

Figure 3.C.a Fuel costs for Southwest

<u>Year</u>	<u>Cost (Millions)</u>	<u>Average Cost Per Gallon</u>	<u>Percent of Operating Expenses</u>
2005	\$1,470	\$1.13	21.4%
2006	\$2,284	\$1.64	28.0%
2007	\$2,690	\$1.80	29.7%
2008	\$3,713	\$2.44	35.1%
2009	\$3,044	\$2.12	30.2%
2010	\$3,620	\$2.51	32.6%
First Quarter 2010	\$ 821	\$2.49	31.9%
Second Quarter 2010	\$ 933	\$2.50	33.3%
Third Quarter 2010	\$ 926	\$2.47	32.6%
Fourth Quarter 2010	\$ 940	\$2.59	32.4%

Figure 3.C.b Southwest Airlines, Aircraft in Fleet and On Order

		Average Age	Number of		Number
737 Type	Seats	(Yrs)	Aircraft	Number Owned (1)	Leased
-300	137	19	171	104	67
-500	122	20	25	16	9
-700	137	7	352	331	21
Totals			<u>548</u>	<u>451</u>	<u>97</u>

(1) As discussed further in Note 7 to the Consolidated Financial Statements, 128 of the Company's aircraft have been pledged as collateral.

Firm Orders, Options and Purchase Rights for Boeing 737-700 and 737-800 Aircraft

	The Boeing Company				Previously - Owned 700	Total
	-700 Firm	-800 Firm	Options	Purchase Rights		
2011	17	—	—	—	2	19
2012	—	20	—	—	—	20
2013	19	—	6	—	—	25
2014	21	—	6	—	—	27
2015	14	—	1	—	—	15
2016	17	—	7	—	—	24
2017	—	—	17	—	—	17
Through 2021	—	—	—	98	—	98
Total	<u>88*</u>	<u>20</u>	<u>37</u>	<u>98</u>	<u>2</u>	<u>245</u>

* The Company is evaluating substituting 737-800s in lieu of 737-700 firm orders currently scheduled for 2013 through 2016.

Figure 3.C.c Southwest Airlines Income Statement 2010

SOUTHWEST AIRLINES CO.			
CONSOLIDATED STATEMENT OF INCOME			
(In millions, except per share amounts)			
	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
OPERATING REVENUES:			
Passenger	\$ 11,489	\$ 9,892	\$ 10,549
Freight	125	118	145
Other	490	340	329
Total operating revenues	12,104	10,350	11,023
OPERATING EXPENSES:			
Salaries, wages, and benefits	3,704	3,468	3,340
Fuel and oil	3,620	3,044	3,713
Maintenance materials and repairs	751	719	721
Aircraft rentals	180	186	154
Landing fees and other rentals	807	718	662
Depreciation and amortization	628	616	599
Other operating expenses	1,426	1,337	1,385
Total operating expenses	11,116	10,088	10,574
OPERATING INCOME	988	262	449
OTHER EXPENSES (INCOME):			
Interest expense	167	186	130
Capitalized interest	(18)	(21)	(25)
Interest income	(12)	(13)	(26)
Other (gains) losses, net	106	(54)	92
Total other expenses (income)	243	98	171
INCOME BEFORE INCOME TAXES	745	164	278
PROVISION FOR INCOME TAXES	286	65	100
NET INCOME	\$ 459	\$ 99	\$ 178
NET INCOME PER SHARE, BASIC	\$.62	\$.13	\$.24
NET INCOME PER SHARE, DILUTED	\$.61	\$.13	\$.24
Cash dividends declared per common share	\$.0180	\$.0180	\$.0180

Figure 3.C.d Southwest Airlines, Cash Flow Statement 2010

SOUTHWEST AIRLINES CO. CONSOLIDATED STATEMENT OF CASH FLOWS			
(In millions)	YEARS ENDED DECEMBER 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 459	\$ 99	\$ 178
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	628	616	599
Unrealized loss on fuel derivative instruments	139	14	206
Deferred income taxes	133	72	56
Amortization of deferred gains on sale and leaseback of aircraft	(14)	(12)	(12)
Changes in certain assets and liabilities:			
Accounts and other receivables	(26)	40	71
Other current assets	(8)	(27)	(21)
Accounts payable and accrued liabilities	193	59	(98)
Air traffic liability	153	81	32
Cash collateral received from (provided to) fuel derivative counterparties	265	(90)	(2,240)
Other, net	(361)	133	(292)
Net cash provided by (used in) operating activities	1,561	985	(1,521)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment, net	(493)	(585)	(923)
Purchases of short-term investments	(5,624)	(6,106)	(5,886)
Proceeds from sales of short-term investments	4,852	5,120	5,831
Other, net	—	2	—
Net cash used in investing activities	(1,265)	(1,569)	(978)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	—	455	1,000
Proceeds from credit line borrowing	—	83	91
Proceeds from revolving credit facility	—	—	400
Proceeds from sale leaseback transactions	—	381	173
Proceeds from Employee stock plans	55	20	117
Payments of long-term debt and capital lease obligations	(155)	(86)	(55)
Payments of revolving credit facility	—	(400)	—
Payment of credit line borrowing	(44)	(97)	—
Payments of cash dividends	(13)	(13)	(13)
Repurchase of common stock	—	—	(54)
Other, net	8	(13)	(5)
Net cash provided by (used in) financing activities	(149)	330	1,654
NET CHANGE IN CASH AND CASH EQUIVALENTS	147	(254)	(845)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,114	1,368	2,213
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,261	\$ 1,114	\$ 1,368
SUPPLEMENTAL DISCLOSURES			
Cash payments for:			
Interest, net of amount capitalized	\$ 135	\$ 152	\$ 100
Income taxes	\$ 274	\$ 5	\$ 71

