

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 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 number 1-6033

UAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 36-2675207

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

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

(Address of principal executive offices) (Zip Code)

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

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

Yes X No

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

Class	Outstanding at July 31, 1997
-----	-----
Common Stock (\$0.01 par value)	59,661,853

UAL Corporation and Subsidiary Companies Report on Form 10-Q

For the Quarter Ended June 30, 1997

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Assets	June 30, 1997 (Unaudited)	December 31, 1996
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 77	\$ 229
Short-term investments	522	468
Receivables, net	1,163	962
Inventories, net	350	369
Deferred income taxes	206	227
Prepaid expenses and other	306	427
	-----	-----
	2,624	2,682
	-----	-----
Operating property and equipment:		
Owned	13,690	12,325
Accumulated depreciation and amortization	(5,531)	(5,380)
	-----	-----
	8,159	6,945
	-----	-----
Capital leases	2,059	1,881
Accumulated amortization	(623)	(583)
	-----	-----
	1,436	1,298
	-----	-----
	9,595	8,243
	-----	-----
Other assets:		
Intangibles, net	512	524
Deferred income taxes	79	132
Aircraft lease deposits	233	168
Other	882	928
	-----	-----
	1,706	1,752

-----	-----
\$ 13,925	\$ 12,677
=====	=====

See accompanying notes to consolidated financial statements.

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

Liabilities and Stockholders' Equity	June 30, 1997 (Unaudited)	December 31, 1996
	-----	-----
Current liabilities:		
Short-term borrowings	\$ 60	\$ -
Long-term debt maturing within one year	248	165
Current obligations under capital leases	152	132
Advance ticket sales	1,464	1,189
Accounts payable	884	994
Other	2,595	2,523
	-----	-----
	5,403	5,003
	-----	-----
Long-term debt	1,537	1,661
	-----	-----
Long-term obligations under capital leases	1,470	1,325
	-----	-----
Other liabilities and deferred credits:		
Deferred pension liability	208	178
Postretirement benefit liability	1,333	1,290
Deferred gains	1,117	1,151
Other	801	776
	-----	-----
	3,459	3,395
	-----	-----
Company-obligated mandatorily redeemable preferred securities of a subsidiary trust	102	102
	-----	-----
Minority interest	40	31
	-----	-----
Preferred stock committed to Supplemental ESOP	243	165
	-----	-----
Stockholders' equity:		
Preferred stock	-	-
Common stock at par	1	1
Additional capital invested	2,525	2,160
Accumulated deficit	(255)	(566)
Unearned ESOP preferred stock	(185)	(202)
Other	(415)	(398)
	-----	-----
	1,671	995
	-----	-----
Commitments and contingent liabilities (See note)		
	\$ 13,925	\$ 12,677
	=====	=====

See accompanying notes to consolidated financial statements.

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

Three Months
Ended June 30

	1997 ----	1996 ----
Operating revenues:		
Passenger	\$ 3,854	\$ 3,694
Cargo	215	192
Other	313	278
	-----	-----
	4,382	4,164
	-----	-----
Operating expenses:		
Salaries and related costs	1,228	1,173
ESOP compensation expense	226	168
Aircraft fuel	495	493
Commissions	386	373
Purchased services	310	297
Aircraft rent	235	241
Landing fees and other rent	224	213
Depreciation and amortization	174	182
Aircraft maintenance	157	118
Other	535	508
	-----	-----
	3,970	3,766
	-----	-----
Earnings from operations	412	398
	-----	-----
Other income (expense):		
Interest expense	(71)	(74)
Interest capitalized	26	24
Interest income	11	12
Equity in earnings of affiliates	22	17
Miscellaneous, net	(12)	(6)
	-----	-----
	(24)	(27)
	-----	-----
Earnings before income taxes, distributions on preferred securities and extraordinary item	388	371
Provision for income taxes	145	145
	-----	-----
Earnings before distributions on preferred securities and extraordinary item	243	226
Distributions on preferred securities, net of tax	(1)	-
Extraordinary loss on early extinguishment of debt, net of tax	-	(30)
	-----	-----
Net earnings	\$ 242	\$ 196
	=====	=====
Per share, primary:		
Earnings before extraordinary item	\$ 2.31	\$ 2.37
Extraordinary loss on early extinguishment of debt, net of tax	-	(0.36)
	-----	-----
Net earnings	\$ 2.31	\$ 2.01
	=====	=====
Per share, fully diluted:		
Earnings before extraordinary item	\$ 2.31	\$ 2.35
Extraordinary loss on early extinguishment of debt, net of tax	-	(0.36)
	-----	-----
Net earnings	\$ 2.31	\$ 1.99
	=====	=====

See accompanying notes to consolidated financial statements.

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

Six Months
Ended June 30
1997 1996
----- -----

Operating revenues:

Passenger	\$ 7,481	\$ 6,972
Cargo	410	367
Other	612	559
	-----	-----
	8,503	7,898
	-----	-----
Operating expenses:		
Salaries and related costs	2,468	2,342
ESOP compensation expense	410	331
Aircraft fuel	1,049	967
Commissions	750	711
Purchased services	617	573
Aircraft rent	472	480
Landing fees and other rent	442	419
Depreciation and amortization	350	372
Aircraft maintenance	295	230
Other	1,044	1,013
	-----	-----
	7,897	7,438
	-----	-----
Earnings from operations	606	460
	-----	-----
Other income (expense):		
Interest expense	(140)	(159)
Interest capitalized	50	39
Interest income	23	31
Equity in earnings of affiliates	48	37
Miscellaneous, net	(28)	(26)
	-----	-----
	(47)	(78)
	-----	-----
Earnings before income taxes, distributions on preferred securities and extraordinary item	559	382
Provision for income taxes	209	149
	-----	-----
Earnings before distributions on preferred securities and extraordinary item	350	233
Distributions on preferred securities	(3)	-
Extraordinary loss on early extinguishment of debt, net of tax	-	(59)
	-----	-----
Net earnings	\$ 347	\$ 174
	=====	=====
Per share, primary:		
Earnings before extraordinary item	\$ 3.26	\$ 2.33
Extraordinary loss on early extinguishment of debt, net of tax	-	(0.77)
	-----	-----
Net earnings	\$ 3.26	\$ 1.56
	=====	=====
Per share, fully diluted:		
Earnings before extraordinary item	\$ 3.26	\$ 2.24
Extraordinary loss on early extinguishment of debt, net of tax	-	(0.73)
	-----	-----
Net earnings	\$ 3.26	\$ 1.51
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30	
	1997	1996
	----	----
Cash and cash equivalents at beginning of period	\$ 229	\$ 194
	-----	-----
Cash flows from operating activities	1,479	1,040
	-----	-----
Cash flows from investing activities:		
Additions to property and equipment	(1,491)	(372)

