

UAL CORPORATION

1996

ANNUAL

REPORT

cus•tom/er (kus'təmər) *n.*

1 a person who buys, esp. one who buys from, or patronizes, an establishment regularly *2* [Colloq.] any person with

whom one has dealings

sat•is•fac•tion (sət'is fak'shən) *n.* *1* fulfillment of

a desire, wish, need or expectation *2* anything

that brings gratification, pleasure or contentment

phi•los/o•phy (fə'lās'əfē)

n., pl. -phies *1* orig., love of, or the search for, wisdom

or knowledge *2* a particular system of principles for the

conduct of life

cus•tom/er sat•is•fac•tion

phi•los/o•phy *n.* *1* the

driving force at United

today *2* the reason United

will be the airline of

choice worldwide tomorrow

Note: *The financial review section of this annual report is shorter than the financial review section in previous publications. Those parties seeking additional financial information should either refer to their proxy statement for the 1997 annual meeting of stockholders or request supplementary material per the stockholder information section.*

u•nit•ed

1: to bring together
to form a whole

2: to combine people
in interest, attitude
or action

3: to cause to
adhere; to bond

4: to become joined,
formed or combined
into a unit

Becoming the

To Our Owners and Employees:

It's been an amazing two-and-a-half years. Since the creation of the Employee Stock Ownership Plan (ESOP) that made the company's employees its majority owners, we've redefined this company and shown the industry that there is a better way to run an airline.

As in most things, the final measure of what we've accomplished is the bottom line. And we're pleased to report that even in the face of intense global competition, increasing fuel costs and adverse foreign exchange rates, our results have been terrific.

- Our net earnings were \$1 billion (\$7.32 per share) before extraordinary items, on a pro forma fully distributed basis — and this was our second record year in a row.
- Our available seat miles and revenue passenger miles also led the industry, as a record 82 million passengers boarded our planes.
- Our common stock jumped 40 percent in value in 1996, adjusted for a four-for-one stock split in May.
- We used our strong cash flow to prepay debt — which improved our balance sheet — and to bring our U.S. pension plans to a fully funded level.
- Teams throughout the company made dramatic improvements in service, helping our fully distributed adjusted pre-tax margin come in at a better-than-expected No. 3 ranking among our global peer group.

- We won three of the travel industry's top customer service awards, and for the first time in our history, we were the official airline for both the Republican and Democratic National Conventions.

We proved something in 1996. Employee ownership works. But we also learned something. It does not exempt us from the kinds of workplace issues that have been an unfortunate signature of this industry throughout its history.

This year marked the midpoint of the ESOP that transformed United Airlines two-and-a-half years ago. Under the plan, employees would forgo market-rate wages and benefits in return for ownership and compensation in the form of ESOP shares. Also under the plan, employee wages were to be reviewed in 1996 to ensure that they did not fall further behind those of the industry during the second half of the ESOP.

In March 1997, our pilots and mechanics reached tentative agreements that call for two increases of five percent each that, along with other improvements, will go into effect in July of 1997 and July of 1998. The agreements also provide for restoration in the year 2000 of wage rates for the two groups to pre-ESOP levels. Reaching this agreement was a long, difficult and public process that included the pilots and mechanics rejecting the tentative wage agreements worked out in 1996.

The rejection of the prior tentative agreements and the adversarial climate surrounding it was a



disappointment. But from it we learned that we have to listen to each other and communicate more openly, more aggressively, and more often. It told us that we still have work to do in breaking down the walls of mistrust that have prevailed in this industry for far too long.

We have redoubled our efforts to create a culture of cooperation and trust through a program called Vision 2000. The core of Vision 2000 is a commitment to competitive compensation and universal profit-sharing that will allow all employees as well as shareholders to benefit from superior financial performance resulting from improved customer service.

Trends are good, strategy is clear.

Looking ahead to 1997, the external trends look good: moderate economic growth, a firm grip on industry capacity, and projected lower fuel prices.

We're heading into this encouraging scenario guided by our Quality Flight Plan, a five-year strategic plan based on improving our onboard product and services; retiring and replacing older aircraft, while keeping capacity in check; strengthening our balance sheet; and transforming our culture.

We've also set three specific objectives within that plan for 1997: to improve our on-time reliability, to be our customers' airline of choice, and to continue to improve our financial performance.

When it comes to reliability, customers tend to blame late arrivals on the weather or traffic, but they

blame the airline for late departures. Our goal is for 68 percent of our departures to leave within five minutes of schedule, which would be a seven-point improvement over 1996. With minimal added resources, by earlier and faster boarding, we believe this is a realistic target.

We're working to improve customer satisfaction through a combination of better services and products — toward the goal of being the customer's airline of choice. Guiding us is our Customer Satisfaction Philosophy, the culmination of two years of research and conversations with more than 2,000 customers. They told us exactly what they want from an airline — candor, hassle-free service, global access, recognition for loyalty, comfort, and warm and genuine attention from staff.

We don't think that's a lot to ask. And we're investing throughout the company to provide it — through changes such as more comfortable seats; an additional flight attendant on long-haul flights; the new Arrivals by United® lounges where passengers can relax and even take a shower; our new "FastAIR" electronic processing system; as well as many smaller touches, such as serving Starbucks coffee on board.

These improvements, of course, cost money. We're investing more than \$400 million to upgrade aircraft interiors, alone. But it's an investment in our future — and we're already seeing dividends. Our passenger



revenues were up 9 percent for the year, and our yields were up 5 percent. Our share of the critical U.S. domestic high-yield market jumped almost two points.

We also won important industry recognition. We were the first American carrier to be named Best Transatlantic Airline by Britain's *Executive Travel* magazine. Mileage Plus® won the Freddie Award as the best frequent flyer program. And *Onboard Services* magazine named us the best out of 40 global airlines in passenger comfort, enjoyment and safety.

Our third objective for 1997 is to generate a fully distributed pre-tax margin in the top 20 percent of our peer group — 10 U.S. and eight non-U.S. carriers. Our strong performance in 1996 gives us the momentum to reach this objective in 1997 — and it's one more step toward our longer-term goal to rank consistently in the top 10 percent.

We're creating a new airline from a common direction. In closing, if you check the dictionary definition of "united," it means combining people in interest, attitude and action. That is exactly what we've been doing for the past two-and-a-half years. As we learned in 1996, creating a common mindset is not easy. But it's working.

Because of United's people, we're a vastly different airline from the one that began the 1990s — stronger, leaner and much more focused on the issues that keep customers coming back.

But we can be better. We see an airline that is the clear No. 1 choice of customers. We see the return of our investment-grade rating. We see our retire-and-replace program creating a fleet that keeps capacity in check, but that can grow with demand. And, although this is in the more distant future, we see an airline with the strength to provide some form of shareholder dividend or stock repurchase program.

That is our vision of what it means to be best in the business. Our thanks to the people of United and to our shareholders for all you've done to help us work toward achieving it.

Gerald Greenwald
Chairman and
Chief Executive Officer

John A. Edwardson
President and
Chief Operating Officer

March 15, 1997

Financial Highlights and Operating Statistics

(In Millions, Except Per Share, Rates and Aircraft)

	Year Ended December 31,		
	1996	1995	1994
Financial Highlights – Generally Accepted Accounting Principles Basis			
Operating revenues	\$ 16,362	\$ 14,943	\$ 13,950
Operating expenses	\$ 15,239	\$ 14,114	\$ 13,429
Earnings from operations	\$ 1,123	\$ 829	\$ 521
Earnings before extraordinary item and cumulative effect of accounting change	\$ 600	\$ 378	\$ 77
Net earnings	\$ 533	\$ 349	\$ 51
Per share, fully diluted:			
Earnings before extraordinary item and cumulative effect of accounting change	\$ 5.82	\$ 5.18	\$ 0.19
Net earnings (loss)	\$ 5.04	\$ 4.78	\$ (0.15)
Average number of common shares assumed outstanding	85.0	71.7	75.2
Financial Highlights – Pro Forma Fully Distributed Basis⁽¹⁾			
Operating revenues	\$ 16,362	\$ 14,943	N/A
Operating expenses	\$ 14,554	\$ 13,610	N/A
Earnings from operations	\$ 1,808	\$ 1,333	N/A
Earnings before extraordinary item and cumulative effect of accounting change	\$ 1,027	\$ 692	N/A
Net earnings	\$ 960	\$ 662	N/A
Per share, fully diluted:			
Earnings before extraordinary item and cumulative effect of accounting change	\$ 7.32	\$ 5.35	N/A
Net earnings	\$ 6.81	\$ 5.13	N/A
Average number of common shares assumed outstanding	131.5	130.5	N/A
United Airlines Operating Statistics			
Revenue passengers	82	79	74
Revenue passenger miles	116,697	111,811	108,299
Available seat miles	162,843	158,569	152,193
Passenger load factor – system	71.7%	70.5%	71.2%
Domestic	70.6%	69.3%	69.8%
Pacific	73.6%	72.6%	74.5%
Atlantic	78.8%	78.2%	76.8%
Latin America	63.7%	63.0%	62.9%
Breakeven passenger load factor	66.0%	66.1%	68.2%
Breakeven passenger load factor excluding ESOP charges	62.6%	63.4%	66.8%
Passenger revenue per passenger mile (yield)	12.35¢	11.79¢	11.31¢
Operating revenue per available seat mile	10.02¢	9.39¢	9.12¢
Operating expenses per available seat mile	9.33¢	8.87¢	8.79¢
Operating expenses excluding ESOP charges per available seat mile	8.91¢	8.55¢	8.64¢
Revenue ton miles	16,444	13,440	12,906
Cargo ton miles	2,387	2,259	2,076
Available ton miles	23,404	22,639	21,656
Average price per gallon of jet fuel	72.2¢	59.5¢	58.8¢
Gallons of jet fuel consumed	2,883	2,822	2,697
Number of aircraft in operating fleet at end of year	564	558	543
Average age of aircraft at end of year (years)	10.9	10.7	10.0

⁽¹⁾See page 14 for further explanation of the methodology. The employee investment transaction occurred July 12, 1994; therefore, full-year 1994 fully distributed information is not applicable.

