

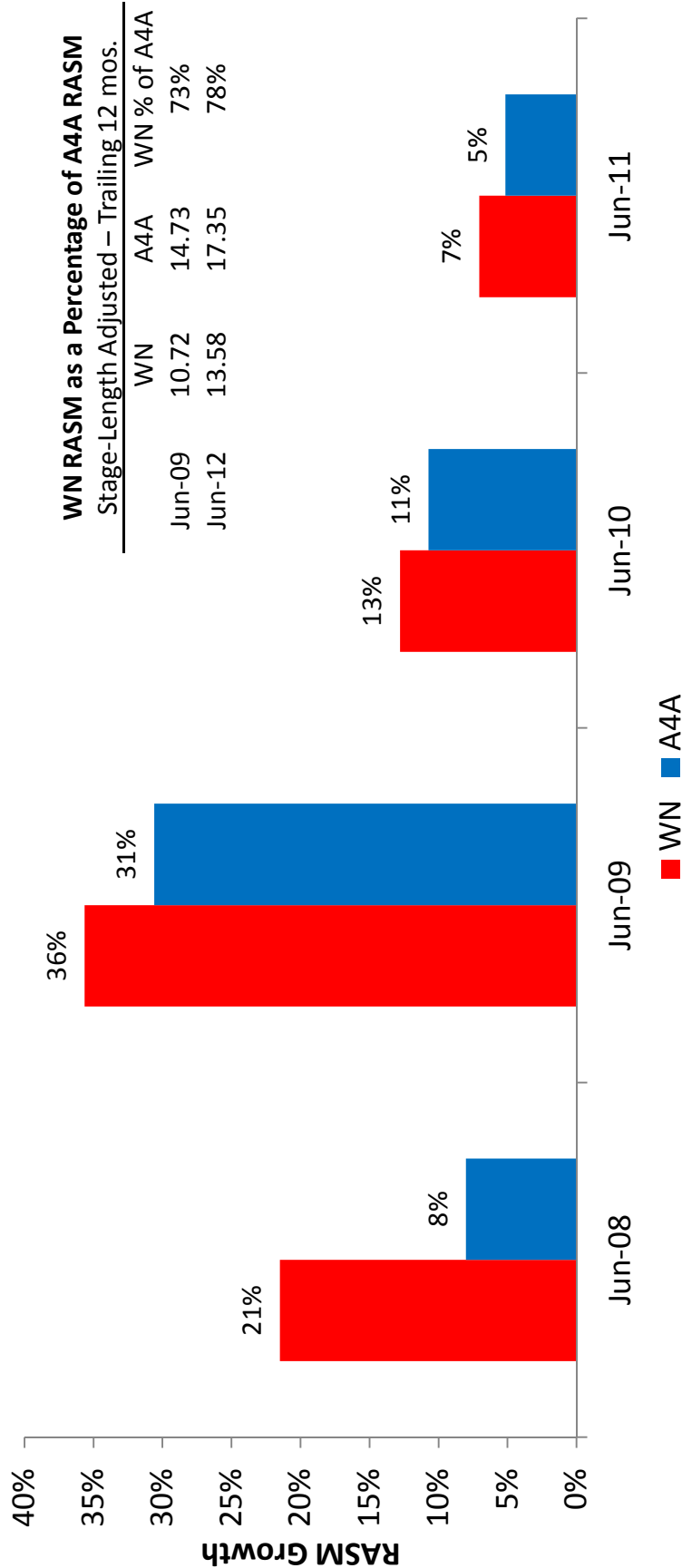
# Today's discussion

- Revenue trends (including ancillary revenue)
- Network strategy decisions
- Factors influencing growth
  - Stagnant industry growth
  - Cost comparisons
  - Contract restrictions
  - Other ways to feed network
- 717 discussion
- Deeper discussion of low load factor operations

