HD **Event Brief of Q3 2014 United Continental Holdings Inc Earnings Call - Final**

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OVERVIEW

UAL reported 3Q14 pretax earnings of $1.1b and diluted EPS of $2.75.

FINANCIAL DATA

1. 3Q14 pretax earnings = $1.1b.

2. 3Q14 diluted EPS = $2.75.

3. 3Q14 operating margin = 11.7%.

4. 3Q14 CapEx = $493m.

5. 3Q14 stock repurchase = $220m.

PRESENTATION SUMMARY -

Annotation (J.I.)

1. Note:

1. Unless otherwise noted, special charges are excluded in numbers for qtr.

3Q14 Review (J.S.)

1. Highlights:

1. Pretax earnings $1.1b.

1. Highest quarterly profit Co.'s history.

2. Diluted EPS $2.75.

1. Nearly double 3Q13.

3. Good revenue and cost performance.

4. Revenue results demonstrate progress made in:

1. Revenue management.

2. Network.

3. Express operation.

5. Solid cost performance largely reflects early results of project quality, designed to deliver $2b of annual cost savings by 2017.

6. Returned $220m in cash to shareholders under $1b share buyback program.

7. Responded to multi-week outage of Aurora en route FAA facility; significantly affected **operations**.

8. So far this year, made number of operational improvements.

1. Will continue to focus on:

1. Reliability.

2. Product.

2. Goal, delivering:

1. Flier-friendly service.

2. Competitive product.

3. Competitive margins.

9. Taking steps to improve customer experience for passengers, including:

1. Installing in-flight satellite-based WiFi and streaming video on mainline fleet.

2. Adding WiFi and streaming video on two-cabin regional fleet.

10. As of today, has WiFi in more than half of mainline aircraft.

1. Nearly 200 equipped with streaming video.

2. By year-end, two-thirds of mainline fleet will have WiFi.

1. Will have begun installation on two-cabin regional fleet.

11. Progress shows that plan is working.

3Q14 Revenue & Capacity (J.C.)

1. Highlights:

1. Consolidated PRASM grew 3.9% on 0.5% capacity growth YoverY.

2. Pacific network improvement paying off.

3. New routes to Chengdu and Taipei performed better than expectations.

4. Strong results from:

1. Transforming Narita flying.

2. Re-gauging Australian routes.

5. High demand for **China** service during peak summer travel season helped offset pressure from continued industry capacity growth.

6. Transatlantic Flying:

1. Absorbed additional competitive capacity.

2. Better-than-expected performance, largely driven by strong premium cabin bookings, particularly in London.

3. Entity experienced several recent pressures, including:

1. Middle East unrest.

2. Ukrainian conflict.

3. More recently, concern about Ebola.

4. Not seen any meaningful impact on bookings to-date.

7. Latin America:

1. Markets, particularly deep South America, exceeded expectations, recovering more quickly from World Cup slowdown than initially anticipated.

8. Revenue from total corporate portfolio, including rapidly growing PerksPlus product, grew approx. 5%.

1. Ancillary revenue:

1. Increased approx. 11% per passenger.

2. On track to achieve $3b in 2014.

2. Economy Plus revenue up double-digits due to enhanced pricing optimization and lower refund rate.

1. Decreased refund rate by implementing improved solution for reseating customers during aircraft swaps.

2. Recently began selling Economy Plus through Amadeus and Sabre distribution systems, allowing travel management partners and travel agencies to seamlessly book extra-legroom seats for customers, further driving additional Economy Plus sales.

3. Improved revenue thus far.

1. Has many opportunities to optimize network value.

9. On last earnings call, introduced three-pronged approach to growing passenger revenue:

1. Enhancing revenue management practices.

2. Optimizing network and schedule.

3. Improving United Express operation.

10. Revenue Management:

1. Booking curve optimization initiative increased PRASM by one point.

2. Recently restructured premium cabin fares on many domestic and short-haul Latin flights:

1. Added 0.5 point of PRASM.

2. Increased premium paid load factor on these routes by 12 points YoverY to 40%.

11. Recent network and schedule changes improving bottom line.

1. In 2Q, significantly reduced flying from Cleveland and realized full effects of this change to network in 3Q.

1. Expects run-rate annual benefit of this change to be approx. $60m.

2. Progressing on other network and schedule initiatives, including redesign of flight bank structure at hubs in:

1. Chicago.

2. Denver.

3. Houston.

3. Implemented newly re-banked schedule in Denver at Sept.-end.

1. Will follow with Houston late this year and Chicago in March 2015.

2. Phased re-banking will allow for optimal peaking across network during high-demand summer period next year.

4. Increasing flying seasonality.

1. Views seasonal shaping as additional step in commitment to capacity discipline.

5. Expects improving yield over full year by:

1. Adding more flying to peak summer travel period.

2. Reducing flying during lower demand shoulder period.

6. Above-mentioned will be most notable in transatlantic markets.

1. In July 2015, will fly over 40% more transatlantic capacity vs. Feb. 2015.

2. Expects 2015 transatlantic capacity to continue to reflect appropriate capacity discipline.

3. Expects seasonal scoping of capacity to generate almost 0.5 point of PRASM improvement in transatlantic entity for 2015.

