 8 of this report for additional information on labor negotiations and costs.

An outbreak of a disease or similar public health threat could have a material adverse impact on the Company s business, financial position and results of operations.

An outbreak of a disease or similar public health threat that affects travel demand or travel behavior, or travel restrictions or reduction in the demand for air travel caused by an outbreak of a disease or similar public health threat in the future, could have a material adverse impact on the Company s business, financial condition and results of operations.

Extensive government regulation could increase the Company s operating costs and restrict its ability to conduct its business.

Airlines are subject to extensive regulatory and legal oversight. Compliance with U.S. and international regulations imposes significant costs and may have adverse effects on the Company. Laws, regulations, taxes and airport rates and charges, both domestically and internationally, have been proposed from time to time that could significantly increase the cost of airline operations or reduce airline revenue.

United provides air transportation under certificates of public convenience and necessity issued by the DOT. If the DOT altered, amended, modified, suspended or revoked these certificates, it could have a material adverse effect on the Company s business. The FAA regulates the safety of United s operations. United operates pursuant to an air carrier operating certificate issued by the FAA. In January 2014, the FAA s more stringent pilot flight and duty time requirements under Part 117 of the Federal Aviation Regulations took effect, which has increased costs for all carriers. In July 2014, minimum qualifications took effect for air carrier first officers. These regulations will continue to impact the industry and the Company for years to come, as they have caused mainline airlines to hire regional pilots, while simultaneously significantly reducing the pool of new pilots from which regional carriers themselves can hire. Although this is an industry issue, it directly affects the Company and requires it to reduce regional partner flying, as several regional partners have experienced difficulty flying their schedules due to reduced pilot availability. From time to time, the FAA also issues orders, airworthiness

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directives and other regulations relating to the maintenance and operation of aircraft that require material expenditures or operational restrictions by the Company. These FAA orders and directives could include the temporary grounding of an entire aircraft type if the FAA identifies design, manufacturing, maintenance or other issues requiring immediate corrective action. These FAA directives or requirements could have a material adverse effect on the Company.

In addition, the Company s operations may be adversely impacted due to the existing antiquated ATC system utilized by the U.S. government. During peak travel periods in certain markets, the current ATC system s inability to handle ATC demand has led to short-term capacity constraints imposed by government agencies and resulted in delays and disruptions of air traffic. In addition, the current system will not be able to effectively handle projected future air traffic growth. Imposition of these ATC constraints on a long-term basis may have a material adverse effect on the Company s operations. Failure to update the ATC system in a timely manner, and the substantial funding requirements of a modernized ATC system that may be imposed on air carriers may have an adverse impact on the Company s financial condition or results of operations.

Access to landing and take-off rights, or slots, at several major U.S. airports and many foreign airports served by the Company are, or recently have been, subject to government regulation. Certain of the Company s major hubs are among the most congested airports in the United States and have been or could be the subject of regulatory action that might limit the number of flights and/or increase costs of operations at certain times or throughout the day. The FAA may limit the Company s airport access by limiting the number of departure and arrival slots at high density traffic airports, which could affect the Company s ownership and transfer rights, and local airport authorities may have the ability to control access to certain facilities or the cost of access to their facilities, which could have an adverse effect on the Company s business. The FAA historically has taken actions with respect to airlines slot holdings that airlines have challenged; if the FAA were to take actions that adversely affect the Company s slot holdings, the Company could incur substantial costs to preserve its slots or may lose slots. If slots are eliminated at an airport, or if the number of hours of operation governed by slots is reduced at an airport, the lack of controls on takeoffs and landings could result in greater congestion both at the affected airport or in the regional airspace (e.g., the New York City metropolitan region airspace) and could significantly impact the Company s operations. Further, the Company s operating costs at airports, including the Company s major hubs, may increase significantly because of capital improvements at such airports that the Company may be required to fund, directly or indirectly. Such costs could be imposed by the relevant airport authority without the Company s approval and may have a material adverse effect on the Company s financial condition.

