



**TOP U.S.  
AIRLINE**  
-CLIMATE COUNTS

**CUSTOMER  
SERVICE  
CHAMPION**  
-J.D. POWER

**TOP 10  
WORLD'S MOST  
ADMIRABLE  
COMPANY®**  
-FORTUNE

# BUILDING LUV

2012 SOUTHWEST AIRLINES ONE REPORT



Welcome to the **2012 Southwest Airlines One Report™**. As part of our commitment to conserve our natural resources, we're again publishing the 2012 One Report exclusively online at [southwest.com/citizenship](http://southwest.com/citizenship) and <http://southwest.investorroom.com>. This year we have integrated a pop-out menu that can be accessed by the button in the upper right-hand corner. This menu is available on any page of this document. All sections of this document are accessible by clicking through this menu or here in the table of contents. Please note that these features will only be available if you are viewing this document through Adobe Acrobat Pro or Adobe Acrobat Reader. You can download either at [adobe.com](http://adobe.com). Footnotes throughout the report are available at the end of each respective section.

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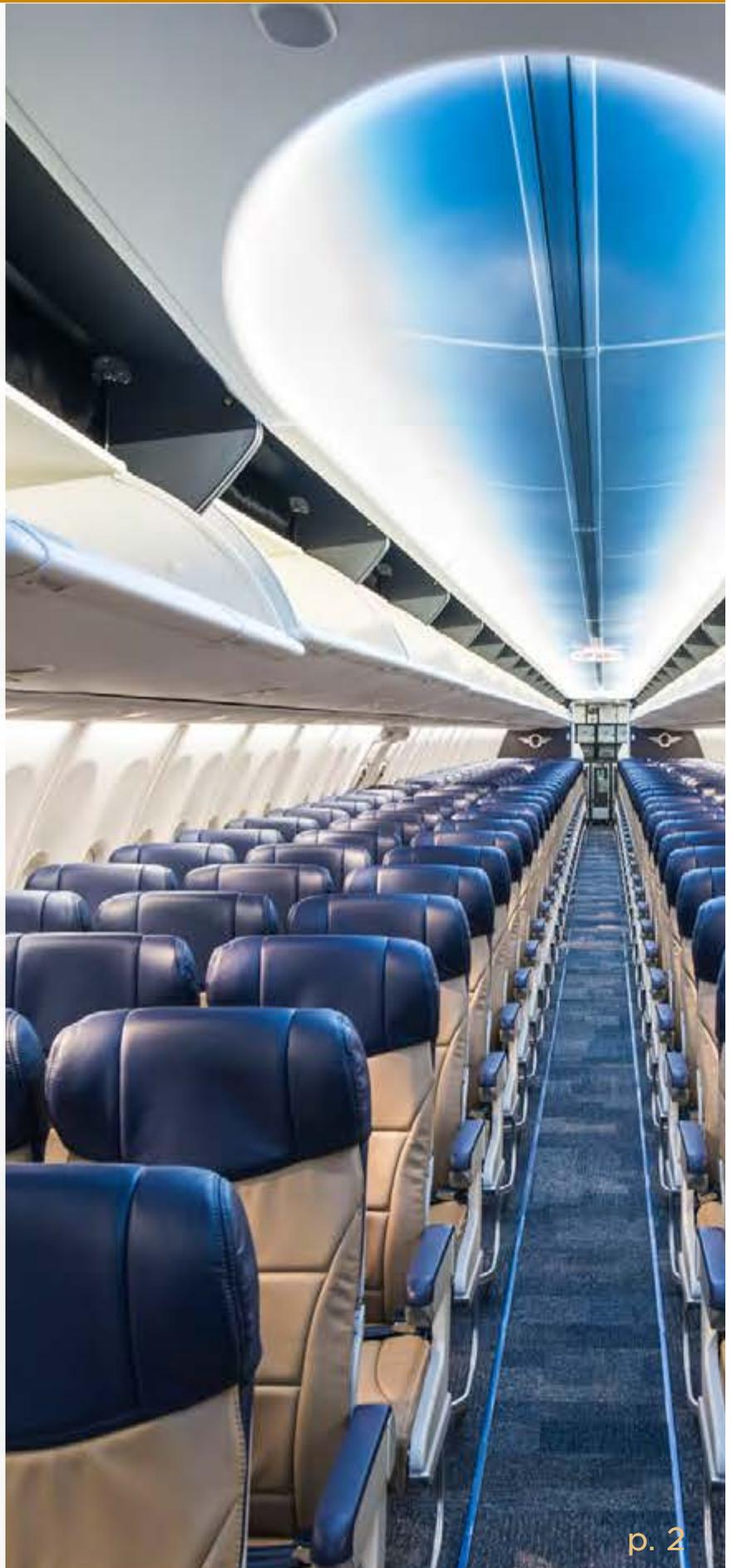
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## Building LUV

From our first flights on June 18, 1971, Southwest gave America the Freedom to Fly by starting a low-fare revolution. In the 1990s, we were the first airline to have a web site and sell tickets online, making flying even more accessible. Today, more than four decades after our founding, we remain steadfast to **our Purpose of connecting people to what's important in their lives through friendly, reliable, and low-cost air travel.** As a result, we've become the:

- **Domestic airline industry leader in Customer Satisfaction<sup>1</sup>**
- **Nation's largest airline,<sup>2</sup> carrying more domestic Passengers than our competitors**
- **Record-holder for the longest-running profitability streak in the U.S. airline industry, with an unprecedented string of 40 consecutive years of profitability**

And our accomplishments don't stop there. Since 1994, **FORTUNE has repeatedly named us to its list of the World's Most Admired Companies**, and we've made the top ten all but two of those years. An amazing feat, considering Southwest didn't even fly beyond the continental United States until April 2013. We are proud to be one of the most honored airlines in the world, known for our triple bottom line approach that takes into account our performance and productivity, the importance of our People and the communities we serve, and our commitment to efficiency and the planet. As of Dec. 31, 2012, we operated more than 3,700 daily flights, serving 97 destinations in 41 states, the District of Columbia, the Commonwealth of Puerto Rico, and six near-international countries<sup>3</sup> and had nearly 46,000 Employees<sup>4</sup> systemwide. On May 2, 2011, we completed the acquisition of AirTran Airways and now operate AirTran as a wholly owned subsidiary of Southwest.

We're in the midst of implementing a bold, five-year strategic plan to make us better, stronger, and more competitive. Our plan includes five major initiatives—AirTran Integration, All-New Rapid Rewards frequent flyer program, Fleet Modernization, the 737-800s, and a New Reservation System and International Capabilities—which support our Purpose and **our Vision to become the World's Most Loved, Most Flown, and Most Profitable Airline.**

## Footnotes

- 1) From the 2012 yearend U.S. Department of Transportation Air Travel Consumer Report issued February 2013. Top ranking is for Southwest only. AirTran ranked third in the same report.
- 2) As measured by the number of originating domestic passengers boarded and based on data available from the U.S. Department of Transportation as of Sept. 30, 2012.
- 3) Near-international destinations operated by AirTran.
- 4) Based on active, full-time equivalent Southwest and AirTran Employees as of Dec. 31, 2012.

Gary Kelly at the annual Message to the Field event in Dallas.



**Gary C. Kelly**  
Chairman of the Board, President,  
and Chief Executive Officer

## Gary's Message

The annual *Southwest Airlines One Report*<sup>™</sup> comprehensively covers our financial, social, and environmental performance, illustrated through our triple bottom line of Performance, People, and Planet. For the fourth year, our 2012 One Report adheres to the Global Reporting Initiative (GRI), an internationally recognized standard for triple bottom line reporting, and fully complies with the GRI's B+ application level.

## To our Stakeholders:<sup>E</sup>

The year 2012 represented our 40th consecutive year of profitability—a remarkable feat unmatched in the U.S. aviation industry. In 2012, we added Southwest Airlines service to two new states (Georgia and Iowa) and six new airports. Our operational performance was superb, with Southwest achieving 83.1 percent ontime performance and recording the best baggage handling in our history.

### Performance

Our 2012 net income was \$421 million.<sup>1</sup> Excluding special items,<sup>2</sup> our 2012 profits increased 26 percent year-over-year to \$417 million. Our profits were boosted by an outstanding record revenue performance. We remain focused on preserving our financial strength and enhancing Shareholder value. In May 2012, our Board of Directors authorized an increase in our previous share repurchase authorization to \$1 billion and a 122 percent increase in our quarterly dividend. We repaid \$578 million in debt and capital lease obligations during 2012. As a result, our debt-to-total capital ratio (including aircraft leases) declined to approximately 41 percent at yearend. Our cash and short-term investments were a strong \$3 billion at yearend, and we remain the only investment-grade rated U.S. airline.

We're in the midst of a bold, five-year strategic plan that began in 2011, which is designed to retain our position as America's most flown<sup>2</sup> and profitable airline. We believe in our strategic plan, and I am pleased to report on the tremendous progress made in 2012 on our critical strategic initiatives:

- 1. AirTran Integration:** We are on track with our plan to fully integrate AirTran Airways into Southwest by the end of 2014 and achieve \$400 million in net, annualized, pre-tax synergies in 2013 (excluding acquisition and integration expenses).
- 2. All-New Rapid Rewards:** The first full calendar year of our All-New Rapid Rewards program exceeded our expectations, with record activity from existing Members and record numbers of new Members and credit card applications.
- 3. Fleet Modernization:** We have ordered more fuel-efficient aircraft, accelerated the replacement of our older 737-300s and 737-500s, and are retrofitting our 737-700s and a portion of our -300s with our new *EvoIve* interior—all of which enable us to reduce our unit operating costs as well as our greenhouse gas (GHG) emissions.

**4. 737-800s:** To better match our fleet to longer-haul flying destinations, we began flying -800s in March 2012 and ended the year with a total of 34 -800s in our fleet.

**5. New Reservation System and International Capabilities:** We selected Amadeus to implement a reservation system to support Southwest's international service, expected to launch in 2014.

On the following pages, in [Feature Stories](#), we highlight the first four of these five major strategic initiatives. This section illustrates our integrated stories of 2012 that support the triple bottom line.

Collectively, we expect our strategic initiatives and new revenue streams to contribute the majority of the planned \$1.1 billion year-over-year revenue increase in 2013. While the fleet modernization plans provide significant growth potential, we do not plan to grow the fleet until earnings are expected to generate sufficient returns on capital. Our 2013 goal remains a 15 percent pre-tax return on invested capital.

### People

With a Warrior Spirit, a Servant's Heart, and Fun-LUVing Attitude, our nearly 46,000 Employees<sup>3</sup> create the unique Southwest Culture that extends to our newest AirTran Family Members. Our Employees are passionate about our Purpose to connect people to what's important in their lives through friendly, reliable, and low-cost air travel. We couldn't be who we are without our dedicated Employees.

Southwest is the nation's largest airline in terms of originating domestic passengers boarded,<sup>2</sup> and, including AirTran, we operate the largest fleet of Boeing aircraft in the world. Thanks to our Employees delivering world-class Customer Service every day, once again, we led the domestic airline industry in Customer Satisfaction in 2012.<sup>4</sup> Southwest has ranked on *FORTUNE*'s World's Most Admired Companies list every year since 1994, and we were thrilled to uphold that record with our recent recognition in 2013 as the seventh most admired company in the world!

Our Customer Service extends to the communities we serve through our commitment to giving back by volunteering our time and donating tickets and dollars to organizations that serve those in need. In 2012, we donated \$20.3 million in monetary, in-kind, and ticket donations to our communities, and our Employees volunteered more than 137,000 hours.<sup>5,\*</sup>

## Planet

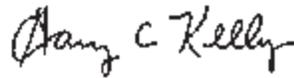
It's important to us to not only take care of our Stakeholders, but also to protect our Planet and its natural resources. We minimize our impact on the environment by using resources responsibly, conserving fuel and water, recycling onboard and on the ground, employing green purchasing practices, and implementing design and construction practices that meet LEED® (Leadership in Energy and Environmental Design) standards for new construction and building retrofits.

As fuel is our largest cost and our largest contributor to GHG emissions, our fuel conservation initiatives are crucial. Our most recent conservation efforts have centered on modernization of our fleet—including new, more efficient aircraft and the new lighter-weight, recyclable *Evo/ve* interior for the majority of our existing aircraft. Related to this, we continue to increase the number of electric-powered ground support equipment (GSE) to replace older, petroleum-powered GSE in our fleet.

As a result of our fleet modernization and related fuel conservation efforts, our normalized GHG emissions, as measured by various intensity ratios, have remained relatively flat or have shown slight decreases despite our increase in size of operations since 2009.

## Looking Forward

As we look to our future in building LUV, our priority is to maintain the excellence we have built over the past four decades with our brand, Culture, Customer Service, operational excellence, and consecutive annual profits. I am enthusiastic about our 2013 plan and believe our transformation efforts will make us better, stronger, and more competitive. And, the outstanding efforts, commitment, and dedication of our People give me confidence in our ability to successfully execute our plan. We are committed to our Purpose—to connect people to what's important in their lives through friendly, reliable, and low-cost air travel. It is that Purpose that will guide us forward on our journey in pursuit of our Vision to become the World's Most Loved, Most Flown, and Most Profitable Airline.



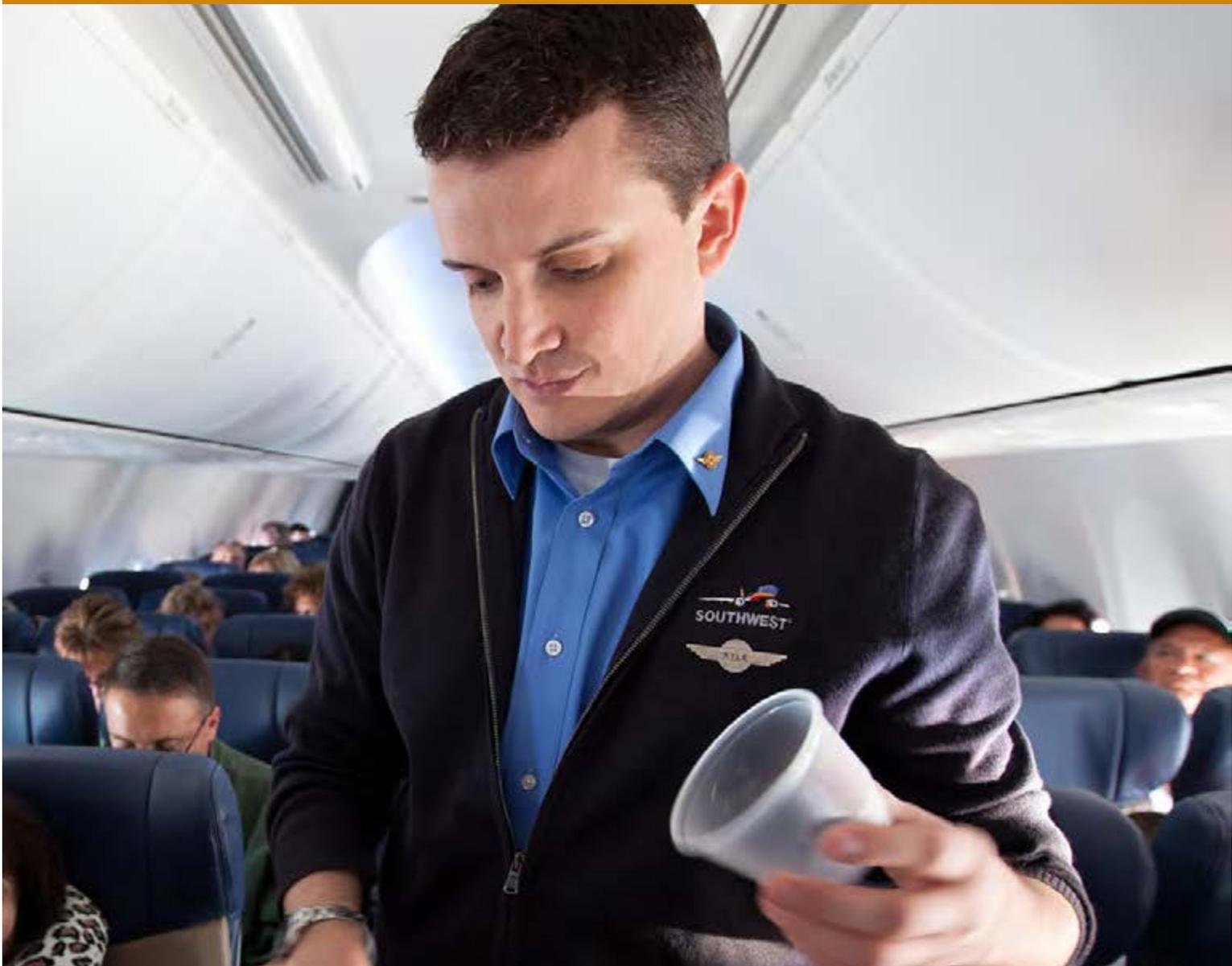
**Gary C. Kelly**

Chairman of the Board, President, and Chief Executive Officer  
Southwest Airlines

May 3, 2013

## Footnotes

- 1) 2012 net income includes special items—primarily noncash, mark-to-market, and other items required for a portion of our fuel hedge portfolio as well as costs associated with the acquisition and integration of AirTran.
  - 2) As measured by the number of originating domestic passengers boarded and based on data available from the U.S. Department of Transportation as of Sept. 30, 2012.
  - 3) Based on active, full-time equivalent Southwest and AirTran Employees as of Dec. 31, 2012.
  - 4) From the 2012 yearend U.S. Department of Transportation Air Travel Consumer Report issued February 2013. Top ranking is for Southwest only. AirTran ranked third in the same report.
  - 5) Includes AirTran data for calendar year 2012.
- \* Metrics revised as of May 20, 2013. Employee Volunteer hours were changed from "more than 118,000" to "more than 137,000." Number of tickets generated from Tickets for Time was changed from "1,507 roundtrip tickets" to "1,742 roundtrip tickets."



## Feature Stories<sup>E</sup>

*We're featuring our integrated stories of 2012 that support the triple bottom line and our Vision to become the World's Most Loved, Most Flown, and Most Profitable Airline.*

At Southwest Airlines, we're continuously working to build on our past successes, as we fulfill our Purpose to connect people to what's important in their lives through friendly, reliable, and low-cost air travel. We're on track to complete the integration of AirTran Airways by the end of 2014. Meanwhile, our Customers are enjoying the enhancements of our All-New Rapid Rewards frequent flyer program. To improve the Customer Experience, increase fuel efficiency, decrease emissions, reduce operating unit costs, and increase revenue potential, we're modernizing our fleet with the addition of the 737-800 and retrofitting the majority of our 737 fleet with our new, comfortable, and recyclable *Evo/ve* interior—part of our ongoing effort to operate with a green filter. These initiatives are designed to contribute to our goal of a 15 percent pre-tax return on invested capital.

AirTran Integration p. 8

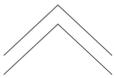
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Green Filter p. 16



## FEATURE STORY AIRTRAN INTEGRATION



One LUV — AirTran graduates from a Southwest New Hire class.

We acquired AirTran on May 2, 2011, which allows us to provide Southwest's low-fare service to more Customers in more markets, creating the opportunity for hundreds of additional low-fare itineraries for the traveling public. Strategically, both carriers place an emphasis on outstanding Customer Service; high-quality, low-cost operations; solid, low-fare brands; and strong Employee cultures. Our Employees have worked hard to facilitate a thoughtful and smooth integration process while providing the same high level of Customer Service that Customers have come to expect.

We have made great progress on integrating AirTran into Southwest, and we remain on track to complete the integration by the end of 2014. Southwest and AirTran are stronger together, and we can accomplish more, faster than either could on our own. Our top deliverable in 2013 is to connect and optimize the Southwest and AirTran route networks. Network connectivity is expected to significantly contribute to our ability to reach \$400 million in net, annualized, pre-tax synergies in 2013 (excluding acquisition and integration expenses). Ultimately, it is our plan that our Customers will only see the Southwest low-fare brand with one set of policies; single-class configuration; one combined reservation and ticketing system and web site; and a single frequent flyer program, [Rapid Rewards®](#).

Highlights of AirTran integration in 2012 include:

- Having the first group of AirTran Employees officially join the Southwest Family on Jan. 16
- Beginning Southwest service to Atlanta on Feb. 13, with an initial schedule of 15 flights to five nonstop destinations

**Southwest and AirTran are stronger together and can accomplish more, faster than either could on our own.**

For AirTran's financial contributions to our 2012 results, see [Performance](#).

Read more about our environmental initiatives in the [Planet](#) section.

More than 2,100 AirTran Employees transferred to the Southwest family in 2012.

- Receiving our Single Operating Certificate from the Federal Aviation Administration (FAA) on March 1, just ten months after the close of the AirTran acquisition
- Converting 11 AirTran 737-700 aircraft to the Southwest livery and *Evo/ve* interior
- Resolving the remaining Southwest and AirTran union workgroup seniority integration methodologies
- Converting four AirTran cities to Southwest: Washington, D.C. (Dulles); Seattle; Des Moines, Iowa; and Key West, Fla.
- Discontinuing AirTran service at 14 airports identified as unsustainable in today's fuel environment
- Completing the planned harmonization of Customer policies between the two carriers
- Incorporating all Southwest and AirTran locations into one environmental management system
- Expanding Southwest's community outreach to AirTran cities, including AirTran Employees' volunteer hours in the Tickets for Time program

### AirTran Employees Join Southwest Family

By the end of 2012, more than 2,100 AirTran Employees transferred to the Southwest Family. We now have consolidated Headquarters functions in Dallas and continue to transfer Employees from AirTran locations in Atlanta and Orlando, Fla. We are welcoming our new Family with open arms, making sure they are informed about the transfer process and the benefits of working at Southwest.



### Combined Environmental Management System

With our environmental management system fully integrated to span all Southwest and AirTran locations, we are working to meet our environmental goals systemwide, for example having zero violations. In 2012, we also completed the integration of Southwest and AirTran waste disposal. As AirTran aircraft and locations are transitioned into Southwest, each begins full implementation of Southwest sustainability practices.



## FEATURE STORY ALL-NEW RAPID REWARDS

**Our award-winning, frequent flyer program enhances the Member experience while driving incremental revenues.**



The first full calendar year of our All-New Rapid Rewards frequent flyer program exceeded our expectations. We acquired record numbers of new Rapid Rewards® Members and credit card applications by being more relevant to our Customers with improved program features, including unlimited reward seats, no blackout dates, points that don't expire,<sup>1</sup> points earned for every dollar spent, and the option to purchase additional points. Rapid Rewards® Members flew more flights and on average paid more for fares, thus, earning more Rapid Rewards® points, in 2012. The new program is well on its way to driving hundreds of millions in incremental annual revenues, net of any associated program costs, by 2014. For the third year in a row, IdeaWorksCompany.com ranked Southwest as having the best Reward Seat Availability of any U.S. domestic carrier in its 2012 Worldwide Report of Rewards Availability.

The new points structure also facilitated continued growth in new Rapid Rewards® partners in 2012—Chase Home Mortgage, Chase Ultimate Rewards, e-Miles, Experian, Intuit/TurboTax, and National Car Rental. In addition to being rewarded with flights, Southwest Rapid Rewards® credit card holders have the opportunity to turn points into international flights, hotel stays, car rentals, gift cards, and more.

### **Designed for Relevance**

Enhancements to the Rapid Rewards® program often come directly from Member feedback. To prepare for the design of the new program, we collected insight from Rapid Rewards® Members and then took this information into consideration in designing the new program, so Rapid Rewards® would be more relevant and rewarding for our Customers.

Read more about how we gain Customer Feedback in the People section.



For instance, during this process, we discovered a significant percentage of Members in the old program weren't able to earn enough Rapid Rewards® credit to redeem a reward flight. With this in mind, we designed the new program to have points that don't expire, so more Members can earn reward flights. Members now also earn Rapid Rewards® points based on what they spend, rather than based on a set number of points per flight.

Through monthly e-mail surveys, social media, and departments that interact daily with Customers, we discovered opportunities to make our web site navigation and other practices more Customer-friendly. We listened to our Customers and have since improved in these areas.

### Real Life Moments

Over the summer, we began asking our Rapid Rewards® Members for reward trip photographs and stories. We had a terrific response with more than 3,000 Members submitting their vacation photos. We narrowed down the photos by validating Members' trip destinations and the corresponding redemption of Rapid Rewards® points. Engaging our Customers allows us to share their passion for Southwest and provide genuine endorsements of the program, as we didn't offer any incentives—other than the opportunity to be featured in our advertisements—to participate. In reviewing Member submissions, we also discovered heartfelt stories, which we began featuring in Rapid Rewards® communications.

As a follow up to our Rapid Rewards® “no red tape” advertising campaign, in fall 2012 we began a print and digital advertising campaign that offered proof of the program's benefits by featuring real Members' vacation photographs and stories made possible with their Rapid Rewards® points.





## FEATURE STORY FLEET MODERNIZATION AND THE 737-800

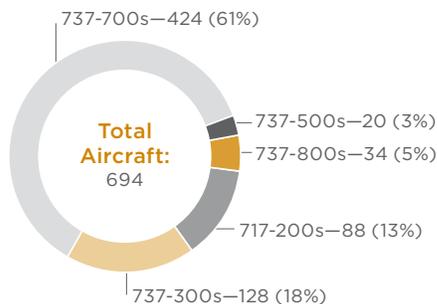
**Modernizing our fleet supports our commitment to the triple bottom line.**



We believe our fleet modernization plan provides substantial flexibility to manage our fleet needs in a variety of economic, social, and environmental conditions. We have acquired and ordered more fuel-efficient aircraft—737-700s and -800s—and accelerated replacement of our older 737 Classic and 717 aircraft, which enables us to reduce our unit operating costs as well as our greenhouse gas (GHG) emissions. We are also the launch customer of the Boeing 737 MAX aircraft (scheduled for delivery in 2017), which is even more fuel efficient and cost effective than the current generation 737. These aircraft also will contribute to the Airlines for America (A4A) industry-wide goals for fuel-efficiency improvements and emissions reductions discussed in the Planet section under [Environmental Conservation](#). The increased seating capacity in the -800s as well as the *Evo/ve* interior retrofits provide new revenue opportunities and new Customer comfort features. Our fleet modernization efforts enable us to continue to appeal to our triple bottom line of Performance, People, and Planet in the coming years, with an estimated contribution to pre-tax income of more than \$300 million in 2013, growing to more than \$700 million in 2015; Customer Experience enhancements; and a reduced impact on the environment. We have already experienced improvements in fuel efficiency as a result of our fleet modernization and anticipate the trend to continue; see our historic fuel efficiency graph in our [Environmental Impacts](#) section within Planet.

**Fleet Composition**

(percentage of fleet as of Dec. 31, 2012)



[View our future aircraft delivery schedule.](#)

**Boeing 737-800s**

As part of our fleet modernization plans, we received the first of our -800 orders in March 2012 and ended the year with a total of 34 -800s in our fleet. Compared to the -700, the -800 provides over 20 percent more seating capacity with 175 seats; enhanced onboard comfort; more economical longhaul flying with lower overall unit costs; and better scheduling flexibility in high-demand, slot-controlled, and gate-restricted markets including New York LaGuardia (LGA), Newark (EWR), and Washington Reagan (DCA). The -800's superior economics make serving destinations like Hawaii, Alaska, Canada, the Caribbean, Mexico, and Central and South America more attractive to Southwest.

In addition to featuring our new, recyclable *Evo/ve* interior, our new -800s include the stylish Boeing Sky interior, which also accommodates the comfort and needs of our Customers with features including a quieter cabin, taller ceilings, more overhead bin space, three lavatories, and improved operational security features such as two overwing exits on each side of the aircraft. Sustainable features of the Sky Interior include energy-efficient LED reading and ceiling lighting, which increase the lighting lifespan ten-fold. Compared to the steel brakes on the -700, the new carbon brakes on the -800 provide a weight savings of more than 700 pounds per aircraft, which results in less fuel consumption and reduced GHG emissions for an estimated emissions reduction of 30 pounds of carbon dioxide equivalent (CO<sub>2</sub>e) per 1,000 available seat miles.

**Boeing 737 MAX**

In December 2011, we entered into an agreement with Boeing to be the launch customer of the 737 MAX with the first delivery expected in 2017. The LEAP-1B engines in the 737 MAX are expected to reduce fuel burn and carbon dioxide emissions by 10 to 11 percent over today's most fuel-efficient, single-aisle airplane, enabling us to improve our fuel cost and reduce GHG emissions. Due to its fuel efficiency, the 737 MAX is expected to have the lowest operating costs in the single-aisle segment and an engine/airframe combination uniquely designed to optimize the operating performance of our fleet.

**Boeing 737-700s**

To replace our older, less fuel efficient aircraft prior to the launch of the 737 MAX, in addition to our -800s, we have firm orders and options for -700 aircraft. These aircraft are 6 to 7 percent more fuel efficient than the 737 Classic fleet, providing the opportunity to improve fuel burn prior to the 2017 expected launch of the 737 MAX.

**Transition of Boeing 717-200s**

We entered into an agreement with Delta Air Lines, Inc. and Boeing Capital Corp. to lease or sublease all 88 of AirTran's Boeing 717-200 aircraft to Delta. Transitioning the Boeing 717 fleet to Delta avoids added complexity to our operations, as Southwest has historically operated an all-Boeing 737 fleet. Deliveries to Delta are expected to begin in August 2013 at the rate of approximately three aircraft per month. From a fleet management perspective, we intend to minimize the impact of the transition on our operations, as the 717 capacity lost is expected to be replaced through the capacity gained as a result of new deliveries and extension of the retirement dates of our Classic aircraft. Replacement of the 717 aircraft capacity with 737 capacity provides revenue opportunities with more seats per aircraft, while costing approximately the same amount to fly on a per-trip basis.

