

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Alaska Air Group, Inc.

<i>(in millions, except per-share amounts)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Operating Revenues:						
Passenger						
Mainline	\$ 1,030	\$ 960	7 %	2,858	2,651	8 %
Regional	219	208	5 %	605	582	4 %
Total passenger revenue	1,249	1,168	7 %	3,463	3,233	7 %
Freight and mail	32	32	— %	88	88	— %
Other - net	184	165	12 %	511	433	18 %
Special mileage plan revenue	—	192	NM	—	192	NM
Total Operating Revenues	1,465	1,557	NM	4,062	3,946	NM
Operating Expenses:						
Wages and benefits	279	285	(2) %	832	806	3 %
Variable incentive pay	30	26	15 %	84	68	24 %
Aircraft fuel, including hedging gains and losses	394	363	9 %	1,112	1,115	— %
Aircraft maintenance	58	54	7 %	166	187	(11) %
Aircraft rent	27	29	(7) %	84	89	(6) %
Landing fees and other rentals	74	71	4 %	207	207	— %
Contracted services	66	54	22 %	188	161	17 %
Selling expenses	55	47	17 %	154	137	12 %
Depreciation and amortization	75	67	12 %	218	203	7 %
Food and beverage service	24	22	9 %	68	63	8 %
Other	67	69	(3) %	229	202	13 %
Total Operating Expenses	1,149	1,087	6 %	3,342	3,238	3 %
Operating Income	316	470	(33) %	720	708	2 %
Nonoperating Income (Expense):						
Interest income	5	5		15	14	
Interest expense	(12)	(13)		(36)	(42)	
Interest capitalized	5	6		14	15	
Other - net	2	(5)		20	(4)	
	—	(7)		13	(17)	
Income Before Income Tax	316	463		733	691	
Income tax expense	118	174		276	261	
Net Income	\$ 198	\$ 289		457	430	
Basic Earnings Per Share:						
	\$ 1.47	\$ 2.07		\$ 3.35	\$ 3.06	
Diluted Earnings Per Share:						
	\$ 1.45	\$ 2.04		\$ 3.31	\$ 3.02	
Shares Used for Computation:						
Basic	134,865	139,559		136,482	140,304	
Diluted	136,158	141,383		137,825	142,213	
Cash dividend declared per share:	\$ 0.125	\$ 0.100		\$ 0.375	\$ 0.100	

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

<i>(in millions)</i>	September 30, 2014	December 31, 2013
Cash and marketable securities	\$ 1,343	\$ 1,330
Total current assets	1,799	1,762
Property and equipment-net	4,244	3,893
Other assets	193	183
Total assets	6,236	5,838
Air traffic liability	703	564
Current portion of long-term debt	115	117
Other current liabilities	949	899
Current liabilities	1,767	1,580
Long-term debt	710	754
Other liabilities and credits	1,530	1,475
Shareholders' equity	2,229	2,029
Total liabilities and shareholders' equity	\$ 6,236	\$ 5,838
Debt-to-capitalization ratio, adjusted for operating leases ^(a)	31%:69%	35%:65%
Number of common shares outstanding	133.469	137.492

