

FINANCIAL HIGHLIGHTS

ADJUSTED TO REFLECT COMPARABLE INFORMATION⁽¹⁾
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Year Ended		
	1997	1996	% Change
Income Statement Data			
Revenues	\$1,783.5	\$1,615.9	10.4
Electronic Travel Distribution	1,200.3	1,101.8	8.9
Information Technology Solutions	583.2	514.1	13.4
Operating income	\$ 307.7	\$ 326.3	(5.7)
Operating margin	17.3%	20.2%	(2.9pts)
Net earnings	\$ 199.9	\$ 187.7	6.5
Per share results			
Operating income ⁽²⁾	\$ 2.35	\$ 2.50	(6.0)
Net earnings—basic and diluted	\$ 1.53	\$ 1.44	6.3
Average shares of common stock outstanding (in thousands)			
Basic	130,649	130,606	_
Diluted	130,988	130,686	0.2
Other Data			
Percentage of revenue from non-affiliated customers	70.5%	69.5%	1.0pt
Reservations booked in SABRE® system (in millions)	359.2	347.9	3.2
Number of employees	8,487	7,848	8.1
Capital expenditures	\$ 218.1	\$ 184.3	18.3
Common shares outstanding (in thousands)	130,782	130,770	_
Class A	23,408	23,396	_
Class B	107,374	107,374	_

^{(1) 1996} amounts adjusted to reflect The SABRE Group's outsourcing and management services agreements with American Airlines and other AMR affiliates and the costs associated with the legal separation of The SABRE Group from American Airlines.

THE SABRE GROUP PROFILE

The SABRE Group is a global leader in information technology systems and solutions designed to meet the needs of the travel and transportation industry. Based in Dallas/Fort Worth, The SABRE Group offers broadbased electronic distribution services, customized software development and software products, transaction processing, consulting, and total information technology outsourcing.

With 1997 revenues of \$1.784 billion, The SABRE Group employs approximately 8,500 people and conducts business in more than 70 countries. Virtually all the world's major airlines use one or more products or services from The SABRE Group. In addition, more than \$66 billion of travel-related electronic commerce flows through our global distribution system.

The SABRE Group is listed on the New York Stock Exchange under the symbol TSG. AMR Corporation owns approximately 82 percent of The SABRE Group's equity.

⁽²⁾ Per share results for operating income were calculated using diluted average shares of common stock outstanding.

THE SABRE GROUP

SHAPING THE CURVE BY:

ENGAGING ALL TRAVEL DISTRIBUTION CHANNELS

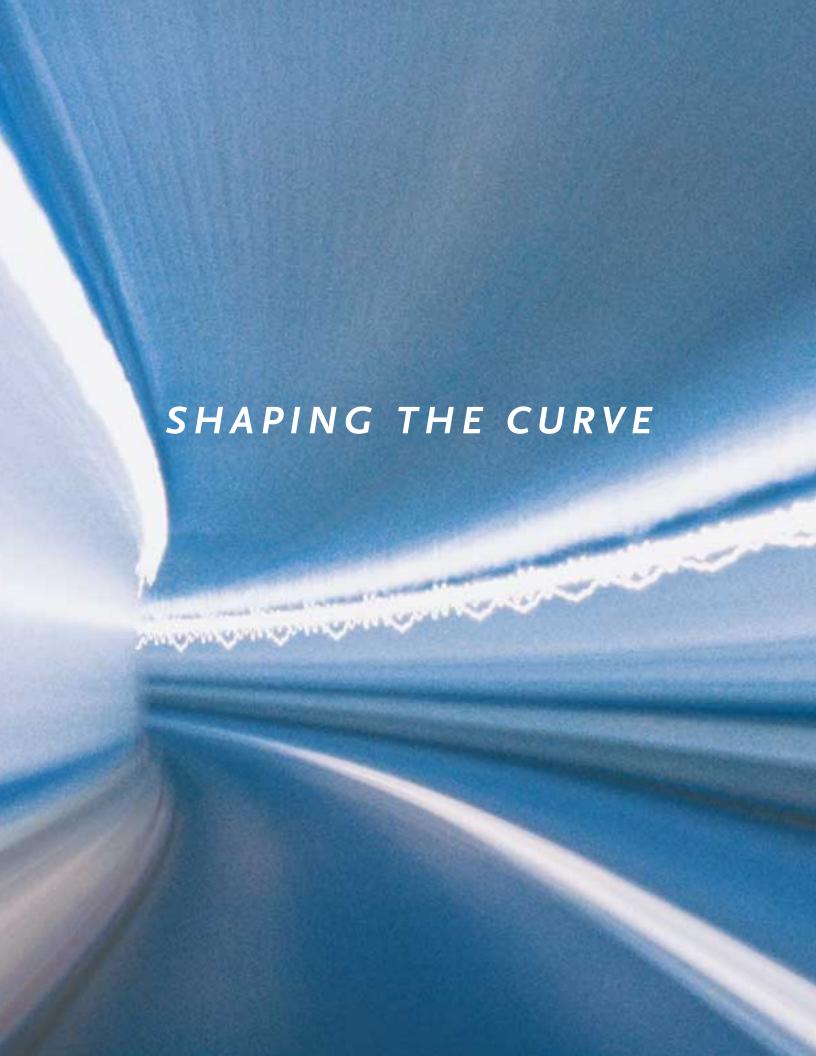
FORGING STRATEGIC PARTNERSHIPS

SPANNING MULTIPLE GEOGRAPHIES

MASTERING OPERATIONS

DEVELOPING EMERGING INTERNET OPPORTUNITIES

ENVISIONING THE SHAPE OF THE FUTURE



THERE ARE NO STRAIGHT LINES IN NATURE. WE LIVE IN A WORLD OF CURVES. A WORLD OF REVENUE CURVES, PROFIT CURVES, GROWTH CURVES, LEARN-ING CURVES, EXPENSE CURVES AND YIELD CURVES. ONE CAN FOLLOW A CURVE OR GET AHEAD OF IT. AND IN RARE INSTANCES, ONE CAN ACTUALLY SHAPE THE CURVE OF THINGS TO COME. THE SABRE GROUP IS CHANGING THE CURVE BY ACTING AS A CATALYST IN THE TRAVEL AND TRANSPORTATION INDUSTRY. WE ARE AMONG THE FEW COMPANIES ABLE TO EFFECT FUNDAMENTAL CHANGE IN THE WAY THAT TRAVEL IS DISTRIBUTED, IN THE WAY CONSUMERS ACQUIRE AND USE TRAVEL INFORMATION, AND IN THE WAY TRAVEL AND TRANSPORTATION COMPA-NIES USE INFORMATION TECHNOLOGY TO OBTAIN STRATEGIC ADVANTAGE.

LETTER TO OUR STAKEHOLDERS

The SABRE Group closed 1997, our first full year of independent operations from American Airlines, on an extraordinary note – the formal announcement of a 25-year, multibillion dollar information technology outsourcing agreement with US Airways, Inc.

This landmark agreement is an important validation of The SABRE Group's ability to offer unique value by leveraging its knowledge of the travel and transportation industry, its comprehensive portfolio of travel industry related information technology solutions, and its large technology infrastructure. No other company combines these attributes – an advantage that will grow because of our ongoing investment in product development and product integration.

This continued investment is important because The SABRE Group's core business is changing in fundamental ways. A previously monolithic travel distribution environment is now characterized by channel diversity. Proprietary information is being supplanted by growing access to the Internet. More and more, forward-thinking companies are looking outside their own organization for information technology products and services.

In this dynamic environment, it is not enough to follow the curve of change. Successful companies help shape the curve, influence the growth vectors, and strive to recast the industry to the benefit of their stockholders, customers and employees. The SABRE Group is doing just that. Our electronic travel distribution business is creating leading-edge products in all the emerging distribution channels, including the fledgling consumer-direct option. The information technology solutions business is helping redefine IT outsourcing through new relationships like the one with US Airways.

During the year, we moved aggressively to adapt our products to leverage the rapidly increasing use of the Internet by our customers. We acted swiftly to make products available to all travel distribution channels via the World Wide Web. This fast-track effort enhanced the capabilities and extended the global reach of breakthrough products such as Planet SABRE; SABRE Business Travel Solutions, SABRE Web Reservations and Travelocity.

We made progress toward other goals in 1997 as well. One of our objectives is to diversify the sources of revenue in our information technology solutions business. Although American Airlines is still our largest customer, The SABRE Group now derives less than 65 percent of its information technology solutions revenue from our flagship customer, and virtually every leading airline in the world uses one or more of The SABRE Group's products and services.

As a result of these and other efforts in 1997, revenues grew 10.4 percent, compared to 1996 pro forma revenues, to \$1.784 billion. Operating income of \$308 million, a decrease of 5.7 percent from 1996 pro forma results, reflects a softening in the domestic travel reservations market, investment costs associated with pursuing outsourcing business, increased product development, and costs associated with certifying that The SABRE Group's software and hardware will function correctly after the year 2000.



Our objective is to be *the* global leader in providing information technology systems and solutions that meet the challenges and needs of the travel and transportation industry.

The SABRE Group will proceed down the path toward that goal by focusing on its strengths, fulfilling its commitments, and adapting itself to meet the growing information needs of the travel and transportation industry. The progress we made in 1997 is a tribute to the skills and commitment of our employees. They *are* The SABRE Group: Shaping the Curve. Yesterday. Today. Tomorrow.

R.L. Crandall

Chairman

M.J. Durham

President and Chief Executive Officer



During the course of the year, travel distribution channels proliferated and The SABRE Group adopted a strategy aimed at participation in all of them.

