

Compensation Committee Charter

As Adopted February 12, 2002 and Amended August 25, 2004

1. Purpose, Policies and Objectives

The purpose of the Compensation Committee (the "Committee") is to discharge the responsibilities of the Board of Directors (the "Board") of Alaska Air Group, Inc. (the "Company") relating to compensation of elected and non-elected officers of the Company and its wholly owned subsidiaries, Alaska Airlines, Inc. and Horizon Air Industries, Inc. (the "Subsidiaries"), to produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations and to take such other actions within the scope of this charter as the Committee deems necessary or appropriate. The Company's policy is to pay competitive compensation. The objectives of the Company's executive compensation policies are: 1) to attract and retain highly qualified executives, 2) to motivate executives to provide excellent leadership and achieve Company goals, 3) to link the interests of executives and stockholders by tying a large portion of total compensation to Company profitability and stock value and 4) to reward outstanding performance.

2. Membership

The Committee will be composed of two or more directors. All members of the Committee will be independent directors (as determined by the Board) under the independence requirements of the New York Stock Exchange and who qualify as nonemployee directors under Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and outside directors under Internal Revenue Code Section 162(m) and applicable law. The members of the Committee will be appointed by and serve at the discretion of the Board. The Chairperson of the Committee will be appointed by and serve at the discretion of the Board.

3. Specific Responsibilities and Duties

The Board delegates to the Committee the express authority to do the following, to the fullest extent permitted by applicable law and the Company's Certificate of Incorporation and Bylaws:

- a. **Executive Compensation.** Set, review and approve compensation of the elected and non-elected officers of the Company and the Subsidiaries, which includes base salary, a cash incentive plan tied to annual financial and operational performance, equity-based awards and retirement benefits, as more specifically set forth below:
 - i. **CEO Compensation.** Establish a process for reviewing and approving corporate goals relevant to CEO compensation and for evaluating the CEO's performance in light of these goals.
 - ii. **Salaries.** Set salary of CEO. Review and approve the salaries of elected officers of the Company and the Subsidiaries. Review and consult with senior management on salaries of non-elected officers of the Company and the Subsidiaries.
 - iii. **Performance-Based Pay Plan.** Set annual goals under the Company's Performance-Based Pay Plan and any successor plan ("PBP") and otherwise review and administer the PBP. Consider and make recommendations to the Board with respect to any modification to the PBP.
 - iv. **Equity-Based Awards.**
 - a. Administer and review the Company's equity-based incentive plans. Consider and make recommendations to the Board with respect to any modification of such plans.
 - b. Grant awards under the Company's equity-based incentive plans, including awards designed to be exempt under Internal Revenue Code Section 162(m), to elected and non-elected officers of the Company and the Subsidiaries as well as to certain other key management employees of the Company and the Subsidiaries, as determined by the Committee from time to time.

