

AMR Corporation
Risk Assessment Methodology

A Little About AMR

World's largest scheduled passenger airline

Headquartered in Ft. Worth, Texas

88,400 Employees

2006 Annual Revenue \$22.6 B

2006 Annual PROFIT!!!!!!! \$231M

A Little About AMR

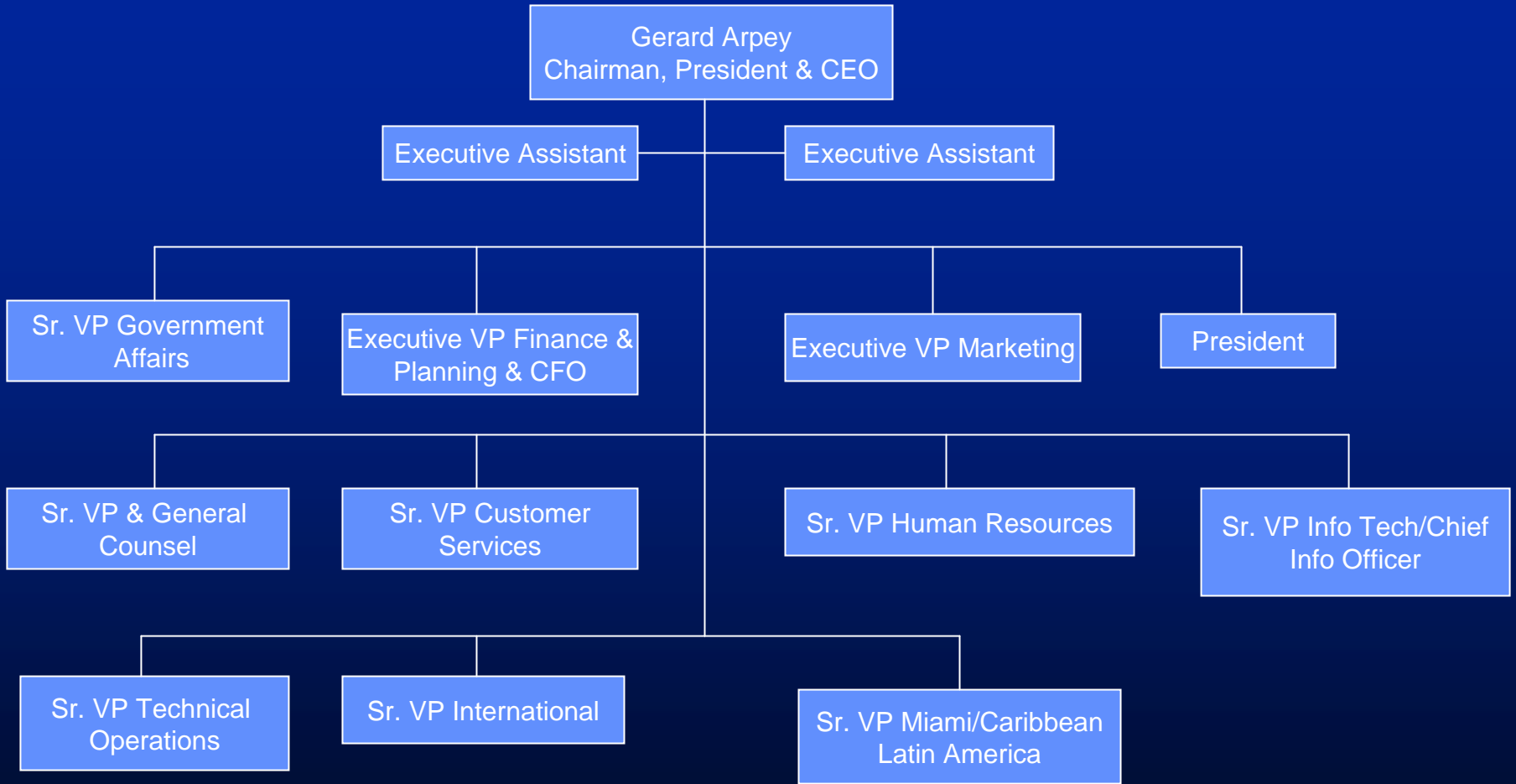
Serving 172 cities worldwide

2600 flights per day

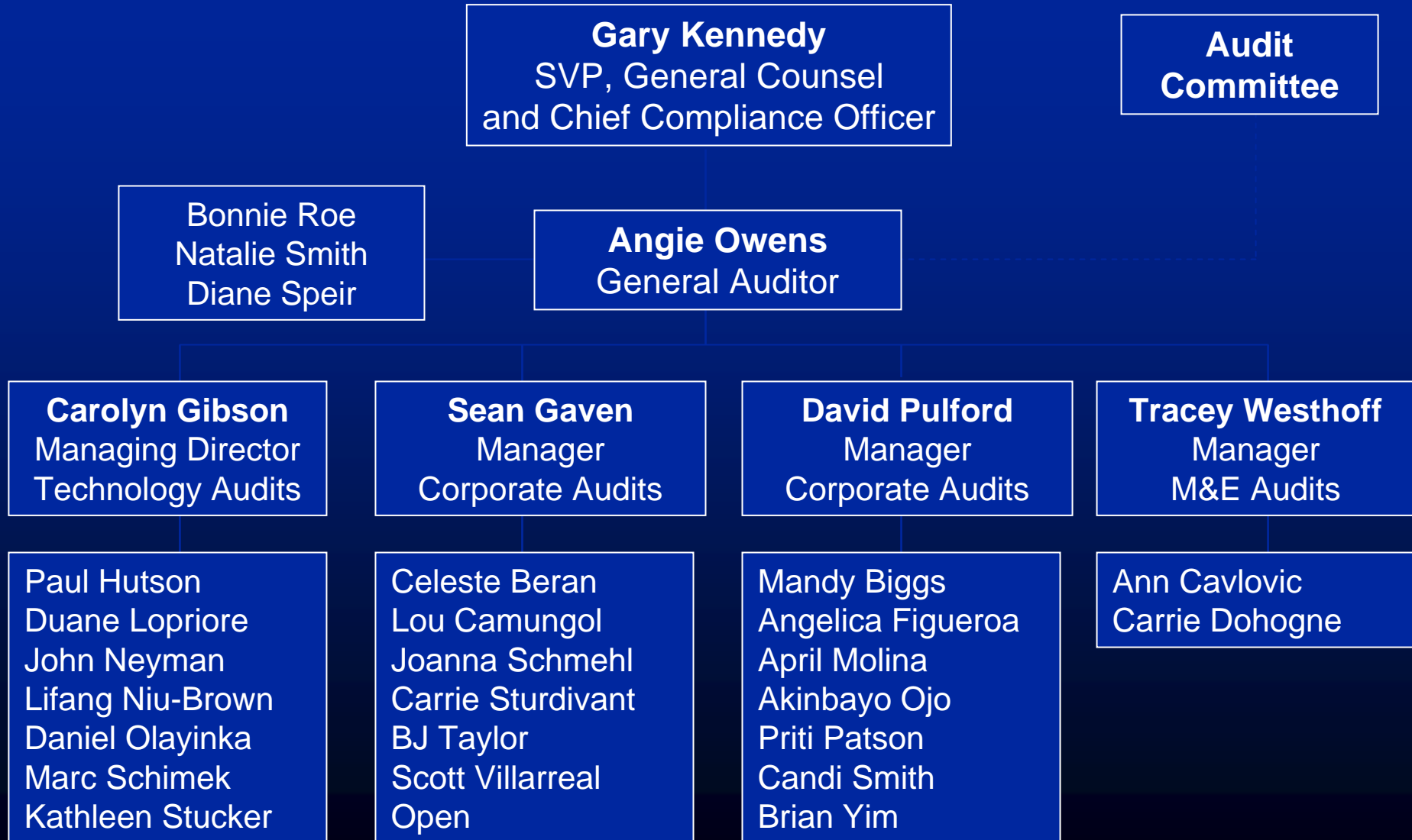
92 million passengers flown in 2006

14 million pounds of cargo DAILY

AMR Corporation



Internal Audit Department

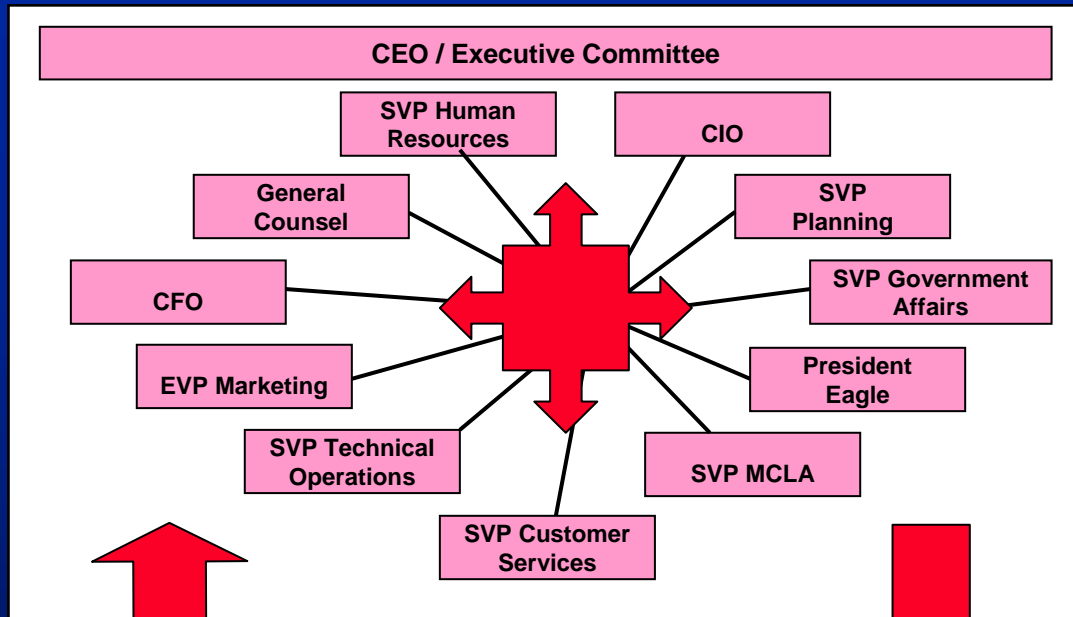


Managing Risks Daily

At AMR, risk assessment and management is deeply embedded in the corporate culture and manifests itself at all layers of the organization in a variety of forms, including:

- Relevant presentations to the Audit Committee
- Weekly the CEO meets with “Executive Committee”
 - Agendas include standing items as well as detailed discussions about the most germane current events
 - Substantial time at EC is devoted to the discussion of risk in a variety of context

Each officer is responsible for incorporating risk assessment and management into daily activities



ESCALATE ISSUES

- Risk Identification
- Analysis
- Management

Vice Presidents

Managing Directors

Managers

ACCOUNTABILITY

- Cascading
- Goals and
- Objectives

RISK COVERAGE AND OVERSIGHT

- AUDIT COMMITTEE**
- Internal Audit
- External Auditor – E&Y
- Other Risk Advisors (External Counsel and Consultants)

