

# Labor Negotiation Platform

**April 29, 2009**

# Our Upcoming Negotiations Are An Opportunity To Create A Stronger Future For Our Employees And Our Company

- **For United employees:**

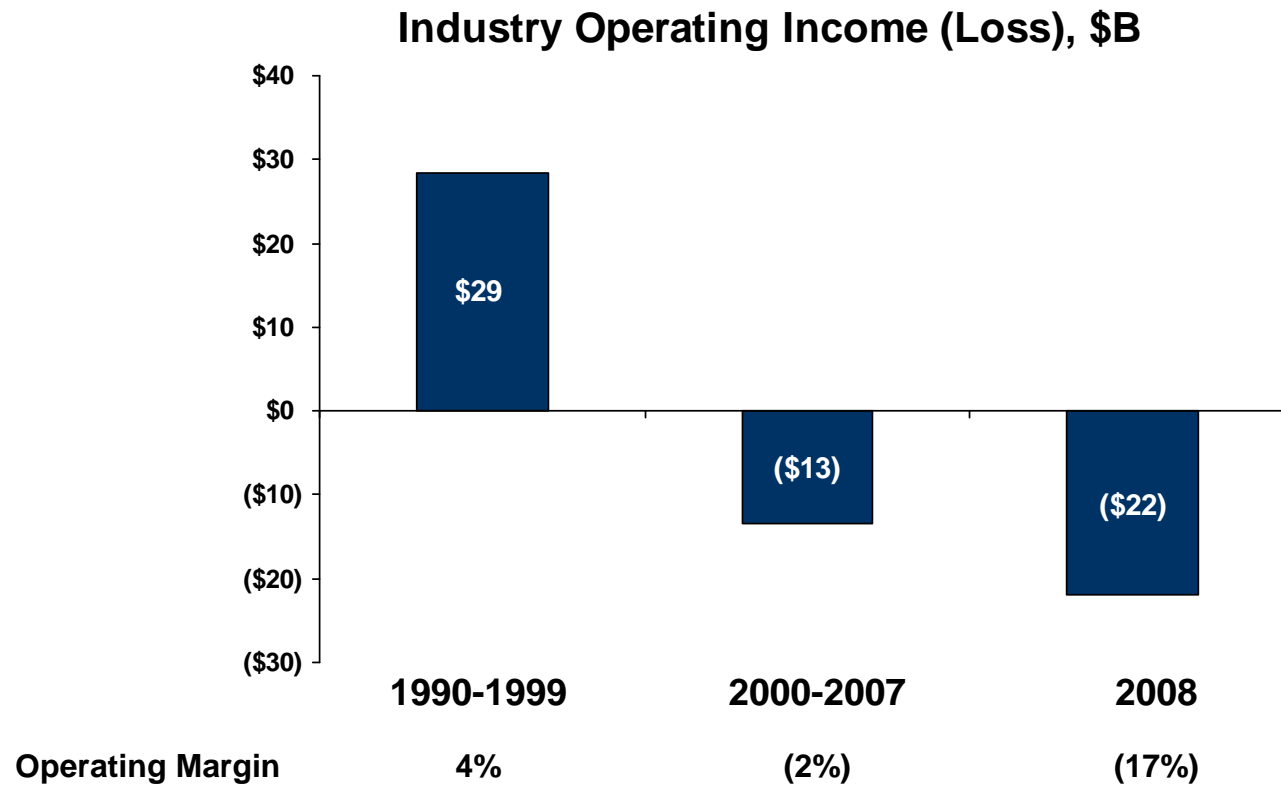
- Competitive wages, benefits, and work rules
- An opportunity to benefit financially when United succeeds
- More sustainable job security by making United less vulnerable to industry downturns

- **For United:**

- A competitive cost structure in a difficult economic and industry environment
- Enhanced productivity
- Flexibility to adapt to rapid changes in the marketplace, evolving customer expectations and emerging commercial opportunities

# Industry Historical Overview

# Industry Losses In 2008 Alone Exceed Total Profits Since 1990

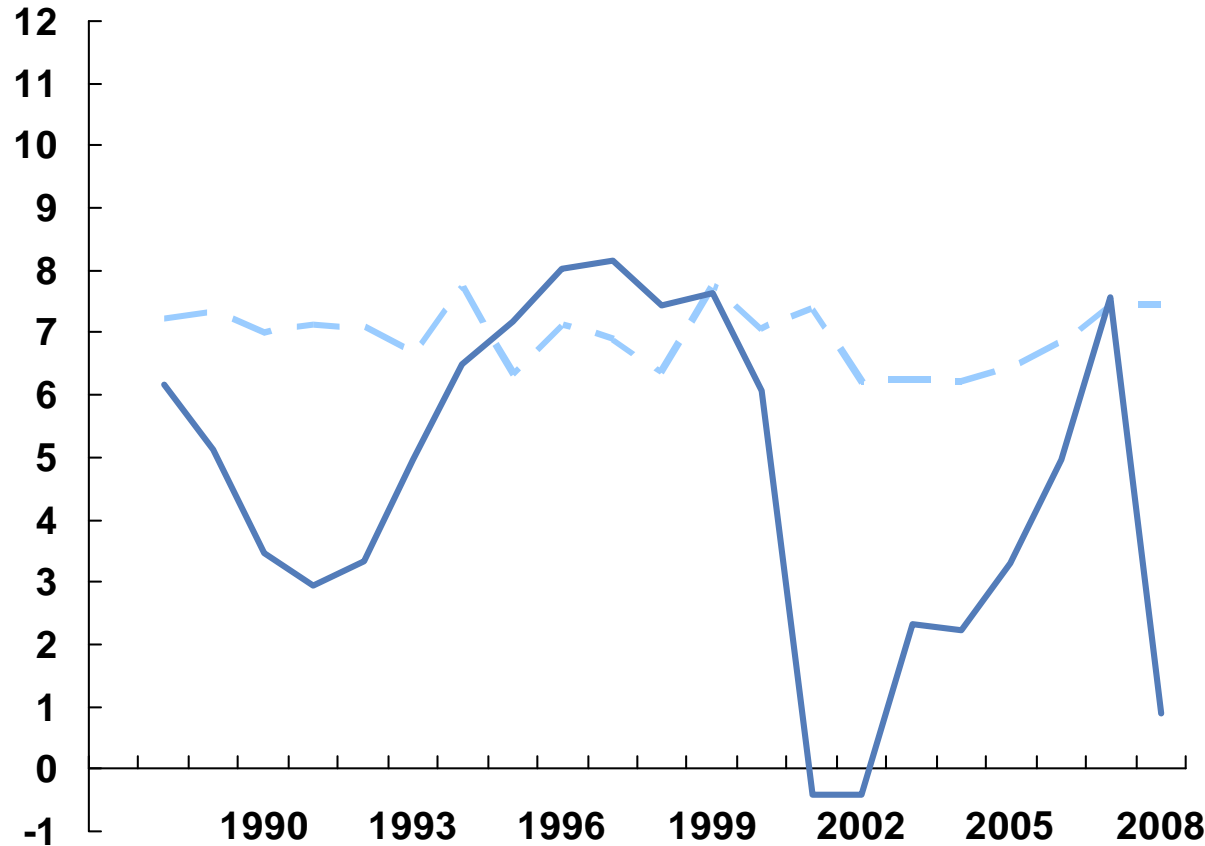


Note: "Industry" includes AirTran, Alaska, America West, American, Continental, Delta, Frontier, JetBlue, Northwest, Reno Air, Southwest, Trans World Airways, United, US Airways; numbers reported according to GAAP

Source: 1990 - 2007 Form 41; 2008 annual reports

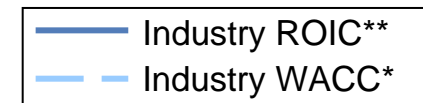
# In The Past 20 Years, The Industry Has Not Delivered Adequate Rate Of Return On Its Capital Investment

ROIC\*\*/WACC\*  
Percent



## Many carriers have failed

- |                         |                    |
|-------------------------|--------------------|
| <b>Braniff</b>          | <b>Aloha</b>       |
| <b>Eastern</b>          | <b>ATA</b>         |
| <b>Independence Air</b> | <b>Skybus</b>      |
| <b>Midway</b>           | <b>MAXjet</b>      |
| <b>Pan Am</b>           | <b>Eos</b>         |
| <b>People Express</b>   | <b>Champion</b>    |
| <b>TWA</b>              | <b>Air Midwest</b> |
| <b>Western Pacific</b>  | <b>Silverjet</b>   |



Note: "Industry" includes AirTran, Alaska, American, Continental, Delta, Frontier, JetBlue, Northwest, Southwest, United, US Airways

\*WACC (weighted average cost of capital) is a measure for appropriate return on investment

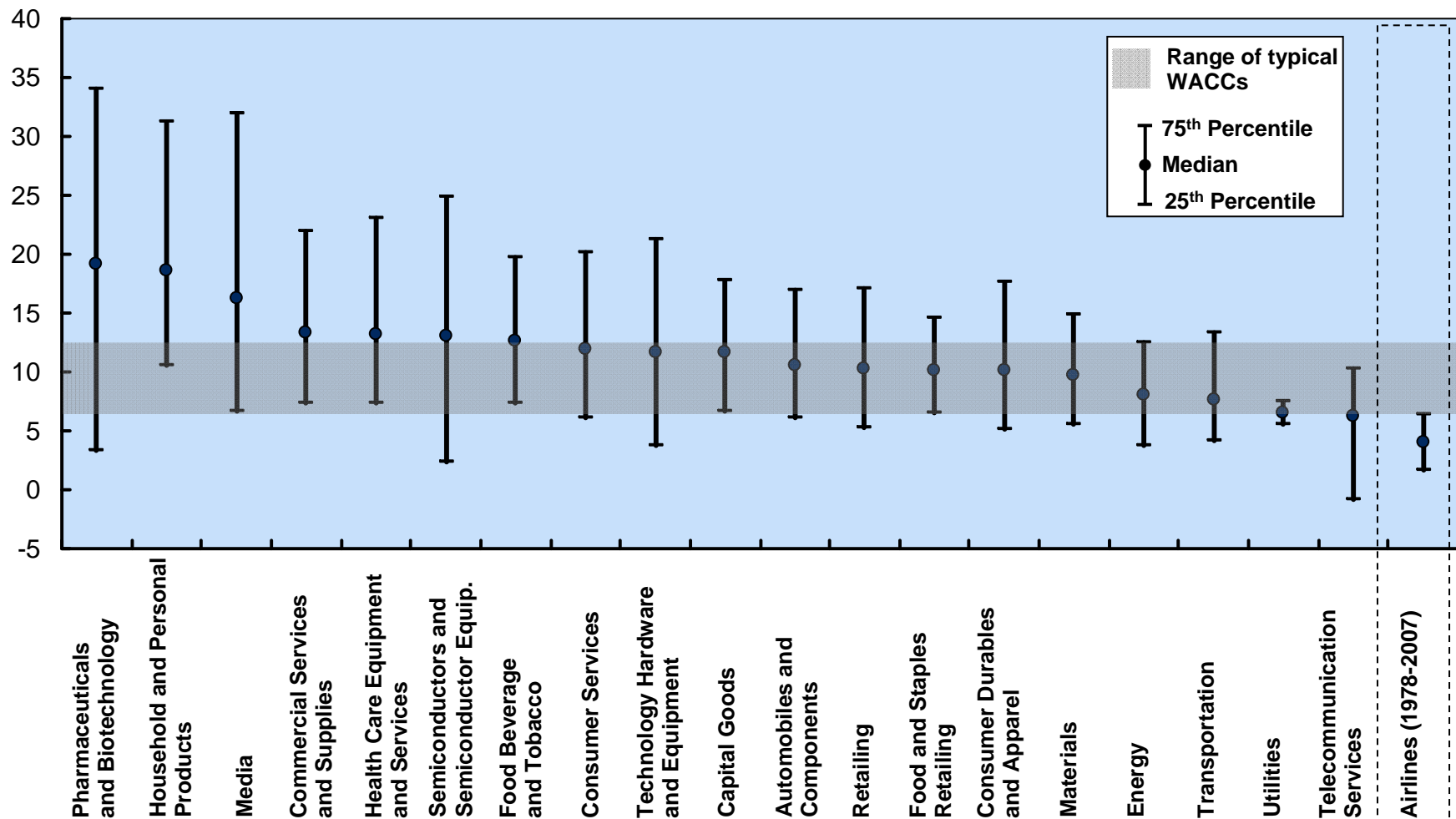
\*\*Industry weighted average ROIC (return on invested capital) without goodwill (adjusted for leases, pensions, and employee stock options)