Consumers are discovering new and creative ways to access travel information and transact their travel business, ranging from cable television to pagers and other intelligent devices. Regardless of the point of entry, The SABRE Group offers a robust product set specific to each travel distribution channel – travel agencies, corporate-direct, consumer-direct and airline-direct.

When it comes to the established travel agency channel, Mark Twain's famous saying, "The reports of my death are greatly exaggerated," can aptly be applied. While we can't predict what the future holds, travel agencies remain a vital distribution channel, issuing between 70 and 80 percent of all tickets written in North America. The SABRE Group continues to develop the products and tools that travel agents need to redefine their role in the evolving distribution network.

One of the most powerful of these products, Planet SABRE, debuted in February as the industry's first Internet-enabled graphical booking tool. To date, the company has issued more than 15,000 Planet SABRE licenses to travel agencies around the world.

SABRE Business Travel Solutions is another tool for the future that is available today. This industry leading suite of software products enables corporations to manage every aspect of travel activities from pre-travel planning to purchasing, expense reporting, policy management and reimbursement.

In the consumer-direct arena, The SABRE Group's Travelocity World Wide Web site added a low-fare directory, a travel agency directory, an e-mail fare notification service, consolidator fares and enhanced hotel listings. Numerous co-branding agreements, including exclusive deals with Yahoo! and Netscape Communications Corporation, have established Travelocity links on complementary Web sites that exponentially extend our reach on the information highway.

A record number of SABRE multihost systems were licensed, renewed or expanded to encompass 50 client airlines in 29 countries. Multihost clients run their internal reservation operations through the SABRE computer reservations system.

As a technology leader, The SABRE Group is committed to helping all its business partners adapt to the changing travel distribution network by adopting new business practices and enabling technologies.

FORGING STRATEGIC PARTNERSHIPS



The SABRE Group accelerated its growth curve by aggressively pursuing strategic information technology partnerships that add a new dimension to traditional outsourcing agreements by integrating our "best of breed" airline applications and business processes into customer operations. Clients entering into a strategic partnership with The SABRE Group benefit from our extensive airline industry expertise, experience with complex operating and transaction environments, and extensive suite of software products and applications.

The 25-year, multibillion dollar US Airways agreement is the centerpiece of this expansion effort. Under the terms of this broad-based partnership, The SABRE Group has assumed responsibility for US Airways' information technology infrastructure including data center operations, applications, communications, distributed systems, help desk, hardware and personnel. Additional support services will address flight reservations, scheduling, pricing, yield management and sales functions, ground and flight operations, cargo handling, and maintenance and engineering activities.

The airline industry is not the only venue in which we are developing technology partnerships. The SABRE Group has signed a letter of intent with PST Vans, Inc. to take over that company's information technology functions including systems operation and maintenance and software licensing. Dollar Rent A Car and Thrifty Rent A Car each agreed to have The SABRE Group take over their data center management, systems engineering, and back office and reservation management functions.

As a result of our experiences in partnering with American Airlines and Canadian Airlines, The SABRE Group is well positioned on the partnership learning curve. We have a proven track record in information technology outsourcing, along with a strong product portfolio and support systems to deliver efficient service and offer clients significant savings.



There is no industry more inherently global than travel and transportation. Since its formation, The SABRE Group has operated around the world, supporting the travel protocols as well as the languages and the system operating conventions of a diversified customer base.

This year we transitioned our information technology solutions operations to a regional organization, putting our people closer to our customers. The new regional structure divides sales, project delivery and client support functions among three global regions – Americas, Asia/Pacific and Europe/Middle East/Africa.

While the U.S. business remained our primary source of revenues, the company's achievements transcended geographical boundaries, with some of the most impressive contracts originating overseas. In Latin America, for example, every major air carrier is now a SABRE computer reservations system associate.

In Europe, more than a dozen major travel agency accounts converted from competitive systems, and an additional 13 airlines became new participants in the SABRE network. Travelocity expanded its global reach in 1997 and now provides reservations and ticketing capabilities in more than 70 countries.

The Commonwealth of Independent States selected The SABRE Group as the prime contractor to integrate the systems and hardware for an automated air transportation system – SIRENA-3 – to modernize airline management technology for the airlines in those countries, including Russia.

China Southern Airlines tapped The SABRE Group as its system integration and software provider for flight operations management, flight planning, load planning, flight monitoring and crew management. Cathay Pacific Airways, The SABRE Group and IBM announced a 10-year Smartsourcing agreement to develop a long-term business plan that incorporates a comprehensive package of IT business solutions.

The SABRE Group also won a contract from The London Underground Limited to develop a new train and crew scheduling system based on technology originally created for the airline industry.



The SABRE Group recognized early on that a global travel and transportation industry would create the need for more comprehensive and readily accessible sources of travel information. The SABRE Group excels in managing the large, dynamic environments required to sustain such travel information systems. Travel agents named the SABRE computer reservations system the World's Leading Global Distribution System for the fourth year in a row.

The SABRE Group maintains one of the world's largest, privately-owned, real-time computer systems linking more than 135,000 travel agent terminals and averaging 160 million information requests per day. The system's 22-mainframe computer network has more than 5,700 MIPS of processing power and 20.1 terabytes of electronic storage, and is housed in a high-security, underground data center complete with retinal scanners and weight-sensing, bulletproof mantrap booths. The reservations system at its peak is capable of processing more than 5,700 transactions per second.

System participants include more than 30,000 travel agencies in more than 70 countries; millions of consumers around the world; 400 airlines; 39,000 hotel properties; 50 car rental companies; and a number of railroads, tour operators, ferry companies and cruise lines.

With more than 20 years of service to the travel and transportation industry, The SABRE Group excels at running real-time reservations systems efficiently, operating data, voice and communications networks effectively, and delivering innovative solutions that work. Together, these core competencies form a unique value equation that enables clients to save money, enhance their information technology capability, improve their operations and realize increased efficiencies.



Innovation, and the ability to see new ways for technology to meet the needs of our customers, allow The SABRE Group to influence the change curve. More than a decade ago, The SABRE Group invented online travel distribution with the introduction of easySABRE.®

In the years since, The SABRE Group has Web-enabled virtually everything, everyone and every channel in the travel distribution network. Realizing that the Internet would permit more and more people to access information electronically, The SABRE Group launched Travelocity in 1996.

Travelocity, one of the most popular online travel planning and reservation sites, provides its customers with Internet access to airlines, hotels, car rental companies, cruise lines and other travel suppliers worldwide. Content includes timetables, reservations, destinations, points of view, travel merchandise, last-minute deals and low fares.

With approximately 22.6 million page-views per month, Travelocity was named the World's Leading Internet Travel Site at the World Travel Awards, and was voted Best Travel Web Site by Business Traveler International. USA Today named Travelocity its top pick of Internet travel sites; a survey by CIC Research ranked Travelocity as the favorite Internet travel site; a survey by Plog Research named Travelocity the most popular independent travel site on the World Wide Web; and Computer World magazine gave Travelocity an "A" for performance and content.

We have also Web-enabled travel agency subscribers, corporate clients and airline customers. The SABRE Group has deployed the power of our SABRE Web Reservations software to provide booking-enabled Web sites to more than 12,000 travel agents.

SABRE Business Travel Solutions, with its Web-based platforms, is helping corporate America to take control of its third largest manageable expense item. We have also assisted a number of airlines with the development, architecture and start-up of proprietary Web sites, bringing Internet capability to every member of the travel distribution chain.



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Having established a solid base for faster growth, The SABRE Group is fully committed to building a solid future in the travel and transportation industry. Our ability to do so is dependent on the foresight, imagination, creativity and expertise of our employees.

Whether designing the next generation of yield management software, creating transportation management systems for an emerging nation, or bringing travel service buyers and sellers together, The SABRE Group benefits from the multiple talents and abilities of its extraordinary work force.

In the years ahead, we will strive to provide our employees with financial resources, a nurturing environment and a focused vision to enable them to offer even better products, services and solutions to our many customers worldwide.

THE SABRE GROUP: SHAPING THE CURVE

1997 THE YEAR IN REVIEW

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary

During 1997 the Company generated approximately 67.3% of its revenue from electronic travel distribution services and approximately 32.7% of its revenue from information technology solutions services. The following table sets forth revenues by affiliation and geographic location as a percentage of total revenues:

	Year Ended December 31			
	1997	1996	1995	
Affiliation				
Unaffiliated customers	70.5%	69.2%	64.2%	
Affiliated customers	29.5	30.8	35.8	
	100.0%	100.0%	100.0%	
Geographical				
United States	81.0%	82.5%	83.6%	
International	19.0	17.5	16.4	
	100.0%	100.0%	100.0%	

Total revenues have grown at a compound annual growth rate of 8.2% for the three years ended December 31, 1997. Revenues from affiliated customers have declined as a percentage of total revenues because of growth in the Company's external business. Revenues from unaffiliated customers grew at a compound annual growth rate of 15.5% during the three years ended December 31, 1997, to \$1,258 million in 1997. Revenues from affiliated customers decreased for the same time period due to the impact of the Affiliate Agreements (described below) on revenues in 1996 and 1997. The Company expects that the amount and proportion of revenues from unaffiliated customers will continue to increase. International revenues also increased as a percentage of total revenues. International revenues grew at a compound annual growth rate of 17.2% for the three years ended December 31, 1997, to \$339 million in 1997. Revenues from the United States grew at a compound annual rate of 6.5% over the same period, to \$1,445 million in 1997.

