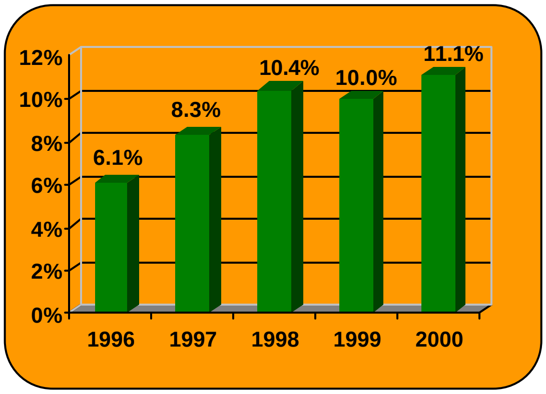
SOUTHWEST AIRLINES CO. ANNUAL REPORT 2000

TABLE OF CONTENTS

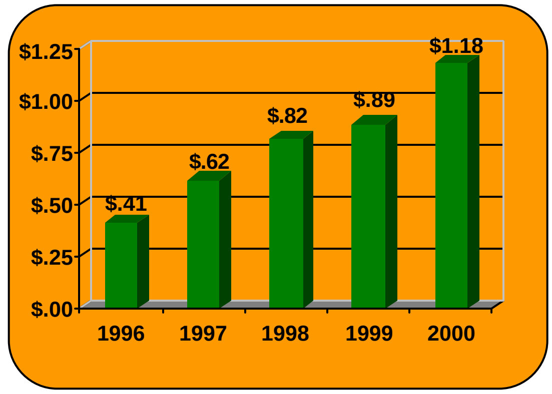
CONSOLIDATED HIGHLIGHTS

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	2000	1999	CHANGE
Operating revenues	$5,649,560	$4,735,587	19.3%
Operating expenses	$4,628,415	$3,954,011	17.1%
Operating income	$1,021,145	$781,576	30.7%
Operating margin	18.1%	16.5%	1.6 pts.
Net income	$625,224*	$474,378	31.8%
Net margin	11.1%*	10.0%	1.1 pts.
Net income per share – basic	$1.25*	$.94	33.0%
Net income per share – diluted	$1.18*	$.89	32.6%
Stockholders' equity	$3,451,320	$2,835,788	21.7%
Return on average stockholders' equity	19.9%*	18.1%	1.8 pts.
Stockholders' equity per common share outstanding	$6.80	$5.62	20.9%
Revenue passengers carried	63,678,261	57,500,213	10.7%
Revenue passenger miles (RPMs) (000s)	42,215,162	36,479,322	15.7%
Available seat miles (ASMs) (000s)	59,909,965	52,855,467	13.3%
Passenger load factor	70.5%	69.0%	1.5 pts.
Passenger revenue yield per RPM	12.95¢	12.33¢	3.6%
Operating revenue yield per ASM	9.43¢	8.96¢	5.2%
Operating expenses per ASM	7.73¢	7.48¢	3.3%
Number of Employees at yearend	29,274	27,653	5.9%

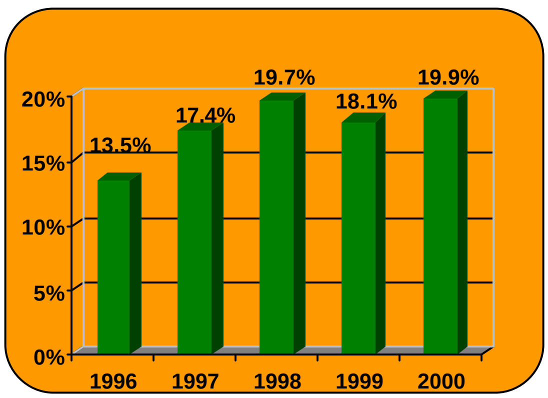
*Excludes cumulative effect of change in accounting principle of $22.1 million ($.04 per share)



Net Margin



Net Income Per Share, diluted



Return On Average Stockholders' Equity

*2000 excludes cumulative effect of change in accounting principle of $22.1 million ($.04 per share)

For some years now, Southwest Airlines has been the proud sponsor of some of America's greatest sports. The reason is simple: *We believe that winning is a team effort.* No quarterback can win a game without a powerful line and an agile backfield. No pitcher can win a game without a fleet infield and a far-ranging outfield. No three-point shooter can win a game without a rebounding frontcourt. No slapshot artist can win a game without a fearless goalie. No airline can be profitable without everyone on the team flying in formation. For 28 years in a row, Southwest has posted winning seasons. This year is no exception, thanks to the hard work, dedication, and winning spirit of Team Southwest. Here's to the winners! Again.

SOUTHWEST AIRLINES CO. is the nation's low-fare, high Customer Satisfaction airline. We primarily serve shorthaul city pairs, providing single-class air transportation, which targets the business commuter as well as leisure travelers. The Company, incorporated in Texas, commenced Customer Service on June 18, 1971, with three Boeing 737 aircraft serving three Texas cities — Dallas, Houston, and San Antonio. At yearend 2000, Southwest operated 344 Boeing 737 aircraft and provided service to 58 airports in 29 states throughout the United States. Southwest has the lowest operating cost structure in the domestic airline industry and consistently offers the lowest and simplest fares. Southwest also has one of the best overall Customer Service records. LUV is our stock exchange symbol, selected to represent our home at Dallas Love Field, as well as the theme of our Employee and Customer relationships.

To Our Shareholders:

The year 2000 was another “championship season” for all of Southwest’s fans: our Employees; our Shareholders; and our Customers. And these three “groups” have a wonderfully synergistic interrelationship at Southwest: collectively our Employees are our single largest share and stock option holders and are also our beloved Customers; our Shareholders are, to a great extent, our Employees and Customers; and our Customers are, of course, in many instances Employees and Shareholders. Employees, Shareholders, and Customers all get a championship ring for the year 2000, but no more than one per person!

2000 was Southwest’s 28th consecutive year of profitability; job security; plentiful Profitsharing; and of adding value for our Employees — Shareholders — Customers. It was also Southwest’s ninth consecutive year of increased profits. Our 2000 earnings of $625.2 million (a 31.8 percent increase over 1999) are in significant part attributable to our fuel hedging program, which produced a $113.5 million offset to the aggregate cost of greatly enhanced jet fuel prices. We are 80 percent hedged on our anticipated 2001 jet fuel requirements at an average price of $22.00 per barrel of crude oil (at this writing, the market price for crude oil in the United States is $32.19 per barrel).

Our fourth quarter 2000 earnings increased by 64.9 percent to $154.7 million, which we presently regard as a favorable augury for our 2001 financial results, in light of our 80 percent hedge position. We currently anticipate that the expansion rate of the domestic economy will somewhat diminish in 2001 but that any consequent general decline in air traffic demand will be offset at Southwest by the fact that we now provide approximately 90 percent of <u>all</u> of the low-fare airline competition in the <u>United States of America</u>. In past economic slowdowns, Southwest’s traffic levels and unit revenues have been sustained by an influx of more cost conscious air travelers.

We will commence service to West Palm Beach on January 21, 2001, and expand our available seat mile capacity by approximately 11 percent for the year.

The year 2000, and particularly its fourth quarter, proved to be a very trying time for much of the airline industry but a triumphant time for the "fans" of Southwest, our Employees — Shareholders — Customers. This championship performance was produced by our Employees' diligent dedication to maintaining low costs, and thus low fares, and to providing high-spirited and winning Customer Service to themselves and to our passengers. The unity, altruism, and results-oriented focus of our People are both my joy and my pride as we enter our 30th year of commercial air service — and as we herald the commencement of the millennium with our new "Canyon Blue" exteriors and "Canyon Blue" and "Saddle Tan" full-leather interiors on our growing fleet of aircraft. We have introduced a new aesthetic for a new millennium, and an integral part of its purpose is to refresh and honor our People who, without doubt, are the Greatest Generation in the History of the Airline Industry!

Most sincerely,

Herbert D. Kelleher
Chairman, President, and Chief Executive Officer
January 20, 2001



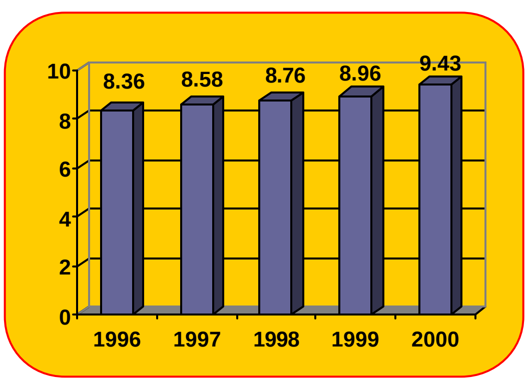
Southwest Airlines: Official Airline Of The Texas Rangers.

Southwest Airlines: Official Airline Of The Dallas Mavericks.

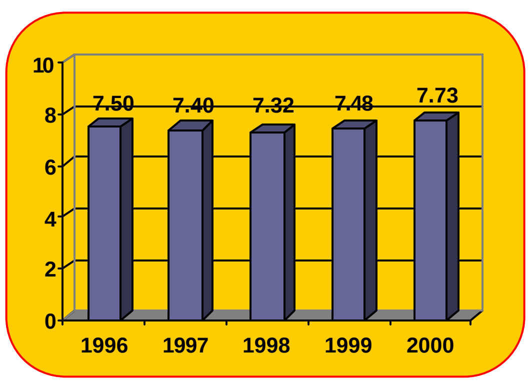
Southwest Airlines is the proud sponsor of some of America's favorite sports, including professional baseball, basketball, hockey, and football. We are also the Official Airline of Super Bowl XXXV. While we don't ordinarily pick favorites, our favorite All Time Team is our very own Team Southwest. We play fair, we play hard, and we play to win. Here's to another winning season, Southwest-style!

Southwest Airlines: Official Airline Of Super Bowl XXXIV.

Southwest Airlines: Official Airline Of The NHL.



Operating Revenues
Per Available Seat Mile (in cents)



Operating Expenses Mile
Per Available Seat (in cents)

The Southwest team has posted winning seasons every year since 1973, with 28 consecutive years of profitability and nine consecutive years of increased profits. Our winning streak certainly has not come easy. As the underdog in the airline industry, our team has had many challenges and faced strong opposition many times, and this year's season was no exception. Once again, our players stepped up to the plate and demonstrated why they are the very best in the airline industry. With crude oil prices surging as high as $37 per barrel in 2000, compared to prices as low as $11 per barrel in 1999, our team knew we would have to work harder than ever to continue our winning tradition.

Together, our team was able to reduce our unit costs, excluding fuel, 2.6 percent, a truly remarkable feat in the airline industry. Although our average jet fuel price per gallon was up almost 50 percent in 2000, we realized savings of $113.5 million from a successful fuel hedging program. To further offset the significant increase in fuel prices, Southwest raised fares a modest six percent for the year, far less than the industry's 25 percent average fare increase. As a result of our People's superb cost reduction efforts, we widened our significant low-cost competitive advantage, which allowed us to increase the gap between our low fares versus the industry's fares even further. The combination of our intense cost control and hedging efforts, along with excellent revenue production, resulted in a championship year for Southwest.

We posted operating and net profit margins of 18.1 percent and 11.1 percent, respectively, our best performances since the early 1980s and the best among the major airlines. Earnings growth over the last five years averaged over 27 percent, with 31.8 percent growth in 2000. Our return on capital was 21.3 percent.

Only the Southwest team could produce such a banner year. Our People are warm, caring, and compassionate and willing to do whatever it takes to bring the Freedom to Fly to their fellow Americans. They take pride in doing well for themselves by doing good for others. They have built a unique and powerful Culture that demonstrates that the only way to accomplish our mission to make air travel affordable for others, while ensuring ample profitability, job security, and plentiful Profitsharing for ourselves, is to keep our costs low and Customer Service quality high.

At Southwest, our People are our greatest assets, which is why we devote so much time and energy to hiring great People with winning attitudes. Because we are well known as an excellent place to work with great career opportunities and a secure future, lots of People want to work for Southwest. That's a distinct advantage in today's tight job market. Once hired, we provide a nurturing and supportive work environment that gives our Employees the freedom to be creative, have fun, and make a positive difference. Although we offer competitive compensation packages, it's our Employees' sense of ownership, pride in team accomplishments, and enhanced job satisfaction that keep our Culture and Southwest Spirit alive and why we continue to produce winning seasons.

It's also why *Fortune* magazine included Southwest Airlines in its annual list of 100 Best Companies to Work for in America. For the fourth straight year, we've been ranked in the top five. *Fortune* magazine also named Southwest again as the most admired airline in America and one of the most admired companies in America. Year after year, *Fortune* lists Southwest as one of the most admired companies in the world. Our team has the best players in America and that's why we remain the undisputed Champions in the airline industry and corporate America.

