A Legacy of Leadership

AMERICAN AIRLINES

AMR CORPORATION ANNUAL REPORT 1999

1926	1963
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1962	1999

T A B L E   O F   C O N T E N T S

About our Annual Report:

As we enter the new millennium, we thought it appropriate to reflect on the legacy of leadership that has marked American Airlines' history. On our cover, we begin a pictorial timeline that charts key events in our history and is continued on our inside pages. The backdrop for our cover is the famous polished aluminum skin of our aircraft — a distinctive feature that has been a part of our airline from the beginning.

In keeping with our goal of remaining on the cutting edge of technology, next year the essays that are typically included with the annual report's financial information will be available only through AMR's Web site.

CONSOLIDATED HIGHLIGHTS

(Dollars in millions, except per share amounts)

Year Ended December 31,	**1999**[1]	1998[1]	Percent Change
Total operating revenues	**$17,730**	$17,516	1.2
Total operating expenses	**$16,574**	$15,528	6.7
Operating income	**$ 1,156**	$ 1,988	(41.9)
Operating margin	**6.5 %**	11.3 %	(4.8) pts.
Income from continuing operations	**$ 656**	$ 1,114	(41.1)
Net earnings	**$ 985**	$ 1,314	(25.0)
Average shares of common stock outstanding (in thousands)	**152,420**	168,750	(9.7)
Earnings per common share (basic)			
From continuing operations	**$ 4.30**	$ 6.60	(34.8)
Net earnings	**$ 6.46**	$ 7.78	(17.0)
Earnings per common share (diluted)			
From continuing operations	**$ 4.17**	$ 6.38	(34.6)
Net earnings	**$ 6.26**	$ 7.52	(16.8)
Return on equity	**14.5 %**	20.4 %	(5.9) pts.
Ratio of current assets to current liabilities at year-end	**0.75**	0.75	–
Average equivalent number of employees	**111,600**	116,300	(4.0)
Approximate number of common shareholders of record at year-end	**13,650**	14,000	(2.5)

AMR EMPLOYEE PROFILE

Average Equivalent Headcount [2]	**1999**	Increase/ (Decrease) From Previous Year	1998	Increase/ (Decrease) From Previous Year	1997	Increase/ (Decrease) From Previous Year
Management/Specialist	20,600	6.7 %	19,300	5.5 %	18,300	7.0 %
Agent/Support Staff	22,400	(31.3) %	32,600	1.6 %	32,100	(1.2) %
Pilots*	12,300	12.8 %	10,900	(0.9) %	11,000	(1.8) %
Flight Attendants*	20,900	10.0 %	19,000	3.3 %	18,400	(0.5) %
Mechanics, Ramp Service, Other Ground Personnel*	35,400	2.6 %	34,500	1.2 %	34,100	6.6 %
Total	**111,600**	(4.0) %	116,300	2.1 %	113,900	2.3 %

[1] *The results of Sabre Holdings Corporation (Sabre) for 1999 and 1998 are reflected as discontinued operations.*

[2] *1999 numbers include Sabre employees but do not include employees of AMR Services, AMR Combs or TeleService Resources.*

**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.

1999

1999 was a year of promising breakthroughs and enormous challenge for AMR Corporation. American achieved an industry first by introducing two new aircraft types — the Boeing 777 and 737-800 — on the same day, March 2, 1999.

Sabre Holdings Corp. (Sabre) — AMR's largest non-airline business, and the focal point of an approximately $5 billion transfer of value to our shareholders — grew in its quest to become the world's leading provider of information technology for the travel and transportation industry.

Unfortunately, AMR's net earnings of $985 million for the year, including special items, were 25 percent lower than the record earnings AMR produced in 1998.

At Sabre, revenues increased by 6 percent over the previous year. But even more important than its 1999 financial performance were two announcements — one in October and one in December — about Sabre's future.

In October, Sabre announced its plan to merge its online leader, Travelocity, with Preview Travel Inc. to form a new company called Travelocity.com. The second and more momentous development was our decision to spin off AMR's 83 percent interest in Sabre by distributing our 107 million common shares of Sabre stock to AMR's shareholders.

Sabre is a business that had no separate market capitalization just three years ago. But at the end of 1999, we were poised to transfer an estimated $5 billion in market value to the investors who funded its growth and development — an enormous value creation by any measure. The Sabre spinoff was completed after the close of business on March 15, 2000.

We have long believed that AMR's stock price has not reflected the full value of both American Airlines and Sabre. So one clear outcome we expect from this transaction is stock prices for both AMR and Sabre that are a truer indication of their value and potential. Sabre's independence from AMR will also enable it to fully utilize its status as a global leader in its field and allow Travelocity.com to capitalize on the seemingly limitless opportunities in online commerce.

The spinoff of Sabre means that, as we enter 2000, AMR is wholly focused on building and sustaining the leadership of American Airlines and American Eagle in the global airline industry.

With that goal in mind, last summer we introduced the Airline Leadership Plan, which lays out the six key areas we think will define excellence in our industry in the years to come: safety, service, product, network, technology and culture. By leading in all six of these areas, we intend to make AMR the most successful airline company in the world and, in so doing, create the best possible outcomes for our customers, our employees and, of course, our shareholders.

While each of the six components of the Airline Leadership Plan is very important, the value we have always held most dear at American and American Eagle is safety. Unfortunately, American's outstanding safety history was marred in June 1999 by an accident in Little Rock, Arkansas, that claimed the lives of 10 passengers and one crew member. We are working hard to determine how and why this accident happened and what we need to do to ensure nothing like it ever happens again. We've conducted one of the most comprehensive safety reviews in the history of the airline industry and have already begun to implement certain changes in our procedures. We are absolutely committed to the safety of our customers and our employees.

Safety, of course, is fundamental to the second element of our Airline Leadership Plan — service. But service excellence requires more than just safe transportation. It requires friendliness, professionalism and consistent dependability.

Creating the best possible travel experience for our customers requires that we continually invest in the American and American Eagle products. We made great progress in product leadership in 1999. We invested billions of dollars in new aircraft, new and refurbished ground facilities and a series of amenities and enhancements that will enable us to capture and sustain a position of product leadership.

We demonstrated network leadership with the integration of Reno Air and Business Express, the launch of **one**world and alliances with a number of quality, niche carriers that help round out our global presence.

Technology leadership, of course, has long been a source of competitive advantage for American. And in 1999 that tradition continued with the successful redesign of our industry-leading Web site, AA.com, and our entry into other online ventures. Year over year, revenue from online bookings increased nearly 200 percent. We also launched various technology initiatives intended to make our employees' jobs simpler and thus free them to provide more personal attention to the customer. Moreover, the advances in technology will be apparent to shareholders as we move next year's annual report to the World Wide Web.

Giving employees the tools they need to get the job done is just one part of our plan to create a people-focused culture. We launched a number of positive initiatives aimed at cultural improvement, from better compensation and benefits packages, to new performance appraisal tools, to new employee advisory groups designed to give everyone the chance to help shape the company we all want to be.

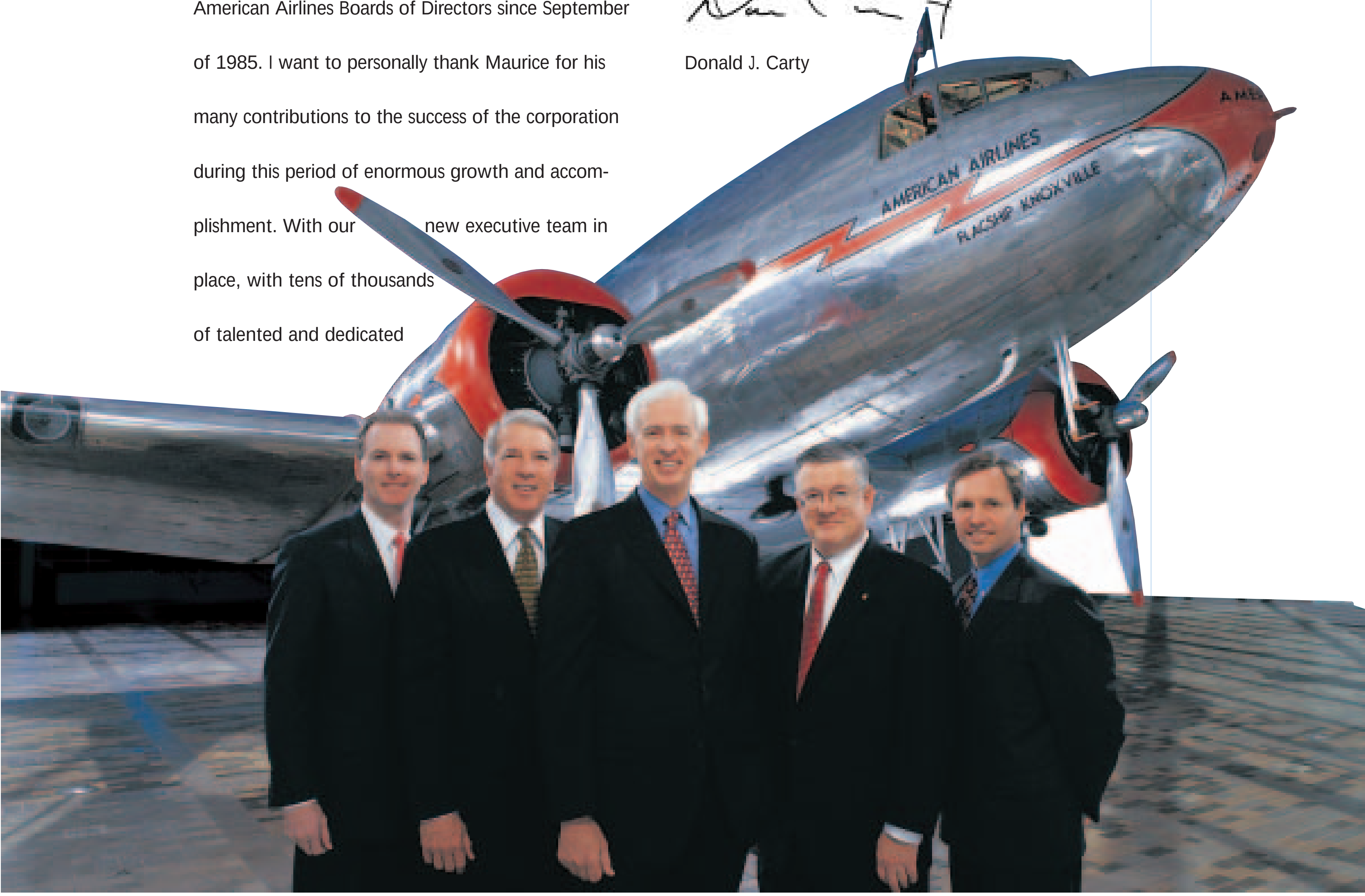
Because these elements of airline leadership are so critical to our future, we are intentionally kicking off this year's annual report with a retrospective look at our company — which we think reveals that leadership is deeply rooted in our culture and is a foundation on which we can build for future generations.

And speaking of future generations, we announced some important leadership changes at American early in 2000. Robert W. Baker was promoted to Vice Chairman, joining me in the newly established Office of the Chairman. Gerard J. Arpey was promoted to Executive Vice President-Operations, Daniel P. Garton was promoted to Executive Vice President-Customer Service and Michael W. Gunn was promoted to Executive Vice President-Marketing and Planning.

I would also like to acknowledge the leadership of Maurice Segall, who has served on the AMR and American Airlines Boards of Directors since September of 1985. I want to personally thank Maurice for his many contributions to the success of the corporation during this period of enormous growth and accomplishment. With our new executive team in place, with tens of thousands of talented and dedicated employees and with the investments we've made to modernize our fleet and enhance our service and products, we are clearly building on the legacy of leadership that will carry us well into the 21st century.

Sincerely,

Donald J. Carty



Standing in front of a piece of American Airlines' history — a restored Douglas DC-3 at the C.R. Smith Museum in Fort Worth, Texas — is the executive team that will lead American Airlines into the new millennium (from left to right): Gerard J. Arpey, Executive Vice President-Operations; Michael W. Gunn, Executive Vice President-Marketing and Planning; Donald J. Carty, Chairman; Robert W. Baker, Vice Chairman; and Daniel P. Garton, Executive Vice President-Customer Service.

A Legacy Of Leadership

Since its origin as a hodgepodge of small carriers in the 1920s, American Airlines' leaders and the entire American team have been singularly focused on being the best in the industry. American, like the country for which it is named, has seen more than its share of trials and triumphs during the past seven decades. And as a new chapter in its history unfolds, we see in American Airlines a legacy of leadership that makes us proud of our past and optimistic about our future.

One of the company's early employees, Charles A. Lindbergh, flew the mail for one of American's predecessor companies in the mid-1920s.

American Airlines' roots go back to the mid-1920s with a group of enthusiastic carriers that included Robertson Aircraft Corp., Colonial Air Transport, Embry-Riddle and Southern Air Transport. One of the very earliest employees was Charles Lindbergh, who flew the mail and infused the fledgling airline with a spirit of excellence from its earliest days.

The consolidation of the companies that would eventually bear the American Airlines banner began in 1929, and by early 1930, several carriers and holding companies came together and were incorporated as American Airways, Inc. In 1934, American Airways became American Airlines, and Cyrus Rowlett (C.R.) Smith became President of American.

Tough, but widely beloved, "Mr. C.R." led American Airlines for more than 30 years — except for a stint during World War II when he served as Deputy Commander of the U.S. Army's Air Force Air Transport Command. Smith helped transform American from a disorganized group of small carriers into an industry leader. In 1936, under Smith's leadership, American was the first airline to fly the Douglas DC-3 in commercial service. In 1959, American became the first carrier to offer nonstop coast-to-coast jet service.

Although Smith left American in 1968 to serve as President Lyndon Johnson's Secretary of Commerce, he returned to the airline as interim Chairman in 1973, before handing the reins to Albert V. Casey in 1974. At the time, the U.S. airline industry was in the final years of government regulation. The government determined where airlines could fly, what they could charge, even what kind of food they were allowed to serve. Still, American found ways to innovate.

One of the airline's most important moves of the 1970s was the decision to modernize Sabre, its computerized reservations system, and re-establish American's leadership in the field of data processing. Today, American's technical capabilities remain

THE PAST, PRESENT AND FUTURE OF AMERICAN

TIMELINE

It seems like just yesterday that American flew its first plane. But more than 70 years later, the airline has had many more milestones. Here's a snapshot look at some of them.

1926

Charles A. Lindbergh, chief pilot for Robertson Aircraft Corp., flies a biplane carrying mail from Chicago to St. Louis for an American Airlines predecessor company.

777
Manufacturer:
Boeing (USA)
Number in Fleet: 11
Number of Seats: 237

*Plane statistics as of December 31, 1999

Cyrus Rowlett (C.R.) Smith, American's first President, was a guiding force for more than 30 years.

a cornerstone of the airline's success.

A second important innovation of the '70s was the introduction of Super SAAver fares. These deeply discounted advance-purchase fares enabled the airline to compete with low-priced charter carriers, while still serving the less price-sensitive, last-minute business travelers. The combination of Sabre and Super SAAver spawned the concept of yield management, an inventory-management science now used throughout the industry and in other businesses as well.

In 1979, the entire airline industry began a period of painful restructuring, in which a once sleepy semi-utility became one of the most competitive industries in the world. The man charged with leading American into this new, deregulated world was Robert L. Crandall, who had masterminded many of the airline's innovations of the 1970s. Crandall became President of American in 1980 and became Chairman upon Casey's retirement in 1985.

