State of Florida

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Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 22, 1997

TO: Tom Williams, Division of Communications

FROM: Pete Lester, Division of Auditing and Financial Analysis

RE: Docket No. 970213-TI, Apollo Communications Services, LLC, Financial Analysis for Certificate Application for Intrastate Interexchange Telecommunications Service

ALM APC

Section 364.337 (3), Florida Statutes, requires the following:

> The commission shall grant a certificate of authority to provide intrastate interexchange telecommunications service upon a showing that the applicant has sufficient technical, financial, and managerial capability to provide such service in the geographic area proposed to be served.

Also Section 364.01 (3) and (4) states that:

> (3) The Legislature finds that the competitive provision of telecommunications service, including local exchange telecommunications service, is in the public interest.

and

> (4)(d) The Commission shall exercise its exclusive jurisdiction in order to: (d) Promote competition by encouraging new entrants into telecommunications markets . . .

Regarding the showing of financial capability, the Finance staff has analyzed the audited financial statements of UAL Corporation, the controlling entity of Apollo Communications Services, LLC (Apollo), for the period ending December 31, 1995. As the attached schedule shows, UAL Corporation has inadequate liquidity and ownership equity. It reported a loss during the period analyzed.

In this matter, Apollo is asking for a certificate to provide IXC service. Staff notes the limited nature of the application. For purposes of granting a certificate based on the financial information provided, the financial capability appears marginal.

Although an analysis of the financial statements reveals the applicant is in a marginal financial position, the applicant attests to its financial capability to provide and maintain the proposed telecommunications service by noting that it has a guarantee from its parent, Apollo Travel Services Partnership, to cover the first 18 months of operation. Apollo anticipates that it will be profitable by the time the guarantee expires. Based on this showing, the applicant appears to meet the financial capability standard of Section 364.337, Florida Statutes.

cc: Division of Legal Services
Division of Records and Reporting

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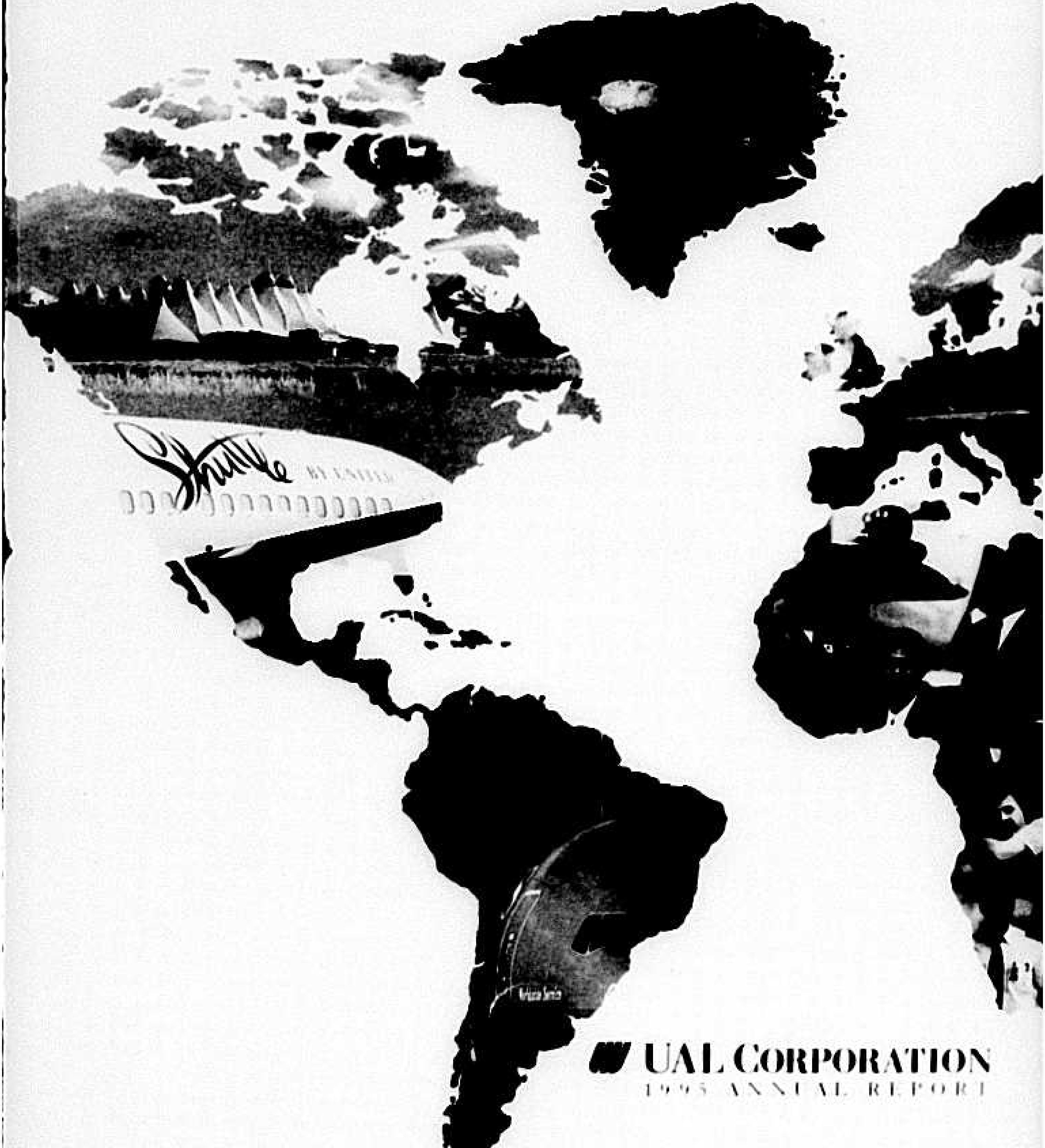
DOCKET NO. 970213-TI
APOLLO COMMUNICATIONS SERVICES, LLC
UAL CORPORATION
IXC CERTIFICATE
FINANCIAL ANALYSIS
ATTESTATION DONE

FROM AUDITED FINANCIAL STATEMENTS OF UAL CORPORATION, THE CONTROLLING ENTITY

IN MILLIONS	12 MONTHS ENDING DECEMBER 31, 1995
CURRENT ASSETS	3,043
CURRENT LIABILITIES	4,244
CURRENT RATIO	0.72
CASH	194
COMMON EQUITY	(239)
TOTAL DEBT	4,102
TOTAL INVESTOR CAPITAL	3,863
COMMON EQUITY RATIO	NMF
NET INCOME	349
RETURN ON EQUITY	NMF

NMF=NO MEANINGFUL FIGURE



UAL CORPORATION
1995 ANNUAL REPORT

1995 Highlights

UAL Corporation is a holding company whose primary subsidiary is United Airlines. At year-end 1995, United Airlines provided passenger and cargo air transportation to 144 airports in 31 countries and three territories on five continents.

Through the employee ownership transaction approved by stockholders on July 12, 1994, UAL Corporation became the largest company in the world with a majority of its stock owned by employees.

Record Earnings

UAL Corporation posted record earnings from ongoing operations with earnings before extraordinary item at $378 million or $20.74 per fully diluted share. **On a pro forma, fully distributed basis, earnings were $691 million before extraordinary item or $21.49 per share.** (See page 19)

Cargo Operations

United's **cargo operations** generated a record $757 million in revenue, up 11 percent from 1994. (See pages 10 and 21)

Market Loss Reversal

During 1995, United reversed the trend of operating losses in the **Hawaii and Atlantic markets.** (See pages 7 and 9)

Credit Improvement

UAL Corporation completed $2.0 billion in **credit improvement initiatives** in an effort to strengthen the balance sheet and improve its credit rating. (See page 17)

High Yield Market Share

Through targeted product and service improvements, United increased its **high yield passenger market share** more than 1 point — worth about $125 million in additional revenue. (See page 6)

New Service

After many years of effort, United began **Chicago-London Heathrow service.** In December, United started **'Round the World' flying, including service to New Delhi, India.** (See page 7)

Global Alliances

United entered into a code-share agreement with Air Canada, increasing the number of **partner alliances** to 10. (See page 8)

Boeing 777

In June 1995, United took delivery of the first **Boeing 777,** a state-of-the-art airplane which combines inflight comfort with operational effectiveness. (See page 10)

Denver Int'l Airport

In February 1995, the new **Denver International Airport** opened. United's market share and revenue growth helped offset $175 million in higher operating costs. (See page 9)

Customer Technology

E-Ticket™ was rolled out in the U.S. in 1995, and accounted for nearly 50 percent of all domestic tickets issued at year end. **United Connection**™, United's on-line reservation system, was introduced in Spring 1995. (See page 9)

Employee Culture

Through an improved **employee-owner culture,** productivity increased and sick time fell by 11 percent. (See page 4)

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Financial Highlights and Operating Statistics

(In Millions, Except Per Share, Rates and Aircraft)	Year Ended December 31		
	1995	1994	1993
Financial Highlights			
Operating revenues	$ 14,943	$ 13,950	$ 13,325
Operating expenses	$ 14,114	$ 13,429	$ 13,062
Earnings from operations	$ 829	$ 521	$ 263
Earnings (loss) before extraordinary item and cumulative effect of accounting change	$ 378	$ 77	$ (31)
Net earnings (loss)	$ 349	$ 51	$ (50)
Per share, fully diluted:			
Earnings (loss) before extraordinary item and cumulative effect of accounting change	$ 20.74	$ 0.39	$ (2.61)
Net earnings (loss)	$ 19.11	$ (0.63)	$ (3.40)
Average number of common shares assumed outstanding	17.9	13.8	24.4
United Airlines Operating Statistics			
Revenue passengers	79	74	70
Revenue passenger miles	111,811	108,299	101,258
Available seat miles	158,569	152,193	150,728
Passenger load factor – system	70.5%	71.2%	67.2%
Domestic	69.3%	69.8%	65.2%
Pacific	72.6%	74.5%	72.5%
Atlantic	78.2%	76.8%	73.8%
Latin America	63.0%	62.9%	56.8%
Breakeven passenger load factor	66.1%	68.2%	65.5%
Breakeven passenger load factor excluding ESOP charges	63.4%	66.8%	65.5%
Passenger revenue per passenger mile (yield)	11.79¢	11.51¢	11.61¢
Operating revenue per available seat mile	9.39¢	9.12¢	8.74¢
Operating expenses per available seat mile	8.87¢	8.79¢	8.54¢
Operating expenses excluding ESOP charges per available seat mile	8.55¢	8.64¢	8.54¢
Revenue ton miles	13,440	12,906	12,151
Cargo ton miles	2,259	2,076	2,008
Available ton miles	22,659	21,696	21,582
Average price per gallon of jet fuel	59.3¢	58.8¢	65.6¢
Gallons of jet fuel consumed	2,822	2,707	2,709
Number of aircraft in operating fleet at end of year	558	543	544
Average age of aircraft at end of year (years)	10.7	10.0	9.6

United's Definition of Success

- A commitment to safety —
  by placing the *safety* of our customers and employees above all things we do
- A clear brand preference for United —
  by offering the right products and providing outstanding *customer service*
- The strongest route network —
  by entering new high potential markets and expanding United's *global network*
- An ownership culture that enhances job satisfaction —
  by developing a *culture* that fosters employee empowerment, a commitment to teamwork and trust in management
- An investment grade rating for United's debt —
  by *strengthening the balance sheet* through obligation repayments and other credit improvement initiatives
- A five-year average total return to stockholders in the top quartile of U.S. industry —
  by positioning the company for *sustained profitability*

To Our Owners & Employees:

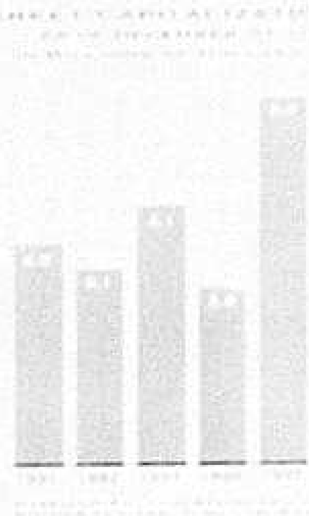
By all standards, 1995 was an extraordinary year for UAL, our stockholders and our employees. Last year, through innovation, dedication and plain hard work, we demonstrated what it means to be United today, and what it can mean to our customers, employees and stockholders in the future.

Our 1995 numbers reflected our strong performance. On a pro forma fully distributed basis our:

- Operating earnings were $1,333 million
- Net earnings were $662 million — or $20.51 per share after preferred stock dividends.

In addition, there are other indications of our strong performance:

- We continued to strengthen our balance sheet through $2.0 billion in debt repayment and credit improvement initiatives.
- Wall Street acknowledged our accomplishments and rewarded our stockholders by more than doubling our stock price over the course of the year.



Strategy, Structure, Innovation

Our exceptional showing stemmed directly from our new focus on strategy, structure and innovation.

United continued to pursue the key levers to financial success that we identified in our five-year strategic plan. At the center of our ongoing strategy are three objectives: to increase travelers' preference for United, to achieve greater presence in our key cities and to strengthen our route network.

- In 1995, we invested $50 million in across-the-board improvements that helped increase our market share of highly profitable First Class and Connoisseur Class customers by more than 1 point — worth about $125 million in additional revenue.
- We increased departures by 16 percent in Los Angeles, San Francisco and Denver — increasing our market share by 3 to 7 percentage points in each of these cities.
- We expanded our international network through internal growth, including our first-ever Chicago-London Heathrow route and Round the World flying with new service to New Delhi, India, and through expansion of our code-share alliances.
- We continued to refine our Shuttle by United service on the West Coast to exceed passengers' expectations for service and value. At year end, the Shuttle was flying more than 360 flights and 30,000 travelers per day to 12 cities.
- We dramatically turned around our performance in the Atlantic and Hawaii markets, turning these destinations from "loss leaders" to contributors to the profit column exiting 1995. The Atlantic market, for example, generated operating earnings of $10 million in 1995, compared to a loss of $102 million in 1994 as reported to the U.S. Department of Transportation.

In 1995, United completed a major reorganization to sharpen our focus on customer needs and provide the operational flexibility essential to capitalizing on emerging market opportunities. We also encouraged employee teams to form outside the formal corporate structure to improve company procedures and identify cost savings opportunities. The results were impressive:

- We have made progress toward our goal of eliminating administrative layers between senior management and customers, leading to more decision-making opportunities for our front-line employees and better decisions for our customers.
- Twelve corporate-wide, multi-discipline, employee task teams and more than 100 local teams were formed. These teams implemented improvements to customer service and business processes in areas such as customer problem resolution techniques, working capital and inventory management.

As part of our five-year strategic plan, United led the industry in developing new ways to meet our passengers' door-to-door travel needs in terms of amenities, comfort and convenience:

- In 1995, United introduced the latest travel technology to its customers with E-Ticket™, United's brand of electronic ticketing, and United Connection™, our on-line service that allows travelers to book their own flights, hotels and rental cars.
- By year-end, nearly 20 percent of our domestic trips were ticketed through the E-Ticket product and, in the first months of its launch we sold more than $12 million worth of travel products through United Connection.

United also proudly introduced the state-of-the-art Boeing 777 — an aircraft in which we were instrumental in designing. This aircraft brought customers individual video screens and the comforts of 48-inch Connoisseur Class seat pitch while providing fuel savings and operational efficiencies to United.

Flight Path to the Future

We look at the year ahead realistically — with a renewed sense of the fundamental relationship among all the various challenges we face. We must strive to improve our on-time performance and increase high-yield market share. At the same time, we must never forget that employee satisfaction — a combination of personal fulfillment and the rewards of ownership — is what ultimately sets us apart as a unique organization, as well as a good investment.

The progress we made in 1995 is only an indication of where we intend to go. We believe United can and will perform, not merely within the accepted parameters of the airline industry — but in keeping with standards applied to major corporations in the industrial and service sectors. If we are to be the global airline of choice, we must not only be ready to compete airline-to-airline, but strive to be one of the best companies in all industry categories.

To achieve this admittedly ambitious goal, we must focus our objectives on our three primary constituencies: customers, employees and stockholders.

United will further pursue an understanding of what passengers want and need — and move quickly to meet those needs. We anticipate that our customers will continue to demand the ease and options of advanced technologies, access to key markets, the finest possible service in each class offered worldwide, personalized attention attuned to all the countries and cultures we serve, and the most modern and reliable cargo system available from a passenger airline. Our marketing strategy calls for establishing United brands with a unique mix of services that — whether on short-haul domestic or long-range international flights — ensures an ideal match between our products and passengers.

We also plan to expand our international operations to meet customer demands. We will extend our route structure to emerging markets when possible; when necessary we will supplement our routes by expanding our global code-sharing network. At the same time, we are strengthening our hubs to anchor our regional operations and provide a basis for future growth, particularly in the burgeoning Asian markets. However, we are concerned by the recent efforts of the Japanese government to prevent United from using its existing rights to fly from Japan to other points in Asia. We view Japan and all of Asia as key markets to our success, and as a result, will work actively with the U.S. government to retain U.S. carriers' beyond rights in Japan.

Culture change is at the heart of the new United — with our goal to be a company that combines global reach with a small-company service ethic. At the center of this service ethic is a single-minded focus on our customers. At a time when so many companies struggle with management and labor strife, ownership aligns the interests of our employees with the future of our company. The result: an added incentive to serve the customer. And in the end, it is superior service that will best serve our larger goal: to become the worldwide airline of choice.

With a structure and culture that promotes teamwork, diversity, initiative and commitment, we will continue to make United a better place to work. As a result, we are committed to providing our employees with the training and empowerment they need to make the most of career opportunities — and realize the full benefits available when ownership, personal initiative and profits are so closely linked.

Plenty of companies talk about "employee empowerment." United's employee-owners demonstrate empowerment in action, delivering increased productivity and performance levels, as exemplified by our sick time being reduced by 11 percent from 1994 — worth $20 million in labor savings. It is this type of hard, quantifiable results that constitute a significant "Return on Ownership" and that will ensure our success going forward.

Two of our most important strategic objectives are to be the world's most profitable airline as measured by fully distributed net earnings and to enhance stockholder return. We achieved both of these goals in

1995. In 1996, we intend to build on that success by focusing on the continued expansion of our premium revenue customer base and on aggressive efforts to increase our operational efficiencies.

We believe that if we improve the quality of our product, our fleet, our balance sheet and our employees' working environment — our success and earnings will continue to increase in 1996 and the years to follow.

To reach our 1996 objectives, we will continue to focus on attracting more premium revenue customers. In an environment where low-cost carriers grow and place downward pressure on fares, it is the increase in share of business and international travelers that will provide continuing unit revenue improvements. We will invest an additional $50 million in customer service improvements and in new products and services for business and international customers to enhance their loyalty to United.

Revenue improvement is only one ingredient in sustained profitability and a superior return to stockholders. We must, and will, continue seeking cost reductions in our operations and in the way we do business with others. In 1996, we will strive to keep our unit cost essentially the same as 1995 — excluding the effects of the federal fuel tax, incremental costs attributable to new contract revenue generated by UAL Services and the costs for investments in improved service.

Our 1996 cost-control efforts will include programs initiated in 1995 and new programs for 1996:

- We aim to reduce our distribution costs further by increasing the user base and usage of our E-Ticket and United Connection products.
- We will also continue to reengineer traditional airline processes to streamline and improve our services, including the introduction of self-service check-in units at domestic airports in the fourth quarter of 1996. Through these changes and a continuous review of the role management plays in our front-line decision making, we expect to achieve our goal of reducing the number of management positions by 10 percent before year-end 1996.
- We will reduce our financing costs further, primarily by repaying debt and repurchasing preferred stock.
- We will continue with our "retire and replace" fleet plan that replaces high-maintenance aircraft averaging 25 years of age with new, cost-efficient aircraft. As a result, we expect to increase our reliability and reduce operating costs.
- We are applying our full efforts to encourage the U.S. government to repeal the recently implemented fuel tax — an estimated $80 million cost to United in 1996.