Proceeds on disposition of property and equipment	27	13
Decrease (increase) in short-term investments	(54)	423
Other, net	(5)	31
	-----	-----
	(1,523)	95
	-----	-----
Cash flows from financing activities:		
Repayment of long-term debt	(38)	(590)
Conversion of subordinated debentures	-	(324)
Principal payments under capital lease obligations	(80)	(64)
Increase in short-term borrowings	60	-
Aircraft lease deposits	(56)	(63)
Other, net	6	(94)
	-----	-----
	(108)	(1,135)
	-----	-----
Increase (decrease) in cash and cash equivalents	(152)	-
	-----	-----
Cash and cash equivalents at end of period	\$ 77	\$ 194
	=====	=====
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 81	\$ 149
Income taxes	\$ 117	\$ 143
Non-cash transactions:		
Capital lease obligations incurred	\$ 239	\$ 293
Increase in equity in connection with the conversion of subordinated debentures to common stock	\$ -	\$ 217

See accompanying notes to consolidated financial statements.

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

The Company
- - - - -

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

Interim Financial Statements
- - - - -

The consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to or as permitted by such rules and regulations, although UAL believes that the disclosures are adequate to make the information presented not misleading. In management's opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations for the three and six month periods have been made. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in UAL's Annual Report on Form 10-K for the year 1996.

Accounting Policies - Derivative Financial Instruments
- - - - -

Foreign Currency
- - - - -

From time to time, United enters into Japanese yen forward contracts to minimize transaction gains and losses. The yen forwards are marked to fair value with unrealized gains and losses recorded in "Miscellaneous, net" at the end of each accounting period, offsetting gains and losses recorded on the

valuations of yen-denominated assets and liabilities. The forwards typically have a 30-day maturity.

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

Interest Rates

United has entered into swaps to reduce exposure to interest rate fluctuations in connection with certain firm commitments in the form of debt, capital leases and operating leases. The instruments' cash flows mirror those of the underlying exposures. Unrealized gains and losses relating to the instruments are being deferred over the lives of the contracts. The premiums paid on the instruments, as measured at inception, are being amortized over their respective lives as components of interest expense. Any gains or losses realized upon the early termination of these instruments are deferred and recognized in income over the remaining life of the underlying exposure.

Aircraft Fuel

United occasionally enters into futures contracts for heating oil to reduce exposure to jet fuel price fluctuations. Unrealized losses are recorded currently in income and affect aircraft fuel expense. Unrealized gains are deferred until contract expiration and recognized as a component of aircraft fuel expense.

Employee Stock Ownership Plans

Pursuant to amended labor agreements which provide for wage and benefit reductions and work-rule changes which commenced July 1994, UAL has agreed to issue convertible preferred stock to employees. Note 2 of the Notes to Consolidated Financial Statements in the 1996 Annual Report on Form 10-K contains additional discussion of the agreements, stock to be issued to employees and the related accounting treatment. Shares earned in 1996 were allocated in March 1997 as follows: 190,307 shares of Class 2 ESOP Preferred Stock were contributed to the Non-Leveraged ESOP and an additional 537,917 shares were allocated in "book entry" form under the Supplemental Plan. Additionally, 2,345,745 shares of Class 1 ESOP Preferred Stock were allocated under the Leveraged ESOP. Finally, an additional 1,536,986 shares of Class 1 and Class 2 ESOP Preferred Stock have been committed to be released by the Company since January 1, 1997.

Income Taxes

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

Per Share Amounts

During the three-month and six-month periods ended June 30, 1996, UAL repurchased 1,710 and 2,553 shares, respectively, of its Series B preferred stock at an aggregate cost of \$57 million and \$84 million, respectively, to be held in treasury. These transactions had no effect on earnings; however, the difference

between the amount paid and the carrying value of the preferred stock acquired is included in the computation of earnings per share.

Per share amounts were calculated after providing for dividends on preferred stock, including ESOP convertible preferred stock, of \$19 million in the 1997 second quarter, \$16 million in the 1996 second quarter, \$38 million in the 1997 six-month period and \$32 million in 1996 six-month period. Primary per share amounts for all periods were based on weighted average common shares and common equivalents outstanding, including ESOP shares committed to be released. In addition, fully diluted per share amounts assume the conversion of convertible debentures (for periods not actually converted) and elimination of related interest.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," which establishes standards for computing and reporting earnings per share. SFAS No. 128 is effective for periods ending after December 15, 1997; earlier application is not permitted. Restatement of all prior-period earnings per share data is required. On a pro forma basis, 1997 earnings per share would be as follows:

	Three Months Ended -----	Six Months Ended -----
Basic Earnings Per Share	\$ 3.77	\$ 5.23
Diluted Earnings Per Share	\$ 2.31	\$ 3.26

Prepayment of Long-Term Obligations -----

On March 7, 1997, Air Wis Services, Inc. ("Air Wis"), a wholly owned subsidiary of UAL, issued a notice of redemption for all of its outstanding 7 3/4% convertible subordinated debentures, due 2010. On April 8, \$16 million of debentures outstanding were redeemed at 100% of the principal amount plus accrued interest.

During the six months ended June 30, 1996, UAL repaid prior to maturity \$472 million in principal amount of various debt securities, resulting in an extraordinary loss of \$59 million, after a tax benefit of \$36 million. Of this amount, \$230 million was repaid during the second quarter, resulting in a \$30 million extraordinary loss, net of tax benefits of \$18 million. The securities were scheduled for repayment periodically through 2021.

Contingencies and Commitments -----

UAL has certain contingencies resulting from litigation and claims (including environmental issues) incident to the ordinary course of business. Management believes, after considering a number of factors, including (but not limited to) the views of legal counsel, the nature of contingencies to which UAL is subject and its prior experience, that the ultimate disposition of these contingencies is not expected to materially affect UAL's consolidated financial position or results of operations.

At June 30, 1997, commitments for the purchase of property and equipment, principally aircraft, approximated \$7.5 billion, after deducting advance payments. An estimated \$1.9 billion will be spent during the remainder of 1997, \$2.6 billion in 1998, \$1.7 billion in 1999, and \$1.3 billion in 2000 and thereafter. The major commitments are for the purchase of B777, B747, B767, B757, A319 and A320 aircraft, which are scheduled to be delivered through 2002.