### **Evolve: The New Southwest Interior**

In early 2012, we debuted an important aspect of our fleet modernization plan called *Evolve: The New Southwest Interior*. *Evolve* is a sleek, new cabin interior that enhances Customer comfort, improves fleet efficiency, and reduces our environmental impact—staying true to our triple bottom line of Performance, People, and Planet.

During 2012, we retrofitted 239 of Southwest's -700s and 11 of AirTran's -700s to feature our new *Evolve* interior. In 2013, we plan to complete the remaining Southwest -700s and retrofit 78 of our -300 aircraft with *Evolve* interior. All new aircraft will come equipped with *Evolve*. The AirTran -700s that are transitioned to the Southwest livery are also expected to be retrofitted with the *Evolve* interior.

Retrofitting our aircraft with the new *Evolve* interior creates a lighter weight, recyclable cabin.

For the story behind *Evolve*, please visit [southwestonereport.com/2011/#!/planet/future-planet](http://southwestonereport.com/2011/#!/planet/future-planet) and click on "LUV Story: The Evolution of *Evolve: The New Southwest Interior*."



*Evolve* incorporates many cost-saving, environmentally friendly features that put the Customer Experience on the forefront. The new interior includes:

- **Less weight:** The lighter, environmentally friendly materials, such as the E-Leather seat covers, result in a 635-pound lighter -700 aircraft.
- **Improved fuel burn and reduced emissions:** Less weight means less fuel consumption, lower fuel costs, and fewer GHG emissions.
- **Reused seat frames:** On our Southwest existing -700 fleet, we avoided spending approximately \$50 million in cabin redesign costs by reusing our B/E Aerospace Innovator II seat frames.
- **Increased durability:** The recyclable materials used in the new *Evolve* interior also incorporate more durable finishes, which increase the lifespan of our cabin interior, saving on replacement costs. For instance, our current seats have a four-year lifespan, but with the new E-Leather, seat lifespan is expected to increase 50 percent to six years.
- **Cost improvement:** Including the cost of the new materials and installation, the improved durability of the redesigned seat coupled with fuel savings from 635 pounds less weight per aircraft is expected to result in ongoing annual cost savings.
- **Improved ergonomics:** The combination of the low-profile cushion and fixed wing headrest improves ergonomics by positioning Customers down and back into the seat, allowing for better lumbar support, armrest alignment, and increased personal space.
- **Increased under-seat space:** The new design allows for more under-seat room for carryon luggage and approved pet carriers.

- **Incremental revenue opportunities:** With the sleek, new *Evo/ve* seat design, we were able to increase the number of seats onboard the -700 from 137 to 143. While this wasn't our initial intention when we set out to improve the onboard Customer Experience—additional seating came about through an evaluation of space optimization throughout the cabin—we were able to create hundreds of millions in annual incremental revenue opportunities.

Based on our 2012 flight activity, it is estimated the reduced weight saved nearly 782,000 gallons of fuel and decreased our GHG emissions by nearly 7,700 metric tons of CO<sub>2</sub>e. As noted in [Green Filter](#), we are currently researching potential recycling opportunities for some of the materials taken off our planes during the retrofit process.

### Retired Aircraft Recycling Program

In 2012, we retired 38 aircraft. When an owned aircraft is retired from service, we typically break it down into individual components for recycling. We send components such as the 25,000 to 28,000 pounds of aluminum per aircraft to a consignment vendor, while we keep useable spare parts like oxygen bottles, avionics, and landing gear in our inventory to avoid having to purchase additional parts for aircraft maintenance. Those aircraft we leased were returned to the lessors. Read more about our [Waste Management and Recycling](#) in the Planet section.

## AIRCRAFT DELIVERY SCHEDULE

(as of Dec. 31, 2012)

	Next-Generation Boeing 737			Boeing 737 MAX		Total
	-700 Firm Orders	-800 Firm Orders	Options	Firm Orders	Options	
2013		20				20
2014	5	24	15			44
2015	36		12			48
2016	31		12			43
2017	30		25	4		59
2018	25		28	15		68
2019				33		33
2020				34		34
2021				34	18	52
2022				30	19	49
2023					23	23
2024					23	23
2025					23	23
Through 2027					44	44
<b>Total</b>	<b>127<sup>2</sup></b>	<b>44</b>	<b>92</b>	<b>150<sup>3</sup></b>	<b>150</b>	<b>563</b>



## FEATURE STORY GREEN FILTER

**Environmentally responsible decisions simply make good business sense for Southwest.**



More information on the retrofit of our aircraft can be found in our [Fleet Modernization](#) story.



Additional programs receiving charitable donations are discussed in our [Communities](#) section within People.



The mindset of operating with a green filter—making environmentally responsible decisions—has been championed by our Green Team and Green Ambassadors. Our Green Team includes Employees from each operating group who work to collect, share, and implement our environmentally responsible ideas and initiatives. Our Green Ambassadors expand the reach of the Green Team by promoting environmental stewardship in the communities where we fly. The Green Ambassadors start grassroots efforts in their communities, such as a recycling program for six-pack rings that began in Orlando, Fla., and has spread through the Green Ambassador network to cities across the country. We've highlighted programs resulting from our green filter below.

### **A Second Life for Aircraft Interior**

As a result of modernizing our fleet, we ended up with used carpet, leather, and foam cushions from our old aircraft interiors transitioned in 2012. We don't want these materials to end up in a landfill, so we are seeking opportunities to donate and recycle them in 2013.

### **LIFT Coffee**

When our Passengers drink coffee on our flights, they have a unique opportunity to help us give back to others and our planet. Since LIFT's debut in 2009, we have donated two cents for every pound of LIFT coffee consumed to fund green-energy projects in coffee growing regions. The Guatemala Light Project, which illuminated isolated villages with renewable energy, was the initial recipient of these donations. Starting in June 2012, we began directing these donations to green energy projects in Peru. Through the Light Up the World Foundation our donations are going to help power off-grid villages with

renewable energy. Through these programs, we donated nearly \$10,000 in 2012 and more than \$32,000 collectively since the program began.

### Community Garden

First planted in 2008, our volunteer community garden—ten 4-foot by 20-foot raised bed boxes with mulched paths at our Headquarters in Dallas—is expanding. In 2012, various groups within Southwest adopted planting boxes and helped tend to the garden. To participate while traveling, Dallas Flight Attendants collected donations to purchase a butterfly garden.

We also grew our community partnership with the Texas Master Gardeners Association and now share our harvest and community gardening knowledge with the Polk Recreational Center. As one effort to educate the community about organic gardening, we've invited seniors to help harvest our crops benefiting their food bank. With our successful harvest in 2012, we were able to make 14 trips with donations to the local food bank.

We also are continuing our organic gardening focus by employing Earth-friendly, water-wise practices and using recycled compost. Part of this effort is a community garden Employee educational series, which we kicked off in 2012 with a lunch-and-learn on composting; 180 Employees attended the course taught by the City of Dallas, and each went home with a compost bin.

### Green Bulletin Boards

Education is a key component of our green commitment. Southwest Employees and Green Ambassadors at McCarran International Airport (LAS) in Las Vegas created a "Green and Healthy Board" and recently expanded the project to include a "Reuse Board" to educate Employees about living green.

The Green and Healthy Board features articles and educational materials on topics ranging from the environment and nonprofits to what green labels and certifications mean. The Reuse Board helps Employees go green by posting items they would like to sell, trade, or give away along with services such as pet sitting that they need help finding or would be willing to do for a Coworker.

### Community Outreach

In addition to putting a green filter on business decisions, partnering with nonprofit organizations that work to promote environmental stewardship and preserve our natural resources is an important element of our environmental commitment. We are the official airline of the Student Conservation Association, the National Wildlife Refuge Association, and the Earth Day Network's Green Schools program. We also support National Geographic Missions' BioBlitz events, which work to promote, catalogue, and preserve the biodiversity of natural spaces around our nation. Our Employees' commitment to the planet runs deep through volunteerism in their local communities to help clean up parks, plant trees, and participate in beach clean-ups and other environmental activities. Forming strategic relationships and giving back with our time, money, and resources strengthens our commitment to the planet and to making a difference.

## Footnotes

- 1) Applies to point transactions. Points don't expire as long as Member has flight or partner earning activity every 24 months.
- 2) Southwest has flexibility to substitute -800s in lieu of -700 firm orders.
- 3) Southwest has the right, under certain conditions, including Boeing's decision to manufacture a MAX 7 aircraft, to substitute MAX 7 aircraft in place of future MAX 8 deliveries.

Colorado One was added to the Southwest fleet on Aug. 22, 2012.



## 30,000-Foot View

*We're proud to be one of the most honored airlines in the world. Our Purpose is to connect people to what's important in their lives through friendly, reliable, and low-cost air travel.*

Overview p. 19

Awards and Accolades p. 20

### Southwest Airlines System Map (as of Dec. 31, 2012)

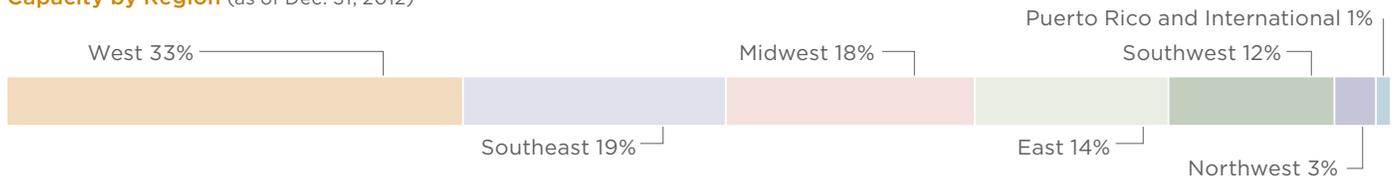
Prior to Dec. 31, 2012, Southwest announced that we will convert the following AirTran Airways operations to Southwest in 2013—Branson, Mo.; Charlotte, N.C.; Flint, Mich.; Rochester, N.Y.; Portland, Maine; Wichita, Kan.; and Grand Rapids, Mich.—and launch service to San Juan, Puerto Rico, in April 2013.



**Legend**

- SOUTHWEST AIRLINES
- ▼ AIRTRAN AIRWAYS
- ◆ BOTH AIRTRAN AND SOUTHWEST AIRLINES MARKETS

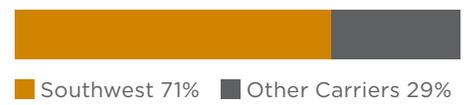
### Capacity by Region (as of Dec. 31, 2012)



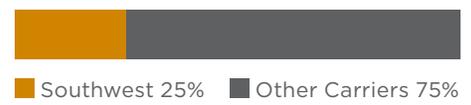
### Top Ten Airports (number of daily flights as of Dec. 31, 2012)

<b>MDW</b> 1. Chicago Midway 196	<b>LAS</b> 2. Las Vegas 189	<b>BWI</b> 3. Baltimore-Washington 185	<b>ATL</b> 4. Atlanta 177	<b>PHX</b> 5. Phoenix 154
<b>DEN</b> 6. Denver 147	<b>HOU</b> 7. Houston Hobby 136	<b>MCO</b> 8. Orlando 115	<b>DAL</b> 9. Dallas Love Field 114	<b>LAX</b> 10. Los Angeles 97

### Market Share<sup>1</sup> (top 100 city-pair markets)



### Market Share<sup>1</sup> (total domestic market)



## Awards and Accolades

All listed awards were received by Southwest in 2012 unless otherwise noted.

### Industry-Leading Airline

World's Most Admired Companies, #10 in the world in 2012, #7 in the world in 2013

*FORTUNE*

EquiTrend® Value Airline Brand of the Year

Harris Poll

U.S. Airlines Top Buzz, #1

YouGov Brand Index

The Brands American Women and Men Desire Most, #1

*Forbes*

The Reputations of the Most Visible Companies, #26

Harris Interactive

U.S. Top 100 Global Reputation Pulse, #51

Reputation Institute

Social Brands Top 100 in Social Media, #64

Headstream

Top-Ranked Airline<sup>2</sup>

Airline Quality Rating

One of the World's Ten Safest Airlines

Air Transport Rating Agency

Domestic Carrier of the Year for Cargo

Airforwarders Association

Air Cargo Excellence, up to 199,000 tons category, #1

*Air Cargo World*

Quest for Quality Excellence in Air Cargo Award

*Logistics Management* magazine

America's Top 500 Companies, #252

Barron's

### Green Leader

Top U.S. Airlines Score on Commitment to Fighting Global Warming

Climate Counts

*FORTUNE 500* Green Power Partners, #40<sup>3</sup>

U.S. Environmental Protection Agency

Green Rankings of the 500 Largest Publicly Traded Companies in the U.S., #129

*Newsweek*

Recycling Co-Winner for Co-Mingled Recycling Program

*PR News*

Partnership for a Sustainable Georgia Bronze-Level Partner<sup>2</sup>

Georgia Department of Transportation

Eco-Pioneer of the Year

*Air Transport World*

### Positively Outrageous Customer Service

Customer Satisfaction, #1<sup>4</sup>

U.S. Department of Transportation

Airline Customer Satisfaction, #2

American Customer Satisfaction Index

Customer Service Champion

J.D. Power

Best Online Customer Experience in Travel: Airlines

Keynote Competitive Research

Reward Seat Availability, #1 in the U.S., tied for #1 globally

IdeaWorksCompany.com

Five Most Likable Companies

Likable Media

Top Ten Customer Service Companies, Customer Service Hall of Fame, #10

*MSN Money*

Web Experience Ratings, #5 out of 159

Loyalty Ratings, #16 out of 206

Trust Ratings, #19 out of 206

Experience Ratings, #35 out of 206

Customer Service Ratings, #36 out of 174

Forgiveness Ratings, #47 out of 206

Temkin Group

### One of the Best Places to Work

One of the Top 50 Best Places to Work, #17

Glassdoor.com

The 40 Best Companies for Leaders, #5

*Chief Executive* magazine

One of the 60 Best Companies for Diversity

*Hispanic Business Magazine*

One of the Top 100 Military Friendly Employers, #80 in 2012 and #58 in 2013

*G.I. Jobs* magazine

Most Valuable Employers for Military

Civilianjobs.com

Employer of the Year

Air Force Reserve Command

One of America's Best Adoption-Friendly Workplaces

Dave Thomas Foundation for Adoption

### Respected in the Community

National Conference on Citizenship's The Civic 50, #20

*Bloomberg Businessweek*, Civic Engagement Group, Points of Light, and the National Conference on Citizenship

Corporate Equality Index, Scored 90 out of 100 in 2013

Human Rights Campaign

Diversity Communications Honorable Mention for Second North Texas

Diversity Summit

*PR News*

Sheldon and Miriam Adelson Patriot of the Year Award

Armed Forces Foundation

## Footnotes

1) As measured by the number of originating domestic passengers boarded and based on data available from the U.S. Department of Transportation as of Sept. 30, 2012.

2) AirTran award.

3) The U.S. Environmental Protection Agency *FORTUNE 500* Green Power Partnership rankings are updated quarterly. Southwest ranked 40th as of Oct. 4, 2012.

4) From the 2012 yearend U.S. Department of Transportation Air Travel Consumer Report issued February 2013. Top ranking is for Southwest only. AirTran ranked third in the same report.

# 2012 Southwest Airlines One Report // Performance<sup>E</sup>

**We're proud to have provided our Shareholders  
40 years of consecutive profitability, a record  
unmatched in the U.S. airline industry.**

2012 was a year of tremendous progress in building LUV:

- Record revenue performance
- 83.1 percent ontime performance
- Best baggage handling ratio in our history
- Led the airline industry in Customer Satisfaction<sup>1</sup>
- On track to complete AirTran Airways integration by end of 2014
- Launched Southwest Airlines service to Atlanta; Akron-Canton and Dayton, Ohio; and Washington, D.C. (Ronald Reagan Washington National)
- Launched AirTran service to Austin, Texas; Orange County, Calif.; and Mexico City and Cabo San Lucas, Mexico
- Discontinued AirTran service at 14 airports
- Introduced the 737-800 into our fleet
- Selected Amadeus for our international reservation system 2014 implementation
- Received Federal Aviation Administration (FAA) approval to begin Southwest service to San Juan, Puerto Rico, in April 2013
- Received Houston City Council approval for a five-gate international terminal at Houston's William P. Hobby Airport (HOU)
- 52 percent surge in cash flow from operations
- Returned \$422 million to Shareholders through repurchasing \$400 million of common stock (approximately 46 million shares) and distributing \$22 million in dividends

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## IN THIS SECTION

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[p. 34 Ten-Year Summary](#)

[p. 37 Financial Management Approach](#)

## PERFORMANCE DATA

All data presented in Performance includes AirTran results as of May 2011.

*(dollars in millions except per share amounts,  
follows generally accepted accounting principles (GAAP))*

	2012	2011	Change
Operating revenues	\$17,088	\$15,658	9.1%
Operating expenses	\$16,465	\$14,965	10.0%
Operating income	\$ 623	\$ 693	(10.1)%
Operating margin	3.6%	4.4%	(0.8) pts.
Net income	\$ 421	\$ 178	136.5%
Net margin	2.5%	1.1%	1.4 pts.
Net income per share, basic	\$ 0.56	\$ 0.23	143.5%
Net income per share, diluted	\$ 0.56	\$ 0.23	143.5%
Stockholders' equity	\$ 6,992	\$ 6,877	1.7%
Return on average stockholders' equity	6.1%	2.7%	3.4 pts.
Stockholders' equity per common share outstanding	\$ 9.57	\$ 8.90	7.5%
Revenue Passengers carried	109,346,509	103,973,759	5.2%
Revenue Passenger miles (RPMs) (000s)	102,874,979	97,582,530	5.4%
Available seat miles (ASMs) (000s)	128,137,110	120,578,736	6.3%
Passenger load factor	80.3%	80.9%	(0.6) pts.
Passenger revenue yield per RPM	15.64¢	15.12¢	3.4%
Operating revenue yield per ASM	13.34¢	12.99¢	2.7%
Operating expenses per ASM	12.85¢	12.41¢	3.5%
Aircraft in service at yearend	694	698	(0.6)%
Full-time equivalent Employees at yearend	45,861	45,392	1.0%

### F) Cautionary Statement Regarding Forward-Looking Statements

The 2012 Southwest Airlines One Report™ contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on, and include statements about, the Company's estimates, expectations, beliefs, intentions, and strategies for the future, and are not guarantees of future performance. Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, statements related to (i) the Company's strategic plan and initiatives; (ii) the Company's financial and operational plans, goals, and expectations related to its strategic plan and initiatives, including anticipated timeframes for implementation of key initiatives and their expected impact on the Company's competitive position; (iii) the Company's financial outlook and projected results of operations; (iv) the integration of AirTran and the Company's related financial and operational goals and expectations, including anticipated integration timeframes and expected benefits and costs associated with the integration; (v) the Company's fleet plans, including its fleet modernization plans, and related financial and operational goals and expectations; and (vi) the Company's network plans and related operational and financial goals and expectations. Forward-looking statements involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from those expressed in or indicated by them. Factors include, among others, (i) the impact of the economy on demand for air travel and fluctuations in consumer demand generally for the Company's services; (ii) the impact of economic conditions, fuel prices, and actions of competitors (including without limitation pricing, scheduling, and capacity decisions and consolidation and alliance activities) on the Company's business decisions, plans, and strategies; (iii) the Company's ability to timely and effectively prioritize its strategic initiatives and related expenditures; (iv) the Company's ability to timely and effectively implement, transition, and maintain the necessary information technology systems and infrastructure to support its operations and initiatives; (v) the Company's ability to successfully integrate AirTran and realize the expected synergies and other benefits from the acquisition; (vi) the Company's dependence on third parties with respect to certain of its initiatives; (vii) changes in fuel prices, the impact of hedge accounting, and any changes to the Company's fuel hedging strategies and positions; (viii) the impact of governmental and other regulation related to the Company's operations; and (ix) other factors, as described in the Company's filings with the Securities and Exchange Commission, including the detailed factors discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

## RECONCILIATION OF REPORTED AMOUNTS TO NON-GAAP FINANCIAL MEASURES<sup>6</sup>

<i>(dollars in millions except per share amounts, unaudited)</i>	2012	2011	2010	2009	2008
<b>Fuel and oil expense, unhedged</b>	<b>\$ 5,963</b>	<b>\$ 5,580</b>	<b>\$ 3,296</b>	<b>\$ 2,577</b>	<b>\$ 4,819</b>
Add/(Deduct): Fuel hedge (gains) losses included in Fuel and oil expense	157	64	324	467	(1,106)
<b>Fuel and oil expense, as reported</b>	<b>\$ 6,120</b>	<b>\$ 5,644</b>	<b>\$ 3,620</b>	<b>\$ 3,044</b>	<b>\$ 3,713</b>
Deduct: Net impact from fuel contracts	(32)	—	(172)	(222)	(187)
<b>Fuel and oil expense, economic</b>	<b>\$ 6,088</b>	<b>\$ 5,644</b>	<b>\$ 3,448</b>	<b>\$ 2,822</b>	<b>\$ 3,526</b>
<b>Net income, as reported</b>	<b>\$ 421</b>	<b>\$ 178</b>	<b>\$ 459</b>	<b>\$ 99</b>	<b>\$ 178</b>
Add/(Deduct): Mark-to-market impact from fuel contracts settling in future periods	(221)	21	(21)	(73)	(7)
Add/(Deduct): Ineffectiveness from fuel hedges settling in future periods	42	33	(11)	(97)	106
Add/(Deduct): Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)	(10)	35	171	184	107
Add/(Deduct): Income tax impact of fuel contracts	73	(31)	(52)	(5)	(78)
Add: Charge from voluntary early-out program, net <sup>2</sup>	—	—	—	35	—
Add/(Deduct): Charge (Reversal) from change in Illinois state income tax law, net	—	—	—	—	(12)
Add: Charge for asset impairment, net <sup>2</sup>	—	9	—	—	—
Add: Charge for acquisition and integration costs, net <sup>2</sup>	112	85	4	—	—
<b>Net income, non-GAAP</b>	<b>\$ 417</b>	<b>\$ 330</b>	<b>\$ 550</b>	<b>\$ 143</b>	<b>\$ 294</b>
<b>Net income per share, diluted, as reported</b>	<b>\$ 0.56</b>	<b>\$ 0.23</b>	<b>\$ 0.61</b>	<b>\$ 0.13</b>	<b>\$ 0.24</b>
Add/(Deduct): Net impact from fuel contracts	(0.15)	0.07	0.12	0.02	0.17
Add/(Deduct): Impact of special items, net <sup>2</sup>	0.15	0.13	0.01	0.04	(0.01)
<b>Net income per share, diluted, non-GAAP</b>	<b>\$ 0.56</b>	<b>\$ 0.43</b>	<b>\$ 0.74</b>	<b>\$ 0.19</b>	<b>\$ 0.40</b>
<b>Return on invested capital (ROIC), pre-tax:</b>					
<b>Operating income, as reported</b>	<b>\$ 623</b>	<b>\$ 693</b>	<b>\$ 988</b>	<b>\$ 262</b>	<b>\$ 449</b>
Add: Net impact from fuel contracts	32	—	172	222	187
Add: Charge from voluntary early-out program, net <sup>3</sup>	—	—	—	56	—
Add: Charge for asset impairment, net <sup>3</sup>	—	14	—	—	—
Add: Charge for acquisition and integration costs, net <sup>4</sup>	183	132	7	—	—
<b>Operating income, non-GAAP</b>	<b>838</b>	<b>839</b>	<b>1,167</b>	<b>540</b>	<b>636</b>
Net adjustment for aircraft leases <sup>5</sup>	117	129	84	91	67
Adjustment for fuel hedge accounting	(36)	(107)	(134)	(148)	(69)
<b>Adjusted operating income, non-GAAP</b>	<b>\$ 919</b>	<b>\$ 861</b>	<b>\$ 1,117</b>	<b>\$ 483</b>	<b>\$ 634</b>
Average invested capital <sup>6</sup>	\$12,580	\$12,439	\$10,431	\$9,876	\$10,669
Equity adjustment for fuel hedge accounting	145	184	434	763	(1,263)
<b>Adjusted average invested capital</b>	<b>\$12,725</b>	<b>\$12,623</b>	<b>\$10,865</b>	<b>\$10,639</b>	<b>\$9,406</b>
<b>ROIC, pre-tax<sup>7</sup></b>	<b>7%</b>	<b>7%</b>	<b>10%</b>	<b>5%</b>	<b>7%</b>

### G) Note Regarding Use of Non-GAAP Financial Measures

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These GAAP financial statements include (i) unrealized non-cash adjustments and reclassifications, which can be significant, as a result of accounting requirements and elections made under accounting pronouncements relating to derivative instruments and hedging, and (ii) other charges the Company believes are not indicative of its ongoing operational performance.

As a result, the Company also provides financial information in this report that was not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. The Company provides supplemental non-GAAP financial information, including results that it refers to as "economic," which the Company's management utilizes to evaluate its on going financial performance and which the Company believes provides greater transparency to investors as supplemental information to its GAAP results. The Company's economic financial results differ from GAAP results in that they only include the actual cash settlements from fuel hedge contracts—all reflected within Fuel and oil expense in the period of settlement. Thus, Fuel and oil expense on an economic basis reflects the Company's actual net cash outlays for fuel during the applicable period, inclusive of settled fuel derivative contracts. Any net premium costs paid related to option contracts are reflected as a component of Other (gains) losses, net, for both GAAP and non-GAAP (including "economic") purposes in the period of contract settlement. These economic results provide a better measure of the impact of the Company's fuel hedges on its operating performance and liquidity since they exclude the unrealized, non-cash adjustments and reclassifications that are recorded in GAAP results in accordance with accounting guidance relating to derivative instruments, and they reflect all cash settlements related to fuel derivative contracts within Fuel and oil expense. This enables the Company's management, as well as investors, to consistently assess the Company's operating performance on a year-over-year or quarter-over-quarter basis after considering all efforts in place to manage fuel expense. However, because these measures are not determined in accordance with GAAP, the measures are susceptible to varying calculations and not all companies calculate the measures in the same manner. As a result, the aforementioned measures, as presented, may not be directly comparable to similarly titled measures presented by other companies.

Further information on (i) the Company's fuel hedging program, (ii) the requirements and accounting associated with accounting for derivative instruments, and (iii) the causes of hedge ineffectiveness and/or mark-to-market gains or losses from derivative instruments is included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as well as subsequent quarterly filings.

In addition to its "economic" financial measures, as defined above, the Company has also provided other non-GAAP financial measures as a result of items that the Company believes are not indicative of its ongoing operations. These include 1) 2012, 2011, and 2010 charges (before the impact of profitsharing and/or taxes) related to expenses associated with the Company's acquisition and integration of AirTran; 2) a 2011 charge (before the impact of profitsharing and/or taxes) for an asset impairment related to the Company's decision not to equip its Classic (-300/-500) aircraft with Required Navigation Performance (RNP) capabilities; 3) a one-time third quarter 2009 charge associated with Freedom '09, an early retirement option offered to Employees; and 4) a first quarter 2008 adjustment to the Company's income tax provision due to a change in Illinois state income tax laws. The Company believes that evaluation of its financial performance compared to prior and future periods can be enhanced by a presentation of results that exclude the impact of these items. As a result of the Company's acquisition of AirTran, which closed on May 2, 2011, the Company has incurred and expects to continue to incur substantial charges associated with integration of the two companies. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat these charges as special items in its future presentation of non-GAAP results.

The new Dallas Love Field ticket counter opened on Nov. 1, 2012.



## Strategic Plan

***We are confident in our strategic plan, designed to achieve 15 percent pre-tax return on invested capital.***

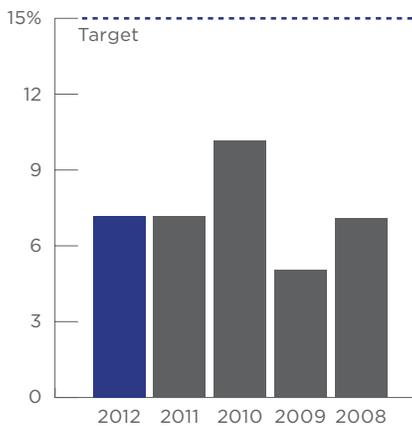
We understand the importance of providing an adequate return to our Shareholders, which is why we have developed a strategic plan committed to reaching our goal of 15 percent pre-tax ROIC. Our plan comprises five major and other strategic initiatives intended to significantly increase our revenues, reduce our unit costs, and enhance the Customer Experience. With the execution of our strategic plan thus far, we are supporting our Vision of becoming the World's Most Loved, Most Flown, and Most Profitable Airline.

Major Strategic Initiatives p. 25

Other Strategic Initiatives p. 26



**ROIC**  
(pre-tax, non-GAAP)



For additional information about our ROIC calculation, visit <http://southwest.investorroom.com/financial-statements> and click on "Return on Invested Capital Calculation."

Read more about our fleet modernization plans in our [Fleet Modernization](#) feature story.

