

Alaska Air Group

2018 Annual Stockholder Meeting Questions and Answers May 3, 2018

Please note: A name is indicated in response to questions answered by that individual during the meeting.

SAFETY

Is Alaska doing more to inspect the engines our 737 aircraft?

Ben Minicucci: Right now, there are two air worthiness directives that have been put out by the FAA; one, that asks all operators to inspect engines that are over 30,000 cycles. At Alaska, we have no engines above 30,000 cycles. The second one that came out asked operators to inspect engines that are over 20,000 cycles of operation. We have 68 engines that fall into that category and, by Sunday, all those engines will be inspected.

ENVIRONMENT AND SUSTAINABILITY

How will you be including Virgin in Alaska's sustainability goals? Will Alaska continue to keep a focus on being the greenest and most fuel efficient airline in North America?

Diana Birkett Rakow: Thanks for asking about this work. This will continue to be an important part of who we are. We're proud to have been recognized as the most fuel-efficient airline in North America for seven years now and to lead the industry in onboard waste reduction and recycling programs started and run by our employees.

Like our integration across the company, we're integrating our sustainability goals and programs. On fuel efficiency, we reported with our Q1 earnings that our main line fuel efficiency improved 1.5% over Q1 of last year. And as we move forward, our existing young fleet, our aircraft updates, and our incoming A321s and Boeing 737 MAX aircraft will continue to help us meet our goals.

On waste reduction, in 2017 Alaska's flight attendants were able to capture 82% of all recyclable materials onboard our domestic flights, and we continue to improve significantly over waste produced per passenger. Beginning this summer, our Airbus flight attendants will be trained on those same onboard waste reduction programs along the Boeing flight attendants who have long been recognized as the best in the industry at recycling.

We've now integrated our 2020 sustainability goals across the enterprise and will continue to work to continuously to improve our work in this area and to meet those goals.

AIRLINE BUSINESS

How are Alaska's global partnerships looking? What can we expect?

Andrew Harrison: We continue to evolve our global partnerships. Since 2015, we've added seven additional partners. With the acquisition of Virgin America opening up gateways in Los Angeles and San Francisco, we now have fantastic schedules in the largest three gateways in the United States off the west coast. We are going to continue to work together with our partners to grow what we've got now, so we're very excited about the future.

The west coast is your area of strength. What sort of growth do you expect at those airports in the next several years?

Andrew Harrison: We've publicly shared that our growth in 2019 and 2020, measured in capacity, or ASMs, is going to be about 4%. You will see that growth spread across the west coast, both California and the Pacific Northwest.

While the LA to Cuba route did not work out as hoped, hampered by governmental policies, does Alaska still have the authorization to resume that route if the environment changes? Or, is the authorization lost and must be reapplied for, if desired at a future time?

No. We would need to re-apply.

PEOPLE

According to Alaska's most recently published sustainability report, the rate at which women are promoted at Alaska has decreased sharply. How has the number and percentage of women leaders changed over the same time at the following levels: manager, director, managing director, vice president?

Andy Schneider: We don't believe that the rate at which women have been promoted has decreased sharply. For the full year-over-year results for gender diversity, the managing director level did decrease, by two points, to 34%. Our officers – that's vice presidents and above – rose by three points, to 30%. At the director level, women decreased by one point, to 38%. It's worth noting that in 2018 we're up one point at the officer level compared with 2017 and for the first time we have two women on our executive committee.

That said, we have more work to do, and we continue to be committed to increase our gender diversity at the leadership level. This effort has been made a top priority, and

we're pleased to say that our board of directors is currently at 45% female for the board nominees.

We're one of the leading boards in the country in terms of our gender representation. This is personally important to me, and it's important to our board of directors. We want to be seen as a leader in creating opportunities not only for women, but for people of color and other classes of minorities. So, it's part of our values, it's part of who we are, and we are working on this, and it's what we should be doing.

Patty Bedient: I'm the lead independent director and member of the Governance Committee, and this is a topic that is hugely important to the board. It's a topic that we have worked on very hard because I think culture in this company is really important. It's certainly carried first and foremost by the board and its top management.

And as we think about diversity at the board level – Brad and Andy have talked about gender diversity, diversity in terms of ethnicity – also important to us is diversity in terms of geographic diversity since we do have a number of different markets that we serve.

Tenure of our board is also very important to us. As you looked at the board nominees up for election this year, you saw that, yes, we had some long-tenured board members. We also have very newer and some sort of in the middle. So, I think board refreshment, bringing in new ideas and new skills, is very important. And I think this is something that the board is very focused on working together as a board, but also working with management.

LABOR

What actions are you taking to mend the broken trust of the pilot group?

Ben Minicucci: We know our relationship is strained with our front-line pilots. What I can tell you is that's not where we want to be and we're sorry that's where we're at, and it's not what we had planned.