# Southwest's RASM Growth has Outpaced the Industry since 2008

## Southwest Combined vs. A4A Domestic Mainline RASM Performance

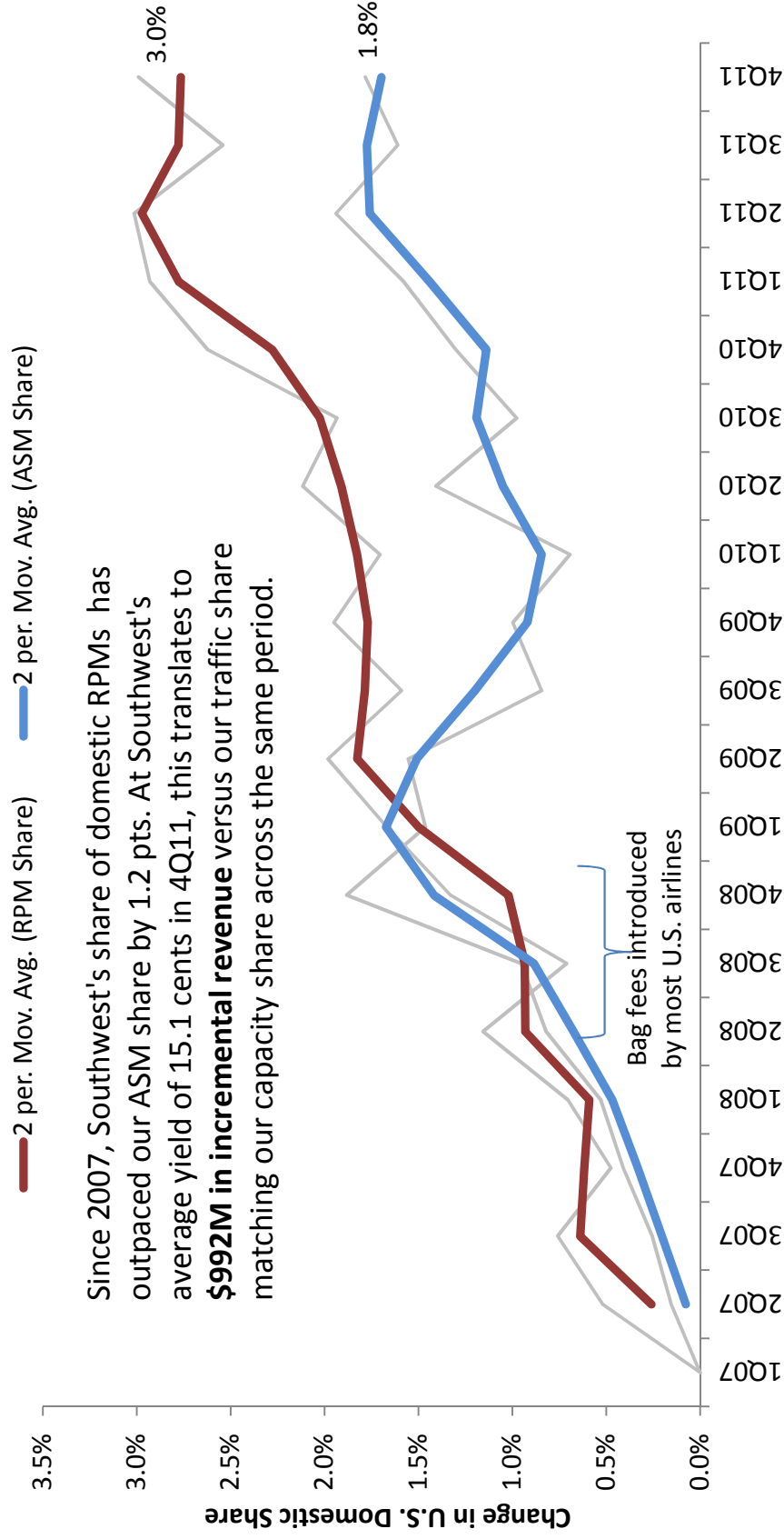
June 2012 vs. Prior Years



Source: A4A Monthly Passenger Revenue Report & SWA Internal Data

Beginning in early 2009, Southwest's share of industry traffic grew significantly faster than capacity share