New Heights

The new United rose from the depths of one of the industry's worst periods ever. It was a single event of international instability — the Gulf War in 1991 — that hammered home the fiscal realities of the post-deregulation era. At the same time, the industry faced a vastly more sophisticated customer in an expanding global marketplace. Great names were deleted from aviation's honor roll, new names struggled for recognition then faded away, and the losses suffered by airlines, big and small, ran into the many billions. Because of the initiative of our employees, however, United emerged from the turmoil ready not only to compete, but to excel in the most demanding of environments. We saw that we had an unprecedented second chance. And we determined that never again would we be lulled by size and success or daunted by adversity. That is the essence of our commitment to ourselves and those we serve.

Looking ahead, our success will be measured in several ways — in customer satisfaction, in employee security and in stockholder value. We commend the United family for a job well begun, even as we challenge ourselves and every one of our coworkers to take United to new heights.

G. Greenwald
Gerald Greenwald
Chairman and
Chief Executive Officer

John A. Edwardson
John A. Edwardson
President and
Chief Operating Officer

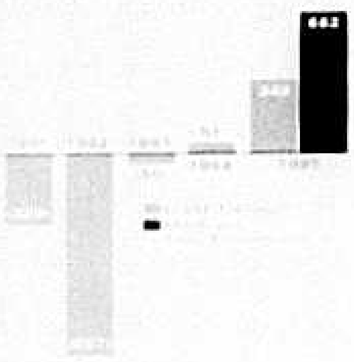
March 8, 1996

REVIEW OF OPERATIONS

With 1995 marking United's first full year under employee ownership, the company asked its employees to meet ambitious goals:

- Increase the traveler's preference toward United by improving service quality — especially with high-yield business and international customers;
- Control expenses — through cost-reduction teams which conducted comprehensive process reviews of many major company operations; and
- Increase United's presence in key cities — through additional departures and expanded international service.

NET EARNINGS
IN MILLIONS OF DOLLARS



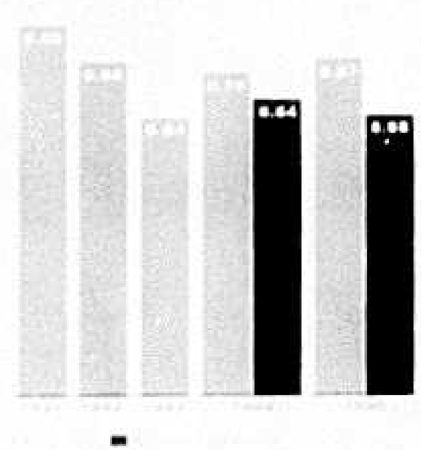
United's employees rose to the challenge and, as a result, increased profitability and aggressively started the company on a path to achieve a long-term attractive return on capital.

Building Customer Loyalty

In 1995, United began a customer service improvement program to increase the traveler's loyalty to United by providing consistent service for the varied needs of a diverse clientele. Because studies have shown that on-board service is the key to airline preference for long-haul passengers, United enhanced its international flight experience in 1995 with more flight attendants, better meals and other amenities aimed at winning customer allegiance, especially in First Class and Connoisseur Class. In the highly competitive trans-Atlantic market, United was the first U.S. carrier to offer passengers arrival amenities such as showers, breakfast service and access to business facilities at each of its Atlantic destinations. On short-haul domestic flights, on-time performance is the most important attribute to travelers. A major focus of the short-haul Shuttle by United is to provide a high-frequency product that is reliable and on time. During the fourth quarter 1995, United made other changes to improve on-time performance of short-haul routes systemwide.

In addition to customer service enhancements, United expanded its Mileage Plus program with more ways to earn miles and more rewards. Studies have shown that the frequent flier program is a major driver in airline preference, especially among high-yield passengers. In 1995, United's Mileage Plus was named Best Frequent Flier Program in *TNT Italia International's* 1995 International Travel Award competition and voted Best Frequent Traveler Program in the U.S. by readers of *InsideFlyer* magazine for the second straight year.

OPERATING COST PER ASM
IN CENTS



Lowering Costs

United implemented cost-reduction programs, many of which were developed by employee task teams, that lowered operating costs $150 million, including:

- Implementing a new travel agency commission payment plan that offers a maximum of $50 for any round-trip domestic airline ticket and a maximum of $25 for any one-way domestic ticket.
- Consolidating aircraft spare parts at Parts Distribution Centers in key cities to reduce inventory levels held across United's system — actions that

will allow United to respond to repair needs on a more timely basis.

- Redesigning the Heavy Maintenance program for the Boeing 727-200 aircraft, which reduced this fleet's maintenance costs by 14 percent and out-of-service time by 37 percent.

Expanding Services

United's long-term strategic plan also focuses on strengthening its route network by increasing the company's presence in key cities. In 1995, the company's daily departures from its hubs increased 9 percent compared to 4 percent at non-hub locations. United also expanded its global network with new routes such as Chicago to London Heathrow and service to New Delhi, India.

The following sections provide additional information on United's market operations during 1995.

International Markets

1995 was a strong year for the international markets, where United continues to be the largest U.S. airline.

By year-end, United's international route network grew to 39 destinations in 30 countries and 3 territories. International capacity rose 4 percent over 1994 — giving United a full 37 percent of its total capacity in international markets. Traffic in international markets increased 3 percent from the previous year while passenger revenue per passenger mile (yield) rose 5 percent. For the year, United's international operations produced 36 percent of the company's total revenues and 45 percent of its overall operating earnings as reported to the U.S. Department of Transportation.

On September 12, culminating four years of effort, United started Chicago-London non-stop service — linking the company's largest hub with Europe's largest gateway. United's daily service positions it for growth in a high-traffic, high-yield market currently served by just two other carriers. The new route proved an instant success — from the customer's perspective as well as United's financial perspective — and was generating profits in its first month. The company also looks forward to increasing Chicago-London capacity in January 1997 as allowed under the terms of the U.S.-U.K. agreement.

While Chicago-London was United's key route authority objective for 1995, the company also challenged itself to turn the historically unprofitable Atlantic market to a profit producer exiting 1995. Schedule adjustments, reduced capacity and the growing contribution of the code-share agreement with Lufthansa — as well as improvements in the U.S. and several European economies — led United to report a $10 million operating profit in the Atlantic market for 1995, as reported to the Department of Transportation. All told, United's Atlantic yield rose 10 percent.

United celebrated a second service milestone in December with the inauguration of the industry's only Round the World service — connecting New York, London, New Delhi, Hong Kong and Los Angeles. With new service to India — a nation experiencing one of the world's most rapid economic growth rates — United seeks to capture an increasing share of that country's burgeoning business travel. United now serves the three main destinations for travel from India: Asia, Europe and the United States.

United also began nonstop service from Miami to Belo Horizonte, Brazil and Lima, Peru — increasing the total Latin America cities served to 12.

Even as United expands international service, the company continues to reevaluate its route structure and redeploy assets — both aircraft and people — to the markets that promise the best returns. As a result, in 1995, United discontinued service on several Pacific and Atlantic routes — Tokyo-Taipei, Bangkok-Taipei, Washington, D.C.-Rome, Seattle-London, Washington, D.C.-Glasgow, Paris-Athens and Paris-Geneva. Latin America schedules were also refined to improve earnings performance — including a 28 percent capacity reduction in Mexico City, where traffic had been below expectations. In January 1996, United discontinued Washington, D.C.-Madrid service, suspended Los Angeles-Paris flights and, to bring capacity into line with traffic demand, reduced New York-London service to three times daily.

Looking to the future, United expects to add international service as opportunities arise. In May 1996, United plans to add a second daily Los Angeles-Tokyo service to meet the strong demand, and in June begin service from Chicago to Dusseldorf, Germany. United is also actively working with the U.S. government to compel Japan's government to maintain current U.S. carriers' rights to fly from points in Japan — including United's Tokyo hub — to other points in Asia. If Japan succeeds in curtailing these "beyond rights" as authorized under the existing bilateral agreement that binds our two countries, Japan will be positioned to control service to the dynamic Asia market so critical to global growth.

Alliance Network

Alliances have become an integral part of United's strategic plan. In 1995, the company saw significant growth of its existing worldwide network of alliances as well as the implementation of a new code-share agreement with Air Canada, bringing the total number of United's alliances to 10. These alliances provide seamless passenger and cargo service to 82 new markets for United without incurring capital expense or confronting significant regulatory obstacles. As of April 1996, the alliance partners extended United's reach by operating more than 800 flights daily in 158 markets. Similarly, Air Canada and Lufthansa extend their route systems by placing their codes on selected United flights, also generating additional customers for United.

As 1996 began, United announced a new agreement with Scandinavian Airlines System (SAS) which further extends United's reach and also provides for SAS placing its code on selected United flights. In addition, United and Thai Airways began planning for implementation of their code-share arrangement, which is subject to U.S. Department of Transportation approval.

As of April 1996	Average Daily Departures	Markets
North America		
Air Canada	31	9
ALM Antillean	13	[illegible]
Aloha	68	4
Cayman Airways	9	4
Gulfstream	140	24
Europe		
British Midland	59	11
Emirates	2	1
Lufthansa	166	60
Latin America		
Aeromar	54	14
Pacific		
Ansett – Australia	35	12
Ansett – New Zealand	4	[illegible]

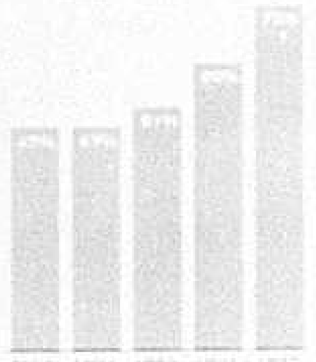
In 1996, strengthening United's existing agreements remains a priority. One of the company's 1996 Corporate Objectives following the initialing of an "open skies" agreement with Germany is to win antitrust immunity from the U.S. and German governments to strengthen the relationship with United's largest alliance partner, Lufthansa Airlines. Both carriers have already joined forces in areas ranging from baggage handling to ground services. Antitrust immunity, if granted, would allow United and Lufthansa to build on that beginning in a wide variety of areas, including managing seat inventory and coordinating sales activities.

North America

The North America market, United's largest market, accounted for 63 percent of the company's capacity and 64 percent of its revenues. As part of United's Quality Flight Plan, United's domestic actions focused on building its presence in the high-traffic Chicago and Los Angeles markets, which are projected to see continued growth. With hubs in these major population centers and heavy connecting traffic to key international destinations, United is poised to capture a significant portion of high-yield international and business travelers. By year-end 1995, United grew its Chicago presence to 424 daily departures to 91 destinations, and Los Angeles to 176 departures to 51 destinations — increases that made significant contributions to earnings improvements at both hubs.

Total domestic capacity rose 4 percent over 1994 while domestic traffic showed a 5 percent increase. Domestic passenger revenue increased 7 percent to $8.6 billion in 1995. United's 3 percent increase in domestic passenger revenue per available seat mile reflected United's greater mix of high-yield passengers and generally higher fares throughout the domestic markets. However, industry domestic revenues continue to be under pressure from low-fare, low-cost carriers. At year-end, approximately 59 percent of United's domestic origin and destination passenger revenue was in markets also served by the low-fare, low-cost carriers, one of the highest exposures among the full-service carriers.

In April 1995, United completed its West Coast rollout of Shuttle by United, and at year-end served 17 cities with 464 daily departures and a fleet of 44 aircraft. During the year, United made several strategic adjustments in the Shuttle schedule, such as shifting aircraft from San Diego-Sacramento to hub-anchored markets such as San Francisco-Seattle. In December 1995, Shuttle service began in the San Francisco-Reno market. As a result of the schedule adjustments and high-quality customer service, the Shuttle posted a higher load factor than its two primary West Coast competitors, Southwest and Alaska Airlines. As part of an ongoing asset assessment, in January 1996, United discontinued Oakland-Seattle and Oakland-Burbank service.



Perhaps the operational highlight of the year came with the opening of the new Denver International Airport (DIA) on February 28, 1995. From day one, DIA became a critical hub for United, which is the largest carrier in Denver. United's growth in both local Denver passenger volumes as well as connecting traffic helped offset 1995's $176 million higher operating cost at DIA compared to the cost of operating at the old Stapleton Airport, $148 million of which are facility rents and landing fees.

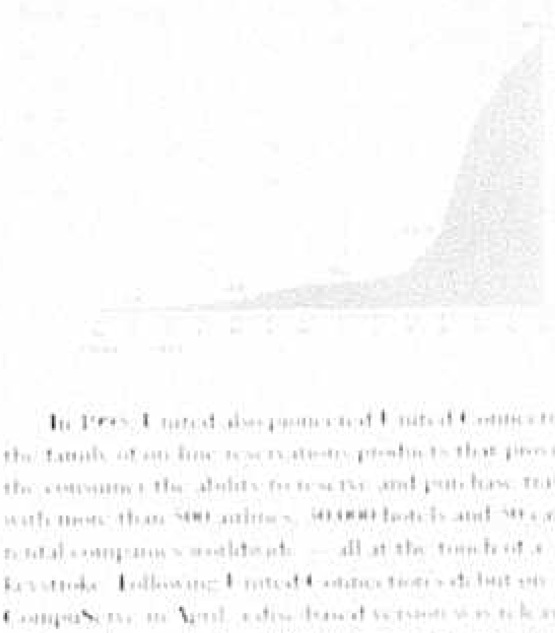
Another of United's 1995 objectives was to post profitable results on Hawaii routes exiting 1995. Historically, Hawaii revenue performance has been weak due to excess industry capacity and the resulting low-fare environment. During 1995, the industry reduced mainland-to-Hawaii capacity by 5 percent while United reduced capacity by 10 percent. As a result, United's average fare in the Hawaii market increased 10 percent and there has been a marked improvement in United's operating performance in Hawaii — operating results improved by $44 million compared to 1994 on a basis consistent with Department of Transportation reporting.

As in the international market, United reevaluated routes and redeployed assets for maximum domestic revenue. In January 1996, unprofitable operations dictated the suspension of service to Little Rock, Fairbanks and New Haven.

Distribution Innovations

With the start-up of the Shuttle by United in 1994, United became the first of the major full-service carriers to enter the age of electronic ticketing. United's E-Ticket uses today's information technology to provide customers with a convenient, flexible alternative to traditional ticketing. In 1995, United took ticketless travel from the Shuttle to its mainline flights, making E-Ticket available through the Apollo and System One reservations systems in March, expanding availability to all domestic U.S. travelers in October, and finally adding Sabre and Worldspan reservations systems in December. With distribution ranking second only to labor in the hierarchy of airline costs, electronic ticketing promises not just added convenience for United's customers, but significant savings for the company as well.

By year-end, nearly 20 percent of United's domestic customers were traveling on E-Tickets. In 1996, United is looking to expand ticketless travel to international markets.



In 1995, United also pioneered United Connection, the family of on-line reservations products that provide the consumer the ability to reserve and purchase travel with more than 500 airlines, 30,000 hotels and 50 car rental companies worldwide — all at the touch of a keystroke. Following United Connection's debut on CompuServe in April, a disc-based version was released in November, including a Windows-based format for PC users. In 1996, the disc version will be available through CompuServe and the Microsoft Network. In 1997, United Connection will be featured in United's site on the World Wide Web.

Finally, in 1996 United is focusing on streamlining airport processes through introduction of automated self-service check-in devices. These will be located throughout domestic stations and designed to expedite check-in for electronically ticketed passengers.

Cargo

While most of United's operations are dedicated to moving passengers, the company's cargo operation is significant — reaching record revenues and volumes in 1995. Already the world's number one air cargo carrier among airlines without freighter aircraft, United posted the highest cargo revenue for any U.S. combination passenger and cargo carrier. In 1995, cargo revenues increased 11 percent year over year to a record $757 million. Cargo ton miles rose to 2.3 billion, up 9 percent from 1994.

With the 1996 addition to United's fleet of cargo-friendly aircraft like the B747-400 and the B777, United expects cargo revenues to remain strong, particularly with respect to U.S. export revenue.

Fleet

United closed 1995 with a fleet of 558 aircraft. Over the next five years, United plans to replace 93 aircraft in three subfleets — the B737-200s, B747-100s and McDonnell Douglas DC-10-10s. This retirement program coincides with the heavy maintenance requirements around their 25th year in flight — that point in a plane's life cycle when maintenance and operating expenses become increasingly costly. United's current fleet plan calls for a net increase of four aircraft by year-end 2000 — a rate that will keep capacity growth below the forecast for customer demand.

At the center of the fleet plan is the B777, which debuted in June 1995 on our London-Washington, D.C., route. The B777 was the result of years of close collaboration with the Boeing design team — an aircraft that sets new state-of-the-art standards for in-flight comfort as well as operating efficiencies. Compared to the aircraft being retired, the B777 promises significant economies in operating costs.

With extra-wide seats, large overhead compartments and a state-of-the-art video system built into each seat, the B777 represents the most sophisticated combination of technology, comfort and convenience ever offered to the flying public. Customer satisfaction on the B777 exceeds all other United aircraft, and as the only U.S. airline currently offering B777 service, this craft symbolizes United's commitment to be the global airline of choice.

During 1995, United accepted delivery of eight B777s and eight Airbus A320s, while retiring one B747-100. At year-end, 70 percent of United's fleet was Stage III. United is on course to meet the FAA requirements to operate an entire Stage III aircraft fleet by year-end 1999 through new deliveries, retirements and modifications to hush kit B727-200s.

United's People

Through February 1996, nearly 3,800 United employees in 15 foreign countries became owners through international stock ownership programs, bringing the total number of employee-owners to approximately 80,000. The international employees' participation strengthens their commitment to provide the high-quality service that will ensure United's success worldwide.

United understands that service improvements alone cannot make United the global airline of choice. As a result, in 1995 United increased its customer service training and instituted a program the company calls Mission United — conveying to its employees a sense of the new United's corporate vision, corporate values and the way they relate to the shared mission. Other airlines may take different paths, but at United, employee ownership is an essential element of the Quality Flight Plan for the future.

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 which will be issued to employees throughout the ESOP 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, 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 non-cash ESOP compensation expense in large part offsets the wage and benefit savings achieved through the employee investments.

The following table compares UAL Corporation's 1995 results on this pro forma, fully distributed basis to the results reported under GAAP.

As the numbers show, 1995 marked a strong year for the new United:

- Significant gains in key international and domestic markets.
- Expanded code-share arrangements to extend United's passengers' options.
- Innovations in distribution that delivered convenience to United's customers and lower costs to the company.
- Steady gains in cargo revenues.
- A cost-effective "retire and replace" fleet management program.
- And a focus on people centered on the employee-owner's ethic established under the ESOP.

Taken together, these assets powered United to its position as the U.S.'s most profitable carrier in 1995 — a performance that promises higher heights in 1996.

(In Millions, Except Per Share)	GAAP BASIS	FULLY DISTRIBUTED BASIS
Earnings		
Operating revenues	$ 14,943	$ 14,943
Operating expenses (excluding ESOP charges)	(13,520)	(13,520)
ESOP compensation expense	(504)	N/A
Operating earnings	919	1,423
Non-operating expense	(298)	(298)
Earnings before income taxes and extraordinary item	621	1,125
Provision for income taxes	243	434
Earnings before extraordinary item	378	691
Extraordinary loss on debt extinguishment, net of tax	(29)	(29)
Net earnings	349	662
Preferred stock dividends, adjustment for preferred stock transactions, other adjustments	96	7
Earnings attributable to common shareholders	$ 253	$ 655
Shares		
Average common shares outstanding	12.4	12.4
ESOP preferred shares assumed outstanding	3.0	17.4
Other	2.5	2.8
Total shares assumed outstanding	17.9	32.6
Per share, fully diluted		
Earnings before extraordinary item	$ 20.73	$ 21.40
Extraordinary item, net of tax	(1.62)	(0.89)
Net earnings	$ 19.11	$ 20.51

In closing, at year-end 1995, Mr. Harlow B. Osteboe retired from the Board of Directors, on which he served as the Air Line Pilots Association (ALPA) elected director. The stockholders, employees and Board of Directors thank him for his efforts on behalf of the company.

