TWU 555 INDUSTRY BRIEFING

THE NEW WORLD ORDER

By nearly every measure Southwest Airlines is the most successful airline in history, earning more than $12.7 billion in operating profits since deregulation. Today Southwest remains the largest domestic carrier despite recent mergers of our largest competitors. In addition, Southwest is larger than all other Low Cost Carriers ("LCCs") combined and is forecast by Wall Street Analysts to post record profits this year and next. A large part of Southwest's continuing success is the fact that SWA's employees remain the most productive in the industry, allowing SWA to pay more and keeping unit labor costs competitive.

Dan Akinsf
Aviation Industry Economist

Recent consolidation resulting from the mergers of Delta and Northwest, United and Continental, SWA and Airtran, and the announced merger of American and US Airways, is producing a mature, highly concentrated U.S. airline industry. This consolidation means less fragmentation and fewer competitors that will provide more capacity discipline and increase pricing power, which is predicted to result in record profits in the airline industry. Consolidation is also more clearly defining the "shelf-space" of U.S. airlines, as the three remaining legacy carriers American, Delta and United, are focused on attracting high-value customers with their massive global network operations, rather than directly competing with LCC's like Southwest.

The restructuring of SWA's largest competitors in bankruptcy five to ten years ago produced labor concessions that reduced labor costs. These labor cost reductions are rapidly becoming history, as legacy airline employees are currently recouping wage, work rule and benefit loses in their new contracts. Perhaps in recognition of these recent events, and despite being in bankruptcy, American Airlines has negotiated new labor agreements which contain sharp increases in wage rates for its workers that result in pay scales that are higher than when they entered bankruptcy.

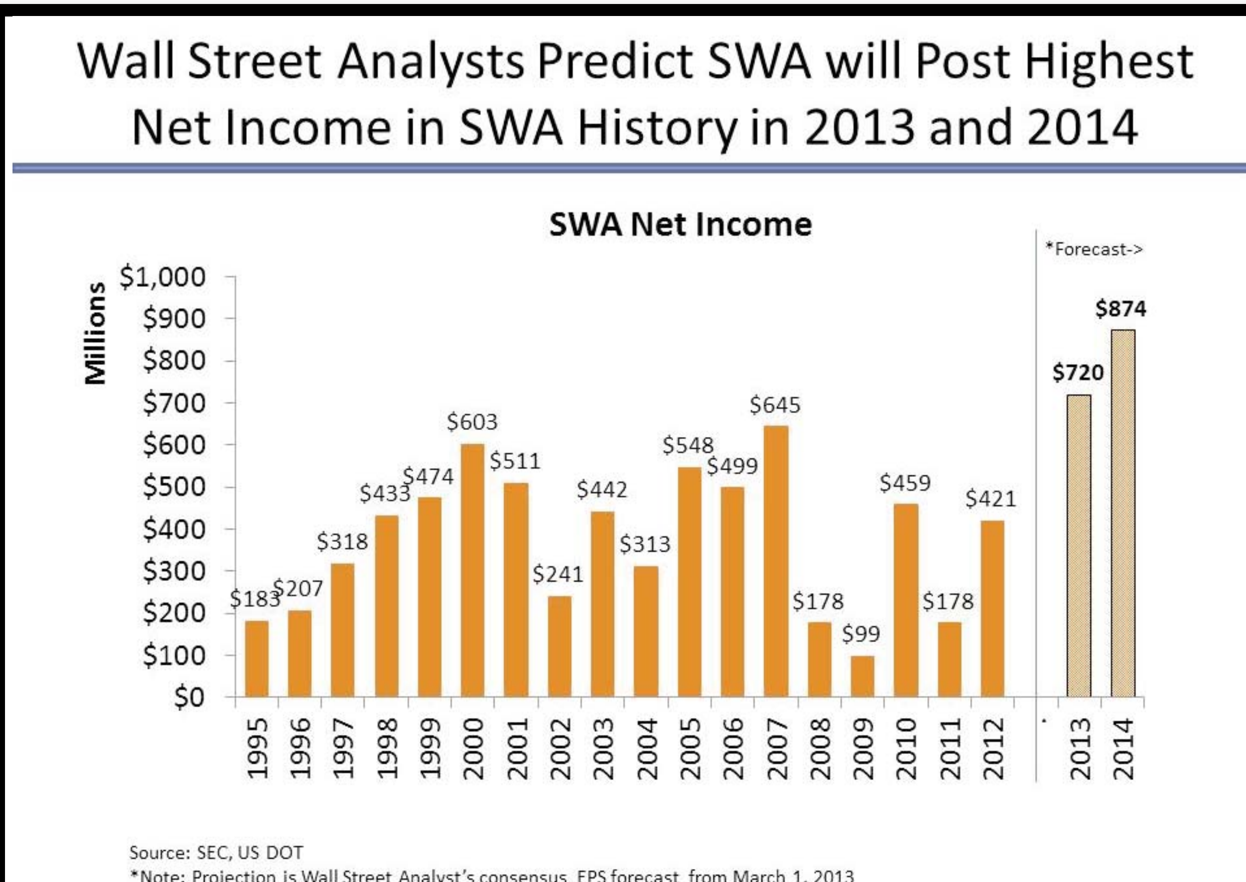
New labor agreements at restructured carriers have included overall pay rate increases ranging from 16% to nearly 80% above their previous concessionary wage rates, as these carriers are focusing on merger synergies and revenue upside to achieve business goals. These new labor contracts are rapidly increasing labor costs at SWA's largest competitors. Yet it appears SWA inadvertently believes that past decreases in labor costs at restructured carriers will continue and eliminate the competitive advantage of SWA. As shown in the following slides, this assertion is not true, and SWA is poised to post record profits this year.

