SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]
For fiscal year ended December 31, 1997.

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]

Commission file number 1-2691.

AMERICAN AIRLINES, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-1502798
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4333 Amon Carter Blvd. Fort Worth, Texas	76155
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (817) 963-1234

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

NONE
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

American Airlines, Inc. is a wholly-owned subsidiary of AMR Corporation, and there is no market for the registrant's common stock. As of March 9, 1998, 1,000 shares of the registrant's common stock were outstanding.

The registrant meets the conditions set forth in, and is filing this form with the reduced disclosure format prescribed by, General Instructions I(1)(a) and I(1)(b) of Form 10-K.

PART I

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ITEM 1. BUSINESS

American Airlines, Inc. (American or the Company), the principal subsidiary of AMR Corporation (AMR), was founded in 1934.

On July 2, 1996, AMR completed the reorganization of its information technology businesses known as The SABRE Group into a separate, wholly-owned subsidiary of AMR known as The SABRE Group Holdings, Inc. (the Reorganization). Prior to the Reorganization, most of The SABRE Group's business units were divisions of American. As part of the Reorganization, all of the businesses of The SABRE Group, including American's SABRE Travel Information Network, SABRE Computer Services, SABRE Development Services, and SABRE Interactive divisions (collectively, the Information Services Group), and certain buildings, equipment, and American's leasehold interest in certain other buildings used by The SABRE Group were combined in subsidiaries of American, which were then dividended to AMR.

Following the Reorganization, American operates in only one business segment which consists primarily of American's Passenger and Cargo divisions.

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

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

COMPETITION

Most major air carriers have developed hub-and-spoke systems and schedule patterns in an effort to maximize the revenue potential of their service. American operates four hubs: Dallas/Fort Worth, Chicago O'Hare, Miami and San Juan, Puerto Rico. In 1995, American implemented schedule reductions which ended the airline's hub operations at Raleigh/Durham and Nashville. Delta Air Lines and United Airlines have hub operations at Dallas/Fort Worth and Chicago O'Hare, respectively.

The AMR Eagle carriers owned by AMR Eagle Holding Corporation, an AMR subsidiary, increase the number of markets AMR's Airline Group serves by providing connections to American at American's hubs and certain other major airports. The AMR Eagle carriers serve smaller markets through Dallas/Fort Worth, Chicago, Miami, San Juan, Los Angeles and New York John F. Kennedy International Airport. American's competitors also own or have marketing agreements with regional carriers which provide service at their major hubs.

In addition to its extensive domestic service, American provides international service to the Caribbean, Canada, Latin America, Europe and the Pacific. American's operating revenues from foreign operations were approximately $5.1 billion in 1997 and $4.7 billion in 1996 and 1995. Additional information about the Company's foreign operations is included in Note 12 to the consolidated financial statements.

Service over almost all of American's routes is highly competitive. Currently, any carrier deemed fit by the U.S. Department of Transportation (DOT) is free to operate scheduled passenger service between any two points within the U.S. and its possessions. On most of its non-stop routes, American competes with at least one, and usually more than one, major domestic airline including: America West Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, Southwest Airlines, Trans World Airlines, United Airlines, and US Airways. Competition is even greater between cities that require a connection, where as many as eight airlines may compete via their respective hubs. American also competes with national, regional, all-cargo, and charter carriers and, particularly on shorter segments, ground transportation.

On all of its routes, pricing decisions are affected by competition from other airlines, some of which have cost structures significantly lower than American's and can therefore operate profitably at lower fare levels. As of December 31, 1997, approximately 47 percent of American's bookings were impacted by competition from lower-cost carriers. American and its principal competitors use inventory management systems that permit them to vary the number of discount seats offered on each flight in an effort to maximize revenues, yet still be price competitive with lower-cost carriers.

Competition in many international markets is subject to extensive government regulation. In these markets, American competes with foreign investor-owned carriers, state-owned airlines and U.S. carriers that have been granted authority to provide scheduled passenger and cargo service between the U.S. and various overseas locations. American's operating authority in these markets is subject to aviation agreements between the U.S. and the respective countries, and in some cases, fares and schedules require the approval of the DOT and the relevant foreign governments. Because international air transportation is governed by bilateral or other agreements between the U.S. and the foreign country or countries involved, changes in U.S. or foreign government aviation policy could result in the alteration or termination of such agreements, diminish the value of such route authorities, or otherwise adversely affect American's international operations. Bilateral agreements between the U.S. and various foreign countries served by American are subject to frequent renegotiation.

The major U.S. carriers have some advantage over foreign competitors in their ability to generate traffic from their extensive domestic route systems. In many cases, however, U.S. carriers are limited in their rights to carry passengers beyond designated gateway cities in foreign countries. Some of American's foreign competitors are owned and subsidized by foreign governments. To improve their access to each others' markets, various U.S. and foreign carriers -- including American -- have established marketing relationships with other carriers. American currently has code-sharing programs with Aero California, Aspen Mountain Air, British Midland, Business Express, Canadian Airlines International Limited, China Airlines, Gulf Air, Hawaiian Airlines, LOT Polish Airlines, Qantas Airways, Singapore Airlines, South African Airways and the TAM Group. In addition, American plans to implement code-share alliances with other international carriers, including Air Liberte, Asiana Airlines, China Eastern Airlines, Iberia, Lan Chile, Philippine Airlines and the TACA Group, pending regulatory approval. The Company has also agreed to acquire a minority equity interest, pending regulatory approval by the Department of Justice, in the Argentine holding company Interinvest, S.A. which owns a controlling interest in the Argentine carriers Aerolineas Argentinas and Austral Lineas Aereas. In the coming years, the Company expects to develop these code-sharing programs further and to evaluate new alliances with other international carriers.

In February 1998, the Company announced its plans to finalize an alliance between American and Japan Airlines (JAL). Subject to regulatory approval of the U.S. Department of Transportation and Japan's Ministry of Transport, the two carriers will introduce extensive code sharing across each other's networks. The two carriers already have in place full reciprocity between their frequent flyer programs and an extensive cooperation agreement in air cargo.

Furthermore, in June 1996, the Company announced its plans to create a worldwide alliance between American and British Airways Plc. Subject to regulatory approval, which is still pending, the two carriers will introduce extensive code sharing across each other's networks. Additionally, the carriers will combine their passenger and cargo activities between the United States and Europe and will share the resulting profits on these services. During 1997, a frequent flyer program was introduced between the two carriers.

American believes that it has several advantages relative to its competition. Its fleet is efficient and quiet and is one of the youngest fleets in the U.S. airline industry. It has a comprehensive domestic and international route structure, anchored by efficient hubs, which permit it to take full advantage of whatever traffic growth occurs. The Company believes American's AAdvantage frequent flyer program, which is the largest program in the industry, and its superior service also give it a competitive advantage.

REGULATION

GENERAL The Airline Deregulation Act of 1978, as amended, eliminated most domestic economic regulation of passenger and freight transportation. However, the DOT and the Federal Aviation Administration (FAA) still exercise certain regulatory authority over air carriers under the Federal Aviation Act of 1958, as amended. The DOT maintains jurisdiction over international route authorities and certain consumer protection matters, such as advertising, denied boarding compensation and baggage liability.

The FAA regulates flying operations generally, including establishing personnel, aircraft and security standards. In addition, the FAA has implemented a number of requirements that American is incorporating into its maintenance program. These matters relate to, among other things, inspection and maintenance of aging aircraft, corrosion control and the installation of upgraded digital flight data recorders, enhanced ground proximity warning systems and cargo compartment smoke detection and fire suppression systems. Based on its current implementation schedule, American expects to be in compliance with the applicable requirements within the required time periods.

The U.S. Department of Justice has jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act, which vests in the National Mediation Board certain regulatory functions with respect to disputes between airlines and labor unions relating to union representation and relating to collective bargaining agreements. To the extent American continues to increase its alliances with international carriers, American may be subject to certain regulations of foreign agencies.

Several items of legislation have been introduced in the Congress that would, if enacted; (i) authorize the withdrawal of slots from major carriers -- including American -- at key airports for redistribution to new entrants and smaller carriers and/or (ii) provide financial assistance, in the form of guarantees and/or subsidized loans, to smaller carriers for aircraft purchases. In addition, the Departments of Justice and Transportation are investigating competition at major hub airports. The outcomes of the proposed legislation and the investigations are unknown. However, to the extent that (i) slots are taken from American at key airports, (ii) restrictions are imposed upon American's ability to respond to a competitor, or (iii) competitors have a financial advantage in the purchase of aircraft because of federal assistance, American's business may be adversely impacted.