The ability of carriers to operate flights on international routes between the United States and other countries may be subject to change. Applicable arrangements between the United States and foreign governments may be amended from time to time, government policies with respect to airport operations may be revised, and the availability of appropriate slots or facilities may change. The Company currently operates a number of flights on international routes under government arrangements, regulations or policies that designate the number of carriers permitted to operate on such routes, the capacity of the carriers providing services on such routes, the airports at which carriers may operate international flights, or the number of carriers allowed access to particular airports. Any further limitations, additions or modifications to such arrangements, regulations or policies could have a material adverse effect on the Company s financial position and results of operations. Additionally, a change in law, regulation or policy for any of the Company s international routes, such as Open Skies, could have a material adverse impact on the Company s financial position and results of operations and could result in the impairment of material amounts of related tangible and intangible assets. In addition, competition from revenue-sharing joint ventures and other alliance arrangements by and among other airlines could impair the value of the Company s business and assets on the Open Skies routes. The Company s plans to enter into or expand U.S. antitrust immunized alliances and joint ventures on various international routes are subject to receipt of approvals from applicable U.S. federal authorities and obtaining other applicable foreign government clearances or satisfying the necessary applicable regulatory requirements. There can be no assurance that such approvals and clearances will be granted or will continue in effect upon further regulatory review or that changes in regulatory requirements or standards can be satisfied.

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Many aspects of the Company s operations are also subject to increasingly stringent federal, state, local and international laws protecting the environment. Future environmental regulatory developments, such as climate change regulations in the United States and abroad could adversely affect operations and increase operating costs in the airline industry. In addition, there is the potential for additional regulatory actions in regard to the emission of GHGs by the aviation industry. The precise nature of future requirements and their applicability to the Company are difficult to predict, but the financial impact to the Company and the aviation industry would likely be adverse and could be significant.

In 2017, the U.S. Congress will continue to consider legislation to reauthorize the FAA, which encompasses all significant aviation tax and policy related issues. As with previous reauthorization legislation, the U.S. Congress may consider a range of policy changes that could impact the Company s operations and costs.

See Part I, Item 1, Business Industry Regulation, of this report for additional information on government regulation impacting the Company.

The airline industry may undergo further change with respect to alliances and joint ventures or due to consolidations, any of which could have a material adverse effect on the Company.

The Company faces and may continue to face strong competition from other carriers due to the modification of alliances and formation of new joint ventures. Carriers may improve their competitive positions through airline alliances, slot swaps and/or joint ventures. Certain types of airline joint ventures further competition by allowing multiple airlines to coordinate routes, pool revenues and costs, and enjoy other mutual benefits, achieving many of the benefits of consolidation. Open Skies agreements, including the agreements between the United States and the EU and between the United States and Japan, may also give rise to better integration opportunities among international carriers. Movement of airlines between current global airline alliances could reduce joint network coverage for members of such alliances while also creating opportunities for joint ventures and bilateral alliances that did not exist before such realignment. There is ongoing speculation that further airline and airline alliance consolidations or reorganizations could occur in the future, especially if new Open Skies agreements between Brazil and the United States are fully implemented. The Company routinely engages in analysis and discussions regarding its own strategic position, including current and potential alliances, asset acquisitions and divestitures and may have future discussions with other airlines regarding strategic activities. If other airlines participate in such activities, those airlines may significantly improve their cost structures or revenue generation capabilities, thereby potentially making them stronger competitors of the Company and potentially impairing the Company s ability to realize expected benefits from its own strategic relationships.

Insufficient liquidity may have a material adverse effect on the Company s financial position and business.

The Company has a significant amount of financial leverage from fixed obligations, including aircraft lease and debt financings, leases of airport property and other facilities, and other material cash obligations. In addition, the Company has substantial noncancelable commitments for capital expenditures, including for the acquisition of new aircraft and related spare engines.

Although the Company s cash flows from operations and its available capital, including the proceeds from financing transactions, have been sufficient to meet these obligations and commitments to date, the Company s future liquidity could be negatively affected by the risk factors discussed in this Item 1A., including, but not limited to, substantial volatility in the price of fuel, adverse economic conditions, disruptions in the global capital markets and catastrophic external events.

If the Company s liquidity is materially diminished due to the various risk factors noted in this Item 1A. or otherwise, the Company might not be able to timely pay its leases and debts or comply with certain operating and financial covenants under its financing and credit card processing agreements or with other material provisions of its contractual obligations. Certain of these covenants require the Company or United, as applicable, to maintain minimum liquidity and/or minimum collateral coverage ratios. The Company s or United s ability to comply with these covenants may be affected by events beyond its control, including the overall industry revenue environment, the level of fuel costs and the appraised value of the collateral.