## Major Strategic Initiatives

### AirTran Integration

In 2012, we made significant progress integrating AirTran into Southwest, reaching many key integration milestones, as further discussed in our [AirTran Integration](#) feature story. During 2012, we incurred \$183 million in pre-tax expenses associated with the acquisition and integration of AirTran, bringing the amount spent since acquisition close to \$324 million of the expected total acquisition and integration costs of approximately \$550 million. Our 2012 results benefited from \$142 million in net, annualized, pre-tax synergies (excluding acquisition and integration expenses), keeping us on track with our plan to realize \$400 million in net, annualized, pre-tax synergies in 2013 and to complete the integration by the end of 2014.

### All-New Rapid Rewards

We launched our revamped [Rapid Rewards](#) frequent flyer program in March 2011, and the first full calendar year of the program exceeded our expectations. During 2012, our existing Rapid Rewards Members flew more and on average paid more for fares, thus, earning more Rapid Rewards points. In addition, we saw increases in the number of Rapid Rewards Members, the number of Southwest co-branded Chase Visa credit card holders, the number of points sold to business partners, and the number of Rapid Rewards points purchased by Members. In 2012, Rapid Rewards produced \$180 million in incremental revenues, as compared to 2011, and is expected to produce another \$80 million in incremental revenues in 2013.

### Fleet Modernization

We're replacing our older 737-300s and 737-500s with newer aircraft—including Next-Generation 737 and 737 MAX—which are less maintenance intensive, more fuel efficient, and longhaul capable. In addition, we will transition AirTran's 88 717-200s to Delta beginning August 2013. This will not only provide substantial flexibility to meet our fleet needs in a variety of economic conditions, but it also will reduce our unit operating costs and

For our most current financial results and outlook and to download our 2012 Form 10-K, visit <http://southwest.investorroom.com>.



[View our future aircraft delivery schedule.](#)



[Read about how our Employees, communities, and Stakeholders petitioned to “Free Hobby” in our Communities section.](#)



greenhouse gas emissions. In March 2012, we began retrofitting Southwest 737-700s with our new, recyclable *Evo/ve* interior, which provides new revenue opportunities with six additional seats and new Customer comfort features. We anticipate completing *Evo/ve* cabin refreshes on all Southwest -700s and 78 of our -300s by the end of 2013. AirTran aircraft will continue to be retrofitted with the *Evo/ve* cabin interior, as those aircraft are converted to Southwest. Our 2012 pre-tax income contribution from fleet modernization was \$70 million, and we anticipate a \$300 million pre-tax contribution in 2013.

### **Boeing 737-800s**

As an extension of our fleet modernization plans, we received the first of our -800 orders in March 2012 and ended the year with a total of 34 -800s in our fleet. There are many benefits to adding the -800 to our fleet: over 20 percent more seating capacity compared to the -700; enhanced onboard comfort; more economical longhaul flying with lower overall unit costs; better scheduling flexibility in high-demand, slot-controlled, and gate-restricted markets; and its superior economics make near-international destinations more attractive to Southwest.

### **New Reservation System and International Capabilities**

Replacing our reservation system is a multi-year initiative that is expected to bring international and enhanced revenue management capabilities along with operational benefits. The first phase began in April 2012 when we entered into a contract with Amadeus to implement an international reservation system with its Altea reservations solution. This international solution is expected to be implemented in 2014, at which time we expect Southwest to be able to operate international flights. We plan to complete the full deployment of our new reservation system beyond 2014.

#### ***Southwest's First Flight Outside the Continental United States***

In 2012, we obtained necessary FAA approvals to conduct operations outside of the continental United States under certain circumstances. As a result, Southwest launched our first service outside the continental United States by introducing San Juan, Puerto Rico, to our route map in April 2013.

AirTran provides international service to eight destinations in six countries—Cancun, Mexico City, and Cabo San Lucas in Mexico; Montego Bay, Jamaica; Nassau, Bahamas; Oranjestad, Aruba; Punta Cana, Dominican Republic; and Bermuda.

#### ***International Terminal at Houston Hobby Airport***

Thanks to the collective effort of our Employees, communities, and Stakeholders, we successfully petitioned to “Free Hobby” in early 2012. As a result, during the second quarter of 2012, the Houston City Council approved an expansion plan that allows for the construction of a five-gate international terminal with a U.S. customs facility at Houston’s William P. Hobby Airport (HOU). This new terminal will allow Southwest to provide international service from four of the five gates after its anticipated completion in 2015. We have agreed to fund the design and construction of this project, which the City of Houston estimated will cost \$156 million.

## **Other Strategic Initiatives**

In December 2012, we announced new 2013 revenue initiatives in the areas of network optimization, revenue management, and ancillary revenues. These new initiatives are expected to generate hundreds of millions in incremental revenues in 2013 compared to 2012.

Read more in our [AirTran Integration story](#).



## Network Optimization

During 2012, we continued to aggressively manage capacity and route expansion through optimization of our flight schedules to better match Passenger demand. These efforts contributed to higher yields, strong load factors, and improved revenues during 2012.

Despite the transitional state of the AirTran route network, our networks were complementary with little route overlap. In response to high fuel prices, we discontinued service in 14 AirTran airports and redeployed AirTran aircraft in other markets. In 2012, we added Southwest service to two new states, Georgia and Iowa, and six new airports: Hartsfield-Jackson Atlanta International (ATL), Akron-Canton Regional (CAK), Dayton International (DAY), Des Moines International (DSM), Key West International (EYW), and Ronald Reagan Washington National (DCA). AirTran launched service to Austin, Texas; Orange County, Calif.; and Mexico City and Cabo San Lucas, Mexico. AirTran also launched new international service from Denver and Chicago.

To further coordinate Southwest and AirTran flight schedules, we launched tools to allow Customers of both airlines to book flights on either carrier via [southwest.com](http://southwest.com) or [airtran.com](http://airtran.com). We also made significant progress toward the April 2013 implementation of connecting capabilities between the Southwest and AirTran reservations systems to allow Customers to book connecting itineraries between the two carriers.

As a component of our new 2013 revenue opportunities, we intend to aggressively optimize the network by tightening our scheduled aircraft flying hours per day and turn times. As a result, we're better utilizing available aircraft during peak flying hours, which is estimated to result in less aircraft ground time and incremental revenue production in 2013.

## Revenue Management

We intend to introduce the first phase of an origin- and destination-based revenue management system in 2013, which is expected to generate incremental revenues. Once fully implemented, the new system will allow for more precise management of Customer demand and inventory, so we can manage demand in terms of where our Customers want to fly, regardless of how they route or connect.

## Ancillary Revenues

In 2013, we are introducing several new ancillary revenue opportunities, including:

- **Selling open premium boarding positions at the gate:** In January 2013, we began selling open premium boarding positions, A1 through A15, at the gate to Customers 45 minutes prior to departure for \$40 per flight. This does not replace our Business Select fare or EarlyBird Check-In™, but it is simply a creative way to generate revenue from the sale of available premium boarding positions.
- **Increasing the EarlyBird Check-In™ price:** EarlyBird Check-In™ increased from \$10 to \$12.50 per one-way fare in February 2013.
- **Increasing select baggage charges:** On AirTran flights, the charge for a Customer's first checked bag increased to \$25 and second checked bag to \$35 in February 2013. On Southwest flights, a Customer can still check up to two bags, up to 50 pounds each, free of charge, but the charge for a third or subsequent checked bag, or for any bag in excess of 50 pounds, increased to \$75 each in February 2013.
- **Implementing a new policy:** Currently, Customers who don't show up for their scheduled Southwest flights retain the full value paid for their tickets and can reuse such funds for up to a year after the original flight date. In 2013, we plan to implement a new policy to change Customer behavior in a way that allows us to resell empty seats prior to flight departure.

***Inflight Internet and Live Television Connectivity***

As of yearend 2012, nearly 400 of our aircraft offered WiFi service onboard, and the remainder of our -700s were equipped by the end of first quarter 2013. All of our -800s enter service with inflight Internet connectivity. Our agreement with our WiFi provider, Row 44, allows us to set the pricing of this service, which as of Feb. 1, 2013, was \$8 a day per device, up from \$5 per device. During 2012, we became the first airline in the world to provide Customers access to live television, consisting of certain sports and news channels, for viewing on their personal wireless devices. Live television is offered as a separate charge from WiFi, so Customers do not have to purchase WiFi to purchase live television. We offer live television for \$5 a day per device. As announced in 2012, on Feb. 1, 2013, we launched on all WiFi aircraft movies on demand and an upgraded television package, consisting of recorded movies and television shows that are stored on the onboard server and streamed wirelessly to Customer devices. We set prices at \$5 per movie, and television shows are included as part of the \$5 television package, which includes access to live channels. AirTran currently offers Gogo inflight Internet connectivity on every flight. Gogo establishes the charges for and receives the majority of revenue associated with this inflight Internet connectivity on AirTran.

Our Business Select offering contributed \$93 million in Passenger revenues in 2012.



## 2012 Performance

***Our profits (excluding special items) of \$417 million grew 26 percent as compared to 2011.***

These solid earnings were achieved despite significant efforts and costs related to major strategic initiatives. For 2012, however, these initiatives contributed to the 52 percent surge in our cash flow from operations to \$2.1 billion.

Revenues p. 30

Costs p. 32

Financial Position p. 33

[Read about our network optimization.](#)



[Read more about our strategic plan.](#)



## Revenues

Our 2012 operating revenues were a record \$17.1 billion, driven by strong yields, high load factors, and an impressive freight revenue performance. These strong revenues were achieved despite the transitional state of the AirTran route network. While there was much change in 2012, significant optimization efforts are planned in 2013 for the combined networks. Our operational performance and our Customer Service delivery continued to be exceptional, especially considering the amount of work involved with our initiatives. Our remarkable 2012 performance is truly a testament to the extraordinary efforts of our People.

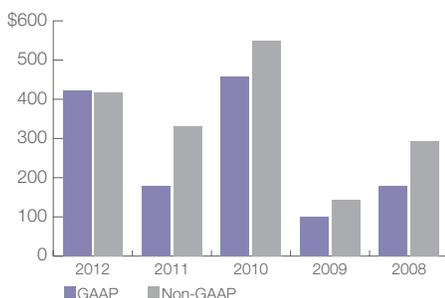
Passenger revenue year-over-year growth was attributable to higher Passenger yields (Passenger revenues per RPM flown), as we implemented fare increases in an attempt to buffer the impact of higher fuel costs. Passenger revenues also benefited from our strategic initiatives, continued optimization of our flight schedule to better match Passenger demand, and targeted marketing campaigns about what differentiates us from our competitors.

### Source of Passenger Revenues

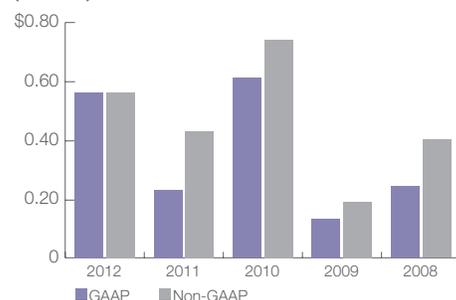
	2012	2011	2010	2009	2008
Internet	80% <sup>8</sup>	81% <sup>8</sup>	84%	81%	80%
Customer Support and Services	4%	4%	5%	8%	7%
Travel agency	12% <sup>9</sup>	12% <sup>9</sup>	9%	8%	10%
Other	4%	3%	2%	3%	3%

By maintaining our low-fare brand and superior Customer Service, Customers keep coming back to fly Southwest, contributing to our continued domestic market share growth and long-standing annual profitability streak. Southwest is the only major U.S. airline that doesn't charge for first and second checked bags and doesn't have a change fee. Also unlike most of our competitors, Southwest does not impose additional fees for items such as seat selection, snacks, curbside checkin, and telephone reservations.

### Net Income (millions of dollars)



### Net Income Per Share (diluted)



**Read more about our ancillary revenues.**



Our Business Select Passengers continue to enjoy perks such as priority boarding, a higher frequent flyer point multiplier than other Southwest fares, priority ticket counter and security checkpoint access in select airports, and one complimentary adult beverage coupon for the day of travel for Customers of legal drinking age. Our Business Select offering contributed \$93 million in Passenger revenues in 2012.

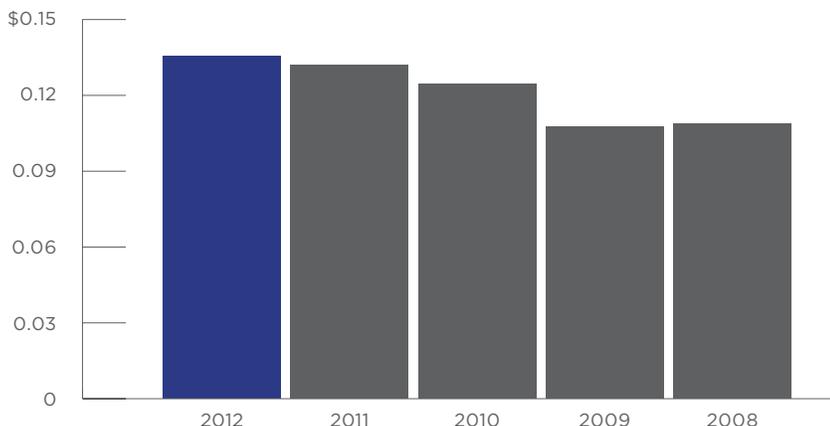
In 2012, we recognized approximately \$276 million in incremental revenue from Dallas Love Field itineraries that we could not market prior to the 2006 Wright Amendment compromise.

Our freight revenues for 2012 increased by a healthy 15 percent compared to 2011, primarily due to higher average rates. In addition, better domestic economic conditions resulted in an increase in shipments.

Other revenues of \$835 million benefited from ancillary revenues associated with EarlyBird Check-In™, Pets Are Welcome on Southwest (P.A.W.S.), service charges for unaccompanied minors and excess and overweight bags, and baggage fees collected from AirTran Customers.

Through our popular EarlyBird Check-In™, Customers can elect to pay a one-way charge to receive an early boarding position behind Business Select and A-List Customers. EarlyBird Check-In™ revenues were \$161 million in 2012, significantly exceeding our initial expectation of \$100 million annual contribution. The EarlyBird Check-In™ service charge increased from \$10 to \$12.50 per one-way fare in February 2013.

**Operating Revenues**  
(per ASM)





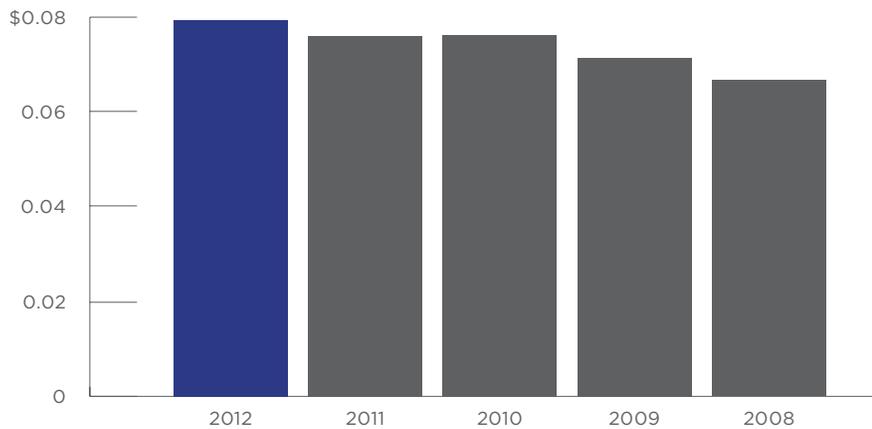
Read more about how [our fuel conservation measures save in our largest cost category.](#)

Read more about our [Fleet Modernization](#) in the feature story.

## Costs

A key component of our business strategy continues to be our low-cost structure. Adjusted for stage length, we have lower unit costs, on average, than virtually all major domestic carriers. We remain focused on controlling costs, so we can offer affordable fares to our Customers and achieve our profitability goals. Our investments in our efforts to modernize our fleet are expected to have a favorable impact on our unit costs.

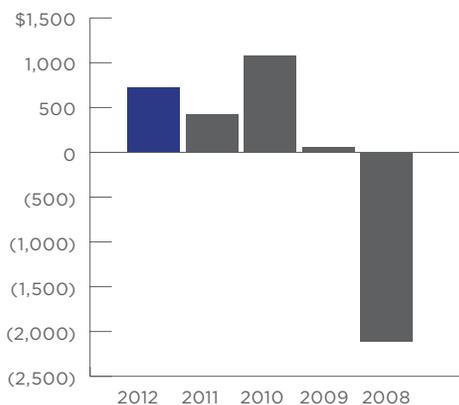
### Costs Excluding Fuel and Special Items (per ASM)



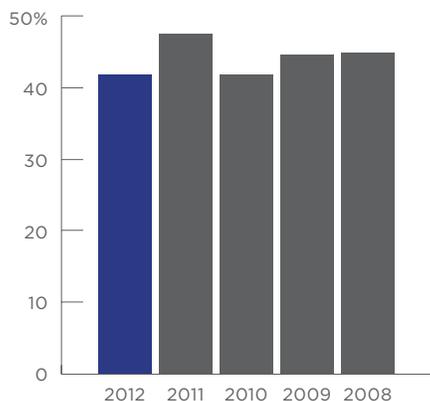
Fuel and oil expense remains our largest cost category at 37 percent of our operating expenses in 2012. Our average economic jet fuel cost, including hedging activity, increased 2.8 percent over 2011 to \$3.28 per gallon. In addition to our fuel conservation efforts, we strive to reduce volatility in operating expenses through our fuel hedging program.



**Free Cash Flow<sup>10</sup>**  
(in millions)



**Leverage<sup>11</sup>**



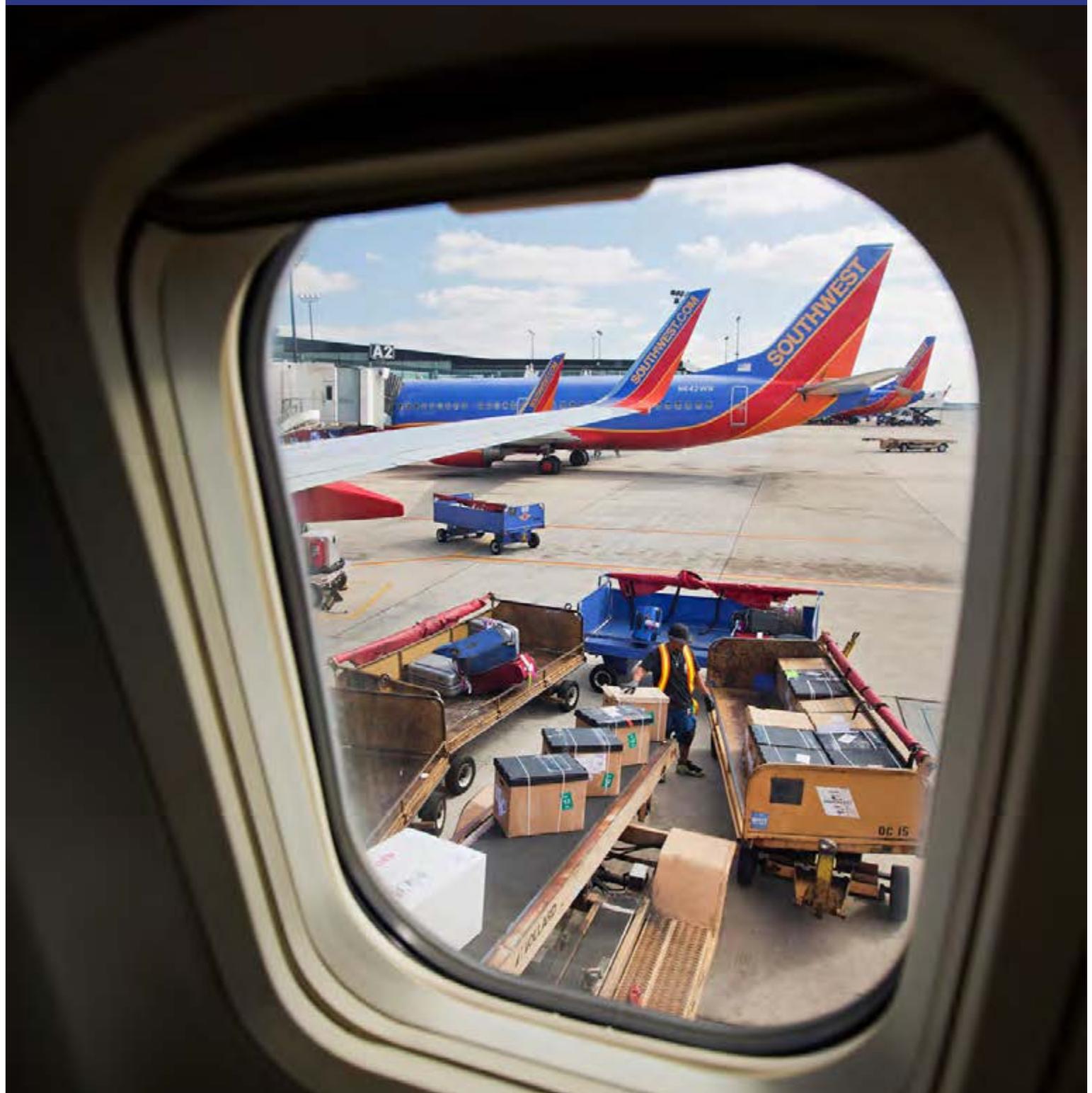
**Financial Position**

Our financial position remained strong with \$3 billion in cash and short-term investments at yearend 2012. At yearend, we also had an \$800 million fully available, unsecured revolving line of credit, and the book value of our unencumbered aircraft totaled approximately \$6.8 billion as of yearend 2012.

We generated \$716 million in free cash flow<sup>10</sup> during 2012. Through our share repurchases and increased dividend, we returned \$422 million to our Shareholders in 2012. We repurchased \$400 million of stock, or approximately 46 million shares, bringing the cumulative repurchase under the \$1 billion authorization to \$625 million, or approximately 73 million shares.

We made \$578 million of debt repayments in 2012, which included the prepayment of approximately \$19 million in December related to an aircraft-secured loan that we assumed as part of the AirTran acquisition. Our leverage, including off balance sheet aircraft leases, continued to decline to 41 percent at yearend.

As of yearend, we remained the only investment-grade rated U.S. airline, with strong liquidity, modest debt, and a steadfast focus on enhancing Shareholder value through capital efficiency.



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## Ten-Year Summary

This ten-year summary offers a historical look at our Performance over the past decade, as measured through the consolidated financials, ratios, and operating statistics shown.

## TEN-YEAR SUMMARY

(selected consolidated financial data, GAAP)

<i>(dollars in millions, except per share amounts)</i>	2012	2011	2010	2009	2008
Operating revenues:					
Passenger	\$16,093	\$14,754	\$ 11,489	\$ 9,892	\$10,549
Freight	160	139	125	118	145
Other	835	765	490	340	329
Total operating revenues	17,088	15,658	12,104	10,350	11,023
Operating expenses	16,465	14,965	11,116	10,088	10,574
Operating income	623	693	988	262	449
Other expenses (income), net	(62)	370	243	98	171
Income before income taxes	685	323	745	164	278
Provision for income taxes	264	145	286	65	100
Net income	\$ 421	\$ 178	\$ 459	\$ 99	\$ 178
Net income per share, basic	\$ .56	\$ .23	\$ .62	\$ .13	\$ .24
Net income per share, diluted	\$ .56	\$ .23	\$ .61	\$ .13	\$ .24
Cash dividends per common share	\$ .0345 <sup>12</sup>	\$ .0180	\$ .0180	\$ .0180	\$ .0180
Total assets	\$18,596	\$18,068	\$15,463	\$14,269	\$14,068
Long-term debt less current maturities	\$ 2,883	\$ 3,107	\$ 2,875	\$ 3,325	\$ 3,498
Stockholders' equity	\$ 6,992	\$ 6,877	\$ 6,237	\$ 5,454	\$ 4,953

### Consolidated Financial Ratios

Return on average total assets	2.3%	1.1%	3.1%	0.7%	1.2%
Return on average stockholders' equity	6.1%	2.7%	7.9%	1.9%	3.0%
Operating margin	3.6%	4.4%	8.2%	2.5%	4.1%
Net margin	2.5%	1.1%	3.8%	1.0%	1.6%

### Consolidated Operating Statistics

Revenue Passengers carried	109,346,509	103,973,759	88,191,322	86,310,229	88,529,234
Enplaned Passengers	133,978,100	127,551,012	106,227,521	101,338,228	101,920,598
RPMs (000s)	102,874,979	97,582,530	78,046,967	74,456,710	73,491,687
ASMs (000s)	128,137,110	120,578,736	98,437,092	98,001,550	103,271,343
Passenger load factor	80.3%	80.9%	79.3%	76.0%	71.2%
Average length of Passenger haul (miles)	941	939	885	863	830
Average stage length (miles)	693	679	648	639	636
Aircraft utilization (hours and minutes per day)	10:55	11:10	10:48	10:50	11:36
Trips flown	1,361,558	1,317,977	1,114,451	1,125,111	1,191,151
Average Passenger fare	\$ 147.17	\$ 141.90	\$ 130.27	\$ 114.61	\$ 119.16
Passenger revenue yield per RPM	15.64¢	15.12¢	14.72¢	13.29¢	14.35¢
Operating revenue yield per ASM	13.34¢	12.99¢	12.30¢	10.56¢	10.67¢
Operating expenses per ASM	12.85¢	12.41¢	11.29¢	10.29¢	10.24¢
Operating expenses per ASM, excluding fuel	8.07¢	7.73¢	7.61¢	7.18¢	6.64¢
Fuel cost per gallon (average)	\$ 3.30	\$ 3.19	\$ 2.51	\$ 2.12	\$ 2.44
Fuel consumed, in gallons (millions)	1,847	1,764	1,437	1,428	1,511
Full-time equivalent Employees at yearend	45,861	45,392	34,901	34,726	35,499
Aircraft in service at yearend <sup>13</sup>	694	698	548	537	537

**TEN-YEAR SUMMARY** (continued)

(selected consolidated financial data, GAAP)

<i>(dollars in millions, except per share amounts)</i>	2007	2006	2005	2004	2003
Operating revenues:					
Passenger	\$ 9,457	\$ 8,750	\$ 7,279	\$6,280	\$ 5,741
Freight	130	134	133	117	94
Other	274	202	172	133	102
Total operating revenues	9,861	9,086	7,584	6,530	5,937
Operating expenses	9,070	8,152	6,859	6,126	5,558
Operating income	791	934	725	404	379
Other expenses (income), net	(267)	144	(54)	65	(225)
Income before income taxes	1,058	790	779	339	604
Provision for income taxes	413	291	295	124	232
Net income	\$ 645	\$ 499	\$ 484	\$ 215	\$ 372
Net income per share, basic	\$ .85	\$ .63	\$ .61	\$ .27	\$ .48
Net income per share, diluted	\$ .84	\$ .61	\$ .60	\$ .27	\$ .46
Cash dividends per common share	\$ .0180	\$ .0180	\$ .0180	\$ .0180	\$ .0180
Total assets	\$ 16,772	\$13,460	\$14,003	\$ 11,137	\$9,693
Long-term debt less current maturities	\$ 2,050	\$ 1,567	\$ 1,394	\$1,700	\$ 1,332
Stockholders' equity	\$ 6,941	\$ 6,449	\$ 6,675	\$ 5,527	\$5,029

**Consolidated Financial Ratios**

Return on average total assets	4.3%	3.6%	3.9%	2.1%	4.0%
Return on average stockholders' equity	9.6%	7.6%	7.9%	4.1%	7.9%
Operating margin	8.0%	10.3%	9.6%	6.2%	6.4%
Net margin	6.5%	5.5%	6.4%	3.3%	6.3%

**Consolidated Operating Statistics**

Revenue Passengers carried	88,713,472	83,814,823	77,693,875	70,902,773	65,673,945
Enplaned Passengers	101,910,809	96,276,907	88,379,900	81,066,038	74,719,340
RPMs (000s)	72,318,812	67,691,289	60,223,100	53,418,353	47,943,066
ASMs (000s)	99,635,967	92,663,023	85,172,795	76,861,296	71,790,425
Passenger load factor	72.6%	73.1%	70.7%	69.5%	66.8%
Average length of Passenger haul (miles)	815	808	775	753	730
Average stage length (miles)	629	622	607	576	558
Aircraft utilization (hours and minutes per day)	11:41	11:34	11:25	11:20	11:09
Trips flown	1,160,699	1,092,331	1,028,639	981,591	949,882
Average Passenger fare	\$106.60	\$104.40	\$ 93.68	\$88.57	\$87.42
Passenger revenue yield per RPM	13.08¢	12.93¢	12.09¢	11.76¢	11.97¢
Operating revenue yield per ASM	9.90¢	9.81¢	8.90¢	8.50¢	8.27¢
Operating expenses per ASM	9.10¢	8.80¢	8.05¢	7.97¢	7.74¢
Operating expenses per ASM, excluding fuel	6.40¢	6.34¢	6.34¢	6.54¢	6.47¢
Fuel cost per gallon (average)	\$ 1.80	\$ 1.64	\$ 1.13	\$ 0.92	\$ 0.80
Fuel consumed, in gallons (millions)	1,489	1,389	1,287	1,201	1,143
Full-time equivalent Employees at yearend	34,378	32,664	31,729	31,011	32,847
Aircraft in service at yearend <sup>13</sup>	520	481	445	417	388



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## Financial Management Approach

*We strive to continuously improve our Performance.*

Our formula for success is applying our Core Values with our People's Warrior Spirit, Servant's Heart, and Fun-LUVing Attitude.

