

UAL CORPORATION
1998 ANNUAL REPORT
THE VIEW FROM 14D

UNITED BUSINESS
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Financial Highlights and Operating Statistics

Year ended December 31

<i>In millions, except per share, rates and aircraft</i>		<i>1998</i>	<i>1997</i>	<i>1996</i>
Financial highlights – generally accepted accounting principles basis	Operating revenues	\$ 17,561	\$ 17,378	\$ 16,362
	Operating expenses	\$ 16,083	\$ 16,119	\$ 15,239
	Earnings from operations	\$ 1,478	\$ 1,259	\$ 1,123
	Earnings before extraordinary item	\$ 821	\$ 958	\$ 600
	Net earnings	\$ 821	\$ 949	\$ 533
	Per share, diluted:			
	Earnings before preferred stock transactions, gains on sales and extraordinary item	\$ 6.83	\$ 6.64	\$ 6.42
	Gains on sales of ATS/Galileo, net ⁽¹⁾	–	2.40	–
	Preferred stock transactions, net	–	–	(0.57)
	Extraordinary loss, net	–	(0.09)	(0.79)
	Net earnings	\$ 6.83	\$ 8.95	\$ 5.06
	Average number of common shares assumed outstanding	105.2	97.4	84.6
	Financial highlights – pro forma fully distributed basis⁽²⁾	Operating revenues	\$ 17,561	\$ 17,378
Operating expenses		\$ 15,254	\$ 15,132	\$ 14,554
Earnings from operations		\$ 2,307	\$ 2,246	\$ 1,808
Earnings before extraordinary item		\$ 1,308	\$ 1,555	\$ 1,027
Net earnings		\$ 1,308	\$ 1,546	\$ 960
Per share, diluted:				
Earnings before preferred stock transactions, gains on sales and extraordinary item		\$ 10.24	\$ 9.97	\$ 7.71
Gains on sales of ATS/Galileo, net ⁽¹⁾		–	1.79	–
Preferred stock transactions, net		–	–	(0.37)
Extraordinary loss, net		–	(0.07)	(0.51)
Net earnings		\$ 10.24	\$ 11.69	\$ 6.83
Average number of common shares assumed outstanding		126.8	131.4	131.1
United Airlines operating statistics		Revenue passengers	87	84
	Revenue passenger miles	124,609	121,426	116,697
	Available seat miles	174,008	169,110	162,843
	Passenger load factor – system	71.6%	71.8%	71.7%
	Domestic	71.8%	71.2%	70.6%
	Pacific	71.5%	71.6%	73.6%
	Atlantic	76.3%	78.9%	78.8%
	Latin America	60.5%	65.3%	63.7%
	Breakeven passenger load factor	64.9%	66.0%	66.0%
	Breakeven passenger load factor excluding ESOP charges	61.0%	61.4%	62.6%
	Passenger revenue per passenger mile (yield)	12.36¢	12.55¢	12.35¢
	Operating revenue per available seat mile	10.07¢	10.25¢	10.02¢
	Operating expenses per available seat mile	9.24¢	9.53¢	9.33¢
	Operating expenses excluding ESOP charges per available seat mile	8.76¢	8.94¢	8.91¢
	Revenue ton miles	15,424	15,004	14,057
	Cargo ton miles	2,963	2,862	2,387
	Available ton miles	26,390	24,940	23,404
	Average price per gallon of jet fuel	59.0¢	69.5¢	72.2¢
	Gallons of jet fuel consumed	3,029	2,964	2,883
	Number of aircraft in operating fleet at end of year	577	575	564
Average age of aircraft in years at end of year	9.8	10.8	10.9	

⁽¹⁾ See page 40, Note 6, for further details.

⁽²⁾ See page 31 for further explanation of the methodology.

The View from United

Jerry Greenwald speaks to owners and employees

It was just five years ago that I joined United, and we began to rebuild this company as a majority employee-owned airline. It was a project, some said, that was bound to fail. We didn't fail.

In fact, our success in most areas has been spectacular. As I prepare to leave United, I can look back and look ahead – and enjoy the view from both directions.

We have gone from tough times to a place among the top performers in the business. We are heading into a new millennium of flight under full power.

1998 was not an easy year, but for United, it was a very positive one.

Tough year, good year

Our strength was evident in our performance in 1998. It was not an easy year, but for United, it was a very positive year. That is because we are a company that is much better able to withstand changes in the environment than the United of old – a company that was weighted down with over-capacity and caught up in a series of skirmishes with its own employees.

Three major factors shaped the year.

One was the Far East. The much-discussed economic problems there hurt revenues – particularly in the important Japanese market. During the year, we also signed a bilateral agreement with Japan, which should be a tremendous benefit going forward. But in 1998, it increased competition in an already weak market.

Another issue was our trans-Atlantic and Latin American markets. Volume was up

nicely, but strong markets attract competitors. We saw more flights and seats come into the market during the year. Third, the U.S. market remained very solid. However, the continuing threat of the slowdown that never happened was enough to constrain demand in the fourth quarter.

Still, even in this less-than-ideal environment, we produced a healthy profit of \$1.3 billion and set a new record for earnings per share, both on a fully distributed basis. Our margins also held up well. We remained at number three out of our 18 global peers, showing that our cost-containment and productivity efforts are working.

How does a bad environment end up as a great year? Preparation. There was a time when a year like 1998 would have grounded our performance. But this time we were ready with a two-point response. We quickly reallocated capacity from weak markets to strong ones, and we tightened our cost controls.

Faced with a dramatic change in key markets, we didn't have to rebuild the engine. We shifted gears.

Following the Quality Flight Plan

Because we were able to handle the short term in 1998, we never took our eyes off the long term. For five years, we've had one goal: to make United the airline of choice worldwide. And for five years, we've been guided toward that goal by our Quality Flight Plan. The five-year milestone is a good time for an update on the four points of that plan: customer satisfaction, fleet, balance sheet and United people.

Customers: The comments from the passengers in 14D illustrate what a lot of our customers are telling us – that they're starting to see the

results of our more than half-a-billion dollar investment in in-flight comfort, technology, food and entertainment. They are also seeing check-in, baggage claim and other improvements on the ground.

Three airlines announced they'll be joining our Star Alliance in 1999 – All Nippon Airways, Air New Zealand and Ansett Australia – which will give us alliance partners covering all regions of the world. From the perspective of customer convenience and comfort, nine airlines now will act in concert. We've formed a shared frequent-flier program with Delta, giving our customers one of the most popular alliance benefits.

We have also been working quietly and effectively to make sure that we are Year 2000 ready. Our readiness program is on schedule, and our first critical operations test – reservations – came off in February without a hitch.

Fleet: As several of our 14D customers observed, United has one of the best fleets of aircraft in the industry. Our Retire-and-Replace program, launched in 1996, is upgrading our equipment without letting our assets get ahead of demand. As of year-end 1998, we have replaced 70 percent of our older aircraft and have another 14 percent scheduled for replacement in 1999. The beauty of our approach is flexibility. We are adding capacity when and where we need it.

People: If you want to understand the difference between the old United and the new, you might look at the relationship between the company and its employees. Creating a majority employee-owned airline under the Employee Stock Ownership Plan (ESOP) did not mean labor issues evaporated. Reaching the more effective, more collaborative climate we have today has taken hard work on both sides of the bargaining table. It took new attitudes, new programs to break down old barriers and

a real effort to renew trust. The transition has been painful at times. But we've kept at it, and I believe we're succeeding.

When our customer service and reservations employees voted this year to be represented by the International Association of Machinists and Aerospace Workers (IAM), we supported their decision. We're working with the IAM toward completing a new contract on time. We also made a joint announcement with the Air Line Pilots Association (ALPA) that we are starting negotiations ahead of schedule on a new contract for our pilots. We're going into the negotiations with a common objective: to avoid a process that is drawn out, fought in the media and that damages the cooperation we have achieved to date. The issues will not be any easier, but the approach certainly gives us a running start.

Balance Sheet: Coming out of the early 1990s with a weakened balance sheet, one of our most important priorities was to strengthen our financial base. Four years of strong earnings coupled with successful cost controls – helped by declining fuel costs – have built a balance sheet that gives us options. We are going into 1999 with our strongest balance sheet in years. During the year, our board of directors voted to repurchase \$500 million of our common stock, and we completed the buyback earlier this year. We will continue to consider share repurchases, depending on the price of our stock and the strength of our balance sheet.

The past five years have been very good for United.

A long way in five years

The past five years have been very good for United Airlines – good for the people of this company, good for our shareholders, and good for our customers.

We've created a stable employer with excellent prospects for continued growth. We've created value for our shareholders with one of the best stock price performances in the industry. We've created an airline that listens to its customers, and then invests the money and commits to deliver on what they have told us. We have more to do on that front – but I believe the job is well under way and producing results.

Guided by our Quality Flight Plan, I believe we are on track toward another strong year in 1999. We are in a position to reap the benefits if the international economy cooperates, but we will continue to adjust if it does not. The U.S. market looks very solid. And our productivity programs and low fuel prices should continue to deliver excellent cost containment.

That's not to say we don't have challenges longer term. The economy is always a question mark. Competitors are always a threat. New negotiations are always looming. And service improvement is always a race with no finish line. We also must look ahead to the end of the ESOP stock allocation period and the pay-scale changes that will result – along with the employees' decision on whether there will be an ESOP II. But I believe the company we have built can meet those issues head on, get past them, and create new growth and value.

Thank you

As for my personal comment on the past five years – this has been the job of a lifetime. As I approach my retirement from United, I know the full meaning of mixed emotions. I feel privileged to have worked with the finest group of people in any industry. A real highlight has been the chance to work with a top-flight leadership team – people like John Edwardson, who left United in 1998, and Jim Goodwin, the seasoned industry and United veteran who replaced him. Our union leadership also is an important part of the team, and I appreciate their help in guiding our company and their willingness to rethink traditional union-management relationships.

Together, we have all created something special here. We are now looking for someone to succeed me, someone who can take our creation to the next level. Believe me, we will find exactly the right person – someone who knows how to run an airline, but also understands that working at United has come to mean far more than the sum total of our employment policies and management practices. Working at United means being United – together creating something new and better every day for our customers and employees.

I'll close this letter with a few words of gratitude, although my thoughts of appreciation could fill many pages. First, I want to thank my wife, Glenda, and my family. Their love and support have given me the freedom to imagine – and achieve – my dreams.

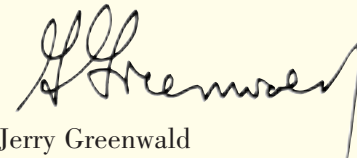
I want to thank the millions of customers who, day after day, trust United with their own families and their own dreams. Without them, none of us would be here today.

I want to thank the board of directors and our shareholders. They believed in the promise of a new kind of airline and backed that belief with their talents and resources.

And, finally, I want to thank the 95,000 people of United Airlines. It is their talent, their spirit and their dedication – to every customer every day in every city we serve – that truly makes United soar.

It's been an amazing five years at a truly great company. Thanks for the chance to be a part of it.

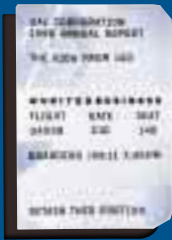
Sincerely,



Jerry Greenwald
Chairman and Chief Executive Officer

March 1, 1999





The View from 14D

What's the view really like from seat 14D? Well, that all depends...

You may have seen our annual report last year. If you did, you probably noticed that it was different. Not the usual graphs and tables. Not the usual hyperbole. We took a different approach. We published letters . . . actual letters from our customers and employees. They told us what they thought about United. And we responded. We also explained what we'd done during the year to iron out some of the wrinkles they mentioned and to build on the things they liked.

This year, instead of waiting for customers to come to us, we went to them. We wanted to see the travel experience through their eyes. What the view was like from, say, seat 14D on a Boeing 777.

So we hired an independent interviewer. He did a lot of flying on United and a lot of listening. He asked our customers just what they thought of us and how we were doing. We chose seat 14D on the B777 because it's in United BusinessSM. And United Business customers fly us a lot. They know us well.

As we expected, they had a lot to say. You'll see some of their comments on the following pages, both the good and the bad. And, like last year, we'll let you know what we've been doing this past year and how it all comes together to fit in with our overall strategic plan.

Yes, our approach is different. It's frank and it's open. It involves our customers. It reflects the new way we're doing business, what we call our Customer Satisfaction Philosophy. It's one of the changes we've made since we became a majority employee-owned company almost five years ago.

We adopted the Customer Satisfaction Philosophy, or CSP for short, in 1996 to help us in our vision of making United the airline of choice worldwide. The CSP is not a short-term cure-all. It's a fundamental principle that guides us in all our decisions.