7. Launched new initiative to consolidate departure frequencies throughout network.

1. Frequency consolidation will reduce costs, improve reliability, improve product offering, and provide more premium seating.

2. In Jan., with Denver to Minneapolis route, reducing service from five flights per day comprised of mix of Express and mainline aircraft to four flights per day, comprised exclusively of mainline flying on weekdays.

3. Increasing daily seats by 3%, while increasing seats per departure by approx. 30%.

4. Already implemented similar changes in other routes in Chicago and Newark.

8. Effect of these changes will be seen throughout network as Co. plans on increasing gauge by 5% in 2015, while reducing departures by 3%.

1. Effect will be most pronounced in Chicago; will see avg. daily departures drop approx. up to 8% and seats per departure increase up to 10% in some months.

2. Drives efficiency-related margin improvement.

3. Helps better manage congested airspace around O'Hare.

12. Progressing well on improving United Express operation.

1. Announced that Co. will add 50 incremental two-cabin E175s to fleet and will remove 31 Q400 propeller aircraft beginning in 2015.

2. Including regional fleet changes, expects having 85 E175s in fleet by next year-end.

3. Continued progression to more moderate, consistent, fuel-efficient and larger-gauge regional aircraft will improve operational and revenue performance of Express operation, while substantially improving product offering.

4. For each 50-seat aircraft an E175 is replacing, expects generating over $1m of annual improved profitability.

13. Pleased with initial progress of three-pronged revenue initiative.

1. Recognizes it will take some time before realizing full benefits.

2. 4Q14 Outlook:

1. Received 1.5 point PRASM tailwind in 4Q13 due to certain interline ticket reconciliations.

1. One-time in nature.

2. Will be facing 1.5 point PRASM headwind in 4Q14.

3. Taking this into account, expects unit revenue to be essentially flat in 4Q14 vs. 4Q13.

2. Domestic Entity:

1. Displaying strong demand.

2. Continued capacity discipline supported consistent unit revenue growth in last several quarters.

3. Strength to continue.

3. Atlantic Region:

1. Demonstrating improved capacity discipline in winter period.

2. United JV with Lufthansa and Air Canada will reduce transatlantic capacity by approx. 0.5% this winter, with United down 3%.

4. Pacific:

1. Strategy yielding solid results.

2. Seeing roughly 20% competitive capacity growth between US from Shanghai and Beijing; putting pressure on unit revenue performance as peak summer demand tapers off.

3. Weakening yen applying renewed pressure on Narita flying.

4. Combination of these two factors and increasing stage length due to newly launched margin-accretive Pacific routes to provide approx. 1.5% headwind to consolidated PRASM performance.

5. Despite challenges:

1. Remains solidly possible entity for United.

2. Being one of the fastest-growing regions in world.

6. United, best positioned US carrier to capitalize on this growth in future.

5. Latin:

1. In markets, will grow capacity along with many peers.

2. To grow seasonal capacity by double-digits in high-demand 4Q, driven primarily by capacity expansion in beach markets.

3. 4Q seasonal growth allows Co. to more opportunistically and efficiently redeploy marginal capacity from elsewhere in network on seasonal and day-of-week basis.

4. As is often the case with significant capacity additions, expects to face PRASM pressure.

5. Believes these additions will be profit maximizing for overall network.

6. Consolidated capacity to grow 0.5-1.5% YoverY.

1. 2015 1.5-2.5%, with 0.5-1.5% growth in domestic entity.

1. Growth will be efficient.

2. Approx. half of this growth will come from installation of slimline seats and up-gauging of aircraft.

3. Remaining growth will come largely from increasing fleet utilization as improving operation permits Co. to reduce fares and completion of aircraft modification program allows returning aircraft to regular service.

2. At United, remains committed to growing capacity below GDP as Co. believes this strategy will generate best margin expansion opportunity.

3. Summary:

1. Continued improvement in:

1. Revenue management.

2. Network planning.

3. Express operation.

3Q14 Operational Review (G.H.)

1. Highlights:

1. Presented many unexpected operational challenges like fire at FAA's facility in Aurora.

2. At United, reinvesting airlines from operational standpoint.

3. Over last year, transformed approach to business.

1. Doesn't take past practices as a given.

4. Talking about reinventing business from **operations** perspective, thinks of it in three broad categories:

1. Reducing variability.

2. Leveraging technology to improve handling of irregular **operations**.

3. Streamlining and simplifying **operations**.

5. Many initiatives underway to reduce variability in **operations**.

1. More effectively positioning spare parts into appropriate stations where needed.

1. Through this effort, reduced spare parts-related cancellations by more than 20% YoverY.

2. Reliability improvement allows reducing number of spare aircraft; in turn improves:

1. Fleet utilization.

2. Revenue.

6. Taking steps to improve reaction to and recovery from irregular **operations**; largely driven by weather and air traffic control delays.

