UAL Corporation
2001 Annual Report

UAL CORPORATION

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SELECTED FINANCIAL DATA AND OPERATING STATISTICS

(In millions, except per share and rates)	Year Ended December 31				
	2001	2000	1999	1998	1997
Income Statement Data:					
Operating revenues	$16,138	$19,352	$18,027	$17,561	$17,378
Earnings (loss) before extraordinary item and cumulative effect	(2,137)	265	1,238	821	958
Net earnings (loss)	(2,145)	50	1,235	821	949
Per share amounts, diluted:					
Earnings (loss) before extraordinary item and cumulative effect	(39.90)	1.89	9.97	6.83	9.04
Net earnings (loss)	(40.04)	0.04	9.94	6.83	8.95
Cash dividends declared per common share	0.36	1.25	–	–	–
Pro Forma Income Statement Data:[1]					
Earnings before extraordinary item	na	na	$ 1,209	$ 774	$ 931
Net earnings	na	na	1,206	774	922
Per share amounts, diluted:					
Earnings before extraordinary item	na	na	9.71	6.38	8.76
Net earnings	na	na	9.68	6.38	8.67
Other Information:					
Total assets at year-end	$25,197	$24,355	$20,963	$18,559	$15,464
Long-term debt and capital lease obligations, including current portion, and redeemable preferred stock	10,117	7,487	5,369	5,345	4,278
Revenue passengers	75	85	87	87	84
Revenue passenger miles	116,635	126,933	125,465	124,609	121,426
Available seat miles	164,849	175,485	176,686	174,008	169,110
Passenger load factor	70.8%	72.3%	71.0%	71.6%	71.8%
Breakeven passenger load factor	90.1%	69.4%	64.9%	64.9%	66.0%
Passenger revenue per passenger mile	11.7¢	13.3¢	12.5¢	12.4¢	12.6¢
Operating revenue per available seat mile	9.8¢	11.0¢	10.2¢	10.1¢	10.3¢
Operating expense per available seat mile	12.0¢	10.6¢	9.4¢	9.2¢	9.5¢
Fuel gallons consumed	2,861	3,101	3,065	3,029	2,964
Average price per gallon of jet fuel, including tax	86.5¢	81.0¢	57.9¢	59.0¢	69.5¢
Number of aircraft in operating fleet at end of year	543	604	594	577	575
Average full-time equivalent employees (in thousands)	93	98	96	91	88

[1]The pro forma income statement amounts reflect adjustments to the historical income statement data assuming the Company had adopted the provisions of Staff Accounting Bulletin 101 ("SAB 101") in prior periods. (See Note 1(b) "Summary of Significant Accounting Policies - Changes in Accounting Principles" in the Notes to Consolidated Financial Statements.)

Dear Stockholders:

The tragic events of September 11, 2001, had a devastating impact on the world as we know it and on United Airlines in particular. We continue to mourn the loss of our employees and passengers who were on board United Airlines' Flights 93 and 175, as well as the many other victims of the day's tragedies – and we continue to hold their families and loved ones close in our hearts.

It takes an incredibly resilient organization to survive the loss of 18 of its employees and 93 of its customers, the use of its property as instruments of terror and the resulting disruption of its operations. In my short tenure as United's chairman and chief executive officer, I've observed a level of resilience among our employees that I've frankly not encountered anywhere else during my career. I've witnessed not only the strength of our employees' commitment, but the warmth with which they display it to our customers and each other. That heartfelt dedication, that resiliency, that steely determination to overcome all obstacles, is what makes me confident that we can rebuild this company and live up to the promise of our 75-year history.

Even prior to the events of September 11, United faced significant challenges in 2001. We took a number of aggressive actions to bolster our financial condition throughout the year, including cutting our spending across the board. When the terrorist attacks exacerbated our company's already-difficult economic situation, we undertook the largest schedule reduction and employee furlough in our company's history. These moves enabled us to weather the worst of the blows and positioned us for survival, but there is still a long way to go for us to return to financial stability.

As previously reported, UAL Corporation's losses for 2001 totaled $2.1 billion, including special items explained in the detailed financial statements that accompany this letter – for a loss of $40.04 per basic share. Our losses excluding special items totaled $1.8 billion, or a loss per basic share of $33.23. Our passenger revenues for the quarter were down 39 percent year-over-year, but our expenses were down 23 percent year-over-year as a result of our immediate cost-cutting initiatives.

As we move forward, we will leave no stone unturned as we look for ways to further reduce our costs. We will continue to move aggressively on all fronts to ensure that all our costs, including labor, remain in line with our revenues. We have actively engaged our employees and their union representatives in discussions about ways to improve our finances and restore our profitability. We have asked for their help in finding creative solutions to the economic challenges we face and are confident they will rise to this occasion as they have all others.

While we endeavor to pare costs wherever we can, we will be doing so in the context of other priorities:

- We will continue to focus on strengthening our revenues, seizing upon every opportunity to bolster United's sales, income and profits in order to restore our financial stability.

- We will continue to serve as a leader in safety and security. I am extremely proud of United's ability to consistently lead the industry in security innovations.

- We will continue to operate reliably and dependably. We witnessed dramatic improvements here during the 2001 holiday season, traditionally one of the toughest times of the year to deliver a solid operational performance.

- We will continue to identify ways to provide customers with the products and service they expect within the new operating environment.

There is no question that our industry changed dramatically following September's terrorist attacks. But let me close this letter with a true story that I believe illustrates our potential. I was on a United flight last year where one of the cabin crew told the customers that I was on board. Afterwards, several customers came up to let me know they were behind us and wanted us to succeed. "United is my airline," one note read, "and I really want you guys to pull through."

It reminded me that many of our customers look at United as being their airline, just as we do. It is a very personal connection, one we can never afford to forget – and we won't. We want to pull through, too. And we will.

I am confident that United's employees will respond to our economic challenges with courage, energy, determination, innovation, warmth and commitment – and I'm proud and humbled to count myself as one of them.

John W. Creighton

March 8, 2002

AIRCRAFT FLEET

Operating Fleet as of December 31, 2001

Aircraft Type	Average Number of Seats	Owned	Leased	Total	Average Age (Years)
A319-100	120	29	18	47	2
A320-200	138	37	49	86	4
B737-300	120	10	91	101	13
B737-500	104	30	27	57	10
B747-400	347	23	21	44	7
B757-200	182	42	55	97	10
B767-200	168	18	–	18	19
B767-300	219	17	20	37	7
B777-200	288	37	19	56	4
TOTAL OPERATING FLEET		243	300	543	8

Delivery schedule for aircraft on order as of December 31, 2001

Aircraft Type	2002	2003	2004 and Beyond	Total
A319-100	8	–	21	29
A320-200	12	–	21	33
B777-200	4	–	1	5
TOTAL	24	–	43	67

DESCRIPTION OF BUSINESS

UAL Corporation ("UAL" or the "Company") is a holding company, whose principal subsidiary is United Air Lines, Inc. ("United"), which is wholly owned. United accounted for most of the Company's revenues and expenses in 2001. United is a major commercial air transportation company, engaged in the transportation of persons, property and mail throughout the U.S. and abroad.

Airline Operations

During 2001, United carried, on average, more than 210,000 passengers per day and flew more than 108 billion revenue passenger miles. United's network, supplemented with strategic airline alliances, provides comprehensive transportation service within its North America segment and to international destinations within its Pacific, Atlantic and Latin America segments. Operating revenues attributed to United's North America segment were $10.7 billion in 2001, $13.1 billion in 2000 and $12.5 billion in 1999. Operating revenues attributed to United's international segments were $5.4 billion in 2001, $6.2 billion in 2000 and $5.5 billion in 1999.

North America. United operates hubs in Chicago, Denver, Los Angeles, San Francisco and Washington-Dulles. United's North America operations accounted for 66.3% of United's revenues in 2001.

Pacific. Via its Tokyo hub, United provides passenger service between its U.S. gateway cities (Chicago, Honolulu, Los Angeles, New York, San Francisco and Seattle) and the Asian cities of Bangkok, Beijing, Hong Kong, Seoul and Singapore. United also provides nonstop service between Hong Kong and each of Chicago and San Francisco; between San Francisco and each of Osaka, Shanghai, Sydney and Taipei; between Los Angeles and each of Auckland and Sydney; between Chicago and Beijing; and between Sydney and each of Auckland and Melbourne.

In August 2001, United cancelled nonstop service between Hong Kong and New York.

The air services agreement between the U.S. and Japan provides an unlimited number of frequencies to certain carriers, including United. United also holds significant traffic rights from beyond Japan. These rights and the 2002 opening of Tokyo's Narita airport's second runway will provide United with the opportunity to add service from Japan to other Asian points as regulatory, competitive and economic conditions warrant.

United's Pacific operations accounted for 16.6% of United's operating revenues in 2001.

Atlantic. Washington-Dulles is United's primary gateway to Europe, serving Amsterdam, Brussels, Dusseldorf, Frankfurt, London, Milan, Munich and Paris. Chicago is United's secondary gateway to Europe, with nonstop service to Dusseldorf, Frankfurt, London and Paris. Although United currently offers direct service between Chicago and Dusseldorf, service will be discontinued and transitioned to its daily nonstop service between Washington-Dulles and Dusseldorf. United also provides nonstop service between London and each of Boston, Los Angeles, Newark, New York and San Francisco; between Frankfurt and San Francisco; and between Paris and San Francisco.

In 2001, United's Atlantic operations accounted for 12.9% of United's operating revenues.

Latin America. United's primary gateway to Latin America is Miami, providing service from Miami to Buenos Aires, Caracas, Montevideo (one-stop), Rio de Janeiro, Santiago and Sao Paulo. United also provides service between Mexico City and each of Chicago, Los Angeles, San Francisco, Washington, and San Jose (Costa Rica); between Los Angeles and each of Guatemala City and San Salvador; between Chicago and each of Aruba, San Juan, St. Thomas, and Sao Paulo; between New York and each of Buenos Aires and San Juan; between Washington and each of San Juan and St. Thomas; and between Guatemala City and San Jose. United intends to suspend its direct service between Chicago and Buenos Aires, effective March 5, 2002.

In 2001, United's Latin America operations accounted for 4.2% of United's revenues.

United Cargo®. United Cargo offers both domestic and international shipping through its Small Package Delivery, T.D. Guaranteed℠, First Freight, International Freight, UA-2Day® service, and a door-to-door small package delivery service – United SameDay℠. Freight accounts for most of United Cargo's shipments, with mail making up the balance.

For the year 2001, United Cargo generated over $700 million in freight and mail revenue, which represents a 24% decrease versus 2000, driven mainly by the discontinuation of the dedicated freighter operation, the softening economy and the impact of September 11. Following the events of September 11, traffic gradually improved, but volumes remained below pre-September 11 levels in part due to restrictions imposed by the Federal Aviation Administration ("FAA") on passenger carriers transporting mail over sixteen ounces.

United Cargo opened new warehouse facilities in Miami and Newark in 2001, and a new facility in Chicago in January 2002. United Cargo also opened a new facility in Los Angeles on February 11, 2002.

United Cargo's premium international time-definite service, T.D. Guaranteed, was recently expanded to offer service in United's widebody domestic markets within the U.S. United believes this added widebody capacity, combined with the stabilization of United Cargo's recurring customer traffic and revenue initiatives, should lead to a more stable revenue environment in 2002.

In February 2002, United Cargo introduced United SameDay Plus℠, which offers door-to-door delivery of heavy freight.

Marketing Strategy

Besides offering convenient scheduling throughout its domestic and international segments, United seeks to attract high-yield customers and create customer preference by providing a comprehensive network, an attractive frequent-flyer program and enhanced product and service offerings.

Alliances. United has formed bilateral alliances with other airlines to provide its customers more choices and to participate worldwide in markets that it cannot serve directly for commercial or governmental reasons. An alliance is a collaborative marketing arrangement between carriers, which can include joint frequent flyer participation; code-sharing of flight operations; coordination of reservations, baggage handling and flight schedules; and other resource-sharing activities. "Code-sharing" is an agreement under which a carrier's flights can be marketed under the two-letter airline designator code of another carrier. Through an alliance, carriers can provide their customers a seamless global travel network under their own airline code. United now participates in a multilateral alliance, Star Alliance™.

Star Alliance is a global integrated airline network, whose mission is to deliver a smooth travel experience and offer rewards and recognition to passengers traveling across its global network. Collectively, based on first quarter 2002 scheduling, Star Alliance carriers serve more than 727 destinations in over 127 countries with 11,033 daily flights. This puts Star Alliance ahead of the closest competition, oneworld, with 550 destinations. Star Alliance enables its member carriers to more effectively compete with other worldwide alliances. Founded in 1997, Star Alliance has grown to 15 carriers. Besides United, Star Alliance includes: Air Canada, Air New Zealand, All Nippon Airways, Ansett Australia, Austrian Airlines, bmi british midland, Lauda Air, Lufthansa, Mexicana, SAS, Singapore Airways, Thai International Airways, Tyrolean and Varig. United currently holds bilateral immunity with Air Canada and integrated antitrust immunity with Lufthansa, SAS, and the Austrian Airlines Group. United is currently pursuing the addition of bmi british midland to its existing antitrust immunity with Lufthansa, SAS and Austrian Airlines Group.

Ansett Australia ceased operations in September 2001. In March 2002, the Management Conference Board of the Star Alliance recommended to the Chief Executives Board of the Star Alliance to remove Ansett Australia from the Alliance. The Chief Executives Board is expected to act on the recommendation by mid-March.

United has also formed independent alliances with other air carriers. Currently, United has agreements with Aloha, BWIA West Indies Airways, Continental Connection (operated by Gulfstream), Emirates, Saudi Arabian Airlines and Spanair Airlines. United continually evaluates the need for relationships with these and other carriers and from time to time will change its alliance partners as conditions warrant.

In addition, United has a marketing program in North America known as United Express®, under which independent regional carriers, utilizing turboprop equipment and regional jets, feed United's major airports and international gateways. The carriers in the United Express program serve small and medium-sized cities in the U.S., linking those cities to United's hubs. United Express carriers include Air Wisconsin Airlines, Atlantic Coast Airlines and Sky West Airlines.

United also has a code-share agreement with Great Lakes Aviation, a regional carrier.

UAL Loyalty Services, Inc. In December 2001, UAL renamed United New Ventures, Inc., its wholly owned subsidiary, as UAL Loyalty Services, Inc. ("ULS"). ULS focuses on expanding the profitable non-core marketing businesses of UAL and building customer loyalty for United. ULS operates in four areas: loyalty programs, travel distribution, direct-to-consumer services and media assets.

ULS operates substantially all United-branded travel distribution and customer loyalty e-commerce activities, such as united.com. It also owns and manages all of UAL's interests in various e-commerce enterprises, such as Orbitz and Hotwire (see Note 6 "Investments" in the Notes to Consolidated Financial Statements). In addition, as of January 1, 2002, ULS operates United's Mileage Plus® frequent flyer program; United Vacations®, United's leisure vacation product; Silver Wings Plus℠, a discounted travel program for individuals 55 and older; Cruise4Miles℠, a program offering Mileage Plus miles for purchases of cruises; and the Premier Group, a business-meeting planner. In the first quarter of 2002, the Company intends to complete the transfer of ownership of these assets to ULS.

Although ULS is responsible for member relationships, communications, and account management of Mileage Plus, United continues to be responsible for the elite frequent flyer aspects of the program, including the Premier®, Premier Executive® and 1K® programs. United also retains responsibility for managing the relationship with Mileage Plus' airline partners. Mileage Plus' relationships with non-airline business partners are the sole responsibility of ULS.

In July 2001, ULS completed a tender offer for all of the outstanding stock of MyPoints.com, which is now a wholly owned subsidiary of ULS. MyPoints operates an on-line loyalty program under which registered consumers earn points by purchasing goods or services through the MyPoints.com web site from participating vendors. The consumer can then redeem the points through the web site for goods or services of participating vendors. See Note 7 "Acquisitions" in the Notes to Consolidated Financial Statements.

Mileage Plus. Mileage Plus was created to develop and retain passenger loyalty by offering awards and services to frequent travelers. Over 40 million members have enrolled in Mileage Plus since it was started in 1981. Mileage Plus members earn mileage credit for flights on United, United Express, the Star Alliance carriers and certain other airlines that participate in the program. Miles can also be earned by utilizing the goods and services of non-airline program participants, such as hotels, car rental companies, bank credit card issuers and a variety of other businesses. Mileage credits can be redeemed for free, discounted or upgrade travel and non-travel awards.

Travel awards can be redeemed at the "Standard" or "Saver" level for any unsold seat on any United flight to every destination served by United. Redemption at the "Saver" award level, however, is restricted with capacity controlled inventory, thereby limiting the use of Saver awards on certain flights.