United's contract with the Association of Flight Attendants ("AFA") became amendable March 1, 1996. On July 14, 1997, United and the AFA announced that they had reached a tentative agreement on a new contract. The agreement, which is subject to ratification by United's flight attendants, includes provisions for increased wages and benefits as well as work

rule changes designed to help the Company achieve its customer satisfaction objectives. If ratified, the contract will remain in effect through 2006. The voting process is not expected to conclude until October 1997.

Subsequent Event

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

UAL's total of cash and cash equivalents and short-term investments was \$599 million at June 30, 1997, compared to \$697 million at December 31, 1996. Cash flows from operating activities for the six-month period amounted to \$1.5 billion. Financing activities included principal payments under debt and capital lease obligations of \$38 million and \$80 million, respectively.

In the first six months of 1997, United took delivery of three A320, six B777, two B747 and two A319 aircraft. All of these aircraft were purchased with the exception of two B777s, which were acquired under capital leases. In addition, United purchased two B767 aircraft off lease during the second quarter. Property additions, including aircraft spare parts, facilities and ground equipment, amounted to \$1.5 billion, while property dispositions resulted in proceeds of \$27 million.

At June 30, 1997, commitments for the purchase of property and equipment, principally aircraft, approximated \$7.5 billion, after deducting advance payments. An estimated \$1.9 billion will be spent during the remainder of 1997, \$2.6 billion in 1998, \$1.7 billion in 1999, and \$1.3 billion in 2000 and thereafter. The major commitments are for the purchase of B777, B747, B767, B757, A319 and A320 aircraft, which are scheduled to be delivered through 2002.

In April 1997, Standard & Poor's raised its credit rating on United's senior unsecured debt to BB+ from BB and raised its credit rating on UAL's Series B preferred stock and redeemable preferred securities to BB- from B+. Moody's Investors Service Inc.'s ratings on United's senior unsecured debt remains Baa3 and its ratings on UAL's Series B preferred stock and redeemable preferred securities remains Ba3.

The Company's sale of its interest in the Apollo Travel Services Partnership in July 1997 provided over \$500 million in cash proceeds (see "Sale of Affiliate"). UAL is considering several alternative uses of the proceeds.

RESULTS OF OPERATIONS

UAL's results of operations for interim periods are not necessarily indicative of those for an entire year, as a result of seasonal factors to which United is subject. First and fourth quarter results are normally affected by reduced travel demand in the fall and winter and United's operations, particularly at its Chicago and Denver hubs and at certain east coast cities, are adversely affected by winter weather on occasion.

The results of operations in the airline business historically fluctuate significantly in response to general economic conditions. This is because small fluctuations in yield (passenger revenue per revenue passenger mile) and cost per available seat mile can have a significant effect on operating results. UAL anticipates industrywide fare levels,

capacity growth, low-cost competition, general economic conditions, labor and fuel costs, taxes, U.S. and international governmental policies and other factors will continue to affect its operating results.

Summary of Results

UAL's earnings from operations were \$606 million in the first six months of 1997, compared to operating earnings of \$460 million in the first six months of 1996. UAL's net earnings were \$347 million (\$3.26 per share), compared to net earnings of \$174 million (\$1.56 per share, primary; \$1.51 per share, fully diluted) during the same period in 1996. The 1996 six-month period includes an extraordinary loss of \$59 million (\$0.77 per share, primary; \$0.73 per share, fully diluted) on early extinguishment of debt.

In the second quarter of 1997, UAL's earnings from operations were \$412 million compared to operating earnings of \$398 million in the second quarter of 1996. UAL had net earnings in the 1997 second quarter of \$242 million (\$2.31 per share), compared to net earnings of \$196 million in the same period of 1996 (\$2.01 per share, primary; \$1.99 per share, fully diluted). The 1996 second quarter results include an extraordinary loss of \$30 million (\$0.36 per share) on early extinguishment of debt.

The 1996 per share amounts also include the effects on equity of the repurchase of Series B preferred stock. See "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 presentation considers all ESOP shares which will ultimately be distributed to employees throughout the ESOP (rather than just the shares committed to be released) to be immediately outstanding and thus fully distributed. Consistent with this presentation, 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. Also, 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 (in millions, except per share):

	Three Months Ended June 30, 1997		Three Months Ended June 30, 1996	
	GAAP (fully diluted)	Fully Distributed	GAAP (fully diluted)	Fully Distributed
Net Income	\$ 242	\$ 376	\$ 196	\$ 307
Per Share:				
Earnings before preferred stock transactions and extraordinary loss	\$ 2.31	\$ 2.82	\$ 2.53	\$ 2.52
Preferred stock transactions	-	-	(0.18)	(0.11)
Extraordinary loss, net of tax	-	-	(0.36)	(0.23)
	-----	-----	-----	-----
	\$ 2.31	\$ 2.82	\$ 1.99	\$ 2.18
	=====	=====	=====	=====

	Six Months Ended June 30, 1997		Six Months Ended June 30, 1996	
	GAAP (fully diluted)	Fully Distributed	GAAP (fully diluted)	Fully Distributed
Net Income	\$ 347	\$ 591	\$ 174	\$ 382
Per Share:				

Earnings before preferred stock transactions and extraordinary loss	\$ 3.26	\$ 4.44	\$ 2.49	\$ 3.29
Preferred stock transactions	-	-	(0.25)	(0.16)
Extraordinary loss, net of tax	-	-	(0.73)	(0.45)
	-----	-----	-----	-----
	\$ 3.26	\$ 4.44	\$ 1.51	\$ 2.68
	=====	=====	=====	=====

Specific factors affecting UAL's consolidated operations for the second quarter and first six months of 1997 are described below.

Second Quarter 1997 Compared with Second Quarter 1996

Operating revenues increased \$218 million (5%). United's revenue per available seat mile increased 1% to 10.42 cents. Passenger revenues increased \$160 million (4%) due to a 1% increase in yield to 12.59 cents and a 3% increase in revenue passenger miles. The following analysis by market is based on information reported to the U.S. Department of Transportation:

Atlantic revenue passenger miles increased 18% over the same period last year, with a 4% increase in yield. Domestic revenue passenger miles increased 2%; however, yield decreased 2% from the same period last year as a result of fare levels impacted by the reimposition of the Federal passenger excise tax. In the Pacific, revenue passenger miles decreased 1%; however, yield increased 5% from the same period last year, largely due to a strengthening Japanese yen. Available seat miles increased 4% systemwide, reflecting increases of 17% in the Atlantic, 6% in the Pacific and 2% on Domestic routes, offset by a decrease of 2% in Latin America. The system passenger load factor decreased 0.6 points to 72.5%.