AIRLINE FARES Airlines are permitted to establish their own domestic fares without governmental regulation, and the industry is characterized by substantial price competition. The DOT maintains authority over international fares, rates and charges. International fares and rates are also subject to the jurisdiction of the governments of the foreign countries which American serves. While air carriers are required to file and adhere to international fare and rate tariffs, many international markets are characterized by substantial commissions, overrides, and discounts to travel agents, brokers and wholesalers.

Fare discounting by competitors has historically had a negative effect on American's financial results because American is generally required to match competitors' fares to maintain passenger traffic. During recent years, a number of new low-cost airlines have entered the domestic market and several major airlines have begun to implement efforts to lower their cost structures. Further fare reductions, domestic and international, may occur in the future. If fare reductions are not offset by increases in passenger traffic or changes in the mix of traffic that improves yields, American's operating results will be negatively impacted.

AIRPORT ACCESS In 1968, the FAA issued a rule designating New York John F. Kennedy, New York LaGuardia, Washington National, Chicago O'Hare and Newark airports as high density traffic airports. Newark was subsequently removed from the high density airport classification. The rule adopted hourly take-off and landing slot allocations for each of these airports. Currently, the FAA permits the purchasing, selling, leasing and trading of these slots by airlines and others, subject to certain restrictions. Most foreign airports, including London Heathrow, a major European destination for American, also have slot allocations. Most foreign authorities do not permit the purchasing, selling or leasing of slots.

American currently has sufficient slot authorizations to operate its existing flights and has generally been able to obtain slots to expand its operations and change its schedules. However, there is no assurance that American will be able to obtain slots for these purposes in the future because, among other factors, slot allocations are subject to changes in government policies.

ENVIRONMENTAL MATTERS The Company is subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries. U.S. federal laws that have a particular impact on the Company include the Airport Noise and Capacity Act of 1990 (ANCA), the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or the Superfund Act). The Company is also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that have an impact on the Company's operations. In addition to these federal activities, various states have been delegated certain authorities under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to federal requirements. As a part of its continuing safety, health and environmental program, the Company has maintained compliance with such requirements without any material adverse effect on its business.

For purposes of noise standards, jet aircraft are rated by categories or "stages." The ANCA requires the phase-out by December 31, 1999, of Stage II aircraft operations, subject to certain exceptions. Under final regulations issued by the FAA in 1991, air carriers are required to reduce, by modification or retirement, the number of Stage II aircraft in their fleets 50 percent by December 31, 1996; 75 percent by December 31, 1998; and 100 percent by December 31, 1999. Alternatively, a carrier may satisfy the regulations by operating a fleet that is at least 65 percent, 75 percent, and 100 percent Stage III by the dates set forth in the preceding sentence, respectively. At December 31, 1997, approximately 88 percent of American's active fleet was Stage III, the quietest and most fuel efficient rating category.

The ANCA recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have promulgated aircraft noise reduction programs, including the imposition of night-time curfews. The ANCA generally requires FAA approval of local noise restrictions on Stage III aircraft first effective after October 1990, and establishes a regulatory notice and review process for local restrictions on Stage II aircraft first proposed after October 1990. While American has had sufficient scheduling flexibility to accommodate local noise restrictions imposed to date, American's operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

American has been identified by the EPA as a potentially responsible party (PRP) at the Operating Industries, Inc. Superfund Site in California. American has signed a partial consent decree with respect to this site and is one of several PRPs named. American's alleged waste disposal volumes are minor compared to the other PRPs. American has also been identified as a PRP at the Beede Waste Oil Superfund Site in New Hampshire. American has responded to a 104(e) Request for Information regarding interaction with several companies related to this Site.

American, along with most other tenants at the San Francisco International Airport, has been ordered by the California Regional Water Quality Control Board to engage in various studies of potential environmental contamination at the airport and to undertake remedial measures, if necessary.

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 PRPs 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.

American, along with other tenants at the Luis Munoz Marin International Airport in San Juan, Puerto Rico has been named as a PRP for environmental claims at the airport.

American does not expect these matters, individually or collectively, to have a material impact on its financial position or liquidity.

LABOR

The airline business is labor intensive. Wages, salaries and benefits represented approximately 36 percent of American's consolidated operating expenses for the year ended December 31, 1997.

The majority of American's employees are represented by labor unions and covered by collective bargaining agreements. American's relations with such labor organizations are governed by the Railway Labor Act. Under this act, the collective bargaining agreements among American and these organizations do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party before the contract becomes amendable. After receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board (NMB) to appoint a federal mediator. If no agreement is reached in mediation, the NMB may determine, at any time, that an impasse exists, and if an impasse is declared, the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected, a 30-day "cooling-off" period commences, following which the labor organization may strike and the airline may resort to "self-help," including the imposition of its proposed amendments and the hiring of replacement workers.

In 1995, American reached agreements with the members of the Association of Professional Flight Attendants (APFA) and the Transport Workers Union (TWU) on their labor contracts. American's collective bargaining agreements with the APFA and the TWU become amendable on November 1, 1998 and March 1, 2001, respectively.

American's collective bargaining agreement with the Allied Pilots Association (APA) became amendable on August 31, 1994. On September 2, 1996, American and the APA reached a tentative agreement on a new labor contract. The tentative agreement was approved by the APA Board of Directors and sent out for membership ratification, but subsequently rejected by the APA membership. On January 10, 1997, the NMB proffered binding arbitration to the APA and American. American agreed to arbitration but because the APA did not also agree, the proffer was rejected and on January 15, 1997, the APA and American were notified (i) that the NMB was terminating its services and (ii) that beginning February 15, 1997, either party could resort to self-help remedies, including a strike by the members of the APA. On February 15, 1997, the APA did initiate a strike against American but immediately thereafter President Clinton intervened and appointed a Presidential Emergency Board (PEB), pursuant to his authority under the Railway Labor Act. The effect of President Clinton's actions was to stop the strike and begin a process during which the PEB reviewed the positions advocated by both parties. On March 17, 1997, American and the APA reached a second tentative agreement on a new contract. The tentative agreement was ratified by the APA membership on May 5, 1997. The new contract becomes amendable August 31, 2001. Among other provisions, the agreement granted pilots options to buy 5.75 million shares of AMR stock at $83.375, $10 less than the average fair market value of the stock on the date of grant, May 5, 1997. The options became immediately exercisable on the date the new contract was ratified.

FUEL

American's operations are significantly affected by the availability and price of jet fuel. American's fuel costs and consumption for the years 1993 through 1997 were:

Year	Gallons Consumed (in millions)	Total Cost (in millions)	Average Price Per Gallon (in cents)	Average Price Per Gallon, Excluding Fuel Tax (in cents)	Percent of American's Operating Expenses
1993	2,939	1,818	61.8	59.1	13.2
1994	2,741	1,556	56.7	54.2	11.7
1995	2,749	1,565	56.9	53.8	11.3
1996	2,734	1,866	68.2	63.3	13.5
1997	2,773	1,860	67.1	62.1	12.9

Based upon American's 1997 fuel consumption, a one cent increase in the average annual price-per-gallon of jet fuel would increase American's monthly fuel costs by approximately $2.3 million, not considering the offsetting effect of American's fuel cost hedging program.

The impact of fuel price changes on the Company's competitors is dependent upon various factors, including hedging strategies. However, lower fuel prices may be offset by increased fare competition and lower revenues for all air carriers. Conversely, there can be no assurance that American will be able to pass fuel cost increases on to its customers by increasing fares in the future.

While American does not anticipate a significant reduction in fuel availability, dependency on foreign imports of crude oil and the possibility of changes in government policy on jet fuel production, transportation and marketing make it impossible to predict the future availability of jet fuel. If there were major reductions in the availability of jet fuel, American's business would be adversely affected.

FREQUENT FLYER PROGRAM

American established the AAdvantage frequent flyer program (AAdvantage) to develop passenger loyalty by offering awards to travelers for their continued patronage. AAdvantage members earn mileage credits for flights on American, American Eagle and certain other participating airlines, or by utilizing services of other program participants, including hotels, car rental companies and bank credit card issuers. American sells mileage credits and related services to the other companies participating in the program. American reserves the right to change the AAdvantage program rules, regulations, travel awards and special offers at any time without notice. American may initiate changes impacting, for example, participant affiliations, rules for earning mileage credit, mileage levels and awards, blackout dates and limited seating for travel awards, and the features of special offers. American reserves the right to end the AAdvantage program with six months notice.

Mileage credits can be redeemed for free, discounted or upgraded travel on American, American Eagle or participating airlines, or for other travel industry awards. Once a member accrues sufficient mileage for an award, the member may request an award certificate from American. Award certificates may be redeemed up to one year after issuance. Most travel awards are subject to blackout dates and capacity controlled seating. All miles earned after July 1989 must be redeemed within three years or they expire.