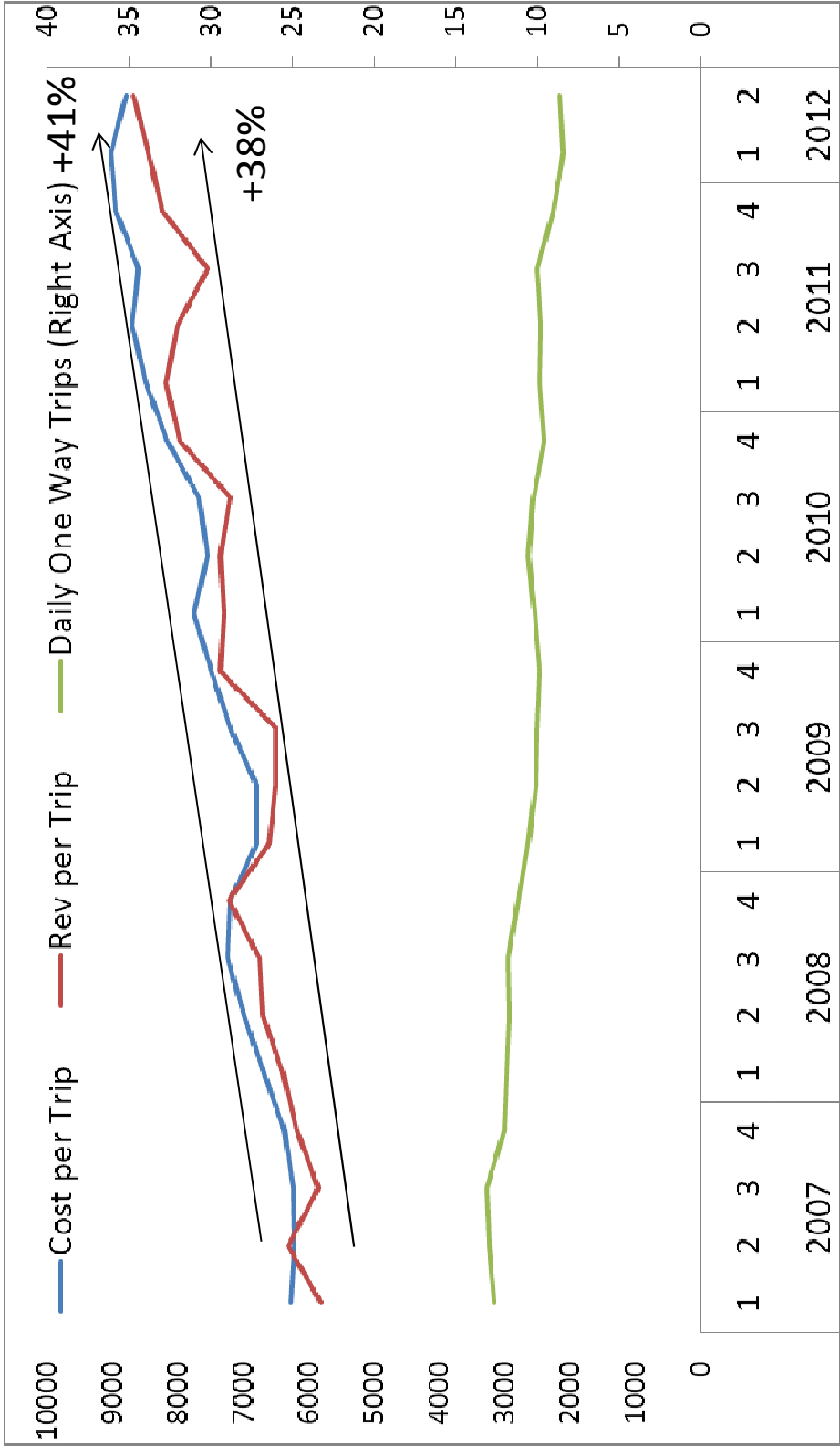
## Change in WN Domestic Traffic Share and Capacity Share since 2007