The Company's primary expenses from providing electronic travel distribution and information technology solution services consist of salaries, benefits and other employee related costs, depreciation and amortization, communication costs, and subscriber incentives. Salaries, benefits and other employee related costs, depreciation and amortization and communication costs represented over 69% of 1997 total operating expenses. From 1995 through 1997, salaries and benefits grew at a rate higher than that of revenues in order to support the Company's growth. Expenses in 1996 and 1997 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 1995 to 17.3% in 1997.

Seasonality

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

	First	Second	Third	Fourth
	Quarter	Quarter	Quarter	Quarter
1997	•	•	•	•
Revenues	\$439.6	\$447.4	\$456.0	\$440.5
Operating income	107.8	93.1	88.1	18.7
Net earnings	66.7	58.5	56.2	18.4
Operating income				
as a percent				
of revenue	24.5%	20.8%	19.3%	4.2%
Reservations				
booked using				
SABRE	94.9	93.5	91.4	79.4
Earnings per				
common share,				
basic and diluted	\$.51	\$.45	\$.43	\$.14
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	77.4
Pro forma				
earnings per				
common share,	* - - - - - - - - - -	# 20	¢ 25	
basic and diluted	\$.54	\$.38	\$.35	_
Earnings per				
common share, basic and diluted				\$.17
basic and diluted	_	_	_	\$.17

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, AMR and American have entered into various agreements, including an agreement for the

provision of information technology services to American by the Company (the "Technology Services Agreement"), an agreement for the provision of marketing support by American for the Company's travel agency products and 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 "Corporate Travel Agreement" and the "Travel Privileges Agreement"). These agreements are collectively referred to as the "Affiliate Agreements." See Note 5 to the Consolidated Financial Statements for a description of each agreement. The rates under the agreements are adjusted or renegotiated from time to time, and current 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 and 1997 as compared to 1995.

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. For 1997, revenues from services provided under the Technology Services Agreement with a remaining service term of (i) two years represented approximately 4.9% of total revenues, (ii) four years represented approximately 0.4% of total revenues and (iii) nine years represented approximately 14.7% 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 entered into a Tax-Sharing Agreement with AMR dated 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 for a description of the agreement.

The Company 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 described in Note 5 to the Consolidated Financial Statements.

Results of Operations
1997 Compared to 1996

Electronic Travel Distribution. Electronic travel distribution revenues for the year ended December 31, 1997 increased approximately \$98 million, 8.9%, compared to the year ended December 31, 1996, from \$1,102 million to \$1,200 million. This increase was primarily due to growth in booking fees from \$1,007 million to \$1,081 million. The growth in booking fees was due to an increase in booking volumes primarily attributable to international expansion in Europe and Latin America and an overall increase in the price per booking charged to associates.

Cost of revenues for electronic travel distribution increased approximately \$90 million, 11.8%, from \$763 million to \$853 million. This increase was primarily attributable to increases in salaries, benefits and employee related costs, depreciation and amortization, subscriber incentive and other operating expenses. Salaries, benefits and employee related costs increased due to an increase in the average number of employees necessary to support the Company's revenue growth and annual salary increases. Employee related costs also increased due to increased travel expenses. Depreciation and amortization expense increased primarily due to growth in the subscriber equipment base, shorter depreciable lives on purchased subscriber equipment reflecting increased technological changes and an increase in capitalized software. Subscriber incentive expenses increased in order to maintain and expand the Company's travel agency subscriber base. Other operating expenses increased due to the write-off of a capitalized software development project that was intended to create a new order entry and billing system, costs associated with SABREWorld 97 (a global travel technology conference and trade show), increased software license expenses, increased reserves for bad debt and an increase in fees paid to American under the Marketing Cooperation Agreement.

Information Technology Solutions. Revenues from information technology solutions for the year ended December 31, 1997 increased approximately \$63 million, 12.1%, compared to the year ended December 31, 1996, from \$520 million to \$583 million. Revenues from unaffiliated customers increased approximately

\$39 million due to an increase in software development, consulting and software license fee revenues. Revenues from AMR increased \$24 million due to an increase in software development revenue and data processing volumes offset by a decrease in data network revenues from the sale, in July 1996, of data network equipment to a third party which began direct billing certain items to American.

Cost of revenues for information technology solutions increased approximately \$61 million, 15.7%, from \$389 million to \$450 million. This increase was primarily attributable to an increase in salaries, benefits and employee related costs, offset by a decrease in depreciation and amortization expense. Salaries, benefits and employee related costs increased due to an increase in the average number of employees necessary to support the Company's business growth and annual salary increases. The decrease in depreciation and amortization expense is primarily due to the benefits of lower price and higher productivity of certain data center equipment and the sale, in July 1996, of data network equipment with a net book value of approximately \$25 million to a third party.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$29 million, 20.3%, from \$143 million to \$172 million primarily due to an increase in salaries, benefits and employee related costs. Salaries, benefits and employee related costs increased as a result of sales growth initiatives for both the electronic travel distribution and the information technology solutions lines of business. Employee related costs also increased due to increased travel expenses.

Operating Income. Operating income decreased \$19 million, 5.8%, from \$327 million to \$308 million. Operating margins decreased from 20.1% in 1996 to 17.3% in 1997 due to an increase in revenues of 10.0% while operating expenses increased 14.0%.

Interest Income. Interest income increased \$17 million due to higher balances maintained in the Company's short-term investment accounts.

Interest Expense. Interest expense decreased \$6 million primarily due to a lower outstanding principal balance on the Debenture (as defined below) issued to American in July 1996 and lower interest rates.

Other Income. Other income increased \$14 million primarily due to growth in income from joint ventures in which the Company owns an interest accounted for under the equity method.

Income Taxes. The provision for income taxes was \$124 million and \$119 million in 1997 and 1996,

respectively. The increase in the provision for income taxes corresponds with the increase in income before the provision for income taxes. See Note 7 to the Consolidated Financial Statements for additional information regarding income taxes.

Net Earnings. Net earnings increased \$13 million, 7.0%, from \$187 million to \$200 million, primarily due to the increase in interest and other income offset by the decrease in operating income.

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 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, 0.4%, 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 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, 22.2%, 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, 14.2%, 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 7 to the Consolidated Financial Statements for additional information regarding taxes.

Net Earnings. Net earnings decreased \$39 million, 17.3%, from \$226 million to \$187 million, primarily due to the decrease in operating income.

Liquidity and Capital Resources

The Company had substantial liquidity at December 31, 1997, with approximately \$585 million in cash and short-term investments and \$558 million in working capital. At December 31, 1996, cash and short-term investments and working capital were \$443 million and \$405 million, respectively.

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 \$378 million in 1997 and \$416 million in 1996 was primarily attributable to net earnings before noncash 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 1997 were \$218 million and in 1996 were \$184 million.

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 primarily 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 \$360 million to \$410 million for 1998. The Company believes available balances of cash 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.

In 1997, the Company's Board of Directors authorized, subject to certain business and market conditions, the repurchase of up to 1.5 million shares of the Company's Class A Common Stock. The number of treasury shares purchased in 1997 was 71,800.

In January 1998, the Company completed the execution of a 25-year information technology services

agreement with US Airways, Inc. The Company will provide substantially all of US Airways' information technology services. Additionally, the Company agreed to assist US Airways in making its information systems Year 2000 compliant. In connection with the agreement, in January 1998, the Company purchased substantially all of US Airways' information technology assets for approximately \$47 million, hired more than 600 former employees of US Airways, and granted to US Airways options to acquire 6 million shares of the Company's Class A Common Stock.

In February 1998, the Company entered into a 10-year information technology services agreement with Gulf Air. Under the terms of the agreement, the Company will be responsible for all of Gulf Air's information technology infrastructure, including application development and maintenance, as well as data center and network management.

In February 1998, the Company signed long-term agreements with ABACUS International Holdings Ltd. which created a Singapore-based joint venture company to manage travel distribution in the Asia-Pacific region. The Company received 35 percent of the joint venture company, called ABACUS International Ltd. The Company paid \$139 million in cash and contributed its assets related to the Company's ongoing travel distribution activities in Asia-Pacific and other considerations. The Company provides ABACUS International with transaction processing on the SABRE computer reservations system.

Year 2000 Compliance

The Company has implemented a Year 2000 compliance program designed to ensure that hardware and software systems operated or licensed in the Company's business, including those of its travel agency subscribers, will properly function beyond 1999. The Company believes that it has allocated adequate resources for this purpose and expects its Year 2000 compliance program to be completed on a timely basis. However, there is no assurance that systems operated by third parties (e.g., data providers, associates, credit card transaction processors) with which the Company's systems interface will continue to properly interface with the Company's systems and will otherwise timely achieve Year 2000 compliance. The Company's business, financial condition, or results of operations could be materially adversely affected by the failure of its systems and applications, those licensed to or operated for third parties, or those operated by other parties to properly manage dates beyond 1999.

The Company expects to incur significant internal labor costs, as well as consulting and other expenses to prepare its systems for the Year 2000. The Company's total estimated cost of the Year 2000 compliance program is approximately \$80 to \$95 million, of which approximately \$21 million was incurred as of December 31, 1997. The remaining expenses are expected to be incurred primarily in 1998. A portion of these costs will not be incremental costs to the Company, but rather will represent the redeployment of existing information technology resources. Costs associated with achieving Year 2000 compliance will be expensed as incurred.

The costs of the projects and the date on which the Company plans to complete the Year 2000 compliance program are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from these estimates. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties.

Inflation

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

Outlook for 1998

The Company expects continued profitability and revenue growth in 1998. Revenues from the Company's information technology solutions business should grow dramatically in 1998 as a result of the multibillion dollar technology services agreement signed with US Airways, Inc. Additionally, the Company expects overall revenues from the electronic travel distribution business to be consistent with those of prior years. While the Company anticipates a decline in domestic airline bookings growth in 1998, the Company expects to compensate for the decline with growth in international bookings, non-air bookings and price increases.