United's Aircraft Fleet

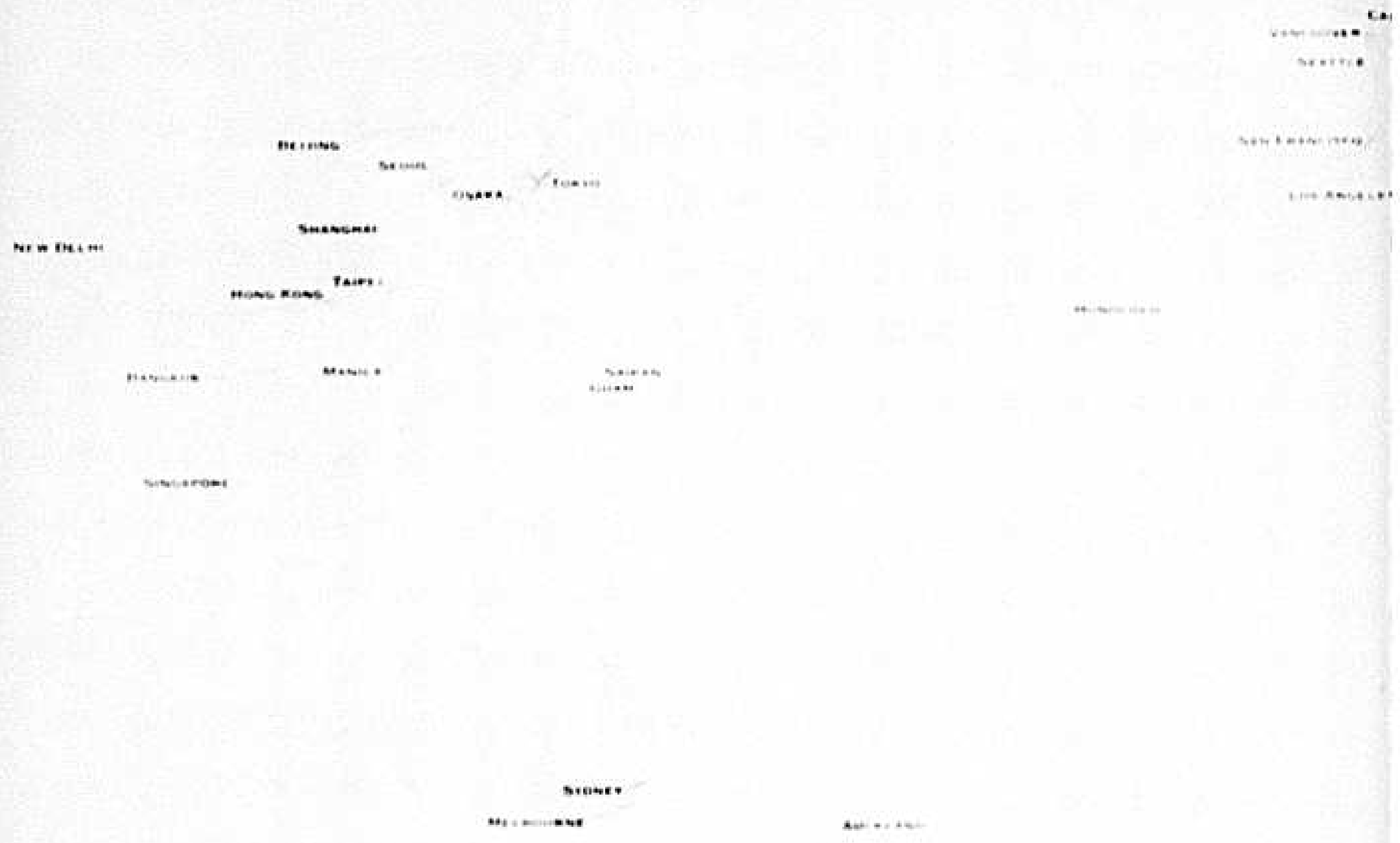
As of December 31, 1998	Average Seats	Average Age (yrs)	Owned	Leased	Total	Total on Order/Options
A320	144	1.4	–	29	29	21/45
B727-222A	147	16.9	59	16	75	–
B737-200	109	27.1	45		45	
B737-200A	109	16.5	24		24	
B737-300	126	6.9	10	91	101	6/137
B737-500	108	3.8	27	30	57	
B747-100	394	24.5	17	–	17	
B747-200	346	16.5	2	7	9	–
B747-400	389	4.0	3	21	24	1/10
B757-200	188	4.2	33	55	88	4/29
B767-200	168	15.0	19	–	19	
B767-300ER	211	3.4	3	20	23	0/5
B777-200	292	0.5	–	8	8	26/34
DC10-10	287	20.3	23	8	31	
DC10-30	298	16.5	1	7	8	
Total		10.7	266	292	558	55/290

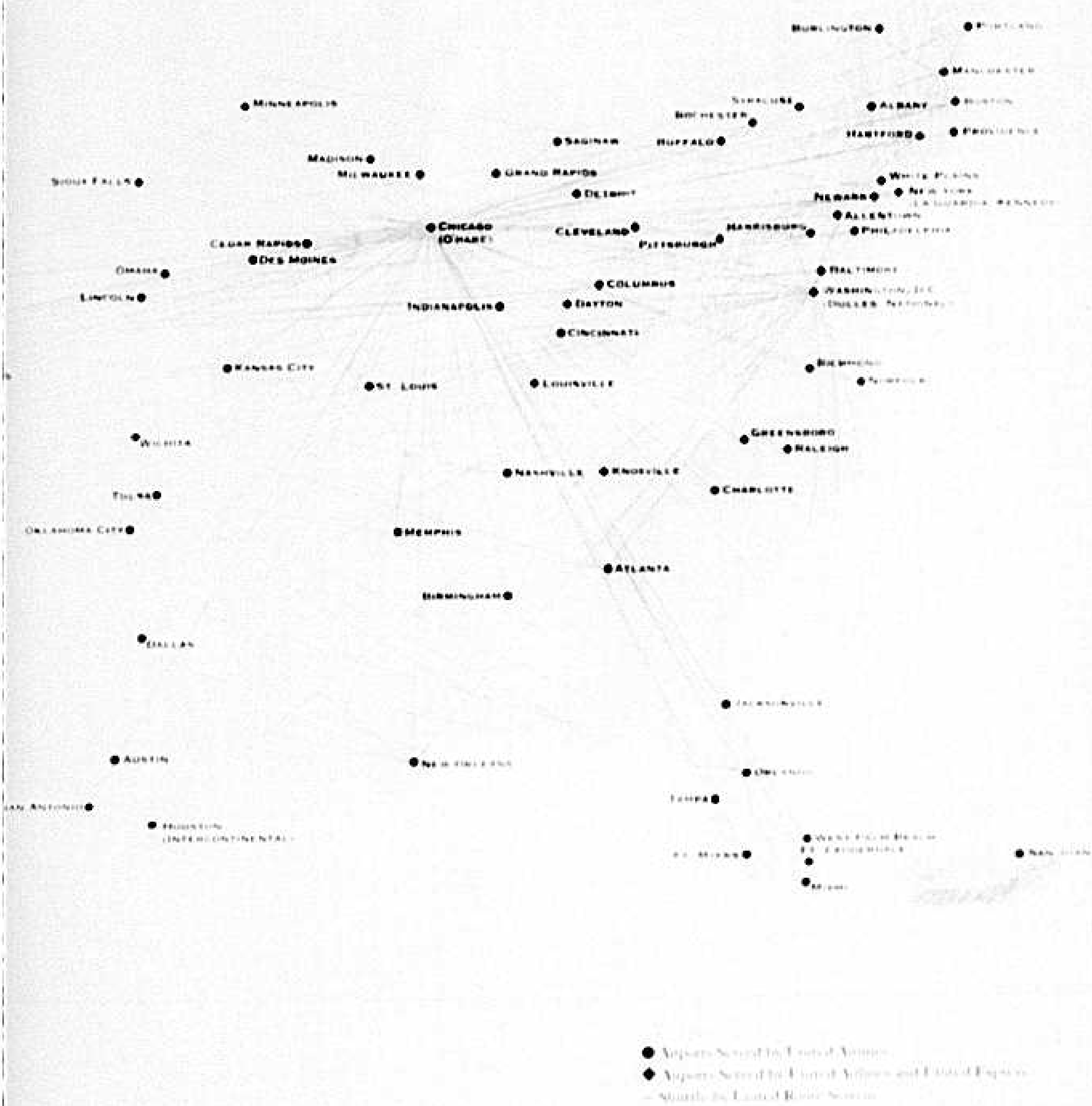
United's Domestic and International Hubs

As of April 1998	Chicago (ORD)	Denver (DEN)	Los Angeles (LAX)	San Francisco (SFO)	Washington, D.C. (IAD)	Tokyo (NRT)
Average Daily Departures						
United Airlines	418	282	177	245	57	
United Express Partners	122	153	109	91	200	
Weekly Departures						105
Total	540	435	286	336	257	105
Non-Stop Markets Served By:						
United Airlines	89	58	50	46	29	
United Express Partners:						
Air Wisconsin Airlines	7	8				
Atlantic Coast Airlines					41	
Great Lakes Aviation	16	8				
Mesa Airlines		27	10			
United Feeder Service	8					
SkyWest Commuter Airlines			7	12		
Transpacific Markets Served						6
Intra-Asian Markets Served						6
Total*	117	98	46	56	65	12

*[illegible]

United's International Route System





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DETROIT
NEWARK
NEW YORK
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CHICAGO
(O'HARE)
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HARRISBURG
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AUSTIN
NEW ORLEANS
ORLANDO
SAN ANTONIO
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(INTERCONTINENTAL)
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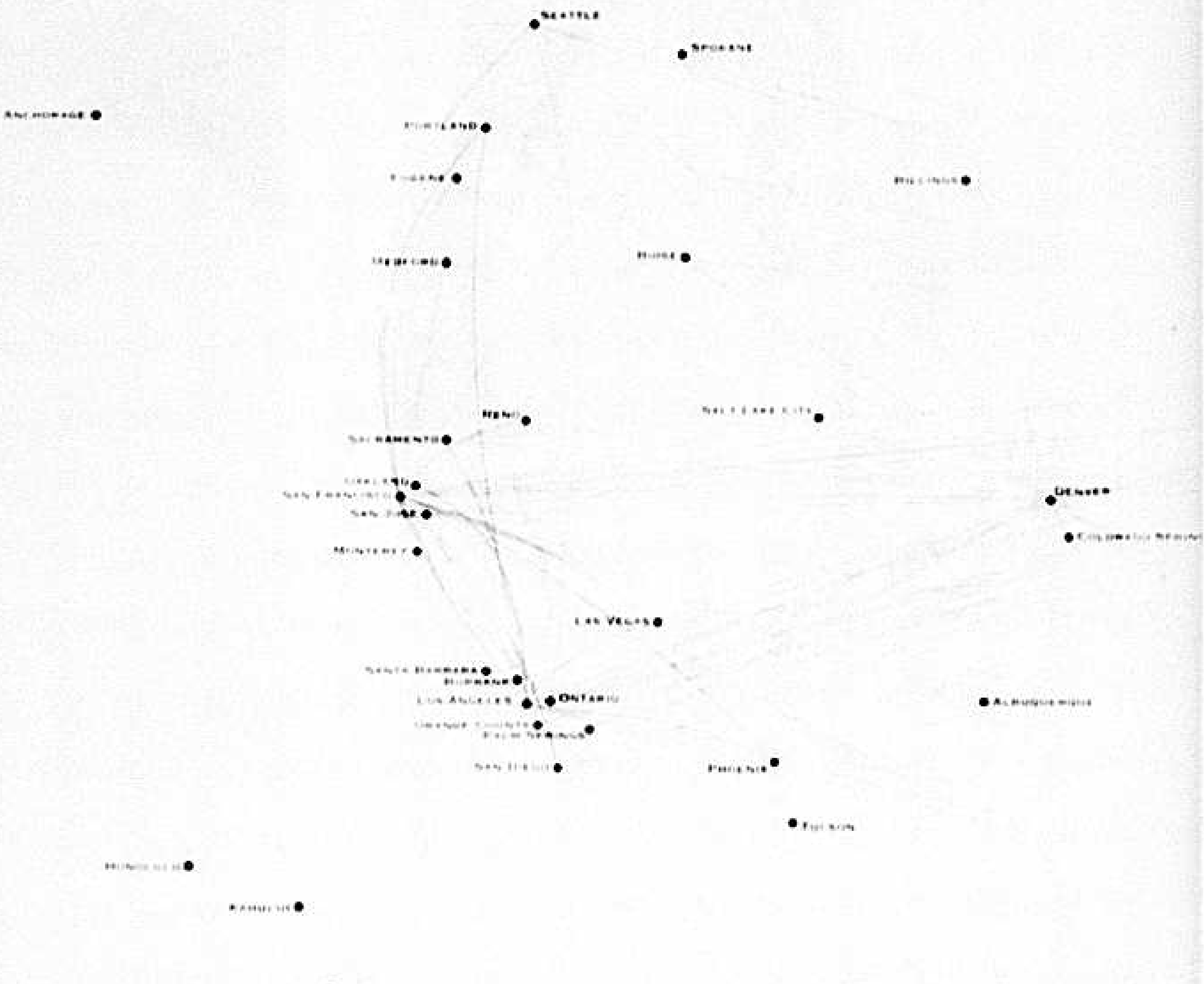
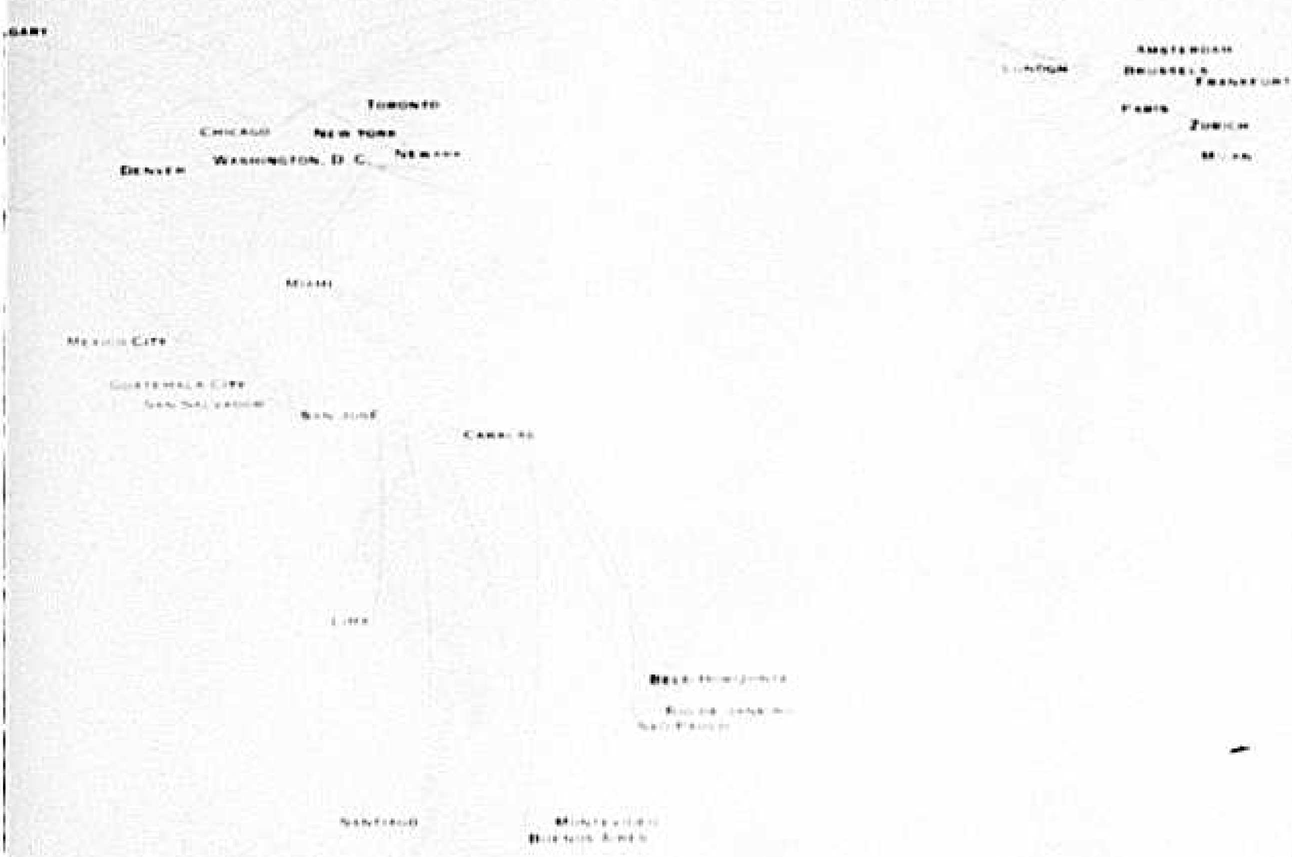
FT. MYERS
FT. LAUDERDALE
SAN JUAN
MIAMI

United's Domestic Route System

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FINANCIAL REVIEW

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

> This section contains forward-looking statements which are identified with an asterisk (*). Factors that could significantly impact the expected results implied in the forward-looking statements are listed in the last paragraph of the section, "Outlook for 1996."

On July 12, 1994, the shareholders of UAL Corporation ("UAL") approved a plan of recapitalization that provides an approximately 55% equity and voting interest in UAL to certain employees of United Air Lines, Inc. ("United") in exchange for wage concessions and work-rule changes. The employees' equity interest is being allocated to individual employee accounts through the year 2000 under Employee Stock Ownership Plans ("ESOPs") which were created as a part of the recapitalization. Since the ESOP shares are being allocated over time, the current ownership interest held by employees is substantially less than 55%. The entire ESOP voting interest is currently exercisable, which generally will be voted by the ESOP trustee at the direction of, and on behalf of, the employees participating in the ESOPs.

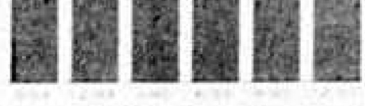
Liquidity and Capital Resources

LIQUIDITY -

UAL's total of cash and cash equivalents and short-term investments was $1.143 billion at December 31, 1995, compared to $1.532 billion at December 31, 1994. Operating activities during the year generated $1.624 billion. Cash was used primarily to repay long-term debt, reacquire preferred stock, reduce short-term borrowings and fund net additions to property and equipment. In addition to the early extinguishment of $750 million in principal amount of various debt securities, UAL made mandatory repayments of long-term debt totalling $102 million. Payments under capital lease obligations amounted to $80 million during the year and short-term borrowings were reduced by $269 million. In addition, UAL spent $131 million to repurchase Series B preferred stock to be held in treasury.

In 1995, United took delivery of eight new Airbus A320 aircraft and eight new Boeing 777 aircraft, financed primarily through lease transactions. Four of the B777s were purchased and then sold and leased back under operating leases. Of the remaining new aircraft acquired, eight were acquired under operating leases and four under capital leases. In addition, United acquired 39 previously leased aircraft, 9 B727s, 24 B737s and 6 DC-10s, upon termination of operating leases. Including these aircraft, total property additions amounted to $1,111 million. Property dispositions, including the sale and leaseback of the four B777 aircraft, resulted in proceeds of $578 million.

LONG-TERM DEBT, CAPITAL LEASE OBLIGATIONS AND SERIAL PREFERRED STOCK



As of December 31, 1995, UAL had a working capital deficit of $1.390 billion as compared to $1.714 billion at December 31, 1994. Historically, UAL has operated with a working capital deficit and, as in the past, UAL expects to meet all of its obligations as they become due. In addition, UAL may from time to time repurchase on the open market, in privately negotiated purchases or otherwise, debentures or preferred stock as part of its efforts to reduce its obligations and improve its balance sheet.

In April, 1995, UAL issued $600 million in principal amount of 6 3/8% convertible subordinated debentures, due 2025, in exchange for all of the outstanding shares of its Series A cumulative 6.25% convertible preferred stock. The debentures are convertible into a combination of $541.90 in cash and approximately 3.192 shares of UAL common stock (equivalent to a conversion price of $143.50 per share of common stock) for each $1,000 in principal amount.

