

Southwest®

# 2016 One Report



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## The One Report

### Our triple bottom line

The One Report is our comprehensive, integrated report that includes information on our financial performance, our Citizenship efforts, the key events of 2016, and what's on the horizon for Southwest Airlines.

It highlights our commitment to consider the triple bottom line of Performance, People, and Planet when looking at our business. It's a commitment that we hope makes us a leader in global citizenship and supports our Purpose to connect People to what's important in their lives through friendly, reliable, and low-cost air travel, and our Vision to become the world's most loved, most flown, and most profitable airline.<sup>1</sup>

All information is as of March 31, 2017 unless otherwise noted.

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# New Records, New Adventures

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In 2016, we took advantage of some unique growth opportunities that led to flying to new, exciting destinations, including Cuba and Long Beach, California. You'll find information about our expanded route map in our eighth One Report, along with perspectives from Chairman and CEO Gary Kelly, our 2016 financial data, and a 30,000 foot view of everything Southwest. Welcome. Feel free to stay awhile.







## To Our Shareholders,<sup>1</sup>

Following record years in 2014 and 2015, 2016 was another record year. It is remarkable that we were able to sustain, and in some cases, improve upon the dramatic results achieved in 2015. The foundation was laid with strategic initiatives that transformed Southwest during the five years ended 2014. Our results were further boosted by the significant reduction in energy prices, generally range-bound in the \$45-\$55 a barrel range for Brent crude oil. The result was another year of record traffic, record load factors, record revenues, record profits, and a record year-end stock price (LUV). For the second year in a row, and for only the second time in our history, our annual pre-tax return on invested capital (ROIC)<sup>2</sup> was 30 percent or better. It was our 44th consecutive year of profitability, a record unmatched in the domestic airline industry, and a continued display of our leadership in corporate America.

Our 2016 net income was a record \$2.24 billion, or \$3.55 per diluted share, 2.9 percent and 8.6 percent higher than 2015, respectively. Excluding special items,<sup>2</sup> our record 2016 earnings were \$2.37 billion, or \$3.75 per diluted share, 0.6 percent and 6.5 percent higher than a year ago, respectively.

Total operating revenues topped \$20 billion for the first time, up 3.1 percent versus a year ago. On the heels of 2015's healthy year-over-year available seat mile<sup>3</sup> (capacity) growth of 7.2 percent, our 2016 year-over-year capacity growth

slowed to 5.7 percent, as several of our strategic growth opportunities were realized (Dallas Love Field; Washington Reagan National; Houston Hobby International). Our goal was to grow revenues in line, or better, than capacity versus a year ago. Operating revenues per available seat mile<sup>4</sup> fell slightly, by 1.6 percent, due to significant low fare competition and industry domestic capacity growth outpacing the sluggish economic growth. As a result, our average passenger fare<sup>5</sup> fell 3.7 percent versus a year ago. Given that jet fuel prices fell further, year-over-year, the net profit result was still quite exceptional.

We were not planning to add any new cities in 2016; however, as I reported in last year's Annual Report to Shareholders, slots<sup>6</sup> became available in Long Beach, California, and flights resumed between the United States and Cuba. We reacted swiftly to these opportunities and launched service to Long Beach Airport; Varadero, Cuba; Havana, Cuba (our 100th destination); and Santa Clara, Cuba. We serve Long Beach with short-haul flights in California and Cuba from Ft. Lauderdale and Tampa. We also launched service from Los Angeles International Airport to Cancun, Puerto Vallarta, and Los Cabos, Mexico. Additional routes and frequencies within our existing network rounded out the balance of our 2016 expansion. It was another successful year in network development.

Our operating expenses grew slightly faster than capacity. Average 2016 jet fuel prices declined 7.2 percent on an “economic basis” from a year ago.<sup>2</sup> Operating expenses per available seat mile (CASM)<sup>7</sup> increased 0.4 percent, year-over-year. Excluding fuel and oil expense and special items,<sup>2</sup> CASM increased just 1.6 percent, year-over-year.

Our cash flow from operations was a record \$4.29 billion, and our free cash flow<sup>2</sup> was a record \$2.25 billion. Our financial position strengthened, sustaining our solid investment grade credit ratings with all three credit rating agencies. Debt to total capital (including aircraft leases) declined to 32.5 percent as of year-end 2016. Our liquidity increased, as well, with year-end cash and short-term investments of \$3.3 billion plus our fully-available \$1.0 billion bank line of credit. We returned a record \$1.97 billion to Shareholders in 2016, through \$222 million in dividends and \$1.75 billion in share repurchases. In May 2016, in recognition of our exceptionally strong results, our Board of Directors authorized a \$2.0 billion share repurchase program and increased the quarterly dividend by 33 percent to \$.10 per share.

We ended the year with 723 aircraft in our all-Boeing 737 (B737) fleet. Currently, our firm aircraft commitments and options would grow the fleet to 750 airplanes by year-end 2018. We have several significant fleet events planned for 2017. First, we are the launch customer with Boeing for the B737-8 (MAX) aircraft. We currently plan to launch this new airplane in commercial service October 1, 2017, and acquire a total of 14 for the year. Second, we plan to retire the 79 remaining B737-300 (Classic) airplanes in our fleet between now and October 1, 2017. Finally, we plan to acquire 39 new B737-800 (NG) aircraft this year. Due to the accelerated retirement of the Classics, we plan to end 2017 with 703 aircraft in our fleet, down from the 723 to start this year. By the end of 2018, all retired Classics will have been replaced with new deliveries from Boeing. The Classics have served us well, but with Boeing’s support, along with expected reduced maintenance, fuel consumption, and out-of-service time, we expect a substantial financial benefit, prospectively, once the Classics are retired. This is an important part of our fleet modernization initiative, which has been underway since 2011. It is exciting to see these long-held plans come together in 2017!

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**It was our 44th consecutive year of profitability, a record unmatched in the domestic airline industry, and a continued display of our leadership in corporate America.**

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## KEY HIGHLIGHTS



101

destinations in  
9 countries

44

consecutive years  
of profitabilityRanked  
#1in lowest number of  
Customer complaints per  
100,000 enplanements  
(U.S. DOT)

Carried more than

124  
millionCustomers with  
an annual record  
84% load factor<sup>11</sup>

Another long-term effort scheduled to come to fruition in 2017 is the completion and deployment of our new Amadeus Altéa reservation system on May 9, 2017. Our current reservation system dates back to the 1980s. It, too, has served us well, but it is not well suited to our current or future needs. The effort to replace it is significant and strategic, and has been years in the making. We announced the first phase of the deployment into production in December 2016. The project is on track, and we look forward to the next important milestone in this effort. Once implemented, the system provides the foundation for future planned releases with further enhancements. We expect to derive benefits ranging from improved Customer Experiences to improved revenue management. We look forward to giving our Employees better tools that allow us to better serve our Customers and Shareholders.

Another significant long-term effort scheduled for 2017 is the completion of a new five-gate international terminal at the Ft. Lauderdale-Hollywood International Airport (FLL), slated for June 2017. Coincident with the opening is the launch of new international service at FLL by Southwest Airlines. Currently, we serve just The Bahamas and Cuba

from FLL, but plan to add service to Belize, Jamaica, and Mexico along with our newest destination, Grand Cayman. This is a much-anticipated and much-needed enhancement to our FLL franchise.

Overall, our outlook continues to be upbeat. Once again, we are off to a very strong start to the year, in terms of operational reliability, Customer satisfaction, and travel demand. There appear to be high expectations for tax reform, regulatory reform, and air traffic control modernization. In turn, there appear to be high expectations for domestic GDP growth. We welcome all of that. In the meantime, while economic growth is still lackluster, energy prices are stable at moderate prices, and travel demand is strong in a very competitive environment. We are positioned and poised to compete vigorously and well. With the fleet plan I outlined previously, we currently plan to grow our capacity approximately 3.5 percent in 2017, split roughly two-thirds to our domestic network and the remainder to international growth. In addition to adding Grand Cayman to our route map, we are consolidating our Ohio cities by closing operations at Akron-Canton Airport and adding flights at nearby Cleveland Hopkins International Airport.

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## Our Vision is audacious, but I believe in our People. They are Warriors!

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We are scheduled to begin service at Cincinnati/Northern Kentucky International Airport (which, admittedly, has been conspicuous in its absence from our expansive route network), and close operations at nearby Dayton International Airport to accommodate it. Much has changed in these Ohio airports, competitively, over the last five to six years, and these moves will position us better. It is never easy to close a location, but we will continue to offer service to Customers in those two markets via Cleveland and Cincinnati.

We have lived through a remarkable period, be it the last 5 years, 10 years, or more than 15 since 9/11. Our People have worked extraordinarily hard to weather the storms, transform Southwest, and still serve our Customers and Shareholders well. They have done that. From 2001 through 2012, there were some tough, lean years. But, our People never faltered. No annual losses. No bankruptcies. No layoffs. No massive reduction in service. Instead, Southwest stayed profitable, job secure, and growing—throughout. Now, our People, our Customers, and our Shareholders are reaping the benefits

from those years of hard work. Because of our People, Southwest is well-prepared to compete aggressively for Customers' business and loyalty. Southwest is committed to provide Shareholder returns. And, Southwest is well-prepared for tougher times, whether it be from economic weakness, energy price spikes, or brutal competition. Our People have us better prepared than ever, in fact. And, we have opportunities to further improve our already excellent operations, our outstanding Customer Service, and our expansive route map.

As I said last year, our Purpose is to connect People to what's important in their lives through friendly, reliable, and low-cost air travel. We take great care of our Employees, so they can take great care of our Customers. If we do both well—keep our service levels high and our fares low—we can take great care of our Shareholders. And, we have.

This is now the 23rd consecutive year that Southwest has been named to Fortune's list of World's Most Admired Companies, coming in at #8. We're proud of that. And, as America's largest airline in terms of originating domestic passengers,<sup>8</sup> we aspire to more—to become the world's most loved, most flown, and most profitable airline. Our Vision is audacious, but I believe in our People. They are Warriors!

Please join me in thanking all 53,536 Employees for their hard work and superb results!

Sincerely,



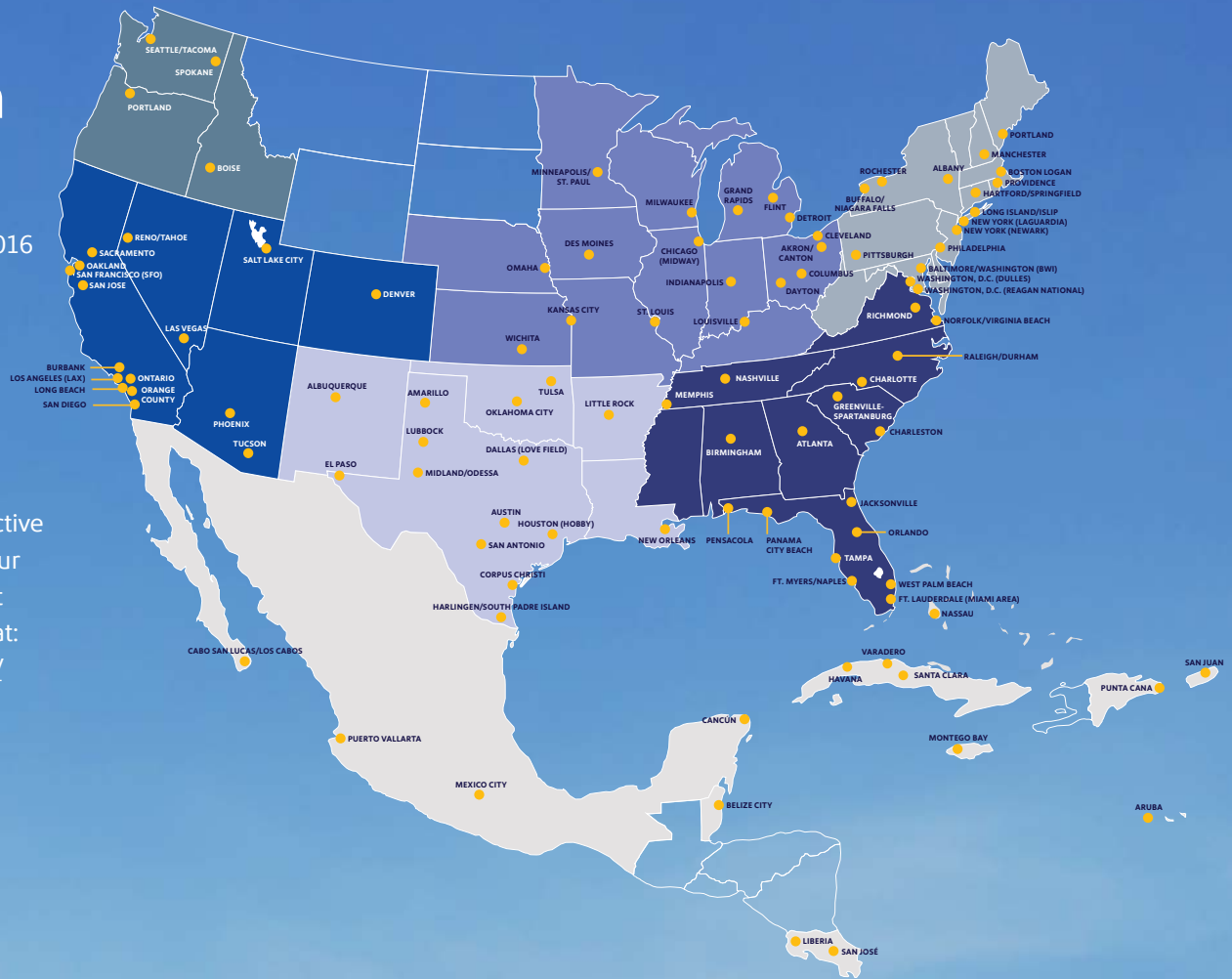
**Gary C. Kelly**  
*Chairman and Chief Executive Officer*  
March 24, 2017

## 30,000 Foot View

As of Dec. 31, 2016, we proudly operated a network of 101 destinations in the United States and eight additional countries with more than 3,900 departures a day during peak travel season.

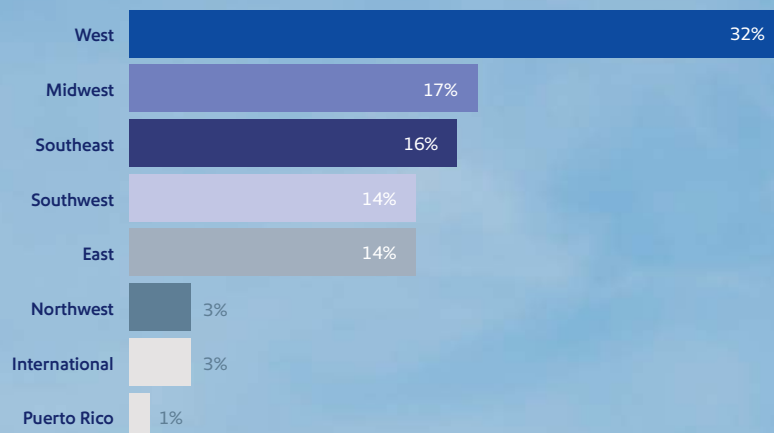
# System Map

as of Dec. 31, 2016



## Capacity by Region

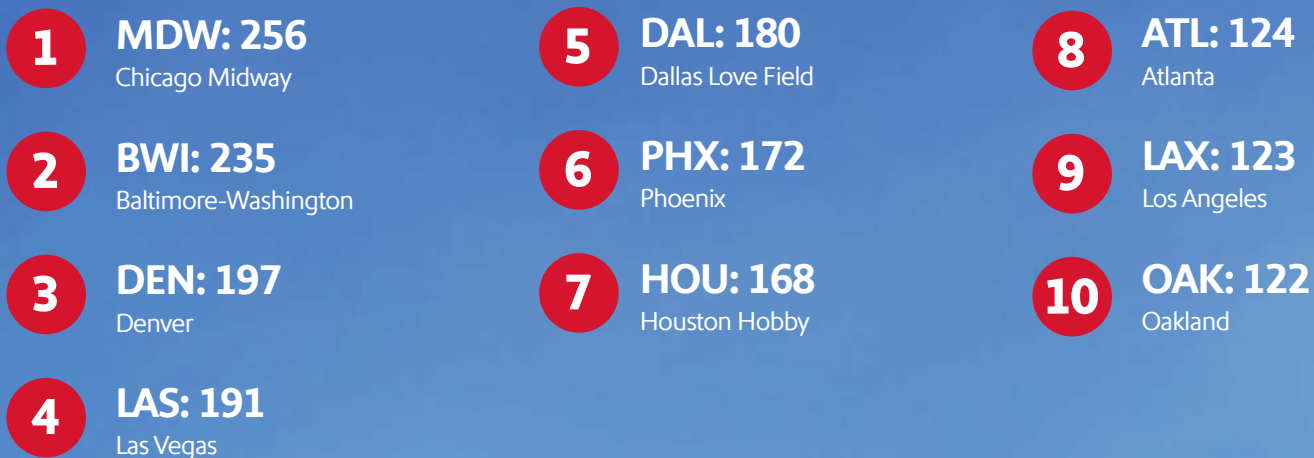
as of Dec. 31, 2016





## Top 10 Airports<sup>9</sup>

daily departures as of Dec. 31, 2016



## Market Share<sup>8</sup>





## Reporting Approach

Our Employees, Customers, Shareholders, suppliers, and community groups all contribute to the many opportunities we see for the future of our Company. We listen to and learn from our many Stakeholders, which helps shape the content of the One Report and reflects our ongoing commitment to connect People to what's important in their lives.



## Ranked 8th

(in 2017)

Most Admired Companies  
in the World list

***FORTUNE** magazine*  
(23rd consecutive year)



Awarded  
**Domestic Carrier  
of the Year**

***Airforwarders Association***  
(7th consecutive year)



Named **Best  
Low Cost Carrier**  
in North America

***Premier Traveler***  
(3rd consecutive year)



## #30

100 Best Corporate  
Citizens 2016

*Corporate Responsibility Magazine*

## 2016 Airline Program of the Year

for our  
Rapid Rewards®  
program

*InsideFlyer*



Named **2016  
Most Valuable  
Employer**  
for military

*CivilianJobs.com*

## Ranked #13

Best Employer  
in 2016

*Forbes*



## Won

**Best Airline in North America**

**Best Airline in Customer Service**

**Best Airline in Social Media**

*SimpliFlying*

Named one of

## America's Most Just Companies

*Forbes*



# Our Leadership

## Current Officers

<http://www.southwestairlinesinvestorrelations.com/corporate-governance/company-officers>

## Board of Directors

<http://www.southwestairlinesinvestorrelations.com/corporate-governance/board-of-directors>

## Board Committees

<http://www.southwestairlinesinvestorrelations.com/corporate-governance/board-committees>

# Policies & Procedures

We have developed a set of policies and procedures that guide our day-to-day business activities. Follow these links to review our Corporate Governance Guidelines and our Corporate Policies.

## Corporate Governance Guidelines

<http://www.southwestairlinesinvestorrelations.com/corporate-governance/corporate-governance-guidelines>

## Corporate Policies

<http://www.southwestairlinesinvestorrelations.com/corporate-governance/corporate-bylaws-articles-of-incorporation-and-corporate-policies/corporate-policies>



# A Record-Setting Year of Performance

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Southwest had an exceptional year in 2016.

We carried a record number of Customers while improving ontime performance,<sup>10</sup> baggage delivery rates, and Customer Satisfaction scores.

We saw record profits delivered at strong margins.

We grew our route network, preserved our strong financial position, and returned significant value to our Shareholders. Read on for a look at our financial and operational performance.

## KEY ACCOMPLISHMENTS

Ontime performance<sup>10</sup> of

80.8%

(up 1.1 points in 2016)

\$2.2 billion



We earned a record  
**\$2.2 billion** in profits in 2016

\$3.3 billion

Cash and short-term  
investments as of Dec. 31, 2016



## KEY TOPIC

## Financial Results

Show up and work hard. That's a Core Value of Working the Southwest Way. It's also how Southwest achieved another year of improved profitability and operational performance. It took all 53,000-plus Southwest Employees, working to deliver exemplary Customer Service, to attain record revenues. We flew more People than in any previous year—all while delivering our unique brand of service that produces satisfied, loyal Customers.



**30.0%**  
ROIC

### Excellent Returns

2016 was our second consecutive year to achieve annual pretax return on invested capital (ROIC)<sup>2</sup> of 30% or more.

