

**Caribbean Tourism Organization State of the Industry Conference
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“What’s Next for American Airlines?”

Remarks of Art Torno

American Airlines Vice President – Mexico, Caribbean and Latin America

Good morning. It's wonderful to be here, and I would like to start by thanking the Caribbean Tourism Organization for hosting this conference, for inviting me, and for all the great work they do promoting this beautiful region. It is a region which is so important to everyone here and to all of us at American Airlines.

I appreciate the opportunity to talk with you about where we are at American these days, our challenges, as well as our opportunities, and more importantly, where we are headed.

As you all know, this has been a year like no other for our airline. I say this as someone who has been with American for thirty-three years. I began my career back in the late 70's out of New York City. After growing up in Southern New Jersey, the airline gave me the opportunity to meet people and visit places that I only dreamed of doing as a young boy.

My American Airlines career has enabled me and my three children to see the world. American is also where I met my wife and where I've been fortunate to be given opportunity after opportunity, and challenge after challenge. I mention this, not because my experience is so unique, but because it is so typical of the colleagues I work alongside every day. American Airlines is our home, and we take its fate and its success very seriously and very personally. It is very fair to say that my colleagues and I truly love this company, and we are doing everything we can to make the travel experience better for our customers – far better than what it has been in recent years. More on this subject later.

Let me add that the Caribbean is also near and dear to my heart. I will never forget the day back in September 1986, when my dear friend and mentor and legend, as Hugh Riley referred to him in his video promoting this conference, Peter Dolara, hired me to run our operation in San Juan. That day changed my life and led to me enjoying many wonderful years living in the Caribbean – eleven to be exact. To me the Caribbean is a privileged region, an area I continue to visit for business and pleasure.

I'm sure many of you know that American's history in this region goes back more than 40 years to 1971, when we acquired Trans Caribbean Airlines and started serving a handful of islands from New York JFK. We took a major leap forward in 1989 when we purchased Eastern Airlines' route system along with its base in Miami. In the years since, we have continued to grow, and today American and American Eagle combine to fly to 33 destinations in the Caribbean, the Bahamas and Bermuda in the Atlantic.

We are proud of the role we have played helping millions of people from around the world enjoy the unmatched beauty and the variety of rich cultures resident in the Caribbean. But two important points need to be made. First, our growth and success in this region have resulted from a collaborative effort. From the very start, we have worked closely with governments, hoteliers, the CTO and other organizations that share our interest in bringing more people to the Caribbean. Second, while we have come a long way together since 1971, our 40-plus year journey has had more than its share of ups and downs.

One of the wonderful things about a global airline is that we have, in effect, some 250 “hometowns” all over the world. Our customers are our neighbors. We are their physical connection to the world at large. And quite often, we are with them during their moments of greatest joy and greatest sorrow.

When disaster strikes one of our hometowns, as it did in Port-au-Prince in 2010, we feel it in all of our hometowns. And it is one of the great blessings of our business that, as an airline, we are often in a unique position to help.

I was in Haiti in the immediate aftermath of the terrible earthquake helping to coordinate our relief efforts. Within hours of the quake, we flew multiple relief missions into Port-au-Prince. In the days and weeks that followed, we continued to transport relief workers, critical supplies and evacuees. We were the last to leave and the first to arrive when commercial service was restored. Today, we remain deeply engaged in the rebuilding of a country we have proudly served for four decades. And though we know much work remains to be done, we are optimistic and determined to do our part to help build the bright future that the people of Haiti deserve.

We are equally committed to this region as a whole. But of course, having said this, it is no secret to anyone here that the last few years have been especially challenging to all of you – and certainly to American Airlines. So let me turn to the topic at hand, which is where we are at American, what we are doing and where we plan to go from here.

2012 has been a real transitional year for us as we work through the restructuring process we began nearly 11 months ago. As you probably know, to restructure through the bankruptcy process is something we worked very hard, for many years, to avoid. In the ten years following the attacks of September 11, we watched virtually all of our U.S. competitors take that path, some more than once. And we suffered in the marketplace as those airlines were able to use the process to lower their costs far more dramatically than we were able to accomplish.

For ten long years, we fought the good fight. But in the end, our Board of Directors decided that this was the only realistic path forward for us to get our costs in line with those of our competitors and enable us to earn the kind of profits we will need to invest and build a successful future for our airline and all of our people.

It has been a difficult, sometimes painful, process. We have had to make a lot of very tough decisions in a short period of time. But we are confident that we are doing this the right way, that we can complete the restructuring relatively quickly, and that once it is complete American Airlines will be very well – uniquely well, in fact – positioned for growth and success in the years to come.

Now, why do I say that? Well the first reason is that, as paradoxical as it might sound, we actually entered the restructuring process from a position of relative financial strength. We had roughly four billion dollars of cash on our balance sheet a year ago, and AMR ended the month of August with approximately \$5.1 billion in cash and short term investments. That may seem like an internal matter, but the fact is, despite our cost disadvantages relative to other airlines, which we have made a lot of progress erasing, we have preserved the financial muscle we need to make the kinds of investments that will make a difference to our customers flying to the Caribbean and every other part of our global network.

