2021 STRATEGIC PLAN EXECUTIVE SUMMARY

APRIL 1, 2021

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL | ALASKA AIRLINES MASTER EXECUTIVE COUNCIL

INTRODUCTION

Since 2009, the Alaska Airlines Master Executive Council (ALA MEC) has analyzed changes to the environment in which Alaska Airlines and its pilots operate, identified pilot goals and objectives, determined strategic and tactical initiatives to achieve pilot goals, and established the tasks, steps, and timelines required to plan strategically for the future. That work has continued and expanded.

Alaska Airlines is at a critical intersection in its own history and within the airline industry. The Company has a unique opportunity to reset and underpin a rewarding path forward with the CEO change from Brad Tilden to Ben Minicucci. But weak industry participants have disappeared, strong competitors remain, and work will be required to succeed in a more challenging industry environment. This Executive Summary outlines encouraging signs but also contains reminders of hurdles and hard work ahead.

The Strategic Plan resulting from the MEC's original work is titled ***Safeguard Our Future*** and was first completed in 2019. An Executive Summary of a longer plan document was adopted by the ALA MEC and distributed to Alaska pilots in June 2019. The 2019 Plan laid the groundwork for substantial progress toward Alaska pilot goals.

Some of the most significant goals accomplished by Alaska pilots under that plan included:

- Establishing a more focused, aggressive, and productive negotiating framework to achieve a CBA that respects and rewards Alaska pilot contributions;
- Enforcing our CBA more vigorously and resolving contract disputes more quickly;
- Demanding fundamental improvements to the labor relations process generally;
- Communicating transparently with Alaska pilots by sharing facts, data, and information more fully and boosting outreach efforts to promote broader understanding and engagement;
- Engaging nationally recognized outside corporate counsel and other professional resources needed to participate in and influence transactions and corporate decisions that affect Alaska pilots; and
- Guiding decision-making through careful assessment of member goals and priorities.

Concrete examples of progress made in achieving these goals included:

- Alaska Airlines hired new senior executives who demonstrate a focus on constructive problem solving to concentrate more attention on negotiations and labor relations—an area that received poor marks in our earlier report;
- Forcing management to back away from unilateral action related to new uniforms by filing suit in Federal District Court;
- Pushed the "door closure" arbitration forward to obtain a favorable decision when settlement efforts failed;

- Implemented a different, efficient, and transparent bargaining framework and process and making progress on lower-level issues prior to COVID-19 industry challenges;
- Work on voluntary leaves and early retirements; and
- Coffee sits, polling, and more frequent and diverse communication materials that enhanced pilot awareness and increased pilot engagement.

Polling by independent experts shows there is substantial respect and consistently high marks from pilots for the work of the MEC and its committees in advancing the needs of the Alaska pilots. Enhanced communications and outreach—in person, podcasts, videos, social media, and the special *In the Loop* distribution—are efforts that will continue to ensure that all Alaska pilots, including those on leaves of absence, remain engaged and supportive of pilot goals.

In addition to the specific steps accomplished, the MEC committed itself to a regular review and updating of its 2019 Strategic Plan. The commitment to revisit and update our strategic plan was made even more important given COVID-19 and its consequences for the Company, the airline industry, and the economy.

The 2019 Executive Summary reported on Alaska pilot concerns about the direction and future of Alaska Airlines, especially in relation to the allocation of capital and questions about the corporation's long-term strategic plan to compete in a new and more challenging environment. For example and more specifically, management has always been proud of its historic focus on low debt, a strong balance sheet, and its high share price—and they continue to tout the Company's financial stability and strength as a way to leverage their position during the pandemic recovery. That focus was certainly useful when ridership and revenue dried up, but at the same time, approximately $268 million of free cash was distributed to institutional shareholders in dividends and stock repurchases in the 12 months prior to the crisis. Having those funds available now would be extremely beneficial.

Similarly, the 2019 Executive Summary identified the failure to capitalize on Virgin America's commercial appeal and its presence in California and other markets. Alaska Airlines is now trying to protect Pacific Northwest (PNW) flying by "retrenching," while competitors like Southwest, with balance sheets as strong as Alaska's, and others are increasing flying and making competitive inroads in California markets from which we've recently withdrawn. Along with expanding flying, competitors have formulated and are executing long-term strategic plans of their own to succeed in the marketplace by developing new products and offerings, increasing the mix of business and corporate travelers, flying to new and international locations, upgauging and modernizing their fleets, and generally thinking actively about the ways they will succeed in a new environment where only strong competitors exist. While financial strength is desirable and needed, so too is a willingness to look critically at the environment and reexamine the way our Company does business and the plans it has to compete and succeed in the future.

As stated, this is the perfect time to do that. April 1, 2021, marks an important leadership transition from Brad Tilden to Ben Minicucci. Alaska pilots want our Company to succeed. We can be a key partner in those efforts, but it requires senior managers to reexamine and reset how they relate to their pilots and ALPA leadership. They must address the issues we have repeatedly and directly brought to their attention.

We've said more than once that the roadmap for such a partnership is clear: Fully respect the language and "bright lines" of our collective bargaining agreement (CBA), overcome the reluctance to share more information, work cooperatively and consensually (instead of unilaterally on their priorities and corporate cultural objectives), negotiate efficiently, and address longstanding scope and quality-of-life issues that other companies and pilot groups have resolved. We've shown a willingness to address issues if given the chance. Our joint work during talks related to COVID-19 delivered mutually beneficial results for both Alaska Airlines management and its pilots. The steps needed aren't things that ALPA dreamed up. Management's own engagement surveys and studies identify similar concerns and sentiments.

We're proud of Alaska pilot efforts to safeguard jobs and work with management to stabilize the Company's operation during a challenging last year. We're confident that our steps and work, along with Company measures, helped position Alaska Airlines to emerge from this period in a solid position.

The signs for the future are encouraging and point to a more positive 2021. They include:

- The Company's strong balance sheet and adjusted net debt that is no higher than the adjusted net debt existing before COVID-19 cutbacks,
- The recovery of the AAG stock price to pre-pandemic levels and close to 2018 highs,
- Rapidly expanding COVID-19 virus vaccinations,
- The large aircraft order and fleet rationalization decisions,
- *Oneworld* entry and the American codeshare that will boost business traffic,
- Steadily increasing load factors and future bookings,
- TSA throughput consistently increasing and hitting one-year milestones, and
- Reports that show financial improvement and positive cash flow projections.

This 2021 Strategic Plan looks forward to emphasize ways we can work collaboratively, like our joint work on EILs, while learning from and resolving past problems. It's time to engage actively to solve problems. The MEC's plan includes remaining focused on achieving clearly articulated pilot contract goals. Widely used industry solutions provide the basis for efficient work in many areas.

The MEC has authorized the Negotiating Committee (NC) to continue its work to achieve a comprehensive agreement. That work is underway and will be reported as it progresses. For management, completing a comprehensive collective bargaining agreement should be just as important as any other area of corporate performance—financial stability, fleet decisions, reliable maintenance programs, or codeshare/alliance partnership agreements.

