

YELLOW CORPORATION
1996 Annual Report

[PICTURE OF GLOBE]

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1996 REVENUE CONTRIBUTION

Yellow Freight System, Inc.	77%
Preston Trucking Company, Inc.	13%
Saia Motor Freight Line, Inc.	9%
WestEx, Inc.	1%

The Yellow Corporation Family of Operating Companies

Yellow Freight System, Inc. is the nation's largest less-than-truckload carrier providing comprehensive transportation solutions for shippers throughout North America, Europe and Asia/Pacific. In 1996, Yellow Freight recorded operating revenue of \$2.4 billion and had an operating ratio of 98.5 (before a special charge).

Preston Trucking Company, Inc. is a premium service less-than-truckload carrier providing highly reliable overnight and two-day delivery in 21 northeastern and upper midwestern states, Puerto Rico, Ontario and Quebec. In 1996, Preston recorded operating revenue of \$418 million and had an operating ratio of 101.4.

Saia Motor Freight Line, Inc. is a premium service less-than-truckload carrier providing highly reliable, time-definite freight delivery in 11 southeastern states and Puerto Rico. In 1996, Saia recorded operating revenue of \$264 million and had an operating ratio of 95.9.

WestEx, Inc. is an emerging premium service less-than-truckload carrier providing highly reliable overnight and two-day service in California, Arizona, New Mexico and parts of Texas and Nevada. In 1996, WestEx recorded operating revenue of \$33 million.

PEOPLE

Our people are our primary competitive weapon. They understand the freight business like no one else. Their mission is to satisfy the customer, no matter what. Our people are why the Yellow companies will be the carriers of choice for the new millennium.

VALUE

Moving freight is not a commodity service when it is backed by a commitment to listen to customers, understand their needs and meet expectations. This is the material that builds shareholder value. By creating value for the customer, we will create value for our shareholders.

[HALF PAGE PICTURE OF DAVE BILKE - YELLOW FREIGHT SYSTEM CITY DRIVER]

PROFITABILITY

When carrier and shipper work in partnership to unleash hidden values, mutual profitability is assured. We will negotiate fair prices based on customer understanding of the real value we bring to them. And we will continuously manage our costs and seek new opportunities for additional efficiencies.

TO OUR SHAREHOLDERS

[GRAPHIC]

Our goals in 1996 were clear. We had to begin the steps that would restore profitability and shareholder returns. We made a good start.

Our focus was to rebuild and renew Yellow Corporation's base of strength.

Those strengths are easy to identify. Yellow is among the most recognized brand names in freight transportation. Yellow Freight System, our largest operating subsidiary, operates a highly efficient national transportation network and utilizes state-of-the-art customer service technology. At the same time, our regional carriers have established themselves in their niche markets.

As the year progressed, we saw steady improvements in performance. Key factors were significant operating improvements at Yellow Freight, Preston, Saia and WestEx. Each company focused on higher margin accounts and each made strides toward effectively managing their costs.

FINANCIAL PERFORMANCE

Excluding a nonrecurring special charge taken in the fourth quarter, we reported 1996 net income of \$1.1 million, or \$.04 per share. This is compared to a net loss of \$30.1 million, or \$1.07 per share, in 1995.

[PICTURE OF YELLOW FREIGHT SYSTEM TRACTOR AND TWIN TRAILERS]

The fourth quarter special charge amounted to \$46.1 million (\$28.3 million after taxes) and reduced earnings per share by \$1.01. As a result, the company recorded a net loss of \$27.2 million, or \$.97 per share.

The charge was pivotal in positioning the company for additional service improvements and cost reductions. It reflected the write down of certain Yellow Freight real estate and computer software assets, a reduction of a company car program, the expenses of an early retirement program and other organizational redesign impacts.

We made progress in strengthening our balance sheet in 1996, far exceeding our original goal of reducing debt by \$100 million. Total debt reported on our balance sheet decreased \$158 million and went from \$354 million at year-end 1995 to \$196 million at year-end 1996. This was accomplished through a significant reduction in capital expenditures, a \$45 million off-balance-sheet financing program, a \$45 million federal tax refund received in April and a one-time \$23 million cash dividend from our Canadian operations.

[GRAPHIC]

Our net capital expenditures totaled \$46 million in 1996 and were well below our \$130 million in depreciation. We expect 1997 net capital expenditures to total \$109 million. This investment will be focused on the replacement of tractor and trailer equipment and the attainment of improved operating efficiencies.

YELLOW FREIGHT SYSTEM

After a first quarter marred by severe winter weather, Yellow Freight improved operations and margins. Yellow Freight, which accounts for 77 percent of our revenue, benefited from improved account management, a diesel fuel surcharge and a stabilized pricing environment. This helped drive a 2.4 percent increase in revenue per ton. Despite higher labor and fuel costs, our costs per ton were essentially the same as in 1995 because of improvements in linehaul operations and achievement of a \$75 million cost reduction program.

The cost reduction program involved efficiency improvements in pickup and delivery, dock transfers and linehaul movement. Reductions in general sales and administrative expenses and more attention to working safer also were factors.

[Picture of Jim Ramick & Pete Peoples - Linehaul Management]

Excluding the special charge, Yellow Freight realized an operating ratio of 98.5, compared with 100.1 in 1995.

COMPETITIVE ADVANTAGES

Yellow Freight is increasingly capitalizing on competitive advantages created by its broad coverage, highly efficient national linehaul system and optimized network of terminals.

Yellow's technological capabilities and customer service centers are another advantage. These centers, located in Des Moines, Iowa and Sioux Falls, South Dakota, give us better information delivery and problem solving capability than anyone else in the industry. Our 330 employees at Yellow Technology Services provide the technology solutions support to meet customers' ever-increasing information needs.

Yellow Freight is using its competitive advantages to become a global transportation services provider. In 1996, we substantially completed our expansion into the Asia/Pacific markets, complementing the European service we have offered since 1992. Continuing our international expansion is a key priority for 1997.

[GRAPHIC]

The Yellow Freight organization redesign was a key step that will focus all of our operational and technology advantages where they should be -- on the customer. Our people on the front lines now have more resources and greater authority to respond quickly to customer requests.

PRESTON TRUCKING COMPANY

Our second largest subsidiary, Preston Trucking Company made substantial progress in increasing revenue and gaining profitable business, particularly during the second half of 1996. First quarter performance was particularly weak due primarily to severe winter storms that paralyzed the northeastern United States. Preston recorded an operating ratio of 99.4 in the second half of the year, a 3.7 point improvement over the ratio in the last half of 1995. The operating ratio for the entire year was 101.4, the same as in the prior year.

REGIONAL MARKET EXPANSION

It was another year of growth for Saia Motor Freight Line. Saia finished 1996 with operating revenue of \$264 million, a 26.1 percent increase over 1995 revenue of \$210 million. The operating ratio improved to 95.9, versus 96.3 in 1995. As a result of prior year expansions, Saia has established a strong competitive position in the overnight and second-day-delivery market in the Southeast. Saia will focus on productivity and margin improvement in 1997.

[Picture of Yellow Freight Storage Boxes]

WestEx completed an aggressive expansion plan in 1996. WestEx recorded revenue of \$33 million, nearly double its revenue in 1995. WestEx has been in a rapid expansion mode since it was acquired in November 1994. It focuses on overnight and second-day-delivery markets in California, Arizona, New Mexico and parts of Texas and Nevada.

OUTLOOK FOR SUCCESS

Our people have been the driving force behind our progress in 1996. Yellow employs some of the most experienced and talented people in the trucking industry.

A new pay for performance philosophy is another way we intend to motivate the improvements in company and share price performance that you expect.

A sizable portion of my compensation and that of about 100 key management personnel is now linked directly with the goals of shareholders. During 1996 an initial grant of 1.5 million shares was made to top management under a stock

option program. The options gain value as company performance improves and share price increases.

It's only right that most of my compensation, and that of the senior management team, be at risk and tied to goals for a reasonable return on your investment. This creates an incentive for management to do whatever it takes to build a stronger company. Our middle managers and professional staff also now have reasonable bonus plans that are tied more directly to company performance. The bonus plan was introduced in the wake of a salary freeze for all managers during 1996.

All of our subsidiaries -- Yellow Freight, Preston, Saia, WestEx and Yellow Technology -- have realigned their organizations to better meet the needs of our customers. Shippers in every industry are looking for ways to reduce inventory carrying costs by increasing inventory turns. The trend toward smaller, more time-definite shipments is definitely increasing. Our specialty -- LTL transportation -- fills that need precisely.

One thing is certain about the freight transportation business. We have entered a new era of dramatic change. Competition continues to increase from all quarters and will be unrelenting in 1997.

Sure, the competition is tough. And our customers expect more value from the dollars they spend with us. But that's how it should be. We have largely moved through our cycle of deregulation. If we expect to prosper, we must adjust and adapt to the rigor of the marketplace. We welcome it. And you can be assured that Yellow Corporation is positioned to thrive and prosper.

