UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
(Mark One)
X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the fiscal year ended December 31, 1997
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from . . . . to . . . .

Commission File Number 1-8957
ALASKA AIR GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware 91-1292054
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

19300 Pacific Highway South, Seattle, Washington 98188
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (206) 431-7040

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1.00 Par Value	New York Stock Exchange
Rights to Purchase Series A Participating Preferred Stock	New York Stock Exchange
6-1/2% Convertible Senior Debentures Due 2005	New York Stock Exchange
6-7/8% Conv. Subordinated Debentures Due 2014	New York Stock Exchange

As of December 31, 1997, common shares outstanding totaled 18,282,732. The aggregate market value of the common shares of Alaska Air Group, Inc. held by nonaffiliates, 18,223,488 shares, was approximately $706 million (based on the closing price of these shares, $38.75, on the New York Stock Exchange on such date).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

DOCUMENTS TO BE INCORPORATED BY REFERENCE

Title of Document	Part Hereof Into Which Document to be Incorporated
Definitive Proxy Statement Relating to 1998 Annual Meeting of Shareholders	Part III

Exhibit Index begins on page 35.

PART I

ITEM 1. BUSINESS

GENERAL INFORMATION
Alaska Air Group, Inc. (Air Group or the Company) is a holding company which was incorporated in Delaware in 1985. Its two principal subsidiaries are Alaska Airlines, Inc. (Alaska) and Horizon Air

Industries, Inc. (Horizon). Both subsidiaries operate as airlines, although their business plans, competition and economic risks differ substantially. Alaska is a major airline, operates an all jet fleet, and its average passenger trip length is 846 miles. Horizon is a regional airline, operates jet and turboprop aircraft, and its average passenger trip is 241 miles. Business segment information is reported in the Notes to Consolidated Financial Statements. Air Group's executive offices are located at 19300 Pacific Highway South, Seattle, Washington 98188. The business of the Company is somewhat seasonal, and quarterly operating income tends to peak during the third quarter.

Alaska

Alaska Airlines is an Alaska corporation that was organized in 1932 and incorporated in 1937. Alaska serves 35 cities in six states (Alaska, Washington, Oregon, California, Nevada and Arizona), one city in Canada, four cities in Mexico and five cities in Russia. In each year since 1973, Alaska has carried more passengers between Alaska and the U.S. mainland than any other airline. In 1997, Alaska carried 12.3 million passengers. Passenger traffic within Alaska and between Alaska and the U.S. mainland accounted for 26% of Alaska's 1997 revenue passenger miles, West Coast traffic accounted for 66%, the Mexico markets 8% and Russia less than 1%. Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Anchorage and Los Angeles. Based on revenues, its leading nonstop routes are Seattle-Anchorage, Seattle-Los Angeles and Seattle-San Diego. At December 31, 1997, Alaska's operating fleet consisted of 78 jet aircraft. The majority of Alaska flights, and certain Northwest Airlines flights, are dual-designated in airline computer reservation systems as Alaska Airlines and Northwest Airlines in order to facilitate feed traffic between the two airlines. Alaska Airlines also serves three smaller cities in California, three in Washington, and many small communities in Alaska through code share marketing agreements with local carriers.

Horizon

Horizon, a Washington corporation, began service in 1981 and was acquired by Air Group in 1986. It is the largest regional airline in the Pacific Northwest, and serves 33 cities in five states (Washington, Oregon, Montana, Idaho, and California) and four cities in Canada. In 1997, Horizon carried 3.7 million passengers. Based on passenger enplanements, Horizon's leading airports are Seattle, Portland, Spokane and Boise. Based on revenues, its leading nonstop routes are Seattle-Portland, Seattle-Spokane and Seattle-Boise. At December 31, 1997, Horizon's operating fleet consisted of 15 jet and 47 turboprop aircraft. Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems. Most Horizon flights are also dual-designated in these reservation systems as Northwest Airlines and Alaska Airlines. Currently, 32% of Horizon's passengers connect to either Alaska or Northwest.

Alaska and Horizon integrate their flight schedules to provide the best possible service between any two points served by their systems. Both airlines distinguish themselves from competitors by providing a higher level of customer service. The airlines' excellent service in the form of advance seat assignments, a first class section, attention to customer needs, high-quality food and beverage service, well-maintained aircraft and other amenities has been recognized by independent studies and surveys of air travelers. Alaska and Horizon offer competitive fares.

BUSINESS RISKS

The Company's operations and financial results are subject to various uncertainties such as intense competition, volatile fuel prices, a largely unionized labor force, the need to finance large capital expenditures, government regulation, potential aircraft incidents and general economic conditions.

Competition

Competition in the air transportation industry is intense. Any domestic air carrier deemed fit by the DOT is allowed to operate scheduled passenger service in the United States. Together, Alaska and Horizon carry 2.3% of all U.S. domestic passenger traffic. Alaska and Horizon compete with one or more domestic or foreign airlines on most of their routes. Some of these competitors are substantially larger than Alaska and Horizon, have greater financial resources and have more extensive route systems. Due to its shorthaul markets, Horizon is also subject to competition from surface transportation, particularly the automobile.

Most major U.S. carriers have developed, independently or in partnership with others, large computerized reservation systems (CRS). Airlines, including Alaska, and Horizon, are charged industry-set fees to have their flight schedules included in the various CRS displays used by travel agents and airlines. These systems are currently the predominant means of distributing airline tickets. In order to reduce anti-competitive practices, the DOT regulates the display of all airline schedules and fares. Alaska is exploring alternatives to existing distribution methods.

Fuel

Fuel costs represented 14.5% of the Company's total operating expenses in 1997. Fuel prices, which can be volatile and are largely outside of the Company's control, can have a significant impact on the Company's operating results. Currently, a one cent change in the fuel price per gallon affects annual fuel costs by approximately $3.2 million. The Company has in the past hedged against its exposure to fluctuations in the price of jet fuel, but does not currently do so. The Company evaluates hedging strategies on an ongoing basis.

Unionized Labor Force

Labor costs represented 33% of the Company's total operating expenses in 1997. Wage rates can have a significant impact on the Company's operating results. At December 31, 1997, labor unions represented 88% of Alaska's and 43% of Horizon's employees. The air transportation industry is regulated under the Railway Labor Act, which vests in the National Mediation Board certain regulatory powers with respect to disputes between airlines and labor unions. The Company cannot predict the outcome of union contract negotiations nor control actions (e.g. work stoppage or slowdown) unions might take to try to influence those negotiations.

Leverage and Future Capital Requirements

The Company, like many airlines, is highly leveraged, which increases the volatility of its earnings. Due to high fixed costs, including aircraft lease commitments, a decrease in revenues could result in a disproportionately greater decrease in earnings. In addition, the Company has an ongoing need to finance new aircraft deliveries and there is no assurance that such financing will be available in sufficient amounts or on acceptable terms. See Item 7 for management's discussion of liquidity and capital resources.

Government Regulation; International Routes

The Company, like other airlines, is subject to regulation by the Federal Aviation Administration (FAA) and the United States Department of Transportation (DOT). The FAA, under its mandate to ensure aviation safety, has the authority to ground aircraft and to suspend temporarily or revoke permanently the authority of an air carrier or its licensed personnel for failure to comply with Federal Aviation Regulations and to levy civil penalties for such failure. The DOT has the authority to regulate certain airline economic functions including financial and statistical reporting, consumer protection, computerized reservations systems, essential air transportation and international route authority. The Company is subject to bilateral agreements between the United States and the foreign countries to which the Company provides service. There can be no assurance that existing bilateral agreements between the United States and the foreign governments will continue or that the Company's designation to operate such routes will continue.

Risk of Loss and Liability; Weather
The Company, like other airlines, is exposed to potential catastrophic losses in the event of aircraft accidents or terrorist incidents. Consistent with industry standards, the Company maintains insurance against such losses. However, any aircraft accident, even if fully insured, could cause a negative public perception of the Company with adverse financial consequences. Unusually adverse weather, as occurred during December 1996 in the Pacific Northwest, can significantly reduce flight operations, resulting in lost revenues and added expenses.

OTHER INFORMATION
Frequent Flyer Program
All major airlines have developed frequent flyer programs as a way of increasing passenger loyalty. Alaska's Mileage Plan allows members to earn mileage by flying on Alaska, Horizon and other participating airlines, and by using the services of non-airline partners, which include a credit card partner, telephone companies, hotels and car rental agencies. Alaska is paid by non-airline partners for the miles it credits to member accounts. Alaska has the ability to change the Mileage Plan terms, conditions, partners, mileage credits and award levels.

Mileage can be redeemed for free or discounted travel and for other travel industry awards. Upon accumulating the necessary mileage, members notify Alaska of their award selection Over 70% of the flight awards selected are subject to blackout dates and capacity-controlled seating. Effective in January 1996, miles have no expiration. As of the year end 1996 and 1997, Alaska estimates that 504,000 and 652,000 round trip flight awards could have been redeemed by Mileage Plan members who have mileage credits exceeding the 20,000 mile free round trip domestic ticket award threshold. At December 31, 1997, fewer than 4% of these flight awards were issued and outstanding. For the years 1995, 1996 and 1997, approximately 242,000, 173,000 and 185,000 round trip flight awards were redeemed and flown on Alaska and Horizon. These awards represent approximately 7% for 1995, 4% for 1996, and 3% for 1997, of the total passenger miles flown for each period.

Alaska maintains a liability for its Mileage Plan obligation which is based on its total miles outstanding, less an estimate for miles that will never be redeemed. The net miles outstanding are allocated between those credited for travel on Alaska, Horizon or other airline partners and those credited for using the services of non-airline partners. Miles credited for travel on Alaska, Horizon or other airline partners are accrued at Alaska's incremental cost of providing the air travel. The incremental cost includes the cost of meals, fuel, reservations and insurance. The incremental cost does not include a contribution to overhead, aircraft cost or profit. A portion of the proceeds received from non-airline partners is also deferred. At December 31, 1996 and 1997, the total liability for miles outstanding was $17.3 million and $22.3 million, respectively.

Employees
Alaska had 8,578 active full-time and part-time employees at December 31, 1997. The following is a summary of Alaska's union contracts as of December 31, 1997:

Union	Employee Group	Number of Employees	Contract Status
International Association of Machinists and Aerospace Workers	Mechanic, Rampservice and Related Crafts	1,786	Amendable 8/31/97 In negotiation
	Clerical, Office and Passenger Service	3,094	Amendable 5/20/99
Air Line Pilots Association International	Pilots	1,085	Amendable 4/30/03

Union	Employee Group	Number of Employees	Contract Status
Association of Flight Attendants	Flight Attendants	1,491	Amendable 3/14/99
Mexico Workers Association of Air Transport	Mexico Airport Personnel	61	Amendable 4/1/98
Transport Workers Union of America	Dispatchers	16	Amendable 2/9/02

Horizon had 2,851 active full-time and part-time employees at December 31, 1997. The following is a summary of Horizon's union contracts as of December 31, 1997:

Union	Employee Group	Number of Employees	Contract Status
Transport Workers Union of America	Mechanics and related classifications	403	Amendable 4/24/98
	Dispatchers	26	Amendable 5/10/02
Association of Flight Attendants	Flight Attendants	281	Amendable 1/28/03
National Automobile, Aerospace, Transportation and General Workers	Station personnel in Canada	33	Amendable 1/17/01
International Brotherhood of Teamsters	Pilots	495	Initial contract negotiations in 1998

Selected Quarterly Consolidated Financial Information (Unaudited)

	1st Quarter 1996	1st Quarter 1997	2nd Quarter 1996	2nd Quarter 1997	3rd Quarter 1996	3rd Quarter 1997	4th Quarter 1996	4th Quarter 1997
	(in millions, except per share)							
Operating revenues	$351.4	$380.4	$416.7	$435.0	$464.9	$501.2	$359.2	$422.8
Operating income (loss)	(5.2)	(5.4)	39.6	40.9	63.0	76.3	(8.4)	27.2
Net income (loss)	(7.2)	(5.7)	18.0	20.8	32.8	42.2	(5.6)	15.1
Earnings (loss) per share:								
Basic	(0.52)	(0.39)	1.26	1.43	2.27	2.88	(0.38)	0.98
Diluted	(0.52)	(0.39)	0.88	1.01	1.53	1.96	(0.38)	0.73

The total of the amounts shown as quarterly earnings per share (EPS) may differ from the amount shown on the Consolidated Statement of Income because the annual computation is made separately and is based upon average number of shares (and equivalent shares for diluted EPS) outstanding for the year.

ITEM 2. PROPERTIES

Aircraft

The following table describes the aircraft operated and their average age at December 31, 1997.

Aircraft Type	Passenger Capacity	Owned	Leased	Total	Average Age in Years
Alaska Airlines					
Boeing 737-200C	111	7	1	8	17.4
Boeing 737-400	140	3	25	28	3.9

McDonnell Douglas MD-80	140	16	26	42	8.2
		26	52	78	7.6
Horizon					
Fairchild Metroliner III	18	--	11	11	10.7
de Havilland Dash 8	37	--	36	36	6.3
Fokker F-28	62-69	3	12	15	14.6
		3	59	62	9.0

Part II, Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition," discusses future orders and options for additional aircraft.

Twelve of the 26 aircraft owned by Alaska as of December 31, 1997 are subject to liens securing long-term debt. Alaska's leased B737-200C, B737-400 and MD-80 aircraft have lease expiration dates in 1999, between 2002 and 2015, and between 1998 and 2013, respectively. Horizon's leased Fairchild Metroliner III, de Havilland Dash 8 and Fokker F-28 aircraft have expiration dates between 1998 and 2000, 1999 and 2013 and 2000 and 2002, respectively. However, as part of its fleet standardization plan, Horizon expects to return to the lessors or otherwise dispose of all of the Metroliners during 1998. Alaska and Horizon have the option to extend most of the leases for additional periods, or the right to purchase the aircraft at the end of the lease term, usually at the then fair market value of the aircraft. For information regarding obligations under capital leases and long-term operating leases, see Notes to Consolidated Financial Statements.

Special noise ordinances or agreements restrict the type of aircraft, the timing and the number of flights operated by Alaska and other air carriers at four Los Angeles area airports plus San Diego, Palm Springs, San Francisco and Seattle. At December 31, 1997, all of Alaska's aircraft meet the Stage 3 noise requirements under the Airport Noise and Capacity Act of 1990.

Ground Facilities and Services

Alaska and Horizon lease ticket counters, gates, cargo and baggage, office space and other support areas at the majority of the airports they serve. Alaska also owns terminal buildings at various Alaska cities.

Alaska has centralized operations in several buildings located at or near Seattle-Tacoma International Airport (Sea-Tac) in Seattle, Washington. The owned buildings, including land unless located on leased airport property, include: a three-bay hangar facility with maintenance shops; a flight operations and training center; an air cargo facility; a reservations and office facility; a four-story office building; its corporate headquarters; and two storage warehouses. Alaska also leases a two-bay hangar/office facility at Sea-Tac.

Alaska's other major facilities include: a regional headquarters building, an air cargo facility (completed in 1997) and a leased hangar/office facility in Anchorage; a Phoenix reservations center; and a leased two-bay maintenance facility in Oakland.

Horizon owns its Seattle corporate headquarters building and leases maintenance facilities at the Portland and Boise airports. A new $17 million operations, training and aircraft maintenance facility is under construction in Portland and is expected to be completed in the second quarter of 1998.

ITEM 3. LEGAL PROCEEDINGS

In October 1991, Alaska gave notice of termination of its code sharing and frequent flyer relationship with MarkAir, an airline based in the state of Alaska. Both companies have filed suit against one another in connection with that termination asserting breach of contract and other claims under state law. In June 1992, MarkAir filed for protection under Chapter 11 of the U.S. Bankruptcy Code. In June 1997, MarkAir claimed damages of $57 million (later revised to $70 million) in connection with Alaska's actions. In January 1998, MarkAir's counsel notified the Company that, after application of attorneys' fees and prejudgement interest, its total claim was between $104 and $140 million. If MarkAir were to prevail at the $140 million amount, the after-tax effect would be to reduce shareholders' equity by approximately $82 million or 17%. However, the Company believes that it has valid defenses and is vigorously defending itself against the lawsuit. Trial is scheduled to begin in July 1998.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Alaska Air Group, Inc., their positions and their respective ages (as of March 1, 1998) are as follows:

Name	Position	Age	Officer Since
John F. Kelly	Chairman, President and Chief Executive Officer of Alaska Air Group, Inc. and Chairman and CEO of Alaska Airlines, Inc.	53	1981
Harry G. Lehr	Senior Vice President/Finance of Alaska Air Group, Inc. and Alaska Airlines, Inc.	57	1986
Steven G. Hamilton	Vice President/Legal and General Counsel of Alaska Air Group, Inc. and Alaska Airlines, Inc.	58	1988
Keith Loveless	Corporate Secretary and Associate General Counsel of Alaska Air Group, Inc. and Alaska Airlines, Inc.	41	1996

The above officers have been employed as officers of Air Group or its subsidiary, Alaska Airlines, for more than five years except for Keith Loveless, who was elected as Corporate Secretary in 1996. Mr. Loveless joined the Alaska Airlines legal department in 1986 and continues to hold his current position as associate general counsel of Alaska Airlines, a post he has held since 1993.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

As of December 31, 1997, there were 18,282,732 shares of common stock issued and outstanding and 4,876 shareholders of record. The Company also held 2,748,030 treasury shares at a cost of $62.6 million. The Company has not paid dividends on the common stock since 1992. Air Group's common stock is listed on the New York Stock Exchange (symbol: ALK).

The following table shows the trading range of Alaska Air Group common stock on the New York Stock Exchange for 1996 and 1997.