**84.0%**



record annual  
load factor

### Record Percentage of Seats Filled

Our 2016 load factor<sup>11</sup> set a new Southwest annual record.

## STORIES

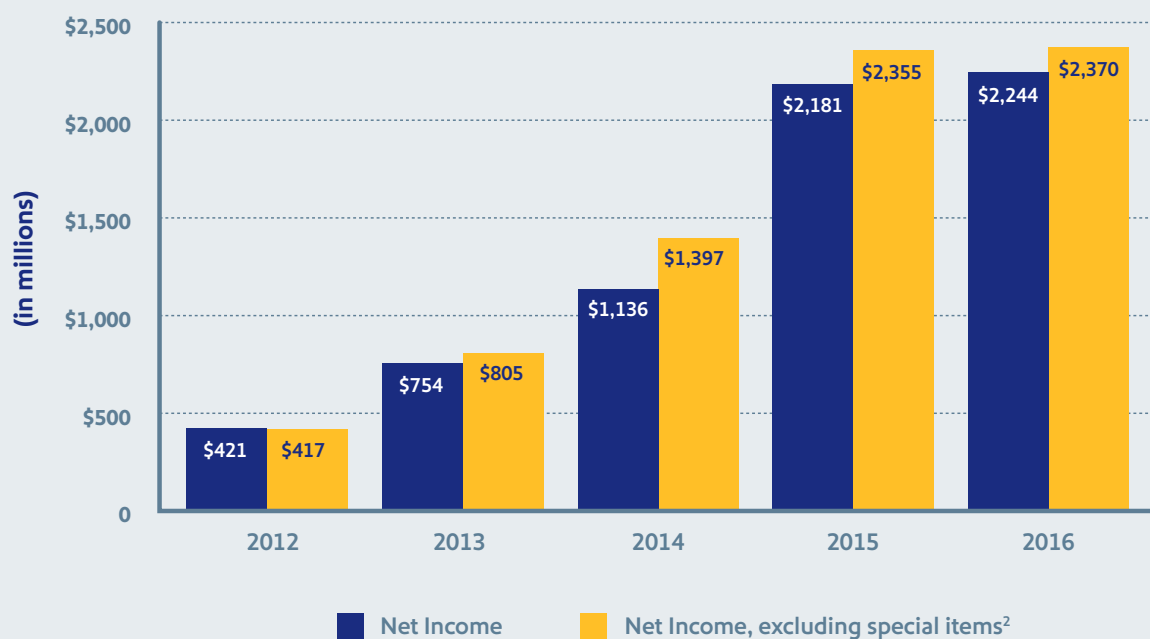
[Another Year of Record Profits](#)[Raising the Record Revenue Bar](#)[Focus on Low-Cost Discipline](#)[A Decade of Consistent Performance](#)



## Another Year of Record Profits

Our loyal and expanding Customer base contributed to a record net income of \$2.2 billion in 2016, representing an exceptional 433 percent growth in profits since 2012. Our Rapid Rewards® frequent flyer program, the acquisition of AirTran, the continued optimization of our network, and the ongoing modernization of our fleet—including the addition of the Boeing 737-800—have contributed to this multi-year growth. Excluding special items,<sup>2</sup> our 2016 net income was also a record at \$2.4 billion.

### Net Income







## Raising the Record Revenue Bar

As demand for our world-class Hospitality reached record levels in 2016, so did our revenue performance. Our total operating revenues rose to a record \$20.4 billion, up 3.1 percent from 2015. This was especially notable in the competitive fare environment that existed throughout the year, which resulted in a reduction in our average passenger fare<sup>5</sup> and a decline in our passenger revenue yield.<sup>12</sup>

Still, our commitment to provide friendly service and low fares, and a network that aligns to our Purpose, produced a record annual load factor<sup>11</sup> of 84.0 percent. Our award-winning Rapid Rewards<sup>®</sup> frequent flyer program and other ancillary revenue products, including our EarlyBird Check-In<sup>®</sup> and A1-15 select boarding, also contributed to our strong revenue performance.

### Sources of Passenger Revenue





## Focus on Low-Cost Discipline

Our strategy to keep costs low includes the use of a single aircraft type, the Boeing 737, operating an efficient point-to-point route structure, ongoing work to reduce fuel consumption, and highly productive Employees. Our low-cost structure is one of our competitive advantages, as it has enabled us to offer low fares, drive traffic volume, and grow market share.

Adjusted for stage length,<sup>13</sup> Southwest had lower operating expenses per available seat mile<sup>3,7</sup> (unit costs), on average, in 2016 than the majority of major domestic carriers.<sup>14</sup>

In 2016, our total operating expenses increased as compared with 2015. The increase in our costs was primarily driven by incremental depreciation expense from the accelerated retirement of our Boeing 737-300 fleet, contract

programming and consulting expenses associated with large technology projects, and higher wage rates due to amended labor union contracts. These cost pressures were partially offset by lower fuel prices, as well as our ongoing efforts to reduce fuel consumption and improve fuel efficiency through fleet modernization and other initiatives. In addition, we have a fuel hedging program that strives to mitigate risk associated with the volatility of the energy markets and the accompanying impact on our fuel and oil expense.<sup>1</sup>

When taking into consideration the 5.7 percent year-over-year growth in our available seat miles, our unit costs increased a modest 0.4 percent, and excluding special items<sup>2</sup> declined 0.7 percent, year-over-year.

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**Adjusted for stage length, Southwest had lower unit costs, on average, in 2016 than the majority of major domestic carriers.**

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## A Decade of Consistent Performance

Our Ten-Year Summary tells a story of consistent profitable performance.

Ten-Year Summary										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Selected Consolidated Financial Data</b>										
<i>(Dollars in millions except per share amounts, unaudited)</i>										
<b>Operating revenues:</b>										
Passenger	\$18,594	\$18,299	\$17,658	\$16,721	\$16,093	\$14,754	\$11,489	\$9,892	\$10,549	\$9,457
Freight	171	179	175	164	160	139	125	118	145	130
Special revenue adjustment	—	172	—	—	—	—	—	—	—	—
Other	1,660	1,170	772	814	835	765	490	340	329	274
<b>Total operating revenues</b>	<b>20,425</b>	<b>19,820</b>	<b>18,605</b>	<b>17,699</b>	<b>17,088</b>	<b>15,658</b>	<b>12,104</b>	<b>10,350</b>	<b>11,023</b>	<b>9,861</b>
<b>Operating expenses</b>	<b>16,665</b>	<b>15,704</b>	<b>16,380</b>	<b>16,421</b>	<b>16,465</b>	<b>14,965</b>	<b>11,116</b>	<b>10,088</b>	<b>10,574</b>	<b>9,070</b>
<b>Operating income</b>	<b>3,760</b>	<b>4,116</b>	<b>2,225</b>	<b>1,278</b>	<b>623</b>	<b>693</b>	<b>988</b>	<b>262</b>	<b>449</b>	<b>791</b>
<b>Other expenses (income), net</b>	<b>213</b>	<b>637</b>	<b>409</b>	<b>69</b>	<b>(62)</b>	<b>370</b>	<b>243</b>	<b>98</b>	<b>171</b>	<b>(267)</b>
<b>Income before income taxes</b>	<b>3,547</b>	<b>3,479</b>	<b>1,816</b>	<b>1,209</b>	<b>685</b>	<b>323</b>	<b>745</b>	<b>164</b>	<b>278</b>	<b>1,058</b>

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Selected Consolidated Financial Data, Continued</b>										
Provision for income taxes	1,303	1,298	680	455	264	145	286	65	100	413
Net income	\$2,244	\$2,181	\$1,136	\$754	\$421	\$178	\$459	\$99	\$178	\$645
Net income per share, basic	\$3.58	\$3.30	\$1.65	\$1.06	\$0.56	\$0.23	\$0.62	\$0.13	\$0.24	\$0.85
Net income per share, diluted	\$3.55	\$3.27	\$1.64	\$1.05	\$0.56	\$0.23	\$0.61	\$0.13	\$0.24	\$0.84
Cash dividends per common share	\$0.3750	\$0.2850	\$0.2200	\$0.1300	\$0.0345	\$0.0180	\$0.0180	\$0.0180	\$0.0180	\$0.0180
Total assets	\$23,286	\$21,312	\$19,723	\$19,177	\$18,350	\$17,805	\$15,249	\$13,978	\$13,703	\$16,772
Long-term debt less current maturities	\$2,821	\$2,541	\$2,434	\$2,191	\$2,883	\$3,107	\$2,875	\$3,325	\$3,498	\$2,050
Stockholders' equity	\$8,441	\$7,358	\$6,775	\$7,336	\$6,992	\$6,877	\$6,237	\$5,454	\$4,953	\$6,941
<b>Consolidated Financial Ratios</b>										
Return on average total assets	10.1%	10.6%	5.8%	4.0%	2.3%	1.1%	3.1%	0.7%	1.2%	4.3%
Stockholders' equity per common share O/S	\$13.72	\$11.36	\$10.03	\$10.47	\$9.57	\$8.90	\$8.35	\$7.34	\$6.69	\$9.04
Operating margin	18.4%	20.8%	12.0%	7.2%	3.6%	4.4%	8.2%	2.5%	4.1%	8.0%
Net margin	11.0%	11.0%	6.1%	4.3%	2.5%	1.1%	3.8%	1.0%	1.6%	6.5%
<b>Consolidated Operating Statistics</b>										
Revenue passengers carried	124,719,765	118,171,211	110,496,912	108,075,976	109,346,509	103,973,759	88,191,322	86,310,229	88,529,234	88,713,472
Enplaned passengers	151,740,357	144,574,882	135,767,188	133,155,030	133,978,100	127,551,012	106,227,521	101,338,228	101,920,598	101,910,809
RPMs (000s) <sup>15</sup>	124,797,986	117,499,879	108,035,133	104,348,216	102,874,979	97,582,530	78,046,967	74,456,710	73,491,687	72,318,812
ASMs (000s) <sup>3</sup>	148,522,051	140,501,409	131,003,957	130,344,072	128,137,110	120,578,736	98,437,092	98,001,550	103,271,343	99,635,967
Passenger load factor <sup>11</sup>	84.0%	83.6%	82.5%	80.1%	80.3%	80.9%	79.3%	76.0%	71.2%	72.6%



	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Consolidated Operating Statistics, Continued</b>										
Average length of passenger haul (miles)	1,001	994	978	966	941	939	885	863	830	815
Average stage length (miles) <sup>13</sup>	760	750	721	703	693	679	648	639	636	629
Aircraft utilization (hours and minutes per day)	11:08	11:13	10:54	10:45	10:55	11:10	10:48	10:50	11:36	11:41
Trips flown	1,311,149	1,267,358	1,255,502	1,312,785	1,361,558	1,317,977	1,114,451	1,125,111	1,191,151	1,160,699
Average passenger fare <sup>5</sup>	\$149.09	\$154.85	\$159.80	\$154.72	\$147.17	\$141.90	\$130.27	\$114.61	\$119.16	\$106.60
Passenger revenue yield per RPM <sup>12</sup>	14.90¢	15.57¢	16.34¢	16.02¢	15.64¢	15.12¢	14.72¢	13.29¢	14.35¢	13.08¢
Operating revenue yield per ASM <sup>2,4</sup>	13.75¢	13.98¢	14.20¢	13.58¢	13.34¢	12.99¢	12.30¢	10.56¢	10.67¢	9.90¢
Operating expenses per ASM <sup>7</sup>	11.22¢	11.18¢	12.50¢	12.60¢	12.85¢	12.41¢	11.29¢	10.29¢	10.24¢	9.10¢
Operating expenses per ASM, excluding fuel	8.76¢	8.60¢	8.46¢	8.18¢	8.07¢	7.73¢	7.61¢	7.19¢	6.64¢	6.40¢
Fuel cost per gallon, including tax	\$1.82	\$1.90	\$2.93	\$3.16	\$3.30	\$3.19	\$2.51	\$2.12	\$2.44	\$1.80
Fuel consumed, in gallons (millions)	1,996	1,901	1,801	1,818	1,847	1,764	1,437	1,428	1,511	1,489
Active, full-time equivalent Employees at yearend	53,536	49,583	46,278	44,831	45,861	45,392	34,901	34,726	35,499	34,378
Aircraft at yearend <sup>16</sup>	723	704	665	681	694	698	548	541	537	520



## KEY TOPIC

## Strong Financial Position

We're proud of our strong balance sheet and liquidity. Our record profits and manageable capital spending produced record free cash flow,<sup>2</sup> enabling us to return significant value to our Shareholders.

**\$2.3  
billion**

Record free cash flow  
generated in 2016



Southwest remained the  
only domestic airline with  
an **investment grade credit  
rating** from all three credit  
rating agencies:

Moody's, Fitch, and  
Standard & Poor's.<sup>17</sup>

**Nearly  
\$2 billion**

Returned to Shareholders  
through a combination of  
dividends and share  
repurchases

**LUV**

### STORIES

Industry-leading Balance Sheet

Balanced Capital Deployment

2016 Capital Expenditures Breakdown



## Industry-leading Balance Sheet

Southwest ended the year with \$3.3 billion in cash and short-term investments, along with a fully available unsecured revolving credit line of \$1.0 billion. We continued to be the only domestic airline with investment grade credit ratings from all three credit rating agencies. Our leverage, including off-balance-sheet aircraft leases, was 32.5 percent at the end of 2016.

### Credit Agency Ratings<sup>18</sup>

S&P/Fitch Moody's	Non-Investment Grade						Investment Grade			
	B-	B	B+	BB-	BB	BB+	BBB-	BBB	BBB+	A-
	B3	B2	B1	Ba3	Ba2	Ba1	Baa3	Baa2	Baa1	A3
Southwest Airlines								S&P	M F	
Alaska Airlines						S&P	F			
Allegiant Air			M	S&P						
American Airlines			M	F S&P						
Delta						S&P	M F			
Hawaiian Airlines			M F	S&P						
jetBlue				M F S&P						
Spirit Airlines				S&P		F				
United Airlines				M S&P	F					

Standard & Poor's<sup>17</sup>

Fitch Ratings



Moody's



## Balanced Capital Deployment

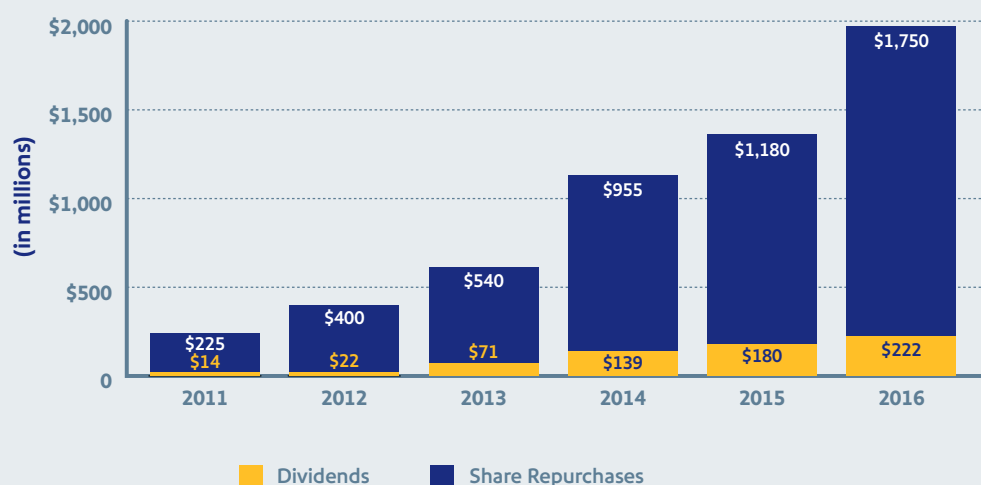
We strive to maintain a balanced capital deployment strategy. In 2016, we achieved record cash flow from operations of \$4.3 billion, and our capital expenditures were \$2.0 billion. This allowed us to generate record free cash flow,<sup>2</sup> of which we returned nearly 90 percent to our Shareholders through a combination of \$222 million in dividends and \$1.75 billion in share repurchases.

During the first quarter of 2017, we returned \$673 million to Shareholders through a combination of \$123 million in dividends and \$550 million in share repurchases. As of March 31, 2017, we have \$400 million remaining under our May 2016 \$2.0 billion share repurchase authorization.

Since 2010, through March 31, 2017, we have returned nearly \$6.4 billion to our Shareholders through \$771 million in dividends and \$5.6 billion in share repurchases.

**The Southwest Board of Directors declared our 162nd consecutive quarterly dividend on Feb. 2, 2017.**

### Returns to Shareholders







## 2016 Capital Expenditures Breakdown

Prudent investments in our business allowed us to deliver on our Purpose and support our Vision. In 2016, we had approximately \$2.0 billion in capital expenditures, with the majority related to aircraft purchases. Technology was our next largest capital expenditure, largely related to the replacement of our domestic reservation system and several operating initiatives designed to drive efficiency, reliability, and scalability. We also made meaningful investments in our facilities around the system, including a new Flight Training Center at our Headquarters, which we have named “Wings.”

### Allocation of 2016 Capital Spend





## KEY TOPIC

## Growing Our Robust Network

Our friendly, reliable, and low-cost air travel helped Southwest remain the largest domestic air carrier in the United States.<sup>8</sup> We were the leader in 25 of the top 50 U.S. metro areas,<sup>19</sup> and held a 67 percent market share,<sup>8</sup> collectively, in the 95 markets we served out of the top 100 domestic origin and destination city pairs, including co-terminal airports.<sup>20</sup>

With a point-to-point network allowing for more direct routing, approximately 76 percent of our Customers flew nonstop during 2016 on the 657 nonstop city pairs we offered. Our available seat miles<sup>3</sup> (capacity) grew 5.7 percent in 2016, year-over-year, driven largely by the annualized impact of 2015's growth. As we look to the exciting growth opportunities ahead, we seek to expand our network prudently and profitably.<sup>1</sup>

**24%**

Southwest Airlines  
total domestic  
market share



Cuba became the ninth  
country on our route map,  
and **Havana** marked  
**Southwest's 100th destination**  
—both significant and proud  
milestones for Southwest

**101**

Destinations served



## STORIES

Fleet Composition

Domestic Network

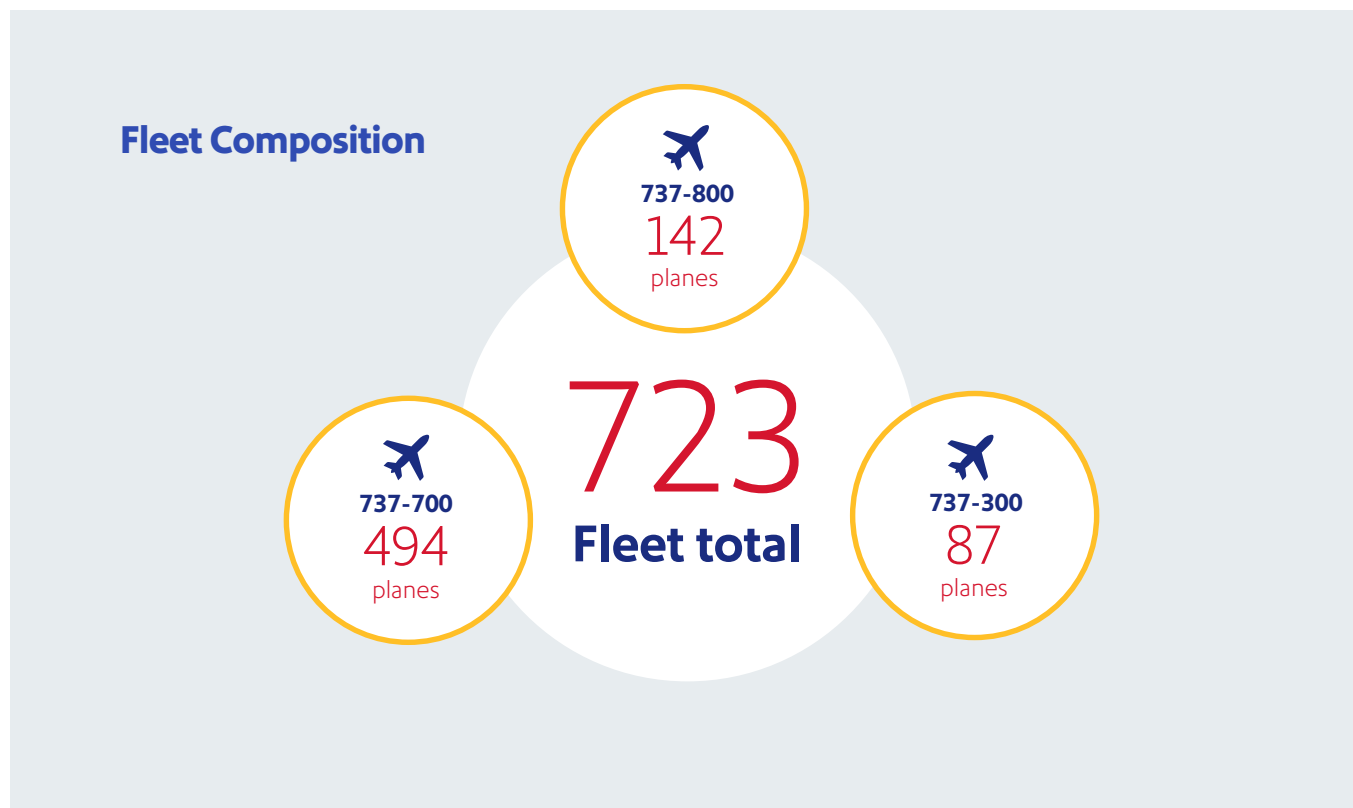
International Expansion

¡Bienvenidos a Cuba!



