

**SOUTHWEST AIRLINES CO.**

Bob Montgomery  
Vice President - Airport Affairs

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March 1, 2012

Mr. Mario Diaz  
Director of Aviation  
City of Houston  
16930 John F. Kennedy Blvd.  
Houston, TX 77032

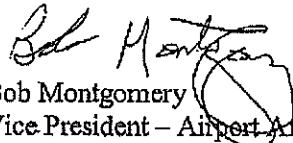
Dear Mr. Diaz,

On behalf of Southwest Airlines, we would like to formally request the Houston Airport System to evaluate the feasibility of the construction of a 3-5 gate Federal Inspection Station ("FIS") at Houston Hobby Airport to enable flying to and from international destinations in North, Central and South America.

As part of this evaluation, we welcome the opportunity to discuss funding alternatives with the goal in mind to maintain the low cost structure we have both worked so hard to maintain at Hobby.

Lastly, as an integral part of the functionality of such a facility, we seek to determine a joint plan between HAS and Southwest to solicit the appropriate federal agencies to sufficiently staff this facility to process the Customers upon completion.

Sincerely,

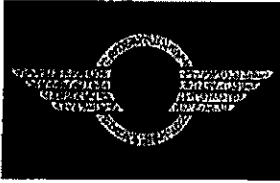


Bob Montgomery  
Vice President - Airport Affairs

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MAR 1 2012

**Houston Airport System  
Commercial Development**



SOUTHWEST AIRLINES CO.

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March 13, 2012

Mr. Mario Diaz  
City of Houston  
Director of Aviation  
P. O. Box 60106  
Houston, TX 77032

Dear Mr. Diaz:

The expansion of international commercial air service provided across the Houston Airports System is a critical issue for Houston's future. We believe that the embrace of international service at both Houston Airports, i.e., Houston Intercontinental (IAH) and Houston Hobby (HOU), will provide significant economic and competitive benefits to the flying public and to the City of Houston.

The opponent of this International evolution in Houston is United Airlines. A summary of their arguments provided in various forums against the evolution contains their views that:

1. The creation of International capabilities at HOU will reverse Aviation Policy of over 40 years, and undermines previous investments in IAH by the then-existent Continental Airlines.
2. Hobby expansion will overwhelm Customs and Border Protection services and cause a degradation of capacity and services at IAH.
3. International expansion by evolving both airports is inconsistent with strategies embraced by other communities, namely Dallas.
4. Expansion will hurt Houston economically.
5. Diversification will hurt United specifically.
6. Anyone can offer international service from IAH. There is no need for HOU Customs facilities.

Southwest Airlines has a different view. Expanded and evolved International service offers substantial benefits for the City of Houston, many of which are voiced in the following rebuttal of United Airlines' complaints.

**Complaint 1:** The creation of International capabilities at Hobby Airport will reverse Aviation Policy of over 40 years, and undermines previous investments in IAH by Continental Airlines.

Southwest has served Houston since our inception in 1971. We have entered into various airport agreements and participated in the design and funding significant airport

improvements at both HOU and IAH. In all that time we have never been aware of any International Policy other than that stated in HAS' current strategic mission: *to grow international service*. We are unaware of any restriction, limitation, or representation by the Houston Airport System or by the City of Houston to focus international services at IAH. Further, we are unaware of any restriction, limitation, or representation in any contractual agreement between the City and airlines serving Houston, nor in any bond ordinance that would lead one to conclude that Houston has any policy at all to focus international service at IAH.

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The second part of this argument is that expansion undermines previous investments in IAH by the former Continental Airlines. Acceptance of this argument would lead one to close HOU altogether, as the same argument must hold true of domestic service. The facts are that international service comprises only 21.5% of the total activity at IAH, which equals approximately the total domestic traffic at HOU. Gate capacity being studied at HOU is five gates for international service compared with IAH's current international capacity of 35 gates. This is small threat indeed.

Additionally, UA operates in both Terminal D and Terminal E. They are considering construction of a new Terminal B International facility. The Continental Airlines investment was limited to Terminal E, which comprises only about 2/3 of the international gate capacity. Damage could not occur unless new and competing capacity caused a 33% decrease in existing IAH international service. Given the fact that low fare competition will stimulate the market and thereby *increase* demand at IAH (a reaction that the U.S. Department of Transportation has long recognized as the "Southwest Effect"), this is unlikely to occur. Stated another way, activity on five new gates at HOU cannot possibly eliminate the demand for 12 gates at IAH.

**Complaint 2: HOU expansion will overwhelm Customs and Border Protection services and cause a degradation of capacity and services at IAH.**

Customs and Border Protection (CBP) service is not a limited or a fixed service. Expansion at HOU need not affect IAH, especially as they have a pre-existing level of service. It is the duty of the U.S. Government, through CBP, to support international commerce. This service will provide benefits to the City of Houston in excess of \$1 billion annually. Staffing a HOU CPB will require about 20 agents. It is unlikely that the City of Houston would allow such a small problem to stifle such a large benefit.