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If the Company does not timely pay its leases and debts or comply with such covenants, a variety of adverse consequences could result. These potential adverse consequences include an increase of required reserves under credit card processing agreements, withholding of credit card sale proceeds by its credit card service providers, loss of undrawn lines of credit, the occurrence of one or more events of default under the relevant agreements, the acceleration of the maturity of debt and/or the exercise of other remedies by its creditors and equipment lessors that could result in a material adverse effect on the Company s financial position and results of operations. The Company cannot provide assurance that it would have sufficient liquidity to repay or refinance such debt if it were accelerated. In addition, an event of default or acceleration of debt under certain of its financing agreements could result in one or more events of default under certain of the Company s other financing agreements due to cross default and cross acceleration provisions.

Furthermore, insufficient liquidity may limit the Company s ability to withstand competitive pressures and downturns in the travel business and the economy in general.

The Company s substantial level of indebtedness and non-investment grade credit rating, as well as market conditions and the availability of assets as collateral for loans or other indebtedness, may make it difficult for the Company to raise additional capital if needed to meet its liquidity needs on acceptable terms, or at all.

See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this report for additional information regarding the Company s liquidity.

Increases in insurance costs or reductions in insurance coverage may materially and adversely impact the Company s results of operations and financial condition.

The Company could be exposed to significant liability or loss if its property or operations were to be affected by a natural catastrophe or other event, including aircraft accidents. If the Company is unable to obtain sufficient insurance (including but not limited to terrorism, aviation hull and liability, workers compensation and property and business interruption insurance) with acceptable terms or if the coverage obtained is insufficient relative to actual liability or losses that the Company experiences, whether due to insurance market conditions or otherwise, its results of operations and financial condition could be materially and adversely affected.

The Company s results of operations fluctuate due to seasonality and other factors associated with the airline industry.

Due to greater demand for air travel during the spring and summer months, revenues in the airline industry in the second and third quarters of the year are generally stronger than revenues in the first and fourth quarters of the year, which are periods of lower travel demand. The Company s results of operations generally reflect this seasonality, but have also been impacted by numerous other factors that are not necessarily seasonal including, among others, the imposition of excise and similar taxes, extreme or severe weather, ATC congestion, geological events, natural disasters, changes in the competitive environment due to industry consolidation, general economic conditions and other factors. As a result, the Company s quarterly operating results are not necessarily indicative of operating results for an entire year and historical operating results in a quarterly or annual period are not necessarily indicative of future operating results.

The Company may never realize the full value of its intangible assets or its long-lived assets causing it to record impairments that may negatively affect its financial position and results of operations.

In accordance with applicable accounting standards, the Company is required to test its indefinite-lived intangible assets for impairment on an annual basis, or more frequently if conditions indicate that an impairment may have occurred. In addition, the Company is required to test certain of its other assets for impairment if conditions indicate that an impairment may have occurred.

The Company may be required to recognize impairments in the future due to, among other factors, extreme fuel price volatility, tight credit markets, a decline in the fair value of certain tangible or intangible assets,

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unfavorable trends in historical or forecasted results of operations and cash flows and an uncertain economic environment, as well as other uncertainties. The Company can provide no assurance that a material impairment charge of tangible or intangible assets will not occur in a future period. The value of the Company s aircraft could be impacted in future periods by changes in supply and demand for these aircraft. Such changes in supply and demand for certain aircraft types could result from grounding of aircraft by the Company or other carriers. An impairment charge could have a material adverse effect on the Company s financial position and results of operations.

The Company s ability to use its net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be significantly limited due to various circumstances, including certain possible future transactions involving the sale or issuance of UAL common stock, or if taxable income does not reach sufficient levels.

As of December 31, 2016, UAL reported consolidated federal net operating loss (NOL) carryforwards of approximately $4.4 billion.

The Company s ability to use its NOL carryforwards may be limited if it experiences an ownership change as defined in Section 382 (Section 382) of the Internal Revenue Code of 1986, as amended. An ownership change generally occurs if certain stockholders increase their aggregate percentage ownership of a corporation s stock by more than 50 percentage points over their lowest percentage ownership at any time during the testing period, which is generally the three-year period preceding any potential ownership change.