The debentures are redeemable at any time on or after May 1, 1996, at UAL's option, initially at a redemption price of 104.375% of the principal amount, declining ratably to 100% of the principal amount over seven years. UAL may only exercise this option if the closing price of its common stock exceeds $172.20 for at least 20 of 30 consecutive trading days preceding the notice of redemption, including the last trading day. In January 1996, UAL announced that it is weighing the possibility of redeeming the debentures on or after May 1, 1996, as part of its efforts to reduce its obligations. The decision to redeem the debentures will depend on financial markets and other conditions, including the condition outlined above. If UAL issues a notice of redemption, holders may still convert their debentures through the business day preceding the redemption date. If the redemption date is May 1, 1996, or on or after any other interest payment date and prior to the next interest payment record date, holders who convert will not be entitled to any interest on the debentures.

In the second quarter of 1995, United repaid all $269 million of its outstanding short-term borrowings. However, United continues to have the ability to borrow up to $270 million under this commercial paper facility through February 1997.

Prior Years. Operating activities in 1994 generated cash flows of $1.334 billion, which was offset by the distribution of $2.1 billion to holders of old UAL common stock under the recapitalization. This distribution was partially funded by net proceeds of $735 million on the issuance of debentures and $400 million on the issuance of Series B preferred stock. Subsequent to issuance, UAL spent $87 million to repurchase Series B preferred stock to be held in treasury. Other financing activities included principal payments under debt and capital lease obligations of $305 million and $87 million, respectively, and a $46 million reduction of short-term borrowings. Property additions, including the acquisition of two B747 aircraft and aircraft spare parts, amounted to $636 million. Property dispositions resulted in proceeds of $432 million.

During 1993, UAL's balance of cash and cash equivalents decreased $85 million while short-term investments increased $430 million. Operating activities resulted in cash flows of $858 million, which more than offset cash used for net property additions and financing activities. Investing activities, including the short-term investment increase and net property additions, used $740 million. Property additions amounted to $1.496 billion, including the purchase of 34 aircraft, and property dispositions resulted in proceeds of $1.165 billion, including the sale and leaseback of 18 aircraft. In all, 10 B737 aircraft, 16 B757 aircraft, 4 B747 aircraft, 8 B767 aircraft and 5 A320 aircraft were acquired, through purchases or leases. Financing activities used $205 million. Reductions in short-term borrowings, capital lease obligations and long-term debt, including the early extinguishment of $500 million of senior subordinated notes, more than offset cash proceeds from the issuance of Series A preferred stock and long-term debt.

Capital Commitments —

At December 31, 1995, commitments for the purchase of property and equipment, principally aircraft, approximated $3.6 billion, after deducting advance payments. An estimated $1.4 billion is due to be spent in 1996, $1.6 billion in 1997, $0.4 billion in 1998 and $0.2 billion in 1999 and thereafter. The major commitments are for the purchase of 26 B777 aircraft, 4 B747 aircraft and 4 B757 aircraft. The B777s are scheduled to be delivered through 1999 and the B747s and B757s are expected to be delivered in 1996 and 1997.

In addition to the above aircraft orders, United has arrangements with Airbus Industrie ("Airbus") and International Aero Engines to lease 21 A320 aircraft, which are scheduled for delivery through 1998. At December 31, 1995, United also had options for an additional 137 B737 aircraft, 29 B757 aircraft, 34 B777 aircraft, 40 B747 aircraft, 5 B767 aircraft and 45 A320 aircraft. Under the terms of certain of these options which are exercisable during 1996 and 1997, United would forfeit significant deposits on such options not exercised.

In April 1995, United announced that, under a revised fleet plan, it would use most of the new aircraft to be delivered through 1997 to replace older aircraft in its fleet. As a result, United's fleet plan provides for only slight growth in its operating fleet through the end of 1997.

In October 1995, certain employees of the Boeing Company ("Boeing") began a labor strike, now settled, which affected Boeing's ability to deliver as scheduled certain new aircraft which United had on order. Specifically, three B777 aircraft which were scheduled for delivery in the fourth quarter of 1995 are now expected to be delivered in 1996.

In connection with the construction of the Indianapolis Maintenance Center, United agreed to reach an aggregate $800 million capital spending target by the year 2001 and employ at least 7,500 individuals by the year 2004. In the event that such targets are not reached, United may be required to make certain additional payments under related agreements.

Capital Resources –

Funds necessary to finance aircraft acquisitions are expected to be obtained from internally generated funds, irrevocable external financing arrangements or other external sources.

In May 1995, United issued $246 million principal amount of pass through certificates under an effective shelf registration statement UAL and United have on file with the Securities and Exchange Commission. The pass through certificates were issued to finance or refinance certain aircraft under operating leases. At December 31, 1995, up to $795 million of securities could be issued under the shelf registration, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof. UAL's ability to issue equity securities is limited by its restated certificate of incorporation.

In January 1996, United offered $165 million principal amount in pass through certificates under the shelf registration statement, lowering the amount available for public offering under the shelf to $631 million. The pass through certificates were issued to refinance two aircraft under operating leases.

At December 31, 1995, United's senior unsecured debt was rated BB by Standard and Poor's ("S & P") and Baa3 by Moody's Investors Service Inc. ("Moody's"). UAL's Series B preferred stock was rated B+ by S & P and ba3 by Moody's.

Immediately following UAL's announcement in October 1995 that it was studying the possibility of submitting a proposal to acquire USAir Group, Inc. ("USAir"), S & P placed UAL and United securities on CreditWatch with negative implications. In November 1995, UAL announced that it had ended its evaluation of USAir and would not submit a proposal to acquire the company. With this announcement, S & P reaffirmed its ratings of UAL and United securities.

UAL's ability to pay dividends on its outstanding capital stock is defined under Delaware General Corporation Law ("DGCL"). DGCL requires that dividends on outstanding capital stock may only be made from surplus, as defined, or the net profits of the Company for the fiscal year in which the dividend is declared and/or the preceding fiscal year. As a result of the recapitalization, UAL's surplus significantly decreased; however, UAL has had sufficient surplus to pay all scheduled dividends on its preferred stock since the recapitalization and expects to do so in the future.*

Results of Operations

The results of operations in the airline business historically fluctuate significantly in response to general economic conditions. This is because small fluctuations in yield (passenger revenue per revenue passenger mile) and cost per available seat mile can have a significant effect on operating results. UAL anticipates industrywide fare levels, increasing low-cost competition, general economic conditions, fuel costs, international governmental policies and other factors will continue to affect its operating results.

The July 1994 employee investment transaction and recapitalization resulted in wage and benefit reductions and work-rule changes which were designed to reduce UAL's cash operating expenses. These cash expense reductions are offset by non-cash compensation charges for stock periodically committed to be released to employees under the ESOPs, and additional interest expense on the debentures issued at the time of the recapitalization. The amount of the non-cash compensation expense in the future cannot be predicted, because it is based on the future market value of UAL's stock. Additionally, it is anticipated that tax provisions (credits) in future periods could be impacted by permanent differences between tax deductions and book expenses related to the ESOPs.

Summary of Results –

UAL's earnings from operations were $829 million in 1995, compared to operating earnings of $521 million in 1994. UAL's net earnings in 1995 were $349 million ($20.01 per share, primary; $19.11 per share, fully diluted), compared to net earnings of $51 million in 1994 (a loss of $0.61 per share). The 1995 earnings include an extraordinary loss of $29 million, after tax, on early extinguishment of debt. The 1994 earnings include a $26 million after-tax charge for the cumulative effect of adopting Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which UAL adopted effective January 1, 1994.

The per share amounts for 1995 include the effects on equity of the exchange of convertible debentures for Series A convertible preferred stock and repurchases of Series B preferred stock. These transactions had no effect on earnings; however, the difference between the fair value of consideration given up and the carrying value of the preferred stock acquired is included in the computation of earnings per share. Excluding the preferred stock transactions, UAL's 1995 earnings per share were $18.71, primary, and $17.96, fully diluted.

In connection with the July 1994 recapitalization, each share of old common stock was converted to one half share of new common stock (and cash in lieu of fractional shares) and $84.81 in cash. As a result, the number of outstanding shares was reduced proportionately. Accordingly, the weighted average shares in the earnings per share calculations for 1994 are based on the number of old common shares outstanding prior to the recapitalization and the reduced number of new common shares outstanding subsequent to the transaction. Furthermore, for all periods subsequent to the transaction, the earnings per share calculations also include ESOP shares which have thus far been committed to be released to employees, if doing so is dilutive. Thus, direct comparisons between per share amounts for the periods presented are not meaningful.

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 period (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. On a fully distributed basis, UAL's net earnings for 1995 would have been $662 million compared to $349 million as reported under generally accepted accounting principles. Per share amounts would be as follows:

	GAAP (Fully Diluted)	Fully Distributed
Earnings before preferred stock transactions	$17.96	$19.88
Preferred stock transactions	1.15	0.63
	$19.11	$20.51

1995 Compared with 1994 –

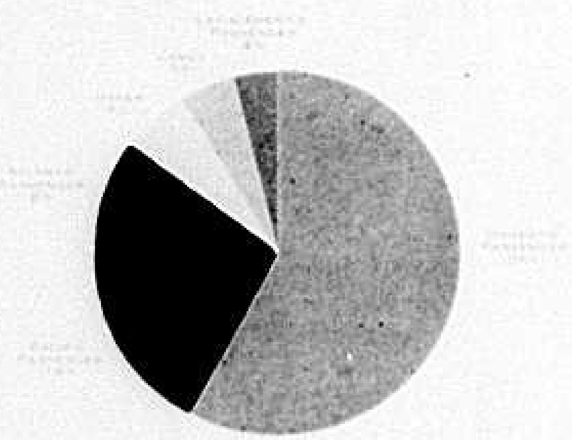
In the first quarter of 1995, United implemented a new travel agency commission payment plan that offers a maximum of $50 for any round-trip domestic airline ticket and a maximum of $25 for any one-way domestic ticket. The new commission plan resulted in a reduction of approximately $80 million in United's commission expense for 1995 from what would have otherwise been incurred. Lawsuits have been filed challenging this payment plan (see "Contingencies").

Operating Revenues. Operating revenues increased $993 million (7%). United's revenue per available seat mile increased 3% to 9.39 cents. Passenger revenues increased $932 million (8%) due primarily to a 3% increase in United's revenue passenger miles and a 4% increase in yield to 11.79 cents.

1995 Passenger Revenues

(In Millions)	1995	1994	Change
Domestic	$ 8,629	$ 8,044	+ 7%
Pacific	2,891	2,603	+11
Atlantic	1,110	1,023	+ 8
Latin America	597	628	– 4
Total	$13,227	$12,298	+ 8%

1995 OPERATING REVENUES
AS A PERCENT OF TOTAL OPERATING REVENUES

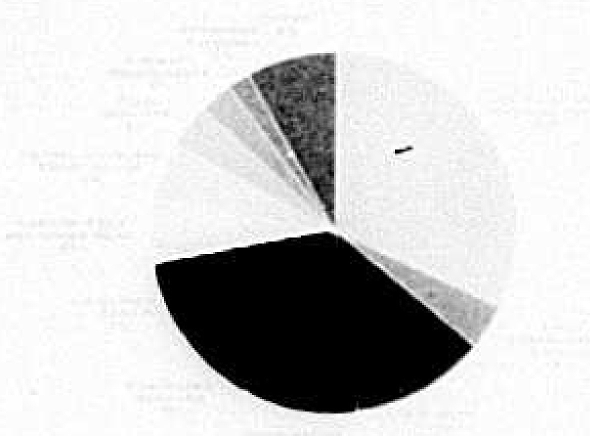


Yield increases in the domestic (4%), Pacific (5%) and Atlantic (9%) markets were offset by a 5% decrease in Latin America yield. Both domestic and international revenue passenger miles increased by 3%. Available seat miles increased 4% systemwide, as increases of 8% and 4% on Pacific and domestic routes, respectively, were partially offset by a decrease of 3% in the Atlantic. As a result, United's system passenger load factor decreased 0.7 points to 70.5%.

Cargo revenues increased $72 million (11%). Freight ton miles increased 6% and mail ton miles increased 1%. A 3% higher freight yield was offset by a lower mail yield for an overall increase in cargo yield of 2%. Other operating revenues include a $43 million (30%) increase in Mileage Plus partner related revenues, offset by a $50 million (24%) decrease in fuel sales to third parties.

Operating Expenses. Operating expenses increased $685 million (5%). United's cost per available seat mile also increased 1% from 8.79 cents to 8.87 cents, which includes the non-cash ESOP compensation expense. Without this expense, United's cost per available seat mile would have been 8.55 cents versus 8.64 cents in 1994. ESOP compensation expense increased $322 million, reflecting a higher average common stock price in 1995 combined with a shorter expense period in 1994, as the recapitalization took place on July 12, 1994. Landing fees and other rent increased $181 million (29%) due to increased facilities rent, primarily due to new facilities at Denver, and increased landing fees as the number of systemwide departures increased 7%. Aircraft rent increased $76 million (8%) as a result of new A320 and B777 aircraft on operating leases. Food services costs increased $55 million (11%) due to new catering arrangements resulting from the 1994 sale of certain flight kitchens, increased passenger volumes and quality improvements in the First and Connoisseur class services. Purchased services increased $115 million (12%) due principally to volume-related increases in computer reservations fees and credit card discounts. An increase of $95 million (6%) in aircraft fuel reflects a capacity related increase in United's consumption of 5% and an increase in United's average price per gallon to 59.5 cents from 58.8 cents. The increase in average price per gallon reflects a charge of approximately $20 million resulting from the new federal fuel tax that took effect October 1, 1995. Commissions increased $45 million (3%) due principally to increased commissionable revenues partially offset by the effects of the new travel agents commission payment plan. Personnel expenses increased $37 million (18%) due primarily to increased layover costs incurred principally in support of international operations.

1995 OPERATING EXPENSES
AS A PERCENT OF TOTAL OPERATING EXPENSES



Salaries and related costs decreased $155 million (3%) primarily due to the full-year effect of savings resulting from wage and benefit reductions for employees participating in the ESOPs and to $48 million of one-time ESOP related costs recorded in 1994, partially offset by higher average wage rates for other employee groups and increased staffing in certain customer-oriented positions. Other operating expenses decreased $82 million (7%) due mainly to lower fuel sales.

Other Income and Expense. Other expense amounted to $208 million in 1995 compared to $350 million in 1994. Interest expense increased $27 million (7%) due to the issuance of $600 million principal amount of 6 3/8% convertible subordinated debentures in exchange for Series A preferred stock. Interest income increased $13 million (18%)

due to higher average interest rates earned on investments. Equity in earnings of affiliates increased $28 million as a result of increased earnings at Galileo. Included in "Miscellaneous, net" in 1995 were foreign exchange losses of $20 million, a $60 million gain on property dispositions and a $23 million charge for minority interests in Apollo Travel Services Partnership ("ATS"). "Miscellaneous, net" in 1994 included charges of $121 million for fees and costs incurred in connection with the recapitalization, a $22 million charge for minority interests in ATS and foreign exchange gains of $15 million.

Income Tax Provision. The income tax provision for 1994 was significantly impacted by the nondeductibility of certain recapitalization costs.

1994 Compared with 1993

UAL's results of operations improved in 1994 as compared to 1993. In 1994, UAL recorded net earnings of $51 million, representing a loss per share of $0.61 after preferred stock dividends, compared to a 1993 net loss of $50 million, or $3.40 per share after preferred stock dividends. Included in 1994 were $109 million of pretax expenses incurred in connection with the recapitalization, of which $48 million were recorded in operating expenses. The 1994 results also include an after-tax charge of $26 million ($1.37 per share) for the cumulative effect of adopting Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits," which UAL adopted effective January 1, 1994. The 1993 results include an extraordinary loss of $19 million, $0.76 per share, on the early extinguishment of debt.

Prior to the September 1993 merger of the Covia Partnership ("Covia") and Galileo Ltd., United's investments in these companies were carried on the equity basis. United now owns 77% of ATS, one of the companies formed in the merger, and its accounts are consolidated with those of United. As a result, United's consolidated operating revenues and expenses increased. In 1993, UAL also transferred the operations of Air Wisconsin, Inc. to other parties, the effect of which was to reduce UAL's gross operating revenues and expenses. In addition, the sales of flight kitchen assets in late 1993 and early 1994 had the effect of reducing United's salaries and related costs and increasing, to a lesser degree, food services. These changes have affected the 1994 comparisons to 1993 as indicated in the discussion which follows.

Operating Revenues. Operating revenues increased $625 million (5%). United's revenue per available seat mile increased 4% to 9.12 cents. Passenger revenues increased $337 million (3%) due primarily to a 7% increase in United's revenue passenger miles, partially offset by a 3% decrease in yield to 11.51 cents. Domestic revenue passenger miles increased by 7% while international increased by 8%. Available seat miles increased 1% systemwide, as increases of 6% in the Pacific and 2% in the Atlantic were partially offset by decreases of 1% on domestic routes and 3% in Latin America. As a result, United's system passenger load factor increased 4.0 points to 71.2%. In addition, Air Wisconsin, Inc., which accounted for $159 million of passenger revenues in 1993, accounted for no passenger revenue in 1994 as previously discussed.

Cargo revenues increased $26 million (4%), due to increased freight revenues partially offset by decreased mail revenues. Freight and mail revenue ton miles each increased 3%; however, freight yield increased 5% while mail yield decreased 8%. Other operating revenues increased $262 million (37%) primarily as a result of the consolidation of ATS, revenues resulting from the lease of Air Wisconsin, Inc. assets to other parties and an increase in fuel sales.

Operating Expenses. Operating expenses increased $367 million (3%). United's cost per available seat mile also increased 3% from 8.54 cents to 8.79 cents, which includes certain one-time costs relating to the recapitalization and ESOP compensation expense. Without these costs, United's cost per available seat mile would have been 8.64 cents. Food services increased $162 million (51%) due to the new catering arrangements resulting from the flight kitchen sales as discussed above. Commissions increased $96 million (7%) due principally to increased commissionable revenues. An increase of $63 million (7%) in aircraft rent reflects rent associated with a higher number of aircraft on operating leases, including new aircraft acquired in the past year. Aircraft maintenance increased $25 million (6%) as a result of increased vendor-provided maintenance due to the timing of maintenance cycles. Other operating expenses increased $171 million (17%) due to the consolidation of ATS, depreciation in 1994 on Air Wisconsin, Inc. assets leased to others and higher fuel sales.

Aircraft fuel expense decreased $148 million (9%), due to an 8% decrease in United's average price per gallon of fuel to 58.8 cents and a slight decrease in United's consumption. Salaries and related costs decreased $81 million (2%) primarily due to lower wage rates for employees participating in the ESOPs and a lower number of employees as a result of the flight kitchen sales, partially offset by higher average wage rates for other employee groups, higher costs associated with medical benefits and $48 million of one-time costs related to the recapitalization. Depreciation and amortization decreased $59 million (5%) due principally to the transfer of Air Wisconsin, Inc. assets to other parties and the subsequent classification of depreciation on those assets in other expenses. Purchased services decreased $36 million (4%), as certain services, principally computer reservations and communications, were provided by ATS subsequent to the merger.

Other Income and Expense. Other expense amounted to $350 million in 1994 compared to $310 million in 1993. Interest expense increased $14 million (4%) due to higher average interest rates resulting from the debentures issued in July 1994, partially offset by the benefit of the extinguishment of $500 million of subordinated debt in 1993. Interest capitalized decreased $10 million (20%) as a result of lower average advance payments on new aircraft and lower capitalized interest rates. Interest income decreased $13 million (13%) due primarily to interest received in 1993 in connection with the final settlement of certain pension benefits. United's equity in results of affiliates changed from a loss of $30 million in 1993 to earnings of $20 million in 1994 due primarily to a charge recorded by Galileo International in 1993 for the cost of eliminating duplicate facilities and operations after the merger of Covia and Galileo Ltd. Included in "Miscellaneous, net" in 1994 were charges of $121 million for fees and costs incurred in connection with the employee investment transaction and recapitalization, a $22 million charge for minority interests in ATS and foreign exchange gains of $15 million. Included in 1993 was a $59 million charge to reduce the net book value of 15 DC-10 aircraft to estimated realizable value, a $17 million gain resulting from the final settlement of certain pension benefits and foreign exchange losses of $20 million.

Income Tax Provision. The income tax provision for 1994 was significantly impacted by the nondeductibility of certain recapitalization costs and the statutory change in the deductibility of other expenses.

