Tom Horton

Executive Vice President of Finance and Planning and Chief Financial Officer of AMR Corp. and American Airlines

Good afternoon, everyone. *Konnichiwa*. Thank you for joining us.

I've been to Japan many times, and this is my second trip in three weeks. I am always struck by the hospitality Japanese people extend to their guests, and the impeccable quality of service provided here. These are some of Japan's attributes that American Airlines and the **one**world alliance have admired over the years, as they reflect the essence of **one**world. We are grateful for the opportunity to serve Japan along with JAL and our other **one**world partners, and we believe in a bright future for the Japanese aviation market.

American Airlines is here today to demonstrate strong support for our important, valued and longtime partner, Japan Airlines. And we also speak on behalf of our partner TPG, one of the world's leading private investment firms, whose involvement is a strong endorsement of the American and **one**world proposal.

We are proud that American and JAL have built a strong partnership over roughly 15 years. That relationship has strengthened within **one**world since American sponsored JAL as a member two years ago. American and **one**world have a lot invested in JAL's success, and we are prepared to do more to ensure a successful partnership for the long-term. This support in turn will allow JAL to achieve a sustained recovery that will produce significant benefits for the traveling public, employees and investors, and the Japanese tourism and aviation industries.

Equally important, we are confident the total value proposition that we have outlined to our friends at JAL is far superior to any alternative.

First, let me say a few words about American Airlines. We are a company built on integrity, with a history spanning more than 80 years. We have the strongest track record among our U.S. peers of meeting our obligations to our stakeholders, including the fact that we are the only major U.S. network airline that has never filed for bankruptcy protection. Our track record is a primary reason that, amid the tightest capital markets in memory, we were able to raise about $5 billion in financing and liquidity this year, which enhanced our flexibility to manage through the global recession. We believe the addition of TPG to our team, with its own track record of success and airline expertise will help American preserve this flexibility while ensuring that a close partner can flourish and continue to be a great asset for Japan. Importantly, our offer is predicated on the notion that TPG's participation is invited, welcomed and deemed appropriate by JAL and the Government of Japan.

Beyond American's solid reputation, we are first and foremost a world class airline, with great people, expertise and assets. American's U.S. network, for example, is unmatched, centered in the three biggest U.S. markets -- New York, Los Angeles and Chicago – and in growing, vibrant markets such as Dallas-Fort Worth and Miami. Our Latin American network is second to none, and through **one**world we have a very strong presence in the largest European markets.

When comparing network strength it is important to focus on revenue and customer quality, and that is what we deliver. Our network complements, as opposed to overlaps, JAL's – and that's also one of the primary reasons we are confident we are the only U.S. partner that can achieve antitrust immunity with JAL.

No matter how strong or expansive an individual airline's network is, no single airline can take every customer every place he or she wants to go. That's why airlines have formed broad international alliances with carriers that expand their global footprint. In our case, the **one**world alliance brings together 11 of the highest quality brands in the global industry, serving nearly 150 countries and nearly 750 airports with approximately 8,500 daily flights. And JAL is an important piece of **one**world's success.

Today, **one**world provides JAL with roughly $500 million in annual revenue. That is real, measurable revenue and its continuation should not be taken lightly. We also estimate that switching alliances will cost JAL $500 million in lost revenue over the first two years. In essence, that means, from simply switching alliances, JAL would start with a large revenue deficit. And any guarantee to make JAL whole for lost revenue at best gets them back to zero, not ahead. Lost revenue would be an additional and unnecessary risk at a time when JAL is focused on a successful restructuring.

In addition to losing current revenue, there is an even bigger long-term loss from an alliance switch. That is the opportunity cost of failing to obtain antitrust immunity with a U.S. airline. I will talk more in a few minutes about the regulatory process, which we believe will allow a JAL-American antitrust immunity application to readily obtain approval from the U.S. Department of Transportation, assuming the U.S. and Japan reach an Open Skies accord. In short, antitrust immunity allows partner airlines to generate significant synergies from jointly making decisions on such things as schedule alignment, route decisions and revenue management, and by approaching corporate accounts jointly rather than separately.