## Fleet Composition

Our all-737 fleet is the world's largest Boeing fleet of any airline.





## Domestic Network

Most of our 2016 capacity<sup>3</sup> growth was driven by additional depth and frequency in existing domestic markets, as well as new routes between existing domestic destinations previously not connected.

In June 2016, we were thrilled to add Long Beach, California to our route network. We now serve all five major commercial airports in the Los Angeles Basin, and we're still the largest carrier in California, offering more seats than any other carrier each day to, from, and within the state.<sup>8</sup>

**Southwest is  
#1 in 25 of the  
top 50 metro areas  
in market share.<sup>8</sup>**



“As our unique-point-to-point network has evolved over the past few decades, we’ve proven it can scale, and we’ve prospered significantly. Our growth strategy is designed to be both prudent and profitable. And that strategy remains intact today with the opportunities we have in front of us.”<sup>11</sup>

– Tammy Romo, Executive Vice President  
and Chief Financial Officer





## International Expansion

Southwest Customers can now fly to eight countries in Latin America and the Caribbean. Our international markets represented approximately 3 percent of our total network capacity<sup>3</sup> in 2016. We provided service to Latin America and the Caribbean from 13 gateway airports in the 48 contiguous states.

In August 2016, the Air Transport Agreement between the United States and Mexico was approved. In December, we became the first U.S. carrier to launch new service between the two countries pursuant to this agreement, with flights from Los Angeles International Airport (LAX) to Cancun, Puerto Vallarta, and San Jose del Cabo/Los Cabos (Cabo).

We also began scheduled daily international service from Ft. Lauderdale to Nassau, Bahamas and were excited to add Cuba to our route map in late 2016, with daily service to three destinations: Varadero, Havana—our 100th destination served, and Santa Clara.

---

**In 2016, we  
provided service  
to Latin America  
and the Caribbean  
from 13 gateway  
airports in the 48  
contiguous states.**

---

## International Gateways & Destinations

(as of February, 2017)



International service from Oakland began in February 2017.  
International service from San Diego is expected to begin  
in April 2017, representing our 15th gateway airport.



## ¡Bienvenidos a Cuba!

Last year we launched our highly anticipated new Southwest service to the “Pearl of the Caribbean”: Cuba.

We’re delighted to provide our Customers with the Cuba air service they want. Our application to the Department of Transportation to begin flying to Cuba was backed by more than 120 organizations, with more than 25,000 signatures supporting the petition.

We said ¡HOLA! to Cuba with a flight from Ft. Lauderdale to Varadero on Nov. 13, 2016. It was one of the first regularly scheduled commercial flights between the U.S. and Cuba in more than 50 years, and we were excited to be part of history! Onboard, the Passengers and Crew donned Cuban-style fedoras while an orchestra in the terminal played Caribbean music. There was even a drumroll by renowned bandleader Tito Puente, Jr.

In December, we began service to Havana, our 100th destination served. As both the capital and the largest city in Cuba, Havana is unique among its Cuban peers, with more of everything—more beaches, more museums, more history, more culture, and more vintage American cars. Our service to Santa Clara, Cuba began shortly thereafter.



“Traveling on the inaugural flight to Havana was surreal. It was a special and historic trip, both for me personally and for our Company. The Cuban people were so incredibly warm and welcoming, and the level of excitement on the short plane ride was off the charts. It was a once-in-a-lifetime experience, and one that I’ll never forget.”

– Chris Mainz, Senior Advisor  
Communication & Outreach

# Looking Forward<sup>1</sup>



## Expanded Destinations

We're planning to launch service to Cincinnati/Northern Kentucky International Airport in June 2017.

## New Reservation System

In May 2017, we plan to transition to a single reservation system on Amadeus' Altéa reservation solution for both domestic and international reservations. This new reservation system is expected to generate an improvement in EBIT<sup>21</sup> of approximately \$500 million by 2020 through added functionality and operational capabilities.

## Launch 737 MAX 8

The Boeing 737 MAX 8 is scheduled to begin flying in October 2017, following the retirement of all Boeing 737-300 aircraft by the end of the third quarter.

## New Ft. Lauderdale Service

In June 2017, we expect to begin flying from the new five-gate international concourse at Ft. Lauderdale-Hollywood's Terminal 1, with new service to Belize City, Belize; Cancun, Mexico; Montego Bay, Jamaica; and Grand Cayman, our 15th international destination.

# Performance Data Table

(Dollars in millions except per share amounts, unaudited)

Consolidated Highlights			
	Year End Dec. 31, 2016	Year End Dec. 31, 2015	Change
Operating revenues	\$ 20,425	\$ 19,820	3.1 %
Operating expenses	\$ 16,665	\$ 15,704	6.1 %
Operating income	\$ 3,760	\$ 4,116	(8.6) %
Operating margin	18.4 %	20.8 %	-2.4 pts.
Net income	\$ 2,244	\$ 2,181	2.9 %
Net margin	11.0 %	11.0 %	—
Net income per share, basic	\$ 3.58	\$ 3.30	8.5 %
Net income per share, diluted	\$ 3.55	\$ 3.27	8.6 %
Stockholders' equity	\$ 8,441	\$ 7,358	14.7 %
Return on average stockholders' equity	28.4 %	30.9 %	-2.5 pts.
Stockholders' equity per common share outstanding	\$ 13.72	\$ 11.36	20.8 %
Revenue passengers carried	124,719,765	118,171,211	5.5 %
Revenue passenger miles (RPMs) (000s) <sup>15</sup>	124,797,986	117,499,879	6.2 %
Available seat miles (ASMs) (000s) <sup>3</sup>	148,522,051	140,501,409	5.7 %
Passenger load factor <sup>11</sup>	84.0 %	83.6 %	0.4 pts.
Passenger revenue yield per RPM (cents) <sup>12</sup>	14.90	15.57	(4.3) %
Operating revenue yield per ASM (cents) <sup>2,4</sup>	13.75	13.98	(1.6) %
Operating expenses per ASM (cents) <sup>7</sup>	11.22	11.18	0.4 %
Aircraft at yearend	723	704	2.7 %
Active, full-time equivalent Employees at yearend <sup>22</sup>	53,536	49,583	8.0 %



# Reconciliation of Reported Amounts to Non-GAAP Items<sup>2</sup>

(Dollars in millions except per share amounts, unaudited)

Expenses		
	Year End Dec. 31, 2016	Year End Dec. 31, 2015
<b>Fuel and oil expense, unhedged</b>	<b>\$ 2,827</b>	<b>\$ 3,362</b>
Add: Fuel hedge (gains) losses included in Fuel and oil expense, net	820	254
<b>Fuel and oil expense, as reported</b>	<b>\$ 3,647</b>	<b>\$ 3,616</b>
Add: Net impact from fuel contracts	202	323
<b>Fuel and oil expense, non-GAAP (economic)</b>	<b>\$ 3,849</b>	<b>\$ 3,939</b>
<b>Total operating expenses, as reported</b>	<b>\$ 16,665</b>	<b>\$ 15,704</b>
Deduct: Union contract bonuses	(356)	(334)
Add: Net impact from fuel contracts	202	323
Deduct: Acquisition and integration costs	—	(39)
Add: Litigation settlement	—	37
Deduct: Asset impairment	(21)	—
Deduct: Lease termination expense	(22)	—
<b>Total operating expenses, non-GAAP</b>	<b>\$ 16,468</b>	<b>\$ 15,691</b>
Deduct: Fuel and oil expense, non-GAAP (economic)	(3,849)	(3,939)
<b>Operating expenses, non-GAAP, excluding Fuel and oil expense</b>	<b>\$ 12,619</b>	<b>\$ 11,752</b>

Net Income					
	Year End Dec. 31, 2016	Year End Dec. 31, 2015	Year End Dec. 31, 2014	Year End Dec. 31, 2013	Year End Dec. 31, 2012
<b>Net income, as reported</b>	<b>\$ 2,244</b>	<b>\$ 2,181</b>	<b>\$ 1,136</b>	<b>\$ 754</b>	<b>\$ 421</b>
Deduct: Special revenue adjustment	—	(172)	—	—	—
Add: Union contract bonuses	356	334	9	—	—
Add (Deduct): Mark-to-market impact from fuel contracts settling in future periods	9	373	251	(103)	(221)
Add (Deduct): Ineffectiveness from fuel hedges settling in future periods	(11)	(9)	5	11	42
Add (Deduct): Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)	(197)	(251)	24	87	(10)
Add: Acquisition and integration costs	—	39	126	86	183
Deduct: Litigation settlement	—	(37)	—	—	—
Add: Asset impairment	21	—	—	—	—
Add: Lease termination expense	22	—	—	—	—
Add (Deduct): Income tax impact of fuel and special items <sup>23</sup>	(74)	(103)	(154)	(30)	2
<b>Net income, non-GAAP</b>	<b>\$ 2,370</b>	<b>\$ 2,355</b>	<b>\$ 1,397</b>	<b>\$ 805</b>	<b>\$ 417</b>

## Net Income per Share, Diluted

	Year End Dec. 31, 2016
<b>Net income per share, diluted, as reported</b>	<b>\$ 3.55</b>
Deduct: Impact from fuel contracts	(0.31)
Add: Impact of special items	0.63
Deduct: Income tax impact of fuel and special items <sup>23</sup>	(0.12)
<b>Net income per share, diluted, non-GAAP</b>	<b>\$ 3.75</b>

## Operating Revenues

	Year End Dec. 31, 2016	Year End Dec. 31, 2015
<b>Operating revenues, as reported</b>	<b>\$ 20,425</b>	<b>\$ 19,820</b>
Deduct: Special revenue adjustment <sup>2</sup>	—	(172)
<b>Operating revenues, non-GAAP</b>	<b>\$ 20,425</b>	<b>\$ 19,648</b>

## Non-GAAP Return on Invested Capital (ROIC)

	Year End Dec. 31, 2016	Year End Dec. 31, 2015
<b>Operating income, as reported</b>	<b>\$ 3,760</b>	<b>\$ 4,116</b>
Special revenue adjustment	—	(172)
Union contract bonuses	356	334
Net impact from fuel contracts	(202)	(323)
Acquisition and integration costs	—	39
Litigation settlement	—	(37)
Asset impairment	21	—
Lease termination expense	22	—
<b>Operating income, non-GAAP</b>	<b>\$ 3,957</b>	<b>\$ 3,957</b>
Net adjustment for aircraft leases <sup>24</sup>	111	114
Adjustment for fuel hedge accounting <sup>25</sup>	(152)	(124)
<b>Adjusted Operating income, non-GAAP (A)</b>	<b>\$ 3,916</b>	<b>\$ 3,947</b>
Debt, including capital leases <sup>26</sup>	3,304	2,782
Equity <sup>26</sup>	7,833	7,032
Net present value of aircraft operating leases <sup>26</sup>	1,015	1,223
<b>Average invested capital</b>	<b>\$ 12,152</b>	<b>\$ 11,037</b>
Equity adjustment for hedge accounting <sup>25</sup>	886	1,027
<b>Adjusted average invested capital (B)</b>	<b>\$ 13,038</b>	<b>\$ 12,064</b>
<b>Non-GAAP ROIC, pre-tax (A/B)</b>	<b>30.0%</b>	<b>32.7%</b>

# People-Centric, and Proud of It

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Nothing is more important to us than People, whether we're providing our Employees with a workplace that honors diverse points of view, keeping safety top-of-mind, serving our Customers, or striving to make the communities we serve better places for the people who live there. Our Heart is devoted to taking care of others because we're more than an airline—we're your neighbor.



## KEY ACCOMPLISHMENTS

We served more than

124M

Southwest Customers

Nearly 2M



Nearly **2 million hours** spent in training and education programs by our Employees.

\$25M+

We **gave more than \$25 million** in monetary, in-kind, and ticket donations to nonprofit organizations in our communities.





## KEY TOPIC

## Employees

At Southwest, Employees are given the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer. We encourage creativity and innovation from all Employees as the best way to deliver our legendary Customer Service and Hospitality. We're committed to treating Employees fairly and to providing a nurturing work environment that helps them learn and grow. After all, when you put your Employees first, your Customers feel the effect.



### Sharing Our Profits

Employees earned \$586 million in profitsharing for 2016.



### Proud Employees

Percentage of Employees surveyed who said they are proud to work for Southwest in our 2016 Employee survey.

### STORIES

Engaged Employees  
Boost Teamwork

A Snapshot of  
Southwest Employees

Flight Attendants  
Become Galley Designers

Southwest Employees  
Go Hollywood

Training the Southwest Way

Investing in Our Future,  
One Employee at a Time

Where People of Diverse  
Backgrounds Can Soar

Spreading the Planet Message





## Engaged Employees Boost Teamwork

Southwest urges all Employees to be passionate Team Players, to avoid taking themselves too seriously, and to do their best work every day. Our 2016 Employee survey showed overall Employee Engagement was 78 percent. Of the Employees who took the survey:

- 85 percent are proud to work for Southwest
- 84 percent would recommend Southwest as an airline to fly
- 83 percent think Southwest is a good corporate citizen
- 82 percent believe People of diverse backgrounds can succeed at Southwest
- 79 percent would recommend Southwest as a good place to work
- 79 percent are satisfied with their jobs

As a Company with a Heart, we know our Employees have a lot that goes on outside of work. We like to recognize their important life events including marriages, births, adoptions, graduations, illnesses or accidents, deaths, and Employee

military leave. A special group of Employees called Internal Customer Care makes a point to recognize Employees who are experiencing these events through cards and letters, gifts, and personal phone calls. Last year, they reached out to 14,466 Employees at least once. This equated to more than 25 percent of our workforce!

It's all part of taking care of People and embracing our Southwest Family.

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**Our 2016 Employee  
survey showed overall  
engagement at  
Southwest of 78%.**

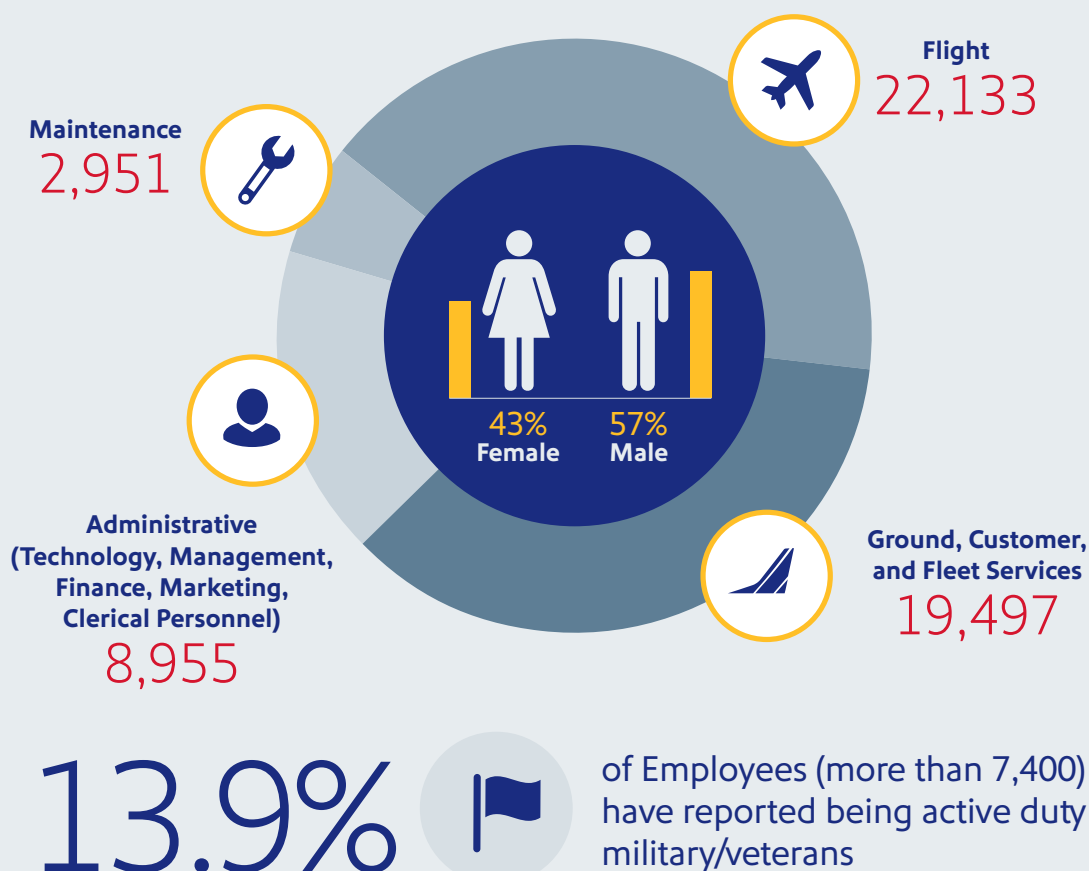
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## A Snapshot of Southwest Employees

It takes a great Team to keep us flying. Here's a closer look at our talented and diverse group of more than 53,000 Employees.

### Breakdown of Employees by Work Group and Gender<sup>22, 27</sup>





## Flight Attendants Become Galley Designers

When we decided to change the galleys in our new Boeing 737-800 airplanes to make them better suited to our unique service model, we went straight to the experts: the Frontline Southwest Employees who work onboard our planes. After all, no one knows more about galleys than the Employees who work in them every day.

Following a “Design Your Own Galley” contest, 10 Flight Attendants and a Provisioning Agent became the design Team for the new galleys. We tasked them with creating the most superb onboard experience in the industry while still maintaining our Southwest Brand and superior style of service.

One big issue was the way the galleys were configured. “Of the four Flight Attendants flying the -800, three were stationed at the aft galley with one at the front,” explained Jamie Willard, Southwest’s Inflight Operations Director of Safety Standards and Regulatory Compliance, who oversaw the project. “This resulted in a cramped space and inefficient workflow for the Flight Attendants in the aft galley.”



“One thing that made the galley project so successful was that Senior Leaders empowered Employees to build their own work areas. We couldn’t have done it without support from the top to find a better way.”

– Jamie Willard, Inflight Operations Director of Safety Standards and Regulatory Compliance

For the first six weeks, the Design Team met almost weekly, putting ideas on paper and white boards. The Employee-based Team started by reconfiguring the galleys to have two Flight Attendants stationed in each one, which means better service for Southwest Customers. “The Design Team looked at every detail,” said Jamie. “For example, because we serve with trays, Flight Attendants must be able to access product quickly and are constantly in and out of the galley compartments. So the Team incorporated special doors and latches that are not found in a standard galley.”

In May 2016, after more than three years of work, the first 737-800 with the new galley entered service. The galleys will also be part of Southwest’s new 737 MAX 8 airplanes. “One reason the galley project was so successful was that Senior Leaders empowered Employees to build their own work areas,” said Jamie. “We couldn’t have done it without support from the top to find a better way.” And, of course, we couldn’t have done it without the dedication of our Employees, who always find a way to do more than asked—and do it for the satisfaction of knowing they helped improve Southwest service.

**In the newly configured 737-800, there are now two Flight Attendants in each galley, which makes them much more efficient places to work.**



Employees take stock of our new galleys.





