

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-6033

UAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

36-2675207

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1200 East Algonquin Road, Elk Grove Township, Illinois 60007
Mailing Address: P. O. Box 66919, Chicago, Illinois 60666

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (847) 700-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Outstanding at
----- October 31, 1998

Common Stock (\$0.01 par value) 53,126,436

UAL Corporation and Subsidiary Companies Report on Form 10-Q

For the Quarter Ended September 30, 1998

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UAL Corporation and Subsidiary Companies
Condensed Statements of Consolidated Financial Position
(In Millions)

	September 30, 1998 (Unaudited)	December 31, 1997
Assets	-----	----
Current assets:		
Cash and cash equivalents	\$ 447	\$ 295
Short-term investments	447	550
Receivables, net	1,405	1,051
Inventories, net	364	355
Deferred income taxes	241	244
Prepaid expenses and other	287	453
	-----	-----
	3,191	2,948
	-----	-----
Operating property and equipment:		
Owned	15,894	14,196
Accumulated depreciation and amortization	(5,147)	(5,116)
	-----	-----
	10,747	9,080
	-----	-----
Capital leases	2,727	2,319
Accumulated amortization	(625)	(625)
	-----	-----
	2,102	1,694
	-----	-----
	12,849	10,774
	-----	-----
Other assets:		
Investments in affiliates	296	223
Intangibles, net	691	703
Aircraft lease deposits	491	318
Prepaid rent	650	60
Other	732	777
	-----	-----
	2,860	2,081
	-----	-----
	\$ 18,900	\$ 15,803
	=====	=====

See accompanying notes to consolidated financial statements.

UAL Corporation and Subsidiary Companies
Condensed Statements of Consolidated Financial Position
(In Millions)

	September 30, 1998	December 31, 1997
Liabilities and Stockholders' Equity	(Unaudited)	----

Current liabilities:		
Current portions of long-term debt and capital lease obligations	\$ 325	\$ 406
Advance ticket sales	1,682	1,267
Accounts payable	1,233	1,030
Other	2,668	2,545
	-----	-----
	5,908	5,248
	-----	-----
Long-term debt	2,732	2,092
	-----	-----
Long-term obligations under capital leases	2,035	1,679
	-----	-----
Other liabilities and deferred credits:		
Postretirement benefit liability	1,480	1,361
Deferred gains	1,153	1,210
Other	1,474	1,261
	-----	-----
	4,107	3,832
	-----	-----
Company-obligated mandatorily redeemable preferred securities of a subsidiary trust	101	101
	-----	-----
Preferred stock committed to Supplemental ESOP	711	514
	-----	-----
Stockholders' equity:		
Preferred stock	-	-
Common stock at par	1	1
Additional capital invested	3,531	2,876
Retained earnings	1,000	309
Unearned ESOP preferred stock	(297)	(177)
Other	(929)	(672)
	-----	-----
	3,306	2,337
	-----	-----
Commitments and contingent liabilities (See note)		
	\$ 18,900	\$ 15,803
	=====	=====

See accompanying notes to consolidated financial statements.

UAL Corporation and Subsidiary Companies
Statements of Consolidated Operations (Unaudited)
(In Millions, Except Per Share)

	Three Months Ended September 30	
	1998	1997
	----	----
Operating revenues:		
Passenger	\$ 4,263	\$ 4,147
Cargo	228	225
Other	292	268
	-----	-----
	4,783	4,640
	-----	-----
Operating expenses:		

Salaries and related costs	1,350	1,264
ESOP compensation expense	173	256
Aircraft fuel	470	510
Commissions	354	409
Purchased services	384	329
Aircraft rent	221	235
Landing fees and other rent	221	202
Depreciation and amortization	199	182
Aircraft maintenance	165	153
Other	551	537
	-----	-----
	4,088	4,077
	-----	-----
Earnings from operations	695	563
	-----	-----
Other income (expense):		
Interest expense	(92)	(73)
Interest capitalized	26	25
Interest income	15	13
Equity in earnings of affiliates	19	17
Gain on sale of partnership interest	-	275
Gain on sale of affiliate's stock	-	103
Miscellaneous, net	(15)	(10)
	-----	-----
	(47)	350
	-----	-----
Earnings before income taxes and distributions on preferred securities	648	913
Provision for income taxes	222	333
	-----	-----
Earnings before distributions on preferred securities	426	580
Distributions on preferred securities, net of tax	(1)	(1)
	-----	-----
Net earnings	\$ 425	\$ 579
	=====	=====
Per share, basic:	\$ 6.91	\$ 9.39
	=====	=====
Per share, diluted:	\$ 3.71	\$ 5.61
	=====	=====

See accompanying notes to consolidated financial statements.

UAL Corporation and Subsidiary Companies
Statements of Consolidated Operations (Unaudited)
(In Millions, Except Per Share)

	Nine Months Ended	
	September 30	
	1998	1997
	----	----
Operating revenues:		
Passenger	\$ 11,777	\$ 11,628
Cargo	666	634
Other	837	881
	-----	-----
	13,280	13,143
	-----	-----
Operating expenses:		
Salaries and related costs	3,959	3,732
ESOP compensation expense	663	666
Aircraft fuel	1,346	1,559
Commissions	1,000	1,159
Purchased services	1,098	946
Aircraft rent	672	707
Landing fees and other rent	651	644
Depreciation and amortization	582	533
Aircraft maintenance	462	447
Other	1,559	1,582
	-----	-----
	11,992	11,975
	-----	-----

Earnings from operations	1,288	1,168
	-----	-----
Other income (expense):		
Interest expense	(265)	(213)
Interest capitalized	82	75
Interest income	44	36
Equity in earnings of affiliates	62	64
Gain on sale of partnership interest	-	275
Gain on sale of affiliate's stock	-	103
Miscellaneous, net	(38)	(36)
	-----	-----
	(115)	304
	-----	-----
Earnings before income taxes and distributions on preferred securities	1,173	1,472
Provision for income taxes	401	542
	-----	-----
Earnings before distributions on preferred securities	772	930
Distributions on preferred securities	(4)	(4)
	-----	-----
Net earnings	\$ 768	\$ 926
	=====	=====
Per share, basic:	\$ 11.97	\$ 14.68
	=====	=====
Per share, diluted:	\$ 6.57	\$ 9.02
	=====	=====

See accompanying notes to consolidated financial statements.

UAL Corporation and Subsidiary Companies
Condensed Statements of Consolidated Cash Flows (Unaudited)
(In Millions)

	Nine Months Ended September 30	
	1998	1997
	----	----
Cash and cash equivalents at beginning of period	\$ 295	\$ 229
	-----	-----
Cash flows from operating activities	2,854	2,397
	-----	-----
Cash flows from investing activities:		
Additions to property and equipment	(2,390)	(2,170)
Proceeds on disposition of property and equipment	413	41
Proceeds on disposition of ATS Partnership interest	-	539
Decrease (increase) in short-term investments	103	(126)
Other, net	(40)	(20)
	-----	-----
	(1,914)	(1,736)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	830	-
Repayment of long-term debt	(247)	(95)
Principal payments under capital lease obligations	(271)	(116)
Purchase of equipment certificates under Company operating leases	(693)	-
Repurchase of common stock	(247)	(54)
Dividends paid	(8)	(8)
Aircraft lease deposits	(160)	(107)
Other, net	8	19
	-----	-----
	(788)	(361)
	-----	-----
Increase (decrease) in cash and cash equivalents	152	300

Cash and cash equivalents at end of period	\$ 447	\$ 529
	=====	=====
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 163	\$ 118
Income taxes	\$ 129	\$ 219
Non-cash transactions:		
Capital lease obligations incurred	\$ 636	\$ 477

See accompanying notes to consolidated financial statements.