We estimate that an immunized joint venture with American will generate an incremental $100 million for JAL annually – essentially an annuity – and that is a conservative estimate. Over a ten-year period we estimate antitrust immunity has a net present value, which represents today's value of future benefits, of approximately $700 million to JAL. That is incremental value, a new revenue stream that will enhance JAL's financial and competitive position. And we believe this is only achievable with American.

Finally, as part of a comprehensive restructuring, American/**one**world and TPG are prepared to invest up to $1.1 billion U.S. dollars, or roughly 100 billion Yen, in JAL to bolster its financial foundation for the near and long term. This is a significant capital infusion that more than doubles SkyTeam's offer and speaks strongly to our commitment to JAL. All told, the total incremental financial support from AA, **one**world and TPG is in excess of $1.8 billion compared to SkyTeam's $500 million.

If you are wondering how we get to $500 million from SkyTeam, the math is fairly simple. As I mentioned, any guarantees of lost revenue – at best – gets JAL back to zero. The offer of $200 million in debt financing, which must be repaid, isn't incremental value and in fact adds debt to a company that is already overburdened with debt. That's hardly a solution. What's left is the $500 million investment, but the critical missing element is the

$700 million in net present value from immunity, which we do not believe will be available for JAL in a SkyTeam tie-up.

Understandably, some people have focused attention on the total dollar amounts being offered, but there is a more fundamental benefit to JAL from remaining in **one**world. Beyond direct financial support, the strategic opportunities from remaining with American and **one**world can't be overstated. Those benefits start with our ability to provide JAL access to the best and most valuable customers – the premium customers such as First and Business Class passengers that generate the most revenue – in the most important global markets.

As we look at the global markets most important to JAL, Japan-North America and Japan-Europe clearly top the list, with Japan-North America the most critical. Japan-North America is 30 percent larger in total market size, and nearly 20 percent larger in premium market size, than Japan-Europe. So, while both markets are important, it is even more critical for a premium carrier like JAL to have partners that provide the best access to premium customers in North America. Without this, profitable and sustainable growth is not attainable.

The ability to drive premium customer traffic is the reason American and **one**world provide superior network quality to JAL. JAL would lose valuable premium customers in the key premium gateways by leaving **one**world, in large part because American's U.S. cornerstone markets are the most desirable and strategically important international hubs. **one**world airlines carry far more premium traffic than SkyTeam in markets such as New York-JFK, Los Angeles, San Francisco, Chicago O'Hare and Dallas-Fort Worth, all important markets for global connectivity.

In addition, when you look at head-to-head comparisons, American generates six percent more revenue per available seat mile than Delta on transpacific service. With industry revenue down, this is a significant gap.

In the Japan-Europe market, **one**world's London Heathrow and Helsinki hubs also deliver more premium travelers to Japan than SkyTeam's Paris and Amsterdam hubs. London is by far Europe's most popular destination for business travelers worldwide, and premium customers at London Heathrow represent a much larger slice of the total market compared to Charles de Gaulle in Paris. In addition, Japan-Heathrow's overall premium market size is 12 percent greater than that of Japan-Charles de Gaulle.

Elsewhere in Europe, Helsinki and Madrid hubs complement London with optimal pan-European coverage for JAL. When Russia's S7 joins **one**world in 2010, it will provide similar growth potential in Eastern Europe and former Eastern Bloc countries.

In Latin America, American and **one**world are far and away the leaders versus SkyTeam. For example, in the 10 largest Latin American cities, **one**world operates 72 percent more flights and serves 60 percent more destinations than SkyTeam.

Clearly, when you look at markets that are most important to JAL, staying with American and **one**world is the right decision. Another important reason is that we are the only U.S. partner that can credibly promise to deliver an immunized relationship to JAL. We are confident that only with **one**world can JAL be part of a true joint venture through which it will share in the revenue gains generated by closer cooperation.