Economy Plus®. During 2001, United began reconfiguring its fleet of three-cabin international aircraft to create Economy Plus seating, which is a reconfiguration of the first six to eleven rows of the United Economy® cabins on aircraft serving the North America market. This reconfigured area provides four to five additional inches of legroom for United's Premier frequent-flyers and full-fare United Economy customers, many of whom often travel in the United Economy cabin. United became the first U.S. airline to offer premium seating in the front of its economy cabin on both its North America and international flights. As part of this international reconfiguration program, United also is enhancing United Business® class to offer customers an additional seven inches of legroom.

Distribution Channels. The overwhelming majority of United's airline inventory continues to be distributed through the traditional channels of travel agencies and global distribution systems ("GDS"). On October 1, 2001, United completed the sale of its approximately 18% equity interest in Galileo International to Cendant Corporation. The completion of this transaction relieves United of GDS participation obligations mandated by the Department of Transportation. This allows United the flexibility to select the GDS systems in which it wishes to participate as well as to determine the level of participation in each system. United uses the Apollo reservation system, which is hosted by Galileo International. The hosting agreement with Galileo continues through 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are identified with an asterisk (*). Forward-looking statements represent the Company's expectations and beliefs concerning future events, based on information available to the Company as of the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could significantly impact the expected results referenced in the forward-looking statements are listed in the last paragraph of the section, "Outlook for 2002."

September 11 Terrorist Attacks

On September 11, 2001, two United aircraft were hijacked and destroyed in terrorist attacks on The World Trade Center in New York City and in a crash near Johnstown, Pennsylvania. On the same day, two American Airlines aircraft were also hijacked and used in terrorist attacks on The World Trade Center and the Pentagon. In addition to the loss of all passengers and crew on board the aircraft, these attacks resulted in numerous deaths and injuries to persons on the ground and massive property damage. In the immediate aftermath of the attacks, the FAA ordered all aircraft operating in the U.S. grounded immediately. This grounding effectively lasted for three days, and the Company was able to operate only a portion of its scheduled flights for several days thereafter. Passenger traffic and yields on the Company's flights declined significantly when flights were permitted to resume, and the Company refunded significant numbers of tickets for the period from September 11 to September 25. Since that time, the Company has experienced significantly reduced revenue and negative cash flows as compared to its forecasts made prior to September 11, 2001. Although domestic and international load factors on the Company's flights are gradually increasing to levels similar to what it experienced prior to September 11 (although on significantly less capacity), yields remain at unusually low levels.

In a direct response to the adverse impact on air travel as a result of the terrorist attacks, United has reduced its capacity by 23% based on systemwide available seat miles compared to levels prior to September 11. This schedule reduction allowed for the retirement of the entire B727-200 and B737-200 fleets, effective November 1, 2001. On September 19, United announced that it would furlough approximately 20,000 employees. Additionally, United has converted six stations to United Express and announced the closing of five reservations offices in 2002. During the fourth quarter 2001, United restructured its aircraft delivery program with both Boeing and Airbus Industrie to defer deliveries of new aircraft for 2002 and 2003 from the 67 originally planned to 24 aircraft. United will only take delivery of 24 of 49 aircraft scheduled for the year 2002 and none of the 18 aircraft scheduled for 2003. This action reduced planned capital spending by 50% for 2002 to $1.2 billion. The remaining 43 aircraft have been deferred into 2004 and beyond. United's future schedule will vary as the Company reacts to continuing changes in demand and yields, as well as normal factors such as seasonality and fleet composition.

On September 22, 2001, the President signed the Air Transportation Safety and System Stabilization Act (the "Act"). The Act is intended to compensate victims of the terrorist attacks as well as air carriers for losses incurred as a result of such attacks. Among other things, the Act provides: (1) for the payment of an aggregate of $5 billion to air carriers for losses incurred as a result of the ground stop order issued on September 11 and incremental losses incurred by air carriers through December 31, 2001 as a direct result of the terrorist attacks; (2) that the liability of any air carrier, including United, for all claims arising out of the terrorist attacks will not be greater than the limits of the liability coverage maintained by that carrier; (3) for the issuance of loan guarantees of up to an aggregate of $10 billion in debt of air carriers; (4) for the authority of the Secretary of Transportation to reimburse air carriers for the increase in insurance premiums for coverage through October 1, 2002 and, at the discretion of the Secretary of Transportation, to limit the liability of U.S. air carriers for acts of terrorism committed during a 180-day period following the date of the Act; (5) for a compensation program for victims and their relatives; (6) for an extension of the due date for payment of excise and payroll taxes by U.S. air carriers; and (7) that communities that had air service prior to September 11 will continue to receive adequate air service.

The Company anticipates that its liability from claims arising from the events of September 11, 2001 will be significant, after considering the liability protections provided for by the Act; however, the Company expects that any amounts paid on such claims will be borne by its insurance carriers as claims are resolved and, in any event, the Company believes that, under the Act, its liability will be limited to the amount of its insurance coverage.

United's war risk liability insurance for losses resulting from war perils (terrorism, sabotage, hijacking and other similar perils) was cancelled effective September 26, 2001. United obtained replacement coverage, although it is being charged significantly higher premiums for this replacement coverage, and this new coverage is in a substantially reduced amount for claims not involving aircraft passengers. The FAA is providing excess liability coverage for third party war risk liability for losses to persons other than passengers up to two times the airline's limit of liability available prior to September 11, 2001, for renewable periods up to a year at a time. United's coverage under this FAA policy has been renewed through March 20, 2002, and is likely to be renewed further, subject to the federal government's determination that such coverage is necessary to the national interest.

In addition, United maintains hull war risk insurance which is worldwide, excluding certain countries. This coverage is for war and associated perils, including hijacking and confiscation. United experienced a significantly higher premium for reduced coverage due to the events of September 11.

As of December 31, 2001, United had received $652 million in compensation under the Act. This amount is recorded as non-operating income in the Statements of Consolidated Operations. For further discussion of the impact of the attacks and the Act on the Company's financial statements, see Note 2 "Special Charges Related to the September 11 Terrorist Attacks" in the Notes to Consolidated Financial Statements.

Results of Operations

Summary of Results -

During early 2001, the weakening U.S. economy had a significant impact on the airline industry as corporations reduced their business travel budgets and changed their travel behavior. During the first six months of the year, the industry experienced a significant revenue decline as a result of the decrease in business traffic, which impacted both unit revenues and yields, particularly in the domestic markets. Airline industry domestic unit revenues, as reported to the Air Transport Association, declined by 12% to 13% in each of the months from May through August, respectively. United, due to its significant reliance on high-yield business traffic, was disproportionately affected during this period.

In addition, United's revenues, yield, revenue passenger miles and available passenger miles were significantly impacted by the events of September 11 and the resulting reduction in the Company's operations. The Company estimates that the September 11 terrorist attacks negatively impacted the Company's revenues by approximately $1.7 billion.

During 2000, the Company experienced significant operational disruptions, as a result of labor-related delays and cancellations, as well as weather and air traffic control limitations, which adversely affected both revenue and expense performance. The Company attempted to mitigate the impact of these operational difficulties by reducing capacity, particularly in the domestic markets, where most of the problems were concentrated. The Company estimated the revenue shortfall arising from these disruptions and associated schedule reductions and cancellations to be somewhere between $700 and $750 million for the year.

UAL's loss from operations was $(3.8) billion in 2001, compared to operating earnings of $654 million in 2000. UAL's net loss for 2001 was $(2.1) billion ($(39.90) per share) before the cumulative effect of an accounting change, compared to 2000 net earnings before the cumulative effect of an accounting change and an extraordinary loss on debt of $265 million ($1.89 per share, diluted).

During 2001, United recorded a special charge of $834 million, net of tax, in operating expense and $31 million, net of tax, in non-operating expense for amounts relating to the September 11 terrorist attacks and the resulting impact on the Company's schedule and operations. In addition, through December 31, United has recognized $652 million (pre-tax) in non-operating income as compensation under the Act. (See Note 2 "Special Charges Related to the September 11 Terrorist Attacks" in the Notes to Consolidated Financial Statements.)

Also during 2001, UAL recognized a special charge of $74 million, net of tax, for costs associated with a terminated merger with US Airways Group, Inc., including a $50 million termination fee. In addition, the Company recorded a gain of $166 million, net of tax, on the sale of certain investments, as further described in Note 6 "Investments" in the Notes to Consolidated Financial Statements.

The 2000 earnings include a special charge of $88 million, net of tax, relating to asset retirements, losses on leased equipment and write-downs on non-operating equipment, as well as an impairment loss of $38 million, net of tax, related to the Company's equity investment in Priceline.com. In addition, the 2000 earnings include an extraordinary loss of $6 million, net of tax, on early extinguishment of debt and the cumulative effect of a change in accounting principle of $209 million, net of tax.

The 1999 earnings include an extraordinary loss of $3 million, net of tax, on early extinguishment of debt and a gain of $468 million, net of tax, on the sale of certain of the Company's investments, as further described in Note 6 "Investments" in the Notes to Consolidated Financial Statements.

2001 Compared with 2000 -

Operating Revenues. Operating revenues decreased $3.2 billion (17%) and United's revenue per available seat mile (unit revenue) decreased 11% to 9.76 cents. Passenger revenues decreased $3.1 billion (19%) due to an 8% decrease in revenue passenger miles and an 11% decrease in yield to 11.74 cents. United's available seat miles across the system decreased 6% from 2000 which, combined with the decrease in revenue passenger miles, resulted in a decrease to passenger load factor of 1.5 points to 70.8%. The following analysis by market is based on information reported to the U.S. Department of Transportation ("DOT"):

	Increase (Decrease)		
	Available Seat Miles (Capacity)	Revenue Passenger Miles (Traffic)	Revenue Per Revenue Passenger Mile (Yield)
Domestic	(8)%	(10)%	(11)%
Pacific	(4)%	(6)%	(13)%
Atlantic	2 %	(2)%	(11)%
Latin America	(10)%	(12)%	(6)%
System	(6)%	(8)%	(11)%

Cargo revenues decreased $227 million (24%) due to a 24% decrease in cargo ton miles largely as a result of the September 11 terrorist attacks, as well as the discontinuation of freighter operations in the fourth quarter 2000. Other operating revenues grew $157 million (11%) primarily due to a $161 million increase in fuel sales to third parties.

Operating Expenses. Operating expenses decreased $78 million (0.4%) and United's cost per available seat mile (unit cost) increased 6%, from 10.58 cents to 11.24 cents, excluding special charges. Salaries and related costs increased $203 million (3%) due to routine annual salary increases for non-contract employees, contractually-driven increases for employees represented by the Air Line Pilots Association, International ("ALPA") and the estimated costs of contracts with the International Association of Machinists and Aerospace Workers ("IAM"), which were partially offset by the reduction in force implemented after September 11. Commissions decreased $315 million (31%) as a result of a decrease in commissionable revenues and a change to the commission structure implemented in August 2001, which reduced the cap paid on commissions issued in the U.S. for domestic travel from $50 for a round-trip ticket ($25 for a one-way ticket) to $20 and $10, respectively. Aircraft rent decreased $61 million (7%) as the retirement of older aircraft reduced the number of aircraft under operating leases. Landing fees and other rent increased $50 million (5%) primarily due to increased rates at various airports. Depreciation and amortization increased $38 million (4%) due to an increase in the number of owned aircraft. Cost of sales increased $219 million (21%) primarily due to costs associated with fuel sales to third parties.

Other non-operating expense amounted to $450 million in 2001 compared to $271 million in 2000, excluding special charges, gains on sales and the airline stabilization grant. Interest expense increased $123 million (31%) as a result of new debt issuances. Equity in losses of affiliates increased $11 million (92%) primarily due to losses recorded for the Company's investment in Orbitz.

2000 Compared with 1999 -

Operating Revenues. Operating revenues increased $1.3 billion (7%) and United's revenue per available seat mile (unit revenue) increased 8% to 11.02 cents. Passenger revenues increased $1.1 billion (7%) primarily due to a 6% increase in yield to 13.25 cents. United's revenue passenger miles increased 1%, while available seat miles decreased 1%, resulting in a passenger load factor increase of 1.3 points to 72.3%. The decrease in available seat miles reflects the Company's response to the operational difficulties experienced in 2000 as well as the impact of Economy Plus.

The following analysis by market is based on information reported to the DOT:

	Increase (Decrease)		
	Available Seat Miles (Capacity)	Revenue Passenger Miles (Traffic)	Revenue Per Revenue Passenger Mile (Yield)
North America	(4)%	(3)%	7%
Pacific	10%	11%	7%
Atlantic	6%	6%	8%
Latin America	(10)%	(1)%	4%
System	(1)%	1%	6%

Cargo revenues increased $25 million (3%) on increased freight ton miles of 3%, as freight yields remained constant and mail yields increased 1%. Other operating revenues increased $152 million (11%) primarily due to increased fuel sales to third parties and additional revenues from operating agreements with Galileo International, Inc. ("Galileo"), offset by the decrease in other revenues related to the change in accounting for Mileage Plus sale of miles to third parties (see Note 1(b) "Summary of Significant Accounting Policies - Changes in Accounting Principles" in the Notes to Consolidated Financial Statements).

Operating Expenses. Operating expenses increased $2.1 billion (12%) and United's cost per available seat mile increased 13% from 9.41 to 10.63 cents. Salaries and related costs increased $451 million (7%) due to a new salary program implemented for non-contract employees, the impact of the new ALPA contract which became amendable in April 2000 and were ratified in October 2000, and the estimated costs of IAM contracts which became amendable in July 2000 and were ratified in March 2002. This increase was offset by a decrease in ESOP compensation expense of approximately $600 million due to the end of the ESOP allocation period. Aircraft fuel increased $735 million (41%) due to a 40% increase in the cost of fuel to 81.0 cents per gallon. Commissions decreased $114 million (10%) due to a change in the commission structure implemented in the fourth quarter of 1999. Purchased services increased $136 million (9%) due to increases in computer reservations fees and credit card discount fees. Depreciation and amortization increased $138 million (16%) due to an increase in the number of owned aircraft and losses on disposition of aircraft and other equipment. Cost of sales increased $459 million (76%) primarily due to costs associated with fuel sales to third parties.

Other Income and Expense. Other non-operating expense amounted to $271 million in 2000 compared to $180 million in 1999, excluding gains on sales and non-operating special charges. Interest expense increased $40 million (11%) due to increased debt issuances in 2000. Interest income increased $33 million (49%) due to higher investment balances.

Financial Recovery Plan*-

During the fourth quarter 2001, the Company began implementing a financial recovery plan that includes four planks: reducing the size of the airline and cutting capital and operating spending in line with that reduction, generating as much revenue as possible from each flight, working with the unions and other employee groups to find further labor savings and implementing a financing plan to support the Company through the execution of the Financial Recovery Plan.

Subsequent to the events of September 11, United began the process of reducing spending by pulling down the schedule, furloughing employees, closing stations and reservations offices and deferring aircraft orders, as described above in "September 11 Terrorist Attacks."

Through these actions the Company has dramatically reduced its operating cash outflows. During the month of October 2001, UAL's cash burn rate was approximately $15 million per day; the Company's average cash burn for the entire fourth quarter was approximately $10 million per day. UAL continues to see improvements in cash burn as revenue trends are improving and cost containment is ongoing.

As a result of recent aircraft retirements and the addition of newer aircraft, United has one of the world's youngest and most efficient operating fleets. The retirements also reduced the number of fleet types to five, which significantly improves efficiency in maintenance, crew training and scheduling. Planned capital spending for 2002 has been reduced by 50% to $1.2 billion as a result of the aircraft deferrals and cancelling non-essential capital projects. In addition, capital spending for 2003 has been reduced significantly due to the fact that the Company will not take delivery of any aircraft in 2003.

In October 2001, management had a series of informational meetings with the leadership of United's six unions to give them a financial assessment and to provide further access to the Company's operational and financial results. On an ongoing basis, United continues to answer their questions and work with the unions to find creative solutions that move the Company toward financial stability. The Company believes that it must reduce labor costs, as well as other operating costs, in order to stabilize United's financial situation in the current industry environment and position United to participate in an industry revenue recovery. The settlement of open contracts as discussed in the "Labor Agreements" section is an important step towards achieving participation by all union groups in a program to reduce operating costs.

While UAL is in the process of developing a complete financing plan, the Company has identified various possible sources of financing, including, but not limited to: (1) receipt of the final installment of grant money under the Act; (2) receipt of $113 million held in trust under a services agreement with Galileo International (see Note 6 "Investments" in the Notes to Consolidated Financial Statements); (3) various types of secured debt financings, including committed back-stop financing from aircraft manufacturers; (4) sale-leaseback transactions of owned property, including aircraft and other equipment; (5) securitization of future operating receipts; (6) unsecured borrowings and equity issuances; and (7) federal loan guarantees as provided under the Act. However, there is no assurance that any or all of these financing sources will be available at all times or at terms satisfactory to the Company.

