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 [FEE REQUIRED]
For the fiscal year ended December 31, 1995

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
7-3/4% Convertible Subordinated Debentures Due 2010	Unlisted
6-7/8% Convertible Subordinated Debentures Due 2014	New York Stock Exchange
10.21% Series B Cumulative Redeemable Preferred Stock Due 1997	Unlisted

As of December 31, 1995, common shares outstanding totaled 13,565,076. The aggregate market value of the common shares of Alaska Air Group, Inc. held by nonaffiliates, 13,378,152 shares, was approximately $217 million (based on the closing price of these shares, $16.25, 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. (X)

DOCUMENTS TO BE INCORPORATED BY REFERENCE

Title of Document	Part Hereof Into Which Document to be Incorporated
Definitive Proxy Statement Relating to 1996 Annual Meeting of Shareholders	Part III

Exhibit Index begins on page 33.

PART I

ITEM 1. BUSINESS

General

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. However, each subsidiary's business plan, 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 221 miles. Business segment information is reported in the Notes to Consolidated Financial Statements. The Company's executive offices are located at 19300 Pacific Highway South, Seattle, Washington 98188.

The business of the Company is somewhat seasonal. Quarterly operating income tends to peak during the third quarter.

Alaska

Alaska Airlines is an Alaska corporation, organized in 1937. Alaska serves 37 cities in six states (Alaska, Washington, Oregon, California, Nevada and Arizona), three cities in Mexico and four 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 1995, Alaska carried 10.1 million passengers. Passenger traffic within Alaska and between Alaska and the U.S. mainland accounted for 27% of Alaska's total revenue passenger miles, while West Coast traffic accounted for 66% and the Mexico markets 7%. Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Anchorage and Los Angeles. Based on revenues, its leading nonstop routes were Seattle-Anchorage, Seattle-Los Angeles and Seattle-San Francisco. At December 31, 1995, Alaska's operating fleet consisted of 74 jet aircraft.

During 1995, Alaska entered into a marketing agreement with Northwest Airlines whereby certain Alaska flights and certain Northwest flights are dual-designated in airline computer reservation systems as Alaska Airlines and Northwest Airlines. Alaska Airlines also serves three smaller cities in California, two 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 35 cities in five states (Washington, Oregon, Montana, Idaho, and California) and four cities in Canada. In 1995, Horizon carried 3.8 million passengers. Based on passenger enplanements, Horizon's leading airports are Seattle, Portland, Spokane and Boise. Based on revenues, its leading nonstop routes were Seattle-Spokane, Seattle-Portland, Seattle-Boise, and Portland-Boise. At December 31, 1995, Horizon's operating fleet consisted of 12 jet and 55 turboprop aircraft.

Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems. Certain Horizon flights are dual-designated in these reservation systems as Northwest Airlines and Alaska Airlines. Currently, 29% of Horizon's passengers connect to either Alaska or Northwest.

Airline Regulation

United States Department of Transportation (DOT) - The DOT has the authority to regulate certain airline economic functions including financial and statistical reporting, consumer protection, computerized reservations systems and essential air transportation. The DOT is also charged with determining which U.S. carriers will receive the authority to provide service to international destinations. International operating authority is subject to bilateral agreements between the United States and the respective countries. The countries establish the number of carriers to provide service, approve the carriers selected to provide such service and the size of aircraft to be used. The DOT reviews the carriers authorized under bilateral agreements every five years. Beginning in February 1997, under the U.S.-Canada "open skies" agreement, all U.S. and Canadian carriers will be able to operate between U.S. and Canadian cities (except for Toronto), subject to availability of landing slots. Alaska's authorities to serve its various Mexico destinations are to be reviewed during 1996. The bilateral agreement with Russia will also be reviewed in 1996. The Company expects to be granted authority to continue to operate its international routes.

Federal Aviation Administration (FAA) - The FAA, an agency within the DOT, has jurisdiction to regulate aviation safety generally, including: the licensing of pilots and maintenance personnel; the establishment of minimum standards for training and maintenance; and technical standards of flight, communications and ground equipment. All aircraft must have and maintain certificates of airworthiness issued by the FAA. Alaska and Horizon aircraft, maintenance facilities and procedures are subject to inspection by the FAA. The FAA has the authority 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.

Labor Relations - 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 arising under collective bargaining agreements.

Environmental - 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.

In 1990, Congress passed the Airport Noise and Capacity Act of 1990 (Act). The Act addressed the need to establish a national aviation noise policy and limit the ability of airports and local communities to implement procedures that would interfere with interstate commerce or the national air transportation system. The Act also called for the phase out of Stage II airplanes (generally older aircraft not meeting certain noise emission standards) in the contiguous 48 states by December 31, 1999. Alaska's only Stage II aircraft are eight Boeing 737-200Cs, and the Company anticipates it will modify or replace these aircraft to meet applicable noise requirements.

Competition

Competition in the air transportation industry is intense. Currently, 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 2.2% of all U.S. passenger traffic.

Alaska and Horizon compete in the West Coast, Arizona and Nevada markets with America West, Delta, Reno Air, Shuttle by United, Southwest Airlines, United and United Express. Alaska also competes with Continental, Delta, Reno Air and United in the Lower 48-to-Alaska market. 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 private automobile.

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 attention to customer needs, high-quality food and beverage service, legroom, well-maintained aircraft and other amenities has been recognized by independent studies and surveys of air travelers. Alaska and Horizon offer competitive fares.

Most large U.S. carriers have developed, independently or in partnership with others, large computerized reservation systems (CRS). Due to contractual requirements imposed by CRSs, most travel agencies contract with a single CRS to sell tickets. Airlines, including Alaska, and Horizon, are charged industry-set fees to have their flight schedules included in the various CRS displays. These systems are currently the predominant means of distributing airline tickets. In order to reduce anticompetitive practices, the DOT regulates the display of all airline schedules and fares. Alaska is exploring alternatives to existing distribution methods. American Airlines, owner of the SABRE CRS, has filed suit against Alaska to prevent Alaska from reducing its level of display purchased from SABRE without also doing so in all other CRSs.

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, 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. Once selected, awards can be changed, subject to a change fee. Over 70% of the flight awards selected are subject to blackout dates and capacity-controlled seating. Prior to January 1996, miles earned had to be redeemed within three years, otherwise they expired. Effective in January 1996, all miles currently accrued and future mileage earned will accumulate indefinitely.

As of the year end 1995 and 1994, Alaska estimates that 481,000 and 662,000 roundtrip 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, 1995, fewer than 24% of these flight awards were issued and outstanding. For the years 1995, 1994 and 1993, approximately 242,000, 226,000 and 188,000 round trip flight awards were redeemed and flown on Alaska and Horizon. These awards represent approximately 7% for 1995, and 5% for 1994 and 1993, 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 which 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, 1995 and 1994, the total liability for miles outstanding was $17.5 million and $17.4 million, respectively.

Selected Quarterly Consolidated Financial Information (Unaudited)

Selected financial data for each quarter of 1995 and 1994 is as follows (in millions, except per share):

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1995	1994	1995	1994	1995	1994	1995	1994
Operating revenues	$294.6	$280.4	$362.2	$330.5	$419.6	$386.8	$341.1	$318.0
Operating income (loss)	(18.3)	(2.9)	24.5	24.5	62.6	52.3	7.1	1.2
Net income (loss)	(16.3)	(6.3)	7.0	9.7	27.4	24.3	(.8)	(5.1)
Earnings (loss) per share:								
Primary	(1.22)	(.47)	.52	.72	2.01	1.81	(.06)	(.38)
Fully diluted	*	*	.48	.61	1.30	1.36	*	*

* Anti-dilutive

The total of the amounts shown as quarterly earnings per share 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 outstanding for the year.

Employees

Alaska had 7,379 active full-time and part-time employees at December 31, 1995, of which approximately 87% are represented by labor unions.
The following is a summary of Alaska's union contracts as of December 31, 1995:

Union	Employee Group	Number of Employees	Contract Status
International Association of Machinists and Aerospace Workers	Mechanic, Rampservice and related classifications	1,724	Amendable 9/1/97
	Clerical, Office and Passenger Service	2,397	Amendable 5/20/99
Air Line Pilots Association International	Pilots	922	Amendable 12/1/97
Association of Flight Attendants	Flight Attendants	1,333	Amendable 3/14/99
Mexico Workers Association of Air Transport	Mexico Airport Personnel	53	Amendable 4/1/96
Transport Workers	Dispatchers	16	Amendable 2/9/02

Horizon had 3,088 active full-time and part-time employees at December 31, 1995, of which approximately 21% are represented by labor unions. During 1995, the pilots voted to reject union representation by the International Brotherhood of Teamsters.

The following is a summary of Horizon's union contracts as of December 31, 1995:

Union	Employee Group	Number of Employees	Contract Status
Transport Workers Union of America	Mechanics and related classifications	315	Amendable 4/24/98
	Dispatchers	27	Amendable 5/10/97
Association of Flight Attendants	Flight Attendants	271	Amendable 6/15/96
National Automobile, Aerospace, Transportation and General Workers	Station personnel in Canada	42	Amendable 12/21/97

ITEM 2. PROPERTIES

Aircraft

The following table describes the aircraft operated and their average age at December 31, 1995.

Aircraft Type	Passenger Capacity	Owned	Leased	Total	Average Age in Years
Alaska Airlines					
Boeing 737-200C	111	4	4	8	15.4
Boeing 737-400	140	4	18	22	2.7
McDonnell Douglas MD-80	140	16	28	44	7.0
		24	50	74	6.6

Horizon					
Fairchild Metroliner III	18	5	17	22	9.5
Dornier 328	31	--	10	10	1.4
de Havilland Dash 8	37	--	23	23	7.5
Fokker F-28	62	--	12	12	22.0
		5	62	67	9.8

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

Sixteen of the 24 aircraft owned by Alaska as of December 31, 1995 are subject to liens securing long-term debt, and two are subject to liens securing short-term borrowings. Alaska's leased B737-200C, B737-400 and MD-80 aircraft have lease expiration dates between 1996 and 1999, 2002 and 2013, and 1997 and 2013, respectively. Horizon's leased Fairchild Metroliner III, Dornier 328, de Havilland Dash 8 and Fokker F-28 aircraft have expiration dates between 1996 and 2001, 2008 and 2011, 1999 and 2006, and 1996 and 1998, respectively. 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.