Source: DOT T-100 and DB1B O&D Survey

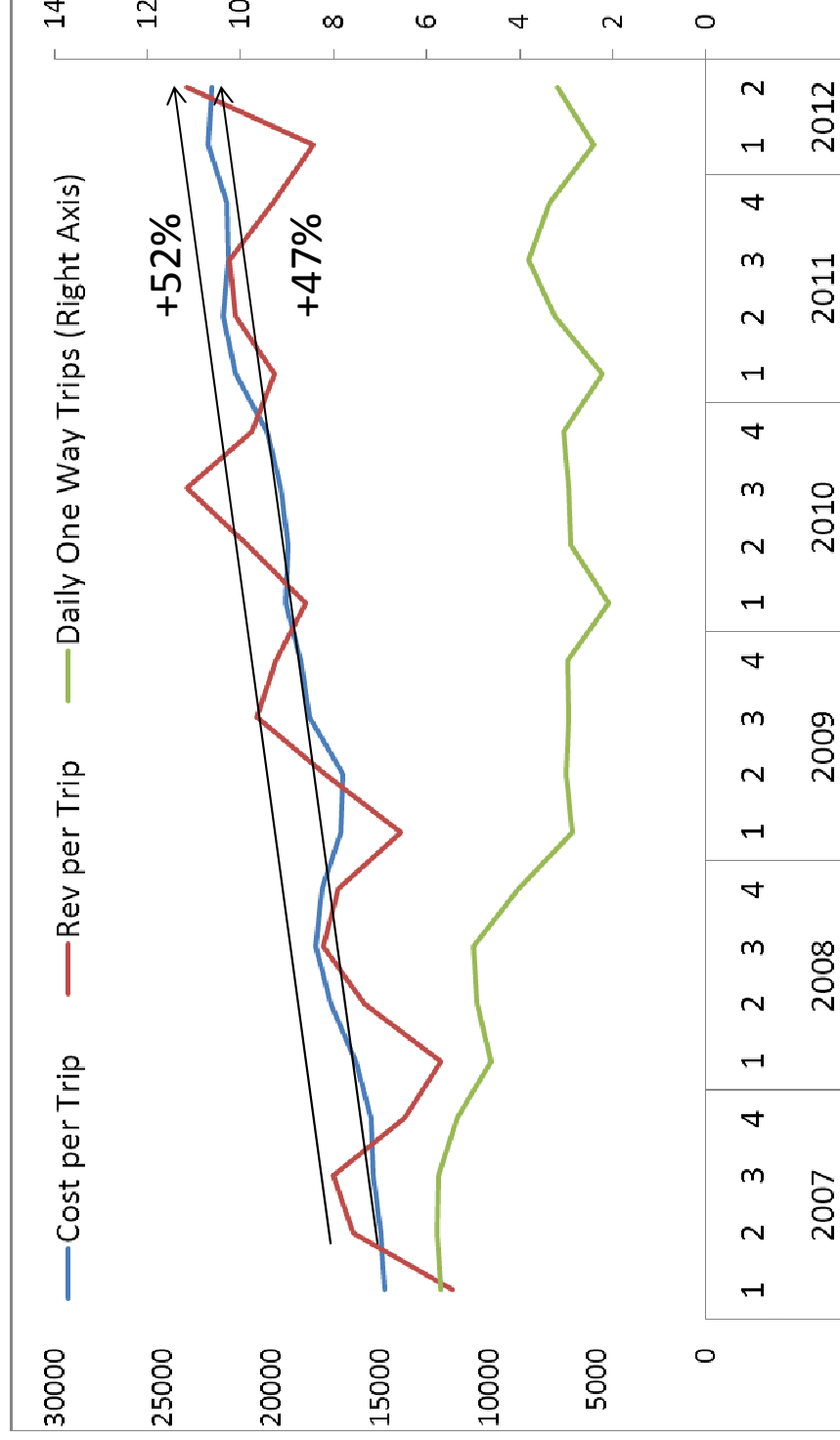
# Network Actions: LAX-PHX

- Since 2007, cost per trip has increased 41%, while revenue per trip has grown by 38%
- As fares increased to offset rising costs, nonstop demand fell by 36%; daily trips have been reduced from 13 to 9 in response to lower demand.