Finally, the Company is exploring various initiatives to increase revenue, including reviewing pricing strategies, the management of inventory internally and profitable enhancements to service and product offerings. For example, United has announced plans to add an additional 127 daily departures in April over the current schedule.

These efforts have resulted in a gradual improvement in unit revenue since the events of September 11, with year-over-year declines in unit revenue of 29%, 23% and 20%, respectively for October, November and December 2001. The Company expects unit revenue for January 2002 to be only 15% to 17% below last year's levels.

Liquidity and Capital Resources

Liquidity -
UAL's total of cash and cash equivalents and short-term investments was $2.6 billion at December 31, 2001, compared to $2.3 billion at December 31, 2000. Operating activities during the year used $160 million, including the effects of the grant received from the federal government.

Property additions, including aircraft, aircraft spare parts, facilities and ground equipment, amounted to $2.0 billion, while property dispositions resulted in proceeds of $178 million. In 2001, United took delivery of fifteen A319, eighteen A320, two B767 and eight B777 aircraft. All of these aircraft were purchased. One of the aircraft purchased was sold and then leased back under an operating lease. In addition, United acquired three B737 and two B757 off lease during the year and retired its remaining DC10-30 fleet and all of its B727 and B737-200 fleets.

Financing activities included the issuance of $1.5 billion in equipment trust certificates, as well as principal payments under debt and capital lease obligations of $176 million and $289 million, respectively. Additionally, UAL issued $1.0 billion in long-term debt during the period to finance the acquisition of aircraft. As of December 31, 2001, the Company has borrowed $133 million under a separate short-term borrowing facility and pledged receivables of approximately $145 million. UAL may also from time to time repurchase on the open market, in privately negotiated purchases or otherwise, its debt and equity securities.

At December 31, 2001, United guaranteed approximately $100 million of third-party debt.

Certain of United's surety bonds for worker's compensation have been cancelled in various states where United is self-insured. As a result, United has been and may, in the future, be required to post collateral in the form of cash deposits or letters of credit. Subsequent to December 31, 2001, United has posted $187 million in deposits for various states where United is self-insured for worker's compensation claims.

In addition, during January, United paid $290 million in federal transportation taxes that had been deferred as a result of September 11. The Company also closed on a private debt financing which raised approximately $250 million in cash and sold its remaining investment in Cendant Corporation for approximately $137 million (see Note 6 "Investments" in the Notes to Consolidated Financial Statements).

As of December 31, 2001, UAL had a working capital deficit of $3.0 billion as compared to $1.7 billion at December 31, 2000. The Company has historically relied on working capital to fund a significant portion of its ongoing operations. Historically, UAL has operated with a working capital deficit; however, since September 11, 2001, the Company has not generated positive cash flow from its operations. Due to the lack of predictability of future traffic, business mix and yields, the Company is unable to estimate when it will again generate positive cash flow from operations to meet its operating requirements, as well as short-term and long-term capital requirements.

Prior Years. Operating activities in 2000 generated cash flows of $2.5 billion. Cash was used primarily to fund net additions to property and equipment ($2.2 billion) and to repurchase common stock ($81 million). Financing activities included the issuance of $2.4 billion in equipment trust certificates, as well as principal payments under debt and capital lease obligations of $441 million and $283 million, respectively. Additionally, the Company retired $116 million of long-term debt prior to maturity.

Operating activities in 1999 generated cash flows of $2.4 billion and the Company's sale of part of its investments in Galileo and Equant provided $828 million in cash. Cash was used primarily to fund net additions to property and equipment ($2.2 billion) and to repurchase common stock ($261 million). Financing activities also included principal payments under debt and capital lease obligations of $513 million and $248 million, respectively.

Capital Commitments -
The Company's business is very capital intensive, requiring significant amounts of capital to fund the acquisition of assets, particularly aircraft. United may fund the acquisition of aircraft through outright purchase, by issuing debt, or by entering into capital or operating leases. Similarly, the Company often enters into long-term lease commitments with airports to ensure access to terminal, cargo, maintenance and other similar facilities. As can be seen in the table below, these operating lease commitments (which are sometimes referred to as "off-balance sheet debt") are significant.

Following is a summary of the Company's material contractual cash obligations as of December 31, 2001:

(In millions)	Less than one year	Years 2 and 3	Years 4 and 5	After 5 years	Total
Long term debt	$1,217	$1,223	$ 650	$ 4,757	$ 7,847
Capital lease obligations	413	638	609	1,501	3,161
Operating leases	1,580	3,163	3,171	16,624	24,538
Capital spending commitments	1,210	648	758	171	2,787
Total contractual cash obligations	$4,420	$5,672	$5,188	$23,053	$38,333

See Note 11 "Long-Term Debt", Note 12 "Lease Obligations" and Note 20 "Commitments, Contingent Liabilities and Uncertainties" in the Notes to Consolidated Financial Statements for additional discussion of these items.

Capital Resources -
At December 31, 2001, UAL and United had an effective shelf registration statement on file with the Securities and Exchange Commission to offer up to $1.0 billion of securities, including secured and unsecured debt, equipment trust and pass through certificates or a combination thereof. In addition, as of February 28, 2002, the Company has unencumbered aircraft and spare engines valued at approximately $3.4 billion. The Company is pursuing potential opportunities, including refinancings and purchase of future aircraft deliveries, to increase this pool of assets.

United also has in place committed back-stop financing from its aircraft manufacturers for all aircraft scheduled to be delivered in 2002.

During the month of January 2002, United closed on a $775 million private debt financing which refinanced certain aircraft and raised approximately $250 million in additional cash. In addition, the Company sold its remaining investment in Cendant Corporation for approximately $137 million (see Note 6 "Investments" in the Notes to Consolidated Financial Statements).

UAL's Series B preferred stock and redeemable preferred securities were rated CCC+ by Standard and Poor's ("S&P") and Ca by Moody's Investors Service Inc. ("Moody's"). United's senior unsecured debt was rated B- by S&P and Caa1 by Moody's. These ratings reflect a January downgrade by S&P. The long-term corporate credit ratings of United remain on S&P's CreditWatch with negative implications.

The impact of the events of September 11, 2001 on United and the sufficiency of its financial resources to absorb that impact will depend on a number of factors, including: (1) the demand for air travel; (2) United's ability to reduce its operating costs and conserve its financial resources, taking into account any increased costs it will incur as a consequence of the attacks, including those referred to below; (3) United's success in implementing its Financial Recovery Plan described above; (4) the higher costs associated with new airline security directives and any other increased regulation of air carriers; (5) the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance will continue to be available; (6) the ability of United to reduce costs to a level that takes into account the size of its operation; (7) United's ability to raise financing in light of the various factors referred to in this paragraph; (8) the price of jet fuel; and (9) the extent of the benefits received by United under the Act, taking into account any challenges to and interpretations or amendments of the Act.*

At this point, due in part to the lack of predictability of future traffic, business mix and yields, United is unable to fully estimate the impact on it of the events of September 11, 2001, and their consequences and the sufficiency of its financial resources to absorb that impact, including the mitigating effects of the Act and the Company's aggressive actions to reduce its costs. However, given the magnitude of these unprecedented events and the possible subsequent effects, United expects that the adverse impact to its financial condition, its operations and its prospects will continue to be material.*

Other Information

Labor Agreements -

On July 12, 2000, the Company's contracts with the IAM became amendable. The Company has been in negotiations with both IAM District 141M (representing mechanics) and 141 (representing public contact, ramp and stores, food services and security employees) since December 1999 for new contracts. Since September 2000, the negotiations have been conducted under the auspices of the National Mediation Board ("NMB"). Under the terms of the Railway Labor Act, United's current agreements with the IAM remain in effect as negotiations continue.

On November 19, 2001, the NMB released both parties in the mechanics negotiations from mediation and offered both sides binding arbitration, which was accepted by United but declined by the IAM, effectively beginning a 30-day "cooling-off period," which could have resulted in a strike in December 2001. Instead, on December 20, 2001, President Bush appointed a Presidential Emergency Board ("PEB") as permitted by the Railway Labor Act, to study the issues between the parties and recommend a solution, effectively postponing a possible strike for 60 days. On January 20, 2002, the PEB presented its recommendations to the Company and the IAM which included immediate pay increases of as much as 37% for United's mechanics, as well as providing for payment of retroactive wages, of a lesser amount, to July 12, 2000. United accepted the recommendations of the PEB and they were submitted to the IAM for ratification. However, on February 12, the mechanics rejected the recommendations and authorized a strike which could have occurred as early as February 20 at 12:01 a.m. On February 15, the two parties reconvened to continue negotiations and on February 18, the Company and the IAM announced that they had reached a new tentative agreement. On March 5, 2002, the IAM ratified the tentative agreement, which contains some improvements over the PEB-recommended proposal, including payment of retroactive wages in eight equal quarterly installments, including 6% interest, commencing December 2002.

Mediated negotiations with IAM District 141 are continuing.

Avolar -

In May 2001, UAL announced the formation of United BizJet Holdings, Inc. (now known as "Avolar"), a wholly owned subsidiary, to address the travel needs of premium customers who may not use commercial aviation services. Avolar operates and sells fractional ownership interests in premium business aircraft and provides charter services, fleet management services and a domestic and international shuttle product.

In May 2001, UAL's Board of Directors authorized the investment of up to $250 million in the subsidiary. Through January 2002, UAL has invested $102 million in Avolar, which includes advance payments on aircraft purchases and the funding of operational expenses. Following the events of September 11, UAL decided to investigate options to reduce its future funding obligations, including a possible sale of a majority of Avolar to third-party investors. Avolar is now pursuing a new business plan to enable it to realize its value without additional investment from UAL or the involvement of private equity investors. In connection with this action, UAL intends to discontinue its financial commitment to Avolar effective March 31. Avolar's business is still in the startup phase of operations and the amounts invested but not yet expensed could result in a significant write-off at UAL if this business plan proves unsuccessful.*

As of December 31, 2001, Avolar has agreements with Gulfstream Aerospace Corporation and Dassault Falcon Jet to purchase 82 aircraft for $1.9 billion (after deducting advance payments) to be delivered beginning in 2002, with options to purchase an additional 142 aircraft. Avolar has the right to cancel the purchase of specific aircraft under the agreements subject to, among other things, termination fees or other make-whole provisions.

Deferred Tax Assets -

UAL's consolidated balance sheet at December 31, 2001 includes a net deferred tax asset of $369 million, including $255 million of alternative minimum tax ("AMT") credits which have an indefinite carryforward period, compared to a net deferred tax liability of $1.0 billion at December 31, 2000. Note 8 "Income Taxes" in the Notes to Consolidated Financial Statements describes the items included in the deferred tax assets and liabilities.

Management believes that a majority of the deferred tax assets will be realized through reversals of existing deferred tax liabilities with similar reversal patterns and the balance will be realized as a result of generating future taxable income. UAL needs to generate approximately $4 billion in future taxable income in order to realize the benefits of the remaining deferred tax assets. Between 1994 and 2000, UAL has generated approximately $5.7 billion in taxable income.

While the book and tax loss in 2001 was largely attributable to events beyond management's control, including the events of September 11 and the recession in the U.S., UAL has taken several steps to reduce costs and improve profitability, as described in "Financial Recovery Plan" above.

UAL's ability to generate sufficient amounts of taxable income from future operations is dependent upon numerous factors, including general economic conditions, inflation, fuel costs, the state of the industry and other factors beyond management's control. There can be no assurances that UAL will meet its expectations of future taxable income. However, based on the extended period over which postretirement benefits will be recognized, the twenty-year federal tax carryforward period, the Company's prior history of taxable income, the utilization of all prior federal net operating loss carryforwards and the indefinite carryforward period for AMT credits, management believes it is more likely than not that future taxable income will be sufficient to utilize the deferred tax assets at December 31, 2001.*

Foreign Operations -

United generates revenues and incurs expenses in numerous foreign currencies. These expenses include aircraft leases, commissions, catering, personnel expense, advertising and distribution costs, customer service expenses and aircraft maintenance. Changes in foreign currency exchange rates impact operating income through changes in foreign currency-denominated operating revenues and expenses. Despite the adverse (favorable) effects a strengthening (weakening) foreign currency may have on U.S. originating traffic, a strengthening (weakening) of foreign currencies tends to increase (decrease) reported revenue and operating income because United's foreign currency-denominated operating revenue generally exceeds its foreign currency-denominated operating expense for each currency.

With a worldwide network and significant sales and marketing efforts in the U.S. as well as every major economic region in the world, United is able to mitigate its exposure to fluctuations in any single foreign currency. The Company's biggest net exposures are typically for Japanese yen, Hong Kong dollars, Australian dollars and British pounds. During 2001, yen-denominated operating revenue net of yen-denominated operating expense was approximately 16 billion yen (approximately $135 million), Hong Kong dollar-denominated operating revenue net of Hong Kong dollar-denominated operating expense was approximately 1.1 billion Hong Kong dollars (approximately $135 million), British pound-denominated operating revenue net of British pound-denominated operating expense was approximately 85 million British pounds (approximately $123 million), and Australian dollar-denominated operating revenue net of Australian dollar-denominated operating expense was approximately 94 million Australian dollars (approximately $48 million).

As the Company has limited operations in Argentina, United's cash on deposit in Argentina was less than $4 million at December 31, 2001.

To reduce the impact of exchange rate fluctuations on United's financial results, the Company hedged some of the risk of exchange rate volatility on its anticipated future foreign currency revenues by purchasing put options (consisting of Japanese yen, euro, Australian dollars and British pounds) and selling Hong Kong dollar forwards. To reduce hedging costs, the Company sells a correlation option in the first four currencies referred to above. United also attempts to reduce its exposure to transaction gains and losses by converting excess local currencies generated to U.S. dollars on a timely basis and by entering into currency forward or exchange contracts. The total notional amount of outstanding currency options and forward exchange contracts, and their respective fair market values as of December 31, 2001, are summarized in "Quantitative and Qualitative Disclosures About Market Risk."

United's foreign operations involve insignificant amounts of physical assets; however, the Company does have sizable intangible assets related to acquisitions of Atlantic and Latin America route authorities. Operating authorities in international markets are governed by bilateral aviation agreements between the U.S. and foreign countries. Changes in U.S. or foreign government aviation policies can lead to the alteration or termination of existing air service agreements that could adversely impact the value of United's international route authority. Significant changes in such policies could also have a material impact on UAL's operating revenues and results of operations. During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") which could impact the Company's accounting for these assets. For further details, see "New Accounting Pronouncements" below.

Airport Rents and Landing Fees -

United is charged facility rental and/or landing fees at every airport at which it operates. In recent years, many airports have increased or sought to increase rates charged to airlines as a means of compensating for increasing demands upon airport revenues. Airlines have challenged certain of these increases through litigation and in some cases have not been successful. The FAA and the DOT have instituted an administrative hearing process to judge whether rate increases are legal and valid. However, to the extent the limitations on such charges are relaxed or the ability of airlines to challenge such charges is restricted, the rates charged by airports may increase substantially. Management cannot predict either the likelihood or the magnitude of any such increase.*

Environmental and Legal Contingencies -
United has been named as a Potentially Responsible Party at certain Environmental Protection Agency ("EPA") cleanup sites which have been designated as Superfund Sites. United's alleged proportionate contributions at the sites are minimal; however, at sites where the EPA has commenced litigation, potential liability is joint and several. Additionally, United has participated and is participating in remediation actions at certain other sites, primarily airports. The estimated cost of these actions is accrued when it is determined that it is probable that United is liable. Environmental regulations and remediation processes are subject to future change, and determining the actual cost of remediation will require further investigation and remediation experience. Therefore, the ultimate disposition cannot be determined at this time. However, while such cost may vary from United's current estimate, United believes the difference between its accrued reserve and the ultimate liability will not be material.*

UAL has certain other contingencies resulting from this and other litigation and claims incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the views of legal counsel, the nature of such contingencies and prior experience, that the ultimate disposition of these contingencies is not likely to materially affect UAL's financial condition, operating results or liquidity.*

Critical Accounting Policies -
Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. UAL has prepared the accompanying financial statements in conformity with generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates under different assumptions or conditions. The Company has identified the following critical accounting policies utilized in the preparation of these financial statements.

Revenue Recognition. As discussed in Note 1(d) "Summary of Significant Accounting Policies - Airline Revenues" in the Notes to Consolidated Financial Statements, passenger ticket sales are recorded as operating revenues when the transportation is furnished. The value of unused passenger tickets is included in advance ticket sales as a liability on the balance sheet. United performs periodic evaluations of this liability and any adjustments, which can be significant, are included in the results of operations for the periods in which the evaluations are completed. These adjustments result from differences between the Company's estimation of certain revenue transactions and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which effect the timing of revenue recognition.

