

**ALASKA AIR GROUP, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

(in millions, except per share amounts)

	Three Months Ended March 31,	
	<u>2009</u>	<u>2008</u>
<b>Operating Revenues:</b>		
Passenger	<b>\$684.1</b>	\$775.7
Freight and mail	<b>19.4</b>	22.2
Other - net	<b>38.9</b>	41.6
<b>Total Operating Revenues</b>	<b><u>742.4</u></b>	<u>839.5</u>
<b>Operating Expenses:</b>		
Wages and benefits	<b>246.0</b>	244.7
Variable incentive pay	<b>9.3</b>	3.6
Aircraft fuel, including hedging gains and losses	<b>157.7</b>	282.0
Aircraft maintenance	<b>59.7</b>	58.0
Aircraft rent	<b>38.0</b>	43.6
Landing fees and other rentals	<b>54.2</b>	56.0
Contracted services	<b>38.4</b>	44.5
Selling expenses	<b>25.0</b>	34.5
Depreciation and amortization	<b>52.8</b>	49.3
Food and beverage service	<b>11.6</b>	12.3
Other	<b>56.8</b>	57.2
Fleet transition costs - Q200	<b>4.8</b>	5.8
<b>Total Operating Expenses</b>	<b><u>754.3</u></b>	<u>891.5</u>
<b>Operating Loss</b>	<b><u>(11.9)</u></b>	<u>(52.0)</u>
<b>Nonoperating Income (Expense):</b>		
Interest income	<b>8.3</b>	10.3
Interest expense	<b>(26.8)</b>	(23.4)
Interest capitalized	<b>2.8</b>	6.5
Other - net	<b>(2.0)</b>	0.2
	<b><u>(17.7)</u></b>	<u>(6.4)</u>
Loss before income tax	<b>(29.6)</b>	(58.4)
Income tax benefit	<b>(10.4)</b>	(21.1)
<b>Net Loss</b>	<b><u>\$(19.2)</u></b>	<u>\$(37.3)</u>
<b>Basic and Diluted Loss Per Share:</b>	<b>\$(0.53)</b>	\$(1.01)
<b>Shares Used for Computation:</b>		
Basic and Diluted	<b>36.326</b>	37.024

**Alaska Air Group, Inc.**

**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

(in millions)	<b>March 31, 2009</b>	December 31, 2008
Cash and marketable securities	<b>\$1,043</b>	\$1,077
Total current assets	<b>1,466</b>	1,509
Property and equipment-net	<b>3,127</b>	3,168
Other assets	<b>186</b>	159
Total assets	<b>\$4,779</b>	\$4,836
Current liabilities	<b>\$1,286</b>	\$1,361
Long-term debt	<b>1,619</b>	1,596
Other liabilities and credits	<b>1,217</b>	1,217
Shareholders' equity	<b>657</b>	662
Total liabilities and shareholders' equity	<b>\$4,779</b>	\$4,836
Debt to Capitalization, adjusted for operating leases	<b>80%:20%</b>	81%:19%
Number of common shares outstanding	<b>36.386</b>	36.275

