

Competitive strategy – Customer service

July 23, 2012





Key findings from IAM fact base

- CSA and CS&S are both at a labor cost disadvantage to competitors
 - CSA: \$5-24M (3-14%) to Legacies and \$38-50M (22-29%) to LCCs on a base of \$171M
 - CS&S: \$27-54M (19-38%) to Legacies and \$54-68M (38-47%) to LCCs. Total labor spend was \$144M in 2011, but included \$16M of OT costs
- Sources of advantage and disadvantage:
 - CSA: We pay 25-50% higher wage scales and although we are more productive, it is not enough to make up the wage scale difference
 - CS&S: We pay higher wage scales (25-70%), have a longer average handle time, and do not use outsourcing
- After we agree on a fact base and a target with the IAM, we can bring a set of ideas to help close the gap that would likely be palatable to the Union and consistent with other workgroups
 - Wage scale with a longer top-out for new Employees that is still at or above industry average
 - Programs to reduce our average tenure
 - Logical work rule changes aimed at increasing productivity (e.g., cross-training at small stations, repurposing of the curbside role, further)
 - Incentive-based bonuses tied to company, workgroup, and individual targets
 - Work rule changes which allow for the strategic needs of the company (e.g., CSA staffing for international)
- These ideas will help close the gap with Legacies and, in the most optimistic case, may close the gap with LCCs by 2021

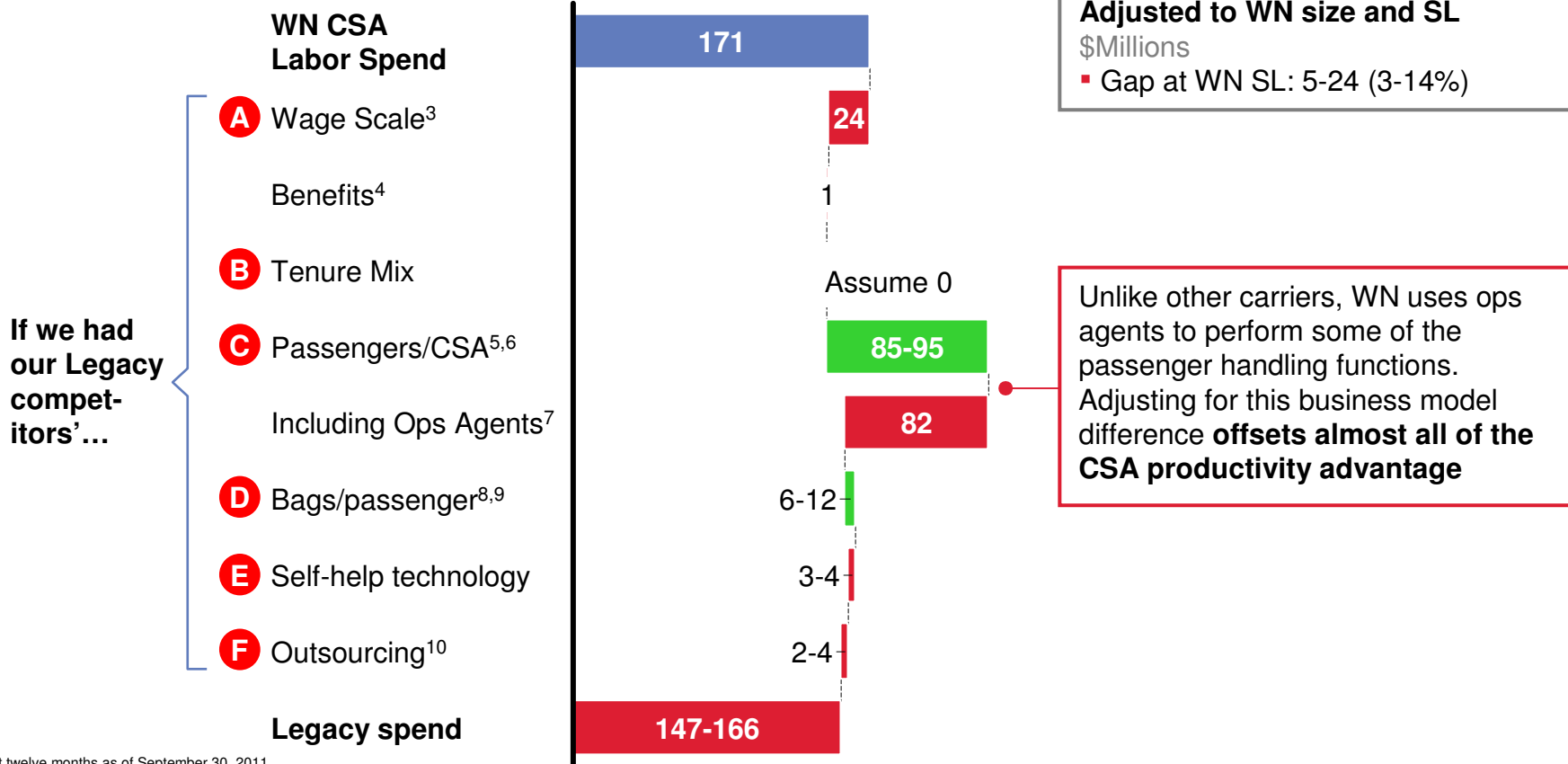
Legacy CSA: Gap is primarily driven by higher wages



CSA labor spend 2011

\$ Millions, adjusted to WN size^{1,2}

■ Advantage ■ Disadvantage



¹ Last twelve months as of September 30, 2011

² Legacy competitors include: American, Delta, US Air and United

³ Wage scale calculated from Air Conference 2011 data

⁴ Benefits include: retirement contributions (401K, profit sharing, pensions, etc.), and health care

⁵ Number of enplaned passengers from Form 41

⁶ Number of CSA obtained from Form 41 Passenger Handling Personnel assuming the same proportion of CSA over all EEs as Southwest. To determine the average CSA for the Legacies, we have weighted the number of CSAs by the carriers' respective ASMs

⁷ SW has ~1,300 ops agents performing CSA-like functions at the airport. Adjusting the CSA productivity to consider these employees offsets most of the perceived CSA productivity advantages

⁸ Legacy average of 0.95 to 1.05 bags/pax vs WN average of 0.85 bags/pax

⁹ Assumes 20% of all WN CSA time is proportional to number of bags, from API data

¹⁰ Outsourcing assumes 30% saving for outsourcing stations with 5 flights or less

SOURCE: Form41 via OAGAVIATION, RX/API data,

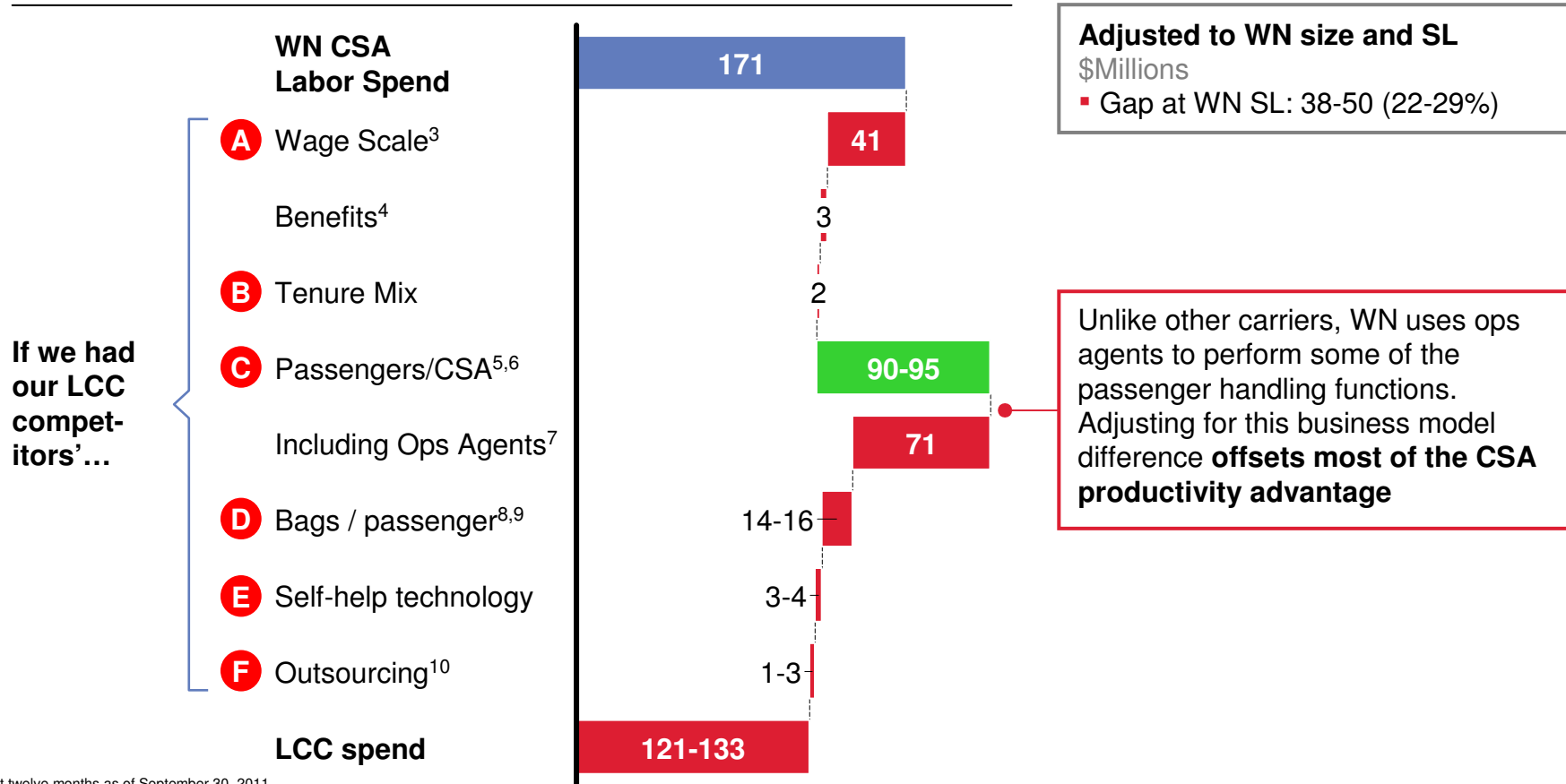
LCC CSA: We pay higher wages and check more bags, and our productivity advantage does not make up the difference



CSA labor spend 2011

\$ Millions, adjusted to WN size^{1,2}

■ Advantage ■ Disadvantage



¹ Last twelve months as of September 30, 2011

² LCC competitors include: JetBlue, Frontier and AirTran

³ Wage scale calculated from Air Conference 2011 data

⁴ Benefits include: retirement contributions (401K, profit sharing, pensions, etc.), and Health care,

⁵ Number of enplaned passengers from Form 41

⁶ Number of CSA obtained from Form 41 Passenger Handling Personnel assuming the same proportion of CSA over all EEs as Southwest. To determine the average CSA for LCCs, we have weighted the number of CSAs by the carrier's respective ASMs

⁷ SW has ~1,300 ops agents performing CSA-like functions at the airport. Adjusting the CSA productivity to consider these employees offsets most of the perceived CSA productivity advantages

⁸ AirTran average of 0.55 bags/pax is used as a proxy for all LCCs vs WN average of 0.85 bags/pax

⁹ Assumes 20% of all WN CSA time is proportional to number of bags, from API data

¹⁰ Outsourcing assumes 30% saving for outsourcing stations with 5 flights or less

SOURCE: Form41 via OAGAVIATION, RX/API data,



Proposed 5-10 year labor strategy: The path to a competitive cost position for CSA will likely consist of at least four additional elements

Ideas	Value \$ M, 2016
Longer path to top out for new EEs	12, but grows to 25-30 by 2030 ¹
Tenure programs ³	5 ²
Key productivity improvements ^{4,5}	3-4 ³ 2-4 ⁴ 2-3 7-8 ⁵
Reward/risk sharing ⁶	~0 ⁶
Total	31-36 , but grows to 44-54 by 2030

1 The range of savings has been developed using four different approaches for bringing in new Employees. See Appendix for further details

2 Early retirement assumes 10% reduction to the topped-out CSA workforce with the offer of a buy-out program. One time buyout cost which is consistent with Freedom 09 is \$12M (300 employees at \$40K each)

3 Assumes that irregular ops rebookings at the gate (3% of total CSA time worked) is handled instead by CS&S who are 50% more efficient, leading to \$3M in savings net of the extra capacity needed in CS&S

4 Assumes that ~70 curbside roles would either be eliminated (\$4M in savings) or outsourced to SkyCap at 50% savings (\$2M)

5 Assumes 30% savings per CSA outsourced for stations with 9 flights per day or less (\$7M) or 12 flights or less (\$8M)

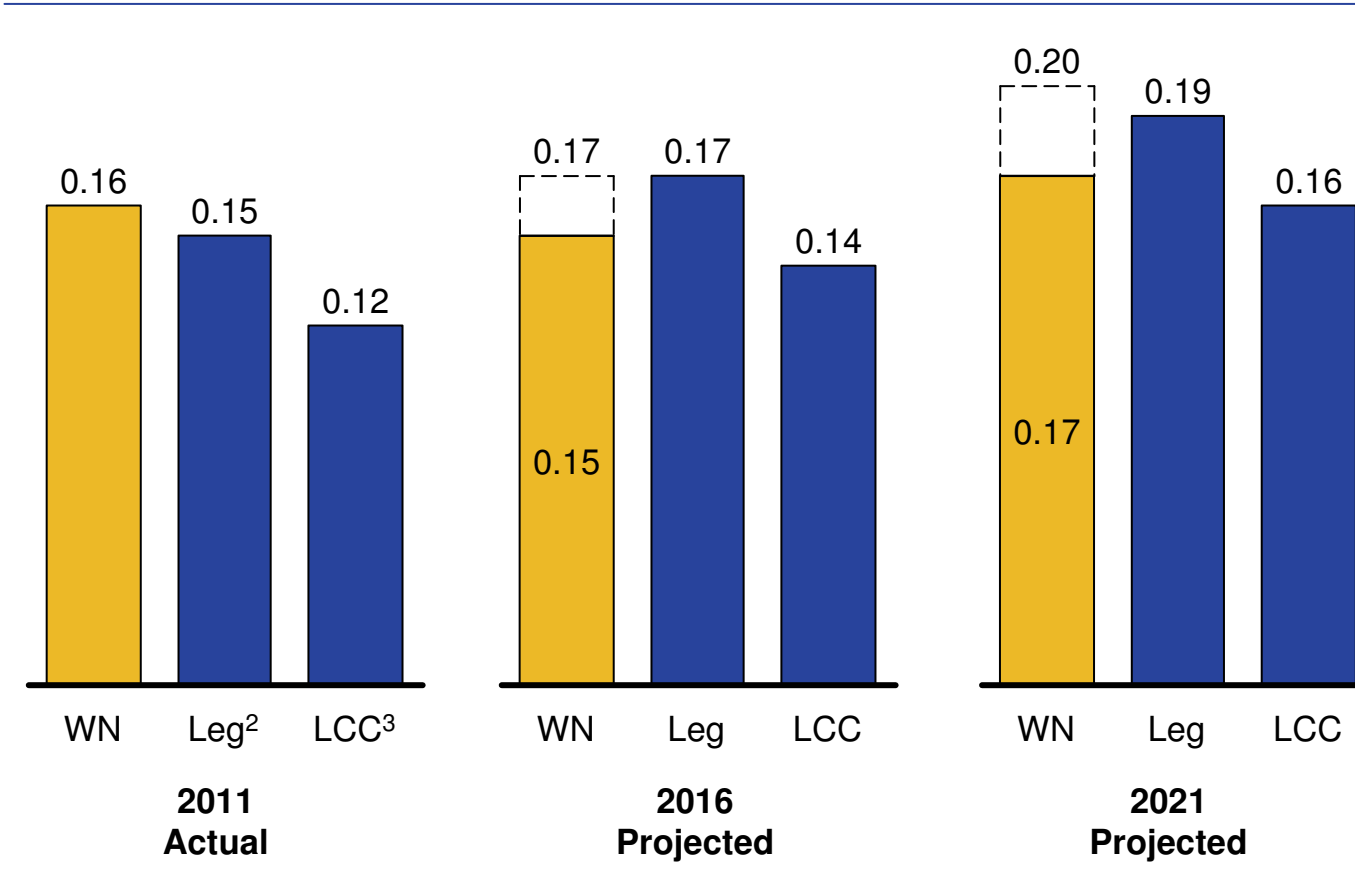
6 Risk/reward measures are assumed to be trade-offs with the Employees, designed to drive the right behavior and by design do not change overall spend levels

Potential path could help us match Legacy CSA CASM in the next 3-4 years, while matching LCCs by end of the decade



Projected CSA Labor CASM¹, adjusted to WN stage length
US Cents

□ Flat wage scales until 2021
■ Path described on previous page



Implications

- Even if we are able to hold wage scales flat for 10 years, will still be close to parity with Legacies and above LCCs (assumes Legacies and LCCs grow at historic rate of 2.6% p.a.⁴.)
- Achieving proposed path could close gap with Legacies in 3-4 years and close to LCCs by the end of the decade

¹ Legacy / LCC forecasted CASM based on weighted average of: 2000-2011YTD CASM CAGR for all airlines except those that have experienced Chapter 11 or major cost changes, in which case the post restructuring CASM from the year following restructuring through 2011 YTD was used.

² Legacies include: American (includes TWA), Continental, Delta, Northwest, United, US Airways (includes America West), Alaskan. Legacy and LCC also validated to be in line with Deutsche Bank Oct. 2011 projections.