It's very basic, really. Start with customers. Ask them what makes an airline great. Listen to their answers. Build on what they say. Make United an airline customers worldwide will choose. Yes, a simple concept, but one that takes a lot of work to make fly.

To see if our work is paying off, read on, and get the view from 14D.



Candid feedback from those who know us well: *How are we doing? We think pretty well. But what about our customers? What do they think? We decided to find out. We decided to get the perspective on United from, say, seat 14D on one of our B777s. So we boarded a lot of flights, sat down in 14E and asked the passengers in 14D to tell us what the view was like. They fly us often. They know us well. On the following pages, you'll meet some of them and see who they are. You'll see what they think of us and what some of the others in 14D said, too. See for yourself if they think we're making progress. Read on and get the view from 14D...and from United.*



Our Customer Satisfaction Philosophy:

- *Candor and responsibility*
- *Unsurpassed global access*
- *Recognizing and rewarding loyalty*
- *A simpler, more hassle-free travel experience*
- *Comfort the foundation; enjoyment the ideal*
- *Warmth and genuine attentiveness to each traveler's needs*

*Improving our product***Quality Flight Plan:**

- Improve our product and service
- Upgrade our fleet
- Empower our people
- Strengthen our balance sheet

We chose to interview customers flying in our B777. Why? Because it serves both U.S. domestic and international markets. It flies both short distances – such as our Chicago-Dulles service – and longer distances – such as our San Francisco-London service. And it’s one of our newer aircraft.

Since its introduction in 1995, the B777 has become one of our customers’ favorite aircraft. It also boasts many of the product enhancements we’ve been working on. Feedback from

passengers on this aircraft can therefore give us a good idea of how our customers are responding to our improvements.

Improvements such as our upgraded seats. These new United Business seats, which we rolled out in 1997, are now in place in 69 of our aircraft. As you can see, Mr. Reiman likes the seats – as do many of our customers – and with good reason. From the back support system to the individual reading lamps to the 12-inch recline, the seats make the trip a much more comfortable experience. And they make it a more enjoyable one as well. Our “distributed video system” gives customers the choice of programming on 10 video channels – and one of these channels has our ever-popular moving map, “Air Show.” Speaking of entertainment, we upgraded the entertainment systems on our B777 and B767 international aircraft in 1998 as well. And we’re planning to add more entertainment and comfort features to our B747s, too.

Improved seats are not limited to our United Business cabins. We’re upgrading the seats in all classes on most aircraft and are on track here as well, with 43 percent of the new seats in place.

Comfort, however, isn’t just about the seat. The quality of the cabin air makes a real difference. That’s why we installed air-conditioning filters in every one of our planes that use recirculated air – the only commercial airline in the world to do so. These filters meet the “true HEPA” standard, which is widely recognized as the highest possible standard for air quality.

And as for that other part of the inflight experience... the food... well, we have to admit that the view from 14D definitely told us that we are pleasing a lot of palates.

Together, our onboard improvements represent an overall investment of \$567 million – with \$171 million of that spent already. That’s a big investment. And we think it’s money well invested. Our customers have told us that comfort matters to them. So it matters to us.

“United has the best seats of all the airlines. This seat does a million things – when you sit on long flights, a back massage really helps.”

Scott Reiman, UA 296

“The food has gotten better on international flights. United has some Chinese cook trying different dishes. They’re really good. You don’t think of airline food being all that great, but it is.”

Scott Reiman, UA 296

P. Longbottom, 14D

Flight 925, London to Washington D.C.



Penelope Longbottom is vice president of Communications and Administration for Lockheed Martin Intersputnik, an international global satellite network consortium. Though her operation is based in London, she often flies to the consortium's headquarters near Washington, D.C.

An elite member of another airline's frequent-flier program, Ms. Longbottom had to switch to United seven months ago when she took a new job. "You accrue a sense of loyalty to an airline based on rewards as well as performance. I didn't want to make this transition, but my experience at United has really won me over."

"Check-in today was so smooth I wondered if it was the right day and right place. But what really impressed me was when two confused economy passengers came to the counter asking, 'What's this car-pet here for?' 'This is first-class check-in,' replied the agent. When they started to leave, she said: 'But I'd be happy to help you!'"

"What's this here for?": Ms. Longbottom was impressed when a first-class customer service representative offered to check in two confused economy passengers.



Almost unbelievably good: "I haven't had roast potatoes done this well even in restaurants. These are roast potatoes like Mother used to make. I'm serious!"



English ties: Born in England, Ms. Longbottom has spent most of her life in the United States but now lives in London. She frequently flies back and forth between the two countries.



My airline is United: "Coming to a new airline is like the tentative beginnings of a new friendship. There's a culture and an energy about everything in life, and airlines are no exception. I was resistant—I wasn't sure I wanted to make room in my life for a new friend. I came to United reluctantly." But Ms. Longbottom is now glad she had to make the switch—"My experience at United has really won me over."





S. Micheletti, 14D

Flight 145, Chicago to San Francisco

Kid-friendly: "I often fly with my kids. United's flight attendants are nice to them and understand how kids are."



Jackpot! United has won over Mr. Micheletti with the B777. "I make my flights based on the planes. I'd much rather have a 777 than a smaller plane. It has higher ceilings, bigger storage space, bigger seats, and a large business class section that gives me a better chance to get an upgrade."



Steve Micheletti is a national account manager for Levi Strauss. Based in Chicago, he flies frequently to Levi Strauss' headquarters in San Francisco.

"I came to Chicago three-and-a-half years ago. I flew a little bit on each airline looking at their service. The service was much better on United – from the person at the gate checking me in to the flight attendants on the plane. I felt like United Airlines wanted me to come with them."

"The Mileage Plus group is very helpful. They work to change flights to better fit my schedule. I'll call and ask them to get me home earlier. By the time I get to the airport, it's done. Getting on one-and-a-half hours earlier gives me one-and-a-half hours more with my family – it improves my life. I can spend a little extra time on my soccer coaching."

"I like that United's tied in with Taste of Chicago. I feel like United is trying to make a better food selection – but it's often bland."

Time to play: Thanks to the Mileage Plus desk, Mr. Micheletti can spend more time on his soccer coaching.



Jeans bound: An account manager for Levi Strauss, Mr. Micheletti is often winging his way to the company's San Francisco headquarters via United.



Pilot savvy: "Your pilots are organized and alert. They know what they're doing."



Satisfying more customers. That's a big part of the aim behind our efforts. But it's not the only thing. Our objectives also are a part of our five-year strategic plan – the Quality Flight Plan – that we put into motion in 1995. The new seats, our enhanced entertainment options, our enhanced food service – all work toward improving our product and service, a key element of the plan.

But we're not just improving the interior of the cabins. We're upgrading our fleet of aircraft as well – also in line with the Quality Flight Plan. We're on track with the "Retire-and-Replace" program we started in 1996. In 1998, we put 39 aircraft out to pasture... 28 B737-200s, five B747-100s and six DC10-10s. And we added 41 brand new aircraft, planes our customers tell us they prefer to fly – 16 Airbus 319-100s, 10 A320-200s, five B747-400s, two B757-200s, four B767-300s and four B777-200s. So as of the end of 1998, we've replaced 78 of the 111 aircraft targeted for retirement. And newer, more efficient – and more popular – aircraft are now flying in their stead.

Planes. Several of our customers in 14D made it quite clear that the type of aircraft we fly is important to them. And as we have seen, much of their preference for fleet type is based on comfort. What they probably don't appreciate, though, is the importance of how an airline grows and allocates its fleet.

Our fleet is one of our greatest strengths and biggest assets – literally. And our Retire-and-Replace program works toward keeping it in tip-top shape.

But staying in shape is not enough. We need to be able to add aircraft to our fleet as opportunities arise. At the same time, we know too well what happens when the industry gets too excited. We haven't forgotten the past when airlines overextended themselves, adding too much capacity... which eventually put a lot of pressure on the bottom line. We learned from that experience – and we don't intend to go there again.

“I like the plane upgrades – the 777 is a wonderful plane. The more I can fly it the more comfortable I am.” *Mark Harm, UA 474*

That's why our approach is balanced and flexible – it's one that makes sure we don't increase the capacity of our fleet too much and yet allows us to take advantage of profitable opportunities.

We saw opportunities in 1998. Before placing any orders, though, we made sure we had all the bases covered. The opportunities were there... but could we comfortably grow with new aircraft? After extensive analysis, the answer was "yes," so we ordered 75 new aircraft – 23 new wide-bodies and 52 new narrowbodies. And if the general economic environment should suddenly change for the worse, we can handle that by retiring some of our older planes, such as the B727s, earlier than scheduled.

Building on one of our greatest strengths - our route network

We wish we could say that we spent all of 1998 undisturbed in our quest for service and product improvements. But we had a few distractions. Asia, for one. Most of this diversion was due to the turbulent economic conditions in Japan and the rest of Asia that started in the second half of 1997. Throughout 1998, the Asian markets showed little signs of improving.

With about 20 percent of our total operating revenues coming from our Pacific region early in 1998, we decided to take action to soften the effect of the Asian weakness on our Pacific operations. We were ready. We put our contingency plan – which we had developed for economic downturns – into action. The plan involved reallocating our capacity and tweaking our

schedules – moving aircraft around based on the areas affected.

In a nutshell, we reduced our capacity in the Pacific by about 10 percent. We canceled some segments, such as our Honolulu-Osaka flights – which we can add back when the economic situation improves. We reduced service to certain markets while increasing service to others. And in some cases, such as with our Seattle-Tokyo service, we added new service.

In making the decisions, we considered three factors: the type of traffic affected – business or leisure; the potential for profitable service in the future; and the best way to position our overall fleet based on the trends we were seeing in the Pacific during the year.

The strategy involved a lot of adjustments. Some of our moves – such as the new Chicago-Osaka service – did not live up to our expectations. So we tweaked some more. The changes we made were not easy, but in the long run they helped – we ended the year basically on a breakeven basis for the Pacific. Pretty good considering the circumstances.

Asia by itself presented a big challenge, but it wasn't the only one. Latin America and our trans-Atlantic markets complicated the revenue picture as well. These markets have been more profitable for us and other carriers in the past few years. Profitable markets draw interest.

“The global alliance is a great thing. I really like that I can get miles on all these airlines. I can fly around Thailand and use my United miles.”

Scott Reiman, UA 296

Especially if there's a perceived potential for more opportunities. As a result, we've seen added capacity in these markets... and that in turn means more competition. But, because we were well established in the Latin America and trans-Atlantic markets before the extra capacity was added, we're confident that once the dust settles, we'll still be in a good position there.

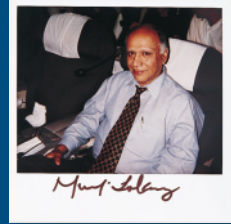
The best story for us in 1998 came from the U.S. domestic front, where travel demand remained strong. Just as our hubs in Chicago, Denver and San Francisco remained strong as well. And our efforts to strengthen our Los Angeles hub have met with continued success.

We're building on our strength in Los Angeles. At the same time, we are ready to focus on our East Coast hub at Washington's Dulles International Airport. Earlier this year we announced the significant expansion – by 44 daily departures or 60 percent – of our operations at Dulles. The move is timely and strategic on several different fronts. Dulles is the growth airport of the Washington area. The surrounding area's economy is flourishing. Our regional partner Atlantic Coast Airlines, one of our United Express® partners, is well established in the area and its fleet contains the ever-popular regional jets. And our route network gives us the connections both from within the U.S. and internationally to make Dulles a stronger hub for us.

We're proud that we provide our customers streamlined access to places all over the world they need to go. Our own route network is widely recognized as one of the world's best. To complement it, we are partnered with five other airlines around the world – Air Canada, Lufthansa, SAS, Varig and Thai – in the Star Alliance™. In 1998, we announced the addition of All Nippon Airways, Ansett Australia and Air New Zealand, which will join Star in 1999. Once Ansett Australia and Air New Zealand join in March, our customers will have access to 714 destinations worldwide through the alliance. And in October, when All Nippon Airways comes on board, that number will grow to 752.

M. Tolaney, 14D

Flight 934, Los Angeles to London

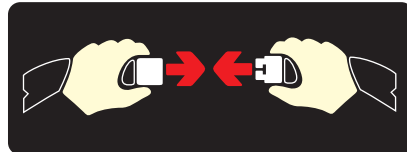


Originally from India, Murlu Tolaney travels 155,000 to 160,000 miles each year—130,000 of that on United. He's chairman and CEO of a half-billion-dollar environmental engineering and construction firm that designs and builds pollution control and water management facilities — “anything to do with the environment.”