American accounts for its frequent flyer obligation on an accrual basis using the incremental cost method. American's frequent flyer liability is accrued each time a member accumulates sufficient mileage in his or her account to claim the lowest level of free travel award (25,000 miles) and such award is expected to be used for free travel. American includes fuel, food, and reservations/ticketing costs, but not a contribution to overhead or profit, in the calculation of incremental cost. The cost for fuel is estimated based on total fuel consumption tracked by various categories of markets, with an amount allocated to each passenger. Food costs are tracked by market category, with an amount allocated to each passenger. Reservation/ticketing costs are based on the total number of passengers, including those traveling on free awards, divided into American's total expense for these

costs. American defers the portion of revenues received from companies participating in the AAdvantage program related to the sale of mileage credits and recognizes such revenues over a period approximating the period during which the mileage credits are used.

At December 31, 1997 and 1996, American estimated that approximately 5.6 million and 5.3 million free travel awards, respectively, were eligible for redemption. At December 31, 1997 and 1996, American estimated that approximately 4.8 million and 4.5 million free travel awards, respectively, were expected to be redeemed for free travel. In making this estimate, American has excluded mileage in inactive accounts, mileage related to accounts that has not yet reached the lowest level of free travel award, and mileage in active accounts that has reached the lowest level of free travel award but which is not expected to ever be redeemed for free travel. The liability for the program mileage that has reached the lowest level of free travel award and is expected to be redeemed for free travel and deferred revenues for mileage credits sold to others participating in the program was $628 million and $469 million, representing 11.7 percent and 7.7 percent of American's total current liabilities at December 31, 1997 and 1996, respectively.

The number of free travel awards used for travel on American during the years ended December 31, 1997, 1996 and 1995, was approximately 2.2 million each year, representing 8.6 percent of total revenue passenger miles at December 31, 1997 and 8.4 percent at December 31, 1996 and 1995. American believes displacement of revenue passengers is minimal given American's load factors, its ability to manage frequent flyer seat inventory, and the relatively low ratio of free award usage to revenue passenger miles.

OTHER MATTERS

SEASONALITY AND OTHER FACTORS American's results of operations for any interim period are not necessarily indicative of those for the entire year, since the air transportation business is subject to seasonal fluctuations. Higher demand for air travel has traditionally resulted in more favorable operating results for the second and third quarters of the year than for the first and fourth quarters.

The results of operations in the air transportation business have also significantly fluctuated in the past in response to general economic conditions. In addition, fare initiatives, fluctuations in fuel prices, labor actions and other factors could impact this seasonal pattern. Unaudited quarterly financial data for the two-year period ended December 31, 1997, is included in Note 13 to the consolidated financial statements.

No material part of the business of American and its subsidiaries is dependent upon a single customer or very few customers. Consequently, the loss of the Company's largest few customers would not have a materially adverse effect upon American.

INSURANCE American carries insurance for public liability, passenger liability, property damage and all-risk coverage for damage to its aircraft, in amounts which, in the opinion of management, are adequate.

OTHER GOVERNMENT MATTERS In time of war or during an unlimited national emergency or civil defense emergency, American and other major air carriers may be required to provide airlift services to the Military Airlift Command under the Civil Reserve Air Fleet program.

ITEM 2. PROPERTIES

FLIGHT EQUIPMENT

Owned and leased aircraft operated by American at December 31, 1997, included:

Equipment Type	Current Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Weighted-Average Age (Years)
Airbus A300-600R	192/266/267	10	-	25	35	8
Boeing 727-200	150	65	14	-	79	21
Boeing 757-200	188	50	9	31	90	6
Boeing 767-200	172	8	-	-	8	15
Boeing 767-200 Extended Range	165	9	13	-	22	12
Boeing 767-300 Extended Range	207	16	15	10	41	7
Fokker 100	97	66	5	4	75	5
McDonnell Douglas DC-10-10	237/290/297	13	-	-	13	20
McDonnell Douglas DC-10-30	271/282	4	1	-	5	23
McDonnell Douglas MD-11	238/255	13	-	-	13	5
McDonnell Douglas MD-80	139	119	25	116	260	10
Total		373	82	186	641	10

For information concerning the estimated useful lives and residual values for owned aircraft, lease terms for leased aircraft, and amortization relating to aircraft under capital leases, see Notes 1 and 5 to the consolidated financial statements.

In April 1995, American announced an agreement to sell 12 of its McDonnell Douglas MD-11 aircraft to Federal Express Corporation (FedEx). In addition, in March 1998, the Company exercised its option to sell its remaining seven MD-11 aircraft to FedEx. Six aircraft had been delivered as of December 31, 1997. The remaining 13 aircraft will be delivered between 1998 and 2003.

Lease expirations for American's leased aircraft included in the above table as of December 31, 1997, were:

Equipment Type	1998	1999	2000	2001	2002	2003 and Thereafter
Airbus A300-600R	-	-	-	-	-	25
Boeing 727-200	-	2	4	8	-	-
Boeing 757-200	-	-	2	2	2	34
Boeing 767-200 Extended Range	-	-	-	-	-	13
Boeing 767-300 Extended Range	-	-	8	-	1	16
Fokker 100	-	-	-	2	3	4
McDonnell Douglas DC-10-30	-	-	-	1	-	-
McDonnell Douglas MD-80	-	-	3	9	14	115
	-	2	17	22	20	207

Substantially all of American's aircraft leases include an option to purchase the aircraft or to extend the lease term, or both, with the purchase price or renewal rental to be based essentially on the market value of the aircraft at the end of the term of the lease or at a predetermined fixed amount.

GROUND PROPERTIES

American leases, or has built as leasehold improvements on leased property, most of its airport and terminal facilities; certain corporate office, maintenance and training facilities in Fort Worth, Texas; its principal overhaul and maintenance base at Tulsa International Airport, Tulsa, Oklahoma; its regional reservation offices; and local ticket and administration offices throughout the system. American has entered into agreements with the Tulsa Municipal Airport Trust; the Alliance Airport Authority, Fort Worth, Texas; and the Dallas/Fort Worth, Chicago O'Hare, Raleigh/Durham, Nashville, San Juan, New York, and Los Angeles airport authorities to provide funds for constructing, improving and modifying facilities and acquiring equipment which are or will be leased to American. American also utilizes public airports for its flight operations under lease or use arrangements with the municipalities or governmental agencies owning or controlling them and leases certain other ground equipment for use at its facilities.

For information concerning the estimated lives and residual values for owned ground properties, lease terms and amortization relating to ground properties under capital leases, and acquisitions of ground properties, see Notes 1, 4 and 5 to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

In January 1985, American announced a new fare category, the "Ultimate SuperSaver," a discount, advance purchase fare that carried a 25 percent penalty upon cancellation. On December 30, 1985, a class action lawsuit was filed in Circuit Court, Cook County, Illinois entitled Johnson vs. American Airlines, Inc. The Johnson plaintiffs allege that the 10 percent federal excise transportation tax should have been excluded from the "fare" upon which the 25 percent penalty was assessed. Summary judgment was granted in favor of American but subsequently reversed and vacated by the Illinois Appellate Court. In August 1997, the Court denied the plaintiffs' motion for class certification. American is vigorously defending the lawsuit.

In connection with its frequent flyer program, American was sued in two cases (Wolens et al v. American Airlines, Inc. and Tucker v. American Airlines, Inc.) seeking class action certification that were consolidated and are currently pending in the Circuit Court of Cook County, Illinois. The litigation arises from certain changes made to American's AAdvantage frequent flyer program in May 1988 which limited the number of seats available to participants traveling on certain awards and established blackout dates during which no AAdvantage seats would be available for certain awards. In the consolidated action, the plaintiffs allege that these changes breached American's contract with AAdvantage members, seek money damages for the alleged breach and attorney's fees and seek to represent all persons who joined the AAdvantage program before May 1988 and accrued mileage credits before the seat limitations were introduced. The complaint originally asserted several state law claims, however only the plaintiffs' breach of contract claim remains after the U. S. Supreme Court ruled that federal law preempted the other claims. Although the case has been pending for numerous years, it still is in its preliminary stages. The court has not ruled as to whether the case should be certified as a class action. American is vigorously defending the lawsuit.

Gutterman et al. v. American Airlines, Inc. is also pending in the Circuit Court of Cook County, Illinois, arising from an announced increase in AAdvantage mileage credits required for free travel. In December 1993, American announced that the number of miles required to claim a certain travel award under American's AAdvantage frequent flyer program would be increased effective February 1, 1995, giving rise to the Gutterman litigation filed on that same date. The Gutterman plaintiffs claim that the announced increase in award mileage level violated the terms and conditions of the agreement between American and AAdvantage members. The plaintiffs seek class certification of this action, although the court has yet to rule on the issue. To date, only limited discovery has been undertaken. American is vigorously defending the lawsuit.