	1996		1997	
	High	Low	High	Low
First Quarter	27-3/4	15-7/8	27-5/8	20-3/4
Second Quarter	30-3/4	24-1/4	26-1/4	23
Third Quarter	28-1/8	19-1/8	33-5/16	25-1/16
Fourth Quarter	25-1/8	20-5/8	40-1/8	30-3/16

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

	1993	1994	1995	1996	1997

Consolidated Financial Data:
Year Ended December 31 (in millions, except per share amounts):

Operating Revenues	$1,128.3	$1,315.6	$1,417.5	$1,592.2	$1,739.4
Operating Expenses	1,145.1	1,241.6	1,341.8	1,503.2	1,600.4
Operating Income (Loss)	(16.8)	74.0	75.7	89.0	139.0
Nonoperating expense, net (a)	(29.0)	(33.0)	(41.7)	(24.7)	(15.4)
Income (loss) before income tax	(45.8)	41.0	34.0	64.3	123.6
Net Income (Loss)	$(30.9)	$22.5	$17.3	$38.0	$72.4
Average shares outstanding	13.340	13.367	13.485	14.241	14.785
Basic earnings (loss) per share	$(2.51)	$1.69	$1.28	$2.67	$4.90
Diluted earnings (loss) per share	(2.51)	1.62	1.26	2.05	3.53
At End of Period (in millions, except ratio):					
Total assets	$1,135.0	$1,315.8	$1,313.4	$1,311.4	$1,533.1
Long-term debt and capital lease obligations	525.4	589.9	522.4	404.1	401.4
Shareholders' equity	166.8	191.3	212.5	272.5	475.3
Ratio of earnings to fixed charges	(b)	1.36	1.28	1.57	2.10
Alaska Airlines Operating Data:					
Revenue passengers (000)	6,438	8,958	10,140	11,805	12,284
Revenue passenger miles (RPM) (000,000)	5,514	7,587	8,584	9,831	10,386
Available seat miles (ASM) (000,000)	9,426	12,082	13,885	14,904	15,436
Revenue passenger load factor	58.5%	62.8%	61.8%	66.0%	67.3%
Yield per passenger mile	14.32c	12.20c	11.59c	11.67c	12.49c
Operating revenues per ASM	9.62c	8.79c	8.23c	8.70c	9.38c
Operating expenses per ASM	9.88c	8.27c	7.71c	8.10c	8.51c
Average full-time equivalent employees	6,191	6,486	6,993	7,652	8,236
Horizon Air Operating Data:					
Revenue passengers (000)	2,752	3,482	3,796	3,753	3,686
Revenue passenger miles (RPM) (000,000)	560	733	841	867	889
Available seat miles (ASM) (000,000)	986	1,165	1,414	1,462	1,446
Revenue passenger load factor	56.8%	62.9%	59.5%	59.3%	61.5%
Yield per passenger mile	37.93c	33.35c	31.48c	33.14c	32.56c
Operating revenues per ASM	22.65c	22.06c	19.77c	20.61c	21.00c
Operating expenses per ASM	21.76c	20.95c	19.47c	20.60c	20.60c
Average full-time equivalent employees	2,267	2,557	2,864	2,891	2,756

c=cents

(a) Includes capitalized interest of $.4 million, $.4 million, $.2 million, $1.0 million and $5.3 million for 1993, 1994, 1995, 1996, and 1997, respectively.

(b) For 1993, earnings are inadequate to cover fixed charges by $50.0 million.

Alaska Airlines Financial and Statistical Data

	Quarter Ended December 31			Year Ended December 31		
Financial Data (in millions):	1996	1997	% Change	1996	1997	% Change
Operating Revenues:						
Passenger	$254.8	$313.0	22.8	$1,146.8	$1,297.0	13.1
Freight and mail	19.3	20.7	7.3	82.7	82.9	0.2
Other - net	18.4	16.2	(12.0)	67.8	68.0	0.3
Total Operating Revenues	292.5	349.9	19.6	1,297.3	1,447.9	11.6
Operating Expenses:						
Wages and benefits	96.8	106.1	9.6	383.6	423.8	10.5
Employee profit sharing	(6.7)	2.4	NM	0.9	12.1	NM
Contracted services	10.3	11.6	12.6	36.9	42.5	15.2
Aircraft fuel	51.5	49.3	(4.3)	200.5	199.7	(0.4)
Aircraft maintenance	16.3	18.6	14.1	57.1	67.4	18.0
Aircraft rent	37.6	38.2	1.6	146.0	148.5	1.7
Food and beverage service	10.6	11.8	11.3	44.2	46.7	5.7
Commissions	19.7	22.9	16.2	88.7	100.8	13.6
Other selling expenses	14.5	11.7	(19.3)	64.3	63.9	(0.6)
Depreciation and amortization	13.6	14.9	9.6	55.9	56.9	1.8
Gain on sale of assets	(5.7)	(0.9)	NM	(9.3)	(1.2)	NM
Landing fees and other rentals	12.4	12.7	2.4	49.9	53.1	6.4
Other	22.6	26.2	15.9	88.6	99.4	12.2
Total Operating Expenses	293.5	325.5	10.9	1,207.3	1,313.6	8.8
Operating Income (Loss)	(1.0)	24.4	NM	90.0	134.3	49.2
Interest income	3.1	3.9		11.5	12.2	
Interest expense	(6.1)	(5.9)		(29.7)	(25.0)	
Interest capitalized	0.6	1.1		0.6	3.4	
Other - net	1.3	0.1		2.1	2.5	
	(1.1)	(0.8)		(15.5)	(6.9)	
Income (Loss) Before Income Tax	$(2.1)	$23.6		$74.5	$127.4	
Operating Statistics:						
Revenue passengers (000)	2,804	2,958	5.5	11,805	12,284	4.1
RPMs (000,000)	2,307	2,490	7.9	9,831	10,386	5.6
ASMs (000,000)	3,495	3,847	10.1	14,904	15,436	3.6
Passenger load factor	66.0%	64.7%	(1.3)pts	66.0%	67.3%	1.3 pts
Breakeven load factor	69.3%	60.2%	(9.1)pts	62.4%	60.5%	(1.9)pts
Yield per passenger mile	11.04c	12.57c	13.8	11.67c	12.49c	7.1
Operating revenue per ASM	8.37c	9.10c	8.7	8.70c	9.38c	7.8
Operating expenses per ASM	8.40c	8.46c	0.8	8.10c	8.51c	5.1
Fuel cost per gallon	80.7c	71.7c	(11.0)	75.2c	72.6c	(3.5)
Fuel gallons (000,000)	63.9	68.8	7.7	266.6	275.2	3.2
Average number of employees	7,923	8,223	3.8	7,652	8,236	7.6
Aircraft utilization (block hours)	10.8	11.2	3.7	11.3	11.4	0.9
Operating fleet at period-end	74	78	5.4	74	78	5.4

NM = Not Meaningful
c=cents

Horizon Air Financial and Statistical Data

Quarter Ended December 31 Year Ended December 31

Financial Data (in millions):	1996	1997	% Change	1996	1997	% Change
Operating Revenues:						
Passenger	$64.7	$72.7	12.4	$287.3	$289.5	0.8
Freight and mail	2.8	2.7	(3.6)	11.2	11.2	0.0
Other - net	0.7	1.0	42.9	2.8	2.9	3.6
Total Operating Revenues	68.2	76.4	12.0	301.3	303.6	0.8
Operating Expenses:						
Wages and benefits	23.3	23.9	2.6	92.5	94.4	2.1
Employee profit sharing	(0.7)	0.8	NM	0.0	1.4	NM
Contracted services	1.6	1.7	6.2	5.8	6.3	8.6
Aircraft fuel	9.3	8.4	(9.7)	33.7	32.8	(2.7)
Aircraft maintenance	10.8	8.0	(25.9)	41.7	41.4	(0.7)
Aircraft rent	9.0	9.4	4.4	35.3	35.5	0.6
Food and beverage service	0.7	0.5	(28.6)	2.5	1.9	(24.0)
Commissions	4.4	4.1	(6.8)	19.2	17.9	(6.8)
Other selling expenses	4.3	3.6	(16.3)	17.5	16.5	(5.7)
Depreciation and amortization	2.9	2.7	(6.9)	11.4	11.2	(1.8)
Loss (gain) on sale of assets	(0.6)	(0.1)	NM	0.2	(0.7)	NM
Landing fees and other rentals	3.2	3.5	9.4	12.9	13.5	4.7
Other	7.1	6.7	(5.6)	28.5	25.7	(9.8)
Total Operating Expenses	75.3	73.2	(2.8)	301.2	297.8	(1.1)
Operating Income (Loss)	(7.1)	3.2	NM	0.1	5.8	NM
Interest income	0.2	0.0		0.3	0.1	
Interest expense	(0.3)	(0.3)		(0.9)	(1.8)	
Interest capitalized	0.3	0.6		0.4	1.8	
Other - net	0.1	0.1		0.4	0.4	
	0.3	0.4		0.2	0.5	
Income (Loss) Before Income Tax	$(6.8)	$3.6		$0.3	$6.3	
Operating Statistics:						
Revenue passengers (000)	903	938	3.9	3,753	3,686	(1.8)
RPMs (000,000)	211	231	9.6	867	889	2.6
ASMs (000,000)	365	376	2.9	1,462	1,446	(1.1)
Passenger load factor	57.8%	61.5%	3.7 pts	59.3%	61.5%	2.2 pts
Breakeven load factor	65.4%	58.3%	(7.1)pts	59.3%	60.2%	0.9 pts
Yield per passenger mile	30.71c	31.48c	2.5	33.14c	32.56c	(1.8)
Operating revenue per ASM	18.70c	20.32c	8.7	20.61c	21.00c	1.9
Operating expenses per ASM	20.64c	19.47c	(5.7)	20.60c	20.60c	(0.0)
Fuel cost per gallon	84.4c	76.3c	(9.6)	78.9c	77.5c	(1.7)
Fuel gallons (000,000)	11.0	11.0	0.0	42.7	42.4	(0.7)
Average number of employees	2,947	2,774	(5.8)	2,891	2,756	(4.7)
Aircraft utilization (block hours)	7.3	7.1	(2.7)	7.7	7.1	(7.8)
Operating fleet at period-end	62	62	0.0	62	62	0.0

NM = Not Meaningful
c=cents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Industry Conditions

During 1997, as part of the Taxpayer Relief Act, the 10% passenger ticket tax was replaced with a new system that combines a percentage tax with a per passenger segment fee. Effective October 1, 1997, the ticket tax is 9% plus $1 per segment. The percentage tax is scheduled to decrease over time and the segment fee is scheduled to increase. The $6 international departure tax has increased to $12 and a new $12 international arrival tax has been added. However, the Act retains the $6 rate for travel between Alaska and the U.S. mainland. This tax and the international taxes will be indexed to the CPI beginning January 1, 1999. The Taxpayer Relief Act also included these items that will affect the Company and the airline industry: (a) a new tax of 7.5% on payments to air carriers for the sale of miles in frequent flyer programs; (b) a phased-in increase from 50% to 80% for the deductible percentage of per diems paid to flight crews; and (c) faster cost recovery for alternative minimum tax purposes of aircraft purchased in 1999 and later years.

During 1996, fuel prices increased significantly for the Company and most of its competitors (approximately 20% or 12 cents per gallon over 1995 levels for Alaska Airlines). During 1997, fuel prices decreased approximately 3.5% from 1996 levels.

RESULTS OF OPERATIONS

1997 Compared with 1996 Consolidated net income in 1997 was $72.4 million, or $4.90 per share (basic) and $3.53 per share (diluted), compared with net income of $38.0 million, or $2.67 per share (basic) and $2.05 per share (diluted) in 1996. Consolidated operating income was $139.0 million in 1997 compared with $89.0 million in 1996. Of the $50.0 million improvement, $35.6 million occurred in the fourth quarter. Severe winter storms, high fuel prices and matching of competitors' lower fares adversely affected the 1996 fourth quarter. Alaska's annual operating income improved by $44.3 million, while Horizon's improved by $5.7 million. A discussion of operating results for the two airlines follows.

Alaska Airlines Operating income increased 49.2% to $134.3 million, resulting in a 9.3% operating margin as compared to a 6.9% margin in 1996. 1997 operating revenue per available seat mile (ASM) increased 7.8% to 9.38 cents while operating expenses per available seat mile increased 5.1% to 8.51 cents.

The increase in revenue per ASM was due to a 7.1% increase in system passenger yield combined with a 1.3 point improvement in passenger load factor. Most markets, including the three largest (Pacific Northwest - Southern California, Seattle - Anchorage and Pacific Northwest - Northern California), experienced increases in yields. Most markets also experienced increases in load factor including the Seattle-Anchorage market, which had a 4.9 point improvement. The higher yields and load factors reflect a more stabilized competitive environment in 1997.

Freight and mail revenues decreased 3.6% in the first half of 1997 due to more competition and increased 4.1% in the second half due to increased cargo capacity and higher mail rates.

Other-net revenues were essentially unchanged because an additional $5 million of proceeds from partners in Alaska's frequent flyer program were offset by a similar increase in the frequent flyer award liability.

The table below shows the major operating expense elements on a cost per available seat mile (ASM) basis in 1996 and 1997.

Alaska Airlines	Operating Expenses Per ASM (In Cents)			
	1996	1997	Change	% Change
Wages and benefits	2.57	2.74	.17	7
Employee profit sharing	.01	.08	.07	NM
Contracted services	.25	.28	.03	12
Aircraft fuel	1.35	1.29	(.06)	(4)
Aircraft maintenance	.38	.44	.06	16
Aircraft rent	.98	.96	(.02)	(2)
Food and beverage service	.30	.30	--	--
Commissions	.59	.65	.06	10
Other selling expenses	.43	.41	(.02)	(5)
Depreciation and amortization	.38	.37	(.01)	(3)
Gain on sale of assets	(.06)	(.01)	.05	NM
Landing fees and other rentals	.33	.34	.01	3
Other	.59	.66	.07	12
Alaska Airlines Total	8.10	8.51	.41	5

NM = Not Meaningful

Alaska's higher unit costs were primarily due to increased labor costs. Significant unit cost changes are discussed below.

Employees increased 7.6% (primarily in reservations and customer service positions) to service the 4.1% increase in passengers and also to improve on-time within 15 minutes flight departure performance, which improved from 77% on-time in 1996 to 82% on-time in 1997. Excluding profit sharing, average wages and benefits per employee were up 2.7%, primarily due to higher pilot wage rates and higher health insurance costs. The net effect was that wages and benefits expense increased more than the ASM growth, resulting in a 7% increase in cost per ASM.

Profit sharing expense increased the cost per ASM by .07 cents. Effective for 1997, Alaska changed its profit sharing program so that eligible employees will receive their pro rata share of 10% of Alaska's adjusted pre-tax profits starting with the first dollar of pre-tax profits.

Fuel expense per ASM decreased 4%, primarily due to a 3.5% decrease in the price of fuel.

Maintenance expense per ASM increased 16% because significantly more engine repair expense was incurred in 1997 and a smaller proportion of airframe maintenance costs were capitalized.

Commission expense per ASM increased 10%, less than the 13% increase in passenger revenues because a lower percentage of sales were made by travel agents. In addition, the commission rate paid to travel agents decreased from 10% to 8% for sales made after September 30, 1997. The gain on sale of assets in 1996 is primarily due to the sale of three jet aircraft.

Other expense per ASM increased 12%, primarily due to higher costs related to property and other taxes, flight crew hotels, employee hiring and communications.

Horizon Air Operating income increased from $0.1 million to $5.8 million, resulting in a 1.9% operating margin as compared to a zero margin in 1996. For 1997, operating revenue per ASM increased 1.9% to 21.00 cents while operating expenses per available seat mile remained even at 20.60 cents.

The increase in revenue per ASM was due to a 2.2 point increase in system passenger load factor, partially offset by a 1.8% decrease in passenger yield. The Seattle-to-Canada, Seattle-to-Montana and the Seattle-Boise markets experienced significant increases in load factors. The decrease in yields is believed to be due to a longer average passenger trip length in 1997 and to the presence of the passenger transportation tax for 10 months in 1997 versus 4 months in 1996.

The table below shows the major operating expense elements on a cost per ASM basis for Horizon in 1996 and 1997.

Horizon Air	Operating Expenses Per ASM (In Cents)			
	1996	1997	Change	% Change
Wages and benefits	6.33	6.53	.20	3
Employee profit sharing	--	.09	.09	NM
Contracted services	.39	.43	.04	10
Aircraft fuel	2.30	2.27	(.03)	(1)
Aircraft maintenance	2.85	2.86	.01	--
Aircraft rent	2.41	2.45	.04	2
Food and beverage service	.17	.13	(.04)	(24)
Commissions	1.31	1.24	(.07)	(5)
Other selling expenses	1.20	1.14	(.06)	(5)
Depreciation and amortization	.78	.77	(.01)	(1)
Loss (gain) on sale of assets	.01	(.05)	(.06)	NM
Landing fees and other rentals	.88	.93	.05	6
Other	1.97	1.81	(.16)	(8)
Horizon Air Total	20.60	20.60	--	--

NM = Not Meaningful

Wages and benefits per ASM increased, primarily due to higher wage rates, payroll taxes and more 401(k) plan employer matching costs. Profit sharing expense increased due to profitable operations. Contracted services increased due to higher security screening and hiring costs. Food and beverage decreased due to a conscious effort to reduce costs and improve efficiency. Other expense decreased due to less flight crew training and personnel costs, lower insurance rates and decreased supplies expense.

Consolidated Nonoperating Income (Expense) Nonoperating expense decreased $9.3 million to $15.4 million, primarily due to smaller average debt balances, lower interest rates on variable interest rate debt and more interest capitalized.

1996 Compared with 1995 Consolidated net income in 1996 was $38.0 million, or $2.67 per share (basic) and $2.05 per share (diluted), compared with net income of $17.3 million, or $1.28 per share (basic) and $1.26 per share (diluted) in 1995. Consolidated operating income was $89.0 million compared with $75.7 million in 1995. Alaska's operating income improved by $17.7 million, but it was offset by lower operating results at Horizon.

Alaska Airlines Operating income increased 24.5% to $90.0 million, resulting in a 6.9% operating margin as compared with a 6.3% margin in 1995. Operating revenue per available seat mile (ASM) increased 5.8% to 8.70 cents while operating expenses per ASM decreased 5.1% to 8.10 cents. The increase in revenue per ASM was primarily due to a 4.2 point improvement in system passenger load factor. Higher unit costs were largely due to higher fuel prices and heavier passenger loads.

Horizon Air Operating income decreased 98% to $0.1 million primarily due to the fourth quarter, which was negatively impacted by adverse weather, increased competition, higher than normal maintenance expense and costs associated with transitioning to a simplified fleet.

Consolidated Nonoperating Income (Expense) Nonoperating expense decreased from $41.7 million to $24.7 million primarily due to lower interest rates on variable debt and smaller average debt balances. In addition, 1995 included a $2.2 million write-off of capitalized debt issuance costs.

LIQUIDITY AND CAPITAL RESOURCES
The table below presents the major indicators of financial condition and liquidity.

(In millions, except debt-to-equity and per share amounts)	Dec. 31, 1996	Dec. 31, 1997	Change
Cash and marketable securities	$101.8	$212.7	$110.9
Working capital (deficit)	(185.6)	(48.7)	136.9
Long-term debt and capital lease obligations	404.1	401.4	(2.7)
Shareholders' equity	272.5	475.3	202.8
Book value per common share	$18.83	$26.00	$7.17
Debt-to-equity	60%:40%	46%:54%	NA

1997 Financial Changes The Company's cash and marketable securities portfolio increased by $111 million during 1997. Operating activities provided $205 million of cash in 1997. Additional cash was provided by the sale and leaseback of four B737-400 aircraft and 13 Dash 8-200 aircraft ($247 million), issuance of common stock ($129 million) and issuance of long-term debt ($28 million). Cash was used for $439 million of capital expenditures including the purchase of two new MD-83 aircraft, three new B737-400 aircraft, a previously leased B737-400 aircraft, 13 new Dash 8-200 aircraft, flight equipment deposits and airframe and engine overhauls, net repayment of short-term borrowings ($47 million) and the repayment of debt ($26 million).
Like most airlines, the Company has a working capital deficit. The existence of a working capital deficit has not in the past impaired the Company's ability to meet its obligations as they become due and it is not expected to do so in the future.