REVIEW OF OPERATIONS

1996
A record
setting
year...
...thanks
to United's
86,000
employees.

Quality Flight Plan

1996 was a phenomenal year for UAL Corporation. The company set records for:

- operating revenues;
- net earnings (before extraordinary charges);
- available seat miles, or capacity;
- revenue passenger miles, or traffic; and
- number of passengers carried.

It was also the third consecutive year for the company to generate a profit. United reported more than \$1 billion in net earnings, on a pro forma fully distributed basis; on the same basis, earnings per share were \$7.32. The company achieved these strong results despite the average price of fuel escalating by 21 percent.

Much of the credit for UAL's impressive success in 1996 goes to United's 86,000 employees. Because of their efforts, United is well on track with its "Quality Flight Plan," the company's five-year strategic plan. This plan, started in 1995, is guiding the company's planning and decision making as it heads toward the year 2000.

United's "Quality Flight Plan"

- *Improving Product and Services*
 - *Empowering Employees*
 - *Strengthening the Balance Sheet*
 - *Upgrading the Aircraft Fleet*
-

Improving Product and Services

United made significant headway during the year in improving its product and services — from restructuring routes to providing its customers with more of what they require of a premier global airline.



*United laid the groundwork
for CSP...*

In 1996 the company laid the groundwork for its innovative new approach to customer service and product planning, the “Customer Satisfaction Philosophy” (CSP). Designed around the responses of more than 2,000 customers about what constitutes a premier airline, CSP’s goal is to more clearly define and differentiate United as the global airline of choice. Six principles form the framework of CSP:

- Candor and responsibility
- Unsurpassed global access
- Recognizing and rewarding loyalty
- A simpler, more hassle-free travel experience
- Comfort is the foundation, enjoyment is the ideal
- Warm and genuine attentiveness to each traveler’s needs

To launch its CSP initiatives, United targeted an area that its customers agreed needed improvement — the onboard product. United’s aircraft interior renovation project will result in improved seats, entertainment, technology and decor.

*...investing \$400 million in an interior
upgrade program...*

The first phase of the project, begun in 1996, is the installation of improved seats in the Connoisseur cabins of the Boeing 747-400 aircraft for international flights. Ergonomically designed with a lumbar support system, adjustable headrests, reading lamps and more leg room, these state-of-the-art seats provide customers with premium comfort.

Other onboard initiatives during the year included improved food service — with the expert assistance of one of United’s new partners, the Culinary Institute of America. And the addition of one more flight attendant

on United’s long-haul B757 flights means that Economy passengers are getting more service.

Initiatives were not limited to the onboard product; ground services saw enhancements as well. United began installing “FastAIR,” an electronic airport processing system that speeds up the ticketing, baggage and check-in process, reducing line waits.

In addition, United opened two new Federal Inspection Services (FIS) facilities at the Los Angeles and Washington Dulles airports. These new facilities translate into reduced connection times between international and domestic flights for United customers.

*...using innovative technology to
promote hassle-free service...*

To improve the quality of the overall flight experience of United’s premium customers, the company introduced Arrivals by United® lounges in September. First Class and Connoisseur Class customers can relax and shower in privacy, enjoying amenities and services designed to make frequent flying a more civilized experience. Arrivals by United lounges are in place in London Heathrow, Chicago O’Hare and Miami International airports — and in 24 other locations, the same service is available in nearby world-class hotels.

Mileage Plus®, United’s award-winning frequent flyer program, was another area targeted under CSP. Revisions to the Mileage Plus program mean that flight miles earned with United’s alliance partners — Air Canada, Lufthansa, SAS and Thai Airways — now count toward Premier and Premier Executive status. The program continues to garner recognition as one of the leading programs in the industry — for the third consecutive year, Mileage Plus won the coveted Freddie Award from *InsideFlyer* magazine for the best frequent flyer program.

These and other efforts that customers experience firsthand when they travel with United were complemented by many structural improvements throughout



the company — improvements which, although not always seen by customers, magnify the company's ability to offer them better services and product. Examples include new ground equipment that will enhance reliability, and improved computer equipment and programs that will promote more efficient operations throughout United.

*...and improving the
company's infrastructure.*

United continued to lead the way in major technological innovations in 1996. One such advancement is the 4DPLAN, a new flight-planning system that for the first time fully integrates the four flight-planning dimensions of latitude, longitude, altitude and speed. United was the first airline to introduce this cutting-edge technology, which greatly enhances flight operation capabilities and also helps control costs by reducing flight time and fuel consumption.

The innovations that make up United's Customer Satisfaction Philosophy will continue over the next several years. The money dedicated to these efforts works toward overall improvements that not only reduce costs in various areas but also enhance every aspect of the company — promoting greater customer satisfaction which in turn helps make United the airline of choice worldwide.

Empowering Employees

United's employees made considerable progress in 1996 in creating a new corporate culture based on personal involvement and empowerment. On many levels, from teamwork to career advancement to community involvement, United's people are transforming the way they work. Teamwork remains an integral part of United's new culture. Cross-functional employee task teams continued to generate practical suggestions for

streamlining operations, improving customer service and cutting unnecessary costs — everywhere from boarding gates to baggage rooms to aircraft cabins.

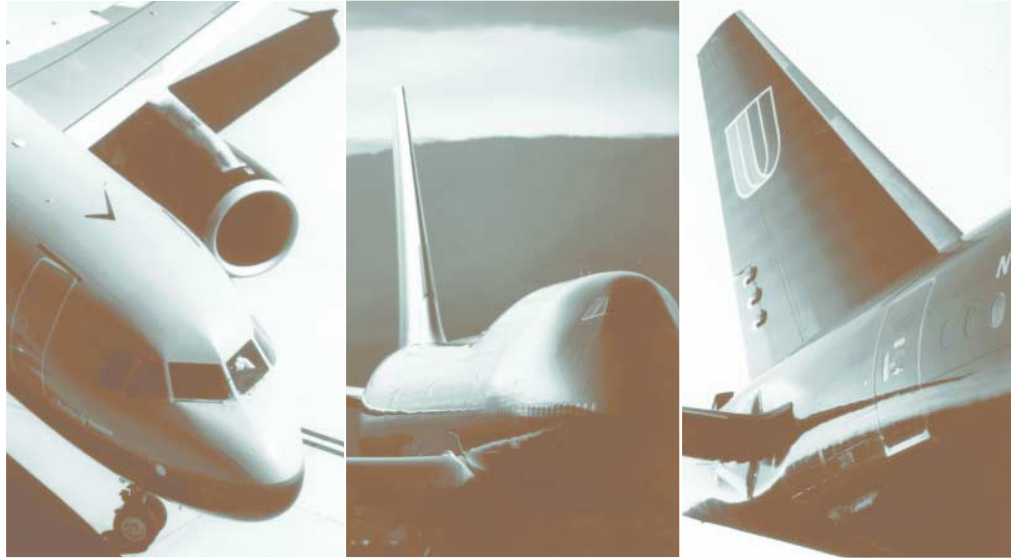
In 1996, more than 22,000 of United's 86,000 employees participated in Mission United and Cultural Leadership Training. At Mission United, employees learn firsthand what constitutes United's corporate vision and corporate values — and how they work together. Cultural Leadership Training, designed for United's supervisory management, focuses on developing better leadership and communication skills. These programs enhance management-employee communications, teamwork and leadership — with the ultimate goal of creating a more open, trusting work environment for all United employees.

*United's people continued
to transform their culture to a more
open, trusting environment.*

Despite the company's progress in creating a new corporate culture since inception of the Employee Stock Ownership Plan in 1994, there is more work to do. To re-invigorate the process, senior management has proposed holding a culture summit in 1997 during which representatives from all employee groups — pilots, machinists, flight attendants, management and salaried employees — would meet to review the company's progress so far and plan future improvements.

Strengthening the Balance Sheet

During 1996, United continued to strengthen its balance sheet by repurchasing more than \$600 million in principal amount of debt. Also benefiting the company's financial position was the conversion of convertible debt, which eliminated \$545 million of debt and increased shareholders' equity by \$218 million.



The company used the year's strong cash flow to improve its financial standing.

In addition to the early debt retirements, UAL repurchased approximately \$60 million of its Series B Preferred Stock. This action reduced dividend payments and improved the company's cash flow — important criteria for investors and rating agencies. Taken together, these transactions saved the company more than \$100 million in gross interest and dividend payments.

Acknowledging United's improved credit situation, Standard & Poor's Ratings Services (S&P) revised the company's rating outlook from stable to positive in November 1996. A positive outlook indicates the possibility that the agency may raise or upgrade the company's credit rating. According to S&P, such an upgrade would require continued strong earnings and cash flow, plus further progress on rebuilding the balance sheet.

Upgrading the Aircraft Fleet

During 1996, United continued implementing its "Retire and Replace" fleet program. The program reduces the fleet's operating costs, ensures that the fleet meets the Federal Aviation Administration Stage III noise requirements by year-end 1999, and increases fleet commonality — which simplifies training, maintenance and scheduling.

As part of the program, United placed orders in 1996 for 24 A319s, 19 B747-400s, 6 B757s and 2 B777s to replace aircraft scheduled for retirement. The aircraft ordered during 1996 are scheduled for delivery between 1997 and 2002.

The company agreed to exchange 36 of its DC10-10s with Federal Express for 59 B727-200A hush kits. The hush kits will enable these aircraft to meet the FAA Stage III requirements by year-end 1999.

In addition, in early 1997, the company adjusted its retire and replace program by ordering seven growth aircraft — three A320s and four A319s — with delivery scheduled to begin in 1998.

United placed this new order to take advantage of increasing customer demand for service; demand which has resulted from two of the company's strategies — focusing on key cities and increasing global access through alliances. Due to constraints on aircraft availability, the original fleet plan did not allow United to meet these opportunities. The new growth aircraft order will allow United to take advantage of profitable market opportunities.

The "Retire and Replace" fleet plan progressed with aircraft orders and retirements.

This order ties into a broader vision for United's future, one that has four sequential steps in order of priority: 1) to strengthen the balance sheet, 2) to upgrade the fleet with the retire and replace program, 3) to grow profitably, and 4) to return cash to shareholders.

United has made tremendous progress toward the first step in improving its credit standing. For the second step, orders are in place for new aircraft to replace most of the older aircraft scheduled to retire. United is therefore now in the position to move on to the third step — growing the airline profitably — and this was a driving factor behind the additional aircraft order placed in 1997.