Other Information

DEFERRED TAX ASSET –

UAL's consolidated balance sheet at December 31, 1995 includes a net deferred tax asset of $474 million, compared to $631 million at December 31, 1994. The net deferred tax asset is composed of approximately $1.9 billion of deferred tax assets and approximately $1.5 billion of deferred tax liabilities. The deferred tax assets include, among other things, $594 million related to obligations for postretirement and other employee benefits, $450 million related to gains on sales and leasebacks, $265 million related to alternative minimum tax ("AMT") credit carryforwards and $123 million of federal and state net operating loss ("NOL") carryforwards. The AMT credit carryforwards do not expire; the federal NOL carryforwards begin to expire in 2009 if not utilized prior to that time.

Management believes that a majority of the deferred tax assets will be realized through reversals of existing deferred tax liabilities with similar reversal patterns. To realize the benefits of the remaining deferred tax assets relating to temporary differences, UAL needs to generate approximately $1.1 billion in future taxable income.

Although United experienced book and tax losses in 1993, United had book income in 1994 and 1995 and taxable income in 1994. United had a tax loss in 1995 due to the implementation of certain discretionary tax-planning strategies.

Following is a summary of UAL's pretax book income and taxable income, and the significant differences between them, for the last three years:

(In Millions)	1995	1994	1993
Pretax book income (loss)	$ 621	$ 171	$ (47)
Gains on sale and leasebacks, net of amortization	(50)	73	15
Depreciation, capitalized interest and transfers of tax benefits	(251)	(290)	(348)
Rent expense and other lease costs	(131)	132	130
Pension expense	(291)	(145)	(156)
Other employee benefits	105	154	37
Gains on asset dispositions, net of amortization	25	37	(34)
ESOP transaction costs	(10)	63	–
Loss on debt extinguishment	(47)	–	(27)
Other, net	(128)	29	115
Taxable income (loss)	$(157)	$ 224	$(315)

While the loss in 1993 was largely attributable to events beyond management's control, including the unanticipated duration of the recession in both the U.S. and other areas of the world and the proliferation of numerous low-cost air carriers, UAL has taken several steps to reduce costs and improve profitability. Most notably, the 1994 employee investment transaction and recapitalization was partially responsible for UAL's improved operating results in 1994 and 1995, and should continue to favorably impact UAL's financial results.

UAL's ability to generate sufficient amounts of taxable income from future operations is dependent upon numerous factors, including general economic conditions, inflation, fuel costs, the state of the industry and other factors beyond management's control. There can be no assurances that UAL will meet its expectation of future taxable income. However, based on the above factors, including the extended period over which postretirement benefits will be recognized, and the indefinite carryforward period for AMT credits, management believes it is more likely than not that future taxable income will be sufficient to utilize the deferred tax assets at December 31, 1995.

Contingencies –

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

Litigation challenging United's new travel agency commission payment plan has been filed against United and other airlines who adopted similar payment plans. In the third quarter of 1995, the defendant airlines' motion for summary judgment was denied, as was the plaintiff travel agencies' motion for preliminary injunction. The plaintiffs are seeking a declaration that the new payment plan is illegal and recovery of damages, trebled.

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

The 1994 recapitalization resulted in new labor agreements for certain employee groups and a new corporate governance structure, which was designed to achieve balance between the various employee-owner groups and public shareholders. The new labor agreements and governance structure could inhibit management's ability to alter strategy in a volatile, competitive industry by restricting certain operating and financing activities, including the sale of assets and the issuance of equity securities and the ability to furlough employees. UAL's ability to react to competition may be hampered further by the fixed long-term nature of these various agreements. Some of the factors that could significantly impact the continued success of the recapitalization include United's ability to achieve enduring cost savings through productivity improvements and the renegotiation of labor agreements at the end of the investment period.

Energy Tax –

The Omnibus Budget Reconciliation Act of 1993 imposes a 4.3 cent per gallon tax on commercial aviation jet fuel purchased for use in domestic operations. This new fuel tax became effective October 1, 1995, and resulted in an increase to 1995 operating expenses of approximately $20 million. Based on United's 1995 domestic fuel consumption of 1.8 billion gallons, the new fuel tax would have increased United's 1995 operating expenses by approximately $57 million over what was recorded, had it been in effect for the entire year. United and other carriers have lobbied vigorously to have the tax repealed. The ultimate fate of the tax is unknown at this time due to the federal budget stalemate. United cannot predict the ultimate outcome of this issue.

Foreign Operations –

United generates revenues and incurs expenses in numerous foreign currencies. These expenses include reservation and ticket office services, customer service expenses, aircraft maintenance, catering, commissions, aircraft leases and personnel costs. Changes in foreign currency exchange rates impact operating income through changes in foreign currency-denominated operating revenues and expenses. Despite the adverse (favorable) effects a strengthening (weakening) foreign currency will have on U.S. originating traffic, a strengthening (weakening) of foreign currencies tends to increase (decrease) reported revenue and operating income because United's foreign currency-denominated operating revenue generally exceeds its foreign currency-denominated operating expense for each currency. United's biggest net exposures are typically for Japanese yen and Australian dollars. During 1995, yen-denominated operating revenue net of yen-denominated operating expense was approximately 57.5 billion yen (approximately $600 million), and Australian dollar-denominated operating revenue net of Australian dollar-denominated operating expense was approximately 179 million Australian dollars (approximately $130 million).

Other non-operating income (expense) is also affected as a result of transaction gains and losses resulting from rate fluctuation. The foreign exchange gains and losses recorded by United result from the impact of exchange rate changes on foreign currency-denominated assets and liabilities. To the extent yen-denominated liability balances are predictable, United attempts to minimize transaction gains and losses by investing in yen-denominated time deposits to offset the impact of rate changes. In addition, United entered into a foreign currency swap contract in 1994 to reduce exposure to currency fluctuations in connection with other long-term yen-denominated obligations. Where no significant liability exists to offset, United mitigates its exposure to foreign exchange rate fluctuations by converting excess local currencies generated to U.S. dollars.

United expects that it will continue to be affected by the above-mentioned factors, but cannot predict how foreign currency exchange rates will move in the future.

United's foreign operations involve insignificant amounts of physical assets; however, there are sizeable intangible assets related to acquisitions of foreign route authorities. Operating authorities in international markets are governed by bilateral aviation agreements between the United States and foreign countries. Changes in U.S. or foreign government aviation policies can lead to the alteration or termination of existing air service agreements that could adversely impact the value of United's international route authority. Significant changes in such policies could also have a material impact on UAL's operating revenues and results of operations.

New Accounting Standards

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121), which will be adopted during the first quarter of 1996. SFAS 121 requires that the carrying values of long-lived assets, including certain identifiable intangibles, held and used by an entity be reviewed for impairment, and potentially written down, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The adoption of SFAS 121 is not expected to have a material impact on the Company's 1996 consolidated financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123 establishes a fair value based method of accounting for stock options. Entities have the option of either adopting the measurement criteria of the statement for accounting purposes, thereby recognizing an amount in results of operations on a prospective basis, or to disclose in the footnotes the pro forma effects of the new measurement criteria. The Company intends to adopt the pro forma disclosure features of SFAS 123, which are effective for fiscal years beginning after December 15, 1995.

Other

In February 1996, the Company's Board of Directors conditionally approved a four-for-one split in the corporation's common stock. The split, which is scheduled to occur at the close of business May 6, 1996 (which is also the record date), is dependent on stockholder approval at its April 24, 1996 annual meeting of a proposal to increase the number of authorized shares of common stock.

Outlook for 1996

Worldwide economic growth should be slightly higher than in 1995 but specific regional changes will vary. Recoveries in Japan and Mexico are expected to offset the slightly slower growth in the Pacific Basin and Western Europe. The U.S. Real Gross Domestic Product (GDP) is expected to slow to the *2.0%* to *2.5%* range.

The international air travel market performance is forecast to improve with moderate industry capacity growth and yields that will likely increase with healthy traffic growth. U.S. domestic industry capacity growth is expected to be 1 to 2 percentage points higher in 1996 compared to 1995, partly due to the growth of low-cost carriers. Despite the faster capacity growth, U.S. industry unit revenue growth is expected to remain near the 1995 rate due to stronger traffic and yields.

The Company anticipates continued strong performance in 1996. The Company expects available seat miles to increase 3.0% to 3.5% and revenue passenger miles are expected to increase 4% to 6%, resulting in a small increase in load factor. Total revenue growth is expected to approximate the 1995 growth rate. Costs per available seat mile excluding ESOP charges are expected to increase from 1% to 2%, with the new fuel tax having a significant negative impact.

United expects to take delivery of 21 aircraft in 1996, consisting of B777-200s, A320s, B747-400s and B757-200s, while retiring 20 B747-100s, DC-10s and B737-200s. The Company also plans to continue repurchasing its Series B preferred stock as opportunities present themselves in order to reduce required dividend payments, as well as possibly calling its convertible debt for redemption if conditions allow. It is estimated that, if the convertible debt is called, holders will convert in anticipation of the redemption. If all holders were to convert, the Company would benefit from approximately $20 million annually in net interest savings.

The information included in the above outlook section, as well as certain statements made throughout the Management's Discussion and Analysis of Financial Conditions and Results of Operations that are identified by an asterisk (*), 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, load factors, revenues, expenses and cash flows include the airline pricing environment, fuel costs, low-fare carrier expansion, capacity decisions of other carriers, actions of the U.S. and foreign governments, foreign currency exchange rate fluctuations, inflation, the general economic environment, and other factors discussed herein. With respect to the forward-looking statement set forth in the "Contingencies" section, some of the factors that could affect the ultimate disposition of these contingencies are changes in applicable laws, the development of facts in individual cases, settlement opportunities and the actions of plaintiffs, judges and juries.

Selected Financial Data

(In Millions, Except Per Share)	Year Ended December 31				
	1995	1994	1993	1992	1991
Operating revenues	$14,943	$13,950	$13,325	$11,853	** $10,706
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	378	77	(31)	(417)	(332)
Extraordinary loss on early extinguishment of debt, net of tax	(29)	–	(19)	–	–
Cumulative effect of accounting changes, net of tax	–	(26)	–	(540)	–
Net earnings (loss)	349	51	(50)	(957)	(332)
Per share amounts, fully diluted:					
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	20.74	0.76	(2.64)	(17.34)	(14.31)
Extraordinary loss on early extinguishment of debt	(1.63)	–	(0.76)	–	–
Cumulative effect of accounting changes	–	(1.37)	–	(22.41)	–
Net earnings (loss)	19.11	(0.61)	(3.40)	(39.75)	(14.31)
Total assets at year-end	11,641	11,764	12,840	12,257	9,876
Long-term debt and capital lease obligations, including current portion, and redeemable preferred stock at year-end	4,102	4,077	3,735	3,783	2,533

Statements of Consolidated Operations

(In Millions, Except Per Share)	Year Ended December 31		
	1995	1994	1993
Operating revenues:			
Passenger	$13,227	$12,295	$11,958
Cargo	757	685	659
Other operating revenues	959	970	708
	14,943	13,950	13,325
Operating expenses:			
Salaries and related costs	4,526	4,679	4,760
ESOP compensation expense	304	182	–
Aircraft fuel	1,680	1,588	1,733
Commissions	1,471	1,426	1,330
Purchased services	1,062	947	983
Aircraft rent	1,009	933	870
Landing fees and other rent	803	622	635
Depreciation and amortization	724	725	764
Food services	532	479	517
Aircraft maintenance	407	410	385
Personnel expenses	285	248	263
Other operating expenses	1,311	1,193	1,022
	14,114	13,429	13,062
Earnings from operations	829	521	263
Other income (expense):			
Interest expense	(399)	(372)	(358)
Interest capitalized	42	41	51
Interest income	98	85	98
Equity in earnings (loss) of affiliates	48	20	(30)
Miscellaneous, net	3	(124)	(71)
	(208)	(350)	(310)
Earnings (loss) before income taxes, extraordinary item and cumulative effect of accounting change	621	171	(47)
Provision (credit) for income taxes	243	94	(16)
Earnings (loss) before extraordinary item and cumulative effect of accounting change	378	77	(31)
Extraordinary loss on early extinguishment of debt, net of tax	(29)	–	(19)
Cumulative effect of accounting change, net of tax	–	(26)	–
Net earnings (loss)	$ 349	$ 51	$ (50)
Per share, primary:			
Earnings (loss) before extraordinary item and cumulative effect of accounting change	$ 21.86	$ 0.76	$ (2.64)
Extraordinary loss on early extinguishment of debt, net of tax	(1.85)	–	(0.76)
Cumulative effect of accounting change, net of tax	–	(1.37)	–
Net earnings (loss)	$ 20.01	$ (0.61)	$ (3.40)
Per share, fully diluted:			
Earnings (loss) before extraordinary item and cumulative effect of accounting change	$ 20.74	$ 0.76	$ (2.64)
Extraordinary loss on early extinguishment of debt, net of tax	(1.63)	–	(0.76)
Cumulative effect of accounting change, net of tax	–	(1.37)	–
Net earnings (loss)	$ 19.11	$ (0.61)	$ (3.40)

The accompanying notes to consolidated financial statements are an integral part of these statements.

Statements of Consolidated Financial Position

(In Millions)	December 31	
Assets	1995	1994
Current assets:		
Cash and cash equivalents	$ 194	$ 500
Short-term investments	949	1,032
Receivables, less allowance for doubtful accounts (1995 – $19; 1994 – $22)	951	889
Aircraft fuel, spare parts and supplies, less obsolescence allowance (1995 – $38; 1994 – $44)	298	285
Deferred income taxes	236	151
Prepaid expenses and other	415	335
	3,043	3,192
Operating property and equipment:		
Owned –		
Flight equipment	7,778	7,480
Advances on flight equipment	735	713
Other property and equipment	2,700	2,631
	11,213	10,824
Less – Accumulated depreciation and amortization	5,153	4,786
	6,060	6,038
Capital leases –		
Flight equipment	1,362	1,028
Other property and equipment	102	104
	1,464	1,132
Less – Accumulated amortization	503	447
	961	685
	7,021	6,723
Other assets:		
Intangibles, less accumulated amortization (1995 – $306; 1994 – $267)	763	814
Deferred income taxes	238	480
Other	576	555
	1,577	1,849
	$11,641	$11,764

The accompanying notes to consolidated financial statements are an integral part of these statements.

Statements of Consolidated Financial Position

(In Millions, Except Share Data)	December 31	
Liabilities and Shareholders' Equity	1995	1994
Current liabilities:		
Short-term borrowings	$ —	$ 269
Long-term debt maturing within one year	90	384
Current obligations under capital leases	99	76
Advance ticket sales	1,100	1,020
Accounts payable	696	651
Accrued salaries, wages and benefits	870	843
Accrued aircraft rent	771	825
Other accrued liabilities	807	838
	4,433	4,906
Long-term debt	2,919	2,887
Long-term obligations under capital leases	994	730
Other liabilities and deferred credits:		
Deferred pension liability	368	512
Postretirement benefit liability	1,225	1,148
Deferred gains	1,214	1,363
Accrued aircraft rent	272	213
Other	336	272
	3,415	3,508
Minority interest	59	49
Preferred stock committed to Supplemental ESOP (Notes 2 and 14)	60	—
Shareholders' equity:		
Serial preferred stock – (Note 10)	—	—
ESOP preferred stock – (Note 11)	—	—
Common stock, $0.01 par value; authorized, 100,000,000 shares; issued, 13,156,839 shares at December 31, 1995 and 13,013,217 shares at December 31, 1994	—	—
Additional capital invested	1,353	1,287
Accumulated deficit	(1,039)	(1,335)
Unearned ESOP preferred stock	(175)	(83)
Stock held in treasury –		
Preferred (Note 10)	(218)	(87)
Common, 477,233 shares at December 31, 1995 and 574,111 shares at December 31, 1994	(64)	(74)
Pension liability adjustment	(76)	(16)
Other	(20)	(8)
	(239)	(316)
Commitments and contingent liabilities (Note 19)		
	$11,641	$11,764

The accompanying notes to consolidated financial statements are an integral part of these statements.

Statements of Consolidated Cash Flows

(In Millions)	Year Ended December 31		
	1995	1994	1993
Cash and cash equivalents at beginning of year	$ 500	$ 437	$ 522
Cash flows from operating activities:			
Net earnings (loss)	349	51	(50)
Adjustments to reconcile to net cash provided by operating activities –			
ESOP compensation expense	504	182	–
Cumulative effect of accounting change	–	26	–
Extraordinary loss on debt extinguishment	29	–	19
Pension funding in excess of expense	(275)	(114)	(95)
Deferred postretirement benefit expense	125	145	89
Depreciation and amortization	724	725	764
Provision (credit) for deferred income taxes	214	78	(67)
Undistributed (earnings) losses of affiliates	(38)	(19)	48
Decrease (increase) in receivables	(62)	207	11
Decrease (increase) in other current assets	(109)	40	24
Increase (decrease) in advance ticket sales	80	(16)	(31)
Increase (decrease) in accrued income taxes	(52)	(11)	8
Increase (decrease) in accounts payable and accrued liabilities	79	(127)	(4)
Amortization of deferred gains	(79)	(85)	(83)
Other, net	135	252	225
	1,624	1,334	858
Cash flows from investing activities:			
Additions to property and equipment	(1,111)	(636)	(1,496)
Proceeds on disposition of property and equipment	578	432	1,165
Decrease (increase) in short-term investments	83	376	(414)
Other, net	(28)	26	5
	(478)	198	(740)
Cash flows from financing activities:			
Issuance of preferred stock	–	400	591
Reacquisition of preferred stock	(131)	(87)	–
Proceeds from issuance of long-term debt	–	735	99
Repayment of long-term debt	(852)	(305)	(695)
Principal payments under capital leases	(80)	(87)	(55)
Recapitalization distribution	(5)	(2,070)	–
Decrease in short-term borrowings	(269)	(46)	(135)
Cash dividends	(49)	(53)	(27)
Other, net	(66)	44	19
	(1,452)	(1,469)	(203)
Increase (decrease) in cash and cash equivalents during the year	(306)	63	(85)
Cash and cash equivalents at end of year	$ 194	$ 500	$ 437

The accompanying notes to consolidated financial statements are an integral part of these 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, 1992	$ –	$126	$ 341	$ 332	$ –	$ (74)	$ (19)	$ 706
Year ended December 31, 1993:								
Net loss	–	–	–	(50)	–	–	–	(50)
Cash dividends declared on preferred stock ($5.54 per share)	–	–	–	(33)	–	–	–	(33)
Issuance of Series A preferred stock	30	–	564	–	–	–	–	594
Exercises of stock options	–	1	25	–	–	–	–	26
Issuance of treasury stock under restricted stock plan	–	–	6	–	–	10	(16)	–
Pension liability adjustment	–	–	–	–	–	–	(45)	(45)
Other	–	–	(1)	–	–	(1)	10	8
Balance at December 31, 1993	30	127	935	249	–	(65)	(20)	1,256
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)
Change in Series A stated value	(30)	–	30	–	–	–	–	–
Issuance of ESOP preferred stock	–	–	227	–	(227)	–	–	–
Issuance of Series B preferred stock	–	–	400	–	–	–	–	400
Exercises of stock options	–	1	46	–	–	–	–	47
Issuance of treasury stock under restricted stock plan–	–	–	(7)	–	–	17	(10)	–
Acquisition of treasury shares	–	–	–	–	–	(113)	–	(113)
Amortization of unearned compensation under ESOPs and restricted stock plan	–	–	38	–	144	–	21	203
Recapitalization	–	(128)	(378)	(1,576)	–	–	–	(2,082)
Pension liability adjustment	–	–	–	–	–	–	37	37
Other	–	–	(1)	–	–	–	(2)	(3)
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 for convertible debentures	–	–	(546)	–	–	–	–	(546)
Conversion of Series A debentures	–	–	1	–	–	–	–	1
Issuance of ESOP preferred stock	–	–	535	–	(535)	–	–	–
Exercises of stock options	–	–	43	–	–	–	–	43
Issuance of treasury stock under restricted stock plan	–	–	(3)	–	–	29	(26)	–
Acquisition of treasury shares	–	–	–	–	–	(148)	–	(148)
Amortization of unearned compensation under ESOPs and restricted stock plan	–	–	69	–	435	–	8	512
ESOP dividend	–	–	5	(13)	8	–	–	–
Pension liability adjustment	–	–	–	–	–	–	(60)	(60)
Other	–	–	(38)	–	–	(2)	6	(34)
Balance at December 31, 1995	$ –	$ –	$1,353	$(1,039)	$(175)	$(282)	$ (96)	$ (239)

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

UAL Corporation ("UAL") is a holding company whose principal subsidiary is United Air Lines, Inc. ("United"). United is a major commercial air transport carrier, providing passenger and cargo service to 104 airports in the United States and 30 foreign countries at the end of 1995. United's principal foreign markets are in the Pacific, Europe and Latin America. United also owns 77% of the Apollo Travel Services Partnership ("ATS"), which markets the Apollo computer reservations system to travel agencies in the United States, Mexico and the Caribbean. Substantially all of UAL's assets, revenues and expenses are attributable to United.

