PAFCA/United Air Lines, Inc. Restructuring Agreement

April 4, 2003

Mikel Alpers
President
Professional Airline Flight Control Association
PO Box 314
Elk Grove Village, IL 60009

Dear Mr. Alpers:

Attached hereto are the following documents negotiated by and between United Air Lines, Inc. (the "Company") and the Professional Airline Flight Control Association ("PAFCA") (collectively referred to as the "Restructuring Agreement"):

> Term Sheet setting forth the elements of the Restructuring Agreement, together with Attachments A through E, inclusive, further detailing the agreements reached.

I write to confirm that the Company and the Association will reduce these agreements to contractual language and implement them as of the effective date (May 1, 2003) following satisfaction of the following conditions:

- ☐ Acceptance by the PAFCA Executive Board;
- ☐ Approval of the UAL Board of Directors including any appropriate Committee;
- ☐ Ratification by the PAFCA United Airlines membership;
- ☐ Approval of the Bankruptcy Court; and
- ☐ Withdrawal of the Company's motion for rejection of the Dispatcher collective bargaining agreement.

In the event these conditions are not all satisfied by April 30, 2003, this letter will terminate and will become null and void in its entirety, and neither the Company nor PAFCA will have any obligation to implement the Restructuring Agreement in whole or in part.

If this letter accurately reflects our understanding, please sign and return two (2) copies for our files.

Sincerely,

Peter B. Kain
Vice-President Labor Relations
United Air Lines, Inc.

Accepted and agreed to this 4th day
of April, 2003:

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Mikel Alpers, President
Professional Airline Flight Control Association

PAFCA/UAL Restructuring Agreement

United Air Lines, Inc. and the Professional Airline Flight Control Association will enter into a Restructuring Agreement ("Restructuring Agreement") to enable the successful reorganization, restructuring and transformation of United and upon the following terms and conditions. Unless otherwise stated, all terms of PAFCA Agreement One between the parties ("Agreement") remain in full force and effect, provided the Agreement will be modified as necessary to enable and to reflect the terms of this Restructuring Agreement together with its Attachments A through E, inclusive, further detailing the agreements reached. This Restructuring Agreement supersedes the Interim Relief Letter of Agreement, which remains in effect until the effective date of this Restructuring Agreement.

DURATION	Effective date of May 1, 2003, amendable date of May 1, 2009.
DURATION CLAUSE	Revise Agreement Section 21 as follows: "This Agreement shall become effective May 1, 2003 and shall continue in full force and effect until May 1, 2009, and shall renew itself yearly without change unless written notice of intended change is served by either party in accordance with Section 6, Title I of the Railway Labor Act at least 30 but not more than 270 days prior to May 1, 2009, or any year thereafter."
SAVINGS	The changes to Compensation, Productivity and Benefits described in this Agreement meet a Savings Target of $4,547,000 per year. To the extent changes subsequent to April 4, 2003 cause the savings to either exceed or fall short of this target, the Parties will agree on additional adjustments. In the event of any disputes, the Parties will utilize mediation followed, if necessary, by binding arbitration, to reach resolution.
COMPENSATION	Reduce the monthly rates of compensation effective as of June 23, 2002 in Schedule A of the Agreement by 13% and eliminate the 4% compensation increases scheduled for June 22, 2003 and June 20, 2004. Revise the monthly compensation rates in Schedule A of the Agreement by increasing such rates by 2% on May 1, 2004, May 1, 2005, May 1, 2006, May 1, 2007 and May 1, 2008. Reduce the High Skill Desk Premium in Section 14-F of the Agreement by 13%. Reduce the Training Overrides in Section 19-A-7 of the Agreement by 13 percent.

ACTIVE HEALTH BENEFITS	PAFCA will participate in the medical and dental program described in Attachment A.
VARIABLE BENEFITS	Life, disability and other compensation-based welfare benefits based on reduced actual wage rates.
RETIREE HEALTH BENEFITS	As described in Attachment A.
OTHER BENEFITS	As described in Attachment A.
DEFINED BENEFIT PENSION PLAN	As described in Attachment A.
PRODUCTIVITY	Adopt revisions to Agreement Letter 1 simplifying the assignment of overtime and eliminating "bypass pay" for other than malicious errors. Eliminate any requirement to use PAFCA-represented Dispatchers to provide Sydney IOR Vacation Relief. Eliminate Agreement Section 5-G to the extent it prohibits layoff or reduction in capacity or classification of employees.
SCOPE	Adopt the March 26, 2003 tentative agreement language between the Company and the Air Line Pilots Association ("ALPA") (Attachment B to this Agreement) regarding scope of Low Cost Operations ("LCO") where applicable. Also, in the event the Company determines to create separate LCO dispatcher schedules or bids, PAFCA agrees to negotiate with the Company any changes in work rules necessary to the creation of such schedules or bids.
TRANSACTIONS	To the extent PAFCA Letters 2, 3, and 4, at the conclusion of the 1113(c) process, have been modified or deleted from the IAM Agreement, PAFCA agrees to the same result. To the extent PAFCA Letter 6 has no counterpart in the IAM Agreement, it is deleted.
SUCCESS SHARING	The Dispatcher group will participate in the success sharing programs described in Attachment C.
EQUITY	As described in Attachment D.
FEES AND EXPENSES	As described in Attachment E