UAL Corporation and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)

The Company

UAL Corporation ("UAL") is a holding company whose principal subsidiary is United Air Lines, Inc. ("United").

Interim Financial Statements

The consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to or as permitted by such rules and regulations, although UAL believes that the disclosures are adequate to make the information presented not misleading. In management's opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations for the three and nine month periods have been made. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in UAL's Annual Report on Form 10-K for the year 1997.

Employee Stock Ownership Plans

Pursuant to amended labor agreements which provide for wage and benefit reductions and work-rule changes which commenced July 1994, UAL has agreed to issue convertible preferred stock to employees. Note 2 of the Notes to Consolidated Financial Statements in the 1997 Annual Report on Form 10-K contains additional discussion of the agreements, stock to be issued to employees and the related accounting treatment. Shares earned in 1997 were allocated in March 1998 as follows: 97,406 shares of Class 2 ESOP Preferred Stock were contributed to the Non-Leveraged ESOP and an additional 889,031 shares were allocated in "book entry" form under the Supplemental Plan. Additionally, 2,087,531 shares of Class 1 ESOP Preferred Stock were allocated under the Leveraged ESOP. Finally, an additional 2,305,479 shares of Class 1 and Class 2 ESOP Preferred Stock have been committed to be released by the Company since January 1, 1998.

Income Taxes

The provisions for income taxes are based on the estimated annual effective tax rate, which differs from the federal statutory rate of 35% principally due to dividends on ESOP Preferred Stock and other tax credits, partially offset by state income taxes and certain nondeductible expenses. Deferred tax assets are recognized based upon UAL's history of operating earnings and expectations for future taxable income.

Per Share Amounts

Basic earnings per share were computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the year. In addition, diluted earnings per share amounts include potential common shares including ESOP shares committed to be released.

Earnings Attributable to Common Stockholders (Millions)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	1998	1997	1998	1997
	----	----	----	----
Net Income	\$ 425	\$ 579	\$ 768	\$ 926
Preferred stock dividends and other	(25)	(19)	(77)	(57)
	----	----	----	----
Earnings attributable to common stockholders (Basic and Diluted)	\$ 400	\$ 560	\$ 691	\$ 869
	=====	=====	=====	=====
Shares (Millions)				
Weighted average shares outstanding (Basic)	57.9	59.6	57.7	59.2
Convertible ESOP preferred stock	48.4	37.3	45.8	34.4
Other	1.5	2.9	1.6	2.7
	-----	-----	-----	-----
Weighted average number of shares (Diluted)	107.8	99.8	105.1	96.3
	=====	=====	=====	=====
Earnings Per Share				
Basic	\$6.91	\$9.39	\$11.97	\$14.68
Diluted	\$3.71	\$5.61	\$ 6.57	\$ 9.02

Long-Term Debt and Lease Obligations

In March 1998, the Company, through a special-purpose financing entity which is consolidated, issued \$604 million of commercial paper to refinance certain lease commitments. Although the issued commercial paper has short maturities, the Company expects to continually rollover this obligation throughout the 5-year life of its supporting liquidity facility or bank standby facility. As such, the commercial paper is classified as a long-term obligation in the Company's statement of financial position.

The proceeds from the commercial paper, as well as \$65 million from internally generated funds, were used to refinance \$669 million face-value of equipment certificates supporting leveraged lease transactions between United and various lessors. During the second quarter, the Company purchased an additional \$24 million face-value of equipment certificates using internally generated funds. While the terms of the original leases between United and these lessors remain unchanged, these actions effectively satisfy future minimum payments under these leases of \$976 million, which are scheduled for payment as follows:

(In millions)						
1998	1999	2000	2001	2002	After 2002	Total
----	----	----	----	----	----	-----
\$12	\$59	\$60	\$60	\$54	\$731	\$976

Additionally, in connection with the acquisition of one B747, four A319 aircraft, and several aircraft simulators, the Company issued \$226 million of secured notes during the nine-month period.

Other Comprehensive Income

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" which establishes standards for displaying comprehensive income and its components in a full set of general purpose financial statements. The reconciliation of net income to comprehensive net income is as follows:

Three Months Ended		Nine Months Ended	
September 30		September 30	
1998	1997	1998	1997
----	----	----	----

Net earnings, as reported	\$ 425	\$ 579	\$ 768	\$ 926
Other comprehensive income	1	-	-	(2)
	----	----	----	----
Total comprehensive income	\$ 426	\$ 579	\$ 768	\$ 924
	====	====	====	====

Accumulated other comprehensive income included in other stockholders' equity was \$(2) million and \$(2) million at September 30, 1998 and December 31, 1997, respectively.

Related Party Transactions

In July 1997, United completed the sale of its 77% general partnership interest in the Apollo Travel Services Partnership to Galileo International, Inc. See "Sale of Affiliate" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Stock Repurchases

During the third quarter, UAL's Board of Directors authorized the repurchase of up to \$500 million of the Company's common stock. As of September 30, 3.6 million shares had been repurchased and returned to treasury at a total cost of \$247 million. During October, an additional 1.9 million shares were repurchased and returned to treasury at a total cost of \$121 million.

Equity Put Warrants

In connection with the Company's stock repurchase program, UAL sold two million equity put warrants at various strike prices in November. The put warrants entitle the holders to sell shares of UAL common stock to the Company at specified prices. The warrants have strike prices ranging from \$64.04 to \$65.46, expire at various dates through January 5, 1999 and are exercisable only at maturity.

Contingencies and Commitments

UAL 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 UAL 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.

At September 30, 1998, commitments for the purchase of property and equipment, principally aircraft, approximated \$7.2 billion, after deducting advance payments. An estimated \$0.5 billion will be spent during the remainder of 1998, \$2.5 billion in 1999, \$1.8 billion in 2000 and \$2.4 billion in 2001 and thereafter. The major commitments are for the purchase of B777, B747, B767, B757, A320 and A319 aircraft, which are scheduled to be delivered through 2002. The above amounts include commitments for the August 1998 order with Airbus Industrie for an additional 10 A319 and 12 A320 aircraft to be delivered through 2001. These commitments, combined with aircraft retirements, are part of the Company's plan to eventually increase the fleet to an expected 645 aircraft at the end of 2001.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

UAL's total of cash and cash equivalents and short-term investments was \$894 million at September 30, 1998, compared to \$845 million at December 31, 1997. Cash flows from operating activities for the nine-month period amounted to \$2.9 billion. Financing activities included principal payments under debt and capital lease obligations of \$247 million and \$271 million,

respectively and deposits of an equivalent \$160 million in Japanese yen, French francs and German marks with certain banks in connection with the financing of capital lease transactions. Additionally, the Company issued \$830 million in debt during the period and used part of the proceeds to purchase \$693 million in equipment certificates under Company operating leases. See "Long-Term Debt and Lease Obligations" in the Notes to Consolidated Financial Statements for further details.

Property additions, including aircraft and aircraft spare parts, amounted to \$2.4 billion, while property dispositions resulted in proceeds of \$413 million. In the nine months of 1998, United took delivery of ten A320, thirteen A319, four B777, two B757, four B767 and three B747 aircraft. Thirty-one of the aircraft were purchased and five were acquired under capital leases. Eight of the aircraft purchased during the period were later sold and then leased back. In addition, United acquired four B727 and two DC10-10 aircraft off lease during the first nine months and retired twenty-five B737, four B747 and two DC10 aircraft.

At September 30, 1998, commitments for the purchase of property and equipment, principally aircraft, approximated \$7.2 billion, after deducting advance payments. Of this amount, an estimated \$0.5 billion is expected to be spent during the remainder of 1998. For further details, see "Contingencies and Commitments" in the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

Summary of Results

UAL's earnings from operations were \$1,288 million in the first nine months of 1998, compared to \$1,168 million in the first nine months of 1997. UAL's net earnings were \$768 million (\$11.97 per share, basic; \$6.57 per share, diluted), compared to net earnings of \$926 million during the same period of 1997 (\$14.68 per share, basic; \$9.02 per share, diluted). The 1997 nine-month period includes an after-tax one-time gain of \$235 million (\$3.97 per share, basic; \$2.44 per share diluted) on the ATS/Galileo transaction (see "Sale of Affiliate").

