

**Tom Klein's Keynote Remarks
The Masters Program - Feb. 22, 2006**

“Sabre's New Relationships with Airlines”

Good morning! It is great to be here in our nation's capital, a city which at its best is one of lofty ambitions and dreams, and a place where simple inspiring ideas often lead to new beginnings and new horizons. I think we could all agree, regardless of our political leanings or opinions, that it is also a place where there is often too much partisanship and divisiveness, and deliberate obfuscation of issues. So much so that on some important issues, the public cannot easily cut through the rhetoric to determine exactly what is at stake and how we as citizens and as a nation might productively move forward together. In fact, as I reflect, it sounds a lot like airline distribution discussions.

In Washington, as in our industry, the issues are extremely complex, have huge scale, and often have not only national but global implications. To make headway, the challenge is to cut through the layers of complexity in search of simplicity and clarity -- and then, in a spirit of good will and integrity, to seek out common ground.

I'm going to leave fixing the problems of government to many more qualified experts and analysts and focus today on a topic I feel very passionate about --our need as a group of company executives and

industry leaders to bring good will and integrity -- and much less obfuscation -- to our dialogs... it is the only way that we will find a successful path forward. That's my vision of Sabre's new relationships with airlines, and airlines' new relationships with us.

And, while I was asked to come and speak to you about "Sabre's New Relationships with Airlines," I would like to address how we can collectively enhance our relationships across the entire industry...including airlines, hoteliers, and other suppliers... travel management and leisure specialists... technology companies that enable distribution, marketing and other services... and finally, corporations and consumers who we collectively serve. And more specifically, I would like to challenge all of us to create a clearer dialog that fosters real solutions and real innovations that make our industry better, casting the rhetoric and obfuscation of issues aside for the good of our industry and its progress.

With that in mind, let me pose a few questions right up front that I hope will stimulate our conversations over the next two days here:

- First, if there is real innovation available in the marketplace, are we as an industry embracing it, talking about it, and challenging each other to adopt it?
- Next, do we understand the roles and the services provided by the various constituents in the travel value chain?
- And finally, when we talk about new structures for the industry, are they structures that are real and can work multi-laterally for

the entire industry... including consumers, corporations and agents?

I think these are the right questions we should all be asking ourselves, and let me talk a bit more on each of these...

Starting with innovation... When file sharing got traction and became popular in the underground of music distribution, it was clear that the innovation was powerful. What was not clear was how to build a business model around that innovation. The music industry was sent reeling, and there was much rhetoric about the evils of the innovation. In time it sorted itself out and, while the industry will continue to change, today it has a system that everyone can live with. But remember, it didn't start with rhetoric, it started with real innovation.

Our industry is at a crossroad. And yet, it seems to me that too often we start with rhetoric and squander innovation. If there is a much more efficient way to distribute travel and service travelers, that innovation needs to sit squarely at the center of our collective strategies, like a holy grail.

Today, there is much innovation regarding how fares are displayed and shopped... and around how airline inventory management can be enhanced. There are also opportunities to market and display broader aspects of the airline product beyond the traditional schedule, price and availability. Are we, as an industry, exploiting those innovations? Are we working together to make sure they drive

the benefits they promise? At Sabre, because of our global scale and reach, we have the ability – either as an innovator or as a humble fast-follower – to bring innovation to a much bigger chunk of the industry – and in a very acceptable timeframe – better than any competitor or option. But on these two fronts, which are just two examples, I would suggest we are not optimizing innovation for the good of the industry. Some of that responsibility is ours; some must be borne by other constituents.

We have brought our fair share of innovation to the industry... our corporate booking tools for example, and this year we'll roll out best-of-breed packaging technology.

Innovation can also be applied to a process or business model, not just technology. And I think we are coming up with some new ways to think about the business that can help our industry evolve to a point of equilibrium... a point like the one reached in the music industry... where innovation is broadly adopted and benefits accrue to everyone in the value chain. Real innovation... and by that, I mean innovation that sticks... is developed close to the consumer, and with the consumers' needs in mind... like Napster in the music industry. The key is to innovate what consumers actually want, not to innovate and then dictate that consumers *should* want it.

We've all seen examples of the later, and seen them ultimately fail. The Edsel comes to mind... and I think we have some Edsel-like equivalents in our industry today.