Source: Compustat, company reports, Bloomberg

# The Industry's Results Have Been Worse Than Results From Other Major Industries

Historical Average ROIC in U.S. Sectors, 1963-2007

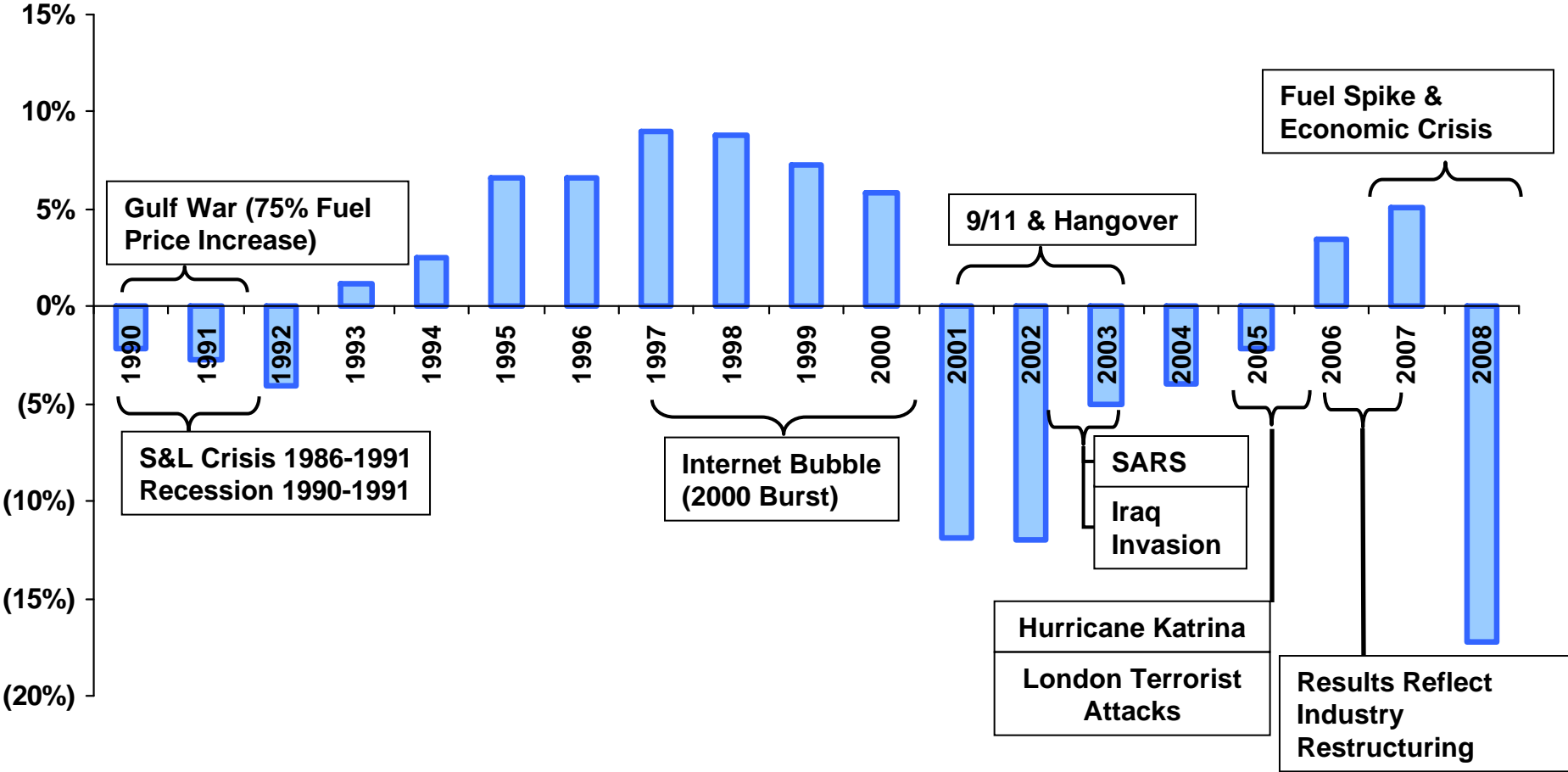
Percent



Source: McKinsey

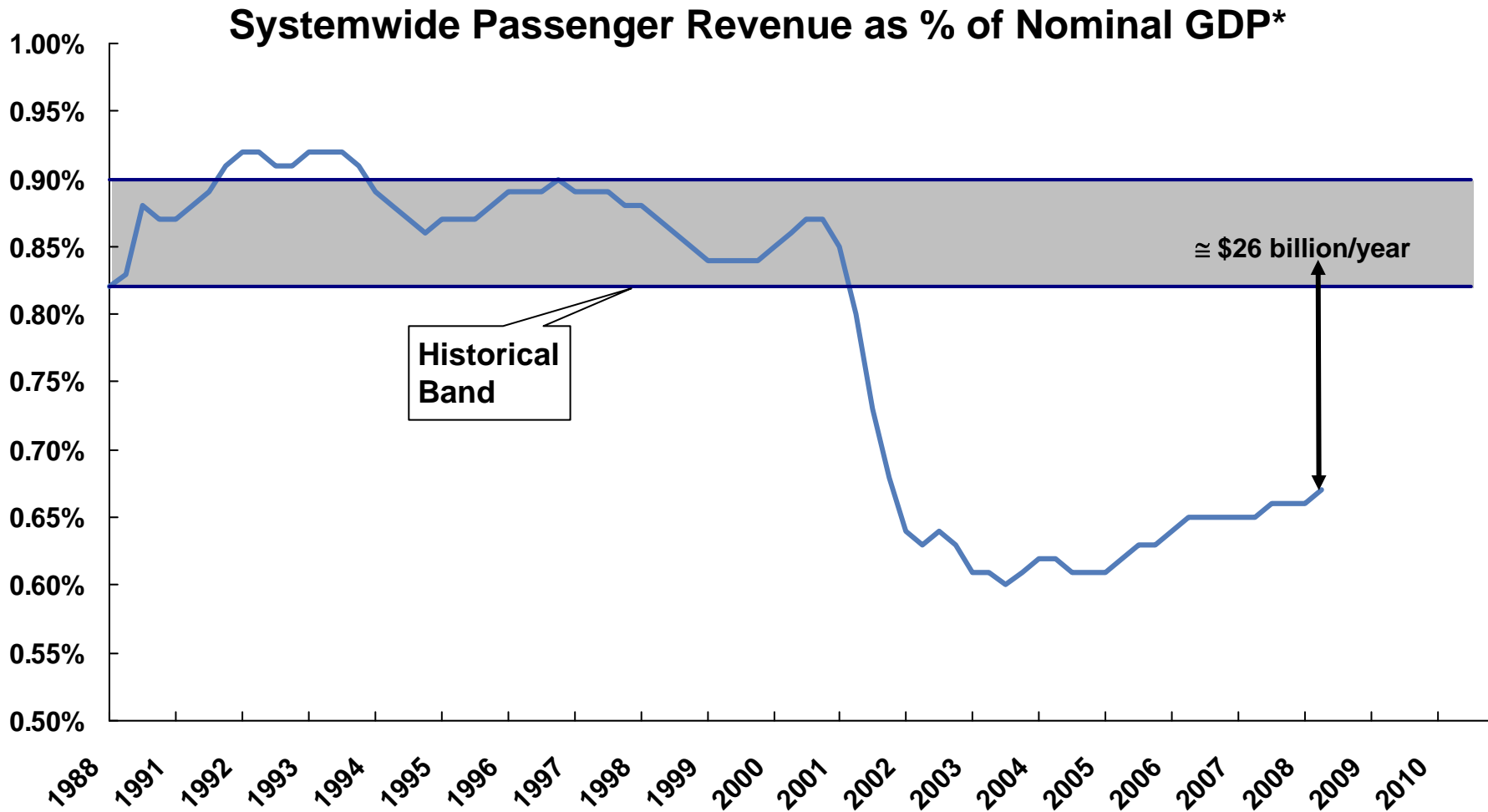
# The Industry Is Particularly Vulnerable To External Events

## U.S. Airline Industry Operating Margin



Note: "Industry" includes AirTran, Alaska, America West, American, Continental, Delta, Frontier, JetBlue, Northwest, Reno Air, Southwest, Trans World Airways, United, US Airways; numbers reported according to GAAP  
 Source: 1990 - 2007 Form 41; 2008 annual reports

# Industry Revenues, As Percentage Of Total Economy, Permanently Declined After 9/11



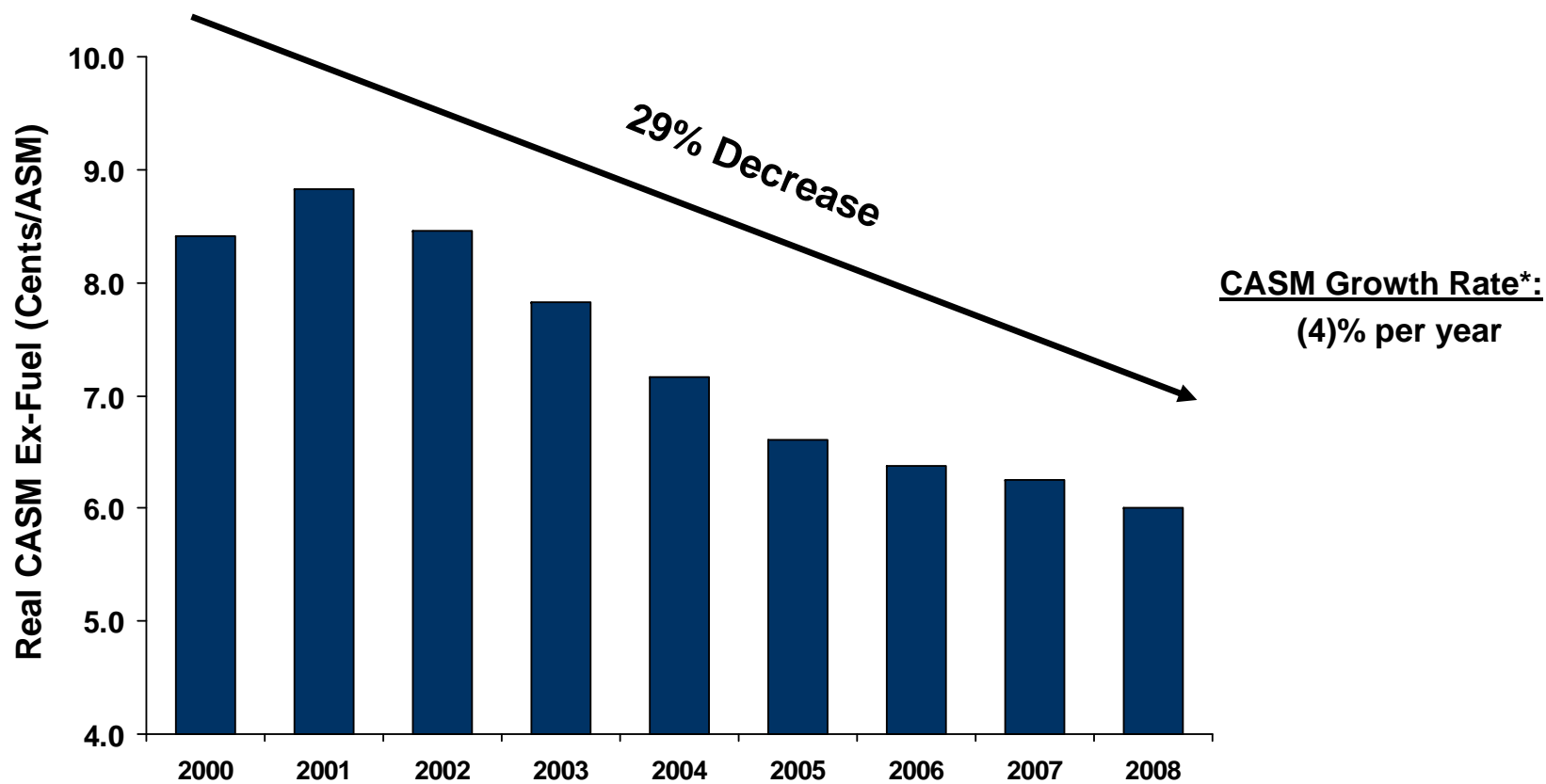
\*Four-quarter rolling passenger revenue

Note: "Industry" includes AirTran, Alaska, America West, American, Continental, Delta, Frontier, JetBlue, Northwest, Piedmont, Reno Air, Southwest, Trans World Airways, United, US Airways

Source: ATA; U.S. Department of Transportation, Global Insight as of April 2, 2009



# The Industry Responded By Significantly Cutting Costs



\*Compound annual growth rate

Note: "Industry" includes AirTran, Alaska, America West, American, Continental, Delta, Frontier, JetBlue, Northwest, Reno Air, Southwest, Trans World Airways, United, US Airways; all CASM estimates adjusted for CPI changes with 2000 as base