On October 22, 1997, federal agents executed a search warrant at American's Miami facilities. American has learned that a federal grand jury is investigating whether American handled hazardous materials and processed courier shipments, cargo and excess baggage in accordance with applicable laws and regulations. In connection with this investigation, American has been served with a subpoena calling for the production of documents relating to the handling of courier shipments, cargo, excess baggage and hazardous materials. American has produced documents responsive to the subpoena and intends to cooperate fully with the government's investigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

American is a wholly-owned subsidiary of AMR Corporation and there is no market for the Registrant's Common Stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(a) of Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Abbreviated pursuant to General Instruction I(2)(a) of Form 10-K).

American Airlines, Inc., the principal subsidiary of AMR, was founded in 1934.

On July 2, 1996, AMR completed the reorganization of its information technology businesses known as The SABRE Group into a separate, wholly-owned subsidiary of AMR known as The SABRE Group Holdings, Inc. (the Reorganization). Prior to the Reorganization, most of The SABRE Group's business units were divisions of American. As part of the Reorganization, all of the businesses of The SABRE Group, including American's SABRE Travel Information Network, SABRE Computer Services, SABRE Development Services, and SABRE Interactive divisions (collectively, the Information Services Group), and certain buildings, equipment, and American's leasehold interest in certain other buildings used by The SABRE Group were combined in subsidiaries of American, which were then dividended to AMR.

Following the Reorganization, American operates in only one business segment which consists primarily of American's Passenger and Cargo divisions.

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

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

HIGHLIGHTS

SUMMARY American recorded net earnings in 1997 of $780 million. The Company's results were adversely affected by a brief strike and the strike threat from members of the Allied Pilots Association (APA) during the first quarter of 1997, which negatively impacted the Company's net earnings by an estimated $70 million, and the reinstatement of the airline transportation tax in March of 1997.

American recorded income from continuing operations in 1996 of $569 million. In the fourth quarter of 1996, American recorded a $26 million charge ($16 million after tax) to write down the value of aircraft interiors the Company planned to refurbish. Excluding this special charge, income from continuing operations was $585 million.

REVENUES

1997 COMPARED TO 1996 American's operating revenues increased 4.8 percent to $15.9 billion in 1997, compared to $15.1 billion in 1996. American's passenger revenues increased 4.9 percent, or $665 million. The increase in passenger revenues resulted from a 2.6 percent increase in passenger yield (the average amount one passenger pays to fly one mile) from 13.03 to 13.37 cents and a 2.2 percent increase in passenger traffic. For the year, domestic yields increased 1.8 percent, Latin American yields increased 4.5 percent, European yields increased 3.8 percent and Pacific yields increased 1.0 percent. In 1997, American derived 69 percent of its passenger revenues from domestic operations and 31 percent from international operations.

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

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

OPERATING EXPENSES

1997 COMPARED TO 1996 American's operating expenses of $14.4 million in 1997 were up $604 million, or 4.4 percent, versus 1996. American's cost per ASM increased 4.0 percent to 9.27 cents.

Wages, salaries and benefits increased $286 million, or 5.8 percent, due primarily to an increase in the average number of equivalent employees, contractual wage rate and seniority increases that are built into the Company's labor contracts, including a three percent rate increase granted to pilots effective August 31, 1997, and an increase in the provision for profit sharing.

Fuel expense decreased $6 million, or 0.3 percent, due to a 1.6 percent decrease in American's average price per gallon, including taxes, partially offset by a 1.4 percent increase in American's fuel consumption.

Commissions to agents increased 2.5 percent, or $30 million, due primarily to increased passenger revenues. This increase was offset by changes in the Company's travel agency commission payment structure implemented in September 1997 which lowered the base commission paid to travel agents from 10 percent to eight percent on all tickets purchased in the U.S. and Canada for both domestic and international travel.

Maintenance materials and repairs expense increased 31.4 percent, or $176 million, due to an increase in airframe and engine maintenance check volumes at American's maintenance bases as a result of the maturing of its fleet.

Other operating expenses increased $99 million, or 4.2 percent, due primarily to an increase in outsourced services, additional airport security requirements, and higher costs, such as credit card fees, resulting from higher passenger revenues. Other operating expenses in 1996 included a $26 million charge to write down the value of aircraft interiors.

OTHER INCOME (EXPENSE)

1997 COMPARED TO 1996 Interest income increased $105 million due primarily to higher investment balances. Related party interest - net decreased 46.5 percent, or $73 million, due primarily to the decline in the balance of American's intercompany subordinated note with AMR during 1997. Miscellaneous - net for 1996 included a $21 million provision for a cash payment representing American's share of a multi-carrier travel agency class action litigation

OTHER INFORMATION

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

YEAR 2000 COMPLIANCE The Company has implemented a Year 2000 compliance program designed to ensure that the Company's computer systems and applications will function properly beyond 1999. The SABRE Group, which operates and maintains substantially all of the computer systems and applications utilized by the Company, has also implemented a Year 2000 compliance program. The Company and The SABRE Group believe adequate resources have been allocated for this purpose and expect their Year 2000 date conversion programs to be completed on a timely basis. Testing on certain systems and applications has commenced and will continue throughout the course of the Year 2000 programs. However, there can be no assurance that the systems of other parties (e.g., Federal Aviation Administration, Department of Transportation, airport authorities, data providers) upon which the Company's businesses also rely will be converted on a timely basis. The Company's business, financial condition, or results of operations could be materially adversely affected by the failure of its systems and applications or those operated by other parties to properly operate or manage dates beyond 1999.

The Company expects to incur significant costs from The SABRE Group, internal staff costs and consulting and other expenses related to infrastructure and facilities enhancements necessary to prepare its system for the Year 2000. The Company's total estimated cost of the Year 2000 compliance program is approximately $125 million to $160 million, of which approximately $50 million was incurred as of December 31, 1997. The remaining expenses are expected to be incurred primarily in 1998. A significant portion of these costs are not likely to be incremental costs to the Company, but rather will represent the redeployment of current information technology spending. Maintenance or modification costs associated with making existing computer systems Year 2000 compliant will be expensed as incurred.

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

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

ENVIRONMENTAL MATTERS American has 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. American's alleged volumetric contributions at these sites are minimal. American does not expect these matters, individually or collectively, to have a significant impact on its results of operations, financial position or liquidity. Additional information is included in Note 4 to the consolidated financial statements.

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

WORKING CAPITAL American 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.

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

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

FORWARD-LOOKING INFORMATION

The preceding discussions under Management's Discussion and Analysis of Financial Condition and Results of Operations contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events. When used in this document and in documents incorporated herein by reference, the words "expects," "plans," "anticipates," and similar expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, projections relating to results of operations and financial condition, including increases in revenues and unit costs, Year 2000 compliance, overall economic projections and the Company's plans and objectives for future operations, including plans to develop future code-sharing programs and to evaluate new alliances. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. 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 The Company's operations could be adversely affected by failure of the Company to reach agreement with any labor union representing the Company's employees or by an agreement with a labor union representing the Company's employees that contains terms which prevent the Company from competing effectively with other airlines.

ECONOMIC AND OTHER CONDITIONS The airline industry is affected by changes in national, regional and local economic conditions, inflation, war (or the threat thereof), consumer preferences and spending patterns, demographic trends, consumer perceptions of airline safety, costs of safety and security measures and weather.

COMMODITY PRICES Due to the competitive nature of the airline industry, in the event of any increase in the price of jet fuel, there can be no assurance that American would be able to pass on increased fuel prices to its customers by increasing fares.

COMPETITION IN THE AIRLINE INDUSTRY Service over almost all of American's routes is highly competitive. On most of its non-stop routes, American competes with at least one, and usually more than one, major domestic airline, as well as lower-cost carriers. American also competes with national, regional, all-cargo and charter carriers and, particularly on shorter segments, ground transportation. Pricing decisions are affected by competition from other airlines. Fare discounting by competitors has historically had a negative effect on American's financial results because American is generally required to match competitors' fares to maintain passenger traffic. No assurance can be given that any future fare reduction would be offset by increases in passenger traffic or changes in the mix of traffic that improves yields.

CHANGING BUSINESS STRATEGY Although it has no current plan to do so, the Company may change its business strategy in the future and may not pursue some of the goals stated herein.

GOVERNMENT REGULATION Future results of the Company's operations may vary based upon any actions which the governmental agencies with jurisdiction over the Company's operations may take, including the granting and timing of certain governmental approvals needed for code-sharing alliances and other arrangements with other airlines, restrictions on competitive practices (e.g., new regulations which would curtail an airlines ability to respond to a competitor) and the adoption of more restrictive locally-imposed noise restrictions.

