
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

February 8, 2017
(Date of earliest event reported)

ALASKA AIR GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

1-8957
(Commission File Number)

91-1292054
(IRS Employer Identification No.)

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

98188
(Zip Code)

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

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

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

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

Item 2.02. Results of Operations and Financial Condition

Alaska Air Group, Inc. today issued a press release reporting financial results for the fourth quarter and full year of 2016. The press release is filed as Exhibit 99.1.

ITEM 7.01. Regulation FD Disclosure

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

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

ITEM 9.01 Financial Statements and Other Exhibits

Exhibit 99.1 2016 Fourth Quarter and Full-Year Results

Exhibit 99.2 Investor Update dated February 8, 2017

Signatures

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

ALASKA AIR GROUP, INC.

Registrant

Date: February 8, 2017

/s/ Brandon S. Pedersen

Brandon S. Pedersen

Vice President/Finance and Chief Financial Officer

Alaska Air Group

Exhibit 99.1

February 8, 2017

Media contact:

Media Relations
(206) 304-0008

Investor/analyst contact:

Lavanya Sareen
Managing Director of Investor Relations
(206) 392-5656

Alaska Air Group reports fourth quarter 2016 and full-year results and raises dividend 9%

Acquisition of Virgin America Inc.:

- Air Group completed its acquisition of Virgin America Inc. ("Virgin America") on December 14, 2016.
- Fourth quarter 2016 results reflect the results of operations and cash flows for Virgin America from December 14, 2016 through December 31, 2016, including the impacts associated with purchase accounting. Periods presented prior to the acquisition date do not include Virgin America's results, except in the supplementary combined comparative financial information.

Dividend Increase:

- Announced today a 9% increase in the quarterly dividend, from \$0.275 per share to \$0.30 per share. This is the fourth time the Company has raised the dividend since initiating the quarterly dividend in July 2013, with a cumulative increase of 200% since that time.

Financial Highlights:

- Reported net income for the fourth quarter and full year under Generally Accepted Accounting Principles ("GAAP") of \$114 million, or \$0.92 per diluted share, and \$814 million, or \$6.54 per diluted share, respectively. These results compared to fourth quarter 2015 net income of \$191 million, or \$1.51 per diluted share, and full year 2015 net income of \$848 million, or \$6.56 per diluted share.
- Reported adjusted fourth quarter 2016 diluted earnings per share of \$1.56, a 7% increase over the fourth quarter of 2015. Fourth quarter net income, excluding special items, was \$193 million, a 4% increase from the fourth quarter of 2015. This quarter's adjusted results compare to the First Call analyst consensus estimate of \$1.40 per share.
- Reported full year 2016 net income, excluding special items, of \$911 million, an 8% increase from 2015, and adjusted diluted earnings per share of \$7.32, a 12% increase from 2015.
- Paid a \$0.275 per-share quarterly cash dividend in the fourth quarter, bringing total dividend payments in 2016 to \$136 million.
- Generated approximately \$1.4 billion of operating cash flow and \$708 million of free cash flow in 2016.
- Achieved return on invested capital of 21% in 2016, including Virgin America's results beginning December 14, 2016.
- Grew passenger revenues by 9% compared to the fourth quarter of 2015, and by 4% compared to full-year 2015.
- Generated full-year adjusted pretax margin of 24% in 2016, in line with 2015.
- Lowered consolidated unit costs excluding fuel and special items for the seventh consecutive year, to the lowest level ever. Mainline unit costs excluding fuel and special items have declined 14 of the last 15 years.

- Held \$1.6 billion in unrestricted cash and marketable securities as of December 31, 2016.

2016 Accomplishments and Highlights:

Recognition and Awards - Alaska

- Became the first major U.S. airline to receive approval from the Federal Aviation Administration for its Safety Management System.
- Ranked best airline in the U.S. by the Wall Street Journal's "2016 Airline Scorecard" for the fourth year in a row.
- Ranked "Highest in Customer Satisfaction Among Traditional Carriers in North America" in 2016 by J.D. Power for the ninth year in a row.
- Ranked "Highest in Customer Satisfaction with Airline Loyalty Rewards Programs" in 2016 by J.D. Power for the third consecutive year.
- Ranked first in the U.S. News & World Report's list of Best Airline Rewards Programs for the second consecutive year.
- Ranked among Forbes' 2016 "America's Best Employers."
- Named No. 1 on-time carrier in North America for the seventh year in a row by FlightStats in January 2017.
- Received the Department of Defense 2016 Freedom Award, the highest recognition given to employers by the U.S. government for their support of National Guard and Reserve members.
- Received 15th Diamond Award of Excellence from the Federal Aviation Administration, recognizing both Alaska and Horizon's aircraft technicians for their commitment to training.
- Ranked first in the commercial aviation division and first place overall at the 2016 Annual International Aerospace Maintenance Competition, surpassing over 50 teams from around the world.
- Named the No. 1 cargo carrier by Logistics Management magazine, as part of its annual Quest for Quality awards.
- Joined Standard and Poor's 500 Index. Companies included in the S&P 500 are chosen by the S&P Index Committee based on their size, earnings history and liquidity, among other factors.
- Ranked among the Fortune 500 for the third year in a row.
- Ranked among the top "green companies" in the United States by Newsweek.
- Ranked among the top 100 socially just companies in the United States by Forbes.
- Received the Seattle-Tacoma International Airport Green Gateway Environmental Excellence Award for the second year in a row, as a result of efforts in reducing emissions, recycling and waste reduction and lowered energy consumption.

Recognition and Awards - Virgin America

- Rated Best U.S. Airline by Conde Nast Traveler in their "Annual Readers' Choice Awards" for nine years in a row.
- Ranked Best Domestic Airline in Travel + Leisure "World's Best Awards" for nine years in a row.
- Rated the number one carrier in the 2016 Airline Quality Report for the fourth consecutive year, an annual analysis of airline performance metrics conducted by Wichita State University and Embry-Riddle Aeronautical University.
- Rated "Best Airline in North America" for the second year in a row and "Best Low-Cost Airline in the U.S." for the seventh year in a row by Skytrax World Airline Awards.

Our People

- Awarded a record \$159 million in incentive pay to employees for 2016, including \$32 million earned by Virgin America teammates in 2016 prior to the acquisition.
- Reached a tentative agreement with Alaska's aircraft technicians on a new collective bargaining agreement.

- Alaska received a perfect score of 100% for workplace equality on the 2017 Corporate Equality Index ("CEI"). Virgin America received a score of 95%.