Joseph Sanchez, Customer Service Agent
Alan Nakamoto, Manager, Ramp and Operations
John Denison, Executive Vice President — Corporate Services

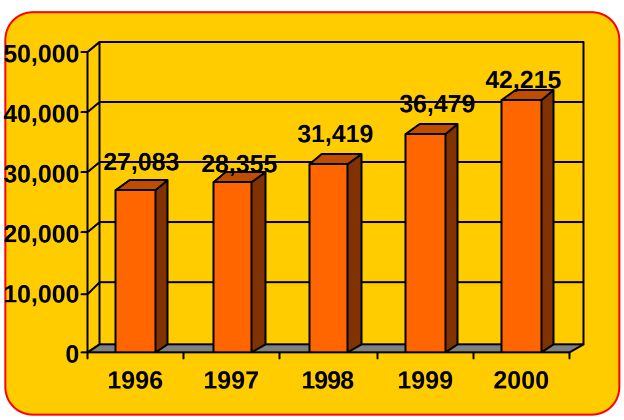
SOUTHWEST AIRLINES

OFFICIAL AIRLINE OF THE NHL

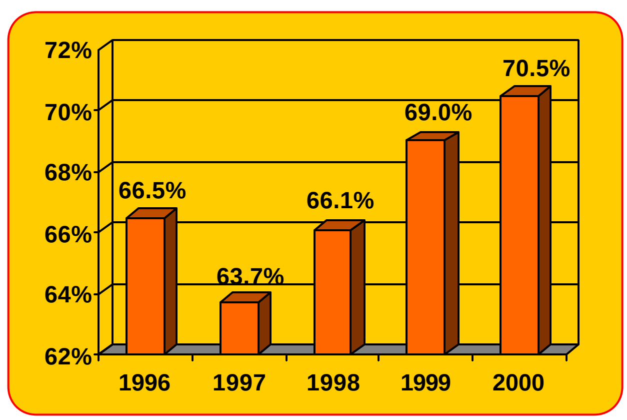
southwest.com

Southwest is the Official Airline of the NHL and the NHLPA. For the first time this year, we're pointing out to fans and Customers alike that when it comes to major league hockey, *It's Tougher Than It Looks*. In a series of commercials running in prime-time sports, ordinary people discover that hockey is everything it's cracked up to be, and then some. Thanks to Southwest, you can be there for all the action!

Southwest Airlines: Official Airline Of The NHL and the NHLPA.



Revenue Passenger Miles (in millions)



Passenger Load Factor

Low fares, every seat, every flight, every day is basic to our winning game plan. When air travelers think "low fares," they think Southwest Airlines. That's because our Southwest team has been committed to making air travel affordable since we kicked off service almost 30 years ago. Academic experts and industry analysts credit Southwest for substantially all of the billions of dollars of fare savings resulting from increased competition from low-fare carriers since airline deregulation in 1978. Today, Southwest represents 90 percent of all the low-fare competition in the U.S.

"Low fares" are not only a philosophical commitment at Southwest, they're essential to our shorthaul market strategy. In the shorthaul markets we serve, ground transportation is a viable option for our Customers. Therefore, we must charge low fares to succeed, regardless of what our airline competitors charge. We also rely on the increased demand generated from charging low fares.

After Southwest enters a market with lots of flights and fares that are as much as two-thirds lower than fares before our entry, passenger traffic explodes, often three- or four-fold. It's no wonder over 100 cities have petitioned us for service. They fully understand the favorable economic impact the "Southwest Effect" would have on their communities.

Southwest's fare structure is also "Customer friendly" and simple. Unlike most of our airline competitors, Southwest does not charge a rebooking fee or an exchange penalty fee nor do we require a Saturday night stay. Southwest strives to offer everyday low fares without the complex fare structures and rules customary in the airline industry.

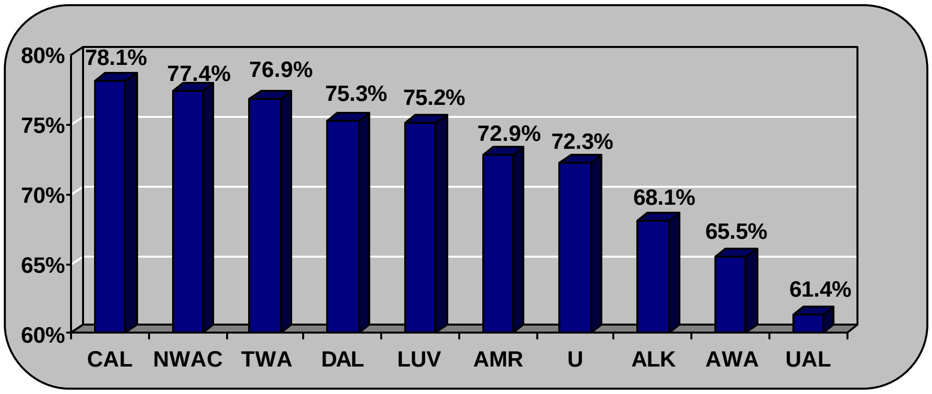
With the large number of fares offered by the industry, managing this aspect of our airline is challenging and complex. Southwest utilizes sophisticated revenue management software and creative marketing to manage seat inventories and maximize revenue. Southwest continues to enhance our revenue management capabilities, realizing a 5.8 percent increase in 2000 passenger unit revenue, while still keeping fares low.

In addition to low fares, frequent Customers receive Rapid Rewards, the most generous frequent flyer program in the airline industry. After purchasing and flying only eight roundtrips on Southwest, Customers receive a roundtrip ticket good for travel anywhere on our system for up to a year. Like our fares, our Rapid Rewards program is "Customer friendly" as there are no restrictions on the number of Rapid Rewards seats and very few blackout dates around holidays. In 2000, our Rapid Rewards program placed first in *Inside Flyer* magazine's 12th annual Freddie Awards in the Best Customer Service, Best Bonus Promotion, and Best Award Redemption categories. Customers can also earn flight credits through purchases with our travel partners (Alamo, American Express, Budget, Diners Club, Dollar Rent A Car, Hertz, Hilton, Hyatt Hotels and Resorts, Marriott, MCI WorldCom) as well as through the use of the Southwest Airlines Rapid Rewards Visa card.

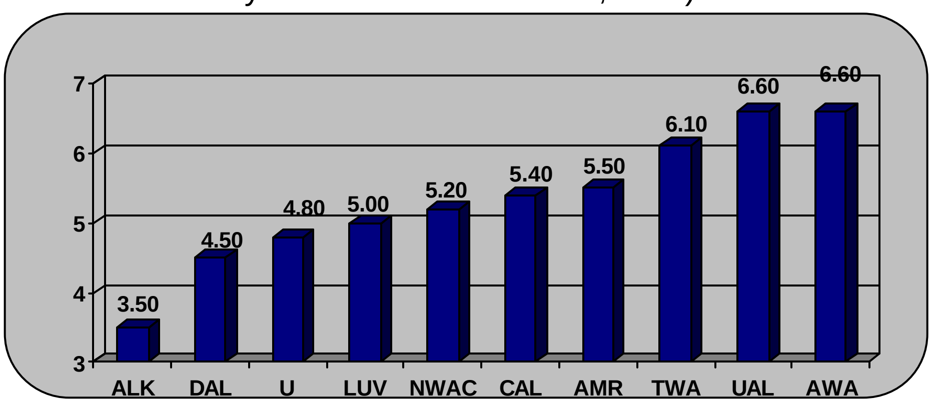
Because of our friendly low-fare philosophy, Southwest tends to dominate the markets we serve with frequent flights. We consistently rank first in market share in 80 to 90 percent of our top 100 city pairs and, in the aggregate, generate 60 to 65 percent of total market share. Southwest also carries the most passengers in the top U.S. markets, despite serving only 40 of them.

Jan Kegley, Flight Attendant
Va'a Mapu, Assistant Manager, Ramp and Operations
Gary Kelly, Vice President — Finance, Chief Financial Officer

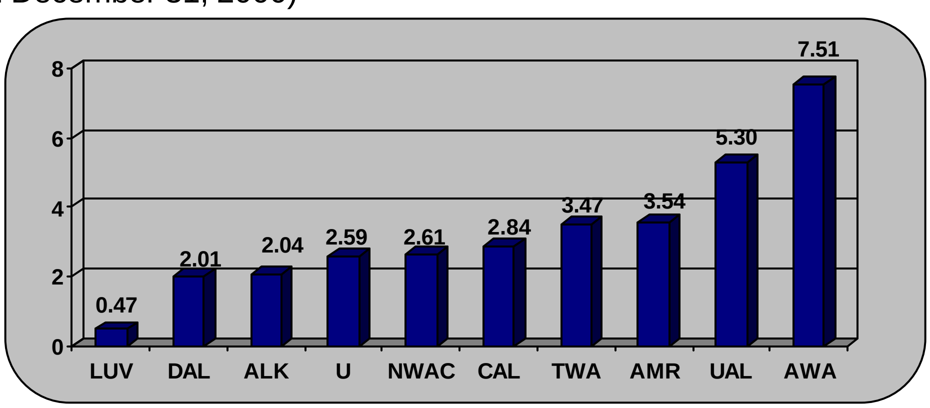
At Southwest Airlines, we love football. So much so, we have been a proud sponsor of NFL football for years. We've found that our Customers are big fans, too. So in typical Southwest style, we throw our own tailgate parties every weekend during the fall. Peanut-sized footballs kick off the season. Our Pilots line up front and center. You can even get penalized for not playing along!



Ontime Performance (Percentage of scheduled flights arriving within 15 minutes of scheduled time for the year ended December 31, 2000)



Mishandled Baggage (Reports per 1,000 passengers boarded for the year ended December 31, 2000)



Customer Satisfaction (Complaints per 100,000 Customers boarded for the year ended December 31, 2000)

The Southwest team understands you can't just have low fares to be a winner in the airline industry. You must provide excellent Customer Service and offer what is important to the Customer. In 2000, Southwest led the industry in Customer Satisfaction for the tenth straight year, according to complaint statistics accumulated and published by the U.S. Department of Transportation. In today's environment where the airline industry is faced with tremendous increased scrutiny by the traveling public, the media, and the U.S. government, we are particularly pleased with our #1 ranking.

The reasons for our high satisfaction rating are numerous. We charge low fares with few restrictions and offer a generous frequent flyer program. We also offer frequent flights to lots of places. Our all-jet fleet of Boeing 737s is one of the youngest in the world and is clean, safe, quiet, and comfortable.

Our Customers also benefit from our unique operating strategy, which keeps total trip time, both on the ground and in the air, to a minimum. We serve convenient airports, schedule on a point-to-point basis, and provide quick, simple ticketing, boarding, and seating procedures, which combine to expedite all aspects of our Customer's trip. Southwest consistently leads the industry in reliability, once again canceling the fewest number of flights among the major airlines. Our state-of-the-art flight dispatch system also allows us to safely minimize weather and operational delays.

Most importantly, our Customers enjoy flying Southwest because they are treated like guests. From the moment you book a Southwest flight until you arrive at your final destination, our team provides caring, friendly Customer Service, delivered with our own unique Southwest brand of fun.

The combination of our low fares and high Customer Satisfaction produced a winning season with an all-time high annual load factor of 70.5 percent in 2000. As we celebrate our 30th season, Southwest has renewed its focus on Customer Service, as we adjust our operations to more efficiently accommodate higher load factor levels and increased air traffic control and ground congestion.

Our team is diligently reviewing our operations and flight schedule to identify opportunities for Customer Service improvements, particularly in ontime performance and baggage handling. Our recent decision to discontinue flight operations at San Francisco International Airport on March 5, 2001, is an example of steps we are taking to enhance Customer Service in these critical areas. We continue to serve the Bay area, however, at Oakland and San Jose airports. Although this was a difficult decision, it demonstrates our commitment to Customer Service excellence and underscores the enormous flexibility we have with our operations.

It is this type of unwavering commitment and dedication to high-quality Customer Service that once again earned Southwest top ranking in the National Airline Quality Rating study, conducted annually by the W. Frank Barton School of Business at Wichita State University and the University of Nebraska at Omaha Aviation Institute. Southwest was also cited for having one of the best national reputations by a consumer survey conducted by Harris Interactive Inc. and the Reputation Institute, as published in *The Wall Street Journal*. Southwest was the only airline to make the list. In addition, Southwest was named best low-fare air carrier in the Business Travel Awards by *Entrepreneur* magazine and was recognized for excellence in Customer Relationship Management in *CIO* magazine's "CIO 100 List."

Armando Arellano, Customer Relations, Senior Telephone Representative
Colleen Barrett, Executive Vice President — Customers
Tammye Walker-Jones, Director, Flight Attendants

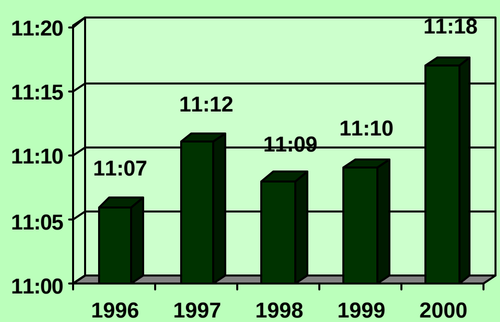
MUST BE FOOTBALL SEASON

737 TYPE	SEATS	AVERAGE AGE (YRS)	NUMBER OF AIRCRAFT
-200	122	18.8	33
-300	137	9.5	194
-500	122	9.7	25
-700	137	1.3	92
TOTAL		8.2	344

JET FLEET

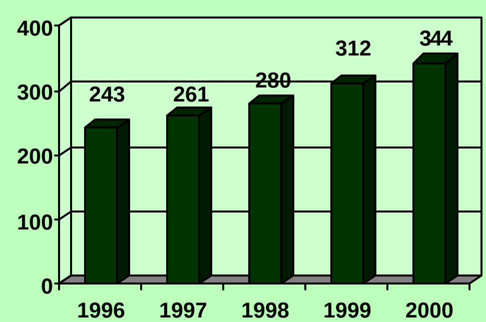
(At December 31, 2000)

Our *Must Be Football Season* commercials are the hit of the NFL season. In the true spirit of the sport, two newlyweds get a surprise they don't see coming. A moviegoer gets more than his quarter back at the ticket window. And an overzealous shopper gets a kick out of a new pair of shoes. You never know what's coming next when Proud Sponsor Southwest Airlines gets into the game!