While many carriers retrenched, declared bankruptcy and/or imposed wage cuts on their employees during the trying conditions of the 1980s, American embarked on an era of innovation that, according to *Business Week*, "redefined the way airlines do business." Under its Growth Plan, American drove down average costs as it became the largest airline in the world. It completely revamped its fleet, opting for smaller and more versatile aircraft. And while it did not invent the concept, American was the most effective in developing a system of concentrated hubs and spokes. The construction of large hubs in Dallas/Fort Worth and Chicago — and eventually Miami and San Juan — allowed it to efficiently offer more flights to more cities.

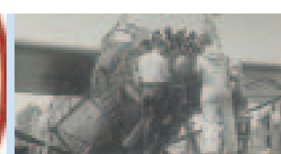
The creation of AAdvantage, the world's first travel awards program, helped American attract and keep customers by allowing them to earn free tickets for

1927 Colonial Air Transport, another predecessor company, carries its first passenger, Mrs. Gardiner E. Fiske, from Boston to New York.

1928 Texas Air Transport begins linking Texas cities before it is merged with another carrier to create Southern Air Transport.

1929 Investors create the Aviation Corporation (AVCO) to acquire and operate airmail carriers around the country.

1930 AVCO's management incorporates American Airways, Inc., to consolidate the newly acquired companies.



1931 American Airways introduces the Fairchild Pilgrim 100A, the first aircraft built to American's own specifications.

MD-11
Manufacturer: McDonnell-Douglas (USA)
Number in Fleet: 11
Number of Seats: 238/255

With more powerful engines, a pressurized cabin and air conditioning, the DC-6 — which American introduced in 1947 — was a favorite among passengers.

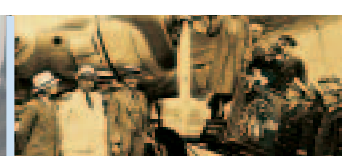
flying with the airline. Over the years, AAdvantage continued to lead the industry by developing more and more ways to earn and use miles.

Throughout the 1980s, American grew larger and more profitable. Starting in 1985, it began to extend its reach beyond its traditional domestic system to Europe, Latin America, the Caribbean and Japan. It also brought air service to smaller U.S. communities through the development of a regional feeder carrier dubbed American Eagle.

But in the late 1980s and early 1990s, a number of factors combined to reprise the kind of turmoil the industry had not seen since the early days of deregulation. At American, the average cost advantage created by the rapid growth of the 1980s began to disappear.

Because of this, Crandall and the rest of the American management team developed a new strategic plan to invest in the airline where it could grow profitably, to shrink the airline where it could not operate at a profit, and to rapidly expand the company's profitable non-airline businesses.

The early and mid-1990s were a difficult time for American Airlines, but the adjustments of that period, combined with a growing economy, enabled AMR to produce record profits in 1995, 1996, 1997, and 1998. By the late 1990s, American was ready to



1932 An early fare-discounting initiative called the "Air Scrip Plan" will evolve in 1934 into the Air Travel Plan.

1933 Newly introduced Curtiss Condors afford improved comfort for passengers, who are served by American Airways' first stewardesses.

1934 A reorganized and renamed American Airlines, with C.R. Smith at the helm, emerges from the controversy over government airmail contracts.

1935 The success of a flight-tracking system, developed by American's Glen Gilbert for Chicago flights, will serve as the nucleus for the nation's first air-traffic control system.

1936 Fast and reliable Douglas DC-3s, inspired by C.R. Smith, revolutionize air travel as they begin flying American's routes.

DC-10-10; DC-10-30
Manufacturer:
McDonnell-Douglas (USA)
Number in Fleet: 3; 5
Number of Seats:
237/290/297; 271/282

American is offering more room throughout coach for more passengers than any other airline.

invest in growth once again. And as always, adaptability remained a key to American's success.

After resisting the trend toward global alliances for several years, American set out to build the world's premier network of alliances, which culminated in 1999 with the launch of **one**world. Similarly, as the Internet emerged as an engine for commerce, American staked its claim to industry leadership with its award-winning Web site, AA.com.

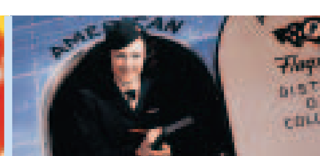
New aircraft have also fueled American's growth. Under the leadership of Donald J. Carty, who succeeded Crandall upon his retirement in 1998, American accepted 45 new aircraft in 1999. And more aircraft are on the way for both American and American Eagle.

A lot has changed at American during the airline's long and illustrious history. But leadership has been a constant. Foresight, innovation and adaptability are just as important to the airline's success today as they were back in the 1920s. Through the years, the dedication and performance of the American Airlines team have prevailed. As Mr. C.R. told employees many years ago, "You are the ones who must keep American ahead. To our customers, you are American Airlines, and how well you do will be how well American does."

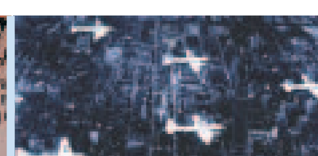
1937 American boards its one millionth passenger, a traveler on a New York to Florida trip, becoming the first airline to reach that milestone.

1938 Legislation creates the Civil Aeronautics Board (CAB) with broad powers to rule on airline "routes and rates."

1939 New York City Municipal Airport (LaGuardia) opens, prompting American to move its headquarters from Chicago and establish the first Admirals Club.



1940 A growing reputation for safety and service helps the airline earn nearly $2 million a year, while competitors wallow in losses.



1941 After Pearl Harbor, American joins the war effort, with half the airline's fleet and many employees joining the Air Transport Command.

A300-600
Manufacturer: Airbus Industrie (France)
Number in Fleet: 35
Number of Seats: 192/266/267

A Promise To Our Customers

The history of American Airlines has been marked by a long list of innovations. From the industry's first non-stop transcontinental flights to the invention of Super SAAver fares to the creation of AAdvantage to the deployment of onboard defibrillators, American has always strived to make the American Airlines customer experience second to none.

But just as important as those innovations has been the reputation American has earned for delivering consistent, efficient, reliable, friendly, and professional service. To our customers, the name American Airlines has, over the years, come to represent a promise. Regrettably, on far too many occasions in 1999, American did not deliver on that promise.

Expanded first-class cabins offer more premium space and upgrade opportunities for the frequent business traveler.

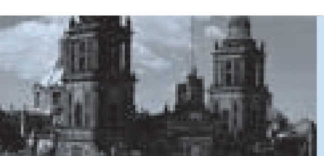
One of the most fundamental aspects of quality airline service is on-time performance. After finishing in first place among the six major airlines (American, United, Delta, Continental, Northwest, and US Airways) in 1998, American's year got off to a disastrous start due to a labor disagreement that disrupted operations in February. The deterioration of American's on-time performance (and, not surprisingly, a surge in customer complaints) continued through the spring and into the early summer months as the rocky introduction of new air-traffic control computers caused widespread delays and cancellations.

In June, American launched an aggressive initiative to improve its on-time performance — through adjustments to scheduling, staffing, and many other areas of the airline. That initiative reaped dividends. After bringing up the industry rear for several consecutive months, American's on-time ranking was significantly improved through the latter part of 1999.

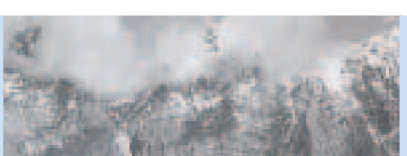
If there is a silver lining to American's disappointing performance, it can be found in a renewed commitment to rebuild customer trust, to restore the confidence of our customers and to regain the mantle of the service leader in the airline industry.

Indeed, American and American Eagle are endeavoring to improve the experiences of every customer — from the moment they pick up a phone or log on to AA.com to make a reservation, until the end of their journey.

American's Reservations organization, often the first point of customer contact, plays an important



1942 A year after it began its first international service to Toronto, Canada, American starts flying south to Mexico City and Monterrey.



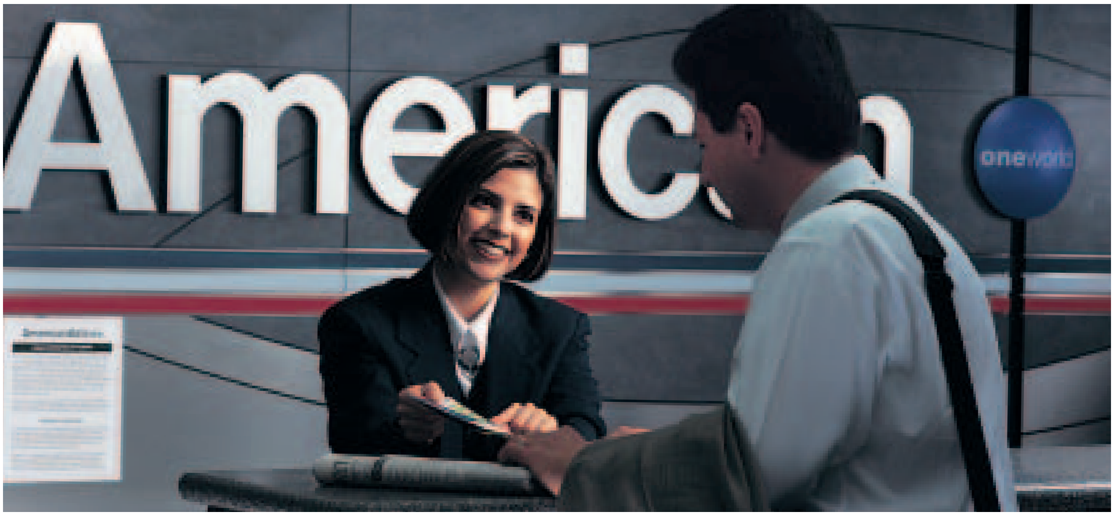
1943 In a mission labeled "Project 7A," American crews fly "the Hump" over the Himalayas to supply Allied forces in China and help train military transport pilots.

1944 A converted DC-3 inaugurates the first scheduled domestic cargo service, carrying war materials and civilian fashions from New York to Los Angeles.

1945 Many employees return as the war ends, including Maj. Gen. C.R. Smith, who succeeds wartime airline president Alexander "Ned" Kemp.

1946 To meet the requirements of a growing postwar fleet, American opens a new maintenance base and training center in Tulsa, Oklahoma.

767
Manufacturer: Boeing (USA)
Number in Fleet:
767-200: 8
767-200ER: 22
767-300ER: 49
Number of Seats:
767-200: 172
767-200ER: 165
767-300ER: 207



Advances in technology enable employees to better deliver courteous and friendly customer service.

role in getting customers' travel experiences off to a good start. In 1999, American launched a new multi-year technology initiative designed to create a more user-friendly system that will give agents better and faster access to information so they can focus more attention on meeting customers' needs.

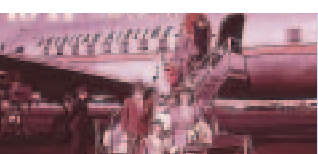
And as more and more customers book trips directly through AA.com and other Internet distribution channels, American is developing a multi-pronged strategy to become the undisputed industry leader by recognizing and capitalizing on the e-commerce revolution.

But whether a trip is purchased online through AA.com or any of several booking and selling engines, through a travel agent or via American Reservations, the driving force behind every booking is the vast network that American and American Eagle have built, which offers service to hundreds of destinations around the world.

Network leadership is an increasingly important determinant of airline success, because today's air travelers — especially frequent business travelers — choose an airline largely on its ability to take them anywhere and everywhere they want to go.

AMR's network strategy is three-fold. The first component is to grow the American Airlines domestic and international route systems. The second is to complement American's growth by developing American Eagle into the world's best feeder airline. And the third is to supplement all that flying, when appropriate, by partnering with other carriers.

We added service in many markets in 1999 without adding new industry capacity. Acknowledging one particular gap in its domestic system on the

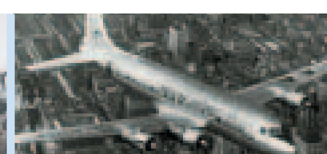


1947 DC-6s offer increased speed and passenger comfort, including pressurized cabins and coast-to-coast "Skysleeper" service.

1948 Family Plan fares and the new Convair 240 help attract more air travelers at home, while the American Overseas Airlines subsidiary begins flying the Berlin Airlift in Germany.

1949 Decommissioning its last DC-3, American becomes the first U.S. airline with an all-postwar fleet of pressurized passenger aircraft.

1950 An era ends as American Overseas Airlines, a transatlantic subsidiary since 1945, is sold to Pan American.



1951 New DC-6Bs hasten the trip between major cities for civilian travelers, as American freighters and personnel help provide a life-line to U.N. troops in Korea.

757-200
Manufacturer: Boeing (USA)
Number in Fleet: 102
Number of Seats: 188

West Coast, American acquired and integrated Reno Air. This strategic addition offered many more travel opportunities both for connecting **one**world passengers and for the loyal American customers who wished to remain on American for business and pleasure travel throughout the West.

Similarly, American Eagle's strategic acquisition of Business Express filled yet another gap in the domestic system — also without adding new industry capacity — with service to nine cities in the northeastern United States. Overall, 1999 growth at Eagle was driven by the carrier's continuing shift from turboprop aircraft to regional jets. By the end of the year, Eagle was using its fleet of 54 regional jets in nearly 40 markets.

New Eagle destinations translate into more customers on American Airlines flights, as passengers in markets too small to justify large jet service are able to fly Eagle for the first leg of their trip, then connect at one of our hubs to an American Airlines flight to complete their journey.

That same dynamic drives the third component of the network strategy — partnering with other carriers. By allying with carriers who serve markets American and Eagle cannot — for regulatory, political, or economic reasons — we are able to dramatically increase the destinations offered to our customers. And we can attract more passengers to the flights we actually fly.

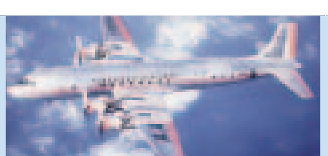
With that in mind, in February 1999, the multilateral **one**world alliance was launched with American, British Airways, Canadian Airlines, Cathay Pacific and Qantas — and as the year progressed, Finnair and Iberia. Lan Chile and Aer Lingus will join in 2000.

The **one**world alliance has dramatically increased the breadth of service American and Eagle can offer customers while significantly increasing the number of passengers connecting to American or Eagle flights from **one**world carriers. The same can be said of a number of new bilateral alliances formed in 1999 with carriers such as Swissair, Sabena and EVA Airways.

But as important as our network is, the customer's first impression of the American or Eagle product often begins on the ground. Increasingly, when travelers step into the company's terminals, they will see billions of dollars at work to enlarge, refresh, rebuild and reinvigorate facilities around the world. At Miami International and New York's JFK airport, work has begun

American is the first airline to offer DVD in-flight video players in premium cabins between the U.S. and Europe and South America.

1952 The Magnetic Reservisor is introduced to help keep track of seats and bookings, just a year before American and IBM begin work on Sabre.



1953 American introduces the DC-7, offering nonstop transcontinental flights in both directions for the first time.

1954 The DC-7 boosts American's New York to Los Angeles business by 73 percent in its first year, sets new transcontinental speed records and makes sleeper planes obsolete.

1955 The CAB grants nonstop authority to fly between Chicago and San Francisco, allowing American to stop in Chicago on New York to San Francisco trips.

1956 Widely promoted "Royal Coachman" flights expand the market for economy-class travel on the new DC-7s.

737-800
Manufacturer: Boeing (USA)
Number in Fleet: 24
Number of Seats: 146

The newest and most sophisticated aircraft in our fleet, the 777 features fully reclining sleeper seats in first class, individual entertainment systems and "slimline" seats designed to fully maximize legroom.

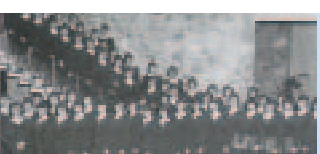
on new billion-dollar terminals, and facility improvements have been completed or are under way at Dallas/Fort Worth, Chicago, Los Angeles, Boston and London Heathrow.