[Picture of Yellow Corporation Officer]

Sincerely,

A. Maurice Myers

A. Maurice Myers
Chairman, President and
Chief Executive Officer
Yellow Corporation

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

Results of Operations

1996 VS. 1995

CONSOLIDATED RESULTS (in millions)

	1996		1995
	Includes Special Charge	Excludes Special Charge	
Revenue	\$3,073	\$3,073	\$3,057
Net Income (Loss)	\$(27.2)	\$ 1.1	\$(30.1)
EPS	\$ (.97)	\$.04	\$(1.07)

Operating revenue in 1996 totaled \$3.07 billion for Yellow Corporation (the company) essentially unchanged from the \$3.06 billion in 1995. The company recorded a net loss of \$27.2 million, or \$.97 per share, which included a \$46.1 million special charge (\$28.3 million after taxes, or \$1.01 per share) incurred by Yellow Freight System, Inc. (Yellow Freight), the company's largest subsidiary. The charge included the write down of certain nonoperating real estate and computer software assets, an early retirement program, the reduction of a company car program and other organizational design impacts, primarily severance. Excluding the special charge, the company had 1996 net income of \$1.1 million, or \$.04 per share, compared to a net loss of \$30.1 million, or \$1.07 per share, in 1995.

Management and organizational changes designed to sharpen customer focus and improve profitability at Yellow Freight preceded the special charge. Over a four month period nearly every facet of the organization was thoroughly examined. In early December 1996 Yellow Freight announced it was restructuring into five business units organized by geographic region.

Real estate write downs are part of an ongoing program to improve customer service and reduce operating expenses which has reduced the number of full terminals at Yellow Freight from 449 at the beginning of 1995 to 334 at the end of 1996. The write off of computer software involved specific technology developed in 1994 and the first half of 1995 which has not nor is intended to be placed in use in the foreseeable future. It represents a small portion of the company's investment in technology, the vast majority of which has achieved the desired results. Early retirement was taken by 130 employees while severance costs related to the layoff of 70 managerial and general office employees. Normal attrition is expected to result in further reductions of between 65 and 70 employees. Overall the organizational design changes lay the foundation for additional service improvements and cost reductions in all phases of Yellow Freight's future performance.

Yellow Freight's revenue was \$2.36 billion, down 0.3 percent from 1995. The operating ratio, before the special charge impact, improved from 100.1 in 1995 to 98.5. Including the special charge, the operating ratio was 100.4. Tonnage declined by 2.8 percent while revenue per ton increased by 2.4 percent. The tonnage decline was due to market forces and Yellow Freight's efforts to improve pricing stability. In January 1996 Yellow Freight implemented a general rate increase averaging 5.8 percent which applied to its customers who do not have contracts. The 1996 revenue per ton improvement would have been greater but the intense price discounting experienced in the second half of 1995 resulted in the January 1996 rate increase being calculated on a depressed rate base. Revenue at Yellow Freight also increased from a fuel surcharge program implemented in September 1996 to offset higher fuel costs. Yellow Freight's less-than-truckload (LTL) revenue per ton in the fourth quarter of 1996 was 4.7 percent higher than the fourth quarter of 1995.

Benefiting from aggressive cost reduction programs, operating expenses for Yellow Freight on a per ton basis were up only 0.6 percent in 1996. This was in spite of higher fuel costs throughout the year, severe winter weather experienced in the first quarter and a 3.8 percent increase on April 1 in union wages and benefits. Higher productivity, including an improvement in load average, helped moderate other increases in operating costs. The improvement in load average was especially evident when compared to the last half of 1995. Load average trended down

significantly in that period due to the transit time improvement program implemented in the third quarter of 1995. As this program was adjusted, the down trend in load average was reversed and by the end of the second quarter of 1996 had substantially improved to levels being achieved prior to the program.

A series of focused cost reduction initiatives were begun at the end of 1995 which included employee reductions, general and administrative expense cutbacks, the implementation of a "best practices" program and a variety of other initiatives. The best practices program involves the use of those procedures being practiced at the most successful terminals throughout the network. During 1996 these programs achieved a targeted \$75 million in cost reductions and involve a running rate which should benefit future years by a greater amount.

During 1996, price increases in fuel cost Yellow Freight about \$15 million. These additional costs were offset by a fuel hedging program and the fuel surcharge.

Preston Trucking Company, Inc. (Preston Trucking) had operating revenue of \$418 million in 1996, a 1.5 percent increase over the \$411 recorded in 1995. The operating ratio for Preston Trucking in 1996 was 101.4, the same as in the prior year. Preston Trucking was adversely impacted by the severe winter weather in the first quarter of 1996 because of the concentration of its business in the Northeast and upper Midwest. In addition, first quarter results suffered from shipper uncertainty regarding a union vote on a company proposal to freeze wages which at that time were already 5.0 percent below full contract rates. In February, union members approved the wage proposal enabling Preston Trucking to avoid a 1.8 percent wage increase scheduled to be effective April 1, 1996, thus increasing the discount from full rates to 6.8 percent. Health, welfare and pension costs for union employees were not frozen and increased 9.0 percent on April 1, 1996.

In the second quarter, a new management team took over at Preston Trucking. As the year progressed, Preston Trucking's results improved and were stronger than comparable 1995 periods. Preston recorded an operating ratio of 99.4 in the second half of the year, a 3.7 point improvement over the ratio in the last half of 1995. Nonunion employee turnover, which had been a significant problem, also improved dramatically to more reasonable levels.

Preston Trucking's revenue per ton improved 3.0 percent in 1996 over 1995. The improvement largely occurred in the second half of the year due to specific rate actions and programs to improve revenue quality. Preston Trucking implemented a fuel surcharge in June and a general rate increase that averaged 5.2 percent in late November. LTL revenue per ton was up 6.6 percent in the fourth quarter of 1996 compared to the fourth quarter of 1995. Preston Trucking was also able to offset higher fuel costs through a combination of a fuel hedging program and the fuel surcharge.

Saia Motor Freight Line, Inc. (Saia) again grew at double digit rates in 1996 recording revenue of \$264 million compared to 1995 revenue of \$210 million, an increase of 26.1 percent. Total tonnage increased by 17.4 percent with LTL tonnage up 24.6 percent and truckload tonnage up 1.9 percent. The higher revenue and tonnage resulted from the full year impact of Saia's significant growth in geographical coverage during 1994 and 1995 as well as an overall improvement in lane density. Saia also benefited from a 7.4 percent improvement in revenue per ton partially due to a 2.4 percent increase in LTL revenue per hundredweight as well as a higher concentration of LTL freight in the freight mix.

Saia's operating ratio improved to 95.9 compared to 96.3 in 1995. The improved yield was partially offset by higher salaries and wages which went from 58.8 percent of revenue to 59.8 percent of revenue in 1996 due to wage increases and a higher mix of LTL freight. Higher fuel costs and claims and insurance expense increases were offset by lower purchased transportation expense which declined due to the purchase of additional equipment and better asset utilization.

Continued

WestEx, Inc. (WestEx) the company's only other operating subsidiary, continued to enjoy rapid growth, almost doubling its annual revenue to \$33 million in 1996.

Corporate interest expense declined from \$23.4 million to \$21.0 million primarily due to lower borrowing levels.

1995 VS. 1994

CONSOLIDATED RESULTS (in millions)

	1995	1994
Revenue	\$3,057	\$2,867
Net Income (Loss)	\$(30.1)	\$(7.9)
EPS	\$(1.07)	\$(.28)

Operating revenue for Yellow Corporation totaled \$3.06 billion in 1995, up 6.6 percent from \$2.87 billion in 1994. The increase in revenue primarily resulted from the recovery of lost revenue due to the 24-day labor strike in 1994 by the International Brotherhood of Teamsters (Teamsters) against Yellow Freight. Excluding the impact of the strike, operating revenue increased only nominally due to other volume gains being substantially offset by lower prices. The lower prices resulted from competitive discounting and industry overcapacity.

The company had a net loss of \$30.1 million, or \$1.07 per share in 1995, compared to the strike-induced net loss of \$7.9 million, or \$.28 per share, in 1994. The 1995 loss resulted from the deterioration in prices and a variety of cost increases. The cost increases in general involved the following areas: annual labor cost increases; increased expenses resulting from service enhancements; corporate development costs including business expansions at Saia and WestEx; and certain nonrecurring costs.

Yellow Freight's revenue was \$2.36 billion in 1995, an increase of 6.4 percent over 1994. Yellow Freight experienced a deterioration in its operating ratio from 99.2 in 1994 to 100.1 in 1995. Tonnage increased 7.7 percent, demonstrating the recovery of business from the strike-impacted 1994 levels, although rate increases were more than offset by price discounting with LTL revenue per ton declining by 1.5% in 1995.