The MEC's commitment to transparency, regular communications, and pilot input will continue, including in-person meetings as soon as able. Telephone polling has now resumed and will continue as needed. Alaska pilot involvement underpins everything we do.

It's clear from the recent fleet decisions, the large aircraft order, and entry to o*neworld*, that Alaska Airlines is preparing and positioning the corporation to succeed. This Executive Summary, the MEC's continuing work on strategic planning, and our work to identify and resolve other issues are designed to successfully position Alaska Airlines pilots, *Safeguard Our Future*, and along with a successful Company, ensure that our contract and our careers are secure.

GOALS AND TASKS

The MEC's strategic planning has provided steady and solid guidance for its work over the past 18 months, and committees charged with executing that work have performed well.

Negotiations

The negotiating environment for pilots at the beginning of 2020 had continued to be strong with robust corporate profits, abundant career opportunities for pilots, and clear industry contract patterns. The MEC's bargaining plan and efforts were underway successfully, had been focused, and produced tentative agreements in some areas with the bargaining parties poised for intensive discussion of key areas. Recent projections by airline industry consultant Oliver Wyman note the likelihood of recurring pilot shortages and more career opportunities by 2025, which make CBA completion even more important.

Alaska pilots continue to express keen interest in and support for the CBA objectives voiced earlier. They include, among other goals: (1) improvements to scope and job security to reflect customary industry approaches and (2) enhancements to work rules and quality-of-life provisions. Current industry conditions do not prevent ongoing discussion and, in fact, make those issues even more important. Goals and tasks from the 2019 Executive Summary remain relevant and applicable to the work now underway, subject to revisions found below.

*While the past year has been challenging, other pilot groups have amendable CBAs and, despite the challenges COVID-19 presented, are conducting Section 6 negotiations. Many issues critical to Alaska pilots are largely lower or no-cost in relation to pay rates and benefits. The MEC, **NC** and support committees should continue work to address and improve contract provisions related to scope/job security and work rules/quality of life during the time that industry and company economic conditions are being evaluated.*

Recent work with senior management representatives on COVID-19 and safety protections, leaves of absence and early retirement provisions were more constructive than earlier efforts surrounding the JCBA and the scheduling improvement issues. Differences include management's willingness to consider ALPA input more fully, their effort to address pilot interests along with their own, and the overall quality of discussions. While the improvement is acknowledged and appreciated, mutual and respectful work to solve problems and address interests must accelerate and characterize the labor relations process at Alaska Airlines.

To ensure that Alaska pilot contract goals will continue to drive its decision-making, the MEC authorized the University of New Hampshire to conduct a fresh round of telephone polling, which concluded on March 28. Discussions between the MEC and NC have reaffirmed that negotiations are carefully focused, efficient, and consistent with industry patterns to achieve a CBA that recognizes, respects, and rewards the contributions ALA pilots make to our Company's survival and success.

Contract Enforcement

The Alaska CBA must continue to be enforced vigorously, and contract disputes must be efficiently resolved or arbitrated.

The MEC's work to boost contract enforcement efforts has paid substantial dividends. Regrettably, management continues to largely resolve disputes on an individual basis. The labor relationship would be substantially improved if the contract was the "bright line" that Company officials repeatedly pledge and CBA provisions were respected fully by middle management in their daily work. Problems need to be resolved more broadly by tackling the underlying dispute when it arises rather than wait to discuss a resultant grievance.

Labor Relations

The Company's 2017 and 2019 engagement surveys and continuing ALPA polling all confirm that Alaska Airlines' culture has substantially deteriorated. Especially in a challenging and competitive environment, the labor relationship at Alaska Airlines must improve to ensure future success.

ALPA polling continues to confirm that a large majority of Alaska pilots "mostly" or "strongly" oppose the way Alaska Airlines' management deals with matters affecting the pilot group, and only a single-digit minority show support for the way management is dealing with pilot group issues.

Instead of blaming ALPA leaders and suggesting that negative ALPA communications drive pilot sentiment, management must address the underlying fundamental and systemic problems. While senior management has demonstrated they understand the value of working collaboratively with ALPA, members of management who don't understand the path to success, or who aren't willing or able to embrace and work to produce open, respectful, and inclusive relations with ALPA and the pilots, should be replaced.

In order for the "Alaska culture" to recover and succeed in a more competitive environment, management must provide and share more information, seek meaningful input on decisions that affect pilots, respect the contract in daily operations, and articulate a plan for the future that recognizes and responds to long-term career interests of pilots, rather than voice tired, general slogans and platitudes. This is our challenge to the new CEO.

ALPA pilot leadership will continue to demand changes in the way management conducts labor relations and insist that the level of work to collaborate and succeed in a challenging competitive environment accelerates. If necessary, the help of the AAG Board of Directors, institutional investors, government representatives, legislative initiatives, and community outreach can be boosted to ensure support for initiatives.

Communications

Comprehensive and transparent information underpins collective and unified pilot group understanding and action. It is an important goal of this MEC—especially over the near future with a substantial number of pilot leaves of absence.

By all measures and reports, the MEC's communication initiatives receive overwhelmingly positive reviews from Alaska pilots. That work will continue, expand, and adapt to challenges inherent in having many Alaska pilots still on leaves of absence.

To meet the challenge of pilots on leave, our Communications Committee created *In the Loop*. This is a branded and dedicated e-mail with distribution lists that can go specifically to Extended Incentive Lines (EIL), Retirement Extended Incentive Lines (REIL), or Extended Leaves of Absence (ELOA) pilots or to any combination of these groups. There is also a page on *AlaskaPilots.org* dedicated to pilots on leaves.

As negotiations progress, MEC communications will continue to support member goals by providing information about CBA deficiencies and possible solutions in areas like scope/job security, quality of life/work rules and scheduling flexibility, and benefit issues. The Communications Committee will continue to leverage innovative and successful platforms such as podcasting, video, and others where they make the most sense to use.

Informing ALA pilots and seeking their full understanding and engagement in the planning and bargaining process is the initial focus of MEC communications. Other audiences can be enlisted if needed to move the negotiating process to an efficient conclusion. Members of pilots' families will be one such audience, and avenues are being built to facilitate this. In the future, a broader external audience could be engaged to build awareness of and support for Alaska pilot goals.

Legislative Activity

The current environment demonstrates the essential nature of robust, member-supported legislative activity. The MEC supports these initiatives fully on both the local and national levels and has been successful in bringing awareness of critical pilot issues to lawmakers. One example relates to job security concerns inherent in expanded E-175 flying in the state of Alaska and elsewhere.

Industry Consolidation

The last industry downturn triggered airline failures but also a round of industry consolidation. Agreements between American and both Alaska and JetBlue signify that industry relationships are being revisited and revised. As always, large institutional owners of airline stock will influence the industry picture in the future.

The MEC is committed to having the financial and professional resources available to participate in and influence any transaction to the maximum extent possible.