Furthermore, CBP staffing is allocated through the agency's staffing model and thus resources will be provided depending on the demand for services. An analogous situation is presented through the staffing needs of Transportation Security Administration (TSA). For the past ten years, Southwest has expanded into many new markets and added new facilities to the airports we serve. Yet TSA has continued to staff our checkpoints, regardless of the budget restraints imposed on the agency or arbitrary caps on TSA staffing.

Finally, design and construction of any HOU Federal Inspection Service will preclude initiation of international service until 2015. This leaves ample time for the

Houston Airports System and its airline tenants to work with the Department of Homeland Security to provide the sufficient level of CBP staffing. Again, we are likely facing the need for 20 CBP officers beginning in 2015. Through our due diligence and the cooperation of various stakeholders, we should be able to secure the appropriate CBP resources in time for new international service. This is not an insurmountable challenge.

**Complaint 3: International expansion by evolving both airports is inconsistent with strategies embraced by other communities, namely Dallas.**

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International expansion is a sign of growth and vitality in any city. While it is true that Dallas chose to limit international activity, it did so due to demands from American Airlines, the City of Fort Worth, and DFW Airport. In 2006, as part of the Five Party negotiations to end the Wright Amendment perimeter restrictions, a compromise was reached to allow expanded domestic flight activity at Dallas Love Airport. This situation is completely unique to Dallas and its long and complicated history bears no relation to Houston or any other city.

Throughout the United States, great cities have found ways to diversify and yet remain world-class gateways. The list includes the San Francisco area, which includes SFO, Oakland and San Jose; Los Angeles (southern California) which includes LAX, Orange County and San Diego; New York with JFK and Newark; Chicago with O'Hare and Midway; Miami with MIA and Ft. Lauderdale; and Washington, D.C., with Dulles and BWI Airport. Diversification is a sign that Houston has joined the ranks of truly world class gateways. It is worth noting that Southwest, through our wholly-owned subsidiary, AirTran Airways, is expanding international flights at historically domestic airports, including Orange County (which includes a new FIS facility), BWI and Midway. This international expansion has received overwhelming local support at each of these airports.

**Complaint 4: Expansion will hurt Houston economically.**

A draft economic impact analysis sponsored by HAS shows that Houston will substantially *benefit* from additional international service, with estimates exceeding \$1 billion annually. Additionally, Houston does not presently enjoy a vibrant low cost international service product. As has been proven time and time again, low cost service stimulates passenger traffic and expands the marketplace, with all its secondary benefits. It does not *shrink* the marketplace.

International traffic to Mexico/Caribbean/South America (the limits of Category III aircraft) generated by air carriers at IAH other than United in 2011 amounted to 0.6% of IAH traffic. This equates to between 4-6 departures per day, depending on the day of the week, and is insignificant in light of the total Houston international traffic.

International air traffic is composed of two elements, Origination and Destination traffic (passengers who want to travel between the two destinations) and Connecting/Network traffic (people being brought to Houston from other cities who connect to their ultimate destination). The primary driver of traffic is the carriers'

domestic networks, which is why United and their affiliates control virtually all international travel to Mexico/Caribbean/South America from Houston. This argument is not about economic benefit to Houston, it is about maintaining a functioning monopoly.

**Complaint 5: Diversification will hurt UA specifically.**

Airlines who operate fortress hubs have been voicing this complaint since 1978. It is as hollow now as it was then. For the past 40 years, UA and IAH carriers have competed domestically against Southwest and other airlines at HOU. Such healthy competition benefits Houston. UA's domestic feed network will not be changed in any way with new international service at HOU. It is UA's domestic feed network that is the primary vehicle that makes the size of their international service possible, not competition.

UA's route map shows approximately 54 international destinations in Mexico/Caribbean/South America with 103 daily departures. Five gates at HOU, operating an average of five flights per day equates to only 25 possible flights, leaving a UA monopoly on 29 destinations if each destination receives only one flight per day.

Diversification will not hurt UA nor damage IAH. Pricing will be more competitive, flights will be less expensive, and traffic will grow.

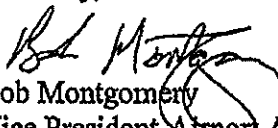
**Complaint 6: Anyone can offer international service from IAH. There is no need for HOU Customs facilities.**

This argument is a red herring. No airline can compete with UA's juggernaut at IAH because competition requires a similar domestic feed network. For Southwest, our domestic network – i.e., 135 daily nonstop flights to 34 cities with 2,770 local employees – is based at HOU and has been since 1971. If left unchanged, Houston can only expect international service growth from UA and its affiliates under the present conditions.

Discussions are already underway to expand international capacity at IAH. Due to the existing terminal designs, new capacity must be constructed in a different terminal rather than in an expansion of existing. Whether this new capacity is constructed a half a mile away from existing facilities, or a mile away, or 30 miles away is immaterial from a passenger standpoint.

Houston needs competition; it needs diversification; it needs low fares; it needs international service at Hobby Airport.