“The Audit Committee should discuss the company’s major financial risk exposures and the steps management has taken to monitor and control such exposures”

- NYSE Corporate Governance Rules

How is the Rule Interpreted?

Our unscientific research indicates:

Interpretations run the gamut from very formal Enterprise Risk Management programs to discussion item on Audit Committee agenda

KPMG:

“Many organizations engage in a wide variety of risk assessment and monitoring activities but are unable to point to the specific value derived from them”

AMR's Approach

2004 Internal Audit took ownership of defining a process that would satisfy the NYSE requirement

We asked 50 senior managers to identify:

- Top 20 risks

 - Business unit

 - Corporate level

And provide assessment of:

 - Probability

 - Controllability

 - Level of Preparedness

 - Impact (Financial, Operational, Reputation)

AMR's Approach

Overall, good participation

Results were predictable

250 individual risks identified

Challenges

Analyzing/Comparing 250 risks

Expert bias

Non expert opinions

Lack of quality impact data

Occasional “non responsive” response:

“We are in an inherently risky business”

AMR's 2005 Approach

Changes

- Included more attorneys in the survey

- Attempted to gather department's risk mitigation activities

Issues

- Attorney opinion's skewed the data

- Various levels of detail for mitigation activities

 - All activities cannot be captured

AMR's 2006 Approach

Changes

Survey included top 18 corporate risk categories

Participants were identified as experts about certain risks

Asked for top 5 mitigating activities if applicable

Removed financial impact question

Catastrophic Event

Any large event that causes loss of life, property, or equipment, excluding terrorist actions.

Please place an "X" in the box below indicating your assessment of this risk for the probability it will occur, the company's range of control over the risk, the company's level of preparedness, and the overall impact:

	LOW	MED	HIGH
PROBABILITY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CONTROL	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
PREPAREDNESS	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
IMPACT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

RISK MANAGEMENT ACTIVITIES

Please list the 5 most important activities your department does to manage these risks (if applicable):

Additional Comments –

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Risk Categories

Catastrophic Event	Competitor Actions	Cost Containment
Customer Retention	Data Privacy and Security	Disaster Recovery/Business Continuity
Economic Downturn	Fleet Mix/Age	Illegal Activity
Infrastructure Reliability	IT System Reliability	Labor Relations
Litigation	Regulatory	Safety Performance
Talent Retention	Terrorist Act	Vendor Loss/Supply Interruption