There is no assurance that the Company will not experience a future ownership change under Section 382 that may significantly limit or possibly eliminate its ability to use its NOL carryforwards. Potential future transactions involving the sale or issuance of UAL common stock, including the exercise of conversion options under the terms of any convertible debt that UAL may issue in the future, the repurchase of such debt with UAL common stock, any issuance of UAL common stock for cash, and the acquisition or disposition of such stock by a stockholder owning 5% or more of UAL common stock, or a combination of such transactions, may increase the possibility that the Company will experience a future ownership change under Section 382.

Under Section 382, a future ownership change would subject the Company to additional annual limitations that apply to the amount of pre-ownership change NOLs that may be used to offset post-ownership change taxable income. This limitation is generally determined by multiplying the value of a corporation s stock immediately before the ownership change by the applicable long-term tax-exempt rate. Any unused annual limitation may, subject to certain limits, be carried over to later years, and the limitation may under certain circumstances be increased by built-in gains in the assets held by such corporation at the time of the ownership change. This limitation could cause the Company s U.S. federal income taxes to be greater, or to be paid earlier, than they otherwise would be, and could cause all or a portion of the Company s NOL carryforwards to expire unused. Similar rules and limitations may apply for state income tax purposes. The Company s ability to use its NOL carryforwards will also depend on the amount of taxable income it generates in future periods. Its NOL carryforwards may expire before the Company can generate sufficient taxable income to use them in full.

Our significant investments in airlines in other parts of the world and the commercial relationships that we have with those carriers may not produce the returns or results we expect.

An important part of our strategy to expand our global network includes making significant investments in airlines in other parts of the world and expanding our commercial relationships with these carriers. In 2015, we made a $100 million investment in Azul Linhas Aéreas Brasileiras S.A. (Azul) and enhanced our commercial arrangements with Azul. We expect to continue exploring similar non-controlling investments in, and entering into joint ventures, commercial agreements, loan transactions and strategic alliances with, other carriers as part of our global business strategy. These transactions and relationships (including our strategic partnership with, and investment in, Azul) involve significant challenges and risks, including that we may not realize a satisfactory return on our investment, that we may not receive repayment of invested funds, that they may distract

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management from our operations or that they may not generate the expected revenue synergies. These events could have a material adverse effect on our operating results or financial condition.

In addition, we are dependent on these other carriers for significant aspects of our network in the regions in which they operate. While we work closely with these carriers, we do not have control over their operations or business methods. We may be subject to consequences from any improper behavior of joint venture partners, including for failure to comply with anti-corruption laws such as the United States Foreign Corrupt Practices Act. Furthermore, our relationships with these carriers may be subject to the laws and regulations of non-U.S. jurisdictions in which these carriers are located or conduct business. Any political or regulatory change in these jurisdictions that negatively impact or prohibit our arrangements with these carriers could have an adverse effect on our results of operations or financial condition. To the extent that the operations of any of these carriers are disrupted over an extended period of time or their actions subject us to the consequences of failure to comply with laws and regulations, our results of operations may be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

Fleet

Including aircraft operated by United s regional carriers, United s fleet consisted of 1,231 aircraft as of December 31, 2016, the details of which are presented in the tables below:

Aircraft Type	Total	Owned	Leased	Seats in Standard Configuration	Average Age (In Years)
Mainline:					
747-400	20	15	5	374	20.9
777-300ER	2	2		366	
777-200ER	55	38	17	267-269	16.8
777-200	19	19		266-364	19.5
787-9	18	18		252	1.4
787-8	12	12		219	3.5
767-400ER	16	14	2	242	15.3
767-300ER	35	22	13	183-214	21.5
757-300	21	9	12	213	14.3
757-200	56	47	9	142-169	19.9
737-900ER	136	136		167-179	4.0
737-900	12	8	4	167-179	15.3
737-800	137	64	73	154-166	13.2
737-700	40	14	26	118-126	17.8
A320-200	97	57	40	150	18.5
A319-100	61	47	14	128	16.3
Total mainline	737	522	215		13.9