The top five institutional owners of AAG stock hold approximately 32 percent of the total shares outstanding and also hold very large positions in JetBlue (approximately 25 percent of shares outstanding), Hawaiian (approximately 30 percent of shares outstanding), and other airlines. These institutional shareholders are capable of influencing whether a transaction takes place and the form that transactions take. They will act in their own interest which may, or may not, be in the interest of Alaska Airlines pilots.

The MEC has already taken steps to protect the interests of Alaska pilots and authorized other steps that include directing the ALA Merger and Scope, Alliance, and Code Share committees to seek information with regard to current and potential mergers and acquisitions, to maintain relationships with pilot group leaders at airlines that could be potential merger/acquisition partners or targets, and to engage merger counsel.

The NC has presented to management a comprehensive rewrite of Section 1 [Scope & Recognition] to ensure that our contract protects Alaska pilots in any transaction.

The Association consults with and will continue to use senior partners at Paul, Weiss, Rifkind, Wharton & Garrison LLP, a preeminent New York–based corporate law firm that specializes in mergers and transactions, to advise the Alaska MEC regarding its ability to communicate with institutional investors, influence potential business partners, participate fully in possible transactions, and represent Alaska pilot interests in all corporate circumstances.

Strategic Preparedness and Strike

The environment in which we operate today is not permanent. The result of this Section 6 negotiation will not be arbitrated. Alaska pilots will ratify the outcome. The MEC's goal is to be fully prepared to achieve a contract that recognizes, respects, and rewards our contributions to the Company's success, is consistent with industry contract patterns, and is widely supported by Alaska Airlines pilots.

The Strategic Preparedness and Strike Committee (SPSC) will be needed to continue to carry out the MEC's plans, to build understanding of its decisions, and to carry forward the activism and engagement demonstrated by Alaska pilots in 2018 and 2019. That goal is just as relevant in the current environment. The SPSC will continue to play a critical role to engage all Alaska pilots to help us succeed under the current plan.

While strategies to help achieve and support a new CBA may change, the MEC will continue to provide sufficient funding in the budget for the SPSC to undertake initiatives and projects; recruit, engage, and train more volunteers; build a 2021 work plan in support of Section 6 negotiations; and work with ALPA National SPSC members and staff to outline pilot and public support activities.

In addition, and consistent with initiatives by other pilot groups, the SPSC will investigate and report to the MEC on opportunities to share relevant facts and information with institutional investors, airline industry analysts, the traveling public, and prospective pilots.

MEC Governance

The Alaska MEC is committed to constructive leadership that is guided by member goals and priorities.

To achieve this goal, the MEC will seek to be open, accessible, and responsive to members; to provide relevant and useful information about developments and actions undertaken by the MEC; and to employ useful technology and tools (i.e., polling, texts, all-pilot calls, and events) to ensure that relevant information is continuously provided and valuable member feedback is obtained.

BACKGROUND AND ECONOMIC LANDSCAPE

More extensive background information, along with the industrial economic analysis and assessment underpinning the MEC's strategic plan, is contained in the Appendix starting on page 15.

The following is a summary:

- **The Airline Industry Generally:** By the end of 2019, the airline industry completed its longest period of growth and profitability since deregulation in 1978 and enjoyed the 10th straight year of profitability. Sustained profits were due to initiatives that included investing in fuel-efficient aircraft, boosting ancillary revenue, strengthening balance sheets, improving operations, practicing rigorous capacity discipline, and remaining focused on financial metrics that emphasized return on invested capital over obtaining market share. Forecasts for 2020 showed reasonable capacity and traffic growth that were likely to continue high load factors, sustained profitability, and financial success.

- **Alaska Airlines:** Alaska Airlines and Air Group results mirrored or outgained the industry picture described above. In 2019, the Company had produced four consecutive quarters of year-over-year unit revenue growth and outperformed the industry for the year with an adjusted pretax margin 170 basis points higher than the rest. Alaska's superior performance resulted from a continued focus on enhancing unit revenue production through cabin segmentation with First Class and premium products representing 22 percent of total revenues (compared with 7 percent prior to the conversion from a 2-class to 3-class cabin) and a 6.3 percent increase in top line revenue in 2019—better than the industry average of 4.5 percent. The revenue growth, coupled with the benefit of lower fuel costs, allowed Alaska to post a strong 12.0 percent pretax profit margin in calendar 2019—up 340 basis points from calendar 2018. Consistent with its historic approach to low debt and a strong balance sheet, Alaska had repaid $1.5 billion, or 75 percent, of the $2 billion borrowed to buy Virgin America by the end of 2019. With liquidity at $1.5 billion at the end of 2019, and its adjusted debt to capitalization at a low 42 percent, the Company was looking at new capital allocation opportunities. The Company increased its dividend payout in early 2020 to $0.375 per share. That represented a 275 percent increase since its initial dividend in July 2013. The Company announced it was also targeting at least $250 million in stock buybacks for 2020.

- **The American Codeshare and *oneworld* Alliance:** The February 2020 announcement of an expanded codeshare agreement between American and Alaska Airlines and the plan to join the *oneworld* alliance before the end of 2020 (making Alaska the 14th member and only one of two in the United States) set the stage to accelerate management's initiatives by adding riders and enhancing revenue with higher yield business traffic. *Oneworld* membership will help Alaska obtain valuable corporate travel contracts from large tech companies like Amazon and Microsoft in the Pacific Northwest, which depend on and require international connections for business travel. Alaska will become the 5th largest member of the *oneworld* alliance, based on 2019 ASMs, when fully integrated.

- **COVID-19:** The impact of the coronavirus pandemic has been profound. Transportation and hospitality industries have reduced service substantially. The effect on world economies has been significant with global economic output declining in 2020 before rebounding in 2021. North American airline passenger traffic declined substantially starting in late March 2020 as government entities instituted stay-at-home orders. TSA "throughput" counts of daily passengers dropped dramatically with traveler quarantine mandates. While starting slowly, daily traveler numbers have begun to sharply increase as the recovery takes hold and vaccinations accelerate.

  Capacity growth varies among airlines varies with leisure-oriented companies and low-cost carriers adding back capacity at faster rates than traditional legacy carriers. A substantial amount of capacity is expected to build back in 2021. Alaska's 2020 capacity ended down 44 percent but is forecasted to gradually rise to 80 percent of 2019 capacity by July 2021. Alaska has permanently removed 30 A320s and 10 A319s from service but will replace some of those aircraft with new B-737 MAX 9s.

  U.S. passenger airlines have increased liquidity to cover periods of revenue decline by accessing capital and equity markets to raise over $85 billion since the beginning of the year. In addition to private financing, U.S. airlines received cash from the Payroll Support Program of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, while some also availed themselves of the CARES Act Loan Program. Virtually all airlines have more than a year, and some as much as three years, of liquidity at current levels and still have unencumbered assets that could be mortgaged, if needed.

- **Recovery:** As vaccinations accelerate, U.S. domestic industries and the economy generally are seeing positive momentum. Economic growth is rebounding, and consumers are showing signs of pent-up purchasing demand. U.S. household net worth has climbed to more than $1.3 trillion during the past year, and retail sales have returned to pre-pandemic levels. Weekly airline ticket sales data evidence similar pent-up demand, especially for upcoming travel periods. The most current data shows a nearly 700 basis point change (week-over-week) in ticket sales—the second largest since the pandemic began.