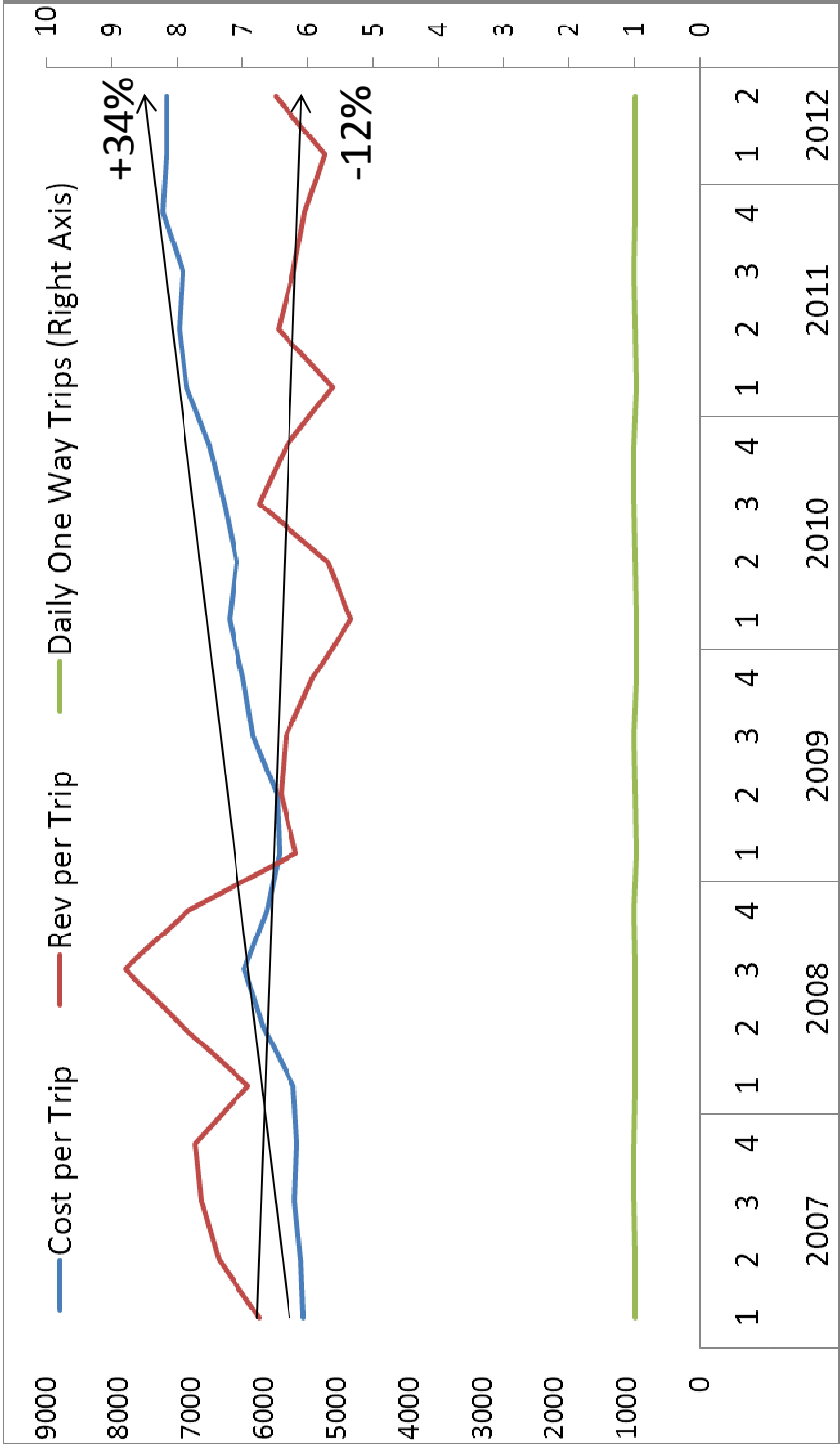
# Network Actions: MDW-OAK

- Since 2007, cost per trip (+52%) has grown more quickly than revenue per trip (+47%).
- Nonstop passenger demand has fallen by 63%; an increase in connecting traffic has backfilled some of this loss, but trips have been reduced from 6 to 3 primarily due to lower nonstop demand.

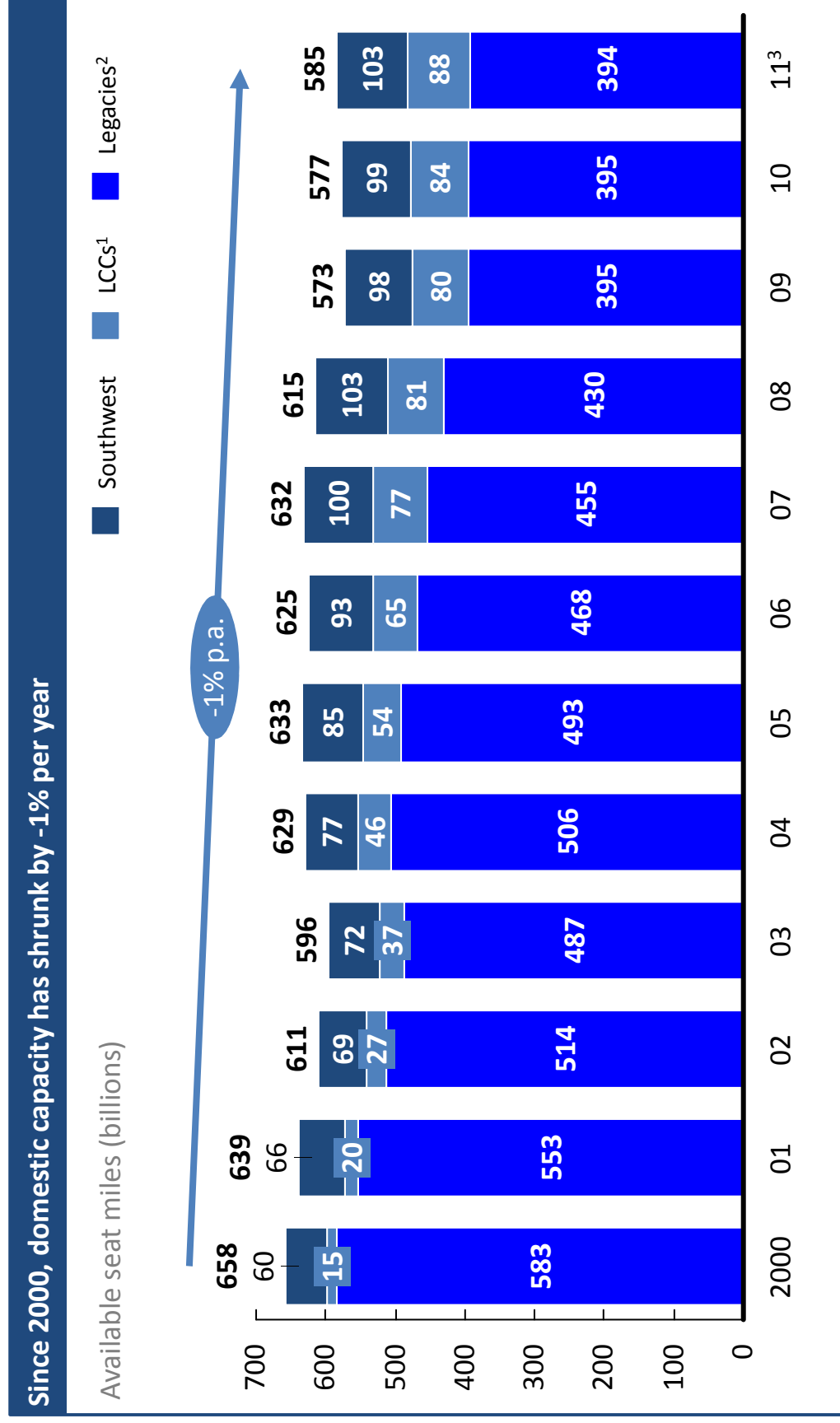


# Network Actions: ABQ-MAF

- Since 2007, cost per trip is up 34% and revenue per trip has fallen 12%.
- In response to higher costs, average fares rose by 30%, but passenger demand fell by 38%. Service will end this month.