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

OPERATING STATISTICS SUMMARY (unaudited)
Alaska Air Group, Inc.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Consolidated Operating Statistics:^(a)						
Revenue passengers (000)	7,994	7,395	8.1%	21,996	20,720	6.2%
RPMs (000,000) "traffic"	8,245	7,671	7.5%	23,078	21,852	5.6%
ASMs (000,000) "capacity"	9,582	8,868	8.1%	26,922	25,397	6.0%
Load factor	86.0 %	86.5 %	(0.5 pts)	85.7 %	86.0 %	(0.3 pts)
Yield	15.14 ¢	15.23 ¢	(0.6%)	15.00 ¢	14.80 ¢	1.4%
PRASM	13.03 ¢	13.17 ¢	(1.1%)	12.86 ¢	12.73 ¢	1.0%
RASM ^(b)	15.28 ¢	15.39 ¢	(0.7%)	15.09 ¢	14.78 ¢	2.1%
CASM excluding fuel ^(b)	7.87 ¢	8.16 ¢	(3.6%)	8.28 ¢	8.36 ¢	(1.0%)
Economic fuel cost per gallon ^(c)	\$ 3.15	\$ 3.24	(2.8%)	\$ 3.22	\$ 3.33	(3.3%)
Fuel gallons (000,000)	124	118	5.1%	351	337	4.2%
ASM's per gallon	77.3	75.2	2.8%	76.7	75.4	1.7%
Average number of full-time equivalent employees (FTE)	12,998	12,295	5.7%	12,633	12,122	4.2%
Mainline Operating Statistics:						
Revenue passengers (000)	5,752	5,366	7.2%	15,796	14,973	5.5%
RPMs (000,000) "traffic"	7,440	6,963	6.9%	20,871	19,864	5.1%
ASMs (000,000) "capacity"	8,607	8,027	7.2%	24,197	22,973	5.3%
Load factor	86.4 %	86.7 %	(0.3 pts)	86.3 %	86.5 %	(0.2 pts)
Yield	13.84 ¢	13.78 ¢	0.4%	13.69 ¢	13.35 ¢	2.5%
PRASM	11.97 ¢	11.96 ¢	0.1%	11.81 ¢	11.54 ¢	2.3%
RASM ^(b)	14.18 ¢	14.14 ¢	0.3%	14.01 ¢	13.56 ¢	3.3%
CASM excluding fuel ^(b)	7.02 ¢	7.33 ¢	(4.2%)	7.37 ¢	7.42 ¢	(0.7%)
Economic fuel cost per gallon ^(c)	\$ 3.15	\$ 3.24	(2.8%)	\$ 3.22	\$ 3.32	(3.0%)
Fuel gallons (000,000)	108	104	3.8%	305	297	2.7%
ASM's per gallon	79.7	77.2	3.2%	79.3	77.4	2.5%
Average number of FTE's	10,153	9,645	5.3%	9,837	9,484	3.7%
Aircraft utilization	10.8	11.0	(1.8%)	10.5	10.8	(2.8%)
Average aircraft stage length	1,161	1,157	0.3%	1,180	1,177	0.3%
Operating fleet	136	128	8 a/c	136	128	8 a/c
Regional Operating Statistics:^(d)						
Revenue passengers (000)	2,242	2,029	10.5%	6,200	5,747	7.9%
RPMs (000,000) "traffic"	806	708	13.8%	2,206	1,988	11.0%
ASMs (000,000) "capacity"	975	841	15.9%	2,725	2,424	12.4%
Load factor	82.7 %	84.2 %	(1.5 pts)	81.0 %	82.0 %	(1.0 pts)
Yield	27.17 ¢	29.41 ¢	(7.6%)	27.41 ¢	29.27 ¢	(6.4%)
PRASM	22.46 ¢	24.77 ¢	(9.3%)	22.19 ¢	24.00 ¢	(7.5%)
Operating fleet (Horizon only)	51	48	3 a/c	51	48	3 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 revenue excluding special items related to accounting changes, operating expenses excluding fuel, and Note A, in the accompanying pages, for a discussion of why these measures may be important to investors.

^(c) See a reconciliation of economic fuel cost in the accompanying pages.