  Other signs of economic, industry, and Company recovery include increased search engine results for flights and vacations, with commentary from executives at many airlines indicating increased forward bookings for future travel. Alaska's own commentary on forward bookings provided during 4Q 2020 earnings calls confirmed they had bookings that are 50 percent higher than enplanements for certain weeks and the Company had several days over 70,000 passengers.

  Recent successful initial public offerings (IPOs) of shares in Frontier Airlines and Sun Country Airlines also were positively received by the market, indicating institutional investor confidence in the airline industry's recovery. Many Wall Street analysts now predict industry profits in the second half of 2021, as the Appendix chart on page 22 depicts.

FINDINGS AND OBSERVATIONS

- The 2019 Executive Summary, repeated ALPA scientific polling, and the Company's own engagement surveys have highlighted the erosion of positive feelings by pilots related to their experience at Alaska Airlines. Many pilots report their lack of confidence or pessimism about management's steps to compete effectively in an environment with uniformly stronger competitors, the lack of a cohesive long-term plan or vision, and concerns about its regional thinking and clinging too tightly to the past.

  These concerns remain. Management's difficulty articulating a long-term strategic plan, their decision to retrench in the Pacific Northwest rather than compete as fully in California or in former Virgin America transcon markets, closing the New York domicile, and finally, the decision to codeshare with American and join the *oneworld* alliance (basically conceding the need to bolster the existing route network) suggest that pilot concerns about the future were well founded. Alaska pilots are willing to be partners in the future, but that requires close work to address historic concerns and issues, share information fully, work together to develop a clear plan, and compete effectively in a challenging environment.

- The initial Executive Summary reported on ALPA's University of New Hampshire polling, and the Company's own 2017 Employee Engagement Study. Both documented a dramatic deterioration of the airline's culture with widely diminished feelings of teamwork and "ownership."

  ALPA's continued and more recent polling provide consistent findings. New leadership has an opportunity and need to repair this relationship. Your MEC believes this starts with meaningfully engaging the MEC to address pilot priorities and respecting the CBA bright line.

- Modest improvements in the labor relations process from the last report are noted in previous sections with respect to recent participation in negotiations by the Company's senior managers who at times demonstrated constructive problem solving. But work related to regular dispute resolution and negotiation of more consequential issues is still unsatisfactory and needs to accelerate.

  The roadmap for the new CEO is clear. Our problem solving and negotiations must be characterized by our joint work on COVID-19 issues and leaves, rather than regress to past examples like the scheduling improvement process. It's time to adopt solutions widely used in the industry and work efficiently. The CEO must charge his team to engage meaningfully and resolve problems more quickly, rather than wait for grievances or delay solutions until the next Section 6 negotiation.

  Polling shows that Alaska pilots were well positioned for success in 2020 before COVID-19. Alaska pilots understood the MEC's strategic plan and focused negotiation approach. Outreach and engagement initiatives were well-received, and Alaska pilots showed their willingness to become even more active. Communication efforts were very highly regarded, and confidence and credibility measurements regarding the MEC's work were outstanding relative to poorly received management initiatives. Recent feedback reveals that this has not changed.

- The impact of the coronavirus has affected the air transportation system, airline operations and finances, and the issues being discussed in many ongoing Section 6 and other industry negotiations.

  The pandemic is not an obstacle to constructive and efficient negotiations or a hurdle to bargaining the scope/job security and work rule/quality-of-life issues that are central to Alaska pilots. JCBA arbitrated items remain unaddressed some three years later. These and other items and issues have largely continued to be discussed and resolved in industry collective bargaining—even during negative economic cycles and in the current COVID-19 environment.

- Pilot frustration is high with a continued lack of information concerning basing and related fleet adjustment decisions. Pilots are making life decisions with little to no information. Examples include the future of the SFO base, Airbus fleet placement, and staffing clarity. Management has indicated uncertainty about plans to maintain an Airbus pilot base in SFO but has not given any indication if it will become smaller, a Boeing base, or simply close. This makes bidding decisions difficult for pilots who reside in the Bay Area.

- Lower industry share prices, strong competition and airline economics typically raise the risk and likelihood of corporate transactions and further industry restructuring. Alaska pilots remain at elevated risk in this environment.

- The Company continues to depend heavily on regional partners Horizon and SkyWest. Other carriers are upgauging aircraft and downsizing the use of regional partners. Alaska's plans for the future, both in Alaska and elsewhere, aren't clear.

SUMMARY AND CONCLUSION

Alaska MEC pilot leaders have engaged Alaska Airlines' senior managers regularly to explain and substantiate pilot group observations and concerns. The current industry environment should cause senior management to reexamine and reset our relationship. This is a watershed opportunity for the new CEO to establish a more constructive framework for the future.

Alaska pilots will be key partners and support management's plans and initiatives when a respectful, business relationship exists, pilot leaders are included in the decision-making process, pilot group issues are addressed as fully as management's issues, and the contract we have negotiated is honored. If that doesn't happen, Alaska pilots have continued to plan strategically and set a course to *Safeguard Our Future,* rather than rely on management to do that. Goals and tasks have been explained in this document. The MEC is committed to taking advantage of all opportunities to continue to *Safeguard Our Future.*

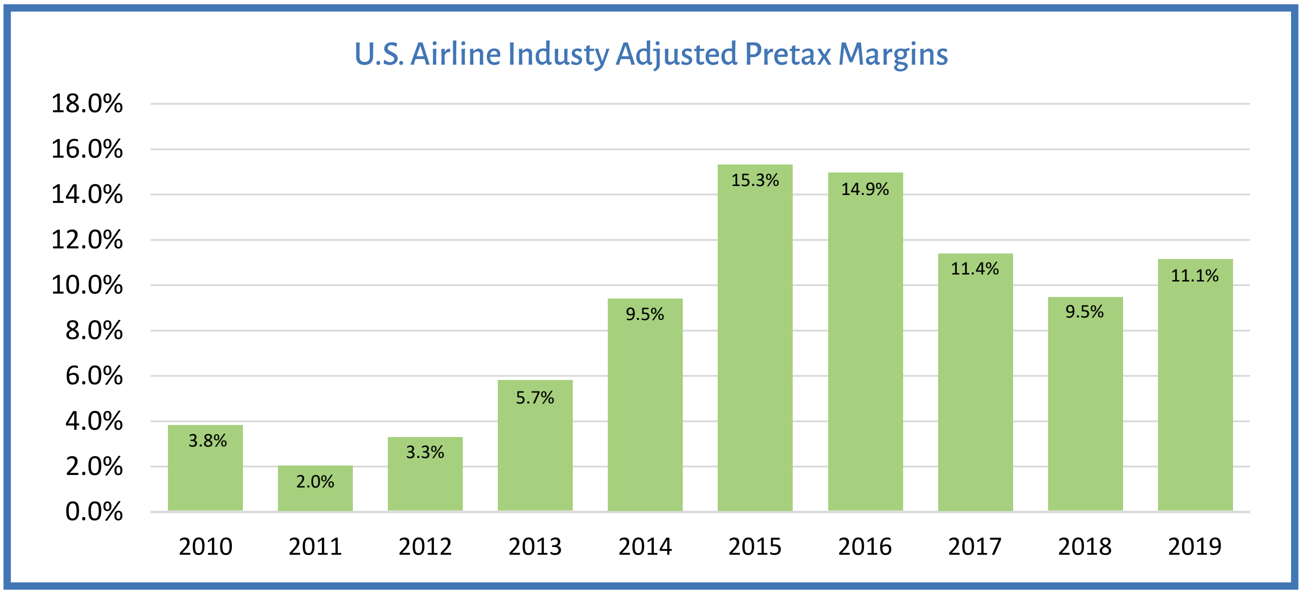
The road ahead is challenging, but so are the opportunities to continue the successful work first begun under the 2019 Strategic Plan—to plan carefully and strategically, communicate fully and transparently, achieve Alaska pilot goals despite a rapidly changing industry landscape, and continue the unity and engagement demonstrated by Alaska pilots.

