FORM 10-K

United Continental Holdings, Inc. - UAL

Filed: March 06, 1998 (period: December 31, 1997)

Annual report with a comprehensive overview of the company

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________to____________

Commission File No. 1-6033

UAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-2675207
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Location: 1200 East Algonquin Road, Elk Grove Township, Illinois 60007
Mailing Address: P. O. Box 66919, Chicago, Illinois 60666
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.01 par value	New York, Chicago and Pacific Stock Exchanges
Depositary Shares each representing 1/1,000 of a share of Series B Preferred Stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of voting stock held by non-affiliates of the Registrant was $4,887,954,500 as of February 28, 1998. The number of shares of common stock outstanding as of February 28, 1998 was 57,507,227.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference certain information from the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 7, 1998.

PART I

ITEM 1. BUSINESS.

UAL Corporation ("UAL" or the "Company") was incorporated under the laws of the State of Delaware on December 30, 1968. The world headquarters of the Company are located at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007. The Company's mailing address is P.O. Box 66919, Chicago, Illinois 60666. The telephone number for the Company is (847) 700-4000.

The Company is a holding company and its principal subsidiary is United Air Lines, Inc., a Delaware corporation ("United"), which is wholly owned. United accounted for virtually all of the Company's revenues and expenses in 1997. United is a major commercial air transportation company, engaged in the transportation of persons, property and mail throughout the United States and abroad.

Airline Operations

During 1997, United carried, on average, more than 230,000 passengers per day and flew more than 121 billion revenue passenger miles. It is the world's largest airline as measured by revenue passenger miles flown, providing passenger service in 27 countries.

United has a global network of hubs primarily designed to fly travelers between North America (domestic segment) and the Pacific, Latin America and Europe (international segment). North American hubs include Chicago, Denver, Los Angeles, San Francisco, and Washington, D.C. (Dulles). United also operates a major hub in Tokyo. Operating revenues attributed to United's North America segment were approximately $11.2 billion in 1997, $10.7 billion in 1996, and $9.6 billion in 1995. Operating revenues attributed to United's international segment were approximately $6.1 billion in 1997, $5.6 billion in 1996 and $5.3 billion in 1995.

Since October 1994, United has operated a service, Shuttle by United (R) within its domestic segment. This service is designed to compete with low-cost carriers on routes under 750 miles. While Shuttle by United is principally concentrated on the West Coast, it has expanded to offer approximately 466 daily flights on 24 routes between 20 cities in the western United States. Shuttle by United provides critical feed traffic, at competitive prices, for United.

Pacific. Via its Tokyo hub, United provides passenger service between its U.S. gateway cities (Chicago, Honolulu, Los Angeles, New York, and San Francisco) and the Asian cities of Bangkok, Beijing, Hong Kong, Seoul, Shanghai and Singapore. United provides nonstop service between Chicago and Hong Kong; between San Francisco and each of Hong Kong, Osaka, Seoul and Taipei; between Los Angeles and each of Hong Kong and Osaka; and between Honolulu and each of Tokyo and Osaka. Additionally, United provides service between Osaka and Seoul, and between Hong Kong and each of Singapore and New Delhi. During 1997, United served the Guam-Osaka and Manila-Seoul markets, but on February 20, 1998, all Guam service and all Manila passenger service were terminated. Cargo service in Manila continues.

On January 30, 1998, the U.S. and Japanese governments agreed to expand the 1952 air services agreement between the two countries. One of the benefits under the new agreement is that certain carriers, including United, will have no limits on the number of frequencies they can operate. Accordingly, on April 8, 1998, United will increase nonstop service between Chicago and Tokyo from six flights each week to 14 weekly fights. On July 8, 1998, United will begin daily nonstop service between Chicago and Osaka.

In addition, the agreement allows code-sharing between U.S. and Japanese carriers. The new agreement also settles long-standing disputes regarding the utilization of "beyond Japan" flying rights. United holds significant traffic rights beyond Japan and as capacity increases at Japan's two major airports, Narita and Kansai, United plans to add service from Japan to other Asian points.

United serves the South Pacific market with flights between Sydney and each of Los Angeles and San Francisco, and between San Francisco and each of Auckland and Melbourne. In 1997, United was the leading U.S. carrier in the Pacific in terms of available seat miles. United's Pacific operations accounted for 20% of United's revenues in 1997.

Europe. United provides nonstop passenger service between six U.S. cities and London, as well as service between London and each of Amsterdam and New Delhi; nonstop service between Paris and each of Chicago, San Francisco, and Washington Dulles; nonstop service between Washington Dulles and each of Amsterdam, Brussels, Frankfurt, Milan and Zurich (discontinued as of March 1, 1998); and nonstop service between Chicago and each of Dusseldorf and Frankfurt. In April 1997, United initiated a second nonstop flight between Chicago and London Heathrow and plans to add a third seasonal flight in April 1998, pending government approval. New service between Munich and Washington Dulles will begin June 1998. In 1997, United's Atlantic operations accounted for 10% of United's revenues.

The European Commission is investigating transatlantic alliances, including the alliance between United, Lufthansa, and SAS, and their impact upon competition. The Commission has proposed certain conditions, such as frequency reductions, slot forfeitures, prohibitions on combining frequent flyer programs, and restrictions on display screens of computer reservation systems, which, if implemented, may impair the efficiency of United's alliance with Lufthansa and SAS.

Latin America. United provides nonstop passenger service between Miami and each of Buenos Aires, Caracas, Lima, Montevideo, Rio de Janeiro, Santiago and Sao Paolo; between Los Angeles and each of Guatemala City, Mexico City, and San Salvador; between New York Kennedy and each of Buenos Aires, Caracas, Rio de Janeiro, and San Juan; between Chicago and each of Mexico City, San Juan, and Sao Paolo; and one flight between Mexico City and each of Denver, San Francisco, and Washington Dulles. Service between Chicago and Sao Paulo was initiated in November 1997. United also provides service between Costa Rica and each of Guatemala City and Mexico City. In April 1998, United will add nonstop service between Chicago and Guatemala City, as well as a second flight between Chicago and Mexico City. In July 1998, nonstop service will be added between Washington Dulles and San Salvador. In 1997, United's Latin America operations accounted for 5% of United's revenues.

Alliances and Marketing Arrangements. United has formed alliances with other airlines to participate in markets that it cannot serve directly for commercial or governmental reasons. An alliance is a collaborative marketing arrangement between carriers which can include joint frequent flyer participation, coordination of reservations, baggage handling, and flight schedules, and code-sharing of operations. "Code-sharing" is an agreement under which a carrier's flights can be marketed under the two-letter airline designator code of another carrier. Through an alliance, carriers can provide their customers a seamless global travel network under their own airline code.

In May 1997, United, Lufthansa, Air Canada, SAS and Thai Airways formed the Star Alliance (TM), an integrated worldwide transport network which provides customers with global recognition and a wide range of other benefits. The Star Alliance should enable its member carriers to more effectively compete with other worldwide alliances. In October 1997, Varig joined the alliance. United holds antitrust immunity with Lufthansa, SAS and Air Canada.

Other alliance air carriers include Aeromar, Aeromexico, Air New Zealand, ALM Antillean, Aloha, Ansett (which operates in both Australia and New Zealand), British Midland, Cayman Airways, Continental Connection, Emirates, Gulfstream International, Mexicana, Saudi Arabian, and TW Express.

In addition, United has a marketing program in North America, known as the United Express (R) program, under which independent regional carriers, utilizing turboprop equipment and some regional jets, feed United hubs and international gateways. The carriers in the United Express program provide service to United at 182 airports.

Cargo Service. United's cargo division accounts for approximately 5% of the Company's operating revenues. In 1997, United introduced all-cargo service between the U.S. and Asia, operating four DC10-30F freighter aircraft. United also opened two cargo facilities: a cargo consolidation center in Charlotte, North Carolina to serve the Southeastern and mid-Atlantic states and a transfer center at John F. Kennedy International Airport in New York. A large cargo transfer facility is currently being constructed in Honolulu and is scheduled to open during the second quarter of 1998. The Hawaii facility is expected to be a major connection point for Japanese traffic to and from the U.S. mainland, and for local traffic in and out of Hawaii.

Frequent Flyer Program. United established the Mileage Plus (R) frequent flyer program to retain and develop passenger loyalty by offering awards to frequent travelers. Mileage Plus members earn mileage credit for flights on United, Shuttle by United, United Express and certain other participating airlines, or for utilizing the services of other program participants, such as hotels, car rental companies and bank credit card issuers. Mileage credits can be redeemed for free, discounted or upgraded travel awards on United and other participating airlines, or for other travel industry awards. The redemption of awards under the program is restricted with expiration dates, blackout periods and capacity controlled bookings, limiting the use of the awards on certain flights.

When an award level is attained, liability is recorded for the incremental costs of accrued credits based on expected redemptions. United's incremental costs include the additional costs of providing service for what would otherwise be a vacant seat, such as fuel, meal, personnel and ticketing costs. The incremental costs do not include any contribution to overhead or profit.

At December 31, 1997, the estimated number of outstanding awards was approximately 6.2 million, as compared with 6.1 million at the end of the prior year. United estimates that 4.7 million of such awards will ultimately be redeemed and, accordingly, has recorded a liability amounting to $195 million, which is unchanged from the previous year. Based on historical data, the difference between the awards expected to be redeemed and the total awards outstanding arises because: (1) some awards will never be redeemed, (2) some will be redeemed for non-travel benefits, and (3) some will be redeemed on partner carriers.

The number of Mileage Plus awards used on United in 1997 was 1.8 million, compared to 1.5 million in 1996 and 1.8 million in 1995. Such awards represented 8% of United's total revenue passenger miles in 1997, 7% in 1996 and 8% in 1995. These low percentages, as well as seat availability restrictions on the use of travel awards, keep displacement, if any, of revenue passengers by users of Mileage Plus awards to a minimum.

Industry Conditions

Seasonality. Air travel business is subject to seasonal fluctuations. United's first- and fourth-quarter results normally are affected by reduced travel demand in the fall and winter, and United's operations are often affected adversely by winter weather. Thus, operating results for the Company are generally better in the second and third quarters.

Competition. The airline industry is highly competitive. In domestic markets, new and existing carriers are free to initiate service on any route. United's domestic competitors include all of the other major U.S. airlines as well as regional carriers, some of which have lower cost structures than United.

In its international service, United competes not only with U.S. carriers but also with national flag carriers of foreign countries, which in certain instances enjoy forms of governmental support not available to U.S. carriers. Competition on certain international routes is subject to varying degrees of governmental regulations (see "Government Regulation"). United has advantages over foreign air carriers because of its ability to generate U.S. origin-destination traffic from its integrated domestic route systems, and because foreign carriers are prohibited by U.S. law from carrying local passengers between two points in the United States. On the other hand, U.S. carriers in many cases are constrained from carrying passengers to points beyond designated international gateway cities due to limitations in air service agreements or restrictions imposed unilaterally by foreign governments. To compensate for these structural limitations, U.S. and foreign carriers have entered into alliances and marketing arrangements which allow the carriers to provide feed to each other's flights. (See "Airline Operations - Alliances and Marketing Arrangements").

Distribution Channels. Travel agents account for a substantial percentage of United's sales. In September 1997, as part of its ongoing effort to control costs, United reduced the base travel agency commission rate to 8% for tickets sold within the U.S., and imposed a cap of $50.

The use of electronic distribution systems is also an important cost control initiative of United. In 1997, United expanded the capabilities of its web site by offering Internet ticketing. The U.S. government and the European Commission are considering placing restrictions on the Internet products offered directly by the airlines as they review the larger issue of additional restrictions on the industry of computer reservation systems.

Government Regulation

General. All carriers engaged in air transportation in the United States are subject to regulation by the U.S. Department of Transportation ("DOT"). The DOT has authority to: issue certificates of public convenience and necessity for domestic air transportation and, through the Federal Aviation Administration

("FAA"), air-carrier operating certificates; authorize the provision of foreign air transportation by U.S. carriers; prohibit unjust discrimination; prescribe forms of accounts and require reports from air carriers; regulate methods of competition, including the provision and use of computerized reservation systems; and administer regulations providing for consumer protection, including regulations governing the accessibility of air transportation facilities for handicapped individuals. United holds certificates of public convenience and necessity, as well as air-carrier operating certificates, and therefore is subject to DOT regulations. The FAA administers the U.S. air traffic control system and oversees aviation safety issues.

United's operations also require licenses issued by the aviation authorities of the foreign countries United serves. Foreign aviation authorities may from time to time impose a greater degree of economic regulation than exists with respect to United's domestic operations. United's ability to serve some foreign markets and its expansion in many foreign markets is presently restricted by lack of aviation agreements allowing such service or, in some cases, by the restrictive terms of such agreements.

In connection with its international services, United is required to file with the DOT and to observe tariffs establishing the fares charged and the rules governing the transportation provided. In certain cases, fares and schedules require the approval of the relevant foreign governments. Shifts in United States or foreign government aviation policies can lead to the alteration or termination of existing air service agreements between the U.S. and other governments, and could diminish the value of United's international route authority. United's operating rights under the air services agreements may not be preservable in such cases.

Airport Access. Take-off and landing rights ("slots") at Chicago O'Hare International Airport, New York John F. Kennedy International, New York LaGuardia and Reagan National airports, are limited by the "high density traffic rule." Under this rule, slots may be bought, sold or traded. The DOT, however, can require carriers to relinquish slots for reallocation if they fail to meet certain minimum-use standards.

For the past few years, the DOT has been confiscating slots from incumbent carriers at Chicago O'Hare, including United, to provide more opportunities for foreign carriers. In 1997, the DOT began creating slots at certain slot-controlled airports to allow the entry of start-up carriers. United has petitioned the DOT for the return of United's confiscated O'Hare slots under the theory that confiscation is no longer necessary if the DOT has the ability to create new slots. United holds a sufficient number of slots at airports subject to the high-density rule, but its ability to expand could be constrained if sufficient additional slots are not available on satisfactory terms.

United currently has a sufficient number of leased gates and other airport facilities, but expansion by United may be constrained at certain airports by insufficient availability of gates on attractive terms or other factors, for example, noise restrictions.

Safety. The FAA has regulatory jurisdiction over flight operations generally, including equipment, ground facilities, maintenance, communications and other matters. United's aircraft and engines are maintained in accordance with the standards and procedures recommended and approved by the manufacturers and the FAA.

From time to time, the FAA issues airworthiness directives ("ADs") which require air carriers to undertake inspections and to make unscheduled modifications and improvements on aircraft, engines and related components and parts. The ADs sometimes cause United to incur substantial, unplanned expense when aircraft or engines are removed from service prematurely in order to undergo mandated inspections or modifications. The issuance of any particular AD may have a greater or lesser impact on United, compared to its competitors, depending upon the equipment covered by the directive. Civil and criminal sanctions may be assessed for not complying with the ADs.

Environmental Regulations. The Airport Noise and Capacity Act of 1990 ("ANCA") requires the phase-out by December 31, 1999 of Stage 2 aircraft operations, subject to certain waivers. The "Stage 2" and "Stage 3" terminology is industry vernacular referring to permissible noise levels under various aircraft operating conditions. The specific noise limitations are technical, but in general, Stage 3 aircraft will produce less overall noise than Stage 2 aircraft. By the year 2000, all commercial aircraft within the United States must meet the stricter Stage 3 noise requirements or be grounded. United will generally meet Stage 3 requirements by retiring Stage 2 aircraft and replacing them with newer Stage 3 aircraft, and by retrofitting the remaining Stage 2 aircraft with special equipment (known in the industry as "hushkits"). Most of the hushkits will be acquired through a swap of retired or retiring DC10-10 aircraft. The cost of acquiring the remaining hushkits is included in the Company's capital commitments disclosed under "Liquidity and Capital Resources" of Item 7.

Federal and state environmental laws require that underground storage tanks (USTs) be upgraded to new construction standards and equipped with leak detection by December 22, 1998. These requirements are phased in based on the age, construction and use of existing tanks. United operates a number of underground and above-ground storage tanks throughout its system. They are used for the storage of fuels and deicing fluids. A program for the removal or upgrading of USTs and remediation of any related contamination has been ongoing since 1987. In 1998, United will complete the upgrades.

United has been identified as a potentially responsible party in state and federal recovery actions involving soil and groundwater contamination. United estimates the total cost of remediation to range from $20 million to $40 million.

United meets EPA emissions standards by replacing older aircraft with newer models and by upgrading to newer engines which have more efficient fuel burn.

Other Government Matters. Other federal agencies with jurisdiction over certain aspects of United's operations include the Department of Justice (Antitrust Division and Immigration and Naturalization Service); the Equal Employment Opportunity Commission; the Department of Labor (Occupational Safety and Health Administration, and Office of Federal Contract Compliance Programs of the Employment Standards Administration); the National Mediation Board; the National Transportation Safety Board; the Treasury Department (U.S. Customs Service); the Federal Communications Commission (use of radio facilities by aircraft); and the United States Postal Service (carriage of domestic and international mail). United is also subject to varying degrees of regulation by foreign governments. In time of war or certain other national emergencies, the U.S. government may require United to provide airlift services under the Civil Reserve Air Fleet Program.

Fuel

United's results of operations are significantly affected by the price and availability of jet fuel. It is estimated that every $.01 change in the average annual price-per-gallon of jet fuel causes a change of approximately $30 million in United's annual fuel costs. The average price per gallon of jet fuel in 1997 declined 3.7%.

Changes in fuel prices are industry-wide occurrences that benefit or harm United's competitors as well as United, although fuel-hedging activities may affect the degree to which fuel-price changes affect individual companies. To assure adequate supplies of fuel and to provide a measure of control over fuel costs, United ships fuel on major pipelines and stores fuel close to its major hub locations.

Insurance

United carries liability insurance of a type customary in the air transportation industry, in amounts which it deems adequate, covering passenger liability, public liability and property damage liability. The amount recoverable by United under aircraft-hull insurance covering all damage to its aircraft is not subject to any deductible amount in the event of a total loss.

Employees - Labor Matters

UAL is the world's largest majority employee-owned company. At December 31, 1997, the Company and its subsidiaries had more than 91,700 employees. Approximately 61% of United's employees are represented by various labor organizations.

The employee groups, number of employees, labor organization and current contract status for each of United's major collective bargaining groups as of December 31, 1997 are as follows:

Employee Group	Number of Employees	Union	Contract Open For Amendment
Mechanics, ramp service & other ground employees	25,653	IAM	July 22, 2000
Flight attendants	21,283	AFA	March 1, 2006
Pilots	9,087	ALPA	April 12, 2000

In October 1997, the flight attendants ratified a new ten-year collective bargaining agreement with the Company.

ITEM 2. PROPERTIES.

Flight Equipment

As of December 31, 1997, United's operating aircraft fleet totaled 575 jet aircraft, of which 271 were owned and 304 were leased. These aircraft are listed below:

Aircraft Type	Average No. of Seats	Owned	Leased*	Total	Average Age (Years)
A319-100	126	0	4	4	0
A320-200	144	8	33	41	3
B727-200	147	59	16	75	19
B737-200	109	28	0	28	29
B737-200A	109	24	0	24	18
B737-300	129	10	91	101	9
B737-500	112	27	30	57	6
B747-100	444	9	0	9	26

B747-200	347	2	7	9	19
B747-400	384	10	21	31	5
B757-200	188	39	55	94	6
B767-200	168	19	0	19	15
B767-300	206	5	18	23	5
B777-200	292	13	17	30	1
DC10-10	288	15	7	22	21
DC10-30	298	1	3	4	19
DC10-30F	N/A	2	2	4	18
TOTAL OPERATING FLEET		271	304	575	11
		===	===	===	==

* United's aircraft leases have initial terms of 4 to 26 years, and expiration dates range from 1998 through 2020. Under the terms of leases for 297 of the aircraft in the operating fleet, United has the right to purchase the aircraft at the end of the lease term, in some cases at fair market value and in others at fair market value or a percentage of cost.