Shareholders' equity increased by $203 million due to the sale of 3.45 million shares of common stock and net income of $72 million. These factors increased equity to 54% of capital, an improvement of 14 percentage points.

Financing Activities During 1997, Alaska sold four B737-400 aircraft and leased them back for 18 years; Horizon sold 13 Dash 8-200 aircraft and leased them back for 15 years.

In November 1997, Standard & Poors raised its corporate credit rating on Air Group and Alaska to double B minus from single B plus, citing a stabilized competitive position and improving financial profile.

In January 1998, the Company called its 6-7/8% convertible subordinated debentures and, based on recent stock prices, expects that substantially all of them will be converted into 1.608 million shares of common stock.

Commitments During 1997, Alaska's lease commitments increased approximately $194 million due to the sale and leaseback of four B737-400 aircraft. In addition, Alaska ordered 15 Boeing 737 aircraft along with an option to acquire 10 more. The value of the orders is approximately $510 million. Horizon's lease commitments increased approximately $156 million due to the acquisition of 13 new Dash 8-200 aircraft. In addition, Horizon ordered 10 new Dash 8-200 aircraft, valued at approximately $100 million. At December 31, 1997, the Company had firm orders for 46 aircraft with a total cost of approximately $1,015 million as set forth below. In addition, Alaska has options to acquire 22 more B737s and Horizon has options to acquire 25 more Dash 8-200s. Alaska and Horizon expect to finance the new planes with either leases, long-term debt or internally generated cash.

				Delivery Period - Firm Orders			
Aircraft	1998	1999	2000	2001	2002	2003-05	Total
Boeing B737-400	9	2	--	--	--	--	11
Boeing B737-700	--	3	--	--	--	--	3
Boeing B737-900	--	--	--	5	5	--	10
de Havilland Dash 8-200	11	1	3	--	--	7	22
Total	20	6	3	5	5	7	46
Cost (Millions)	$398	$167	$30	$175	$175	$70	$1,015

The Company accrues the costs associated with returning leased aircraft over the lease period. As leased aircraft are retired, the costs are charged against the established reserve. At December 31, 1997, $43 million was reserved for leased aircraft returns.

Deferred Taxes At December 31, 1997, net deferred tax liabilities were $62 million, which includes $112 million of net temporary differences offset by $50 million of Alternative Minimum Tax (AMT) credits. The Company believes that all of its deferred tax assets, including its AMT credits, will be realized through profitable operations.

Year 2000 Computer Issue During the past eight years, the Company has been engaged in a number of projects to improve its information technology infrastructure. The Company expects to complete these projects during 1998 and 1999 at an estimated cost of $5 to $10 million. As a result of these activities, the Company's systems will be Year 2000 compliant. The direct cost of projects solely intended to correct Year 2000 problems is expected to be less than $1 million.

1996 Financial Changes The Company's cash and marketable securities portfolio decreased by $33 million during 1996. Operating activities provided $223 million of cash in 1996. Additional cash was provided by the sale and leaseback of three B737-400 aircraft ($86 million), the sale of three MD-80 aircraft ($52 million) and proceeds received from the issuance of common stock ($21 million). Cash was used for the purchase of two new MD-83 aircraft, two used B737-400 aircraft, two previously leased B737-200Cs, airframe and engine overhauls and other capital expenditures ($209 million), and aircraft purchase deposits ($61 million). Cash was also used to repay net short-term borrowings ($19 million), and $134 million of long-term debt (including $100 million repaid early). During 1996, Alaska replaced its $75 million credit facility with a $125 million credit facility with substantially the same terms and conditions.

1995 Financial Changes The Company's cash and marketable securities portfolio increased by $30 million during 1995. Operating activities provided $126 million of cash in 1995. Additional cash was provided by flight equipment deposits returned ($11 million), net short-term borrowings ($41 million), the sale and leaseback of two B737-400 aircraft ($56 million) and new long-term debt proceeds ($129 million). Cash was used for the purchase of one previously leased B737-400 aircraft, airframe and engine overhauls and other capital expenditures ($103 million) and the repayment of debt and capital lease obligations

($237 million). Included in the above numbers are the June 1995 issuance of $132.3 million of 6-1/2% convertible senior debentures due 2005, and the August 1995 redemption of the 7-1/4% zero coupon, convertible subordinated notes for $127.7 million

EFFECT OF INFLATION Inflation and specific price changes do not have a significant effect on the Company's operating revenues, operating expenses and operating income, because such revenues and expenses generally reflect current price levels.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
See Item 14.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
See "Election of Directors," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 20, 1997. See "Executive Officers of the Registrant" in Part I following Item 4 for information relating to executive officers.

ITEM 11. EXECUTIVE COMPENSATION
See "Executive Compensation," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 20, 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
See "Security Ownership of Certain Beneficial Owners and Management," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 19, 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
See "Transactions with Management and Others," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 20, 1997.

PART IV
ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Consolidated Financial Statements:	Page(s)
Selected Quarterly Consolidated Financial Information (Unaudited)	5
Consolidated Balance Sheet as of December 31, 1996 and 1997	20-21
Consolidated Statement of Income for the years ended December 31, 1995, 1996 and 1997	22
Consolidated Statement of Shareholders' Equity for the years ended December 31, 1995, 1996 and 1997	23
Consolidated Statement of Cash Flows for the years ended December 31, 1995, 1996 and 1997	24
Notes to Consolidated Financial Statements	25-32
Report of Independent Public Accountants	33
Consolidated Financial Statement Schedule II, Valuation and Qualifying Accounts, for the years ended December 31, 1995, 1996 and 1997	34

See Exhibit Index on page 35.

(b) A report on Form 8-K announcing orders for 15 Boeing 737 series aircraft was filed on November 20, 1997

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ John F. Kelly Date: February 10, 1998
John F. Kelly, Chairman, Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 10, 1998 on behalf of the registrant and in the capacities indicated.

/s/ John F. Kelly Chairman, Chief Executive Officer, President and Director
John F. Kelly

/s/ Harry G. Lehr Senior Vice President/Finance
Harry G. Lehr (Principal Financial Officer)

/s/ Bradley D. Tilden Controller
Bradley D. Tilden (Principal Accounting Officer)

/s/ Ronald F. Cosgrave Director
Ronald F. Cosgrave

/s/ Mary Jane Fate Director
Mary Jane Fate

/s/ Bruce R. Kennedy Director
Bruce R. Kennedy

/s/ R. Marc Langland Director
R. Marc Langland

/s/ Byron I. Mallott Director
Byron I. Mallott

/s/ Robert L. Parker, Jr. Director
Robert L. Parker, Jr.

/s/ John V. Rindlaub. Director
John V. Rindlaub.

/s/ Richard A. Wien Director
Richard A. Wien

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

ASSETS

As of December 31 (In Millions)	1996	1997
Current Assets		
Cash and cash equivalents	$49.4	$102.6
Marketable securities	52.4	110.1
Receivables - less allowance for doubtful accounts (1996 - $1.3; 1997 - $1.2)	69.7	72.6
Inventories and supplies	47.8	47.2
Prepaid expenses and other assets	80.9	92.1
Total Current Assets	300.2	424.6
Property and Equipment		
Flight equipment	851.6	950.1
Other property and equipment	234.8	258.5
Deposits for future flight equipment	84.4	108.9
	1,170.8	1,317.5
Less accumulated depreciation and amortization	326.3	373.8
	844.5	943.7

Capital leases:		
Flight and other equipment	44.4	44.4
Less accumulated amortization	25.5	27.5
	18.9	16.9
Total Property and Equipment - Net	863.4	960.6
Intangible Assets - Subsidiaries	61.6	59.6
Other Assets	86.2	88.3
Total Assets	$1,311.4	$1,533.1

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

As of December 31 (In Millions)	1996	1997
Current Liabilities		
Accounts payable	$65.4	$73.9
Accrued aircraft rent	52.8	60.7
Accrued wages, vacation and payroll taxes	51.5	70.1
Other accrued liabilities	82.0	73.5
Short-term borrowings		
(Interest rate: 1996 - 5.6%)	47.0	-
Air traffic liability	163.0	166.4
Current portion of long-term debt and		
capital lease obligations	24.1	28.7
Total Current Liabilities	485.8	473.3
Long-Term Debt and Capital Lease Obligations	404.1	401.4
Other Liabilities and Credits		
Deferred income taxes	49.5	72.3
Deferred income	18.1	19.5
Other liabilities	81.4	91.3
	149.0	183.1
Commitments		
Shareholders' Equity		
Preferred stock, $1 par value		
Authorized: 5,000,000 shares	-	-
Common stock, $1 par value		
Authorized: 50,000,000 shares		
Issued: 1996 - 17,223,281 shares		
1997 - 21,030,762 shares	17.2	21.0
Capital in excess of par value	166.8	292.5
Treasury stock, at cost: 1996 - 2,748,550 shares		
1997 - 2,748,030 shares	(62.6)	(62.6)
Deferred compensation	(2.7)	(1.8)
Retained earnings	153.8	226.2
	272.5	475.3
Total Liabilities and Shareholders' Equity	$1,311.4	$1,533.1

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Alaska Air Group, Inc.

Year Ended December 31 (In Millions Except Per Share Amounts)	1995	1996	1997

Operating Revenues			
Passenger	$1,258.2	$1,427.7	$1,574.5
Freight and mail	95.2	93.9	94.1
Other - net	64.1	70.6	70.8
Total Operating Revenues	1,417.5	1,592.2	1,739.4
Operating Expenses			
Wages and benefits	427.8	477.0	531.7
Contracted services	36.8	42.7	48.8
Aircraft fuel	181.2	234.2	232.6
Aircraft maintenance	79.2	98.7	108.7
Aircraft rent	172.1	181.2	183.9
Food and beverage service	44.7	46.6	48.5
Commissions	93.1	101.5	106.6
Other selling expenses	72.8	81.8	80.4
Depreciation and amortization	68.3	67.5	68.3
Loss (gain) on sale of assets	0.2	(9.1)	(1.9)
Landing fees and other rentals	57.7	62.4	66.2
Other	107.9	118.7	126.6
Total Operating Expenses	1,341.8	1,503.2	1,600.4
Operating Income	75.7	89.0	139.0
Nonoperating Income (Expense)			
Interest income	10.4	11.1	10.6
Interest expense	(51.5)	(38.4)	(33.6)
Interest capitalized	0.2	1.0	5.3
Other - net	(0.8)	1.6	2.3
	(41.7)	(24.7)	(15.4)
Income before income tax	34.0	64.3	123.6
Income tax expense	16.7	26.3	51.2
Net Income	$17.3	$38.0	$72.4
Basic Earnings Per Share	$1.28	$2.67	$4.90
Diluted Earnings Per Share	$1.26	$2.05	$3.53
Shares used for computation:			
Basic	13.471	14.241	14.785
Diluted	20.765	22.458	22.689

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Alaska Air Group, Inc.

(In Millions)	Common Stock	Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compen-sation	Retained Earnings	Total
Balances at December 31, 1994	$16.6	$152.8	$(71.8)	$(4.8)	$98.5	$191.3
1995 net income					17.3	17.3
Stock issued under stock plans	0.1	2.6				2.7
Treasury stock purchase						
Employee Stock Ownership Plan shares allocated				1.2		1.2
Balances at December 31, 1995	16.7	155.4	(71.8)	(3.6)	115.8	212.5
1996 net income					38.0	38.0
Stock issued under stock plans	0.5	9.7				10.2
Treasury stock activity:						
Purchase (4,466 shares)			(0.1)			(0.1)
Sale (409,524 shares)		1.7	9.3			11.0
Employee Stock Ownership Plan shares allocated				0.9		0.9
Balances at December 31, 1996	17.2	166.8	(62.6)	(2.7)	153.8	272.5
1997 net income					72.4	72.4
Issuance of 3,450,000 shares of common stock	3.5	118.4				121.9
Stock issued under stock plans	0.3	7.1				7.4
Stock issued for convertible subordinated debentures	0.0	0.2				0.2
Treasury stock activity:						
Purchase (2,094 shares)			(0.1)			(0.1)
Sale (2,614 shares)			0.1			0.1
Employee Stock Ownership Plan						0.0
shares allocated				0.9		0.9
Balances at December 31, 1997	$21.0	$292.5	$(62.6)	$(1.8)	$226.2	$475.3

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Alaska Air Group, Inc.

Year Ended December 31 (In Millions)	1995	1996	1997
Cash flows from operating activities:			
Net income	$17.3	$38.0	$72.4
Adjustments to reconcile net income to cash:			
Depreciation and amortization	68.3	67.5	68.3
Amortization of airframe and engine overhau	24.3	34.6	35.1
Loss (gain) on disposition of assets and de	1.9	(9.1)	(1.9)
Increase in deferred income taxes	12.4	8.5	22.8
Decrease (increase) in accounts receivable	(18.5)	18.8	(2.9)
Increase in other current assets	(17.2)	(13.9)	(10.6)
Increase in air traffic liability	1.0	38.6	3.4
Increase in other current liabilities	15.5	36.9	26.5
Other-net	20.5	3.0	(7.9)
Net cash provided by operating activities	125.5	222.9	205.2
Cash flows from investing activities:			
Proceeds from disposition of assets	3.8	58.1	6.9
Purchases of marketable securities	(169.4)	(53.5)	(443.6)
Sales and maturities of marketable securities	153.5	110.4	385.9
Flight equipment deposits returned	10.8	1.1	8.7
Additions to flight equipment deposits	(0.5)	(60.5)	(68.4)
Additions to property and equipment	(102.8)	(209.3)	(370.6)
Restricted deposits and other	3.9	0.5	(2.0)
Net cash used in investing activities	(100.7)	(153.2)	(483.1)
Cash flows from financing activities:			
Proceeds from short-term borrowings	69.9	47.0	56.4
Repayment of short-term borrowings	(29.0)	(65.9)	(103.4)
Proceeds from sale and leaseback transactions	56.0	85.6	246.7
Proceeds from issuance of long-term debt	128.8	-	28.0
Long-term debt and capital lease payments	(237.4)	(133.9)	(25.9)
Proceeds from issuance of common stock	2.8	10.2	129.3
Proceeds from sale of treasury stock	-	10.9	-
Gain (loss) on debt retirement	(1.7)	-	-
Net cash provided by (used in) financing activities	(10.6)	(46.1)	331.1
Net increase in cash and cash equivalents	14.2	23.6	53.2
Cash and cash equivalents at beginning of year	11.6	25.8	49.4
Cash and cash equivalents at end of year	$25.8	$49.4	$102.6
Supplemental disclosure of cash paid during the year for:			
Interest (net of amount capitalized)	$52.6	$43.5	$28.7
Income taxes	5.0	20.6	22.1
Noncash investing and financing activities:	None	None	None

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Alaska Air Group, Inc.
December 31, 1997

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Alaska Air Group, Inc. (Company or Air Group) and its subsidiaries, the principal subsidiaries being Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). All significant intercompany transactions are eliminated. Preparation of financial statements requires the use of management's estimates. Actual results could differ from those estimates. Certain reclassifications have been made in prior years' financial statements to conform to the 1997 presentation.

Alaska and Horizon operate as airlines. However, their business plans, competition and economic risks differ substantially. Alaska is a major airline serving Alaska, the West Coast, Mexico and Eastern Russia. It operates an all jet fleet and its average passenger trip is 846 miles. Horizon is a regional airline serving the Pacific Northwest, Northern

California and Western Canada. It operates both jet and turboprop aircraft, and its average passenger trip is 241 miles. Substantially all of Alaska's and Horizon's sales occur in the United States. See Note 11 for operating segment information.

Cash and Cash Equivalents
Cash equivalents consist of highly liquid investments with original maturities of three months or less. They are carried at cost, which approximates market. The Company reduces its cash balance when checks are disbursed. Due to the time delay in checks clearing the banks, the Company normally maintains a negative cash balance on its books which is reported as a current liability. The amount of the negative cash balance was $12.5 million and $10.1 million at December 31, 1996 and 1997, respectively.

Inventories and Supplies
Expendable and repairable aircraft parts, as well as other materials and supplies, are stated at average cost. An allowance for obsolescence is accrued on a straight-line basis over the estimated useful lives of the aircraft. Inventories related to the retired B727 fleet and other surplus items are carried at their net realizable value. The allowance at December 31, 1996 and 1997 for all inventories was $16.1 million and $18.0 million, respectively.

Property, Equipment and Depreciation
Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which are as follows:

Aircraft and other flight equipment	8-20 years
Buildings	10-30 years
Capitalized leases and leasehold improvements	Term of lease
Other equipment	3-15 years

Assets and related obligations for items financed under capital leases are initially recorded at an amount equal to the present value of the future minimum lease payments. The cost of major airframe overhauls, engine overhauls, and other modifications which extend the life or improve the usefulness of aircraft are capitalized and amortized over their estimated period of use. Other repair and maintenance costs are expensed when incurred. The Company periodically reviews long-lived assets for impairment.

Capitalized Interest
Interest is capitalized on flight equipment purchase deposits and ground facilities progress payments as a cost of the related asset and is depreciated over the estimated useful life of the asset.

Intangible Assets-Subsidiaries
The excess of the purchase price over the fair value of net assets acquired is recorded as an intangible asset and is amortized over 40 years. Accumulated amortization at December 31, 1996 and 1997 was $21.1 million and $23.1 million, respectively.

Deferred Income
Deferred income results from the sale and leaseback of aircraft, the receipt of manufacturer or vendor credits, and from the sale of foreign tax benefits. This income is recognized over the term of the applicable agreements.

Frequent Flyer Awards
Alaska operates a frequent flyer award program that provides travel awards to members based on accumulated mileage. The estimated incremental cost of providing free travel is recognized as an expense and accrued as a liability as miles are accumulated. Alaska also defers recognition of income on a portion of the payments it receives from travel partners associated with its frequent flyer program. The

frequent flyer award liability is relieved as travel awards are issued.

Passenger Revenues
Passenger revenues are considered earned at the time service is provided. Tickets sold but not yet used are reported as air traffic liability.

Contracted Services
Contracted services includes the expenses for aircraft ground handling, security, temporary employees and other similar services.

Other Selling Expenses
Other selling expenses includes credit card commissions, computerized reservations systems (CRS) charges, advertising and promotional costs. The costs of advertising are expensed the first time the advertising takes place. Advertising expense was $15.2 million, $15.6 million, and $11.0 million, respectively, in 1995, 1996 and 1997.

Income Taxes
Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

Stock Options
The Company applies APB Opinion No. 25 and related Interpretations in accounting for stock options. See Note 6 for more information.