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 reservation 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: its Anchorage regional headquarters building and Phoenix reservations center; a leased two-bay maintenance facility in Oakland; and a leased hangar/office facility in Anchorage.

Horizon owns its Seattle corporate headquarters building and leases maintenance facilities at the Portland and Boise airports.

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 alleging breach of contract and other causes of action under state law. In addition, MarkAir claimed that the termination was in violation of Federal Antitrust Laws. MarkAir filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June 1992. In December 1993, MarkAir agreed to dismiss all antitrust claims against the Company. In 1994, the U.S. District Court which had jurisdiction over the case approved the settlement. Discovery continues in a related Alaska state court case pertaining to breach of contract and other state law claims. The Company believes the ultimate resolution of this legal proceeding will not result in a material adverse impact on the financial position or results of operations of the Company.

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, 1996) are as follows:

Name	Position	Age	Officer Since
John F. Kelly	Chairman, President and Chief Executive Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc.	51	1981
Marjorie E. Laws	Vice President/Corporate Affairs and Corporate Secretary of Alaska Air Group, Inc. and Alaska Airlines, Inc.	55	1983
Steven G. Hamilton	Vice President/Legal and General Counsel of Alaska Air Group, Inc. and Alaska Airlines, Inc.	56	1988
Harry G. Lehr	Senior Vice President/Finance of Alaska Air Group, Inc. and Alaska Airlines, Inc.	55	1986

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

As of December 31, 1995, there were 13,565,076 shares of common stock issued and outstanding and 5,747 shareholders of record. The Company also held 3,153,608 treasury shares at a cost of $71.8 million. In December 1992, the Company suspended the quarterly dividend on the common stock due to the 1992 net loss and the difficult economic environment. Although the Company has returned to profitability, it has no plans to pay dividends in the forseeable future. 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 1995 and 1994.

	1995		1994	
	High	Low	High	Low
First Quarter	16-3/4	13-1/2	18-7/8	13-5/8
Second Quarter	18-3/8	14-1/2	16-1/8	13-3/4
Third Quarter	21-3/8	14-3/8	17-7/8	14-3/8
Fourth Quarter	18-7/8	13-5/8	18	13-1/8

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

	1995	1994	1993	1992	1991
Consolidated Financial Data:					
Year Ended December 31 (in millions, except per share amounts):					
Operating Revenues	$1,417.5	$1,315.6	$1,128.3	$1,115.4	$1,104.0
Operating Expenses	1,341.6	1,240.6	1,145.1	1,210.2	1,069.4
Operating Income (Loss)	75.9	75.0	(16.8)	(94.8)	34.6
Nonoperating expense, net (a)	(41.9)	(34.0)	(29.0)	(30.9)	(18.4)
Income (loss) before income tax and accounting change	34.0	41.0	(45.8)	(125.7)	16.2
Net Income (Loss)	$17.3	$22.5	$(30.9)	$(84.8)	$10.3
Average primary shares outstanding	13.5	13.4	13.3	13.3	13.4
Primary earnings (loss) per share (b)	$1.28	$1.68	$(2.51)	$(6.87)	$0.27
Fully diluted earnings (loss) per share	1.26	1.62	(c)	(c)	(c)
Cash dividends per share	--	--	--	$0.15	$0.20
At End of Period (in millions, except ratio):					
Total assets	$1,313.4	$1,315.8	$1,135.0	$1,208.4	$1,225.5
Long-term debt and capital lease obligations	522.4	589.9	525.4	487.8	500.0
Redeemable preferred stock	--	--	--	61.2	60.9
Shareholders' equity	212.5	191.3	166.8	196.7	284.4

Ratio of earnings to fixed charges	1.28	1.36	(d)	(d)	1.10
Alaska Airlines Operating Data:					
Revenue passenger miles (000,000)	8,584	7,587	5,514	5,537	4,948
Available seat miles (000,000)	13,885	12,082	9,426	9,617	8,789
Revenue passenger load factor	61.8%	62.8%	58.5%	57.6%	56.3%
Yield per passenger mile	11.59c	12.20c	14.32c	14.50c	16.70c
Operating expenses per available seat mile	7.71c	8.27c	9.88c	10.49c	10.16c
Average number of employees (e)	6,993	6,486	6,191	6,514	6,127
Horizon Air Operating Data:					
Revenue passenger miles (000,000)	841	733	560	486	405
Available seat miles (000,000)	1,414	1,165	986	905	786
Revenue passenger load factor	59.5%	62.9%	56.8%	53.7%	51.5%
Yield per passenger mile	31.48c	33.35c	37.93c	40.69c	42.88c
Operating expenses per available seat mile	19.47c	20.95c	21.76c	22.19c	22.30c
Average number of employees (e)	2,864	2,557	2,267	2,152	1,953

c = cents

(a) Includes capitalized interest of $.2 million, $.4 million, $.4 million, $6.1 million and $8.3 million for 1995, 1994, 1993, 1992, and 1991, respectively.

(b) For 1992, primary earnings per share includes ($.34) for the $4.6 million cululative effect of the postretirement benefits accounting change as of January 1, 1992.

(c) Anti-dilutive.

(d) For 1993 and 1992, earnings are inadequate to cover fixed charges by $50.0 million and $142.1 million, respectively.

(e) Full-time equivalents.

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

Industry Conditions

During 1994, the character of competition changed on the West Coast due to the December 1993 purchase of Morris Air by Southwest Airlines, and the October start-up of Shuttle by United. Low air fares are now a permanent part of the fare structure on the West Coast. During April 1995, MarkAir, a significant competitor in the Alaska marketplace since 1992, withdrew from all Alaska markets and subsequently ceased operations.

The Company has responded to the changing industry environment by implementing a new advertising campaign, aggressively matching competitors' air fares, increasing flight frequency, and improving utilization of aircraft, facilities, equipment and people. From 1992 to 1994, Alaska reduced its unit costs by 20%, which is believed to be the sharpest drop in the airline industry. From 1994 to 1995, Alaska's unit costs dropped 7%.

Results of Operations

1995 COMPARED WITH 1994 Consolidated net income in 1995 was $17.3 million, or $1.28 per share (primary) and $1.26 per share (fully diluted), compared with net income of $22.5 million, or $1.68 per share (primary) and $1.62 per share (fully diluted) in 1994. Consolidated operating income was $75.9 million compared to $75.0 million in 1994. Alaska's operating income improved by $9.5 million, but it was offset by significantly lower operating results at Horizon. A discussion of operating revenues and expenses for the two airlines follows.

Alaska Airlines Operating revenues increased 7.6% to $1.142 billion. Passenger revenues, which accounted for 87% of total operating revenues, increased 7.4% on a 13.1% rise in passenger traffic. Capacity increased 14.9%, primarily due to increases in the Pacific Northwest to California markets. The load factor dropped from 62.8% in 1994 to 61.8% in 1995. Passenger yields declined 5.0% to 11.59 cents in 1995, reflecting increased competition on the West Coast. The static value of a one cent movement in yield is approximately $86 million per year. However, in a dynamic, price-sensitive business, a one cent increase will not necessarily result in a revenue improvement of this magnitude.

Freight and mail revenues increased 2.9% due to higher freight and mail volumes, resulting in part from the withdrawal of MarkAir from all Alaska markets. Other-net revenues rose 17.6% primarily due to increased revenues from partners in Alaska's frequent flyer program.
The table below shows the major operating expense elements on a cost per available seat mile (ASM) basis in 1995 and 1994.

Alaska Airlines	Operating Expenses Per ASM (In Cents)			
	1995	1994	Change	% Change
Wages and benefits	2.46	2.67	(.21)	(8)
Aircraft fuel	1.11	1.08	.03	3
Aircraft maintenance	.33	.34	(.01)	(3)
Aircraft rent	.99	1.13	(.14)	(12)
Commissions	.54	.61	(.07)	(11)
Depreciation & amortization	.42	.39	.03	8
Other	1.86	2.05	(.19)	(9)
Alaska Airlines Total	7.71	8.27	(.56)	(7)

Alaska's lower unit costs were due to continuing cost reduction efforts and better utilization of aircraft. Average daily aircraft utilization increased 5% from 10.3 block hours to 10.8 block hours. Wages and benefits per ASM decreased 8% primarily due to improved productivity. The number of full-time equivalent employees increased 8% while capacity increased 15% and traffic increased 13%.

Fuel expense per ASM increased 3%, due to a 5% increase in the price of fuel, offset by a lower consumption rate resulting from a longer average aircraft hop length. The average cost per gallon rose 3.0 cents to 62.9 cents in 1995. Currently, a 1 cent change in fuel prices affects annual fuel costs by approximately $2.5 million. In October 1995, Alaska (as well as Horizon and other airlines) began paying a 4.3 cent Federal excise tax on domestic fuel consumption. The annual fuel expense impact of this tax on Alaska is approximately $10 million or .07 cents per ASM. The annual fuel expense impact on both Alaska and Horizon is $12 million. There is pending legislation in Congress to extend the exemption from this tax for 17 to 24 months.

Aircraft maintenance per ASM decreased 3% due to increased aircraft utilization. Aircraft rent per ASM decreased 12% due to an increase in aircraft utilization, and a restructuring (in the fourth quarter of 1994) of B737-400 aircraft leases.

Commission expense per ASM decreased 11% because passenger revenues, upon which commissions are paid, did not keep pace with ASM growth. In addition, a greater percentage of tickets were sold without commissions through tour operators and other wholesalers.