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 5 to the Consolidated Financial Statements. Amounts shown below are in thousands, with the exception of per share amounts.

per siture arribarits.			
	Yea	r Ended Dec	ember 31
	1997	1996	1995
	Actual	Pro Forma	Pro Forma
Revenues			
Electronic travel			
distribution	\$1,200,276	\$1,101,791	\$ 986,057
Information technology			
solutions	583,271	514,098	477,290
Total revenues	1,783,547	1,615,889	1,463,347
Operating expenses			
Cost of revenues			
Electronic travel			
distribution	853,221	764,536	688,250
Information technology			
solutions	450,296	382,387	369,984
Selling, general and			
administrative	172,321	142,618	120,515
Total operating			
expenses	1,475,838	1,289,541	1,178,749
Operating income	307,709	326,348	284,598
Other income (expense)			
Interest income	29,980	13,282	7,325
Interest expense	(21,692)	(25,107)	(23,580)
Other, net	7,652	(6,826)	(11,614)
Income before provision			
for income taxes	323,649	307,697	256,729
Provision for income taxes	123,796	120,000	100,019
Net earnings	\$ 199,853	\$ 187,697	\$ 156,710
Earnings per common shar	e,		
basic and diluted	\$ 1.53	_	_
Pro forma earnings			
per common share,			
basic and diluted	_	\$ 1.44	\$ 1.20

Actual 1997 Compared to Pro forma 1996

Electronic Travel Distribution. Electronic travel distribution actual revenues for the year ended December 31, 1997 increased approximately \$98 million, 8.9%, compared to pro forma revenues for the year ended December 31, 1996, from \$1,102 million to \$1,200 million. The increase was primarily due to growth in booking fees from \$1,007 million to \$1,081 million. The growth in booking fees was due to an increase in booking volumes primarily attributable to international expansion in Europe and Latin America and an overall increase in the price per booking charged to associates.

Actual cost of revenues for electronic travel distribution for the year ended December 31, 1997 increased approximately \$88 million, 11.5%, compared to pro forma for the year ended December 31, 1996 from \$765 million to \$853 million. This increase was primarily attributable to an increase in salaries, benefits and employee related costs, depreciation and amortization, subscriber incentive and other operating expenses. Salaries, benefits and employee related costs increased due to an increase in the average number of employees necessary to support the Company's revenue growth and annual salary increases. Depreciation and amortization expense increased primarily due to growth in the subscriber equipment base, shorter depreciable lives on purchased subscriber equipment reflecting increased technological changes and an increase in capitalized software. Subscriber incentive expenses increased in order to maintain and expand the Company's travel agency subscriber base. Other operating expenses increased due to the write-off of a capitalized software development project that was intended to create a new order entry and billing system, costs associated with SABREWorld 97 (a global travel technology conference and trade show), increased reserves for bad debt and an increase in fees paid to American under the Marketing Cooperation Agreement.

Information Technology Solutions. Actual revenues from information technology solutions for the year ended December 31, 1997 increased approximately \$69 million, 13.4%, compared to pro forma revenues for the year ended December 31, 1996, from \$514 million to \$583 million. Revenues from unaffiliated customers increased approximately \$39 million due to an increase in software development, consulting and software license fee revenues. Revenues from AMR increased \$30 million due to an increase in software development revenue and data processing volumes.

Actual cost of revenues for information technology solutions for the year ended December 31, 1997 increased approximately \$68 million, 17.8%, compared to pro forma cost of revenues for the year ended December 31, 1996, from \$382 million to \$450 million. This increase was primarily attributable to an increase in salaries, benefits and employee related costs and communication expenses, offset by a decrease in depreciation and amortization expense. Salaries, benefits and employee related costs increased due to an increase in the average number of employees necessary to support the Company's business growth and annual salary increases. The increase in communication expense is primarily due to the lease of the domestic data network from a third party. This data network was owned by the Company until July 1996. The decrease in depreciation and amortization expense is primarily due to the benefits of lower price and higher productivity of certain data center equipment and the sale, in July 1996, of data network equipment with a net book value of approximately \$25 million to a third party.

Selling, General and Administrative Expenses. Actual selling, general and administrative expenses increased \$29 million, 20.3%, compared to pro forma selling, general and administrative expenses, from \$143 million to \$172 million primarily due to an increase in salaries, benefits and employee related costs. Salaries, benefits and employee related costs increased as a result of sales growth initiatives for both the electronic travel distribution and the information technology solutions lines of business. Employee related costs also increased due to increased travel expenses.

Operating Income. Actual operating income decreased \$18 million, 5.5%, compared to pro forma operating income, from \$326 million to \$308 million. Operating margins decreased from 20.2% to 17.3% due to an increase in actual revenues of 10.4% compared to pro forma revenues, while actual operating expenses increased 14.4% compared to pro forma operating expenses.

Interest Income. Actual interest income increased \$17 million, compared to pro forma interest income, due to higher balances maintained in the Company's short-term investment accounts.

Interest Expense. Actual interest expense decreased \$3 million, compared to pro forma interest expense, due to a decrease in interest rates on the Debenture (as defined below) issued to American.

Other Income. Actual other income increased \$14 million, compared to pro forma other income,

primarily due to growth in income from joint ventures in which the Company owns an interest accounted for under the equity method.

Income Taxes. The actual provision for income taxes was \$124 million and the pro forma provision for income taxes was \$120 million for the years ended December 31, 1997 and 1996, respectively. The increase in the provision for income taxes corresponds with the increase in income before the provision for income taxes. See Note 7 to the Consolidated Financial Statements for additional information regarding income taxes.

Net Earnings. Actual net earnings increased \$12 million, 6.4%, compared to pro forma net earnings, from \$188 million to \$200 million, primarily due to the increase in interest and other income offset by the decrease in operating income.

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, 11.8%, 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 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, 7.8%, 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 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, 18.2%, 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, 14.8%, 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, 19.7%, from \$157 million to \$188 million due to the increase in operating income.

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement No. 130, Reporting Comprehensive Income, effective for fiscal years beginning after December 15, 1997. Statement No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The adoption of Statement No. 130 will require additional disclosures in the Company's financial

statements, but it will have no impact on the Company's results of operations.

Also in June 1997, the FASB issued Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, effective for fiscal years beginning after December 15, 1997. Statement No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of Statement No. 131 will require additional disclosures in the Company's financial statements, but it will have no impact on the Company's financial position or results of operations.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") No. 97-2, *Software Revenue Recognition*, effective for transactions entered into in fiscal years beginning after December 15, 1997. SOP 97-2 provides revised and expanded guidance on software revenue recognition and applies to all entities that earn revenue from licensing, selling or otherwise marketing computer software. The Company's accounting policy for software revenue recognition is substantially in compliance with SOP 97-2, and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

Cautionary Statement

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 or marketing or product development or otherwise to take actions that might adversely affect its operations or earnings; risks related to the Company's technology, such as a failure to timely achieve Year 2000 compliance; 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.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. The Company's exposure to interest rates relates primarily to its investment portfolio and to its debenture payable to AMR. The Company does not currently use financial derivative instruments to manage interest rate risk; however, it does closely monitor the relationship between interest ratesensitive assets and liabilities.

The objectives of the Company's short-term investments are safety of principal; liquidity maintenance; yield maximization; and full investment of all available funds. As such, the Company's investment portfolio consists primarily of high credit quality certificates of deposit, bankers' acceptances, commercial paper and corporate and government notes. If short-term interest rates average 10% lower in 1998 than they were during 1997, the Company's interest income from short-term investments would change by approximately \$3 million. This amount was determined by applying the hypothetical interest rate

change to the Company's short-term investments balance as of December 31, 1997.

In addition, the Company has a floating rate debenture payable to AMR (the "Debenture") due September 30, 2004 with a principal balance of approximately \$318 million at December 31, 1997. Interest expense on the Debenture is accrued based on the six month London Interbank Offered Rate (LIBOR rate) plus a margin derived from 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 average interest rate on the Debenture for 1997 was 6.2%. Consequently, if short-term interest rates average 10% higher in 1998 than they were during 1997, the Company's interest expenses would increase by approximately \$2.0 million. This amount was determined by applying the hypothetical interest rate change to the Company's Debenture balance as of December 31, 1997. If the Company's mix of interest rate-sensitive assets and liabilities changes significantly, the Company may enter into derivative transactions to manage its net interest exposure.