“One incident impressed me a lot. On one flight from L.A. to Singapore, I bought a few things on the plane and left my VISA card somewhere. I called the 1K number when I discovered the loss. I tell you, they impressed the hell out of me. They kept calling to tell me the status of the search. They asked, ‘Do you need any money? Do you need anything else?’ They didn't have to do this. Finally, they advised me to cancel the card. They care about the customer—this is great.”

United's strengths?
“Safety—they have a good record. They have a pretty good—but not excellent—on-time record. The planes are comfortable. They do take care of business and first-class passengers very well. It's all these things.”

Safety first: Mr. Tolaney considers safety one of United's strengths. “They have a good record.”



Inspiring loyalty: “When you buy a car, you look at comfort, safety, all those things. The same is with an airline — all of these things have to be right. Will customers be loyal to United? — I am.”

My card's gone! United may not have been able to find Mr. Tolaney's lost credit card, but the Mileage Plus service center impressed him with their efforts.



He's happy: “I get better treatment at United because I have VIP status here, but if I had to compare all U.S. airlines, I'd still rate United the best.”

1K

Working for the environment: As chair of a half-billion dollar environmental engineering and construction firm, Mr. Tolaney travels around the world in his company's efforts to improve the environment.



“United flies the places I want to go – they have the right routes for me.” *John W. Fisher, UA 881*

Our alliances don't just offer more destinations. Results of a recent University of Illinois study on alliances – based on U.S. Department of Transportation data – showed that fares on alliance flights were dramatically lower for most international travelers when compared to those charged by non-alliance airlines.

So our alliances benefit our customers and their pocketbooks. They benefit us as well – to the tune of more than \$200 million in annual incremental revenue. Clearly alliances are another move we believe strengthens United.

Our alliances are not exclusively with non-U.S. carriers. In April, we announced that we were exploring with Delta Air Lines the possibility of a code-sharing and marketing alliance. Unfortunately, the code-sharing side of the proposed alliance did not materialize, but the marketing side did – in the form of the joint frequent-flier program and joint lounge access we initiated with Delta in August. Through the frequent-flier link-up, members of our award-winning Mileage Plus® program and Delta SkyMiles® program can now earn and redeem miles gained on both United and Delta flights in the U.S., Virgin Islands and Puerto Rico. That's effectively doubling the benefits to our Mileage Plus customers. And at the same time, our frequent fliers can relax in Delta's Crown Room™ clubs throughout the world.

Making United a better place to work

Our passengers in 14D all mentioned one aspect of the travel experience that can make or break it – our people. From the reservations sales and service representatives who make the reservation, to the customer service representatives you meet at check-in, to the ramp service agents who load the baggage,

to the flight attendants and pilots on board the flight – the impression they give our customers is important and lasting.

We've seen a lot of changes at United over the past several years since the company became majority employee-owned. And with the changes have come some lessons. Not only have we learned our lessons, but we're using them to make United an even better place to work.

We've learned that ownership is not enough. We've learned that we have to make United a place where the best people in the industry want to work . . . and stay. And we've learned that to do it we need to make some additional changes.

Our midterm wage adjustment process in 1997 taught us that competitive compensation is critical to our success. So we introduced Vision 2000 – our plan to provide our employees compensation that's competitive with the industry in 2000, when the current ESOP stock allocation period comes to an end – and when we can make changes to the plan. Consistent with Vision 2000, we announced improvements to the compensation package for administrative employees hired after the ESOP, and that includes benefits that have already gone into effect.

Better pay and benefits help both in hiring and retaining good people. But they aren't everything. We also need to provide our people with the tools and skills necessary to provide the best service to our customers.

So we've stepped up training. To foster better working relationships among employees, we've introduced our Roles and Responsibilities Dialogue Sessions that encourage open and honest communication in clarifying roles, responsibilities and expectations of team members and people working together. And we started Team Leader training in October to equip our front-line supervisors and up-and-coming leaders with the skills that will help them in their jobs – relationship building, business issues, problem solving and issues resolution, to cite a few.

But we're not stopping at teamwork among employees. When a customer has a problem, he or she wants it fixed now. Not shuffled off to someone else. So we're continuing our Customer Problem Resolution training, which is designed to teach employees how to handle and resolve problems at their first point of contact. More than 37,000 of our employees have completed the training, and our customers have given it high marks. A random survey of about 1,000 Mileage Plus members showed that the satisfaction ratings of members who'd experienced the results of our CPR training jumped 14 percent.

Travel-related problems aren't the only challenge our employees – and our customers – face. In an airline like United, with service to 28 countries, there's the element of intercultural and language differences as well. With our "Air Language" training, which we rolled out in September, flight attendants can learn basic airline language to better assist their Spanish-, Portuguese- and Japanese-speaking passengers. But language alone is not the answer. We've also introduced intercultural workshops to break down communication barriers and build more understanding among both employees and passengers from different cultures.

All of our efforts work toward our philosophy of providing warm and attentive service to our customers. These efforts help resolve problems. And at the same time they help our employees perform their jobs better. We think that's part of enjoying the job more as well.

Better compensation. Training. Learning to work more effectively with one another. Empowered workers and responsive, responsible leadership. These elements form the basis of our efforts to make United a better place to work.

And in 1999, for the first time, one of our four corporate objectives is people-centered. We've created an index to measure our employees' overall satisfaction with their jobs and their confidence in United. We're starting at the operational level – building our leadership

there and equipping them with more skills leaders need through hands-on training.

One key lesson we've learned is that creating a new culture is not simply a matter of owning stock or of simply embracing the concept of a new corporate culture. We've learned the importance of listening. Of clarifying expectations. Of respecting one another, and of working with one another to achieve the goals we hold in common.

Together with our union counterparts, we've come to the conclusion that in order to work together more effectively, we need to clarify our respective assumptions and expectations – and expand on our past successes. We've been working on that.

Take, for example, our negotiations with the Association of Flight Attendants (AFA) last year. Our innovative approach resulted not only in a landmark 10-year contract, but it also brought about valuable new developments. Such as our new Qualified Purser position – specially trained flight attendants who work to ensure that

“The person in front of me in the Premier Exec line saw some available ticket agents and went over to them. They told him to go back and then turned to each other and started chatting. I thought this was rude. But the gal I had was great – very efficient.” *Andrew Nygard, UA 1848*



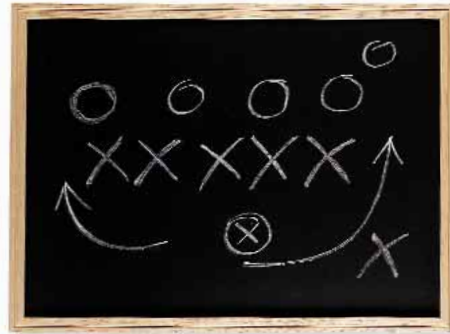
A. Nygard, 14D

Flight 1848, San Francisco to Denver

Nashville-bound: "I use my frequent-flier awards to fly my family around. My wife recently used an award to go to Nashville."



Getting around: "Flying in and out of Denver, you learn the tricks – you have to."



Andrew Nygard is a consultant with Deloitte & Touche based in the San Francisco office. He's a Premier Executive who currently commutes each week to a project in Denver.

"Flying in and out of Denver, you learn the tricks. For instance, the main terminal has two major points of ingress. The line to get through the security point for the United side was 40 people deep; I went to the other side where there were only four and I went right through."

Keep on smiling: "People are tense when they travel. It's good to see the flight crew keeping its sense of humor even if the passengers don't."



"I've had extremely good experiences with your customer service representatives. Last Saturday I booked trips for the next six weeks. The last one involved very tricky connections. In the middle of this complicated transaction, my cell phone hung up on us. I didn't know the agent's name. I called the Premier line and asked them to find her. The man said, 'I can't do that.' But while I was on the phone, the original agent phoned me back. My phone hung up on her again. She then faxed me the completed reservations. This was amazing—she didn't have to do that."



Choose your seat: "As a Premier Exec, I can get a seat assignment on Shuttle flights – that's important. I don't want the middle seat. I want the second exit row."

Tricky connections: After getting cut off, a United reservations sales and service representative went the extra mile to call Mr. Nygard back to finish booking his itinerary.



customers receive the highest quality of onboard service. And the complex merging of scheduling for our North America and international flight attendants – which will ensure a consistent, seamless standard of service worldwide.

We've also formed a new model for collective bargaining, one based on joint problem solving. We're using this approach in the preliminary contract negotiations with the Air Line Pilots Association (ALPA), which we started ahead of schedule. This early start reflects another way both United and our unions are doing things differently. We are working to get the contracts in place on time – by their amendable date – which, in the case of our pilots, is April 2000.

We've been using the same approach in the contract negotiations with the International Association of Machinists and Aerospace Workers (IAM) for our newly organized passenger service employees, who voted to join the IAM in July. And so far, the approach is working well. We have pioneered joint labor relations training at various locations, training that includes both union stewards and employee supervisors. As the negotiations proceed, we feel confident our new way of working together will help us reach a mutually agreeable contract more effectively – and in a more timely manner.

Improving the travel experience

Time. The entire travel experience revolves around it. Got to get to the airport on time. Get checked in. Get to the gate... and then, sometimes when you get there on time, the airplane doesn't go anywhere.

Late departures. They're really annoying. They're one of the things that make travel such a hassle. That's why we made on-time departure performance one of our top objectives in 1998. And while we got better, we didn't reach our goal. El Niño didn't help. Airport congestion didn't help. And the fact that most of our hubs are "weather-challenged" – that didn't help, either.

But enough excuses. We're committed to better on-time performance. Some of the changes we made in 1998 should gain momentum – and that should help. What are these changes? People changes, such as the extra staff we added in Los Angeles and San Francisco. Technological changes, such as the gate readers we now have in place at more than 40 airports throughout our system. Boarding process changes, such as new check-in times and earlier cut-off times. And yes, our tightened carry-on baggage policy we started putting in place in May. All part of our plan to leave and arrive on-time.

There's been a lot of publicity about our new carry-on policy – yes, the templates. We installed the baggage template at security checkpoints in test airports throughout the United States. When customers put their carry-on bags on the belt of the security machines, if the bags are too big, they won't pass through the template – and they then have to be checked for the flight.

It was a tough move. It addresses two challenging issues – delayed departures and cabin safety. Many flights are delayed when people have to search for overhead space because their bags are too big or the bins are already full of others' extra or oversized carry-ons. And overstuffed overhead bins can be a real safety hazard.

Our customers in 14D had a lot to say about the template. In fact, a lot of people had a lot to say about the template. We weren't surprised that

“I couldn't have been happier when they put in the two-bag limit. Before that, one guy could squeeze his whole row in coach with huge carry-ons.”

Steve Micheletti, UA 145

“Your ground operations don’t work as efficiently as they should – it takes a very long time to load a United flight. Getting all these extra bags checked seems to be problematic.”

Andrew Nygard, UA 1848

on the whole most of the response was positive. And we also weren’t surprised that since we introduced the templates, we’ve seen a marked drop in flight delays due to carry-on issues. It’s making a difference.

Well fine and good, but as Mr. Nygard asks, what about the checked luggage? What about the on-time performance of checked baggage, not to mention the unmentionable . . . lost or late luggage?

We recognize the need to improve our baggage-handling process. We’re working on it. We’re upgrading our bag-tag printers – better-quality bag tags mean more bags can be handled automatically – which means they get to the right place quicker. Another thing we’re doing is testing hand-held luggage scanners . . . to help us get our connecting customers’ bags from one flight to another more quickly. Plus we’re upgrading our baggage sorting systems at Chicago, Seattle and Honolulu. These are just a sampling of the ways we’re making our baggage process better, because unlike Mr. Gonzalez, we don’t consider two lost bags in 30 flights a good record. We’re aiming for zero lost bags in 30 flights.

Enforcing the carry-on baggage policy isn’t the only step we’ve taken to get our flights out on time. We’re also:

- *adding departure facilitators.* In September, we introduced a new role on board our North

American flights – departure facilitators – who help make the boarding experience a more timely and less-hassled experience.

- *focusing on the first flights of the days.* Logically, when our first flights of the day go out late, so do our other flights for the day. Conversely, if the first flights go out on time, the rest of the day’s flights tend to have better departure performance. So we’ve added a STAR goal to our overall on-time objective – to “Start The Airline Right” by getting 71 percent of our first flights of the day out on time.
- *increasing connection times.* Our customers and employees suggested this and we listened. In our key markets, we eased our aggressive connection times by five minutes. Helps connecting passengers, helps us manage the baggage process better, and helps on-time performance.