The reason is simple. DOT's process for reviewing antitrust applications is driven by one overriding objective – enhancing airline competition.

Today, the three global air alliances – **one**world, SkyTeam and the Star Alliance – compete with roughly equal shares of the U.S.-Japan market – about one third each. With JAL in SkyTeam, that balance is shattered. SkyTeam's share will jump to 62 percent, and SkyTeam and Star will have a duopoly with 93 percent of the market, an anticompetitive result that the U.S. government will not allow.

Competition would be severely harmed on multiple levels, including on heavily traveled city-pairs, U.S. to Japan traffic, and broader U.S. to Asia traffic. Consider that Delta today has an immunized relationship with Korean Air, which competes with JAL on the vast majority of Asia-U.S. routings from its Incheon hub in Seoul. JAL's addition to SkyTeam would add another overlapping North Asian hub, which would split traffic with Korean's Seoul hub and Delta's Narita hub. Yielding slots at Narita does not remedy the regulatory problem because the real issue is that competitors could not practically contest the dominance of SkyTeam and Star. We think DOT is also unlikely to accept market "carve-outs" as a remedy, as they undermine a true joint venture and there is no evidence they protect consumers. Finally, the U.S. Department of Transportation (DOT) has never granted immunity to airlines with competing networks at the same hub, which is exactly the case for Delta and JAL at Narita. We expect the U.S. Department of Justice also will take a very dim view of a combination of Delta's and JAL's Japan operations, and DOJ's concerns would add regulatory and antitrust enforcement risk to JAL in SkyTeam.

JAL-Delta together would claim 60 percent of the U.S.-Japan market. American and fellow **one**world member British Airways, by comparison, would have just a 40 percent share of U.S.-United Kingdom traffic after we receive antitrust immunity on the transatlantic, which we expect in the near future. That's a big difference.

In addition, in markets where Delta and JAL both offer non-stop service, only 27 percent of travelers would still have three or more competitors on U.S.-Japan routes with a Delta/JAL partnership, which regulators will say does not preserve meaningful consumer choice. In contrast, 78 percent of transatlantic travelers will have three or more choices once American and BA get immunity.

On the transatlantic we merely want a level playing field for **one**world to compete against SkyTeam and Star, which already have immunity. In the transpacific, we want to prevent an unlevel playing field. We believe this point – that JAL in **one**world enhances inter-alliance competition, while JAL in SkyTeam destroys it – will be as obvious to regulators as it is to us.

An Open Skies agreement is no guarantee that DOT will approve every antitrust immunity application presented to it. DOT's highest priority is protecting consumers and it has promoted inter-alliance competition to improve, not reduce, consumer choice. An application that reduces competition among the three global alliances, thus reducing consumer choice, goes against these principles. It is in the best interests of U.S.-Japan customers to have three robust alliances competing for their business instead of two. For this reason, it's hard to envision a scenario in which JAL-Delta could achieve immunity on any commercially acceptable basis.

Once an Open Skies agreement is reached between Japan and the US, it is clear United Airlines and All Nippon Airways, both Star members, will apply for and likely receive immunity. How will JAL best compete with this stronger duo?

We believe it is with American, which has all the incentive in the world to put its traffic on JAL's network and can deliver antitrust immunity.

In summary, American and **one**world are the best option for JAL for many reasons: superior total value proposition, including financial support; network benefits and synergies; and regulatory advantages and benefits that will drive new revenue to JAL. Beyond that, JAL's continued participation as **one**world's sole partner in northeast Asia is in the best interests of Japan, maximizing Tokyo's position as the preferred regional gateway and the keystone of the nation's aviation policy by continuing to bring traffic, revenue and jobs to one of Asia's most important business and cultural centers. A healthy and stronger JAL is good for Japan, its economy and its traveling public. And **one**world, American and TPG are the partners to help make this happen. In the appendix, you will also find 3 slides on TPG that also show their vast experience in the airline sector. Thank you very much for your time.