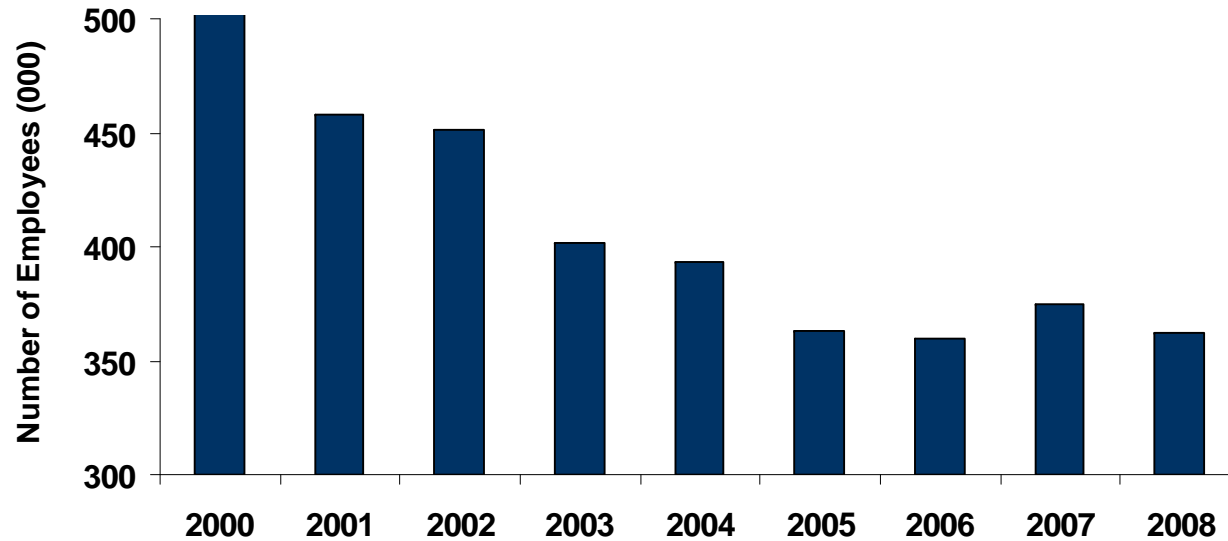
Source: Form 41 and SEC filings



A STAR ALLIANCE MEMBER

# Continuing Losses Have Forced Industry To Eliminate 140,000 Jobs

### U.S. Airline Industry Employment (2000-2008)

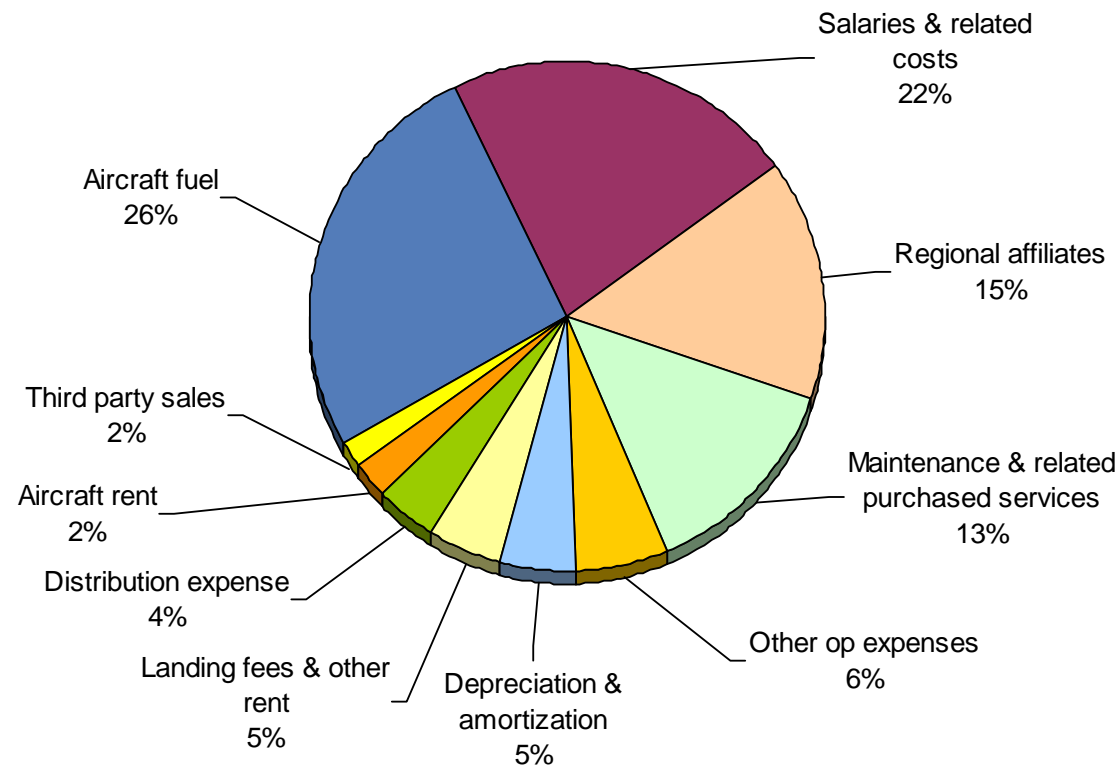


Note: "Industry" includes AirTran, Alaska, America West, American, Continental, Delta, Frontier, JetBlue, Northwest, Reno Air, Southwest, Trans World Airways, United, US Airways

Source: SEC Filings

# Labor Cost Is Second Only To Fuel As A Component Of Overall Costs

## United Expense - 2007

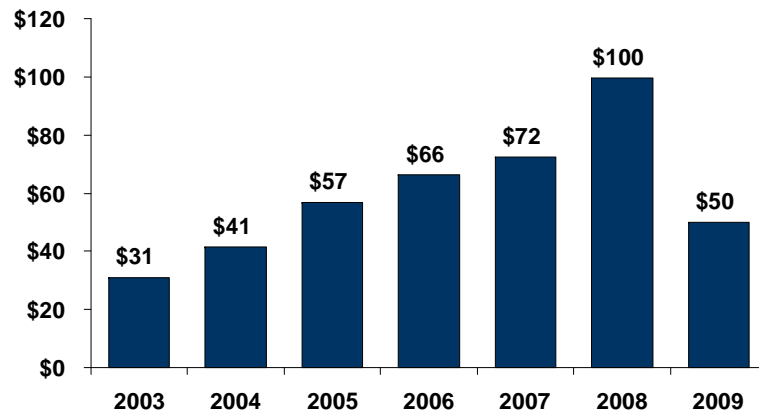


Note: 2007 is used as representative period due to unusually high fuel costs in 2008  
Source: UAL consolidated from 10-K (excludes special items, goodwill and other impairments)

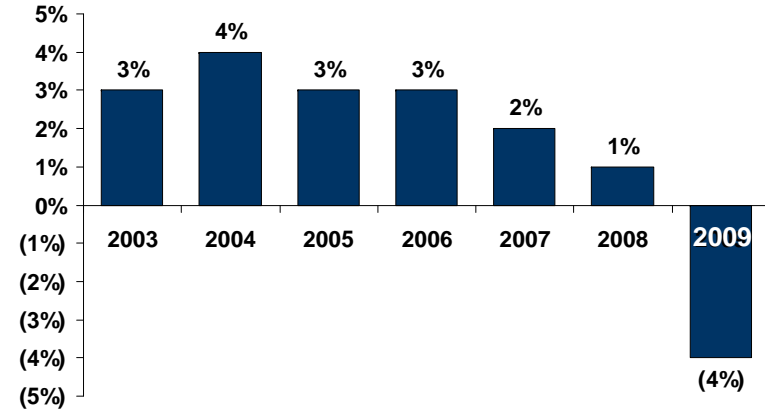
# Economic Pressure On The Industry Continues With Oil Price Increases Through 2008 Followed By Recession

- **Every dollar increase in the price of crude oil costs the industry approximately \$450M per year**
- **Forecast 2009 GDP decline of 4% is worst year-over-year change since 1938**

Average Crude Oil Price per Barrel

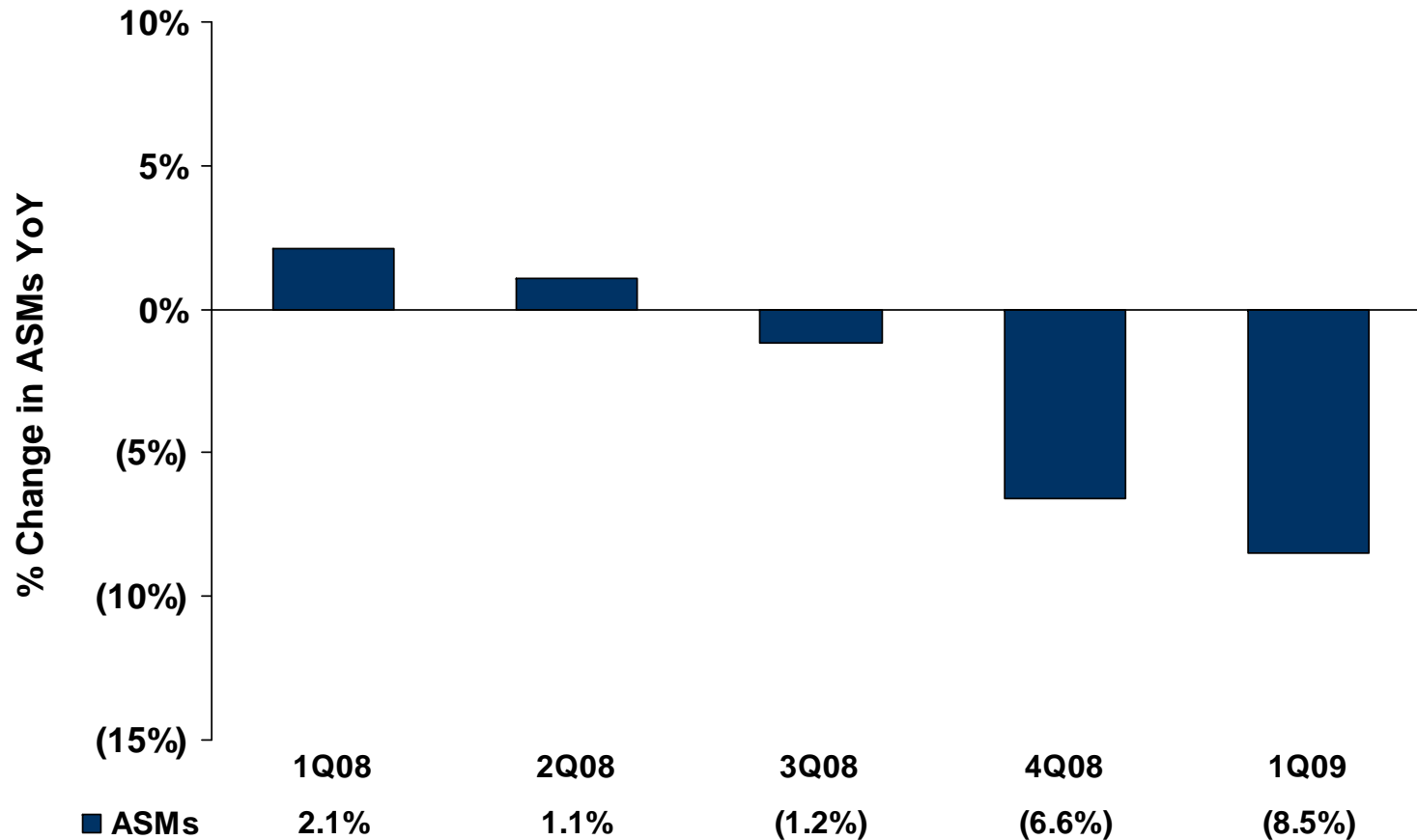


YoY Percentage Change in Real GDP



Source: BEA, ATA, DOT, Form 41 and Global Insight as of April 2, 2009

# US Carrier Capacity Has Declined Significantly Over The Last Year

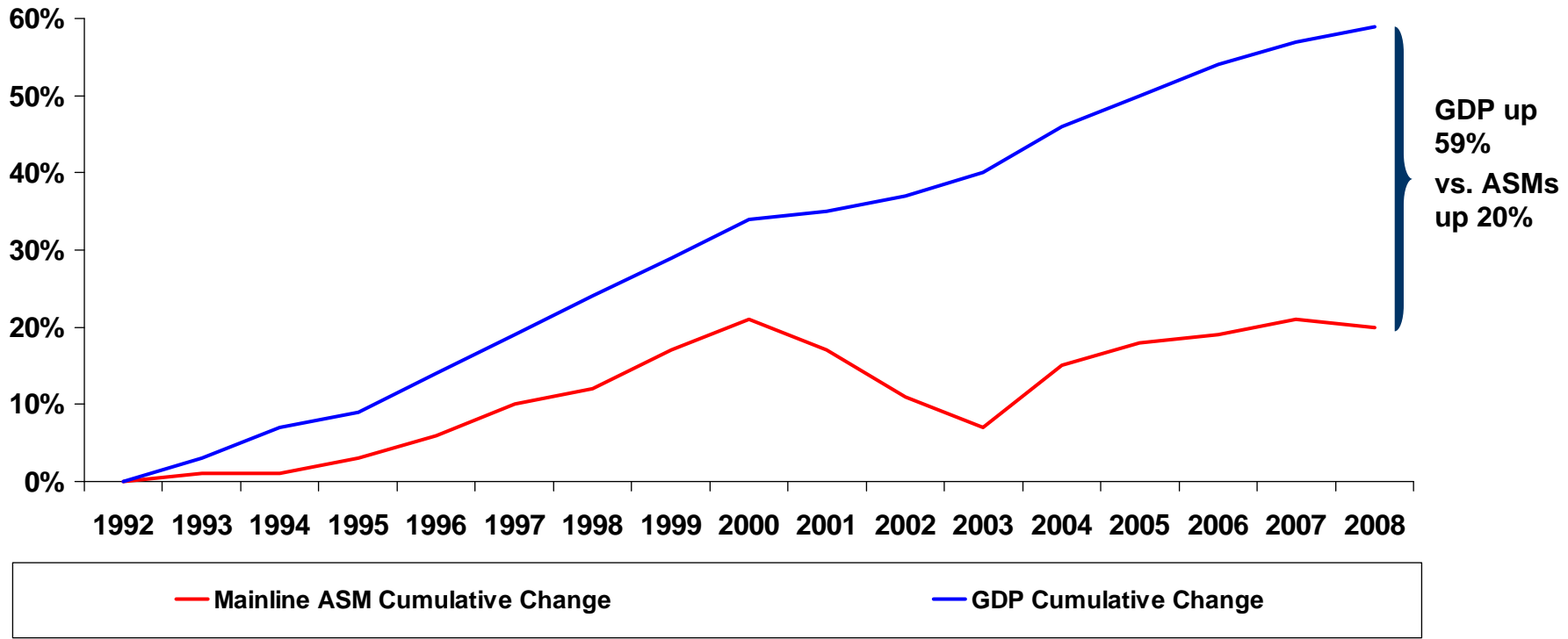


Note: Includes AirTran, Alaska, American, Continental, Delta, Frontier, JetBlue, Northwest, Southwest, United, US Airways

Sources: SEC filings, company press releases, Form 41

# The Industry Is Mature And Growing Slower Than The Economy Overall

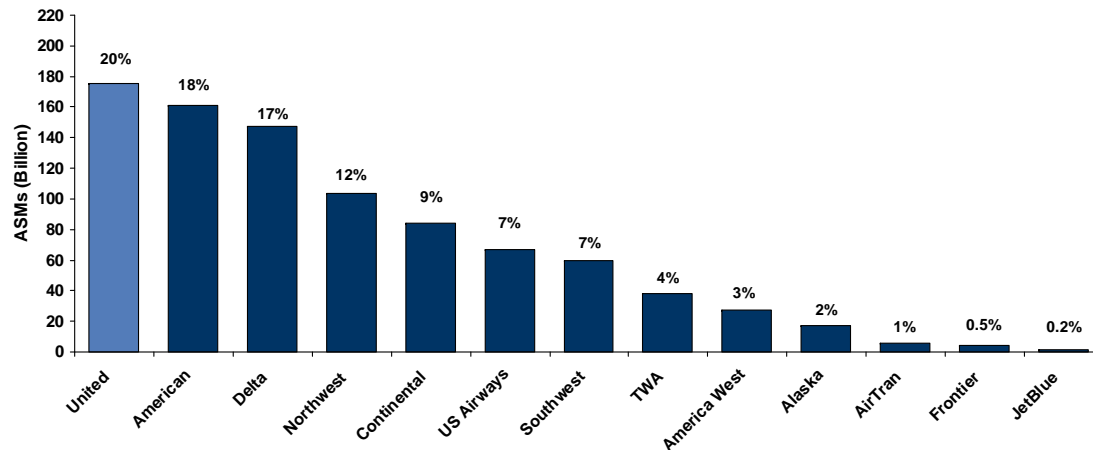
Percent Change in ASMs vs. Real GDP (1992-2008)



Note: "Industry" includes AirTran, Alaska, America West, American, Continental, Delta, Frontier, JetBlue, Northwest, Reno Air, Southwest, Trans World Airways, United, US Airways  
 Source: Form 41, SEC filings, Global Insight as of April 2, 2009