Dan Akins

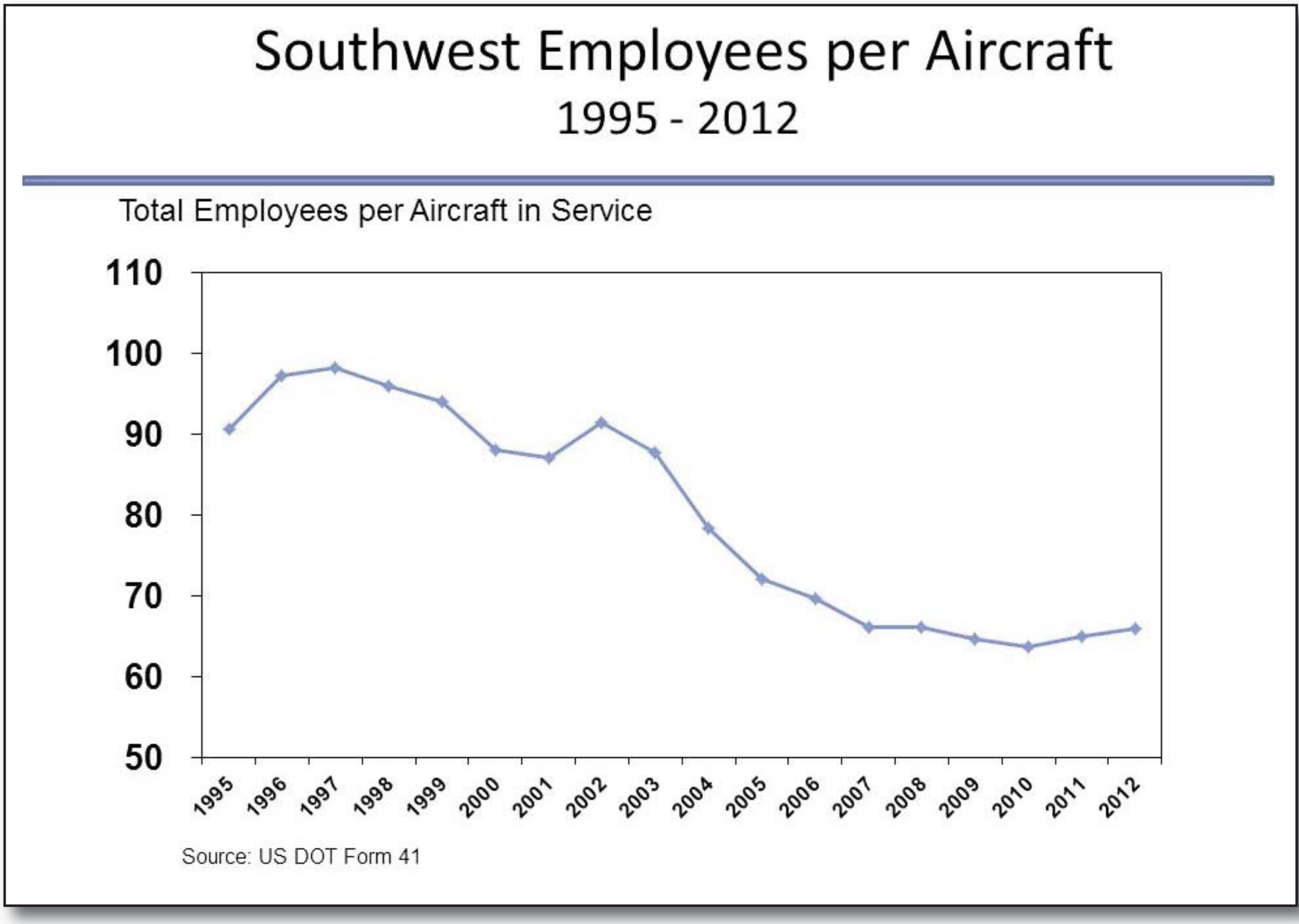
Aviation Industry Economist

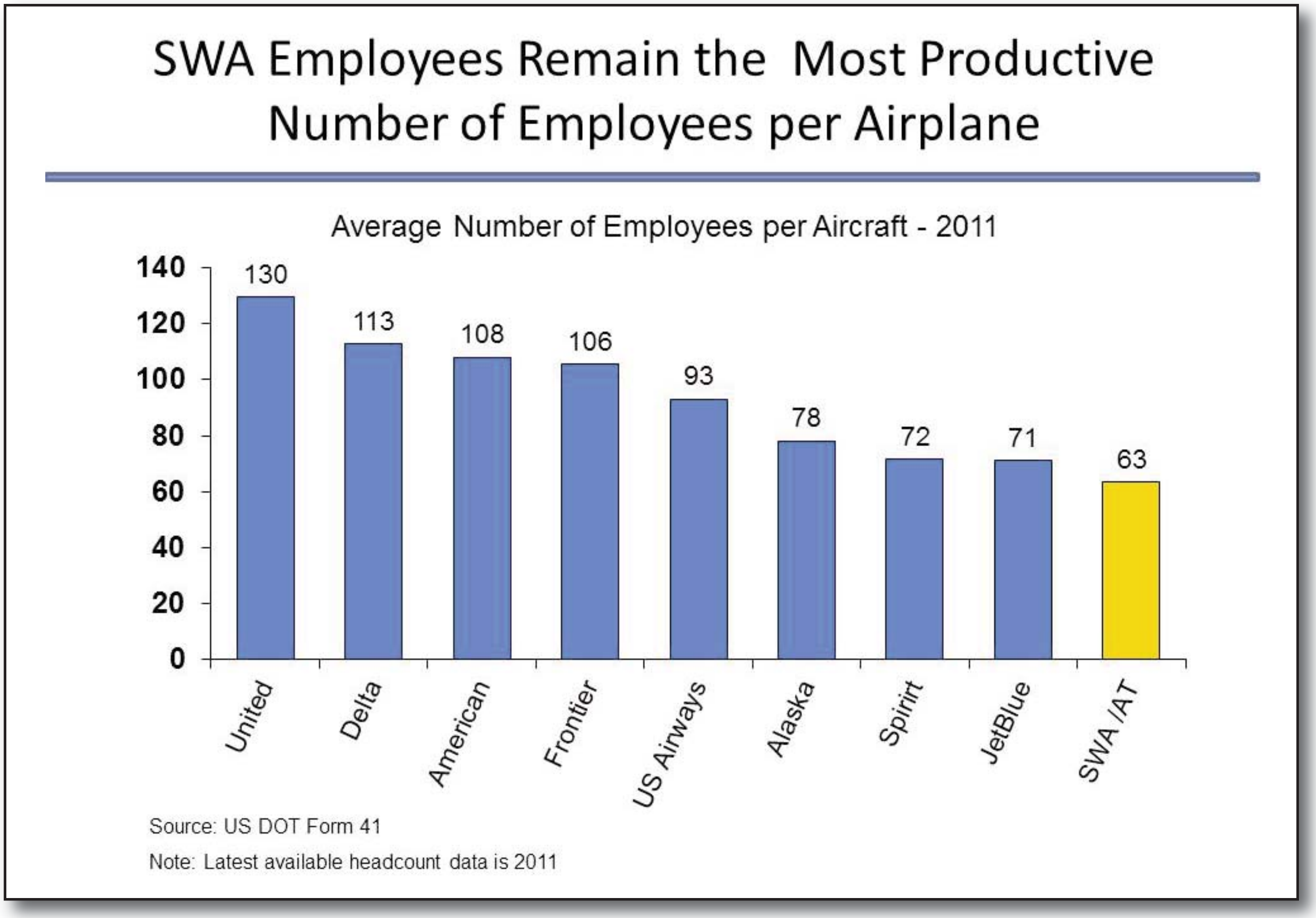
INDUSTRY UPDATE

This presentation is intended to provide an update on SWA's competitive position in the industry, including comparisons of SWA labor productivity and unit costs. **Slide 1** to the right provides historical and projected SWA annual net income, from 1995 through forecasts for 2013 and 2014. As shown, SWA produced $421 million in net income in 2012, and is currently forecast by Wall Street analysts to achieve record profit levels in 2013 and 2014.