APPENDIX: BACKGROUND AND ENVIRONMENT

The Airline Industry

At year end 2019, the airline industry completed its longest period of growth and profitability since deregulation in 1978 and enjoyed the 10th straight year of profitability. Sustained profits were due to initiatives that included investing in fuel-efficient aircraft, boosting ancillary revenue, strengthening balance sheets, improving operations, practicing rigorous capacity discipline, and remaining focused on financial metrics that emphasized return on invested capital over obtaining market share.

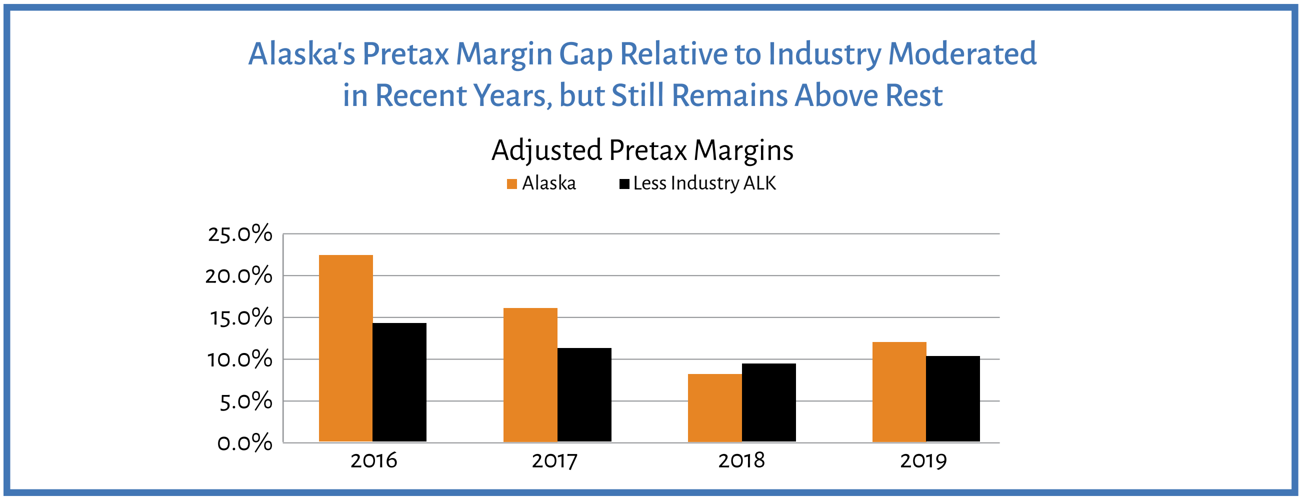
In fact, 2019 was the first year in the last four years that both operating and pretax margins increased year over year. Yields improved as strong demand persisted throughout the year. Fuel was relatively stable as well. The grounding of the B-737 MAX helped mitigate capacity growth further, which promoted strong pricing power.



While some concerns related to the global macroeconomic outlook, trade tensions, and the B-737 MAX return to service existed at the beginning of the year, the U.S. airline industry was expected to be profitable again. Debt loads had been reduced, profits had continued, and balance sheets had strengthened generally. International Air Transport Association forecasts at the beginning of 2020 showed reasonable capacity and traffic growth that were likely to continue the unprecedented period of high load factors, sustained profitability, and financial success.

Alaska Airlines

Results for Alaska Airlines and the Air Group mirrored or outgained the industry picture described above. In 2019, the Company had produced four consecutive quarters of year-over-year unit revenue growth and outperformed the industry for the year with an adjusted pretax margin 170 basis points higher than the rest.

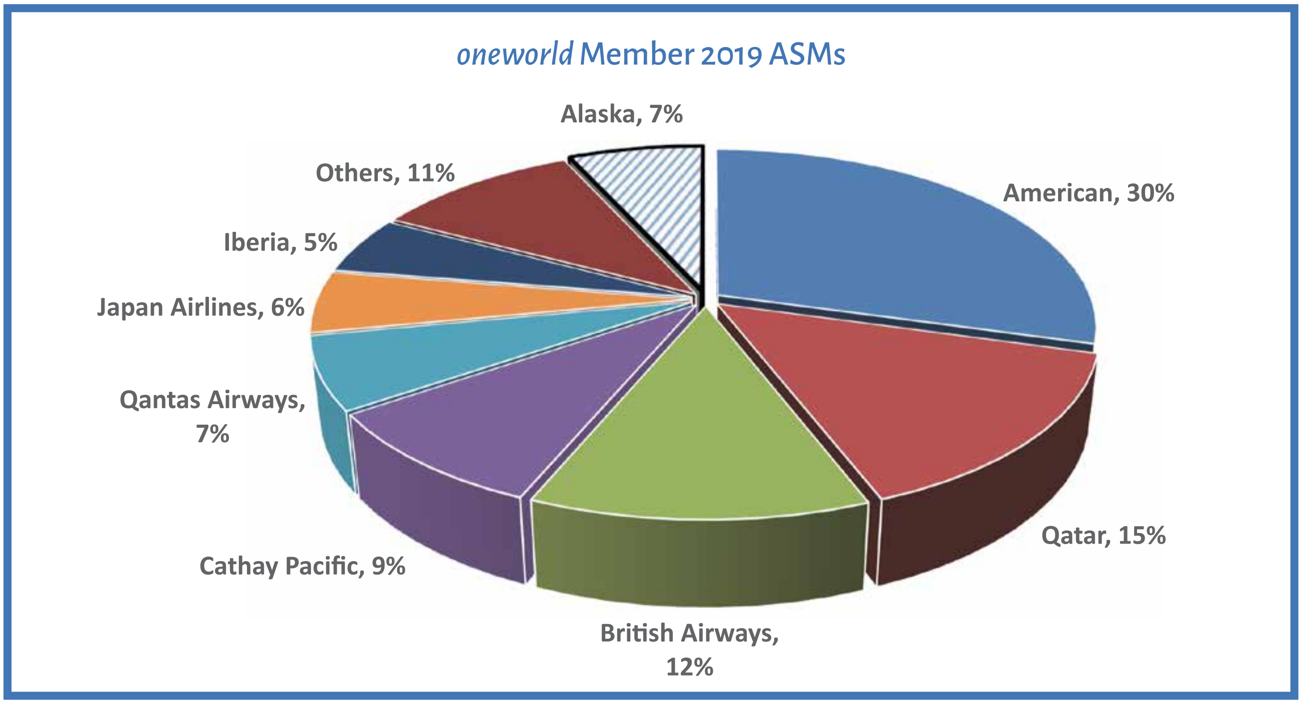


Industry includes: American, Delta, United, Southwest, JetBlue, Spirit, Hawaiian, Allegiant, and Frontier
Source: Corporate press releases, SEC filings, DOT Form 21, and ALPA E&FA analysis.
Excluding special items (other than fuel hedging settled in current period).