AIRCRAFT UTILIZATION

(Hours and minutes per day)



FLEET SIZE

(At December 31, 2000)

Simplicity is a basic philosophy at Southwest. Consequently, Southwest flies only one aircraft type, the Boeing 737, which is perfectly suited for our shorthaul market needs. We've grown from three aircraft in 1971 to 344 aircraft at the end of 2000, the largest all-Boeing 737 fleet in the world. Our unique commitment to one aircraft type significantly simplifies our operations in terms of maintenance, scheduling, staffing, and training. As a consequence, all of our players, regardless of their positions, can devote their time and energy completely to mastering just one aircraft type. This "keep it simple" approach contributes to our superb 29-year safety record as well as our low cost structure.

As the launch Customer for Boeing on the -300, -500, and, most recently, -700 models, we achieve attractive aircraft acquisition costs. This, coupled with our young, modern, well-maintained fleet, allows us to produce low overall costs of ownership.

The Boeing 737 is well-suited for operation in Southwest's shorthaul market niche, yet it is flexible enough to meet our needs on longhaul flights. Although we have added more longhaul flights to our route system over the past several years, the majority of our daily departures is shorthaul. Longhaul flights are offered in low frequency, achieve high load factors with our classic low fares, and offer a nice complement to our core high-frequency, shorthaul business-oriented route structure. After all, business Customers take vacations, too!

Southwest was built to meet the needs of the shorthaul, local, point-to-point Customer, and this remains the primary team focus. As a result of this focus, approximately 70 to 80 percent of our passengers fly nonstop, in sharp contrast to a hub-and-spoke carrier, which concentrates on connecting traffic.

From an operational perspective, we make it simple for our Customers to book a Southwest flight. They can either call one of our helpful Reservation Agents at 1-800-I-FLY-SWA or log on to our "Customer friendly" web site at southwest.com to enjoy our low fares, simple fare structure, and high-quality Customer Service. Our distribution system is easy and convenient for Customers and very cost-effective and efficient for Southwest.

Southwest also utilizes simple, quick, and efficient boarding procedures. Reservations can be made for a flight, but seating is open. Since we treat all of our seats in our single-class cabin configuration as "first class," assigned seating isn't necessary. On short flights, meals simply are not necessary. Instead, we offer friendly, fast, inflight beverage service, perfectly suited for our market niche.

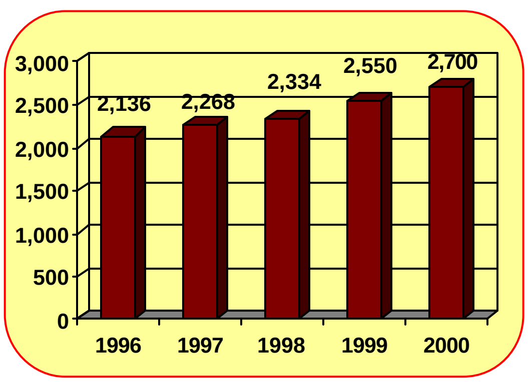
Our Southwest team realizes taking a trip can be stressful. That's why we do our best to minimize the "hassles" associated with flying, and why we favor conveniently located satellite or downtown airports such as Albany, Baltimore, Burbank, Dallas Love Field, Ft. Lauderdale/Hollywood, Houston Hobby, Long Island/Islip, and Providence. We also avoid costly and complicated interlining arrangements with other carriers.

While our approach may be simple, our Customer Satisfaction consistently ranks the best in the industry because we deliver what the Customer wants in shorthaul markets.

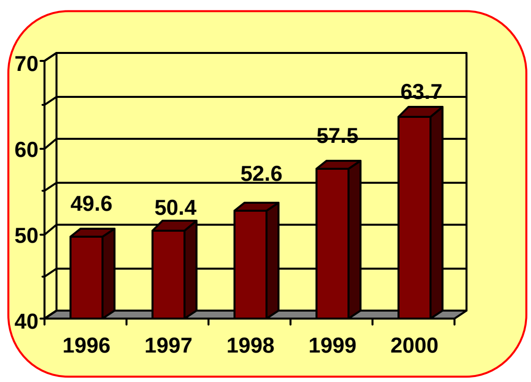
Dan Mega, Maintenance, Field Technician Manager
Jesus Melian, First Officer
Jim Wimberly, Executive Vice President — Chief Operations Officer

Several years ago, Southwest picked the perfect pitchman for our Major League Baseball sponsorship — the legendary Nolan Ryan. Customers who won our Dream Team Sweepstakes got a chance to play ball with this modern-day hero.

Take us out to the ball game! Last year, Nolan Ryan was inducted into the Baseball Hall of Fame. To celebrate, Southwest dedicated a signature Boeing 737 in his honor, the *Nolan Ryan Express*. On hand for the festivities were thousands of avid fans and loyal Southwest Customers. Caps off to this living legend, who dedicated his entire career to bringing out the kid in all of us!



Average Daily Departures



Revenue Passengers Carried

(In millions)

Southwest stands for freedom. The Southwest team is committed to ensuring affordable fares are available to as many people as possible. After all, low fares are what the shorthaul traveler wants most from safe air transportation.

Our players know that without low costs, you cannot profitably offer low fares and Southwest is by far the low-cost leader in the airline industry. On an equivalent aircraft trip length, our cost per available seat mile is the lowest in the industry and, in some cases, half that of our competitors. Naturally, this gives us a huge competitive advantage to profitably offer the lowest fares.

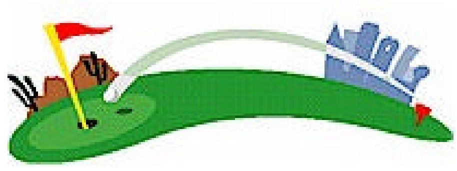
The key to our low costs is our high productivity and teamwork. We consistently demonstrate the highest asset utilization of any U.S. airline. Because we schedule point-to-point for local passengers, not connections, we minimize the amount of time the aircraft is at the gate. This results in higher aircraft and airport utilization and, therefore, fewer aircraft and airport facilities than we would need otherwise. Our scheduling strategy allows our Employees to be productive. From the moment a Southwest flight lands and reaches the gate, our Employees take their positions and work together enthusiastically until the next Southwest flight takes off.

Our reputation as the low-fare leader, with legendary Customer Service and high frequencies, enables us to lower our distribution costs versus our airline competitors. Over 70 percent of our seats are sold directly by Southwest versus an industry average of approximately 20 to 25 percent. Over 80 percent of our seats are sold Ticketless, which eliminates significant paper and back-office processing. Ticketless Travel is also the foundation of sales through our web site at southwest.com, which is recognized as one of the top e-commerce sites, as evidenced by *Business Week*'s listing of Southwest in its "Web Smart 50" listing. Our web site also earned top marks in recent surveys by *PC Magazine*.

Our web site has been enormously successful because it is easy to use and was designed with our Customers in mind. Our Customers can simply Log On for Low Fares at southwest.com, a symbol of e-freedom, and enjoy the everyday low fares that have made Southwest so famous. Southwest also recently introduced hotel and car rental reservations on our web site. Approximately 31 percent of revenues, or $1.67 billion, was derived through southwest.com for 2000, far exceeding our $1 billion target, and we boast more than 2.7 million subscribers to our weekly Click 'n Save emails. The Internet has proven to be an effective means of distribution for Southwest and significantly contributes to our ability to keep costs low.

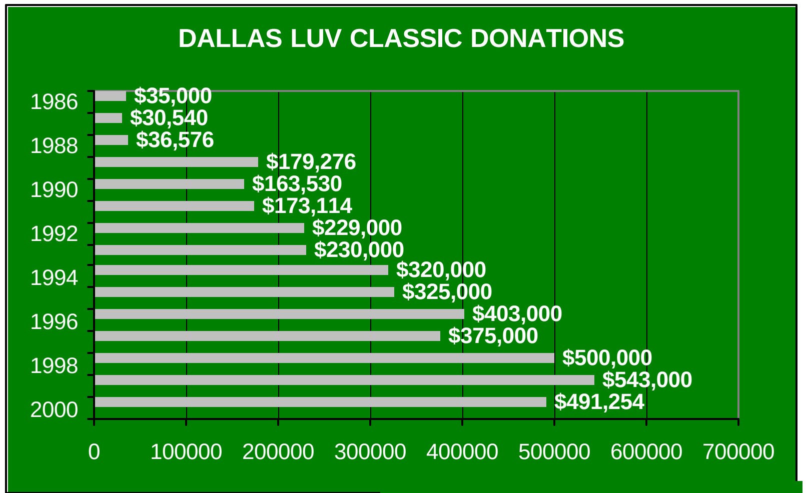
Our desire for low costs does not sacrifice safety or quality. We operate one of the youngest fleets in the world, despite the fact that old aircraft are significantly cheaper than new. We also have one of the most extensive and thorough maintenance and crew training programs in our industry, with a 29-year safety record to attest. Although our Employees receive generous and competitive compensation packages, our unit labor costs are low because we have the most productive, spirited, and innovative team in the airline industry.

Joyce Rogge, Vice President — Marketing
Ed Stewart, Director, Public Relations
Gigi Ramsey, Customer Service Agent



PHOENIX DALLAS

In 2000, Phoenix was added to the LUV Classic, raising a total of $168,512 in donations.



Total donations $4,034,290

Southwest Airlines' annual LUV Classic has been so successful over the years, we now host two tournaments, one in Dallas every fall and another in Phoenix every spring. Major sponsors help us raise major dollars for Ronald McDonald House, our primary charity. Over the past 14 years, Ronald McDonald and our very own Herb Kelleher have teamed up to raise over three million dollars!

Serious golfers have accused us of clowning around at our annual LUV Classic, which raises big bucks for Ronald McDonald House, a home-away-from-home for families with seriously ill children. (Hint: The clown on the right is our Chairman.)

Type	2001	2002	2003	2004	2005	2006	2007	2008–2012	Total
Firm Orders	25	27	13	29	5	22	25	–	146
Options	–	–	13	13	18	18	–	25	87
Purchase Rights	–	–	–	–	–	–	20	197	217
Total	25	27	26	42	23	40	45	222	450

Boeing 737-700 Firm Orders And Options

The future of Southwest Airlines and the freedom to fly have never been brighter. From sea to shining sea, our team stands ready to meet the challenges of the new millennium. Our past victories have made Southwest financially and competitively strong, so we can continue to expand our low-fare influence across the country, making the dream of flight a reality across America.

We remain the undisputed low-cost winner in the airline industry and continue to widen the margin even further. In spite of our rapid growth and the complexity of the airline industry, we produced free cash flows in 2000, covering all of our capital expenditures needs. Our balance sheet is remarkably strong, as evidenced by Standard & Poor's recent upgrade of our senior unsecured debt rating to "A," the best in our industry. This kind of financial strength provides our team enormous flexibility to grow and maximize long-term Employee and Shareholder value, regardless of industry consolidation or an economic slowdown.

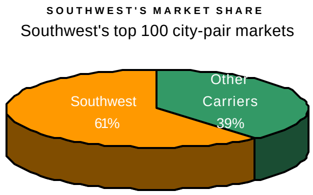
We have an extensive, diverse route system that spans from coast to coast, and we have a substantial presence in the markets we serve. At yearend, we served 58 airports in 29 states. As a result of our low-fare philosophy, we are the largest carrier at many of the airports we serve. Our low fares generate substantial demand, which allows us to offer lots of convenient flights. For example, our top ten cities' daily departures are currently: Phoenix, 180; Las Vegas, 166; Houston Hobby, 151; Dallas Love Field, 139; Los Angeles, 123; Baltimore/Washington, 122; Chicago Midway, 121; Oakland, 115; Nashville, 87; and St. Louis, 85. This is very different from our hub-and-spoke competitors, which have large concentrations of flights at a couple of "hub" cities. Our capacity is spread throughout the United States, with 45 percent in the West; 25 percent in the East; 16 percent in the Midwest; and 14 percent in the Heartland region (Texas and surrounding states).

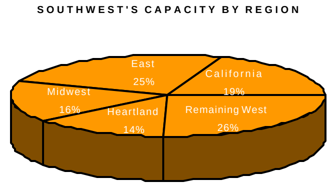
With only 57 cities at yearend and less than ten percent of the domestic market, we have significant opportunities to expand our route system in both new and existing cities. We had great success in our New York expansion efforts with the addition of Albany and Buffalo in 2000. In January 2001, we will respond to the need for more Florida service with the addition of West Palm Beach. As the demand for additional aircraft throughout our existing system has never been greater, West Palm Beach could prove to be our only new city in 2001. At this point, we plan to add 25 Boeing 737-700s in 2001 and retire four -200s, which represents an increase in available seat miles of roughly 11 percent.

Because of our confidence in the future of Southwest and to ensure we have adequate aircraft to meet future demand, Southwest increased our commitment to Boeing's "Next Generation" 737 aircraft with an order for up to 290 Boeing 737-700s, which is included in the accompanying chart. This was our single largest aircraft order and the largest order ever for Boeing's Next Generation family of aircraft, bringing our total aircraft on order, including options and purchase rights, to 450 aircraft at yearend 2000.

As we enter the next millennium, we honor the People of Southwest and express our excitement for our future with a fresh new look for our fleet. To celebrate our past as well as our future, all Boeing 737 deliveries from this day forward will be in our new "Canyon Blue" exterior color scheme and "Canyon Blue" and "Saddle Tan" all-leather seating configuration. Our existing fleet will be retrofitted over time into the new livery. In typical Southwest fashion, this new look and interior will not raise Southwest's costs or result in higher fares. It's just our way of paying tribute to the past and renewing our commitment to provide the Freedom to Fly to many more Americans for generations to come.