Depreciation and amortization expense per ASM increased 8%, in spite of a 15% increase in ASMs, primarily due to: (a) the reduction in estimated salvage value from 20% to 5% (effective January 1, 1995) for all MD-80 aircraft; and (b) depreciation on three B737-400 aircraft that were treated as operating leases for most of 1994.

Other expense per ASM decreased 9% due to lower unit costs for building rentals, food, landing fees and outside services expenses.

Horizon Air Operating revenues increased 8.8% to $279.5 million. Passenger revenues, which accounted for 95% of total operating revenues, increased 8.3% on a 14.8% rise in passenger traffic. Capacity increased 21.4% due to the increased use of larger capacity Fokker F-28 jets and Dornier 328 turboprop aircraft. The load factor dropped from 62.9% in 1994 to 59.5% in 1995. Passenger yields declined 5.6% to 31.5 cents in 1995, reflecting increased competition and longer passenger trips.

Freight, mail and other revenues increased 18.0% due to increased freight and mail volumes as well as increased revenues from providing services to other airlines.

The table below shows the major operating expense elements on cost per ASM basis for Horizon in 1995 and 1994.

Horizon Air	Operating Expenses Per ASM (In Cents)			
	1995	1994	Change	% Change
Wages and benefits	6.06	6.75	(.69)	(10)

Aircraft fuel	1.95	1.84	.11	6
Aircraft maintenance	2.41	2.33	.08	3
Aircraft rent	2.44	2.73	(.29)	(11)
Commissions	1.34	1.56	(.22)	(14)
Depreciation & amortization	.70	.75	(.05)	(7)
Other	4.57	4.99	(.42)	(8)
Horizon Air Total	19.47	20.95	(1.48)	(7)

Horizon's cost per ASM declined 7% to 19.47 cents due to: (a) greater use of higher capacity aircraft; (b) no profit sharing accrual in 1995; and (c) cost reduction efforts.

Consolidated Other Income (Expense) Non-operating expense increased $7.9 million to $41.9 million expense primarily due to: (a) $4.5 million more interest expense resulting from higher interest rates on variable debt and higher average debt balances; (b) $2.2 million of amortization of issue costs for the 7-1/4% zero coupon notes that were repurchased in August 1995; (c) $1.8 million of vendor credits included in 1994; and (d) $1.6 million more gains on debt retirements included in 1994.

1994 COMPARED WITH 1993 Consolidated net income for 1994 was $22.5 million, or $1.68 per share (primary) and $1.62 per share (fully diluted), compared with a net loss of $30.9 million, or $2.51 per share, in 1993. The results for 1993 include an after-tax charge of $9.8 million for the early retirement of the 727 fleet. Operating income for 1994 was $75.0 million, compared to an operating loss of $16.8 million for 1993. The improved operating results reflect higher operating revenues and the effects of cost reductions and productivity improvements.

Consolidated operating revenues increased 17% to $1.316 billion. Passenger revenues increased 17% on a 37% increase in passenger traffic. Traffic gains were due to a 27% increase in system capacity, lower fares that stimulated traffic, and increased market share. Yields declined 15% to 14.1 cents in 1994. Freight and mail revenues increased 9% due to a military charter contract in the state of Alaska, increased freight volumes, and increased freight rates, offset by lower mail volumes. The lower mail volumes resulted from Alaska's decision to not bid on certain U.S. mail contracts so that capacity could be made available for higher yielding freight. Other-net revenues rose by $11.6 million or 27% due to increased revenues from Alaska's frequent flyer program, maintenance contracts and inflight liquor sales.

Consolidated operating expenses increased 8% to $1.241 billion. Alaska's operating expenses increased 7% to $998.7 million on a 28% increase in capacity, resulting in a 16% decline in its cost per ASM. The lower unit costs were due to an extensive cost reduction effort and better utilization of aircraft, facilities, equipment and people, as well as a 2% increase in average seats per aircraft. Average daily aircraft utilization increased 26% from 8.2 block hours to 10.3 block hours. Horizon's operating expenses increased 14% to $244.0 million on an 18% increase in capacity, resulting in a 4% decline in its cost per ASM. The lower unit costs were due to the acquisition of higher capacity aircraft and cost reduction efforts.

Consilidated Other Income (Expense) was $34.0 million expense in 1994 compared to $29.0 million expense in 1993. The increase was primarily due to higher interest rates on debt and higher average debt balances, offset by gains on debt retirement and vendor credits.

Liquidity and Capital Resources
The table below presents the major indicators of financial condition and liquidity.

	December 31, 1995	December 31, 1994	Change
	(In millions, except ratios and per share amounts)		
Cash and marketable securities	$135.1	$104.9	$ 30.2
Working capital (deficit)	(106.4)	(147.1)	40.7
Total assets	1,313.4	1,315.8	(2.4)

Long-term debt and capital lease obligations	522.4	589.9	(67.5)
Shareholders' equity	212.5	191.3	21.2
Book value per common share	$15.67	$14.27	$1.40
Debt/equity ratio	71%:29%	76%:24%	NA

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).

Like many airlines, the Company has a working capital deficit. The deficit decreased during 1995 for a variety of factors including the sale and leaseback of two B737-400 aircraft and the reclassification of an $18 million receivable from other assets to current assets. 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.

Financing Arrangements In June 1995, the Company issued $132.3 million of 6-1/2% convertible senior debentures due 2005. In August 1995, the Company redeemed all of its 7-1/4% zero coupon, convertible subordinated notes for $127.7 million. In December 1995, Alaska: (a) sold and leased back one B737-400 aircraft for 18 years; (b) extinguished capital lease obligations of $27.4 million and subsequently sold and leased back one B737-400 aircraft for 18 years; (c) purchased one B737-400 aircraft that had been treated as a capital lease; and (d) purchased another B737-400 aircraft that had been treated as an operating lease. Short-term borrowings of $46 million were incurred to purchase the two B737-400 aircraft. Alaska intends to repay the short-term borrowings in 1996 when long-term financing is arranged for these aircraft.

In August 1995, Standard & Poors lowered its corporate credit rating on Air Group and Alaska to single B plus from double B minus, citing increased competition in Alaska's West coast markets.

Commitments During 1995, Alaska took delivery of two new MD-83 aircraft under 16-year operating leases, and Horizon took delivery of three new Dornier 328 aircraft (two of which are not in the operating fleet at December 31, 1995) under 15-year operating leases. In addition, Alaska extended operating leases on four of its MD-80 aircraft for an average of two years and agreed to lease two new B737-400 aircraft.

At December 31, 1995, the Company had firm orders for 14 aircraft with a total cost of approximately $270 million as set forth below.

	Delivery Period - Firm Orders			
Aircraft	1996	1997	1998	Total
Boeing B737-400	1	1	--	2
Dornier 328	2	2	4	8
McDonnell Douglas MD-83	2	2	--	4
Total	5	5	4	14
Cost (Millions)	$120	$120	$30	$270

Operating leases have been completed for the B737-400 and Dornier 328 orders. The Company expects to finance the MD-83s with either leases, long-term debt or internally generated cash.

The Company accrues the costs associated with returning leased aircraft over the lease period. At December 31, 1995, $33 million was reserved for leased aircraft returns.

Deferred Taxes At December 31, 1995, net deferred tax liabilities were $30 million, which includes $101 million of net temporary differences, offset by $42 million of net operating loss (NOL) carryforwards and $29 million of Alternative Minimum Tax (AMT) credits. The Company believes that all of its deferred tax assets, including the NOL and AMT credits, will be realized through the reversal of existing temporary differences or tax planning strategies such as the sale of aircraft.

New Accounting Standards During 1995, the Financial Accounting Standards Board issued FAS 121, Accounting for the Impairment of Long-Lived Assets, and FAS 123, Accounting for Stock-Based Compensation. FAS 121 will be adopted in 1996 and is not expected to have a material impact on the Company's financial position or results of operations. The Company plans to continue to measure compensation cost of employee stock option plans using the intrinsic value method prescribed by APB Opinion No. 25 and, starting in 1996, to make pro forma disclosures of net income and earnings per share as if the fair value method prescribed by FAS 123 had been applied.

1994 FINANCIAL CHANGES Cash and marketable securities increased by $4 million in 1994. Operations generated $144 million, proceeds from financing four new MD-83 aircraft were $104 million, and net short-term borrowings added $5 million. Cash was used for the repayment of debt ($71 million), and capital expenditures ($189 million). During 1994, Alaska restructured its 20 B737-400 aircraft leases. The fixed term of the leases was increased from eight years to ten years. As a result of the restructuring, Alaska expects to save more than $6 million per year over the term of the leases. As part of the restructuring, Alaska purchased one of the leased aircraft in 1994, agreed to purchase one each in 1995 and 1996, and received options to purchase up to four more of the 20 between 1997 and 1999. Capital lease obligations increased $57.9 million due to changes in the lease agreements for two B737-400 aircraft that were previously classified as operating leases. Also during 1994, Alaska further restructured its aircraft orders with McDonnell Douglas, replacing an order for ten MD-90s plus options with an order for four MD-83s. This restructuring will reduce future capital spending by $360 million.

1993 FINANCIAL CHANGES Cash and marketable securities increased by $18 million in 1993. Operations generated $49 million, proceeds from aircraft financing were $84 million, and short-term borrowings added $20 million. Cash was used for the repayment of debt ($79 million), the repurchase of preferred stock ($33 million), and capital expenditures ($30 million). During 1993, the Company repurchased all of its outstanding redeemable preferred stock for $60 million, saving the Company more than $4 million annually after taxes. The seller provided a $27 million loan to assist with the stock purchase.

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 21, 1996. 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 21, 1996.

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 21, 1996.

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 21, 1996.

PART IV

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

See Exhibit Index on page 33.

(b) Alaska Air Group did not file any reports on Form 8-K during the fourth quarter of 1995.

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 8, 1996
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 8, 1996 on behalf of the registrant and in the capacities indicated.