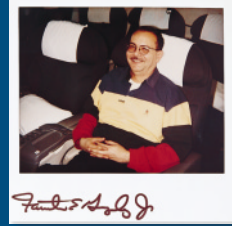
Our on-time efforts involve all of United’s operations. Including United Shuttle®. Because it operates on the West Coast, United Shuttle is perpetually time-challenged by bad weather and airport congestion. In 1998, United Shuttle adopted several strategies to circumvent those challenges it cannot change and remedy those it can.

One of those strategies is a team effort called the Alternative Operations Team. The team – which includes a variety of people associated with flight operations – teleconference early every morning to see if there are any major weather problems brewing. If there are, they reroute some of the scheduled Los Angeles or San Francisco flights to nearby airports, such as Oakland or San Jose.

And here’s where the team helps reduce customer frustration as well. Say bad weather envelopes the San Francisco airport and the team reroutes a Shuttle flight bound for San Francisco to Oakland. The passengers scheduled on the rerouted flight get a choice – they can take the flight to Oakland or wait for the next available flight to San Francisco. And so far they tell us they like the option – and the results.

F. Gonzalez, Jr., 14D

Flight 881, Washington D.C. to Chicago



Based at Fort Belvoir, Faustino Gonzalez, Jr. works for the U.S. Army.

"I spend more time in planes than I do in my car; it's the major way of transportation for me."

"I understand United Airlines has been voted the number-one airline, and I believe it. Service has been outstanding."

"I've noticed changes in the newer 777s that respond to customer requests, such as having your own TV, and the seats with lumbar support."

"United seems to be very customer-oriented. It's a very professional organization. That professionalism is reflected even in the articles in HEMISPHERES magazine – the articles aren't just advertisements for the airline, but are geared toward the comfort of the traveler."

"United is on the right track – they've come a very long way. Dollars used to be more important there than customer satisfaction and comfort. Business is business – we all understand that – but it now is clear that at United, the customer is first."

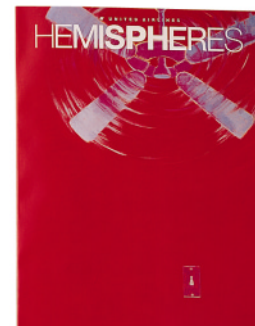
Back support: *"My big problem with flying is my back. One of the best things about United is their use of 777s. You can adjust the seats to take the pressure off the back and legs."*



Traveling for his country: *Most of the 100,000 miles a year Mr. Gonzalez travels for his job with the U.S. Army is on United Airlines.*



Customer-oriented: *United's "professionalism is reflected even in the articles in HEMISPHERES magazine. The articles are geared toward the comfort of the traveler."*



Tick tick tick: *"I've never waited at Dulles more than 10 minutes for check-in."*



A pretty good record: *"They've lost my bag twice in the last two years. They crushed one suitcase, and they demolished a garment bag. Losing bags twice in 30 flights is pretty good. And when they did that, they delivered the bag to my house five or six hours later. When other airlines did this, I went two to three days before I got it back."*



“In Hawaii they deplane from both front and rear – why can’t they do this elsewhere? You can deplane in half the time.” *Shirley Goodman, UA 944*

“I hate to say this, but there is so much traffic at the airport and on the planes, how could anyone make it hassle-free? If it rains or snows somewhere, how can you make it hassle-free?”

Murli Tolaney, UA 934

We haven’t stopped there. In October, we enlarged the overhead luggage bins on two Shuttle planes by 4 percent. Doesn’t sound like a lot, but it increased the usable space by 40 percent. Meaning that instead of only two bags, the new bins can hold four bags side by side. These larger bins will be in place on all 59 United Shuttle aircraft, after which we plan to refit the bins on our mainline B737s and B757s.

And now, once the plane lands, passengers on some Shuttle flights will be getting off the planes sooner as well. Under a new test program started this January in San Francisco and Los Angeles, passengers are exiting the aircraft from both the front and back of the plane. Speeds up the

deplaning process; cuts down on the hassle for our Shuttle customers.

So far so good – the results have been promising. The Shuttle’s on-time performance in January 1999 was the best in four years. That’s almost the entire time the Shuttle has been operating. We’ll keep you posted.

While Mr. Tolaney wonders if a hassle-free travel experience is possible, as you can see, we’re taking steps to eliminate as much hassle as possible. Nonetheless, as Mr. Tolaney points out, some hassles are unavoidable. There are some things we cannot change or control. Like the weather. But our commitment to safety means that we will never fly when it’s not safe to do so. That’s an area where there’s no room for compromise.

Enhancing our profitability

Improving customer satisfaction. Improving our operations. Making United an even better place to work. These are all elements of our strategic plan. And we believe they are working – coming together effectively to improve United. To make United not only the airline of choice for travelers and employees – but also for shareholders.

From an earnings perspective, United did very well once again this year – we posted very healthy profits – for the fifth consecutive year. We generated a net profit in 1998 of \$1.3 billion and broke our previous earnings per share record with an EPS of \$10.24 – both on a fully distributed basis. Mind you, this strong performance came in the face of several major constraints we’ve already discussed – the distressed economic conditions in Asia and the increased competition in the Latin American and trans-Atlantic markets. And, unlike most of our peers, we were hit with them both. Yet, we still set a record for earnings-per-share performance.

How did we do it? Strong travel demand in the U.S. was the major factor on the revenue side. And our contingency plan helped us deflect

much of the effects of the Asian crisis – through the reallocation of our fleet and schedule changes. But capacity reallocation is only one part of the plan. The other component is cost management.

We've been working for several years now to improve our cost performance, and it's happening. Despite increases in salaries and wages – a 4-5 percent increase for ESOP participants as a result of the midterm wage adjustments, plus a 4 percent lump-sum payment to our flight attendants as part of their new contract – we managed to keep costs under control in 1998. In fact, on a fully distributed unit cost basis, our costs were down by 2 percent compared to 1997. That's the best cost performance among all major U.S. hub-and-spoke airlines. We're pretty proud of that.

Keeping costs down without jeopardizing the service we provide our customers represents a lot of effort and commitment on the part of everyone at United. It means we are finding leaner and more efficient ways to run the business. What are we doing?

Our Quality Flight Plan in itself has a strong cost focus. Take the Retire-and-Replace program, for example. Replacing the older aircraft in the fleet with younger more efficient planes reduces maintenance visits. And new aircraft burn less fuel.

Better technology is helping us keep costs in line and enhance our overall business. Technology such as Skypath™, a flight-planning technology that allows us to plot the most efficient flight path and the most efficient flight crew scheduling. Technology such as electronic ticketing, which cuts down on our distribution costs.

We've also been working with some of our vendors to improve the products we buy from them – and at the same time reduce costs. Take, for example, United First SuiteSM, the new first-class seat/bed we just introduced. The first

model was too heavy. So we worked with our vendor to come up with a bed that weighs less, but still offers the same level of quality. The less weight, the less fuel that is needed to fly our planes. The less fuel, the less cost.

We're working on other costs we can impact as well – such as our distribution costs. We lowered our international commission rates in November. That should result in annual cost savings of \$100 million. On a divisional basis, we're working hard to keep costs in line, setting and doing our best to meet divisional cost targets.

Together, these ongoing efforts do add up, as they did for us in 1998. Combined with the lower cost of jet fuel, they helped make the cost story a very good one for us in 1998. What we consider an even greater success is that our customers in 14D did not appear to notice this cost story at all – and this tells us we're succeeding in our aim to make these cost improvements without compromising the service or product we offer our customers.

Keeping our costs in rein helped us come very close to meeting our 1998 financial objective. We were aiming for a fully distributed pre-tax profit margin of 12.4 percent. We figured that would keep us in the top 20 percent of our 18 global peers. And it would work toward our longer-term goal of placing in the top 10 percent of our peer group.

“United has solved a lot of problems. Before, there were lots of union problems and financial problems; you don't hear about them going on strike anymore.”

Eric Shum, UA 277



E. Shum, 14D

Flight 277, Washington D.C. to Chicago

Ahh...much better: *“My European managers used to say they spit out United’s coffee because it tasted like mud water. Starbucks has been a great change.”*



Not anymore: *“The food’s not like jerky anymore.”*



Originally from Hong Kong, Eric Shum is a 1K member who now lives in the Chicago area. He owns an import-export business that specializes in special-occasion wear.

“I always travel with United. I am a faithful customer. I was telling the gate agent that I probably fly United more than she does. I fly five to six times each year to Hong Kong or China alone.”

“Each year, 14 days before Christmas, we call United. I tell them all the places we’ve gone in the past and ask them to find us someplace new. I also make sure they know we want a reasonable fare. This year, they came up with Brussels.”

“I started flying United in 1983-84. The food has improved since then.”

“Before, when leaving the plane, the crew said just, ‘Thank you for flying United.’ Now they say, ‘We know you have a choice and we appreciate your picking United.’ That’s a simple sentence, but a simple sentence like this makes you feel welcome and valued.”

Outfitting the best: *Among other things, Mr. Shum’s firm makes gowns for the “Miss America” and “Miss USA” pageants.*



Annual travels: *Mr. Shum and his family went on their annual family vacation trip to Paris and Brussels last year – their first time in either city.*



Leading the pack: *“The world is getting smaller and smaller. United expanded their routes before the others. That’s now the trend.”*



At 12.2 percent, we were just shy of our margin objective. But we're still in third place – and therefore in the top 20 percent of our peer group. We're pleased with this performance. It certainly is much better than our ninth-place ranking just four years ago.

Our financial objectives of the past few years have helped us produce strong profits. We've used some of these profits to purchase the additional growth aircraft we mentioned earlier. We used another \$500 million for the stock repurchase program we announced in August of 1998. We completed that program earlier this year, buying back 7.7 million shares of UAL common stock.

In sum . . .

Hopefully, it's clear by now that all of our efforts tie to our longer-term strategic Quality Flight Plan. It should also be clear that we've made significant strides in 1998. We've further improved our service. We're on track with our fleet program. Our strong profits are working toward strengthening our balance sheet. And we're honing our efforts to make United a great place to work for our people.

To recap, in 1998, we continued to rise:

- We produced strong profits for the year, despite challenging situations in Asia, Latin America and the trans-Atlantic market;
- We tested our contingency plan and now know from experience that it works;
- We improved our on-time performance;
- We continued the initiatives that support our Customer Satisfaction Philosophy through better seats, improved entertainment options, better meals and access to more destinations around the globe;
- We saw an expansion of Star Alliance with Ansett Australia, Air New Zealand and All Nippon Airways announcing their intention to join in 1999;
- We enhanced our fleet through our Retire-and-Replace program and orders for additional aircraft; and

- We worked on improving communication with our labor groups and put more leadership training in place for our front-line employees.

Guided by our clear, strategic Quality Flight Plan, we've seen we can face economic challenges head on and still generate healthy profits. We've seen that we can work through our differences and produce better working relationships.

To keep us on track in 1999, we are pursuing four core objectives:

On-time Performance: to have 55 percent of our flights systemwide depart exactly on time and 71 percent of our flights depart within five minutes of their scheduled departure.

Customer Satisfaction: to increase the percentage of our premium customers who definitely intend to choose United for their next trip, as measured by survey input.

People: to improve how our employees rate working for United based on a 2 percent increase to our Employee Confidence Index rating.

Financial: to achieve an 11.8 percent fully distributed pre-tax profit margin, keeping United in the top 20 percent of the top 18 global airlines.

As the comments of our customers in 14D show, we're on target. Of course, we still have a few wrinkles to iron out – and we're continuously working to improve on both the challenges and the successes in our business, our operation and our workplace. Steadily. Consistently. And with the strategic direction that will build on the momentum we've already created. We are rising to become the airline of choice worldwide.

**“United is my exclusive
airline. I even go out of my
way to use United.”**

Mark Harm, UA 474



Fleet facts

Aircraft Fleet

<i>Operating fleet as of December 31, 1998</i>	<i>Average seats</i>	<i>Number of aircraft</i>	<i>Owned</i>	<i>Leased</i>		<i>Average age (yrs)</i>
				<i>Operating</i>	<i>Capital</i>	
A319	126	20	10	–	10	1
A320	144	51	11	32	8	3
B727-200	147	75	65	–	10	20
B737-200A	109	24	24	–	–	19
B737-300	129	101	10	91	–	10
B737-500	112	57	27	15	15	7
B747-100	450	4	4	–	–	28
B747-200	347	9	2	7	–	20
B747-400	363	36	15	21	–	5
B757-200	188	96	41	50	5	7
B767-200	168	19	19	–	–	16
B767-300	213	27	8	17	2	6
B777-200	290	34	16	4	14	2
DC10-10	288	16	13	–	3	22
DC10-30	298	4	1	3	–	20
DC10-30F	NA	4	2	1	1	19
Total		577	268	241	68	10

<i>Delivery schedule for aircraft on order as of December 31, 1998*</i>	<i>2001</i>			<i>Total</i>
	<i>1999</i>	<i>2000</i>	<i>and beyond</i>	
A319	8	4	15	27
A320	5	12	18	35
B747-400	7	2	6	15
B757-200	2	0	0	2
B767-300	5	3	2	10
B777-200	6	6	6	18
Total	33	27	47	107

*Figures exclude the effect of any 1999 agreement(s).