## Alaska Airlines Financial and Statistical Data

Three Months Ended March 31,

<b>Financial Data (in millions):</b>	<b>2009</b>	<b>2008 <sup>(c)</sup></b>	<b>% Change</b>
<b>Operating Revenues:</b>			
Passenger	\$539.8	\$607.3	(11.1)
Freight and mail	18.3	21.3	(14.1)
Other - net	33.2	34.4	(3.5)
<i>Total mainline operating revenues</i>	<u>591.3</u>	<u>663.0</u>	(10.8)
Passenger - purchased capacity	61.8	70.4	(12.2)
<b>Total Operating Revenues</b>	<u>653.1</u>	<u>733.4</u>	(10.9)
<b>Operating Expenses:</b>			
Wages and benefits	197.4	192.1	2.8
Variable incentive pay	7.1	2.6	173.1
Aircraft fuel, including hedging gains and losses	131.9	233.7	(43.6)
Aircraft maintenance	46.3	42.1	10.0
Aircraft rent	26.5	28.2	(6.0)
Landing fees and other rentals	40.8	41.9	(2.6)
Contracted services	30.5	34.7	(12.1)
Selling expenses	19.1	26.5	(27.9)
Depreciation and amortization	43.3	38.8	11.6
Food and beverage service	11.0	11.7	(6.0)
Other	42.8	41.8	2.4
<i>Total mainline operating expenses</i>	<u>596.7</u>	<u>694.1</u>	(14.0)
Purchased capacity costs	62.7	76.7	(18.3)
<b>Total Operating Expenses</b>	<u>659.4</u>	<u>770.8</u>	(14.5)
<b>Operating Loss</b>	<u>(6.3)</u>	<u>(37.4)</u>	
Interest income	10.1	13.1	
Interest expense	(23.0)	(21.8)	
Interest capitalized	2.5	5.9	
Other - net	(1.6)	0.4	
	<u>(12.0)</u>	<u>(2.4)</u>	
<b>Loss Before Income Tax</b>	<u>\$(18.3)</u>	<u>\$(39.8)</u>	
<b>Mainline Operating Statistics:</b>			
Revenue passengers (000)	3,573	4,080	(12.4)
RPMs (000,000) "traffic"	4,179	4,526	(7.7)
ASMs (000,000) "capacity"	5,520	6,084	(9.3)
Passenger load factor	75.7%	74.4%	1.3pts
Yield per passenger mile	12.92¢	13.42¢	(3.7)
Operating revenue per ASM	10.71¢	10.90¢	(1.7)
Passenger revenue per ASM	9.78¢	9.98¢	(2.0)
Operating expense per ASM	10.81¢	11.41¢	(5.3)
Operating expense per ASM excluding fuel <sup>(a)</sup>	8.42¢	7.57¢	11.3
GAAP fuel cost per gallon	\$1.80	\$2.72	(33.9)
Economic fuel cost per gallon <sup>(b)</sup>	\$1.91	\$2.72	(29.8)
Fuel gallons (000,000)	73.3	85.9	(14.7)
Average number of full-time equivalent employees	9,021	9,881	(8.7)
Aircraft utilization (blk hrs/day)	9.9	10.8	(8.3)
Average aircraft stage length (miles)	1,016	969	4.9
Operating fleet at period-end	112	115	(3) a/c
<b>Purchased Capacity Operating Statistics:</b>			
RPMs (000,000)	215	267	(19.5)
ASMs (000,000)	316	363	(12.9)
Passenger load factor	68.0%	73.6%	(5.6) pts
Yield per passenger mile	28.74¢	26.37¢	9.0
Operating revenue per ASM	19.56¢	19.39¢	0.8
Operating expenses per ASM	19.84¢	21.13¢	(6.1)

<sup>(a)</sup> See page 9 for a reconciliation of these non-GAAP measures and a discussion about why these measures may be important to investors.

<sup>(b)</sup> See page 11 for a reconciliation of economic fuel cost.

<sup>(c)</sup> The first quarter of 2008 has been adjusted to reflect the correction of an error in the calculation of stock-based compensation. The error resulted in an understatement of wages and benefits of \$1.9 million in the first three months of 2008. In accordance with SAB 108, the error has been corrected in this statement.