/s/ John F. Kelly John F. Kelly	Chairman, Chief Executive Officer, President and Director
/s/ Harry G. Lehr Harry G. Lehr	Senior Vice President/Finance (Principal Financial Officer)
/s/ Bradley D. Tilden Bradley D. Tilden	Controller (Principal Accounting Officer)
/s/ William H. Clapp William H. Clapp	Director
/s/ Ronald F. Cosgrave Ronald F. Cosgrave	Director

/s/ Mary Jane Fate Mary Jane Fate	Director
/s/ Bruce R. Kennedy Bruce R. Kennedy	Director
/s/ R. Marc Langland R. Marc Langland	Director
Not available Byron I. Mallott	Director
/s/ Robert L. Parker, Jr. Robert L. Parker, Jr.	Director
/s/ Richard A. Wien Richard A. Wien	Director

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

ASSETS

As of December 31 (In Millions)	1995	1994
Current Assets		
Cash and cash equivalents	$25.8	$11.6
Marketable securities	109.3	93.3
Receivables - less allowance for doubtful accounts (1995 - $1.6; 1994 - $2.3)	88.5	70.1
Inventories and supplies	44.8	40.3
Prepaid expenses and other assets	70.0	57.3
Total Current Assets	338.4	272.6
Property and Equipment		
Flight equipment	845.9	776.6
Other property and equipment	219.1	208.5
Deposits for future flight equipment	40.7	52.8
	1,105.7	1,037.9
Less accumulated depreciation and amortization	312.8	260.0
	792.9	777.9
Capital leases		
Flight and other equipment	44.4	103.1
Less accumulated amortization	23.3	21.7
	21.1	81.4
Total Property and Equipment - Net	814.0	859.3
Intangible Assets - Subsidiaries	63.6	65.7
Other Assets	97.4	118.2
Total Assets	$1,313.4	$1,315.8

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

As of December 31 (In Millions)	1995	1994
Current Liabilities		
Accounts payable	$69.2	$48.6
Accrued aircraft rent	44.1	43.8
Accrued wages, vacation and payroll taxes	45.8	47.4
Other accrued liabilities	55.7	59.6
Short-term borrowings (Interest rate: 1995 - 6.2%; 1994 - 6.0%)	65.9	25.0
Air traffic liability	124.4	123.3
Current portion of long-term debt and capital lease obligations	39.7	72.0
Total Current Liabilities	444.8	419.7

Long-Term Debt and Capital Lease Obligations	522.4	589.9
Other Liabilities and Credits		
Deferred income taxes	41.0	28.6
Deferred income	20.0	23.0
Other liabilities	72.7	63.3
	133.7	114.9
Commitments		
Shareholders' Equity		
Preferred stock, $1 par value		
Authorized: 5,000,000 shares	-	-
Common stock, $1 par value		
Authorized: 30,000,000 shares		
Issued: 1995 - 16,718,684 shares		
1994 - 16,553,679 shares	16.7	16.6
Capital in excess of par value	155.4	152.8
Treasury stock, at cost: 1995 - 3,153,608 shares		
1994 - 3,153,589 shares	(71.8)	(71.8)
Deferred compensation	(3.6)	(4.8)
Retained earnings	115.8	98.5
	212.5	191.3
Total Liabilities and Shareholders' Equity	$1,313.4	$1,315.8

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	1994	1993
Operating Revenues			
Passenger	$1,258.2	$1,170.2	$1,002.0
Freight and mail	95.2	91.5	84.0
Other - net	64.1	53.9	42.3
Total Operating Revenues	1,417.5	1,315.6	1,128.3
Operating Expenses			
Wages and benefits	427.8	401.7	368.2
Aircraft fuel	181.2	152.3	142.6
Aircraft maintenance	79.2	68.3	67.4
Aircraft rent	172.1	168.5	154.9
Commissions	93.1	91.9	80.1
Depreciation and amortization	68.3	56.6	58.4
Special charges	-	-	15.0
Other	319.9	301.3	258.5
Total Operating Expenses	1,341.6	1,240.6	1,145.1
Operating Income (Loss)	75.9	75.0	(16.8)
Other Income (Expense)			
Interest income	10.4	7.8	7.1
Interest expense	(51.5)	(47.0)	(37.6)
Interest capitalized	0.2	0.4	0.4
Loss on sale of assets	(0.2)	(1.0)	(0.6)
Other - net	(0.8)	5.8	1.7
	(41.9)	(34.0)	(29.0)
Income (loss) before income tax	34.0	41.0	(45.8)
Income tax expense (credit)	16.7	18.5	(14.9)
Net Income (Loss)	$17.3	$22.5	$(30.9)
Primary Earnings (Loss) Per Share	$1.28	$1.68	$(2.51)
Fully Diluted Earnings Per Share	$1.26	$1.62	AD
Shares used for computation:			
Primary	13.5	13.4	13.3
Fully diluted	20.8	19.6	AD

AD = Anti-dilutive
See accompanying notes to consolidated financial statements.

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

(In Millions)	Common Stock $1 Par Value	Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compen-sation	Retained Earnings	Total

Balances at December 31, 1992	$16.5	$151.8	$(71.8)	$(10.2)	$110.4	$196.7
1993 net loss					(30.9)	(30.9)
Preferred stock dividends and early redemption premium					(3.6)	(3.6)
Stock issued under stock plans		0.2				0.2
Employee Stock Ownership Plans shares allocated				4.4		4.4
Balances at December 31, 1993	16.5	152.0	(71.8)	(5.8)	75.9	166.8
1994 net income					22.6	22.6
Stock issued under stock plans	0.1	0.8				0.9
Employee Stock Ownership Plans shares allocated				1.0		1.0
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
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

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Alaska Air Group, Inc.

Year Ended December 31 (In Millions)	1995	1994	1993
Cash and cash equivalents at beginning of year	$11.6	$27.2	$6.9
Cash flows from operating activities:			
Net income (loss)	17.3	22.5	(30.9)
Adjustments to reconcile net income to cash:			
Depreciation and amortization	68.3	56.6	58.4
Amortization of airframe and engine overhauls	24.3	21.0	29.4
Special charges	-	-	15.0
Loss (gain) on disposal of assets and debt retired	1.9	(1.1)	(0.3)
Increase (decrease) in deferred income taxes	12.4	7.6	(8.1)
Decrease (increase) in accounts receivable	(18.5)	5.2	9.1
Decrease (increase) in other current assets	(17.2)	0.1	(15.1)
Increase in air traffic liability	1.0	15.1	11.6
Increase in other current liabilities	15.5	27.7	1.1
Interest on zero coupon notes	5.4	9.9	9.9
Leased aircraft return payments and other-net	15.1	(20.5)	(31.6)
Net cash provided by operating activities	125.5	144.1	48.5
Cash flows from investing activities:			
Proceeds from disposition of assets	3.8	6.5	7.2
Purchases of marketable securities	(169.4)	(76.1)	(150.6)
Sales and maturities of marketable securities	153.5	56.8	153.2
Flight equipment deposits returned	10.8	5.5	2.7
Additions to flight equipment deposits	(0.5)	(1.1)	(0.8)
Additions to property and equipment	(102.8)	(187.5)	(29.6)
Restricted deposits and other	3.9	(4.8)	0.1
Net cash used in investing activities	(100.7)	(200.7)	(17.8)
Cash flows from financing activities:			
Proceeds from short-term borrowings	69.9	25.0	20.0
Repayment of short-term borrowings	(29.0)	(20.0)	-
Proceeds from sale and leaseback transactions	56.0	-	36.5
Proceeds from issuance of long-term debt	128.8	104.0	47.2
Long-term debt and capital lease payments	(237.4)	(70.9)	(79.4)
Proceeds from issuance of common stock	2.8	0.8	0.2
Repurchase of preferred stock	-	-	(33.4)
Cash dividends	-	-	(2.4)
Gain (loss) on debt retirement	(1.7)	2.1	0.9
Net cash provided by (used in) financing activities	(10.6)	41.0	(10.4)
Net increase (decrease) in cash and cash equivalents	14.2	(15.6)	20.3
Cash and cash equivalents at end of year	$25.8	$11.6	$27.2
Supplemental disclosure of cash paid (received) during the year for:			
Interest (net of amount capitalized)	$52.6	$44.8	$33.6
Income taxes (refunds)	5.0	2.2	(18.6)

Noncash investing and financing activities:
1995 - None
1994 - Capital lease obligations of $57.9 million were incurred due to changes in lease agreements.
1993 - The preferred stock was repurchased in exchange for a $27 million note payable and a $33.4 million cash payment.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Alaska Air Group, Inc.
December 31, 1995

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 1995 presentation.

Both subsidiaries operate as airlines. However, each subsidiary's business plan, competition and economic risks differ substantially due to the passenger capacity and range of aircraft operated. 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 221 miles. See Note 10 for business 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.

Inventories and Supplies
Expendable and repairable aircraft parts, as well as 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, 1995 and 1994 for all inventories was $13.5 million and $12.1 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

Effective January 1, 1995, the estimated salvage value of MD-80 flight equipment was changed to 5% from 20%. The new estimate was adopted to recognize the lower expected salvage values for this aircraft type. The effect of the change on the year ended December 31, 1995 was to increase depreciation expense by $4.9 million and decrease net income by $3.0 million ($.22 per share).

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.

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. Interest capitalization is suspended when there is a substantial delay in aircraft deliveries.

Intangible Assets-Subsidiaries
The excess of 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, 1995 and 1994 was $19.1 million and $17.0 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.

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

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 liability is relieved as travel awards are used.

Advertising
The costs of advertising are expensed the first time the advertising takes place. Advertising expense was $15.2 million, $13.0 million, and $16.8 million, respectively, in 1995, 1994 and 1993

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.

Earnings Per Share
Primary earnings per share is calculated by dividing net income after reduction for any preferred stock dividends by the average number of common shares and dilutive common stock equivalents outstanding. Common stock equivalents result from the assumed exercise of stock options. Fully diluted earnings per share gives effect to the conversion of convertible debt (after elimination of related interest expense, net of income tax effect).