Our most substantial investments in improving the customer experience, however, have been made in new and newly refurbished aircraft. In 1999, American added 11 new Boeing 777 and 24 Boeing 737 aircraft to the fleet, while Eagle took delivery of 34 Embraer regional jets.

At the same time, American's aircraft interior refurbishment program kicked into high gear with new seats, new color schemes, power ports, adjustable headrests, legrests and more. To better cater to the discriminating business traveler, American increased the number of first-class seats on narrowbody aircraft in key business markets from 14 to 20 seats. And the 100-plus Boeing 737 aircraft that have either entered the fleet or will do so in the next few years will also have 20 first-class seats. Internationally, American is adding the fully flat seat — a popular feature on the Boeing 777s — to its International Flagship Service Boeing 767s that fly to Europe and to select markets in Latin America.

Additionally, in 1999, American became the first airline in the world to install DVD in-flight video players in first-class cabins on flights between the U.S. and Europe and South America. American also installed adjustable seat headrests in all cabins, introduced Bose Acoustic Noise Cancelling® headsets for international first-class customers and improved and refreshed its food and beverage menus.

But it was our announcement in February 2000 that totally changed the face of air travel. At a news



1957 Fifty-five trainees begin classes at the campus-like Stewardess College in Fort Worth, Texas, the first such facility in the industry.

1958 American takes delivery of its first jet aircraft — the Lockheed "Electra" and a Boeing 707. Both enter service in January 1959.

1959 Transcontinental jet service arrives, as American's first "707 Jet Flagships" slash flying times and introduce a new standard of customer comfort.

1960 American opens the world's first Jet Age terminal at New York Kennedy International (then Idlewild) Airport.

1961 American again leads the industry by introducing new-generation turbofan engines to make its 707 "Astrojets" quieter, cleaner and more powerful.

727-200
Manufacturer: Boeing (USA)
Number in Fleet: 68
Number of Seats: 150

conference in Washington, D.C., we told the world that we would remove two rows of seats from the coach cabins of our entire fleet. The extra space will be spread throughout the remaining rows, giving more legroom and personal space to every passenger traveling in coach.

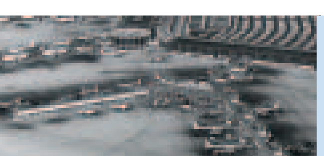
American Airlines and American Eagle invested heavily in improving the customer experience from beginning to end in 1999. But the experience need not end when the plane touches down. The company places a high level of importance on sustaining contact with its best customers, and one of the best ways to do that is through the powerful combination of AA.com and the AAdvantage program.

The Internet presents an opportunity for American to market and sell products and services in new ways, communicate more effectively with its best customers and lower distribution costs. The cornerstone of American's Internet strategy is AA.com, its award-winning Web site, where members can check their AAdvantage account balances, purchase upgrades and, of course, brainstorm ideas for their next trip on American.

American's bookings on AA.com have grown dramatically since the addition of online reservations in 1996, and the site is attracting a high proportion of top-tier AAdvantage members. The success of AA.com is in part a function of its focus on American's core strengths, including a known and trusted brand, the world's premier reward and recognition program, quality service and customer support.

AA.com is not the only piece of American's Internet strategy. American has built relationships with other major Internet travel agencies including Travelocity.com, Expedia and Priceline.com. What's more, in January 2000, American announced a partnership with America Online to form an online program called AOL AAdvantage, which unites the strength of the world's largest loyalty marketing program with the world's leader in interactive services. Tens of millions of AOL AAdvantage members will be able to earn and redeem miles from hundreds of online merchants. Special mileage offers and discounted products and services will be marketed through a new Web site, www.AOLAAdvantage.com, to

In addition to flying people all over the world, American also shipped more than 2.65 billion tons of cargo in 1999.



1962 Chicago O'Hare International replaces Midway as American's new base in the Windy City. Sabre, the first computerized reservations system in the airline industry, is introduced.

1963 Curbside baggage check-in, successfully tested in Los Angeles, spreads across the system to improve passenger convenience.

1964 Trijet Boeing 727 "Astrojets" join the fleet and soon begin replacing prop aircraft in shorter-haul markets. "Astrovision" and "21 Club Service" enhance transcontinental flights.

1965 The first of 30 BAC-111s, called "400 Astrojets," arrive at the Tulsa base before beginning service early in 1966.

1966 With its final DC-6 flight on the 63rd anniversary of the Wright Brothers' first powered flight, American becomes an all-jet airline.

be launched in May 2000.

Indeed, AAdvantage is another one of the powerful tools we have to enhance the American product — and keep our brand in the front of customers' minds, even when they're not flying. In 1999, the roster of non-airline AAdvantage partners continued to grow with the addition of companies such as Blockbuster and TD Waterhouse.

AAdvantage also added a number of new airline partners in 1999, including Aer Lingus, Aerolineas Argentinas, Alaska Airlines, Crossair, El Al, Finnair, Sabena, Swissair and Turkish Airlines. And finally, in 1999, American made all AAdvantage miles non-expiring, as long as a member has had at least one qualifying transaction within the past 36 months.

The programs and initiatives begun in 1999 enable American Airlines to continue breaking new ground to ensure that our customers' experience is the best that it can be.

A Promise To Our People

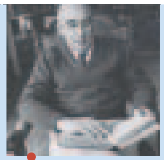
Underlying every initiative is the philosophy that motivated and engaged employees deliver the quality of service and personal attention that creates satisfied customers whose repeat business naturally rewards shareholders. As we have worked to create value for AMR shareholders and to improve the customer experience, we have spent a lot of time, energy and resources in 1999 to foster a people culture marked by trust, respect and appreciation for the 100,000 employees behind every American and American Eagle success.

Creating an atmosphere conducive to world-class

MD-80; MD-90
Manufacturer: McDonnell-Douglas (USA)
Number in Fleet: 279; 5
Number of Seats: 133/139; 148

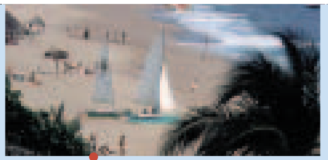
Teamwork and professionalism foster an atmosphere conducive to delivering world-class customer service.

1967 American redesigns both the livery on its jetliners and its stewardess uniforms, decking out both in a stunning red, white and blue motif. American's inflight magazine, initially called *The American Way*, makes its debut during the winter of 1966-67.



1968 C.R. Smith retires to become U.S. Secretary of Commerce, and names George A. Spater to succeed him as chairman and CEO.

1969 Work begins on the $70 million Flight Academy, the industry's finest pilot training complex, with flight simulators and computer-based instruction.

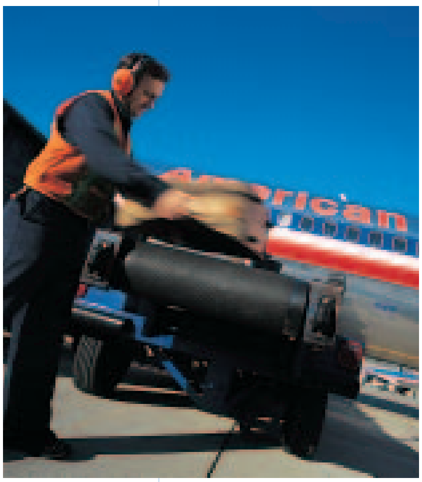


1970 With the acquisition of Trans Caribbean Airways, American begins service to Puerto Rico, the U.S. Virgin Islands, Haiti, Curaçao and Aruba.

1971 "Flagship Service" replaces the "Astro" theme to characterize the new 747 LuxuryLiners, which were notable for their piano lounges.

F-100
Manufacturer: Fokker (Netherlands)
Number in Fleet: 75
Number of Seats: 97

service is a responsibility shared by every member of the team. However, company leaders must set the tone by designing and implementing policies that help make American and Eagle the employers of choice in the airline industry. Listening to employees is the first step. In 1998, a company-wide Employee Opinion Survey brought to light numerous areas of employee concern. A more limited follow-up survey



About 125 million bags are processed every year by our baggage handlers.

in 1999 indicated that progress has been made in some important areas. While there is room for improvement, a number of 1999 initiatives bode well for progress in 2000 and beyond.

These initiatives are embodied in our People Plan, which is designed to help us hire the best people; give them compelling reasons to stay at American — such as good pay and benefits and opportunities to grow; provide a Human Resources infrastructure that can effectively deliver employee support services; and develop a world-class leadership team to support them, hold them accountable for a high level of performance and help them achieve individual goals.

American Airlines and American Eagle have both placed a strategic importance on people development and people management skills in selecting and promoting the carriers' leadership teams. Both American and Eagle have introduced a new 360-degree performance appraisal tool for managers. Feedback comes not just from a manager's boss, but also from employees he or she comes in contact with on a regular basis.

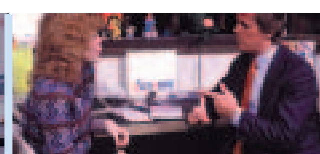
This feedback has been insightful and valuable to the entire management team. But just as important, developing the appraisal tool provided an occasion to define, in explicit terms, the principles that are the foundation for leadership behavior at American and American Eagle. The leadership principles — which embrace various attributes of business management and leadership style — represent the standard against which every manager's performance will be measured and rewarded in the years to come.

A notable 1999 success was the creation of Interaction Teams. Composed of agents from the Customer Services, Reservations and Cargo divisions of American Airlines, these teams held round-table discussions on issues facing their work groups and developed a list of potential solutions. Then they

1972 Six years after its freighters began flying U.S. equipment and then troops to and from Vietnam, American begins phasing out its MAC charters.

1973 C.R. Smith, at the age of 74, comes out of retirement for six months to re-energize the airline.

1974 Directors elect Albert V. Casey, of the Times Mirror Corp., president, chairman and CEO.



1975 Beating other airlines to the punch, a sales team begins marketing Sabre computer services to the nation's travel agents.

1976 The nation's Bicentennial prompts a series of television specials titled *The American Experience*, with newsman Chet Huntley as narrator and American spokesman.

ERJ 145
Manufacturer: Embraer (Brazil)
Number in Fleet: 45
Number of Seats: 50

On January 25, 1999, this 757, painted in the 1959 livery, commemorated American's 40th anniversary of jet service and our first transcontinental flight on January 25, 1959, by a Boeing 707.

provided their input to management, which prepared employee surveys and collected the opinions of nearly 10,000 employees. This extensive feedback was the basis for important improvements in pay, work conditions and communications.

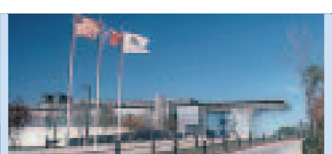
In the current tight labor market, it is particularly challenging to recruit and retain motivated and talented people. To deal with this reality, American is enhancing its recruitment processes and is concentrating on improved retention and performance through a more focused approach to training.

Another positive change for American employees is the creation of Super Saver Plus, a new company-matched 401(k) program. The program, to be introduced in January 2001, will be available to non-union employees on the U.S. payroll as an alternative to the company's defined benefit pension plan. This new program is based largely on the input of employees, many of whom prefer the enhanced flexibility and control that a 401(k) plan gives them versus a "traditional" pension plan. Employee feedback was also the driving force behind the introduction of domestic partner health benefits for American's unmarried employees.

With about two-thirds of American's employees represented by a union, establishing positive and productive relationships between the company and those unions is very important. After a rocky start to the year, American is working hard to rebuild its relationship with its pilots' union, the Allied Pilots Association (APA). By late October, the company and the APA were able to resolve a dispute over Reno Air, as well as several other outstanding issues. Both sides also agreed to begin negotiating a possible extension to the existing contract, which is

1977 Popular Super SAAver fares, offering 35 to 45 percent savings, lure travelers who have never before flown.

1978 As Congress deregulates air fares and routes, American orders 30 Boeing 767s to accelerate the retirement of aging 707s.



1979 Moving its headquarters from New York to Dallas/Fort Worth positions American to compete more efficiently in the deregulated industry.

1980 Robert L. Crandall becomes president and chief operating officer and will take the company's helm as chairman and CEO on Al Casey's retirement in 1985.

1981 AAdvantage rewards frequent fliers with bonus miles and starts a marketing revolution. The Dallas/Fort Worth hub opens and is followed by the Chicago O'Hare hub a year later.

ERJ 135
Manufacturer: Embraer (Brazil)
Number in Fleet: 9
Number of Seats: 37

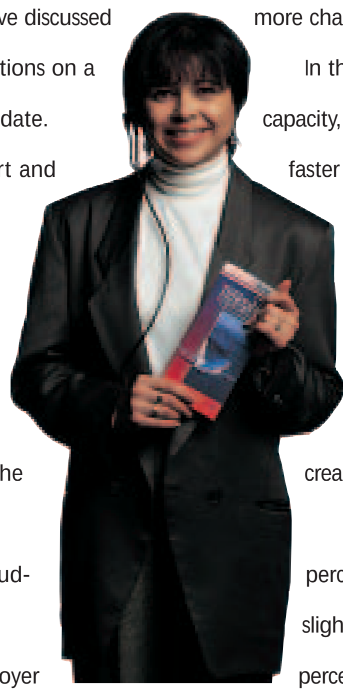
scheduled to expire in August 2001.

American was able to reach agreement on a new contract with the Association of Professional Flight Attendants (APFA) in May. Unfortunately, that agreement was not ratified by the union membership. However, American hopes to re-engage the negotiating team for this important work group and to reach agreement on a new contract as soon as possible.

American's third major contract is with the Transport Workers Union, which represents the airline's mechanics, fleet service clerks and other ground personnel. That contract becomes amendable in 2001, but we and the union leadership have discussed the possibility of beginning negotiations on a new agreement in advance of that date.

In late 1998, American's airport and reservations agents voted down a unionization drive. That election result was upheld by the National Mediation Board last August. The fact that American's agents chose to remain non-union may reflect the progress of the airline's "people efforts" of the last two years, including those previously described.

Becoming the undisputed employer of choice in the airline industry is not a goal that can be reached overnight. But it is a goal American and American Eagle are committed to achieving, for it is of central importance to creating the best outcomes for employees, customers and shareholders.



American's expert Customer Service Representatives can answer all your travel questions.

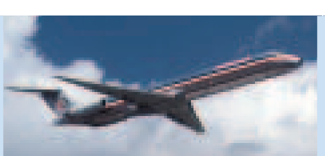
A Promise To Our Shareholders

After a fourth consecutive year of record earnings in 1998, American Airlines, along with American Eagle and the rest of the airline industry, confronted an operating environment in 1999 that was significantly more challenging.

In the U.S. domestic marketplace, airline industry capacity, for the first time in several years, grew faster than the demand for air travel, keeping fares relatively low as airlines fought to fill an excess number of seats. At the same time, economic weakness in Latin America and Asia caused some carriers to shift flights from those regions toward Europe, creating an excess of capacity across the Atlantic.

While American's load factor — or percentage of total seats filled — fell only slightly year over year, from 70.2 percent to 69.5 percent, yield — the average fare expressed in

1982 For the first time since 1950, American returns to Europe with 747s linking Dallas/Fort Worth with London Gatwick. Stockholders approve the creation of AMR Corp. as a parent company for American and other subsidiaries.



1983 American launches an ambitious Growth Plan and adds its first "Super 80s" to help spearhead the expansion.

1984 A network of regional airlines, operating under the American Eagle name, begins providing connecting service at hub airports. The rapidly expanding American orders 67 Super 80s and takes options on 100 more.

1985 Construction begins on new hubs in Nashville, Raleigh/Durham and San Juan, as the company stuns the industry with its computer-based Ultimate Super SAAver fares.

