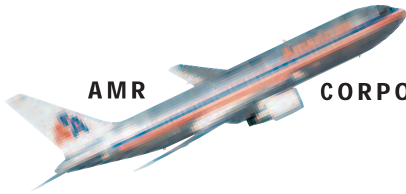

AMR CORPORATION

From employees
to customers,
to investors,
people
are the foundation
of our company.

1997 Annual Report

AMR Corporation is a worldwide leader in scheduled air transportation, in the development and application of information technology for aviation, travel and tourism, and in a wide range of other aviation-related activities, including management services, training and consulting.

COVER

1. John Richter has been the Employee of the Year in American's Maintenance & Engineering Department, and has won American's Golden Wrench Award. He defines the term "above and beyond," whether extinguishing a fire on the ground, or participating in a project to keep the wings of American's MD-80s free of damaging ice.

2. Capt. Dennis Sullivan doesn't just fly to American's ski destinations, he works to help improve our dependability in these places, where the cold, the snow, and the terrain can present significant challenges. Bringing vacationers closer to the slopes is satisfying business for Capt. Sullivan and hundreds of other American employees.

3. When not delivering quality service at 35,000 feet, Margaret Fraser, like thousands of AMR employees, helps build the communities we serve. Each year, Ms. Fraser is a mentor and chaperone for high school students who visit some of America's historically black colleges and universities.

4. Chau Pyatt is a top-performing ticket agent. For more than 19 years, Ms. Pyatt's superb efficiency, her team approach, and her "whatever it takes" attitude have generated a loyal customer following and outstanding revenues.

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CONSOLIDATED HIGHLIGHTS

(Dollars in millions, except per share amounts)

Year ended December 31,	**1997**	1996	Percent Change
Total operating revenues	**$ 18,570**	$ 17,753	4.6
Total operating expenses	**$ 16,644**	$ 15,914	4.6
Operating income	**$ 1,926**	$ 1,839	4.7
Operating margin	**10.4%**	10.4%	-
Earnings before extraordinary loss	**$ 985**	$ 1,105	(10.9)
Net earnings	**$ 985**	$ 1,016	(3.1)
Average shares of common stock outstanding (in thousands)	**89,152**	86,092	3.6
Earnings per common share (basic)			
Before extraordinary loss	**$ 11.05**	$ 12.83	(13.9)
Net earnings	**$ 11.05**	$ 11.80	(6.4)
Earnings per common share (diluted)			
Before extraordinary loss	**$ 10.78**	$ 12.15	(11.3)
Net earnings	**$ 10.78**	$ 11.19	(3.7)
Return on equity before extraordinary loss	**16.6%**	23.7%	(7.1)pts.
Return on equity	**16.6%**	21.8%	(5.2)pts.
Ratio of current assets to current liabilities at year-end	**0.90**	0.80	12.5
Average equivalent number of employees	**113,900**	111,300	2.3
Approximate number of common shareholders of record at year-end	**14,300**	15,300	(6.5)

AMR EMPLOYEE PROFILE

Average Equivalent Headcount	1997	Increase/(Decrease) From Previous Year	1996	Increase/(Decrease) From Previous Year	1995	Increase/(Decrease) From Previous Year
Management/Specialist	18,300	7.0%	17,100	5.6%	16,200	—
Agent/Support Staff	32,100	(1.2)%	32,500	2.2%	31,800	4.6%
Pilots*	11,000	(1.8)%	11,200	(1.8)%	11,400	(5.8)%
Flight Attendants*	18,400	(0.5)%	18,500	(3.1)%	19,100	0.5%
Mechanics, Ramp Service,						
Other Ground Personnel*	34,100	6.6%	32,000	1.6%	31,500	(1.9)%
Total	113,900	2.3%	111,300	1.2%	110,000	0.2%

* The majority are represented by a labor union. Following is a list of the status of major existing contracts:
Allied Pilots Association. Contract amendable Aug. 31, 2001.
Association of Professional Flight Attendants. Contract amendable Nov. 1, 1998.
Flight Engineers International Association. Contract amendable Aug. 31, 2001.
Transport Workers Union. Contract amendable March 1, 2001.
AMR is an equal opportunity employer.

Nineteen ninety-seven marked a fourth consecutive year of financial progress at AMR; the company's net earnings of $985 million were its best ever after considering special items in previous years. That performance was largely attributable to improvements in the fundamental economics of the airline industry, which propelled AMR's largest enterprise, American Airlines, to a very good year. A solid U.S. economy — which generated strong demand — industry-wide capacity restraint and rational pricing drove the industry and American to much improved performance.

While the year's results were satisfying, it started on a difficult note, as a long-running dispute with the Allied Pilots Association — which represents American Airlines pilots — escalated into a brief strike on February 15. While American's operations were affected only briefly, the threat of a substantial disruption drove away many customers, adversely affecting first-quarter results. Once the dispute was resolved, we were able to regain our momentum.

While American's capacity increased by less than 1 percent year over year, traffic increased by more than 2 percent. As a consequence, load factor — which is simply the percentage of seats filled — increased to 69.5 percent, the airline's highest ever. At the same time, American's passenger yield — or the amount, on average, we collect to fly one passenger one mile — increased by 2.6 percent.

Fuller planes and higher yields boosted revenue per available seat mile by more than 4 percent, enabling the company to sustain its unit revenue premium versus the industry average. That premium is largely a function of our commitment to providing a high-quality product, and, in 1997, we took a number of steps to ensure that American's service continues to set a high standard. Those steps, and particularly the actions we took to improve on-time performance, are highlighted in the essay on page 18.

Sustaining American's revenue premium is a

strategic imperative, because — despite great efforts — we have not been able to bring our costs to fully competitive levels. American's cost per available seat mile for 1997 increased by 4 percent. Some of that increase is attributable to higher aircraft maintenance costs and some to higher labor costs associated with contractual scale and seniority pay increases. We also spent a substantial amount — and will spend more in 1998 — to ensure that all of our computer systems will be year 2000 compliant.

In addition to good financial results, the year produced a number of favorable developments that augur well for the years to come.

One of these was agreement on a new contract with the Allied Pilots Association which runs through August 2001.

Another was a long-term agreement between American Eagle, our regional affiliate, and its pilots. That contract indexes Eagle pilot compensation to a regional industry average, and precludes work stoppages for 16 years. Details of Eagle's continuing

AMR's success in 1997 was a direct result of our employees' hard work, enthusiasm and dedication. We have the best people in the industry pushing our various enterprises to the forefront of their respective fields, and that translates into better service for our customers and better value for our investors.

rejuvenation are discussed on page 15.

A third favorable development was the finalization of an aircraft acquisition agreement with Boeing, which will provide preferential pricing, great planning flexibility and the benefits of ever-increasing fleet commonality during the next 20 years. The Boeing arrangement, as well as other fleet-related initiatives, are discussed in greater detail on page 12.

American Eagle also did a good deal of fleet planning in 1997, ordering 42 Embraer and 25 Canadair regional jets, the first of which will enter service in May 1998. The addition of jet aircraft to the Eagle's fleet will make it an even more effective feeder operation for American Airlines in the future and will strengthen the airline's domestic system substantially.

American is also steadily expanding its worldwide presence by adding both new routes and more international partners, as detailed on page 16. Our most ambitious project is our proposed alliance with British Airways. Although approval of the alliance has been substantially delayed, a frequent flyer agreement with British Airways — which did not require regulatory approval — has enjoyed considerable success, and we are hopeful that all elements of the alliance will be approved and implemented during 1998.

The SABRE Group (TSG), which is the largest of AMR's non-airline businesses, also had an eventful year, capped off by the signing of a 25-year multi-billion dollar outsourcing agreement with US Airways. During its first full year as a public company, TSG attracted numerous new clients for its information technology solutions business, while sustaining its leadership position in electronic travel distribution. For the year, TSG generated pre-tax earnings of $324 million, and a pre-tax margin of more than 18 percent.

AMR's third segment, the Management Services Group (MSG), is a collection of businesses whose activities range from airline ground handling to telemarketing to investment services. While most of MSG's businesses did quite well in 1997, the telemarketing company suffered a substantial setback. As a whole, the group — whose activities are highlighted

in an essay on page 30 — reported pre-tax earnings of $55 million. That is a 20 percent decline from 1996 pre-tax earnings, excluding special items.

The financial progress made at American Airlines and other AMR enterprises in recent years has enabled us to substantially strengthen the company's balance sheet. Since 1994, we have retired more than $5 billion of debt and lease obligations and lowered our debt to total capitalization ratio from 84 percent to approximately 62 percent. This reduction has translated into dramatically lower interest expense; in 1997, AMR's interest expense, net of interest income, was $300 million less than the comparable figure in 1994. Our improved balance sheet has also earned us better financial ratings, and one of the year's highlights was Standard & Poor's decision to upgrade AMR and American to investment grade.

During 1997, we sought to deliver shareholders value by authorizing the repurchase of 5.75 million shares of common stock to offset potential dilution resulting from granting options on the same number of shares to our pilots in the new contract with the Allied Pilots Association. We also announced a separate $500 million stock buyback plan, which at year's end had been about 30 percent completed.

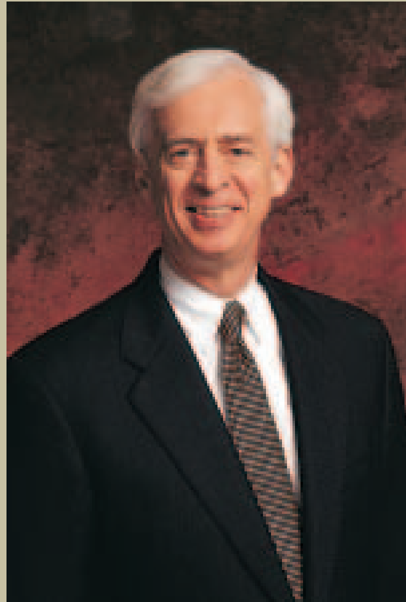
AMR had a strong year in 1997 — a direct result of our employees' hard work and dedication — and the theme of this year's annual report, "People are the foundation of our business," highlights just a few of their many achievements. It also reflects our long-held belief that there is a closely linked relationship between our three key stakeholders: our employees, customers, and investors. We will continue to stress the importance of that relationship in the years ahead as we seek to create value for all three groups by making each of our enterprises a leader in its field.

Sincerely,

Robert L. Crandall

Chairman, President and Chief Executive Officer

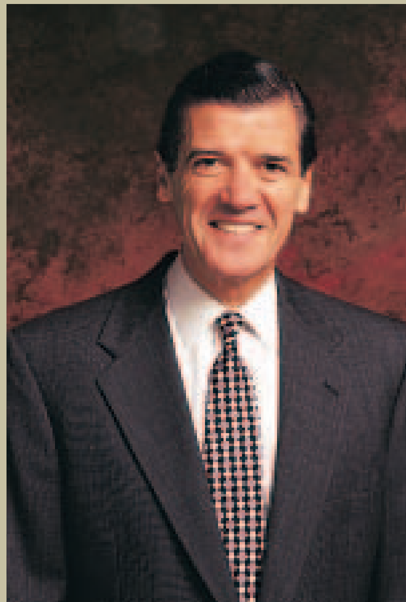
Robert L. Crandall
Chairman, President and
Chief Executive Officer, AMR Corporation
Chairman and Chief Executive Officer
American Airlines



Donald J. Carty
Executive Vice President
AMR Corporation
President
American Airlines

Robert W. Baker
Executive Vice President, Operations
American Airlines

Gerard J. Arpey
Senior Vice President and
Chief Financial Officer
AMR Corporation
Senior Vice President, Finance and
Planning and Chief Financial Officer
American Airlines



Peter J. Dolara
Senior Vice President
Miami, Caribbean and Latin America
American Airlines

Michael J. Durham
President and Chief Executive Officer
The SABRE Group Holdings, Inc.

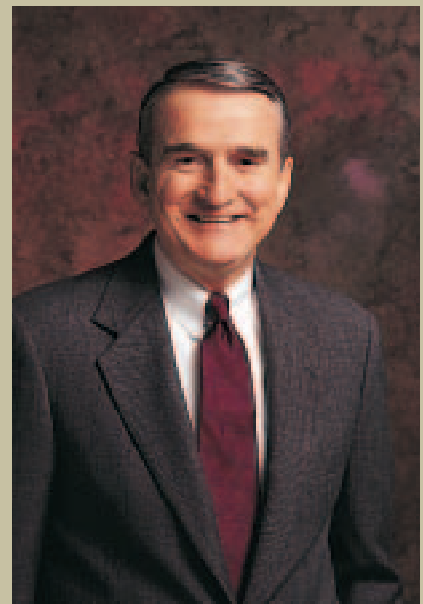
Daniel P. Garton
President
AMR Eagle, Inc.

Michael W. Gunn
Senior Vice President, Marketing
American Airlines

Thomas J. Kiernan
Senior Vice President, Corporate Services
American Airlines

David L. Kruse
Senior Vice President
Maintenance and Engineering
American Airlines

Anne H. McNamara
Senior Vice President and
General Counsel
AMR Corporation and American Airlines



Donald P. O'Hare
Senior Vice President
Domestic Field Services
American Airlines

First Quarter

On January 8, the 9,000-member Allied Pilots Association (APA) announces that its members have rejected a tentative contract agreement reached with the airline in September 1996. Two days later, the National Mediation Board releases the parties from mediation. A strike deadline is eventually set for 12:01 a.m. on February 15. Minutes after the strike deadline — and just into a brief strike — President Clinton declares an emergency, appoints a Presidential Emergency Board and orders the parties to continue operating as usual while the board considers recommendations for a solution.

In the wake of the strike, American announces a major sale that generates 3 million calls to its reservations offices and increases page-views on American's Internet home page by more than 400 percent.

On March 17, American and the APA reach a second tentative agreement after several days of mediated talks on remote Orcas Island, Wash.

American signs a memorandum of understanding with China Eastern Airlines whereby American will place its AA designator on nonstop flights between Beijing and Shanghai and the United States, and China Eastern will place its MU designator on specified American flights from the West Coast to New York Kennedy, Chicago O'Hare, Washington Dulles and Dallas/Fort Worth.

American Eagle opens one of the world's largest regional aircraft maintenance centers in Gwinn, Michigan. The opening completes a consolidation of Eagle's maintenance operations and reduces the number of heavy maintenance locations from eight to two.

Travelocity, The SABRE Group's Internet site for travel planning and booking, introduces FareWatcher, an E-mail service that alerts Travelocity subscribers when a pre-designated fare goes down.

American celebrates the first birthday of its Net SAAver program, which generates weekly E-mails to subscribers about fare specials for the following weekend. This first-of-its-kind program now generates hundreds of thousands of dollars in revenue each month.

American Eagle concludes a $12 million renovation of its Chicago O'Hare facility, including 20 specially designed jetbridges for use with its turboprops and soon-to-be-ordered regional jets.

AMR reports net earnings of $152 million in the first quarter, down from $157 million in 1996.

Second Quarter

The APA announces that its members have ratified the agreement it reached with American in March. This marks the first time since 1992 that American has not been in contract negotiations with at least one union.

American authorizes the repurchase of 5.75 million shares of common stock to offset potential dilution resulting from granting options to pilots on the same number of shares.

American confirms orders for 98 new Boeing planes, including 777, 767, 757 and 737 aircraft. Later in the year, American orders an additional four 767s and 777s for delivery in 1999, bringing total firm orders to 106 aircraft.

American Eagle announces an order for 67 regional jets, including 42 new 50-seat Embraer 145s and 25 new 70-seat Canadair 700s. The regional airline also orders 12 new 66-seat Super ATR turboprops.

American becomes the only major hub-and-spoke U.S. airline with a solid investment grade rating when Standard & Poor's upgrades both AMR Corporation and American Airlines corporate and senior debt ratings.

For the first time in two years, American begins hiring flight attendants. By the end of the year, American will have hired and trained some 450 flight attendants, with 1,600 more to be hired during 1998. In the two weeks after announcing the openings, American receives more than 20,000 inquiries.

Investing in customer comfort, American orders 60,000 new coach-class seats and 10,000 new first-and business-class seats to be installed in the existing fleet.

American Airlines Cargo begins construction on a 7,800 square-foot addition to its facility at Chicago O'Hare.

American launches service between Austin and Miami. The new route gives businesses in one of the country's premier high-tech centers non-stop access to American's primary gateway to Latin America.

American and Canadian Airlines expand their codesharing alliance by putting Canadian's code on American flights to Guatemala and El Salvador. In addition, American and TAM-Transportes Aereos Meridionais (TAM) of Brazil agree to create a codesharing and frequent flyer alliance.

For the quarter, AMR reports net earnings of $302 million, topping the $293 million earned in the same period a year earlier.

Third Quarter

On July 1, American becomes the first and only U.S. airline to place automatic defibrillators (to treat sudden cardiac arrest and other heart problems) aboard its international aircraft.

AMR's Board of Directors authorizes management to repurchase up to an additional $500 million of its outstanding common stock during the next 24 months.

Yahoo! selects The SABRE Group's Travelocity as the featured travel booking service for Netscape Guide by Yahoo! This is one of numerous co-branding agreements between Travelocity and popular Internet sites.

American is applauded by government and safety groups when it becomes the first major U.S. airline to offer a 50 percent fare discount for children under two years old traveling with an adult. The action is intended to encourage the use of child safety seats.

American Eagle pilots ratify an innovative 16-year contract.

AMR and SEPI, the Spanish state holding company and parent of Iberia Lineas Aereas de España, announce a cooperative alliance between American Airlines and Iberia. The agreement includes plans for alliances between American and the Argentine carriers Aerolineas Argentinas and Austral Lineas Aereas. AMR also agrees to acquire a 10 percent share of Interinvest, S.A., the Argentine company holding majority interests in both Aerolineas and Austral.

The AMR Services group of companies changes its trade name to AMR Global Services to better reflect the international scope of its businesses, which include call center management, airline operations services, general aviation, logistics management and training.

American expands its cooperative services agreements with LOT Polish Airlines and Canadian Airlines International. The agreement with LOT increases American's codeshared flights between the U.S. and Poland to 26 per week during the peak summer season from Chicago, Newark and New York Kennedy, and expands LOT's reach. American begins codesharing on Canadian flights between Vancouver and Taipei, Taiwan.

American Eagle begins installing expandable covered walkways at 12 of its cities. The Commute-A-Walk® provides a protected walkway from the airport terminal to the base of the aircraft stairs.

American leads the six largest U.S. airlines in on-time dependability in all three months of the quarter.

American Airlines Cargo reports a record third-quarter performance, transporting more than 505 million freight ton miles, which surpasses the record set in 1994.

AMR reports third-quarter net earnings of $323 million, a $41 million improvement over the same period in 1996.

Fourth Quarter

The SABRE Group agrees to a 25-year, multibillion dollar contract with US Airways which provides for TSG to be responsible for most of US Airways' information technology functions.

American Eagle celebrates carrying its 100 millionth passenger since its first flight in 1984. The regional carrier also reports a record load factor of 60.5 percent.

American opens routes from Dallas/Fort Worth International Airport to Puebla, Mexico, and San Antonio to Mexico City, and begins codesharing with Mexican carrier Aero California. The initial codesharing routes give American access to five new Mexican destinations; as subsequent phases of the agreement are approved, American's reach in Mexico will expand to 26 destinations.

American adds its 1 millionth Net SAAver subscriber and launches a new College SAAver Program, which periodically sends college students information about fare specials and other promotions.

American becomes the first U.S. carrier to offer "stickerless" electronic upgrades to its frequent flyers and the first U.S. carrier to offer its customers ticketless travel on all flights between the United States and Europe.

AMR Investment Services begins offering its ninth "American AAdvantage Fund," The Intermediate Bond Fund. The American AAdvantage Funds now have more than $6 billion in assets and regularly receive high marks from such rating organizations as Lipper Analytical Services and *Morningstar.*

As a further sign of its solid commitment to Miami, American becomes the name sponsor for a soon-to-be-built 680,000-square-foot downtown arena. The facility will be known as the American Airlines Arena.

American Eagle purchases 360 IBM Network Computers to update its maintenance systems and procedures, becoming the first regional airline to invest in this new technology.

American Airlines Publishing has its best-ever fourth quarter in revenue, topping off its most profitable year. In addition to publishing *American Way* and Southwest Airlines' *Spirit* magazines, AA Publishing provides Internet editorial content for travel-related companies.

AMR reports fourth-quarter net earnings of $208 million, an $86 million improvement versus 1996, excluding special items.

Aircraft mechanic Rebecca McDaniel constantly looks for better ways to do her job, an ever-important task as American expands its fleet. She has submitted 69 money-saving suggestions to American's IdeAAs In Action program, and her 1997 ideas alone will save American $40,000 a year.

Fleet of the Future

American's 20-year aircraft acquisition agreement with Boeing, finalized in November, ensures that the company will continue to operate one of the youngest and most technologically advanced fleets in the airline industry.