Derivative Financial Instruments
The Company periodically enters into interest rate swap agreements to hedge interest rate risk. The differential to be paid or received from these agreements is accrued as interest rates change and is recognized currently in the income statement. The Company periodically enters into hedge agreements to reduce its exposure to fluctuations in the price of jet fuel. A gain or loss is recorded quarterly if the fuel index average exceeds the ceiling price or falls below the floor price.

Note 2. Marketable Securities
Marketable securities are investments that are readily convertible to cash and have original maturities that exceed three months. They are classified as available for sale and consisted of the following at December 31 (in millions):

	1996	1997
Cost:		
U.S. government securities	$48.4	$75.1
Asset backed obligations	4.0	35.0
	$52.4	$110.1
Fair value:		
U.S. government securities	$48.2	$75.2
Asset backed obligations	4.0	35.0
	$52.2	$110.2

There were no material unrealized holding gains or losses at December 31, 1996 or 1997.

Of the marketable securities on hand at December 31, 1997, 54% will mature during 1998 and the remainder will mature during 1999. Based on specific identification of securities sold, the following occurred in 1996 and 1997 (in millions):

	1996	1997
Proceeds from sales	$110.4	$385.9
Gross realized gains	0.3	0.1
Gross realized losses	0.1	0.1

Realized gains and losses are reported as a component of interest income.

Note 3. Other Assets

Other assets consisted of the following at December 31 (in millions):

	1996	1997
Restricted deposits	$64.6	$67.5
Leasehold rights	8.4	5.5
Deferred costs and other	13.2	15.3
	$86.2	$88.3

Leasehold rights and deferred costs are amortized over the term of the related lease or contract.

Note 4. Long-term Debt and Capital Lease Obligations

At December 31, 1996 and 1997, long-term debt and capital lease obligations were as follows (in millions):

	1996	1997
8.7%* fixed rate notes payable due through 2004	$115.5	$103.5
6.4%* variable rate notes payable due through 2009	98.6	114.9
6-1/2% convertible senior debentures due 2005	132.3	132.1
6-7/8% convertible subordinated debentures due 2004-2014	54.0	54.0
Long-term debt	400.4	404.5
Capital lease obligations	27.8	25.6
Less current portion	(24.1)	(28.7)
	$404.1	$401.4

* weighted average for 1997

At December 31, 1997, borrowings of $218.4 million are secured by flight equipment and real property. The 6-1/2% and 6-7/8% debentures are convertible into common stock at $21.50 and $33.60 per share, respectively, subject to adjustments in certain events. The 6-1/2% debentures are redeemable at the Company's option on or after June 15, 1998, initially at a redemption price of 104.33% of the principal amount, declining ratably to 100% over six years. The 6-7/8% debentures are redeemable at the Company's option at a redemption price of 101.38% of the principal amount at December 31, 1997, declining ratably to 100% on June 15, 1999.

At December 31, 1997, Alaska had a $125 million credit facility with commercial banks. Advances under this facility may be for up to a maximum maturity of four years. Borrowings may be used for aircraft acquisitions or other corporate purposes, and they bear interest at a rate which varies based on LIBOR. At December 31, 1997, no borrowings were outstanding under this credit facility.

Certain Alaska loan agreements contain provisions that require maintenance of specific levels of net worth, leverage and fixed charge coverage, and limit investments, lease obligations, sales of assets and additional indebtedness. At December 31, 1997, the Company was in compliance with all loan provisions, and under the most restrictive loan provisions, Alaska had $140 million of net worth above the minimum.

At December 31, 1997, long-term debt principal payments for the next five years were (in millions):

1998	$26.3
1999	$26.3
2000	$57.3
2001	$47.6
2002	$14.5

Note 5. Commitments

Lease Commitments

Lease contracts for 113 aircraft have remaining lease terms of one to 18 years. The majority of airport and terminal facilities are also leased.

Total rent expense was $201.9 million, $214.7 million and $218.7 million, in 1995, 1996 and 1997, respectively. Future minimum lease payments under long-term operating leases and capital leases as of December 31, 1997 are shown below (in millions):

	Operating Leases Aircraft	Operating Leases Facilities	Capital Leases
1998	$178.2	$16.9	$ 4.1
1999	165.6	16.7	4.1
2000	156.3	14.9	4.1
2001	140.3	9.8	4.1
2002	137.5	5.2	4.1
Thereafter	804.9	71.0	6.8
Total lease payments	$1,582.8	$134.5	27.3
Less amount representing interest			(1.7)
Present value of capital lease payments			$25.6

Aircraft Commitments

The Company has firm orders for 24 Boeing 737 series aircraft to be delivered between 1998 and 2002 and 22 Dash 8-200s to be delivered between 1998 and 2005. The total amount of these commitments is approximately $1.015 billion. As of December 31, 1997, deposits related to the future equipment deliveries were $100.6 million. In addition to the ordered aircraft, the Company holds purchase options on 22 Boeing 737s and 25 Dash 8-200s.

Note 6. Stock Plans

Air Group has three stock option plans, which provide for the purchase of Air Group common stock at a stipulated price on the date of grant by certain officers and key employees of Air Group and its subsidiaries. Under the 1988 Plan, options for 1,720,700 shares were granted. Under the 1996 and 1997 Plans, options for 519,900 shares have been granted and, at December 31, 1997, 401,975 shares were available for grant. Under all plans, the incentive and nonqualified stock options granted have terms of up to approximately ten years. Grantees are 25% vested after one year, 50% after two years, 75% after three years and 100% after four years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 1995, 1996 and 1997, respectively: dividend yield of 0%, 0% and 0%; volatility of 37%, 36% and 34%; risk-free interest rates of 6.46%, 6.33% and 5.69%; and expected lives of 5, 5 and 5 years. Using these assumptions, the weighted average fair value of options granted was $6.69, $9.58 and $14.04 in 1995, 1996 and 1997, respectively.

Air Group follows APB Opinion 25 and related Interpretations in accounting for stock options. Accordingly, no compensation cost has been recognized for these plans. Had compensation cost for the Company's stock options been determined in accordance with Financial Accounting Standard 123, net income and earnings per share (EPS) would have been reduced to the pro forma amounts indicated below. The reductions in future years are likely to be larger than shown below because options vest over four years and new grants are typically made each year.

	1995	1996	1997
Net income (in millions):			
As reported	$17.3	$38.0	$72.4
Pro forma	17.1	37.4	71.4
Basic EPS:			
As reported	$1.28	$2.67	$4.90
Pro forma	1.27	2.63	4.83
Diluted EPS:			
As reported	$1.26	$2.05	$3.53
Pro forma	1.25	2.03	3.48

Changes in the number of shares subject to option, with their weighted average exercise prices, are summarized below:

	Shares	Price
Outstanding, Dec. 31, 1994	1,044,143	$17.15
Granted	425,500	15.37
Exercised	(165,005)	16.11
Canceled	(143,050)	17.80
Outstanding, Dec. 31, 1995	1,161,588	$16.56
Granted	379,900	22.51
Exercised	(504,138)	17.05
Canceled	(45,525)	17.13
Outstanding, Dec. 31, 1996	991,825	$18.57
Granted	245,800	35.25
Exercised	(349,575)	17.36
Canceled	(8,125)	17.03
Outstanding, Dec. 31, 1997	879,925	$23.72

At December 31, 1997, 245,800 of the outstanding options (none of which are currently exercisable) had an exercise price of $35.25 and a remaining contractual life of 10.0 years. The other 634,125 outstanding options had a weighted average exercise price of $19.24 (ranging from $15.00 to $24.00), and a weighted average remaining contractual life of 7.9 years. The number of shares exercisable at year-end with their weighted average exercise prices, are summarized below:

	Shares	Price
December 31, 1995	596,338	$17.24
December 31, 1996	243,675	16.70
December 31, 1997	161,775	19.08

Note 7. Employee Benefit Plans

Pension Plans

Four defined benefit and five defined contribution retirement plans cover various employee groups of Alaska and Horizon. The defined benefit plans provide benefits based on an employee's term of service and average compensation for a specified period of time before retirement. Pension plans are funded as required by the Employee Retirement Income Security Act of 1974 (ERISA).

The defined benefit plan assets are primarily common stocks and fixed income securities. Plan assets exceeded the accumulated benefit obligation at December 31, 1996 and 1997. The following table sets forth the funded status of the plans at December 31, 1996 and 1997 (in millions):

	1996	1997
Benefit obligation -		
Vested	$180.9	$211.5
Nonvested	22.1	38.4
Accumulated benefit obligation	$203.0	$249.9
Plan assets at fair value	$223.7	$289.2
Projected benefit obligation	230.7	307.4
Plan assets less projected benefit obligation	(7.0)	(18.2)
Unrecognized transition asset	(0.8)	(0.5)
Unrecognized prior service cost	2.6	60.1
Unrecognized loss	32.6	(0.8)
Prepaid pension cost	$ 27.4	$ 40.6

The weighted average discount rate used to determine the projected benefit obligation was 7.5% and 7.25% as of December 31, 1996 and 1997, respectively. The calculation assumed a weighted average rate of increase for future compensation levels of 5.1% and 3.2% for 1996 and 1997, respectively. The expected long-term rate of return on plan assets used in 1996 and 1997 was 10%.

Net pension expense for the defined benefit plans included the following components for 1995, 1996 and 1997 (in millions):

	1995	1996	1997
Service cost (benefits earned during the period)	$ 11.4	$ 15.9	$ 17.3
Interest cost on projected benefit obligation	12.9	15.4	17.3
Actual return on assets	(37.0)	(23.6)	(47.6)
Net amortization and deferral	23.3	6.5	26.4
Net pension expense	$ 10.6	$ 14.2	$ 13.4

The defined contribution plans are deferred compensation plans under section 401(k) of the Internal Revenue Code. Some of these plans require Company matching contributions based on a percentage of participants' contributions. One plan has an Employee Stock Ownership Plan (ESOP) feature. The ESOP owns Air Group common shares which are held in trust for eligible employees. The Company has recorded deferred compensation to reflect the value of the shares not yet allocated to eligible employees' accounts. As these shares are allocated to employees, compensation expense is recorded and deferred compensation is reduced.

Alaska and Horizon also maintain an unfunded, noncontributory benefit plan for certain elected officers. The present value of unfunded benefits for this plan was accrued as of December 31, 1996 and 1997.

Total expense for all pension plans was $22.2 million, $26.5 million and $29.0 million, respectively, in 1995, 1996 and 1997.

Profit Sharing Plans

Alaska and Horizon have employee profit sharing plans. Profit sharing expense for 1995, 1996 and 1997 was $-0-, $0.9 million and $13.5 million, respectively.

Other Postretirement Benefits

The Company allows retirees to continue their medical, dental and vision benefits by paying all or a portion of the active employee plan premium until eligible for Medicare, currently age 65. This results in a subsidy to retirees because the premiums received by the Company are less than the actual cost of the retirees' claims. The accumulated postretirement benefit obligation (APBO) for this subsidy at December 31, 1996 and 1997 was $13.5 million and $15.7 million, respectively. The APBO is unfunded and is included with other liabilities on the Balance Sheet. Annual expense related to this subsidy is not considered material to disclose.

Note 8. Income Taxes

Deferred income taxes result from temporary differences in the timing of recognition of revenue and expense for tax and financial reporting purposes. Deferred tax assets and liabilities comprise the following at December 31 (in millions):

	1996	1997
Excess of tax over book depreciation	$146.7	$161.8
Training expense	0.8	0.2
Other - net	1.2	1.1
Gross deferred tax liabilities	148.7	163.1
Loss carryforward	(17.8)	(0.5)
Alternative minimum tax	(44.1)	(50.1)
Capital leases	(4.5)	(4.5)
Ticket pricing adjustments	(1.0)	(1.2)
Frequent flyer program	(6.6)	(8.5)
Employee benefits	(10.2)	(7.8)
Aircraft return provisions	(13.9)	(16.0)

Deferred gains	(3.1)	(4.8)
Capitalized interest	(1.5)	(1.4)
Inventory obsolescence	(7.1)	(6.5)
Gross deferred tax assets	(109.8)	(101.3)
Net deferred tax liabilities	$ 38.9	$ 61.8
Current deferred tax asset	$ (10.6)	$ (10.5)
Noncurrent deferred tax liability	49.5	72.3
Net deferred tax liabilities	$ 38.9	$ 61.8

After consideration of temporary differences, taxable income for 1997 was approximately $99 million, which was partially offset by net operating losses generated in prior years. At December 31, 1997, no federal loss carryforwards remain.

The components of income tax expense were as follows (in millions):

	1995	1996	1997
Current tax expense:			
Federal	$ 5.0	$17.5	$ 26.4
State	0.3	0.9	1.9
Total current	5.3	18.4	28.3
Deferred tax expense:			
Federal	9.2	6.7	18.5
State	2.2	1.2	4.4
Total deferred	11.4	7.9	22.9
Total tax expense	$16.7	$26.3	$51.2

Income tax expense reconciles to the amount computed by applying the U.S. federal rate of 35% to income before taxes as follows (in millions):

	1995	1996	1997
Income before income tax	$34.0	$64.3	$123.6
Expected tax expense	$11.9	$22.5	$43.3
Nondeductible expenses	3.0	2.8	2.9
State income tax	1.8	1.0	4.1
Other - net	--	--	0.9
Actual tax expense	$16.7	$26.3	$51.2
Effective tax rate	49.1%	40.9%	41.4%

Note 9. Earnings per Share

Statement of Financial Accounting Standards No. 128, Earnings per Share (EPS) was adopted for 1997 calendar year reporting. FAS 128 replaces "primary" and "fully-diluted" EPS with "basic" and "diluted" EPS. Basic EPS is calculated by dividing net income by the average number of common shares outstanding. Diluted EPS is calculated by dividing net income plus the after-tax interest expense on convertible debt by the average common shares outstanding plus additional common shares that would have been outstanding if conversion of the convertible debt and exercise of in-the-money stock options is assumed. EPS calculations were as follows (in millions except per share amounts):

	1995	1996	1997
Net income	$17.3	$38.0	$72.4
Avg. shares outstanding	13.471	14.241	14.785
Basic earnings per share	$1.28	$2.67	$4.90
Net income	$17.3	$38.0	$72.4
After-tax interest on:			
6-1/2% debentures	2.7	5.3	5.3
6-7/8% debentures	2.3	2.3	2.3
7-3/4% debentures	0.6	0.5	--
7-1/4% notes	3.3	--	--
Diluted EPS income	$26.2	$46.1	$80.0
Avg. shares outstanding	13.471	14.241	14.785
Assumed conversion of:			

6-1/2% debentures	3.151	6.151	6.151
6-7/8% debentures	1.608	1.608	1.608
7-3/4% debentures	0.468	0.361	--
7-1/4% notes	2.053	--	--
Assumed exercise of stock options	0.014	0.097	0.145
Diluted EPS shares	20.765	22.458	22.689
Diluted earnings per share	$1.26	$2.05	$3.53

Note 10. Financial Instruments

The estimated fair values of the Company's financial instruments were as follows (in millions):

	December 31, 1996	
	Carrying Amount	Fair Value
Cash and cash equivalents	$ 49.4	$ 49.4
Marketable securities	52.4	52.2
Restricted deposits	64.6	64.6
Long-term debt	400.4	421.7

	December 31, 1997	
	Carrying Amount	Fair Value
Cash and cash equivalents	$102.6	$102.6
Marketable securities	110.1	110.1
Restricted deposits	67.5	67.5
Long-term debt	404.5	521.7

The fair value of cash equivalents approximates carrying value due to the short maturity of these instruments. The fair value of marketable securities is based on quoted market prices. The fair value of restricted deposits approximates the carrying amount. The fair value of publicly traded long-term debt is based on quoted market prices, and the fair value of other debt approximates carrying value.

Note 11. Operating Segment Information

Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information, was adopted for 1997 calendar year reporting. Financial information for Alaska and Horizon follows (in millions):

	1995	1996	1997
Operating revenues:			
Alaska	$1,142.3	$1,297.3	$1,447.9
Horizon	279.5	301.3	303.6
Elimination of intercompany revenues	(4.3)	(6.4)	(12.1)
Consolidated	1,417.5	1,592.2	1,739.4
Depreciation and amortization expense:			
Alaska	58.2	55.9	56.9
Horizon	9.9	11.4	11.2
Interest income:			
Alaska	10.3	11.5	12.2
Horizon	0.4	0.3	0.1
Interest expense:			
Alaska	40.3	29.7	25.0
Horizon	0.6	0.9	1.8
Pretax income:			
Alaska	43.9	74.5	127.4
Horizon	4.2	0.3	6.3
Air Group	(14.1)	(10.5)	(10.1)
Consolidated	34.0	64.3	123.6
Total assets:			
Alaska	1,266.5	1,247.9	1,370.7
Horizon	154.9	173.3	158.0
Air Group	521.1	524.3	668.0
Elimination of intercompany accounts	(629.1)	(634.1)	(663.6)
Consolidated	1,313.4	1,311.4	1,533.1
Capital expenditures:			

Alaska	87.9	229.9	293.0
Horizon	15.4	39.9	145.9

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Alaska Air Group, Inc.:

We have audited the accompanying consolidated balance sheet of Alaska Air Group, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alaska Air Group, Inc. and subsidiaries as of December 31, 1997and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 14(a) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Seattle, Washington
January 26, 1998

VALUATION AND QUALIFYING ACCOUNTS
Alaska Air Group, Inc. Schedule II

(In Millions)	Beginning Balance	Additions Charged to Expense	(A) Deductions	Ending Balance
Year Ended December 31, 1995				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$2.3	$0.6	$(1.3)	$1.6
Obsolescence allowance for flight equipment spare parts	$12.1	$2.7	$(1.3)	$13.5
(b) Reserve recorded as other long-term liabilities:				

Leased aircraft return provision	$25.6	$7.5	$(0.6)	$32.5
Year Ended December 31, 1996				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$1.6	$0.7	$(1.0)	$1.3
Obsolescence allowance for flight equipment spare parts	$13.5	$3.5	$(0.9)	$16.1
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$32.5	$9.4	$(3.3)	$38.6
Year Ended December 31, 1997				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$1.3	$1.0	$(1.1)	$1.2
Obsolescence allowance for flight equipment spare parts	$16.1	$3.4	$(1.5)	$18.0
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$38.6	$11.4	$(6.8)	$43.2

(A) Deduction from reserve for purpose for which reserve was created.

EXHIBIT INDEX

Certain of the following exhibits have heretofore been filed with the Commission and are incorporated herein by reference from the document described in parenthesis. Certain others are filed herewith.