^(d) 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 September 30, 2014						
		Alaska		Horizon	Consolidating	Air Group Adjusted ^(a)	Special Items ^(b)	Consolidated
(in millions)		Mainline	Regional					
Operating revenues								
Passenger								
Mainline	\$	1,030	\$ —	\$ —	\$ —	\$ 1,030	\$ —	\$ 1,030
Regional		—	219	—	—	219	—	219
Total passenger revenues		1,030	219	—	—	1,249	—	1,249
CPA revenues		—	—	99	(99)	—	—	—
Freight and mail		30	2	—	—	32	—	32
Other-net		161	22	1	—	184	—	184
Total operating revenues		1,221	243	100	(99)	1,465	—	1,465
Operating expenses								
Operating expenses, excluding fuel		605	162	85	(97)	755	—	755
Economic fuel		338	52	—	—	390	4	394
Total operating expenses		943	214	85	(97)	1,145	4	1,149
Nonoperating income (expense)								
Interest income		5	—	—	—	5	—	5
Interest expense		(8)	—	(4)	—	(12)	—	(12)
Other		7	—	—	—	7	—	7
		4	—	(4)	—	—	—	—
Income (loss) before income tax	\$	282	\$ 29	\$ 11	\$ (2)	\$ 320	\$ (4)	\$ 316

		Three Months Ended September 30, 2013						
		Alaska		Horizon	Consolidating	Air Group Adjusted ^(a)	Special Items ^(b)	Consolidated
(in millions)		Mainline	Regional					
Operating revenues								
Passenger								
Mainline	\$	960	\$ —	\$ —	\$ —	\$ 960	\$ —	\$ 960
Regional		—	208	—	—	208	—	208
Total passenger revenues		960	208	—	—	1,168	—	1,168
CPA revenues		—	—	88	(88)	—	—	—
Freight and mail		31	1	—	—	32	—	32
Other-net		145	19	1	—	165	192	357
Total operating revenues		1,136	228	89	(88)	1,365	192	1,557
Operating expenses								
Operating expenses, excluding fuel		588	144	80	(88)	724	—	724
Economic fuel		337	46	—	—	383	(20)	363
Total operating expenses		925	190	80	(88)	1,107	(20)	1,087
Nonoperating income (expense)								
Interest income		5	—	—	—	5	—	5
Interest expense		(9)	—	(4)	—	(13)	—	(13)
Other		8	(8)	1	—	1	—	1
		4	(8)	(3)	—	(7)	—	(7)
Income (loss) before income tax	\$	215	\$ 30	\$ 6	\$ —	\$ 251	\$ 212	\$ 463

	Nine Months Ended September 30, 2014						
	Alaska		Horizon	Consolidating	Air Group Adjusted ^(a)	Special Items ^(b)	Consolidated
	Mainline	Regional					
Operating revenues							
Passenger							
Mainline	\$ 2,858	\$ —	\$ —	\$ —	\$ 2,858	\$ —	\$ 2,858
Regional	—	605	—	—	605	—	605
Total passenger revenues	2,858	605	—	—	3,463	—	3,463
CPA revenues	—	—	277	(277)	—	—	—
Freight and mail	84	4	—	—	88	—	88
Other - net	448	59	4	—	511	—	511
Total operating revenues	3,390	668	281	(277)	4,062	—	4,062
Operating expenses							
Operating expenses, excluding fuel	1,783	464	257	(274)	2,230	—	2,230
Economic fuel	980	149	—	—	1,129	(17)	1,112
Total operating expenses	2,763	613	257	(274)	3,359	(17)	3,342
Nonoperating income (expense)							
Interest income	15	—	—	—	15	—	15
Interest expense	(25)	(1)	(10)	—	(36)	—	(36)
Other	34	—	—	—	34	—	34
	24	(1)	(10)	—	13	—	13
Income (loss) before income tax	\$ 651	\$ 54	\$ 14	\$ (3)	\$ 716	\$ 17	\$ 733