Accounting for Long-Lived Assets. The Company has approximately $17 billion in operating property and equipment at December 31, 2001. In addition to the original cost of these assets, their recorded value is impacted by a number of policy elections made by the Company, including the estimation of useful lives, salvage values and in 2001, impairment charges. See Note 1(h) "Summary of Significant Accounting Policies - Operating Property and Equipment" and Note 2 "Special Charges Related to the September 11 Terrorist Attacks" in the Notes to Consolidated Financial Statements for additional information regarding United's policies on accounting for long-lived assets.

Frequent Flyer Accounting. The Company utilizes a number of estimates in accounting for its Mileage Plus frequent flyer program which are consistent with industry practices. Additional information regarding the Mileage Plus frequent flyer program is included in Note 1(b) "Summary of Significant Accounting Policies - Changes in Accounting Principles" and Note 1(i) "Summary of Significant Accounting Policies - Mileage Plus Awards" in the Notes to Consolidated Financial Statements. In addition, the Emerging Issues Task Force of the FASB is currently reviewing the accounting for both multiple-deliverable revenue arrangements and volume-based sales incentive offers, but has not yet reached a consensus that would apply to programs such as the Mileage Plus program. The issuance of new accounting standards could have a significant impact on the Company's frequent flyer liability in the year of change as well as future years.

Pensions and Other Postretirement Benefits. The Company's pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies as prescribed under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" and Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Company's assumptions, which include the selection of the discount rate, the expected return on plan assets and the expected health care cost trend rate, are identified in Note 18 "Retirement and Postretirement Plans" in the Notes to Consolidated Financial Statements. The discount rate is based on the Company's review of high quality corporate bond rates and the change in these rates during the year. The expected return on plan assets and health care cost trend rate are based on an evaluation of the Company's historical trends and experience taking into consideration current and expected market conditions. In addition, the Company's future pension and other postretirement benefit costs and liabilities will be impacted by the new labor agreements with the IAM.

Valuation Allowance for Deferred Tax Assets. At December 31, 2001, the Company had a net deferred tax asset of $369 million, which the Company has determined is more likely than not to be realized. A valuation allowance of $6 million was calculated for those state net operating losses with carryforward periods of seven years or less, using assumptions and methodologies as prescribed under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" and as described in "Deferred Tax Assets" above. See also Note 8 "Income Taxes" in the Notes to Consolidated Financial Statements for additional information.

New Accounting Pronouncements -

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") and SFAS No. 142. SFAS No. 141 is effective for combinations initiated after June 30, 2001 and requires the use of the purchase method in accounting for business combinations. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and requires companies to test all goodwill and indefinite-lived intangible assets for impairment and to cease amortization of such assets. The Company intends to adopt SFAS No. 142 beginning in the first quarter 2002 and currently estimates discontinuing approximately $17 million in amortization expense in 2002. In accordance with SFAS No. 142, the Company will perform an evaluation of its intangibles in the first quarter after adoption.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), which addresses the accounting and reporting for obligations associated with the retirement of long-lived assets and associated asset retirement costs. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation must be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. In addition, the associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company has not yet quantified the impact of SFAS No. 143 on the Company's financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which addresses the accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121") but retains SFAS No. 121's fundamental provisions for recognition/measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect SFAS No. 144 to have a material impact on the Company's financial statements upon adoption.

Outlook for 2002* -

While starting to see some positive revenue trends, the Company expects to report a significant loss in the first quarter of 2002. Capacity for the first quarter is expected to be down 19% and unit costs, excluding United's fuel subsidiary, are expected to increase 7% year-over-year. First-quarter fuel price is projected to be down 24% year-over-year.

The Company expects January 2002 passenger unit revenue to be 15% to 17% below last year. United's booked load factor for February is ahead of last year, while March is about the same as last year.

Information included in the above "Outlook" paragraphs, as well as certain statements made throughout the Management's Discussion and Analysis of Financial Condition and Results of Operations that are identified with an asterisk (*) is forward-looking and involves risks and uncertainties that could result in actual results differing materially from expected results. Forward-looking statements represent the Company's expectations and beliefs concerning future events, based on information available to the Company on the date of this report. Some factors that could significantly impact net earnings, revenues, expenses, unit costs, fuel, load factor and capacity include, without limitation, the adverse impact of the September 11 terrorist attacks on the economy in general; the demand for air travel; the ability to reduce operating costs and conserve financial resources; the higher costs associated with new airline security directives and any other increased regulation of air carriers; the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance will continue to be available; the ability to raise and the cost of financing in light of the September 11 events; the price of jet fuel; the airline pricing environment; industry capacity decisions; competitors' route decisions; the success of the Company's cost-reduction efforts; the success of the Company's implementation of the Financial Recovery Plan; the results of union contract negotiations and wage rate reduction discussions and their impact on labor costs and operations; the willingness of customers to travel; actions of the U.S., foreign and local governments; foreign currency exchange rate fluctuations; the economic environment of the airline industry and the economic environment in general.

Investors should not place undue reliance on the forward-looking information contained herein, which speaks only as of the date of this report. UAL disclaims any intent or obligation to update or alter any of the forward-looking statements, whether in response to new information, unforeseen events, changed circumstances or otherwise.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk -
United's exposure to market risk associated with changes in interest rates relates primarily to its debt obligations and short-term investments. United does not use derivative financial instruments in its investments portfolio. United's policy is to manage interest rate risk through a combination of fixed and floating rate debt and entering into swap agreements, depending upon market conditions. A portion of the borrowings are denominated in foreign currencies which exposes the Company to risks associated with changes in foreign exchange rates. To hedge against some of this risk, the Company has placed foreign currency deposits (primarily for Japanese yen, French francs, German marks and euros) to meet foreign currency lease obligations designated in the respective currencies. Since unrealized mark-to-market gains or losses on the foreign currency deposits are offset by the losses or gains on the foreign currency obligations, the Company reduces its overall exposure to foreign currency exchange rate volatility. The fair value of these deposits is determined based on the present value of future cash flows using an appropriate swap rate. The fair value of long-term debt is based on the quoted market prices for the same or similar issues or the present value of future cash flows using a U.S. Treasury rate that matches the remaining life of the instrument, adjusted by a credit spread.

(In millions)	Expected Maturity Dates						2001		2000	
	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value	Total	Fair Value
Assets										
Cash equivalents										
Fixed rate	$1,647	$ –	$ –	$ –	$ –	$ –	**$1,647**	**$1,647**	$1,674	$1,674
Average interest rate	2.21%	–	–	–	–	–	**2.21%**		6.68%	
Variable rate	$ 41	$ –	$ –	$ –	$ –	$ –	**$ 41**	**$ 41**	$ 5	$ 5
Average interest rate	2.28%	–	–	–	–	–	**2.28%**		6.96%	
Short term investments										
Fixed rate	$ 742	$ –	$ –	$ –	$ –	$ –	**$ 742**	**$ 742**	$ 590	$ 590
Average interest rate	5.09%	–	–	–	–	–	**5.09%**		6.96%	
Variable rate	$ 198	$ –	$ –	$ –	$ –	$ –	**$ 198**	**$ 198**	$ 75	$ 75
Average interest rate	2.53%	–	–	–	–	–	**2.53%**		6.77%	
Lease deposits										
Fixed rate - yen deposits	$ –	$ –	$ –	$ –	$ –	$ 314	**$ 314**	**$ 361**	$ 348	$ 394
Average interest rate	–	–	–	–	–	3.06%	**3.06%**		3.06%	
Fixed rate - FF deposits	$ –	$ –	$ –	$ –	$ –	$ 10	**$ 10**	**$ 10**	$ 10	$ 9
Average interest rate	–	–	–	–	–	5.61%	**5.61%**		5.61%	
Fixed rate - DM deposits	$ 1	$ 2	$ 2	$ 2	$ 2	$ 295	**$ 304**	**$ 329**	$ 314	$ 354
Average interest rate	4.53%	4.56%	4.60%	4.63%	4.66%	6.79%	**6.73%**		6.72%	
Fixed rate - EUR deposits	$ –	$ –	$ –	$ –	$ –	$ 26	**$ 26**	**$ 25**	$ 26	$ 24
Average interest rate	–	–	–	–	–	4.14%	**4.14%**		4.14%	
Fixed rate- USD deposits	$ –	$ –	$ –	$ –	$ –	$ 13	**$ 13**	**$ 15**	$ 12	$ 13
Average interest rate	–	–	–	–	–	6.49%	**6.49%**		6.49%	
Long-Term Debt										
U.S. Dollar denominated										
Fixed rate debt	$ 117	$250	$366	$280	$268	$3,820	**$5,101**	**$4,273**	$3,484	$3,617
Average interest rate	7.24%	8.15%	9.53%	7.57%	7.36%	7.38%	**7.58%**		7.90%	
Variable rate debt	$1,100	$ 46	$561	$ 50	$ 52	$ 937	**$2,746**	**$2,591**	$1,383	$1,383
Average interest rate	3.35%	3.83%	3.05%	3.88%	3.90%	3.49%	**3.37%**		6.30%	

(In millions, except average contract rates)	Notional Amount	December 31, 2001 Average Contract Rate	Estimated Fair Value
			(Pay)/Receive†
Interest rate swap	$135	7.86%	$(17)

Foreign Currency Risk -

United has established a foreign currency hedging program using currency forwards and options (purchasing put options and selling correlation options) to hedge exposure to the Japanese yen, Hong Kong dollar, British pound, Australian dollar and the euro. The goal of the hedging program is to effectively manage risk associated with fluctuations in the value of the foreign currency, thereby making financial results more stable and predictable. United does not use currency forwards or currency options for trading purposes.

(In millions, except average contract rates)		Notional Amount	December 31, 2001 Average Contract Rate	Estimated Fair Value
Forward exchange contracts				(Pay)/Receive†
Japanese Yen	- Purchased forwards	$115	126.60	$ (4)
	- Sold forwards	$ 58	130.90	$ –
French Franc	- Purchased forwards	$ 50	5.05	$ (6)
Euro	- Purchased forwards	$152	1.27	$(16)

(In millions, except average contract rates)		Notional Amount	December 31, 2000 Average Contract Rate	Estimated Fair Value
Forward exchange contracts				(Pay)/Receive†
Japanese Yen	- Purchased forwards	$141	112.33	$ (3)
	- Sold forwards	$ 66	114.71	$ –
Hong Kong Dollar	- Sold forwards	$ 23	7.79	$ –
French Franc	- Purchased forwards	$ 50	5.05	$ (5)
Euro	- Purchased forwards	$140	1.30	$(14)

Price Risk (Aircraft Fuel) -

When market conditions indicate risk reduction is achievable, United enters into fuel option contracts to reduce its price risk exposure to jet fuel. The option contracts are designed to provide protection against sharp increases in the price of aircraft fuel. As market conditions change, so may United's hedging program. In addition, to a limited extent, United trades short-term heating oil futures and option contracts, which are not significant.

(In millions, except average contract rates)	Notional Amount	December 31, 2001 Average Contract Rate	Estimated Fair Value
			(Pay)/Receive†
Purchased forward contracts - Crude oil	$201	$23.96/bbl	$(28)
Purchased forward contracts - Heating oil	$120	$27.16/bbl	$(17)

†Estimated fair values represent the amount United would pay/receive on December 31, 2001 to terminate the contracts.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

(In millions)	December 31	
Assets	2001	2000
Current assets:		
Cash and cash equivalents	$ 1,688	$ 1,679
Short-term investments	940	665
Receivables, less allowance for doubtful accounts (2001 - $30; 2000 - $14)	1,047	1,216
Aircraft fuel, spare parts and supplies, less obsolescence allowance (2001 - $70; 2000 - $55)	329	424
Income tax receivables	174	110
Deferred income taxes	272	225
Prepaid expenses and other	636	460
	5,086	4,779
Operating property and equipment:		
Owned -		
Flight equipment	14,745	14,888
Advances on flight equipment	566	810
Other property and equipment	3,919	3,714
	19,230	19,412
Less - Accumulated depreciation and amortization	4,716	5,583
	14,514	13,829
Capital leases -		
Flight equipment	2,667	3,055
Other property and equipment	99	99
	2,766	3,154
Less - Accumulated amortization	472	640
	2,294	2,514
	16,808	16,343
Other assets:		
Investments	278	435
Intangibles, less accumulated amortization (2001 - $333; 2000 - $306)	984	671
Aircraft lease deposits	667	710
Prepaid rent	374	567
Deferred income taxes	97	–
Other	903	850
	3,303	3,233
	$25,197	$24,355

See accompanying Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION

(In millions, except share data)	December 31	
Liabilities and Stockholders' Equity	2001	2000
Current liabilities:		
Notes payable	$ 133	$ –
Long-term debt maturing within one year	1,217	170
Current obligations under capital leases	237	269
Advance ticket sales	1,183	1,454
Accounts payable	1,268	1,188
Accrued salaries, wages and benefits	1,227	1,236
Accrued aircraft rent	903	840
Other accrued liabilities	1,898	1,352
	8,066	6,509
Long-term debt	6,622	4,688
Long-term obligations under capital leases	1,943	2,261
Other liabilities and deferred credits:		
Deferred pension liability	1,241	136
Postretirement benefit liability	1,690	1,557
Deferred gains	827	912
Accrued aircraft rent	551	408
Deferred income taxes	–	1,241
Other	1,049	783
	5,358	5,037
Commitments and contingent liabilities (Note 20)		
Company-obligated mandatorily redeemable preferred securities of a subsidiary trust	98	99
Preferred stock committed to Supplemental ESOP	77	304
Stockholders' equity:		
Serial preferred stock (Note 14)	–	–
ESOP preferred stock (Note 15)	–	–
Common stock at par, $0.01 par value; authorized 200,000,000 shares; issued 71,266,547 shares at December 31, 2001 and 68,834,167 shares at December 31, 2000	1	1
Additional capital invested	4,995	4,797
Retained earnings (deficit)	(199)	1,998
Stock held in treasury, at cost -		
Preferred, 10,213,519 depositary shares at December 31, 2001 and 2000 (Note 14)	(305)	(305)
Common, 16,282,369 shares at December 31, 2001 and 16,295,475 shares at December 31, 2000	(1,180)	(1,179)
Accumulated other comprehensive income	(275)	152
Other	(4)	(7)
	3,033	5,457
	$25,197	$24,355

See accompanying Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED OPERATIONS

(In millions, except per share)	Year Ended December 31		
	2001	2000	1999
Operating revenues:			
Passenger	$13,788	$16,932	$15,784
Cargo	704	931	906
Other operating revenues	1,646	1,489	1,337
	16,138	19,352	18,027
Operating expenses:			
Salaries and related costs	7,080	6,877	6,426
Aircraft fuel	2,476	2,511	1,776
Commissions	710	1,025	1,139
Purchased services	1,650	1,711	1,575
Aircraft rent	827	888	876
Landing fees and other rent	1,009	959	949
Depreciation and amortization	1,026	988	850
Aircraft maintenance	701	698	689
Cost of sales	1,280	1,061	602
Other operating expenses	1,722	1,841	1,737
Special charges	1,428	139	17
	19,909	18,698	16,636
Earnings (loss) from operations	(3,771)	654	1,391
Other income (expense):			
Interest expense	(525)	(402)	(362)
Interest capitalized	79	77	75
Interest income	105	101	68
Equity in earnings (losses) of affiliates	(23)	(12)	37
Gain on sale of investments	261	109	731
Non-operating special charges	(49)	(61)	–
Airline stabilization grant	652	–	–
Miscellaneous, net	(86)	(35)	2
	414	(223)	551
Earnings (loss) before income taxes, distributions on preferred securities, extraordinary item and cumulative effect	(3,357)	431	1,942
Provision for income taxes	(1,226)	160	699
Earnings (loss) before distributions on preferred securities, extraordinary item and cumulative effect	(2,131)	271	1,243
Distributions on preferred securities, net of tax	(6)	(6)	(5)
Earnings (loss) before extraordinary item and cumulative effect	(2,137)	265	1,238
Extraordinary loss on early extinguishment of debt, net of tax	–	(6)	(3)
Cumulative effect of accounting change, net of tax	(8)	(209)	–
Net earnings (loss)	$ (2,145)	$ 50	$ 1,235
Per share, basic:			
Earnings (loss) before extraordinary item and cumulative effect	$ (39.90)	$ 2.02	$ 10.99
Extraordinary loss on early extinguishment of debt, net of tax	–	(0.05)	(0.03)
Cumulative effect of accounting change, net of tax	(0.14)	(1.93)	–
Net earnings (loss)	$ (40.04)	$ 0.04	$ 10.96
Per share, diluted:			
Earnings (loss) before extraordinary item and cumulative effect	$ (39.90)	$ 1.89	$ 9.97
Extraordinary loss on early extinguishment of debt, net of tax	–	(0.06)	(0.03)
Cumulative effect of accounting change, net of tax	(0.14)	(1.79)	–
Net earnings (loss)	$ (40.04)	$ 0.04	$ 9.94