## Horizon Air Financial and Statistical Data

Three Months Ended March 31,

Financial Data (in millions):	2009	2008 <sup>(d)</sup>	% Change
<b>Operating Revenues:</b>			
Passenger - brand flying	\$86.6	\$102.7	(15.7)
Passenger - capacity purchase arrangements	57.8	71.4	(19.0)
<i>Total passenger revenue</i>	<u>144.4</u>	<u>174.1</u>	<u>(17.1)</u>
Freight and mail	0.7	0.6	16.7
Other - net	1.7	2.5	(32.0)
<b>Total Operating Revenues</b>	<u><b>146.8</b></u>	<u>177.2</u>	<u>(17.2)</u>
<b>Operating Expenses:</b>			
Wages and benefits	46.4	50.7	(8.5)
Variable incentive pay	2.2	1.0	120.0
Aircraft fuel, including hedging gains and losses	25.8	48.3	(46.6)
Aircraft maintenance	13.4	15.9	(15.7)
Aircraft rent	11.5	15.4	(25.3)
Landing fees and other rentals	13.7	14.4	(4.9)
Contracted services	7.5	8.0	(6.3)
Selling expenses	5.9	8.0	(26.3)
Depreciation and amortization	9.2	10.2	(9.8)
Food and beverage service	0.6	0.6	-
Other	11.0	12.8	(14.1)
Fleet transition costs	4.8	5.8	NM
<b>Total Operating Expenses</b>	<u><b>152.0</b></u>	<u>191.1</u>	<u>(20.5)</u>
<b>Operating Loss</b>	<u><b>(5.2)</b></u>	<u>(13.9)</u>	
Interest income	0.4	1.4	
Interest expense	(5.9)	(5.7)	
Interest capitalized	0.3	0.6	
Other - net	(0.1)	-	
	<u>(5.3)</u>	<u>(3.7)</u>	
<b>Loss Before Income Tax</b>	<u><b>\$(10.5)</b></u>	<u>\$(17.6)</u>	
<b>Combined Operating Statistics: <sup>(a)</sup></b>			
Revenue passengers (000)	1,546	1,852	(16.5)
RPMs (000,000) "traffic"	524	658	(20.4)
ASMs (000,000) "capacity"	787	942	(16.5)
Passenger load factor	66.6%	69.9%	(3.3)pts
Yield per passenger mile	27.56¢	26.46¢	4.2
Operating revenue per ASM	18.65¢	18.81¢	(0.8)
Passenger revenue per ASM	18.35¢	18.48¢	(0.7)
Operating expenses per ASM	19.31¢	20.29¢	(4.8)
Operating expense per ASM excluding fuel <sup>(b)</sup>	16.04¢	15.16¢	5.8
GAAP fuel cost per gallon	\$1.78	\$2.73	(34.8)
Economic fuel cost per gallon <sup>(c)</sup>	\$1.90	\$2.78	(31.7)
Fuel gallons (000,000)	14.5	17.7	(18.1)
Average number of full-time equivalent employees	3,382	3,851	(12.2)
Aircraft utilization (blk hrs/day)	8.3	8.3	0.0
Average aircraft stage length (miles)	315	345	(8.7)
Operating fleet at period-end	55	66	(11 a/c)

NM = Not Meaningful

<sup>(a)</sup> Represents combined information for all Horizon flights, including those operated under a Capacity Purchase Agreement (CPA) with Alaska. See page 10 for additional line of business information.

<sup>(b)</sup> See pages 10 for a reconciliation of these non-GAAP measures and a discussion about why these measures may be important to investors.

<sup>(c)</sup> See page 11 for a reconciliation of economic fuel cost.

<sup>(d)</sup> The first quarter of 2008 has been adjusted to reflect the correction of an error in the calculation of stock-based compensation. The error resulted in an understatement of wages and benefits of \$0.4 million in the first three months of 2008. In accordance with SAB 108, the error has been corrected in this statement.

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 this measure of unit costs excluding fuel, purchased capacity costs, and other noted items may be important to investors for the following reasons:

- By eliminating fuel expense and certain special items from our unit cost metrics, we believe that we have better visibility into the results of 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 excluding fuel and certain special items is one of the most important measures used by managements of both Alaska and Horizon and by the Air Group Board of Directors in assessing quarterly and annual cost performance. For Alaska Airlines, these decision-makers evaluate operating results of the “mainline” operation, which includes the operation of the B737 fleet branded in Alaska Airlines livery. The revenues and expenses associated with purchased capacity are evaluated separately.
- Cost per ASM excluding fuel (and other items as specified in our plan documents) is an important metric for the employee incentive plan that covers company management and certain other employee groups.
- Cost per ASM 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 fleet transition costs and restructuring charges, 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 “mainline” passenger unit revenues for Alaska, we do not (nor are we able to) evaluate mainline unit revenues excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total mainline 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.