Derivative Financial Instruments
The Company 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 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 maturity dates that exceed three months. They are classified as available for sale and consisted of the following at December 31 (in millions):

	1995	1994
Cost:		
U.S. govt. sec.	$102.8	$78.0
Other	6.5	15.3
	$109.3	$93.3
Fair value:		
U.S. govt. sec.	$103.1	$76.6
Other	6.6	15.0
	$109.7	$91.6
Gross unrealized holding gains:		
U.S. govt. sec.	$ .4	$ --
Other	--	--
	$ .4	$ --

Gross unrealized holding losses:		
U.S. govt. sec.	$ --	$1.5
Other	--	.2
	$ --	$1.7

Of the marketable securities on hand at December 31, 1995, all will mature during 1997. Based on specific identification of securities sold, the following occurred in 1995 and 1994 (in millions):

	1995	1994
Proceeds from sales	$153.5	$56.8
Gross realized gains	.3	--
Gross realized losses	.5	.5

The above realized gains and losses are included in 1995 interest income of $10.4 million.

Note 3. Other Assets
Other assets consisted of the following at December 31 (in millions):

	1995	1994
Restricted deposits	$64.2	$66.9
Leasehold rights	11.2	14.1
Deferred costs	18.2	16.0
Receivables	3.8	21.2
	$97.4	$118.2

Leasehold rights and deferred costs are amortized over the term of the related lease or contract. At December 31, 1995, deferred costs include $4.2 million of capitalized training costs associated with the B737-400 aircraft. These costs are being amortized over a five-year period which began in April 1992.

Note 4. Long-Term Debt and Capital Lease Obligations
At December 31, 1995 and 1994, long-term debt and capital lease obligations were as follows (in millions):

	1995	1994
8.2%* notes payable due through 2009	$335.1	$375.9
6-1/2% convertible senior debentures due 2005	132.3	--
7-3/4% convertible subordinated debentures due 2006-2010	10.8	14.4
6-7/8% convertible subordinated debentures due 2004-2014	54.0	54.0
7-1/4% zero coupon, convertible subordinated notes due 2006	--	129.4
Long-term debt	532.2	573.7
Capital lease obligations	29.9	88.2
Less current portion	(39.7)	(72.0)
	$522.4	$589.9

* weighted average for 1995

During 1995, the Company issued $132.3 million of 6-1/2% convertible senior debentures due 2005. Each debenture is convertible into common stock at $21.50 per share. In addition, the Company redeemed all of its 7-1/4% zero coupon, convertible subordinated notes for $127.7 million.

At December 31, 1995, borrowings of $330.7 million are secured by flight equipment and real property. The 7-3/4% and 6-7/8% debentures are convertible into common stock at $28.25 and $33.60 per share, respectively, subject to adjustments in certain events.

At December 31, 1995, Alaska had a $75 million credit facility with commercial banks. Advances under this facility may either be for up to a 364-day term, or up to a maximum maturity of three years. Borrowings may be used for aircraft acquisitions or other corporate purposes, and they bear interest at a rate which varies based on LIBOR. 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, 1995, the Company was in compliance with all loan provisions, and under the most restrictive loan provisions, Alaska had $30.8 million of net worth above the minimum.

At December 31, 1995, long-term debt principal payments for the next five years were (in millions):

1996	$37.6
1997	$34.7
1998	$35.7
1999	$53.5
2000	$59.8

Note 5. Commitments
Lease Commitments
Lease contracts for 114 aircraft have remaining lease terms of one to 17 years. The majority of airport and terminal facilities are also leased. Total rent expense was $201.9 million, $196.9 million and $180.4 million, in 1995, 1994 and 1993, respectively. Future minimum lease payments under capital leases and long-term operating leases as of December 31, 1995 are shown below (in millions):

	Capital Leases	Operating Leases		Total
		Aircraft	Facilities	
1996	$ 4.1	$173.8	$15.2	$193.1
1997	4.1	165.1	14.0	183.2
1998	4.1	153.7	13.7	171.5
1999	4.1	142.0	13.6	159.7
2000	4.1	132.8	11.9	148.8
Thereafter	15.1	717.5	30.2	762.8
Total lease payments	35.6	$1,484.9	$98.6	$1,619.1
Less amount representing interest	5.7			
Present value of capital lease payments	$29.9			

Aircraft Commitments
The Company has firm orders for 8 Dornier 328s to be delivered between 1996 and 1998, and four MD-83s and two B737-400s to be delivered in 1996 and 1997. The total amount of these commitments is approximately $270 million. As of December 31, 1995, deposits related to the future equipment deliveries were $33.0 million. In addition to the ordered aircraft, the Company holds purchase options on 40 Dornier 328s.

Note 6. Stock Plans
Air Group has two stock option plans, which provide for the purchase of Air Group common stock at its market price on the date of grant by certain officers and key employees of Air Group and its subsidiaries. Under the plans, the incentive and non qualified stock options granted have terms of up to approximately ten years. Up to half of the options provide for stock appreciation rights. Changes in the number of shares subject to option are summarized as follows:

	1995	1994	1993
Outstanding, beginning of year	1,044,143	861,362	770,420
Granted(a)	425,500	330,200	172,200
Exercised	(165,005)	(58,469)	(12,600)
Canceled	(143,050)	(88,950)	(68,658)
Outstanding, end of year	1,161,588	1,044,143	861,362
Exercisable, end of year(b)	596,338	644,843	542,012

Available for granting in future periods	102,250	409,000	701,867
Average price of options:			
Exercised during the year	$16.11	$13.65	$14.65
Outstanding at year-end	$16.56	$17.15	$17.06

(a) The average price of the options granted in 1995 was $15.37
(b) Options exercisable at year-end 1995 expire between June 1996 and June 2004.

In addition, 2,273,700 shares of common stock are subject to nontransferable investment options held by management employees, for which the Company received $3.1 million, which is included with other liabilities on the Balance Sheet. These options are subject to mandatory redemption at $3.1 million in February 1997, and they allow the holder to purchase common stock at $27 per share until that date.

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 invested in common stocks and fixed income securities. Plan assets exceeded the accumulated benefit obligation at December 31, 1995 and 1994. The following table sets forth the funded status of the plans at December 31, 1995 and 1994 (in millions):

	1995	1994
Benefit obligation -		
Vested	$155.8	$114.9
Nonvested	22.0	15.8
Accumulated benefit obligation	$177.8	$130.7
Plan assets at fair value	$184.4	$144.1
Projected benefit obligation	199.9	147.2
Plan assets less projected benefit obligation	(15.5)	(3.1)
Unrecognized transition asset	(1.1)	(1.4)
Unrecognized prior service cost	2.8	3.5
Unrecognized loss	32.6	15.9
Prepaid pension cost	$18.8	$14.9

The weighted average discount rate used to determine the projected benefit obligation was 7.5% and 9.0% as of December 31, 1995 and 1994, respectively. The calculation assumed a weighted average rate of increase for future compensation levels of 5.1% and 5.2% for 1995 and 1994, respectively. The expected long-term rate of return on plan assets used in 1995 and 1994 was 10%.

Net pension expense for the defined benefit plans included the following components for 1995, 1994 and 1993 (in millions):

	1995	1994	1993
Service cost (benefits earned during the period)	$11.4	$12.4	$10.0

Interest cost on projected benefit obligation	12.9	11.9	10.4
Actual return on assets	(37.0)	(2.1)	(14.1)
Net amortization and deferral	23.3	(10.9)	2.3
Net pension expense	$10.6	$11.3	$8.6

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, 1995 and 1994.

Total expense for all pension plans was $22.2 million, $22.5 million and $19.8 million, respectively, in 1995, 1994 and 1993.

Profit Sharing Plans

Alaska and Horizon have employee profit sharing plans. Profit sharing expense for 1995, 1994 and 1993 was $-0- million, $3.6 million and $2.3 million, respectively.

Other Postretirement Benefits

The Company allows retirees to continue their medical, dental and vision benefits by paying the respective active employee plan premium until 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 following table sets forth the status of the postretirement benefit obligation at December 31, 1995 and 1994 (in millions):

	1995	1994
Accumulated postretirement benefit obligation (APBO):		
Retirees	$1.4	$.9
Active plan participants eligible for retirement	2.9	1.7
Active plan participants not eligible for retirement	7.8	4.9
Unrecognized prior service cost	(.3)	(.3)
Unrecognized actuarial gain	.3	3.2
Accrued postretirement benefit cost	$12.1	$10.4

The Company's APBO is unfunded. Net annual postretirement benefit costs for 1995, 1994 and 1993 include the following components (in millions):

	1995	1994	1993
Service cost - benefits attributed to service during the period	$.7	$.7	$.6
Interest on APBO	.7	.6	.6
Net postretirement benefit cost	$1.4	$1.3	$1.2

An 8.0% health care cost trend rate was assumed for 1996. The rate was assumed to decrease by 1/2% annually to 5.5% for 2001 and remain at that level thereafter. Increasing the rate by 1 percentage point in each year would increase the APBO as of December 31, 1995 by $1.8 million and the net periodic postretirement benefit cost for 1995 by $.2 million. The weighted-average discount rates used in determining the APBO for 1995 and 1994 were 7.5% and 9.0%, respectively.

Note 8. Special Charges

Results for 1993 include special charges of $15 million to recognize an impairment of the value of the Boeing B727 fleet. The special charges include reserves for future excess lease costs and the write-down of capitalized overhauls and spare parts to net realizable value.