Tim Breeding, Information Systems, Audit Project Leader
Robert Quintanilla, Senior Manager, Technical Services
Ross Holman, Vice President — Systems





Southwest's Market Share

Southwest's top 100 city-pair markets

Southwest	61%
Other Carriers	39%

Southwest's Capacity By Region

California	19%
Remaining West	26%
Heartland	14%
Midwest	16%
East	25%

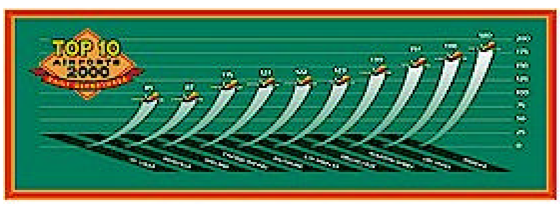
Southwest System Map

Albany
Albuquerque
Amarillo
Austin
Baltimore
Birmingham/Washington (BWI)
Boise
Buffalo
Burbank
Chicago (Midway)
Cleveland
Columbus
Corpus Christi

Manchester
Midland/Odessa
Nashville
New Orleans
Oakland
Oklahoma City
Omaha
Ontario
Orange County
Orlando
Phoenix
Portland
Providence

Dallas (Love Field)	Raleigh-Durham
Detroit	Reno/Tahoe
El Paso	Sacramento
Ft. Lauderdale	St. Louis
Hartford/Springfield	Salt Lake City
Houston (Hobby & Intercontinental)	San Antonio
Indianapolis	San Diego
Jackson	San Jose
Jacksonville	Seattle
Kansas City	South Padre Island (Harlingen)
Las Vegas	Spokane
Little Rock	Tampa Bay
Long Island/Islip	Tucson
Los Angeles (LAX)	Tulsa
Louisville	West Palm Beach*
Lubbock	

*New service as of January 21, 2001



Southwest's Top Airports 2000

Daily Departures

Phoenix	180	Baltimore/Washington	122
Las Vegas	166	Chicago Midway	121
Houston Hobby	151	Oakland	115
Dallas Love	139	Nashville	87
Los Angeles	123	St. Louis	85

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YEAR IN REVIEW

Southwest posted a profit for the 28th consecutive year and a record annual profit for the ninth consecutive year. This excellent financial performance was achieved despite the highest jet fuel prices since 1990. Operating revenues and operating income were the highest in the Company's history. Southwest's margin performance was the best in 20 years with an operating margin of 18.1 percent and net profit margin (before the cumulative effect of a change in accounting principle) of 11.1 percent. The Company's revenue growth and continued strong demand for our product were evident through our achievement of a record 2000 load factor (revenue passenger miles divided by available seat miles) of 70.5 percent and record load factors in three of the four calendar quarters of 2000.

At the end of 2000, Southwest served 57 cities in 29 states. We continued our East Coast expansion in 2000, adding service to Albany, New York, in May 2000, and Buffalo, New York, in October 2000, and have been very pleased with the results in each of these new Southwest cities. The Company recently announced plans to commence service to West Palm Beach, Florida, in January 2001, and will continue to add flights and additional frequencies between cities we already serve.

Capacity is expected to grow approximately 11 percent in 2001 with the net addition of 21 aircraft. The Company will acquire 25 new Boeing 737-700s scheduled for delivery during the year and plans to retire four of the Company's older 737-200s.

RESULTS OF OPERATIONS

2000 COMPARED WITH 1999 The Company's consolidated income for 2000 before the cumulative effect of a change in accounting principle was $625.2 million ($1.18 per share, diluted), an increase of 31.8 percent. The cumulative change in accounting principle, related to the adoption of the Securities and Exchange Commission Staff Accounting Bulletin No. 101 (SAB 101), was $22.1 million, net of taxes of $14.0 million (see Note 2 to the Consolidated Financial Statements). Net income, after the cumulative change in accounting principle, was $603.1 million. Diluted net income per share, after consideration of the accounting change, was $1.14 compared to $.89 in 1999. Operating income was $1,021.1 million, an increase of 30.7 percent compared to 1999.

OPERATING REVENUES Consolidated operating revenues increased 19.3 percent primarily due to a 19.8 percent increase in passenger revenues. The increase in passenger revenues primarily resulted from the Company's increased capacity, strong demand for commercial air travel, and excellent marketing and revenue management. The Company experienced a 10.7 percent increase in revenue passengers carried, a 15.7 percent increase in revenue passenger miles (RPMs), and a 3.6 percent increase in passenger revenue yield per RPM (passenger yield). The increase in passenger yield was primarily due to an 8.2 percent increase in average passenger fare, partially offset by a 4.6 percent increase in average length of passenger haul. The increase in average passenger fare was primarily due to modest fare increases taken combined with a higher mix of full-fare passengers.

The increase in RPMs exceeded a 13.3 percent increase in available seat miles (ASMs) resulting in a load factor of 70.5 percent, or 1.5 points above the prior year. The increase in ASMs resulted primarily from the net addition of 32 aircraft during the year. Thus far, load factors in January 2001 have exceeded those experienced in January 2000. Bookings for February and March are also good and we presently anticipate positive year-over-year unit revenue (operating revenues divided by ASMs) comparisons again in first quarter 2001, although we do not expect to match the fourth quarter 2000 year-over-year unit revenue growth rate of 7.8 percent. (The immediately preceding two sentences are forward-looking statements, which involve uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, competitive pressure such as fare sales and capacity changes by other carriers, general economic conditions, operational disruptions as a result of bad weather, industry consolidation, air traffic control related difficulties, the impact of labor issues, and variations in advance booking trends.)

Freight revenues increased 7.5 percent primarily due to an increase in capacity. Other revenues, which consist primarily of charter revenues, increased 1.2 percent. This increase was less than the Company's increase in capacity primarily due to the Company's decision to utilize more of its aircraft to satisfy the strong demand for scheduled service and, therefore, make fewer aircraft available for charters.

OPERATING EXPENSES Consolidated operating expenses for 2000 increased 17.1 percent, compared to the 13.3 percent increase in capacity. Operating expenses per ASM increased 3.3 percent to $.0773, compared to $.0748 in 1999, primarily due to an increase in average jet fuel prices. The average fuel cost per gallon in 2000 was $.7869, which was the highest annual average fuel cost per gallon experienced by the Company since 1984. Excluding fuel expense, operating expenses per ASM decreased 2.6 percent.

Operating expenses per ASM for 2000 and 1999 were as follows:

OPERATING EXPENSES PER ASM

	2000	1999	Increase (Decrease)	Percent Change
Salaries, wages, and benefits	2.41¢	2.39¢	.02¢	.8%
Employee retirement plans	.40	.36	.04	11.1
Fuel and oil	1.34	.93	.41	44.1
Maintenance materials and repairs	.63	.70	(.07)	(10.0)
Agency commissions	.27	.30	(.03)	(10.0)
Aircraft rentals	.33	.38	(.05)	(13.2)
Landing fees and other rentals	.44	.46	(.02)	(4.3)
Depreciation	.47	.47	–	–
Other	1.44	1.49	(.05)	(3.4)
Total	7.73¢	7.48¢	.25¢	3.3%

Salaries, wages, and benefits per ASM increased slightly, as increases in productivity in several of the Company's operational areas were more than offset by higher benefits costs, primarily workers' compensation expense, and increases in average wage rates within certain workgroups.

The Company's Ramp, Operations, and Provisioning Agents are subject to an agreement with the Transport Workers Union of America (TWU), which became amendable in December 1999. Southwest is currently in negotiations with TWU for a new contract. The Company's Mechanics are subject to an agreement with the International Brotherhood of Teamsters (the Teamsters), which becomes amendable in August 2001.

Employee retirement plans expense per ASM increased 11.1 percent, primarily due to the increase in Company earnings available for profitsharing.

Fuel and oil expense per ASM increased 44.1 percent, primarily due to a 49.3 percent increase in the average jet fuel cost per gallon. The average price per gallon of jet fuel in 2000 was $.7869 compared to $.5271 in 1999, including the effects of hedging activities. The Company's 2000 and 1999 average jet fuel prices are net of approximately $113.5 million and $14.8 million in gains from hedging activities, respectively. As detailed in Note 7 to the Consolidated Financial Statements, the Company has hedges in place for the majority of its anticipated fuel consumption in 2001 at prices below market prices as of December 31, 2000. Including estimated hedging gains and considering current market prices and the anticipated impact of the adoption of Statement of Financial Accounting Standards No. 133 (SFAS 133) (see Recent Accounting Developments in Note 1 to the Consolidated Financial Statements), we are forecasting our first quarter 2001 average fuel price per gallon to be no higher than first quarter 2000's average price per gallon of $.82. (The immediately preceding sentence is a forward-looking statement, which involves uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of jet fuel prices and the effectiveness of the Company's hedges.)

Maintenance materials and repairs per ASM decreased 10.0 percent primarily because of a decrease in engine maintenance expense for the Company's 737-200 aircraft fleet as 1999 was an unusually high period for engine maintenance on these aircraft. The -200 engine repairs are expensed on a time and materials basis. These engine repairs represented approximately 75 percent of the total decrease, while a decrease in airframe inspections and repairs per ASM represented the majority of the remaining total decrease. The decrease in airframe inspections and repairs was primarily due to a greater amount of this work being performed internally versus 1999, when a large portion of this type of work was outsourced. Therefore, in 2000, a larger portion of the cost of these repairs is reflected in salaries and wages. Currently, we do not expect a significant increase in unit cost for maintenance materials and repairs in first quarter 2001 versus first quarter 2000. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, any unscheduled required aircraft airframe or engine repairs and regulatory requirements.)

Agency commissions per ASM decreased 10.0 percent, primarily due to a decrease in commissionable revenue. Approximately 31 percent of the Company's 2000 revenues were attributable to direct bookings through the Company's Internet site compared to approximately 19 percent in the prior year. The increase in Internet revenues contributed to the Company's percentage of commissionable revenues decreasing from 34.3 percent in 1999 to 29.1 percent in 2000. The Company recently announced a change in its commission rate policy. Beginning January 1, 2001, the Company will decrease the commission it pays to travel agents from ten percent to eight percent for ticketless bookings, and from ten percent to five percent for paper ticket bookings. The Company will continue to pay no commission on Internet agency bookings. Based on the policy change, the Company expects agency commissions to decrease on a per-ASM basis in 2001. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, changes in consumer ticket purchasing habits.)

Aircraft rentals decreased 13.2 percent primarily due to a lower percentage of the aircraft fleet being leased. Approximately 27.3 percent of the Company's aircraft were under operating lease at December 31, 2000, compared to 30.8 percent at December 31, 1999. Based on the Company's current new aircraft delivery schedule and scheduled aircraft retirements for 2001, we expect a decline in aircraft rental expense per ASM in 2001. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, changes in the Company's current schedule for purchase and/or retirement of aircraft.)

Landing fees and other rentals per ASM decreased 4.3 percent primarily as a result of a decrease in landing fees per ASM of 6.7 percent, partially offset by a slight increase in other rentals. Although landing fees declined on a per-ASM basis, they were basically flat on a per-trip basis. The growth in ASMs exceeded the trip growth primarily due to a 5.8 percent increase in stage length (the average distance per aircraft trip flown).

Other operating expenses per ASM decreased 3.4 percent primarily due to Company-wide cost reduction efforts. The Company also reduced its advertising expense 9.5 percent per ASM, taking advantage of our national presence, increasing brand awareness, and strong Customer demand.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense increased 29.1 percent due primarily to the Company's issuance of $256 million of long-term debt in fourth quarter 1999. Capitalized interest decreased 11.9 percent primarily as a result of lower 2000 progress payment balances for scheduled future aircraft deliveries compared to 1999. Interest income increased 59.0 percent primarily due to higher invested cash balances and higher rates of return. Other losses in 1999 resulted primarily from a write-down associated with the consolidation of certain software development projects.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, decreased slightly to 38.54 percent in 2000 from 38.68 percent in 1999.

1999 COMPARED WITH 1998 The Company's consolidated net income for 1999 was $474.4 million ($.89 per share, diluted), as compared to the corresponding 1998 amount of $433.4 million ($.82 per share, diluted), an increase of 9.4 percent. Operating income increased 14.3 percent to $781.6 million.

OPERATING REVENUES Consolidated operating revenues increased 13.7 percent primarily due to a 13.8 percent increase in passenger revenues. The increase in passenger revenues was primarily due to a 9.3 percent increase in revenue passengers carried and a 16.1 percent increase in RPMs. The passenger yield decreased 2.0 percent to $.1251 primarily due to an increase in average length of passenger haul of 6.2 percent, partially offset by a 4.1 percent increase in average passenger fare.

The 16.1 percent increase in RPMs exceeded the 11.2 percent increase in ASMs, resulting in an increase in load factor from 66.1 percent in 1998 to 69.0 percent in 1999. The 1999 ASM growth resulted from the net addition of 32 aircraft during the year.

Freight revenues increased 4.6 percent compared to 1998 primarily due to added capacity and modest rate increases. Other revenues increased 26.2 percent primarily due to an increase in charter revenue.

OPERATING EXPENSES Consolidated operating expenses increased 13.6 percent, compared to the 11.2 percent increase in capacity. Operating expenses per ASM increased 2.2 percent in 1999 primarily due to a 15.4 percent increase in average jet fuel prices. Excluding fuel expense, operating expenses per ASM for 1999 increased .8 percent.