In the third quarter of 1998, UAL's earnings from operations were \$695 million compared to \$563 million in the third quarter of 1997. UAL had net earnings in the 1998 third quarter of \$425 million (\$6.91 per share, basic; \$3.71 per share, diluted), compared to net earnings of \$579 million in the same period of 1997 (\$9.39 per share, basic; \$5.61 per share, diluted). The 1997 third quarter period includes an after-tax one-time gain of \$235 million (\$3.93 per share, basic; \$2.35 per share diluted) on the ATS/Galileo transaction (see "Sale of Affiliate").

Management believes that a more complete understanding of UAL's results can be gained by viewing them on a pro forma, "Fully Distributed" basis. This approach considers all ESOP shares which will ultimately be distributed to employees throughout the ESOP (rather than just the shares committed to be released) to be immediately outstanding and thus Fully Distributed. Consistent with this method, the ESOP compensation expense is excluded from Fully Distributed net earnings and ESOP convertible preferred stock dividends are not deducted from earnings attributable to common stockholders. No adjustments are made to Fully Distributed earnings to take into account future salary increases. A comparison of results reported on a Fully Distributed basis to results reported under generally accepted accounting principles (GAAP) is as follows (in millions, except per share):

	Three Months Ended				Nine Months Ended			
	September 30, 1998		September 30, 1997		September 30, 1998		September 30, 1997	
	GAAP (diluted)	Fully Distributed	GAAP (diluted)	Fully Distributed	GAAP (diluted)	Fully Distributed	GAAP (diluted)	Fully Distributed
Net Income	\$ 425	\$ 516	\$ 579	\$ 734	\$ 768	\$1,152	\$ 926	\$1,325
Per share	\$3.71	\$4.02	\$5.61	\$5.53	\$6.57	\$ 8.93	\$9.02	\$ 9.99

Specific factors affecting UAL's consolidated operations for the third quarter and first nine months of 1998 are described below.

Third Quarter 1998 Compared with Third Quarter 1997

Operating revenues increased \$143 million (3%) and United's revenue per available seat mile (unit revenue) decreased very slightly to 10.39 cents compared to 10.43 cents a year ago. Passenger revenues increased \$116 million (3%) despite a 2% decrease in yield from 12.33 to 12.10 cents due to a 5% increase in United's revenue passenger miles. Available seat miles across the system were up 4% over the third quarter of 1997, resulting in a passenger load factor increase of 0.8 point to 76.1%. The following analysis by market is based on information reported to the U.S. Department of Transportation:

	Increase (Decrease)	
Available Seat Miles (Capacity)	Revenue Passenger Miles	Revenue Per Revenue Passenger Mile(Yield)
Domestic	6%	8%
Pacific	(9%)	(6%)
Atlantic	10%	8%
Latin America	20%	8%
		4%
		(20%)
		(5%)
		(10%)

Domestic yields increased as the U.S. economy continued to expand and industry capacity growth remained relatively modest. Results were also helped by the pilot strike at Northwest Airlines. Pacific yields continue to be negatively impacted by the weakness of most Pacific currencies compared to the U.S. dollar, especially the Japanese yen, and the effects of the Asian economic turmoil on demand for travel. Year-over-year in the third quarter of 1998 the Japanese yen was 18% weaker compared to the U.S. dollar. Yields in other international markets have been impacted by a negative pricing environment resulting from excess industry capacity and weakened economies.

Cargo revenues increased \$3 million (1%) on increased freight ton miles of 3%. A 1% higher freight yield was offset by a 5% lower mail yield, resulting in 1% decrease to cargo yield for the period. Other operating revenues increased \$24 million (9%) due to growth in frequent flyer program partner-related revenues and contract sales to third parties.

Operating expenses increased \$11 million (0.3%) and United's cost per available seat mile inclusive of ESOP compensation expense decreased 3%, from 9.19 cents to 8.90 cents. Without the ESOP compensation expense, United's cost per available seat mile would have been 8.52 cents, a decrease of 1% from the 1997 third quarter. ESOP compensation expense decreased \$83 million (32%), reflecting a decrease in the estimated average fair value of ESOP stock committed to be released to employees as a result of the lower average price of UAL's common stock in the 1998 third quarter. Purchased services increased \$55 million (17%) due to increases in computer reservations fees, credit card discounts, communications expense and Year 2000 related spending. Depreciation and amortization increased \$17 million (9%) due to an increase in the number of owned aircraft and aircraft under capital lease. Salaries and related costs increased \$86 million (7%) due to ESOP mid-term wage adjustments which took place in July 1998 and increased staffing in certain customer-contact positions. Commissions decreased \$55 million (13%) due to a change in the commission structure implemented in the third quarter of 1997 as well as a slight decrease in commissionable revenues. Aircraft fuel decreased \$40 million (8%) due to a 10% decrease in the cost of fuel from 65.3 cents to 58.5 cents a gallon. Aircraft maintenance increased \$12 million (8%) due to an increase in engine overhauls. Aircraft rent decreased \$14 million (6%) due to refinancing aircraft under operating lease. Other expenses increased \$14 million (3%) as a result of higher advertising and promotion expense and cost of contract sales partly offset by the sale of ATS.

Other expense amounted to \$47 million in the third quarter of 1998 compared to \$28 million in the third quarter of 1997 (excluding the gain on the ATS/Galileo transaction - see "Sale of Affiliate"). Interest expense increased \$19 million (26%) due to the issuance of long-term debt in 1997 and 1998. Interest income increased \$2 million (15%) due to higher investment balances.

Nine Months 1998 Compared with Nine Months 1997

Operating revenues increased \$137 million (1%) and United's revenue per available seat mile (unit revenue) decreased 2% to 10.18 cents. Passenger revenues increased \$149 million (1%) despite a 1% decrease in yield from 12.56 to 12.45 cents due to a 2% increase in United's revenue passenger miles. Available seat miles across the system were up 3%; however passenger load factor decreased 0.5 points to 72.1%. The following analysis by market is based on information reported to the U.S. Department of Transportation:

	Increase (Decrease)		
Available Seat Miles (Capacity)	Revenue Passenger Miles	Revenue Per Passenger Mile	Revenue Yield
Domestic	4%	4%	3%
Pacific	(8%)	(10%)	(13%)
Atlantic	14%	12%	(5%)
Latin America	19%	8%	(8%)

Pacific yields continue to be negatively impacted by the weakness of the Japanese yen compared to the dollar, and the effects of the Asian economic turmoil on demand for travel. Yields in other international markets have been impacted by a negative pricing environment resulting from excess industry capacity and weakened economies.

Cargo revenues increased \$32 million (5%) on increased freight ton miles of 9%. A relatively flat freight yield together with a 1% lower mail yield, resulted in a 1% decrease in cargo yield for the period. Other operating revenues decreased \$44 million (5%) due to the sale of the Apollo Travel Services Partnership ("ATS") in July 1997, partially offset by increases in frequent flyer program partner-related revenues and contract sales to third parties.