Aircraft Type	Capacity Purchase Agreement Total	Owned	Leased	Owned or Leased by Regional Carrier	Regional Carrier Operator and Number of Aircraft	Seats in Standard Configuration
Regional:						
Embraer E175	118	30		88	SkyWest: 54 Mesa: 48 Republic: 16	76
Embraer 170	38			38	Republic: 34 Shuttle: 4	70
CRJ700	79			79	SkyWest: 34 GoJet: 25 Mesa: 20	70
CRJ200	50		29	21	SkyWest: 50	50
Embraer ERJ 145 (XR/LR/ER)	183	16	167		ExpressJet: 139 Trans States: 34 CommutAir: 10	50
Q300	5			5	CommutAir: 5	50
Embraer ERJ 135	5		5		ExpressJet: 5	37

Q200	16			16	CommutAir: 16	37
Total regional	494	46	201	247		
Total	1,231	568	416	247		

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In addition to the aircraft presented in the tables above, United owns or leases the following aircraft listed below as of December 31, 2016:

- One owned Boeing 767-200, which is being subleased to another airline;
- Four Boeing 757-200s, which are owned and being held for disposition;
- Ten leased Embraer ERJ 135s, which are permanently grounded; and
- Three owned Embraer ERJ 145s, which are temporarily grounded.

Firm Order and Option Aircraft

As of December 31, 2016, United had firm commitments and options to purchase aircraft from Boeing, Embraer and Airbus presented in the table below:

Aircraft Type	Number of Firm Commitments (a)
Airbus A350-1000	35
Boeing 737NG/737MAX	165
Boeing 777-300ER	12
Boeing 787-8/-9/-10	21
Embraer E175	24

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

In 2016, United announced a modification to its then-existing narrow body order book by converting its original order for 65 Boeing 737-700 aircraft into four 737-800s to be delivered in 2017 and 61 Boeing 737MAX aircraft with delivery dates to be determined.

The aircraft listed in the table above are scheduled for delivery from 2017 through 2027. In 2017, United expects to take delivery of four Boeing 737NG aircraft, three Boeing 787-9 aircraft, 12 Boeing 777-300ER aircraft, 24 Embraer aircraft and six used Airbus A319s. In addition, up to 14 additional used Airbus A319s may be delivered between 2018 and 2021, subject to certain conditions. 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. See Notes 11 and 15 to the financial statements included in Part II, Item 8 of this report for additional information.

Facilities

United s principal facilities relate to leases of airport facilities, gates, hangar sites, terminal buildings and other facilities in the municipalities it serves. United has major terminal facility leases at SFO, Washington Dulles, Chicago O Hare, LAX, Denver, Newark, Houston Bush, Hopkins International Airport and Guam with expiration dates ranging from 2018 to 2041. Substantially all of these facilities are leased on a net-rental basis, resulting in the Company s responsibility for maintenance, insurance and other facility-related expenses and services.

United also maintains administrative offices, catering, cargo, training facilities, maintenance facilities and other facilities to support operations in the cities served. United also has multiple leases, which expire from 2017 through 2029 for its principal executive office and operations center in downtown Chicago, and certain administrative offices in downtown Houston.

ITEM 3. LEGAL PROCEEDINGS.

On June 30, 2015, UAL received a Civil Investigative Demand (CID) from the Antitrust Division of the DOJ seeking documents and information from the Company in connection with a DOJ investigation related to statements and decisions about airline capacity. The Company is working with the DOJ and has completed its response to the CID. The Company is not able to predict what action, if any, might be taken in the future by the DOJ or other governmental authorities as a result of the investigation. Beginning on July 1, 2015, subsequent to the announcement of the CID, UAL and United were named as defendants in multiple class action lawsuits that

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asserted claims under the Sherman Antitrust Act, which have been consolidated in the United States District Court for the District of Columbia. The complaints generally allege collusion among U.S. airlines on capacity impacting airfares and seek treble damages. The Company intends to vigorously defend against the class action lawsuits.

On October 13, 2015, United received a CID from the Civil Division of the DOJ. The CID requested documents and oral testimony from United in connection with an industry-wide DOJ investigation related to delivery scan and other data purportedly required for payment for the carriage of mail under United s International Commercial Air Contracts with the United States Postal Service. The Company has been responding to the DOJ s request and cooperating in the investigation since that time. On November 8, 2016, the DOJ Criminal Division met with representatives from the Company and advised they are conducting an industry-wide investigation into the same matter. The Company is also cooperating with the government in this aspect of their investigation and on December 21, 2016 representatives from the Company met with both the Civil and Criminal Divisions to provide additional information. The Company cannot predict what action, if any, might be taken in the future by the DOJ or other governmental authorities as a result of these investigations.