Foreign Currency Risk. The Company has various foreign operations, primarily in North America, South America, Europe and Asia. As a result of these business activities, the Company is exposed to foreign currency risk. However, with the exception of Europe, these exposures have historically related to a small portion of the Company's overall operations. In 1997, the Company established a hedging program to manage its European currency exposures through December 31, 1997. In the future, the Company intends to manage its European currency exposure by adjusting the mix of European based revenues and expenses. The Company had no open derivative transactions as of December 31, 1997, however, it may enter into derivative transactions from time-to-time as foreign currency exposures arise.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

(3 3 5 2 3)	Dec	cember 31
	1997	1996
ASSETS		
Current Assets		
Cash	\$ 11,286	\$ 15,992
Short-term investments	573,620	426,945
Accounts receivable, net	239,626	197,015
Receivable from affiliates	10,829	_
Prepaid expenses	17,708	13,630
Deferred income taxes	21,093	40,946
Total current assets	874,162	694,528
Property and Equipment	221 007	209 740
Buildings and leasehold improvements	321,987	298,740
Furniture, fixtures and equipment	36,904	24,403
Service contract equipment	548,706	545,302
Computer equipment	395,887	356,506
Lanca and manufactual decreasions and announced as	1,303,484	1,224,951
Less accumulated depreciation and amortization	(721,917)	(665,884)
Total property and equipment	581,567	559,067
Other assets, net	68,229	33,488
Total assets	\$1,523,958	\$1,287,083
LIABILITIES AND STOCKHOLDERS? FOLLITY		
LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities		
	\$ 96.041	¢ 06.633
Accounts payable		\$ 96,622
Accrued compensation and related benefits Other accrued liabilities	69,694	55,547
Payable to affiliates	150,785	110,391 27,267
Total current liabilities	216 520	
iotal current habilities	316,520	289,827
Deferred income taxes	12,354	43,077
Pensions and other postretirement benefits	89,573	50,070
Other liabilities	30,350	16,595
Debenture payable to AMR	317,873	317,873
Commitments and contingencies	,	ŕ
Stockholdows' Equity		
Stockholders' Equity Preferred Stock: \$0.01 par value; 20,000 shares authorized;		
no shares issued		
Common Stock	_	_
Class A: \$0.01 par value; 250,000 shares authorized; 23,480 issued		
at December 31, 1997; 23,396 issued and outstanding at		
December 31, 1996	235	234
Class B: \$0.01 par value; 107,374 shares authorized; 107,374 issued	233	234
and outstanding at December 31, 1997 and 1996	1,074	1,074
Additional paid-in capital	593,939	591,885
Retained earnings (deficit)	164,004	
Less treasury stock at cost; 72 shares at December 31, 1997	(1,964)	(23,552)
Total stockholders' equity	757,288	569,641
Total liabilities and stockholders' equity	\$1,523,958	\$1,287,083
iotal natimales and stocknowers equity	Ψ1,323,330	\$1,207,003

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

		Year Ended Decem	ber 31
	1997	1996	1995
Revenues			
Electronic Travel Distribution	\$1,200,276	\$1,101,791	\$1,006,926
Information Technology Solutions	583,271	520,196	522,690
Total revenues	1,783,547	1,621,987	1,529,616
Operating expenses			
Cost of revenues			
Electronic Travel Distribution	853,221	763,261	655,973
Information Technology Solutions	450,296	389,352	376,453
Selling, general and administrative	172,321	142,573	116,766
Total operating expenses	1,475,838	1,295,186	1,149,192
Operating income	307,709	326,801	380,424
Other income (expense)			
Interest income	29,980	13,282	7,325
Interest expense	(21,692)	(27,401)	(6,060)
Other—net	7,652	(6,826)	(11,614)
	15,940	(20,945)	(10,349)
Income before provision for income taxes	323,649	305,856	370,075
Provision for income taxes	123,796	119,282	144,224
Net earnings	\$ 199,853	\$ 186,574	\$ 225,851
Earnings per common share data			
Pro forma earnings per common share			\$ 1.73
Earnings per common share, basic and diluted	\$ 1.53	\$ 1.43	
Common shares used in per share calculations			
Basic	130,649	130,606	
Diluted	130,988	130,686	
Pro forma	_	_	130,604

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

		Year Ended Decem	ber 31
	1997	1996	1995
Operating Activities			
Net earnings	\$ 199,853	\$ 186,574	\$ 225,851
Adjustments to reconcile net earnings to cash			
provided by operating activities			
Depreciation and amortization	185,175	165,064	171,471
Deferred income taxes	(2,945)	(28,346)	(12,385)
Other	6,378	6,475	7,865
Changes in operating assets and liabilities			
Accounts receivable	(42,611)	(58,043)	(24,946)
Prepaid expenses	(1,781)	(7,779)	(3,247)
Other assets	(514)	15,428	(1,915)
Accrued compensation and related benefits	14,147	21,851	182
Accounts payable and other accrued liabilities	40,259	76,226	29,662
Receivable from and payable to affiliates	(38,096)	27,267	_
Pensions and other postretirement benefits	19,183	4,310	4,780
Other liabilities	(1,245)	6,814	(1,389)
Cash provided by operating activities	377,803	415,841	395,929
Investing Activities			
Additions to property and equipment	(218,124)	(184,261)	(166,816)
Purchase of short-term investments	(2,783,655)	(2,806,856)	
Maturities of short-term investments	2,638,939	2,381,398	_
Other investing activities, net	(23,688)	24,229	(18,169)
Proceeds from sale of equipment	4,551	33,582	6,169
Cash used for investing activities	(381,977)	(551,908)	(178,816)
Financing Activities			
Cash advances to affiliates	_	_	(236,367)
Contributions from affiliates	_	_	244,666
Distributions to affiliates	_	_	(393,507)
Proceeds from issuance of common stock	771	589,089	
Proceeds from exercise of stock options	661	236	_
Payments to acquire treasury stock	(1,964)	_	_
Payments on Debenture payable to AMR		(532,127)	_
Cash provided by (used for) financing activities	(532)	57,198	(385,208)
Decrease in cash and cash equivalents	(4,706)	(78,869)	(168,095)
Cash and cash equivalents at beginning of the period	15,992	94,861	262,956
Cash and cash equivalents at end of the period	\$ 11,286	\$ 15,992	\$ 94,861
Supplemental cash flow information			
Cash payments to affiliates for income taxes	\$ 121,456	\$ 128,932	\$ 148,332
Cash payments to affiliates for interest	\$ 24,628	\$ 15,524	\$ —

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

	Class A	Class B	Additional	Retained	Stockholder's		
C	Common	Common	Paid-in	Earnings	Net	Treasury	
D-1 1 1 1005	Stock	Stock	Capital •	(Deficit)	Investment	Stock	Total
Balance at January 1, 1995	\$ —	\$ —	\$ —	\$ —	\$289,464	\$ —	\$289,464
Contributions from affiliates Distributions to affiliates			_	_	310,329	_	310,329
			_	_	(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 Capitalization of the Company	_	_	_	_	119,050	_	119,050
in connection with the Reorganization							
Reclassification of stockholder's				FF1 107	(551 107)		
net investment Issuance of Debenture	_	_	_	551,187	(551,187)	_	_
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	232	_	588,857	_	_	_	589,089
Reclassification of shares of							
common stock held by							
AMR into 107,374 shares							
of Class B Common Stock	_	1,074	(1,074)	_	_	_	_
Issuance of 166 shares of							
Class A Common Stock							
pursuant to stock option and							
restricted stock incentive plan	ıs 2		4,102	_	_	_	4,104
Net earnings subsequent to							
Reorganization			_	67,524	_	_	67,524
Unrealized gain on investments				32			32
Balance at December 31, 1996	234	1,074	591,885	(23,552)	_	_	569,641
Net earnings			_	199,853	_	_	199,853
Assumption of net pension				,			,
liability from AMR		_	_	(12,395)	_	_	(12,395)
Issuance of 83 shares of				,			, ,
Class A Common Stock							
pursuant to stock option,							
stock purchase and restricted							
stock incentive plans	1	_	2,054	_	_	_	2,055
Repurchase of Company Stock	_	_	_	_	_	(1,964)	(1,964)
Unrealized gain on investments			<u>.</u>	98		<u>.</u>	98
Balance at December 31, 1997	\$235	\$1,074	\$593,939	\$164,004	\$ —	\$(1,964)	\$757,288

The accompanying notes are an integral part of these financial statements.

NOTES TO 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. These 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 5.

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 9.

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 5, incurred by AMR on behalf of the Company. Certain reclassifications have been made to the 1996 and 1995 financial statements to conform to the 1997 presentation.

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. Cash equivalents are carried at cost plus accrued interest, which approximates fair value. 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
Capitalized software	3 to 5 years
Other Assets	

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 \$178 million, \$159 million and \$166 million in 1997, 1996 and 1995, respectively. Other assets are amortized on the straight-line basis over the periods indicated.

Revenue Recognition. The Company provides electronic travel distribution services using the SABRE computer reservations system, 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 airline, car rental and hotel vendors and other providers of travel-related products and services ("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, 1997 and 1996, the Company had recorded booking fee cancellation reserves of approximately \$15 million and \$14 million, respectively. Revenue for car rental and hotel bookings and other travel providers 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, 1997 and 1996 the Company had recorded accounts receivable of approximately \$52 million and \$40 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 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 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. Research and development costs approximated \$24 million for 1997. Prior to 1997, research and development costs were not material.

Concentration of Credit Risk. The Company's customers are primarily located in the United States, Europe, Canada and Latin America, and are concentrated in the travel industry. Approximately 30%, 31% and 36% of revenues in 1997, 1996 and 1995, 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 \$9 million and \$4 million at December 31, 1997 and 1996, 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 granted to employees prior to the Reorganization) in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued 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.

In 1997, the Financial Accounting Standards Board issued Statement No. 128, *Earnings Per Share*. Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike previously reported primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

New Accounting Pronouncements. In June 1997, the Financial Accounting Standards Board (the

"FASB") issued Statement No. 130, Reporting Comprehensive Income, effective for fiscal years beginning after December 15, 1997. Statement No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The adoption of Statement No. 130 will require additional disclosures in the Company's financial statements, but it will have no impact on the Company's results of operations.

Also in June 1997, the FASB issued Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, effective for fiscal years beginning after December 15, 1997. Statement No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The adoption of Statement No. 131 will require additional disclosures in the Company's financial statements, but it will have no impact on the Company's financial position or results of operations.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") No. 97-2, Software Revenue Recognition, effective for transactions entered into in fiscal years beginning after December 15, 1997. SOP 97-2 provides revised and expanded guidance on software revenue recognition and applies to all entities that earn revenue from licensing, selling or otherwise marketing computer software. The Company's accounting policy for software revenue recognition is substantially in compliance with SOP 97-2, and its adoption is not expected to have a material impact on the Company's financial position or results of operations.