# Overall industry capacity has shrunk since 2000, with LCCs gaining significant share from Legacies...



1 Legacy carriers include: Alaska Airlines, American, Continental, Delta, Northwest, United, US Airways

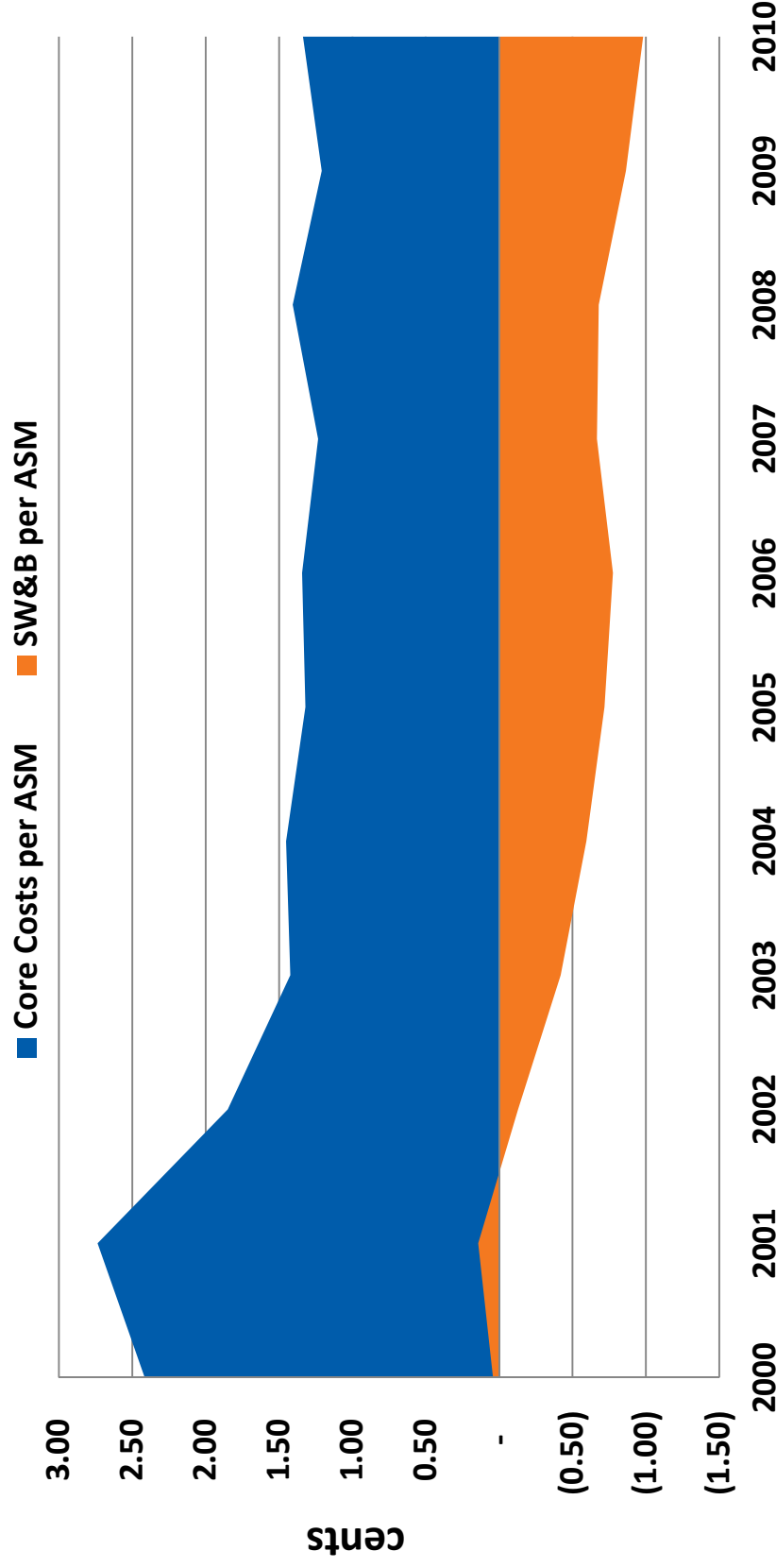
2 Low cost carriers include: AirTran, Allegiant, JetBlue, Frontier, Spirit Airlines and Virgin America

3 TTM from 4Q10 to 3Q11

SOURCE: Department of Transportation Form 41

...and as we both noted last meeting, costs are too high to compete with LCCs—particularly Spirit and Allegiant—in a number of markets

Since 2000, Southwest's core costs\* per ASM advantage over the **low cost carriers** has declined 45%, and our SW&B per ASM advantage has turned into a disadvantage