On April 1, 1995, union wages and benefits increased approximately 3.2 percent. In addition, Yellow Freight incurred higher expenses in the third and fourth quarters when it implemented a transit time improvement program. For 1995 compared to 1994, transit times improved by approximately one day, resulting in higher costs associated with a 5.7 percent lower load average and a 14.0 percent increase in total linehaul miles. Some cost savings were obtained by an increase in direct loadings which reduced rehandlings by 8.7 percent. Additional savings were achieved through an increased use of rail transportation from 13.1 percent of total miles in 1994 to 17.5 percent in 1995 and the elimination of forced overtime for dockworkers, both provisions of the 1994 labor contract. Through reengineering and the use of new technology, Yellow Freight began achieving administrative cost reductions in 1995 by consolidating customer service and cashiering functions from its individual terminals into two centralized locations.

Preston Trucking had revenue of \$411 million, a decrease of 1.3 percent from 1994. Preston Trucking's operating ratio in 1995 was 101.4 compared to 101.3 in 1994. The 1994 performance was subject to severe winter weather, impacts from the second quarter strike, including benefits from an early return to work, and shipper uncertainty concerning a wage reduction process (see 1994 vs. 1993 discussion), all of which did not recur in 1995. However, 1995 was subject to severe industry-wide price discounting as well as a relatively greater labor cost increase. Improved productivity, positive cargo claims experience and reductions in purchased transportation expense contributed to offsetting the higher wage and benefit costs.

Saia revenue grew 17.7 percent to \$210 million due to geographical expansions in several states in 1994 and 1995. Saia's operating ratio increased to 96.3 in 1995 from 93.5 in 1994. Saia was impacted by industry price discounting, but the

margin deterioration was primarily caused by increased wages and the impacts of the expansions. The deregulation of intrastate markets in January 1995 also increased competition in Louisiana and Texas, where Saia held operating rights advantages. This was partially offset by new access for Saia in various other states' intrastate markets.

The remaining operating entities of the company comprised less than 3 percent of consolidated 1995 revenue and include Yellow Logistics Services, Inc. (Yellow Logistics), CSI/ Reeves, Inc. (CSI), WestEx and the Yellow Corporation holding company. During 1995, Yellow Logistics was realigned and CSI was sold. WestEx expanded from its traditional Arizona and New Mexico market into California.

Corporate interest expense increased from \$18.4 million in 1994 to \$23.4 million in 1995 due to increased debt levels, primarily resulting from lower net income, increased working capital requirements, and capital expenditures. Accounts receivable days outstanding increased at Yellow Freight due to both market forces and transition implementation issues related to a new system for customer billing and stating.

The fourth quarter 1995 results included a nonrecurring charge of \$6.6 million after taxes, or \$.23 per share, pertaining to implementation of cost reduction programs, the realignment of Yellow Logistics and other expenses primarily related to severance costs.

1994 VS. 1993

CONSOLIDATED RESULTS (in millions)

	1994	1993
Revenue	\$2,867	\$2,857
Net Income (Loss)	\$ (7.9)	\$ 18.8
EPS	\$ (.28)	\$.67

Operating revenue for the company totaled \$2.87 billion in 1994, an increase of \$11.0 million from 1993. The flat revenue was due to a 24-day national labor strike in April by the Teamsters against Yellow Freight, which essentially offset other revenue increases. The company realized \$85 million more revenue from the inclusion of Preston Corporation (Preston) for twelve months in 1994 versus ten months in 1993. An additional \$105 million of increased revenue was generated by full-year growth at the subsidiaries, exclusive of the labor strike impact.

The company had a net loss of \$7.9 million, or \$.28 per share, in 1994, compared to net income of \$18.8 million, or \$.67 per share in 1993. The 1994 net loss resulted primarily from the labor strike which reduced earnings by an estimated \$1.24 per share. An extraordinary item of \$4.1 million after taxes, or \$.14 per share, to write off the value of intrastate operating rights, also negatively impacted 1994 results. Net income in 1993 included an \$11.2 million, or \$.40 per share, charge for network development at Yellow Freight as well as a reduction of \$1.6 million, or \$.06 per share, from the impact of the statutory increase in the U.S. federal tax rate on the company's deferred tax liabilities.

As a result of the labor strike, Yellow Freight experienced a 5.8 percent decrease in revenue for 1994 (\$2.22 billion) versus 1993 (\$2.36 billion). Rate increases in January 1994 were offset by a 6.6 percent decrease in tonnage levels and a 12.3 percent decline in the number of shipments handled from 1993. However, the new four-year labor contract provides Yellow Freight greater operational flexibility while giving Teamster employees increased wages, benefits and job security.

Yellow Freight's earnings were also negatively impacted by severe winter weather experienced in the first quarter of 1994 which caused significant business disruptions and higher operating expenses. Slightly lower employee levels were offset by wage and benefit increases of approximately 3 percent effective April 1 under the new labor agreement. Operating expenses and supplies increased as a percent of revenue, primarily due to the fixed component of certain of these costs and increases in equipment

Continued

maintenance and general expenses. Purchased transportation costs were higher in 1994 as a result of increased rail usage in the third and fourth quarters.

Preston Trucking had revenue of \$417 million in 1994, an increase of 4.9 percent compared to 1993. However, their operating margin deteriorated slightly during the year as a result of severe winter weather in the Northeast during the first quarter, the impact of the second quarter strike and shipper uncertainty concerning approval of the wage reduction agreement described below. Preston Trucking saw a dramatic increase in revenue during the second quarter of 1994 as they returned to work under an interim agreement with the Teamsters after only six days on strike. The increased business adversely affected service performance and costs, reducing profitability in the latter part of the second quarter and into the third quarter. In mid-1994, the Teamster employees of Preston Trucking approved a plan to reduce wages in return for a share of profits if certain operating results are achieved. The plan lessened pay by 7.0 percent from standard wages under the new contract for the period April 1, 1994 to March 31, 1995 and by 5.0 percent for the period April 1, 1995 to March 31, 1996.

Saia maintained an operating ratio of 92.0 in 1994 as it expanded geographically in Texas, Tennessee and Georgia. Start up costs for these expansions increased 1994 operating expenses. Saia, with revenue of \$138 million in 1994, achieved a 14.7 percent increase in revenue compared to 1993 due to growth and second quarter benefits from the labor strike. Effective January 1, 1995, Smalley Transportation Company, which had revenue of \$40 million in 1994, was merged into Saia to offer customers more comprehensive regional coverage and to reduce costs.

FINANCIAL CONDITION

The company's liquidity needs arise primarily from capital investment in new equipment and information technology, and funding working capital requirements.

Net capital expenditures in 1996 totaled only \$46 million, down from \$140 million in 1995. This dramatic reduction in capital expenditures was designed to decrease capacity and limit reinvestment in the business given recent year losses. As a result, the company used internally generated funds to aggressively pay down debt. Capital expenditures were primarily for additional and replacement revenue equipment to support the growth at Saia and to replace some revenue equipment at Yellow Freight. Additional expenditures were used to fund technology investments. Projected net capital expenditures for 1997 are \$109 million and will mainly be used for replacement of revenue equipment at Yellow Freight and Saia and for additional investments in information technology. Actual and projected net capital expenditures are summarized below (in millions):

	Projected 1997	Actual		
		1996	1995	1994
Land and structures:				
Additions	\$ 10	\$ 11	\$ 13	\$28
Sales	(17)	(10)	(16)	(25)
Revenue equipment	89	26	74	98
Other	27	19	69	50
Total	\$109	\$ 46	\$140	\$151

Debt reduction has been a priority at the company throughout 1996. Management committed to reducing debt by at least \$100 million by year-end. Total debt declined from \$354 million to \$196 million at year-end 1996. Almost \$117 million of commercial paper was repaid, \$9 million of unsecured bank lines were paid off and medium term notes were reduced by over \$23 million. Historically, the company has generated strong cash flows from operating activities. The decreased capital spending described above provided the largest source of funding for debt paydown. A portion of the reduction was also achieved through the sale of \$45 million under an accounts receivable sales agreement described below. Additionally, the company received a federal income tax refund

totaling \$45 million and repatriated approximately \$23 million from a Canadian subsidiary.

TOTAL DEBT (in millions)/DEBT TO CAPITAL

	Total Debt	Debt to Capital
1996	196	33.1
1995	354	45.5
1994	248	35.0
1993	227	31.8
1992	134	21.6

Early in 1996 a major rating agency lowered its rating on the company's commercial paper. While the company continued to issue commercial paper throughout 1996 it became a less cost effective way to finance short-term working capital needs. In August 1996 the company entered into an \$150 million, three year accounts receivable revolving sales agreement with a major bank. This agreement permits the sale of accounts receivable to a wholly owned special purpose corporation which in turn sells an undivided interest to a third party affiliate of the bank. Funds raised by this method are less expensive to the company than issuing commercial paper.

Working capital declined from a positive \$42 million at year-end 1995 to a negative \$34 million at year-end 1996. The company can operate with negative working capital because of the quick turnover of its accounts receivable and its ready access to sources of short-term liquidity.

