

Alaska Air Group Reports Challenging Second Quarter

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Alaska Air Group, Inc. (NYSE:ALK) today reported second quarter net income of \$63.1 million, or \$1.74 per diluted share, compared to net income of \$46.1 million, or \$1.13 per diluted share, in the second quarter of 2007. Excluding special items, the company reported a net loss of \$14.1 million, or \$0.39 per share, compared to 2007 net income of \$47.2 million, or \$1.16 per share, and a First Call mean estimate loss of \$0.41 per share.

The current-year results include charges associated with the transition to single fleets at Alaska Airlines and Horizon Air of \$32.1 million (\$20.1 million after tax or \$0.56 per diluted share). Both periods include adjustments to reflect timing of gain or loss recognition resulting from mark-to-market fuel hedge accounting. Because of significant recent increases in crude oil prices, the value of the company's fuel hedge portfolio that will benefit future periods increased dramatically, resulting in a \$155.3 million (\$97.3 million after tax or \$2.69 per share) mark-to-market gain, compared to a \$1.8 million (\$1.1 million after tax or \$0.03 per share) loss in the second quarter of 2007.

"Skyrocketing fuel prices have eclipsed the improvements we've worked so hard to achieve in every area of our business," said Bill Ayer, Alaska Air Group's chairman and chief executive officer. "Decisive action, an excellent operation, and the genuine, caring service our employees provide will help us survive what is shaping up to be the most difficult period in commercial aviation history."

The company outlined a plan that includes maintaining a strong cash balance, cutting capacity, increasing fares and other sources of revenue, conserving fuel and controlling non-fuel costs. Ayer announced that Alaska's fourth-quarter mainline capacity will decline by 5 percent from 2007 levels, and mainline capacity for 2009 will decrease by 5 percent to 10 percent, compared with 2008.

The company is determining the full effect of the schedule reductions on work groups and expects to have more information in early September. Alaska Airlines announced today that management headcount would be reduced by 5 percent, effective Sept. 1. Horizon Air reduced its management workforce by 13 percent earlier this year and will further reduce operational and management positions in connection with capacity cuts.

"We are keenly aware of the impact on our employees and regret having to take these actions," Ayer said. "Current fuel prices -- which are devastating for airlines and consumers alike -- require these measures to ensure the viability of our company."

Alaska Airlines' mainline passenger traffic in the second quarter increased 1.1 percent on a capacity increase of 1.6 percent. Load factor declined 0.4 percentage points to 78.1 percent. Alaska's mainline operating revenue per available seat mile (ASM) increased 0.9 percent, and its operating cost per ASM excluding fuel and the special items mentioned above increased 2.9 percent. Alaska's total pretax income for the quarter was \$87.3 million, compared to pretax income of \$80.9 million in 2007. Excluding the mark-to-market fuel hedge adjustments and fleet transition charges, Alaska would have reported a pretax loss of \$15.6 million for the quarter, compared to pretax income of \$82.4 million in the second quarter of 2007.

Horizon Air's passenger traffic in the second quarter declined 4.9 percent on a 3.0 percent capacity decrease. Load factor decreased by 1.5 percentage points to 73.6 percent. Horizon's operating revenue per ASM increased 9.4 percent, and its operating cost per ASM excluding fuel and the special charges mentioned above decreased 4.2 percent. Horizon's total pretax income for the quarter was \$12.6 million, compared to a pretax loss of \$4.9 million in 2007. Excluding the mark-to-market fuel hedge adjustments and CRJ-700 fleet transition charges, Horizon's pretax loss would have been \$7.7 million for the quarter, compared to a pretax loss of \$4.6 million in the second quarter of 2007.

Alaska Air Group had cash and short-term investments at June 30, 2008, of \$1.0 billion.

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