AMR's 2006 Approach

Outcome

More standardized responses

Data easier to compare

Expert's responses given more weight

Reporting Results

CFO and Chief Legal Counsel

Chairman/CEO

Audit Committee

Chart Highest Probability and Greatest Impact

Management's assessment of the most probable/highest impact risks was consistent with expectations and subject matter expert responses did not vary significantly from all others

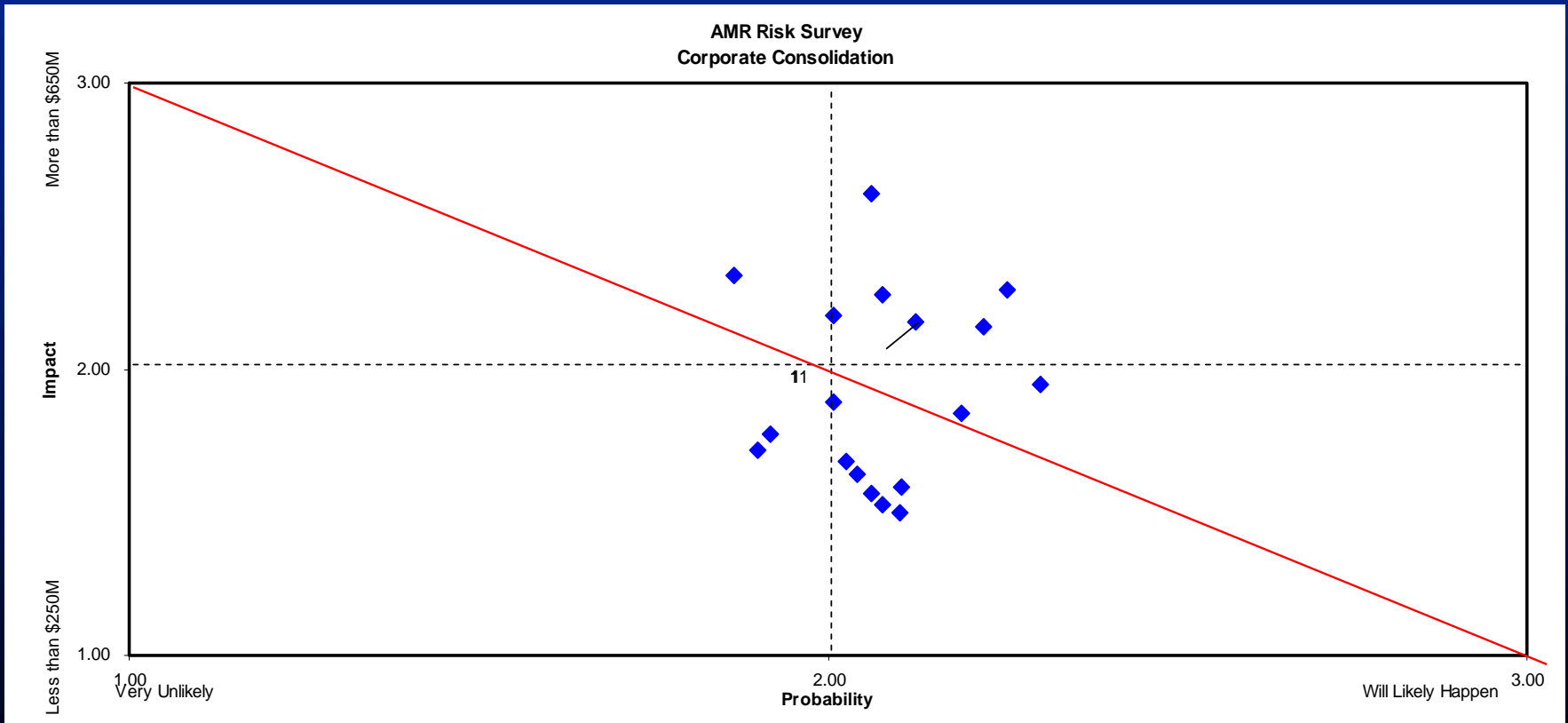
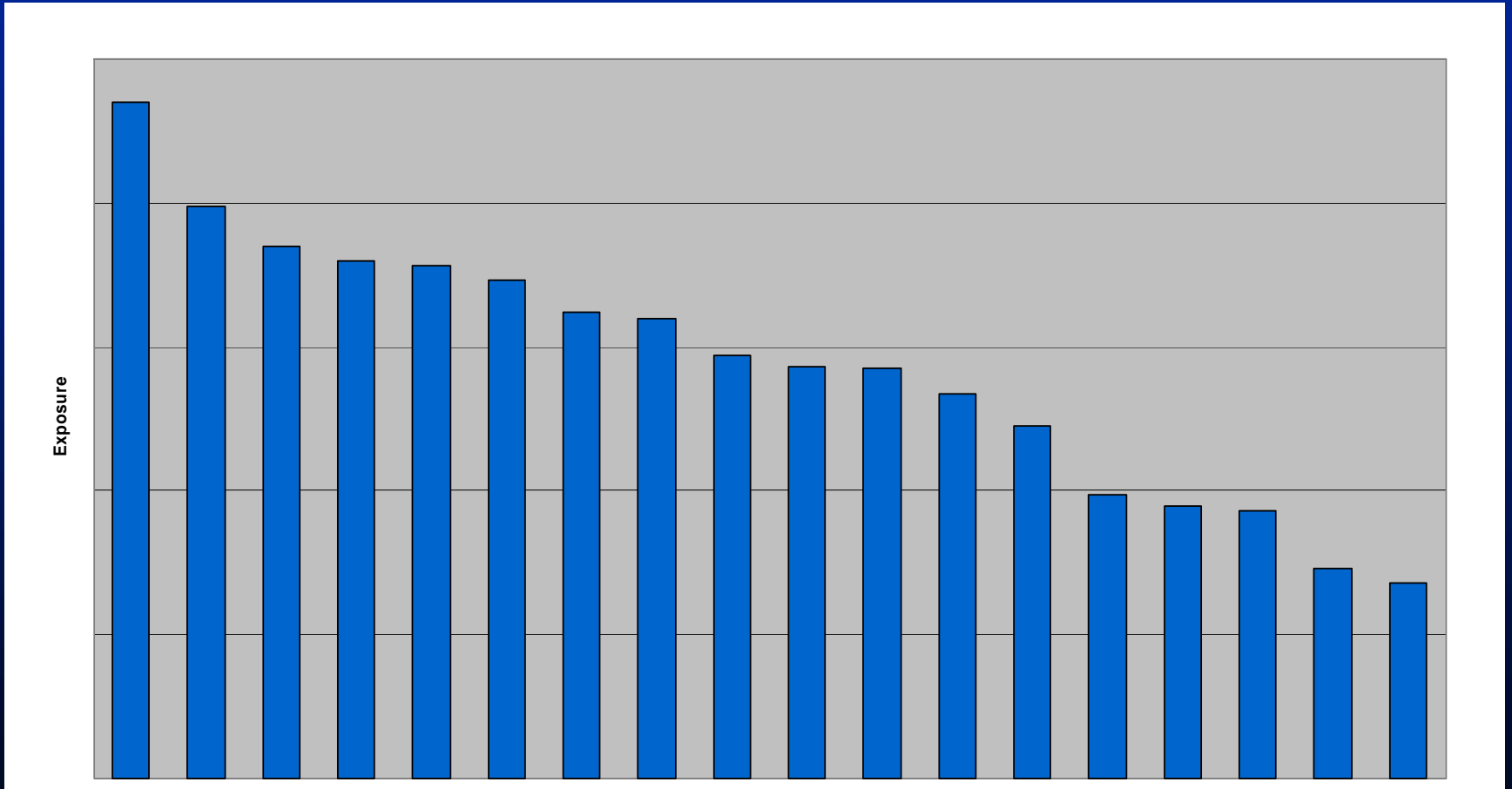


Chart Exposure = Impact x Probability x Inverse Preparedness

When factoring in preparedness, again the results were as expected:



Conclusions

The magnitude of exposure has not changed measurably year over year

Risk assessments reported by subject matter experts did not vary significantly from other responses indicating that the management team is well informed about the company's risks

After completing the 2006 survey process, we concluded that AMR's risk management process is:

- Driven by a highly regulated, dynamic, and fiercely competitive environment
- Managed and monitored within each senior executive's organization
- Channeled through Executive Committee, when necessary

...and that AMR's risk management process continues to provide the company with adequate risk management

Then What Happens?

A number of key risks are regular topics of discussion during Board meetings, including:

State of the economy	Pricing and other competitive information
Fuel and other cost containment activities	Litigation
Labor relations	Talent Retention
Significant regulatory items	Fleet Plans

Audit considers survey results when building the annual audit program

What Have We Learned?

Must have Senior Management Support

The survey methodology is economical but has its challenges:

- Comparable responses

- Accurate wording of the questions

Allow time to follow-up on individual responses

Prepare for push back from unlikely places

Questions?