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 [NO FEE REQUIRED]
For the fiscal year ended December 31, 1999
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

As of December 31, 1999, common shares outstanding totaled 26,410,804. The aggregate market value of the common shares of Alaska Air Group, Inc. held by nonaffiliates, 26,359,795 shares, was approximately $926 million (based on the closing price of these shares, $35.125, 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 2000 Annual Meeting of Shareholders	Part III

Exhibit Index begins on page 35.

PART I

ITEM 1. BUSINESS

GENERAL INFORMATION

Alaska Air Group, Inc. (Air Group or the Company) is a holding company that 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, although their business plans, competition and economic risks differ substantially. Alaska is a major airline, operates an all jet fleet, and its average passenger trip length is 865 miles. Horizon is a regional airline, operates jet and turboprop aircraft, and its average passenger trip is 277 miles. Individual financial information for Alaska and Horizon is reported in Note 11 to Consolidated Financial Statements. Air Group'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 that was organized in 1932 and incorporated in 1937. Alaska serves 35 cities in six states (Alaska, Washington, Oregon, California, Nevada and Arizona), one city in Canada and six cities in Mexico. In each year since 1973, Alaska has carried more passengers between Alaska and the U.S. mainland than any other airline. In 1999, Alaska carried 13.6 million passengers. Passenger traffic within Alaska and between Alaska and the U.S. mainland accounted for 23% of Alaska's 1999 revenue passenger miles, West Coast traffic (including Vancouver, Canada) accounted for 68% and the Mexico markets 9%. Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Los Angeles and Anchorage. Based on revenues, its leading nonstop routes are Seattle-Anchorage, Seattle-Los Angeles and Seattle-San Diego. At December 31, 1999, Alaska's operating fleet consisted of 89 jet aircraft.

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 five cities in Canada. In 1999, Horizon carried 5.0 million passengers. Based on passenger enplanements, Horizon's leading airports are Seattle, Portland, Boise and Spokane. Based on revenues, its leading nonstop routes are Seattle-Portland, Seattle-Vancouver and Seattle-Spokane. At December 31, 1999, Horizon's operating fleet consisted of 22 jet and 40 turboprop aircraft, with the jets providing 64% of the 1999 capacity. Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems.

Alaska and Horizon integrate their flight schedules to provide the best possible service between any two points served by their systems. In 1999, 25% of Horizon's passengers connected to Alaska. Both airlines distinguish themselves from competitors by providing a higher level of customer service. The airlines' excellent service in the form of advance seat assignments, attention to customer needs, high-quality food and beverage service, well-maintained aircraft, a first class section aboard Alaska aircraft and other amenities is regularly recognized by independent studies and surveys of air travelers.

ALLIANCES WITH OTHER AIRLINES

Alaska and Horizon have marketing alliances with other airlines that allow reciprocal frequent flyer mileage accrual and redemption privileges and codesharing on certain flights as set forth below. The purpose of the alliances is to enhance Alaska's and Horizon's revenues by (a) providing our customers more value by offering them more travel destinations and better mileage accrual/redemption opportunities, (b) gaining access to more connecting traffic from other airlines, and (c) providing members of alliance partners' frequent flyer programs an opportunity to travel on Alaska and Horizon while earning mileage credit in the alliance partners' program.

	FREQUENT FLYER AGREEMENT	CODESHARING-- ALASKA FLIGHT # ON FLIGHTS OPERATED BY OTHER AIRLINES	CODESHARING-- OTHER AIRLINE FLIGHT # ON FLIGHTS OPERATED BY ALASKA/HORIZON
MAJOR U.S. OR INTERNATIONAL AIRLINES			
American Airlines	Yes	Yes	No
British Airways	Yes	No	No
Canadian Airlines	Yes	Yes	Yes
Continental Airlines	Yes	Yes	Yes
KLM	Yes	No	Yes
Lan Chile	Yes	No	Yes
Northwest Airlines	Yes	Yes	Yes
Qantas	Yes	No	Yes
TWA	Yes	No	No
COMMUTER AIRLINES			
American Eagle	Yes*	Yes	No
Era Aviation	Yes*	Yes	No
Harbor Airlines	Yes*	Yes	No
Trans States Airlines	Yes*	Yes	No
PenAir	Yes*	Yes	No
Reeve Aleutian Airways	Yes*	Yes	No

* This airline does not have its own frequent flyer program. However, Alaska's Mileage Plan members can accrue and redeem miles on this airline's route system.

BUSINESS RISKS

The Company's operations and financial results are subject to various uncertainties, such as intense competition, volatile fuel prices, a largely unionized labor force, the need to finance large capital expenditures, government regulation, potential aircraft incidents and general economic conditions. This report may contain forward-looking statements that are based on the best information currently available to management. The forward-looking statements are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are indicated by phrases such as "the Company believes", "we anticipate" or any other language indicating a prediction of future events. Whether these statements are ultimately accurate depends on a number of outside factors that the Company cannot predict or control. The following discussion of business risks sets forth the principal foreseeable risks and uncertainties that my materially affect these predictions.

COMPETITION

Competition in the air transportation industry is intense. 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 2.5% of all U.S. domestic passenger traffic. Alaska and Horizon compete with one or more domestic or foreign airlines on most of their routes. 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 also competes with the automobile.

Most major U.S. carriers have developed, independently or in partnership with others, large computerized reservation systems (CRS). Airlines, including Alaska, and Horizon, are charged industry-set fees to have their flight schedules included in the various CRS displays used by travel agents and airlines. These systems are currently the predominant means of distributing airline tickets. In order to reduce anti-competitive practices, the DOT regulates the display of all airline schedules and fares.

FUEL

Fuel costs were 13.3% of the Company's total operating expenses in 1999. Fuel prices, which can be volatile and are largely outside of the Company's control, can have a significant impact on the Company's operating results. Currently, a one cent change in the fuel price per gallon affects annual fuel costs by approximately $3.7 million. The Company believes that operating fuel efficient aircraft is an effective hedge against high fuel prices. The Company has in the past hedged against its exposure to fluctuations in the price of jet fuel, but has not done so in recent years. The Company expects to resume hedging in 2000.

UNIONIZED LABOR FORCE

Labor costs were 35% of the Company's total operating expenses in 1999. Wage rates can have a significant impact on the Company's operating results. At December 31, 1999, labor unions represented 86% of Alaska's and 44% of Horizon's employees. 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. The Company cannot predict the outcome of union contract negotiations nor control the variety of actions (e.g. work stoppage or slowdown) unions might take to try to influence those negotiations.

LEVERAGE AND FUTURE CAPITAL REQUIREMENTS

The Company, like many airlines, is relatively highly leveraged, which increases the volatility of its earnings. Due to its high fixed costs, including aircraft lease commitments, a decrease in revenues results in a disproportionately greater decrease in earnings. In addition, the Company has an ongoing need to finance new aircraft deliveries and there is no assurance that such financing will be available in sufficient amounts or on acceptable terms. See Item 7 for management's discussion of liquidity and capital resources.

GOVERNMENT REGULATION; INTERNATIONAL ROUTES

Like other airlines, the Company is subject to regulation by the Federal Aviation Administration (FAA) and the United States Department of Transportation (DOT). The FAA, under its mandate to ensure aviation safety, can ground aircraft, suspend or revoke the authority of an air carrier or

its licensed personnel for failure to comply with Federal Aviation Regulations and levy civil penalties. The DOT has the authority to regulate certain airline economic functions including financial and statistical reporting, consumer protection, computerized reservations systems, essential air transportation and international route authority. The Company is subject to bilateral agreements between the United States and the foreign countries to which the Company provides service. There can be no assurance that existing bilateral agreements between the United States and the foreign governments will continue or that the Company's designation to operate such routes will continue.

RISK OF LOSS AND LIABILITY; WEATHER

The Company is exposed to potential catastrophic losses in the event of aircraft accidents or terrorist incidents. Consistent with industry standards, the Company maintains vigorous safety, training and maintenance programs, as well as insurance against such losses. However, any aircraft accident, even if fully insured, could cause a negative public perception of the Company with adverse financial consequences. Unusually adverse weather can significantly reduce flight operations, resulting in lost revenues and added expenses.