Cargo revenues increased \$23 million (12%) due to increases in both freight and mail revenues. Freight ton miles increased 25% as a result of a new dedicated freighter operation and the introduction of long-range B777-200B aircraft, and mail ton miles increased 2%. A 10% decrease in freight yield was partially offset by a 6% increase in mail yield. Other operating revenues increased \$35 million (13%) due to increases in Mileage Plus partner-related revenues and contract maintenance and fuel sales to third parties.

Operating expenses increased \$204 million (5%) and United's cost per available seat mile increased 2%, from 9.30 cents to 9.46 cents, including ESOP compensation expense. Without the ESOP compensation expense, United's cost per available seat mile would have increased less than 1%, from 8.89 cents to 8.92. ESOP compensation expense increased \$58 million (35%), reflecting the increase in the estimated average fair value of ESOP preferred stock committed to be released to employees as a result of UAL's higher common stock price. Aircraft maintenance increased \$39 million (33%) due to increased purchased maintenance, as well as the timing of maintenance cycles. Other operating expenses increased \$27 million (5%) due principally to costs associated with sales to third parties of fuel, contract maintenance and other work. Purchased services increased \$13 million (4%) due principally to volume-related increases in computer reservations fees and credit card discounts. Depreciation and amortization decreased \$8 million (4%), despite the acquisition of new aircraft, due to lower depreciation on DC10-10 aircraft, which are scheduled for retirement and a gain on the sale of one B747-SP aircraft. Aircraft rent decreased \$6 million (2%) due to a decrease in the number of aircraft on operating leases.

Other expense amounted to \$24 million in the second quarter of 1997 compared to \$27 million in the second quarter of 1996. Interest capitalized, primarily on aircraft advance payments, increased \$2 million (8%). Interest expense decreased \$3 million (4%) due to the prepayment of long-term debt in 1996. Equity in earnings of affiliates increased \$5 million (29%) due primarily to higher earnings from Galileo International, Inc. resulting from increased booking revenues. Included in "Miscellaneous, net" in the 1997 second quarter were foreign

exchange losses of \$4 million compared to \$1 million in the 1996 second quarter.

Six Months 1997 Compared with Six Months 1996

Operating revenues increased \$605 million (8%). United's revenue per available seat mile increased 4% to 10.31 cents. Passenger revenue increased \$509 million (7%), due principally to a 4% increase in revenue passenger miles and a 3% increase in yield to 12.69 cents. The following analysis by market is based on information reported to the U.S. Department of Transportation:

Atlantic revenue passenger miles increased 15% over the same period last year, with a 4% increase in yield. Revenue passenger miles in Latin America increased 4%, while yields increased 13%. Domestic revenue passenger miles increased 4% with a 2% increase in yield. In the Pacific, revenue passenger miles increased 1%; however, yield increased 3% from the same period last year, largely due to a strengthening Japanese yen. Available seat miles increased 4% systemwide, reflecting increases of 15% in the Atlantic, 3% in the Pacific and 3% on Domestic routes, offset by a decrease of 3% in Latin America. The system passenger load factor increased 0.3 points to 71.2%.

Cargo revenues increased \$43 million (12%) due to increases in both freight and mail revenues. Mail ton miles increased 5% and freight ton miles increased 21% as a result of a new dedicated freighter operation and the introduction of long-range B777-200B aircraft. A 7% decrease in freight yield was partially offset by a 4% increase in mail yield. Other operating revenues increased \$53 million (10%) due to increases in Mileage Plus partner-related revenues and contract maintenance and fuel sales to third parties.

Operating expenses increased \$459 million (6%) and United's cost per available seat mile increased 3%, from 9.35 to 9.59 cents, including ESOP compensation expense. Without the ESOP compensation expense, United's 1997 six month cost per available seat mile would have been 9.09 cents, an increase of 2% from 1996. ESOP compensation expense increased \$79 million (24%), 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 \$82 million (9%) due to a 2% increase in consumption and a 6% increase in the average price per gallon of fuel to 72.8 cents. Purchased services increased \$44 million (8%) due principally to volume-related increases in computer reservations fees, credit card discounts and communication charges. Aircraft maintenance increased \$65 million (28%) due to increased purchased maintenance, as well as the timing of maintenance cycles. Other operating expenses increased \$31 million (3%) due principally to costs associated with sales to third parties of fuel, contract maintenance and other work. Landing fees and other rent increased \$23 million (6%) due to increased facilities rent. Depreciation and amortization decreased \$22 million (6%) despite the acquisition of new aircraft, due to lower depreciation on DC10-10 aircraft, which are scheduled for retirement and a gain on the sale of one B747-SP aircraft. Aircraft rent decreased \$8 million (2%) due to a decrease in the number of aircraft on operating leases.

Other expense amounted to \$47 million for the first six months of 1997 compared to \$78 million for the first six months of 1996. Interest capitalized, primarily on aircraft advance payments, increased \$11 million (28%). Interest expense decreased \$19 million (12%) due to the prepayment of long-term debt in 1996. Equity in earnings of affiliates increased \$11 million (30%) due primarily to higher earnings from Galileo International, Inc. resulting from increased booking revenues.

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 will be 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 will recognize a gain of approximately \$105 million during the third quarter. Pursuant to Statement of Financial Accounting Standards No. 109, the Company will also record \$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 will continue 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

Both the Air Line Pilots Association, International ("ALPA") and the International Association of Machinists and Aerospace Workers ("IAM") ratified previously announced mid-term wage adjustments. Included in the agreements are a 5% increase to wage rates for each union group in July 1997 and a second 5% increase in July 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 provides 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.

In March 1997, the Company also announced the details of mid-term wage adjustments for non-union United States salaried and management employees. Salaried employees will receive a 5% increase in both July 1997 and July 1998, as well as a lump-sum payment in July 1997. Management employees will receive a 4% increase in both July 1997 and July 1998, and 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 1998, 1999 and 2000, if the Company meets specific pre-tax earnings objectives in 1997, 1998 and 1999, respectively. Depending on financial results, the maximum profit sharing payout is 3.75% of annual wages.

