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March 30, 2005

Bradley D. Belt  
Executive Director  
Pension Benefit Guaranty Corporation  
1200 K Street, NW  
Washington, DC 20005-4026  
[belt.bradley@pbgc.gov](mailto:belt.bradley@pbgc.gov)

Re: United Airlines Flight Attendant Defined Benefit Plan

Dear Mr. Belt:

On behalf of the Association of Flight Attendants ("AFA"), earlier today we sent to members of the Staff of the Pension Benefit Guaranty Corporation ("PBGC") a term sheet summarizing the principal terms and conditions under which AFA proposes that the UAL Corporation ("UAL") Flight Attendant Defined Benefit Plan (the "APA Plan") can be maintained. As you are aware, the Staff and representatives of the PBGC have met with AFA representatives on a number of occasions to discuss our mutual desire to explore all possibilities to continue the AFA Plan. The term sheet contemplates that the PBGC will provide financial support, in a form to be determined, as a critical component of the arrangements to preserve the AFA Plan. Without the PBGC's financial support, it is highly unlikely that AFA will succeed in negotiating to retain the AFA Plan in a reorganized UAL. AFA believes strongly that the transaction contemplated by the term sheet can form the basis on which AFA's and the PBGC's shared objective of continuing the AFA Plan can be accomplished. In addition, such a transaction will enable the PBGC to avoid significant termination liability and to fulfill an important aspect of its mission of ensuring the continued existence and solvency of defined benefit pension plans for those workers who have bargained for them.

UAL has steadfastly maintained that termination and replacement of its defined benefit pension plans is necessary if UAL is to be successfully reorganized. In UAL's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, UAL stated in its Management's Discussion and Analysis of Financial Condition and Results of Operations that "[w]e believe that in order to obtain non-guaranteed exit financing, and successfully reorganize and emerge from Chapter 11 bankruptcy proceedings, it is necessary to terminate and replace our defined benefit pension plans." AFA does not believe that UAL has seriously considered the possibility that a financially-sound, reorganized UAL can emerge from bankruptcy with the AFA Plan unchanged. UAL has sought to paint all four of its defined benefit pension plans with the same broad brush despite the existence of crucial differences between the AFA Plan and the other three defined benefit plans that UAL had historically maintained for its workforce. AFA strongly believes that important factors unique to the AFA Plan militate in favor of preserving the AFA Plan.

First, the AFA Plan, by any reasonable measure, is affordable for UAL. This is in no small part due to the significant reduction in benefits agreed to by AFA in 2003. In fact, as a result of these changes, over the next six years the actuarial "normal cost" (more or less the actuarial present value of the benefits earned) is actually less than the defined contribution plan currently offered by UAL. Accordingly, it is not as if the benefits will explode should the AFA Plan not be terminated. Indeed, the AFA Plan is clearly the least expensive pension plan for UAL to maintain. Over the next six years, the aggregate funding needs of the AFA Plan are projected to be approximately \$500 million, representing only approximately 11% of the total pension obligations of UAL in respect of the four defined benefit plans that UAL had historically maintained.

Second, although the AFA Plan provides for a very modest level of benefits for this class of non-highly compensated employees, it represents an indispensable portion of the individual participants' expected retirement income. The projected benefit at retirement for a flight attendant with an assumed salary of \$45,640 who has worked 26 years and retires at age 56 (the historical average age of a flight attendant at retirement) is approximately \$1,575 per month, hardly the foundation of a sumptuous retirement. Should UAL be permitted to terminate the AFA Plan, this average flight attendant's projected retirement benefit would be reduced to approximately \$1,000 per month, a pension benefit that might not provide for a standard of living at retirement that is above the poverty level. The defined contribution plan that UAL is proposing to substitute for the AFA Plan will replace, by UAL's own calculations, only a small fraction of the benefits that the AFA Plan is designed to provide.

Lastly, unlike any other labor group, AFA's members are offering to invest their own funds to contribute to reestablishing the solvency of the AFA Plan. AFA is prepared to contribute to the AFA Plan the UAL equity it will receive pursuant to the reorganization, obtained at the cost of nearly \$1 billion in wage and other contractual reductions, as well as any note that UAL would issue to AFA to replace the value of the

Bradley D. Belt

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benefits AFA would lose under UAL's proposal to terminate the AFA Plan. In addition, the flight attendants will forego participating in UAL's proposed defined contribution plan and instead direct that those contributions be made directly to the AFA Plan.

UAL has sought to create significant momentum towards terminating all of its defined benefit pension plans, including the AFA Plan. A clear and unambiguous indication from the PBGC that the termination of the AFA Plan is not necessary for UAL to reorganize and emerge successfully from Chapter 11 is urgently needed if the AFA Plan is to be preserved. As you know, the Section 1113 and pension termination litigation is currently scheduled to begin on April 11, 2005. AFA strongly believes that with the influence and support of the PBGC, including some form of financial participation, the AFA Plan can be preserved, thereby enabling the PBGC to carry out its mission of ensuring the continued existence of defined benefit plans for those who have bargained for them. By working with the AFA to retain the AFA Plan, the PBGC can avoid incurring the enormous liability that will result from termination and preserve the retirement security of the more than 20,000 flight attendants covered by the AFA Plan.

We appreciate your consideration of our proposal and look forward to hearing from you.