1986 Sky Chefs, a subsidiary that had provided catering service for American and other airlines since 1942, is sold to compete independently.

Super ATR
Manufacturer: Aerospatiale (France)
Number in Fleet: 43
Number of Seats: 64/66

By removing 7,200 seats — roughly two rows per plane — American is providing more room throughout coach.

cents per passenger mile — declined 2.7 percent. As a result, revenue per available seat mile, which is the best indicator of revenue performance, fell by 3.6 percent. It was 3 percent lower in the United States and 5.2 percent lower in international markets.

However, by the fourth quarter, we started to see positive trends developing in international markets. The most notable improvement was in Europe, where revenue per available seat mile increased after several quarters of double-digit declines.

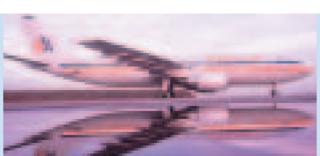
On the cost front, the price of fuel — one of every airline's biggest expenses — was virtually unchanged versus 1998, even though prices did spike in the fourth quarter and continue to increase in 2000. Fuel cost the airline an average of 54.9 cents per gallon in 1998 and 54.8 cents per gallon in 1999.

The year-over-year comparison would have been worse had it not been for the fuel hedging the company did in late 1998 and early 1999.

Still, American's total cost per available seat mile increased from 9.25 cents in 1998 to 9.39 cents in 1999.

The performance of American Eagle, AMR's regional airline, was also affected by some unique factors that make year-over-year comparisons a challenge. Eagle's capacity, or total available seat miles, increased more than 25 percent with the acquisition of Business Express, a leading regional carrier in the northeastern United States. And Eagle's results were positively impacted by the dramatic, ongoing transformation of its fleet. By year's end, Eagle had deployed 45 new 50-seat regional jets and nine new 37-seat jets.

1987 American merges with West Coast airline AirCal and launches service from Dallas/Fort Worth to Tokyo.



1988 American adds service from New York (JFK) to Zurich, Dallas/Fort Worth to Madrid and Raleigh/Durham to Paris and strengthens Caribbean service by ordering A300s.

1989 Miami becomes the airline's newest hub, as American continues to build its fleet — adding its first 757s and ordering MD-11s and Fokker 100s.

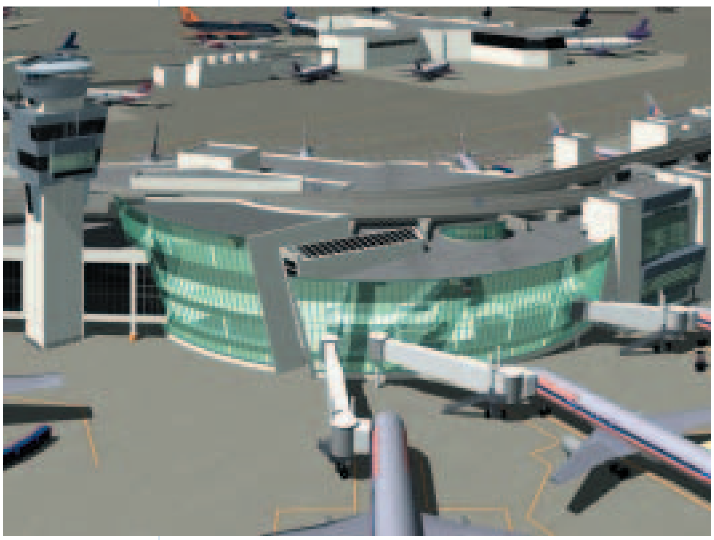
1990 Acquiring Eastern Airlines' Central and South American routes, American begins serving 20 cities in the region.

1991 American flies its one billionth passenger and launches its latest European expansion with routes purchased from TWA.

ATR 42
Manufacturer:
Aerospatiale (France)
Number in Fleet: 32
Number of Seats: 46

For 1999 as a whole, the pre-tax margin for American and American Eagle combined fell from 1998's 10.3 percent to 5.5 percent.

Both American and American Eagle have balanced their need to grow with the reality that growing too quickly can upset the industry's supply and demand equilibrium. For example, both American's



American is investing billions of dollars to enlarge, refresh, rebuild and reinvigorate terminal facilities around the world, as shown here in this rendering of the new Miami terminal.

acquisition of Reno Air and Eagle's purchase of Business Express enabled the company to expand its airline network into many important markets without increasing overall industry capacity.

And the company intends to grow airline operations only as much as market conditions justify — about two to four percent annually during the next few years. While that growth may seem modest when combined with aircraft replacements, it translates into about $5.6 billion in new aircraft.

In 1999, American introduced two new fleet types, the Boeing 777 and the Boeing 737, both of which have been very popular with customers. American's aircraft agreement with Boeing gives it the flexibility to ramp up its growth if market conditions warrant. Alternatively, should the growth in travel demand slow, American can accelerate the retirement of some of its older aircraft — replacing older aircraft with new — while leaving total capacity unchanged.

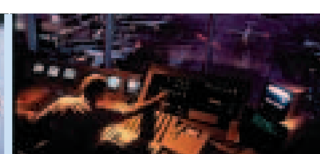
American announced in 1999 that it would accelerate the retirement of its entire fleet of DC-10 aircraft (eight at year's end) to the end of 2000, and the entire 727 fleet (68 at year's end) to the end of 2003. American also decided to retire three additional 727s in early 2000, prior to scheduled heavy maintenance checks.

In the Cargo Division, freight traffic grew 7.3 percent with the deployment of the Boeing 777 on key international routes. Throughout 1999, several all-time volume records were established as capacity growth began matching shipper demand. Most notably, we loaded 93,130 pounds of cargo on a 777 training flight from Dallas/Fort Worth to London Gatwick, breaking Boeing's individual load

1992 The Alliance Maintenance and Engineering Base, the U.S. industry's first new airline maintenance facility in more than 20 years, opens near Fort Worth.

1993 During a national recession, American undertakes a Transition Plan to pare inefficient aircraft and unprofitable routes. The American Airlines C.R. Smith Museum, a tribute to the man and the airline, opens.

1994 American Airlines Cargo celebrates the 50th anniversary of scheduled air cargo service in the United States.



1995 Operations in Raleigh/Durham and Nashville are scaled back and resources are shifted to more productive hubs. American regains top ranking in a national airline quality survey by the National Institute for Aviation Research.

1996 American and British Airways executives announce a bold marketing agreement, which competitors mobilize to fight.

340
Manufacturer: Saab (Sweden)
Number in Fleet: 114
Number of Seats: 34

American Eagle, American's regional partner, has enhanced its fleet by adding dozens of "regional jets."

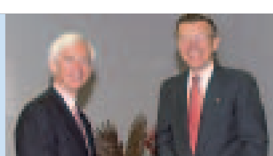
record for the 777. Additionally, Cargo implemented a series of new information systems to improve operational performance and customer service.

Both American and American Eagle are committed to prudent growth to meet their customers' and shippers' needs, while neither flooding the industry with excessive capacity nor investing capital in assets that won't generate the returns the company's shareholders expect and deserve.

Certainly, that will be good news for shareholders, as was our announcement in December that AMR would distribute its 83 percent ownership interest in Sabre —and transfer roughly $5 billion in market value — to AMR shareholders. The tax-free distribution of 107 million common shares of Sabre stock was completed after the close of business on March 15, 2000.

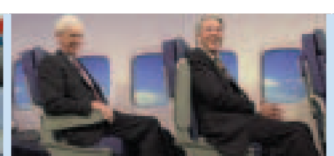
As this Annual Report is written, the U.S. economy remains strong. Latin America and Asia, although still facing real challenges,seem to be on the rebound. And with improved fleet capabilities, a plan for responsible growth, and a long list of product and service improvements, American and American Eagle enter the new millennium well positioned to continue delivering strong financial performance for the shareholders of AMR.

1997 With the British Airways deal stalled by regulators, American begins building oneworld,which is announced in 1998 as the industry's strongest network of airline partners.



1998 Executive Vice President Donald J. Carty succeeds the retiring Bob Crandall as chairman, president and CEO of American Airlines and AMR, and chairman of Sabre.

1999 Teaming with other quality airlines, American becomes a senior member of the oneworld marketing alliance. American introduces its Boeing 777s and 737s and strengthens West Coast service by acquiring Reno Air.



2000 American announces it will remove two rows of seats from its coach cabins. The AOL AAdvantage online customer loyalty program begins. AMR Corp. spins off Sabre after previously selling most other non-airline subsidiaries.

2001 The American Airlines Center in Dallas is to be completed, providing a sports showcase similar to the American Airlines Arena that opened in Miami on New Year's Eve 1999.


BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
Edmonton
Calgary
Saskatoon
Regina
Winnipeg
Vancouver
Kelowna
Victoria
Seattle/Tacoma
WA
Portland
OR
MT
ND
MN
SD
ID
Jackson Hole
WY
NE
Omaha
Reno
Sacramento
Oakland
San Francisco
San Jose/
Silicon Valley
NV
Salt Lake City
UT
Steamboat Springs
CO
Denver
Vail
Colorado Springs
Monterey
Fresno
CA
KS
Wichita
Gunnison/Crested Butte
San Luis Obispo
Bakersfield
Las Vegas
Durango
Santa Barbara
Burbank
Albuquerque
OK
Tulsa
Los Angeles
Ontario
Long Beach
Palm Springs
Orange County/
John Wayne Airport
AZ
Oklahoma City
Amarillo
Lawton/Fort Sill
NM
Phoenix/Scottsdale
San Diego
Wichita Falls
Dallas/
Fort Worth
Lubbock
Tucson
El Paso
Midland/
Odessa
Abilene
Waco
San Angelo
TX
Killeen/Fort Hood
Austin
Houston
San Antonio
Corpus Christi
Laredo
McAllen
Harlingen/
South Padre
Island
Monterrey
MEXICO
San José del Cabo/Los Cabos
León-
Guanajuato
Puerto Vallarta
Guadalajara
Mexico City
Acapulco
Pacific Ocean
RUSSIA
ALASKA
CANADA
Anchorage
Pacific Ocean
KAUAI
Lihue
OAHU
Honolulu
Kaunakakai
Lanai City
Kahului
MAUI
Kona
Hilo
HAWAII
ROUTE SYSTEM
American Airlines Cities
American Airlines/American Eagle/Business Express Cities
American Eagle/Business Express Cities

★ Admirals Club Locations ■ Cooperative Service ✱ Seasonal Cities

***oneworld* SYSTEM**

● American Airlines Cities ★ Admirals Club Locations ■ Cooperative Service ◆ **oneworld** Cities


SWEDEN
FINLAND
RUSSIA
ESTONIA
LATVIA
LITHUANIA
POLAND
BELARUS
CZECH REP.
SLOVAKIA
UKRAINE
HUNGARY
MOLDOVA
SLOVENIA
ROMANIA
CROATIA
KAZAKHSTAN
MONGOLIA
BULGARIA
MACEDONIA
GEORGIA
BOSNIA-HERZEGOVINA
ALBANIA
ARMENIA
UZBEKISTAN
KYRGYZSTAN
TURKEY
TURKMENISTAN
AZERBAIJAN
TAJIKISTAN
NORTH KOREA
SOUTH KOREA
JAPAN
MALTA
GREECE
LEBANON
CYPRUS
SYRIA
AFGHANISTAN
CHINA
Mediterranean Sea
ISRAEL
IRAQ
IRAN
KUWAIT
BAHRAIN
QATAR
PAKISTAN
NEPAL
BHUTAN
LIBYA
JORDAN
EGYPT
SAUDI ARABIA
INDIA
BANGLADESH
TAIWAN
UNITED ARAB EMIRATES
OMAN
MYANMAR (BURMA)
LAOS
SAIPAN
GUAM
CHAD
ERITREA
YEMEN
THAILAND
PHILIPPINES
SUDAN
DJIBOUTI
VIETNAM
CAMBODIA
Pacific Ocean
SOMALIA
CENTRAL AFRICAN REPUBLIC
ETHIOPIA
SRI LANKA
BRUNEI
DEMOCRATIC REPUBLIC OF THE CONGO (ZAIRE)
UGANDA
KENYA
MALAYSIA
Indian Ocean
CONGO
RWANDA
BURUNDI
SEYCHELLES
INDONESIA
PAPUA NEW GUINEA
JAVA
EQUATORIAL GUINEA
TANZANIA
SOLOMON ISLANDS
ANGOLA
MALAWI
ZAMBIA
VANUATU
FIJI
MOZAMBIQUE
NAMIBIA
ZIMBABWE
MAURITIUS
MADAGASCAR
BOTSWANA
AUSTRALIA
SWAZILAND
LESOTHO
SOUTH AFRICA
NEW ZEALAND
NORWAY
SWEDEN
NORTHERN IRELAND
North Sea
SCOTLAND
UNITED KINGDOM
DENMARK
IRELAND
NETHERLANDS
WALES
ENGLAND
POLAND
Atlantic Ocean
English Channel
GERMANY
BELGIUM
LUXEMBOURG
CZECH REP.
AUSTRIA
FRANCE
SWITZERLAND
SLOVENIA
CROATIA
ITALY
SPAIN
ANDORRA
BOSNIA-HERZEGOVINA
Mediterranean Sea

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 sale of AMR Services, AMR Combs and TeleService Resources in the first quarter of 1999, and the spin-off of AMR's 83 percent interest in Sabre Holdings Corporation (Sabre) in March of 2000, AMR's operations fall almost entirely in the airline industry.

RESULTS OF OPERATIONS

AMR's net earnings in 1999 were $985 million, or $6.46 per common share ($6.26 diluted). AMR's income from continuing operations in 1999 was $656 million, or $4.30 per common share ($4.17 diluted). A labor disagreement that disrupted operations during the first quarter of 1999 negatively impacted the Company's 1999 results by an estimated $225 million ($140 million after tax). The results for 1999 also include the following: (i) American's December 1998 acquisition of Reno Air, Inc. (Reno) and AMR Eagle's March 1999 acquisition of Business Express, Inc. (Business Express), (ii) a gain of $83 million ($64 million after tax) on the sale of AMR Services, AMR Combs and TeleService Resources, which is included in discontinued operations, (iii) a gain of approximately $213 million ($118 million after taxes and minority interest) resulting from the sale of a portion of the Company's holding in Equant N.V. (Equant), of which approximately $75 million ($47 million after tax) is included in income from continuing operations, (iv) a gain of $40 million ($25 million after tax) related to the Company's sale of its investment in the cumulative mandatorily redeemable convertible preferred stock of Canadian Airlines International Limited (Canadian) and a $67 million tax benefit resulting from the tax loss on the Company's investment in Canadian, and (v) a charge of approximately $37 million ($25 million after tax) relating to the provision for certain litigation items. AMR's net earnings in 1998 were $1.3 billion, or $7.78 per common share ($7.52 diluted). AMR's income from continuing operations in 1998 was $1.1 billion, or $6.60 per common share ($6.38 diluted).

REVENUES

1999 Compared to 1998 The Company's revenues increased $214 million, or 1.2 percent, versus 1998. American's passenger revenues increased by 0.1 percent, or $12 million. American's yield (the average amount one passenger pays to fly one mile) of 13.12 cents decreased by 2.7 percent compared to 1998. For the year, domestic yields decreased 1.1 percent, while European, Pacific and Latin American yields decreased 7.2 percent, 6.0 percent and 4.5 percent, respectively. The decrease in domestic yield was due primarily to increased capacity, the labor disagreement during the first quarter of 1999, and the impact of international yield decreases on domestic yields. The decrease in international yields was due primarily to weak economies in certain parts of the world, large industry capacity additions and increased fare sale activity.

