

## **Southwest Airlines Co. Corporate Governance Guidelines**

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The Nominating and Corporate Governance Committee of the Board of Directors of Southwest Airlines Co. has adopted these Guidelines to further its goal of providing effective governance of the Company's business for the longterm benefit of the Company's Shareholders, Employees, and Customers. These Guidelines will be reviewed periodically and revised as appropriate to ensure the effective functioning of the Board of Directors.

### **Qualifications of Directors**

The Nominating and Corporate Governance Committee is responsible for establishing and reviewing annually the criteria for Board membership as set forth in these Guidelines.

Members of the Board of Directors of Southwest Airlines Co. should possess the highest personal and professional ethics, integrity, and values. They must possess practical wisdom, mature judgment, and be committed to the best longterm interests of our Employees, Customers, and Shareholders. Directors must be willing to devote sufficient time to fulfill their responsibilities and be willing to serve on the Board for an extended period of time. A Director should offer his or her resignation in the event of any significant change in personal and professional circumstances that would impede the ability to carry out the responsibilities of a Director. While there is no specific limitation on service on other Boards, the Nominating and Corporate Governance Committee will take into consideration the nature and time involved in a Director's service on other boards in evaluating the suitability of that Director. Members of the Audit Committee should not serve on the Audit Committee of more than two other public boards of directors.

Except for the mandatory retirement age requirement for Directors set forth in the Company's Bylaws, Southwest does not limit the number of terms for which a Director may serve. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future success of the Company based on their past experience and understanding of the Company's history, Culture, and objectives. The Board's self-review process described below will be an important determinant for Board tenure.

In addition to the above, the Board will consider a number of factors in the nomination or appointment of new Board members, including finance, marketing, government, education, and other professional experience or knowledge relevant to the success of the Company in today's business environment. The Board will also take into consideration factors such as diversity and independence (for non-management Directors) in the appointment of future Board members. The Board evaluates each Director in the context of the Board as a whole, with the objective of recommending a group that can best serve the longterm interests of the Company's Employees, Customers, and Shareholders.

In the case of current Directors being considered for renomination, the Board should also consider the Director's past attendance at Board and committee meetings and participation in and contributions to such meetings and Board activities.

### Board Meetings

The Board of Directors has six regularly scheduled meetings each year. Additional meetings may be called in accordance with the Company's bylaws. The Chairman of the Board, taking into consideration suggestions from other members of the Board, will set the agenda for each Board meeting, and will distribute this agenda, along with any other relevant materials, in advance to each Director. If appropriate, the Chairman of the Board and CEO will determine the individual Employees or advisors who need to attend or present material at each meeting. The Board acknowledges that certain items to be discussed at Board meetings are of an extremely sensitive nature and that the distribution of materials on these matters prior to Board meetings may not be appropriate.

### Director Responsibilities

The fundamental responsibility of members of the Company's Board of Directors is to promote the best interests of the Company and its Shareholders by overseeing the management of the Company's business. In doing so, Board members have two basic legal obligations to the Company and its Shareholders: (a) the duty of care, which requires that Board members exercise appropriate diligence in making decisions and in overseeing management and (b) the duty of loyalty, which generally requires that Board members make decisions based on the best interests of the Company's Shareholders and without regard to any personal interest.

Directors are expected to attend all meetings of the Board and committees of which the Director is a member, and to review all meeting materials provided to them in advance of meetings. Directors must maintain confidentiality of the Company's non-public information and abide by applicable laws. The Board of Directors may retain consultants or advisors as it deems necessary or appropriate.

In addition to the general oversight of management, the Board also performs a number of specific functions including the selection and evaluation of the CEO, with the CEO's compensation determined by the Compensation Committee. The Board shall regularly approve and maintain a succession plan for the CEO and senior executives, based upon recommendations from the Compensation Committee. The Board oversees the selection, evaluation, development, and compensation of senior management. The Board assesses major risks facing the Company and reviews options to mitigate such risks. The Board also reviews, approves, and monitors significant financial and business strategies and major corporate actions. The Board shall ensure that processes are in place to maintain the utmost integrity of the Company, including the review of these guidelines at least every two years or as often as deemed appropriate.

The Board of Directors may exercise its authority through Board committees in accordance with the Company's bylaws.

#### Independence of Directors

A majority of the Directors will be independent directors under New York Stock Exchange (NYSE) rules. Only independent Directors may serve on the Company's Audit, Compensation, and Nominating and Corporate Governance Committees.

The Company will not make any personal loans or extensions of credit to Directors or executive officers, other than consumer loans or credit card services on terms offered to the general public.

#### Size of Board and Selection Process

The Company's bylaws provide that number of Directors shall be determined from time to time by the Board of Directors, and that beginning with the Annual Shareholders Meeting in 2005, Directors standing for election are to be elected for a term of one year.

The Board proposes a slate of nominees to the Shareholders for election to the Board (using advice and information provided by the Nominating and Corporate Governance Committee). The Board may fill vacancies in existing or new Director positions.