Operating expenses increased \$17 million (0.1%) and United's cost per available seat mile inclusive of ESOP compensation expense decreased 3%, from 9.46 cents to 9.22 cents. Without the ESOP compensation expense, United's cost per available seat mile would have been 8.70 cents, a decrease of 3% from the 1997 nine-month period. ESOP compensation expense decreased \$3 million (0.5%), reflecting the decrease in the estimated average fair value of stock committed to the supplemental ESOP as a result of UAL's lower common stock price. Purchased services increased \$152 million (16%) due to increases in computer reservations fees, credit card discounts, communications expense and Year 2000 related spending. Depreciation and amortization increased \$49 million (9%) due to an increase in the number of owned aircraft and aircraft under capital lease. Salaries and related costs increased \$227 million (6%) due to ESOP mid-term wage adjustments which took place in July 1998 and increased staffing in certain customer-contact positions. Commissions decreased \$159 million (14%) due to a change in the commission structure implemented in the third quarter of 1997 as well as a slight decrease in commissionable revenues. Aircraft fuel decreased \$213 million (14%) due to a 15% decrease in the cost of fuel from 70.1 cents to 59.4 cents a gallon. Aircraft rent decreased \$35 million (5%) due to a reduction in the number of aircraft under operating lease and refinancing aircraft under operating lease. Other expenses decreased \$23 million (1%) as a result of the sale of ATS.

Other expense amounted to \$115 million in the first nine months of 1998 compared to \$74 million in the first nine months of 1997 (excluding the gain on the ATS/Galileo transaction - see "Sale of Affiliate"). Interest expense increased \$52 million (24%) due to the issuance of long-term debt in 1997 and 1998.

Interest income increased \$8 million (22%) due to higher investment balances.

SALE OF AFFILIATE

- - - - -

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

Galileo raised a portion of the proceeds used to purchase ATS through the completion of an initial public offering of 16,799,700 shares of its common stock, representing 16.0% of its economic interest, at \$24.50 per share for net proceeds of approximately \$390 million. This transaction resulted in a reduction of the Company's ownership in Galileo from 38% to 32%. In accordance with the Company's policy of recognizing gains or losses on the sale of a subsidiary's stock based on the difference between the offering price and the Company's carrying amount of such stock, the Company recognized a pre-tax gain of \$103 million during the third quarter. Pursuant to Statement of Financial Accounting Standards No. 109, the Company also recorded \$40 million of deferred taxes related to this gain.

United continues to account for Galileo under the equity method and will continue to purchase computer reservations services under its existing services agreement with Galileo.

LABOR AGREEMENTS & WAGE ADJUSTMENTS

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On April 2, 1998, the International Association of Machinists and Aerospace Workers ("IAM") filed an application with the National Mediation Board ("NMB") seeking recognition as the collective-bargaining representative for United's approximately 19,000 public contact employees (primarily customer service and reservations sales and service representatives). On July 17, 1998, the NMB announced that the IAM had received sufficient votes to represent United's public contact employees. As a result, the IAM becomes the bargaining representative for these employees and will begin negotiations regarding a contract for the affected employees, a process which is expected to last for several months.

Also in July, United announced its intentions to improve compensation and benefits for the Company's nearly 2,000 administrative employees hired on or after February 1, 1994 ("post-ESOP employees"). Currently, the Company's administrative employees are being paid under a two-tier wage structure which went into effect at the time of the 1994 recapitalization. Effective April 13, 2000, the two-tier wage structure will be eliminated and post-ESOP employees will be paid on the same basis as those employees hired prior to February 1, 1994. In addition, on January 1, 1999, the benefits for post-ESOP employees will match those of employees hired prior to February 1, 1994, including company-paid medical, dental and pension. The Company expects the increase in salaries and related costs resulting from this change to be immaterial.

DEPARTMENT OF TRANSPORTATION POLICY STATEMENT

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On April 10, 1998, the Department of Transportation ("DOT") issued a proposed Statement of the Department of Transportation's Enforcement Policy Regarding Unfair Exclusionary Conduct in the Air Transportation Industry. The proposed policy sets forth tentative findings and guidelines for use by the DOT in evaluating whether major carriers' competitive responses to new entry warrant enforcement action. On July 24, 1998, United filed comments on the proposed policy, opposing the policy as being anti-competitive, anti-consumer and outside of the DOT's administrative authority.

In a related matter, the Omnibus Consolidated and Emergency Supplemental Appropriations Act signed by President Clinton on October 21, 1998, requires certain specified studies to be prepared and transmitted to Congress concerning the various

factors which may impact competition in the airline industry. This legislation effectively suspends implementation of the above stated DOT policy until the required studies are completed.

UNITED-DELTA ALLIANCE

On April 30, 1998, United announced a tentative, seven-year bilateral alliance with Delta Air Lines, Inc. ("Delta") that allowed code-sharing between the carriers, if approved by both carriers' pilot unions, reciprocal participation in frequent flyer programs, as well as other areas of marketing cooperation.

United and Delta initially expected to implement code-sharing on U.S. domestic flights and eventually including international flights in Latin America and the Pacific, pending agreement of both companies' foreign alliance partners and the appropriate governments. During August 1998, the Delta pilots' union said it would no longer consider the approval of the code-sharing aspect of the alliance. As a result, Delta has discontinued consideration of the code-sharing arrangements with United.

Effective September 1, 1998, United and Delta participate in each other's frequent flyer programs. Frequent flyer members can earn miles on United and Delta flights within the United States, Puerto Rico and the U.S. Virgin Islands and choose to credit the miles to their frequent flyer account with either carrier. Effective October 15, participants in United's and Delta's frequent flyer programs can redeem miles on either carriers' routes within the United States, Puerto Rico and the U.S. Virgin Islands.

UPDATE ON YEAR 2000 READINESS

The Company, like most corporations, faces potential problems if software applications, computer equipment and embedded computer chips fail to recognize calendar dates beginning in the year 2000. The Company has developed a five-step process to achieve Year 2000 readiness: Awareness, Inventory, Assessment, Remediation, and Testing. Awareness consists of the initial recognition that a program, system, or device could be date-sensitive and susceptible to malfunction. Inventory refers to the identification and documentation of all such programs, systems, and devices. Assessment refers to the evaluation and determination of what course of action should be taken with respect to a specific program, system or device. Remediation refers to the corrective action taken, such as repairing or replacing, to avoid malfunctions. Testing consists of all activities undertaken to gain assurance that the remediated program, system or device will function as expected for dates after 1999. The Company has established a Year 2000 Program office to oversee this process.

The above-referenced five-step process is being applied in four major areas. The first area consists of the information systems maintained and supported by the Company's Information Services Division, collectively referred to as information technology or "IT" systems. The IT systems include, among other things, (1) the hardware related infrastructure, which includes voice and data communications networks, and (2) mainframe and non-mainframe based software applications. The Company develops and uses these software applications in functions such as reservations, ticketing, flight scheduling, seat inventory and customer service.

The second area consists of user maintained applications that generally are not supported by the Company's Information Services Division. The third area consists of operational systems and devices that include, among other things, aircraft avionics, baggage handling, aircraft ground handling, passenger loading bridges, and flight simulators. User maintained applications and operational systems and devices are collectively referred to as "non-IT systems."

The fourth area consists of the Company's critical business partners which would include, among others, air traffic control systems, airport authorities, telecommunications providers, computer reservation systems, and airframe and engine manufacturers.

As discussed below, the Company remains on target in completing its five-step process. The awareness and inventory

phases are complete. The assessment phase is complete with respect to IT and non-IT systems, and substantial progress has been made in the remediation phase of the IT systems, and with a few exceptions for non-critical systems, all IT and non-IT systems will be remediated by March 31, 1999. The assessment process is still ongoing with respect to critical business partners.

IT systems. The Company remains on schedule for completing the remediation of its hardware infrastructure. Remediation and the initial system testing of the mainframe hardware is expected to be completed by December 31, 1998, while all other hardware infrastructure, including data and voice networks, is expected to be remediated and tested by March 31, 1999. The Company is developing a plan to remediate desktop computers, all of which are expected to be remediated by June 30, 1999.