³ LCCs: AirTran, Allegiant, JetBlue, Frontier, Spirit Airlines and Virgin America

⁴ IAM labor CASM grows faster than the overall CASM growth of 1.5% because of health care costs rising at 8% p.a. make up 20-30% of overall spend

SOURCE: ASM projection from FP&A Capacity Memo (Jan '12), costs from CSA total cost model, Department of Transportation Form 41 Schedules T2 and P6

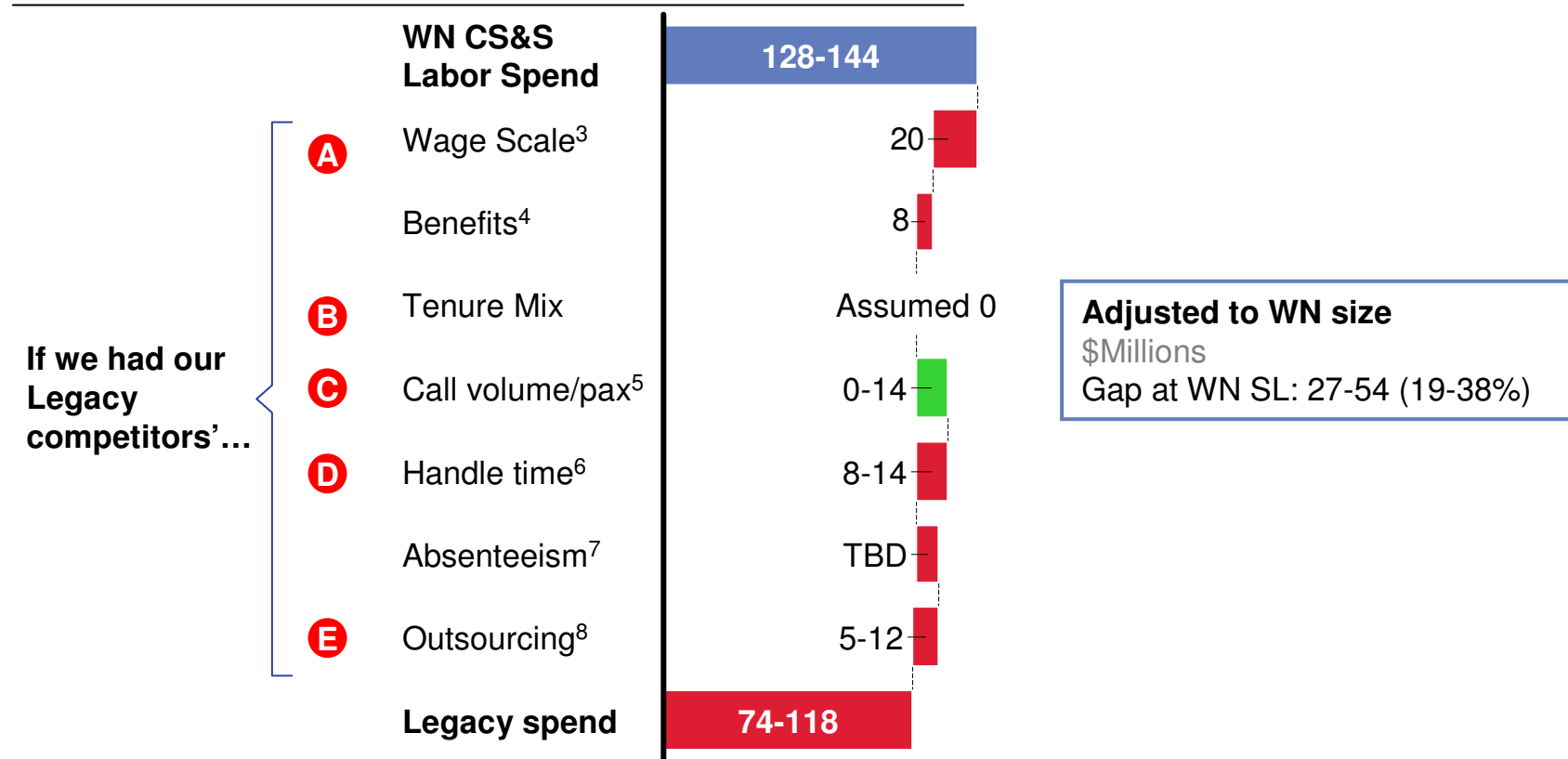


Legacy CS&S: Gap is primarily driven by higher wages, call handle time, and outsourcing

CS&S labor spend 2011

\$ Millions, adjusted to WN size^{1,2}

■ Advantage ■ Disadvantage



¹ Last twelve months as of September 30, 2011. WN wage spend is \$128M without overtime and \$144M with overtime

² Legacy competitors include: American, Delta, United, and USAir

³ Wage scale calculated from Air Conference 2011 data

⁴ Benefits include: retirement contributions (401K, profit sharing, pensions, etc.), and health care

⁵ Call volume modeled using passenger segmentation data and calling behaviors of leisure and business passengers

⁶ Handle time for WN is 303 seconds as of 2011 and 278 seconds as of Jan-Apr 2012 – these two data points for AHT have been used to create a range for handle time's impact on CS&S labor spend. Handle time for Legacies is assumed to be the same as the industry median for travel and leisure companies in the CEB Benchmarking report for WN, May 2012

⁷ The impact of absenteeism needs to be quantified. Data required to model this impact is currently unavailable

⁸ Outsourcing incidences for Legacies is from the published newspaper reports and team research. Offshore outsourcing saving is assumed to be 25% and near-source saving is assumed to be 10%

SOURCE: Form41 via OAGAVIATION, RX/API data

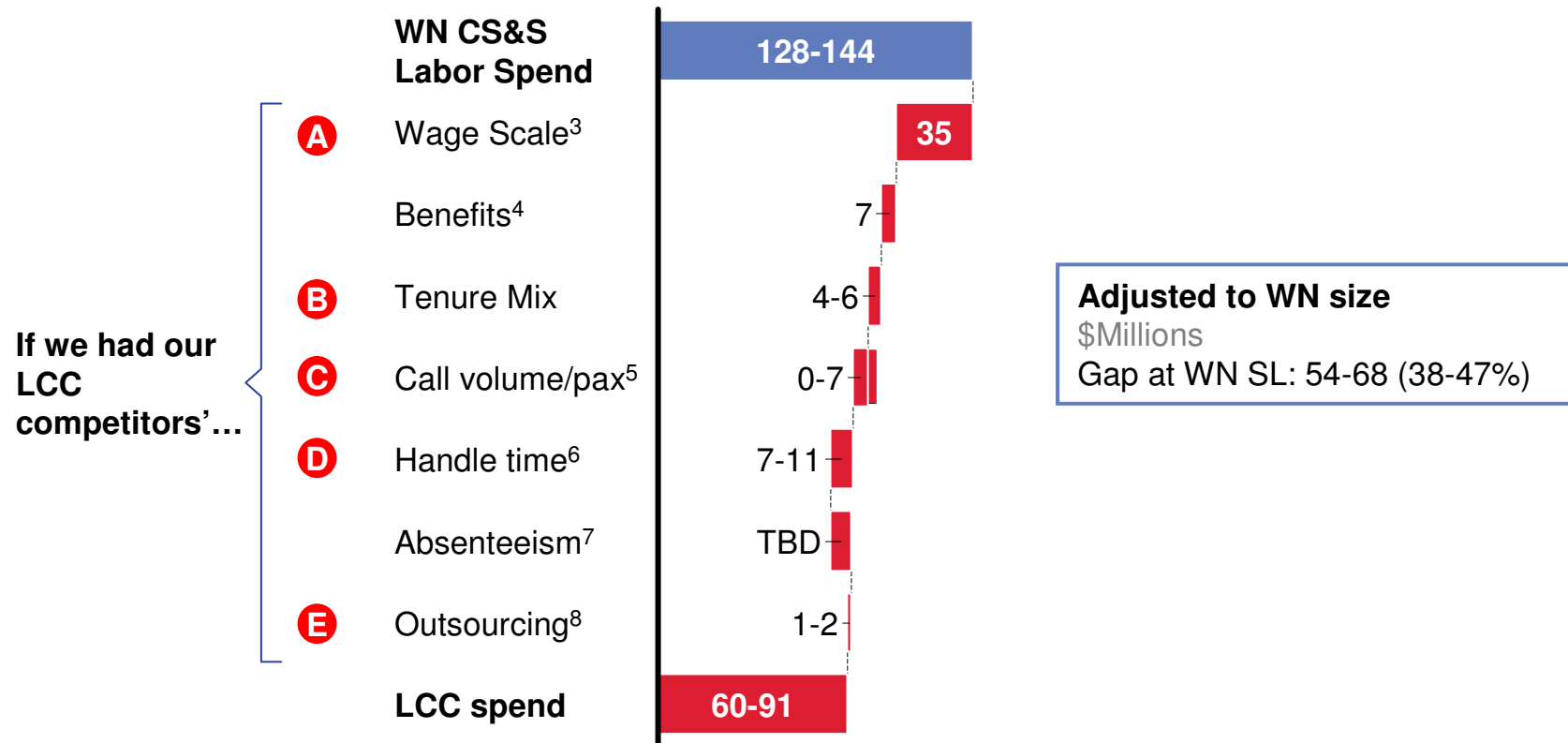
LCC CS&S: Gap is primarily driven by higher wages and call handle time



CS&S labor spend 2011

\$ Millions, adjusted to WN size^{1,2}

■ Advantage ■ Disadvantage



1 Last twelve months as of September 30, 2011. WN wage spend is \$128M without overtime and \$144M with overtime

2 LCC competitors include: AirTran and JetBlue

3 Wage scale calculated from Air Conference 2011 data

4 Benefits include: retirement contributions (401K, profit sharing, pensions, etc.), and health care

5 Call volume modeled using passenger segmentation data, calling behaviors of leisure and business passengers and internal AirTran data

6 Handle time for WN as of 2011 is 303 seconds and as of Jan-Apr 2012 is 278 seconds per call – these two data points for AHT have been used to create a range for handle time's impact on CS&S labor spend. Handle time for LCCs is assumed to be the same as for AirTran from internal sources

7 Absenteeism value is still being evaluated

8 Outsourcing data for LCCs is from the published newspaper reports and team research. Offshore outsourcing saving is assumed to be 25% and near-source saving is assumed to be 10%

SOURCE: Form41 via OAGAVIATION, RX/API data,

Currently in progress: Planned initiatives will help lower labor costs but will not close the entire gap with competitors



	Actions	Effect on cost	Plan/Status	Constraints	Value \$ M, 2016
Workforce ¹	<ul style="list-style-type: none"> Right-size headcount to avoid mandatory overtime 	<ul style="list-style-type: none"> Reduces overtime 	<ul style="list-style-type: none"> Complete 	<ul style="list-style-type: none"> None 	5-12
Technology ²	<ul style="list-style-type: none"> Upgrade telecom platform 	<ul style="list-style-type: none"> Improves utilization by centralizing queuing and prompting 	<ul style="list-style-type: none"> 2013 	<ul style="list-style-type: none"> Requires 4-5 People staffed to centralized data center 	7-20
	<ul style="list-style-type: none"> Expand VRU self service options 	<ul style="list-style-type: none"> Reduces number of live calls 	<ul style="list-style-type: none"> 2014 	<ul style="list-style-type: none"> Requires 2-3 People staffed to manage VRU provider relationship 	
	<ul style="list-style-type: none"> Pass caller data to Agent desktop 	<ul style="list-style-type: none"> Reduces average handle time 	<ul style="list-style-type: none"> 2014 	<ul style="list-style-type: none"> Possibly results in temporary handle time increase as new system is rolled out 	
	<ul style="list-style-type: none"> Unified Rep desktop (app consolidations) 	<ul style="list-style-type: none"> Reduces average handle time 	<ul style="list-style-type: none"> 2015 	<ul style="list-style-type: none"> Requires full training of Res Agents on new desktop 	
Infra-structure ³	<ul style="list-style-type: none"> Decrease facilities footprint 	<ul style="list-style-type: none"> Reduces overhead costs 	<ul style="list-style-type: none"> 2015 	<ul style="list-style-type: none"> Requires new facility with extended footprint 	Bulk of savings from real estate
Total					12-32

1 Total overtime cost in 2011 was \$16M. Right-sizing the headcount is assumed to decrease the ongoing OT costs by anywhere from \$5M (cost of benefits only from using LWOP) to \$12M (fully loaded cost of new Employees)

2 WN internal analysis shows a potential to reduce on-phone hours by 8 percent (\$20M in 2016) by leveraging VRU technologies. Using this analysis, we assume that the cost reductions from these technological enhancements are likely between \$7-20M. The lower range of the savings assumes that these technological enhancements would help WN lower its average handle time to AirTran's level – this handle time reduction is worth \$7M

3 The current plan is to consolidate Savannah and Carrington call centers into a single facility in Atlanta. This action is likely to decrease the facility cost but is unlikely to drive any labor cost savings



Proposed 5-10 year labor strategy: The path to a competitive cost position for CS&S will likely consist of at least four additional elements

	Requires contract changes	Value \$ M, 2016
Longer path to top out for new EEs ^{1,2}	<ul style="list-style-type: none"> Multiple options to alter wage scales for new Employees, while still maintaining competitive industry wages and same eventual top-out as current Employees (see 4 approaches detailed in Appendix) 	5-18, but grows to ~28-56 by 2030
Tenure programs ³	<ul style="list-style-type: none"> Programs to reduce average tenure of workgroup <ul style="list-style-type: none"> Early retirement offers Jumpstart program, to hire people for fixed terms (e.g., 5 years) 	5
Key productivity improvements ^{4,5}	<ul style="list-style-type: none"> Home-based on-demand Rep program Skill-based routing, with lower pay scales for lower skilled agents Overflow low-value calls to a third party call center AMP changes to reduce absenteeism and FMLA abuse 	2-7 3-5 2-5 TBD
Reward/risk sharing ⁶	<ul style="list-style-type: none"> Pay increases linked to multiple performance targets (e.g., Individual Small group, Company) 	~0
Total		17-40 , but grows to 40-78 by 2030

1 The range of savings has been developed using four different approaches for bringing in new Employees. Approach 1 assumes 20% lower salaries for all new Employees, reaching current top-out by Step 18; Approach 2 assumes hiring all new Employees at current starting salaries but growing at a slower rate to reach current top-out by Step 18; Approach 3 assumes hiring all new Employees at average Legacy wages, and Approach 4 assumes hiring all new Employees at average LCC wages

2 WN can hire PT employees within the current contract to improve scheduling flexibility. Assuming all new employees in 2016 are hired as PT and earn FT status after a year is worth \$3M in 2016

3 Early retirement assumes 10% reduction to the topped-out CS&S workforce with the offer of a buy-out program. One time buyout cost which is consistent with Freedom '09 is \$12M (300 employees at \$40K each)

4 Assumes overflowing 10% to 20% of the total calls to a third party center. Also assumes that the outsourced calls would cost 10% less than the internal costs of these calls

5 Assumes routing 15% to 30% of the calls to home-based Agents who are paid 10% less than the call center based Agents

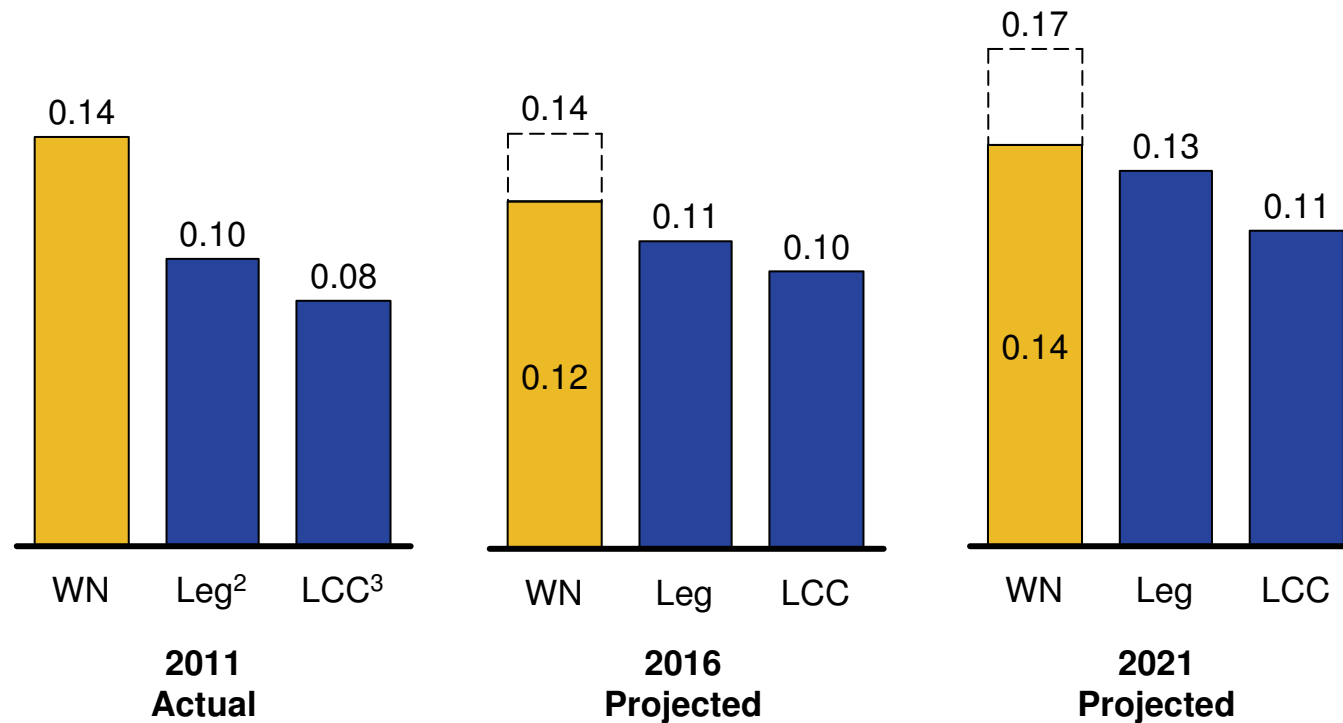
6 Risk/reward measures are assumed to be trade-offs with the Employees, designed to drive the right behavior and by design do not change overall spend levels

Potential path could eliminate almost all of the cost gap with Legacies and LCCs over the next 5-10 years



- Path with current initiatives and flat wage scales only
- Path described on previous page

Projected CS&S Labor CASM¹, adjusted to WN stage length
US Cents



Implications

- Flat wage scales and current initiatives alone would not shrink competitive gaps (assumes Legacies and LCCs grow at historic rate of 2.6% p.a.)
- However, closing the bulk of the gap by 2021 is possible if we are able to achieve the 4 elements on the previous page

¹ Legacy / LCC forecasted CASM based on weighted average of: 2000-2011YTD CASM CAGR for all airlines except those that have experienced Chapter 11 or major cost changes, in which case the post restructuring CASM from the year following restructuring through 2011 YTD was used. The current path has been adjusted to show the impact of work in progress actions (e.g., overtime reduction and technological improvements) for reducing costs. The proposed path considers the impact of the proposed negotiation ideas on the CS&S cost structure

² Legacies include: American (includes TWA), Continental, Delta, Northwest, United, US Airways (includes America West), Alaskan. AA assumes a 15% decrease in CASM in 2012 (based on stated goal of 20% and other Legacy Bankruptcies averaging a ~30% decrease in CASM from peak pre-bankruptcy to trough post bankruptcy). Legacy and LCC also validated to be in line with Deutsche Bank Oct. 2011 projections.