## Board Committees

The following committees have been established to assist the Board of Directors in fulfilling its responsibilities:

- Audit – The Audit Committee reviews the work of the Company’s internal accounting and auditing processes. The committee is directly responsible for the appointment, compensation, retention, and oversight of the Company’s independent auditors, including ensuring the Company’s auditor rotates lead, concurring, reviewing and other significant partners at least every five years.
- Compensation – The Compensation Committee stays abreast of market levels of compensation and, based on evaluations, recommends compensation levels and systems to the Board. The committee determines CEO compensation as more fully discussed in these guidelines under Director and Senior Management Compensation.
- Nominating and Corporate Governance – The Nominating and Corporate Governance Committee is responsible for recommending to the Board individuals to be nominated as Directors. The committee evaluates new candidates and current Directors, and performs other duties as described elsewhere in these guidelines.

The current charters and key practices of these committees can also be found on Southwest’s website and will be mailed to Shareholders on written request.

## Meetings of Independent Directors

The independent members of the Board will have at least five regularly scheduled meetings a year without the presence of management. These executive sessions may include such topics as determined by the independent Directors and will include regular consultation with the Company’s independent auditors and Director of Internal Audit. The Chairman of the Audit Committee will preside over such executive sessions.

## Board Self-Evaluation

The Nominating and Corporate Governance Committee is responsible for conducting an evaluation at least annually of the performance of the full Board and reporting its conclusions to the Board. The Nominating and Corporate Governance Committee will make appropriate recommendations to the Board following such evaluations, including areas in which the Board can better contribute to the governance and longterm success of the Company. The purpose of the self-evaluation is to improve the Board’s and the committees’ performance generally and not to target the performance of individual Directors. The Nominating and Corporate Governance Committee may use the results of its evaluation in determining the criteria for Directors to be considered to fill any vacancies in the Board or on committees and for inclusion in the slate of Directors to be recommended by the Board at the Annual Meeting of Shareholders.

## Ethics

The Board expects Southwest Directors, Officers, and Employees to act ethically at all times and to acknowledge their adherence to the policies comprising Southwest's Code of Ethics and the Company's Guidelines for Leaders.

Concerns relating to accounting, internal controls, auditing, or officer conduct shall be handled in accordance with the Audit Committee Procedures For Reporting Concerns About Southwest's Compliance With Laws And Accounting Practices.

## Director and Senior Management Compensation

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for reviewing the compensation and benefits for non-employee Directors and recommending to the Board any appropriate changes thereto. The compensation should be an appropriate mix of cash and Company equity related compensation considering the Company's unique Culture.

The Compensation Committee shall annually evaluate the CEO's salary, bonus, and other incentive and equity compensation. The committee shall also annually approve the compensation structure for the Company's officers, and shall evaluate the performance of each of the Company's senior executive officers before approving their salary, bonus, and other incentive and equity related compensation.

## Direct Stock Ownership

The Board believes that, in order to align the interests of Directors and Shareholders, Directors should have a financial stake in the Company. Each Director who has served on the Board for a minimum of at least two years should beneficially own a minimum of 1,000 shares of Southwest common stock. The Board will evaluate whether exceptions should be made for any Director on the basis of financial hardship.

## Access to Management

The Board has access to any member of management.

## Access to Independent Advisors

The Board and its committees shall have the right at any time to retain independent outside financial, legal, or other advisors.

### Director Orientation and Continuing Education

The Chairman of the Board shall ensure that new members of the Board are provided with the necessary materials regarding the Company's operations and performance to understand the Company's business.

The Board of Directors shall receive periodic briefings from the Company's independent auditors, its Finance executives, and its General Counsel regarding changes in accounting regulations, NYSE listing requirements, and the law applicable to the responsibilities of the Board. Board members are encouraged to attend Company events such as the Annual Awards Banquet and management visits to locations near their residence. Board members are also encouraged to take advantage of materials and seminars provided by experts in the fields of accounting and the law, to the extent applicable to their responsibilities as Board members. Members of the Board are provided flight benefits to enable them to monitor the Company's service levels and to interact with Employees and Customers. Directors may also visit other facilities of the Company as they desire. Board members will be provided with copies of press releases, analysts reports, and other news reports regarding the Company, and are encouraged to listen to the CFO's quarterly earnings webcasts.

### Public Communications

Management speaks for the Company and is responsible for communications with the press, analysts, regulators, and other constituencies. From time to time members of the Board may be requested to communicate with one or more of those constituencies. It is anticipated that such communication will be coordinated with the Company's Corporate Communications department.

### Other Practices

The Company will not reprice stock options for any reason. As is the historical practice of the Board of Directors, with respect to any market value option grants authorized by the Board of Directors or its Compensation Committee, the exercise price of such options shall be the market price on the date of grant.

All shareholder proxies, ballots, and voting materials that identify the votes of specific shareholders will be confidential and not disclosed to the Company, unless (a) required by law, (b) a Shareholder requests disclosure of a Shareholder's vote or seeks information from management, or (c) there is a proxy contest.

As amended on January 18, 2007