Management anticipates that the company's liquidity will be adequate and that its financial condition will continue to improve in 1997. Operating results should improve in 1997 and capital expenditures, while higher than in 1996, will still be below the expected depreciation for the year, thus allowing some additional debt reduction. To ensure short-term liquidity, the company has a \$200 million bank credit agreement that expires in June 2000. While this facility is also used to provide letters of credit, approximately \$145 million remained available at year-end 1996. In addition, \$105 million of capacity remained available under the accounts receivable sales agreement at year-end 1996. Access to this facility, however, is dependent on the company having adequate eligible receivables, as defined under the agreement, available for sale. Finally, the company also expects to continue to have access to the commercial paper market and to short-term unsecured bank credit lines.

OTHER

The company uses heating oil swaps and fixed price diesel fuel agreements to manage a portion of its exposure to fluctuating diesel prices. About 50 percent of the company's total annual fuel usage was covered by such agreements in 1996. Due to the high cost of diesel fuel, however, the company has chosen not to enter into new contracts at current prices, resulting in a lower overall percentage of anticipated fuel consumption being covered by these agreements to date. Approximately 20 percent of the company's total anticipated 1997 fuel usage is currently covered. Under the heating oil swap and option agreements, the company receives or makes payments based on the difference between a fixed price and a variable price for heating oil. The fair value of the hedge position at December 31, 1996 was \$3.1 million above the purchase price. Gains and losses on the agreements are recognized as a component of fuel expense when the corresponding fuel is purchased.

A "pay for performance" incentive compensation plan was initiated by the company which will reward employees based on operating income and return on capital goals. Additionally, the company adopted a stock option program granting an initial 1.5 million shares to approximately 100 key management personnel to better align compensation to shareholder performance.

The effective income tax rate was (20.8) percent in 1996, (33.1) percent in 1995 and 14.0 percent in 1994. The notes to consolidated financial statements contain an analysis of the income tax provision and the effective tax rate.

Continued

FUTURE OUTLOOK

Throughout 1996 the company has made many changes designed to improve future performance, especially at Yellow Freight. The restructuring of Yellow Freight into five business units is designed to decentralize responsibility for critical business processes. Decisions that touch the customer will be made more quickly in order to be more responsive to their shipping expectations. The new alignment will also allow more efficient use of the leading edge technology Yellow Freight has developed to react more quickly to customer needs.

Cost reduction initiatives begun at Yellow Freight in late 1995 were successfully pursued and achieved targeted savings of \$75 million in 1996. These programs will have a full year impact in 1997 and are expected to save in excess of \$90 million. A second phase of cost reduction initiatives, based on recommendations of employee teams who studied various operational areas at Yellow Freight, will be implemented in 1997 and should further reduce costs by an additional increment. In connection with some of these recommendations, Yellow Freight filed a change of operations with the Teamsters on January 31, 1997. The operations change is expected to be implemented in April 1997, and is projected to increase the use of rail transportation from 18 percent to 27 percent of over the road miles thereby lowering costs. The increased use of rail, improved productivity and continued terminal network enhancements seek to improve the company's asset utilization and return on capital.

On April 1, 1997 Yellow Freight's wages and benefits will increase approximately 3.8 percent as required by the terms of the industry collective bargaining agreement with the Teamsters. This agreement extends through March 31, 1998.

Effective January 1997 Yellow Freight implemented a general rate increase of 5.2 percent and maintained a separate fuel surcharge program. These increases seek to not only offset ongoing cost increases but also help improve shareholder returns which continue to be inadequate. Similar rate increases for the other operating subsidiaries were implemented in late 1996. The LTL trucking industry remains highly competitive and the company intends to improve its shareholder returns through aggressive cost management, improved asset utilization and an increased focus on marketing and customer service.

Preston Trucking seeks to continue its positive momentum in 1997. Plans to further improve performance in 1997 focus on pricing discipline, improved marketing, and improvements in labor productivity. The wage freeze plan approved by its union employees in 1996 means it will not have to raise wages on April 1. This will then leave Preston Trucking wages 8.9 percent below full-scale pay levels. Health, welfare and pension benefit costs, however, will increase by 8.2 percent on April 1, 1997. Preston's labor agreement also extends until March 31, 1998.

Saia plans to improve its margins and leverage the benefits of recent year expansions and tonnage increases. Productivity improvements are an important priority as well as better pricing, improved marketing and further tonnage growth. This growth, however, is expected to come more from building business density in existing service areas rather than from geographical expansion. WestEx expects to continue to grow rapidly through increased business density. A small operating profit is planned for WestEx in 1997.

The foregoing information contains forward-looking statements that are based on current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from current expectations due to a number of factors. The strength of the national economy, the actions of competitors especially as they affect pricing stability, the impact of weather on company operations, union relations, actual future costs of operating expenses such as fuel and related taxes, self-insurance claims and employee wages and benefits, actual costs of continuing investments in revenue equipment and technology, availability and cost of capital and the ability of the company to implement the cost reduction programs discussed are all significant variables affecting future performance.

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COMPANY	SERVICES	PROFILE
[YELLOW FREIGHT LOGO]	National LTL International LTL/LCL Express LTL Rail Intermodal Heavy Load / Truckload Chemical LTL Exhibit LTL Integrated Logistics Information Technology Services	24,000 employees 397 terminals, substations & service centers 9,100 tractors / 34,000 trailers 300,000 customers Delivered 8.3 million tons of freight in 1996. Web address: http://www.yellowfreight.com
[PRESTON TRUCKING LOGO]	Regional LTL - Northeast and upper Midwest Overnight & Second-Day delivery Guaranteed expedited service Canadian service	5,500 employees 77 terminals, substations & service centers 190,000 customers 2,100 tractors / 6,200 trailers Delivered 2.3 million tons of freight in 1996. Web address: http://www.yellowcorp.com /Preston/index.htm
[SAIA LOGO]	Regional LTL - Southeast Overnight & Second-Day delivery Guaranteed expedited service Canadian service	3,900 employees 73 terminals, substations & service centers 90,000 customers 1,700 tractors / 4,000 trailers Delivered 2.0 million tons of freight in 1996 Web address http://www.saia.com
[WEST EX]	Regional LTL - Southwest Overnight & Second-Day delivery Guaranteed expedited service	700 employees 30 terminals, substations & service centers 3,000 customers 170 tractors / 740 trailers Delivered 204,000 million tons of freight in 1996 Web address http://www.westex-inc.com

FINANCIAL SUMMARY

Yellow Corporation and Subsidiaries
(Amounts in thousands except per share data)

	1996 (a)	1995	1994(b)	1993(c)
	-----	-----	-----	-----
FOR THE YEAR:				
Operating revenue	\$3,072,550	\$3,056,640	\$2,867,492	\$2,856,505
Income (loss) from operations	(13,515)	(21,588)	11,011	53,893
Depreciation	130,098	135,265	133,970	132,371
Interest expense	21,036	23,395	18,433	17,668
Income (loss) before income taxes	(34,301)	(45,021)	(3,375)	35,358
Income (loss) before extraordinary items and cumulative effect of accounting changes	(27,180)	(30,122)	(3,848)	18,801
Net income (loss)	(27,180)	(30,122)	(7,906)	18,801
Net cash from operating activities	197,521	44,166	157,448	138,802
Capital expenditures, net	46,358	140,254	150,940	66,786
AT YEAR-END:				
Net property and equipment	812,690	921,848	918,101	892,600
Total assets	1,227,807	1,434,897	1,307,221	1,265,654
Long-term debt	192,492	341,648	240,019	214,176
Total debt	196,153	353,573	247,760	226,503
Shareholders' equity	395,700	422,677	460,843	486,453
MEASUREMENTS:				
Per share data:				
Income (loss) before extraordinary items and cumulative effect of accounting changes	(.97)	(1.07)	(.14)	.67
Net income (loss)	(.97)	(1.07)	(.28)	.67
Cash dividends	-	.47	.94	.94
Shareholders' equity	14.08	15.04	16.40	17.31
Total debt as a % of total capitalization	33.1 %	45.5 %	35.0 %	31.8%
Return on average shareholders' equity	(6.6)%	(6.8)%	(1.7)%	3.9%
Market price range:				
High	16 3/8	24 3/8	30 1/4	29 7/8
Low	10 1/4	11 7/8	16 3/4	16 7/8
Average number of employees	34,100	34,700	33,400	35,000

(a) 1996 results include a special charge of \$28.3 million after taxes resulting from the write down of certain nonoperating real estate and computer software assets, an early retirement program, the reduction of a company car program and other organizational design impacts, primarily severance.

(b) 1994 results include the effect of a 24-day Teamster strike at Yellow Freight System.

(c) 1993 amounts include the operating results of Preston Corporation effective March 1, 1993. The 1993 results also include a network development charge of \$11.2 million after taxes and a charge of \$1.6 million to reflect the impact of a higher tax rate on the company's deferred tax liabilities.