Our Guests and Product

- Announced enhanced benefits to the Alaska Airlines Visa Signature credit card and the Alaska Airlines Visa Business credit card including the elimination of foreign transaction fees and increased bonus miles.
- Announced a new codeshare agreement and frequent flier partnership with Japan Airlines, providing Alaska customers seamless travel and mileage earning opportunities.
- Launched Premium Class service on Alaska, including more legroom, complimentary alcoholic beverages, and premium snacks.
- Flew the first three commercial flights using sustainable alcohol-to-jet biofuel made from U.S. grown corn and alternative jet fuel made from forest residuals, continuing Alaska's commitment to reduce its carbon emissions.
- Placed an order for 33 firm Embraer 175 ("E175") regional jets to be flown by subsidiary Horizon Air, with the first delivery scheduled in 2017. An additional 30 options are available under the purchase arrangement.
- Added 19 Boeing 737-900ERs aircraft to the operating fleet in 2016, bringing the total fleet to 155 Boeing aircraft.
- Added 5 Airbus A320 aircraft to Virgin America's fleet in 2016, bringing the total fleet to 63 Airbus aircraft.
- Added 17 new markets in 2016 across the Alaska Air Group and Virgin America networks.
- Increased fuel efficiency (as measured by seat-miles per gallon) by 1.4% over 2015.

Our Communities

- Donated over \$13 million to support nonprofits in our local communities, focusing on youth and education, medical (research/transportation) and community outreach.

SEATTLE — Alaska Air Group, Inc. (NYSE: ALK) today reported fourth quarter 2016 GAAP net income of \$114 million, or \$0.92 per diluted share, compared to \$191 million, or \$1.51 per diluted share in 2015. Excluding the impact of special items and mark-to-market fuel hedge adjustments, the company reported record fourth quarter adjusted net income of \$193 million, or \$1.56 per diluted share, compared to adjusted net income of \$186 million, or \$1.46 per diluted share in the fourth quarter of 2015.

The company reported full-year 2016 GAAP net income of \$814 million, compared to \$848 million in the prior year. Excluding the impact of special items and mark-to-market fuel hedge adjustments, the company reported record net income of \$911 million, or \$7.32 per diluted share for 2016, compared to adjusted net income of \$842 million, or \$6.51 per diluted share in 2015.

"2016 was an incredible year for Alaska in almost every way, and we are even more excited as we look forward to 2017 and beyond," said Alaska CEO Brad Tilden. "Our people are rallying around a common purpose of creating an airline people love, and we are well on our way, with benefits like reciprocal mileage and easy booking of Virgin America flights on alaskaair.com already available. I want to thank our people for providing our guests great service, and for staying focused on running a safe and reliable operation."

On February 7, 2017, the Board of Directors of Alaska Air Group declared a quarterly cash dividend of 30 cents per share, payable March 9, 2017 to all shareholders of record as of February 21, 2017.

The following tables reconcile the company's adjusted net income and earnings per diluted share ("EPS") during the full year and fourth quarters of 2016 and 2015 to amounts as reported in accordance with GAAP. The amounts include financial results for Virgin America for the period December 14, 2016 through December 31, 2016, including impacts associated with purchase accounting as of December 14, 2016:

| <i>(in millions, except per share amounts)</i> | Three Months Ended December 31, | | | |
|--|---------------------------------|-------------|---------|-------------|
| | 2016 | | 2015 | |
| | Dollars | Diluted EPS | Dollars | Diluted EPS |
| Reported GAAP net income and diluted EPS | \$ 114 | \$ 0.92 | \$ 191 | \$ 1.51 |
| Mark-to-market fuel hedge adjustments | (4) | (0.03) | 1 | 0.01 |
| Special items - merger-related costs and other | 81 | 0.65 | 32 | 0.25 |
| Income tax effect on special items and fuel hedge adjustments ^(a) | (15) | (0.12) | (12) | (0.09) |
| Special tax (benefit)/expense ^(b) | 17 | 0.14 | (26) | (0.22) |
| Non-GAAP adjusted net income and diluted EPS | \$ 193 | \$ 1.56 | \$ 186 | \$ 1.46 |

| <i>(in millions, except per share amounts)</i> | Twelve Months Ended December 31, | | | |
|--|----------------------------------|-------------|---------|-------------|
| | 2016 | | 2015 | |
| | Dollars | Diluted EPS | Dollars | Diluted EPS |
| Reported GAAP net income and diluted EPS | \$ 814 | \$ 6.54 | \$ 848 | \$ 6.56 |
| Mark-to-market fuel hedge adjustments | (13) | (0.11) | — | — |
| Special items - merger-related costs and other | 117 | 0.94 | 32 | 0.25 |
| Income tax effect on special items and fuel hedge adjustments ^(a) | (24) | (0.19) | (12) | (0.10) |
| Special tax (benefit)/expense ^(b) | 17 | 0.14 | (26) | (0.20) |
| Non-GAAP adjusted net income and diluted EPS | \$ 911 | \$ 7.32 | \$ 842 | \$ 6.51 |

(a) Certain merger-related costs are non-deductible for tax purposes, resulting in a smaller income tax effect for current year adjusting items.

(b) Special tax (benefit)/expense represents the discrete impacts of adjustments to the Company's position on income sourcing in various states.

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

A conference call regarding the fourth quarter and full year results will be simulcast online at 8:30 a.m. Pacific time on February 8, 2017. It can be accessed through the company's website at alaskaair.com/investors. For those unable to listen to the live broadcast, a replay will be available after the conclusion of the call.

###

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

This news release may contain forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. For a comprehensive discussion of potential risk factors, see Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as well as in other documents filed by Alaska Air Group with the SEC after the date thereof. Some of these risks include general economic conditions, increases in operating costs including fuel, competition, labor costs and relations, our significant indebtedness, inability to meet cost reduction goals, seasonal fluctuations in our financial results, an aircraft accident, and changes in laws and regulations. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We expressly disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.

###

Alaska Airlines, together with Virgin America and its regional partners, flies 40 million customers a year to 118 destinations with an average of 1,200 daily flights across the United States and to Mexico, Canada, Costa Rica and Cuba. With Alaska and [Alaska Global Partners](#), customers can earn and redeem miles on flights to more than 900 destinations worldwide. Learn more about Alaska's award-winning service and unmatched reliability at [newsroom.alaskaair.com](#) and [blog.alaskaair.com](#). Alaska Airlines, Virgin America and Horizon Air are subsidiaries of Alaska Air Group (NYSE: ALK).

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
Alaska Air Group, Inc.