## Southwest Employees Go Hollywood

Those actors in our new TV commercials aren't really actors. They're Southwest Employees, and their enthusiasm reflects our Fun-LUVing Attitude like no actor ever could.

Guillermo Rosales, San Diego-based Customer Service Agent, was one of nine Southwest Employees lip-syncing to popular songs in our new Yes! television commercials, and it would be difficult to make a better casting decision. "I really wanted to act again," said Guillermo, who acted and played in a band in his late teens.

"I've always had a creative side, so I'm very blessed for the opportunity the Company gives us to do something that we have the passion and talent for," Guillermo said, adding that Customers often recognize him from his appearance in the commercials. "They see me and call out, 'Hey Hollywood,'" he said, laughing.

A Southwest Employee for 17 years, Guillermo said seeing the commercial for the first time was a thrill. "I couldn't believe how cool the production was," he said, adding that he's available for future shoots. "Oh, yeah," he said. "I'm ready."

Fellow Southwest Employee Roy Nabors, who has worked as a Ramp Agent at Chicago Midway for eight years, joined Guillermo on the commercial. Roy's daughter shot his audition video, and "They loved it," according to Roy.

When it came time to be in front of the camera, "The director told us to have fun with it, to just rock out. So we did."

Roy saw the commercial for the first time at home with his family. "It was hilarious," he said. "As soon as they saw it, they just burst out laughing. I told them, 'You didn't need to laugh that hard!'"

The other commercials in the campaign feature Employees including Flight Attendants, Customer Service Agents, Ramp Agents, and a Pilot. The results were clear examples of how the Southwest family brings enthusiasm to all that it does.



"The director told us to have fun with it, to just rock out. So we did."

– Roy Nabors, Ramp Agent, Chicago Midway





## Training the Southwest Way

At Southwest, we provide an array of training options to help every Employee gain valuable skills and knowledge. That makes them better Employees and makes Southwest a stronger company.

One of our major training resources is Southwest Airlines University (SWA U). In a state-of-the-art training facility, SWA U offers technical training and personal and professional development opportunities. It provides a centralized location for Employees to learn in realistic environments and practice on-the-job skills, with everything from a cabin simulator for Flight Attendants to Leadership training for Managers. We also encourage movement around the Company to increase

skills and Company knowledge, and look for opportunities to promote from within.

To help Employees better understand the development opportunities that are available to them, in 2016 SWA U launched a new internal website that describes its many personal and professional education programs.

In 2016, we invested more than \$100 million in training, including construction costs for the new Flight Training Center at Headquarters and travel expenses for Employees attending training.

### 2016 Employee Training Hours

**1,953,705** hours  
in training & education, systemwide



Ground  
Operations  
730,088



Pilots  
457,563



Flight  
Attendants  
443,295



Customer Support  
and Services  
175,447



Maintenance  
147,312

**811,717**



Safety & Security  
training hours for  
all Employees



## Investing in Our Future, One Employee at a Time

To give our Employees opportunities to gain the knowledge and expertise they need to help build the future of Southwest, we introduced a Tuition Reimbursement Program in 2016 that provides opportunities for professional development, continuing education, and skills training.

Through this benefit, full-time Employees may be eligible for up to a \$5,000 reimbursement annually for graduate degrees and a \$2,500 reimbursement annually for undergraduate degrees and certifications.

"Finding out about the new Tuition Reimbursement Program was the best news ever, because it meant I won't need a student loan to finish up my education," said Carolina Sierra, Orlando Station Services Coordinator.

"As a first-generation college student, it is an honor to represent my family, and I strive to make them proud," said Carolina. "Southwest is supporting this opportunity, allowing me to continue my path to success by offering financial support."

"This benefit is a real life-changer for many of us and another example of Southwest going the extra mile to take care of its Employees," said Carolina.

Tuition reimbursement is just one way we invest in our Employees. We're proud to offer a comprehensive Total Rewards Package that includes profitsharing, retirement plans, health, wellness, training, travel, and other benefits. See a complete list of our [benefits here](#).

### Tuition Reimbursement

Eligible Employees can receive:

**\$5,000**  annually for graduate degrees

**\$2,500**  annually for undergraduate degrees and certifications



## Where People of Diverse Backgrounds Can Soar

Diversity & Inclusion (D&I) has always been important to the Heart of Southwest. We champion an inclusive Culture valuing the unique perspectives of *all*.

Intensifying our focus on D&I over the last several years has significantly increased the diversity of our thinking and how we approach our business. We're proud that 82 percent of Employees who took our 2016 Employee survey reported that Southwest created an environment where People of diverse backgrounds can succeed.

To continue to grow our understanding, we participate in International Women's Day, with conversation and learning opportunities at our Dallas Headquarters. We also hold Power of Inclusion Lunch-N-Learn events for Employees

almost every month. In 2016, one of these events featured a transgender Employee who shared the experience of being transgender at Southwest—and communicated how the Employee felt welcomed, supported, and valued.

We continue to explore ways to thread D&I throughout existing and new Employee training. Last year, our CEO and all Executives attended inclusive training from Mind Gym, which reminded Leaders that a Culture leveraging all of our rich and varied expertise makes us all more successful. All Southwest Employees can take part in a diversity workshop called LUV Thru a Multi-Cultural Lens. Fostering an inclusive Culture that values the unique perspectives of all Employees is a clear and ongoing focus for Southwest.

---

**82 percent of Employees who took our  
2016 Employee survey reported that  
Southwest created an environment where  
People of diverse backgrounds can succeed.**

---



## Spreading the Planet Message

Our Green Ambassadors are on a mission: to motivate, educate, engage, and inform local Cohearts on Southwest's green efforts. In 2016, we solidified our Green Ambassador network to have designated Employees who are passionate about green in every Southwest location!

Selected because of their passion for the environment, our Green Ambassadors coordinate recycling efforts, organize Station events to benefit their communities, inform Employees about green initiatives, and discover creative ways to make their Stations more environmentally friendly. Our Green Ambassadors are always seeking new, innovative, and exciting ways in which Southwest can reduce its environmental impact.

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**130 Green Ambassadors companywide  
help identify ways Southwest can reduce  
its environmental impact.**

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## KEY TOPIC

## Customers

At Southwest Airlines, it's always been about Heart. It's about People and putting others first. It's about finding that one way to serve that makes each person feel special.

Making people feel special is the job of all Southwest Employees. Southwest is famous for friendly service because we treat our Customers with a sense of warmth, helpfulness, and a caring attitude that sets us apart.



**Southwest Customer**  
@SouthwestCustomer

With all these flights to ATL getting bopped, shout outs to @SouthwestAir for keeping my weekend plans in check



**Southwest Airlines**  
@SouthwestAir

Thanks for the shout out! We appreciate you and look forward to welcoming you onboard this weekend!

**663,787**

Number of conversations with Customers in 2016, through our Social Listening Center



**19%**

Increase in external Customer commendations in 2016



### STORIES

Sticking with Customers Makes Them Stick with You





## Sticking with Customers Makes Them Stick with You

Overcoming adversity is a hallmark of the Southwest Warrior Spirit. In July 2016, we experienced a technology outage that disrupted our operations for the better part of three days. It was extremely frustrating for both our Customers and our Employees.

We immediately turned to our six communication goals to address the situation: honest, transparent, quick, genuine, progressive, and omni-channel. This is how we kept Customers and Employees up to speed on a stressful and changing situation.

We tapped the power of social media, using Facebook Live video streaming to reach Customers and address media inquiries. Our live stream featured Leaders who were forthright and proactive in talking to our Customers. The result: We saw the first signs of a significant positive sentiment.

Through it all, we worked hard to maintain our Southwest Spirit. For example, when a young lady in San Jose couldn't get home to her parents in time to celebrate her birthday, Employees threw her a birthday party in the airport to lift her spirits.

As we told our Customers and our Employees, there is no victory lap to be had for a situation that bred disappointment and shook the trust Customers have in Southwest. But during a situation such as the outage, "Love Above All" remained the theme as we worked to get our Customers back in the air.

Our efforts to keep Customers informed and to resolve the issue as quickly as possible likely contributed to Southwest ending the year with the lowest number of Customer complaints, 0.47 per 100,000 enplanements, as reported by the U.S. Department of Transportation.



**Southwest Customer**  
@SouthwestCustomer

@SouthwestAir Website down? Can't check into my flight!!!!



**Southwest Airlines**  
@SouthwestAir

@SouthwestCustomer We're working hard to get the site back to full functionality and appreciate you hanging in there with us!

In the first two days of the outage, our Net Promoter Score (NPS), which measures customer willingness to recommend a company's product or services to others, dropped to 95 percent below the summer 2016 average. Within a week after the event, it rose to only 5 percent below the average. Notably, within two weeks of the outage, our NPS

had strengthened to 11 percent above the average. Our Customers seemed to appreciate how hard our People were working to serve them in adverse conditions.

For the full year 2016, Southwest achieved an exceptional Net Promoter Score of 69.3 percent.



**Southwest Customer**  
@SouthwestCustomer

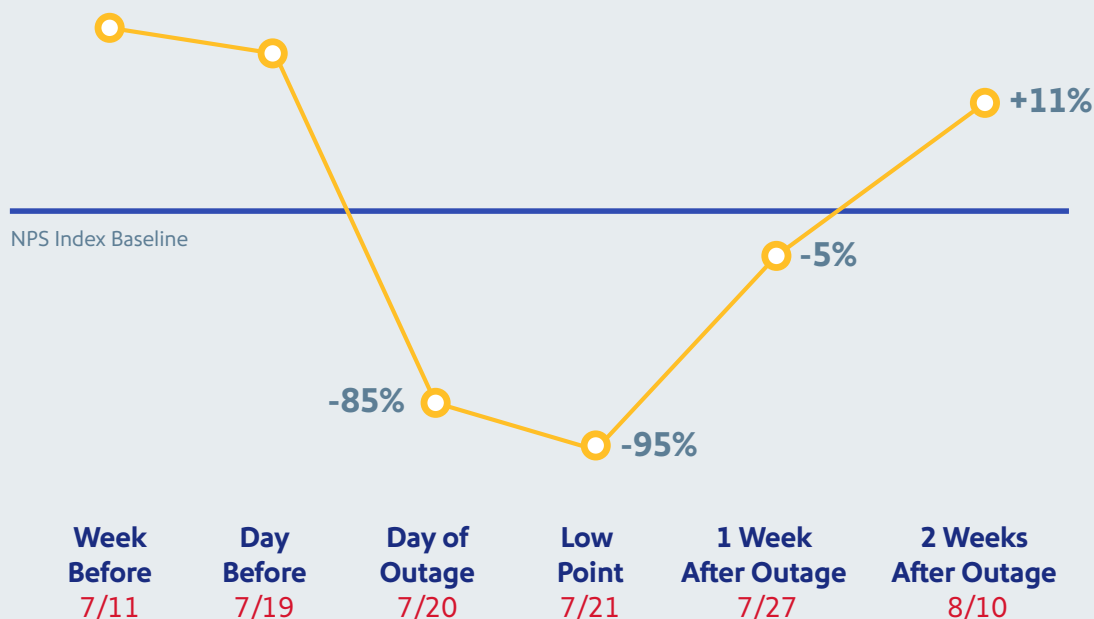
Was stranded in Dallas Wed. Due to @SouthwestAir outage, received a 50% off coupon and an apology today unsolicited. 1st Class service SWA!



**Southwest Airlines**  
@SouthwestAir

@SouthwestCustomer Happy to give our Customers a helping hand when they need us most! Thanks for being patient with us.

## Net Promoter Score (NPS)





## KEY TOPIC

## Communities

Whether in the air or on the ground, we believe community is more than a place—it's at the Heart of what brings us together. Southwest has a strong history of investing in our communities. We champion causes that help bring People together.

Our Heart doesn't simply give back, it gives forward because we know that the most resilient communities are the ones with the strongest connections. We believe the act of connecting can make the world feel a bit smaller and the future a little brighter—and it all starts with Heart.

**18**

Heart of the Community grants given (over \$2M in investments)



"In meaningful interactions, we find the good in one another, which serves to open our minds and hearts to our fellow neighbor."

– Gary Kelly, Chairman and CEO

**149,695**

Employee Volunteer hours (value of more than \$3.5M)<sup>28</sup>



### STORIES

Helping Build Community with Heart

Bringing People Together by Restoring a Plaza to Its Former Glory

Giving Our Heart and Help to Children

From Farm to Plane and Back Again

Many Different Ways to Give



## Helping Build Community with Heart

Our relationships with our communities go far beyond the airports where we take off and land. That's the thinking behind Heart of the Community, our signature community outreach program. Its mission is to build connections that bring People together and strengthen communities for a more resilient future. We know firsthand that well-connected communities are the ones that more easily overcome challenges.

"In meaningful interactions, we find the good in one another, which serves to open our minds and hearts to our fellow neighbor," said Gary Kelly, Chairman and CEO.

One of the ways we accomplish this is by investing in places for those connections to flourish. In partnership with the national nonprofit Project for Public Spaces, Heart of the Community grants provide funding and technical assistance to local community partners to bring new life to their public spaces.

By supporting central, vibrant, active public spaces, Heart of the Community grants facilitate connections, which are the foundation for more resilient communities. Since introducing the program in 2014, we have provided grants to 18 Southwest communities in the U.S. and Mexico for a total investment of \$2 million. We are committed to Loving People, Building Resilience, and Living Responsibly.

---

**Heart of the Community is our way  
of helping communities grow stronger  
and more resilient.**

---

## Heart of the Community Project Impacts<sup>29</sup>

Outcomes of our first five Heart of the Community grant projects in San Antonio, Detroit, Providence, San Diego, and Baltimore included:



**\$735,000**  
given in grants



**147 new jobs created**  
both directly and indirectly



**2.5 million**  
visitors to project sites



**1.4 million**  
event attendees



**\$7.7 million**  
in visitor spending



**1,200+ hours**  
of Southwest Employee volunteerism





## Bringing People Together by Restoring a Plaza to its Former Glory

Reviving the heart of a time-worn plaza was the motivation behind a restoration project in Mexico City. In early 2016, with support from Southwest, the Lugares Públicos team set out to start a new life for Foro Lindbergh plaza, part of Parque México. A large hardscape plaza with beautiful Art Deco pergolas, amphitheater, and fountain, the historic Foro Lindbergh had the potential to be a thriving hub of activity in the center of a lush historic park. However, even after extensive renovations, the plaza wasn't being fully utilized by the community.

Working closely with Project for Public Spaces, Lugares Públicos used a variety of creative engagement activities to gather information from people in the community and encouraged them to offer ideas about how to improve and activate the plaza.

Using that feedback and after months of testing a broad range of programming, a kiosk full of books and games was installed, surrounded by colorful tables, chairs, and benches. Lugar de Encuentro para Amigos (LEA) or "Place to Meet Friends" now serves as a friendly and welcoming place for the community to gather.

Christine Ortega, International Senior Advisor, Community Affairs & Grassroots, says the group's efforts were rewarded. "As I witnessed people mingling and laughing, enjoying churros as others danced and kicked soccer balls, I knew that LEA and Foro Lindbergh had truly become the heart of that community, and this will be a place to meet and make friends for years to come."



"As I witnessed people mingling and laughing, enjoying churros as others danced and kicked soccer balls, I knew that this park had truly become the heart of that community."

– Christine Ortega, International Senior Advisor,  
Community Affairs & Grassroots



## Giving Our Heart and Help to Children

Southwest Employees jumped into action when they learned that some schools in Albuquerque were lacking science, technology, engineering, and mathematics (STEM) programs. The Employees developed a curriculum and taught it to the students on their own time. Gary Bjarke, Director of Maintenance Contracts, explains:

I was on a Southwest flight for my job in Tech Ops Support when I struck up a conversation with one of the Flight Attendants. Her name is Gina Duvall, and when she found out my job involved aircraft maintenance, she told me that Albuquerque Public Schools were facing big budget cuts and some schools were losing STEM programs. I'm familiar with STEM concepts, so that got my attention, and I asked how I could help.

Gina told me how much the kids wanted to learn. But a lot of them go to very poor schools, and approximately 5,000 children in the Albuquerque Public Schools are homeless.<sup>30</sup> A lot of them thought that no one cared about them. But we did. Employees on my Team from Dallas, Seattle, and Indianapolis all wanted to pitch in. So we put together a STEM curriculum and went into the classrooms to teach it.



# 150+ students


**Southwest Employees  
volunteered to support more  
than 150 fourth and fifth  
grade students in  
Albuquerque classrooms**

Of course, because we're all from Southwest Airlines, our teaching emphasized a lot of aviation principles. For example, we talked to the kids about the physics of how an airplane flies—concepts like thrust, lift, and drag. Our semester of STEM teaching reached more than 150 fourth and fifth graders.

We also taught a full semester of hands-on critical thinking—a step-by-step process of how large companies in the private sector balance the importance of the environment with keeping their operations profitable.

We've already planned some of the curriculum for 2017. We're going to build some model 737s out of recycled materials!

Having a Team that cares for the kids really builds their confidence. We were touched by how grateful they were, and likewise, we continue to be grateful to them for teaching us how spending a little time with kids can make such a big difference.



Southwest Employees  
helping teach STEM  
curriculum in the  
classroom.





## From Farm to Plane and Back Again

There's a lot more to Community Coffee than just tasting great. The company also shares our commitment to build resilient communities where Employees, Customers, and suppliers live and work.

So, for every pound of Community Coffee we serve on our flights, Southwest and Community Coffee jointly donate five cents to the ECOM Foundation, a nonprofit organization committed to developing long-term sustainability in communities that produce commodities like coffee.

In 2016, Southwest donated more than \$16,000 to the ECOM Foundation. Such donations support educational programs for the children, families, and farmers in Mexico where some of Community Coffee's high-quality Arabica coffee beans are grown. With the help of the ECOM Foundation, we're giving origin producers in rural areas access to resources that strengthen the local communities and reinforce the long-term stability of their livelihood.

In 2016, our support helped open two satellite schools in rural Chiapas, Mexico, where difficult terrain and challenging weather conditions have contributed to teacher absenteeism. With each school equipped with 20 computers, the community is connected to supplemental education without relocation. This incredible advancement is made available in part through a partnership with the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM). During the first

quarter of operation, 186 students were enrolled in the satellite schools, spanning from elementary-aged children to adults.

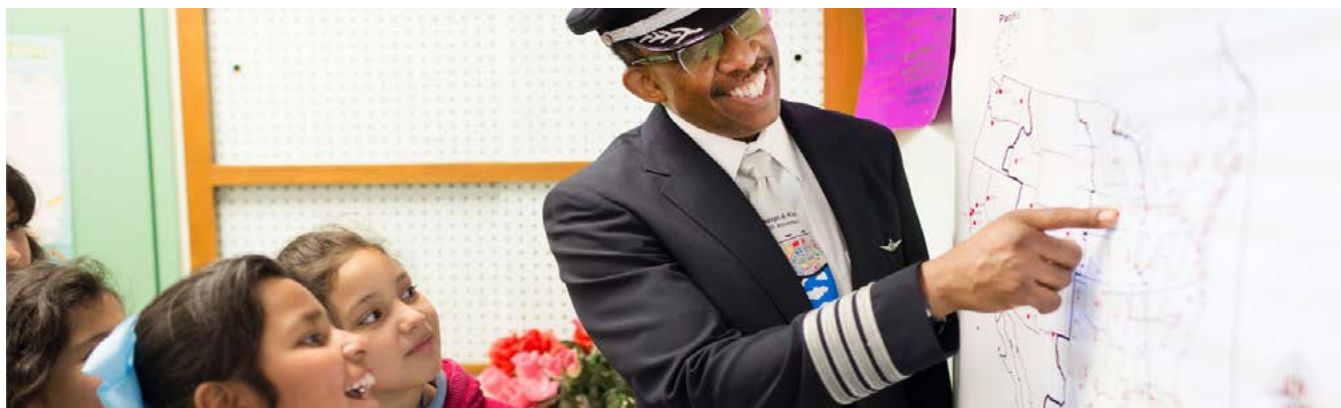
General computer courses provide a foundation of computer literacy from learning how to use software to using the internet to conduct research. As a result of the early success of the program, the scope of courses is expected to expand over time to include secondary education, advanced agriculture and manufacturing techniques, university education, courses on personal development, as well as other subjects of interest to the adult community members.