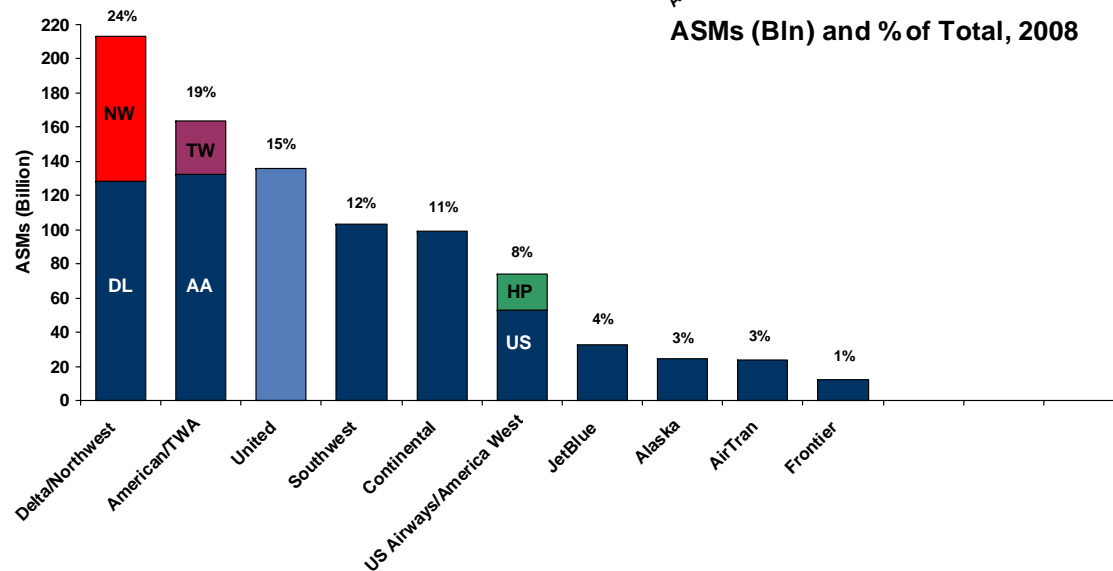
# Slow Industry Growth And Scale Efficiencies Are Driving Consolidation

ASMs (BIn) and % of Total, 2000



	2000	2008
Industry ASMs (B)	891	882
Number of Industry Carriers	13	10

ASMs (BIn) and % of Total, 2008



- Delta, US Airways and American gained share, aided by mergers & acquisitions

Note: "Industry" includes only carriers shown (with 1% or more share of ASMs in 2008)

Source: Form 41, SEC filings; 2008 TW and HP assumed to be same proportion of merged entity as in 2000

# The Future For United

# United Is Returning To Basics Via Our 'Focus On Five' Agenda

## Core Performance Imperatives

Always With A  
SAFETY MINDSET

- 1 DOT service basics
- 2 Clean, workable product
- 3 Courteous, caring, respectful
- 4 Industry-leading revenues
- 5 Competitive costs

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### Guiding Principles:

Community of Respect

Delighting Customers

Transparency

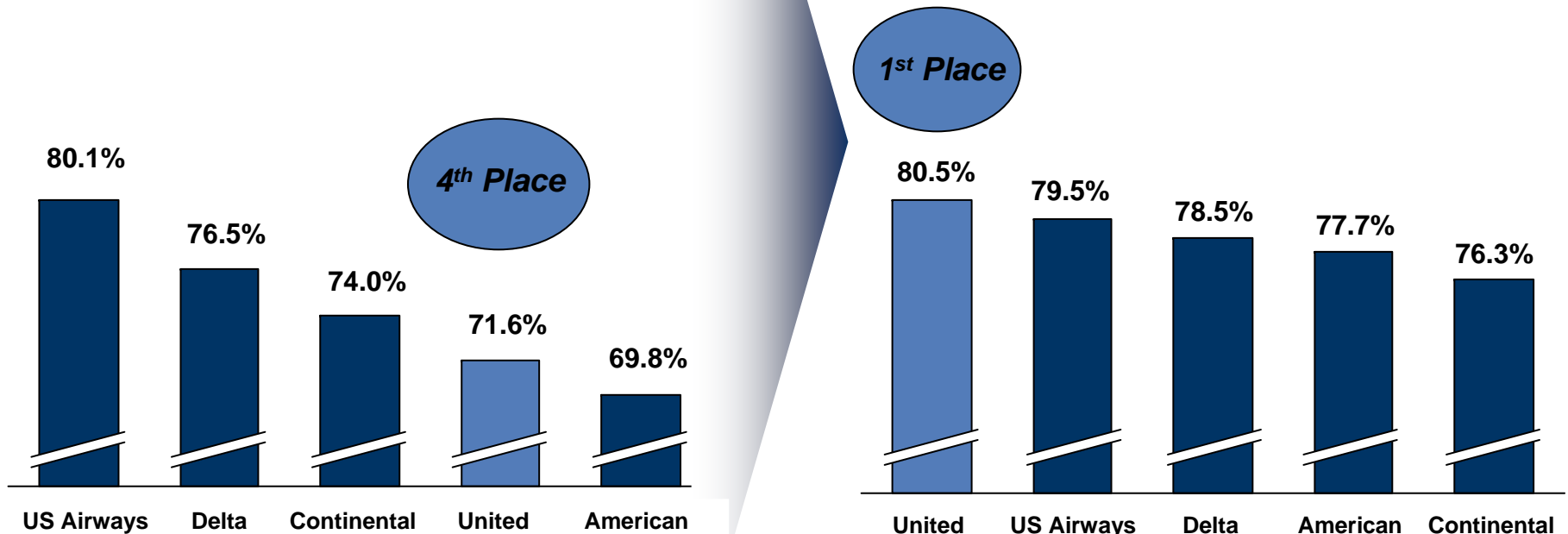
Accountability

Performance

# Operational Performance Is Already Improving

Full Year 2008  
On-Time Arrival Performance  
DOT: Arrival 14

First Three Months 2009  
On-Time Arrival Performance  
DOT: Arrival 14



**United Had Its Best On-Time Performance In The First Quarter Since 2003**

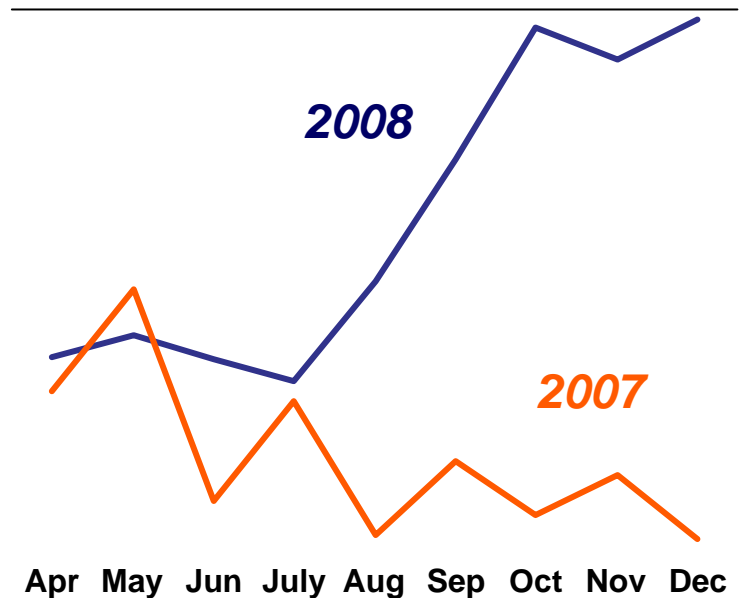
Note: Domestic only; Delta includes combined Delta/Northwest

Source: DOT for FY08; DOT/Flightstats estimate for 1Q09 because DOT stats not released

# And Product Quality Improvements Are Beginning To Deliver Results For Our Customers

- **Ensuring the workability of onboard equipment**
  - Increasing in-flight entertainment maintenance
  - Upgrading entertainment equipment
- **Focused on improving cabin cleanliness**
  - Doubling frequency of heavy cleans
  - Rigorous performance audits

Workability of Onboard Equipment  
Customer Satisfaction Score

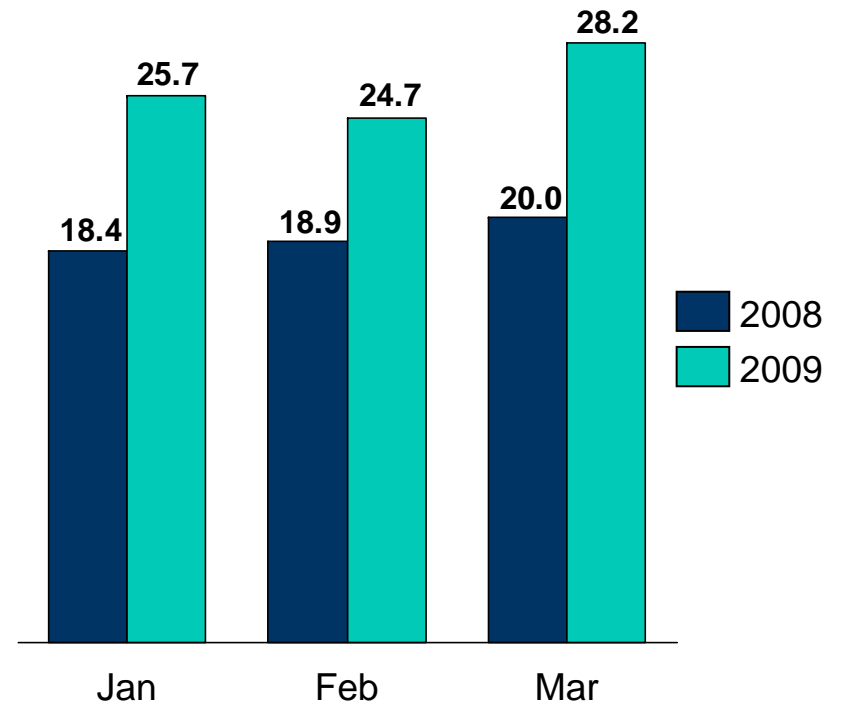


***Customer Satisfaction Scores For Workability Have Improved By 10 Points In 2008***

# Our Customers Are Giving Us Higher Marks For Courteous And Helpful Service

- **Community of respect**
  - Treating others the way we would like to be treated
- **Simple care – continuously and consistently**
  - Taking the time to find small and meaningful ways to recognize one another
  - Investment in developing our frontline leaders
  - Increased communication

Employee Courtesy Index



***Employee Courtesy Index (ECI) continues to post strong results, exceeding each monthly goal in the first quarter of 2009***

# United Is Leading The Development Of Innovative Ancillary Revenue Streams

- Economy Plus And First/Business Class Seat Upsell*
- First/Second Bag Fee*
- Ticketing Fee Revenue Expansion*
- Premier Line*
- Award Accelerator*
- Door to Door Baggage*



**\$1.1 Billion  
In 2009**



 **UNITED**

# New International Product Right-Sizes Premium Cabins And Drives Customer Satisfaction

- **Installing the new United First Suite and full lie-flat seats in Business Class reduces premium seat counts by over 20%**
  - 40% of conversions completed through 1Q09
  - B767s and B747s to be completed in 2009 and B777s to be completed in 2010
- **Customer satisfaction ratings more than doubled on reconfigured aircraft in the fourth quarter**