Amounts below reflect the results of operations for Virgin America for the period December 14, 2016 through December 31, 2016, including impacts associated with purchase accounting as of December 14, 2016.

| <i>(in millions, except per share amounts)</i> | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---------------------------------|---------------|--------------|----------------------------------|---------------|-------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Operating Revenues: | | | | | | |
| Passenger | | | | | | |
| Mainline | \$ 1,062 | \$ 962 | 10 % | \$ 4,098 | \$ 3,939 | 4 % |
| Regional | 226 | 216 | 5 % | 908 | 854 | 6 % |
| Total passenger revenue | 1,288 | 1,178 | 9 % | 5,006 | 4,793 | 4 % |
| Freight and mail | 26 | 25 | 4 % | 108 | 108 | — % |
| Other - net | 210 | 174 | 21 % | 817 | 697 | 17 % |
| Total Operating Revenues | 1,524 | 1,377 | 11 % | 5,931 | 5,598 | 6 % |
| Operating Expenses: | | | | | | |
| Wages and benefits | 374 | 331 | 13 % | 1,382 | 1,254 | 10 % |
| Variable incentive pay | 32 | 30 | 7 % | 127 | 120 | 6 % |
| Aircraft fuel, including hedging gains and losses | 238 | 213 | 12 % | 831 | 954 | (13)% |
| Aircraft maintenance | 73 | 71 | 3 % | 270 | 253 | 7 % |
| Aircraft rent | 34 | 27 | 26 % | 114 | 105 | 9 % |
| Landing fees and other rentals | 88 | 79 | 11 % | 320 | 296 | 8 % |
| Contracted services | 64 | 57 | 12 % | 247 | 214 | 15 % |
| Selling expenses | 63 | 51 | 24 % | 225 | 211 | 7 % |
| Depreciation and amortization | 82 | 84 | (2)% | 363 | 320 | 13 % |
| Food and beverage service | 33 | 30 | 10 % | 126 | 113 | 12 % |
| Third-party regional carrier expense | 21 | 20 | 5 % | 95 | 72 | 32 % |
| Other | 100 | 97 | 3 % | 365 | 356 | 3 % |
| Special items - merger-related costs and other | 81 | 32 | 153 % | 117 | 32 | 266 % |
| Total Operating Expenses | 1,283 | 1,122 | 14 % | 4,582 | 4,300 | 7 % |
| Operating Income | 241 | 255 | (5)% | 1,349 | 1,298 | 4 % |
| Nonoperating Income (Expense): | | | | | | |
| Interest income | 7 | 5 | | 27 | 21 | |
| Interest expense | (22) | (10) | | (55) | (42) | |
| Interest capitalized | 4 | 9 | | 25 | 34 | |
| Other - net | 1 | — | | (1) | 1 | |
| Total Nonoperating Income (Expense) | (10) | 4 | | (4) | 14 | |
| Income Before Income Tax | 231 | 259 | (11)% | 1,345 | 1,312 | 3 % |
| Income tax expense | 117 | 68 | | 531 | 464 | |
| Net Income | \$ 114 | \$ 191 | (40)% | \$ 814 | \$ 848 | (4)% |
| Basic Earnings Per Share: | | | | | | |
| | \$ 0.92 | \$ 1.52 | (39)% | \$ 6.59 | \$ 6.61 | — % |
| Diluted Earnings Per Share: | | | | | | |
| | \$ 0.92 | \$ 1.51 | (39)% | \$ 6.54 | \$ 6.56 | — % |
| Shares Used for Computation: | | | | | | |
| Basic | 123.286 | 125.900 | (2)% | 123.557 | 128.373 | (4)% |
| Diluted | 124.102 | 126.818 | (2)% | 124.389 | 129.372 | (4)% |
| Cash dividend declared per share | \$ 0.275 | \$ 0.200 | | \$ 1.100 | \$ 0.800 | |

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

Amounts below for December 31, 2016 reflect the acquisition of Virgin America, including impacts associated with purchase accounting.

| <i>(in millions)</i> | December 31, 2016 ^(b) | December 31, 2015 |
|--|----------------------------------|-------------------|
| Cash and marketable securities | \$ 1,580 | \$ 1,328 |
| Total current assets | 2,050 | 1,663 |
| Property and equipment-net | 5,686 | 4,802 |
| Goodwill | 1,917 | — |
| Intangible assets | 155 | — |
| Other assets | 169 | 65 |
| Total assets | \$ 9,977 | \$ 6,530 |
| Air traffic liability | 849 | 669 |
| Current portion of long-term debt | 318 | 114 |
| Other current liabilities | 1,370 | 1,022 |
| Current liabilities | \$ 2,537 | \$ 1,805 |
| Long-term debt | 2,637 | 569 |
| Other liabilities and credits | 1,872 | 1,745 |
| Shareholders' equity | 2,931 | 2,411 |
| Total liabilities and shareholders' equity | \$ 9,977 | \$ 6,530 |
| Debt to Capitalization, adjusted for operating leases ^(a) | 59% | 27% |
| Number of common shares outstanding | 123,328 | 125,175 |

(a) Calculated using the present value of remaining aircraft lease payments for aircraft that are in our operating fleet as of the balance sheet date.

(b) The impacts of purchase accounting included in these balances were determined on a preliminary basis and are subject to further adjustments as additional information becomes available concerning the fair value of the assets acquired and liabilities assumed. Any adjustments to the purchase price allocation will be made as soon as practicable but no later than December 14, 2017.

OPERATING STATISTICS SUMMARY (unaudited)
Alaska Air Group, Inc.

Consolidated and Mainline amounts presented below reflect the results of operations for Virgin America for the period December 14, 2016 through December 31, 2016, including impacts associated with purchase accounting as of December 14, 2016.

