Corporate Profile

The SABRE Group Holdings, Inc. (The SABRE Group) is a world leader in the electronic distribution of travel-related products and services and is a leading provider of information technology solutions for the travel and transportation industry. Through The SABRE Group's global distribution system, more than 30,000 travel agency locations, three million registered individual consumers and numerous corporations access information on and book reservations with more than 400 airlines, more than 50 car rental companies, 35,000 hotel properties, and dozens of railways, tour companies, passenger ferries and cruise lines located throughout the world. The SABRE Group also provides a comprehensive suite of decision-support systems, software and consulting services to the travel and transportation industry, and is increasingly leveraging its expertise to offer solutions to companies in other industries that face similar complex operational issues. Airport authorities, railroads, logistical service providers, lodging companies, oil and gas companies, and leaders in the financial services industry are all customers of The SABRE Group. The SABRE Group operates one of the world's largest privately owned, real-time computer systems. The vast *SABRE*® network links over 130,000 terminals located in travel agencies, as well as many more privately owned personal computers, and has sent up to 190 million messages per day to the central data center located in Tulsa, Oklahoma. The data center is composed of 17 mainframe computers with over 4,000 MIPS of processing power and 15.3 terabytes of electronic storage. The SABRE Group's objective is to be the leading provider of information technology solutions to the travel industry, and to broaden its customer base by expanding to other industries. The SABRE Group is listed on the New York Stock Exchange under the symbol "TSG." AMR Corporation, the parent of American Airlines, owns 82 percent of the Company's equity.

Description De La Corporation

The SABRE Group Holding, Inc. (The SABRE Group) est un leader mondial de la distribution électronique de produits et services de voyage, et il constitue l'un des plus importants fournisseurs de solutions de technologie de l'information pour l'industrie des voyages et des transports. Par l'intermédiaire du système mondial de distribution du The SABRE Group, plus de 30 000 agences de voyages, bien d'entreprises et trois millions d'useurs particuliers régistrés ont accès à des informations et effectuent des réservations auprès de plus de 400 compagnies aériennes, plus de 50 entreprises de location de voitures, 35 000 propriétés hôtelières, et des douzaines de chemins de fer, entreprises d'excursions, bacs et organisateurs de croisières dans le monde entier. The SABRE Group fournit également l'ensemble le plus complet de services de consultation, de logiciels, et de systèmes d'aide à la décision à l'industrie des voyages et des transports, et elle mise de plus en plus sur son expertise pour offrir des solutions à des entreprises d'autres industries confrontées à des problèmes d'exploitation complexes et similaires. Les autorités aéroportuaires, les chemins de fer, les fournisseurs de services logistiques, les entreprises d'hébergement, les compagnies de pétrole et de gaz, ainsi que les leaders de l'industrie des services financiers sont tous clients du The SABRE Group. The SABRE Group exploite l'un des systèmes informatiques en temps réel, de propriété privée, les plus vastes au monde. Le vaste réseau SABRE® lie plus de 130 000 terminaux d'agences de voyages ainsi que de nombreux autres ordinateurs personnels de propriété privée, et il a envoyé jusqu'à 190 millions de messages par jour au centre de données situé à Tulsa, Oklahoma. Le centre de données se compose de 17 ordinateurs principaux avec plus de 4000 millions d'instructions par seconde (MIPS) de puissance de traitement et 15,3 téra-octets de stockage électronique. The SABRE Group a pour objective d'être le plus important fournisseur de solutions de technologie de l'information à l'industrie des voyages et d'étendre sa clientèle à d'autres industries. The SABRE Group a ses titres inscrits à la cote de la Bourse de New York sous le symbole « TSG ». Les titres de la société sont détenus à 82 % par AMR Corporation, la société mère d'American Airlines.

Firmenbeschreibung

Die SABRE Group HoIding, Inc. (The SABRE Group) gehört weltweit zu den führenden Computer-Reservierungs-Systemen mit einer Palette von Produkten und Dienstleistungen aus der Reisebranche und sie ist ebenfalls führend in der Bereitstellung technologischer Lösungen für den Reise- und Transportsektor. Durch SABRE®, das weltweite Reservierungs-System der 'SABRE Group', nehmen mehr als 30 000 Reisebüros sowie Millionen individueller Kunden und Firmen Zugriff auf Informationen und tätigen in der ganzen Welt Buchungen bei über 400 Fluggesellschaften, 50 Autovermietfirmen, 35 000 Hotelunternehmen und Dutzenden von Bahngesellschaften, Fähren und Kreuzfahrtveranstaltern. Die 'SABRE Group' bietet darüber hinaus die umfassendste Auswahl an Systemen, Software und Beratungsdiensten, die eine Entscheidungsfindung erleichtern. Gleichzeitig stellt die 'SABRE Group' verstärkt ihr Fachwissen zur Verfügung, um Unternehmen in anderen Bereichen, die ähnlich komplexe Probleme haben, Lösungen zu bieten. Diese Kunden der 'SABRE Group' sind u.s. Flughafenverwaltungen Bahngesellschaften, logistische Dienstleistungsbetriebe, Anbieter von verschiedenen Unterkunftsmöglichkeiten, Öl- und Gasgesellschaften sowie führende Unternehmen aus dem Finanzsektor. Die 'SABRE Group' betreibt eines der weltgrößten Computersysteme, das sich in privater Hand befindet. Das riesige SABRE® Netzwerk verbindet mehr als 130 000 Terminals und weit mehr privat genutzte PC's; täglich werden bis zu 190 Millionen Nachrichten an das zentrale Datenzentrum in Tulsa, Oklahoma, geschickt. Das Datenzentrum umfaßt 17 Zentralrechner mit einer Leistungsstärke von über 4 000 Millionen Befehlen pro Sekunde (MIPS) und einem elektronischen Speichervolumen von 15,3 Terabyte. Die Zielsetzung der 'SABRE Group' ist es, führend zu sein in der Bereitstellung technologischer Lösungen für die Reisebranche und gleichzeitig seinen Kundenstamm zu erweitern durch eine Ausdehnung auf andere Industrien. Die 'SABRE Group' ist notiert an der New York Börse unter dem Symbol 'TSG'. AMR Corporation, die Muttergesellschaft von American Airlines, besitzt 82 Prozent des Aktienkapitals der Firma.

Descrição Da Corporação

The SABRE Group Holding, Inc. (The SABRE Group) é um líder mundial quanto à distribuição electrónica de produtos e serviços relacionados com viagens, sendo um dos principais fornecedores de soluções de tecnologia da informação para a indústria de viagens e transportes. Através do sistema de distribuição global do The SABRE Group, mais de 30.000 agências de viagens e três milhões de consumidores individuais registados e numerosas empresas têm acesso a informações e à possibilidade de fazer reservas em mais de 400 companhias de aviação, mais de 50 empresas de aluguer de automóveis, 35.000 hotéis e dezenas de caminhos de ferro, empresas de turismo, barcos de transporte para travessia de rios ou lagos e cruzeiros, localizados por todo o mundo. The SABRE Group também oferece o mais amplo conjunto de sistemas de apoio, software e serviços de consultoria para a indústria de viagens e transportes e cada vez se baseia mais na sua experiência, para oferecer soluções a empresas noutras indústrias, que enfrentam semelhantes questões de complexidade operacional. Autoridades em aeroportos, caminhos de ferro, fornecedores de serviços logísticos, empresas que tratam de alojamento, empresas de gás e petróleo, assim como líderes na indústria de serviços financeiros, todos são clientes do The SABRE Group. The SABRE Group opera um dos sistemas de informática em tempo real, maiores do mundo, que é possuído por uma entidade privada. A vasta rede SABRE® estabelece a ligação entre mais de 130.000 terminais de agências de viagens, bem como o mesmo número de computadores pessoais particulares e já chegou a enviar até 190 milhões de mensagens por dia para o centro de dados central, localizado em Tulsa, no estado de Oklahoma. O centro de dados é composto por 17 macrocomputadores com mais de 4.000 milhões de instruções por segundo (MIPS) de potência de processamento e 15,3 terabytes de memória electrónica. O objetivo do The SABRE Group é ser, não só o mais importante fornecedor de soluções de tecnologia da informação para a indústria de viagens e ampliar a sua base de clientes através da expansão para outras indústrias. The SABRE Group está registado na Bolsa de Valores de New York sob o símbolo "TSG". A "AMR Corporation", a matriz da American Airlines, é proprietária de 82 por cento do património líquido da Empresa.

Descripción De La Corporación

The SABRE Group Holding, Inc. (The SABRE Group) es un líder mundial en la distribución electrónica de productos y servicios relacionados con el turismo y uno de los principales proveedores de soluciones de tecnología informática para la industria del turismo y del transporte. Más de 30.000 agencias de viaje y tres millones de consumidores individuales registrados y numerosas empresas consultan información y hacen reservaciones por medio del sistema global de distribución de The SABRE Group en más de 400 aerolíneas, más de 50 compañías arrendadoras de autos, 35.000 propiedades hoteleras y docenas de compañías ferroviarias, empresas de turismo, transbordadores y líneas de cruceros localizadas en todo el mundo. The SABRE Group ofrece, además, el conjunto más completo de sistemas de apoyo de decisiones, software y servicios de asesoría al sector de viajes y transportación, y cada día aprovecha más su experiencia para ofrecer soluciones a empresas de otros ramos que se enfrentan a problemas complejos de operación similares. The SABRE Group tiene como clientes a administraciones de aeropuertos, compañías ferroviarias, proveedores de servicios logísticos, compañías de alojamiento, empresas de gas y petróleo, y líderes en el sector de servicios financieros. The SABRE Group opera uno de los sistemas de cómputo en tiempo real de propiedad privada más grandes del mundo. La extensa red SABRE® conecta a más de 130.000 terminales de agencias de viajes y a un gran número de computadoras personales de propiedad privada, y ha llegado a enviar hasta 190 millones de mensajes al día al centro de datos principal, localizado en Tulsa, Oklahoma. El centro de datos se compone de 17 grandes computadoras con una capacidad de procesamiento de más de 4.000 millones de instrucciones por segundo (MIPS) y 15,3 terabytes de almacenamiento electrónico. The SABRE Group tiene como objetivo convertirse en el principal proveedor de soluciones de tecnología informática para la industria viajera y para ampliar su base de clientes internándose en otros sectores. The SABRE Group aparece en la bolsa de Nueva York bajo el símbolo “TSG”. AMR Corporation, la compañía matriz, es propietaria del 82 por ciento del patrimonio neto de la Compañía.

Descrizione Della Corporazione

The SABRE Group Holding, Inc. (The SABRE Group) è un leader mondiale nella distribuzione elettronica di prodotti e servizi attinenti ai viaggi e uno dei principali fornitori di soluzioni informatiche per l'industria dei viaggi e dei trasporti. Tramite il sistema di distribuzione globale di The SABRE Group, oltre 30.000 agenzie di viaggi e tre milioni di consumatori registrati e varie società possono accedere alle informazioni e eseguire le prenotazioni con oltre 400 compagnie aeree, più di 50 stazioni di autonoleggio, 35.000 proprietà alberghiere e dozzine di ferrovie, agenzie turistiche, traghetti e navi da crociera in tutto il mondo. The SABRE Group fornisce inoltre il più vasto assortimento di sistemi di supporto alle decisioni, software e servizi di consulenza all'industria dei viaggi e dei trasporti, e sta espandendo la propria competenza per offrire soluzioni a ditte che operano in altri settori e che si trovano di fronte a questioni gestionali similmente complesse. The SABRE Group annovera fra i propri clienti aeroporti, ferrovie, fornitori di servizi logistici, fornitori di alloggi, società petrolifere e del gas e leader nel settore dei servizi finanziari. The SABRE Group gestisce uno dei maggiori sistemi informatici in tempo reale privati in tutto il mondo. La vasta rete SABRE® collega oltre 130.000 terminali di agenzie di viaggi e un numero ancor maggiore di PC privati, e ha inviato oltre 190 milioni di messaggi al giorno alla centrale dati situata a Tulsa, in Oklahoma. La centrale dati è costituita da 17 computer mainframe con una potenza di elaborazione di oltre 4.000 milioni di istruzioni al secondo (MIPS) e una memoria elettronica di 15,3 terabyte. L'obiettivo di The SABRE Group è di diventare il principale fornitore di soluzioni informatiche per l'industria dei viaggi e di ampliare ulteriormente la propria base di clientela penetrando altri settori. The SABRE Group è quotato nella Borsa di New York sotto il simbolo «TSG». AMR Corporation, la società madre di American Airlines, è proprietaria dell'82 per cento del capitale della ditta.

公司簡介

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会社概要

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Letter to Our Shareholders, Customers and Employees

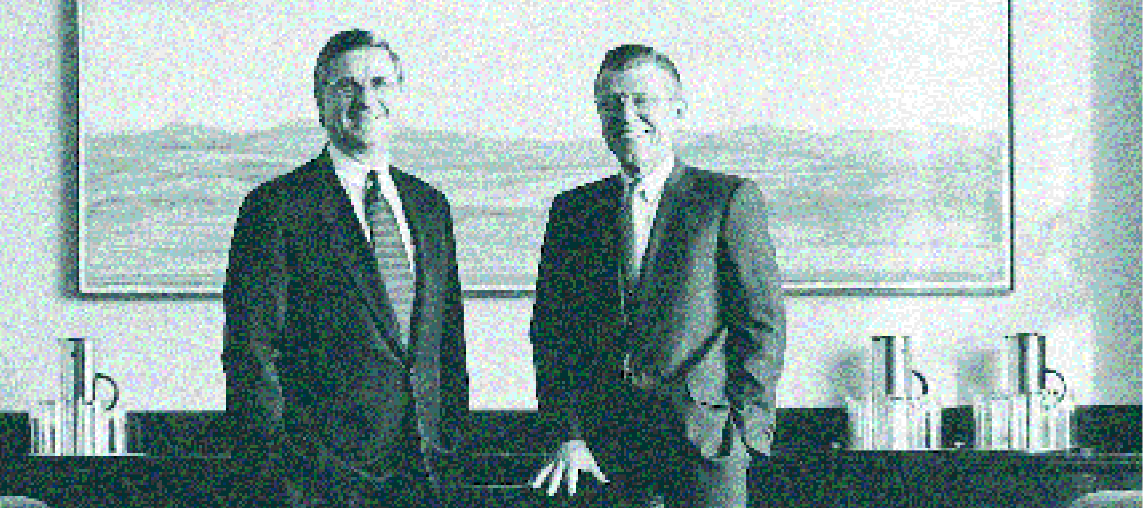
The SABRE Group Holdings, Inc. began trading on the New York Stock Exchange on October 11, 1996.

The SABRE Group's performance during its first year as a public company was the best in the Company's history. In 1996, The SABRE Group negotiated a number of new contracts with American Airlines (American) and other AMR Corporation (AMR) affiliates and incurred substantial costs associated with its legal separation from American. These transactions had a material impact on reported financial information. However, when results are adjusted to reflect comparable information, the Company achieved record operating income of $326 million, an increase of 15 percent over 1995. This continues a trend of yearly financial improvement since 1991, the first year we reported separately from American.

During the year, we launched substantial technical innovations and many new products in each of our two principal lines of business, Electronic Travel Distribution and Information Technology Solutions.

In 1996, we launched important new products for both consumers and businesses. *Travelocity*SM benefits consumers who want the convenience of planning their travel through their home computers on the Internet. *SABRE Business Travel Solutions*SM is designed for corporations that want to automate travel planning and reporting while also cutting costs. Customers give both products rave reviews.

For our travel agency customers, we introduced a number of new products, but none more reflective of the growing importance of the Internet than *Planet SABRE*SM and *SABRE Web Marketing*.SM *Planet SABRE*SM is an Internet-enabled, graphical



M. J. Durham
President and
Chief Executive Officer

R. L. Crandall
Chairman

front end to *SABRE*® that increases both agency productivity and revenue. While *Planet SABRE*℠ brings the power of the Internet to travel agencies using *SABRE*®, *SABRE Web Marketing*℠ brings the knowledge and capabilities of our travel agency partners to the World Wide Web by facilitating the creation of individual travel agency web sites with the power and functionality of *Travelocity*.℠

Among the many successes the Company enjoyed in its Information Technology Solutions business, one is particularly indicative of the Company's future direction. In an alliance with Computer Sciences Corporation, The SABRE Group entered into an information technology outsourcing agreement with Hyatt Hotels, whereby The SABRE Group will take over the maintenance and development of Hyatt's software. The Company and Computer Sciences Corporation will market similar services to others in the hospitality industry. This undertaking is an important step towards broadening both the range of services we market externally, and the number of industries we serve. We are actively pursuing other outsourcing opportunities and hope to be able to report favorably on our progress in next year's report.

