AMR CORPORATION 1998 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.

Contents

Cover

American Airlines' new Boeing 777

CONSOLIDATED HIGHLIGHTS

(Dollars in millions, except per share amounts)

Year Ended December 31,	1998	1997	Percent Change
Total operating revenues	$ 19,205	$ 18,184	5.6
Total operating expenses	$ 16,867	$ 16,277	3.6
Operating income	$ 2,338	$ 1,907	22.6
Operating margin	12.2%	10.5%	1.7 pts.
Income from continuing operations	$ 1,306	$ 973	34.2
Net earnings	$ 1,314	$ 985	33.4
Average shares of common stock outstanding (in thousands)	168,750	178,304	(5.4)
Earnings per common share (basic)			
From continuing operations	$ 7.73	$ 5.45	41.8
Net earnings	$ 7.78	$ 5.52	40.9
Earnings per common share (diluted)			
From continuing operations	$ 7.48	$ 5.32	40.6
Net earnings	$ 7.52	$ 5.39	39.5
Return on equity	20.4%	16.6%	3.8 pts.
Ratio of current assets to current liabilities at year-end	0.86	0.89	(3.4)
Average equivalent number of employees	116,300	113,900	2.1
Approximate number of common shareholders of record at year-end	14,000	14,300	(2.1)

AMR EMPLOYEE PROFILE

Average Equivalent Headcount	1998	Increase/(Decrease) From Previous Year	1997	Increase/(Decrease) From Previous Year	1996	Increase/(Decrease) From Previous Year
Management/Specialist	19,300	5.5%	18,300	7.0%	17,100	5.6%
Agent/Support Staff	32,600	1.6%	32,100	(1.2)%	32,500	2.2%
Pilots*	10,900	(0.9)%	11,000	(1.8)%	11,200	(1.8)%
Flight Attendants*	19,000	3.3%	18,400	(0.5)%	18,500	(3.1)%
Mechanics, Ramp Service, Other Ground Personnel*	34,500	1.2%	34,100	6.6%	32,000	1.6%
Total	116,300	2.1%	113,900	2.3%	111,300	1.2%

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

To our Stockholders, Customers and Employees:

I am pleased to report that 1998 was a very good year for AMR Corporation. From a financial perspective, the company's net earnings of $1.3 billion were by far its best ever, a result which reflects the commitment of every member of the AMR family to our customers and to our shareholders.

Our record financial performance was also a function, in part, of a very favorable economic environment enjoyed by AMR's largest business, American Airlines. The continued health of the U.S. economy resulted in strong demand for air travel, in turn enabling American and most other carriers to fill their aircraft without dramatic fare discounting. Full aircraft and stable ticket prices led to a very good year on the revenue side of the ledger, while lower fuel prices helped offset cost increases in other areas.

The improved economic fundamentals of the airline industry have given us greater confidence in the future success of our largest business, and that confidence is reflected in a new strategic plan we launched in 1998.

Long-time observers of our company are likely familiar with the Transition Plan — the AMR strategy launched in the early 1990s, while the airline industry was in the midst of a depression. The Transition Plan had three main tenets. The first tenet was to strengthen our airline businesses — American Airlines and our regional affiliate American Eagle — wherever we could do so profitably. The second part of the plan was to withdraw from airline markets where our financial performance was unsatisfactory and where we did not believe we could compete effectively. And the third tenet was to invest in and grow our profitable non-airline businesses.

The Transition Plan had some very positive results. By focusing on our areas of strength, AMR was able to survive some very difficult years and become profitable again. Another very important result was that during this period, we developed a stable of successful non-airline businesses.

While the Transition Plan served AMR well, by 1998, the time had come for a new strategic plan. The plan we have put in place has four key objectives.

The first objective is to invest in and grow

American and American Eagle — consistent with market conditions — to preserve and enhance our leadership in the U.S. airline industry. To that end, we have committed billions of investment dollars for the new jet aircraft, facilities, technology and training we think we will need to keep American and American Eagle at the industry forefront. However, while our capital commitments are significant, the flip side of our plan's first objective is that we will return to shareholders any capital in excess of what we think is necessary for prudent growth.

Our second objective is to offer our customers the world's most comprehensive and powerful airline network through a combination of the industry's strongest domestic route system, the premier regional carrier, increased international flying, and the broadest — and best-executed — set of airline alliances.

The third objective of our plan is to make The Sabre Group — which is the largest of AMR's non-airline businesses — the world's leading provider of information technology for the travel and transportation industry. In its second full year as a publicly traded company, Sabre attracted many new clients for its information technology solutions business while sustaining its leadership in electronic travel distribution. For the year, Sabre's revenues increased by 29 percent to $2.3 billion, and its pre-tax margin was 16.1 percent. Since its 1996 initial public offering, The Sabre Group's revenues have grown by more than 40 percent, and as it has grown, American Airlines — Sabre's largest customer — has benefited from the group's new-found market efficiencies.

Our fourth major objective is to create a corporate culture within AMR that involves and excites every employee in every one of our businesses. Involving and exciting every member of the AMR team is fundamentally important to providing outstanding customer service — which, in turn, is critically important to delivering top-notch financial performance.

AMR's new strategic plan is sharply focused on our core airline and technology businesses. In keeping with that focus, we decided, in the fall of 1998, to sell three of the company's smaller, less-strategically important businesses: AMR Services, AMR Combs and TeleService Resources. These three businesses — each of which we expect will have been sold by the end of the first quarter in 1999 — are all viable companies with good prospects for success, but their activities, in our view, were non-strategic, or not fundamental to meeting our four key objectives.

When it comes to setting and meeting objectives for our company, there are three groups of people we keep in the front of our minds: AMR's customers, employees, and of course, our shareholders. Clearly, as the company's managers, it is our duty to reward our shareholders by producing the best financial results possible. However, in any service business, the best way to ensure a satisfactory level of profitability is to attract the largest possible share of the market — and in particular, the higher paying customers who demand outstanding service. Thus, to take care of the shareholders, we must first take care of our customers.

At the same time, the quality of any airline's product is greatly dependent on the performance of its people. We have to make sure our people are focused, motivated, enthusiastic and enjoy their work. Thus, in order to take excellent care of our customers, we must take care of each other.

Doing our jobs well means constantly trying to balance the needs of all three constituencies, and it is a real challenge. But I hope you will find, as you read the following essays, that we made significant progress in 1998 with regard to all three groups.

For our shareholders, we delivered, among other things, record earnings, a two-for-one stock split, and an aggressive share repurchase program. For our customers, we improved the quality of our products by strengthening our network, upgrading our fleet and offering a myriad of other enhancements. And for our employees, we distributed an industry-record profit-sharing fund and forged a renewed commitment to building the industry's best corporate culture.

In the pages to come, you will read about these initiatives and a lot more, and as you do so, I hope it becomes clear that the creation, enhancement and preservation of value for our shareholders, customers and employees is the impetus behind everything we do — whether it's buying back stock, building the industry's premier airline network, investing in new aircraft and technology, or tending to the spirit and motivation of our people.

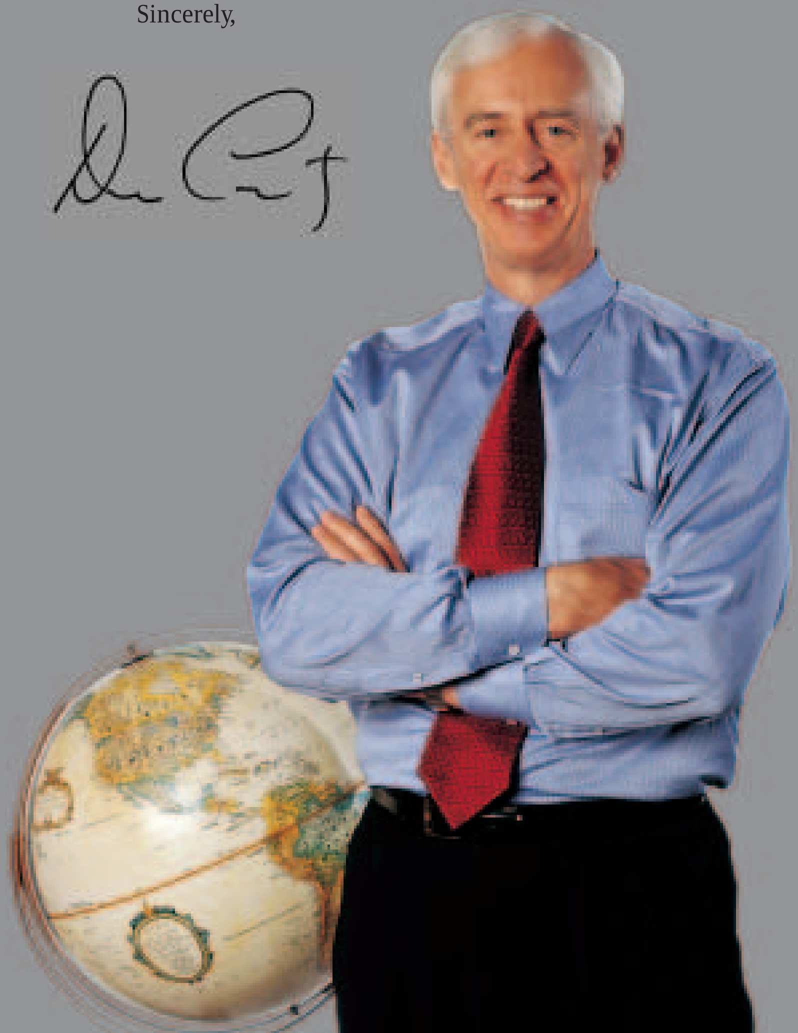
Upon review of this annual report, I hope you will share my assessment that 1998 was a very good year for our company.

All of AMR's successes are the result of a team effort, and in closing this letter, I'd like to recognize two men who have helped lead the AMR team for many years. Charles T. "Chick" Fisher, III, a member of the AMR Board of Directors for more than three decades, has decided not to stand for re-election in 1999. Chick continued the legacy begun by his father, Charles T. "Chuck" Fisher, Jr., who was an AMR board member himself for more than a decade. I want to personally thank Chick for the important role he has played in AMR's success.

Finally, I would be remiss if I did not recognize the enormous contributions of Robert L. Crandall, my predecessor as Chairman and Chief Executive Officer of AMR, who retired in May of 1998. During his 25 years with American, Bob led our company through an era that can safely be characterized as the most difficult in the history of the airline industry. His leadership helped transform American into one of the world's leading airlines. We owe him many thanks, and we wish Bob and his wife Jan a retirement filled with smooth sailing and good fortune.

For our part, all of us at AMR are working hard to build on our 1998 accomplishments, to make each of our businesses the leader in its field, and to make 1999 and each subsequent year even better.

Sincerely,



First Quarter

- American announces extensive service additions, including new flights between Boston and San Diego, San Francisco and San Jose; Dallas/Fort Worth-Manchester, U.K.; and Newark-London Heathrow.
- American reveals plans to increase the first class section from 14 to 20 seats on more than 100 Super 80 aircraft.
- American and Japan Airlines announce a broad codeshare program.
- AA Cargo reports record revenue ton miles for the first quarter in Latin American markets.
- The Sabre Group wins a 10-year, $165-million information technology outsourcing agreement with Gulf Air.
- *Commuter World* names American Eagle "Regional Airline of the Year." American Eagle announces the transition from four airlines to a single carrier.
- AMR earns $290 million in the first quarter.

Second Quarter

- Donald J. Carty succeeds Robert L. Crandall as AMR's chairman and CEO.
- $500-million stock repurchase program and 2-for-1 stock split completed.
- American and US Airways announce an innovative marketing alliance, linking frequent flyer programs and offering reciprocal access to airport clubs.
- Boeing 737-800 orders increase to 100 aircraft.
- American Eagle inaugurates regional jet service.
- New international service begins between Chicago O'Hare-Tokyo; Chicago O'Hare-Monterrey, Mexico; and Dallas/Fort Worth-Panama City, Panama.
- AMR earns a record $409 million in the second quarter.

Third Quarter

- American joins with British Airways, Canadian Airlines, Cathay Pacific and Qantas to announce the **one**world global airline alliance.
- AMR announces plans to sell AMR Services, AMR Combs, and TeleService Resources subsidiaries.
- Second $500-million stock repurchase program completed.
- American welcomes Finnair into codeshare network; expands codeshares with Grupo Taca and Iberia; and begins codesharing with Asiana and China Eastern.
- Boeing 777 orders increase to 34 aircraft.
- American Eagle orders 75 new 37-seat ERJ-135 jets.
- AMR earns a record $433 million in the third quarter.

Fourth Quarter

- American completes the tender offer for Reno Air and American Eagle announces it will buy Business Express.
- AMR begins another $500-million stock repurchase.

• US Airways' migration to Sabre systems is completed, part of a 25-year, multi-billion dollar arrangement.

• As part of an $11.5-million service initiative for Latin customers, American Airlines Publishing announces *Nexos* – a new Spanish and Portuguese language in-flight magazine.

• AMR completes Aerolineas Argentinas equity transaction.

• American begins Dallas/Fort Worth-Osaka service.

• American Eagle's regional jet fleet grows to 20 aircraft.

• Flight attendants save the life of the third passenger this year with defibrillators AA is placing aboard entire fleet.

• In 1998, American is first in on-time dependability among the big-six U.S. carriers.

• Travelocity enrolls four millionth member and is rated the Internet's "Best Travel Site" by the People's Voice Award.