See accompanying Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)	Year Ended December 31		
	2001	2000	1999
Cash and cash equivalents at beginning of year	$ 1,679	$ 310	$ 390
Cash flows from operating activities:			
Net earnings (loss)	(2,145)	50	1,235
Adjustments to reconcile to net cash provided by operating activities -			
ESOP compensation expense	-	147	756
Cumulative effect of accounting change, net of tax	8	209	-
Extraordinary loss on debt extinguishment, net of tax	-	6	3
Gain on sale of investments	(261)	(109)	(731)
Investment impairment	-	61	-
Pension funding less than (greater than) expense	391	(21)	94
Deferred postretirement benefit expense	214	153	65
Depreciation and amortization	1,932	1,058	867
Provision (credit) for deferred income taxes	(1,144)	317	590
Undistributed (earnings) losses of affiliates	30	13	(20)
Decrease (increase) in receivables	165	68	(146)
Decrease (increase) in other current assets	170	(208)	2
Increase (decrease) in advance ticket sales	(271)	42	(17)
Increase (decrease) in accrued income taxes	(60)	(77)	(76)
Increase (decrease) in accounts payable and accrued liabilities	589	761	(86)
Amortization of deferred gains	(66)	(66)	(66)
Other, net	288	68	(49)
	(160)	2,472	2,421
Cash flows from investing activities:			
Additions to property and equipment	(1,951)	(2,538)	(2,389)
Proceeds on disposition of property and equipment	178	324	154
Proceeds on sale of investments	259	147	828
Acquisition of MyPoints.com, net of cash acquired (Note 22)	(32)	-	-
Decrease (increase) in short-term investments	(275)	(286)	46
Other, net	(148)	(168)	(263)
	(1,969)	(2,521)	(1,624)
Cash flows from financing activities:			
Repurchase of common stock	-	(81)	(261)
Proceeds from issuance of long-term debt	2,485	2,515	286
Repayment of long-term debt	(176)	(441)	(513)
Principal payments under capital leases	(289)	(283)	(248)
Purchase of equipment certificates under Company leases	-	(208)	(47)
Decrease in equipment certificates under Company leases	33	228	33
Increase (decrease) in short-term borrowings	133	(61)	(123)
Aircraft lease deposits	17	(138)	(20)
Cash dividends	(88)	(118)	(10)
Other, net	23	5	26
	2,138	1,418	(877)
Increase (decrease) in cash and cash equivalents during the year	9	1,369	(80)
Cash and cash equivalents at end of year	$ 1,688	$ 1,679	$ 310

See accompanying Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

(In millions, except per share)	Preferred Stock	Common Stock	Additional Capital Invested	Retained Earnings	Unearned ESOP Preferred Stock	Treasury Stock	Accumulated Other Comp. Income	Other	Total
Balance at December 31, 1998	$–	$1	$3,608	$1,028	$(121)	$(1,140)	$ (2)	$(2)	$ 3,372
Year ended December 31, 1999:									
Net earnings	–	–	–	1,235	–	–	–	–	1,235
Other comprehensive income, net:									
Unrealized gains on securities, net	–	–	–	–	–	–	354	–	354
Total comprehensive income	–	–	–	1,235	–	–	354	–	1,589
Cash dividends on preferred stock ($1.44 per Series B share)	–	–	–	(10)	–	–	–	–	(10)
Common stock repurchases	–	–	–	–	–	(261)	–	–	(261)
Issuance and amortization of ESOP preferred stock	–	–	740	–	16	–	–	–	756
ESOP dividend ($8.89 per share)	–	–	38	(115)	77	–	–	–	–
Preferred stock committed to Supplemental ESOP	–	–	(353)	–	–	–	–	–	(353)
Other	–	–	5	–	–	(1)	–	(7)	(3)
Balance at December 31, 1999	–	1	4,038	2,138	(28)	(1,402)	352	(9)	5,090
Year ended December 31, 2000:									
Net earnings	–	–	–	50	–	–	–	–	50
Other comprehensive income, net:									
Unrealized losses on securities, net	–	–	–	–	–	–	(196)	–	(196)
Minimum pension liability adj.	–	–	–	–	–	–	(4)	–	(4)
Total comprehensive income	–	–	–	50	–	–	(200)	–	(150)
Cash dividends on preferred stock ($1.44 per Series B share)	–	–	–	(10)	–	–	–	–	(10)
Cash dividends on common stock ($1.25 per share)	–	–	–	(144)	–	–	–	–	(144)
Common stock repurchases	–	–	–	–	–	(81)	–	–	(81)
Issuance and amortization of ESOP preferred stock	–	–	147	–	–	–	–	–	147
ESOP dividend ($8.89 per share)	–	–	8	(36)	28	–	–	–	–
Preferred stock committed to Supplemental ESOP	–	–	650	–	–	–	–	–	650
Other	–	–	(46)	–	–	(1)	–	2	(45)
Balance at December 31, 2000	–	1	4,797	1,998	–	(1,484)	152	(7)	5,457
Year ended December 31, 2001:									
Net loss	–	–	–	(2,145)	–	–	–	–	(2,145)
Other comprehensive income, net:									
Unrealized losses on investments, net	–	–	–	–	–	–	(116)	–	(116)
Unrealized losses on derivatives, net	–	–	–	–	–	–	(46)	–	(46)
Minimum pension liability adj.	–	–	–	–	–	–	(265)	–	(265)
Total comprehensive income	–	–	–	(2,145)	–	–	(427)	–	(2,572)
Cash dividends on preferred stock ($1.44 per Series B share)	–	–	–	(10)	–	–	–	–	(10)
Cash dividends on common stock ($0.30 per share)	–	–	–	(42)	–	–	–	–	(42)
Preferred stock committed to Supplemental ESOP	–	–	229	–	–	–	–	–	229
Other	–	–	(31)	–	–	(1)	–	3	(29)
Balance at December 31, 2001	$–	$1	$4,995	$ (199)	$ –	$(1,485)	$(275)	$(4)	$ 3,033

See accompanying Notes to Consolidated Financial Statements.

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. Certain prior-year financial statement items have been reclassified to conform to the current year's presentation.

(b) Changes in Accounting Principles - During 2001, the Emerging Issues Task Force issued Topic D-98 "Classification and Measurement of Redeemable Securities" ("Topic D-98"). Topic D-98 states that redeemable preferred stock with redemption features outside of the control of the issuer be classified outside of permanent equity; additionally, for stock that will become redeemable at some future date and its redemption amount is variable (such as at market value), changes in the redemption value should be recognized immediately as they occur and the carrying value of the security be adjusted at the end of each reporting period.

UAL's preferred stock committed to the Supplemental ESOP is redeemable preferred stock with redemption features outside of UAL's control, as employees can elect to receive from the ESOP trustee, their shares in cash upon termination of employment. The Supplemental ESOP preferred stock is classified outside of permanent equity. Topic D-98 requires that the Supplemental ESOP be recorded at fair market value at each balance sheet date and also requires retroactive application. Accordingly, UAL has restated the carrying amount of the preferred stock to reflect market value at December 31, 2000, 1999 and 1998 with a corresponding change to additional paid in capital. The restatements are as follows:

(In millions)		2000	1999	1998
Preferred stock committed to Supplemental ESOP	As reported	$ 571	$ 893	$ 691
	As restated	$ 304	$ 954	$ 600
Additional capital invested	As reported	$4,530	$4,099	$3,517
	As restated	$4,797	$4,038	$3,608

Effective January 1, 2001, UAL adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended. The adoption of SFAS No. 133 resulted in a cumulative charge of $8 million, net of tax, to 2001 earnings. This primarily related to the changes in fair values of certain equity warrants that were not designated as qualifying hedging instruments. (See Note 1(f) "Summary of Significant Accounting Policies - Derivative Financial Instruments.")

Effective January 1, 2000, the Company changed its method of accounting for the sale of mileage to participating non-airline partners in its Mileage Plus program, in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." Under the new accounting method, a portion of revenue from the sale of mileage (previously recognized in other revenue) is deferred and recognized as passenger revenue when the transportation is provided. Accordingly, UAL recorded a charge of $209 million, net of tax, for the cumulative effect of a change in accounting principle to reflect the application of the accounting method to prior years. This change resulted in a reduction to revenues of approximately $38 million for 2000 and would have reduced 1999 revenues by $45 million.

The pro forma effect of the accounting change on net income and earnings per share as previously reported for 1999 and prior years is as follows:

		1999	1998	1997
Earnings before extraordinary items (in millions)	As reported	$1,238	$ 821	$ 958
	Pro forma	$1,209	$ 774	$ 931
Earnings per share before extraordinary items				
Basic	As reported	$10.99	$7.34	$9.50
	Pro forma	$10.70	$6.86	$9.21
Diluted	As reported	$ 9.97	$6.83	$9.04
	Pro forma	$ 9.71	$6.38	$8.76
Net earnings (in millions)	As reported	$1,235	$ 821	$ 949
	Pro forma	$1,206	$ 774	$ 922
Net earnings per share				
Basic	As reported	$10.96	$7.34	$9.41
	Pro forma	$10.67	$6.86	$9.12
Diluted	As reported	$ 9.94	$6.83	$8.95
	Pro forma	$ 9.68	$6.38	$8.67

(c) 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. See following footnotes for discussion of significant estimates used in the preparation of the financial statements.

(d) 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.

(e) 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 does not remove the securities from the balance sheet. At December 31, 2001, United was obligated to repurchase $2 million of securities lent to third parties.

At December 31, 2001 and 2000, $526 million and $598 million, respectively, of investments in debt securities included in cash and cash equivalents and short-term investments were classified as available-for-sale, and $2.0 billion and $1.7 billion, respectively, were classified as held-to-maturity. Investments in debt securities classified as available-for-sale are stated at fair value based on the quoted market prices for the securities, which does not differ significantly from their cost basis. Investments classified as held-to-maturity are stated at cost which approximates market due to their short-term maturities. The gains or losses from sales of available-for-sale securities are included in interest income for each respective year.

(f) Derivative Financial Instruments – Hedges of Future Cash Flows

Foreign Currency - United enters into forwards and currency swaps to reduce exposure to currency fluctuations on Japanese yen-, euro- and French franc-denominated capital lease obligations. The cash flows of the forwards and swaps mirror those of the capital leases. These forwards and swaps have been designated as cash flow hedges of the foreign currency denominated lease payments. For these forwards and swaps, United excludes changes in fair value resulting from changes in the forward points in its assessment of effectiveness. Any gains or losses realized upon early termination of these forwards and swaps are recorded (net of tax) as a component of other comprehensive income and recognized in income as the hedged transaction impacts earnings.

The Company hedges some of the risks of exchange rate volatility on its anticipated future Japanese yen, euro, Canadian dollar, Australian dollar and British pound revenues by purchasing put options and on Hong Kong dollar revenues by entering into forward contracts. These options and forwards have a duration of less than one year and the amounts are synchronized with the expected cash receipts. Accordingly, the put options and forwards have been designated as cash flow hedges of the anticipated cash receipts. Changes in the fair value of purchased put option contracts, to the extent they are effective, are recorded in other comprehensive income (net of tax) and then recognized as a component of passenger revenue when the underlying hedged revenue is recorded. United excludes, in its assessment of effectiveness, changes in the fair value of these instruments that are a result of changes in their time value.

Aircraft Fuel - United uses crude oil and heating oil forwards and options to hedge a portion of its price risk related to aircraft fuel purchases. These contracts have maturity dates of less than two years and have been designated as cash flow hedges of anticipated jet fuel purchases. These contracts are recorded at fair value with the changes in fair value, to the extent they are effective, recorded in other comprehensive income (net of tax), until the underlying hedged fuel is consumed. The Company determines the ineffective portion of the fuel forwards and options as the excess of the fair value of the hedge contracts compared to the change in expected cash outflows for the hedged jet fuel. United excludes, in its assessment of effectiveness, changes in the fair value of these instruments that are a result of changes in their time value.

Interest Rate - United is a party to a series of interest rate swaps that convert floating-rate operating leases to fixed-rate leases. United has designated these swaps as cash flow hedges of the floating-rate leases and has recorded these contracts at fair value with the effective portion recorded as a component of other comprehensive income (net of tax).

The ineffectiveness resulting from the changes in fair value of aircraft fuel and interest rate hedge positions was immaterial. There was no ineffectiveness resulting from the changes in fair value of foreign currency hedge positions reported in earnings. Amounts excluded from the assessment of effectiveness amounted to approximately $3 million before income taxes and were recorded in "Miscellaneous, net."

The following is a reconciliation of current period changes (net of tax) of the portion of stockholders' equity relating to derivatives that qualify as cash flow hedges:

(In millions)	(decrease)/increase
Transition adjustment as of January 1, 2001	$ (4)
Current period increase in fair value, net	(39)
Reclassifications into earnings, net	(3)
Balance as of December 31, 2001	$(46)

Of this amount, $32 million in losses is expected to be recorded into earnings within the next twelve months. At December 31, 2001, the term of derivative instruments hedging variability in cash flows, except those related to payment of variable interest on existing financial instruments, was seventeen years.

Other Derivative Instruments Not Designated as Hedges

Equity Warrants - The Company may also invest in or receive warrants to purchase securities of other companies as strategic investments. Changes in the fair value of warrants that are not designated as hedge instruments are included in "Miscellaneous, net."

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 having short-term maturities, are not designated hedges under SFAS No. 133 and are marked to fair value through the income statement at the end of each accounting period. The unrealized mark-to-market gains and losses generally offset the losses and gains recorded on the yen liabilities.

To reduce hedging costs, the Company sells a correlation option denominated in Japanese yen, euros, Canadian dollars, Australian dollars and British pounds. These correlation options are not designated as a hedge and the changes in the fair market value of the correlation options are included in "Miscellaneous, net."

(g) 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.

(h) 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 4 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.

(i) Mileage Plus Awards - United accrues the estimated incremental cost of providing free travel awards earned under its Mileage Plus frequent flyer program 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.

(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.

(k) United Express - United has marketing agreements under which independent regional carriers, flying under the United Express name, feed United's mainline flying. United pays these carriers on a fee-per-departure basis and includes the revenues derived from the carriers in passenger revenue, net of expenses. In addition, United has call options that are exercisable under certain conditions, on 22 regional jets owned or leased by these carriers.

(l) Advertising - Advertising costs, which are included in other operating expenses, are expensed as incurred. Advertising expense was $217 million, $269 million and $232 million for the years ended December 31, 2001, 2000 and 1999, respectively.

(m) Intangibles - Intangibles consist primarily of route acquisition costs and intangible pension assets (see Note 18 "Retirement and Postretirement Plans"). Route acquisition costs are amortized over 40 years. During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") which the Company intends to adopt in January 2002. See Other Information, "New Accounting Pronouncements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(n) Measurement of Impairments - In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"), the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying value of those assets. In August 2001, the FASB issued SFAS No. 144 which supersedes SFAS No. 121. See Other Information, "New Accounting Pronouncements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(2) Special Charges Related to the September 11 Terrorist Attacks

On September 11, 2001, two United aircraft were hijacked and destroyed in terrorist attacks on The World Trade Center in New York City and in a crash near Johnstown, Pennsylvania. On the same day, two American Airlines aircraft were also hijacked and used in terrorist attacks on The World Trade Center and the Pentagon. In addition to the loss of all passengers and crew on board the aircraft, these attacks resulted in numerous deaths and injuries to persons on the ground and massive property damage. In the immediate aftermath of the attacks, the Federal Aviation Administration ("FAA") ordered all aircraft operating in the U.S. grounded immediately. This grounding effectively lasted for three days, and the Company was able to operate only a portion of its scheduled flights for several days thereafter. When flights were permitted to resume, passenger traffic and yields were significantly lower than prior to the attacks. In a direct response to the adverse impact on air travel as a result of the September 11 terrorist attacks, United reduced capacity by as much as 23%, which allowed for the retirement of the entire B727-200 and B737-200 fleets. In addition, on September 19, United announced that it would begin the process of furloughing approximately 20,000 employees. Since that time, however, due to slightly increased customer demand, and an increase to the April 2002 schedule, United plans to recall 1,200 flight attendants to active status on April 1, 2002 and to furlough fewer pilots than previously planned.

During the third quarter, United recorded a special charge of $1.3 billion in operating expense and $49 million in non-operating expense for amounts relating to the September 11 terrorist attacks and the resulting impact on the Company's schedule and operations. In addition, as of December 31, 2001, United had received $652 million in compensation under the Air Transportation Safety and System Stabilization Act (the "Act"). For further information, see "September 11 Terrorist Attacks" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The special charge is made up of the following:

(In millions)	Amount	Amount (net of tax)
Special charges:		
Aircraft groundings and impairment	$ 788	
Reduction in force	217	
Early termination fees	181	
Discontinued capital projects	107	
Miscellaneous	20	
Total operating special charges	$1,313	$ 834
Non-operating special charges	49	31
Airline stabilization grant	(652)	(414)
Special charges, net of grant	$ 710	$ 451

As a result of the grounding of the B727-200 and B737-200 fleets, the Company recorded a charge of $271 million, reflecting the write-down of the fleets to fair value.