American's domestic traffic increased 2.1 percent to 76.4 billion revenue passenger miles (RPMs), while domestic capacity, as measured by available seat miles (ASMs), increased 4.1 percent. The increase in domestic traffic was due primarily to the addition of Reno. International traffic grew 4.6 percent to 35.7 billion RPMs on a capacity increase of 3.1 percent. The increase in international traffic was led by a 44.2 percent increase in the Pacific on capacity growth of 44.1 percent, a 5.7 percent increase in Europe on capacity growth of 7.3 percent, partially offset by a 1.9 percent decrease in Latin America on a capacity decrease of 5.1 percent. In 1999, American derived approximately 70 percent of its passenger revenues from domestic operations and approximately 30 percent from international operations.

AMR Eagle's passenger revenues increased $173 million, or 15.4 percent. AMR Eagle's traffic increased to 3.4 billion RPMs, up 20.9 percent, while capacity increased to 5.6 billion ASMs, or 26.1 percent, due primarily to the addition of Business Express in March 1999.

1998 Compared to 1997 The Company's revenues of $17.5 billion in 1998 were up $559 million, or 3.3 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 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 Pacific, Latin American and European yields decreased 6.7 percent, 5.8 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 RPMs, while domestic capacity 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 passenger 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.

Other revenues increased $101 million, or 10.7 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.

OPERATING EXPENSES

1999 Compared to 1998 The Company's operating expenses increased 6.7 percent, or approximately $1 billion. American's cost per ASM increased by 1.5 percent to 9.39 cents. Wages, salaries and benefits increased $327 million, or 5.6 percent, primarily due to an increase in the average number of equivalent employees and contractual wage rate and seniority increases that are built into the Company's labor contracts, partially offset by a decrease in the provision for profit-sharing. Fuel expense increased $92 million, or 5.7 percent, due to a 4.6 percent increase in American's fuel consumption, partially offset by a 0.2 percent decrease in American's average price per gallon. The increase in fuel expense is net of gains of approximately $111 million recognized during 1999 related to the Company's fuel hedging program. Commissions to agents decreased 5.2 percent, or $64 million, despite a 1.2 percent increase in passenger revenues, due to the benefit from the changes in the international commission structure in late 1998 and the base commission structure in October 1999, and a decrease in the percentage of commissionable transactions. Depreciation and amortization expense increased $52 million, or 5.0 percent, due primarily to the addition of new aircraft, partially offset by the change in depreciable lives and residual values for certain types of aircraft in 1999 (see Note 1 to the consolidated financial statements). Maintenance, materials and repairs expense increased 7.3 percent, or $68 million, due primarily to the addition of Reno and Business Express aircraft during 1999. Other rentals and landing fees increased 12.3 percent, or $103 million, due primarily to higher facilities rent and landing fees across American's system and the addition of Reno and Business Express. Food service increased $65 million, or 9.6 percent, due primarily to rate increases and the addition of Reno. Aircraft rentals increased $61 million, up 10.7 percent, primarily due to the addition of Reno and Business Express aircraft. Other operating expenses increased $342 million, or 12.0 percent, due primarily to increases in outsourced services, travel and incidental costs and booking fees.

1998 Compared to 1997 The Company's operating expenses of $15.5 billion in 1998 were up $166 million, or 1.1 percent, versus 1997. American's cost per ASM decreased 0.2 percent to 9.25 cents. Wages, salaries and benefits increased $282 million, or 5.1 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, 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 in 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 $192 million, or 7.2 percent, due primarily to spending on the Company's Year 2000 Readiness program, an increase in outsourced services and higher costs resulting from higher passenger revenues, such as credit card fees.

OTHER INCOME (EXPENSE)

Other income (expense) consists of interest income and expense, interest capitalized and miscellaneous – net.

1999 Compared to 1998 Interest income decreased $25 million, or 21.9 percent, due primarily to lower investment balances throughout most of 1999. Interest expense increased $21 million, or 5.6 percent, resulting primarily from an increase in long-term debt. Interest capitalized increased 13.5 percent, or $14 million, due to an increase in purchase deposits for flight equipment throughout most of 1999. Miscellaneous – net increased $37 million due primarily to the sale of a portion of American's interest in Equant in 1999, which resulted in an approximate $75 million gain, and a gain of approximately $40 million from the sale of the Company's investment in the preferred stock of Canadian. These gains were partially offset by the provision for the settlement of litigation items and the write-down of certain investments held by the Company during 1999.

1998 Compared to 1997 Interest expense decreased $49 million, or 11.6 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.

OPERATING STATISTICS

The following table provides statistical information for American and AMR Eagle for the years ended December 31, 1999, 1998 and 1997.

	Year Ended December 31,		
	1999	1998	1997
American Airlines			
Revenue passenger miles (millions)	**112,067**	108,955	107,026
Available seat miles (millions)	**161,211**	155,297	153,917
Cargo ton miles (millions)	**2,068**	1,974	2,032
Passenger load factor	**69.5%**	70.2%	69.5%
Breakeven load factor	**63.8%**	59.9%	61.0%
Passenger revenue yield per passenger mile (cents)	**13.12**	13.49	13.37
Passenger revenue per available seat mile (cents)	**9.12**	9.46	9.30
Cargo revenue yield per ton mile (cents)	**30.70**	32.85	33.78
Operating expenses per available seat mile (cents)	**9.39**	9.25	9.27
Operating aircraft at year-end	**697**	648	641
AMR Eagle			
Revenue passenger miles (millions)	**3,371**	2,788	2,553
Available seat miles (millions)	**5,640**	4,471	4,218
Passenger load factor	**59.8%**	62.4%	60.5%
Operating aircraft at year-end	**268**	209	199

LIQUIDITY AND CAPITAL RESOURCES

Operating activities provided net cash of $2.3 billion in 1999, $2.8 billion in 1998 and $2.5 billion in 1997. The $533 million decrease from 1998 to 1999 resulted primarily from a decrease in income from continuing operations.

Capital expenditures in 1999 totaled $3.5 billion, compared to $2.3 billion in 1998 and $1.1 billion in 1997, and included aircraft acquisitions of approximately $2.7 billion. In 1999, American took delivery of 24 Boeing 737-800s, 11 Boeing 777-200IGWs, six Boeing 757-200s and four Boeing 767-300ER aircraft. AMR Eagle took delivery of 25 Embraer ERJ-145s and nine Embraer ERJ-135 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, (ii) 14 Boeing aircraft, which were financed through secured mortgage agreements, and (iii) one Boeing 757-200 aircraft, which was financed through a sale-leaseback transaction.

At December 31, 1999, the Company had commitments to acquire the following aircraft: 81 Boeing 737-800s, 26 Boeing 777-200IGWs, 86 Embraer ERJ-135s, five Embraer ERJ-145s and 25 Bombardier CRJ-700s. Deliveries of all aircraft extend through 2006. Future payments for all aircraft, including estimated amounts for price escalation, will approximate $2.2 billion in 2000, $1.8 billion in 2001, $600 million in 2002 and an aggregate of approximately $1.0 billion in 2003 through 2006. In addition to these commitments for aircraft, the Company expects to spend approximately $1.6 billion in 2000 for modifications to aircraft, renovations of – and additions to – airport and off-airport facilities, and the acquisition of various other equipment and assets, of which approximately $470 million has been authorized by the Company's Board of Directors. The Company expects to fund its 2000 capital expenditures from the Company's existing cash and short-term investments, internally generated cash, and new financing depending upon capital market conditions and the Company's evolving view of its long-term needs.

For the year ended December 31, 1999, the Company purchased approximately 14.1 million shares of its common stock under two separate share repurchase programs at a total cost of approximately $871 million. Additional share repurchases of up to $34 million, the remaining amount currently authorized by the Company's Board of Directors, may be made from time to time, depending on market conditions, and may be discontinued at any time.

At December 31, 1999, the Company owned approximately 3.5 million depository certificates convertible, subject to certain restrictions, into the common stock of Equant, which completed an initial public offering in July 1998. As of December 31, 1999, the estimated fair value of these depository certificates was approximately $395 million, based upon the publicly traded market value of Equant common stock. Of the 3.5 million depository certificates owned by the Company as of December 31, 1999, approximately 2.3 million depository certificates, with an estimated market value of approximately $259 million, are held by the Company on behalf of Sabre.

On February 7, 2000, the Company declared its intent to distribute AMR's entire ownership interest in Sabre as a dividend on all outstanding shares of its common stock. To effect the dividend, AMR exchanged all of its 107,374,000 shares of Sabre's Class B common stock for an equal number of shares of Sabre's Class A common stock. Effective after the close of business on March 15, 2000, AMR distributed 0.722652 shares of Sabre Class A common stock for each share of AMR stock owned by AMR's shareholders. The record date for the dividend of Sabre stock was the close of business on March 1, 2000. In addition, on February 18, 2000, Sabre paid a special one-time cash dividend of $675 million to shareholders of record of Sabre common stock at the close of business on February 15, 2000. Based upon its approximate 83 percent interest in Sabre, AMR received approximately $560 million of this dividend. These funds will be used for general corporate purposes. The dividend of AMR's entire ownership interest in Sabre's common stock resulted in a reduction to AMR's retained earnings in March of 2000 equal to the carrying value of the Company's investment in Sabre on March 15, 2000, which approximated $600 million. The fair market value of AMR's investment in Sabre on March 15, 2000, based upon the quoted market closing price of Sabre Class A common stock on the New York Stock Exchange, was approximately $5.2 billion.

The Company's March 15, 2000 distribution of its ownership interest in Sabre represented a designated event, as defined, under event risk covenants contained in agreements related to certain indebtedness of the Company and American. Under these covenants, the interest rate on such indebtedness will be increased if, during a specified period following the occurrence of a designated event, the credit rating of such indebtedness is downgraded below certain levels. However, the Company has not received indication that the credit rating on any such indebtedness will be downgraded. For additional information concerning these event risk covenants, see Note 3 to the consolidated financial statements.

American has a $1.0 billion credit facility agreement that 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, 1999, 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 Project The Company did not experience any significant malfunctions or errors in its operating or business systems on January 1, 2000, and has not since that date. Although it is possible that the full impact of the date change has not been fully recognized, the Company believes any such problems are likely to be minor and correctable. In addition, the Company could still be negatively affected if its customers or major suppliers are adversely affected by the Year 2000 or similar issues. However, the Company is not currently aware of any significant Year 2000 or similar problems that have arisen for its customers or major suppliers.

As of December 31, 1999, the Company's total cost of the Year 2000 Project was approximately $214 million. Costs associated with the Year 2000 Project were expensed as incurred, other than capitalized hardware costs, and were funded through cash from operations.

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 the United States District Court for the Northern District of Texas, Dallas Division, 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 Dallas 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. These two federal court lawsuits were consolidated and stayed.

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, American and DFW appealed the DOT's order to the Fifth Circuit Court of Appeals, and on February 1, 2000, the Fifth Circuit affirmed the DOT's order in all respects.

In January 2000, the Department of Justice, at the behest of the DOT, filed a lawsuit in the United States District Court for the Northern District of Texas, Dallas Division, against Fort Worth and American seeking to enforce the DOT's order and to prevent any party from interfering with any carrier operating under that order.

American has announced new service from Love Field beginning May 1, 2000, to Chicago and Los Angeles and is seeking facilities at Love Field from Dallas. 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.

OUTLOOK FOR 2000

The Company is cautiously optimistic about the 2000 revenue environment. The U.S. economy remains strong, and many of the world's economies are expected to continue to improve. Against this backdrop, the chief concerns are the industry's ability to match capacity growth with the demand for air travel, and the much higher fuel prices. For American, capacity is expected to increase only slightly in 2000. The increase in American's seating capacity from the delivery of new aircraft will be mostly offset by the removal of approximately 7,200 seats from its fleet. (In February 2000, the Company announced its "More Room Throughout Coach" initiative, which will provide more room to passengers throughout the coach cabins. American's entire fleet will be reconfigured to increase the seat pitch from the present industry standard of 31 and 32 inches to a predominant seat pitch of 34 and 35 inches.)

Over the course of the year, the Company expects to strengthen its position in key domestic markets, while strategically expanding its international network. Domestically, American and AMR Eagle look to continue to benefit from the integration of Reno and Business Express, and the marketing relationships with U.S. Airways, Inc. and Alaska Airlines, Inc. Internationally, while American will introduce minimal service increases, it will, where appropriate, expand its various code-share alliances. Further, **one**world will admit two new partners in 2000 – LanChile and Aer Lingus – and, while losing Canadian Airlines, will look to otherwise buttress its position in Canada.

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 operating expenses of about five percent, driven primarily by higher labor costs associated with the normal seniority and scale increases in union contracts, an increase in depreciation and amortization expense and maintenance, materials and repairs expense as the Company continues to acquire new aircraft, and an increase in airport landing fees and facility rent expense from higher rates. Other expense lines will see volume-driven increases and inflationary pressures. Partially offsetting this expected increase in costs, the Company expects savings in commission expense due to changes made in late 1999 to the commission structure, and a decrease in the percentage of commissionable transactions.

Overshadowing all other expenses, though, is the expected increase in fuel expense, owing to significantly higher fuel prices. Although the Company has hedged approximately 48 percent of its 2000 fuel requirements as of December 31, 1999, its 2000 earnings will be adversely impacted by this significant rise in fuel prices. The magnitude of this impact will be driven by the duration of the higher prices, which, at a minimum, will dampen the Company's first half 2000 financial results. In addition to the direct effect, the higher fuel prices may, if sustained at their current levels for an extended period of time, indirectly negatively impact the Company by slowing the economy and thereby the demand for air travel.

FORWARD-LOOKING INFORMATION

The preceding Letter from the Chairman, A Legacy of Leadership, A Promise to Our Customers, A Promise to Our People and A Promise to Our Shareholders essays, 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 costs, expectations as to future financing needs, Year 2000 expectations, 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; changing business strategy; government regulation; and uncertainty in international operations. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings, including but not limited to Form 10-K for 1999, 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 swap and option contracts. Market risk is estimated as a hypothetical 10 percent increase in the December 31, 1999 and 1998 cost per gallon of fuel. Based on projected 2000 fuel usage, such an increase would result in an increase to aircraft fuel expense of approximately $125 million in 2000, net of fuel hedge instruments outstanding at

December 31, 1999. Comparatively, based on projected 1999 fuel usage, such an increase would have resulted in an increase to aircraft fuel expense of approximately $73 million in 1999, net of fuel hedge instruments outstanding at December 31, 1998. The change in market risk is due primarily to the increase in fuel prices. As of December 31, 1999, the Company had hedged approximately 48 percent of its 2000 fuel requirements and approximately 10 percent of its 2001 fuel requirements, compared to approximately 48 percent of its 1999 fuel requirements and 19 percent of its 2000 fuel requirements hedged at December 31, 1998.

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 Japanese yen, British pound, Canadian dollar, Euro 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, 1999 and 1998 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 $39 million and $22 million for the years ending December 31, 2000 and 1999, respectively, net of hedge instruments outstanding at December 31, 1999 and 1998, due to the Company's foreign-denominated revenues exceeding its foreign-denominated expenses. This sensitivity analysis was prepared based upon projected 2000 and 1999 foreign currency-denominated revenues and expenses as of December 31, 1999 and 1998. 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 21 percent and six percent of its total long-term debt, respectively, at December 31, 1999 and 1998, and interest rate swaps on notional amounts of approximately $696 million and $1.1 billion, respectively, at December 31, 1999 and 1998. If interest rates average 10 percent more in 2000 than they did at December 31, 1999, the Company's interest expense would increase by approximately $10 million and interest income from cash and short-term investments would increase by approximately $11 million. In comparison, at December 31, 1998, the Company estimated that if interest rates averaged 10 percent more in 1999 than they did at December 31, 1998, the Company's interest expense would have increased by approximately $6 million and interest income from cash and short-term investments would have increased by approximately $8 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, 1999 and 1998.