3.(i) Articles of Incorporation of Alaska Air Group, Inc. as amended through May 21, 1996
3.(ii) Bylaws of Alaska Air Group, Inc., as amended through Feb. 8, 1996 (Exhibit 3.(ii) to 1995 10-K)
4.1 Amended and Restated Rights Agreement dated 8/7/96 between Alaska Air Group, Inc. and The First National Bank of Boston, as Rights Agent (Exhibit 2.1 to Form 8A-A filed 8/8/96)
10.1 Lease Agreement dated Feb. 1, 1979 between Alaska Airlines, Inc. and the Alaska Industrial Development Authority (AIDA) (Exhibit 10-15 to Registration Statement No. 2-70742)
10.2 Lease Agreement dated April 1, 1978 between Alaska Airlines, Inc. and the AIDA (Exhibit 10-16 to Registration Statement No. 2-70742)
10.3 Management Incentive Plan (1992 Proxy Statement)
10.4 Loan Agreement dated as of December 1, 1984, between Alaska Airlines, Inc. and the Industrial Development Corporation of the Port of Seattle (Exhibit 10-38 to 1984 10-K)
10.5 Alaska Air Group, Inc. 1984 Stock Option Plan, as amended through May 7, 1992 (Registration Statement No. 33-22358)
10.6 Alaska Air Group, Inc. 1988 Stock Option Plan, as amended through May 19, 1992 (Registration Statement No. 33-52242)
#10.7 Lease Agreement dated January 22, 1990 between International Lease Finance Corporation and Alaska Airlines, Inc. for the lease of a B737-400 aircraft, summaries of 19 substantially identical lease agreements and Letter Agreement #1 dated January 22, 1990 (Exhibit 10-14 to 1990 10-K)
#10.8 Agreement dated September 18, 1996 between Alaska Airlines, Inc. and Boeing for the purchase of 12 Boeing 737-400 aircraft (Exhibit 10.1 to Third Quarter 1996 10-Q)
#10.9 Agreement dated August 28, 1996 between Horizon Air Industries, Inc. and Bombardier for the purchase of 25 de Havilland Dash 8-200 aircraft (Exhibit 10.2 to Third Quarter 1996 10-Q)
10.10 Supplemental retirement plan arrangement between Horizon Air Industries, Inc. and George D. Bagley (1996 Proxy Statement)
10.11 Alaska Air Group, Inc. 1996 Long-Term Incentive Equity Plan (Registration Statement 333-09547)
10.12 Alaska Air Group, Inc. Non Employee Director Stock Plan (Registration Statement 333-33727)
10.13 Alaska Air Group, Inc. Profit Sharing Stock Purchase Plan

(Registration Statement 333-39889)
10.14 Alaska Air Group, Inc. 1997 Non Officer Long-Term Incentive Equity Plan (Registration Statement 333-39899)
*10.15 Alaska Air Group, Inc. Supplementary Retirement Plan for Elected Officers
*10.16 1995 Elected Officers Supplementary Retirement Plan
*12 Calculation of Ratio of Earnings to Fixed Charges
21 Subsidiaries of the Registrant (Exhibit 22-01 to 1987 10-K)
*23 Consent of Arthur Andersen LLP
*27 Financial Data Schedule
* Filed herewith.
# Confidential treatment was granted as to a portion of this document.

EXHIBIT 10.15

ALASKA AIRLINES, INC.
and
ALASKA AIR GROUP, INC.
Seattle, Washington

SUPPLEMENTARY RETIREMENT PLAN FOR ELECTED OFFICERS
as amended November 7, 1994

1981 VERSION APPLICABLE TO OFFICERS
FIRST ELECTED AFTER JUNE 1, 1981

PREFACE

This Supplementary Retirement Plan for Elected Officers is an unfunded retirement plan maintained by Alaska Airlines, Inc. and Alaska Air Group, Inc. for the purpose of providing deferred compensation for a select group of management.

The benefits of this Plan constitute a general obligation of both Employers. The Participants in this Plan shall have no claim against any assets of either Employer under the Plan except as specifically provided herein.

SECTION 1
DEFINITIONS

1.1 "Employee" shall mean any person who is customarily employed by either Employer for 20 or more hours per week and for five or more months per year and who is compensated on a salary basis.

1.2 "Elected Officer" shall mean a nonflight officer elected by the Board of Directors of the officer's Employer pursuant to the Bylaws.

1.3 "Participant" shall mean:
(a) an Elected Officer who is enrolled in the Plan
(b) former Elected Officer who is partially or fully vested hereunder, and
(c) a retiree hereunder.

1.4 "Normal Retirement Date" shall mean the first day of the month coincident with or next following the later of:
(a) the Participant's 60th birthday, and
(b) his date of termination of employment with his Employer; but only if, at such date, he has completed at least 15 years of Continuous Service, of which at least the last five years shall be as an Elected Officer, or if he has been an Elected Officer for his last ten years of Continuous Service.

1.5 "Early Retirement Date" shall mean the first day of any month

prior to Normal Retirement Date and consented to by the officer's Employer, occurring subsequent to both:
(a) the Participant's 55th birthday, and
(b) his completion of either 15 years of Continuous Service, at least the last five of which shall be as an Elected Officer, or the last ten years of his Continuous Service as an Elected Officer.

1.6 "Final Average Compensation" shall mean the average monthly compensation, including any salary deferrals under Alaskasaver but excluding bonuses, for the last 60 months of service (or such lesser number of months, as applicable, if the total service as an Elected Officer is less than 60 months) prior to election by the Participant to receive an early lump-sum distribution pursuant to Section 3.1(f) hereof or termination of employment, as the case may be.

1.7 "Continuous Service" shall mean Continuous Service with either Employer, as defined in Section 2.2 hereof.

1.8 "Actuarial Equivalent" shall mean of equal value when computed in accordance with the actuarial assumptions most recently adopted by the Employers.

1.9 "Administrative Committee" shall mean that Committee appointed by the Chairman of the Board of Directors of Alaska Air Group, Inc. to administer the Plan. The Committee will consist of three or more members, all of whom shall be Elected Officers. The members of the Committee will serve without compensation at the pleasure of the Chairman of the Board, who shall be designated the Chairman of the Committee. The Committee shall act by a majority of its members to determine all questions arising in the administration, interpretation and application of the Plan. The Committee shall have all powers necessary to carry out the provisions of the Plan.
In making its determinations, the Committee shall follow uniform rules which shall be consistently applied so that all Participants similarly situated will be treated alike.
The Committee will record its proceedings and maintain copies of the minutes of its meetings.

1.10 "Employer" shall mean Alaska Airlines, Inc. or Alaska Air Group, Inc., as the context requires, and "Employers" shall refer to both companies.

1.11 "Plan" shall mean Alaska Airlines, Inc. and Alaska Air Group, Inc. Supplementary Retirement Plan for Elected Officers.

1.12 "Change in Control" shall occur whenever:
(a) the Board of Directors of Alaska Air Group, Inc. (or, if approval of such Board is not required as a matter of law, the shareholders of Alaska Air Group, Inc.) shall approve
(1) any consolidation or merger of Alaska Air Group, Inc. in which Alaska Air Group, Inc. is not the continuing or surviving corporation or pursuant to which shares of common stock of Alaska Air Group, Inc. would be converted into cash, securities or other property, other than a merger of Alaska Air Group, Inc. in which the holders of common stock of Alaska Air Group, Inc. immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;
(2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of either Employer; or
(3) the adoption of any plan or proposal for the liquidation or dissolution of either Employer.
(b) at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Alaska Air Group, Inc. ("Incumbent Directors") shall cease for any reason to constitute at least a majority thereof, unless each new director during such two-year

period was nominated or elected by the Incumbent Directors, or a committee of the Incumbent Directors (new directors nominated or elected by the Incumbent Directors or by a committee of the Incumbent Directors shall also be deemed to be Incumbent Directors); or

(c) any person [as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")] shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then outstanding securities of Alaska Air Group, Inc. ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors ("Voting Securities" to be calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire common stock of Alaska Air Group, Inc.) representing 20% or more of the combined voting power of the then outstanding Voting Securities.

Unless the Board of Directors of Alaska Air Group, Inc. shall determine otherwise, a Change in Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between Alaska Air Group, Inc. and Alaska Airlines, Inc., or any affiliates thereof, provided such transaction has been approved by two-thirds of the Incumbent Directors, as defined above, then in office and voting.

SECTION 2
ELIGIBILITY

2.1 Eligibility for Benefits.

Each Employee who has completed 15 years of Continuous Service with the Employer and has been an Elected Officer for at least the last five years of his Continuous Service, or who has been an Elected Officer for his last ten years of Continuous Service, may, subject to the terms and conditions herein, be eligible for benefits under this Plan. A Participant shall be entitled to benefits under the Plan upon:

(a) satisfaction of the service requirement contained in the prior sentence, and elsewhere herein, and

(b) meeting all other requirements of the Plan as determined by the Administrative Committee.

Notwithstanding any of the foregoing, in the event of a Change in Control, an Elected Officer, without regard to age, is eligible to receive a benefit under this Plan in accordance with Section 3.1(f) and 3.2(d)

2.2 Continuous Service.

Continuous Service of any person shall begin on the date such person first becomes an Employee of either Employer and shall continue so long as he remains an Employee of either Employer. Continuous Service shall not be deemed to have been interrupted by reason of transfer between Employers, as provided in Section 4.3 hereof, temporary layoff, or leave of absence authorized by the officer's Employer for any purpose, including sickness, accident or other casualty. Any Employee who enters the military service of the United States during a national emergency or through the operation of a compulsory military service law shall be deemed to be on authorized leave of absence during the period of his military service and for any period thereafter in which his reemployment rights are guaranteed by law. Any Employee who fails to return to active employment at or before the expiration of an authorized leave of absence shall be deemed to have terminated his employment as of the date of commencement of his leave of absence; provided, however, should he fail to return to work because of death or disability, his Continuous Service shall be deemed to have continued until the date of his death or disability. The Employers, in granting leaves of absence under this section, shall follow uniform rules which shall be consistently applied.

2.3 Forfeiture of Benefits for Cause.

All other provisions of this Plan notwithstanding, all rights to benefits are forfeited under the following circumstances:

(a) Forfeiture Due to Misconduct.

Termination of employment due to misconduct shall result in the forfeiture of all rights to benefits under this Plan. A termination of employment due to misconduct shall be deemed to have occurred if the reason for termination, by resignation or discharge, was the Employee's admission to, or his Employer's substantiation, of acts of (1) embezzlement, dishonesty, or other fraud, conviction of felony, or conspiracy against either Employer or (2) if such termination occurred prior to any Change in Control, any willful or intentional injury to either Employer, its property or employees in connection with the business or affairs of either Employer.

The Administrative Committee shall make the determination as to whether the provisions of this section shall be operative in any case. Such decision shall be final, conclusive and binding on all concerned, subject only to the right of appeal as outlined in Section 6.1.

(b) Forfeiture on Entry into Competition.

Solicitation of business substantially similar to that provided by either Employer, or employment with another airline serving any of the same area served by any subsidiary of Alaska Air Group, Inc. shall be deemed to be competing with the Employer unless the Participant's Employer shall have issued its prior written consent. Except after a Change in Control, any Participant found by the Administrative Committee to be competing with either Employer shall forfeit any and all unpaid benefits under the Plan. The determination of competing activity shall not be operative until the person deemed to be competing and subject to forfeiture shall have been provided 30 days' prior written notice of the pending forfeiture. If, at the expiration of the 30 days following notice, the competing activity is still being conducted, the forfeiture shall become fully operative. This Section 2.3(b) shall be of no further force or effect after a Change in Control.

(c) Prior to a Change in Control, any Participant who shall terminate employment with the Employers prior to age 50 by reason other than medical disability, with proof thereof satisfactory to the Administrative Committee, shall be deemed to have forfeited all rights under this Plan. After a Change in Control, any Participant, regardless of age, who shall terminate employment with the Employers by any reason other than for misconduct under Section 2.3(a)(1) shall not be deemed to have forfeited any rights under this Plan.

SECTION 3
BENEFITS

3.1 Retirement Benefits.

(a) General.

Benefits under the Plan shall be payable in the form of a monthly income or, after a Change in Control and at the Participant's option, a lump-sum distribution. The method by which such benefits are paid will depend upon the payment option selected by the Participant or his beneficiary. A Participant's monthly income shall not commence prior to his termination of employment with the Employers; provided, however, that a Participant may elect and receive a lump-sum distribution prior to termination in the event of a Change in Control.

(b) Normal Retirement.

If the Participant terminates employment with the Employers on or after his Normal Retirement Date, his benefit under the Plan shall commence as of the first day of the month coinciding with or next following his date of termination. If the benefit is to be payable under the normal option described in Section 3.1(d), such monthly benefit shall be equal to 50% of the Participant's Final Average Compensation, or such lesser percentage of Final Average Compensation as is appropriate based on the Participant's years of service as outlined in Section 3.2(b) and (c), less any monthly benefit received under the Federal Social Security System. The amount of such monthly benefit shall change in accordance with changes in the social security benefits for which a Participant is eligible and in accordance with Section 3.1(e).

(c) Early Retirement.

With the consent of his Employer, a Participant may retire at an Early Retirement Date. If the benefit is to be payable under the normal option described in Section 3.1(d), below, such monthly benefit shall be equal to that benefit determined as under Section 3.1(b), reduced to the Actuarial Equivalent of that benefit had it commenced on the Participant's Normal Retirement Date. Such monthly benefit shall change subsequent to the date of benefit commencement as described in Section 3.1(b).

(d) Forms of Benefit Payment.

At any time prior to his date of benefit commencement, a Participant may elect, in appropriate written form, a payment option under which his benefits under the Plan shall be payable. If the Participant makes no election of a payment option prior to his date of benefit commencement, and if a Participant is married at the date of benefit commencement, his benefits shall be payable under the joint & survivor option with spouse as beneficiary, 100% continued. If the Participant is not married at the date of benefit commencement, and no election of a payment option has been made, his benefits shall be payable per the 10-year certain & life specified below.

The payment options available under the Plan are as follows:

(1) Normal Option.

Under this option, the Participant's monthly benefit is the full amount determined under Section 3.1(b) or (c). Such benefit shall be payable from his date of benefit commencement and shall terminate with the payment which is due on the first day of his month of death.

(2) Joint & Survivor Option.

Under this option, the Participant's monthly benefit is in the amount determined under Section 3.1(b) or (c), actuarially reduced. Such reduced benefit is payable to the first day of the month of the Participant's death. If the Participant's spouse survives the Participant, a percentage of such benefit shall continue to the spouse for her lifetime. Such percentage shall be 100%, 75%, or 50% at the election of the Participant.

(3) 10-Year Certain & Life.

Under this option, the Participant's monthly benefit is in the amount determined under Section 3.1(b) or (c), actuarially reduced. Such reduced benefit is payable so long as the Participant shall live and shall terminate with the payment due on the first day of his month of death; except that if the Participant dies before receiving 120 monthly payments, such payments shall continue to the beneficiary specified by the Participant until a total of 120 monthly payments have been made.

(e) Adjusted Retirement Benefits.

(1) As of each January 1 and July 1, benefits being paid under this Plan pursuant to Section 3.1(d)(1), (2) or (3) will be adjusted as provided in subparagraph 3.1(e)(2) and the adjusted benefit resulting therefrom shall be payable during the following six months.

(2) The amount of each Participant's adjusted benefit shall

be the same proportion of his initial retirement benefit, before adjustment, that (i) bears to (ii) if greater than one.

(i) The average of the Consumer Price Index figures for the 24-month period ending with the May or November immediately preceding the date as of which the determination is to be made.

(ii) The average of the Consumer Price Index figures for the 24-month period ending with the month immediately preceding the Participant's retirement date.

(f) Change in Control.

Notwithstanding any other provision of this Section 3.1, in the event of a Change in Control a lump-sum method of distributing benefits to which a Participant is entitled under Section 3.2(d) shall be available to Participants, including Participants who are still employed by either Employer and Participants who are retired; provided, however, that no benefits shall be payable to Participants terminated for cause pursuant to Section 2.3(a)(1). In order to calculate the amount to be used for purposes of determining a Participant's vested lump-sum distribution amount under Section 3.2(d), the present value of payments which, making standard actuarial assumptions, would have otherwise been payable to the Participant after the date of such lump-sum distribution under Section 3.1(b) or 3.1(c), as the case may be, shall first be calculated.

A number of assumptions shall be made for purposes of that calculation. First, in the case of a terminated Participant, the calculation will assume the Participant would have retired at his Normal Retirement Date (as that term was defined at the time the Participant became an Elected Officer). In the case of a Participant who is not terminated, the calculation will assume the Participant would have retired at the later of the Participant's age at the time of distribution or his 60th birthday. Second, a cost of living adjustment shall be estimated under Section 3.1(e), making standard actuarial assumptions. Third, it shall be assumed that the Participant will receive monthly social security benefits beginning at age sixty-two equal to monthly social security benefits to which he would have been entitled had the Participant been age 62 and retired on the date of termination or on the date of distribution of the lump-sum, as the case may be.

The amount upon which the Participant's vested lump-sum distribution amount calculated pursuant to Section 3.2(d) will be based is equal to the present value on the date of distribution of the foregoing amount.

The Participant may elect such lump-sum method by filing an appropriate election with the Administrative Committee at any time after such Change in Control. Such election shall be made on a form supplied by the Administrative Committee, which form shall further provide that the Participant acknowledges that the lump-sum amount calculated pursuant to this Section 3.1(f) and Section 3.2(d) represents the entire distribution the Participant is entitled to receive under the Plan and that, upon receipt of such lump-sum amount, the Participant will have no further claim to benefits under the Plan. The Participant's Employer shall make such distribution on the date elected by the Participant, but in no event shall his Employer be required to make such lump-sum distribution any sooner than 30 days after receipt by the Administrative Committee of an election of a lump-sum distribution.