The largest and most important investments we are making, of course, relate to our fleet. The transformational fleet deal we announced with Boeing and Airbus last year is, frankly, one of the most exciting and important things that has happened during my American Airlines career. The difference between what our fleet is today, and what it will be five years from now, cannot be overstated. In fact, in five years, we will be operating the most modern, technologically-advanced, fuel-efficient fleet of airplanes in the industry among our U.S. peers.

In our narrowbody fleet, the phasing out of our MD-80 aircraft – long the workhorse of our fleet – is well underway. We've got new Boeing 737s arriving, and by the end of the year, we will be flying more 737s than MD-80s. In terms of widebodies, we are the first and only U.S. airline to order the state-of-the-art Boeing 777-300ER. And we also plan to take delivery of 42 Boeing 787 Dreamliners, with an option for 58 more.

All told, we have 556 new aircraft on order – more than all other legacy airlines combined. And we have options for nearly that same number as well, which means we have the flexibility to grow even more if demand warrants. To put this order book in perspective: Today, we operate approximately 700 jets. This adds credence to our story of renewal and growth. By this time next year, we plan to be taking delivery of up to five new aircraft per month between the new 737's, the Airbus and the widebodies. The change will be quick and very dramatic!

The great news about the new A319 is that it will give us a smaller and very efficient narrowbody variant that will have incredibly good operating performance parameters, enabling us to get into markets that our current fleet could not serve profitably. Now before you ask, we have not yet made firm plans on where we will deploy this new aircraft.

And we are not neglecting our existing fleet. Far from it. Among other things we are refreshing our entire fleet of 777-200ERs and up to half of our 767-300ERs with lie-flat Business Class seats, with aisle access for every seat, inflight Wi-Fi (both for domestic and international routes), new in-seat entertainment, and Main Cabin Extra seating which provides more legroom.

We are designing our future product and brand offering to court our most valuable and frequent customers. You will see features that permit these valued guests to live “life, uninterrupted” as they travel our network. From on-board Wi-Fi to lay-flat seating in international and transcontinental premium cabins, a complete menu re-design on all of our flight, and in-flight content on many of our flights that will include up to 75 movies on demand, 150 television shows, 350 audio selections and 15 video games. “Life, uninterrupted” means that you can work, surf the web, enjoy various forms of content from our in-flight offerings or simply rest. The choice will be entirely yours on the New American Airlines.

Throughout this year, we have continued to invest in the product attributes, service and technology required to provide our customers with a world-class travel experience. Our investments have been complemented by the tremendous progress we have made in building a global network that is stronger than ever.

As you know, our ability to bring people to the Caribbean is, of course, a function of the strength and efficiency of our network. While, as in every other aspect of our business, we have had to make some tough choices, I can confidently say that the American Airlines network today is stronger than it has ever been – and about to get even stronger. Earlier this week, we made the big announcement of Qatar Airways joining **oneworld** by 2014. Our **oneworld** portfolio of carriers includes some of the finest airlines in the skies today.

In the Caribbean, we are working intensely with local carriers to develop deeper commercial ties that will augment our American Eagle partnership. While I cannot delve into details of those negotiations at this time, suffice it to say that we will make absolutely certain that the American Airlines network reaches the important individual markets which make up the crown of jewels we call the Caribbean.

In the United States, we have organized our flying around five hubs in the most important markets: New York, Los Angeles, Chicago, Dallas / Fort Worth and Miami. We have taken a very prudent and strategic approach to how we allocate our capacity. The bottom line is, we are strongest in the markets that matter most to our best customers. And we plan to get even stronger. In fact, once our restructuring is complete, we expect to grow capacity by about 20 percent in the following five years, much of it international from our two key hubs in Miami and Dallas/Fort Worth.

I have had several productive meetings with Ministers from various islands represented among us today. I have been very upfront in our enthusiasm to explore any opportunity that will add value to their country and the American Airlines network.

When we look at network breadth and overall connectivity, in many cases, the best way to optimize our effort is to fly through a hub with the greatest density of connecting flights, which also has geographic relevance. I have chosen to utilize our Miami Hub starburst for this illustration.

You will note that this is one of the two hubs I indicated earlier in my remarks that would receive a disproportionate amount of additional flying over the next five years. Take a look at the cities we serve today – 114 – and the number of daily departures this November – 328. This represents a whole lot of customers connecting from virtually every corner of the United States as well as Europe and Latin America. This is the power of the hub and what it can bring to our Caribbean. This is the centerpiece of our strategic vision for the Caribbean. We will not ignore our other four hubs, but I normally begin and end all conversations talking about the merits of the Miami Hub. I am sure that you can see why!