As of December 31, 1997, 68 of the 271 aircraft owned by United were encumbered under debt agreements.

In 1997 United took delivery of 30 new aircraft: four A319-100s, five A320-200s, five B747-400s, two B757-200s, and fourteen B777-200s. United also retired 19 aircraft: ten B737-200s, five B747-100s and four DC10-10s.

As of December 31, 1997, United had on order twenty-four A319-100s, twelve A320-200s, nineteen B747-400s, four B757-200s, eight B767-300s, and six B777-200s, all of which are scheduled for delivery between 1998 and 2002. The following table sets forth United's firm aircraft orders and expected delivery schedules as of December 31, 1997:

Aircraft Type	Number	To Be Delivered	Delivery Rate
A319-100	24	1998-1999	0-3 per month
A320-200	12	1998-1999	0-3 per month
B747-400	19	1998-2002	0-2 per month
B757-200	4	1998-1999	0-1 per month
B767-300	8	1998-2000	0-1 per month
B777-200	6	1998-1999	0-2 per month
Total	73		

On February 26, 1998, the UAL board of directors approved an order for 30 new Airbus aircraft, which are not included in the above schedule. For further discussion, see "Liquidity and Capital Resources - Capital Commitments" of Item 7.

Ground Facilities and Equipment

United has entered into various leases relating to its use of airport-landing areas, gates, hangar sites, terminal buildings and other airport facilities in most of the municipalities it serves. Major leases expire at Chicago O'Hare in 2018, San Francisco in 2011, Washington Dulles in 2014 and Los Angeles in 2021. United also has leased ticketing, sales and general office space in the downtown and outlying areas of most of the larger cities in its system. In suburban Chicago, United owns a 106-acre complex consisting of more than one-million square feet of office space for its world headquarters, a computer facility and a training center.

United's Maintenance Operation Center ("MOC") at San Francisco International Airport occupies 129 acres of land, three-million square feet of floor space and 12 aircraft hangar docks under lease expiring in 2007, with an option to extend for 10 years. United also has a major facility at the Oakland, California airport, dedicated to airframe maintenance.

United's Indianapolis Maintenance Center ("IMC") is operated under a lease with the Indianapolis Airport Authority that expires in 2031. IMC is a major aircraft maintenance and overhaul facility and is being used for maintenance of Boeing B737, B757 and B767 aircraft. United is expanding its operations at IMC to maintain its fleet of Airbus A320 aircraft at the facility beginning in 1998.

At Denver International Airport, United operates under a lease and use agreement expiring in 2025, and occupies 44 gates and more than one million square feet of exclusive or preferential use terminal building space. United's flight training center, located at the former Stapleton International Airport, was purchased by United from the City and County of Denver in January, 1997 and will accommodate 36 flight simulators and more than 90 computer-based training stations.

ITEM 3. LEGAL PROCEEDINGS.

No material legal actions pending.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of security holders of the Company during the fourth quarter of 1997.

Executive Officers of the Registrant
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Information regarding the executive officers of the Company is as follows:

Gerald Greenwald. Age 62. Mr. Greenwald has been Chairman and Chief Executive Officer of the Company and United since July 12, 1994. Prior to joining the Company, he served as Chairman of Tatra Truck Company, Czech Republic (a truck manufacturer) from March 1993 until July 1994. Mr. Greenwald previously served as President of Olympia & York Developments Limited (a real estate development company in the process of restructuring at the time Mr. Greenwald agreed to serve as president and certain subsidiaries of which filed for protection under federal bankruptcy laws in connection with such restructuring) from 1992 until March of 1993.

John A. Edwardson. Age 48. Mr. Edwardson has been President and a member of the Board of Directors of the Company since July 12, 1994, and Chief Operating Officer of the Company and United since March 30, 1995. Prior to joining the Company, he served as Executive Vice President and Chief Financial Officer of Ameritech Corporation (a telecommunications company) from 1991 to July 1994.

Stuart I. Oran. Age 47. Mr. Oran has been Executive Vice President of the Company and Executive Vice President - Corporate Affairs of United since July 12, 1994. Prior to joining the Company, he was a corporate partner with Paul, Weiss, Rifkind, Wharton and Garrison, a law firm he joined in 1974.

Douglas A. Hacker. Age 42. Mr. Hacker has been Senior Vice President and Chief Financial Officer of the Company and United since July 12, 1994 and had served previously as Senior Vice President - Finance of United. From 1991 until joining United in 1993, Mr. Hacker served as Vice President - Corporate and Fleet Planning at

American Airlines, Inc. (an air carrier).

Christopher D. Bowers. Age 50. Mr. Bowers has been Senior Vice President - International of United since April 1, 1995. From 1988 until assuming his current position, Mr. Bowers was Vice President and General Sales Manager of the sales division.

David Coltman. Age 55. Mr. Coltman has been Senior Vice President - Marketing of United since April 1, 1995. From 1989 until assuming his current position, Mr. Coltman served as Vice President - Atlantic Division.

Rono Dutta. Age 46. Mr. Dutta has been Senior Vice President - Planning of United since November 7, 1994 and became an executive officer of United on April 1, 1995. From 1991 until assuming his current position, Mr. Dutta held other vice president positions at United, overseeing cargo, information systems, and maintenance.

James E. Goodwin. Age 53. Mr. Goodwin has been Senior Vice President - North America of United since April 1, 1995. From 1992 until assuming his current position, Mr. Goodwin served as Senior Vice President - International of United.

William P. Hobgood. Age 59. Mr. Hobgood has been Senior Vice President - People of United since March 1, 1997. From 1981 until joining United, he was in private practice as an attorney specializing in mediation and arbitration, including labor-management issues.

Andrew P. Studdert. Age 41. Mr. Studdert has been Senior Vice President - Fleet Operations for United since September 1997. Previously he served as Senior Vice President and Chief Information Officer of United from April 1995 to September 1997. Prior to joining United, he was an independent information systems consultant from July 1994 to March 1995, Executive Vice President of First Interstate Bancorp (banking) from February 1994 until June 1994, and President of First Interstate of Southern Nevada Bank (a banking corporation) from July 1991 to January 1994.

There are no family relationships among the executive officers of the Company. The executive officers of the Company serve at the discretion of the Board of Directors.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock, $.01 par value (the "Common Stock"), is traded principally on the New York Stock Exchange (the "NYSE") under the symbol UAL, and is also listed on the Chicago Stock Exchange and the Pacific Stock Exchange. The following sets forth for the periods indicated the high and low sales prices per share of the Company's Common Stock on the NYSE Composite Tape.

	High	Low
1997:		
1st quarter	$ 71 1/2	$ 55 3/8
2nd quarter	81 3/8	63
3rd quarter	87 7/8	71 1/2
4th quarter	101 3/4	80 1/2
1996:		
1st quarter	$ 53 11/16	$ 38 9/16

2nd quarter	60 1/8	50 1/4
3rd quarter	56 5/8	41 1/2
4th quarter	64 3/4	43 1/4

On May 6, 1996 UAL's Common Stock split four-for-one in the form of a 300% stock dividend to holders of record at the close of business on that date. The per-share prices above have been adjusted for the stock split.

No dividends have been declared on the Company's common stock during the past five years. The payment of any future dividends on the Common Stock and the amount thereof will be determined by the Board of Directors of the Company based on earnings, the financial condition of the Company and other relevant factors. The Company has no immediate plans to pay cash dividends. At February 26, 1998, based on reports by the Company's transfer agent for the Common Stock, there were 13,155 common stockholders of record. In addition, there were 3,567 holders of record of the Company's old common stock, $5 par value, who have not tendered their stock certificates as a result of the employee stock ownership transaction.

Item 6. Selected Financial Data and Operating Statistics

(In Millions, Except Per Share and Rates)	Year Ended December 31				
	1997	1996	1995	1994	1993
Operating revenues	$17,378	$16,362	$14,943	$13,950	$13,325
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	958	600	378	77	(31)
Extraordinary loss on early extinguishment of debt, net of tax	(9)	(67)	(29)	-	(19)
Cumulative effect of accounting changes, net of tax	-	-	-	(26)	-
Net earnings (loss)	949	533	349	51	(50)
Per share amounts, diluted:					
Earnings (loss) before extraordinary item and cumulative effect of accounting changes	9.04	5.85	5.23	0.19	(0.66)
Extraordinary loss on early extinguishment of debt	(0.09)	(0.79)	(0.41)	-	(0.19)
Cumulative effect of accounting changes	-	-	-	(0.34)	-
Net earnings (loss)	8.95	5.06	4.82	(0.15)	(0.85)
Total assets at year-end	15,803	12,677	11,641	11,764	12,840
Long-term debt and capital lease obligations, including current portion, and redeemable preferred stock	4,278	3,385	4,102	4,077	3,735
Revenue passengers	84	82	79	74	70
Revenue passenger miles	121,426	116,697	111,811	108,299	101,258
Available seat miles	169,110	162,843	158,569	152,193	150,728
Passenger load factor	71.8%	71.7%	70.5%	71.2%	67.2%
Breakeven passenger load factor	66.0%	66.0%	66.1%	68.2%	65.5%
Passenger revenue per passenger mile (in cents)	12.6	12.4	11.8	11.3	11.6

Operating revenue per available seat mile (in cents)	10.3	10.0	9.4	9.1	8.7
Operating expense per available seat mile (in cents)	9.5	9.3	8.9	8.8	8.5
Operating expense per available seat mile excluding ESOP charges (in cents)	8.9	8.9	8.6	8.6	-
Fuel gallons consumed	2,964	2,883	2,822	2,697	2,699
Average price per gallon of jet fuel (in cents)	69.5	72.2	59.5	58.8	63.6

Item 7. 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 referenced in the forward-looking statements are listed in the last paragraph of the section, "Outlook for 1998."

On July 12, 1994, the stockholders 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 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 is 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 $845 million at December 31, 1997, compared to $697 million at December 31, 1996. Operating activities during the year generated $2.567 billion and the Company's sale of its interest in the Apollo Travel Services Partnership provided $539 million in cash proceeds (see "Sale of Affiliate"). Cash was used primarily to fund net additions to property and equipment and to repurchase common stock.

Property additions, including aircraft, aircraft spare parts, facilities and ground equipment, amounted to $2.812 billion, while property dispositions resulted in proceeds of $83 million. In 1997, United took delivery of fourteen B777, five B747, two B757, five A320 and four A319 aircraft. Twenty-four of these aircraft were purchased and six were acquired under capital leases. Three of the aircraft purchased during the year were later sold and then leased back. Additionally, United acquired two B767 and one DC10-10 off-lease during 1997.

Consistent with a plan announced early in the year, the Company made payments of $250 million for the repurchase of 2.9 million shares of common stock. Financing activities also included the early extinguishment of $151 million in principal amount of various debt securities, mandatory repayments of long-term debt totaling $136 million, payments under capital lease obligations of $147 million, deposits of an equivalent $112 million in Japanese yen, German marks and French francs with certain banks in connection with the financing of certain aircraft acquired under capital lease transactions, as well as the issuance of $597 million of enhanced pass through certificates.

Included in cash and cash equivalents at December 31, 1997 were $111 million of securities held by third parties under securities lending agreements, as well as collateral in the amount of 102% of the value of the securities lent. United is obligated to reacquire the securities from the borrower at the end of the contract.

As of December 31, 1997, UAL had a working capital deficit of $2.300 billion as compared to $2.321 billion at December 31, 1996. 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.

United has available a $750 million revolving credit facility, as well as a separate $227 million short-term borrowing facility, as described in Note 7 "Short-Term Borrowings" in the Notes to Consolidated Financial Statements.

Prior Years. Operating activities in 1996 generated cash flows of $2.453 billion. Cash was used primarily to repay long-term debt and to fund net additions to property and equipment. In addition to the early extinguishment of $641 million in principal amount of various debt securities, UAL made mandatory repayments of long-term debt totaling $150 million and payments under capital lease obligations of $112 million during the year. Financing activities also included payments of $324 million for conversions of all of UAL's outstanding 6 3/8% convertible debentures, $84 million for repurchases of UAL's Series B preferred stock and deposits of an equivalent $110 million in Japanese yen with certain banks in connection with the financing of certain capital lease transactions. Property additions amounted to $1.538 billion, while property dispositions resulted in proceeds of $55 million.

Operating activities in 1995 generated cash flows of $1.624 billion. Cash was used primarily to repay long-term debt, reacquire preferred stock, reduce short-term borrowings and to 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 totaling $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. Property additions, including the acquisition of 39 previously leased aircraft, amounted to $1.111 billion. Property dispositions resulted in proceeds of $578 million.

Capital Commitments -

At December 31, 1997, commitments for the purchase of property and equipment, principally aircraft, approximated $5.6 billion, after deducting advance payments. Of this amount an estimated $2.6 billion is due to be spent in 1998.

These amounts do not include a recent order with Airbus Industrie for an additional 10 A319 and 20 A320 aircraft to be delivered through 2001. The aircraft included in this latest order are expected to be used to satisfy growth opportunities, and thus, the Company now expects its passenger fleet to grow by at least 30 aircraft by the year 2002. For further details, see Note 18 "Commitments, Contingent Liabilities and Uncertainties" in the Notes to Consolidated Financial Statements.

Capital Resources -

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

At December 31, 1997, 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 and redeemable preferred securities were rated BB- by S & P and Ba3 by Moody's. In December 1997, S & P affirmed its ratings and revised its outlook to positive from stable on UAL and United.

Results of Operations

Summary of Results -

UAL's earnings from operations were $1.259 billion in 1997, compared to operating earnings of $1.123 billion in 1996. UAL's net earnings in 1997 were $949 million ($14.83 per share, basic; $8.95 per share, diluted), compared to net earnings of $533 million in 1996 ($7.57 per share, basic; $5.06 per share, diluted).

These earnings include extraordinary losses of $9 million and $67 million, after tax, on early extinguishment of debt, in 1997 and 1996, respectively. In addition, 1997 includes an after-tax gain on the ATS/Galileo transaction (see "Sale of Affiliate") of $235 million ($3.99 per share, basic and $2.40 per share, diluted). The per share amounts for 1996 include the effects on equity of preferred stock transactions (see Note 4 "Per Share Amounts" in the Notes to Consolidated Financial Statements).

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. No adjustments are made to Fully Distributed earnings to reflect future salary increases. A comparison of results reported on a Fully Distributed basis to results reported under generally accepted accounting principles (GAAP) is as follows:

	December 31, 1997		December 31, 1996	
	GAAP (diluted)	Fully Distributed	GAAP (diluted)	Fully Distributed

Net Income	$ 949	$ 1,546	$ 533	$ 960
Per Share:				
Earnings before preferred stock transactions, gains on sales and extraordinary loss	$ 6.64	$ 9.97	$ 6.42	$ 7.71
Gains on sales of ATS/Galileo, net	2.40	1.79	-	-
Preferred stock transactions, net	-	-	(0.57)	(0.37)
Extraordinary loss, net	(0.09)	(0.07)	(0.79)	(0.51)
	$ 8.95	$ 11.69	$ 5.06	$ 6.83

1997 Compared with 1996 -

Operating Revenues. Operating revenues increased $1.016 billion (6%) and United's revenue per available seat mile (unit revenue) increased 2% to 10.25 cents. Passenger revenues increased $877 million (6%) due to a 4% increase in United's revenue passenger miles and a 2% increase in yield to 12.55 cents. Available seat miles across the system were up 4% year over year resulting in a slight increase to system passenger load factor of 0.1 points to 71.8%. The following analysis by market is based on information reported to the U.S. Department of Transportation ("DOT"):

Latin American revenue passenger miles increased 2%, despite no increase in capacity. Strengthening economies in Latin American countries as well as an improved mix of high-yield passengers helped produce an 8% increase in yield. Atlantic revenue passenger miles increased 20% on 19% higher capacity reflecting increased frequencies and the utilization of larger B777 aircraft. Strong U.S. and European economies provided a positive pricing environment resulting in a 3% increase in Atlantic yield. Pacific revenue passenger miles and yield remained flat despite 3% higher capacity reflecting a weak Japanese economy and a stronger U.S. dollar. Domestic revenue passenger miles increased 3% on 2% higher capacity. Domestic yield increased 1%, despite the fact that the U.S. airline ticket tax was in effect for only four months of 1996 versus ten months of 1997. New legislation, effective October 1, 1997, includes a gradual reduction in the 10% U.S. airline ticket tax to 7.5% by the year 2002, a phasing in of a $3 "head tax" per domestic flight segment over the same period, an increase in round-trip international departure and arrival taxes from $6 to $24 per passenger and a tax on the purchase of frequent flyer miles. The Company expects that the new legislation will increase United's annual tax burden by approximately $80 million, but is unable to determine how much of this increase it will be able to pass on to its customers.

Cargo revenues increased $119 million (15%) on increases of 24% in freight ton miles and 6% in mail ton miles, as a result of a new dedicated freighter operation utilizing four DC10-30s and the introduction of long-range B777-200B aircraft. A 5% lower freight yield was only partially offset by a 2% higher mail yield for an overall decrease in cargo yield of 4%.

Other operating revenues increased $20 million (2%) due to increases in frequent flyer program partner related revenues and fuel sales to third parties, partially offset by the loss of ATS revenues resulting from its sale in July 1997 (see "Sale of Affiliate").

Operating Expenses. Operating expenses increased $880 million (6%) and United's cost per available seat mile increased 2% from 9.33 to 9.53 cents, including ESOP compensation expense. Without the ESOP compensation expense, United's 1997 cost per available seat mile would have been 8.94 cents, an increase of less than 1% from 1996. ESOP compensation expense increased $302 million (44%), reflecting the increase in the estimated average fair value of ESOP stock committed to be released to employees as a result of UAL's higher common stock price. Salaries and related costs increased $299 million (6%) as a result of increased staffing in certain customer-contact positions, as well as mid-term wage adjustments which took effect July 1. Commissions increased $42 million (3%) due to increased commissionable revenues, partially offset by the change in the commission structure which United implemented in the third quarter of 1997. United lowered the base commission paid to travel agents from 10% to 8% (up to a maximum of $50) on all tickets purchased in the U.S. and Canada for both domestic and international travel. This action is expected to save approximately $100 million annually in commission costs. Purchased services increased $98 million (8%) due principally to volume-related increases in computer reservations fees, credit card discounts and communication charges. Aircraft maintenance increased $154 million (34%) due to increased purchased maintenance as well as the timing of maintenance cycles. Depreciation and amortization decreased $35 million (5%) despite the acquisition of new aircraft, due to lower depreciation on DC10-10 aircraft which are scheduled for retirement, gains on asset sales of $23 million in 1997 compared to $11 million in 1996, and a $30 million charge in 1996 to reduce the carrying value of aircraft seats being replaced. Aircraft fuel decreased $21 million (1%) despite a 3% increase in consumption, due to a 4% decrease in the price of fuel from 72.2 cents to 69.5 cents a gallon.

Other Income and Expense. Other income (expense) amounted to $265 million in income in 1997 compared to $153 million in expense in 1996. Interest capitalized, primarily on aircraft advance payments, increased $27 million (35%). Interest expense decreased $9 million (3%) due to the prepayment of long-term debt in 1996. Interest income decreased $5 million (9%) due to lower average interest rates. In addition, 1997 included a $275 million gain on the sale of ATS and a $103 million gain on the initial public offering of Galileo stock. 1996 included a $20 million charge for the settlement of litigation related to the travel agency commission cap implemented by the Company in February 1995.