Due to the changes being implemented to United's operations, the Company has reviewed its fleet for impairment in accordance with SFAS No. 121. (See Note 1(n) "Summary of Significant Accounting Policies - Measurement of Impairments.") Management has determined that the estimated net undiscounted future cash flows generated by its B737-500 and B747-400 fleets will be less than their carrying value. Management estimated the undiscounted future cash flows utilizing models used by the Company in making fleet and scheduling decisions. These models were based upon projections of passenger yield, fuel costs, labor costs and other relevant factors in the markets where these aircraft will operate. The owned aircraft in each of these fleets were written down to their fair market values, as estimated by management using published sources, third-party appraisals and bids received from third parties. Accordingly, the special charge includes an impairment charge of $517 million for these aircraft fleets resulting from the anticipated decrease in future cash flows.

Also included in the special charge is $107 million relating to the write-off of capital projects no longer being pursued. Additionally, United has recorded a non-operating special charge of $48 million relating to the write-down of residual values on certain non-operating equipment leased to others.

As a result of recording the above special charges related to aircraft and capital projects, depreciation and amortization expense will decrease by approximately $80 million in 2002.

The Company has begun the process of furloughing approximately 20,000 employees across all work groups (pilots, flight attendants, mechanics, ramp service, customer service and management and salaried employees). In connection with the furloughs, United accrued severance costs of approximately $217 million, including a one-time curtailment charge relating to the accelerated recognition of unrecognized prior service costs for certain of the Company's pension plans.

The special charge also includes $181 million for amounts due under executory contracts with third parties, including aircraft manufacturers, software vendors, food suppliers and governmental authorities.

Since the announcement of the reduction in force, approximately 19,000 employees have been furloughed, separated, elected special leave of absence, or retired. Of this amount, approximately 4,200 employees are on special leave with full benefits for up to two years.

United had accrued $134 million related to the reduction in force and $181 million related to early termination fees at September 30, 2001. During the fourth quarter, United paid $47 million in severance-related costs and $10 million in early termination fees, bringing the accruals for the reduction in force and early termination fees to $87 million and $171 million, respectively, at December 31, 2001.

(3) Employee Stock Ownership Plans and Recapitalization

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

The ESOPs cover employees represented by the Air Line Pilots Association, International ("ALPA"), the International Association of Machinists and Aerospace Workers ("IAM") and U.S. management and salaried employees and include a "Leveraged ESOP," a "Non-Leveraged ESOP" and a "Supplemental ESOP." Both the Leveraged ESOP and the Non-Leveraged ESOP are tax-qualified plans while the Supplemental ESOP is not a tax-qualified plan.

The equity interests were delivered to employees through two classes of preferred stock (Class 1 and Class 2 ESOP Preferred Stock, collectively "ESOP Preferred Stock"), and the voting interests were delivered through three separate classes of preferred stocks (Class P, M and S Voting Preferred Stock, collectively, "Voting Preferred Stock"). The Class 1 ESOP Preferred Stock was delivered to an ESOP trust in seven separate sales under the Leveraged ESOP, the last of which occurred on January 5, 2000. Based on Internal Revenue Code Limitations, shares of the Class 2 ESOP Preferred Stock were either contributed to the Non-Leveraged ESOP or allocated as "book entry" shares to the Supplemental ESOP annually through the year 2000. The classes of preferred stock are described more fully in Note 15 "ESOP Preferred Stock."

Shares of ESOP Preferred Stock were legally released or allocated to employee accounts as of year-end. The final allocation of shares occurred in March 2001 as follows: 669,966 shares of Class 1 ESOP Preferred Stock, 167,523 shares of Class 2 ESOP Preferred Stock and 834,726 shares of Voting Preferred Stock were allocated to employee accounts, and another 20,007 shares of Class 2 ESOP Preferred Stock were allocated in the form of "book entry" shares, effective December 31, 2000. In addition, during 2001, 152,620 shares of Class 2 ESOP Preferred Stock previously allocated in book entry form were issued and either contributed to the qualified plan or converted and sold on behalf of terminating employees.

For the Class 2 ESOP Preferred Stock committed to be contributed to employees under the Supplemental ESOP, employees can elect to receive their "book entry" shares in cash upon termination of employment. At December 31, 2001, there were 1,430,536 book entry shares outstanding under the Supplemental ESOP. The estimated fair value of such shares at December 31, 2001 and 2000 is reflected in the Statements of Consolidated Financial Position as discussed in Note 1(b) "Summary of Significant Accounting Policies - Changes in Accounting Principles."

(4) Other Income (Expense) - Miscellaneous

Included in Other income (expense) - "Miscellaneous, net" was $(21) million, $(22) million and $4 million of foreign exchange gains (losses) in 2001, 2000 and 1999, respectively.

(5) Per Share Amounts

Basic earnings per share were computed by dividing net income before extraordinary item and cumulative effect by the weighted-average number of shares of common stock outstanding during the year and potential participating ESOP preferred shares in periods where such shares are dilutive using the if-converted method. In addition, diluted earnings per share amounts include potential common shares, including common shares issuable upon conversion of ESOP shares committed to be released.

Earnings (Loss) Attributable to Common Stockholders (in millions)	2001	2000	1999
Net earnings (loss) before cumulative effect and extraordinary item	**$(2,137)**	$ 265	$1,238
Preferred stock dividends	**(10)**	(46)	(125)
Earnings (loss) attributable to common stockholders (Basic and Diluted)	**$(2,147)**	$ 219	$1,113
Shares (in millions)			
Weighted average shares outstanding	**53.8**	51.3	52.3
Participating convertible ESOP preferred stock	**-**	57.0	49.0
Weighted average number of shares (Basic)	**53.8**	108.3	101.3
Non-participating convertible ESOP preferred stock	**-**	7.5	9.0
Other	**-**	0.7	1.3
Weighted average number of shares (Diluted)	**53.8**	116.5	111.6
Earnings (Loss) Per Share (before cumulative effect and extraordinary item)			
Basic	**$(39.90)**	$ 2.02	$10.99
Diluted	**$(39.90)**	$ 1.89	$ 9.97

At December 31, 2001, stock options to purchase 10,744,224 shares of common stock were outstanding, but were not included in the computation of diluted earnings per share, because the exercise price of these options was greater than the average market price of the common shares. In addition, 61,052,600 shares of convertible ESOP preferred stock were not included in the computation of diluted earnings per share, as the result would be antidilutive.

(6) Investments

At December 31, 2000, United owned 15,940,000 shares (18%) in Galileo, a leading provider of electronic global distribution services for the travel industry. On October 1, 2001, Cendant Corporation ("Cendant") acquired all of the outstanding common stock of Galileo for a combination of stock and cash. Accordingly, United tendered all of its shares in Galileo for net proceeds of $65 million and 21,168,320 shares in Cendant, resulting in a gain of $155 million, net of tax. Subsequent to the acquisition by Cendant and prior to December 31, United sold 14 million shares of Cendant common stock for net proceeds of $194 million, resulting in a gain of $11 million, net of tax. During January 2002, United sold its remaining investment in Cendant for net proceeds of $137 million, resulting in a gain of approximately $29 million, net of tax.

At December 31, 2001, United had $113 million in trust under a prior services agreement with Galileo. The revenues from the agreement were earned and recorded in 1999, 2000 and 2001 and the payout of the trust will occur in July 2002.

In June 1999, United sold 17,500,000 common shares of Galileo in a secondary offering for $766 million, resulting in a gain of $428 million, net of tax.

At December 31, 2000, United owned 1,391,791 depositary certificates in Equant, a provider of international data network services to multinational businesses and a single source for global desktop communications. On June 29, 2001, France Telecom acquired all of the outstanding shares of Equant in an exchange of one France Telecom share for every 2.2 Equant shares. At December 31, 2001, the estimated fair value of United's investment in France Telecom was approximately $25 million.

In December 1999, United sold 709,000 shares of common stock in Equant in a secondary offering by Equant for $62 million, resulting in a gain of $40 million, net of tax.

During 2000 and 2001, UAL Loyalty Services, a wholly owned subsidiary of UAL, has invested approximately $51 million in Orbitz, an Internet travel web site. UAL Loyalty Services owns approximately 22% of Orbitz and accounts for this investment using the equity method of accounting.

During 1998 and 1999, United invested approximately $51 million in GetThere.com (a leading provider of Internet-based travel planning products tailored to individual, corporate, travel supplier and travel agency customers) resulting in a 28% minority interest consisting of common stock, warrants and options. United accounted for its investment in GetThere.com using the equity method of accounting. On October 6, 2000, Sabre Holdings Corporation acquired all of the outstanding common stock of GetThere.com for $17.75 per share. Accordingly, after converting its options and warrants, United tendered all of its shares for net proceeds of $147 million, resulting in a gain of approximately $69 million, net of tax.

During 2000, United recorded an impairment loss of $38 million, net of tax, related to its warrants held in Priceline.com.

(7) Acquisitions

On July 18, 2001, UAL Loyalty Services successfully completed its cash tender offer to acquire all of the outstanding common stock of MyPoints.com for $2.60 per share. MyPoints.com is a leading Internet direct marketing and membership services company, known for its database-driven loyalty infrastructure. The merger is expected to provide more effective communication with users of united.com and Mileage Plus members, as well as allow greater reach to an expanded audience of potential customers. Including the costs related to vested management stock options, outstanding warrants and transaction-related expenditures, the aggregate cost of the acquisition was approximately $118 million. The preliminary purchase price allocation has assigned approximately $32 million to goodwill and intangible assets, pending final determination of certain acquired balances. This transaction is being accounted for under the purchase method, in accordance with SFAS No. 141, "Business Combinations."

(8) Income Taxes

In 2001, UAL incurred both a regular and an alternative minimum tax ("AMT") loss. The carryback of the regular tax loss and the AMT loss to 1999 will produce both federal and state refunds and reduce AMT credits. The primary differences between UAL's regular tax loss and AMT loss are the depreciation adjustments and preferences.

The provision for income taxes is summarized as follows:

(In millions)	2001	2000	1999
Current -			
Federal	$ (82)	$(133)	$ 93
State	-	(24)	16
	(82)	(157)	109
Deferred -			
Federal	(1,048)	278	536
State	(96)	39	54
	(1,144)	317	590
	$(1,226)	$ 160	$699

The income tax provision differed from amounts computed at the statutory federal income tax rate, as follows:

(In millions)	2001	2000	1999
Income tax provision at statutory rate	$(1,175)	$151	$680
State income taxes, net of federal income tax benefit	(62)	10	46
ESOP dividends	(17)	(32)	(40)
Nondeductible employee meals	18	24	24
Other, net	10	7	(11)
	$(1,226)	$160	$699

Temporary differences and carryforwards that give rise to a significant portion of deferred tax assets and liabilities for 2001 and 2000 are as follows:

(In millions)	2001 Deferred Tax Assets	2001 Deferred Tax Liabilities	2000 Deferred Tax Assets	2000 Deferred Tax Liabilities
Employee benefits, including postretirement medical and ESOP	$1,329	$ 80	$1,076	$ 214
Depreciation, capitalized interest and transfers of tax benefits	–	3,180	–	3,009
Federal and state net operating loss carryforwards	1,162	–	43	–
Mileage Plus deferred revenue	171	–	132	–
Gains on sale and leasebacks	275	–	307	–
Rent expense	462	–	461	–
AMT credit carryforwards	255	–	371	–
Other	939	958	837	1,020
Less: State net operating loss valuation allowance	(6)	–	–	–
	$4,587	$4,218	$3,227	$4,243

The Company has determined, based on its history of operating earnings and expectations of future taxable income, that it is more likely than not that the deferred tax assets at December 31, 2001 will be realized.

At December 31, 2001, UAL and its subsidiaries had $255 million of federal AMT credits and $1.2 billion of federal and state net operating losses which may be carried forward to reduce the tax liabilities of future years. State net operating losses were reduced by a valuation allowance for those states with carryforward periods of seven years or less, for which it is more likely than not that expiration will occur before utilization.

(9) Other Comprehensive Income

The following table presents the tax effect of those items included in other comprehensive income:

(In millions) Year Ended December 31	2001 Pre-Tax	2001 Tax Effect	2001 Net of Tax	2000 Pre-Tax	2000 Tax Effect	2000 Net of Tax	1999 Pre-Tax	1999 Tax Effect	1999 Net of Tax
Unrealized holding gains (losses) on investments arising during period	$ 79	$ (29)	$ 50	$(297)	$101	$(196)	$547	$(193)	$354
Less: reclassification adjustment for gains included in net income	261	(95)	166	–	–	–	–	–	–
Net unrealized holding gains (losses)	(182)	66	(116)	(297)	101	(196)	547	(193)	354
Unrealized losses on derivatives	(72)	26	(46)	–	–	–	–	–	–
Minimum pension liability	(418)	153	(265)	(6)	2	(4)	–	–	–
Total other comprehensive income	$(672)	$245	$(427)	$(303)	$103	$(200)	$547	$(193)	$354

Unrealized gains (losses) on securities primarily represent gains (losses) on the Company's investments in Galileo, Cendant and France Telecom as discussed in Note 6 "Investments."

(10) Short-Term Borrowings

At December 31, 2001, United had outstanding $133 million in short-term borrowings, bearing an average interest rate of 2.80%. Receivables amounting to $145 million were pledged by United to secure repayment of such outstanding borrowings.

(11) Long-Term Debt

A summary of long-term debt, including current maturities, as of December 31 is as follows (interest rates are as of December 31, 2001):

(In millions)	2001	2000
Secured notes, 2.30% to 9.83%, averaging 5.78%, due through 2014	$6,708	$3,417
Debentures, 9.00% to 11.21%, averaging 9.89%, due through 2021	646	646
Commercial paper, 6.71%, due through 2003	-	549
Special facility bonds, 5.63% to 6.38%, averaging 5.90%, due through 2034	493	255
	7,847	4,867
Less: Unamortized discount on debt	(8)	(9)
Current maturities	(1,217)	(170)
	$6,622	$4,688

See Quantitative and Qualitative Disclosures About Market Risk for disclosures regarding the fair values of debt.

In addition to scheduled principal payments, in 2000 and 1999 the Company repaid $116 million and $23 million, respectively, in principal amount of debentures prior to maturity. The debentures were scheduled to mature at various times through 2021. Extraordinary losses of $6 million and $3 million, respectively, net of tax benefits of $4 million and $2 million, respectively, were recorded reflecting amounts paid in excess of the debt carrying value.

The Company, through a special-purpose financing entity that is consolidated, has issued commercial paper which was originally classified as long-term debt. The proceeds from the commercial paper were used to refinance certain equipment certificates supporting leveraged lease transactions. During 2001, the Company terminated this transaction using proceeds from an interim bank facility to pay off the commercial paper. Subsequent to December 31, 2001, the Company refinanced the interim bank facility to long-term and now classifies the debt as a long-term obligation in the Company's statement of financial position.

In July 2000, the Company issued $921 million in enhanced equipment trust certificates ("EETCs") to refinance certain owned aircraft and aircraft under operating leases. Net proceeds after refinancing the operating leases was $622 million. In December 2000, the Company issued an additional $1.5 billion in EETCs to refinance certain owned aircraft and in August 2001, the Company issued $1.5 billion in EETCs to finance certain owned aircraft. Also during 2001, the Company issued $1.0 billion in long-term debt to finance the acquisition of aircraft.

At December 31, 2001, United had recorded $493 million in special facilities revenue bonds to finance the acquisition and construction of certain facilities at Los Angeles, San Francisco, Miami and Chicago. United guarantees the payment of these bonds under various payment and loan agreements. The bond proceeds are restricted to expenditures on the facilities and unspent amounts are classified as other assets in the balance sheet.

At December 31, 2001, United had outstanding a total of $2.7 billion of debt at variable rates from 2.30% to 6.35% based on specified spreads over LIBOR.

Maturities of long-term debt for each of the four years after 2002 are: 2003 - $296 million; 2004 - $927 million; 2005 - $330 million; and 2006 - $320 million. Various assets, principally aircraft, having an aggregate book value of $5.5 billion at December 31, 2001, were pledged as security under various loan agreements.

(12) Lease Obligations

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.