We also make special recognition of The SABRE Group employees, many of whom are shareholders, for their commitment to the Company. In this knowledge-based business, employees are, in a very real sense, the Company. The SABRE Group employees' intelligence, creativity and passion for excellence have made the Company the market leader that it is today.

This report marks the beginning of an exciting journey. We hope you will continue to share in the excitement of that journey as The SABRE Group moves confidently and aggressively towards the twenty-first century.

R. L. Crandall
Chairman

M. J. Durham
President and
Chief Executive Officer

The SABRE Group is a world leader in providing information technology to the travel industry—technology that helps our customers distribute travel electronically and manage their complex operations.

For more than 30 years, employees of The SABRE Group have delivered leading-edge technology solutions to companies in the travel and transportation industry. Today, our customers range from the world's largest airlines, car rental companies, hotel chains, and cruise lines, to leading travel agencies and corporations, and even to individual consumers purchasing travel on the Internet.

In the 1950s, American Airlines led the travel industry into the "computer technology age" with the Magnetronic Reservisor, the first true computer reservations system. That seed grew into the *S*emi-*A*utomated *B*usiness *R*esearch *E*nvironment—*SABRE*.®

global distribution system
The first
leadership
30 years *of delivering travel* solutions

Today, The SABRE Group is a market leader in Electronic Travel Distribution, a business which brings together travel suppliers, travel buyers and value-added intermediaries in an electronic marketplace. The SABRE Group's global distribution system provides its customers with all the capabilities and information necessary to buy and sell travel and has been voted the "World's Leading Global Distribution System" by travel agents for three consecutive years.

The SABRE Group is also a leader in designing, developing and implementing Information Technology Solutions for the travel industry, as well as companies in other industries that face complex operational and transaction processing challenges. The SABRE Group developed and operates one of the world's largest privately owned, real-time computer system, which contains a massive travel information database. The SABRE Group has also developed the most comprehensive suite of software solutions to meet the business requirements of travel customers.

Now a separate company from American, The SABRE Group is focused on developing new and innovative products that increase both customer satisfaction and profitability. Electronic Travel Distribution products like *SABRE Business Travel Solutions*SM and *Travelocity*SM are creating new cost efficient distribution channels for travel suppliers. For Information Technology Solutions customers, The SABRE Group's next-generation yield management system, *AIRMAX*,™ which allows airlines to control perishable inventory more profitably, is one of many examples of our product leadership.

Circa 1960 The first SABRE computer system was installed at Briarcliff Manor, New York in 1963. The system allowed agents to handle over 84,000 telephone calls per day; today's system could handle over 20 million equivalent calls, which are now processed electronically.

The SABRE Group's objective is to be the world's leading provider of information technology for the travel industry. The pages that follow detail our plans to meet that objective by developing both our Electronic Travel Distribution and Information Technology Solutions lines of business.

Electronic Travel Distribution The SABRE Group's Electronic Travel Distribution product portfolio offers our customers the broadest array of software solutions in the industry. These solutions simplify the information-intensive travel sales and purchase process, increase sales revenue for travel suppliers and lower processing costs for travel buyers.

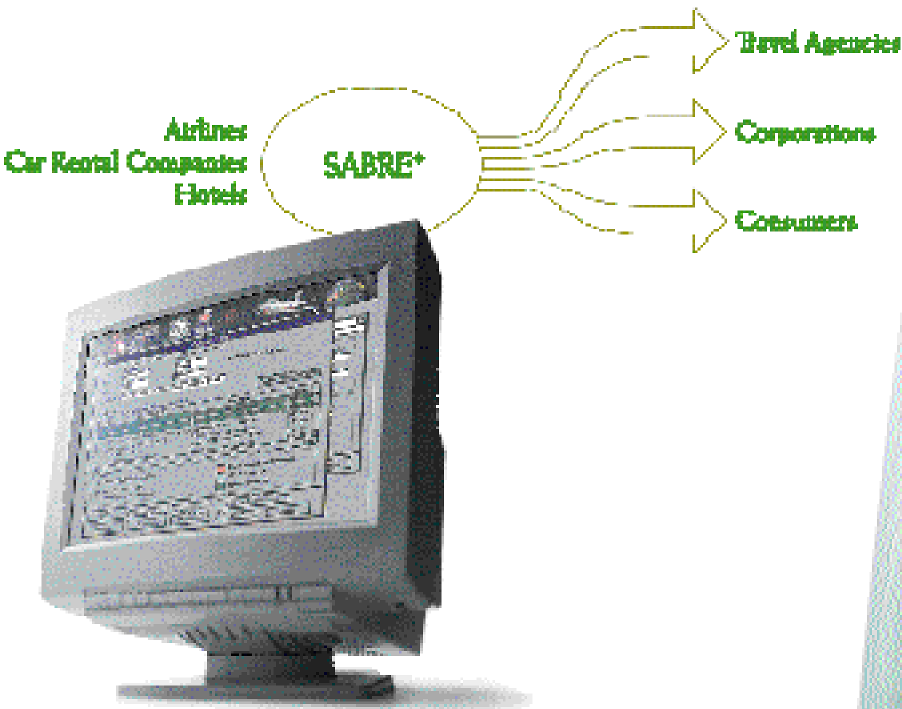
total travel solutions

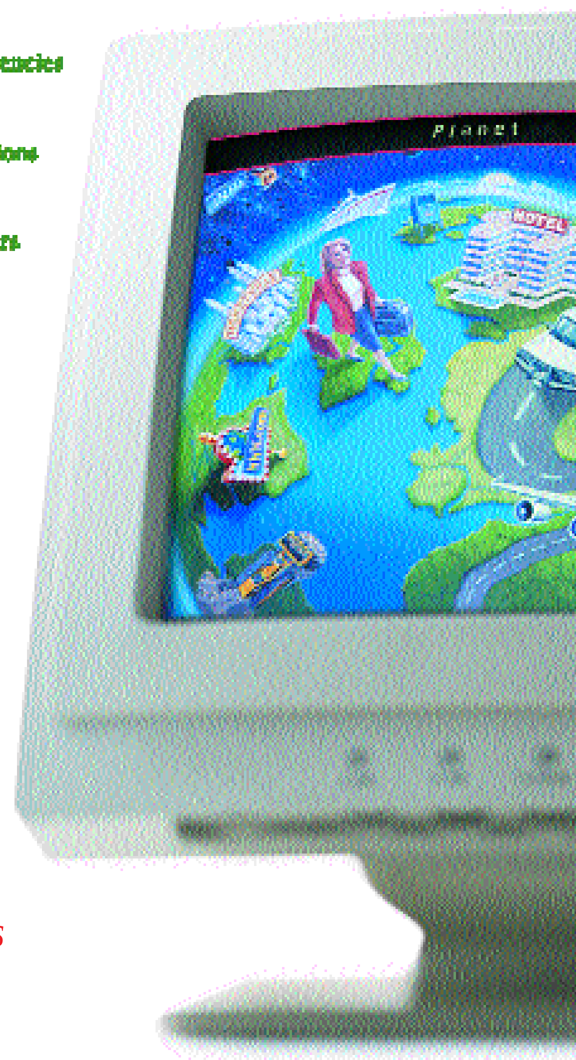
The most comprehensive portfolio *of travel technology products*

The SABRE Group's global distribution system contains information from a large group of worldwide travel suppliers—more than 400 airlines, more than 50 car rental companies and 35,000 hotel properties, as well as cruise lines, tour companies, passenger ferries and railroads. *SABRE®* receives information from travel suppliers—availability, fares or rates, schedules—and presents it to both travel retailers and customers—over 30,000 agency locations, three million registered online consumers and numerous corporations. Last year, more than $40 billion in travel sales were made through *SABRE®*.

SABRE® is a worldwide network of more than 130,000 terminals located in travel agencies, as well as many more privately owned corporate and home computers all connected to multiple clustered mainframes located in Tulsa, Oklahoma. *SABRE®* constructs one billion air fares, processes a daily average of 160 million requests for information and, at peak, has processed more than 5,200 transactions per second. System reliability, including scheduled down time for maintenance, exceeds 99.9 percent.

Seamless Integration The SABRE Group provides multiple technology solutions to support American Airlines' operations at O'Hare Airport in Chicago.





More than 400 airlines

35,000 *hotel properties*

More than 50 car rental *companies*

The SABRE Group's formula is to provide reliable, highly functional, cost-efficient systems and support them with outstanding customer service.

For travel agents, The SABRE Group's products focus on ease of use, ease of access and productivity. The product direction is graphical, integrated and Internet-enabled. Examples of our market-leading products include:

- *Planet SABRE*SM—the newest desktop solution for travel agencies. With its graphical user interface and 17 integrated software applications, *Planet SABRE*SM helps travel agencies achieve high productivity. In addition to simplifying the reservation process for air travel, cars and hotels, *Planet SABRE*℠ provides desktop access to the World Wide Web and the broadest Internet travel content in the industry.

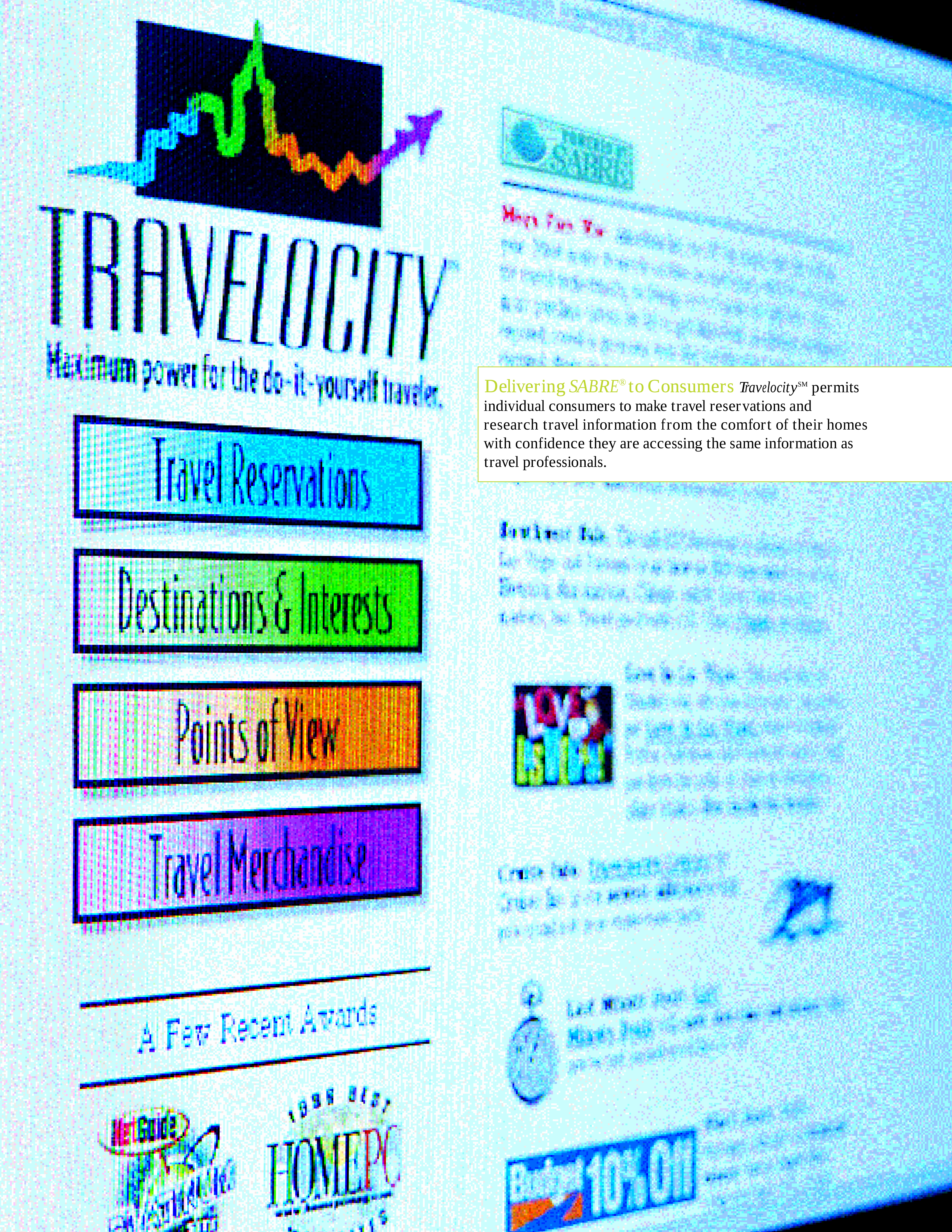
- *SABRE TravelBase*®—a client-server system for travel agency accounting and reporting that works in conjunction with *SABRE*.® The open system provides travel agencies the flexibility to customize reports, review agent activity and request accounting information on demand.

Travel suppliers seek products that permit them to control and analyze their distribution. Examples of our market-leading products for travel suppliers include:

Planet SABRE℠—
the newest
Internet-enabled
platform
for travel agents.

- *Premium Connectivity*—travel suppliers' premium connection to *SABRE*.® This product enables travel purchasers to go straight to the source—seamlessly accessing real-time travel information directly from suppliers' systems. Travel purchasers automatically receive the most updated information, and travel suppliers have the flexibility to customize the presentation of their product to individual purchasers. *SABRE*® is the only global distribution system that offers this premium connectivity for airlines, car rental companies and hotels.
- *Marketing Information Data Tapes*—the premier source of competitive information on every airline reservation made in *SABRE*.® These data tapes provide airlines with detailed information about who is buying or distributing their seats, as well as when, where and how sales and distribution occurs.

The role of corporate travel management is changing and we are helping streamline the process. *SABRE Business Travel Solutions*℠ allows corporations to plan and book travel efficiently and provides tools to monitor travel data and cut costs. This solutions suite provides platform flexibility and features that are unmatched in the industry.



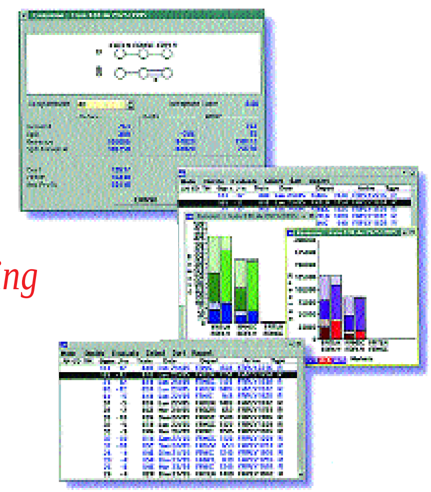
Delivering *SABRE*® to Consumers *Travelocity*℠ permits individual consumers to make travel reservations and research travel information from the comfort of their homes with confidence they are accessing the same information as travel professionals.

While the Internet now allows consumers to access travel suppliers directly, products like The SABRE Group's *Travelocity*SM and *easySABRE*SM provide the unbiased, integrated information necessary for individual consumers to make optimal travel decisions. These interactive travel products have attracted more than three million registered members, elevating The SABRE Group to the number one position in the consumer online travel market.

In 1997, we will enhance *Travelocity*SM to provide consumers with more individually tailored travel tools such as real-time flight information directly sent to customers' alphanumeric pagers. All told, the Company plans to invest more than $100 million in product development during 1997.

Information Technology Solutions The SABRE Group's Information Technology Solutions business is based on products produced by skilled teams of people with backgrounds in information technology, operations research, industrial engineering and consulting.

