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

	Three Months Ended Dec. 31,			12 Months Ended Dec. 31,		
(in millions, except per share amounts)	2013	2012	Change	2013	2012	Change
Operating Revenues:						
Passenger						
Mainline	**$ 839**	$ 793	6%	**$ 3,490**	$ 3,284	6%
Regional	**195**	188	4%	**777**	746	4%
Total passenger revenue	**1,034**	981	5%	**4,267**	4,030	6%
Freight and mail	**25**	26	(4)%	**113**	111	2%
Other - net	**151**	125	21%	**584**	516	13%
Special mileage plan revenue	**—**	—	NM	**192**	—	NM
Total Operating Revenues	**1,210**	1,132	7%	**5,156**	4,657	11%
Operating Expenses:						
Wages and benefits	**280**	267	5%	**1,086**	1,038	5%
Variable incentive pay	**37**	27	37%	**105**	88	19%
Aircraft fuel, including hedging gains and losses	**352**	372	(5)%	**1,467**	1,459	1%
Aircraft maintenance	**60**	61	(2)%	**247**	222	11%
Aircraft rent	**30**	30	—%	**119**	116	3%
Landing fees and other rentals	**55**	59	(7)%	**262**	243	8%
Contracted services	**60**	51	18%	**221**	200	11%
Selling expenses	**42**	37	14%	**179**	168	7%
Depreciation and amortization	**67**	69	(3)%	**270**	264	2%
Food and beverage service	**21**	21	—%	**84**	79	6%
Other	**76**	64	19%	**278**	248	12%
Total Operating Expenses	**1,080**	1,058	2%	**4,318**	4,125	5%
Operating Income	**130**	74	76%	**838**	532	58%
Nonoperating Income (Expense):						
Interest income	**4**	5		**18**	19	
Interest expense	**(14)**	(15)		**(56)**	(64)	
Interest capitalized	**6**	5		**21**	18	
Other - net	**(1)**	3		**(5)**	9	
	(5)	(2)		**(22)**	(18)	
Income Before Income Tax	**125**	72	74%	**816**	514	59%
Income tax expense	**47**	28		**308**	198	
Net Income	**$ 78**	$ 44	77%	**$ 508**	$ 316	61%
Basic Earnings Per Share:	**$ 1.12**	$ 0.62		**$ 7.26**	$ 4.47	
Diluted Earnings Per Share:	**$ 1.11**	$ 0.61		**$ 7.16**	$ 4.40	
Shares Used for Computation:						
Basic	**69.335**	71.112		**69.955**	70.708	
Diluted	**70.242**	72.149		**70.939**	71.784	
Cash dividend declared per share	**$ 0.20**	—		**$ 0.40**	—	

NM - Not Meaningful

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

(in millions)	Dec. 31, 2013	Dec. 31, 2012
Cash and marketable securities	**$ 1,330**	$ 1,252
Total current assets	**1,762**	1,737
Property and equipment-net	**3,893**	3,609
Other assets	**183**	159
Total assets	**$ 5,838**	$ 5,505
Air traffic liability	**564**	534
Current portion of long-term debt	**117**	161
Other current liabilities	**899**	806
Current liabilities	**$ 1,580**	$ 1,501
Long-term debt	**754**	871
Other liabilities and credits	**1,475**	1,712
Shareholders' equity	**2,029**	1,421
Total liabilities and shareholders' equity	**$ 5,838**	$ 5,505
Debt to Capitalization, adjusted for operating leases(a)	**35%:65%**	48%:52%
Number of common shares outstanding	**68.746**	70.377

(a) Calculated using the present value of remaining aircraft lease payments.

OPERATING STATISTICS SUMMARY (unaudited)

Alaska Air Group, Inc.