³ LCCs: AirTran, Allegiant, JetBlue, Frontier, Spirit Airlines and Virgin America

SOURCE: ASM projection from FP&A Capacity Memo (Apr '12), costs from CS&S total cost model, Department of Transportation Form 41 Schedules T2 and P6

Appendix



1 Footnote

SOURCE: Source

Highest value ideas for CSA are longer top out for new EEs, early retirement programs, and cross-utilization with ramp



Bold text: modeled and included in the package

	Select ideas (not exhaustive)	Estimated value ¹ \$ Million, 2016
Path for new Employees	<ul style="list-style-type: none"> Longer top out with 20% lower wages initially and same top out at 18 years instead of 11 	12 (2016), 25-30 (2030)
Early retirement program	<ul style="list-style-type: none"> Early retirement bonus for topped out employees¹ 	5
Key productivity improvement	<ul style="list-style-type: none"> Repurpose curbside role at large stations Send irregular ops rebooking to CS&S Repeal double time pay for mandatory overtime Outsource CSA at smaller stations Allow mandatory LWOP to reduce 3% Staff to levels to mitigate overtime Allow supervisors to assist with rebooking during IROPS Allow seasonal workforce (e.g., reduced HC in summer in FL) CSA perform boarding and Ops Agents go below the wing Use CSA to handle excess calls from call centers 	2-4 3-4 1-3 7-8 5-12 4-6 3-4 1-5 TBD (combo of 555 and IAM) <1
Risk/Reward sharing	<ul style="list-style-type: none"> Reduce wage scale by 10% but replace it with up to a 15% performance bonus Tie future pay raises to company performance "Blue" passes for performance Tweaking attendance policy to allow for easier "roll-off" 	<1 <1 <1 <1
Other	<ul style="list-style-type: none"> Reduce pay scale by 10% and allow CSA to collect tips Use reduction in force abilities in contract 	20 7-15

¹ Assumes 10% of topped out will retire in 2013 with a bonus of \$40000. Total initial cost of 12000000

Breakdown of value in proposed path forward for CSA

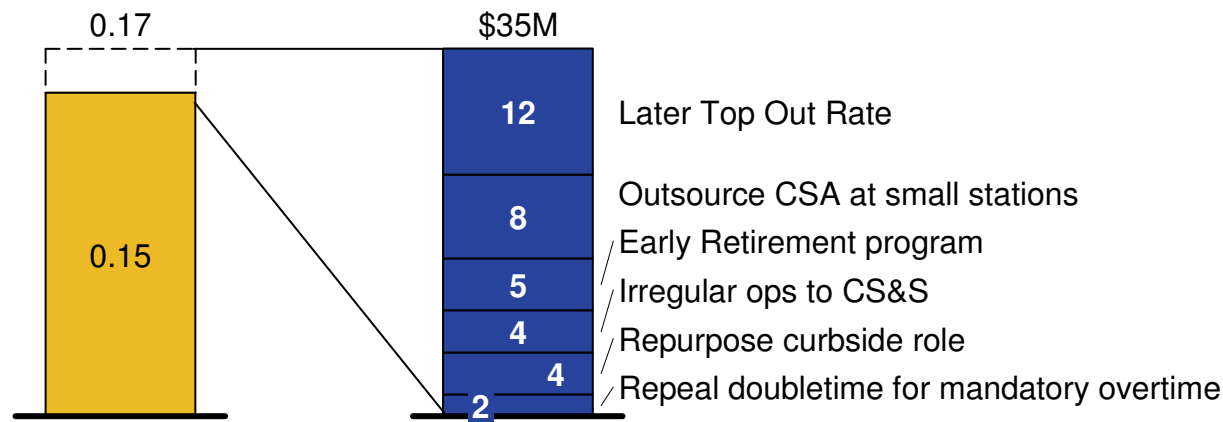


2016 CSA Labor CASM adjusted to WN stage length¹

US Cents, 2016 (Projected)

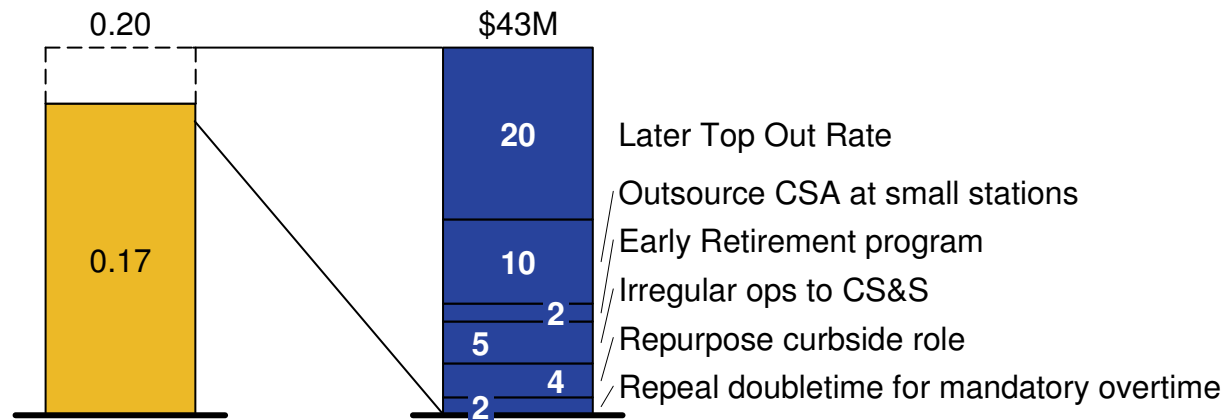
Flat wage scales until 2021

Proposed path



2021 CSA Labor CASM adjusted to WN stage length

US Cents, 2021 (Projected)



¹ ASMs taken from Capacity Memo dated 4-11-12 and assumed to be 159 billion by 2016 and 176 billion by 2021

Different approaches to a longer top-out yield cost reductions of \$3-9M by 2016 and \$28-57M by 2030

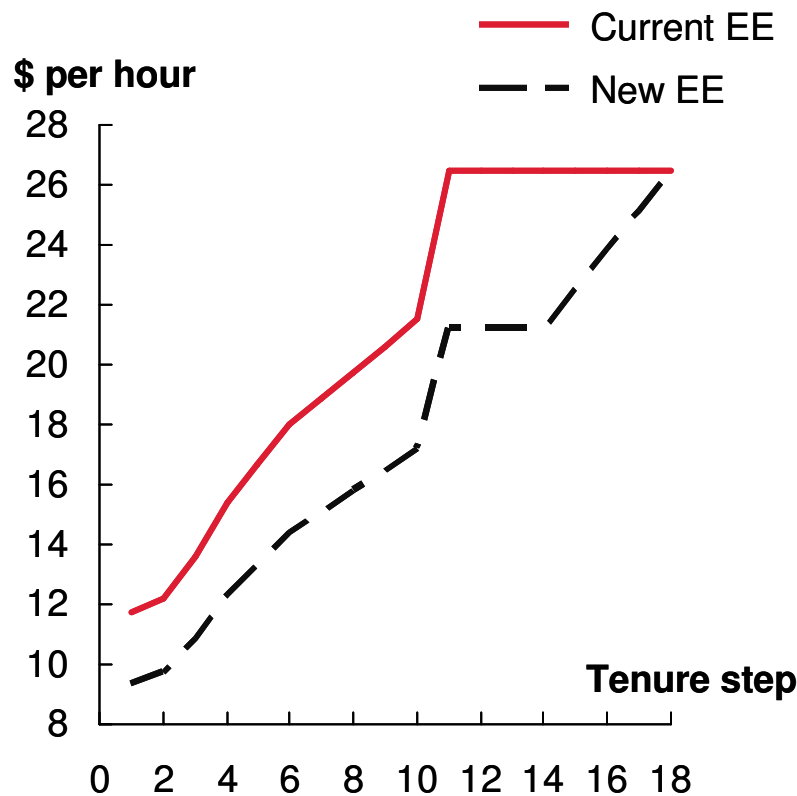


Approach	Pros	Cons	Value (\$M)
20% lower salaries up to Step 14, reaching current top-out by Step 18	<ul style="list-style-type: none"> Same top-out reinforces aspirations of new EEs Consistent wage increases are more logical to EEs 	<ul style="list-style-type: none"> Lower entry level wage scale could impair ability to hire best Employees 	<ul style="list-style-type: none"> 2016: 15 2030: 28
Current starting but slower growing salaries, reaching current top-out rate by Step 18	<ul style="list-style-type: none"> High starting wage retains the ability to attract the best entry-level EEs Same top-out reinforces aspirations of new EEs 	<ul style="list-style-type: none"> Least valuable of all approaches Low raises in first few years may be confusing to new EEs 	<ul style="list-style-type: none"> 2016: 3 2030: 28
Average Legacy salaries for all new Employees	<ul style="list-style-type: none"> Lowers cost by matching Legacy cost structure Competitive benchmark simplifies future negotiations 	<ul style="list-style-type: none"> Creates two permanently different salary classes Different top-out rates may not resonate well with new EEs 	<ul style="list-style-type: none"> 2016: 11 2030: 35
Average LCC salaries for all new Employees	<ul style="list-style-type: none"> Highest value in the long-term Competitive benchmark simplifies future negotiations 	<ul style="list-style-type: none"> Creates two permanently different salary classes Largest gap of all the approaches at the top-out rate 	<ul style="list-style-type: none"> 2016: 10 2030: 57

Approach 1: 20% lower salaries than the current EE's and reaching current top-out in 18 steps is worth \$12-28M



Approach 1: 80% of current EE salaries up to step 14, reaching current top-out at step 18



Value, \$ Million:

2016: 12

2030: 28

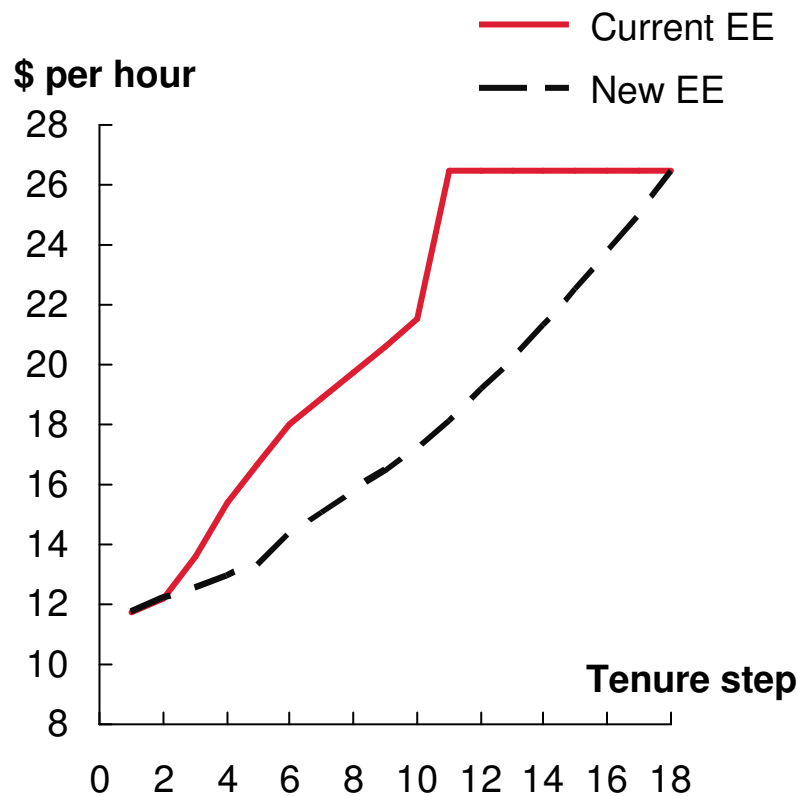
Rationale

- Lower starting salaries by 20% to match market level salaries
- Increase the number of steps in the tenure to 18 to close the competitive gap at the high end of the salaries
- Reach the same top-out as current Employees to make the new scale attractive to new Employees

Approach 2: offering the same starting salaries as the current EE's and reaching current top-out in 18 steps is worth \$3-28M



Approach 2: Same starting salaries but declining to match current top-out in 18 steps



Value , \$ Million:

2016: 3
2030: 28

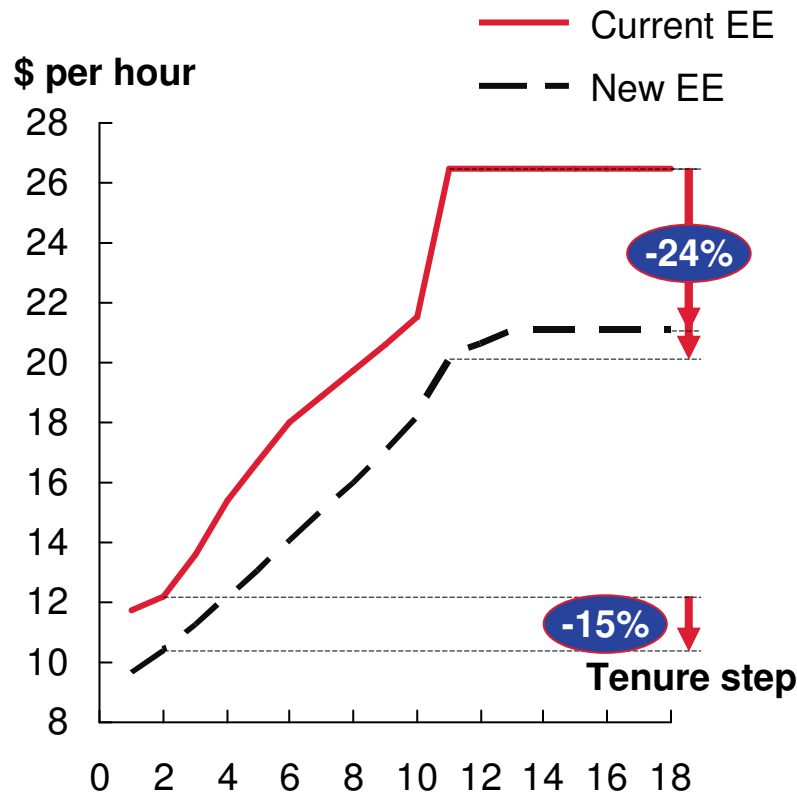
Rationale

- Keep entry level salaries at current levels to attract the best candidates for open positions
- Create a wage gap with the current Employees to lower the cost structure while still having competitive salaries for new Employees
- Reach the same top-out as current Employees to make the new scale attractive to new Employees

Approach 3: offering the same salaries as the Legacy average to all new Employees is worth \$11-35M



Approach 3: Average Legacy wage scale for all new Employees



Value, \$ Million:

2016: 11
2030: 35

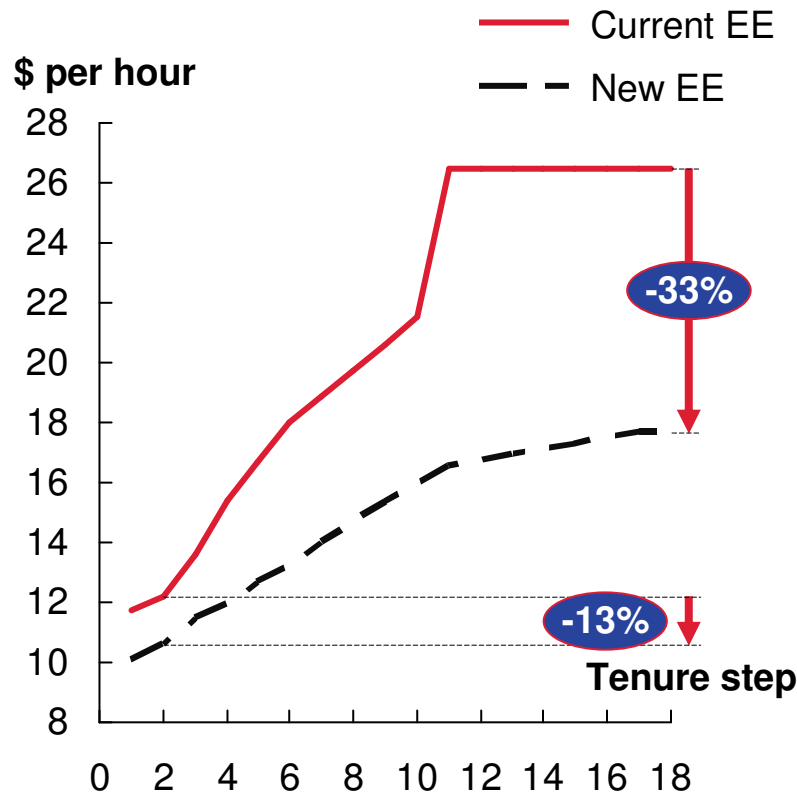
Rationale

- Matching the average Legacy salary levels implies 15-24% reduction in salaries for new Employees
- This approach would create two permanently distinct salary levels
- There would be a large difference between the top-out rates for new and current Employees

Approach 4: offering the same salaries as the LCC average to all new Employees is worth \$10-57M



Approach 4: Average LCC wage scale for all new Employees



Value, \$ Million:

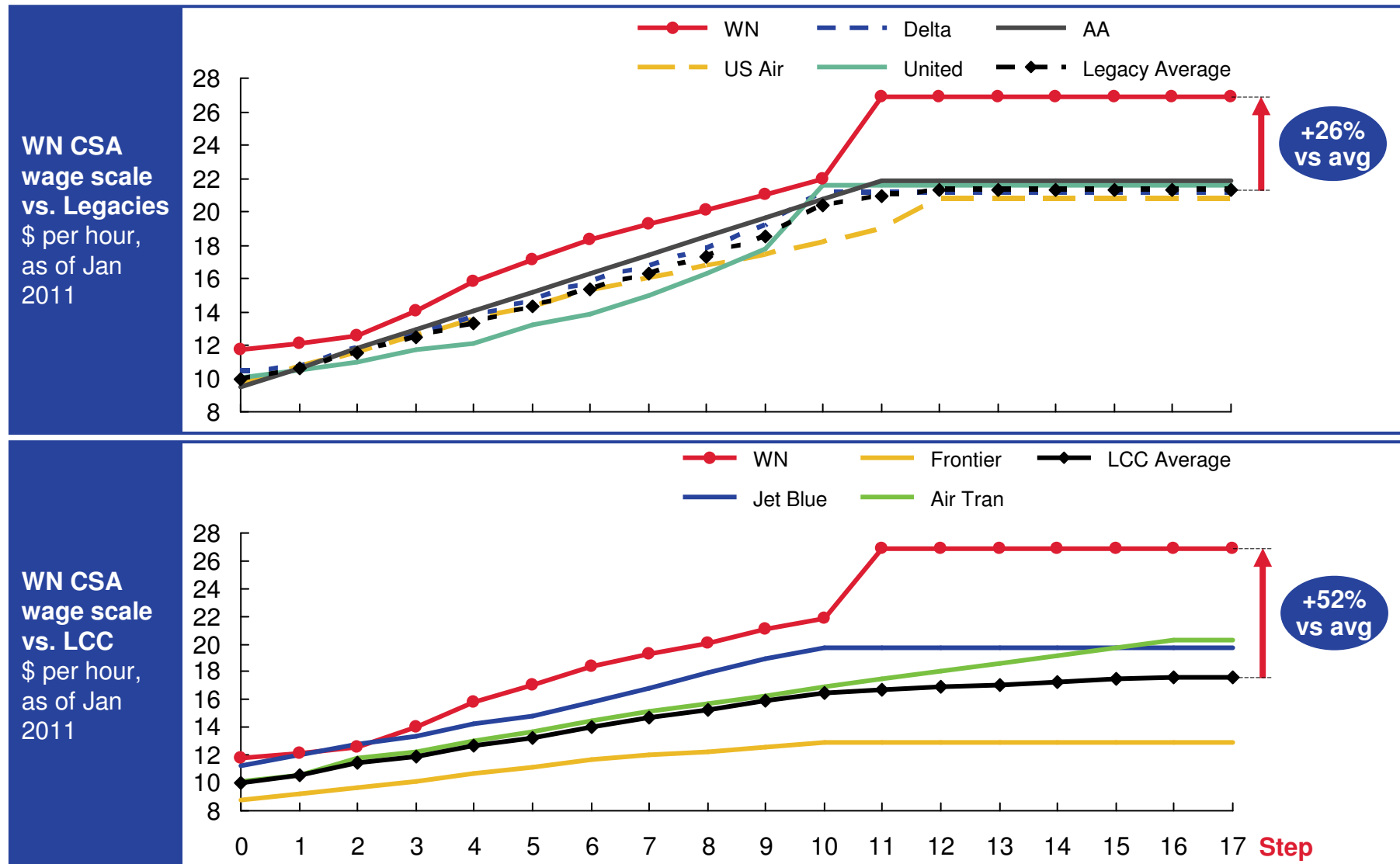
2016: 10

2030: 57

Rationale

- Matching the average LCC salary levels implies 13-50% reduction in salaries for new Employees
- Similar to Approach 3, this approach would also create two permanently distinct salary levels
- There would be a large difference between the top-out rates for new and current Employees

A We are 10% higher up to step 10, but then pay 25-50% more at top out rates



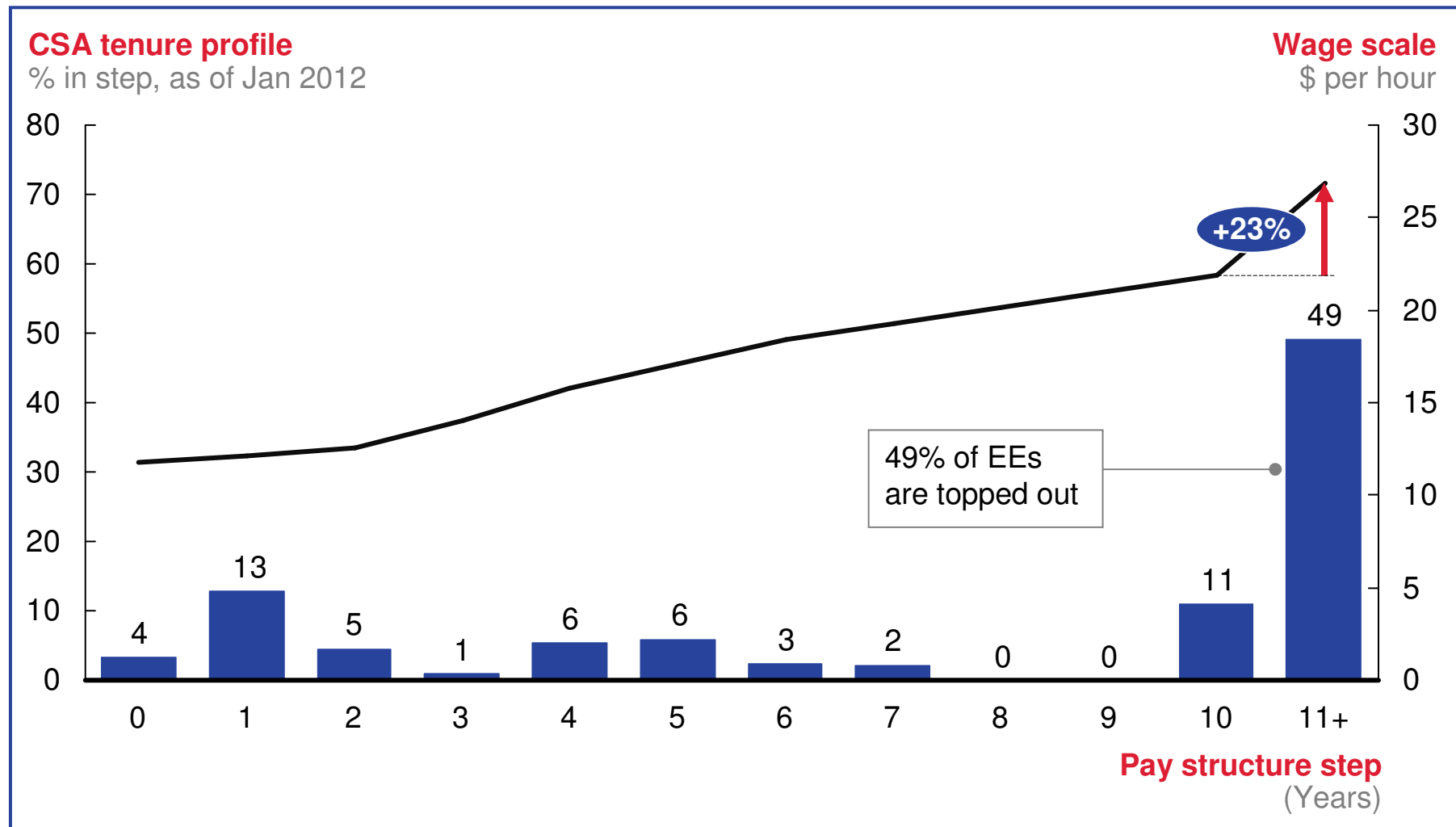
SOURCE: Jan 2011 Air Conference results and publicly available contracts.

B 49% of CSAs are currently topped out as of January 2012

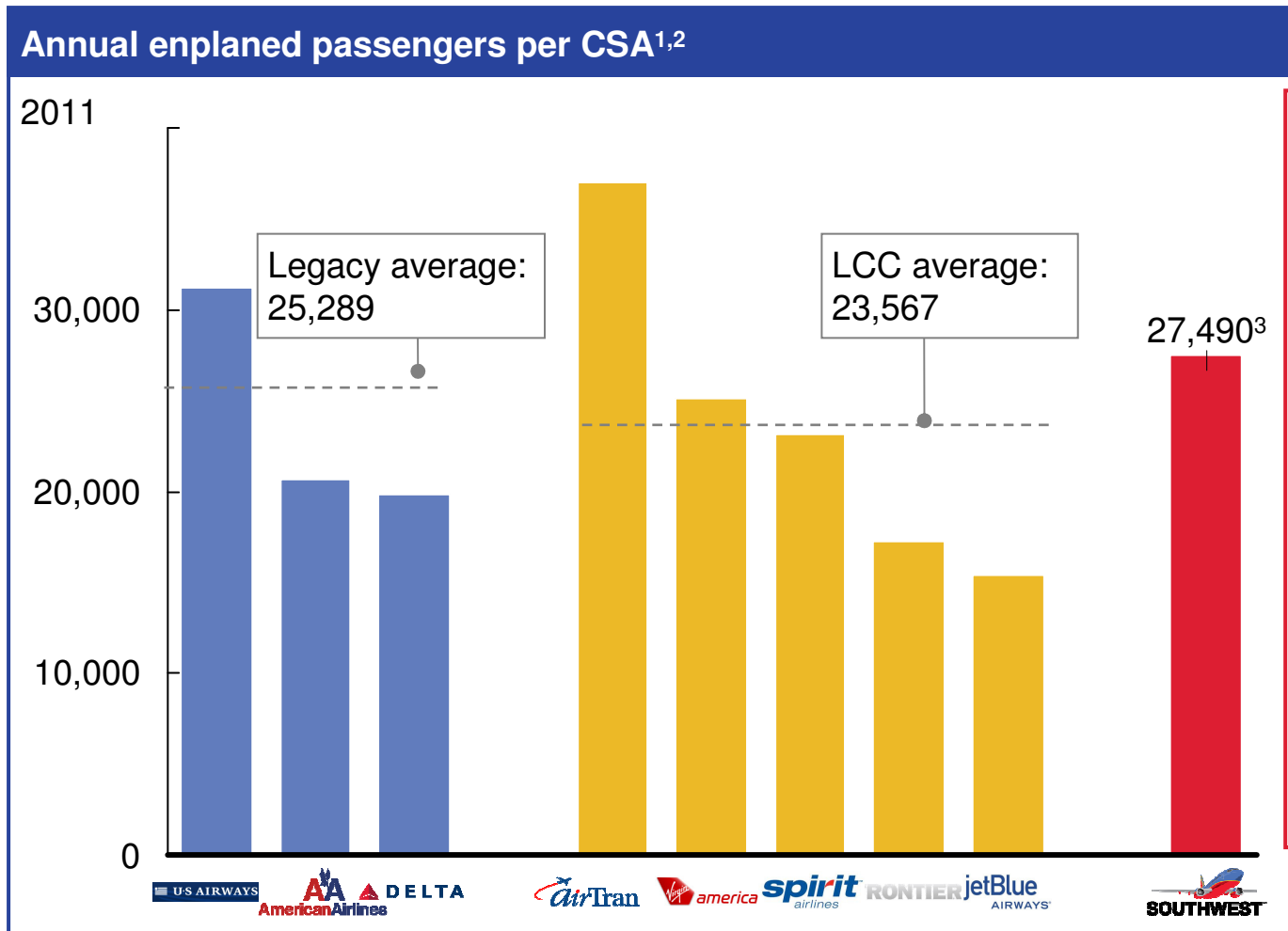


— Wage scale

■ Tenure profile



Even when including Ops Agents, Southwest Employees are more productive than Legacies or LCCs



Also need to account for productivity differences that are addressed in the following slides

- Different baggage loads for Legacy and LCC peers
- Differences in the amount of pax self help
- Different out-sourcing choices made by Legacy and LCC peers

¹ Passengers is the number of enplaned domestic passengers from 2011 Form 41. The average passengers for the Legacies and the LCCs per CSA have been weighted by the carriers' respective ASMs. We have assumed that Legacies outsource stations with up to 7 daily departures and have accordingly adjusted the CSA headcount to show CSA productivity

² Except for AirTran and SWA where the numbers are internal, the CSA headcount for each carrier was obtained by assuming that all carriers report the same proportion of employees under the "Passenger Handling Personnel" account on Form 41. Southwest reports 7200 EEs, of which 2663 are CSA. For example for Delta the headcount of passenger handling personnel is 12,792. Assuming the same proportion of CSA to general passenger employees gives a CSA number of 4,725

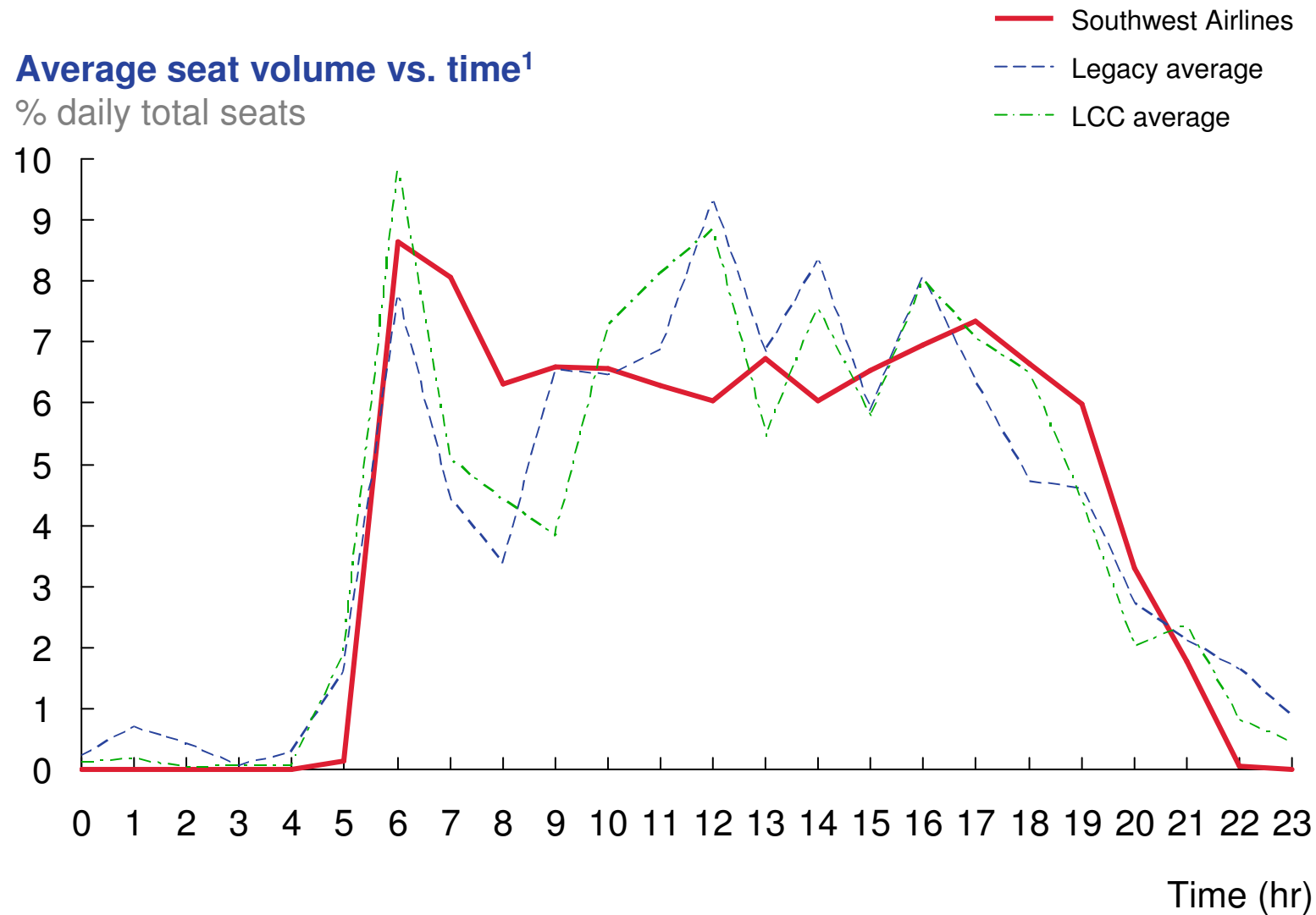
³ Southwest CSA headcount includes 1,300 Ops Agents

Southwest has less seat variability throughout the day compared to Legacy and LCC competitors



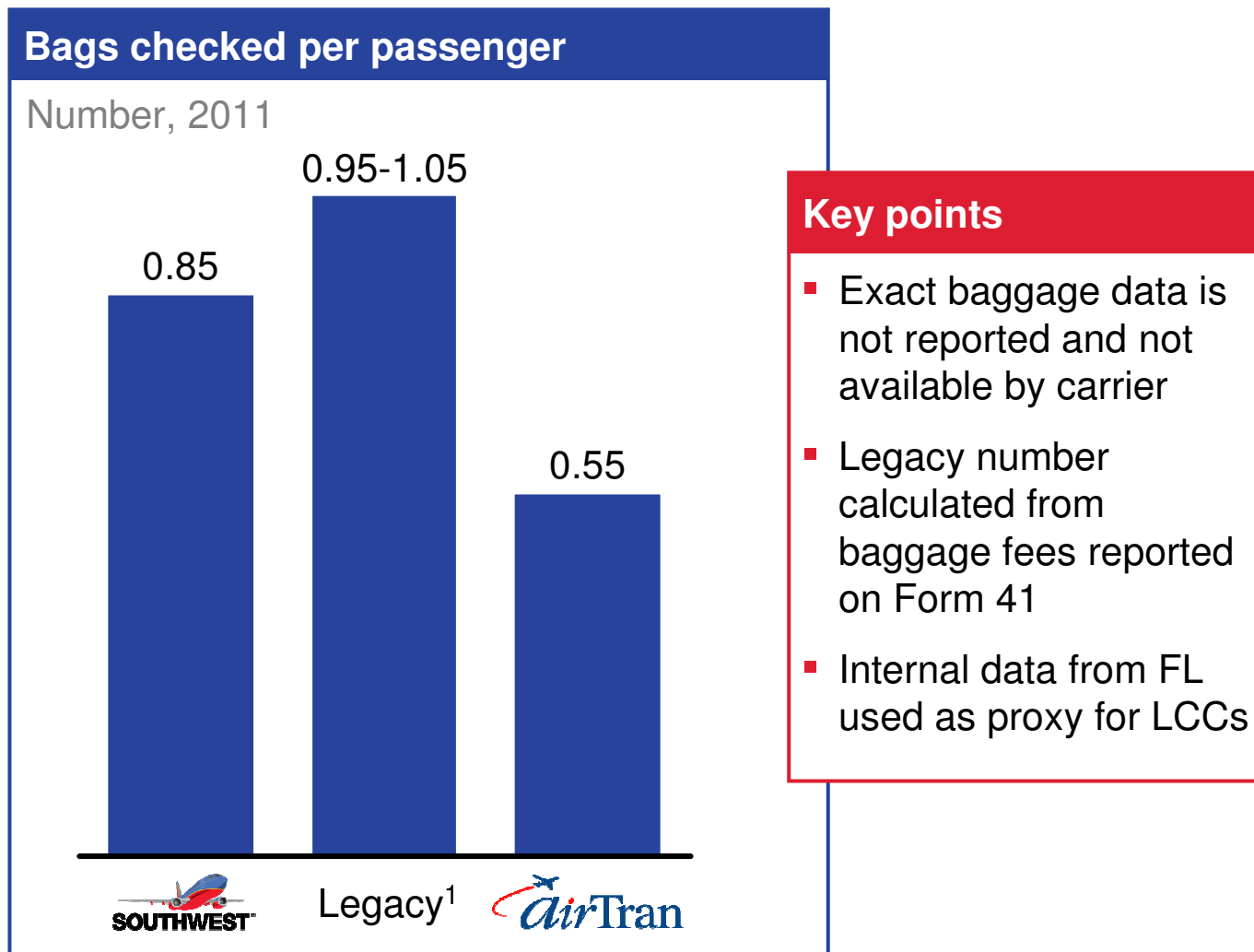
Average seat volume vs. time¹

% daily total seats



¹ Average over all domestic airports, includes both international and domestic flights