OTHER INFORMATION

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 partner, telephone companies, hotels and car rental agencies. Alaska is paid by non-airline partners for the miles it credits to member accounts. With advance notice, 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 Over 70% of the flight awards selected are subject to blackout dates and capacity-controlled seating. Alaska's miles do not expire. As of the year-end 1998 and 1999, Alaska estimated that 1,101,000 and 1,129,000 round trip flight awards were eligible for redemption by Mileage Plan members who have mileage credits exceeding the 20,000 mile free round trip domestic ticket award threshold. Of these eligible awards, Alaska estimated that 812,000 and 921,000, respectively, would ultimately be redeemed. For the years 1997, 1998 and 1999, approximately 185,000, 191,000 and 226,000 round trip flight awards were redeemed and flown on Alaska and Horizon. These awards represent approximately 3.2% for 1997, 3.1% for 1998, and 3.7% for 1999, of the total passenger miles flown for each period.

Alaska maintains a liability for its Mileage Plan obligation that is based on its total miles outstanding, less an estimate for miles that 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, 1998 and 1999,

the total liability for miles outstanding and for estimated payments to partner airlines was $28.0 million and $40.0 million, respectively.

EMPLOYEES

Alaska had 10,040 active full-time and part-time employees at December 31, 1999. Alaska's union contracts at December 31, 1999 were as follows:

UNION	EMPLOYEE GROUP	NUMBER OF EMPLOYEES	CONTRACT STATUS
Air Line Pilots Association International	Pilots	1,214	Amendable 4/30/03
Association of Flight Attendants	Flight attendants	1,814	Amendable 10/29/03
International Association of Machinists and Aerospace Workers	Rampservice and stock clerks	1,100	Amendable 1/10/04
	Clerical, office and passenger service	3,228	Amendable 10/29/02
Aircraft Mechanics Fraternal Association	Mechanics, inspectors and cleaners	1,130	Amendable 12/25/02
Mexico Workers Association of Air Transport	Mexico airport personnel	81	Amendable 4/1/00
Transport Workers Union of America	Dispatchers	18	Amendable 2/9/02

Horizon had 4,139 active full and part-time employees at December 31, 1999. Horizon's union contracts at December 31, 1999 were as follows:

UNION	EMPLOYEE GROUP	NUMBER OF EMPLOYEES	CONTRACT STATUS
International Brotherhood of Teamsters	Pilots	693	Initial contract In negotiation
Association of Flight Attendants	Flight attendants	413	Amendable 1/28/03
Transport Workers Union of America	Mechanics and related classifications	567	Amendable 5/18/01
	Dispatchers	25	Amendable 5/10/02
National Automobile, Aerospace, Transportation and General Workers	Station personnel in Vancouver and Victoria, BC, Canada	110	Amendable 1/17/01

During the first quarter of 1999, a federal mediator was assigned to assist Horizon and the International Brotherhood of Teamsters in the negotiation of an initial labor contract covering pilots. Negotiations have taken place since then and further negotiations are planned for the first quarter of 2000.

ITEM 2. PROPERTIES

AIRCRAFT

The following table describes the aircraft operated and their average age at December 31, 1999.

AIRCRAFT TYPE	PASSENGER CAPACITY	OWNED	LEASED	TOTAL	AVERAGE AGE IN YEARS
ALASKA AIRLINES					
Boeing 737-200C	111	7	1	8	19.4
Boeing 737-400	138	9	31	40	4.7
Boeing 737-700	120	6	--	6	0.2
McDonnell Douglas MD-80	140	16	19	35	9.6
		38	51	89	7.6
HORIZON AIR					
de Havilland Dash 8	37	--	40	40	4.3
Fokker F-28	69	9	13	22	16.0
		9	53	62	8.5

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

Nineteen of the 38 aircraft owned by Alaska as of December 31, 1999 are subject to liens securing long-term debt. Alaska's leased B737-200C, B737-400 and MD-80 aircraft have lease expiration dates in 2000, between 2002 and 2016, and between 2000 and 2013, respectively. Horizon's leased de Havilland Dash 8 and Fokker

F-28 aircraft have expiration dates between 2000 and 2014 and 2000 and 2002, 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.

At December 31, 1999, all of Alaska's aircraft meet the Stage 3 noise requirements under the Airport Noise and Capacity Act of 1990. However, special noise ordinances restrict the timing of flights operated by Alaska and other airlines at Burbank, Orange County, San Diego and San Jose. In addition, Orange County restricts the type of aircraft and number of flights.

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 reservations and office facility; two office buildings; 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: a regional headquarters building, an air cargo facility and a leased hangar/office facility in Anchorage; a Phoenix reservations center; and a leased two-bay maintenance facility in Oakland.

Horizon owns its Seattle corporate headquarters building. It leases an operations, training and aircraft maintenance facility in Portland, and a maintenance facility in Boise.

ITEM 3. LEGAL PROCEEDINGS

In December 1998, search warrants and a grand jury subpoena (for the U.S. District Court for the Northern District of California) were served on Alaska. In addition, the Federal Aviation Administration (FAA) issued a letter of investigation to Alaska relating to maintenance performed on an MD-80 aircraft. In April 1999, the FAA issued a notice of proposed civil penalty for $44,000. In July 1999, Alaska responded informally to the notice and the FAA has not taken any further action. In November 1999, the grand jury issued a second subpoena on Alaska. To the Company's knowledge, no charges have been filed as a result of the grand jury investigation.

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, 2000) are as follows:

NAME	POSITION	AGE	OFFICER SINCE
John F. Kelly	Chairman, President and Chief Executive Officer of Alaska	55	1981

	Air Group, Inc.; Chairman and and CEO of Alaska Airlines, Inc.; Chairman of Horizon Air Industries, Inc.		
Bradley D. Tilden	Vice President/Finance and Chief Financial Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc.	39	1999
Keith Loveless	Vice President/Legal and Corporate Affairs, General Counsel and Corporate Secretary of Alaska Air Group, Inc. and Alaska Airlines, Inc.	43	1996

Mr. Kelly has been employed as an officer of Air Group or its subsidiary, Alaska Airlines, for more than five years. Mr. Tilden joined Alaska Airlines in 1991, has been controller of Alaska Airlines and Alaska Air Group since 1994 and became CFO in February 2000, upon the retirement of Harry G. Lehr. Mr. Loveless joined Alaska Airlines in 1986, has been associate general counsel of Alaska Airlines since 1993, corporate secretary since 1996 and has been vice president/legal and general counsel since September 1999.

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

As of December 31, 1999, there were 26,410,804 shares of common stock issued and outstanding and 4,450 shareholders of record. The Company also held 2,746,304 treasury shares at a cost of $62.7 million. The Company has not paid dividends on the common stock since 1992. 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 1998 and 1999.

	1998		1999	
	High	Low	HIGH	LOW
First Quarter	61	38-1/4	54-11/16	42-5/8
Second Quarter	62-9/16	43-3/8	51-15/16	38-1/16
Third Quarter	61-3/16	32-1/16	46-5/8	38
Fourth Quarter	45-11/16	26	43-3/4	33-1/8

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

	1995	1996	1997	1998	1999
CONSOLIDATED FINANCIAL DATA:					
YEAR ENDED DECEMBER 31 (IN MILLIONS, EXCEPT PER SHARE AMOUNTS):					
Operating Revenues	$1,417.5	$1,592.2	$1,739.4	$1,897.7	$2,082.0
Operating Expenses	1,341.8	1,503.2	1,600.4	1,686.7	1,882.1
Operating Income	75.7	89.0	139.0	211.0	199.9
Nonoperating expense, net (a)	(41.7)	(24.7)	(15.4)	(6.6)	20.8
Income before income tax	34.0	64.3	123.6	204.4	220.7
Net Income	$17.3	$38.0	$72.4	$124.4	$134.2
Average shares outstanding	13.485	14.241	14.785	23.388	26.372
Basic earnings per share	$1.28	$2.67	$4.90	$5.32	$5.09
Diluted earnings per share	1.26	2.05	3.53	4.81	5.06
AT END OF PERIOD (IN MILLIONS, EXCEPT					