1996 Compared with 1995 -
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Operating Revenues. Operating revenues increased $1.419 billion (10%). United's revenue per available seat mile increased 7% to 10.02 cents. Passenger revenues increased $1.238 billion (9%) due to a 4% increase in United's revenue passenger miles and a 5% increase in yield to 12.35 cents. The following analysis by market is based on information reported to the DOT:

Yield increases in the domestic (7%), Atlantic (7%) and Latin American (4%) markets were partially offset by a

4% decrease in Pacific yield. Domestic yield increased as a result of a larger proportion of high yield business traffic and fare levels influenced by the expiration of the Federal passenger excise tax from January through August. A weaker Japanese yen versus the dollar had a significant negative impact on 1996 Pacific yield. Both domestic and international revenue passenger miles increased by 4%. Available seat miles increased 3% for the system, reflecting increases of 4% in the Pacific and Latin American and 3% in domestic markets. Atlantic available seat miles remained unchanged. As a result, system passenger load factor increased 1.2 points to 71.7%.

Cargo revenues increased $16 million (2%). Freight ton miles increased 6% and mail ton miles increased 5%. A 6% lower freight yield was only partially offset by a 3% higher mail yield for an overall decrease in cargo yield of 3%.

Other operating revenues increased $165 million (17%) due to increases in frequent flyer program partner related revenues, contract maintenance and fuel sales to third parties.

Operating Expenses. Operating expenses increased $1.125 billion (8%). United's cost per available seat mile increased 5% from 8.87 cents to 9.32 cents. ESOP compensation expense increased $181 million (36%), reflecting the increase in the estimated average fair value of ESOP stock committed to be released to employees as a result of UAL's higher common stock price. Aircraft fuel increased $402 million (24%) due to a 2% increase in consumption and a 21% increase in the average price per gallon of fuel from 59.5 cents to 72.2 cents. Without the increases in ESOP compensation expense and aircraft fuel, United's cost per available seat mile would have increased 2%. Salaries and related costs increased $193 million (4%) due principally to increased staffing in certain customer-contact positions. Other expenses increased $166 million (9%) due principally to costs associated with sales to third parties of fuel, contract maintenance and other work. Purchased services increased $125 million (12%) due principally to volume-related increases in computer reservations fees, credit card discounts and communication charges. Aircraft maintenance increased $42 million (10%) due to increased purchased maintenance, as well as the timing of maintenance cycles. Depreciation and amortization increased $95 million (14%) due principally to a $30 million charge to reduce the carrying value of aircraft seats and to a $41 million gain recorded in 1995 on the disposition of certain aircraft. Commissions were flat year over year despite an increase in commissionable revenues due to lower average commission rates. These lower rates were partially attributable to the full year effects of a new travel agent commission plan introduced in 1995. Aircraft rent decreased $57 million (6%) due to the acquisition of 39 aircraft off-lease in the second half of 1995.

Other Income and Expense. Other expense amounted to $153 million in 1996 compared to $208 million in 1995. Interest capitalized, primarily on aircraft advance payments, increased $35 million (83%). Interest expense decreased $104 million (26%) due to the prepayment of long-term debt in 1995 and 1996 and the conversion of convertible debentures in the second quarter of 1996. Interest income decreased $41 million (42%) due to lower investment balances. Equity in earnings of affiliates increased $16 million (33%) due to higher earnings from Galileo

International resulting from increased booking revenues. Included in other expense for 1996 is a $20 million charge for the settlement of litigation related to the travel agency commission cap implemented by the Company in 1995.

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

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

In connection with the sale, United entered into an additional services agreement under which the Company will provide certain marketing and other services designed to increase the competitiveness of Galileo's business and to generate additional bookings and revenues for Galileo. Under this agreement, United could receive up to $154 million (on a present value basis) in the sixth year following the sale, based on specified improvements in air booking revenues over a five-year period.

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

Labor Agreements and Wage Adjustments -
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 stockholders. The 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, the issuance of equity securities and the ability to furlough employees.

Consistent with the various agreements supporting the July 1994 recapitalization, in 1997 employees represented by the Air Line Pilots' Association, International ("ALPA") and the International Association of Machinists and Aerospace Workers ("IAM") ratified mid-term wage adjustments providing for 5% increases in wage rates in July 1997 and 1998. Further, the agreement with ALPA calls for a corresponding 5% increase in both 1997 and 1998 to "book rates" (book rates are used to compute certain other employee benefits), and the agreement with the IAM provided for lump sum payments for all IAM employees and increases in hourly license premium and skill pay for mechanics. These agreements also provide for restoration of wage rates for the two groups in the year 2000 to levels that existed prior to the recapitalization in July 1994, as well as restoration of the Company's contribution to the pilots' defined contribution plan from its current rate of 1% to its pre-ESOP rate of 9% in the year 2000.

Also during the year, the Company announced the details of the mid-term wage adjustments for United States salaried and management employees. Salaried employees received a 5% increase in July 1997, as well as a lump-sum payment, and will receive an additional 5% increase in July 1998. Management employees received a 4% increase in July 1997, and will receive an additional 4% increase in July 1998. Also, management employees not participating in the Company's Incentive Compensation Plan will participate in a three-year profit-sharing plan that could pay an additional amount in 1999 and 2000, if the Company meets specific pre-tax earnings objectives in 1998 and 1999, respectively. These employees already received the maximum annual profit sharing payout, 3.75% of annual wages, in February 1998, based on 1997's financial performance.

On October 1, 1997, the Association of Flight Attendants ("AFA") ratified a new contract which will remain in effect through March 1, 2006. Included in the contract was a lump sum payment of 7% in December 1997 and future lump sum payments of 4% in December 1998 and 1999 and 5% in 2001, 2003 and 2005; as well as minimum 2% wage increases in 2000, 2002 and 2004. Additionally, the contract includes a series of arbitrations beginning in 2001 which can award additional compensation increases, subject to meeting Vision 2000 goals as discussed below. The agreement also provides for benefits and work rule changes and a number of service quality and productivity enhancements designed to help the Company achieve its customer satisfaction objectives.

The wage, benefit and work-rule adjustments outlined above are consistent with the Company's objective, known as Vision 2000, to put employee compensation on a competitive level with peer group compensation at the conclusion of the agreements outlined above. The ultimate cost to the Company of Vision 2000, particularly given that peer group compensation is subject to change between now and the conclusion of the agreements, is not determinable. However, as a result of these changes, the Company expects that its annual Salaries and related costs will increase at a faster rate than its major competitors from now through the year 2000.

Foreign Operations -

United generates revenues and incurs expenses in numerous foreign currencies. These expenses include aircraft leases, commissions, catering, personnel costs, reservation and ticket office services, customer service expenses and aircraft maintenance. 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 may 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.

By carrying passengers and cargo in both directions between the U.S. and almost every major economic region in the world and by selling its services in each local country, United attempts to mitigate its exposure to fluctuations in any single foreign currency. The Company's biggest net exposures are typically for Japanese yen, Hong Kong dollars and Australian dollars. During 1997, yen-denominated operating revenue net of yen-denominated operating expense was approximately 62 billion yen (approximately $541 million), Hong Kong dollar-denominated operating revenue net of Hong Kong dollar-denominated operating expense was approximately 1,692 million Hong Kong dollars (approximately $219 million) and Australian dollar-denominated operating revenue net of Australian dollar-denominated operating expense was approximately 218 million Australian dollars (approximately $161 million). United hedges some of the risk of exchange rate volatility on its anticipated future net yen and net Hong Kong dollar cash flows by purchasing put options for each respective currency. To reduce some of the costs of this hedging program, the Company also sells call options in each currency from time to time. United attempts to reduce its exposure to transaction gains and losses by converting excess local currencies generated to U.S. dollars and by entering into currency forward or exchange contracts. The total notional amount of outstanding currency options and forward exchange contracts, and their respective fair market values as of December 31, 1997, are summarized in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

United's foreign operations involve insignificant amounts of physical assets; however, there are sizable 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.

In January 1998, the governments of Japan and the United States announced details of a new four-year aviation agreement which liberalizes the aviation market between the U.S. and Japan. Under the accord, United has been designated an "incumbent carrier" and as such, will be permitted to offer service between any points in the U.S. and any points in Japan and will also be entitled to fly beyond Japan to other points in Asia without restriction. Further, United will be able to code-share flights with Japanese, third country or other U.S. airlines if it chooses. While these rights give more flexibility to the Company than it had under the previous U.S.-Japan aviation agreement, many of United's competitors also received benefits in the form of greater access to the U.S.-Japan market. Further, access to Tokyo's Narita airport is constrained by current capacity limitations on takeoff and landing slots. Thus, while supportive of the new agreement, the Company is unable to predict what overall effect, if any, the new agreement will have on its future financial results as long as the current capacity limitations at Narita are in existence. However, upon completion of a second runway at Narita, the Company expects the current capacity limitations to be relaxed and believes it will be able to realize significant financial benefits as a result of the flexibility received under the new U.S.-Japan aviation agreement.*

Deferred Tax Assets -

UAL's consolidated balance sheet at December 31, 1997 includes a net deferred tax asset of $165 million, compared to $359 million at December 31, 1996. The net deferred tax asset is composed of approximately $2.257 billion of deferred tax assets and $2.092 billion of deferred tax liabilities. The deferred tax assets include, among other things, $918 million related to obligations for postretirement and other employee benefits, $398 million related to gains on sales and leasebacks, $382 million related to rent expense and $137 million related to alternative minimum tax ("AMT") credit carryforwards. Management believes it is more likely than not that future taxable income will be sufficient to utilize the deferred tax assets at December 31, 1997.*

Airport Rents and Landing Fees -

United is charged facility rental and landing fees at virtually every airport at which it operates. In recent years, many airports have increased or sought to increase rates charged to airlines as a means of compensating for increasing demands upon airport revenues. Airlines have challenged certain of these increases through litigation and in some cases have not been successful. The Federal Aviation Administration ("FAA") and the DOT have instituted an administrative hearing process to judge whether rate increases are legal and valid. However, to the extent the limitations on such charges are relaxed or the ability of airlines to challenge such charges is restricted, the rates charged by airports may increase substantially. Management cannot predict the magnitude of any such increase.

Year 2000 Compliance -

Over the next two years, most large companies will face a potentially serious business problem because many software applications and computer equipment developed in the past may not properly recognize calendar dates beginning in the year 2000. This problem could cause computers to either shut down or provide incorrect data. United began taking measures to address this problem in late 1995 and has created a Year 2000 Project office, headed by a senior officer of the Company, to manage and coordinate the Company's efforts to identify and fix critical date-sensitive systems. The scope of the Company's efforts is divided into two major phases, review of internally used software as well as review of other potential operational impacts and relationships with key business partners. The status of the Company's efforts in each of these areas is as follows:

The Company has completed its assessment of over 40,000 mainframe-based and network-based programs used internally in connection with key business applications, and has estimated that it will cost approximately $15 million to modify these programs to make them Year 2000 compliant. Through December 31, 1997, $4 million has been spent and recognized as expense in the Company's results of operations. The Company's plan is to have all applications not compliant as of December 31, 1997 modified and tested by December 31, 1998.

United has not yet completed its assessment of the impact of Year 2000 on operational systems such as aircraft avionics, flight simulators and airport operations as well as relationships with key business partners, including the FAA, other governmental agencies and suppliers. This assessment involves a five stage process: Identification, Assessment of Impacts, Development of Remediation Approach, Prioritization of Efforts, and Testing and Implementation of Remediation Approach. The Company will carry out this task through a company-wide effort, assisted by consultants, to address internal issues, and jointly with industry trade groups, to address issues related to key business partners which are common to other air carriers. The Company has not completed the development of the remediation approach for all affected areas. As a result, the Company cannot estimate what the total cost will be to implement remediation efforts for all critical operational systems but it is possible that such costs will be material. The Company expects to complete the assessment and development stages of this plan by September 1998, at which time it expects to be able to make a reasonable cost estimate. Implementation of all remediation efforts is scheduled to be completed by March 31, 1999.

The Company has started an ongoing program to review the status of key supplier Year 2000 compliance efforts. While the Company believes it is taking all appropriate steps to assure Year 2000 compliance, it is dependent on key business partner compliance to some extent. The Year 2000 problem is pervasive and complex as virtually every computer operation will be affected in some way. Consequently, no assurance can be given that Year 2000 compliance can be achieved without costs that might affect future financial results or cause reported financial information not to be necessarily indicative of future operating results or future financial condition.

Environmental and Legal 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.*

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.*

New Accounting Pronouncements -

The Financial Accounting Standards Board ("FASB") has issued SFAS No. 130, "Reporting Comprehensive Income" which establishes standards for displaying comprehensive income and its components in a full set of general purpose financial statements; SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" which establishes standards for reporting information about operating segments in financial statements; and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" which revises disclosure requirements for pension and other postretirement benefit plans. Each of these statements are effective for fiscal years beginning after December 15, 1997, and are not expected to have a material impact on the Company's financial position or results of operations.

Outlook for 1998 -

The recent economic downturn in Asia, where currency devaluations and debt crises have negatively affected growth through most of the region and pushed some countries into recession, has caused a fall-off in Pacific revenue passenger miles through the first two months of the year. As a result, the Company expects full-year system revenues to be lower than originally planned when it released 1998 revenue and cost guidance last December. In keeping with the Company's contingency planning, United is taking steps to respond to and offset the effects on profits from the weakness of the Asian market. These measures include the reallocation of capacity and the revision of discretionary spending plans. Furthermore, some costs, such as fuel, are expected to be below earlier estimates, resulting in lower than previously anticipated full-year expenses.

All factors considered, the Company anticipates continued strong performance in 1998. Real Gross Domestic Product in the U.S. is assumed to continue to grow moderately at a rate of about 2.5% and the system capacity of U.S. airlines is expected to grow at around 3% in 1998, approximately the same as its 1997 growth rate. United's available seat miles are expected to increase 2.5%, with 3.5% growth domestically and 1.5% growth internationally. Revenue per available seat mile is forecast to be up approximately 1%. Costs per available seat mile excluding ESOP charges are expected to increase approximately 1%.

For the first quarter, United expects total system revenue per available seat mile to decrease by 3.5% versus the same period last year, on 2.5% higher capacity. Costs per available seat mile excluding ESOP charges are expected to decrease approximately 3% over the first quarter of 1997. The Company's outlook is consistent with the current First Call consensus earnings estimate of $1.55 per fully distributed share for the first quarter.

The information included in the above outlook section, as well as certain statements made throughout the Management's Discussion and Analysis of Financial Condition 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, unit revenues, fully distributed unit costs and fully distributed earnings per share include the airline pricing environment, industry capacity decisions, willingness of customers to travel, the success of the Company's cost control efforts, fuel cost, costs of safety and security measures, actions of the U.S., foreign and local governments, the effect of the U.S. excise tax on travel, foreign currency exchange rate fluctuations, the Asian economic environment and travel patterns, the economic environment of the airline industry, the general economic environment and other factors discussed herein. With respect to the forward-looking statement set forth in the "Environmental and Legal 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk - United's exposure to market risk associated with changes in interest rates relates primarily to its debt obligations and short-term investments. United does not use derivative financial instruments in its investments portfolio. United's policy is to manage interest rate risk through a combination of fixed and floating rate debt and entering into swap agreements, depending upon market conditions. A portion of the borrowings are denominated in foreign currencies which exposes the Company to risks associated with changes in foreign exchange rates. In addition, the Company has placed foreign currency deposits (primarily for Japanese yen, French francs and German marks) to meet foreign currency lease obligations designated in the respective currencies. The unrealized mark-to-market gains or losses on the foreign currency obligations are offset by the losses or gains on the foreign currency deposits.

(In millions)	Expected Maturity Dates							
	1998	1999	2000	2001	2002	Thereafter	Total	Fair Value
ASSETS								
Cash equivalents								
Fixed rate	$ 295	$ -	$ -	$ -	$ -	$ -	$ 295	$ 295
Avg. interest rate	6.00%	-	-	-	-	-	6.00%	
Short term investments								
Fixed rate	$ 460	$ -	$ -	$ -	$ -	$ -	$ 460	$ 460
Avg. interest rate	5.87%	-	-	-	-	-	5.87%	
Variable rate	$ 90	-	-	-	-	-	$ 90	$ 90
Avg. interest rate	5.90%	-	-	-	-	-	5.90%	
Foreign currency deposits								
Fixed rate-yen deposits	$ -	$ -	$ -	$ -	$ -	$ 254	$ 254	$ 281
Avg. interest rate	-	-	-	-	-	3.23%	3.23%	
Fixed rate-FF deposits	$ -	$ -	$ -	$ -	$ -	$ 4	$ 4	$ 4
Avg. interest rate	-	-	-	-	-	5.82%	5.82%	
Fixed rate-DM deposits	$ 2	$ 2	$ 2	$ 2	$ 2	$ 50	$ 60	$ 60
Avg. interest rate	6.86%	6.86%	6.86%	6.86%	6.86%	6.86%	6.86%	
LONG TERM DEBT								
U.S. Dollar denominated								
Fixed rate debt	$ 22	$ 24	$ 25	$ 27	$ 30	$1,373	$1,501	$1,725
Avg interest rate	8.54%	8.54%	8.49%	8.45%	8.45%	8.92%	8.88%	
Variable rate debt	$ 190	$ 19	$ 19	$ 19	$ 534	$ 32	$ 813	$ 813
Avg interest rate	6.42%	6.19%	6.19%	6.20%	6.15%	6.64%	6.23%	

Japanese Yen denominated								
Fixed rate debt	$ 8	$ 9	$ 9	$ -	$ -	$ -	$ 26	$ 27
Avg interest rate	7.90%	7.90%	7.90%	-	-	-	7.90%	

Foreign Currency Risk - United has established a foreign currency hedging program using currency forwards and currency options (purchasing put options or selling call options) to hedge exposure to the Japanese yen and Hong Kong dollar. The goal of the hedging program is to effectively manage risk associated with fluctuations in the value of the foreign currency, thereby making financial results more stable and predictable. United does not use currency forwards or currency options for trading purposes.

(In millions, except average contract rates)	Notional Amount	Average Contract Rate	Estimated Fair Value
Forward exchange contracts			
Japanese Yen	$ 122	97.53	$ (29)
Currency options			
Japanese Yen - Put options	$ 200	120.35	$ 14
- Call options	$ 132	112.42	$ (1)
Hong Kong Dollar - Put options	$ 44	8.11	$ -
- Call options	$ 46	7.88	$ (1)

Price Risk (Aircraft Fuel) - At December 31, 1997, the Company had contracted to purchase approximately 6% of the Company's 1998 fuel requirements at an average fixed price of $0.52 per gallon. To hedge a portion of the remaining risk associated with changes in the price of aircraft fuel, United has entered into certain fuel option contracts. The option contracts, which involve either purchasing call options and simultaneously selling put options (collar strategy) or purchasing call options, are designed to provide protection against sharp increases in the price of aircraft fuel. In addition, to a limited extent United trades short-term heating oil futures and option contracts, which are immaterial.