FURTHER EVENTS	The parties agree in concept to negotiate under the following principles with respect to any further revisions to the collective bargaining agreement in connection with hostilities in Iraq: (i) any such revisions will take the form of temporary wage rate reductions for all employee and management groups in connection with the Company's attempt to secure government assistance and relaxation of lending covenants and (ii), if PAFCA and the Company agree on such revisions, the value of the revisions will be repaid to the employees out of profits subsequent to the Company's emergence from Chapter 11. Specific terms and conditions to be developed in connection with the negotiation of such revisions.

Attachment A
Benefits

If, as a result of the 1113(c) process or during the term of this agreement, the Company agrees to improvements for any employee group in the terms of the medical and dental coverage as described below, such improvements will be provided to active Dispatchers.

Active Employees	
Medical [1] Preferred Provider Option (PPO)	
In-network	$250 single/$500 family deductible
	80/20 coinsurance
	$1,500 single $3,000 family out-of-pocket limit
	Out patient mental health and substance abuse treatment payable at 80% after the deductible and the employee share does not apply to out-of-pocket limits.
	Unlimited lifetime maximum
Out-of-network	Deductibles and out of pocket limits are the same as In-Network amounts
	60/40 co-insurance. Employees or their dependents who receive pre-approved covered treatment will receive in-network benefits for those expenses if within 30 miles of their home there is no in-network specialist or in-network primary care physician as applicable to the treatment in question. A 6 month transition plan will be developed for those individuals who as of the Effective Date are receiving treatment from an out-of-network provider for scheduled surgery, inpatient treatment in a hospital, dialysis, chemotherapy, treatment as a follow-up to an accident or injury occurring before the Effective Date, terminal illness, or as a follow-up to a surgery performed before the Effective Date. The transition period for those employees or their eligible dependents who are receiving treatment from an out-of-network provider for their pregnancy shall be the lesser of nine months or the pregnancy.
	All covered expenses limited to Reasonable and Customary as currently defined in the Medical Plan
	Inpatient mental health and substance abuse treatment limited to 30 days per calendar year per person, out patient payable at 50% after the deductible and the employee share is not applied to the out-of-pocket limit.
	$500,000 lifetime maximum for expenses incurred on or after May 1, 2003.

[1] The management medical benefits described in the draft SPD provided to the Union and as further modified in this Attachment are the underlying basis for the medical benefits under this Restructuring Agreement.

Covered expenses would include necessary care and treatment of illness, injury, and pregnancy as well as expenses for certain preventive care, e.g., pap smears, PSA tests and certain routine physicals. The PPO Incentive check will be discontinued.	
Prescription drugs at retail subject to deductible and co-insurance as described above for in-network. Mandatory use of mail after 90 days at retail. Mail order prescription drug employee co-payment $15 for generic medication for up to 90 day supply and $45 for brand medication for up to a 90 day supply. Employee co-pay increases annually at the same rate as the cost of the mail order prescription drug plan increases (cost to be determined using active employees and pre-Medicare retirees). Any increase in the co-payment for any year will not exceed 7% of the prior year's co-payment, rounded to the nearest dollar. Strong management to ensure consistency with medical necessity and generally accepted practice.	
Maintenance of Benefits for employees with other group coverage rather than Coordination of Benefits.	
Full right of reimbursement.	
Employee contribution would equal 20% of the cost of the plan (cost to be determined using active employees and pre-Medicare retirees). Any increase in the employee contribution for any year will not exceed 7% of the prior year's contribution, rounded to the nearest penny. The contributions would be based on a 4 tier rate structure. For example, the 2003 employee medical contribution for one adult would be $50.48 per month. With the 2004 increase (not to exceed 7% per year) the 2004 rate would be up to $54.01 per month; the 2005 rate would be up to $57.79 per month; and so on.	
Offer HMO options as appropriate. Employee contribution will be the cost of the HMO option less the Company contribution to the cost of the PPO option.	
Dental	Provide current PPO dental plan
	Deductible $50 per person $100 per family (doesn't apply to preventive)
	100% Preventive
	80% Restorative
	50% major and orthodontia
	Annual non-orthodontia max - $2,000
	Lifetime orthodontia max $2,000
Maintenance of Benefits for employees with other group coverage rather than Coordination of Benefits	
Employee contribution would equal 20% of the cost of the plan. The cost will not increase more than 7% per year, rounded to the nearest penny. The contributions would be based on a 4 tier rate structure.	
Offer Dental Health Maintenance Organization (DHMO) coverage. Employee contribution will be the cost of the DHMO less the Company's contribution to the cost of the PPO option.	
Active Employee Survivors Medical Benefits	Book.
Flexible Spending Account	Book

