

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Alaska Air Group, Inc.

	Three Months Ended June 30,			Six months ended June 30,		
	2016	2015	Change	2016	2015	Change
<i>(in millions, except per-share amounts)</i>						
Operating Revenues:						
Passenger						
Mainline	\$ 1,036	\$ 1,019	2 %	\$ 1,963	\$ 1,920	2 %
Regional	227	212	7 %	433	398	9 %
Total passenger revenue	1,263	1,231	3 %	2,396	2,318	3 %
Freight and mail	27	30	(10) %	51	53	(4) %
Other - net	204	176	16 %	394	335	18 %
Total Operating Revenues	1,494	1,437	4 %	2,841	2,706	5 %
Operating Expenses:						
Wages and benefits	332	305	9 %	668	611	9 %
Variable incentive pay	32	32	— %	64	58	10 %
Aircraft fuel, including hedging gains and losses	201	261	(23) %	368	496	(26) %
Aircraft maintenance	65	52	25 %	133	115	16 %
Aircraft rent	26	26	— %	55	52	6 %
Landing fees and other rentals	63	66	(5) %	143	137	4 %
Contracted services	60	51	18 %	120	102	18 %
Selling expenses	55	54	2 %	104	107	(3) %
Depreciation and amortization	92	79	16 %	180	155	16 %
Food and beverage service	31	28	11 %	62	53	17 %
Third-party regional carrier expense	24	17	41 %	47	33	42 %
Other	81	94	(14) %	175	177	(1) %
Special items - merger costs	14	—	NM	14	—	NM
Total Operating Expenses	1,076	1,065	1 %	2,133	2,096	2 %
Operating Income	418	372	12 %	708	610	16 %
Nonoperating Income (Expense):						
Interest income	7	6		13	11	
Interest expense	(9)	(11)		(22)	(22)	
Interest capitalized	7	8		15	16	
Other - net	(3)	1		(2)	1	
Total Nonoperating Income (Expense)	2	4		4	6	
Income Before Income Tax	420	376		712	616	
Income tax expense	160	142		268	233	
Net Income	\$ 260	\$ 234		\$ 444	\$ 383	
Basic Earnings Per Share:	\$ 2.11	\$ 1.80		\$ 3.58	\$ 2.93	
Diluted Earnings Per Share:	\$ 2.10	\$ 1.79		\$ 3.56	\$ 2.91	
Shares Used for Computation:						
Basic	123.250	129.236		123.900	130.173	
Diluted	123.988	130.255		124.715	131.271	

Cash dividend declared per share: \$ **0.275** \$ 0.20 \$ **0.550** \$ 0.40

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**Alaska Air Group, Inc.***(in millions)*

	June 30, 2016	December 31, 2015
Cash and marketable securities	\$ 1,607	\$ 1,328
Total current assets	2,003	1,663
Property and equipment-net	4,959	4,802
Other assets	73	65
Total assets	7,035	6,530
Air traffic liability	870	669
Current portion of long-term debt	117	114
Other current liabilities	1,074	1,022
Current liabilities	2,061	1,805
Long-term debt	509	569
Other liabilities and credits	1,838	1,745
Shareholders' equity	2,627	2,411
Total liabilities and shareholders' equity	\$ 7,035	\$ 6,530
Debt-to-capitalization ratio, adjusted for operating leases ^(a)	25%:75%	27%:73%
Number of common shares outstanding	123.080	125.175

^(a) Calculated using the present value of remaining aircraft lease payments.