	Three Months Ended Dec. 31,			12 Months Ended Dec. 31,		
	2013	2012	Change	2013	2012	Change
Consolidated Operating Statistics:[a]						
Revenue passengers (000)	**6,694**	6,387	4.8%	**27,414**	25,896	5.9%
RPMs (000,000) "traffic"	**6,980**	6,720	3.9%	**28,833**	27,007	6.8%
ASMs (000,000) "capacity"	**8,275**	7,870	5.1%	**33,672**	31,428	7.1%
Load factor	**84.4%**	85.4%	(1.0) pts	**85.6%**	85.9%	(0.3) pts
Yield	**14.80¢**	14.59¢	1.4%	**14.80¢**	14.92¢	(0.8)%
PRASM	**12.49¢**	12.46¢	0.2%	**12.67¢**	12.82¢	(1.2)%
RASM	**14.62¢**	14.39¢	1.6%	**14.74¢**	14.82¢	(0.5)%
CASM excluding fuel and fleet transition costs[b]	**8.81¢**	8.72¢	1.0%	**8.47¢**	8.48¢	(0.1)%
Economic fuel cost per gallon[c]	**$3.21**	$3.43	(6.4)%	**$3.30**	$3.37	(2.1)%
Fuel gallons (000,000)	**110**	105	4.8%	**447**	422	5.9%
Average number of full-time equivalent employees	**12,284**	11,984	2.5%	**12,163**	11,955	1.7%
Mainline Operating Statistics:						
Revenue passengers (000)	**4,764**	4,513	5.5%	**19,737**	18,526	6.5%
RPMs (000,000) "traffic"	**6,308**	6,065	4.0%	**26,172**	24,417	7.2%
ASMs (000,000) "capacity"	**7,438**	7,056	5.4%	**30,411**	28,180	7.9%
Load factor	**84.8%**	86.0%	(1.2) pts	**86.1%**	86.6%	(0.5) pts
Yield	**13.29¢**	13.08¢	1.6%	**13.33¢**	13.45¢	(0.9)%
PRASM	**11.27¢**	11.24¢	0.3%	**11.48¢**	11.65¢	(1.5)%
RASM	**13.40¢**	13.15¢	1.9%	**13.52¢**	13.62¢	(0.7)%
CASM excluding fuel[b]	**7.91¢**	7.77¢	1.8%	**7.54¢**	7.56¢	(0.3)%
Economic fuel cost per gallon[c]	**$3.21**	$3.43	(6.4)%	**$3.30**	$3.36	(1.8)%
Fuel gallons (000,000)	**96**	92	4.2%	**393**	368	6.8%
Average number of full-time equivalent employees	**9,519**	9,228	3.2%	**9,493**	9,178	3.4%
Aircraft utilization	**10.1**	10.5	(3.8)%	**10.6**	10.7	(0.9)%
Average aircraft stage length	**1,177**	1,189	(1.0)%	**1,177**	1,161	1.4%
Mainline operating fleet	**131**	124	7 a/c	**131**	124	7 a/c
Regional Operating Statistics:[d]						
Revenue passengers (000)	**1,930**	1,873	3.0%	**7,677**	7,371	4.2%
RPMs (000,000) "traffic"	**673**	655	2.7%	**2,661**	2,590	2.7%
ASMs (000,000) "capacity"	**837**	814	2.8%	**3,261**	3,247	0.4%
Load factor	**80.4%**	80.4%	—	**81.6%**	79.8%	1.8 pts
Yield	**28.99¢**	28.64¢	1.2%	**29.20¢**	28.81¢	1.4%
PRASM	**23.32¢**	23.03¢	1.3%	**23.83¢**	22.98¢	3.7%
Operating fleet (Horizon only)	**51**	48	3 a/c	**51**	48	3 a/c

(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 Air and third-party carriers.

OPERATING SEGMENTS (unaudited)

Alaska Air Group, Inc.

	Three Months Ended Dec. 31, 2013						
	Alaska						
(in millions)	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[a]	Special Items[b]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 839	$ —	$ —	$ —	$ 839	$ —	$ 839
Regional	—	195	—	—	195	—	195
Total passenger revenues	839	195	—	—	1,034	—	1,034
Revenue from CPA with Alaska	—	—	94	(94)	—	—	—
Freight and mail	24	1	—	—	25	—	25
Other-net	133	17	1	—	151	—	151
Total operating revenues	996	213	95	(94)	1,210	—	1,210
Operating expenses							
Operating expenses, excluding fuel	589	145	88	(94)	728	—	728
Economic fuel	307	47	—	—	354	(2)	352
Total operating expenses	896	192	88	(94)	1,082	(2)	1,080
Nonoperating income (expense)							
Interest income	4	—	—	—	4	—	4
Interest expense	(8)	—	(4)	(2)	(14)	—	(14)
Other	6	(3)	1	1	5	—	5
	2	(3)	(3)	(1)	(5)	—	(5)
Income (loss) before income tax	$ 102	$ 18	$ 4	$ (1)	$ 123	$ 2	$ 125

