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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 8-K**

**CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**October 25, 2017**  
(Date of earliest event reported)

**ALASKA AIR GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation)

**1-8957**  
(Commission File Number)

**91-1292054**  
(IRS Employer Identification No.)

**19300 International Boulevard, Seattle, Washington**  
(Address of Principal Executive Offices)

**98188**  
(Zip Code)

**(206) 392-5040**  
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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**ITEM 2.02. Results of Operations And Financial Condition**

Alaska Air Group, Inc. today issued a press release reporting financial results for the third quarter of 2017. The press release is filed as Exhibit 99.1.

**ITEM 7.01. Regulation FD Disclosure**

Pursuant to 17 CFR Part 243 ("Regulation FD"), the Company is submitting information relating to its financial and operational outlook in an Investor Update as attached in Exhibit 99.2.

In accordance with General Instruction B.2 of Form 8-K, the information under this item and Exhibit 99.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing. This report will not be deemed an admission as to the materiality of any information required to be disclosed solely to satisfy the requirements of Regulation FD.

**ITEM 9.01 Financial Statements and Other Exhibits**

[Exhibit 99.1](#) Third quarter 2017 Earnings Press Release dated October 25, 2017

[Exhibit 99.2](#) Investor Update dated October 25, 2017

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALASKA AIR GROUP, INC.

Registrant

Date: October 25, 2017

Brandon S. Pedersen  
Executive Vice President/Finance and Chief Financial Officer

# Alaska Air Group

October 25, 2017

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## Alaska Air Group Reports Third Quarter 2017 Results

### **Financial Highlights:**

- Reported net income for the third quarter under Generally Accepted Accounting Principles ("GAAP") of \$266 million or \$2.14 per diluted share, compared to net income of \$256 million, or \$2.07 per diluted share in 2016. As the acquisition of Virgin America Inc. ("Virgin America") closed on Dec. 14, 2016, third quarter 2017 information reflects the results of Virgin America, including the impacts associated with purchase accounting. Third quarter 2016 results do not include Virgin America.
- Reported third quarter net income, excluding merger-related costs and mark-to-market fuel hedging adjustments, of \$278 million, compared to \$272 million in the third quarter of 2016. Adjusted diluted earnings per share were \$2.24, compared to \$2.20 in the third quarter of 2016.
- Virgin America results were accretive to EPS in the three and nine months ending September 30, 2017.
- Paid \$0.30 per-share quarterly cash dividend in the third quarter, a 9% increase over the dividend paid in the third quarter of 2016.
- Repurchased approximately 0.6 million shares of common stock for \$50 million in the first nine months of 2017.
- Generated approximately \$1.4 billion of operating cash flow and used approximately \$840 million for capital expenditures, resulting in approximately \$520 million of free cash flow in the first nine months of 2017.
- Held \$1.7 billion in unrestricted cash and marketable securities as of September 30, 2017.
- Reduced debt-to-capitalization ratio to 53% as of September 30, 2017, compared to 59% as of December 31, 2016.

### **Operational Highlights:**

- Launched twenty new routes during the quarter, continuing the most significant network expansion in Alaska Air Group's 85-year history, bringing the total new markets since the merger to 37.
- Overall, the integration of Virgin America is going well and a number of significant milestones are expected to be achieved in the next seven months.
- Announced a seven-year partnership to be the official airline of the San Francisco Giants which includes, among other things, exclusive naming rights to the AT&T Park Club Level which will now be called the "Alaska Airlines Club Level."
- Signed an exclusive multi-year partnership with Golden State Warriors star, Kevin Durant, and named him our "Advisor to the CEO."
- Added Singapore Airlines as a global Mileage Plan partner.

- Selected Gogo to provide next-generation satellite-based Wi-Fi across the entire Boeing and Airbus fleets, providing guests a faster and more-reliable internet connection.
- Dropped fees for bikes, golf clubs, skis, surfboards, and other sporting equipment that exceed Alaska’s normal checked baggage weight and dimensions to \$25.
- Took delivery of four Embraer 175 jets, bringing the total operated by Horizon to ten as of September 30, 2017.
- Placed the world's first Boeing 737-700 converted from a passenger plane to a freighter into service.

**Recognition and Awards:**

- Ranked as the top U.S. airline in the Dow Jones Sustainability Index (DJSI), receiving perfect scores for “efficiency” and “reliability”.
- Mileage Plan ranked first in the U.S. News & World Report's list of Best Airline Rewards Programs for the third consecutive year.
- Virgin America named “Best U.S. Airline” by Condé Nast Traveler in their 2017 Reader’s Choice Awards for the 10th year in a row.
- Ranked Best Airline in Customer Service in the 2017 worldwide SimpliFlying Awards for Excellence in Social Media.
- Named Favorite Airline in North America for the second consecutive year by Trazee Travel.
- Mileage Plan ranked Best Airline Elite Status Program in the U.S. by The Points Guy.
- Recognized by the Puget Sound Business Journal as the 2017 Board Diversity Champion, for diversifying Air Group's board composition over the last five years.
- Named one of the overall five-star major regional airlines at the Passenger Choice Awards during the APEX EXPO. Virgin America received a five-star rating for low-cost carrier, and received a top honor with a Passenger Choice Award for “Best Seat Comfort.”

SEATTLE — Alaska Air Group, Inc., (NYSE: ALK) today reported third quarter 2017 GAAP net income of \$266 million, or \$2.14 per diluted share, compared to \$256 million, or \$2.07 per diluted share in the third quarter of 2016. Excluding the impact of merger-related costs and mark-to-market fuel hedge adjustments, the company reported adjusted net income of \$278 million, or \$2.24 per diluted share, compared to \$272 million, or \$2.20 per diluted share, in 2016.

“Our people delivered very strong results again this quarter,” said CEO Brad Tilden. “At roughly the halfway point in our integration with Virgin America, and despite some unrelated challenges in our regional operation, our business is performing well, and we are very happy with the response we’ve seen in California and throughout the West to our expanding network, our focus on hospitality, and to our industry-leading mileage plan. I want to thank our talented people for their commitment and dedication.”