United's contract with the Association of Flight Attendants ("AFA") became amendable March 1, 1996. On July 14, 1997, United and the AFA announced that they had reached a tentative agreement on a new contract. The agreement, which is subject to ratification by United's flight attendants, includes provisions for increased wages and benefits as well as work rule changes designed to help the Company achieve its customer satisfaction objectives. If ratified, the contract will remain in effect through 2006. The voting process is not expected to conclude until October 1997.

The wage, benefit and work-rule adjustments outlined above are consistent with the Company's plan, known as Vision 2000, to

put employee compensation costs on a competitive level with peer group compensation elsewhere in the industry 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, assuming the AFA agreement is ratified during the fourth quarter, the Company expects the aggregate after-tax cost of the wage and benefit adjustments outlined above to be approximately \$100 million in 1997. Further, 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.

OUTLOOK FOR 1997

In 1997, available seat miles are expected to increase approximately 4%, with total system revenue per available seat mile up nearly 2%. Costs per available seat mile excluding ESOP charges are expected to increase less than half a percent.

For the third quarter, United expects available seat miles to increase 4%, with the larger increase in international markets. System load factor is expected to decrease slightly from last year; however, with a modest increase in yield, total system revenue per available seat mile is expected to remain constant. Costs per available seat mile excluding ESOP charges are expected to be the same as or slightly higher than the same period last year.

Due to the reinstatement of the Federal passenger excise tax (see below), the Company believes the rate of improvement in year-over-year "fully distributed" earnings will decrease for the third quarter as compared to previous quarters. Based on first and second quarter results and assuming a continuing positive industry and economic environment for the second half of the year, the Company expects third quarter 1997 "fully distributed" earnings per share to very slightly exceed last year's third quarter earnings per share and full year "fully distributed" earnings per share to exceed those for 1996 (see "Results of Operations, Summary of Results" for further explanation of this pro forma methodology).

During the third quarter of 1997, a new law was enacted to replace the Federal passenger excise tax which expires September 30, 1997. The new legislation includes a gradual reduction in the 10% airline ticket tax to 7.5% by the year 2002, a phasing in of a \$3 "head tax" per domestic flight segment, an increase in round-trip international departure and arrival taxes from \$6 to \$24 per passenger and a tax on the purchase of frequent flier 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.

The information included in the previous paragraphs is forward-looking and involves risks and uncertainties that could result in actual results differing materially from expected results. It is not reasonably possible to itemize all of the many factors and specific events that could affect the outlook of an airline operating in the global economy. Some factors that could significantly impact expected capacity, load factors, revenues, unit revenues, unit costs and earnings per share include the airline pricing environment, fuel prices, low-fare carrier expansion, the success of the Company's cost reduction efforts, cost of safety and security measures, actions of the U.S., foreign and local governments, foreign currency exchange rate fluctuations, the economic environment of the airline industry, the general economic environment, and other factors discussed herein.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

GEC-Marconi Claim. -- On April 4, 1996 United Air Lines, Inc. ("United") filed suit in the Circuit Court of Cook County,

Illinois, Law Division, against GEC-Marconi Inflight Systems Overseas, Ltd. ("GMIS"), its Boeing 777 inseat video vendor, claiming breach of contract for GMIS's failure to deliver the contracted product in the specified time frame, and seeking monetary and injunctive relief. United also named in the suit GEC-Marconi Inflight Systems, Inc. ("GMIS, Inc."), its 777 video maintenance provider, seeking declaratory relief on the maintenance contract. On July 19, 1996 GMIS and GMIS, Inc. filed a counterclaim against United seeking in excess of \$240 million for various alleged breaches of contract by United, plus consequential damages and attorney's fees and costs, relating to the same product purchase agreement (which, in addition, included a Boeing 747 and 767 retrofit order that United terminated on April 4, 1996) and maintenance service agreement which form the basis of United's complaint, as well as an alleged June 1996 "agreement" that had been the subject of negotiations between the parties but was never signed by United regarding interim arrangements between the parties. GMIS and GMIS, Inc. also seek injunctive relief to enforce the alleged "agreement" and prevent United from obtaining substitute goods from other vendors. On August 1, GMIS and GMIS, Inc. filed an emergency motion on the claims for injunctive relief. On August 28, the judge denied GMIS' and GMIS, Inc.'s motion for a preliminary injunction. On October 28, 1996 GMIS filed a Petition for Replevin seeking to recover certain spare parts and consigned inventory currently in United's possession. On November 26, 1996, the court denied GMIS's petition upon United's motion. On December 23, 1996, United filed an amended complaint, and GMIS filed an amended counterclaim on December 31, 1996. The parties have exchanged preliminary discovery documents. Each party subsequently filed a motion to dismiss the respective amended complaint and counterclaim. The court heard oral argument on both motions to dismiss.

On May 12, 1997, GMIS and GMIS, Inc. filed suit in the U.S. District Court for the Northern District of Illinois against United claiming copyright infringement, misappropriation of trade secrets and unfair competition as a result of United's alleged unlawful copying of certain cable drawings which it then provided to a cable manufacturer. The complaint seeks injunctive relief (including the return of any proprietary information), actual, exemplary and punitive damages and attorneys fees. Since that time the parties have been engaging in comprehensive settlement negotiations for both lawsuits.

Item 4. Submission of Matters to a Vote of Security Holders.

At the annual meeting of the stockholders of UAL Corporation on May 21, 1997, the following matters were voted upon:

Description -----	Votes -----
1. Election of Board of Directors	
Public Directors:	
John A. Edwardson	41,565,786 For 288,999 Withheld
Gerald Greenwald	41,558,983 For 295,802 Withheld
John F. McGillicuddy	41,547,707 For 307,078 Withheld
James J. O'Connor	41,560,117 For 294,668 Withheld
Paul E. Tierney	41,434,866 For 419,919 Withheld
Independent Directors:	
Duane D. Fitzgerald	4 For 0 Withheld
Richard D. McCormick	4 For 0 Withheld
John K. Van de Kamp	4 For

		0	Withheld
Paul A. Volcker		4	For
		0	Withheld
ALPA Director:			
Michael H. Glawe		1	For
		0	Withheld
IAM Director:			
John F. Peterpaul		1	For
		0	Withheld
Salaried/Management Employee Director:			
Joseph V. Vittoria		3	For
		0	Withheld
2. Ratification of the Appointment	108,549,753		For
of Independent Public Accountants	3,364,631		Against
	2,075,229		Abstain
	0		Broker Non-Votes

Item 5. Other Information.