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---------------------------------|--------|---------|----------------------------------|--------|-----------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Consolidated Operating Statistics:(a) | | | | | | |
| Revenue passengers (PAX) (000) | 8,752 | 7,927 | 10.4% | 34,289 | 31,883 | 7.5% |
| RPMs (000,000) "traffic" | 9,640 | 8,526 | 13.1% | 37,209 | 33,578 | 10.8% |
| ASMs (000,000) "capacity" | 11,407 | 10,340 | 10.3% | 44,135 | 39,914 | 10.6% |
| Load factor | 84.5% | 82.5% | 2.0 pts | 84.3% | 84.1% | 0.2 pts |
| Yield | 13.36¢ | 13.82¢ | (3.3)% | 13.45¢ | 14.27¢ | (5.7)% |
| PRASM | 11.29¢ | 11.39¢ | (0.9)% | 11.34¢ | 12.01¢ | (5.6)% |
| RASM | 13.36¢ | 13.32¢ | 0.3% | 13.44¢ | 14.03¢ | (4.2)% |
| CASM excluding fuel and special items(b) | 8.45¢ | 8.48¢ | (0.4)% | 8.23¢ | 8.30¢ | (0.8)% |
| Economic fuel cost per gallon(c) | \$1.68 | \$1.62 | 3.7% | \$1.52 | \$1.88 | (19.1)% |
| Fuel gallons (000,000) | 144 | 131 | 9.9% | 554 | 508 | 9.1% |
| ASM's per gallon | 79.2 | 78.9 | 0.4% | 79.7 | 78.6 | 1.4% |
| Average full-time equivalent employees (FTEs) | 15,566 | 14,360 | 8.4% | 14,760 | 13,858 | 6.5% |
| Employee productivity (PAX/FTEs/months) | 187.4 | 184.0 | 1.8% | 193.6 | 191.7 | 1.0% |
| Mainline Operating Statistics: | | | | | | |
| Revenue passengers (PAX) (000) | 6,406 | 5,676 | 12.9% | 24,838 | 22,869 | 8.6% |
| RPMs (000,000) "traffic" | 8,722 | 7,707 | 13.2% | 33,489 | 30,340 | 10.4% |
| ASMs (000,000) "capacity" | 10,257 | 9,303 | 10.3% | 39,473 | 35,912 | 9.9% |
| Load factor | 85.0% | 82.8% | 2.2 pts | 84.8% | 84.5% | 0.3 pts |
| Yield | 12.17¢ | 12.48¢ | (2.5)% | 12.24¢ | 12.98¢ | (5.7)% |
| PRASM | 10.35¢ | 10.34¢ | 0.1% | 10.38¢ | 10.97¢ | (5.4)% |
| RASM | 12.46¢ | 12.28¢ | 1.5% | 12.51¢ | 12.98¢ | (3.6)% |
| CASM excluding fuel and special items(b) | 7.57¢ | 7.54¢ | 0.4% | 7.30¢ | 7.39¢ | (1.2)% |
| Economic fuel cost per gallon(c) | \$1.67 | \$1.60 | 4.4% | \$1.52 | \$1.87 | (18.7)% |
| Fuel gallons (000,000) | 124 | 113 | 9.7% | 474 | 439 | 8.0% |
| ASM's per gallon | 82.7 | 82.3 | 0.5% | 83.3 | 81.8 | 1.8% |
| Average number of FTEs | 12,037 | 11,069 | 8.7% | 11,447 | 10,750 | 6.5% |
| Employee productivity (PAX/FTEs/months) | 177.4 | 170.9 | 3.8% | 180.8 | 177.3 | 2.0% |
| Aircraft utilization | 10.1 | 10.7 | (5.6)% | 10.5 | 10.8 | (2.8)% |
| Average aircraft stage length | 1,243 | 1,225 | 1.5% | 1,225 | 1,195 | 2.5% |
| Regional Operating Statistics:(d) | | | | | | |
| Revenue passengers (PAX) (000) | 2,346 | 2,253 | 4.1% | 9,452 | 9,015 | 4.8% |
| RPMs (000,000) "traffic" | 918 | 819 | 12.1% | 3,720 | 3,238 | 14.9% |
| ASMs (000,000) "capacity" | 1,150 | 1,037 | 10.9% | 4,662 | 4,002 | 16.5% |
| Load factor | 79.8% | 79.0% | 0.8 pts | 79.8% | 80.9% | (1.1) pts |
| Yield | 24.64¢ | 26.37¢ | (6.6)% | 24.42¢ | 26.37¢ | (7.4)% |
| PRASM | 19.67¢ | 20.83¢ | (5.6)% | 19.49¢ | 21.34¢ | (8.7)% |

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

(b) See a reconciliation of this non-GAAP measure and Note A for a discussion of why these measures may be important to investors in the accompanying pages.

(c) See a reconciliation of economic fuel cost in the accompanying pages.

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

OPERATING SEGMENTS (unaudited)

Alaska Air Group, Inc.

Amounts below reflect the results of operations for Virgin America for the period December 14, 2016 through December 31, 2016, including impacts associated with purchase accounting as of December 14, 2016.

| <i>(in millions)</i> | Three Months Ended December 31, 2016 | | | | | | |
|--|--------------------------------------|--------------|-------------|--------------------------------------|-----------------------------------|------------------------------|---------------|
| | Mainline ^(a) | Regional | Horizon | Consolidating & Other ^(b) | Air Group Adjusted ^(c) | Special Items ^(d) | Consolidated |
| Operating revenues | | | | | | | |
| Passenger | | | | | | | |
| Mainline | \$ 1,062 | \$ — | \$ — | \$ — | \$ 1,062 | \$ — | \$ 1,062 |
| Regional | — | 226 | — | — | 226 | — | 226 |
| Total passenger revenues | 1,062 | 226 | — | — | 1,288 | — | 1,288 |
| Revenue from CPA with Alaska | — | — | 102 | (102) | — | — | — |
| Freight and mail | 25 | 2 | — | (1) | 26 | — | 26 |
| Other-net | 192 | 17 | 1 | — | 210 | — | 210 |
| Total operating revenues | 1,279 | 245 | 103 | (103) | 1,524 | — | 1,524 |
| Operating expenses | | | | | | | |
| Non-fuel operating expenses | 776 | 189 | 102 | (103) | 964 | 81 | 1,045 |
| Fuel expense | 207 | 35 | — | — | 242 | (4) | 238 |
| Total operating expenses | 983 | 224 | 102 | (103) | 1,206 | 77 | 1,283 |
| Nonoperating income (expense) | | | | | | | |
| Interest income | 7 | — | — | — | 7 | — | 7 |
| Interest expense | (19) | — | (2) | (1) | (22) | — | (22) |
| Other | 4 | — | 1 | — | 5 | — | 5 |
| Total nonoperating income (expense) | (8) | — | (1) | (1) | (10) | — | (10) |
| Income (loss) before income tax | \$ 288 | \$ 21 | \$ — | \$ (1) | \$ 308 | \$ (77) | \$ 231 |