Core costs include: Marketing and Advertising, Landing Fees and Rentals, Depreciation and Amortization, Maintenance, Materials, & Repairs, and Other Operating Expenses  
Source: DOT Form 41, Stage Length Adjusted to WN ASL



# Discussion of 717 sub-lease to Delta and single fleet type strategy

## Delta's potential rationale for 717s (from outside perspective)

- Allows for removal of 50-seat regionals, which improves their overall fuel economics
- Delta already operates multiple equipment types, and they have a similar type of aircraft (MD-90)
- Agreement with Pilots also included provisions to increase regional and codeshare flexibility

## Our rationale for maintaining our single fleet type strategy

- Fuel economics
- Scheduling flexibility
- Irregular operations recovery
- Training cost savings across workgroups (e.g., Pilots, Flight attendants, Maintenance, Ground Ops)
- Inventory cost savings

Delta can operate the 717 at essentially the same trip cost as Southwest and generate higher revenue with a first-class cabin

**717 Cost per Trip Comparison (651-700 miles)**



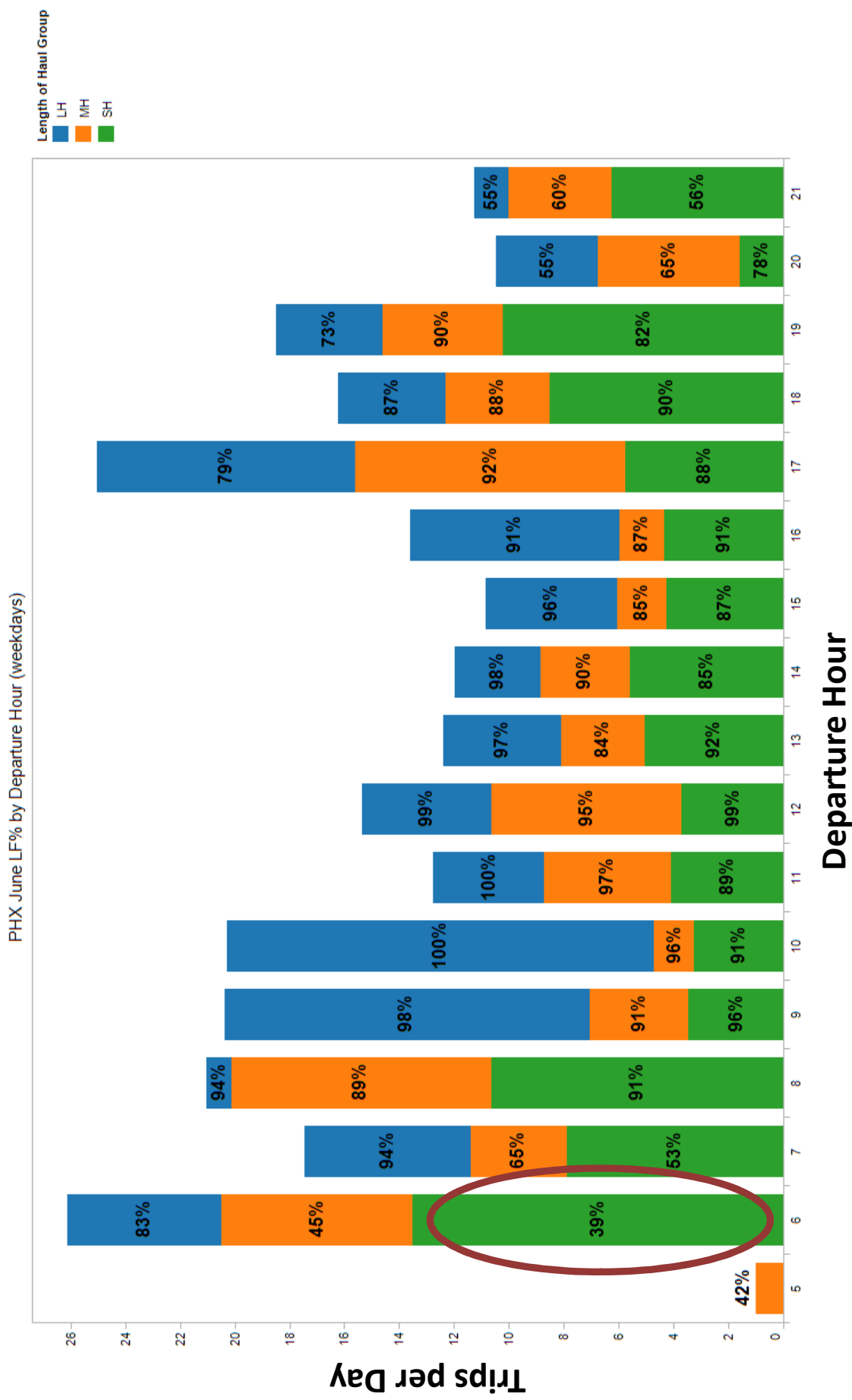
Source: Southwest Internal Data; DOT Form 41 FY2010 Delta narrowbody wages adjusted for DC-9 rates