On July 30, 1997 United completed the sale of its 77% general partnership interest in Apollo Travel Services Partnership ("ATS"), to Galileo International, Inc., a Delaware corporation ("Galileo"), for \$539 million. Before the sale of ATS, United owned a 38% interest in Galileo International Partnership, a Delaware general partnership, which reorganized as a corporation and raised a portion of the proceeds used to purchase ATS through the completion of an initial public offering (the "IPO"). After giving effect to the IPO (including exercise of an over-allotment option), United now owns a 32% equity interest in Galileo.

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

(a) Exhibits

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

(b) Form 8-K dated May 6, 1997 to report a cautionary statement for purposes of the "Safe Harbor for Forward-Looking Statements" provision of the Private Securities Litigation Reform Act of 1995.

Form 8-K dated July 21, 1997 to report a cautionary statement for purposes of the "Safe Harbor for Forward-Looking Statements" provision of the Private Securities Litigation Reform Act of 1995.

SIGNATURES

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

UAL CORPORATION

By: /s/ Douglas A. Hacker

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

Dated: August 7, 1997

Exhibit Index

Exhibit No.	Description
10.1	<p>Letter Agreement No. 6-1162-MDH-150R1 dated June 3, 1997 to (a) the Agreement dated December 18, 1990 between The Boeing Company ("Boeing") and United Air Lines, Inc. ("United") (and United Worldwide Corporation) for the acquisition of Boeing 747-400 aircraft (filed as Exhibit 10.8 to UAL Corporation's ("UAL") Form 10-K for the year ended December 31, 1990, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.4 and 10.5 to UAL's Form 10-K for the year ended December 31, 1991, (ii) Exhibits 10.3 through 10.6 and 10.22 to UAL's Form 10-Q for the quarter ended June 30, 1993, (iii) Exhibit 10.3 to UAL's Form 10-K for the year ended December 31, 1993, (iv) Exhibit 10.14 to UAL's Form 10-Q for the quarter ended June 30, 1994, (v) Exhibits 10.29 and 10.30 to UAL's Form 10-K for the year ended December 31, 1994, (vi) Exhibits 10.4 through 10.8 to UAL's Form 10-Q for the quarter ended March 31, 1995, (vii) Exhibits 10.7 and 10.8 to UAL's Form 10-Q for the quarter ended June 30, 1995, (viii) Exhibit 10.41 to UAL's Form 10-K for the year ended December 31, 1995, (ix) Exhibits 10.4 - 10.8, and 10.17 to UAL's Form 10-Q for the quarter ended June 30, 1996, and (x) Exhibit 10.1 to UAL's Form 10-Q for the quarter ended March 31, 1997, as amended, and incorporated herein by reference), (b) the Agreement dated December 18, 1990 between Boeing and United (and United Worldwide Corporation) for the acquisition of Boeing 777-200 aircraft (filed as Exhibit 10.7 to UAL's Form 10-K for the year ended December 31, 1990, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.1, 10.2 and 10.22 to UAL's Form 10-Q for the quarter ended June 30, 1993, (ii) Exhibit 10.2 to UAL's Form 10-K for the year ended December 31, 1993, (iii) Exhibit 10.14 to UAL's Form 10-Q for the quarter ended June 30, 1994, (iv) Exhibits 10.27 and 10.28 to UAL's Form 10-K for the year ended December 31, 1994, (v) Exhibits 10.2 and 10.3 to UAL's Form 10-Q for the quarter ended March 31, 1995, (vi) Exhibits 10.4 through 10.6 to UAL's Form 10-Q for the quarter ended June 30, 1995, (vii) Exhibits 10.37 through 10.40 to UAL's Form 10-K for the year ended December 31, 1995, (viii) Exhibits 10.9 through 10.12 and 10.17 to UAL's Form 10-Q for the quarter ended June 30, 1996, and incorporated herein by reference), (c) the Agreement dated October 25, 1988 between Boeing and United for the acquisition of 757-200 aircraft (filed as Exhibit 10(K) to UAL's Form 10-K for the year ended December 31, 1989, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.14 through 10.19 and 10.22 to UAL's Form 10-Q for the quarter ended June 30, 1993, (ii) Exhibit 10.14 to UAL's Form 10-Q for the quarter ended June 30, 1994, (iii) Exhibit 10.9 to UAL's Form 10-Q for the quarter ended March 31, 1995, and (iv) Exhibits 10.13 through 10.17 to UAL's Form 10-Q for the quarter ended June 30, 1996, and incorporated herein by reference), (d) the Agreement dated as of March 1, 1990 between Boeing and United for the acquisition of 767-300ER aircraft (filed as Exhibit 10(L) to UAL's Form 10-K for the year ended December 31, 1989, and incorporated herein by reference; supplements thereto filed as (i) Exhibits 10.7 through 10.13 and 10.22 to UAL's Form 10-Q for the quarter ended June 30, 1993, and (ii) Exhibit 10.14 to UAL's Form 10-Q for the quarter ended June 30, 1994, (iii) Exhibits 10.10 and 10.11 to UAL's Form 10-Q for the quarter ended March 31, 1995, and (iv) Exhibit 10.17 to UAL's Form 10-Q for the quarter ended June 30, 1996, and incorporated herein by reference), and (e) an amended and restated agreement dated as of March 19, 1992 between Boeing and United for the acquisition of 737 aircraft (filed as Exhibit 10.15 to UAL's Form 10-K for the year ended December 31, 1992, and incorporated herein by reference; supplements thereto filed as (i)</p>

Exhibits 10.20, 10.21 and 10.22 to UAL's Form 10-Q for the quarter ended June 30, 1993, (ii) Exhibit 10.14 to UAL's Form 10-Q for the quarter ended June 30, 1994, (iii) Exhibit 10.34 to UAL's Form 10-K for the year ended December 31, 1994, and (iv) Exhibit 10.17 to UAL's Form 10-Q for the quarter ended June 30, 1997, and incorporated herein by reference). (Exhibit 10.1 hereto is filed with a request for confidential treatment of certain portions thereof.)

- 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.
- 27 Financial Data Schedule.