Our formula for success is Living and Working the Southwest Way. Living the Southwest Way includes showing our Warrior Spirit, Servant's Heart, and Fun-LUVing Attitude. Working the Southwest Way is focus on Safety, focus on high Customer Service delivery, and focus on low cost. And, it's still working. Southwest is the only U.S. airline that can claim 40 consecutive years of profitability. We've achieved our success without resorting to layoffs or pay cuts. And, Employees' dedication shows—we consistently hold one of the top rankings in Customer Satisfaction<sup>1</sup> and have repeatedly been ranked as one of the best places to work.

We continue our commitment to offer impeccable Customer Service and low fares. And, we achieved an annual profit for our Shareholders, despite another annual increase in jet fuel costs. In an effort to overcome increasing jet fuel costs, we continued to grow our revenue in 2012 through revenue management and optimization of our route network, while continuing our focus on value-added products such as Business Select and EarlyBird Check-In™.

Our Core Values have contributed to our past success and will take us into the future as we execute our strategic initiatives to integrate AirTran into Southwest, add Boeing -800s to our fleet as part of our fleet modernization plan, grow our Rapid Rewards® program, and eventually replace our reservation system. We're passionate about achieving and sustaining our 15 percent pre-tax ROIC goal.

We expect the successful execution of our strategic initiatives to strengthen our brand and solidify our fundamental competitive advantages: low costs, low fares, great Customer Service, a robust domestic route network, and a strong financial position.<sup>2</sup>

## Contributing to the Economic Vitality of Our Communities

Our Performance impacts more than our Company. Our low fares stimulate economies in cities where we fly. Our Servant's Heart allows others to thrive, and our green filter helps protect the planet.

Together, Southwest and AirTran served 97 destinations based on our joint schedules as of yearend 2012. We expect our collective market presence to generate substantial savings for our Customers through the well-known "Southwest Effect" of invigorating competition by reducing fares and stimulating additional Passenger traffic in the cities where we fly. We expect to bring our low fares and Fun-LUVing Attitude to more than 100 million Customers annually.

We strive to make a positive difference in the communities we serve. We believe in championing the causes that matter most to our People. We provide support, Leadership, and encouragement to a variety of philanthropic causes through our Community Affairs and Grassroots Team, who works directly with local, civic, and charitable organizations. Through our Community Giving Boards, consisting of local Employees from various workgroups, we identify charitable organizations to support the communities where they live and work. At Southwest, we value empowering others and building meaningful relationships through community outreach and volunteerism. To achieve this, we donate our time, tickets, funds, and, most importantly, our LUV.

We believe it's our responsibility to protect our planet now and for future generations, so we operate with a green filter—a mindset of making environmentally responsible decisions. As good environmental stewards, we recycle onboard and in airports. We are working to improve energy and water conservation and extend our use of renewable energy at our

Headquarters and other facilities. In the air, we're conserving jet fuel, reducing emissions, and using recycled and sustainable materials to furnish our cabins. On the ground, where possible, we're using alternative and highly efficient fuel sources to power our ground support equipment. Given persistently high jet fuel prices, operating with a green filter is not only good for the environment; it's also good for our bottom line.

Read more about how we take care of our own in [Employees](#).



## Taking Care of Our Own

At Southwest, we believe in treating each other the way we want to be treated. We contribute to the financial wellbeing of our Employees by offering generous 401(k) Company matching contributions and a ProfitSharing Plan. Our University for People provides training and career development to help Employees learn and grow. We also encourage them to support the local charities close to their hearts by rewarding their Volunteer efforts. We take time to celebrate and honor our Employees through our Employee recognition programs, including our annual Volunteers of LUV, President's Award, Winning Spirit Award, Stars of the Month, and Kick Tails. By taking care of our Southwest Family and encouraging our Employees to give back and help others, we create a Culture of LUV that ultimately contributes to our financial success. After all, happy Employees equal happy Customers, and happy Customers keep flying Southwest.

## Citizenship at Southwest

Financial success is more than achieving fiscal metrics. Our long-term financial success is, in part, dependent on our future successes related to non-financial goals that serve as measures of our ability to align operating costs with the true environmental and social costs of our actions. During 2012, our Citizenship Committee continued to prioritize and establish environmental and social goals for selected targets and will work to define protocols for collecting and analyzing operational data related to each goal. We look forward to using future data to strive to continuously improve and reduce future impacts on the environment.

## Footnotes

- 1) From the 2012 yearend U.S. Department of Transportation Air Travel Consumer Report issued February 2013. Top ranking is for Southwest only. AirTran ranked third in the same report.
- 2) Amounts shown net of profitsharing and taxes (see footnote 4 for explanation of profitsharing on acquisition and integration charges).
- 3) Amounts shown net of profitsharing impact.
- 4) Amounts shown net of profitsharing on acquisition and integration charges incurred through March 31, 2011. We amended our profitsharing plan during second quarter 2011 to defer the profitsharing impact of acquisition and integration costs incurred from April 1, 2011 through Dec. 31, 2013. The profitsharing impact for this time period will be realized in 2014 and beyond.
- 5) Net adjustment related to presumption that all aircraft in fleet are owned.
- 6) Average invested capital represents a five quarter average of debt, net present value of aircraft leases, and equity.
- 7) Calculated as adjusted operating income, non-GAAP, divided by adjusted average invested capital.
- 8) Includes revenues from southwest.com, swabiz.com (Southwest's business travel reservation web page), and airtran.com.
- 9) Includes online travel agencies.
- 10) Southwest has provided free cash flow, which is a non-GAAP financial measure. We believe free cash flow is a meaningful measure because it demonstrates our ability to service our debt, pay dividends, and make investments to enhance Shareholder value. Although free cash flow is commonly used as a measure of liquidity, definitions of free cash flow may differ; therefore, we are providing an explanation of our calculation for free cash flow. For the five years ended Dec. 31, 2008, 2009, 2010, 2011, and 2012, the Company generated \$(2,106), \$62, \$1,068, \$417, and \$716 million in free cash flow, respectively, calculated as operating cash flows of \$(1,521), \$985, \$1,561, \$1,385, and \$2,064 million less capital expenditures of \$585, \$923, \$493, \$968, and \$1,348 million, respectively.
- 11) Leverage is calculated as current and long-term debt (total debt) divided by the sum of total debt and stockholders' equity, including the impact of the net present value of aircraft operating lease obligations.
- 12) Metric revised as of September 26, 2013 from \$.345 to \$.0345.
- 13) Includes leased aircraft.

# 2012 Southwest Airlines One Report // People

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**Our People are our greatest strength in building LUV and prove that some of our best work is done on the ground, not just in the air.**

Our greatest strength is our People who deliver compassionate, world-class Customer Service; seek out innovative solutions to enhance the Customer Experience; and share their time and efforts to make a positive difference. At Southwest Airlines, our Employees are passionate about our Purpose to connect People to what's important in their lives through friendly, reliable, and low-cost air travel. Our Family is the heart of our Fun-LUVing Culture. Our Customers return to Southwest not only for our low fares, but also because of our People and their dedication to providing an enjoyable travel experience with a personal touch. Our Customer Service extends to the communities we serve through our commitment to giving back by volunteering our time and donating tickets and dollars to organizations that serve those in need. With a Warrior Spirit, a Servant's Heart, and a Fun-LUVing Attitude, our service comes from the heart.

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## PEOPLE DATA

AirTran Airways data is excluded from People data unless otherwise stated as of May 2011.

	2012	2011	2010	2009
<b>Employees<sup>1</sup></b>				
Active, full-time equivalent Employees at yearend	Nearly 46,000	More than 45,000	Nearly 35,000	Nearly 35,000
<b>Employees by Division<sup>1,2,3</sup></b>				
Flight	19,575; 43%	19,619; 43%	15,050; 43%	15,323; 44%
Maintenance	3,208; 7%	3,105; 7%	2,442; 7%	2,466; 7%
Ground, Customer, and Fleet Services	20,374; 44%	20,042; 44%	15,096; 43%	14,628; 42%
Management, Accounting, Marketing, clerical personnel (other)	2,704; 6%	2,627; 6%	2,313; 7%	2,310; 7%
<b>Benefits<sup>4</sup></b>				
Active and inactive Employees who participate in benefit programs	More than 48,000	More than 40,000	More than 35,000	More than 35,000
Contributions to Employee benefit programs excluding 401(k) and ProfitSharing plans (accrued) <sup>5</sup>	More than \$800 million	More than \$670 million	More than \$590 million	More than \$500 million
401(k) savings plan participation	Nearly 85%	93%	86.5%	—
ProfitSharing Plan participation	All eligible Employees	All eligible Southwest Employees	All eligible Employees	—
Contributions to 401(k) and ProfitSharing plans	More than \$370 million	Nearly \$314 million	Nearly \$350 million	\$203 million
<b>Training</b>				
Pilot hours <sup>4</sup>	300,496	165,000	219,440	199,500
Flight Attendant hours <sup>4</sup>	177,500	272,394 <sup>6</sup>	112,116	109,450
Maintenance and Support hours <sup>4</sup>	159,000	88,754	59,004	81,633
Customer Support & Services hours <sup>4</sup>	175,278	245,179	125,833	106,480
Ground Operations hours	439,635	342,946	253,574	224,779
Safety and Security hours	More than 520,000	More than 550,000 <sup>7</sup>	More than 230,000	—
<b>Customers</b>				
U.S. Department of Transportation (DOT) Customer Satisfaction rating (consumer complaints per 100,000 enplanements)	0.25	0.32	0.27	0.21
External Customer commendations	Nearly 65,000	More than 65,000	More than 65,000	More than 50,000
Ratio of external Customer commendations to personnel rudeness complaints	Nearly 7:1	Nearly 8:1	Nearly 10:1	9:1

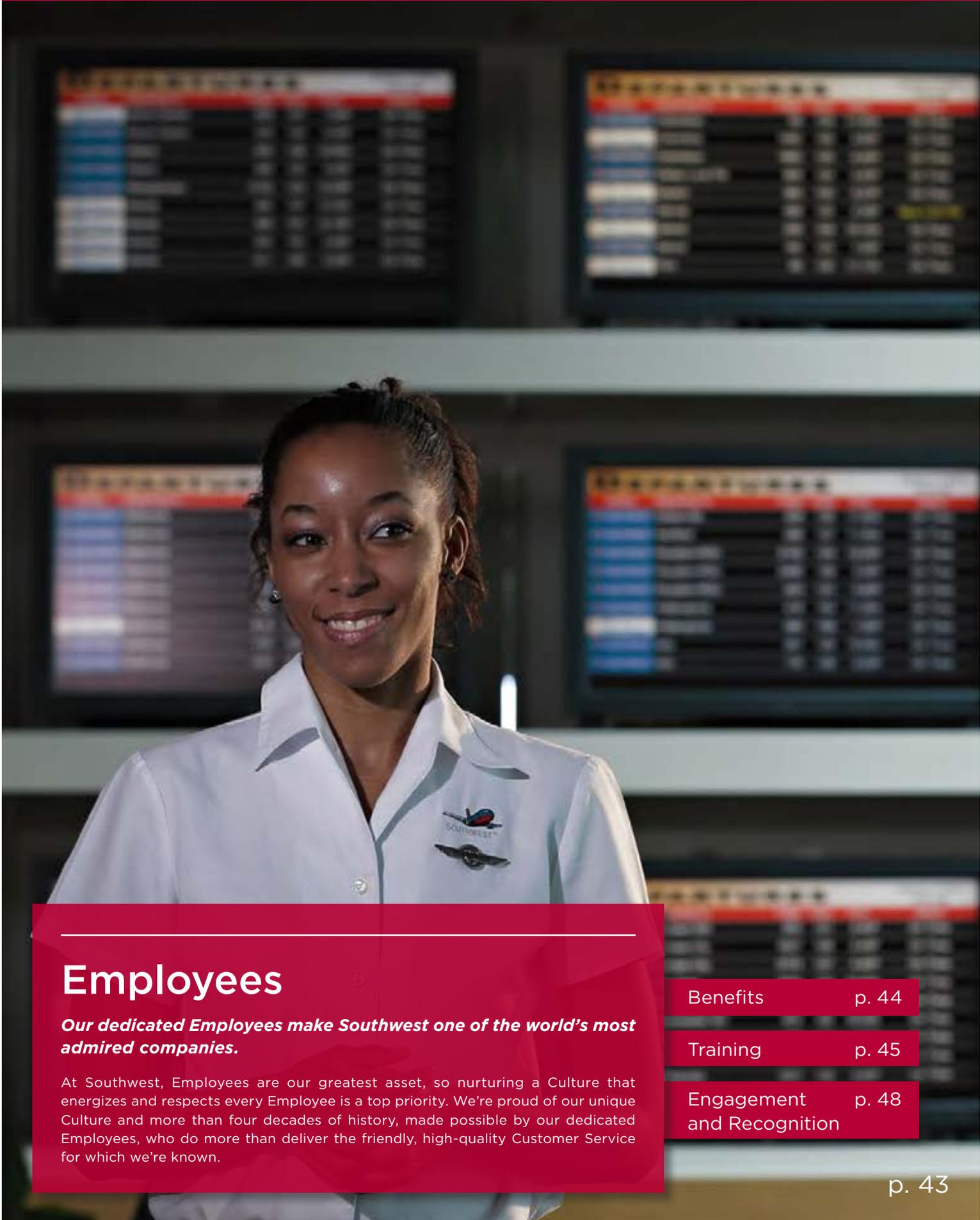
	2012	2011	2010	2009
American Customer Satisfaction Index (ACSI)	77	81	79	81
Percentage of reported flight operations arriving ontime	83.1	81.3	79.5	83.0
Number of mishandled bags reported per 1,000 Passengers	3.08	3.65	3.47	3.43
Passengers denied boarding per 10,000 Passengers	0.84	0.65	1.24	1.29
Number of incidents involving the loss, injury, or death of animals during transport	0	0	0	0

#### Communities<sup>4</sup>

Donation requests received systemwide	19,053	17,057	16,678	14,968
Tickets donated	44,559	40,807	29,664	25,663
Total monetary donations	\$ 2,104,871	\$ 1,814,077	\$ 934,807	\$ 554,140
Total value of monetary, in-kind, and ticket donations	\$20,273,621	\$18,239,850	\$12,974,763	\$10,939,665
Employee Volunteer hours	More than 137,000*	More than 114,000	More than 80,000	More than 45,000

#### Social Management Approach

Employees represented by unions	Approximately 83%	Approximately 82%	Approximately 82%	—
Employee human rights training hours	More than 17,000	More than 3,700	More than 5,000	—
Employees trained on human rights	20.5%	10.1%	10.7%	—
Employees and business associates who acknowledged the code of ethics <sup>8</sup>	More than 46,000	More than 43,000	More than 37,000	—



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# Employees

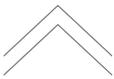
***Our dedicated Employees make Southwest one of the world's most admired companies.***

At Southwest, Employees are our greatest asset, so nurturing a Culture that energizes and respects every Employee is a top priority. We're proud of our unique Culture and more than four decades of history, made possible by our dedicated Employees, who do more than deliver the friendly, high-quality Customer Service for which we're known.

Benefits p. 44

Training p. 45

Engagement and Recognition p. 48



Our Employees served nearly 110 million Customers in 2012.

**Breakdown of Employees by Division<sup>2,8</sup>**



20,374—44%  
Ground, Customer,  
and Fleet Services



19,575—43%  
Flight



3,208—7%  
Maintenance



2,704—6%  
Other

Our nearly 46,000 Southwest Family Members<sup>9</sup> create innovative programs to increase productivity and make their work lives easier, generate ideas to trim costs so we can keep fares affordable, give back to our communities and the Planet, and take time to celebrate Company and personal milestones. It's Living the Southwest Way—a Warrior Spirit, a Servant's Heart, and a Fun-LUVing Attitude.

**Benefits**

Southwest offers our Employees opportunities to live their best life. We can proudly say that in 2012 more than 48,000 active and inactive Southwest Employees participated in at least one component of Southwest's Employee benefit programs, to which we contributed more than \$800 million on an accrual basis, excluding 401(k) and ProfitSharing plans and share-based compensation.

In 2012, in addition to vacation, paid holidays, and sick leave, we offered our full-time and part-time Employees the following:<sup>10</sup>

- 401(k) retirement savings plan
- ProfitSharing Plan
- Medical and prescription coverage
- Mental health chemical dependency coverage
- Vision coverage
- Dental coverage
- Adoption assistance
- Pre-tax commuter benefit program
- Mental health Employee assistance program
- Life insurance
- Accidental death and dismemberment insurance
- Long-term disability insurance
- Dependent life insurance
- Dependent care spending account
- Health care spending account
- Employee stock purchase plan
- Wellness program
- Flight privileges
- Other benefits
  - Health care for committed partners
  - Early retiree health care
  - Flex time for qualifying positions

**2012 Operational Employee Training Hours**



300,496  
Pilots<sup>4</sup>



177,500  
Flight Attendants<sup>4</sup>



159,000  
Maintenance and Support<sup>4</sup>



175,278  
Customer Support and Services<sup>4</sup>



439,635  
Ground Operations

Southwest has contributed more than \$2 billion to 401(k) retirement plans since their inception.



**Southwest offers Employees the freedom to learn and grow.**



**Retirement Planning<sup>4</sup>**

We are happy to do our part to contribute to the retirement savings of our Employees through multiple tax-qualified savings plans. In 2012 alone, Southwest contributed more than \$370 million to retirement savings through 401(k) Company matching contributions and Company contributions to Southwest’s ProfitSharing Plan.

We have tremendous participation in our 401(k) plans, with nearly 85 percent of eligible Employees participating in 2012 compared to the national average of 79.5 percent.<sup>11</sup> Since the inception of our 401(k) plans in the early 1990s, Southwest has contributed more than \$2 billion to these plans, including nearly \$250 million in 2012 to match the funds Employees contributed to their 401(k) accounts.

All eligible Southwest and AirTran Employees participate in our ProfitSharing Plan, and in 2012, Southwest contributed nearly \$121 million—a contribution equal to 3.4 percent of each eligible Employee’s compensation.



**Training**

At Southwest, we offer our Employees not only the training they need to do their jobs, but also the training they want to advance their careers. We provide internal training programs but also encourage Employees to attend external training and further specialize in their respective fields.

We are committed to and prioritize compliance with the training requirements of the appropriate governing organizations such as the Federal Aviation Administration, U.S. DOT, U.S. Department of Homeland Security, Occupational Safety and Health Administration, U.S. Environmental Protection Agency, U.S. Food and Drug Administration, Equal Employment Opportunity Commission, and the Office of Federal Contract Compliance Programs. We also offer a variety of additional training opportunities to our Employees. These opportunities for continued development include programs focused on Living and Leading the Southwest Way.

## Safety and Security Training and Outreach

The Safety and Security of our Customers and our Employees is our top priority, which is why it is a part of everything we do both on the ground and in the air through training, communication campaigns, and education. We are committed to fostering a strong, sustainable Safety Culture and proactively seek to identify workplace and operational risks, so we can deal with these issues before they lead to injuries, accidents, or incidents. In 2012, Southwest Employees participated in more than 520,000 hours of Safety and Security training.

Throughout the year, the following departments receive additional job-specific safety and security training:

- Inflight
- Flight Operations
- Maintenance
- Ground Operations
- Provisioning
- Dispatch

We also offer First Aid, cardiopulmonary resuscitation (CPR), and automated external defibrillator (AED) training to all interested Employees and require this training for all Flight Attendants and all Operations Supervisors.

## Training Department

We are always looking for ways to enhance the training opportunities that we offer our Employees. In 2011, we began centralizing our training programs. In 2012, training was further centralized and able to leverage best practices and maximize resources to create the best learning for all Employees. A 2012 highlight was our new Companywide training dashboard that pulls data from our Learning Management System and consolidates training hours into a centralized location. The new training dashboard will serve as a benchmarking tool for training as the department moves forward and grows.

## Environmental and Sustainability Training

Our commitment to protecting our Planet is integral to our operations, so we include the topics of environmental stewardship and sustainability in our Employee training. At and above our Supervisor level, we have enhanced Leadership courses to include sustainability content. In these courses, we discuss sustainability, our fuel usage and its impact on our greenhouse gas emissions and climate change, our initiatives to decrease emissions, and our recycling programs. We also require annual environmental training for all operational groups. Topics covered include storm water pollution protection, proper waste disposal, air permitting compliance, and aircraft drinking water compliance. Through this recurrent training, we teach our Employees about current environmental policies and regulations that must be followed in our operations.

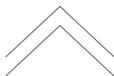
## Diversity and Inclusion Education and Outreach

We recognize that a multifaceted workforce—with a variety of backgrounds and experiences—makes for a more vibrant and efficient Team and is an asset to our Company Culture. In 2012, the Vice President of Diversity and Inclusion, Ellen Torbert, and her department continued the development of a more robust diversity and inclusion education and outreach program through communication externally and internally, leadership accountability, and supplier diversity. This program increases communication to our Employees about the profound uniqueness that makes Southwest who we are. This program is discussed further in our [Social Management Approach](#).

At Southwest, we believe that a modern and diverse workforce is key to our continued success. We are committed to providing our Employees the best tools for their development by engaging in conversations about best practices and the importance of respecting each other in the workplace.

To learn more about our Diversity Summit, visit [blogsouthwest.com/video/diversity-summit-2012-how-southwest-joining-conversation](http://blogsouthwest.com/video/diversity-summit-2012-how-southwest-joining-conversation).





In 2012, the Southwest Engineering Team was named the Heroes of the Heart, an award that recognizes a behind-the-scenes group who keeps Southwest flying high.

## Engagement and Recognition

On a daily basis, our Employees continue to demonstrate a passion for serving our Passengers with world-class Customer Service. This is why we feel it's so important to engage and recognize our Employees by listening to their suggestions and ideas as well as their concerns and rewarding them for outstanding extra effort and a willingness to share their hearts with one another and our [communities](#).

### Employee Survey

We conduct an Employee survey on a biennial basis, which allows us to take a collective picture of our entire workforce from several angles. These snapshots let us know how our Employees feel about working at Southwest. Employees' candid feedback is critical because it helps identify areas of strength at Southwest as well as areas where we have an opportunity to work together as a Team to improve.

In 2012, 55 percent of Southwest and AirTran Employees participated in the survey and provided feedback regarding their views of the Company. The survey, conducted by Mercer, evaluated 15 dimensions, and Employees were 70 percent or more favorable on 11 of the 15 dimensions.

The main objectives of the 2012 Employee survey were to gather Employee perceptions on a broad range of work, environment, and Cultural topics; assess and identify current levels of the components of Employee engagement and identify key drivers; and gather input on what it takes to be a best place to work. Southwest's scores on the engagement components are significantly above the norm on all benchmarked normative items, exceeding the norm by an average of 22 percentage points. All items in the Employee commitment dimension received ratings of at least 88 percent favorable, revealing a strong pride in the organization, connection to the organization's financial performance, and perception of Southwest as a desirable place to work. The most favorably rated item in the survey indicates that nearly all Employees (97 percent) are willing to "go the extra mile" to help serve Customers.

Our Leaders use this survey as a roadmap for improvement, creating action plans to address areas requiring attention and identifying overarching themes we can work on together. This feedback also helps us to make improvements on our journey to be a best place to work.

### ***Employee Recognition Programs***

Our Employees are known for Legendary Customer Service, operational excellence, and working efficiently. Our Employees go above and beyond each and every day to provide our Customers with the best possible flying experience while focusing on trimming costs so we can offer low fares. They also generously donate their time and LUV to make a positive difference. We take time to celebrate and recognize our Employees who deliver world-class Customer Service, operational excellence, and a willingness to Do the Right Thing. Our Employee recognition programs include:

Recognition Program	Reason for Recognition	Frequency
Volunteers of LUV	Individual Employees and groups for commendable volunteerism	Annually
Service Awards	Milestone years of service from 10 years to 40 years	Annually
President's Award	Employees who truly go above and beyond, nominated by Coworkers and selected by Senior Leadership	Annually
Living the Southwest Way Award	Employee who embodies the principles of a Warrior Spirit, a Servant's Heart, and a Fun-LUVing Attitude; presented by Chairman of the Board, President, and Chief Executive Officer Gary Kelly	Annually
Heart and Soul Award	Employee who lives by The Golden Rule and puts others first, presented by President Emeritus Colleen Barrett	Annually
Winning Spirit Award	Employee who goes beyond normal job responsibilities, displays a can-do attitude, and is Living the Southwest Way; selected from Employee commendations by Winning Spirit Committee	Quarterly
Kick Tail	Employees who exhibit Southwest Airlines values through Living the Southwest Way; award given by fellow Employees	Ongoing with monthly, quarterly, and annual drawings for cash prizes
Heroes of the Heart	Behind-the-scene workgroup who keeps the heart of Southwest Airlines beating started by President Emeritus Colleen Barrett	Annually



## Customers

*In 2012, Southwest once again had the lowest ratio of complaints per Customers boarded of all major U.S. carriers, according to the U.S. DOT's Air Travel Consumer Report.*

At Southwest, we're dedicated to delivering the highest quality of Customer Service with a sense of warmth, friendliness, individual pride, and Company Spirit.

Brand Strength p. 52

Customer Feedback p. 53



**We again topped the U.S. DOT's list for best in Customer Satisfaction and maintain the best Customer Satisfaction record since the list's inception.**



Every day we strive to keep operating costs low. We take pride in flying our Customers to their destinations with all of the services and warmth they expect from Southwest. Listening to our Customers' needs and input motivates us to take action and enhance our Customer Service and the Customer Experience.

**Customer Satisfaction<sup>12</sup>** (consumer complaints per 100,000 enplanements)

<b>Southwest Airlines</b>	<b>0.25</b>	1 person icon
Mesa Airlines	0.41	1 person icon
<b>AirTran Airways</b>	<b>0.51</b>	1 person icon
Alaska Airlines	0.51	1 person icon
Delta Airlines	0.73	1 person icon
JetBlue Airlines	0.79	1 person icon
Skywest Airlines	0.88	1 person icon
Hawaiian Airlines	0.89	1 person icon
Frontier Airlines	1.05	1 person icon
ExpressJet Airlines	1.07	1 person icon
American Eagle Airlines	1.27	1 person icon
Virgin America	1.50	1 person icon
US Airways	1.74	2 person icons
American Airlines	1.80	2 person icons
United Airlines	4.24	4 person icons

**The Southwest brand remains strong.**



**View our awards and accolades.**



## Brand Strength

We regularly monitor our Southwest brand through Customer feedback, and biennially we work with Hall & Partners to conduct an in-depth, independent online survey of a national sample of airline fliers from our key markets, comparing Southwest to our competition. In the most recent survey, conducted in May and June 2012, we fared well, with the strongest top-of-mind brand recognition in the industry. The survey also proved that our Customers are loyal, as fliers surveyed flew Southwest more frequently for domestic travel than any other airline. The survey also found that frequent flyer programs are of increased importance in 2012, and our recent enhancements to [Rapid Rewards®](#) were recognized.

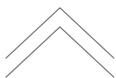
We also are regularly recognized for our strong brand. In 2012, representative awards and accolades for our award-winning brand included ranking first on *Forbes'* 2012 list of the Brands American Women and Men Desire Most, and on *FORTUNE's* 2012 list of World's Most Admired Companies, we ranked third among airlines and tenth among all industries.

### Brands American Women and Men Desire Most

To determine the most desired brands, *Forbes* obtained insight from neuromarketing firm, Buyology, and online market research company, uSamp. Buyology and uSamp identified and evaluated more than 4,000 consumers' relationships with brands using four key parameters—awe, superiority, harmony, and exploration. All 220 brands studied were also matched with a numerical signal strength to determine consumers' connection to them. By examining the strength and types of those relationships on both a conscious and unconscious level, the tools of neuromarketing, Buyology found that men and women "LUV" Southwest. We earned the coveted top spot because of who we are.

### World's Most Admired Companies

To identify and rank the World's Most Admired Companies, *FORTUNE* partnered with management consulting firm Hay Group. Hay Group surveys more than 15,000 top executives and directors from the *FORTUNE* 1,000, Global 500, and other major non-U.S. companies to identify the companies that enjoy the strongest reputations within their industries and across industries. Rankings take into consideration the ability to attract and retain talented people, quality of management, social responsibility to the community and the environment, innovativeness, quality of products or services, wise use of corporate assets, financial soundness, long-term investment value, and effectiveness in doing business globally. In 2012, we ranked third among airlines and tenth among all industries.



Our Social Media Team monitors social media channels around the clock to respond to Customers' suggestions, comments, and concerns.

**We LUV to hear from our Customers.**



## Customer Feedback

In order to enhance the Customer Experience, our Customer Service, and our brand strength, we engage our Customers and solicit their feedback on a regular basis. We want every Customer to LUV flying with Southwest, so we take the time to regularly listen to Customers' suggestions, read Customers' comments, conduct surveys and focus groups, solicit feedback through social media venues, and track industry results. We then use this Customer insight to improve the Customer Experience.

### Customer Experience Research

In 2012, we released an all-new Customer Experience Survey and Dashboard to help us understand our Customers' travel experience with Southwest. We email a survey to 16,000 Customers the day following their flight and ask them to rate their satisfaction at each point of the travel experience, including Checkin, TSA Security, Gate Area, Inflight, Connection, and Arrival. The survey also asks the likelihood to recommend Southwest to friends, family, or colleagues. This is also known as the Net Promoter Score (NPS).