The following table reconciles the company's reported GAAP net income and earnings per diluted share ("diluted EPS") for the three and nine months ended September 30, 2017, and 2016 to adjusted amounts:

| <i>(in millions, except per-share amounts)</i>                | Three Months Ended September 30, |             |         |             |
|---|----------------------------------|-------------|---------|-------------|
|   | 2017                             |             | 2016    |             |
|   | Dollars                          | Diluted EPS | Dollars | Diluted EPS |
| Reported GAAP net income and diluted EPS                      | \$ 266                           | \$ 2.14     | \$ 256  | \$ 2.07     |
| Mark-to-market fuel hedge adjustments                         | (5)                              | (0.04)      | 3       | 0.02        |
| Special items—merger-related costs                            | 24                               | 0.20        | 22      | 0.18        |
| Income tax effect on special items and fuel hedge adjustments | (7)                              | (0.06)      | (9)     | (0.07)      |
| Non-GAAP adjusted net income and diluted EPS                  | \$ 278                           | \$ 2.24     | \$ 272  | \$ 2.20     |

| <i>(in millions, except per-share amounts)</i>                | Nine Months Ended September 30, |             |         |             |
|---|---------------------------------|-------------|---------|-------------|
|   | 2017                            |             | 2016    |             |
|   | Dollars                         | Diluted EPS | Dollars | Diluted EPS |
| Reported GAAP net income and diluted EPS                      | \$ 661                          | \$ 5.31     | \$ 700  | \$ 5.63     |
| Mark-to-market fuel hedge adjustments                         | 7                               | 0.06        | (9)     | (0.07)      |
| Special items—merger-related costs                            | 88                              | 0.70        | 36      | 0.29        |
| Income tax effect on special items and fuel hedge adjustments | (35)                            | (0.28)      | (10)    | (0.08)      |
| Non-GAAP adjusted net income and diluted EPS                  | \$ 721                          | \$ 5.79     | \$ 717  | \$ 5.77     |

Statistical data, as well as a reconciliation of the reported non-GAAP financial measures, can be found in the accompanying tables. A glossary of financial terms can be found on the last page of this release.

A conference call regarding the third quarter results will be simulcast online at 8:30 a.m. Pacific time on October 25, 2017. It can be accessed through the company's website at [www.alaskaair.com/investors](http://www.alaskaair.com/investors). For those unable to listen to the live broadcast, a replay will be available after the conclusion of the call.

References in this news release to "Air Group," "company," "we," "us" and "our" refer to Alaska Air Group, Inc. and its subsidiaries, unless otherwise specified. Alaska Airlines, Inc., Horizon Air Industries, Inc., and Virgin America Inc. are referred to as "Alaska," "Horizon," and "Virgin America" respectively, and together as our "airlines."

This news release may contain forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. For a comprehensive discussion of potential risk factors, see Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as well as in other documents filed by the Company with the SEC after the date thereof. Some of these risks include general economic conditions, increases in operating costs including fuel, competition, labor costs and relations, our indebtedness, inability to meet cost reduction goals, seasonal fluctuations in our financial results, an aircraft accident, changes in laws and regulations and risks inherent in the achievement of anticipated synergies and the timing thereof in connection with the acquisition of Virgin America. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We expressly disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance, or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.

Alaska Airlines, together with Virgin America and its regional partners, flies 40 million guests a year to 118 destinations with an average of 1,200 daily flights across the United States and to Mexico, Canada, Costa Rica and Cuba. With Alaska and [Alaska Global Partners](#), guests can earn and redeem miles on flights to more than 900 destinations worldwide. Alaska Airlines ranked "[Highest in Customer Satisfaction Among Traditional Carriers in North America](#)" in the J.D. Power North America Satisfaction Study for 10 consecutive years from 2008 to 2017. Learn more about Alaska's award-winning service at [newsroom.alaskaair.com](http://newsroom.alaskaair.com) and [blog.alaskaair.com](http://blog.alaskaair.com). Alaska Airlines, Virgin America and Horizon Air are subsidiaries of Alaska Air Group (NYSE: ALK).

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**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

**Alaska Air Group, Inc.**

As the acquisition closed on December 14, 2016, amounts presented below include Virgin America results for the three and nine months ended September 30, 2017 but not for the prior periods.

| <i>(in millions, except per-share amounts)</i>    | Three Months Ended September 30, |                |                       | Nine Months Ended September 30, |                |                       |
|---|----------------------------------|----------------|-----------------------|---------------------------------|----------------|-----------------------|
|   | 2017                             | 2016           | Change <sup>(a)</sup> | 2017                            | 2016           | Change <sup>(a)</sup> |
| <b>Operating Revenues:</b>                        |                                  |                |                       |                                 |                |                       |
| Passenger   |                                  |                |                       |                                 |                |                       |
| Mainline  | \$ 1,562                         | \$ 1,073       | 46 %                  | \$ 4,390                        | \$ 3,036       | 45 %                  |
| Regional  | 262                              | 249            | 5 %                   | 725                             | 682            | 6 %                   |
| Total passenger revenue                           | 1,824                            | 1,322          | 38 %                  | 5,115                           | 3,718          | 38 %                  |
| Freight and mail                                  | 32                               | 31             | 3 %                   | 88                              | 82             | 7 %                   |
| Other—net   | 264                              | 213            | 24 %                  | 768                             | 607            | 27 %                  |
| <b>Total Operating Revenues</b>                   | <b>2,120</b>                     | <b>1,566</b>   | <b>35 %</b>           | <b>5,971</b>                    | <b>4,407</b>   | <b>35 %</b>           |
| <b>Operating Expenses:</b>                        |                                  |                |                       |                                 |                |                       |
| Wages and benefits                                | 475                              | 340            | 40 %                  | 1,392                           | 1,008          | 38 %                  |
| Variable incentive pay                            | 40                               | 31             | 29 %                  | 98                              | 95             | 3 %                   |
| Aircraft fuel, including hedging gains and losses | 368                              | 225            | 64 %                  | 1,051                           | 593            | 77 %                  |
| Aircraft maintenance                              | 88                               | 64             | 38 %                  | 271                             | 197            | 38 %                  |
| Aircraft rent                                     | 70                               | 25             | 180 %                 | 204                             | 80             | 155 %                 |
| Landing fees and other rentals                    | 124                              | 89             | 39 %                  | 338                             | 232            | 46 %                  |
| Contracted services                               | 76                               | 63             | 21 %                  | 234                             | 183            | 28 %                  |
| Selling expenses                                  | 91                               | 58             | 57 %                  | 269                             | 162            | 66 %                  |
| Depreciation and amortization                     | 95                               | 101            | (6)%                  | 275                             | 281            | (2)%                  |
| Food and beverage service                         | 50                               | 31             | 61 %                  | 145                             | 93             | 56 %                  |
| Third-party regional carrier expense              | 30                               | 25             | 20 %                  | 84                              | 72             | 17 %                  |
| Special items—merger-related costs                | 24                               | 22             | 9 %                   | 88                              | 36             | 144 %                 |
| Other   | 150                              | 92             | 63 %                  | 424                             | 267            | 59 %                  |
| <b>Total Operating Expenses</b>                   | <b>1,681</b>                     | <b>1,166</b>   | <b>44 %</b>           | <b>4,873</b>                    | <b>3,299</b>   | <b>48 %</b>           |
| <b>Operating Income</b>                           | <b>439</b>                       | <b>400</b>     | <b>10 %</b>           | <b>1,098</b>                    | <b>1,108</b>   | <b>(1)%</b>           |
| <b>Nonoperating Income (Expense):</b>             |                                  |                |                       |                                 |                |                       |
| Interest income                                   | 9                                | 7              |                       | 25                              | 20             |                       |
| Interest expense                                  | (26)                             | (11)           |                       | (77)                            | (33)           |                       |
| Interest capitalized                              | 5                                | 6              |                       | 13                              | 21             |                       |
| Other—net   | —                                | —              |                       | (1)                             | (2)            |                       |
| <b>Total Nonoperating Income (Expense)</b>        | <b>(12)</b>                      | <b>2</b>       |                       | <b>(40)</b>                     | <b>6</b>       |                       |
| <b>Income Before Income Tax</b>                   | <b>427</b>                       | <b>402</b>     |                       | <b>1,058</b>                    | <b>1,114</b>   |                       |
| Income tax expense                                | 161                              | 146            |                       | 397                             | 414            |                       |
| <b>Net Income</b>                                 | <b>\$ 266</b>                    | <b>\$ 256</b>  |                       | <b>\$ 661</b>                   | <b>\$ 700</b>  |                       |
| <b>Basic Earnings Per Share:</b>                  | <b>\$ 2.15</b>                   | <b>\$ 2.08</b> |                       | <b>\$ 5.35</b>                  | <b>\$ 5.66</b> |                       |
| <b>Diluted Earnings Per Share:</b>                | <b>\$ 2.14</b>                   | <b>\$ 2.07</b> |                       | <b>\$ 5.31</b>                  | <b>\$ 5.63</b> |                       |
| <b>Shares Used for Computation:</b>               |                                  |                |                       |                                 |                |                       |
| Basic   | 123.467                          | 123.149        |                       | 123.501                         | 123.648        |                       |
| Diluted   | 124.220                          | 123.833        |                       | 124.341                         | 124.393        |                       |
| Cash dividend declared per share:                 | \$ 0.300                         | \$ 0.275       |                       | \$ 0.900                        | \$ 0.825       |                       |