RATIO):					
Total assets	$1,313.4	$1,311.4	$1,533.1	$1,731.8	$2,180.1
Long-term debt and capital lease obligations	522.4	404.1	401.4	171.5	337.0
Shareholders' equity	212.5	272.5	475.3	789.5	930.7
Ratio of earnings to fixed charges	1.28	1.57	2.10	2.93	3.14
ALASKA AIRLINES OPERATING DATA:					
Revenue passengers (000)	10,140	11,805	12,284	13,056	13,620
Revenue passenger miles (RPM) (000,000)	8,584	9,831	10,386	11,283	11,777
Available seat miles (ASM) (000,000)	13,885	14,904	15,436	16,807	17,341
Revenue passenger load factor	61.8%	66.0%	67.3%	67.1%	67.9%
Yield per passenger mile	11.59CENTS	11.67CENTS	12.49CENTS	12.50CENTS	12.90CENTS
Operating revenues per ASM	8.23CENTS	8.70CENTS	9.38CENTS	9.32CENTS	9.69CENTS
Operating expenses per ASM	7.71CENTS	8.10CENTS	8.51CENTS	8.17CENTS	8.68CENTS
Average full-time equivalent employees	6,993	7,652	8,236	8,704	9,183
HORIZON AIR OPERATING DATA:					
Revenue passengers (000)	3,796	3,753	3,686	4,389	4,984
Revenue passenger miles (RPM) (000,000)	841	867	889	1,143	1,379
Available seat miles (ASM) (000,000)	1,414	1,462	1,446	1,815	2,194
Revenue passenger load factor	59.5%	59.3%	61.5%	63.0%	62.9%
Yield per passenger mile	31.48CENTS	33.14CENTS	32.56CENTS	29.01CENTS	28.77CENTS
Operating revenues per ASM	19.77CENTS	20.61CENTS	21.00CENTS	19.16CENTS	18.96CENTS
Operating expenses per ASM	19.47CENTS	20.60CENTS	20.60CENTS	18.16CENTS	17.83CENTS
Average full-time equivalent employees	2,864	2,891	2,756	3,019	3,603

(a) Includes capitalized interest of $0.2 million, $1.0 million, $5.3 million, $6.6 million and $10.2 million for 1995, 1996, 1997, 1998, and 1999, respectively.

ALASKA AIRLINES FINANCIAL AND STATISTICAL DATA

	Quarter Ended December 31			Year Ended December 31		
FINANCIAL DATA (IN MILLIONS):	1998	1999	% CHANGE	1998	1999	% CHANGE
Operating Revenues:						
Passenger	$333.5	$362.5	8.7	$1,410.4	$1,519.6	7.7
Freight and mail	19.8	19.4	(2.0)	83.7	80.0	(4.4)
Other - net	19.4	22.3	14.9	72.2	81.2	12.5
Total Operating Revenues	372.7	404.2	8.5	1,566.3	1,680.8	7.3
Operating Expenses:						
Wages and benefits	115.0	131.1	14.0	466.1	505.5	8.5
Employee profit sharing	3.7	2.3	(37.8)	19.7	18.4	(6.6)
Contracted services	11.8	14.9	26.3	48.7	55.6	14.2
Aircraft fuel	39.1	61.0	56.0	162.3	205.2	26.4
Aircraft maintenance	17.2	26.9	56.4	77.6	96.0	23.7
Aircraft rent	41.2	36.7	(10.9)	158.9	157.2	(1.1)
Food and beverage service	12.5	12.1	(3.2)	49.1	49.1	0.0
Commissions	22.5	17.8	(20.9)	94.4	91.0	(3.6)
Other selling expenses	18.9	20.5	8.5	75.2	82.2	9.3
Depreciation and amortization	15.9	18.7	17.6	61.9	67.9	9.7
Loss on sale of assets	0.6	0.0	NM	1.0	0.4	NM
Landing fees and other rentals	14.8	14.8	0.0	59.4	66.5	12.0
Other	24.9	28.6	14.9	98.0	109.5	11.7
Total Operating Expenses	338.1	385.4	14.0	1,372.3	1,504.5	9.6
Operating Income	34.6	18.8	(45.7)	194.0	176.3	(9.1)
Interest income	6.8	5.4		23.2	21.7	
Interest expense	(4.0)	(5.2)		(17.4)	(16.3)	
Interest capitalized	1.5	2.5		5.1	8.3	
Other - net	(0.1)	3.4		(14.4)	6.4	
	4.2	6.1		(3.5)	20.1	
Income Before Income Tax	$38.8	$24.9	(35.8)	$190.5	$196.4	3.1
OPERATING STATISTICS:						
Revenue passengers (000)	3,211	3,296	2.6	13,056	13,620	4.3
RPMs (000,000)	2,749	2,834	3.1	11,283	11,777	4.4
ASMs (000,000)	4,204	4,316	2.7	16,807	17,341	3.2
Passenger load factor	65.4%	65.7%	0.3 pts	67.1%	67.9%	0.8 pts
Breakeven load factor	58.0%	61.7%	3.7 pts	58.0%	59.1%	1.1 pts
Yield per passenger mile	12.13CENTS	12.79CENTS	5.4	12.50CENTS	12.90CENTS	3.2
Operating revenue per ASM	8.87CENTS	9.36CENTS	5.6	9.32CENTS	9.69CENTS	4.0
Operating expenses per ASM	8.04CENTS	8.93CENTS	11.0	8.17CENTS	8.68CENTS	6.3
Fuel cost per gallon	52.6CENTS	80.4CENTS	52.8	54.6CENTS	67.1CENTS	22.9
Fuel gallons (000,000)	74.3	75.9	2.2	297.4	306.0	2.9
Average number of employees	8,787	9,182	4.5	8,704	9,183	5.5
Aircraft utilization (block hours)	11.2	10.9	(2.7)	11.5	11.2	(2.6)
Operating fleet at period-end	84	89	6.0	84	89	6.0

NM = Not Meaningful

HORIZON AIR FINANCIAL AND STATISTICAL DATA

	Quarter Ended December 31			Year Ended December 31		
FINANCIAL DATA (IN MILLIONS):	1998	1999	% Change	1998	1999	% Change
Operating Revenues:						
Passenger	$84.9	$96.4	13.5	$331.7	$396.7	19.6
Freight and mail	2.7	2.9	7.4	10.7	11.2	4.7
Other - net	1.5	1.5	0.0	5.4	8.0	48.1
Total Operating Revenues	89.1	100.8	13.1	347.8	415.9	19.6
OPERATING EXPENSES:						
Wages and benefits	28.1	32.6	16.0	105.1	124.3	18.3
Employee profit sharing	0.4	(0.4)	(200.0)	3.5	4.4	25.7
Contracted services	2.5	3.1	24.0	9.0	11.8	31.1
Aircraft fuel	8.0	14.0	75.0	30.2	44.6	47.7
Aircraft maintenance	11.3	11.9	5.3	43.3	48.7	12.5
Aircraft rent	10.2	10.5	2.9	40.6	42.8	5.4
Food and beverage service	0.7	0.7	(0.0)	2.5	2.6	4.0
Commissions	4.3	4.1	(4.7)	17.3	19.4	12.1
Other selling expenses	5.5	5.4	(1.8)	19.6	22.0	12.2
Depreciation and amortization	4.1	4.4	7.3	12.9	16.7	29.5
Loss (gain) on sale of assets	(0.1)	0.0	NM	0.0	0.5	NM
Landing fees and other rentals	4.7	5.6	19.1	17.2	22.2	29.1
Other	7.3	7.7	5.5	28.4	31.1	9.5
Total Operating Expenses	87.0	99.6	14.5	329.6	391.1	18.7
Operating Income	2.1	1.2	(42.9)	18.2	24.8	36.3
Interest expense	(0.1)	(0.2)		(1.0)	(1.5)	
Interest capitalized	0.3	0.3		1.5	1.9	
Other - net	0.1	0.2		0.2	0.3	
	0.3	0.3		0.7	0.7	
Income Before Income Tax	$2.4	$1.5	(37.5)	$18.9	$25.5	34.9
Operating Statistics:						
Revenue passengers (000)	1,186	1,243	4.8	4,389	4,984	13.6
RPMs (000,000)	311	350	12.3	1,143	1,379	20.6
ASMs (000,000)	486	560	15.3	1,815	2,194	20.9
Passenger load factor	64.0%	62.4%	(1.6)pts	63.0%	62.9%	(0.1)pts
Breakeven load factor	62.2%	61.3%	(0.9)pts	59.1%	58.4%	(0.7)pts
Yield per passenger mile	27.28CENTS	27.57CENTS	1.0	29.01CENTS	28.77CENTS	(0.8)
Operating revenue per ASM	18.32CENTS	17.99CENTS	(1.8)	19.16CENTS	18.96CENTS	(1.1)
Operating expenses per ASM	17.89CENTS	17.77CENTS	(0.7)	18.16CENTS	17.83CENTS	(1.8)
Fuel cost per gallon	55.6CENTS	84.6CENTS	52.1	57.7CENTS	69.9CENTS	21.2
Fuel gallons (000,000)	14.4	16.5	14.6	52.5	63.9	21.7
Average number of employees	3,257	3,846	18.1	3,019	3,603	19.3
Aircraft utilization (block hours)	7.8	8.1	3.8	7.9	8.1	2.5
Operating fleet at period-end	60	62	3.3	60	62	3.3