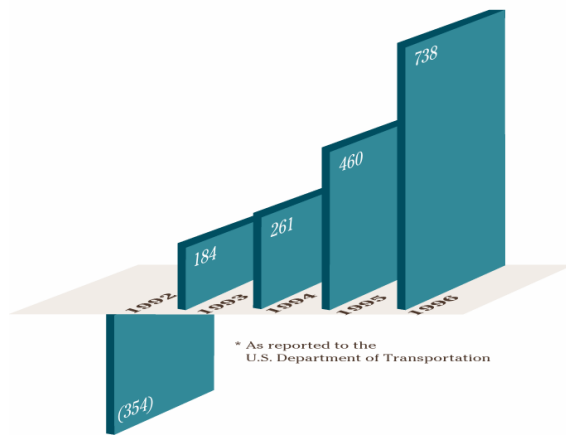
Once the company successfully accomplishes the first three steps of its vision, then further out in the future it can consider moving on to the fourth step — returning cash to shareholders through stock repurchase or dividends.

Performance by Major Business Segment

North America

The North America market, United's largest, was the most significant contributor to the company's impressive performance for the year. Accounting for 66 percent of United's revenues, North America saw a solid 9 percent jump in passenger unit revenues (passenger revenue per available seat mile).

North America Operating Earnings*
In Millions of Dollars



Some of the increase was due to the eight-month delay in the reimposition of the 10 percent federal ticket tax. While the entire airline industry benefited from the delay, United's U.S. domestic passenger unit revenue grew faster than the industry average for every month of 1996.

United's high-yield market share grew, reflecting improved product and services.

Driving the unit revenue growth was a strong 7 percent increase in U.S. domestic passenger yield (domestic passenger revenue per revenue passenger mile). A key factor was the increase in United's high-yield market share of

almost two points — and contributing to this increase was the company's improved product and services.

The strong U.S. domestic results point to the success of United's strategy of building the company's presence in its key cities of Chicago, Denver, San Francisco and Los Angeles. The transcontinental and Chicago markets, in which United has a leading market share, were the strongest U.S. domestic markets for the year. The market to show the greatest improvement was the West Coast.

Shuttle by United®

In 1995, United began strategically adjusting its Shuttle by United routes. The adjustments primarily consisted of shifting flying to markets anchored by United's hubs in San Francisco and Los Angeles. After completing these changes in early 1996, the financial performance of the Shuttle improved significantly.

The Shuttle became a powerful tool to compete with low-cost carriers on short routes and connect passengers to long routes.

This successful realignment of the Shuttle led to its expansion. In October 1996, six San Francisco routes were converted from mainline flying to the Shuttle. In February 1997, the Shuttle expanded to Denver with the inauguration of Denver-Las Vegas and Denver-Phoenix service. Also in February, the Shuttle began flying Los Angeles-Tucson, a route United had not previously served.

With 57 B737s dedicated to its operations, Shuttle by United now serves 20 cities in the Western U.S. and offers 452 daily departures. It accounts for approximately 5 percent of United's total capacity.

The Shuttle's lower cost structure allows United to compete more effectively with low-cost, low-service carriers on short-haul routes. Shuttle by United also provides critical connecting passengers for long-haul routes from United's hubs.



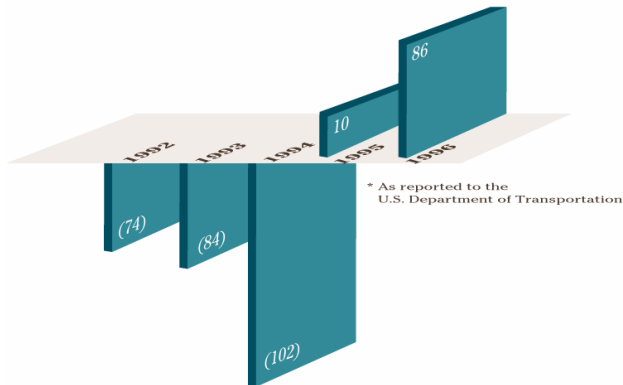
International

Serving 39 destinations in 29 foreign countries and two U.S. territories, United remains the largest U.S. carrier serving the international marketplace. International revenue accounts for just over one-third of United's total revenue. For the second consecutive year, all of United's international regions posted operating profits.

Atlantic

The Atlantic was the most improved of the international regions, with 1996 operating earnings of \$86 million dramatically capping a turnaround from a \$102 million loss in 1994. The company made three strategic moves to spur the turnaround. First, route realignment focused on key profitable markets. Second, service improvements, including the introduction of the B777, improved yields. Third, traffic from alliance partners boosted revenues.

Atlantic Operating Earnings*
In Millions of Dollars



As a result of route reevaluation, in 1996 United discontinued its Washington, D.C.-Madrid and Los Angeles-Paris service, and reduced the frequency of the New York-London service.

The Atlantic continued its dramatic turnaround.

Evidence that United is strengthening its presence in the Atlantic comes not only from its improved financial performance, but also from industry recognition: *Executive Travel*, a British publication for frequent flyers, named United the Best Transatlantic Airline early in 1997, the first time an American carrier won the award.

The company plans to expand its Chicago-London Heathrow service in April 1997, adding a second nonstop flight during the spring and summer months. Frankfurt service will also be expanded in 1997 by adding a second nonstop flight from both Chicago and Washington, D.C.

Pacific

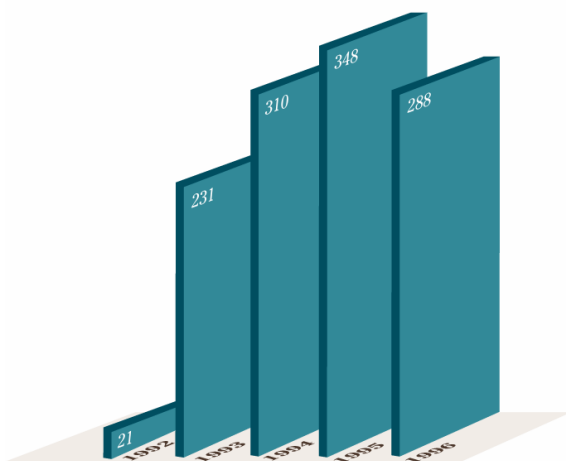
The Pacific contributes more operating profit to United than any other international region. However, the region's profitability suffered in 1996 from the weak revenue performance in the Japanese market, as fare increases failed to offset the yen's decline. Other markets in the region, such as the South Pacific market, did show an earnings improvement for the year.

United's largest international contributor, the Pacific was hurt by the weak yen.

United, the leading U.S. carrier in the Pacific, continued to improve service and expand its customer base during 1996. Building on its existing network of operations that serve Asia from United's hub in Tokyo, the company added service last summer between Kansai International Airport, near Osaka, Japan, and Seoul, Korea. This is part of United's strategy to expand its services from both Tokyo and Osaka, exercising the rights it gained to fly to markets beyond Japan — which will in turn allow United to take advantage of the many opportunities available in the emerging markets of Southeast Asia.



Pacific Operating Earnings*
In Millions of Dollars



* As reported to the U.S. Department of Transportation

In addition to expanding its hub network in the Pacific, in July United launched its Chicago-Hong Kong seasonal nonstop service, the longest commercial route in airline history at 7,788 miles. Representing a significant enhancement to the company's Pacific service, the nonstop B747-400 flight was made possible by the innovative satellite-based technology known as Future Air Navigation System (FANS-1). The FANS-1 technology enables aircraft to use the most efficient routes and altitudes, saving time and money; it also enables United to use air space routes over Siberia.

Latin America

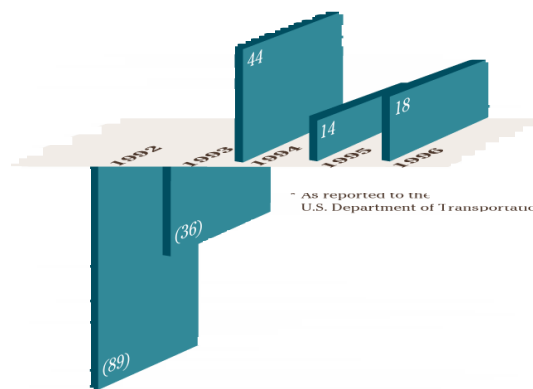
The Latin American region, like the Atlantic, posted improved operating earnings for the year. The region's gains coincided with the economic rebound of several Latin American countries, which continue to recover from the Mexican peso devaluation shock of 1994.

Contributing to United's performance in the region were service improvements and route expansion. In March 1996, United became the first airline to offer B777

Strong economic recoveries and enhanced service improved Latin American performance.

service to Latin America. In May, United added new service between Lima, Peru, and Santiago, Chile. In 1997, United plans to introduce daily service between Chicago and Sao Paulo, Brazil. Today, the company serves 12 destinations in 10 countries in Latin America.

Latin America Operating Earnings*
in Millions of Dollars



* As reported to the U.S. Department of Transportation

United's Alliance Network

In 1996 United welcomed several new partners to its alliance network, while also enhancing its existing agreements.

Joining United's alliance network in 1996 were SAS in Europe and Saudia in the Middle East. Additionally, new agreements were signed with Air New Zealand in the Pacific, and Aeromexico and Mexicana in Latin America.

As of April 1997, United's alliance partners totaled 17, and through the code-sharing provisions, United can offer its customers more than 670 flights daily in 190 markets.

Its growing alliance network enables United to extend its global reach, which in turn means providing better

United's Alliance Partners

Carrier	Average Daily Departures (As scheduled for April 1997)	Markets
<i>North America</i>		
Air Canada	75	27
ALM/Antillean	11	6
Aloha	69	4
Cayman	9	4
Gulfstream	148	25
<i>Europe</i>		
British Midland	63	12
Lufthansa	196	70
SAS	29	12
<i>Latin America</i>		
Aeromar	33	16
Aeromexico	2	1
Mexicana	*	*
<i>Middle East/Gulf</i>		
Emirates	2	1
Saudia	1	1
<i>Pacific</i>		
Air New Zealand	*	*
Ansett - Australia	32	13
Ansett - New Zealand	4	2
Thai	*	*

*Agreements signed; code-sharing due to begin after April 1997.

service to its customers worldwide. It also significantly enhances the company's revenues — by more than \$100 million in 1996.