	Three Months Ended Dec. 31, 2012						
	Alaska						
(in millions)	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[a]	Special Items[b]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 793	$ —	$ —	$ —	$ 793	$ —	$ 793
Regional	—	188	—	—	188	—	188
Total passenger revenues	793	188	—	—	981	—	981
Revenue from CPA with Alaska	—	—	97	(97)	—	—	—
Freight and mail	25	1	—	—	26	—	26
Other-net	110	14	1	—	125	—	125
Total operating revenues	928	203	98	(97)	1,132	—	1,132
Operating expenses							
Operating expenses, excluding fuel	548	145	90	(97)	686	—	686
Economic fuel	315	47	—	—	362	10	372
Total operating expenses	863	192	90	(97)	1,048	10	1,058
Nonoperating income (expense)							
Interest income	5	—	—	—	5	—	5
Interest expense	(11)	—	(4)	—	(15)	—	(15)
Other	8	—	1	(1)	8	—	8
	2	—	(3)	(1)	(2)	—	(2)
Income (loss) before income tax	$ 67	$ 11	$ 5	$ (1)	$ 82	$ (10)	$ 72

OPERATING SEGMENTS (unaudited)

Alaska Air Group, Inc.

	12 Months Ended Dec. 31, 2013						
	Alaska						
(in millions)	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[a]	Special Items[b]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 3,490	$ —	$ —	$ —	$ 3,490	$ —	$ 3,490
Regional	—	777	—	—	777	—	777
Total passenger revenues	3,490	777	—	—	4,267	—	4,267
Revenue from CPA with Alaska	—	—	368	(368)	—	—	—
Freight and mail	109	4	—		113	—	113
Other-net	513	66	5		584	192	776
Total operating revenues	4,112	847	373	(368)	4,964	192	5,156
Operating expenses							
Operating expenses, excluding fuel	2,293	585	341	(368)	2,851	—	2,851
Economic fuel	1,294	181	—	—	1,475	(8)	1,467
Total operating expenses	3,587	766	341	(368)	4,326	(8)	4,318
Nonoperating income (expense)							
Interest income	18	—	—	—	18	—	18
Interest expense	(38)	—	(14)	(4)	(56)	—	(56)
Other	25	(12)	2	1	16	—	16
	5	(12)	(12)	(3)	(22)	—	(22)
Income (loss) before income tax	$ 530	$ 69	$ 20	$ (3)	$ 616	$ 200	$ 816

	12 Months Ended Dec. 31, 2012						
	Alaska						
(in millions)	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[a]	Special Items[b]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 3,284	$ —	$ —	$ —	$ 3,284	$ —	$ 3,284
Regional	—	746	—	—	746	—	746
Total passenger revenues	3,284	746	—	—	4,030	—	4,030
Revenue from CPA with Alaska	—	—	369	(369)	—	—	—
Freight and mail	107	4	—	—	111	—	111
Other-net	448	61	7	—	516	—	516
Total operating revenues	3,839	811	376	(369)	4,657	—	4,657
Operating expenses							
Operating expenses, excluding fuel	2,131	566	338	(369)	2,666	—	2,666
Economic fuel	1,238	183	—	—	1,421	38	1,459
Total operating expenses	3,369	749	338	(369)	4,087	38	4,125
Nonoperating income (expense)							
Interest income	19	—	—	—	19	—	19
Interest expense	(47)	—	(16)	(1)	(64)	—	(64)
Other	24	—	2	1	27	—	27
	(4)	—	(14)	—	(18)	—	(18)
Income (loss) before income tax	$ 466	$ 62	$ 24	$ —	$ 552	$ (38)	$ 514

(a) The adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocations and does not include certain charges. See Note A for further information in the accompanying pages.

(b) Includes accounting adjustments related to special mileage plan revenue, and mark-to-market fuel-hedge accounting charges.

Alaska Air Group, Inc.