Life Insurance	Company Paid: Book Contributory: Management and Salaried GUL effective 1/1/04
Accidental Death and Dismemberment	Book
Short Term Disability	Loss of Time – Eliminate
Sick Leave	– Increase maximum non-occupational sick leave accrual to 1000 hours. – Eliminate occupational sick leave bank. – Employees collecting occupational leave prior to May 1, 2003 will continue to receive benefits under occupational sick leave until returning to work with the Company or exhausting the balance, whichever occurs first. If the employee returns to work with a remaining balance, that balance will be extinguished. – Sick leave will be reduced by any state disability benefits or Worker's Compensation payments.
Long Term Disability	Book
Illness Leave of Absence	Book
Defined Benefit Pension Plan	Employees covered by this Agreement will be included as eligible employees under the terms of the United Airlines Management, Administrative, and Public Contact Employees Defined Benefit Pension Plan applicable to management employees. Such benefits will not be reduced without Union approval except when the reduction is accompanied by a simultaneous improvement in benefits which results in an equal or greater cost to the Company.
Defined Contribution Plan	Book
Vacation Accrual	Years of Service — Weeks 1 thru 4 — 2 5 thru 9 — 3 10 thru 16 — 4 17 thru 24 — 5 25 and over — 6
Retired Employees (Who Retire on or after July 1, 2003)	

Retiree Medical	**<u>Pre Medicare</u>** Provide the same PPO option as active employees. Employee must be at least age 55 with at least 10 years of service and retire from active status or illness leave of absence. Employee contribution based on length of service at retirement as follows: PPO Option Years of Service — % of Cost Fewer than 20 — 80% 20 thru 24 — 60% 25 and over — 40% The cost to the retiree will increase annually as the cost of the coverage increases.
	<u>Post Medicare</u> Employee must be at least age 55 with at least 10 years of service and retire from active status or illness leave of absence. One or more supplemental plans to Medicare will be offered with the retiree paying the full cost of the coverage minus a company contribution of $90 per month. The cost to the retiree will increase annually as the cost of the coverage increases.
Retired Employee Survivors Medical Benefits	Book
Retiree Life	Employees must be at least age 55 with at least 10 years of service and retire from active status or illness leave of absence. The benefit is $10,000.

Attachment B
Low Cost Operations (LCO)

ALPA/UAL Restructuring Agreement
Attachment D
LCO

Mutual Establishment of Terms for LCO	It is the parties' intention to work together to identify and resolve any on-going issues with respect to maintaining the competitiveness of a Low Cost Operation ("LCO").
LCO Dispatching Performed by UA	United Airlines, Inc. ("United") will perform all of the dispatch services for the LCO. United will utilize dispatchers on the United seniority list under the terms and conditions of the Dispatchers Agreement. Successorship and transfer rights associated with the LCO will be governed by Sections 1-D, 1-E, and 18 of the Dispatchers Agreement.
Description and Use of LCO Fleet	The LCO fleet will consist of B737-300/500 and A319/320 fleets or aircraft of no greater seating capacity than the maximum certificated capacity of the A320. All of UA's A319/320 and B737-300/500 aircraft including future deliveries in the fleet may be operated under the work rules contained in this attachment with no market restrictions. The LCO fleet may be used at either the mainline or the LCO, at the Company's discretion.
Optional Separate Subsidiary	If UAL Corporation ("UAL") or United establishes a separate majority-owned subsidiary of UAL or United to house the LCO contemplated by this agreement, UAL and United agree that such subsidiary will remain a majority-owned subsidiary of UAL or United as applicable, so long as it continues as a corporation. All dispatchers in the LCO and all supervisors of such dispatchers will continue to be solely UA employees operating under the United air carrier certificate. Nothing in this paragraph limits or restricts in any way the Company's right, in its sole discretion, to establish any other subsidiary at United or UAL except an LCO subsidiary, which remains covered by the first two sentences of this paragraph.
Optional Certificate	If UAL or United secures a separate air carrier certificate for such subsidiary, all dispatchers and supervisors of such dispatchers in the LCO will continue to operate solely as United employees under the United air carrier certificate.