People are at the Heart of everything we do, and we proudly raise our cups to our Customers in thanks for helping us give back.

In 2016, more than  
**\$16,000**  
was donated to the  
the ECOM Foundation







## Many Different Ways to Give

At Southwest, we follow The Golden Rule and treat others with respect. We aim to do that through our everyday actions and our legacy of giving. In addition to all the charities we support as a Company, here are examples of some additional programs that we champion:

- **Medical Transportation Grants.** In 2016, we gave \$3.2 million in free transportation to nearly 100 hospitals and medical transportation organizations for patients and families in need.<sup>31</sup>
- **Tickets for Time.** For every 40 hours our Employees volunteer for a nonprofit organization, the benefitting organization is eligible to receive one complimentary roundtrip ticket on Southwest for fundraising or transportation needs. In 2016, Employees earned nonprofits 2,252 tickets, equivalent to almost \$1 million in donated travel.<sup>31</sup>
- **Southwest Airlines Employees Catastrophic Assistance Charity (SWAECAC).** Employees donated more than \$1.2 million in payroll contributions to the SWAECAC, which offers support to Southwest Employees suffering financial hardships resulting from a catastrophic event in their lives.

We also gave of ourselves by volunteering at organizations throughout the Southwest system.

## Employee Volunteer Efforts and Company Giving



Tickets  
Donated

53,291



Company  
Giving



Total Monetary  
Donations

\$3,280,307

---

More than  
**\$25 million** Total corporate monetary,  
in-kind, and ticket donations

---



Employee  
Volunteer Hours

149,695



Employee  
Volunteer Efforts



Value of Employee  
Volunteer Hours<sup>28</sup>

\$3,526,814

# Looking Forward<sup>1</sup>



## **“Wings”**

An additional Headquarters building named Wings is scheduled to be completed in 2018. This Flight Training Center will house flight simulators, classroom space for Pilot training, and office space for operations departments. We plan to have all of our flight simulators housed in this new facility by mid-2018.

## **Heart of the Community Expansion**

In 2017, Southwest aspires to broaden its commitment to building connections that strengthen communities for a more resilient future by awarding grants to three additional communities and adding new key partners and initiatives through the Heart of the Community program.

## **Milestone Anniversaries**

In 2017, we will observe the 20-year anniversary of Adopt-A-Pilot® volunteer program and 10-year anniversary of our Medical Transportation Grant Program, two of our key community outreach programs, with some special celebrations and donations.

# People Data Table

	Year End Dec. 31, 2016	Year End Dec. 31, 2015	Year End Dec. 31, 2014	Year End Dec. 31, 2013	Year End Dec. 31, 2012
<b>Employees<sup>22</sup></b>					
Active, full-time equivalent Employees at yearend	53,536	49,583	46,278	44,831	45,861
<b>Employees By Division<sup>22,27</sup></b>					
Flight	22,133 41 %	21,108 42 %	20,013 43 %	19,003 42 %	19,210 42 %
Maintenance	2,951 6 %	2,795 6 %	2,632 6 %	2,689 6 %	2,626 6 %
Ground, Customer, and Fleet Services	19,497 36 %	17,315 35 %	15,739 34 %	15,464 35 %	16,093 35 %
Administrative (Technology, Management, Finance, Marketing, Clerical Personnel)	8,955 17 %	8,365 17 %	7,894 17 %	7,675 17 %	7,932 17 %
<b>Benefits</b>					
Active and inactive Employees who participate in benefits program	More than 56,300	More than 52,000	More than 49,000	More than 48,000	More than 48,000
Employee benefit programs excluding 401(k) and ProfitSharing plans and share-based compensation (accrued) <sup>32</sup>	More than \$1 billion	More than \$950 million	More than \$880 million	More than \$830 million	More than \$800 million
401(k) savings plan participation	92 %	92 %	93 %	Nearly 89%	Nearly 85%
ProfitSharing Plan participation	All eligible Employees	All eligible Employees	All eligible Employees	All eligible Employees	All eligible Employees
401(k) and ProfitSharing plans	More than \$936 million	More than \$945 million	Nearly \$644 million	Nearly \$500 million	More than \$370 million
<b>Training</b>					
Pilot hours	457,563	476,272	546,867	193,644	300,496
Flight Attendant hours	443,295	241,900	474,973	115,900	177,500
Maintenance hours	147,312	148,281	154,723	145,069	159,000
Customer Support and Services hours	175,447	214,745	128,845	57,769	175,278
Ground Operations hours	730,088	656,365	693,687	911,358	439,635
Safety and Security hours (all employees)	More than 811,000	More than 800,000	More than 820,000	More than 580,000	More than 520,000



	Year End Dec. 31, 2016	Year End Dec. 31, 2015	Year End Dec. 31, 2014	Year End Dec. 31, 2013	Year End Dec. 31, 2012
<b>Customers</b>					
External Customer commendations	More than 105,000	More than 89,000	More than 75,000	Nearly 70,000	Nearly 65,000
Ratio of external Customer commendations to personnel rudeness complaints	6:1	4:1	4:1	Nearly 5:1	Nearly 7:1
American Customer Satisfaction Index (ACSI)	80	78	78	81	77
U.S. Department of Transportation (DOT) Customer Satisfaction rating (consumer complaints per 100,000 enplanements)	0.47	0.52	0.50	0.34	0.25
Percentage of reported flight operations arriving ontime	80.8	79.7	73.0	76.7	83.1
Number of mishandled bags reported per 1,000 Passengers	2.98	3.31	4.06	3.72	3.08
Passengers denied boarding per 10,000 Passengers	0.99	1.08	1.03	1.06	0.84
Number of incidents involving the loss, injury, or death of animals during transport	0	0	0	0	0
<b>Communities</b>					
Donation requests received systemwide	15,237	14,995	15,046	17,941	19,053
Tickets donated	53,291	38,936	43,188	44,019	44,559
Total monetary donations	\$ 3,280,307	\$ 3,258,761	\$ 2,748,305	\$ 2,034,431	\$ 2,104,871
Total corporate monetary, in-kind, and ticket donations	\$ 25,324,794	\$ 19,571,177	\$ 20,128,153	\$ 18,951,092	\$ 20,273,621
Monies raised through official Southwest fundraising efforts	\$ 675,000	\$ 675,000	\$ 640,000	\$ 700,000	\$ –
Employee volunteer hours	Nearly 150,000	More than 145,000	More than 144,000	More than 144,000	More than 137,000
Value of Employee volunteer hours <sup>28</sup>	More than \$3,500,000	Nearly \$3,500,000	More than \$3,300,000	More than \$3,200,000	\$ –
<b>Social Management Approach</b>					
Employees represented by unions	Approximately 83%	Approximately 83%	Approximately 83%	Approximately 83%	Approximately 83%
Employee human rights training hours	More than 51,000	More than 22,000	More than 54,000	More than 20,000	More than 17,000
Employees trained on human rights	44.4 %	36.1 %	46.4 %	6.7 %	20.5 %
Employees and business associates who acknowledged the Code of Ethics	More than 59,000	More than 53,500	More than 50,800	More than 46,500	More than 46,000

A Southwest Airlines plane is flying in a clear blue sky with light clouds. Below the plane, a large green grassy field is visible. In the foreground, several people are sitting on the grass, some looking up at the plane. In the background, there are trees and a bridge, suggesting a park or airport grounds.

# Caring for the Planet We Call Home

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Southwest Airlines operates more than 3,900 daily flights during peak travel season. With each flight, we take to heart our commitment of Living Responsibly and reducing our environmental impact. Through continuous improvement, a Warrior Spirit, and a Servant's Heart, we renew that commitment every day, in the air and on the ground.

## KEY ACCOMPLISHMENTS



We donated  
**5,000**  
surplus life vests to  
a nonprofit to assist  
fishermen in Uganda,  
keeping waste out  
of landfills

**300,000**  
gallons



We can save **300,000 gallons**  
of gasoline and diesel fuel,  
annually, through reducing idling  
of our provisioning vehicles while  
servicing aircraft.<sup>1</sup>

**30.6%**

We have **improved jet fuel**  
**efficiency by 30.6%** on a  
revenue ton mile (RTM)<sup>33</sup>  
basis since 2005.





## KEY TOPIC

## Energy Use

Energy consumption, particularly jet fuel, is a significant part of our operations and our environmental impact. We appreciate that many Customers are concerned about their carbon footprint when they fly. That's why at Southwest we are always conscious of the need to use energy wisely, and we work to implement innovative ways to conserve it on the ground and in the air. From using renewable energy to integrating groundbreaking technologies, we continually aspire to reduce our consumption rates.

More than  
**\$565**  
million

### Smart Investments

Amount invested in fuel efficiency improvements since 2002.

  
**25M+**  
gallons  
saved

### Planning for Better Fuel Efficiency

Refining our fuel planning calculations and flight planning procedures enabled us to save more than 25 million gallons of fuel in 2016.

## STORIES

Respecting Our Resources  
by Using Them Efficiently

Working to Find  
a Better Way

Pushing Innovation  
in Fuel Efficiency

Making the Most  
of Our Idle Time

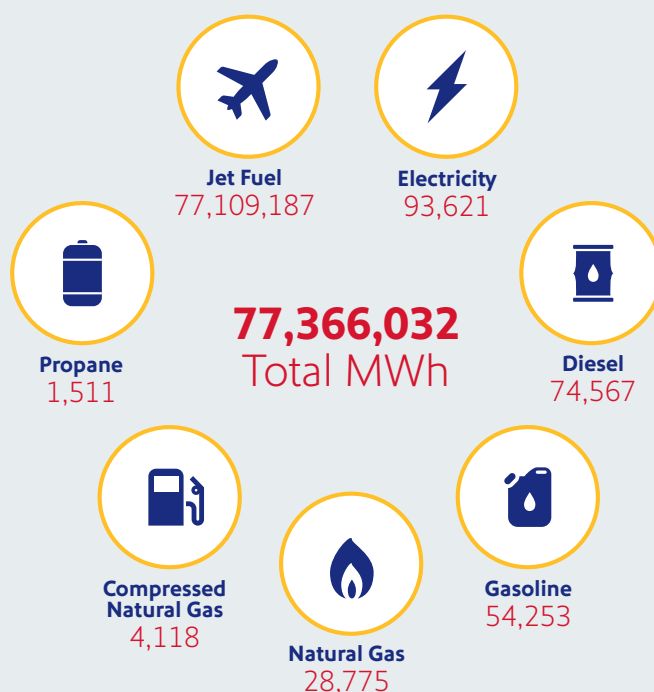




## Respecting Our Resources by Using Them Efficiently

We use a variety of energy types, and while we work to use each one as efficiently as possible, we continue to look for new ways to be more efficient. Whether it be through reductions in jet fuel consumption, investments in fuel reduction technologies, or the selection of energy efficient materials on our construction projects, we're always on the lookout for new ways to improve our energy efficiency.

### Total Energy Consumption in Megawatt-hours<sup>34</sup>



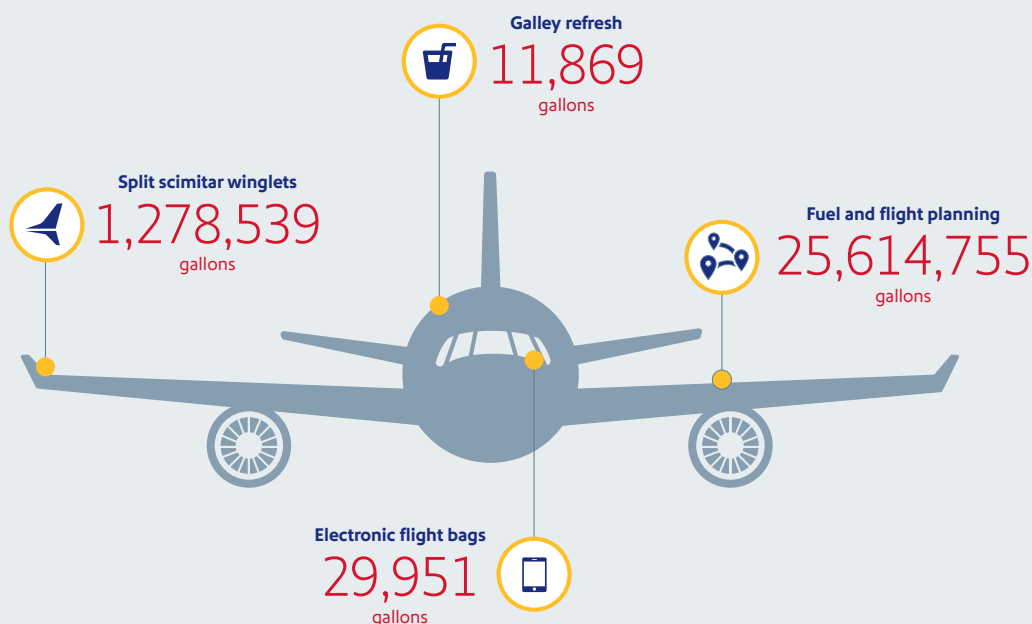


## Working to Find a Better Way

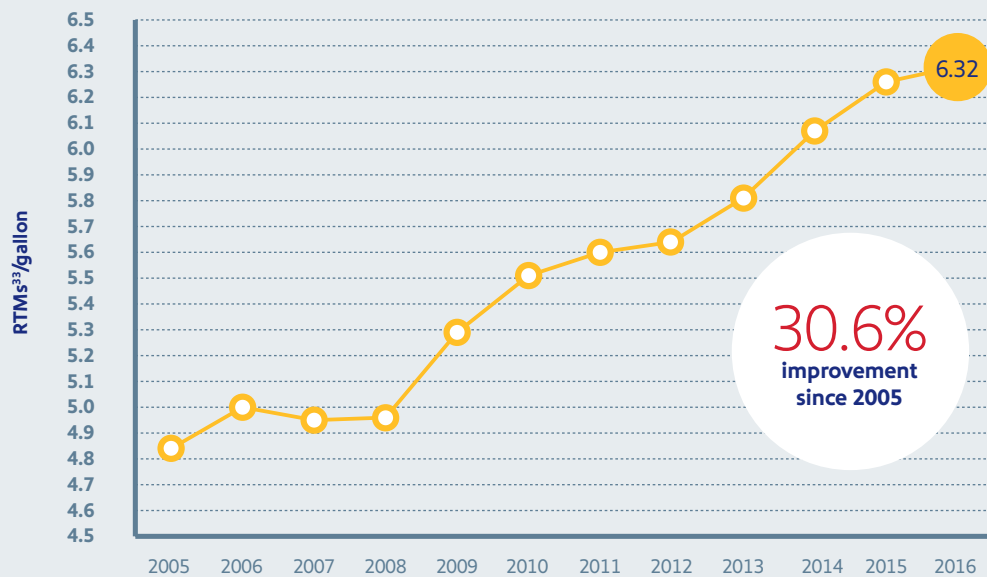
Because it's our largest energy source, we work hard to conserve jet fuel and challenge ourselves to find new ways to do it. We've made great strides in this area with more than \$565 million invested in fuel efficiency improvements since 2002, which include a redesign and refresh of our aircraft galleys, the addition of split scimitar winglets, the transition to electronic flight bags, and changes to fuel and flight planning.

### Jet Fuel Conservation (2016)

We're always looking for ways to reduce fuel consumption. Here are just a few of our many solutions:



## Historic Jet Fuel Efficiency Improvement





## Pushing Innovation in Fuel Efficiency

Fuel efficiency initiatives are directly linked to our ability to offer low-cost air travel. We have invested more than \$565 million in fuel efficiency improvements since 2002, including adding winglets to our aircraft, engine upgrades, engine washes, use of ground power at airport gates, and controlled ground idle speeds. For example, all of our Boeing 737-800 aircraft have split-scimitar winglets installed to reduce air resistance, resulting in additional savings of 1.28 million gallons of fuel and 12,554 metric tons of CO<sub>2</sub>e in 2016 compared with 2015.

We continued our fleet modernization program in 2016, retiring 42 of our older aircraft, including 737-300 aircraft and all of our remaining 737-500 aircraft. We took delivery of 38 new 737-800s, which now comprise 20 percent of our total fleet. These airplanes offer significant fuel savings on an available seat mile<sup>3</sup> basis compared with our Boeing 737-300 aircraft, which are scheduled to be completely retired by the end of third quarter 2017.<sup>1</sup> The Boeing 737 MAX 8 is expected to provide over 20 percent greater fuel efficiency compared with the 737-300 aircraft on a gallons per available seat mile basis.

---

**We have invested more than \$565 million in fuel efficiency improvements since 2002, including aircraft winglets, engine upgrades, engine washes, use of ground power at airport gates, and controlled ground idle speeds.**

---



## Making the Most of Our Idle Time

Idling engines waste fuel and add to air pollution. Recently, Southwest's Ground Support Equipment Team saw an opportunity to save fuel and reduce emissions by turning off truck engines while airplanes are being cleaned and stocked with snacks and drinks.

So in 2015 and 2016, the Team began installing idle reduction technology on provisioning trucks, which use gasoline or diesel engines to transport and lift supplies to airplanes between flights. The engines previously remained idling for up to 20 minutes per flight.

With more than 200 trucks retrofitted with this technology, Southwest can save over 300,000 gallons of fuel per year,<sup>1</sup> according to Larry Laney, Director of Ground Support. That equates to over 2,800 metric tons of CO<sub>2</sub>e.

"It's surprising how much fuel we're saving," said Larry. "It goes to show that small steps can really add up."

---

**With more than  
200 trucks already  
retrofitted with this  
technology, we can  
save over 300,000  
gallons of fuel per  
year. That equates  
to over 2,800 metric  
tons of CO<sub>2</sub>e.**

---





## KEY TOPIC

## Greenhouse Gas (GHG) Emissions

People fly on Southwest for a number of reasons, from our low fares to our friendly Customer Service. We're working to add one more reason: our efforts to continue leading the industry in emissions reductions through fuel efficiency. It's part of a comprehensive environmental program that aligns with our focus on Living Responsibly.

**5 years**

Of improving our CO<sub>2</sub>e  
intensity ratio



As part of our continued  
commitment to reducing  
our emissions, in 2016,  
**we replaced 89% of our  
eligible equipment<sup>35</sup>**  
at Phoenix Sky Harbor  
airport with electric.