(a) See Combined Comparative information in the accompanying pages for year-over-year comparisons including Virgin America.

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

| <i>(in millions)</i>   | September 30, 2017 | December 31, 2016 |
|--|--------------------|-------------------|
| Cash and marketable securities   | \$ 1,740           | \$ 1,580          |
| Total current assets   | 2,214              | 2,050             |
| Property and equipment—net   | 6,230              | 5,666             |
| Goodwill   | 1,934              | 1,934             |
| Intangible assets  | 135                | 143               |
| Other assets   | 226                | 169               |
| <b>Total assets</b>  | <b>10,739</b>      | <b>9,962</b>      |
| Air traffic liability  | 1,103              | 849               |
| Current portion of long-term debt  | 334                | 319               |
| Other current liabilities  | 1,328              | 1,367             |
| Current liabilities  | 2,765              | 2,535             |
| Long-term debt   | 2,367              | 2,645             |
| Other liabilities and credits  | 2,116              | 1,851             |
| Shareholders' equity   | 3,491              | 2,931             |
| <b>Total liabilities and shareholders' equity</b>                          | <b>\$ 10,739</b>   | <b>\$ 9,962</b>   |
| Debt-to-capitalization ratio, adjusted for operating leases <sup>(a)</sup> | 53%                | 59%               |
| Number of common shares outstanding  | 123,387            | 123,328           |

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

**OPERATING STATISTICS SUMMARY (unaudited)**

**Alaska Air Group, Inc.**

As the acquisition closed on December 14, 2016, Consolidated and Mainline amounts presented below include Virgin America results for the three and nine months ended September 30, 2017 but not for the prior periods.

|   | Three Months Ended September 30, |        |                       | Nine Months Ended September 30, |        |                       |
|---|----------------------------------|--------|-----------------------|---------------------------------|--------|-----------------------|
|   | 2017                             | 2016   | Change <sup>(d)</sup> | 2017                            | 2016   | Change <sup>(d)</sup> |
| <b>Consolidated Operating Statistics:<sup>(a)</sup></b> |                                  |        |                       |                                 |        |                       |
| Revenue passengers (000)                                | 11,645                           | 9,054  | 28.6%                 | 33,063                          | 25,536 | 29.5%                 |
| RPMs (000,000) "traffic"                                | 13,811                           | 9,601  | 43.8%                 | 39,073                          | 27,569 | 41.7%                 |
| ASMs (000,000) "capacity"                               | 16,164                           | 11,212 | 44.2%                 | 46,170                          | 32,728 | 41.1%                 |
| Load factor   | 85.4%                            | 85.6%  | (0.2) pts             | 84.6%                           | 84.2%  | 0.4 pts               |
| Yield   | 13.21¢                           | 13.77¢ | (4.1)%                | 13.09¢                          | 13.49¢ | (3.0)%                |
| PRASM   | 11.29¢                           | 11.79¢ | (4.2)%                | 11.08¢                          | 11.36¢ | (2.5)%                |
| RASM  | 13.12¢                           | 13.97¢ | (6.1)%                | 12.93¢                          | 13.47¢ | (4.0)%                |
| CASMex <sup>(b)</sup>                                   | 7.98¢                            | 8.20¢  | (2.7)%                | 8.09¢                           | 8.16¢  | (0.9)%                |
| Economic fuel cost per gallon <sup>(b)</sup>            | \$1.80                           | \$1.58 | 13.9%                 | \$1.76                          | \$1.47 | 19.7%                 |
| Fuel gallons (000,000)                                  | 207                              | 140    | 47.9%                 | 592                             | 410    | 44.4%                 |
| ASM's per gallon  | 78.1                             | 80.1   | (2.5)%                | 78.0                            | 79.8   | (2.3)%                |
| Average number of full-time equivalent employees (FTE)  | 20,743                           | 14,674 | 41.4%                 | 19,723                          | 14,500 | 36.0%                 |
| <b>Mainline Operating Statistics:</b>                   |                                  |        |                       |                                 |        |                       |
| Revenue passengers (000)                                | 9,142                            | 6,507  | 40.5%                 | 25,875                          | 18,432 | 40.4%                 |
| RPMs (000,000) "traffic"                                | 12,694                           | 8,595  | 47.7%                 | 36,046                          | 24,767 | 45.5%                 |
| ASMs (000,000) "capacity"                               | 14,796                           | 9,987  | 48.2%                 | 42,398                          | 29,216 | 45.1%                 |
| Load factor   | 85.8%                            | 86.1%  | (0.3) pts             | 85.0%                           | 84.8%  | 0.2 pts               |
| Yield   | 12.31¢                           | 12.49¢ | (1.4)%                | 12.18¢                          | 12.26¢ | (0.7)%                |
| PRASM   | 10.56¢                           | 10.75¢ | (1.8)%                | 10.36¢                          | 10.39¢ | (0.3)%                |
| RASM  | 12.40¢                           | 12.96¢ | (4.3)%                | 12.22¢                          | 12.53¢ | (2.5)%                |
| CASMex <sup>(b)</sup>                                   | 7.28¢                            | 7.28¢  | —%                    | 7.32¢                           | 7.21¢  | 1.5%                  |
| Economic fuel cost per gallon <sup>(b)</sup>            | \$1.79                           | \$1.57 | 14.0%                 | \$1.76                          | \$1.46 | 20.5%                 |
| Fuel gallons (000,000)                                  | 183                              | 119    | 53.8%                 | 526                             | 350    | 50.3%                 |
| ASM's per gallon  | 80.9                             | 83.9   | (3.6)%                | 80.6                            | 83.5   | (3.5)%                |
| Average number of FTE's                                 | 15,862                           | 11,397 | 39.2%                 | 15,439                          | 11,260 | 37.1%                 |
| Aircraft utilization                                    | 16.1                             | 10.6   | 51.9%                 | 15.7                            | 10.7   | 46.7%                 |
| Average aircraft stage length                           | 1,300                            | 1,203  | 8.1%                  | 1,296                           | 1,218  | 6.4%                  |
| Operating fleet   | 218                              | 154    | 64 a/c                | 218                             | 154    | 64 a/c                |
| <b>Regional Operating Statistics:<sup>(c)</sup></b>     |                                  |        |                       |                                 |        |                       |
| Revenue passengers (000)                                | 2,503                            | 2,547  | (1.7)%                | 7,188                           | 7,105  | 1.2%                  |
| RPMs (000,000) "traffic"                                | 1,117                            | 1,006  | 11.0%                 | 3,027                           | 2,801  | 8.1%                  |
| ASMs (000,000) "capacity"                               | 1,368                            | 1,225  | 11.7%                 | 3,772                           | 3,512  | 7.4%                  |
| Load factor   | 81.7%                            | 82.1%  | (0.4) pts             | 80.2%                           | 79.8%  | 0.4 pts               |
| Yield   | 23.48¢                           | 24.75¢ | (5.1)%                | 23.95¢                          | 24.35¢ | (1.6)%                |
| PRASM   | 19.17¢                           | 20.32¢ | (5.7)%                | 19.22¢                          | 19.43¢ | (1.1)%                |
| Operating fleet   | 83                               | 69     | 14 a/c                | 83                              | 69     | 14 a/c                |