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 $156 million and $96 million as of December 31, 1999 and 1998, 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, excluding the depository certificates held on behalf of Sabre, approximately 1.2 million and 1.4 million depository certificates convertible, subject to certain restrictions, into the common stock of Equant, as of December 31, 1999 and 1998, respectively. The estimated fair value of these depository certificates was approximately $136 million and $100 million as of December 31, 1999 and 1998, respectively, based upon the market value of Equant common stock.

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, 1999)	Current Seating Capacity (1)	Owned	Capital Leased	Operating Leased	Total	Weighted Average Age (Years)
American Aircraft						
Airbus A300-600R	192/266/267	10	–	25	35	10
Boeing 727-200	150	60	8	–	68	22
Boeing 737-800	146	24	–	–	24	1
Boeing 757-200	188	56	15	31	102	7
Boeing 767-200	172	8	–	–	8	17
Boeing 767-200 Extended Range	165	9	13	–	22	14
Boeing 767-300 Extended Range	207	26	13	10	49	7
Boeing 777-200 IGW	237	11	–	–	11	1
Fokker 100	97	66	5	4	75	7
McDonnell Douglas DC-10-10	237/290/297	3	–	–	3	21
McDonnell Douglas DC-10-30	271/282	4	–	1	5	25
McDonnell Douglas MD-11	238/255	11	–	–	11	7
McDonnell Douglas MD-80	133/139	125	25	129	279	12
McDonnell Douglas MD-90	148	–	–	5	5	3
Total		413	79	205	697	11
AMR Eagle Aircraft						
ATR 42	46	20	–	12	32	9
Embraer 135	37	9	–	–	9	–
Embraer 145	50	45	–	–	45	1
Super ATR	64/66	40	–	3	43	5
Saab 340	34	22	61	31	114	8
Saab 340B Plus	34	–	–	25	25	4
Total		136	61	71	268	6

(1) In February 2000, American announced its "More Room Throughout Coach" program whereby American's entire fleet will be reconfigured to increase the seat pitch for more than 75,000 coach seats. As a result of this program, approximately 7,200 seats will be removed from American's aircraft.

	Year Ended December 31,		
(in millions, except per share amounts)	**1999**	1998	1997
Revenues			
Passenger – American Airlines, Inc.	**$14,707**	$14,695	$14,310
– AMR Eagle	**1,294**	1,121	1,017
Cargo	**643**	656	687
Other revenues	**1,086**	1,044	943
Total operating revenues	**17,730**	17,516	16,957
Expenses			
Wages, salaries and benefits	**6,120**	5,793	5,511
Aircraft fuel	**1,696**	1,604	1,923
Commissions to agents	**1,162**	1,226	1,278
Depreciation and amortization	**1,092**	1,040	1,040
Maintenance, materials and repairs	**1,003**	935	862
Other rentals and landing fees	**942**	839	842
Food service	**740**	675	677
Aircraft rentals	**630**	569	574
Other operating expenses	**3,189**	2,847	2,655
Total operating expenses	**16,574**	15,528	15,362
Operating Income	**1,156**	1,988	1,595
Other Income (Expense)			
Interest income	**89**	114	110
Interest expense	**(393)**	(372)	(421)
Interest capitalized	**118**	104	20
Miscellaneous – net	**36**	(1)	32
	(150)	(155)	(259)
Income From Continuing Operations Before Income Taxes	**1,006**	1,833	1,336
Income tax provision	**350**	719	527
Income From Continuing Operations	**656**	1,114	809
Income From Discontinued Operations, Net of Applicable Income Taxes and Minority Interest	**265**	200	176
Gain on Sale of Discontinued Operations, Net of Applicable Income Taxes	**64**	–	–
Net Earnings	**$ 985**	$ 1,314	$ 985
Earnings Per Common Share:			
Basic			
Income from continuing operations	**$ 4.30**	$ 6.60	$ 4.54
Discontinued operations	**2.16**	1.18	0.98
Net earnings	**$ 6.46**	$ 7.78	$ 5.52
Diluted			
Income from continuing operations	**$ 4.17**	$ 6.38	$ 4.43
Discontinued operations	**2.09**	1.14	0.96
Net earnings	**$ 6.26**	$ 7.52	$ 5.39

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

(in millions)	1999	1998	1997
		Year Ended December 31,	
Cash Flow from Operating Activities:			
Income from continuing operations	**$ 656**	$ 1,114	$ 809
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	**864**	830	831
Amortization	**228**	210	209
Deferred income taxes	**183**	268	321
Gain on sale of other investments, net	**(95)**	–	–
Gain on disposition of equipment and property	**(15)**	(19)	(24)
Change in assets and liabilities:			
Decrease (increase) in receivables	**261**	(185)	72
Increase in inventories	**(140)**	(36)	(41)
Increase in accounts payable and accrued liabilities	**42**	345	64
Increase in air traffic liability	**89**	119	155
Other, net	**191**	151	127
Net cash provided by operating activities	**2,264**	2,797	2,523
Cash Flow from Investing Activities:			
Capital expenditures, including purchase deposits on flight equipment	**(3,539)**	(2,342)	(1,139)
Net decrease (increase) in short-term investments	**(253)**	348	(480)
Acquisitions and other investments	**(99)**	(137)	–
Proceeds from:			
Sale of discontinued operations	**259**	–	–
Sale of other investments	**85**	–	–
Sale of equipment and property	**79**	262	291
Other	**18**	–	–
Net cash used for investing activities	**(3,450)**	(1,869)	(1,328)
Cash Flow from Financing Activities:			
Repurchase of common stock	**(871)**	(945)	(740)
Payments on long-term debt and capital lease obligations	**(280)**	(547)	(648)
Proceeds from:			
Issuance of long-term debt	**1,956**	246	–
Short-term loan from affiliate	**300**	–	–
Sale-leaseback transactions	**54**	270	–
Exercise of stock options	**25**	85	200
Net cash provided by (used for) financing activities	**1,184**	(891)	(1,188)
Net increase (decrease) in cash	**(2)**	37	7
Cash at beginning of year	**87**	50	43
Cash at end of year	**$ 85**	$ 87	$ 50
Activities Not Affecting Cash			
Payment of short-term loan from affiliate against receivable from affiliate	**$ 300**	$ –	$ –
Capital lease obligations incurred	**$ 54**	$ 270	$ –

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

(in millions)	December 31, 1999	1998
ASSETS		
Current Assets		
Cash	**$ 85**	$ 87
Short-term investments	**1,706**	1,448
Receivables, less allowance for uncollectible accounts (1999 – $57; 1998 – $19)	**1,134**	1,225
Inventories, less allowance for obsolescence (1999 – $279; 1998 – $214)	**708**	596
Deferred income taxes	**612**	443
Other current assets	**179**	170
Total current assets	**4,424**	3,969
Equipment and Property		
Flight equipment, at cost	**16,912**	13,688
Less accumulated depreciation	**5,589**	4,976
	11,323	8,712
Purchase deposits for flight equipment	**1,582**	1,624
Other equipment and property, at cost	**3,247**	2,999
Less accumulated depreciation	**1,814**	1,669
	1,433	1,330
	14,338	11,666
Equipment and Property Under Capital Leases		
Flight equipment	**3,141**	3,159
Other equipment and property	**155**	146
	3,296	3,305
Less accumulated amortization	**1,347**	1,230
	1,949	2,075
Other Assets		
Route acquisition costs, less accumulated amortization (1999 – $269; 1998 – $240)	**887**	916
Airport operating and gate lease rights, less accumulated amortization (1999 – $181; 1998 – $161)	**304**	312
Prepaid pension cost	**257**	304
Other	**2,215**	2,213
	3,663	3,745
Total Assets	**$24,374**	$21,455

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

(in millions, except shares and par value)	December 31, 1999	1998
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 1,115**	$ 1,047
Accrued salaries and wages	**849**	917
Accrued liabilities	**1,107**	973
Air traffic liability	**2,255**	2,163
Current maturities of long-term debt	**302**	48
Current obligations under capital leases	**236**	154
Total current liabilities	**5,864**	5,302
Long-Term Debt, Less Current Maturities	**4,078**	2,436
Obligations Under Capital Leases, Less Current Obligations	**1,611**	1,764
Other Liabilities and Credits		
Deferred income taxes	**1,846**	1,470
Deferred gains	**613**	573
Postretirement benefits	**1,669**	1,598
Other liabilities and deferred credits	**1,835**	1,614
	5,963	5,255
Commitments and Contingencies		
Stockholders' Equity		
Common stock – $1 par value; shares authorized: 750,000,000;		
Shares issued: 1999 and 1998 – 182,278,766	**182**	182
Additional paid-in capital	**3,061**	3,075
Treasury shares at cost: 1999 – 34,034,110; 1998 – 20,927,692	**(2,101)**	(1,288)
Accumulated other comprehensive income	**(2)**	(4)
Retained earnings	**5,718**	4,733
	6,858	6,698
Total Liabilities and Stockholders' Equity	**$24,374**	$21,455

(in millions, except share amounts)	Common Stock	Additional Paid–in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 1997	**$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**
Net earnings	–	–	–	–	985	985
Adjustment for minimum pension liability, net of tax expense of $1	–	–	–	3	–	3
Unrealized loss on investments, net of tax benefit of $1	–	–	–	(1)	–	(1)
Total comprehensive income						987
Repurchase of 14,062,358 common shares	–	–	(871)	–	–	(871)
Issuance of 955,940 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax benefit of $4	–	(14)	58	–	–	44
Balance at December 31, 1999	**$182**	**$3,061**	**$(2,101)**	**$ (2)**	**$5,718**	**$6,858**

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 Sabre Holdings Corporation (Sabre). All significant intercompany transactions have been eliminated. The results of operations, cash flows and net assets for Sabre, AMR Services, AMR Combs and TeleService Resources have been reflected in the consolidated financial statements as discontinued operations. Unless specifically indicated otherwise, the information in the footnotes relates to the continuing operations of AMR. All share and per share amounts reflect the stock split on June 9, 1998, where appropriate. Certain amounts from prior years have been reclassified to conform with the 1999 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 used for the principal depreciable asset classifications are:

	Depreciable Life
Boeing 727-200 aircraft	August 31, 2003[1]
DC-10 aircraft	December 31, 2000[1]
Other American jet aircraft	20-30 years
Regional aircraft and engines	16-20 years
Major rotable parts, avionics and assemblies	Life of equipment to which applicable
Improvements to leased flight equipment	Term of lease
Buildings and improvements (principally on leased land)	10-30 years or term of lease
Furniture, fixtures and other equipment	3-20 years
Capitalized software	3-10 years

[1] *Approximate final aircraft retirement date.*

Residual values for aircraft, engines, major rotable parts, avionics and assemblies are generally five to 10 percent, except when a guaranteed residual value or other agreements exist to better estimate the 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 aircraft types from 20 to 25 years and increased the residual value from five to 10 percent. It also established a 30-year life for its new Boeing 777 aircraft, first delivered in the first quarter of 1999. As a result of this change, depreciation and amortization expense was reduced by approximately $158 million and net earnings were increased by approximately $99 million, or $0.63 per common share diluted, for the year ended December 31, 1999.

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 Holding Corporation (AMR Eagle) and costs incurred for maintenance and repair under power by the hour maintenance contract agreements, 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.

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 service 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.

Advertising Costs The Company expenses the costs of advertising as incurred. Advertising expense was $206 million, $196 million and $181 million for the years ended December 31, 1999, 1998 and 1997, 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,	
	1999	1998
Overnight investments and time deposits	**$ –**	$ 133
Corporate and bank notes	**1,173**	705
U.S. Government agency notes	**234**	–
Asset backed securities	**145**	353
U.S. Government agency mortgages	**94**	102
Other	**60**	155
	$1,706	$1,448

Short-term investments at December 31, 1999, by contractual maturity included (in millions):

Due in one year or less	**$ 750**
Due between one year and three years	**899**
Due after three years	**57**
	$1,706

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. Approximately 1.7 million of the certificates were held by the Company on behalf of Sabre. As of December 31, 1998, the estimated fair value of these depository certificates was approximately $210 million, of which approximately $110 million was held by the Company on behalf of Sabre, based upon the publicly traded market value of Equant common stock. The carrying value (cost basis) of the Company's investment in the depository certificates as of December 31, 1998 was de minimis.

During 1999, the Company acquired approximately 400,000 Equant depository certificates from other airlines. In addition, based upon a reallocation between the owners of the certificates in July 1999, the Company received an additional 2.6 million certificates. In connection with two secondary offerings by Equant in February and December 1999, the Company sold approximately 2.7 million depository certificates for a net gain of approximately $118 million, after taxes and minority interest. Of this amount, approximately $75 million is included in Miscellaneous – net and approximately $71 million, net of taxes and minority interest, related to depository certificates held by the Company on behalf of Sabre, is included in income from discontinued operations on the accompanying consolidated statements of operations. Accordingly, as of December 31, 1999, the Company holds approximately 3.5 million depository certificates with an estimated market value of approximately $395 million, of which approximately 2.3 million depository certificates with an estimated market value of approximately $259 million, are held by the Company on behalf of Sabre. The carrying value of the Company's investment in the depository certificates as of December 31, 1999 was approximately $20 million.

In December 1999, the Company entered into an agreement to sell its investment in the cumulative mandatorily redeemable convertible preferred stock of Canadian Airlines International Limited (Canadian) for approximately $40 million, resulting in a gain of $40 million, which is included in Miscellaneous – net on the accompanying consolidated statements of operations. In addition, the Company recognized a tax benefit of $67 million resulting from the tax loss on the investment, representing the reversal of a deferred tax valuation allowance since it is more likely than not that the tax benefit will be realized. The valuation allowance was established in 1996 when the investment was written-off because, at that time, it was not more likely than not that the tax benefit of the write-off would be realized.

3. COMMITMENTS AND CONTINGENCIES

At December 31, 1999, the Company had commitments to acquire the following aircraft: 81 Boeing 737-800s, 26 Boeing 777-200IGWs, 86 Embraer ERJ-135s, five Embraer ERJ-145s and 25 Bombardier CRJ-700s. Deliveries of all aircraft extend through 2006. Future payments for all aircraft, including estimated amounts for price escalation, will approximate $2.2 billion in 2000, $1.8 billion in 2001, $600 million in 2002 and an aggregate of approximately $1.0 billion in 2003 through 2006. In addition to these commitments for aircraft, the Company's Board of Directors has authorized expenditures of approximately $800 million over the next five years for modifications to aircraft, renovations of – and additions to – airport and off-airport facilities, and the acquisition of various other equipment and assets. AMR expects to spend approximately $470 million of this authorized amount in 2000.

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 addition, the Company is subject to environmental issues at various other airport and non-airport locations. Management believes, after considering a number of factors, that the ultimate disposition of these environmental issues is not expected to materially affect the Company's consolidated financial position, results of operations, or cash flows. Amounts recorded for environmental issues are based on the Company's current assessments of the ultimate outcome and, accordingly, could increase or decrease as these assessments change.

In April 1995, American announced an agreement to sell 12 of its 19 McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx). 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, 1999. 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 $690 million as of December 31, 1999.

AMR and American have included event risk covenants in approximately $3.0 billion of indebtedness. These covenants permit the holders of such indebtedness to receive a higher rate of return (between 75 and 650 basis points above the stated rate) if a designated event, as defined, should occur and the credit rating of such indebtedness is downgraded below certain levels. The Company's March 15, 2000 distribution of its ownership interest in Sabre represents a designated event under these debt covenants. However, the Company has not received indication that the credit rating on any such indebtedness will be downgraded.

Special facility revenue bonds have been issued by certain municipalities, primarily to purchase equipment and improve airport facilities that 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 $489 million of short-term investments.