Figure 3.C.e Fuel Hedges, Hedge Ratio and Fuel Pricing Impact of Hedges

Average Crude Oil Price per barrel	Percent of estimated fuel consumption covered by fuel derivative contracts*	
	1Q 2011	Full Year 2011
Up to \$90	68%	64%
\$90 to \$95	33%	52%
\$95 to \$105	15%	29%
Above \$105	39%	51%

* Estimated fuel consumption for 2011 and beyond excludes any potential impact of the Company's proposed acquisition of AirTran Holdings, Inc.

Figure 3.C.f Sensitivity Analysis for Jet Fuel Prices and Operating Expenses, LUV 2010

Avg crude oil price per barrel	Estimated difference in Southwest economic jet fuel price per gallon, compared to unhedged market prices, including taxes *	
	First quarter 2011	Full year 2011
\$70	\$.21 above market	\$.21 above market
\$90	\$.04 above market	\$.04 above market
\$92	\$.02 above market	at market
\$100	\$.03 above market	at market
\$125	\$.05 below market	\$.16 below market
Estimated premium costs**	\$31 million	\$141 million

	2010	2009	Increase (decrease)	Percent change
Salaries, wages, and benefits	3.76¢	3.54¢	.22¢	6.2%
Fuel and oil	3.68	3.11	.57	18.3
Maintenance materials and repairs	.76	.73	.03	4.1
Aircraft rentals	.18	.19	(.01)	(5.3)
Landing fees and other rentals	.82	.73	.09	12.3
Depreciation and amortization	.64	.63	.01	1.6
Other	1.45	1.36	.09	6.6
Total	<u>11.29¢</u>	<u>10.29¢</u>	<u>1.00¢</u>	<u>9.7%</u>

Figure 3.C.g Collateral and Counterparties, LUV 2010

(in millions)	Counterparty (CP)						Total
	A	B	C	D	E	Other	
Fair value of fuel derivatives	\$ 114	\$ (238)	\$ (3)	\$ 79	\$ 189	\$ 1	* \$142
Cash collateral held by CP	(60)	125	—	—	—	—	65
Aircraft collateral pledged to CP . . .	—	113	—	—	—	—	113
If credit rating is investment grade, fair value of fuel derivative level at which:							
Cash is provided to CP	0 to (300) or >(700)	0 to (125) or >(535)	>(75)	>(75)	>(75)		
Cash is received from CP	>40	>150	>200***	>125***	>250		
Aircraft is pledged to CP	(300) to (700)	(125) to (535)	N/A	N/A	N/A		
If credit rating is non-investment grade, fair value of fuel derivative level at which:							
Cash is provided to CP	0 to (300) or >(700)	0 to (125) or >(535)	**	**	**		
Cash is received from CP	**	**	**	**	**		
Aircraft is pledged to CP	(300) to (700)	(125) to (535)	N/A	N/A	N/A		

* Sum of counterparties with fair value of fuel derivatives <\$5M and no risk of the Company posting collateral.

** Cash collateral is provided at 100 percent of fair value of fuel derivative contracts.

*** Thresholds may vary based on changes in credit ratings within investment grade.

Figure 3.C.h Derivative Contracts and Accounting Location, LUV 2010

(in millions)		Asset Derivatives		Liability Derivatives	
		Fair Value at 12/31/10	Fair Value at 12/31/09	Fair Value at 12/31/10	Fair Value at 12/31/09
Balance Sheet location					
Derivatives designated as hedges					
Fuel derivative contracts*	Other current assets	\$ 151	\$ —	\$ 16	\$ —
Fuel derivative contracts*	Other assets	547	—	88	—
Fuel derivative contracts*	Accrued liabilities	122	122	18	4
Fuel derivative contracts*	Other noncurrent liabilities	71	225	9	10
Interest rate derivative contracts	Other assets	73	47	—	—
Interest rate derivative contracts	Other noncurrent liabilities	—	—	4	10
Total derivatives designated as hedges		\$ 964	\$ 394	\$ 135	\$ 24
Derivatives not designated as hedges					
Fuel derivative contracts*	Other current assets	\$ 164	\$ —	\$ 284	\$ —
Fuel derivative contracts*	Other assets	212	—	304	—
Fuel derivative contracts*	Accrued liabilities	40	324	222	566
Fuel derivative contracts*	Other noncurrent liabilities	33	302	257	870
Total derivatives not designated as hedges		\$ 449	\$ 626	\$1,067	\$1,436
Total derivatives		\$1,413	\$1,020	\$1,202	\$1,460

* Represents the position of each trade before consideration of offsetting positions with each counterparty and does not include the impact of cash collateral deposits provided to or received from counterparties. See discussion of credit risk and collateral following in this Note.