| <i>(in millions)</i> | Three Months Ended December 31, 2015 | | | | | | |
|--|--------------------------------------|--------------|-------------|--------------------------------------|-----------------------------------|------------------------------|---------------|
| | Mainline | Regional | Horizon | Consolidating & Other ^(b) | Air Group Adjusted ^(c) | Special Items ^(d) | Consolidated |
| Operating revenues | | | | | | | |
| Passenger | | | | | | | |
| Mainline | \$ 962 | \$ — | \$ — | \$ — | \$ 962 | \$ — | \$ 962 |
| Regional | — | 216 | — | — | 216 | — | 216 |
| Total passenger revenues | 962 | 216 | — | — | 1,178 | — | 1,178 |
| Revenue from CPA with Alaska | — | — | 105 | (105) | — | — | — |
| Freight and mail | 24 | 1 | — | — | 25 | — | 25 |
| Other-net | 156 | 17 | 1 | — | 174 | — | 174 |
| Total operating revenues | 1,142 | 234 | 106 | (105) | 1,377 | — | 1,377 |
| Operating expenses | | | | | | | |
| Non-fuel operating expenses | 702 | 181 | 101 | (107) | 877 | 32 | 909 |
| Fuel expense | 182 | 30 | — | — | 212 | 1 | 213 |
| Total operating expenses | 884 | 211 | 101 | (107) | 1,089 | 33 | 1,122 |
| Nonoperating income (expense) | | | | | | | |
| Interest income | 4 | — | — | 1 | 5 | — | 5 |
| Interest expense | (7) | — | (2) | (1) | (10) | — | (10) |
| Other | 7 | — | 1 | 1 | 9 | — | 9 |
| Total nonoperating income (expense) | 4 | — | (1) | 1 | 4 | — | 4 |
| Income (loss) before income tax | \$ 262 | \$ 23 | \$ 4 | \$ 3 | \$ 292 | \$ (33) | \$ 259 |

OPERATING SEGMENTS (unaudited)

Alaska Air Group, Inc.

| <i>(in millions)</i> | Twelve Months Ended December 31, 2016 | | | | | | |
|--|---------------------------------------|--------------|--------------|--------------------------|-----------------------|------------------|-----------------|
| | Mainline(a) | Regional | Horizon | Consolidating & Other(b) | Air Group Adjusted(c) | Special Items(d) | Consolidated |
| Operating revenues | | | | | | | |
| Passenger | | | | | | | |
| Mainline | \$ 4,098 | \$ — | \$ — | \$ — | \$ 4,098 | \$ — | \$ 4,098 |
| Regional | — | 908 | — | — | 908 | — | 908 |
| Total passenger revenues | 4,098 | 908 | — | — | 5,006 | — | 5,006 |
| Revenue from CPA with Alaska | — | — | 424 | (424) | — | — | — |
| Freight and mail | 104 | 5 | — | (1) | 108 | — | 108 |
| Other-net | 738 | 74 | 4 | 1 | 817 | — | 817 |
| Total operating revenues | 4,940 | 987 | 428 | (424) | 5,931 | — | 5,931 |
| Operating expenses | | | | | | | |
| Non-fuel operating expenses | 2,883 | 769 | 407 | (425) | 3,634 | 117 | 3,751 |
| Fuel expense | 719 | 125 | — | — | 844 | (13) | 831 |
| Total operating expenses | 3,602 | 894 | 407 | (425) | 4,478 | 104 | 4,582 |
| Nonoperating income (expense) | | | | | | | |
| Interest income | 26 | — | 1 | — | 27 | — | 27 |
| Interest expense | (42) | — | (9) | (4) | (55) | — | (55) |
| Other | 19 | — | 1 | 4 | 24 | — | 24 |
| Total nonoperating income (expense) | 3 | — | (7) | — | (4) | — | (4) |
| Income (loss) before income tax | \$ 1,341 | \$ 93 | \$ 14 | \$ 1 | \$ 1,449 | \$ (104) | \$ 1,345 |

| <i>(in millions)</i> | Twelve Months Ended December 31, 2015 | | | | | | |
|--|---------------------------------------|---------------|--------------|--------------------------|-----------------------|------------------|-----------------|
| | Mainline | Regional | Horizon | Consolidating & Other(b) | Air Group Adjusted(c) | Special Items(d) | Consolidated |
| Operating revenues | | | | | | | |
| Passenger | | | | | | | |
| Mainline | \$ 3,939 | \$ — | \$ — | \$ — | \$ 3,939 | \$ — | \$ 3,939 |
| Regional | — | 854 | — | — | 854 | — | 854 |
| Total passenger revenues | 3,939 | 854 | — | — | 4,793 | — | 4,793 |
| Revenue from CPA with Alaska | — | — | 408 | (408) | — | — | — |
| Freight and mail | 103 | 5 | — | — | 108 | — | 108 |
| Other-net | 621 | 72 | 4 | — | 697 | — | 697 |
| Total operating revenues | 4,663 | 931 | 412 | (408) | 5,598 | — | 5,598 |
| Operating expenses | | | | | | | |
| Non-fuel operating expenses | 2,653 | 695 | 375 | (409) | 3,314 | 32 | 3,346 |
| Fuel expense | 823 | 131 | — | — | 954 | — | 954 |
| Total operating expenses | 3,476 | 826 | 375 | (409) | 4,268 | 32 | 4,300 |
| Nonoperating income (expense) | | | | | | | |
| Interest income | 19 | — | — | 2 | 21 | — | 21 |
| Interest expense | (28) | — | (10) | (4) | (42) | — | (42) |
| Other | 28 | — | 1 | 6 | 35 | — | 35 |
| Total nonoperating income (expense) | 19 | — | (9) | 4 | 14 | — | 14 |
| Income (loss) before income tax | \$ 1,206 | \$ 105 | \$ 28 | \$ 5 | \$ 1,344 | \$ (32) | \$ 1,312 |

(a) Includes Alaska activity for the full period, and Virgin America financial results for the period December 14, 2016 through December 31, 2016, and the impacts associated with purchase accounting as of December 14, 2016.

(b) Includes consolidating entries, Parent Company, and other immaterial business units.

(c) Air Group Adjusted excludes certain charges. See Note A on the accompanying pages for further information.

(d) Includes merger-related costs, mark-to-market fuel-hedge accounting charges, and other special items described previously.

GAAP TO NON-GAAP RECONCILIATIONS
Alaska Air Group, Inc.

Consolidated and Mainline amounts presented below reflect the results of operations for Virgin America for the period December 14, 2016 through December 31, 2016, including impacts associated with purchase accounting as of December 14, 2016.