Building on The SABRE Group's heritage as a part of American Airlines, a sophisticated user of technology, we have developed a broad portfolio of technological solutions to airline



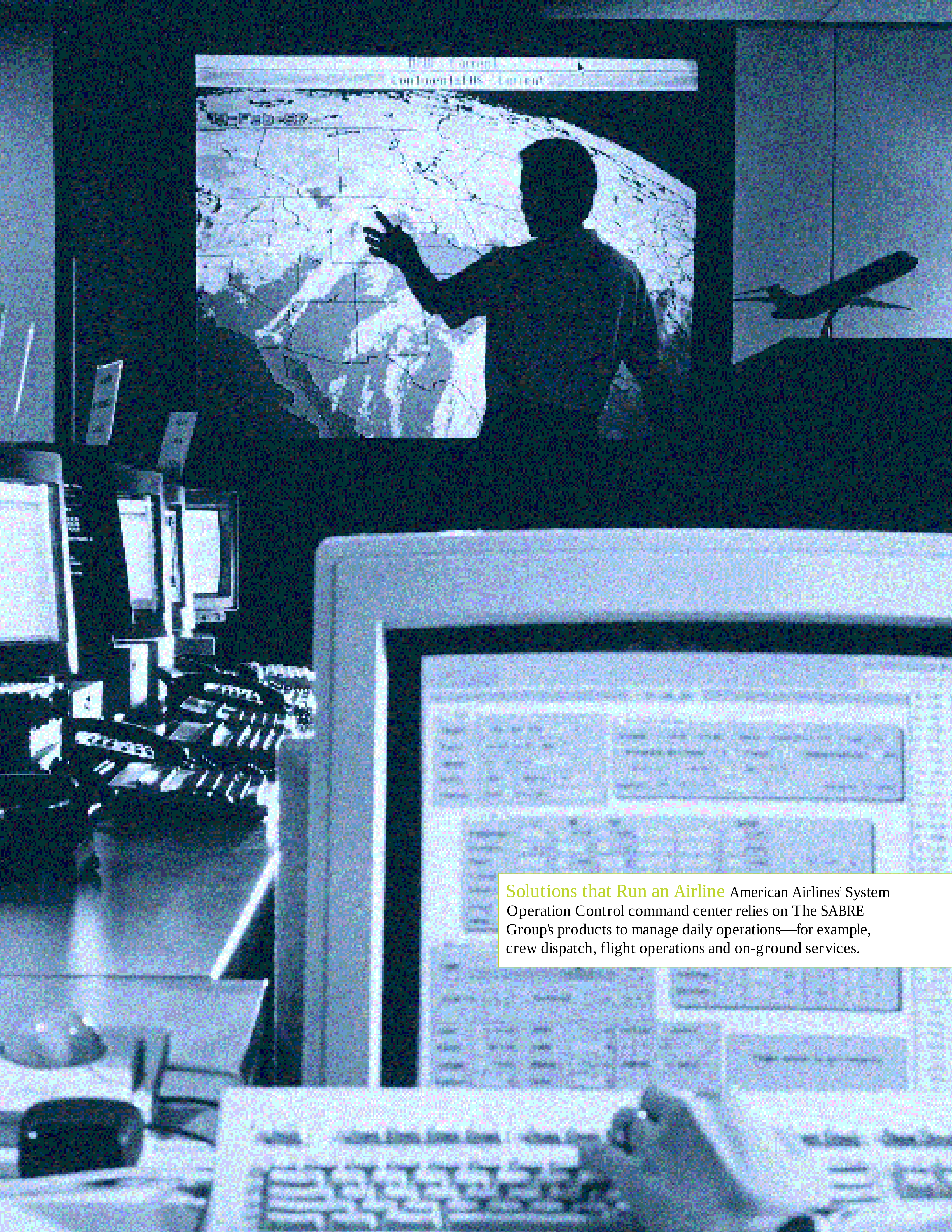
RailCap,™ a part of the rail systems product portfolio, assists railways in planning capacity.

Integrating sophisticated information technology, *operation research*, industrial engineering *and consulting*

management problems. Only The SABRE Group has it all—leading applications, huge economies of scale and deep industry knowledge. Listed below are some of our leading products:

- *AIRMAX*™—a decision support yield management system used by many of the world's airlines to maximize profitability by predicting demand and recommending pricing and inventory adjustments.
- *AIRFLITE*™ and *PC AIRFLITE*™—flight scheduling tools that optimize efficiency and reduce operating costs.

Increasingly, we are using the expertise gained in the airline industry to offer solutions to other customers, including airport authorities, railroads, logistical service providers, lodging companies, oil and gas companies and leaders in the financial services industry. The SABRE Group worked with SNCF, the French national railroad, to design, develop and install the world's largest and most sophisticated passenger railway reservation system, called *RESARAIL*.™ The system now drives 14,000 ticketing devices



Solutions that Run an Airline American Airlines' System Operation Control command center relies on The SABRE Group's products to manage daily operations—for example, crew dispatch, flight operations and on-ground services.

StaffPlan™ is one of a suite of staffing tools that assigns employees to a continually changing mix of different activities to optimize profitability in a dynamic work environment.

throughout Europe and is being jointly marketed by The SABRE Group and SNCF to other passenger railroads around the world.

The SABRE Group also offers a suite of software solutions for the hotel industry. In a marketing alliance with Computer Sciences Corporation, The SABRE Group has signed a long-term information technology outsourcing contract with Hyatt Hotels. The SABRE Group will take over Hyatt's software maintenance and development functions. We plan to actively pursue partnerships and alliances to offer information technology services to other industries as well.

The SABRE Group also sells shared mainframe-based processing to manage such airline operations as passenger reservations, flight operations and dispatch. This business, known as "multihosting," currently has 60 airline customers and is a growing component of The SABRE Group's Information Technology Solutions

Customers from many industries—
airlines, airports, *lodging, oil & gas,* railroads, logistics, *financial services*

business. We are actively seeking to expand the multihosting business to new airline customers, other airline operating systems, as well as to other industries.

Another growing part of the SABRE Group's Information Technology Solutions business is logistics. In 1996, we acquired Princeton Transportation Consulting Group (PTCG). PTCG enjoys a leadership position in providing logistical solutions to the trucking industry. By combining PTCG's portfolio with the Company's existing logistics products, we doubled our logistics business and created a more robust set of applications for our customers.

Another significant event of 1996 was the negotiation of The SABRE Group's new contract with American, our largest Information Technology Solutions customer. Under the terms of this approximately $3.8 billion outsourcing agreement, The SABRE Group provides virtually all of American's information technology requirements including the services needed to design, install, operate and maintain the airline's local area networks, desktop, mobile computing and peripheral devices. The SABRE Group is also responsible for application development and software maintenance. This ten-year agreement ensures American of state-of-the-art information technology services and gives The SABRE Group a stable, recurring source of revenue. The SABRE Group provides similar services for Canadian Airlines and is actively pursuing other outsourcing customers.

The SABRE Group's products and services are supported by an enormously complicated, yet extraordinarily reliable infrastructure of leading-edge computing and networking technology.

The heart of The SABRE Group's technological infrastructure is in Tulsa, Oklahoma, the home to the Company's 120,000 square-foot, high-security data center. Housed in the data center are 17 mainframes with more than 15.3 terabytes of electronic storage, over 4,000 MIPS of processing power, 180 communications processors and numerous midrange, UNIX-based computers. This data center runs *SABRE®* in a mainframe operating environment, the ideal solution for the high-volume, high-availability requirements of the distribution business.

square foot, high-security
120,000
data center

4,000 MIPS of
processing power
15.3 terabytes of storage

technological infrastructure

The SABRE Group also maintains an additional data center in Fort Worth, Texas, primarily dedicated to midrange computers and client-server systems.

A portion of the Tulsa data center—the Secure Computer Center—is designed to withstand natural and man-made catastrophes. Entrances are protected by a series of complex and sophisticated security features, including bulletproof, weight-sensing mantrap booths and retina-scan entry keys. More than 40 inches of reinforced concrete covered by an additional five feet of dirt enables this underground bunker to withstand 300 mile per hour winds, tornadoes and zone four earthquakes.

The SABRE Group's networking capability is also impressive. The SABRE Group manages networks consisting of nearly 200,000 personal computers. In addition, we manage over 45,370 telephone numbers and 10,200 voice mail boxes with calls exceeding 115,000,000 annually. The SABRE Group's networking solutions include wireless technology (including $10 million in radio alone), as well as the sophisticated voice and data telecommunications technology required to support a broad range of computing solutions, including complex Internet sites.

Over the years, the Company has made an enormous financial investment in *SABRE®* and in the technological infrastructure required to run high-performance systems. In the years ahead, we will continue investing substantial amounts to keep us in the forefront of both reliability and innovation.

Data Center Operations The SABRE Group deploys the latest hardware and software to meet its customers' requirements. In our Fort Worth, Texas, data center, multiple client-server systems are monitored and managed 24 hours per day, 7 days a week, 52 weeks a year.

A Truly Global Company

The SABRE Group manages its operations outside the United States from eight fully-staffed regional offices—Hong Kong, Kuwait City, London, Miami, Paris, Sydney, Toronto and Vancouver.

global presence & growth

The SABRE Group has a strong international presence and is focused on continuing to expand its global reach. Currently, 24 percent of our nonaffiliated customer revenue is attributable to international sales. During the past three years, international revenue has grown at a 16 percent compounded annual rate.

The industry's largest travel suppliers are international, and they seek distributors that are able to market their products globally. With this in mind, we have made a concerted effort to expand rapidly into new regions. Currently, The SABRE Group has more than 40 percent of the North American market for global distribution system reservations. We have a strong presence in South America, and are one of the leaders in each of the major European countries. In other regions, including the Middle East, South Pacific and Asia, The SABRE Group has established strategic alliances with regional flag carriers in order to penetrate markets.

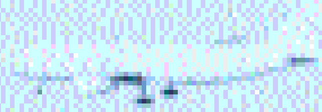
Information Technology Solutions clients *include 400 companies in* 50 countries

30,000 travel agency locations in more than *70 countries on* 6 continents

Today, the *SABRE*® system operates in 30,000 travel agency locations in more than 70 countries across six continents and has approximately one-third of the worldwide reservations market.

The SABRE Group's Information Technology Solutions' clients are located in more than 50 countries. We expect information technology sales to international clients to grow as more emphasis is placed on flag carriers achieving financial independence.

We believe that regional management permits closer customer interaction and knowledge. The SABRE Group maintains eight regional offices to support our customers and operations outside of the United States.



Increasing the Company's earnings is an important objective of The SABRE Group's business plan. One of the principal reasons for The SABRE Group's separation from American was to facilitate its growth by enhancing its ability to win new business from other airlines.

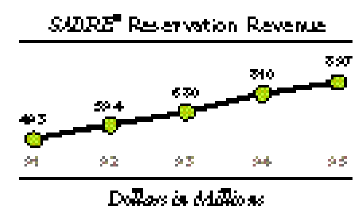
For many years, The SABRE Group has enjoyed steady, predictable growth. The Company earns its Electronic Travel Distribution revenues on a transaction basis, and the boom and bust economic cycles of the airline industry have not impacted The SABRE Group's financial performance as dramatically as it has that of the airline industry. In fact, during times when demand is soft, airlines tend to cut prices, thus increasing volume, which improves our performance.

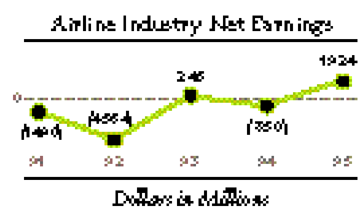
growth performance & strategies

Growth is fundamental *to The SABRE Group's business plan*

The graphs to the right show The SABRE Group's related revenues over the past five years contrasted with the earnings performance of the U.S. domestic airline industry.

Going forward, we believe that the Electronic Travel Distribution business will continue to grow. Although the North American airline market is relatively mature, we expect other regions to experience considerable growth. Worldwide market growth, combined with increases in regional market share, offers the opportunity to drive The SABRE Group's growth rate higher.





Another key focus for growth in Electronic Travel Distribution is nonairline distribution. Although the vast majority of airline reservations are already made electronically, the same is not true for car rentals, hotel reservations and other travel-related services. While growth in car rentals and hotel reservations has been between 10 and 20 percent per annum over the last five years, The SABRE Group hopes to achieve even faster growth in these categories as new tools such as *Planet SABRE*℠ facilitate the electronic distribution of nonairline products.

Perhaps the most exciting opportunity for future growth in Electronic Travel Distribution is in the newly emerging distribution channels, with electronic travel information delivered directly to the individual consumer and large corporate customer.

Pursuing New Opportunities A targeted growth area is providing solutions for nonairline industries such as railroads. Information technology outsourcing is also attractive, since the Company can leverage its existing technological infrastructure investment that supports the massive *SABRE*® system.

*SABRE Business Travel Solutions*SM provides corporations with easy-to-use travel tools.

Although a small part of The SABRE Group's Electronic Travel Distribution business today, our consumer-direct products, *Travelocity*SM and *easySABRE*,SM have positioned the Company to take advantage of the increasing pervasiveness of the Internet. We are investing millions of dollars to ensure that *Travelocity*SM remains at the leading edge of travel services available on the Internet.

To the business world, *SABRE Business Travel Solutions*SM offers a powerful new way to manage travel. This product suite, which has been very enthusiastically received in the marketplace, is compatible with many of the services offered by our traditional travel agency partners and should provide an opportunity to earn income through software licenses and new transaction-related charges.

The SABRE Group's Information Technology Solutions business is also well positioned for future growth. Anchored by the long-term recurring revenue stream from the American outsourcing contract, we are focused on building our Information Technology Solutions business.

new travel suppliers

new distribution channels

new customers

new industries

Globally, information technology outsourcing is growing rapidly. In 1995, the travel industry spent approximately $17 billion on information technology services, but only a modest portion was spent on outsourcing contracts. The SABRE Group believes it is well positioned to capitalize on the growing trend toward information technology outsourcing. No other company combines The SABRE Group's broad experience in the travel industry with existing economies of scale and a broad portfolio of leading-edge applications. At the same time, our separation from American has removed a potential barrier to winning new business from companies that compete with the airline.

We plan to increase the number of industries to which we provide information technology services. Many of the solutions that have been developed for the airline industry are adaptable to the business challenges faced in other industries. The SABRE Group is working with leading companies in the logistics, oil and gas, financial services and manufacturing industries and hopes to become a major force in the provision of information technology services to these and other industries.

The SABRE Group's firm financial foundation is a key strength. Since 1991, when The SABRE Group began reporting its financial results separately from American, the Company has generated consistent annual operating income growth. In 1996, The SABRE Group negotiated a number of new contracts with American and other AMR affiliates and incurred substantial costs associated with its legal separation from American. These transactions had a material impact on reported financial information. However, when results are adjusted to reflect comparable information, the Company achieved record operating income of $326 million, a 15 percent increase over 1995. Revenue in 1996 totaled $1.6 billion, with a significant portion coming from longer-term contracts, which reflects stable, recurring cash flow.

The SABRE Group's strong financial foundation allows it to continue to invest in growth. Capital expenditures in 1996 totaled $186 million and we invested millions more in product development. A key investment is the effort to move more of the

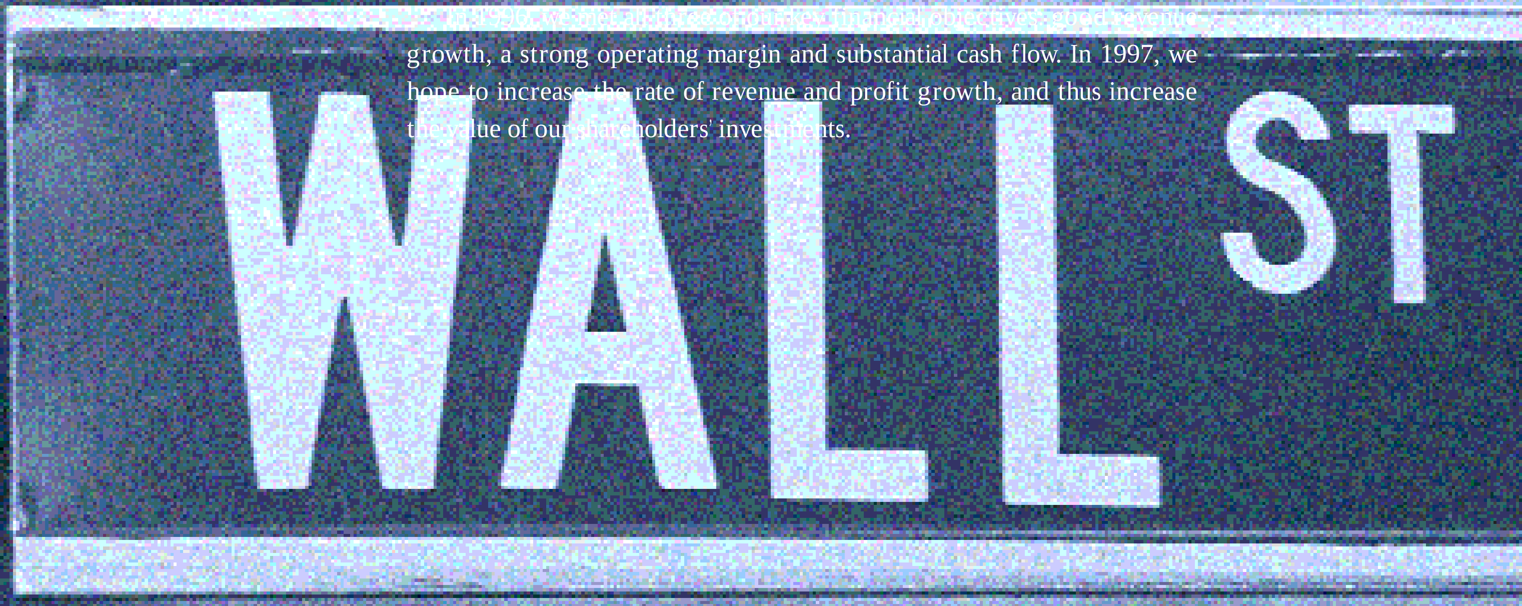
The SABRE Group
trades TSG
at the New York
Stock Exchange

financial foundation

Consistent Revenue Growth, Large Recurring Cash Flows

processing of *SABRE*® onto a modern, client-server architecture. We expect that this effort will yield lower capital costs, greater flexibility, faster time-to-market and, most importantly, the capability to create new products and services and thus new revenue streams.