D Southwest passengers check more bags than LCC's but less than the Legacy passengers



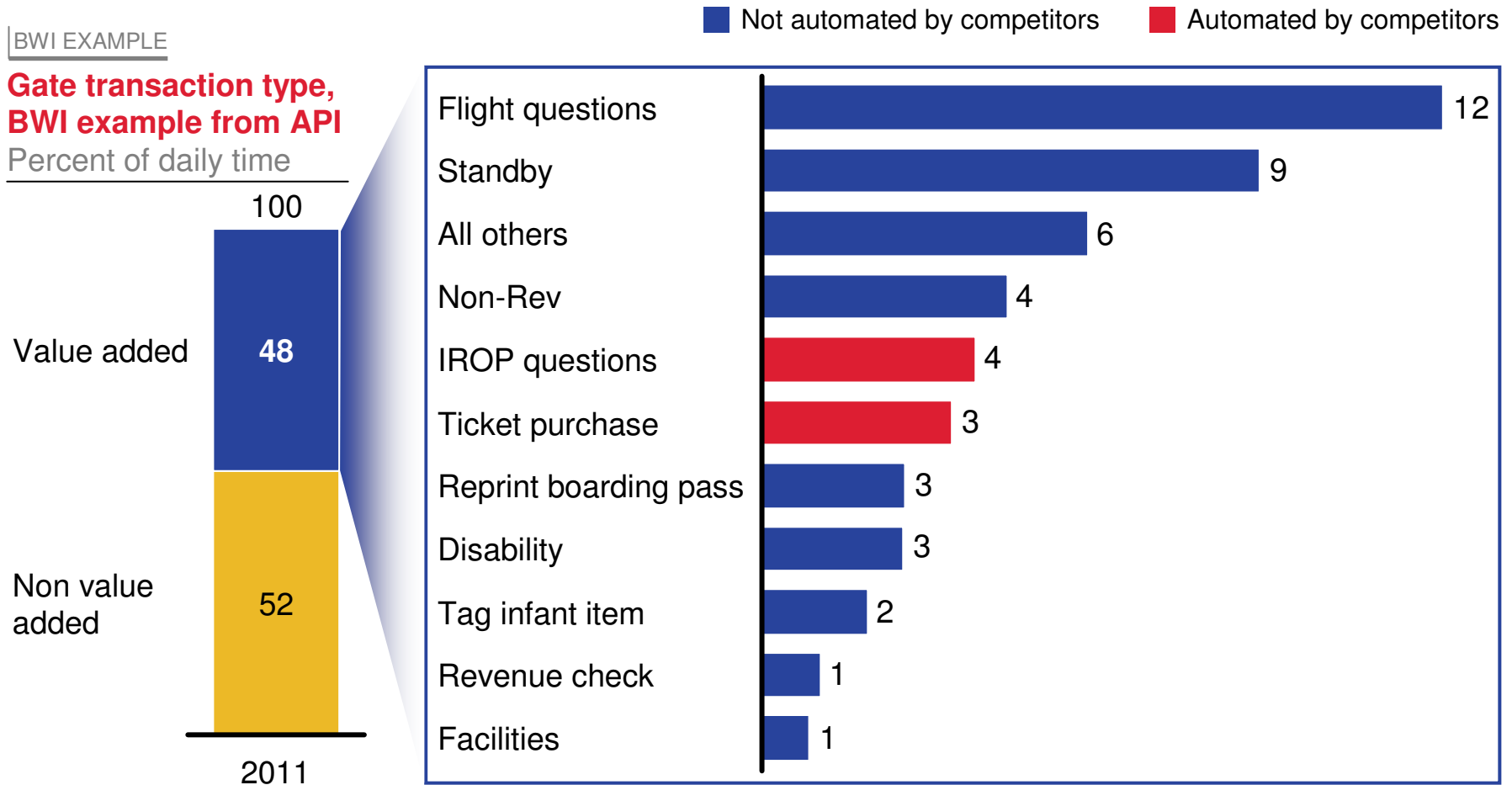
¹ Legacy bags per passenger is the ASM-weighted average of bags per passenger for American, Delta and US Airways

E 7% of counter agent time (3% of total) is spent on irregular operations activities which are automated at other airlines



BWI EXAMPLE

**Gate transaction type,
BWI example from API**
Percent of daily time




1 Gate agents are 40% of total CSA staffing. Other CSA workgroups, counter and bags, do not have appreciably different technology systems from LCC and Legacy competitors

SOURCE: BWI API data, competitor analysis

F Legacies and LCCs both attempt to outsource customer service operations at stations with 5-7 flights per day or less



		Legacy average ¹
Flights/day outsourcing threshold	<5-7	<5-7
Percent of CSA agents outsourced ¹	70%	6%

Implications

- Similar threshold for outsourcing suggests a fixed cost advantage only for small stations
- Southwest has only a small number (<1%) of stations with five flights or fewer

¹ Based on American Airlines Chapter 11 filing which details outsourcing plans to reach “industry average”

SOURCE: American Airlines bankruptcy filing, internal AirTran data

The four most valuable levers are productivity, wage scale, tenure & outsourcing



CSA Levers		Description	Relative impact ¹	10% change is worth ² ... \$ Millions
Workforce Levers	Productivity	▪ Passengers/CSA	100	16
	Wage Scale	▪ Overall wage scale	94	15
	Tenure	▪ Average Employee Tenure ³	38	6
	Premium Time	▪ Premium Time	6-12	1-2
Operating Model Levers	Outsourcing	▪ Outsourcing ⁴	31	5
Benefit Levers	Healthcare	▪ Healthcare Cost per CSA	19	3
	401K + Profit Sharing	▪ 401K + Profit Share per CSA	6-12	1-2
	Vacation Days	▪ Vacation days per CSA	6-12	1-2
	Holiday Days	▪ Holiday days per CSA	5	<1
	Training Days	▪ Training days per CSA	5	<1
	Sick Days	▪ Sick Days per CSA	5	<1

Problem solving should be focused on productivity, wage scale, tenure, and outsourcing

- Outsourcing is a large lever, although not commonly used for CSA at large stations

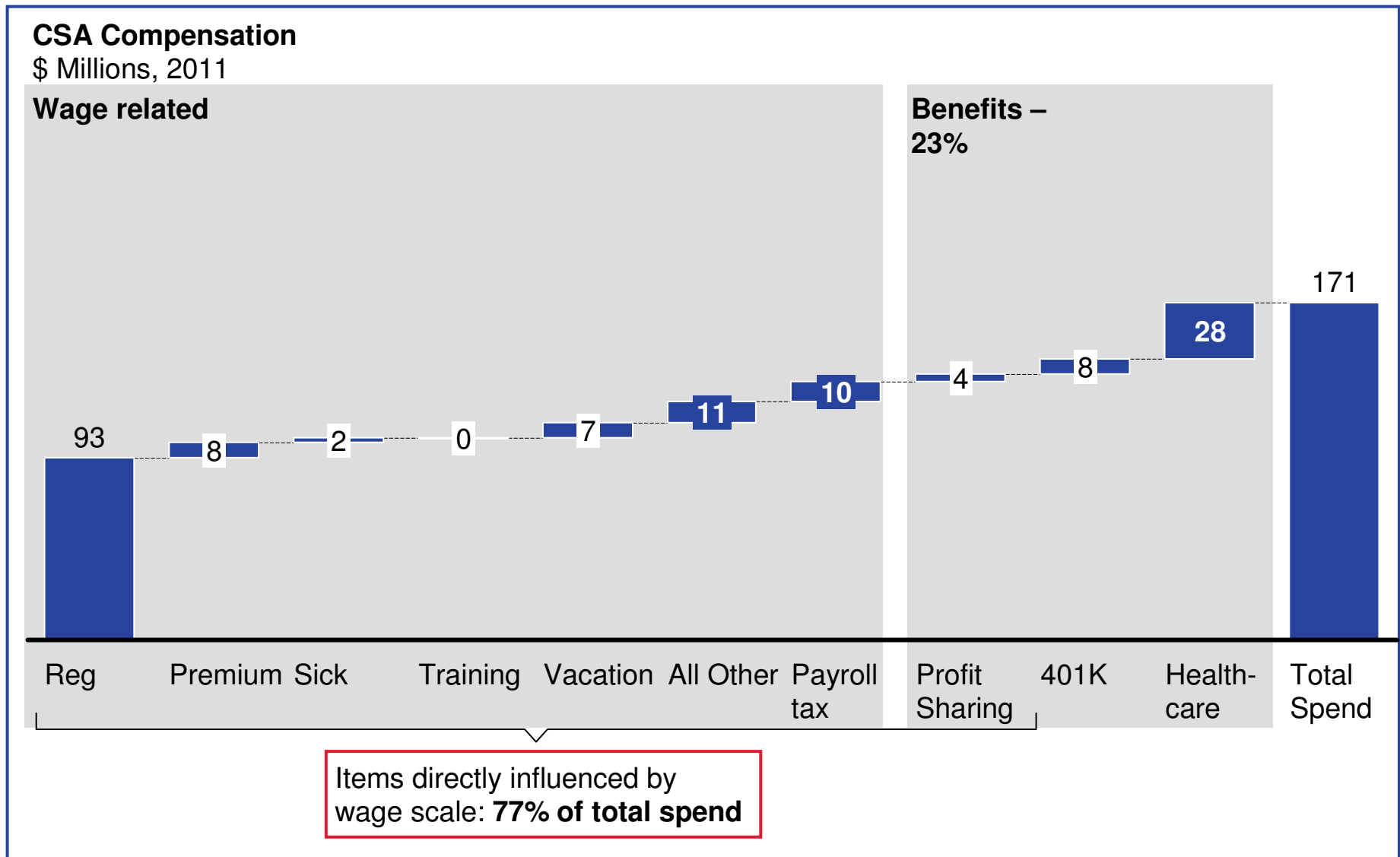
¹ Scale of 0 – 100, calculated as savings of each lever divided by the lever with the maximum savings * 100

² Values are not additive, as addressing one lever may affect values of other levers

³ Effectively calculated as reducing all tenure by 1 year

⁴ Assumes 30% savings from outsourcing

Compensation breakdown, CSA



Breakdown of value in proposed path forward for CS&S

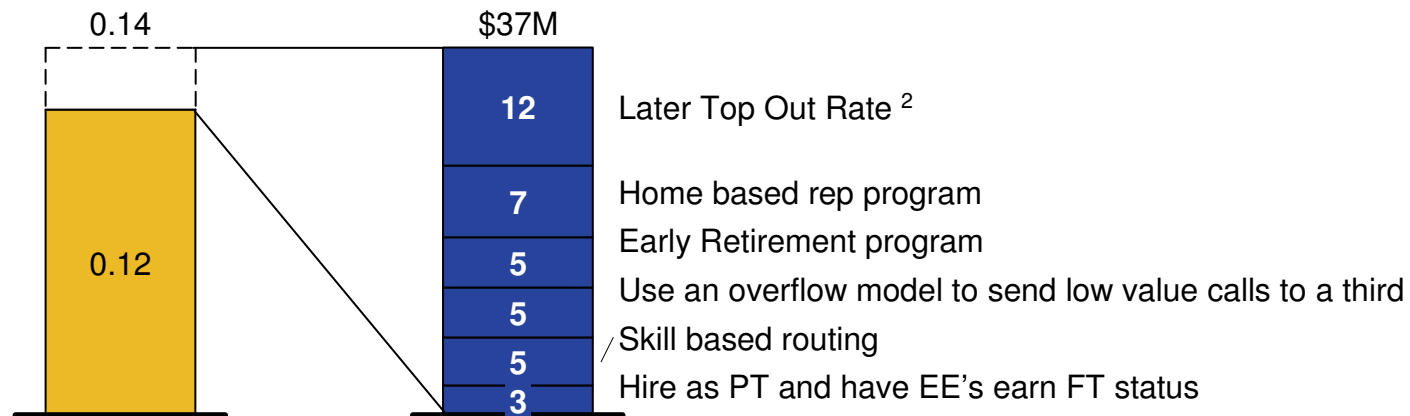


2016 CS&S Labor CASM adjusted to WN stage length¹

US Cents, 2016 (Projected)

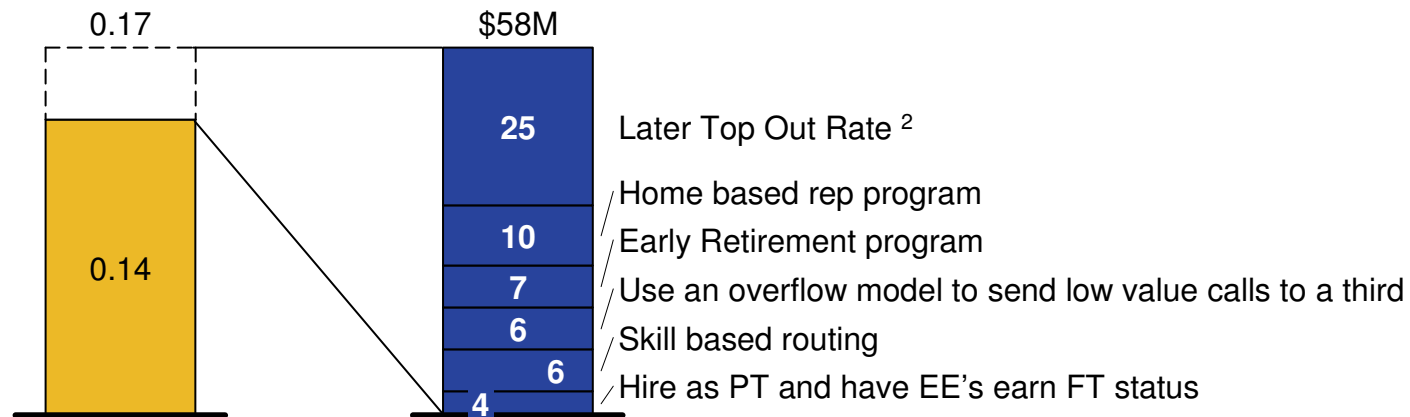
Flat wage scales until 2021

Proposed path



2021 CS&S Labor CASM adjusted to WN stage length

US Cents, 2021 (Projected)



¹ ASMs taken from Capacity Memo dated 4-11-12 and assumed to be 159 billion by 2016 and 176 billion by 2021

² The value of Later Top Out is assumed to be the average of Approaches 1 and 2 (see Appendix). Approaches 3 and 4 (matching Legacy and LCC, respectively) have been excluded from the average as these two approaches may not be feasible to implement



Highest value ideas for CS&S are longer top out rate, home-based Reps, early retirement, and tighter FMLA controls

Bold text: modeled and included in the package

Blue text: achieve by enforcing contract

	Select ideas (not exhaustive)	Estimated value¹ \$ Million, 2016
Path for new Employees	<ul style="list-style-type: none"> ▪ Lower pay with the same, but elongated, top-out rate ▪ Create a home-based, on-call, Rep program ▪ Hire all new EE's as PT and have them earn FT-status 	5-18 (2016), 28-56 (2030) 2-7 3
Early retirement program	<ul style="list-style-type: none"> ▪ Buy out the contract of the 10% top-out Employees and backfill them with entry level Employees 	5
Key productivity improvement	<ul style="list-style-type: none"> ▪ Roll-out technology roadmap to increase automation ▪ Tighten the rules to decrease FMLA abuse ▪ Use third party to overflow the low value calls ▪ No OT unless completing a full (8 hours) shift ▪ Reduce absenteeism by enforcing attendance rules ▪ Allow Res Agents to do CSA work during idle times 	7-20 5-11 2-5 1-3 1-2 1
Risk/Reward sharing	<ul style="list-style-type: none"> ▪ Pay for skill level – lower pay for lower skill levels ▪ Implement performance-based bonus program ▪ Lower pay for option to earn incentives for selling ancillary services 	3-5 1 1-2
Other	<ul style="list-style-type: none"> ▪ Segment customers - best service for best customers ▪ Hold pay rate for poorly performing EE's ▪ New wage scale for everyone including the current EE's ▪ Alter service levels 	TBD 1-2 TBD TBD

Different approaches to a longer top-out yield cost reductions of \$5-18M by 2016 and \$28-56M by 2030