Future minimum lease payments as of December 31, 2001, under capital leases (substantially all of which are for aircraft) and operating leases having initial or remaining noncancelable lease terms of more than one year are as follows:

(In millions)	Operating Leases Aircraft	Operating Leases Non-aircraft	Capital Leases
Payable during -			
2002	$ 927	$ 653	$ 413
2003	975	597	315
2004	1,011	580	323
2005	1,025	568	292
2006	1,032	546	317
After 2006	8,509	8,115	1,501
Total minimum lease payments	$13,479	$11,059	3,161
Imputed interest (at rates of 5.3% to 12.2%)			(981)
Present value of minimum lease payments			2,180
Current portion			(237)
Long-term obligations under capital leases			$1,943

As of December 31, 2001, United leased 300 aircraft, 69 of which were under capital leases. These leases have terms of 10 to 26 years, and expiration dates range from 2002 through 2020. Under the terms of all leases, United has the right to purchase the aircraft at the end of the lease term, in some cases at fair market value and in others at fair market value or a percentage of cost. The present value of United's future minimum lease payments under operating leases for aircraft and non-aircraft was $6.6 billion and $4.4 billion, respectively, at December 31, 2001.

In connection with the financing of certain aircraft accounted for as capital leases, United had on deposit at December 31, 2001 an aggregate 41 billion yen ($314 million), 667 million German marks ($304 million), 71 million French francs ($10 million), 30 million euro ($26 million) and $13 million in certain banks and had pledged an irrevocable security interest in such deposits to certain of the aircraft lessors. These deposits will be used to pay off an equivalent amount of recorded capital lease obligations.

Amounts charged to rent expense, net of minor amounts of sublease rentals, were $1.4 billion in 2001, $1.5 billion in 2000 and $1.4 billion in 1999. Included in 2001 rental expense was $6 million in contingent rentals, resulting from changes in interest rates for operating leases under which the rent payments are based on variable interest rates.

(13) Company-Obligated Mandatorily Redeemable Preferred Securities of a Subsidiary Trust

In December 1996, UAL Corporation Capital Trust I (the "Trust") issued $75 million of its 13 1/4% Trust Originated Preferred Securities (the "Preferred Securities") in exchange for 2,999,304 depositary shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock (see Note 14 "Serial Preferred Stock"). Concurrent with the issuance of the Preferred Securities and the related purchase by UAL of the Trust's common securities, the Company issued to the Trust $77 million aggregate principal amount of its 13 1/4% Junior Subordinated Debentures (the "Debentures") due 2026. The Debentures are, and will be, the sole assets of the Trust. The interest and other payment dates on the Debentures correspond to the distribution and other payment dates on the Preferred Securities. Upon maturity or redemption of the Debentures, the Preferred Securities will be mandatorily redeemed. The Debentures are redeemable at UAL's option, in whole or in part, on or after July 12, 2004, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to the redemption date. Upon the repayment of the Debentures, the proceeds thereof will be applied to redeem the Preferred Securities.

There is a full and unconditional guarantee by UAL of the Trust's obligations under the securities issued by the Trust. However, the Company's obligations are subordinate and junior in right of payment to certain other of its indebtedness. UAL has the right to defer payments of interest on the Debentures by extending the interest payment period, at any time, for up to 20 consecutive quarters. If interest payments on the Debentures are so deferred, distributions on the Preferred Securities will also be deferred. During any deferral, distributions will continue to accrue with interest thereon. In addition, during any such deferral, UAL may not declare or pay any dividend or other distribution on, or redeem or purchase, any of its capital stock.

The fair value of the Preferred Securities at December 31, 2001 and 2000 was $57 million and $85 million, respectively.

(14) Serial Preferred Stock

At December 31, 2001, UAL had outstanding 3,203,177 depositary shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock, with a liquidation preference of $25 per depositary share ($25,000 per Series B preferred share) and a stated capital of $0.01 per Series B preferred share. Under its terms, any portion of the Series B preferred stock or the depositary shares is redeemable for cash after July 11, 2004, at UAL's option, at the equivalent of $25 per depositary share, plus accrued dividends. The Series B preferred stock is not convertible into any other securities, has no stated maturity and is not subject to mandatory redemption.

The Series B preferred stock ranks senior to all other preferred and common stock outstanding, except the Preferred Securities, as to receipt of dividends and amounts distributed upon liquidation. The Series B preferred stock has voting rights only to the extent required by law and with respect to charter amendments that adversely affect the preferred stock or the creation or issuance of any security ranking senior to the preferred stock. Additionally, if dividends are not paid for six cumulative quarters, the Series B preferred stockholders are entitled to elect two additional members to the UAL Board of Directors until all dividends are paid in full. Pursuant to UAL's restated certificate of incorporation, UAL is authorized to issue a total of 50,000 shares of Series B preferred stock.

UAL is authorized to issue up to 15,986,584 additional shares of serial preferred stock.

(15) ESOP Preferred Stock

The following activity related to UAL's outstanding ESOP preferred stocks (see Note 3 for a description of the ESOPs):

	Class 1 ESOP	Class 2 ESOP	ESOP Voting
Balance December 31, 1998	10,451,369	867,322	10,008,755
Shares issued	1,955,756	227,689	3,073,969
Converted to common	(306,662)	(146,975)	(457,401)
Balance December 31, 1999	12,100,463	948,036	12,625,323
Shares issued	539,177	855,998	3,073,968
Converted to common	(420,958)	(283,428)	(710,056)
Balance December 31, 2000	12,218,682	1,520,606	14,989,235
Shares issued	–	692,811	857,496
Converted to common	(359,780)	(239,705)	(603,107)
Balance December 31, 2001	11,858,902	1,973,712	15,243,624

An aggregate of 17,675,345 shares of Class 1 and Class 2 ESOP Preferred Stock was issued to employees under the ESOPs. Each share of ESOP Preferred Stock is convertible into four shares of UAL common stock. Shares typically are converted to common as employees retire or otherwise leave the Company. The stock has a par value of $0.01 per share and is nonvoting. The Class 1 and Class 2 ESOP Preferred Stocks have a liquidation value of $126.96 per share. The Class 1 ESOP Preferred Stock provided a fixed annual dividend of $8.8872 per share, which ceased on March 31, 2000; the Class 2 does not pay a fixed dividend.

Class P, M and S Voting Preferred Stocks were established to provide the voting power to the employee groups participating in the ESOPs. Additional Voting Preferred Stock was issued as shares of the Class 1 and Class 2 ESOP Preferred Stock were allocated to employees. In the aggregate, 17,675,345 shares of Voting Preferred Stock were issued through the year 2000. The Voting Preferred Stock outstanding at any time commands voting power for approximately 55% of the vote of all classes of capital stock in all matters requiring a stockholder vote, other than for the election of members of the Board of Directors. The Voting Preferred Stock has a par value and liquidation preference of $0.01 per share. The stock is not entitled to receive any dividends and is convertible into .0004 shares of UAL common stock.

Class Pilot MEC, IAM, SAM and I junior preferred stock (collectively "Director Preferred Stocks") were established to effectuate the election of one or more members to UAL's Board of Directors. One share each of Class Pilot MEC and Class IAM junior preferred stock is authorized and issued. The Company is authorized to issue ten shares each of Class SAM and Class I junior preferred stock. There are three shares of Class SAM and four shares of Class I issued. Each of the Director Preferred Stocks has a par value and liquidation preference of $0.01 per share. The stock is not entitled to receive any dividends and Class I will be redeemed automatically upon the transfer of the shares to any person not elected to the Board of Directors or upon the occurrence of the "Sunset."

(16) Common Stockholders' Equity

Changes in the number of shares of UAL common stock outstanding during the years ended December 31 were as follows:

	2001	2000	1999
Shares outstanding at beginning of year	52,538,692	50,776,583	51,804,653
Stock options exercised	34,000	187,400	939,262
Shares issued from treasury under compensation arrangements	53,242	32,458	89,745
Shares acquired for treasury	(40,097)	(1,326,877)	(3,877,912)
Forfeiture of restricted stock	-	(5,800)	(5,800)
Conversion of ESOP preferred stock	2,398,184	2,817,829	1,814,731
Other	157	57,099	11,904
Shares outstanding at end of year	54,984,178	52,538,692	50,776,583

During 2000 and 1999, the Company repurchased 1,258,263 and 3,754,802 shares of common stock, respectively, at a total purchase price of $81 million and $261 million, respectively.

(17) Stock Options and Awards

The Company has granted options to purchase common stock to various officers and employees. The option price for all stock options is at least 100% of the fair market value of UAL common stock at the date of grant. Options generally vest and become exercisable in four equal, annual installments beginning one year after the date of grant, and generally expire in ten years.

The Company has also awarded shares of restricted stock to officers and key employees. These shares generally vest over a five-year period and are subject to certain transfer restrictions and forfeiture under certain circumstances prior to vesting. Unearned compensation, representing the fair market value of the stock at the measurement date for the award, is amortized to salaries and related costs over the vesting period. During 2000 and 1999, respectively, 23,000 and 75,000 shares of restricted stock were issued from treasury. No shares were issued in 2001. As of December 31, 2001, 93,400 shares were restricted and unvested. Additionally, 266,423 shares were reserved for future awards under the plan.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") establishes a fair value based method of accounting for stock options. The Company has elected to continue using the intrinsic value method of accounting prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123. Had compensation cost for awards been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have instead been reported as the pro forma amounts indicated below:

(In millions, except per share)		2001	2000	1999
Net earnings (loss)	As reported	$(2,145)	$ 50	$1,235
	Pro forma	$(2,161)	$ 33	$1,219
Basic net earnings per share	As reported	$(40.04)	$ 0.04	$10.96
	Pro forma	$(40.34)	$(0.10)	$10.80
Diluted net earnings per share	As reported	$(40.04)	$ 0.04	$ 9.94
	Pro forma	$(40.34)	$(0.10)	$ 9.79

The weighted-average grant date fair value of restricted shares issued was $51.83 for shares issued in 2000 and $69.51 for shares issued in 1999. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2001	2000	1999
Risk-free interest rate	**6.4%**	6.4%	5.2%
Dividend yield	**2.4%**	2.4%	0.0%
Volatility	**36.0%**	35.0%	34.0%
Expected life (years)	**4.0**	4.0	4.0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

During 2001, the Company issued stock options to Mr. Creighton as of his employment date, in lieu of other compensation. These stock options were granted in October 2001 and vest ratably over six months from the date of grant. Accordingly, the assumptions used to calculate the fair value of these options were as follows: risk-free interest rate of 4.5%, dividend yield of 0%, volatility of 46.0% and an expected life of four years. These options are included in the tables below.

Stock option activity for the past three years was as follows:

	2001		2000		1999	
	Shares	Wtd-Avg Exer. Price	Shares	Wtd-Avg Exer. Price	Shares	Wtd-Avg Exer. Price
Outstanding at beginning of year	**7,660,472**	**$52.78**	6,666,409	$52.42	5,648,786	$43.96
Granted	**3,178,500**	**$34.50**	1,447,600	$53.24	2,081,600	$64.29
Exercised	**(34,000)**	**$20.72**	(187,400)	$23.96	(939,262)	$25.42
Terminated	**(60,748)**	**$54.05**	(266,137)	$67.50	(124,715)	$70.74
Outstanding at end of year	**10,744,224**	**$47.44**	7,660,472	$52.78	6,666,409	$52.42
Options exercisable at year-end	**5,507,581**	**$48.72**	4,200,748	$44.54	3,392,910	$37.26
Reserved for future grants at year-end	**5,162,579**		8,280,331		1,466,019	
Wtd-avg fair value of options granted during the year	$11.90		$17.80		$22.31	

The following information related to stock options outstanding as of December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding at December 31, 2001	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable at December 31, 2001	Weighted-Average Exercise Price
$10 to 29	2,299,540	3.8 years	$21.26	2,032,874	$22.15
$30 to 45	2,824,700	9.0 years	$37.47	68,800	$41.12
$46 to 59	2,443,947	6.5 years	$53.33	1,398,372	$53.36
$60 to 69	1,808,300	7.2 years	$62.76	930,175	$62.78
$70 to 92	1,367,737	6.3 years	$81.28	1,077,360	$81.20
	10,744,224			5,507,581	

(18) Retirement and Postretirement Plans

The Company has various retirement plans, both defined benefit and defined contribution, which cover substantially all employees. The Company also provides certain health care benefits, primarily in the U.S., to retirees and eligible dependents, as well as certain life insurance benefits to retirees. The Company has reserved the right, subject to collective bargaining agreements, to modify or terminate the health care and life insurance benefits for both current and future retirees.

The following table sets forth the reconciliation of the beginning and ending balances of the benefit obligation and plan assets, the funded status and the amounts recognized in the statement of financial position for the defined benefit and other postretirement plans as of December 31:

(In millions)	Pension Benefits		Other Benefits	
Change in Benefit Obligation	2001	2000	2001	2000
Benefit obligation at beginning of year	$ 9,252	$7,381	$ 1,706	$ 1,465
Service cost	352	269	68	47
Interest cost	722	629	149	120
Plan participants' contributions	1	1	11	8
Amendments	4	260	–	3
Actuarial (gain) loss	284	1,162	473	164
Curtailments	13	–	69	–
Foreign currency exchange rate changes	(15)	(15)	–	–
Benefits paid	(518)	(435)	(117)	(101)
Benefit obligation at end of year	$10,095	$9,252	$ 2,359	$ 1,706
Change in Plan Assets	2001	2000	2001	2000
Fair value of plan assets at beginning of year	$ 8,511	$8,701	$ 116	$ 113
Actual return on plan assets	(457)	21	7	8
Employer contributions	43	230	101	88
Plan participants' contributions	1	1	11	8
Foreign currency exchange rate changes	(5)	(7)	–	–
Benefits paid	(518)	(435)	(117)	(101)
Fair value of plan assets at end of year	$ 7,575	$8,511	$ 118	$ 116
Funded status	$ (2,520)	$ (741)	$(2,241)	$(1,590)
Unrecognized actuarial (gains) losses	1,508	14	484	(54)
Unrecognized prior service costs	692	806	2	2
Unrecognized net transition obligation	15	–	–	–
Net amount recognized	$ (305)	$ 79	$(1,755)	$(1,642)
Amounts recognized in the statement of financial position consist of:	2001	2000	2001	2000
Prepaid (accrued) benefit cost	$ (305)	$ 79	$(1,755)	$(1,642)
Accrued benefit liability	(991)	(266)	–	–
Intangible asset	562	255	–	–
Accumulated other comprehensive income	429	11	–	–
Net amount recognized	$ (305)	$ 79	$(1,755)	$(1,642)
Weighted-average assumptions	2001	2000	2001	2000
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected return on plan assets	9.75%	9.75%	8.00%	8.00%
Rate of compensation increase	4.20%	4.36%	–	–

The assumed health care cost trend rate for gross claims paid was 8.0% for 2002 decreasing to an ultimate rate of 4.5% in 2006. The rate used for 2001 was 4.5%.

The net periodic benefit cost included the following components:

(In millions)	Pension Benefits			Other Benefits		
	2001	2000	1999	2001	2000	1999
Service cost	$352	$269	$ 295	$ 68	$ 47	$ 53
Interest cost	722	629	583	149	120	116
Expected return on plan assets	(805)	(740)	(665)	(9)	(9)	(9)
Amortization of prior service cost including transition obligation/(asset)	73	58	57	–	–	–
Curtailment charge	74	–	–	4	–	–
Recognized actuarial (gain)/loss	16	(7)	1	2	(9)	(5)
Net period benefit costs	$432	$209	$ 271	$214	$149	$155

Total pension expense for all retirement plans (including defined contribution plans) was $629 million in 2001, $302 million in 2000 and $285 million in 1999.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the plans with accumulated benefit obligations in excess of plan assets were $10.1 billion, $8.9 billion and $7.6 billion, respectively, as of December 31, 2001 and $1.0 billion, $632 million and $61 million, respectively, as of December 31, 2000.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care trend rate would have the following effects:

(In millions)	1% Increase	1% Decrease
Effect on total service and interest cost	$ 36	$ (29)
Effect on postretirement benefit obligation	$323	$(264)

Changes in interest rates or rates of inflation may impact the assumptions used in the valuation of pension obligations and postretirement obligations including discount rates and rates of increase in compensation, resulting in increases or decreases in United's pension and postretirement liabilities and pension and postretirement costs.

(19) Financial Instruments and Risk Management

See Quantitative and Qualitative Disclosures About Market Risk ("Market Risk Disclosures") for a discussion of the Company's foreign currency and fuel price risk management activities, and the fair value of all significant financial instruments.

Credit Exposures of Derivatives

The Company's theoretical risk in the derivative financial instruments described in Market Risk Disclosures is the cost of replacing the contracts at current market rates in the event of default by any of the counterparties. However, the Company does not anticipate such default as counterparties are selected based on credit ratings and the relative market positions with each counterparty are monitored.