1992	1991	1990	1989(d)	1988	1987	1986
\$2,262,676	\$2,344,143	\$2,302,421	\$2,219,755	\$2,016,466	\$1,759,992	\$1,713,731
82,814	56,907	119,774	48,041	117,786	78,089	135,619
118,419	124,687	128,134	123,268	108,353	98,982	86,850
12,150	14,159	15,763	15,452	12,254	9,172	7,441
65,393	40,348	101,905	26,533	104,997	64,360	123,259
41,040	26,654	65,319	18,585	68,962	41,284	67,084
29,540	26,654	65,319	47,785	68,962	41,284	69,719
139,438	146,954	219,463	179,481	204,943	140,163	169,745
78,651	104,668	162,316	182,232	180,587	152,684	176,622
803,779	842,849	862,272	829,447	774,642	702,664	649,552
1,061,012	1,097,771	1,116,005	1,081,665	1,020,724	923,867	862,359
123,027	145,584	163,703	186,680	168,902	126,241	75,390
134,077	156,707	174,169	192,067	174,223	144,189	112,253
485,496	475,869	468,944	438,588	408,986	392,923	376,370
1.46	.95	2.31	.65	2.40	1.44	2.35
1.05	.95	2.31	1.66	2.40	1.44	2.44
.94	.94	.82	.73	.66	.62	.58
17.28	16.94	16.70	15.24	14.21	13.82	13.14
21.6%	24.8%	27.1%	30.5%	29.9%	26.8%	23.0%
6.1%	5.6%	14.4%	11.3%	17.2%	10.7%	20.0%
32 3/8	33 1/2	31 1/4	32 7/8	34	42 1/2	41 1/8
21 3/4	23 3/4	18 3/4	23 7/8	23 7/8	20 7/8	27 1/2
26,800	28,700	28,900	29,200	27,200	25,500	23,400

(d) 1989 results include an increase in reserves for workers' compensation and other reserves of \$27.7 million after taxes.

CONSOLIDATED BALANCE SHEETS

Yellow Corporation and Subsidiaries
 December 31, 1996 and 1995
 (Amounts in thousands except share data)

ASSETS	1996	1995

CURRENT ASSETS:		
Cash	\$24,800	\$ 25,861
Short-term investments	-	5,414
Accounts receivable, less allowances of \$13,819 and \$16,781	280,758	323,814
Fuel and operating supplies	15,426	16,909
Refundable income taxes	6,150	49,529
Prepaid expenses	62,874	63,483

Total current assets	390,008	485,010

PROPERTY AND EQUIPMENT:		
Land	120,172	137,112
Structures	607,104	611,284
Revenue equipment	963,442	969,960
Other	275,080	271,033

Less - Accumulated depreciation	1,965,798	1,989,389
	1,153,108	1,067,541

Net property and equipment	812,690	921,848

OTHER ASSETS	25,109	28,039

	\$1,227,807	\$1,434,897

	=====	=====

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

LIABILITIES AND SHAREHOLDERS' EQUITY	1996	1995

CURRENT LIABILITIES:		
Unsecured bank credit lines	\$ -	\$ 9,000
Checks outstanding	75,250	72,667
Accounts payable	76,288	81,986
Wages, vacations and employees' benefits	132,255	134,178
Deferred income taxes	17,658	19,818
Claims and insurance accruals	79,541	79,853
Other current and accrued liabilities	39,052	42,369
Current maturities of long-term debt	3,661	2,925

Total current liabilities	423,705	442,796

OTHER LIABILITIES:		
Long-term debt	192,492	341,648
Deferred income taxes	31,555	56,032
Claims, insurance and other	184,355	171,744

Total other liabilities	408,402	569,424

SHAREHOLDERS' EQUITY:		
Series A \$10 Preferred stock, \$1 par value - authorized 750,000 shares, none issued	-	-
Preferred stock, \$1 par value - authorized 4,250,000 shares, none issued	-	-
Common stock, \$1 par value - authorized 120,000,000 shares, issued 28,863,285 and 28,857,537 shares	28,863	28,858
Capital surplus	6,745	6,678
Retained earnings	377,712	404,761
Treasury stock, at cost (751,740 shares)	(17,620)	(17,620)

Total shareholders' equity	395,700	422,677

	\$1,227,807	\$1,434,897
	=====	=====

STATEMENTS OF CONSOLIDATED OPERATIONS

Yellow Corporation and Subsidiaries
 For the Years Ended December 31
 (Amounts in thousands except per share data)

	1996	1995	1994

OPERATING REVENUE	\$3,072,550	\$3,056,640	\$2,867,492

OPERATING EXPENSES:			
Salaries, wages and employees' benefits	2,040,950	2,051,277	1,918,406
Operating expenses and supplies	472,413	473,356	433,789
Operating taxes and licenses	113,942	115,120	110,004
Claims and insurance	74,931	70,376	76,953
Communications and utilities	42,740	44,412	41,064
Depreciation	130,098	135,265	133,970
Purchased transportation	164,853	188,422	142,295
Special charge	46,138	-	-

Total operating expenses	3,086,065	3,078,228	2,856,481

INCOME (LOSS) FROM OPERATIONS	(13,515)	(21,588)	11,011

NONOPERATING (INCOME) EXPENSES:			
Interest expense	21,036	23,395	18,433
Interest income	(2,287)	(2,100)	(2,202)
Other, net	2,037	2,138	(1,845)

Nonoperating expenses, net	20,786	23,433	14,386

INCOME (LOSS) BEFORE INCOME TAXES	(34,301)	(45,021)	(3,375)
INCOME TAX PROVISION (BENEFIT)	(7,121)	(14,899)	473

INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(27,180)	(30,122)	(3,848)
EXTRAORDINARY ITEM - WRITE-OFF OPERATING RIGHTS	-	-	(4,058)

NET INCOME (LOSS)	\$ (27,180)	\$ (30,122)	\$ (7,906)

AVERAGE COMMON SHARES OUTSTANDING	28,110	28,106	28,107

EARNINGS (LOSS) PER SHARE:			
Income (loss) before extraordinary item	\$ (.97)	\$ (1.07)	\$ (.14)
Extraordinary item - write-off operating rights	-	-	(.14)

Net income (loss)	\$ (.97)	\$ (1.07)	\$ (.28)

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

STATEMENTS OF CONSOLIDATED CASH FLOWS
Yellow Corporation and Subsidiaries
For the Years Ended December 31
(Amounts in thousands)

	1996	1995	1994
OPERATING ACTIVITIES:			
Net income (loss)	\$ (27,180)	\$(30,122)	\$ (7,906)
Noncash items included in income (loss):			
Depreciation	130,098	135,265	133,970
Special charge	46,138	-	-
Write-off operating rights	-	-	4,058
Deferred income tax provision (benefit)	(26,481)	29,641	4,147
Accounts receivable securitizations, net	45,000	-	-
Changes in assets and liabilities, net:			
Accounts receivable	(1,944)	(34,064)	(17,263)
Accounts payable and checks outstanding	(3,115)	40,273	46,060
Other working capital items	30,661	(82,593)	(13,477)
Claims, insurance and other	(245)	(3,437)	12,007
Other, net	4,589	(10,797)	(4,148)
Net cash from operating activities	197,521	44,166	157,448
INVESTING ACTIVITIES:			
Acquisition of property and equipment	(58,384)	(163,426)	(182,885)
Proceeds from disposal of property and equipment	12,026	23,172	31,945
Purchases of short-term investments	(1,684)	(7,759)	(8,957)
Proceeds from maturities of short-term investments	7,098	9,650	8,429
Other, net	-	5,106	(6,244)
Net cash used in investing activities	(40,944)	(133,257)	(157,712)
FINANCING ACTIVITIES:			
Unsecured bank credit lines, net	(9,000)	9,000	-
Commercial paper, net	(116,627)	69,510	33,981
Proceeds from issuance of long-term debt	-	56,497	14,000
Repayment of long-term debt	(32,011)	(24,457)	(17,701)
Cash dividends	-	(13,210)	(26,416)
Other, net	-	(1)	76
Net cash from (used in) financing activities	(157,638)	97,339	3,940
NET INCREASE (DECREASE) IN CASH	(1,061)	8,248	3,676
CASH, BEGINNING OF YEAR	25,861	17,613	13,937
CASH, END OF YEAR	\$ 24,800	\$25,861	\$ 17,613
SUPPLEMENTAL CASH FLOW INFORMATION:			
Income taxes (received) paid, net	\$(23,508)	\$10,793	\$ 1,245
Interest paid	\$ 20,642	\$21,018	\$ 18,103

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

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

Yellow Corporation and Subsidiaries
(Amounts in thousands except share data)

	Common Stock	Capital Surplus	Retained Earnings	Shares Held by Stock Sharing Plan	Treasury Stock

BALANCE, DECEMBER 31, 1993	\$ 28,850	\$6,469	\$483,586	\$(14,880)	\$(17,572)
Net loss	-	-	(7,906)	-	-
Cash dividends, \$.94 per share	-	-	(26,416)	-	-
Exercise of stock options, 7,700 shares	8	117	-	-	-
Amortization of unearned compensation	-	92	-	-	-
Reduction of Stock Sharing Plan debt guarantee	-	-	-	9,919	-
Purchase of treasury stock	-	-	-	-	(47)
Foreign equity translation adjustment	-	-	(1,377)	-	-

BALANCE, DECEMBER 31, 1994	28,858	6,678	447,887	(4,961)	(17,619)
Net loss	-	-	(30,122)	-	-
Cash dividends, \$.47 per share	-	-	(13,210)	-	-
Reduction of Stock Sharing Plan debt guarantee	-	-	-	4,961	-
Purchase of treasury stock	-	-	-	-	(1)
Foreign equity translation adjustment	-	-	206	-	-

BALANCE, DECEMBER 31, 1995	28,858	6,678	404,761	-	(17,620)
Net loss	-	-	(27,180)	-	-
Restricted stock awards, 5,748 shares	5	(5)	-	-	-
Amortization of unearned compensation	-	72	-	-	-
Foreign equity translation adjustment	-	-	131	-	-

BALANCE, DECEMBER 31, 1996	\$28,863	\$6,745	\$377,712	\$ -	\$(17,620)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Yellow Corporation and Subsidiaries

PRINCIPLES OF CONSOLIDATION AND SUMMARY OF ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Yellow Corporation and its wholly-owned subsidiaries (the company). All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions which affect the amounts reported in the financial statements and footnotes. Actual results could differ from those estimates.