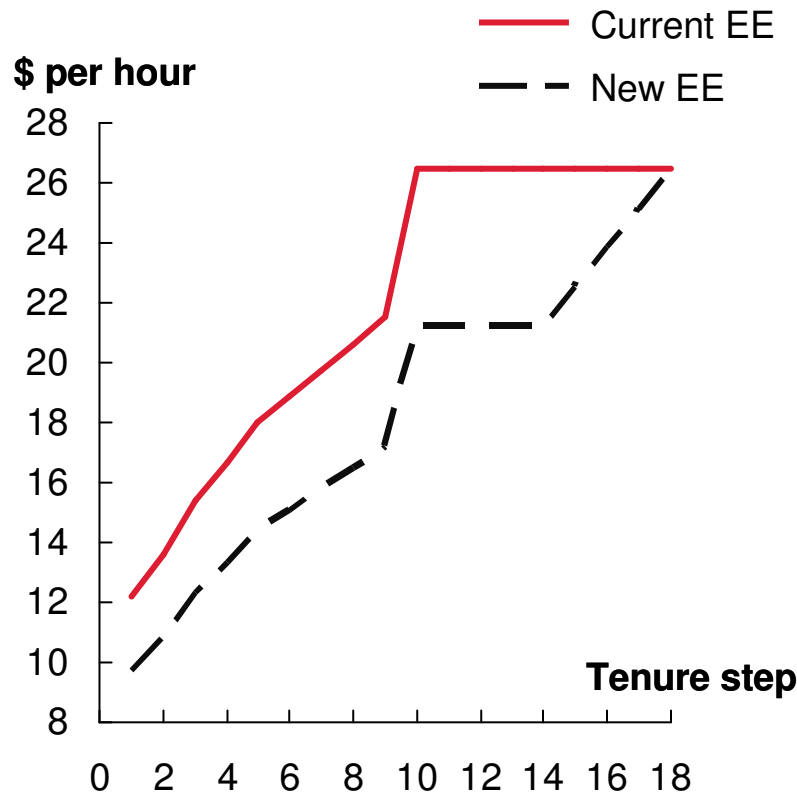


Approach	Pros	Cons	Value (\$M)
20% lower salaries up to Step 14, reaching current top-out by Step 18	<ul style="list-style-type: none"> Same top-out reinforces aspirations of new EEs Consistent wage increases are more logical to EEs 	<ul style="list-style-type: none"> Lower entry level wage scale could impair ability to hire best Employees 	<ul style="list-style-type: none"> 2016: 18 2030: 37
Current starting but lower subsequent salaries, reaching current top-out rate by Step 18	<ul style="list-style-type: none"> High starting wage retains the ability to attract the best entry-level EEs Same top-out reinforces aspirations of new EEs 	<ul style="list-style-type: none"> Least valuable of all approaches Low raises in first few years may be confusing to new EEs 	<ul style="list-style-type: none"> 2016: 5 2030: 28
Average Legacy salaries for all new Employees	<ul style="list-style-type: none"> Lowers cost by matching Legacy cost structure Competitive benchmark simplifies future negotiations 	<ul style="list-style-type: none"> Creates two permanently different salary classes Different top-out rates may not resonate well with new EEs 	<ul style="list-style-type: none"> 2016: 17 2030: 40
Average LCC salaries for all new Employees	<ul style="list-style-type: none"> Highest value in the long-term Competitive benchmark simplifies future negotiations 	<ul style="list-style-type: none"> Creates two permanently different salary classes Largest gap of all the approaches at the top-out rate 	<ul style="list-style-type: none"> 2016: 15 2030: 56

Approach 1: 20% lower salaries than the current EE's and reaching current top-out in 18 steps is worth \$18-37M



Approach 1: 80% of current EE salaries up to step 14, reaching current top-out at step 18



Value, \$ Million:

2016: 18

2030: 37

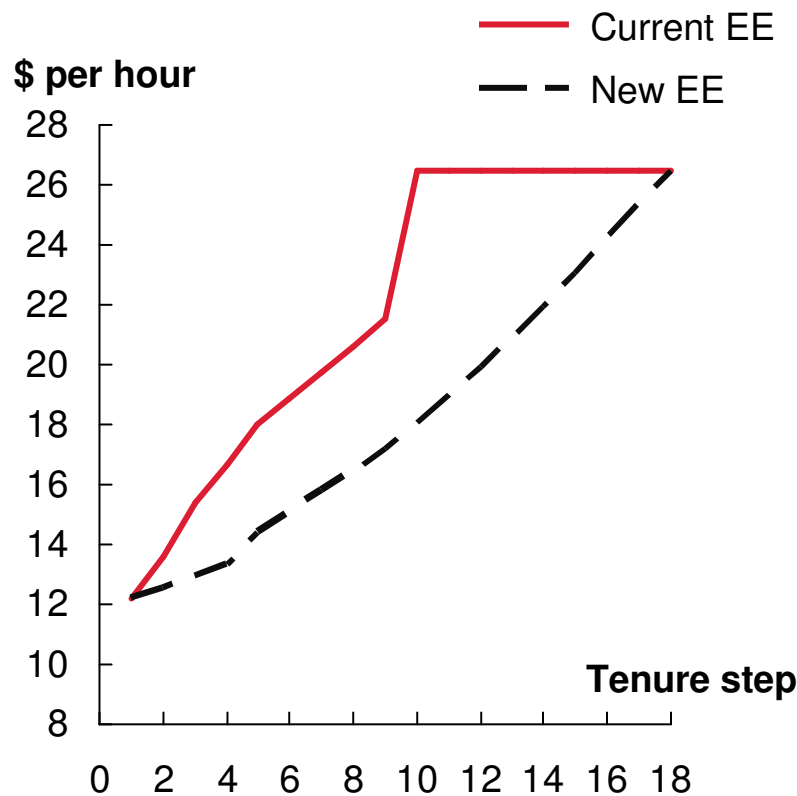
Rationale

- Lower starting salaries by 20% to match market level salaries
- Increase the number of steps in the tenure to 18 to close the competitive gap at the high end of the salaries
- Reach the same top-out as current Employees to make the new scale attractive to new Employees

Approach 2: offering the same starting salaries as the current EE's and reaching current top-out in 18 steps is worth \$5-28M



Approach 2: Same starting salaries but growing slower to match current top-out in 18 steps



Value , \$ Million:

2016: 5
2030: 28

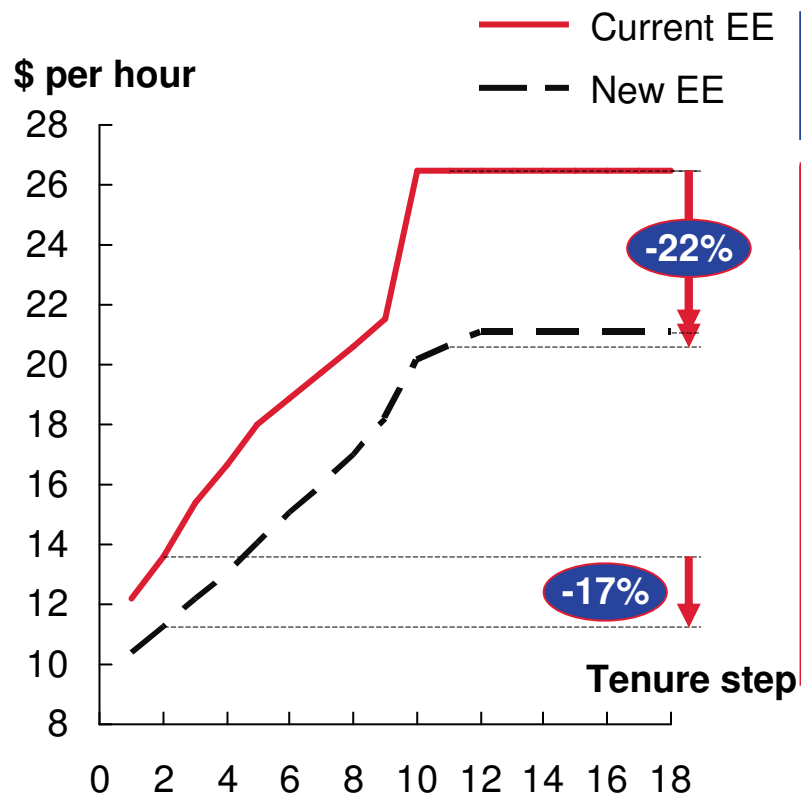
Rationale

- Keep entry level salaries at current levels to attract the best candidates for open positions
- Create a wage gap with the current Employees to lower the cost structure while still having competitive salaries for new Employees
- Reach the same top-out as current Employees to make the new scale attractive to new Employees

Approach 3: offering the same salaries as the Legacy average to all new Employees is worth \$17-40M



Approach 3: Average Legacy wage scale for all new Employees



Value, \$ Million:

2016: 17
2030: 40

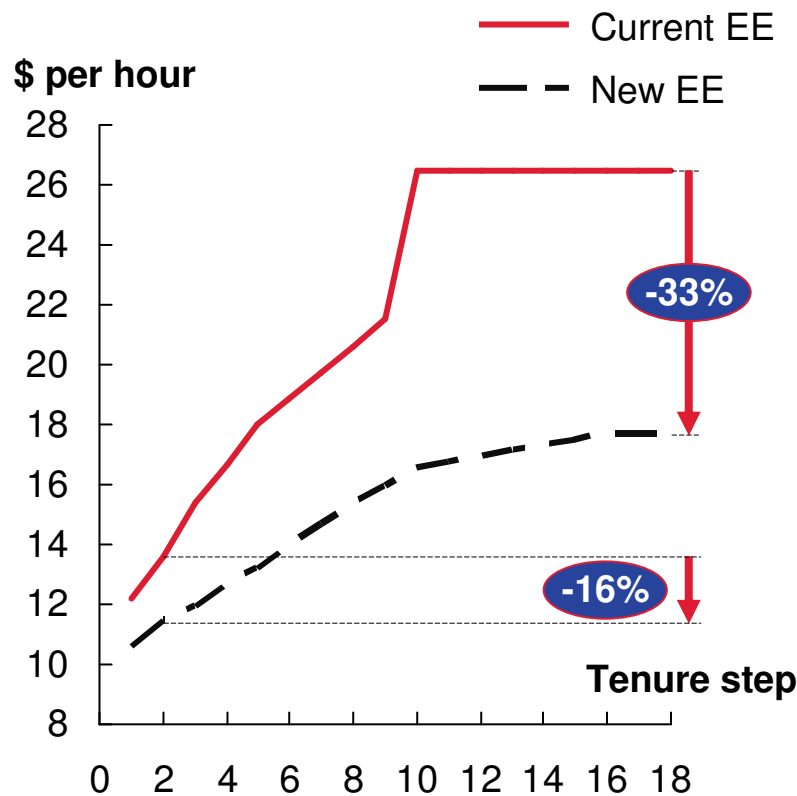
Rationale

- Matching the average Legacy salary levels implies 15-24% reduction in salaries for new Employees
- This approach would create two permanently distinct salary levels
- There would be a large difference between the top-out rates for new and current Employees

Approach 4: offering the same salaries as the LCC average to all new Employees is worth \$15-56M



Approach 4: Average LCC wage scale for all new Employees



Value, \$ Million:

2016: 15
2030: 56

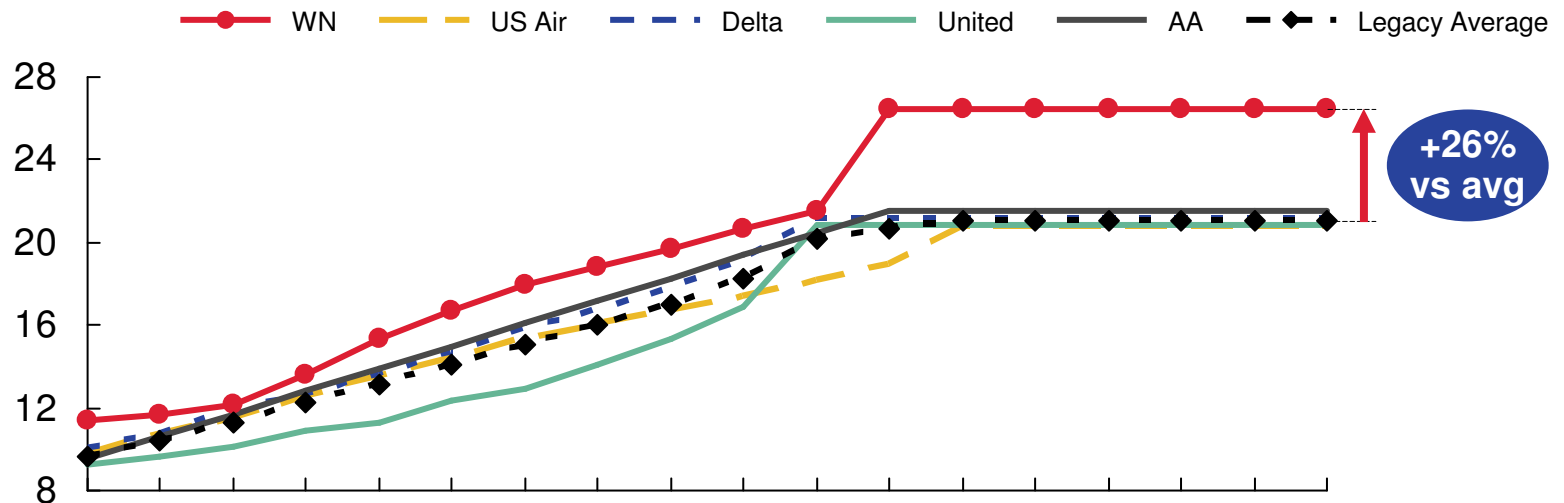
Rationale

- Matching the average LCC salary levels implies 13-50% reduction in salaries for new Employees
- Similar to Approach 3, this approach would also create two permanently distinct salary levels
- There would be a large difference between the top-out rates for new and current Employees

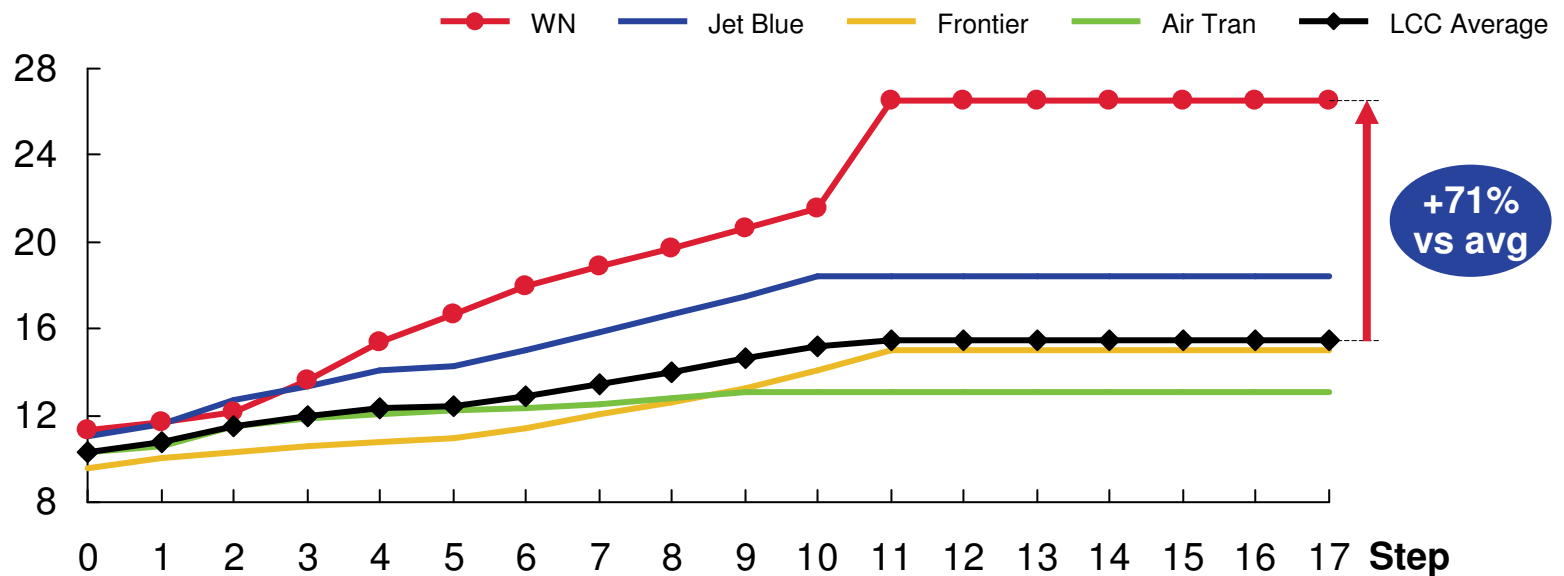
A We are ~10% higher up to step 10, but then pay 25-70% more at top out rates



WN CS&S wage scale vs. Legacies
\$ per hour, as of Jan 2011



WN CS&S wage scale vs. LCC
\$ per hour, as of Jan 2011



SOURCE: Jan 2011 Air Conference results and publicly available contracts.

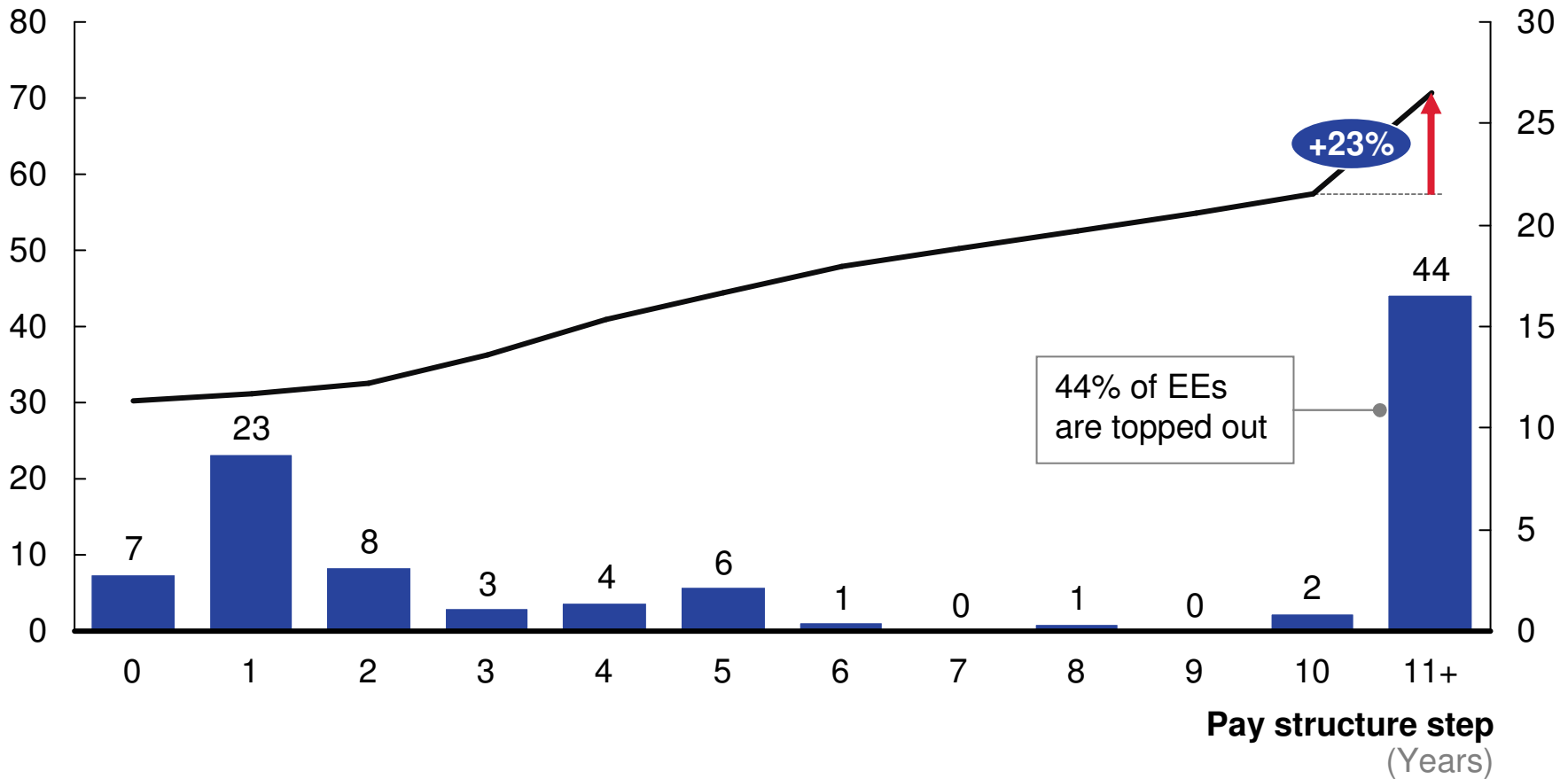
B 44% of CS&S are topped out as of January 2012