1. Goal is to more effectively run **operations** during irregular events and then rebuild airline as soon as event passes.

2. To improve operation during such events, deploying technology solutions to more strategically cancel flights and more opportunistically route passengers around impacted regions.

3. Developing new mobile tools for airport agents to more quickly assist passengers during irregular **operations**.

4. These tools will allow roaming agents to allow scan boarding passes to quickly assist passengers in determining optimal rerouting opportunities.

7. Has significant opportunities to streamline and simplify **operations**.

1. Numerous initiatives underway focused on driving efficiencies through simplification.

2. Reducing:

1. Number of Express carriers operating in each hub.

2. Express fleet combinations in several airports.

3. In Washington Dulles, going from eight Express aircraft types down to five.

4. These simplification efforts allow reducing number of Express maintenance spaces by nearly 25% through base consolidation.

8. Making improvements in operation.

3Q14 Financials (J.R.)

1. Highlights:

1. Pretax income $1.1b.

2. Diluted EPS $2.75.

1. Nearly double 3Q13.

3. ROIC over trailing 12-month period reached 12.3%.

1. Highest result in last three years.

4. Margin:

1. Operating 11.7%.

2. Pretax 10.2%.

1. Both, more than 450 BP higher than last year.

5. Continued financial improvement.

1. Excited about opportunity to significantly grow earnings.

2. Working hard to increase revenue and improve efficiency to generate level of earnings Co. and shareholders expect.

6. Consolidated CASM increased 1% YoverY, excluding:

1. Fuel.

2. Third-party business expense.

3. Profit sharing.

7. Progressing well in Project Quality initiative.

1. Expectation this year:

1. Fuel savings nearly $200m.

2. Non-fuel savings over $300m.

3. Estimate for both numbers increased with each qtr. this year as Co. continued to perform better than original expectation.

8. Key component of non-fuel savings is productivity.

1. Making great progress in this area.

2. Improved productivity by 4%, marking fifth consecutive qtr. of increase.

1. On track to achieve 2014 goal of 3% improvement.

3. Expects 4Q non-fuel CASM to increase 1.25-2.25%.

1. Full year CASM estimate in line with regional guidance despite one-point reduction in capacity projection provided at year-beginning.

9. Returned $220m to shareholders through combination of accelerated share repurchase program and open-market transactions.

1. Made early progress in $1b share buyback program.

2. Will continue to opportunistically repurchase shares over coming quarters.

2. Balance Sheet:

1. Redeemed entire $800m of 6.75% secured notes.

1. Closed on a transaction under existing $1.9b credit facility, in which Co. increased size of undrawn revolver by $350m to total of $1.35b and issued additional $500m tranche of term loan debt.

2. Progressed meaningfully in reducing convertible debt.

1. Earlier this month, retired all $248m of 6% convertible preferred securities due in 2030.

2. Issued redemption notice for remaining $56m of 6% convertible debt due in 2029.

3. In Jan. 2015, $202m outstanding of 4.5% convertible notes will mature.

1. Following maturity, will no longer have any outstanding convertible debt.

2. Represents $1.9b reduction in convertible debt since merger.

4. Transactions are representative of stated long-term goal to reduce gross debt to $15b while maintaining appropriate liquidity level.

3. CapEx $493m.

1. 4Q14 expectation approx. $1b.

4. Plans taking delivery in qtr. of (apart from additional E175s):

1. Five 737-900ERs.

2. One 787-8.

3. One 787-9.

4. 11 E175s.

5. Earlier in qtr., announced an agreement with Boeing to convert seven 787-8s delivering between 2017-2018 into larger, more efficient 787-10s that will be delivered in 2022 and beyond.

1. Recently decided to retain 11 767-300ER aircraft originally planned to retire.

1. Will invest in these aircraft with new interiors, winglets and reliability modifications to extend useful life of these aircraft into next decade.

6. Exploring used-aircraft market to find suitable aircraft that will allow Co. to reduce CapEx and right-size fleet without substantially increasing fleet complexity.

1. Recently reached an agreement to **purchase** two used 737-700s to backfill flying as 50-seaters exit the fleet.

2. Changes to fleet plan demonstrate Co.'s discipline in managing capital allocation.

QUESTIONS AND ANSWERS

OPERATOR: (Operator Instructions)

From Cowen and **Company**, we have Helane Becker on the phone. Please go ahead.

HELANE BECKER, ANALYST, COWEN AND COMPANY: GDP forecasts keep changing on an almost daily basis. Can you just talk about the leverage you have to adjust capacity, either if GDP slows from current forecasts for next year or accelerates?