(In millions, except average contract rates)	Notional Amount	Average Contract Rate	Estimated Fair Value
Purchased call contracts - Crude oil	$ 458	$19.95/bbl	$ 10
- Heating oil	$ 206	$ 0.54/gal	$ 3
Sold put contracts - Crude oil	$ 403	$19.24/bbl	$ (28)
- Heating oil	$ 200	$ 0.53/gal	$ (13)

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and

Board of Directors of UAL Corporation:

We have audited the accompanying statements of consolidated financial position of UAL Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1997 and 1996, and the related statements of consolidated operations, consolidated cash flows and consolidated stockholders' equity for each of the three years in the period ended December 31, 1997. These financial statements and the schedule referred to below 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, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule referenced in Item 14(a)2 herein is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 26, 1998

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

	Year Ended December 31		
	1997	1996	1995

Operating revenues:			
Passenger	$15,342	$14,465	$13,227
Cargo	892	773	757
Other operating revenues	1,144	1,124	959
	17,378	16,362	14,943
Operating expenses:			
Salaries and related costs	5,018	4,719	4,526
ESOP compensation expense	987	685	504
Aircraft fuel	2,061	2,082	1,680
Commissions	1,508	1,466	1,471
Purchased services	1,285	1,187	1,062
Aircraft rent	942	952	1,009
Landing fees and other rent	863	846	803
Depreciation and amortization	724	759	664
Aircraft maintenance	603	449	407
Other operating expenses	2,128	2,094	1,928
	16,119	15,239	14,054
Earnings from operations	1,259	1,123	889
Other income (expense):			
Interest expense	(286)	(295)	(399)
Interest capitalized	104	77	42
Interest income	52	57	98
Equity in earnings of affiliates	66	64	48
Gain on sale of partnership interest	275	-	-
Gain on sale of affiliate's stock	103	-	-
Miscellaneous, net	(49)	(56)	(57)
	265	(153)	(268)
Earnings before income taxes, distributions on preferred securities and extraordinary item	1,524	970	621
Provision for income taxes	561	370	243
Earnings before distributions on preferred securities and extraordinary item	963	600	378
Distributions on preferred securities, net	(5)	-	-
Extraordinary loss on early extinguishment of debt, net	(9)	(67)	(29)
Net earnings	$ 949	$ 533	$ 349
Per share, basic:			
Earnings before extraordinary item	$14.98	$ 8.76	$ 6.98
Extraordinary loss on early extinguishment of debt, net	(0.15)	(1.19)	(0.59)
Net earnings	$14.83	$ 7.57	$ 6.39
Per share, diluted:			
Earnings before extraordinary item	$ 9.04	$ 5.85	$ 5.23
Extraordinary loss on early extinguishment of debt, net	(0.09)	(0.79)	(0.41)

Net earnings	$ 8.95	$ 5.06	$ 4.82
	======	======	======

See accompanying notes to consolidated financial statements.

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

Assets	December 31 1997	1996
Current assets:		
Cash and cash equivalents	$ 295	$ 229
Short-term investments	550	468
Receivables, less allowance for doubtful accounts (1997 - $15; 1996 - $24)	1,051	962
Aircraft fuel, spare parts and supplies, less obsolescence allowance (1997 - $29; 1996 - $31)	355	369
Deferred income taxes	244	227
Prepaid expenses and other	453	427
	2,948	2,682
Operating property and equipment:		
Owned -		
Flight equipment	10,382	8,393
Advances on flight equipment	972	943
Other property and equipment	2,842	2,989
	14,196	12,325
Less - Accumulated depreciation and amortization	5,116	5,380
	9,080	6,945
Capital leases -		
Flight equipment	2,221	1,775
Other property and equipment	98	106
	2,319	1,881
Less - Accumulated amortization	625	583
	1,694	1,298
	10,774	8,243
Other assets:		
Investments in affiliates	223	103
Intangibles, less accumulated amortization (1997 - $374; 1996 - $353)	703	524
Deferred income taxes	-	132
Aircraft lease deposits	318	168
Other	837	825
	2,081	1,752
	$15,803	$12,677
	======	======

See accompanying notes to consolidated financial statements.

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

Liabilities and Stockholders' Equity	December 31 1997	December 31 1996
Current liabilities:		
Long-term debt maturing within one year	$ 235	$ 165
Current obligations under capital leases	171	132
Advance ticket sales	1,267	1,189
Accounts payable	1,030	994
Accrued salaries, wages and benefits	869	906
Accrued aircraft rent	830	800
Other accrued liabilities	846	817
	5,248	5,003
Long-term debt	2,092	1,661
Long-term obligations under capital leases	1,679	1,325
Other liabilities and deferred credits:		
Deferred pension liability	364	178
Postretirement benefit liability	1,361	1,290
Deferred gains	1,210	1,151
Accrued aircraft rent	368	328
Deferred income taxes	79	-
Other	450	448
	3,832	3,395
Company-obligated mandatorily redeemable preferred securities of a subsidiary trust	101	102
Minority interest	-	31
Preferred stock committed to Supplemental ESOP	514	165
Stockholders' equity:		
Serial preferred stock (Note 11)	-	-
ESOP preferred stock (Note 12)	-	-
Common stock at par, $0.01 par value; authorized 200,000,000 shares; issued 61,288,039 shares at December 31, 1997 and 59,519,096 shares at December 31, 1996	1	1
Additional capital invested	2,876	2,160
Retained earnings (deficit)	309	(566)
Unearned ESOP preferred stock	(177)	(202)
Stock held in treasury, at cost -		
Preferred, 10,149,129 depositary shares at December 31, 1997 and 1996 (Note 11)	(302)	(302)
Common, 3,967,553 shares at December 31, 1997 and 701,616 shares at		

December 31, 1996	(361)	(83)
Other	(9)	(13)
	2,337	995
Commitments and contingent liabilities (Note 18)		
	$15,803	$12,677

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31		
	1997	1996	1995
Cash and cash equivalents at beginning of year	$ 229	$ 194	$ 500
Cash flows from operating activities:			
Net earnings	949	533	349
Adjustments to reconcile to net cash provided by operating activities -			
ESOP compensation expense	987	685	504
Extraordinary loss on debt extinguishment, net of tax	9	67	29
Gain on sale of partnership interest	(275)	-	-
Gain on sale of affiliate's stock	(103)	-	-
Pension funding less than (greater than) expense	43	(279)	(275)
Deferred postretirement benefit expense	139	130	125
Depreciation and amortization	724	759	664
Provision for deferred income taxes	194	69	214
Undistributed earnings of affiliates	(16)	(49)	(38)
Increase in receivables	(222)	(10)	(62)
Increase in other current assets	-	(105)	(109)
Increase in advance ticket sales	78	89	80
Increase (decrease) in accrued income taxes	20	84	(52)
Increase in accounts payable and accrued liabilities	16	294	79
Amortization of deferred gains	(64)	(63)	(79)
Other, net	88	249	195
	2,567	2,453	1,624
Cash flows from investing activities:			
Additions to property and equipment	(2,812)	(1,538)	(1,111)
Proceeds on disposition of property and equipment	83	55	578
Proceeds on disposition of partnership interest	539	-	-
Decrease (increase) in short-term investments	(82)	482	83
Other, net	(29)	18	(28)
	(2,301)	(983)	(478)

Cash flows from financing activities:			
Reacquisition of preferred stock	-	(84)	(131)
Repurchase of common stock	(250)	-	-
Proceeds from issuance of long-term debt	597	-	-
Repayment of long-term debt	(301)	(791)	(852)
Principal payments under capital leases	(147)	(112)	(80)
Conversion of subordinated debentures	-	(324)	-
Decrease in short-term borrowings	-	-	(269)
Aircraft lease deposits	(112)	(110)	(77)
Cash dividends	(10)	(22)	(49)
Other, net	23	8	6
	(200)	(1,435)	(1,452)
Increase (decrease) in cash and cash equivalents during the year	66	35	(306)
Cash and cash equivalents at end of year	$ 295	$ 229	$ 194

See accompanying notes to consolidated financial statements.

UAL Corporation and Subsidiary Companies
Statements of Consolidated Stockholders' 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, 1994	$ -	$ -	$1,287	$(1,335)	$ (83)	$(161)	$ (24)	$ (316)
Year ended December 31, 1995:								
Net earnings	-	-	-	349	-	-	-	349
Cash dividends on preferred stock ($6.25 per Series A; $1.44 per Series B)	-	-	-	(40)	-	-	-	(40)
Exchange of Series A debentures	-	-	(546)	-	-	-	-	(546)
Issuance and amortization of ESOP preferred stock	-	-	604	-	(100)	-	-	504
Reacquisition of Series B preferred stock	-	-	-	-	-	(131)	-	(131)
ESOP dividend ($8.89 per share)	-	-	5	(13)	8	-	-	-
Preferred stock committed to Supplemental ESOP	-	-	(59)	-	-	-	-	(59)
Pension liability adjustment	-	-	-	-	-	-	(60)	(60)
Other	-	-	62	-	-	10	(12)	60
Balance at December 31, 1995	-	-	1,353	(1,039)	(175)	(282)	(96)	(239)
Year ended December 31, 1996:								
Net earnings	-	-	-	533	-	-	-	533
Cash dividends on preferred stock ($1.44 per Series B)	-	-	-	(20)	-	-	-	(20)
Conversion of Series A debentures	-	-	217	-	-	-	-	217
Exchange of Series B preferred stock	-	-	(102)	-	-	-	-	(102)
Issuance and amortization of ESOP preferred stock	-	-	735	-	(50)	-	-	685
Reacquisition of Series B preferred stock	-	-	-	-	-	(84)	-	(84)
ESOP dividend ($8.89 per share)	-	-	17	(40)	23	-	-	-

Preferred stock committed to Supplemental ESOP	-	-	(106)	-	-	-	-	(106)
Pension liability adjustment	-	-	-	-	-	-	76	76
Other	-	1	46	-	-	(19)	7	35
Balance at December 31, 1996	-	1	2,160	(566)	(202)	(385)	(13)	995
Year ended December 31, 1997:								
Net earnings	-	-	-	949	-	-	-	949
Cash dividends on preferred stock ($1.44 per Series B)	-	-	-	(10)	-	-	-	(10)
Common stock repurchases	-	-	-	-	-	(250)	-	(250)
Issuance and amortization of ESOP preferred stock	-	-	993	-	(6)	-	-	987
ESOP dividend ($8.89 per share)	-	-	36	(67)	31	-	-	-
Preferred stock committed to Supplemental ESOP	-	-	(349)	-	-	-	-	(349)
Other	-	-	36	3	-	(28)	4	15
Balance at December 31, 1997	-	1	2,876	309	(177)	(663)	(9)	2,337

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation - UAL Corporation ("UAL") is a holding company whose principal subsidiary is United Air Lines, Inc. ("United"). The consolidated financial statements include the accounts of UAL and all of its majority-owned affiliates (collectively "the Company"). All significant intercompany transactions are eliminated. Investments in affiliates are carried on the equity basis. Certain prior-year financial statement items have been reclassified to conform to the current year's presentation.

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

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

(d) 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.

From time to time, United lends certain of its securities classified as cash and cash equivalents and short-term investments to third parties. United requires collateral in an amount exceeding the value of the securities and is obligated to reacquire the securities at the end of the contract. United accounts for these transactions as secured lendings rather than sales, and so does not remove the securities from the balance sheet.

At December 31, 1997 and 1996, $440 million and $418 million, respectively, of investments in debt securities included in cash and cash equivalents and short-term investments were classified as available-for-sale, and $287 million and $232 million, respectively, were classified as held-to-maturity. Investments in debt securities classified as available-for-sale are stated at fair value based on the quoted market prices for the securities, which does not differ significantly from their cost basis. Investments classified as held-to-maturity are stated at cost which approximates market due to their short-term maturities. The proceeds from sales of available-for-sale securities are included in interest income for each respective year.

(e) Derivative Financial Instruments -

Foreign Currency - United may, from time to time, enter into Japanese yen forward exchange contracts to minimize gains and losses on the revaluation of short-term yen-denominated liabilities. The yen forwards typically have a 30-day maturity and are marked to fair value at the end of each accounting period. The unrealized mark-to-market gains and losses generally offset the losses and gains recorded on the liabilities.

United has also entered into forwards and swaps to reduce exposure to currency fluctuations on yen-denominated capital lease obligations. The cash flows of the forwards and swaps mirror those of the capital leases. The premiums on the forwards and swaps, as measured at inception, are being amortized over their respective lives as components of interest expense. Any gains or losses realized upon early termination of these forwards and swaps are deferred and recognized in income over the remaining life of the underlying exposure.

Finally, the Company hedges some of the risks of exchange rate volatility on its anticipated future net yen and net Hong Kong dollar cash flows by purchasing put options for each respective currency with little or no intrinsic value. The amount and duration of these options are synchronized with specific expected inflows, and thus, the put options have been designated as a hedge. The Company also sells call options in each of these currencies from time to time. The premiums on purchased option contracts are amortized over the lives of the contracts. Unrealized gains on purchased put option contracts are deferred until contract expiration and then recognized as a component of passenger revenue, and unrealized losses on written call options are recorded in "Miscellaneous, net" at the end of each accounting period.

Interest Rates - United may from time to time enter into swaps to reduce exposure to interest rate fluctuations in connection with certain debt, capital leases and operating leases. The cash flows of the swaps mirror those of the underlying exposures. The premiums on the swaps, as measured at inception, are amortized over their respective lives as components of interest expense. Any gains or losses realized upon the early termination of these swaps are deferred and recognized in income over the remaining life of the underlying exposure.

Aircraft Fuel - United uses a collar option strategy to hedge a portion of its price risk related to future aircraft fuel purchases. The collars, which have been designated as a hedge, involve the purchase of fuel call options with the simultaneous sale of fuel put options with identical expiration dates. Premiums on fuel collar option contracts are deferred and amortized over the life of the contract. Gains or losses recognized upon contract expiration are recorded as a component of aircraft fuel expense. In addition, to a limited extent, United trades short-term heating oil futures and options contracts. Unrealized losses on these contracts are recorded currently in income while unrealized gains are deferred until contract expiration. Both gains and losses are recorded as a component of aircraft fuel expense.

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

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

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

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

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

(h) Intangibles - Intangibles consist primarily of route acquisition costs and intangible pension assets (see Note 15). Route acquisition costs are amortized over 40 years.

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

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

(k) Advertising Costs - Advertising costs, which are included in other operating expenses, are expensed as incurred. Advertising expense was $190 million, $184 million and $194 million in 1997, 1996 and 1995, respectively.

(2) Employee Stock Ownership Plans and Recapitalization
- --

On July 12, 1994, the stockholders 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.

The ESOPs cover employees represented by the Air Line Pilots' Association, International, the International Association of Machinists and Aerospace Workers and U.S. management and salaried 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, four 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 12, 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 Class 1 ESOP Preferred Stock are sold to an ESOP trust, the Company reports the issuance as a credit to additional capital invested and records a corresponding charge to unearned ESOP preferred stock. Shares are committed to be released to employees on a pro rata basis through April 12, 2000. ESOP compensation expense is recorded for the average market 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 market 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, 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 $987 million, $685 million and $504 million in 1997, 1996 and 1995, respectively. During 1997, 2,345,745 shares of Class 1 ESOP Preferred Stock, 190,307 shares of Class 2 ESOP Preferred Stock and 2,534,687 shares of Voting Preferred Stock were allocated to employee accounts, and another 537,917 shares of Class 2 ESOP Preferred Stock were allocated in the form of "book entry" shares, effective December 31, 1996. Another 48,982 shares of Class 2 ESOP Preferred Stock previously allocated in book entry form were issued and either contributed to the qualified plan or converted and sold on behalf of terminating employees. At December 31, 1997, the year-end allocation of Class 1 ESOP Preferred Stock to employee accounts had not yet been completed. There were 2,087,535 shares of Class 1 ESOP Preferred Stock committed to be released and 888,386 shares held in suspense by the ESOP as of December 31, 1997. For the Class 2 ESOP Preferred Stock, 986,438 shares were committed to be contributed to employees at December 31, 1997. The market value of the unearned ESOP shares recorded on the balance sheet at December 31, 1997 and 1996 was $344 million and $309 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 market value of such shares at December 31, 1997 and 1996 was $679 million and $206 million, respectively.

(3) Other Income (Expense) - Miscellaneous

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

(In Millions)	1997	1996	1995
Foreign exchange gains (losses)	$ (19)	$ (8)	$ (20)
Minority interests	(15)	(21)	(23)
Travel agency litigation settlement	-	(20)	-
Other	(15)	(7)	(14)
	$ (49)	$ (56)	$ (57)

(4) Per Share Amounts

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," effective December 31, 1997. As a result, the Company's reported earnings per share for 1996 and 1995 have been restated.

Basic earnings per share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. In addition, diluted earnings per share amounts include potential common shares including ESOP shares committed to be released, and assume the conversion of convertible debentures (for periods not actually converted) and elimination of related interest.

Earnings Attributable to Common Stockholders (Millions)	1997	1996	1995
Net Income	$ 949	$ 533	$ 349
Preferred stock dividends	(77)	(60)	(53)
Preferred stock transactions(1)	-	(48)	20
Earnings attributable to common stockholders (Basic)	$ 872	$ 425	$ 316
Interest on convertible debentures, net of tax	-	2	23
Other	-	1	4
Earnings attributable to common stockholders (Diluted	$ 872	428	343
Shares (Millions)			
Weighted average shares outstanding (Basic)	58.8	56.1	49.6
Convertible ESOP preferred stock	35.9	24.0	11.9
Incremental shares related to convertible debentures and other	2.7	4.5	9.7
Weighted average number of shares (Diluted)	97.4	84.6	71.2
Earnings Per Share			
Basic	$14.83	$7.57	$6.39
Diluted	$ 8.95	$5.06	$4.82

(1) In April 1995, UAL issued convertible subordinated debentures in exchange for Series A preferred stock and 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 debentures. In December 1996, a UAL-controlled trust issued trust-originated preferred securities in exchange for shares of Series B preferred stock and recorded a non-cash decrease of $27 million in additional capital invested representing the excess of the fair value of the new securities over the carrying value of Series B. Also, during 1996 and 1995, the Company repurchased shares of its Series B preferred stock, resulting in decreases to additional capital invested representing the excess of amounts pair to reaquire 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.

(5) Affiliates

United owns 32% of Galileo International, Inc. ("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 retained earnings is approximately $161 million of undistributed earnings of Galileo and its predecessor companies. The market value of United's investment in Galileo at December 31, 1997 was $924 million.

In July 1997, United completed the sale of its interest in the Apollo Travel Services Partnership ("ATS"), a 77% owned affiliate whose accounts were consolidated, to Galileo for $539 million in cash. See Other Information, "Sale of Affiliate" in Management's Discussion and Analysis of Financial Condition and Results of Operations for further details on the transaction.

Under operating agreements with Galileo, 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 $159 million in 1997, $249 million in 1996 and $238 million in 1995. The cost to United of services purchased from Galileo amounted to approximately $134 million in 1997, $114 million in 1996 and $104 million in 1995. In connection with the sale of ATS, United entered into an additional services agreement with Galileo under which the Company will provide certain marketing and other services designed to increase the competitiveness of Galileo's business and to generate additional bookings and revenues for Galileo. Under this agreement, United could receive up to $154 million (on a present value basis) in the sixth year following the sale, based on specified improvements in air booking revenues over a five-year period.