The new survey will continue to measure the travel experience and NPS as it has for five years, and it will now include additional questions that dig farther into our Customers' Experiences. For Customers who are both promoters and detractors, we will learn more about why they feel as they do. In addition to gaining more insight in the survey, our new dashboard makes it easy to analyze whichever aspects are important to each Customer, with actionable station reports, as well as cuts by type of traveler (business or leisure), length of haul, and aircraft type, just to name a few.

### American Customer Satisfaction Index

At Southwest, not only do we have our own ways to track Customer Satisfaction, we also look at industry standards and third-party survey and study results to gain a holistic view of the needs and wants of our Customers. A third-party scoring entity, the American Customer Satisfaction Index (ACSI) measures the satisfaction of customers across the U.S. economy. The ACSI reports scores on a 0-100 scale and produces indexes for ten economic sectors, 47 industries, more than 225 companies, and more than 200 federal and local government services. The ACSI also produces scores for the causes and consequences of customer satisfaction and their relationships. According to the ACSI, in 2012 our score fell 5 percent, and we moved to second place among airlines. Knowing the decline occurred amid our acquisition of AirTran and, often, mergers create passenger dissatisfaction in the short-term, we are committed to improving as operations are combined and consolidated.

### U.S. Department of Transportation Performance Metrics

Like our domestic passenger airline counterparts, we file monthly reports with the U.S. DOT Bureau of Transportation Statistics and other DOT departments regarding a number of performance statistics from our operations. This includes information regarding number of Passengers flown, fuel consumed, and ontime performance. It also includes information regarding Southwest operations as they relate to the Customer Experience. These results help us strive to provide our Passengers with the best Customer Experience.

There are many factors that can impact performance numbers, including several outside of our direct control such as weather and air traffic control practices. While it is tempting to only identify those statistics that reflect more positively on our operation, we strive to increase our transparency and establish consistency with the information provided to our Stakeholders.

#### Comparison of 2012 and 2011 Performance Results (compiled in the U.S. DOT Air Travel Consumer Report for specified calendar year)

	2012	2011
Consumer complaints per 100,000 enplanements	0.25 <sup>13</sup>	0.32 <sup>14</sup>
Percentage of reported flight operations arriving ontime	83.1	81.3
Number of mishandled bags reported per 1,000 Passengers	3.08	3.65
Passengers denied boarding per 10,000 Passengers	0.84	0.65
Number of incidents involving the loss, injury, or death of animals during air transportation	0	0

For further information, please see the U.S. DOT Air Travel Consumer Report issued February 2013.



For how to offer Customer feedback, see the back cover of the *2012 Southwest Airlines One Report*<sup>TM</sup>.



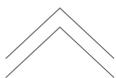
# Communities

*We aspire to make a positive difference in the communities where we fly.*

At Southwest, we have a passion for people—a passion that extends to giving from the heart in the communities where we live and work. Bringing people together, inspiring change, and making a positive difference in people’s lives—it’s all part of being a good neighbor.

Supporting Others and Our Own p. 56

Leading the Way p. 57



In 2012, we provided \$2.4 million in travel through our Medical Transportation Grant Program.

For additional information about The Civic 50, visit [businessweek.com/interactivereports/civic\\_50\\_2012.html](http://businessweek.com/interactivereports/civic_50_2012.html).



**At Southwest, giving back is at the Heart of our Culture.**



To maximize our positive impact in our communities, we support national and local nonprofit organizations, get involved through our community programs, and encourage individual Employees and community members to volunteer and advocate for the causes they believe in most.

We are proud to announce that in 2012, *Bloomberg Businessweek*—in partnership with Civic Engagement Group, the National Conference on Citizenship, and Points of Light—named Southwest to The Civic 50. We ranked in the top 20 for demonstrating a strong commitment to corporate civic engagement in our many communities.

## Supporting Others and Our Own

At Southwest, community involvement and supporting others, including our own, have been a part of our Culture since we first took flight more than four decades ago. We work with charitable organizations large and small to support them in making a profound and lasting impact in our communities. We support organizations like the American Red Cross to assist communities in need; the Ronald McDonald House to assist families facing serious illnesses; the National League of Cities to strengthen and promote cities as centers of opportunity, leadership, and governance; our own Community Giving Boards to allow our local Employees who know the needs of their community to have a direct impact; and many others. We even have our own nonprofit to help Southwest Employees facing catastrophic circumstances. Every Southwest location and Employee is a part of a community, and we're committed to helping these communities thrive. It's a commitment deeply rooted in our Culture along with the belief that we can use our assets to be a catalyst for positive change.

## 2012 Communities By the Numbers<sup>4</sup>



19,053  
Donation requests received



44,559  
Tickets donated



\$2,104,871  
Southwest total monetary donations



\$20,273,621  
Southwest total value of monetary, in-kind, and ticket donations



137,000+\*  
Employee Volunteer hours

## Encouraging People

Southwest recognizes that true advancements and change are the results of individual efforts. These efforts may be the result of actions by a single person or are the collective actions of people with a common interest. In recognition of this, we actively support all of our unique Customers and our individual Employees in their pursuit of positively impacting their own communities through our outreach programs such as African American Outreach ([southwest.com/africanamericanoutreach](http://southwest.com/africanamericanoutreach)), Asian American Outreach ([southwest.com/asianoutreach](http://southwest.com/asianoutreach)), LGBT Outreach ([southwest.com/glboutreach](http://southwest.com/glboutreach)), and Hispanic Outreach ([southwest.com/hispanicoutreach](http://southwest.com/hispanicoutreach)).

## Make-A-Wish Foundation<sup>®</sup>

As a national cause champion and corporate sponsor, we donated \$1.2 million in travel to the Make-A-Wish Foundation<sup>®</sup> in 2012. Travel wishes are the number one requested wish at Make-A-Wish, and we are pleased that we were able to help make 625 wishes come true for these special children. To further support Make-A-Wish, Jeff Lamb, our Executive Vice President and Chief People and Administrative Officer, joined this philanthropic board in 2012.

## Medical Transportation Grant Program

Through the Southwest Medical Transportation Grant Program (MTGP), we provide complimentary, roundtrip tickets to nonprofit hospitals and medical transportation organizations to assist families who are facing serious illnesses to get the treatment that they need even if it is located in another city. Participating nonprofit hospitals and nonprofit medical transportation organizations each determine how to distribute the tickets to patients and/or caregivers. In 2012, we provided \$2.4 million in free transportation to more than 60 hospitals and organizations nationwide that were selected as recipients in the 2012 MTGP. To learn more about this program, visit [southwest.com/medicalgrant](http://southwest.com/medicalgrant).

## Southwest Airlines Employee Catastrophic Assistance Charity

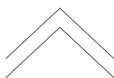
When disaster strikes, whether it affects hundreds of Employees throughout a region or just one, we truly take care of our own. Through fundraisers and payroll deductions, the Southwest Airlines Employee Catastrophic Assistance Charity (SWAECAC) allows Employees to make tax-deductible donations to a collective assistance fund. These funds are dispersed to Coworkers who apply due to a personal crisis or need. In 2012, our Employees collectively contributed a total of more than \$1.2 million to SWAECAC.

## Leading the Way

### Free Hobby

In early 2012, we embarked on a large endeavor, coined “Free Hobby.” Our acquisition of AirTran, recent addition of the 737-800, and ongoing efforts to add international capabilities to the Southwest reservation system put us in a position where we could expand our routes beyond the continental United States. Southwest proposed international service out of William P. Hobby Airport (HOU), which will enable service to Mexico, the Caribbean, and cities in Central and South America pending route approval. Our plan would significantly simulate jobs, economic growth, and air travel in the greater Houston area.

This would be achieved by the construction of a five-gate international terminal at HOU. In addition to the five gates, the concept provides for a Federal Inspection Services facility to accommodate U.S. Customs and Border Protection services.



CEO Gary Kelly celebrates with Employees after the Houston City Council approved an international terminal at Houston Hobby airport.

For additional information about Free Hobby, visit [southwest.com/freehobby](http://southwest.com/freehobby).



This endeavor gave us the opportunity to leverage our Key Contacts Program, which trains Employees to engage their elected officials on issues that matter to us most. Employee engagement came via phone calls, letters, petition signatures, public session speakers, community meeting speakers, and onsite audience support at local events from local Employees, including our own Chairman of the Board, President, and Chief Executive Officer Gary Kelly.

While proud of the support and Leadership our Employees showed, we also were gratified by the support of the communities we serve, which we received in astounding numbers. We were able to obtain signatures from 33,682 Stakeholders from all 50 states for a petition to Free Hobby. Thanks to our Employees, communities, and Stakeholders working together, we were able to obtain Houston City Council approval and have begun the effort to expand the airport for Southwest international services.

### **Military Heroes Month**

With nearly 6,000 Employees either currently serving in the National Guard or Military Reserves or who are veterans, we are proud to support men and women in uniform all year long and recognize our nation's heroes. We have named November "Military Heroes Month," which gives us an opportunity to focus our efforts and make a special effort to demonstrate our appreciation for those who fight for our freedom. In our third annual Military Heroes Month, we partnered with A Million Thanks, Honor Flight, and the Armed Forces Foundation to honor those who have served or are serving.

In 2012, *G.I. Jobs* magazine again named Southwest one of the Top 100 Military Friendly Employers® for our efforts to recruit and retain former and current members of our armed services and reserves. In 2012, Southwest received the Armed Forces Foundation's Sheldon and Miriam Adelson Patriot of the Year Award. The purpose of this award is to

**Every year in the spring and fall Southwest holds nationwide volunteerism campaigns for all Employees to get involved in their local communities.**



make the public aware that its recipient is a company who passionately supports the U.S. military and those who work every day to ensure that our military members and their families never have to go without.

### **Nationwide Volunteerism Campaigns**

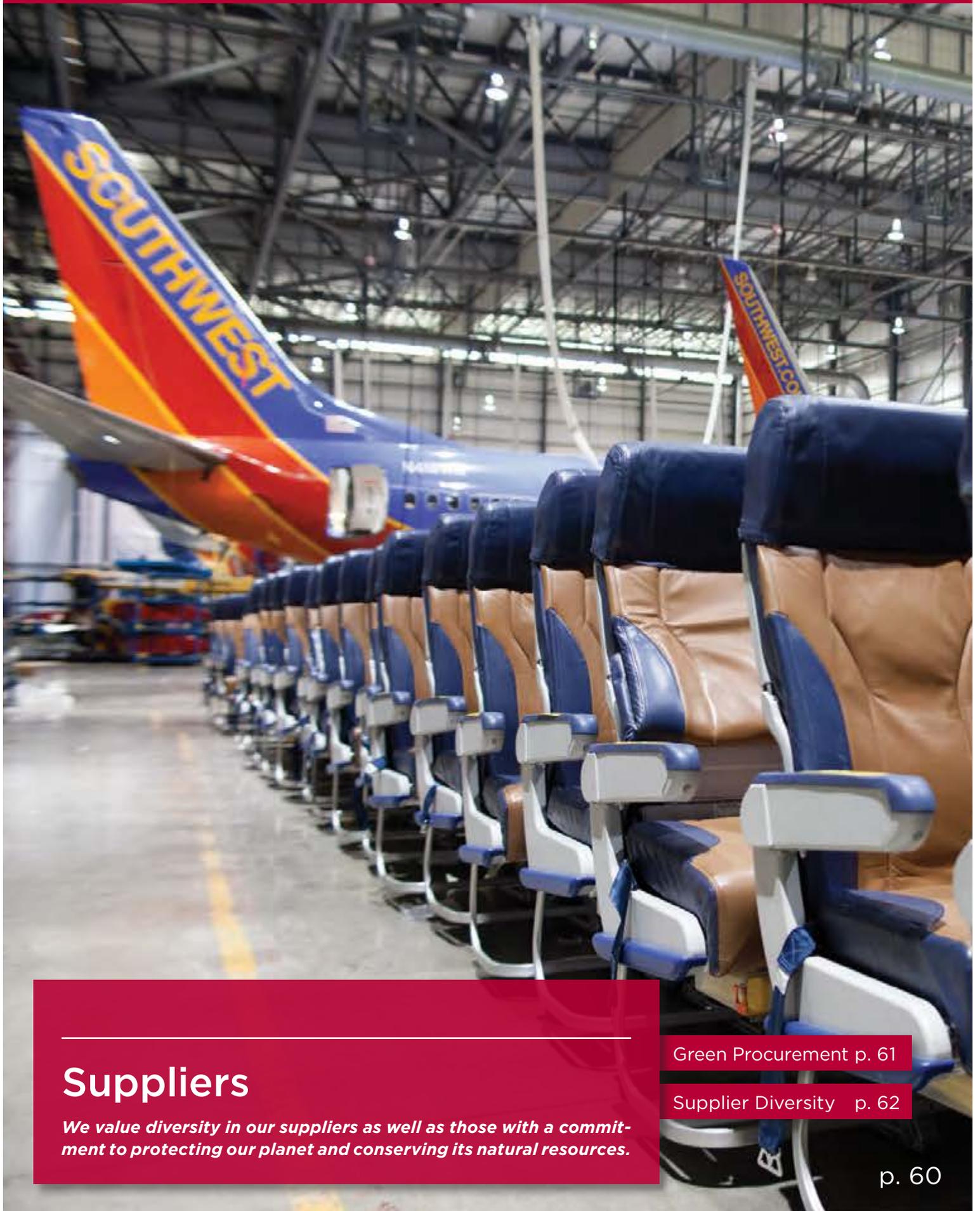
In spring 2012, we challenged all Employees to get involved with a local school. More than 50 cities participated, and, as a result of this challenge, Employees volunteered 2,600 hours to prepare schools for their students and to beautify the grounds. We asked each city that participated to submit a recap of its project, which was then judged on the most creative use of budget, city participation, and what made the project unique and special. The location with the best project received a \$500 donation and four roundtrip tickets to give to the school and further the positive impact already made.

In fall 2012, our Employees hosted a CAN-tastic contest to raise awareness of preparedness and encourage volunteerism during National Disaster Preparedness Month in September. With the impact of Hurricane Sandy in October 2012, we were able to see firsthand the importance of being prepared in the face of disaster. We are proud to announce that more than 350 Employees in 20 cities collected and donated 13,734 pounds of food to local food banks, which will generate 11,195 meals benefiting communities across the nation. The giving back didn't stop there—hundreds of Employees volunteered with first responder organizations such as their food bank or the American Red Cross to learn more about disaster preparedness.

The Employees who participated also competed in a CAN-tastic design contest, which was judged based on the overall combination of volunteer hours, pounds of food collected, and creativity. A cash donation to their local food bank was awarded to the top three cities.

### **Tickets for Time**

Southwest launched the Tickets for Time program in 2010 in order to better support our passionate Employee Volunteers in the communities where they live and work. For every 40 hours one or more of our Employees volunteer for a nonprofit organization, the benefiting organization is eligible to receive one complimentary, roundtrip ticket on Southwest. Through this program, a charitable organization can receive up to six roundtrip tickets in a calendar year. In 2012, our Tickets for Time program generated 1,742 roundtrip tickets\* for charitable organizations nationwide thanks to our Southwest Employee Volunteers.



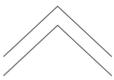
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## Suppliers

*We value diversity in our suppliers as well as those with a commitment to protecting our planet and conserving its natural resources.*

Green Procurement p. 61

Supplier Diversity p. 62



Working with our suppliers is an important part of managing Southwest's triple bottom line.

For more information about our supplier program, visit [southwest.com/suppliers](http://southwest.com/suppliers).

To view our procurement policy, visit [southwest.com/assets/pdfs/corporate-commitments/procurement\\_policy.pdf](http://southwest.com/assets/pdfs/corporate-commitments/procurement_policy.pdf).

Working with our suppliers is an important part of being a good corporate citizen. We partner with our suppliers not only because of the impact they have on the products and equipment we use in the skies, on the ground, and in our offices, but also their impact on our triple bottom line. We build sustainable relationships with our suppliers that take into account diversity, small and minority-owned businesses, environmental aspects, community involvement, human rights, and the highest standards of ethical conduct.

## Green Procurement

At the end of 2012, we began reviewing our existing procurement policy to add sections on green procurement and human rights. We expanded our existing procurement policy to include these sections, effective in 2013. These new additions address the following:

- Green procurement
  - Suppliers comply with applicable environmental legal requirements and regulations.
  - Suppliers have knowledge of the Southwest Environmental Policy, which is now included in our procurement policy.
  - Suppliers maintain an open dialogue with Southwest concerning environmental achievements, trends, and possible areas for improvement.
  - We ask that our suppliers provide environmental-related data upon request. This includes:
    - Use of recycled materials in the manufacturing and packaging of products
    - Current and future activities and/or programs to help reduce impact on the environment

- Documentation of environmental efforts, achievements, and certifications
- Notices of environmental violations from federal, state, and local regulatory agencies
- Our standard request for information encourages suppliers to consider recycled and recyclable materials when selecting materials and design solutions.
- External audits of regulated waste disposal facilities are performed periodically to validate our waste is managed in compliance with all laws and regulations.
- Southwest will give preference to Forest Stewardship Council-certified paper when purchasing certified paper products.
- Human rights
  - All U.S.-based suppliers comply with U.S. federal and state laws regarding child or forced labor.
  - All U.S.-based suppliers comply with U.S. federal and state laws regarding freedom of association and collective bargaining.

Our ongoing discussions with suppliers have led to an increasingly greener supply chain. For instance, FedEx, which handles our shipping needs, works constantly to improve the efficiency of its vehicle and aircraft fleets and its facilities. Our computer supplier, Dell, provides us with electronics manufactured with at least 10 percent post-consumer recycled plastic in many of their enclosures as well as innovative, sustainable packaging materials such as bamboo, designed to be easily recycled or composted. Sourcing for our office supplies through Office Depot has helped us green our procurement process by using minimal packaging material and promoting green products. In 2012, more than 33 percent of items Southwest sourced through Office Depot were recycled or remanufactured items. These suppliers' environmental efforts translate to a greener and more efficient supply chain.

## Supplier Diversity

Southwest values diversity and seeks to create an environment that encourages and supports diversity both in the workplace and within our supplier base. Our Supplier Diversity Program was designed to enable Southwest to extend opportunities to qualified small, disadvantaged, HUBZone, minority, woman, veteran and service-disabled veteran-owned businesses (diverse suppliers). It is the goal of this program to assist diverse suppliers in their development as competitive suppliers of products and services.

Southwest is committed to providing quality diverse suppliers with the opportunity to compete and participate in the procurement process through our Supplier Diversity Program. Our program consists of steps to:

- Actively seek these suppliers
- Maintain an open line of communication
- Make participant information available to internal purchasers
- Continually encourage our major contract suppliers to utilize qualified diverse businesses as strategic alliance partners

### Southwest Headquarters Master Plan

As a result of the acquisition of AirTran and a consolidation of Headquarters and Maintenance functions, we've embarked on what we're calling the Headquarters Master Plan. This project involves:

- Remodeling and densifying our existing, nearly 1 million-square-foot Headquarters building
- Remodeling our existing, approximately 90,000-square-foot Maintenance and Engineering facility and constructing a 113,000-square-foot expansion
- Constructing a new 500,000-square-foot Training and Operations Support building

To offer diverse suppliers greater opportunity, we make it a priority to have at least one diverse supplier bid on every proposal. As a result, in 2012 alone with our major suppliers on the Headquarters Master Plan, we spent more than \$5 million with minority- and/or woman-owned business enterprises. We expect the project to be completed in 2015.

### Love Field Modernization Program

The Love Field Modernization Program (LFMP) grew out of a collaborative effort between Southwest and the City of Dallas to restore the history and update the infrastructure of the Dallas Love Field Airport (DAL). The renovation—which first became open to the public in April 2013 and is expected to be completed in 2014—includes a 20-gate shared concourse, remodeled lobby, new ticketing wing, and expanded baggage claim area. Traffic flow around the airport is also being improved with expanded curbsides and roadways for pickup and drop-off. Through art installations, the modernization of the terminal showcases Dallas' culture and the unique history of the airport. The LFMP also features leading-edge sustainability, as the terminal is being constructed to achieve LEED (Leadership in Energy and Environmental Design) Silver certification for new construction and major renovations under the U.S. Green Building Council. To bolster minority- and women-owned and disadvantaged business enterprises (M/W/DBE) participation, the City of Dallas established a M/W/DBE program and set a goal of 26 percent M/W/DBE participation. Not only has this challenging goal been achieved, but it was exceeded by more than 10 percent—at yearend 2012, approximately 37 percent of LFMP contracts were with M/W/DBEs.



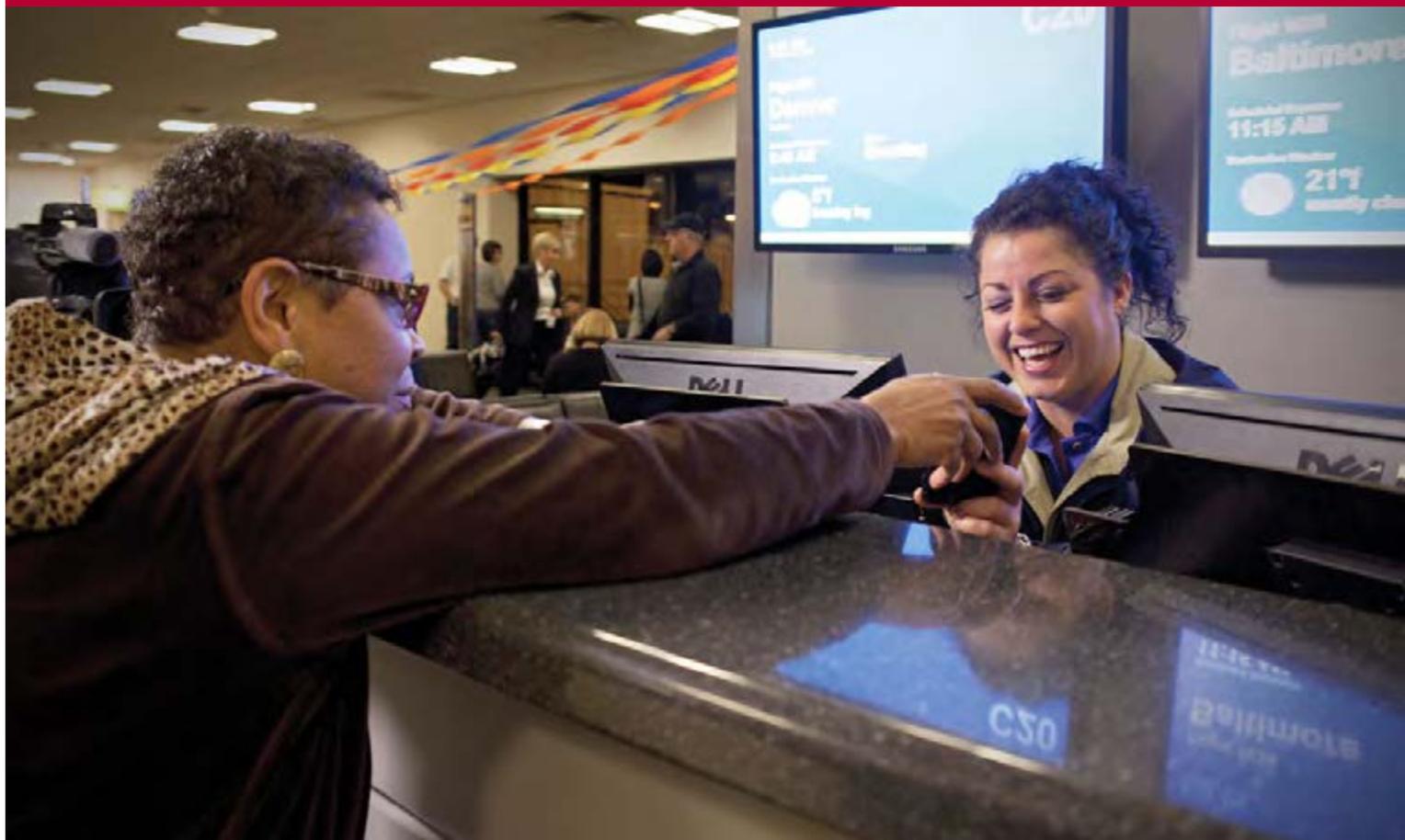
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## Social Management Approach

*We emulate a Culture of LUV for our Stakeholders, treat our Customers like guests in our home, and give back to the communities we serve.*

We understand the powerful impacts that our Company can have on the social systems within which we operate.

Expires the last day of **01/2014**



We build longstanding relationships not only with our Employees, but also with our Customers and communities and look for every opportunity to enhance these relationships for the betterment of all involved. We disclose information regarding our interaction with these groups through the following of the [Global Reporting Initiative Disclosures on Management Approach](#).

## Labor Practices and Decent Work

We encourage creativity and innovation, which, in turn, improves our operational effectiveness and Customer Service. Above all, we offer Employees the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Customer.

### Labor and Employment Law Compliance

Southwest recognizes and strives to adhere to all labor and employment laws wherever we operate, including those respecting freedom of association, privacy, and equal opportunity. Employees are the backbone of Southwest. Therefore, our approach to employment and labor practices is a critical strategy guided by our Executive Vice President and Chief People and Administrative Officer and our General Counsel Department, which includes a section devoted solely to labor and employee relations. We are committed to:

- Seeking talented People
- Maintaining positive labor relations
- Investing in training and educational opportunities to enhance Employees' skills

- Fostering an atmosphere that promotes equal opportunity
- Providing our Employees with a safe and stable work environment
- Maintaining equal opportunity for learning and personal growth

We have a clear vision for our People. We want to protect the job security, prosperity, and wellbeing of all of our Employees. We focus on bringing the best People—with a Warrior Spirit, a Servant’s Heart, and a Fun-LUVing Attitude—into the Southwest Family with a competitive compensation and [benefits](#) package. We then provide a positive working environment, [training](#), and encouragement to help them succeed.

## Safety

Our top priority is to protect the personal Safety of each Southwest Passenger and Employee. After Safety, it’s job security; beyond this, we follow The Golden Rule, meaning we treat others the way we want to be treated, which is why Doing the Right Thing by our Employees and Customers is so inherent to who we are as a Company. Our Safety and Security commitment is to foster and support a Culture that identifies risks to the operation and workplace and strives to proactively deal with these issues before they lead to injuries, accidents, or incidents. We are also committed to advancing Southwest’s Culture of Safety through Employee [training](#) and our Safety and Security Promotions Team, who is dedicated to building Safety awareness within Southwest.

Our Safety and Security commitment can be found at [southwest.com/assets/pdfs/corporate-commitments/safety-commitment-pol.pdf](http://southwest.com/assets/pdfs/corporate-commitments/safety-commitment-pol.pdf).

## Labor Relations

We are proud of our Southwest Culture and the relationships we build with our Employees. We believe communication, transparency, and consistency are keys to fostering strong, long-term relationships, which is one of the reasons why in 2012 we added a Senior Vice President of Labor Relations to focus on these relationships and our Employees. With approximately 83 percent of our Employees represented by unions, we strive to maintain stable relationships with these organizations by having open channels of communication and bargaining in good faith in all matters that involve our Employees.

## Diversity and Inclusion

Building an inclusive environment at Southwest has been a part of our history. Inclusion is about the expanded potential of all who are willing to demonstrate their abilities. With inclusion, Employees feel valued and part of the decision-making process. We have many examples throughout our history where individuals have felt empowered to offer innovative solutions for the Company and our Customers. Some examples of how encouraging an inclusive environment can lead to Employee engagement, higher productivity, workforce retention, openness to thought, and a positive workforce include: our Chief Executive Officer’s Message to the Field, coffee talks with Leaders, town halls, the biennial Employee surveys, OnBoarding efforts, the Culture Committee, the Diversity Council, and more.

At Southwest, our Vice President of Diversity and Inclusion is responsible for providing Leadership, vision, and advocacy as we continue our work to foster an inclusive work environment. This includes coordination and Leadership of our supplier diversity, diversity recruiting, and training efforts as well as involvement with the Diversity Council on our other Matter of Respect initiatives and awareness efforts.

Southwest scored 90 out of 100 in the Human Rights Campaign’s 2013 Corporate Equality Index released in Sept. 2012. This 11th annual report ranks companies based on a survey of 2012 data. The annual Corporate Equality Index serves as a report card for LGBT equality in corporate America and rates more than 680 businesses across the country in

categories such as non-discrimination policies and training, benefits, employee support through diversity councils, and marketing and external engagement.

### ***Diversity***

At Southwest, diversity is more than a word; it is an expression of our operations. A diverse workforce keeps Southwest strong and innovative, and we strive to mirror the communities we serve. Our People are our greatest strength, and they are an amazing group of Employees from different backgrounds and countries. This translates to a rich diversity of ideas, knowledge, and actions, which has made us a consistently profitable airline and has helped to create the Fun-LUVing Southwest Culture for which we are known. Inclusion brings our Company together, and we embrace different perspectives and celebrate those who dare to bring their best forward.

### ***Diversity Council***

In 2012, our Diversity Council refreshed its purpose to align with our evolving Employees, Customers, communities, and Stakeholders. Led by our Vice President of Diversity and Inclusion, the Diversity Council is shifting to develop into an advisory group that provides critical expertise to departments such as Marketing, Culture, and External and Internal Communications and helps drive Company decision-making. The Diversity Council's goal is to build a talented and diverse Leadership Team to leverage Employees' strengths effectively and efficiently.

## **Education and Training**

Southwest is dedicated to the continued education and [training](#) of its Employees and seeks out ways to enhance Employee education.