Air Line Pilots Association, Int'l

The February 2020 announcement of an expanded codeshare agreement between American and Alaska Airlines and the plan to join the *oneworld* alliance before the end of 2020 (making Alaska the 14th member and only one of two in the United States), set the stage to accelerate management's initiatives by adding riders and enhancing revenue with higher yield business traffic. Alaska Airlines already codeshares with *oneworld* members American Airlines, British Airways, Cathay Pacific, Finnair, Japan Airlines, and Qantas and also codeshares with *oneworld* connect partner Fiji Airways. But the carrier's hub in Seattle significantly complements the networks of four *oneworld* member airlines in cities very popular with its partners at American Airlines, British Airways, Cathay Pacific, and Japan Airlines.

Oneworld membership will also help Alaska obtain valuable corporate travel contracts from large tech companies like Amazon and Microsoft in the Pacific Northwest, which depend on and require international connections for business travel. Alliances represent approximately 67 percent of total industry revenues. Alaska would become the 5th largest member of the *oneworld* alliance, based on 2019 ASMs.



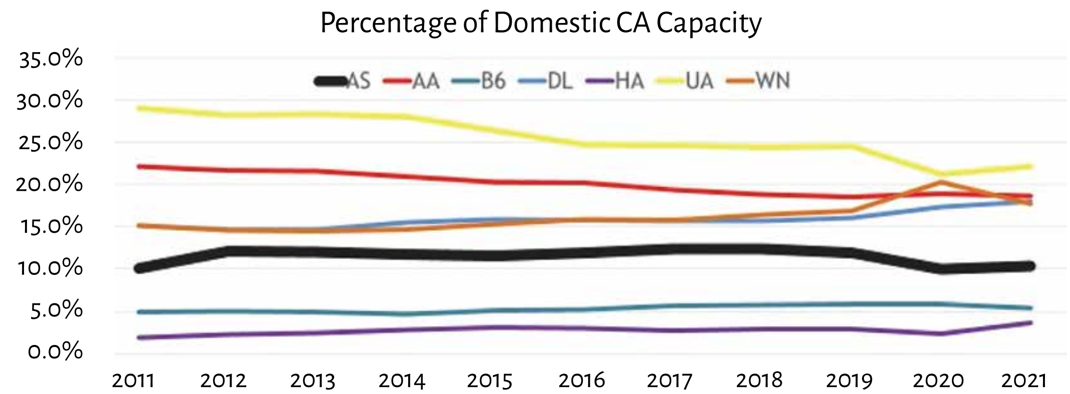
Note: LATAM excluded for purposes of illustration.
Source: OAG

Industry Competition

From mid-year 2019 and into the beginning of 2020, Alaska announced that it was restructuring West Coast markets to focus operations on its historic Pacific Northwest stronghold in response to the industry challenges described in the MEC's 2019 Executive Summary (for example, Los Angeles to Spokane service was started while Alaska exited the San Jose to Orange County market). Much of the new service was started with E-175s. The Company's marketing and competitive responses are continuing to evolve with increased competition in California and Hawaii markets, the new codeshare agreement with American, and the news of JetBlue's alliance with American (and move of its West Coast hub to Los Angeles from Long Beach).

California is the largest domestic market and has seen a significant amount of airline capacity "churn" within the last decade. Overall, Alaska's capacity in California has been declining since 2017 as management adjusts frequency and aircraft, especially on midcon and transcon routes.

Alaska's Capacity in California Has Been Declining Since 2018 as the Company Adjusts Frequency and Aircraft, Especially on Midcon and Transcon Routes



Note: Merger partners have been combined for historical flow.
Source: OAG 3/24/2021, E&FA Analysis

Air Line Pilots Association, Int'l

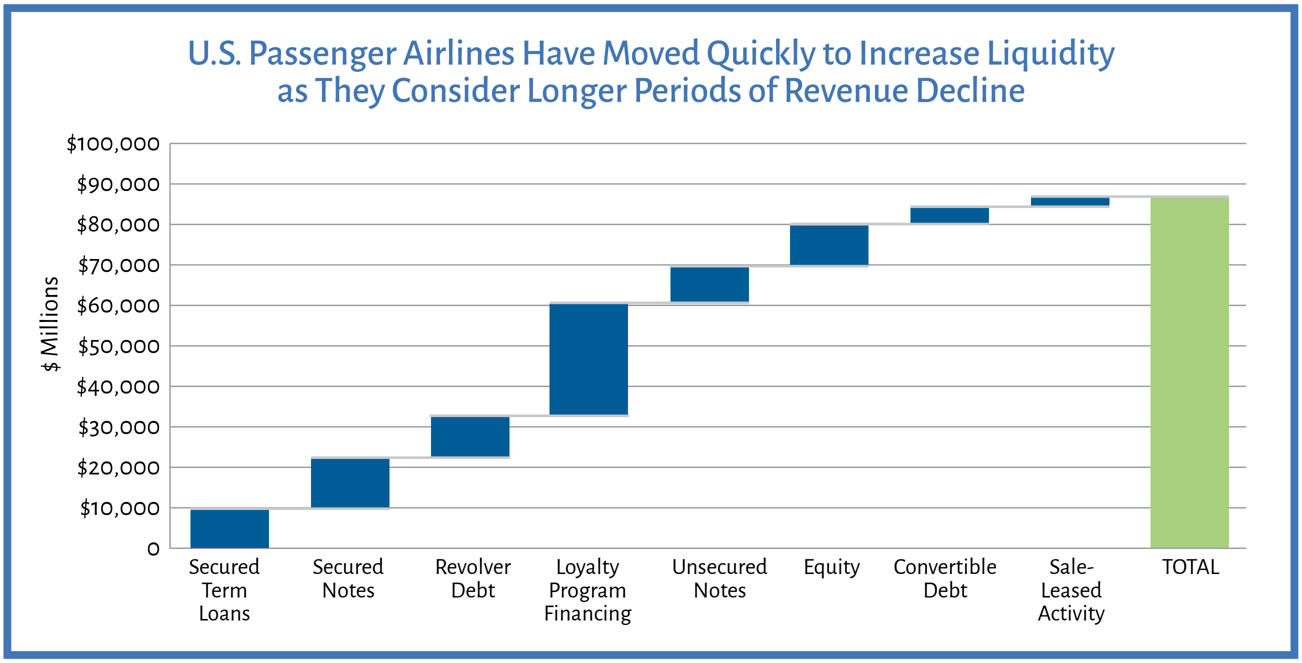
The Impact of COVID-19

The immediate impact of the pandemic has been profound. The transportation and hospitality industries (including airlines, cruise operators, hotels, and tourist venues generally) have reduced service and offerings substantially in response. The effect on world economies has also been significant.