One of United's objectives in 1996 was to strengthen its relationship with Lufthansa; this objective was realized in the second quarter when the U.S. Department of Transportation and its German equivalent granted the two airlines antitrust immunity. This historic move paved the way for both airlines to work as a single entity in developing an integrated, global network of services, providing both airlines' customers the seamless international travel capabilities they desire.

Alliances augmented United's revenues by more than \$100 million.

Following the May antitrust immunity decision, United and its alliance partners Lufthansa and SAS were awarded trilateral antitrust immunity in November, when United and SAS also received bilateral antitrust immunity. United and Air Canada also filed for antitrust immunity.

United's Chicago-Dusseldorf service began in June as a code-share alliance with Lufthansa. This highly successful service exemplifies the type of expanded service code-sharing makes possible when branching into new markets that would otherwise be uneconomical for a single airline. Both airlines benefit from the traffic of each others' passengers — without a significant increase in costs.

An industry leader in the development of these strategically important global alliance networks, United dedicated considerable time and effort during the year to promote the alliance system. United regards the alliance system as the cornerstone of the future in commercial aviation. Because of that, it remains committed to the customer focus that forms the heart of the alliance structure. United and its alliances have positioned the company to be the industry leader — both now and in the future.

Cargo

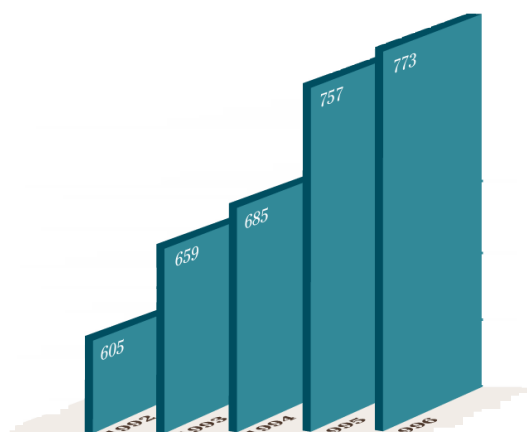
Solidly contributing to United's performance for the year were the strong sales of its Cargo Division, which surpassed by 4 percent those of its closest competitor in the U.S. passenger/freight carrier category. Cargo revenues increased 2 percent over 1995 to total \$773 million, helping United maintain its position as the largest U.S. passenger/freight carrier. Cargo revenues account for approximately 5 percent of United's 1996 operating revenues.

United remained the largest U.S. passenger/freight carrier.

In March 1997, United launched dedicated freighter service between the U.S. and Asia, the first time the company offered dedicated freighter service internationally. For this service, United plans to convert four of its DC-10 aircraft to freighter configuration. The dedicated freight operations link North America (Chicago, Los Angeles and Anchorage) to Asia (Osaka, Taipei and Manila). Service for New York, San Francisco and Tokyo is scheduled to begin in September 1997.

As part of its commitment to cargo operations, United has begun work on a state-of-the-art cargo facility at New York's John F. Kennedy International Airport. The new facility is scheduled to open in April 1997.

Cargo Revenue
In Millions of Dollars



Fully Distributed Earnings

While United reports its earnings under GAAP — Generally Accepted Accounting Principles — a more complete understanding of United's performance may

be gained by viewing the results on a pro forma, fully distributed basis. This method considers all ESOP shares that will be issued to employees throughout the ESOP

UAL Corporation's 1996 Earnings: GAAP Basis and Fully Distributed Basis

(In Millions, Except Per Share)	GAAP Basis	Fully Distributed Basis
Earnings		
Operating revenues	\$ 16,362	\$ 16,362
Operating expenses (excluding ESOP charge)	(14,554)	(14,554)
ESOP compensation expense	(685)	N/A
Operating earnings	1,123	1,808
Non-operating expense	(153)	(153)
Earnings before income taxes and extraordinary item	970	1,655
Provision for income taxes	(370)	(628)
Earnings before extraordinary item	600	1,027
Extraordinary loss on debt extinguishment, net of tax	(67)	(67)
Net earnings	533	960
Preferred stock dividends; adjustment for preferred stock transactions; other adjustments	(105)	(65)
Earnings attributable to common shareholders	\$ 428	\$ 895
Shares		
Average common shares outstanding	56.1	56.1
ESOP preferred shares assumed outstanding	24.0	70.5
Other	4.9	4.9
Total shares assumed outstanding	85.0	131.5
Per share, fully diluted		
Earnings before extraordinary item	\$ 5.82	\$ 7.32
Extraordinary item, net of tax	(0.78)	(0.51)
Net earnings	\$ 5.04	\$ 6.81



period to be immediately outstanding, thus “fully distributed.” Consistent with this approach, the “ESOP compensation expense” — which reflects the commitment of stock to employees — is excluded from fully distributed expenses, and ESOP convertible preferred dividends are not deducted from earnings attributable to common stockholders.

Under GAAP, the ESOP compensation expense fluctuates with the market price of UAL common stock, thus registering as an increased expense when UAL’s stock price is rising.

The current relationship of earnings and earnings per share as computed on a GAAP basis versus a pro forma fully distributed basis may not be representative of the relationship in future periods because of various factors. These factors include: the dependence of ESOP compensation expense on the common stock price; trends and commitments with respect to wages; and the increasing number of shares assumed outstanding under the GAAP basis during the remainder of the ESOP period.

The table on the preceding page compares UAL Corporation’s 1996 results on the pro forma, fully distributed basis to the results reported under GAAP.

Positioning United for Continued Success...

Recapping the factors that contributed to United’s strong performance in 1996, the company:

- improved its product and services in the form of United’s “Customer Satisfaction Philosophy”;
- increased the market share of U.S. domestic high-yield customers;
- strengthened presence in key cities such as Chicago, Denver, San Francisco and Los Angeles;
- improved the financial performance of the “Shuttle by United”;
- improved results in the Atlantic division, previously an area of weakness, and now one of the company’s star performers;
- expanded cargo operations to include a dedicated international fleet in 1997; and
- significantly expanded United’s global alliance network in Europe, Asia and North America.

These achievements, together with United’s focused objectives guiding it to the future, favorably position the company for another strong year in 1997.

United's Aircraft Fleet

As of December 31, 1996	Average Seats	Number of Aircraft	Owned	Leased		Average Age (Yrs)
				Operating	Capital	
A320	144	36	4	32	–	2
B727-222A	147	75	59	–	16	18
B737-200	109	38	38	–	–	28
B737-200A	109	24	24	–	–	17
B737-300	126	101	10	91	–	8
B737-500	108	57	27	15	15	5
B747-100	434	14	14	–	–	25
B747-200	346	9	2	7	–	18
B747-400	387	26	5	21	–	5
B757-200	188	92	37	50	5	5
B767-200	168	19	19	–	–	14
B767-300ER	206	23	3	19	1	4
B777-200	292	16	3	4	9	1
DC10-10	287	26	18	1	7	21
DC10-30	298	8	3	4	1	17
Total		564	266	244	54	11

As of December 31, 1996*	Delivery Schedule for Aircraft on Order			Total on Order
	1997	1998	1999 and Beyond	
A319	4	15	5	24
A320	5	9	–	14
B747-400	6	4	11	21
B757-200	2	3	1	6
B777-200	14	4	2	20
Total	31	35	19	85

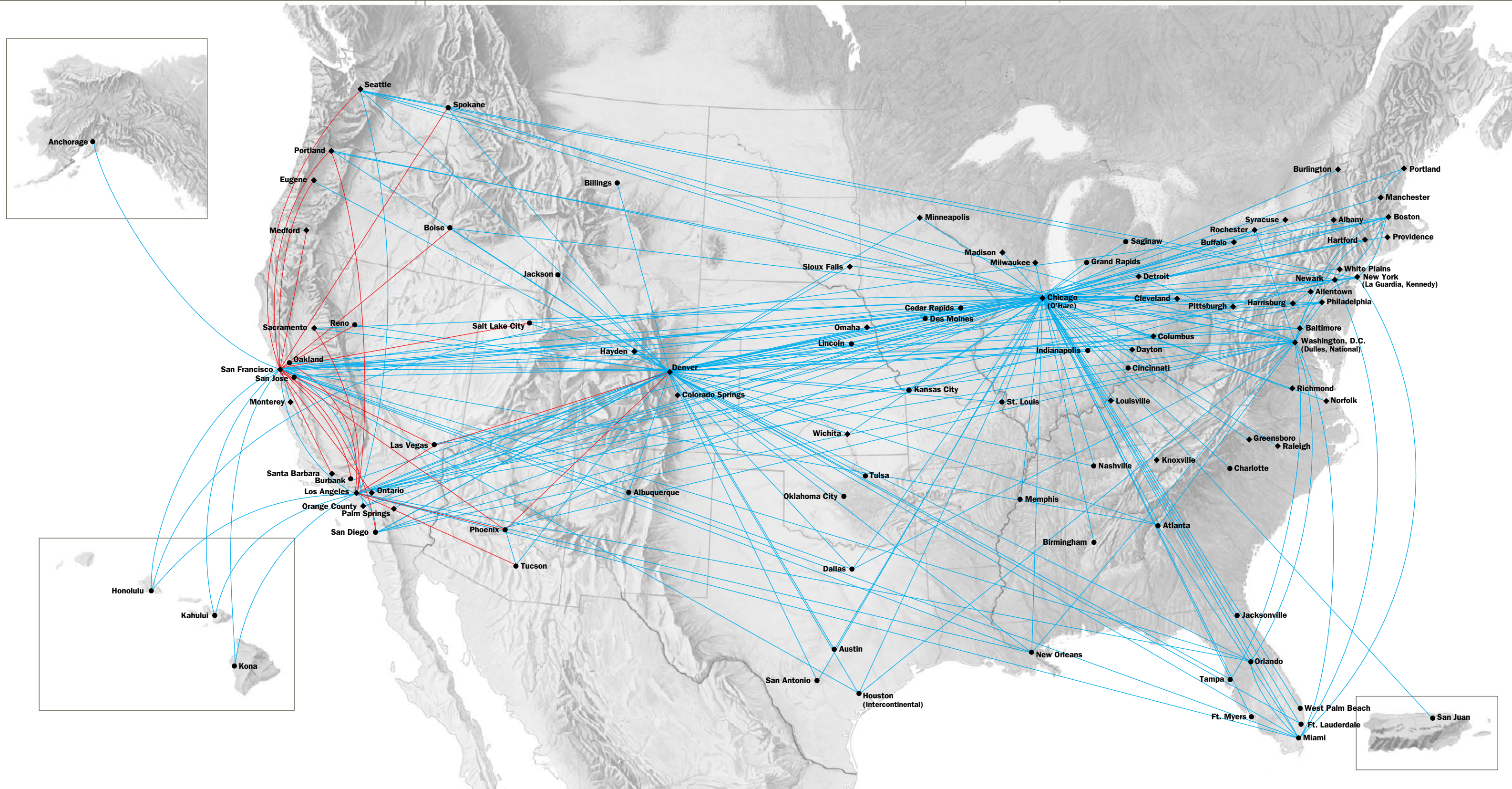
*Figures exclude the effect of the 1997 Airbus order.