Prior to the merger, we had a phenomenal relationship with our front-line pilots and with ALPA, but the merger took a big toll. We went through merger negotiations that were unsuccessful, merger mediation that was unsuccessful, and the process that we had agreed to through the collective bargaining agreement was to go to arbitration if we couldn't get a deal.

The truth is the financial proposals were far apart, between the company and ALPA. Unfortunately, we had to put it in front of three neutral arbitrators to decide what was fair and what was market. And that was the result of the arbitration decision.

The company wants a close relationship with pilots and ALPA, and that's something that we're going to work hard to restore.

Brad Tilden: As Ben has described, the process of getting to an agreement, getting to an arbitrated agreement was a difficult process, and I think the question is a good question.

Having been here a long time now, the way that we think about this, and the best thing that we can do to maintain the trust of our employees over the period of time is to run the business in a good way and to run the business successfully. We need to be careful that we have a cost structure that enables us to offer low fares and grow the business. But we also need to have – our values need to be – that we want to take care of our people and we want to compensate them appropriately and have appropriate benefits, and so forth.

In terms of the things that we need to do going forward, we need to continue to run the best business that we possibly can for all of the people that depend on us.

The other thing that we need to do and that we will do is to find opportunities to talk. What happens, in this tough business, is you end up with pilots and flight attendants that work onboard an airplane, and you don't end up with as many opportunities to just talk and discuss with each other to understand what the stresses are and what the issues are. We do need to work to find a way to make sure that we're hearing everything we need to hear and also doing everything we can to communicate the plan that we have for this company, going forward.

What impact did the pilot arbitration in January have on your financials for the following two quarters?

Brandon Pedersen: In the fourth quarter of 2017, the amended contract added a total of \$44 million in cost to our cost structure. In Q1 of 2018, the amended contract added \$35 million in cost to our cost structure. In total, it's worth about \$150 million a year.

The new pilot agreement will impact 2018 by about two margin points and increased our unit cost, excluding fuel, by just under 3%.

WORKPLACE HARASSMENT

What is Alaska's policy for reporting and resolving workplace harassment complaints?

Andy Schneider: First of all, there's no place for any sort of harassment in our workplace, whether that be employee to employee, customer to customer, or any combination thereof. With the specific question about our policy, it is that for anyone who has experienced violence or sexual assault, we encourage all employees and guests to immediately call 911.

If you've observed an incident or been party to a sexual harassment or assault incident during a flight, notify the flight attendant immediately. You can use your call button if

you're unable to get out of your seat to get help. And if needed, the flight crew can contact law enforcement and have them meeting the airplane on the ground.

Employees should report all concerns to our HR department, or via the confidential 24/7 ethics hotline. Every employee at Alaska Airlines has that phone number on their badge and can use it at any time. We also allow employees to report online and we're also working on a system for employee mobile devices to allow that same capability.

Brad Tilden: I think this is an issue for every single airline in the United States, probably around the country. There are issues of sexual misconduct between passengers and between employees. This is an issue that has been an issue in our industry for a long time. At Alaska, we acknowledge this, we are working with AFA. We want to be seen as an industry leader. To be really, really clear, the policy is zero tolerance. There is no tolerance whatsoever for any harassment or sexual misconduct, at all. But it doesn't mean that we don't need to always be paying attention to this and always working on it, and our company is doing that.

GOVERNANCE

Does the Alaska chairman meet in person with large shareholders?

Phyllis Campbell: I'm a member of the board and chair of the company's Governance and Nominating Committee, so I would like to address this.

One of the things that is important to know is that along with the company's values that we've talked about, certainly we look at openness, transparency, and accessibility as our guiding principles. So, Brad, in his role as our Chairman and CEO, is meeting all the time with community members, employees, and many stakeholders, which obviously includes shareholders.

In addition to that, our Governance and Nominating Committee sends letters out to our top institutional shareholders, including this year, and several have taken us up on it. It's important to state that we do have a very open accessible posture towards all our shareholders but, in particular, our institutional shareholders have taken us up on several meetings.

VIRTUAL MEETING

Why no video?

Do you practice before a live audience for the AGM?

Why not a hybrid meeting?

How much does the virtual meeting cost?

From a new shareholder, amazed to read in notice that there is no open shareholder meeting but virtual. Why? Are you reluctant to face the owners?

The Council of Institutional Investors has called for a restoration of in-person annual meetings at companies such as ours that have gone to a web-only meeting format. Will the Board restore the practice of having live meetings where shareholders can see and speak with Board members and senior executives?

In response to all of the above listed questions:

Kyle Levine: In 2015, the board decided to try a virtual meeting format in order to efficiently use company resources and to allow those shareholders who traditionally were not able to attend the annual meeting in person the opportunity to attend remotely. We believe the efficient use of time and financial resources, as well as increased access for attendance offered by the virtual meeting format, remains in the best interest of the company and is broadly accepted by a majority of the shareholders.

If at any time the board determines that an in-person meeting warrants further consideration, the directors will revisit that alternative and make a decision that they believe is in the best interest of the company and its shareholders as a whole.