The Boeing deal gives American preferential pricing status, as well as very flexible purchase rights for as many aircraft as it needs during the next 20 years. The purchase rights will enable American to acquire new aircraft on much shorter advance notice than has previously been required, which means we will be better able to plan for both aircraft replacement and fleet growth, and to optimize aircraft size and range to match the industry's cyclicality and our changing competitive needs.

Another important benefit of the new contract is that as we move toward a more common, all-Boeing fleet over the next two decades, we should see a significant reduction in operating, training and maintenance costs.

American's initial firm order is for 106 aircraft, including 75 737s, 12 757s, 11 777s and eight 767s. The 737s and 757s will ensure the efficiency of our domestic fleet, and the longer range aircraft — 767s and 777s — will give us the equipment necessary to expand our already strong networks in Europe and Latin America and to serve additional routes to Asia. In addition, we expect that a yet-to-be-offered, super-long-range version of the 777 will enable us to serve a number of Asian destinations beyond the reach of the long-

range 777 IGW model already ordered.

While arranging for new aircraft is important, we are not neglecting American's current fleet. In 1997, we launched a $416 million interior refurbishment program. Every domestic aircraft will get a thorough interior refurbishment, including, for the first time in 20 years, a new interior color scheme. In addition, 106 of our MD-80 aircraft will be reconfigured to include 20, rather than 14, first-class seats and will be used in high-frequency business markets where demand for first-class accommodations is strong.

The program includes the purchase of 70,000 new seats, which will provide more comfortable seating in both coach and first class on most domestic aircraft. In addition, the entire international fleet, as well as the widebodied aircraft used on transcontinental routes, will be equipped with highly customized first-and business-class seats.

Domestic Network Strength

In the deregulated era, airline competition has become, in part, a contest to build the most ubiquitous network. In that regard, one of the critical success factors is having the strongest hubs possible. By linking markets on one side of a hub city to markets on the other side, airlines are able to exponentially increase the number of origin-destination combinations they serve. In 1997, American Airlines enjoyed good success at all its hubs: Dallas/Fort Worth, Miami, Chicago and, to a lesser degree, San Juan, Puerto Rico.

In 1997, American announced that it would begin hiring pilots for the first time in five years. Through his work with the Organization of Black Airline Pilots, Capt. Frank Chukes is helping broaden the pool of applicants, which will ultimately make the pilot corps more diverse.

As American and Eagle have grown in Miami, so has their commitment to South Florida. Like Purchasing Manager Haydee Blanco, a United Way volunteer, thousands of AMR people are involved in their communities. In 1997, American showed its commitment by becoming the name sponsor for a new Miami arena.

American's biggest hub is Dallas/Fort Worth International Airport, where we operate more than 750 flights a day to 115 cities, and offer nonstop service to 21 international destinations. During the year, we launched a project to construct ten new gates in Terminal 2W. These new gates, which will be linked to our existing facilities by a passenger TRAAM and moving sidewalks, are an important part of our plan to sustain DFW as one of the industry's largest domestic hubs, as well as a growing gateway to Latin America.

The Miami hub had a successful 1997, and continues to be the premier gateway between the United States and Latin America. During 1997, we began plans for construction of a world-class terminal that will preserve and enhance our presence there in the years ahead.

Chicago O'Hare, the site of our second largest hub, is unique in that it is the only U.S. hub which is slot restricted and the only U.S. airport at which two carriers operate major hubs. While United has more jet slots than American, our strategy of focusing resources in major business markets continues to work well. The introduction of regional jets by Eagle, scheduled for May 1998, will allow us to use some O'Hare commuter slots for jet service and should benefit our competitive position.

Our hub in San Juan — while not as large as DFW, Chicago, or Miami — is important to both American and American Eagle. As of the end of 1997, we offered almost 100 flights daily (depending on seasonality) from San Juan to 32

destinations in the Caribbean and the continental United States.

While our hubs are the backbone of the domestic system, we have also been increasing the number of city pairs in which we offer point-to-point service. In addition to our long-established transcontinental services — which continue to do very well — we have in recent months launched new or increased nonstop service in several non-hub domestic markets, including New York - Fort Lauderdale, Nashville - Los Angeles, Austin, Texas - San Jose, Calif., and Boston - San Francisco.

American Eagle

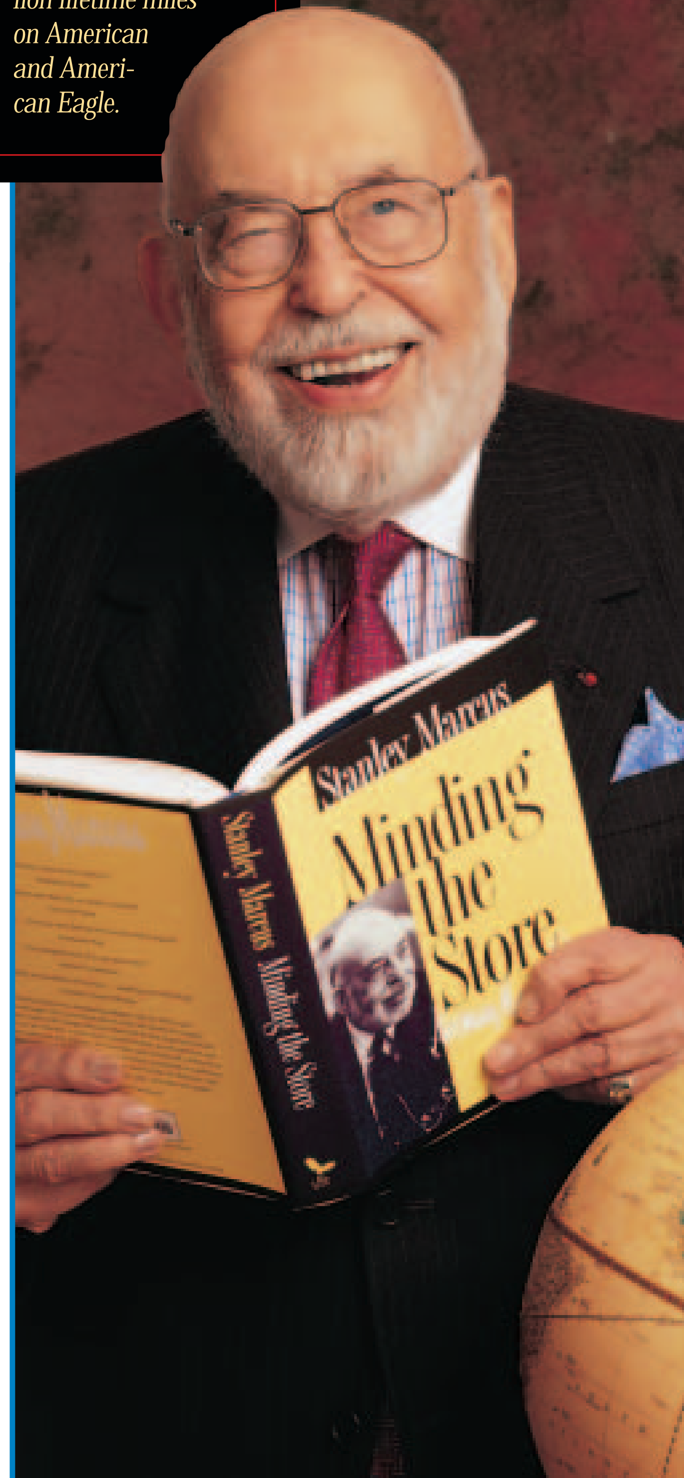
American's regional affiliate, AMR Eagle, is an important part of our network. American Eagle's primary mission is to carry passengers from nearby cities to our hubs for connections to points served by American.

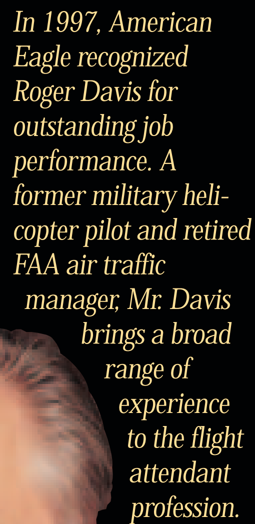
1997 was an important year for AMR Eagle for several reasons. In addition to reaching a new pilot agreement and ordering 67 new regional jets, American Eagle carried its 100 millionth passenger since beginning its operations in 1984.

During the year, American Eagle also retired the last of its Shorts 360s and ordered 12 Super ATRs. This fleet simplification will improve aircraft utilization and reduce costs; the substitution of larger aircraft will increase capacity and facilitate a focus on high-yield markets.

American Eagle also completed the first phase of renovation at its Chicago O'Hare 'G' Concourse, adding 20 specially designed jetbridges to provide completely covered boarding

If anyone knows about customer service and customer loyalty, it's Stanley Marcus, chairman emeritus of Neiman Marcus. We're proud that in 1997, Mr. Marcus, 92, flew more than 53,000 miles on American. He has more than 1.8 million lifetime miles on American and American Eagle.





In 1997, American Eagle recognized Roger Davis for outstanding job performance. A former military helicopter pilot and retired FAA air traffic manager, Mr. Davis brings a broad range of experience to the flight attendant profession.

for customers on both ATRs and regional jets. In addition, American Eagle installed 33 jetbridge adapters and 12 Commute-A-Walk® canopied walkways across its system.

On January 15, 1998, AMR announced plans to merge the four wholly owned American Eagle carriers into a single airline by the end of the year. The new entity will be known as American Eagle Airlines, Inc. While the change will be transparent to the traveling public, the consolidation will help the regional airline reduce costs, eliminate redundancies and increase operational efficiency.

International

Since 1980, American has evolved from a domestic carrier into one of the world's foremost international carriers. In 1997, international flying generated more than 30 percent of American's passenger revenue.

During 1997, American posted good results on the transatlantic system, achieving a 79.1 percent load factor, an improvement of 3.1 points from 1996. In 1998, we will bolster the European network by adding four new transatlantic routes: Newark - London Heathrow, DFW - Manchester, Boston - London Gatwick and Miami - London Gatwick.

We also did well in Latin America, attracting 7 percent more customers year over year. Contributing to that growth were a number of new routes, including DFW - Caracas, Venezuela; San Antonio, Texas - Mexico City; and DFW - Puebla, Mexico.

We continue to offer less service to Japan than we would like because of a highly restrictive aviation agreement between the United States and Japan, which has prevented us from adding any new service since 1991. In January 1998, after months of aviation talks, the United States and Japan completed a new bilateral agreement that, among other things, gave American the right to offer daily nonstop service from Chicago O'Hare to Tokyo. We also have received tentative approval for daily nonstop service from Tokyo to New York Kennedy and Boston and from DFW to Osaka.

We will continue to look for opportunities to extend the reach of our international network. However, in today's airline industry, it has become important for every carrier with international ambitions to find one or more foreign partners. By granting antitrust immunity to alliances between U.S. and foreign carriers, the U.S. has made international alliances a virtual necessity. American has reacted to the changing environment by setting out to create the industry's premier set of alliances.

Entering 1997, American had international partnerships in place with Qantas Airways, Canadian Airlines, Singapore Airlines, British Midland, LOT Polish, Gulf Air, and South African Airways. Unfortunately, our biggest and most important alliance — based on an agreement American reached with British Airways in June 1996 — spent 1997 in a holding pattern. As of this writing, the alliance has not been approved by any of the regulatory authorities whose blessing it requires.

American's strength in Latin America is in its route network and reputation for quality service. German Walther and American's team in Lima exemplify our commitment, as does our growing service to Lima – from DFW and from New York Kennedy (beginning spring 1998).

With the American-British Airways partnership on hold, we focused on finalizing agreements with other alliance partners. During the year, we concluded a codesharing and frequent flyer alliance with Iberia, which is linked to a codesharing partnership and an investment in Aerolineas Argentinas, in which Iberia has an ownership interest.

In addition to the Aerolineas Argentinas deal, American announced alliances with LanChile and Aero California of Mexico. We also gained tentative regulatory approval for our partnership with the TACA Group, which serves Central America, and final approval of our agreement with TAM, which serves Brazil and Paraguay.

To bolster our service to the Pacific, we implemented an agreement with China Airlines of Taiwan, and have pending agreements with the Korean carrier Asiana, China Eastern, and Philippine Airlines.

In February, thanks in part to a new bilateral agreement with Japan, we also announced a major codesharing partnership with Japan Airlines, that country's leading carrier.

Service Quality

Of all American's strengths, none is more important than our hard-earned, longstanding reputation for quality service. During 1997, we took a number of steps to protect and enhance that reputation.

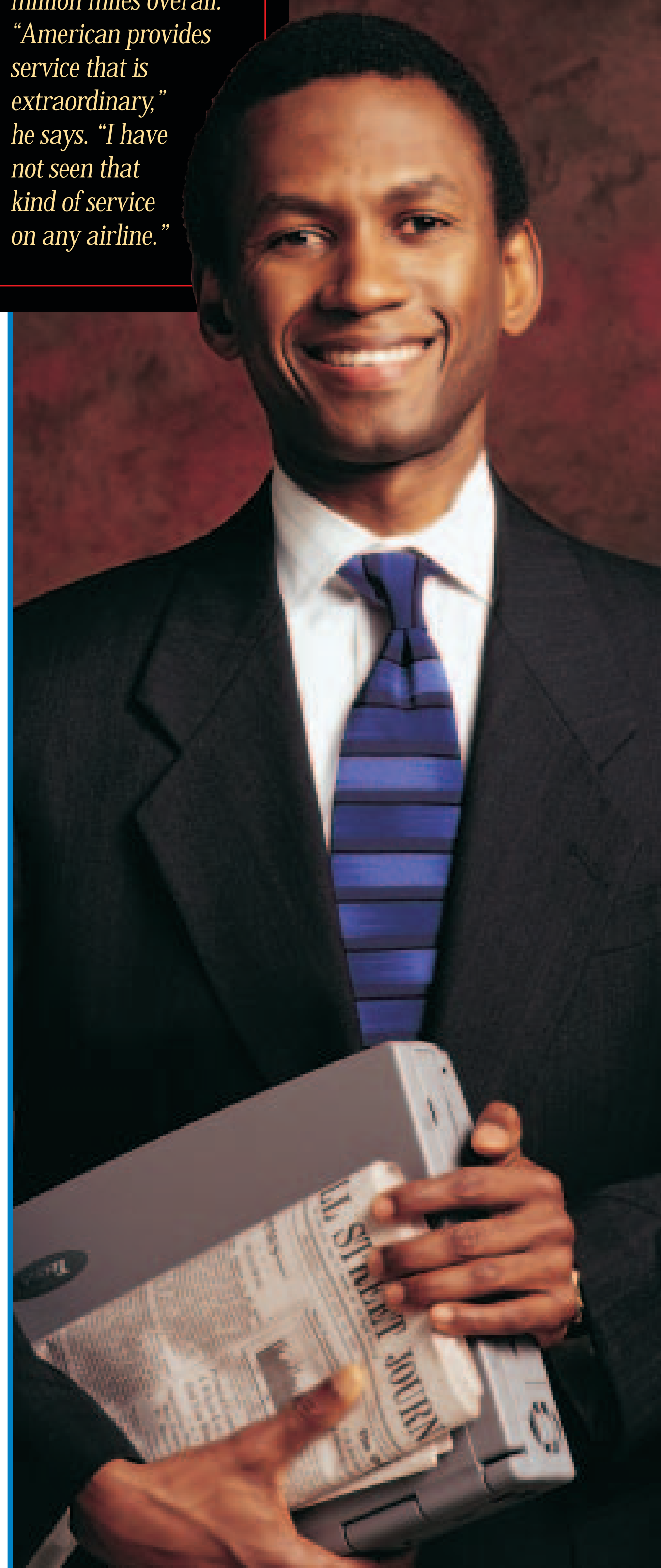
One element of quality on which we worked especially hard during 1997 was improving on-time dependability. By

adjusting flying times, increasing connecting times, resequencing flights, adding personnel at selected locations, and refocusing our analytical resources, we were able to dramatically improve on-time performance. During the year, American's on-time record was ranked first among the major hub-and-spoke airlines in more months than any other carrier.

In addition to improving our on-time record, we also sought new ways to differentiate the service we offer our AAdvantage members, who are our most frequent customers. The AAdvantage program, the industry's first frequent flyer program, continued its remarkable growth. At year end, the program had more than 32 million members, and 12 airline partners. Our roster of non-airline AAdvantage partners has grown to more than 60; during 1997 we added Thrifty Car Rental, Best Western Hotels, Bull & Bear Securities, Jack Nicklaus / Golden Bear Golf Inc. and others to the list.

Expanding the number of AAdvantage partners is just one way American seeks to build and sustain the loyalty of its best customers; another is our network of Admirals Clubs. In 1997, we opened a new club at Washington National Airport. We also completed a major expansion of one of our two DFW clubs, and upgraded clubs in Boston, Washington Dulles, San Francisco, Los Angeles, Miami and São Paulo, Brazil. In early 1998, we added a new club in Tokyo, Japan.

To buttress our growing international network, we have also begun building first-class lounges at our largest interna-



Although he lives in Atlanta – another major airline's hometown – Larry Quinlan flew more than 240,000 miles on American in 1997, and he's flown 3.8 million miles overall. "American provides service that is extraordinary," he says. "I have not seen that kind of service on any airline."

CANADA

Vancouver
Victoria
Edmonton
Kelowna
Calgary
Saskatoon
Regina
Winnipeg
Thunder Bay
Seattle/Tacoma
Portland

UNITED STATES OF AMERICA

Bozeman
Jackson Hole
Wausau/
Stevens Point
Minneapolis/
St. Paul
Green Bay
Rochester
La Crosse
Madison
Milwaukee
Dubuque
Cedar
Rapids/
Iowa City
CHICAGO
Moline/
Quad Cities
Des Moines
Omaha
Peoria
Bloomington
Champaign/
Urbana
Springfield
Reno
Sacramento
San
Francisco
Oakland
San Jose/
Silicon Valley
Monterey
Fresno
Salt Lake City
Steamboat Springs
Vail
Denver
Aspen
Gunnison/Crested Butte
Colorado Springs
Kansas City
St. Louis
Evansville
Wichita
Las Vegas
Durango
San Luis Obispo
Bakersfield
Springfield/
Branson
Santa Barbara
Burbank
Ontario
Palm Springs
Los Angeles
Long Beach
Orange County
Carlsbad
San Diego
Santa Fe
Albuquerque
Amarillo
Tulsa
Oklahoma City
Fayetteville
Memphis
Fort Smith
Little Rock
Lawton/Fort Sill
Phoenix/Scottsdale
Tucson
Lubbock
Wichita Falls
DALLAS/FORT WORTH
Texarkana
Longview
Tyler
Shreveport
Jackson
El Paso
Abilene
Midland/
Odessa
San Angelo
Waco
Alexandria
Killeen/
Fort Hood
Bryan/
College
Station
Lake
Charles
Baton Rouge
Lafayette
Austin
Houston
Beaumont/
Port Arthur
New
Orleans
Hermosillo
Chihuahua
Del Rio
San Antonio
Corpus Christi
Torreón
Laredo
McAllen
Harlingen/
South Padre Island
Monterrey
Culiacán
Durango
La Paz
Los Cabos

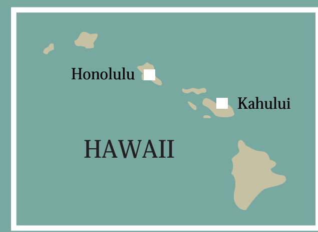
GULF OF MEXICO

MEXICO

León
Guadalajara
Puerto Vallarta
Mexico City
Puebla
Acapulco

PACIFIC OCEAN

Guatemala City
GUATEMALA
San Salvador
EL SALVADOR



AMERICAN AIRLINES CITIES
AMERICAN EAGLE CITIES
AMERICAN AIRLINES/ AMERICAN EAGLE CITIES
HUB CITIES
CODESHARE CITIES
Cities served as of May 1998.
ATLANTIC OCEAN
Sept-Iles
Bagotville/Saguenay
Rouyn/Noranda
Val-d'Or
Quebec City
Halifax
Bangor
Portland
Montréal
Sault Ste. Marie
Ottawa
Kingston
Burlington
Lebanon/Hanover
Traverse City
Toronto
Syracuse
Albany
Hartford/ Springfield
Boston
Grand Rapids
London
Rochester
Buffalo
Newburgh/ Stewart
Providence
Lansing
Detroit
Windsor
White Plains
Long Island/MacArthur
Kalamazoo
Newark
New York City
South Bend
Toledo
Cleveland
Philadelphia
Harrisburg
Fort Wayne
Pittsburgh
Indianapolis
Columbus
Baltimore
Dayton
Cincinnati
Washington, D.C.
Louisville
Richmond
Norfolk/ Virginia Beach/ Williamsburg
Greensboro/ High Point/ Winston-Salem
Knoxville
Nashville
Raleigh/Durham
Charlotte
BERMUDA
Huntsville/Decatur
Atlanta
Birmingham
Jacksonville
Pensacola
Orlando
Tampa/ St. Petersburg
Sarasota/ Bradenton
West Palm Beach
BAHAMAS
Freeport
Marsh Harbour
Fort Myers
Fort Lauderdale
Naples
Nassau
Governor's Harbour
MIAMI
Marathon
Key West
George Town
Providenciales
TURKS & CAICOS ISLANDS
CUBA
ST. THOMAS
PUERTO RICO
TORTOLA/ VIRGIN GORDA
Puerto Plata
Santiago
Punta Cana
SAN JUAN
ANGUILLA
HAITI
Ponce
ST. KITTS/NEVIS
Cancún
Santo Domingo
Mayaguez
ST. MAARTEN
Cozumel
Port-au-Prince
La Romana/ Casa de Campo
ANTIGUA
Grand Cayman
Pointe-à-Pitre
CAYMAN ISLANDS
Montego Bay
DOMINICAN REPUBLIC
ST. CROIX
GUADELOUPE
Kingston
JAMAICA
DOMINICA
MARTINIQUE
Fort-de-France
BELIZE
Belize City
ST. LUCIA
BARBADOS
ST. VINCENT
San Pedro Sula
HONDURAS
ARUBA
CURACAO
GRENADA
Tegucigalpa
Tobago
TRINIDAD & TOBAGO
NICARAGUA
Barranquilla
Caracas
Port of Spain
Managua
COSTA RICA
Panama City
VENEZUELA
San José
PANAMA
COLOMBIA

Barranquilla
Caracas
VENEZUELA
Bogotá
Cali
COLOMBIA
Quito
ECUADOR
Guayaquil
BRAZIL
PERU
Cuzco
Lima
BOLIVIA
La Paz
Santa Cruz
Belo Horizonte
PARAGUAY
CHILE
São Paulo
Rio de Janeiro
Asunción
ARGENTINA
Porto Alegre
URUGUAY
Santiago
Buenos Aires
Montevideo
AMERICAN AIRLINES CITIES
AMERICAN EAGLE CITIES
AMERICAN AIRLINES/
AMERICAN EAGLE CITIES
HUB CITIES
CODESHARE CITIES
Cities served as of May 1998.