**1,332**

Pieces of electric ground  
support equipment  
systemwide



## STORIES

Reducing Emissions by  
Striving to Be the Best

Plugging in to Reduce Airport Emissions

Helping the Monarch  
Butterfly Make a Comeback

Our National Forests Are National Treasures

Contributing to a Billion Acts of Green

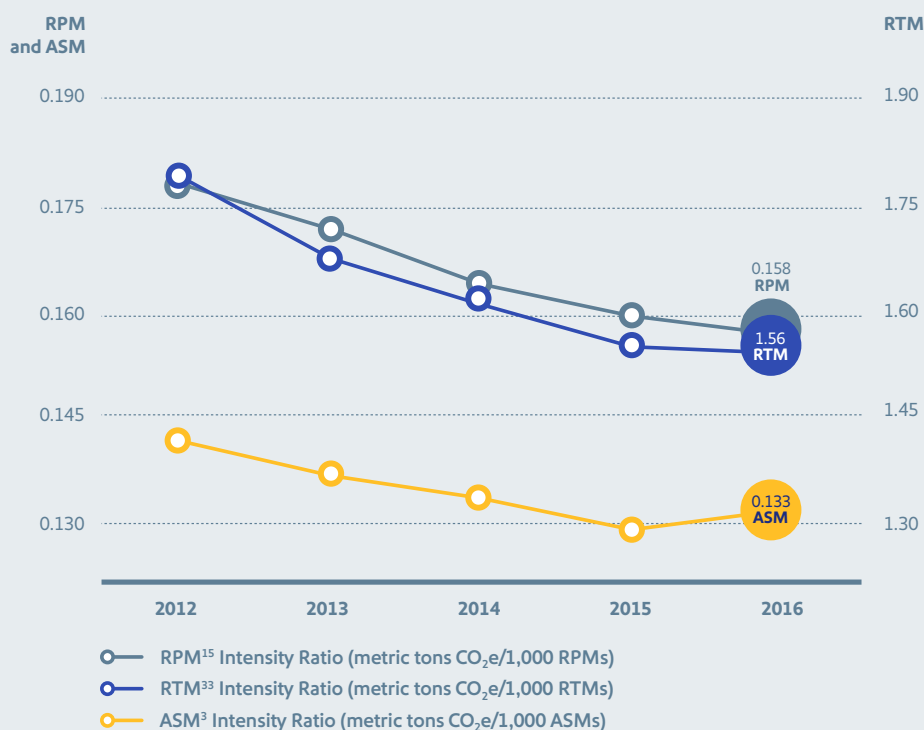


## Reducing Emissions by Striving to Be the Best

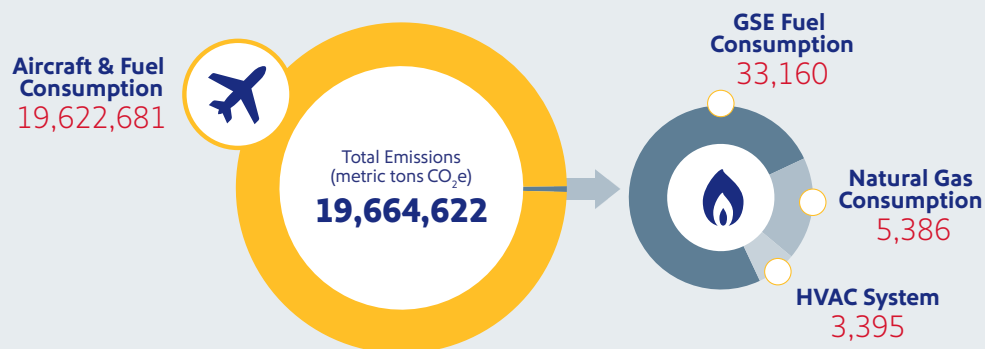
To better understand our impact on the planet and to increase the transparency of our operations, we have voluntarily tracked our greenhouse gas (GHG) emissions since 2009. In 2016, we improved our CO<sub>2</sub>e intensity ratios for the fifth straight year. While overall CO<sub>2</sub> emissions continue to go up as the company grows, we will continually look for opportunities to reduce or offset emissions.<sup>1</sup>

### Improvement in CO<sub>2</sub>e Intensity Ratios

(calculated using Scope 1 & 2 emissions)

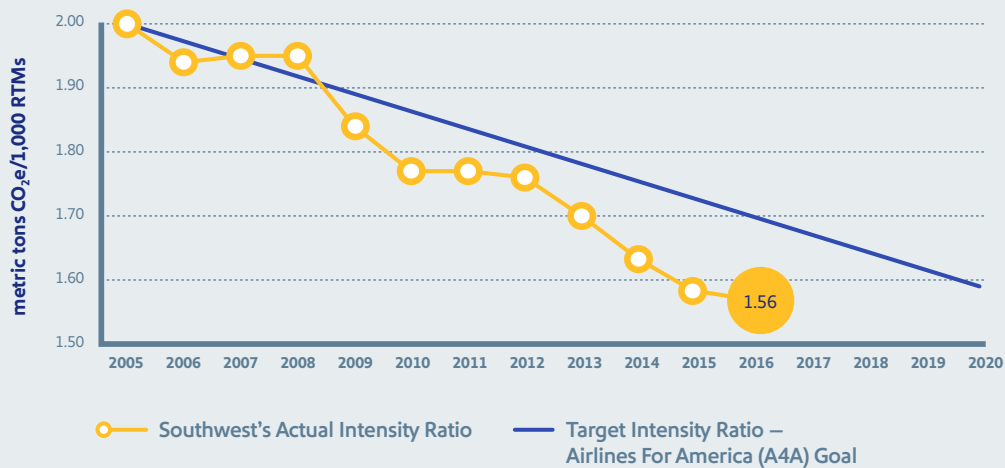


## 2016 Scope 1 Emissions Breakdown



## Emissions Reduction Target

(metric tons CO<sub>2</sub>e from Scope 1 & 2 emissions/1,000 RTMs)





## Plugging in to Reduce Airport Emissions

At Southwest, we are committed to Living Responsibly. Our electrification project at Phoenix Sky Harbor Airport (PHX) does exactly that by reducing emissions in the ramp area.<sup>1</sup>

In 2016, PHX completed a project that increased the number of electric charging stations available at airport gates. This enables us to reduce airport emissions by powering our ground support equipment (GSE) with electricity instead of diesel fuel. The initiative was undertaken in partnership with Southwest as part of the Federal Aviation Administration's (FAA) Voluntary Airport Low Emissions (VALE) program.

At the end of 2016, our PHX station included 165 pieces of electric GSE equipment, from belt loaders to pushbacks—

the vehicles that move airplanes into position to taxi out. Currently, a combined 89 percent of our eligible ground equipment at PHX—belt loaders, bag tugs, and pushbacks—is electric, cutting emissions significantly and offering other benefits. “The ramp is a lot quieter,” says Rick Waugh, Senior Manager for GSE at PHX. “And there are lower maintenance requirements with these units overall.”

In addition to the PHX project, we took part in infrastructure improvements at Birmingham (BHM), converting 12 pieces to electric GSE. We now have 1,332 pieces of electric GSE systemwide.

**Our electrification initiative is cutting emissions, reducing noise, and lowering maintenance requirements.**



“There are lower maintenance requirements with these newer ground support equipment units.”

– Rick Waugh, Senior Manager for Ground Support Equipment (GSE) at PHX





## Helping the Monarch Butterfly Make a Comeback

Our environmental strategy includes partnering with organizations to foster environmental preservation and conservation. In keeping with this strategy, we recently teamed up with the National Recreation and Park Association (NRPA) to help save the threatened monarch butterfly.

The NRPA's Parks for Monarchs program supports creating monarch waystations, planting milkweed and native plants to increase pollinator gardens, and educating the public through programming and interpretation. This is an important conservation program as the pollinator population is declining due to lost food sources. And with one in every three bites of food dependent on pollinators, keeping our crops healthy is increasingly important.

Last year, Southwest Employee Volunteers in five communities planted over 1,400 milkweed and native pollinator plants, removed invasive plants, and cleared trash and debris. Southwest also made a \$20,000 investment in Parks for Monarchs, a program to increase the number of pollination gardens.

By establishing these new gardens, Southwest Employees helped create a much-needed habitat and breeding ground that will allow monarch populations to recover and thrive.

---

**Last year, Southwest Employee Volunteers  
in five communities planted over  
1,400 milkweed and native pollinator plants.**

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## Our National Forests Are National Treasures

Forests help mitigate climate change by removing CO<sub>2</sub> from the atmosphere. As part of our belief that we all should be stewards of our environment, we supported the National Forest Foundation (NFF). They promote healthy forests through tree planting, conservation, and other activities.

In 2016, we donated roundtrip travel to the NFF, helping the organization advance its twofold mission: to enhance the ecological health of America's National Forests and to promote sustainable public enjoyment of these treasured landscapes.

As a result of the Southwest donation, 26 representatives of community-based collaborative groups, primarily from the West, attended the NFF's first national workshop in Denver in April 2016. The participants learned about tools and strategies to help them secure stronger support from communities as they work toward more effective forest management on public lands.

The donation also supported the travel needs of NFF's field and development staff. The field staff manages strategic site-based restoration on National Forests and Grasslands from California to Florida and from Illinois to Arizona. The travel cost savings from our in-kind donation allowed the NFF to invest more money in on-the-ground restoration on these public lands.



"Our partnership with Southwest enables us to strengthen Americans' connection to their National Forests. Southwest's support also helps the NFF and its local partners become even more effective at protecting and stewarding these public lands for future generations."

**– Ray Fotte, National Forest Foundation  
Executive Vice President**



## Contributing to a Billion Acts of Green

Our Green Ambassadors, who are charged with motivating, educating, and informing their local Cohearts on Southwest's green efforts, saw Earth Day 2016 as a great learning opportunity. The idea: highlight the value of every individual "act of green" by teaming up with our national partner, Earth Day Network, to contribute to its Billion Acts of Green campaign.

From April 22 to May 6, Southwest Employees across the country competed to undertake as many Acts of Green as possible. Their green acts could have been as simple as using a refillable mug or water bottle, unplugging electronics when not in use, or carpooling to work.

Over the course of the two-week event, Southwest Employees from 54 locations completed and logged 79,092 Acts of Green. Along the way, our Green Ambassadors helped Employees learn that even simple acts and lifestyle changes will make a huge difference on the planet.

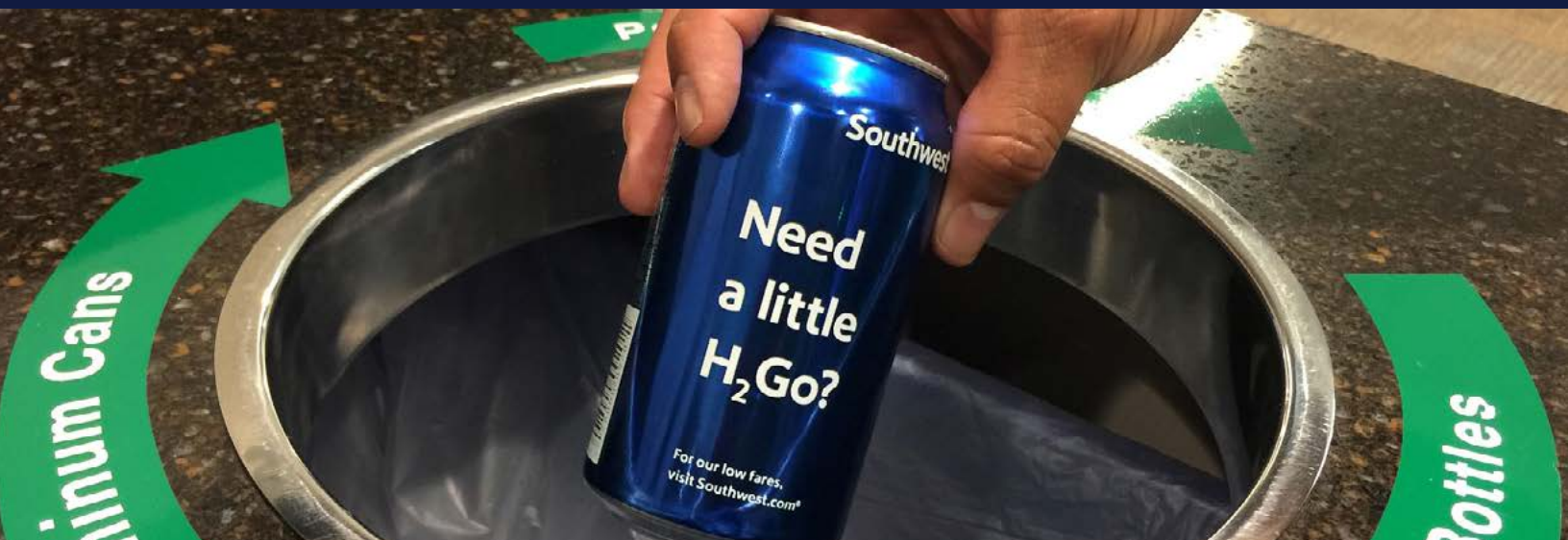
"Over a relatively short period of two weeks, the Volunteers at Southwest Airlines were able to accomplish a stunning amount," said Earth Day Network President Kathleen Rogers. "Acts large and small, from riding bikes to work to starting recycling programs at the office, are small down payments toward the larger goal of sustainability. We believe that Earth

Day is a great introduction to the environmental movement, and thousands of Southwest Employees learned something new about the environment during the Billion Acts of Green Campaign."



"Over a relatively short period of two weeks, the Volunteers at Southwest Airlines accomplished a stunning amount."

– Kathleen Rogers, Earth Day Network President



## KEY TOPIC

## Waste

We see waste as an opportunity to do better by improving efficiency.<sup>1</sup> We emphasize reusing and recycling throughout our Company—sometimes in innovative and unexpected ways. We also educate our Employees to help them recycle at work and at home. It's all part of how we work to do what's right by Living Responsibly and respecting our resources.

**1,600**

maintenance tracking  
devices installed  
on our GSE

### Innovating to Cut Waste

In 2016, we installed 1,600 tracking devices on our ground support vehicles to better monitor maintenance needs and reduce the disposal of many vehicle components.

**3,348  
tons**

of waste diverted  
from landfills

### Landfill Diversion

Our repurposing and recycling efforts kept 3,348 tons of waste out of landfills in 2016.

## STORIES

[Reducing Waste by Optimizing Maintenance](#)[Repurposing with Purpose](#)





## Reducing Waste by Optimizing Maintenance

Saving time, money, and materials is the goal of a new technology program initiated in 2016, that helps our Fleet Managers determine exactly when equipment needs maintenance.<sup>1</sup> New tracking devices on our ground support equipment (GSE) can wirelessly upload critical data, such as hourly engine run-time, for analysis by our Managers. They use this data to schedule maintenance more precisely, optimizing the use of materials.

Before this technology was adopted, we performed routine maintenance such as fluid and belt changes on a pre-scheduled basis, whether the equipment needed

the maintenance or not. Using the tracking data, the GSE Team can now determine whether preventive maintenance is needed based on the equipment's actual usage.

This new approach enables us to avoid maintenance-related waste, including used oil and antifreeze, as well as costs associated with their disposal. It also eliminates the cost of unneeded materials.

We plan to install this technology on all 6,000 pieces of GSE in our fleet.

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## We installed 1,600 tracking devices on our GSE in 2016.

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## Repurposing with Purpose

At Southwest, we repurpose a variety of items, from life vests to engine parts. By extending the lifecycle of as much material as possible, we reduce waste sent to landfills while also providing social and economic opportunities in our communities.

After some success with repurposing our seat covers in 2013, we began to review other opportunities to up-cycle, recycle, and down-cycle materials. Working with diverse organizations throughout the country, we have been able to continue our efforts to repurpose leather seat covers and cushions, as well as other items like blankets, life jackets, and even engines.

In one example, following the decision to replace our life vests to make each a universal fit for Customers, we partnered with a Rotary Club in Florida to repurpose the 5,000 surplus life vests. The Rotary Club is working to send this critically needed safety equipment to fishermen in Uganda, and we were able to keep nearly 5,500 pounds of waste out of landfills.

In addition, people leave many items onboard our airplanes or in the terminal. While we do our best to identify the owners and reconnect them to their lost items, many items are never claimed. We partner with a national distributor that sells the lost items, giving them continued purpose. All the proceeds from these sales are donated to the Salvation Army.

### Repurposing with Purpose



Since 2014 we've found ways to up-cycle, recycle and down-cycle materials like:

- Leather seat covers and cushions
- Blankets
- Life vests
- Aircraft engines
- Billboards
- Gloves
- Uniforms
- Six-pack rings



Many non-profit organizations are also interested in our aircraft components such as engines, avionics, and fuselages to assist them with efforts in education or rehabilitation. Although we cannot meet every request, we are able to assist with some specific educational, historical, or health opportunities. All of these efforts are helping us further reduce significant quantities of waste otherwise ending up in landfills.

Southwest also recycles traditional waste materials including paper, plastic, aluminum, and cardboard. We even find opportunities to recycle used carpet from our facilities by sending it to a recycling company that breaks it down for reuse in new carpet, yarn, trim, or other carpet byproducts. Altogether, we recycled or repurposed 35 percent of our waste in 2016.

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**By repurposing our life vests,  
we are providing a critical safety  
need to fishermen in Uganda and  
keeping nearly 5,500 pounds  
of waste out of landfills.**

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# Looking Forward<sup>1</sup>



## Launch 737 MAX 8

We expect Boeing's new, more fuel-efficient 737 MAX 8 aircraft to enter service in October 2017.

## Expand Idle Reduction Program

We plan to expand our provisioning truck idle reduction program by replacing 45 old trucks by the end of 2017, with new ones that incorporate idle reduction technology.

## Continue Electric GSE Improvements

We continue to build our electric GSE fleet at Los Angeles International (LAX), Phoenix Sky Harbor (PHX), and Oakland International (OAK) by purchasing additional electric pushbacks for those stations.

## Systemwide Recycling Program

We are extending our Ring Leader Recycling Program from Orlando to 22 additional airports across the country. The program recycles the plastic six-pack rings used to hold multi-pack bottles or cans.

## Continue Repurposing Program

We will continue to repurpose and recycle, including a new program in Mexico to support local artisans.

# Planet Data Table

	Year End Dec. 31, 2016	Year End Dec. 31, 2015	Year End Dec. 31, 2014	Year End Dec. 31, 2013	Year End Dec. 31, 2012
<b>Environmental Impacts</b>					
Total energy consumption (megawatt-hours (MWh)) <sup>34</sup>	77,366,032	73,688,161	69,827,294	70,493,624	71,571,555
Intensity ratio (MWh/1,000 RTMs) <sup>33</sup>	6.13	6.20	6.39	6.68	6.87
Water consumption (gallons) <sup>36</sup>	83 million	80 million	83 million	69 million	77 million
Intensity ratio (gallons/Employee) <sup>22</sup>	More than 1,500	More than 1,600	Nearly 1,800	More than 1,500	Nearly 1,700
<b>Greenhouse Gas Inventory (Scope 1 and Scope 2 Emissions)</b>					
Scope 1 emissions (metric tons of carbon dioxide equivalent (CO <sub>2</sub> e))	19,664,622	18,731,062	17,784,227	17,956,473	18,232,474
Scope 2 emissions (metric tons of CO <sub>2</sub> e)	53,264	48,810	51,228	47,680	46,783
Total Scope 1 and Scope 2 GHG emissions (metric tons of CO <sub>2</sub> e)	19,717,886	18,779,872	17,835,455	18,004,153	18,279,257
Production activity (revenue passenger miles (RPMs)) <sup>15</sup>	124.8 billion	117.5 billion	108.0 billion	104.3 billion	102.9 billion
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 RPMs)	0.158	0.160	0.165	0.173	0.178
Production activity (available seat miles (ASMs)) <sup>3</sup>	148.5 billion	140.5 billion	131.0 billion	130.3 billion	128.1 billion
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 ASMs)	0.133	0.134	0.136	0.138	0.143
Production activity (revenue ton miles (RTMs))	12.6 billion	11.9 billion	10.9 billion	10.6 billion	10.4 billion
Intensity ratio (metric tons CO <sub>2</sub> e/1,000 RTMs)	1.56	1.58	1.63	1.70	1.76
<b>Greenhouse Gas Inventory (Scope 3 Emissions)</b>					
Capital goods—production of aircraft (metric tons CO <sub>2</sub> e)	43,600	26,500	53,000	32,000	—
Waste generated in operations—waste to landfill and burned for energy recovery (metric tons CO <sub>2</sub> e)	3,500	3,000	5,100	5,700	—
Employee commuting—estimate based on survey (metric tons CO <sub>2</sub> e)	218,600	183,600	174,000	188,000	—
<b>Other Air Emissions</b>					
NO <sub>x</sub> emissions (tons) <sup>37</sup>	7.1	7.1	—	—	—
SO <sub>x</sub> emissions (tons) <sup>37</sup>	0.7	0.7	—	—	—

	Year End Dec. 31, 2016	Year End Dec. 31, 2015	Year End Dec. 31, 2014	Year End Dec. 31, 2013	Year End Dec. 31, 2012
<b>Regulatory Compliance</b>					
Number of environmental violations resulting in fines	1	6	3	None	1
Total environmental fines	\$ 3,303	\$ 7,497	\$ 5,738	\$ –	\$ 1,500
<b>Environmental Conservation</b>					
Fuel efficiency (ASMs/gallon)	74.4	73.9	72.8	71.7	69.4
Fuel efficiency (RTMs/gallon)	6.3	6.3	6.1	5.8	5.6
Total number of electric & solar GSE	1,336	1,229	1,088	963	927
Purchases of renewable energy certificates (kWh)	More than 25 million	More than 25 million	More than 25 million	More than 25 million	More than 15.7 million
<b>Waste Management &amp; Recycling</b>					
Total waste generated (tons)	9,690	11,135	–	–	–
Total waste recycled (tons)	3,348	4,148	–	–	–
Percent of total waste recycled	35	37	–	–	–
Recycled co-mingled waste—paper, plastic, aluminum, and cardboard (tons) <sup>38</sup>	More than 2,600	More than 3,700	More than 3,000	More than 2,700	Nearly 2,900
Recycled industrial waste (tons)	721	631	520	660	632
Hazardous waste generated (tons)	24.1	25.1	16.5	14.9	21.9
Hazardous waste managed through recycling and beneficial reuse (tons)	16.1	18.9	12.4	11.6	18.5
Intensity ratio (pounds of hazardous waste generated/aircraft)	67	71	50	44	63



# GRI Content Index

The 2016 Southwest Airlines One Report follows the principles outlined in the Global Reporting Initiative's (GRI) G4 Guidelines. The GRI is a voluntary, internationally recognized framework for corporate social responsibility reporting that allows organizations to measure and report their efforts in a consistent manner. Our transition to GRI G4 Guidelines for the 2016 One Report resulted in a leaner, more focused report that we believe will help our Stakeholders better access and understand information related to our corporate social responsibility initiatives. Information is presented in this 2016 Southwest Airlines One Report with respect to performance related to our corporate social responsibility key topics, a term we use instead of materiality to avoid confusion with key financial information. This content index depicts our GRI responses for calendar year 2016, unless otherwise noted.