• American Eagle adds 17th regional jet destination. At San Juan, it opens new $6-million gate facility and wins FAA over-water flight certification.

• AMR earns $182 million in fourth quarter; 1998 earnings of $1.3 billion are an all-time record.

AMR senior executives, from left to right: Daniel P. Garton, *Senior Vice President, Customer Services-American Airlines;* Gerard J. Arpey, *Senior Vice President and Chief Financial Officer-AMR Corp., Senior Vice President, Finance and Planning and Chief Financial Officer-American Airlines;* David L. Kruse, *Senior Vice President, Maintenance and Engineering-American Airlines;* Thomas J. Kiernan, *Senior Vice President, Human Resources-American Airlines;* Robert W. Baker, *Executive Vice President, Operations-American Airlines;* Peter M. Bowler, *President-AMR Eagle Holding Corp.;* Peter J. Dolara, *Senior Vice President, Miami, Caribbean and Latin America-American Airlines;* Michael W. Gunn, *Senior Vice President, Marketing-American Airlines;* Anne H. McNamara, *Senior Vice President and General Counsel-AMR Corp. and American Airlines;* Michael J. Durham, *President and Chief Executive Officer-The Sabre Group Holdings, Inc.*

Record earnings, share repurchases, a stock split, and debt reduction enhanced AMR shareholder value in 1998.

IN 1998, AMR SHAREHOLDERS WERE rewarded for their investment with the best financial performance in the company's history. AMR's after tax earnings of $1.3 billion were a record and a 33 percent improvement over 1997. Earnings per share, at $7.52 (diluted), was up approximately 40 percent, reflecting the dual benefits of improved earnings and an aggressive share repurchase program. The biggest driver of AMR's 1998 financial success was the strong performance of American Airlines.

For the year, American's passenger traffic was up 1.8 percent, and the airline's load factor, or percentage of total seats filled, was — at 70.2 percent — up 0.7 points versus the prior year. A stable pricing environment helped American increase its yield — or the average amount collected per passenger mile — by 0.9 percent.

In addition to the strong revenue performance, American benefited on the cost side of the ledger from the low price of fuel. After labor, fuel is the airline's largest expense, and lower prices shaved more than $300 million off the company's fuel bill for the year.

AMR's regional carrier, American Eagle, performed well in 1998. Driven in part by the introduction of regional jet service in several key markets, passenger traffic increased by 9.2 percent, and generated revenues 10.2 percent higher than 1997.

The airline business has traditionally been a very cyclical business, highly impacted by the economies of the markets it serves. As this annual report goes to press, it is unclear whether the U.S. economy in 1999 will grow at a pace comparable to 1997 and 1998. However, while American's fortunes in 1999 will be tied somewhat to the fate of all the economies it serves, recent changes in the airline industry argue for less volatility in our financial performance than has historically been the case.

The airline industry remains intensely competitive. However, each of the major carriers today has a route system well adjusted to its individual strengths. As a result, the major carriers have — for the most part — focused their attention and resources on their major hubs and on other markets where they've done well historically.

A second factor that argues for more stability is the fact that we have fewer carriers today in the kind of financial disarray that we saw in the 1980s and early 1990s. We are seeing fewer carriers in, or on the verge of, bankruptcy. Thus, carriers are operating with a more long-term focus.

It is also worth noting that while the industry has a substantial number of new aircraft on the way, there have not been excessive commitments for new capacity. American and other carriers have incorporated a great deal of flexibility into their aircraft deals. The industry has a lot of older, fully depreciated aircraft that may become retirement candidates should the growth in the demand for air travel slow.

In the fall of 1998, American announced that it will retire eight DC10s and two 727s in 1999, several years earlier than originally planned. American's planned systemwide capacity growth for 1999 was pared down from approximately six percent to roughly four percent. The rationale behind reducing American's planned capacity growth is to avoid a situation in which too many seats are chasing too few customers, as was the case throughout the airline industry in the early 1990s. A nice side benefit of the 10 early aircraft retirements will be approximately $40 million worth of maintenance savings.

American has showed, and continues to show, great restraint in the addition of capacity. By the end of 1999, our annual growth will have averaged just one percent for the four-year period 1995 to 1999. Our domestic capacity will have grown even more slowly at 0.2 percent. However, as we head into 1999, the improved economic fundamentals of the airline industry have given us the confidence to invest in the new aircraft, new facilities, and other investments necessary to meet the high expectations of our customers.

We think our limited growth plans for 1999 and beyond are both prudent and necessary. But we are fortunate that — should demand fail to keep up with supply — we have the ability to adjust our fleet plans much more quickly than we could in years past. To illustrate, even with the retirements previously mentioned, 11 percent of American's 1999 capacity will be in DC10s and 727s, and should demand slow, some of those aircraft could be retired earlier than originally planned. AMR is making the investments necessary to responsibly and profitably grow both its airline and non-airline businesses in order to create and enhance shareholder value.

Another way the company has enhanced value for shareholders in recent months has been by shoring up its capital structure. Following the completion of American's pilot contract in 1997, the company repurchased 11.5 million shares of AMR common stock to offset any dilution resulting from the options included in that agreement. This was followed by the repurchase of an additional $500 million worth of AMR common stock between July 1997 and June 1998. In July 1998, the company launched an additional $500 million repurchase plan, which was completed in early September, and a month later initiated a third $500 million stock repurchase, completing roughly $100 million of it by year-end.

Also, in June, AMR's stock split two-for-one, bringing the price of AMR more in line with other airline stocks and stocks in general, making it easier for small investors to participate in the company's success while broadening our shareholder base and increasing our stock's liquidity.

Much of the company's strong cash flow in recent years has been devoted to the strengthening of AMR's balance sheet. Since 1995, the company has paid off more than $5 billion in debt and lease obligations. AMR's debt to total capitalization ratio — which as recently as 1995 was at 83 percent — was, at the end of 1998, down to 61 percent. And at year-end 1998, AMR had cash and short-term investments of $2.1 billion.

Share repurchases, stock splits and debt reductions are some of the ways we have sought to deliver value to our shareholders. But the most important thing we can do to create and protect shareholder value is to do an outstanding job serving our customers. The following essay describes some of our 1998 efforts to do just that.

American Eagle's new ERJ-145 regional jets are attracting new customers to the American Airlines network.

AS IN ANY COMPETITIVE BUSINESS, our ability to produce the financial performance our shareholders expect will always be dependent upon our ability to meet the demands of our customers. An important element of providing quality airline service is having world-class aircraft, and both American and American Eagle are in the process of upgrading their fleets. In 1998, American received the first 10 planes of the innovative 20-year agreement reached with Boeing in 1997. In 1999, American will add another 45 new aircraft, while simultaneously retiring 16 older aircraft, for a net fleet addition of 29 jets.

American Eagle entered a new era in 1998 with its first regional jet service. American Eagle received 20 of these faster and smoother aircraft in 1998 and retired two of its turboprops. The carrier will deploy an additional

31 regional jets in 1999 and continue turboprop retirement.

In addition to a top-notch fleet, providing the industry's best service means having a network that best matches the demands of our airline customers.

Despite the overall strength of American and American Eagle's domestic networks, they have been weaker in the West Coast and upper Northeast markets. To rectify this, American announced in November its decision to purchase Reno Air, the West Coast carrier with which it has had a marketing relationship since 1993. Reno's integration into American Airlines will strengthen the network on the West Coast and provide connecting traffic to our east-west and transcontinental flights. In December, American Eagle announced it would purchase Business Express to extend our reach into a number of new markets in the northeastern United States.

On the international front, American has a three-pronged strategy. In Latin America, American is leveraging its powerful franchise by enhancing Miami as the premier gateway to that region, and establishing Dallas/Fort Worth and New York as alternative gateways.

New business class seats on international flights

In Europe, American has strengthened its overall network by capitalizing on its strength to the United Kingdom. Today, more than 40 percent of American's European service begins or ends at London Heathrow and about two-thirds is in or out of the United Kingdom. Service additions to the U.K. in 1998 included Newark to London Heathrow and DFW to Manchester.

In Asia, American has established a greater presence by securing new access to Japan, gaining the right to fly to Tokyo from Chicago, Boston and New York, and to Osaka from DFW. The Boston and New York services have been deferred due to a lack of available take-off and landing slots in Tokyo, while the Chicago-Tokyo service began in May and DFW-Osaka was launched in December.

We have also broadened our services by forming numerous alliances to offer our customers access to thousands of markets where adding our own service is either impossible or commercially unattractive. Alliances are a capital-efficient way to offer the most service to the most places possible.

Our alliance includes relationships with 16 airlines around the world, and the biggest and most important element is the **one**world alliance announced in the fall of 1998. The **one**world alliance, which was implemented in early 1999, links our network and frequent flyer program with those of British Airways, Canadian Airlines, Cathay Pacific and Qantas. Finnair and Iberia are expected to introduce **one**world benefits during the second half of 1999. The **one**world alliance offers service to approximately 600 cities in 138 countries on more than 1,500 aircraft.

Closer to home, in April of 1998, American formed a domestic marketing agreement with US Airways, which includes a combined frequent flyer program and reciprocal access to each carrier's clubs and lounges. And in December, American signed a letter of intent to enter into a marketing relationship with Alaska Air Group, the holding company for Alaska Airlines and its regional affiliate, Horizon Air.

Because there is more to good service than just network breadth, American and American Eagle are also focused on improving the basics of customer service. In 1998, American placed first in on-time dependability among the big six U.S. carriers. We also introduced ways to make the travel experience of our frequent business customers easier and upgraded our in-flight product, particularly in international markets. We also continued to explore new ways to cater to ever-more technologically savvy customers.

Service differentiation for premium customers has been a key strategy for American since it introduced the AAdvantage program in 1981. Our efforts to attract the high frequency business traveler continued in 1998 with the introduction of a new top-tier level in the AAdvantage program called Executive Platinum and the expansion of the first class cabin from 14 to 20 seats on more than 100 Super 80 aircraft deployed in key business markets. Facility enhancements included the introduction of Platinum Service Centers and of new Flagship Lounges for our international customers at several airports. American also opened a new Admirals Club in Tokyo in 1998 and has plans to expand or renovate several Clubs in 1999.

American is also in the midst of the largest and most dramatic aircraft interior refurbishment program in its history. In the next few years, more than 55 percent of the seats on American's current fleet will be replaced with next-generation "slimline" seats. Many of those seats not replaced will be upgraded with power ports for personal computers, adjustable leather headrests, and personal reading lights. The refurbishment will also include new carpet, curtains, bulkhead tapestries and sidewalls.

An increasingly important element of a top-quality airline product is ubiquitous availability. As a consequence, American is focused on making its AA.com Internet web site the best in the airline industry. In June, we relaunched the site, giving it a new look and making it easier to navigate. Rated the most popular airline site on the World Wide Web, AA.com at the end of 1998 was receiving more than 35,000 fare requests daily with more than one million customers looking at six million computer-generated page screens per week. In addition, American's NetSAAver fares are transmitted via electronic mail to 2.1 million people twice a week, making this e-mail list the largest on the Internet.

New aircraft, the industry's broadest network, modern technology and enhanced facilities are all very important to sustaining American and American Eagle's strong brand images and reputations for providing high-quality customer service. But none of our initiatives could succeed without the dedication and outstanding performance of our people, who are the subject of the following essay.

The AMR team is a global one, with over 116,300 employees in 52 countries.

THE PRECEDING ESSAY DESCRIBED some of our efforts to ensure that American and American Eagle are providing the kind of service that sustains our strong brand image and the loyalty of our customers. While each of the initiatives described is important, the truest reflection of the quality, value and integrity of the American and American Eagle brands has always been our people.

We believe there is an unbreakable chain of cause and effect that links how our employees behave, to how our customers respond, to the company's profitability. And how our employees behave is closely tied to the trust, respect and appreciation imbedded in the company's culture. In short, if we are successful in making our company the best possible place to work, that will have an enormously positive impact on customer service, which will, in turn,

produce greater customer loyalty and improved profitability.

Obviously, compensation is an important element of employee satisfaction for any company. In 1998, American distributed more than $250 million in profit-sharing and incentive awards to its employees, an industry record. Those awards were based on the airline's 1997 performance. In 1999, profit-sharing and incentive awards, based on 1998 earnings, topped $300 million.

We realize it takes more than money to create a motivated and enthusiastic workforce, determined to do its very best for the company's customers and shareholders. Recognition for a job well done is also important, and American has a myriad of award programs designed to

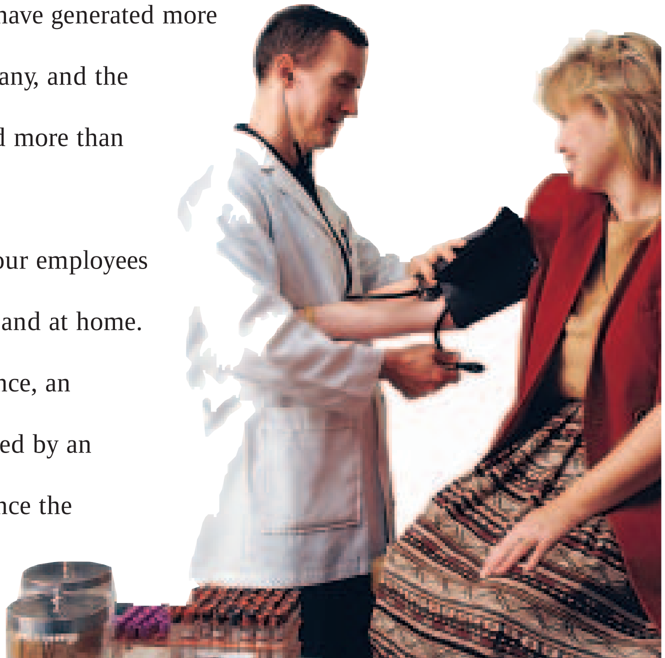
recognize and thank the “best of the best.”