The North American airline industry saw a dramatic decline in passenger traffic starting in late March and early April 2020 as governments instituted stay-at-home orders. There was little coordination with airlines, which struggled to adjust capacity appropriately. Modest domestic demand improvement has occurred since that time. The coronavirus has impacted international travel even more dramatically than domestic travel. Carriers with bigger international footprints are seeing larger revenue declines.

U.S. passenger airlines moved quickly to increase liquidity during the pandemic as they considered longer periods of revenue decline. Since the start of the pandemic, the U.S. airline industry has almost doubled its total liquidity by accessing capital and equity markets to raise over $85 billion. A good sign has been the positive valuation of assets like frequent flyer programs that backed debt issuance.

In addition to the private financing, airlines also received cash from the Payroll Support Programs of the CARES Act. Alaska, along with American, United, JetBlue, and Frontier also participated in the CARES Act loan program with the U.S. Treasury. Alaska took an initial installment from that program and has until the end of May 2021 to decide if they will access the full loan amount.



Source: Company reports, Wolfe Research Covid Tracker 3/12/2021; E&FA Analysis

Air Line Pilots Association, Int'l

While airlines accessed capital markets for liquidity during the slowest part of the pandemic, they have also taken on more debt. However, "adjusted net debt" at Alaska Air Group has not increased from pre-pandemic levels. That means while more debt has been incurred, the Company still has those funds and the cash available to repay the debt quickly if not needed as the recovery continues. Alaska Airlines is the only airline to achieve that financial stability without having to issue new equity.

ALK Adjusted Net Debt Level Nearly Unchanged During Pandemic without Having to Offer Equity

ADJ. NET DEBT (IN MILLIONS)	2019	2020	DIFF
Southwest	$-76.0	$-1,135.0	$-1,059.0
Alaska	$1,686.0	$1,707.0	$21.0
Allegiant	$988.0	$1,090.5	$102.5
Hawaiian	$579.8	$871.2	$291.5
Spirit	$2,473.7	$2,937.1	$463.4
JetBlue	$1,824.0	$2,675.0	$851.0
American	$29,618.0	$34,157.0	$4,539.0
United	$15,240.0	$20,662.0	$5,422.0
Delta	$14,373.0	$21,452.0	$7,079.0

Adjusted net debt: Long-term debt, including current portion, plus capitalized operating leases, less cash, and marketable securities.
Note: Southwest's adjusted net debt did improve year over year, although they did have an equity offering and ALK did not.
Source: Company SEC 10K reports, E&FA Analysis

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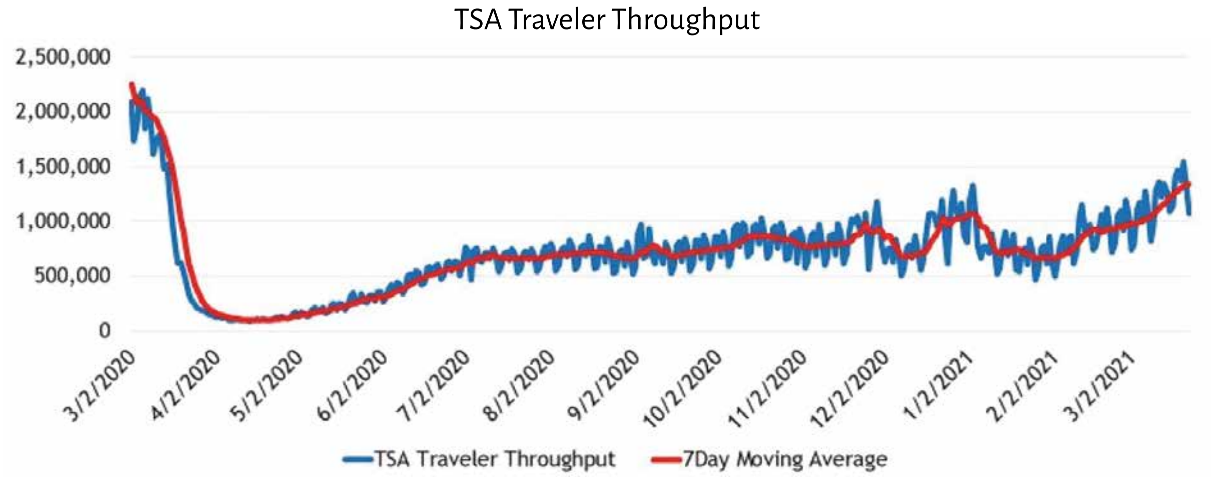
Signs of the recovery are evident. While TSA "throughput" counts of daily passengers are still approximately 55 percent below customary levels, daily passenger counts recorded at TSA check-points have begun to increase sharply.

TSA Traveler Throughput Consistently above 1m/pax/day and Rising



Source: TSA, E&FA Analysis

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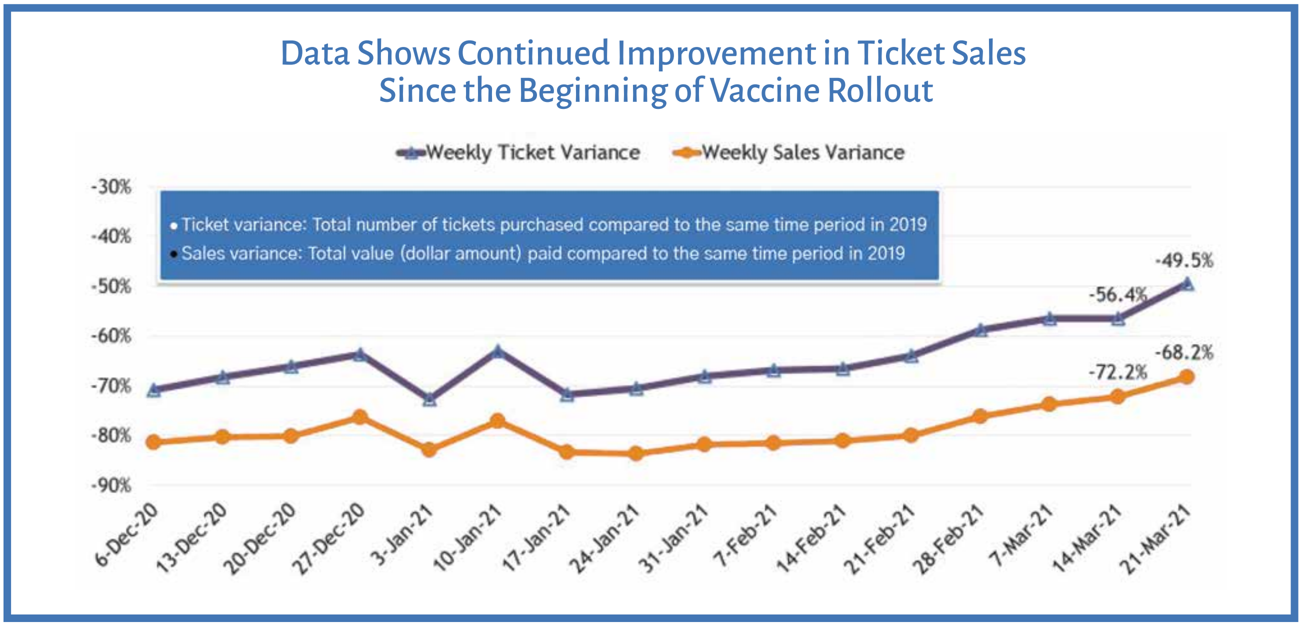
Capacity growth among airlines varies, and each airline is assessing future capacity decisions differently. Leisure oriented ultra-low-cost carriers and low-cost carriers have added back capacity during the pandemic at faster rates than traditional legacy carriers. A substantial amount of lost capacity is expected to build back in 2021, and the return to pre-COVID-19 traffic levels for all industry participants is forecast to occur between 2022 and 2024, depending on the nature of that airline operation.