Note 9. Income Taxes

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

	1995	1994	1993
Current tax expense (credit):			
Federal	$ 5.0	$ 8.0	$ (4.9)
State	.3	.1	(.3)
Total current	5.3	8.1	(5.2)
Deferred tax expense (credit):			
Federal	9.2	8.0	(8.2)
State	2.2	2.4	(1.5)
Total deferred	11.4	10.4	(9.7)
Total tax expense (credit)	$16.7	$18.5	$(14.9)

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

	1995	1994	1993
Income (loss) before income tax	$34.0	$41.0	$(45.8)
Expected tax expense (credit)	$11.9	$14.3	$(16.0)
Nondeductible expense	3.0	2.4	1.2
Federal rate change	--	--	1.0
State income tax	1.8	1.5	(1.2)
Other - net	--	.3	.1
Actual tax expense (credit)	$16.7	$18.5	$(14.9)
Effective tax rate	49.1%	45.1%	32.5%

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):

	1995	1994
Excess of tax over book depreciation	$140.6	$117.1
Training expense	1.5	2.2
Other - net	--	1.3
Gross deferred tax liabilities	142.1	120.6
Loss carryforward	(42.1)	(38.3)
Alternative minimum tax	(29.3)	(24.5)
Capital leases	(3.1)	(4.5)
Pricing adjustment	(1.2)	(1.2)
Frequent flyer program	(6.6)	(6.5)
Employee benefits	(9.2)	(11.8)
Aircraft maintenance	(16.3)	(7.7)
Gain on sale of assets	(2.3)	(5.5)
Capitalized interest	(1.6)	(1.6)
Gross deferred tax assets	(111.7)	(101.6)
Net deferred tax liabilities	$ 30.4	$ 19.0
Current deferred tax asset	$ (10.6)	$ (9.6)
Noncurrent deferred tax liability	41.0	28.6
Net deferred tax liabilities	$ 30.4	$ 19.0

After consideration of temporary differences, taxable income for 1995 was approximately $4 million, which was offset by net operating losses generated in prior years. Federal loss carryforwards can be used through year 2007.

Note 10. Business Segment Information

Financial information for Alaska and Horizon follows (in millions):

	1995	1994	1993
Operating revenues:			
Alaska	$1,142.3	$1,061.6	$ 906.8
Horizon	279.5	256.9	223.3
Operating income (loss):			
Alaska	72.4	62.9	(24.3)
Horizon	4.3	12.9	8.8
Total assets:			
Alaska	1,266.5	1,245.0	1,037.5
Horizon	154.9	152.3	141.9
Depreciation and amortization expense:			
Alaska	58.2	47.7	49.0
Horizon	9.9	8.7	9.3
Capital expenditures:			
Alaska	87.9	173.1	21.1
Horizon	15.4	15.5	8.8

Note 11. Financial Instruments
The estimated fair values of the Company's financial instruments were as follows (in millions):

December 31, 1995

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 25.8	$ 25.8
Marketable securities	109.3	109.7
Restricted deposits	64.2	64.2
Long-term receivables	3.8	3.8
Long-term debt	532.2	521.9

December 31, 1994

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 11.6	$ 11.6
Marketable securities	93.3	91.6
Restricted deposits	66.9	66.9
Long-term receivables	21.2	21.2
Long-term debt	573.7	549.0

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 values of restricted deposits and long-term receivables approximate the carrying amounts. 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.

During 1993, the Company entered into an interest rate swap agreement to hedge a portion of its fixed rate debt. The agreement, which expires in 1996, effectively changes the Company's interest rate on the debt from a fixed rate to a floating rate based on LIBOR.

Variable interest payments are paid to a financial institution semi-annually based on a notional principal amount of $201 million. In 1996, the Company will receive a $33.2 million payment from the financial institution. At December 31, 1995, $29.7 million of this amount (which approximates the fair value of this financial instrument) is shown as a receivable in current assets. The Company is exposed to higher interest payments if LIBOR increases and is exposed to credit loss in the event of nonperformance by the financial institution. Through December 31, 1995, this swap has resulted in a $.5 million net reduction in interest expense.

The Company enters into hedge agreements to reduce its exposure to fluctuations in the price of jet fuel. The agreements establish a ceiling price and floor price, and they provide for quarterly measurements of the average price of fuel, as determined by an index. The Company records a gain or loss if a quarterly average exceeds the ceiling or falls below the floor. The fuel hedges had no material effect on 1995 operating results.

At December 31, 1995, the Company had a fuel hedge agreement in place with a ceiling price of 70 cents covering approximately 45% of the expected fuel usage through July 1996, and a floor price of 42 cents covering approximately 45% of the expected fuel usage through July 1996. At December 31, 1995, the fuel index was at 56 cents.

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, 1995 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, 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 25, 1996

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, 1993				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accts	$3.2	$0.9	$(1.5)	$2.6
Obsolesence allowance for				

flight equipment spare parts	$6.3	$2.0		$8.3
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$39.8	$22.3	$(31.4)	$30.7
Year Ended December 31, 1994				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accts	$2.6	$0.9	$(1.2)	$2.3
Obsolesence allowance for flight equipment spare parts	$8.3	$4.5	$(0.7)	$12.1
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$30.7	$9.1	$(14.2)	$25.6
Year Ended December 31, 1995				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accts	$2.3	$0.6	$(1.3)	$1.6
Obsolesence 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

(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) Certificate of Incorporation of Alaska Air Group, Inc. as amended through May 20, 1987 (Exhibit 3-01 to 1987 10-K).
*3.(ii) Bylaws of Alaska Air Group, Inc., as amended through February 8, 1996.
4.1 Rights Agreement dated as of December 2, 1986 between Alaska Air Group, Inc. and The First National Bank of Boston, as Rights Agent (Exhibit No. 1 to Form 8A filed December 12, 1986).
10.1 Lease and Assignment of Sublease Agreement dated February 1, 1979 between Alaska Airlines, Inc. and the Alaska Industrial Development Authority (Exhibit 10-15 to Registration Statement No. 2-70742).
10.2 Lease and Assignment and Sublease Agreement dated April 1, 1978 between Alaska Airlines, Inc. and the Alaska Industrial Development Authority (Exhibit 10-16 to Registration Statement No. 2-70742).
10.3 Management Incentive Plan (1992 Alaska Air Group, Inc. 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.
10.6 Officers Supplementary Retirement Plan (1995 Alaska Air Group, Inc. Proxy Statement).
10.7 Severance agreement between Alaska Air Group, Inc. and Raymond J. Vecci (1995 Alaska Air Group, Inc. Proxy Statement).
10.8 Alaska Air Group, Inc. 1988 Stock Option Plan, as amended through May 19, 1992 (Registration Statement No. 33-523242).
10.9 Purchase Agreement between McDonnell Douglas Corporation and Alaska Airlines, Inc. DAC 88-36-D, dated October 14, 1988 (Exhibit 10-17 to 1988 10-K).
10.10 Capital Performance Plan (Exhibit 4.3 to Registration Statement 33-33087).
#10.11 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 for 19 additional B737-400 aircraft and Letter Agreement #1 dated January 22, 1990 (Exhibit 10-14 to 1990 10-K).
#10.12 Purchase Agreement dated as of May 15, 1991, between Horizon Air

Industries, Inc. and Dornier Luftfahrt GmbH for the purchase of up to 60 Dornier 328 aircraft (Exhibit 10-19 to May 30, 1991 8-K).

#10.13 Amendment dated as of June 25, 1993 to the Purchase Agreement dated as of May 15, 1991, between Horizon Air Industries, Inc. and Dornier Luftfahrt GmbH for the purchase of up to 60 Dornier 328 aircraft (Exhibit 10-19a to Second Quarter 1993 10-Q).

*11 Computation of Earnings Per Common Share

*12 Calculation of Ratio of Earnings to Fixed Charges and Preferred Dividends

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.

Alaska Air Group, Inc. EXHIBIT 11

Computation of Earnings Per Common Share
(In thousands, except per share)

	1995	1994	1993
Primary -			
Net income (loss)	$17,255	$22,531	($30,918)
Deduct dividends on preferred shares	-	-	(2,429)
Deduct preferred stock accretion	-	-	(96)
Income (loss) applicable to common shares	$17,255	$22,531	($33,443)
Average number of shares outstanding	13,471	13,367	13,340
Assumed exercise of stock options reduced by the number of shares purchased with the proceeds from exercise of such options	14	11	-
Common shares outstanding as adjusted	13,485	13,378	13,340
Primary Earnings (Loss) per Share	$1.28	$1.68	($2.51)
Fully Diluted -			
Net income (loss)	$17,255	$22,531	($30,918)
After tax interest on convertible securities	8,952	9,252	10,008
Income (loss) applicable to common shares	$26,207	$31,783	($20,910)
Average number of shares outstanding	13,471	13,367	13,340
Assumed exercise of stock options	14	11	12
Assumed conversion of 6.5% debentures	3,151	-	-
Assumed conversion of 7.75% debentures	468	512	518
Assumed conversion of 6.875% debentures	1,608	1,678	1,865
Assumed conversion of 7.25% zero coupon notes	2,053	4,030	4,277
Assumed conversion of preferred shares	0	0	0
Average shares as adjusted	20,765	19,598	20,012
Fully Diluted Earnings (Loss) per Share	$1.26	$1.62	($0.94) *

* Anti-dilutive

Alaska Air Group, Inc. EXHIBIT 12

Calculation of Ratio of Earnings to Fixed Charges
and Preferred Dividends
(In thousands, except ratios)

	1995	1994	1993	1992	1991
Earnings:					
Income (loss) before income tax expense and accounting change	$33,983	$40,961	($45,812)	($125,706)	$16,207
Less: Capitalized interest	(208)	(353)	(446)	(6,102)	(8,301)
Add:					
Interest on indebtedness	51,479	46,960	37,624	43,223	40,180
Amortization of debt expense	1,100	1,368	690	643	519
Portion of rent under long-term operating leases representative of an interest factor	67,295	65,618	60,136	49,889	41,327
Total Earnings Available for Fixed Charges and Preferred Dividends	$153,649	$154,554	$52,192	($38,053)	$89,932
Fixed Charges and Preferred Dividends:					
Preferred dividends	-	-	$2,429	$6,400	$6,383
Times, ratio of income before income tax expense to net income	NA	NA	1.48	1.57	1.57
Preferred dividends on pretax basis	NA	NA	3,595	10,048	10,021
Amortization of preferred stock issuance costs	-	-	96	288	288
Interest	51,479	46,960	37,624	43,223	40,180
Amortization of debt expense	1,100	1,368	690	643	519
Portion of rent under long-term operating leases representative of an interest factor	67,295	65,618	60,136	49,889	41,327
Total Fixed Charges and Preferred Dividends	$119,874	$113,946	$102,141		
$104,091 $92,335					
Ratio of Earnings to Fixed Charges and Preferred Dividends	1.28	1.36	0.51	(0.37)	0.97
Coverage deficiency	-	-	$49,949	$142,144	$2,403