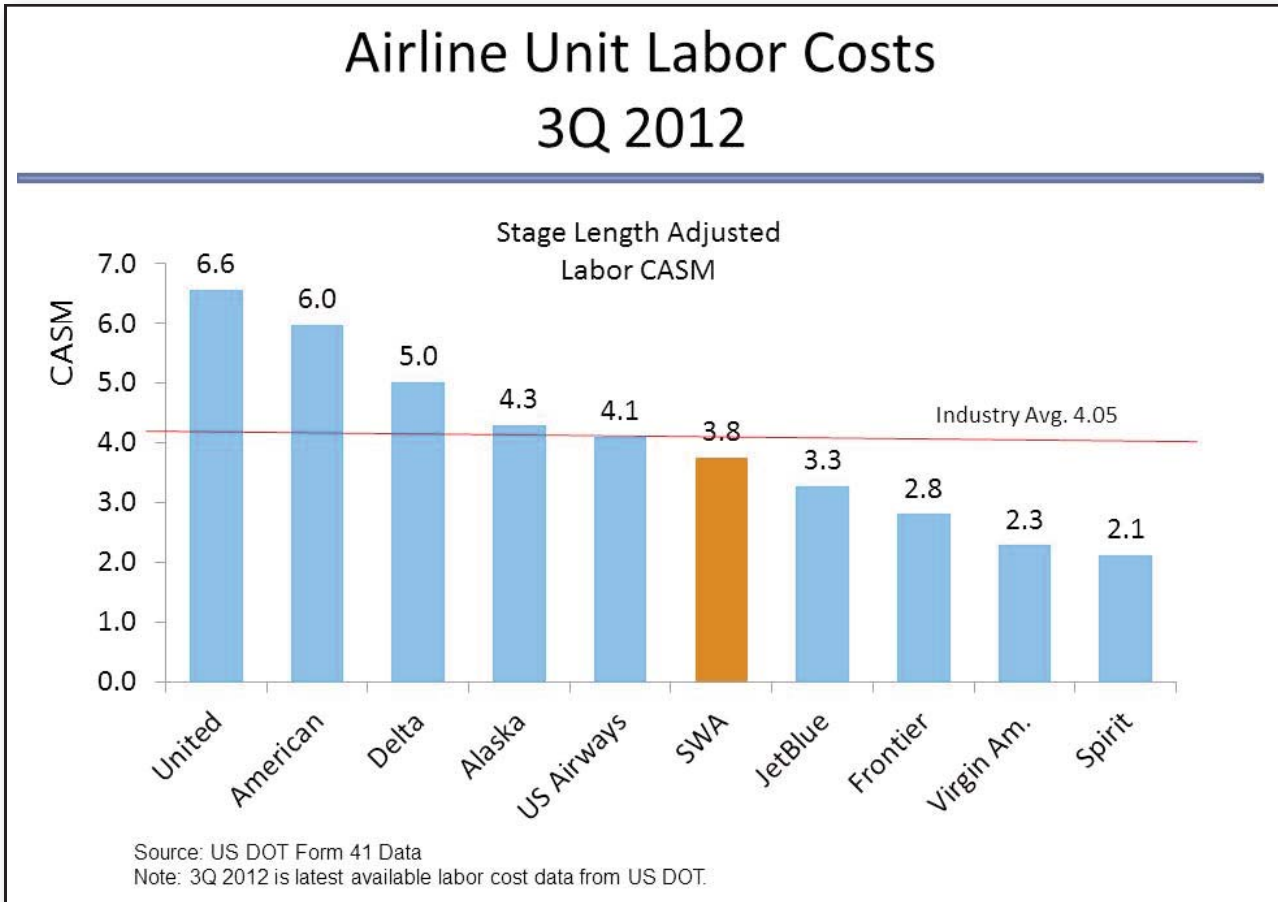


Slide 2 to the right provides the historical trend of the average number of SWA employees per aircraft. This is an important measure of airline labor productivity and clearly shows SWA employee productivity has increased by 40% since the mid-1990s, when SWA had approximately 100 employees per airport, to around 60 employees per aircraft today.