Salaries, wages, and benefits per ASM increased 1.7 percent in 1999. This increase resulted primarily from increases in benefits costs, specifically workers' compensation and health care expense.

Employee retirement plans expense per ASM increased slightly due to higher earnings available for profitsharing.

Fuel and oil expenses per ASM increased 13.4 percent primarily due to a 15.4 percent increase in the average jet fuel cost per gallon. The average price paid for jet fuel in 1999 was $.5271, including the effects of hedging activities, compared to $.4567 in 1998. The Company's 1999 average jet fuel price is net of approximately $14.8 million in gains from hedging activities. Hedging activities in 1998 were not significant.

Maintenance materials and repairs expense per ASM increased 9.4 percent in 1999 compared to 1998. Routine heavy maintenance or airframe inspections and repairs represented approximately 74 percent of the increase, while engine inspection and repair costs represented approximately 25 percent of the increase. The increase in airframe inspections and repairs was due primarily to a heavier volume of routine airframe checks scheduled for 1999 versus 1998. Further, a portion of the Company's scheduled airframe checks was outsourced in 1999 as the volume of work exceeded the available internal headcount and facilities necessary to perform such maintenance. In 1998, the Company performed all of this type of routine heavy maintenance internally; thus, the majority of these costs were reflected in salaries and wages. The increases in engine inspection and repair costs were primarily related to the Company's 737-200 aircraft. The Company's 737-200 aircraft engine inspections and repairs are performed on a time and materials basis and are not covered by the Company's power-by-the-hour engine maintenance contract with General Electric Engine Services, Inc. The 737-200 aircraft experienced an increase both in the number of engine inspections and repairs and the average cost per repair.

Agency commissions per ASM decreased 9.1 percent primarily due to a decrease in the percentage of commissionable revenues to 34.8 percent of total revenues in 1999 compared to 39.8 percent in 1998. The decrease in percentage of commissionable revenues was primarily due to the growth in tickets purchased via the Company's website from approximately 8 percent in 1998 to approximately 19 percent in 1999.

Aircraft rentals per ASM decreased 11.6 percent primarily due to a lower percentage of the aircraft fleet being leased. Approximately 30.8 percent of the Company's aircraft fleet were under operating lease at December 31, 1999, compared to 35.4 percent at December 31, 1998.

Depreciation expense per ASM was flat for 1999 compared to 1998. Although the Company owned a higher percentage of its aircraft fleet in 1999 versus 1998, unit cost was flat due to a change in the estimated useful lives of the Company's Boeing 737-300/-500 aircraft from 20 years to 23 years. See Note 2 to the Consolidated Financial Statements. This change in accounting estimate was made January 1, 1999, and resulted in a decrease to depreciation expense of approximately $25.7 million for 1999.

Other operating expenses per ASM increased .7 percent primarily due to increased credit card processing costs resulting from a higher percentage of the Company's ticket sales purchased with credit cards.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense decreased 3.8 percent primarily due to the February 1998 redemption of $100 million of senior unsecured 9 1/4% Notes originally issued in February 1991. Capitalized interest increased 22.2 percent as a result of higher progress payment balances for scheduled future aircraft deliveries. Interest income decreased 18.9 percent primarily due to lower invested cash balances. Other losses in 1999 resulted primarily from a write-down associated with the consolidation of certain software development projects. Other gains in 1998 primarily consisted of contractual penalties received from Boeing due to delays in the delivery of 737-700 aircraft.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, increased slightly to 38.68 percent in 1999 from 38.53 percent in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $1.3 billion in 2000 compared to $1.0 billion in 1999. The increase in operating cash flows was primarily due to the increase in operating income. Cash generated in 2000 was primarily used to finance aircraft-related capital expenditures, provide working capital, and repurchase approximately 6.7 million shares of Company stock.

During 2000, net capital expenditures were $1.1 billion, which primarily related to the purchase of 33 new and one used 737-700 aircraft, and progress payments for future aircraft deliveries.

At December 31, 2000, capital commitments of the Company primarily consisted of scheduled aircraft acquisitions and related flight equipment. As of December 31, 2000, Southwest had 146 new 737-700s on firm order through 2007, including 25 to be delivered in 2001. The Company also has options to purchase another 87 737-700s during 2003–2008 and purchase rights for an additional 217 737-700s during 2007–2012. Aggregate funding required for firm commitments approximated $4.0 billion through the year 2007, of which $668.3 million relates to 2001. See Note 3 to the Consolidated Financial Statements for further information on commitments.

On September 23, 1999, the Company announced its Board of Directors had authorized the repurchase of up to $250 million of the Company's common stock. Repurchases are made in accordance with applicable securities laws in the open market or in private transactions from time to time, depending on market conditions, and may be discontinued at any time. As of December 31, 2000, in aggregate, 12.2 million shares had been repurchased at a total cost of $199.2 million, of which $108.7 million was completed in 2000.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 2000, of $523 million, internally generated funds, and a revolving credit line with a group of banks of up to $475 million (none of which had been drawn at December 31, 2000). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

The Company currently has outstanding shelf registrations for the issuance of $318.8 million of public debt securities, which it may utilize for aircraft financings in 2001 and 2002.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Southwest has interest rate risk in that it holds floating rate debt instruments and has commodity price risk in that it must purchase jet fuel to operate its aircraft fleet. The Company purchases jet fuel at prevailing market prices, but seeks to minimize its average jet fuel cost through execution of a documented hedging strategy. Southwest has market sensitive instruments in the form of the types of hedges it utilizes to decrease its exposure to jet fuel price increases and with fixed rate debt instruments. The Company also operates 101 aircraft under operating and capital leases. However, leases are not considered market sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below. Commitments related to leases are disclosed in Note 6 to the Consolidated Financial Statements. The Company does not purchase or hold any financial derivative instruments for trading purposes.

Airline operators are inherently dependent upon energy to operate and, therefore, are impacted by changes in jet fuel prices. Jet fuel and oil consumed in 2000 and 1999 represented approximately 17.4 and 12.5 percent of Southwest's operating expenses, respectively. Southwest endeavors to acquire jet fuel at the lowest prevailing prices possible. Because jet fuel is not traded on an organized futures exchange, liquidity for hedging is limited. However, the Company has found that crude oil contracts and heating oil contracts are effective commodities for hedging jet fuel.

The Company utilizes financial derivative instruments for both short-term and long-term time frames when it appears the Company can take advantage of market conditions. At December 31, 2000, the Company had a mixture of purchased call options, collar structures, and fixed price swap agreements in place to hedge approximately 80 percent of its 2001 total anticipated jet fuel requirements, approximately 32 percent of its 2002 total anticipated jet fuel requirements, and a small portion of its 2005 total anticipated jet fuel requirements. As of December 31, 2000, nearly all of the Company's 2001 hedges, and the majority of its 2002 hedges, are effectively heating oil-based positions. All remaining hedge positions are crude oil-based positions. The amount related to all the Company's fuel hedge positions contained in the Consolidated Balance Sheet at December 31, 2000, was $22.5 million, which represents the aggregate net premium cost paid for option and/or collar agreements. This amount is classified as prepaid expense in current assets. The Company's fuel hedging strategy could result in the Company not fully benefiting from certain jet fuel price declines. See Note 7 to the Consolidated Financial Statements for further detail on the Company's financial derivative instruments. Also see Recent Accounting Developments in Note 1 to the Consolidated Financial Statements regarding the new accounting requirements for financial derivative instruments effective January 1, 2001.

The fair values of outstanding financial derivative instruments related to the Company's jet fuel market price risk at December 31, 2000, including amounts contained in the Consolidated Balance Sheet at December 31, 2000, were approximately $98.3 million. A hypothetical ten percent increase or decrease in the underlying fuel-related commodity prices from the December 31, 2000, prices would correspondingly change the fair value of the derivative commodity instruments in place and their related cash flows up to approximately $2.4 million.

Airline operators are also inherently capital intensive, as the vast majority of the Company's assets are aircraft, which are long-lived. The Company's strategy is to capitalize conservatively and grow capacity steadily and profitably. While the Company uses financial leverage, it has maintained a strong balance sheet and an "A" credit rating on its senior unsecured fixed-rate debt with Standard & Poor's and an "A-" or equivalent credit rating with two other rating agencies (Moody's and Fitch). The Company's Aircraft Secured Notes ($200 million) and French Credit Agreements ($54 million) do not give rise to significant fair value risk but do give rise to interest rate risk because these borrowings are floating-rate debt. Although there is interest rate risk associated with these secured borrowings, the risk is somewhat mitigated by the fact that the Company may prepay this debt on any of the semi-annual principal and interest payment dates. See Note 5 to the Consolidated Financial Statements for more information on these borrowings.

As disclosed in Note 5 to the Consolidated Financial Statements, the Company had outstanding senior unsecured notes totaling $500 million at December 31, 2000 and 1999. These long-term notes represent only 8.6 percent and 10.0 percent of total noncurrent assets at December 31, 2000 and 1999, respectively. The unsecured long-term debt currently has an average maturity of 8.1 years at fixed rates averaging 8.3 percent at December 31, 2000, which is comparable to average rates prevailing over the last ten years. The Company does not have significant exposure to changing interest rates on its unsecured long-term debt because the interest rates are fixed and the financial leverage is modest.

Additionally, the Company does not have significant exposure to changing interest rates on invested cash, which was $523 million and $419 million at December 31, 2000 and 1999, respectively. The Company invests available cash in certificates of deposit and investment grade commercial paper that generally have maturities of three months or less. As a result, the interest rate market risk implicit in these investments at December 31, 2000, is low, as the investments generally mature within three months. The Company has not undertaken any additional actions to cover interest rate market risk and is not a party to any other material interest rate market risk management activities.

A hypothetical ten percent change in market interest rates over the next year would not have a material effect on the fair value of the Company's debt instruments or its short-term cash investments. See Note 7 to the Consolidated Financial Statements for further information on the fair value of the Company's financial instruments. Because of the floating rate nature of the Company's secured borrowings, a ten percent change in market interest rates as of December 31, 2000, would correspondingly change the Company's earnings and cash flows by approximately $1.1 million in 2001. However, a ten percent change in market rates would not impact the Company's earnings or cash flow associated with the Company's publicly traded fixed-rate debt or its cash investments.

SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEET

(*In thousands except per share amounts*)	DECEMBER 31, 2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 522,995	$ 418,819
Accounts and other receivables (Note 7)	138,070	75,038
Inventories of parts and supplies, at cost	80,564	65,152
Deferred income taxes (Note 11)	28,005	20,929
Prepaid expenses and other current assets	61,902	52,657
Total current assets	831,536	632,595
Property and equipment, at cost (Notes 3, 5, and 6):		
Flight equipment	6,831,913	5,768,506
Ground property and equipment	800,718	742,230
Deposits on flight equipment purchase contracts	335,164	338,229
	7,967,795	6,848,965
Less allowance for depreciation	2,148,070	1,840,799
	5,819,725	5,008,166
Other assets	18,311	12,942
	$6,669,572	$5,653,703
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 312,716	$ 266,735
Accrued liabilities (Note 4)	499,874	430,506
Air traffic liability	377,061	256,942
Current maturities of long-term debt (Note 5)	108,752	7,873
Total current liabilities	1,298,403	962,056
Long-term debt less current maturities (Note 5)	760,992	871,717
Deferred income taxes (Note 11)	852,865	692,342
Deferred gains from sale and leaseback of aircraft	207,522	222,700
Other deferred liabilities	98,470	69,100
Commitments and contingencies (Notes 3, 6, and 11)		
Stockholders' equity (Notes 8 and 9):		
Common stock, $1.00 par value: 1,300,000 shares authorized; 507,897 and 505,005 shares issued in 2000 and 1999, respectively	507,897	505,005
Capital in excess of par value	103,780	35,436
Retained earnings	2,902,007	2,385,854
Treasury stock, at cost: 3,735 and 5,579 shares in 2000 and 1999, respectively	(62,364)	(90,507)
Total stockholders' equity	3,451,320	2,835,788
	$6,669,572	$5,653,703

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME

	YEARS ENDED DECEMBER 31,		
(*In thousands except per share amounts*)	**2000**	**1999**	**1998**
OPERATING REVENUES:			
Passenger	$5,467,965	$4,562,616	$4,010,029
Freight	110,742	102,990	98,500
Other	70,853	69,981	55,451
Total operating revenues	5,649,560	4,735,587	4,163,980
OPERATING EXPENSES:			
Salaries, wages, and benefits (Note 10)	1,683,689	1,455,237	1,285,942
Fuel and oil	804,426	492,415	388,348
Maintenance materials and repairs	378,470	367,606	302,431
Agency commissions	159,309	156,419	157,766
Aircraft rentals	196,328	199,740	202,160
Landing fees and other rentals	265,106	242,002	214,907
Depreciation (Note 2)	281,276	248,660	225,212
Other operating expenses	859,811	791,932	703,603
Total operating expenses	4,628,415	3,954,011	3,480,369
OPERATING INCOME	1,021,145	781,576	683,611
OTHER EXPENSES (INCOME):			
Interest expense	69,889	54,145	56,276
Capitalized interest	(27,551)	(31,262)	(25,588)
Interest income	(40,072)	(25,200)	(31,083)
Other (gains) losses, net	1,515	10,282	(21,106)
Total other expenses (income)	3,781	7,965	(21,501)
INCOME BEFORE TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,017,364	773,611	705,112
PROVISION FOR INCOME TAXES (NOTE 11)	392,140	299,233	271,681
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	625,224	474,378	433,431
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAXES (NOTE 2)	(22,131)	-	-
NET INCOME	$ 603,093	$ 474,378	$ 433,431
NET INCOME PER SHARE, BASIC BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	$1.25	$.94	$.87
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(.04)	-	-
NET INCOME PER SHARE, BASIC (NOTES 8, 9, AND 12)	$1.21	$.94	$.87
NET INCOME PER SHARE, DILUTED BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	$1.18	$.89	$.82
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(.04)	-	-
NET INCOME PER SHARE, DILUTED (NOTES 8, 9, AND 12)	$1.14	$.89	$.82

