

District Judge Barbara Jones ruled that Visa and MasterCard could no longer bar member banks from issuing cards on rival networks. Visa and MasterCard appealed the decision. The next three years saw them try -- and fail -- to have the decision overturned in the U.S. Court of Appeals. As a last resort, they unsuccessfully petitioned the Supreme Court to argue their case again.

While this legal process unfolded, we were building a network business outside of the United States, where Visa and MasterCard were unable to enforce the kind of exclusionary rules they enjoyed in this country. We currently have Global Network Services (GNS) partnerships with 85 banks in 94 countries. This business has been successful for us, as well as for our bank partners, with strong growth in cards-in-force, merchant coverage and spending on American Express-branded cards. Furthermore, it has given us experience that we will draw upon as we launch and grow our network business in the United States.

Our first U.S. network partner is MBNA, one of the world's largest and most successful card issuers. In January of this year, we announced our agreement for MBNA to develop cards for their high-spending customers and prospects that will be accepted and processed on the American Express network. These products could not be issued until the appeals process in the Department of Justice case concluded. Now that this has happened, MBNA plans to introduce its first cards on our network in the coming weeks. We are delighted to have MBNA, an organization that shares a commitment to outstanding service, as our partner in this milestone pact. You will be hearing more about the launch plans soon.

We also continue to have discussions with other potential U.S. bank partners. We plan to add more partnerships with other issuers on a selective basis, ensuring they are a strategic fit for our brand and can bring in high-spending customers that are consistent with our franchise. Ultimately, we expect to work with a range of issuers in the U.S. – small, medium and large players. Some issuers will convert specific, high-spending segments of their customer base onto our network, while others will add American Express-branded cards to their product portfolio to attract affluent new customers.

Additionally, American Express is considering bringing private legal action against Visa and MasterCard. The Supreme Court's ruling only reaffirms the viability of this course of action.

The new environment in the U.S., in which we have both a proprietary business issuing American Express cards and a network business with partners issuing American Express-branded cards, is a major change for us. However, our objectives are simple and consistent with our established strategy. First, we want to continue to have the strongest proprietary card business in the industry, delivering performance superior to any other issuer. Second, in both our proprietary and GNS businesses, we want to be the network of choice for high-spending cardmembers. The combined result will be to generate additional spending on the American Express network, increase the number of American Express-branded cards in the marketplace, and drive more business and profits to merchants who accept our cards.

Over the past few weeks, we have heard public comments by Visa trying to rationalize their loss in the antitrust case and belittle the opportunity that has now been created in the U.S. credit card industry. They have said that the opening of competition at the network level will have little effect on them, and little benefit for American Express. If this were true, they would not have fought so long and hard to keep their exclusionary rules in place.

Because today's development is transformational for our company and the industry as a whole, I wanted to discuss in considerable detail what it means and how we will pursue the opportunities it presents. I will discuss our Global Network Services strategy: how the business works, how it benefits American Express and our partners, and how it fits with our brand strategy. I will also discuss our U.S. card business as a whole – the strong performance and terrific momentum of our proprietary card business, our spend-centric business model and our tremendous opportunities for growth.

Momentum in Our Proprietary Card Business

We are opening the network in the United States at a time when our proprietary card business is strong and performing exceptionally well:

- We are gaining market share against Visa and MasterCard at a more rapid pace than any time in recent memory. In fact, in both 2003 and 2004, we have been the fastest-growing card network in purchase volume, even when industrywide debit transactions are included.
- We lead the major individual card issuers in organic spending growth.
- We have the highest-spending cardmembers in the industry, and our advantage is widening.
- We added more than four million cards-in-force in the past year.
- We have outstanding credit quality, with past-due and write-off rates that are at historic lows and are among the best in the industry.

These results illustrate the strength of our “spend-centric” business model, which provides us with unique competitive advantages. We think of it as a virtuous circle, and this is how it works. We focus on winning the loyalty of high-spending cardmembers and driving their spending to merchants. On average, U.S. consumers spend about four times as much on their American Express cards as they do on Visa or MasterCard. As a result, we are able to deliver more high-spending and loyal customers to merchants and therefore earn a premium discount rate. The higher revenues we earn from spending on our network enable us to deliver greater value to cardmembers through more attractive rewards and other incentives. This, in turn, stimulates spending and drives more business to merchants who accept the Card. Underlying this economic model is the exceptional service and superior customer experience we provide to our cardmembers worldwide.

As our results clearly demonstrate, we continue to grow spending per card at a faster rate than any other card network, due to our focus on providing premium value to our cardmembers and merchants, the breadth and depth of our industry-leading rewards programs, the success of our marketing efforts to stimulate spending, and the quality and service standards that the American Express brand represents.