Sincerely,

  
Bob Montgomery  
Vice President-Airport Affairs



Kata Gebo  
Vice President - Corporate Real Estate

February 22, 2012

Mario Díaz

Director

Houston Airport System

16930 John F Kennedy Blvd

Houston, TX 77032

Subj: HOU FIS

Dear Mr. Diaz,

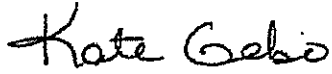
The City of Houston has made it possible for Houston George Bush Intercontinental Airport (IAH) to become the largest hub in United's network because of the aviation policy to invest all available resources in one international airport, which attracts not only United but other international airlines from throughout the world. In addition to IAH's role in United's network, IAH is an important gateway for numerous other airlines providing international service. IAH not only has the highest percentage of flow traffic among United's hubs but we connect hundreds of passengers daily to flights operated by other international airlines. IAH is a vibrant international crossroads for aviation precisely because all international service is located there and airlines operating international service have access and are welcome there. The City's latest plan to consider an FIS at William P. Hobby Airport (HOU) will diminish the vitally important investment of resources in one international airport and reduce international flow traffic at IAH, significantly impacting, if not negating, United's ability to guarantee the level of traffic through the Central FIS required under the Terminal B SFL. This, in turn, directly influences United's position on future investments at IAH.

The speed and efficiency of the Customs process is an important factor in competing with other international hubs and splitting Houston's U.S. Customs and Border Protection (CBP) resources between two airports will make it less competitive as a major international gateway city. Moreover, all customers on international flights would be significantly impacted by the failure to invest all available Customs resources at IAH, which are necessary to continue to provide the level of efficient service for which IAH is known. IAH is open to all airlines that want to operate international service to Houston, and there is unused capacity in Terminal D and the Federal Inspection Services facility and this should be the focus for growing international traffic in the region.

Houston's aviation policy has been successful because of the longstanding recognition that all international traffic should meet at one international airport, IAH, where all airlines can operate and

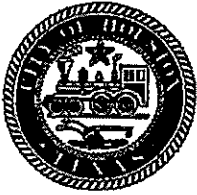
which attracts scheduled service from around the world. We look forward to working with you in crafting an FIS solution at IAH that continues to support Houston's growing economy and its position as the largest hub within United's network and a competitive airport with other hubs to attract international service from throughout the world.

Respectfully,



Kate Gebo

VP, Corporate Real Estate



CITY OF HOUSTON

Annise D. Parker

Mayor



George Bush Intercontinental ~ William P. Hobby ~ Ellington Airport

Mario C. Diaz  
Director of Aviation

February 29, 2012

Ms. Kate Gebo  
Vice President - Corporate Real Estate  
United Airlines  
77 West Wacker Drive  
Chicago, IL 60601

Dear Ms. Gebo:

Thank you for your letter of February 22, 2012, concerning our assessment of the possibility that we might allow regional international operations at the William P. Hobby Airport (HOU). We also appreciated the time we spent with you and your colleagues on February 2, 2012, to discuss this subject. As we have shared with you, Southwest Airlines has requested we allow the airline to conduct international operations from HOU. This comes as no surprise to us given Southwest's acquisition of AirTran Airlines and the publicly stated intent of Southwest leadership to grow international traffic within its system as a strategy to continue to grow the airline, a very common airline strategy these days.

As you may know, the Houston Airport System is obligated under grant assurances with the Federal Aviation Administration (FAA) to provide fair and open access to all airlines interested in serving Houston. More specifically, we are bound by FAA grant assurances that encourage competition, and require we explain within a fixed timeframe why we would not allow an airline to introduce new or expanded service (international or domestic) at any one of our airports. As examples of these types of assurances and requirements I would offer the following:

- Assurance No. 22, Economic Nondiscrimination
- Assurance No. 23, Exclusive Rights
- Assurance No. 39, Competitive Access

In order to reach a decision regarding Southwest's proposal, an analysis of what is in the best interest of the Houston Airport System and the City of Houston is currently underway. This decision will not be made in a vacuum. The perspectives of many stakeholders, including the airlines, and the needs of

Council Members: Wanda Adams C.O. "Brad" Bradford Helena Brown Andrew C. Burks, Jr. Jack Christie Ellen R. Cohen Stephen C. Costello Jerry Davis  
Edward Gonzalez Larry V. Green Al Hoang Mike Laster Melissa Noriega Oliver Pennington James G. Rodriguez Mike Sullivan  
Controller: Ronald C. Green

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passengers will be weighed in the balance. Any additional information you may wish to submit will certainly be considered.

The Houston Airport System has a long-standing relationship with United (and its predecessor, Continental), and we have every intention of maintaining the George Bush Intercontinental airport (IAH) as the vibrant hub it has become for all airlines wishing to provide international service to the citizens and businesses within the greater Houston Metropolitan Region. This will be a very important consideration as we formulate our recommendation.

Your letter provides us the opportunity to better understand the arguments United makes in contraposition to Southwest's request, and to pose some questions to United that would help us better understand the relative merits of any proposed action we might be deliberating.