United's Domestic and International Hubs

As scheduled for April 1997	Chicago (ORD)	Denver (DEN)	Los Angeles (LAX)	San Francisco (SFO)	Washington, D.C. (IAD)	Tokyo (NRT)
Average Daily Departures						
United Airlines	429	296	187	248	57	
United Express Partners	114	150	102	88	188	
Weekly Departures						108
Total	543	446	289	336	245	108
Nonstop Markets Served By:						
United Airlines	89	58	32	47	30	–
United Express Partners:						
Air Wisconsin Airlines	7	8	–	–	–	–
Atlantic Coast Airlines	–	–	–	–	38	–
Great Lakes Aviation	17	9	–	–	–	–
Mesa Airlines	–	28	–	–	–	–
United Feeder Service	7	–	–	–	–	–
WestAir Commuter Airlines	–	–	16	12	–	–
Transpacific Markets Served						5
Intra-Asian Markets Served						6
Total*	117	100	48	57	63	11

*Numbers may not add as both United Airlines and a United Express partner may provide service in a particular market.

United's Domestic Route System

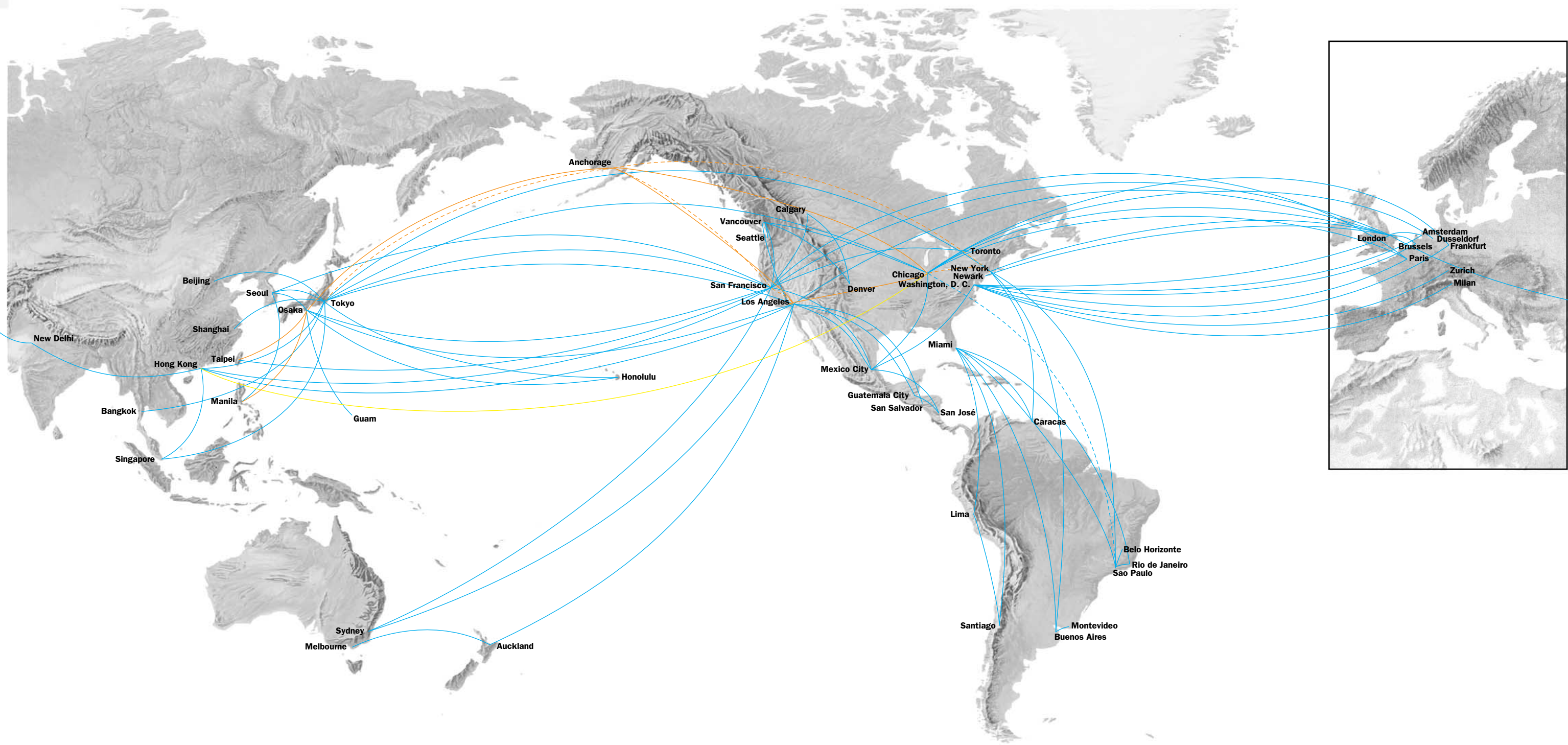


Service as scheduled for April 1, 1997

LEGEND

- Airports Served by United Airlines
- ◆ Airports Served by United Airlines and United Express
- Shuttle by United® Route System

United's International Route System



Service as scheduled for April 1, 1997

LEGEND

- Seasonal Service
- - - Future Service
- Cargo Service
- - - Cargo Future Service

Statements of Consolidated Operations

(In Millions, Except Per Share)	Year Ended December 31,		
	1996	1995	1994
Operating revenues:			
Passenger	\$14,465	\$13,227	\$12,295
Cargo	773	757	685
Other operating revenues	1,124	959	970
	16,362	14,943	13,950
Operating expenses:			
Salaries and related costs	4,719	4,526	4,679
ESOP compensation expense	685	504	182
Aircraft fuel	2,082	1,680	1,585
Commissions	1,466	1,471	1,426
Purchased services	1,187	1,062	947
Aircraft rent	952	1,009	933
Landing fees and other rent	846	803	622
Depreciation and amortization	759	724	725
Aircraft maintenance	449	407	410
Other operating expenses	2,094	1,928	1,920
	15,239	14,114	13,429
Earnings from operations	1,123	829	521
Other income (expense):			
Interest expense	(295)	(399)	(372)
Interest capitalized	77	42	41
Interest income	57	98	85
Equity in earnings of affiliates	64	48	20
Miscellaneous, net	(56)	3	(124)
	(153)	(208)	(350)
Earnings before income taxes, extraordinary item and cumulative effect of accounting change	970	621	171
Provision for income taxes	370	243	94
Earnings before extraordinary item and cumulative effect of accounting change	600	378	77
Extraordinary loss on early extinguishment of debt, net of tax	(67)	(29)	–
Cumulative effect of accounting change, net of tax	–	–	(26)
Net earnings	\$ 533	\$ 349	\$ 51
Per share, primary:			
Earnings before extraordinary item and cumulative effect of accounting change	\$ 5.96	\$ 5.46	\$ 0.19
Extraordinary loss on early extinguishment of debt, net of tax	(0.80)	(0.46)	–
Cumulative effect of accounting change, net of tax	–	–	(0.34)
Net earnings (loss)	\$ 5.16	\$ 5.00	\$ (0.15)
Per share, fully diluted:			
Earnings before extraordinary item and cumulative effect of accounting change	\$ 5.82	\$ 5.18	\$ 0.19
Extraordinary loss on early extinguishment of debt, net of tax	(0.78)	(0.40)	–
Cumulative effect of accounting change, net of tax	–	–	(0.34)
Net earnings (loss)	\$ 5.04	\$ 4.78	\$ (0.15)

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Financial Position

(In Millions)	December 31,	
<i>Assets</i>	1996	1995
Current assets:		
Cash and cash equivalents	\$ 229	\$ 194
Short-term investments	468	949
Receivables, less allowance for doubtful accounts (1996 – \$24 ; 1995 – \$19)	962	951
Aircraft fuel, spare parts and supplies, less obsolescence allowance (1996 – \$31 ; 1995 – \$38)	369	298
Deferred income taxes	227	236
Prepaid expenses and other	427	415
	2,682	3,043
Operating property and equipment:		
Owned –		
Flight equipment	8,393	7,778
Advances on flight equipment	943	735
Other property and equipment	2,989	2,700
	12,325	11,213
Accumulated depreciation and amortization	(5,380)	(5,153)
	6,945	6,060
Capital leases –		
Flight equipment	1,775	1,362
Other property and equipment	106	102
	1,881	1,464
Accumulated amortization	(583)	(503)
	1,298	961
	8,243	7,021
Other assets:		
Intangibles, less accumulated amortization (1996 – \$353 ; 1995 – \$306)	524	763
Deferred income taxes	132	238
Aircraft lease deposits	168	71
Other	928	505
	1,752	1,577
	\$12,677	\$11,641

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Financial Position

(In Millions, Except Share Data) <i>Liabilities and Shareholders' Equity</i>	December 31,	
	1996	1995
Current liabilities:		
Long-term debt maturing within one year	\$ 165	\$ 90
Current obligations under capital leases	132	99
Advance ticket sales	1,189	1,100
Accounts payable	994	696
Accrued salaries, wages and benefits	906	870
Accrued aircraft rent	800	771
Other accrued liabilities	817	807
	5,003	4,433
Long-term debt	1,661	2,919
Long-term obligations under capital leases	1,325	994
Other liabilities and deferred credits:		
Deferred pension liability	178	368
Postretirement benefit liability	1,290	1,225
Deferred gains	1,151	1,214
Accrued aircraft rent	352	272
Other	424	336
	3,395	3,415
Company-obligated mandatorily redeemable preferred securities of a subsidiary trust	102	-
Minority interest	31	59
Preferred stock committed to Supplemental ESOP	165	60
Shareholders' equity:		
Serial preferred stock	-	-
ESOP preferred stock	-	-
Common stock, \$0.01 par value; authorized, 200,000,000 shares; issued 59,519,096 shares at December 31, 1996 and 51,195,657 shares at December 31, 1995	1	-
Additional capital invested	2,160	1,353
Accumulated deficit	(566)	(1,039)
Unearned ESOP preferred stock	(202)	(175)
Stock held in treasury – Preferred	(302)	(218)
Common 701,616 shares at December 31, 1996 and 477,233 shares at December 31, 1995	(83)	(64)
Pension liability adjustment	-	(76)
Other	(13)	(20)
	995	(239)
Commitments and contingent liabilities		
	\$12,677	\$11,641

