

**CHARTER OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS  
OF ALASKA AIR GROUP, INC.**

**As Amended August 3, 2016**

**1. Purpose.**

There shall be a committee of the Board of Directors to be known as the Audit Committee. The purpose of the Audit Committee is to assist the Board of Directors of Alaska Air Group, Inc. (the “Company”) in overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company, including:

- (a) the integrity of the Company’s financial statements and the reliability of the Company’s financial information reported to the public,
- (b) the Company’s compliance with legal and regulatory requirements,
- (c) the qualifications and independence of the Company’s independent accountants,
- (d) the adequacy of the Company’s internal controls and financial risk management function, and
- (e) such other matters as may be assigned by the Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate or in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditors.

**2. Composition.**

The Audit Committee shall be appointed by the Board of Directors and shall have at least three members. All members of the Audit Committee shall meet the independence, financial literacy and experience requirements of the New York Stock Exchange, as the same may be amended or supplemented from time to time, and of the Securities and Exchange Commission (the “SEC”) pursuant to regulations promulgated by the SEC under The Sarbanes-Oxley Act of 2002 (the “Sarbanes Act”) or otherwise, as the same may be amended or supplemented from time to time. The Company must disclose in its periodic reports required by Section 13(a) of the Securities Exchange Act of 1934 (the “Act”) whether or not it has at least one member who is a “financial expert,” as defined by the SEC pursuant to the Sarbanes Act and whether such expert is “independent” as defined in Section 10A(m)(3) of the Act, and if not, why not.

### **3. Matters Pertaining to Independent Accountants.**

The Audit Committee shall be solely responsible for the appointment, compensation and oversight of the work of the Company's independent accountants (including resolution of disagreements between management and the independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and, where appropriate, the determination to terminate and replace such firm. Such independent accountants shall report directly to and be ultimately accountable to the Audit Committee.

The Audit Committee shall:

- (a) Review the terms of the engagement of the independent accountants, including the scope of their audit, proposed fees and personnel qualifications.
- (b) Obtain and review from the independent accountants at least annually a formal written statement regarding:
  - (1) the independent accountants' internal quality-control procedures;
  - (2) any material issues raised by the most recent internal quality control review, or peer review, of the independent accountants, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent accountants, and any steps taken to deal with any such issues; and
  - (3) all relationships between the independent accountants and the Company.
- (c) Actively engage in a dialogue with the independent accountants with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent accountants, and recommend that the Board of Directors take appropriate action to satisfy itself of such independence.
- (d) Pre-approve all auditing services and all non-auditing services to be performed by the independent accountants. Such pre-approval may be given as part of the Audit Committee's approval of the scope of the engagement of the independent accounts or on an individual basis.

The approved non-auditing services must be disclosed in the Company's periodic public reports required by Section 13(a) of the Act and the fees paid by the Company for such non-auditing services must be disclosed in the Company's annual proxy statement pursuant to Item 9(e) of Regulation 14A promulgated under the Act. The pre-approval of non-auditing services can be delegated by the Audit Committee to one or more of its members, but the decision must be presented to the full Audit Committee at the next scheduled meeting.

The independent accountants shall not be retained to perform the non-audit functions prohibited by Section 10A(g) of the Act.

- (e) Establish clear hiring policies for employees and former employees of the independent accountants.
- (f) Review the Company's annual audited financial statements and quarterly financial statements with management and the independent accountants (including the Company's disclosure under Management's Discussion and Analysis of Financial Condition and Results of Operations). The Chair of the Audit Committee may represent the entire Audit Committee for purposes of the review of quarterly statements.
- (g) Receive and review required communications from the independent accountants, including: (a) any items required to be communicated by the independent accountants in accordance with Public Company Accounting Oversight Board (PCAOB) Audit Standard No. 16, (b) if applicable, any audit problems or difficulties and management's response; and (c) timely reports regarding the following matters in connection with any audits performed by the Company's independent accountants:
  - (1) all critical accounting policies and practices to be used;
  - (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the Company, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountant; and
  - (3) other material written communications between the independent accountant and the Company's management, such as any management letter or schedule of unadjusted differences.

#### **4. Matters Pertaining to the Internal Auditor.**

The Audit Committee shall:

- (a) Review and approve the annual internal audit plan, ensuring the application of an appropriate risk-based methodology that satisfactorily monitors the Company's highest risk areas.
- (b) Discuss with the Internal Audit Executive the results of internal audit activities, special reviews, investigations, or projects, with specific attention to any significant deficiencies in the design or operation of the Company's internal controls or any fraud (regardless of materiality) involving persons having a significant role in internal controls.
- (c) Annually review the structure and resources of the audit team, including staffing adequacy and other factors that may affect the effectiveness and timeliness of the internal audits.
- (d) Review and approve any changes to the internal audit charter.

## **5. Matters Pertaining to Filings with Government Agencies.**

The Audit Committee shall:

- (a) Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement to shareholders.
- (b) Annually review and approve the Company's or any of its subsidiaries' decisions to enter into interest rate or other swaps, including those related to fuel hedging activities that are exempt from mandatory clearing requirements of the Commodities Exchange Act (the "Act"), as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, by electing the End-User Exception specified in Section 50.50 of the Act.
- (c) Prepare and cause to be submitted annually to the Commodity Futures Trading Commission ("CFTC"), or such other agency designated by the CFTC, the information specified in 17 CFR 39.6(b), attesting that the Company's or any of its subsidiaries' swap activities related to interest rates and/or fuel hedging qualify for the End-User Exception from the Act's clearing requirements.

## **6. Controls.**

The Audit Committee shall:

- (a) Review with management the Company's major financial risk exposure and the adequacy and effectiveness of the Company's associated internal controls.
- (b) Review the Company's procedures with respect to appropriateness of significant accounting policies and adequacy of financial controls.
- (c) Discuss with management policies with respect to risk assessment and risk management, including the process by which the company undertakes risk assessment and management.
- (d) Discuss generally with management earnings releases, as well as financial information and earnings guidance provided to analysts and rating agencies. The Audit Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
- (e) Develop, monitor and reassess from time to time a Corporate Compliance Program, including a Code of Conduct and Ethics for officers, employees and directors, and make decisions with respect to any requested changes to or waivers of such program and codes for directors or officers.
  - (1) In connection with such Corporate Compliance Program, establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters.

- (f) Obtain and review from the Company's Chief Executive Officer, Chief Financial Officer and members of its Disclosure Committee at least quarterly a formal written statement disclosing.
  - (1) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weakness in internal controls; and
  - (2) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

**7. Other.**

The Audit Committee shall:

- (a) Review and reassess the adequacy of its charter and the performance of the Audit Committee annually and recommend any proposed changes to the Board of Directors for approval, and publish the charter as required by applicable law.
- (b) Regularly report to the Board of Directors on the Audit Committee's activities and make appropriate recommendations.
- (c) To maximize free and open communication, meet in separate executive sessions with each of management, internal audit and the independent auditor in the course of carrying out its duties with respect to each of those groups.

The Audit Committee may, in the course of performing its duties, retain outside legal counsel and other advisors at its discretion and at the expense of the Company.