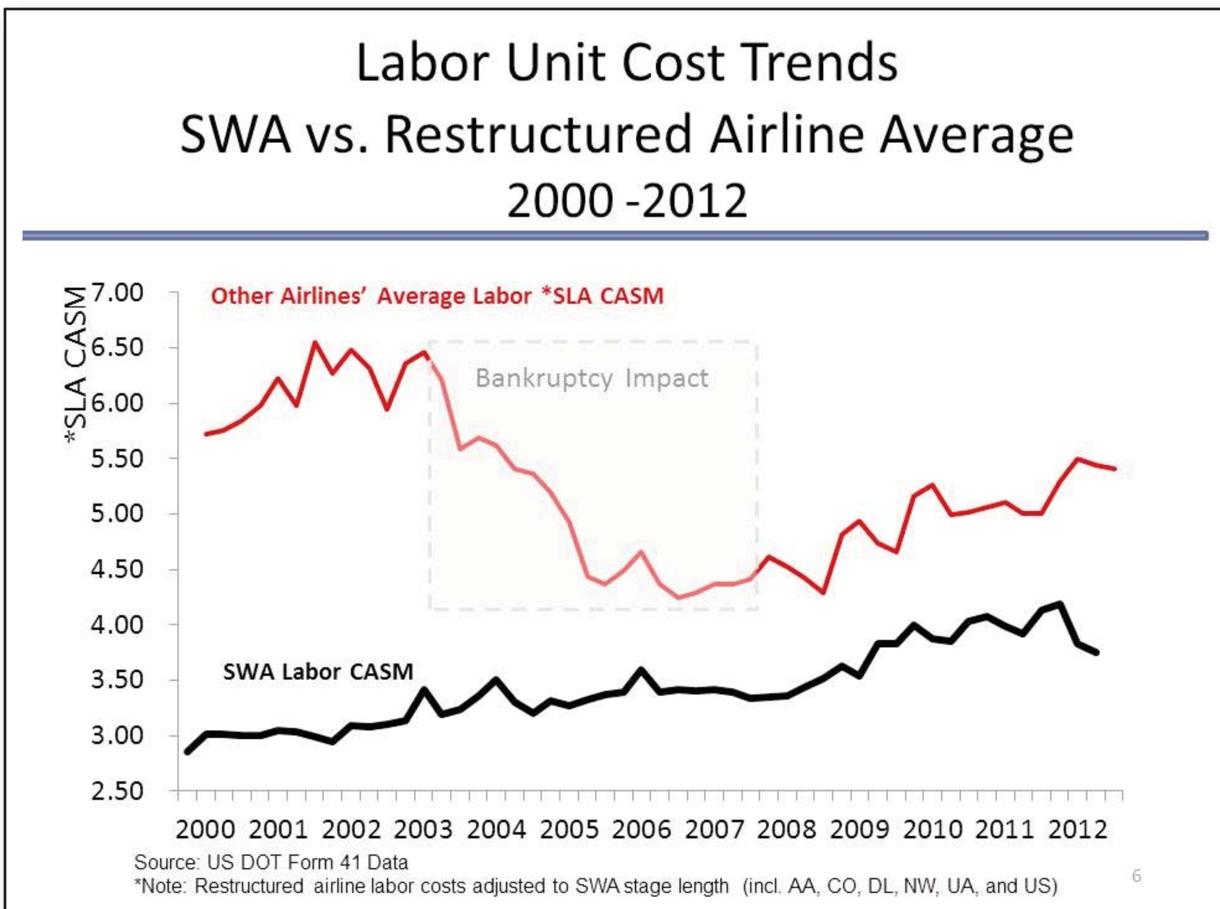




Slide 3 to the left is a comparison to show how SWA's current labor productivity stacks up against other carriers. As shown, SWA has the fewest number of employees per aircraft (63) in the industry, more productive than all other carriers, including LCC rivals JetBlue, Spirit and Frontier.