Major Domestic and International Connecting Airports

<i>As scheduled for March 1998</i>		<i>Chicago</i>	<i>Denver</i>	<i>San Francisco</i>	<i>Los Angeles</i>	<i>Washington, D.C.</i>	<i>Miami</i>	<i>Frankfurt</i>	<i>London</i>	<i>Tokyo</i>	<i>Toronto</i>
		<i>(ORD)</i>	<i>(DEN)</i>	<i>(SFO)</i>	<i>(LAX)</i>	<i>(IAD)</i>	<i>(MIA)</i>	<i>(FRA)</i>	<i>(LHR)</i>	<i>(NRT)</i>	<i>(YYZ)</i>
<i>Average daily departures – Operated by</i>	United Airlines	438	305	242	178	74	21	4	13	15	6
	United Express Partners	122	179	88	162	231	0	0	0	0	0
	Star Alliance Members*	18	4	7	8	8	9	92	13	0	132
	Code-share Partners*	5	1	3	6	0	37	2	34	0	0
	Total	583	489	340	354	313	67	98	60	15	138
<i>Nonstop markets – Served by</i>	United Airlines	93	61	47	37	33	16	2	7	12	2
	United Express Partners	35	52	13	18	44	0	0	0	0	0
	Star Alliance Members*	8	2	5	5	4	9	50	7	0	41
	Code-share Partners*	2	3	2	4	0	9	1	11	0	0
	Total**	132	106	62	61	75	31	51	25	12	41

*Includes departures and markets served that may require a connection or through flight.

**Numbers may not add up to the total indicated because United and its partners and/or Star Alliance members may provide service to the same market.

UAL Corporation's 1998 Earnings

UAL's earnings from operations were \$1.478 billion in 1998, compared to operating earnings of \$1.259 billion in 1997. UAL's net earnings in 1998 were \$821 million (\$6.83 per share, diluted), compared to net earnings of \$949 million in 1997 (\$8.95 per share, diluted).

The 1997 earnings include an extraordinary loss of \$9 million, after tax, on early extinguishment of debt, as well as an after-tax gain

method, the ESOP compensation expense is excluded from Fully Distributed net earnings, and ESOP convertible preferred stock dividends are not deducted from earnings attributable to common stockholders. No adjustments are made to Fully Distributed earnings to reflect future salary increases. A comparison of results reported on a Fully Distributed basis to results reported under Generally Accepted Accounting Principles (GAAP) is as follows:

		1998		1997	
		GAAP (diluted)	Fully Distributed	GAAP (diluted)	Fully Distributed
<i>(In millions, except per share)</i>					
Net income		\$ 821	\$1,308	\$ 949	\$1,546
Per share	Earnings before gains on sales and extraordinary loss	\$ 6.83	\$10.24	\$ 6.64	\$ 9.97
	Gains on sales of ATS/Galileo, net	–	–	2.40	1.79
	Extraordinary loss, net	–	–	(0.09)	(0.07)
		\$ 6.83	\$10.24	\$ 8.95	\$11.69
	Average number of common shares assumed outstanding	105.2	126.8	97.4	131.4

on the ATS/Galileo transaction (see Note 6 “Sale of Affiliate”) of \$235 million (\$2.40 per share, diluted).

Management believes that a more complete understanding of UAL's results may be gained by viewing them on a pro forma, “Fully Distributed” basis. This approach considers all Employee Stock Ownership Plan (ESOP) shares which will ultimately be distributed to employees throughout the ESOP period (rather than just the shares committed to be released) to be immediately outstanding and thus fully distributed. Consistent with this

The current relationship of earnings and earnings per share as computed on a GAAP basis versus a Fully Distributed basis may not be representative of the relationship in future periods because of various factors. These factors include: the dependence of ESOP compensation expense on the common stock price; trends and commitments with respect to wages; and the increasing number of shares assumed outstanding under the GAAP basis during the remainder of the ESOP period.

Statements of Consolidated Financial Position – Assets

December 31

	<i>In millions</i>	<i>1998</i>	<i>1997</i>
Current assets			
	Cash and cash equivalents	\$ 390	\$ 295
	Short-term investments	425	550
	Receivables, less allowance for doubtful accounts (1998 – \$22; 1997 – \$15)	1,138	1,051
	Aircraft fuel, spare parts and supplies, less obsolescence allowance (1998 – \$39; 1997 – \$29)	384	355
	Deferred income taxes	256	244
	Prepaid expenses and other	315	453
		2,908	2,948
Operating property and equipment			
	Owned –		
	Flight equipment	12,006	10,382
	Advances on flight equipment	985	972
	Other property and equipment	3,134	2,842
		16,125	14,196
	Accumulated depreciation and amortization	(5,174)	(5,116)
		10,951	9,080
	Capital leases –		
	Flight equipment	2,605	2,221
	Other property and equipment	97	98
		2,702	2,319
	Accumulated amortization	(599)	(625)
		2,103	1,694
		13,054	10,774
Other assets			
	Investments in affiliates	304	223
	Intangibles, less accumulated amortization (1998 – \$389; 1997 – \$374)	676	703
	Aircraft lease deposits	545	318
	Prepaid rent	631	60
	Other	441	438
		2,597	1,742
		\$18,559	\$15,464

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Financial Position - Liabilities and Stockholders' Equity

December 31

<i>In millions, except share data</i>		1998	1997
Current liabilities	Notes payable	\$ 184	\$ –
	Long-term debt maturing within one year	98	235
	Current obligations under capital leases	176	171
	Advance ticket sales	1,429	1,267
	Accounts payable	1,151	1,030
	Accrued salaries, wages and benefits	952	869
	Accrued aircraft rent	793	830
	Other accrued liabilities	885	846
		5,668	5,248
Long-term debt		2,858	2,092
Long-term obligations under capital leases		2,113	1,679
Other liabilities and deferred credits	Deferred pension liability	89	25
	Postretirement benefit liability	1,424	1,361
	Deferred gains	1,180	1,210
	Accrued aircraft rent	371	368
	Deferred income taxes	398	79
	Other	354	450
		3,816	3,493
Company-obligated mandatorily redeemable preferred securities of a subsidiary trust		100	101
Equity put options		32	–
Preferred stock committed to Supplemental ESOP		691	514
Stockholders' equity	Serial preferred stock	–	–
	ESOP preferred stock	–	–
	Common stock, \$0.01 par value; authorized 200,000,000 shares; issued 63,005,869 shares at December 31, 1998 and 61,288,039 shares at December 31, 1997	1	1
	Additional capital invested	3,517	2,876
	Retained earnings	1,028	309
	Unearned ESOP preferred stock	(121)	(177)
	Stock held in treasury, at cost –		
	Preferred, 10,213,519 depository shares at December 31, 1998 and 10,149,219 depository shares at December 31, 1997	(305)	(302)
	Common, 11,201,216 shares at December 31, 1998 and 3,967,553 shares at December 31, 1997	(835)	(361)
	Accumulated other comprehensive income	(2)	(2)
	Other	(2)	(7)
		3,281	2,337
Commitments and contingent liabilities			
		\$18,559	\$15,464

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Operations

Year ended December 31

		<i>1998</i>	<i>1997</i>	<i>1996</i>
<i>In millions, except per share</i>				
Operating revenues	Passenger	\$15,520	\$15,342	\$14,465
	Cargo	913	892	773
	Other operating revenues	1,128	1,144	1,124
		<u>17,561</u>	<u>17,378</u>	<u>16,362</u>
Operating expenses	Salaries and related costs	5,341	5,018	4,719
	ESOP compensation expense	829	987	685
	Aircraft fuel	1,788	2,061	2,082
	Commissions	1,325	1,508	1,466
	Purchased services	1,505	1,285	1,187
	Aircraft rent	893	942	952
	Landing fees and other rent	881	863	846
	Depreciation and amortization	793	724	759
	Aircraft maintenance	624	603	449
	Other operating expenses	2,104	2,128	2,094
		<u>16,083</u>	<u>16,119</u>	<u>15,239</u>
Earnings from operations		<u>1,478</u>	<u>1,259</u>	<u>1,123</u>
Other income (expense)	Interest expense	(355)	(286)	(295)
	Interest capitalized	105	104	77
	Interest income	59	52	57
	Equity in earnings of affiliates	72	66	64
	Gain on sale of partnership interest	-	275	-
	Gain on sale of affiliate's stock	-	103	-
	Miscellaneous, net	(103)	(49)	(56)
		<u>(222)</u>	<u>265</u>	<u>(153)</u>
Earnings	Earnings before income taxes, distributions on preferred securities and extraordinary item	1,256	1,524	970
	Provision for income taxes	429	561	370
	Earnings before distributions on preferred securities and extraordinary item	827	963	600
	Distributions on preferred securities, net of tax	(6)	(5)	-
	Extraordinary loss on early extinguishment of debt, net of tax	-	(9)	(67)
	Net earnings	<u>\$ 821</u>	<u>\$ 949</u>	<u>\$ 533</u>
Per share, basic	Earnings before extraordinary item	\$ 12.71	\$ 14.98	\$ 8.76
	Extraordinary loss on early extinguishment of debt, net of tax	-	(0.15)	(1.19)
	Net earnings	<u>\$ 12.71</u>	<u>\$ 14.83</u>	<u>\$ 7.57</u>
Per share, diluted	Earnings before extraordinary item	\$ 6.83	\$ 9.04	\$ 5.85
	Extraordinary loss on early extinguishment of debt, net of tax	-	(0.09)	(0.79)
	Net earnings	<u>\$ 6.83</u>	<u>\$ 8.95</u>	<u>\$ 5.06</u>

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Cash Flows

Year ended December 31

<i>In millions</i>		<i>1998</i>	<i>1997</i>	<i>1996</i>
Cash and cash equivalents at beginning of year		\$ 295	\$ 229	\$ 194
Cash flows from operating activities	Net earnings	821	949	533
	Adjustments to reconcile to net cash provided by operating activities –			
	ESOP compensation expense	829	987	685
	Extraordinary loss on debt extinguishment	–	9	67
	Gain on sale of partnership interest	–	(275)	–
	Gain on sale of affiliate's stock	–	(103)	–
	Pension funding less than (greater than) expense	101	43	(279)
	Deferred postretirement benefit expense	149	139	130
	Depreciation and amortization	793	724	759
	Provision for deferred income taxes	307	194	69
	Undistributed earnings of affiliates	(62)	(16)	(49)
	Increase in receivables	(97)	(222)	(10)
	Decrease (increase) in other current assets	105	–	(105)
	Increase in advance ticket sales	162	78	89
	Increase in accrued income taxes	38	20	84
	Increase in accounts payable and accrued liabilities	69	16	294
	Amortization of deferred gains	(64)	(64)	(63)
	Other, net	43	88	249
			3,194	2,567
Cash flows from investing activities	Additions to property and equipment	(2,832)	(2,812)	(1,538)
	Proceeds on disposition of property and equipment	452	83	55
	Proceeds on disposition of partnership interest	–	539	–
	Decrease (increase) in short-term investments	125	(82)	482
	Other, net	(63)	(29)	18
		(2,318)	(2,301)	(983)
Cash flows from financing activities	Reacquisition of preferred stock	(3)	–	(84)
	Repurchase of common stock	(459)	(250)	–
	Proceeds from issuance of long-term debt	928	597	–
	Repayment of long-term debt	(271)	(301)	(791)
	Principal payments under capital leases	(322)	(147)	(112)
	Purchase of equipment certificates under Company operating leases	(693)	–	–
	Conversion of subordinated debentures	–	–	(324)
	Increase in short-term borrowings	184	–	–
	Aircraft lease deposits	(154)	(112)	(110)
	Cash dividends	(10)	(10)	(22)
	Other, net	19	23	8
		(781)	(200)	(1,435)
Increase in cash and cash equivalents during the year		95	66	35
Cash and cash equivalents at end of year		\$ 390	\$ 295	\$ 229