CASM Excluding Fuel and Special Items Reconciliation (unaudited)

| <i>(in cents)</i> | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---------------------------------|--------|----------------------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Consolidated: | | | | |
| Total operating expenses per ASM (CASM) | 11.25¢ | 10.85¢ | 10.38¢ | 10.77¢ |
| Less the following components: | | | | |
| Aircraft fuel, including hedging gains and losses | 2.09 | 2.06 | 1.88 | 2.39 |
| Special items - merger-related costs and other | 0.71 | 0.31 | 0.27 | 0.08 |
| CASM, excluding fuel and special items | 8.45¢ | 8.48¢ | 8.23¢ | 8.30¢ |
| Mainline: | | | | |
| Total operating expenses per ASM (CASM) | 10.33¢ | 9.86¢ | 9.39¢ | 9.77¢ |
| Less the following components: | | | | |
| Aircraft fuel, including hedging gains and losses | 1.98 | 1.97 | 1.79 | 2.29 |
| Special items - merger-related costs and other | 0.78 | 0.35 | 0.30 | 0.09 |
| CASM, excluding fuel and special items | 7.57¢ | 7.54¢ | 7.30¢ | 7.39¢ |

Fuel Reconciliations (unaudited)

| <i>(in millions, except for per gallon amounts)</i> | Three Months Ended December 31, | | | |
|---|---------------------------------|----------------|---------------|----------------|
| | 2016 | | 2015 | |
| | Dollars | Cost/Gal | Dollars | Cost/Gal |
| Raw or "into-plane" fuel cost | \$ 238 | \$ 1.65 | \$ 208 | \$ 1.59 |
| Losses on settled hedges | 4 | 0.03 | 4 | 0.03 |
| Consolidated economic fuel expense | \$ 242 | \$ 1.68 | \$ 212 | \$ 1.62 |
| Mark-to-market fuel hedge adjustments | (4) | (0.03) | 1 | — |
| GAAP fuel expense | \$ 238 | \$ 1.65 | \$ 213 | \$ 1.62 |
| Fuel gallons | 144 | | 131 | |

| <i>(in millions, except for per gallon amounts)</i> | Twelve Months Ended December 31, | | | |
|---|----------------------------------|----------------|---------------|----------------|
| | 2016 | | 2015 | |
| | Dollars | Cost/Gal | Dollars | Cost/Gal |
| Raw or "into-plane" fuel cost | \$ 828 | \$ 1.49 | \$ 935 | \$ 1.84 |
| Losses on settled hedges | 16 | 0.03 | 19 | 0.04 |
| Consolidated economic fuel expense | \$ 844 | \$ 1.52 | \$ 954 | \$ 1.88 |
| Mark-to-market fuel hedge adjustments | (13) | (0.02) | — | — |
| GAAP fuel expense | \$ 831 | \$ 1.50 | \$ 954 | \$ 1.88 |
| Fuel gallons | 554 | | 508 | |

SUPPLEMENTARY COMBINED COMPARATIVE FINANCIAL INFORMATION (unaudited)

We believe that analysis of specific financial and operational results on a combined basis provides more meaningful year-over-year comparisons, and have presented combined results in the tables that follow. Financial and operational information on a combined basis is the sum of the historical consolidated financial results of the Company through December 31, 2016 and of Virgin America for the periods prior to the acquisition date of December 14, 2016. It includes the impact of purchase accounting only for the period following the acquisition. This information does not purport to reflect what our financial and operational results would have been had the acquisition been consummated at the beginning of the periods presented.

| <i>(in millions)</i> | Three months ended December 31, 2016 | | | Three months ended December 31, 2015 | | | Combined % Change |
|--|--------------------------------------|----------------------------------|---------------|--------------------------------------|--|---------------|----------------------|
| | Alaska Air Group (as reported) | Virgin America (as conformed) | Combined | Alaska Air Group (as reported) | Virgin America (as reported and conformed) | Combined | |
| Passenger revenue | \$ 1,288 | 293 | \$ 1,581 | \$ 1,178 | \$ 347 | \$ 1,525 | 3.7 % |
| Other revenue ^(a) | 236 | 37 | 273 | 199 | 43 | 242 | 12.8 % |
| Total Operating Revenues | 1,524 | 330 | 1,854 | 1,377 | 390 | 1,767 | 4.9 % |
| Non-fuel operating expense | 1,045 | 237 | 1,282 | 909 | 288 | 1,197 | 7.1 % |
| Fuel expense | 238 | 64 | 302 | 213 | 82 | 295 | 2.4 % |
| Total Operating Expenses | 1,283 | 301 | 1,584 | 1,122 | 370 | 1,492 | 6.2 % |
| Operating Income | 241 | 29 | 270 | 255 | 20 | 275 | (1.8)% |
| Nonoperating income (expense) | (10) | (5) | (15) | 4 | (3) | 1 | NM |
| Income Before Tax | 231 | 24 | 255 | 259 | 17 | 276 | (7.6)% |
| Special items - merger-related and other | 81 | 13 | 94 | 32 | 36 | 68 | 38.2 % |
| Mark-to-market fuel hedge adjustments | (4) | — | (4) | 1 | — | 1 | NM |
| Adjusted Income Before Tax | \$ 308 | \$ 37 | \$ 345 | \$ 292 | \$ 53 | \$ 345 | — % |

| <i>(in millions)</i> | Twelve months ended December 31, 2016 | | | Twelve months ended December 31, 2015 | | | Combined % Change |
|--|---------------------------------------|----------------------------------|-----------------|---------------------------------------|--|-----------------|----------------------|
| | Alaska Air Group (as reported) | Virgin America (as conformed) | Combined | Alaska Air Group (as reported) | Virgin America (as reported and conformed) | Combined | |
| Passenger revenue | \$ 5,006 | \$ 1,388 | \$ 6,394 | \$ 4,793 | \$ 1,361 | \$ 6,154 | 3.9 % |
| Other revenue ^(a) | 925 | 176 | 1,101 | 805 | 165 | 970 | 13.5 % |
| Total Operating Revenues | 5,931 | 1,564 | 7,495 | 5,598 | 1,526 | 7,124 | 5.2 % |
| Non-fuel operating expense | 3,751 | 1,049 | 4,800 | 3,346 | 989 | 4,335 | 10.7 % |
| Fuel Expense | 831 | 293 | 1,124 | 954 | 360 | 1,314 | (14.5)% |
| Total Operating Expenses | 4,582 | 1,342 | 5,924 | 4,300 | 1,349 | 5,649 | 4.9 % |
| Operating Income | 1,349 | 222 | 1,571 | 1,298 | 177 | 1,475 | 6.5 % |
| Nonoperating income (expense) | (4) | (19) | (23) | 14 | (9) | 5 | NM |
| Income Before Tax | 1,345 | 203 | 1,548 | 1,312 | 168 | 1,480 | 4.6 % |
| Special items - merger-related and other | 117 | 21 | 138 | 32 | 36 | 68 | 102.9 % |
| Mark-to-market fuel hedge adjustments | (13) | (2) | (15) | — | (2) | (2) | NM |
| Adjusted Income Before Tax | \$ 1,449 | \$ 222 | \$ 1,671 | \$ 1,344 | \$ 202 | \$ 1,546 | 8.1 % |

(a) Includes Freight and Mail, and Other-net revenue as presented on the Statement of Operations.