3. Short-term Investments

Short-term investments consist of (in thousands):

	Dece	December 31		
	1997	1996		
Overnight investment and				
time deposits	\$119,303	\$ 66,848		
Corporate notes	242,847	266,036		
Mortgages	181,353	58,927		
U.S. Treasuries	30,117	35,134		
	\$573,620	\$426,945		

The following table summarizes short-term investments by contractual maturity at December 31, 1997 and 1996, (in thousands):

	1997	1996
Due in one year or less	\$346,540	\$281,799
Due after one year through three years	187,316	86,219
Due after three years	39,764	58,927
	\$573,620	\$426,945

Short-term investments, all of which are classified as available-for-sale in accordance with Statement of Financial Accounting Standards 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, 1997. 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. Financial Instruments and Risk Management
To reduce its exposure to future exchange rate fluctuations, the Company may enter into foreign currency derivative agreements. At December 31, 1997, no such agreements were outstanding.

During 1997, the Company entered into currency put option agreements that resulted in the recognition of gains of approximately \$1.8 million as of December 31, 1997. Gains on the options are recognized as a component of electronic travel distribution revenue in the same period as the transactions. The Company does not hold or issue derivative financial instruments for trading purposes.

5. 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%. 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 was 6.2% and 7.1% for 1997 and 1996, respectively. The Company may prepay the principal balance, approximately \$318 million at December 31, 1997, 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. During 1997, the Company acquired a building from American for approximately \$6 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. For example, 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) distributed systems services until June 30, 2000; and voice network services until June 30, 2001.

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, Airline Management Services, Incorporated (AMS), a subsidiary of AMR, 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. As permitted by the terms of the Canadian Subcontract, in December 1996, American paid the Company approximately \$40 million, representing the unrecovered contract costs. Approximately \$5 million of these deferred costs were charged to operations in both 1996 and 1995.

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 other 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 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 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 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 and on SABRE's market share of travel agency bookings in those areas. That fee was approximately \$22 million and \$20 million in 1997 and 1996, respectively. 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. 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 makes a lump sum payment to American each year, beginning in 1997, for each employee retiring in that year. The payment per retiree is 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 6.

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, 1997.

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 \$526 million, \$500 million and \$548 million in 1997, 1996 and 1995, 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 1995 would have been approximately \$34 million, based on corporate travel rates offered by American to similar companies. The rates negotiated with American for

1996 and 1997 under the Corporate Travel Agreement approximates 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		
	1997	1996	1995
Employee benefits	\$ 55,872	\$ 85,538	\$ 68,743
Facilities rental	3,526	19,120	29,385
Marketing cooperation	21,779	20,436	_
Management services	11,276	17,143	16,508
Other administrative costs	6,799	14,767	11,377
Travel services	47,638	42,855	28,761
	\$146,890	\$199,859	\$154,774

6. Employee Benefit Plans

Prior to 1997, substantially all employees of the Company were eligible to participate in American's taxqualified defined benefit pension plan (the "American Plan"). The American 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 were determined based upon employee headcount and were 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 5, was approximately \$20 million and \$9 million in 1996 and 1995, 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.

Effective January 1, 1997, the Company established The SABRE Group Retirement Plan (the "SGRP"), a defined contribution plan qualified under Section 401 (k) of the Internal Revenue Code of 1986 (the "Code"). Upon establishment, substantially all Company employees under the age of 40 at December 31, 1996 began participating in the SGRP.

The Company contributes 2.75% of each participating employee's base pay to the SGRP. Employees vest in the Company's contributions after three years of service, including any prior service with AMR affiliates. In addition, the Company matches 50 cents of each dollar contributed by participating employees, limited to the first 6% of the employee's base pay contribution, subject to IRS limitations. Employees

are immediately vested in their own contributions and the Company's matching contributions. In 1997, costs for the SGRP were \$11 million.

The obligation for benefits previously earned by employees under the age of 40 under the American Plan are now the responsibility of the Legacy Pension Plan (the "LPP"), a defined benefit plan sponsored by the Company which offers benefits substantially similar to those offered by the American Plan. These benefits are based on the credited years of service earned as of December 31, 1996. However, these employees will continue to earn years of service for purposes of determining vesting and early retirement eligibility under the LPP based on future service to the Company. Additionally, future increases in compensation levels will be considered in the calculation of retirement benefits to be paid from the LPP to these employees upon their retirement.

Employees age 40 or over as of December 31, 1996, who were participants in the American Plan at that date, were given the option of participating in the SGRP or the LPP. Benefits provided by the LPP to retirees of the Company are based on years of credited service and the employee's base pay for the highest consecutive five years of the ten years preceding retirement. With the exception noted below, the obligation for benefits previously earned by these employees under the American Plan is now the responsibility of the LPP.

Certain employees of the Company meeting specified criteria have elected to remain in the American Plan for service through December 31, 1996, and are in the LPP for service and increases in compensation levels subsequent to that date. The obligation for benefits earned by these employees as of December 31, 1996 under the American Plan remained with the American Plan.

In October 1997, the portion of the American Plan applicable to employees of the Company was spun-off to the LPP. At the date of spin-off, the net obligation attributable to the Company's employees participating in the American Plan, a liability of approximately \$20 million, was charged to stockholders' equity, net of deferred taxes of approximately \$8 million.

Total costs for the year ended December 31, 1997 for the LPP were (in thousands):

Service cost—benefits earned during the period	\$ 9,845
Interest cost on projected benefit obligation	10,056
Return on assets	(13,877)
Net amortization and deferral	7,046
Net periodic pension cost	\$ 13,070

The funded status and actuarial present value of benefit obligations of the LPP reconciled to the accrued pension cost recognized in the accompanying balance sheet at December 31, 1997 were (in thousands):

Vested benefit obligation	\$ (55,776)
Accumulated benefit obligation	\$ (69,574)
Effect of future salary increases	(89,806)
Projected benefit obligation	(159,380)
Plan assets at fair value	92,318
Projected benefit obligation in excess	
of plan assets	(67,062)
Unrecognized net loss	32,866
Unrecognized prior service costs	242
Unrecognized transition asset	(363)
Accrued pension cost	\$ (34,317)

The Company's funding policy is to make contributions equal to, or in excess of, the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Plan assets consist primarily of mutual fund shares managed by a subsidiary of AMR invested in debt and equity securities.

The projected benefit obligation was calculated using a discount rate of 7.25%, a rate of annual compensation increase of 4.0%, and an expected long-term rate of return on assets of 9.50% at December 31, 1997.

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. The Company funds benefits as incurred and also matches employee prefunding. The Company's cost for such benefits was approximately \$5 million, \$10 million and \$5 million in 1997, 1996 and 1995, 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 makes a lump sum payment, beginning in 1997, for each employee retiring in that year. The payment per retiree is 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 retains 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.

Included in employee benefits in the table in Note 5 are the following net other postretirement benefit costs for the years ended December 31, 1997, 1996 and 1995 (in thousands):

	Year Ended December 31		
	1997	1996	1995
Service cost—benefits earned			
during the period	\$3,891	\$4,170	\$2,620
Interest cost on accumulated			
other postretirement			
benefit obligation	3,592	6,043	2,420
Return on assets	(460)	(358)	(160)
Net amortization and deferral	(463)	(70)	(100)
Net other postretirement			
benefit cost	\$6,560	\$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):

		Dece	mbe	r 31
		1997		1996
Retirees	\$	(599)	\$	_
Fully eligible active participants		(9,614)	(4	4,980)
Other active participants	(4	40,770)	(3	7,601)
Accumulated other postretirement				
benefit obligation	(!	50,983)	(42	2,581)
Plan assets at fair value		6,637		4,440
Accumulated other postretirement				
benefit obligation in excess of				
plan assets	(4	14,346)	(38	8,141)
Unrecognized net gain		(9,330)	(10	0,199)
Unrecognized prior service benefit		(1,580)	(1,730)
Accrued other postretirement				
benefit cost	\$(!	55,256)	\$(50	0,070)

Plan assets consist primarily of mutual fund shares managed by a subsidiary of AMR invested in debt and equity securities for the postretirement health care and life insurance benefits.

As of December 31, 1997 and 1996, future post-retirement health care benefit costs were estimated assuming per capita cost of covered medical benefits would increase at a five and six percent annual rate, 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, 1997 by approximately \$7 million and 1997 postretirement benefit cost by approximately \$1 million. The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 7.25% in 1997 and 7.75% in 1996.