In 1996, we met all three of our key financial objectives: good revenue growth, a strong operating margin and substantial cash flow. In 1997, we hope to increase the rate of revenue and profit growth, and thus increase the value of our shareholders' investments.




employees

Creative, self-directed, intelligent, committed

The SABRE Group's workforce comprises a diverse population of intelligent, knowledgeable, creative and self-directed people. Unique among information technology companies is our large and growing pool of operations research professionals, more than 40 of whom have doctorate degrees.

The SABRE Group continually recruits at the world's best colleges and universities and from other leading companies to attract the best and brightest from many disciplines, including computer and information sciences, industrial engineering, operations research, finance, management and marketing. To meet the requirements of our growing businesses, we hired more than 1,000 employees in 1996.

The SABRE Group employees demonstrated their commitment and belief in the Company at the Initial Public Offering, when approximately 30 percent became shareholders by purchasing stock through the Employee Reserve Share Program. In the future, more employees may become shareholders through our Employee Stock Purchase Plan which was launched in early 1997.

We thank you for taking the time to learn about The SABRE Group and hope you share our excitement about The SABRE Group's future. We end this report with messages to our three important stakeholders.

To our Shareholders: We are focused on maximizing the long-term value of your investment.

...thank you

To our Customers: We will continue to devote our energies to finding new solutions to your business challenges and providing you the best possible service.

To our Employees: In every sense, you are The SABRE Group and we are grateful for your commitment to excellence.

1996 *the year in review*

Financial Contents

Summary

During 1996 the Company generated approximately 67.9% of its revenue from electronic travel distribution services and approximately 32.1% of its revenue from information technology solution services. The following table sets forth revenues by affiliation and geographic location as a percent of total revenues:

	Year ended December 31, 1996	1995	1994
Affiliation			
Unaffiliated Customers	69.2%	64.2%	58.1%
Affiliated Customers	30.8	35.8	41.9
Total	100.0%	100.0%	100.0%
Geographical			
United States	82.5%	83.6%	85.0%
International	17.5	16.4	15.0
Total	100.0%	100.0%	100.0%

Total revenues have grown at a compound annual growth rate of 7.4% for 1994 through 1996. Revenues from affiliated customers as a percent of total revenues have declined as the Company's external business has grown. Revenues from unaffiliated customers have grown at a compound annual growth rate of 17.2% for the three years ended December 31, 1996, to $1,122 million in 1996. Revenues from affiliated customers decreased for the same time period due to the impact of the Affiliate Agreements (described below) on revenues in 1996. The Company expects that the proportion of revenues represented by unaffiliated customers revenues will continue to increase. International revenues have increased as a percent of total revenues. International revenues have grown at a compound annual growth rate of 16.2% for the three year period ended December 31, 1996, to $284 million in 1996, while revenues from the United States have grown at a compound annual rate of 5.8% over the same period, to $1,338 million in 1996.

The Company's primary expenses from providing travel distribution services and information technology solutions consist of salaries, benefits and other employee related costs, depreciation and amortization, communication costs, equipment maintenance costs and subscriber incentives. Salaries, benefits and other employee related costs, depreciation and amortization and communication costs represented over 69% of 1996 total operating expenses. From 1994 through 1996, salaries and benefits have grown at a rate higher than that of revenues in order to support the Company's growth, while depreciation and amortization costs have decreased, primarily due to the benefits of price and performance improvements for Data Center equipment and subscriber equipment. In addition, communication expense has decreased due to rate reductions. Expenses in 1996 were impacted by the Affiliate Agreements (as described below) entered into with American, including increased employee travel costs and other expenses, and marketing support payments to American. As a result, operating income as a percentage of revenue decreased from 24.9% in 1994 to 20.1% in 1996.

Seasonality

The following table sets forth quarterly financial data for the Company (in millions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Revenues	$427.8	$410.4	$407.4	$376.3
Operating income	115.6	82.0	87.9	41.3
Net earnings	70.0	49.1	45.1	22.4
Operating income as a percent of revenue	27.0%	20.0%	21.6%	11.0%
Reservations booked using SABRE	91.9	89.3	89.3	77.9
1995				
Revenues	$384.6	$383.1	$393.3	$368.3
Operating income	118.1	101.4	108.2	52.8
Net earnings	66.9	60.1	66.9	31.9
Operating income as a percent of revenue	30.7%	26.5%	27.5%	14.3%
Reservations booked using SABRE	86.0	83.7	81.6	72.3

The travel industry is seasonal in nature. Bookings, and thus booking fees charged for the use of SABRE, decrease significantly each year in the fourth quarter, primarily in December, due to early bookings by customers for travel during the holiday season and a decline in business travel during the holiday season.

Affiliate Agreements with AMR and American

The Company and AMR and American have entered into an agreement for the provision of information technology solutions to American by the Company (the "Technology Services Agreement"), an agreement for the provision by American of marketing support for the Company's products targeted toward travel agencies and support of SABRE Business Travel Solutions ("SABRE BTS"), Travelocity and easySABRE (the "Marketing Cooperation Agreement"), an agreement for the provision of management services by American to the Company (the "Management Services Agreement"), and agreements for the provision of travel services by American to the Company and its employees (the “Travel Privileges Agreement” and “Corporate Travel Agreement”). These agreements are collectively referred to as the “Affiliate Agreements.” See Note 4 to the Consolidated Financial Statements for a description of each agreement. The resulting rates may represent an increase or decrease over previous rates. The financial terms of the Affiliate Agreements were applied to the Company’s operations commencing January 1, 1996, and the application thereof resulted in a reduction in revenues and an increase in expenses for 1996 as compared to 1995.

The base term of the Technology Services Agreement expires June 20, 2006. The terms of the services to be provided by the Company to American, however, vary. For 1996, revenues from services provided under the Technology Services Agreement with a service term of (i) three years represented approximately 5.8% of total revenues, (ii) five years represented approximately 0.5% of total revenues and (iii) ten years represented approximately 16.6% of total revenues.

The Affiliate Agreements generally establish pricing and service terms, and certain agreements, including the Technology Services Agreement, provide for periodic price adjustments that may take into account the market for similar services. Commencing in 1998, the formulas for annually adjusting certain rates under the Technology Services Agreement will be adjusted every two years through negotiations of the parties which are to be guided by benchmarking procedures set forth in the agreement.

The Company has entered into a Tax-Sharing Agreement with AMR dated as of July 1, 1996 (the “Tax-Sharing Agreement”), which in most respects formalizes the Company’s previous arrangements with AMR. See Note 2 to the Consolidated Financial Statements.

The Company also has entered into a Non-Competition Agreement dated July 1, 1996 (the “Non-Competition Agreement”), pursuant to which AMR and American, on behalf of themselves and certain of their subsidiaries, have agreed to limit their competition with the Company’s businesses under the circumstances as described in Note 2 to the Consolidated Financial Statements.

Results of Operations

1996 Compared to 1995

Electronic Travel Distribution. Electronic travel distribution revenues for the year ended December 31, 1996 increased approximately $95 million, 9.4%, compared to the year ended December 31, 1995, from $1,007 million to $1,102 million. The increase was primarily due to growth in booking fees from associates from $904 million to $1,007 million. This growth was driven by an increase in booking volumes partially attributable to international expansion in Europe and Latin America, an overall increase in the price per booking charged to associates and a migration of associates to higher participation levels within SABRE.

Cost of revenues for electronic travel distribution increased approximately $107 million, 16.3%, from $656 million to $763 million. This increase was primarily attributable to an increase in salaries and benefits, the Affiliate Agreements and subscriber incentive expenses. Salaries and benefits increased due to an increase of approximately 8% in the average number of employees necessary to support the Company’s revenue growth and annual salary increases. The Affiliate Agreements, entered into with American, resulted in an increase in expenses estimated to be approximately $24 million for 1996. Subscriber incentive expenses increased in order to maintain and expand the Company’s travel agency subscriber base.

Information Technology Solutions. Revenues from information technology solutions for the year ended December 31, 1996 decreased approximately $2 million, 0.5%, compared to the year ended December 31, 1995, from $522 million to $520 million. Revenues from unaffiliated customers increased approximately $27 million, offset by a decrease in revenues from such services provided to AMR of $29 million primarily due to application of the financial terms of the Technology Services Agreement.

Cost of revenues for information technology solutions increased approximately $12 million, 3.2%, from $377 million to $389 million. This increase was primarily attributable to an increase in salaries and benefits and the Affiliate Agreements, offset by a decrease in depreciation and amortization expense. Salaries and benefits increased due to an increase of approximately 8% in the average number of employees necessary to support the Company’s business growth and annual salary increases. The Affiliate Agreements resulted in an increase in expenses estimated to be approximately $8 million for 1996. The decrease in depreciation and amortization expense is primarily due to the benefits of price and performance improvements for Data Center equipment and the sale to a third party of certain computer network equipment during the year with a net book value of approximately $25 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $26 million, 22.1%, from $117 million to $143 million primarily due to an increase in salaries and benefits, legal and professional fees and the Affiliate Agreements. The Affiliate Agreements resulted in an increase in selling, general and administrative expenses estimated to be approximately $4 million for 1996.

Operating Income. Operating income decreased $54 million, 14.1%, from $381 million to $327 million. Operating margins decreased from 24.9% in 1995 to 20.1% in 1996 due to an increase in revenues of 6.0% while operating expenses increased 12.7%.

Interest Income. Interest income increased $6 million due to higher balances maintained in the Company's short-term investment accounts.

Interest Expense. Interest expense increased $21 million primarily due to interest expense incurred on the Debenture (as defined below) issued to American in 1996.

Other Expenses. Other expenses decreased $5 million due to a reduction in the losses from joint ventures in which the Company owns an interest accounted for under the equity method.

Income Taxes. The provision for income taxes was $119 million and $144 million in 1996 and 1995, respectively. See Note 6 to the Consolidated Financial Statements for additional information regarding taxes.

Net Earnings. Net earnings decreased $39 million, 17.4%, from $226 million to $187 million, primarily due to the decrease in operating income.

1995 Compared to 1994

Electronic Travel Distribution. Electronic travel distribution revenues for the year ended December 31, 1995 increased approximately $101 million, 11.1%, compared to the year ended December 31, 1994, from $906 million to $1,007 million. The increase was primarily due to growth in booking fees from associates from $810 million to $904 million. This growth was driven by an overall increase in the price per booking charged to associates, a migration of associates to higher participation levels within SABRE and an increase in booking volumes primarily attributable to international expansion in Europe and Latin America.

Cost of revenues for electronic travel distribution increased approximately $72 million, 12.4%, from $584 million to $656 million. This increase was primarily attributable to an increase in salaries and benefits, travel service costs from American and subscriber incentive expenses. Salaries and benefits increased due to an increase of approximately 4% in the average number of employees necessary to support the Company's revenue growth and annual salary increases. Travel service costs increased due to an increase in the number of employees and an increase in the negotiated rates with American. See Note 4 to the Consolidated Financial Statements. Subscriber incentive expenses increased in order to maintain and expand the Company's travel agency subscriber base.

Information Technology Solutions. Revenues from information technology solutions for the year ended December 31, 1995 increased approximately $22 million, 4.4%, compared to the year ended December 31, 1994, from $501 million to $523 million. Revenues from information technology solutions provided to Canadian Airlines International ("Canadian") under the agreement between Airline Management Services Holding, Inc. ("AMS"), an AMR subsidiary, and Canadian, which began producing revenues in November 1994, increased $36 million due to the impact of a full year of services provided under the agreement. These increases were offset by a decrease in revenues from such services provided to AMR primarily due to a change in the pricing structure implemented in 1995.

Cost of revenues for information technology solutions increased approximately $16 million, 4.4%, from $361 million to $377 million. This increase was primarily attributable to an increase in salaries and benefits and travel service costs from American. Salaries and benefits increased due to an increase of approximately 4% in the average number of employees necessary to support the Company's revenue growth and annual salary increases. Travel service costs increased due to an increase in the number of employees and an increase in the negotiated rates with American. See Note 4 to the Consolidated Financial Statements.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $5 million, 4.3%, from $112 million to $117 million primarily due to an increase in salaries and benefits. Salaries and benefits increased due to an increase of approximately 4% in the average number of employees necessary to support the Company's revenue growth and annual salary increases.

Operating Income. Operating income increased $30 million, 8.6%, from $350 million to $380 million. Operating margins were 24.9% for both 1995 and 1994 due to revenues and expenses increasing at substantially the same rate.

Interest Expense. Interest expense decreased approximately $13 million due to a reduction in amounts payable to affiliates.

Other Expenses. Other expenses decreased $6 million due to a reduction in the losses from joint ventures in which the Company owns an interest accounted for under the equity method.

Income Taxes. The provision for income taxes was $144 million and $127 million in 1995 and 1994, respectively. See Note 6 to the Consolidated Financial Statements for additional information regarding taxes.

Net Earnings. Net earnings increased $29 million, 14.6%, from $197 million to $226 million, primarily due to the increase in operating income.

Liquidity and Capital Resources

The Company had substantial liquidity at December 31, 1996, with approximately $443 million in cash and cash equivalents and short-term investments and $405 million in working capital. At December 31, 1995, cash and cash equivalents and working capital were $95 million and $53 million, respectively. Prior to July 2, 1996, the Company's cash and cash equivalents were held for the Company by American. Cash and cash equivalents were immediately charged or credited to the Company upon recording certain transactions, including transactions with American for airline booking fees and purchases of goods and services.

Effective with the Reorganization on July 2, 1996, the Company began maintaining a cash management system and cash and investment accounts separate from American. Transactions with American no longer result in the recording of cash equivalents, but are settled through intercompany billings, with payment due in 30 days. American performs cash management services for the Company under the Management Services Agreement. The Company invests cash in short-term marketable securities, consisting primarily of certificates of deposit, bankers' acceptances, commercial paper, corporate notes and government notes.

The Company has funded its operations through cash generated from operations. The Company's cash provided by operating activities of $417 million in 1996 and $396 million in 1995 was primarily attributable to net earnings before non-cash charges.

Capital investment principally has been related to purchases of computer equipment to be provided to subscribers of SABRE and to be used in data processing services. Other investments were related to cash purchases of short-term marketable securities. Capital expenditures for 1996 were $186 million and in 1995 were $165 million.

The Company provides data processing and network and distributed systems services to Canadian through subcontracting arrangements with American which are scheduled to expire in 2006 (the "Canadian Subcontract"). On November 1, 1996, Canadian announced that it was taking certain actions to improve its cash flow. Among other things, Canadian asked its vendors to reduce the pricing of the services they provide. American has conceptually agreed to reduce its fee to Canadian by $3 million per month. Regardless of this decision by American about its pricing, American has guaranteed to the Company full payment under the terms of the Canadian Subcontract for services actually performed. There is, however, no guarantee of revenues in the event of the termination of the Canadian Subcontract. Revenues under the Canadian Subcontract for the twelve months ended December 31, 1996 were approximately $51 million. In December 1996, American reimbursed the Company for approximately $40 million of deferred costs associated with the installation and implementation of certain systems under the Canadian Subcontract, which costs are included in other investing activity.