NM = Not Meaningful

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

INDUSTRY CONDITIONS

The airline industry is cyclical due to a high correlation between demand for air travel and general economic conditions. Generally speaking, economic conditions have been strong during the years covered by this discussion. Because the industry has high fixed costs in relation to revenues, a small change in load factors or fare levels has a large impact on profits.

For most airlines, labor and fuel account for almost half of operating expenses. The strong economy has increased employee turnover and put upward pressure on labor costs. Fuel prices have been volatile in the last three years. For Alaska Airlines, fuel prices, decreased 4% in 1997, decreased 25% in 1998 and increased 23% in 1999.

In recent years, airlines have reduced their ticket distribution costs by capping travel agent commissions, by decreasing commission rates from 10% to 5%, by partially eliminating paper tickets and by selling tickets directly to passengers via the Internet.

RESULTS OF OPERATIONS

1999 COMPARED WITH 1998 Consolidated net income in 1999 was $134.2 million, or $5.06 per share (diluted), compared with net income of $124.4 million, or $4.81

per share in 1998. The 1999 results (fourth quarter impact) included an after-tax gain on sale of Equant N.V. of $2.2 million ($0.08 per diluted share). The 1998 results included an after-tax charge of $10.1 million ($0.38 per diluted share) for a litigation settlement. Consolidated operating income was $199.9 million in 1999 compared with $211.0 million in 1998. Higher fuel prices impacted operating income by approximately $41.6 million. Alaska's annual operating income decreased $17.7 million, while Horizon's improved $6.6 million. Financial and statistical data for Alaska and Horizon is shown in Item 6. A discussion of this data follows.

ALASKA AIRLINES

REVENUES

Capacity increased by 3.2% primarily due to additional flights in the Arizona, Mexico and Southern California markets Traffic grew by 4.4%, resulting in a 0.8 point increase in passenger load factor. The Canada and Mexico markets experienced the largest increases in load factor. Passenger yields were up 3.2%, with virtually all markets showing an increase over last year. New marketing alliances with other airlines, improved yield management techniques and small fare increases have helped improve yields. The higher load factor combined with the higher yield resulted in a 4.0% increase in revenue per available seat mile (ASM). Consequently, passenger revenues increased 7.7%.

Freight and mail revenues decreased 4.4%, due to lower average freight rates, and lower mail volumes carried. Other-net revenues increased 12.5%, due to increased revenue from travel partners in Alaska's frequent flyer program.

EXPENSES

Operating expenses grew by 9.6 % as a result of a 3.2% increase in capacity and a 6.3% increase in cost per ASM. The increase in cost per ASM was partly due to higher fuel prices in 1999. Excluding fuel, cost per ASM increased 4.1%. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 8.5% due to a 5.5% increase in the number of employees combined with a 2.8% increase in average wages and benefits per employee. Employees were added in all areas to service the 4.3% increase in passengers carried. Average wage rates increased due to annual increases in the current pilot's contract, combined with the impact of new labor agreements signed in the second half of 1999.

- Contracted services increased 14% due to greater use of temporary employees (particularly in computer systems development), higher rates for ground handling services and increased navigation fees in Canada and Mexico.

- Fuel expense increased 26%, due to a 23% increase in the price of fuel combined with a 3% increase in fuel consumption.

- Maintenance expense increased 24%, exceeding the 3% increase in block hours, due to increased airframe and engine overhaul expense, and higher costs for landing gear repairs. In addition, a $2.7 million credit related to brake repairs was recorded in 1998.

- Commission expense decreased 4% on an 8% increase in passenger revenue. In 1999, 67% of ticket sales were made through travel agents, versus 70% in 1998. In 1999, 6% of ticket sales were made through Alaska's Internet web site versus 2% in 1998. In addition, the commission rate paid to travel agents decreased from 8% to 5% for sales made after October 18, 1999.

- Other selling expenses increased 9%, in line with the 8% increase in passenger revenues.

- Depreciation increased 10%, primarily due to purchasing nine new aircraft in 1999.

- Landing fees and other rentals increased 12%, higher than the 2% increase in landings, due to rate increases at Seattle, Portland and several other airports.

- Other expense increased 12%, partly due to recording a $2.7 million property tax credit in 1998. Absent this tax credit, the increase would have been 9%, higher than the 3% increase in capacity, due to higher expenditures for personnel expenses, professional services, operating supplies, passenger remuneration and recruiting. Insurance costs decreased due to lower passenger liability rates.

HORIZON AIR
REVENUES
Capacity grew by 20.9%, primarily due to added flights in the Canada, Montana and California markets. Traffic grew by 20.6%, resulting in a 0.1 point decrease in passenger load factor. Passenger yields were down less than 1% in spite of a 6% increase in average passenger trip length. The small decreases in yield and load factor resulted in a 1.1% decrease in revenue per ASM. Consequently, passenger revenues increased 19.6%, slightly less than the 20.9% increase in capacity.

EXPENSES
Operating expenses grew by 18.7% as a result of a 20.9% increase in capacity and a 1.8% decrease in cost per ASM. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 18.3% due to a 19.3% increase in the number of employees. Employees were added in all areas to service the 14% increase in passengers carried.

- Contracted services increased 31%, higher than the 21% increase in capacity, due to increased navigation fees in Canada, higher ground handling and security charges and greater use of computer and other consultants.

- Fuel expense increased 48%, due to a 22% increase in fuel consumption combined with a 21% increase in the price of fuel.

- Maintenance expense increased 13%, in line with the 15% increase in block hours flown.

- Commission expense increased 12%, less than the 20% increase in passenger revenue, because a smaller percentage of sales were made through travel agents and commission rates dropped from 8% to 5% in October 1999.

- Depreciation and amortization expense increased 30%, primarily due to purchase of F-28s in late 1998 and added depreciation on aircraft spare parts and station equipment.

- Landing fees and other rentals increased 29%, higher than the 21% increase in capacity, primarily due to a full year of rent on the new Portland operations center and rate increases at Seattle and Portland airports.

CONSOLIDATED NONOPERATING INCOME (EXPENSE) Net nonoperating items improved $27.4 million over 1998 due to a $16.5 million litigation settlement charge in 1998, $4.9 million lower interest expense and a $3.6 million gain on sale of Equant N.V. (a telecommunication network company owned by many airlines) in 1999.

1998 COMPARED WITH 1997 Consolidated net income in 1998 was $124.4 million, or $4.81 per share (diluted), compared with net income of $72.4 million, or $3.53 per share in 1997. Consolidated operating income was $211.0 million in 1998 compared with $139.0 million in 1997. Lower fuel prices accounted for $56.9 million of the $72.0 million improvement in operating income.