7. Income Taxes

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

(
	Year Ended December 31		
	1997	1996	1995
Current Portion:			
Federal	\$126,805	\$121,774	\$133,575
State	3,661	17,888	21,936
Foreign	5,052	2,644	1,098
	135,518	142,306	156,609
Deferred Portion:			
Federal	(23,141)	(23,438)	(11,792)
State	11,419	414	(593)
	(11,722)	(23,024)	(12,385)
Total provision for taxes	\$123,796	\$119,282	\$144,224

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

	Year Ended December 31		
	1997	1996	1995
Statutory income tax			
provision	\$113,278	\$107,050	\$129,526
State income taxes,			
net of federal benefit	9,802	11,896	13,581
Foreign tax credit	_	241	_
Valuation allowance	_	_	449
Other, net	716	95	668
	\$123,796	\$119,282	\$144,224

The components of the Company's deferred tax assets and liabilities as of December 31, 1997 and 1996 were as follows (in thousands):

	1997	1996
Deferred Tax Assets:		
Accrued expenses	\$ 31,626	\$ 32,013
Employee benefits other than pensions	21,201	27,717
Deferred revenue	14,778	4,977
Pension obligations	13,127	_
State net operating loss carryforwards	922	1,754
Other	4,424	847
Total deferred tax assets	86,078	67,308
Deferred Tax Liabilities:		
Depreciation and amortization	(58,836)	(59,588)
Other	(18,503)	(9,851)
Total deferred tax liabilities	(77,339)	(69,439)
Net deferred tax asset (liability)	\$ 8,739	\$ (2,131)
Current deferred income tax asset	\$ 21,093	\$ 40,946
Noncurrent deferred income tax liability	(12,354)	(43,077)
Net deferred tax asset (liability)	\$ 8,739	\$ (2,131)

8. 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, 1997 and 1996 were approximately \$36 million and \$31 million, respectively.

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, 1997, 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 (in thousands):

		Third
Year Ended December 31,	Affiliates	Parties
1998	\$ 2,996	\$17,211
1999	2,924	10,936
2000	2,383	6,637
2001	1,748	5,943
2002	1,740	5,889
Thereafter	20,316	23,085

Rental expense, excluding facilities rented from affiliates, was approximately \$35 million, \$40 million and \$33 million for the years ended December 31, 1997, 1996 and 1995, 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.

9. 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, 1997, 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.

In 1997, the Board of Directors authorized, subject to certain business and market conditions, the purchase of up to 1.5 million shares of the Company's Class A Common Stock. The number of treasury shares purchased in 1997 was 71,800.

10. 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 deferred stock, restricted stock, stock options, stock appreciation rights, stock purchase rights and/or other stock based awards in common stock, par value \$1 per share, of AMR ("AMR Common Stock").

In conjunction with the AMR LTIP, 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 vest three years 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, 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 Company Career Equity Shares issued in connection with the Offering were outstanding at December 31, 1997 and 1996.

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 restricted stock, deferred stock, stock options, stock appreciation rights, 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. At December 31, 1997, approximately 9,222,000 shares were available for future grants of stock-based awards under the LTIP.

Restricted stock activity was:

Year	Year Ended December 31	
	1997	1996
Outstanding at January 1	151,550	_
Issued upon conversion of AMR		
Career Equity and Restricted Shares	_	149,330
Granted	24,910	2,220
Canceled	(9,520)	_
Outstanding at December 31	166,940	151,550

The weighted-average grant date fair value of restricted stock granted during 1997 and 1996 were \$26.03 and \$27.00, respectively.

In conjunction with the AMR LTIP, certain officers and key employees of the Company were also awarded, at no cost, 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, certain AMR Performance Shares awarded to 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.

Under the Company's performance share plan, shares of deferred stock are awarded at no cost to officers and key employees under the LTIP. The Company Performance Shares vest over a three-year performance period based on performance metrics of the Company, as defined in the LTIP. The Company's Performance Share activity was:

	Year Ended December 31		
	1997	1996	
Outstanding at January 1	433,860	_	
Issued upon conversion of			
AMR Performance Shares	_	272,160	
Granted	205,370	162,450	
Canceled	(27,130)	(750)	
Outstanding at December 31	612,100	433,860	

The weighted-average grant date fair value of Company Performance Shares granted during 1997 and 1996 were \$26.02 and \$27.00, respectively.

In conjunction with the AMR LTIP, 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.

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.

Options granted under the LTIP will be exercisable at a price which is not less than the market value of Class A Common Stock on 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 option activity was:

	Year Ended December 31						
			1996				
	V	/eighted-	V	Veighted-			
		Average		Average			
		Exercise		Exercise			
	Options	Price	Options	Price			
Outstanding at							
January 1	2,384,670	\$24.89	_	_			
Issued upon							
exchange of							
AMR Options	_	_	728,740	\$19.87			
Issued upon							
exchange of							
AMR Career							
Equity Shares	_	_	847,550	27.00			
Granted	711,010	27.11	822,900	27.00			
Exercised	(34,540)	19.14	(14,520)	16.27			
Canceled	(187,070)	26.10	_				
Outstanding at							
December 31	2,874,070	\$25.43	2,384,670	\$24.89			
Exercisable options	5						
outstanding at							
December 31	808,110	\$22.64	422,920	\$19.80			

The weighted-average grant date fair value of stock options granted during 1997 and 1996 were \$9.71 and \$9.24, respectively.

The following table summarizes information about the stock options outstanding at December 31, 1997:

		Weighted-	Weighted-		Weighted-
	Number	Average	Average	Number	Average
Range of	of Options	Remaining	Exercise	of Options	Exercise
Exercise Prices	Outstanding	Life (years)	Price	Exercisable	Price
\$12.95-\$19.49	193,150	6.00	\$16.88	123,190	\$16.80
\$19.50-\$24.49	445,890	5.50	20.79	349,790	21.64
\$24.50-\$35.81	2,235,030	8.90	27.09	335,130	26.87
	2,874,070	8.20	\$25.43	808,110	\$22.64

For other stock-based awards, a committee established by the Board of Directors determines 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.

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.

The Company has 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 under the Directors' Stock Incentive Plan. 78,000 options were granted to directors during 1997. At December 31, 1997, 272,000 shares were available for future grants under the Directors' Stock Incentive Plan.

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 Class A Common Stock with an aggregate maximum purchase price equal to either 1% or 2% of that employee's annual base pay, subject to limitations under the Internal Revenue Code of 1986. Upon establishment of the ESPP, 1,000,000 shares of Class A Common Stock were reserved for issuance under the plan. Approximately 34,000 shares were issued to the plan during 1997, and approximately 966,000 shares remain available for future purchases under the ESPP at December 31, 1997.

As required by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, pro forma information regarding net income and earnings per share have been determined as if the Company had accounted for its employee stock options and stock-based awards under the fair value method set forth in Statement No. 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, 6.07% for 1996 and 6.20% to 6.70% for 1997; a dividend yield of o%; 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 for 1996 and .29 for 1997; 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 Statement No. 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):

·	Year Ended December 31					
		1997		1996		1995
Net earnings						
As reported	\$19	99,853	\$18	36,574	\$22	25,851
Pro forma	\$19	\$198,404		\$184,981		25,764
Earnings per common						
share, as reported	\$	1.53	\$	1.43		
Pro forma					\$	1.73
Earnings per common						
share, pro forma						
Basic	\$	1.52	\$	1.42		
Diluted	\$	1.51	\$	1.42		
Pro forma		_		_	\$	1.73

11. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

except per share amounts):							
	Year Ended December 31						
	1997	1996	1995				
Numerator:							
Net income	\$199,853	\$186,574	\$225,851				
Denominator:							
Denominator for basic							
earnings per share—							
weighted-average shares	130,649	130,606	130,604				
Effect of dilutive securities:							
Employee stock options	188	48	_				
Restricted shares	88	17	_				
Career equity shares	63	15	_				
Dilutive potential							
common shares	339	80	_				
Denominator for diluted							
earnings per share—							
adjusted weighted-average							
shares	130,988	130,686	130,604				
Pro forma earnings							
per share	_	_	\$ 1.73				
Basic and diluted							
earnings per share	\$ 1.53	\$ 1.43	_				

For additional information regarding the employee stock options, restricted and career equity shares, see Note 10.

Options to purchase 544,000 weighted-average shares of common stock were outstanding during 1997 but were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares for the period and, therefore, the effect would be antidilutive.

12. Geographical Analysis

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

	United States	Foreign	Total
1997	Juico	10101511	10141
Revenues	\$1,444,795	\$338,752	\$1,783,547
Operating income	270,324	37,385	307,709
Identifiable assets	1,429,378	73,487	1,502,865
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

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.

13. Quarterly Financial Information (Unaudited)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 1997 and 1996 (in thousands except per share data):

	I Qua	irst rter		Second Quarter		Third uarter	(Fourth Quarter
1997								
Revenues	\$439,	630	\$4	47,378	\$4!	56,046	\$4	40,493
Operating income	107,	787		93,101	8	38,086		18,735
Net earnings	66,	685		58,536		56,199		18,433
Earnings								
per common								
share, basic								
and diluted	\$.51	\$.45	\$.43	\$.14

		First		Second		Third		Fourth
	Qı	uarter	(Quarter	(Quarter	Q	uarter
1996								
Revenues	\$42	7,844	\$4	10,445	\$4	07,420	\$3	76,278
Operating income	11	5,591		81,998		87,914		41,298
Net earnings	6	9,987	49,063 45,151		45,151		22,373	
Pro forma								
earnings								
per common								
share, basic								
and diluted	\$.54	\$.38	\$.35		_
Earnings								
per common								
share, basic								
and diluted		_		_		_	\$.17

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. During the fourth quarter of 1997, the Company recorded a loss of approximately \$11 million related to the write-off of a capitalized software development project that was intended to create a new order entry and billing system.

Earnings per share amounts for 1996 and the first three quarters of 1997 have been restated to comply with Statement of Financial Accounting Standards No. 128, *Earnings Per Share*. For further discussion of earnings per share and the impact of Statement No. 128. see Note 2.