UNCERTAINTY IN INTERNATIONAL OPERATIONS The Company's current international activities and prospects could be adversely affected by factors such as reversals or delays in the opening of foreign markets, exchange controls, currency and political risks, taxation and changes in international government regulation of the Company's operations.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholder
American Airlines, Inc.

We have audited the accompanying consolidated balance sheets of American Airlines, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Airlines, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

2121 San Jacinto
Dallas, Texas 75201
January 19, 1998

AMERICAN AIRLINES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions)

	Year Ended December 31,		
	1997	1996	1995
REVENUES			
Passenger	$ 14,310	$ 13,645	$ 13,134
Cargo	678	672	668
Other	868	819	701
Total operating revenues	15,856	15,136	14,503
EXPENSES			
Wages, salaries and benefits	5,220	4,934	4,818
Aircraft fuel	1,860	1,866	1,565
Commissions to agents	1,212	1,182	1,236
Depreciation and amortization	950	930	975
Other rentals and landing fees	787	762	754
Food service	672	667	675
Aircraft rentals	531	562	604
Maintenance materials and repairs	736	560	494
Other operating expenses	2,441	2,342	2,296
Restructuring costs	--	--	485
Total operating expenses	14,409	13,805	13,902
OPERATING INCOME	1,447	1,331	601
OTHER INCOME (EXPENSE)			
Interest income	109	4	7
Interest expense	(194)	(203)	(273)
Related party interest - net	(84)	(157)	(259)
Miscellaneous - net	9	(19)	(56)
	(160)	(375)	(581)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,287	956	20
Income tax provision	507	387	31
INCOME (LOSS) FROM CONTINUING OPERATIONS	780	569	(11)
INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES (1996 - $82; 1995 - $141)	-	136	232
EARNINGS BEFORE EXTRAORDINARY LOSS	780	705	221
EXTRAORDINARY LOSS, NET OF TAX BENEFIT (1995 - $8)	--	--	(13)
NET EARNINGS	$ 780	$ 705	$ 208

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

AMERICAN AIRLINES, INC.
CONSOLIDATED BALANCE SHEET
(in millions)

	December 31,	
	1997	1996
ASSETS		
CURRENT ASSETS		
Cash	$ 47	$ 37
Short-term investments	1,762	1,312
Receivables, less allowance for uncollectible accounts (1997 - $8; 1996 - $6)	1,057	1,087
Inventories, less allowance for obsolescence (1997 - $189; 1996 - $197)	555	559
Deferred income taxes	360	328
Other current assets	201	221
Total current assets	3,982	3,544
EQUIPMENT AND PROPERTY		
Flight equipment, at cost	11,981	12,166
Less accumulated depreciation	4,191	3,687
	7,790	8,479
Purchase deposits for flight equipment	695	--
Other equipment and property, at cost	2,729	2,611
Less accumulated depreciation	1,497	1,371
	1,232	1,240
	9,717	9,719
EQUIPMENT AND PROPERTY UNDER CAPITAL LEASES		
Flight equipment	2,570	2,589
Other equipment and property	139	135
	2,709	2,724
Less accumulated amortization	965	842
	1,744	1,882
OTHER ASSETS		
Route acquisition costs, less accumulated amortization (1997 - $211; 1996 - $182)	945	974
Airport operating and gate lease rights, less accumulated amortization (1997 - $123; 1996 - $106)	289	306
Prepaid pension cost	382	446
Other	694	691
	2,310	2,417
TOTAL ASSETS	$ 17,753	$ 17,562

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

AMERICAN AIRLINES, INC.
CONSOLIDATED BALANCE SHEET
(in millions, except shares and par value)

	December 31,	
	1997	1996
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 855	$ 914
Payables to affiliates	595	1,410
Accrued salaries and wages	805	733
Accrued liabilities	915	1,005
Air traffic liability	2,044	1,889
Current maturities of long-term debt	21	22
Current obligations under capital leases	112	109
Total current liabilities	5,347	6,082
LONG-TERM DEBT, LESS CURRENT MATURITIES	937	983
LONG-TERM DEBT DUE TO PARENT, LESS CURRENT MATURITIES	--	118
OBLIGATIONS UNDER CAPITAL LEASES, LESS CURRENT OBLIGATIONS	1,382	1,520
OTHER LIABILITIES AND CREDITS		
Deferred income taxes	999	680
Deferred gains	610	647
Postretirement benefits	1,524	1,481
Other liabilities and deferred credits	1,600	1,523
	4,733	4,331
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Common stock - $1 par value; 1,000 shares authorized, issued and outstanding	--	--
Additional paid-in capital	1,732	1,717
Minimum pension liability adjustment	(3)	(22)
Retained earnings	3,625	2,833
	5,354	4,528
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 17,753	$ 17,562

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

AMERICAN AIRLINES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	1997	1996	1995
CASH FLOW FROM OPERATING ACTIVITIES:			
Net earnings	$ 780	$ 705	$ 208
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	744	815	925
Deferred income taxes	286	215	54
Amortization	206	198	213
Provision for restructuring costs	--	--	485
Provisions for losses	--	--	41
Change in assets and liabilities:			
Decrease (increase) in receivables	30	(354)	(136)
Increase in inventories	(30)	(61)	(15)
Increase in accounts payable and accrued liabilities	60	174	408
Increase (decrease) in air traffic liability	155	422	(6)
Other, net	35	25	(181)
Net cash provided by operating activities	2,266	2,139	1,996
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(973)	(409)	(842)
Net increase in short-term investments	(450)	(496)	(72)
Proceeds from sale of equipment and property	258	268	59
Net cash used for investing activities	(1,165)	(637)	(855)
CASH FLOW FROM FINANCING ACTIVITIES:			
Funds transferred to affiliates, net	(933)	(399)	(686)
Payments on long-term debt and capital lease obligations	(158)	(1,136)	(582)
Proceeds from:			
Issuance of long-term debt	--	--	184
Net cash used for financing activities	(1,091)	(1,535)	(1,084)
Net increase (decrease) in cash	10	(33)	57
Cash at beginning of year	37	70	13
Cash at end of year	$ 47	$ 37	$ 70

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

AMERICAN AIRLINES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY
(in millions)

	Common Stock	Additional Paid-in Capital	Minimum Pension Liability Adjustment	Retained Earnings	Total
Balance at January 1, 1995	$ --	$ 1,699	$ (199)	$ 1,733	$ 3,233
Net earnings	--	--	--	208	208
Adjustment for minimum pension liability	--	--	198	--	198
Other	--	--	--	7	7
Balance at December 31, 1995	--	1,699	(1)	1,948	3,646
Net earnings	--	--	--	705	705
Reorganization of The SABRE Group:					
Dividend of Assets of The SABRE Group to Parent	--	18	--	(669)	(651)
Transfer of debenture to Parent	--	--	--	850	850
Adjustment for minimum pension liability	--	--	(21)	--	(21)
Other	--	--	--	(1)	(1)
Balance at December 31, 1996	--	1,717	(22)	2,833	4,528
Net earnings	--	--	--	780	780
Adjustment for minimum pension liability	--	--	19	--	19
Transfer of net pension obligation of The SABRE Group to Parent	--	--	--	12	12
Other	--	15	--	--	15
Balance at December 31, 1997	$ --	$ 1,732	$ (3)	$ 3,625	$ 5,354

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

BASIS OF CONSOLIDATION American Airlines, Inc. (American or the Company) is a wholly-owned subsidiary of AMR Corporation (AMR). The consolidated financial statements include the accounts of American and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with the 1997 presentation.

GENERAL American's Passenger Division is one of the largest scheduled passenger airlines in the world. At the end of 1997, American provided scheduled jet service to more than 165 destinations throughout North America, the Caribbean, Latin America, Europe and the Pacific. American's Cargo Division is one of the largest scheduled air freight carriers in the world, providing a full range of freight and mail services to shippers throughout the airline's system.

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

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

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

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

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

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

MAINTENANCE AND REPAIR COSTS Maintenance and repair costs for owned and leased flight equipment are charged to operating expense as incurred.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

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

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

ADVERTISING COSTS The Company expenses the costs of advertising as incurred. Advertising expense was $178 million, $183 million, and $175 million for the years ended December 31, 1997, 1996, and 1995, respectively.

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

STATEMENT OF CASH FLOWS Short-term investments, without regard to remaining maturity at acquisition, are not considered as cash equivalents for purposes of the statement of cash flows.