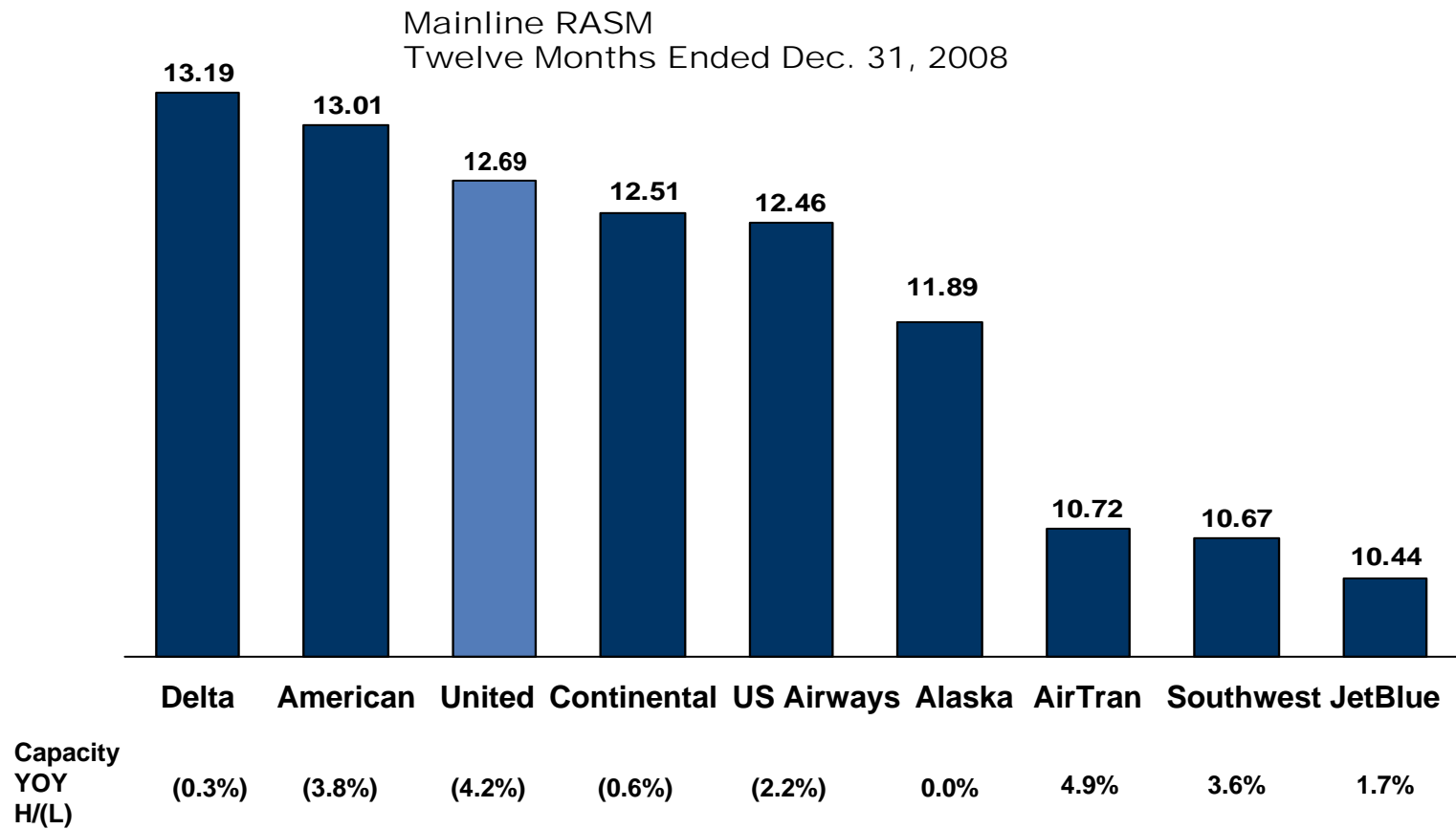


**New First Suite**



**New Business Class Seat**

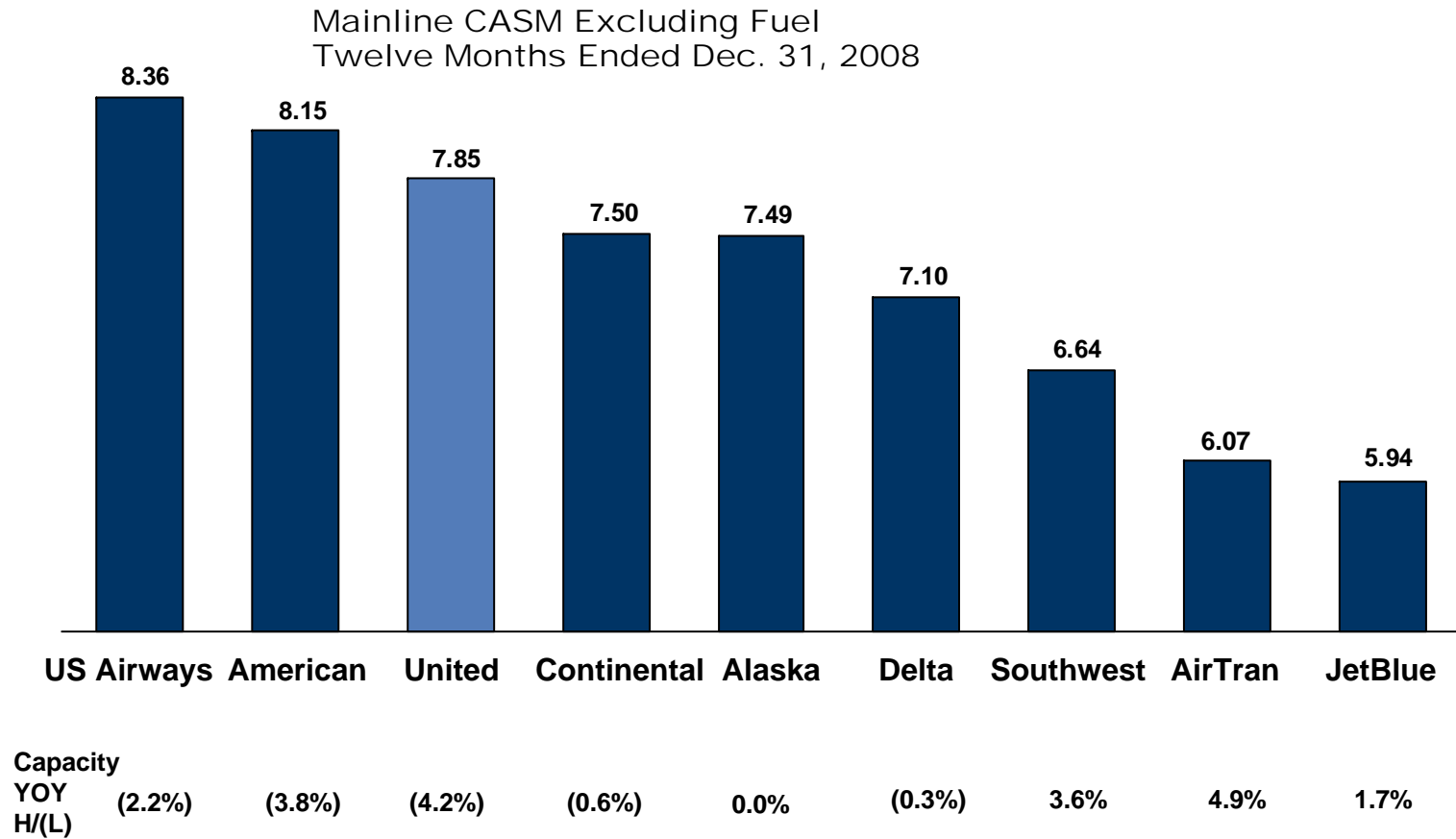
# United Is Delivering Competitive Unit Revenue



Note: Adjusted for special items, one-time items, and certain other accounting adjustments; United impact adjusted for fresh-start accounting amounts except stock-based compensation

Source: Company press releases and earnings calls

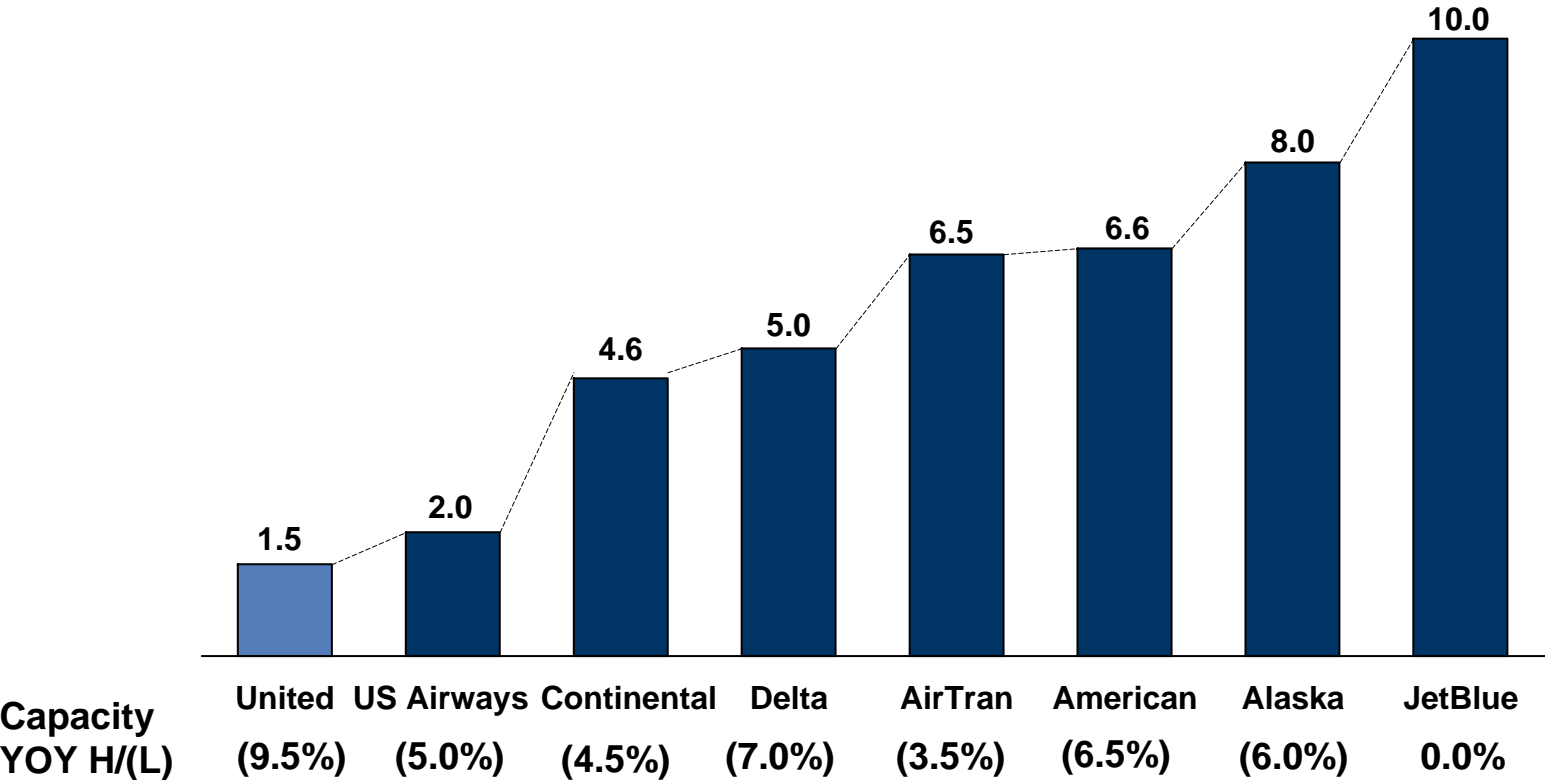
# United Is Delivering Competitive Unit Costs



Note: Adjusted for special items, one-time items, and certain other accounting adjustments; United impact adjusted for fresh-start accounting amounts except stock-based compensation  
Source: Company press releases and earnings calls

# United Carrying Cost Control Momentum Into 2009

Full Year 2009 Guidance  
Mainline CASM Excluding Fuel Year-Over-Year Growth



Note: Numbers represent mid-point of guidance provided; excludes special items, fuel, profit sharing and certain accounting charges; Southwest did not provide cost guidance for FY 2009  
Source: Company press releases and earnings calls

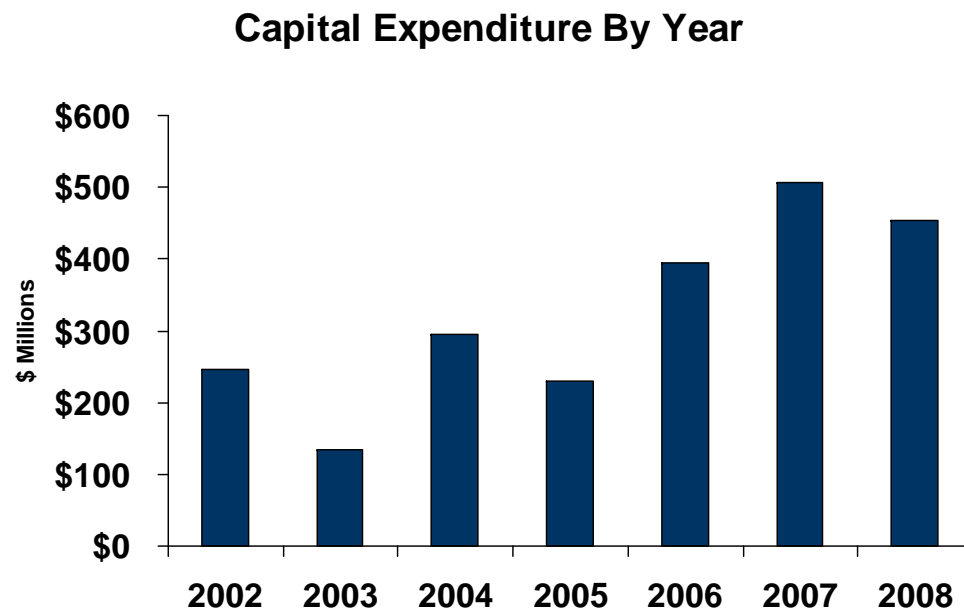


**UNITED**

A STAR ALLIANCE MEMBER

# United Has Increased Capital Spending Since Bankruptcy To Deliver Results For Stakeholders

## Current Capital Projects



- **Customer initiatives**
  - IPTE
  - In-flight entertainment
  - Club upgrades
- **Aircraft upgrades**
  - Winglets
- **Infrastructure**
  - Ground equipment
  - Spare parts
  - Station startups
  - Information technology

# Our 'Focus On Five' Agenda Positions United For The Future

- **Together, we are designing a business that can deliver results against our highest aspirations and the demands of the market**
  - Delivering world-class safety performance
  - Aligning our employees on our common goals
  - Providing unrivaled customer satisfaction and experience
  - Delivering industry-leading margin and cash flow
- **We achieve success by being a respected, industry-leading airline that customers value and of which employees are proud**

# United's Focus For Negotiations With Our Unions

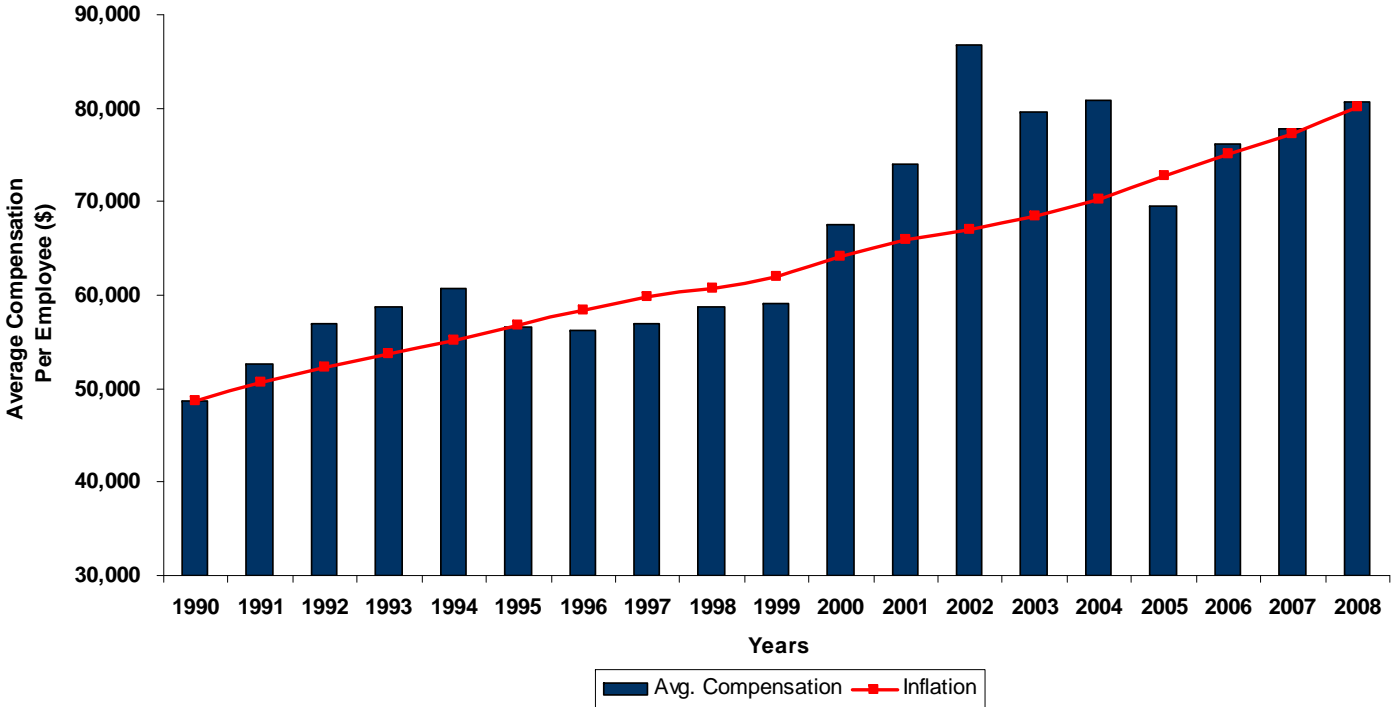
# United's Focus In Negotiations Is On Flexible, Competitive Contracts Tied To Realistic Metrics