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	YEARS ENDED DECEMBER 31, 2000, 1999, and 1998				
(*In thousands except per share amounts*)	**Common Stock**	**Capital in Excess of Par Value**	**Retained Earnings**	**Treasury Stock**	**Total**
Balance at December 31, 1997	$ 221,207	$ 155,696	$1,632,115	$ -	$2,009,018
Three-for-two stock split (Note 8)	111,894	(111,894)	-	-	-
Purchase of shares of treasury stock (Note 8)	-	-	-	(100,000)	(100,000)
Issuance of common stock pursuant to Employee stock plans (Note 9)	2,803	24,434	(10,184)	27,219	44,272
Tax benefit of options exercised	-	21,584	-	-	21,584
Cash dividends, $.0189 per share	-	-	(10,387)	-	(10,387)
Net income – 1998	-	-	433,431	-	433,431
Balance at December 31, 1998	335,904	89,820	2,044,975	(72,781)	2,397,918
Three-for-two stock split (Note 8)	167,954	(89,878)	(78,076)	-	-
Purchase of shares of treasury stock (Note 8)	-	-	-	(90,507)	(90,507)
Issuance of common and treasury stock pursuant to Employee stock plans (Note 9)	1,147	7,811	(45,134)	72,781	36,605
Tax benefit of options exercised	-	27,683	-	-	27,683
Cash dividends, $.0215 per share	-	-	(10,289)	-	(10,289)
Net income – 1999	-	-	474,378	-	474,378
Balance at December 31, 1999	505,005	35,436	2,385,854	(90,507)	2,835,788
Purchase of shares of treasury stock (Note 8)	-	-	-	(108,674)	(108,674)
Issuance of common and treasury stock pursuant to Employee stock plans (Note 9)	2,892	6,667	(75,952)	136,817	70,424
Tax benefit of options exercised	-	61,677	-	-	61,677
Cash dividends, $.0220 per share	-	-	(10,988)	-	(10,988)
Net income – 2000	-	-	603,093	-	603,093
Balance at December 31, 2000	$ 507,897	$ 103,780	$2,902,007	$ (62,364)	$3,451,320

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
(*In thousands*)	**2000**	**1999**	**1998**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 603,093	$ 474,378	$ 433,431
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	281,276	248,660	225,212
Deferred income taxes	153,447	142,940	108,335
Amortization of deferred gains on sale and leaseback of aircraft	(15,178)	(15,172)	(15,251)
Amortization of scheduled airframe inspections and repairs	36,328	28,949	22,763
Income tax benefit from Employee stock option exercises	61,677	27,683	21,584
Changes in certain assets and liabilities:			
Accounts and other receivables	(63,032)	13,831	(12,269)
Other current assets	(24,657)	(31,698)	1,589
Accounts payable and accrued liabilities	129,438	66,081	50,903
Air traffic liability	120,119	56,864	46,737
Other	15,775	16,877	3,101
Net cash provided by operating activities	1,298,286	1,029,393	886,135
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,134,644)	(1,167,834)	(947,096)
Net cash used in investing activities	(1,134,644)	(1,167,834)	(947,096)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	-	255,600	-
Payment of long-term debt and capital lease obligations	(10,238)	(12,107)	(118,859)
Payment of cash dividends	(10,978)	(10,842)	(9,284)
Proceeds from Employee stock plans	70,424	36,605	44,272
Repurchase of common stock	(108,674)	(90,507)	(100,000)
Net cash provided by (used in) financing activities	(59,466)	178,749	(183,871)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,176	40,308	(244,832)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	418,819	378,511	623,343
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 522,995	$ 418,819	$ 378,511
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	$ 36,946	$ 26,604	$ 33,384
Income taxes	$ 150,000	$ 131,968	$ 147,447

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION Southwest Airlines Co. (Southwest) is a major domestic airline that provides primarily shorthaul, high-frequency, point-to-point, low-fare service. The consolidated financial statements include the accounts of Southwest and its wholly owned subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Certain prior year amounts have been restated to conform to the current year presentation.

CASH AND CASH EQUIVALENTS Cash equivalents consist of certificates of deposit and investment grade commercial paper issued by major corporations and financial institutions. Cash and cash equivalents are highly liquid and generally have original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

INVENTORIES Inventories of flight equipment expendable parts, materials, and supplies are carried at average cost. These items are generally charged to expense when issued for use.

PROPERTY AND EQUIPMENT Depreciation is provided by the straight-line method to estimated residual values over periods ranging from 20 to 25 years for flight equipment and 3 to 30 years for ground property and equipment. See Note 2 for further information on aircraft depreciation. Property under capital leases and related obligations are recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the Company's incremental borrowing rate or, when known, the interest rate implicit in the lease. Amortization of property under capital leases is on a straight-line basis over the lease term and is included in depreciation expense. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows to be generated by those assets are less than the carrying amounts of those assets.

AIRCRAFT AND ENGINE MAINTENANCE The cost of scheduled engine inspections and repairs and routine maintenance costs for aircraft and engines are charged to maintenance expense as incurred. Scheduled airframe inspections and repairs, known as "D" checks, are generally performed every ten years. Costs related to "D" checks are capitalized and amortized over the estimated period benefited, presently the least of ten years, the time until the next "D" check, or the remaining life of the aircraft. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

REVENUE RECOGNITION Passenger revenue is recognized when transportation is provided. Tickets sold but not yet used are included in “Air traffic liability,” which includes estimates that are evaluated and adjusted periodically. Any adjustments resulting therefrom are included in results of operations for the periods in which the evaluations are completed.

FREQUENT FLYER PROGRAM The Company accrues the estimated incremental cost of providing free travel for awards earned under its Rapid Rewards frequent flyer program. The Company also sells flight segment credits and related services to companies participating in its Rapid Rewards frequent flyer program. Prior to 2000, revenue from the sale of flight segment credits was recognized when the credits were sold. However, beginning January 1, 2000, funds received from the sale of flight segment credits and associated with future travel are deferred and recognized as "Passenger revenue" when the ultimate free travel awards are flown or the credits expire unused (see Note 2).

ADVERTISING The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 2000, 1999, and 1998 was $141.3 million, $137.7 million, and $119.7 million, respectively.

STOCK-BASED EMPLOYEE COMPENSATION Pursuant to Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*, the Company accounts for stock-based compensation plans utilizing the provisions of Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related Interpretations. See Note 9.

FINANCIAL DERIVATIVE INSTRUMENTS The Company utilizes a variety of derivative instruments, including both crude oil and heating oil based derivatives, to hedge a portion of its exposure to jet fuel price increases. These instruments consist primarily of purchased call options, collar structures, and fixed price swap agreements. The net cost paid for option premiums and gains and losses on fixed price swap agreements, including those terminated or settled early, are deferred and charged or credited to fuel expense in the same month that the underlying jet fuel being hedged is used. Hedging gains and losses are recorded as a reduction of fuel and oil expense. Beginning January 1, 2001, the Company will adopt Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, which will change the way it accounts for financial derivative instruments. See Recent Accounting Developments.

RECENT ACCOUNTING DEVELOPMENTS In 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133. SFAS 133, as amended, is required to be adopted in fiscal years beginning after June 15, 2000. The Company will adopt SFAS 133 effective January 1, 2001. SFAS 133 will require the Company to record all derivatives on its balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative's fair value that is considered to be ineffective, as defined, may have to be immediately recorded in earnings. Any portion of a change in a derivative's fair value that the Company has elected to exclude from its measurement of effectiveness, such as the change in time value of option contracts, will be recorded in earnings.

The Company will account for its fuel hedge derivative instruments as cash flow hedges, as defined. Although the fair value of the Company's derivative instruments fluctuates daily, as of January 1, 2001, the fair value of the Company's fuel hedge derivative instruments was approximately $98.3 million, of which approximately $75.8 million was not recorded in the Consolidated Balance Sheet. The $75.8 million will be recorded as an asset on the Company's balance sheet as part of the transition adjustment related to the Company's adoption of SFAS 133. The offset to this balance sheet adjustment will be an increase to "Accumulated other comprehensive income," a component of stockholders' equity. The portion of the transition adjustment in "Accumulated other comprehensive income" that relates to 2001 hedge positions, based on fair value as of January 1, 2001, is approximately $73.9 million and will be reclassified into earnings during 2001. The remainder of the transition amount will be reclassified to earnings in periods subsequent to 2001. The Company believes the adoption of SFAS 133 will result in more volatility in its financial statements than in the past.

2. ACCOUNTING CHANGES

Effective January 1, 2000, the Company adopted Staff Accounting Bulletin 101 (SAB 101) issued by the Securities and Exchange Commission in December 1999. As a result of adopting SAB 101, the Company changed the way it recognizes revenue from the sale of flight segment credits to companies participating in its Rapid Rewards frequent flyer program. Prior to the issuance of SAB 101, the Company recorded revenue to "Other revenue" when flight segment credits were sold, consistent with most other major airlines. Beginning January 1, 2000, the Company recognizes "Passenger revenue" when free travel awards resulting from the flight segment credits sold are earned and flown or credits expire unused. Due to this change, the Company recorded a cumulative adjustment in first quarter 2000 of $22.1 million (net of income taxes of $14.0 million) or $.04 per share, basic and diluted. The impact in 2000 of adopting SAB 101 was to reduce net income, before the cumulative effect of accounting change, by $4.6 million. Excluding the impact of the change, basic and diluted net income per share for 2000, before the cumulative effect of accounting change, would have been $1.26 and $1.19, respectively. The Company also reclassified for comparison purposes the revenue reported in prior periods related to the sale of flight segment credits from "Other revenue" to "Passenger revenue."

Adopting this new method of accounting for 1999 and 1998 would have produced the following pro forma results (in thousands, except per share amounts):

As reported, before the cumulative effect of accounting change

	2000	1999	1998
Net income	$625,224	$474,378	$433,431
Net income per share – basic	$1.25	$.94	$.87
Net income per share – diluted	$1.18	$.89	$.82

Pro forma, before the cumulative effect of accounting change

	2000	1999	1998
Net income	$625,224	$470,439	$428,449
Net income per share – basic	$1.25	$.94	$.86
Net income per share – diluted	$1.18	$.88	$.81

Effective January 1, 1999, the Company revised the estimated useful lives of its 737-300 and -500 aircraft from 20 years to 23 years. This change was the result of the Company's assessment of the remaining useful lives of the aircraft based on the manufacturer's design lives, the Company's increased average aircraft stage (trip) length, and the Company's previous experience. The effect of this change was to reduce depreciation expense approximately $25.7 million and increase net income $.03 per diluted share for the year ended December 31, 1999.

3. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Twenty-five 737-700 aircraft are scheduled for delivery in 2001, 27 in 2002, 13 in 2003, 29 in 2004, five in 2005, and 47 thereafter. In addition, the Company has options to purchase up to 87 737-700s during 2003-2008 and purchase rights for an additional 217 737-700s during 2007–2012. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-600s or 737-800s for the 737-700s scheduled subsequent to 2001. Aggregate funding needed for firm commitments is approximately $4.0 billion, subject to adjustments for inflation, due as follows: $668.3 million in 2001, $766.3 million in 2002, $472.2 million in 2003, $640.7 million in 2004, $379.4 million in 2005, and $1.0 billion thereafter.

4. ACCRUED LIABILITIES

(*In thousands*)	2000	1999
Retirement plans (Note 10)	$ 180,340	$ 138,566
Aircraft rentals	117,302	131,219
Vacation pay	72,115	62,937
Other	130,117	97,784
	$ 499,874	$ 430,506

5. LONG-TERM DEBT

(*In thousands*)	2000	1999
9.4% Notes due 2001	$ 100,000	$ 100,000
8 3/4% Notes due 2003	100,000	100,000
Aircraft Secured Notes due 2004	200,000	200,000
8% Notes due 2005	100,000	100,000
7 7/8% Notes due 2007	100,000	100,000
French Credit Agreements	54,243	55,844
7 3/8% Debentures due 2027	100,000	100,000
Capital leases (Note 6)	117,083	123,834
Other	-	1,886
	871,326	881,564
Less current maturities	108,752	7,873
Less debt discount	1,582	1,974
	$ 760,992	$ 871,717

In fourth quarter 1999, the Company issued $200 million of floating rate Aircraft Secured Notes, due 2004. The Notes are funded by a bank through a commercial paper conduit program and are secured by eight aircraft. Interest rates on the Notes are based on the conduit's actual commercial paper rate, plus fees, for each period and are expected to average approximately LIBOR plus 36 basis points over the term of the Notes. Interest is payable monthly and the Company can prepay the Notes in whole or in part prior to maturity.

Also in fourth quarter 1999, the Company entered into two identical 13-year floating rate financing arrangements, whereby it effectively borrowed a total of $56 million from French banking partnerships. For presentation purposes, the Company has classified these identical borrowings as one $56 million transaction. The effective rate of interest over the 13-year term of the loans is LIBOR plus 32 basis points. Principal and interest are payable semi-annually on June 30 and December 31 for each of the loans and the Company may terminate the arrangements in any year on either of those dates, with certain conditions. The Company has pledged two aircraft as collateral for the entire transaction.