# Crew Base RON Constraints Result in a High Percentage of Low Load Factor Flights

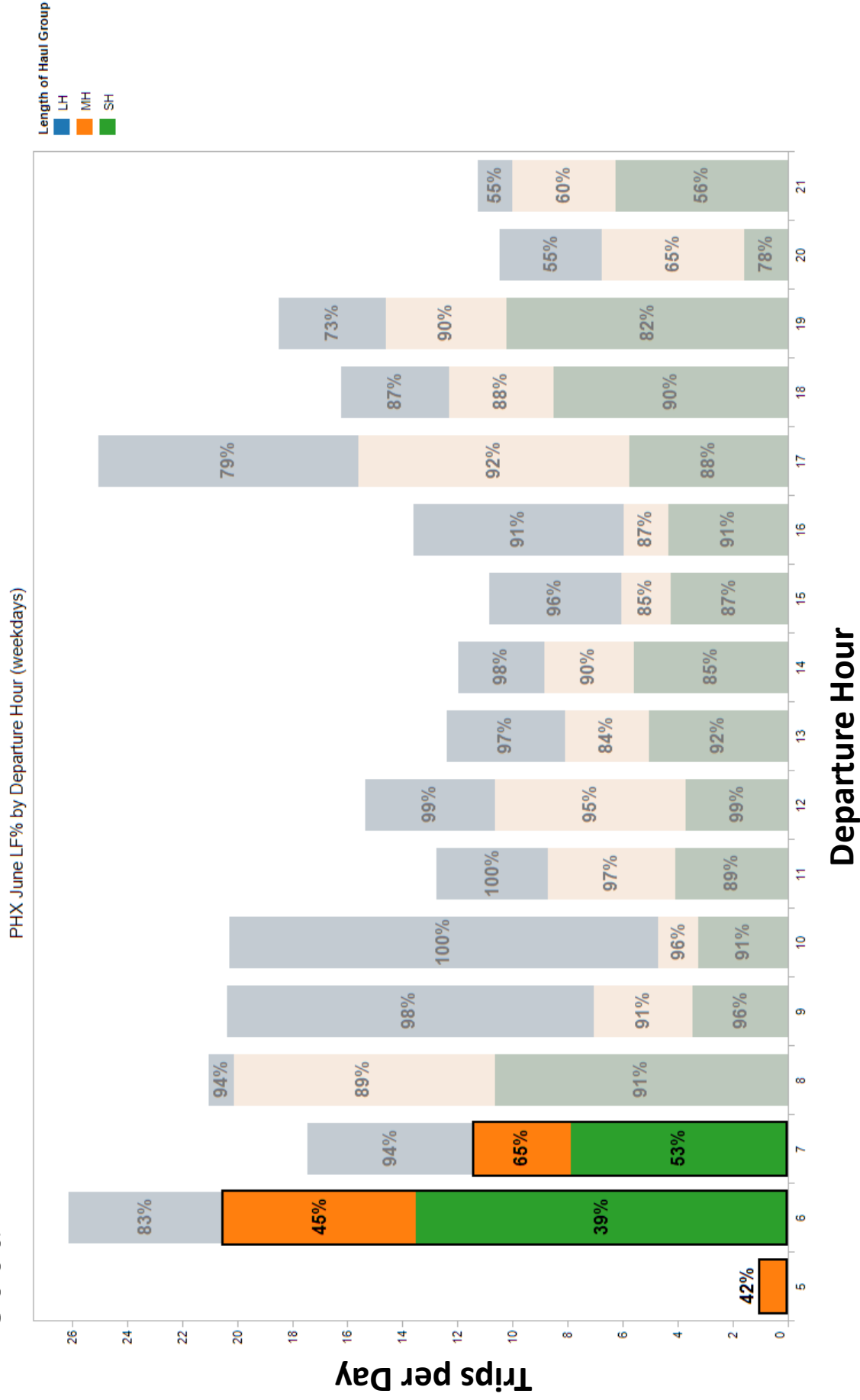
Load Factor Comparison on Flights Before 8am

Origination Station	Destination Station	% of Flights with Less than 50% LF	% of Flights with More than 50% LF
Crew Base	Crew Base	24%	76%
Crew Base	Non-Crew Base	51%	49%
Non-Crew Base	Crew Base	20%	80%
Non-Crew Base	Non-Crew Base	33%	67%

In PHX during June 2012, the average LF on our 13 short-haul flights departing between 600a-700a was 39%



# Eight medium-haul flights between 600-700a averaged a 45% LF and performance only marginally improved between 700a-800a



# Southwest's Crew Base RON constraints result in a large scheduling disparity versus our competition

June PHX Schedule Comparison