In 1995, certain of The SABRE Group entities from which the Company was formed distributed $394 million to American in their capacity as divisions or subsidiaries of American or AMR. Also during 1995, AMR contributed $245 million to the Company in order to adequately capitalize certain of The SABRE Group entities from which the Company was formed. In addition, a note payable to AMR of $54 million was established during 1995, which was capitalized in 1996 in connection with the Reorganization. Proceeds from the contribution and note payable were used to reduce cash advances from AMR.

On July 2, 1996, in connection with the Reorganization, American transferred to the Company certain divisions and subsidiaries of American through which AMR previously conducted its information technology businesses, and in return the Company issued to American a floating rate subordinated debenture due September 30, 2004 with a principal amount of $850 million (the "Debenture") and common stock representing 100% of the equity ownership interest in the Company. American subsequently exchanged the Debenture for a portion of a note payable by American to AMR. Because the assets and liabilities of the divisions and subsidiaries of American transferred to the Company are included in the historical financial statements of the Company, this transaction resulted in a reduction of stockholder's equity.

The interest rate on the Debenture is based on the sum of the London Interbank Offered Rate (LIBOR rate) plus a margin determined based upon the Company's senior unsecured long-term debt rating or, if such debt rating is not available, upon the Company's ratio of net debt to total capital. The interest rate is determined monthly and accrued interest is payable each September 30 and March 31. The average interest rate on the Debenture for 1996 was 7.1%. The Company may prepay the principal balance in whole or in part at any interest payment date.

The Company completed its offering of 23,230,000 shares of Class A Common Stock, par value $.01 per share (the "Offering"), on October 17, 1996. The offering price of $27 per share resulted in net proceeds to the Company of approximately $589 million after deducting underwriting discounts, commissions and other expenses payable by the Company. The Company used approximately $532 million of the net proceeds to repay a portion of the Debenture.

The Company expects that the principal use of funds in the foreseeable future will be for capital expenditures, software product development, acquisitions and working capital. Capital expenditures will consist of purchases of equipment for the Data Center, as well as computer equipment, printers, fileservers and workstations to support (i) updating subscriber equipment primarily for travel agencies, (ii) expansion of the subscriber base and (iii) new product capital requirements. The Company has estimated capital expenditures of approximately $240 million to $280 million for 1997. The Company believes available balances of cash and cash equivalents and short-term investments combined with cash flows from operations will be sufficient to meet the Company's capital requirements.

The Company currently intends to retain its earnings to finance future growth and, therefore, does not anticipate paying any cash dividends on its common stock in the foreseeable future. Any determination as to the payment of dividends will depend upon the future results of operations, capital requirements and financial condition of the Company and its subsidiaries and such other factors as the Board of Directors of the Company may consider, including any contractual or statutory restrictions on the Company's ability to pay dividends.

Statements in this report which are not purely historical facts, including statements regarding the Company's anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 statements, whether as a result of new information, future events or otherwise. Any forward looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward looking statements. Readers are cautioned not to place undue reliance on these forward looking statements.

Risks associated with the Company's forward looking statements include, but are not limited to: risks related to the Company's relationships with American and its affiliates, including risks that American may terminate any of the agreements with the Company, or fail or otherwise become unable to fulfill its principal obligations thereunder, or determine not to renew certain of the agreements; risks associated with competition, and technological innovation by competitors, which could require the Company to reduce prices, to change billing practices, to increase spending on marketing or product development or otherwise to take actions that might adversely affect its operations or earnings; risks related to seasonality of the travel industry and booking revenues; risks of the Company's sensitivity to general economic conditions and events that affect airline travel and the airlines that participate in the SABRE system; risks of a natural disaster or other calamity that may cause significant damage to the Company's data center facility; risks associated with the Company's international operations, such as currency fluctuations, governmental approvals, tariffs and trade barriers; risks of new or different legal and regulatory requirements; and risks associated with the Company's growth strategy, including investments in emerging markets and the ability to successfully conclude alliances.

Inflation

The Company believes that inflation has not had a material effect on its results of operations.

Pro forma Statement of Income Data

The pro forma statement of income data in the table below is based upon the historical financial statements of the Company and assumes the Reorganization and the Offering were consummated on January 1, 1995. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if such transactions had been consummated on January 1, 1995, nor is it necessarily indicative of future results of operations.

The pro forma statement of income data should be read in conjunction with the Consolidated Financial Statements and related notes thereto of the Company included elsewhere herein. Pro forma adjustments include the impact of the Affiliate Agreements and the Debenture as well as other adjustments associated with the Reorganization and the Offering. See Note 4 to the Consolidated Financial Statements.

Amounts shown below are in thousands, with the exception of per share amounts.

	Year Ended December 31, 1996	1995
Revenues		
Electronic travel distribution	$1,101,791	$ 986,057
Information technology solutions	514,098	477,290
Total revenues	1,615,889	1,463,347
Operating expenses		
Cost of revenues		
Electronic travel distribution	764,536	688,250
Information technology solutions	382,387	369,984
Selling, general and administrative	142,618	120,515
Total operating expenses	1,289,541	1,178,749
Operating income	326,348	284,598
Other income (expense)		
Interest income	13,282	7,325
Interest expense	(25,107)	(23,580)
Other, net	(6,826)	(11,614)
Income before provision for income taxes	307,697	256,729
Provision for income taxes	120,000	100,019
Net earnings	$ 187,697	$ 156,710
Earnings per common share	$1.44	$1.20

Pro forma 1996 Compared to 1995

Electronic Travel Distribution. Electronic travel distribution pro forma revenues for the year ended December 31, 1996 increased approximately $116 million, 11.7%, compared to the year ended December 31, 1995, from $986 million to $1,102 million. The increase was primarily due to growth in booking fees from associates from $904 million to $1,007 million. This growth was driven by an increase in booking volumes partially attributable to international expansion in Europe and Latin America, an overall increase in the price per booking charged to associates, and a migration of associates to higher participation levels within SABRE.

Pro forma cost of revenues for electronic travel distribution increased approximately $77 million, 11.2%, from $688 million to $765 million. This increase was primarily attributable to an increase in salaries and benefits and subscriber incentive expenses. Salaries and benefits increased due to an increase of approximately 8% in the average number of employees necessary to support the Company's revenue growth and new product development. Subscriber incentive expenses increased in order to maintain and expand the Company's travel agency subscriber base.

Information Technology Solutions. Pro forma revenue from information technology solutions for the year ended December 31, 1996 increased approximately $37 million, 7.7%, compared to the year ended December 31, 1995, from $477 million to $514 million, due to an increase in revenues from unaffiliated customers of approximately $27 million and from AMR of approximately $10 million.

Pro forma cost of revenues for information technology solutions increased approximately $12 million, 3.2%, from $370 million to $382 million. This increase was primarily attributable to an increase in salaries and benefits, offset by a decrease in depreciation and amortization expense. Salaries and benefits increased due to an increase of approximately 8% in the average number of employees necessary to support the Company's revenue growth and new product development. The decrease in depreciation expense is primarily due to the benefits of price and performance improvements for Data Center equipment and the sale to a third party of certain computer network equipment during the year with a net book value of approximately $25 million.

Selling, General and Administrative Expenses. Pro forma selling, general and administrative expenses increased $22 million, 18.3%, from $121 million to $143 million primarily due to an increase in salaries and benefits and legal and professional fees.

Operating Income. Pro forma operating income increased $42 million, 14.7%, from $284 million to $326 million. Operating margins increased from 19.4% to 20.2% due to the increase in pro forma revenues of 10.4%, while pro forma operating expenses increased 9.4%.

Interest Income. Pro forma interest income increased $6 million due to higher balances maintained in the Company's short-term investment accounts.

Other Expenses. Pro forma other expenses decreased $5 million due to a reduction in the losses from joint ventures in which the Company owns an interest accounted for under the equity method.

Income Taxes. The pro forma provision for income taxes was $120 million and $100 million for 1996 and 1995, respectively. The increase in the provision for income taxes corresponds with the increase in net income before the provision for income taxes.

Net Earnings. Pro forma net earnings increased $31 million, 19.8%, from $157 million to $188 million due to the increase in operating income.

Consolidated Balance Sheets

(In Thousands)

	December 31, 1996	December 31, 1995
Assets		
Current Assets		
Cash and cash equivalents	$ 15,992	$ 94,861
Short-term investments	426,945	–
Accounts receivable, net	197,015	138,972
Prepaid expenses	13,630	5,851
Deferred income taxes	40,946	31,539
Total Current Assets	694,528	271,223
Property and Equipment		
Buildings and leasehold improvements	302,093	12,250
Furniture, fixtures and equipment	21,050	6,049
Service contract equipment	545,302	529,918
Computer equipment	355,872	422,050
	1,224,317	970,267
Less accumulated depreciation and amortization	(664,603)	(589,549)
Total Property and Equipment	559,714	380,718
Other Assets	32,841	77,465
Total Assets	$1,287,083	$ 729,406
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 96,622	$ 53,716
Accrued compensation and related benefits	55,547	33,696
Other accrued liabilities	110,391	77,071
Payable to affiliates	27,267	54,102
Total Current Liabilities	289,827	218,585
Deferred Income Taxes	43,077	30,943
Other Postretirement Benefits	50,070	37,960
Other Liabilities	16,595	9,781
Debenture Payable to AMR	317,873	–
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock: $.01 par value; 20,000 shares authorized; no shares issued	–	–
Common stock		
Class A: $.01 par value; 250,000 shares authorized; 23,396 shares issued and outstanding	234	–
Class B: $.01 par value; 107,374 shares authorized; 107,374 shares issued and outstanding	1,074	–
Additional paid-in capital	591,885	–
Retained deficit	(23,552)	–
Stockholder's net investment	–	432,137
Total Stockholders' Equity	569,641	432,137
Total Liabilities and Stockholders' Equity	$1,287,083	$ 729,406

See notes to the consolidated financial statements.

Consolidated Statements of Income

(In Thousands, Except Per Share Amounts)

	Year ended December 31, 1996	1995	1994
Revenues			
Electronic travel distribution	$1,101,791	$1,006,926	$ 905,908
Information technology solutions	520,196	522,690	500,771
Total revenues	1,621,987	1,529,616	1,406,679
Operating expenses			
Cost of revenues			
Electronic travel distribution	763,261	655,973	583,847
Information technology solutions	389,352	376,453	360,705
Selling, general and administrative	142,573	116,766	111,974
Total operating expenses	1,295,186	1,149,192	1,056,526
Operating income	326,801	380,424	350,153
Other income (expense)			
Interest income	13,282	7,325	9,979
Interest expense	(27,401)	(6,060)	(18,892)
Other, net	(6,826)	(11,614)	(17,180)
Income before provision for income taxes	305,856	370,075	324,060
Provision for income taxes	119,282	144,224	126,899
Net earnings	$ 186,574	$ 225,851	$ 197,161
Earnings per common share data			
Pro forma earnings per common share		$ 1.73	
Earnings per common share	$ 1.43		
Common and common equivalent shares used in per share calculations	130,758	130,604	

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(In Thousands)

	Year ended December 31, 1996	1995	1994
Operating Activities			
Net earnings	$ 186,574	$ 225,851	$ 197,161
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	165,064	171,471	174,953
Deferred income taxes	(28,346)	(12,385)	50,232
Other	7,962	7,865	7,534
Changes in operating assets and liabilities			
Accounts receivable	(58,043)	(24,946)	(28,685)
Prepaid expenses	(7,779)	(3,247)	(1,401)
Other assets	7,194	(1,915)	(1,113)
Accrued compensation and related benefits	21,851	182	14,618
Accounts payable and other accrued liabilities	76,226	29,662	8,449
Payable to affiliates	27,267	–	–
Partnership settlement	–	–	(158,400)
Postretirement benefits	4,310	4,780	4,790
Other liabilities	15,048	(1,389)	(2,884)
Cash provided by operating activities	417,328	395,929	265,254
Investing activities			
Additions to property and equipment	(185,713)	(164,580)	(168,875)
Net increase in short-term investments	(426,945)	–	–
Other investing activities, net	25,681	(20,405)	(61,394)
Proceeds from sales of equipment	33,582	6,169	12,663
Cash used for investing activities	(553,395)	(178,816)	(217,606)
Financing activities			
Cash advances from (to) affiliates	–	(236,367)	215,308
Contributions from affiliates	–	244,666	–
Distributions to affiliates	–	(393,507)	–
Proceeds from issuance of common stock	589,089	–	–
Proceeds from exercise of stock options	236	–	–
Payment on Debenture payable to AMR	(532,127)	–	–
Cash provided by (used for) financing activities	57,198	(385,208)	215,308
Increase (decrease) in cash and cash equivalents	(78,869)	(168,095)	262,956
Cash and cash equivalents at beginning of the period	94,861	262,956	–
Cash and cash equivalents at end of the period	$ 15,992	$ 94,861	$ 262,956
Supplemental cash flow information:			
Cash payments to affiliates for income taxes	$ 128,932	$ 148,322	$ 138,886
Cash payments to affiliates for interest	$ 15,524	$ –	$ 8,913

See notes to the consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(In Thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Deficit	Stockholder's Net Investment	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 1994	–	$ –	–	$ –	$ –	$ –	$ 157,966	$ 157,966
Distributions to affiliates	–	–	–	–	–	–	(65,663)	(65,663)
Net earnings	–	–	–	–	–	–	197,161	197,161
Balance December 31, 1994	–	–	–	–	–	–	289,464	289,464
Contributions from affiliates	–	–	–	–	–	–	310,329	310,329
Distributions to affiliates	–	–	–	–	–	–	(393,507)	(393,507)
Net earnings	–	–	–	–	–	–	225,851	225,851
Balance at December 31, 1995	–	–	–	–	–	–	432,137	432,137
Net earnings prior to the Reorganization	–	–	–	–	–	–	119,050	119,050
Capitalization of the Company in connection with the Reorganization								
Reclassification of stockholder's net investment	–	–	–	–	–	551,187	(551,187)	–
Issuance of Debenture payable to AMR	–	–	–	–	–	(850,000)	–	(850,000)
Transfer of fixed assets	–	–	–	–	–	159,451	–	159,451
Other	–	–	–	–	–	48,254	–	48,254
Issuance of 23,230 shares of Class A Common Stock in initial public offering	23,230	232	–	–	588,857			589,089
Reclassification of shares of common stock held by AMR into 107,374 shares Class B Common Stock	–	–	107,374	1,074	(1,074)	–	–	–
Issuance of Class A Common Stock pursuant to stock option and restricted stock incentive plans	166	2	–	–	4,102	–	–	4,104
Net earnings subsequent to the Reorganization	–	–	–	–	–	67,524	–	67,524
Unrealized gain on investments	–	–	–	–	–	32	–	32
Balance at December 31, 1996	23,396	$234	107,374	$1,074	$591,885	$ (23,552)	$ –	$ 569,641

See notes to the consolidated financial statements.

1. General Information

The SABRE Group Holdings, Inc. is a holding company. Its sole direct subsidiary is The SABRE Group, Inc., which, pursuant to the Reorganization (as defined below), is the successor to the businesses of The SABRE Group which were previously operated as subsidiaries or divisions of American Airlines, Inc. ("American") or AMR Corporation ("AMR"). The SABRE Group was formed by AMR to capitalize on synergies of combining AMR's information technology businesses under common management. Unless otherwise indicated, references herein to the "Company" include The SABRE Group Holdings, Inc. and its consolidated subsidiaries and, for the period prior to the Reorganization, the businesses of American and AMR constituting The SABRE Group, an operating unit of AMR.

On July 2, 1996, AMR reorganized the businesses of The SABRE Group (the "Reorganization"). As part of the Reorganization, the Company was incorporated as a Delaware Corporation and a direct wholly-owned subsidiary of American. The businesses of The SABRE Group formerly operated as divisions and subsidiaries of American or AMR were combined under the Company and the Company and its subsidiaries were dividended by American to AMR.