Prior to the sale to Galileo, ATS contributed the following amounts to the Company's consolidated results, net of intercompany eliminations and minority interests:

(In Millions)	Year Ended December 31, 1997	1996	1995
Operating revenues	$ 147	$ 239	$ 237
Operating income	$ 63	$ 86	$ 90
Earnings before income taxes	$ 50	$ 70	$ 76

(6) Income Taxes

In 1997, the regular tax liability of the Company exceeded the alternative minimum tax ("AMT") liability resulting in a utilization of AMT credits. The federal income tax liability is the greater of the tax computed using the regular tax system or the tax under the AMT system. However, if the regular tax liability exceeds the AMT liability and AMT credits are available, the AMT credits are used to reduce the net tax liability to the amount of the AMT liability. During 1997, UAL utilized $94 million of AMT credits.

The provision for income taxes is summarized as follows:

(In Millions)	1997	1996	1995
Current -			
Federal	$ 312	$ 281	$ 29
State	55	20	-
	367	301	29

Deferred -			
Federal	178	47	187
State	16	22	27
	194	69	214
	$ 561	$ 370	$ 243

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

(In Millions)	1997	1996	1995
Income tax provision at statutory rate	$ 533	$ 339	$ 217
State income taxes, net of federal income tax benefit	46	28	18
ESOP dividends	(25)	(13)	(5)
Nondeductible employee meals	26	25	23
Foreign tax credits	(2)	(2)	(2)
Other, net	(17)	(7)	(8)
	$ 561	$ 370	$ 243

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities for 1997 and 1996 are as follows:

(In Millions)	1997		1996	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Employee benefits, including postretirement medical and ESOP	$ 918	$ 156	$ 644	$ 93
Depreciation, capitalized interest and transfers of tax benefits	-	1,466	-	1,172
Gains on sale and leasebacks	398	-	428	-
Rent expense	382	-	351	-
AMT credit carryforwards	137	-	231	-
Other	422	470	274	304
	$2,257	$2,092	$1,928	$1,569

At December 31, 1997, UAL and its subsidiaries had $137 million of federal AMT credit carryforwards available for an indefinite period. Management believes it is more likely than not that future taxable income will be sufficient to utilize the deferred tax assets at December 31, 1997.

(7) Short-Term Borrowings

United has an agreement with a syndicate of banks for a $750 million revolving credit facility expiring in 2002. Interest on drawn amounts under the facility is calculated at floating rates based on the London interbank offered rate ("LIBOR") plus a margin which is subject to adjustment based on certain changes in the credit ratings of United's long-term senior unsecured debt. Among other restrictions, the credit facility contains a covenant which restricts United's ability to grant liens on or otherwise encumber certain identified assets with a market value of approximately $1.1 billion.

In addition, United has a separate short-term borrowing facility with a maximum available borrowing amount of $227 million which expires in October 1998.

(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, 1997):

(In Millions)	1997	1996
Secured notes, 6.13% to 8.90%, averaging 7.16%, due through 2014	$ 1,295	$ 819
Debentures, 9.00% to 11.21%, averaging 9.97%, due through 2021	785	936
Convertible debentures, 7.75%, due 2010	-	16
Promissory notes, 6.33% to 11.00%, averaging 6.51%, due through 2000	70	64
Special facility bonds, 5.625%, due 2034	190	-
	2,340	1,835
Less: Unamortized discount on debt	(13)	(9)
Current maturities	(235)	(165)
	$ 2,092	$ 1,661

In addition to scheduled principal payments, in 1997 and 1996 the Company repaid $84 million and $149 million, respectively, in principal amount of secured notes and $51 million and $492 million, respectively, in principal amount of debentures prior to maturity. These obligations were scheduled to mature at various times from 2000 through 2021. Extraordinary losses of $9 million and $67 million, respectively, net of tax benefits of $5 million and $40 million, respectively, were recorded, reflecting amounts paid in excess of the debt carrying value.

On April 8, 1997, Air Wis Services, Inc. ("Air Wis"), a wholly owned subsidiary of UAL, redeemed all $16 million of its outstanding 7 3/4% convertible debentures at 100% of the principal amount plus accrued interest.

During 1997, United issued $674 million in enhanced pass through certificates to refinance certain owned aircraft and aircraft under operating leases. Net proceeds after refinancing the operating leases was $597 million.

Also in 1997, the California Statewide Communities

Development Authority (the "Authority") issued $190 million in special facilities revenue bonds to finance the acquisition and construction of certain facilities at the Los Angeles International Airport ("LAX") which United guarantees payment of under a payment agreement with the Authority. The bond proceeds are restricted to expenditures on the LAX facilities and unspent amounts are classified as other assets in the balance sheet.

At December 31, 1997, United had outstanding a total of $733 million of long-term debt bearing interest rates at 22 to 90 basis points over LIBOR.

Maturities of long-term debt for each of the four years after 1998 are: 1999 - $51; 2000 - $53 million; 2001 - $46 million; and 2002 - $563 million. Various assets, principally aircraft, having an aggregate book value of $1.457 billion at December 31, 1997, were pledged as security under various loan agreements.

(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, 1997, 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 Aircraft	Operating Leases Non-aircraft	Capital Leases
Payable during -			
1998	$ 946	$ 473	$ 288
1999	937	458	262
2000	955	447	241
2001	939	441	314
2002	928	429	277
After 2002	12,458	7,104	1,321
Total minimum leases payments	$17,163	$ 9,352	$ 2,703
Imputed interest (at rates of 5.3% to 12.2%)			(853)
Present value of minimum lease payments			1,850
Current portion			(171)
Long-term obligations under capital leases			$ 1,679

As of December 31, 1997, United leased 304 aircraft, 62 of which were under capital leases. These leases have terms of 4 to 26 years, and expiration dates range from 1998 through 2020.

In connection with the financing of certain aircraft accounted for as capital leases, United had on deposit at

December 31, 1997 an aggregate 33 billion yen ($254 million), 107 million German marks ($60 million) and 27 million French francs ($4 million) in certain banks and had pledged an irrevocable security interest in such deposits to the aircraft lessors. These deposits will be used to pay off an equivalent amount of recorded capital lease obligations.

Amounts charged to rent expense, net of minor amounts of sublease rentals, were $1.416 billion in 1997, $1.424 billion in 1996 and $1.439 billion in 1995. Included in 1997 rental expense was $16 million in contingent rentals, resulting from changes in interest rates for operating leases under which the rent payments are based on variable interest rates.

(10) Company-Obligated Mandatorily Redeemable Preferred Securities of a Subsidiary Trust

In December 1996, UAL Corporation Capital Trust I (the "Trust") issued $75 million of its 13 1/4% Trust Originated Preferred Securities (the "Preferred Securities") in exchange for 2,999,304 depositary shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock (see Note 11). Concurrent with the issuance of the Preferred Securities and the related purchase by UAL of the Trust's common securities, the Company issued to the Trust $77 million aggregate principal amount of its 13 1/4% Junior Subordinated Debentures (the "Debentures") due 2026. The Debentures are and will be the sole assets of the Trust. The interest and other payment dates on the Debentures correspond to the distribution and other payment dates on the Preferred Securities. Upon maturity or redemption of the Debentures, the Preferred Securities will be mandatorily redeemed. The Debentures are redeemable at UAL's option, in whole or in part, on or after July 12, 2004, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to the redemption date. Upon the repayment of the Debentures, whether at maturity, upon redemption or otherwise, the proceeds thereof will be applied to redeem the Preferred Securities.

There is a full and unconditional guarantee by UAL of the Trust's obligations under the securities issued by the Trust. However, the Company's obligations are subordinate and junior in right of payment to certain other of its indebtedness. UAL has the right to defer payments of interest on the Debentures by extending the interest payment period, at any time, for up to 20 consecutive quarters. If interest payments on the Debentures are so deferred, distributions on the Preferred Securities will also be deferred. During any deferral, distributions will continue to accrue with interest thereon. In addition, during any such deferral, UAL may not declare or pay any dividend or other distribution on, or redeem or purchase, any of its capital stock.

The transaction resulted in a reduction of approximately $102 million to paid in capital as the fair value of the Preferred Securities issued exceeded the carrying value ($75 million) of the exchanged Series B preferred stock. The difference between the assigned value of the Preferred Securities and their redemption value ($27 million) will be amortized against distributions on the Preferred Securities over their term. The fair value of the Preferred Securities at December 31, 1997 was $106 million.

(11) Serial Preferred Stock

At December 31, 1997, UAL had outstanding 3,267,477 depositary shares, each representing 1/1000 of one share of Series B 12 1/4% preferred stock, with a liquidation preference of $25 per depositary share ($25,000 per Series B preferred share) and a stated capital of $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.

The Series B preferred stock ranks senior to all other preferred and common stock, except the Preferred Securities, 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. Pursuant to UAL's restated certificate of incorporation, UAL is authorized to issue a total of 50,000 shares of Series B preferred stock.

As discussed in Note 10, in December 1996, UAL Corporation Capital Trust I, a Delaware statutory business trust controlled by UAL, exchanged mandatorily redeemable preferred securities of the subsidiary trust for 2,999,304 depositary shares of Series B preferred stock of UAL.

During 1996 and 1995, UAL repurchased 2,553,110 and 4,259,709 depositary shares, respectively, at an aggregate cost of $84 million and $131 million, respectively, to be held in treasury. In February 1998, UAL repurchased 64,300 depositary shares at an aggregate cost of $2 million to be held in treasury.

UAL is authorized to issue up to 15,986,584 additional shares of serial preferred stock.

(12) ESOP Preferred Stock

The following activity related to UAL's outstanding ESOP preferred stocks (see Note 2 for a description of the ESOPs):

	Class 1 ESOP	Class 2 ESOP	ESOP Voting
Balance 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)
Balance December 31, 1995	4,632,505	302,071	1,438,393
Shares issued	2,367,575	381,044	3,073,970
Converted to common	(49,618)	(38,605)	(89,927)
Balance December 31, 1996	6,950,462	644,510	4,422,436

Shares issued	1,848,629	242,877	3,073,969
Converted to common	(146,473)	(81,127)	(229,999)
Balance December 31, 1997	8,652,618	806,260	7,266,406

An aggregate of 17,675,345 shares of Class 1 and Class 2 ESOP Preferred Stock will be issued to employees under the ESOPs. Each share of ESOP Preferred Stock is convertible into four shares of UAL common stock and 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 outstanding at any time 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. For purposes of defining the "Sunset" employee ownership is approximately 62% at December 31, 1997. 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 .0004 shares of UAL common stock.

Class Pilot MEC, IAM, SAM and I junior preferred stock (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 stock. 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."

(13) Common Stockholders' Equity

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

	1997	1996	1995
Shares outstanding at beginning of year	58,817,480	50,718,424	49,756,424
Stock options exercised	840,100	500,174	722,744
Shares issued from treasury under compensation arrangements	28,224	25,949	932,584
Shares acquired for treasury	(3,269,393)	(180,565)	(504,444)
Forfeiture of restricted stock	(25,120)	(70,488)	(43,000)
Conversion of Series A debentures	-	7,623,092	38,304
Conversion of ESOP preferred stock	911,300	352,929	39,976
Other	17,895	(152,035)	(224,164)
Shares outstanding at end of year	57,320,486	58,817,480	50,718,424

During 1997, the Company repurchased 2,881,092 shares of common stock for a total purchase price of $250 million.

(14) 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 four equal, annual installments beginning one year after the date of grant, and generally expire in ten years.

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. The expense recorded for such eligible options was $14 million for 1997, $15 million in 1996 and $27 million in 1995.

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 two shares 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.

The Company has also awarded shares of restricted stock to officers and key employees. These shares generally vest over a five-year period and are subject to certain transfer restrictions and forfeiture under certain circumstances prior to vesting. Unearned compensation, representing the fair market value of the stock at the measurement date for the award, is amortized to salaries and related costs over the vesting period. During 1995, 892,852 shares of restricted stock were issued from treasury. No shares were issued in 1996 and 5,000 shares were issued in 1997. As of December 31, 1997, 434,220 shares were restricted and still nonvested.

Additionally, 309,120 shares were reserved for future awards under the plan. In 1997, 1996 and 1995, 25,120, 70,488 and 43,000 shares, respectively, were forfeited and returned to treasury stock.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes a fair value based method of accounting for stock options. The Company has elected to continue using the intrinsic value based method of accounting prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123. Had compensation cost for awards been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have instead been reported as the pro forma amounts indicated below:

		1997	1996	1995
Net income (millions)	As reported	$ 949	$ 533	$ 349
	Pro forma	$ 944	$ 531	$ 350
Basic earnings per share	As reported	$14.83	$7.57	$6.39
	Pro forma	$14.75	$7.55	$6.42
Diluted earnings per share	As reported	$ 8.95	$5.06	$4.82
	Pro forma	$ 8.94	$5.07	$4.84

The weighted-average grant date fair value of restricted shares issued was $87.44 and $28.88 for shares issued in 1997 and 1995, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	1997	1996	1995
Risk-free interest rate	6.4%	6.4%	6.0%
Dividend yield	0.0%	0.0%	0.0%
Volatility	32.0%	32.0%	30.0%
Expected life (years)	4.0	4.0	4.0

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

	1997		1996		1995	
Old Share Options:	Shares	Wtd Avg Exer Price	Shares	Wtd Avg Exer Price	Shares	Wtd Avg Exer Price
Outstanding at beginning of year	356,118	$ 120.80	480,610	$ 119.95	1,081,100	$ 132.77
Exercised	(187,725)	$ 120.03	(124,117)	$ 117.49	(295,671)	$ 113.61
Surrendered upon						

exercise of SARs	-	-	-	-	(12,927)	$ 75.68
Terminated	-	-	(375)	$ 124.00	(291,892)	$ 175.24
Outstanding at end of year	168,393	$ 121.65	356,118	$ 120.80	480,610	$ 119.95
Options exercisable at year-end	168,393	$ 121.65	356,118	$ 120.80	480,610	$ 119.95

New Share Options:	1997 Shares	1997 Wtd Avg Exer Price	1996 Shares	1996 Wtd Avg Exer Price	1995 Shares	1995 Wtd Avg Exer Price
Outstanding at beginning of year	4,828,990	$ 31.64	3,767,624	$ 23.47	3,784,000	$ 22.59
Granted	449,100	$ 77.86	1,319,800	$ 53.46	344,000	$ 32.40
Exercised	(464,650)	$ 25.58	(251,934)	$ 23.52	(136,376)	$ 22.61
Terminated	(37,875)	$ 60.17	(6,500)	$ 32.03	(224,000)	$ 22.91
Outstanding at end of year	4,775,565	$ 36.37	4,828,990	$ 31.64	3,767,624	$ 23.47
Options exercisable at year-end	2,518,238	$ 26.63	1,881,686	$ 22.89	1,133,140	$ 22.55
Reserved for future grants at year-end	4,371,475		4,782,700		1,696,000	
Wtd avg fair value of options granted during the year	$ 27.40		$ 18.94		$ 10.84	

The following information related to stock options outstanding as of December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding at December 31, 1997	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable at December 31, 1997	Weighted-Average Exercise Price
Old Share Options:					
$91 to 177	168,393	4.9 years	$121.65	168,393	$121.65
New Share Options:					
$20 to 29	2,962,390	6.6 years	$ 22.77	2,177,638	$ 22.66
$37 to 57	1,379,950	8.3 years	$ 52.47	339,600	$ 51.95
$60 to 88	433,225	9.5 years	$ 78.03	1,000	$ 60.19
	4,775,565			2,518,238	

(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 before retirement. The Company's goal is to fully fund the estimated present value of its accumulated benefit obligation under the plans. 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 financial position as of December 31:

(In Millions)	1997		1996	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of accumulated benefit obligation	$ (5,263)	$ (1,273)	$ (5,344)	$ (235)
Actuarial present value of projected benefit obligation	$ (5,792)	$ (1,481)	$ (5,812)	$ (335)
Plan assets at fair value	5,950	908	5,850	60
Projected benefit obligation in excess of plan assets	158	(573)	38	(275)
Unrecognized net (gain) loss	22	(10)	138	(70)
Prior service cost not yet recognized in net periodic pension cost	159	489	230	216
Remaining unrecognized net asset	(1)	19	(16)	37
Adjustment required to recognize minimum liability	-	(289)	-	(86)
Pension asset (liability) recognized in the statement of consolidated financial position	$ 338	$ (364)	$ 390	$ (178)
Actuarial assumptions:				
Weighted average discount rate	7.25%		7.75%	
Rate of increase in compensation	3.85%		3.15%	

Total pension expense for all retirement plans (including defined contribution plans) was $229 million in 1997, $252 million in 1996 and $193 million in 1995.

Plan assets are invested primarily in governmental and corporate debt instruments and corporate equity securities.

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

(In Millions)	1997	1996	1995

Service cost - benefits earned during the year	$ 232	$ 237	$ 173
Interest cost on projected benefit obligation	477	440	396
Actual return on plan assets	(1,078)	(703)	(934)
Net amortization and deferral	585	268	545
Net periodic pension cost	$ 216	$ 242	$ 180
Expected average long-term rate of return	9.75%	9.75%	9.75%

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)	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$ 606	$ 498
Other fully eligible participants	254	193
Other active participants	846	648
Total accumulated postretirement benefit obligation	1,706	1,339
Unrecognized net gain (loss)	(183)	109
Fair value of plan assets	(107)	(103)
Accrued postretirement benefit obligation	$1,416	$1,345
Discount rate	7.25%	7.75%

Net postretirement benefit costs included the following components:

(In Millions)	1997	1996	1995
Service cost - benefits attributed to service during the period	$ 44	$ 44	$ 37
Amortization of unrecognized net gain	(6)	(5)	(5)
Actual return on assets	(7)	(7)	(7)
Interest cost on benefit obligation	107	98	100
Net postretirement benefit costs	$ 138	$ 130	$ 125

The assumed health care cost trend rates for net paid claims were 6.9% and 7.4% for 1997 and 1996, respectively, declining annually to a rate of 4.0% by the year 2001 and remaining level thereafter. These rates were driven by assumed health care cost trend rates for gross covered charges of 5.5% and 6.0% for 1997 and 1996, respectively, declining annually to a rate of 4.0% by the year 1999 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, 1997 by $234 million and the aggregate of the service and interest cost components of net postretirement benefit cost for 1997 by $25 million.

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) Financial Instruments and Risk Management

See Other Information "Foreign Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures About Market Risk ("Item 7A") for a discussion of the Company's foreign currency and fuel price risk management activities, and the fair value of all significant financial instruments.

Credit Exposures of Derivatives

The Company's theoretical risk in the derivative financial instruments described in Item 7A 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. 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, or through the use of mutual put options where contracts are terminated at certain predefined intervals. Counterparty credit risk is further minimized by settlements throughout the duration of the contract.

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, 1997, $1.239 billion principal amount of such bonds was outstanding. As of December 31, 1997, UAL and United had jointly guaranteed $35 million of such bonds and United had guaranteed $1.221 billion of such bonds, including accrued interest. The payments required to satisfy these obligations are included in the future minimum lease payments disclosed in Note 9 "Lease Obligations".

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 $35 million at December 31, 1997. At that date, United had granted mortgages on aircraft and engines having a total book value of $165 million as security for indemnity obligations under tax leases and letters of credit.

Concentrations 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.

(18) 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 and 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, 1997, commitments for the purchase of property and equipment, principally aircraft, approximated $5.6 billion, after deducting advance payments. An estimated $2.6 billion will be spent in 1998, $1.6 billion in 1999, $0.6

billion in 2000 and $0.8 billion in 2001 and thereafter. The major commitments are for the purchase of B777, B747, B767, B757, A320 and A319 aircraft, which are scheduled to be delivered through 2002. The above amounts do not include a recent order with Airbus Industrie for an additional 10 A319 and 20 A320 aircraft to be delivered through 2001. The aircraft included in this latest order are expected to be used to satisfy growth opportunities, and thus, the Company now expects its passenger fleet to grow by at lease 30 aircraft by the year 2002.