First, with respect to a specific point in your letter, I have inquired of staff and talked with my predecessors and can find neither a policy statement, nor anyone with a memory of any policy, conferring on IAH exclusivity as the unique and singular international airport in the Houston Airport System. If you have any documentation to this effect I would be happy to receive a copy.

Your letter restates the reasoning provided us during our meeting of February 2, 2012. As I heard United's position laid out it was that there exists today excess capacity in the IAH federal inspection facilities (FIS) (although possibly insufficient gate capacity in both terminals A and D to accommodate Southwest, even if we were to limit Southwest to international traffic, let alone domestic operations) to accommodate any amount of incremental international traffic in the foreseeable future, and that to allow the creation of a new FIS at HOU would, "reduce international flow traffic at IAH, significantly impacting, if not negating, United's ability to guarantee the level of traffic through the Central FIS required under the Terminal B lease". This point raises the questions: 1. Wouldn't this be true only if United actually decided to build its own FIS in terminal B as it may do under the recently approved Terminal B Special Facility Lease? 2. It raises the corollary question: why would United do so?

As Mr. Hart explained to us, United would build the Terminal B FIS to eliminate operational inefficiencies involved in transferring connecting (flow) passengers between the IAH FIS and Terminal B gates. We certainly understand this concern. But let us now apply the point to Southwest. If Southwest were required to conduct international operations only from IAH, how would it manage it's "flow" traffic? For argument sake, assume a Southwest B737 with 150 passengers on board lands at HOU, with 50 connecting international passengers. How would Southwest get those 50 passengers to IAH? Or consider the converse with a 150 passenger aircraft landing at IAH, with 50 connecting (flow) passengers continuing on international flights, but with say 50 of the remaining 100 passengers making connecting domestic flights. How would Southwest get those 50 passengers down to HOU? During the meeting I was left with the impression it was conceded these were problems Southwest would not be able to manage, and thus would probably be forced to forego international operations in the Houston market. There was also acknowledgement that a "split" operation imposed on Southwest would be a competitive handicap,

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Controller: Ronald C. Green

resulting in significant incremental costs to Southwest if forced to operate under these conditions. If you have given these issues any additional thought I would be interested in hearing United's thinking.

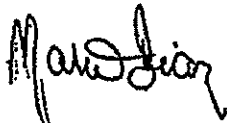
United's arguments next took a twist that I did not follow. The point was made that if we were to grant the creation of a new FIS at HOU somehow the revenue dynamics of United's hub at IAH would be materially altered, causing United to rethink whether it would add any new international traffic at IAH. It would be helpful in understanding this last point to know why competition with Southwest at IAH wouldn't have such an impact, but the same competition at HOU would.

Finally, we certainly acknowledge that U.S. Customs and Border Protection (CBP) resources are limited, but this issue will need to be addressed regardless where Southwest decides to establish international service, if within the Houston Airport System. It will certainly need to be addressed if United were to decide to proceed with the creation of a new FIS at Terminal B. Such a move might create significant discrepancies between CBP services rendered passengers in an exclusive terminal, versus a commoner level of service received by all other passengers of airlines having to use the City FIS. It seems to make more sense that instead of driving a wedge between airlines to divide, we (Airport and Airlines) should be addressing this problem together to appeal to the Washington agencies having federal jurisdiction over CBP, and our Washington congressional delegation to make as strong a case as possible that growth in air service is going to be in the international sector and that we need Washington's support to service this very important segment for U.S. flag Airlines.

There is one final question you might help us with. Supposing that HOU international operations were limited to group III aircraft operations to regional (i.e. North, Central, and northern rim of South America) destinations only, would that make a difference in United's position?

I invite your response to these questions and will provide United as well as all airlines at IAH and HOU the information supporting our decision at the appropriate juncture.

Sincerely,



Mario C. Diaz

cc: Lance Lyttle  
Ian Wadsworth  
Kirk Rummel  
Genaro J. Peña

Council Members: Wanda Adams C.O. "Brad" Bradford Helena Brown Andrew C. Burks, Jr. Jack Christie Ellen R. Cohen Stephen C. Costello Jerry Davis  
Edward Gonzalez Larry V. Green Al Hoang Mike Laster Melissa Noriega Oliver Pennington James G. Rodriguez Mike Sullivan  
Controller: Ronald C. Green



Kate Gebo  
Vice President  
Corporate Real Estate

March 6, 2012

Mario Diaz, Director  
Houston Airport System  
16930 John F. Kennedy Blvd.  
Houston, TX 77032

RE: Houston International Air Service

Dear Mario:

Thank you for your February 29 letter and for the time you spent with us regarding your consideration of accommodating international operations and opening a Federal Inspection Services ("FIS") facility at William P. Hobby Airport ("HOU"). We appreciate the time because this is a critical issue not just for us, but for Houston's future. Moving forward with this proposal would reverse an aviation policy that for more than 40 years has made George Bush Intercontinental Airport ("IAH") and the Houston region a world-class international gateway. You would jeopardize the continuing development of IAH, reduce the efficiency of Customs and Border Protection ("CBP") services for Houston and significantly increase the cost of FIS services and facilities by splitting FIS operations between two airports. This effectively creates a situation in which Houston is competing against itself rather than other world-class hubs such as Dallas/Fort Worth which has flourished as a result of a single-international-airport policy in its home market. As set forth below, you have no obligation to deviate from the successful one-international-gateway approach that the city of Houston has followed for over 40 years. In fact, we believe that you have a responsibility to maintain it.