The following tables reconcile our non-GAAP financial measures to the most directly comparable GAAP financial measures for both Alaska Airlines, Inc. and Horizon Air Industries, Inc.:

**Alaska Airlines, Inc.**

(in millions, except for per ASM unit information)

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
<b><u>Mainline unit cost reconciliations:</u></b>		
Mainline operating expenses	\$596.7	\$694.1
Mainline ASMs	<u>5,520</u>	<u>6,084</u>
Mainline operating expenses per ASM	<u>10.81¢</u>	<u>11.41¢</u>
Mainline operating expenses	\$596.7	\$694.1
Less: aircraft fuel	<u>(131.9)</u>	<u>(233.7)</u>
Mainline operating expenses excluding fuel	<u>\$464.8</u>	<u>\$460.4</u>
Mainline ASMs	<u>5,520</u>	<u>6,084</u>
Mainline operating expenses per ASM excluding fuel	<u>8.42¢</u>	<u>7.57¢</u>

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
<b><u>Reconciliation to GAAP loss before taxes :</u></b>		
Loss before taxes, excluding mark-to-market hedging gains (losses)	\$(26.6)	\$(39.6)
Adjustments to reflect timing of gain or loss recognition resulting from mark-to-market accounting on fuel hedges	<u>8.3</u>	<u>(0.2)</u>
GAAP loss before taxes as reported	<u>\$(18.3)</u>	<u>\$(39.8)</u>

**Horizon Air Industries, Inc.**

(in millions, except for per ASM unit information)

	<u>Three Months Ended March 31,</u>	
	<b>2009</b>	2008
<b>Unit cost reconciliations:</b>		
Operating expenses	<b>\$152.0</b>	\$191.1
ASMs	<b>787</b>	942
Operating expenses per ASM	<b>19.31¢</b>	20.29¢
Operating expenses	<b>\$152.0</b>	\$191.1
Less: aircraft fuel	<b>(25.8)</b>	(48.3)
Operating expenses excluding fuel	<b>\$126.2</b>	\$142.8
ASMs	<b>787</b>	942
Operating expenses per ASM excluding fuel	<b>16.04¢</b>	15.16¢
<b>Unit cost reconciliations-excluding Q200 fleet transition costs:</b>		
Operating expenses	<b>\$152.0</b>	\$191.1
Less: aircraft fuel	<b>(25.8)</b>	(48.3)
Less: fleet transition costs - Q200	<b>(4.8)</b>	(5.8)
Operating expenses excluding fuel and Q200 fleet transition costs	<b>\$121.4</b>	\$137.0
ASMs	<b>787</b>	942
Operating expenses per ASM excluding fuel and Q200 fleet transition costs	<b>15.43¢</b>	14.54¢
<b>Reconciliation to GAAP loss before taxes:</b>		
Loss before taxes, excluding mark-to-market fuel hedging gains	<b>\$(12.2)</b>	\$(18.5)
Adjustments to reflect timing of gain or loss recognition resulting from mark-to-market accounting on fuel hedges	<b>1.7</b>	0.9
GAAP loss before taxes as reported	<b>\$(10.5)</b>	\$(17.6)

**Line of Business Information:**

Horizon brand flying includes those routes in the Horizon system not covered by the Alaska Capacity Purchase Agreement (CPA). Horizon bears the revenue risk in those markets and, as a result, traffic, yield and load factor impact revenue recorded by Horizon. In the CPA arrangement, Horizon is insulated from market revenue factors and is guaranteed contractual revenue amounts based on operational capacity. As a result, yield and load factor information is not presented.