In connection with the Reorganization on July 2, 1996, the Company issued 1,000 shares of common stock, par value $.01 per share, to American which shares were subsequently dividended to AMR. The Company completed its initial public offering (the "Offering") of 23,230,000 shares of Class A Common Stock, par value $.01 per share, on October 17, 1996. The offering price of $27.00 per share resulted in net proceeds to the Company of approximately $589 million, after deducting underwriting discounts and commissions and other expenses payable by the Company. The Company used approximately $532 million of the net proceeds to repay a portion of a debenture payable to AMR. See Note 4.

Concurrently with the Offering, the 1,000 shares of Common Stock held by AMR were reclassified into 107,374,000 shares of Class B Common Stock of the Company. See Note 8.

2. Summary of Significant Accounting Policies

Basis of Presentation – The consolidated financial statements have been prepared using AMR's historical basis in the assets and liabilities of the Company. The consolidated financial statements reflect the results of operations, financial condition and cash flows of the Company as a component and, subsequent to the Offering, a majority owned subsidiary of AMR and may not be indicative of actual results of operations and financial position of the Company under other ownership. Management believes the consolidated income statements include a reasonable allocation of administrative costs, which are described in Note 4, incurred by AMR on behalf of the Company.

Consolidation – All significant accounts and transactions among the consolidated entities have been eliminated. For financial reporting purposes for periods prior to the Reorganization, the equity accounts of the previous divisions of American and subsidiaries of AMR have been accumulated into a single disclosure caption entitled Stockholder's Net Investment.

Cash and Cash Equivalents – Prior to the Reorganization, the Company's cash and cash equivalents were held for the Company by American. Cash and cash equivalents were immediately charged or credited to the Company upon recording certain transactions, including transactions with American for airline booking fees and purchases of goods and services. Effective with the Reorganization, the Company began maintaining its own cash management system with separate cash and investment accounts from American. Subsequent to the Reorganization, the Company does not maintain cash equivalents.

Depreciation and Amortization – The Company's depreciation and amortization policies are as follows:

Property and Equipment:	
Buildings	30 years
Service contract equipment	3 to 5 years
Computer equipment	3 to 5 years
Furniture and fixtures	5 to 15 years
Leasehold improvements	Lesser of lease term or useful life
Purchased software	3 to 5 years
Other Assets:	
Internally developed software	3 to 5 years

Property and equipment are stated at cost less accumulated depreciation and amortization, which is calculated on the straight-line basis. Service contract equipment consists of hardware provided primarily to subscribers of SABRE. Depreciation of property and equipment totaled approximately $157 million, $163 million and $168 million in 1996, 1995 and 1994, respectively. Other assets are amortized on the straight-line basis over the periods indicated.

Deferred Contract Costs – Included in other assets in 1995 are costs incurred in connection with an agreement between Airline Management Services Holding, Inc., a subsidiary of AMR ("AMS"), and Canadian Airlines International Ltd. ("Canadian") to provide a variety of management, technical and administrative services. A portion of these services were subcontracted to the Company (the "Canadian Subcontract"), and in connection therewith the Company incurred and deferred approximately $9 million and $41 million in costs associated with the installation and implementation of SABRE and other systems for Canadian during 1995 and 1994, respectively. Approximately $5 million, $5 million and $0.7 million of these deferred costs were charged to operations in 1996, 1995 and 1994, respectively. As permitted by the terms of the Canadian Subcontract, in December 1996, American paid the Company approximately $40 million, representing the unrecovered contract costs. See Note 4.

Revenue Recognition – The Company provides electronic travel distribution services using SABRE, one of the largest privately owned real-time computer systems in the world. As compensation for electronic travel distribution services provided, fees are collected from airlines, car rental companies, hotel vendors and other travel providers ("associates") for reservations booked through SABRE. The fee per booking charged to associates is dependent upon the level of functionality within SABRE at which the associate participates. Revenue for airline travel reservations is recognized at the time of the booking of the reservation, net of estimated future cancellations. At December 31, 1996 and 1995, the Company had recorded booking fee cancellation reserves of approximately $16 million and $15 million, respectively. Revenue for car rental, hotel and other travel provider bookings is recognized at the time the reservation is used by the customer. The Company also enters into service contracts with subscribers (primarily travel agencies) to provide access to SABRE, hardware, software, hardware maintenance and other support services. Fees billed on service contracts are recognized as revenue in the month earned.

The Company also provides information technology solutions to AMR and companies in the travel industry and other industries worldwide. Revenue from data processing services is recognized in the period earned. Revenue from software license fees for standard software products is recognized when the software is delivered, provided no significant future vendor obligations exist and collection is probable. The Company recognizes revenue on long-term software development and consulting contracts under the percentage of completion method of accounting. Losses, if any, on long-term contracts are recognized when the current estimate of total contract costs indicates a loss on a contract is probable. Fixed fees for software maintenance are recognized ratably over the life of the contract. As a result of contractual billing terms, at December 31, 1996 and 1995 the Company had recorded accounts receivable of approximately $40 million and $25 million, respectively, that had not been billed to customers.

Income Taxes – The entities comprising the Company are included in the consolidated federal income tax return of AMR. Prior to July 1, 1996, under the terms of a tax sharing agreement, the Company paid AMR an amount equal to the income tax payments calculated as if the Company had filed separate income tax returns.

The Company and AMR entered into a new tax sharing agreement effective July 1, 1996 (the "Tax Sharing Agreement"), which provides for the allocation of tax liabilities during the tax periods the Company is included in the consolidated federal, state and local income tax returns filed by AMR. The Tax Sharing Agreement generally requires the Company to pay to AMR the amount of federal, state and local income taxes that the Company would have paid had it ceased to be a member of the AMR consolidated tax group for periods after the Reorganization. The Company is jointly and severally liable for the federal income tax of AMR, and the other companies included in the consolidated return, for all periods in which the Company is included in the AMR consolidated group. AMR has agreed, however, to indemnify the Company for any liability for taxes reported or required to be reported on a consolidated return.

Except for certain items specified in the Tax Sharing Agreement, AMR generally retains any potential tax benefit carryforwards, and remains obligated to pay all taxes, attributable to periods before the Reorganization. The Tax Sharing Agreement also grants the Company certain limited participation rights in any disputes with tax authorities.

The Company computes its provision for deferred income taxes using the liability method as if it were a separate taxpayer. Under the liability method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The measurement of deferred tax assets is adjusted by a valuation allowance, if necessary, to recognize the extent to which, based on available evidence, the future tax benefits more likely than not will be realized.

Research and Development Costs – All costs in the software development process which are classified as research and development costs, which have not been material, are expensed as incurred until technological feasibility has been established. Once technological feasibility has been established, such costs are capitalized until the product is ready for service.

Concentration of Credit Risk – The Company's customers are worldwide, primarily in the United States, Europe and Canada, and are concentrated in the travel industry. Approximately 31%, 36% and 42% of revenues in 1996, 1995 and 1994, respectively, were related to American and other subsidiaries of AMR. The Company generally does not require security or collateral from its customers as a condition of sale. The Company maintained an allowance for losses of approximately $4 million and $5 million at December 31, 1996 and 1995, respectively, based upon the expected collectibility of all accounts receivable.

Use of Estimates – The preparation of these financial statements in conformity with generally accepted accounting principles requires that certain amounts be recorded based on estimates and assumptions made by management. Actual results could differ from these estimates and assumptions.

Stock Awards and Options – The Company accounts for stock awards and options (including awards of AMR stock and stock options) in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issues to Employees." No compensation expense is recognized for stock option grants if the exercise price is at or above the fair market value of the underlying stock on the date of grant. Compensation expense relating to other stock awards is recognized over the period during which the employee renders service to the Company necessary to earn the award.

Earnings Per Common Share – The pro forma earnings per share data is calculated as though the 23,230,000 shares of Class A Common Stock issued in connection with the Offering and the reclassification of 107,374,000 shares of Class B Common Stock held by AMR were outstanding for the year ended December 31, 1995. The earnings per common share data for 1996 is calculated as though the 130,604,000 shares were outstanding the entire year, adjusted for the weighted average additional shares of Class A Common Stock issued subsequent to the Offering. The dilutive impact of common equivalent shares related to stock awards and options outstanding under the Long-Term Incentive Plan is not significant for the periods presented.

3. Short-term Investments

At December 31, 1996, short-term investments consisted of (in thousands):

Overnight investment and time deposits	$ 66,848
Corporate notes	266,036
Mortgages	58,927
U.S. Treasuries	35,134
	$426,945

The following table summarizes short-term investments by contractual maturity at December 31, 1996, (in thousands):

Due in one year or less	$281,799
Due after one year through three years	86,219
Due after three years	58,927
	$426,945

Short-term investments, all of which are classified as available-for-sale in accordance with Statement of Financial Accounting Standards (FAS) No. 115, "Accounting for Certain Debt and Equity Securities," are stated at fair value based on market quotes. There were no significant differences between amortized cost and estimated fair value at December 31, 1996. Net unrealized gains and losses, net of deferred taxes, are reflected as an adjustment to stockholders' equity. Short-term investments, without regard to remaining maturity at acquisition, are not considered cash equivalents for purposes of the statement of cash flows.

4. Certain Related Party Transactions

Distributions to and Contributions from Affiliates – Certain of the SABRE Group entities from which the Company was formed distributed, in their capacity as divisions of American, $394 million in 1995 to American. Also during 1995, AMR contributed $245 million to the Company, and a note payable to AMR of $66 million was capitalized in order to adequately capitalize certain of The SABRE Group entities from which the Company was formed. Proceeds from the contribution were used to reduce cash advances from AMR.

In conjunction with the capital infusion discussed above, amounts payable to AMR of approximately $54 million were converted to intercompany notes payable in 1995, upon which the Company was charged interest expense at an average rate of 9.9%. The carrying value of the notes payable to AMR is equivalent to the fair market value. On July 1, 1996 the note payable to AMR of approximately $54 million was capitalized.

Interest on Cash Equivalents – Prior to the Reorganization, American allocated interest income or expense monthly based on the net balance of cash equivalents and the payable to AMR at the average rate earned by American's portfolio of short-term marketable securities. The allocation may not be representative of what the Company would have earned or paid if its cash were held externally. Cash payments for interest are equivalent to net interest expense for periods prior to the Reorganization.

Debenture Payable to AMR – On July 2, 1996, in connection with the Reorganization, American transferred to the Company certain divisions and subsidiaries of American through which AMR previously conducted its information technology businesses, and in return the Company issued to American a floating rate subordinated debenture due September 30, 2004 with a principal amount of $850 million (the "Debenture") and common stock representing 100% of the equity ownership interest in the Company. American subsequently prepaid a portion of its note payable to AMR with the Debenture. Because the assets and liabilities of the divisions and subsidiaries of American transferred to the Company are included in the historical financial statements of the Company, issuing the Debenture resulted in a reduction of stockholders' equity.

The Company used approximately $532 million of the net proceeds from the Offering to repay a portion of the Debenture held by AMR.

The interest rate on the Debenture is based on the sum of the London Interbank Offered Rate (LIBOR rate) plus a margin determined based upon the Company's senior unsecured long-term debt rating or, if such debt rating is not available, upon the Company's ratio of net debt-to-total capital. The interest rate is determined monthly and accrued interest is payable each September 30 and March 31. The average interest rate on the Debenture for 1996 was 7.1%. The Company may prepay the principal balance in whole or in part at any interest payment date.

Property and Equipment – On July 1, 1996 American contributed buildings, furniture and fixtures in addition to those discussed above to the Company, with an original cost of approximately $298 million and a net book value of $193 million.

Affiliate Agreements – In connection with the Reorganization, the Company has entered into certain agreements with AMR and its affiliates (the "Affiliate Agreements"), which are discussed below.

Information Technology Services Agreement – The Company is party to the Information Technology Services Agreement with American dated July 1, 1996 (the "Technology Services Agreement"), to provide American with certain information technology services. The parties agreed to apply the financial terms of the Technology Services Agreement as of January 1, 1996. The base term of the Technology Services Agreement expires June 30, 2006. The terms of the services to be provided by the Company to American, however, vary. The Company will provide: (i) Data Center services, data network services, application development and existing application maintenance enhancement services until June 30, 2006; (ii) services relating to existing client server operations until June 30, 2001; and (iii) device support, distributed systems services, radio services and reservations and flight information network services until June 30, 1999.

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 Company will continue to be the exclusive provider of all information technology services provided by the Company 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 American, can be outsourced pursuant to competitive bidding by American or performed by American on its own behalf. With limited exceptions, the Company has the right to bid on all new services for which American solicits bids. Additionally, American may continue to perform development and enhancement work that it is currently performing on its own behalf.

After July 1, 2000, American may terminate the Technology Services Agreement for convenience. If it does so, American will be required to pay a termination fee equal to the sum of all amounts then due under the Technology Services Agreement, including wind-down costs, net book value of dedicated assets and a significant percentage of estimated lost profits. American may also terminate the Technology Services Agreement without penalty, in whole or in part depending upon circumstances, for egregious breach by the Company of its obligations or for serious failure to perform critical or significant services. If the Company is acquired by another Company (other than AMR or American) with more than $1 billion in annual airline transportation revenue, then American may terminate the Technology Services Agreement without paying any termination fee. Additionally, if American were to dispose of any portion of its businesses or any affiliate accounting for more than 10% of the Company's fees from American, then American shall either cause such divested business or affiliate to be obligated to use the Company's services in accordance with the Technology Services Agreement or pay a proportionate termination fee.

In addition, AMS and Canadian have entered into an agreement pursuant to which AMR and American supply to Canadian various services, including technology services. The Company is a principal provider of data processing and network distributed systems services to Canadian under the terms of the Canadian Technical Services Subcontract (the "Canadian Subcontract") with American which expires in 2006. Under the terms of the Canadian Subcontract, American guaranteed full payment for services actually performed by the Company and deferred costs associated with the installation and implementation of certain systems. See Note 2.

Management Services Agreement – The Company and American are parties to a Management Services Agreement dated July 1, 1996 (the "Management Services Agreement"), pursuant to which American performs various management services for the Company, including treasury, risk management and tax, and similar administrative services, that American has historically provided to the Company. American also manages the Company's cash balances under the terms of the Management Services Agreement. Transactions with American no longer result in the recording of cash equivalents, but are settled through monthly billings, with payment due in 30 days. The Management Services Agreement will expire on June 30, 1999, unless terminated earlier if American and the Company are no longer under common control or if the Technology Services Agreement is terminated early. Amounts charged to the Company under this agreement approximate American's cost of providing the services plus a margin. The parties agreed to apply the financial terms of the Management Services Agreement as of January 1, 1996.

Marketing Cooperation Agreement – The Company 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 10 years for the Company's Professional SABRE products targeted to travel agencies and for five years for SABRE Business Travel Solutions ("SABRE BTS"), Travelocity and easySABRE. The parties agreed to apply the financial terms of the Marketing Cooperation Agreement as of January 1, 1996. The Marketing Cooperation Agreement may be terminated by either party prior to June 30, 2006 only if the other party fails to perform its obligations thereunder.

Under the Marketing Cooperation Agreement, American's marketing efforts will include ongoing promotional programs to assist in the sale of those SABRE products, development with the Company of an annual sales plan, sponsorship of sales/promotional events and the targeting of potential customers. Under the terms of the Marketing Cooperation Agreement, the Company pays American a fee for its marketing support for Professional SABRE, the amount of which may increase or decrease, depending on total SABRE booking volumes generated by certain Professional SABRE subscribers in the U.S., the Caribbean and elsewhere on SABRE's market share of travel agency bookings in those areas. That fee was approximately $20 million in 1996 and will range between $10 million and $30 million annually thereafter. As payment for American's support of the Company's promotion of SABRE BTS, Travelocity and easySABRE, the Company pays American a marketing fee based upon booking volume. Additionally, the Company has guaranteed to American certain cost savings in the fifth year of the Marketing Cooperation Agreement. If American does not achieve those savings, the Company will pay American any shortfall, up to a maximum of $50 million.