During the fourth quarter, The Boeing Company ("Boeing") notified United that production problems would delay aircraft scheduled to be delivered between fourth quarter 1997 and mid-1999. Specifically, deliveries on nine B747s, three B757s and four B767s scheduled for delivery from the fourth quarter of 1997 through mid-1999 will be delayed from one to two months. United expects to receive compensation from Boeing and also expects to make schedule adjustments and take other possible actions to offset the effects of the delays. As a result, the Company expects the impact of the announced delivery delays to be minimal.

In connection with the construction of the Indianapolis Maintenance Center, United agreed to spend an aggregate $800 million on capital investments 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 payments to the city of Indianapolis and state of Indiana.

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 into labor contracts with United which become amendable in 2000. In October 1997, the Association of Flight Attendants ("AFA") ratified a new contract, which will remain in effect through 2006. See Other Information, "Labor Agreements and Wage Adjustments" in Management's Discussion and Analysis of Financial Condition and Results of Operations for details.

(19) Foreign Operations

Operating authorities in international markets are governed by bilateral aviation agreements between the U.S. and foreign countries. Under generally accepted accounting principles, ("GAAP"), foreign operations are defined as operations that exist outside the U.S. United derives an insignificant amount of its operating revenues and operating income from such operations. However, the Company's results are significantly impacted by revenue produced from international flights between the U.S. and foreign destinations. Based on allocation guidelines provided by the U.S. Department of Transportation ("DOT"), which classifies flights between the U.S. and foreign destinations as part of each respective foreign entity, and thus, differs from the definition of foreign operations under GAAP, United reported the following results by geographic entity to the DOT for each of the last three years:

(In Millions)	1997		1996		1995	
Entity	Operating Revenue	Operating Income	Operating Revenue	Operating Income	Operating Revenue	Operating Income

Domestic	$ 11,214	$ 652	$ 10,717	$ 738	$ 9,586	$ 460
Pacific	3,552	267	3,438	288	3,336	348
Atlantic	1,745	238	1,412	86	1,287	10
Latin America	824	69	750	18	686	14
Total	$ 17,335	$1,226	$ 16,317	$1,130	$ 14,895	$ 832

Additionally, United has sizable intangible assets related to acquisitions of foreign route authorities. 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.

(20) 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)	1997	1996	1995
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 152	$ 244	$ 346
Income taxes	362	242	65
Non-cash transactions:			
Capital lease obligations incurred	643	503	376
Long-term debt incurred in connection with additions to equipment	185	82	26
Note receivables recorded in connection with the sale of equipment and leasehold improvements	61	-	-
Long-term debt issued in connection with the exchange of Series A convertible preferred stock	-	-	546
Increase (decrease) in pension intangible	200	(191)	2
Increase in additional capital invested in connection with the conversion of subordinated debentures to common stock	-	217	1
Decrease in additional capital invested in connection with the conversion of subordinated debentures to mandatorily redeemable preferred securities	-	(102)	-

(21) Selected Quarterly Financial Data (Unaudited)

(In Millions)	1st	2nd	3rd	4th

	Quarter	Quarter	Quarter	Quarter	Year
1997:					
Operating revenues	$ 4,121	$ 4,382	$ 4,640	$ 4,235	$17,378
Earnings from operations	194	412	563	91	1,259
Earnings before extraordinary item	105	242	579	32	958
Extraordinary loss on early extinguishment of debt	-	-	-	(9)	(9)
Net earnings	$ 105	$ 242	$ 579	$ 23	$ 949
Per share amounts, basic:					
Earnings before extraordinary item	$ 1.45	$ 3.77	$ 9.39	$ 0.21	$ 14.98
Extraordinary loss on early extinguishment of debt	-	-	-	(0.15)	(0.15)
Net earnings	$ 1.45	$ 3.77	$ 9.39	$ 0.06	$ 14.83
Net earnings per share, diluted	$ 0.92	$ 2.31	$ 5.61	$ 0.04	$ 8.95
1996:					
Operating revenues	$ 3,735	$ 4,164	$ 4,488	$ 3,976	$16,362
Earnings from operations	62	398	610	53	1,123
Earnings before extraordinary item	6	226	347	20	600
Extraordinary loss on early extinguishment of debt	(29)	(30)	(7)	(1)	(67)
Net earnings (loss)	$ (23)	$ 196	$ 340	$ 19	$ 533
Per share amounts, basic:					
Earnings (loss) before extraordinary item	$ (0.32)	$ 3.41	$ 5.71	$ (0.35)	$ 8.76
Extraordinary loss on early extinguishment of debt	(0.58)	(0.52)	(0.11)	(0.01)	(1.19)
Net earnings (loss)	$ (0.90)	$ 2.89	$ 5.60	$ (0.36)	$ 7.57
Net earnings (loss) per share, diluted	$ (0.90)	$ 1.99	$ 3.77	$ (0.36)	$ 5.06

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.

During the third quarter of 1997, UAL recognized a pre-tax gain of $275 million of the sale of its interest in the Apollo Travel Services Partnership (see Other Information, "Sale of Affiliate" in Management's Discussion and Analysis of Financial Condition and Results of Operations).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information required by this item is incorporated by reference from the Company's definitive proxy statement for its 1998 Annual Meeting of Stockholders. Information regarding the executive officers is included in Part I of this Form 10-K under the caption "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION.

Information required by this item is incorporated by reference from the Company's definitive proxy statement for its 1998 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information required by this item is incorporated by reference from the Company's definitive proxy statement for its 1998 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information required by this item is incorporated by reference from the Company's definitive proxy statement for its 1998 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements. The financial statements required by this item are listed in Item 8, "Financial Statements and Supplementary Data" herein.

2. Financial Statement Schedules. The financial statement schedule required by this item is listed below and included in this report after the signature page hereto.

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 1997, 1996 and 1995.

All other schedules are omitted because they are not applicable, not required or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits. The exhibits required by this item are listed in the Exhibit Index which immediately precedes the exhibits filed with this Form 10-K, and is incorporated herein by this reference. Each of Exhibits 10.29 through 10.39 and Exhibits 10.41 and 10.42 listed in the Exhibit Index is a management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

(b) Reports on Form 8-K.

Form 8-K dated October 28, 1997 to report a cautionary statement for purposes of the "Safe Harbor for Forward Looking Statements" provision of the Private Securities Litigation Reform Act.

Form 8-K dated December 15, 1997 to report a cautionary statement for purposes of the "Safe Harbor for Forward Looking Statements" provision of the Private Securities Litigation Reform Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of February, 1998.

UAL CORPORATION

By: /s/ Gerald Greenwald

Gerald Greenwald
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 26th day of February, 1998 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Gerald Greenwald Gerald Greenwald Chairman of the Board and Chief Executive Officer (principal executive officer)	/s/ James J. O'Connor James J. O'Connor Director
/s/ John A. Edwardson John A. Edwardson Director	/s/ Deval L. Patrick Deval L. Patrick Director
/s/ Duane D. Fitzgerald Duane D. Fitzgerald Director	/s/ John F. Peterpaul John F. Peterpaul Director
/s/ Michael H. Glawe Michael H. Glawe Director	/s/ Paul E. Tierney, Jr. Paul E. Tierney, Jr. Director
/s/ Richard D. McCormick Richard D. McCormick Director	/s/ John K. Van de Kamp John K. Van de Kamp Director
/s/ John F. McGillicuddy John F. McGillicuddy Director	/s/ Paul A. Volcker Paul A. Volcker Director
/s/ Douglas A. Hacker Douglas A. Hacker Senior Vice President and Chief Financial Officer (principal financial and accounting officer)	

UAL Corporation and Subsidiary Companies

Schedule II - Valuation and Qualifying Accounts

For the Year Ended December 31, 1997

(In Millions) Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Year
Reserve deducted from asset to which it applies:					
Allowance for doubtful accounts	$ 24	$ 17	$ -	$ 261(1)	$ 15
Obsolescence allowance - Flight equipment spare parts	$ 31	$ 26	$ 5	$ 332(2)	$ 29

(1) Includes deduction from reserve due to the sale of the Apollo Travel Services Partnership.

(2) Deduction from reserve for purpose for which reserve was created.

UAL Corporation and Subsidiary Companies

Schedule II - Valuation and Qualifying Accounts

For the Year Ended December 31, 1996

(In Millions) Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Year
Reserve deducted from asset to which it applies:					
Allowance for doubtful accounts	$ 19	$ 23	$ -	$ 181(1)	$ 24
Obsolescence allowance - Flight equipment spare parts	$ 38	$ 14	$ 2	$ 231(1)	$ 31

(1) Deduction from reserve for purpose for which reserve was created.

UAL Corporation and Subsidiary Companies

Schedule II - Valuation and Qualifying Accounts

For the Year Ended December 31, 1995

(In Millions) Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance End of Year

Reserve deducted from asset to
which it applies:

Allowance for doubtful accounts	$ 22	$ 20	$ -	$ 231(1)	$ 19
	====	====	===	====	===
Obsolescence allowance - Flight equipment spare parts	$ 44	$ 14	$ 3	$ 23(1)	$ 38
	====	====	===	====	===

(1) Deduction from reserve for purpose for which reserve was created.

EXHIBIT INDEX

3.1 Restated Certificate of Incorporation of UAL Corporation ("UAL"), as amended (filed as Exhibit 3.1 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

3.2 By-laws (filed as Exhibit 3.2 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

4.1 Deposit Agreement dated as of July 12, 1994 between UAL Corporation and holders from time to time of Depository Receipts described herein (filed as Exhibit 4.2 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

4.2 Indenture dated as of December 20, 1996 between UAL Corporation and The First National Bank of Chicago, as Trustee (filed as Exhibit 4.2 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

4.3 Officer's Certificate relating to UAL's 13-1/4% Junior Subordinated Debentures due 2026 (filed as Exhibit 4.3 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

4.4 Form of UAL's 13-1/4% Junior Subordinated Debenture due 2026 (filed as Exhibit 4.4 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

4.5 Guarantee Agreement dated as of December 30, 1996 with respect to the 13-1/4% Trust Originated Preferred Securities of UAL Corporation Capital Trust I (filed as Exhibit 4.5 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

4.6 Amended and Restated Declaration of Trust of UAL Corporation Capital Trust I dated as of December 30, 1996 (filed as Exhibit 4.6 to UAL's Form 10-K for year ended December 31, 1996 and incorporated herein by reference).

UAL's indebtedness under any single instrument does not exceed 10% of UAL's total assets on a consolidated basis. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

10.1 Amended and Restated Agreement and Plan of Recapitalization, dated as of March 25, 1994 (the "Recapitalization Agreement"), as amended, among UAL Corporation, the Air Line Pilots Association, International ("ALPA") and the International Association of Machinists and Aerospace Workers ("IAM") (filed as Exhibit A to Exhibit 10.1 of UAL's Form 8-K dated June 2, 1994 and incorporated herein by reference; amendment thereto filed as Exhibit 10.1 of UAL's Form 8-K dated June 29, 1994 and incorporated herein by reference).

10.2 Waiver and Agreement, dated as of December 23, 1994, to the Recapitalization Agreement among UAL, ALPA and IAM (filed as Exhibit 10.2 to UAL's Form 10-K for the year ended December 31, 1994, as amended, and incorporated herein by reference).

10.3 Third Amendment, dated as of March 15, 1995, to the Recapitalization Agreement among UAL, ALPA and IAM (filed as Exhibit 10.3 to UAL's Form 10-K for the year ended December 31, 1994, as amended, and incorporated herein by reference).

10.4 Agreement, dated as of July 16, 1996, pursuant to Section 1.6(q) of the Recapitalization Agreement among UAL, ALPA and IAM (filed as Exhibit 10.3 to UAL's Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).

10.5 UAL Corporation Employee Stock Ownership Plan, effective as of July 12, 1994 (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.6 First Amendment to UAL Corporation Employee Stock Ownership Plan, dated December 28, 1994 (filed as Exhibit 10.39 to UAL's Form 10-K for the year ended December 31, 1994, as amended, and incorporated herein by reference).

10.7 Second Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of August 17, 1995 (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended September 30, 1995 and incorporated herein by reference).

10.8 Third Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of December 28, 1995 (filed as Exhibit 10.7 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

10.9 Fourth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of July 16, 1996 (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).

10.10 Fifth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of December 31, 1996 (filed as Exhibit 10.10 of UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

10.11 Sixth Amendment to UAL Corporation Employee Stock Ownership Plan, dated as of August 11, 1997 (filed as Exhibit 10.3 to UAL's Form 10-Q for the quarter ended September 30, 1997, as amended, and incorporated herein by reference).

10.12 UAL Corporation Employee Stock Ownership Plan Trust Agreement between UAL Corporation and State Street Bank and Trust Company ("State Street"), effective July 12, 1994 (filed as Exhibit 10.2 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.13 UAL Corporation Supplemental ESOP, effective as of July 12, 1994 (filed as Exhibit 10.3 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.14 First Amendment to UAL Corporation Supplemental ESOP, dated February 22, 1995 (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended March 31, 1995, as amended, and incorporated herein by reference).

10.15 Second Amendment to UAL Corporation Supplemental ESOP, dated as of August 17, 1995 (filed as Exhibit 10.2 to UAL's Form 10-Q for the quarter ended September 30, 1995 and incorporated herein by reference).

10.16 Third Amendment to UAL Corporation Supplemental ESOP, dated as of December 28, 1995 (filed as Exhibit 10.12 to UAL's Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).

10.17 Fourth Amendment to UAL Corporation Supplemental ESOP, dated as of July 16, 1996 (filed as Exhibit 10.2 to UAL's Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).

10.18 Fifth Amendment to UAL Corporation Supplemental ESOP, dated as of December 31, 1996 (filed as Exhibit 10.17 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

10.19 Sixth Amendment to UAL Corporation Supplemental ESOP, dated as of August 11, 1997 (filed as Exhibit 10.4 of UAL's Form 10-Q for the quarter ended September 30, 1997, as amended, and incorporated herein by reference).

10.20 UAL Corporation Supplemental ESOP Trust Agreement between UAL Corporation and State Street, effective July 12, 1994 (filed as Exhibit 10.4 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.21 Preferred Stock Purchase Agreement, dated as of March 25, 1994, between UAL Corporation and State Street (filed as Exhibit 10.5 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.22 Amendment No. 1 to Preferred Stock Purchase Agreement, dated as of June 2, 1994, between UAL Corporation and State Street (filed as Exhibit 10.6 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.23 Preferred Stock Purchase Agreement, dated as of August 11, 1995, between UAL Corporation and State Street (filed as Exhibit 10.16 to UAL's Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).

10.24 Preferred Stock Purchase Agreement, dated as of August 12, 1996, between UAL Corporation and State Street (filed as Exhibit 10.22 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

10.25 Preferred Stock Purchase Agreement, dated as of August 12, 1997, between UAL Corporation and State Street Bank and Trust Company.

10.26 Class I Junior Preferred Stockholders' Agreement, dated as of June 12, 1994 (filed as Exhibit 10.12 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.27 Class SAM Preferred Stockholders' Agreement, dated as of July 12, 1994 (filed as Exhibit 10.13 to UAL's Form 10-Q for the quarter ended September 30, 1994 and incorporated herein by reference).

10.28 First Refusal Agreement, dated as of July 12, 1994, as amended (filed as Exhibit 10.25 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

10.29 UAL Corporation 1981 Incentive Stock Plan (filed as Exhibit 10.1 to UAL's Form 10-Q for the quarter ended March 31, 1996 and incorporated herein by reference).

10.30 UAL Corporation 1988 Restricted Stock Plan (filed as Exhibit 10.22 to UAL's Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).

10.31 UAL Corporation Incentive Compensation Plan, as amended September 30, 1994 (filed as Exhibit 10.2 to UAL's Form 10-Q/A for the quarter ended September 30, 1997 and incorporated herein by reference).

10.32 Description of Complimentary Travel and Cargo Carriage Benefits for UAL Directors (filed as Exhibit 10.29 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

10.33 UAL Corporation 1995 Directors Plan, as amended June 26, 1997 (filed as Exhibit 10.1 of UAL's Form 10-Q for the quarter ended September 30, 1997, as amended, and incorporated herein by reference).

10.34 Employment Agreement between UAL Corporation and Gerald Greenwald (filed as Exhibit 10.5 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

10.35 Amendment No. 1 to Employment Agreement between UAL Corporation and Gerald Greenwald (filed as Exhibit 10.6 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

10.36 Restricted Stock Deposit Agreement between UAL Corporation and Gerald Greenwald (filed as Exhibit 10.7 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

10.37 Non-Qualified Stock Option Agreement between UAL Corporation and Gerald Greenwald (filed as Exhibit 10.9 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

10.38 Restricted Stock Deposit Agreement between UAL Corporation and John A. Edwardson (filed as Exhibit

10.10 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

10.39 Restricted Stock Deposit Agreement between UAL Corporation and Stuart I. Oran (filed as Exhibit 10.12 to UAL's Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).

10.40 United Supplemental Retirement Plan (filed as Exhibit 10.42 to UAL's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference).

10.41 Description of Officer Benefits.

10.42 Agreement, dated as of March 1, 1997, between United Air Lines, Inc. and William P. Hobgood.

11 Calculation of fully diluted net earnings per share.

12.1 Computation of Ratio of Earnings to Fixed Charges.

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

21 List of Registrant's subsidiaries (filed as Exhibit 21 to UAL's Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

23 Consent of Independent Public Accountants.

27 Financial Data Schedule.

Exhibit 10.25

PREFERRED STOCK PURCHASE AGREEMENT

PREFERRED STOCK PURCHASE AGREEMENT dated as of August 12, 1997, between UAL Corporation, a Delaware corporation ("UAL"), and State Street Bank and Trust Company, a Massachusetts trust company, acting solely in its capacity as trustee under the Plan defined below and not in its individual capacity (the "Trustee").

W I T N E S S E T H:

WHEREAS, on July 12, 1994, certain transactions contemplated by the Agreement and Plan of Recapitalization dated March 25, 1994 by and among UAL and the unions representing certain of the employees of United Air Lines, Inc., as amended, (the "Recapitalization Agreement") were consummated. (The recapitalization of UAL, as more fully described in the Recapitalization Agreement, shall hereinafter be referred to as the "Transaction");

WHEREAS, in connection with the Transaction, UAL established the UAL Corporation Employee Stock Ownership Plan (the "Plan"), which consists of an employee stock ownership plan and a stock bonus plan; and

WHEREAS, a portion of the employee stock ownership plan (Part A thereof) forms part of the stock bonus plan, includes a money purchase pension plan and is intended to qualify as an employee stock ownership plan under Section 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, UAL appointed the Trustee as the trustee of the UAL Corporation Employee Stock Ownership Plan Trust (the "Trust"), which was established to hold the assets of the Plan pursuant to the terms of the Trust Agreement, by and between UAL and the Trustee (the "Trust Agreement"); and

WHEREAS, Part A of the Plan and Trust Agreement provide that the assets of the trust created thereunder attributable to the Plan shall be invested primarily in shares of "employer securities" of UAL within the meaning of Section 409(l) of the Code; and

WHEREAS, UAL created a new class of securities designated as the Class 1 ESOP Convertible Preferred Stock, par value ($0.01) (the "Class 1 ESOP Convertible Preferred Stock" or the "ESOP Preferred Stock"); and

WHEREAS, the Recapitalization Agreement provided for, among other things, the transfer to the Trust of 13,813,282 shares of the Class 1 ESOP Convertible Preferred Stock in a series of transactions which shall occur during the 69 months immediately following the Effective Time (as defined in the Recapitalization Agreement); and

WHEREAS, the parties to the Recapitalization Agreement have agreed to reduce the number of shares of Class 1 ESOP Convertible Preferred Stock to be transferred to the Trust so that the Plan may continue to satisfy Code Section 415; and

WHEREAS, the parties to the Recapitalization Agreement have agreed to a corresponding increase in the number of shares of Class 2 ESOP Convertible Preferred Stock to be issued; and

WHEREAS, UAL now wishes to sell and the Trustee now wishes to purchase 1,848,629 shares of the Class 1 ESOP

Convertible Preferred Stock from UAL, in the amount, at the purchase price and subject to the other terms and conditions as set forth in this Agreement;

NOW, THEREFORE, in consideration of these premises and the mutual promises contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Purchase; Purchase Price. Subject to the terms and conditions of this Agreement, the Trustee shall purchase on behalf of the Plan (the "Purchase") from UAL, and UAL shall issue and sell to the Trustee an aggregate of 1,848,629 shares of Class 1 ESOP Convertible Preferred Stock (the "Shares") for an aggregate purchase price (the "Purchase Price") of $633,007,542.18.