— Wage scale ■ Tenure profile

CS&S tenure profile

% in step, as of Jan 2012

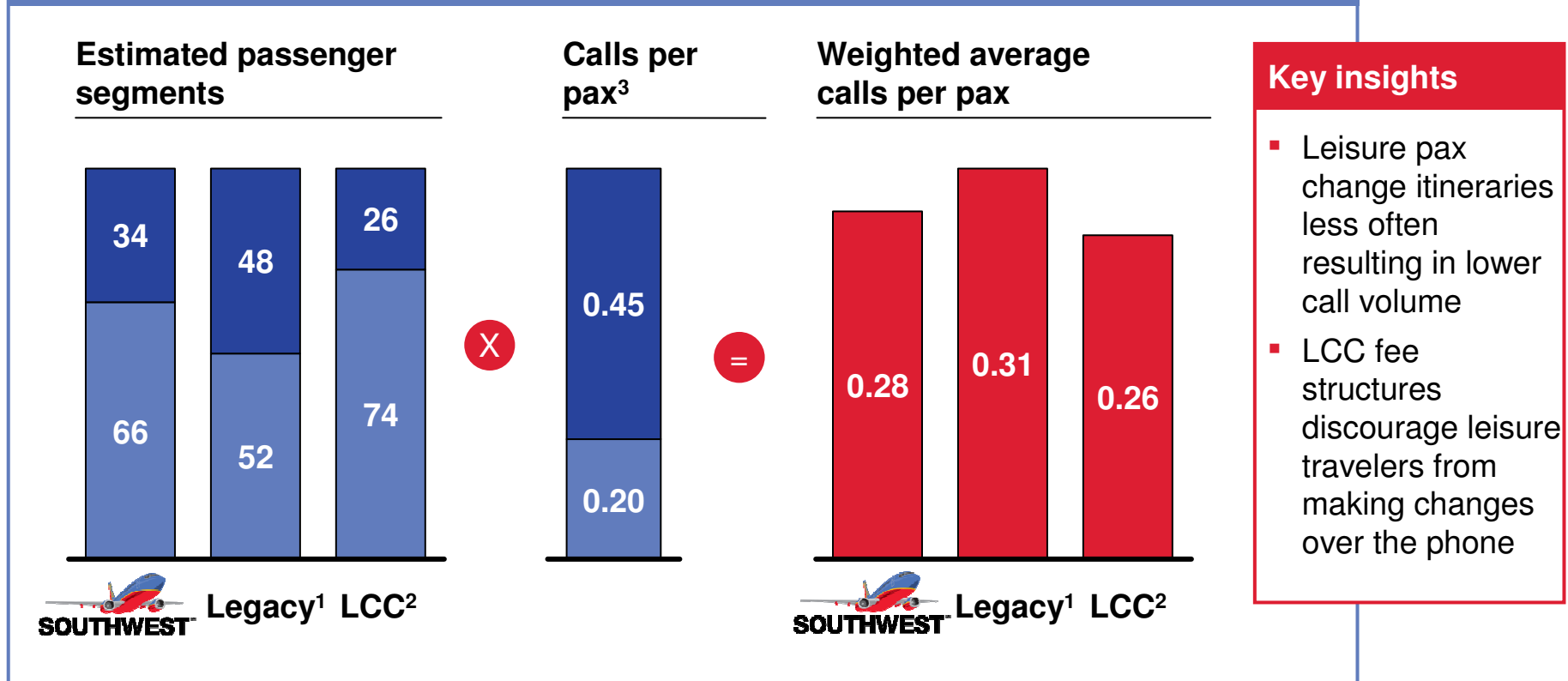


Call volume per passenger is difficult to estimate, but available data suggest slight differences against competitors



■ Business
■ Leisure

Call volume differences are driven by differences in passenger segmentation

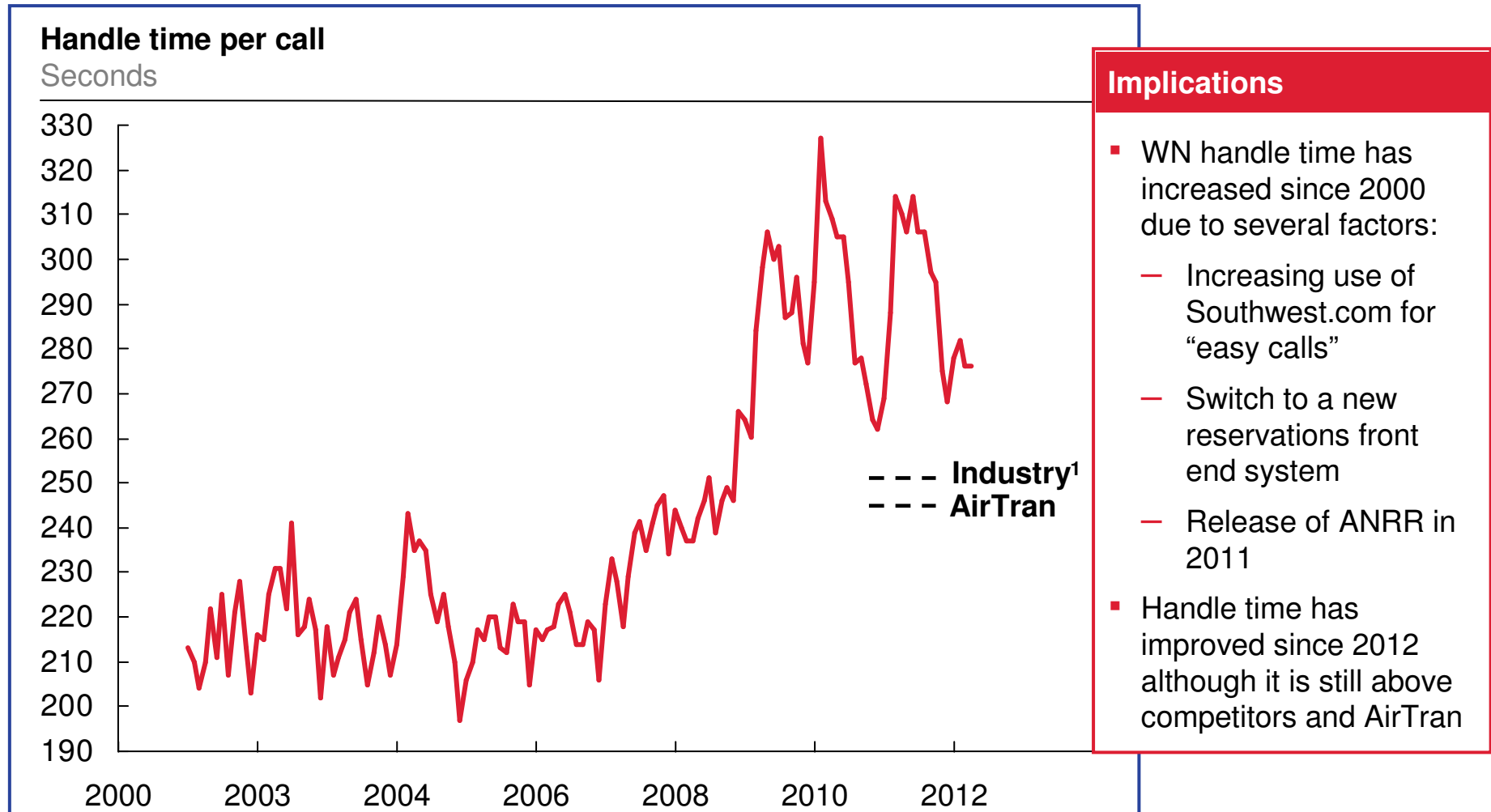


¹ Legacies include AA, Delta, UA, US and CO

² LCCs include AirTran and JetBlue

³ Based on comparing internal AirTran and Southwest call center volume data

① WN average handle time has risen above competitors although it has improved in 2012























¹ Industry median data is from a 2011 Corporate Executive Board benchmarking study of 10 travel & leisure WN peers
SOURCE: Internal WN data

⑤ Legacies outsource much of their call centers while LCCs prefer to remain largely in-house



Legacies and LCCs have different outsourcing models

	Use Outsourcing?	Outsourcing %
Legacies		 30-50
		 30-50
		 20-40
		 40-60
	Legacy average¹	~40%
LCCs		 0
		 100
		 0
		 30-70
		 0
		 0
	LCC average¹	~11%

Implications

- Legacies outsourced up to 75% of their call center operations in bankruptcy to reduce overall costs but have recently begun bringing some operations in house
- LCCs outsource less often than the Legacies but they also use work-at-home agents (e.g., 100% of JetBlue)

¹ The average outsourcing for the Legacies and LCCs has been weighted by their respective ASMs
SOURCE: Press releases, InformationWeek

The three most valuable levers are wage scale, productivity, & tenure mix



CS&S Levers		Description	Relative impact ¹	10% change is worth ² ... \$ Millions
Workforce Levers	Wage Scale	▪ Overall wage scale	100	12
	Productivity	▪ Handle time	58	7
	Tenure	▪ Shift topped out to new hire ³	41	4-6
	Premium Time	▪ Premium Time	17	2
Operating Model Levers	Outsourcing	▪ Outsourcing ⁴	38	4-5
Benefit Levers	Healthcare	▪ Healthcare Cost per CS&S	17	2
	401K + Profit Sharing	▪ 401K + Profit Share per CS&S	8	1-2
	Vacation Days	▪ Vacation days per CS&S	8	<1
	Holiday Days	▪ Holiday days per CS&S	8	<1
	Training Days	▪ Training days per CS&S	8	<1
	Sick Days	▪ Sick Days per CS&S	8	<1

1 Scale of 0 – 100, calculated as savings of each lever divided by the lever with the maximum savings * 100

2 Values are not additive, as addressing one lever may affect values of other levers

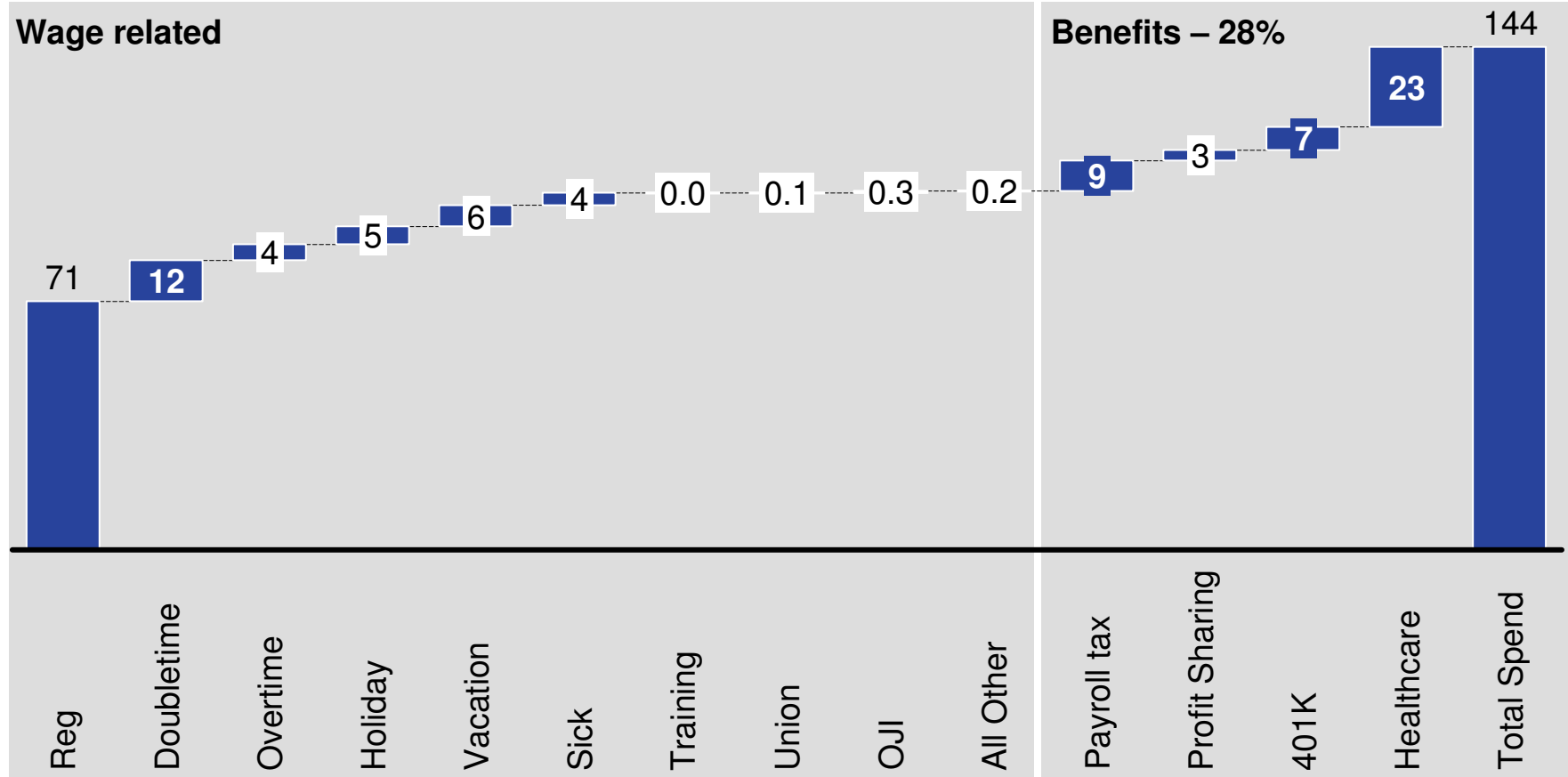
3 Effectively calculated as 10% of topped out Employees retiring and being replaced with new hires

4 Assumes 30% savings from outsourcing calls within the United States

Compensation breakdown, CS&S



CS&S Compensation, \$ Millions, 2011



Items directly influenced by wage scale: **72% of total spend**

Contract comparisons – IAM



Key findings from IAM contract comparisons with Legacies and LCCs



- **Wage scales: We pay more than competitors**
 - Early pay steps: Compared to Legacies and LCCs, we pay 10% more for both airport-based agents and call center agents
 - Later pay steps: We pay 25% more than Legacies for both airport-based agents and call center agents; we pay ~50% more than LCCs for airport-based agents and ~70% more than LCCs for call center agents
- **Benefits: Overall, more generous than competitors but some categories are competitive**
 - More generous: Vacations and paid holidays (vs. most of the competitors), monthly sick day accrual (vs. some competitors), maximum sick day accruals (vs. all competitors), OT pay (vs. some competitors)
 - Competitive / less generous: Injury, pregnancy, and bereavement leaves
- **Work rules: We are the only major carrier with part time hiring restrictions**
 - Only Alaska Air has a part time hiring restriction but its hiring cap of 40% is 2X our hiring cap

Although we are on-par in some cases, in general, we are more generous in wages and benefits vs. Legacies and LCCs

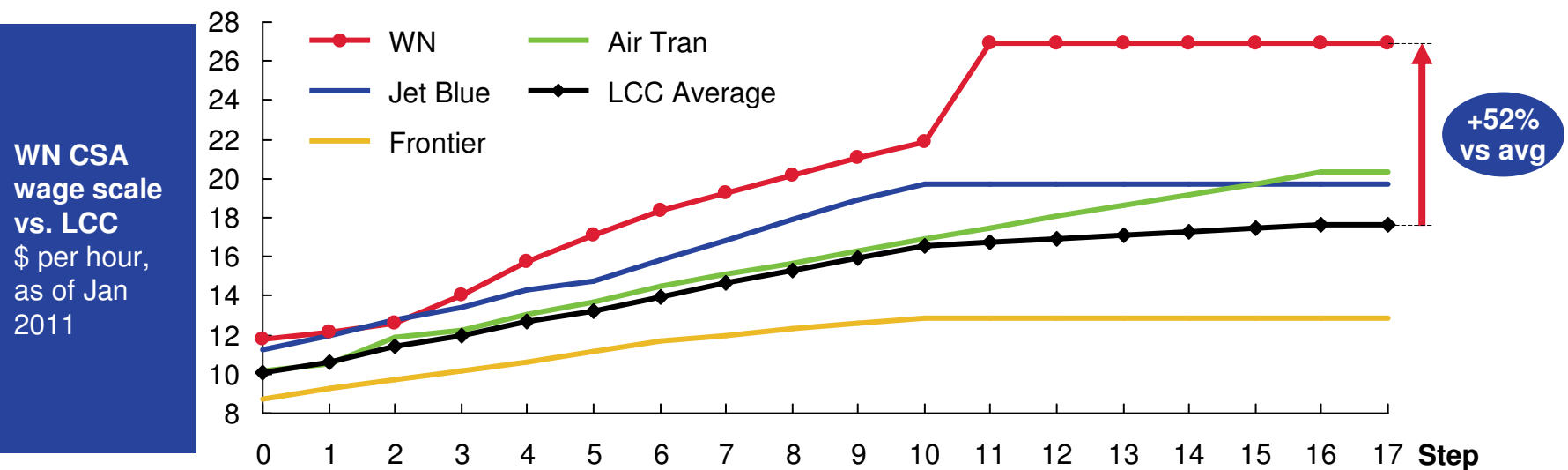
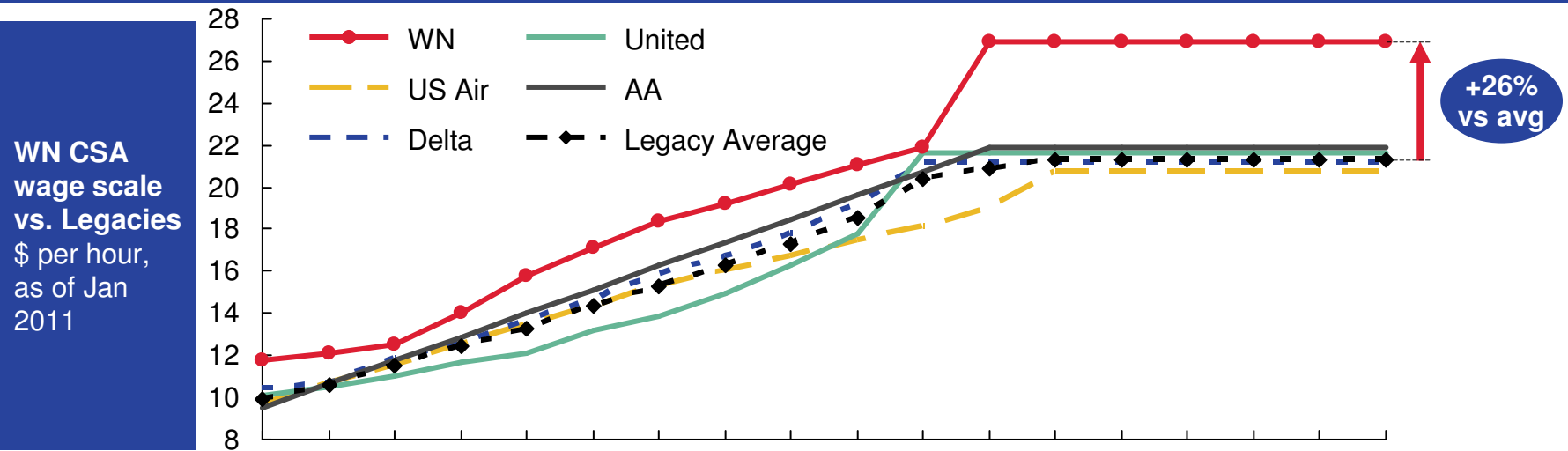