OTHER CODESHARE CITIES:
Bahrain
Doha, Qatar
Abu Dhabi, U.A.E.
Muscat, Oman
Johannesburg, South Africa
Cape Town, South Africa
Singapore
Taipei, Taiwan
Sydney, Australia
Melbourne, Australia
Auckland, New Zealand
Whitehorse, Canada
SCOTLAND
Glasgow
Edinburgh
Belfast
IRELAND
Teesside
Leeds/Bradford
Manchester
ENGLAND
Birmingham
London
Stockholm
SWEDEN
Amsterdam
NETHERLANDS
Brussels
BELGIUM
GERMANY
Frankfurt
Warsaw
POLAND
Paris
FRANCE
Zurich
SWITZERLAND
Milan
ITALY
SPAIN
Madrid

In addition to providing outstanding customer service — she's won American's Professional Flight Attendant award three times — Kathy Johnson is regional director of Airline Ambassadors International, a worldwide humanitarian organization founded by American Airlines employees.

tional gateways. The first of these opened in March 1997 at DFW; during 1998, additional lounges will be built in Chicago, Miami, New York Kennedy, and Boston.

We are also building other facilities to meet the needs of our best customers. American's Platinum Service Center, which has operated successfully at Chicago O'Hare for several years, offers a range of check-in, ticketing, AAdvantage and general business services in an exclusive environment. In 1998, this concept will be expanded to a number of other domestic cities.

Late in 1997, American introduced a more convenient way for frequent travelers to upgrade from one class of service to another. The new process, called electronic stickerless upgrades, automatically keeps track of each customer's available upgrade coupons and processes upgrade requests without the need for burdensome paperwork.

We are also supplementing our in-flight services. Our extended-range international fleet, already equipped with in-seat phones, will be upgraded to satellite communications by June 1998 to allow customers to stay in touch with the ground even when the aircraft is over water and outside the U.S.

In the years to come, it will become even more important for us to reach our customers through alternative distribution channels. Since American's Internet home page — which allows customers to book reservations online — was first introduced in 1996, average monthly revenues from online

bookings have burgeoned. The number of Net SAAvers subscribers, who receive weekly E-mail notices of discount fares, has grown steadily to more than 1.4 million.

Cargo — A Growing Business Beneath the Seats

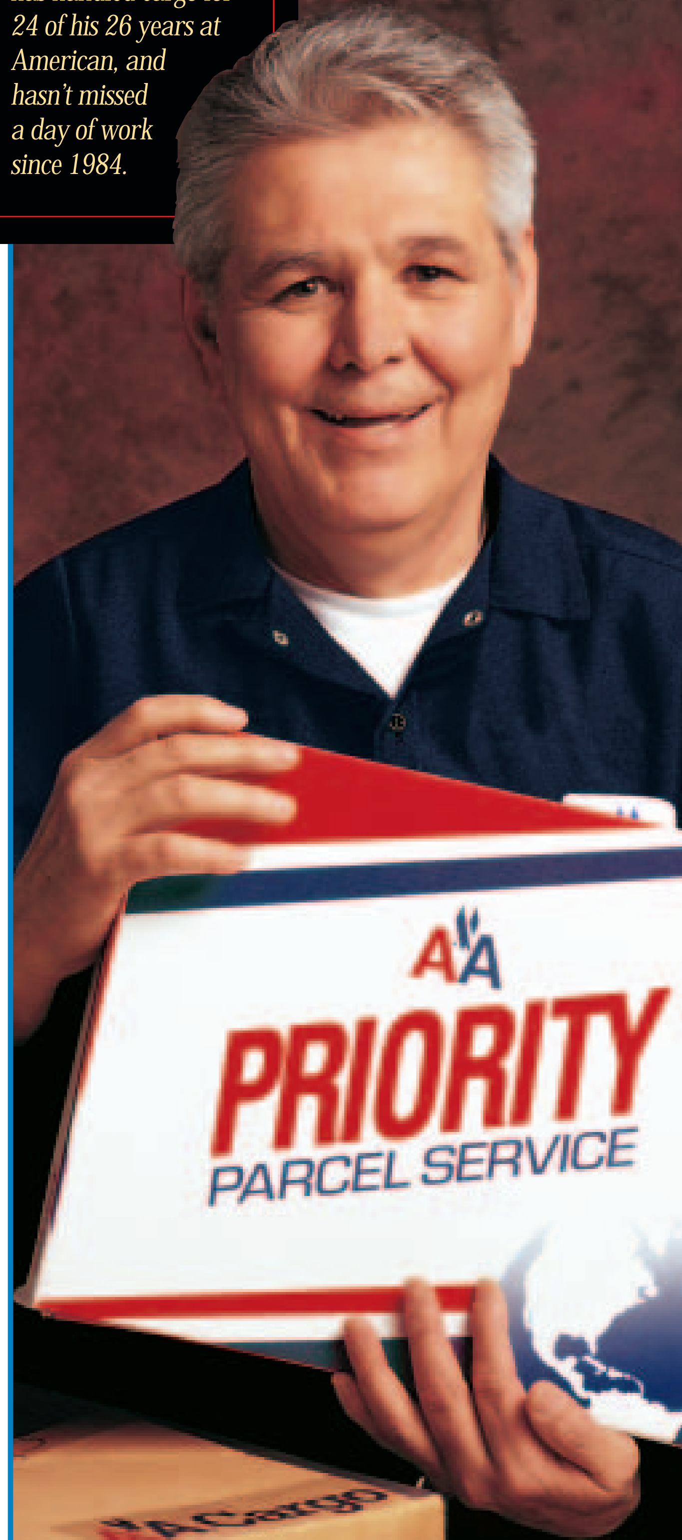
While carrying passengers is our primary airline function, cargo is also an important activity. In 1997, American's Cargo Division set several records. In August, a strike against United Parcel Service allowed us to attract new customers and we sustained that momentum into the fall, carrying more than 500 million cargo ton miles during the third quarter, a new record. That was followed in October by the division's biggest revenue month ever.

Our Latin American markets are particularly important for cargo. We carried a record amount of cargo to Latin America during the year, and were given the 1997 Corporate Leadership Award by the Air Cargo Americas International Congress in recognition of our contribution to increasing Latin American trade.

During the year, we also completed a major re-engineering project at our cargo terminals, which resulted in new automated systems, better procedural compliance, and much improved service for our customers.

As we add new Boeing aircraft to the fleet — and in particular the 757s, 767s, and 777s — we expect our cargo business, both freight and mail, to continue to grow in the years ahead.

Even with record revenue and traffic increases in 1997, American Airlines Cargo improved service quality thanks to employee commitment and teamwork. That includes DFW Cargo clerk Ray Barrera, who has handled cargo for 24 of his 26 years at American, and hasn't missed a day of work since 1984.



As SABRE Interactive rolled out innovative new travel planning products in 1997, Product Development Manager Ned Booth was instrumental in launching several initiatives, including a global pricing tool, which allows people in 70 countries to price air travel in local currencies.

For The SABRE Group (TSG), the largest of AMR's non-airline enterprises, 1997 marked the first full year of operations since its legal separation from American Airlines and an initial public offering of just under 20 percent of its shares.

TSG has two principal lines of business — electronic travel distribution and information technology solutions. In both fields, TSG is enjoying success and making the investments necessary to sustain its business, attract new customers and broaden the range of services it offers.

Electronic Travel Distribution

The SABRE Group is a world leader in electronic travel distribution. The SABRE global distribution system (GDS) handles more airline bookings than any other system and was named "World's Leading GDS" for the fourth consecutive year at the 1997 World Travel Awards.

The SABRE Group's electronic travel distribution customers, including travel agents, travel suppliers, corporations, and online consumers, can use the SABRE system to make reservations with more than 400 airlines, more than 50 car rental companies and nearly 39,000 hotels worldwide. As of the end of 1997, more than 30,000 travel agencies in over 70 countries on six continents subscribed to the SABRE system.

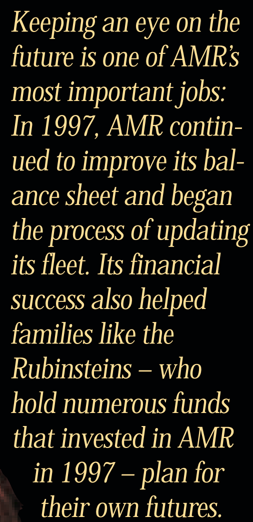
The SABRE Group's international bookings increased 11 percent in 1997. Its business grew in many markets, particularly in Latin America where TSG gained five share points

and persuaded all of the region's major carriers to become participants. On the domestic front, bookings growth has been less robust, in part because of the changes taking place in the travel distribution business. In the U.S., airlines have reduced costs by insisting that travel agents make fewer low-value bookings. These steps, and the migration of some customers to the Internet, has caused an industrywide decrease in GDS bookings per passenger boarded. Nonetheless, The SABRE Group held — and improved slightly — its leading share of the domestic market.

The explosive growth of the Internet represents new opportunities for The SABRE Group and its customers. In 1997, TSG introduced a number of products designed to sustain its position at the forefront of the online environment now emerging. Planet SABRE, for example, is the first Internet-enabled application suite for travel agencies. Another product, SABRE Web Reservations, allows consumers to search an agency's web site and obtain quotes in local currencies.

Travelocity, The SABRE Group's Internet site for travel planning and reservations, contains destination highlights, maps, hotels and a variety of other travel-related information from suppliers around the world. Launched in 1996, Travelocity had 1.6 million registered members at year-end 1997.

In 1997, AMR employed 114,000 people, flew 81 million customers and provided technology and services to an ever-changing transportation industry. It also helped everyday investors like Irene Lai, a retired school secretary, whose pension fund was a large investor in AMR during the year.



Keeping an eye on the future is one of AMR's most important jobs: In 1997, AMR continued to improve its balance sheet and began the process of updating its fleet. Its financial success also helped families like the Rubinsteins – who hold numerous funds that invested in AMR in 1997 – plan for their own futures.

TSG has also introduced SABRE Business Travel Solutions (SABRE BTS) to compete for primacy in the increasingly important corporate distribution channel. SABRE BTS allows corporations to give their business travelers the convenience of desktop access to the SABRE system, while offering corporate travel managers a tool to monitor corporate travel policies more comprehensively. SABRE BTS also provides automated methods of collecting, analyzing and controlling travel expenses. In 1997, The SABRE Group enlisted several major travel agencies as partners in marketing SABRE BTS. Today, the company counts more than 30 Fortune 500 companies as customers.

Information Technology Solutions

The second major group within TSG — information technology solutions — invested heavily in 1997 to maintain its leading portfolio of software solutions and attract new customers. The success of those efforts was highlighted by a number of new contracts, the largest of which is a 25-year, multibillion-dollar agreement with US Airways, under the terms of which TSG will manage US Airways' information technology infrastructure, including facilities, hardware, software and training.

Another 1997 highlight was a 10-year agreement by

which TSG and IBM became the preferred information technology providers for Cathay Pacific, helping that airline develop and manage a variety of system solutions. Under the terms of another contract finalized in 1997, TSG is partnering with IBM, GE Spacenet, and the International Technology Corporation - Sirena to create Sirena 3. That suite of products will modernize airline management technology for the airlines of the Commonwealth of Independent States (formerly the Soviet Union).

In 1997, The SABRE Group also landed a seven-year agreement with London Underground Limited to rewrite and maintain its train and crew scheduling system, as well as five-year outsourcing contracts with Dollar Rent a Car and Thrifty Car Rental to manage their reservations and back office systems.

While we expect new outsourcing agreements to be an important source of revenue growth in the years to come, American Airlines will likely remain The SABRE Group's largest information technology client. 1997 was the first full year of the long-term services agreement between American and The SABRE Group, which provides virtually all of the airline's information technology requirements, including data processing, network and distributed systems.

As a leader in using technology to improve customer service, AMR relies on its people to ensure that automation works in real-world situations. No one has overseen more front-line testing and trouble-shooting than Lynn Keryte, a 16-year passenger services agent, and her colleagues in Albuquerque.

The Port Authority of New York and New Jersey has recognized Verdia Noel for outstanding work managing airport information booths. Hers is one of many successes at AMR Global Services, which provides airline and airport services, call center management, general aviation, logistics management and training.

In 1997, AMR's third major business segment, the Management Services Group (MSG), produced pre-tax earnings of $55 million, and a pre-tax margin of 9 percent. The largest MSG group, AMR Global Services, manages five operating units, including AMR Services, AMR Combs, AMR Global Logistics, TeleService Resources, and AMR Training Group.

During the year, AMR sold a sixth operating unit, Data Management Systems (DMS), which provides data capture and document management services to companies like American Airlines. While DMS has been successful, and while American will continue to be a client, the airline industry's trend toward electronic ticketing leads us to believe that the business of capturing information from paper tickets will be less robust in the future.

AMR Services provides a full range of aviation services, including ramp, passenger, and cargo handling functions, as well as aircraft and equipment maintenance, fueling, general sales representation, flight dispatch and management services for more than 200 airlines and airport authorities at approximately 65 locations throughout North America, Europe, and Asia. In 1997, the company's cargo-handling operations in France and at Kennedy Airport in New York received ISO 9002 quality control certifications. That designation makes AMR Services the first cargo-handling company to be certified at both Paris airports and in the United States.

AMR Combs is a corporate aviation services provider, operating in major business centers in the United States, Mexico and Asia. During 1997, AMR Combs opened a new aviation center at San Francisco International Airport and made plans to open another at Indianapolis International Airport, where the company negotiated a new 25-year lease. Construction of an executive terminal for business aviation is underway at the new Chek Lap Kok Airport in Hong Kong and will open July 1998.

AMR Global Logistics serves the logistics marketplace and specializes in contract warehousing, trucking and multimodal freight forwarding services.

TeleService Resources (TSR) provides telemarketing and call management services for corporate and hospitality industry clients. While TSR has been a successful enterprise, increased competition in its telemarketing business in 1997 resulted in lower margins and earnings than 1996. Nonetheless, we expect TSR to remain a strong competitor in a growing industry.

AMR Training Group operates the American Airlines Training and Conference Center, which hosts a wide variety of training activities. The center's training facilities are also marketed to other companies. In addition, the group issued 11 school districts new site licenses for the use of the American Airlines Travel Academy curriculum, which

Pauline Wolfe personifies AMR's excellence in call management. At American's Cincinnati Reservation Office, she uses a wealth of experience to solve customers' problems. That same kind of experience has helped AMR Global Services establish a variety of businesses, including Teleservice Resources.

Ramp debris damages jet engines, but not in areas Don Civis patrols. He has earned numerous awards for constant cleaning of DFW ramps. Fleet service clerks at American, Eagle and AMR Services may be less visible than other employees, but they are crucial to dependability.

prepares students for a career in airline and other travel-related industries.

Another major business within MSG, Airline Management Services, manages AMR's relationships with four airline partners: Canadian Airlines, Hawaiian Airlines, Reno Airlines and Midway Airlines. This entity's year-over-year performance suffered as a consequence of a negotiated reduction in the fees paid by Canadian Airlines.

A third MSG business, AMR Investment Services, which provides investment advisory services for the managers of more than $11.2 billion in employee benefits funds, had a successful year. AMR Investment Services also operates the American AAdvantage Funds, a series of mutual funds for both institutional and retail investors. By Dec. 31, 1997, AMR Investment Services had more than $18.4 billion under management.

FINANCIAL INFORMATION

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AMR Corporation (AMR or the Company) was incorporated in October 1982. AMR's principal subsidiary, American Airlines, Inc. (American), was founded in 1934. For financial reporting purposes, AMR's operations fall within three major lines of business: the Airline Group, The SABRE Group and the Management Services Group.

Airline Group

The Airline Group consists primarily of American's Passenger and Cargo divisions and AMR Eagle Holding Corporation, a separate subsidiary of AMR.

American's Passenger Division is one of the largest scheduled passenger airlines in the world. At the end of 1997, American provided scheduled jet service to more than 165 destinations throughout North America, the Caribbean, Latin America, Europe and the Pacific.

American's Cargo Division is one of the largest scheduled air freight carriers in the world. It provides a full range of freight and mail services to shippers throughout the airline's system. In addition, through cooperative agreements with other carriers, it has the ability to transport shipments to virtually any country in the world.

AMR Eagle Holding Corporation (AMR Eagle) owns the four regional airlines which operate as "American Eagle" — Executive Airlines, Inc., Flagship Airlines, Inc., Simmons Airlines, Inc. and Wings West Airlines, Inc. The American Eagle carriers provide connecting service from six of American's high-traffic cities to smaller markets throughout the United States, Canada, the Bahamas and the Caribbean.

In January 1998, AMR Eagle Holding Corporation announced plans to merge the four regional airlines into a single carrier - "American Eagle Airlines, Inc." The transaction will occur in phases beginning in May 1998 and is expected to be complete by the end of 1998.

The SABRE Group

The SABRE Group is a world leader in the electronic distribution of travel through its proprietary travel reservation and information system, SABRE®, and is the largest electronic distributor of travel in North America. In addition, The SABRE Group is a leading provider of information technology solutions to the travel and transportation industry and fulfills substantially all of the data processing, network and distributed systems needs of American and AMR's other subsidiaries, Canadian Airlines International Limited and other customers.

Electronic Travel Distribution SABRE and other global distribution systems are the principal means of air travel distribution in the United States and a growing means of air travel distribution internationally. Through SABRE, travel agencies, corporate travel departments and individual consumers can access information on - and book reservations with - airlines and other providers of travel and travel-related products and services. As of December 31, 1997, travel agencies with more than 30,000 locations in over 70 countries on six continents subscribed to SABRE. SABRE subscribers are able to make reservations with more than 400 airlines, more than 50 car rental companies and more than 200 hotel companies covering approximately 39,000 hotel properties worldwide.

During 1997, more airline bookings in North America were made through SABRE than through any other global distribution system. The SABRE Group is actively involved in marketing SABRE internationally either directly or through joint venture or distributorship arrangements. The SABRE Group's global marketing partners principally include foreign airlines that have strong relationships with travel agents in such airlines' primary markets and entities that operate smaller global distribution systems or other travel-related network services. In 1997, approximately 67.3 percent of The SABRE Group's revenue was generated by the electronic distribution of travel, primarily through booking fees paid by associates.

In February 1998, The SABRE Group signed long-term agreements with ABACUS International Holdings Ltd. which created a Singapore-based joint venture company to manage travel distribution in the Asia-Pacific region. The SABRE Group owns 35 percent of the joint venture company, called ABACUS International Ltd., and provides it with transaction processing on the SABRE computer reservations system.