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 25, 1996 included in this Form 10-K, into the Company's previously filed Registration Statements, File Numbers 2-96973, 33-22358, and 33-33087.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Seattle, Washington
February 9, 1996

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ALASKA AIR GROUP INC. 1995 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
<MULTIPLIER> 1000

<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1995
<PERIOD-END>	DEC-31-1995
<CASH>	25800
<SECURITIES>	109300
<RECEIVABLES>	90100
<ALLOWANCES>	1600
<INVENTORY>	44800
<CURRENT-ASSETS>	338400
<PP&E>	1150100
<DEPRECIATION>	336100
<TOTAL-ASSETS>	1313400
<CURRENT-LIABILITIES>	444800
<BONDS>	522400
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	16700
<OTHER-SE>	195800
<TOTAL-LIABILITY-AND-EQUITY>	1313400
<SALES>	1417500
<TOTAL-REVENUES>	1417500
<CGS>	1341600
<TOTAL-COSTS>	1341600
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	51500
<INCOME-PRETAX>	34000
<INCOME-TAX>	16700
<INCOME-CONTINUING>	17300
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	17300
<EPS-PRIMARY>	1.28
<EPS-DILUTED>	1.26

BYLAWS
OF
ALASKA AIR GROUP, INC.

As Amended and in Effect February 8, 1996
(Date of Previous Amendment: September 14, 1993)

ARTICLE I

REGISTERED OFFICE AND AGENT

The registered office of the corporation is located at Corporate Trust Center, 1209 Orange Street, 9, County of New Castle, Delaware 19801, and the name of its registered agent at such address is The Corporation Trust Company.

ARTICLE II

MEETING OF STOCKHOLDERS

Section 1. Annual Meetings.

A meeting of the stockholders for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting shall be held annually at two o'clock in the afternoon on the third Tuesday of May, or at such other time or such other day as shall be fixed by resolution of the Board of Directors. If the day fixed for the annual meeting shall be a legal holiday such meeting shall be held on the next succeeding business day.

Section 2. Special Meetings.

Special meetings of the stockholders for any purpose or purposes may be called at any time by a majority of the Board of Directors or by the Chairman of the Board.

Section 3. Place of Meetings.

All meetings of the stockholders may be held at such places as shall be stated in the notice of the meeting.

Section 4. Notice of Meetings.

Except as otherwise provided by statute, written notice of each meeting of the stockholders shall be given not less than thirty and not more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice will be given when deposited in the United States mails, postage prepaid, directed to such stockholder at his address as it appears in the stock ledger of the corporation.

When a meeting is adjourned to another time and place, notice of the adjourned meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment is given. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 5. Quorum.

At any meeting of the stockholders, the holders of record of a majority of the total number of shares of outstanding stock of the corporation entitled to vote, present in person or represented by proxy, shall constitute a quorum for all purposes.

If a quorum is present at any meeting of stockholders, the affirmative vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote on the subject matter shall be the act of the stockholders, except as otherwise expressly provided in the Certificate of Incorporation, these Bylaws or applicable law.

In the absence of a quorum at any meeting, the holders of a majority of the stock entitled to vote thereat, present in person or represented by proxy at the meeting, may adjourn the meeting, from time to time, until the holders of the number shares requisite to constitute a quorum shall be present in person or represented at the meeting.

Section 6. Organization.

At each meeting of the stockholders, the Chairman of the Board, or in his absence such person as shall have been designated by the Board of Directors, or in the absence of such designation a person elected by the holders of the majority in number of shares of stock present in person or represented by proxy and entitled to vote, shall act as chairman of the meeting.

The Secretary, or in his absence, an Assistant Secretary or, in the absence of the Secretary and all of the Assistant Secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 7. Voting.

Unless otherwise provided in the Certificate of Incorporation or a resolution of the Board of Directors creating a series of stock, at each meeting of the stockholders, each holder of shares entitled to vote at such meeting shall be entitled to one vote for each share of stock having voting power in respect of each matter upon which a vote is to be taken. Shares of its own capital stock belonging to the corporation, or to another corporation if a majority of the shares entitled to vote in the election of directors of such other corporation is held by the corporation, shall neither be entitled to vote nor counted for quorum purposes.

Section 8. Notification of Nominations.

Nominations for the election of Directors may be made by or at the direction of the Board of Directors. A stockholder may also nominate a person or persons for election as Directors, but only if written notice of such stockholder's intent to make such nominations is received by the Secretary of the corporation, not later than (i) with respect to an election to be held at a regular annual meeting of stockholders, 90 days in advance of the third Tuesday in May, and (ii) with respect to an election to be held at any other meeting of the stockholders, the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by the corporation with the Securities and Exchange Commission, of the Originally Scheduled Date of such meeting. Each such notice shall set forth (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record entitled to vote at such meeting; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming them) pursuant to which the nomination is to be made; (d) such other information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated by the Board of Directors; and (e) the consent of each nominee to serve as a Director if elected. The chairman of any meeting of stockholders to elect Directors and the Board of Directors shall refuse to recognize the nomination of any person not made in compliance with the foregoing procedure. For purposes of these Bylaws, the "Originally Scheduled Date" of any meeting of stockholders shall be the date such meeting is scheduled to occur in the notice first given to stockholders regardless of whether such meeting is continued or adjourned or whether any subsequent notice is given for such meeting or the record date of such meeting is changed.

Section 9. Proper Business for Stockholders' Meetings.

At any annual or special meeting of the stockholders of the corporation, only business properly brought before the meeting may be transacted. To be properly brought before an annual meeting, business (i) must be specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before a meeting by a stockholder, written notice thereof must have been received by the Secretary of the corporation, not later than (i) with respect to a regular annual meeting, 90 days in advance of the third Tuesday in May, and (ii) with respect to any other meeting, the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by the corporation with the Securities and Exchange Commission, of the Originally Scheduled Date of such meeting. Any such notice shall set forth as to each matter the stockholder proposes to bring before the meeting (i) a brief description of the business desired to be brought before the meeting, and the reasons for conducting such business at the meeting and the language of the proposal, (ii) the name and address of the stockholder proposing such business, (iii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting, and (iv) any material interest of the stockholder in such business. No business shall be conducted at any meeting of stockholders except in accordance with this paragraph, and the chairman of any meeting of stockholders and the Board of Directors shall refuse to permit any business to be brought before meeting without compliance with the foregoing procedures.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Number, Qualification and Term of Office.

A majority of the members of the Board of Directors shall not be employees of the Company. These Bylaws shall not be amended to change the requirement for a majority of outside directors unless approved by a vote of the shareholders, or by a vote of a majority of the outside directors, but in no case prior to September 14, 1995. The number, qualification and term of office of the Directors shall be as set forth in the Certificate of Incorporation.

Section 2. Vacancies.

Vacancies in the Board of Directors and newly created directorships resulting from any increase in the authorized number of Directors may be filled by a majority of the Directors then in office, although less than a quorum, or by a sole remaining

Director, at any regular or special meeting of the Board of Directors.

Section 3. Resignations.

Any Director may resign at any time upon written notice to the Secretary of the corporation. Such resignation shall take effect on the date of receipt of such notice or at any later date specified therein; and the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Meetings.

Meetings of the Board of Directors may be called by the Chairman of the Board and shall be called by the Secretary on the written request of a majority of Directors. The Board of Directors may hold its meetings at such place as the Chairman of the Board or in his absence a majority of Directors from time to time may determine. Notice of each meeting shall be sent to each Director by first class mail or by telephone, telegraph or any other means of electronic communication in each case directed to his residence or usual place of business, or delivered to him in person or given to him orally. Notice by mail shall be sent by the Secretary at least ten (10) days previous, and notice by telephone, telegraph or other electronic communication at least five (5) days previous, to the time fixed for the meeting; unless, in case of exigency the Chairman of the Board shall prescribe a shorter notice. A written waiver of notice, signed by the Director entitled to notice, whether before or after the time of the meeting, shall be deemed equivalent to notice. The notice of meeting shall state the time and place of the meeting.

Section 5. Quorum and Manner of Acting.

Except as otherwise provided by statute, the Certificate of Incorporation, or these Bylaws, the presence of a majority of the total number of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and the act of a majority of the Directors present at any such meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum, a majority of the Directors present may adjourn the meeting, from time to time, until a quorum is present.

Section 6. Organization.

At every meeting of the Board of Directors, the Chairman of the Board or in his absence, a chairman chosen by a majority of the Directors present shall act as chairman of the meeting. The Secretary, or in his absence, an Assistant Secretary, or in the absence of the Secretary and all the Assistant Secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 7. Consent of Directors in Lieu of Meeting.

Unless otherwise restricted by the Certificate of Incorporation or by these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or any committee designated by the Board, may be taken without a meeting if all members of the Board or committee consent thereto in writing, and such written consent is filed with the minutes of the proceedings of the Board or committee.

Section 8. Telephonic Meetings.

Members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at such meeting.

ARTICLE IV

COMMITTEES OF THE BOARD OF DIRECTORS

Section 1. Executive Committee.