6-1162-MDH-150R1

June 3, 1997

United Air Lines, Inc.
P.O. Box 66100
Chicago, Illinois 60666

Subject: Letter Agreement No. 6-1162-MDH- 150R1 to Purchase Agreement No. 1485, 1595, 1602, 1663, 1670 and Agreement of Purchase 6-1162-MDH-454 - [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Gentlemen:

Reference is made to Purchase Agreement Nos. 1485, 1595, 1602, 1663 and 1670 (each individually a "Purchase Agreement", and collectively the "Purchase Agreements") between The Boeing Company ("Boeing") and United Air Lines, Inc. ("Buyer") relating to the sale by Boeing and the purchase by Buyer of 737, 747, 757, 767 and 777 aircraft (hereinafter referred to as the Aircraft). Further reference is made to Agreement of Purchase No. 6-1162-MDH-454, such term AOP shall be deemed to include any Final Form of Purchase Agreement, as defined therein, entered pursuant thereto between Boeing and Buyer relating to the sale by Boeing and the purchase by Buyer {AOP} of certain 767-322 {De-rated -322ER} aircraft {hereinafter referred to as the 767-322 Aircraft}.

This letter agreement ("Letter Agreement"), when accepted by Buyer, will become part of each Purchase Agreement and AOP and will evidence our further agreement with respect to the matters set forth below.

All terms used herein and in the Purchase Agreements and AOP, and not defined herein, shall have the same meaning as in such Purchase Agreements and AOP. If there is any inconsistency between the terms of this Letter Agreement and any such Purchase Agreement or AOP or any Purchase Agreement Amendment thereto the terms of this Letter Agreement will govern.

United Air Lines, Inc.
6-1162-MDH-150R1 Page 2

1 . Widebody Business Concessions.

This Letter Agreement sets forth certain business concessions extended by Boeing to Buyer as part of the following Supplemental Agreements to the Purchase Agreements {the Supplemental Agreements}:

Supplemental Agreement No. 6 dated May 30, 1996 to Purchase Agreement No. 1485

Supplemental Agreement No. 7 dated July 11, 1996 to Purchase Agreement No. 1485

Supplemental Agreement No. 4 dated May 30, 1996 to Purchase Agreement No. 1663

Supplemental Agreement No. 5 dated July 11, 1996 to Purchase Agreement No. 1663

Supplemental Agreement No. 8 dated May 30, 1996 to Purchase Agreement No. 1670

Supplemental Agreement No. 9 dated July 11, 1996 to Purchase Agreement No. 1670

Each such Supplemental Agreement identified certain Aircraft to be purchased by Buyer to satisfy certain commitments of Buyer as set forth in Letter Agreement No. [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. Such Aircraft

and their respective months and years of scheduled delivery are set forth in Attachment No. 1 to this Letter Agreement [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] Aircraft and their respective months and years of scheduled delivery are set forth in such Attachment No. 1 to this Letter Agreement [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

United Air Lines, Inc.
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[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

Such interest will be calculated using the 90 day AA Federal Reserve Commercial Paper Composite rate as posted on page 120 in Telerate (the Agreed Interest Rate), as on the close of business on the first day of each quarter. The accrued interest will be paid by wire transfer to Buyer on the first business day of the following quarter. [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

United Air Lines, Inc.
6-1162-MDH-150R1 Page 4

$$A = B \times C / (D - E) \text{ where}$$

A = [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

B = [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

C = [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

D = [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

E = [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

1.2.1 Letter Agreement No. 1670-5R dated as of December 18, 1990, accepted and agreed to by Buyer on August 2, 1991 is amended to delete the Model 747-422 Option Aircraft listed in Attachment No. 2 hereto, and as so amended such Letter Agreement No. 1670-5R shall remain in full force and effect, and

1.2.2 the following letter agreements shall be deemed canceled and of no further force and effect:

Letter Agreement No. -----	Title -----	Purchase Agreement No. -----
1485-8*	Option Aircraft (Block E)	1485
1663-5	Option Aircraft	1663
1595-4	Option Aircraft	1595

United Air Lines, Inc.
6-1162-MDH-150R1 Page 5

Notwithstanding the cancellation of Letter Agreement No. 1485-8,

Boeing and Buyer agree the provisions of paragraph 11.
[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] of Letter Agreement No. 6-1162-TML-388 shall be applicable to the [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

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[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

Such interest under both advance payment schedules is to be calculated at an annual rate of 9% on a 365/366 day year (simple interest) up to and including the date of delivery of the applicable Aircraft.

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT].

2. Widebody Customer Support Matters.

2.1 737-300/500 Thrust Reverser Warning Light.

Following Boeing's receipt of Buyer's no charge purchase order Boeing shall ship to Buyer the following:

United Air Lines, Inc.
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Part No.	Qty.	Description
-----	---	-----
65-73606-170	12	Engine Accessory Unit

2.2 Boeing Pilot Training Programs - Model

747/757/767/777.

For the Model 747, 757, 767 and 777 aircraft, following Boeing's receipt of Buyer's [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], Boeing shall provide to Buyer the following quantity of sets of Boeing Pilot Training Programs:

Description	Qty. per Model
-----	-----
Flight Training CBT Courseware (including Flight Crew Training and Cabin Attendant)	[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]
Flight Crew Video Briefings	
Full sized colored instrument panel configuration illustration	
Electrically Plotted or Computer Graphics Metafile Format	

2.3 Model 777 Simulator Data Package.

Following Boeing's receipt of Buyer's [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT], Boeing will deliver to Buyer Model 777 Simulator Data Packages to allow Buyer to:

- 2.3.1 Add 777 "B" Market capability to its "A" Market Simulator; and
- 2.3.2 Add 777 "A" Market capability to its "B" Market simulator.

United Air Lines, Inc.
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2.4 Model 757 Simulator Data Package - 1997 Price.

For Subsequent Sets of Model 757 Simulator Data Packages and Concurrent Sets of Model 757 Simulator Data Packages purchased under Letter Agreement No. 6-1162-GKW-263 to Purchase Agreement No. 1485, Boeing shall extend to Buyer Boeing's 1997 price of [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per Subsequent Set and [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] per Concurrent Set.

2.5 Flight Simulator Hardware Support.

2.5.1 For the Model 747 and 757, Boeing will work with Buyer to pre-implement a set of either long lead, or a complete set of, hardware for a new simulator in the required simulator tail number. Buyer will submit to Boeing a "coverage" P/O which will not be executed until selection of a simulator manufacturer to be used in this pre-implementation. Boeing also pre-implements generic simulator long-lead hardware that may be allocated to Buyer with appropriate notification. Kits are allocated based on notification, lead times, training needs, airplane delivery, etc. Notification must occur in a timely fashion or kits may not be available as required by Buyer. Once the kit is allocated, Buyer will then have first right of refusal on it. Only hardware requirement dates of greater than six months on receipt of order will be accepted by Boeing for hardware required in addition to allocated pre-implemented kit.