Attachment C
<u>Success Sharing</u>

The Dispatchers will participate in the following incentive program and profit sharing program:

I. Incentive Program	
Program	All U.S. payroll employees (including all United Dispatchers) will participate in an annual incentive program that aligns the interests of management and other employees.
Annual Performance Incentive Program	• Prior to each calendar year beginning with 2004, the Compensation Committee of the Board of Directors will establish a performance incentive formula (the "Annual Incentive Formula") that will provide a threshold or minimum incentive payment, a target or average incentive payment and a maximum incentive payment for senior management, other management, and other employees. • The Annual Incentive Formula will be based on the following performance measures as reasonably weighted by the Committee. Each business unit (e.g., United Airlines[2], ULS) may have its own incentive plan measures. For example: financial performance (e.g., EBITDAR margin, pre-tax margin), operational performance (e.g., on-time performance), customer satisfaction (e.g., intent to repurchase), employee engagement, safety performance (e.g., lost time injuries) and reasonably comparable measures as adopted by the Committee. • A significant cash portion of the target cash compensation of management employees is payable through the Annual Performance Incentive Program. It is understood that the Compensation Committee of the BOD will, from time to time, review and adjust the target compensation levels, cash compensation levels and the portion of cash compensation at risk, provided that such compensation at risk remains a significant portion of the target cash compensation of management employees.

[2]The LCO (if established) may have separate measures for its own employees. UA employees providing services to the LCO will have UA measures.

Employee Incentive Payments	Non-management employees will receive the following cash incentive payments based on United's actual performance under the annual incentive program (with linear interpolation between the performance points): Threshold Performance: 2.5% of Wages Target Performance: 5% of Wages Maximum Performance: 10% of Wages
Wages	Base pay, overtime, incentive pay, holiday pay, sick pay, vacation pay, and all premiums but excluding expense reimbursement, incentive or profit sharing payments, pension payments, imputed income or other similar awards or allowances.
Payment Date	On the same date as incentive payments are made to management employees.
Benefits	Incentive payments will be pensionable.
Duration	The incentive plan will cover each calendar year beginning in 2004.
Distribution Option	Cash, subject to 401(k) deferral.
Dispute Resolution **(As to both incentive and profit sharing programs)**	The Company will provide any information requested by PAFCA to audit calculation of UAL's performance under the incentive plan and under the profit sharing program below. Expedited arbitration for any disputes over incentive payment and profit sharing calculations.

II. Profit Sharing Program	
Program	All U.S. payroll employees (including all United Dispatchers) will participate in a pre-tax profit sharing program with respect to calendar years beginning in 2005.
Pretax Profit	Consolidated UAL pre-tax earnings as calculated under U.S. generally accepted accounting principles and reported in regulatory filings but excluding (i) unusual, special or extraordinary charges or (ii) charges with respect to grant or exercise of employee equity or options or (iii) charges with respect to payments under this profit sharing program.
Annual Profit Sharing Pool	15% of the excess of (i) annual Pretax Profit over (ii) the Annual Plan Threshold, but in no event more than the pool cap.
Annual Plan Threshold	The product of (i) net UAL revenues and (ii) the following percentages (which represent net pretax profit margins): 2005 8% 2006 10% 2007 10% 2008 10% 2009 10%
Pool Cap	8% of Wages of all participating employees.
Dispatcher Share	0.18% of the Profit Sharing Pool*
Dispatcher Allocation	As determined by PAFCA.
Payment	May 1st of the year following each program year.
Distribution Option	Cash, subject to 401(k) deferral.

* Dispatchers' share subject to further review upon completion of other labor group agreements.

Attachment D

PAFCA/UAL Distribution Agreement

UAL Corporation ("UAL"), United Airlines, Inc. (the "Company") and the Professional Airline Flight Control Association ("PAFCA"), hereby agree as follows (the "Distribution Agreement"):

1. UAL, the Company, and PAFCA are committed to the principle that the Dispatcher group should receive equity, securities, and/or other consideration under a plan of reorganization in an amount that fairly reflects the value of the Dispatcher contribution to the reorganization of UAL and the Company.