## **Citizenship Goals**

In 2012, Southwest's Citizenship Committee continued evaluating potential Employee-related goals. We are defining quantitative goals and defining measurements to assess our progress. These goals are:

- Enhance our Culture of Safety and Security through training and education
- Value our Employees by fostering a Culture of learning and recognizing their achievements
- Use our resources responsibly by continuing our green purchasing practices and increasing our recycling tonnage year over year
- Win the hearts and minds of Customers by delivering excellent Customer Service and fostering Customer commitment

In the near future, we will prioritize and establish goals for selected Employee targets and will work to define protocols for collecting and analyzing operational data related to each of these, so we can use future data to improve and monitor Southwest's commitment to the triple bottom line.

Our company policies can be found at <http://southwest.investorroom.com/bylaws-articles-policies>.



## Human Rights

At Southwest, we support the preservation of human rights and are guided by fundamental principles to not only comply with the law at all times, but also to avoid the appearance of impropriety in the actions of our Employees and our business partners. We reflect these principles in various policies and our conduct toward Employees, suppliers, Customers, and the communities we serve.

### Employees

To fulfill our responsibilities to support and respect the protection of human rights within our sphere of influence, we have created and adhere to Company policies defined by our Executive Vice President and Chief People and Administrative Officer and our General Counsel Department. These policies include our commitment to:

- Prohibit child and forced labor
- Prevent any form of harassment, discrimination, or retaliation in the workplace based on race, color, religion, age, sex, sexual orientation, gender identity, pregnancy, marital status, national origin, disability, veteran status, genetic information, or other legally protected statuses
- Respect the right of Employees to associate freely
- Recognize lawful rights of Employees to choose or not choose collective bargaining representation

### Suppliers and Business Partners

Southwest expects our suppliers and business partners to operate in compliance with all applicable laws and regulations, including local environmental, employment, and Safety laws. Read more about our [suppliers](#).

### Training

Southwest conducts training on human rights issues as they relate to harassment, discrimination, or retaliation for all new hires. Human rights training also is available for existing Employees through our *Compliant Leader* training for Leaders and our harassment online learning module. In 2012 alone, our Employees devoted more than 17,000 hours to human rights training, and 20.5 percent of Employees completed the training. We provide guidance for such issues to all Employees through our *Guidelines for Employees*, which can be found on Southwest's intranet, along with our Policy Concerning Harassment, Sexual Harassment, Discrimination, and Retaliation. All Employees are responsible for maintaining a positive working environment—free of discrimination, harassment, retaliation, and hostile, threatening, or intimidating behavior. We feel that following these policies is simply Doing the Right Thing.

Our Policy on Harassment, Sexual Harassment, or Discrimination can be found at <http://southwest.investorroom.com/bylaws-articles-policies>.



**Read about our  
Mission, Vision,  
and Purpose.**



## Product Responsibility

At Southwest, our Mission is to provide the highest quality of Customer Service with a sense of warmth, friendliness, individual pride, and Company SPIRIT.

### Customer Service

At Southwest, we recognize the importance of communicating openly, accurately, and responsibly about our service to our Customers, so they can make informed choices. Our formal Customer Service policies are available to our Customers through our commitments available at [southwest.com/html/about-southwest/index.html](http://southwest.com/html/about-southwest/index.html), click on “Customer Commitments.” Our Customer Service actions are further communicated to our Customers through the use of various media channels or [Customer Feedback](#) opportunities that allow for two-way communication with our Customers.

### Marketing

There is a process in place for our General Counsel Department to review our marketing materials that reach our Customers to comply with applicable regulatory and legal requirements. In 2012, the U.S. DOT issued one consent order relating to AirTran advertising, resulting in a fine.

### Customer Privacy

In 2012, Southwest had no fines for non-compliance with applicable laws and regulations concerning Customer privacy.

## Society

Our Mission, Vision, Purpose, and Culture promote sustaining and respecting our People and our Planet and guide our commitment to society. At Southwest, we conserve and innovate, treat others the way we want to be treated, and strive to Do the Right Thing.

### Community

We remain devoted to each and every community that we serve. Our Employees, Customers, and neighbors all contribute to the Culture of Southwest. We are proud to offer our cities more than just friendly and affordable air service. We provide support—from monetary and in-kind donations to volunteer efforts that come from the heart. Southwest reaches out to provide help to those in need.

We have two Teams, Community Relations and Giving and Community Affairs and Grassroots, dedicated to the goal to make a positive difference by championing the causes that matter most in the communities we serve. By focusing on key areas of strategic giving and by nurturing long-term relationships with national and local organizations, we strengthen our commitment to our [communities](#).

### Avoiding Corruption and Anti-Competitive Behavior

At Southwest, we strive to maintain accountability and transparency of our business practices to reduce or eliminate corruption. We promote vigorous competition that benefits consumers by providing low air fares and a variety of high-quality air service offerings to destinations across the United States.

## Public Policy

We must continually adapt to new laws and regulations. Legislative and regulatory changes have the potential to limit our opportunities for growth, and government policies and legislation can have a deep impact on how we do business. We present our views on these topics to a wide range of policymakers and Stakeholder groups through trade associations and interactions with public officials at the federal level and in the states and communities we serve.

We participate in industry associations such as Airlines for America (A4A) and have developed our own public outreach programs such as our Key Contacts Program and Days on the Hill. Our involvement allows us to gain insight into core issues for the airline industry as a whole and to advocate jointly for regulations that support a healthy, competitive industry. We also benefit from the opportunity to share technical expertise and operational knowledge that leads to better Customer Safety, Service, and overall efficiency.

In 2012, the Company contributed \$2,000 directly to political campaigns at the state or municipal level. No Company funds were used to support political campaigns at the federal level. Also in 2012, A4A, our industry trade association, determined that \$671,021 of the total dues paid by the Company to A4A were nondeductible lobbying expenses.

## Compliance

As a U.S.-based company, it is our policy to comply with all applicable laws, rules, and regulations of the United States and the individual states and municipalities we serve. We do this through numerous policies and procedures, which are regularly reviewed and updated when necessary, and related Employee certifications. In addition, Employees in various operational areas monitor pending regulation, so associated policies and procedures can be modified to maintain compliance as needed.

## Footnotes

- 1) Based on active, full-time equivalent Southwest Employees as of Dec. 31 for specified calendar year. In 2012 and 2011, full-time equivalent AirTran Employees as of Dec. 31 are also included.
  - 2) Flight includes Cabin Service Support, Inflight, and Flight Operations. Ground, Customer, and Fleet Services include Provisioning, Customer Services, Ground Operations, and Operations Coordination Center.
  - 3) 2011, 2010, and 2009 data updated from reported numbers in *2011 Southwest Airlines One Report*<sup>TM</sup> based on a change to the division of our Employees in 2012.
  - 4) Includes AirTran data for calendar year 2012.
  - 5) Includes Southwest's contributions to Employee health and welfare plans, workers compensation insurance, and employer payroll taxes.
  - 6) 2011 data updated from reported number in *2011 Southwest Airlines One Report*<sup>TM</sup> due to the inclusion of AirTran's recurrent training hours when data from AirTran was stated as excluded.
  - 7) 2011 data updated from reported number in *2011 Southwest Airlines One Report*<sup>TM</sup> due to a change in the definition of Safety and Security hours for Flight Attendant training to one that includes only training modules specific to Safety and Security.
  - 8) Includes AirTran data for calendar years 2012 and 2011.
  - 9) Based on active, full-time equivalent Southwest and AirTran Employees as of Dec. 31, 2012.
  - 10) Southwest does not offer defined benefit plans.
  - 11) Based on the Profit Sharing Council of America 2011 survey results.
  - 12) From the 2012 yearend U.S. DOT Air Travel Consumer Report issued February 2013. Top ranking is for Southwest only. AirTran ranked third in the same report.
  - 13) Leading U.S. DOT Customer Satisfaction ranking out of 15 airlines evaluated in 2012.
  - 14) Leading U.S. DOT Customer Satisfaction ranking out of 16 airlines evaluated in 2011.
- \* Metrics revised as of May 20, 2013. Employee Volunteer hours were changed from "more than 118,000" to "more than 137,000." Number of tickets generated from Tickets for Time was changed from "1,507 roundtrip tickets" to "1,742 roundtrip tickets."

# 2012 Southwest Airlines One Report // Planet

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**We believe it's our responsibility to protect our planet and its natural resources while remaining true to our low-cost philosophy.**

We refer to this mindset as operating with a green filter, which is an important part of our building LUV. At Southwest Airlines, we do our part to minimize our impact on the environment by operating efficiently, collecting and analyzing information on our impacts, and continuously improving the actions we take to mitigate those impacts. We continue to analyze data on our fuel consumption, emissions, and resource use and support strategic initiatives that will lead to further greenhouse gas (GHG) emissions reductions in the future. As part of our commitment to protecting our planet, we use resources responsibly, conserve fuel and water, recycle onboard and on the ground, employ green purchasing practices, and implement design and construction practices that meet LEED® (Leadership in Energy and Environmental Design) standards for new construction and building retrofits.

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## PLANET DATA

All data presented in Planet includes AirTran Airways starting in 2012 unless otherwise stated.

	2012 <sup>1</sup>	2011 <sup>2</sup>	2010	2009
<b>Environmental Impacts</b>				
Total energy consumption (megawatt-hours (MWh))	71,571,555	68,368,969 <sup>3,4</sup>	—	—
Jet fuel consumption (gallons)	1.85 billion	1.8 billion	1.4 billion	1.4 billion
Fuel efficiency (available seat miles (ASMs)/gallon)	69.4	68.3	68.5	68.6
Natural gas consumption (therms)	801,000	827,000 <sup>3</sup>	897,000	—
Intensity ratio (therms/Employee)	17	22	—	—
Ground support equipment (GSE) diesel consumption (gallons)	1.79 million	1.78 million	1.75 million	—
GSE gasoline consumption (gallons)	944,000	964,000	698,000	—
Electricity consumption (kilowatt-hours (kWh))	79 million	71 million <sup>4</sup>	72 million	—
Intensity ratio (kWh/Employee)	More than 1,700	Nearly 1,900	More than 2,000	—
Water consumption (gallons)	77 million	79 million	73 million	—
Intensity Ratio (gallons/Employee)	Nearly 1,700	—	—	—
Number of environmental violations resulting in fines	1	0	2	3
Total environmental fines	\$1,500	None	\$603	\$3,689
<b>Greenhouse Gas Inventory</b>				
Scope 1 emissions (metric tons of carbon dioxide equivalent (CO <sub>2</sub> e))	18,232,474	17,417,734 <sup>3</sup>	13,930,902	13,838,695
Scope 2 emissions (metric tons of CO <sub>2</sub> e)	46,783	41,829 <sup>4</sup>	43,960	49,512
Total GHG emissions (metric tons of CO <sub>2</sub> e)	18,279,257	17,459,563 <sup>3,4</sup>	13,974,862	13,888,207
Production activity (revenue Passenger miles (RPMs))	102.9 billion	97.6 billion	78.0 billion	74.5 billion
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 RPM)	0.18	0.18	0.18	0.19
Production activity (ASMs)	128.1 billion	120.6 billion	98.4 billion	98.0 billion
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 ASM)	0.14	0.14	0.14	0.14
Production activity (revenue ton miles (RTMs))	10.4 billion	9.9 billion	7.9 billion	7.6 billion
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 RTM)	1.76	1.77	1.77	1.84
<b>Environmental Conservation</b>				
Total cleaner-burning GSE (pieces of equipment)	More than 1,500	More than 1,300	Nearly 1,100	—
Purchases of renewable energy certificates (kWh)	More than 15.7 million	More than 15.7 million	More than 15.7 million	More than 15 million
U.S. Environmental Protection Agency's <i>FORTUNE 500</i> Green Power Partners ranking	40	37	32	33
<b>Environmental Management System</b>				
Ozone-depleting substances produced or imported	None	None	—	—

	2012 <sup>1</sup>	2011 <sup>2</sup>	2010	2009
<b>Waste Management and Recycling</b>				
Recycled co-mingled waste (paper, plastic, aluminum, and cardboard) <sup>5</sup>	Nearly 2,900 tons	Nearly 2,700 tons <sup>6</sup>	More than 2,500 tons	More than 1,500 tons
Percent increase year-over-year in recycled co-mingled waste	More than 7 percent	More than 6 percent <sup>6</sup>	More than 65 percent <sup>7</sup>	—
Recycled industrial waste	632 tons	515 tons	650 tons	—
Energy recovered from industrial waste (British thermal units (Btu))	More than 8.2 billion	Nearly 5.8 billion	More than 6 billion	5.7 billion
Hazardous waste generated	22 tons	12 tons	16 tons	13 tons
Hazardous waste managed through beneficial use	18 tons	10 tons	15 tons	12 tons
Intensity ratio (pounds of hazardous waste generated/aircraft)	63	44	59	49



## Environmental Impacts

***We voluntarily track our energy and resource use and related emissions to better understand our impact on the environment.***

Understanding how we use energy and resources allows us to focus our conservation efforts on the programs that will most effectively reduce our impact on the planet. We gain this understanding through baseline assessments and continuous tracking of our energy and resource consumption. Specifically, we have tracked jet fuel consumption since our inception, added Companywide electricity and natural gas consumption tracking in 2009, and water usage tracking in 2010. Collecting data on our energy consumption also makes it possible for us to conduct our annual greenhouse gas (GHG) inventory.

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Water Consumption p. 77

GHG Inventory p. 77

Regulatory Compliance p. 81



## Measuring Our Environmental Impact: Energy Use

### 2012 Energy Consumption (MWh)<sup>a</sup>



71,362,072  
Jet fuel



72,575  
Diesel



34,410  
Gasoline



79,348  
Electricity



23,150  
Natural gas

Total:  
71,571,555

In 2011, we began tracking our energy and fuel use based on a single common unit—MWh—for consistency with our response to the CDP (formerly the Carbon Disclosure Project). Converting our consumption of various energy sources to a common unit allows us to add those numbers together for a single number representing our overall energy use. For 2012, our total energy use was approximately 72 million MWh, compared to approximately 68 million MWh in 2011. This increase in energy use can be attributed to our expanded operations with the acquisition of AirTran on May 2, 2011. Energy use numbers for 2012 reflect the first full year of combined operations and data tracking.

### Jet Fuel Consumption

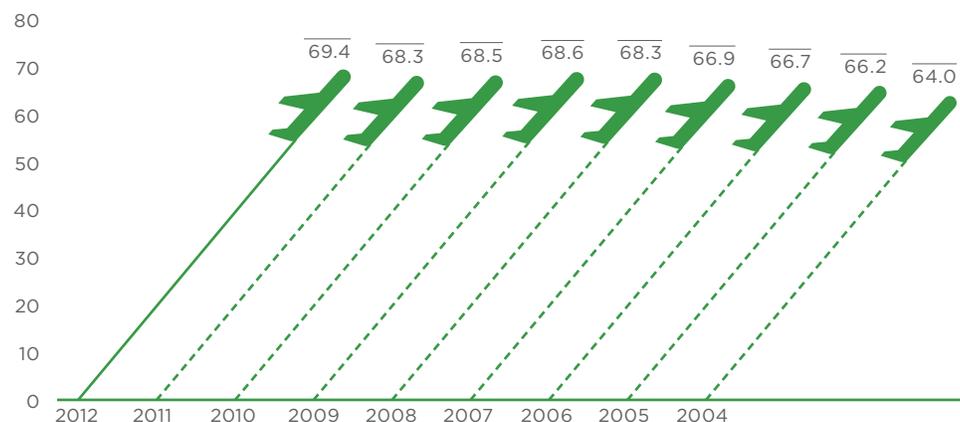
With jet fuel consumption comprising the vast majority of our resource use, tracking the use and conservation of this resource is essential to reducing our impact on the planet. In 2012, Southwest consumed approximately 1.85 billion gallons of jet fuel, and our fuel efficiency improved to approximately 69.4 ASMs per gallon.

ASMs measure an airline's passenger capacity. ASMs are calculated by first multiplying the number of available seats on a flight, occupied and vacant, by the number of miles flown for that particular flight. Then an airline calculates its collective ASMs by adding each individual flight's ASMs for a given time period.

By improving our fuel efficiency from 2011 to 2012, we saved nearly 29 million gallons of jet fuel—that’s equivalent to approximately 4,500 round trip flights between Chicago Midway (MDW) and Las Vegas (LAS).



Historic Fuel Efficiency (ASMs/gallon)



### Natural Gas, Diesel, Gasoline, and Other Fuel Consumption

In addition to jet fuel, we consume several other types of fuel. This includes natural gas consumption in offices, hangars, and other facilities controlled by Southwest and fuels used in GSE. In 2012, we used approximately 801,000 therms of natural gas in 46 Southwest and AirTran-controlled facilities. This equates to approximately 17 therms per Employee.<sup>9</sup> This was approximately 26,000 therms less than our 2011 consumption. Similar to previous years, this reduction can be partially attributed to a mild winter as well as continued efficiencies in our building operations. Our GSE fleet consumed approximately 1.79 million gallons of diesel and approximately 944,000 gallons of gasoline in 2012. A limited number of GSE also consumed propane, liquid petroleum gas, or compressed natural gas. Due to the limited usage of these fuels, which only account for approximately 2 percent of the GSE fleet, and challenges associated with measuring consumption of these fuels, usage numbers for these fuels are not actively tracked.

### Electricity Consumption

Southwest also monitors electricity consumption in facilities where we have primary operational control and pay for these utilities. Our total electricity usage in 2012, including 76 Southwest and AirTran facilities, was approximately 79 million kWh. This equates to approximately 1,700 kWh per Employee.<sup>9</sup> Current data limitations do not allow us to track electricity usage as a function of square footage or Employees associated with the specific facilities measured. However, we plan to continue to evaluate ways to refine our monitoring of electricity consumption as a function of the size of our operations.

### Operational Control

In tracking our energy consumption and related emissions, we include the facilities and assets we control. This includes both facilities owned by Southwest and those under primary control of Southwest. In facilities where we are primarily a tenant rather than an owner, we do not control, monitor, or pay for all utilities utilized. The energy consumption numbers listed here and utilized in our GHG inventory are based upon facilities for which we have primary control and also purchase utilities. The utilities included vary by tenant or lease agreement, which is why the number of Southwest-controlled facilities on which we report varies by utility type.

## Measuring Our Environmental Impact: Water Consumption

Our total water consumption in 2012, based upon the 31 facilities where we pay for water usage, was approximately 77 million gallons. This equates to nearly 1,700 gallons per Employee.<sup>9</sup> All of these facilities receive water from the local municipal water supply. This total does not include canned water served onboard aircraft, which is purchased from a beverage supplier and, therefore, counted in its consumption. The majority of our water consumption is for domestic uses, such as restrooms, by our Employees. A portion of our water usage is process water—including cleanup and equipment and aircraft washing—at our maintenance bases. We also consume water for landscape irrigation at some of our facilities. Compared to other resources, such as jet fuel, water is not consumed at a level considered to be material in Southwest operations.



## Measuring Our Environmental Impact: GHG Inventory

At Southwest, 2012 marks our fourth year of tracking GHG emissions. We measure these emissions by conducting a GHG inventory in accordance with Global Reporting Initiative (GRI) guidelines, a well-recognized industry standard. Since 2009, our GHG inventory shows an increase in the total GHG emissions in tons of CO<sub>2</sub>e each year, but very little change in GHG intensity ratios year over year. The increase in total emissions in 2011 and 2012 is not surprising given our expanded operations with the acquisition of AirTran on May 2, 2011.

When there is a significant change in operations, it is helpful to look at GHG emissions in terms of intensity ratios. Intensity ratios are often referred to as normalized environmental impact data that allow a quantification of the GHG impact per unit of physical activity or unit of economic output. Within the airline industry, parameters that reflect productivity include RPMs, ASMs, and RTMs. Despite the increase in the size of our operations since 2009, our intensity ratios based on these parameters remained approximately the same showing slight decreases in two of the three parameters.

**Despite increases in the size of our operations, our GHG intensity ratios have remained the same or decreased.**



**Our 2012 GHG inventory follows the World Resources Institute's *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*.**



### Comparison of Key Operating Statistics Related to Emissions

Metric	2012 <sup>1</sup>	2011 <sup>2</sup>	2010	2009
Trips Flown	1,361,558	1,317,977	1,114,451	1,125,111
Fuel consumed, in gallons (millions)	1,847	1,764	1,437	1,428
Total GHG emissions (million metric tons CO <sub>2</sub> e)	18.3	17.5	14.0	13.9
ASMs (000s)	128,137,110	120,578,736	98,437,092	98,001,550
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 ASM)	0.14	0.14	0.14	0.14
RPMs (000s)	102,874,979	97,582,530	78,046,967	74,456,710
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 RPM)	0.18	0.18	0.18	0.19
RTMs (000s)	10,411,609	9,871,458	7,914,603	7,555,942
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 RTM)	1.76	1.77	1.77	1.84

We continue to voluntarily track GHG emissions and strive to reduce future emissions while continuing to provide safe, reliable, and affordable air transportation to our Customers. There are no federal, state, or local regulations requiring us to conduct a GHG inventory. We are voluntarily doing so to meet the GRI guidelines and, most importantly, to better understand our impact on the environment. We first began tracking GHG emissions in 2009 to establish a baseline upon which we can measure future performance.

### Inventory Development

Our inventory evaluates the six GHGs recognized under The Greenhouse Gas Protocol as contributing to climate change:

- Carbon dioxide (CO<sub>2</sub>)
- Methane (CH<sub>4</sub>)
- Nitrous oxide (N<sub>2</sub>O)
- Hydrofluorocarbons (HFCs)
- Perfluorocarbons (PFCs)
- Sulfur hexafluoride (SF<sub>6</sub>)

AirTran data has been incorporated into our emissions calculations. The calculations of emissions related to jet fuel, diesel, and gasoline include AirTran data, as do the facility-related emissions calculations—including electricity usage, natural gas usage, and HVAC losses.

Based upon the completeness and precision of the data used for the inventory, we estimate that this inventory is accurate within 5 percent. GHG emissions from some insignificant activities, such as HVAC system losses, are estimated based on an upper-bound assumption of the expected losses that would occur from Southwest facilities. These activities are a very small percentage of our overall GHG emissions. All other GHG emissions, such as those from use of jet fuel and natural gas, are calculated from actual usage records.



### Organizational Boundaries

Organizational boundaries—the degree of an organization’s control over its facilities and equipment—determine the types of GHG emissions that will be included within or excluded from the inventory. In commercial aviation, the majority of the facilities operated by an airline are owned by others and leased by the airline. In this GHG inventory, we are taking the same operational control approach we have used since 2009—including GHG emissions from facilities and assets we control, which includes both facilities owned by Southwest and those under the primary control of Southwest. Examples of facilities under our primary control include Headquarters facilities, aircraft hangars, Customer Support and Services centers, and other airport facilities such as provisioning, cargo, or GSE maintenance locations. Facilities controlled by airport operators, such as terminals shared by multiple airlines, have not been included.

### Operational Boundaries

Operational boundaries identify the types of emission sources that will be included in the GHG inventory. GHG emissions are categorized into operational boundaries to avoid double counting. The classifications are:

- **Scope 1 (direct) emissions** originate from sources owned or controlled by the organization. Our main source of Scope 1 emissions is the combustion of jet fuel; however, we also track the impacts of natural gas combustion, GSE fuel combustion, and HVAC system losses.
- **Scope 2 (indirect) emissions** occur from the generation of imported electricity or steam consumed by the organization.
- **Scope 3 (other indirect) emissions** are the consequences of an organization’s activities but arise from GHG sources not owned or controlled by the organization. Examples of these include Employees commuting to work in personal vehicles and delivery of fuel to Southwest locations.

As with our previous years’ inventories, we have included Scope 1 and Scope 2 emissions in our 2012 GHG inventory. Scope 3 emissions are not included based on our fundamental knowledge that they are insignificant when compared to our Scope 1 emissions and the fact that under The Greenhouse Gas Protocol reporting of Scope 3 emissions is optional.

## GHG Emissions

For preparation of this inventory, we collected data regarding our:

- Aircraft fuel consumption
- GSE fuel consumption
- Purchased electricity in Southwest-controlled facilities
- Natural gas consumption in offices, hangars, and other facilities controlled by Southwest
- Refrigerants emitted from chillers and air conditioning units from Southwest-controlled facilities (i.e. HVAC system losses)

The collected data was converted to GHG emissions using industry-standard factors.

### 2012 GHG Emissions Inventory Breakdown

Operational Boundary	CO <sub>2</sub> (metric tons CO <sub>2</sub> e)	CH <sub>4</sub> (metric tons CO <sub>2</sub> e)	N <sub>2</sub> O (metric tons CO <sub>2</sub> e)	HFCs (metric tons CO <sub>2</sub> e)	PFCs (metric tons CO <sub>2</sub> e)	SF <sub>6</sub> (metric tons CO <sub>2</sub> e)
Scope 1	18,040,851	10,505	177,723	3,395	—	—
Scope 2 <sup>10</sup>	46,589	15	179	—	—	—
Total GHG emissions	18,087,440	10,520	177,902	3,395	—	—

### Historical GHG Emissions Inventory Summary

Operational Boundary	2012 <sup>1</sup> (metric tons CO <sub>2</sub> e)	2011 <sup>2</sup> (metric tons CO <sub>2</sub> e)	2010 (metric tons CO <sub>2</sub> e)	2009 (metric tons CO <sub>2</sub> e)
Aircraft fuel combustion	18,197,935	17,382,945	13,898,333	13,810,014
Natural gas combustion	4,330	4,472 <sup>3</sup>	4,842	4,940
GSE fuel combustion	26,814	26,922	24,332	20,347
HVAC system losses	3,395	3,395	3,395	3,394
Total Scope 1 emissions	18,232,474	17,417,734 <sup>3</sup>	13,930,902	13,838,695
Total Scope 2 emissions	46,783	41,829 <sup>4</sup>	43,960	49,512
Total GHG emissions	18,279,257	17,459,563 <sup>3,4</sup>	13,974,862	13,888,207

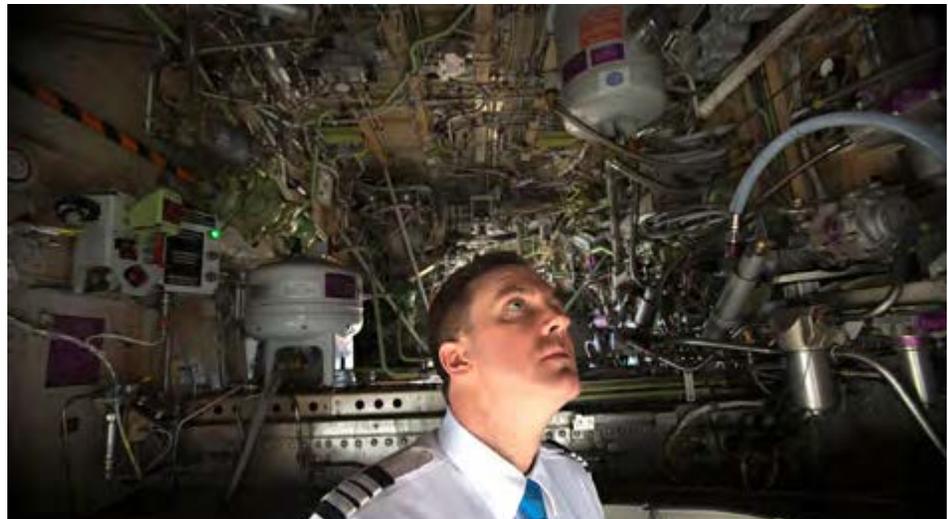
In summary, Southwest's total GHG emissions for 2012 were approximately 18.3 million metric tons of CO<sub>2</sub>e, with more than 99 percent of those emissions coming from aircraft fuel combustion. This was more than our previous years' totals, which was expected given the increase in the size of our operations with the acquisition of AirTran in 2011. Yet, even with the significant changes in the size of our operations, our intensity ratios based on ASMs, RPMs, and RTMs remained approximately the same and have shown slight decreases based on RPMs and RTMs due to Southwest's many efficiency measures discussed throughout the *2012 Southwest Airlines One Report*<sup>TM</sup>.

## Measuring Our Environmental Impact: Regulatory Compliance

Maintaining compliance with all local, state, and federal environmental laws and regulations is fundamental to our environmental policy. We strive to meet our annual goal of zero recorded environmental violations in our operations by maintaining and improving our environmental management system, following procedures, and training our Employees to meet our compliance goals.

We also regularly conduct audits to maintain environmental compliance. Our standard auditing protocol reviews a station's record keeping, permit status, and compliance with requirements of regulatory plans such as Storm Water Pollution Prevention Plans (SWPPP) and Spill Prevention, Control, and Countermeasure (SPCC) Plans. We perform a visual, walk-through inspection to confirm that key compliance practices are enacted in each of the cities we serve. With the acquisition of AirTran in 2011, we expanded our auditing program to include all AirTran locations. We track all audit findings and corresponding corrective action in databases, which also include information about our permits and their expiration dates as well as the spill history for each of our locations.

A Southwest First Officer conducts a preflight check.



### Fines and Sanctions

One of the ways we can measure our impact on the environment is by the number of environmental fines and sanctions we receive. We prepare formal reports for Leadership, in which we track the number of and dollar amount associated with any environmental violations we receive. Our goal is zero environmental violations. In 2012, we fell just short of this goal with one violation with a related fine of \$1,500 related to storage tank requirements.