As disclosed in the Company s prior two Annual Reports on Form 10-K for fiscal years 2014 and 2015, the Company and certain of its current and former executive officers and employees received federal grand jury subpoenas requesting records and testimony related to certain individuals formerly associated with the Port Authority of New York and New Jersey and related operations of the Company. As announced on September 8, 2015, certain of the Company s executives stepped down in connection with its related internal investigation. The Company cooperated with the investigation by the USAO in respect of the Port Authority matter and, as announced on July 14, 2016, the Company reached a resolution in the form of a Non-Prosecution Agreement with the USAO. As announced on December 2, 2016, the Company also resolved the previously disclosed related investigation by the SEC in respect of the Port Authority matter.

Other Legal Proceedings

The Company is involved in various other claims and legal actions involving passengers, customers, suppliers, employees and government agencies arising in the ordinary course of business. Additionally, from time to time, the Company becomes aware of potential non-compliance with applicable environmental regulations, which have either been identified by the Company (through internal compliance programs such as its environmental compliance audits) or through notice from a governmental entity. In some instances, these matters could potentially become the subject of an administrative or judicial proceeding and could potentially involve monetary sanctions. After considering a number of factors, including (but not limited to) the views of legal counsel, the nature of contingencies to which the Company is subject and prior experience, management believes that the ultimate disposition of these other claims and legal actions will not materially affect its consolidated financial position or results of operations. However, the ultimate resolutions of these matters are inherently unpredictable. As such, the Company s financial condition and results of operations could be adversely affected in any particular period by the unfavorable resolution of one or more of these matters.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

UAL s common stock is listed on the New York Stock Exchange (NYSE) under the symbol UAL. The following table sets forth the ranges of high and low sales prices per share of UAL common stock during the last two fiscal years, as reported by the NYSE:

	UAL			
	2016		2015	
	High	Low	High	Low
1st quarter	$ 61.41	$ 42.17	$ 74.52	$ 62.37
2nd quarter	58.90	37.41	65.85	49.85
3rd quarter	54.53	37.64	62.21	49.20
4th quarter	76.80	51.34	61.87	49.76

Based on reports by the Company s transfer agent for UAL common stock, as of February 13, 2017, there were 8,049 holders of record of UAL common stock.

UAL did not pay any dividends in 2016 or 2015. Under the restricted payment provisions of the Company s Credit and Guaranty Agreement, dated as of March 27, 2013 (the Credit Agreement), and certain indentures, UAL s ability to pay dividends on or repurchase UAL s common stock is subject to limits on the amount of such payments and to certain conditions, including that no default or event of default exists under those instruments and that after giving effect to the making of any such payments, UAL would be in compliance with a minimum fixed charge coverage ratio. Any future determination regarding dividend or distribution payments will be at the discretion of the UAL Board of Directors, subject to the foregoing limits and applicable limitations under Delaware law.

United paid dividends of $2.6 billion and $1.2 billion to UAL in 2016 and 2015, respectively.

The following graph shows the cumulative total stockholder return for UAL s common stock during the period from December 31, 2011 to December 31, 2016. The graph also shows the cumulative returns of the Standard and Poor s (S&P) 500 Index and the NYSE Arca Airline Index (AAI) of 15 investor-owned airlines. The comparison assumes $100 was invested on December 31, 2011 in UAL common stock.

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Note: The stock price performance shown in the graph above should not be considered indicative of potential future stock price performance. The foregoing performance graph is being furnished as part of this report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act or the Exchange Act.

The following table presents repurchases of UAL common stock made in the fourth quarter of 2016:

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)
October 1, 2016 through October 31, 2016	1,282,714	$ 54.19	1,282,714	$ 1,930
November 1, 2016 through November 30, 2016	1,368,204	62.96	1,368,204	1,844
December 1, 2016 through December 31, 2016				1,844
Total	2,650,918		2,650,918	

(a) In 2016, UAL repurchased approximately 50 million shares of UAL common stock for $2.6 billion. In July 2016, UAL s Board of Directors authorized a $2 billion share repurchase program to acquire UAL s common stock. As of December 31, 2016, the Company had approximately $1.8 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 units. The United Continental Holdings, Inc. 2008 Incentive Compensation Plan provides for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock units. However, this plan does not specify a maximum number of shares that may be withheld for this purpose. A total of 502 shares were withheld under this plan in the fourth quarter of 2016 at an average share price of $62.50. 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. SELECTED FINANCIAL DATA.