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES

On July 2, 1996, AMR completed the reorganization of its information technology businesses known as The SABRE Group into a separate, wholly-owned subsidiary of AMR known as The SABRE Group Holdings, Inc. (the Reorganization). Prior to the Reorganization, most of The SABRE Group's business units were divisions of American. As part of the Reorganization, all of the businesses of The SABRE Group, including American's SABRE Travel Information Network, SABRE Computer Services, SABRE Development Services, and SABRE Interactive divisions (collectively, the Information Services Group), and certain buildings, equipment, and American's leasehold interest in certain other buildings used by The SABRE Group were combined in subsidiaries of American, which were then dividended to AMR. Also as part of the Reorganization, $850 million of American's long-term debt owed to AMR was repaid through the transfer by American to AMR of an $850 million debenture issued by The SABRE Group Holdings, Inc. to American. Thus, the results of operations of American's Information Services Group have been reflected in the consolidated statement of operations as income from discontinued operations. Revenues from the operations of the Information Services Group were $754 million and $1.4 billion for the period January 1, 1996 through July 1, 1996 and 1995, respectively. Following the Reorganization, American operates in only one business segment, formerly American's Airline Group.

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

In connection with the Reorganization, the Company entered into various agreements with The SABRE Group, the primary ones of which are discussed below. The parties agreed to apply the financial terms of such agreements as of January 1, 1996.

INFORMATION TECHNOLOGY SERVICES AGREEMENT The Company is party to the Information Technology Services Agreement with The SABRE Group dated July 1, 1996 (the Technology Services Agreement), whereby The SABRE Group provides American with certain information technology services, including data center and data network services, services relating to client server operations and distributed system services. The base term of the Technology Services Agreement expires June 30, 2006; however, the terms of the specific services to be provided by The SABRE Group to American expire at various dates beginning in June 2000. The Technology Services Agreement provides for annual price adjustments. For certain prices, adjustments are made according to formulas which, commencing in 1998, are reset every two years and which may take into account the market for similar services provided by other companies. The resulting rates may reflect an increase or decrease over the previous rates.

With limited exceptions, under the Technology Services Agreement, The SABRE Group will continue to be the exclusive provider of all information technology services that were provided by The SABRE Group to American immediately prior to the execution of the Technology Services Agreement. Any new information technology services, including most new application development services, requested by the Company can be outsourced pursuant to competitive bidding by the Company or performed by the Company on its own behalf.

American paid The SABRE Group approximately $499 million, $458 million and $505 million in 1997, 1996 and 1995, respectively, for services contemplated under the Technology Services Agreement, as well as airline booking fees, for which American is billed by The SABRE Group at rates similar to those charged to other carriers.

MARKETING COOPERATION AGREEMENT The SABRE Group and American are parties to the Marketing Cooperation Agreement dated as of July 1, 1996 (the Marketing Cooperation Agreement), pursuant to which American will provide marketing support for The SABRE Group's products targeted to travel agencies until June 30, 2006. For such support, The SABRE Group will pay American a fee based upon booking volumes. That fee was approximately $22 million and $20 million in 1997 and 1996, respectively. Additionally, American will support The SABRE Group's promotion of certain other products until 2001, for which The SABRE Group will pay American a marketing fee based upon booking volume. With limited exceptions, the Marketing Cooperation Agreement does not restrict American from distributing its airline products and services directly to corporate or individual consumers. Additionally, The SABRE Group has guaranteed to American certain cost savings in the fifth year of the Marketing Cooperation Agreement. If American does not achieve those savings, The SABRE Group will pay American any shortfall, up to a maximum of $50 million.

TRAVEL AGREEMENTS American and The SABRE Group are parties to travel agreements dated July 1, 1996, pursuant to which The SABRE Group is entitled to purchase personal travel for its employees and retirees at reduced fares, and business travel at a discount for certain flights on American. The Travel Privileges Agreement and the Corporate Travel Agreement expire on June 30, 2008 and June 30, 1998, respectively. The SABRE Group paid American approximately $48 million and $43 million in 1997 and 1996, respectively, pursuant to these agreements.

CREDIT AGREEMENT On July 1, 1996, The SABRE Group and American entered into a Credit Agreement pursuant to which The SABRE Group is required to borrow from American, and American is required to lend to The SABRE Group, amounts required by The SABRE Group to fund its daily cash requirements. In addition, American may, but is not required to, borrow from The SABRE Group to fund its daily cash requirements. The maximum amount The SABRE Group may borrow at any time from American under the Credit Agreement is $300 million. The maximum amount that American may borrow at any time from The SABRE Group under the Credit Agreement is $100 million. The interest rate to be charged to The SABRE Group is a function of American's cost of capital and The SABRE Group's credit rating. The interest rate to be charged to American is The SABRE Group's average portfolio rate for the months in which borrowing occurred plus an additional

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

spread based upon American's credit risk. At the end of each quarter, American must pay all amounts owed under the Credit Agreement to The SABRE Group. No borrowings occurred by either The SABRE Group or American during 1997 or 1996.

INDEMNIFICATION AGREEMENTS Airline Management Services Holdings, Inc. (AMS), a subsidiary of AMR, and Canadian Airlines International Limited (Canadian) have entered into an agreement pursuant to which AMR and American supply to Canadian various services, including technology services. American has subsequently entered into the Canadian Technical Services Subcontract (the Canadian Subcontract), which expires in 2006, with The SABRE Group to provide data processing and network distributed systems services to Canadian. Under the terms of the Canadian Subcontract, American has guaranteed full payment for services actually performed by The SABRE Group and deferred costs associated with the installation and implementation of certain systems. Additionally, AMS has guaranteed full payment to American for any services actually performed by American in connection with the Canadian services agreement, certain deferred costs incurred by American, and any amounts paid by American to The SABRE Group under the indemnification provisions of the Canadian Subcontract. In connection with these guarantees, AMS reimbursed American $40 million for amounts paid by American to The SABRE Group in December 1996 and $7 million in 1996 for certain deferred costs previously incurred by American.

OTHER AGREEMENTS WITH THE SABRE GROUP American and The SABRE Group are also parties to a Management Services Agreement dated July 1, 1996, pursuant to which American performs various management services for The SABRE Group, including treasury, risk management and other administrative services that American has historically provided to The SABRE Group, for a fee approximating American's cost of providing the services plus a margin. The SABRE Group paid American $11 million and $17 million in 1997 and 1996, respectively, pursuant to the Management Services Agreement.

AMR, American and The SABRE Group have also entered into a Non-Competition Agreement dated July 1, 1996, pursuant to which AMR and American, on behalf of themselves and certain of their subsidiaries, have agreed to limit their competition with The SABRE Group's businesses of (i) electronic travel distribution; (ii) development, maintenance, marketing and licensing of software for travel agency, travel, transportation and logistics management; (iii) computer system integration; (iv) development, maintenance and operation of a data processing center providing data processing services to third parties; and (v) travel industry, transportation and logistics consulting services relating primarily to computer technology and automation. The Non-Competition Agreement expires on December 31, 2001.

OTHER RELATED PARTY TRANSACTIONS American invests funds, including funds of certain affiliates, in a combined short-term investment portfolio and passes through interest income on such funds at the average rate earned on the portfolio. To the extent funds transferred to American exceed the invested portfolio, such amounts are converted to Long-Term Debt Due to Parent under a subordinated note agreement with AMR. To the extent American invests its excess cash flows in the short-term investment portfolio, Long-Term Debt Due to Parent is reduced with a corresponding increase in Payables to Affiliates. The subordinated promissory note bears interest based on the weighted-average rate on AMR's long-term debt. The interest rate is reset every six months. The note is due September 30, 2004, unless extended. American may prepay the note without penalty at any time.

2. REORGANIZATION OF THE SABRE GROUP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

American issues tickets for flights on its American Eagle affiliate regional carriers, owned by AMR Eagle Holding Corporation, a subsidiary of AMR. As a result, the revenue collected for such tickets is prorated between American and the AMR Eagle carriers based on the segments flown by the respective carriers. In 1997, 1996 and 1995, American paid fees of $164 million, $196 million and $201 million, respectively, recorded as a reduction in passenger revenues, to AMR Eagle primarily for passengers connecting with American flights. In addition, American provides each of the regional carriers, among other things, communication and reservation services and other services, including yield management and participation in American's frequent flyer program. In consideration for certain services provided, each regional carrier pays American a service charge, based primarily on passengers boarded, which approximated $63 million for 1997 and 1996 and $54 million for 1995.

American paid affiliates in AMR's Management Services Group $121 million, $120 million and $108 million in 1997, 1996 and 1995, respectively, for ground handling services provided at selected airports, consulting services and investment management and advisory services with respect to short-term investments and the assets of its retirement benefit plans.

American recognizes compensation expense associated with certain AMR common stock-based awards for employees of American (See Note 9).

3. SHORT-TERM INVESTMENTS

Short-term investments consisted of (in millions):

	December 31,	
	1997	1996
Overnight investments and time deposits	$ 523	$ 47
Corporate notes	678	1,014
Other debt securities	561	251
	$ 1,762	$ 1,312

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

Due in one year or less	$ 1,023
Due after one year through three years	475
Due after three years	264
	$ 1,762

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 stockholder's equity.