I believe we have the best and strongest proprietary card business in the industry. We are at the top of the pack among our peer group, with a strong portfolio of products and even more ideas in the pipeline. Opening the network in the U.S. will not change this; it should only add fuel to the already strong momentum we have generated. We will continue to aggressively grow our proprietary card business, launching innovative new products and services. Some recent examples of this include last month's launch of the TrueEarnings cards with Costco and, just last week, the new IN:NYC Credit Card.

Benefits of Opening the Network

Opening the network presents a host of new and expanded opportunities. American Express has been in the network business outside the United States for several years now, so we have a good understanding of the keys to success, and of how having a vibrant network business actually serves to strengthen our proprietary card business.

GNS is already an important part of the American Express franchise and a key part of our growth strategy. With more than 350 different card products launched so far, GNS partners have added 7.2 million bank-issued cards since 1997. As this card base has grown, GNS partners have added more than three million new establishments to the American Express merchant network around the world. And, as noted earlier, cards-in-force and spending on GNS cards have grown dramatically. Outside of the United States, one of every three new cards acquired in 2003 was a bank-issued card, and GNS partners were responsible for nearly one out of every three new merchants added to the American Express network.

There are many examples of our GNS partners seeing tremendous growth in their American Express-branded portfolios after introducing compelling new products with us. In Puerto Rico, for example, Banco Popular has seen annual growth of 35 percent in American Express-branded cards and 60 percent in billed business on these cards since 1998.

Equally important, GNS has co-existed well with our proprietary card business. The traditional American Express business has continued to enjoy healthy gains in both cards-

in-force and billed business in our international markets, as increased presence of our brand, a larger merchant base and more volume on our network create greater demand for all American Express products.

The market opportunity for spending on plastic is huge. Today, global spending on general purpose cards exceeds \$3.2 trillion, and that is only a small portion of what economists estimate to be a market of \$20 trillion in total consumer spending. Even in the United States, the world's largest market, cards account for only about one-third of total consumer spending. There is plenty of room to grow the global market and our share of it – for both our proprietary business and our network business. In fact, having both businesses should give us more opportunity to accomplish these objectives.

In many ways, opening the network in the United States is a natural evolution of our business, and it will take the benefits of our global merchant network to a new level.

Just as in international markets, opening the network in the U.S. should enable us to:

- Increase the number of American Express-branded cards in the marketplace
- Drive more high-spending transaction volume through our network
- Increase the acceptance of our cards by merchants around the world
- Provide more value for merchants by delivering more high-spending cardmembers, and encouraging them to spend more at their establishments
- Create a significant new revenue stream for the company
- Leverage our existing merchant network so that we generate these revenues without having to make substantial investments

The economics of a successful network business are compelling. We earn revenues on the additional transaction volume that GNS cards generate on our merchant network. Since we already have a robust infrastructure in place to handle this volume, the expense we incur in generating these revenues is relatively modest. In addition, because our card-issuing partners own the customer receivables on GNS cards, and bear the credit and funding risk, our capital commitment is also relatively modest. As a result, we earn

returns that can provide additional resources for investments in growth across all our businesses.

How GNS Partnerships in the U.S. Will Work

There are different models for how we structure GNS partnerships around the world. They vary depending on such factors as local market characteristics, partner needs, and American Express' presence in the market. In countries where we have a strong, well-established domestic card business, the model we use is Network Card License partnerships (NCLs). This is the model we will use for our partnerships in the United States.

In this arrangement, we grant our partner a license to issue American Express-branded cards. We process transactions and provide access to our global merchant network. We also maintain sole responsibility for signing and servicing merchants. The issuing partner owns the cardmember relationship, services the cardmember accounts, provides billing and credit management, designs card product features and creates the advertising and marketing programs to promote them.

Membership Rewards and other features designed specifically for our proprietary cards will not be available to our bank partners in the United States, or to other NCLs in international markets. Our bank partners develop their own compelling reward and loyalty programs for these products, with our support and consultation.

We will only work with partners who are compatible with our brand and can support our focus on being the network of choice for high-spending cardmembers. While we are interested in working with large banks, regional banks and small banks, they must be institutions that share a core set of attributes, including:

- A commitment to high standards of service for their customers
- Strong marketing expertise and a quality customer base
- Affinity with the American Express brand image of quality, security and trust

- The ability to drive growth in market share and revenue

Our brand is our company's most important asset. To protect it, we require our partners to adhere to a strict set of brand, product and service standards. And we make sure that the offerings of our bank partners are in line with what customers and merchants expect from an American Express product. Our partners have a vested interest in protecting and extending the American Express brand. After all, the power of the brand and the ability to be associated with it are a major reason why they want to join our network.