UAL s consolidated financial statements and statistical data are provided in the tables below:

	Year Ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
Income Statement Data (in millions, except per share amounts):					
Operating revenue	$ 36,556	$ 37,864	$ 38,901	$ 38,279	$ 37,152
Operating expense	32,218	32,698	36,528	37,030	37,113
Operating income	4,338	5,166	2,373	1,249	39
Net income (loss)	2,263	7,340	1,132	571	(723)
Basic earnings (loss) per share	6.86	19.52	3.05	1.64	(2.18)
Diluted earnings (loss) per share	6.85	19.47	2.93	1.53	(2.18)
Balance Sheet Data at December 31 (in millions):					
Unrestricted cash, cash equivalents and short-term investments	$ 4,428	$ 5,196	$ 4,384	$ 5,121	$ 6,543
Total assets	40,140	40,861	36,595	36,021	36,963
Debt and capital lease obligations	11,705	11,759	11,947	12,293	13,043

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	Year Ended December 31,				
Mainline	**2016**	**2015**	**2014**	**2013**	**2012**
Passengers (thousands) (a)	101,007	96,327	91,475	91,329	93,595
Revenue passenger miles (RPMs) (millions) (b)	186,181	183,642	179,015	178,578	179,416
Available seat miles (ASMs) (millions) (c)	224,692	219,989	214,105	213,007	216,330
Cargo ton miles (millions)	2,805	2,614	2,487	2,213	2,460
Passenger load factor (d)	82.9%	83.5%	83.6%	83.8%	82.9%
Passenger revenue per available seat mile (PRASM) (cents)	11.31	11.97	12.51	12.20	11.93
Total revenue per available seat mile (cents)	13.50	14.19	14.81	14.51	13.92
Average yield per revenue passenger mile (Yield) (cents) (e)	13.65	14.34	14.96	14.56	14.38
Cost per available seat mile (CASM) (cents)	12.22	12.42	14.03	14.31	14.12
Average price per gallon of fuel, including fuel taxes	$ 1.49	$ 1.96	$ 2.98	$ 3.12	$ 3.27
Fuel gallons consumed (millions)	3,261	3,216	3,183	3,204	3,275
Average stage length (miles) (f)	1,859	1,922	1,958	1,934	1,895
Average daily utilization of each aircraft (hours) (g)	10:06	10:24	10:26	10:28	10:38
Consolidated					
Passengers (thousands) (a)	143,177	140,369	138,029	139,209	140,441
RPMs (millions) (b)	210,309	208,611	205,559	205,167	205,485
ASMs (millions) (c)	253,590	250,003	246,021	245,354	248,860
Passenger load factor (d)	82.9%	83.4%	83.6%	83.6%	82.6%
PRASM (cents)	12.40	13.11	13.72	13.50	13.09
Total revenue per available seat mile (cents)	14.42	15.15	15.81	15.60	14.93
Yield (cents) (e)	14.96	15.72	16.42	16.14	15.86
CASM (cents)	12.70	13.08	14.85	15.09	14.91
Average price per gallon of fuel, including fuel taxes	$ 1.49	$ 1.94	$ 2.99	$ 3.13	$ 3.27
Fuel gallons consumed (millions)	3,904	3,886	3,905	3,947	4,016
Average stage length (miles) (f)	1,473	1,487	1,480	1,445	1,429

(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) RPM divided by ASM.

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

(f) Average stage length equals the average distance a flight travels weighted for size of aircraft.

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

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ITEM 7. 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). 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.

2016 Financial Highlights

2016 net income was $2.3 billion, or $6.85 diluted earnings per share.

United s consolidated PRASM decreased 5.4% in 2016 compared to 2015.

Aircraft fuel cost decreased 23% year-over-year due mainly to lower fuel prices.

2016 CASM decreased 2.9% year-over-year on a consolidated capacity increase of 1.4%.

In 2016, UAL repurchased approximately 50 million shares of UAL common stock for $2.6 billion. As of December 31, 2016, the Company had approximately $1.8 billion remaining to purchase shares under its share repurchase program.