The company provides transportation services primarily to the less-than-truckload (LTL) market throughout North America. Principal operating subsidiaries are Yellow Freight System, Inc. (Yellow Freight), Preston Trucking Company, Inc. (Preston Trucking) and Saia Motor Freight Line, Inc. (Saia).

Major accounting policies and practices used in the preparation of the accompanying financial statements not covered in other notes to consolidated financial statements are as follows:

- - Cash includes demand deposits and highly liquid investments purchased with original maturities of three months or less. All other investments, with maturities less than one year, are classified as short-term investments and are stated at cost which approximates market.

- - Fuel is carried at cost. The company uses heating oil swap and fixed price agreements to manage a portion of its exposure to fluctuating diesel prices. Under the heating oil swap and option agreements the company receives or makes payments based on the difference between a fixed and a variable price for heating oil. These agreements provide protection from rising fuel prices, but limit the ability to benefit from price decreases below the purchase price of the agreement. At December 31, 1996 the company had agreements with financial institutions and oil companies to exchange payments on 31.4 million gallons at a fixed cost averaging \$.54 per gallon over the next 11 months, representing 20% of total anticipated annual fuel usage. At December 31, 1995 the company had agreements on 83.3 million gallons at a fixed cost averaging \$.50 per gallon over the next 14 months, representing 50% of total anticipated annual fuel usage. Based on quoted market prices, the fair value of the hedge position at December 31, 1996 and 1995 was \$3.1 million and \$2.0 million above its purchase price. Gains and losses on the agreements are recognized as a component of fuel expense when the corresponding fuel is purchased.

- - Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the following service lives:

	Years

Structures	10-40
Revenue equipment	5-10
Other operating property	2-10

- - Maintenance and repairs are charged to operations currently; replacements and improvements are capitalized. When revenue equipment is traded, the basis of the new equipment is reduced when the trade-in allowance exceeds the basis of the old equipment. The gain or loss for all other dispositions is reflected in other nonoperating (income) expense.

- - The company had previously announced plans to invest over \$100 million in technology over a multi-year period. The investment was designed to enable significant improvements in the customer service and freight management areas. The investment consists primarily of advanced communications equipment and related software. In the fourth quarter of 1996, management determined that a portion of the software related to the freight management area would not be placed in use in the foreseeable future and recognized an impairment loss of \$8 million as part of the special charge at Yellow Freight.

As of December 31, 1996, the company had an investment of \$50 million in the projects. Of that amount \$29 million has been placed into service. The remaining \$21 million represents other systems applications in various stages of completion. These applications are expected to be placed in service and management believes the related costs are realizable. The company is still evaluating future investments in mobile data terminals which will impact whether the total technology investment will meet or exceed \$100 million.

PRINCIPLES OF CONSOLIDATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

- - Acquisitions have been accounted for by the purchase method. Earnings of the acquired companies are included in the accompanying consolidated financial statements since the date of acquisition. The excess of the purchase price over net assets acquired is included with other long-term assets and is being amortized over 20 years using the straight-line method.

- - Claims and insurance accruals, both current and long-term, reflect the estimated cost of claims for workers' compensation, cargo loss and damage, and bodily injury and property damage not covered by insurance. These costs are included in claims and insurance expense except for workers' compensation which is included in employees' benefits expense.

Reserves for workers' compensation are based upon actuarial analyses prepared by independent actuaries and are discounted to present value using a risk-free rate. The risk-free rate is the U.S. Treasury rate for maturities that match the expected pay-out of workers' compensation liabilities. The process of determining reserve requirements utilizes historical trends and involves an evaluation of claim frequency, severity and other factors. The effect of future inflation for both medical costs and lost wages is implicitly considered in the actuarial analyses. Adjustments to previously established reserves are included in operating results.

At December 31, 1996 and 1995, estimated future payments for workers' compensation claims aggregated \$156.5 million and \$164.9 million. The present value of these estimated future payments was \$130.0 million at December 31, 1996 and \$142.6 million at December 31, 1995.

- - Revenue is recognized on a percentage completion basis while expenses are recognized as incurred.

- - Certain reclassifications have been made to the prior year consolidated financial statements to conform with current presentation.

- - The earnings per share data is computed based on the weighted average number of shares of common stock outstanding. The exercise of outstanding stock options would not result in a material dilution of the earnings per share.

DEBT AND FINANCING

At December 31, debt consisted of the following (in thousands):

	1996	1995
Unsecured bank credit lines	\$ -	\$ 9,000
Commercial paper	11,832	128,459
Medium term notes	125,000	148,500
Industrial development bonds	26,600	32,100
Capital leases and other	7,113	10,124
Subordinated debentures	25,608	25,390
Total debt	196,153	353,573
Less - Unsecured bank credit lines	-	9,000
Current maturities	3,661	2,925
Total long-term debt	\$ 192,492	\$ 341,648

DEBT AND FINANCING (CONTINUED)

The company has a five year \$200 million unsecured credit agreement with a group of banks which expires June 23, 2000. The agreement may be used for short-term borrowings or for the issuance of standby letters of credit. Interest on borrowings is based, at the company's option, at a fixed increment over the London interbank offered rate, or at the agent bank's base rate. The company may also solicit competitive bids from the bank group. There are no compensating balances required but a facility fee is charged. Under the terms of the agreement the company must maintain a minimum consolidated tangible net worth and annual cash flow must be a specified ratio of total debt. At December 31, 1996 and 1995, the company was in compliance with all terms of the credit agreement. At December 31, 1996 there were no borrowings outstanding, but \$55 million of letters of credit had been issued under the agreement. There were no borrowings under this credit agreement or its predecessor in 1995.

Effective August 2, 1996, the company entered into a \$150 million, three year accounts receivable sales agreement with a major bank. The agreement involves the sale of accounts receivable to a wholly owned, special purpose corporation (SPC). The SPC in turn sells an undivided interest in a revolving pool of eligible receivables as funding is required. Under terms of the agreement, the SPC's assets are available to satisfy its obligations prior to any distribution to its shareholders. The company maintains responsibility for processing and collecting all receivables. Accounts receivable at December 31, 1996 are net of \$45 million of receivables sold. All costs associated with this agreement are recorded in Other, net nonoperating expense.

The company maintains financing flexibility under the credit agreement and the accounts receivable sales agreement to support the commercial paper program and provide additional liquidity if needed. Accordingly, commercial paper and medium term notes maturing within one year, and intended to be refinanced, are classified as long-term. The weighted average interest rates on commercial paper outstanding at December 31, 1996 and 1995 were 6.0% and 6.2%. Medium term notes have scheduled maturities through 2008 with interest rates ranging from 5.7% to 9.3%.

The company has loan guarantees, mortgages and lease contracts in connection with the issuance of industrial development bonds used to acquire, construct or expand terminal facilities. Interest rates on some issues are variable and rates currently range from 4.6% to 8.0%, with principal payments due through 2016.

Certain subsidiaries lease operating equipment under capital leases with scheduled maturities through 1998 and interest rates ranging from 9.0% to 10.2%.

The subordinated debentures have an interest rate of 7.0% and are due in installments from 1997 to 2011.

The aggregate amounts of principal maturities of long-term debt (excluding commercial paper and medium term notes due within one year) for the next five years are as follows: 1997 - \$3,661,000, 1998 - \$4,063,000, 1999 - \$2,849,000, 2000 - \$30,956,000, 2001 - \$8,481,000.

Based on the borrowing rates currently available to the company for debt with similar terms and remaining maturities, the fair value of total debt at December 31, 1996 and 1995 was approximately \$193 million and \$355 million.