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Stockholders' Equity

Year ended December 31

<i>In millions, except per share</i>		Preferred Stock	Common Stock	Additional Capital Invested	Retained Earnings (Deficit)	Unearned	Accumulated		Total		
						ESOP Preferred Stock	Treasury Stock	Comp. Income		Other	
Balance at December 31, 1995		\$-	\$-	\$1,353	\$ (1,039)	\$(175)	\$ (282)	\$(74)	\$(22)	\$ (239)	
1996	Net earnings	-	-	-	533	-	-	-	-	533	
	Other comprehensive income, net:										
	Unrealized losses on securities, net	-	-	-	-	-	-	(1)	-	(1)	
	Minimum pension liability adj.	-	-	-	-	-	-	75	-	75	
	Total comprehensive income	-	-	-	533	-	-	74	-	607	
	Cash dividends on preferred stock (\$1.44 per Series B share)	-	-	-	(20)	-	-	-	-	(20)	
	Conversion of Series A debentures	-	-	217	-	-	-	-	-	217	
	Exchange of Series B preferred stock	-	-	(102)	-	-	-	-	-	(102)	
	Issuance and amortization of ESOP preferred stock	-	-	735	-	(50)	-	-	-	685	
	Reacquisition of Series B preferred stock	-	-	-	-	-	(84)	-	-	(84)	
	ESOP dividend (\$8.89 per share)	-	-	17	(40)	23	-	-	-	-	
	Preferred stock committed to Supplemental ESOP	-	-	(106)	-	-	-	-	-	(106)	
	Other	-	1	46	-	-	(19)	-	9	37	
	Balance at December 31, 1996		-	1	2,160	(566)	(202)	(385)	-	(13)	995
1997	Net earnings	-	-	-	949	-	-	-	-	949	
	Other comprehensive income, net:										
	Minimum pension liability adj.	-	-	-	-	-	-	(2)	-	(2)	
	Total comprehensive income	-	-	-	949	-	-	(2)	-	947	
	Cash dividends on preferred stock (\$1.44 per Series B share)	-	-	-	(10)	-	-	-	-	(10)	
	Common stock repurchases	-	-	-	-	-	(250)	-	-	(250)	
	Issuance and amortization of ESOP preferred stock	-	-	993	-	(6)	-	-	-	987	
	ESOP dividend (\$8.89 per share)	-	-	36	(67)	31	-	-	-	-	
	Preferred stock committed to Supplemental ESOP	-	-	(349)	-	-	-	-	-	(349)	
	Other	-	-	36	3	-	(28)	-	6	17	
	Balance at December 31, 1997		-	1	2,876	309	(177)	(663)	(2)	(7)	2,337
	1998	Net earnings	-	-	-	821	-	-	-	-	821
		Other comprehensive income, net:									
		Unrealized gains on securities, net	-	-	-	-	-	-	1	-	1
Minimum pension liability adj.		-	-	-	-	-	-	(1)	-	(1)	
Total comprehensive income		-	-	-	821	-	-	-	-	821	
Cash dividends on preferred stock (\$1.44 per Series B share)		-	-	-	(10)	-	-	-	-	(10)	
Common stock repurchases		-	-	-	-	-	(459)	-	-	(459)	
Issuance and amortization of ESOP preferred stock		-	-	823	-	6	-	-	-	829	
ESOP dividend (\$8.89 per share)		-	-	42	(92)	50	-	-	-	-	
Preferred stock committed to Supplemental ESOP		-	-	(177)	-	-	-	-	-	(177)	
Other		-	-	(47)	-	-	(18)	-	5	(60)	
Balance at December 31, 1998		\$-	\$1	\$3,517	\$ 1,028	\$(121)	\$(1,140)	\$ (2)	\$ (2)	\$3,281	

See accompanying condensed notes to consolidated financial statements.

Condensed Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a. Basis of Presentation

UAL Corporation (“UAL”) is a holding company whose principal subsidiary is United Air Lines, Inc. (“United”). The consolidated financial statements include the accounts of UAL and all of its majority-owned affiliates (collectively the “Company”). All significant intercompany transactions are eliminated. Investments in affiliates are carried on the equity basis. Certain prior-year financial statement items have been reclassified to conform to the current year’s presentation.

b. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Airline Revenues

Passenger fares and cargo revenues are recorded as operating revenues when the transportation is furnished. The value of unused passenger tickets is included in current liabilities.

d. Cash and Cash Equivalents and Short-term Investments

Cash in excess of operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with a maturity of three months or less on their acquisition date are classified as cash and cash equivalents. Other investments are classified as short-term investments.

From time to time, United lends certain of its securities classified as cash and cash equivalents and short-term investments to third parties. United requires collateral in an amount exceeding the value of the securities and is obligated to reacquire the securities at

the end of the contract. United accounts for these transactions as secured borrowings rather than sales and so does not remove the securities from the balance sheet. At December 31, 1998, United is obligated to repurchase \$142 million of securities lent to third parties.

e. Derivative Financial Instruments

Foreign Currency – From time to time, United enters into Japanese yen forward exchange contracts to minimize gains and losses on the revaluation of short-term yen-denominated liabilities. The yen forwards typically have short-term maturities and are marked to fair value at the end of each accounting period. The unrealized mark-to-market gains and losses on the yen forwards generally offset the losses and gains recorded on the yen liabilities.

United has also entered into forwards and swaps to reduce exposure to currency fluctuations on yen- and French franc-denominated capital lease obligations. The cash flows of the forwards and swaps mirror those of the capital leases. The premiums on the forwards and swaps, as measured at inception, are being amortized over their respective lives as components of interest expense. Any gains or losses realized upon early termination of these forwards and swaps are deferred and recognized in income over the remaining life of the underlying exposure.

The Company hedges some of the risks of exchange rate volatility on its anticipated future yen and Hong Kong dollar revenues by purchasing put options with little or no intrinsic value for each respective currency. The amount and duration of these options are synchronized with the expected revenues, and thus, the put options have been designated as a hedge. The premiums on purchased option contracts are amortized over the lives of the contracts. Unrealized gains on purchased put option contracts are deferred until contract expiration and then recognized as a component of passenger revenue. To reduce hedging costs, the Company sells call options

in each of these currencies from time to time. At the end of each accounting period, the written call option contracts are marked-to-market, and unrealized losses are recorded in "Miscellaneous, net."

Interest Rates – United may, from time to time, enter into swaps to reduce exposure to interest rate fluctuations in connection with certain debt, capital leases and operating leases. The cash flows of the swaps mirror those of the underlying exposures. The premiums on the swaps, as measured at inception, are amortized over their respective lives as components of interest expense. Any gains or losses realized upon the early termination of these swaps are deferred and recognized in income over the remaining life of the underlying exposure.

Aircraft Fuel – United uses a combination of a collar option strategy, involving the simultaneous purchase of fuel call options with the simultaneous sale of fuel put options with identical expiration dates, and purchased call options to hedge a portion of its price risk related to aircraft fuel purchases. The collars and purchased call options have been designated as a hedge. Gains or losses on hedge positions are recognized upon contract expiration as a component of aircraft fuel inventory. In addition, to a limited extent, United trades short-term heating oil futures contracts. Unrealized losses on these contracts are recorded currently in income, while unrealized gains are deferred until contract expiration. Both gains and losses are recorded as a component of aircraft fuel expense.

f. Aircraft Fuel, Spare Parts and Supplies

Aircraft fuel and maintenance and operating supplies are stated at average cost. Flight equipment spare parts are stated at average cost less an obsolescence allowance.

g. Operating Property and Equipment

Owned operating property and equipment is stated at cost. Property under capital leases, and the related obligation for future lease payments, are initially recorded at an amount equal to the then present value of those lease payments.

Depreciation and amortization of owned depreciable assets is based on the straight-line method over their estimated service lives. Leasehold improvements are amortized over the remaining period of the lease or the estimated service life of the related asset, whichever is less. Aircraft are depreciated to estimated salvage values, generally over lives of 10 to 30 years; buildings are depreciated over lives of 25 to 45 years; and other property and equipment are depreciated over lives of 3 to 15 years.

Properties under capital leases are amortized on the straight-line method over the life of the lease or, in the case of certain aircraft, over their estimated service lives. Lease terms are 10 to 30 years for aircraft and flight simulators and 25 years for buildings. Amortization of capital leases is included in depreciation and amortization expense.

Maintenance and repairs, including the cost of minor replacements, are charged to maintenance expense accounts. Costs of additions to and renewals of units of property are charged to property and equipment accounts.

h. Intangibles

Intangibles consist primarily of route acquisition costs and intangible pension assets. Route acquisition costs are amortized over 40 years.

i. Mileage Plus Awards

United accrues the estimated incremental cost of providing free travel awards earned under its Mileage Plus frequent flyer program (including awards earned from mileage credits sold) when such award levels are reached. United, through its wholly owned subsidiary, Mileage Plus Holdings, Inc., sells mileage credits to participating partners in the Mileage Plus program. The resulting revenue is recorded in other operating revenues during the period in which the credits are sold.

j. Deferred Gains

Gains on aircraft sale and leaseback transactions are deferred and amortized over the lives of the leases as a reduction of rental expense.

2. Employee Investment Transaction and Recapitalization

On July 12, 1994, the stockholders of UAL approved a plan of recapitalization to provide an approximately 55 percent equity interest in UAL to certain employees of United in exchange for wage concessions and work-rule changes. The employees' equity interest is being allocated to individual employees through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization.

"ESOP compensation expense" represents the estimated fair value of ESOP convertible preferred stock committed to be released to employees for the period, net of amounts used to satisfy dividend requirements for previously allocated ESOP convertible preferred shares, under the ESOPs. The fair value of ESOP convertible preferred stock is estimated based on the market value of UAL's common stock.

3. Commitments

At December 31, 1998, commitments for the purchase of property and equipment, principally aircraft, approximated \$6.8 billion after deducting advance payments. An estimated \$2.7 billion is due to be spent in 1999, \$1.8 billion in 2000, \$2.0 billion in 2001 and \$0.3 billion in 2002 and thereafter. The major commitments are for the purchase of B747, B757, B767, B777, A319 and A320 aircraft, which are scheduled to be delivered through 2002.

The Company leases aircraft, airport passenger terminal space, aircraft hangars and related maintenance facilities, cargo terminals, other airport facilities, real estate, office and computer equipment and vehicles. Leases which are classified as capital leases appear on the Company's balance sheet while those classified as operating leases do not.

Future minimum lease payments as of December 31, 1998, under operating leases having initial remaining noncancelable lease terms of more than one year, are as follows:

	<i>In millions</i>	<i>Aircraft</i>	<i>Non-aircraft</i>
Payable during	1999	\$ 869	\$ 451
	2000	882	447
	2001	865	439
	2002	854	420
	2003	892	413
	After 2003	10,729	6,537
	Total minimum lease payments	\$ 15,091	\$ 8,707

4. Per Share Amounts

Earnings per share are presented on both a basic and a diluted basis. Basic earnings per share were computed based on weighted average common shares outstanding. In addition, diluted per share amounts include potential common shares, including ESOP shares committed to be released, and assume the conversion of convertible debentures (for periods not actually converted) and elimination of related interest expense.

<i>Earnings attributable to common stockholders (In millions)</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
Net income	\$ 821	\$ 949	\$ 533
Preferred stock dividends and other adjustments	(102)	(77)	(108)
Earnings attributable to common stockholders (basic)	\$ 719	\$ 872	\$ 425
Other adjustments	—	—	3
Earnings attributable to common stockholders (diluted)	\$ 719	\$ 872	\$ 428
<i>Shares (In millions)</i>			
Average shares outstanding (basic)	56.5	58.8	56.1
Convertible ESOP preferred stock	47.1	35.9	24.0
Incremental shares related to convertible debentures and other	1.6	2.7	4.5
Average number of shares (diluted)	105.2	97.4	84.6
<i>Earnings per share</i>			
Basic	\$12.71	\$14.83	\$7.57
Diluted	\$ 6.83	\$ 8.95	\$5.06

5. Segment Information

During the fourth quarter of 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." United has a global route network designed to transport passengers and cargo between destinations in North America, the Pacific, Latin America and Europe. These regions constitute United's four reportable

segments. The accounting policies for each of these segments are the same as those described in Note 1, "Summary of Significant Accounting Policies," except that segment financial information has been prepared using a management approach that is consistent with how the Company's management internally disaggregates financial information for the purpose of making internal operating decisions. UAL evaluates performance based on United's fully distributed earnings before income taxes. Revenues are attributed to each reportable segment based on the allocation guidelines provided by the U.S. Department of Transportation, which classifies flights between the U.S. and foreign destinations as part of each respective region. A reconciliation of the total amounts reported by reportable segments to the applicable amounts in the financial statements follows:

assets related to the acquisition of its Atlantic and Latin American route authorities.