UAL ended the year with $5.8 billion in unrestricted liquidity, which consisted of unrestricted cash, cash equivalents, short-term investments and available capacity under the revolving credit facility of the Company s Credit Agreement.

2016 Operational Highlights

Consolidated RPMs for 2016 increased 0.8% as compared to 2015, and consolidated ASMs increased 1.4% from the prior year, resulting in a consolidated load factor of 82.9% in 2016 versus 83.4% in 2015.

For 2016 and 2015, the Company recorded a DOT on-time arrival rate of 81.3% and 78.1%, respectively, and a system completion factor of 99.0% and 98.7%, respectively.

The Company took delivery of five new Boeing 787-9 Dreamliners, eight new Boeing 737-900ERs, seven new Boeing 737-800s, two new Boeing 777-300ERs and six used Airbus A319s. United exited from scheduled service four Boeing 757-200s, 16 Embraer ERJ 145s and two Boeing 747-400s. The Company took delivery of the first Boeing 777-300ER in the Company s fleet, named the New Spirit of United, featuring the all-new United Polaris business class seat.

The Company introduced new products to its industry-leading existing portfolio of products such as United Polaris service and announced Basic Economy fares which will expand its customers options.

During 2016, the Company reached new agreements with every domestic unionized work group.

Outlook

Set forth below is a discussion of the principal matters that we believe could impact our financial and operating performance and cause our results of operations in future periods to differ materially from our historical operating results and/or from our anticipated results of operations described in the forward-looking statements in this report. See Part I, Item 1A., Risk Factors, of this report and the factors described under Forward-Looking Information below for additional discussion of these and other factors that could affect us.

The Company is committed to improving the efficiency and quality of all aspects of its business in 2017. In order to continue improving operational performance in 2017, our top focus will be on further improvements in completion factor, departure performance and baggage handling.

As outlined at our 2016 Investor Day presentation, the Company expects to drive significant incremental value by 2020 relative to 2015. United anticipates capturing this value through a variety of initiatives including a re-fleeting and upgauge program, additional customer choice through segmentation, improvements to the revenue management systems, ongoing sensible cost management, realizing our full network potential through improved schedule quality and enhancements to the MileagePlus program. In addition, the Company will continue to focus on improving reliability while increasing the efficiency of the operation.

Economic Conditions. The economic outlook for the aviation industry in 2017 is characterized by moderate U.S. and global economic growth. In such conditions, we expect a moderate increase in the demand for air travel. Continuing economic uncertainty, along with the strengthening U.S. dollar, is providing uncertainty in key Asian, South American and European markets, and continued political and socioeconomic tensions may result in diminished demand for air travel.

Capacity. In 2017, the Company expects consolidated ASMs to grow between 1% and 2% year-over-year.

Fuel. The Company s average aircraft fuel price per gallon including related taxes was $1.49 in 2016 as compared to $1.94 in 2015. Since 2014, the price of jet fuel has declined and remains volatile. Based on projected fuel consumption in 2017, a one dollar change in the price of a barrel of crude oil would change the Company s annual fuel expense by approximately $95 million.

Labor. As of December 31, 2016, United had approximately 80% of employees represented by unions. In 2016, United reached contract extensions with its pilots and dispatchers, amended collective bargaining agreements with its IAM represented employees, reached a five-year contract with the AFA covering all of its flight attendants and reached a six-year contract with the IBT covering its technicians and related employees. Additionally, the Company will be increasing pay for its pilots in order to align with a recently implemented contract of another airline. The costs associated with all these agreements is expected to add approximately $900 million of costs for full-year 2017. The Company cannot predict the outcome of future negotiations with its unionized employee groups. Increases in the pay and benefits resulting from new collective bargaining agreements could have a material financial impact on the Company.

Results of Operations

In this section, we compare results of operations for the year ended December 31, 2016 with results of operations for the year ended December 31, 2015, and results of operations for the year ended December 31, 2015 with results of operations for the year ended December 31, 2014.

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2016 compared to 2015

Operating Revenue

The table below illustrates the year-over-year percentage change in the Company s operating revenues for the years ended December 31 (in millions, except percentage changes):

	2016	2015	Increase (Decrease)	% Change
Passenger Mainline				