OPERATING STATISTICS SUMMARY (unaudited)

Alaska Air Group, Inc.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Consolidated Operating Statistics:^(a)						
Revenue passengers (000)	8,647	8,024	7.8%	16,482	15,340	7.4%
RPMs (000,000) "traffic"	9,397	8,451	11.2%	17,968	16,173	11.1%
ASMs (000,000) "capacity"	11,062	9,949	11.2%	21,515	19,206	12.0%
Load factor	84.9%	84.9%	—pts	83.5%	84.2%	(0.7)pts
Yield	13.44¢	14.56¢	(7.7)%	13.34¢	14.33¢	(6.9)%
PRASM	11.42¢	12.37¢	(7.7)%	11.14¢	12.07¢	(7.7)%
RASM	13.51¢	14.44¢	(6.4)%	13.21¢	14.09¢	(6.2)%
CASM excluding fuel and special items ^(b)	7.78¢	8.08¢	(3.7)%	8.14¢	8.33¢	(2.3)%
Economic fuel cost per gallon ^(b)	\$1.53	\$2.12	(27.8)%	\$1.41	\$2.05	(31.2)%
Fuel gallons (000,000)	138	126	9.5%	270	245	10.2%
ASM's per gallon	80.2	79.0	1.5%	79.7	78.4	1.7%
Average number of full-time equivalent employees (FTE)	14,470	13,793	4.9%	14,414	13,534	6.5%
Mainline Operating Statistics:						
Revenue passengers (000)	6,282	5,787	8.6%	11,925	11,022	8.2%
RPMs (000,000) "traffic"	8,456	7,662	10.4%	16,172	14,657	10.3%
ASMs (000,000) "capacity"	9,875	8,984	9.9%	19,229	17,330	11.0%
Load factor	85.6%	85.3%	0.3pts	84.1%	84.6%	(0.5)pts
Yield	12.25¢	13.29¢	(7.8)%	12.14¢	13.10¢	(7.3)%
PRASM	10.49¢	11.34¢	(7.5)%	10.21¢	11.08¢	(7.9)%
RASM	12.61¢	13.40¢	(5.9)%	12.31¢	13.09¢	(6.0)%
CASM excluding fuel and special items ^(b)	6.88¢	7.17¢	(4.0)%	7.18¢	7.41¢	(3.1)%
Economic fuel cost per gallon ^(b)	\$1.52	\$2.12	(28.3)%	\$1.40	\$2.05	(31.7)%
Fuel gallons (000,000)	118	110	7.3%	231	213	8.5%
ASM's per gallon	83.7	81.7	2.4%	83.2	81.4	2.2%
Average number of FTE's	11,261	10,726	5.0%	11,192	10,553	6.1%
Aircraft utilization	10.8	11.1	(2.7)%	10.7	10.8	(0.9)%
Average aircraft stage length	1,177	1,191	(1.2)%	1,195	1,195	—%
Operating fleet	152	140	12 a/c	152	140	12 a/c
Regional Operating Statistics:^(c)						
Revenue passengers (000)	2,365	2,237	5.7%	4,558	4,318	5.6%
RPMs (000,000) "traffic"	941	789	19.3%	1,796	1,516	18.5%
ASMs (000,000) "capacity"	1,187	965	23.0%	2,287	1,876	21.9%
Load factor	79.3%	81.8%	(2.5)pts	78.5%	80.8%	(2.3)pts
Yield	24.17¢	26.92¢	(10.2)%	24.13¢	26.28¢	(8.2)%
PRASM	19.16¢	21.99¢	(12.9)%	18.95¢	21.25¢	(10.8)%
Operating fleet	69	63	6 a/c	69	63	6 a/c

^(a) Except for full-time equivalent employees, data includes information related to third-party regional capacity purchase flying arrangements.

^(b) See a reconciliation of operating expenses excluding fuel and special items, a reconciliation of economic fuel costs, and Note A in the accompanying pages, for a discussion of why these measures may be important to investors.

^(c) Data presented includes information related to flights operated by Horizon Air and third-party carriers.