Since 1969, HAS and the City of Houston have followed a clear and consistent policy of limiting Houston's international air services to IAH. This approach was based on the accurate assessment that having a single point within Houston where all international connecting traffic converges, would attract scheduled service by U.S. and non-U.S. airlines and make Houston a leading gateway. The success of this approach is evidenced by the fact that the current level of international markets served at IAH is possible only as a result of the connecting traffic generated by Continental and now United. The local Houston market and business community however, benefits greatly by the international markets made available as a result of the connecting flow traffic.

Continental and United have invested more than a billion dollars at IAH since 1996 and recently announced plans to invest \$700M more, based on the understanding that Houston would its current policy to continue to develop IAH as its only international airport attracting all international carriers and generate the greatest possible international passenger and cargo traffic. Splitting international service between the two Houston airports would severely devalue that investment. The investment by Continental, and now United, in developing IAH as the largest hub within the carrier's network has enhanced IAH's stature among U.S. and global gateways, making Houston one of the most attractive, effective and efficient gateways that competes effectively with Dallas/Fort Worth, Atlanta, and other international hubs. Working together, Continental, United and IAH have brought new international traffic, businesses and jobs to the city of Houston. This investment has also attracted international carriers from throughout the world to an international gateway where all traffic converges to create the greatest possible stimulation for Houston's economy and the level of connecting traffic that makes international service more viable.

Splitting international flights between IAH and HOU is a concern to United whether or not the FIS in Terminal B is built, at such time as demand warrants, since international services at a second Houston airport would siphon off traffic that now uses IAH. This concern arises whether HOU international operations are limited to Category III aircraft operations to regional destinations or not. The integrity and vitality of the international hub at IAH, given all its stakeholders, would be adversely affected by international operations at HOU, including any limitation to Category III aircraft to serve airports throughout North and Central America and the northern tier of South America. Services operated by Category III aircraft or smaller are the backbone of international service at IAH. For example, in 2011 85% of United's international departures at IAH were operated by Category III aircraft or smaller. As a result, such a limitation at HOU provides no value. United welcomes all international competitors at IAH regardless of the type of equipment they operate or the region they serve. However, United does not welcome the serious harm that would result to IAH as an international gateway if investments and CBP resources are split between IAH and HOU.

You asked why competition with Southwest at IAH wouldn't materially alter revenue dynamics of United's IAH hub but the same competition at HOU would. United competes today with numerous carriers for international traffic at IAH and would welcome the addition of other carriers there, including Southwest. What United opposes is splitting international flights and CBP services at two airports within the system, which would make IAH a less competitive gateway. Any action that dilutes connectivity at IAH and inhibits the further investments, funding and development of IAH as a premier international gateway, such as establishing another international airport for Houston, weakens IAH's competitive status in the international marketplace and inhibits the expansion of international services there by United and other airlines. Over the longer term, this will result in a net reduction in service for Houston as whole. IAH is open to all airlines that want to commence new international services at Houston and has unused capacity in Terminal D. Moreover, the FIS at IAH can accommodate such new service along with additional domestic connecting service. All international carriers that operate at IAH or may wish to operate there derive the same enormous benefit from these resources.

Allowing international operations and establishing an FIS facility at HOU would also impede United's ability to continue expanding international service at IAH and to recoup the hundreds of millions of dollars invested by Continental and United at IAH since 1996 based on the understanding that IAH would serve as the sole international gateway for Houston and to guarantee the level of traffic through the Central FIS required under the Terminal B Special Facilities Lease. Splitting Houston's international services would force United to reconsider its plans for future investments at IAH and undermine IAH's competitive standing and attractiveness as a United States gateway. No federal law, regulation or obligation requires Houston to permit international flights or provide FIS services at HOU. Houston should not undermine the success of IAH as an international gateway by doing so.

The Federal Aviation Administration ("FAA"), through Grant Assurances, does not require HAS or the City of Houston to allow international operations at HOU and to provide Federal Inspection Services ("FIS") there. To the contrary, HAS is allowed to continue its current policy, just as Dallas/Ft. Worth, to take one example, is doing today. Moreover, the FAA has long recognized an exception for owners/operators of multi-airport systems like Houston's from the general requirements of Airport Grant Assurance 22. That exception was best explained in the FAA's Final Agency Decision and Order in the Centennial Express Airlines case, where the FAA said that:

Where the volume of air traffic is approaching or exceeding the maximum practical capacity of an airport, an airport owner may designate a certain airport in a multiple airport system under the same ownership and servicing the same community for use by a particular class or classes of aircraft.<sup>1</sup>

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<sup>1</sup> Centennial Express Airlines and Golden Eagle Charters d/b/a Centennial Express Airlines v. Arapahoe County Public Airport Authority, FAA Docket Nos. 16-98-005, 13-94-03 (Feb. 18, 1999), at 26. This case involved a request by the air carrier to introduce scheduled service at the airport in question.