One more point about our strategic vision for Miami. This year during restructuring we have not hit the pause button. In fact, we kept right up with our ambitious growth plans, adding five new destinations and increasing service to 38 cities we currently serve, of which, 28 are international, including the Caribbean.

Much of that growth will come from international markets, where our much-strengthened alliance partnerships are giving us a real boost. After years of competing with one hand tied behind our backs, we now have effective joint ventures in place – across the Atlantic with our partners British Airways and Iberia – and across the Pacific with Japan Airlines and Qantas.

We are growing our own flying in some areas as well, particularly in Latin America. But as everyone here knows, the economic challenges of the last few years have forced us all to make hard choices. It's no secret to any of you that we have had to reduce some capacity in the Caribbean. We would obviously prefer to be growing here, but continuing to operate unprofitable routes would not serve anyone's interest in the long run.

The transformation we have been going through has not been easy, and I won't sugarcoat the fact that more tough choices surely lie ahead of us. But we are heartened by the progress we are already seeing. From a financial perspective, we have been consistently outperforming our competitors when it comes to unit revenue growth. And while we have had some hiccups of late, our operational performance and customer service scores for the year as a whole are much improved, which is also a testament, first and foremost, to the skill, professionalism and resilience of our team, including the more than 1,200 company employees who call the Caribbean home.

To sum up where we are today, let me quote someone who is a little less biased than I am. One of the Wall Street analysts who follows us recently wrote, "It is abundantly clear that American is on the right path. Sound business sense and patience have put the airline in a position few thought possible." That doesn't mean our work is done. But I agree that we are on the right path, a path that we believe leads to profitability, growth and the return of American Airlines to its rightful place of industry leadership.

One issue that I know many of you are curious about is industry consolidation, and the heavily reported possibility that we may do some kind of merger or acquisition with another airline. It's an issue that is important to all of my colleagues and to all of you who have an interest in the future of American Airlines. I wish I could say more about it, but because of the uncertainty, I will remain mostly silent on this topic.

One thing I can say is that our aspirations are to be one of the world's premier airlines, if not *the* premier global airline. And no carrier can hope to aspire to such a status without a strong presence in the Caribbean. So you can rest assured the Caribbean will remain a very important part of our network, just as it has been for 40-plus years. To me, the real issue is what are we going to do together to make the next 40 years better than the last 40.

In many ways, the challenges we face at American are analogous to what each of your organizations and communities are up against. We must do all we can to get our costs down, to be as efficient as possible and to be prudent with our capacity and capital while also making the bold investments in the future that are necessary to ensure industry leadership.

For your part, the islands – individually and collectively – have likewise been under enormous budget pressures, thanks largely to the struggles of the economies in North America and Europe that account for the lion's share of tourism revenue. Like the airlines, you are caught between getting by in the short-term and preparing for and investing in the long-term.

As with American, the short-term view is getting better in many instances. Things have rebounded, although the rebound is off the very low base established during the depths of the economic crisis.

The near-term improvements are certainly welcome news, but to me the longer-term view contains even better news. In the years to come, growing middle classes in places like China, India and Brazil are going to lead to big increases in tourism, a major opportunity for carriers like American, and regions like the Caribbean. But we need to be ready to seize this opportunity.

Today, countries everywhere are desperate for growth, and more than ever, they understand that tourism can provide that growth. More importantly, they are investing now to make their countries more competitive and more attractive to the tourists of tomorrow. So while the pie is getting bigger, there are more and more players vying for a piece of it.

The Caribbean has a long list of advantages – from the obvious natural beauty, culture and charm, to its people and its deep understanding of the tourism business. But just as American Airlines cannot rest on its history or past successes in a mercilessly competitive industry, neither can this region sit back and wait for the world to show up at its door with wallets open.

This conference is very timely, in my view, because what the region really needs. In addition to investments in infrastructure, increased hotel capacity, product refreshment and the like, the region needs a more coordinated strategy to compete going forward.

Opportunities abound. I think that the Caribbean can look to the Olympics. Just like sprinters Usain Bolt and Kirani James and several others have shown the world the type of strength and ability it takes to win on the world stage, all of the islands also have a strong product and the ability for the region to increase its tourism share and compete globally.

However, unlike the Caribbean sprinters, we need to grow the business to the region by working together as a team. To achieve success, your work will need to be more akin to soccer, cricket or baseball – a collaborative team effort. While each of you must continue to promote your properties, your island and your nation, a coordinated campaign must also be a part of what this region does to compete and win. This will require coordination with tourism ministries, hotel associations, convention bureaus, attractions and airlines – all stakeholders in the region. If everyone works to excel in their role, we will all win together!

At American Airlines we believe there are lots of opportunities for us as a company, and for this region, to continue to expand as one of the world's premier resort treasures. It is not a time for complacency. Destiny is in our own hands. It is not determined by external factors.

After 40 years in Caribbean, and nearly a century as an airline, we have learned that success lies in building on our strengths, but also changing with the times. Let's build on our brand so we're prepared for the future.

Thank you.