OPERATING SEGMENTS (unaudited)
Alaska Air Group, Inc.
Three Months Ended June 30, 2016

<i>(in millions)</i>	Alaska						
	Mainline	Regional	Horizon	Parent & Consolidating^(a)	Air Group Adjusted^(b)	Special Items^(c)	Consolidated
Operating revenues							
Passenger							
Mainline	\$ 1,036	\$ —	\$ —	\$ —	\$ 1,036	\$ —	\$ 1,036
Regional	—	227	—	—	227	—	227
Total passenger revenues	1,036	227	—	—	1,263	—	1,263
CPA revenues	—	—	110	(110)	—	—	—
Freight and mail	26	1	—	—	27	—	27
Other-net	184	19	1	—	204	—	204
Total operating revenues	1,246	247	111	(110)	1,494	—	1,494
Operating expenses							
Operating expenses, excluding fuel	679	192	101	(111)	861	14	875
Economic fuel	180	31	—	—	211	(10)	201
Total operating expenses	859	223	101	(111)	1,072	4	1,076
Nonoperating income (expense)							
Interest income	6	—	1	—	7	—	7
Interest expense	(4)	—	(4)	(1)	(9)	—	(9)
Other	3	—	—	1	4	—	4
Total Nonoperating income (expense)	5	—	(3)	—	2	—	2
Income (loss) before income tax	\$ 392	\$ 24	\$ 7	\$ 1	\$ 424	\$ (4)	\$ 420

Three Months Ended June 30, 2015

<i>(in millions)</i>	Alaska						
	Mainline	Regional	Horizon	Parent & Consolidating^(a)	Air Group Adjusted^(b)	Special Items^(c)	Consolidated
Operating revenues							
Passenger							
Mainline	\$ 1,019	\$ —	\$ —	\$ —	\$ 1,019	\$ —	\$ 1,019
Regional	—	212	—	—	212	—	212
Total passenger revenues	1,019	212	—	—	1,231	—	1,231
CPA revenues	—	—	99	(99)	—	—	—
Freight and mail	28	2	—	—	30	—	30
Other-net	156	19	1	—	176	—	176
Total operating revenues	1,203	233	100	(99)	1,437	—	1,437
Operating expenses							
Operating expenses, excluding fuel	645	169	90	(100)	804	—	804
Economic fuel	232	35	—	—	267	(6)	261
Total operating expenses	877	204	90	(100)	1,071	(6)	1,065
Nonoperating income (expense)							
Interest income	5	—	—	1	6	—	6
Interest expense	(7)	—	(1)	(3)	(11)	—	(11)
Other	7	—	(1)	3	9	—	9
Total Nonoperating income (expense)	5	—	(2)	1	4	—	4
Income (loss) before income tax	\$ 331	\$ 29	\$ 8	\$ 2	\$ 370	\$ 6	\$ 376

Six Months Ended June 30, 2016

	Alaska		Horizon	Parent & Consolidating^(a)	Air Group Adjusted^(b)	Special Items^(c)	Consolidated
	Mainline	Regional					
Operating revenues							
Passenger							
Mainline	1,963	—	\$ —	\$ —	\$ 1,963	\$ —	\$ 1,963
Regional	—	433	—	—	433	—	433
Total passenger revenues	1,963	433	—	—	2,396	—	2,396
CPA revenues	—	—	213	(213)	—	—	—
Freight and mail	49	2	—	—	51	—	51
Other - net	356	36	2	—	394	—	394
Total operating revenues	2,368	471	215	(213)	2,841	—	2,841
Operating expenses							
Operating expenses, excluding fuel	1,380	378	206	(213)	1,751	14	1,765
Economic fuel	324	56	—	—	380	(12)	368
Total operating expenses	1,704	434	206	(213)	2,131	2	2,133
Nonoperating income (expense)							
Interest income	12	—	1	—	13	—	13
Interest expense	(16)	—	(5)	(1)	(22)	—	(22)
Other	10	—	—	3	13	—	13
Total Nonoperating income (expense)	6	—	(4)	2	4	—	4
Income (loss) before income tax	\$ 670	\$ 37	\$ 5	\$ 2	\$ 714	\$ (2)	\$ 712