Remediation and initial testing of all internally developed IT software applications is expected to be completed by December 31, 1998. Currently about 90% of the affected applications have been remediated. Of the remediated applications, most have been fully tested and the rest are in the final testing stage. The remaining 10% of affected applications are currently being remediated.

System integration testing for all IT systems that are critical to the operations is expected to be completed by March 31, 1999, and system integration testing for all other systems is expected to be completed by June 30, 1999.

Non-IT Systems. The technical assessment stage for non-IT systems is complete. Most airport systems (including aircraft ground handling equipment, customer service equipment at airports and passenger loading bridges) are not date-sensitive and therefore will not require remediation. Those non-IT systems that are date-sensitive and critical to the Company's business, such as aircraft avionics and flight simulators, are scheduled to be remediated and tested by March 31, 1999, while all others are expected to be completed by June 30, 1999.

Critical Business Partners. The Company has grouped its critical business partners into three categories: strategic, preferred or commodity. The "strategic" category consists of those partners, such as air traffic control systems, airport authorities, telecommunications providers, computer reservation systems, and airframe and engine manufacturers, without which the Company would cease to operate. The "preferred" category consists of partners that have substantial interaction with the Company, but whose absence would not necessarily cause an immediate or irreversible interruption or cessation of business operations. The "commodity" category consists of those partners who provide goods or services that could be readily replaced and whose absence would not materially impact the business. The Company has been contacting its "strategic" partners to ascertain their state of Year 2000 readiness, and the Company expects to have contacted all of them by December 31, 1998. The other partners (preferred and commodity) are expected to be contacted by March 31, 1999.

The Company is working closely with the Air Transport Association ("ATA"), an industry organization consisting mostly of North American airlines. The ATA has undertaken a study to assess the process that major domestic airports are using to achieve Year 2000 readiness. Preliminary results of that study suggest most of the larger domestic airports are making progress toward being Year 2000 ready. Many of the smaller domestic airports do not, as yet, have detailed Year 2000 plans in place. A similar project is underway with the International Air Transport Association to review the Year 2000 process at international airports. Current information suggests that some key international airports may be behind schedule.

The Company's aircraft manufacturers have concluded that there are no flight safety issues. However, the Company continues to test its aircraft systems and to work with its manufacturers to ensure Year 2000 readiness.

To date, the Company has projected that it will cost approximately \$70 million (\$22 million in capital spending and \$48 million in expense) to make the Company Year 2000 ready. Of that total, \$23 million has already been spent and \$10 million is expected to be spent during the fourth quarter of 1998, while the

remaining \$37 million is expected to be spent in 1999. All the amounts expected to be recognized as expense in 1998 have been taken into consideration in the earnings outlook discussed in the "Outlook for the Fourth Quarter and Full Year 1998" section. Because the Company is still determining the remediation plans for desktop hardware and some non-IT systems, final costs could differ significantly from the above estimates.

A series of airline readiness reviews are planned during the second quarter of 1999 to ensure aircraft, airports, support groups and critical business partners are prepared for Year 2000 and can provide uninterrupted operations. The Company will complete a risk analysis and develop risk estimates after completing the airline readiness reviews. Based on the results of the airline readiness review, the Company will develop any contingency plans that are needed. At this point in time, the Company does not have specific Year 2000 contingency plans in place.

The Company believes that the current and planned activities to modify its systems will reduce the risks of a business interruption. A failure by its systems to be Year 2000 ready could materially and adversely impact the Company's results of operations, liquidity and financial condition. The Company also relies heavily upon its critical business partners in carrying out its normal business activities. Failure by critical business partners to be Year 2000 ready could materially and adversely impact the Company's results of operations, liquidity and financial condition. Due to the general uncertainty surrounding the Year 2000 problem, and the uncertainty surrounding the readiness of its critical business partners, the Company is unable at this time to determine if any failure will occur or if such failure will have a material impact on the Company's results of operations, liquidity or financial condition.

Readers are cautioned that the Year 2000 section contains forward-looking information. Please see the "Outlook" for a list of some of the factors that could cause actual results to differ materially from expected results.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. The Company has not yet quantified the impacts of adopting SFAS No. 133 on the financial statements. However, it could increase volatility in earnings and other comprehensive income.

OUTLOOK

In the fourth quarter of 1998, available seat miles are expected to increase approximately 3%, with total system revenue per available seat mile approximating last year within 1% up or down. Costs per available seat mile excluding ESOP charges are expected to approximate 1% worse than the prior year. This unit cost forecast assumes the average cost of jet fuel per gallon in the fourth quarter is lower in 1998 than in 1997. Industry capacity increases in international markets and the economic situation in Asia are forecast to adversely affect international revenue performance.

The Company anticipates its "fully distributed" earnings per share in 1998 will slightly exceed those for 1997 (see "Results of Operations, Summary of Results" for further explanation of this pro forma methodology). At the same time, the Company is uncertain whether the Pacific operations will be profitable for the full year. These foregoing expectations are

based on the actual results for the first three quarters of the year and the following additional assumptions: a continuation of the current domestic economic environment, continued industry capacity increases in the international arenas, continued economic weakness in Asia, fuel prices lower than in 1997 and a yen-dollar exchange rate closer to October 1998 level than levels in the first nine months of 1998. (See Item 3 below for the impact of the appreciation in the Japanese yen versus the U.S. dollar during October 1998).

In November, United implemented changes to its travel agency commission rate for international travel purchased in the U.S. and Canada. Effective November 12, 1998, tickets purchased in the U.S. and Canada for travel outside those points will earn an 8% base commission rate with a maximum pay out of \$50 one-way (\$100 round-trip). This action is expected to save approximately \$100 million annually in commission costs.

The information included in the previous paragraphs and in the paragraph "Update on Year 2000 Readiness" as well as the asterisked information in Item 3 below, is forward-looking and involves risks and uncertainties that could result in actual results differing materially from expected results. It is not reasonably possible to itemize all of the many factors and specific events that could affect the outlook of an airline operating in the global economy. Some factors that could significantly impact expected capacity, international revenues, unit revenues, unit costs, fuel prices and fully distributed earnings per share include: industry capacity decisions, the airline pricing environment, fuel prices, the success of the Company's cost-control efforts, actions of the U.S., foreign and local governments, the Asian economic environment and travel patterns, foreign currency exchange rate fluctuations, the economic environment of the airline industry and the general economic environment. Some factors that could significantly impact the Company's expected Year 2000 readiness and the estimated cost thereof include: the results of the technical assessment, remediation and testing of date-sensitive systems and equipment and the ability of critical business partners, including domestic and international airport authorities, aircraft manufacturers and the Federal Aviation Administration to achieve Year 2000 readiness.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding the Company's exposure to certain market risks, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in UAL's Annual Report on Form 10-K for the year 1997. Significant changes which have occurred since year-end are as follows:

Price Risk (Aircraft fuel) -

(In millions, except average contract rates)

	Notional Amount	Average Contract Rate	Estimated Fair Value as of September 30, 1998
Purchased call contracts - Crude oil	\$ 515	\$17.40/bbl	\$ 24
- Heating oil	\$ 25	\$ 0.42/gal	\$ 2
Sold put contracts - Crude oil	\$ 368	\$17.46/bbl	\$ (40)
- Heating oil	\$ 19	\$ 0.43/gal	\$ (1)

Foreign currency (Japanese Yen) -

(In millions, except average contract rates)

	Notional Amount	Average Contract Rate	Estimated Fair Value as of September 30, 1998
Purchased put contracts	\$ 356	\$130.68	\$ 21
Sold call contracts	\$ 358	\$129.68	\$ (13)

The appreciation of the Japanese yen during October 1998 decreased the estimated fair value of the sold calls by \$35 million to \$40 million, some or all of which may be recognized as an expense in the fourth quarter of 1998 depending upon the relative value of the Japanese yen versus the U.S. dollar during and at the end of the period.*

Part II. OTHER INFORMATION

Item 5. Other Information

In November, United implemented changes to its travel agency commission rate for international travel purchased in the U.S. and Canada. Effective November 12, 1998, tickets purchased in the U.S. and Canada for travel outside those points will earn an 8% base commission rate with a maximum pay out of \$50 one-way (\$100 round-trip).