6. Sale of Affiliate

In July 1997, United completed the sale of its interest in the Apollo Travel Services Partnership, a 77 percent owned affiliate whose accounts were consolidated, to Galileo International, Inc. ("Galileo"), previously a 38 percent owned affiliate accounted for under the equity method, for \$539 million in cash. This transaction resulted in a pre-tax gain of approximately \$405 million. Of this amount, \$275 million was recognized during the third quarter of 1997 and the balance will be recognized over the next 25 years, the estimated remaining life of the assets acquired by Galileo. In connection with this transaction, the Company also recognized a pre-tax gain of \$103 million during the third

<i>Year Ended December 31 (In millions)</i>							
	<i>Domestic</i>	<i>Pacific</i>	<i>Latin America</i>	<i>Atlantic</i>	<i>Reportable Segment Total</i>	<i>Other</i>	<i>Consolidated Total</i>
1998							
Revenue	\$11,997	\$2,843	\$832	\$1,846	\$17,518	\$ 43	\$17,561
Interest income	33	14	3	8	58	1	59
Interest expense	207	84	22	49	362	(7)	355
Equity in earnings of affiliates	41	17	4	10	72	-	72
Depreciation and amortization	520	145	45	95	805	(12)	793
Fully distributed earnings before income taxes	1,641	63	68	277	2,049	36	2,085
1997							
Revenue	\$11,214	\$3,552	\$824	\$1,745	\$17,335	\$ 43	\$17,378
Interest income	29	6	3	13	51	1	52
Interest expense	166	73	15	36	290	(4)	286
Equity in earnings of affiliates	38	17	3	8	66	-	66
Depreciation and amortization	474	159	38	76	747	(23)	724
Fully distributed earnings before income taxes	1,410	589	129	347	2,475	36	2,511
1996							
Revenue	\$10,717	\$3,438	\$750	\$1,412	\$16,317	\$ 45	\$16,362
Interest income	26	11	2	5	44	13	57
Interest expense	171	72	16	31	290	5	295
Equity in earnings of affiliates	38	16	3	7	64	-	64
Depreciation and amortization	509	134	39	58	740	19	759
Fully distributed earnings before income taxes	1,048	423	45	139	1,655	-	1,655
					<i>1998</i>	<i>1997</i>	<i>1996</i>
Total fully distributed earnings for reportable segments					\$ 2,049	\$2,475	\$ 1,655
UAL subsidiary earnings					36	36	-
Less: ESOP compensation expense					829	987	685
Total earnings before income taxes, distributions on preferred securities and extraordinary item					\$ 1,256	\$1,524	\$ 970

UAL's operations involve an insignificant level of dedicated revenue-producing assets by reportable segment. The overwhelming majority of UAL's revenue-producing assets can be deployed in any of the four reportable segments. UAL has significant intangible

quarter of 1997, upon the completion of an initial public offering of Galileo stock. This transaction resulted in a reduction of the Company's ownership in Galileo from 38 percent to 32 percent.

Management Statement on Accounting Controls

The integrity of UAL Corporation's financial records, from which the financial statements are prepared, is largely dependent on the Company's system of internal accounting controls. The purpose of the system is to provide reasonable assurance that transactions are executed in accordance with management's authorization; that transactions are appropriately recorded in order to permit preparation of financial statements which, in all material respects, are presented in conformity with generally accepted accounting principles consistently applied; and that assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

To enhance the effective achievement of internal accounting controls, the Company carefully selects and trains its employees, gives due emphasis to appropriate division of clearly defined lines of responsibility and develops and communicates written policies and procedures. Based on a review and monitoring of internal accounting controls, augmented by an internal auditing function and the oversight responsibilities of the outside directors comprising the Audit Committee of the Company's Board of Directors, management believes that the Company's internal accounting control system is adequate and appropriately balances the relationship between the cost of the system and the benefits it provides.



Gerald Greenwald
Chairman and CEO



Douglas A. Hacker
Senior Vice President and CFO

Report of Independent Public Accountants

To the Stockholders and
Board of Directors, UAL Corporation:

We have audited, in accordance with generally accepted auditing standards, the statements of consolidated financial position of UAL Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1998 and 1997, and the related statements of consolidated operations, consolidated cash flows, and consolidated stockholders' equity for each of the three years in the period ended December 31, 1998, appearing in the appendix to the proxy statement for the 1999 Annual Meeting of Stockholders of the Company (not presented herein). In our report dated February 24, 1999, also appearing in that proxy statement, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying consolidated statements of financial position as of December 31, 1998 and 1997, and the related statements of consolidated operations, consolidated cash flows and consolidated stockholders' equity for each of the three years in the period ended December 31, 1998, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.



Chicago, Illinois
February 24, 1999

Eleven-Year Summary

		<i>1998</i>	<i>1997</i>
<i>In millions, except per share, rates and number of aircraft</i>			
Earnings data	Operating revenues	\$ 17,561	\$ 17,378
	Operating earnings (loss)	1,478	1,259
	Earnings (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes	821	958
	Net earnings (loss)	\$ 821	\$ 949
Share data	Per share –		
	Earnings (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes, diluted	\$ 6.83	\$ 9.04
	Net earnings (loss), diluted	\$ 6.83	\$ 8.95
	Book value of common stock at year-end	\$ 61.79	\$ 39.35
	Common shares outstanding at year-end (in thousands)	51,805	57,320
Financial position at year-end	Assets –		
	Current assets	\$ 2,908	\$ 2,948
	Operating property and equipment, net	13,054	10,774
	Other assets	2,597	1,742
	Total assets	\$ 18,559	\$ 15,464
	Liabilities and stockholders' equity –		
	Current liabilities	\$ 5,668	\$ 5,248
	Long-term debt and long-term obligations under capital leases	4,971	3,771
	Other liabilities and deferred credits, redeemable preferred stock and minority interest	3,948	3,594
	Preferred stock committed to Supplemental ESOP	691	514
Stockholders' equity	3,281	2,337	
Total liabilities and stockholders' equity	\$ 18,559	\$ 15,464	
Other financial data	Depreciation and amortization	\$ 793	\$ 724
	Salaries and related costs (excluding ESOP compensation expense)	\$ 5,341	\$ 5,018
Operating data	Revenue passengers	87	84
	Revenue passenger miles	124,609	121,426
	Available seat miles	174,008	169,110
	Passenger load factor	71.6%	71.8%
	Passenger revenue per passenger mile (yield)	12.4¢	12.6¢
	Average price per gallon of jet fuel	59.0¢	69.5¢
	Number of aircraft in operating fleet at year-end	577	575
	Average full-time equivalent employees (in thousands)	91	88

<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>	<i>1990</i>	<i>1989</i>	<i>1988</i>
\$ 16,362	\$ 14,943	\$ 13,950	\$ 13,325	\$ 11,853	\$ 10,706	\$ 10,296	\$ 9,288	\$ 8,705
1,123	889	521	263	(538)	(494)	(36)	465	665
600	378	77	(31)	(417)	(332)	94	324	600
\$ 533	\$ 349	\$ 51	\$ (50)	\$ (957)	\$ (332)	\$ 94	\$ 324	\$ 1,124
\$ 5.85	\$ 5.23	\$ 0.19	\$ (0.66)	\$ (4.34)	\$ (3.58)	\$ 1.08	\$ 3.74	\$ 5.05
\$ 5.06	\$ 4.82	\$ (0.15)	\$ (0.85)	\$ (9.94)	\$ (3.58)	\$ 1.08	\$ 3.74	\$ 9.47
\$ 15.52	\$ (9.06)	\$ (24.99)	\$ 6.14	\$ 7.28	\$ 16.80	\$ 19.09	\$ 17.91	\$ 14.19
58,817	50,718	49,756	98,276	96,952	95,032	87,540	87,340	86,412
\$ 2,682	\$ 3,043	\$ 3,192	\$ 3,713	\$ 3,298	\$ 2,882	\$ 2,640	\$ 2,738	\$ 2,150
8,243	7,021	6,723	7,206	7,111	5,995	4,749	3,898	3,941
1,752	1,577	1,849	1,921	1,848	999	594	558	595
\$ 12,677	\$ 11,641	\$ 11,764	\$ 12,840	\$ 12,257	\$ 9,876	\$ 7,983	\$ 7,194	\$ 6,686
\$ 5,003	\$ 4,433	\$ 4,906	\$ 4,896	\$ 4,845	\$ 4,083	\$ 3,757	\$ 3,224	\$ 2,869
2,986	3,913	3,617	3,529	3,613	2,423	1,238	1,321	2,046
3,528	3,474	3,557	3,212	3,093	1,773	1,317	1,085	545
165	60	-	-	-	-	-	-	-
995	(239)	(316)	1,203	706	1,597	1,671	1,564	1,226
\$ 12,677	\$ 11,641	\$ 11,764	\$ 12,840	\$ 12,257	\$ 9,876	\$ 7,983	\$ 7,194	\$ 6,686
\$ 759	\$ 664	\$ 725	\$ 764	\$ 726	\$ 604	\$ 560	\$ 517	\$ 518
\$ 4,719	\$ 4,526	\$ 4,679	\$ 4,760	\$ 4,562	\$ 4,057	\$ 3,550	\$ 3,158	\$ 2,838
82	79	74	70	67	62	58	55	56
116,697	111,811	108,299	101,258	92,690	82,290	76,137	69,639	69,101
162,843	158,569	152,193	150,728	137,491	124,100	114,995	104,547	101,721
71.7%	70.5%	71.2%	67.2%	67.4%	66.3%	66.2%	66.6%	67.9%
12.4¢	11.8¢	11.3¢	11.6¢	11.3¢	11.5¢	11.8¢	11.6¢	10.8¢
72.2¢	59.5¢	58.8¢	63.6¢	66.4¢	71.6¢	80.4¢	63.6¢	56.0¢
564	558	543	544	536	486	462	429	405
84	80	77	81	80	77	73	69	65

Directors and Officers UAL Corporation

Directors

John W. Creighton, Jr.

Retired President and Chief Executive Officer,
Weyerhaeuser Company,
Tacoma, Washington
(Forest products)
Independent Director, Elected 1998
(1) (4) (6) (9) (10)

Duane D. Fitzgerald

Retired Chief Executive Officer,
Bath Iron Works Corporation,
Bath, Maine
(Shipbuilding)
Independent Director, Elected 1994
(1) (2) (3) (5) (6) (7) (10)

Michael H. Glawe

United Airlines Pilots
Master Executive Council Chairman,
Air Line Pilots Association International,
Rosemont, Illinois
(Labor union)
Employee Director, Elected 1996
(2) (4) (5) (6) (9)

James E. Goodwin

President and Chief Operating Officer,
UAL Corporation,
Chicago, Illinois
Public Director, Elected 1998
(9)

Gerald Greenwald

Chairman of the Board and Chief Executive Officer,
UAL Corporation,
Chicago, Illinois
Public Director, Elected 1994
(2) (4) (5) (7)

Richard D. McCormick

Chairman, President and Chief Executive Officer,
US WEST, Inc.,
Englewood, Colorado
(Telecommunications)
Independent Director, Elected 1994
(1) (2) (3) (5) (6) (10)

John F. McGillicuddy

Retired Chairman and Chief Executive Officer,
Chemical Banking Corporation,
New York, New York
(Banking and finance)
Public Director, Elected 1984
(1) (4) (5) (8) (10)

James J. O'Connor

Retired Chairman and Chief Executive Officer,
Unicom Corporation,
Chicago, Illinois
(Electric utility holding company)
Public Director, Elected 1984
(1) (2) (3) (4) (8) (9) (10)



Deval L. Patrick

Vice President and General Counsel,
Texaco, Inc.
White Plains, New York
(Oil/Energy company)
Employee Director, Elected 1997
(2) (6) (9)

John F. Peterpaul

Retired General Vice President,
International Association of Machinists
and Aerospace Workers,
Silver Spring, Maryland
(Labor union)
Employee Director, Elected 1994
(2) (4) (5) (6) (9)

Paul E. Tierney, Jr.