SUPPLEMENTARY COMBINED COMPARATIVE OPERATING STATISTICS (unaudited)

Selected operating statistics presented in the table below are on a combined basis, and include operations for Alaska Air Group and Virgin America for all periods presented, including Virgin America for the periods prior to the acquisition date. These combined results include the impact of purchase accounting only for the period following the acquisition. Virgin America's historical operating statistics included in the combined presentation have been conformed to Alaska Air Group's presentation where appropriate.

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|--------------------------|---------------------------------|--------|---------|----------------------------------|--------|---------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Revenue Passengers (000) | 10,382 | 9,787 | 6.1% | 41,947 | 38,919 | 7.8% |
| ASMs (000,000) | 14,404 | 13,697 | 5.2% | 57,953 | 52,605 | 10.2% |
| Load Factor | 83.9% | 82.1% | 1.8 pts | 84.1% | 83.7% | 0.4 pts |
| PRASM | 10.97¢ | 11.13¢ | (1.4)% | 11.03¢ | 11.70¢ | (5.7)% |
| RASM | 12.87¢ | 12.90¢ | (0.2)% | 12.93¢ | 13.54¢ | (4.5)% |
| CASMex | 8.25¢ | 8.24¢ | 0.1% | 8.04¢ | 8.11¢ | (0.9)% |

Note A: Pursuant to Regulation G, we are providing reconciliation of reported non-GAAP financial measures to their most directly comparable financial measures reported on a GAAP basis. We believe that consideration of these non-GAAP financial measures may be important to investors for the following reasons:

- By eliminating fuel expense and certain special items from our unit metrics, we believe that we have better visibility into the results of operations and our non-fuel cost-reduction initiatives. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can result in a significant improvement in operating results. In addition, we believe that all domestic carriers are similarly impacted by changes in jet fuel costs over the long run, so it is important for management (and thus investors) to understand the impact of (and trends in) company-specific cost drivers such as labor rates and productivity, airport costs, maintenance costs, etc., which are more controllable by management.
- Cost per ASM (CASM) excluding fuel and certain special items is one of the most important measures used by management and by the Air Group Board of Directors in assessing quarterly and annual cost performance.
- Adjusted income before income tax and CASM excluding fuel (and other items as specified in our plan documents) are important metrics for the employee incentive plan that covers all Air Group employees.
- CASM excluding fuel and certain special items is a measure commonly used by industry analysts, and we believe it is the basis by which they compare our airlines to others in the industry. The measure is also the subject of frequent questions from investors.
- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of certain items, such as mark-to-market hedging adjustments, is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.
- Although we disclose our passenger unit revenues, we do not (nor are we able to) evaluate unit revenues excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total operating expenses. Fluctuations in fuel prices often drive changes in unit revenues in the mid-to-long term. Although we believe it is useful to evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

Glossary of Terms

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

Aircraft Stage Length - represents the average miles flown per aircraft departure

ASMs - available seat miles, or "capacity"; represents total seats available across the fleet multiplied by the number of miles flown

CASM - operating costs per ASM, or "unit cost"; represents all operating expenses including fuel and special items

CASMex - operating costs excluding fuel and special items per ASM; this metric is used to help track progress toward reduction of non-fuel operating costs since fuel is largely out of our control

Debt-to-capitalization ratio - represents adjusted debt (long-term debt plus the present value of future operating lease payments) divided by total equity plus adjusted debt

Diluted Earnings per Share - represents earnings per share using fully diluted shares outstanding

Diluted Shares - represents the total number of shares that would be outstanding if all possible sources of conversion, such as stock options, were exercised

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

Free Cash Flow - total operating cash flow generated less cash paid for capital expenditures

Load Factor - RPMs as a percentage of ASMs; represents the number of available seats that were filled with paying passengers

Mainline - represents flying Boeing 737 and Airbus jets and all associated revenues and costs

PRASM - passenger revenue per ASM; commonly called "passenger unit revenue"

Productivity - number of revenue passengers per full-time equivalent employee

RASM - operating revenue per ASMs, or "unit revenue"; operating revenue includes all passenger revenue, freight & mail, Mileage Plan, and other ancillary revenue; represents the average total revenue for flying one seat one mile

Regional - represents capacity purchased by Alaska from Horizon, SkyWest, and PenAir. In this segment, Regional records actual on-board passenger revenue, less costs such as fuel, distribution costs, and payments made to Horizon, SkyWest and PenAir under the respective capacity purchased arrangement (CPAs). Additionally, Regional includes an allocation of corporate overhead such as IT, finance, other administrative costs incurred by Alaska and on behalf of Horizon.

RPMs - revenue passenger miles, or "traffic"; represents the number of seats that were filled with paying passengers; one passenger traveling one mile is one RPM

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

Alaska Air Group

Exhibit 99.2

Investor Update - February 8, 2017

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

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

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

We are also providing our expected capital expenditures and fleet count for future periods. These estimates are based on firm commitments we currently have in place for future aircraft deliveries and our current estimate of non-aircraft capital spending.

Forward-Looking Information

This update contains forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. For a comprehensive discussion of potential risk factors, see Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as well as in other documents filed by Alaska Air Group with the SEC after the date thereof. Some of these risks include general economic conditions, increases in operating costs including fuel, competition, labor costs and relations, our significant indebtedness, inability to meet cost reduction goals, seasonal fluctuations in our financial results, an aircraft accident, and changes in laws and regulations. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We expressly disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.

AIR GROUP - CONSOLIDATED

Forecast Information^(a)

| | Forecast Q1 2017 | Actual Q1 2016 | Forecast Full Year 2017 | Actual 2016 |
|---|------------------|----------------|-------------------------|-------------|
| Capacity (ASMs in millions) | 14,500 - 14,550 | 10,453 | 62,800 - 63,000 | 44,135 |
| Cost per ASM excluding fuel and special items (cents) | 8.35¢ - 8.40¢ | 8.51¢ | 8.00¢ - 8.05¢ | 8.23¢ |
| Fuel gallons (000,000) | 185 | 132 | 790 | 554 |
| Economic fuel cost per gallon ^(b) | \$1.78 | \$1.29 | ^(c) | \$1.52 |

^(a) Consolidated forecast information includes Virgin America Inc. (Virgin America), which became a wholly-owned subsidiary of the Company on December 14, 2016.