(a) Basis of Presentation – 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.

(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) Accounting Changes – Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits," resulting in a cumulative after-tax charge of $26 million (see Note 16) and SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (see Note 17).

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

(e) 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 a foreign currency swap contract to reduce certain exposure to currency fluctuations. Foreign currency gains and losses on the contract are included in income currently, exactly offsetting the foreign currency losses and gains on the obligations.

(f) 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.

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

(h) Operating Property and Equipment – Owned operating property and equipment is stated at cost. Property under capital leases, and the related obligation for future 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.

(i) Intangibles – Intangibles consist primarily of route acquisition costs, slots and intangible pension assets (see Note 15). Route acquisition costs and slots are amortized over 40 years and 5 years, respectively.

(j) 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, 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.

(1) 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.

(o) Interest Rate Swap Agreements — United has entered into interest rate swap agreements to hedge its interest rate exposure on certain obligations. The differential to be paid or received under the swap agreements is charged or credited to interest expense or rental expense depending on the obligation.

(2) Employee Investment Transaction and Recapitalization

On July 12, 1994, the shareholders of UAL approved a plan of recapitalization to provide an approximately 55% equity interest in UAL to certain employees of United in exchange for wage concessions and work-rule changes. The employees' equity interest 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 (see Note 14). 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% 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. The cash distribution was recorded in 1994 as a $1.6 billion reduction in retained earnings, a $0.4 billion reduction in additional capital invested and a $0.1 billion reduction in common stock. In connection with the recapitalization, United issued $370 million of 10.67% debentures due in 2004 and $371 million of 11.21% debentures due in 2014 and UAL issued Series B 12 1/4% preferred stock with an aggregate liquidation preference of $410 million. Through December 31, 1995, the Company has repaid $10 million of the 10.67% debentures and $140 million of the 11.21% debentures. In addition, the Company has repurchased $190 million aggregate liquidation preference of the Series B preferred stock.

(3) Affiliates

United owns 38% of the Galileo International Partnership ("Galileo") through a wholly-owned subsidiary. United's investment in Galileo, which owns the Apollo and Galileo computer reservations systems, is carried on the equity basis. Included in the Company's accumulated deficit is approximately $97 million of undistributed earnings of Galileo and its predecessor companies. United also owns 77% of ATS, whose accounts are consolidated. The revenues generated by ATS are insignificant in comparison to United's consolidated total; however, ATS operates with significantly higher earnings margins than United, and thus is a material contributor to consolidated net earnings.

Prior to a September 1993 merger, United owned 50% of the Covia Partnership ("Covia") and 25.6% of Galileo Ltd., Galileo's and ATS's predecessor companies. Under operating agreements with Covia prior to the merger, United provided certain computer support services for, and purchased computer reservations services, communications and other information from, Covia. Revenues derived from the sale of services to Covia amounted to approximately $21 million in 1993. The cost to United of services purchased from Covia amounted to approximately $108 million in 1993. Under operating agreements with Galileo subsequent to the merger, United purchases computer reservations services from Galileo and provides marketing, sales and communication services to Galileo. Revenues derived from the sale of services to Galileo amounted to approximately $238 million in 1995, $233 million in 1994 and $58 million in 1993. The cost to United of services purchased from Galileo amounted to approximately $104 million in 1995, $94 million in 1994 and $47 million in 1993. Galileo's net earnings (loss) were $49 million in 1994 and $(141) million in 1993.

(4) Other Income (Expense) – Miscellaneous

Other income (expense) – miscellaneous, net consisted of the following:

(In Millions)	1995	1994	1993
Foreign exchange gains (losses)	$(20)	$ 15	$(26)
Amortization of hedge transaction costs	(4)	(6)	(6)
Net gains on disposition of property or rights	60	10	5
Minority interests	(23)	(22)	(1)
Recapitalization transaction costs	–	(121)	–
Write-down of aircraft to net realizable value	–	–	(59)
Gain on settlement of 1985 annuity purchases	–	–	17
Other	(10)	–	(5)
	$ 3	$(124)	$(71)

(5) Per Share Amounts

Primary per share amounts were based on the following number of average shares outstanding – 15,886,995 in 1995, 18,791,587 in 1994, and 24,345,857 in 1993. The amount for 1995 was based on weighted average common shares and common equivalents outstanding, including ESOP shares committed to be released. Common stock equivalents, including ESOP shares committed to be released, were not included in the computations for 1994 and 1993, as they did not have a dilutive effect. In addition, fully-diluted per share amounts assume the conversion of convertible debentures and elimination of related interest. For 1995, fully-diluted per share amounts were computed based on 17,936,587 weighted average shares outstanding. Per share amounts were calculated after providing for preferred stock dividends of $53 million in 1995, $59 million in 1994 and $33 million in 1993.

In April 1995, UAL issued convertible subordinated debentures in exchange for its Series A preferred stock (see Note 8). As a result of the exchange, UAL recorded a non-cash increase of $45 million in additional capital invested representing the excess of the carrying value of the preferred stock exchanged over the fair value of the new debentures. Also during 1995, the Company repurchased 4,260 shares of its Series B preferred stock, resulting in a $24 million decrease in additional capital invested representing the excess of amounts paid to reacquire the preferred stock over the liquidation preference of such stock. These transactions had no effect on earnings; however, their net impact on UAL's equity is included in the computation of earnings per share. Earnings available to common stockholders were also reduced by $3 million in 1994 for the excess of amounts paid to reacquire UAL preferred stock over the liquidation preference of such stock.

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 have not been restated. Thus, direct comparisons between per share amounts for the periods presented are not meaningful.

(6) Income Taxes

In 1995, UAL incurred a regular tax loss but had an alternative minimum tax ("AMT") liability. The federal income tax liability is the greater of the tax computed using the regular tax system or the tax under the AMT system. Certain preferences, mainly depreciation adjustments, have caused alternative minimum taxable income and the resulting AMT liability to exceed regular taxable income and the regular tax liability. The excess of the AMT liability over the regular tax liability produces AMT credits which are carried forward indefinitely.

The provision (credit) for income taxes is summarized as follows:

(In Millions)	1995	1994	1993
Current –			
Federal	$ 29	$12	$ 52
State	–	4	(1)
	29	16	51
Deferred –			
Federal	187	73	(75)
State	27	5	8
	214	78	(67)
	$243	$94	$(16)

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

(In Millions)	1995	1994	1993
Income tax provision (credit) at statutory rate	$217	$60	$(17)
State income taxes, net of federal income tax benefit	18	6	5
ESOP dividends	(5)	–	–
Nondeductible employee meals	23	22	8
Nondeductible ESOP transaction costs	–	21	–
Foreign tax credits	(2)	(3)	(3)
Rate change effect	–	(14)	(9)
Other, net	(8)	2	–
Income tax provision (credit) as reported	$243	$94	$(16)

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities for 1995 and 1994 are as follows:

(In Millions)	1995		1994	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Employee benefits, including postretirement medical	$ 594	$ 92	$ 537	$ 13
Depreciation, capitalized interest and transfers of tax benefits	–	1,077	–	1,074
Gains on sale and leasebacks	450	–	422	–
Rent expense	310	–	254	–
AMT credit carryforward	265	–	263	–
Net operating loss carryforwards	123	–	58	–
Other	183	282	302	167
	$1,925	$1,451	$1,885	$1,254

At December 31, 1995, UAL and its subsidiaries had $265 million of federal AMT credit carryforwards available for an indefinite period, $4 million of general business credit carryforwards which expire between 2001 and 2009, $19 million of foreign tax credit carryforwards expiring between 1997 and 2001, $40 million of state tax benefit from net operating loss carryforwards expiring between 1997 and 2011 and $83 million of federal tax benefit from net operating loss carryforwards expiring between 2009 and 2011.

UAL's ability to generate sufficient amounts of taxable income from future operations is dependent upon numerous factors, including general economic conditions, inflation, fuel costs, the state of the industry and other factors beyond management's control. There can be no assurances that UAL will meet its expectation of future taxable income. However, based on the above factors, the extended period over which postretirement benefits will be recognized, and the indefinite carryforward period for AMT credits, management believes it is more likely than not that future taxable income will be sufficient to utilize the deferred tax assets at December 31, 1995.

(7) Short-Term Borrowings

At December 31, 1994, United had outstanding $269 million in short-term borrowings, bearing an average interest rate of 5.63%. Receivables amounting to $426 million were pledged by United to secure repayment of such outstanding borrowings. In the second quarter of 1995, United repaid all of these outstanding borrowings. The maximum available amount of borrowings under this arrangement is $270 million.

(8) Long-Term Debt

A summary of long-term debt, including current maturities, as of December 31 is as follows (interest rates are as of December 31, 1995):

(In Millions)	1995	1994
Secured notes, 6.69% to 11.54%, averaging 8.57%, due through 2014	$ 975	$1,256
Debentures, 6.75% to 11.21%, averaging 9.91%, due 1997 to 2021	1,419	1,741
Deferred purchase certificates, Japanese yen-denominated, 7.75%, due through 1998	–	200
Convertible subordinated debentures, 6.375%, due 2025	597	–
Convertible debentures, 7.75%, due 2010	25	32
Promissory notes, 6.24% to 6.46%, averaging 6.39%, due through 1998	61	62
	3,077	3,291
Less: Unamortized discount on debt	(68)	(20)
Current maturities	(90)	(384)
	$2,919	$2,887

In addition to scheduled principal payments, in 1995 the Company repaid $228 million in principal amount of secured notes and $327 million in principal amount of debentures prior to maturity. These obligations were scheduled to mature at various times from 2000 through 2021. The Company also repaid all of its outstanding yen-denominated deferred purchase certificates, which were due through 1998. An extraordinary loss of $29 million, net of tax benefits of $18 million, was recorded in the fourth quarter, reflecting amounts paid in excess of the debt carrying value.

In April 1995, UAL issued $600 million aggregate principal amount of 6 3/8% convertible subordinated debentures, due 2025, for all outstanding shares of its Series A convertible preferred stock. Each $1000 face amount of debentures is convertible into a combination of $541.90 in cash and approximately 3.192 shares of UAL common stock (equivalent to a conversion price of $143.50 per share of common stock). In August 1995, a holder converted $3 million in principal amount of debentures.

The debentures are redeemable at any time on or after May 1, 1996, at UAL's option, initially at a redemption price of 104.375% of the principal amount, declining ratably to 100% of the principal amount over seven years. UAL may only exercise this option if the closing price of its common stock exceeds $172.20 for at least 20 of 30 consecutive trading days preceding the notice of redemption, including the last trading day. In January 1996, UAL announced that it is weighing the possibility of redeeming the debentures on or after May 1, 1996, as part of its efforts to reduce its obligations. The decision to redeem the debentures will depend on financial markets and other conditions, including the condition outlined above. If UAL issues a notice of redemption, holders may still convert their debentures through the business day preceding the redemption date. If the redemption date is May 1, 1996, or on or after any other interest payment date, and prior to the next interest payment record date, holders who convert will not be entitled to any interest on the debentures.

At December 31, 1995, there was outstanding $25 million in convertible debentures, which are obligations of Air Wis Services, Inc. ("Air Wis"). The debentures are convertible into shares of old UAL common stock, at the conversion price of $259.08 (equivalent to approximately $348.34 per share of new UAL common stock). During 1995 and 1994, Air Wis reacquired $5 million and $3 million, respectively, of these debentures, resulting in insignificant gains.

At December 31, 1995, United had outstanding a total of $207 million of long-term debt bearing interest at rates 85 to 128 basis points over the London interbank offered rate ("LIBOR"). In connection with certain of these debt financings, United has entered interest rate swap agreements to effectively fix interest rates at December 31, 1995 between 8.554% and 8.6% on $69 million of notional amount (see Note 18).

Maturities of long-term debt for each of the four years after 1996 are: 1997 — $181 million; 1998 — $87 million; 1999 — $45 million; and 2000 — $48 million. Various assets, principally aircraft, having an aggregate book value of $1.077 billion at December 31, 1995, were pledged as security under various loan agreements.

At December 31, 1995, UAL and United had an effective shelf registration statement on file with the Securities and Exchange Commission to offer up to $795 million of securities, including secured and unsecured debt, equipment trust and pass through certificates, equity or a combination thereof. In January 1996, United offered $165 million principal amount in pass through certificates under the shelf registration statement, lowering the remaining amount available for public offering under the shelf to $631 million. UAL's ability to issue equity securities is limited by its restated certificate of incorporation.

During 1993, United retired $500 million of senior subordinated notes. The notes were scheduled to mature in 1995 ($150 million) and 1998 ($350 million). An extraordinary loss of $19 million, net of tax benefits of $9 million, was recorded as a result of the retirement.

(9) Lease Obligations

The Company leases aircraft, airport passenger terminal space, aircraft hangars and related maintenance facilities, cargo terminals, other airport facilities, real estate, office and computer equipment and vehicles.

Future minimum lease payments as of December 31, 1995, under capital leases (substantially all of which are for aircraft) and operating leases having initial or remaining noncancelable lease terms of more than one year are as follows:

(In Millions)	Operating Leases		Capital
	Aircraft	Non-Aircraft	Leases
Payable during:			
1996	$ 866	$ 425	$ 182
1997	855	419	180
1998	862	410	183
1999	861	408	158
2000	878	397	136
After 2000	12,744	7,598	835
Total minimum lease payments	$17,066	$9,657	1,674
Imputed interest (at rates of 5.3% to 12.2%)			(581)
Present value of minimum lease payments			1,093
Current portion			(99)
Long-term obligations under capital leases			$ 994

As of December 31, 1995, United leased 292 aircraft, 49 of which were under capital leases. These leases have terms of 4 to 26 years, and expiration dates range from 1999 through 2021. Under the terms of leases for 283 of the aircraft, United has the right of first refusal to purchase, at the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of cost. United has 29 Airbus A320-200 aircraft under 24- to 26-year operating leases which are cancelable upon 11 months' notice during the initial 10 years of the leases.

During 1995, United terminated operating leases for 39 aircraft (9 B727s, 24 B737s and 6 DC-10s) by exercising its right to acquire them. Operating property and equipment increased by $400 million as a result of the acquisition of these aircraft. The reductions in future minimum lease payments from 1996 through 1998 due to these lease terminations are reflected in the above table.

Amounts charged to rent expense, net of minor amounts of sublease rentals, were $1.439 billion in 1995, $1.222 billion in 1994, and $1.208 billion in 1993. Included in rent expense was $22 million in contingent rentals, resulting from changes in interest rates for operating leases under which the rent payments are based on variable interest rates. In connection with certain of these leases, United has entered into interest rate swap agreements (see Note 18).

(10) Serial Preferred Stock

In connection with the July 1994 recapitalization, UAL issued 16,416,000 depositary shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock, resulting in net proceeds of $400 million, which was recorded as additional capital invested. The shares issued had an aggregate liquidation preference of $410 million, or $25 per depositary share ($25,000 per Series B preferred share), and a stated capital of $164 ($0.01 per Series B preferred share). Under its terms, any portion of the Series B preferred stock or the depositary shares is redeemable for cash after July 11, 2004, at UAL's option, at the equivalent of $25 per depositary share, plus accrued dividends. The Series B preferred stock is not convertible into any other securities, has no stated maturity and is not subject to mandatory redemption. In the fourth quarter of 1994, UAL repurchased 3,336,400 depositary shares, representing 3,336.4 shares of Series B preferred stock, at an aggregate cost of $87 million to be held in treasury. During 1995, UAL repurchased an additional 4,259,709 depositary shares, at an aggregate cost of $131 million to be held in treasury. At

December 31, 1995 and 1994, there were outstanding 8,819,891 and 13,079,600 depositary shares, respectively, representing 8,819.9 and 13,079.6 shares, respectively, of Series B preferred stock. The aggregate liquidation preference of Series B at December 31, 1995 and 1994, was $220 million and $327 million, respectively. In January 1996, UAL repurchased an additional 743,210 shares at an aggregate cost of $24 million to be held in treasury.

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

At December 31, 1994, there were outstanding 5,999,900 shares of Series A cumulative 6.25% convertible preferred stock, all of which were originally issued in February 1993, with an aggregate liquidation value of $600 million. In April 1995, UAL issued $600 million aggregate principal amount of 6 3/8% convertible debentures for all outstanding shares of its Series A preferred stock.

UAL is authorized to issue up to 15,950,000 additional shares of serial preferred stock.

(11) ESOP Preferred Stock

The following activity relates to UAL's outstanding ESOP preferred stocks (see Note 14 for a description of the ESOPs):

	Class 1 ESOP	Class 2 ESOP	ESOP Voting
December 31, 1993	–	–	–
Shares issued	1,789,585	–	3
December 31, 1994	1,789,585	–	3
Shares issued	2,850,103	304,882	1,448,384
Converted to common	(7,183)	(2,811)	(9,994)
December 31, 1995	4,632,505	302,071	1,438,393

An aggregate of 17,675,345 shares of Class 1 and Class 2 ESOP Preferred Stock will be issued in connection with the recapitalization and establishment of the ESOPs (see Notes 2 and 14). Each share of ESOP Preferred Stock is convertible into one share of UAL common stock. Shares are converted to common as employees retire or otherwise leave the Company. The stock has a par value of $0.01 per share and is nonvoting. The Class 1 ESOP Preferred Stock has a liquidation value of $126.96 per share plus all accrued and unpaid dividends; the Class 2 does not have a liquidation value. The Class 1 ESOP Preferred Stock provides a fixed annual dividend of $8.8872 per share, which ceases on March 31, 2000; the Class 2 does not pay a fixed dividend.

Class P, M, and S Voting Preferred Stocks were established to provide the voting power to the employee groups participating in the ESOPs. Additional Voting Preferred Stock is issued as shares of the Class 1 and Class 2 ESOP Preferred Stock are allocated to employees. In the aggregate, 17,675,345 shares of Voting Preferred Stock will be issued through the year 2000. The Voting Preferred Stock at any time outstanding commands voting power for approximately 55% of the vote of all classes of capital stock in all matters requiring a stockholder vote, other than for the election of members of the Board of Directors. The Voting Preferred Stock will generally continue to represent approximately 55% of the aggregate voting power until the "Sunset." The "Sunset" will occur when the common shares issuable upon conversion of the outstanding Class 1 and Class 2 ESOP Preferred Stock, plus any common equity (generally common stock issued or issuable at the time of the recapitalization) and available unissued ESOP shares held in the ESOPs or any other employee benefit plans sponsored by the Company for the benefit of its employees, represent, in the aggregate, less than 20% of the common equity and available unissued ESOP shares of the Company. Under current actuarial assumptions, the Company estimates that the "Sunset" will occur in the year 2014 if no additional purchases are made by eligible employee retirement plans. The Voting Preferred Stock has a par value and liquidation preference of $0.01 per share. The stock is not entitled to receive any dividends and is convertible into one ten thousandth of a share of UAL common stock.

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

(12) Common Shareholders' Equity

In connection with the July 1994 recapitalization, each share of old common stock was converted to one half share of new common stock (and cash in lieu of fractional shares) and $84.81 in cash. As a result, the number of outstanding shares was reduced proportionately.