Information Technology Solutions The SABRE Group is a leading provider of solutions to the travel and transportation industry. The SABRE Group employs its airline technology expertise to offer technology solutions to other industries that face similar complex operations issues, including the airport, railroad, logistics and hospitality industries. The solutions offered by The SABRE Group include software development and product sales, transactions processing and consulting, as well as comprehensive information technology outsourcing, which bundles traditional data center, network and distributed systems management with industry-specific software applications and custom development. In addition, pursuant to information technology services agreements, The SABRE Group provides substantially all of the data processing, network and distributed systems needs of American and AMR's other subsidiaries, Canadian Airlines International Limited and other customers. In 1997, approximately 32.7 percent of The SABRE Group's revenue was generated by the provision of information technology solutions.

In January 1998, The SABRE Group completed the execution of a 25 year, multi-billion dollar technology agreement with US Airways, Inc. to provide substantially all of US Airways' information technology services. The agreement covers the management and operation of US Airways' systems and information technology services, including the migration or conversion of US Airways' legacy systems to The SABRE Group systems by mid-1999.

Management Services Group

The Management Services Group consists of four direct or indirect subsidiaries of AMR — AMR Global Services Corporation, Americas Ground Services, Inc. (AGS), AMR Investment Services, Inc. and Airline Management Services, Inc. (AMS).

AMR Global Services Corporation manages five operating units: AMR Services (formerly known as AMR Airline Services), AMR Combs, AMR Global Logistics, TeleService Resources (TSR) and the AMR Training Group. AMR Services provides a full range of aviation services, including ramp, passenger and cargo handling services, as well as aircraft and equipment maintenance, fueling, general sales representation, flight dispatch and management services for more than 200 airlines and airport authorities at approximately 65 locations throughout North America, Europe and Asia. AMR Combs, the executive aviation services division of AMR Global Services, is a premier corporate aviation services network of 14 facilities in major business centers in the United States, Mexico and Asia. AMR Global Logistics serves the logistics marketplace and specializes in logistics management, contract warehousing, trucking and multi-modal freight forwarding services. TSR provides comprehensive call center management services including inbound and outbound telemarketing, as well as reservation services for certain air carriers and a wide range of non-airline *Fortune* 500 clients. The AMR Training Group operates the American Airlines Training & Conference Center and provides a wide variety of training services to American and a number of other corporate clients.

AGS provides airline ground and cabin service handling at 10 locations in seven countries in the Caribbean and Central and South America.

AMR Investment Services, Inc. serves as an investment advisor to AMR and other institutional investors. It also manages the American AAdvantage Funds, which have both institutional shareholders — including pension funds, financial advisors, corporations and banks — and individual shareholders. As of December 31, 1997, AMR Investment Services was responsible for management of approximately $18.4 billion in assets, including direct management of approximately $6 billion in short-term investments.

AMS was formed in 1994 to manage the Company's service contracts with other airlines such as the agreement to provide a variety of management, technical and administrative services to Canadian Airlines International Limited which the Company signed in 1994.

RESULTS OF OPERATIONS

Summary AMR's net earnings in 1997 were $985 million, or $11.05 per common share ($10.78 diluted). The Company's results were adversely affected by a brief strike and the strike threat from members of the Allied

Pilots Association (APA) during the first quarter of 1997, which negatively impacted the Company's net earnings by an estimated $70 million, and the reinstatement of the airline transportation tax in March of 1997.

AMR's net earnings in 1996 were $1.0 billion, or $11.80 per common share ($11.19 diluted). In the fourth quarter of 1996, the Company recorded a $497 million gain related to the initial public offering of The SABRE Group and a $251 million charge ($230 million after tax) associated with the Company's relationship with Canadian Airlines International Limited (Canadian). AMR also recorded a $26 million charge ($16 million after tax) in the fourth quarter of 1996 to write down the value of aircraft interiors the Company planned to refurbish. To reduce interest expense, the Company repurchased and/or retired prior to scheduled maturity approximately $1.1 billion in face value of long-term debt and capital lease obligations. These long-term debt and capital lease transactions resulted in an extraordinary loss of $136 million ($89 million after tax) in 1996. Excluding these special items, totaling $162 million after tax, net earnings were $854 million.

Business Segments The SABRE Group has significant transactions with American and the Airline Group. In the second quarter of 1996, American and The SABRE Group completed the negotiation of a new technology services agreement pursuant to which The SABRE Group performs data processing and solutions services for American. This agreement reflected the downward trend in market prices for data processing services. Additionally, the two companies completed negotiations on new agreements covering the provision of air travel and certain marketing services by American to The SABRE Group. The parties agreed to apply the financial terms of these agreements as of January 1, 1996, which is reflected in the reporting segments' financial highlights noted below.

The following sections provide a discussion of AMR's results by reporting segment. The gain on the sale of stock by a subsidiary of $497 million in 1996 and minority interest expense of $36 million and $2 million in 1997 and 1996, respectively, have not been allocated to a reporting segment. Additional segment information is included in Note 16 to the consolidated financial statements.

BUSINESS SEGMENT FINANCIAL HIGHLIGHTS

Airline Group

	Year Ended December 31,		
(dollars in millions)	**1997**	1996	1995
Revenues			
Passenger - American Airlines, Inc.	**$14,310**	$ 13,645	$ 13,134
Passenger - AMR Eagle	**1,017**	1,047	976
Cargo	**687**	682	677
Other	**889**	837	714
	16,903	16,211	15,501
Operating Expenses			
Wages, salaries and benefits	**5,480**	5,191	5,082
Aircraft fuel	**1,923**	1,936	1,623
Commissions to agents	**1,278**	1,252	1,293
Depreciation and amortization	**1,038**	1,018	1,070
Maintenance materials and repairs	**861**	686	632
Other operating expenses	**4,754**	4,686	4,704
Restructuring costs	-	-	533
Total operating expenses	**15,334**	14,769	14,937
Operating Income	**1,569**	1,442	564
Other Expense	**(266)**	(428)	(650)
Earnings (Loss) Before Income Taxes and Extraordinary Loss	**$ 1,303**	$ 1,014	$ (86)
Average number of equivalent employees	**90,600**	88,900	89,400

Operating Statistics

	Year Ended December 31,		
	1997	1996	1995
American Airlines Jet Operations			
Revenue passenger miles (millions)	**107,026**	104,710	102,918
Available seat miles (millions)	**153,917**	152,886	155,337
Cargo ton miles (millions)	**2,032**	2,028	2,046
Passenger load factor	**69.5%**	68.5%	66.3%
Breakeven load factor excluding special charges	**61.0%**	60.2%	59.6%
Passenger revenue yield per passenger mile (cents)	**13.37**	13.03	12.76
Passenger revenue per available seat mile (cents)	**9.30**	8.92	8.46
Cargo revenue yield per ton mile (cents)	**33.78**	33.14	32.64
Operating expenses excluding special charges per available seat mile (cents)	**9.27**	8.91	8.57
Operating aircraft at year-end	**641**	642	635
AMR Eagle			
Revenue passenger miles (millions)	**2,553**	2,590	2,492
Available seat miles (millions)	**4,218**	4,431	4,488
Passenger load factor	**60.5%**	58.5%	55.5%
Operating aircraft at year-end	**199**	205	261

REVENUES

1997 Compared to 1996 Airline Group revenues of $16.9 billion in 1997 were up $692 million, or 4.3 percent, versus 1996. American's passenger revenues increased 4.9 percent, or $665 million. The increase in passenger revenues resulted from a 2.6 percent increase in passenger yield (the average amount one passenger pays to fly one mile) from 13.03 to 13.37 cents and a 2.2 percent increase in passenger traffic. For the year, domestic yields increased 1.8 percent, Latin American yields increased 4.5 percent, European yields increased 3.8 percent and Pacific yields increased 1.0 percent. In 1997, American derived 69 percent of its passenger revenues from domestic operations and 31 percent from international operations.

American's domestic traffic increased 2.0 percent to 74.3 billion revenue passenger miles (RPMs), while domestic capacity, as measured by available seat miles (ASMs), increased 0.8 percent. International traffic grew 2.6 percent to 32.7 billion RPMs on a capacity increase of 0.4 percent. The increase in international traffic was led by a 7.2 percent increase in Latin America on capacity growth of 5.5 percent. This increase was partially offset by a 1.7 percent decrease in the Pacific on a capacity decline of 2.9 percent and a 1.5 percent decrease in Europe on a capacity decline of 5.3 percent, primarily due to the cancellation of several routes during 1997.

The Airline Group benefited from several external factors in 1997. First, a healthy U.S. economy produced strong demand for air travel. Second, industry capacity grew at a more modest rate than demand, which led to higher industry load factors and a healthy pricing environment. However, these benefits were adversely impacted by a brief strike and the strike threat by members of the APA during the first quarter of 1997, which negatively impacted the Company's net earnings by an estimated $70 million.

1996 Compared to 1995 Airline Group revenues of $16.2 billion in 1996 were up $710 million, or 4.6 percent, versus 1995. American's passenger revenues increased 3.9 percent, or $511 million. The increase in passenger revenues resulted primarily from a 2.1 percent increase in passenger yield from 12.76 to 13.03 cents and a 1.7 percent increase in passenger traffic. For the year, domestic yields increased 2.6 percent, Latin American yields increased 0.2 percent and European yields increased 3.1 percent, while Pacific yields decreased 10.5 percent. The decline in Pacific yields was primarily due to the foreign exchange impact of the weaker yen. In 1996, American derived 69.6 percent of its passenger revenues from domestic operations and 30.4 percent from international operations.

American's domestic traffic increased 2.3 percent to 72.9 billion RPMs, while domestic capacity, as measured by ASMs, decreased 1.7 percent. International traffic grew 0.4 percent to 31.8 billion RPMs on a capacity decline of 1.2 percent. The increase in international traffic was led by a 5.0 percent increase in Latin America on capacity growth of 3.9 percent, offset by a 3.9 percent decrease in Europe on a capacity decline of 6.4 percent.

The Airline Group benefited from a number of external factors in 1996. First, a healthy U.S. economy produced strong demand for air travel. Second, industry capacity grew at a more modest rate, which led to higher industry load factors and a healthy pricing environment. And third, U.S. carriers benefited from an eight-month lapse in the application of the 10 percent excise tax on airline tickets.

The AMR Eagle carriers' passenger revenues increased by 7.3 percent or $71 million. Traffic on the AMR Eagle carriers increased 3.9 percent to 2.6 billion RPMs, while capacity decreased 1.3 percent. Passenger yield increased 3.2 percent, in part due to the significant changes made to AMR Eagle's fleet and route network to increase efficiency. These changes included closing its Nashville hub and 33 other stations, and grounding 54 aircraft, primarily 19-seat Jetstream aircraft. In the first quarter of 1995, AMR Eagle redeployed its fleet of ATR aircraft in response to the FAA's temporary restrictions on the operation of ATR aircraft in known or forecast icing conditions. The fleet disruption adversely impacted AMR Eagle's results in the first and second quarters of 1995.

Other revenues increased 17.2 percent, or $123 million, primarily as a result of an increase in aircraft maintenance work and airport ground services performed by American for other airlines and increased employee travel service charges. The remaining portion of the increase was attributable to the growth in passenger traffic.

OPERATING EXPENSES

1997 Compared to 1996 Airline Group operating expenses of $15.3 billion in 1997 were up $565 million, or 3.8 percent, versus 1996. American's Jet Operations cost per ASM increased 4.0 percent to 9.27 cents.

Wages, salaries and benefits increased $289 million, or 5.6 percent, due primarily to an increase in the average number of equivalent employees, contractual wage rate and seniority increases that are built into the Company's labor contracts, including a three percent rate increase granted to pilots effective August 31, 1997, and an increase in the provision for profit sharing.

Fuel expense decreased $13 million, or 0.7 percent, due to a 1.6 percent decrease in American's average price per gallon, including taxes, partially offset by a 1.4 percent increase in American's fuel consumption.

Commissions to agents increased 2.1 percent, or $26 million, due primarily to increased passenger revenues. This increase was offset by changes in the Company's travel agency commission payment structure implemented in September 1997 which lowered the base commission paid to travel agents from 10 percent to eight percent on all tickets purchased in the U.S. and Canada for both domestic and international travel.

Maintenance materials and repairs expense increased 25.5 percent, or $175 million, due to an increase in airframe and engine maintenance check volumes at American's maintenance bases as a result of the maturing of its fleet.

Other operating expenses increased $68 million, or 1.5 percent, due primarily to an increase in outsourced services, additional airport security requirements, and higher costs, such as credit card fees, resulting from higher passenger revenues. Other operating expenses in 1996 included a $26 million charge to write down the value of aircraft interiors.

1996 Compared to 1995 Airline Group operating expenses in 1995 included restructuring costs of $533 million, related to the cost of future pension and other postretirement benefits for voluntary early retirement programs offered in conjunction with renegotiated labor contracts covering members of the TWU and the APFA, as well as provisions for the write-down of certain DC-10 aircraft and the planned retirement of certain turboprop aircraft, and other restructuring activities. Excluding the restructuring costs, the Airline Group's operating expenses increased 2.5 percent, or $365 million. American's capacity decreased 1.6 percent to 152.9 billion ASMs. As a result, American's Jet Operations cost per ASM, excluding restructuring costs in 1995 and the write-down of aircraft interiors in 1996, increased 4.0 percent to 8.91 cents.

Despite a 0.6 percent decrease in the average number of equivalent employees, wages, salaries and benefits expense rose 2.1 percent, or $109 million. The increase was due primarily to contractual wage rate and seniority increases that are built into the Company's labor contracts and an increase in the provision for profit sharing.

Fuel expense increased 19.3 percent, or $313 million, due to a 19.9 percent increase in American's average price per gallon, including the 4.3 cents per gallon domestic fuel tax imposed on the airline industry since October 1995.

Commissions to agents decreased 3.2 percent, or $41 million, due principally to a reduction in average rates paid to agents attributable primarily to the change in commission structure implemented in February 1995, partially offset by commissions on increased passenger revenues.

Maintenance materials and repairs expense increased 8.5 percent, or $54 million, primarily due to five additional aircraft check lines added at American's maintenance bases in 1996 as a result of the maturing of its fleet.

Other operating expenses, consisting of aircraft rentals, other rentals and landing fees, food service costs and miscellaneous operating expenses, decreased 0.4 percent, or $18 million. Aircraft rentals decreased 8.2 percent, or $55 million, primarily as a result of American's decision to prepay the cancelable operating leases it had on 12 of its Boeing 767-300 aircraft during June and July 1996. Following the prepayments, these aircraft have been accounted for as capital leases and the related costs included in amortization expense. Miscellaneous operating expenses (including outsourced services, data processing services, booking fees, credit card fees, crew travel expenses, advertising and communications costs) increased by 1.3 percent, or $33 million, including a $26 million charge in 1996 to write down the value of aircraft interiors American planned to refurbish.

OTHER EXPENSE

Other expense consists of interest income and expense, interest capitalized and miscellaneous - net.

1997 Compared to 1996 Interest expense, net of amounts capitalized, decreased 20.7 percent, or $105 million, due primarily to scheduled debt repayments and the repurchase and/or retirement prior to scheduled maturity of approximately $469 million and $1.1 billion of long-term debt in 1997 and 1996, respectively, and a reduction of $850 million of American's long-term debt owed to AMR as a part of the reorganization of The SABRE Group. Also, in 1996, the Company's convertible debentures were converted into AMR common stock, resulting in an $834 million decrease in long-term debt. Interest income increased approximately 29.1 percent, or $30 million, due primarily to higher investment balances. Miscellaneous - net for 1996 included a $21 million provision for a cash payment representing American's share of a multi-carrier travel agency class action litigation settlement.

1996 Compared to 1995 Interest expense, net of amounts capitalized, decreased 25.2 percent, or $171 million, due primarily to scheduled debt repayments and the repurchase and/or retirement prior to scheduled maturity of approximately $1.1 billion of long-term debt in 1996, and a reduction of $850 million of American's long-term debt owed to AMR as a part of the reorganization of The SABRE Group. Also, the Company's convertible debentures were converted into common stock of AMR in May 1996, resulting in an $834 million decrease in long-term debt and a $43 million reduction in interest expense from 1995 to 1996. Interest income increased $29 million, or 39.2 percent, due primarily to higher investment balances. Miscellaneous - net for 1996 included a $21 million provision for a cash payment representing American's share of a multi-carrier travel agency class action litigation settlement. Miscellaneous - net for 1995 included a $41 million charge related to the loss of an aircraft operated by American.

The SABRE Group

	Year Ended December 31,		
(dollars in millions)	**1997**	1996	1995
Revenues	**$ 1,784**	$ 1,622	$ 1,529
Operating Expenses	**1,476**	1,295	1,149
Operating Income	**308**	327	380
Other Income (Expense)	**16**	(21)	(10)
Earnings Before Income Taxes	**$ 324**	$ 306	$ 370
Average number of equivalent employees	**8,500**	7,900	7,300

REVENUES

1997 Compared to 1996 Revenues for The SABRE Group increased 10.0 percent, or $162 million. Electronic travel distribution revenues increased approximately $99 million, or 8.9 percent, primarily due to growth in booking fees. The growth in booking fees was due to an increase in booking volumes primarily attributable to international expansion in Europe and Latin America and an overall increase in the price per booking charged to associates. Revenues from information technology solutions increased approximately $63 million, or 12.1 percent. Revenues from unaffiliated customers increased approximately $39 million due to an increase in software development, consulting and software license fee revenues. Revenues from other AMR units increased $24 million due to an increase in software development revenue and data processing volumes offset by a decrease in data network revenue from the sale, in July 1996, of data network equipment to a third party which began direct billing certain items to American.

1996 Compared to 1995 Revenues for The SABRE Group increased 6.1 percent, or $93 million. Electronic travel distribution revenues increased approximately $95 million, or 9.4 percent, primarily due to growth in booking fees from associates. This growth was driven by an increase in booking volumes partially attributable to international expansion in Europe and Latin America, an overall increase in the price per booking charged to associates and a migration of associates to higher participation levels within SABRE. Revenues from information technology solutions decreased approximately $2 million. Revenues from unaffiliated customers increased approximately $27 million, offset by a decrease in revenues from such services provided to other AMR units of $29 million primarily due to application of the financial terms of the technology services agreement signed with American in 1996.

OPERATING EXPENSES

1997 Compared to 1996 Operating expenses increased 14.0 percent, or $181 million, due primarily to increases in salaries, benefits and employee related costs and subscriber incentive expenses. Salaries, benefits and employee related costs increased due to an increase in the average number of equivalent employees necessary to support The SABRE Group's revenue growth and wage and salary increases for existing employees. Subscriber incentive expenses increased in order to maintain and expand The SABRE Group's travel agency subscriber base.

1996 Compared to 1995 Operating expenses increased 12.7 percent, or $146 million, due primarily to increases in salaries and benefits and subscriber incentive expenses. Salaries and benefits increased due to an increase of approximately eight percent in the average number of equivalent employees necessary to support The SABRE Group's revenue growth and wage and salary increases for existing employees. Subscriber incentive expenses increased in order to maintain and grow The SABRE Group's customer base. Additionally, the new agreements with American covering air travel and certain marketing services and other changes resulting from the Reorganization increased operating expenses in 1996.

OTHER INCOME (EXPENSE)

1997 Compared to 1996 Other income (expense) increased $37 million due to an increase in interest income of $17 million due to higher investment balances, an increase in other income of $14 million primarily due to increased income from joint ventures, and a decrease in interest expense of approximately $6 million primarily due to a lower principal balance outstanding on the subordinated debenture payable to AMR and lower interest rates.

1996 Compared to 1995 Other income (expense) decreased $11 million due primarily to interest expense incurred on the $850 million subordinated debenture payable to AMR issued in conjunction with the Reorganization, partially offset by increased interest income.

Management Services Group

	Year Ended December 31,		
(dollars in millions)	**1997**	1996	1995
Revenues	**$ 610**	$ 620	$ 572
Operating Expenses	**561**	550	501
Operating Income	**49**	70	71
Other Income (Expense)			
Canadian Airlines charges	-	(251)	-
Miscellaneous - net	**6**	(1)	(2)
	6	(252)	(2)
Earnings (Loss) Before Income Taxes	**$ 55**	$ (182)	$ 69
Average number of equivalent employees	**14,800**	14,500	13,300

REVENUES

1997 Compared to 1996 Revenues for the Management Services Group decreased 1.6 percent, or $10 million. This decrease was primarily the result of lower revenue for AMR Combs due to the March 1997 sale of its aircraft parts division, decreased telemarketing services provided by TeleService Resources, the sale of Data Management Services in September 1997 and the reduction in fees for services provided to Canadian Airlines International Limited (Canadian) as agreed upon in the fourth quarter of 1996. This decrease was partially offset by higher revenues for AMR Services as a result of increased airline passenger, ramp and cargo handling services.