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.

(b) See a reconciliation of this non-GAAP measure and Note A for a discussion of potential importance of this measure to investors in the accompanying pages.

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

(d) See Combined Comparative information in the accompanying pages for year-over-year comparisons including Virgin America.



**SUPPLEMENTARY COMBINED COMPARATIVE FINANCIAL AND OPERATING INFORMATION (unaudited)**

We believe that analysis of specific financial and operational results on a combined basis provides more meaningful year-over-year comparisons. The table below provides "Combined Comparative" results for the three and nine months ended September 30, 2016, determined as the sum of the historical consolidated results of Air Group and of Virgin America. Virgin America's financial information has been conformed to reflect Air Group's historical financial statement presentation for each period presented. This information does not purport to reflect what our financial and operational results would have been had the acquisition been consummated at the beginning of the periods presented.

| <i>(in millions, except operating statistics)</i> | Three Months Ended September 30, |                  |              | Nine Months Ended September 30, |                  |              |
|---|----------------------------------|------------------|--------------|---------------------------------|------------------|--------------|
|   | 2017<br>As Reported              | 2016<br>Combined | Change       | 2017<br>As Reported             | 2016<br>Combined | Change       |
| <b>Combined Comparative Operating Results</b>     |                                  |                  |              |                                 |                  |              |
| Passenger revenue                                 | \$ 1,824                         | \$ 1,724         | 6%           | \$ 5,115                        | \$ 4,833         | 6%           |
| Other revenue                                     | 296                              | 288              | 3%           | 856                             | 808              | 6%           |
| <b>Total Operating Revenues</b>                   | <b>2,120</b>                     | <b>2,012</b>     | <b>5%</b>    | <b>5,971</b>                    | <b>5,641</b>     | <b>6%</b>    |
| Non-fuel operating expense                        | 1,313                            | 1,216            | 8%           | 3,822                           | 3,518            | 9%           |
| Fuel expense                                      | 368                              | 306              | 20%          | 1,051                           | 822              | 28%          |
| <b>Total Operating Expenses</b>                   | <b>1,681</b>                     | <b>1,522</b>     | <b>10%</b>   | <b>4,873</b>                    | <b>4,340</b>     | <b>12%</b>   |
| <b>Operating Income</b>                           | <b>439</b>                       | <b>490</b>       | <b>(10)%</b> | <b>1,098</b>                    | <b>1,301</b>     | <b>(16)%</b> |
| Nonoperating income (expense)                     | (12)                             | (3)              | 300%         | (40)                            | (8)              | 400%         |
| <b>Income Before Tax</b>                          | <b>427</b>                       | <b>487</b>       | <b>(12)%</b> | <b>1,058</b>                    | <b>1,293</b>     | <b>(18)%</b> |
| Special items—merger-related costs                | 24                               | 24               | —%           | 88                              | 44               | 100%         |
| Mark-to-market fuel hedge adjustments             | (5)                              | 3                | (267)%       | 7                               | (11)             | (164)%       |
| <b>Adjusted Income Before Tax</b>                 | <b>\$ 446</b>                    | <b>\$ 514</b>    | <b>(13)%</b> | <b>\$ 1,153</b>                 | <b>\$ 1,326</b>  | <b>(13)%</b> |

**Combined Comparative Operating Statistics**

|                          |        |        |           |        |        |         |
|--------------------------|--------|--------|-----------|--------|--------|---------|
| Revenue passengers (000) | 11,645 | 11,229 | 3.7%      | 33,063 | 31,565 | 4.7%    |
| RPMs (000,000)           | 13,811 | 12,922 | 6.9%      | 39,073 | 36,670 | 6.6%    |
| ASMs (000,000)           | 16,164 | 15,079 | 7.2%      | 46,170 | 43,549 | 6.0%    |
| Load Factor              | 85.4%  | 85.7%  | (0.3) pts | 84.6%  | 84.2%  | 0.4 pts |
| PRASM                    | 11.29¢ | 11.43¢ | (1.2)%    | 11.08¢ | 11.10¢ | (0.2)%  |
| RASM                     | 13.12¢ | 13.34¢ | (1.6)%    | 12.93¢ | 12.95¢ | (0.2)%  |
| CASMex                   | 7.98¢  | 7.90¢  | 1.0%      | 8.09¢  | 7.98¢  | 1.4%    |

**2016 Combined Comparative Operating Results and Statistics**

Refer to our Investor Update issued on April 12, 2017 on Form 8-K for combined comparative operating results and statistics for each of the quarters, including the the calculation of the three and nine months ended September 30, 2016 combined data, and full year 2016.