Communicating with employees is also critical to ensuring that every member of the team understands and is on board with the company’s plans. Formal communication tools include a daily electronic news bulletin sent to employees, a weekly hotline recorded by Chairman Don Carty, a monthly newspaper mailed to employees’ homes and a year-round series of Employee Conferences held at locations throughout the American network.

Because one-directional management-to-employee communication is not enough, the company has a variety of programs designed to ensure that employees’ voices are heard. In recent years, we have established a number of employee councils and other organizations intended to give them a voice in the decisions impacting our company. With more than 116,300 employees around the world, our employees are certainly a diverse group, becoming more so every day. In 1995, AMR established a Diversity Advisory Council – comprised of employees representing various racial, ethnic, cultural, religious and social backgrounds – to bring the viewpoints of diverse employee groups to bear on company business issues. The Council, whose motto is “Respecting Differences,” meets regularly with executives at the highest levels of the company.

Our employees bring a wealth of knowledge and an abundance of good ideas to their jobs. IdeAAs in Action, our widely acclaimed employee suggestion program, was created 12 years ago to tap into those ideas, the rewards of which are shared by our customers, shareholders and the employees themselves. Since the program’s inception, employee ideas have generated more than $530 million in benefit to the company, and the employees behind the ideas have received more than $75 million in rewards.

As is the case in most companies, our employees face daunting challenges both on the job and at home. In August, American introduced LifeBalance, an around-the-clock, 365-day service operated by an outside company to help employees balance the



demands of work and the stresses of their personal lives. AMR employees can use the program for all kinds of help, from locating quality child care to learning how to manage their finances to dealing with a landlord. LifeBalance complements the comprehensive medical benefits and numerous employee wellness initiatives launched in recent years. In September, a new Employee Health Clinic was opened at Dallas/Fort Worth International Airport, site of American's biggest hub. At the clinic, American employees can receive on-the-spot treatment for injuries and illnesses, free of charge and on a completely confidential basis.

American Airlines, American Eagle and the other businesses within AMR all strive to be industry leaders in every aspect of their business, including employee relations. And while formal programs like those mentioned above are important, creating a winning culture that excites and involves every member of the team depends even more on the day-to-day interaction employees have with their co-workers and managers. To meet our goals, we believe that fostering positive employee relations and creating the industry's best corporate culture – a culture based on a commitment to customer service, mutual respect and appreciation, productivity, personal and professional growth, two-way communication and fun – must be among our top strategic priorities. Being a preferred employer goes hand in hand with being a preferred airline for our customers, as well as a preferred and rewarding investment for our shareholders.

Today, more than 40,000 travel agencies in over 100 countries subscribe to the Sabre system.

FOR THE SABRE GROUP (TSG), the largest of AMR's non-airline enterprises, 1998 was a year of continued leadership in its electronic travel distribution business and of robust growth in its other principal business, information technology solutions. Since its legal separation from American Airlines, and an initial public offering of just less than 20 percent in 1996, The Sabre Group's revenues have grown by more than 40 percent. In 1998, TSG had pre-tax earnings of $371 million and an operating margin of 15.2 percent.

Electronic Travel Distribution

The Sabre Group is the world leader in electronic travel distribution. The Sabre computer reservation system handles more airline bookings than any other system. The Sabre Group's electronic travel distribution

customers, including travel agents, corporations and on-line consumers, can use the Sabre system to make reservations with more than 420 airlines, more than 50 car rental companies and nearly 40,000 hotel properties worldwide. As of the end of 1998, over 40,000 travel agencies in more than 100 countries subscribed to the Sabre system.

The explosive growth of Internet commerce has brought challenges and opportunities to The Sabre Group. As one of the pioneers in electronic commerce, The Sabre Group is in the forefront of exploring and realizing the potential of the Internet to travel distribution.

Travelocity, with its easy-to-use graphical application, provides consumers with travel and destination information from suppliers around the world. Launched in 1996, Travelocity had registered more than four million members by the end of 1998. It was rated the Best Travel Site by the People's Voice Award and recorded its first $8-million sales week in December, one of many sales records that were set during the year only to be broken shortly afterward. With the capabilities of the Sabre system behind it, Travelocity provides reservation capabilities for more travel providers than any other Internet site.

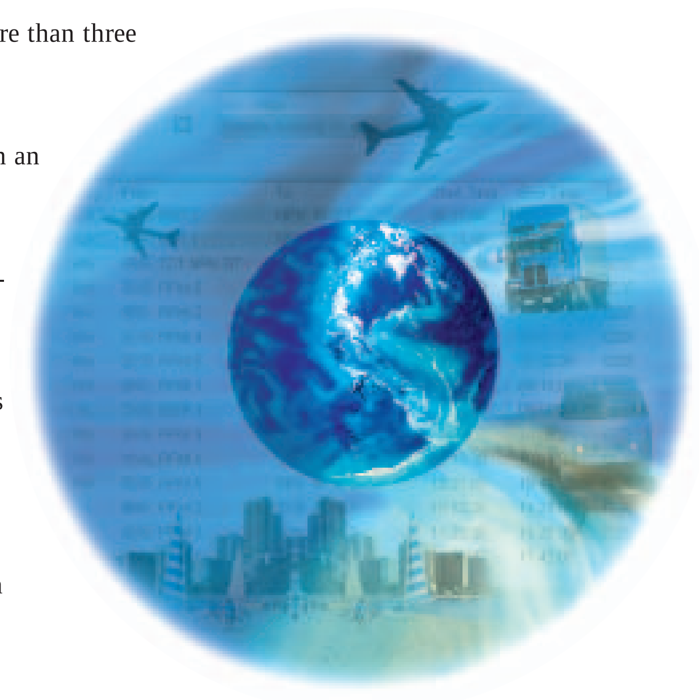
Another important and successful Internet-based product is Sabre Business Travel Solutions. This suite of applications enables corporate travel managers to give their individual travelers the convenience of desktop access to the Sabre system, to monitor travel policies more comprehensively, and to use automated methods of collecting, analyzing and controlling travel expenses.

Information Technology Solutions

On the other side of Sabre's business — Information Technology Solutions — the company maintains a leading portfolio of airline software solutions that attracted important new outsourcing clients in 1998. In February, Gulf Air signed a 10-year, $165-million agreement with The Sabre Group. In November, Aerolineas Argentinas signed a 10-year, $120-million agreement and Pakistan International Airlines signed a 15-year outsourcing agreement in December.

To date, The Sabre Group's largest outsourcing contract outside of American Airlines is the 25-year, multi-billion dollar arrangement it formed with US Airways in 1997, whereby The Sabre Group will manage the airline's information technology infrastructure, including facilities, hardware, applications and desktop. The successful cutover to Sabre systems took place in December 1998. It was the largest systems migration ever in the aviation industry, involving more than three million man-hours.

While new outsourcing agreements will remain an important source of revenue growth in the years to come, The Sabre Group's largest information technology client is likely to remain American Airlines. A long-term service agreement outsources American's data processing, network, desktop and applications development to The Sabre Group, fulfilling, at market prices, virtually all of the airline's information technology requirements.



Contents

Financial Information

AMR Corporation (AMR or the Company) was incorporated in October 1982. AMR's principal subsidiary, American Airlines, Inc. (American), was founded in 1934. Following the announcement of AMR's plans to sell the companies that comprised the majority of what was previously the Management Services Group, AMR's operations fall within two major lines of business: the Airline Group and The Sabre Group. Additional segment information is included in Note 15 to the consolidated financial statements.

Results of Operations

AMR's net earnings in 1998 were $1.3 billion, or $7.78 per common share ($7.52 diluted). These results represent the strongest net earnings ever reported by AMR for a fiscal year. AMR's net earnings in 1997 were $985 million, or $5.52 per common share ($5.39 diluted). The Company's 1997 results were adversely affected by (i) 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 (ii) the reinstatement of the airline transportation tax in March of 1997.

Business Segment Financial Highlights

Airline Group

(dollars in millions)	Year Ended December 31, 1998	1997	1996
Revenues			
Passenger - American Airlines, Inc.	$ 14,695	$ 14,310	$ 13,645
- AMR Eagle	1,121	1,017	1,047
Cargo	656	687	682
Other	977	889	837
	17,449	16,903	16,211
Operating Expenses			
Wages, salaries and benefits	5,763	5,480	5,191
Aircraft fuel	1,604	1,923	1,936
Commissions to agents	1,226	1,278	1,252
Depreciation and amortization	1,038	1,038	1,018
Maintenance, materials and repairs	934	861	686
Other operating expenses	4,933	4,754	4,686
Total operating expenses	15,498	15,334	14,769
Operating Income	1,951	1,569	1,442
Other Expense	(160)	(266)	(428)
Earnings Before Income Taxes and Extraordinary Loss	$ 1,791	$ 1,303	$ 1,014
Average number of equivalent employees	92,000	90,600	88,900

Operating Statistics

	Year Ended December 31, 1998	1997	1996
American Airlines Jet Operations			
Revenue passenger miles (millions)	108,955	107,026	104,710
Available seat miles (millions)	155,297	153,917	152,886
Cargo ton miles (millions)	1,974	2,032	2,028
Passenger load factor	70.2%	69.5%	68.5%
Breakeven load factor	59.9%	61.0%	60.2%
Passenger revenue yield per passenger mile (cents)	13.49	13.37	13.03
Passenger revenue per available seat mile (cents)	9.46	9.30	8.92
Cargo revenue yield per ton mile (cents)	32.85	33.78	33.14
Operating expenses per available seat mile (cents)	9.25	9.27	8.91
Operating aircraft at year-end	648	641	642
AMR Eagle			
Revenue passenger miles (millions)	2,788	2,553	2,590
Available seat miles (millions)	4,471	4,218	4,431
Passenger load factor	62.4%	60.5%	58.5%
Operating aircraft at year-end	209	199	205

Revenues

1998 Compared to 1997 Airline Group revenues of $17.4 billion in 1998 were up $546 million, or 3.2 percent, versus 1997. American's passenger revenues increased 2.7 percent, or $385 million. The increase in passenger revenues resulted from a 0.9 percent increase in passenger yield (the average amount one passenger pays to fly one mile) from 13.37 to 13.49 cents, and a 1.8 percent increase in passenger traffic. For the year, domestic yields increased 3.1 percent, while Latin American, Pacific and European yields decreased 5.8 percent, 3.9 percent and 1.0 percent, respectively. The decrease in international yields was due primarily to an increase in industry capacity and a decline in economic conditions. In 1998, American derived approximately 70 percent of its passenger revenues from domestic operations and approximately 30 percent from international operations.

American's domestic traffic increased 0.7 percent to 74.9 billion revenue passenger miles (RPMs), while domestic capacity, as measured by available seat miles (ASMs), decreased 1.4 percent. International traffic grew 4.3 percent to 34.1 billion RPMs on a capacity increase of 6.4 percent. The increase in international traffic was led by a 17.1 percent increase in the Pacific on capacity growth of 29.3 percent, a 4.9 percent increase in Latin America on capacity growth of 6.6 percent and a 1.8 percent increase in Europe on capacity growth of 2.7 percent.

AMR Eagle's revenues increased $104 million, or 10.2 percent. The increase in passenger revenues resulted from a 0.9 percent increase in passenger yield and a 9.2 percent increase in traffic. AMR Eagle's traffic increased to 2.8 billion RPMs while capacity increased to 4.5 billion ASMs, up 6.0 percent.

The Airline Group's other revenues increased $88 million, or 9.9 percent, primarily as a result of increased administrative service charges, higher employee travel service charges and increased service contracts, primarily related to ramp and consulting services.

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 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 RPMs, while domestic capacity 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.

Operating Expenses

1998 Compared to 1997 Airline Group operating expenses of $15.5 billion in 1998 were up $164 million, or 1.1 percent, versus 1997. American's Jet Operations cost per ASM decreased 0.2 percent to 9.25 cents. Wages, salaries and benefits increased $283 million, or 5.2 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 and an increase in the provision for profit sharing. Fuel expense decreased $319 million, or 16.6 percent, due to an 18.2 percent decrease in American's average price per gallon, including taxes, partially offset by a 1.9 percent increase in American's fuel consumption. Commissions to agents decreased 4.1 percent, or $52 million, despite a 3.2 percent increase in passenger revenues, due to the continued benefit from the commission rate reduction initiated during September 1997. Maintenance, materials and repairs expense increased 8.5 percent, or $73 million, due to an increase in airframe and engine maintenance volumes at American's maintenance bases as a result of the maturing of its fleet. Other operating expenses increased $179 million, or 3.8 percent, due primarily to spending on the Company's Year 2000 Readiness program, an increase in outsourced services and higher costs, such as credit card fees, resulting from higher passenger revenues.

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.

Other Expense

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

1998 Compared to 1997 Interest expense decreased $48 million, or 11.3 percent, due primarily to scheduled debt repayments of approximately $400 million in 1998. Interest capitalized increased $84 million, to $104 million, due primarily to the increase in purchase deposits for flight equipment.

1997 Compared to 1996 Interest expense decreased 18.3 percent, or $95 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 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 capitalized increased $10 million due to additional aircraft purchase deposits. 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.

