Outlook for Air Travel

Dave Doty

Southwest Airlines, Co.

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It all started with an idea in a San Antonio bar almost 50 years ago
By 2008 Southwest served more U.S. domestic O&D passengers than any other carrier

Non-stop service to 64 cities with ~3,500 daily flights

Source: Schedule SSIM data June, 2008, Diio Mi
Since the Great Recession of 2008-09 the U.S. Airline Industry has radically changed how it does business.

Average Spot Prices ($/Barrel): Crude Oil and Jet Fuel

Cost per gallon for jet fuel has risen over 200% since 2000.

Sources: Bureau of Transportation Statistics (recent months are preliminary and subject to restatement); Energy Information Administration.
Air travel is taxed at a higher federal rate than alcohol and tobacco!

The tax burden on a typical $300 round-trip ticket has nearly tripled since 1972, rising from $22 (7%) to $61 (20%)

**U.S. Ticket Taxes on $300 One-Stop Domestic Round Trip* Keep on Rising**

<table>
<thead>
<tr>
<th>Year</th>
<th>AATF Begins</th>
<th>PFC Begins</th>
<th>New 9/11 Fee ($2.50/enplanement)</th>
<th>9/11 Fee raised to $5.60 one way</th>
<th>POTUS-Proposed FY15 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>7% $22.22</td>
<td>93% $277.78</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>13% $38.18</td>
<td>87% $261.82</td>
<td>19% $58.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>19% $58.14</td>
<td>81% $241.86</td>
<td>21% $62.98</td>
<td></td>
<td>26% $76.74</td>
</tr>
<tr>
<td>1-Jul-14</td>
<td>21% $62.98</td>
<td>79% $237.02</td>
<td></td>
<td></td>
<td>74% $223.26</td>
</tr>
</tbody>
</table>

*Sample itinerary is a domestic round trip with one stop each way and maximum passenger facility charge (PFC) per airport; total ticket price includes taxes

Airline industry consolidation has reduced the number of U.S. domestic carriers and created a ‘Big 4’ that carries over 80% of all U.S. domestic passengers today.

Source: Schedule SSIM data through March 2015, Diio Mi
Four major strategic initiatives over the past five years have set-up Southwest for success today

<table>
<thead>
<tr>
<th>AirTran Acquisition &amp; Integration</th>
</tr>
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<tbody>
<tr>
<td>• $400M annual pre-tax net synergies</td>
</tr>
<tr>
<td>• Strengthened &amp; diversified our complementary networks</td>
</tr>
<tr>
<td>• ATL, LGA &amp; DCA slots</td>
</tr>
<tr>
<td>• International</td>
</tr>
<tr>
<td>• Profitable growth at an attractive price</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Fleet Modernization &amp; -800s</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Evolve Interior</strong>: All Southwest 700s; 78 300s; 24 converted AirTran 700s</td>
</tr>
<tr>
<td>• 66 <strong>737-800s</strong>; 38 more on order</td>
</tr>
<tr>
<td>• Augmenting Boeing deliveries in pre-owned market</td>
</tr>
<tr>
<td>• 200 Boeing MAX aircraft on order</td>
</tr>
<tr>
<td>• All 717 flying will be replaced with 737 flying by year-end 2014</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>All-New Rapid Rewards Program</th>
</tr>
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<tbody>
<tr>
<td>• $300M incremental revenue</td>
</tr>
<tr>
<td>• Exceeding expectations with increased memberships, Member flight activity, Member fares, Cardholders, points sold to Partners, and points purchased</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International Capabilities &amp; New Reservation System</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Expect hundreds of millions incremental revenue</strong></td>
</tr>
<tr>
<td>• Began selling International in January on Amadeus’ Altéa solution; all AirTran international destinations will be transitioned by the end of 2014</td>
</tr>
<tr>
<td>• Selected Amadeus to support our domestic reservation system</td>
</tr>
</tbody>
</table>
How does Southwest evaluate potential new routes?

**Size of the market**
- Markets must be able to generate significant local O&D traffic to fill up our 737’s

**Level of other-airline competition**
- How many seats per O&D exist in the market?; How many existing daily flights?

**Forecasted financial performance**
- How does P&L score vs. other opportunities?

**Intangibles outside of the data**
- Customer travel purpose (Visit Friends and Relatives, leisure, corporate)
- Seasonality of the market by month
- Demand directionality and day-of-week demand differences
- Economic activity (health and drivers of the local economy)
- Local tourism attractions and partners

Creation of the “Southwest Effect”
Southwest opened Charleston, SC in March, 2011

City launch was a movement back to our roots of tapping under-utilized secondary markets

- CHS is geographically well positioned to be a “traffic magnet” for an area that encompasses the entire Low Country region
- Majority of existing air service in the Low Country region was high fared with limited options