**OPERATING SEGMENTS (unaudited)**

**Alaska Air Group, Inc.**

As the acquisition closed on December 14, 2016, Consolidated and Mainline amounts presented below include Virgin America results for the three and nine months ended September 30, 2017 but not for the prior periods.

| <i>(in millions)</i>                       | Three Months Ended September 30, 2017 |              |             |                       |                                   |                              |               |
|--|---------------------------------------|--------------|-------------|-----------------------|-----------------------------------|------------------------------|---------------|
|  | Mainline                              | Regional     | Horizon     | Consolidating & Other | Air Group Adjusted <sup>(a)</sup> | Special Items <sup>(b)</sup> | Consolidated  |
| <b>Operating revenues</b>                  |                                       |              |             |                       |                                   |                              |               |
| Passenger                                  |                                       |              |             |                       |                                   |                              |               |
| Mainline                                   | \$ 1,562                              | \$ —         | \$ —        | \$ —                  | \$ 1,562                          | \$ —                         | \$ 1,562      |
| Regional                                   | —                                     | 262          | —           | —                     | 262                               | —                            | 262           |
| Total passenger revenues                   | 1,562                                 | 262          | —           | —                     | 1,824                             | —                            | 1,824         |
| CPA revenues                               | —                                     | —            | 112         | (112)                 | —                                 | —                            | —             |
| Freight and mail                           | 30                                    | 1            | 1           | —                     | 32                                | —                            | 32            |
| Other—net                                  | 242                                   | 21           | 1           | —                     | 264                               | —                            | 264           |
| <b>Total operating revenues</b>            | <b>1,834</b>                          | <b>284</b>   | <b>114</b>  | <b>(112)</b>          | <b>2,120</b>                      | <b>—</b>                     | <b>2,120</b>  |
| <b>Operating expenses</b>                  |                                       |              |             |                       |                                   |                              |               |
| Operating expenses, excluding fuel         | 1,077                                 | 219          | 105         | (112)                 | 1,289                             | 24                           | 1,313         |
| Economic fuel                              | 328                                   | 45           | —           | —                     | 373                               | (5)                          | 368           |
| <b>Total operating expenses</b>            | <b>1,405</b>                          | <b>264</b>   | <b>105</b>  | <b>(112)</b>          | <b>1,662</b>                      | <b>19</b>                    | <b>1,681</b>  |
| <b>Nonoperating income (expense)</b>       |                                       |              |             |                       |                                   |                              |               |
| Interest income                            | 11                                    | —            | —           | (2)                   | 9                                 | —                            | 9             |
| Interest expense                           | (23)                                  | —            | (4)         | 1                     | (26)                              | —                            | (26)          |
| Other                                      | 5                                     | —            | —           | —                     | 5                                 | —                            | 5             |
| <b>Total Nonoperating income (expense)</b> | <b>(7)</b>                            | <b>—</b>     | <b>(4)</b>  | <b>(1)</b>            | <b>(12)</b>                       | <b>—</b>                     | <b>(12)</b>   |
| <b>Income (loss) before income tax</b>     | <b>\$ 422</b>                         | <b>\$ 20</b> | <b>\$ 5</b> | <b>\$ (1)</b>         | <b>\$ 446</b>                     | <b>\$ (19)</b>               | <b>\$ 427</b> |

| <i>(in millions)</i>                       | Three Months Ended September 30, 2016 |              |             |                       |                                   |                              |               |
|--|---------------------------------------|--------------|-------------|-----------------------|-----------------------------------|------------------------------|---------------|
|  | Mainline                              | Regional     | Horizon     | Consolidating & Other | Air Group Adjusted <sup>(a)</sup> | Special Items <sup>(b)</sup> | Consolidated  |
| <b>Operating revenues</b>                  |                                       |              |             |                       |                                   |                              |               |
| Passenger                                  |                                       |              |             |                       |                                   |                              |               |
| Mainline                                   | \$ 1,073                              | \$ —         | \$ —        | \$ —                  | \$ 1,073                          | \$ —                         | \$ 1,073      |
| Regional                                   | —                                     | 249          | —           | —                     | 249                               | —                            | 249           |
| Total passenger revenues                   | 1,073                                 | 249          | —           | —                     | 1,322                             | —                            | 1,322         |
| CPA revenues                               | —                                     | —            | 109         | (109)                 | —                                 | —                            | —             |
| Freight and mail                           | 30                                    | 1            | —           | —                     | 31                                | —                            | 31            |
| Other—net                                  | 190                                   | 21           | 1           | 1                     | 213                               | —                            | 213           |
| <b>Total operating revenues</b>            | <b>1,293</b>                          | <b>271</b>   | <b>110</b>  | <b>(108)</b>          | <b>1,566</b>                      | <b>—</b>                     | <b>1,566</b>  |
| <b>Operating expenses</b>                  |                                       |              |             |                       |                                   |                              |               |
| Operating expenses, excluding fuel         | 727                                   | 202          | 99          | (109)                 | 919                               | 22                           | 941           |
| Economic fuel                              | 188                                   | 34           | —           | —                     | 222                               | 3                            | 225           |
| <b>Total operating expenses</b>            | <b>915</b>                            | <b>236</b>   | <b>99</b>   | <b>(109)</b>          | <b>1,141</b>                      | <b>25</b>                    | <b>1,166</b>  |
| <b>Nonoperating income (expense)</b>       |                                       |              |             |                       |                                   |                              |               |
| Interest income                            | 7                                     | —            | —           | —                     | 7                                 | —                            | 7             |
| Interest expense                           | (7)                                   | —            | (2)         | (2)                   | (11)                              | —                            | (11)          |
| Other                                      | 5                                     | —            | —           | 1                     | 6                                 | —                            | 6             |
| <b>Total Nonoperating income (expense)</b> | <b>5</b>                              | <b>—</b>     | <b>(2)</b>  | <b>(1)</b>            | <b>2</b>                          | <b>—</b>                     | <b>2</b>      |
| <b>Income (loss) before income tax</b>     | <b>\$ 383</b>                         | <b>\$ 35</b> | <b>\$ 9</b> | <b>\$ —</b>           | <b>\$ 427</b>                     | <b>\$ (25)</b>               | <b>\$ 402</b> |

(a) The Air Group Adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocation and does not include certain charges. See Note A in the accompanying pages for further information.