The Sabre Group

	Year Ended December 31,		
(dollars in millions)	1998	1997	1996
Revenues	$ 2,306	$ 1,789	$ 1,625
Operating Expenses	1,956	1,476	1,295
Operating Income	350	313	330
Other Income (Expense)	21	11	(24)
Earnings Before Income Taxes	$ 371	$ 324	$ 306
Average number of equivalent employees	11,400	8,500	7,900

Revenues

1998 Compared to 1997 Revenues for The Sabre Group increased $517 million, or 28.9 percent. Electronic travel distribution revenues increased approximately $120 million, or 10.0 percent, due to growth in bookings and an overall increase in the average price per booking. Revenues from information technology solutions increased approximately $397 million, or 68.4 percent, primarily due to the services performed under the information technology services agreement with US Airways, and Year 2000 testing and readiness enhancements for certain AMR units and Canadian Airlines International Limited (Canadian).

1997 Compared to 1996 Revenues for The Sabre Group increased 10.1 percent, or $164 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 $65 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.

Operating Expenses

1998 Compared to 1997 Operating expenses increased 32.5 percent, or $480 million, due primarily to increases in salaries, benefits and employee-related costs, subscriber incentive expenses, depreciation and amortization expense and other operating expenses. Salaries, benefits and employee-related costs increased due to an increase in the average number of employees necessary to support The Sabre Group's business 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. The increase in depreciation and amortization expense is primarily due to the acquisition of information technology assets to support the US Airways' contract, and normal additions. Other operating expenses increased primarily due to equipment maintenance costs, other software development expenses related to The Sabre Group's Year 2000 Readiness program, and increased data processing costs, other services purchased and facility costs.

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.

Other Income (Expense)

1998 Compared to 1997 Other income (expense) increased $10 million due primarily to a favorable court judgment.

1997 Compared to 1996 Other income (expense) increased $35 million due to an increase in interest income of $17 million due to higher investment balances, an increase in other income of $13 million primarily due to losses in 1996 from a subsidiary of The Sabre Group not active in 1997, 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.

Liquidity and Capital Resources

Operating activities provided net cash of $3.2 billion in 1998, $2.9 billion in 1997 and $2.7 billion in 1996. The $326 million increase from 1997 to 1998 resulted primarily from an increase in net earnings. The $181 million increase from 1996 to 1997 resulted primarily from an increase in the air traffic liability due to higher advanced sales.

Capital expenditures in 1998 totaled $2.7 billion, compared to $1.4 billion in 1997 and $523 million in 1996, and included purchase deposits on new aircraft orders of $870 million, aircraft acquisitions of approximately $850 million, and purchases of computer-related equipment totaling approximately $360 million. In 1998, American took delivery of 10 jet aircraft – six Boeing 757-200s and four Boeing 767-300ERs. American Eagle took delivery of 20 Embraer EMB-145s and five Super ATR aircraft. These expenditures, as well as the expansion of certain airport facilities, were funded primarily with internally generated cash, except for (i) the Embraer aircraft acquisitions which were funded through secured debt agreements, and (ii) five Boeing 757-200 aircraft which were financed through sale-leaseback transactions. During 1998, The Sabre Group invested approximately $140 million for a 35 percent interest in ABACUS International Ltd. The Company made acquisitions and other investments of $137 million, which relate primarily to the acquisition of Reno Air in December 1998. Proceeds from the sale of equipment and property of $293 million in 1998 include proceeds received upon the delivery of two of American's McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx) in accordance with the 1995 agreement between the two parties, 10 ATR 42 aircraft, and other aircraft equipment sales.

At December 31, 1998, the Company had commitments to acquire the following aircraft: 100 Boeing 737-800s, 34 Boeing 777-200IGWs, six Boeing 757-200s, four Boeing 767-300ERs, 75 Embraer EMB-135s, 30 Embraer EMB-145s and 25 Bombardier CRJ-700s. Deliveries of these aircraft commence in 1999 and will continue through 2005. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate $2.7 billion in 1999, $2.0 billion in 2000, $1.6 billion in 2001 and an aggregate of approximately $1.5 billion in 2002 through 2005. 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 1999, of which approximately $625 million has been authorized by the Company's Board of Directors. The Company expects to fund the majority of its 1999 capital expenditures from the Company's existing cash and short-term investments, internally generated cash, and some new financing depending upon capital market conditions and the Company's evolving view of its long-term needs.

For the year ended December 31, 1998, a total of approximately 14.3 million shares of the Company's common stock were purchased by the Company under three separate share repurchase programs at a total cost of approximately $945 million. The Company expects to spend approximately $400 million by the end of the first quarter of 1999 to complete the $500 million share repurchase program initiated in October 1998. On March 17, 1999, the Company's Board of Directors authorized management to repurchase up to an additional $500 million of the Company's outstanding common stock. Share repurchases may be made from time to time, depending on market conditions, and may be discontinued at any time.

In 1997, the Board of Directors of The Sabre Group 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. During 1998, a total of approximately 1.4 million shares were purchased by The Sabre Group at a total cost of approximately $49 million. In addition, on March 16, 1999, the Board of Directors of The Sabre Group approved an additional stock repurchase program for The Sabre Group, under which The Sabre Group will repurchase, subject to certain business and market conditions, up to one million shares of The Sabre Group's Class A common stock.

At December 31, 1998, the Company owned approximately 3.1 million depository certificates convertible, subject to certain restrictions, into the common stock of Equant N.V. (Equant), which completed an initial public offering in July 1998. As of December 31, 1998, the estimated fair value of these depository certificates was approximately $210 million, based upon the publicly-traded market value of Equant common stock. In connection with a secondary offering of Equant, the Company sold approximately 900,000 depository certificates in February 1999 for net proceeds of $66 million. The remaining depository certificates are subject to a final reallocation between the owners of the certificates during 1999 and thus, the number of certificates owned by the Company is subject to change.

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, 1998, 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.

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 Readiness

State of Readiness In 1995, the Company implemented a project (the Year 2000 Project) intended to ensure that hardware and software systems operated by the Company, including software licensed to or operated for third parties by The Sabre Group, are designed to operate and properly manage dates beyond December 31, 1999 (Year 2000 Readiness). The Company has assessed (i) the Company's over 1,000 information technology and operating systems that will be utilized after December 31, 1999 (IT Systems); (ii) non-information technology systems, including embedded technology, facilities, and other systems (Non-IT Systems); and (iii) the Year 2000 Readiness of its critical third party service providers. The Year 2000 Project consists of six phases: (i) awareness, (ii) assessment, (iii) analysis, design and remediation, (iv) testing and validation, (v) quality assurance review (to ensure consistency throughout the Year 2000 Project) and (vi) creation of business continuity strategy, including plans in the event of Year 2000 failures. In developing the Company's proprietary software analysis, remediation and testing methodology for Year 2000 Readiness, it studied the best practices of the Institute of Electrical and Electronics Engineers and the British Standards Institution.

IT Systems The Company has completed the first three phases of the Year 2000 Project for all of its IT Systems. The Company has completed the testing and validation phase and quality assurance review phase for 94 percent of its IT Systems, including its computer reservations and flight operating systems that perform such "mission critical" functions as passenger bookings, ticketing, passenger check-in, aircraft weight and balance, flight planning and baggage and cargo processing. As of February 28, 1999, approximately 38 percent of the IT Systems (including the computer reservations systems) are already processing Year 2000 dates correctly.

Using dedicated testing environments and applying rigorous test standards, the Company is actively testing its other IT Systems to determine if they are Year 2000 ready or if further remediation is necessary. The Company expects to complete the testing and validation phase and quality assurance review phase for its remaining IT Systems, and the upgrading of certain hardware and software that supports its IT Systems by June 30, 1999.

Non-IT Systems The Company has substantially completed the testing and validation phase of its critical Non-IT Systems, such as aircraft avionics and flight simulators, and expects to complete the remainder of the testing and validation phase and the quality assurance review phase by June 30, 1999. In addition, the Company expects to complete the quality assurance review phase for substantially all of its other Non-IT Systems by June 30, 1999. The Company believes that its business, financial condition and results of operations would not be materially adversely affected, and that it has adequate contingency plans to ensure business continuity if its other Non-IT Systems are not Year 2000 ready.

Third Party Services The Company relies on third party service providers for many items, such as the Federal Aviation Administration, the Department of Transportation, airport authorities, telecommunications, electrical power, and data and credit card transaction processing. Those service providers depend on their hardware and software systems and on interfaces with the Company's IT Systems. The Company has polled its critical service providers regarding their Year 2000 plans and state of readiness. The Company has received responses from approximately 68 percent of its critical service providers, other than providers of discretionary services that will not materially adversely affect the Company's business, financial condition, and results of operations. Most of the respondees assured the Company that their software and hardware is or will be Year 2000 ready. To the extent practical, the Company intends to seek alternatives for third party service providers that have not responded to their Year 2000 Readiness by June 30, 1999.

Costs of Year 2000 Project The Company expects to incur significant hardware, software and labor costs, as well as consulting and other expenses, in its Year 2000 Project.

The Company's total estimated cost of the project is approximately $215 to $250 million, of which approximately $180 million was incurred as of December 31, 1998. Costs associated with the Year 2000 Project are expensed as incurred, other than capitalized hardware costs, and have been funded through cash from operations.

Risks of Year 2000 Non-readiness The economy in general, and the travel and transportation industries in particular, may be adversely affected by risks associated with the Year 2000. The Company's business, financial condition and results of operations could be materially adversely affected if systems that it operates or systems that are operated by third party service providers upon which the Company relies are not Year 2000 ready in time. There can be no assurance that these systems will continue to properly function and interface and will otherwise be Year 2000 ready. Management believes that its most likely Year 2000 risks relate to the failure of third parties with whom it has material relationships to be Year 2000 ready.

Business Continuity Plans To the extent practical, the Company is identifying the most likely Year 2000 failures in an effort to develop and refine plans to continue its business in the event of failures of the Company's or third parties' systems to be Year 2000 ready. These plans include performing certain processes manually; maintaining dedicated staff to be available at crucial dates to remedy unforeseen problems; installing defensive code to protect real-time systems from improperly formatted date data supplied by third parties; repairing or obtaining replacement systems; and reducing or suspending certain aspects of the Company's services or operations. Because of the pervasiveness and complexity of the Year 2000 issue, and in particular the uncertainty concerning the efforts and success of third parties to be Year 2000 ready, the Company will continue to refine its contingency plans during 1999.

The costs of the project and the date on which the Company plans to complete the Year 2000 Readiness 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, the failure of third parties to be Year 2000 ready and similar uncertainties.

New European Currency In January 1999, certain European countries established fixed conversion rates between their currencies and a new common currency unit called the "euro". The transition period for the introduction of the euro is between January 1, 1999 and June 30, 2002. In 1997, the Company implemented a project intended to ensure that software systems operated by the Company's businesses as well as software licensed to or operated for third parties by The Sabre Group were designed to properly handle the euro. The Company completed the project in 1998.

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. Congress enacted the Wright Amendment to prevent the federal government from acting inconsistent with this agreement. 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 some 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 Dallas has an obligation to do so. American joined in this litigation. On October 15, 1998, the state district court granted summary judgment in favor of Fort Worth and American, which summary judgment is being appealed to the Fort Worth Court of Appeals. In the same lawsuit, DFW filed claims alleging that irrespective of whether the Bond Ordinance is enforceable, the DFW Use Agreement prohibits American and other DFW signatory airlines from moving any interstate operations to Love Field. These claims remain unresolved. Dallas filed a separate 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. Further, in May 1998, Continental Airlines and Continental Express filed a lawsuit in federal court seeking a judicial declaration that the Bond Ordinance cannot be enforced to prevent them from operating flights from Love Field to Cleveland using regional jets. In December 1998, the Department of Transportation (DOT) issued an order on the federal law questions concerning the Bond Ordinance, local proprietary powers, DFW's Use Agreement with DFW carriers such as American, and the Wright and 1997 Amendments, and concluded that the Bond Ordinance was preempted by federal law and was therefore, not enforceable. The DOT also found that the DFW Use Agreement did not preclude American from conducting interstate operations at Love Field. Fort Worth and American have appealed the DOT's order to the Fifth Circuit Court of Appeals.

As a result of the foregoing, the future of interstate flight operations at Love Field and American's DFW hub are uncertain. An increase in operations at Love Field to new interstate destinations could adversely impact American's business.

In the second half of 1998, American initiated limited intrastate jet service to Austin from Love Field.

Outlook for 1999

During 1998, the Company created and began implementing a new strategic framework based on four key objectives. The first objective is to invest in and grow American and American Eagle - consistent with market conditions - to preserve and enhance the Company's leadership in the U.S. airline industry. The second objective is to offer the Company's customers the world's most comprehensive and powerful airline network through a combination of the industry's strongest domestic route system, the premier regional carrier, increased international flying and the broadest and best-executed set of airline alliances. The third objective is to make The Sabre Group the world's leading provider of information technology for the travel and transportation industries. The fourth objective is to create a corporate culture within AMR that involves and excites every employee in all of the Company's businesses. During 1999, the Company is expected to continue to focus on these four key objectives of the new strategic plan.