Managing Member, Development Capital, LLC,
New York, New York
(Investment management)
Public Director, Elected 1990
(1) (4) (7) (8) (10)

John K. Van de Kamp

President, Thoroughbred Owners of California,
Los Angeles, California
(Trade association)
Independent Director, Elected 1994
(1) (4) (6) (9) (10)

Officers

Gerald Greenwald

Chairman of the Board and Chief Executive Officer

James E. Goodwin

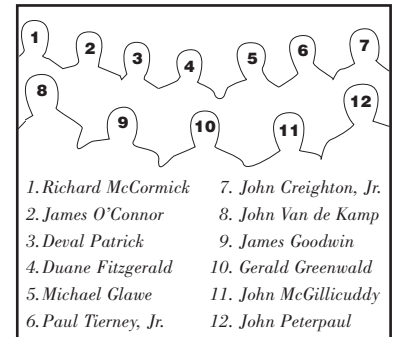
President and Chief Operating Officer

Douglas A. Hacker

Senior Vice President and Chief Financial Officer

Francesca M. Maher

Senior Vice President, General Counsel and Secretary



Legend:

- (1) Audit Committee
- (2) Compensation Committee
- (3) Compensation Administration Committee
- (4) CAP (Competitive Action Plan) Committee
- (5) Executive Committee
- (6) Independent Director Nomination Committee
- (7) Labor Committee
- (8) Outside Public Director Nomination Committee
- (9) Pension and Welfare Plans Oversight Committee
- (10) Transaction Committee

Directors and Officers United Airlines

*Gerald Greenwald**

Chairman and Chief Executive Officer

*James E. Goodwin**

President and Chief Operating Officer

*Christopher D. Bowers**

Senior Vice President North America

David A. Coltman

Senior Vice President Marketing

Rono J. Dutta

Senior Vice President Planning

Sara A. Fields

Senior Vice President Onboard Service

*Douglas A. Hacker**

Senior Vice President and Chief Financial Officer

*William P. Hobgood**

Senior Vice President People

Hart A. Langer

Senior Vice President Flight Operations

Shelley A. Longmuir

Senior Vice President Governmental Affairs

Francesca M. Maher

Senior Vice President, General Counsel and Secretary

*Stuart I. Oran**

Senior Vice President International

Bruce D. Parker

Senior Vice President Chief Information Officer

*Andrew P. Studdert**

Senior Vice President Fleet Operations

Dennis Arouca

Vice President People Services

Graham W. Atkinson

Vice President Atlantic

Judith A. Bishop

Vice President North America Sales

Frederic F. Brace

Vice President Finance

James C. Brennan

Vice President Pacific-North

Montie R. Brewer

Vice President Resource Planning

Larry D. Clark

Vice President Property and Facilities

MacDonald D. Curran

Vice President Pacific-South

Roger A. Gibson

Vice President North America

James J. Hartigan, Jr.

Vice President Worldwide Cargo

Gary S. Jefferson

Vice President Public Affairs

M. Lynn Hughitt

Vice President Financial Controls

Amos S. Kazzaz

Vice President United Shuttle

John D. Kiker

Vice President Corporate Communications

Mark S. Liberman

Vice President North America

Louis J. Mancini

Vice President Engineering and Technical Support

Cyril D. Murphy

Vice President International Network Development

Michael S. Praven

Vice President Revenue Management

Stephan G. Regulinski

Vice President Engines and Component Maintenance

Maria A. Sastre

Vice President Latin America

James V. Sines

Vice President Purchasing

Edmond L. Soliday

Vice President Corporate Safety,
Quality Assurance and Security

Ronald D. Utecht

Vice President Airframe and Line Maintenance

Daniel C. Walsh

Vice President North America

Michael G. Whitaker

Vice President International Affairs

James D. Whitlatch

Vice President Flight Standards and Training

Glenn S. Wright

Vice President North America

*Director, United Airlines

Stockholder Information

World Headquarters

1200 E. Algonquin Road
Elk Grove Township, IL 60007
(847) 700-4000

Mailing Addresses

UAL Corporation
P.O. Box 66919
Chicago, IL 60666

United Airlines
P.O. Box 66100
Chicago, IL 60666

Stock Listing

UAL Corporation's common stock is listed, under the symbol UAL, on the following exchanges: New York Stock Exchange, Chicago Stock Exchange and Pacific Stock Exchange.

Stockholder Questions

Information relating to a stockholder's dividends, transfer requirements, lost certificates and other related matters may be obtained from the transfer agent:

Harris Trust and Savings Bank
Shareholder Communication Team
P.O. Box A3504
Chicago, IL 60690-3504
(800) 647-4488

The transfer agent's "Telephone Response Center" is open Monday through Friday. (Account information is available from 8:30 am CST through 5:30 pm CST.)

Stockholders will be asked for their tax identification number, the name(s) in which the shares are registered and their record address. Alternatively, stockholders may write to the office of the Corporate Secretary, UAL Corporation.

Availability of Quarterly Results

UAL Corporation's 1999 quarterly results will be available on approximately the following dates:

First Quarter	April 21, 1999
Second Quarter	July 21, 1999
Third Quarter	October 20, 1999
Fourth Quarter	January 19, 2000

Financial Information

A copy of UAL Corporation's annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge, as well as other financial information, from:

Investor Relations
UAL Corporation
P.O. Box 66919
Chicago, IL 60666
(847) 700-7365

General Information

General background information on the company or information regarding the United Airlines Foundation may be obtained from Corporate Communications, United Airlines.

Independent Accountants

UAL Corporation's independent accountants are Arthur Andersen LLP.

UAL Corporation Market Prices

	<i>Per share</i>	<i>High</i>	<i>Low</i>
1998	First Quarter	\$ 95 1/4	\$ 82
	Second Quarter	97 1/2	73 1/16
	Third Quarter	94	56
	Fourth Quarter	70 7/8	55 1/4
1997	First Quarter	\$ 71 1/2	\$ 55 3/8
	Second Quarter	81 3/8	63
	Third Quarter	87 7/8	71 1/2
	Fourth Quarter	101 3/4	80 1/2

No cash dividends were paid on the common stock during these periods. As of March 1, 1999, there were 13,833 common stockholders of record. On March 1, 1999, the market closing price of UAL's common stock was \$62.

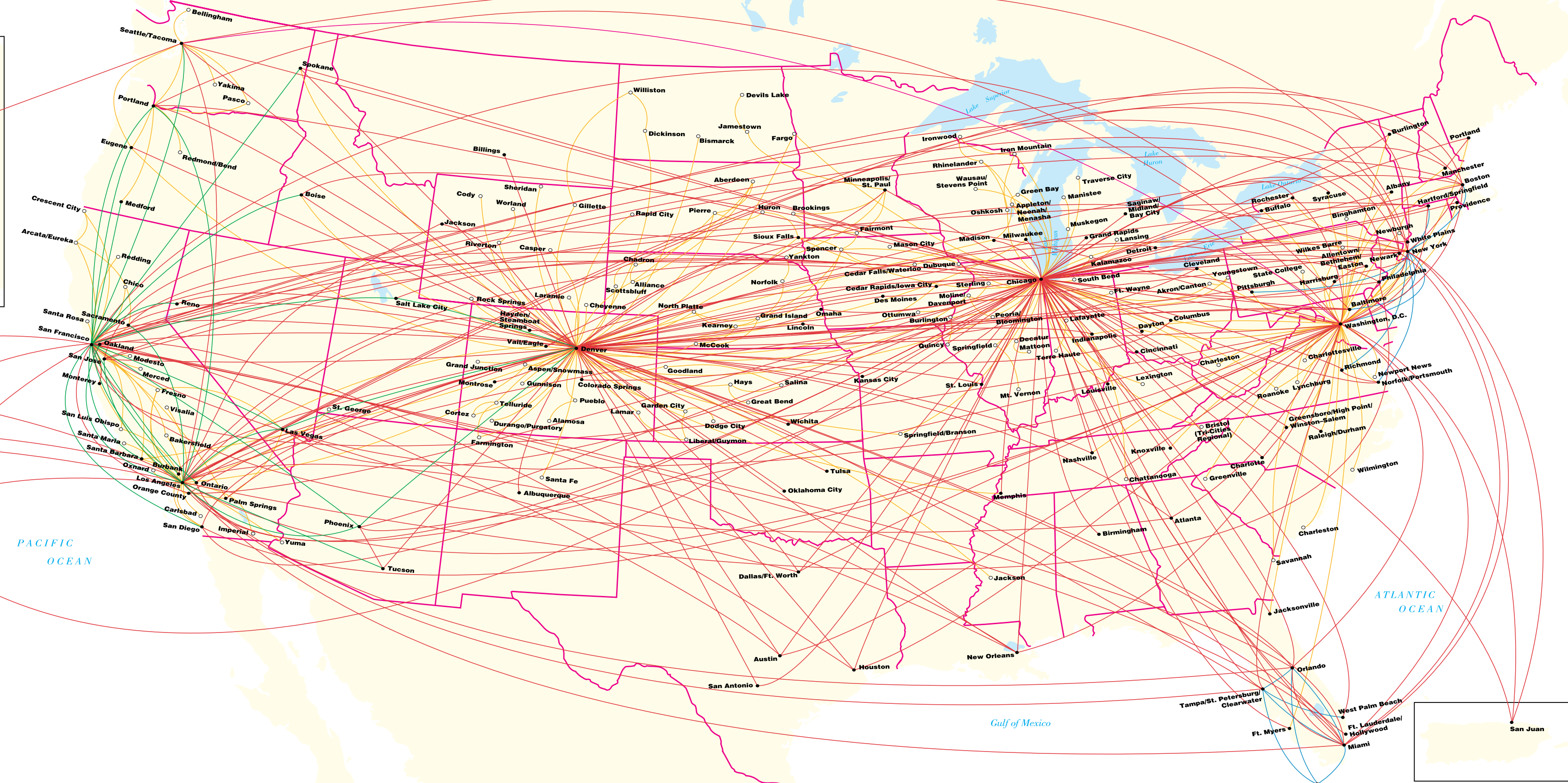
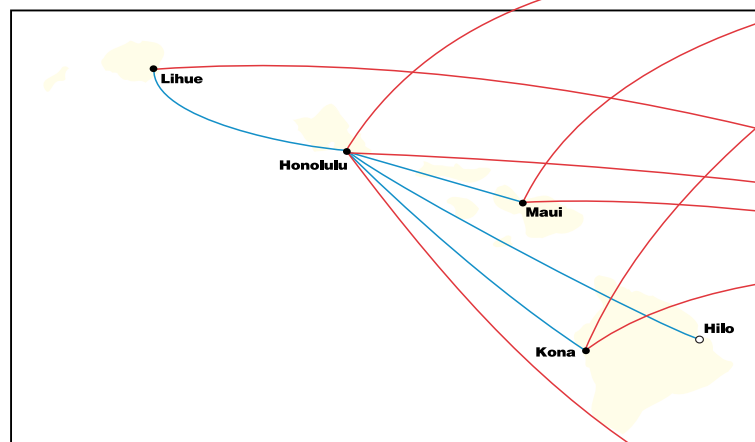
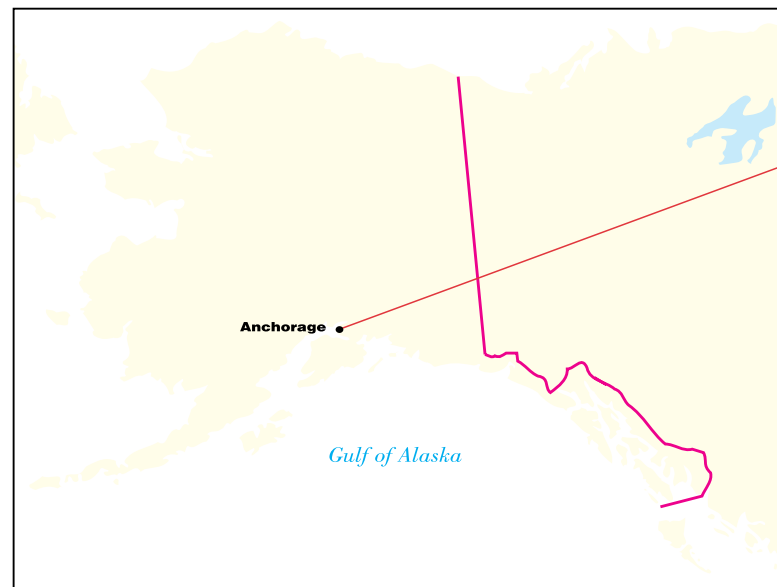
UAL Corporation is a holding company whose primary subsidiary is United Airlines. At year-end 1998, United Airlines provided passenger and cargo air transportation to 139 airports in 28 countries and one U.S. territory on five continents. United operated an average of 2,274 daily departures, carrying an average of 237,995 passengers a day.

UAL Corporation would like to thank the following companies for having granted permission to use photographs of their products and/or brand names in this publication: Binney & Smith, Inc.; Bally Gaming Systems; Casio, Inc.; Lipton; and Starbucks Coffee Company. (Crayola and the serpentine design are registered trademarks of Binney & Smith, and are used with permission. Lipton is a registered trademark of Lipton and is also used with permission.)

In the interest of conservation, UAL Corporation's Annual Report is printed on recycled paper and is recyclable.



United's Domestic Route System



Legend

- Cities served by United Airlines
- Cities served by United Express or code-share partners
- United Airlines routes
- United Shuttle routes
- United Express routes
- Code-share partner routes

United's International Route System