ALASKA AIRLINES Operating income increased 44.5% to $194.0 million, resulting in a 12.4% operating margin as compared with a 9.3% margin in 1997. Operating revenue per ASM decreased 0.6% to 9.32 cents while operating expenses per ASM decreased 4.1% to 8.17 cents. The decrease in revenue per ASM was primarily due to a 0.2 point decrease in passenger load factor. Lower unit costs were largely due to lower fuel prices.

HORIZON AIR During 1998, Horizon completed its transition to a simplified fleet that uses more jet aircraft flying people longer distances with fewer connections. These changes resulted in a more efficient operation, with lower unit revenues (down 8.8%) and even lower unit costs (down 11.9%). As a result, operating income increased to $18.2 million from $5.8 million in 1997, resulting in a 5.2% operating margin as compared to 1.9% in 1997.

CONSOLIDATED NONOPERATING INCOME (EXPENSE) Net nonoperating items improved $8.8 million over 1997 due to lower interest expense (due to conversion of convertible bonds in 1998 and other debt repayments) and higher interest income (due to higher cash balances). These were partly offset by a $16.5 million charge for a litigation settlement in July 1998.

LIQUIDITY AND CAPITAL RESOURCES
The table below presents the major indicators of financial condition and liquidity.

	December 31, 1998	DECEMBER 31, 1999	Change
(In millions, except debt-to-equity and per share amounts)			
Cash and marketable securities	$ 306.6	$ 329.0	$22.4
Working capital (deficit)	2.9	(36.8)	(39.7)
Long-term debt and capital lease obligations	171.5	337.0	165.5
Shareholders' equity	789.5	930.7	141.2
Book value per common share	$ 30.11	$ 35.24	$5.13
Debt-to-equity	18%:82%	27%:73%	NA
Debt-to-equity assuming aircraft operating leases are capitalized at seven times annualized rent	67%:33%	64%:36%	NA

1999 FINANCIAL CHANGES The Company's cash and marketable securities portfolio increased by $22 million during 1999. Operating activities provided $330 million of cash in 1999. Additional cash was provided by the issuance of new debt ($232 million), sale and leaseback of three Dash 8-200 aircraft ($30 million), flight equipment deposits returned ($8 million) and the exercise of stock options ($6 million). Cash was used for $565 million of capital expenditures, including the purchase of nine new Boeing 737 aircraft, two formerly leased Boeing 737s, three new Dash 8-200 aircraft, flight equipment deposits, an aircraft simulator and airframe and engine overhauls, and for $27 million of debt repayment.

Shareholders' equity increased $141 million primarily due to net income of $134 million and issuance of $6 million of common stock under stock plans.

FINANCING ACTIVITIES During the third quarter of 1999, Horizon sold three Dash 8-200 aircraft and leased them back for 15 years. During the fourth quarter of 1999, Alaska issued $232 million of 7.6% fixed rate debt secured by eight aircraft.

COMMITMENTS At December 31, 1999, the Company had firm orders for 68 aircraft requiring aggregate payments of approximately $1.5 billion, as set forth below. In addition, Alaska has options to acquire 26 more B737s and Horizon has options to acquire 25 CRJ 700s. Alaska and Horizon expect to finance the new planes with either leases, long-term debt or internally generated cash.

	DELIVERY PERIOD - FIRM ORDERS						
AIRCRAFT	2000	2001	2002	2003	2004	2005	TOTAL
Boeing 737-700	7	6	--	--	--	--	13
Boeing 737-900	--	5	5	--	--	--	10
de Havilland Dash 8-400	5	10	--	--	--	--	15
Canadair RJ 700	--	--	8	6	14	2	30
Total	12	21	13	6	14	2	68
Payments (Millions)	$328	$425	$263	$168	$262	$34	$1,480

DEFERRED TAXES At December 31, 1999, net deferred tax liabilities were $140 million, which includes $144 million of net temporary differences offset by $4 million of Alternative Minimum Tax (AMT) credits. The Company believes that all of its deferred tax assets, including its AMT credits, will be realized through profitable operations.

YEAR 2000 COMPUTER ISSUE The Company implemented a project to ensure that its systems will function properly in the year 2000 and thereafter. In fact, virtually all systems have worked properly in the year 2000. In addition, the Company has not experienced any year 2000 related problems with its significant suppliers with which its systems interface or exchange data. The direct costs of projects solely intended to correct year 2000 problems were approximately $2 million. Due to lower than normal passenger traffic, Alaska and Horizon canceled, in advance, flights late in the day on December 31, 1999 and early in the day on January 1, 2000. Lost operating profit on each day was estimated at $800,000.

NEW ACCOUNTING STANDARDS During June 1998, the Financial Accounting Standards Board issued FAS 133, Accounting for Derivative Instruments and Hedging Activities The new standard requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Due to the Company's minimal use of derivatives, the new standard is expected to have no material impact on its financial position or results of operations. FAS 133 is effective for the Company's fiscal year beginning January 1, 2001.

AIRCRAFT ACCIDENT On January 31, 2000, Alaska Airlines flight 261 from Puerto Vallarta enroute to San Francisco, went down in the water off the coast of California near Point Mugu. The flight carried 83 passengers and five crew members. There were no survivors. Consistent with industry standards, the Company maintains insurance against aircraft accidents. Any aircraft accident, even if fully insured, could cause a negative public perception of the Company with adverse

financial consequences. However, the Company believes this accident will not result in a material adverse impact on the financial position or results of operations of the Company.

1998 FINANCIAL CHANGES The Company's cash and marketable securities portfolio increased by $94 million during 1998. Operating activities provided $310 million of cash in 1998. Additional cash was provided by the sale and leaseback of nine B737-400 aircraft and 12 Dash 8-200 aircraft ($402 million) and the return of $33 million of equipment deposits. Cash was used for $613 million of capital expenditures, including the purchase of nine new B737-400 aircraft, a previously leased B737-400 aircraft, 12 new Dash 8-200 aircraft, flight equipment deposits and airframe and engine overhauls and the repayment of debt ($46 million). Shareholders' equity increased $314 million due to the conversion of $186 million of convertible bonds into common stock, net income of $124 million and issuance of $7 million of common stock under stock plans.

1997 FINANCIAL CHANGES The Company's cash and marketable securities portfolio increased by $111 million during 1997. Operating activities provided $205 million of cash in 1997. Additional cash was provided by the sale and leaseback of four B737-400 aircraft and 13 Dash 8-200 aircraft ($247 million), issuance of common stock ($129 million) and issuance of long-term debt ($28 million). Cash was used for $439 million of capital expenditures including the purchase of two new MD-83 aircraft, three new B737-400 aircraft, a previously leased B737-400 aircraft, 13 new Dash 8-200 aircraft, flight equipment deposits and airframe and engine overhauls, net repayment of short-term borrowings ($47 million) and the repayment of debt ($26 million).

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.

SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1998	1999	1998	1999	1998	1999	1998	1999
	(in millions, except per share)							
Operating revenues	$416.4	$461.2	$484.9	$529.7	$539.4	$589.1	$457.0	$501.9
Operating income	22.5	28.6	62.6	65.3	89.5	86.3	36.4	19.7
Net income	13.1	20.2	38.9	42.1	45.4	54.9	27.0	17.0
Earnings per share:								
Basic	0.69	0.77	1.77	1.60	1.73	2.08	1.03	0.64
Diluted	0.56	0.76	1.51	1.59	1.72	2.07	1.02	0.64

The total of the amounts shown as quarterly earnings per share (EPS) may differ from the amounts 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 for diluted EPS) outstanding for the year.

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 16, 2000. 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 16, 2000.

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 16, 2000.

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 16, 2000.

PART IV

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

See Exhibit Index on page 35.

(b) No reports on Form 8-K were filed during the fourth quarter of 1999.