Airline Group The Company expects 1999 to be another good year for the Airline Group despite the economic uncertainties, primarily in the international markets, the deterioration of domestic yields experienced in the fourth quarter of 1998, the increase in industry capacity both domestically and internationally, and the activities of the APA in February 1999 that resulted in numerous cancellations across American's system. American expects that the downward pressure on domestic yields experienced in the fourth quarter of 1998, which was primarily due to heavier fare sale activity, a leveling off of the growth in full fare domestic traffic, and the impact of international yield decreases on domestic yields, may continue. In 1999, American's total system capacity is expected to increase by approximately four percent, which includes domestic growth of 2.5 percent and international growth of approximately 7.5 percent. The recently announced formation of oneworld™, the global alliance linking American's network and frequent flyer program with British Airways, Canadian Airlines, Cathay Pacific and Qantas - and later this year Finnair and Iberia - coupled with the expansion of other code-share alliances, the acquisitions of Reno Air and Business Express, which was completed by American Eagle in March of 1999, the broad marketing alliances created between American and US Airways and Alaska Airlines, and the delivery of new jet aircraft at both American and American Eagle will enable the Airline Group to further strengthen its network both domestically and internationally during 1999. However, the Company continues to evaluate the implications of further accelerating the retirement of certain aircraft in order to keep the Company's capacity growth in line with general economic conditions.

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 one percent, driven primarily by higher labor costs associated with the normal seniority and scale increases in the union contracts and an increase in training costs, landing fees, airport facility rent expense and various other inflationary pressures. The increase in costs is partially offset by expected savings in maintenance, materials and repairs expense on the Company's existing fleet, partially due to the Company's announcement in late 1998 that it will retire an additional eight McDonnell Douglas DC-10-10 and two additional Boeing 727-200 aircraft earlier than anticipated, which will save the Company approximately $40 million during the next three years in aircraft maintenance and modification costs. The Company expects to also benefit from maintenance savings associated with new aircraft deliveries and commission expense savings as a result of changes made in late 1998 to the international commission structure and a decrease in the percentage of commissionable transactions. Effective January 1, 1999, in order to more accurately reflect the expected useful life of its aircraft, the Company changed its estimate of the depreciable lives of certain aircraft types from 20 to 25 years and increased the residual value from five to 10 percent. The impact of the aircraft depreciation changes is expected to result in an approximate $165 million decrease in 1999 depreciation expense. In addition, the Company will depreciate its new Boeing 737-800s and Boeing 777-200IGWs over a period of 25 and 30 years, respectively, with a 10 percent residual value.

In early February 1999, some members of the APA engaged in certain activities (increased sick time and declining to fly additional trips) that resulted in numerous cancellations across American's system. These actions were taken in response to the acquisition of Reno Air in December 1998. On February 10, 1999, American obtained a temporary restraining order prohibiting the union from unilaterally taking actions outside the terms allowed under the collective bargaining agreement. Because of certain actions by the APA and its leaders, American filed a motion to have the APA and its leaders held in contempt of the court's temporary restraining order. The court granted that motion on February 13, 1999, and the airline's operations thereafter returned to normal. In an attempt to resolve the dispute, the Company and the APA have agreed to non-binding mediation. The Company estimates that the illegal pilot job action resulted in a pre-tax earnings impact of approximately $200 to $225 million during the first quarter of 1999.

The Sabre Group The Company expects continued profitability and revenue growth for The Sabre Group in 1999. Revenues from The Sabre Group's existing outsourcing customers, including American, US Airways and Canadian, are expected to be the same as or less than 1998 revenues as The Sabre Group will have completed Year 2000 efforts for American and Canadian and most of the migration services for US Airways. The Company, however, expects strong revenue growth from outsourcing contracts signed in 1998, new contracts expected in 1999, and from software development and real-time processing services. Additionally, the Company expects overall revenue growth from the electronic travel distribution business to be consistent with prior years. While the Company anticipates a decline in domestic airline bookings growth in 1999, the Company expects to compensate for the decline with growth in international bookings, market share gains worldwide, price increases and revenues from new promotional and marketing products. The Company expects an improved operating margin for The Sabre Group in 1999 due to a reduction in its Year 2000 Readiness program activity as the Year 2000 Project is nearing completion. In addition, the Company expects improved margins on the US Airways contract as the migration services will be completed in early 1999 and the contract will be moving to steady state. The Company expects selling, general and administrative expenses for The Sabre Group will increase in 1999 as a result of sales growth initiatives and increased administrative requirements to support The Sabre Group's growth.

Forward-Looking Information

The preceding Letter from the Chairman, essays on the Airline Group and The Sabre 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, expectations as to results of operations and financial condition, including changes in capacity, revenues and unit costs, expectations as to future financing needs, Year 2000 and euro readiness, 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. Forward-looking statements 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 and events; economic and other conditions; commodity prices; competition in the airline industry; competition for The Sabre Group; changing business strategy; government regulation; uncertainty in international operations; and Year 2000 Readiness. 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 1998, copies of which are available from the Company without charge.

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, 1998 and 1997 cost per gallon of fuel. Based on projected 1999 fuel usage, such an increase would result in an increase to aircraft fuel expense of approximately $73 million in 1999, net of fuel hedge instruments outstanding at December 31, 1998. Comparatively, based on projected 1998 fuel usage, such an increase would have resulted in an increase to aircraft fuel expense of approximately $110 million in 1998, net of fuel hedge instruments outstanding at December 31, 1997. The change in market risk is due primarily to the Company having more hedge instruments outstanding at December 31, 1998 as compared to December 31, 1997. As of December 31, 1998, the Company had hedged approximately 48 percent of its 1999 fuel requirements and approximately 19 percent of its 2000 fuel requirements, compared to approximately 23 percent of its 1998 fuel requirements hedged at December 31, 1997.

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, Japanese yen, and various Latin and South American currencies. The Company uses options to hedge a portion of 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, 1998 and 1997 levels relative to each of the currencies in which the Company has foreign currency exposure would result in a decrease in operating income of approximately $22 million and $24 million for the years ending December 31, 1999 and 1998, respectively, net of hedge instruments outstanding at December 31, 1998 and 1997, due to the Company's foreign-denominated revenues exceeding its foreign-denominated expenses. This sensitivity analysis was prepared based upon projected 1999 and 1998 foreign currency-denominated revenues and expenses as of December 31, 1998 and 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 six percent and five percent, respectively, of its total long-term debt, and interest rate swaps on notional amounts of approximately $1.1 billion and $1.4 billion, respectively, at December 31, 1998 and 1997. If interest rates average 10 percent more in 1999 than they did during 1998, the Company's interest expense would increase by approximately $6 million and interest income from cash and short-term investments would increase by approximately $12 million. In comparison, at December 31, 1997, the Company estimated that if interest rates averaged 10 percent more in 1998 than they did during 1997, the Company's interest expense would have increased by approximately $10 million and interest income from cash and short-term investments would have increased 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, and cash and short-term investment balances at December 31, 1998 and 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 $96 million and $105 million as of December 31, 1998 and 1997, respectively. 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.

Investments The Company is subject to market risk related to its ownership of approximately 3.1 million depository certificates convertible, subject to certain restrictions, into the common stock of Equant. The estimated fair value of these depository certificates was approximately $210 million as of December 31, 1998, based upon the market value of Equant common stock. In February 1999, in connection with a secondary offering of Equant, AMR sold approximately 900,000 depository certificates for net proceeds of $66 million. The remaining depository certificates are subject to a final reallocation between the owners of the certificates during 1999 and thus, the number of certificates owned by the Company is subject to change.

In addition, the Company holds investments in certain other entities, primarily foreign airlines, which are subject to market risk. However, the impact of such market risk on earnings is not significant due to the immateriality of the carrying value and the geographically diverse nature of these holdings.

Operating Aircraft Fleets

(At December 31, 1998)	Current Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Weighted-Average Age (Years)
American Aircraft						
Airbus A300-600R	192/266/267	10	-	25	35	9
Boeing 727-200	150	64	14	-	78	22
Boeing 757-200	188	51	14	31	96	6
Boeing 767-200	172	8	-	-	8	16
Boeing 767-200 Extended Range	165	9	13	-	22	13
Boeing 767-300 Extended Range	207	20	15	10	45	7
Fokker 100	97	66	5	4	75	6
McDonnell Douglas DC-10-10	237/290/297	13	-	-	13	21
McDonnell Douglas DC-10-30	271/282	4	-	1	5	24
McDonnell Douglas MD-11	238/255	11	-	-	11	6
McDonnell Douglas MD-80	133/139	119	25	116	260	11
Total		375	86	187	648	11
AMR Eagle Aircraft						
ATR 42	46	18	2	15	35	9
Embraer 145	50	20	-	-	20	1
Super ATR	64/66	40	-	3	43	4
Saab 340B	34	29	61	-	90	7
Saab 340B Plus	34	-	-	21	21	3
Total		107	63	39	209	6

(in millions, except per share amounts)	Year Ended December 31, 1998	1997	1996
Revenues			
Airline Group:			
Passenger - American Airlines, Inc.	$ 14,695	$ 14,310	$ 13,645
- AMR Eagle	1,121	1,017	1,047
Cargo	656	687	682
Other	977	889	837
	17,449	16,903	16,211
The Sabre Group	2,306	1,789	1,625
Other revenues	119	95	102
Less: Intersegment revenues	(669)	(603)	(574)
Total operating revenues	19,205	18,184	17,364
Expenses			
Wages, salaries and benefits	6,507	6,056	5,706
Aircraft fuel	1,604	1,923	1,936
Depreciation and amortization	1,287	1,225	1,185
Commissions to agents	1,226	1,278	1,252
Maintenance, materials and repairs	937	863	687
Other rentals and landing fees	875	876	874
Food service	675	677	672
Aircraft rentals	569	574	616
Other operating expenses	3,187	2,805	2,629
Total operating expenses	16,867	16,277	15,557
Operating Income	2,338	1,907	1,807
Other Income (Expense)			
Interest income	140	140	82
Interest expense	(372)	(420)	(514)
Interest capitalized	104	20	10
Gain on sale of stock by subsidiary	-	-	497
Miscellaneous - net	(46)	(23)	(286)
	(174)	(283)	(211)
Income From Continuing Operations Before Income Taxes and Extraordinary Loss	2,164	1,624	1,596
Income tax provision	858	651	513
Income From Continuing Operations Before Extraordinary Loss	1,306	973	1,083
Income From Discontinued Operations, Net of Applicable Income Taxes	8	12	22
Income Before Extraordinary Loss	1,314	985	1,105
Extraordinary Loss, Net of Tax Benefit	-	-	(89)
Net Earnings	$ 1,314	$ 985	$ 1,016
Earnings (Loss) Per Common Share:			
Basic			
Income from continuing operations before extraordinary loss	$ 7.73	$ 5.45	$ 6.29
Discontinued operations	0.05	0.07	0.12
Extraordinary loss	-	-	(0.51)
Net earnings	$ 7.78	$ 5.52	$ 5.90
Diluted			
Income from continuing operations before extraordinary loss	$ 7.48	$ 5.32	$ 5.95
Discontinued operations	0.04	0.07	0.12
Extraordinary loss	-	-	(0.48)
Net earnings	$ 7.52	$ 5.39	$ 5.59

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

(in millions)	December 31, 1998	1997
Assets		
Current Assets		
Cash	$ 95	$ 62
Short-term investments	1,978	2,370
Receivables, less allowance for uncollectible accounts (1998 - $31; 1997 - $18)	1,543	1,301
Inventories, less allowance for obsolescence (1998 - $214; 1997 - $203)	596	626
Deferred income taxes	476	406
Other current assets	187	221
Total current assets	4,875	4,986
Equipment and Property		
Flight equipment, at cost	13,688	13,002
Less accumulated depreciation	4,976	4,459
	8,712	8,543
Purchase deposits for flight equipment	1,624	754
Other equipment and property, at cost	4,243	3,966
Less accumulated depreciation	2,340	2,190
	1,903	1,776
	12,239	11,073
Equipment and Property Under Capital Leases		
Flight equipment	3,159	2,980
Other equipment and property	267	273
	3,426	3,253
Less accumulated amortization	1,279	1,167
	2,147	2,086
Other Assets		
Route acquisition costs, less accumulated amortization (1998 - $240; 1997 - $211)	916	945
Airport operating and gate lease rights, less accumulated amortization (1998 - $161; 1997 - $143)	312	325
Prepaid pension cost	304	382
Other	1,510	1,062
	3,042	2,714
Total Assets	$ 22,303	$ 20,859

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

(in millions, except shares and par value)	December 31, 1998	1997
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 1,152	$ 1,028
Accrued salaries and wages	991	879
Accrued liabilities	1,131	1,091
Air traffic liability	2,163	2,044
Current maturities of long-term debt	48	395
Current obligations under capital leases	154	135
Total current liabilities	5,639	5,572
Long-Term Debt, Less Current Maturities	2,436	2,248
Obligations Under Capital Leases, Less Current Obligations	1,764	1,629
Other Liabilities and Credits		
Deferred income taxes	1,491	1,112
Deferred gains	573	610
Postretirement benefits	1,649	1,573
Other liabilities and deferred credits	2,053	1,899
	5,766	5,194
Commitments and Contingencies		
Stockholders' Equity		
Common stock - $1 par value; shares authorized: 750,000,000; shares issued: 1998 and 1997 - 182,278,766	182	182
Additional paid-in capital	3,075	3,104
Treasury shares at cost: 1998 - 20,927,692; 1997 - 9,080,832	(1,288)	(485)
Accumulated other comprehensive income	(4)	(4)
Retained earnings	4,733	3,419
	6,698	6,216
Total Liabilities and Stockholders' Equity	$ 22,303	$ 20,859