RASM RECONCILIATION (unaudited)

(in millions)	Three Months Ended Dec. 31, 2013	Three Months Ended Dec. 31, 2012	12 Months Ended Dec. 31, 2013	12 Months Ended Dec. 31, 2012
Total operating revenues	**$ 1,210**	$ 1,132	**$ 5,156**	$ 4,657
Less: special mileage plan revenue	**—**	—	**192**	—
Adjusted Revenue	**$ 1,210**	$ 1,132	**$ 4,964**	$ 4,657
Consolidated ASMs	**8,275**	7,870	**33,672**	31,428
RASM	**14.62¢**	14.39¢	**14.74¢**	14.82¢

CASM EXCLUDING FUEL RECONCILIATION (unaudited)

(in cents)	Three Months Ended Dec. 31, 2013	Three Months Ended Dec. 31, 2012	12 Months Ended Dec. 31, 2013	12 Months Ended Dec. 31, 2012
Consolidated:				
CASM	**13.05¢**	13.44¢	**12.82¢**	13.12¢
Less the following components:				
Aircraft fuel, including hedging gains and losses	**4.24**	4.72	**4.35**	4.64
CASM excluding fuel	**8.81¢**	8.72¢	**8.47¢**	8.48¢
Mainline:				
CASM	**12.02¢**	12.38¢	**11.77¢**	12.09¢
Less the following components:				
Aircraft fuel, including hedging gains and losses	**4.11**	4.61	**4.23**	4.53
CASM excluding fuel	**7.91¢**	7.77¢	**7.54¢**	7.56¢

FUEL RECONCILIATIONS (unaudited)

Alaska Air Group, Inc.

	Three Months Ended Dec. 31,			
	2013		2012	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	**$ 347**	**$ 3.15**	$ 351	$ 3.33
Losses on settled hedges	**6**	**0.06**	11	0.10
Consolidated economic fuel expense	**$ 354**	**$ 3.21**	$ 362	$ 3.43
Mark-to-market fuel hedge adjustments	**(2)**	**(0.01)**	10	0.10
GAAP fuel expense	**$ 352**	**$ 3.20**	$ 372	$ 3.53
Fuel gallons	**110**		105	

	12 Months Ended Dec. 31,			
	2013		2012	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	**$ 1,423**	**$ 3.19**	$ 1,397	$ 3.31
Losses on settled hedges	**52**	**0.11**	24	0.06
Consolidated economic fuel expense	**$ 1,475**	**$ 3.30**	$ 1,421	$ 3.37

Mark-to-market fuel hedge adjustments	**(8)**	**(0.02)**	38	0.09
GAAP fuel expense	**$ 1,467**	**$ 3.28**	$ 1,459	$ 3.46
Fuel gallons	**447**		422	

Note A: Pursuant to Regulation G, we are providing disclosure of the 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 without the consideration of accounting changes or 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.

- Operating revenue per ASM (RASM) excludes a favorable, one-time "special" revenue item of $192 million primarily related to our modified affinity card agreement with Bank of America, executed in July 2013. In accordance with accounting standards, we recorded this one-time special revenue item in the the third quarter of 2013. This is purely an accounting change and the current period results do not reflect the economics of the agreement; rather it reflects a non-cash adjustment of the value of miles outstanding in the program. We believe it is appropriate to exclude this special revenue item from recurring revenues from operations.

- 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 Taxes 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 fleet transition costs or special revenues, 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.

Note B: Air Group has two operating airlines - Alaska Airlines and Horizon Air. Each is a regulated airline with separately managed operations. To manage the two operating airlines, management views the business in three operating segments. Alaska operates a fleet of passenger jets (Alaska Mainline) and contracts with Horizon, SkyWest Airlines, Inc. (SkyWest), and Peninsula Airways, Inc. (PenAir) for regional capacity under which Alaska receives all passenger revenue from those flights (Alaska Regional). Horizon operates a fleet of turboprop aircraft and sells all of its capacity to Alaska pursuant to a capacity purchase arrangement (Horizon). The Company believes the amounts paid by Alaska to Horizon approximate current market rates received by other regional carriers for similar flying and are available to pay for various Horizon operating expenses such as crew expenses, maintenance, and aircraft ownership costs. All inter-company revenues and expenses between Alaska and Horizon are eliminated in consolidation.

Glossary of Terms

Mainline - represents flying on Alaska jets and all associated revenues and costs

Regional - represents operations whereby Horizon, SkyWest, and another small carrier in the state of Alaska fly certain routes for Alaska using Horizon's or the other carrier's fleets

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

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

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

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

PRASM - passenger revenue per ASM; commonly called “passenger unit revenue”

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

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

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

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

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

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

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

Debt to Capitalization ratio - represents adjusted debt (long-term debt plus the present value of remaining aircraft lease payments) divided by total equity plus adjusted debt