Alaska's 2020 capacity ended the year down by 44 percent but is forecasted to rise to 80 percent of 2019 capacity by July 2021. Alaska has permanently removed 30 A320s and 10 A319s from service. Some of those aircraft will be replaced with new B-737 MAX 9s.

In addition to the strong liquidity positions and increasing TSA "throughput," demand and forward bookings are favorable. Increased search engine results for flights and vacations are being reported, and airline executives are disclosing increased forward bookings for future travel. Alaska's recent financial briefings confirm similar positive momentum on forward bookings. Weekly ticket sales data shows the recent sharp improvement, especially during peak holiday travel periods, with nearly a 700 basis point week-over-week increase—the second largest since the pandemic began.

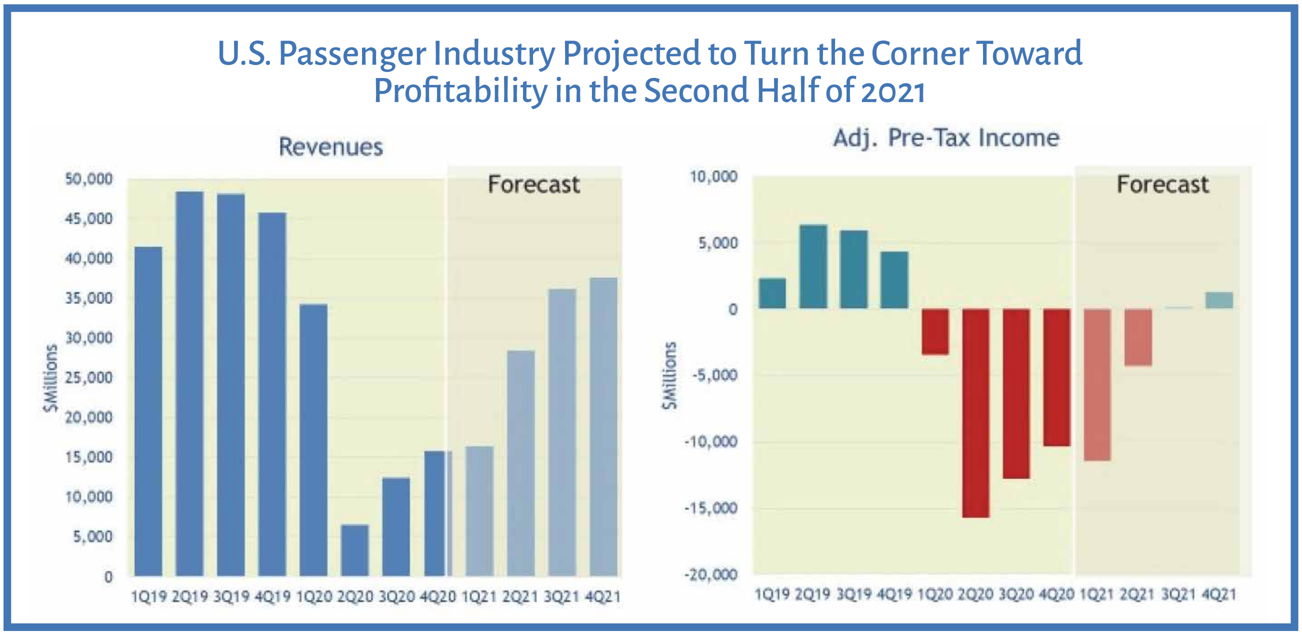


Source: ARC, E&FA Analysis, https://www2.arccorp.com/articles-trends-the-latest-coronavirus/

Air Line Pilots Association, Int'l

Vaccinations continue to accelerate and help produce more willingness to travel. One in five Americans have received at least one shot, and many states are beginning to lift quarantine mandates for out-of-state travelers.

Economic growth is rebounding in many economies. During the past year, U.S. household net worth has climbed to more than $1.3 trillion, and retail sales are back to pre-pandemic levels. Higher levels of household savings and pent-up travel demand cause industry analysts to suggest that U.S. airlines will become profitable again in the second half of 2021—a dramatic recovery from 2020 results.



Note: 2021 quarterly forecast is based on average of Stifel and Wolfe Research projections; data is for Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, and United.
Source: Company earnings releases and SEC filings, Stifel (varies between Jan.–Mar. 2021) and Wolfe Research earnings models (March 5, 2021) and E&FA Analysis

Air Line Pilots Association, Int'l

Stock Performance and Ownership

Alaska Air Group stock is traded on the New York Stock Exchange under the symbol "ALK." The Company increased its dividend payout in early 2020 by announcing a 7 percent increase to $0.375 per share. That represented a 275 percent increase since its initial dividend in July 2013. The Company announced it was also targeting at least $250 million in stock buybacks for 2020.

With the pandemic, the Company suspended dividend payments and, as a condition of accepting CARES Act grants, is prohibited from engaging in stock buybacks in the near term. COVID-19 has had an effect on stock ownership levels as well. Recent data shows that Alaska had 64 owners sell out their positions, 229 institutional owners decrease their stock positions, and 118 purchasers take new positions in ALK stock. Some sellers and buyers of shares may overlap.

OWNERSHIP ANALYSIS	# OF HOLDERS	SHARES
Total Shares Held	559	97,378,994
New Positions	118	4,838,151
Increased Positions	260	17,027,836
Decreased Positions	229	10,542,745
Holders with Activity	489	27,570,571
Sold Out Positions	64	2,256,244

Recent successful initial public offerings of shares in Frontier Airlines and Sun Country Airlines were positively received by the market, indicating growing institutional investor confidence in the airline industry's recovery. Many Wall Street analysts now predict industry profits in the second half of 2021, as the earlier chart depicts. Share prices have reflected these observations and are likely to lead institutional investors to increase airline holdings and positions.