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 25, 2000

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 25, 2000 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/ Bradley D. Tilden Bradley D. Tilden	Vice President/Finance and Chief Financial Officer (Principal Accounting and Principal Financial Officer)
/s/ William S. Ayer William S. Ayer	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
/s/ Byron I. Mallott Byron I. Mallott	Director
/s/ John V. Rindlaub John V. Rindlaub	Director
/s/ Patricia Q. Stonesifer Patricia Q. Stonesifer	Director
/s/ J. Kenneth Thompson J. Kenneth Thompson	Director
/s/ Richard A. Wien Richard A. Wien	Director

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

ASSETS

As of December 31 (In Millions)	1998	1999
Current Assets		
Cash and cash equivalents	$29.4	$132.5
Marketable securities	277.2	196.5
Receivables - less allowance for doubtful accounts (1998 - $1.0; 1999 - $1.0)	70.6	74.6
Inventories and supplies	44.1	54.3
Prepaid expenses and other assets	107.5	124.0
TOTAL CURRENT ASSETS	528.8	581.9
PROPERTY AND EQUIPMENT		
Flight equipment	1,015.4	1,386.6
Other property and equipment	283.2	337.2
Deposits for future flight equipment	164.9	217.7

	1998	1999
	1,463.5	1,941.5
Less accumulated depreciation and amortization	417.0	486.7
	1,046.5	1,454.8
Capital leases:		
Flight and other equipment	44.4	44.4
Less accumulated amortization	29.6	31.8
	14.8	12.6
TOTAL PROPERTY AND EQUIPMENT - NET	1,061.3	1,467.4
INTANGIBLE ASSETS - SUBSIDIARIES	57.5	55.5
OTHER ASSETS	84.2	75.3
TOTAL ASSETS	$1,731.8	$2,180.1

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

As of December 31 (In Millions Except Share Amounts)	1998	1999
CURRENT LIABILITIES		
Accounts payable	$84.3	$104.2
Accrued aircraft rent	75.5	81.8
Accrued wages, vacation and payroll taxes	79.4	83.0
Other accrued liabilities	80.9	99.5
Air traffic liability	178.6	183.7
Current portion of long-term debt and capital lease obligations	27.2	66.5
TOTAL CURRENT LIABILITIES	525.9	618.7
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	171.5	337.0
OTHER LIABILITIES AND CREDITS		
Deferred income taxes	99.2	144.0
Deferred income	41.5	37.4
Other liabilities	104.2	112.3
	244.9	293.7
COMMITMENTS		
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value Authorized: 5,000,000 shares	-	-
Common stock, $1 par value Authorized: 100,000,000 shares Issued: 1998 - 28,974,107 shares 1999 - 29,157,108 shares	29.0	29.2

Capital in excess of par value	473.9	480.0
Treasury stock, at cost: 1998 - 2,750,102 shares 1999 - 2,746,304 shares	(62.7)	(62.7)
Deferred compensation	(1.3)	(0.6)
Retained earnings	350.6	484.8
	789.5	930.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,731.8	$2,180.1

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)	1997	1998	1999
OPERATING REVENUES			
Passenger	$1,574.5	$1,728.0	$1,904.8
Freight and mail	94.1	94.4	91.2
Other - net	70.8	75.3	86.0
TOTAL OPERATING REVENUES	1,739.4	1,897.7	2,082.0
OPERATING EXPENSES			
Wages and benefits	531.7	594.4	652.6
Contracted services	48.8	55.5	64.9
Aircraft fuel	232.6	192.5	249.8
Aircraft maintenance	108.7	120.9	144.7
Aircraft rent	183.9	199.5	199.9
Food and beverage service	48.5	51.6	51.7
Commissions	106.6	97.5	99.0
Other selling expenses	80.4	94.8	104.1
Depreciation and amortization	68.3	75.1	84.8
Loss (gain) on sale of assets	(1.9)	1.0	0.9
Landing fees and other rentals	66.2	76.3	88.4
Other	126.6	127.6	141.3
TOTAL OPERATING EXPENSES	1,600.4	1,686.7	1,882.1
OPERATING INCOME	139.0	211.0	199.9
NONOPERATING INCOME (EXPENSE)			
Interest income	10.6	22.2	20.2
Interest expense	(33.6)	(21.2)	(16.3)
Interest capitalized	5.3	6.6	10.2
Other - net	2.3	(14.2)	6.7
	(15.4)	(6.6)	20.8
Income before income tax	123.6	204.4	220.7
Income tax expense	51.2	80.0	86.5
NET INCOME	$72.4	$124.4	$134.2
BASIC EARNINGS PER SHARE	$4.90	$5.32	$5.09
DILUTED EARNINGS PER SHARE	$3.53	$4.81	$5.06
Shares used for computation:			
Basic	14.785	23.388	26.372
Diluted	22.689	26.367	26.507

See accompanying notes to consolidated financial statements.

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

(In Millions)	COMMON SHARES OUTSTANDING	Common Stock	Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compen- sation	Retained Earnings	Total
Balances at December 31, 1996	14.475	$17.2	$166.8	$(62.6)	$(2.7)	$153.8	$272.5
1997 net income						72.4	72.4
Issuance of common stock	3.450	3.5	118.4				121.9
Stock issued under stock plans	0.349	0.3	7.1				7.4
Stock issued for convertible subordinated debentures	0.008		0.2				0.2
Treasury stock sale	0.001						
Employee Stock Ownership Plan shares allocated					0.9		0.9
Balances at December 31, 1997	18.283	21.0	292.5	(62.6)	(1.8)	226.2	475.3
1998 net income						124.4	124.4
Stock issued under stock plans	0.196	0.3	6.4				6.7
Stock issued for convertible subordinated debentures	7.747	7.7	175.0				182.7
Treasury stock purchase	(0.002)			(0.1)			(0.1)
Employee Stock Ownership Plan shares allocated					0.5		0.5
Balances at December 31, 1998	26.224	29.0	473.9	(62.7)	(1.3)	350.6	789.5
1999 net income						134.2	134.2
Stock issued under stock plans	0.183	0.2	6.1				6.3
Treasury stock sales	0.004						
Employee Stock Ownership Plan shares allocated					0.7		0.7
BALANCES AT DECEMBER 31, 1999	26.411	$29.2	$480.0	$(62.7)	$(0.6)	$484.8	$930.7

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Alaska Air Group, Inc.

Year Ended December 31 (In Millions)	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$72.4	$124.4	$134.2
Adjustments to reconcile net income to cash:			
Depreciation and amortization	68.3	75.1	84.8
Amortization of airframe and engine overhauls	35.1	41.1	50.1
Loss (gain) on sale of assets	(1.9)	1.0	0.9
Increase in deferred income taxes	22.8	26.9	44.8
Decrease (increase) in accounts receivable	(2.9)	2.0	(4.0)
Increase in other current assets	(10.6)	(12.3)	(26.7)
Increase in air traffic liability	3.4	12.2	5.1
Increase in other current liabilities	26.5	41.9	48.4
Other-net	(7.9)	(2.1)	(7.5)
Net cash provided by operating activities	205.2	310.2	330.1
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from disposition of assets	6.9	2.1	2.2
Purchases of marketable securities	(443.6)	(323.4)	(137.8)
Sales and maturities of marketable securities	385.9	156.3	218.5
Flight equipment deposits returned	8.7	33.2	8.3
Additions to flight equipment deposits	(68.4)	(182.1)	(177.0)
Additions to property and equipment	(370.6)	(431.3)	(388.0)
Restricted deposits and other	(2.0)	(1.3)	5.9
Net cash used in investing activities	(483.1)	(746.5)	(467.9)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	56.4	-	-
Repayment of short-term borrowings	(103.4)	-	-
Proceeds from sale and leaseback transactions	246.7	402.0	29.8
Proceeds from issuance of long-term debt	28.0	-	232.0
Long-term debt and capital lease payments	(25.9)	(45.5)	(27.2)
Proceeds from issuance of common stock	129.3	6.6	6.3

Net cash provided by financing activities	331.1	363.1	240.9
Net increase (decrease) in cash and cash equivalents	53.2	(73.2)	103.1
Cash and cash equivalents at beginning of year	49.4	102.6	29.4
CASH AND CASH EQUIVALENTS AT END OF YEAR	$102.6	$29.4	$132.5
Supplemental disclosure of cash paid during the year for:			
Interest (net of amount capitalized)	$28.7	$15.8	$6.6
Income taxes	22.1	48.5	35.1
Noncash investing and financing activities:			
1997 and 1999 - None			
1998 - $186.0 million of convertible debentures were converted into 7.7 million shares of common stock.			