The Board of Directors may, in its discretion, designate annually an Executive Committee consisting of the Chairman of the Board and not less than two other Directors as it may from time to time determine, provided that the majority of Executive Committee members shall be nonemployee directors. The Board of Directors shall appoint the Chairman of the Executive Committee from among the members of the Committee. Except as limited by statute, by the Certificate of Incorporation, by these Bylaws, or by further action of the Board of Directors, the Executive Committee may exercise all the power of the Board of Directors. All action taken by the Executive Committee shall be subject to revision or alteration of the Board; but no such revision or alteration of any such action shall affect any act or right of any third party dependent upon such action and having occurred or arisen prior to notice to such third party of such revision or alteration. Any person dealing with the corporation may rely upon a copy of any of said minutes, votes or resolution, certified by the Chairman of the Committee or by the Secretary or any Assistant Secretary of the corporation, and a copy so certified shall be conclusive evidence of the matters therein stated. The Executive Committee shall not, unless specifically authorized by a resolution of the Board of Directors, spend, finance or commit the Company to any sum exceeding $5 million in any one instance for nonaircraft capital assets or $30 million in any one instance for aircraft acquisitions.

Meetings of the Executive Committee shall be held at the call of the Chairman of the Executive Committee or the Chairman of the Board. In addition, the Committee shall hold as many special meetings as it determines necessary.

Section 2. Other Committees.

The Board of Directors may, by resolution passed by a majority of the Directors, designate such other committees, consisting of one or more Directors, as it may from time to time determine, and each such committee shall serve for such term and shall have and may exercise such duties, functions and powers as the Board of Directors may from time to time prescribe. The Chairman of each such committee shall be designated by the Board of Directors.

Section 3. Committee; Books and Records.

Notice of committee meetings shall be governed by the provisions of Article III, Section 4, above. Each committee shall keep a record of its acts and proceedings, and all action of the committee shall be reported to the Board of Directors at the next meeting of the Board, except that minutes of each Executive Committee meeting shall be forwarded to each Director within seven days of such meeting.

Section 4. Quorum and Manner of Action.

At each meeting of any committee the presence of a majority of the members of such committee shall be necessary to constitute a quorum for the transaction of business, and if a quorum is present the concurrence of a majority of those present shall be necessary for the taking of any action.

ARTICLE V

OFFICERS

Section 1. Number

The officers of the corporation shall be a Chairman of the Board, a President, a Secretary, and such other officers as may be elected by the Board of Directors or appointed by the Chairman of the Board. Any number of offices may be held by the same person.

Section 2. Election, Term of Office and Qualifications.

The officers of the corporation shall be elected annually by the Board of Directors. Each officer elected by the Board of Directors shall hold office until his successor shall have been duly elected and qualified, or until he shall have died, resigned or been removed in the manner hereinafter provided.

Section 3. Resignations.

Any officer may resign at any time upon written notice to the Chairman of the Board. Such resignation shall take effect on the date of its receipt, or on any later date specified therein; and the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Removals.

Any officer elected by the Board of Directors may be removed, with or without cause, by the Board of Directors. Any officer appointed by the Chairman of the Board may be removed, with or without cause, by the Chairman of the Board.

Section 5. Vacancies.

Any vacancy occurring in any office of the corporation shall be filled for the unexpired portion of the term in the same manner as prescribed in these Bylaws for regular election or appointment to such office.

Section 6. Compensation of Officers

The salaries of all officers elected by the Board of Directors shall be approved or authorized by the Board of Directors or by the Chairman of the Board when so authorized by the Board of Directors.

Section 7. Chairman of the Board.

The Chairman of the Board shall be the Chief Executive Officer of the corporation and shall have the general and active management of the business of the corporation and general and active supervision and direction over the other officers, agents and employees and shall see that their duties are properly performed. He shall, if present, preside at each meeting of the stockholders and of the Board. He shall perform all duties incident to the office of Chairman of the Board and such other duties as may from time to time be assigned to him by the Board. The Chairman of the Board shall have the power to vote shares stock of other corporations held by the corporation, except as may be otherwise determined by the Board.

Section 8. President.

The President shall have general and active supervision and direction over the business and affairs of the corporation and over its several officers, subject, however, to the direction of the Chairman of the Board. He shall perform all duties incident to the office of President and such other duties as may be assigned to him by the Board, the Chairman of the Board or these Bylaws.

Section 9. Secretary.

The Secretary or one or more Assistant Secretaries shall attend all meetings of the Board and all meetings of the stockholders and act as secretary thereof, and shall record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for any committee of the Board when required. The Secretary shall be given other duties as pertain to his office. The Secretary shall keep in safe custody the seal of the corporation and when authorized by the Board of Directors, affix it, when required, to any instrument. An Assistant Secretary shall perform the duties of the Secretary in the event of his absence or disability and shall perform such other duties as may be imposed upon him by the Board of Directors.

Section 10. Absence or Disability of Officers.

In the absence or disability of the Chairman of the Board or the President, the Board of Directors may designate, by resolution, individuals to perform their duties. The Board of Directors may also delegate this power to a committee.

ARTICLE VI

STOCK CERTIFICATES AND TRANSFER THEREOF

Section 1. Stock Certificates.

Except as otherwise permitted by statute, the Certificate of Incorporation or resolution or resolutions of the Board of Directors, every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of, the corporation by the Chairman of the Board and Chief Executive Officer, the President, or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation, certifying the number of shares, and the class and series thereof, owned by him in the corporation. Any and all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 2. Lost, Destroyed or Mutilated Certificates.

In the case of loss or destruction of a certificate of stock, no new certificate shall be issued in lieu thereof except upon satisfactory proof to the Secretary of such loss or destruction; and upon the giving of satisfactory security, by bond or otherwise, against loss to the corporation, if such is deemed to be required.

Section 3. Record Date.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than thirty days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE VII

DIVIDENDS

Except as otherwise provided by statute or the Certificate of Incorporation, the Board of Directors may declare dividends upon the shares of its capital stock whenever, and in such amounts as, in its opinion, the condition of the affairs of the corporation shall render it advisable. Dividends may be paid in cash, in property, or in shares of capital stock of the corporation.

ARTICLE VIII

INDEMNIFICATION

Section 1. Right to Indemnification.

Each person who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a Director or officer of the corporation or that, being or having been such a Director or officer or employee of the corporation, he or she is or was serving at the request of the corporation as a Director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a Director, officer, employee or agent or in any other capacity while serving as a Director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the full extent permitted by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than permitted prior thereto) or by other applicable law as then in effect, against all expense, liability and loss (including attorneys' fees, judgments, finds, ERISA excise taxes or penalties and amounts to be paid in settlement) actually and reasonably incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue as to an indemnitee who has ceased to be a Director, officer, employee, or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section 2 with respect to proceedings seeking to enforce rights to indemnification, the corporation shall indemnify any such indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that if the Delaware General Corporations Law requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a Director or officer (and not in any other capacity in which service was or is rendered by such indemnitee including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 1 or otherwise.

Section 2. Right of Indemnitee to Bring Suit.

If a claim under Section 1 is not paid in full by the corporation within sixty days after a written claim has been received by the corporation, except in the case of a claim for advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, the indemnitee shall be entitled to be paid also the expense of prosecuting such suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon submission of a written claim (and, in an action brought to enforce a claim for advancement of expenses, where the required undertaking, if any is required, has been tendered to the corporation), and thereafter the corporation shall have the burden of proof to overcome the presumption that the indemnitee is not so entitled. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

Section 3. Nonexclusivity of Rights.

The right to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors or otherwise. Notwithstanding any amendment to or repeal of this Article, any indemnitee shall be entitled to indemnification in accordance with the provisions hereof and thereof with respect to any acts or omissions of such indemnitee occurring prior to such amendment or repeal.

Section 4. Insurance, Contracts and Funding.

The corporation may maintain insurance, at its expense, to protect itself and any Director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law. The corporation may without further stockholder approval, enter into contracts with any indemnitee in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

Section 5. Persons Serving Other Entities.

Any person who is or was a Director, officer or employee of the corporation who is or was serving as a Director or officer of another corporation of which a majority of the shares entitled to vote in the election of its directors is held by the corporation shall be deemed to be so serving at the request of the corporation and entitled to indemnification and advancement of expenses under Section 1.

Section 6. Indemnification of Employees and Agents of the Corporation.

The corporation may, by action of its Board of Directors, grant rights to indemnification and advancement of expenses to any employee or agent, or any group or groups of employees or agents, of the corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

ARTICLE IX

CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

Section 1. Checks, Drafts, Etc.; Loans.

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall, from time to time, be determined by resolution of the Board of Directors. Such authority may be general or confined to specific circumstances.

Section 2. Deposits.

All funds of the corporation shall be deposited, from time to time, to the credit of the corporation in such banks, trust companies or other depositories as the Board of Directors may select, or as may be selected by any officer or officers, agent or agents of the corporation to whom such power may, from time to time, be delegated by the Board of Directors; and for the purpose of such deposit, any officer or agent to whom such power may be delegated by the Board of Directors, may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the corporation.

ARTICLE X

AMENDMENTS

These Bylaws may be altered or repealed and new Bylaws may be made by the affirmative vote of a majority of the Board of Directors, subject to the right of the stockholders to amend or repeal Bylaws made or amended by the Board of Directors or to adopt new Bylaws, by the affirmative vote of a majority of the outstanding stock of the corporation entitled to vote thereon and the holders of three-fourths of the stock present in person or represented by proxy at the meeting, provided that notice of the proposed action be included in the notice of such meeting.

Terms of the masculine gender used for convenience in these

Bylaws should be understood in the feminine gender where appropriate.

* * * * *

I, MARJORIE E. LAWS, being the duly appointed Vice President/Corporate Affairs and Corporate Secretary of Alaska Air Group, Inc. do hereby certify that the foregoing is a true and correct copy of the Bylaws of Alaska Air Group, Inc. in effect on this _____ day of ______________, 19 __.

____
Marjorie E. Laws
Vice President/Corporate Affairs
and
Corporate Secretary