4. COMMITMENTS AND CONTINGENCIES

At December 31, 1997, the Company had firm orders to acquire the following aircraft: 75 Boeing 737-800s, 12 Boeing 757-200s, 11 Boeing 777-200IGWs and eight Boeing 767-300ERs. Deliveries of these aircraft commence in 1998 and will continue through 2004. Future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment, will approximate $1.1 billion in 1998, $1.5 billion in 1999, $520 million in 2000 and an aggregate of $1.2 billion in 2001 through 2004. In addition to these commitments for aircraft, the Company's Board of Directors has authorized expenditures of approximately $1.1 billion over the next five years for modifications to aircraft, renovations of, and additions to, airport and office facilities, and the acquisition of various other equipment and assets. American expects to spend approximately $400 million of this authorized amount in 1998.

4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

American has included an event risk covenant in approximately $2.8 billion of debt and lease agreements. The covenant permits the holders of such instruments to receive a higher rate of return (between 50 and 700 basis points above the stated rate) if a designated event, as defined, should occur and the credit rating of the debt obligations underlying the lease agreements is downgraded below certain levels.

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

5. LEASES

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

Year Ending December 31,	Capital Leases	Operating Leases
1998	$ 211	$ 940
1999	206	926
2000	272	887
2001	254	893
2002	204	858
2003 and subsequent	1,041	13,116
	2,188(1)	$ 17,620 (2)
Less amount representing interest	694	
Present value of net minimum lease payments	$ 1,494	

1 Future minimum payments required under capital leases include $192 million guaranteed by AMR relating to special facility revenue bonds issued by municipalities.
2 Future minimum payments required under operating leases include $6.2 billion guaranteed by AMR relating to special facility revenue bonds issued by municipalities.

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

During 1996, American made prepayments totaling $565 million on 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 are recorded as flight equipment under capital leases.

Rent expense, excluding landing fees, was $1.1 billion for 1997 and 1996 and $1.2 billion for 1995.

6. INDEBTEDNESS

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

	December 31,	
	1997	1996
7.67% - 9.59% notes due through 2014	$ 596	$ 611
Variable rate indebtedness due through 2024 (3.55% - 6.82% at December 31, 1997)	135	162
6.0% - 7.1% bonds due through 2031	176	176
Other	30	34
Long-term debt, less current maturities	$ 937	$ 983

Maturities of long-term debt (including sinking fund requirements) for the next five years are: 1998 - $21 million; 1999 - $24 million; 2000 - $27 million; 2001 - $32 million; 2002 - $26 million.

During 1996, American retired prior to scheduled maturity $449 million in face value of long-term debt and capital lease obligations at amounts which approximated their carrying value.

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

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

Cash payments for interest were $300 million, $367 million and $542 million for 1997, 1996 and 1995, respectively.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

NOTIONAL AMOUNTS AND CREDIT EXPOSURES OF DERIVATIVES

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

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

INTEREST RATE RISK MANAGEMENT

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

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

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

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

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

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

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

FUEL PRICE RISK MANAGEMENT

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

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

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

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 fair values of the Company's long-term debt, including current maturities, were (in millions):

	December 31,			
	1997		1996	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt due to Parent	$ --	$ --	$ 118	$ 134
7.67% - 9.59% notes	611	716	625	685
Variable rate indebtedness	136	136	165	165
6.0% - 7.1 % bonds	176	194	176	180
Other	35	36	39	41
	$ 958	$ 1,082	$ 1,123	$ 1,205

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

8. INCOME TAXES

American, as a wholly-owned subsidiary, is included in AMR's consolidated tax return. Under the terms of American's tax sharing agreement with AMR, American's provision for income taxes has been computed on the basis that American files separate consolidated income tax returns with its subsidiaries.

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

	Year Ended December 31,		
	1997	1996	1995
Current	$ 221	$ 208	$ 21
Deferred	286	179	10
	$ 507	$ 387	$ 31

The income tax provision includes a federal income tax provision of $447 million, $342 million and $16 million for the years ended December 31, 1997, 1996 and 1995, respectively.

8. INCOME TAXES (CONTINUED)

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

	Year Ended December 31,		
	1997	1996	1995
Statutory income tax provision	$ 451	$ 335	$ 7
State income tax provision, net	35	27	2
Meal expense	18	16	19
Other, net	3	9	3
Income tax provision	$ 507	$ 387	$ 31

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

	December 31,	
	1997	1996
Deferred tax assets:		
Alternative minimum tax credit carryforwards	$ 732	$ 804
Postretirement benefits other than pensions	561	543
Rent expense	271	231
Gains from lease transactions	235	248
Frequent flyer obligation	231	172
Operating loss carryforwards	--	45
Other	320	341
Valuation allowance	(3)	(3)
Total deferred tax assets	2,347	2,381
Deferred tax liabilities:		
Accelerated depreciation and amortization	(2,665)	(2,396)
Pensions	(91)	(144)
Other	(230)	(193)
Total deferred tax liabilities	(2,986)	(2,733)
Net deferred tax liability	$ (639)	$ (352)

At December 31, 1997, American had available under the terms of its tax sharing agreement with AMR approximately $732 million of alternative minimum tax credit carryforwards available for an indefinite period.

Cash payments for income taxes were $350 million, $191 million and $49 million for 1997, 1996 and 1995, respectively.

9. STOCK AWARDS AND OPTIONS

The Company participates in AMR's 1988 Long Term Incentive Plan (1988 Plan), as amended in 1994, whereby 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 Company also participates in AMR's Pilot Stock Option Plan (The Pilot Plan). The Pilot Plan granted members of the Allied Pilots Association the option to purchase 5.75 million shares of AMR stock at $83.375 per share, $10 less than the average fair market value of the stock on the date of grant, May 5, 1997. These shares were exercisable immediately.

The Company accounts for participation in AMR's stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. In 1997, the total charge for stock compensation expense included in wages, salaries and benefits expense was $66 million. No compensation expense was recognized for stock option grants under the 1988 Plan since the exercise price of the Company's stock option grants was the fair market value of the underlying stock on the date of grant.

The Company has adopted the pro forma disclosure features of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). As required by SFAS 123, pro forma information regarding net earnings has been determined as if the Company had accounted for employee stock options and awards granted by AMR subsequent to December 31, 1994 using the fair value method prescribed by SFAS 123. The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995: risk-free interest rates of 5.80% to 6.31%; dividend yields of 0%; expected stock volatility ranging from 25.4% to 25.6%; and a weighted-average expected life of the options of 4.5 years, with the exception of The Pilot Plan which was 1.5 years.

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

The Company's pro forma net earnings assuming the Company had accounted for employee stock options issued by AMR to employees of American using the fair value method would have resulted in 1997 net earnings of $755 million. The pro forma effect of SFAS 123 is immaterial to the Company's 1996 and 1995 net earnings.

10. RETIREMENT BENEFITS

Substantially all employees of American 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.

10. RETIREMENT BENEFITS (CONTINUED)

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

	Year Ended December 31,		
	1997	1996	1995
Defined benefit plans:			
Service cost - benefits earned during the period	$ 159	$ 193	$ 162
Interest cost on projected benefit obligation	350	356	323
Return on assets	(375)	(87)	(1,288)
Net amortization and deferral	17	(305)	1,008
Net periodic pension cost for defined benefit plans	151	157	205
Defined contribution plans	142	132	124
Total	$ 293	$ 289	$ 329

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

10. RETIREMENT BENEFITS (CONTINUED)

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

	December 31,			
	1997		1996	
	Plans with Assets in Excess of Accumulated Benefit Obligation	Plans with Accumulated Benefit Obligation in Excess of Assets	Plans with Assets in Excess of Accumulated Benefit Obligation	Plans with Accumulated Benefit Obligation in Excess of Assets
Vested benefit obligation	$ 4,524	$ 53	$ 2,729	$ 1,435
Accumulated benefit obligation	$ 4,733	$ 57	$ 2,882	$ 1,510
Effect of projected future salary increases	850	26	650	202
Projected benefit obligation	5,583	83	3,532	1,712
Plan assets at fair value	5,121	6	3,154	1,463
Plan assets less than projected benefit obligation	(462)	(77)	(378)	(249)
Unrecognized net loss	728	27	729	237
Unrecognized prior service cost	58	5	37	29
Unrecognized transition asset	(21)	1	(32)	-
Adjustment to record minimum pension liability	--	(11)	--	(69)
Prepaid (accrued) pension cost(1)	$ 303	$ (55)	$ 356	$ (52)

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

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

The projected benefit obligation was calculated using weighted-average discount rates of 7.25% and 7.75% at December 31, 1997 and 1996, respectively; rates of increase for compensation of 4.20% at December 31, 1997 and 1996; and the 1983 Group Annuity Mortality Table. The weighted-average expected long-term rate of return on assets was 9.50% in 1997, 1996 and 1995. The vested benefit obligation and plan assets at fair value at December 31, 1997, for plans whose benefits are guaranteed by the Pension Benefit Guaranty Corporation were $4.5 billion and $5.1 billion, respectively.