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

	1995	1994	1993
Shares outstanding at beginning of year	12,439,106	24,568,937	24,238,482
Old shares –			
Stock options exercised	–	29,764	205,075
Shares issued from treasury under compensation arrangements	–	1,100	142,003
Shares acquired for treasury	–	(38,261)	(7,623)
Forfeiture of restricted stock	–	(9,800)	(9,000)
Other	–	(379)	–
	12,439,106	24,551,361	24,568,937
Effect of recapitalization	–	(12,275,680)	–
New shares –			
Stock options exercised	180,686	237,505	–
Shares issued from treasury under compensation arrangements	233,146	112,767	–
Shares acquired for treasury	(126,111)	(186,898)	–
Forfeiture of restricted stock	(10,750)	–	–
Conversion of Series A debentures	9,576	–	–
Conversion of ESOP preferred stock	9,994	–	–
Other	(56,041)	51	–
Shares outstanding at end of year	12,679,606	12,439,106	24,568,937

At December 31, 1995 and 1994, UAL held 477,233 and 574,111 shares, respectively, of common stock in treasury.

There is a preferred share purchase right associated with each share of outstanding UAL common stock. As long as the rights are associated with the shares of UAL common stock, each new share of common stock issued by UAL, including shares of common stock into which the ESOP convertible preferred stock and the 6 3/8% convertible debentures are convertible, will include one right. Upon the occurrence of certain events, each right will entitle its holder to purchase one one-hundredth of a share of Series C junior participating preferred stock, without par value, for $185 (subject to adjustment). The rights will become exercisable ten business days after any person or group announces its beneficial ownership of 15% or more of UAL common stock, or announces an offer for 30% or more of UAL common stock. If any person or group acquires 15% or more of UAL common stock (other than the ESOP trustee, ALPA, the IAM and the beneficial owners of UAL common stock eligible to report and reporting on Schedule 13G under the Securities Exchange Act of 1934), each right will entitle its holder (except the acquiring party) to buy common stock of UAL having a market value of three times the exercise price of the right. If, after the rights become exercisable, UAL is involved in a merger or sells more than 50% of its assets or earning power, each right will entitle its holder to buy common stock of the surviving entity having a market value of three times the exercise price of the right. UAL has the right to redeem the rights for $0.05 per right prior to the time they become exercisable. The rights expire on December 31, 1996. The rights agreement provides that the transactions associated with the recapitalization did not and will not cause the rights to become exercisable as a result thereof.

In February 1996, the Company's Board of Directors conditionally approved a four-for-one split in the corporation's common stock. The split, which is scheduled to occur at the close of business May 6, 1996, is dependent on shareholder approval of a proposal to increase the number of authorized common shares.

(13) Stock Options and Awards

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

Prior to 1992, stock appreciation rights ("SARs") were granted in tandem with certain stock options. On exercise of these SARs, holders would receive, in cash, 100% of the appreciation in fair market value of the shares subject to the SAR. The estimated payment value of SARs, net of market value adjustments, was charged to earnings over the vesting period. In 1992, all active officers relinquished their SARs but retained the tandem stock options. This action left relatively few SARs outstanding, the last of which were exercised in 1995.

As a result of the 1994 recapitalization, all outstanding options became fully vested at the time of the transaction and the holders of such options became eligible to utilize the cashless exercise features of stock options. Under a cashless exercise, the Company withholds, at the election of the optionee, from shares that would otherwise be issued upon exercise, that number of shares having a fair market value equal to the exercise price and/or related income taxes. For outstanding options eligible for cashless exercise, changes in the market price of the stock are charged to earnings currently. At December 31, 1995, option holders were eligible for cashless exercise in connection with 480,610 outstanding options with an average exercise price of $119.95 per old share. The expense recorded for SARs and cashless exercises was $27 million in 1995, $15 million in 1994, and $1 million in 1993.

Stock options which were outstanding at the time of the recapitalization are exercisable for shares of old common stock, each of which is in turn converted into one half share of new common stock and $84.81 in cash upon exercise. Subsequent to the recapitalization, the Company granted stock options which are exercisable for shares of new common stock.

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

	New Share Options		Old Share Options		
	1995	1994	1995	1994	1993
Outstanding at beginning of year	946,000	–	1,081,100	1,673,782	1,864,555
Granted	86,000	959,500	–	–	65,750
Exercised	(34,094)	–	(295,671)	(554,771)	(205,075)
Surrendered upon exercise of SARs	–	–	(12,927)	(1,000)	(16,198)
Terminated	(56,000)	(13,500)	(291,892)	(36,911)	(35,250)
Outstanding at end of year	941,906	946,000	480,610	1,081,100	1,673,782
Exercisable at end of year	283,285	150,000	480,610	1,081,100	733,782
Reserved for future grants at end of year	424,000	454,000	–	–	900,111
Average option price:					
Per old share –					
Exercised	N/A	N/A	$113.61	$ 95.32	$ 87.61
Outstanding at end of year	N/A	N/A	$119.95	$132.77	$120.21
Per new share –					
Exercised	$90.43	–	$57.60(1)	$21.02(1)	N/A
Outstanding at end of year	$93.86	$90.56	$70.27(1)	$95.92(1)	N/A

(1) Represents the new share equivalent of the old share options.

The expiration dates for options outstanding as of December 31, 1995 ranged from October 29, 1996 to December 13, 2005. At December 31, 1995, outstanding options were held by 176 officers and key employees.

In October 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes a fair value based method of accounting for stock options. Entities have the option of either adopting the measurement criteria of the statement for accounting purposes, thereby recognizing an amount in results of operations on a prospective basis, or disclosing in the footnotes the pro forma effects of the new measurement criteria. The Company intends to adopt the pro forma disclosure features of SFAS No. 123, which are effective for fiscal years beginning after December 15, 1995.

The Company has also awarded shares of restricted stock to key officers and employees. These restricted shares generally vest over a five-year period. Nonvested shares are subject to certain transfer restrictions and forfeiture under certain circumstances. Unearned compensation, representing the fair market value of the stock on the date of award, is amortized to salaries and related costs over the vesting period. As a result of the 1994 recapitalization, all outstanding restricted shares became vested at the time of the transaction and $12 million of compensation expense was recorded for the remaining balance of unearned compensation attributable to the outstanding shares.

In 1994, subsequent to the recapitalization, 112,767 restricted shares of new common stock were issued from treasury, and in 1995, an additional 223,213 restricted shares were issued from treasury. As of December 31, 1995, 267,963 shares were restricted and still nonvested. Additionally, 3,750 shares were reserved for future award under the plan. In 1995, 1994 and 1993, 10,750, 9,800 and 9,000 shares, respectively, were forfeited and returned to treasury stock.

(14) Employee Stock Ownership Plans

The ESOPs established as part of the 1994 recapitalization cover the pilots, U.S. management and salaried employees, and U.S. union ground employees. The ESOPs include a "Leveraged ESOP," a "Non-Leveraged ESOP" and a "Supplemental ESOP." Both the Leveraged ESOP and the Non Leveraged ESOP are tax qualified plans while the Supplemental ESOP is not a tax qualified plan. The purpose of having the three ESOPs is to deliver the agreed-upon shares to employees in a manner which utilizes the tax incentives available to tax qualified ESOPs to the greatest degree possible. Accordingly, shares are delivered to employees primarily through the Leveraged ESOP, secondly, through the Non-Leveraged ESOP, and lastly, through the Supplemental ESOP.

The equity interests are being delivered to employees through two classes of preferred stock (Class 1 and Class 2 ESOP Preferred Stock, collectively "ESOP Preferred Stock"), and the voting interests are being delivered through three separate classes of preferred stocks (Class P, M and S Voting Preferred Stock, collectively "Voting Preferred Stock"). The Class 1 ESOP Preferred Stock is being delivered to an ESOP trust in seven separate sales through January 1, 2000 under the Leveraged ESOP, two of which have already taken place. Based on Internal Revenue Code limitations, shares of the Class 2 ESOP Preferred Stock are either contributed to the Non-Leveraged ESOP or allocated as "book entry" shares to the Supplemental ESOP, annually through the year 2000. The classes of preferred stock are described more fully in Note 11, ESOP Preferred Stock.

The Leveraged ESOP and Non-Leveraged ESOP are being accounted for under AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" ("SOP"). For the Leveraged ESOP, as shares of the Class 1 ESOP Preferred Stock are sold to an ESOP trust, the Company reports the issuance as a credit to additional capital invested and a corresponding charge to unearned ESOP preferred stock. As the shares are earned by employees in exchange for services performed, the shares are committed to be released. ESOP compensation expense is recorded for the average fair value of the shares committed to be released during the period with a corresponding credit to unearned ESOP preferred stock for the cost of the shares. Any difference between the fair value of the shares and the cost of the shares is charged or credited to additional capital invested. For the Non-Leveraged ESOP, the Class 2 ESOP Preferred Stock is recorded as additional capital invested as the shares are committed to be contributed in exchange for employee services, with the offsetting entry to ESOP compensation expense. The ESOP compensation expense is based on the average fair value of the shares committed to be contributed, in accordance with the SOP. The Supplemental ESOP is being accounted for under Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees."

Shares of ESOP Preferred Stock are legally released or allocated to employee accounts as of year-end. Dividends on the ESOP Preferred Stock are also paid at the end of the year. Dividends on unallocated shares are used by the ESOP to pay down the loan from UAL and are not considered dividends for financial reporting purposes. Dividends on allocated shares are satisfied by releasing shares from the ESOP's suspense account to the employee accounts and are charged to equity.

ESOP compensation expense was $504 million in 1995. During 1994, the Company recorded $182 million of ESOP compensation expense for the period July 13 through December 31, 1994. During 1995, 1,131,912 shares of Class 1 ESOP Preferred Stock, 304,070 shares of Class 2 ESOP Preferred Stock and 1,435,942 shares of Voting Preferred Stock were allocated to employee accounts, and another 12,402 shares of Class 2 ESOP Preferred were allocated in the form of "book entry" shares, effective December 31, 1994. At December 31, 1995, the year-end allocation of Class 1 ESOP Preferred Stock to employee accounts had not yet been completed. There were 2,402,310 shares of Class 1 ESOP Preferred Stock committed to be released and 1,105,466 shares held in suspense by the ESOP as of December 31, 1995. For the Class 2 ESOP Preferred Stock, 671,663 shares were committed to be contributed to employees at December 31, 1995. The fair value of the unearned ESOP shares recorded on the balance sheet at December 31, 1995 and 1994 was $230 million and $79 million, respectively.

For the Class 2 ESOP Preferred Stock committed to be contributed to employees under the Supplemental ESOP, employees can elect to receive their "book entry" shares in cash upon termination of employment. The estimated fair value of such shares at December 31, 1995 was $60 million.

(15) Retirement Plans

The Company has various retirement plans which cover substantially all employees. Defined benefit plans covering certain employees (primarily union ground employees) provide a stated benefit for specified periods of service, while defined benefit plans for other employees provide benefits based on employees' years of service and average compensation for a specified period of time before retirement. Pension costs are funded to at least the minimum level required by the Employee Retirement Income Security Act of 1974. The Company also provides several defined contribution plans which cover substantially all U. S. employees who have completed one year of service. For certain groups of employees (primarily pilots, salaried employees hired after February 1, 1994 and employees of Mileage Plus, Inc.), the Company contributes an annual amount on behalf of each participant, calculated as a percentage of the participants' earnings or a percentage of the participants' contributions.

The following table sets forth the defined benefit plans' funded status and amounts recognized in the statements of consolidated financial position as of December 31:

(In Millions)	1995 Accumulated Benefits Exceed Assets	1994 Accumulated Benefits Exceed Assets
Actuarial present value of accumulated benefit obligation	$5,309	$4,191
Actuarial present value of projected benefit obligation	$5,774	$4,572
Plan assets at fair value	4,947	3,780
Projected benefit obligation in excess of plan assets	827	792
Unrecognized net loss	(356)	(13)
Prior service cost not yet recognized in net periodic pension cost	(482)	(523)
Remaining unrecognized net asset	(15)	(3)
Adjustment required to recognize minimum liability	400	302
Pension liability recognized in the statements of consolidated financial position	$ 374	$ 555

For the valuation of pension obligations as of December 31, 1995 and 1994, the weighted average discount rates used were 7.25% and 8.75%, respectively, and the rate of increase in compensation for both 1995 and 1994 was 3.18%. Substantially all of the accumulated benefit obligation is vested.

Total pension expense for all retirement plans (including defined contribution plans) was $193 million in 1995, $350 million in 1994, and $346 million in 1993.

Plan assets are invested primarily in governmental and corporate debt instruments and corporate equity securities. The expected average long-term rate of return on plan assets at December 31, 1995, 1994 and 1993 was 9.75%.

The net periodic pension cost of defined benefit plans included the following components:

(In Millions)	1995	1994	1993
Service cost – benefits earned during the year	$ 173	$ 216	$ 186
Interest cost on projected benefit obligation	496	379	356
Actual (return) loss on plan assets	(934)	28	(310)
Net amortization and deferral	445	(351)	19
Net periodic pension cost	$ 180	$ 272	$ 251

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

(16) Other Employee Benefits

The Company provides certain health care benefits, primarily in the U.S., to retirees and eligible dependents. Benefits are generally funded from company assets on a current basis, although amounts sufficient to pay claims incurred, but not yet paid, are held in trust at year-end. Certain plan benefits are subject to co-payments, deductibles and other limits described in the plans and the benefits are reduced once a retiree becomes eligible for Medicare. The Company also provides certain life insurance benefits to retirees. The assets to fund retiree life insurance benefits are being held in a deposit trust administration fund with a major insurance company. The Company has reserved the right, subject to collective bargaining agreements, to modify or terminate the health care and life insurance benefits for both current and future retirees.

Information on the plans' funded status, on an aggregate basis at December 31, follows:

(In Millions)	1995	1994
Accumulated postretirement benefit obligation		
Retirees	$ 536	$ 483
Other fully eligible participants	210	183
Other active participants	676	590
Total accumulated postretirement benefit obligation	1,422	1,256
Unrecognized net gain (loss)	(54)	138
Fair value of plan assets	(99)	(95)
Accrued postretirement benefit obligation	$1,269	$1,299

Net postretirement benefit costs included the following components:

(In Millions)	1995	1994	1993
Service cost – benefits attributed to service during the period	$ 37	$ 46	$ 38
Amortization of unrecognized net loss (gain)	(5)	3	3
Actual return on assets	(7)	–	–
Interest cost on benefit obligation	100	95	92
Net postretirement benefit costs	$125	$144	$133

The discount rates used to estimate the accumulated postretirement benefit obligation as of December 31, 1995 and 1994 were 7.25% and 8.75%, respectively. The assumed health care cost trend rates were 8.5% and 10% for 1995 and 1994, respectively, declining annually to a rate of 4% by the year 2001 and remaining level thereafter. The effect of a 1% increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation at December 31, 1995, by $179 million and the aggregate of the service and interest cost components of net postretirement benefit cost for 1995 by $19 million.

The Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1994. SFAS No. 112 requires recognition of the liability for postemployment benefits during the period of employment. Such benefits include company paid continuation of group life insurance and medical and dental coverage for certain employees after employment but before retirement. The effect of adopting SFAS No. 112 was a cumulative charge for recognition of the transition liability of $42 million, before tax benefits of $16 million. The ongoing expenses related to postemployment benefits will vary based on actual claims experience.

Changes in interest rates or rates of inflation may impact the assumptions used in the valuation of postretirement and postemployment obligations, including discount rates, resulting in increases or decreases in United's liability and net periodic cost.

(17) Investments in Debt Securities

The following information pertains to the Company's investments in debt and equity securities that are included in "Cash and cash equivalents" and "Short-term investments":

(In Millions)	December 31, 1995			
	Aggregate Fair Value	Gross Unrealized Holding Gains	Cost Basis	Average Maturity (Months)
Available-for-sale:				
U.S. government agency debt securities	$317	$(1)	$316	11
Corporate debt securities	244	(1)	245	7
Other debt securities	45	–	45	11
Held-to-maturity:				
U.S. government agency debt securities	$136	–	$136	10
Corporate debt securities	223	–	223	3
Other debt securities	171	–	171	3

(In Millions)	December 31, 1994			
	Aggregate Fair Value	Gross Unrealized Holding Losses	Cost Basis	Average Maturity (Months)
Available-for-sale:				
U.S. government agency debt securities	$334	$2	$336	9
Corporate debt securities	341	2	343	10
Other debt securities	146	1	147	8
Held-to-maturity:				
U.S. government agency debt securities	$ 97	–	$ 97	6
Corporate debt securities	222	–	222	4
Other debt securities	384	–	384	2

The net unrealized holding gains on available-for-sale securities of $2 million in 1995 and losses of $5 million in 1994 have been recorded as a component of shareholders' equity, net of related tax benefits. The proceeds from sales of available-for-sale securities were $419 million and $255 million in 1995 and 1994, respectively. Such sales resulted in insignificant gross realized gains and losses, based on the cost of the specific securities sold. These gains and losses were included in interest income for each respective year.

(18) *Financial Instruments and Risk Management*

The Company attempts to manage its exposure to interest rates, foreign exchange rates, and, to a limited extent, jet fuel prices through the use of various derivative financial instruments. The Risk Tolerance Committee ("RTC"), a group of the Company's senior officers, is responsible for setting acceptable levels of risk and reviewing risk management activities. Except for minor investments in certain futures and options contracts to assist in opportunistic purchases of jet fuel under limits set by the RTC, the Company uses derivative financial instruments only for the purpose of hedging existing commitments or obligations, not for generating trading profits.

Credit Exposures of Derivatives

The Company's theoretical risk in the derivative financial instruments described below is the cost of replacing the contracts at current market rates in the event of default by any of the counterparties. However, the Company does not anticipate such default as counterparties are selected based on credit ratings and the relative market positions with each counterparty are monitored by the RTC and their designates. Furthermore, the risk of such default is mitigated by provisions in the contracts which require either party to post increasing amounts of collateral as the value of the contract moves against them, subject to certain thresholds. Counterparty credit risk is further minimized by settlements throughout the duration of the contract.

Interest Rate Risk Management

United has entered interest rate swap agreements in order to manage the interest rate exposure associated with certain variable rate debt and leases. The swap agreements have remaining terms averaging 15 years, corresponding to the terms of the related debt or lease obligations. Under the agreements, United makes payments to counterparties at fixed rates and in return receives payments based on variable rates indexed to LIBOR. At December 31, 1995, a notional amount of $471 million of interest rate swap agreements effectively fixed interest rates between 8.02% and 8.65% on such obligations. The notional amounts of the swaps do not represent amounts exchanged between the parties and, therefore, are not a measure of the Company's exposure resulting from its use of the swaps. Rather, the amounts exchanged are based on interest rates applied to the notional amounts. The fair values to United of interest rate swap agreements at December 31, 1995 and 1994 were $(46) million and $26 million, respectively, taking into account interest rates in effect at the time.

Foreign Exchange Risk Management

A strengthening (weakening) of foreign currencies versus the U.S. dollar tends to increase (decrease) reported revenue and operating income because United's foreign currency-denominated operating revenue generally exceeds its foreign currency-denominated operating expense for each currency. United attempts to mitigate its exposure to fluctuations in any single currency by carrying passengers and cargo in both directions between the U.S. and almost every major economic region in the world. As a result of rate fluctuations, United is also exposed to transaction gains and losses which it attempts to manage as follows:

United is party to a foreign currency swap contract to reduce exposure to currency fluctuations in connection with 8.1 billion of Japanese yen-denominated lease obligations. The contract effectively fixes future lease principal payments at an indirect yen exchange rate of 93.63. At December 31, 1995, the swap contract had a notional amount of $84 million, which will reduce periodically through 2004 as payments are made under the leases. The fair value of the currency swap contract to United at December 31, 1995 was approximately

$8 million based on the change in the yen to dollar exchange rate and interest rates in the U.S. and Japan.

United incurs certain other identifiable Japanese yen-denominated liabilities as a result of operations (commissions) and financing activities (accrued rent on aircraft operating leases and interest on capital leases). United minimizes transaction gains and losses by investing in yen-denominated time deposits to offset the impact of rate changes. Where no significant liability exists to offset, United mitigates its exposure to foreign exchange fluctuations by converting excess local currencies generated into U.S. dollars.