	Nine Months Ended September 30, 2013						
	Alaska		Horizon	Consolidating	Air Group Adjusted ^(a)	Special Items ^(b)	Consolidated
	Mainline	Regional					
Operating revenues							
Passenger							
Mainline	\$ 2,651	\$ —	\$ —	\$ —	\$ 2,651	\$ —	\$ 2,651
Regional	—	582	—	—	582	—	582
Total passenger revenues	2,651	582	—	—	3,233	—	3,233
CPA revenues	—	—	274	(274)	—	—	—
Freight and mail	85	3	—	—	88	—	88
Other - net	380	49	4	—	433	192	625
Total operating revenues	3,116	634	278	(274)	3,754	192	3,946
Operating expenses							
Operating expenses, excluding fuel	1,704	440	253	(274)	2,123	—	2,123
Economic fuel	987	135	—	—	1,122	(7)	1,115
Total operating expenses	2,691	575	253	(274)	3,245	(7)	3,238
Nonoperating income (expense)							
Interest income	14	—	—	—	14	—	14
Interest expense	(30)	—	(10)	(2)	(42)	—	(42)
Other	19	(9)	1	—	11	—	11
	3	(9)	(9)	(2)	(17)	—	(17)
Income (loss) before income tax	\$ 428	\$ 50	\$ 16	\$ (2)	\$ 492	\$ 199	\$ 691

^(a) 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 revenues/charges. See Note A in the accompanying pages for further information .

^(b) Includes mark-to-market fuel-hedge accounting charges and accounting adjustments related to Special mileage plan revenue.

Alaska Air Group, Inc.

CASM EXCLUDING FUEL RECONCILIATION (unaudited)

<i>(in cents)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Consolidated:				
CASM	11.99¢	12.26¢	12.41¢	12.75¢
Less the following components:				
Aircraft fuel, including hedging gains and losses	4.12	4.10	4.13	4.39
CASM excluding fuel	7.87¢	8.16¢	8.28¢	8.36¢

Mainline:

CASM	11.00¢	11.27¢	11.35¢	11.68¢
Less the following components:				
Aircraft fuel, including hedging gains and losses	3.98	3.94	3.98	4.26
CASM excluding fuel	7.02¢	7.33¢	7.37¢	7.42¢

FUEL RECONCILIATIONS (unaudited)

<i>(in millions, except for per-gallon amounts)</i>	Three Months Ended September 30,			
	2014		2013	
	Dollars	Cost/Gallon	Dollars	Cost/Gallon
Raw or "into-plane" fuel cost	\$ 383	\$ 3.09	\$ 373	\$ 3.16
Losses on settled hedges	7	0.06	10	0.08
Consolidated economic fuel expense	390	3.15	383	3.24
Mark-to-market fuel hedge adjustment	4	0.03	(20)	(0.17)
GAAP fuel expense	\$ 394	\$ 3.18	\$ 363	\$ 3.07
Fuel gallons	124		118	

<i>(in millions, except for per-gallon amounts)</i>	Nine Months Ended September 30, 2014			
	2014		2013	
	Dollars	Cost/Gallon	Dollars	Cost/Gallon
Raw or "into-plane" fuel cost	\$ 1,095	\$ 3.12	\$ 1,076	\$ 3.19
Losses on settled hedges	34	0.10	46	0.14
Consolidated economic fuel expense	1,129	3.22	1,122	3.33
Mark-to-market fuel hedge adjustment	(17)	(0.05)	(7)	(0.02)
GAAP fuel expense	\$ 1,112	\$ 3.17	\$ 1,115	\$ 3.31
Fuel gallons	351		337	

Note A: Pursuant to Regulation G, we are providing disclosure of the reconciliation 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 without the consideration of accounting changes or 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.
- Operating revenue per ASM (RASM) for the prior year excludes a favorable, one-time "special" revenue item of \$192 million primarily related to our modified affinity card agreement with Bank of America, executed in July 2013. In accordance with accounting standards, we recorded this one-time special revenue item in the third quarter of 2013. This is purely an accounting change and the prior period results do not reflect the economics of the agreement, rather it reflects a non-cash adjustment of the value of miles outstanding in the program. We believe it is appropriate to exclude this special revenue item from adjusted earnings and revenue metrics.
- 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 Taxes and CASM excluding fuel (and other items as specified in our plan documents) 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 special revenues, 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

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