Strategic Plan

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

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

AirTran Integration

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

All-New Rapid Rewards

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

Fleet Modernization

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

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

**Boeing 737-800s**

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

**New Reservation System and International Capabilities**

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

**Southwest’s First Flight Outside the Continental United States**

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

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

**International Terminal at Houston Hobby Airport**

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

**Other Strategic Initiatives**

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

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

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

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

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

Revenue Management

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

Ancillary Revenues

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

• Selling open premium boarding positions at the gate: In January 2013, we began selling open premium boarding positions, A1 through A15, at the gate to Customers 45 minutes prior to departure for $40 per flight. This does not replace our Business Select fare or EarlyBird Check-In™, but it is simply a creative way to generate revenue from the sale of available premium boarding positions.

• Increasing the EarlyBird Check-In™ price: EarlyBird Check-In™ increased from $10 to $12.50 per one-way fare in February 2013.

• Increasing select baggage charges: On AirTran flights, the charge for a Customer’s first checked bag increased to $25 and second checked bag to $35 in February 2013. On Southwest flights, a Customer can still check up to two bags, up to 50 pounds each, free of charge, but the charge for a third or subsequent checked bag, or for any bag in excess of 50 pounds, increased to $75 each in February 2013.

• Implementing a new policy: Currently, Customers who don’t show up for their scheduled Southwest flights retain the full value paid for their tickets and can reuse such funds for up to a year after the original flight date. In 2013, we plan to implement a new policy to change Customer behavior in a way that allows us to resell empty seats prior to flight departure.
**Inflight Internet and Live Television Connectivity**

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