

UAL Corporation and Subsidiary Companies
Statements of Consolidated Cash Flows

Year Ended December 31

1996**Cash flows from operating activities:**

Net earnings			533
Depreciation on Operating property and equipment:	Owned:	420	
Amortization of intangibles	Capital leases:	94	
		245	
		<u>759</u>	759
Preferred stock committed to Supplemental ESOP			105
Common stock at par		1	
Additional capital invested		807	808
Postretirement benefit liability			65
Deferred pension liability			(190)
Deferred income taxes	Short term		9
	Long Term		106
Changes in operating assets			
Receivables			(11)
Aircraft fuel, spare parts and supplies			(71)
Prepaid expenses and other			(12)
Advance ticket sales			89
Accounts payable			298
Accrued salaries, wages and benefits			36
Other accrued liabilities			10
Deferred gains			(63)
Accrued aircraft rent	Short Term		29
	Long Term		80
Other			88
			<u>2,668</u>

Cash flows from investing activities:

Owned equipment:		(1,360)	
Capital lease equipment		<u>(431)</u>	(1,791)
Proceeds from sale of Operating property and equipment			55
Intangibles, disposed			(6)
Short-term investments			481
Other			(423)
			<u>(1,684)</u>

Cash flows from financing activities:

Preferred Stock acquired				(84)
Unearned ESOP preferred stock				(27)
Stock held in treasury - Common				(19)
Long-term debt maturing within one year			75	
Long-term debt			(1,258)	(1,183)
Current obligations under capital leases			33	
Long-term obligations under capital leases			331	364
Company-obligated mandatorily redeemable preferred securities of a subsidiary trust				102
Minority interest				(28)
Aircraft lease deposits				(97)
Dividends	533	-	473	(60)
Other				83
				(949)
Cash and cash equivalents		Change	35	35

Supporting Calculations

Proceeds from sale of Operating property and equipment	55
Gain from sale of Operating property and equipment	zero
Book Value of Operating Property and Equipment Sold	55
Accumulated depreciation of Operating Property and Equipment Sold	193
Cost of Operating Property and Equipment Sold	248

Owned: Operating property and equipment					
Cost			Accumulated depreciation		
	11,213			5,153	
Purchased>	1,360	248 <Disposed>	193	420	Depreciation given
	12,325			5,380	

Intangibles					
Cost			Accumulated amortization		
	1,069			306	
Purchased>	6	198 <Disposed>	198	245	Amortization given
	877			353	

Capital Lease: Operating property and equipment					
Cost			Accumulated depreciation		
	1,464			503	
Purchased>	431	14 <Disposed>	14	94	Depreciation rest
	1,881			583	

2a Effective tax rate $370 \div 970 = 38.14\%$

2b Times Interest earned

Earnings before income taxes, extraordinary item and cumulative effect of accounting change	970
Interest expense	295
Earnings before interest and taxes	1,265
Times Interest earned	$1,265 \div 295 = 4.288$

2c Capitalization Table

Long-term debt maturing within one year	165
Long-term debt	1,661
Current obligations under capital leases	132
Long-term obligations under capital leases	1,325
Total debt	3,283
Debt / Equity	$= 3,283 \div 995 = 3.299$

2d Return on assets (after tax)

Earnings before interest and taxes	1,265	Net Income	600
x [1 - tax rate]	$1 - 38.14\% = 61.86\%$	+ [1 - tax rate]	$+ 61.86\%$
= NOPAT	782	x Interest expense	x 295
		= NOPAT	782

Return on assets (after tax) = $\text{NOPAT} \div \text{Average assets}$
 $= 782 \div 12,159 = 6.44\%$

2e Return on Equity = Net Income \div Average equity
 As last year's equity was negative, this ratio is meaningless.

3a Statutory Tax Rate $339 \div 970 = 34.95\%$

3b Pre federal tax value of state taxes paid $28 \div 65.05\% = 43$
 Average State Statutory Income Tax Rate $43 \div 970 = 4.44\%$

3c Nondeductible meals $25 \div 34.95\% = 72$

3d Increase in deferred tax due to depreciation & capitalized interest

	1,172	-	1,077	=	95
Tax expense - accounting expense	95	\div	34.95%	=	272
less Interest capitalized	272	-	77	=	195
Accounting depreciation expense (owned assets)	420	+	195	=	615

4a Capital Leases

1997 minimum lease payment	233		
Current portion of capital leases	(132)		
1997 interest payments	101		
Effective interest rate for leases	101	÷	1,457 = 6.93%

4b Later years: 2000 onwards total lease payments

Per year for 6 years = 1,036 ÷ 6 = 172.67

Discount rate	6.78%	7.78%
Present value of lease payments for first 5 years	929	904
Annual MLP after five years	172.67	172.67
6 year annuity	x 4.799	4.654
5 year present value factor	x 0.720	0.688
Present value now of year 6 onwards pay =	597	553
Total present value of minimum payments	1,526	1,457

Correct

Operating Leases

After 6 years: 11,274 / 8 = 1,409

Discount rate		7.78%
Present value of lease payments for years from 1997		5,623
Annual MLP after five years	1,409	
8 year annuity	x 5.795	
5 year present value factor	x 0.688	
Present value now of year 6 onwards payment	=	5,616
Total present value of minimum payments on Dec. 31, 1996		11,239
Minimum Lease Payments 1996		1,424
		12,663

Total present value of minimum payments on December 31, **1995** = 12,663 x 0.928 = 11,749

4c Entries

31-Dec-95	Fixed assets	11,749	
	Capital lease obligations - Current		510
	Capital lease obligations - long term		11,239

in **1996**

Depreciation expense	11,749 /	14	839
Accumulated depreciation			839

Interest expense	7.78% x 11,749 =	914
Capital lease obligations - Current		510
Rental expense		1,424

31-Dec-96

Capital lease obligations - long term	542
Capital lease obligations - Current	
1,416 - 7.78% x 11,239	542

4d Change in Income Statement

						Adjusted value
EBIT	More by	1,424	-	839	=	585
Interest Expense	More by					(914)
EBT	More by					(329)
Deferred Tax Asset	More by			34.95%		115
Net Income	More by			65.05%		(214)
						60.21%
						386

4c Change in Balance sheet

		December 31,	1996
Fixed assets	11,749	Capital lease obligations - long term	10,697
Accumulated depreciation	(839)	Capital lease obligations - Current	542
Deferred tax asset	115	Retained Earnings	(214)
Total	11,025		11,025

4e Times Interest earned	As reported	Adjustment	Adjusted value
Earnings before interest and taxes	1,265	585	1,850
Interest expense	÷ 295	914	÷ 1,209
Times Interest earned	4.288		1.530

4f Debt / Equity	As reported	Adjustment	Adjusted value
Total debt	3,283	11,239	14,522
Equity	995	(214)	÷ 781
Debt / Equity	= 3.299		18.597

4g Return on assets (after tax)	As reported	Adjustment	Adjusted value
Earnings before interest and taxes	1,265	585	1,850
x [1 - tax rate]	x 61.86%		x 61.86%
= NOPAT	= 782		= 1,144
Assets	Beginning 11,641	11,749	23,390
	Ending 12,677	11,025	23,702
Return on assets (after tax)	÷ 12,159		÷ 23,546
	6.44%		4.86%