On February 28, 1997, the Company issued $100 million of senior unsecured 7 3/8% Debentures due March 1, 2027. Interest is payable semi-annually on March 1 and September 1. The Debentures may be redeemed, at the option of the

Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of the principal amount of the Debentures plus accrued interest at the date of redemption or the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the date of redemption at the comparable treasury rate plus 20 basis points, plus accrued interest at the date of redemption.

On March 7, 1995, the Company issued $100 million of senior unsecured 8% Notes due March 1, 2005. Interest is payable semi-annually on March 1 and September 1. The Notes are not redeemable prior to maturity.

On September 9, 1992, the Company issued $100 million of senior unsecured 7 7/8% Notes due September 1, 2007. Interest is payable semi-annually on March 1 and September 1. The Notes are not redeemable prior to maturity.

During 1991, the Company issued $100 million of senior unsecured 9.4% Notes and $100 million of senior unsecured 8 3/4% Notes due July 1, 2001 and October 15, 2003, respectively. Interest on the Notes is payable semi-annually. The Notes are not redeemable prior to maturity.

In addition to the credit facilities described above, Southwest has an unsecured Bank Credit Agreement with a group of banks that permits Southwest to borrow through May 6, 2002, on a revolving credit basis, up to $475 million. Interest rates on borrowings under the Credit Agreement can be, at the option of Southwest, the greater of the agent bank's prime rate or the federal funds rate plus 50 basis points, LIBOR plus 17 basis points, or a fixed rate offered by the banks at the time of borrowing. The commitment fee is 8 basis points per annum. There were no outstanding borrowings under this agreement, or prior similar agreements, at December 31, 2000 and 1999.

6. LEASES

Total rental expense for operating leases charged to operations in 2000, 1999, and 1998 was $330.7 million, $318.2 million, and $305.2 million, respectively. The majority of the Company's terminal operations space, as well as 94 aircraft, was under operating leases at December 31, 2000. The amounts applicable to capital leases included in property and equipment were:

(*In thousands*)	2000	1999
Flight equipment	$ 164,909	$ 164,957
Less accumulated amortization	92,763	85,722
	$ 72,146	$ 79,235

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 2000, were:

(*In thousands*)	Capital Leases	Operating Leases
2001	$ 17,391	$ 274,564
2002	17,561	262,142
2003	17,750	237,627
2004	17,650	213,782
2005	23,507	203,385
After 2005	78,891	1,701,793
Total minimum lease payments	172,750	$ 2,893,293
Less amount representing interest	55,667	
Present value of minimum lease payments	117,083	
Less current portion	6,829	
Long-term portion	$ 110,254	

The aircraft leases generally can be renewed at rates based on fair market value at the end of the lease term for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the lessor's defined cost of the aircraft.

7. FINANCIAL INSTRUMENTS

The Company utilizes a variety of financial derivative instruments to hedge a portion of its exposure to jet fuel price increases. During 2000 and 1999, the Company recognized gains of $113.5 million and $14.8 million, respectively, from hedging activities. At December 31, 2000, approximately $49.9 million was due from third parties, and accordingly, is included in "Accounts and other receivables" in the accompanying Consolidated Balance Sheet. For further details of the Company's fuel hedge positions at December 31, 2000, see Quantitative and Qualitative Disclosures about Market Risk in Management's Discussion and Analysis of Financial Condition and Results of Operations and Recent Accounting Developments in Note 1. The fair value of the Company's financial derivative instruments at December 31, 2000, was approximately $98.3 million.

Any outstanding financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements, but the Company does not expect any of the counterparties to fail to meet their obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty, and monitors the market position of the program and its relative market position with each counterparty. At December 31, 2000, the Company had an agreement with two counterparties containing bilateral collateral provisions whereby cash deposits are required if market risk exposure exceeds a specified threshold amount. Neither the Company nor the counterparties exceeded the threshold amount at December 31, 2000. The Company is in the process of negotiating similar agreements with other counterparties.

The Company does not hold or issue any financial instruments for trading purposes.

The carrying amounts and estimated fair values of the Company's long-term debt at December 31, 2000 were as follows:

(*In thousands*)	Carrying Value	Fair Value
8 3/4% Notes due 2003	$ 100,000	$ 104,854
Aircraft Secured Notes due 2004	200,000	200,000
8% Notes due 2005	100,000	104,143
7 7/8% Notes due 2007	100,000	102,620
French Credit Agreements	54,243	54,243
7 3/8% Debentures due 2027	100,000	92,092

The estimated fair values of the Company's long-term debt were based on quoted market prices. The carrying values of all other financial instruments approximate their fair value.

8. COMMON STOCK

The Company has one class of common stock. Holders of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors and are entitled to one vote per share on all matters submitted to a vote of the shareholders.

At December 31, 2000, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (101.2 million shares) and upon exercise of rights (179.4 million shares) pursuant to the Common Share Purchase Rights Agreement, as amended (Agreement).

Pursuant to the Agreement, each outstanding share of the Company's common stock is accompanied by one common share purchase right (Right). Each Right is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at $.0033 per Right prior to the time that 15 percent of the common stock has been acquired by a person or group. If the Company is acquired, as defined in the Agreement, each Right will entitle its holder to purchase for $4.94 that number of the acquiring company's or the Company's common shares, as provided in the Agreement, having a market value of two times the exercise price of the Right. The Rights will expire no later than July 30, 2006.

On July 22, 1998, the Company's Board of Directors declared a three-for-two stock split, distributing 111.9 million shares on August 20, 1998. On May 20, 1999, the Company's Board of Directors declared a three-for-two stock split, distributing 168.0 million shares on July 19, 1999. Unless otherwise stated, all share and per share data presented in the accompanying consolidated financial statements and notes thereto have been restated to give effect to these stock splits.

During third quarter 1998, the Company completed a $100 million common stock repurchase program, resulting in the repurchase of 7.3 million shares at an average cost of $13.65 per share. All of the acquired shares were subsequently reissued under Employee stock plans.

On September 23, 1999, the Company's Board of Directors authorized the Company to repurchase up to $250 million of its outstanding common stock. As of December 31, 2000, this program had resulted in the repurchase of 12.2 million shares at an average cost of $16.28 per share. All of the acquired shares are held as common stock in treasury, less shares reissued under Employee stock plans. When treasury shares are reissued, the Company uses a first-in, first-out method and the excess of repurchase cost over reissuance price, if any, is treated as a reduction of retained earnings.

On January 18, 2001, the Company's Board of Directors declared a three-for-two stock split, payable to shareholders of record at the close of business on January 26, 2001, and also increased the quarterly dividend. Shares will be distributed on February 15, 2001. The dividend will be adjusted to $.0045 per share quarterly on the increased number of shares outstanding. The share and per share data presented in the accompanying consolidated financial statements and notes thereto have not been restated to give effect to this pending 2001 stock split.

9. STOCK PLANS

At December 31, 2000, the Company had 12 stock-based compensation plans and other stock options outstanding, which are described below. The Company applies APB 25 and related Interpretations in accounting for its stock-based compensation. Accordingly, no compensation expense is recognized for its fixed option plans because the exercise prices of the Company's Employee stock options equal or exceed the market prices of the underlying stock on the dates of grant. Compensation expense for other stock options is not material.

The Company has 11 fixed option plans that cover various Employee groups. Under these plans, the Company may grant up to 127 million shares of common stock, of which 24.6 million shares were available for granting in future periods as of December 31, 2000. Under plans covered by collective bargaining agreements, options granted to Employees generally have terms similar to the term of, and vest in annual increments over the remaining life of, the respective collective bargaining agreement. Options granted to Employees not covered by collective bargaining agreements have ten-year terms and vest and become fully exercisable over three, five, or ten years of continued employment, depending upon the grant type.

Aggregated information regarding the Company's 11 fixed stock option plans, as adjusted for stock splits, is summarized below:

(*In thousands except exercise prices*)	COLLECTIVE BARGAINING PLANS		OTHER EMPLOYEE PLANS	
	OPTIONS	AVERAGE EXERCISE PRICE	OPTIONS	AVERAGE EXERCISE PRICE
Outstanding December 31, 1997	47,211	$ 6.08	24,000	$ 5.29
Granted	2,461	12.98	4,492	11.81
Exercised	(3,462)	6.00	(3,861)	4.38
Surrendered	(271)	6.17	(1,352)	7.07
Outstanding December 31, 1998	45,939	6.45	23,279	6.60
Granted	1,536	17.55	3,367	18.28
Exercised	(2,218)	6.20	(3,292)	4.67
Surrendered	(408)	6.49	(1,134)	8.34
Outstanding December 31, 1999	44,849	6.48	22,220	6.92
Granted	3,138	27.34	7,936	20.79
Exercised	(5,263)	6.70	(4,944)	5.20
Surrendered	(457)	7.73	(974)	13.00
Outstanding December 31, 2000	42,267	$ 8.39	24,238	$ 12.99
Exercisable December 31, 2000	21,881	$ 7.01	5,957	$ 9.31
Available for granting in future periods	7,974		16,658	

The following table summarizes information about stock options outstanding under the 11 fixed option plans at December 31, 2000:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING AT 12/31/00	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 12/31/00	WEIGHTED-AVERAGE EXERCISE PRICE
$ 1.78 to $ 2.32	675	0.1 yrs	$1.90	675	$1.90
$ 3.35 to $ 3.58	321	1.2	3.55	141	3.53
$ 5.00 to $ 8.07	43,476	5.8	6.13	22,261	6.06
$ 8.75 to $13.09	7,216	7.1	11.47	2,720	11.24
$15.15 to $22.61	6,505	8.2	16.96	1,387	17.22
$23.18 to $34.20	8,312	8.8	24.95	654	27.35
$ 1.78 to $34.20	66,505	6.4 yrs	$10.07	27,838	$7.51

The Company has granted options to purchase the Company's common stock related to employment contracts with the Company's president and chief executive officer. Depending upon the grant, these options have terms of ten years from the date of grant or ten years from the date exercisable and vest and become fully exercisable over three or four years. No options were granted in 2000, 1999, or 1998. At December 31, 2000, 1999, and 1998, total options of 4.1 million, 5.0 million, and 5.5 million were outstanding, respectively. At December 31, 2000, total options of 4.1 million were exercisable at exercise prices ranging from $1.00 to $6.96 per share. Options for 854,000, 570,000, and 342,000 shares were exercised in 2000, 1999, and 1998, respectively.

Under the 1991 Employee Stock Purchase Plan (ESPP), as amended, at December 31, 2000, the Company is authorized to issue up to a remaining balance of 5.9 million shares of common stock to Employees of the Company at a price equal to 90 percent of the market value at the end of each purchase period. Common stock purchases are paid for through periodic payroll deductions. Participants under the plan received 686,000 shares in 2000, 649,000 shares in 1999, and 677,000 shares in 1998 at average prices of $20.01, $16.24, and $11.63, respectively.

Pro forma information regarding net income and net income per share is required by SFAS 123 and has been determined as if the Company had accounted for its Employee stock-based compensation plans and other stock options under the fair value method of SFAS 123. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plans in 2000, 1999, and 1998, respectively: dividend yield of .10 percent, .12 percent, and .16 percent; expected volatility of 34.87 percent, 35.66 percent, and 38.20 percent; risk-free interest rate of 5.04 percent, 6.68 percent, and 4.66 percent; and expected lives of 6.0 years for 2000 and 5.0 years for 1999 and 1998.

The fair value of options granted under the fixed option plans during 2000 ranged from $6.70 to $14.69. The fair value of options granted under the fixed option plans during 1999 ranged from $6.26 to $8.81. The fair value of options granted under the fixed option plans during 1998 ranged from $4.41 to $4.97. The weighted-average fair value of each purchase right under the ESPP granted in 2000, 1999, and 1998, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was $2.22, $1.75, and $1.29, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's Employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its Employee stock options.

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation plans and other options is amortized to expense primarily over the vesting period. The Company's pro forma net income and net income per share are as follows:

(*In thousands except per share amounts*)	**2000**	**1999**	**1998**
NET INCOME:			
As reported	$ 603,093	$ 474,378	$ 433,431
Pro forma	$ 583,707	$ 461,875	$ 421,097
NET INCOME PER SHARE, BASIC:			
As reported	$ 1.21	$ .94	$ .87
Pro forma	$ 1.17	$ .92	$ .84
NET INCOME PER SHARE, DILUTED:			
As reported	$ 1.14	$ .89	$ .82
Pro forma	$ 1.11	$ .87	$ .79

As required, the pro forma disclosures above include only options granted since January 1, 1995. Consequently, the effects of applying SFAS 123 for providing pro forma disclosures may not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures.

10. EMPLOYEE RETIREMENT PLANS

The Company has defined contribution plans covering substantially all of Southwest's Employees. The Southwest Airlines Co. Profitsharing Plan is a money purchase defined contribution plan and Employee stock purchase plan. The Company also sponsors Employee savings plans under section 401(k) of the Internal Revenue Code, which include Company matching contributions. The 401(k) plans cover substantially all Employees. Contributions under all defined contribution plans are based primarily on Employee compensation and performance of the Company.

Company contributions to all retirement plans expensed in 2000, 1999, and 1998 were $241.5 million, $192.0 million, and $167.1 million, respectively.

11. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 2000 and 1999, are as follows:

(*In thousands*)	2000	1999
DEFERRED TAX LIABILITIES:		
Accelerated depreciation	$ 1,049,791	$ 862,620
Scheduled airframe maintenance	71,519	52,890
Other	23,805	24,637
Total deferred tax liabilities	1,145,115	940,147
DEFERRED TAX ASSETS:		
Deferred gains from sale and leaseback of aircraft	107,686	113,611
Capital and operating leases	77,151	72,554
Other	135,418	82,569
Total deferred tax assets	320,255	268,734
Net deferred tax liability	$ 824,860	$ 671,413

The provision for income taxes is composed of the following:

(*In thousands*)	2000	1999	1998
CURRENT:			
Federal	$ 197,875	$ 137,393	$ 143,989
State	26,671	18,900	19,357
Total current	224,546	156,293	163,346
DEFERRED:			
Federal	151,694	128,984	96,237
State	15,900	13,956	12,098
Total deferred	167,594	142,940	108,335
	$ 392,140	$ 299,233	$ 271,681

The Company received a statutory notice of deficiency from the Internal Revenue Service (IRS) in July 1995 in which the IRS proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. The IRS has proposed similar adjustments to the tax returns of numerous other members of the airline industry. In response to the statutory notice of deficiency, the Company filed a petition in the United States Tax Court on October 30, 1997, seeking a determination that the IRS erred in disallowing the deductions claimed by the Company and there is no deficiency in the Company's tax liability for the taxable years in issue.

On December 21, 2000, the national office of the IRS published a revenue ruling in which it concluded that aircraft inspection and maintenance, substantially the same as that in issue in the Company's Tax Court suit, is currently deductible as an ordinary and necessary business expense. Counsel for the Company and the IRS soon will engage in discussions in an attempt to resolve the controversy in conformity with the IRS revenue ruling and without the necessity of further litigation. Management believes the final resolution of this controversy will not have a material adverse effect upon the financial position or results of operations of the Company.

The effective tax rate on income before income taxes differed from the federal income tax statutory rate for the following reasons:

(*In thousands*)	2000	1999	1998
Tax at statutory U.S. tax rates	$ 356,077	$ 270,764	$ 246,789
Nondeductible items	6,801	6,664	5,099
State income taxes, net of federal benefit	27,671	21,356	20,445
Other, net	1,591	449	(652)
Total income tax provision	$ 392,140	$ 299,233	$ 271,681

12. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

(*In thousands except per share amounts*)	2000	1999	1998
NUMERATOR:			
Net income before cumulative effect of change in accounting principle	$ 625,224	$ 474,378	$ 433,431
Cumulative effect of change in accounting principle	(22,131)	-	-
Net income	$ 603,093	$ 474,378	$ 433,431
DENOMINATOR:			
Weighted-average shares outstanding, basic	499,078	503,065	500,013
Dilutive effect of Employee stock options	31,800	32,862	29,736
Adjusted weighted-average shares outstanding, diluted	530,878	535,927	529,749
NET INCOME PER SHARE:			
Basic before cumulative effect of change in accounting principle	$ 1.25	$ .94	$ .87
Cumulative effect of change in accounting principle	(.04)	-	-
Basic earnings per share	$ 1.21	$ .94	$ .87
Diluted before cumulative effect of change in accounting principle	$ 1.18	$ .89	$ .82
Cumulative effect of change in accounting principle	(.04)	-	-
Diluted earnings per share	$ 1.14	$ .89	$ .82

The Company has excluded 7.8 million and 4.5 million shares from its calculations of diluted net income per share in 2000 and 1999, respectively, as they represent antidilutive stock options for the respective periods presented. There were no antidilutive stock options in 1998.

REPORT OF ERNST & YOUNG LLP INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND SHAREHOLDERS
SOUTHWEST AIRLINES CO.

We have audited the accompanying consolidated balance sheets of Southwest Airlines Co. as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Airlines Co. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, in 2000 the Company changed its method of accounting for the sale of flight segment credits.

Dallas, Texas
January 18, 2001

QUARTERLY FINANCIAL DATA (UNAUDITED)

(*In thousands except per share amounts*)	THREE MONTHS ENDED MARCH 31	JUNE 30	SEPT. 30	DEC. 31
2000				
Operating revenues	$1,242,647	$1,460,675	$1,478,834	$1,467,404
Operating income	155,408	314,558	300,109	251,070
Income before income taxes	155,973	310,865	301,073	249,453
Net income	95,643*	190,622	184,298	154,661
Net income per share, basic	.19*	.38	.37	.31
Net income per share, diluted	.18*	.36	.35	.29
*Excludes cumulative effect of change in accounting principle of $22.1 million $.04 per share, basic and diluted				
1999				
Operating revenues	$1,075,571	$1,220,432	$1,235,166	$1,204,418
Operating income	166,617	254,331	206,463	154,165
Income before income taxes	156,102	256,598	207,949	152,962
Net income	95,847	157,757	126,978	93,796
Net income per share, basic	.19	.31	.25	.19
Net income per share, diluted	.18	.29	.24	.18

COMMON STOCK PRICE RANGES AND DIVIDENDS

Southwest's common stock is listed on the New York Stock Exchange and is traded under the symbol LUV. The high and low sales prices of the common stock on the Composite Tape and the quarterly dividends per share, as adjusted for the July 1999 three-for-two stock split, was:

PERIOD	DIVIDENDS	HIGH	LOW
2000			
1st Quarter	$ .00550	$ 20.88	$ 15.00
2nd Quarter	.00550	22.75	18.56
3rd Quarter	.00550	25.00	19.13
4th Quarter	.00550	34.99	23.63
1999			
1st Quarter	$ .00500	$ 22.92	$ 14.92
2nd Quarter	.00550	23.58	19.54
3rd Quarter	.00550	22.29	14.38
4th Quarter	.00550	18.81	15.00

TEN-YEAR SUMMARY

SELECTED CONSOLIDATED FINANCIAL DATA [1]

(*In thousands except per share amounts*)	2000	1999	1998	1997
Operating revenues:				
Passenger (9)	$ 5,467,965	$ 4,562,616	$ 4,010,029	$ 3,669,821
Freight	110,742	102,990	98,500	94,758
Other (9)	70,853	69,981	55,451	52,242
Total operating revenues	5,649,560	4,735,587	4,163,980	3,816,821
Operating expenses	4,628,415	3,954,011	3,480,369	3,292,585
Operating income	1,021,145	781,576	683,611	524,236
Other expenses (income), net	3,781	7,965	(21,501)	7,280
Income before income taxes	1,017,364	773,611	705,112	516,956
Provision for income taxes (3)	392,140	299,233	271,681	199,184
Net income (3)	$ 625,224 [10]	$ 474,378	$ 433,431	$ 317,772
Net income per share, basic (3)	$1.25 [10]	$.94	$.87	$.64
Net income per share, diluted (3)	$1.18 [10]	$.89	$.82	$.62
Cash dividends per common share	$.02200	$.02150	$.01889	$.01471
Total assets	$ 6,669,572	$ 5,653,703	$ 4,715,996	$ 4,246,160
Long-term debt	$ 760,992	$ 871,717	$ 623,309	$ 628,106
Stockholders' equity	$ 3,451,320	$ 2,835,788	$ 2,397,918	$ 2,009,018
CONSOLIDATED FINANCIAL RATIOS (1)				
Return on average total assets	10.1 % [10]	9.2 %	9.7 %	8.0 %
Return on average stockholders' equity	19.9 % [10]	18.1 %	19.7 %	17.4 %
CONSOLIDATED OPERATING STATISTICS (2)				
Revenue passengers carried	63,678,261	57,500,213	52,586,400	50,399,960
RPMs (000s)	42,215,162	36,479,322	31,419,110	28,355,169
ASMs (000s)	59,909,965	52,855,467	47,543,515	44,487,496
Passenger load factor	70.5 %	69.0 %	66.1 %	63.7 %
Average length of passenger haul	663	634	597	563
Trips flown	903,754	846,823	806,822	786,288
Average passenger fare (9)	$85.87	$79.35	$76.26	$72.81
Passenger revenue yield per RPM (9)	12.95 ¢	12.51 ¢	12.76 ¢	12.94 ¢
Operating revenue yield per ASM	9.43 ¢	8.96 ¢	8.76 ¢	8.58 ¢
Operating expenses per ASM	7.73 ¢	7.48 ¢	7.32 ¢	7.40 ¢
Fuel cost per gallon (average)	78.69 ¢	52.71 ¢	45.67 ¢	62.46 ¢
Number of Employees at yearend	29,274	27,653	25,844	23,974
Size of fleet at yearend (8)	344	312	280	261

(1) *The Selected Consolidated Financial Data and Consolidated Financial Ratios for 1992 and 1991 have been restated to include the financial results of Morris Air Corporation (Morris)*

(2) *Prior to 1993, Morris operated as a charter carrier; therefore, no Morris statistics are included for these years*

(3) *Pro forma for 1992 and 1991 assuming Morris, an S-Corporation prior to 1993, was taxed at statutory rates*

(4) *Excludes cumulative effect of accounting changes of $15.3 million ($.03 per share)*

(5) *Excludes cumulative effect of accounting change of $12.5 million ($.03 per share)*

CHART CONT'

1996	1995	1994	1993	1992	1991
$ 3,285,178	$ 2,767,835	$ 2,497,765	$ 2,216,342	$ 1,623,828	$ 1,267,897
80,005	65,825	54,419	42,897	33,088	26,428
40,987	39,091	39,749	37,434	146,063	84,961
3,406,170	2,872,751	2,591,933	2,296,673	1,802,979	1,379,286
3,055,335	2,559,220	2,275,224	2,004,700	1,609,175	1,306,675
350,835	313,531	316,709	291,973	193,804	72,611
9,473	8,391	17,186	32,336	36,361	18,725
341,362	305,140	299,523	259,637	157,443	53,886
134,025	122,514	120,192	105,353	60,058	20,738
$ 207,337	$ 182,626	$ 179,331	$ 154,284 (4)	$ 97,385 (5)	$ 33,148
$.42	$.38	$.37	$.32 (4)	$.21 (5)	$.08
$.41	$.37	$.36	$.31 (4)	$.20 (5)	$.07
$.01303	$.01185	$.01185	$.01146	$.01047	$.00987
$ 3,723,479	$ 3,256,122	$ 2,823,071	$ 2,576,037	$ 2,368,856	$ 1,854,331
$ 650,226	$ 661,010	$ 583,071	$ 639,136	$ 735,754	$ 617,434
$ 1,648,312	$ 1,427,318	$ 1,238,706	$ 1,054,019	$ 879,536	$ 635,793
5.9 %	6.0 %	6.6 %	6.2 % (4)	4.6 % (5)	2.0 %
13.5 %	13.7 %	15.6 %	16.0 % (4)	12.9 % (5)	5.3 %
49,621,504	44,785,573	42,742,602 (6)	36,955,221 (6)	27,839,284	22,669,942
27,083,483	23,327,804	21,611,266	18,827,288	13,787,005	11,296,183
40,727,495	36,180,001	32,123,974	27,511,000	21,366,642	18,491,003
66.5 %	64.5 %	67.3 %	68.4 %	64.5 %	61.1 %
546	521	506	509	495	498
748,634	685,524	624,476	546,297	438,184	382,752
$66.20	$61.80	$58.44	$59.97	$58.33	$55.93
12.13 ¢	11.86 ¢	11.56 ¢	11.77 ¢	11.78 ¢	11.22 ¢
8.36 ¢	7.94 ¢	8.07 ¢	8.35 ¢	7.89 ¢	7.10 ¢
7.50 ¢	7.07 ¢	7.08 ¢	7.25 ¢ (7)	7.03 ¢	6.76 ¢
65.47 ¢	55.22 ¢	53.92 ¢	59.15 ¢	60.82 ¢	65.69 ¢
22,944	19,933	16,818	15,175	11,397	9,778
243	224	199	178	141	124

(6) *Includes certain estimates for Morris*

(7) *Excludes merger expenses of $10.8 million*

(8) *Includes leased aircraft*

(9) *Includes effect of reclassification of revenue reported in 1999 through 1995 related to the sale of flight segment credits from Other to Passenger due to the accounting change implementation in 2000*

(10) *Excludes cumulative effect of accounting change of $22.1 million ($.04 per share)*

TRANSFER AGENT AND REGISTRAR

Registered shareholder inquiries regarding stock transfers, address changes, lost stock certificates, dividend payments, or account consolidation should be directed to:

Continental Stock Transfer & Trust Company
2 Broadway
New York, New York 10004
(212) 509-4000

STOCK EXCHANGE LISTING

New York Stock Exchange
Ticker Symbol: LUV

INDEPENDENT AUDITORS

Ernst & Young LLP
Dallas, Texas

GENERAL OFFICES

P.O. Box 36611
Dallas, Texas 75235-1611

ANNUAL MEETING

The Annual Meeting of Shareholders of Southwest Airlines Co. will be held at 10:00 a.m. on May 16, 2001, at the Southwest Airlines Corporate Headquarters, 2702 Love Field Drive, Dallas, Texas.

FINANCIAL INFORMATION

A copy of the Company's Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission (SEC) and other financial information can be found on Southwest's web site (southwest.com) or may be obtained without charge by writing or calling:

Southwest Airlines Co.
Investor Relations
P.O. Box 36611
Dallas, Texas 75235-1611
Telephone (214) 792-4908

Company documents filed electronically with the SEC can also be found on the SEC's web site (http://www.sec.gov). A copy of this Annual Report and other financial information can be found on Southwest's web site (http://www.southwest.com).

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Chief Executive Officer of Southwest Airlines Co.,
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