Brad Tilden: Mr. Chevedden, I might just speak to you directly regarding the questions you made and the assertions you made. We do feel like the virtual meeting is working for our company right now for the reasons that Kyle set forth.

This is a public company and this is an amazingly available and accessible company. We are out in the community all of the time. We're out in the community in Seattle and San Francisco, the Bay Area, and elsewhere, and I would just say that this is a team that prides itself in making ourselves available. We carry 47 million people a year. We live and die by the reputation we have with the public, with our customers.

I do respect the viewpoint that certain people prefer an in-person meeting, but I want to assert that we do have a responsibility to be out and make ourselves available and answer questions, and I do think this company honors that responsibility.

How many people accessed this meeting while it was in progress?

132 people accessed the meeting, including guests and company representatives.

Will shareholder comments be read during this meeting?

We answered as many questions as possible during the time allotted for the meeting, although shareholders were generally limited to one question per topic unless time otherwise permitted.

Will all submitted questions be answered at least in print?

All submitted questions relating to topics of general interest to shareholders, including those not addressed directly during the meeting, are answered here in print.

What percent of submitted questions were answered during the meeting?

We answered as many questions submitted in accordance with the meeting rules of conduct as possible in the time allotted for the meeting. Questions relating to a single topic were grouped together and answered collectively. When taking into account this aggregation, 53% of questions submitted by shareholders were addressed during the meeting. Where a single shareholder submitted multiple questions, we limited our answers to one question per shareholder (except where time otherwise permitted) to address as many different topics of general interest to shareholders as possible. Questions were submitted by approximately 7 different shareholders and 57% of questions were submitted by a single shareholder.

Is the touted employee outreach done virtually?

Is ALK migrating to virtual contact with employees, communities served, stakeholders?

In response to the two questions listed above, we leverage all forms of communication, including in-person meetings, webcasts, listening sessions, online forums and surveys, newsletters and more to reach our mobile and geographically diverse workforce of more than 23,000 employees.

FLEET

Specifically, on the Virgin America side of the operation, do you have data to confirm that the number of transcon fuel stops, maintenance issues, cancellations and delays have risen significantly since Air Group took control of the Airbus side? Is there an attempt to make the Airbus operation appear to underperform when compared against the Boeing operation?

Ben Minicucci: Absolutely not. Since November of 2017 to March of 2018 – and weather is different every year – we have incurred 108 technical stops flying Airbus from the east coast to the west coast; 108 in about three months. That is simply not sustainable. It has cost the company over \$2 million to manage those tech stops.

When you look at the 319 and the 320, those are not long-range transcon airplanes. The Boeing 800 and 900 are better suited for transcon operations, and the 319 and 320 are better suited for north-south operations, which is where we will be migrating these over the next 12 to 18 (inaudible).

Why is Alaska Airlines removing the IFE systems from Virgin's Airbus fleet? Does Alaska plan to preserve any of the inflight features that made Virgin America unique (seatback ordering, satellite TV, seat-to-seat and flight chat)?

We will not be putting seatback screens in our upcoming aircraft and it is likely we'll remove them from the Airbus fleet as they are converted to our new design. Our cabin

design group has worked closely with Recaro to create a design for a tablet holder that accommodates varying size devices. We have observed that many people prefer to use their own device onboard instead of the seatback screen. We're also working on special entertainment content for guests to view on their own devices, which we believe will provide a unique and remarkable inflight experience. In addition, Alaska is adopting Virgin America's use of lighting and music to create a unique cabin vibe, and will continue offering free chat.

Will ALK buy more turboprops – new or used?

Is ALK investigating the C Series?

We're focused on taking delivery of the firm aircraft currently on order, and have no plans at the moment to order incremental aircraft.

Were any aircraft the fleet bought used?

No.

What is the highest hours for a 737 in the fleet now?

We believe this question is asking about the age of the 737 fleet. The average age of all 737 aircraft in our fleet is 7.9 years as of March 31, 2018.

Is ALK keeping its 321s?

While Alaska has historically flown planes in the Boeing 737 family for efficiencies in operation and maintenance, the merger with Virgin has brought 67 Airbus A320s into the fleet. Is there a plan to move the entire fleet back to 737s over time, or can both families of planes be equally efficient?

In response to the two questions listed above, we have nothing new to share at this time. As a reminder, our mainline fleet is about 2/3 Boeing and 1/3 Airbus. Now that we are past PSS cutover, we are focused on putting the right airplane in the right market to maximize revenue. As we've said before, we continue to evaluate our options, considering purchase price, operating costs, fuel efficiency, reliability and range. We also care about how the manufacturer supports its airline customer and how innovative they are in improving their products. We already know there are significant operational and economic benefits to flying a single fleet, but we also know that regardless of what we decide, we'll be flying a mixed fleet for many years. Most of our Airbus fleet is leased and we plan to fly them at least until they mature (2019-2025).