- **Competitive wages, benefits, and work rules**
- **Meaningful incentive compensation tied to measurable and realistic performance metrics**
- **Flexibility needed to respond to changes in the marketplace, evolving customer expectations and emerging commercial opportunities**

# Goal 1: Competitive Wages And Benefits

# Despite Reductions During Bankruptcy, United's Average Employee Compensation Has Kept Pace With Inflation

Historical Average Employee Compensation vs. Inflation

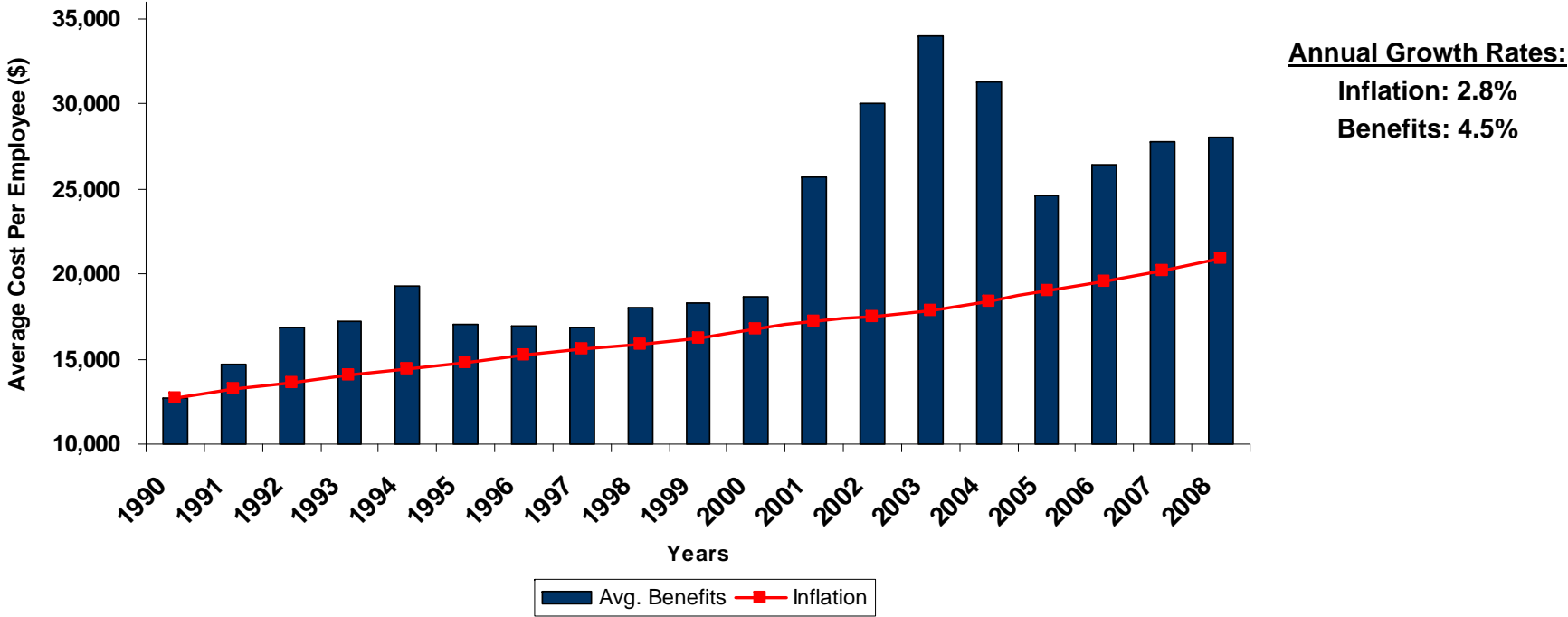


**Annual Growth Rates:**  
 Inflation: 2.8%  
 Compensation: 2.8%

Note: Does not assign value to equity in ESOP  
 Source: Global Insight as of April 2, 2009, and annual reports

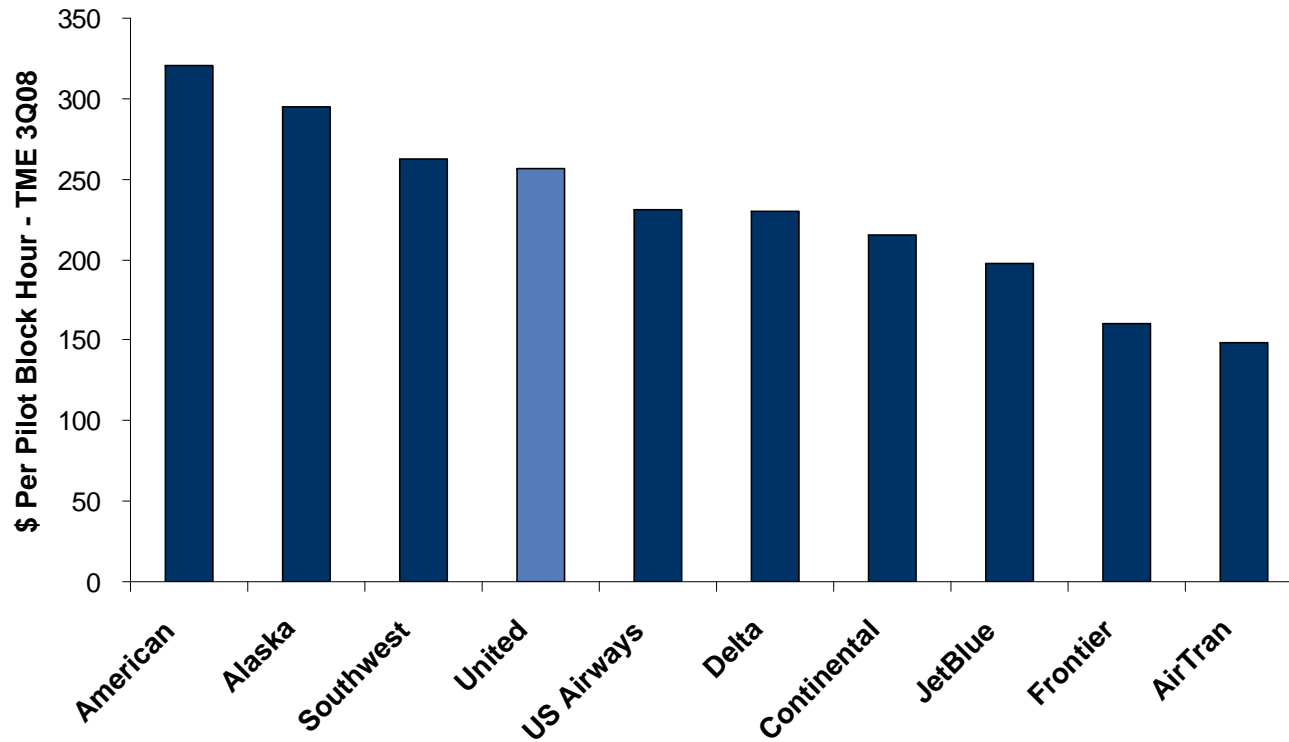
# Benefits Component Of Compensation Has Significantly Outpaced Inflation

**Historical Average Employee Benefits vs. Inflation**



Note: Does not assign value to equity in ESOP  
 Source: Global Insight as of April 2, 2009, and annual reports

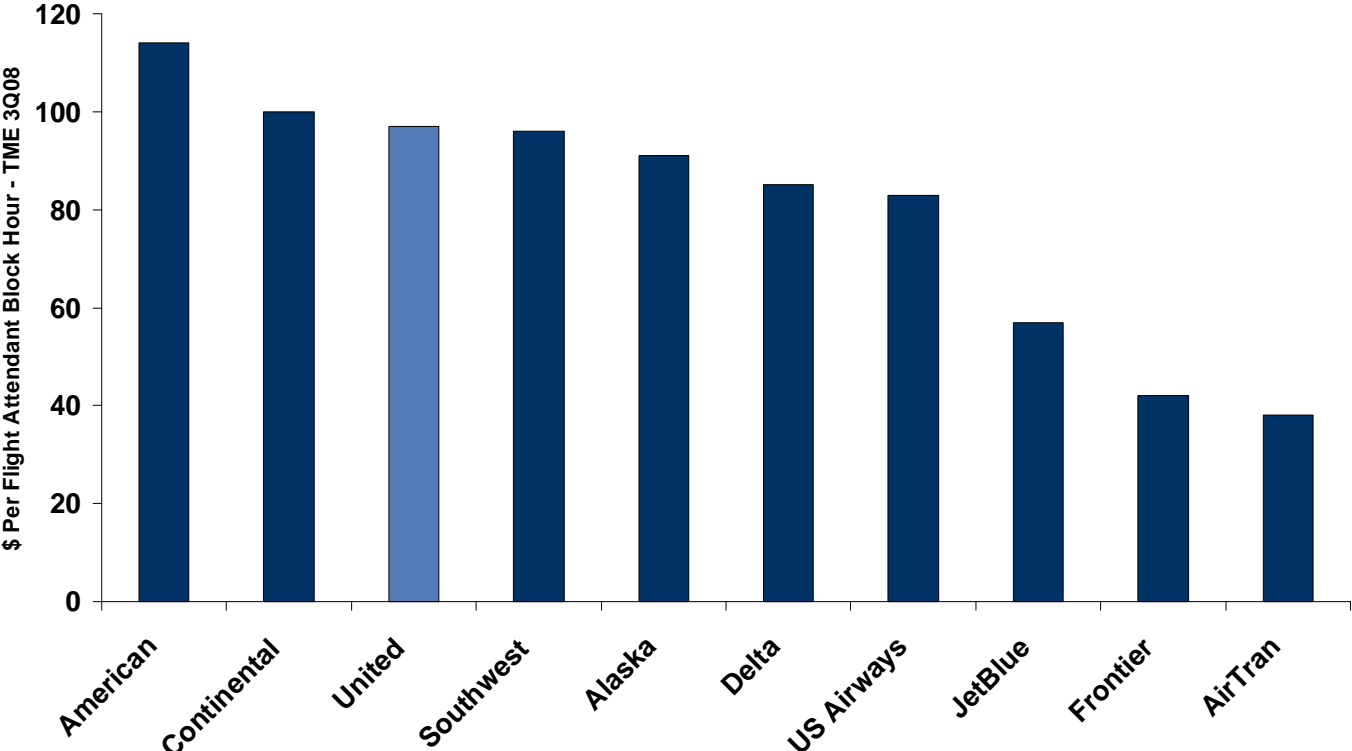
# United's Pilot Costs Per Block Hour Exceed Those Of Most Carriers



Note: Costs include salary and fringe; pilot block hours estimated based on Form 41 block hours and United crew complements

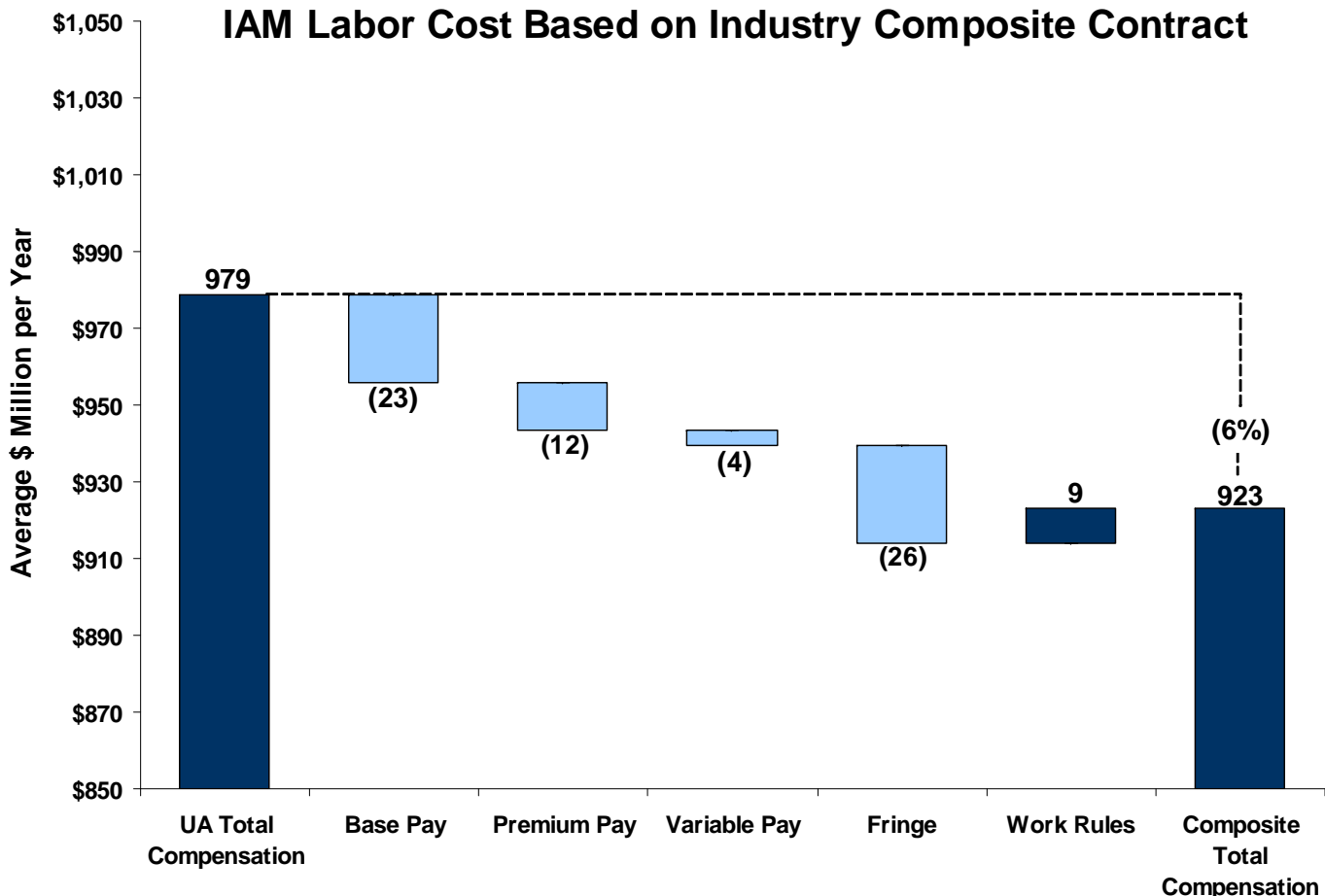
Source: Costs from Form 41, headcounts from AirCon as of 3Q08