(b) Includes merger-related costs and mark-to-market fuel hedge accounting adjustments.

| Nine Months Ended September 30, 2017       |                 |              |                |                       |                                   |                              |                 |  |
|--|-----------------|--------------|----------------|-----------------------|-----------------------------------|------------------------------|-----------------|--|
| (in millions)                              | Mainline        | Regional     | Horizon        | Consolidating & Other | Air Group Adjusted <sup>(a)</sup> | Special Items <sup>(b)</sup> | Consolidated    |  |
| <b>Operating revenues</b>                  |                 |              |                |                       |                                   |                              |                 |  |
| Passenger                                  |                 |              |                |                       |                                   |                              |                 |  |
| Mainline                                   | \$ 4,390        | \$ —         | \$ —           | \$ —                  | \$ 4,390                          | \$ —                         | \$ 4,390        |  |
| Regional                                   | —               | 725          | —              | —                     | 725                               | —                            | 725             |  |
| Total passenger revenues                   | 4,390           | 725          | —              | —                     | 5,115                             | —                            | 5,115           |  |
| CPA revenues                               | —               | —            | 317            | (317)                 | —                                 | —                            | —               |  |
| Freight and mail                           | 84              | 3            | 1              | —                     | 88                                | —                            | 88              |  |
| Other—net                                  | 708             | 57           | 3              | —                     | 768                               | —                            | 768             |  |
| <b>Total operating revenues</b>            | <b>5,182</b>    | <b>785</b>   | <b>321</b>     | <b>(317)</b>          | <b>5,971</b>                      | <b>—</b>                     | <b>5,971</b>    |  |
| <b>Operating expenses</b>                  |                 |              |                |                       |                                   |                              |                 |  |
| Operating expenses, excluding fuel         | 3,101           | 625          | 324            | (316)                 | 3,734                             | 88                           | 3,822           |  |
| Economic fuel                              | 924             | 120          | —              | —                     | 1,044                             | 7                            | 1,051           |  |
| <b>Total operating expenses</b>            | <b>4,025</b>    | <b>745</b>   | <b>324</b>     | <b>(316)</b>          | <b>4,778</b>                      | <b>95</b>                    | <b>4,873</b>    |  |
| <b>Nonoperating income (expense)</b>       |                 |              |                |                       |                                   |                              |                 |  |
| Interest income                            | 27              | —            | —              | (2)                   | 25                                | —                            | 25              |  |
| Interest expense                           | (68)            | —            | (9)            | —                     | (77)                              | —                            | (77)            |  |
| Other                                      | 11              | —            | 1              | —                     | 12                                | —                            | 12              |  |
| <b>Total Nonoperating income (expense)</b> | <b>(30)</b>     | <b>—</b>     | <b>(8)</b>     | <b>(2)</b>            | <b>(40)</b>                       | <b>—</b>                     | <b>(40)</b>     |  |
| <b>Income (loss) before income tax</b>     | <b>\$ 1,127</b> | <b>\$ 40</b> | <b>\$ (11)</b> | <b>\$ (3)</b>         | <b>\$ 1,153</b>                   | <b>\$ (95)</b>               | <b>\$ 1,058</b> |  |

| Nine Months Ended September 30, 2016       |                 |              |              |                       |                                   |                              |                 |  |
|--|-----------------|--------------|--------------|-----------------------|-----------------------------------|------------------------------|-----------------|--|
| (in millions)                              | Mainline        | Regional     | Horizon      | Consolidating & Other | Air Group Adjusted <sup>(a)</sup> | Special Items <sup>(b)</sup> | Consolidated    |  |
| <b>Operating revenues</b>                  |                 |              |              |                       |                                   |                              |                 |  |
| Passenger                                  |                 |              |              |                       |                                   |                              |                 |  |
| Mainline                                   | \$ 3,036        | \$ —         | \$ —         | \$ —                  | \$ 3,036                          | \$ —                         | \$ 3,036        |  |
| Regional                                   | —               | 682          | —            | —                     | 682                               | —                            | 682             |  |
| Total passenger revenues                   | 3,036           | 682          | —            | —                     | 3,718                             | —                            | 3,718           |  |
| CPA revenues                               | —               | —            | 322          | (322)                 | —                                 | —                            | —               |  |
| Freight and mail                           | 79              | 3            | —            | —                     | 82                                | —                            | 82              |  |
| Other—net                                  | 546             | 57           | 3            | 1                     | 607                               | —                            | 607             |  |
| <b>Total operating revenues</b>            | <b>3,661</b>    | <b>742</b>   | <b>325</b>   | <b>(321)</b>          | <b>4,407</b>                      | <b>—</b>                     | <b>4,407</b>    |  |
| <b>Operating expenses</b>                  |                 |              |              |                       |                                   |                              |                 |  |
| Operating expenses, excluding fuel         | 2,107           | 580          | 305          | (322)                 | 2,670                             | 36                           | 2,706           |  |
| Economic fuel                              | 512             | 90           | —            | —                     | 602                               | (9)                          | 593             |  |
| <b>Total operating expenses</b>            | <b>2,619</b>    | <b>670</b>   | <b>305</b>   | <b>(322)</b>          | <b>3,272</b>                      | <b>27</b>                    | <b>3,299</b>    |  |
| <b>Nonoperating income (expense)</b>       |                 |              |              |                       |                                   |                              |                 |  |
| Interest income                            | 19              | —            | 1            | —                     | 20                                | —                            | 20              |  |
| Interest expense                           | (23)            | —            | (7)          | (3)                   | (33)                              | —                            | (33)            |  |
| Other                                      | 15              | —            | —            | 4                     | 19                                | —                            | 19              |  |
| <b>Total Nonoperating income (expense)</b> | <b>11</b>       | <b>—</b>     | <b>(6)</b>   | <b>1</b>              | <b>6</b>                          | <b>—</b>                     | <b>6</b>        |  |
| <b>Income (loss) before income tax</b>     | <b>\$ 1,053</b> | <b>\$ 72</b> | <b>\$ 14</b> | <b>\$ 2</b>           | <b>\$ 1,141</b>                   | <b>\$ (27)</b>               | <b>\$ 1,114</b> |  |

(a) The Air Group Adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocation and does not include certain charges. See Note A in the accompanying pages for further information.

(b) Includes merger-related costs and mark-to-market fuel hedge accounting adjustments.