Neither Airport Grant Assurance 23 nor Grant Assurance 39 requires accommodation of international services at HOU. The exception carved out for owners of multi-airport systems like HAS covers compliance with Assurance 23 as well as 22. While HAS may indeed have to submit a report to the Secretary pursuant to Grant Assurance 39, the facts and circumstances existing at HOU, as supported by the current operational and enplanement data and the best interests of overall system capacity, will certainly justify the HAS decision and be sustained by the FAA.

The future of IAH as a premiere international gateway is at stake in your current review of Houston international air service policy. All international carriers are welcome at IAH and can be easily accommodated there with existing facilities and planned improvements. Rather than abandoning the current approach that has resulted in the growth of IAH as a vibrant and growing international airport since 1968, we strongly believe HAS and the city of Houston should use this opportunity to make clear that all investments for international service in Houston will continue to be made at IAH. Houston's economy and jobs depend on the success of IAH now more than ever. Abandoning the policy responsible for its success would harm not only jobs and service there at IAH, but also the city's business community.

As this is an important decision for HAS and United, we would welcome the opportunity to continue to meet and discuss this with you and your team.

Respectfully,



Kate Gebo  
Vice President, Corporate Real Estate



Nene Foxhall  
Executive Vice President  
Communications and Government Affairs

March 16, 2012

The Honorable Annise Parker  
Mayor  
The City of Houston  
901 Bagby Street  
Houston, TX 77002

Dear Mayor Parker,

Two days after we stood with you to break ground on our joint project to redevelop Terminal B at George Bush Intercontinental Airport (IAH), we learned from a news report that the administration is considering a proposal to develop a second international airport in Houston.

As we later told you, we believe this fundamental change in more-than-40-year-old aviation policy would weaken the city's economy and kill far more jobs than it might create. One of the reasons that Houston's economy is so strong is the connecting air passenger traffic that powers IAH, filling planes to destinations around the world on flights that the city's local traffic alone couldn't support. Those flights directly create jobs. They also spur the development of businesses that create more jobs, by facilitating global commerce with Houston through frequent, easy connections across the globe.

A second international airport would dilute IAH's international traffic. A federal inspection services facility (FIS) at a second airport will stretch scarce federal customs resources and compromise customer service for international travelers, making Houston an unattractive destination for passengers and a more costly one for carriers. All this means that Houston will suffer the loss of international service as such service becomes less viable. A second international airport will result in Houston competing against itself rather than regions such as Dallas-Fort Worth and Atlanta, which protect their single international connecting hub airports.

We welcome new international carriers at IAH. In fact, the capacity already exists for new and existing carriers at IAH. Terminal D's international gates and the existing customs facility can easily accommodate more flights. Terminal D today averages only 13 flights per day from its 12 gates, yet the City is planning to expand this facility. The IAH customs facility was designed to process 4,500 people per hour, yet it averages 2,000 per hour on most days. More carriers at D would mean costs for the facility would be lower for all carriers there.

This week you notified City Council you may be asking them to consider a proposal to build an FIS at Hobby to support international service from that airport as early as May 9, 2012 and hope to conclude Council action by the end of May. This is an accelerated timeline for a policy decision of this magnitude. The Houston Airport System has not shared with us any substantive information on the proposal, but the single fact that you are contemplating a second international airport concerns us. We copy Council Members and the Controller on this letter so that they understand our perspective on the ramifications of what you may be asking Council to do.

Undertaking this change would reverse city aviation policy that IAH is Houston's sole international airport, a policy which all administrations have honored since IAH opened in 1969. That policy has ensured IAH is one of the world's premier international gateways and one of Houston's most important economic engines.

The proposed action would reverse that policy on which Continental Airlines relied in investing \$1 billion since 1996 as the city's partner to ensure IAH is its major international connecting hub. It would reverse that policy on which the new United Airlines has relied in proceeding with plans to redevelop Terminal B at an eventual cost of \$700 million. This proposal would undermine the economic assumptions on which we based our partnership with you.

United has made these business decisions in good faith with the understanding that IAH would continue to be Houston's exclusive international airport. Continental built Terminal E at its own expense to serve as a signature international gateway. We worked with the city to redevelop Terminal C to expand capacity for domestic destinations. At the time we built Terminal E, we agreed to relinquish preferential use of three gates at Terminal D in order to cooperate with the administration's plan to attract new international carriers, particularly for wide-body aircraft, to complement our development of Terminal E.

Continental's then-CEO Gordon Bethune made these initial investment decisions in partnership with Mayors Lanier and Brown, relying on the principle that with IAH as Houston's exclusive international airport, the airline could provide service to destinations well beyond what the local market could sustain. Passengers from other cities, connecting at IAH to other destinations, would provide the traffic levels needed to make even more flights to more international destinations economically viable.