1996 Compared to 1995 Revenues for the Management Services Group increased 8.4 percent, or $48 million. This increase is due principally to AMR Global Services Corporation, which experienced higher revenue as a result of increased airline passenger, ramp and cargo handling services provided by its AMR Services division and increased telemarketing services provided by TeleService Resources. This increase was partially offset by a $12 million reduction in fees for services provided to Canadian.

OPERATING EXPENSES

1997 Compared to 1996 Operating expenses increased 2.0 percent, or $11 million, due to an $18 million increase in wages, salaries and benefits resulting from a 2.1 percent increase in the average number of equivalent employees and wage and salary adjustments for existing employees. This increase was partially offset by the decrease in other operating expenses of $7 million, or 2.6 percent, commensurate with the decrease in revenues.

1996 Compared to 1995 Operating expenses increased 9.8 percent, or $49 million, due to a $27 million increase in wages, salaries and benefits resulting from an increase in the average number of equivalent employees and a $22 million increase in other operating expenses commensurate with the increase in revenues.

OTHER INCOME (EXPENSE)

Other income (expense) for 1996 included a $251 million charge associated with the Company's relationship with Canadian. This charge included $192 million related to the write-off of AMR's investment in the cumulative mandatorily redeemable convertible preferred stock of Canadian and $59 million related to the write-off of certain deferred costs relating to AMR's agreement to provide a variety of management, technical and administrative services to Canadian.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities provided net cash of $2.9 billion in 1997, $2.7 billion in 1996 and $2.2 billion in 1995. The $204 million increase from 1996 to 1997 resulted primarily from an increase in the air traffic liability due to higher advanced sales. The $536 million increase from 1995 to 1996 resulted primarily from increased net earnings and an increase in the air traffic liability due to higher advanced sales and fare sale activity in late 1996 compared to 1995.

Capital expenditures in 1997 totaled $1.4 billion, compared to $547 million in 1996 and $928 million in 1995, and included purchase deposits on new aircraft orders of $745 million, purchases of computer related equipment totaling $207 million and the acquisition of seven ATR aircraft. These expenditures, as well as the expansion of certain airport facilities, were funded primarily with internally generated cash. Proceeds from the sale of equipment and property of $281 million in 1997 include proceeds received upon the delivery of three of American's McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx) in accordance with the 1995 agreement between the two parties.

At December 31, 1997, the Company had commitments to acquire the following aircraft: 75 Boeing 737-800s, 12 Boeing 757-200s, 11 Boeing 777-200IGWs, eight Boeing 767-300ERs, 42 Embraer EMB-145s, 25 Bombardier CRJ-700s and five ATR 72s (Super ATR). Deliveries of these aircraft commence in 1998 and will continue through 2004. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate $1.5 billion in 1998, $1.9 billion in 1999, $560 million in 2000 and an aggregate of $1.5 billion in 2001 through 2004. In addition to these commitments for aircraft, the Company expects to spend approximately $1.5 billion related to modifications to aircraft, renovations of, and additions to, airport and office facilities, and the acquisition of various other equipment and assets in 1998, of which approximately $700 million has been authorized by the Company's Board of Directors. While the Company expects to fund the majority of its capital expenditures from the Company's existing cash balance and internally generated cash, some new financing may be raised depending upon capital market conditions and the Company's evolving view of its long-term needs.

In March 1998, the Company exercised its purchase rights to acquire two additional Boeing 777-200IGWs for deliveries in 1999. Depending upon the Company's fleet requirements, the Company may exercise additional aircraft purchase rights throughout the remainder of 1998. Also in March 1998, the Company exercised its option to sell its remaining seven MD-11 aircraft to FedEx with deliveries between 2000 and 2002.

The new collective bargaining agreement reached between American and the Allied Pilots Association granted pilots options to purchase 5.75 million shares of AMR common stock at $83.375, $10 less than the average fair market value of the stock on the date of grant, May 5, 1997. The options were immediately exercisable. To offset the potential dilution from the exercise of these options, the Company repurchased 5.75 million shares of its common stock during 1997. Also in July 1997, the Company initiated a stock repurchase program for up to an additional $500 million of its outstanding common stock, to be purchased in the open market or in private transactions from time to time over a 24-month period. As of December 31, 1997, a total of 7,043,375 shares had been purchased by the Company under the two programs at a total cost of approximately $740 million, and proceeds of approximately $200 million had been received

by the Company upon the exercise of stock options. The Company expects to spend approximately $350 million during 1998 to repurchase the remainder of the shares under the stock repurchase program.

The Board of Directors of The SABRE Group has also approved a stock repurchase program for The SABRE Group, under which The SABRE Group will repurchase, subject to certain business and market conditions, up to 1.5 million shares of The SABRE Group's Class A common stock. Based on current market prices, the total cost of The SABRE Group's stock repurchase program will be approximately $55 million.

In February 1998, The SABRE Group signed long-term agreements with ABACUS International Holdings Ltd. which created a Singapore-based joint venture company to manage travel distribution in the Asia-Pacific region. The SABRE Group received 35 percent of the joint venture company, called ABACUS International Ltd. The SABRE Group paid $139 million in cash and contributed assets related to The SABRE Group's ongoing travel distribution activities in the Asia-Pacific region and other considerations with a fair value of approximately $100 million. The SABRE Group provides ABACUS International with transaction processing on the SABRE computer reservations system. The investment was funded with existing cash.

The Company will continue to evaluate uses for any surplus cash, which may include the retirement, refinancing, and/or repurchase in the open market or otherwise of debt and/or other fixed obligations, and the continued repurchase of equity in the open market. The total amount of debt and/or equity retired, refinanced, and/or repurchased will depend on market conditions, AMR's cash position and other considerations during the year.

American has a $1.0 billion credit facility agreement which expires December 19, 2001. At American's option, interest on the agreement can be calculated on one of several different bases. For most borrowings, American would anticipate choosing a floating rate based upon the London Interbank Offered Rate (LIBOR). At December 31, 1997, no borrowings were outstanding under the agreement.

AMR (principally American Airlines) historically operates with a working capital deficit as do most other airline companies. The existence of such a deficit has not in the past impaired the Company's ability to meet its obligations as they become due and is not expected to do so in the future.

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS

The risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in the price of fuel, foreign currency exchange rates and interest rates as discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions management may take to mitigate its exposure to such changes. Actual results may differ. See Note 6 to the consolidated financial statements for accounting policies and additional information.

Aircraft Fuel The Company's earnings are affected by changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. The Company also manages the price risk of fuel costs primarily utilizing fuel swap and fuel option contracts. Market risk is estimated as a hypothetical 10 percent increase in the December 31, 1997 cost per gallon of fuel. Based on projected 1998 fuel usage, such an increase would result in an increase to aircraft fuel expense of approximately $110 million in 1998, net of fuel hedge instruments outstanding at December 31, 1997. As of December 31, 1997, the Company had hedged approximately 23 percent of its 1998 fuel requirements.

Foreign currency The Company is exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated operating revenues and expenses. The Company's largest exposure comes from the British pound and Japanese yen. The Company uses options to hedge its anticipated foreign currency-denominated net cash flows. The result of a uniform 10 percent strengthening in the value of the U.S. dollar from December 31, 1997 levels relative to each of

the currencies in which the Company's sales and expenses are denominated and have not historically adjusted for such foreign exchange rate fluctuations would result in a decrease in operating income of approximately $60 million for the year ending December 31, 1998, net of hedge instruments outstanding at December 31, 1997, due to the Company's foreign-denominated revenues exceeding its foreign-denominated expenses. The increase to other income due to the remeasurement of net foreign currency-denominated liabilities and the increase to common stockholders' equity due to the translation of net foreign currency-denominated liabilities resulting from a 10 percent strengthening in the value of the U.S. dollar is not material. This sensitivity analysis was prepared based upon projected 1998 foreign currency-denominated revenues and expenses and foreign currency-denominated assets and liabilities as of December 31, 1997. Furthermore, this calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

Interest The Company's earnings are also affected by changes in interest rates due to the impact those changes have on its interest income from cash and short-term investments and its interest expense from variable-rate debt instruments. The Company has variable-rate debt instruments representing approximately five percent of its total long-term debt and interest rate swaps on notional amounts of approximately $1.4 billion at December 31, 1997. If interest rates average 10 percent more in 1998 than they did during 1997, the Company's interest expense would increase by approximately $10 million. If interest rates average 10 percent more in 1998 than they did during 1997, the Company's interest income from cash and short-term investments would increase by approximately $14 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable-rate long-term debt, interest rate swap agreements, cash and short-term investment balances at December 31, 1997.

Market risk for fixed-rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 10 percent decrease in interest rates and amounts to approximately $105 million. The fair values of the Company's long-term debt were estimated using quoted market prices or discounted future cash flows based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

Other The Company is also subject to market risk in its investment in the cumulative mandatorily redeemable convertible preferred stock of Canadian Airlines International Limited (Canadian). However, the impact of such market risk on earnings is not significant as the Company wrote down its investment in Canadian to its estimated fair market value in 1996. Furthermore, the Company considers its investment in Canadian as an available for sale security and, as such, any future increase in the value of the Company's investment in Canadian would be recorded directly to stockholders' equity and would not impact the Company's earnings. The cumulative mandatorily redeemable convertible preferred stock of Canadian is not publicly traded and has no readily determinable fair value.

OTHER INFORMATION

Environmental Matters Subsidiaries of AMR have been notified of potential liability with regard to several environmental cleanup sites and certain airport locations. At sites where remedial litigation has commenced, potential liability is joint and several. AMR's alleged volumetric contributions at these sites are minimal. AMR does not expect these matters, individually or collectively, to have a material impact on its results of operations, financial position or liquidity. Additional information is included in Note 3 to the consolidated financial statements.

Year 2000 Compliance The Company has implemented a Year 2000 compliance program designed to ensure that the Company's computer systems and applications will function properly beyond 1999. Such program includes both systems and applications operated by the Company's businesses as well as software licensed to or operated for third parties by The SABRE Group. The Company believes that it has allocated adequate resources for this purpose and expects its Year 2000 date conversion program to be completed on a timely basis. The Company has commenced testing on certain systems and applications and will continue to test the remainder of the systems and applications throughout the course of the Year 2000 program. However, there can be no assurance that

the systems of other parties (e.g., Federal Aviation Administration, Department of Transportation, airport authorities, data providers) upon which the Company's businesses also rely will be converted on a timely basis. The Company's business, financial condition, or results of operations could be materially adversely affected by the failure of its systems and applications, those licensed to or operated for third parties, or those operated by other parties to properly operate or manage dates beyond 1999.

The Company expects to incur significant internal staff costs, as well as consulting and other expenses, related to infrastructure and facilities enhancements necessary to prepare its systems for the Year 2000. The Company's total estimated cost of the Year 2000 compliance program is approximately $215 million to $250 million, of which approximately $65 million was incurred as of December 31, 1997. The remaining expenses are expected to be incurred primarily in 1998. A significant portion of these costs are not likely to be incremental costs to the Company, but rather will represent the redeployment of existing information technology resources. Maintenance or modification costs associated with making existing computer systems Year 2000 compliant will be expensed as incurred.

The costs of the project and the date on which the Company plans to complete the Year 2000 compliance program are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from these estimates. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties.

Airline Transportation Taxes The Federal airline passenger excise tax, which was reimposed in the first quarter of 1997, expired on September 30, 1997. A replacement tax mechanism took effect on October 1, 1997. Over a five year period on a sliding scale, the airline ticket tax will be reduced from 10 percent to 7.5 percent and a $3 per passenger segment fee will be phased in. Additionally, the fee for international arrivals and departures was increased from $6 per departure to $12 for each arrival and departure and a 7.5 percent tax was added on the purchase of frequent flyer miles.

Dallas Love Field In 1968, as part of an agreement between the cities of Fort Worth and Dallas to build and operate Dallas/Fort Worth Airport (DFW), a bond ordinance was enacted by both cities (the Bond Ordinance). The Bond Ordinance required both cities to direct all scheduled interstate passenger operations to DFW and was an integral part of the bonds issued for the construction and operation of DFW. In 1979, as part of a settlement to resolve litigation with Southwest Airlines, the cities agreed to expand the scope of operations allowed under the Bond Ordinance at Dallas' Love Field. This settlement was codified by Congress and became known as the Wright Amendment. The Wright Amendment limited interstate operations at Love Field to the four states contiguous to Texas (New Mexico, Oklahoma, Arkansas and Louisiana) and prohibited through ticketing to any destination outside that perimeter. In 1997, without the consent of either city, Congress amended the Wright Amendment by (i) adding three states (Kansas, Mississippi and Alabama) to the perimeter and (ii) removing all federal restrictions on large aircraft configured with 56 seats or less (the 1997 Amendment). In October 1997, the City of Fort Worth filed suit in state district court against the City of Dallas and others seeking to enforce the Bond Ordinance. Fort Worth contends that the 1997 Amendment does not preclude the City of Dallas from exercising its proprietary rights to restrict traffic at Love Field in a manner consistent with the Bond Ordinance and, moreover, that it has an obligation to do so. American has joined in this litigation. Thereafter, Dallas filed a declaratory judgment action in federal district court seeking to have the court declare that, as a matter of law, the 1997 Amendment precludes Dallas from exercising any restrictions on operations at Love Field. As a result of the foregoing, the future of flight operations at Love Field and American's DFW hub is uncertain. To the extent that operations at Love Field to new destinations increase, American may be compelled for competitive reasons to divert resources from DFW to Love Field. This diversion could adversely impact American's business.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130), effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The adoption of SFAS 130 will have no impact on the Company's results of operations.

Also in June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131), effective for fiscal years beginning after December 15, 1997. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," and requires that a public company report annual and interim financial and descriptive information about its reportable operating segments pursuant to criteria that differ from current accounting practice. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Because this statement addresses how supplemental financial information is disclosed in annual and interim reports, the adoption will have no impact on the Company's financial condition or results of operations.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," effective for transactions entered into for fiscal years beginning after December 15, 1997. SOP 97-2 provides revised and expanded guidance on software revenue recognition and applies to entities that earn revenue from licensing, selling or otherwise marketing computer software. The Company's accounting policy for software revenue recognition is in compliance with SOP 97-2 and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

OUTLOOK FOR 1998

Airline Group The Airline Group expects 1998 to be another satisfactory year. A strong U.S. economy and healthy demand for air travel allow the Company to remain optimistic about 1998 revenues. In 1998, total system capacity is expected to increase slightly. The Airline Group expects to continue to strengthen its position in several domestic markets while expanding its international network. The recently approved bilateral agreement between the U.S. and Japan coupled with the expansion of code-share alliances, delivery of new Boeing aircraft and the addition of several new routes will enable American to gain further presence internationally. The Company is continuing to improve the regional airline feed to American by strengthening AMR Eagle with the delivery of its first regional jet in early 1998.

Pressure to reduce costs will continue, although the volatility of fuel prices makes any prediction of overall costs very difficult. Excluding fuel, the Company anticipates an increase in unit costs of about two to three percent, driven by increased maintenance costs as American's fleet continues to mature, higher labor costs associated with the normal seniority and scale increases in the union contracts and various other inflationary pressures.

The SABRE Group The SABRE Group expects continued profitability and revenue growth in 1998. Revenues from The SABRE Group's information technology solutions business should grow significantly in 1998 as a result of the multi-billion dollar technology services agreement signed between The SABRE Group and US Airways, Inc. Additionally, The SABRE Group expects overall revenue growth from the electronic travel distribution business to be consistent with those of prior years. While The SABRE Group anticipates a decline in domestic airline bookings growth in 1998, The SABRE Group expects to compensate for the decline with growth in international bookings, non-air bookings and price increases.

Management Services Group The Management Services Group comprises several businesses whose activities are various and diverse. While most of the businesses expect profitable growth in 1998, this growth will be offset by

the loss of revenue attributable to the sale of certain businesses in 1997. As a result, combined Management Services Group operating results will likely remain consistent with 1997 results.

FORWARD LOOKING INFORMATION

The preceding Letter from the Chairman, essays on the Airline Group, The SABRE Group and the Management Services Group and Management's Discussion and Analysis contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words "expects," "plans," "anticipates," and similar expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, projections relating to results of operations and financial condition, including increases in revenues and unit costs, Year 2000 compliance, overall economic projections and the Company's plans and objectives for future operations, including plans to develop future code-sharing programs and to evaluate new alliances. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. These statements deal with our expectations about the future and are subject to a number of factors that could cause actual results to differ materially from our expectations. The following factors, in addition to other possible factors not listed, could cause the Company's actual results to differ materially from those expressed in forward-looking statements: uncertainty of future collective bargaining agreements; economic and other conditions; commodity prices; competition in the airline industry; competition in electronic travel distribution; changing business strategy; government regulation; and uncertainty in international operations. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings, including but not limited to the Form 10-K for 1997, copies of which are available from the Company without charge.

OPERATING AIRCRAFT FLEETS

(At December 31, 1997)	Current Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Weighted-Average Age (Years)
Jet Aircraft						
Airbus A300-600R	192/266/267	10	-	25	35	8
Boeing 727-200	150	65	14	-	79	21
Boeing 757-200	188	50	9	31	90	6
Boeing 767-200	172	8	-	-	8	15
Boeing 767-200 Extended Range	165	9	13	-	22	12
Boeing 767-300 Extended Range	207	16	15	10	41	7
Fokker 100	97	66	5	4	75	5
McDonnell Douglas DC-10-10	237/290/297	13	-	-	13	20
McDonnell Douglas DC-10-30	271/282	4	1	-	5	23
McDonnell Douglas MD-11	238/255	13	-	-	13	5
McDonnell Douglas MD-80	139	119	25	116	260	10
Total		373	82	186	641	10
Regional Aircraft						
ATR 42	46	28	2	16	46	8
Super ATR	64/66	35	-	3	38	4
Saab 340B	34	29	61	-	90	6
Saab 340B*Plus*	34	-	-	25	25	2
Total		92	63	44	199	5

(in millions, except per share amounts)	Year Ended December 31, 1997	1996	1995
Revenues			
Airline Group:			
Passenger - American Airlines, Inc.	**$ 14,310**	$ 13,645	$ 13,134
- AMR Eagle	**1,017**	1,047	976
Cargo	**687**	682	677
Other	**889**	837	714
	16,903	16,211	15,501
The SABRE Group	**1,784**	1,622	1,529
Management Services Group	**610**	620	572
Less: Intergroup revenues	**(727)**	(700)	(692)
Total operating revenues	**18,570**	17,753	16,910
Expenses			
Wages, salaries and benefits	**6,328**	5,961	5,779
Aircraft fuel	**1,923**	1,936	1,623
Commissions to agents	**1,278**	1,252	1,293
Depreciation and amortization	**1,244**	1,204	1,259
Other rentals and landing fees	**896**	895	878
Maintenance materials and repairs	**873**	697	641
Food service	**677**	672	682
Aircraft rentals	**574**	616	671
Other operating expenses	**2,851**	2,681	2,536
Restructuring costs	-	-	533
Total operating expenses	**16,644**	15,914	15,895
Operating Income	**1,926**	1,839	1,015
Other Income (Expense)			
Interest income	**138**	80	63
Interest expense	**(399)**	(499)	(670)
Gain on sale of stock by subsidiary	-	497	-
Miscellaneous - net	**(19)**	(284)	(55)
	(280)	(206)	(662)
Earnings Before Income Taxes and Extraordinary Loss	**1,646**	1,633	353
Income tax provision	**661**	528	162
Earnings Before Extraordinary Loss	**985**	1,105	191
Extraordinary Loss, Net of Tax Benefit	-	(89)	(29)
Net Earnings	**$ 985**	$ 1,016	$ 162
Earnings (Loss) Per Common Share:			
Basic			
Before extraordinary loss	**$ 11.05**	$ 12.83	$ 2.51
Extraordinary loss	-	(1.03)	(0.38)
Net earnings	**$ 11.05**	$ 11.80	$ 2.13
Diluted			
Before extraordinary loss	**$ 10.78**	$ 12.15	$ 2.49
Extraordinary loss	-	(0.96)	(0.38)
Net earnings	**$ 10.78**	$ 11.19	$ 2.11

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

(in millions)	December 31, 1997	1996
Assets		
Current Assets		
Cash	**$ 64**	$ 68
Short-term investments	**2,370**	1,743
Receivables, less allowance for uncollectible accounts (1997 - $24; 1996 - $17)	**1,370**	1,382
Inventories, less allowance for obsolescence (1997 - $203; 1996 - $213)	**636**	633
Deferred income taxes	**406**	404
Other current assets	**225**	240
Total current assets	**5,071**	4,470
Equipment and Property		
Flight equipment, at cost	**13,002**	13,107
Less accumulated depreciation	**4,459**	3,922
	8,543	9,185
Purchase deposits for flight equipment	**754**	-
Other equipment and property, at cost	**4,158**	3,982
Less accumulated depreciation	**2,284**	2,100
	1,874	1,882
	11,171	11,067
Equipment and Property Under Capital Leases		
Flight equipment	**2,980**	2,998
Other equipment and property	**274**	261
	3,254	3,259
Less accumulated amortization	**1,168**	1,021
	2,086	2,238
Other Assets		
Route acquisition costs, less accumulated amortization (1997 - $211; 1996 - $182)	**945**	974
Airport operating and gate lease rights, less accumulated amortization (1997 - $143; 1996 - $123)	**325**	345
Prepaid pension cost	**382**	446
Other	**935**	957
	2,587	2,722
Total Assets	**$ 20,915**	$ 20,497