Year	Number of Violations Resulting in Fines	Total Fines
2012	1	\$1,500
2011	0	None
2010	2	\$603
2009	3	\$3,689
2008	0	None

## Spills

We recognize that spills of chemicals, oils, and fuels can have a significant impact on our planet, so we make every effort to prevent them. However, we acknowledge that despite our best efforts, some spills do happen due to equipment failure or human error. We track our spills using an online spill reporting form. This not only makes it simple for our Employees to report a spill in a timely and accurate manner, but it also provides automatic e-mail distribution to the entire Environmental Services Team upon submittal for quick response and regulatory agency reporting when required. The Environmental Services Team also compiles details from all spills for use by the operating groups to develop spill prevention strategies. Only two of the spill incidents in 2012 required reporting to the National Response Center or other governmental agency. None of the spills were significant, and none required reporting in our financial statements as a liability.

## Noise Reduction

We strive to mitigate noise and be a good neighbor in each of the communities we serve. We do this by ensuring our fleet meets current aircraft noise standards and our operations meet locally established curfews. The addition of winglets to eligible models in our fleet has also resulted in quieter aircraft operations and less noise for surrounding communities. The aircraft that makeup our current fleet are compliant with either the Federal Aviation Administration's (FAA) Stage 3 or Stage 4 standard. The Boeing 737-700s, 737-800s, and 737 MAX aircraft, which will be introduced through our fleet modernization program, will be compliant with Stage 4 standards.

Southwest's Community Garden donates to nearby food banks.



# Environmental Conservation

*Conservation of natural resources is one of the core elements of our environmental policy.*

By conserving resources such as jet fuel, GSE fuel, and electricity, we can minimize the GHG emissions that result from our operations while reducing costs. We also recognize that while we do not use a significant amount of water in support of our operations, we can find ways to be good stewards of this resource.

Emissions Reductions p. 84

Electricity Management p. 86

Water Stewardship p. 86



## Emissions Reductions

As a member of Airlines for America (A4A), we support the A4A climate change commitment and have adopted the A4A's industry-wide goals for fuel efficiency and emissions reductions:

- Continue industry fuel (and, hence, CO<sub>2</sub>) efficiency improvements, resulting in an average annual CO<sub>2</sub> efficiency improvement of 1.5 percent per year on an RTM basis through 2020
- Cap industry-wide CO<sub>2</sub> emissions from 2020 (carbon-neutral growth) subject to critical aviation infrastructure and technology advances achieved by the industry and government
- Contribute to an industry-wide goal of reducing CO<sub>2</sub> emissions by 50 percent by 2050, relative to 2005 levels

At Southwest, we have a number of emissions-reduction projects in place to lessen our impact on the planet, including strategic fleet replacements; refreshing our cabins with *Evo/ve*, our new lighter-weight, recyclable aircraft interior; and building to LEED® standards for design, construction, and renovations. We also conserve fuel when operating our aircraft and GSE and reduce electricity consumption wherever possible.

## Fuel Conservation

Our Employees have a history of Doing the Right Thing, which means looking out for the bottom line by using resources responsibly, controlling costs, and working efficiently. With fuel costs being one of the most significant factors affecting our bottom line, our Employees are passionate about fuel conservation.

**Our most recent conservation efforts have centered on modernization of our fleet as discussed in our Fleet Modernization story.**



Over the years, our fuel conservation programs have contributed to the reduction of our fuel consumption by hundreds of millions of gallons. Historically, each department owned fuel conservation efforts and worked within their Teams to find efficiencies. In 2007, we established a Fuel Team to formalize our fuel conservation efforts and leverage the knowledge and excellent work being done independently by our departments. The Team includes representatives from Flight Operations, Maintenance, Dispatch, Operations Coordination Center, Fuel Management, Ground Operations, Operations Modeling and Research, Strategy and Planning, Environmental Services, Finance, Purchasing, and other operations and support departments. The Fuel Team evaluates not only jet fuel consumption, but also gasoline and diesel usage.

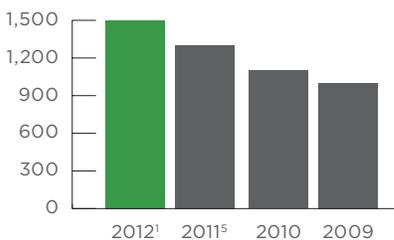
The Fuel Team's responsibilities include:

- Analyzing questions related to fuel consumption, fuel delivery methods, and alternative fuels
- Monitoring, tracking, and ensuring the success of approved fuel cost improvement projects
- Identifying, evaluating, and implementing new ideas to reduce fuel costs
- Reporting on fuel performance against targets

Southwest fuel conservation initiatives that are completed or in progress include:

- Single engine taxi (out and in)
- Revised auxiliary power unit start for originators
- Economy low-altitude flights
- Required Navigational Performance (RNP)
- Best wind routes (flight planning)
- CI 20
- Re-evaluate flight/fuel planning procedures
- Flight plan at cost index (CI)
- Aircraft trim technique
- Weight-saving opportunities on aircraft
- Targeted cold soak fuel restrictions
- Optimum altitude envelope
- Alternate fuels (jet, automotive, and diesel)
- Adjust volume of products onboard
- Economy descent
- Free Trade Zone fuel
- Fleet Modernization
- Flight Management Computer 30 normal landing setting
- 737-300 winglets
- *Evo/ve* aircraft interior
- Aircraft performance monitoring
- -700 winglets
- Optimum take-off flaps
- Contingency fuel
- 3-D aero kits
- Departure turn on-course, acceleration
- Tankering program upgrades
- Engine wash program
- Economy climb
- GSE conversions to electric
- Auto-throttle
- Intermediate level-off speed
- GSE idle timer evaluations
- Adjust ground idle speed
- Vertical navigation on classic fleet
- Economy cruise
- Gate services (pre-conditioned air/400 hertz)

**Number of Cleaner-Burning GSE in Fleet** (pieces of equipment)



**GSE Fuel Conservation Projects**

In 2012, we purchased 17 new pieces of electric GSE and converted 20 belt loaders from diesel to electric power. The purchase of new, cleaner-burning diesel equipment to replace retired equipment combined with the continuation of our GSE diesel-to-electric conversion program brings the total number of cleaner-burning GSE in the combined Southwest and AirTran GSE fleet to more than 1,500 as of yearend 2012. In 2010, we made a commitment to have electric belt loaders and baggage tractors at all new

airports added to our FAA operations specifications where Southwest provides the ground services. Since we made this commitment, we have entered three new markets and added 21 cleaner-burning GSE, yielding reductions in both fuel consumption and GHG emissions. As a result of these programs, we have steadily increased the number of cleaner-burning GSE in our fleet each year since we began tracking this metric in 2009. We saved more than 560,000 gallons of fuel in 2012 and reduced emissions by approximately 5,300 metric tons of CO<sub>2</sub>e through the use of electric, rather than petroleum-powered, GSE. We also realized additional fuel savings and emissions reductions in 2012 from repowering some GSE with new, cleaner-burning diesel engines.

## Electricity Management

In addition to efficient operation of our equipment, we also protect our planet with the efficient operation of our facilities. In facilities that we lease, we are limited in the number of opportunities to retrofit equipment, so we focus our efforts on Southwest-controlled facilities where more significant impacts can be achieved. By tracking our consumption; utilizing renewable energy; and incorporating water- and energy-efficient practices that meet LEED® standards for design, construction, and renovations when remodeling or in construction of new facilities, we are implementing and maintaining projects that effectively reduce the impact of our resource consumption.

In 2012, we continued to audit and track our monthly utility bills and to procure renewable energy certificates through our energy management consultant, Summit Energy Services, Inc. In 2012, we also continued our agreement with Reliant Energy to purchase 30 percent renewable energy for our Dallas and Houston operations. We met our commitment by purchasing more than 15.7 million kWh of wind power in the form of renewable energy certificates. These electricity conservation initiatives are examples of how we are building a sustainable foundation to both conserve and efficiently use electricity.

## Water Stewardship

In 2012, we continued to support our ongoing water conservation projects. These initiatives include new irrigation techniques and a native landscaping initiative at our Headquarters to decrease the amount of water we consume from landscaping. We saw a drop in our overall water consumption from 2011 to 2012 that can be attributed in part to these projects. We also focus on water stewardship through education and outreach to our Employees about the importance and impact of integrating conservation habits into their lives at work and at home.

**We were ranked  
40th<sup>11</sup> on the U.S.  
Environmental  
Protection Agency's  
FORTUNE 500 Green  
Power Partnership list.**





## Environmental Management System

*Our environmental management system helps us review and improve our environmental policies and procedures and meet our environmental goals.*

At Southwest, we use an environmental management system (EMS) to maintain compliance with environmental regulations, foster environmental improvement, and minimize costs and risk. Our EMS ensures adequate plans are in place to address potential environmental impacts, track implementation, check plan progress, and review for continual improvement.

Chemical Management System p. 89



Our environmental policy is the cornerstone of the EMS and is provided in the [Environmental Management Approach](#) section. It requires that all Southwest operating groups and processes be included in the EMS and that we review operations for pollution prevention opportunities and maintain compliance with all local, state, and federal environmental laws and regulations. The goal of this program is to maintain zero environmental violations as tracked through monetary fines assessed.

Implementation of our EMS includes training and communicating with all Southwest operating groups and engaging all Employees. Document control and document sharing are also important elements of effective engagement. Through the EMS, environmental documents and information are available on an internal web site, where Employees have access to standardized, online forms for reporting and emergency response.

As part of our EMS, we also track and monitor data related to our environmental goals and Vision. Since 2007, we have partnered with outside firms to provide third-party assurance of environmental data included in our annual environmental reports. Our One Report includes data on our generation of waste and consumption of jet fuel, natural gas, GSE fuels, electricity, and water. We are committed to tracking the use, recycling, and disposal of these resources as a way to measure both our environmental impacts and the progress of our conservation efforts. Based on this resource use data, we have completed our fourth GHG emissions inventory. External audits of waste disposal facilities are also performed annually to ensure our waste is managed in compliance with all laws and regulations.

In addition to external assurance, we maintain an internal auditing process for all operations in order to check for compliance and continual improvement. We monitor progress and corrective and preventative actions taken through the EMS database.

The Environmental Services Team continually reviews our EMS and provides ideas for improvement with General Counsel Leadership oversight. Changes are approved and implemented on an as needed basis.

## Chemical Management System

Another program encompassed in our EMS is our chemical management system (CMS). At Southwest, we continuously strive to ensure the safe use of chemicals by our Employees when performing their jobs. New chemicals are reviewed for environmental and safety impacts before they are approved for use. Our Chemical Review Board assesses chemicals prior to purchase, and our CMS tracks the use of chemicals in our facilities. The Chemical Review Board—which includes Employees from the Safety, Environmental Services, Purchasing, Hazardous Materials, Engineering, and Aircraft Appearance departments—reviews all requests for new chemicals, and each department represented on the board must approve the chemical before it can be purchased.

One of the most important issues surrounding chemical management is the use of ozone-depleting substances. The ozone layer prevents harmful ultraviolet light from passing through the atmosphere, and the use of these substances can cause a decrease in the total volume of the ozone layer. The only ozone-depleting substances Southwest presently uses are refrigerants found in the HVAC systems of Southwest-operated buildings. In 2012, we estimated that the use of these substances resulted in 3,395 metric tons of CO<sub>2</sub>e emissions based on an upper-bound assumption of the expected losses that would occur from Southwest facilities. We do not produce or import ozone-depleting substances in Southwest operations.



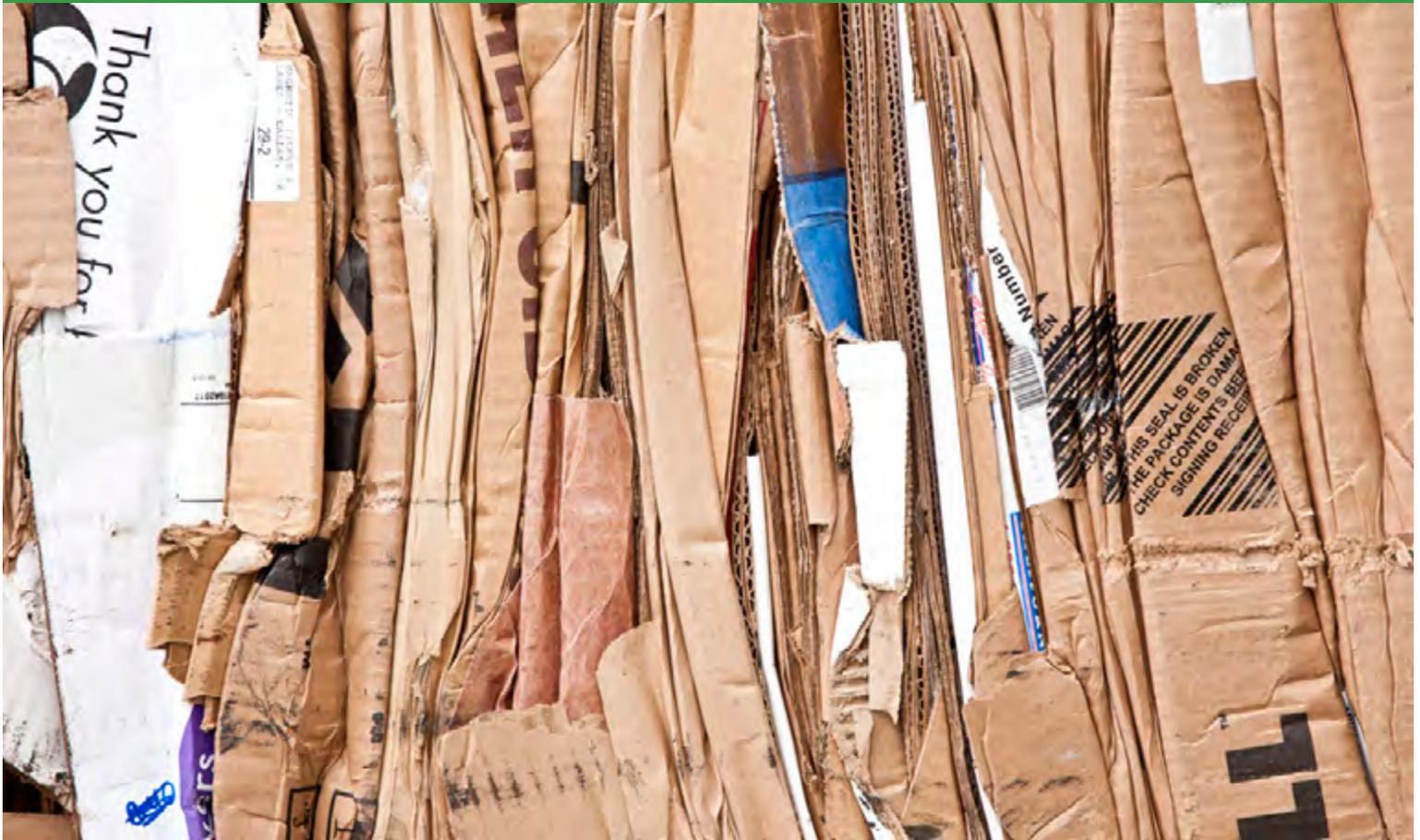
## Waste Management and Recycling

*Efficiency means elimination of unnecessary waste, and we take that meaning to heart.*

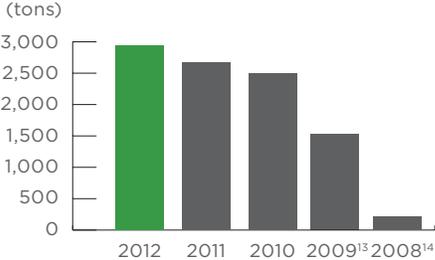
By identifying opportunities to reduce, eliminate, or recover energy from our waste streams, we improve our material management efficiencies and divert a substantial amount of waste material from landfills. Minimizing and eliminating waste is not something Southwest has undertaken alone. By working with the airports we serve, informing our Customers, and carefully selecting our suppliers, we achieve efficiency in the management of our waste. We work with suppliers that have the same environmental values we have. Together, we have implemented active programs to recycle the materials we use both on and off the aircraft to eliminate inefficiencies and excess waste where possible.

Co-Mingled Recycling p. 91

Industrial Waste Management and Recycling p. 92



**Recycling Trends<sup>12</sup>**



**We have diverted more than 9,800 tons of material from landfills since August 2008, which is the equivalent weight of 233 Boeing 737-700 aircraft.<sup>15</sup>**

**Co-Mingled Recycling**

Paper, cardboard, plastic, and aluminum collected onboard our aircraft are recycled through our co-mingled recycling program. The environmental benefits of this program include:

- Reducing waste volume to conserve landfill space
- Minimizing future GHG emissions through the contribution of recycled materials, which can be used to make new products with a smaller carbon footprint
- Preserving raw materials as well as the energy and water required for processing raw materials
- Purchasing renewable energy-fueled equipment such as solar compactors with co-mingled recycling program rebates
- Promoting recycling to our Employees and Customers through education to encourage more recycling not only onboard our aircraft and in the office but also at home

**Measuring Our Environmental Impact: Co-Mingled Recycling**

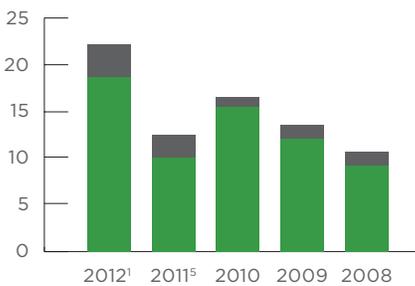
We track our co-mingled recycling program’s success through monthly reports compiled by Republic Services. In 2012, we diverted nearly 2,900 tons of co-mingled waste material from landfills as a direct result of recycling. This was a 7 percent increase over our 2011 quantities, exceeding our goal of a 2.5 percent improvement. We will continue to strive for progress in our recycling program, and in the next several years we aim to continue to increase the quantity of materials recycled onboard our aircraft and in our facilities by 2.5 percent per year for a total of a 10 percent improvement by 2015 over our 2011 levels.

### Breakdown of Industrial Materials Recycled

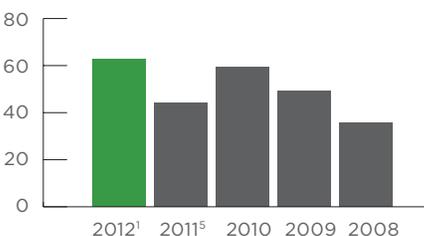


### Total Hazardous Waste Generated and Recycled (tons)

■ Hazardous Waste Not Recycled  
■ Hazardous Waste Recycled



### Hazardous Waste Intensity Ratio (pounds per aircraft)



## Industrial Waste Management and Recycling

### Measuring Our Environmental Impact: Industrial Materials

Maintenance of our aircraft, GSE, and facilities generates industrial waste that could be harmful to our environment if not properly disposed of or recycled. To minimize our impact on the environment, we make every effort to find beneficial reuse options for the industrial waste we generate. In 2012, we recycled approximately 632 tons of industrial waste. This includes both recycling in the traditional sense—processing and remanufacturing materials into new products—and burning waste materials for energy recovery—using industrial waste as a fuel source for non-related production processes such as cement kilns.

Industrial waste we recycle includes:

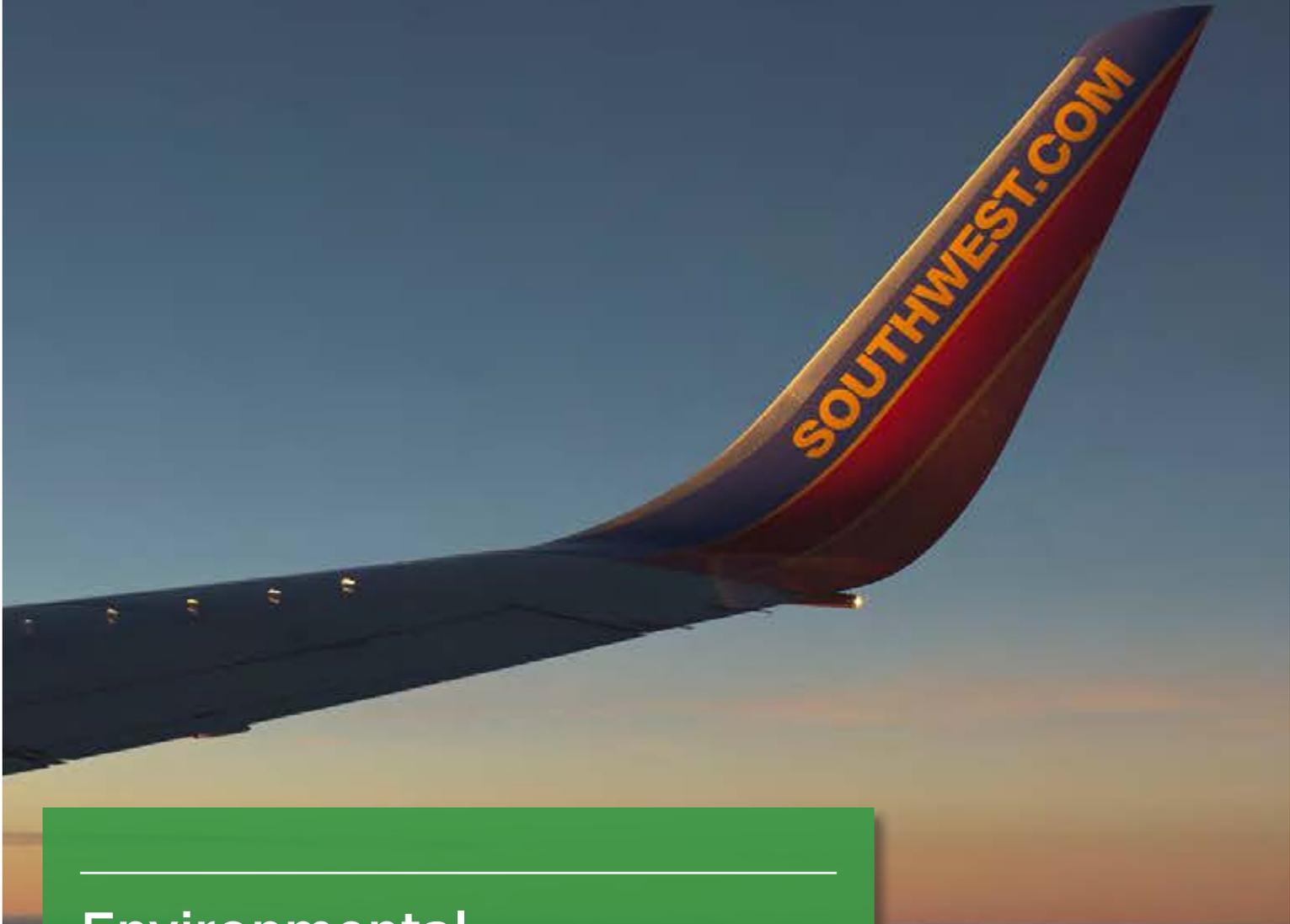
- Antifreeze and aircraft deicing fluid captured from defrosting activities
- Batteries from equipment, vehicles, and GSE
- Electronics, including computers, monitors, and printers
- Fluorescent bulbs and ballasts from facilities and aircraft
- Liquid and solid paint waste
- Off-specification fuel
- Parts washer solvent
- Scrap metal including copper cable
- Used oil and filters
- Adhesives, sealants, and other aircraft maintenance chemicals

In 2012, approximately 36 percent, or 230 tons, of the 632 tons of industrial waste material we recycled during the year was burned for energy recovery. We recovered more than 8.2 billion Btus from materials such as used oil, filters, and liquid and solid paint waste. This energy recovery is equivalent to providing electricity for approximately 188 homes for one year.

### Measuring Our Environmental Impact: Hazardous Waste

A small percentage of our industrial waste, primarily that resulting from specialized aircraft maintenance operations, meets the regulatory definition of hazardous waste, triggering additional storage, record-keeping, and disposal requirements. In 2012, we generated approximately 22 tons of hazardous waste,<sup>16</sup> which included expired or otherwise unusable aircraft maintenance materials such as sealants and adhesives, paint and paint-related waste, parts washer solvent, and metal-treating waste and wastewater.

Of our total hazardous waste generated in 2012, we managed more than 18 tons, or more than 84 percent, through beneficial reuse, recycling, or burning for energy recovery. In 2012, we saw an increase in the total amount of hazardous waste generated by nearly 6 tons compared to 2010 levels. This increase is due to the addition of waste from AirTran operations. Much like emissions or energy use, we also track our year-over-year waste minimization efforts in terms of an intensity ratio. This enables us to monitor performance and evaluate progress as a function of the size of our operations. For 2012, the hazardous waste intensity ratio was approximately 63 pounds per aircraft<sup>17</sup>—a slight increase compared to 2010. As we combine our operations, we will work to continue to reduce the amount of hazardous waste we generate and maximize recycling or reuse of this waste.

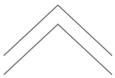


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## Environmental Management Approach

*We are always searching for ways to strengthen our commitment to the environment.*

Southwest recognizes the importance of environmental stewardship. We do our part to minimize our impact on the environment by operating with a green filter, collecting and analyzing information on our impacts, and continuously improving the actions we take to mitigate those impacts. We disclose information regarding our environmental policy and goals through our GRI Disclosure on Management Approach.



Southwest has more than 1,500 cleaner-burning pieces of GSE.

**Our environmental policy is a source for all Employees to understand how they can be a part of our culture of global citizenship.**



## Environmental Policy

Southwest is committed to being a good steward of our planet. We continually look for opportunities to strengthen our environmental programs. In 2012, we updated our environmental policy to include our use of alternative fuels and renewable energy and the performance of external audits of environmental vendors. Southwest has a longstanding commitment to supporting alternative fuels and renewable energy. Similarly, external audits have been part of our environmental compliance programs for the past few years. We have formalized these commitments by making them part of our environmental policy.

All of Southwest's Leaders and Employees are responsible for carrying out this policy by:

- Complying with all environmental laws and regulations
- Striving to meet our annual goal of zero environmental violations in our operations
- Maintaining our environmental management system, following procedures, and training our Employees to meet our compliance goals
- Continuing to improve our performance regarding our environmental goals and initiatives
- Auditing our operations for environmental compliance and implementing corrective actions where needed
- Auditing our environmental vendors to ensure their operations are compliant and they demonstrate a commitment to environmental stewardship
- Providing transparency of our environmental performance to our Stakeholders

- Using natural resources efficiently and using alternative fuels and renewable energy where possible while continuing to meet our operational requirements
- Minimizing waste and pollution from our operations and preventing it where possible, while remaining true to the triple bottom line of Performance, People, and Planet

## Position on Climate Change

At Southwest, we are committed to protecting our planet and reducing our carbon footprint. As a member of A4A, we support A4A's global sectoral approach to aviation climate change under the International Civil Aviation Organization. We also advocate for advancements in critical technology, alternative fuels, air traffic control, energy, and infrastructure to further the airline industry's efforts to conserve energy and reduce GHG emissions. We have adopted A4A's industry-wide goals for fuel efficiency and emissions reductions and understand that it's important for us to continue taking steps to address GHG emissions from our operations.

Over the past decade, at Southwest we have done our part to reduce GHG emissions and improve the fuel efficiency of our fleet by investing more than \$400 million in projects like winglets, engine upgrades, engine washes, use of ground power at airport gates, controlled ground idle speeds, and equipping our fleet with satellite-based RNP to enable our aircraft to fly more efficient routes. However, the biggest opportunity for improvement in emissions reduction and jet fuel conservation rests with the federal government. That is because today's air traffic control system, which is maintained by the FAA, is woefully inefficient. The current system is radar-based and prevents airlines from using fully the advanced capabilities that already exist in modern jet aircraft, such as Southwest's fleet of RNP-equipped Boeing -700 and -800 aircraft.

The FAA is working toward creating a satellite-based Next Generation Air Transportation System (NextGen). Until NextGen is implemented, however, even the most advanced aircraft will be forced to fly inefficient routes. The NextGen system will improve the environmental performance of the industry as a whole by allowing aircraft to fly more directly and efficiently, which will lead to major reductions in emissions, fuel consumption, and flight delays.

In our CDP response, we have identified risks that have the potential to create operational complexities. These risks are divided into two main categories—risks driven by changes in physical climate parameters and risks driven by changes in regulation. Physical risks are those that may arise from extreme weather events, such as tornados and hurricanes, or subtle changes in weather patterns, such as changes in average temperature or precipitation. We recognize that extreme weather events and modified weather patterns may impact airline operations, which could result in impacts to operational and capital costs and ontime performance.

One initiative that we have chosen not to participate in is offering our Customers the ability to purchase carbon offsets from a third party via our website. We feel it is the responsibility of Southwest, not our Customers, to reduce our impact on the environment. If our Customers want to make a positive difference for our planet, we encourage them to make a difference in their communities and the environment by volunteering their time and supporting one of the charitable organizations or community projects we sponsor.

**“NextGen is an umbrella term for the ongoing, wide-ranging transformation of the National Airspace System. At its most basic level, NextGen represents an evolution from a ground-based system of air traffic control to a satellite-based system of air traffic management. This evolution is vital to meeting future demand and to avoiding gridlock in the sky and at our nation’s airports.”**

**—FAA**

## Goals and Performance

Our goals help us measure our efforts to improve our environmental performance. We are developing systemwide commitments related to environmental performance and discuss these throughout this One Report.

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## Organizational Responsibility

While the environmental responsibility reflected in our formal environmental policy is inherent in the Servant's Hearts of our Employees, it's the job of our Environmental Services Department to formally develop environmental policies, programs, and related procedures. Environmental Services works as part of the General Counsel Department and collaborates with all of Southwest's operating departments to maintain compliance with local, state, and federal environmental regulations and manage risk while protecting our planet and our bottom line.