General Standard Disclosures		
Indicator	Description	Detail/Location in Report
<b>Strategy and Analysis</b>		
<b>G4-1</b>	Statement from the most senior decision-maker of the organization	<a href="#">A Word from Gary</a>
<b>Organizational Profile</b>		
<b>G4-3</b>	Name of the organization	Southwest Airlines Co.
<b>G4-4</b>	Primary brands, products, and/or services	<a href="#">2016 Securities and Exchange Commission Form 10-K</a>
<b>G4-5</b>	Location of organization's headquarters	2702 Love Field Dr. Dallas, Texas 75235 USA
<b>G4-6</b>	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	We operate in nine countries: the United States, Mexico, Jamaica, The Bahamas, Aruba, Dominican Republic, Costa Rica, Cuba, and Belize.
<b>G4-7</b>	Nature of ownership and legal form	<a href="#">2016 Securities and Exchange Commission Form 10-K</a>
<b>G4-8</b>	Markets served	<a href="#">30,000 Foot View</a> We serve business and leisure air travelers, and in 2016 operated in the U.S. domestic market as well as some parts of Latin America and the Caribbean region.
<b>G4-9</b>	Scale of the reporting organization	<a href="#">2016 Securities and Exchange Commission Form 10-K</a>
<b>G4-10</b>	Total number of employees (including breakdown by gender and employment type)	<a href="#">A Snapshot of Southwest Employees</a> <a href="#">2016 Securities and Exchange Commission Form 10-K</a>
<b>G4-11</b>	Employees covered by collective bargaining agreements	Approximately 83 percent of our Employees are covered by collective bargaining agreements.

Indicator	Description	Detail/Location in Report
<b>G4-12</b>	Supply chain	<p>To support our operations, we purchase goods and services from over 10,000 sources across multiple continents and countries but given our network footprint as a North American carrier, the vast majority of our supply base and spend is in the U.S. domestic market. We maintain relationships directly with various types of suppliers, including service providers, contractors, manufacturers, brokers, and wholesalers. Our intent is to provide Southwest with the highest quality products and services at the lowest total costs.</p> <p>While we have dedicated Teams within our Supply Chain Management department such as Fuel Management, Aircraft Maintenance, Technology, and Direct and Indirect Procurement, we strive to manage our supply chain holistically and to optimize system efficiency by utilizing analytically rigorous and dynamic approaches. Our Supply Chain Management department has a Team dedicated to monitoring supplier performance, assessing risk and planning in the event of supply chain disruptions, and analyzing our supply chain spend so we can continuously improve performance.</p> <p>We build sustainable relationships with our suppliers that take into account, among other things, diversity, small and minority owned businesses, environmental aspects, community involvement, human rights, and the highest standards of ethical conduct. We have developed and implemented a thorough procurement policy that includes sections on green procurement and human rights. Southwest Airlines suppliers generally must meet these standards.</p>
<b>G4-13</b>	Significant changes during the reporting period regarding size, structure, or ownership	<a href="#">2016 Securities and Exchange Commission Form 10-K</a> <a href="#">2017 Proxy Statement</a>
<b>G4-14</b>	Precautionary approach	Not reported.
<b>G4-15</b>	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	<a href="#">Airlines for America (A4A) climate change commitment</a> <a href="#">Public Relations Research Standards</a> <a href="#">Diversity Best Practices</a> ; the preeminent organization for mid- to large-size organizational diversity thought leaders to share best practices and develop innovative solutions for culture change. Each Southwest Airlines Employee can logon using their wnco.com email.
<b>G4-16</b>	Memberships or associations	<a href="#">Airlines for America (A4A) climate change commitment</a> <a href="#">Public Relations Research Standards</a> <a href="#">National Diversity Council Board</a> <a href="#">Workforce Solutions Greater Dallas Board</a> ; the local organization mandated to implement a system of services that complement economic development as a resource for employers to access the quality employees they need, and training individuals to be successfully employed.
<b>Identified Material Aspects and Boundaries</b>		
<b>G4-17</b>	Entities included in the organization's consolidated financial statements or equivalent documents	<a href="#">2016 Securities and Exchange Commission Form 10-K</a>
<b>G4-18</b>	Process for defining the report content and the Aspect Boundaries, and how the organization has implemented the Reporting Principles for Defining Report Content	Our transition to GRI G4 guidelines for the 2016 One Report resulted in a leaner, more focused report that we believe will help our Stakeholders better access and understand information related to our Corporate Social Responsibility initiatives. Through our previous reporting and interactions with our Stakeholders, Southwest identified a number of sustainability topics which were prioritized through a benchmarking analysis of our industry conducted in 2016 and early 2017. Southwest then worked to identify key topics and related environmental, social, and governance indicators in an effort to provide a reasonable and balanced representation of our Corporate Social Responsibility efforts in the 2016 One Report.

Indicator	Description	Detail/Location in Report
<b>G4-19</b>	Material Aspects identified in the process for defining report content	We have included the following key topics in the 2016 One Report: Economic Performance, Indirect Economic Impact, Energy, Water, Emissions, Effluents and Waste, Compliance, Employment, Training and Education, Human Rights, Freedom of Association and Collective Bargaining, Local Communities, Anti-Corruption, Public Policy, and Product and Service Labeling.
<b>G4-20/21</b>	Aspect boundaries	<u><a href="#">2016 Securities and Exchange Commission Form 10-K</a></u> 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.
<b>G4-22</b>	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	See data tables for any restatements of information provided in previous reports: <u><a href="#">Performance Data Table</a></u> <u><a href="#">People Data Table</a></u> <u><a href="#">Planet Data Table</a></u>
<b>G4-23</b>	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	There are no significant changes from previous reporting periods in the Scope and Aspect Boundaries.
<b>Stakeholder Engagement</b>		
<b>G4-24</b>	Stakeholder groups engaged	Customers, Employees, NGOs/Community Groups, Suppliers, Shareholders, and Regulators.
<b>G4-25</b>	Basis for identification and selection of stakeholders with whom to engage	We maintain engagement channels with the Stakeholders who we believe may impact, or be impacted by, our business.
<b>G4-26</b>	Approach to stakeholder engagement	<p><b>Customers:</b> Customer Experience surveys are sent to a representative sample of Customers each day post-travel. Daily interaction with our Customer Service Representatives with phone calls, email, or social media. Monthly brand monitoring and other ad hoc research through our Listening Center. Personal contact during travel experience with Customer Service Agents and Flight Crews.</p> <p><b>Employees:</b> Daily internal communications on our intranet, including news, department information, blogs, and weekly Window Seat, the weekly news recap via video. Employees are able to interact in the comment sections. Monthly newsletters, annual Southwest Rallies, ongoing union meetings, and biennial Employee surveys.</p> <p><b>NGOs/Community Groups:</b> Ongoing efforts with the Chambers of Commerce in each of our domestic cities, working with a variety of charitable organizations, and through one-on-one meetings or calls with industry associations or community influencers.</p> <p><b>Suppliers:</b> Ongoing efforts via emails, meetings, and the RFP process, which includes questions on business human rights and environmental practices.</p> <p><b>Shareholders:</b> Ongoing communication with our Investor Relations department via phone calls, email, and mail, Investor presentations, Annual Meeting of Shareholders and the Investor Relations website.</p> <p><b>Regulators:</b> Ongoing engagement through permitting, compliance, and reporting activities. Safety testing, audits, and screenings.</p>

Indicator	Description	Detail/Location in Report
<b>G4-27</b>	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns	Throughout this report.
<b>Report Profile</b>		
<b>G4-28</b>	Reporting period	Calendar Year 2016, unless otherwise stated.
<b>G4-29</b>	Date of most recent previous report	May 18, 2016
<b>G4-30</b>	Reporting cycle	Annual
<b>G4-31</b>	Contact point for questions regarding the report or its contents	<a href="mailto:SWACitizenship@wnco.com">SWACitizenship@wnco.com</a>
<b>G4-32</b>	"In Accordance" option and the GRI Content Index for the chosen option	In accordance-Core and <a href="#">GRI Content Index</a>
<b>G4-33</b>	Policy and current practice with regard to seeking external assurance for the report	This report has not been externally assured.
<b>Governance</b>		
<b>G4-34</b>	Governance structure of the organization	<a href="#">Company Officers</a> <a href="#">Corporate Governance Guidelines</a> <a href="#">Board Committees</a> <a href="#">2017 Proxy Statement</a>
<b>Ethics and Integrity</b>		
<b>G4-56</b>	Values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	<a href="#">Purpose, Vision, Values &amp; Mission Statements</a> <a href="#">Investor Relations</a> <a href="#">Supplier Code of Conduct</a>



## Specific Standard Disclosures

Indicator	Description	Detail/Location in Report
<b>Economic</b>		
<b>Economic Performance</b>		
<b>DMA</b>	<p>Jobs and benefits, return-on-investment, business partnerships, and Customer Service and Safety are all ways in which our economic performance matters to our Employees, Shareholders, Customers, vendors, and the communities in which we operate. We strive to continuously improve our Performance by focusing on our Purpose, and our People are dedicated to fulfilling our Vision.</p> <p>Southwest is known for a triple bottom line approach that contributes to our performance and productivity. We've achieved our success without resorting to layoffs or pay cuts, and Employees share in Southwest's success with our ProfitSharing Plan, the first in the airline industry. This approach helps us retain Employees, reducing turnover costs.</p> <p>We expect our 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. Our commitment to the Planet helps us manage costs by using resources efficiently and identifying emerging environmental trends and risks. In the air, we're conserving jet fuel and reducing emissions. Given fuel is one of our largest expenses, operating with a green filter is not only good for the environment, it's also good for our bottom line. Regarding our position on the potential risks associated with climate change, in our CDP (formerly the Carbon Disclosure Project) response, we have identified risks associated with regulatory change and physical climate risks such as extreme weather events as having the potential to create operational complexities. These complexities may affect airline operations, which could result in impacts to operational and capital costs and ontime performance.</p> <p><a href="#">Performance</a>  <a href="#">People</a>  <a href="#">Investor Relations</a></p>	
<b>EC-1</b>	Direct economic value generated and distributed	<a href="#">Performance</a> 2016 Securities and Exchange Commission Form 10-K
<b>EC-2</b>	Climate change risks and opportunities	<a href="#">Planet</a> 2016 Securities and Exchange Commission Form 10-K <p>Southwest has voluntarily reported our greenhouse gas emissions through CDP (formerly the Carbon Disclosure Project) for the past eight years. In our CDP response, we quantify climate change impacts, risks, and opportunities on our business, and provide information on how we're integrating climate change into our business strategy. You can find Southwest's CDP response at <a href="http://www.cdp.net">www.cdp.net</a>. We have invested more than \$565 million in fuel efficiency projects since 2002.</p>
<b>EC-3</b>	Coverage of defined benefit plan obligations	<p>We provided approximately \$852 million toward Employee retirement through 401(k) and ProfitSharing contributions plus an additional ProfitSharing cash award of \$85 million, based on 2016 results. 92 percent of our Employees participated in our 401(k) plans.</p> <p>For the 2016 plan year, each eligible Employee received a ProfitSharing award equal to 13.2 percent of eligible compensation. Southwest announced a new funding structure that pays part of the ProfitSharing award to the retirement plan and part in cash. Most Employees will receive 10 percent of eligible compensation as a contribution to the ProfitSharing Plan and the remainder—approximately 3.2 percent—in cash. Some Employees will receive the entire ProfitSharing award in the retirement plan as specified in their collective bargaining agreement.</p>

Indicator	Description	Detail/Location in Report
<b>Indirect Economic Impact</b>		
<b>DMA</b>	Our performance impacts more than our Company. Our low fares stimulate economies in cities where we fly. We also make investments in infrastructure and services that more broadly affect the communities we serve in terms of jobs, access to services, or other impacts. Working with local communities and regulators, we strive to maximize the benefits of our investments to local and regional economies.	
<b>EC-8</b>	Significant indirect economic impact	<a href="#">Many Different Ways to Give Helping Build Community with Heart</a>
<b>Environmental</b>		
<b>DMA</b> <i>(for all reported environmental topics)</i>	<p>We recognize the importance of environmental stewardship and believe it's our responsibility to protect our planet now and for future generations. We do our part to make environmentally responsible decisions and to minimize our impact on the environment by collecting and analyzing information on our energy consumption, emissions, and waste, and continually improving the actions we take to mitigate our impacts. We set goals and use an environmental management system (EMS) and chemical management system (CMS) to help us maintain compliance with environmental regulations, minimize costs and risk, and measure our efforts to improve our environmental performance.</p> <p>Given fuel is one of our largest expenses and the burning of it produces greenhouse gas (GHG) emissions, we strive to reduce future emissions while continuing to provide safe, reliable, and affordable air transportation for our Customers. We are paying attention to regulations and agreements that are being formulated by both the EPA and the International Civil Aviation Organization (ICAO), that aim to reduce carbon emissions from commercial aircraft. The ICAO is expected to finalize its emissions standards in 2017. We are currently meeting our GHG emission targets without using offsets.</p> <p>Our environmental policy is a source for all Employees to understand how they can be a part of our Culture of global citizenship.</p> <p>All of Southwest's Leaders and Employees are responsible for carrying out our environmental policy by:</p> <ul style="list-style-type: none"> <li>• Complying with all environmental laws and regulations</li> <li>• Striving to meet our annual goal of zero environmental violations in our operations</li> <li>• Maintaining our EMS, following procedures, and training our Employees to meet our compliance goals</li> <li>• Continuing to improve our performance regarding our environmental goals and initiatives, including our goals for reducing GHG emissions</li> <li>• Auditing our operations for environmental compliance and implementing corrective actions where needed</li> <li>• Auditing our environmental vendors to ensure their operations are compliant and they demonstrate a commitment to environmental stewardship</li> <li>• Providing transparency of our environmental performance to our Stakeholders through public reporting and third-party verification and assurance of our GHG emissions inventory</li> <li>• Conserving natural resources, including efficient use of water and raw materials, and using alternative fuels and renewable energy where possible while continuing to meet our operational requirements</li> <li>• Minimizing waste, pollution, and emissions from our operations and preventing it where possible while remaining true to the triple bottom line of Performance, People, and Planet</li> </ul> <p>Maintaining compliance with all local, state, and federal environmental laws and regulations is fundamental to our environmental policy. We continually work to meet our annual goal of zero recorded environmental violations that would result in monetary fines in our operations. Our Environmental Services Team regularly conducts audits to review compliance, and we are working to improve our performance by maintaining and improving our EMS, following environmental guidelines and procedures, implementing corrective action, and training our Employees to meet our compliance goals.</p> <p>Our standard auditing protocol assesses a location's record keeping, permit status, and compliance with requirements of regulatory plans such as Storm Water Pollution Prevention Plans and Spill Prevention, Control, and Countermeasure Plans. We perform a visual, walk-through inspection to confirm that key compliance practices are enacted in each of the cities we serve. We also track spills at all of our locations, audit findings and corresponding corrective action, and information about permits and their expiration dates.</p> <p><a href="#">Planet Environmental Initiatives</a></p>	

Indicator	Description	Detail/Location in Report
<b>Energy</b>		
EN-3	Energy consumption	<a href="#">Respecting Our Resources by Using Them Efficiently</a> <a href="#">Planet Data Table</a>
EN-5	Energy intensity	<a href="#">Planet Data Table</a>
EN-6	Reduction of energy consumption	<a href="#">Working to Find a Better Way</a>
EN-7	Reductions in energy requirements of services	<a href="#">Planet Data Table</a> <a href="#">Pushing Innovation in Fuel Efficiency</a> We increased our fuel efficiency (available seat miles <sup>3</sup> per gallon of fuel) from 73.9 in 2015, to 74.4 in 2016.
<b>Water</b>		
EN-8	Total quantity consumed by source	<a href="#">Planet Data Table</a>
<b>Emissions</b>		
EN-15	GHG emissions (scope 1)	<a href="#">Reducing Emissions by Striving to be the Best</a> <a href="#">Plugging in to Reduce Airport Emissions</a> <a href="#">Making the Most of Our Idle Time</a> <a href="#">Planet Data Table</a>
EN-16	GHG emissions (scope 2)	<a href="#">Reducing Emissions by Striving to be the Best</a> <a href="#">Planet Data Table</a>
EN-17	GHG emissions (scope 3)	<a href="#">Planet Data Table</a>
EN-18	GHG emissions intensity	<a href="#">Reducing Emissions by Striving to be the Best</a> <a href="#">Planet Data Table</a>
EN-19	GHG emissions reduction	<a href="#">Reducing Emissions by Striving to be the Best</a> <a href="#">Planet Data Table</a>
EN-20	Emissions of ozone-depleting substances	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. Potential ozone-depleting substances Southwest presently uses include refrigerants found in the HVAC systems and appliances of Southwest operated buildings and the air conditioning systems of company vehicles. In every location except our Headquarters Campus, we contract the servicing of our refrigerant systems. For this reason, we estimate the use of these substances for reporting purposes. In 2016, the estimated emissions are 3,395 metric tons of CO <sub>2</sub> e 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.
EN-21	Quantity of hazardous air pollutants	<a href="#">Planet Data Table</a>

Indicator	Description	Detail/Location in Report
<b>Effluents and Waste</b>		
EN-23	Total weight of solid waste by disposal type	<a href="#">Planet Data Table</a>
EN-24	Total number and volume of significant 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 because of equipment failure or human error. We provide our Employees 24/7 access to guidance and emergency response assistance with spill response, and 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 notification to the entire Environmental Services Team upon submittal for quick response and regulatory agency reporting when required. The Environmental Services Team also compiles and analyzes details from all spills so operating groups can assess spill prevention strategies. In 2016, we had four spills that were reportable to the National Response Center per regulatory requirements. None of the spills required reporting in our financial statements as a liability.
<b>Compliance</b>		
EN-29	Monetary value of significant fines	<a href="#">Planet Data Table</a>
<b>Social: Labor Practices and Decent Work</b>		
DMA	<p>Employees are the heartbeat of Southwest. We focus on bringing the best People 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. Therefore, our approach to employment and labor practices is a critical strategy guided by our Executive Vice President Corporate Services and our People and General Counsel departments, which includes a section devoted solely to Labor and Employee Relations.</p> <p>We are committed to:</p> <ul style="list-style-type: none"> <li>• Seeking talented People</li> <li>• Maintaining positive union relations</li> <li>• Investing in training and educational opportunities to enhance Employees' skills</li> <li>• Fostering an atmosphere that promotes equal opportunity</li> <li>• Providing our Employees with a safe and stable work environment</li> <li>• Maintaining equal opportunity for learning and personal growth</li> </ul> <p>We conduct a biennial Employee survey to assess job satisfaction of our Employees, and we use information from the survey to improve our ability to attract, develop and retain talented Employees who will help us meet Southwest's business needs today and tomorrow.</p> <p><a href="#">People</a></p>	