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

(in millions, except shares and par value)	December 31, **1997**	1996
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**$ 1,021**	$ 1,068
Accrued salaries and wages	**897**	823
Accrued liabilities	**1,123**	1,232
Air traffic liability	**2,044**	1,889
Current maturities of long-term debt	**397**	424
Current obligations under capital leases	**135**	130
Total current liabilities	**5,617**	5,566
Long-Term Debt, Less Current Maturities	**2,260**	2,752
Obligations Under Capital Leases, Less Current Obligations	**1,629**	1,790
Other Liabilities and Credits		
Deferred income taxes	**1,105**	743
Deferred gains	**610**	647
Postretirement benefits	**1,579**	1,530
Other liabilities and deferred credits	**1,899**	1,801
	5,193	4,721
Commitments and Contingencies		
Stockholders' Equity		
Common stock - $1 par value; shares authorized: 150,000,000; shares issued: 1997 - 91,139,383; 1996 - 90,989,713	**91**	91
Additional paid-in capital	**3,195**	3,166
Treasury shares at cost: 1997 - 4,540,416	**(485)**	-
Other	**(4)**	(23)
Retained earnings	**3,419**	2,434
	6,216	5,668
Total Liabilities and Stockholders' Equity	**$ 20,915**	$ 20,497

(in millions)	Year Ended December 31, **1997**	1996	1995
Cash Flow from Operating Activities:			
Net earnings	**$ 985**	$ 1,016	$ 162
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	**996**	967	1,012
Deferred income taxes	**362**	218	50
Amortization	**248**	237	247
Gain on sale of stock by subsidiary	**-**	(497)	-
Provisions for losses	**-**	251	41
Extraordinary loss	**-**	136	45
Provision for restructuring costs	**-**	-	533
Change in assets and liabilities:			
Decrease (increase) in receivables	**12**	(225)	(109)
Increase in inventories	**(41)**	(66)	(11)
Increase in accounts payable and accrued liabilities	**117**	261	441
Increase (decrease) in air traffic liability	**155**	423	(7)
Other, net	**86**	(5)	(224)
Net cash provided by operating activities	**2,920**	2,716	2,180
Cash Flow from Investing Activities:			
Capital expenditures	**(1,390)**	(547)	(928)
Net increase in short-term investments	**(627)**	(924)	(65)
Proceeds from sale of equipment and property	**281**	257	68
Net cash used for investing activities	**(1,736)**	(1,214)	(925)
Cash Flow from Financing Activities:			
Payments on long-term debt and capital lease obligations	**(648)**	(2,130)	(1,401)
Repurchase of common stock	**(740)**	-	-
Proceeds from:			
Exercise of stock options	**200**	25	21
Sale of stock by subsidiary	**-**	589	-
Issuance of long-term debt	**-**	-	184
Net cash used for financing activities	**(1,188)**	(1,516)	(1,196)
Net increase (decrease) in cash	**(4)**	(14)	59
Cash at beginning of year	**68**	82	23
Cash at end of year	**$ 64**	$ 68	$ 82

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

(in millions, except shares and per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Other	Retained Earnings	Total
Balance at January 1, 1995	$ 78	$ 76	$ 2,212	$ -	$ (242)	$ 1,256	$ 3,380
Net earnings	-	-	-	-	-	162	162
Issuance of 507,826 shares pursuant to stock option, deferred stock and restricted stock incentive plans	-	-	27	-	-	-	27
Adjustment for minimum pension liability, net of tax benefit of $120	-	-	-	-	198	-	198
Unrealized loss on investments, net of tax benefit of $28	-	-	-	-	(47)	-	(47)
Balance at December 31, 1995	78	76	2,239	-	(91)	1,418	3,720
Net earnings	-	-	-	-	-	1,016	1,016
Issuance of 13,926,774 shares upon conversion of convertible subordinated debentures and preferred stock, net of conversion fees and issuance costs	(78)	14	881	-	-	-	817
Issuance of 701,828 shares pursuant to stock option, deferred stock and restricted stock incentive plans	-	1	46	-	-	-	47
Adjustment for minimum pension liability, net of tax benefit of $13	-	-	-	-	(21)	-	(21)
Reversal of unrealized loss on investment in Canadian Airlines International Limited	-	-	-	-	91	-	91
Unrealized loss on investments, net of tax benefit of $1	-	-	-	-	(2)	-	(2)
Balance at December 31, 1996	-	91	3,166	-	(23)	2,434	5,668
Net earnings	-	-	-	-	-	985	985
Issuance of 156,070 shares pursuant to stock option, deferred stock and restricted stock incentive plans	-	-	13	-	-	-	13
Issuance of 5,750,000 stock options at $10 below market value at date of grant	-	-	58	-	-	-	58
Repurchase of 7,043,375 common shares	-	-	-	(740)	-	-	(740)
Issuance of 2,502,959 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax benefit of $15	-	-	(42)	255	-	-	213
Adjustment for minimum pension liability, net of tax expense of $13	-	-	-	-	19	-	19
Balance at December 31, 1997	**$ -**	**$ 91**	**$ 3,195**	**$ (485)**	**$ (4)**	**$ 3,419**	**$ 6,216**

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

1. Summary Of Accounting Policies

Basis of Consolidation The consolidated financial statements include the accounts of AMR Corporation (AMR or the Company), its wholly-owned subsidiaries, including its principal subsidiary American Airlines, Inc. (American), and its majority-owned subsidiaries, including The SABRE Group Holdings, Inc. (The SABRE Group). All significant intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with the 1997 presentation.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Inventories Spare parts, materials and supplies relating to flight equipment are carried at average acquisition cost and are expensed when incurred in operations. Allowances for obsolescence are provided, over the estimated useful life of the related aircraft and engines, for spare parts expected to be on hand at the date aircraft are retired from service, plus allowances for spare parts currently identified as excess. These allowances are based on management estimates, which are subject to change.

Equipment and Property The provision for depreciation of operating equipment and property is computed on the straight-line method applied to each unit of property, except that spare assemblies are depreciated on a group basis. The depreciable lives and residual values used for the principal depreciable asset classifications are:

	Depreciable Life	Residual Value
Boeing 727-200 (Stage II)	December 31, 1999[1]	None
Boeing 727-200 (to be converted to Stage III)	December 31, 2003[1]	None
DC-10	December 31, 2002[2]	None
Other jet aircraft	20 years	5%
Regional aircraft and engines	15-17 years	10%
Major rotable parts, avionics and assemblies	Life of equipment to which applicable	0-10%
Improvements to leased flight equipment	Term of lease	None
Buildings and improvements (principally on leased land)	10-30 years or term of lease	None
Furniture, fixtures and other equipment	3-20 years	None

[1] In 1996, American changed the estimated useful lives of its Boeing 727-200 aircraft and engines from an average depreciable life of 21 years to an approximate common retirement date of December 31, 1999 for those aircraft which will not be converted to Stage III noise standards and December 31, 2003 for those which will be converted to Stage III. The impact of this change was not material.

[2] Approximate common retirement date.

Equipment and property under capital leases are amortized over the term of the leases and such amortization is included in depreciation and amortization. Lease terms vary but are generally 10 to 25 years for aircraft and 7 to 40 years for other leased equipment and property.

Maintenance and Repair Costs Maintenance and repair costs for owned and leased flight equipment are charged to operating expense as incurred, except engine overhaul costs incurred by AMR's regional carriers, which are accrued on the basis of hours flown.

Intangible Assets The Company continually evaluates intangible assets to determine whether current events and circumstances warrant adjustment of the carrying values or amortization periods.

Route acquisition costs and airport operating and gate lease rights represent the purchase price attributable to route authorities, airport take-off and landing slots and airport gate leasehold rights acquired. These assets are being amortized on a straight-line basis over 40 years for route authorities, 25 years for airport take-off and landing slots, and the term of the lease for airport gate leasehold rights.

Passenger Revenues Passenger ticket sales are initially recorded as a component of air traffic liability. Revenue derived from ticket sales is recognized at the time transportation is provided. However, due to various factors, including the complex pricing structure and interline agreements throughout the industry, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. Actual results could differ from those estimates.

Electronic Travel Distribution Revenues Revenues for airline travel reservations are recognized at the time of the booking of the reservation, net of estimated future cancellations. Revenues for car rental and other travel providers are recognized at the time the reservation is used by the customer. Fees billed on service contracts are recognized as revenue in the month earned.

Information Technology Solutions Revenues Revenue from information technology services is recognized in the period earned. Revenue from software license fees for standard software products is recognized when the software is delivered, provided no significant future vendor obligations exist and collection is probable. Revenue on long-term software development and consulting contracts is recognized under the percentage of completion method of accounting. Losses, if any, on long-term contracts are recognized when the current estimate of total contract costs indicates a loss on a contract is probable. Fixed fees for software maintenance are recognized ratably over the life of the contract.

Advertising Costs The Company expenses the costs of advertising as incurred. Advertising expense was $207 million, $205 million and $192 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Frequent Flyer Program The estimated incremental cost of providing free travel awards is accrued when such award levels are reached. American sells mileage credits and related services to companies participating in its frequent flyer program. The portion of the revenue related to the sale of mileage credits is deferred and recognized over a period approximating the period during which the mileage credits are used.

Statement of Cash Flows Short-term investments, without regard to remaining maturity at acquisition, are not considered as cash equivalents for purposes of the statement of cash flows.

Stock Options The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25) and related Interpretations. Under APB 25, no compensation expense is recognized for stock option grants if the exercise price of the Company’s stock option grants is at or above the fair market value of the underlying stock on the date of grant.

2. Investments

Short-term investments consisted of (in millions):

	December 31, 1997	1996
Overnight investments and time deposits	**$ 674**	$ 81
Corporate notes	**950**	1,302
Other debt securities	**746**	360
	$ 2,370	$ 1,743

Short-term investments at December 31, 1997, by contractual maturity included (in millions):

Due in one year or less	**$ 1,403**
Due after one year through three years	**662**
Due after three years	**305**
	$ 2,370

All short-term investments are classified as available-for-sale and stated at fair value. Net unrealized gains and losses, net of deferred taxes, are reflected as an adjustment to stockholders’ equity.

3. Commitments And Contingencies

At December 31, 1997, the Company had commitments to acquire the following aircraft: 75 Boeing 737-800s, 12 Boeing 757-200s, 11 Boeing 777-200IGWs, eight Boeing 767-300ERs, 42 Embraer EMB-145s, 25 Bombardier CRJ-700s and five ATR 72s. Deliveries of these aircraft commence in 1998 and will continue through 2004. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate $1.5 billion in 1998, $1.9 billion in 1999, $560 million in 2000 and an aggregate of $1.5 billion in 2001 through 2004. In addition to these commitments for aircraft, the Company's Board of Directors has authorized expenditures of approximately $1.5 billion over the next five years related to modifications to aircraft, renovations of, and additions to, airport and office facilities, and the acquisition of various other equipment and assets. AMR expects to spend approximately $700 million of this authorized amount in 1998.

The Miami International Airport Authority is currently remediating various environmental conditions at the Miami International Airport (the Airport) and funding the remediation costs through landing fee revenues. Future costs of the remediation effort may be borne by carriers operating at the Airport, including American, through increased landing fees and/or other charges since certain of the potentially responsible parties are no longer in business. The future increase in landing fees and/or other charges may be material but cannot be reasonably estimated due to various factors, including the unknown extent of the remedial actions that may be required, the proportion of the cost that will ultimately be recovered from the responsible parties, and uncertainties regarding the environmental agencies that will ultimately supervise the remedial activities and the nature of that supervision. The ultimate resolution is not, however, expected to have a significant impact on the financial position or liquidity of AMR.

In April 1995, American announced an agreement to sell 12 of its McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx), with delivery of the aircraft between 1996 and 1999. No gain or loss is expected to be recognized as a result of this transaction. Six aircraft had been delivered as of December 31, 1997. The carrying value of the six remaining aircraft American has committed to sell was approximately $357 million as of December 31, 1997. In addition, American has the option to sell its remaining seven MD-11 aircraft with deliveries between 2000 and 2002.

AMR and American have included an event risk covenant in approximately $3.1 billion of debt and lease agreements. The covenant permits the holders of such instruments to receive a higher rate of return (between 50 and 700 basis points above the stated rate) if a designated event, as defined, should occur and the credit rating of the debentures or the debt obligations underlying the lease agreements is downgraded below certain levels.

Special facility revenue bonds have been issued by certain municipalities, primarily to purchase equipment and improve airport facilities which are leased by American. In certain cases, the bond issue proceeds were loaned to American and are included in long-term debt. Certain bonds have rates that are periodically reset and are remarketed by various agents. In certain circumstances, American may be required to purchase up to $437 million of the special facility revenue bonds prior to scheduled maturity, in which case American has the right to resell the bonds or to use the bonds to offset its lease or debt obligations. American may borrow the purchase price of these bonds under standby letter of credit agreements. At American's option, these letters of credit are secured by funds held by bond trustees and by approximately $492 million of short-term investments.

4. Leases

AMR's subsidiaries lease various types of equipment and property, including aircraft, passenger terminals, equipment and various other facilities. The future minimum lease payments required under capital leases, together with the present value of net minimum lease payments, and future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 1997, were (in millions):

Year Ending December 31,	Capital Leases	Operating Leases
1998	$ 255	$ 1,011
1999	250	985
2000	315	935
2001	297	931
2002	247	887
2003 and subsequent	1,206	13,366
	2,570[1]	$ 18,115[2]
Less amount representing interest	806	
Present value of net minimum lease payments	$ 1,764	

[1] Future minimum payments required under capital leases include $192 million guaranteed by AMR relating to special facility revenue bonds issued by municipalities.

[2] Future minimum payments required under operating leases include $6.2 billion guaranteed by AMR relating to special facility revenue bonds issued by municipalities.

At December 31, 1997, the Company had 186 jet aircraft and 44 turboprop aircraft under operating leases, and 82 jet aircraft and 63 turboprop aircraft under capital leases. The aircraft leases can generally be renewed at rates based on fair market value at the end of the lease term for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the defined lessor's cost of the aircraft or at a predetermined fixed amount.

During 1996, American made prepayments totaling $565 million on cancelable operating leases it had on 12 of its Boeing 767-300 aircraft. Upon the expiration of the amended leases, American can purchase the aircraft for a nominal amount. As a result, the aircraft are recorded as flight equipment under capital leases.

Rent expense, excluding landing fees, was $1.2 billion for 1997 and 1996 and $1.3 billion for 1995.

5. Indebtedness

Long-term debt (excluding amounts maturing within one year) consisted of (in millions):

	December 31, 1997	1996
6.50% - 10.70% notes due through 2021	**$ 1,469**	$ 1,859
8.625% - 10.20% debentures due through 2021	**437**	506
Variable rate indebtedness due through 2024 (3.55% - 6.824% at December 31, 1997)	**135**	162
6.0% - 9.25% bonds due through 2031	**176**	176
Other	**43**	49
Long-term debt, less current maturities	**$ 2,260**	$ 2,752

Maturities of long-term debt (including sinking fund requirements) for the next five years are: 1998 - $397 million; 1999 - $34 million; 2000 - $230 million; 2001 - $436 million; 2002 - $66 million.

During 1996, AMR repurchased and/or retired prior to scheduled maturity approximately $1.1 billion in face value of long-term debt and capital lease obligations. Cash from operations provided the funding for the repurchases and retirements. These transactions resulted in an extraordinary loss of $136 million ($89 million after tax) in 1996. In May 1996, the Company's convertible debentures were converted into common stock of AMR, which resulted in an $834 million decrease in long-term debt and an $817 million increase in stockholders' equity (net of conversion fees and issuance costs).

American has a $1.0 billion credit facility agreement which expires December 19, 2001. At American's option, interest on the agreement can be calculated on one of several different bases. For most borrowings, American would anticipate choosing a floating rate based upon the London Interbank Offered Rate (LIBOR). At December 31, 1997, no borrowings were outstanding under the agreement.

Certain debt is secured by aircraft, engines, equipment and other assets having a net book value of approximately $739 million. In addition, certain of American's debt and credit facility agreements contain restrictive covenants, including a cash flow coverage test and a minimum net worth requirement, which could affect AMR's ability to pay dividends. At December 31, 1997, under the most restrictive provisions of those agreements, approximately $1.9 billion of American's retained earnings were available for payment of dividends to AMR.

Cash payments for interest were $409 million, $515 million and $685 million for 1997, 1996 and 1995, respectively.

6. Financial Instruments And Risk Management

As part of the Company's risk management program, AMR uses a variety of financial instruments, including interest rate swaps, fuel swaps and currency exchange agreements. The Company does not hold or issue derivative financial instruments for trading purposes.

NOTIONAL AMOUNTS AND CREDIT EXPOSURES OF DERIVATIVES

The notional amounts of derivative financial instruments summarized in the tables which follow do not represent amounts exchanged between the parties and, therefore, are not a measure of the Company's exposure resulting from its use of derivatives. The amounts exchanged are calculated based on the notional amounts and other terms of the instruments, which relate to interest rates, exchange rates or other indices.

The Company is exposed to credit losses in the event of non-performance by counterparties to these financial instruments, but it does not expect any of the counterparties to fail to meet its obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date, reduced by the effects of master netting agreements. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines, and monitors the market position of the program and its relative market position with each counterparty. The Company also maintains industry-standard security agreements with the majority of its counterparties which may require the Company or the counterparty to post collateral if the value of these instruments falls below certain mark-to-market thresholds. As of December 31, 1997, no collateral was required under these agreements, and the Company does not expect to post collateral in the near future.

INTEREST RATE RISK MANAGEMENT

American enters into interest rate swap contracts to effectively convert a portion of its fixed-rate obligations to floating-rate obligations. These agreements involve the exchange of amounts based on a floating interest rate for amounts based on fixed interest rates over the life of the agreement without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the obligation. The related amount payable to or receivable from counterparties is included in current liabilities or assets. The fair values of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest rate swap agreements are deferred as an adjustment to the carrying amount of the outstanding obligation and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of the early extinguishment of a designated obligation, any realized or unrealized gain or loss from the swap would be recognized in income coincident with the extinguishment.

The following table indicates the notional amounts and fair values of the Company's interest rate swap agreements (in millions):

	December 31,			
	1997		1996	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Interest rate swap agreements	**$ 1,410**	**$ 12**	$ 1,480	$ (9)

The fair values represent the amount the Company would pay or receive to terminate the agreements at December 31, 1997 and 1996, respectively.

At December 31, 1997, the weighted-average remaining life of the interest rate swap agreements in effect was 3.7 years. The weighted-average floating rates and fixed rates on the contracts outstanding were:

	December 31,	
	1997	1996
Average floating rate	**5.901%**	5.728%
Average fixed rate	**5.844%**	5.627%

Floating rates are based primarily on LIBOR and may change significantly, affecting future cash flows.

FUEL PRICE RISK MANAGEMENT

American enters into fuel swap contracts to protect against increases in jet fuel prices. Under the agreements, American receives or makes payments based on the difference between a fixed price and a variable price for certain fuel commodities. The changes in market value of such agreements have a high correlation to the price changes of the fuel being hedged. Gains and losses on fuel swap agreements are recognized as a component of fuel expense when the underlying fuel being hedged is used. Gains and losses on fuel swap agreements would be recognized immediately were the changes in the market value of the agreements to cease to have a high correlation to the price changes of the fuel being hedged. At December 31, 1997, American had agreements with broker-dealers to exchange payments on approximately 847 million gallons of fuel products, which represents approximately 23 percent of its expected 1998 fuel needs and approximately eight percent of its expected 1999 fuel needs. The fair value of the Company's fuel swap agreements at December 31, 1997, representing the amount the Company would pay to terminate the agreements, totaled $34 million.

FOREIGN EXCHANGE RISK MANAGEMENT

To hedge against the risk of future exchange rate fluctuations on a portion of American's foreign cash flows, the Company enters into various currency put option agreements on a number of foreign currencies. The option contracts are denominated in the same foreign currency in which the projected foreign cash flows are expected to occur. These contracts are designated and effective as hedges of probable quarterly foreign cash flows for various periods through September 30, 1999, which otherwise would expose the Company to foreign currency risk. Realized gains on the currency put option agreements are recognized as a component of passenger revenues. At December 31, 1997, the notional amount related to these options totaled approximately $602 million and the fair value, representing the amount AMR would receive to terminate the agreements, totaled approximately $42 million.