# United's Flight Attendant Costs Per Block Hour Also Exceed Those Of Most Carriers



Note: Costs include salary and fringe; block hours estimated based on crew complement for United and FAA regulations for all others  
Source: Cost and block hours from Form 41

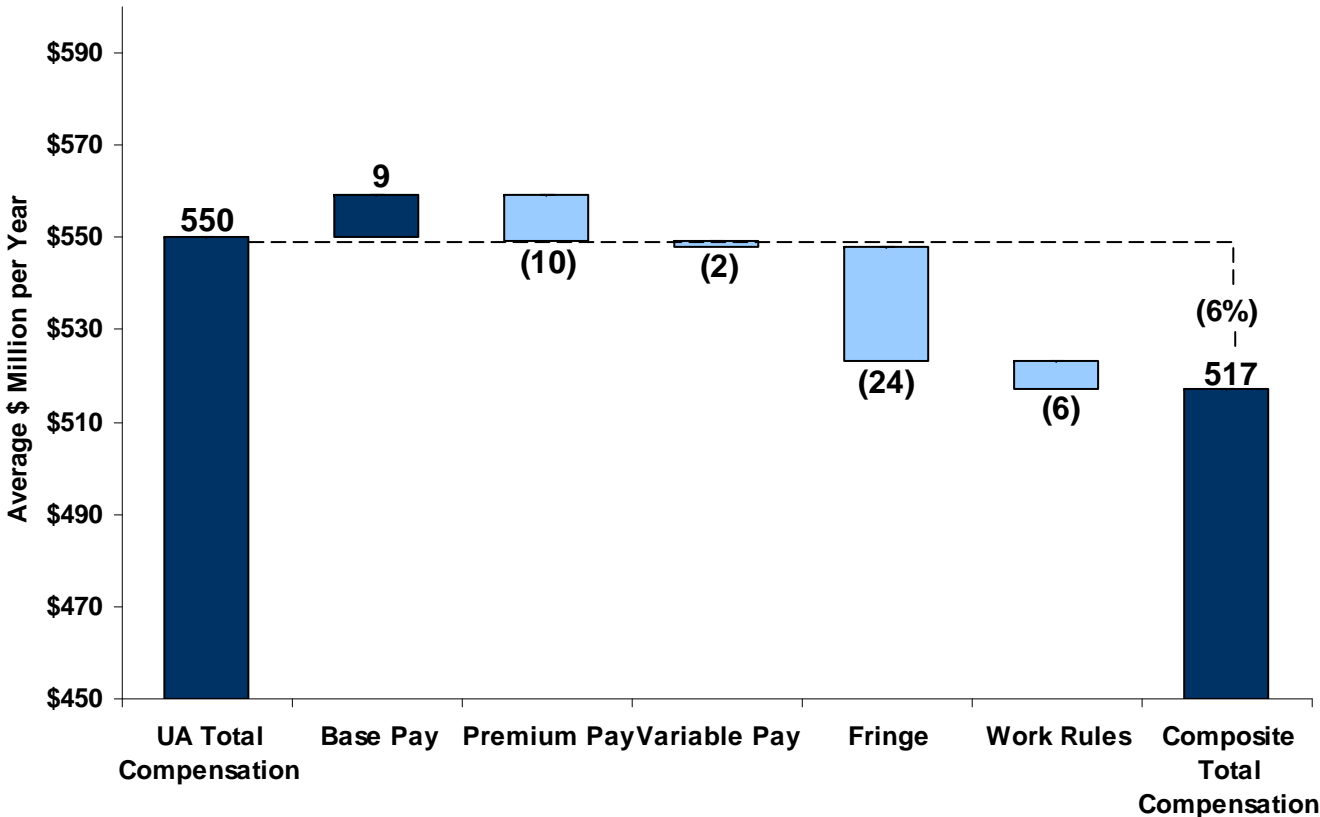
# United IAM Labor Costs Are Higher Than They Would Be If We Had Average Network Carrier Terms



Notes: Composite weighting (based on ASMs): DL/NW: 39%; AA: 29%; CO: 19%; US: 13%; comparisons based on standards such as block hour or ASM not possible due to impact of outsourcing  
 Source: United internal analysis

# United Mechanic Costs Are Higher Than They Would Be If We Had Average Network Carrier Terms

**Mechanic Labor Cost Based on Industry Composite Contract**



Note: Composite weighting (based on ASMs): DL/NW: 39%; AA: 29%; CO: 19%; US: 13%; comparisons based on standards such as block hour or ASM not possible due to impact of outsourcing  
 Source: United internal analysis

# Goal 2: Meaningful Incentive Compensation

# Traditional Pay System For Airline Employees Leads To “Boom And Bust” Cycle

## When times are good:

- **Labor seeks contracts that are unsustainable in long term**
  - For example, Contract 2000
    - Pilot wage rates and defined contribution increased by 25%
    - Other groups received increases of 5% - 15%
  - United salary and related costs increased by \$1.4B 2001 versus 1999
  - Untenable cost structure for United; unsustainable compensation structure for employees

## When times are bad:

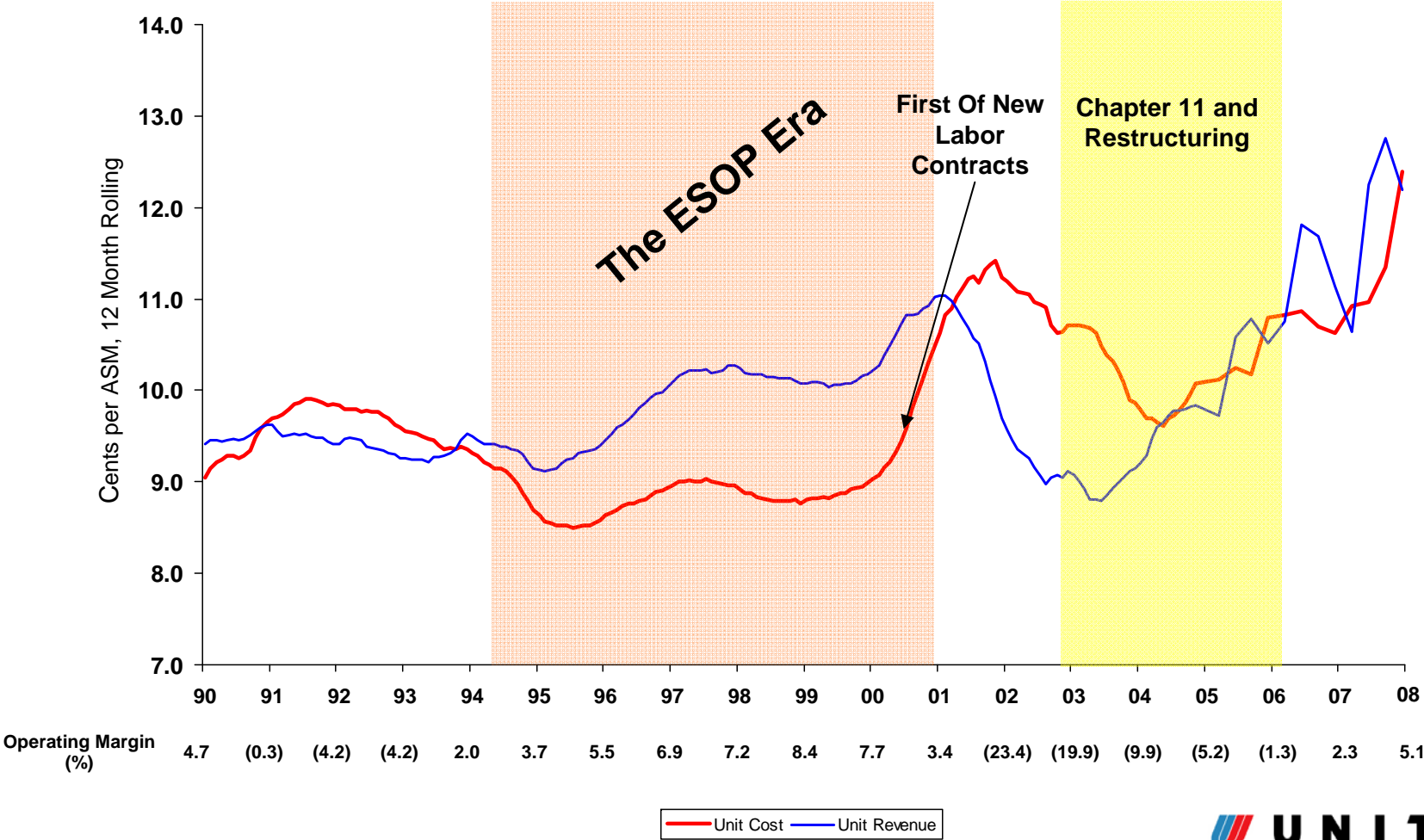
- **Concessions become necessary to ‘save the enterprise,’ such as post 9/11 and Chapter 11**
  - Wage cut of approximately 9% - 29%, depending on union, in February 2004
  - Additional round of wage cuts of approximately 4% - 12% in early 2005
  - Significant reduction in benefits

- 
- **Boom/bust cycles create hardships for employees via furlough/recall cycle**

Note: Contract 2000 rate increases are over and above the snap-back increases

# Costs That Are Unsustainable Lead To Bad Outcomes For Our Employees

- **Post-ESOP labor agreements were unsustainable and contributed to bankruptcy filing**



# Due To Seniority, Employees Are Highly Committed To United's Success . . .

<b>Labor Group</b>	<b>Average Years Seniority</b>
<b>Pilots</b>	<b>16</b>
<b>Flight Attendants</b>	<b>19</b>
<b>CSRs</b>	<b>18</b>
<b>RSSRs</b>	<b>14</b>
<b>Storekeepers</b>	<b>18</b>
<b>Ramp</b>	<b>13</b>
<b>Mechanics (AMT)</b>	<b>23</b>
<b>Dispatchers</b>	<b>11</b>
<b>Engineers</b>	<b>16</b>
<b>SAM</b>	<b>14</b>

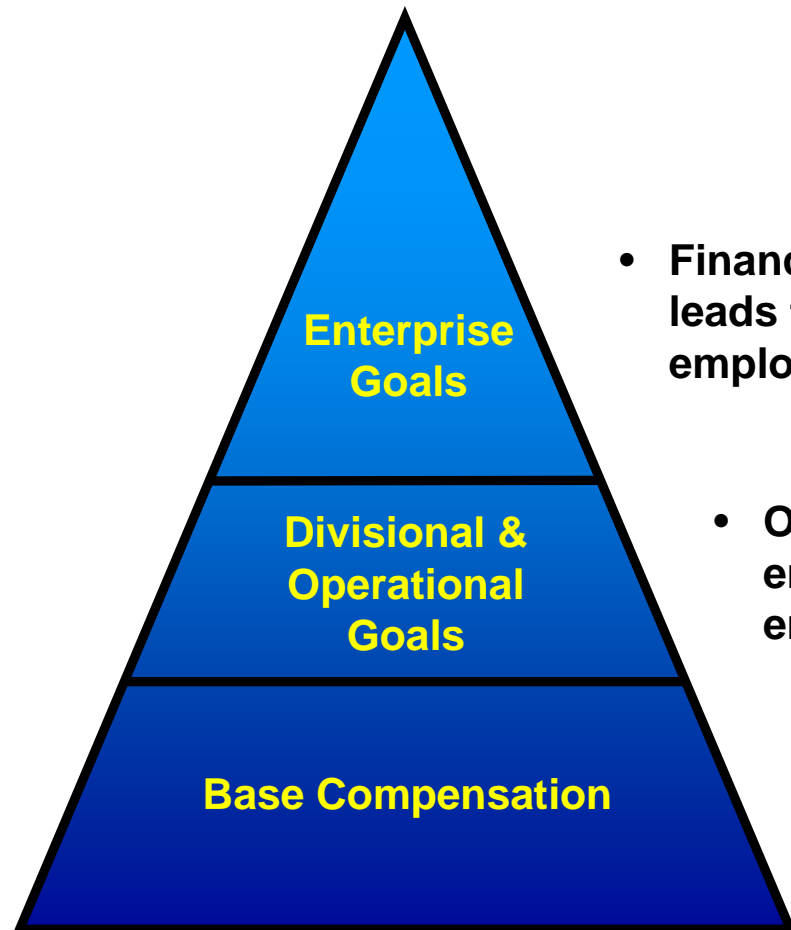
Note: Seniority reflects full time employees only

Source: Operating divisions

. . . And Are Key To The Success Of Our Operation

- **Front-line employees drive operational success of United**
  - On time performance is driven by operational success
  - Customer service is vital for company, and customer-facing employees drive customer experience
- **In 2004, United introduced Success Sharing and our DOT A:14 performance and United Promoter scores were highest in our history**

# Meaningful Variable Pay Is A Key Component Of Total Compensation



- Financial success of enterprise leads to financial gain for employees through profit sharing
- Operational and service success of enterprise leads to financial gain for employees through variable pay
- Employees are rewarded with competitive wages and benefits