Non-Competition Agreement – The Company, AMR and American have entered into a Non-Competition Agreement dated July 1, 1996 (the "Non-Competition Agreement"), pursuant to which AMR and American, on behalf of themselves and certain of their subsidiaries, have agreed to limit their competition with the Company'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. Under the Non-Competition Agreement, American and AMR may develop, operate, market and provide in compliance with all applicable laws an American Airlines branded electronic travel distribution system that gives a display preference to American's flights. The Non-Competition Agreement prohibits American or AMR, however, from providing such system to any travel agency that generated 25% or more of its bookings through SABRE during the preceding six calendar months. Additionally, in the event any airline competing with American engages in an activity in connection with such airline's transportation business, and if the restrictions imposed by the Non-Competition Agreement would prevent American from engaging in the same activity and place American at a disadvantage, then American may engage in such activity, subject to American and the Company consulting about means to mitigate the effect on the Company of American's engaging in such activity. The Non-Competition Agreement expires on December 31, 2001. American may terminate the Non-Competition Agreement, however, as to the activities described in clauses (ii) though (v) of this paragraph upon 90 days notice to the Company if the Technology Services Agreement is terminated as a result of an egregious breach thereof by the Company.

Travel Agreements – The Company and American are parties to a Travel Privileges Agreement dated July 1, 1996 (the "Travel Privileges Agreement"), pursuant to which the Company is entitled to purchase personal travel for its employees and retirees at reduced fares. The Travel Privileges Agreement will expire on June 30, 2008. To pay for the provision of flight privileges to certain of its future retired employees, the Company will make a lump sum payment to American beginning in 1997 for each employee retiring in that year. The payment per retiree will be based on the number of years of service with the Company and AMR over the prior ten years of service. Service years accrue for the Company beginning on January 1, 1993. AMR will retain the obligation for the portion of benefits attributable to service years prior to January 1, 1993. The accumulated benefit obligation for postretirement travel privileges assumed by the Company at July 1, 1996 of approximately $8 million, net of deferred taxes of approximately $3 million, was recorded as a reduction to stockholders' equity. The remaining cost of providing this privilege is being accrued over the estimated service lives of the employees eligible for the privilege. See Note 5.

The Company and American are also parties to a Corporate Travel Agreement dated July 1, 1996 and ending June 30, 1998 (the "Corporate Travel Agreement"), pursuant to which the Company receives discounts for certain flights purchased on American. In exchange, the Company must fly a certain percentage of its travel on American as compared to all other air carriers combined. If the Company fails to meet the applicable percentage on an average basis over any calendar quarter, American may terminate the agreement upon 60 days' notice.

The parties agreed to apply the financial terms of the Travel Privileges Agreement and the Corporate Travel Agreement as of January 1, 1996.

Credit Agreement – On July 1, 1996, the Company and American entered into a Credit Agreement pursuant to which the Company is required to borrow from American, and American is required to lend to the Company, amounts required by the Company to fund its daily cash requirements. In addition, American may, but is not required to, borrow from the Company to fund its daily cash requirements. The maximum amount the Company 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 Company under the Credit Agreement is $100 million. Loans under the Credit Agreement are not intended as long-term financing. If the Company's credit rating is better than "B" on the Standard & Poor's Rating Service Scale (or an equivalent thereof) or American has excess cash, as defined, to lend the Company, the interest rate to be charged to the Company is the sum of (a) the higher of (i) American's average rate of return on short-term investments for the month in which the borrowing occurred or (ii) the actual rate of interest paid by American to borrow funds to make the loan to the Company under the Credit Agreement, plus (b) an additional spread based upon the Company's credit risk. If the Company's credit rating is "B" or below on the Standard & Poor's Rating Service Scale (or an equivalent thereof) and American does not have excess cash to lend to the Company, the interest rate to be charged to the Company is the lower of (a) the sum of (i) the borrowing cost incurred by American to draw on its revolving credit facility to make the advance, plus (ii) an additional spread based on the Company's credit risk, or (b) the sum of (i) the cost at which the Company could borrow funds from an independent party, plus (ii) one-half of the margin American pays to borrow under its revolving credit facility. The Company believes that the interest rate it will be charged by American could, at times, be slightly above the rate at which the Company could borrow externally; however, no standby fees for the line of credit will be required to be paid by either party. The interest rate to be charged to American is the Company's average portfolio rate for the months in which borrowing occurred plus an additional spread based upon American's credit risk. At the end of each quarter, American must pay all amounts owing under the Credit Agreement to the Company. No borrowings have occurred by either the Company or American as of December 31, 1996.

Indemnification Agreement – In connection with the Reorganization, the Company and American entered into an intercompany agreement (the "Indemnification Agreement") pursuant to which each party indemnified the other for certain obligations relating to the Reorganization. Pursuant to the Indemnification Agreement, the Company indemnified American for liabilities assumed in the Reorganization, against third party claims asserted against American as a result of American's prior ownership of assets or operation of businesses contributed to the Company and for losses arising from or in connection with the Company's lease of property from American. In exchange, American indemnified the Company for specified liabilities retained by it in the Reorganization, against third party claims against the Company relating to American's businesses and asserted against the Company as a result of the ownership or possession by American prior to the Reorganization of any asset contributed to the Company in the Reorganization and for losses arising from or in connection with American's lease of property from the Company.

Revenues from Affiliates – Revenues from American and other subsidiaries of AMR were $500 million, $548 million and $590 million in 1996, 1995 and 1994, respectively.

Operating Expenses – Operating expenses are charged to the Company by American and other subsidiaries of AMR to cover certain employee benefits, facilities rental, marketing services, management services, legal fees and certain other administrative costs based on employee headcount or actual usage of facilities and services. The Company believes amounts charged to the Company for these expenses approximate the cost of such services provided by third parties. Travel service costs for travel by the Company's employees for personal and business travel are charged to the Company based on rates negotiated with American. If the Company were not affiliated with American, the personal travel flight privilege would most likely not be available to employees. It is estimated that business travel costs, had the Company not been affiliated with American, for 1996, 1995 and 1994 would have been approximately $28 million, $34 million and $32 million, respectively, based on corporate travel rates offered by American to similar companies. Expenses charged to the Company by affiliates are as follows (in thousands):

	Year ended December 31, 1996	1995	1994
Employee benefits	$ 85,538	$ 68,743	$ 64,240
Facilities rental	17,585	29,385	30,117
Marketing cooperation	20,436	–	–
Management services	17,143	16,508	16,431
Other administrative costs	11,491	11,377	10,660
Travel services	41,004	28,761	18,056
	$193,197	$154,774	$139,504

5. Employee Benefit Plans

The Company and AMR have entered into an agreement which permits the employees of the Company to continue to participate in certain benefit plans and programs sponsored by AMR until the Company establishes separate plans and programs for its employees.

Substantially all employees of the Company are eligible to participate in American's tax-qualified pension plan, the fixed benefit retirement plan. The fixed benefit retirement plan provides benefits for participating employees based on years of service and average compensation for a specified period of time before retirement. Costs associated with employee participation in this plan are determined based upon employee headcount and are allocated to the Company by American. American's annual allocation of costs to the Company for such benefits, which are included in employee benefits in the table in Note 4, was approximately $20 million, $9 million and $11 million in 1996, 1995 and 1994, respectively. The Company is jointly and severally liable with AMR and other members of AMR's consolidated group for applicable funding and termination liabilities of the plan. The historical financial statements of the Company do not reflect the portion of the net obligation of the defined benefit plan sponsored by American attributable to employees of the Company.

The current intent of AMR is to spin off the portion of the defined benefit pension plan applicable to the Company's employees to a new pension plan to be sponsored by the Company in 1997. At the date of the spin-off, the unrecognized net obligation attributable to the Company's employees participating in the plan, estimated to be a liability of approximately $40 million at December 31, 1996, will be charged to stockholders' equity, net of deferred income taxes of approximately $16 million.

Effective January 1, 1997, the Company established The SABRE Group Retirement Plan (the "SGRP"). Commencing January 1,1997, employees of the Company who were under the age of 40 as of December 31, 1996 will participate in the SGRP. Employees who were 40 or over as of December 31, 1996 and who were participants in American's fixed-benefit retirement plan had the option of participating in either the SGRP or the Legacy Pension Plan (the "LPP"). The LPP is similar to American's fixed-benefit retirement plan. Upon retirement, benefits under the LPP will be calculated based upon the employee's base pay for the highest consecutive five years of the ten years preceding retirement. Benefits earned by most of the employees of the Company under American's fixed-benefit retirement plan will be transferred to the LPP. The SGRP is a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code of 1986 (the "Code"). For employees who participate in the SGRP, benefits payable under the LPP will be based upon credited years of service as of December 31, 1996. However, employees in the SGRP will continue to earn years of service for purposes of determining vesting and early retirement benefits under the LPP and growth in base pay will be considered for purposes of determining retirement benefits under the LPP. Pursuant to the SGRP, the Company will contribute 2.75% of each employee's base pay to the SGRP. The employee will vest in the Company's 2.75% contributions after three years of service with the Company, including prior service with AMR affiliates. In addition, the Company will match 50 cents of each dollar contributed by an employee, up to 6% of the employee's base pay subject to IRS limits. The employee is immediately vested in his or her own contributions and in the Company's matching contributions.

In addition to providing pension benefits, American provides certain health care and life insurance benefits to retired employees. The amount of health care benefits is limited to lifetime maximums as outlined in the plan. Substantially all employees of the Company may become eligible for these benefits if they satisfy eligibility requirements during their working lives. Certain employee groups make contributions towards funding a portion of their retiree health care benefits during their working lives. American funds benefits as incurred and also matches employee prefunding. American's annual allocation of costs to the Company for such benefits was approximately $10 million, $5 million and $9 million in 1996, 1995 and 1994, respectively. The Company is jointly and severally liable with AMR and other members of AMR's consolidated group for funding postretirement health care and life insurance benefit liabilities.

Pursuant to the Travel Privileges Agreement, the Company is entitled to purchase personal travel for certain retirees. To pay for the provision of flight privileges to certain of its future retired employees, the Company will make a lump sum payment beginning in 1997 for each employee retiring in that year. The payment per retiree will be based on the number of years of service with the Company and AMR over the prior ten years of service. Service years accrue for the Company beginning on January 1, 1993. AMR will retain the obligation for the portion of benefits attributable to service years prior to January 1, 1993. In connection with the Reorganization, the accumulated benefit obligation for postretirement travel privileges at July 1, 1996 of approximately $8 million, net of deferred taxes of approximately $3 million, was recorded as a reduction to stockholders' equity. The remaining cost of providing this privilege is being accrued over the estimated service lives of the employees eligible for the privilege. Prior to the Reorganization, the flight privileges provided to retired employees did not result in significant incremental costs for the Company and, therefore, the cost of providing this to the Company's employees was not included in the postretirement costs for periods prior to the Reorganization or in the liability for postretirement benefits at December 31, 1995.

Included in employee benefits in the table in Note 4 are the following net other postretirement benefit costs for the years ended December 31, 1996 and 1995 (in thousands):

	1996	1995
Service cost – benefits earned during the period	$4,170	$2,620
Interest cost on accumulated other postretirement benefit obligation	6,043	2,420
Return on assets	(358)	(160)
Net amortization and deferral	(70)	(100)
Net other postretirement benefit cost	$9,785	$4,780

The following table summarizes the funded status of the plans reconciled to the accrued postretirement benefit liabilities recognized in the accompanying balance sheets (in thousands):

	December 31, 1996	1995
Fully eligible active participants	$ (4,980)	$ (7,210)
Other active participants	(37,601)	(34,350)
Accumulated other postretirement benefit obligation	(42,581)	(41,560)
Plan assets at fair value	4,440	3,650
Accumulated other postretirement benefit obligation in excess of plan assets	(38,141)	(37,910)
Unrecognized net (gain)/loss	(10,199)	1,680
Unrecognized prior service benefit	(1,730)	(1,730)
Accrued other postretirement benefit cost	$(50,070)	$(37,960)

Plan assets consist primarily of shares of a mutual fund managed by AMR for the postretirement health care and life insurance benefits.

For 1996 and 1995 future postretirement health care benefit costs were estimated assuming per capita cost of covered medical benefits would increase at a six and eight percent annual rate, respectively, decreasing gradually to a four percent annual growth rate in 1999 and thereafter. A one percent increase in this annual trend rate would have increased the accumulated benefit obligation at December 31, 1996 by approximately $6 million and 1996 postretirement benefit cost by $1 million. The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 7.75% and 7.25% in 1996 and 1995, respectively.

6. Income Taxes

The provision for income taxes is as follows (in thousands):

	Year ended December 31, 1996	1995	1994
Federal, current	$121,774	$133,575	$ 52,655
Federal, deferred	(23,438)	(11,792)	50,856
State and local, current	17,888	21,936	20,348
State and local, deferred	414	(593)	(624)
Foreign, current	2,644	1,098	3,664
	$119,282	$144,224	$126,899

The provision for income taxes differs from amounts computed at the statutory federal income tax rate as follows (in thousands):

	Year ended December 31, 1996	1995	1994
Statutory income tax provision	$107,050	$129,526	$113,420
State income taxes, net of federal benefit	11,896	13,581	12,275
Foreign tax credit	241	–	(719)
Valuation allowance	–	449	1,559
Other, net	95	668	364
	$119,282	$144,224	$126,899

The components of the Company's deferred tax assets and liabilities as of December 31, 1996 and 1995 were as follows (in thousands):

	1996	1995
Deferred tax assets:		
Postretirement benefits other than pensions	$ 19,477	$ 16,100
Net operating loss carryforwards	1,754	9,979
Vacation accrual	8,240	–
Equipment obsolescence reserve	6,502	8,976
Booking fee cancellation reserve	8,257	5,754
Other	14,667	18,170
Total deferred tax assets	58,897	58,979
Deferred tax liabilities:		
Depreciation and amortization	(53,324)	(25,254)
Software development costs	(6,263)	(21,017)
Other	(1,441)	(740)
Total deferred tax liabilities	(61,028)	(47,011)
Valuation allowance	–	(11,372)
Net deferred tax asset (liability)	$ (2,131)	$ 596
Current deferred income tax asset	$ 40,946	$ 31,539
Noncurrent deferred income tax liability	(43,077)	(30,943)
Net deferred tax asset (liability)	$ (2,131)	$ 596

7. Commitments and Contingencies

Certain service contracts with significant subscribers contain booking fee productivity clauses and other provisions which allow subscribers to receive various amounts of additional equipment and other services from the Company at no cost to the subscribers. The Company establishes liabilities for these commitments as the subscribers satisfy the applicable contractual terms. The service contracts are priced so that the additional airline and other booking fees generated over the life of the contract will exceed the cost of the equipment and other services. Accrued subscriber incentives at December 31, 1996 and 1995 were approximately $17 million.

On July 1, 1996 the Company entered into an operating lease agreement with AMR for certain facilities, and AMR assigned its rights and obligations under certain leases to the Company. Also on July 1, 1996, the Company entered into an operating lease agreement with a third party for the lease of other facilities. At December 31, 1996, the future minimum lease payments required under these operating lease agreements, along with various other operating lease agreements with terms in excess of one year for facilities and equipment, were as follows:

Year ending December 31,	Affiliates	Third Parties
1997	$1,608,000	$19,111,000
1998	1,441,000	12,019,000
1999	1,488,000	8,228,000
2000	1,241,000	6,234,000
2001	713,000	6,393,000
Thereafter	7,991,000	36,054,000

Rental expense, excluding facilities rented from affiliates, was approximately $28 million, $25 million and $27 million for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company is involved in certain disputes arising in the normal course of business. Although the ultimate resolution of these matters cannot be reasonably estimated at this time, management does not believe that they will have a material adverse effect on the financial condition or results of operations of the Company.

8. Capital Stock

The authorized capital stock of the Company consists of 250,000,000 shares of Class A Common Stock, par value $.01 per share, 107,374,000 shares of Class B Common Stock, par value $.01 per share, and 20,000,000 shares of preferred stock, par value $.01 per share. As of December 31, 1996, no shares of preferred stock have been issued.

The holders of Class A Common Stock and Class B Common Stock generally have identical rights, except that the holders of Class A Common Stock are entitled to one vote per share while holders of Class B Common Stock are entitled to 10 votes per share on all matters to be voted on by stockholders. Holders of shares of Class A Common Stock and Class B Common Stock are not entitled to cumulate their votes in the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority (or in the case of election of directors, by a plurality) of the votes entitled to be cast by all shares of Class A Common Stock and Class B Common Stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock. Except as otherwise provided by law, and subject to any voting rights granted to holders of any outstanding preferred stock, amendments to the Company's Certificate of Incorporation generally must be approved by a majority of the combined voting power of all Class A Common Stock and Class B Common Stock voting together as a single class. However, amendments to the Company's Certificate of Incorporation that would alter or change the powers, preferences or special rights of the Class A Common Stock or the Class B Common Stock so as to affect them adversely also must be approved by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment voting as a separate class. Notwithstanding the foregoing, any amendment to the Company's Certificate of Incorporation to increase the authorized shares of any class or authorize the creation, authorization or issuance of any securities convertible into, or warrants or options to acquire, shares of any such class or classes of stock must be approved by the affirmative vote of the holders of a majority of the common stock, voting together as a single class.