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

A list of exhibits included as part of this Form 10-Q is set forth in an Exhibit Index which immediately precedes such exhibits.

- (b) Form 8-K dated July 22, 1998 to report a cautionary statement for purposes of the "Safe Harbor for Forward-Looking Statements" provision of the Private Securities Litigation Reform Act of 1995.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UAL CORPORATION

By: /s/ Douglas A. Hacker

Douglas A. Hacker
Senior Vice President and
Chief Financial Officer
(principal financial and
accounting officer)

Dated: November 13, 1998

Exhibit Index

Exhibit No.	Description
10.1	Employment Agreement, dated September 25, 1998, between John A. Edwardson and United Air Lines, Inc. and UAL Corporation.
12.1	Computation of Ratio of Earnings to Fixed Charges.
12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements.
27	Financial Data Schedule.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of September 18, 1998 between United Air Lines, Inc. ("United") and UAL Corporation ("UAL", UA and UAL sometimes collectively referred to as "United") and John A. Edwardson residing at 747 Sheridan Road, Wilmette, Illinois 60091 (sometimes referred to as "Executive").

WHEREAS, Executive has served and is presently serving as President and Chief Operating Officer (hereinafter referred to as "Executive Position"); and as a Director of UAL, a Director of UA and holds various other positions and directorships with subsidiaries and affiliates of UA or UAL (hereinafter collectively referred to as "Executive Positions");

WHEREAS, Executive is desirous of pursuing interests outside of United; and

WHEREAS, United wishes to facilitate Executive's desires as stated above but also to retain Executive's services on the basis described herein; and

WHEREAS, Executive has agreed in this Agreement to provide such services and to release United from any liability arising out of his hire and employment with United and his resignation from his Executive Positions;

NOW, THEREFORE, it is agreed by and between United and Executive as follows:

1. Resignation; Continued Employment: Executive hereby ----- resigns from his Executive Positions all effective September 18, 1998 and this Agreement otherwise shall become effective as of September 25, 1998 (the "Effective Date"). Thereafter, Executive will be employed by United, and he will perform services for United by being "on call", including testifying on behalf of United, and such assignments consistent with Executive's experience as may be reasonably requested by United's Chairman and reasonably acceptable to Executive.

2. Time Period of Employment: United agrees to

employ Executive and Executive agrees to be employed by
United on the basis stated in Paragraph 1 from the Effective
Date through September 24, 2001, subject to sooner
termination pursuant to Paragraph 5 (such period, as it may
be shortened pursuant to Paragraph 5, being herein called
the "Term").

3. Compensation:

A. United will pay Executive a salary of
\$41,348.67 per month beginning with the Effective
Date and continuing through December 31, 1998.

B. United will pay Executive a salary of
\$2,500.00 per month beginning January 1, 1999 and
continuing for the Term.

C. On January 4, 1999 United will pay Executive
a lump sum severance payment in the amount of
\$2,501,816.13. Such lump sum payment will not be
considered earnings for any employee benefit plan
except as specified in Paragraph 4.H.

D. The salary payments provided for in
Paragraphs 3.A and 3.B will be made on the same
schedule as actively employed officers of United
from time to time, currently the 15th and last day
of each month. Any amounts will be prorated for
any partial month. All payments, including the
lump sum payment in paragraph 3.C., will be
subject to withholding for taxes and other
purposes as required by applicable law. During
the Term, Executive will not be entitled to any
increase nor subject to any decrease in such payments.

4. Benefits: Notwithstanding what may be provided to

other active employees of United from time to time,
Executive shall be entitled to the following benefits, and
only the following benefits, during the Term as follows:

A. Free and Reduced Rate Transportation: United
shall provide to Executive and his eligibles free
and reduced rate transportation of the type
granted to active officers in accordance with
company regulations as revised from time to time.
At the regular September, 1998 UAL board of
directors meeting, United shall also seek the

designation Director Emeritus for Executive from the UAL board of directors, to confer upon Executive the travel and cargo privileges accorded a Director Emeritus. If Executive is designated Director Emeritus at any time during the Term, Executive and his eligibles will thereafter no longer be entitled to the free and reduced rate transportation granted to active officers. United shall have no responsibility to Executive with respect to transportation after the Term if the UAL board of directors does not approve such designation.

B. United Air Lines, Inc. Management and Salaried Employees' Retirement Plan:

Executive's participation in (i) the United Air Lines, Inc. Management and Salaried Employees' Retirement Plan (the "Qualified Retirement Plan") and (ii) the United Air Lines, Inc. Supplemental Retirement Plan (the "Supplemental Plan") shall be in accordance with their terms (collectively, the "Retirement Plan") and the provisions of this Agreement.

For purposes of determining the amount of the Executive's pension benefit under the Retirement Plan, United agrees that (a) Executive's Final Average Earnings shall be \$1,029,643.32 (\$85,803.61 when expressed as a monthly amount), which takes into account the payments to be made to the Executive under Paragraph 3 above, (b) Executive's years of participation credit shall be 16.167, (c) the service requirement for retirement is waived, and (d) no decrement based upon the Executive's age shall be imposed. Notwithstanding Executive's continued employment during the Term or otherwise, in no event shall the Executive's Final Average Earnings or years of participation credit exceed the amounts set forth above. Based on the foregoing, Executive is entitled to a monthly single life annuity of \$21,827.13 (.016 times 16.167 times \$85,803.61 less \$367.86 for the cost of the pre-retirement survivor benefit), commencing on the first day of the month following the Executive's attainment of age 55. Except as provided in the last sentence of the following paragraph, to the extent the retirement benefit cannot be paid from the Qualified Retirement Plan due to IRS limitations, the payment shall be paid from the Supplemental Plan.

Executive may elect in writing prior to December 31, 1998 to receive a lump sum payment in lieu of the portion of such benefit payable under the Supplemental Plan. The lump sum payment will be equal to the actuarial equivalent lump sum value of the \$21,827.13 monthly life annuity described above, reduced by the actuarial lump sum value of the portion of such annuity expected to be paid under the Qualified Retirement Plan. The actuarial lump sum values shall be calculated as of January 1, 1999, using the following assumptions: the GAM-83 unisex mortality table, the current FAS-87 discount interest rate of 7% and by increasing Executive's attained age as of January 1, 1999 by three (3) years. The lump sum payment shall be made to the Executive on January 4, 1999. In the event Executive has elected to receive the lump sum payment and he dies prior to the payment thereof, then the lump sum amount shall be paid to the Executive's surviving spouse on January 4, 1999, as if the Executive had survived to that day (or, if his spouse does not survive to January 4, 1999, then his estate). Upon receipt of the lump sum payment, neither Executive nor Executive's spouse or estate shall be entitled to any additional payments under the Supplemental Plan and the only benefits payable shall be those under the Qualified Retirement Plan in accordance with its terms.

United agrees to provide Executive with a calculation of the estimated amount of the lump sum payment within twelve (12) business days of the date of this Agreement. Executive acknowledges that the benefits payable hereunder will be subject to withholding for taxes and will not be considered earnings for the

purposes of any employee benefit plan. Executive further acknowledges that he shall not be entitled to any additional participation credit under the Retirement Plan with respect to employment during the Term hereof.