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Cash Flows

(In Millions)	Year Ended December 31,		
	1996	1995	1994
Cash and cash equivalents at beginning of year	\$ 194	\$ 500	\$ 437
Cash flows from operating activities:			
Net earnings	533	349	51
Adjustments to reconcile to net cash provided by operating activities –			
ESOP compensation expense	685	504	182
Cumulative effect of accounting change	–	–	26
Extraordinary loss on debt extinguishment	67	29	–
Pension funding in excess of expense	(279)	(275)	(114)
Deferred postretirement benefit expense	130	125	145
Depreciation and amortization	759	724	725
Provision for deferred income taxes	69	214	78
Undistributed earnings of affiliates	(49)	(38)	(19)
Decrease (increase) in receivables	(10)	(62)	207
Decrease (increase) in other current assets	(105)	(109)	40
Increase (decrease) in advance ticket sales	89	80	(16)
Increase (decrease) in accrued income taxes	84	(52)	(11)
Increase (decrease) in accounts payable and accrued liabilities	294	79	(127)
Amortization of deferred gains	(63)	(79)	(85)
Other, net	249	135	252
	2,453	1,624	1,334
Cash flows from investing activities:			
Additions to property and equipment	(1,538)	(1,111)	(636)
Proceeds on disposition of property and equipment	55	578	432
Decrease in short-term investments	482	83	376
Other, net	18	(28)	26
	(983)	(478)	198
Cash flows from financing activities:			
Issuance of preferred stock	–	–	400
Reacquisition of preferred stock	(84)	(131)	(87)
Proceeds from issuance of long-term debt	–	–	735
Repayment of long-term debt	(791)	(852)	(305)
Principal payments under capital leases	(112)	(80)	(87)
Conversion of subordinated debentures	(324)	–	–
Recapitalization distribution	(2)	(5)	(2,070)
Decrease in short-term borrowings	–	(269)	(46)
Aircraft lease deposits	(110)	(77)	–
Cash dividends	(22)	(49)	(53)
Other, net	10	11	44
	(1,435)	(1,452)	(1,469)
Increase (decrease) in cash and cash equivalents during the year	35	(306)	63
Cash and cash equivalents at end of year	\$ 229	\$ 194	\$ 500

See accompanying condensed notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

(In Millions, Except Per Share)

	Preferred Stock	Common Stock	Additional Capital Invested	Retained Earnings (Deficit)	Unearned ESOP Preferred Stock	Treasury Stock	Other	Total
Balance at December 31, 1993	\$ 30	\$ 127	\$ 932	\$ 249	\$ -	\$ (65)	\$(70)	\$1,203
Year ended December 31, 1994:								
Net earnings	-	-	-	51	-	-	-	51
Cash dividends declared on preferred stock (\$6.25 per Series A share, \$1.44 per Series B share)	-	-	-	(59)	-	-	-	(59)
Issuance and amortization of ESOP preferred stock	-	-	265	-	(83)	-	-	182
Issuance of Series B preferred stock	-	-	400	-	-	-	-	400
Reacquisition of Series B preferred stock	-	-	-	-	-	(87)	-	(87)
ESOP recapitalization	-	(128)	(378)	(1,576)	-	-	-	(2,082)
Pension liability adjustment	-	-	-	-	-	-	37	37
Other	(30)	1	68	-	-	(9)	9	39
Balance at December 31, 1994	-	-	1,287	(1,335)	(83)	(161)	(24)	(316)
Year ended December 31, 1995:								
Net earnings	-	-	-	349	-	-	-	349
Cash dividends declared on preferred stock (\$6.25 per Series A share, \$1.44 per Series B share)	-	-	-	(40)	-	-	-	(40)
Exchange of Series A debentures	-	-	(546)	-	-	-	-	(546)
Issuance and amortization of ESOP preferred stock	-	-	604	-	(100)	-	-	504
Reacquisition of Series B preferred stock	-	-	-	-	-	(131)	-	(131)
ESOP dividend (\$8.89 per share)	-	-	5	(13)	8	-	-	-
Pension liability adjustment	-	-	-	-	-	-	(60)	(60)
Other	-	-	3	-	-	10	(12)	1
Balance at December 31, 1995	-	-	1,353	(1,039)	(175)	(282)	(96)	(239)
Year ended December 31, 1996:								
Net earnings	-	-	-	533	-	-	-	533
Cash dividends declared on preferred stock (\$1.44 per Series B share)	-	-	-	(20)	-	-	-	(20)
Conversion of Series A debentures	-	-	217	-	-	-	-	217
Exchange of Series B preferred stock	-	-	(102)	-	-	-	-	(102)
Issuance and amortization of ESOP preferred stock	-	-	735	-	(50)	-	-	685
Reacquisition of Series B preferred stock	-	-	-	-	-	(86)	-	(86)
ESOP dividend (\$8.89 per share)	-	-	17	(40)	23	-	-	-
Pension liability adjustment	-	-	-	-	-	-	76	76
Other	-	1	(60)	-	-	(17)	7	(69)
Balance at December 31, 1996	\$ -	\$ 1	\$2,160	\$ (566)	\$(202)	\$(385)	\$(13)	\$ 995

See accompanying condensed notes to consolidated financial statements.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation – UAL Corporation (“UAL”) is a holding company whose principal subsidiary is United Air Lines, Inc. (“United”). The consolidated financial statements include the accounts of UAL and all of its majority-owned affiliates (collectively the “Company”). All significant intercompany transactions are eliminated. Investments in affiliates are carried on the equity basis.

(b) Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Airline Revenues – Passenger fares and cargo revenues are recorded as operating revenues when the transportation is furnished. The value of unused passenger tickets is included in current liabilities.

(d) Foreign Currency Transactions – Monetary assets and liabilities denominated in foreign currencies are converted at exchange rates in effect at the balance sheet date. The resulting foreign exchange gains and losses are charged or credited directly to income. United has entered into foreign currency swap and forward contracts to reduce certain exposure to currency fluctuations. Foreign currency gains and losses on the contracts are included in income currently, offsetting the foreign currency losses and gains on the obligations.

(e) Cash and Cash Equivalents and Short-term Investments – Cash in excess of operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with a maturity of three months or less on their acquisition date are classified as cash and cash equivalents. Other investments are classified as short-term investments. The proceeds from sales of available-for-sale securities are included in interest income for each respective year.

From time to time, United lends certain of its securities classified as cash and cash equivalents and short-term investments to third parties. United requires collateral in an amount exceeding the value of the securities and is obligated to reacquire the securities at the end of the

contract. United accounts for these transactions as secured lendings rather than sales, and so does not remove the securities from the balance sheet.

(f) Aircraft Fuel, Spare Parts and Supplies – Aircraft fuel and maintenance and operating supplies are stated at average cost. Flight equipment spare parts are stated at average cost less an obsolescence allowance.

(g) Operating Property and Equipment – Owned operating property and equipment is stated at cost. Property under capital leases, and the related obligation for future minimum lease payments, are initially recorded at an amount equal to the then present value of those lease payments.

Depreciation and amortization of owned depreciable assets is based on the straight-line method over their estimated service lives. Leasehold improvements are amortized over the remaining period of the lease or the estimated service life of the related asset, whichever is less. Aircraft are depreciated to estimated salvage values, generally over lives of 10 to 30 years; buildings are depreciated over lives of 25 to 45 years; and other property and equipment are depreciated over lives of 3 to 15 years.

Properties under capital leases are amortized on the straight-line method over the life of the lease, or in the case of certain aircraft, over their estimated service lives. Lease terms are 10 to 30 years for aircraft and flight simulators and 25 years for buildings. Amortization of capital leases is included in depreciation and amortization expense.

Maintenance and repairs, including the cost of minor replacements, are charged to maintenance expense accounts. Costs of additions to and renewals of units of property are charged to property and equipment accounts.

(h) Intangibles – Intangibles consist primarily of route acquisition costs and intangible pension assets. Route acquisition costs are amortized over 40 years.

(i) Mileage Plus Awards – United accrues the estimated incremental cost of providing free travel awards earned under its Mileage Plus frequent flyer program (including awards earned from mileage credits sold) when such award levels are reached. United, through its wholly owned subsidiary, Mileage Plus Holdings, Inc., sells mileage credits to participating partners in the Mileage Plus program. The resulting revenue is recorded in other operating revenues during the period in which the credits are sold.

(j) **Deferred Gains** – Gains on aircraft sale and leaseback transactions are deferred and amortized over the lives of the leases as a reduction of rental expense.

(2) Employee Investment Transaction and Recapitalization

On July 12, 1994, the shareholders of UAL approved a plan of recapitalization to provide an approximately 55 percent equity interest in UAL to certain employees of United in exchange for wage concessions and work-rule changes. The employees' equity interest is being allocated to individual employees through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization. Pursuant to the terms of the plan of recapitalization, holders of old UAL common stock received approximately \$2.1 billion in cash and the remaining 45 percent of the equity in the form of new common stock, which was issued at the rate of one half share of new common stock for each share of old common stock. Additionally, in 1994 the Company recorded \$169 million in one-time costs associated with the transaction, of which \$48 million were included in operating expenses and \$121 million were recorded in "Miscellaneous, net."

"ESOP compensation expense" represents the estimated fair value of ESOP convertible preferred stock committed to be released to employees for the period, net of amounts used to satisfy dividend requirements for previously allocated ESOP convertible preferred shares, under Employee Stock Ownership Plans. The fair value of ESOP convertible preferred stock is estimated based on the market value of UAL's common stock.