	How Southwest compares to Legacies	How Southwest compares to LCCs
A Wage scale	<ul style="list-style-type: none"> We pay 10% more at early steps and 25% more at later steps 	<ul style="list-style-type: none"> We pay 10% more at early steps and 50-70% more at later steps
B Leaves	<ul style="list-style-type: none"> We have more monthly accrual than AA, CO, DL, UA but are on-par with US & AS We have more max sick accrual We have less generous Injury/pregnancy We are on-par in bereavement 	<ul style="list-style-type: none"> We have more monthly sick accrual We have more max. sick accrual We are on-par in Injury / pregnancy We are on-par in bereavement
C Vacation & paid holidays	<ul style="list-style-type: none"> We have more generous policies 	<ul style="list-style-type: none"> We have more generous policies
D Overtime	<ul style="list-style-type: none"> We pay on-par with AS, DL and UA but more generous vs. AA, US and CO 	<ul style="list-style-type: none"> We are more generous
E Part time hiring	<ul style="list-style-type: none"> We have a more restrictive clause-only Alaska has a 40% hiring cap, although it is 2X SW cap of 20% 	<ul style="list-style-type: none"> We have a more restrictive clause

A We pay 10% more up to step 10 and 25-50% more at top out rates



CSA pay rate: WN vs. Legacies and LCCs

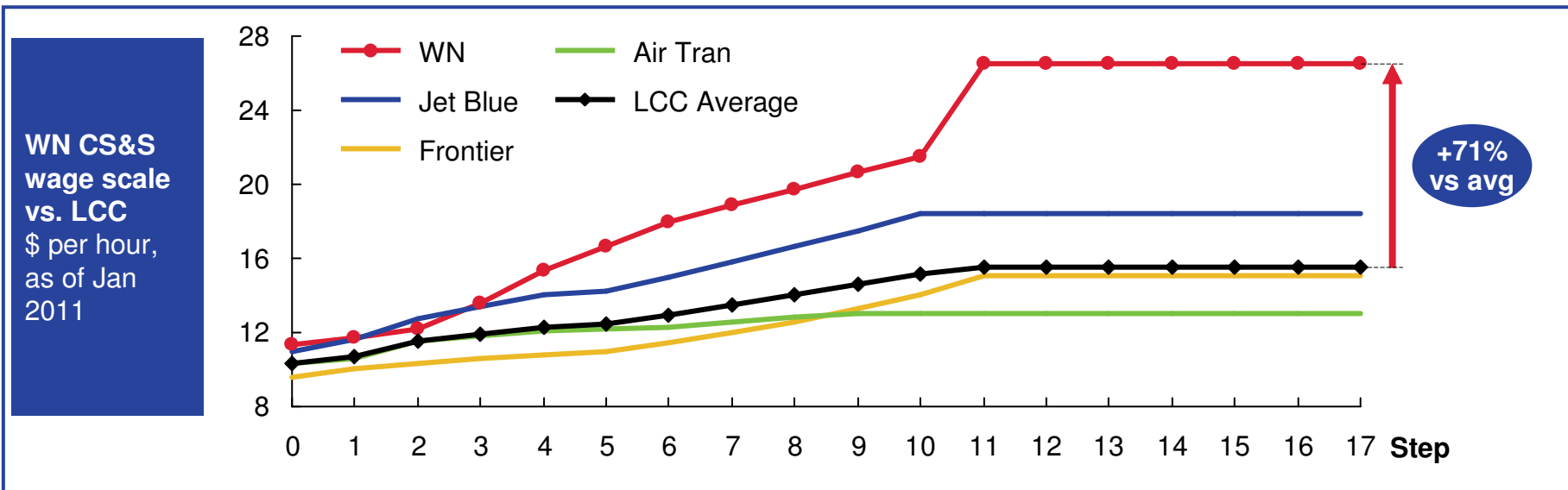
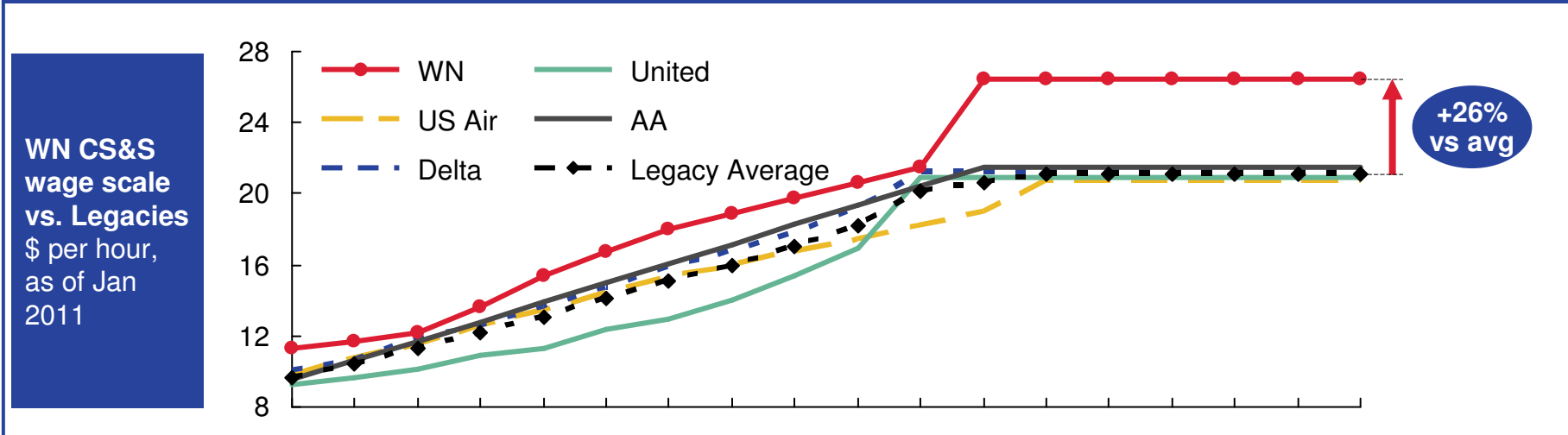


SOURCE: Jan 2011 Air Conference results and publicly available contracts.

A We are 10% higher up to step 10, but then pay 25-70% more at top out rates




CS&S pay rate: WN vs. Legacies and LCCs



SOURCE: Jan 2011 Air Conference results and publicly available contracts.

B We have more generous holidays & sick, less generous injury & pregnancy & on-par bereavement leaves vs. the Legacies



 Details on the following pages

Time-off (number of days): Southwest vs. the Legacies							
	Southwest	Alaska	AMR	Continental	Delta	United	US
Vacation	10-25	10-30	10-30	5-25	5-30	10-30	10-20
Holidays	12	10	10	8	7	8	10
Pregnancy⁴	-	90-120	30-40	-	30	30	40
Sick leave¹							
Monthly accrual	1.00	1.00	0.46	0.75	0.58	0.50-1.00 ³	1
Max. accrual	300	206	150	163 ²	21	110	175
Injury leave	-	12	-	12	12	12	-
Bereavement	4	5	3	4	3	3	3

¹ Both monthly and maximum accruals are generally expressed in number of hours in the contracts. These have been converted to days assuming 8 working hours per day

² This is for Reservation Agents. A maximum accrual of 1,600 hours is allowed for Customer Service Agents

³ 1/2 day per month during the first six months and one day per month thereafter. Maximum accrual of 110

⁴ The higher of the ranges (e.g., Alaska and AMR) indicate additional days for C-section deliveries or medical reasons. Weeks converted to days by assuming 5 days per week. SW and CO contracts indicate FMLA compliant leave

B We have more generous holiday & sick leave but are on- par with the LCCs in pregnancy, injury & bereavement leaves



Details on the following pages

Time-off (number of days): Southwest vs. the LCCs

	Southwest	AirTran	Allegiant	Frontier	JetBlue	Spirit	Virgin
Vacation	10-25	10-30	10-30	10-20	22-32	5-20	8-13
Holidays	12	6	8	8	3	6	5
Pregnancy⁵	-	-	-	-	30	-	-
Sick leave¹							
Monthly accrual	1.00	0.46	0.41-1.25 ²	0.83	None	0.50	Reg -unlimited ³
Max. accrual	300	75	20	130	None	30	Catas.-30 day ⁴
Injury leave	-	-	-	-	-	-	-
Bereavement	4	3	5	4	5	3	3

¹ Both monthly and maximum accruals are generally expressed in number of hours in the contracts. These have been converted to days assuming 8 working hours per day

² Converted to days from the following data: Year 1: 3.3 hrs; Year 2: 6.67 hrs; Year 3: 8.66 hrs; thereafter: 10 hrs

³ Six days per incident with no annual limits

⁴ Accrue six days of catastrophic sick leave per year to a maximum of 30 days. May be utilized for an illness/ injury following 6 days of regular sick leave

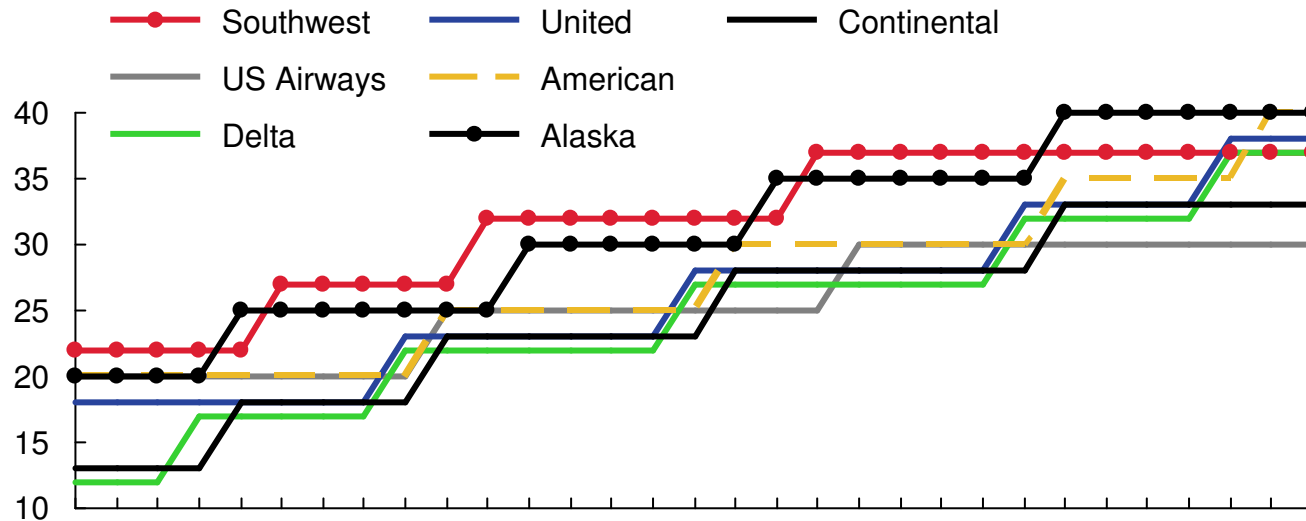
⁵ 6 weeks for JetBlue converted to days by assuming 5 days per week. Other airlines contracts indicate FMLA compliant leave

© With few exceptions, our vacation and paid holiday policy is more generous than the Legacies and LCCs



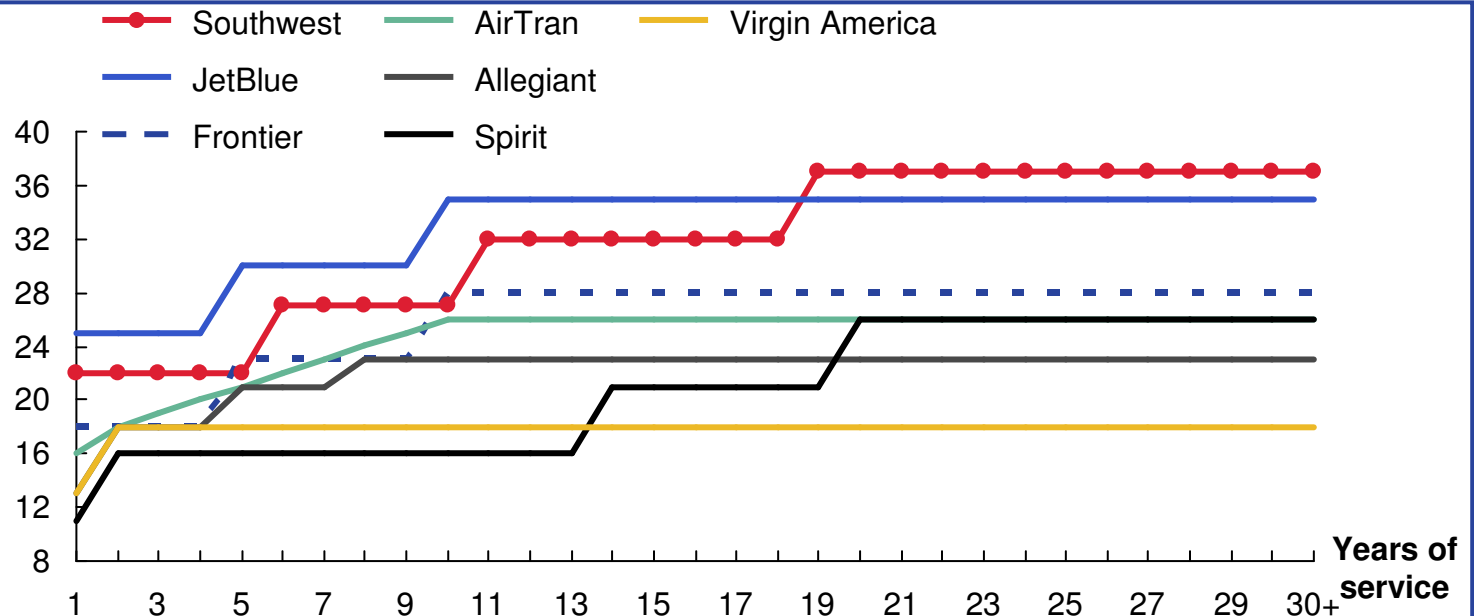
WN IAM
vacation
and paid
holidays vs.
Legacies

Days by year
of service
Feb 2011



WN IAM
Vacation
and paid
holidays vs.
LCCs

Days by year
of service
Feb 2011



D Our OT pay rate is on-par with AS, DL & UA but we pay 2X for some OT vs. 1.5X for all OT for AA, CO & US Air



Overtime pay rate (as a multiplier of regular pay rate): Southwest vs. the Legacies

	Southwest	Alaska	AMR	Continental	Delta	United	US
Regular day							
8-12 hrs	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
Over 12 hrs	▪ 2X	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 2X	▪ 2X	▪ 1.5X
First day off worked							
1 st 8 hrs	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
8-12 hrs	▪ 2X	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 2X	▪ 2X	▪ 1.5X
Over 12 hrs	▪ 2X	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 2X	▪ 2X	▪ 1.5X
Subsequent days off worked							
1 st 8 hrs	▪ 2X	▪ 2X	▪ 1.5X	▪ 2X	▪ 2X	▪ 2X	▪ 1.5X
8-12 hrs	▪ 2X	▪ 2X	▪ 1.5X	▪ 2X	▪ 2X	▪ 2X	▪ 1.5X
Over 12 hrs	▪ 2X	▪ 2X	▪ 1.5X	▪ 2X	▪ 2X	▪ 2X	▪ 1.5X

D We pay 2X overtime for some of the overtime categories while LCCs pay 1.5X for all overtime categories



Overtime pay rate (as a multiplier of regular pay rate): Southwest vs. the LCCs

	Southwest	AirTran	Allegiant	Frontier	JetBlue	Spirit	Virgin
Regular day							
8-12 hrs	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
Over 12 hrs	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
First day off worked							
1 st 8 hrs	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
8-12 hrs	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
Over 12 hrs	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
Subsequent days off worked							
1 st 8 hrs	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
8-12 hrs	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X
Over 12 hrs	▪ 2X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X	▪ 1.5X

E Excluding Alaska, no other Legacy or LCC carrier has any part-time hiring limits



Part time hiring limits- Southwest vs. Legacies

Legacies	Southwest	Alaska	AMR	Continental	Delta	United	US
	▪ 20%	▪ 40%	▪ No limits	▪ No limits	▪ No limits	▪ No limits	▪ No limits

Part time hiring limits- Southwest vs. LCCs

LCCs	Southwest	AirTran	Allegiant	Frontier	JetBlue	Spirit	Virgin
	▪ 20%	▪ No limits	▪ No limits	▪ No limits	▪ No limits	▪ No limits	▪ No limits