2. Closing; Payment. The Purchase shall be consummated (the "Closing") at or about August 13, 1997 at the offices of UAL, or at such time, date or place as shall be fixed by an agreement of UAL and the Trustee. The date of the Closing shall hereinafter be referred to as the "Closing Date." At the Closing, UAL shall deliver to the Trustee a certificate or certificates representing the Shares, which shall be registered in the name of the Trustee, as trustee under the Trust, or in the name of its nominee, against delivery to UAL by the Trustee of a check for a dollar amount equal to the par value per Share times the number of Shares described in Section 1 above (the "Cash Amount"), representing the aggregate par value of the Shares and a promissory note of the Trust (the "ESOP Note") substantially in the form set forth in Exhibit A hereto, in an amount equal to the difference between the Purchase Price and a dollar amount equal to the par value per Share times the number of Shares described in Section 1 above. Notwithstanding the foregoing, UAL may, with the consent of the Trustee, accomplish the transfer of shares to the Trustee by book entry, in which event a cross receipt in the

form set forth in Exhibit B hereto shall be executed by the parties. UAL shall pay all stamp and other transfer taxes, if any, that may be payable in respect of the issuance, sale and delivery of the Shares and shall be entitled to any refund thereof, and shall present the Trustee with evidence that such transfer taxes either have been paid or are not due.

3. Representations and Warranties of UAL. UAL hereby represents and warrants to the Trustee as follows:

3.1 UAL has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware with corporate power and authority, including governmental licenses, authorizations, consents and approvals, to own, lease and operate its properties and conduct its business except for licenses, authorizations, consents and approvals the absence of which will not have a Material Adverse Effect. For the purposes of this Agreement, "Material Adverse Effect" shall mean any change or effect the consequence of which is materially adverse to the condition (financial or otherwise), business, assets or results of operations of UAL and its Subsidiaries (as defined below) taken as a whole. UAL is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction where its ownership or leasing of properties or the conduct of its business requires such qualification, except for the jurisdictions where the failure to be so qualified would not have a Material Adverse Effect.

3.2 Except as set forth in Schedule 3.2 hereto, the execution, delivery and performance of this Agreement and all other documents or instruments to be executed or delivered by UAL in connection with this Agreement are within UAL's powers and have been duly authorized by all necessary corporate action. This Agreement and all other documents or instruments to be executed or delivered by UAL in connection with this Agreement are, assuming due authorization, execution and delivery by the Trustee, valid and binding upon UAL and enforceable against UAL in accordance with their respective terms except as the enforceability thereof may be limited by the effect of any applicable bankruptcy, insolvency, fraudulent-conveyance, reorganization, moratorium and similar laws affecting creditors' rights generally, ERISA and by general principles of equity (regardless of whether considered in a proceeding at law or in equity).

3.3 Except as set forth in Schedule 3.3 hereto, the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under (i) the Certificate of Incorporation or Bylaws, each as amended, of UAL or any of its Subsidiaries (as hereinafter defined), or (ii) except as set forth in Schedule 3.3(ii) hereto, any provision of any indenture, mortgage, deed of trust, agreement, instrument, order, arbitration award, judgment or decree to which UAL or any of its Subsidiaries is a party or by which any of their respective assets are bound, or (iii) any material statute, material rule or material regulation applicable to UAL or any of its Subsidiaries of any court, bureau, board, agency or other governmental body having jurisdiction.

3.4 As of the Closing Date, the authorized, issued and outstanding capital stock of UAL shall be as set forth in Schedule 3.4 hereto, and UAL shall have no obligations to issue any additional shares pursuant to any options, warrants, conversion rights or other arrangements except as set forth in Schedule 3.4 hereto, and all shares of issued and outstanding capital stock of UAL shall have been duly authorized and are fully paid and nonassessable.

3.5 Each Subsidiary is a corporation or partnership duly incorporated or formed, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation, has all requisite power and authority including all governmental licenses, authorizations, consents and approvals required to own, lease and operate its properties (except those the absence of which would not have a Material Adverse Effect) and to conduct its business and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities make such qualification necessary, except for those jurisdictions where failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect. For purposes of this Agreement, "Subsidiary" means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are directly or indirectly owned by UAL prior to the Closing Date. All Subsidiaries and their respective jurisdictions of incorporation or formation are identified on Schedule 3.5 hereto.

Except as otherwise disclosed on Schedule 3.5, all of the outstanding capital stock of, or other ownership interests in, each Subsidiary, is owned by UAL, directly or indirectly, free and clear of any liens, claims, charges and encumbrances (collectively "Liens") and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests). Except as disclosed on Schedule 3.5, there are outstanding (i) no securities of UAL or any Subsidiary convertible into or exchangeable for shares of capital stock or other voting securities or ownership interests in any Subsidiary, and (ii) no options, subscriptions, warrants or other rights, agreements, arrangements or commitments of any character to acquire from UAL or any Subsidiary, and no other obligation of UAL or any Subsidiary to issue, any capital stock, voting securities or other ownership interests in, or any securities convertible into or exchangeable or exercisable for any capital stock, voting securities or ownership interest in, any Subsidiary (the items in clauses (i) and (ii) being referred to collectively as the "Subsidiary Securities"). There are no outstanding obligations of UAL or any Subsidiary to repurchase, redeem or otherwise acquire any outstanding Subsidiary Securities.

3.6 As of the Closing Date, the Shares (i) shall have the rights, preferences and qualifications set forth in the restated Certificate of Incorporation of UAL Corporation, (a copy of which is attached hereto as Exhibit C), (ii) shall have been duly and validly authorized and (iii) when issued and delivered to the Trustee in exchange for the Cash Amount and the ESOP Note, will be in proper form, validly issued, fully paid and nonassessable. As of the Closing Date, UAL shall have full right and authority to issue, sell, transfer, and deliver the Shares and will effectively transfer to the Trustee, on the Closing Date, the full right, title and interest therein and thereto, free and clear of all Liens, except for (A) beneficial interests accruing to participants in the Plan and their beneficiaries and (B) any Liens created or imposed by the Trustee on behalf of the Trust.

3.7 As of the Closing Date, the shares of Common Stock (as hereinafter defined) into which the Shares are convertible, shall be duly and validly authorized and reserved for issuance and, when issued upon such conversion, will be validly issued, fully paid and nonassessable and upon delivery to the Trustee, the Trust will acquire full right, title and interest to such shares of Common Stock free and clear of all Liens, except for (i) beneficial interests accruing to the participants in the Plan and their beneficiaries and (ii) any Liens created or imposed by the Trustee on behalf of the Trust.

3.8 No authorization, approval or consent of, or filing with, any governmental authority or agency or other third party, is required in connection with the sale of the Shares by UAL hereunder or the conversion of the Shares into Common Stock except for (i) any of such as shall have been made or obtained prior to the Closing, (ii) any of such relating to the listing on any securities exchange of any shares of UAL common stock, par value $.01 per share (the "Common Stock"), to be delivered upon conversion of Shares and (iii) filings with and/or approvals of the Internal Revenue Service. The Shares are being issued pursuant to a valid exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities laws.

3.9 UAL's filings with the Securities and Exchange Commission ("Commission") for the years 1994, 1995 and 1996, respectively, at the time they were filed with the Commission, (i) complied in all material respects with the requirements of the Securities Act, or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as appropriate, and the Rules and Regulations of the Commission respectively promulgated thereunder, (ii) in the case of filings under the Exchange Act, did not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading and (iii) no registration statement, as amended or supplemented, if applicable, filed pursuant to the Securities Act as of the date such statement, amendment or supplement became effective contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

3.10 The consolidated financial statements of UAL, together with related notes, schedules and reports thereon of independent public accountants for the years 1994, 1995 and 1996, respectively (collectively, the "Financial Statements"), included in UAL's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q ("Reports") for the years ended December 31, 1994, 1995 and 1996, respectively, all of which Reports previously have been delivered to the Trustee, present fairly (except as may be indicated in the notes thereto and subject to normal immaterial year-end audit adjustments in the case of any unaudited interim Financial Statements) the consolidated financial position and the consolidated results of operation of UAL and its consolidated Subsidiaries at the indicated dates and for the indicated periods. The Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as otherwise noted therein. UAL and its Subsidiaries considered as one enterprise have no material liabilities or obligations, contingent or otherwise, that are not fully disclosed in the Financial Statements or the Reports.

3.11 Except as disclosed on Schedule 3.11 hereto, since December 31, 1996, (i) there has been no event, and no state of circumstances has existed, that has had or will, or could reasonably be expected to, have a Material Adverse Effect, (ii) there has not been any material transaction entered into by UAL or any of its Subsidiaries, other than transactions in the ordinary course of business or other than the transactions contemplated in this Agreement or the Transaction, and (iii) except for regular dividends on shares of its outstanding common stock and preferred stock, there has been no dividend or distribution of any kind declared, paid or made by UAL on any class of its capital stock other than the distributions contemplated by the Transaction.

3.12 Except as set forth in Schedule 3.12 there is no action, suit or proceeding before or by any court or government or administrative agency or body, domestic or foreign, now pending or, to the best knowledge of UAL, threatened against or affecting UAL or any of its Subsidiaries, which might have a Material Adverse Effect.

3.13 UAL and its Subsidiaries hold all certificates, authorizations or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to conduct the business now operated by them the absence of which, individually or in the aggregate, would have a Material Adverse Effect, and neither UAL nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect. UAL and its Subsidiaries are in compliance with all rules, laws and regulations related to the operation of the business of UAL and its Subsidiaries, except for instances of noncompliance which, individually or in the aggregate, would not have a Material Adverse Effect.

3.14 The Plan has been duly authorized by all corporate action and Part A constitutes an employee stock ownership plan within the meaning of Section 4975(e)(7) of the Code and Section 407(d)(6) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Part B (that portion of the stock bonus plan which does not constitute an employee stock ownership plan) constitutes a stock bonus plan under the Code and the Plan will qualify under Section 401(a) of the Code taking into account amendments which may be reasonably requested by the Internal Revenue Service, but no representation or warranty is made as to the compliance of the Plan in operation under the referenced Code and ERISA sections; the Trust Agreement has been duly authorized by all necessary corporate action on the part of UAL; all contributions by UAL to the Plan and all dividends paid on the ESOP Preferred Stock which are used by the Trust to make the required principal and interest payments with respect to the ESOP Note will be deductible by UAL or its Subsidiaries for federal income tax purposes under Section 404 of the Code (as in effect on the date of the Closing), except to the extent there are insufficient "earnings and profits" under the Code for the dividends to be deductible; and the ESOP Preferred Stock constitutes "employer securities" within the meaning of Section 409(l) of the Code.

3.15 There is no investment banker, broker or finder which has been retained by or is authorized to act on behalf of UAL or any Subsidiary or, to the knowledge of UAL, any CRS Company who might be entitled to a fee or commission from UAL, either Union or any affiliate of either of them upon consummation of the transactions contemplated by this Agreement, based upon arrangements made by or on behalf of UAL. For the purposes of this Section 3.15, "CRS Company" and "Union" shall have the respective meanings assigned to such terms in the Recapitalization Agreement.

4. Representations and Warranties of The Trustee, as Trustee. The Trustee, in its capacity as such, represents and warrants as follows;

4.1 The Trustee (i) is a duly organized and validly existing trust company in good standing and with full authority to act as Trustee and exercise trust powers under the laws of the Commonwealth of Massachusetts and (ii) has full corporate power and authority to execute and deliver the Trust Agreement and to carry out the transactions contemplated thereby.

4.2 The execution, delivery and performance of this Agreement will not violate (i) the Trustee's Charter or Bylaws, each as amended or restated to date, (ii) any provision of any indenture, mortgage, deed of trust, agreement, instrument, order, arbitration award, Judgment or decree to which the Trustee or the Trust is a party or by which it or the Trust or any of their respective assets are bound, or (iii) any statute, rule or regulation applicable to the Trustee or the Trust of any court, bureau, board, agency or other governmental body having jurisdiction, which conflict, breach or default might have a material adverse effect.

4.3 This Agreement and the Trust Agreement have been duly executed and delivered by the Trustee on behalf of the Trust and, assuming due authorization, execution and delivery by UAL, each constitutes the legal, valid and binding obligation of the Trust enforceable against the Trustee in accordance with their respective terms, except as the enforceability thereof may be limited by the effect of any applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors rights generally, ERISA and by general principles of equity (regardless of whether considered in a proceeding at law or in equity).

4.4 The Trustee is acquiring the shares on behalf of the Plan pursuant to the Trust Agreement and the Plan solely for investment purposes and not with a view toward, or for sale in connection with, any public distribution thereof;

provided, however, nothing herein shall prohibit the Trustee from disposing of any or all of the Shares.

4.5 No authorization, approval or consent of any governmental authority or agency is necessary to be obtained by the Trustee or the Plan in connection with the purchase of the Shares by the Trustee on behalf of the Plan hereunder.

4.6 The Trustee, at the expense of UAL, has retained independent legal counsel knowledgeable in matters regarding ERISA and Code fiduciary responsibilities and has retained an independent financial advisor to advise the Trustee regarding the transactions contemplated by this Agreement.

4.7 The Trustee has not employed any broker, finder or agent, or agreed to pay or incurred any brokerage fee, finder's fee, commission or other similar form of compensation in connection with this Agreement or the transactions contemplated hereby.

4.8 Trustee has received an opinion of Houlihan, Lokey, Howard and Zukin, Inc., financial advisor to the Trustee, to the effect that (i) the Purchase Price is not greater than fair market value, (ii) the Transaction is fair to the Plan from a financial point of view, (iii) the conversion price with respect to the Shares is reasonable and (iv) the interest rate on the ESOP Note is not unreasonable.

5. *Conditions to Closing.*

5.1 *Conditions to the Trustee Is Obligation at Closing.* The obligations of the Trustee hereunder are subject to the fulfillment at or before the Closing of each of the following conditions:

(a) The representations and warranties contained in Section 3 hereof shall be true on and as of the Closing Date and, the Trustee shall have been furnished with a certificate, dated the Closing Date, to such effect, signed by an authorized officer of UAL.

(b) The Trustee shall have received a cash contribution to the Plan at least equal to the Cash Amount.

(c) No order of any court or administrative agency shall be in effect which restrains or prohibits the transactions contemplated by this Agreement, and no suit, action or other proceedings by any governmental body or other person shall have been instituted which questions the validity or legality of the transactions contemplated by this Agreement which suit, action or proceeding the Trustee reasonably determines, upon advice of counsel, is more likely than not to successfully challenge the validity or legality of the transactions contemplated by this Agreement or otherwise result in a Material Adverse Effect.

(d) Neither the Trustee nor UAL shall have determined in good faith that the purchase of the Shares would result in a "prohibited transaction" under ERISA or otherwise violate the provisions of applicable law.

(e) The Trustee shall have received UAL's most recent annual report on form 10-K and any subsequently filed Quarterly Reports on Form 10-Q.

(f) The Trustee shall have received from Kirkpatrick & Lockhart, counsel to the Trustee, an opinion in substantially the form set forth in Schedule 5.1(f) hereto.

(g) The Trustee shall have received from Francesca M. Maher, Vice President-Law and Corporate Secretary, the opinion in substantially the form set forth in Schedule 5.1(g) hereto.

(h) The Trustee shall have received an opinion of its financial advisor, in substantially the form set forth in Schedule 5.1(h) hereto.

(i) The Trustee shall have made a good faith determination that the purchase of the Shares contemplated hereunder and the consummation of all other transactions contemplated by the Agreement are prudent and in the best interests of the Plan participants. In the event the Trustee is unable to consummate the purchase of the Shares described in Section 1 hereof at the Purchase Price by reason of the failure of one or more of the conditions set forth in Sections 5.1(d), (h) and (i) hereof, the Trustee agrees to negotiate in good faith with UAL in an attempt to arrive at a purchase price for the Shares at which the Trustee would consummate the purchase of Shares contemplated by this Agreement.

(j) UAL shall have certified to the Trustee that it has determined that it is reasonably likely to have sufficient earnings and profits such that dividends paid on the Class 1 ESOP Convertible Preferred Stock are reasonably likely to be deductible under Section 404 of the Code.

5.2 Conditions to UAL's obligations at Closing. The obligations of UAL hereunder are subject to the fulfillment at or before the Closing of each of the following conditions:

(a) The representations and warranties

contained in Section 4 hereof shall be true on and as of the Closing and, UAL shall have been furnished with a certificate dated the Closing Date to such effect, signed by an authorized officer of the Trustee.

(b) No order of any court or administrative agency shall be in effect which restrains or prohibits the transactions contemplated by this Agreement, and no suit, action or other proceedings by any governmental body or other person shall have been instituted which questions the validity or legality of the transactions contemplated by this Agreement which suit, action or proceeding UAL reasonably determines, upon advice of counsel, is more likely than not to successfully challenge the validity or legality of the transactions contemplated by this Agreement or otherwise result in a Material Adverse Effect.

(c) Neither the Trustee nor UAL shall have determined in good faith that the purchase of the Shares would result in a "prohibited transaction" under ERISA or otherwise violate the provisions of applicable law.

(d) UAL shall have received an opinion of Kirkpatrick & Lockhart, counsel to the Trustee, in the form set forth in Schedule 5.2(d) hereto.

(e) The Trustee shall have delivered to UAL a certification that the conditions set forth in section 5.1(d) and section 5.1(i) have been satisfied.

6. Covenants of Trustee. The Trustee hereby covenants and agrees as follows:

(a) Except as otherwise provided in the

ESOP, all cash contributions (including any earnings on such contributions) that are received by the Trust and cash dividends (including any earnings on such dividends) that are received by the Trust with respect to the Class 1 ESOP Convertible Preferred Stock or Common Stock issued upon conversion thereof will be, to the extent permitted by law, applied solely for the purpose of making principal and interest payments on the ESOP Note.

(b) The Trustee shall not transfer or otherwise dispose of any shares of Common Stock issued upon conversion of the Class 1 ESOP Convertible Preferred Stock unless such securities have been registered under the Securities Act of 1933, as amended, and any applicable state securities laws or pursuant to an exemption or exemptions from such registration.

(c) The Trustee agrees that UAL may (with the consent of the Air Line Pilots Association, International and the International Association of Machinists and Aerospace Workers if and to the extent such consent is required by the Plan) extend the maturity of the ESOP Note for up to four (4) years, provided that the interest rate on the ESOP Note, as extended, is determined by the Trustee to be reasonable at the time of extension.