Indicator	Description	Detail/Location in Report
<b>Employment</b>		
LA-2	Benefits provided to full-time Employees	<p><a href="#">Investing in Our Future, One Employee at a Time</a> <a href="#">Employee Benefits</a></p> <p>In 2016, more than 56,300 active and inactive Southwest Employees participated in at least one component of the Company's Employee benefits program. Southwest offers standard benefits to both full-time and part-time Employees. In the case of tuition reimbursement, Southwest Airlines provides the following maximum annual benefit, which will be counted toward the calendar year in which reimbursement is made:</p> <ul style="list-style-type: none"> <li>• Graduate Degrees: \$5,000 for a full-time Employee, \$2,500 for a part-time Employee.</li> <li>• Undergraduate Degrees, Individual/Preparatory courses and Certificate Programs: \$2,500 for a full-time Employee, \$1,250 for a part-time Employee.</li> </ul> <p>Many of the components offered to Employees in our Employee benefits program also are offered to dependents and/or committed partners.</p>
<b>Training</b>		
LA-9	Hours of annual Employee training	<p><a href="#">Training the Southwest Way</a> <a href="#">People Data Table</a></p>
<b>Social: Human Rights</b>		
<b>Investment</b>		
DMA	<p>At Southwest, we are strong supporters of protecting each individual's basic human and civil 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, Customers, suppliers, and the communities we serve.</p> <p>We have created and adhere to Company policies to support and respect the protection of human rights within our sphere of influence. These policies include our commitment to:</p> <ul style="list-style-type: none"> <li>• Prohibit 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</li> <li>• Respect the right of Employees to associate freely</li> <li>• Recognize lawful rights of Employees to choose or not choose collective bargaining representation</li> </ul> <p><a href="#">Corporate Policies</a></p>	
HR-2	Employee training on human rights	<p><a href="#">Training the Southwest Way</a> <a href="#">People Data Table</a> <a href="#">Policy on Harassment, Sexual Harassment, Discrimination, and Retaliation</a></p> <p>44 percent of Employees and over 5,000 contractors received training on Human Rights in 2016.</p> <p>We conduct training on human rights issues as they relate to harassment, discrimination, or retaliation for all new hires. Human rights training and information (including training on human trafficking and notification to law enforcement authorities) is available for existing Employees through a variety of vehicles, including our Guidelines for Employees, our Disability Discrimination &amp; Workplace Accommodation Policy, in both written and audio versions, and our Most Compliant Leader training, an eight-hour program required bi-annually of all Leaders, Supervisors, and above, and our harassment online learning module.</p>



Indicator	Description	Detail/Location in Report
<b>Freedom of Association and Collective Bargaining</b>		
HR-4	Freedom of association and collective bargaining	<p><a href="#">Corporate Policies</a></p> <p>We have not identified operations or suppliers where the right to exercise freedom of association and collective bargaining are being violated. We take preventative measures to avoid this risk by implementing our Code of Conduct.</p>
<b>Social: Society</b>		
<b>Local Communities</b>		
DMA	<p>We understand the powerful impacts that our Company can have on the social systems within which we operate and our responsibility to be a good corporate citizen. That is why we have a Community Relations Department committed to engaging and giving back in the communities where our Customers and Employees live and work. Through our Community Outreach Teams, we provide support, leadership, and encouragement to a variety of local, civic, and charitable organizations. We believe in connecting People and championing the communities where our Employees live and work, and we strategically invest our resources to support local needs and the causes that matter most to those Communities. Our Employees get involved through volunteering, serving as Green Ambassadors, and participating on Community Giving Boards to help direct support to local organizations.</p> <p>Community Giving Boards are made up of local Employees from various work groups who evaluate donation requests Southwest receives from nonprofit charitable organizations in their community. The Boards donate complimentary, roundtrip travel to approved organizations for fundraising or transportation purposes.</p> <p><a href="#">People</a> <a href="#">People Data Table</a></p>	
SO-1	Local community engagement	<p><a href="#">Helping Build Community with Heart</a></p> <p>At the national level, our Heart of the Community program is on a mission to build connections that bring People together and strengthen communities for a more resilient future.</p> <p>Through our work with the pioneering nonprofit organization, Project for Public Spaces, we've invested \$2 million into 18 projects since the program launched in 2014. The investment has yielded tangible social, economic, and community benefits. Through our first initial evaluation (from the first five communities), 147 new jobs were created, \$7.7 million in visitor spending was generated, and grant recipients saw a four-to-one ROI from the Southwest investment.</p>
<b>Anti-Corruption</b>		
DMA	<p>At Southwest, we strive to maintain accountability and transparency of our business practices to reduce or eliminate corruption. We require all Employees to annually certify receipt and understanding of our Code of Ethics and Insider Trading Policy. 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.</p>	
SO-4	Anti-corruption communication	<p><a href="#">Corporate Governance Guidelines</a></p> <p>In 2016, more than 59,000 Southwest Airlines Employees and certain business associates certified receipt of Code of Ethics and Insider Trading policy. During 2016, 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 2016, more than 2,500 individuals received and completed a compliance questionnaire regarding the Foreign Corrupt Practices Act.</p>

Indicator	Description	Detail/Location in Report
<b>Public Policy</b>		
<b>DMA</b>	<p>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 Contact Program, which features 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.</p> <p>Southwest has adopted a policy that it will primarily use its affiliated political action committee, the Southwest Airlines Co. Freedom Fund (Freedom Fund), which is financed through voluntary Employee contributions, to support political campaigns, and that Company funds will be limited to supporting selected political campaigns at the state and local level in compliance with the laws of the relevant states and localities. All political campaign contributions from the Freedom Fund or by the Company directly are approved by the Vice President of Governmental Affairs and overseen by Southwest Airlines' Senior Vice President General Counsel, with an annual summary of those contributions provided to the Southwest Airlines Board of Directors. All political contributions are intended to promote the interests of the Company and are not guided by any private political preferences of any Employee. All contributions by the Freedom Fund are disclosed via publicly available reports filed monthly with the Federal Election Commission. The Company strives to comply with all applicable federal, state, and local campaign finance restrictions and disclosure requirements.</p>	
<b>SO-6</b>	Political contributions	<p>In 2016, the Company contributed \$78,250 directly to political campaigns at the state and/or local level in six states (California, Illinois, Maryland, Missouri, Nevada, and Texas). No Company funds were used to support or finance any political campaign at the federal level or to influence any ballot measure, nor has the Company supported or financed any independent expenditure committee or any political entity organized under section 527 of the Internal Revenue Code, including so-called Super PACs.</p> <p>In 2016, A4A, our airline industry trade association, determined that \$1,255,240 of the total dues paid by the Company to A4A were nondeductible lobbying expenses. Southwest pays dues to several other national, state, and local trade associations and chamber organizations, in which a portion of those dues are used by these organizations for nondeductible lobbying activities; however, in all cases, that portion is less than \$5,000 annually for each organization.</p>

Indicator	Description	Detail/Location in Report
<b>Social: Product Responsibility</b>		
<b>Product and Service Labeling</b>		
<b>DMA</b>	<p>Southwest has always focused on the Customer, with features such as no first or second checked bag (size and weight limits apply) or change fees (fare differences apply), and with a constant desire to improve the Customer Experience. We measure our Customer Satisfaction on an ongoing basis by tracking various sources of Customer Satisfaction data such as our Net Promoter Score, the American Customer Satisfaction Index, and the U.S. Department of Transportation's Customer Satisfaction Ratings. We also measure Customer Satisfaction through our own Tracking Local Customers platform and through the Customer Experience survey which is sent to a representative sample of Customers each day post-travel. Survey results are reported to Leaders of the Company and to Leaders in the various Customer touchpoint areas who use the results to measure performance of key activities. We also do monthly brand monitor research and other ad hoc research that evaluates Customer and Non-Customer perceptions and experiences. Additionally, we track feedback received through various channels such as call centers and social media to learn how we are doing.</p> <p>We recognize the importance of communicating openly, accurately, and responsibly about our service to our Customers, and we are committed to <b>Transfarency</b>®, honest communication about our fares, so Customers can make informed choices.</p> <p>Our Customer Service actions are further communicated to our Customers through the use of various channels or Customer Insight opportunities that allow for two-way communication with our Customers, such as through Southwest's Listening Center and social media. In all these channels, we're answering questions and looking for ways to connect our Customers to what's important in their lives.</p> <p><a href="#">People</a>  <a href="#">Customer Service Policies</a> (click on "Customer Commitments")</p>	
<b>PR-5</b>	Customer satisfaction	<p><a href="#">Sticking with Customers Makes them Stick with You</a>  <a href="#">People Data Table</a></p> <p>External Customer commendations increased by 19 percent in 2016, and our U.S. DOT score related to consumer complaints per 100,000 enplanements improved by 10 percent from 2015. Our American Customer Satisfaction Score improved by two points in 2016, compared with the previous year.</p>

# Footnotes

- 1) The 2016 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 include, without limitation, statements related to (i) the Company's Vision; (ii) the Company's fleet plans, strategies, and expectations, including its fleet modernization initiatives, and the Company's related financial and operational expectations; (iii) the Company's financial position, outlook, goals, targets, strategies, plans, expectations, and projected results of operations, including specific factors expected to impact the Company's results of operations; (iv) the Company's plans and expectations with respect to its new reservation system and other technology initiatives, and the Company's related multi-faceted financial and operational expectations and opportunities; (v) the Company's construction initiatives and related operational expectations; (vi) the Company's growth plans, strategies, and opportunities, including the Company's network and capacity plans, opportunities, and expectations; (vii) the Company's expectations and goals with respect to returning value to Shareholders; (viii) the Company's expectations related to its management of risk associated with changing jet fuel prices; and (ix) the Company's initiatives and related plans and expectations. These 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) changes in demand for the Company's services and other changes in consumer behavior; (ii) the impact of economic conditions, fuel prices, actions of competitors (including without limitation pricing, scheduling, and capacity and network decisions and consolidation and alliance activities), and other factors beyond the Company's control, on the Company's business decisions, plans, and strategies; (iii) the Company's dependence on third parties, in particular with respect to its fleet, technology, and construction plans; (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 impact of governmental regulations and other governmental actions related to the Company's operations; (vi) the Company's ability to timely and effectively prioritize its initiatives and related expenditures; (vii) the impact of labor matters on the Company's business decisions, plans, strategies, and costs; (viii) changes in aircraft fuel prices, the impact of hedge accounting, and any changes to the Company's fuel hedging strategies and positions; 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 Dec. 31, 2016.

- 2) 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 and benefits 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 ongoing financial performance and the Company

believes provides additional insight to investors as supplemental information to its GAAP results. The non-GAAP measures provided that reflect the Company's performance on an economic fuel cost basis include Fuel and oil expense, non-GAAP; Total operating expenses, non-GAAP; Operating expenses, non-GAAP; Net income, non-GAAP; and Net income per share, diluted, non-GAAP. The Company's economic Fuel and oil expense 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 has historically been utilized by the Company, as well as some of the other airlines that utilize fuel hedging, as it 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. The Company believes 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 and analysts, 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, such 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.

In addition, the Company's GAAP results in the applicable periods include other charges or benefits that are deemed "special items" that the Company believes are not indicative of its ongoing operations and make its results difficult to compare to prior periods, anticipated future periods, or to its competitors' results. Financial measures identified as non-GAAP (or as excluding special items) have been adjusted to exclude special items. Special items include:

1. A one-time \$172 million Special revenue adjustment in July 2015 as a result of the Company's amendment of its co-branded credit card agreement with Chase Bank USA, N.A. and the resulting required change in accounting methodology. This increase to revenue represented a nonrecurring required acceleration of revenues associated with the adoption of Accounting Standards Update 2009-13;
2. Union contract bonuses recorded for certain workgroups. As the bonuses would only be paid at ratification of the associated tentative agreement and would not represent an ongoing expense to the Company, management believes its results for the associated periods are more usefully compared if the impacts of ratification bonus amounts are excluded from results. Generally, union contract agreements cover a specified three- to five- year period, although such contracts officially never expire, and the agreed upon terms remain in place until a revised agreement is reached, which can be several years following the amendable date;
3. Expenses associated with the Company's acquisition and integration of AirTran Holdings, LLC, the parent company of AirTran Airways, Inc. ("AirTran"). Such expenses were primarily incurred during the acquisition and integration period of the two companies from 2011 through 2015 as a result of the Company's acquisition of AirTran, which

closed on May 2, 2011. The exclusion of these expenses provides investors with a more applicable basis with which to compare results in future periods now that the integration process has been completed;

4. A gain resulting from a litigation settlement received in January 2015. This cash settlement meaningfully lowered Other operating expenses during the applicable period, and the Company does not expect a similar impact on its cost structure in the future;
5. A noncash impairment charge related to leased slots at Newark Liberty International Airport as a result of the Federal Aviation Administration announcement in April 2016 that this airport was being changed to a Level 2 schedule-facilitated airport from its previous designation as Level 3; and
6. Lease termination costs recorded during 2016 as a result of the Company acquiring five of its Boeing 737-300 aircraft off operating leases, as part of the Company's strategic effort to phase out its Classic aircraft from operations by the end of third quarter 2017 in the most economically advantageous manner possible. The Company had not budgeted for these early lease termination costs, as they were subject to negotiations being concluded with the third party lessors. The Company recorded the fair value of the aircraft, as well as any associated remaining obligations to the balance sheet as debt.

Because management believes each of these items can distort the trends associated with the Company's ongoing performance as an airline, the Company believes that evaluation of its financial performance can be enhanced by a supplemental presentation of results that exclude the impact of these items in order to enhance consistency and comparativeness with results in prior periods that do not include such items and as a basis for evaluating operating results in future periods. The following measures are often provided, excluding special items, and utilized by the Company's management, analysts, and investors to enhance comparability of year-over-year results, as well as to compare results to other airlines: Operating revenues, non-GAAP; Total operating expenses, non-GAAP; Operating expenses, non-GAAP, excluding Fuel and oil expense; Net income, non-GAAP; and Net income per share, diluted, non-GAAP.

The Company has also provided free cash flow, which is a non-GAAP financial measure. The Company believes free cash flow is a meaningful measure because it demonstrates the Company's ability to service its 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, the Company is providing an explanation of its calculation for free cash flow. For the year ended Dec. 31, 2016, the Company generated \$2.3 billion in free cash flow, calculated as operating cash flows of \$4.3 billion less capital expenditures of \$2.0 billion less assets constructed for others of \$109 million plus reimbursements for assets constructed for others of \$107 million.

The Company has also provided its calculation of return on invested capital, which is a measure of financial performance used by management to evaluate its investment returns on capital. Return on invested capital is not a substitute for financial results as reported in accordance with GAAP, and should not be utilized in place of such GAAP results. Although return on invested capital is not a measure defined by GAAP, it is calculated by the Company, in part, using non-GAAP financial measures. Those non-GAAP financial measures are utilized for the same reasons as those noted above for Net income, non-GAAP and Operating income, non-GAAP - the comparable GAAP measures

include charges or benefits that are deemed "special items" that the Company believes are not indicative of its ongoing operations and make its results difficult to compare to prior periods, anticipated future periods, or to its competitors' results, and the Company's profitability targets and estimates, both internally and externally, are based on results excluding special items since in the vast majority of cases the "special items" cannot be reliably predicted or estimated. The Company believes non-GAAP return on invested capital is a meaningful measure because it quantifies the Company's effectiveness in generating returns, relative to the capital it has invested in its business. Although return on invested capital is commonly used as a measure of capital efficiency, definitions of return on invested capital differ; therefore, the Company is providing an explanation of its calculation for non-GAAP return on invested capital in the accompanying reconciliation tables (see Return on Invested Capital), in order to allow investors to compare and contrast its calculation to those provided by other companies.

Information regarding special items and reconciliations of reported amounts to amounts excluding special items are included in the accompanying reconciliation tables in the Performance section.

- 3) An available seat mile (ASM) is one seat (empty or full) flown one mile. Also referred to as "capacity," which is a measure of the space available to carry Passengers in a given period.
- 4) Calculated as operating revenues divided by available seat miles. Also referred to as "operating unit revenues" or "RASM," this is a measure of operating revenue production based on the total available seat miles flown during a particular period. Year ended 2015 RASM excludes a \$172 million one-time special revenue adjustment. Including the special revenue adjustment, RASM would have been 14.11 cents for the year ended 2015.
- 5) The average amount of passenger revenue per revenue passenger carried.
- 6) A slot is the right of an air carrier, pursuant to regulations by the Federal Aviation Administration, to operate a takeoff or landing at a specific time at certain airports.
- 7) Calculated as operating expenses divided by available seat miles. Also referred to as "unit costs" or "cost per available seat mile," this is the average cost to fly an aircraft seat (empty or full) one mile, which is a measure of cost efficiencies.
- 8) As measured by the Department of Transportation O&D Survey for the twelve months ended Sept. 30, 2016 based on domestic originating passengers.
- 9) Average number of weekday flights as of Dec. 31, 2016.
- 10) Number of scheduled flights that arrived less than 15 minutes after scheduled arrival time divided by total scheduled flights.
- 11) Load factor is RPMs<sup>15</sup> divided by ASMs.<sup>3</sup>
- 12) Calculated as passenger revenue divided by revenue passenger miles. Also referred to as "yield," this is the average cost paid by a paying Passenger to fly one mile, which is a measure of revenue production and fares.
- 13) Average distance in miles the aircraft is flown per trip.
- 14) U.S. Department of Transportation Form 41 and T100 data, through Sept. 30, 2016. Based on costs that have been adjusted for Southwest's average stage length and represents domestic mainline.
- 15) An RPM is one paying Passenger flown one mile. Also referred to as "traffic," which is a measure of demand for a given period.
- 16) Aircraft in the Company's fleet at yearend, less Boeing 717-200s removed from service in preparation for transition out of the fleet.



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- 18) Source: Bloomberg as of March 16, 2017. Moody's Senior Unsecured rating used (if unavailable, Long Term Corporate Family or Long Term rating used); S&P's Long Term Issuer rating used; Fitch's Senior Unsecured rating used (if unavailable, Long-term Issuer rating used).
- 19) In terms of domestic passenger traffic.
- 20) Metro areas are areas around cities that may include multiple major airports; Co-terminal: Airports that share a common city or region; for example, Newark, LaGuardia and JFK are considered co-terminals to one another.
- 21) Earnings before interest and taxes.
- 22) Active, full-time equivalent Employees as of Dec. 31 for specified calendar year.
- 23) Tax amounts for each individual special item are calculated at the Company's effective rate for the applicable period and totaled in this line item.
- 24) Net adjustment related to presumption that all aircraft in fleet are owned (i.e., the impact of eliminating aircraft rent expense and replacing with estimated depreciation expense for those same aircraft). The Company makes this adjustment to enhance comparability to other entities that have different capital structures by utilizing alternative financing decisions.
- 25) The Adjustment for fuel hedge accounting in the numerator is due to the Company's accounting policy decision to classify fuel hedge accounting premiums below the Operating income line, and thus is adjusting Operating income to reflect such policy decision. The Equity adjustment for hedge accounting in the denominator adjusts for the cumulative impacts in Accumulated other comprehensive income and Retained earnings, of gains and/or losses associated with hedge accounting related to fuel hedge derivatives that will settle in future periods. The current period impact of these gains and/or losses are reflected in the Net impact from fuel contracts in the numerator.
- 26) Calculated as an average of the five most recent quarter end balances or remaining obligations. The Net present value of aircraft operating leases represents the assumption that all aircraft in the Company's fleet are owned, as it reflects the remaining contractual commitments discounted at its estimated incremental borrowing rate as of the time each individual lease was signed.
- 27) Flight includes Cabin Service Support, Inflight, and Flight Operations. Ground, Customer, and Fleet Services includes Provisioning, Customer Services, Ground Operations, and Operations Coordination Center.
- 28) Based on Independent Sector's estimated value of a volunteer hour. For more information, visit: <http://www.independentsector.org/resource/the-value-of-volunteer-time/>
- 29) Source: Southwest Airlines Heart of the Community Impact Evaluation: 2016 (Research conducted by Nicolas Ronderos Consulting).
- 30) <https://www.abqjournal.com/891849/hud-report-sees-fewer-nm-homeless-local-agencies-disagree.html>
- 31) Each plane ticket is valued at \$400.
- 32) Includes Southwest's contributions to Employee health and welfare plans, workers' compensation insurance, and employer payroll taxes.
- 33) A revenue ton mile (RTM) is one ton of revenue traffic (passenger and cargo) transported one mile.
- 34) Conversions to MWh are based on default densities and heating values from the CDP guidance document, "Technical Note: Conversion of fuel data to MWh." We use this unit of measurement for consistency with our CDP reporting.
- 35) Eligible equipment includes belt loaders, pushbacks, and bag tugs.
- 36) Water consumption is primarily for domestic use at our facilities.
- 37) NOx and SOx emissions are reported in our annual emissions inventories for our DAL and PHX facilities. Data is from prior year due to air emissions reporting cycle.
- 38) Material recycled from aircraft and select facilities as part of the Southwest co-mingled recycling program. Does not include international flights due to regulations that require waste from international flights to be incinerated. Does not include AirTran flights.