Very truly yours,

Gregg S. Lerner

cc: Jeffrey Cohen  
John Spencer  
Greg Davidowitch  
Robert Clayman

March 30, 2005

AFA DRAFT Pension Plan Funding  
Proposal Presented to PBGC

**Term Sheet to Retain  
UAL Flight Attendant  
Defined Benefit Plan**

**Objective of  
Association of  
Flight Attendants:**

- To continue in effect the United Airlines (“UAL”) Flight Attendant Defined Benefit Plan (the “Plan”), with the present benefits (as reduced in 2003) to the Association of Flight Attendants (“AFA”) unchanged.
- In order to accomplish this objective, AFA is willing to contribute, or cause to be contributed to the Plan, through direct contributions by AFA (or other amounts that UAL would otherwise pay to AFA or its members as listed below under “Sources of Funding”), a portion of the amounts necessary to fund the unfunded pension benefit obligation.

**Pension Benefit  
Guaranty  
Corporation:**

- It is expected that the Pension Benefit Guaranty Corporation (“PBGC”) will provide funding to the Plan, either through a cash contribution, loan guarantee, pension bond, or other acceptable consideration, in an amount sufficient to fund, together with AFA’s contributions, the full amount of UAL’s annual unfunded pension obligation to the Plan through December 31, 2010. In addition, PBGC will provide, or cooperate in obtaining, Internal Revenue Service funding waivers or restructurings and other satisfactory funding arrangements) and other accommodations in order to facilitate the continuation of the Plan and avoid the PBGC assuming liability resulting from terminating the Plan.
- The PBGC will work with AFA and UAL to determine the most cost-effective means to achieve this objective.

**Sources of  
Funding:**

**Amount**

- Value of UAL Common Stock \$150- 250 million to be received in bankruptcy based upon value of:
  - (i) AFA’s unsecured claim arising from prior wage reductions (\$972 million),
  - (ii) the estimated amount of the PBGC funding obligation if the Plan is terminated (\$1.8 billion),

(iii) current estimates of total allowed unsecured claims (\$25 billion), and  
(iv) the projected aggregate common equity value of UAL post-bankruptcy (between \$1.5 and \$2.5 billion). Specified amounts of the UAL equity to be received by AFA pursuant to the reorganization shall be contributed to the Plan by UAL annually as agreed upon by UAL and AFA.

- Defined Contribution Plan payments that UAL has proposed to make in lieu of payments under the Plan @ 4% per year through 2010 (\$27.5 million per year for six years). \$165 million
- Note of like tenor to the note received by ALPA from UAL in consideration for terminating the pilots' defined benefit plan in a principal amount equal to the equivalent benefit afforded to the pilots for terminating their Defined Benefit Plan (AFA may seek to monetize the value of this note by reselling it and contributing the cash proceeds to the Plan). \$ \_\_\_ million
- PBGC contribution, either through a cash contribution, loan guarantee, pension bond or other acceptable consideration. \$ \_\_\_ million

April 4, 2005

AFA Pension Plan Funding Proposal,  
Incorporating PBGC Changes and  
Presented to United

**Term Sheet to Retain  
UAL Flight Attendant  
Defined Benefit Plan**

**Objective of  
Association of  
Flight Attendants:**

- To continue in effect the United Airlines (“UAL”) Flight Attendant Defined Benefit Plan (the “Plan”), with the present benefits (as reduced in 2003) to the Association of Flight Attendants (“AFA”) unchanged.
- In order to accomplish this objective, AFA is willing to contribute, or cause to be contributed to the Plan, through direct contributions by AFA (or other amounts that UAL would otherwise pay to AFA or its members as listed below under “Sources of Funding”), a portion of the amounts necessary to fund the unfunded pension benefit obligation.
- AFA, UAL, and the Pension Benefit Guaranty Corporation (“PBGC”) will work jointly to determine the most cost-effective means to achieve this objective.

**Sources of  
Funding:**

**Amount**

- Value of UAL Common Stock to be received in bankruptcy based upon value of:  
(i) AFA’s unsecured claim arising from prior wage reductions (\$972 million),  
(ii) the estimated amount of the PBGC funding obligation if the Plan is terminated (\$1.8 billion),  
(iii) current estimates of total allowed unsecured claims (\$25 billion), and  
(iv) the projected aggregate common equity value of UAL post-bankruptcy (between \$1.5 and \$2.5 billion). Specified amounts of the UAL equity to be received by AFA pursuant to the reorganization shall be contributed to the Plan by UAL annually as agreed upon



by UAL and AFA.

- Defined Contribution Plan payments that UAL has proposed to make in lieu of payments under the Plan @ 4% per year through 2010 (\$27.5 million per year for six years). \$165 million
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- UAL will apply to the Internal Revenue Service ("IRS") for waivers of its minimum funding contributions under Section 412 of the Internal Revenue Code, which request will be fully supported by AFA. The PBGC will give due consideration to the waiver request(s) and will provide its views to the IRS.
- The PBGC will contribute, if necessary, either through a cash contribution, loan guarantee, pension bond or other acceptable consideration an amount sufficient to fund, together with the above sources of funding, the full amount of UAL's annual \$ \_\_\_\_ million

unfunded pension obligation  
to the Plan through December  
31, 2010.