7. Covenants of UAL. UAL hereby covenants and agrees as follows:

(a) So long as any principal or interest amount of the ESOP Note or any note representing a refinancing of the ESOP Note remains unpaid, UAL shall use reasonable efforts to cause Part A of the Plan to maintain its qualification as an employee stock ownership plan within the meaning of Section 4975(e)(7) of the Code.

(b) So long as any principal or interest amount of the ESOP Note or any note representing a refinancing of the ESOP Note remains unpaid, UAL and its Subsidiaries shall make contributions to the Plan which, when combined with any dividends received by the Plan that can be used for the payment of such debt, are sufficient to allow the Trustee to make, in a timely fashion all scheduled principal and interest payments with respect to the ESOP Note or any note representing a refinancing of the ESOP Note; provided, however, that any contribution to the Plan shall be limited to the extent that such contribution would cause the aggregate contributions made by UAL and its Subsidiaries for the relevant Plan year to exceed the limitations set forth in Sections 404 or 415 of the Code. Any contributions limited or not made in a timely fashion pursuant to the preceding sentence shall be (i) carried over and paid to the Plan as soon as is practicable in connection with contributions to the Plan and (ii) increased by an amount sufficient for the Trustee to pay any increased interest or other costs arising under the ESOP Note from the failure to make any payment thereunder when due. The Trustee shall be entitled to reimbursement upon demand for reasonable attorney fees and other reasonable costs of collection in enforcing the provisions of this Section 7(b).

(c) Registration of the Common Stock. As and if required by applicable securities laws, UAL shall at all times maintain an effective registration statement under the Securities Act and timely comply with the reporting requirements under the Exchange Act with respect to the shares of Common Stock into which the Shares are convertible. The Trustee will provide UAL with any information about the Trustee or such proposed sale required to be included in such registration statement. The Trustee will, upon receipt of notice from UAL that any such registration statement includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make any statement therein not misleading, discontinue the distribution of Common Stock thereunder until such misstatement or omission is eliminated. The Trustee further agrees not to effect any public sale or distribution of Common Stock without the consent of UAL during the seven days prior to or ninety days after any registration statement relating to an underwritten sale of securities of UAL has become effective. UAL shall obtain any other federal, state or local approvals as may be necessary from time to time to enable the Trust to consummate any desired conversion or disposition of the shares of Common Stock into which the Shares are convertible.

8. Restrictive Legend. The Trustee understands that the certificates representing the Shares, when issued, will bear the following legend and that a notation restricting their transfer will be made on the stock transfer books of UAL:

> "The shares of stock represented by this certificate have not been registered under the Securities Act of 1933, as amended. Such shares may not be sold, assigned, pledged or otherwise transferred in the absence of an effective registration statement under said Securities Act covering the transfer or an opinion of counsel satisfactory to the issuer that registration under said Securities Act is not required.
>
> Notice
>
> The shares, of stock represented by this certificate are subject to a security interest in favor of UAL Corporation."

9. Expenses. Whether or not the transactions contemplated by this Agreement shall be consummated, UAL shall, as provided for in the applicable engagement letter between UAL

and the Trustee (the "Engagement Letter"), pay the expenses incurred by the Trustee in connection with the authorization, preparation, negotiation, execution and performance of this Agreement and related transactions.

10. Integration Amendment. This Agreement (including the documents delivered pursuant hereto), together with the Plan, Trust Agreement and Engagement Letter, constitutes the entire agreement and understanding between the parties hereto relating to the purchase of the shares of ESOP Preferred Stock and supersedes any prior agreement or understanding relating in any way to the transaction contemplated hereby. This Agreement may be modified or amended only by a written instrument executed by or on behalf of the parties hereto. The headings and captions contained herein are solely for convenience of reference and do not constitute a part of this Agreement or affect in any way its meaning or construction.

11. Savings Clause. The invalidity, illegality or enforceability of any one or more of the provisions of this Agreement shall in no way affect or impair the validity and enforceability of the remaining provisions hereof. In the event any such provision shall be so declared unenforceable due to its scope or breadth, it shall be narrowed to the scope or breadth permitted by law.

12. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. It shall not be necessary that any single counterpart hereof be executed by all parties so long as each party executed at least one counterpart.

13. Governing Law. This Agreement shall be

construed and enforced in accordance with the laws of Illinois without regard to any principles of conflicts of law.

14. Survival of Representations, Warranties and Covenants. All covenants contained in this Agreement (including in any certificates delivered hereunder) shall survive the Closing or, in the case of Section 9, Section 13 and Section 14 hereof, the sooner termination of this Agreement. Notwithstanding the Closing, or the sooner termination of this Agreement or any investigation at any time made by or on behalf of either party, UAL or the Trustee shall be liable for damages arising from its breaches of representations or warranties under this Agreement (including in any certificates delivered hereunder) which breaches shall not be considered waived by consummation of the transactions contemplated hereby, provided, however, that UAL and the Trustee shall be liable only to the extent that notice therefor is asserted by the other in writing and delivered prior to the expiration of forty-two (42) months from the Closing or sooner termination of this Agreement.

15. Notices. Any notice or other communication required or permitted hereunder shall be in writing, either delivered by hand, by mail, or by telex, telefax or telegram (charges prepaid), and any such notice shall be effective when received at the address specified below (or, if by mail, three business days after deposited in the U.S. mails, registered or certified mail, postage prepaid and return receipt requested):

By Mail

If to UAL:

UAL Corporation
P. O. Box #66919
Chicago, IL 60666
Attn: Corporate Secretary

By Courier

UAL Corporation
1200 Algonquin Road
Elk Grove Township, IL 60007
Attn: Corporate Secretary

If to the Trustee: State Street Bank and Trust Company
Retirement Investment Services
Batterymarch Park III
Three Pine Hill Drive
Quincy, MA 02169
Attn: UAL ESOP Administration

With a copy to: Kirkpatrick & Lockhart
1500 Oliver Building
Pittsburgh, PA 15222
Attn: Charles R. Smith, Esquire

Addresses may be changed by written notice given pursuant to this Section. Any notice given hereunder may be given on behalf of any party by his counsel or other authorized representatives.

16. Successors and Assigns: Assignability. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto, and their respective legal representatives, successors and assigns. This Agreement (i) shall not confer upon any person other than the parties hereto and their respective successors and assigns any rights or remedies hereunder and (ii) shall not be assignable by operation of law or otherwise by any party hereto.

17. Further Assurances. Subject to the terms and conditions herein provided, each of the parties hereto shall use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement.

18. Certain Limitations. The execution and delivery of this Agreement and the performance by the Trustee of this Agreement have been, or will be, effected by the Trustee solely in its capacity as Trustee and not individually.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereof have duly executed and delivered this Agreement as of the date first above written.

UAL CORPORATION

By: /s/ Douglas A. Hacker

Name: Douglas A. Hacker

Title: Senior Vice President and Chief Financial Officer

State Street Bank and Trust Company, solely in its capacity as Trustee under the UAL Corporation Employee Stock Ownership Plan Trust and not individually

By: /s/ James S. Phalen

Name: James S. Phalen

Title: Executive Vice President

Exhibit 10.41

Officer Benefits
UAL Corporation and United Air Lines, Inc.

Travel Benefits

Positive-space travel is provided on United for active and retired officers of UAL and United and their eligible dependents, and cash payments are made to federal and state tax authorities on behalf of each active officer to cover tax liability on up to $12,000 in value of travel benefits, and for retired officers on up to $6,000 in value of travel benefits. This benefit includes admission to United's Red Carpet Club. For purposes of this policy, officers who are also directors of UAL receive the benefits provided to directors.

Financial Advisory Services

Financial advisory services are provided to designated officers of UAL and United. Reimbursement is limited to $7,000 in the first year the officer is admitted to the program, and to $4,000 per year thereafter. Unused reimbursements may be carried over and used in succeeding years.

Club Memberships

Payment is made by United for the cost of social club memberships for designated officers. The Company does not pay dues for clubs which discriminate on the basis of race, sex, religion or national origin. Such memberships are authorized by the Chairman consistent with long-standing company policies.

Welfare Benefits

All officers of UAL and United may elect "Split-Dollar" life insurance. Under the split-dollar program, officers receive whole life coverage equal to approximately three times base salary less $50,000. United and the officer share the responsibility for the premiums. United recovers its payments from the cash value of the policy. Officers also receive 24-Hour Accidental Death and Dismemberment (AD&D) insurance coverage which pays up to a $250,000 benefit upon the accidental death or dismemberment of the insured.

Officers are covered by a self-insured supplemental long term disability plan which provides a supplement to the Company's disability benefit for certain management employees equal to 50% of monthly pay in excess of $20,000.

Company Cars

The Chairman, President and five other senior officers are entitled to the use of cars owned or leased by United.

Exhibit 10.42

AGREEMENT

THIS AGREEMENT (the "Agreement") is made and entered into as of March 1, 1997 (the "Effective Date") between United Air Lines, Inc. ("United") and William P. Hobgood ("Employee") and is intended to set forth the parties' understanding regarding certain compensation opportunities if and only if Employee is employed by United on March 1, 2000.

1. Elections. Not later than each of February 1, 2000, 2001 and 2002 (each such date, an "Election Date"), Employee shall elect either the following Option 1 or Option 2 for the calendar year in which the Election Date occurs (a "Calculation Year") by written notice to United:

(a) Option 1: Employee may elect to forego any Supplemental Payment (as defined below), in which case he shall be entitled (subject to subsequent elections made under this Agreement) to retain his vested options granted on or after the Effective Date under the 1981 Incentive Stock Plan (the "1981 Plan") of UAL Corporation ("UAL"), and exercise them in accordance with their terms.

(b) Option 2: (i) Employee may elect to receive a payment ("Supplemental Payment"), if any, from United for such Calculation Year which when added to the "aggregate value of Employee's options" (as defined below) on the Valuation Date (as defined in the table below) for the Calculation Year will equal the Target Amount (as defined below) for such Calculation Year. If Employee makes this election in any Calendar Year he must exercise all options that vest on or prior to the applicable Valuation Date ("Vested Options") not later than the fifth business day following such Valuation Date. In no event will the Supplemental Payment in any Calculation Year exceed the Target Amount for such year, and no Supplemental Payment shall be owed if the calculation in the first sentence yields a result of $0 or less.

Calendar Year	Election Date	Valuation Date	Target Amount
2000	February 1, 2000	March 1, 2000	$333,333
2001	February 1, 2001	March 1, 2001	$666,667 *
2002	February 1, 2002	March 1, 2002	$1,000,000 *

* To determine the Target Amount for the second and third Calculation Year, subtract from the amount in the Table, the Target Amount for each preceding Calculation Year, if any, in which (x) Option 2 was elected and (y) a Supplemental Payment was actually owed.

(ii) The "aggregate value of Employee's options" for each Calculation Year shall mean the sum of (A) (x) the market value of UAL common stock on the Valuation Date multiplied by the total number of Vested Options, whether or not exercised, less (y) the aggregate exercise prices paid or payable upon exercise of all Vested Options plus (B) for any Vested Option that was exercised on or prior to the Valuation Date, the incremental gross proceeds, if any, realized by Employee upon the exercise of such option in excess of the amount determined pursuant to the preceding clause (A) with respect to such Vested Options. Notwithstanding the foregoing, if Employee elects Option 2 in the first or second Calculation Year and a Supplemental Payment is actually owed, then for purposes of the preceding equation in any subsequent Calculation Year, the aggregate value of Employee's options shall not include the value of Vested Options included in the calculation that resulted in the Supplemental Payment being owed.

Supplemental Payments shall not be counted as Earnings for any retirement program sponsored by United or UAL. Any Supplemental Payment award shall be paid by United to Employee promptly after the exercise of any remaining Vested Options as required by subparagraph (i) above.

The right of Employee to elect Option 2 in any Calculation Year shall terminate if Employee becomes employed by an airline competitor, as determined by United or UAL, or if Employee's employment with United is terminated for cause after the first Election Date and on or before the last Election Date. If no election is made on or before the Election Date in any Calculation Year, Employee shall be deemed to have elected Option 1 for such Calculation Year.

2. Consideration. Employee acknowledges that his employment on March 1, 1997, constitutes consideration for this agreement.

3. Non-Assignability; Assignment in the Event of Acquisition or Merger. This Agreement and the benefits hereunder may not be assigned or transferred, by operation of law or otherwise, except that the rights and obligations of United under this Agreement shall automatically be deemed to be assigned by United to any corporation or entity into which United may be merged or consolidated or to any other successor corporation of United.

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

5. Superseded Prior Agreement(s). This Agreement supersedes and voids any prior oral or written agreement relating in any way to the subject matter hereof which may have been entered into between the parties hereto, but excluding stock option agreements entered into between Employee and UAL under the 1981 Plan. Any change to this Agreement after the Effective Date shall be in writing and shall be executed by Employee and United.

6. Retirement; Expiration of this Agreement. For purposes of the definition of "Retirement" in Section 5 of any and all options granted to Employee under the 1981 Plan, Employee shall be deemed to have retired if cessation of employment occurs on or after the first Election Date, regardless of whether Employee was eligible for early or normal retirement under United's retirement plan.

This Agreement shall expire on the earliest to occur of (i) Employee's cessation of employment from United for any reason, if such cessation occurs prior to the first Election Date, (ii) Employee's death, and (iii) satisfaction of United's payment obligations pursuant to Section 1 hereof.

7. Applicable Law; Arbitration. This Agreement shall be

construed in accordance with the laws of the State of Illinois and the rights and obligations of the parties hereunder shall be construed and enforced in accordance with, and governed by the laws of the State of Illinois, without regard to the principles of conflicts of laws. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Chicago, Illinois in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The prevailing party in such arbitration shall be awarded reasonable legal fees and costs as determined by the arbitrator.

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

IN WITNESS WHEREOF, the parties have executed this Agreement as of March 1, 1997 at the World Headquarters of United Air Lines, Inc., 1200 East Algonquin Road, Elk Grove Township, Illinois 60007.

UNITED AIR LINES, INC.

By: /s/ Gerald Greenwald	/s/ William P. Hobgood
Its: Chairman and Chief Executive Officer	William P. Hobgood

Exhibit 11

UAL Corporation and Subsidiary Companies

Calculation of Diluted Net Earnings Per Share
(In Millions, Except Per Share)

	Year Ended December 31 1997	1996	1995
Earnings or loss:			
Earnings before extraordinary item	$ 958	$ 600	$ 378
Preferred stock dividends	(77)	(60)	(50)
Preferred stock transactions	-	(48)	20
Interest on convertible debentures, net of tax and other	-	3	24
Earnings before extraordinary item for diluted calculation	881	495	372
Extraordinary loss on early extinguishment of debt, net of tax	(9)	(67)	(29)
Net earnings for diluted calculation	$ 872	$ 428	$ 343
Shares:			
Average number of shares of common stock outstanding during the year	58.8	56.1	49.6
Average number of shares of ESOP preferred stock outstanding during the year	35.9	24.0	11.9
Additional shares assumed issued at the beginning of the year for conversion of convertible debentures	-	2.1	7.9
Additional shares assumed issued at the beginning of the year (or at the date of issuance) for exercises of dilutive stock options and stock award plans (after deducting shares assumed purchased under the treasury stock method)	2.7	2.4	1.8
Average number of shares for diluted calculation	97.4	84.6	71.2
Diluted per share amounts:			
Earnings before extraordinary item	$ 9.04	$ 5.85	$ 5.23
Extraordinary loss on early extinguishment of debt	(0.09)	(0.79)	(0.41)
Net earnings	$ 8.95	$ 5.06	$ 4.82

=====	=====	=====

Exhibit 12.1

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges

	1997	1996	1995	1994	1993
	Year Ended December 31 (In Millions)				
Earnings:					
Earnings (loss) before income taxes and extraordinary items	$1,524	$ 970	$ 621	$ 171	$ (47)
Undistributed earnings of affiliate	(16)	(49)	(38)	(19)	-
Fixed charges, from below	991	1,112	1,239	1,052	1,109
Interest capitalized	(104)	(77)	(42)	(41)	(51)
Earnings	$2,395	$1,956	$1,780	$1,163	$1,011
Fixed charges:					
Interest expense	$ 286	$ 295	$ 399	$ 372	$ 358
Interest expense on affiliate's guaranteed debt	-	-	-	-	5
Portion of rental expense representative of the interest factor	705	817	840	680	746
Fixed charges	$ 991	$1,112	$1,239	$1,052	$1,109
Ratio of earnings to fixed charges	2.42	1.76	1.44	1.10	(a)

____

(a) Earnings were inadequate to cover fixed charges by $98 million in 1993.

Exhibit 12.2

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges

and Preferred Stock Dividend Requirements

	Year Ended December 31				
	1997	1996	1995	1994	1993
Earnings:			(In Millions)		
Earnings (loss) before income taxes and extraordinary items	$1,524	$ 970	$ 621	$ 171	$ (47)
Undistributed earnings of affiliate	(16)	(49)	(38)	(19)	-
Fixed charges and preferred stock dividend requirements, from below	1,116	1,209	1,326	1,184	1,159
Interest capitalized	(104)	(77)	(42)	(41)	(51)
Earnings	$2,520	$2,053	$1,867	$1,295	$1,061
Fixed charges:					
Interest expense	$ 286	$ 295	$ 399	$ 372	$ 358
Interest expense on affiliate's guaranteed debt	-	-	-	-	5
Preferred stock dividend requirements	125	97	87	132	50
Portion of rental expense representative of the interest factor	705	817	840	680	746
Fixed charges	$1,116	$1,209	$1,326	$1,184	$1,159
Ratio of earnings to fixed charges	2.26	1.70	1.41	1.09	(a)

(a) Earnings were inadequate to cover fixed charges by $98 million in 1993.

Exhibit 23

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report included in the UAL Corporation Form 10-K for the year ended December 31, 1997, into the company's previously filed Post-Effective Amendment No. 1 to Form S-8 (File No. 2-67368) and Post-Effective Amendment No. 2 to Form S-8 (File No. 33-37613) for the Employees' Stock Purchase Plan of UAL Corporation; Post-Effective Amendment No. 1 to Form S-8 (File No. 33-38613) for the United Air Lines, Inc. Management and Salaried Employees' 401(k) Retirement Savings Plan; Post-Effective Amendment No. 1 to Form S-8 (File No. 33-44552), Form S-8 (File No. 33-57331), and Form S-8 (File No. 333-03041) for the United Air Lines, Inc. Ground Employees' 401(k) Retirement Savings Plan; Post-Effective Amendment No. 1 to Form S-8 (File No. 33-44553) and Form S-8 (File No. 33-62749) for the United Air Lines, Inc. Flight Attendant Employees' 401(k) Retirement Savings Plan; Post-Effective Amendment No. 1 to Form S-8 (File No. 33-59950) and Form S-8 (File No. 333-03039) for the United Air Lines, Inc. Pilots' Directed Account Retirement Income Plan; Post-Effective Amendment No. 2 to Form S-8 (File No. 33-41968), Form S-8 (File No. 33-10206), Form S-8 (File No. 33-61007), and Form S-8 (File No. 333-03043) for the UAL Corporation 1981 Incentive Stock Plan; Form S-8 and Post-Effective Amendment No. 1 to Form S-8 (File No. 33-60675) for Directors Fees Taken in Stock Under UAL Corporation 1995 Directors Plan; and Form S-3 (File No. 33-57192), as amended.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Chicago, Illinois
March 6, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM UAL CORPORATION'S STATEMENT OF CONSOLIDATED OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1997 AND STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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