SPECIAL CHARGES

In the fourth quarter of 1996, the company's Yellow Freight subsidiary recorded a special charge of \$46.1 million, or \$28.3 million after taxes. The charge was the result of management and organizational changes designed to sharpen customer focus and improve profitability by reducing operating expenses. As part of these changes Yellow Freight was restructured into five geographic business units designed to decentralize responsibility for critical business processes. The major components of the charge are as follows (amounts in thousands):

Write down nonoperating real estate	\$	16,548
Write off computer software		8,359
Early retirement program		13,731
Company car program reduction		3,600
Severance and organization design		3,900

Total charge before taxes	\$	46,138

=====		

A total of 13 parcels of property held for sale were written down to their estimated fair values, as determined by independent appraisal, less selling costs. The write off of computer software related to a portion of the freight management project that was determined to be impaired. In 1996, an early retirement program was announced that offered unreduced retirement benefits to employees over age 55 with at least 20 years of service. The cost primarily represents the pension benefit obligation for the 130 employees electing this program. The reduction in the company car program related to a decrease in the number of employees eligible and the costs associated with reducing the program. The severance and organization design costs relate primarily to the layoff of 70 managerial and general office employees.

In the third quarter of 1994, the company recorded a charge to earnings of \$6.7 million, or \$4.1 million after taxes. This charge, recorded as an extraordinary item, was to write off the book value of its intrastate operating rights. The non-cash charge resulted from the passage of legislation in 1994 which deregulated the entry and rates for intrastate operations of all transportation companies.

INCOME TAXES

The company accounts for income taxes in accordance with the liability method. Deferred income taxes are determined based upon the difference between the book and the tax basis of the company's assets and liabilities. Deferred taxes are provided at the enacted tax rates expected to be in effect when these differences reverse.

Deferred tax liabilities (assets) are comprised of the following at December 31 (in thousands):

	1996	1995

Depreciation	\$ 111,608	\$ 128,810
Prepays	17,711	19,022
Employee benefits	12,501	19,357
Revenue	8,287	7,038
Other	9,511	5,489

Gross liabilities	159,618	179,716

Claims and insurance	(81,261)	(84,779)
Bad debts	(10,995)	(7,554)
NOL and AMT credit carryforwards	(9,492)	(4,043)
Other	(8,657)	(7,490)

Gross assets	(110,405)	(103,866)

Net liability	\$ 49,213	\$ 75,850
=====		

INCOME TAXES (CONTINUED)

The income tax provision (benefit) is computed based on the following amounts of income (loss) before income taxes (in thousands):

	1996	1995	1994
Domestic	\$ (41,007)	\$ (51,120)	\$ (7,276)
Foreign	6,706	6,099	3,901
Total loss before income taxes	\$ (34,301)	\$ (45,021)	\$ (3,375)

The income tax provision (benefit) consists of the following (in thousands):

	1996	1995	1994
Current:			
U.S. federal	\$ 8,639	\$ (40,370)	\$ (4,158)
State	7,588	(7,094)	(1,870)
Foreign	3,133	2,924	2,354
Total current	19,360	(44,540)	(3,674)
Deferred:			
U.S. federal	(16,715)	24,703	4,235
State	(9,668)	4,645	768
Foreign	(98)	293	(856)
Total deferred	(26,481)	29,641	4,147
Total provision (benefit)	\$ (7,121)	\$ (14,899)	\$ 473

A reconciliation between income taxes at the federal statutory rate (35%) and the consolidated provision (benefit) follows:

	1996	1995	1994
Benefit at federal statutory rate	\$ (12,005)	\$ (15,757)	\$ (1,181)
State income taxes, net	(1,352)	(1,592)	(716)
Nondeductible business expenses	2,431	3,103	2,571
Foreign tax rate differential	688	1,082	133
Repatriation of Canadian earnings, net	3,169	-	-
Other, net	(52)	(1,735)	(334)
Total provision (benefit)	\$ (7,121)	\$ (14,899)	\$ 473
Effective tax rate	(20.8)%	(33.1)%	14.0%

COMMITMENTS AND CONTINGENCIES

The company leases certain terminals and equipment. At December 31, 1996, the company was committed under noncancellable lease agreements requiring minimum annual rentals aggregating \$66.8 million payable as follows: 1997 - \$29.1 million, 1998 - \$14.7 million, 1999 - \$6.2 million, 2000 - \$3.7 million, 2001 - \$2.7 million and thereafter, \$10.4 million.

Projected 1997 net capital expenditures are \$109 million, of which \$3 million was committed at December 31, 1996.

The company estimates it will incur between \$17-20 million in costs over the next three years to modify its internal-use software for the year 2000. These costs will be charged to expense as incurred.

Various claims and legal actions are pending against the company. It is the opinion of management that these matters will have no significant impact upon the financial condition or results of operations of the company.

EMPLOYEE BENEFITS

Certain subsidiaries provide defined benefit pension plans for employees not covered by collective bargaining agreements (approximately 30% of total employees). The benefits are based on years of service and the employees' final average earnings. The company's funding policy is to contribute the minimum required tax-deductible contribution for the year. The plans' assets consist primarily of U.S. Government and corporate fixed income securities and U.S. equities.

The pension benefit obligation increased by \$12.9 million in 1996 as the result of 130 employees electing an early retirement program described in the Special Charges note. The following tables set forth the plans' funded status and components of net pension cost (in thousands):

FUNDED STATUS AT DECEMBER 31:	1996	1995
Actuarial present value of benefits at current salary levels and service rendered to date:		
Vested benefits	\$ 179,196	\$148,691
Non-vested benefits	1,178	1,042
Accumulated benefit obligation	180,374	149,733
Effect of anticipated future salary increases	24,127	25,824
Projected benefit obligation	204,501	175,557
Plan assets at fair value	169,188	141,442
Plan assets less than projected benefit obligation	(35,313)	(34,115)
Unrecognized net (gain) loss	(4,240)	8,618
Unrecognized initial net asset being amortized over 17 years	(15,670)	(18,058)
Pension cost accrued, not funded	\$ (55,223)	\$(43,555)

NET PENSION COST:	1996	1995	1994
Service cost - benefits earned during the period	\$ 9,469	\$ 7,412	\$ 8,313
Interest cost on projected benefit obligation	13,478	12,429	11,109
Actual return on plan assets	(20,669)	(27,205)	393
Amortization of unrecognized net assets	(1,965)	(2,420)	(2,197)
Net deferral	9,188	16,550	(10,818)
Net pension cost	\$ 9,501	\$ 6,766	\$ 6,800

ASSUMPTIONS USED IN THE ACCOUNTING AT DECEMBER 31:	1996	1995	1994
Discount rate	7.5%	7.5%	8.5%
Rate of increase in compensation levels	4.0%	5.0%	4.0%
Expected rate of return on assets	9.0%	9.0%	9.0%

EMPLOYEE BENEFITS (CONTINUED)

The company contributes to multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 70% of total employees). The health and welfare plans provide health care and disability benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. The company charged to expense and contributed the following amounts to these plans (in thousands):

	1996	1995	1994
Health and welfare	\$ 166,124	\$ 160,512	\$ 142,695
Pension	152,440	142,906	129,321
Total	\$ 318,564	\$ 303,418	\$ 272,016

Under current legislation regarding multi-employer pension plans, a termination, withdrawal or partial withdrawal from any multi-employer plan that is in an under-funded status would render the company liable for a proportionate share of such multi-employer plans' unfunded vested liabilities. This potential unfunded pension liability applies to the company's unionized competitors who contribute to multi-employer plans. Based on the limited information available from plan administrators, which the company cannot independently validate, the company believes that its portion of the contingent liability would be material to its financial condition and results of operations. The company's unionized subsidiaries have no intention of taking any action that would subject the company to obligations under the legislation.

The company had a Stock Sharing Plan for employees of participating domestic affiliates not covered by collective bargaining agreements. In 1995 this plan merged into another company defined contribution plan.

Certain subsidiaries also sponsor defined contribution plans, primarily for employees not covered by collective bargaining agreements. The plans principally consist of noncontributory profit sharing plans and contributory 401(k) savings plans. Company contributions to the profit sharing plans are discretionary and are determined annually by the Board of Directors of each participating company. Contributions for each of the three years in the period ended December 31, 1996 were not material to the operations of the company.

STOCK OPTIONS

The company has reserved 2.2 million shares of its common stock for issuance to key management personnel of the company and its operating subsidiaries under two stock option plans. Collectively, the plans permit three types of awards: grants of nonqualified stock options, grants of stock options coupled with a grant of stock appreciation rights and grants of restricted stock awards.

The company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for its plans, and accordingly has not recognized compensation costs in its financial statements for such plans. Had compensation costs been recognized in accordance with Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation, the company's operating results would have been reported at the unaudited pro forma amounts indicated below (in thousands except per share) for the year ended December 31:

	1996	

Net loss:		

As reported	\$	(27,180)
Pro Forma	\$	(27,980)
Loss per share:		

As reported	\$	(.97)
Pro Forma	\$	(1.00)

Under both plans, the exercise price of each option equals the market price of the company's common stock on the date of grant and the options expire ten years from the date of grant. The options vest ratably, generally over a period of four years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for the 1996 grants:

	1996

Dividend yield	.5%
Expected volatility	31.9%
Risk-free interest rate	6.3%
Expected option life (years)	5

A summary of the company's stock option plans as of December 31, 1996 and changes during 1996 is presented below. There were no options granted in 1995 or 1994 and there were no options outstanding at December 31, 1995 or 1994.