2. In consideration for the Dispatchers contributions given in connection with the consensual Section 1113 Restructuring Agreement reached between UAL, the Company, and PAFCA effective May 1, 2003 (the "2003 Restructuring Agreement"), which modifies the parties' July 12, 2000 to December 31, 2004 collective bargaining agreement ("Agreement"), any plan of reorganization proposed or supported by UAL and the Company as proposed and/or amended from time to time (the "Plan"), shall provide that, upon the effective date of such Plan, the Dispatcher group will receive a percentage distribution of the equity, securities and/or other consideration provided to general unsecured creditors under the Plan (the "Distribution") calculated by the following formula:

> A/A+B, where:
>
> A is the dollar value of 30 months of average cost reductions under the 2003 Restructuring Agreement as reasonably measured under Labor Model 1.1a (the "PAFCA Amount"); and
>
> B is the total amount of all other allowed prepetition general unsecured claims against the Debtors (UAL and its 27 debtor subsidiaries).

3. In addition, any Plan proposed or supported by UAL and/or the Company will provide the Dispatcher group with at least 0.18%[3] (subject to review of the Dispatcher portion of the total agreed-upon labor cost savings from the 2003 Restructuring Agreement through April 30, 2009) of the common equity, securities and/or other consideration provided to all Company employees under the Plan in connection with employee cost reductions (the "Allocation").

4. If, for any reason, a confirmed plan of reorganization in UAL or the Company's Chapter 11 cases does not provide for both the Distribution and the Allocation, then PAFCA on behalf of the United Dispatchers will be entitled to a stipulated and allowed

[3] Dispatchers' share subject to further review upon completion of other labor group agreements.

nonpriority prepetition general unsecured claim equal to 110% of the PAFCA Amount (the "Alternative Distribution"). This Distribution Agreement in no way converts any such claim into an administrative claim or any other claim with priority superior to a prepetition general unsecured claim. PAFCA agrees that it will neither assert, support, nor solicit any assertion in any proceeding before the Bankruptcy Court or any other tribunal that any claims allegedly arising from this Distribution Agreement constitute administrative claims (or any other claims with priority superior to a prepetition general unsecured claim) under Sections 503, 507 or any other Section of the Bankruptcy Code.

5. Prior to the effective date of the Plan, PAFCA will provide the Company with a reasonable allocation of the Distribution or the Alternative Distribution as applicable (which allocation will distribute all of the Distribution or the Alternative Distribution to the United Dispatchers).

6. The equities, securities and other consideration provided for, received and to be received under this Distribution Agreement and the other consideration provided for, received and to be received under this Restructuring Agreement, will be the sole and exclusive remedy for PAFCA for a claim arising under the bankruptcy code with respect to the modifications made to the 2000 Agreement by this Restructuring Agreement.

Attachment E

Fees and Expenses

May 1, 2003

Mikel Alpers
President
Professional Airline Flight Control Association
PO Box 314
Elk Grove Village, IL 60009

Dear Mr. Alpers:

I write to confirm the following agreement among the Professional Airlines Flight Control Association ("PAFCA"), and United Air Lines, Inc. (the "Company"), concerning the Company's reimbursement of PAFCA's legitimate, legally reimbursable collective bargaining related fees and expenses arising from and in connection with (i) the agreement concerning Dispatcher participation in the Economic Recovery Program ("ERP") and (ii) the agreement concerning Dispatcher contribution to the bankruptcy reorganization of the Company ("Restructuring Agreement").

The Company, subject to bankruptcy court approval (which the Company will promptly seek), will reimburse PAFCA for the reasonable fees and out-of-pocket expenses incurred by PAFCA including reasonable fees and expenses of outside legal and financial advisors ("Professional Fees and Expenses") incurred by PAFCA in connection with the review, design, negotiation, approval and ratification of the ERP and the Restructuring Agreement.

a. All such Professional Fees and Expenses will be calculated based upon normal hourly rates for actual time expended.

b. PAFCA will provide the Company with such documentation as is required by the bankruptcy court.

c. Legal fees and expenses incurred by the Association related to Section 1113(c) litigation and/or preparation for Section 1113(c) litigation are not reimbursable.

The Company's obligation to pay Professional Fees and Expenses incurred shall be not greater than $100,000 in the aggregate.

It is recognized that this Agreement represents special collective bargaining circumstances created by the parties' desire to negotiate modifications to the Dispatcher Agreement as part of the Company's bankruptcy reorganization. If this accurately reflects our understanding, please sign and return two (2) copies for our files.

Sincerely,

Peter B. Kain
Vice-President Labor Relations

Accepted and agreed to this 1st day of May, 2003

____
Mikel Alpers, President
Professional Airline Flight Control Association

Executed this 4th day of April, 2003