(in millions)	Year Ended December 31, 1998	1997	1996
Cash Flow from Operating Activities:			
Net earnings	$ 1,314	$ 985	$ 1,016
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	1,006	977	948
Amortization	281	248	237
Deferred income taxes	312	363	217
Gain on disposition of equipment and property	(19)	(24)	-
Gain on sale of stock by subsidiary	-	-	(497)
Provisions for losses	-	-	251
Extraordinary loss	-	-	136
Change in assets and liabilities:			
Decrease (increase) in receivables	(242)	12	(225)
Increase in inventories	(35)	(41)	(66)
Increase in accounts payable and accrued liabilities	268	117	261
Increase in air traffic liability	119	155	423
Other, net	191	77	(13)
Net cash provided by operating activities	3,195	2,869	2,688
Cash Flow from Investing Activities:			
Capital expenditures, including purchase deposits on flight equipment	(2,661)	(1,358)	(523)
Net decrease (increase) in short-term investments	392	(627)	(924)
Proceeds from sale of equipment and property	293	305	257
Acquisitions and other investments	(137)	-	-
Investment in joint ventures, net	(135)	-	-
Net cash used for investing activities	(2,248)	(1,680)	(1,190)
Cash Flow from Financing Activities:			
Payments on long-term debt and capital lease obligations	(547)	(648)	(2,130)
Repurchase of common stock	(994)	(740)	-
Proceeds from:			
Sale-leaseback transactions	270	-	-
Issuance of long-term debt	246	-	-
Exercise of stock options	111	200	25
Sale of stock by subsidiary	-	-	589
Net cash used for financing activities	(914)	(1,188)	(1,516)
Net increase (decrease) in cash	33	1	(18)
Cash at beginning of year	62	61	79
Cash at end of year	$ 95	$ 62	$ 61
Financing Activities Not Affecting Cash			
Capital lease obligations incurred	$ 270	$ -	$ -

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	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 1996	$ 78	$ 152	$ 2,163	$ -	$ (91)	$ 1,418	$ 3,720
Net earnings	-	-	-	-	-	1,016	1,016
Adjustment for minimum pension liability, net of tax benefit of $13	-	-	-	-	(21)	-	(21)
Unrealized loss on investments, net of tax benefit of $1	-	-	-	-	(2)	-	(2)
Reversal of unrealized loss on investment in Canadian Airlines International Limited	-	-	-	-	91	-	91
Total comprehensive income							1,084
Issuance of 27,853,548 shares upon conversion of convertible subordinated debentures and preferred stock, net of conversion fees and issuance costs	(78)	28	867	-	-	-	817
Issuance of 1,403,656 shares pursuant to stock option, deferred stock and restricted stock incentive plans	-	2	45	-	-	-	47
Balance at December 31, 1996	-	182	3,075	-	(23)	2,434	5,668
Net earnings	-	-	-	-	-	985	985
Adjustment for minimum pension liability, net of tax expense of $13	-	-	-	-	19	-	19
Total comprehensive income							1,004
Issuance of 312,140 shares pursuant to stock option, deferred stock and restricted stock incentive plans	-	-	13	-	-	-	13
Issuance of 11,500,000 stock options at $5 below market value at date of grant	-	-	58	-	-	-	58
Repurchase of 14,086,750 common shares	-	-	-	(740)	-	-	(740)
Issuance of 5,005,918 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax benefit of $15	-	-	(42)	255	-	-	213
Balance at December 31, 1997	-	182	3,104	(485)	(4)	3,419	6,216
Net earnings and total comprehensive income	-	-	-	-	-	1,314	1,314
Repurchase of 14,342,008 common shares	-	-	-	(944)	-	-	(944)
Issuance of 2,495,148 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax benefit of $17	-	-	(29)	141	-	-	112
Balance at December 31, 1998	$ -	$ 182	$ 3,075	$(1,288)	$ (4)	$ 4,733	$ 6,698

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

1. Summary of Accounting Policies

Basis of Presentation 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. The results of operations for AMR Services, AMR Combs and TeleService Resources have been reflected in the consolidated statements of operations as discontinued operations. All share and per share amounts have been restated to give effect to the stock split on June 9, 1998, where appropriate. Certain amounts from prior years have been reclassified to conform with the 1998 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 major rotable parts, avionics and 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[1]	None
Other American jet aircraft	20 years	5%
Regional jet aircraft	16 years	(2)
Other regional aircraft and engines	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
Capitalized software	3-10 years	None

[1] Approximate common retirement date.
[2] Depreciated to guaranteed residual value.

Effective January 1, 1999, in order to more accurately reflect the expected useful life of its aircraft, the Company changed its estimate of the depreciable lives of certain American aircraft types from 20 to 25 years and increased the residual value from five to 10 percent. In addition, the Company will depreciate its new Boeing 737-800s and Boeing 777-200IGWs over a period of 25 and 30 years, respectively, with a 10 percent residual value.

Equipment and property under capital leases are amortized over the term of the leases or, in the case of certain aircraft, over their expected useful lives, and such amortization is included in depreciation and amortization. Lease terms vary but are generally 10 to 25 years for aircraft and seven 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 Eagle, which are accrued on the basis of hours flown.

Intangible Assets 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.

Capitalized Software In March 1998, the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), effective for fiscal years beginning after December 15, 1998. SOP 98-1 requires the capitalization of certain costs incurred during an internal-use development project. The adoption of SOP 98-1 is not expected to have a material impact on the Company's financial position or results of operations.

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 hotel bookings 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
Revenues from information technology services are recognized in the period earned. Revenues from software license fees for standard software products are recognized when the software is delivered, fees are fixed and determinable, no undelivered elements are essential to the functionality of delivered software and collection is probable. Revenues on long-term software development and consulting contracts are 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 $216 million, $204 million and $203 million for the years ended December 31, 1998, 1997 and 1996, 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.

Statements of Cash Flows Short-term investments, without regard to remaining maturity at acquisition, are not considered as cash equivalents for purposes of the statements 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, 1998	December 31, 1997
Overnight investments and time deposits	$ 133	$ 322
Corporate notes	950	921
Asset backed securities	498	428
U. S. Government agency mortgages	169	305
Other	228	394
	$ 1,978	$ 2,370

Short-term investments at December 31, 1998, by contractual maturity included (in millions):

Due in one year or less	$ 494
Due after one year through three years	1,470
Due after three years	14
	$ 1,978

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.

At December 31, 1998, the Company owned approximately 3.1 million depository certificates convertible, subject to certain restrictions, into the common stock of Equant N.V. (Equant), which completed an initial public offering in July 1998. As of December 31, 1998, the estimated fair value of these depository certificates was approximately $210 million, based upon the publicly-traded market value of Equant common stock. The estimated fair value of the certificates was not readily determinable as of December 31, 1997. The carrying value (cost basis) of the Company's investment in the depository certificates as of December 31, 1998 and 1997 was de minimis.

In connection with a secondary offering of Equant, the Company sold approximately 900,000 depository certificates in February 1999 for net proceeds of $66 million. The remaining depository certificates are subject to a final reallocation between the owners of the certificates during 1999 and thus, the number of certificates owned by the Company is subject to change.

3. Commitments and Contingencies

At December 31, 1998, the Company had commitments to acquire the following aircraft: 100 Boeing 737-800s, 34 Boeing 777-200IGWs, six Boeing 757-200s, four Boeing 767-300ERs, 75 Embraer EMB-135s, 30 Embraer EMB-145s and 25 Bombardier CRJ-700s. Deliveries of these aircraft commence in 1999 and will continue through 2005. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate $2.7 billion in 1999, $2.0 billion in 2000, $1.6 billion in 2001 and an aggregate of approximately $1.5 billion in 2002 through 2005. In addition to these commitments for aircraft, the Company's Board of Directors has authorized expenditures of approximately $2.1 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 $625 million of this authorized amount in 1999.

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.

In April 1995, American announced an agreement to sell 12 of its McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx). In addition, in March 1998, the Company exercised its option to sell its remaining seven MD-11 aircraft to FedEx. No significant gain or loss is expected to be recognized as a result of these transactions. Eight aircraft had been delivered as of December 31, 1998. The remaining

11 aircraft will be delivered between 2000 and 2002. The carrying value of the 11 remaining aircraft American has committed to sell was approximately $711 million as of December 31, 1998.

AMR and American have included an event risk covenant in approximately $3.0 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 $519 million of short-term investments.

In early February 1999, some members of the APA engaged in certain activities (increased sick time and declining to fly additional trips) that resulted in numerous cancellations across American's system. These actions were taken in response to the acquisition of Reno Air in December 1998. In an attempt to resolve the dispute, the Company and the APA have agreed to non-binding mediation. These actions adversely impacted the Company's first quarter 1999 net earnings.

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, 1998, were (in millions):

Year Ending December 31,	Capital Leases	Operating Leases
1999	$ 273	$ 1,012
2000	341	951
2001	323	949
2002	274	904
2003	191	919
2004 and subsequent	1,261	12,480
	2,663 [1]	$17,215 [2]
Less amount representing interest	745	
Present value of net minimum lease payments	$ 1,918	

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 $6.1 billion guaranteed by AMR relating to special facility revenue bonds issued by municipalities.

At December 31, 1998, the Company had 187 jet aircraft and 39 turboprop aircraft under operating leases, and 86 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.

Rent expense, excluding landing fees, was $1.2 billion for 1998, 1997 and 1996.

5. Indebtedness

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

	December 31, 1998	December 31, 1997
8.05% - 10.62% notes due through 2021	$ 865	$ 874
Secured debt due through 2015 (effective rates from 6.317% - 9.957% at December 31, 1998)	857	644
9.0% - 10.20% debentures due through 2021	437	437
6.0% - 7.10% bonds due through 2031	176	176
Variable rate indebtedness due through 2024 (3.55% at December 31, 1998)	86	86
Other	15	31
Long-term debt, less current maturities	$ 2,436	$ 2,248

Maturities of long-term debt (including sinking fund requirements) for the next five years are: 1999 - $48 million; 2000 - $244 million; 2001 - $451 million; 2002 - $83 million; 2003 - $47 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.

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, 1998, 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 $929 million. In addition, certain of American's debt and credit facility agreements contain restrictive covenants, including a minimum net worth requirement, which could limit American's ability to pay dividends. At December 31, 1998, under the most restrictive provisions of those debt and credit facility agreements, approximately $2.6 billion of the retained earnings of American were available for payment of dividends to AMR.

Cash payments for interest, net of capitalized interest, were $277 million, $410 million and $520 million for 1998, 1997 and 1996, 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 swap and option contracts 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, 1998, 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, 1998		1997	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swap agreements	$1,054	$ 38	$ 1,410	$ 12

The fair values represent the amount the Company would receive if the agreements were terminated at December 31, 1998 and 1997, respectively.

At December 31, 1998, the weighted-average remaining life of the interest rate swap agreements in effect was 4.2 years. The weighted-average floating rates and fixed rates on the contracts outstanding were:

	December 31, 1998	1997
Average floating rate	5.599%	5.844%
Average fixed rate	6.277%	5.901%

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

Fuel Price Risk Management American enters into fuel swap and option contracts to protect against increases in jet fuel prices. Under the fuel swap agreements, American receives or makes payments based on the difference between a fixed price and a variable price for certain fuel commodities. Under the fuel option agreements, American pays a premium to cap prices at a fixed level. The changes in market value of such agreements have a high correlation to the price changes of the fuel being hedged. Gains or losses on fuel hedging agreements are recognized as a component of fuel expense when the underlying fuel being hedged is used. Any premiums paid to enter into option contracts are recorded as a prepaid expense and amortized to fuel expense over the respective contract periods. Gains and losses on fuel hedging agreements would be recognized immediately should the changes in the market value of the agreements cease to have a high correlation to the price changes of the fuel being hedged. At December 31, 1998, American had fuel hedging agreements with broker-dealers on approximately two billion gallons of fuel products, which represents approximately 48 percent of its expected 1999 fuel needs and approximately 19 percent of its expected 2000 fuel needs. The fair value of the Company's fuel hedging agreements at December 31, 1998, representing the amount the Company would pay to terminate the agreements, totaled $108 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 December 31, 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, 1998, the notional amount related to these options totaled approximately $597 million and the fair value, representing the amount AMR would receive to terminate the agreements, totaled approximately $10 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 yen-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 the Company would pay to terminate the agreements, were (in millions):

	December 31, 1998		1997	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Japanese yen	33.7 billion	$(5)	24.5 billion	$(15)

The exchange rates on the Japanese yen agreements range from 66.50 to 118.35 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, 1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
8.05% - 10.62% notes	$ 875	$ 973	$ 1,249	$ 1,372
Secured debt	890	1,013	660	766
9.0% - 10.20% debentures	437	531	437	540
6.0% - 7.10% bonds	176	189	176	194
Variable rate indebtedness	86	86	86	86
Other	20	20	35	36
	$ 2,484	$ 2,812	$ 2,643	$ 2,994

All other financial instruments, except for the investment in Equant, are either carried at fair value or their carrying value approximates fair value.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which is required to be adopted in years beginning after June 15, 1999. SFAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company is currently evaluating the impact of SFAS 133 to the Company's financial condition or results of operations.

7. Income Taxes

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

	Year Ended December 31, 1998	1997	1996
Current	$ 546	$ 288	$ 296
Deferred	312	363	217
	$ 858	$ 651	$ 513

The income tax provision includes a federal income tax provision of $741 million, $566 million and $452 million and a state income tax provision of $93 million, $71 million and $53 million for the years ended December 31, 1998, 1997 and 1996, respectively.