	1996	
	Shares (thousands)	Weighted Avg. Exercise Price

Outstanding at beginning of year	-	\$ -
Granted	1,520	12.24
Exercised	-	-
Cancelled	(10)	12.25

Outstanding at end of year	1,510	\$ 12.24
=====		
Options exercisable at year-end		-
Weighted average fair value of options granted during the year		\$ 4.69
Weighted average remaining contract life (years)		3.2

BUSINESS SEGMENTS

The following table provides information about the company's operations by business segment for each of the three years ended December 31, 1996 (in thousands):

	National	NE Regional	SE Regional	Corporate, Other and Eliminations	Consolidated
1996: Operating revenue	\$ 2,357,674	\$ 417,558	\$ 264,318	\$ 33,000	\$ 3,072,550
Income (loss) from operations	(10,017)	(5,766)	10,830	(8,562)	(13,515)
Identifiable assets	930,681	155,351	159,116	(17,341)	1,227,807
Capital expenditures, net	15,859	3,193	21,953	5,353	46,358
Depreciation	94,468	11,349	14,180	10,101	130,098
1995: Operating revenue	\$ 2,363,583	\$ 411,238	\$ 209,623	\$ 72,196	\$ 3,056,640
Income (loss) from operations	(1,729)	(5,952)	7,805	(21,712)	(21,588)
Identifiable assets	1,073,132	165,261	146,144	50,360	1,434,897
Capital expenditures, net	74,938	19,646	28,185	17,485	140,254
Depreciation	103,020	11,629	11,858	8,758	135,265
1994: Operating revenue	\$ 2,220,780	\$ 416,770	\$ 178,090	\$ 51,852	\$ 2,867,492
Income (loss) from operations	17,738	(5,467)	11,511	(12,771)	11,011
Identifiable assets	985,819	159,571	118,126	43,705	1,307,221
Capital expenditures, net	110,849	10,084	19,057	10,950	150,940
Depreciation	108,046	10,043	10,224	5,657	133,970

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Shareholders of Yellow Corporation:

We have audited the accompanying consolidated balance sheets of Yellow Corporation (a Delaware corporation) and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yellow Corporation and Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Kansas City, Missouri - January 31, 1997

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	(Amounts in thousands except per share data)			
	First Quarter (a)	Second Quarter	Third Quarter	Fourth Quarter (b)
1996				
Operating revenue	\$ 741,678	\$ 759,285	\$ 790,444	\$ 781,143
Income (loss) from operations	(8,151)	8,414	24,095	(37,873)
Net income (loss)	(14,251)	2,019	8,939	(23,887)
Earnings (loss) per share	(.51)	.07	.32	(.85)
1995			(c)	(d)
Operating revenue	\$ 764,998	\$ 773,825	\$ 771,965	\$ 745,852
Income (loss) from operations	8,601	5,866	(12,366)	(23,689)
Net income (loss)	3,198	1,039	(11,634)	(22,725)
Earnings (loss) per share	.11	.04	(.41)	(.81)

(a) Includes a nonrecurring charge to the income tax provision of \$6.7 million related to a dividend from Canadian operations. Also includes the effect of unusually severe winter weather which caused business disruptions and higher operating expenses.

(b) Includes a special charge of \$28.3 million after taxes resulting from the write down of certain nonoperating real estate and computer software assets, an early retirement program, the reduction of a company car program and other organizational design impacts, primarily severance. Also includes a \$3.5 million foreign tax credit benefit.

(c) Includes the impact of price discounting and excess industry capacity which severely diminished operating margins.

(d) Includes the impact of price discounting and excess industry capacity which severely diminished operating margins. Also includes nonrecurring charges of \$6.6 million after taxes pertaining to implementation of cost reduction programs and the realignment of Yellow Logistics.

COMMON STOCK

Yellow Corporation's stock is held by approximately 3,200 shareholders of record. The company's only class of stock outstanding is common stock, traded in over-the-counter markets. Trading activity averaged about 195,000 shares per day during the year, up from 130,000 shares per day in 1995. Prices are quoted by the National Association of Securities Dealers Automatic Quotation System National Market (NASDAQ-NMS) under the symbol YELL.

Dividends of \$.235/share were paid in the first two quarters of 1995. The company's quarterly dividend was suspended on July 20, 1995 and has not been reinstated as of December 31, 1996.

The high and low prices at which Yellow Corporation common stock traded for each calendar quarter in 1996 and 1995 are shown below.

1996	High	Low
March 31	13 5/8	10 1/4
June 30	13 3/4	10 3/4
September 30	14 1/8	12 1/8
December 31	16 3/8	11 5/8
1995	High	Low
March 31	24 3/8	15 7/8
June 30	20 1/8	15 7/8
September 30	20	13 1/2
December 31	13 7/8	11 7/8

SENIOR OFFICERS

YELLOW CORPORATION

A. Maurice Myers
Chairman, President and
Chief Executive Officer

William F. Martin, Jr.
Senior Vice President
Legal/Corporate Secretary

H.A. Trucksess, III
Senior Vice President
Finance/Chief Financial
Officer and Treasurer

Samuel A. Woodward
Senior Vice President
Operations and Planning

PRESTON TRUCKING
COMPANY, INC.

David J. Letke
President

SAIA MOTOR FREIGHT
LINE, INC.

Jimmy D. Crisp
President

WESTEX, INC.

Frank E. Myers
President

YELLOW FREIGHT
SYSTEM, INC.

William D. Zollars
President

YELLOW TECHNOLOGY
SERVICES, INC.

Thomas L. Smith
President

BOARD OF DIRECTORS

A. MAURICE MYERS

Director since 1996
 Chairman of the Board,
 President and Chief Executive
 Officer of the Company

RONALD T. LEMAY

Director since 1994
 President and Chief Operating
 Officer of Sprint Corporation

KLAUS E. AGTHE

Director since 1984
 Director, VIAG North America

JOHN C. MCKELVEY

Director since 1977
 President and Chief Executive
 Officer of Midwest Research
 Institute

HOWARD M. DEAN

Director since 1987
 Chairman and Chief Executive
 Officer of Dean Foods Company

WILLIAM L. TRUBECK

Director since 1994
 Senior Vice President - Finance
 and Chief Financial Officer
 International MultiFoods, Inc.

DAVID H. HUGHES

Director since 1973
 Retired Vice Chairman
 of Hallmark Cards, Inc.

CARL W. VOGT

Director since 1996
 Senior Partner of Fulbright &
 Jaworski, L.L.P.

WILLIAM F. MARTIN, JR.

Secretary to the Board

Member, Audit Committee

YELLOW CORPORATION
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Kansas 66207 o (913) 696-6100
<http://www.yellowcorp.com>

INDEPENDENT PUBLIC ACCOUNTANTS
Arthur Andersen LLP o Kansas City, Missouri

TRANSFER AGENT AND REGISTRAR
Chase Mellon Shareholder Services, L.L.C.
P.O. Box 590 o Ridgefield Park, New Jersey 07660
(800) 526-0801 o <http://www.cmssonline.com>

ANNUAL MEETING
April 24, 1997, at 9:30 a.m.
Overland Park Marriott o 10800 Metcalf Avenue
Overland Park, Kansas 66210

10-K REPORT
Please write to: Treasurer,
Yellow Corporation or see our web site

YELLCORP 1996 AR

P.O. Box 7563 o Overland Park, KS 66207 o <http://www.yellowcorp.com>

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NARRATIVE DESCRIPTION OF GRAPHICS IN
YELLOW CORPORATION 1996 ANNUAL REPORT

Front Cover - Picture of globe in Yellow Corporation colors

Unnumbered page, inside front cover - Pie chart displaying revenue contribution of the various Yellow Corporation subsidiaries and small circular inset pictures of tractor-trailers in the colors and logo of Yellow Freight System, Preston Trucking, Saia Motor Freight, and WestEX.

Page 1 - Picture of a set of Yellow Freight System, Inc. twin trailers and tractor.

Page 3 - Full page picture of Mario Estrada - International Customer Service rep of Yellow Freight System.

Page 4 - Half page picture of Yellow Freight city driver Dave Bilke.

Page 5 - Half page picture of Yellow Freight System account manager Jane Bonilla.

Page 6 - Small inset box at top of page of two upward arrows with underline and center line small circular inset picture of Yellow Freight System tractor and twin trailers.

Page 7 - Small inset picture at top of page of umbrella with raindrops in box and small circular inset picture in the middle of the page of Yellow Freight System linehaul management employees Jim Romick and Pete Peoples.

Page 8 - Small inset picture at top of the page of wine glass in a box and small inset circular picture in the middle of the page of two stacked boxes.

Page 9 - Picture in the upper right hand corner of Yellow Corporation Chairman Maury Myers standing next to two stacked boxes.

Page 17 - In the left column of this page divided into three columns, pictures of the logos of Yellow Freight System, Preston Trucking, Saia Motor Freight, and WestEx.