Effective as of the first time at which AMR ceases to be the beneficial owner of an aggregate of at least a majority of the voting power of the Voting Stock (as defined) of the Company then outstanding, amendments to certain provisions of the Certificate of Incorporation will require the approval of 80% of the combined voting power of all Class A Common Stock and Class B Common Stock, voting together as a single class.

Holders of Class A Common Stock and Class B Common Stock will share in an equal amount per share in any dividend declared by the Board of Directors, subject to any preferential rights of any outstanding preferred stock.

Except as provided below, any shares of Class B Common Stock transferred to a person other than AMR or any of its subsidiaries or the Class B Transferee (as defined below) shall automatically convert to Class A Common Stock upon such disposition. Shares of Class B Common Stock representing more than 50% economic interest in the Company transferred by AMR or any of its subsidiaries in a single transaction to one unrelated person (the "Class B Transferee") or any subsidiary of the Class B Transferee shall not automatically convert to shares of Class A Common Stock upon such disposition. Any shares of Class B Common Stock retained by AMR or its subsidiaries following any such transfer of shares of Class B Common Stock to the Class B Transferee shall automatically convert into shares of Class A Common Stock upon such transfer. Shares of Class B Common Stock transferred to stockholders of AMR or stockholders of the Class B Transferee in a transaction intended to be on a tax-free basis (a "Tax-Free Spin-Off") under the Internal Revenue Code shall not convert to shares of Class A Common Stock upon the occurrence of such Tax-Free Spin-Off.

Following a Tax-Free Spin-Off, shares of Class B Common Stock shall be transferred as Class B Common Stock, subject to applicable laws; provided, however, that shares of Class B Common Stock shall automatically convert into shares of Class A Common Stock on the fifth anniversary of the Tax-Free Spin-Off, unless prior to such Tax-Free Spin-Off, AMR, or the Class B Transferee, as the case may be, delivers to the Company an opinion of counsel reasonably satisfactory to the Company to the effect that such conversion could adversely affect the ability of AMR, or the Class B Transferee, as the case may be, to obtain a favorable ruling from the Internal Revenue Service that such transfer would be a Tax-Free Spin-Off. If such an opinion is received, approval of such conversion shall be submitted to a vote of holders of the common stock as soon as practicable after the fifth anniversary of the Tax-Free Spin-Off, unless AMR or the Class B Transferee, as the case may be, delivers to the Company an opinion of counsel reasonably satisfactory to the Company prior to such anniversary that such vote could adversely affect the status of the Tax-Free Spin-Off, including the ability to obtain a favorable ruling from the Internal Revenue Service; if such opinion is so delivered, such vote shall not be held. Approval of such conversion will require the affirmative vote of the holders of a majority of the shares of both Class A Common Stock and Class B Common Stock present and voting, voting together as a single class, with each share entitled to one vote for such purposes.

On liquidation, dissolution or winding up of the Company, after payment in full of the amounts required to be paid to holders of preferred stock, if any, all holders of common stock, regardless of class, are entitled to share ratably in any assets available for distribution to holders of shares of common stock.

No shares of either class of common stock are subject to redemption or have preemptive rights to purchase additional shares of common stock.

9. Stock Awards and Options

Prior to the Offering, officers and key employees of the Company were eligible, under AMR's 1988 Long-Term Incentive Plan (the "AMR LTIP"), to be granted stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights and/or other stock based awards in common stock, par value $1 per share, of AMR ("AMR Common Stock").

Options to purchase shares of AMR Common Stock ("AMR Options") were granted to officers and key employees of the Company. Options granted were exercisable at the market value upon grant, generally becoming exercisable over one to five years following the date of grant, and expiring ten years from the date of grant. At December 31, 1995, there were 309,000 AMR Options outstanding held by officers and key employees of the Company, of which 209,000 were exercisable.

In connection with the Offering, the AMR Options granted to officers and key employees of the Company were exchanged for options to purchase 728,740 shares of Class A Common Stock of the Company. The exercise prices of the options to purchase Class A Common Stock were computed by multiplying the initial public offering price of Class A Common Stock by the ratio of the exercise prices of the AMR Options to the previous day's closing price of AMR Common Stock at the date of the Offering. The number of options was increased to maintain the aggregate intrinsic value of each holder's options. These options will continue to vest in equal annual installments over the original vesting period.

Prior to the Offering, certain officers and key employees of the Company were awarded 217,000 shares of deferred AMR Common Stock ("AMR Career Equity Shares") at no cost, to be issued upon the individuals' retirement from AMR. In connection with the Offering, the AMR Career Equity Shares awarded to certain officers and key employees of the Company were exchanged for 142,690 restricted shares of Class A Common Stock, options to purchase 847,550 shares of Class A Common Stock and 75,600 deferred shares of Class A Common Shares ("Company Career Equity Shares"). The number of restricted shares, stock options and deferred shares issued was dependent on, among other things, election by the individuals as to the mix of restricted shares, stock options and deferred shares to be received, the previous day's closing price of AMR Common Stock at the date of the Offering and the initial public offering price of Class A Common Stock. The restricted shares will vest over a three-year period following the date of grant. The stock options, which have an exercise price equal to the initial public offering price of the Class A Common Stock, will vest over a five-year period following the date of grant and will expire ten years from the date of grant. The Company Career Equity Shares will be issued upon the individual's retirement from the Company. All of the restricted shares and Company Career Equity Shares issued in connection with the Offering were outstanding at December 31, 1996.

In conjunction with AMR's 1988 Long-Term Incentive Plan, certain officers and key employees of the Company were also awarded, at no cost, 140,000 shares of deferred AMR Common Stock performance shares ("AMR Performance Shares"). The AMR Performance Shares vest over a three-year performance period based on performance metrics of AMR and the Company, as defined in the plan.

In connection with the Offering, the AMR Performance Shares awarded to certain officers and key employees of the Company were converted into 272,160 deferred Class A Common Stock performance shares ("Company Performance Shares") based on the initial public offering price of shares of Class A Common Stock and the previous day's closing price of the AMR Common Stock on the date of the Offering. Following the Offering, the Company granted 162,450 Company Performance Shares for 1996. The Company Performance Shares vest over a three-year performance period based on performance metrics of the Company, as defined in the LTIP (as hereinafter defined).

Company Performance Share activity during 1996 was as follows:

	Number of Shares
Outstanding at January 1, 1996	–
Issued upon conversion of AMR Performance Shares	272,160
Granted	162,450
Canceled	(750)
Outstanding at December 31, 1996	433,860

The weighted average grant date fair value of Company Performance Shares granted during 1996 was $27.00.

Effective with the Offering, the Company established the 1996 Long-Term Incentive Plan (the "LTIP"), whereby officers and other key employees of the Company may be granted stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights and/or other stock based awards. 13,000,000 shares of Class A Common Stock are authorized to be issued under the LTIP. The LTIP will terminate no later than ten years from the date of its establishment. In connection with the Offering, the Company issued options to purchase 822,900 shares of the Company's Class A Common Stock.

Options granted under the LTIP will be exercisable at a price which is not less than the market value of Class A Common Stock upon the date of grant, except as otherwise determined by a committee appointed by the Board of Directors, and no such options are exercisable more than ten years after the date of grant.

Stock appreciation rights may be granted in conjunction with all or part of any stock option granted under the LTIP. All appreciation rights will terminate upon termination or exercise of the related option and will be exercisable only during the time that the related option is exercisable. If an appreciation right is exercised, the related stock option will be deemed to have been exercised.

For other stock-based awards, a committee established by the Board of Directors will determine the eligible persons to whom awards will be made, the times at which the awards will be made, the number of shares to be awarded, the price, if any, to be paid by the recipient and all other terms and conditions of the award under the terms of the LTIP at the time of grant.

The Board of Directors has adopted a Directors' Stock Incentive Plan which provides for an annual award of options to purchase 3,000 shares of the Company's Class A Common Stock to each non-employee director. The plan also provides for a one-time award of options to purchase 10,000 shares of the Company's Class A Common Stock to a new non-employee director upon his or her initial election to the Board of Directors. The options, which will have an exercise price equal to the market price of the Class A Common Stock on the date of grant, will vest pro rata over a five-year period. Each option will expire on the earlier of (i) the date the non-employee director ceases to be a director of the Company, if for any reason other than due to death, disability or retirement or (ii) three years from the date the non-employee director ceases to be a director of the Company due to death, disability or retirement. 350,000 shares of Class A Common Stock are reserved for issuance pursuant to the Directors' Stock Incentive Plan.

Stock option activity for the year ended December 31, 1996 was:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at January 1, 1996	–	–
Issued upon exchange of AMR Options	728,740	$ 19.87
Issued upon exchange of AMR Career Equity Shares	847,550	$ 27.00
Granted	822,900	$ 27.00
Exercised	(14,520)	$ 16.27
Outstanding at December 31, 1996	2,384,670	$ 24.89
Exercisable options outstanding at December 31, 1996	422,920	$ 19.80

The weighted-average grant date fair value of stock options granted during 1996 was $9.24. Options outstanding at December 31, 1996 had a weighted-average remaining contractual life of approximately nine years, and exercise prices ranging from $12.95 to $29.00.

At December 31, 1996 there were 14,350,000 shares of Class A Common Stock reserved for issuance upon exercise of options and issuance of restricted stock and deferred stock. At December 31, 1996 approximately 11,300,000 shares were available for future grants of stock-based awards under the LTIP.

Effective January 1, 1997, the Company established The SABRE Group Holdings, Inc. Employee Stock Purchase Plan (the "ESPP"). The ESPP allows eligible employees the right to purchase Class A Common Stock on a monthly basis at the lower of 85% of the market price at the beginning or the end of each monthly offering period. The ESPP allows each employee to acquire annually Class A Common Stock with an aggregate maximum purchase price equal to either 1% or 2% of that employee's base pay, subject to limitations under the Internal Revenue Code of 1986. As of January 1, 1997, 1,000,000 shares of Class A Common Stock have been reserved for issuance under the ESPP.

The Company has adopted the pro forma disclosure provisions of the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). As required by FAS 123, pro forma information regarding net income and earnings per share has been determined as if the Company had accounted for its employee stock options and stock-based awards granted subsequent to December 31, 1994 under the fair value method provided for set forth in FAS 123. The fair value for the stock options granted by AMR or the Company to officers and key employees of the Company after January 1, 1995 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 6.46% for 1995 and 6.07% for 1996; a dividend yield of 0%; volatility factors of the expected market price of AMR Common Stock of .25 for 1995; a volatility factor of the expected market price of the Company's Class A Common Stock of .28; and a weighted-average expected life of the options granted of 4.5 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 FAS 123 is applicable only to options and stock-based awards granted subsequent to December 31, 1994, the pro forma impact does not reflect the pro forma effect of all previous stock-based awards to the Company's employees.

For purposes of the pro forma disclosures, the estimated fair value of the options and stock-based awards is amortized to expense over the vesting period. The Company's pro forma information is as follows (in thousands, except for earnings per common share information):

	1996	1995
Net earnings		
As reported	$186,574	$225,851
Pro forma	$184,981	$225,764
Earnings per common share		
As reported	$ 1.43	$ 1.73
Pro forma	$ 1.41	$ 1.73

10. Geographical Analysis

The Company is a global company, deriving revenues from worldwide operations. Data relating to the Company's operations by geographic area is set forth below (in thousands):

	United States	Foreign	Total
1996			
Revenues	$1,338,021	$283,966	$1,621,987
Operating income	308,529	18,272	326,801
Identifiable assets	1,184,770	61,367	1,246,137
1995			
Revenues	$1,279,471	$250,145	$1,529,616
Operating income	345,262	35,162	380,424
Identifiable assets	534,626	61,080	595,706
1994			
Revenues	$1,196,291	$210,388	$1,406,679
Operating income	313,636	36,517	350,153
Identifiable assets	533,163	52,923	586,086

Operating income from operations consists of revenues less operating expenses, including an allocation of corporate expenses. Operating income excludes interest income, interest expense and other income (expense) net. Cash equivalents and deferred tax assets are excluded from identifiable assets.

11. Quarterly Financial Information (Unaudited)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 1996 and 1995 (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Revenues	$427,844	$410,445	$407,420	$376,278
Operating income	115,591	81,998	87,914	41,298
Net earnings	69,987	49,063	45,151	22,373
1995				
Revenues	$384,466	$383,065	$393,148	$368,937
Operating income	118,091	101,359	108,192	52,782
Net earnings	69,927	60,130	66,855	31,939

The travel industry is seasonal in nature. Bookings, and thus booking fees charged for the use of SABRE, decrease significantly each year in the fourth quarter, primarily in December.

Selected Financial Data

(In millions, except other data where indicated)

	Year Ended December 31,				
	1996	1995	1994	1993	1992
Income Statement Data: (1)					
Revenues	$1,621.9	$1,529.6	$1,406.7	$1,258.2	$1,173.8
Operating Expenses	1,295.2	1,149.2	1,056.5	1,004.5	929.5
Operating Income	326.8	380.4	350.2	253.7	244.3
Other Income (Expenses), net (2)	(20.9)	(10.3)	(26.1)	(84.7)	(173.2)
Income Before Income Taxes	305.9	370.1	324.1	169.0	71.1
Income Taxes	119.3	144.2	126.9	69.0	38.8
Income before Cumulative Effect of Accounting Change	186.6	225.9	197.2	100.0	32.3
Cumulative Effect of Accounting Change (3)	–	–	–	–	19.0
Net Earnings	$ 186.6	$ 225.9	$ 197.2	$ 100.0	$ 13.3
Earnings per common share	$ 1.43				
Balance Sheet Data (at end of Period): (1)					
Current Assets	$ 694.5	$ 271.2	$ 404.3	$ 107.1	$ 91.1
Total Assets	1,287.1	729.4	873.5	584.3	550.1
Current Liabilities (2)	289.8	218.6	503.2	346.4	154.2
Debenture Payable to AMR	317.9	–	–	–	–
Stockholders' Net Investment	–	432.1	289.5	158.0	244.7
Stockholders' Equity	569.5	–	–	–	–
Other Data: (1)					
Operating Income as a Percentage of Revenue	20.1%	24.9%	24.9%	20.2%	20.8%
Percentage of Revenues from Non-affiliated Customers	69.2%	64.2%	58.1%	56.6%	55.0%
Reservations Booked Using SABRE	384.3	325.4	311.1	275.2	255.3
Cash Flows from Operating Activities	$ 417.3	$ 395.9	$ 265.3	$ 332.4	$ 328.1
Capital Expenditures	$ 185.7	$ 164.6	$ 168.9	$ 176.6	$ 128.8

(1) The Company has significant transactions with AMR of American. See Note 4 to the Consolidated Financial Statements as the terms of many of the agreements with AMR and its affiliates were revised effective January 1, 1996 as a result of the plans for the Reorganization.

(2) The operating results for the year ended December 31, 1992 and 1993 include a provision for losses of $165 million and $71 million, respectively, associated with a reservation system project and resolution of related litigation. The balance sheets as of December 31, 1992 and 1993 include current liabilities for the losses of $28 million and $133 million, respectively.

(3) Effective January 1, 1992, the Company adopted FAS 106, "Accounting for Post Retirement Benefits Other Than Pensions," changing the method of accounting for those benefits. The cumulative effect of adopting FAS 106 as of January 1, 1992 was a charge of $19 million, net of taxes of $10 million.

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders
The SABRE Group Holdings, Inc.

We have audited the accompanying consolidated balance sheets of The SABRE Group Holdings, Inc. and subsidiary as of December 31, 1996 and 1995, and the related consolidated statements of income and stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. 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 text 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The SABRE Group Holdings, Inc. and subsidiary at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

Ernst + Young LLP

ERNST & YOUNG LLP
Dallas, Texas
January 13, 1997

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