In addition to the department formally responsible for environmental compliance, Employees from each operating group have joined together to collect, share, and implement our environmentally responsible ideas and initiatives. These Employees are known as our Green Team. Similarly, our Green Ambassadors expand the reach of the Green Team by promoting environmental stewardship in the communities we serve. These groups, dedicated to preserving our planet, collaborate to foster Southwest's compliance and mitigation of our environmental impacts. For more information on these groups, read our [Green Filter](#) story.

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## Training and Awareness

Because our commitment to protecting our planet is integral to our operations, the topics of environmental stewardship and sustainability are included in our Employee training. More information on our [Employee training](#) can be found in the People section.

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## Monitoring, Correction, and Preventative Actions

Our procedures related to monitoring, correction, and preventative actions are incorporated into our EMS. Our EMS system is discussed in detail in the [Environmental Management System](#) section.

## Footnotes

- 1) AirTran data is included unless otherwise stated.
- 2) AirTran jet fuel, diesel, and gasoline consumption totals beginning May 2, 2011, are included in Southwest consumption totals. AirTran data is excluded from other Southwest data for 2011 unless otherwise stated.
- 3) This number has been revised since the *2011 Southwest Airlines One Report™* due to a review of natural gas consumption records for 2011.
- 4) This number has been revised since the *2011 Southwest Airlines One Report™* due to a review of electricity usage records for 2011.
- 5) AirTran data not included.
- 6) This number has been revised since the *2011 Southwest Airlines One Report™* to include recycling data from two additional locations that was not available at that time.
- 7) This number has been revised since the *2011 Southwest Airlines One Report™* to match the number reported in the *2010 Southwest Airlines One Report™*.
- 8) Conversions to MWh are based on default densities and heating values from the CDP guidance document, "Technical Note: Conversion of fuel data to MWh."
- 9) Based on active, full-time equivalent Southwest and AirTran Employees as of Dec. 31, 2012.
- 10) GHG emissions from purchased electricity in Southwest- and AirTran-controlled facilities.
- 11) The U.S. Environmental Protection Agency *FORTUNE 500* Green Power Partnership rankings are updated quarterly. Southwest ranked 40th as of Oct. 4, 2012.
- 12) This data includes recycling of paper, plastic, aluminum, and cardboard from aircraft and select facilities as part of the Southwest co-mingled recycling program. Excludes AirTran recycling data.
- 13) We launched our onboard co-mingled recycling program in November 2009.
- 14) We began tracking recycling data in August 2008.
- 15) Based on weight of a Boeing -700 without fuel or passengers.
- 16) Total tons of hazardous waste including that generated at facilities classified as conditionally exempt small-quantity generators and not required to be reported to federal or state agencies.
- 17) Since most of our hazardous waste generation stems from aircraft maintenance and the number of aircraft in our fleet is a good general representation of the size of our aircraft maintenance operations, our hazardous waste intensity ratio for 2012 is based on pounds of hazardous waste generated at controlled facilities divided by the number of aircraft in the fleet as of Dec. 31, 2012, including aircraft acquired from AirTran.



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## Corporate Governance

*We believe being a good corporate citizen means operating with the highest standards of ethics and integrity. Quality corporate governance is a necessary foundation for achieving long-term Shareholder, Employee, and Customer value.*



For further reading on our corporate governance, visit <http://southwest.investorroom.com/governance-guidelines>.



To read our code of ethics, visit <http://southwest.investorroom.com/bylaws-articles-policies>.



At Southwest Airlines, quality corporate governance provides a necessary foundation for our Company’s operations and strategies. Furthermore, we believe being a good corporate citizen requires that we operate with the highest standards of ethics and integrity. We communicate and apply these standards through policies such as our code of ethics, insider trading policy, blackout and pre-clearance procedures, and Foreign Corrupt Practices Act policy and anti-corruption compliance procedures.

## Code of Ethics

Our code of ethics sets forth the expectation that our Employees, Board members, and certain business associates comply with the law, both in letter and in spirit, and specifically addresses matters such as confidentiality, insider trading, competition and fair dealing, payments to government personnel, conflicts of interest, corporate opportunities, safeguarding of Company property, and recordkeeping.

## Insider Trading Policy

Our insider trading policy prohibits our Employees, Board members, and consultants (as well as related persons) from (i) purchasing or selling Southwest securities while in possession of material nonpublic information about our Company, (ii) purchasing or selling securities of another company while in possession of material nonpublic information about that company that has been acquired while in the course of performing services

for our Company, and (iii) communicating material nonpublic information about our Company (or about other companies with which we do business) to others who may trade based on the information.

## Foreign Corrupt Practices Act Policy and Anti-Corruption Compliance Procedures

Our Foreign Corrupt Practices Act policy and anti-corruption compliance procedures apply to our Company, Board members, Employees, agents, consultants, and other business associates and representatives worldwide. They (i) prohibit the making of improper payments directly or indirectly to foreign government officials, foreign political parties or officials thereof, or candidates for foreign political office in order to obtain or retain business or to direct business to any person and (ii) require Southwest to prepare and maintain accurate books, records, and accounts and to devise and maintain an adequate system of internal accounting controls.

## Blackout and Pre-Clearance Procedures

Our Officers, Board members, and selected Employees are subject to quarterly restrictions on trading in Southwest securities during periods surrounding Southwest's release of quarterly earnings. These same individuals are also required to pre-clear all trades in Southwest securities and are subject to additional restrictions on trading in the case of material events that have not been disclosed to the public.

## Acknowledgements

We require all Employees to annually certify receipt and understanding of our code of ethics and insider trading policies. In 2012, more than 46,000 Southwest and AirTran Airways Employees and certain business associates certified receipt of these materials. During 2012, we also distributed our Foreign Corrupt Practices Act policy and anti-corruption compliance procedures to all Company Officers, Senior Leaders of all departments, and select Employees and contractors who are involved with Southwest's financial records and/or international operations. In 2012, more than 4,000 individuals received and completed a compliance questionnaire regarding the Foreign Corrupt Practices Act.

## Auditing Procedures

We also employ robust auditing procedures to analyze and monitor business activities, which further enhance our ability to maintain high ethical standards. We continually review our systems to provide transparency and accountability, and we update our corporate governance policies when needed.

To view a list of our current Company Officers, visit <http://southwest.investorroom.com/company-officers>.

To view a current list of our Board of Directors, visit <http://southwest.investorroom.com/board-of-directors>.

To read more about our five standing committees, visit <http://southwest.investorroom.com/board-committees>.

## Southwest Leadership

At Southwest, our Senior Leadership includes our Board of Directors, Officers, and other Senior Leaders. Our Board currently has ten members, all of whom are considered independent with the exception of our Chairman of the Board. The Board has five standing committees to help it fulfill its responsibilities, four of which are composed solely of independent members of the Board. At Southwest, our Board of Directors must meet high qualification standards.

### 2012 Board of Directors (as of Dec. 31, 2012)

#### **David W. Biegler**

Chairman, President, and Chief Executive Officer  
Southcross Energy Partners GP, LLC (midstream natural gas company)  
Retired Vice Chairman of TXU Corp.  
Audit Committee, Compensation Committee (Chair), and Safety and Compliance Oversight Committee

#### **J. Veronica Biggins**

Managing Director  
Diversified Search LLC (executive and board search firm)  
Compensation Committee

#### **Douglas H. Brooks**

Chairman of the Board, President and Chief Executive Officer  
Brinker International, Inc. (casual dining restaurant company)  
Nominating and Corporate Governance Committee

#### **William H. Cunningham, PhD (Presiding Director)**

James L. Bayless Chair for Free Enterprise  
The University of Texas at Austin Red McCombs School of Business  
Former Chancellor of The University of Texas System  
Audit Committee, Nominating and Corporate Governance Committee (Chair), and Executive Committee

#### **John G. Denison**

Former Chairman of the Board  
Global Aero Logistics Inc. (diversified passenger airline)  
Audit Committee, Safety and Compliance Oversight Committee (Chair), and Executive Committee

#### **Gary C. Kelly**

##### **Chairman of the Board**

Chairman of the Board, President, and Chief Executive Officer  
Southwest Airlines Co.  
Executive Committee (Chair)

#### **Nancy B. Loeffler**

Consultant for Frost Bank and member of the Frost Bank Advisory Board  
Long-time advocate of volunteerism  
Compensation Committee

#### **John T. Montford**

President and Chief Executive Officer  
JTM Consulting, LLC  
Audit Committee (Chair), Compensation Committee, and Nominating and Corporate Governance Committee

**Thomas M. Nealon**

Former Group Executive Vice President  
J.C. Penney Company, Inc. (retail company)  
Nominating and Corporate Governance Committee and Safety and Compliance Oversight  
Committee

**Daniel D. Villanueva**

Partner  
Rustic Canyon/Fontis Partners, LP (private equity firm)  
President of The Villanueva Companies  
Compensation Committee and Safety and Compliance Oversight Committee

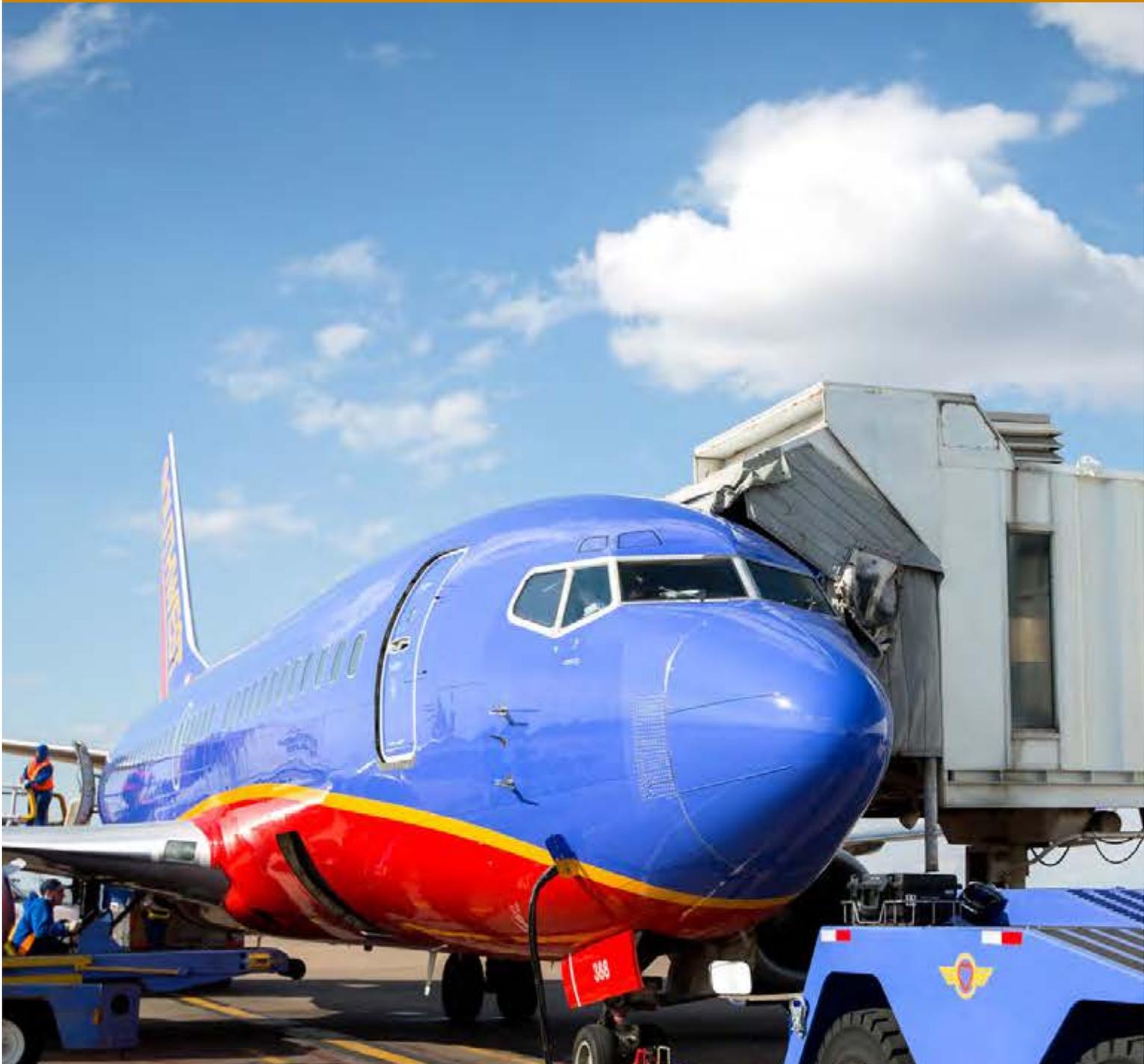
**Honorary Designations**

**Herbert D. Kelleher**

Chairman Emeritus  
Southwest Airlines Co.

**Colleen C. Barrett**

President Emeritus  
Southwest Airlines Co.



## Global Reporting Initiative and CDP

*It's important to Southwest Airlines that we're transparent with our Stakeholders, so we use the Global Reporting Initiative (GRI) and CDP—two internationally recognized frameworks for communicating and managing our integrated reporting and data.*

Overview p. 104

GRI and CDP Index p. 105

External Assurance p. 111

This is our second year integrating both the GRI and the CDP (formerly the Carbon Disclosure Project) into the *Southwest Airlines One Report*<sup>TM</sup>. While GRI is a framework for sustainability reporting that allows organizations the opportunity to measure and report their economic, social, and environmental efforts in a consistent manner, CDP is a framework that allows respondents to effectively manage their environmental risks, focusing on greenhouse gas emissions and climate change strategies. We voluntarily report to both the GRI and the CDP. Both organizations invite reporting on climate change, and we at Southwest coordinate frameworks for a more efficient reporting process. Using this guidance, we publish a combined GRI and CDP index that depicts our GRI responses alongside the corresponding CDP<sup>1</sup> responses for calendar year 2012.

## GRI

The 2012 *Southwest Airlines One Report*<sup>TM</sup> conforms to the principles outlined in the GRI *Sustainability Reporting Guidelines* version 3.0 (G3) and fully complies with the GRI's B+ application level. The GRI is a voluntary, internationally recognized framework for sustainability reporting that allows organizations the opportunity to measure and report their economic, social, and environmental efforts in a consistent manner. The GRI also offers a variety of application levels that show the extent to which G3 guidelines have been applied throughout the report and provide guidance on how organizations can continuously improve their reporting.

Learn more about the GRI at [globalreporting.org](http://globalreporting.org).



Report Application Level	C	C+	B	B+	A	A+
<b>Standard Disclosures</b> G3 Profile Disclosures OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15		Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17		Same as requirement for Level B	
G3 Management Approach Disclosures OUTPUT	Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured
G3 Performance Indicators & Sector Supplement Performance Indicators OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	

\*Sector supplement in final version

As Southwest's fourth One Report, the 2012 One Report illustrates our continued steadfast focus on the triple bottom line—our Performance, our People, and our Planet—which allows us to be America's Favorite Low-Cost Airline. The 2012 One Report represents Southwest's operations for calendar year 2012, unless otherwise stated, and covers only those business activities for which Southwest generally has complete control or ownership.

This report does not include facilities primarily controlled by others, such as airport terminal space or outsourced or subcontracted facilities.

To develop the 2012 One Report, we increased our scope, boundary, and measurement methods used to include the AirTran Airways acquisition. In 2012, we worked diligently to integrate AirTran data with Southwest data where available and feasible. AirTran data is included unless otherwise stated.

Learn more about the CDP at <http://cdproject.net>.



## CDP

The 2012 One Report will serve as a template for responding to the Investor CDP 2013 Information Request. The CDP works to transform the way the world does business to address climate change and protect natural resources through communication and education. Companies who measure their environmental risk through the CDP questionnaire are better able to manage it strategically and compare their risks to others. Organizations that are transparent and disclose this information are providing decision makers with access to a critical source of global data. Since 2009, we have voluntarily responded to the Investor CDP Information Request and, again, in the 2012 One Report, we have shown our Shareholders and other Stakeholders how our own GRI index and CDP responses correlate.

## GRI and CDP Index

Profile Disclosures		Page	Corresponding CDP Question <sup>2</sup>
<b>1. Strategy and Analysis</b>			
1.1	Statement from the most senior decision-maker of the organization.	<a href="#">Gary's Message</a>	
1.2	Description of key impacts, risks, and opportunities.	<a href="#">Gary's Message</a> , <a href="#">Performance</a> , <a href="#">Environmental Management Approach</a>	
<b>2. Organizational Profile</b>			
2.1	Name of the organization.	<a href="#">Front Cover</a>	
2.2	Primary brands, products, and/or services.	<a href="#">Performance</a> , <a href="#">2012 U.S. Securities and Exchange Commission Form 10-K</a>	
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	<a href="#">2012 U.S. Securities and Exchange Commission Form 10-K</a>	
2.4	Location of organization's headquarters.	<a href="#">Our Mission and Contact Us</a>	
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	<a href="#">30,000-Foot View, Building LUV, 2012 U.S. Securities and Exchange Commission Form 10-K</a>	

Profile Disclosures		Page	Corresponding CDP Question <sup>2</sup>
2.6	Nature of ownership and legal form.	<a href="#">Corporate Governance</a>	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	<a href="#">30,000-Foot View, Building LUV</a>	
2.8	Scale of the reporting organization.	<a href="#">Performance, 2012 U.S. Securities and Exchange Commission Form 10-K</a>	
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	<a href="#">Performance, 2012 U.S. Securities and Exchange Commission Form 10-K</a>	
2.10	Awards received in the reporting period.	<a href="#">Awards and Accolades</a>	
<b>3. Report Parameters</b>			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	<a href="#">GRI and CDP</a>	
3.2	Date of most recent previous report (if any).	<a href="#">GRI and CDP</a>	
3.3	Reporting cycle (annual, biennial, etc.).	<a href="#">GRI and CDP</a>	
3.4	Contact point for questions regarding the report or its contents.	<a href="#">Our Mission and Contact Us</a>	
3.5	Process for defining report content.	<a href="#">GRI and CDP</a> , addressed throughout the report	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	<a href="#">GRI and CDP, 30,000-Foot View, Building LUV</a>	
3.7	State any specific limitations on the scope or boundary of the report.	<a href="#">GRI and CDP</a> , addressed throughout the report	
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	<a href="#">GRI and CDP, Performance</a>	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI indicator protocols.	<a href="#">GRI and CDP</a> , addressed throughout the report	
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement.	<a href="#">People Data, Planet Data, GHG Inventory</a>	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	<a href="#">GRI and CDP</a> , addressed throughout the report	
3.12	Table identifying the location of the standard disclosures in the report.	<a href="#">GRI and CDP Index</a>	
3.13	Policy and 2012 practice with regard to seeking external assurance for the report.	<a href="#">External Assurance</a>	Q8.6, Q8.6a, Q8.6b, Q8.7, Q8.7a, Q8.7b

Profile Disclosures		Page	Corresponding CDP Question <sup>2</sup>
<b>4. Governance, Commitments, and Engagement</b>			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	<a href="#">Corporate Governance, 2013 Proxy Statement</a>	
4.2	Indicate whether the chair of the highest governance body is also an executive officer.	<a href="#">Corporate Governance</a>	
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	<a href="#">Corporate Governance</a>	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	<a href="#">Corporate Governance, Our Mission and Contact Us, Engagement and Recognition, Customer Feedback, 2013 Proxy Statement</a>	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance (including social and environmental performance).	<a href="#">Engagement and Recognition, 2013 Proxy Statement</a>	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	<a href="#">Corporate Governance, 2013 Proxy Statement</a>	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	<a href="#">Corporate Governance, 2013 Proxy Statement</a>	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	<a href="#">Financial Management Approach; Social Management Approach; Environmental Management Approach; Our Mission and Contact Us</a>	
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	<a href="#">Financial Management Approach, Social Management Approach, Environmental Management Approach, 2012 U.S. Securities and Exchange Commission Form 10-K</a>	Q1.1, Q1.1a, Q2.1, Q2.1a, Q2.2, Q2.2a, Q2.3, Q2.3a
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	<a href="#">Corporate Governance, 2013 Proxy Statement</a>	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Addressed throughout the report	
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Addressed throughout the report	

Performance Indicators		Page	Corresponding CDP Question <sup>2</sup>
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: has positions in governance bodies, participates in projects or committees, provides substantive funding beyond routine membership dues, or views membership as strategic.	Addressed throughout the report	
4.14	List of stakeholder groups engaged by the organization.	Addressed throughout the report	
4.15	Basis for identification and selection of stakeholders with whom to engage.	Addressed throughout the report	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	<a href="#">Corporate Governance, Our Mission and Contact Us, Engagement and Recognition, Customer Feedback, 2013 Proxy Statement</a>	
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded to those key topics and concerns, including through its reporting.	Addressed throughout the report	

Disclosures on Management Approach (DMAs)		
DMA EC	Discuss management approach to performance, market presence, indirect economic impacts as they relate to overall management policies, goals, and performance.	<a href="#">Financial Management Approach</a>
DMA EN	Discuss management approach to overall environmental metrics such as materials, energy, water, emissions, compliance, and transport as they relate to specific goals, policy, and performance.	<a href="#">Environmental Management Approach</a>
DMA LA	Discuss management approach to employment, labor/management relations, health and safety, training and education, diversity, and equal opportunity as they relate to overall management policies, goals, and performance.	<a href="#">Social Management Approach</a>
DMA HR	Discuss management approach to non-discrimination, collective bargaining, abolition of child labor, prevention of forced labor, complaints and grievance practices, and security practices as they relate to overall management policies, goals, and performance.	<a href="#">Social Management Approach</a>
DMA SO	Discuss management approach to community, corruption, public policy, anticompetitive behavior, and compliance as they relate to overall management policies, goals, and performance.	<a href="#">Social Management Approach</a>
DMA PR	Discuss management approach to customer health and safety, service labeling, marketing communications, and customer privacy as they as they relate to overall management policies, goals, and performance.	<a href="#">Social Management Approach</a>

Performance Indicators			
Economic			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	<a href="#">Performance, Employees, Communities, 2012 U.S. Securities and Exchange Commission Form 10-K</a>	
EC2	Financial Implications and other risks and opportunities for the organization's activities due to climate change.	<a href="#">Environmental Management Approach</a>	Q5.1, 5.1a, 5.1b

Performance Indicators		Page	Corresponding CDP Question <sup>2</sup>
EC3	Coverage of the organization's defined benefit plan obligations.	<a href="#">Benefits</a>	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	<a href="#">Communities, People Data</a>	
<b>Environmental</b>			
EN3	Direct energy consumption by primary energy source.	<a href="#">Energy Use, GHG Inventory, Planet Data</a>	Q12.2, Q12.3
EN4	Indirect energy consumption by primary source.	<a href="#">Energy Use, GHG Inventory, Planet Data</a>	Q12.2
EN5	Energy saved due to conservation and efficiency improvements.	<a href="#">Emissions Reductions, Energy Use, Planet Data</a>	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	<a href="#">Emissions Reductions</a>	Q3.2
EN8	Total water withdrawal by source.	<a href="#">Water Consumption, Planet Data</a>	
EN16	Total direct and indirect greenhouse gas emissions by weight.	<a href="#">GHG Inventory, Planet Data</a>	Q7.1, Q7.2, Q7.3, Q7.4, Q8.1, Q8.2, Q8.3, Q8.5
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	<a href="#">Emissions Reductions</a>	Q3.3, Q3.3a, Q3.3b, Q3.3c
EN19	Emissions of ozone-depleting substances by weight.	<a href="#">Environmental Management System</a>	
EN23	Total number and volume of significant spills.	<a href="#">Regulatory Compliance</a>	
<b>Social: Labor Practices and Decent Work</b>			
LA1	Total workforce by employment type, employment contract, and region.	<a href="#">People Data</a> , addressed throughout the report	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	<a href="#">Benefits</a>	
LA4	Percentage of employees covered by collective bargaining agreements.	<a href="#">Social Management Approach, People Data</a>	
LA10	Average hours of training per year per employee by employee category.	<a href="#">Training, People Data</a>	
<b>Social: Human Rights</b>			
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	<a href="#">Social Management Approach, People Data</a>	
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	<a href="#">Social Management Approach</a>	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	NA	

Performance Indicators		Page	Corresponding CDP Question <sup>2</sup>
<b>Social: Society</b>			
SO2	Percentage and total number of business units analyzed for risks related to corruption.	<a href="#">Corporate Governance</a>	
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	<a href="#">Corporate Governance</a>	
SO5	Public policy positions and participation in public policy development and lobbying.	<a href="#">Social Management Approach</a>	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions.	<a href="#">Social Management Approach, People Data</a>	
<b>Social: Product Responsibility</b>			
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	<a href="#">Customers, Social Management Approach</a>	

## Footnotes

- 1) CDP responses for calendar year 2012 are due in May 2013, after the release of the 2012 One Report.  
 2) Investor CDP 2013 Information Request.



May 3, 2013

Southwest Airlines Co.  
HDQ-1PR  
2702 Love Field Drive  
P.O. Box 36611  
Dallas, TX 75235-1611

Burns & McDonnell Engineering Inc.  
Assurance Statement for *2012 Southwest Airlines One Report*™

Southwest Airlines:

Burns & McDonnell Engineering Inc. (Burns & McDonnell) was retained by Southwest Airlines Co. (Southwest) to verify and provide external assurance that the *2012 Southwest Airlines One Report*™ (2012 One Report) provides a balanced view of Southwest's triple bottom line profile for the reporting period and includes accurate data and information in line with the principles outlined in the Global Reporting Initiative (GRI) *Sustainability Reporting Guidelines* version 3.0. The purpose of this assurance engagement was to:

1. Assure the 2012 results of the Southwest GRI profile disclosures, disclosures on management approach, and performance indicators contained in the 2012 One Report, including both qualitative and quantitative data.
2. Review the 2012 One Report to ensure Southwest has utilized the GRI G3 sustainability reporting framework to achieve a B+ application level.

In addition to the assurance of the GRI profile disclosures, disclosures on management approach and performance indicators, Burns & McDonnell also reviewed and assured additional 2012 material metrics and accomplishments presented in the 2012 One Report with the exception of information presented in Southwest's Annual Report on Form 10-K for year ended Dec. 31, 2012 and Southwest's 2013 Proxy Statement. The financial statements included in the 2012 Form 10-K have been audited by the company's independent auditor.

In order to complete external assurance of the 2012 One Report, Burns & McDonnell independently interviewed Southwest employees; obtained, analyzed and verified data; and conducted independent industry research and benchmarking to substantiate and support the statements contained in the report. The content, structure and presentation of the report were reviewed against the GRI guidelines to ensure conformation, and Burns & McDonnell utilized the *AA1000 Assurance Standard 2008* as frame of reference for assuring the report.

This review determined that Southwest has a systematic, documented, evidence-based reporting process in place. The 2012 One Report includes responses to a minimum of 20 performance indicators with at least one from each of the economic, social and environmental categories as well as addresses the required GRI profile disclosures and disclosures on management approach. The 2012 One Report provides a reasonable and balanced presentation of Southwest's triple bottom line performance.

To the best of our knowledge, we have found that Southwest has satisfactorily applied the GRI sustainability reporting framework. The content provided for the 2012 One Report meets the content and quality requirements of the GRI Sustainability Reporting Guidelines version 3.0 B+ application level.

Sincerely,

Candice Derks, LEED AP, GRI Certified  
Project Manager, Environmental Group  
Burns & McDonnell

### Our Purpose

Connect people to what's important in their lives through friendly, reliable, and low-cost air travel

### Our Vision

To become the World's Most Loved, Most Flown, and Most Profitable Airline



## Our Mission

The Mission of Southwest Airlines is dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.

### To Our Employees

We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest. Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.

### To Our Communities

We have a passion to give back from the heart in the communities where we live and work. Bringing people together, inspiring change, and making a difference in people's lives—it's all part of being a good neighbor. We give back to our communities not only with our time and donations, but by supporting global and national nonprofit organizations, championing our own Southwest giving programs, and encouraging individual Employees and community members to volunteer and advocate for the causes they believe in most.

### To Our Planet

We strive to be a good environmental steward across our system, and one component of our stewardship is efficiency, which, by its very nature, translates to eliminating waste and conserving resources. Using cost-effective and environmentally beneficial operating procedures (including facilities and equipment) allows us to reduce the amount of materials we use and, when combined with our ability to reuse and recycle material, preserves our resources.

### To Our Stakeholders

Southwest believes in a sustainable future where there will be a balance in our business model between Shareholders, Employees, Customers, and other Stakeholders. In order to protect our world for future generations and uphold our commitments, we will strive to lead our industry in profitability, efficiency that conserves natural resources, fostering a creative and innovative workforce, and giving back to the communities in which we live and work.

For questions related to our 2012 Southwest Airlines One Report™, including our commitment to our Performance, our People, and our Planet, please e-mail [green@wnco.com](mailto:green@wnco.com). For more information on our citizenship efforts, visit [southwest.com/citizenship](http://southwest.com/citizenship).



## Contact Us

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### To offer Customer feedback:

- E-mail us through our web site at [southwest.com/help/customer\\_service.html](http://southwest.com/help/customer_service.html).
- Reply to a blog post on Nuts about Southwest at [blogsouthwest.com](http://blogsouthwest.com).
- Post a message on our Facebook wall at [facebook.com/Southwest](http://facebook.com/Southwest).
- Tweet us at [twitter.com/SouthwestAir](http://twitter.com/SouthwestAir).
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