In short, history says that when you build desirable products, you don't have to trick anyone into buying them. If you build a better mousetrap, the world will beat a path to your door. I propose that our industry is not any different than all the rest. We must challenge ourselves to find the real innovations that can move things forward... and we mustn't dismiss the good products and services that enable this global industry to work in an extremely efficient way.

And that leads me to the second question: Do we truly understand the roles and the services provided by the various constituents in the value chain?

I'll start with a "shame on us" example to stimulate the discussion. Ten days ago we announced the acquisition of a small but important company called TRAMS. We love this company and many of us at Sabre have known Lee Rosen, the founder and owner, for more than a decade. We bought the company for a lot of great reasons, one being that Lee and his team have deep, deep insights into how small and medium-sized travel agencies do business. TRAMS' has developed relationships with these agencies that are deep and meaningful. Now Sabre services many of these same agencies, but you know what... we don't know their business nearly as well as Lee and his team do. We recognized that we weren't doing as much as we could to help them improve their business and service their customers... this is not acceptable and we aim to fix it.

As an industry, I don't think we appreciate what each of us provides and how valuable it is...or not. I thought about this as I followed the firestorm of press over the last few weeks about eBay and issues within the eBay marketplace around fraud and non-authentic goods... the HBO TV show, *Real Sports*, did a piece on memorabilia and the *New York Times* ran an article on lack of authenticity of goods. eBay's response was to say it had no responsibility for fakes and their spokesperson went on to say... "We are not clothing experts, we are not car experts, we are not jewelry experts. We're experts at building a marketplace and bringing buyers and sellers together." Now eBay is a fabulous business, a great employer, and a spectacular success story for American business, so I am not trying to disparage eBay or pile onto the negative press.

With this in mind, think about the travel marketplace in which we all participate today. I would venture to say each of us provides more value than is universally recognized and understood. At Sabre, we think of ourselves as experts at creating a marketplace that brings travel buyers and sellers together... and I extend recognition to the other companies that provide like-services. But we are so much more than that... we are also experts in travel... in the airline business... and in technology. We're not merely the link between the buyer and seller. We provide more value than that implies. We extend significantly beyond eBay's view of their role.

As an example with GDS's... while we absorb millions of fare changes daily, if we get one wrong, we make good on it. And we're

hugely respectful of how our suppliers choose to price and sell their products... we respect the revenue management practices of the airlines... and in some cases where “point solutions” have not. Who would even think of displaying airline fares in ways inconsistent with the pricing policies of the airlines? Certainly, we wouldn't... even if it meant competitive disadvantage. And that was the case, several years back when one of the online companies (to remain nameless) was doing that very thing.

Another example... we're active in looking for and resolving issues of fraud. Are these examples of value? We think that's pretty hard to refute.

And I know all of you here today from across the travel value chain have a long list of such services... travel management companies provide incredible customer service to their road warriors... and really all of their customers who travel... as do corporate travel departments and travel suppliers. The point I want to make is that we need to identify those valuable services, we need to discuss them... and with a better understanding and appreciation of what each other provides, we need to bring more value to the customers we serve. And as an industry, we need to ensure that we don't discount that real value.

And that brings me to my third question...which is, when we talk about new structures for the industry, are they structures that are real and can work for all participants, including consumers, corporations and agents?

It seems to me... and after talking with many of you in the industry, I think most of us agree... that we need an industry structure that allows all constituents to have clarity about how products are displayed and sold. I think we all agree there is significant value in having an efficient marketplace that provides clarity and confidence... where you can compare and contrast products and prices easily and effectively. That seems like a reasonable goal... something like what we have today... but absolutely enhanced and moved forward with any variety of innovations. Isn't that what our customers want... and what the industry needs?

But that is not what is being proposed by some industry players today. I'm not convinced that some new structures being promoted today are real, and I certainly don't think they are designed for everyone's best interest.