14. Subsequent Events

In January 1998, the Company completed the execution of a 25-year information technology services agreement with US Airways, Inc. Under the terms of the agreement, the Company will provide substantially all of US Airways' information technology services. Additionally, the Company agreed to assist US Airways in making its information systems Year 2000 compliant. In connection with the agreement, the Company purchased substantially all of US Airways' information technology assets for approximately \$47 million, hired more than 600 former employees of US Airways, and granted to US Airways two tranches of stock options, each to acquire 3 million shares of the Company's Class A Common Stock. At its election, US Airways may select an alternative vehicle of substantially equivalent value in place of receiving stock. The first tranche of options is exercisable during the six month period ending two years after the transfer of US Airways' information technology assets, has an exercise price of \$27 per share and is subject to a cap on share price of \$90. The second tranche of options is exercisable during the ten year period beginning on the fifth anniversary of the asset transfer date, has an exercise price of \$27 per share and is subject to a cap on share price of \$127.

In February 1998, the Company entered into a 10-year information technology services agreement with Gulf Air. Under the terms of the agreement, the Company will be responsible for all of Gulf Air's information technology infrastructure, including application development and maintenance, as well as data center and network management.

In February 1998, the Company signed long-term agreements with ABACUS International Holdings Ltd. which created a Singapore-based joint venture company to manage travel distribution in the Asia-Pacific region. The Company received 35 percent of the shares of the joint venture company, called ABACUS International Ltd. The Company paid \$139 million in cash and contributed its assets related to the Company's ongoing travel distribution activities in Asia-Pacific and other considerations. The Company provides ABACUS International with transaction processing on the SABRE computer reservations system.

SELECTED CONSOLIDATED FINANCIAL DATA

(IN MILLIONS, EXCEPT PER SHARE DATA AND OTHER DATA WHERE INDICATED)

	Year Ended December 31					
	1997	1996	1995	1994	1993	
Income Statement Data(1):						
Revenues	\$1,783.5	\$1,622.0	\$1,529.6	\$1,406.7	\$1,258.2	
Operating expenses	1,475.8	1,295.2	1,149.2	1,056.5	1,004.5	
Operating income	307.7	326.8	380.4	350.2	253.7	
Other income (expense), net ⁽²⁾	15.9	(20.9)	(10.3)	(26.1)	(84.7)	
Income before income taxes	323.6	305.9	370.1	324.1	169.0	
Income taxes	123.7	119.3	144.2	126.9	69.0	
Net earnings	\$ 199.9	\$ 186.6	\$ 225.9	\$ 197.2	\$ 100.0	
Earnings per common share,						
basic and diluted ⁽³⁾	\$ 1.53	\$ 1.43	_	_	_	
Balance Sheet Data (at end of period)(1):						
Current assets	\$ 874.2	\$ 694.5	\$ 271.2	\$ 404.3	\$ 107.1	
Total assets	1,524.0	1,287.1	729.4	873.5	584.3	
Current liabilities(2)	316.5	289.8	218.6	503.2	346.4	
Debenture payable to AMR	317.9	317.9	_	_	_	
Stockholder's net investment	_	_	432.1	289.5	158.0	
Stockholders' equity	757.3	569.6	_	_	_	
Other Data ⁽¹⁾ :						
Operating income as a						
percentage of revenue	17.3%	20.1%	24.9%	24.9%	20.2%	
Percentage of revenue from						
non-affiliated customers	70.5%	69.2%	64.2%	58.1%	56.6%	
Reservations booked						
using SABRE	359.2	347.9	325.4	311.1	275.2	
Cash flows from						
operating activities	\$ 377.8	\$ 415.8	\$ 395.9	\$ 265.3	\$ 332.4	
Capital expenditures	\$ 218.1	\$ 184.3	\$ 166.8	\$ 168.9	\$ 176.6	

⁽¹⁾ The Company has significant transactions with AMR and American. 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. See Note 5 to the Consolidated Financial Statements.

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

⁽³⁾ Earnings per share for 1996 has been restated to comply with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." For further discussion of earnings per share and the impact of Statement No. 128, see Notes 2 and 11 to the Consolidated Financial Statements.

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, 1997 and 1996, 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, 1997. 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 test 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Ernst + Young LLP

Dallas, Texas January 19, 1998 except for Note 14, as to which the date is February 27, 1998

EXECUTIVE OFFICERS

BOARD OF DIRECTORS



Michael J. Durham President and Chief Executive Officer

Gerard J. Arpey

Senior Vice President and Chief Financial Officer,

AMR Corporation

Edward A. Brennan

Retired Chairman, President and Chief Executive Officer,

Sears, Roebuck and Co.

Director, The Allstate Corporation Director, AMR Corporation

Director, American Airlines, Inc. Director, Dean Foods Company

Director, Morgan Stanley, Dean Witter, Discover & Co. Director, Minnesota Mining and Manufacturing Company

Director, Unicom Corporation



Bradford J. Boston Senior Vice President— SABRE Technology Solutions

Robert L. Crandall

Chairman of the Board, President and Chief Executive Officer,

AMR Corporation

Director, AMR Corporation Director, American Airlines, Inc. Director, Halliburton Company Director, U.S. West, Inc.



Senior Vice President— SABRE Technology Solutions

Thomas M. Cook

Michael J. Durham

President and Chief Executive Officer, The SABRE Group Holdings, Inc.



Terrell B. Jones Senior Vice President— SABRE Interactive and Chief Information Officer

Paul C. Ely, Jr.

President, Santa Cruz Yachts Director, Parker Hannifin Corporation

Director, Tektronix, Inc.



T. Patrick Kelly Senior Vice President, Chief Financial Officer and Treasurer

Dee J. Kelly

Senior Founding Partner, Kelly, Hart & Hallman, P.C.

Director, AMR Corporation Director, American Airlines, Inc. Director, Justin Industries, Inc.



Glenn W. Marschel, Jr. Chairman, Additech, Inc. Associate, Signature Capital LLC

Bob L. Martin

President and Chief Executive Officer,

Wal-Mart International, Inc.



Eric J. Speck Senior Vice President— SABRE Travel Information Network

Ann H. McNamara

Senior Vice President and General Counsel, AMR Corporation

Director, LG&E Energy Corporation

Director, Louisville Gas and Electric Company



Retired Chairman, First Chicago NBD Corporation

Director, CNA Financial Corporation Director, First Chicago NBD Corporation

Director, IMC Global, Inc. Director, PMI Group, Inc. Director, Sara Lee Corporation Director, Scotsman Industries, Inc.



Andrew B. Steinberg Senior Vice President, General Counsel and Corporate Secretary

CORPORATE INFORMATION

Stakeholder Information

We welcome inquiries from stockholders, security analysts and other members of the professional financial community. Please contact the Investor Relations Department at The SABRE Group headquarters or by telephone at (817) 931.7300.

The SABRE Group on the Internet

Stockholders may access SABRE Group information, including a summary of the latest financial results, on the Internet's World Wide Web at http://www.sabre.com/

Common Stock

C:---| 7007

The Class A Common Stock of The SABRE Group Holdings, Inc. is listed on the New York Stock Exchange with the symbol TSG.

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Class

Quarterly Per Share Market Price Market Price of Common Stock

Fiscal 1997	High	Low	Close
First Quarter	\$29.625	\$ 25.25	\$ 25.25
Second Quarter	28.75	23.625	27.125
Third Quarter	36.625	26.6875	35.8125
Fourth Quarter	35.50	24.50	28.875
Fiscal 1996			
Fourth Quarter	\$ 33.00	\$ 26.00	\$ 27.875
(since October 11, 1996)			

Form 10-K

A copy of The SABRE Group annual report to the Securities and Exchange Commission for 1997 (Form 10-K) will be furnished without charge upon request to:

Investor Relations
The SABRE Group
P.O. Box 619615
Dallas/Fort Worth International Airport, TX 75261-9615
(817) 931.7300

Annual Meeting

The Annual Meeting of Stockholders will be held on Wednesday, May 20, 1998, at 1:00 P.M. Central Daylight Time in the Flagship Auditorium:

American Airlines Training and Conference Center 6509 Highway 360 Fort Worth, TX 76155

Transfer Agent and Registrar

Stockholders who wish to change the name, address of ownership of stock, or report lost certificates should contact:

First Chicago Trust Company of New York, Inc. P.O. Box 2500 Jersey City, NJ 07303-2500 (201) 324.1225

Trade and Service Marks

easySABRE, Planet SABRE, SABRE, SABRE Business Travel Solutions, SABRE Web Reservations and Travelocity are trade and service marks of a subsidiary of The SABRE Group Holdings, Inc. All other trade and service marks are owned by their respective companies.

WORLDWIDE OFFICES

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The SABRE Group Holdings, Inc.
4255 Amon Carter Boulevard
Fort Worth, TX 76155
(817) 967.1000

Offices

Amsterdam, Netherlands Athens, Greece Auckland, New Zealand Beijing, China Berlin, Germany Bombay, India Boston, Massachusetts Brussels, Belgium Buenos Aires, Argentina Caracas, Venezuela Chicago, Illinois Copenhagen, Denmark Dallas/Fort Worth, Texas Detroit, Michigan Dublin, Ireland Frankfurt, Germany Hamburg, Germany Hong Kong, Special Administrative Region Kuala Lumpur, Malaysia Lima, Peru London, England Los Angeles, California Madrid, Spain

Melbourne, Australia Mexico City, Mexico Miami, Florida Milan, Italy Montreal, Canada Munich, Germany Nashville, Tennessee New York, New York Newark, New Jersey Orange County, California Paris, France Rome, Italy San Francisco, California San Juan, Puerto Rico Santiago, Chile Sao Paulo, Brazil Stockholm, Sweden Sydney, Australia Tokyo, Japan Toronto, Canada Tulsa, Oklahoma Vancouver, Canada Washington, DC Zurich, Switzerland



The SABRE Group Holdings, Inc. 4255 Amon Carter Boulevard, Fort Worth, Texas 76155