JIM COMPTON, VICE CHAIRMAN & CHIEF REVENUE OFFICER, UNITED CONTINENTAL HOLDINGS, INC.: Hey, Helane, this is Jim. We have a history of creating a flexible fleet plan and that is -- clearly, as we head into 2015, we have the ability to adjust our capacity to economic changes. We gauge GDP forecast based on consensus out there, so you're right, it does move around. But we do have the ability with utilization of the aircraft, working really closely with our tech house team to more finely tune when we can do work on our airplanes to also.

The history of the flexible fleet plans continues for us and we have great flexibility to adjust to the economic environment. And we will -- it is about keeping demand and capacity in line and that's what we're really focused on.

HELANE BECKER: Okay. And then just as a follow-up question to that capacity comment you made about Chicago going to more seats per departure and fewer departures per day, are you worried that competitors will come in and backfill what you're doing with additional capacity?

JIM COMPTON: Helane, it's obviously a very competitive business that we're in and so that schedule that we'll be building in Chicago will be a very attractive schedule to the business passenger, as well as the leisure passenger. We're confident with the seat growth that we apply by upgauging, that we'll be very competitive in the market.

HELANE BECKER: Great. Thanks very much.

OPERATOR: From JPMorgan, we have Jamie Baker on the line. Please go ahead.

JAMIE BAKER, ANALYST, JPMORGAN: Hey, good morning, everybody. I want to commend you on showing significant relative margin improvement in the third quarter. You basically halved the operating margin deficit relative to Delta, but it looks like you're guiding for a bit of slippage in the fourth quarter. You have explained why. That's fine. If we set aside the first quarter of next year, where we at least hope that you're going to have ridiculously easy weather comps, in what quarter next year do you expect the initiatives that you've been talking about here to be showing the most relative momentum to the industry?

And furthermore, do you have an internal target as to where you'd want your relative margins to be by the end of next year? And I'm not trying to pry guidance out of you. I'm just curious as to whether you believe you can achieve margin parity with other best-in-class operators. If you think you can, when?

JOHN RAINEY, EVP & CFO, UNITED CONTINENTAL HOLDINGS, INC.: Jamie, this is John. I'll tell you, I can't predict necessarily what other carriers are going to do. I'm going to tell you that we're focused on United Airlines and what we can do to create value for our shareholders. We recognize we have some further improving to do. This was a record profit for us this quarter. Our guidance in the fourth quarter would lead you to what is also a record profit for United in the fourth quarter.

We've talked about our desire to make money in the first quarter and we want to continue to expand earnings. We are only about 25% of the way through our Project Quality initiative. We're in the very early stages of our revenue initiative. And so we think that we've got a lot of improvement, a lot of opportunity in front of us.

We would all like to close that margin gap as soon as possible. I promise you that the team here is extremely focused on it. We don't like our relative place in the industry, that's a fact, and we think that we've got a lot of opportunity to improve.

JAMIE BAKER: Excellent. And a follow-up for Jim Compton. Ultimately, Jim, what solves the China problem? And I only ask because, again, bringing up Delta, they have a decent solution for Tokyo longer term. It's called Seattle. But in your case it's tough for me to see what you can actually do about China, until such time that your competitors there suddenly wake up and choose to focus on returns. Is there a better Chinese strategy other than simply hope?

JIM COMPTON: Hey, Jamie, we're -- obviously, China is a big part of our network and a very profitable part of our network. It's a very strong, growing part of the world from a demand perspective. We continue to expect that. So our footprint there, we think, is the best position. I'll tell you our strategy is well beyond hope.

If you think about the things that we're doing with the flexibility of our fleets, the 787, San Francisco to Chengdu is a perfect example of that, that we're tapping into that growth in China in ways that, quite frankly, our competitors can't, as we continue to match capacity and demand. So we call it our second phase of our Pacific; that's combined with what we're doing in Tokyo with our JV partner to put the flying out of Narita, work with them, much [color posed here] on the connections. But as it is to **China**, we're well positioned and we feel we have lots of opportunity to do well as that market continues to grow.

JAMIE BAKER: Is there much regulatory appetite for potential JV immunization with **Chinese** carriers?

JEFF SMISEK, CHAIRMAN, PRESIDENT & CEO, UNITED CONTINENTAL HOLDINGS, INC.: Jamie, this is Jeff. We're not going to be able to get JVs with, for example, our partner in **China**, until **China** goes open skies. As that--

JAMIE BAKER: Right.

JEFF SMISEK: But whatever period of time it takes. Clearly, that's something we would be keenly interested in, where we'd have the regulatory authority to do that, but we don't have that yet.

JIM COMPTON: And I would add to Jeff's comments, working with Air **China**, some of the success of Chengdu being ahead of our expectations is the connections that they're building for us in Chengdu. So we'll continue to work with that from an alliance perspective with our Star partners.

JAMIE BAKER: John, Jim and Jeff, I appreciate your answers. Take care.

OPERATOR: From Wolfe Research, we have Hunter Keay on the line. Please go ahead.