2.5.2 Required Boeing proprietary hardware may be purchased at the then-current Boeing Spares Catalog prices. In the event that Buyer elects to submit Purchase Orders to Boeing for selected vendor hardware, such Purchase Orders shall be processed by Boeing in the same manner as sustaining spares for the Aircraft, in accordance with the applicable terms and conditions of Spare Parts General Terms Agreement No. 22, dated October 25, 1967 as amended and supplemented.

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. This service will apply to Buyer's Fleet indicated above and will be provided [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT] to Buyer for a period of ten (10) years commencing with the delivery [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

United Air Lines, Inc.
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[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

All Manuals specified in this paragraph 2.7 will be produced in accordance with Air Transport Association (ATA) Specification 100, and to the revision level specified in the applicable Purchase Agreement. [*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]. If Boeing introduces and offers new technical documentation formats not currently offered, Buyer may elect to substitute the formats, in lieu of the existing formats, at Boeing's then current price and applicable terms and conditions.

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[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

4. Confidentiality.

This Letter Agreement is subject to the confidentiality provisions of the following Letter Agreements and the AOP.

Letter Agreement No. -----	Purchase Agreement No. -----
6-1162-GKW-132	1485
6-1162-DLJ-886	1670
6-1162-DLJ-832	1663

United Air Lines, Inc.
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If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval below.

Very truly yours,

THE BOEING COMPANY

By /s/ M.D. Hurt

Its Attorney In Fact

ACCEPTED AND AGREED TO this

Date: June 3, 1997

UNITED AIR LINES, INC.

By /s/ Douglas A. Hacker

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

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Attachment No. 2 to
6-1162-MDH-150R1 Page 1

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

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Attachment No. 2 to
6-1162-MDH-150R1 Page 2

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

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Attachment No. 2 to
6-1162-MDH-150R1 Page 3

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

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[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Attachment No. 3 to
6-1162-MDH-150R1
5/30/97 12:07 AM

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Attachment No. 4 to
6-1162-MDH-150R1 Page 1

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Attachment No. 5 to
6-1162-MDH-150R1 Page 1

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

Attachment No. 6 to
6-1162-MDH-150R1 Page 1

[*CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT]

UAL Corporation and Subsidiary Companies
 Calculation of Fully Diluted Net Earnings Per Share
 (In Millions, Except Per Share)

	Three Months		Six Months	
	Ended June 30		Ended June 30	
	1997	1996	1997	1996
	----	----	----	----
Earnings:				
Earnings before preferred stock transactions, distributions on preferred securities and extraordinary item	\$ 243	\$ 226	\$ 350	\$ 233
Preferred stock dividends	(19)	(16)	(38)	(32)
Interest on convertible debentures	-	-	-	3
	----	----	----	----
Earnings before preferred stock transactions, distributions on preferred securities and extraordinary item for fully diluted calculation	224	210	312	204
Preferred stock transactions	-	(15)	-	(21)
Distributions on preferred securities	(1)	-	(3)	-
Extraordinary loss on early extinguishment of debt	-	(30)	-	(59)
	----	----	----	----
Net earnings for fully diluted calculation	\$ 223	\$ 165	\$ 309	\$ 124
	=====	=====	=====	=====
Shares:				
Average number of shares of common stock outstanding during the period	59.3	57.5	59.0	53.9
Additional shares assumed issued at the beginning of the period (or at the date of issuance) for conversion of preferred stock	34.4	22.6	33.0	21.0
Additional shares assumed issued at the beginning of the period for conversion of convertible debentures	-	0.8	-	4.2
Additional shares assumed issued at the beginning of the period (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)	2.9	2.5	2.8	2.5
	----	----	----	----
Average number of shares for fully diluted calculation	96.6	83.4	94.8	81.6
	=====	=====	=====	=====
Fully diluted per share amounts:				
Earnings before preferred stock transactions and extraordinary item	\$ 2.31	\$ 2.53	\$ 3.26	\$ 2.49
Preferred stock transactions, net of tax	-	(0.18)	-	(0.25)
Extraordinary loss on early extinguishment of debt, net of tax	-	(0.36)	-	(0.73)
	-----	-----	-----	-----
Net earnings	\$ 2.31	\$ 1.99	\$ 3.26	\$ 1.51
	=====	=====	=====	=====

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges

	Six Months Ended	
	June 30	
	1997	1996
	(In Millions)	

Earnings:		
Earnings before income taxes and extraordinary item	\$ 559	\$ 382
Fixed charges, from below	482	548
Undistributed earnings of affiliates	(40)	(32)
Interest capitalized	(50)	(39)
	-----	-----
Earnings	\$ 951	\$ 859
	=====	=====
Fixed charges:		
Interest expense	\$ 140	\$ 159
Portion of rental expense representative of the interest factor	342	389
	-----	-----
Fixed charges	\$ 482	\$ 548
	=====	=====
Ratio of earnings to fixed charges	1.97	1.57
	=====	=====

UAL Corporation and Subsidiary Companies

Computation of Ratio of Earnings to Fixed Charges

and Preferred Stock Dividend Requirements

	Six Months Ended	
	June 30	
	1997	1996
	(In Millions)	

Earnings:		
Earnings before income taxes and extraordinary item	\$ 559	\$ 382
Fixed charges, from below	546	600
Undistributed earnings of affiliates	(40)	(32)
Interest capitalized	(50)	(39)
	-----	-----
Earnings	\$1,015	\$ 911
	=====	=====
Fixed charges:		
Interest expense	\$ 140	\$ 159
Preferred stock dividend requirements	64	52
Portion of rental expense representative of the interest factor	342	389
	-----	-----
Fixed charges	\$ 546	\$ 600
	=====	=====
Ratio of earnings to fixed charges	1.86	1.52
	=====	=====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM UAL CORPORATION'S STATEMENT OF CONSOLIDATED OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

	DEC-31-1997	
	JAN-01-1997	
	JUN-30-1997	
	6-MOS	77
		522
		1,163
		0
		350
	2,624	15,749
		6,154
		13,925
5,403		3,007
102		0
		1
		1,670
13,925		0
	8,503	0
		7,897
		0
		0
	140	
		559
		209
347		0
		0
		0
		347
		3.26
		3.26