4. LEASES

AMR's subsidiaries lease various types of equipment and property, including aircraft and airport and off-airport 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, 1999, were (in millions):

Year Ending December 31,	Capital Leases	Operating Leases
2000	$ 347	$ 1,015
2001	329	1,006
2002	280	952
2003	198	965
2004	249	954
2005 and subsequent	1,081	12,169
	2,484[1]	$17,061[2]
Less amount representing interest	637	
Present value of net minimum lease payments	$1,847	

[1] *Future minimum payments required under capital leases include $187 million guaranteed by AMR relating to special facility revenue bonds issued by municipalities.*

[2] *Future minimum payments required under operating leases include $6.5 billion guaranteed by AMR relating to special facility revenue bonds issued by municipalities.*

At December 31, 1999, the Company had 205 jet aircraft and 71 turboprop aircraft under operating leases, and 79 jet aircraft and 61 turboprop aircraft under capital leases. The aircraft leases can generally be renewed at rates based on fair market value at the end of the lease term for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the defined lessor's cost of the aircraft or at a predetermined fixed amount.

During 1996, American made prepayments on the cancelable operating leases it had on 12 of its Boeing 767-300 aircraft. Upon the expiration of the amended leases, American can purchase the aircraft for a nominal amount. As a result, the aircraft were recorded as flight equipment under capital leases. During 1999, the Company exercised its option to purchase two of the Boeing 767-300 aircraft for a nominal fee. As such, these two aircraft were reclassified from flight equipment under capital leases to owned flight equipment.

Rent expense, excluding landing fees, was $1.3 billion for 1999 and $1.1 billion for 1998 and 1997.

5. INDEBTEDNESS

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

	December 31, 1999	1998
Secured variable and fixed rate indebtedness due through 2015 (effective rates from 6.232% – 9.597% at December 31, 1999)	**$2,556**	$ 857
7.875% – 10.62% notes due through 2039	**812**	865
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, 1999)	**86**	86
Other	**11**	15
Long-term debt, less current maturities	**$4,078**	$2,436

Maturities of long-term debt (including sinking fund requirements) for the next five years are: 2000 – $302 million; 2001 – $516 million; 2002 – $150 million; 2003 – $116 million; 2004 – $123 million.

American has a $1.0 billion credit facility agreement that 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, 1999, 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 $2.7 billion. 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, 1999, under the most restrictive provisions of those debt and credit facility agreements, approximately $2.6 billion of the retained earnings of American was available for payment of dividends to AMR.

Cash payments for interest, net of capitalized interest, were $237 million, $277 million and $411 million for 1999, 1998 and 1997, 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 counter-parties 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, 1999, 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 out-standing 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, 1999		December 31, 1998	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Interest rate swap agreements	**$696**	**$(9)**	$1,054	$38

The fair values represent the amount the Company would pay or receive if the agreements were terminated at December 31, 1999 and 1998, respectively.

At December 31, 1999, the weighted-average remaining life of the interest rate swap agreements in effect was 5.1 years. The weighted-average floating rates and fixed rates on the contracts outstanding were:

	December 31, 1999	1998
Average floating rate	5.855%	5.599%
Average fixed rate	6.593%	6.277%

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, 1999, American had fuel hedging agreements with broker-dealers on approximately two billion gallons of fuel products, which represents approximately 48 percent of its expected 2000 fuel needs and approximately 10 percent of its expected 2001 fuel needs. The fair value of the Company's fuel hedging agreements at December 31, 1999, representing the amount the Company would receive to terminate the agreements, totaled $232 million. At December 31, 1998, American had fuel hedging agreements with broker-dealers on approximately two billion gallons of fuel products, which represented 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, 2000, 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, 1999 and 1998, the notional amount related to these options totaled approximately $445 million and $597 million, respectively, and the fair value, representing the amount AMR would receive to terminate the agreements, totaled approximately $14 million and $10 million, respectively.

The Company has entered into Japanese yen currency exchange agreements to effectively convert certain yen-based 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 yen currency exchange agreements, representing the amount the Company would receive or pay to terminate the agreements, were (in millions):

	December 31, 1999		1998	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Japanese yen	**33.6 billion**	**$41**	33.7 billion	$(5)

The exchange rates on the Japanese yen agreements range from 66.50 to 116.89 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, 1999		1998	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Secured variable and fixed rate indebtedness	**$2,651**	**$2,613**	$ 890	$1,013
7.875% – 10.62% notes	**1,014**	**1,024**	875	973
9.0% – 10.20% debentures	**437**	**469**	437	531
6.0% – 7.10% bonds	**176**	**174**	176	189
Variable rate indebtedness	**86**	**86**	86	86
Other	**16**	**16**	20	20
	$4,380	**$4,382**	$2,484	$2,812

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

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended, is required to be adopted in fiscal years beginning after June 15, 2000. 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 on the Company's financial condition and results of operations.

7. INCOME TAXES

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

	Year Ended December 31, 1999	1998	1997
Current	**$167**	$451	$206
Deferred	**183**	268	321
	$350	$719	$527

The income tax provision includes a federal income tax provision of $290 million, $628 million and $462 million and a state income tax provision of $49 million, $78 million and $56 million for the years ended December 31, 1999, 1998 and 1997, respectively.

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

	Year Ended December 31, 1999	1998	1997
Statutory income tax provision	**$352**	$641	$467
State income tax provision, net	**32**	51	36
Meal expense	**19**	18	20
Change in valuation allowance	**(67)**	(4)	–
Other, net	**14**	13	4
Income tax provision	**$350**	$719	$527

The change in valuation allowance in 1999 relates to the reversal of the Company's investment in Canadian (see Note 2). The change in valuation allowance in 1998 relates to the utilization of foreign tax credits.

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

	December 31, 1999	1998
Deferred tax assets:		
Postretirement benefits other than pensions	**$ 614**	$ 593
Rent expense	**449**	376
Frequent flyer obligation	**307**	258
Alternative minimum tax credit carryforwards	**289**	515
Gains from lease transactions	**238**	223
Other	**520**	359
Valuation allowance	**–**	(68)
Total deferred tax assets	**2,417**	2,256
Deferred tax liabilities:		
Accelerated depreciation and amortization	**(3,381)**	(3,044)
Pensions	**(50)**	(69)
Other	**(220)**	(170)
Total deferred tax liabilities	**(3,651)**	(3,283)
Net deferred tax liability	**$(1,234)**	$(1,027)

At December 31, 1999, AMR had available for federal income tax purposes approximately $289 million of alternative minimum tax credit carryforwards which are available for an indefinite period.

Cash payments for income taxes were $71 million, $408 million and $294 million for 1999, 1998 and 1997, respectively.

8. COMMON AND PREFERRED STOCK

The Company has 20 million shares of preferred stock (without par value) authorized at December 31, 1999 and 1998. On June 9, 1998, a two-for-one stock split in the form of a stock dividend was effective for shareholders of record on May 26, 1998. All prior period share and earnings per share amounts reflect 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 1999, 1998 and 1997, the total charge for stock compensation expense included in wages, salaries and benefits expense was $53 million, $52 million and $67 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, 1999		1998		1997	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	**4,147,124**	**$46.60**	3,506,774	$38.77	3,663,590	$33.59
Granted	**1,539,585**	**63.19**	1,216,720	63.01	895,480	52.28
Exercised	**(258,875)**	**68.17**	(470,810)	31.82	(985,776)	32.17
Canceled	**(208,200)**	**49.96**	(105,560)	42.34	(66,520)	33.82
Outstanding at December 31	**5,219,634**	**$52.06**	4,147,124	$46.60	3,506,774	$38.77
Exercisable options outstanding at December 31	**2,012,889**	**$40.63**	1,586,974	$36.49	1,615,020	$31.32

The following table summarizes information about the stock options outstanding at December 31, 1999:

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	671,114	3.38	$29.92	668,614	$29.94
$34-$42	1,093,575	5.92	37.84	744,935	37.68
$43-$52	1,009,400	8.18	50.59	356,240	49.72
$53-$62	1,131,155	9.25	58.77	118,040	58.14
$63-$73	1,314,390	9.08	70.55	125,060	72.94
	5,219,634	7.55	$52.06	2,012,889	$40.63

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, 1999	1998	1997
Outstanding at January 1	**5,791,381**	7,438,220	–
Granted	**–**	–	11,500,000
Exercised	**(371,353)**	(1,646,839)	(4,061,780)
Outstanding at December 31	**5,420,028**	5,791,381	7,438,220

The weighted-average grant date fair value of all stock option awards granted during 1999, 1998 and 1997 was $23.17, $21.15 and $11.00, 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, 1999	1998	1997
Outstanding at January 1	**2,401,532**	2,457,190	2,394,662
Granted	**146,200**	185,812	175,500
Issued	**(122,042)**	(190,911)	(67,340)
Canceled	**(115,010)**	(50,559)	(45,632)
Outstanding at December 31	**2,310,680**	2,401,532	2,457,190

The weighted-average grant date fair value of career equity awards granted during 1999, 1998 and 1997 was $63.54, $57.77 and $54.98, 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,		
	1999	1998	1997
Outstanding at January 1	**1,565,616**	1,737,274	1,679,460
Granted	**509,822**	644,680	808,736
Issued	**(208,265)**	(205,458)	(190,766)
Awards settled in cash	**(513,370)**	(522,234)	(513,064)
Canceled	**(138,159)**	(88,646)	(47,092)
Outstanding at December 31	**1,215,644**	1,565,616	1,737,274

The weighted-average grant date fair value of performance share awards granted during 1999, 1998 and 1997 was $62.95, $62.06 and $52.28, respectively.

There were approximately 20 million shares of AMR's common stock at December 31, 1999 reserved for the issuance of stock upon the exercise of options and the issuance of stock awards. See Note 12 for information regarding the impact on stock awards and options due to the Sabre spin-off.

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 income from continuing operations and earnings per share from continuing operations has been determined as if the Company 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 1999, 1998 and 1997: risk-free interest rates ranging from 5.01% to 6.07%; dividend yields of 0%; expected stock volatility ranging from 25.5% to 31.3%; and expected life of the options of 4.5 years for the Plans and 1.5 years for The Pilot Plan.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that 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 is not fully reflected in years prior to 1999.

The following table shows the Company's pro forma income from continuing operations and earnings per share from continuing operations assuming the Company had accounted for its employee stock options using the fair value method (in millions, except per share amounts):

	Year Ended December 31,		
	1999	1998	1997
Income from continuing operations:			
As reported	**$ 656**	$1,114	$ 809
Pro forma	**651**	1,114	785
Basic earnings per share from continuing operations:			
As reported	**$4.30**	$ 6.60	$4.54
Pro forma	**4.27**	6.60	4.40
Diluted earnings per share from continuing operations:			
As reported	**$4.17**	$ 6.38	$4.43
Pro forma	**4.14**	6.38	4.30

10. RETIREMENT BENEFITS

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 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, 1999 and 1998, and a statement of funded status as of December 31, 1999 and 1998 (in millions):

	Pension Benefits		Other Benefits	
	1999	1998	**1999**	1998
Reconciliation of benefit obligation				
Obligation at January 1	**$6,117**	$5,666	**$ 1,526**	$ 1,356
Service cost	**236**	213	**56**	52
Interest cost	**433**	418	**108**	99
Actuarial loss (gain)	**(849)**	300	**(311)**	84
Plan amendments	**75**	–	**–**	–
Benefit payments	**(388)**	(464)	**(70)**	(65)
Curtailments/Special termination benefits	**4**	–	**(3)**	–
Settlements	**–**	(16)	**–**	–
Obligation at December 31	**$5,628**	$6,117	**$ 1,306**	$ 1,526
Reconciliation of fair value of plan assets				
Fair value of plan assets at January 1	**$5,564**	$5,127	**$ 62**	$ 49
Actual return on plan assets	**7**	850	**1**	4
Employer contributions	**100**	70	**79**	74
Benefit payments	**(388)**	(464)	**(70)**	(65)
Settlements	**–**	(16)	**–**	–
Transfers	**(1)**	(3)	**–**	–
Fair value of plan assets at December 31	**$5,282**	$5,564	**$ 72**	$ 62
Funded status				
Accumulated benefit obligation (ABO)	**$4,700**	$5,073	**$ 1,306**	$ 1,526
Projected benefit obligation (PBO)	**5,628**	6,117	**–**	–
Fair value of assets	**5,282**	5,564	**72**	62
Funded status at December 31	**(346)**	(553)	**(1,234)**	(1,464)
Unrecognized loss (gain)	**288**	651	**(395)**	(89)
Unrecognized prior service cost	**139**	68	**(40)**	(45)
Unrecognized transition asset	**(7)**	(11)	**–**	–
Prepaid (accrued) benefit cost	**$ 74**	$ 155	**$(1,669)**	$(1,598)

At December 31, 1999 and 1998, plan assets of approximately $71 million and $61 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, 1999, 1998 and 1997 (in millions):

	Pension Benefits		
	1999	1998	1997
Components of net periodic benefit cost			
Defined benefit plans:			
Service cost	**$236**	$213	$179
Interest cost	**433**	418	393
Expected return on assets	**(514)**	(478)	(421)
Amortization of:			
Transition asset	**(4)**	(11)	(12)
Prior service cost	**5**	4	4
Unrecognized net loss	**21**	22	26
Settlement loss	**–**	6	–
Net periodic benefit cost for defined benefit plans	**177**	174	169
Defined contribution plans	**155**	158	145
Total	**$332**	$332	$314

	Other Benefits		
	1999	1998	1997
Components of net periodic benefit cost			
Service cost	**$ 56**	$ 52	$ 44
Interest cost	**108**	99	92
Expected return on assets	**(6)**	(5)	(4)
Amortization of:			
Prior service cost	**(5)**	(5)	(5)
Unrecognized net gain	**–**	(2)	(9)
Net periodic benefit cost	**$153**	$139	$118

The following table provides the amounts recognized in the consolidated balance sheets as of December 31, 1999 and 1998 (in millions):

	Pension Benefits		Other Benefits	
	1999	1998	**1999**	1998
Prepaid benefit cost	**$ 244**	$ 297	**$ –**	$ –
Accrued benefit liability	**(170)**	(142)	**(1,669)**	(1,598)
Additional minimum liability	**(15)**	(13)	**–**	–
Intangible asset	**13**	7	**–**	–
Accumulated other comprehensive income	**2**	6	**–**	–
Net amount recognized	**$ 74**	$ 155	**$(1,669)**	$(1,598)

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

	Pension Benefits		Other Benefits	
	1999	1998	**1999**	1998
Weighted-average assumptions				
Discount rate	**8.25%**	7.00%	**8.25%**	7.00%
Salary scale	**4.26**	4.26	**–**	–
Expected return on plan assets	**9.50**	9.50	**9.50**	9.50

The assumed health care cost trend rate was five percent in 1999 and 1998, 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 1999 service and interest cost	$ 24	$ (22)
Impact on postretirement benefit obligation as of December 31, 1999	$115	$(105)

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,		
	1999	1998	1997
Numerator:			
Numerator for earnings per share – income from continuing operations	**$ 656**	$1,114	$ 809
Denominator:			
Denominator for basic earnings per share – weighted-average shares	**152**	169	178
Effect of dilutive securities:			
Employee options and shares	**12**	13	14
Assumed treasury shares purchased	**(7)**	(7)	(9)
Dilutive potential common shares	**5**	6	5
Denominator for diluted earnings per share – adjusted weighted-average shares	**157**	175	183
Basic earnings per share from continuing operations	**$4.30**	$ 6.60	$4.54
Diluted earnings per share from continuing operations	**$4.17**	$ 6.38	$4.43

12. DISCONTINUED OPERATIONS

During the first quarter of 1999, the Company completed the sales of AMR Services, AMR Combs and TeleService Resources. As a result of these sales, the Company recorded a gain of approximately $64 million, net of income taxes of approximately $19 million.