HUNTER KEAY, ANALYST, WOLFE RESEARCH: Hey, thanks very much. Hey, a question for John. I don't mean for this to sound antagonistic at all, I don't, but I can't think of another way to ask it. If a **company** doesn't qualify for hedge accounting, doesn't that mean that the **company** is just speculating with commodity derivatives that don't correlate to the price of the commodities that they use?

JOHN RAINEY: Not necessarily, Jamie. The accounting rules are around getting hedge accounting treatment. I'll give you one example. If you don't have an equal number of bought and sold, call and put positions, that doesn't allow you to get hedge accounting. You have to -- so for example, if you did a collar, a bought call and a sold put, you get hedge accounting, but if you were to then go out and mitigate the cost of that by selling a call at the high end, say $140 of Brent, that precludes you being able to get hedge accounting.

I'll tell you that our hedge philosophy here is one of risk management. This is our single largest expense that represents $12 **billion** to $13 **billion** for us annually. We think that taking some risk off the table in the near-term is a prudent thing to do. We've had this discussion before with you. I know that, philosophically, we agree that, long-term, the industry needs to be able to adjust capacity and, therefore, its prices to compensate for its price inputs. Given the nature of our business, that we sell tickets 330 days in advanced, that we schedule employees for many months in advance sometimes, it's difficult to adjust capacity in the very near-term, which is why our hedge position is more heavily weighted, close in.

HUNTER KEAY: Okay. Thank you, John. I appreciate that. And a little bit more on the previous question. In terms of open skies with **China**, Jeff, do you believe that a pacing item for open skies to occur -- because if you look at prior open skies agreements with the Japanese and with the EU, it's some sort of free market concept for slot-controlled airports. So is it fair to assume that we should pretty much never assume **China** is ever going to grant open skies because they're not going to relinquish control over slots at Beijing and Shanghai?

JEFF SMISEK: I don't know. It's a good question, Hunter, and I don't know the answer to it. That's going to require work by US carriers pushing our own government to be flexible and to make sure that there are a fair allocation of slots to US carriers and that's, as you allude to, our government's experience with Japan, in particular, with Haneda, is a good example of that. That's a difficult process. What -- I wasn't predicting necessarily a near-term open skies agreement with **China**. I was just saying that if there were one, it would be necessary. That's a predicate to having a joint venture.

HUNTER KEAY: Thank you very much.

OPERATOR: From Deutsche Bank, we have Michael Linenberg on the line. Please go ahead.

MICHAEL LINENBERG, ANALYST, DEUTSCHE BANK: Good morning, guys. Just a couple here. Jim, appreciate that you gave us the quarterly PRASM guide and highlighted the headwind. Can you give us, maybe, an early read on October? And I'**m** asking because I know last year we did have the government shutdown, and as I recall, that was -- maybe it was 1 point, 1.5 point headwind. Any color on October, how things are shaping up?

JIM COMPTON: Hey, Mike.

MICHAEL LINENBERG: Hey.

JIM COMPTON: We don't comment on a specific month, but you're right, just in terms of last year with the government shutdown, the beginning of the month and then it's coming back about October 16 last year, there was clearly, from a government traffic, as well as business traffic associated with government-type fares, strength year-over-year in that area and we did see that so far in October. We're now back to year-over-year where the government shutdown was over.

MICHAEL LINENBERG: Okay. Great. And just my second question, on the seasonal shaping, as we move into the early part of 2015, conceptually, it does make a lot of sense, to really ramp up when demand is strongest. But given the adjustments there on capacity, you highlighted the trans-Atlantic numbers, can you talk about just some of the potential execution risks here? Is this -- could we see this go very wrong or do you feel like you have the systems, the controls, the ability to move people around?

I know there have been some structural changes, like on how you staff up at airports, for example, and the way some of the new contracts have been structured. Just highlight some of the things that we should be looking for so that we know that -- to go from X to X plus 20% on capacity in particular markets, that you're operating well?

JIM COMPTON: Mike, this is Jim again. What we're doing with the seasonal capacity change is a process internally that we started a long time ago. By that I mean, the network planning group has worked hand-in-hand with our **operations** folks. Because you're right, there is a lot of coordination in terms of having utilization of the aircraft there, the crews, and so forth, and the ability for the stations to handle the schedule.

So we're really confident where we're at in it because the process began a long time ago and we're right on timeline for the execution to go very well. And we're excited about it because, obviously, that peak summer demand will drive the full year. We talk about adding a 0.5 point of PRASM to our trans-Atlantic entity into 2015 with this network change that we're doing.

MICHAEL LINENBERG: Okay. Very good. Thanks, Jim.

OPERATOR: From Morgan Stanley, we have John Godyn on the line. Please go ahead.