The Company has entered into Japanese yen currency exchange agreements to effectively convert certain lease obligations into dollar-based obligations. Changes in the value of the agreements due to exchange rate fluctuations are offset by changes in the value of the foreign currency denominated lease obligations translated at the current exchange rate. Discounts or premiums are accreted or amortized as an adjustment to interest expense over the lives of the underlying lease obligations. The related amounts due to or from counterparties are included in other liabilities or other assets. The net fair values of the Company's currency exchange agreements, representing the amount AMR and American would pay or receive to terminate the agreements, were:

	December 31,			
	1997		1996	
	Notional Amount	**Fair Value (in millions)**	Notional Amount	Fair Value (in millions)
Japanese yen	**24.5 billion**	**$ (15)**	24.7 billion	$ 14

The exchange rates on the Japanese yen agreements range from 66.50 to 118.80 yen per U.S. dollar.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the Company's long-term debt were estimated using quoted market prices where available. For long-term debt not actively traded, fair values were estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts and estimated fair values of the Company's long-term debt, including current maturities, were (in millions):

	December 31,			
	1997		1996	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
6.50% - 10.70% notes	**$1,859**	**$2,088**	$2,214	$2,406
8.625% - 10.20% debentures	**437**	**540**	564	648
Variable rate indebtedness	**136**	**136**	165	165
6.0% - 9.25% bonds	**176**	**194**	176	180
Other	**49**	**50**	57	58
	$2,657	**$3,008**	$3,176	$3,457

All other financial instruments are either carried at fair value or their carrying value approximates fair value.

7. Income Taxes

The significant components of the income tax provision were (in millions):

	Year Ended December 31,		
	1997	1996	1995
Current	**$ 299**	$ 310	$ 112
Deferred	**362**	218	50
	$ 661	$ 528	$ 162

The income tax provision includes a federal income tax provision of $573 million, $463 million and $133 million for the years ended December 31, 1997, 1996 and 1995, respectively.

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

	Year Ended December 31,		
	1997	1996	1995
Statutory income tax provision	**$ 576**	$ 572	$ 125
State income tax provision, net	**47**	36	11
Meal expense	**21**	18	22
Minority interest	**12**	1	-
Gain on sale of stock by subsidiary	-	(174)	-
Change in valuation allowance	-	60	-
Other, net	**5**	15	4
Income tax provision	**$ 661**	$ 528	$ 162

The change in valuation allowance in 1996 relates to the deferred tax asset resulting from the write-off of AMR's investment in Canadian Airlines International Limited (see Note 14) and expiring foreign tax credits.

The components of AMR's deferred tax assets and liabilities were (in millions):

	December 31,	
	1997	1996
Deferred tax assets:		
Alternative minimum tax credit carryforwards	**$ 862**	$ 680
Postretirement benefits other than pensions	**583**	550
Rent expense	**323**	231
Gains from lease transactions	**234**	248
Frequent flyer obligation	**232**	172
Other	**417**	603
Operating loss carryforwards	-	345
Valuation allowance	**(72)**	(72)
Total deferred tax assets	**2,579**	2,757
Deferred tax liabilities:		
Accelerated depreciation and amortization	**(2,964)**	(2,679)
Pensions	**(94)**	(144)
Other	**(220)**	(273)
Total deferred tax liabilities	**(3,278)**	(3,096)
Net deferred tax liability	**$ (699)**	$ (339)

At December 31, 1997, AMR had available for federal income tax purposes approximately $862 million of alternative minimum tax credit carryforwards available for an indefinite period.

Cash payments (refunds) for income taxes were $423 million, $194 million and $(36) million for 1997, 1996 and 1995, respectively.

8. Common And Preferred Stock

In January 1998, the Board of Directors approved an amendment to the Company's Certificate of Incorporation increasing the total number of authorized shares of all classes of stock to 770 million, of which 20 million may be shares of preferred stock (without par value) and 750 million may be shares of common stock ($1 par value). The amendment to the Company's Certificate of Incorporation will be presented to the Company's stockholders for approval at the Company's 1998 annual meeting.

9. Stock Awards And Options

Under the 1988 Long Term Incentive Plan (1988 Plan), as amended in 1994, officers and key employees of AMR and its subsidiaries may be granted stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights, other stock-based awards and/or performance related awards, including cash bonuses. The total number of common shares authorized for distribution

under the 1988 Plan is 7,200,000 shares. In the event that additional shares of the Company's common stock are issued, 7.65 percent of such newly issued shares will be allocated to the 1988 Plan. The 1988 Plan will terminate no later than May 18, 1998. Options are awarded with an exercise price equal to the fair market value of the stock on date of grant, becoming exercisable in equal annual installments over five years following the date of grant and expiring 10 years from the date of grant. Stock appreciation rights may be granted in tandem with options awarded. As of January 1, 1996, all outstanding stock appreciation rights were canceled, while the underlying stock options remain in effect.

In January 1998, the Board of Directors approved the 1998 Long Term Incentive Plan (1998 Plan), the successor plan to the 1988 Plan. The 1998 Plan will be presented to the Company's stockholders for approval at the Company's 1998 annual meeting. If approved, the 1998 Plan will become effective on May 21, 1998 and will terminate on May 21, 2008. Under the 1998 Plan, officers and key employees of AMR and its subsidiaries may be granted stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights, other stock based awards and/or performance related awards, including cash bonuses. The 1998 Plan authorizes the issuance of 5,000,000 shares.

In 1997, the total charge for stock compensation expense included in wages, salaries and benefits expense was $75 million. No compensation expense was recognized for stock option grants under the 1988 Plan since the exercise price of the Company's stock option grants was the fair market value of the underlying stock on the date of grant.

Stock option activity was:

	Year Ended December 31,				
	1997		1996		1995
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price	Options
Outstanding at January 1	**1,831,795**	**$ 67.19**	2,322,780	$ 62.85	2,404,010
Granted	**447,740**	**104.57**	392,475	78.43	440,600
Exercised	**(492,888)**	**64.35**	(580,800)	59.41	(390,510)
Canceled[1]	**(33,260)**	**67.64**	(302,660)	62.97	(131,320)
Outstanding at December 31	**1,753,387**	**$ 77.54**	1,831,795	$ 67.19	2,322,780

[1] Includes 235,950 options canceled upon conversion to The SABRE Group stock options for 1996 and 20,500 options canceled upon exercise of stock appreciation rights for 1995.

The following table summarizes information about the stock options outstanding at December 31, 1997:

Range of Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Life (years)	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$40-$58	305,292	5.25	$ 54.66	189,472	$ 54.14
$61-$70	428,790	5.49	66.26	272,270	65.35
$71-$94	605,005	8.04	77.60	146,505	77.12
$97-$116	414,300	9.65	105.97	-	-
	1,753,387	7.30	$ 77.54	608,247	$ 64.69

In May 1997, in conjunction with the labor agreement reached between American and members of the Allied Pilots Association, the Company established the Pilots Stock Option Plan (The Pilot Plan). The Pilot Plan granted members of the Allied Pilots Association the option to purchase 5.75 million shares of AMR stock at $83.375 per share, $10 less than the average fair market value of the stock on the date of grant, May 5, 1997. These shares were exercisable immediately.

Pilot Plan option activity was:

	Year Ended December 31, 1997
	Options
Outstanding at January 1	-
Granted	**5,750,000**
Exercised	**(2,030,890)**
Outstanding at December 31	**3,719,110**

The weighted-average grant date fair value of all stock option awards granted during 1997 and 1996 was $22.01 and $25.80, respectively.

Shares of deferred stock are awarded at no cost to officers and key employees under the 1988 Plan's Career Equity Program and will be issued upon the individual's retirement from AMR or, in certain circumstances, will vest on a pro rata basis. Deferred stock activity was:

	Year Ended December 31,		
	1997	1996	1995
Outstanding at January 1	**1,197,331**	1,424,058	1,496,803
Granted	**87,750**	102,650	120,300
Issued	**(33,670)**	(54,724)	(116,016)
Canceled[1]	**(22,816)**	(274,653)	(77,029)
Outstanding at December 31	**1,228,595**	1,197,331	1,424,058

[1] Includes 210,400 shares canceled upon conversion to The SABRE Group stock options and awards for 1996.

The weighted-average grant date fair value of career equity awards granted during 1997 and 1996 was $109.96 and $79.27, respectively.

A performance share plan was implemented in 1993 under the terms of which shares of deferred stock are awarded at no cost to officers and key employees under the 1988 Plan. The shares vest over a three-year performance period based upon AMR's ratio of operating cash flow to adjusted assets. Performance share activity was:

	Year Ended December 31,		
	1997	1996	1995
Outstanding at January 1	**839,730**	824,411	508,330
Granted	**404,368**	382,307	340,991
Issued	**(95,383)**	(68,504)	-
Awards settled in cash	**(256,532)**	(178,088)	-
Canceled[1]	**(23,546)**	(120,396)	(24,910)
Outstanding at December 31	**868,637**	839,730	824,411

[1] Includes 90,551 shares canceled upon conversion to The SABRE Group stock awards for 1996.

The weighted-average grant date fair value of performance share awards granted during 1997 and 1996 was $104.55 and $78.81, respectively.

There were 9.1 million shares of AMR's common stock at December 31, 1997 reserved for the issuance of stock upon the exercise of options and the issuance of stock awards.

The SABRE Group has established the 1996 Long Term Incentive Plan (1996 Plan), whereby its officers and other key employees may be granted stock options and other stock-based awards. Initially, 13 million shares of The SABRE Group's Class A Common Stock were authorized to be issued under the 1996 Plan. At December 31, 1997, approximately 3.8 million shares of The SABRE Group's Class A Common Stock were outstanding under the 1996 Plan.

In January 1998, in connection with the information technology services agreement executed between The SABRE Group and US Airways, Inc., The SABRE Group granted two tranches of stock options to US Airways, each to acquire three million shares of The SABRE Group's Class A Common Stock. US Airways may select an alternative vehicle of substantially equivalent value in place of receiving stock. The first tranche of options is exercisable during the six month period ending two years after the transfer of US Airways' information technology assets, has an exercise price of $27 per share and is subject to a cap on share price of $90. The second tranche of options is exercisable during the 10 year period beginning on the fifth anniversary of the asset transfer date, has an exercise price of $27 per share and is subject to a cap on share price of $127.

The Company has adopted the pro forma disclosure features of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). As required by SFAS 123, pro forma information regarding net earnings and earnings per share has been determined as if the Company and The SABRE Group had accounted for its employee stock options and awards granted subsequent to December 31, 1994 using the fair value method prescribed by SFAS 123. The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995: risk-free interest rates ranging from 5.80% to 6.70%; dividend yields of 0%; expected stock volatility ranging from 25.0% to 29.0%; and expected life of the options of 4.5 years for all Plans, with the exception of The Pilot Plan which was 1.5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. In addition, because SFAS 123 is applicable only to options and stock-based awards granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1999.

The Company's pro forma net earnings and earnings per share assuming the Company had accounted for its employee stock options using the fair value method would have resulted in 1997 net earnings of $960 million and basic and diluted earnings per share of $10.77 and $10.50, respectively. The pro forma effect of SFAS 123 is immaterial to the Company's 1996 and 1995 net earnings and earnings per share.

10. Retirement Benefits

Substantially all employees of American and employees of certain other subsidiaries are eligible to participate in pension plans. The defined benefit plans provide benefits for participating employees based on years of service and average compensation for a specified period of time before retirement. Airline pilots and flight engineers also participate in defined contribution plans for which Company contributions are determined as a percentage of participant compensation.

Total costs for all pension plans were (in millions):

	Year Ended December 31,		
	1997	1996	1995
Defined benefit plans:			
Service cost - benefits earned during the period	$ **189**	$ 204	$ 165
Interest cost on projected benefit obligation	**403**	375	323
Return on assets	**(435)**	(91)	(1,288)
Net amortization and deferral	**26**	(322)	1,008
Net periodic pension cost for defined benefit plans	**183**	166	208
Defined contribution plans	**142**	132	124
Total	**$ 325**	$ 298	$ 332

In addition to the pension costs shown above, in late 1995, AMR offered early retirement programs to select groups of employees as part of its restructuring efforts. In accordance with Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," AMR recognized additional pension expense of $220 million associated with these programs in 1995 which was included in restructuring costs. Of this amount, $118 million was for special termination benefits and $102 million was for the actuarial losses resulting from the early retirements for 1995.

The funded status and actuarial present value of benefit obligations of the defined benefit plans were (in millions):

	December 31,			
	1997		1996	
	Plans with Assets in Excess of Accumulated Benefit Obligation	**Plans with Accumulated Benefit Obligation in Excess of Assets**	Plans with Assets in Excess of Accumulated Benefit Obligation	Plans with Accumulated Benefit Obligation in Excess of Assets
Vested benefit obligation	**$4,580**	**$ 53**	$ 2,729	$ 1,435
Accumulated benefit obligation	**$4,802**	**$ 57**	$ 2,882	$ 1,510
Effect of projected future salary increases	**940**	**26**	650	202
Projected benefit obligation	**5,742**	**83**	3,532	1,712
Plan assets at fair value	**5,213**	**6**	3,154	1,463
Plan assets less than projected benefit obligation	**(529)**	**(77)**	(378)	(249)
Unrecognized net loss	**761**	**27**	729	237
Unrecognized prior service cost	**58**	**5**	37	29
Unrecognized transition asset	**(21)**	**1**	(32)	-
Adjustment to record minimum pension liability	-	**(11)**	-	(69)
Prepaid (accrued) pension cost[1]	**$ 269**	**$ (55)**	$ 356	$ (52)

[1] AMR's funding policy is to make contributions equal to, or in excess of, the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Plan assets consist primarily of domestic and foreign government and corporate debt securities, marketable equity securities, and money market and mutual fund shares, of which approximately $92 million and $71 million of plan assets at December 31, 1997 and 1996, respectively, were invested in shares of mutual funds managed by a subsidiary of AMR.

The projected benefit obligation was calculated using weighted-average discount rates of 7.25% and 7.75% at December 31, 1997 and 1996, respectively; rates of increase for compensation ranging from 4.0% to 4.20% at December 31, 1997 and 1996; and the 1983 Group Annuity Mortality Table. The weighted-average expected long-term rate of return on assets was 9.50% in 1997, 1996 and 1995. The vested benefit obligation and plan assets at fair value at December 31, 1997, for plans whose benefits are guaranteed by the Pension Benefit Guaranty Corporation were $4.6 billion and $5.2 billion, respectively.

In October 1997, AMR spun off the portion of its defined benefit pension plan applicable to employees of The SABRE Group to the Legacy Pension Plan (LPP), a defined benefit plan established by The SABRE Group effective January 1, 1997. At the date of the spin-off, the net obligation attributable to The SABRE Group employees participating in AMR's plan was approximately $20 million. The SABRE Group also established The SABRE Group Retirement Plan (SGRP), a defined contribution plan. Effective January 1, 1997, employees of The SABRE Group who were under the age of 40 as of December 31, 1996 participate in the SGRP. Employees of The SABRE Group who were age 40 or over as of December 31, 1996 had the option of participating in either the SGRP or the LPP. The SABRE Group contributes 2.75 percent of each participating employee's base pay to the SGRP. The employees vest in the contributions after three years of service, including any prior service with AMR affiliates. In addition, The SABRE Group matches 50 cents of each dollar contributed by participating employees, limited to the first six percent of the employee's base pay contribution, subject to IRS limitations. Employees are immediately vested in their own contributions and the Company's matching contributions. In 1997, costs for the SGRP were $11 million.

In addition to pension benefits, other postretirement benefits, including certain health care and life insurance benefits, are also provided to retired employees. The amount of health care benefits is limited to lifetime maximums as outlined in the plan. Substantially all employees of American and employees of certain other subsidiaries may become eligible for these benefits if they satisfy eligibility requirements during their working lives.

Certain employee groups make contributions toward funding a portion of their retiree health care benefits during their working lives. AMR funds benefits as incurred and makes contributions to match employee prefunding.

Net other postretirement benefit cost was (in millions):

	Year Ended December 31,		
	1997	1996	1995
Service cost - benefits earned during the period	**$ 48**	$ 58	$ 48
Interest cost on accumulated other postretirement benefit obligation	**95**	102	101
Return on assets	**(4)**	(3)	(2)
Net amortization and deferral	**(14)**	(5)	(6)
Net other postretirement benefit cost	**$ 125**	$ 152	$ 141

In addition to net other postretirement benefit cost, in late 1995, AMR offered early retirement programs to select groups of employees as part of its restructuring efforts. In accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," AMR recognized additional other postretirement benefit expense of $93 million associated with the program in 1995 which was included in restructuring costs. Of this amount, $26 million was for special termination benefits and $67 million was for the net actuarial losses resulting from the early retirements for 1995.

The funded status of the plan, reconciled to the accrued other postretirement benefit cost recognized in AMR's balance sheet, was (in millions):

	December 31,	
	1997	1996
Retirees	**$ 630**	$ 593
Fully eligible active plan participants	**178**	128
Other active plan participants	**598**	492
Accumulated other postretirement benefit obligation	**1,406**	1,213
Plan assets at fair value	**56**	39
Accumulated other postretirement benefit obligation in excess of plan assets	**1,350**	1,174
Unrecognized net gain	**177**	300
Unrecognized prior service benefit	**52**	56
Accrued other postretirement benefit cost	**$ 1,579**	$ 1,530

Plan assets consist primarily of shares of mutual funds managed by a subsidiary of AMR.

For 1997 and 1996, future benefit costs were estimated assuming per capita cost of covered medical benefits would increase at a five and six percent annual rate, respectively, decreasing gradually to a four percent annual growth rate by 2001. A one percent increase in this annual trend rate would have increased the accumulated other postretirement benefit obligation at December 31, 1997 by approximately $144 million and 1997 other postretirement benefit cost by approximately $19 million. The weighted-average discount rate used in estimating the accumulated other postretirement benefit obligation was 7.25% and 7.75% at December 31, 1997 and 1996, respectively.

11. Earnings Per Share

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 replaced the primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the SFAS 128 requirements.

The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share amounts):

	Year Ended December 31,		
	1997	1996	1995
Numerator:			
Earnings before extraordinary loss - Numerator for basic earnings per share	**$ 985**	$ 1,105	$ 191
Effect of dilutive securities:			
Interest upon assumed conversion of convertible subordinated debentures, net of tax	-	14 [a]	-
Dividends upon assumed conversion of convertible preferred stock	-	1 [a]	-
	-	15	-
Numerator for diluted earnings per share - income available to common shareholders after assumed conversions	**$ 985**	$ 1,120	$ 191
Denominator:			
Denominator for basic earnings per share - weighted-average shares	**89**	86	76
Effect of dilutive securities:			
Convertible subordinated debentures	-	4	-
Convertible preferred stock	-	1	-
Employee options and shares	**7**	3	3
Treasury shares repurchased	**(5)**	(2)	(2)
Dilutive potential common shares	**2**	6	1
Denominator for diluted earnings per share - adjusted weighted-average and assumed conversions	**91**	92	77
Basic earnings per share	**$ 11.05**	$ 12.83	$ 2.51
Diluted earnings per share	**$ 10.78**	$ 12.15	$ 2.49

[a] Through date of actual conversion

12. Restructuring Costs

In 1995, the Company recorded $533 million for restructuring costs which included (in millions):

	Year Ended December 31, 1995
Special termination benefits:	
Pension	$118
Other postretirement benefits	26
Other termination benefits	19
Actuarial losses:	
Pension	102
Other postretirement benefits	67
Total cost of early retirement programs	332
Provisions for aircraft impairment and retirement	193
Other	8
	$533

In 1995, approximately 2,100 mechanics and fleet service clerks and 300 flight attendants elected early retirement under programs offered in conjunction with renegotiated union labor contracts, and the majority of these employees left the Company's workforce during 1996. The Company recorded restructuring costs of $332 million in 1995 related to these early retirement programs. A large portion of the funding for the programs was done in 1995. The remaining cash payments associated with these programs will be expended as required for funding the appropriate pension and other postretirement benefit plans in future years.

The aircraft portion of the 1995 restructuring costs includes a $145 million provision related to the write-down of certain McDonnell Douglas DC-10 aircraft. Effective January 1, 1995, AMR adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In 1995, the Company evaluated its fleet operating plan with respect to the DC-10-10 fleet and, as a result, believes that the estimated future cash flows expected to be generated by these aircraft will not be sufficient to recover their net book value. Management estimated the undiscounted future cash flows utilizing models used by the Company in making fleet and scheduling decisions. As a result of this analysis, the Company determined that a write-down of the DC-10-10 aircraft to the net present value of their estimated discounted future cash flows was warranted, which resulted in a $112 million charge. In addition, the Company recorded a $33 million charge to reflect a diminution in the estimated market value of certain DC-10 aircraft previously grounded by the Company. No cash costs have been incurred or are expected as a result of these DC-10 write-downs.