Six Months Ended June 30, 2015

	Alaska		Horizon	Parent & Consolidating^(a)	Air Group Adjusted^(b)	Special Items^(c)	Consolidated
	Mainline	Regional					
Operating revenues							
Passenger							
Mainline	\$ 1,920	\$ —	\$ —	\$ —	\$ 1,920	\$ —	\$ 1,920
Regional	—	398	—	—	398	—	398
Total passenger revenues	1,920	398	—	—	2,318	—	2,318
CPA revenues	—	—	198	(198)	—	—	—
Freight and mail	50	3	—	—	53	—	53
Other - net	298	35	2	—	335	—	335
Total operating revenues	2,268	436	200	(198)	2,706	—	2,706
Operating expenses							
Operating expenses, excluding fuel	1,284	333	181	(198)	1,600	—	1,600
Economic fuel	436	66	—	—	502	(6)	496
Total operating expenses	1,720	399	181	(198)	2,102	(6)	2,096
Nonoperating income (expense)							
Interest income	10	—	—	1	11	—	11
Interest expense	(14)	—	(5)	(3)	(22)	—	(22)
Other	14	—	—	3	17	—	17
Total Nonoperating income (expense)	10	—	(5)	1	6	—	6
Income (loss) before income tax	\$ 558	\$ 37	\$ 14	\$ 1	\$ 610	\$ 6	\$ 616

^(a) Includes consolidating entries, Parent Company, and other immaterial business units.

- (b) The adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocations and does not include certain charges. See Note A in the accompanying pages for further information.
- (c) Includes accounting adjustments related to mark-to-market fuel-hedge accounting charges, and other special items described previously.

Alaska Air Group, Inc.

CASM EXCLUDING FUEL RECONCILIATION (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30, 2016	
	2016	2015	2016	2015
<i>(in cents)</i>				
Consolidated:				
CASM	9.73 ¢	10.70 ¢	9.91 ¢	10.91 ¢
Less the following components:				
Aircraft fuel, including hedging gains and losses	1.82	2.62	1.71	2.58
Special items - merger costs	0.13	—	0.06 ¢	—
CASM excluding fuel and special items	7.78 ¢	8.08 ¢	8.14 ¢	8.33 ¢
Mainline:				
CASM	8.60 ¢	9.70 ¢	8.80 ¢	9.89 ¢
Less the following components:				
Aircraft fuel, including hedging gains and losses	1.72	2.53	1.62	2.48
CASM excluding fuel and special items	6.88 ¢	7.17 ¢	7.18 ¢	7.41 ¢

FUEL RECONCILIATIONS (unaudited)

	Three Months Ended June 30,			
	2016		2015	
	Dollars	Cost/Gallon	Dollars	Cost/Gallon
<i>(in millions, except for per-gallon amounts)</i>				
Raw or "into-plane" fuel cost	\$ 207	\$ 1.50	\$ 262	\$ 2.08
Losses on settled hedges	4	0.03	5	0.04
Consolidated economic fuel expense	211	1.53	267	2.12
Mark-to-market fuel hedge adjustment	(10)	(0.07)	(6)	(0.05)
GAAP fuel expense	\$ 201	\$ 1.46	\$ 261	\$ 2.07
Fuel gallons	138		126	
	Six Months Ended June 30,			
	2016		2015	
	Dollars	Cost/Gallon	Dollars	Cost/Gallon
<i>(in millions, except for per gallon amounts)</i>				
Raw or "into-plane" fuel cost	\$ 372	\$ 1.38	\$ 492	\$ 2.01
Losses on settled hedges	8	0.03	10	0.04
Consolidated economic fuel expense	\$ 380	\$ 1.41	\$ 502	\$ 2.05
Mark-to-market fuel hedge adjustment	(12)	(0.04)	(6)	(0.02)
GAAP fuel expense	\$ 368	\$ 1.37	\$ 496	\$ 2.03
Fuel gallons	270		245	

Note A: Pursuant to Regulation G, we have provided reconciliations of reported non-GAAP financial measures to their most directly comparable financial measures reported on a GAAP basis. We believe that consideration of these non-GAAP financial measures may be important to investors for the following reasons:

- By eliminating fuel expense and certain special items from our unit metrics, we believe that we have better visibility into the results of operations and our non-fuel cost-reduction initiatives. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can result in a significant improvement in operating results. In addition, we believe that all domestic carriers are similarly impacted by changes in jet fuel costs over the long term, so it is important for management (and thus investors) to understand the impact of (and trends in) company-specific cost drivers such as labor rates and productivity, airport costs, maintenance costs, etc., which are more controllable by management.
- Cost per ASM (CASM) excluding fuel and certain special items is one of the most important measures used by management and by the Air Group Board of Directors in assessing quarterly and annual cost performance.
- Adjusted Income before income tax and CASM excluding fuel, and other special items, are important metrics for the employee incentive plan that covers all Air Group employees.
- CASM excluding fuel and certain special items is a measure commonly used by industry analysts, and we believe it is the basis by which they compare our airlines to others in the industry. The measure is also the subject of frequent questions from investors.
- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of certain items, such as mark-to-market hedging adjustments or Virgin America merger-related costs, is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.
- Although we disclose our passenger unit revenues, we do not (nor are we able to) evaluate unit revenues excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total operating expenses. Fluctuations in fuel prices often drive changes in unit revenues in the mid-to-long term. Although we believe it is useful to evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

Note B: Air Group has two operating airlines - Alaska Airlines and Horizon Air. Each is a regulated airline with separate management teams primarily in operational roles. To manage the two operating airlines, management views the business in three operating segments. Alaska operates a fleet of passenger jets (Alaska Mainline) and contracts with Horizon, SkyWest Airlines, Inc. (SkyWest), and Peninsula Airways, Inc. (PenAir) for regional capacity under which Alaska receives all passenger revenue from those flights (Alaska Regional). Horizon operates a fleet of turboprop aircraft and sells all of its capacity to Alaska pursuant to a capacity purchase arrangement (Horizon). The Company believes the amounts paid by Alaska to Horizon approximate current market rates received by other regional carriers for similar flying and are available to pay for various Horizon operating expenses such as crew expenses, maintenance, and aircraft ownership costs. All inter-company revenues and expenses between Alaska and Horizon are eliminated in consolidation.

Glossary of Terms

Aircraft Utilization - block hours per day; this represents the average number of hours our aircraft are flying

Aircraft Stage Length - represents the average miles flown per aircraft departure

ASMs - available seat miles, or "capacity"; represents total seats available across the fleet multiplied by the number of miles flown

CASM - operating costs per ASM, or "unit cost"; represents all operating expenses including fuel and special items

CASMex - operating costs excluding fuel and special items per ASM; this metric is used to help track progress toward reduction of non-fuel operating costs since fuel is largely out of our control

Debt-to-capitalization ratio - represents adjusted debt (long-term debt plus the present value of future operating lease payments) divided by total equity plus adjusted debt

Diluted Earnings per Share - represents earnings per share using fully diluted shares outstanding

Diluted Shares - represents the total number of shares that would be outstanding if all possible sources of conversion, such as stock options, were exercised

Economic Fuel - best estimate of the cash cost of fuel, net of the impact of our fuel-hedging program

Free Cash Flow - total operating cash flow generated less cash paid for capital expenditures

Load Factor - RPMs as a percentage of ASMs; represents the number of available seats that were filled with paying passengers

Mainline - represents flying Boeing 737 jets and all associated revenues and costs

PRASM - passenger revenue per ASM; commonly called "passenger unit revenue"

Productivity - number of revenue passengers per full-time equivalent employee

RASM - operating revenue per ASMs, or "unit revenue"; operating revenue includes all passenger revenue, freight & mail, Mileage Plan, and other ancillary revenue; represents the average total revenue for flying one seat one mile

Regional - represents capacity purchased by Alaska from Horizon, SkyWest, and PenAir. In this segment, Alaska Regional records actual on-board passenger revenue, less costs such as fuel, distribution costs, and payments made to Horizon, SkyWest and PenAir under the respective capacity purchased arrangement (CPAs). Additionally, Alaska Regional includes an allocation of corporate overhead such as IT, finance, other administrative costs incurred by Alaska and on behalf of Horizon.

RPMs - revenue passenger miles, or "traffic"; represents the number of seats that were filled with paying passengers; one passenger traveling one mile is one RPM

Yield - passenger revenue per RPM; represents the average revenue for flying one passenger one mile