That proved to be the case and nothing has changed since the merger of Continental and United in October 2010. The new United under the leadership of Jeff Smisek has continued to invest in IAH, now the largest hub for the world's largest airline. Since the merger we have added a daily average of 1,908 seats at IAH, the equivalent of twelve 737-800's per day. IAH is the number one option for domestic and international connecting passengers within our network, which is now the most extensive network on the globe. We have added 12 new markets to IAH, more than any added at United's seven other hubs and equaled only by Atlanta's airport. Because Houston is ideally situated to connect passengers from both east and west for southern markets, our greatest network growth has been to Latin destinations, which have more than doubled from 26 cities in 1996 to 54 cities today. We average 65 flights each day to 30

destinations in Mexico alone. And based on the enormous potential for even greater connectivity, United made the commitment to invest \$100 million in Phase One of the complete modernization of Terminal B.

We needed and continue to need certainty of the circumstances on which we base these investment decisions. Because of that, we respectfully now ask that you use this opportunity to reaffirm that IAH is Houston's sole international airport.

If you decide to continue your consideration of this change in aviation policy, we ask that you conduct your evaluation with full transparency, engaging all stakeholders and with a sufficient timeline to allow participation by the public and analysis by all agreed-upon experts. No decision of such an enormous impact to Houston's future should be made without a fair and open process. United has engaged William Swelbar, research engineer at MIT's International Center for Air Transportation; and University of Houston economist Dr. Barton Smith, nationally recognized experts in aviation policy and the Houston economy, respectively, to collaborate on an economic analysis of the potential impact of creating competing international airports in Houston. Because their research will require a minimum of six further weeks, we respectfully ask that you delay your decision until the City and its researchers and all stakeholders can also review their research.

We are still Houston's hometown airline. Continental employed about 17,000 employees in the Houston area prior to the merger, and United employs about 17,000 in the Houston area today - employees whose jobs you will impact if you undertake this policy change. Please do not jeopardize what we and the city of Houston have built through our long partnership and shared goals.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink that reads "Renee Zakhall". The signature is written in a cursive, flowing style.

cc: Ronald Green, Controller  
City Council Members





Kate Gebo  
Vice President  
Corporate Real Estate

March 26, 2012

Mario Diaz, Director  
Houston Airport System  
16930 John F. Kennedy Blvd.  
Houston, TX 77032

RE: Economic Impact Study of International Service at William P. Hobby

Dear Mario:

Thank you for the opportunity to review a draft of the working documents for the GRA / InterVISTAS study on the potential economic impact of international air service at Hobby Airport.

We have completed our review of those documents, and I need to let you know that we disagree strongly with the reports' underlying analyses and, therefore, the conclusions they support. We particularly differ with the conclusions related to the impact on IAH. Once we review the draft report, we'll be ready to provide substantive comments. We appreciate that you are sending that draft today, but I thought I should alert you to our initial views based on the working documents.

We hope that you will consider our concerns before releasing the report. Thanks for your consideration and attention.

Sincerely,

A handwritten signature in cursive script that reads "Kate Gebo".

Kate Gebo  
Vice President, Corporate Real Estate



Jeff Smisek  
President and  
Chief Executive Officer

April 4, 2012

The Honorable Annise Parker  
Mayor  
City of Houston  
901 Bagby Street  
Houston, TX 77002

Dear Mayor Parker,

We have until now honored your airport director's request that we not publicly discuss the findings in his draft study on the economic impact of permitting redundant international air service at Hobby Airport. We have told Mr. Diaz that the assumptions that underlie the analysis are so contrived it is clear they were designed to reach a predetermined conclusion. Since Southwest is now quoting publicly from the draft study, it is imperative that we let you know our experts' views on that study. I attach a memo that William Swelbar, research engineer at MIT's International Center for Air Transportation, and Greg Hart, United's Senior Vice President Network, prepared for us. You will see they have markedly different views on the analysis and conclusions in that draft.

We again respectfully request that you delay this decision, which you agree will impact Houston's aviation industry and economic future for decades to come, until you can consider the results of the separate study that Mr. Swelbar and the University of Houston's Dr. Barton Smith are currently conducting for us. There is good reason that every administration since 1969 has maintained Bush Intercontinental (IAH) as the city's sole international airport. Before you make a decision to permanently change many decades of aviation policy in Houston based on a flawed and rushed study, we hope you will grant our request to allow time for Mr. Diaz's consultants and our experts to discuss their completely different conclusions.

As we discussed in our Feb. 13 meeting, United welcomes competition from AirTran, Southwest and all carriers for international service at IAH, where there are ample gates and facilities and an existing, albeit understaffed, federal inspection services facility. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Jeff Smisek". The signature is written in a cursive, slightly slanted style.

cc: Controller Ronald Green  
Members of City Council



TO: Jeff Smisek and Jim Compton

FROM: Bill Swelbar and Greg Hart

DATE: April 2, 2012

CC: Dr. Barton Smith

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We have reviewed the draft working documents and report for the Houston Airport System's study of the economic impact of redundant international air service at Hobby Airport (the HAS Study). As we have told Mr. Diaz, the assumptions that underlie the analysis are so contrived that it is clear that they were designed to reach a predetermined conclusion. The most significant error is the conclusion that dividing the city's international air service between Bush Intercontinental Airport (IAH) and Hobby would have a positive impact on IAH. Our ongoing, separate analysis, which applies realistic assumptions, points to a very different conclusion. If the city converts Hobby to a second international airport, rather than suggesting that Southwest and AirTran compete with international carriers at IAH (which would be consistent with more than four decades of city aviation policy), there will be a significant, negative impact on IAH and the jobs and commerce it supports.