Fuel Price Risk Management

United enters into contracts with certain fuel suppliers to purchase fuel at a fixed average price over a given period of time, typically one year, to protect against increases in jet fuel prices. At December 31, 1995, United had contracted 134 million gallons or approximately 5.0% of its expected 1996 fuel needs at fixed average prices.

At December 31, 1995, the fair values of futures and options contracts used for opportunistic purchases of jet fuel were insignificant.

Balance Sheet Financial Instruments Fair Values

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, short-term investments classified as "held-to-maturity," and short-term borrowings approximate fair value due to the immediate or short-term maturities of these financial instruments. Investments in debt securities classified as "available-for-sale" are stated at fair value based on the quoted market prices for the securities (see Note 17).

The fair value of long-term debt, including debt due within one year, is primarily based on the quoted market prices for the same or similar issues or on the then current rates offered for debt with similar terms and maturities. The fair value of long-term debt, including debt due within one year, at December 31, 1995 and 1994 was $3.435 billion and $2.983 billion, respectively, compared with carrying values of $3.009 billion and $3.271 billion.

Financial Guarantees

Special facility revenue bonds have been issued by certain municipalities to build or improve airport and maintenance facilities leased by United. Under the lease agreements, United is required to make rental payments in amounts sufficient to pay the maturing principal and interest payments on the bonds. At December 31, 1995, $1.009 billion principal amount of such bonds was outstanding. As of December 31, 1995, UAL and United had jointly guaranteed $55 million of such bonds and United had guaranteed $1.051 billion of such bonds, including accrued interest.

Transfers of the tax benefits of accelerated depreciation and investment tax credits associated with the acquisition of certain equipment have been made previously by United to various tax lessors through tax lease transactions. Proceeds from tax benefit transfers were recognized as income in the year the lease transactions were consummated. The subject equipment is being depreciated for book purposes. United has agreed to indemnify (guaranteed in some cases by UAL) the tax lessors against loss of such benefits in certain circumstances and has agreed to indemnify others for loss of tax benefits in limited circumstances for certain used aircraft purchased by United subject to previous tax lease transactions. Certain tax lessors have required that letters of credit be issued in their favor by financial institutions as security for United's indemnity obligations under the leases. The outstanding balance of such letters of credit totaled $49 million at December 31, 1995. At that date, United had granted mortgages on aircraft and engines having a total book value of $216 million as security for indemnity obligations under tax leases and letters of credit.

Concentration of Credit Risk

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

(19) Commitments, Contingent Liabilities and Uncertainties

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

At December 31, 1995, commitments for the purchase of property and equipment, principally aircraft, approximated $3.6 billion after deducting advance payments. An estimated $1.4 billion is due to be spent during 1996, $1.6 billion in 1997, $0.4 billion in 1998 and $0.2 billion in 1999 and thereafter. The major commitments are for the purchase of 26 B777 aircraft, 4 B747 aircraft and 4 B757 aircraft. The B777s are scheduled to be delivered through 1999, and the B747s and B757s are expected to be delivered in 1996 and 1997.

In addition to the above aircraft orders, United has arrangements with Airbus and International Aero Engines to lease an additional 21 A320 aircraft, which are scheduled for delivery through 1998. At December 31, 1995, United also had purchase options for 137 B737 aircraft, 29 B757 aircraft, 34 B777 aircraft, 40 B747 aircraft, 5 B767 aircraft and 45 A320 aircraft. Under the terms of certain of these options which are exercisable during 1996 and 1997, United would forfeit significant deposits on such options not exercised.

In April 1995, United announced that, under a revised fleet plan, it would use most of the new aircraft to be delivered through 1997 to replace older aircraft in its fleet. As a result, United's fleet plan provides for only slight growth in its operating fleet through the end of 1997.

The Indianapolis Maintenance Center began operation in March 1994. When complete, it is expected to be the facility used for performing maintenance on B737, B757 and B767 aircraft. Construction of certain parts of the facility are still in process. The facilities are being financed primarily with tax-exempt bonds and other capital sources. In connection with the construction of the Indianapolis Maintenance Center, United agreed to reach an aggregate $800 million capital spending target by the year 2001 and employ at least 7,500 individuals by the year 2004. In the event such targets are not reached, United may be required to make certain additional payments under related agreements.

Approximately 61% of United's employees are represented by various labor organizations. In connection with the 1994 employee investment transaction, members of the Air Line Pilots' Association and the International Association of Machinists and Aerospace Workers entered labor contracts with United which become amendable in 2000. The contract with the Association of Flight Attendants ("AFA") becomes amendable March 1, 1996. On February 7, 1996, United's management and the AFA announced that they had reached a tentative agreement on a new contract. The agreement is subject to ratification by United's flight attendants. If ratified, the contract will replace the current agreement. The voting process will not conclude until April 1996.

(20) Foreign Operations

United conducts operations in various foreign countries, principally in the Pacific, Europe and Latin America. Operating revenues from foreign operations were approximately $5.309 billion in 1995, $4.920 billion in 1994 and $4.500 billion in 1993. Due to the nature of the airline industry, United's foreign operations involve insignificant amounts of physical assets; however, there are sizeable intangible assets related to acquisitions of foreign route authorities. Operating authorities in international markets are governed by bilateral aviation agreements between the United States and foreign countries. Changes in U. S. or foreign government aviation policies can lead to the alteration or termination of existing air service agreements that could diminish the value of United's international route authority.

(21) Statement of Consolidated Cash Flows - Supplemental Disclosures

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

(In Millions)	1995	1994	1993
Cash paid during the year for:			
Interest (net of amounts capitalized)	$346	$302	$330
Income taxes	65	69	135
Non-cash transactions:			
Capital lease obligations incurred	376	—	70
Long-term debt incurred in connection with additions to equipment	26	21	487
Long-term debt issued in connection with the exchange of a Series A convertible preferred stock	546	—	—
Increase in pension intangible	2	13	15
Net unrealized gain (loss) on investments	4	(5)	—
Increase in additional capital invested in connection with the conversion of subordinated debentures to common stock	1	—	—

(22) Selected Quarterly Financial Data (Unaudited)

The Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective

January 1, 1994. The effect of adopting SFAS No. 112 was a cumulative charge for recognition of the transition liability of $42 million, before tax benefits of $16 million.

In connection with the July 1994 recapitalization, the Company incurred pretax costs of $19 million, $22 million and $128 million in the first, second and third quarters, respectively, including transaction costs and severance payments to certain former United employees. Of these costs, $48 million were recorded as operating expenses in the third quarter, while the remaining costs were recorded in "Miscellaneous, net."

Earnings per share were calculated after providing for the following preferred stock dividend requirements:

(In Millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
1995	$16	$13	$13	$11	$53
1994	$ 9	$ 9	$20	$21	$59

In April 1995, UAL issued convertible subordinated debentures in exchange for its Series A preferred stock. As a result of the exchange, the Company recorded a non-cash increase of $45 million in additional capital invested representing the excess of the carrying value of the preferred stock exchanged over the fair value of the new debentures. Earnings available to common shareholders were increased in the 1995 second quarter and twelve-month period by this amount. Additionally, the Company repurchased 4,260 shares of its Series B preferred stock during 1995. As a result of paying amounts in excess of the stock's liquidation preference for these shares, earnings available to common shareholders were reduced by $2 million in the 1995 second quarter and $22 million in the 1995 fourth quarter.

Earnings available to common stockholders were also reduced by $3 million in the 1994 fourth quarter and twelve-month period for the excess of amounts paid to reacquire UAL preferred stock over the liquidation preference of such stock. In the 1995 second and third quarters and the 1994 third quarter, primary per share amounts were based on weighted average common shares and common equivalents outstanding, including ESOP shares committed to be released. Fully diluted per share amounts assume the exercise of stock options and vesting of restricted stock at the beginning of the periods and, for the 1995 second and third quarters, the conversion of convertible preferred stock and elimination of related dividends. The fully diluted per share amount for the 1994 third quarter does not assume conversion of convertible preferred stock since the effect is antidilutive. In the computations for the 1995 first and fourth quarters and the 1994 first, second and fourth quarters and year, common stock equivalents were not included as they did not have a dilutive effect.

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 have not been restated. Thus, direct comparisons between 1995 and 1994 per share amounts are not meaningful.

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

(In Millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
1995					
Operating revenues	$3,334	$3,815	$4,127	$3,667	$14,943
Earnings from operations	38	302	467	22	829
Earnings (loss) before extraordinary item	3	151	243	(19)	378
Extraordinary loss on early extinguishment of debt	–	–	–	(29)	(29)
Net earnings (loss)	$ 3	$ 151	$ 243	$ (48)	$ 349
Per share amounts, primary:					
Earnings (loss) before extraordinary item	$(1.05)	$12.00	$14.06	$(4.15)	$ 21.86
Extraordinary loss on early extinguishment of debt	–	–	–	(2.35)	(1.85)
Net earnings (loss)	$(1.05)	$12.00	$14.06	$(6.50)	$ 20.01
Net earnings (loss) per share, fully diluted	$(1.05)	$10.94	$12.87	$(6.50)	$ 19.11
1994					
Operating revenues	$3,195	$3,502	$3,814	$3,439	$13,950
Earnings (loss) from operations	(36)	167	312	78	521
Earnings (loss) before cumulative effect of accounting change	(71)	55	82	11	77
Cumulative effect of accounting change	(26)	–	–	–	(26)
Net earnings (loss)	$ (97)	$ 55	$ 82	$ 11	$ 51
Per share amounts, primary:					
Earnings (loss) before cumulative effect of accounting change	$(3.31)	$ 1.89	$ 4.24	$(0.98)	$ 0.76
Cumulative effect of accounting change	(1.06)	–	–	–	(1.37)
Net earnings (loss)	$(4.37)	$ 1.89	$ 4.24	$(0.98)	$ (0.61)
Net earnings (loss) per share, fully diluted	$(4.37)	$ 1.89	$ 4.21	$(0.98)	$ (0.61)

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.

G Greenwald

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 the accompanying statement of consolidated financial position of UAL Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1995 and 1994, 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, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UAL Corporation and subsidiary companies as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Chicago, Illinois
February 28, 1996

Eleven Year Summary

(In Millions, Except Per Share, Rates and Number of Aircraft)	1995	1994
Earnings data:		
Operating revenues	$ 14,943	$ 13,950
Operating earnings (loss)	829	521
Earnings (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes	378	77
Net earnings (loss)	$ 349	$ 51
Share data:		
Per share –		
Earnings (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes, primary	$ 21.86	$ 0.76
Net earnings (loss), primary	$ 20.01	$ (0.61)
Dividends paid on common stock	$ –	$ –
Book value of common stock at year-end	$ (36.22)	$ (99.94)
Common shares outstanding at year-end (in thousands)	12,680	12,439
Number of common shareholders at year-end (in thousands)	17	18
Financial position at year-end:		
Current assets	$ 3,043	$ 3,192
Net assets of discontinued operations	–	–
Operating property and equipment, net	7,021	6,723
Other assets	1,577	1,849
Total assets	$ 11,641	$ 11,764
Liabilities and shareholders' equity –		
Current liabilities	$ 4,433	$ 4,906
Long-term debt and long-term obligations under capital leases	3,913	3,617
Other liabilities and deferred credits, redeemable preferred stock and minority interest	3,534	3,557
Shareholders' equity	(239)	(316)
Total liabilities and shareholders' equity	$ 11,641	$ 11,764
Other financial data:		
Depreciation and amortization	$ 724	$ 725
Salaries and related costs (excluding ESOP compensation expense)	$ 4,526	$ 4,679
Operating data:		
Revenue passengers	79	74
Revenue passenger miles	111,811	108,299
Available seat miles	158,569	152,193
Passenger load factor	70.5%	71.2%
Passenger revenue per passenger mile (yield)	11.8¢	11.3¢
Average price per gallon of jet fuel	59.5¢	58.8¢
Number of aircraft in operating fleet at year-end	558	543
Average number of employees (in thousands)	81	78

1993	1992	1991	1990	1989	1988	1987	1986	1985
\$ 13,325	\$ 11,853	\$ 10,706	\$ 10,296	\$ 9,288	\$ 8,705	\$ 8,127	\$ 7,010	\$ 5,279
263	(538)	(494)	(36)	465	665	247	90	(238)
(31)	(417)	(332)	94	324	(60)	(4)	(113)	(95)
\$ (50)	\$ (957)	\$ (332)	\$ 94	\$ 324	\$ 1,124	\$ 335	\$ 12	\$ (49)
\$ (2.64)	\$ (17.34)	\$ (14.31)	\$ 4.33	\$ 14.96	\$ 20.20	\$ (0.08)	\$ (2.50)	\$ (3.43)
\$ (3.40)	\$ (39.75)	\$ (14.31)	\$ 4.33	\$ 14.96	\$ 37.87	\$ 6.02	\$ .25	\$ (2.06)
\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ .75	\$ 1.00	\$ 1.00
\$ 24.55	\$ 29.11	\$ 67.21	\$ 76.34	\$ 71.64	\$ 56.76	\$ 51.50	\$ 45.00	\$ 44.50
24,509	24,238	23,788	21,885	21,835	21,603	56,740	50,172	35,262
19	19	16	17	22	21	25	23	25
\$ 3,713	\$ 3,298	\$ 2,882	\$ 2,640	\$ 2,738	\$ 2,150	\$ 3,483	\$ 1,216	\$ 1,586
–	–	–	–	–	–	427	1,103	1,093
7,206	7,111	5,995	4,749	3,898	3,941	4,027	3,682	2,907
1,921	1,848	999	594	558	595	452	548	338
\$ 12,840	\$ 12,257	\$ 9,876	\$ 7,983	\$ 7,194	\$ 6,686	\$ 8,389	\$ 6,549	\$ 5,924
\$ 4,806	\$ 4,845	\$ 4,083	\$ 3,757	\$ 3,224	\$ 2,869	\$ 3,383	\$ 2,570	\$ 1,910
3,619	3,613	2,423	1,238	1,321	2,046	1,712	1,323	1,872
3,212	3,093	1,773	1,317	1,085	545	372	364	342
1,203	706	1,597	1,671	1,564	1,226	2,922	2,292	1,800
\$ 12,840	\$ 12,257	\$ 9,876	\$ 7,983	\$ 7,194	\$ 6,686	\$ 8,389	\$ 6,549	\$ 5,924
\$ 764	\$ 726	\$ 604	\$ 560	\$ 517	\$ 518	\$ 551	\$ 502	\$ 424
\$ 4,760	\$ 4,562	\$ 4,057	\$ 3,550	\$ 3,158	\$ 2,838	\$ 2,778	\$ 2,558	\$ 2,030
70	67	62	58	55	56	55	50	38
101,258	92,090	82,290	76,137	69,639	69,101	66,348	59,312	41,640
150,728	137,491	124,100	114,995	104,547	101,721	101,454	91,409	66,119
67.2%	67.4%	66.3%	66.2%	66.0%	67.9%	65.4%	64.9%	63.0%
11.6¢	11.3¢	11.5¢	11.8¢	11.6¢	10.8¢	10.1¢	9.8¢	10.5¢
63.6¢	66.4¢	71.6¢	80.4¢	63.6¢	56.0¢	57.8¢	56.2¢	83.1¢
544	536	486	462	429	405	382	364	325
85	84	79	74	69	66	64	59	47

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
Chairman,
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,
U S 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 Springs, Maryland
(Labor union)
Employee Director, Elected 1994
(2) (4) (5) (6) (9)

PAUL E. TIERNEY, JR.
Managing Director,
Gollust, Tierney and Oliver Inc.,
New York, New York
(Investment banking)
Public Director, Elected 1990
(1) (4) (5) (7) (8) (10)

JOHN K. VAN DE KAMP
Partner, Dewey Ballantine,
Los Angeles, California
(Law firm)
Independent Director, Elected 1994
(1) (4) (6) (9) (10)

JOSEPH V. VITTORIA
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
Chairman, James D. Wolfensohn Inc.,
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
Corporate Affairs and General Counsel

DOUGLAS A. HACKER
Senior Vice President Finance

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 Nominating Committee
(7) Labor Committee
(8) Outside Public Director Nominating Committee
(9) Pension and Welfare Plan 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 J. Dutta
Senior Vice President Planning

Sara A. Fields
Senior Vice President Onboard Service

Paul G. George*
Senior Vice President People

James E. Goodwin*
Senior Vice President North America

Douglas A. Hacker*
Senior Vice President and Chief Financial Officer

Hart A. Langer
Senior Vice President Flight Operations

R. Terrence Rendleman
Senior Vice President Maintenance 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 Mountain

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 West

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 E. Ruhaak
Vice President Advertising and Promotion

John R. Samolis
Vice President Labor Relations

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

William H. Traub
Vice President Flight Standards and Training

Ronald D. Utecht
Vice President Line Maintenance

Daniel C. Walsh
Vice President North America East

Glenn S. Wright
Vice President North America Midwest

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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 J. DUTTA
Senior Vice President Planning

SARA A. FIELDS
Senior Vice President Onboard Service

PAUL G. GEORGE*
Senior Vice President People

JAMES E. GOODWIN*
Senior Vice President North America

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

HART A. LANGER
Senior Vice President Flight Operations

R. TERRENCE RENDLEMAN
Senior Vice President Maintenance 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-Mountain

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-West

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 E. RUHAAK
Vice President Advertising and Promotion

JOHN R. SAMOLIS
Vice President Labor Relations

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

WILLIAM H. TRAUB
Vice President Flight Standards and Training

RONALD D. UTECHT
Vice President Line Maintenance

DANIEL C. WALSH
Vice President North America-East

GLENN S. WRIGHT
Vice President North America-Midwest

*[illegible]

Stockholder Information

World Headquarters

1200 E. Algonquin Road
Elk Grove Township, IL 60007
(847) 952-4000
Effective April 15, 1996:
(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:

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303-2500
(201) 324-1225

The transfer agent's "Telephone Response Center" is open Monday through Friday between 9 a.m. and 5 p.m. Eastern time.

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.

Tender of UAL Common

For information concerning tendering procedures of UAL Common shares issued prior to July 12, 1994, contact:

First Chicago Trust Company of New York
Tenders and Exchanges Department
Suite 4660
P.O. Box 2561
Jersey City, NJ 07303-2561
(201) 324-0137

Availability of Quarterly Results

UAL Corporation's 1996 quarterly results will be available on approximately the following dates:

First Quarter	April 23, 1996
Second Quarter	July 23, 1996
Third Quarter	October 22, 1996
Fourth Quarter	January 28, 1997

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) 952-7365
Effective April 15, 1996:
(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
1995		
First Quarter	$107 1/4	$ 87 5/8
Second Quarter	143	104
Third Quarter	172	137 1/2
Fourth Quarter	211 7/8	166
1994		
Third Quarter (from July 13)	$105	$ 86 3/4
Fourth Quarter	96 7/8	83 1/8
Old Common Stock		
1994		
First Quarter	$150	$125 3/4
Second Quarter	130 1/2	115 1/8
Third Quarter (through July 12)	130 1/2	125 1/2

No dividends were paid on the common stock or the old common stock during these periods. As of March 1, 1996 there were 11,338 common stockholders of record, which does not include holders of old common stock who have not tendered their stock certificates as the result of the recapitalization.

In the interest of conservation, part of UAL Corporation's Annual Report is printed on 100% chlorine free paper, as well as paper which uses 100% post-consumer fiber and is 100% recyclable.

The Annual Report was designed and produced by the employee-owners of United Airlines.

CERTIFICATION OF FINANCIAL STATEMENTS

OATH

STATE OF ILLINOIS

COUNTY OF COOK

Personally appeared before the undersigned, an officer duly authorized to administer oaths, John McIntyre who first being duly sworn, deposes and says that he is Vice President, Planning of Apollo Communications Services, LLC, applicant in this application, that he has read the financial statements enclosed herein as ATTACHMENT K and knows the contents thereof, and that the statements made herein are true to the best of his knowledge and belief.

John McIntyre

(Signature of Affiant)

Subscribed and sworn before me, this 17th day of February, 1997.

Kerrie Wasicke

(Notary Public)

"OFFICIAL SEAL"
KERRIE WASICKE
Notary Public, State of Illinois
My Commission Expires 09/13/99

(Seal)

My Commission Expires 9/13/99