In working with us, our partners will not target their entire customer or prospect base. Rather, their focus is on attracting the high-spending segment. To support this approach, we will structure incentives for our partners to bring high-spending, loyal customers onto the American Express network. For example, in Argentina, we provided a number of our partners with performance-based incentives tied to achieving aggressive customer spending targets. The results have been impressive – a 55 percent year-over-year gain in card spending. In many other markets, we have worked with banks to upgrade their existing customers to premium products. This typically leads to significant increases in spending.

More Business for Partners and Merchants

Banks realize many benefits from partnering with American Express. They can expand and strengthen their product offerings by adding American Express-branded cards to their portfolio. This enables them to give their customers greater choice and helps differentiate their products for affluent consumers. In addition, our partners are able to design new products built around customer spending, which is a fundamental change from traditional Visa and MasterCard products that typically rely on customers maintaining high revolving credit balances to drive profits.

Because our bank partnerships focus on high-spending cardmembers, they can deliver real value to merchants. The economic benefits of operating on our network allow banks to develop effective loyalty programs, which increase the amount of spending on their cards. Around the world, merchants have seen more American Express-branded cards

and higher spending on those cards. That translates into more business for them. In addition, the wide range of marketing platforms we offer to stimulate spending enables us to drive additional business to merchants by designing offers for specific customer groups.

A New Era for American Express

The opening of our U.S. network to third-party issuers will mark the beginning of a new era for American Express. It is the most fundamental change in our card business since we launched the first American Express Card (before cards were even made of plastic) in 1958. Embracing this opportunity and making the most of it is true to the character of our company. Throughout our 154-year history, we have continually reinvented American Express. That is why we have been one of the most enduringly successful businesses in the world. Leading change and setting standards in the payments industry, whether in premium cards, rewards, marketing or customer service, is what we do.

We know there will be adjustments to make as we get used to a new environment in which we are both a card issuer and a global third-party network. Among other things, this will require us to operate with the appropriate firewalls in place to ensure that sensitive information is protected and remains confidential. We have a lot of work to do and change to manage through, but we are ready and eager for the tasks ahead. Certainly, our proprietary business will continue to implement its plans and its strategy to be the world's best and fastest-growing individual card issuer. At the same time, our network business will seek to grow, thrive and fulfill its promise.

A successful network business will make the company stronger. It will bring us more scale in the marketplace. It will provide us with even more flexibility and growth potential by adding a new source of revenues. The incremental earnings it produces will allow us to increase investments in all of our businesses, including our proprietary card business. And the return on equity that we will earn from leveraging our existing infrastructure will benefit our financial performance.

The two complementary parts of our card business – proprietary and network – will also push each other to continually improve. This competition will be a catalyst for creativity and innovation. There are many examples of this throughout our history. Charge cards competed with the travelers cheques. Our revolve products compete against charge. Our co-brands compete against each other and our traditional products. This all leads to greater demand for our products, which ultimately means greater opportunity for our customers, merchants, shareholders and employees.

The payments industry is changing and we will take full advantage of the opportunities produced by this change. In doing so, we will stay true to our values and the promise that the American Express brand makes to millions of customers around the world. Our company's character – who we are and what we represent – remains as certain and constant as ever.

This is an exciting time for us. We are writing a new chapter in the history of American Express. I have no doubt it will be our most successful.

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Information Related to Forward Looking Statements

The above memorandum includes forward-looking statements, which are subject to risks and uncertainties. The words "believe," "expect," "anticipate," "optimistic," "intend," "plan," "aim," "will," "should," "could," "likely," and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. The company undertakes no obligation to update or revise any forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to: the success of the Company in continuing to grow primarily through organic expansion of its businesses; any continuing effects of the conduct that was the subject of the Department of Justice suit against Visa and MasterCard challenging their restrictions on member banks issuing cards on the American Express Network in the U.S.; the success of the Company's GNS business in the U.S., which will depend in part on the extent to which such business: further enhances the Company's brand, increases the number of American Express-branded cards in the marketplace, allows the Company to leverage its significant processing scale, expands merchant coverage of the network, provides U.S. GNS bank partners the benefits of greater cardmember loyalty and higher spend per customer, and provides merchants benefits such as greater transaction volume and additional higher spending customers; and the Company's ability to grow and manage its proprietary business in the U.S. at the same time there is expansion in the U.S. GNS business.