3.2 Termination Benefits and Vesting.

(a) Subject to Section 2.3, in the event a Participant terminates employment with the Employers for any reason other than retirement in accordance with Section 3.1 hereof or after a Change in Control, then his interest and rights in this Plan shall, subject to the terms and conditions herein, be determined

in accordance with Sections 3.2 (b) and (c).
(b) To be vested in the Plan at termination as outlined in Section 3.2(a), or at retirement as outlined in Section 3.1(b), a Participant must be age 50 or older and must have satisfied one of the following service requirements:
(1) 15 years of Continuous Service, the last five of which were as an Elected Officer, or
(2) Ten years of service as an Elected Officer, or
(3) Service as an Elected Officer after age 50, for which immediate vesting at the rate of 10% per year is credited.
(c) If a Participant fulfills the requirements set forth in (b) above, and is living on his 60th birthday, he shall be entitled to receive a monthly benefit thereafter and continuing for the duration of his eligibility. The amount of such benefit shall be computed as follows:
(1) The result of the application of the formula specified in Section 3.1(b) hereof shall first be determined.
(2) For Participants with service as an Elected Officer prior to age 50, the amount of benefit shall be a percentage of the result obtained in (1) above and determined in accordance with the following schedule:

Service Completed As an Elected Officer	Percentage
Less than 5 years	0%
5 years	50%
6 years	60%
7 years	70%
8 years	80%
9 years	90%
10 years	100%

(3) Participants 50 years of age and older who have not satisfied the service requirements set forth in 3.2(b)(1) or (2) will nonetheless automatically be credited with 10% per year for each year of service as an Elected Officer after age 50, and the amount of benefit shall be that total percentage times the result obtained in (1) above.
(d) Subject to Section 2.3, after a Change in Control, in lieu of the monthly benefits calculated pursuant to Section 3.2(b) and (c) a Participant, without regard to age, shall be entitled to receive a lump-sum distribution pursuant to Section 3.1(f), or, at his option and after termination, monthly benefits, all calculated as follows:
(1) A determination shall first be made, in the case of monthly benefits, of the result of the application of the formula specified in Section 3.1(c) as if such Participant had retired at an Early Retirement Date, or, in the case of a lump-sum distribution, of the result of the application of the formula specified in Section 3.1(f).
(2) The amount of benefit shall be a percentage of the result obtained in (1) above determined in accordance with the following schedule:

Service Completed As an Elected Officer	Percentage
1 year	10%
2 years	20%
3 years	30%
4 years	40%
5 years	50%
6 years	60%
7 years	70%
8 years	80%
9 years	90%

10 years 100%

3.3 Death Benefits to Beneficiary.

In the event a Participant dies prior to the commencement of any benefits for which he is eligible under this Plan, benefits shall be paid to the Participant's beneficiary as determined by Section 3.1(d), beginning on the first day of the month following the date of the Participant's death, with appropriate actuarial reduction, or as determined by Section 3.1(f).

3.4 Benefits Related to Salaried Retirement Plan.

In the event that a retirement benefit to be paid under the Alaska Air Group Salaried Retirement Plan exceeds the maximum annual benefit which may be paid under a qualified retirement plan as determined by relevant tax code, such excess amount shall be paid by the Supplementary Retirement Plan for Elected Officers. Such amount shall be paid in the same manner as selected by the Participant for other benefits payable under the Alaska Air Group Salaried Retirement Plan and shall not reduce or effect the benefit amount payable under this Plan in any way.

SECTION 4
SUCCESSOR-RELATED CORPORATIONS AND PARTICIPATING EMPLOYERS

4.1 Successor Corporations.

If at any time there should be a successor corporation to either Employer, including but not limited to an entity resulting from merger, stock trade or any similar buy-out arrangement or from any other Change in Control, or should there be any similar entity succeeding to either Employer's business, it or they shall assume the obligations of this Plan for Participants hereunder, and such successor shall be included within the meaning of the word "Employer" and the word "Employers."

4.2 Employer Participation.

In the event at any time there be any subsidiary or subsidiaries of either Employer or any affiliated company which would desire to be included as an Employer under this Plan, it may elect to be joined to and adopt this Plan by entering into an agreement with the Employers and shall thereafter be included within the definition of the word "Employer" and the word "Employers."

4.3 Transfer to Related Corporations.

If an Employee is transferred between the Employers or between either Employer and its partners, subsidiaries, affiliates, predecessors or acquired companies or their parents, subsidiaries, affiliates or predecessors, he shall continue to be an Employee for all purposes while employed by any such new employer. In addition, he shall immediately be considered as having been an Employee of his new Employer for the period of time that he has been an Employee of any Employer.

SECTION 5
AMENDMENT AND TERMINATION OF PLAN

5.1 Amendment.

Alaska Air Group, Inc. shall have the right at any time and from time to time to amend, in whole or in part, any or all of the provisions of this Plan by action of its Board of Directors. However, no such amendment shall reduce the amount of benefit received or accrued by any Participant.

5.2 Termination.

Alaska Air Group, Inc. shall have the right at any time to terminate this Plan by action of its Board of Directors. On termination of the Plan, each Participant's benefit, based upon his Final Average Compensation determined as of the date of termination of the Plan (calculated as if he had terminated employment as of the date of termination of the Plan), shall become fully vested and nonforfeitable.

SECTION 6
MISCELLANEOUS

6.1 Participants' Rights; Acquittance.

Neither the establishment of the Plan created hereby nor the modification thereof, nor the payment of any benefits shall be construed as giving to any person any legal or equitable rights against either Employer, their officers, directors or Employees, except as herein provided.

Should a Participant contest a decision by the Administrative Committee, the Participant may appeal to the Alaska Air Group Board of Directors for review and reconsideration of such decision.

6.2 Delegation of Authority by Employer.

Whenever either Employer under the terms of this Plan is permitted or required to do or perform any act or matter or thing, it shall be done and performed by the Administrative Committee or any officer duly authorized by its Board of Directors to so act.

6.3 Limitation on Liability; Legal Actions; Payment of Expenses.

It is expressly understood and agreed by each Employee who becomes a Participant hereunder that except for their willful neglect or fraud, the Employers shall not in any way be subject to any suit or litigation or to any legal liability for any cause or reason or thing whatsoever in connection with this Plan or its operation. Release is hereby granted the Employers and all their officers, directors and agents from any and all liability or obligation.

In any action or proceeding involving the Plan, the Employers shall be the only necessary parties and no Employees or former Employees of either Employer or their beneficiaries or any other person having or claiming to have an interest under the Plan shall be entitled to any notice or process.

Any final judgment which is not appealed or appealable that may be entered in any such action or proceeding shall be binding and conclusive on the parties hereto and all persons having or claiming to have any interest under the Plan.

6.4 No Assignment by Participant.

The provisions hereof are intended as personal protection for the Participants. No Participant shall have any right to assign, anticipate or hypothecate any benefits. No benefits under the Plan shall be subject to the claims of any creditor of any Participant excepting only as to debts owed to either Employer at the time benefits become payable.

6.5 Unlocated Recipients.

If, after notice of benefits is provided, the intended recipient shall fail to disclose his existence, he shall be determined to be an unlocated recipient. All benefits due an unlocated recipient shall be placed in escrow for a period of two years. At the end of two years, the Employers may, if they have not received any request for payment from the unlocated recipient, treat all accumulated benefits due as forfeited and the Plan's liability to the unlocated recipient as ended. Notice of benefits shall be deemed to be provided when the responsible Employer shall have sent notice thereof to the intended recipient at the time benefits shall first become due. Notice shall be sent by registered mail to the most recent address of the intended recipient then on file with the Employers.

6.6 Required Information.

Each Participant under the Plan shall provide such information to the Employers as they shall require in order to properly determine the amount of benefits payable hereunder or to establish the Participant's continuing eligibility to receive benefits hereunder. Such information shall include but not be limited to the amount of social security benefits being received by the Participant.

If the Participant's Employer requests such information in writing and if such information is not provided within 45 days of such request, benefits under the Plan may be suspended until such information is received by the Participant's Employer.

6.7 Use of Terms.

The use of specific gender pronouns such as he, him, she, her, his and hers are meant to refer to individuals of both sexes.

This Plan was established and adopted on October 1, 1986 and amended through November 7, 1994.

ALASKA AIR GROUP, INC.

By:____________________________

ALASKA AIRLINES, INC.

By:____________________________

EXHIBIT 10.16

ALASKA AIR GROUP, INC.

1995 ELECTED OFFICERS

SUPPLEMENTARY RETIREMENT PLAN

EFFECTIVE AUGUST 8, 1995

TABLE OF CONTENTS

Page
PREAMBLE 1
SECTION 1 - DEFINITIONS 2
1.1 Actuarial Equivalence 2
1.2 Administrative Committee 3
1.3 Affiliated Companies 3
1.4 Authorized Leave of Absence 4
1.5 Beneficiary 4
1.6 Board 4
1.7 Change of Control 4
1.8 Code 5
1.9 Company 5
1.10 Company Service 5
1.11 Compensation 5
1.12 Competing Activity 6
1.13 Disabled 6
1.14 Early Retirement Date 6
1.15 Effective Date 6
1.16 Elected Officer 7

1.17 Elected Officer Service 7
1.18 Employee 7
1.19 Employer 7
1.20 ERISA 7
1.21 Final Average Monthly Compensation 7
1.22 Hour of Service 7
1.23 Late Retirement Date 8
1.24 Normal Retirement Age 8
1.25 Normal Retirement Date 8
1.26 Participant 8
1.27 Plan 8
1.28 Plan Administrator 8
1.29 Plan Year 8
1.30 Qualified Plan 8
1.31 Qualified Plan Benefit 8
1.32 Retirement Date 8
1.33 Social Security Benefit 9
1.34 Terminate 9
1.35 Termination For Cause 9
1.36 Wages 9
1.37 Additional Definitions in Plan 9

SECTION 2 - ELIGIBILITY AND PARTICIPATION 10
2.1 Eligibility and Participation 10
2.2 Termination of Participation 10
2.3 Inactive Participation 10

SECTION 3 - RETIREMENT BENEFITS 11
3.1 Target Aggregate Benefit 11
3.2 Normal Retirement Benefit 12
3.3 Early Retirement Benefit 12
3.4 Late Retirement Benefit 12
3.5 Cost of Living Adjustment 13
SECTION 4 - PAYMENT FORMS 14
4.1 Forms of Payment 14
4.2 Automatic Form of Payment 15
4.3 Payment Form Election 15
SECTION 5 - CHANGE OF CONTROL BENEFITS 16
5.1 Change of Control Benefit 16
5.2 Form of Payment 16
5.3 Amount of Change of Control Benefit 16
SECTION 6 - DEATH BENEFITS 17
6.1 Death Benefits Prior to Benefit Commencement 17
6.2 Death Benefits After Benefit Commencement 17
SECTION 7 - VESTING 18
7.1 Vesting 18
7.2 Forfeiture 19
SECTION 8 - POWERS AND DUTIES OF THE COMMITTEE 20
8.1 Appointment of Administrative Committee 20
8.2 Powers and Duties 20
8.3 Administrative Committee Procedures 20
8.4 Appointment of Agents 21
8.5 Administrative Committee Expenses 21
8.6 Administrative Expenses 21
8.7 Determinations 21
8.8 Claim and Review Procedure 21
8.9 Exemption From Liability/Indemnification 23
SECTION 9 - AMENDMENT AND TERMINATION 24
9.1 Amendment or Termination 24
SECTION 10 - MISCELLANEOUS PROVISIONS 25
10.1 Appendices 25
10.2 ERISA Status 25
10.3 Unfunded Nature of the Obligation 25
10.4 Facility of Payment 25
10.5 Governing Law 25
10.6 Limitation on Assignment 25
10.7 No Additional Rights 25
10.8 Notice 26

10.9 Severability 26
10.10 Tax Consequences and Withholding 26
EXECUTION/SIGNATURE PAGE 27
APPENDIX I TO THE - ALASKA AIR GROUP, INC. 1995 ELECTED OFFICERS SUPPLEMENTARY RETIREMENT PLAN 28
APPENDIX II TO THE - ALASKA AIR GROUP, INC. 1995 ELECTED OFFICERS SUPPLEMENTARY RETIREMENT PLAN 29

PREAMBLE

The purpose of this Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan is to provide certain elected officers of Alaska Air Group, Inc. (the "Company") and of certain affiliated companies with supplemental retirement benefits, the receipt of which is deferred until after the covered employee retires or terminates employment.

This Plan shall constitute a plan which is unfunded and which is maintained primarily for the purpose of providing deferred compensation benefits for certain elected officers who constitute a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA.

The Plan set forth in the following pages is adopted by the Company, effective August 8, 1995.

SECTION 1

DEFINITIONS

Whenever capitalized in this Plan, the following capitalized terms shall have the meanings set forth below except where otherwise provided. As used in the Plan, the masculine, feminine, and neuter genders shall each be deemed to include the other or others.

1.1 Actuarial Equivalence

"Actuarial Equivalence" and its derivatives as the context requires (such as "Actuarially") means that the present value of two (2) payments or series of payments shall be of equal value when computed as follows:

(a) For purposes of Sections 3.2 Normal Retirement Benefit, 4.1(c) Ten Year Certain and Life Annuity, 4.1(d) Ten Year Certain Installments, and 5.3 Amount of Change of Control Benefit, Actuarial Equivalence shall be computed using the following:

(i) the annual interest rate on thirty (30) year Treasury securities as determined under Code Section 417 (which, as of the Effective Date, is the average annual yield on thirty (30) year Treasury Constant Maturities) for the November preceding the beginning of the Plan Year; and

(ii) the prevailing Commissioners' standard table described in Code Section 807(d)(5)(A), without regard to any other subparagraphs of Section 807(d)(5) used to determine reserves for group annuity contracts issued on the date as of which the present value is being determined (which as of the Effective Date is the 1983 Group Annuity Mortality Table, fifty percent (50%) male and fifty percent (50%) female).

(b) For purposes of Section 4.1(b) Joint and Survivor Annuity, Actuarial Equivalence shall be computed using the following formula:

$1.0 - (.12)(W) - (.005)[(2.0)(X) - Y - Z]$,
but not more than one (1),
where W equals the Joint and Survivor Annuity percentage;
X equals the Participant's age nearest birthday;
Y equals the Participant's spouse's age nearest birthday; and
Z equals the age at the Participant's Normal Retirement Date.

(c) For purposes of Section 5.3(a) After Commencement of Benefits, the Actuarial Equivalent of the remaining benefits otherwise payable is determined as follows:

(i) for a Participant whose benefit, as of the date of the Change of Control, is reduced by the Participant's Social Security Benefit, the Actuarial Equivalent of the remaining benefits otherwise payable is determined assuming that the Participant's Social Security Benefit does not increase after the Change of Control date;

(ii) for a Participant whose benefit, as of the date of the Change of Control, is not reduced by a Social Security Benefit, the Actuarial Equivalent of the remaining benefits otherwise payable is determined assuming that the Participant begins receiving monthly Social Security Benefits on the later of the Change of Control date or the earliest date on which the Participant is eligible for a benefit from Social Security. The amount of the monthly Social Security Benefit assumed to be received by the Participant is determined in accordance with the Social Security Act in effect as of the date of the Change of Control and is based on the following assumptions;

(1) assuming the Participant's Wages exceed the taxable wage base provided under Section 230 of the Social Security Act for each Plan Year beginning with the Plan Year in which the Participant attained age twenty one (21) and ending with the last Plan Year ending before the Change of Control; and

(2) assuming the Participant has no Wages during or after the Plan Year in which the Change of Control occurs; and

(3) assuming the Social Security Benefits do not increase after the assumed Social Security Benefit beginning date.

(d) For purposes of Section 5.3(b) Before Commencement of Benefits and After Termination and 5.3(c) Before Termination, the Actuarial Equivalent of the Normal Retirement Benefit is determined assuming that the Participant begins receiving monthly Social Security Benefits on the later of the Change of Control date or the earliest date on which the Participant is eligible for a benefit from Social Security. The amount of the monthly Social Security Benefit assumed to be received by the Participant is determined in accordance with the Social Security Act in effect as of the date of the Change of Control, based on the following assumptions:

(i) assuming the Participant's Wages exceed the taxable wage base provided under Section 230 of the Social Security Act for each Plan Year beginning with the Plan Year in which the Participant attained age twenty one (21) and ending with the last Plan Year ending before the Change of Control; and

(ii) assuming the Participant has no Wages during or after the

Plan Year in which the Change of Control occurs.

(iii) For purposes of determining the Qualified Plan Benefit under Section 1.31, Actuarial Equivalence shall be computed using the definition of Actuarial Equivalence under the Qualified Plan, unless the form of payment elected under this Plan is not an option under the Qualified Plan, in which case Actuarial Equivalence under Section 1.1(a) above shall apply.

1.2 Administrative Committee

"Administrative Committee" means a committee appointed by the Chairman of the Board to administer the Plan pursuant to Section 8.

1.3 Affiliated Companies

"Affiliated Companies" or "Affiliate" means:

(a) the Company;

(b) any other corporation which is a member of a controlled group of corporations which includes the Company (as defined in Code Section 414(b));

(c) any other trade or business under common control with the Company (as defined in Code Section 414(c)); or

(d) any other member of an affiliated service group which includes the Company (as defined in Code Section 414(m)).

1.4 Authorized Leave of Absence

"Authorized Leave of Absence" means any period of approved leave of absence from the Employer taken by a Participant, and granted by the Employer in its absolute discretion, including absences for which a Participant is granted re-employment rights under any Federal or state law.

1.5 Beneficiary

"Beneficiary" means the person or persons entitled to receive a Participant's benefits payable under the Plan. The Beneficiary is the person or persons named in the Participant's latest written designation filed with the Administrative Committee, provided that the consent of the Participant's spouse (if any) is required for the election of a nonspouse Beneficiary and for any subsequent changes of the Participant's Beneficiary designation. Spousal consent must be in writing, name the designated Beneficiary and be notarized.

If no designation has been filed with the Administrative Committee, or if the person or persons designated do not survive the Participant, the Beneficiary shall be the following persons in the following order of priority: (1) the surviving spouse (regardless of length of marriage), and (2) the estate of the Participant.

If the Beneficiary dies after the death of the Participant, but before full distribution has been made to that Beneficiary, the balance, if any, shall be distributed to the estate of that deceased Beneficiary.

1.6 Board

"Board" means the Board of Directors of the Company, or a committee composed of fewer than all of the members of the Board of Directors of the Company that is authorized to act on behalf of the Board.

1.7 Change of Control

"Change of Control" means the occurrence of any of the following:

(a) the Board approves (or, if approval of the Board is not required as a matter of law, the shareholders of the Company approve):

(i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of common stock of the Company would be converted into cash, securities or other property, other than a merger of the Company in which the holders of common stock of the Company immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;

(ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Participant's Employer; or

(iii) the adoption of any plan or proposal for the liquidation or dissolution of the Participant's Employer;

(b) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. "Incumbent Directors" means:

(i) individuals who constituted the Board at the beginning of such period; and

(ii) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (i); and

(iii) individuals who were nominated or elected by individuals described in (ii).

(iv) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board ("Voting Securities" to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of the Company) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Company and an Employer, or any Affiliates thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

1.8 Code

"Code" means the Internal Revenue Code of 1986, as amended and regulations promulgated under the Code.

1.9 Company

"Company" means Alaska Air Group, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors in interest.

1.10 Company Service

"Company Service" means the period of time measured in completed whole years, commencing with the date on which an Employee first completes an Hour of Service for an Affiliated Company during the current period of employment and ending on the earlier of the date of Termination or the date the Employee ceases to be an Elected Officer. Non-continuous periods are aggregated to determine the Employee's total Company Service. Notwithstanding the foregoing, the Board may increase an individual's Company Service, in its absolute discretion provided that any affected Participant shall be notified of any such adjustment.

1.11 Compensation

"Compensation" means the basic monthly salary paid to an Employee, excluding amounts payable under the Management Incentive Program, any other bonus, transportation allowances, repayment of expenses, insurance payments, or similar payments or allowances, but including any earnings deferred by an Employee for the month under the terms of any salary deferral plan including the Alaskasaver Plan maintained by the Company, and including any pre-tax employee contributions to a cafeteria plan pursuant to Code Section 125.