JOHN GODYN, ANALYST, MORGAN STANLEY: Thanks a lot for taking my question. Just one on costs and one on capacity. First on costs, John, you had some good commentary about how you're tracking versus the cost reduction plan that was announced toward the end of 2013. I'**m** curious if you could just speak to whether opportunities are being pushed forward or outright upside to the plan is being created and how we might revise the $1 **billion** fuel and $1 **billion** ex-fuel numbers, if in fact there is now upside being found?

JOHN RAINEY: John, it's a good question. I would characterize our progress thus far as really more the opportunity has been greater than what we expected on the initiatives that we've embarked on, rather than sliding forward initiatives. There have been some exceptions, but those go both ways. When you get into this, some things take longer than you expect and some things you can accelerate.

But generally, what we've seen is where there have been opportunities, we've exceeded our expectations and I really credit the employees for this. This is, just across the board, you see every single work group, where there's a real drive for efficiency. I'll give you an example. In the third quarter, overtime in our maintenance group was about 2 points better year-over-year and that doesn't really mean much just in terms of dollars in that statement, but 1 point overtime change for maintenance is about $10 **million** to $12 **million** annually.

This is just really running a better, more efficient operation and you see that in the bottom line. And that's one example. We see it in our res group, we see it in our airport groups. We've got better staffing with our flight attendants. They're really a huge drive across the **Company** and clearly everyone is on board.

JOHN GODYN: And if this is really a momentum and a cultural dynamic in the background, it sounds like it could last even for the next few years. I wonder, is it possible that by the end of this plan, we find that we're hundreds of **millions** of dollars above the $1 **billion** ex-fuel and $1 **billion** fuel that you outlined at the end of 2013?

JEFF SMISEK: Hey, John, this is Jeff. One of the things -- the point you make is a very good point. One of the things, this Project Quality is designed to deliver $2 **billion** of efficiencies to cost savings by 2017, but it's not going end in 2017. What we're instilling here is a culture of efficiency and continuous improvement something that this industry has woefully lacked, candidly.

This is the first step of what we're doing. We have a lot of confidence in achieving the goals that we set forth in November of 2013, but it won't stop in 2017. This is a way of thinking. This is a way of questioning how and why we do things and how we can do things more efficiently, better for our employees, better for our customers, and clearly better for our bottom line.

JOHN GODYN: Got it. And if I could just ask a question on capacity. Jim, you offered a lot of tactical commentary in the short-term about how you're managing different market dynamics, but when I think about the 2015 guidance and the fact that you're still growing a bit faster in international than in domestic, I just wonder is there appetite for maybe more structural change to how you think about international versus domestic, because you're [overweight] position in international still comes up as one of the largest risk factors, at least in my conversations with investors?

JIM COMPTON: Hey, John, this is Jim. The capacity guidance -- let me put a little context around the international piece of 2015, because as we've talked a lot about, the seasonal shaping of trans-Atlantic,, that really implies really low single-digit capacity growth for the Atlantic entity in 2015. As you think about Latin America in terms of routes that make a lot of sense for us to complete our portfolio, we are beginning this year adding Houston to Santiago. It's for a long time been a big ask from our corporate partners to serve that market, so we're really excited about it.

So 2015, in that sense, becomes a run rate of that new market that we're very excited about. So it's very strategic in terms of what we're trying to do from a business side. We also are starting in this year Denver to Panama, and so the run rate of that market is also into growth. And then the rest is, what I mentioned in my script, is we're seeing really strong demands in the beach markets.

For instance, we can take a Chicago-LaGuardia trip on a Saturday and fly from Chicago to Cancun on that same Saturday and we'll -- it generates incremental capacity into Latin America, but from a margin perspective, it's actually very accretive. So the way we think of this all is in the context of what we're trying to do strategically: be capacity disciplined, build on our strengths, and do that with different levers. One of the levers is some of the seasonality. When you think about the Latin, you get into mid-single-digit type of growth in that area with what I described.

In the Pacific, just to close that out, we're really excited about starting LA to Melbourne this year and you're going to have the run rate of that. And again, it's as much about ultimately getting out of our tag Sydney to Melbourne that is very expensive for us to operate, but allows us to serve Melbourne. The 787-9 becomes the great airplane [to solve] that will have that run rate capacity in there.

And then we have the run rate of San Francisco to Chengdu and San Fran to Taipei capacity, that I've already noted is running ahead of expectations. That gets us in the mid-single digits in the Pacific. So the international capacity we think fits very well with our capacity discipline, although because of the run rate and some of the things we're doing in the beach markets, generates a capacity next year at the level that maybe you're inferring.

JOHN GODYN: Okay. Thanks for the color.

OPERATOR: From Credit Suisse, we have Julie Yates on the line. Please go ahead.

JULIE YATES, ANALYST, CREDIT SUISSE: Good morning. Thanks for taking my question.

JIM COMPTON: Good morning, Julie.

JULIE YATES: I realize it's a little early to be giving 2015 cost guidance, and you guys are still in the middle of your budgeting process, but from a high level, how should we be thinking about the non-fuel unit cost growth in 2015, especially in light of the fact that Project Quality seems to be doing a little bit better than you originally expected?