Financial Guarantees

Special facility revenue bonds have been issued by certain municipalities to build or improve airport and maintenance facilities leased by United. Under the lease agreements, United is required to make rental payments in amounts sufficient to pay the maturing principal and interest payments on the bonds. At December 31, 2001, $1.2 billion principal amount of such bonds was outstanding. As of December 31, 2001, UAL and United had jointly guaranteed $35 million of such bonds and United had guaranteed $1.2 billion of such bonds, including accrued interest. The payments required to satisfy these obligations are included in the future minimum lease payments disclosed in Note 12 "Lease Obligations."

At December 31, 2001, United guaranteed approximately $100 million of third-party debt.

Concentrations of Credit Risk

The Company does not believe it is subject to any significant concentration of credit risk. Most of the Company's receivables result from sales of tickets to individuals through geographically dispersed travel agents, including on-line agencies, Company outlets, corporate travel departments or other airlines, often through the use of major credit cards. These receivables are short term, generally being settled shortly after the sale.

(20) Commitments, Contingent Liabilities and Uncertainties

The Company has certain contingencies resulting from litigation and claims (including environmental issues) incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the views of legal counsel, the nature of contingencies to which the Company is subject and its prior experience, that the ultimate disposition of these contingencies is not expected to materially affect UAL's consolidated financial position or results of operations. UAL records liabilities for legal and environmental claims against it in accordance with generally accepted accounting principles. These amounts are recorded based on the Company's assessments of the likelihood of their eventual settlements. The amounts of these liabilities could increase or decrease in the near term, based on revisions to estimates relating to the various claims.

At December 31, 2001, commitments for the purchase of property and equipment, principally aircraft, approximated $2.8 billion, after deducting advance payments. An estimated $1.2 billion will be spent in 2002, $0.1 billion in 2003, $0.5 billion in 2004 and $1.0 in 2005 and thereafter. The major commitments are for the purchase of A319, A320 and B777 aircraft, which are scheduled to be delivered through 2007. These commitments take into account the previously announced deferral of future aircraft deliveries for 2002 and 2003 from the originally planned 67 aircraft to 24 aircraft.

In connection with the construction of the Indianapolis Maintenance Center, United agreed to spend an aggregate $800 million on capital investments by the year 2001 and employ at least 7,500 individuals by the year 2004. In the event such targets are not reached, United may be required to make certain payments to the city of Indianapolis and state of Indiana. As a result of the events of September 11 and the subsequent reduction in the Company's operations and capital spending, United became obligated to refund approximately $32 million to the state and local governments during the second quarter of 2002. This amount is included in "Other Accrued Liabilities" on the Statement of Consolidated Financial Position at December 31, 2001.

Approximately 80% of United's employees are represented by various labor organizations. The contracts with ALPA and the AFA become amendable in 2004 and 2006, respectively.

(21) Segment Information

United has a global route network designed to transport passengers and cargo between destinations in North America, the Pacific, the Atlantic and Latin America. 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 which 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 earnings before income taxes, special charges and gains on sales. Revenues are attributed to each reportable segment based on the allocation guidelines provided by the DOT, 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:

(In millions)	Year Ended December 31, 2001						
	North America	Pacific	Atlantic	Latin America	Reportable Segment Total	Other	Consolidated Total
Revenue	$10,664	$2,663	$2,081	$ 679	$16,087	$ 51	$16,138
Interest income	63	16	12	4	95	10	105
Interest expense	329	81	101	29	540	(15)	525
Equity in earnings (losses) of affiliates	4	1	1	–	6	(29)	(23)
Depreciation and amortization	689	161	153	18	1,021	5	1,026
Earnings before income taxes, special charges, stabilization grant and gains on sales	(1,771)	(580)	(386)	(141)	(2,878)	85	(2,793)

(In millions)			Year Ended December 31, 2000				
	North America	Pacific	Atlantic	Latin America	Reportable Segment Total	Other	Consolidated Total
Revenue	$13,094	$3,161	$2,260	$816	$19,331	$ 21	$19,352
Interest income	55	23	16	5	99	2	101
Interest expense	234	95	66	21	416	(14)	402
Equity in losses of affiliates	(5)	(2)	(1)	–	(8)	(4)	(12)
Depreciation and amortization	628	176	141	43	988	–	988
Earnings before income taxes, special charges and gains on sales	285	73	108	12	478	44	522

(In millions)			Year Ended December 31, 1999				
	North America	Pacific	Atlantic	Latin America	Reportable Segment Total	Other	Consolidated Total
Revenue	$12,516	$2,691	$1,973	$787	$17,967	$ 60	$18,027
Interest income	40	14	10	4	68	–	68
Interest expense	217	79	55	21	372	(10)	362
Equity in earnings of affiliates	21	9	5	2	37	–	37
Depreciation and amortization	548	145	115	42	850	–	850
Earnings before income taxes, special charges and gains on sales	899	85	166	21	1,171	57	1,228

(In millions)	2001	2000	1999
Total earnings for reportable segments	$(2,878)	$ 478	$1,171
Special charges	(1,428)	(139)	(17)
Non-operating special charges	(49)	(61)	–
Airline stabilization grant	652	–	–
Gains on sales	261	109	731
UAL subsidiary earnings	85	44	57
Total earnings (loss) before income taxes, distributions on preferred securities, extraordinary item and cumulative effect	$(3,357)	$ 431	$1,942

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 assets related to the acquisition of its Atlantic and Latin America route authorities. During 2001, the FASB issued SFAS No. 142 which could impact the Company's accounting for these assets. For further details, see Other Information, "New Accounting Pronouncements" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(22) Statement of Consolidated Cash Flows - Supplemental Disclosures

Supplemental disclosures of cash flow information and non-cash investing and financing activities were as follows:

(In millions)	2001	2000	1999
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 393	$ 298	$ 260
Income taxes	42	23	296
Acquisition of MyPoints.com:			
Fair value of:			
Assets acquired	151	–	–
Liabilities assumed	(33)	–	–
Cash paid	118	–	–
Less cash acquired	(86)	–	–
Net cash paid for acquisitions	32	–	–
Non-cash transactions:			
Capital lease obligations incurred	–	339	482
Long-term debt incurred in connection with additions to equipment	669	32	–
Increase (decrease) in pension intangible assets	307	107	(123)
Net unrealized gain (loss) on investments	(173)	(196)	354

(23) Selected Quarterly Financial Data (Unaudited)

(In millions, except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
2001:					
Operating revenues	**$4,424**	**$4,658**	**$ 4,107**	**$2,949**	**$16,138**
Loss from operations	**(391)**	**(469)**	**(2,025)**	**(886)**	**(3,771)**
Loss before cumulative effect	**(305)**	**(365)**	**(1,159)**	**(308)**	**(2,137)**
Cumulative effect of accounting change, net	**(8)**	**–**	**–**	**–**	**(8)**
Net loss	**$ (313)**	**$ (365)**	**$(1,159)**	**$ (308)**	**$ (2,145)**
Per share amounts, basic and diluted:					
Loss before cumulative effect	**$ (5.82)**	**$ (6.87)**	**$(21.43)**	**$ (5.68)**	**$ (39.90)**
Cumulative effect of accounting change, net	**(0.15)**	**–**	**–**	**–**	**(0.14)**
Net loss	**$ (5.97)**	**$ (6.87)**	**$(21.43)**	**$ (5.68)**	**$ (40.04)**
2000:					
Operating revenues	$4,546	$5,109	$ 4,905	$4,792	$19,352
Earnings (loss) from operations	252	605	(41)	(162)	654
Earnings (loss) before extraordinary item and cumulative effect	110	336	(110)	(71)	265
Extraordinary loss on early extinguishment of debt, net	–	–	(6)	–	(6)
Cumulative effect of accounting change, net	(209)	–	–	–	(209)
Net earnings (loss)	$ (99)	$ 336	$ (116)	$ (71)	$ 50
Per share amounts, basic:					
Earnings (loss) before extraordinary item and cumulative effect	$ 0.68	$ 3.08	$ (2.17)	$ (1.40)	$ 2.02
Extraordinary loss on early extinguishment of debt, net	–	–	(0.13)	–	(0.05)
Cumulative effect of accounting change, net	(1.97)	–	–	–	(1.93)
Net earnings (loss)	$ (1.29)	$ 3.08	$ (2.30)	$ (1.40)	$ 0.04
Net earnings (loss) per share, diluted	$ (1.18)	$ 2.86	$ (2.30)	$ (1.40)	$ 0.04

The sum of quarterly earnings per share amounts is not the same as annual earnings per share amounts because of changing numbers of shares outstanding.

During the second quarter of 2001, UAL recorded a special charge of $116 million for costs associated with a terminated merger with US Airways Group, Inc.

During the third quarter of 2001, UAL recorded a special charge of $1.3 billion in operating expense and $49 million in non-operating expense for amounts relating to the September 11 terrorist attacks. Additionally, in the third and fourth quarters of 2001, UAL recognized $391 million and $261 million, respectively, in compensation under the Act as non-operating income. (See Note 2 "Special Charges Related to the September 11 Terrorist Attacks.")

During the fourth quarter of 2001, United recognized a gain of $261 million on the sale of its investments in Galileo and Cendant. (See Note 6 "Investments.")

During the third quarter of 2000, UAL recorded an investment impairment of $61 million related to its warrants in Priceline.com. Additionally, in the fourth quarter 2000, UAL recognized a pre-tax gain of $109 million on the sale of its investment in GetThere.com. (See Note 6 "Investments.")

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.

John W. Creighton
Chairman and CEO

Frederic F. Brace
Senior Vice President
and CFO

Report of Independent Public Accountants

To the Stockholders and Board of Directors, UAL Corporation:

We have audited the accompanying statements of consolidated financial position of UAL Corporation (a Delaware corporation) and subsidiary companies as of December 31, 2001 and 2000, 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, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UAL Corporation and subsidiary companies as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1(b) of the Notes to Consolidated Financial Statements, effective January 1, 2001, the Company changed its accounting principles for the measurement of redeemable preferred ESOP stock as a result of the adoption of Topic D-98 "Classification and Measurement of Redeemable Securities" and effective January 1, 2000, the Company changed certain of its accounting principles for revenue recognition as a result of the adoption of Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements."

Arthur Andersen LLP

Chicago, Illinois
February 20, 2002

UAL CORPORATION BOARD OF DIRECTORS

John W. Creighton, Jr.
Chairman and Chief Executive Officer
UAL Corporation
Public Director - elected October 2001
Independent Director - elected 1998
(2) (4) (5) (7)

Rono J. Dutta
President
UAL Corporation
Public Director - elected 1999

W. James Farrell
Chairman and Chief Executive Officer
Illinois Tool Works, Inc.
(Manufacturing and marketing of engineered components)
Public Director - elected 2001
(1) (2) (3) (4) (8) (9) (10)

W. Douglas Ford
Retired Chief Executive, Refining & Marketing
BP p.l.c.
(Petroleum and petrochemicals holding company)
Employee Director - appointed 2002
(2) (6) (9)

Richard D. McCormick
Chairman Emeritus
US WEST, Inc.
(Telecommunications)
Independent Director - elected 1994
(1) (2) (3) (5) (6) (7) (10)

James J. O'Connor
Retired Chairman and Chief Executive Officer
Unicom Corporation
(Electric utility holding company)
Public Director - elected 1984
(1) (4) (5) (8) (10)

Hazel R. O'Leary
President
O'Leary and Associates
(Energy services and investment strategy)
Independent Director - elected 1999
(1) (2) (3) (4) (6) (10)

John F. Peterpaul
Retired General Vice President
International Association of Machinists District #141
(Labor union)
Employee Director - elected 1994
(2) (4) (5) (6) (9)

Paul E. Tierney, Jr.
General Partner, Darwin Capital Partners and
Managing Member Development Capital, LLC
(Investment management)
Public Director - elected 1990
(1) (4) (7) (8) (10)

John K. Van de Kamp
President
Thoroughbred Owners of California
(Trade association)
Independent Director - elected 1994
(1) (4) (5) (6) (7) (9) (10)

John H. Walker
Chief Executive Officer
Weirton Steel Corporation
(Steel manufacturer)
Independent Director - appointed 2002
(1) (6) (9) (10)

Paul R. Whiteford, Jr.
United Airlines Pilots Master Executive Council Chairman
Air Line Pilots Association International
(Labor union)
Employee Director - elected 2001
(2) (4) (5) (6) (9)

UAL CORPORATION OFFICERS

John W. Creighton, Jr.
Chairman and Chief Executive Officer

Rono J. Dutta
President

Andrew P. Studdert
Executive Vice President and Chief Operating Officer

Frederic F. Brace
Senior Vice President and Chief Financial Officer

Francesca M. Maher
Senior Vice President, General Counsel and Secretary

Committee 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

UNITED AIRLINES
DIRECTORS* AND OFFICERS

John W. Creighton, Jr.*
Chairman and Chief Executive Officer

Rono J. Dutta*
President

Douglas A. Hacker
Executive Vice President

Andrew P. Studdert*
Executive Vice President and Chief Operating Officer

Graham W. Atkinson
Senior Vice President - International

Christopher D. Bowers*
Senior Vice President - Marketing, Sales and Reservations

Frederic F. Brace*
Senior Vice President and Chief Financial Officer

Eric C. Dean
Senior Vice President - Information Services and Chief Information Officer

Larry D. De Shon
Senior Vice President - Onboard Service

Sara A. Fields*
Senior Vice President - People Services and Engagement

Stephen A. Forte
Senior Vice President - Flight Operations

Shelley A. Longmuir
Senior Vice President - Governmental Affairs

Francesca M. Maher*
Senior Vice President, General Counsel and Secretary

Peter D. McDonald
Senior Vice President - Airport Operations

Ronald D. Utecht
Senior Vice President - Maintenance and Engineering

Stephen M. Beatus
Vice President - Latin America

Judith A. Bishop
Vice President - Atlantic

James C. Brennan
Vice President - Pacific - South

Patricia L. Carson
Vice President - Human Resources

Sean P. Donohue
Vice President - North America Sales

Roger A. Gibson
Vice President - Worldwide Cargo

M. Lynn Hughitt
Vice President and Controller

Richard S. Juster
Vice President - Purchasing

Peter B. Kain
Vice President - Labor Relations

Amos S. Kazzaz
Vice President - Corporate Real Estate

James E. Keenan
Vice President - Engineering and Technical Support

Frank R. Kent
Vice President - North America Sales

John D. Kiker
Vice President - Worldwide Communications

Kevin N. Knight
Vice President - Resource Planning

Henry P. Krakowski
Vice President - Corporate Safety, Security and Quality Assurance

Joseph F. Laughlin
Vice President - North America Operations

Mark S. Liberman
Vice President - North America Operations

Rick A. Maloney
Vice President - Flight and System Chief Pilot

Patricia A. Mash
Vice President - Revenue Management

William R. Norman
Vice President - Line Maintenance

M. Scott Praven
Vice President - E-Commerce

Mark F. Schwab
Vice President - Pacific - North

Daniel C. Walsh
Vice President - North America Sales

Michael G. Whitaker
Vice President - International Affairs

Glenn S. Wright
Vice President - North America Operations

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, the dividend reinvestment and direct stock purchase plans, transfer requirements, lost certificates and other related matters may be obtained from the transfer agent:

Computershare Investor Services
2 N. LaSalle Street
Chicago, IL 60602
(800) 647-4488

The transfer agent's "Telephone Response Center" is open Monday through Friday. (Account information is available from 8:30 a.m. CST through 5:00 p.m. 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.

Debentures
9%, 9.125%, 9.75%, 10.25%, 10.67% and 11.21%

Trustee and Paying Agent
The Bank of New York
101 Barclay Street
New York, NY 10286

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

Investor Relations
UAL Corporation
P.O. Box 66919
Chicago, IL 60666
investorrelations@ual.com

This information is also available on United's web site (www.united.com) in the "Investor Relations" section under "Company Information."

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

UAL CORPORATION COMMON STOCK MARKET PRICES AND DIVIDEND INFORMATION (PER SHARE)

		High	Low	Dividends Paid
2001	First Quarter	$45.50	$30.50	$0.3125
	Second Quarter	38.50	30.50	0.3125
	Third Quarter	36.54	16.22	0.0500
	Fourth Quarter	20.10	9.40	-
2000	First Quarter	$79	$45 3/4	$ –
	Second Quarter	65 1/8	49	0.3125
	Third Quarter	61 5/8	40 1/4	0.3125
	Fourth Quarter	43 15/16	34 1/16	0.3125

The company paid a quarterly dividend of $0.3125 per share during the first and second quarters of 2001. The Board of Directors reduced the third quarter dividend from $0.3125 to $0.05 per share on July 3, 2001. The Board of Directors suspended future dividend payments on September 27, 2001. The payment of any future dividends on the common stock, and the amount of any future dividends, will be determined by the directors of the company based on earnings, the financial condition of the company and other relevant factors.

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

UAL CORPORATION