- C. Management Medical/Dental: Executive and his eligible dependents shall continue to be covered by the Management Medical/Dental Plan in the same manner as other active employees.
- D. Group Life Insurance: Executive shall continue to be covered by Group Life Insurance including Contributory Life Insurance (if so covered), on the same basis as other active employees, provided the appropriate payroll deductions are authorized and in accordance with the terms of the policies.
- E. Officer's Accidental Death and Dismemberment Insurance/Split Dollar Life Insurance: Executive's Officer's Accidental Death and Dismemberment coverage of \$250,000 will continue until the termination of this Agreement as provided in Paragraph 5 herein. Executive will have the option of converting up to \$100,000 of this coverage to a private policy within 31 days of termination, if Executive so chooses. Executive will continue to be covered by the Officer's Split Dollar Life Insurance until termination of this Agreement. The terms of Executive's coverage and option for continuation of the Officer's Split Dollar Life Insurance after termination of this Agreement will be explained in a separate letter upon termination of this Agreement.
- F. Disability Income Benefits: Executive will continue to be covered by the Long Term Disability plan and provided he is qualified under the terms of the Plan, and provided he makes such payments as may be required by the Plan Administrator, will be eligible for any disability income benefits from company disability insurance plans.
- G. Stock: Stock grants or awards made to Executive under the UAL, Inc. 1981 Incentive Stock Plan (the "Plan") and the 1988 Restricted Stock Plan ("1988 Plan") before the Effective Date will immediately vest upon the Effective Date. Executive's resignation of his employment under Paragraph 1 is an early retirement under the Supplemental Plan within the meaning of the Plan and the Option Agreements. Accordingly, Executive shall have until the expiration date as originally fixed to exercise each such option. Executive will not be eligible for any grants made under the Plan or the 1988 Plan after the Effective Date.
- H. Employee Stock Ownership Plan: Executive will continue to be eligible to participate in the current ESOP and to receive future stock allocations in accordance with the terms of the plan. For the purpose of determining the amount of stock to be allocated to Executive's ESOP account for the 1999 and 2000 plan years, the compensation described in Paragraph 3.B will be excluded and the lump sum payment provided in Paragraph 3.C. will be deemed to have been paid as follows: Executive's monthly salary will be deemed to be \$41,348.67 and a bonus deemed to have been received as follows - \$362,596 paid March, 1999 and \$421,756 paid March, 2000. Such stock allocation will be made to the Supplemental ESOP.
- I. Financial Planning Services: Executive will be eligible to utilize financial planning services on the same basis as an actively employed senior officer of United as of the Effective Date. Annual allocations of \$4,000 each will be made in the years 1999, 2000 and 2001.
- J. Club Fees: United will continue to reimburse Executive for club membership fees for each year during the Term up to the annual amount United reimburses Executive as of the Effective Date.

- K. Other Fees: United will reimburse Executive for expenses for office space and secretarial support for up to one year following the Effective Date of this Agreement. United will also reimburse Executive for legal, accounting and advisor fees and expenses reasonably incurred by the Executive in connection with the negotiation and preparation of this Agreement and media communications concerning Executive's resignation of his Executive Positions. The maximum amount United will reimburse for all expenses described in this Paragraph 4.K. is \$75,000.
- L. Automobile: Executive will dispose of the vehicle United currently leases for Executive in accordance with directions provided by United. United will pay to Executive an annual car allowance of \$7,500. Such allowance shall be payable no later than January 15 of each year and will be subject to withholding for taxes and other purposes as required by applicable law.
- M. Other Benefits: Executive will continue to be eligible to participate in the stock purchase plan, 401(k) plan, Flexible Spending Account, and be eligible for payroll savings bonds on the same basis as other active employees. Executive will also be eligible to utilize the Credit Union subject to its rules.
- N. Vacation and Holidays: Executive will be paid for any accrued but unused vacation time accrued as of the Effective Date. Such payment will be made within 30 days of the Effective Date of this Agreement.
- O. Each of the benefits enumerated in Paragraph 4 is subject to the practices, rules, and regulations of United, as in effect from time to time.

5. Termination of Employment Under Agreement:

A. Non-Election of Executive: Executive's employment

under this Agreement shall terminate and Executive will no longer have the status of an active employee of United and, except as specifically provided in this Agreement, will no longer be entitled to any of the benefits of this Agreement (including the entitlement to the payment and benefits described in Paragraph 4, other than those required by law or otherwise vested), on the happening of the earliest of the following events:

- (i) Executive's death;
- (ii) 11:59 p.m. on September 24, 2001.

Notwithstanding such termination, Executive shall continue to be bound by the provisions of Paragraphs 6 through 20 of this Agreement.

B. Election of Executive: During the Term, if

Executive elects to terminate his employment for any reason, Executive will receive a one time lump sum payment (subject to withholding for taxes and other purposes as required by

applicable laws) in an amount equal to the sum of the remaining payments payable under Paragraph 3 of this Agreement between the effective date of Executive's election to terminate his employment under this Agreement and September 24, 2001. Such payment will be made promptly following Executive's termination of employment, but not earlier than January 1, 1999. Before Executive's election to terminate under this paragraph can become effective, Executive must have provided United seven (7) days' written notice of his election by registered mail addressed to the Chairman of United at its principal World Headquarters offices. Executive's termination of employment will be as of the seventh (7th) day after receipt by United of such notice, at which time he will no longer have the status of an active employee of United (including the entitlement to benefits described in Paragraph 4, other than those required by law or otherwise vested).

6. [Reserved]

7. Assent and Release: A. In consideration for the payments and benefits provided in this Agreement, Executive hereby voluntarily, knowingly, willingly, irrevocably, and unconditionally releases UA and UAL together with their respective parents, subsidiaries and affiliates, and each of their respective officers, directors, employees, representatives, attorneys and agents, and each of their respective predecessors, successors and assigns (collectively, the "Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, causes of action, rights, costs, losses, debts, and expenses of any nature whatsoever, known or unknown, which against them Executive or his successors or assigns ever had, now have or hereafter can, shall or may have (either directly, indirectly, derivatively or in any other representative capacity) by reason of any matter, fact or cause whatsoever arising from the beginning of time to the date of this Agreement, including without limitation all claims arising under Title VII of the Civil Rights Act of 1964, the federal Age Discrimination in Employment Act of 1967, as amended ("ADEA"), and all other federal, state or

local laws, rules, regulations, judicial decisions or public policies now or hereafter recognized. This release by Executive of the Releasees also includes, without limitation, all claims arising under each employee pension, employee welfare, and executive compensation plan of United now in effect or hereafter adopted, except for any benefits to be provided to Executive under this Agreement or resulting, in the normal course, from Executive's employment through the Effective Date. It is agreed that this paragraph shall survive termination of this Agreement.

B. Executive expressly acknowledges and agrees that, by entering into this Agreement, Executive is waiving any and all rights or claims that he may have arising under the Age Discrimination in Employment Act of 1967, as amended, which have arisen on or before the date of execution of this Agreement. Executive further expressly acknowledges and agrees that:

(i) In return for this Agreement, Executive will receive compensation beyond that which he was already entitled to receive before entering into this Agreement;

(ii) Executive has been advised by United to consult with an attorney before signing this Agreement;

(iii) Executive was given a copy of this Agreement on September 12, 1998 and informed that Executive had twenty-one (21) days within which to consider the Agreement and, if Executive considers this Agreement for fewer than 21 days, then Executive agrees that he has had a reasonable period of time to consider the Agreement; and

(iv) Executive was informed that Executive had seven (7) days following the date of execution of the Agreement in which to revoke the Agreement. After seven (7) days this Agreement will become effective, enforceable and irrevocable unless written revocation is received by the undersigned from Executive on or before the close of business on the seventh (7th) day after Executive executed this Agreement. If Executive revokes this Agreement it shall not be effective or enforceable and Executive will not receive the compensation or benefits described in this Agreement, other than those required by law or otherwise vested.

8. Non-Assignability: This Agreement and the

benefits hereunder are not assignable or transferable by Executive.