**GAAP TO NON-GAAP RECONCILIATIONS (unaudited)**
**Alaska Air Group, Inc.**

As the acquisition closed on December 14, 2016, amounts presented below include Virgin America results for the three and nine months ended September 30, 2017 but not for the prior period.

**CASM Excluding Fuel and Special Items Reconciliation**

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2017                                | 2016         | 2017                               | 2016         |
| <b>Consolidated:</b>                              |                                     |              |                                    |              |
| CASM  | 10.40¢                              | 10.40¢       | 10.55¢                             | 10.08¢       |
| Less the following components:                    |                                     |              |                                    |              |
| Aircraft fuel, including hedging gains and losses | 2.27                                | 2.01         | 2.27                               | 1.81         |
| Special items—merger-related costs                | 0.15                                | 0.19         | 0.19                               | 0.11         |
| <b>CASM excluding fuel and special items</b>      | <b>7.98¢</b>                        | <b>8.20¢</b> | <b>8.09¢</b>                       | <b>8.16¢</b> |
| <b>Mainline:</b>                                  |                                     |              |                                    |              |
| CASM  | 9.63¢                               | 9.41¢        | 9.72¢                              | 9.06¢        |
| Less the following components:                    |                                     |              |                                    |              |
| Aircraft fuel, including hedging gains and losses | 2.19                                | 1.91         | 2.19                               | 1.72         |
| Special items—merger-related costs                | 0.16                                | 0.22         | 0.21                               | 0.13         |
| <b>CASM excluding fuel and special items</b>      | <b>7.28¢</b>                        | <b>7.28¢</b> | <b>7.32¢</b>                       | <b>7.21¢</b> |

**Fuel Reconciliation**

|   | Three Months Ended September 30, |             |            |             |
|---|----------------------------------|-------------|------------|-------------|
|   | 2017                             |             | 2016       |             |
|   | Dollars                          | Cost/Gallon | Dollars    | Cost/Gallon |
| <i>(in millions, except for per-gallon amounts)</i> |                                  |             |            |             |
| Raw or "into-plane" fuel cost                       | \$ 368                           | \$ 1.78     | \$ 218     | \$ 1.55     |
| Losses on settled hedges                            | 5                                | 0.02        | 4          | 0.03        |
| <b>Consolidated economic fuel expense</b>           | <b>373</b>                       | <b>1.80</b> | <b>222</b> | <b>1.58</b> |
| Mark-to-market fuel hedge adjustment                | (5)                              | (0.02)      | 3          | 0.02        |
| GAAP fuel expense                                   | \$ 368                           | \$ 1.78     | \$ 225     | \$ 1.60     |
| Fuel gallons  | 207                              |             | 140        |             |
| <b>Nine Months Ended September 30,</b>              |                                  |             |            |             |
|   | 2017                             |             | 2016       |             |
| <i>(in millions, except for per gallon amounts)</i> | Dollars                          | Cost/Gallon | Dollars    | Cost/Gallon |
| Raw or "into-plane" fuel cost                       | \$ 1,030                         | \$ 1.74     | \$ 590     | \$ 1.44     |
| Losses on settled hedges                            | 14                               | 0.02        | 12         | 0.03        |
| <b>Consolidated economic fuel expense</b>           | <b>1,044</b>                     | <b>1.76</b> | <b>602</b> | <b>1.47</b> |
| Mark-to-market fuel hedge adjustment                | 7                                | 0.01        | (9)        | (0.02)      |
| GAAP fuel expense                                   | \$ 1,051                         | \$ 1.77     | \$ 593     | \$ 1.45     |
| Fuel gallons  | 592                              |             | 410        |             |

**Note A:** Pursuant to Regulation G, we are providing 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 (including merger-related costs) 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 run, 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, such as merger-related costs, 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 items as specified in our plan documents) are important metrics for the employee incentive plan, which covers the majority of 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 merger-related costs and mark-to-market hedging adjustments, 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.

## GLOSSARY OF TERMS

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

**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 ("EPS") 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 and Airbus 320 family 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, 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, 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

# Alaska Air Group

## Investor Update - October 25, 2017

References in this update to “Air Group,” “Company,” “we,” “us,” and “our” refer to Alaska Air Group, Inc. and its subsidiaries, unless otherwise specified.

This update includes forecasted operational and financial information for our mainline and consolidated operations. Our disclosure of operating cost per available seat mile, excluding fuel and other items, provides us (and may provide investors) with the ability to measure and monitor our performance without these items. The most directly comparable GAAP measure is total operating expenses per available seat mile. However, due to the fluctuations in fuel prices, we are unable to predict total operating expenses for any future period with any degree of certainty. In addition, we believe the disclosure of fuel expense on an economic basis is useful to investors in evaluating our ongoing operational performance. Please see the cautionary statement under “Forward-Looking Information.”

We are providing information about estimated fuel prices and our hedging program. Management believes it is useful to compare results between periods on an “economic basis.” *Economic fuel expense* is defined as the raw or “into-plane” fuel cost less any cash we receive from hedge counterparties for hedges that settle during the period, offset by the recognition of premiums originally paid for those hedges that settle during the period. Economic fuel expense more closely approximates the net cash outflow associated with purchasing fuel for our operation.

### Forward-Looking Information

This update contains forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. For a comprehensive discussion of potential risk factors, see Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as well as in other documents filed by the Company with the SEC after the date thereof. Some of these risks include general economic conditions, increases in operating costs including fuel, competition, labor costs and relations, our indebtedness, inability to meet cost reduction goals, seasonal fluctuations in our financial results, an aircraft accident, changes in laws and regulations, and risks inherent in the achievement of anticipated synergies and the timing thereof in connection with the acquisition of Virgin America. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We expressly disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.

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## AIR GROUP - CONSOLIDATED

### Forecast Information

For the purposes of comparison, the consolidated operating and financial statistics in the historical periods of the table below are on a "Combined Comparative" basis, and include operations for Alaska Air Group and Virgin America Inc. (Virgin America) for the periods prior to the acquisition date of December 14, 2016. Virgin America's historical operating statistics included in the Combined Comparative presentation below have been conformed to Alaska Air Group's presentation where appropriate.