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

	Year Ended December 31, 1998	1997	1996
Statutory income tax provision	$ 757	$ 568	$ 559
State income tax provision, net	60	46	35
Meal expense	19	21	18
Minority interest	14	12	1
Gain on sale of stock by subsidiary	-	-	(174)
Change in valuation allowance	(4)	-	67
Other, net	12	4	7
Income tax provision	$ 858	$ 651	$ 513

The change in valuation allowance in 1998 relates to the utilization of foreign tax credits. The change in the valuation allowance in 1996 is primarily attributable to the write-off of AMR's investment in Canadian Airlines International Limited (Canadian) (see Note 14).

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

	December 31, 1998	1997
Deferred tax assets:		
Postretirement benefits other than pensions	$ 616	$ 580
Alternative minimum tax credit carryforwards	515	862
Rent expense	376	322
Frequent flyer obligation	258	232
Gains from lease transactions	223	234
Other	405	412
Valuation allowance	(68)	(72)
Total deferred tax assets	2,325	2,570
Deferred tax liabilities:		
Accelerated depreciation and amortization	(3,097)	(2,963)
Pensions	(54)	(94)
Other	(189)	(219)
Total deferred tax liabilities	(3,340)	(3,276)
Net deferred tax liability	$(1,015)	$ (706)

At December 31, 1998, AMR had available for federal income tax purposes approximately $515 million of alternative minimum tax credit carryforwards which are available for an indefinite period.

Cash payments for income taxes were $560 million, $423 million and $194 million for 1998, 1997 and 1996, respectively.

8. Common and Preferred Stock

In April 1998, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend, subject to shareholder approval of an amendment to the Company's Certificate of Incorporation to increase the number of authorized common shares. On May 20, 1998, the Company's shareholders approved the amendment, thereby increasing the total number of authorized shares of all classes of stock to 770 million, of which 20 million are shares of preferred stock (without par value) and 750 million are shares of common stock ($1 par value). The stock split was effective on June 9, 1998 for shareholders of record on May 26, 1998. All prior period share and earnings per share amounts have been restated to give effect to the stock split.

9. Stock Awards and Options

Under the 1998 Long Term Incentive Plan, as amended, 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 1998 Long Term Incentive Plan is 10,000,000 shares. The 1998 Long Term Incentive Plan, the successor to the 1988 Long Term Incentive Plan which expired May 18, 1998, will terminate no later than May 21, 2008. Options granted under the 1988 and 1998 Long Term Incentive Plans (collectively, the Plans) are awarded with an exercise price equal to the fair market value of the stock on date of grant, become exercisable in equal annual installments over five years following the date of grant and expire 10 years from the date of grant. Stock appreciation rights may be granted in tandem with options awarded.

In 1998, 1997 and 1996, the total charge for stock compensation expense included in wages, salaries and benefits expense was $65 million, $75 million and $49 million, respectively. No compensation expense was recognized for stock option grants under the Plans since the exercise price was the fair market value of the underlying stock on the date of grant.

Stock option activity was:

	Year Ended December 31, 1998		1997		1996	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at January 1	3,506,774	$ 38.77	3,663,590	$ 33.59	4,645,560	$ 31.42
Granted	1,216,720	63.01	895,480	52.28	784,950	39.21
Exercised	(470,810)	31.82	(985,776)	32.17	(1,161,600)	29.70
Canceled[1]	(105,560)	42.34	(66,520)	33.82	(605,320)	31.48
Outstanding at December 31	4,147,124	$ 46.60	3,506,774	$ 38.77	3,663,590	$ 33.59

[1] Includes 471,900 options canceled upon conversion to The Sabre Group stock options for 1996.

The following table summarizes information about the stock options outstanding at December 31, 1998:

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
$22-$33	842,424	4.24	$ 30.11	731,564	$ 30.45
$34-$42	1,251,060	6.94	37.81	603,810	37.66
$43-$52	1,072,080	9.19	50.61	182,760	48.67
$58-$73	981,560	9.27	67.58	68,840	58.11
	4,147,124	7.50	$ 46.60	1,586,974	$ 36.49

In May 1997, in conjunction with the labor agreement reached between American and members of the APA, the Company established the Pilots Stock Option Plan (The Pilot Plan). The Pilot Plan granted members of the APA the option to purchase 11.5 million shares of AMR stock at $41.69 per share, $5 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, 1998	1997
Outstanding at January 1	7,438,220	-
Granted	-	11,500,000
Exercised	(1,646,839)	(4,061,780)
Outstanding at December 31	5,791,381	7,438,220

The weighted-average grant date fair value of all stock option awards granted during 1998, 1997 and 1996 was $21.15, $11.00 and $12.90, respectively.

Shares of deferred stock are awarded at no cost to officers and key employees under the Plans' 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, 1998	1997	1996
Outstanding at January 1	2,457,190	2,394,662	2,848,116
Granted	185,812	175,500	205,300
Issued	(190,911)	(67,340)	(109,448)
Canceled[1]	(50,559)	(45,632)	(549,306)
Outstanding at December 31	2,401,532	2,457,190	2,394,662

[1] Includes 420,800 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 1998, 1997 and 1996 was $57.77, $54.98 and $39.64, 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 Plans. The fair value of the performance shares granted is equal to the market price of the Company's stock at the date of grant. The shares vest over a three-year performance period based upon AMR's ratio of cash flow to adjusted gross assets. Performance share activity was:

	Year Ended December 31,		
	1998	1997	1996
Outstanding at January 1	1,737,274	1,679,460	1,648,822
Granted	644,680	808,736	764,614
Issued	(205,458)	(190,766)	(137,008)
Awards settled in cash	(522,234)	(513,064)	(356,176)
Canceled[1]	(88,646)	(47,092)	(240,792)
Outstanding at December 31	1,565,616	1,737,274	1,679,460

[1] Includes 181,102 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 1998, 1997 and 1996 was $62.06, $52.28 and $39.41, respectively.

There were approximately 21 million shares of AMR's common stock at December 31, 1998 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 (Sabre Common Stock) were authorized to be issued under the 1996 Plan. At December 31, 1998, approximately five million options for Sabre 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, The Sabre Group granted two tranches of stock options to US Airways, each to acquire three million shares of Sabre Common Stock. During certain periods, 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, which occurred in January 1998, 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. During 1998, a long-term liability and a related deferred asset equal to the number of options outstanding multiplied by the difference between the exercise price of the options and the market price of Sabre Common Stock were recorded. The asset and liability are adjusted based on changes in the market price of Sabre Common Stock. As of December 31, 1998, the liability relating to these options was $105 million. The deferred asset is being amortized over the 11-year non-cancelable portion of the agreement.

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 1998, 1997 and 1996: risk-free interest rates ranging from 5.01% to 6.70%; dividend yields of 0%; expected stock volatility ranging from 25.4% to 32.0%; 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 1998 net earnings of $1,311 million and basic and diluted earnings per share of $7.76 and $7.51, respectively, and 1997 net earnings of $960 million and basic and diluted earnings per share of $5.38 and $5.25, respectively. The pro forma impact of SFAS 123 on the Company's 1996 net earnings and earnings per share was not material.

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.

In October 1997, American spun off the portion of its defined benefit pension plan applicable to employees of The Sabre Group to the Legacy Pension Plan, 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 American's plan was approximately $20 million. The Sabre Group also established The Sabre Group Retirement Plan (SGRP), a defined contribution plan. Upon establishment, substantially all employees of The Sabre Group under the age of 40 at December 31, 1996 and all new employees began participating in the SGRP. Costs for the SGRP were $16 million and $11 million in 1998 and 1997, respectively.

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.

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended December 31, 1998 and 1997, and a statement of funded status as of December 31, 1998 and 1997 (in millions):

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Reconciliation of benefit obligation				
Obligation at January 1	$5,825	$5,166	$1,398	$1,213
Service cost	224	189	57	48
Interest cost	430	403	103	95
Actuarial loss	330	475	81	109
Benefit payments	(464)	(408)	(66)	(67)
Settlements	(16)	-	-	-
Obligation at December 31	$6,329	$5,825	$1,573	$1,398
Reconciliation of fair value of plan assets				
Fair value of plan assets at January 1	$5,219	$4,617	$ 56	$ 39
Actual return on plan assets	858	977	5	8
Employer contributions	78	33	76	76
Benefit payments	(464)	(408)	(66)	(67)
Settlements	(16)	-	-	-
Fair value of plan assets at December 31	$5,675	$5,219	$ 71	$ 56
Funded status				
Accumulated benefit obligation (ABO)	$5,187	$4,859	$1,573	$1,398
Projected benefit obligation (PBO)	6,329	5,825	-	-
Fair value of assets	5,675	5,219	71	56
Funded status at December 31	(654)	(606)	(1,502)	(1,342)
Unrecognized loss (gain)	709	788	(101)	(179)
Unrecognized prior service cost	68	63	(46)	(52)
Unrecognized transition asset	(11)	(20)	-	-
Prepaid (accrued) benefit cost	$ 112	$ 225	$(1,649)	$(1,573)

At December 31, 1998 and 1997, plan assets of approximately $111 million and $92 million, respectively, were invested in shares of mutual funds managed by a subsidiary of AMR.

The following tables provide the components of net periodic benefit cost for the years ended December 31, 1998, 1997 and 1996 (in millions):

	Pension Benefits		
	1998	1997	1996
Components of net periodic benefit cost			
Defined benefit plans:			
Service cost	$ 224	$ 189	$ 204
Interest cost	430	403	375
Expected return on assets	(486)	(429)	(422)
Amortization of:			
Transition asset	(11)	(11)	(11)
Prior service cost	4	4	4
Unrecognized net loss	24	27	16
Settlement loss	6	-	-
Net periodic benefit cost for defined benefit plans	191	183	166
Defined contribution plans	174	153	132
Total	$ 365	$ 336	$ 298

	Other Benefits		
	1998	1997	1996
Components of net periodic benefit cost			
Service cost	$ 57	$ 48	$ 58
Interest cost	103	95	102
Expected return on assets	(6)	(4)	(3)
Amortization of:			
Prior service cost	(5)	(5)	(5)
Unrecognized net gain	(2)	(9)	-
Net periodic benefit cost	$ 147	$ 125	$ 152

The following table provides the amounts recognized in the consolidated balance sheets as of December 31, 1998 and 1997 (in millions):

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Prepaid benefit cost	$ 297	$ 377	$ -	$ -
Accrued benefit liability	(185)	(152)	(1,649)	(1,573)
Additional minimum liability	(13)	(11)	-	-
Intangible asset	7	5	-	-
Accumulated other comprehensive income	6	6	-	-
Net amount recognized	$ 112	$ 225	$(1,649)	$ (1,573)

The following assumptions were used by the Company in the measurement of the benefit obligation as of December 31:

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Weighted-average assumptions				
Discount rate	7.00%	7.25%	7.00%	7.25%
Salary scale	4.32	4.19	-	-
Expected return on plan assets	9.50	9.50	9.50	9.50

The assumed health care cost trend rate was five percent in 1998 and 1997, decreasing gradually to an ultimate rate of four percent by 2001.

A one percentage point change in the assumed health care cost trend rates would have the following effects (in millions):

	One percent increase	One percent decrease
Impact on 1998 service and interest cost	$ 23	$ (24)
Impact on postretirement benefit obligation as of December 31, 1998	$ 141	$ (148)

11. Earnings per Share

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

	Year Ended December 31,		
	1998	1997	1996
Numerator:			
Numerator for basic earnings per share - earnings from continuing operations before extraordinary loss	$1,306	$ 973	$ 1,083
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 - earnings from continuing operations before extraordinary loss	$1,306	$ 973	$ 1,098

(a) Through date of actual conversion

	Year Ended December 31, 1998	1997	1996
Denominator:			
Denominator for basic earnings per share - weighted-average shares	169	178	172
Effect of dilutive securities:			
Convertible subordinated debentures	-	-	8
Convertible preferred stock	-	-	1
Employee options and shares	13	14	7
Assumed treasury shares purchased	(7)	(9)	(4)
Dilutive potential common shares	6	5	12
Denominator for diluted earnings per share - adjusted weighted-average shares	175	183	184
Basic earnings per share from continuing operations before extraordinary loss	$ 7.73	$ 5.45	$ 6.29
Diluted earnings per share from continuing operations before extraordinary loss	$ 7.48	$ 5.32	$ 5.95

12. Discontinued Operations

In September 1998, the Company announced plans to sell three of the companies within the Management Services Group that accounted for a substantial portion of that group's revenues and operating income: AMR Services, AMR Combs and TeleService Resources. As of December 31, 1998, the Company had reached agreements to sell all three companies and expects to complete the sales by the end of the first quarter or early part of the second quarter of 1999. As a result of the sales, the Company expects to record a significant gain during the first quarter of 1999.

The results of operations for AMR Services, AMR Combs and TeleService Resources have been reflected in the consolidated statements of operations as discontinued operations. The amounts shown are net of income taxes of approximately $6.7 million, $9.7 million and $14.8 million for 1998, 1997 and 1996, respectively. Revenues from the operations of AMR Services, AMR Combs and TeleService Resources were $513 million, $517 million and $519 million for 1998, 1997 and 1996, respectively.

13. Gain on Sale of Stock by Subsidiary

During October 1996, The Sabre Group completed an initial public offering of 23,230,000 shares of Sabre 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 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, 1998	1997	1996
Minority interest	$ (40)	$ (36)	$ (2)
Canadian Airlines charges	-	-	(251)
Litigation settlement/judgment	14	-	(21)
Other, net	(20)	13	(12)
	$ (46)	$ (23)	$ (286)

During 1996, the Company determined that the decline in the value of its investment in the cumulative mandatorily redeemable convertible preferred stock of 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-off the investment. 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.