9. Binding of Successors. United will be required to have

any successor to all or substantially all of its business and/or assets expressly assume and agree to perform this Agreement in the same manner and to the same extent that United would be required to perform if no such succession had taken place.

10. Paragraph Reference: Any reference to paragraphs

or subparagraphs shall be references to paragraphs or
subparagraphs of this Agreement unless expressly stated otherwise.

11. Severability: If any provision of this Agreement

or the application thereof is held invalid, the invalidity
shall not affect other provisions or applications of this
Agreement which can be given effect without the invalid
provisions or application in accordance with the essential
intent and purpose of this Agreement, and to this end the
provisions of this Agreement are declared to be severable.

12. Gross-Up Payment for Golden Parachute Taxes.

If it is determined that any payment by United to or for the benefit
of the Executive, under the Agreement or otherwise, would be subject
to the federal excise taxes imposed on golden parachute payments,
United will make an additional payment to the Executive (the
"Gross-Up Payment") in amount sufficient to cover:

- (a) Any golden parachute excise tax payable by the Executive,
- (b) All taxes on the Gross-Up Payment, and
- (c) All interest and/or penalties imposed with respect to
such taxes.

13. Withholding. Anything in this Agreement to the

contrary notwithstanding, all payments required to be made by the
Employer hereunder to the Executive shall be subject to
withholding of such amounts, at the time payments are actually
made to the Executive and received by him, relating to taxes as
United may reasonably determine it should withhold pursuant to
any applicable law or regulation. In lieu of withholding such
amounts, in whole or in part, United may, in its sole discretion,
accept other provision for payment of taxes as required by law,
provided that it is satisfied that all requirements of law
affecting its responsibilities to withhold such taxes have been
satisfied.

14. No Duty to Mitigate. After termination of

employment, the Executive will not be obligated to mitigate
damages by seeking other comparable employment, and any severance
benefits payable to the Executive will not be subject to
reduction for any compensation received from other employment.

15. Confidentiality. The Executive shall hold in fiduciary

capacity for the benefit of United all secret or confidential

information, knowledge or data relating to United, or its subsidiaries, affiliates and businesses, which shall have been obtained by the Executive pursuant to his employment by United or any of its subsidiaries and affiliates and which shall not have become public knowledge (other than by acts by the Executive or his representatives in violation of this Agreement). After termination of the Executive's employment with United, the Executive shall not, without the prior written consent of United, communicate or divulge any such information, knowledge or data to anyone other than United and those designated by it. In no event shall an asserted violation of the provisions of this Paragraph 15 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement. The Executive acknowledges and agrees that due to the confidential and proprietary nature of the Confidential Information he possesses, a breach or threatened breach by him of any of the provisions contained in this Paragraph 15 will cause United irreparable injury. Therefore, in addition to any other rights or remedies, the Executive agrees that United shall be entitled to a temporary, preliminary, and permanent injunction enjoining or restraining the Executive from any such violation or threatened violation, with the necessity of proving inadequacy of monetary damages or the posting of any bond or security.

16. Public Relations: United agrees to reasonably cooperate with Executive regarding internal and media communications concerning Executive's resignation of his Executive Positions, it being understood that United ultimately shall have sole and complete discretion regarding the timing, content, and other aspects of its internal and media communication. The initial media communication regarding Executive's resignation will be substantially in the form of Exhibit A attached hereto.

17. Indemnification. To the fullest extent permitted by law, United will indemnify the Executive (including the advancement of expenses) for any judgments, fines, amounts paid in settlement and reasonable expenses, including attorney's fees, incurred by the Executive in connection with the defense of any lawsuit or other claim to which he is made a party by reason of being or having been an officer, director or employee of UAL, United Airlines or any of their subsidiaries. In addition,

United will maintain, with coverage for the Executive, director and officer liability insurance at least as comprehensive as, and in an amount at least equal to, that maintained by United on September 1, 1998.

18. Payment of Legal and other Fees. If either party is required to seek enforcement of this Agreement, each party will be responsible for paying its own attorneys' fees and expenses.

19. Arbitration. Any controversy or claim relating to this Agreement (except for court action initiated by United to enforce the Executive's covenants as to confidentiality) will be settled exclusively by arbitration in Chicago, Illinois in accordance with the rules of the American Arbitration Association then in effect. Any arbitration award will be binding on the parties and may be enforced in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid during the pendency of any dispute or controversy arising under or in connection with this Agreement.

20. Supersedes Prior Agreement. This Agreement supersedes and voids any prior oral or written agreement relating in any way to the Executive's employment with United Airlines or UAL which may have been entered into between parties hereto. Any change to the Agreement after its Effective Date must be in writing and must be executed by United Airlines, UAL and the Executive.

21. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:
Mr. John A. Edwardson
747 Sheridan Road
Wilmette, Illinois 60091

with a copy to:
Robert J. Stucker
Vedder, Price, Kaufman, and Kammholz
222 North LaSalle Street
Chicago, Illinois 60601-1003

If to United:
1200 East Algonquin Road
Elk Grove Township, Illinois 60007
Attn: General Counsel

or to such other address as any of the parties shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) None of the provisions of the Agreement shall be deemed to be a penalty.

(d) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(e) Either party's failure to insist upon strict compliance with any provision hereof shall not be deemed to be a waiver of such provision or any other provision hereof.

(f) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(g) United and Executive, having read and understood this Agreement and having consulted with others as appropriate, hereby agree to be bound by its terms.

IN WITNESS WHEREOF, the parties have executed the Agreement as of September 18, 1998 at the World Headquarters of United Air Lines, Inc., 1200 East Algonquin Road, Elk Grove Twp., Illinois 60007.

United Air Lines, Inc.,	UAL Corporation	Executive
By:/s/ G. Greenwald	By:/s/ G. Greenwald	By:/s/ John Edwardson
Its: Chairman and Chief Executive Officer	Its: Chairman and Chief Executive Officer	John A. Edwardson

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges

	Nine Months Ended September 30	
	1998	1997
	----	----
	(In Millions)	
Earnings:		
Earnings before income taxes	\$1,173	\$1,472
Fixed charges, from below	731	728
Undistributed earnings of affiliates	(53)	(20)
Interest capitalized	(82)	(75)
	-----	-----
Earnings	\$1,769	\$2,105
	=====	=====
Fixed charges:		
Interest expense	\$ 265	\$ 213
Portion of rental expense representative of the interest factor	466	515
	-----	-----
Fixed charges	\$ 731	\$ 728
	=====	=====
Ratio of earnings to fixed charges	2.42	2.89
	=====	=====

Exhibit 12.2

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges
and Preferred Stock Dividend Requirements

	Nine Months Ended September 30	
	1998	1997
	----	----
	(In Millions)	
Earnings:		
Earnings before income taxes	\$1,173	\$1,472
Fixed charges, from below	858	823
Undistributed earnings of affiliates	(53)	(20)
Interest capitalized	(82)	(75)
	-----	-----
Earnings	\$1,896	\$2,200
	=====	=====
Fixed charges:		
Interest expense	\$ 265	\$ 213
Preferred stock dividend requirements	127	95
Portion of rental expense representative of the interest factor	466	515
	-----	-----
Fixed charges	\$ 858	\$ 823
	=====	=====
Ratio of earnings to fixed charges	2.21	2.67
	=====	=====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM UAL CORPORATION'S STATEMENT OF CONSOLIDATED OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
1,000,000

	DEC-31-1998	
	JAN-01-1998	
	SEP-30-1998	
	9-MOS	447
		447
		1,405
		0
		364
	3,191	18,621
	5,772	
	18,900	
5,908		4,767
0		0
		1
	3,305	
18,900		0
	13,280	0
	11,992	
	0	
	0	
	265	
	1,173	
	401	
768		
	0	
	0	
		0
	768	
	11.97	
	6.57	