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Alaska Air Group, Inc.
December 31, 1999

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 1999 presentation.

Alaska and Horizon operate as airlines. However, their business plans, competition and economic risks differ substantially. Alaska is a major airline serving Alaska; Vancouver, Canada; the U.S. West Coast and Mexico. It operates an all jet fleet and its average passenger trip is 865 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 277 miles. Substantially all of Alaska's and Horizon's sales occur in the United States. See Note 11 for operating 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. The Company reduces its cash balance when checks are disbursed. Due to the time delay in checks clearing the banks, the Company normally maintains a negative cash balance on its books which is reported as a current liability. The amount of the negative cash balance was $18.2 million and $22.6 million at December 31, 1998 and 1999, respectively.

INVENTORIES AND SUPPLIES

Expendable and repairable aircraft parts, as well as other materials and supplies, are stated at average cost. An allowance for obsolescence of flight equipment expendable and repairable parts is accrued based on estimated disposal date and salvage value. Surplus inventories are carried at their net realizable value. The allowance at December 31, 1998 and 1999 for all inventories was $20.2 million and $23.8 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

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. The Company periodically reviews long-lived assets for impairment.

INTANGIBLE ASSETS-SUBSIDIARIES
The excess of the 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, 1998 and 1999 was $25.2 million and $27.2 million, respectively.

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 award liability, which is included with other accrued liabilities, is relieved as travel awards are issued. The liability at December 31, 1998 and 1999 was $28.0 million and $40.0 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.

LEASED AIRCRAFT RETURN COSTS
The costs associated with returning leased aircraft are accrued over the lease period. As leased aircraft are retired, the costs are charged against the established reserve. The reserve is part of other liabilities, and at December 31, 1998 and 1999 was $48.7 million and $48.9 million, respectively.

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

CONTRACTED SERVICES
Contracted services includes the expenses for aircraft ground handling, security, temporary employees and other similar services.

OTHER SELLING EXPENSES
Other selling expenses includes credit card commissions, computerized reservations systems (CRS) charges, advertising and promotional costs. The costs of advertising are expensed the first time the advertising takes place. Advertising expense was $11.0 million, $17.9 million, and $17.0 million, respectively, in 1997, 1998 and 1999.

CAPITALIZED INTEREST

Interest is capitalized on flight equipment purchase deposits and ground facility progress payments as a cost of the related asset and is depreciated over the estimated useful life of the asset.

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.

STOCK OPTIONS

The Company applies APB Opinion No. 25 and related Interpretations in accounting for stock options. See Note 6 for more information.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward contracts, generally with maturities of less than one month, to manage risk associated with net foreign currency transactions. Resulting gains and losses are recognized currently in other operating expense. The Company periodically 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 periodically enters into hedge agreements to reduce its exposure to fluctuations in the price of jet fuel. A gain or loss is recorded if the fuel index average exceeds the ceiling price or falls below the floor price. There were no interest rate swaps or fuel hedges entered into in 1999.

NOTE 2. MARKETABLE SECURITIES

Marketable securities are investments that are readily convertible to cash and have original maturities that exceed three months. They are classified as available for sale and consisted of the following at December 31 (in millions):

	1998	1999
Cost:		
U.S. government securities	$214.1	$146.7
Asset backed obligations	31.7	19.3
Other corporate obligations	31.4	30.5
	$277.2	$196.5
Fair value:		
U.S. government securities	$214.9	$146.2
Asset backed obligations	31.8	19.1
Other corporate obligations	31.3	29.9
	$278.0	$195.2

There were no material unrealized holding gains or losses at December 31, 1998 or 1999.

Of the marketable securities on hand at December 31, 1999, 63% will mature during 2000 and the remainder will mature during 2001. Based on specific identification of securities sold, the following occurred in 1998 and 1999 (in millions):

	1998	1999
Proceeds from sales	$156.3	$218.5
Gross realized gains	0.2	0.4
GROSS REALIZED LOSSES	--	0.3

Realized gains and losses are reported as a component of interest income.

NOTE 3. OTHER ASSETS
Other assets consisted of the following at December 31 (in millions):

	1998	1999
Restricted deposits	$ 69.1	$ 63.5
Deferred costs and other	15.1	11.8
	$84.2	$75.3

At December 31, 1999, Alaska owned approximately 80,000 depository certificates convertible, subject to certain restrictions, into the common stock of Equant N.V., a telecommunication network company. The certificates had an estimated fair value of $7 million. Alaska's carrying value of the certificates was de minimis.

NOTE 4. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS
At December 31, 1998 and 1999, long-term debt and capital lease obligations were as follows (in millions):

	1998	1999
8.2%* fixed rate notes payable due through 2015	$90.3	$309.5
5.5%* variable rate notes payable due through 2009	85.2	73.5
Long-term debt	175.5	383.0
Capital lease obligations	23.2	20.5
Less current portion	(27.2)	(66.5)
	$171.5	$337.0

* weighted average for 1999

At December 31, 1999, borrowings of $383.0 million are secured by flight equipment and real property. During 1999, Alaska issued $232 million of debt secured by flight equipment. The new debt has repayment terms of 12 to 16 years at fixed interest rates of approximately 7.6%.

At December 31, 1999, Alaska had a credit facility with commercial banks that allows it to borrow up to $150 million until December 2004. Borrowings under this facility bear interest at a rate that varies based on LIBOR. At December 31, 1999, no borrowings were outstanding under this credit facility.

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, 1999 the Company was in compliance with all loan provisions, and under the most restrictive loan provisions, Alaska had $209 million of net worth above the minimum.

At December 31, 1999, long-term debt principal payments for the next five years were (in millions):

2000	$63.8
2001	$54.3
2002	$21.7
2003	$22.6
2004	$31.4

NOTE 5. COMMITMENTS
LEASE COMMITMENTS

Lease contracts for 104 aircraft have remaining lease terms of one to 17 years. The majority of airport and terminal facilities are also leased. Total rent expense was $218.7 million, $241.6 million and $244.3 million, in 1997, 1998 and 1999, respectively. Future minimum lease payments under long-term operating leases and capital leases as of December 31, 1999 are shown below (in millions):

	Operating Leases		Capital
	AIRCRAFT	FACILITIES	LEASES
2000	$ 180.1	$27.8	$ 4.1
2001	161.7	21.4	4.1
2002	160.0	12.4	4.1
2003	145.7	10.8	4.1
2004	121.6	9.3	8.5
Thereafter	983.4	127.7	0.4
Total lease payments	$1,752.5	$209.4	25.3
Less Amount Representing Interest			(4.8)
Present value of capital lease payments			$20.5

AIRCRAFT COMMITMENTS
The Company has firm orders for 23 Boeing 737 series aircraft to be delivered

between 2000 and 2002, 15 Dash 8-400s between 2000 and 2001, and 30 Canadair RJ 700 jets between 2002 and 2005. The firm orders require payments of approximately $1.5 billion between 2000 and 2005. As of December 31, 1999, deposits of $211 million related to the firm orders had been made. In addition to the ordered aircraft, the Company holds purchase options on 26 Boeing 737s and 25 CRJ 700s.

NOTE 6. STOCK PLANS

Air Group has three stock option plans, which provide for the purchase of Air Group common stock at a stipulated price on the date of grant by certain officers and key employees of Air Group and its subsidiaries. Under the 1996, 1997 and 1999 Plans, options for 1,331,000 shares have been granted and, at December 31, 1999, 1,092,150 shares were available for grant. Under all plans, the incentive and nonqualified stock options granted have terms of up to approximately ten years. Substantially all grantees are 25% vested after one year, 50% after two years, 75% after three years and 100% after four years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 1997, 1998 and 1999, respectively: dividend yield of 0%, 0% and 0%; volatility of 34%, 35% and 40%; risk-free interest rates of 5.69%, 5.67% and 5.53%; and expected lives of 5, 5 and 5 years. Using these assumptions, the weighted average fair value of options granted was $14.04, $19.33 and $17.39 in 1997, 1998 and 1999, respectively.