15. Segment Reporting

AMR's operations fall within two lines of business: the Airline Group and The Sabre Group. The Airline Group consists primarily of American, one of the largest scheduled passenger airline and air freight carriers in the world, and AMR Eagle Holding Corporation (AMR Eagle), a separate subsidiary of AMR. At December 31, 1998, AMR Eagle owns two regional airlines which operate as "American Eagle", and provide connecting service to American. The Sabre Group provides electronic distribution of travel through its *Sabre*® computer reservations system and information technology solutions to the travel and transportation industries.

In 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 supersedes SFAS 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.

The Company evaluates performance and allocates resources based upon segment operating income, which is defined as income before interest, other non-operating income and expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company accounts for substantially all intersegment transactions at amounts which approximate current market prices.

Financial information by reportable segment is as follows (in millions):

	Airline Group	The Sabre Group	Total
December 31, 1998			
Revenues from external customers	$ 17,396	$ 1,732	$ 19,128
Intersegment revenues	53	574	627
Operating income	1,951	350	2,301
Depreciation and amortization expense	1,038	248	1,286
Capital expenditures	2,340	320	2,660
Segment assets	19,582	1,927	21,509
December 31, 1997			
Revenues from external customers	$ 16,856	$ 1,263	$ 18,119
Intersegment revenues	47	526	573
Operating income	1,569	313	1,882
Depreciation and amortization expense	1,038	185	1,223
Capital expenditures	1,139	218	1,357
Segment assets	18,708	1,504	20,212
December 31, 1996			
Revenues from external customers	$ 16,170	$ 1,125	$ 17,295
Intersegment revenues	41	500	541
Operating income	1,442	330	1,772
Depreciation and amortization expense	1,018	165	1,183
Capital expenditures	338	184	522
Segment assets	18,519	1,287	19,806

The following table provides a reconciliation of reportable segment revenues, operating income and assets to the Company's consolidated financial statement totals (in millions):

	Year Ended December 31, 1998	1997	1996
Revenues			
Total external revenues for reportable segments	$19,128	$18,119	$ 17,295
Intersegment revenues for reportable segments	627	573	541
Other revenues [1]	119	95	102
Elimination of intersegment revenues	(669)	(603)	(574)
Total consolidated revenues	$19,205	$18,184	$ 17,364
Operating income			
Total operating income for reportable segments	$ 2,301	$ 1,882	$ 1,772
Other operating income	37	25	35
Total consolidated operating income	$ 2,338	$ 1,907	$ 1,807
Assets			
Total assets for reportable segments	$21,509	$20,212	$ 19,806
Other assets	285	241	241
Unallocated amounts:			
Income tax assets	509	406	404
Total consolidated assets	$22,303	$20,859	$ 20,451

[1] Revenues from segments below the quantitative threshold for determining reportable segments consist primarily of revenues from AMR Training Group, AMR Investment Services, Inc., Americas Ground Services and Airline Management Services.

The Company's operating revenues by geographic region are summarized below (in millions):

	Year Ended December 31, 1998	1997	1996
Domestic	$13,546	$12,651	$11,979
Latin America	2,968	2,915	2,884
Europe	2,247	2,214	2,134
Pacific	444	404	367
Total consolidated revenues	$19,205	$18,184	$17,364

The Company attributes operating revenues by geographic region based upon the origin and destination of each flight segment for the Airline Group and location of customer for The Sabre Group.

The Company's tangible assets consist primarily of flight equipment which is mobile across geographic markets and, therefore, has not been allocated.

16. Quarterly Financial Data (Unaudited)

Unaudited summarized financial data by quarter for 1998 and 1997 (in millions, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998 *				
Operating revenues	$ 4,634	$ 4,924	$ 5,046	$ 4,601
Operating income	548	724	732	334
Income from continuing operations	285	408	431	182
Net earnings	290	409	433	182
Earnings per common share:				
Basic				
From continuing operations	1.65	2.37	2.56	1.12
Net earnings	1.68	2.38	2.57	1.12
Diluted				
From continuing operations	1.59	2.29	2.48	1.09
Net earnings	1.62	2.30	2.49	1.09
1997 *				
Operating revenues	$ 4,323	$ 4,614	$ 4,706	$ 4,541
Operating income	340	580	607	380
Income from continuing operations	146	297	322	208
Net earnings	152	302	323	208
Earnings per common share:				
Basic				
From continuing operations	0.81	1.63	1.83	1.20
Net earnings	0.84	1.66	1.83	1.20
Diluted				
From continuing operations	0.79	1.60	1.78	1.16
Net earnings	0.82	1.63	1.78	1.16

* Results for 1997 and the first and second quarters of 1998 have been restated for discontinued operations. The impact of the restated amounts was not material to any given quarter.

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, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

2121 San Jacinto
Dallas, Texas 75201
January 18, 1999, except for
the last paragraph of Note 2 and
the last paragraph of Note 3, for
which the date is February 22, 1999.

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 LLP, 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.

Donald J. Carty
Chairman, President and Chief Executive Officer

Gerard J. Arpey
Senior Vice President and Chief Financial Officer

(in millions, except share and per share amounts)	1998*	1997*	1996*
Total operating revenues	$ 19,205	18,184	17,364
Total operating expenses	$ 16,867	16,277	15,557
Operating income (loss)	$ 2,338	1,907	1,807
Earnings (loss) from continuing operations before extraordinary loss and cumulative effect of accounting changes	$ 1,306	973	1,083
Net earnings (loss)	$ 1,314	985	1,016
Earnings (loss) per common share from continuing operations before extraordinary loss and cumulative effect of accounting changes:[1]			
Basic	$ 7.73	5.45	6.29
Diluted	$ 7.48	5.32	5.95
Net earnings (loss) per common share:[1]			
Basic	$ 7.78	5.52	5.90
Diluted	$ 7.52	5.39	5.59
Total assets	$ 22,303	20,859	20,451
Long-term debt, less current maturities	$ 2,436	2,248	2,737
Obligations under capital leases, less current obligations	$ 1,764	1,629	1,790
Non-redeemable preferred stock	-	-	-
Convertible preferred stock, common stock and other stockholders' equity[2]	$ 6,698	6,216	5,668
Common shares outstanding at year-end (in thousands)[1]	161,300	173,200	182,000
Book value per common share[1]	$ 41.53	35.89	31.14
Preferred shares outstanding at year-end:			
Convertible preferred stock	-	-	-
Non-redeemable preferred stock	-	-	-

* The results for 1998, 1997 and 1996 have been restated for discontinued operations.

1 All share and earnings per share amounts prior to 1998 have been restated to give effect to the stock split on June 9, 1998.

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

1995	1994	1993	1992	1991	1990	1989	1988
16,910	16,137	15,816	14,396	12,887	11,720	10,480	8,824
15,895	15,131	15,126	14,421	12,882	11,596	9,736	8,018
1,015	1,006	690	(25)	5	124	744	806
191	228	(96)	(475)	(240)	(40)	455	477
162	228	(110)	(935)	(240)	(40)	455	477
1.25	2.26	(1.02)	(3.17)	(1.77)	(0.32)	3.71	3.97
1.24	2.25	(1.02)	(3.17)	(1.77)	(0.32)	3.58	3.83
1.06	2.26	(1.12)	(6.24)	(1.77)	(0.32)	3.71	3.97
1.05	2.25	(1.12)	(6.24)	(1.77)	(0.32)	3.58	3.83
19,556	19,486	19,326	18,706	16,208	13,354	10,877	9,792
4,983	5,603	5,431	5,643	3,951	1,674	809	1,206
2,069	2,275	2,123	2,195	1,928	1,598	1,497	1,543
-	-	-	-	-	-	-	150
3,720	3,380	4,276	3,349	3,794	3,727	3,766	3,148
152,800	151,800	151,536	150,812	136,726	124,622	124,480	117,682
23.83	21.75	21.08	22.20	27.75	29.91	30.25	26.75
159,000	159,000	2,200,000	-	-	-	-	-
-	-	-	-	-	-	-	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

Donald J. Carty
Chairman, President and Chief
Executive Officer
AMR Corporation
Chairman, President and
Chief Executive Officer
American Airlines, Inc.
(Air Transportation and Information
Systems)
Fort Worth, Texas
Elected in 1998

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

Charles T. Fisher, III
Retired Chairman and President
NBD Bancorp, Inc. and NBD Bank
(Banking)
Detroit, Michigan
Elected in 1968

Earl G. Graves
Chairman and Chief Executive Officer
Earl G. Graves, Limited
(Communications and Publishing)
Publisher and Chief Executive Officer
Black Enterprise Magazine
General Partner Black Enterprises /
Greenwich Street Corporate Growth
Investors, LLC
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
(Educational and Public Policy
Organization)
Aspen, Colorado
Elected in 1990

Charles H. Pistor, Jr.
Retired Vice Chair
Southern Methodist University
(Educational Institution)
Dallas, Texas
Elected in 1982

Joe M. Rodgers
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
(Educational Institution)
Retired Chairman, President and Chief
Executive Officer
Zayre Corporation (Retailing)
Framingham, Massachusetts
Elected in 1985

Board Committees

Executive Committee

Donald J. Carty, Chairman
Armando M. Codina
Charles T. Fisher, III
Dee J. Kelly
Maurice Segall

Audit Committee

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

Compensation Committee

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

Nominating and Governance Committee

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 American Airlines Board of Directors which is identical to the AMR Executive Committee.

AMR Corporation

Officers

Donald J. Carty
Chairman, President and
Chief Executive Officer

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.

Donald J. Carty
Chairman, President and Chief Executive Officer

Robert W. Baker
Executive Vice President-Operations

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

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

Daniel P. Garton
Senior Vice President-Customer Services

Michael W. Gunn
Senior Vice President-Marketing

Thomas J. Kiernan
Senior Vice President-Human Resources

David L. Kruse
Senior Vice President-Maintenance and Engineering

Anne H. McNamara
Senior Vice President and General Counsel

Timothy J. Ahern
Vice President-Operations Planning and Performance

Jane G. Allen
Vice President-Flight Service

A. Jaynne Allison
Vice President-Human Resources

Walter J. Aue
Vice President-Capacity Planning

James A. Beer
Vice President-Financial Analysis and Fleet Planning

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

Lauri L. Curtis
Vice President-Reno Air Integration

Bernard J. DeSena
Vice President-Chicago

Timothy J. Doke
Vice President-Corporate Communications

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

Bella D. Goren
Vice President-Customer Services Planning

William T. Greene
Vice President-Finance and Planning for Maintenance and Engineering

Arnold J. Grossman
Vice President-International Affairs

Gregory F. Hall
Vice President-Tulsa Base Maintenance

Douglas G. Herring
Vice President and Controller

Thomas W. Horton
Vice President-Europe

Dan P. Huffman
Vice President-Engineering

Henry C. Joyner
Vice President-Marketing Planning

Gary F. Kennedy
Vice President-Corporate Real Estate

Craig S. Kreeger
Vice President and General Sales Manager

Dennis LeBright
Vice President-Miami

John R. MacLean
Vice President-Purchasing

Charles D. MarLett
Corporate Secretary

George L. Mueller
Vice President-Asia

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

Susan M. Oliver
Vice President-Employee Relations

Robert E. Olson
Vice President-Revenue Management

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

Peggy E. Sterling
Vice President-Dallas/Fort Worth

Arthur J. Torno
Vice President-Caribbean and Latin American International Operations

Carolyn E. Wright
Vice President-Reservations

AMR Eagle Holding Corp.

Peter M. Bowler
President

Thomas F. Bacon
Senior Vice President-Marketing and Planning

David C. Kennedy
Senior Vice President-Operations

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

Jeffery M. Jackson
Senior Vice President, Chief Financial Officer and Treasurer

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

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

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

AMR Investment Services, Inc.

William F. Quinn
President

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 1998 (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
Corporate Trust Securities Window
Room 234 – North Building
55 Water Street
New York, NY 10041

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

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
U.S. Bank Trust, N.A.
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
1998		
1st Quarter	$ 73 $\frac{1}{8}$	$ 61 $\frac{13}{16}$
2nd Quarter	83 $\frac{1}{4}$	68 $\frac{15}{16}$
3rd Quarter	89 $\frac{1}{4}$	50
4th Quarter	69 $\frac{15}{16}$	47 $\frac{1}{8}$
1997		
1st Quarter	$ 44 $\frac{1}{16}$	$ 39 $\frac{3}{8}$
2nd Quarter	51	40 $\frac{1}{2}$
3rd Quarter	58 $\frac{1}{8}$	46 $\frac{5}{16}$
4th Quarter	65 $\frac{15}{16}$	55 $\frac{1}{4}$

*No dividends were paid during the periods. Market price reflects two-for-one stock split.

AMR ENVIRONMENTAL PROGRAM

AMR Corporation's 1998 Annual Report is printed on recycled paper.

In order to reduce paper use, as well as to provide more timely and cost-effective information, shareholders can receive financial and other company information by visiting AMR's Internet site on the World Wide Web at http://www.amrcorp.com.

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.

1999 quarterly results will be released on the following dates with the shareholder information line and website updated shortly thereafter:

1st Quarter:	April 21, 1999
2nd Quarter:	July 21, 1999
3rd Quarter:	October 20, 1999
4th Quarter:	January 19, 2000

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