1.12 Competing Activity

"Competing Activity" means the following activities if begun without the prior written consent of the Participant's Employer:

(a) solicitation of business at any time within four (4) years after Termination that is substantially similar to the business conducted by an Employer; or

(b) employment at any time within four (4) years after Termination by another airline serving any of the same geographic area served by any Affiliate.

The Administrative Committee shall determine in its sole discretion whether a Participant has or is engaged in a Competing Activity and shall provide the Participant with written notice of the determination and of its demand to cease the Competing Activity within thirty (30) days after the notice. The Administrative Committee's determination of Competing Activity shall become final and operative if the Administrative Committee determines that the Competing Activity is being conducted after the expiration of the thirty (30) day notice period.

1.13 Disabled

"Disabled" means a condition resulting from demonstrable injury or disease which will permanently, continuously and wholly prevent the Employee from engaging in any occupation or performing any work for remuneration or profit; provided that this term shall not include any injury or disease which:

(a) resulted from or consists of habitual drunkenness or addiction to narcotics;

(b) was contracted, suffered or incurred while the Employee was engaged in, or resulted from having engaged in, a criminal enterprise;

(c) was intentionally self-inflicted;

(d) arose while the Employee was on Authorized Leave of Absence without pay or was absent without authorization; or

(e) arose as a result of service in the armed forces of any country.

1.14 Early Retirement Date

"Early Retirement Date" means the first day of the first month following the later of:

(a) Termination; and

(b) the Participant's fifty-fifth (55th) birthday, provided that Termination occurs prior to the participant's sixtieth (60th) birthday.

If the Participant has reached age sixty (60) on the date of Termination, Early Retirement Date shall not apply.

1.15 Effective Date

"Effective Date" means August 8, 1995.

1.16 Elected Officer

"Elected Officer" means an officer of an Employer that is elected by the Board, pursuant to the bylaws of the Employer.

1.17 Elected Officer Service

"Elected Officer Service" means the period(s) of time measured in completed whole years, during which an Employee is an Elected Officer of the Company or Alaska Airlines, Inc. and the period(s) during which an Employee is the Chief Executive Officer of Horizon Air Industries, Inc. Non-continuous periods of Elected Officer Service are aggregated to determine an Employee's total years of Elected Officer Service. Notwithstanding the foregoing, the Board may increase an individual's Elected Officer Service, in its absolute discretion provided that any affected Participant shall be notified of any such adjustment.

1.18 Employee

"Employee" means any person who is:

(a) employed by an Employer as a common law employee;

(b) is customarily employed by the Employer for twenty (20) or more hours per week and for at least five (5) months per calendar year; and

(c) is compensated on a salary basis.

1.19 Employer

"Employer" means the Company and any Affiliate that adopts this Plan in writing with the consent of the Board, and agrees to be bound by the terms and conditions of the Plan and any amendments or modifications thereto, and which is listed in Appendix II. In the event an Employer ceases participation in the Plan, the date participation ceases shall be indicated in the Appendix.

1.20 ERISA

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.21 Final Average Monthly Compensation

"Final Average Monthly Compensation" means a Participant's average Compensation for a period of sixty (60) consecutive months ending on the earlier of (a) the Participant's Termination or (b) the date of a Change of Control. If an active Participant has fewer than sixty (60) consecutive months in the period, Final Average Monthly Compensation means average Compensation for the lesser of:

(a) the most recent sixty (60) months (whether or not consecutive); or

(b) the total Company Service.

1.22 Hour of Service

"Hour of Service" means each hour for which an Employee is paid or entitled to payment for the performance of duties for the Employer or any Affiliated Company.

1.23 Late Retirement Date

"Late Retirement Date" means the first day of the month next following the date of the Participant's Termination, provided that Termination occurs after the Participant's sixtieth (60th) birthday.

1.24 Normal Retirement Age

"Normal Retirement Age" means the first day of the month next following the Participant's sixtieth (60th) birthday.

1.25 Normal Retirement Date

"Normal Retirement Date" means the first day of the month next following the Participant's sixtieth (60th) birthday provided the Participant Terminates on the Participant's sixtieth (60th) birthday.

1.26 Participant

"Participant" means each Elected Officer who participates in this Plan pursuant to the provisions of Section 2.

1.27 Plan

"Plan" means the Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan, as set forth herein.

1.28 Plan Administrator

"Plan Administrator" means the Company.

1.29 Plan Year

"Plan Year" means the period beginning on the Effective Date and ending on December 31, 1995, and thereafter each calendar year.

1.30 Qualified Plan

"Qualified Plan" means any defined benefit retirement plan that is qualified or is intended to be qualified under Code Section 401(a) and that is maintained by an Affiliated Company, as amended from time to time.

1.31 Qualified Plan Benefit

"Qualified Plan Benefit" means the Actuarial Equivalent of the monthly benefit the Participant is entitled to receive under the Qualified Plan determined as though benefits under the Qualified Plan commence at the same time and are payable in the same form of payment as benefits under this Plan.

1.32 Retirement Date

"Retirement Date" means a Participant's Early, Normal or Late Retirement Date, whichever applies.

1.33 Social Security Benefit

"Social Security Benefit" means the Primary Insurance Amount, as defined under the Social Security Act, that is actually received by a Participant or Beneficiary. Except as provided under Section 1.1(c) and (d) in determining Change of Control benefits under Section 5.3, the Administrative Committee shall deem the Participant or Beneficiary to actually receive the greatest amount of Social Security Benefit at the earliest date to which the Participant or Beneficiary is eligible unless the Participant provides evidence to the contrary that is satisfactory to the Administrative Committee.

1.34 Terminate

"Terminate" and its derivatives as the context requires (such as "Termination") means no longer employed by an Employer or Affiliated Company as a common law employee. An Authorized Leave of Absence is not a Termination.

1.35 Termination For Cause

"Termination For Cause" means Termination for reason of admission by the Employee or substantiation by the Employer of:

(a) embezzlement, dishonesty or other fraud, conviction of a felony or conspiracy against an Employer; or

(b) if Termination occurred prior to a Change of Control, any willful or intentional injury to either an Employer, its property, or its employees in connection with the business affairs of an Employer.

1.36 Wages

"Wages" means a Participant's wages as defined under Code Section 3121, which are subject to Federal Insurance Contribution Act tax under Code Section 3101.

1.37 Additional Definitions in Plan

The following terms are defined in the following Sections of the Plan:

Benefit Percentage 3.1(b)
Change of Control Benefit 5.1
Joint and Survivor Annuity 4.1(b)
Review Panel 8.8(c)
Target Aggregate Benefit 3.1(a)
Ten Year Certain and Life Annuity 4.1(c)
Ten Year Certain Installments 4.1(d)
Whole Life Annuity 4.1(a)

SECTION 2

ELIGIBILITY AND PARTICIPATION

2.1 Eligibility and Participation

An Elected Officer shall become a Participant upon the participation commencement date specified by the Administrative Committee. Each Participant, the Participant's participation commencement date, and the Participant's Company Service and Elected Officer Service, if any, on the Participant's participation commencement date shall be listed on Appendix I.

2.2 Termination of Participation

A Participant's participation in the Plan will terminate when the Participant's benefits under this Plan have been paid in full.

2.3 Inactive Participation

A Participant's active participation will cease when he or she Terminates or becomes Disabled. A Participant's active participation also will cease if the Board determines that the Participant ceases to be an Elected Officer or the Administrative Committee determines that the Participant failed to make tax payments under Section 10.9. The date a Participant's active participation ceases shall be listed on Appendix I, which shall be updated from time to time. An inactive Participant's benefits shall be determined as though the Participant Terminates on the date active participation ceases.

SECTION 3

RETIREMENT BENEFITS

3.1 Target Aggregate Benefit

(a) Target Aggregate Benefit Definition

A Participant's "Target Aggregate Benefit" is determined in the form of a Whole Life Annuity commencing at Normal Retirement Age and is equal to:

(i) the Participant's Final Average Monthly Compensation multiplied by the Participant's Benefit Percentage; or

(ii) if greater than (i) above, the Participant's Qualified Plan Benefit determined without application of any Code Section the effect of which is to limit, reduce or restrict the Participant's Qualified Plan Benefit, including without limitation Code Sections 415 and 401(a)(17).

Notwithstanding the preceding sentence, a Participant's benefit under this Plan is determined in accordance with Sections 3.2, 3.3, 3.4 and 3.5, whichever apply to the Participant.

(b) Benefit Percentage Definition

A Participant's "Benefit Percentage" is determined in accordance with the following table:

Elected Officer Service At Least	5 Years	6 Years	7 Years	8 Years	9 Years	10 or More Years
Company Service						
0 to 10 Years	50%	50%	50%	55%	55%	55%
11 to 15 Years	50%	55%	55%	60%	60%	60%
16 to 20 Years	55%	60%	60%	65%	65%	65%
21 to 25 Years	60%	65%	65%	70%	70%	70%
26 or More Years	65%	70%	70%	70%	70%	75%

Notwithstanding the above and without regard to the Participant's Company Service, a Participant who has less than five (5) years of Elected Officer Service on the date of a Change of Control shall have the following "Benefit Percentage" for purposes of determining the Participant's Change of Control benefit under Section 5.3(b) or 5.3(c):

Elected Officer Service	Benefit Percentage
At least 1 year	10%
At least 2 years	20%
At least 3 years	30%
At least 4 years	40%

3.2 Normal Retirement Benefit

A Participant's monthly Normal Retirement Benefit payable on his or her Normal Retirement Date is the Participant's Target Aggregate Benefit, if any, adjusted as follows:

(a) first, Actuarially adjusted for form of payment (if the form of payment is other than a Whole Life Annuity);

(b) second, reduced by the Qualified Plan Benefit as defined in Section 1.31;

(c) third, multiplied by the vesting percentage determined under Section 7; and

(d) fourth, reduced by the amount of the Social Security Benefit (if any) as defined in Section 1.33.

3.3 Early Retirement Benefit

A Participant's monthly Early Retirement Benefit payable on his or her Early Retirement Date is the Participant's Target Aggregate Benefit, if any, adjusted as follows:

(a) first, reduced by one one-hundred-eightieth (1/180th) for each of the first sixty (60) months that the Participant's Early Retirement Date precedes the Participant's Normal Retirement Age;

(b) second, Actuarially adjusted for form of payment (if the form of payment is other than a Whole Life Annuity);

(c) third, reduced by the Qualified Plan Benefit as defined in Section 1.31;

(d) fourth, multiplied by the vesting percentage determined under Section 7; and

(e) fifth, reduced by the amount of the Social Security Benefit (if any) as defined in Section 1.33.

3.4 Late Retirement Benefit

A Participant's monthly Late Retirement Benefit payable on his or her Late Retirement Date is the Participant's Target Aggregate Benefit, if any, determined taking into account Elected Officer Service and Company Service and Final Average Monthly Compensation earned as of the date of Termination (including service and compensation earned after age sixty (60)), adjusted as follows:

(a) first, Actuarially adjusted for form of payment (if the form of payment is other than a Whole Life Annuity);

(b) second, reduced by the Qualified Plan Benefit as defined in Section 1.31;

(c) third, multiplied by the vesting percentage determined under Section 7; and

(d) fourth, reduced by the amount of the Social Security Benefit as defined in Section 1.33.

3.5 Cost of Living Adjustment

The Board may adjust the amount of benefits then being paid to any or all Participants and Beneficiaries to reflect increases in the cost of living. The adjustment shall be made in the amount and at the times determined solely in the discretion of the Board.

SECTION 4

PAYMENT FORMS

4.1 Forms of Payment

The following forms of benefit payment are options under the Plan, subject to the conditions of Sections 4.2 and 4.3.

(a) Whole Life Annuity

"Whole Life Annuity" means monthly payments beginning on the Retirement Date and ending the first day of the month preceding the Participant's date of death.

(b) Joint and Survivor Annuity

"Joint and Survivor Annuity" means reduced monthly payments to a Participant from the Retirement Date to the first day of the month preceding the Participant's date of death, and if the Participant predeceases the Participant's Beneficiary, monthly payments to the Participant's Beneficiary equal to fifty percent (50%), sixty-six and two-thirds percent (66-2/3%), seventy-five percent (75%), or one hundred percent (100%) of the reduced amount payable to the Participant, beginning on the Participant's date of death and ending the first day of the month preceding the Beneficiary's date of death. The Participant shall elect which percentage applies at the same time that the Participant elects a Joint and Survivor Annuity. A Joint and Survivor Annuity shall be Actuarially Equivalent to the Participant's benefit payable in the form of a Whole Life Annuity.

If the Participant's Beneficiary dies after the Participant's benefit payments begin, the Participant's payments will be the same reduced amount as otherwise payable under the Joint and Survivor Annuity. If the Participant's Beneficiary dies before the date as of which the Participant's benefit payments are to begin, any election of a form of benefit under this Section would be canceled automatically. If the Participant dies before the date as of which the Participant's benefit payments are to begin, the Beneficiary shall not be entitled to receive any payments under this Section. However, a spouse may be entitled to a death benefit under Section 6.

(c) Ten Year Certain and Life Annuity

"Ten Year Certain and Life Annuity" means reduced monthly payments from the Retirement Date to the first of the month preceding the Participant's death, but in no event will less than one hundred and twenty (120) equal monthly payments be made. If the Participant dies before receiving one hundred and twenty (120) monthly payments, the remaining payments shall continue to be made to the Participant's Beneficiary. A Ten Year Certain and Life Annuity shall be Actuarially Equivalent to the Participant's benefit payable in the form of a Whole Life Annuity.

(d) Ten Year Certain Installments

"Ten Year Certain Installments" means one hundred and twenty

(120) equal monthly payments that are Actuarially Equivalent to the Participant's benefits payable as a Whole Life Annuity. If the Participant dies before receiving one hundred and twenty (120) monthly payments, the remaining payments shall continue to be made to the Participant's Beneficiary.

4.2 Automatic Form of Payment

Unless a Participant elects otherwise in accordance with Section 4.3, the Participant's benefit shall be paid as provided below:

(a) Married Participant

A Participant who is married on the Participant's Retirement Date shall receive his or her benefits in the form of a one hundred percent (100%) Joint and Survivor Annuity.

(b) Unmarried Participant

A Participant who is not married on the Participant's Retirement Date shall receive the Participant's benefits in the form of a Ten Year Certain and Life Annuity.

4.3 Payment Form Election

(a) Advance Election

Subject to approval of the Administrative Committee, a Participant may elect one of the forms of payment of benefits under Section 4.1 in lieu of the automatic payment form under Section 4.2 as long as the Participant's election is made at least one (1) year before the Participant's Termination. Subject to approval of the Administrative Committee, a Participant may change a prior payment-form election, provided that the change is made at least one (1) year before the Participant's Termination. Once benefit payments commence, the payment form cannot be changed by the Participant or Beneficiary.

(b) Unanticipated Changes In Life Circumstances

Notwithstanding the preceding Section 4.3(a), subject to approval of the Administrative Committee, Participant may elect a payment form or change a prior payment-form election less than one (1) year before Termination, provided that the Participant demonstrates that the Participant has experienced or will experience an unanticipated change in life circumstances that is involuntary and with respect to which the Participant's requested payment form is consistent. Examples of an unanticipated change in life circumstances that satisfy this Section 4.3 include (but are not limited to) involuntary Termination and death of a spouse.

(c) Form and Manner of Election

All payment-form elections shall be made in the form and manner prescribed by the Administrative Committee and shall be subject to approval of the Administrative Committee.

SECTION 5

CHANGE OF CONTROL BENEFITS

5.1 Change of Control Benefit

Notwithstanding any other provision of the Plan, in the event of a Change of Control, each Participant (or his or her Beneficiary), except a Participant Terminated For Cause before the date of the Change of Control, shall receive a Change of Control benefit in accordance with this Section, in lieu of all other benefits payable under this Plan.

5.2 Form of Payment

All Change of Control Benefits shall be paid in the form of a single lump sum payment determined under Section 5.3, within sixty (60) days after a Change of Control. After payment of all Change of Control Benefits, this Plan shall terminate automatically, and no Participant or Beneficiary will have any further rights under the Plan.

5.3 Amount of Change of Control Benefit

(a) After Commencement of Benefits

If benefit payments have commenced as of the date of the Change of Control, any Participant, spouse, or Beneficiary receiving benefits as of the date of the Change of Control shall receive a single lump sum payment that is the Actuarial Equivalent of the remaining benefits otherwise payable.

(b) Before Commencement of Benefits And After Termination

If the date of the Change of Control is after a Participant's Termination, but before benefit payments have begun, the Participant shall receive a single lump sum payment that is Actuarially Equivalent to the Participant's Normal Retirement Benefit (if any).

(c) Before Termination

If the date of the Change of Control is before a Participant's Termination, the Participant shall receive a single lump sum payment that is Actuarially Equivalent to the Participant's Normal Retirement Benefit (if any) determined as though the Participant Terminated on the date of the Change of Control.

SECTION 6

DEATH BENEFITS

6.1 Death Benefits Prior to Benefit Commencement

In the event a married Participant dies before benefit payments begin, he or she shall become one hundred percent (100%) vested upon death pursuant to Section 7.1(c) and his or her spouse shall receive a death benefit as described below:

(a) Death Following Early Retirement Date

If the Participant dies after reaching age fifty-five (55) but before benefit commencement, the spouse's benefit shall be paid monthly from the first of the month coinciding with or following the Participant's death through the first of the month preceding the spouse's death. The benefit shall equal the amount payable to the surviving spouse under a one hundred percent (100%) Joint and Survivor Annuity form of payment as if the Participant had commenced receiving Early Retirement Benefit, Normal Retirement Benefit, or Late Retirement Benefit payments (whichever applies) as of the date spouse death benefits commence, based upon the Participant's vested Target Aggregate Benefit, if any, at the date of death.

(b) Death Prior to Early Retirement Date

If the Participant dies prior to reaching age fifty-five (55), the spouse's death benefit shall be paid monthly from the Participant's earliest Retirement Date (determined as if the Participant had survived but was not employed after the date of death) through the first of the month preceding the spouse's death. The benefit shall equal the amount payable to the surviving spouse under a one hundred percent (100%) Joint and Survivor Annuity form of payment as if the Participant had Terminated on the date of death, survived to the date spouse benefits commence and commenced receiving Early Retirement Benefit or Normal Retirement Benefit payments (whichever applies) on such date. If the surviving spouse dies before benefit payments begin, no benefits shall be payable to the spouse's estate or beneficiaries.

6.2 Death Benefits After Benefit Commencement

In the event a Participant dies after benefit payments have commenced, his or her Beneficiary may be entitled to receive a benefit depending on the form of payment elected by the Participant. The benefit payable to a Beneficiary is described in Section 4.1(b) Joint and Survivor Annuity, 4.1(c) Ten Year Certain and Life Annuity or 4.1(d) Ten Year Certain Installments, whichever applies according to the form elected by the Participant.