(3) Per Share Amounts

Earnings per share are presented on both a primary and a fully diluted basis. Primary earnings per share were computed based on weighted average common shares and common equivalents outstanding, including ESOP shares committed to be released. In addition, fully diluted per share amounts assume the conversion of convertible debentures (for periods not actually converted) and elimination of related interest.

Earnings Attributable to Common Shareholders (Millions)	1996	1995	1994
Net income	\$ 533	\$ 349	\$ 51
Preferred stock dividends and other adjustments	(107)	(31)	(62)
Earnings attributable to common shareholders (primary)	\$ 426	\$ 318	\$ (11)
Other adjustments	2	25	-
Earnings attributable to common shareholders (fully diluted)	\$ 428	\$ 343	\$ (11)
Shares (Millions)	1996	1995	1994
Average shares outstanding	56.1	49.6	75.2
Common stock equivalents	26.5	13.9	-
Average number of common and common-equivalent shares (primary)	82.6	63.5	75.2
Incremental shares related to convertible debentures and other	2.4	8.2	-
Average number of shares (fully diluted)	85.0	71.7	75.2
Earnings Per Share	1996	1995	1994
Primary	\$5.16	\$5.00	\$(0.15)
Fully diluted	\$5.04	\$4.78	\$(0.15)

In April 1996, the stockholders of UAL Corporation approved an increase in the number of authorized shares of common stock from 100 million to 200 million shares, in connection with a four-for-one split of the corporation's common stock in the form of a 300 percent dividend effective at the close of business on May 6, 1996. All share and per share data have been retroactively restated to give effect to this stock split.

In addition, in connection with the July 1994 recapitalization, each old common share was exchanged for one half new common share. As required under generally accepted accounting principles for transactions of this type, the historical weighted average shares outstanding were not restated except as mentioned above for the 1996 stock split. Additionally, the 1995 and 1996 periods include the average number of ESOP preferred shares considered outstanding during each respective period. Thus, direct comparisons between per share amounts for the periods presented are not meaningful.

(4) Commitments

At December 31, 1996, commitments for the purchase of property and equipment, principally aircraft, approximated \$6.9 billion after deducting advance payments. An estimated \$2.9 billion is due to be spent in 1997, \$1.9 billion in 1998, \$1.0 billion in 1999 and \$1.1 billion in 2000 and thereafter. The above amounts reflect firm orders for 21 B747, 6 B757, 20 B777, 14 A320 and 24 A319 aircraft to be delivered through 2002. However, these amounts do not include a recent order for an additional three A320 and four A319 aircraft. Under the Company's current fleet plan, the above aircraft will principally be used to replace older aircraft which will be retired. As a result, the Company expects only modest growth in its passenger fleet through 2002.

Consistent with UAL's strategic plan and the Company's focus on attracting more high-yield passengers, the Board of Directors has authorized an investment of approximately \$400 million in United's onboard product, including new aircraft seats and other cabin improvements, through 1999. This amount is not reflected in the above commitments.

The Company leases aircraft, airport passenger terminal space, aircraft hangars and related maintenance facilities, cargo terminals, other airport facilities, real estate, office and computer equipment and vehicles. Leases which are classified as capital leases appear on the Company's balance sheet while those classified as operating leases do not.

Future minimum lease payments as of December 31, 1996, under operating leases having initial or remaining noncancelable lease terms of more than one year, are as follows:

(In Millions)	Aircraft	Non-aircraft
Payable during -		
1997	\$ 943	\$ 473
1998	942	463
1999	939	447
2000	957	435
2001	939	459
After 2001	13,403	7,871
Total minimum lease payments	\$18,123	\$10,148

(5) Foreign Operations

United does not have significant foreign operations as defined by generally accepted accounting principles. However, based on allocation guidelines provided by the U.S. Department of Transportation ("DOT"), which classifies flights between the U.S. and foreign destinations as part of each respective foreign entity, United reported the following results by geographic entity to the DOT for each of the last three years:

(In Millions)	1996	
	Operating Revenue	Operating Income
Domestic	\$10,717	\$ 738
Pacific	3,438	288
Atlantic	1,412	86
Latin America	750	18
Total	\$16,317	\$1,130

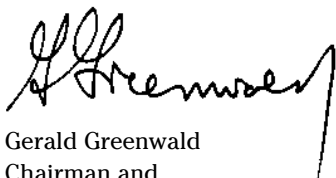
(In Millions)	1995	
	Operating Revenue	Operating Income
Domestic	\$ 9,586	\$ 460
Pacific	3,336	348
Atlantic	1,287	10
Latin America	686	14
Total	\$14,895	\$ 832

(In Millions)	1994	
	Operating Revenue	Operating Income
Domestic	\$ 8,966	\$ 261
Pacific	3,009	310
Atlantic	1,190	(102)
Latin America	722	44
Total	\$13,887	\$ 513

MANAGEMENT STATEMENT ON ACCOUNTING CONTROLS

The integrity of UAL Corporation's financial records, from which the financial statements are prepared, is largely dependent on the company's system of internal accounting controls. The purpose of the system is to provide reasonable assurance that transactions are executed in accordance with management's authorization; that transactions are appropriately recorded in order to permit preparation of financial statements which, in all material respects, are presented in conformity with generally accepted accounting principles consistently applied; and that assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

To enhance the effective achievement of internal accounting controls, the company carefully selects and trains its employees, gives due emphasis to appropriate division of clearly defined lines of responsibility and develops and communicates written policies and procedures. Based on a review and monitoring of internal accounting controls, augmented by an internal auditing function and the oversight responsibilities of the outside directors comprising the Audit Committee of the company's Board of Directors, management believes that the company's internal accounting control system is adequate and appropriately balances the relationship between the cost of the system and the benefits it provides.



Gerald Greenwald
Chairman and
Chief Executive Officer



Douglas A. Hacker
Senior Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors, UAL Corporation:

We have audited, in accordance with generally accepted auditing standards, the statements of consolidated financial position of UAL Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1996 and 1995, and the related statements of consolidated operations, consolidated cash flows, and consolidated shareholders' equity for each of the three years in the period ended December 31, 1996, appearing in the appendix to the proxy statement for the 1997 Annual Meeting of Stockholders of the Company (not presented herein). In our report dated February 26, 1997, also appearing in that proxy statement, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying consolidated statements of financial position as of December 31, 1996 and 1995, and the related statements of consolidated operations, consolidated cash flows and consolidated shareholders' equity for each of the three years in the period ended December 31, 1996, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.



Chicago, Illinois
February 26, 1997

Eleven-Year Summary

(In Millions, Except Per Share, Rates and Number of Aircraft)	1996	1995
Earnings data:		
Operating revenues	\$ 16,362	\$ 14,943
Operating earnings (loss)	1,123	829
Earnings (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes	600	378
Net earnings (loss)	\$ 533	\$ 349
Share data:		
Per share –		
Earnings (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes, primary	\$ 5.96	\$ 5.46
Net earnings (loss), primary	\$ 5.16	\$ 5.00
Dividends paid on common stock	\$ –	\$ –
Book value of common stock at year-end	\$ 15.52	\$ (9.06)
Common shares outstanding at year-end (in thousands)	58,817	50,718
Number of common shareholders at year-end (in thousands)	17	17
Financial position at year-end:		
Assets –		
Current assets	\$ 2,682	\$ 3,043
Net assets of discontinued operations	–	–
Operating property and equipment, net	8,243	7,021
Other assets	1,752	1,577
Total assets	\$ 12,677	\$ 11,641
Liabilities and shareholders' equity –		
Current liabilities	\$ 5,003	\$ 4,433
Long-term debt and long-term obligations under capital leases	2,986	3,913
Other liabilities and deferred credits, redeemable preferred stock and minority interest	3,693	3,534
Shareholders' equity	995	(239)
Total liabilities and shareholders' equity	\$ 12,677	\$ 11,641
Other financial data:		
Depreciation and amortization	\$ 759	\$ 724
Salaries and related costs (excluding ESOP compensation expense)	\$ 4,719	\$ 4,526
Operating data:		
Revenue passengers	82	79
Revenue passenger miles	116,697	111,811
Available seat miles	162,843	158,569
Passenger load factor	71.7%	70.5%
Passenger revenue per passenger mile (yield)	12.4¢	11.8¢
Average price per gallon of jet fuel	72.2¢	59.5¢
Number of aircraft in operating fleet at year-end	564	558
Average number of employees (in thousands)	86	81

1994	1993	1992	1991	1990	1989	1988	1987	1986
\$ 13,950	\$ 13,325	\$ 11,853	\$ 10,706	\$ 10,296	\$ 9,288	\$ 8,705	\$ 8,127	\$ 7,010
521	263	(538)	(494)	(36)	465	665	247	90
77	(31)	(417)	(332)	94	324	600	(4)	(113)
\$ 51	\$ (50)	\$ (957)	\$ (332)	\$ 94	\$ 324	\$ 1,124	\$ 335	\$ 12
\$ 0.19	\$ (0.66)	\$ (4.34)	\$ (3.58)	\$ 1.08	\$ 3.74	\$ 5.05	\$ (0.02)	\$ (0.63)
\$ (0.15)	\$ (0.85)	\$ (9.94)	\$ (3.58)	\$ 1.08	\$ 3.74	\$ 9.47	\$ 1.51	\$ 0.06
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$.19	\$.25
\$ (24.99)	\$ 6.14	\$ 7.28	\$ 16.80	\$ 19.09	\$ 17.91	\$ 14.19	\$ 12.88	\$ 11.42
49,756	98,276	96,952	95,032	87,540	87,340	86,412	226,960	200,688
18	19	19	16	17	22	21	25	23
\$ 3,192	\$ 3,713	\$ 3,298	\$ 2,882	\$ 2,640	\$ 2,738	\$ 2,150	\$ 3,483	\$ 1,216
-	-	-	-	-	-	-	427	1,103
6,723	7,206	7,111	5,995	4,749	3,898	3,941	4,027	3,682
1,849	1,921	1,848	999	594	558	595	452	548
\$ 11,764	\$ 12,840	\$ 12,257	\$ 9,876	\$ 7,983	\$ 7,194	\$ 6,686	\$ 8,389	\$ 6,549
\$ 4,906	\$ 4,896	\$ 4,845	\$ 4,083	\$ 3,757	\$ 3,224	\$ 2,869	\$ 3,383	\$ 2,570
3,617	3,529	3,613	2,423	1,238	1,321	2,046	1,712	1,323
3,557	3,212	3,093	1,773	1,317	1,085	545	372	364
(316)	1,203	706	1,597	1,671	1,564	1,226	2,922	2,292
\$ 11,764	\$ 12,840	\$ 12,257	\$ 9,876	\$ 7,983	\$ 7,194	\$ 6,686	\$ 8,389	\$ 6,549
\$ 725	\$ 764	\$ 726	\$ 604	\$ 560	\$ 517	\$ 518	\$ 551	\$ 502
\$ 4,679	\$ 4,760	\$ 4,562	\$ 4,057	\$ 3,550	\$ 3,158	\$ 2,838	\$ 2,778	\$ 2,558
74	70	67	62	58	55	56	55	50
108,299	101,258	92,690	82,290	76,137	69,639	69,101	66,348	59,312
152,193	150,728	137,491	124,100	114,995	104,547	101,721	101,454	91,409
71.2%	67.2%	67.4%	66.3%	66.2%	66.6%	67.9%	65.4%	64.9%
11.3¢	11.6¢	11.3¢	11.5¢	11.8¢	11.6¢	10.8¢	10.1¢	9.8¢
58.8¢	63.6¢	66.4¢	71.6¢	80.4¢	63.6¢	56.0¢	57.8¢	56.2¢
543	544	536	486	462	429	405	382	364
78	85	84	79	74	69	66	64	59