We anticipate that the impact of the drain of passenger traffic to Hobby would force United Airlines to reduce service in 30 markets served at IAH today and cease service to four others. That reduction would amount to 6 percent of today's capacity at IAH. The capacity reduction would be 10 percent, taking into account service United currently plans at IAH that it would be forced to forego as a result of the fragmenting of international air service market. United would not continue with its plans to introduce service to four new international destinations and to add additional frequencies in existing markets in Houston over the next three years. This reduction in service levels would put in significant doubt the need for United's otherwise planned \$700 million additional investment in the next phases of the redevelopment of Terminal B at IAH.

As you know, United now employs roughly 17,000 people in Houston, about the same number as before the merger of Continental and United, as it has grown the IAH hub since the merger. The significant reduction in capacity made necessary by permitting redundant international service at Hobby would stop that growth and displace approximately 1,300 IAH employees. This would be direct job loss, and does not take into account the many thousands of indirect jobs and construction jobs related to the Terminal B construction that would be lost. Dr. Smith is working with us to quantify the overall local economic impact, given realistic assumptions. United should be able to place many of the approximately 1,300 displaced IAH employees in jobs at its other hubs around the United States where it would relocate the Houston flying.

You should know that we base this impact and necessary response on our own price and market stimulation assumptions. If United accepted the HAS Study's assumptions that IAH would lose 445,000 passengers a year as a result of redundant international service at Hobby, United would have to cut service and jobs at IAH far more drastically.

As you also know, Continental in the past, and now United, have added service and investment at IAH far beyond what the local traffic in the City can itself support, because of passenger traffic connecting through IAH from other locations. Since its merger with Continental, United has connected even more passengers from its vast network to IAH, adding more service at IAH than at any of its other hubs. If the City fosters dilution of that connecting traffic by permitting redundant international service at Hobby Airport, it will change the assumptions on which United/Continental made its investments and placed its assets. The adverse results of such a decision would make some markets once viable no longer so. United would have to respond to those changed circumstances by reducing service and jobs at IAH and flying its aircraft out of its other hubs, where that flying would result in better financial results.

United's reduction in service likely won't be the only adverse impact, as other international carriers will feel the same effects and re-evaluate their service at IAH.

The negative impact of the required schedule reduction by United at IAH in response to the introduction of redundant international service at Hobby will overwhelm the expected modest increase in traffic at Hobby that might be created. Moreover, reductions in United's Latin American operations at IAH are sure to bolster the schedules of carriers operating at Atlanta, Dallas/Ft. Worth and Charlotte, all to the clear detriment of Houston. This is passenger traffic for which Southwest cannot compete at Hobby, given its limited scope and scale of connecting operations – despite aggressive and unrealistic assumptions by the HAS Study that it can.

The HAS Study assumes that lower fares in a market stimulate new traffic to the system – relying on the “Southwest Effect,” which was cited in a study done by the U.S. Department of Transportation almost 20 years ago when fuel was about \$20 per barrel, compared to about seven times that price today. The North American commercial aviation market has changed materially over the past 20 years, and is a mature market that simply does not experience the historical results cited in the study. For example, implicit in the HAS Study analysis is that fares will go down 55 percent and traffic will grow by 181 percent in the local market. This defies contemporary logic when the industry is experiencing record jet fuel prices in the \$140 per barrel range, and is no longer engaged in significant growth and unprofitable flying. Based on Southwest's public cost data, our work suggests that should Southwest choose to operate the proposed schedule at the fare levels envisioned by the HAS study, Southwest would lose roughly \$76 million on the markets every year. Southwest did not become the largest domestic airline in the United States by flying routes that lose money, and we don't expect it will do so as it enters the international market.

Further, the HAS Study does not consider the damage to IAH that will result when Customs and Border Patrol (CBP) has to divert its scarce resources to Hobby. In order to staff a second international airport in Houston, CBP would have to divert resources from other locations, including IAH. CBP already has a significant agent shortage, as it has deployed officers

authorized for Houston to other cities and high-risk border areas. IAH regularly sees some international arriving customers queuing more than 60 minutes to clear customs, and occasionally 100 minutes or more. Stretching these scarce resources would further damage IAH and make Houston less competitive as an international connection city.

We will provide you the final results of Bill's and Dr. Smith's study as soon as they complete it, but it is clear from the preliminary conclusions that providing redundant international service at Hobby will have a net, materially adverse effect on the Houston economy and would be an unwise change to over four decades of sound aviation policy in Houston.