# United Is Taking Steps To Improve Alignment Of Employee And Enterprise Success

- **New front-line employee cash incentive program announced**
  - Eligible employees will receive a monthly cash payout if we achieve a first or second-place DOT A:14 ranking amongst the largest network carriers
- **Profit Sharing program pays employees 15% of pretax earnings after \$10M threshold is reached**
  - Approximately \$115 million paid for 2007
- **Management incentive programs directly aligned across the five core performance imperatives**



Goal 3:  
Flexibility For An Evolving  
Marketplace

# Our Contracts Must Be Flexible Enough To Enable United To Protect The Enterprise And Position For Growth

- **By having flexibility to respond to marketplace evolution**
- **By optimizing within the evolving regulatory environment**
- **By being able to deploy technological advances**
- **By being able to respond to external events beyond United's control**

# Financial Strength And Flexibility Are Required In Order For United To Thrive In A Challenging Industry

## For United To Offer Technologically Advanced Products

- **Market demand requires new technologies**

- 90-seat regional jets
- Next generation wide-bodies



- Cashless cabin
- Web for bookings and customer service
- Improved seat offerings



## For United To Seize Opportunities Created By Globalization

- **Cross-border mergers are more common**



- **Regulatory changes**



- **Competitor alliances are strengthening**



## For United To Adapt To Unforeseen External Risks

- **Many events that impact industry are out of our control**

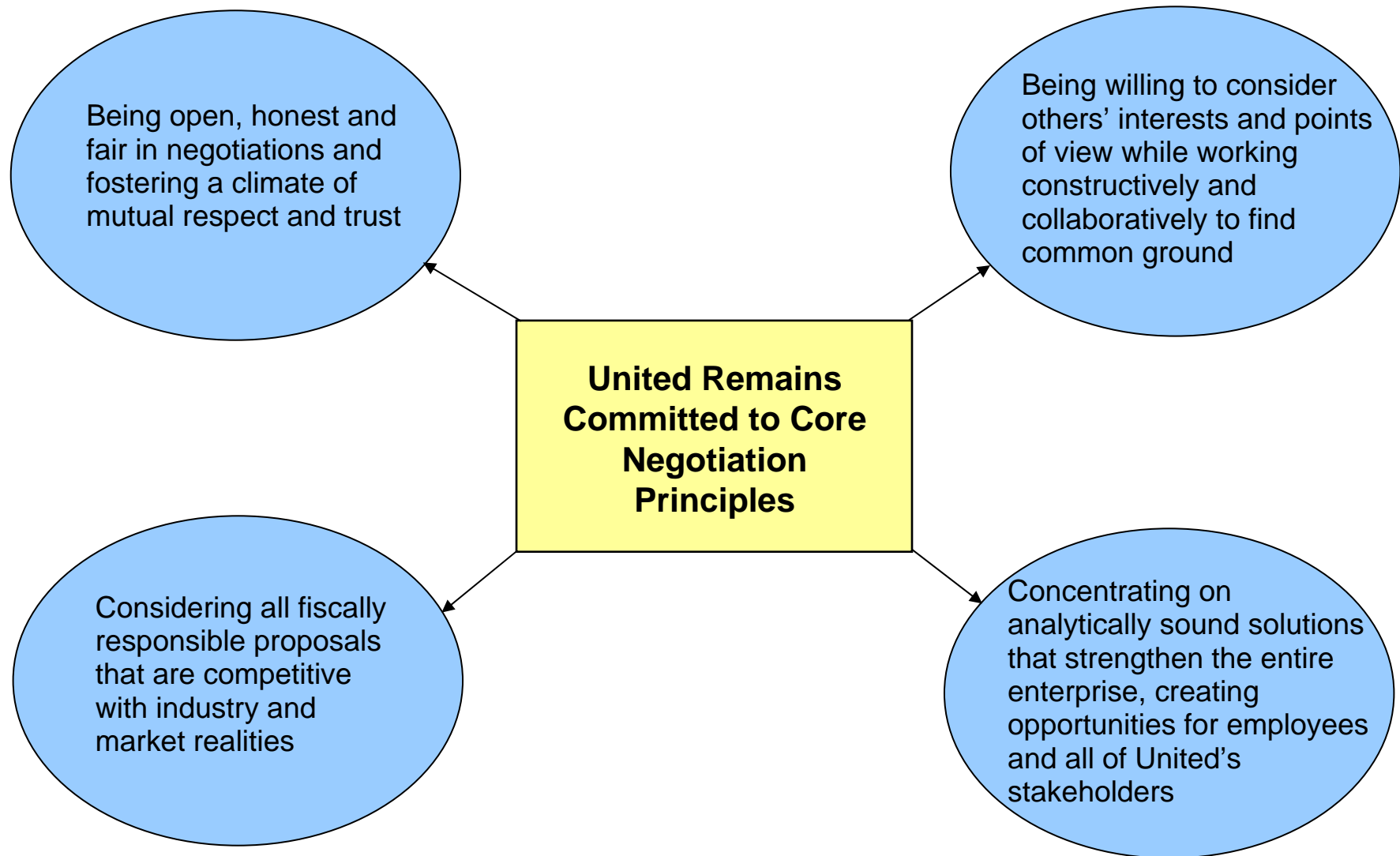
- Recessions
- Wars and terrorism (1991, 2001, 2003)
- SARS and pandemics
- Oil price shocks

- **These events affect airlines more than other industries**



# Contract Negotiation Principles And Process

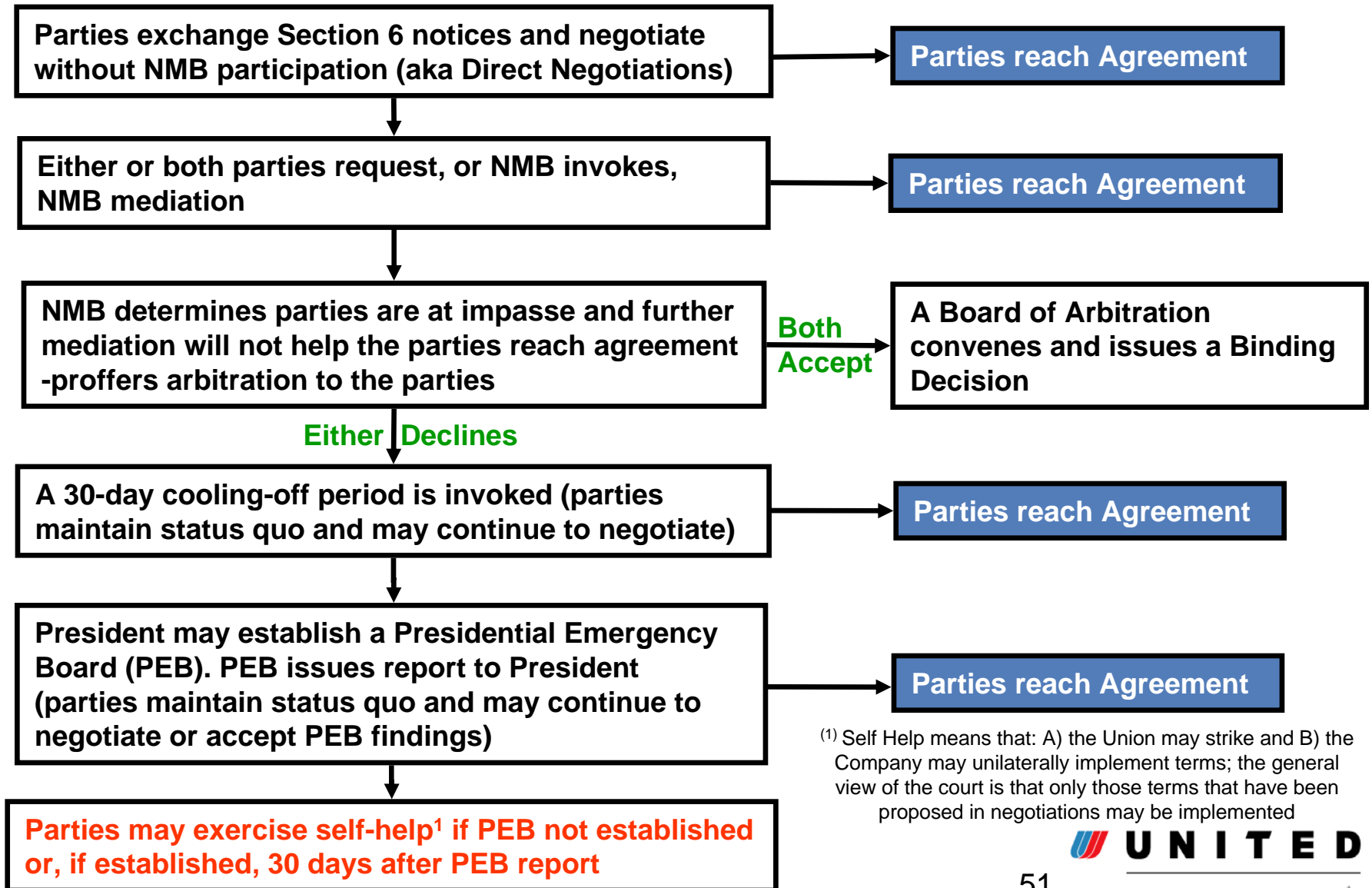
# United's Guiding Negotiation Principles



# The Negotiation Process Is Governed By The Railway Labor Act (RLA)

- **Purpose of RLA is to:**
  - Ensure that carriers, unions, and employees “exert every reasonable effort” to make and maintain agreements and resolve disputes
  - Promote stability in labor-management relations
  - Promote collective bargaining
  - “Avoid any interruption to commerce or to the operation of any carrier”
- **Under RLA, after collective agreements become amendable, parties are obligated to maintain “status quo” through the National Mediation Board’s (NMB) determination of “impasse” and a 30-day cooling-off period**
- **NMB has sole jurisdiction to declare that the parties have reached “impasse” in the event further mediation will not help the parties reach agreement**

# RLA Collective Bargaining Process Provides Several Paths To Reach Consensual Agreement



(1) Self Help means that: A) the Union may strike and B) the Company may unilaterally implement terms; the general view of the court is that only those terms that have been proposed in negotiations may be implemented

# Numerous Contract Negotiations Are Underway

- Many carriers have been in mediation for several years

Carrier	Pilots	Flight Attendants	Mechanics	Agents
American	APA – 9/06	APFA – 2/08	TWU – 11/07	CS: N/A Fleet: TWU – 11/07
US Airways/ America West	USAPA – 11/05	AFA – 2/06	IAM – 12/11	CS: ACSEA – 12/11 Fleet: IAM – 12/11
Continental	ALPA – 7/07	IAM – 12/09	IBT – 12/08	N/A
Southwest	SWAPA	TWU	AMFA – 8/12	CS: IAM – 9/08 Fleet: TWU – 6/11
AirTran	ALPA – 6/05	AFA – 1/08	IBT – 10/09	N/A
Alaska	ALPA	AFA – 4/12	AMFA – 10/09	IAM – 7/10
Hawaiian	ALPA – 3/07	AFA – 3/11	IAM – 5/08	IAM – 3/08
Spirit	ALPA – 5/06	AFA – 11/07	N/A	N/A

Color Code: **In Mediation** **In Negotiations** **Tentative Agreement Reached** **Amendable In Future** **Agreement Reached**

Note: For groups in negotiation or mediation, date indicates date negotiations commenced; for others, date is date contract is amendable

## Recently, Carriers Have Negotiated Contract Extensions

<b>Carrier</b>	<b>Labor Group</b>	<b>Date of Agreement</b>	<b>Length of Contract/Extension</b>
Southwest	Pilots*	1/30/09	5 years
Southwest	Mechanics	1/30/09	4 years
Southwest	Ramp	2/27/09	3 years
Southwest	Flight Attendants*	3/26/09	4 years
Alaska	Pilots*	3/7/09	4 years
Alaska	Flight Attendants	2/11/09	2 years
Hawaiian	Flight Attendants	2/26/09	2 years

\* Agreements are tentative and are awaiting a member vote

# Next Steps For Labor Negotiation Process

- **Our current contracts generally become amendable on January 1, 2010**

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<b>United and unions to begin exchanging Section 6 Notices:</b>	April 6, 2009 <sup>(1)</sup>
<b>Commitment to file for services with National Mediation Board:</b>	August 1, 2009 <sup>(2)</sup>
<b>Contracts become amendable:</b>	January 1, 2010 <sup>(3)</sup>

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<sup>(1)</sup> Written notice of intended changes; not more than 270 days prior to December 31, 2009

<sup>(2)</sup> In the event a new tentative agreement has not been concluded by August 1, 2009 the parties will jointly invoke the mediation services if the National Mediation Board

<sup>(3)</sup> AFA January 8, 2010

# Non-GAAP Reconciliations

# Mainline Revenue Per Available Seat Mile Twelve Months Ended

Twelve Months Ending	4Q08
(\$ and ASM in Millions; Rates in cents)	
Consolidated Operating Revenues	\$ 20,194
Less: Passenger - Regional Affiliates	(3,098)
Less: Regional Affiliates Specials	-
Mainline Operating Revenues	\$ 17,096
Less: Income from Special Items	-
Add: Mileage Plus Impacts	139
Adjusted Mainline	\$ 17,235
Mainline available seat miles	135,861
<b>Adjusted Mainline RASM</b>	<b>12.69</b>
TME 4Q 08 Mainline available seat miles	135,861
TME 4Q 07 Mainline available seat miles	141,890
<b>Mainline available seat miles YOY % Change</b>	<b>(4.2)%</b>

# Mainline Cost Per Available Seat Mile Twelve Months Ended

Twelve Months Ending	4Q08
(\$ and ASM in Millions; Rates in cents)	
Consolidated Operating Expenses	\$ 24,632
Less: Regional Affiliates	(3,248)
Mainline Operating Expense	\$ 21,384
Add (Less): Mainline Fuel Expense (excluding non-cash, net mark-to-market (gains) losses)	(7,154)
Add (Less): UAFC	(4)
Add (Less): Impairments, special items other charges and non-cash, net mark-to market (gains) losses	(3,375)
Add (Less): Mainline Fresh Start Adjustments (excluding stock based compensation)	(184)
Adjusted Mainline Expenses	\$ 10,667
Mainline available seat miles - FY 2008	135,861
<b>Adjusted Mainline CASM</b>	<b>7.85</b>
Mainline available seat miles - FY 2008	135,861
Mainline available seat miles - FY 2007	141,890
Mainline available seat miles - YOY Change %	-4.2%