<table>
<thead>
<tr>
<th>Market</th>
<th>Before Period</th>
<th>Service Begins</th>
<th>Interim Period</th>
<th>Before Pax</th>
<th>Fare</th>
<th>Interim Pax</th>
<th>Fare</th>
<th>% Change Pax</th>
<th>% Change Fare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baltimore (BWI)</td>
<td>3Q10</td>
<td>3/13/2011</td>
<td>1Q12</td>
<td>43</td>
<td>$201</td>
<td>192</td>
<td>$126</td>
<td>347%</td>
<td>-37%</td>
</tr>
<tr>
<td>Chicago (ORD/MDW)</td>
<td>3Q10</td>
<td>3/13/2011</td>
<td>1Q12</td>
<td>109</td>
<td>$190</td>
<td>206</td>
<td>$156</td>
<td>89%</td>
<td>-18%</td>
</tr>
<tr>
<td>Houston (HOU/IAH)</td>
<td>3Q10</td>
<td>3/13/2011</td>
<td>1Q12</td>
<td>60</td>
<td>$204</td>
<td>92</td>
<td>$177</td>
<td>53%</td>
<td>-13%</td>
</tr>
<tr>
<td>Nashville</td>
<td>3Q10</td>
<td>3/13/2011</td>
<td>1Q12</td>
<td>33</td>
<td>$241</td>
<td>78</td>
<td>$109</td>
<td>136%</td>
<td>-55%</td>
</tr>
<tr>
<td>Above Mkts Combined</td>
<td></td>
<td></td>
<td></td>
<td>245</td>
<td>$202</td>
<td>561</td>
<td>$142</td>
<td>129%</td>
<td>-30%</td>
</tr>
</tbody>
</table>

Current Pax: 211, Fare: $119, % Change Pax: 391%, % Change Fare: -41%
Current Pax: 191, Fare: $170, % Change Pax: 75%, % Change Fare: -11%
Current Pax: 89, Fare: $188, % Change Pax: 48%, % Change Fare: -8%
Current Pax: 83, Fare: $112, % Change Pax: 152%, % Change Fare: -54%

Source: U.S. DOT DB1B O&D Survey, Diio Mi
Southwest serves as a catalyst for economic activity in the communities it serves

Air service provided by Southwest Airlines promotes economic activity in two ways:

- The production of the company’s saleable products (e.g. passenger tickets, cargo, etc.)
- The money spent by passengers at their destinations (e.g. hotels, restaurants, etc.)

Southwest Airlines investment and economic impact

- Estimated to have created over $125 billion in economic activity and contributed close to $60 billion to GDP in the communities we served in 2013
- Aided the creation of close to 700 thousand jobs throughout the U.S. in 2013
Southwest Airlines Loves its Community

It’s at the heart of everything!

2013 Communities by the Numbers:
- 44,109 tickets donated
- More than 144,000 employee volunteer hours
- Nearly $3.2 million value of employee volunteer hours
- $19,951,092 Southwest total corporate monetary, in- kind and ticket donations
Our value and quality are widely recognized

**FORTUNE World’s Most Admired Companies**
- #7 in 2013, #9 in 2014

**Reward Seat Availability, #1 in the U.S., tied for #1 globally**
- *Switchfly* Reward Seat Availability Survey for 2014

**Best Loyalty Credit Card**
- Freddie Award, 2014 *InsideFlyer* magazine

**Best Customer Service**
- Freddie Award, 2014 *InsideFlyer* magazine

**One of the Best Places to Work, 2014**
- *Glassdoor.com*

**Top 25 Brands of 2013, #1 among travel-related companies**
- *The Business Journals*

**American Brand Excellence, 2014**
- *The Business Journals*
What is on the horizon for Southwest?

Lots of exciting new opportunities for us -
- Dallas Love Field (repeal of Wright Amendment)
- Expansion at Washington Reagan National and New York LaGuardia airports
- International expansion (opening of FIS facility at Houston Hobby airport)

Gary C. Kelly, Chairman, President & Chief Executive Officer, Southwest Airlines Co. on the potential of adding 50 new destinations

• “The 50, as I'm describing it to you, they're all beyond the 48 states. So there's nothing new. It's Hawaii, Alaska, Canada, the Caribbean, Mexico, Central America and the northern part of South America. Those are all within the performance capabilities of the 737 and they all at least look sufficiently attractive when it comes to the traffic potential and filling up the 737. So it's a wonderful place to be and whether we'll ultimately serve all 50 destinations is not guaranteed or committed to.”

Source: Southwest Airlines Co. Q2 2014 Earnings Call transcript
Without a *heart*, it’s just a machine.

Thank you!

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