GARY’S MESSAGE

We credit our success to our Employees, who are our most valuable asset and our competitive advantage.

May 4, 2011

To our Stakeholders:

For the U.S. airline industry, the first decade of this century will forever be known as the “lost decade”—fewer passengers, fewer flights, fewer airplanes, and fewer aviation jobs. Faced with the worst economic recession in aviation history, a worldwide credit crisis, and astronomical jet fuel prices, the airline industry endured billions of lost dollars and numerous bankruptcies and liquidations. And yet, while not immune to the economic collapse, brutal competition, and energy price volatility, Southwest Airlines prevailed. We emerged from the worst decade in aviation history without bankruptcy, without furloughs, without pay cuts, and without degradation of our Customer Experience. We even conquered a feat unmatched in U.S. aviation history, with 2010 marking our 38th consecutive year of profitability. What a tremendous accomplishment for our hard-working, high-spirited Employees.

At Southwest Airlines, we chose not to be a victim of the “lost decade” but rather be motivated by our passion. Our passion and focus on the triple bottom line—Performance, People, and Planet—continues to propel us forward. Our 2010 Southwest Airlines One Report™ expands on our accomplishments from our award-winning 2009 Southwest Airlines One Report™ and further adheres to the Global Reporting Initiative (GRI), an internationally recognized standard for triple bottom line reporting. The 2010 One Report fully complies with the GRI’s B+ application level, and we are excited to feature an enhanced, microsite format for the 2010 One Report.
GARY’S MESSAGE

PERFORMANCE

We began 2010 amid escalating fuel prices and a fragile domestic economy. However, our 2010 results were much stronger than we anticipated. We experienced industry-leading revenue growth, record load factors, and market share gains—all without nickel-and-diming our Customers. We continue to receive the distinct designation as the largest domestic airline.¹

Our net income grew to $459 million, a 364 percent year-over-year increase. Demand for our low fares and high-quality Customer Service strengthened, especially among business travelers in the second half of 2010. We ended the year with a record annual load factor of 79.3 percent. Our total operating revenues grew year-over-year nearly 17 percent to $12.1 billion. Our cost containment efforts continued to help mitigate operating cost pressures, largely from fuel costs. Further, we preserved our balance sheet strength and financial health as the only investment grade-rated U.S. airline.

Although we had virtually no seat mile growth in 2010, we continued to strengthen our network through schedule optimization, which allowed us to introduce our legendary, low-fare service to Panama City Beach, Fla., and grow key markets like Denver, Boston, and St. Louis. Boosted by Bags Fly Free® and No Change Fees, our share of the domestic market grew to 21 percent.¹

Without a doubt, the big news in 2010 was our proposed acquisition of AirTran Holdings, Inc., the parent company of AirTran Airways. We closed the transaction on May 2, 2011.

We estimate it will take several years to fully transition AirTran into Southwest to become one airline. But, we are excited and, more importantly, we are well-prepared from the Leadership, Operations, Customer Service, and financial perspectives.

The AirTran acquisition provides the opportunity for growth of low fares, Customers, destinations, aircraft, jobs, and profits. Through a broader national presence, we expect to generate hundreds of millions in incremental annual revenues upon full integration, accelerating our ability to achieve our long-term financial targets.

PEOPLE

We credit our success to our Employees, who are our most valuable asset and our competitive advantage. Their Warrior Spirit helped us emerge victoriously through the “lost decade.” Our audacious People create a FUN travel experience, respond with compassion when travel plans change, generate innovative ideas that enhance the Customer Experience, and donate their time and LUV to those who need it. Every day they embody the true essence of Southwest Airlines with a Warrior Spirit, a Servant’s Heart, and a Fun-LUVing Attitude.
We made significant progress in 2010 on our strategic initiatives dedicated to responding to Customers’ needs. We continued our immensely popular Bags Fly Free® advertising campaign to remind our Customers that we don’t believe in charging for services that should inherently be part of the travel experience. This philosophy is echoed in our No Change Fees policy. We launched inflight Internet connectivity, now available on more than 70 of our 737-700s, and began offering international connecting itineraries through Volaris, Mexico’s second largest airline.

We strive to be much more than a business, to make a positive difference in the communities we serve. In 2010, we donated more than $13.9 million to our communities, and our Employees volunteered more than 80,000 hours.

PLANET
We’re passionate about our commitment to the Planet, a natural extension of our LUVing Culture. It’s about more than just doing the right thing. Respecting the environment also makes good business sense.

We’re implementing Required Navigation Performance (RNP) technology to conserve jet fuel, retrofitting ground service equipment (GSE) to consume cleaner-burning fuels, making energy-efficient improvements at our Headquarters to reduce electricity use. As a result, we’re continuing to reduce our greenhouse gas emissions. We are continuously seeking new and better ways to further reduce our impact on the environment, and have set improvement goals for 2011 and beyond related to renewable energy, electric GSE, RNP technology, and systemwide recycling. We’re also contributing to industry-wide goals for fuel efficiency and emissions reduction.

And, as part of our commitment to conserve our natural resources, we’re publishing our 2010 One Report exclusively online.

PROPELLING US FORWARD
In our 40th year of operations, at the dawn of a new decade, we are focused on four big initiatives: the integration of AirTran into Southwest, our All-New Rapid Rewards™ program, the addition of the Boeing 737-800 beginning in 2012, and the replacement of our reservations system.

In addition to our four big initiatives, we will continue to deliver the highest quality of Customer Service, take actions to enhance the Customer Experience, rollout inflight Internet connectivity across our fleet, make a difference in our communities, implement Required Navigational Performance (RNP) across our system, and conserve our natural resources.

And just because we meet a goal we set, it doesn’t mean we stop trying to improve. In our 2009 One Report, we set a goal to increase the total amount of paper, plastic, aluminum, and cardboard recycled from our facilities and aircraft by 25 percent. We exceeded that goal with a 65 percent improvement in 2010 over our 2009 totals. We plan to continue our momentum in the future, with a goal to increase recycling totals by 10 percent in 2011.
2010 was a busy year for Southwest Airlines, and 2011 is already proving to be equally challenging. But, I am confident our Employees are up for the challenge as they continue to demonstrate their ability to successfully implement change.

We remain among the top low-cost producers of major airlines. We have affirmed our position as America’s low-fare leader by not nickel-and-diming our Customers but instead through our successful Bags Fly Free® and No Change Fees campaigns. We hold the top ranking for Customer Satisfaction, as measured by the U.S. Department of Transportation, and we were ranked fourth on Fortune’s 2011 list of the World's Most Admired Companies, easily the highest ranking commercial airline.

Even in a tough economy, we reach down and bring out our Warrior Spirit and prevail. I’m proud of our People for making it a great 2010 and am excited about what the future holds for Southwest Airlines.

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

1 As measured by the number of originating passengers boarded and based on data available from the U.S. Department of Transportation as of Sept. 30, 2010