SECTION 7

VESTING

7.1 Vesting

Except as provided in Section 7.2, each Participant shall have at all times a vested, nonforfeitable right to his or her Target Aggregate Benefit as adjusted pursuant to Sections 3.2, 3.3 and 3.4, if any, multiplied by the appropriate vesting percentage determined in accordance with whichever of the following tables produces the greatest vesting percentage:

(a) Schedule A

A Participant who:

(i) has reached age fifty (50) and has completed Company Service of at least fifteen (15) years; or

(ii) Terminates on or after age sixty (60)

shall have the following vesting percentage in his or her benefit, if any:

Elected Officer Service	Vesting Percentage
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

(b) Schedule B

A Participant who has reached age fifty (50) and has completed Elected Officer Service of at least ten (10) years shall be one hundred percent (100%) vested in his or her benefit, if any.

(c) Death or Disability

A Participant who dies prior to Termination or becomes Disabled shall be one hundred percent (100%) vested in his or her Target Aggregate Benefit as adjusted pursuant to Sections 3.2, 3.3 and 3.4, if any, on the date of death or Disability.

(d) Change of Control

Notwithstanding any other provision of the Plan to the contrary, including without limitation Sections 1.10, 1.35, 7.2(a) and 7.2(b), all Participants who are Employees when a Change of Control occurs shall be one hundred percent (100%) vested in their Target Aggregate Benefit as adjusted pursuant to Sections 3.2, 3.3 and 3.4, if any, (without regard to the Participant's age) in the event of a Change of Control.

(e) Termination of Plan

In the event that the Plan is Terminated in whole or in part, all affected Participants shall be one hundred percent (100%) vested in his or her Target Aggregate Benefit as adjusted pursuant to Sections 3.2, 3.3 and 3.4, if any.

7.2 Forfeiture

(a) Termination

In the event a Participant Terminates:

(i) before reaching age fifty (50) and before a Change of Control; or

(ii) before becoming one hundred percent (100%) vested;

the Participant's nonvested portion of the Target Aggregate Benefit shall be forfeited.

(b) Termination For Cause and Competing Activity

Notwithstanding any Plan provision to the contrary other than Section 7.1(d), a Participant's vested and nonvested Target Aggregate Benefit and any death benefit will be forfeited in their entirety and will not be reinstated for any reason upon:

(i) the Participant's Termination for Cause; or

(ii) a determination that the Participant is engaged in a Competing Activity.

This forfeiture clause has no effect on benefits payable under the Qualified Plan.

SECTION 8

POWERS AND DUTIES OF THE COMMITTEE

8.1 Appointment of Administrative Committee

The Plan shall be administered by the Administrative Committee which shall be appointed by the Chairman of the Board. The Administrative Committee shall be composed of at least three (3) members, all of whom are Elected Officers. No bond or other security shall be required of any Administrative Committee member in such capacity.

The Chairman of the Board shall be the Chairman of the Administrative Committee. Administrative Committee members may participate in the Plan if they are otherwise eligible to do so.

8.2 Powers and Duties

The Administrative Committee shall have the power and the duty to take all action and to make all decisions necessary or proper to carry out the Plan, including the discretionary authority to interpret the provisions of the Plan and the facts and circumstances of claims for benefits. The Administrative Committee shall have the absolute discretion to decide all issues of fact or law. Any decision by the Administrative Committee that is not shown to be an abuse of discretion must be upheld by a court of law. Without limiting the foregoing, the Administrative Committee shall have the following administrative powers and duties:

(a) to require any Participant or Beneficiary to furnish information as they may request for the purpose of the proper administration of the Plan as a condition to receiving any benefit under the Plan;

(b) to make and enforce rules and regulations and prescribe the use of forms as they shall deem necessary for the efficient administration of the Plan;

(c) to interpret the Plan and to resolve ambiguities, inconsistencies and omissions in a nondiscriminatory manner;

(d) to determine tax withholding;

(e) to compute the amount of benefits which shall be payable to any person in accordance with the provisions of the Plan; and

(f) to delegate any of their administrative powers or duties hereunder to any of their agents or employees.

8.3 Administrative Committee Procedures

A majority of the Administrative Committee members in office may fulfill any act which the Plan authorizes or requires of the Administrative Committee, provided that no Administrative Committee member who participates in the Plan shall vote on any matter that pertains to the member or to the member's rights and/or benefits under the Plan unless such matter pertains to all Participants or all Participant's rights and/or benefits under the Plan. Each member of the Administrative Committee shall be recused from voting on any action pertaining solely to the member or members of the Administrative Committee or their rights and/or benefits under the Plan, and the action shall be taken by a majority of the remaining members of the Administrative Committee, or if the remaining members do not constitute a quorum, by the Compensation Committee of the Board.

The action of such majority of the Administrative Committee expressed from time to time by a vote at a meeting, or in writing without a meeting, shall constitute the action of the Administrative Committee and shall have the same effect for all purposes as if assented to by all Administrative Committee members. The majority of Administrative Committee members may delegate in writing to any of them the authority to give certified notice in writing of any action taken by the Administrative Committee.

8.4 Appointment of Agents

The Administrative Committee may appoint such actuaries, accountants, counsel, specialists, and other persons or organizations as they shall deem necessary for administration of the Plan and they shall be entitled to prudently rely upon any tables, valuations, certificates, opinions, or reports which shall be furnished to them by such persons or organizations.

8.5 Administrative Committee Expenses

The Administrative Committee shall serve without compensation for services as such, but any reasonable expenses incurred by them in the performance of their duties as Administrative Committee members shall be paid by the Company.

8.6 Administrative Expenses

All expenses incurred by the Administrative Committee in connection with the administration of the Plan, including but not limited to the compensation of any actuary, accountant, counsel, specialist, or other persons or organizations who shall be employed by the Administrative Committee in connection with the administration thereof, shall be paid by the Company.

8.7 Determinations

All determinations hereunder made by the Board or the Administrative Committee shall be made in the sole and absolute discretion of the Board, the Compensation Committee of the Board or of the Administrative Committee, as the case may be.

In the event that any disputed matter shall arise hereunder, including, without in any manner limiting the generality of the foregoing, any matter relating to the eligibility of any person to participate under the Plan, the participation of any person under the Plan, the amounts payable to any person under the Plan, and the applicability and the interpretation of the provisions of the Plan, the decision of the Administrative Committee, Board, or Compensation Committee of the Board upon such matter shall be binding and conclusive upon all persons, including, without in any manner limiting the generality of the foregoing, the Company, the Board, all persons at any time in the employ of the Company, the Participants and their Beneficiaries, and upon the respective successors, assigns, executors, administrators, heirs, next of kin, and distributees of all the foregoing.

8.8 Claim and Review Procedure

(a) Application for Benefits

Any application for benefits under the Plan shall be submitted to the Company at its principal office. Such application shall be in writing on the prescribed form and shall be signed by the applicant.

(b) Denial of Applications

In the event that any application for benefits is denied in whole or in part, the Company shall notify the applicant in writing of the right to a review of the denial. Such written notice shall set forth, in a manner calculated to be understood by the applicant, specific reasons for the denial, specific references to the Plan provisions on which the denial was based, a description of any information or material necessary to perfect the application, an explanation of why such material is necessary, and an explanation of the Plan's review procedure. Such written notice shall be given to the applicant within 90 days after the Company receives the application unless special circumstances require an extension of time for processing the application. In no event shall such an extension exceed a period of ninety (90) days after the end of the initial 90-day period. If such an extension is required, written notice thereof shall be furnished to the applicant before the end of the initial 90-day period. Such notice shall indicate the special circumstances requiring an extension of time and the date by which the Company expects to render a decision. If written notice is not given to the applicant within the period prescribed by this Subsection (b), the application shall be deemed to have been denied for purposes of Subsection (d) upon the expiration of such period.

(c) Review Panel

The Company from time to time shall appoint a Review Panel. The "Review Panel" shall consist of three or more individuals who may (but need not) be Employees of the Company and shall be the named fiduciary with the authority to act on any Employee benefit appeal. Members of the Administrative Committee may be appointed to the Review Panel. The Review Panel has discretionary authority to decide all issues of fact or law. Any decision by the Review Panel that is not established to be an abuse of discretion must be upheld by a court of law.

(d) Requests for Review

Any person whose application for benefits is denied in whole or in part (or such person's duly authorized representative) may appeal from the denial by submitting to the Review Panel a request for a review of such application within six (6) months after receiving written notice of the denial. The Review Panel shall give the applicant or such representative an opportunity to review pertinent documents in preparing such request for review and to submit issues and comments in writing. The request for review shall be in writing and shall be addressed to the Company's principal office. The request for review shall set forth all of the grounds on which it is based, all facts in support of the request, and any other matters which the applicant deems pertinent. The Review Panel may require the applicant to submit such additional facts, documents or other material as it may deem necessary or appropriate in making its review.

(e) Decisions on Review

The Review Panel shall act upon each request for review within sixty (60) days after receipt thereof, unless special circumstances require an extension of time for processing, but in no event shall the decision on review be rendered more than one hundred twenty (120) days after the Review Panel receives the request for review. If such an extension is required, written notice thereof shall be furnished to the applicant before the end of the initial sixty (60)-day period. The Review Panel shall give prompt, written notice of its decision to the applicant and to the Company. In the event that the Review Panel confirms the denial of the application for benefits in whole or in part, such notice shall set forth, in a manner calculated to be understood by the applicant, the specific reasons for such denial and specific references to the Plan provisions on which the decision is based. To the extent that the Review Panel overrules the denial of the application for benefits, such benefits shall be paid to the applicant.

(f) Rules and Procedures

The Review Panel shall adopt such rules and procedures, consistent with ERISA and the Plan, as it deems necessary or appropriate in carrying out its responsibilities under this Section 8.8

(g) Exhaustion of Administrative Remedies

No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant (1) has submitted a written application for benefits in accordance with Subsection (a); (2) has been notified that the application is denied; (3) has filed a written request for a review of the application in accordance with Subsection (d); and (4) has been notified in writing that the Review Panel has affirmed the denial of the application; provided, however, that an action may be brought after the Company or the Review Panel has failed to act on the claim within the time prescribed in Subsection (b) and Subsection (e), respectively.

8.9 Exemption From Liability/Indemnification

The members of the Administrative Committee, collectively and individually, shall be free from all liability, joint or several, for their acts, omissions, and conduct, and for the acts, omissions, and conduct of their duly-appointed agents, in the administration of the Plan, except for those acts or omissions and conduct resulting from willful misconduct or lack of good faith.

The Company shall indemnify each member of the Administrative Committee, and any other employee, officer, or director of the Company against any claims, loss, damage, expense, or liability, by insurance or otherwise (other than amounts paid in settlement not approved by the Company), reasonably incurred by the individual in connection with any action or failure to act by reason of membership on the Administrative Committee or performance of an authorized duty or responsibility for or on behalf of the Company pursuant to the Plan, unless the same is judicially determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Company shall be made only to the extent such expense or liability is not payable to or on behalf of such person under any liability insurance coverage. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

SECTION 9

AMENDMENT AND TERMINATION

9.1 Amendment or Termination

(a) Right to Amend or Terminate

Except as otherwise provided in this Section, the Company reserves the right at any time and from time to time to amend any or all provisions of the Plan or terminate the Plan, in whole or in part, for any reason and without consent of any person, and without liability to any person for such amendment or termination. Notwithstanding the preceding sentence, no amendment of the Plan shall:

(i) adversely affect the benefits or rights of a Participant or Beneficiary under the Plan (other than election or availability of a form of benefit payment under Section 4) earned and vested as of the effective date of the amendment without the written consent of each affected Participant and Beneficiary unless such change is required by law or regulations or is necessary to avoid unfavorable tax consequences; or

(ii) adversely affect the features of the Plan in effect as of the effective date of the amendment without the written consent of each affected Participant and Beneficiary unless such change is required by law or regulations or is necessary to avoid unfavorable tax consequences; or

(iii) be adopted or become effective after a Change of Control without the written consent of all Participants and

Beneficiaries.

(b) Plan Termination

Nothing in this Plan shall be construed to require continuation of benefit accruals under this Plan or continuation of this Plan with respect to existing or future Participants or Beneficiaries. Notwithstanding Section 9.1(a)(i), the Company may amend the Plan to cease all future benefit accruals and shall pay benefits according to the then existing or amended distribution provisions. Notwithstanding Section 9.1(a)(i), the Company may terminate the Plan and shall distribute all benefits as soon as administratively feasible in the form of single lump sum payments calculated in the same manner as lump sum benefits are calculated in the event of a Change of Control pursuant to Section 5.3.

(c) Procedures

Any amendment or termination of the Plan shall be adopted by the Board, made in writing, and executed on behalf of the Company by an authorized officer of the Company.

SECTION 10

MISCELLANEOUS PROVISIONS

10.1 Appendices

Any Appendix to this Plan, as amended from time to time, is incorporated into the Plan and made a part of the terms and conditions of this Plan.

10.2 ERISA Status

This Plan shall constitute a plan which is unfunded and which is maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA.

10.3 Unfunded Nature of the Obligation

The obligation to pay benefits under the Plan shall at all times be an unfunded, unsecured obligation of the Employer. The Employer is not obligated to purchase any annuity contracts to provide benefits under the Plan, to establish a trust for the purpose of receiving contributions and paying benefits under the Plan, or to otherwise set aside funds for the purpose of providing Plan benefits.

10.4 Facility of Payment

In the event any benefit under this Plan shall be payable to a person who is under legal disability or is in any way incapacitated so as to be unable to manage his or her financial affairs, the Administrative Committee may direct payment of such benefit to a duly appointed guardian, committee or other legal representative of such person, or in the absence of a guardian or legal representative, to a custodian for such person under a Uniform Gifts to Minors Act or to any relative of such person by blood or marriage, for such person's benefit. Any payment made in good faith pursuant to this provision shall fully discharge the Company and the Plan of any liability to the extent of such payment.

10.5 Governing Law

The Plan shall be construed in accordance with ERISA and the laws of the State of Washington, to the extent not preempted by ERISA.

10.6 Limitation on Assignment

Benefits under this Plan may not be assigned, sold, transferred, or encumbered, and any attempt to do so shall be void. A Participant's or Beneficiary's interest in benefits under the Plan shall not be subject to debts or liabilities of any kind and shall not be subject to attachment, garnishment or other legal process.

10.7 No Additional Rights

No person shall have any rights under the Plan, except as, and only to the extent, expressly provided for in the Plan. Neither the establishment or amendment of the Plan or the creation of any fund or account, or the payment of benefits, nor any action of an Employer or the Administrative Committee shall be held or construed to confer upon any person any right to be continued as an employee, or, upon dismissal, any right or interest in any account or fund other than as herein provided. The Company and the other Employers expressly reserve the right to discharge any employee at any time with or without cause.

10.8 Notice

All notices, statements, reports and other communications from the Company or Administrative Committee to any employee or other person required or permitted under the Plan shall be deemed to have been duly given when delivered to, or when mailed by first-class mail, postage prepaid and addressed to, such employee, or other person at his or her address last appearing on the Company's records.

10.9 Severability

If any provision of this Plan is held unenforceable or invalid for any reason, such determination shall not affect the remaining provisions of this Plan which shall be construed as if the unenforceable or invalid provisions had never been included.

10.10 Tax Consequences and Withholding

The Company does not represent or guarantee that any particular federal or state income, payroll, Social Security, or other tax consequences will result from participation in the Plan. A Participant should consult with professional tax advisors to determine the tax consequences of his or her participation in the Plan.

All payments of federal or state income, Social Security, payroll, or other tax required with respect to contributions or benefits under the Plan shall be satisfied by withholding the required amount from the Participant's salary or Plan benefit payment, or if the Participant's salary or benefit payment is insufficient to satisfy any required tax payments, the Participant shall satisfy the payments in a manner approved by the Administrative Committee.

Determinations by the Administrative Committee with respect to tax withholding shall be binding on the Participant and Beneficiaries.

EXECUTION/SIGNATURE PAGE

IN WITNESS WHEREOF, the Company has caused this Plan to be signed by its duly authorized officer this 8th day of August, 1995.

ALASKA AIR GROUP, INC.

Witness:

Keith Loveless	John F. Kelly
Assistant Secretary	Chairman, President and Chief Executive Officer

APPENDIX I
TO THE
ALASKA AIR GROUP, INC.
1995 ELECTED OFFICERS SUPPLEMENTARY RETIREMENT PLAN

Pursuant to Section 2 of the Plan, the following Elected Officers shall be Participants in the Plan beginning on the date listed below and shall cease to be active Participants on the date listed below:

Name	Participation Commencement Date (PCD)	Company Service on PCD	Elected Officer Service on PCD	Active Participation Ceases

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: ______
John F. Kelly
Chairman and Chief Executive Officer

Date:

APPENDIX II
TO THE
ALASKA AIR GROUP, INC.
1995 ELECTED OFFICERS SUPPLEMENTARY RETIREMENT PLAN

"Employer" as defined in Section 1.19 shall also include the following employers during the following period of time.

Employer	Beginning Date	Ending Date
1. Alaska Airlines, Inc.	August 8, 1995	
2. Horizon Air Industries, Inc.	August 8, 1995	

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: ______
John F. Kelly
Chairman and Chief Executive Officer

Date:

EXHIBIT 12

Alaska Air Group, Inc.
Calculation of Ratio of Earnings to Fixed Charges
(In thousands, except ratios)

	1997	1996	1995	1994	1993
Earnings:					
Income (loss) before income tax expense and accounting change	$123,600	$64,349	$33,983	$40,961	($45,812)
Less: Capitalized interest	(5,300)	(1,031)	(208)	(353)	(446)
Add:					
Interest on indebtedness	33,600	38,394	51,479	46,960	37,624
Amortization of debt expense	685	1,224	1,100	1,368	690
Portion of rent under long-term operating leases representative of an interest factor	72,900	71,562	67,295	65,618	60,136
Earnings Available for Fixed Charges	$225,485	$174,498	$153,649	$154,554	$52,192
Fixed Charges:					
Interest	33,600	38,394	51,479	46,960	37,624
Amortization of debt expense	685	1,224	1,100	1,368	690
Portion of rent under long-term operating leases representative of an interest factor	72,900	71,562	67,295	65,618	60,136
Total Fixed Charges	$107,185	$111,180	$119,874	$113,946	$98,450
Ratio of Earnings to Fixed Charges	2.10	1.57	1.28	1.36	0.53
Coverage deficiency	-	-	-	-	$46,258

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 26, 1998 included in this Form 10-K, into the Company's previously filed Registration Statements, File Numbers 33-22358, 33-52242, 333-09547, 333-33727, 333-39889 and 333-39899.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Seattle, Washington
February 10, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALASKA AIR GROUP, INC. 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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