JOHN RAINEY: Julie, we've characterized our cost goal as being one where we expect to grow non-fuel cost at something less than inflation. I appreciate that's a little bit vague as inflation can bounce around. It's a long-term goal, and we may see that 00 we may see cost pressures from one year to the next, which will cause that to vary. We are, as Jim alluded to, growing more next year than what we did this year.

It's obviously easier to keep that number lower as you're supported by some growth, so we're sticking to that goal. We'll give more clarity over the coming quarter about what our 2015 [number] is, but we're extremely encouraged by the early progress that we've seen this year. I talked about in my prepared remarks the fact that, despite capacity coming down a full point versus our original expectations, we've been able to hit our cost goals. So I expect that to bleed over into 2015 and the same performance that we've seen this year will continue into the next year.

JULIE YATES: Okay. And then just a follow-up on labor. Is there any update on reaching a single contract with either the flight attendant or the technician group?

GREG HART, EVP & COO, UNITED CONTINENTAL HOLDINGS, INC.: Hey, this is Greg. We remain in negotiations with our flight attendants. I'm sure you all saw that we went on an early out program with our flight attendants, which has been very, very well received and we hope that is a bridge for an agreement with our flight attendants, which we expect to have happen some time next year. We are still working with our technicians, and obviously, are very focused on getting a deal done with those folks as soon as we can, as well.

JULIE YATES: Okay. And then how much of a tailwind on the labor productivity is it to reach the single contract on the flight attendant side?

GREG HART: I'm not sure I understand your question, Julie.

JULIE YATES: Once you get to single contract with the flight attendants, I would imagine that you'll be able to recognize greater labor productivity from staffing?

GREG HART: Right. The specifics of the contract are still -- we're still working on. Obviously, we -- there are some inefficiencies just in our system today by having two separate collective bargaining agreements, with the inefficiencies of staffing, transportation costs, hotels, things like that, so we do expect some benefit from that, but we haven't necessarily quantified that.

JULIE YATES: Okay. Thank you very much.

OPERATOR: From Evercore, we have Duane Pfennigwerth on the line. Please go ahead.

DUANE PFENNIGWERTH, ANALYST, EVERCORE PARTNERS: Good morning. Just a couple of fuel questions, if I could. This move down we've had here $2.90 to $2.40, $2.50 [jet] before taxes and fees, pretty sharp move. How has that changed your plans, if at all, for 2015, or maybe for the fourth quarter? Does that relate at all to the stage length increase, which is probably implied by that fuel efficiency? And then could you just give us a sense for where you are from a hedge book perspective and the degree to which you're participating in this downward move into 2015?

JOHN RAINEY: Sure. Let me take the last part of your question first, if that's okay. For the fourth quarter, we're 39% hedged, and over the next 12 months, we're about 35% hedged. In terms of our participation, in the fourth quarter, we are participating about 70% to the upside and the downside in fuel movements, and for the 2015, that's more like 80%. So hopefully that helps.

In terms of our hedge strategy, our hedge strategy is -- part of it has been to be responsive to the overall fuel market. Over the last few years, you've seen that fuel has been relatively [range bound] and our hedge portfolio has reflected that fact we fared better than any of our competitors over that period of time. We've seen fuel break out of that range and we're very early on in this. We will look to see if it stabilizes and a new trading band develops and then our hedge structure will respond to that.

DUANE PFENNIGWERTH: Okay. Thanks. And then maybe I missed it. Have you offered CapEx guidance for next year yet?

JOHN RAINEY: We have not. We did talk about, at investor day last year, Duane, our long-term goal of about $2.8 **billion** to $3 **billion** over the next few years. We have made some changes. I talked a little bit about some of the changes we've made from a fleet perspective, so that -- we would expect that number to move around a little bit, but we'll give you more guidance on that as we get closer to year-end.

DUANE PFENNIGWERTH: Okay. I assume -- it sounds like -- correct me if I'm wrong, it sounds like that pushed some aircraft out, so maybe the bias on that is down. And then just lastly on the buyback, when you initially announced it, $1 **billion** over three years and you've taken down over $200 **million** in the first quarter, so it looks like you'll finish that in a year. Can you just give us a sense for when you would choose to update us on the authorization and how we should be thinking about that timing?

JEFF SMISEK: Well, we're going to take this in steps, Duane. I'm pleased at the fact that we're almost one-quarter of the way through this early on. We've seen a lot of volatility in the market and it has created some buying opportunities for us. We still think this is a great way to return cash to shareholders, given where our stock is trading right now, but I've emphasized before, this is a first step, and when we complete this or get close to completion, we'll come back to the market with our next step, but I'm not prepared to talk anymore about that, at this point in time.

DUANE PFENNIGWERTH: Okay. Thanks for taking the questions.

JEFF SMISEK: You bet.