Three Months Ended March 31, 2009

	<u>Capacity and Mix</u>					<u>Load Factor</u>		<u>Yield</u>		<u>RASM</u>	
	<b>Q1 2009 Actual</b>	Q1 2008 Actual	Change Y-O-Y	Current % Total	Point Change Y-O-Y	Actual	Point Change Y-O-Y	Actual	Change Y-O-Y	Actual	Change Y-O-Y
Brand Flying	<b>488</b>	598	(18.4%)	<b>62%</b>	(1)	<b>65.5%</b>	(1.7)	<b>27.09¢</b>	6.0%	<b>18.24¢</b>	3.0%
Alaska CPA	<b>299</b>	344	(13.1%)	<b>38%</b>	1	NM	NM	NM	NM	NM	NM
System Total	<b>787</b>	942	(16.5%)	<b>100%</b>	-	<b>66.6%</b>	(3.3)	<b>27.56¢</b>	4.2%	<b>18.65¢</b>	(0.8%)

NM= Not Meaningful

### **Alaska Airlines Fuel Reconciliation**

(in millions, except for per gallon amounts)

	Three Months Ended March 31,			
	<u>2009</u>		<u>2008</u>	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$118.8	\$1.62	\$257.7	\$3.00
Minus gains, or plus the losses, during the period on settled hedges	21.4	0.29	(24.2)	(0.28)
<b>Economic fuel expense</b>	<b>\$140.2</b>	<b>\$1.91</b>	<b>\$233.5</b>	<b>\$2.72</b>
Adjustments to reflect timing of gain or loss recognition resulting from mark-to-market accounting*	(8.3)	(0.11)	0.2	0.00
GAAP fuel expense	<b>\$131.9</b>	<b>\$1.80</b>	<b>\$233.7</b>	<b>\$2.72</b>
Fuel gallons	<b>73.3</b>		<b>85.9</b>	

### **Horizon Air Fuel Reconciliation**

(in millions, except for per gallon amounts)

	Three Months Ended March 31,			
	<u>2009</u>		<u>2008</u>	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$23.1	\$1.59	\$54.2	\$3.06
Minus gains, or plus the losses, during the period on settled hedges	4.4	0.31	(5.0)	(0.28)
<b>Economic fuel expense</b>	<b>\$27.5</b>	<b>\$1.90</b>	<b>\$49.2</b>	<b>\$2.78</b>
Adjustments to reflect timing of gain or loss recognition resulting from mark-to-market accounting*	(1.7)	(0.12)	(0.9)	(0.05)
GAAP fuel expense	<b>\$25.8</b>	<b>\$1.78</b>	<b>\$48.3</b>	<b>\$2.73</b>
Fuel gallons	<b>14.5</b>		<b>17.7</b>	

\* Includes gains or losses recognized during the current period for contracts settling in future periods and the reversal of cumulative gains or losses recognized in prior periods for contracts that settled in the current period.

### **Glossary of Financial Terms**

**ASM** - available seat miles, or “capacity” - represents total seats available across the fleet multiplied by the number of miles flown

**RPM** - revenue passenger miles, or “traffic” - the number of those available seats that were filled with paying passengers; one passenger traveling one mile is one RPM

**RASM** - total operating revenue divided by ASMs; operating revenue includes all passenger revenue, freight & mail, Mileage Plan, and other ancillary revenue; commonly called “unit revenue” and represents the average total revenue for flying one seat one mile

**PRASM** - passenger revenue per ASM; commonly called “passenger unit revenue”

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

**CASM** - total operating costs per ASM; this represents all operating expenses including fuel and special items; commonly called “unit cost”

**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

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

**Mainline** - represents flying on Alaska jets and all associated revenues and costs

**Purchased Capacity Flying** - represents operations whereby Horizon and, to a much lesser extent, another small carrier in the state of Alaska fly certain routes for Alaska using Horizon’s or the other carrier’s fleets