In October 1997, the portion of American's defined benefit pension plan applicable to employees of The SABRE Group was spun-off to The SABRE Group. At the date of the spin-off, the net obligation attributable to The SABRE Group employees participating in American's plan of approximately $20 million, net of deferred taxes of approximately $8 million, was credited to retained earnings.

10. RETIREMENT BENEFITS (CONTINUED)

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. American funds benefits as incurred and makes contributions to match employee prefunding.

Net other postretirement benefit cost was (in millions):

	Year Ended December 31,		
	1997	1996	1995
Service cost - benefits earned during the period	$ 42	$ 55	$ 48
Interest cost on accumulated other postretirement benefit obligation	88	98	99
Return on assets	(4)	(3)	(2)
Net amortization and deferral	(13)	(5)	(6)
Net other postretirement benefit cost	$ 113	$ 145	$ 139

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

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

	December 31,	
	1997	1996
Retirees	$ 630	$ 593
Fully eligible active plan participants	168	123
Other active plan participants	557	461
Accumulated other postretirement benefit obligation	1,355	1,177
Plan assets at fair value	49	35
Accumulated other postretirement benefit obligation in excess of plan assets	1,306	1,142
Unrecognized net gain	170	287
Unrecognized prior service benefit	48	52
Accrued other postretirement benefit cost	$ 1,524	$ 1,481

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

10. RETIREMENT BENEFITS (CONTINUED)

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

11. RESTRUCTURING COSTS

In 1995, the Company recorded $485 million for restructuring costs which included (in millions):

	December 31, 1995
Special termination benefits:	
Pension	$ 118
Other postretirement benefits	26
Other termination benefits	19
Actuarial losses:	
Pension	102
Other postretirement benefits	67
Total cost of early retirement programs	332
Provisions for aircraft impairment and retirement	145
Other	8
	$ 485

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

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

12. FOREIGN OPERATIONS

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

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

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for 1997 and 1996 (in millions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Operating revenues	$ 3,750	$ 4,029	$ 4,107	$ 3,970
Operating income	199	444	469	335
Net earnings	74	240	266	200
1996				
Operating revenues	$ 3,639	$ 3,885	$ 3,900	$ 3,712
Operating income	240	447	444	200
Net earnings	150	274	208	73

Results for the third quarter of 1996 include a $21 million provision for American's share of a multi-carrier travel agency class action litigation settlement. Results for the fourth quarter of 1996 include a $26 million charge to write down the value of aircraft interiors the Company planned to refurbish.

ITEM 9. DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Omitted under the reduced disclosure format pursuant to General Instruction I(2)(c) of Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The following financial statements and Independent Auditors' Report are filed as part of this report:

	Page
Report of Independent Auditors	16
Consolidated Statement of Operations for the Years Ended December 31, 1997, 1996 and 1995	17
Consolidated Balance Sheet at December 31, 1997 and 1996	18-19
Consolidated Statement of Cash Flows for the Years Ended December 31, 1997, 1996 and 1995	20
Consolidated Statement of Stockholder's Equity for the Years Ended December 31, 1997, 1996 and 1995	21
Notes to Consolidated Financial Statements	22-39

(2) The following financial statement schedule and Independent Auditors' Report are filed as part of this report:

	Page
Report of Independent Auditors	43
Schedule II Valuation and Qualifying Accounts and Reserves	44

Schedules not included have been omitted because they are not applicable or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits required to be filed by Item 601 of Regulation S-K. (Where the amount of securities authorized to be issued under any of American's long-term debt agreements does not exceed 10 percent of American's assets, pursuant to paragraph (b)(4) of Item 601 of Regulation S-K, in lieu of filing such as an exhibit, American hereby agrees to furnish to the Commission upon request a copy of any agreement with respect to such long-term debt.)

EXHIBIT	
3.1	Composite of the Certificate of Incorporation of American, incorporated by reference to Exhibit 3(a) to American's report on Form 10-K for the year ended December 31, 1982.
3.2	Amended Bylaws of American, incorporated by reference to Exhibit 3(b) to American's report on Form 10-K for the year ended December 31, 1990.
10.1	Aircraft Sales Agreement by and between American Airlines, Inc. and Federal Express Corporation, dated April 7, 1995, incorporated by reference to Exhibit 10(ee) to American's report on Form 10-K for the year ended December 31, 1995. Confidential treatment was granted as to a portion of this document.
10.2	Information Technology Services Agreement, dated July 1, 1996, between American and The SABRE Group, Inc., incorporated by reference to Exhibit 10.6 to The SABRE Group Holdings, Inc.'s Registration Statement on Form S-1, file number 333-09747. Confidential treatment was granted as to a portion of this document.
10.3	Aircraft Purchase Agreement by and between American Airlines, Inc. and The Boeing Company, dated October 31, 1997, incorporated by reference to Exhibit 10.48 to AMR's report on Form 10-K for the year ended December 31, 1997. Confidential treatment has been requested as to a portion of this document.
23	Consent of Independent Auditors.
27	Financial Data Schedule.

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN AIRLINES, INC.

/s/ Robert L. Crandall
- ---
Robert L. Crandall
Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ Gerard J. Arpey
- ---
Gerard J. Arpey
Senior Vice President - Finance and Planning and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 25, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates noted:

Directors:

/s/ David L. Boren
- ---
David L. Boren

/s/ Edward A. Brennan
- ---
Edward A. Brennan

/s/ Armando M. Codina
- ---
Armando M. Codina

/s/ Christopher F. Edley
- ---
Christopher F. Edley

/s/ Charles T. Fisher, III
- ---
Charles T. Fisher, III

/s/ Earl G. Graves
- ---
Earl G. Graves

/s/ Dee J. Kelly

Dee J. Kelly

/s/ Ann D. McLaughlin

Ann D. McLaughlin

/s/ Charles H. Pistor, Jr.

Charles H. Pistor, Jr.

/s/ Joe M. Rodgers

Joe M. Rodgers

/s/ Judith Rodin

Judith Rodin

/s/ Maurice Segall

Maurice Segall

Date: March 25, 1998

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholder
American Airlines, Inc.

We have audited the consolidated financial statements of American Airlines, Inc. as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, and have issued our report thereon dated January 19, 1998. Our audits also included Schedule II - Valuation and Qualifying Accounts and Reserves. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

2121 San Jacinto
Dallas, Texas 75201
January 19, 1998

AMERICAN AIRLINES, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(DEDUCTED FROM ASSET TO WHICH APPLICABLE)
(IN MILLIONS)

		CHARGED TO					
	BALANCE AT BEGINNING OF YEAR	OTHER OPERATING EXPENSES	DEPREC. AND AMORT.	RESTRUCT COSTS	NET WRITE-OFF	SALES, RETIRE-MENTS AND TRANSFERS	BALANCE AT END OF YEAR
YEAR ENDED DECEMBER 31, 1997							
Allowance for uncollectible accounts	$ 6	$11	$ --	$ --	$(9)	$ --	$ 8
Allowance for obsolescence of inventories	197	--	33	--	--	(41)	189
YEAR ENDED DECEMBER 31, 1996							
Allowance for uncollectible accounts	13	10	--	--	(14)	(3)	6
Allowance for obsolescence of inventories	228	--	20	--	--	(51)	197
YEAR ENDED DECEMBER 31, 1995							
Allowance for uncollectible accounts	14	14	--	--	(15)	--	13
Allowance for obsolescence of inventories	171	--	36	9	--	12	228

EXHIBIT INDEX

EXHIBIT	DESCRIPTION
23	Consent of Independent Auditors.
27	Financial Data Schedule.

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Post Effective Amendment No. 2 to the Registration Statement (Form S-3 No. 33-42998) of American Airlines, Inc., and in the related Prospectus, of our reports dated January 19, 1998 with respect to the consolidated financial statements and schedule of American Airlines, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 1997.

ERNST & YOUNG LLP

Dallas, Texas
March 25, 1998

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1,000,000

YEAR
DEC-31-1997
JAN-01-1997
DEC-31-1997
47
1,762
1,065
8
555
3,982
18,114
6,653
17,753
5,347
2,319
0
0
1,732
3,622
17,753
0
15,856
0
14,409
0
0
278
1,287
507
780
0
0
0
780
0
0