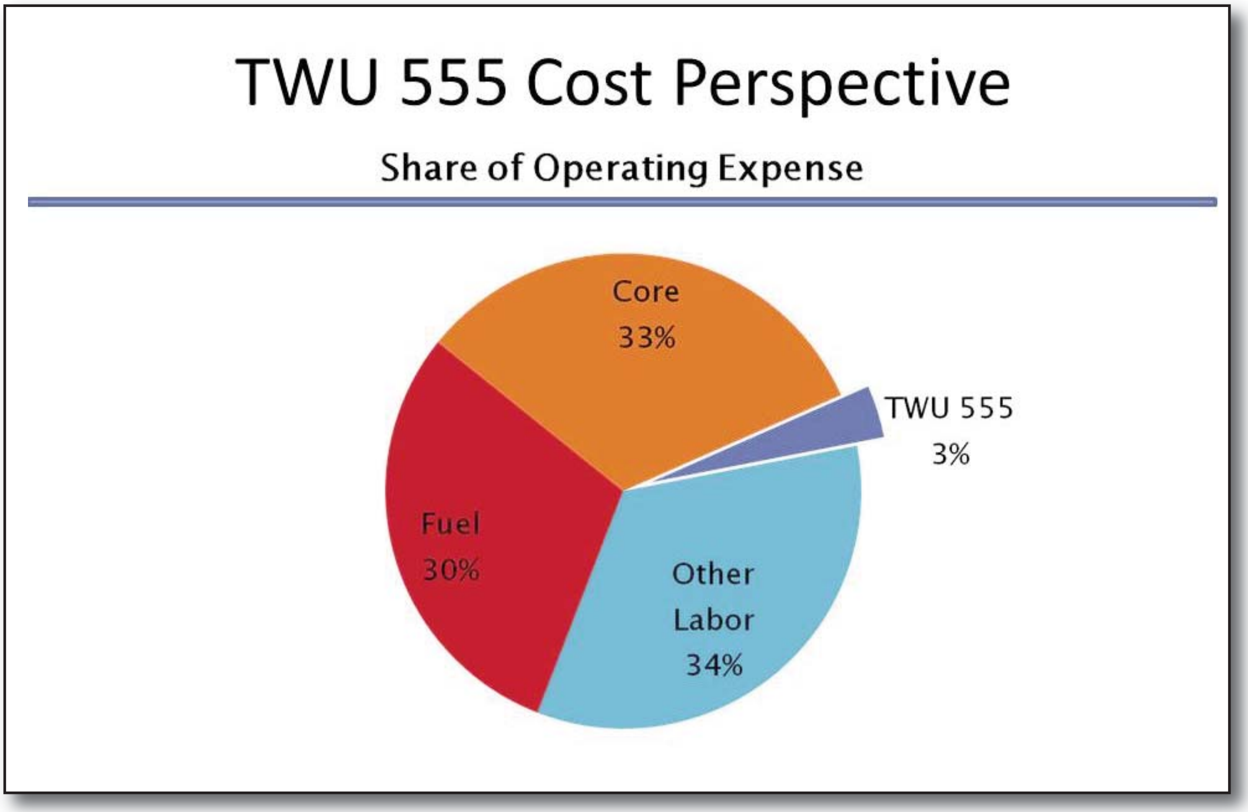


Slide 4 (to the left): As a result of Southwest employee's industry leading productivity, SWA employees enjoy some of the highest wages in the airline industry, yet SWA labor costs remain below industry average. As shown in Slide 4, Southwest's unit labor cost cents per available seat mile (ASM) of 3.8 cents (a standard comparative measure of airline costs) is below industry average labor costs of 4.05 cents per ASM.



Slide 5 to the right shows the trend in average labor unit costs over time, and focuses on comparing SWA's labor costs versus other carriers that have reduced labor costs through bankruptcy (DL '05, NW '05, UA '03, and US '01 & '03) or voluntarily out of court restructurings (AA '03 and CO '05). Notice the steep decline in the restructured carrier's labor unit costs (shown in red) following the initial restructurings in 2003, where average labor unit costs dropped from around 6.5 cents in 2002 to around 4.0 cents per ASM by 2005 (indicated by the period captured in the gray box). As the concessionary labor contracts began to expire five years later in 2008, there is a gradual increase in labor unit costs at the restructured carriers. Southwest labor unit costs are shown below as the black line and trend gradually upward during the period from about 3.0 cents per ASM to the current 3.8 cents per ASM. Over the past dozen years SWA labor costs never exceed or even approach the average labor costs of restructured carrier. As can be seen the gap is widening in 2012 as new, higher cost, labor contracts are negotiated at restructured carriers.

Slide 6 to the right puts TWU 555's total labor cost in perspective. TWU 555 annual wages, benefits and other expenses represent approximately 3% of SWA's total annual operating costs.



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Keeping Things In Perspective

- A 1% pay raise for TWU 555 would increase SWA CASM less than 0.003 cents (three one-thousands).
- A fare increase of 0.03% would cover this cost increase
- Industry consolidation and capacity constraints are allowing carriers to more readily raise fares
  - SWA has raised fares 28% since 2009
- A 1% Increase in SWA fares can offset a 3% increase in SWA fuel cost per gallon