Also included in the aircraft restructuring costs is a $48 million charge related to the planned early retirement in 1996 of certain turboprop aircraft operated by AMR's regional carriers. The charge relates primarily to future lease commitments on these aircraft past the dates they will be removed from service and write-down of related inventory to its estimated fair value. Cash payments on the leases in 1997 and 1996 totaled approximately $20 million and $8 million, respectively, and additional payments will occur over the remaining lease terms.

13. Gain On Sale Of Stock By Subsidiary

Pursuant to a reorganization consummated on July 2, 1996 (the Reorganization), The SABRE Group Holdings, Inc. (a holding company incorporated on June 25, 1996) became the successor to the businesses of The SABRE Group which were formerly operated as divisions or subsidiaries of American or AMR. During October 1996, The SABRE Group Holdings, Inc. completed an initial public offering of 23,230,000 shares of its Class A Common Stock, representing 17.8 percent of its economic interest, at $27 per share for net proceeds of approximately $589 million. This transaction resulted in a reduction of the Company's economic interest in The SABRE Group from 100 percent to 82.2 percent. 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 recorded a $497 million gain. The issuance of stock by The SABRE Group Holdings, Inc. was not subject to federal income taxes. In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," no income tax expense was recognized on the gain.

14. Other Income (Expense) - Miscellaneous

Other income (expense) - miscellaneous, net included the following (in millions):

	Year Ended December 31,		
	1997	1996	1995
Canadian Airlines charges	**$ -**	$ (251)	$ -
Loss of aircraft	-	-	(41)
Litigation settlement	-	(21)	-
Minority interest	**(36)**	(2)	-
Other, net	**17**	(10)	(14)
	$ (19)	$ (284)	$ (55)

During 1996, the Company determined that the decline in the value of its investment in the cumulative mandatorily redeemable convertible preferred stock of Canadian Airlines International Limited (Canadian) was

not temporary and, in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," recorded a $192 million charge to write down the investment to its estimated fair value. Additionally, the Company recorded a charge of $59 million to write off certain deferred costs relating to the Company's agreement to provide a variety of services to Canadian.

The charge for loss of aircraft relates to the loss of an aircraft operated by American in 1995.

15. Foreign Operations

American conducts operations in various foreign countries. American's operating revenues from foreign operations were (in millions):

	Year Ended December 31,		
	1997	1996	1995
Latin America	**$ 2,716**	$ 2,438	$ 2,316
Europe	**2,035**	1,967	2,059
Pacific	**356**	336	373
Foreign operating revenues	**$ 5,107**	$ 4,741	$ 4,748

The SABRE Group also conducts operations in various foreign countries. The SABRE Group's operating revenues from foreign operations were $339 million, $284 million and $251 million for 1997, 1996 and 1995, respectively.

16. Segment Information

AMR's operations fall within three industry segments: the Airline Group, The SABRE Group and the Management Services Group. For a description of each of these groups, refer to Management's Discussion and Analysis on pages 34 and 35.

The following table presents selected financial data by industry segment (in millions):

	Year Ended December 31,		
	1997	1996	1995
Airline Group:			
Total revenues	**$16,903**	$ 16,211	$15,501
Intergroup revenues	**47**	41	-
Operating income	**1,569**	1,442	564
Depreciation and amortization expense	**1,038**	1,018	1,071
Restructuring costs	-	-	533
Capital expenditures	**1,139**	338	745
Identifiable assets	**18,709**	18,560	18,290
The SABRE Group:			
Total revenues	**1,784**	1,622	1,529
Intergroup revenues	**526**	500	548
Operating income	**308**	327	380
Depreciation and amortization expense	**185**	165	171
Capital expenditures	**218**	184	167
Identifiable assets	**1,503**	1,246	596
Management Services Group:			
Total revenues	**610**	620	572
Intergroup revenues	**154**	159	144
Operating income	**49**	70	71
Depreciation and amortization expense	**21**	21	17
Capital expenditures	**33**	25	16
Identifiable assets	**297**	287	313

Identifiable assets are gross assets used by a business segment, including an allocated portion of assets used jointly by more than one business segment. General corporate and other assets not allocated to business segments were $406 million, $404 million and $357 million at December 31, 1997, 1996 and 1995, respectively, and consist primarily of income tax assets.

In the second quarter of 1996, American and The SABRE Group completed the negotiations of a new technology services agreement pursuant to which The SABRE Group performs data processing and solutions services

for American. This agreement reflected the downward trend in market prices for data processing services. Additionally, the two companies completed negotiations on new agreements covering the provision of air travel and certain marketing services by American to The SABRE Group. The parties agreed to apply the financial terms of these agreements as of January 1, 1996, which is reflected in the selected segment financial data in the above table. Excluding the effects of the new agreements and the Reorganization, operating income for 1996 would have approximated $1.38 billion for the Airline Group and $392 million for The SABRE Group.

17. Quarterly Financial Data (Unaudited)

Unaudited summarized financial data by quarter for 1997 and 1996 (in millions, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Operating revenues	$ 4,426	$ 4,710	$ 4,798	$ 4,636
Operating income	349	588	610	379
Net earnings	152	302	323	208
Earnings per common share:				
Basic	1.67	3.32	3.66	2.41
Diluted	1.65	3.26	3.56	2.33
1996				
Operating revenues	$ 4,308	$ 4,550	$ 4,562	$ 4,333
Operating income	401	586	588	264
Earnings before extraordinary loss	157	293	282	373
Net earnings	157	293	282	284
Earnings per common share:				
Basic				
Before extraordinary loss	2.05	3.40	3.10	4.10
Net earnings	2.05	3.40	3.10	3.12
Diluted				
Before extraordinary loss	1.84	3.20	3.06	4.05
Net earnings	1.84	3.20	3.06	3.08

Results for the third quarter of 1996 include a $21 million provision for American's share of a multi-carrier travel agency class action litigation settlement. Results for the fourth quarter of 1996 include a $497 million gain recorded by the Company related to the initial public offering of The SABRE Group (See Note 13), a $251 million charge related to the write-off of the Company's investment in Canadian and certain deferred costs relating to the Company's agreement to provide a variety of services to Canadian (See Note 14) and a $26 million charge to write down the value of aircraft interiors the Company planned to refurbish.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
AMR Corporation

We have audited the accompanying consolidated balance sheets of AMR Corporation as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 consolidated financial position of AMR Corporation at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Ernst & Young LLP

2121 San Jacinto
Dallas, Texas 75201
January 19, 1998

REPORT OF MANAGEMENT

The management of AMR Corporation is responsible for the integrity and objectivity of the Company's financial statements and related information. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect certain estimates and judgments of management as to matters set forth therein.

AMR maintains a system of internal controls designed to provide reasonable assurance, at reasonable cost, that its financial records can be relied upon in the preparation of financial statements and that its assets are safeguarded against loss or unauthorized use. An important element of the Company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to the program is evidenced by organizational arrangements that provide for divisions of responsibility, effective communication of policies and procedures, selection of competent financial managers and development and maintenance of financial planning and reporting systems.

Management continually monitors the system for compliance. AMR maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements. Ernst & Young, independent auditors, is engaged to audit the Company's financial statements. Ernst & Young obtains and maintains an understanding of the internal control structure and conducts such tests and other auditing procedures considered necessary in the circumstances to render the opinion on the financial statements contained in their report.

The Audit Committee of the Board of Directors, composed entirely of directors who are not employees of AMR, meets regularly with the independent auditors, management and internal auditors to review their work and confirm that they are properly discharging their responsibilities. In addition, the independent auditors and the internal auditors meet periodically with the Audit Committee, without the presence of management, to discuss the results of their work and other relevant matters.

Robert L. Crandall
Chairman, President and
Chief Executive Officer

Gerard J. Arpey
Senior Vice President and
Chief Financial Officer

ELEVEN YEAR COMPARATIVE SUMMARY

(in millions, except share and per share amounts)	**1997**	1996	1995
Total operating revenues	**$ 18,570**	17,753	16,910
Total operating expenses	**$ 16,644**	15,914	15,895
Operating income (loss)	**$ 1,926**	1,839	1,015
Earnings (loss) from continuing operations before extraordinary loss and cumulative effect of accounting changes	**$ 985**	1,105	191
Net earnings (loss)	**$ 985**	1,016	162
Earnings (loss) per common share before extraordinary loss and cumulative effect of accounting changes:			
Basic	**$ 11.05**	12.83	2.51
Diluted	**$ 10.78**	12.15	2.49
Net earnings (loss) per common share:			
Basic	**$ 11.05**	11.80	2.13
Diluted	**$ 10.78**	11.19	2.11
Total assets	**$ 20,915**	20,497	19,556
Long-term debt, less current maturities	**$ 2,260**	2,752	4,983
Obligations under capital leases, less current obligations	**$ 1,629**	1,790	2,069
Non-redeemable preferred stock	**$ -**	-	-
Convertible preferred stock, common stock and other stockholders' equity[1]	**$ 6,216**	5,668	3,720
Common shares outstanding at year-end (in thousands)	**86,600**	91,000	76,400
Book value per common share	**$ 71.78**	62.28	47.67
Preferred shares outstanding at year-end:			
Convertible preferred stock	**-**	-	159,000
Non-redeemable preferred stock	**-**	-	-

1 No dividends have been paid on common stock for any period presented.

1994	1993	1992	1991	1990	1989	1988	1987
16,137	15,816	14,396	12,887	11,720	10,480	8,824	7,198
15,131	15,126	14,421	12,882	11,596	9,736	8,018	6,737
1,006	690	(25)	5	124	744	806	461
228	(96)	(475)	(240)	(40)	455	477	198
228	(110)	(935)	(240)	(40)	455	477	198
4.53	(2.05)	(6.34)	(3.54)	(0.64)	7.42	7.95	3.29
4.51	(2.05)	(6.34)	(3.54)	(0.64)	7.16	7.66	3.28
4.53	(2.24)	(12.49)	(3.54)	(0.64)	7.42	7.95	3.29
4.51	(2.24)	(12.49)	(3.54)	(0.64)	7.16	7.66	3.28
19,486	19,326	18,706	16,208	13,354	10,877	9,792	8,423
5,603	5,431	5,643	3,951	1,674	809	1,206	1,235
2,275	2,123	2,195	1,928	1,598	1,497	1,543	1,547
-	-	-	-	-	-	150	150
3,380	4,276	3,349	3,794	3,727	3,766	3,148	2,681
75,900	75,768	75,406	68,363	62,311	62,244	58,841	58,816
43.50	42.17	44.41	55.50	59.82	60.50	53.50	45.58
159,000	2,200,000	-	-	-	-	-	-
-	-	-	-	-	-	300	300

Board of Directors

David L. Boren
President
University of Oklahoma
(Educational Institution)
Norman, Oklahoma
Elected in 1994

Edward A. Brennan
Retired Chairman, President and
Chief Executive Officer
Sears, Roebuck and Co.
(Merchandising)
Chicago, Illinois
Elected in 1987

Armando M. Codina
Chairman and Chief Executive Officer
Codina Group, Inc. (Real Estate
Investments, Development,
Construction, Property Management
and Brokerage Services)
Coral Gables, Florida
Elected in 1995

Robert L. Crandall
Chairman, President and Chief
Executive Officer
AMR Corporation
Chairman and Chief Executive Officer
American Airlines, Inc.
(Air Transportation, Information
Systems and Diversified Services)
Fort Worth, Texas
Elected in 1976

Christopher F. Edley
President Emeritus and Retired
President and Chief Executive Officer
United Negro College Fund, Inc.
(Non-Profit Fund-Raising Organization)
New York, New York
Elected in 1977

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(Banking)
Detroit, Michigan
Elected in 1968

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Earl G. Graves, Limited
(Communications and Bottling)
Publisher and Chief Executive Officer
Black Enterprise Magazine
Chairman and Chief Executive Officer
Pepsi Cola of Washington, DC, L.P.
New York, New York
Elected in 1995

Dee J. Kelly
Partner
Kelly, Hart & Hallman, P.C.
(Law Firm)
Fort Worth, Texas
Elected in 1983

Ann D. McLaughlin
Chairman
The Aspen Institute
(Public Policy Organization)
Aspen, Colorado
Elected in 1990

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Former Vice Chair
Southern Methodist University
(Educational Institution)
Dallas, Texas
Elected in 1982

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Chairman
The JMR Group
(Investment Company)
Nashville, Tennessee
Elected in 1989

Judith Rodin
President
University of Pennsylvania
(Educational Institution)
Philadelphia, Pennsylvania
Elected in 1997

Maurice Segall
Senior Lecturer
Massachusetts Institute of Technology
Retired Chairman, President
and Chief Executive Officer
Zayre Corporation (Retailing)
Framingham, Massachusetts
Elected in 1985

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Robert L. Crandall, Chairman
Armando M. Codina
Charles T. Fisher, III
Dee J. Kelly
Maurice Segall

Audit Committee

Ann D. McLaughlin, Chairman
David L. Boren
Christopher F. Edley
Earl G. Graves
Charles H. Pistor, Jr.
Joe M. Rodgers

Compensation Committee

Edward A. Brennan, Chairman
Christopher F. Edley
Charles H. Pistor, Jr.
Joe M. Rodgers
Judith Rodin
Maurice Segall

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Charles T. Fisher, III, Chairman
David L. Boren
Edward A. Brennan
Armando M. Codina
Earl G. Graves
Dee J. Kelly
Ann D. McLaughlin
Judith Rodin

(There is an Executive Committee of the American Airlines Board of Directors which is identical to the AMR Executive Committee)

AMR Corporation

Officers

Robert L. Crandall
Chairman, President and
Chief Executive Officer

Donald J. Carty
Executive Vice President

Gerard J. Arpey
Senior Vice President and
Chief Financial Officer

Anne H. McNamara
Senior Vice President
and General Counsel

Charles D. MarLett
Corporate Secretary

American Airlines, Inc.

Robert L. Crandall
Chairman and
Chief Executive Officer

Donald J. Carty
President

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Executive Vice President -
Operations

Gerard J. Arpey
Senior Vice President -
Finance and Planning and
Chief Financial Officer

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Senior Vice President - Miami,
Caribbean and Latin America

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Senior Vice President -
Marketing

Thomas J. Kiernan
Senior Vice President -
Corporate Services

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Maintenance and Engineering

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Senior Vice President and
General Counsel

Donald P. O'Hare
Senior Vice President -
Domestic Field Services

Timothy J. Ahern
Vice President -
Operations Planning and
Performance

Jane G. Allen
Vice President -
Flight Service

A. Jaynne Allison
Vice President -
Human Resources

Thomas F. Bacon
Vice President - Financial
Analysis and Fleet Planning

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Vice President and General
Sales Manager

David R. Brooks
President - American Airlines
Cargo Division

David L. Campbell
Vice President -
Alliance Base Maintenance

Jeffrey C. Campbell
Vice President - Corporate
Development and Treasurer

John A. Carpenter
Vice President -
Corporate Affairs

William Culhane
Vice President - Line
Maintenance

Bernard J. DeSena
Vice President - Chicago

Cecil D. Ewell, Jr.
Vice President - Flight and
Chief Pilot

William T. Greene
Vice President - Finance and
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Engineering

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Vice President -
International Affairs

Thomas W. Horton
Vice President - Europe

Dan P. Huffman
Vice President - Engineering

Jeffery M. Jackson
Vice President and Controller

Henry C. Joyner
Vice President -
Marketing Planning

Gary F. Kennedy
Vice President - Corporate
Real Estate

Craig S. Kreeger
Vice President -
Revenue Management

Larry A. Laster
Vice President -
Tulsa Base Maintenance

John R. MacLean
Vice President - Purchasing

Charles D. MarLett
Corporate Secretary

Scott D. Nason
Vice President - Information
Technology Services and
Chief Information Officer

Susan M. Oliver
Vice President -
Employee Relations

Melvin E. Olsen
Vice President -
Capacity Planning

William K. Ris, Jr.
Vice President -
Government Affairs

Peggy E. Sterling
Vice President -
Dallas/Fort Worth

Arthur J. Torno
Vice President - Miami

AMR Eagle Holding Corp.

Daniel P. Garton
President

David C. Kennedy *
Senior Vice President -
Operations

Peter A. Pappas *
Senior Vice President -
Marketing and Planning

Ralph L. Richardi *
Senior Vice President -
Field Services

AAdvantage Marketing Programs Division

Bruce T. Chemel
President

The SABRE Group Holdings, Inc.

Michael J. Durham
President and
Chief Executive Officer

Bradford J. Boston
Senior Vice President -
SABRE Technology Solutions

Thomas M. Cook
Senior Vice President -
SABRE Technology Solutions

Terrell B. Jones
Senior Vice President -
SABRE Interactive and
Chief Information Officer

T. Patrick Kelly
Senior Vice President,
Chief Financial Officer
and Treasurer

Eric J. Speck
Senior Vice President -
SABRE Travel Information
Network

Andrew B. Steinberg
Senior Vice President,
General Counsel and
Corporate Secretary

AMR Global Services Corp.

G. James Gunn
President

Lauri L. Curtis
Senior Vice President -
Strategic Planning

Robert P. Anderson
President - AMR Combs

Bella D. Goren
President - AMR Services

William E. Jackson
President -
TeleService Resources

David S. Levine
President -
AMR Training Group

James G. Thompson
President - AMR Global
Logistics

AMR Investment Services, Inc.

William F. Quinn
President

* Effective July 1, 1998

Stock Exchanges

The AMR Corporation Trading Symbol is AMR. The common stock of AMR Corporation is listed for trading on the New York Stock Exchange. The common stock is also listed on the Zurich, Basel and Geneva Stock Exchanges, and is traded unlisted on the Midwest Stock Exchange, the Pacific Stock Exchange and certain other exchanges.

Form 10-K

A copy of the AMR Corporation Annual Report to the Securities and Exchange Commission for 1997 (Form 10-K) will be furnished without charge upon written request to:

Corporate Secretary
AMR Corporation
Mail Drop 5675
P.O. Box 619616
Dallas/Fort Worth Airport, TX 75261-9616

Common Stock

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

Medium Term Notes

Trustees
The Bank of New York
101 Barclay Street
New York, NY 10286

Citibank, N.A.
111 Wall Street
New York, NY 10043

Paying Agents
Chase Manhattan Bank
1 Chase Manhattan Plaza
Window 1-B
New York, NY 10081

Citibank, N.A.
111 Wall Street
New York, NY 10043

9%, 9.88% and 10.20% Debentures and 9 3/4% and 10% Notes

Trustee & Paying Agent
The Bank of New York
101 Barclay Street
New York, NY 10286

8.1% and 9 1/2% Notes and 9 3/4%, 9.8% and 10% Debentures

Trustee & Paying Agent
Citibank, N.A.
111 Wall Street
New York, NY 10043

9% Debentures

Trustee & Paying Agent
First Trust New York
100 Wall Street, Suite 1600
New York, NY 10005

Principal Offices

AMR Corporation
Mail Drop 5675
P.O. Box 619616
Dallas/Fort Worth Airport, TX 75261-9616
(817) 963-1234

Market price and dividends

		Common Stock*	
		High	Low
1997	1st Quarter	$ 88 1/8	$ 78 3/4
	2nd Quarter	102	81
	3rd Quarter	116 1/4	92 5/8
	4th Quarter	131 13/16	110 1/2
1996	1st Quarter	$ 92 3/4	$ 68 5/8
	2nd Quarter	96 3/4	86 1/2
	3rd Quarter	91 1/8	76 3/4
	4th Quarter	93	79 3/8

* No dividends were paid during the periods.

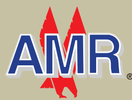
AMR Corporation's 1997 Annual Report is printed on recycled paper.

In order to reduce paper use, as well as to provide more timely and cost-effective information to shareholders, AMR makes its quarterly results available via the Internet and a shareholder information line. Shareholders can retrieve financial information by visiting AMR's web site at www.amrcorp.com/amr/investor/investor.htm.

In addition, shareholders in the United States, Canada and most of the Caribbean can hear the most recent quarterly results or arrange to receive a printed copy of results via U.S. mail by calling 800-AMR-6177. Shareholders residing in other areas should call 402-573-9855.

1998 quarterly results will be released on the following dates with the shareholder information line and website updated shortly thereafter.

First Quarter: April 15, 1998
Second Quarter: July 15, 1998
Third Quarter: October 21, 1998
Fourth Quarter: January 20, 1999



AMR Corporation

P.O. Box 619616

Dallas/Fort Worth Airport, Texas 75261-9616

American Airlines' Internet address is http://www.aa.com
AMR's Internet address is http://www.amrcorp.com
The SABRE Group's Internet address is http://www.sabre.com