Some propose that a "content free-for-all" is sensible... where a distribution channel provides access to a slice of content from a limited set of suppliers. Now, to a few, this may sound like a good deal, but I don't think it's good for the industry as a whole, and here's why... in this scenario, the already complex set of options are fragmented in a way that no corporation or consumer could ever sort out or know if they are really seeing the majority of their options. In this world, maybe suppliers' costs are reduced and certain distribution channels are well compensated, but they don't provide anything in the way of an efficient marketplace. This model sounds more like

1970 than 2007. And some may be correct to think they can make lots of money by “putting humpty dumpty back together again”, but I can assure you it will not be cost effective to do so. For example, in this scenario a travel management company might just duplicate shop a single product through a variety of technologies... and in doing so, they will be sending multiple queries to the airline for the same product. I suspect the airlines’ IT departments might not be ready to accommodate that level of shopping activity...not in 2006, or 07, or 08....

Another structure being discussed, though not too publicly for obvious reasons, is to have the global distribution systems take all the money...every cent...that is paid to agencies or corporations as incentives and return it to the airline industry in the form of a price reduction. While there are a number of issues with eliminating incentives, I’ll focus on just a few. First, I believe there is a role for incentives in this marketplace, just as there is in other industries. The more aggressive agencies often invest these funds in incremental technology and services required to complement our own solution... investments we think are well spent on end-to-end solutions that make up the efficient marketplace. Sometimes the money is used to offset the cost to the corporation or consumer, and sometimes it flows to the bottom line.

And while I understand the need that is driving the arguments for this proposed change in the model, I don’t see any rational value alignment in redistributing these specific monies to suppliers. We

need to get our price right, and then we need to get the other components of our offering right – including incentives. But simply taking money away from one place and moving it to another doesn't improve the overall model in this supply chain... it merely moves it to one player unilaterally... that's not changing the industry structure. Finally, if we were to go to a zero-incentive model today, incentives would eventually creep back in and prices would begin to steadily rise... it is a fundamental characteristic of scalable businesses where an incremental transaction provides variable contribution.

One last structure being proposed is to remain status quo...and for the sake of time, I'll just say that I don't think this one will work for anyone either. In fact, I'm not sure this is even a real option.

All three of these alternatives are currently being discussed and promoted by a few industry players... but I contend any one of them would either degrade service or negatively impact efficiency for consumers, corporations and travel management companies. I contend they will not work, they will not stick, and I would strongly suggest that all participants in the travel marketplace address this issue more directly, instead of doing the rhetoric dance that we seem to be comfortable doing.

And that leads me to the topic on the agenda... Sabre's new relationship with airlines. And while it is an important topic for me to address, I think the characteristics of the relationships we seek should cut across all of our companies.

Our goal is to create a structural change that airlines and agencies can adopt easily and quickly... with protection and clarity for buyers of travel, both consumers and corporations.

To do that, our company has to be fiercely efficient for airlines... which means we have to continue to take significant costs out of our business... and those savings we will pass onto our airline customers. We have to innovate to enhance the services and the benefits we provide. We have to grow our global points of sale by capturing a fair share of international and online business. And we have to remain an unbiased marketplace for air travel products. Airlines have told us that is important.

And if we are to do that... to provide those benefits to airlines... then we expect some things in return. If airlines want to distribute in this more efficient marketplace, we expect them to provide us with their full content, so our agency and corporate customers can be confident they have what they need to service their customers. We expect that the airlines not use bias to discriminate against the users of our system who sell and service their products. And we suggest that the industry benefits from a planning horizon that moves to longer term agreements.

For our travel agency partners, we want to provide a very broad set of services... we aspire to be their one-stop shop. We know they will need to complement our tools with some of their own, and we want to

make that easy. And we have to find a financial equilibrium that allows for some investment and financial incentives but, yes, we do need to reduce incentive costs... that's essential if we hope to keep the efficient marketplace in balance going forward.

We want relationships with all our customers and suppliers that are based on honest dialogs about how the marketplace works, the value we each provide, and the need to extend the huge benefits of an efficient marketplace to consumers and corporations. We also want recognition of the value we deliver across the entire travel value chain... and recognition that we can bring innovation and benefit to a huge portion of the industry in a very timely manner... we have the direct connections with suppliers, the installed base at agencies and corporations, the relationships and the expertise to make that happen today.

We have a very big task ahead of us, and we are working hard to drive this efficient marketplace forward. I hope our new relationships with airlines are good relationships... ones based on honest evaluations of our options, of respect for the needs of the customers we all serve, and on a shared view that we have more opportunity to change this industry working together than if we pick the alternative.

And with that, I will open it up for a question or two.