^(b) Our economic fuel cost per gallon estimate for the first quarter includes the following per-gallon assumptions: crude oil cost - \$1.26 (\$53 per barrel); refining margin - 30 cents; cost of settled hedges - 2 cents, with the remaining difference due to taxes and other into-plane costs.

^(c) Because of the volatility of fuel prices, we do not provide full-year economic fuel estimates.

The following table provides a "Combined Comparative" perspective of 2016 for capacity and fuel gallons, calculated as the sum of 2016 historical financial results of Alaska Air Group, and Virgin America results for the fiscal period prior to the acquisition date of December 14, 2016.

| | Forecast Q1 2017 | Q1 2016 Combined Comparative | % Change | Forecast Full Year 2017 | 2016 Combined Comparative | % Change |
|---|------------------|------------------------------|----------|-------------------------|---------------------------|----------|
| Capacity (ASMs in millions) | 14,500 - 14,550 | 13,718 | ~6% | 62,800 - 63,000 | 57,953 | ~8.5% |
| Cost per ASM excluding fuel and special items (cents) | 8.35¢ - 8.40¢ | 8.36¢ | flat | 8.00¢ - 8.05¢ | 8.04¢ | flat |
| Fuel gallons (000,000) | 185 | 175 | ~6% | 790 | 739 | ~7% |

Nonoperating Expense

We expect that our consolidated nonoperating expense will be approximately \$13 million in the first quarter of 2017.

Capital Expenditures

Total expected capital expenditures are as follows (in millions):

| | 2017 | 2018 | 2019 | 2020 |
|--|-----------------|-----------------|---------------|---------------|
| Aircraft and aircraft purchase deposits - firm | \$ 780 | \$ 710 | \$ 600 | \$ 300 |
| Other flight equipment | 145 | 135 | 95 | 55 |
| Other property and equipment | 215 | 205 | 90 | 75 |
| Total property and equipment additions | \$ 1,140 | \$ 1,050 | \$ 785 | \$ 430 |
| Option aircraft and aircraft deposits, if exercised ^(a) | \$ 60 | \$ 240 | \$ 705 | \$ 1,425 |

^(a) The Company has options to acquire 41 B737 aircraft with deliveries from 2019 through 2024, options to acquire 30 A320 aircraft with deliveries from 2020 through 2022, and options to acquire 30 E175 aircraft with deliveries in 2019 to 2021.

Projected Fleet Count^(a)

| Aircraft | Actual Fleet Count | | Expected Fleet Activity | | | |
|--------------------------------|--------------------|--------------|-------------------------|--------------|---------------------|--------------|
| | Dec 31, 2015 | Dec 31, 2016 | 2017 Changes | Dec 31, 2017 | 2018 - 2019 Changes | Dec 31, 2019 |
| 737 Freighters & Combis | 6 | 6 | (3) | 3 | — | 3 |
| 737 Passenger Aircraft | 141 | 149 | — | 149 | 17 | 166 |
| A319/A320/A321 Airbus Aircraft | — | 63 | 5 | 68 | 4 | 72 |
| Total Mainline Fleet | 147 | 218 | 2 | 220 | 21 | 241 |
| Q400 | 52 | 52 | — | 52 | (15) | 37 |
| E175 ^(b) | 5 | 15 | 18 | 33 | 20 | 53 |
| CRJ-700 ^(b) | 8 | — | — | — | — | — |
| Total Regional Fleet | 65 | 67 | 18 | 85 | 5 | 90 |
| Total Air Group Fleet | 212 | 285 | 20 | 305 | 26 | 331 |

^(a) The expected fleet counts at December 31, 2017 and beyond are subject to change.

^(b) Aircraft are operated under capacity purchase agreements with either Horizon or a third party.

AIR GROUP - CONSOLIDATED (continued)

Future Fuel Hedge Positions

All of our future oil positions are call options, which are designed to effectively cap the cost of the crude oil component of our jet fuel purchases. Our crude oil positions are as follows:

| | Approximate % of Expected Fuel Requirements | Weighted-Average Crude Oil Price per Barrel | Average Premium Cost per Barrel |
|-----------------------|---|---|---------------------------------|
| First Quarter 2017 | 50% | \$60 | \$2 |
| Second Quarter 2017 | 50% | \$62 | \$2 |
| Third Quarter 2017 | 40% | \$63 | \$2 |
| Fourth Quarter 2017 | 30% | \$65 | \$3 |
| Full Year 2017 | 42% | \$62 | \$2 |
| First Quarter 2018 | 20% | \$65 | \$3 |
| Second Quarter 2018 | 10% | \$67 | \$2 |
| Full Year 2018 | 7% | \$65 | \$2 |

MAINLINE - Alaska and Virgin America

Forecast Information

| | Forecast Q1 2017 | Actual Q1 2016 | Forecast Full Year 2017 | Actual 2016 |
|---|------------------|----------------|-------------------------|-------------|
| Capacity (ASMs in millions) | 13,325 -13,375 | 9,354 | 57,200 - 57,400 | 39,473 |
| Cost per ASM excluding fuel and special items (cents) | 7.55¢ - 7.60¢ | 7.49¢ | 7.30¢ - 7.35¢ | 7.30¢ |
| Fuel gallons (000,000) | 165 | 113 | 700 | 474 |
| Economic fuel cost per gallon ^(a) | \$1.78 | \$1.28 | ^(b) | \$1.52 |

^(a) Please see note (a) in Consolidated for the breakout of economic fuel cost per gallon.

^(b) Because of the volatility of fuel prices, we do not provide full-year economic fuel estimates.

The following table provides a Combined Comparative mainline perspective for capacity and fuel gallons, calculated as the sum of 2016 historical results for Alaska Mainline and Virgin America for the fiscal period prior to the acquisition date of December 14, 2016:

| | Forecast Q1 2017 | Q1 2016 Combined Comparative | % Change | Forecast Full Year 2017 | 2016 Combined Comparative | % Change |
|---|------------------|------------------------------|------------|-------------------------|---------------------------|------------|
| Capacity (ASMs in millions) | 13,325 -13,375 | 12,619 | ~ 6% | 57,200 - 57,400 | 53,291 | ~ 7.5% |
| Cost per ASM excluding fuel and special items (cents) | 7.55¢ - 7.60¢ | 7.60¢ | ~ (0.5)-0% | 7.30¢ - 7.35¢ | 7.34¢ | ~ (0.5)-0% |
| Fuel gallons (000,000) | 165 | 156 | ~ 6% | 700 | 659 | ~ 6% |