OPERATOR: We have time for one last question. And from Barclays we have David Fintzen on the line. Please go ahead.

DAVID FINTZEN, ANALYST, BARCLAYS CAPITAL: Hey, thanks. Good morning, everyone. Maybe a question for John. I appreciate getting a little ahead of 2015 here, but if I look at your absolute non-fuel growth, the last few quarters, you've kept it right around 1% if not below in some quarters. As we get out to 2015, and obviously there's a lot to go on Project Quality, are there some other inflationary cost pressures that pick up in 2015 versus 2014 that would materially start to change that absolute cost profile? I'**m** just trying to think through some of the moving pieces into next year?

JOHN RAINEY: Good question, David. There are a couple of headwinds. I do not expect it to change that profile. The best example I can give you right now relates to pension. The discount rate that we use today to discount the liabilities in our pension is about 5.1%. The preliminary look for next year, it looks like it will be closer to 4.3%, so that will create between $50 **million** and $100 **million** of headwind for us next year.

There's also an update to the mortality tables for pensions, which is not reflected in our current numbers. But that said, even with those headwinds, we expect to receive the type of cost performance that we've outlined, so I don't expect it to change the profile that you alluded to.

DAVID FINTZEN: Okay. That's very helpful. Then maybe a quick one for Jim. On the **Chinese** capacity growth, it's obviously coming from a lot of arguably lesser-known brands from a US perspective. How effective are some of these carriers at competing in the US point-of-**sale**?

JIM COMPTON: Well, clearly their point-of-**sale** is more **Chinese** point-of-**sale** and -- but I liken -- every competitor is a good competitor and, our goal in competing is obviously operate at a really high reliability rate with a great product and -- but our point-of-**sale** on the US side is stronger than the **Chinese** point-of-**sale** and you have that dynamic for them also, on their side. Clearly, you're right, they're building a brand presence as they grow their presence into the US and so United, since 1986, being in the market in **China**, has a strong presence over there to date.

DAVID FINTZEN: Okay. That's very helpful. Thanks, everyone.

JEFF SMISEK: Thanks, Dave.

OPERATOR: Thank you, ladies and gentlemen. This concludes the analyst and investor portion of our call today. We will now take questions from the media.

(Operator Instructions)

From Thomson Reuters, we have Jeffrey Dastin on the line. Please go ahead.

JEFFREY DASTIN, MEDIA, THOMSON REUTERS: Hi. Thank you for taking my call. Could you elaborate on the 787-10 conversion? Will there essentially be deferred 787 deliveries?

JEFF SMISEK: Our current plan is to defer the deliveries that we expected to take in 2017 and 2018 into 2022. We still do hold option positions. Jim alluded to the fact that fleet flexibility is something that's very important for us to be able to respond to the economic environment, yet still do so in our capacity-disciplined manner, but that was the move that we recently made, yes.

JEFFREY DASTIN: Thank you.

JEFF SMISEK: You're welcome.

OPERATOR: From Flightglobal Media, we have Edward Russell on the line. Please go ahead.

EDWARD RUSSELL, MEDIA, FLIGHTGLOBAL MEDIA: Could you elaborate a bit more on the -- looking at use of aircraft, first of all, where the 737s you purchased are coming from? And then also, are you looking for narrow bodies or wide bodies? Thank you.

JOHN RAINEY: Sure. The 737-700s that we obtained were from a leasing **company**. I don't want to comment any further on the airline that they came from. But the other part of your question, at this point we're really more focused on narrow body lift. Part of the issue that we're solving for is today we are too reliant on the 50-seat RJ. It creates some operational complexities, but there's also a looming shortage with respect to pilots being able to fly some of those, as we look at some of the changes in the training requirements.

So what we want to do is backfill some of that capacity in a financially disciplined way. We don't necessarily want to go out and place a brand new aircraft order that creates several billion dollars more of CapEx. We've talked a lot about having a balanced allocation of cash flow. So this is a way, by looking at the used aircraft market, that we can still backfill some of that capacity, more narrow-body focused, but do it while still addressing the other cash flow needs that we have.

EDWARD RUSSELL: All right. And can we infer to say you're looking for aircraft that are currently in your fleet or models at least?

JEFF SMISEK: That's accurate. Any time you look at adding a plane or new fleet type, there's some complexity with that. There has been some discussion about the 190s. That's something that is on the radar, candidly, as well, but certainly if you look at our narrow body fleet with the Airbus A319s, A320s, the new gen 737s, those are all planes that fit the profile that we could easily accommodate into our fleet.

EDWARD RUSSELL: Great. Thank you.

NENE FOXHALL, EVP OF COMMUNICATIONS & GOVERNMENT AFFAIRS, UNITED CONTINENTAL HOLDINGS, INC.: Okay, thanks, everybody. We'll conclude now. We appreciate you all joining us on the call. Please call media relations if you have any further questions and we'll look forward to talk to you next quarter.

OPERATOR: Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.

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