Directors and Officers UAL Corporation

Directors

JOHN A. EDWARDSON

President and Chief Operating Officer,
UAL Corporation,
Chicago, Illinois
Public Director, Elected 1994

DUANE D. FITZGERALD

Retired Chairman and Chief
Executive Officer,
Bath Iron Works Corporation,
Bath, Maine
(Shipbuilding)
Independent Director, Elected 1994
(1) (2) (3) (4) (6) (10)

MICHAEL H. GLAWE

United Airlines Pilots Master
Executive Council Chairman,
Air Line Pilots Association International,
Rosemont, Illinois
(Labor union)
Employee Director, Elected 1996
(2) (4) (5) (6) (9)

GERALD GREENWALD

Chairman of the Board and Chief
Executive Officer,
UAL Corporation,
Chicago, Illinois
Public Director, Elected 1994
(2) (4) (5) (7)

RICHARD D. McCORMICK

Chairman, President and Chief
Executive Officer,
US WEST, Inc.,
Englewood, Colorado
(Telecommunications)
Independent Director, Elected 1994
(1) (2) (3) (5) (6) (7) (10)

JOHN F. McGILLICUDDY

Retired Chairman and Chief
Executive Officer,
Chemical Banking Corporation,
New York, New York
(Banking and finance)
Public Director, Elected 1984
(1) (2) (3) (4) (8) (10)

JAMES J. O'CONNOR

Chairman and Chief Executive Officer,
Unicom Corporation,
Chicago, Illinois
(Electric utility holding company)
Public Director, Elected 1984
(1) (4) (8) (9) (10)

JOHN F. PETERPAUL

Retired General Vice President,
International Association of Machinists
and Aerospace Workers,
Silver Spring, Maryland
(Labor union)
Employee Director, Elected 1994
(2) (4) (5) (6) (9)

PAUL E. TIERNEY, JR.

Principal, Development Capital, LLC,
New York, New York
(Investment banking)
Public Director, Elected 1990
(1) (4) (5) (7) (8) (10)

JOHN K. VAN DE KAMP

President, Thoroughbred Owners
of California,
Los Angeles, California
(Trade association)
Independent Director, Elected 1994
(1) (4) (6) (9) (10)

JOSEPH V. VITTORIA

Retired Chairman and Chief
Executive Officer,
Avis, Inc.,
Garden City, New York
(Automobile rental and leasing)
Employee Director, Elected 1994
(2) (6) (9)

PAUL A. VOLCKER

Retired Chairman, Wolfensohn & Co.
New York, New York
(Investment banking)
Independent Director, Elected 1994
(1) (5) (6) (9) (10)

Officers

GERALD GREENWALD

Chairman of the Board and Chief
Executive Officer

JOHN A. EDWARDSON

President and Chief Operating Officer

JOSEPH R. O'GORMAN, JR.

Executive Vice President

STUART I. ORAN

Executive Vice President

DOUGLAS A. HACKER

Senior Vice President and Chief
Financial Officer

FRANCESCA M. MAHER

Vice President Law and
Corporate Secretary

LEGEND:

- (1) Audit Committee
- (2) Compensation Committee
- (3) Compensation Administration Committee
- (4) Competitive Action Plan Committee
- (5) Executive Committee
- (6) Independent Director Nomination Committee
- (7) Labor Committee
- (8) Outside Public Director Nomination Committee
- (9) Pension and Welfare Plans Oversight Committee
- (10) Transaction Committee

Directors and Officers United Airlines

GERALD GREENWALD*
Chairman and Chief Executive Officer

JOHN A. EDWARDSON*
President and Chief Operating Officer

JOSEPH R. O'GORMAN, JR.*
Executive Vice President Fleet
Operations and Administration

STUART I. ORAN*
Executive Vice President Corporate
Affairs and General Counsel

CHRISTOPHER D. BOWERS
Senior Vice President International

DAVID A. COLTMAN
Senior Vice President Marketing

RONO A. DUTTA
Senior Vice President Planning

SARA A. FIELDS
Senior Vice President Onboard Service

JAMES E. GOODWIN*
Senior Vice President North America

DOUGLAS A. HACKER*
Senior Vice President and
Chief Financial Officer

WILLIAM P. HOBGOOD*
Senior Vice President People

HART A. LANGER
Senior Vice President Flight Operations

ANDREW P. STUDDERT
Senior Vice President and Chief
Information Officer

GRAHAM W. ATKINSON
Vice President Atlantic

JUDITH A. BISHOP
Vice President North America Sales

FREDERIC F. BRACE
Vice President Financial Analysis
and Controller

JAMES C. BRENNAN
Vice President Pacific-North

MONTIE R. BREWER
Vice President Resource Planning

LARRY D. CLARK
Vice President Property and Facilities

MACDONALD D. CURRAN
Vice President Pacific-South

ROGER A. GIBSON
Vice President North America

JAMES J. HARTIGAN, JR.
Vice President Worldwide Cargo

GARY S. JEFFERSON
Vice President Public Affairs

AMOS S. KAZZAZ
Vice President Shuttle by United

JOHN D. KIKER
Vice President Corporate
Communications

MARK S. LIBERMAN
Vice President North America

SHELLEY A. LONGMUIR
Vice President Governmental Affairs

FRANCESCA M. MAHER
Vice President Law, Deputy General
Counsel and Corporate Secretary

LOUIS J. MANCINI
Vice President Engineering and
Technical Support

CYRIL D. MURPHY
Vice President International Affairs

THOMAS A. MUTRYN
Vice President and Treasurer

STEPHAN G. REGULINSKI
President UAL Services

JOHN R. SAMOLIS
Vice President People Services

MARIA SASTRE
Vice President Latin America

JAMES V. SINES
Vice President Purchasing

EDMOND L. SOLIDAY
Vice President Corporate Safety
and Security

GREGORY T. TAYLOR
Vice President Revenue Management

RONALD D. UTECHT
Vice President Line Maintenance

DANIEL C. WALSH
Vice President North America

JAMES D. WHITLATCH
Vice President Flight Standards
and Training

GLENN S. WRIGHT
Vice President North America

**Director, United Airlines*

Stockholder Information

WORLD HEADQUARTERS

1200 E. Algonquin Road
Elk Grove Township, IL 60007
(847) 700-4000

MAILING ADDRESSES

UAL Corporation
P.O. Box 66919
Chicago, IL 60666

United Airlines
P.O. Box 66100
Chicago, IL 60666

STOCK LISTING

UAL Corporation is listed, under the symbol UAL, on the following exchanges: New York Stock Exchange, Chicago Stock Exchange and Pacific Stock Exchange.

STOCKHOLDER QUESTIONS

Information relating to a stockholder's dividends, transfer requirements, lost certificates and other related matters may be obtained from the transfer agent:

Harris Trust and Savings Bank
Shareholder Communication Team
P.O. Box A3504
Chicago, IL 60690-3504
(800) 647-4488

The transfer agent's "Telephone Response Center" is open 23 hours a day, 7 days a week. (Account information may not be available from 5:30 pm CST through 6:30 pm CST.)

Stockholders will be asked for their tax identification number, the name(s) in which the shares are registered and their record address. Alternatively, stockholders may write to the office of the Corporate Secretary, UAL Corporation.

AVAILABILITY OF QUARTERLY RESULTS

UAL Corporation's 1997 quarterly results will be available on approximately the following dates:

First Quarter	April 22, 1997
Second Quarter	July 22, 1997
Third Quarter	October 28, 1997
Fourth Quarter	January 27, 1998

FINANCIAL INFORMATION

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

Investor Relations
UAL Corporation
P.O. Box 66919
Chicago, IL 60666
(847) 700-7365

GENERAL INFORMATION

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

INDEPENDENT ACCOUNTANTS

UAL Corporation's independent accountants are Arthur Andersen LLP.

UAL Corporation Market Prices

(Per share)	High	Low
1996		
First Quarter	53 11/16	38 9/16
Second Quarter	60 1/8	50 1/4
Third Quarter	56 5/8	41 1/2
Fourth Quarter	64 3/4	43 1/4
1995		
First Quarter	26 13/16	21 29/32
Second Quarter	35 3/4	26
Third Quarter	43	34 3/8
Fourth Quarter	52 31/32	41 1/2

Per share prices have been adjusted for the four-for-one stock split on May 6, 1996. No cash dividends were paid on the common stock during these periods. As of March 1, 1997 there were 12,976 common stockholders of record, which does not include the 3,878 holders of pre-ESOP common stock who have not tendered their stock certificates as the result of the recapitalization.

UAL Corporation is a holding company whose primary subsidiary is United Airlines. At year-end 1996, United Airlines provided passenger and cargo air transportation to 139 airports in 30 countries and two territories on five continents. United operated an average of 2,198 daily departures, carrying an average of 224,000 passengers a day.