- c. Have the power and authority under the Company's equity-based incentive plans, including but not limited to the Company's 1999 Long-Term Incentive Plan, to delegate to the CEO of the Company the Committee's authority to grant non-qualified equity-based awards (including but not limited to stock options, SARs and stock awards) under such plans to employees at the Managing Director level and below of the Company and the Subsidiaries, subject to the limitations and restrictions determined by the Committee from time to time as required under law.
 - v. **Officers Supplementary Retirement Plan.** Administer and review the Officers Supplementary Retirement Plan of Alaska Airlines, Inc. (including the forms of such plan applicable to different officers of Alaska Airlines) and any successor plan (the "OSRP"). Consider and make recommendations to the Board with respect to any modification of the OSRP.
 - vi. **Other Compensation and Plans.** Consider and make recommendations to the Board with respect to other executive compensation issues of the Company and the Subsidiaries, including but not limited to, the adoption or modification of any long or short-term incentive plans and equity-based plans, as the Committee deems appropriate.
- b. **Employment, Change-in-Control and Severance Agreements.** Approve the terms of any employment, or severance agreements between the Company (or any Subsidiary) and any current or future elected officers of the Company (or any Subsidiary), which shall be executed and delivered by the CEO on behalf of the Company and the Subsidiaries (as applicable). Approve the form of any change-in-control agreements between the Company (or any Subsidiary) and any elected or non-elected officer of the Company (or any Subsidiary).
- c. **Retirement Plans.** Recommend to the Board for Board action, all Internal Revenue Service tax-qualified retirement plans and all plan amendments that are non-administrative in nature; fulfill ERISA fiduciary and non-fiduciary functions by (a) periodically monitoring fiduciary functions that have been delegated to the Pension/Benefits Administrative Committee of Alaska Air Group and Alaska Airlines, the Horizon Air Savings Investment Plan Administrative Committee, the Alaska Air Group Defined Contribution Retirement Benefits Administrative Committee and the Pension/Benefits Investment Fund Committee (collectively, the "Administrative Committees"), and (b) approving and recommending to the Board for Board action:
 - i. the appointment of members of the Administrative Committees and the chair (if any) of each Administrative Committee;
 - ii. the termination, merger or consolidation of any such plan or plans; and
 - iii. the extension of plan participation to employees of affiliates or subsidiaries.
- d. **Leadership Development.**
 - i. Ensure that a framework, process and policies are in place for CEO and executive management succession, including standards for assessment of individual development activities and progress.
 - ii. Periodically review CEO and management development and succession plans.
- e. **Annual Report.** Produce an annual report on executive compensation for inclusion in the Company's proxy statement.
- f. **Review and Publication of Charter.** Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. Publish the Charter as required by the rules and regulations of applicable law and New York Stock Exchange requirements and as otherwise deemed advisable by the Committee.
- g. **Annual Review.** Annually review the Committee's own performance.
- h. **Other Actions.** Take such other actions as may be requested or required by the Board from time to time.
- i. **Recommendations.** Make recommendations and report to the Board and other Board committees with respect to the compensation policy of the Company and the Subsidiaries for elected and non-elected officers or any of the foregoing matters.

4. Meetings

The Committee will meet with such frequency, and at such times as its Chairperson, or a majority of the Committee, determines. A special meeting of the Committee may be called by the Chairperson and will be called promptly upon the request of any two Committee members. The agenda of each

meeting will be prepared by the Chairperson and circulated to each member. Unless the Committee or the Board adopts other procedures, the provisions of the Company's Bylaws applicable to meetings of Board committees will govern meetings of the Committee.

5. Minutes

Minutes of each meeting will be kept with the regular corporate records.

6. Reliance; Experts; Cooperation

- a. **Retention of Advisors and Compensation Consultants.** The Committee has the power, in its discretion, to retain at the Company's expense such advisors and experts as it deems necessary or appropriate to carry out its duties. The Board delegates to the Committee the express authority to decide whether to retain a compensation consultant to assist in the evaluation of compensation pursuant to this Charter. If the Committee decides in its discretion to retain such a firm, the Board delegates to the Committee the sole authority to retain and terminate any such firm and to approve the firm's fees and other retention terms.
- b. **Reliance Permitted.** In carrying out its duties, the Committee will act in reliance on management, independent public accountants, internal auditors and outside advisors and experts, as it deems necessary or appropriate.
- c. **Investigations.** The Committee has the authority to conduct any investigation it deems necessary or appropriate to fulfilling its duties.
- d. **Required Participation of Employees.** The Committee shall have unrestricted access to the Company's and the Subsidiaries' independent public accountants, internal auditors, internal and outside counsel, and anyone else in the Company and the Subsidiaries, and may require any officer or employee of the Company or the Subsidiaries or the Company's outside counsel or independent public accountants to attend a meeting of the Committee or to meet with any members of, or consultants or advisors to, the Committee.

Committee Members

R. Marc Langland, Member
Phyllis Campbell, Chair
Jessie K. Knight, Jr., Member
Dennis Madsen, Member
John V. Rindlaub, Member