On February 7, 2000, the Company declared its intent to distribute AMR's entire ownership interest in Sabre as a dividend on all outstanding shares of its common stock. To effect the dividend, AMR exchanged all of its 107,374,000 shares of Sabre's Class B common stock for an equal number of shares of Sabre's Class A common stock. Effective after the close of business on March 15, 2000, AMR distributed 0.722652 shares of Sabre Class A common stock for each share of AMR stock owned by AMR's shareholders. The record date for the dividend of Sabre stock was the close of business on March 1, 2000. In addition, on February 18, 2000, Sabre paid a special one-time cash dividend of $675 million to shareholders of record of Sabre common stock at the close of business on February 15, 2000. Based upon its approximate 83 percent interest in Sabre, AMR received approximately $560 million of this dividend. These funds will be used for general corporate purposes. The dividend of AMR's entire ownership interest in Sabre's common stock resulted in a reduction to AMR's retained earnings in March of 2000 equal to the carrying value of the Company's investment in Sabre on March 15, 2000, which approximated $600 million. The fair market value of AMR's investment in Sabre on March 15, 2000, based upon the quoted market closing price of Sabre Class A common stock on the New York Stock Exchange, was approximately $5.2 billion. In addition, effective March 15, 2000, the Company reduced the exercise price and increased the number of stock options and awards by approximately 18 million to offset the dilution to the holders, which occurred as a result of the spin-off. These changes were made to keep the holders in the same economic position as before the spin-off. This dilution adjustment was determined in accordance with Emerging Issues Task Force Consensus No. 90-9, "Changes to Fixed Employee Stock Option Plans as a Result of Equity Restructuring," and will have no impact on earnings.

The results of operations for Sabre, AMR Services, AMR Combs and TeleService Resources have been reflected in the consolidated statements of operations as discontinued operations. Summarized financial information of the discontinued operations is as follows (in millions):

	Year Ended December 31,		
	1999	1998	1997
Sabre			
Revenues	**$2,435**	$2,306	$1,788
Minority interest	**57**	40	36
Income taxes	**196**	140	124
Net income	**265**	192	164
AMR Services, AMR Combs and TeleService Resources			
Revenues	**$ 97**	$ 513	$ 518
Income taxes	**–**	7	10
Net income	**–**	8	12

The historical assets and liabilities of Sabre, AMR Services, AMR Combs and TeleService Resources, which have been reflected on a net basis in other assets on the consolidated balance sheets, are summarized as follows (in millions):

	December 31,		
	1999	1998	1997
Current assets	**$ 976**	$1,004	$ 967
Total assets	**1,951**	2,198	1,758
Current liabilities	**525**	434	359
Total liabilities, including minority interest	**912**	1,263	987
Net assets of discontinued operations	**1,039**	935	771

13. SEGMENT REPORTING

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) 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 has two primary operating segments, consisting primarily of American and AMR Eagle, which represent one reportable segment. American is one of the largest scheduled passenger airlines in the world. At the end of 1999, American provided scheduled jet service to more than 169 destinations throughout North America, the Caribbean, Latin America, Europe and the Pacific. American is also one of the largest scheduled air freight carriers in the world, providing a full range of freight and mail services to shippers throughout its system. AMR Eagle owns three regional airlines which operate as "American Eagle" – American Eagle Airlines, Inc., Executive Airlines, Inc. and Business Express Airlines, Inc. (acquired in March 1999). The American Eagle carriers provide connecting service from seven of American's high-traffic cities to smaller markets throughout the United States, Canada, the Bahamas and the Caribbean.

Revenues from other segments below the quantitative threshold for determining reportable segments consist primarily of revenues from AMR Investment Services, Inc., Americas Ground Services and Airline Management Services. The difference between the financial information of the Company's one reportable segment and the financial information included in the consolidated statements of operations and balance sheets as a result of these entities is not material.

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

	Year Ended December 31,		
	1999	1998	1997
Domestic	**$12,563**	$12,262	$11,750
Latin America	**2,697**	2,830	2,816
Europe	**1,984**	2,039	2,035
Pacific	**486**	385	356
Total consolidated revenues	**$17,730**	$17,516	$16,957

The Company attributes operating revenues by geographic region based upon the origin and destination of each flight segment. The Company's tangible assets consist primarily of flight equipment which is mobile across geographic markets and, therefore, has not been allocated.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 1999 and 1998 (in millions, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999*				
Operating revenues	**$4,007**	**$4,541**	**$4,695**	**$4,487**
Operating income	**46**	**414**	**426**	**270**
Income from continuing operations	**17**	**216**	**213**	**210**
Net earnings	**158**	**268**	**279**	**280**
Earnings per common share:				
Basic				
From continuing operations	**0.11**	**1.41**	**1.42**	**1.42**
Net earnings	**0.99**	**1.76**	**1.86**	**1.89**
Diluted				
From continuing operations	**0.11**	**1.36**	**1.38**	**1.37**
Net earnings	**0.99**	**1.70**	**1.76**	**1.84**
1998*				
Operating revenues	$4,242	$4,506	$4,601	$4,167
Operating income	434	614	634	306
Income from continuing operations	226	351	373	164
Net earnings	290	409	433	182
Earnings per common share:				
Basic				
From continuing operations	1.31	2.04	2.21	1.01
Net earnings	1.68	2.38	2.57	1.12
Diluted				
From continuing operations	1.26	1.97	2.14	0.98
Net earnings	1.62	2.30	2.49	1.09

** Results for 1998 have been restated for discontinued operations and the first, second and third quarters of 1999 have been restated from amounts previously reported for the discontinued operations of Sabre.*

During the first quarter of 1999, the Company recorded an after-tax gain of approximately $64 million related to the sale of AMR Services, AMR Combs and TeleService Resources, and a $37 million after-tax gain related to the sale of a portion of the Company's holdings in Equant, of which approximately $18 million is recorded in income from discontinued operations (see Note 2). Results for the fourth quarter of 1999 include: (i) a $25 million after-tax gain related to the Company's sale of its investment in the preferred stock of Canadian and a $67 million tax benefit resulting from the tax loss on the Company's investment in Canadian (see Note 2), (ii) an after-tax gain of approximately $81 million related to the sale of a portion of the Company's holdings in Equant, of which approximately $53 million is recorded in income from discontinued operations (see Note 2), (iii) a $28 million after-tax increase in passenger revenue resulting from a change in estimate related to certain passenger revenues earned during the first nine months of 1999, and (iv) a $25 million after-tax provision for certain litigation settlements.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
AMR Corporation

We have audited the accompanying consolidated statements of balance sheets of AMR Corporation as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. 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 auditing standards generally accepted in the United States. 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

2121 San Jacinto
Dallas, Texas 75201
January 17, 2000, except for the
second paragraph of Note 12,
for which the date is
March 15, 2000.

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 accounting principles generally accepted in the United States and reflect certain estimates and judgments of management as to matters set forth therein.

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

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

The Audit Committee of the Board of Directors, composed entirely of independent directors, 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

Thomas W. Horton
Senior Vice President and
Chief Financial Officer

(in millions, except share and per share amounts)	**1999***	1998*	1997*
Total operating revenues	**$17,730**	17,516	16,957
Total operating expenses	**$16,574**	15,528	15,362
Operating income (loss)	**$ 1,156**	1,988	1,595
Earnings (loss) from continuing operations before extraordinary loss and cumulative effect of accounting changes	**$ 656**	1,114	809
Net earnings (loss)	**$ 985**	1,314	985
Earnings (loss) per common share from continuing operations before extraordinary loss and cumulative effect of accounting changes:[1]			
Basic	**$ 4.30**	6.60	4.54
Diluted	**$ 4.17**	6.38	4.43
Net earnings (loss) per common share:[1]			
Basic	**$ 6.46**	7.78	5.52
Diluted	**$ 6.26**	7.52	5.39
Total assets	**$24,374**	21,455	20,287
Long-term debt, less current maturities	**$ 4,078**	2,436	2,248
Obligations under capital leases, less current obligations	**$ 1,611**	1,764	1,629
Non-redeemable preferred stock	**–**	–	–
Convertible preferred stock, common stock and other stockholders' equity[2]	**$ 6,858**	6,698	6,216
Common shares outstanding at year-end (in thousands)[1]	**148,250**	161,300	173,200
Book value per common share[1]	**$ 46.26**	41.53	35.89
Preferred shares outstanding at year-end:			
Convertible preferred stock	**–**	–	–
Non-redeemable preferred stock	**–**	–	–

** The results for 1999, 1998 and 1997 have been restated for the discontinued operations of Sabre Holdings Corporation.*

[1] All share and earnings per share amounts reflect the stock split on June 9, 1998.
[2] No dividends have been paid on common stock for any period presented.

1996	1995	1994	1993	1992	1991	1990	1989
17,364	16,910	16,137	15,816	14,396	12,887	11,720	10,480
15,557	15,895	15,131	15,126	14,421	12,882	11,596	9,736
1,807	1,015	1,006	690	(25)	5	124	744
1,083	191	228	(96)	(475)	(240)	(40)	455
1,016	162	228	(110)	(935)	(240)	(40)	455
6.29	1.25	2.26	(1.02)	(3.17)	(1.77)	(0.32)	3.71
5.95	1.24	2.25	(1.02)	(3.17)	(1.77)	(0.32)	3.58
5.90	1.06	2.26	(1.12)	(6.24)	(1.77)	(0.32)	3.71
5.59	1.05	2.25	(1.12)	(6.24)	(1.77)	(0.32)	3.58
20,451	19,556	19,486	19,326	18,706	16,208	13,354	10,877
2,737	4,983	5,603	5,431	5,643	3,951	1,674	809
1,790	2,069	2,275	2,123	2,195	1,928	1,598	1,497
–	–	–	–	–	–	–	–
5,668	3,720	3,380	4,276	3,349	3,794	3,727	3,766
182,000	152,800	151,800	151,536	150,812	136,726	124,622	124,480
31.14	23.83	21.75	21.08	22.20	27.75	29.91	30.25
–	159,000	159,000	2,200,000	–	–	–	–
–	–	–	–	–	–	–	–

BOARD OF DIRECTORS

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

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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/American Airlines, Inc.
(Air Transportation)
Fort Worth, Texas
Elected in 1998

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

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Chairman and Chief Executive Officer
Earl G. Graves, Limited
(Communications and Publishing)
Publisher and Chief Executive Officer
Black Enterprise Magazine
General Partner Black Enterprise/Greenwich Street Corporate Growth Partners, L.P.
New York, New York
Elected in 1995

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

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The Aspen Institute
(Educational and Public Policy Organization)
Aspen, Colorado
Elected in 1990

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Southern Methodist University
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Dallas, Texas
Elected in 1982

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(Financial Services)
New York, New York
Elected in 2000

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

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(Educational Institution)
Philadelphia, Pennsylvania
Elected in 1997

Maurice Segall
Retired Chairman, President and
Chief Executive Officer
Zayre Corporation (Retailing)
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Elected in 1985
Retired in November 1999

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David L. Boren
Earl G. Graves
Dee J. Kelly
Philip J. Purcell

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Armando M. Codina
Charles H. Pistor, Jr.
Joe M. Rodgers
Judith Rodin

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Edward A. Brennan, Chairman
Armando M. Codina
Charles H. Pistor, Jr.
Joe M. Rodgers
Judith Rodin

Governance Committee
Edward A. Brennan, Chairman
David L. Boren
Earl G. Graves
Dee J. Kelly
Ann D. McLaughlin
Philip J. Purcell

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

AMERICAN AIRLINES, INC.

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Robert W. Baker
Vice Chairman

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Daniel P. Garton
Executive Vice President-Customer Service

Michael W. Gunn
Executive Vice President-Marketing and Planning

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Senior Vice President-Miami, Caribbean and Latin America

Thomas W. Horton*
Senior Vice President-Finance and Chief Financial Officer

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Senior Vice President-Planning

Thomas J. Kiernan
Senior Vice President-Human Resources

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Senior Vice President and General Counsel

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Senior Vice President-Government Affairs

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A. Jaynne Allison
Vice President-Human Resources

Walter J. Aue
Vice President-Capacity Planning

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President-American Airlines Cargo Division

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Vice President-Alliance Base Maintenance

Jeffrey C. Campbell
Vice President-Europe

John A. Carpenter
Vice President-Corporate Affairs

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Vice President-Line Maintenance

Lauri L. Curtis
Vice President-Reservations

C. David Cush
Vice President-International Planning and Alliances

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Vice President-Customer Service

Bernard J. DeSena
Vice President-Chicago

Timothy J. Doke
Vice President-Corporate Communications

Bella D. Goren
Vice President-Customer Service 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

Dan P. Huffman
Vice President-Engineering and Quality Assurance

David C. Kennedy
Vice President-Love Field Operations

Gary F. Kennedy
Vice President-Corporate Real Estate

Craig S. Kreeger
Vice President and General Sales Manager

Robert P. Kudwa
Vice President-Flight and Chief Pilot

Dennis LeBright
Vice President-Miami

John R. MacLean
Vice President-Purchasing

Charles D. MarLett*
Corporate Secretary

George L. Mueller
Vice President-Asia/Pacific

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

Ralph L. Richardi
Vice President-Operations Planning and Performance

John R. Samuel
Vice President-Interactive Marketing

Peggy E. Sterling
Vice President-Dallas/Fort Worth

Arthur J. Torno
Vice President-Caribbean and Latin America Operations

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Peter M. Bowler
President

Thomas F. Bacon
Senior Vice President-Marketing and Planning

Robert W. Reding
Senior Vice President and Chief Operations Officer

Carolyn E. Wright
Senior Vice President-Customer Service

AADVANTAGE MARKETING PROGRAMS DIVISION

Bruce T. Chemel
President

AMR INVESTMENT SERVICES, INC.

William F. Quinn
President

* AMR Corporation Officers

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 traded unlisted on the Pacific Stock Exchange.

FORM 10-K

A copy of the AMR Corporation Annual Report to the Securities and Exchange Commission for 1999 (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 Co., A Division of Equiserve
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 9¾% AND 10% NOTES

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

7.875%, 9½% AND 9¾% NOTES AND 9.75%, 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

	Common Stock*	
	High	Low
1999		
1st Quarter	**$71 7/16**	**$53 3/16**
2nd Quarter	**74 5/16**	**60 9/16**
3rd Quarter	**72 3/4**	**52 13/16**
4th Quarter	**68 1/2**	**53 9/16**
1998		
1st Quarter	**$73 1/8**	**$61 13/16**
2nd Quarter	**83 1/4**	**68 15/16**
3rd Quarter	**89 1/4**	**50**
4th Quarter	**69 15/16**	**47 1/8**

**No dividends were paid during the periods.*

AMR Corporation's 1999 Annual Report is printed on recycled paper.

Shareholders can also visit AMR's Internet site on the World Wide Web at www.amrcorp.com to receive financial and other company information, or to request a printed copy of financial materials.

Additionally, shareholders in the United States, Canada and most of the Caribbean can call (800) AMR-6177 to hear the most recent quarterly results or request a printed copy of financial materials. Shareholders residing in other areas should call (402) 573-9855.

2000 quarterly results will be released on the following dates, with the shareholder information line and Web site updated shortly thereafter:

1st Quarter:	April 19, 2000
2nd Quarter:	July 19, 2000
3rd Quarter:	October 18, 2000
4th Quarter:	January 17, 2001

AMR CORPORATION

P.O. Box 619616

Dallas/Fort Worth Airport, Texas 75261-9616

American Airlines' Internet address is www.aa.com

AMR's Internet address is www.amrcorp.com