|   | Forecast<br>Q4 2017 | Q4 2016 Combined<br>Comparative <sup>(c)</sup> | % Change | Q4 2016 As<br>Reported <sup>(b)</sup> | Prior Guidance<br>September 14, 2017 |
|---|---------------------|--|----------|---------------------------------------|--------------------------------------|
| Capacity (ASMs in millions)                           | 15,950 - 16,000     | 14,404   | ~ 11%    | 11,407                                | n/a                                  |
| Cost per ASM excluding fuel and special items (cents) | 8.35¢ - 8.40¢       | 8.25¢  | ~ 1.5%   | 8.45¢                                 | n/a                                  |
| Fuel gallons (millions)                               | 204                 | 184  | ~ 11%    | 144                                   | n/a                                  |
| Economic fuel cost per gallon <sup>(a)</sup>          | \$1.95              | \$1.66   | ~ 17.5%  | \$1.68                                | n/a                                  |

|  | Forecast<br>Full Year 2017 | 2016 Combined<br>Comparative <sup>(c)</sup> | % Change | 2016 As Reported <sup>(b)</sup> | Prior Guidance<br>September 14, 2017 |
|--|----------------------------|---|----------|---------------------------------|--------------------------------------|
| Capacity (ASMs in millions)  | 62,130 - 62,160            | 57,953                                      | ~ 7.2%   | 44,135                          | 62,260 - 62,415                      |
| Cost per ASM excluding fuel and special items (cents) <sup>(d)</sup> | 8.15¢ - 8.17¢              | 8.04¢                                       | ~ 1.5%   | 8.23¢                           | 8.09¢ - 8.13¢                        |
| Fuel gallons (millions)  | 795                        | 739   | ~ 7.5%   | 554                             | 800                                  |
| Economic fuel cost per gallon  | \$1.81                     | \$1.54                                      | ~ 17.5%  | \$1.52                          | n/a                                  |

<sup>(a)</sup> Our economic fuel cost per gallon estimate for the fourth quarter includes the following per-gallon assumptions: crude oil cost—\$1.24 (approximately \$52 per barrel), refining margin—50 cents, cost of settled hedges—2 cents, with the remaining difference due to taxes and other into-plane costs.

<sup>(b)</sup> Actual financial and operational data reported in prior year excludes Virgin America information prior to December 14, 2016 acquisition.

<sup>(c)</sup> Refer to our Investor Update issued on April 12, 2017 on Form 8-K for further details of the calculation of the three and twelve months ended December 31, 2016 combined data.

<sup>(d)</sup> CASM guidance does not include potential cost increases related to a new pilot contract as we do not yet know the timing or amount. However, our position for arbitration will result in an estimated annual increase for the Company of approximately \$140 million.

### Nonoperating Expense

We expect that our consolidated nonoperating *expense* will be approximately \$12 million in the fourth quarter of 2017.

### Capital Expenditures<sup>(a)</sup>

The table below reflects the full-year expectation for total capital expenditures and additional expenditures if options were exercised. These options will be exercised only if we believe return on invested capital targets can be met.

| <i>(in millions)</i>   | 2017            | 2018            | 2019            |
|--|-----------------|-----------------|-----------------|
| Aircraft and aircraft purchase deposits—firm                       | \$ 780          | \$ 820          | \$ 635          |
| Other property & flight equipment                                  | 270             | 375             | 375             |
| <b>Total property and equipment additions</b>                      | <b>\$ 1,050</b> | <b>\$ 1,195</b> | <b>\$ 1,010</b> |
| Option aircraft and aircraft deposits, if exercised <sup>(b)</sup> | \$ —            | \$ 170          | \$ 665          |

<sup>(a)</sup> Preliminary estimate, subject to change. Excludes capitalized interest.

<sup>(b)</sup> We have options to acquire 37 B737 aircraft with deliveries from 2020 through 2024, and options to acquire 30 E175 aircraft with deliveries in 2019 to 2021. Amounts above also include payments toward cancelable purchase commitments for 30 A320neo aircraft with deliveries from 2020 through 2022.



### Projected Fleet Count

| Aircraft                                     | Actual Fleet       |                   | Expected Fleet Activity |                   |                   |                   |
|--|--------------------|-------------------|-------------------------|-------------------|-------------------|-------------------|
|  | September 30, 2017 | Q4 2017 Additions | Q4 2017 Removals        | December 31, 2017 | 2018-2019 Changes | December 31, 2019 |
| B737 Freighters & Combis <sup>(a)</sup>      | 5                  | 2                 | (3)                     | 4                 | (1)               | 3                 |
| B737 Passenger Aircraft                      | 148                | 4                 | (1)                     | 151               | 19                | 170               |
| A319/A320/A321 Passenger Aircraft            | 65                 | 3                 | —                       | 68                | 4                 | 72                |
| <b>Total Mainline Fleet</b>                  | <b>218</b>         | <b>9</b>          | <b>(4)</b>              | <b>223</b>        | <b>22</b>         | <b>245</b>        |
| Q400 operated by Horizon                     | 52                 | —                 | —                       | 52                | (15)              | 37                |
| E-175 operated by Horizon <sup>(b)</sup>     | 10                 | —                 | —                       | 10                | 23                | 33                |
| E-175 operated by third party <sup>(c)</sup> | 21                 | 2                 | —                       | 23                | 12                | 35                |
| <b>Total Regional Fleet</b>                  | <b>83</b>          | <b>2</b>          | <b>—</b>                | <b>85</b>         | <b>20</b>         | <b>105</b>        |
| <b>Total</b>                                 | <b>301</b>         | <b>11</b>         | <b>(4)</b>              | <b>308</b>        | <b>42</b>         | <b>350</b>        |

(a) Remaining 2017 changes reflect the retirement of three combis and the reintroduction of two B737-700 aircraft as freighters.

(b) Reflects deferral of three aircraft from 2017 to 2018.

(c) Reflects an additional ten aircraft to be flown by SkyWest under capacity purchase agreement, to be delivered in 2017 and 2018.

### Future Fuel Hedge Positions

All of our future oil positions are call options, which are designed to effectively cap the cost of the crude oil component of our jet fuel purchases. With call options, we are hedged against volatile crude oil price increases; and, during a period of decline in crude oil prices, we only forfeit cash previously paid for the hedge premiums. Our crude oil positions are as follows:

| Hedge Period               | Approximate % of Expected Fuel Requirements | Weighted-Average Crude Oil Price per Barrel | Average Premium Cost per Barrel |
|----------------------------|---|---|---------------------------------|
| <b>Fourth Quarter 2017</b> | <b>50%</b>                                  | <b>\$ 61</b>                                | <b>\$ 2</b>                     |
| First Quarter 2018         | 50%   | 62  | 2                               |
| Second Quarter 2018        | 40%   | 61  | 2                               |
| Third Quarter 2018         | 30%   | 60  | 2                               |
| Fourth Quarter 2018        | 20%   | 60  | 2                               |
| <b>Full Year 2018</b>      | <b>35%</b>                                  | <b>61</b>                                   | <b>2</b>                        |
| First Quarter 2019         | 10%   | 62  | 2                               |
| <b>Total 2019</b>          | <b>2%</b>                                   | <b>62</b>                                   | <b>2</b>                        |