Air Group follows APB Opinion 25 and related Interpretations in accounting for stock options. Accordingly, no compensation cost has been recognized for these plans. Had compensation cost for the Company's stock options been determined in accordance

with Financial Accounting Standard 123, net income and earnings per share (EPS) would have been reduced to the pro forma amounts indicated below.

	1997	1998	1999
Net income (in millions):			
As reported	$72.4	$124.4	$134.2
Pro forma	71.4	122.2	131.0
Basic EPS:			
As reported	$4.90	$5.32	$5.09
Pro forma	4.83	5.23	4.97
Diluted EPS:			
As reported	$3.53	$4.81	$5.06
Pro forma	3.48	4.73	4.94

Changes in the number of shares subject to option, with their weighted average exercise prices, are summarized below:

	Shares	Price
Outstanding, Dec. 31, 1996	991,825	$18.57
Granted	245,800	35.25

Exercised	(349,575)	17.36
Canceled	(8,125)	17.03
Outstanding, Dec. 31, 1997	879,925	23.72
Granted	324,900	47.45
Exercised	(159,475)	17.88
Canceled	(5,200)	36.88
Outstanding, Dec. 31, 1998	1,040,150	31.96
Granted	494,400	46.81
Exercised	(148,688)	20.19
Canceled	(47,050)	38.66
Outstanding, Dec. 31, 1999	1,338,812	$38.51
EXERCISABLE AT YEAR-END		
December 31, 1997	161,775	$19.08
December 31, 1998	253,350	22.92
December 31, 1999	434,612	28.95

The following table summarizes stock options outstanding and exercisable at December 31, 1999 with their weighted average remaining contractual lives:

Range of Exercise prices	Remaining Life (years)	Shares	Price
Outstanding:			
$15.00 to $24.00	6.3	338,150	$20.34
$35.25 to $39.69	9.0	689,062	38.26
$47.00 to $57.31	8.4	311,600	47.45
$15.00 to $57.31	6.8	1,338,812	$35.87
Exercisable:			
$15.00 to $24.00		242,800	$19.53
$35.25 to $39.69		102,862	35.25
$47.00 to $57.31		88,950	47.40
$15.00 to $57.31		434,612	$28.95

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 consist primarily of marketable equity and fixed income securities. The following table sets forth the status of the plans for 1998 and 1999 (in millions):

	1998	1999

PROJECTED BENEFIT OBLIGATION		
Beginning of year	$307.4	$371.8
Service cost	22.5	25.8
Interest cost	21.9	25.3
Amendments	--	9.8
Change in assumptions	27.1	(54.9)
Actuarial gain	(0.4)	(1.9)
Benefits paid	(6.7)	(6.6)
END OF YEAR	$371.8	$369.3
PLAN ASSETS AT FAIR VALUE		
Beginning of year	$289.2	$373.0
Actual return on plan assets	54.4	27.8
Employer contributions	36.1	42.9
Benefits paid	(6.7)	(6.6)
END OF YEAR	$373.0	$437.1
FUNDED STATUS	1.2	67.8
Unrecognized loss (gain)	7.2	(40.7)
Unrecognized transition asset	(0.3)	(0.1)
Unrecognized prior service cost	49.4	54.8
Prepaid pension cost	$ 57.5	$ 81.8
WEIGHTED AVERAGE ASSUMPTIONS AS OF DECEMBER 31		
Discount rate	6.75%	7.75%
Expected return on plan assets	10.0%	10.0%
Rate of compensation increase	5.5%	5.4%

Net pension expense for the defined benefit plans included the following components for 1997, 1998 and 1999 (in millions):

	1997	1998	1999
Service cost	$ 17.3	$ 22.4	$ 25.8
Interest cost	17.3	21.9	25.3
Expected return on assets	(22.1)	(28.7)	(36.7)
Amortization of prior service cost	0.2	3.8	4.4
Recognized actuarial loss	1.0	--	0.1
Amortization of transition asset	(0.3)	(0.2)	(0.2)
Net pension expense	$ 13.4	$ 19.2	$ 18.7

Alaska and Horizon also maintain an unfunded, noncontributory benefit plan for certain elected officers. The $23 million unfunded accrued pension cost for this plan was accrued as of December 31, 1999.

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. Total expense for the defined contribution plans was $11.7 million, $11.6 million and $13.5 million, respectively, in 1997, 1998 and 1999.

PROFIT SHARING PLANS

Alaska and Horizon have employee profit sharing plans. Profit sharing expense for 1997, 1998 and 1999 was $13.5 million, $23.2 million and $22.8 million, respectively.

OTHER POSTRETIREMENT BENEFITS

The Company allows retirees to continue their medical, dental and vision benefits by paying all or a portion of the active employee plan premium until eligible for Medicare, currently 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 accumulated postretirement benefit obligation (APBO) for this subsidy at December 31, 1998 and 1999 was $20.1 million and $25.4 million, respectively. The APBO is unfunded and is included with other liabilities on the Consolidated Balance Sheet. Annual expense related to this subsidy is not considered material to disclose.

NOTE 8. INCOME TAXES

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):

	1998	1999
Excess of tax over book depreciation	$162.9	$195.8
Employee benefits	--	3.4
Other - net	3.7	3.8
Gross deferred tax liabilities	166.6	203.0
Loss carryforward	(0.1)	(0.1)
Alternative minimum tax	(22.7)	(3.5)
Capital leases	(2.6)	(3.4)
Ticket pricing adjustments	(2.2)	(1.7)
Frequent flyer program	(10.5)	(14.9)
Employee benefits	(5.7)	--
Aircraft return provisions	(16.4)	(14.9)
Deferred gains	(8.4)	(13.9)
Capitalized interest	(2.2)	(2.5)
Inventory obsolescence	(4.8)	(8.4)
Gross deferred tax assets	(75.6)	(63.3)
Net deferred tax liabilities	$ 91.0	$ 139.7
Current deferred tax asset	$ (8.2)	$ (4.3)
Noncurrent deferred tax liability	99.2	144.0
Net deferred tax liabilities	$ 91.0	$ 139.7

After consideration of temporary differences, taxable income for 1999 was approximately $155 million.

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

	1997	1998	1999
Current tax expense:			
Federal	$ 26.4	$43.0	$ 31.0
State	1.9	7.8	6.8
Total current	28.3	50.8	37.8
Deferred tax expense:			
Federal	18.5	27.8	45.5
State	4.4	1.4	3.2
Total deferred	22.9	29.2	48.7
Total tax expense	$51.2	$80.0	$86.5

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

	1997	1998	1999
Income before income tax	$123.6	$204.4	$220.7
Expected tax expense	$43.3	$71.5	$77.2
Nondeductible expenses	2.9	3.0	2.6
State income tax	4.1	6.2	6.7
Other - net	0.9	(0.7)	--
Actual tax expense	$51.2	$80.0	$86.5
Effective tax rate	41.4%	39.1%	39.2%

NOTE 9. EARNINGS PER SHARE

Basic EPS is calculated by dividing net income by the average number of common shares outstanding. Diluted EPS is calculated by dividing net income plus the after-tax interest expense on convertible debt by the average common shares outstanding plus additional common shares that would have been outstanding if conversion of the convertible debt and exercise of in-the-money stock options is assumed. EPS calculations were as follows (in millions except per share amounts):

	1997	1998	1999
Net income	$72.4	$124.4	$134.2
Avg. shares outstanding	14.785	23.388	26.372
Basic earnings per share	$4.90	$5.32	$5.09
Net income	$72.4	$124.4	$134.2
After-tax interest on:			
6-1/2% debentures	5.3	2.2	--
6-7/8% debentures	2.3	0.3	--
Diluted EPS income	$80.0	$126.9	$134.2
Avg. shares outstanding	14.785	23.388	26.372
Assumed conversion of:			
6-1/2% debentures	6.151	2.543	--
6-7/8% debentures	1.608	0.255	--
Assumed exercise of stock options	0.145	0.181	0.135
Diluted EPS shares	22.689	26.367	26.507
Diluted earnings per share	$3.53	$4.81	$5.06

NOTE 10. FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments were as follows (in millions):

December 31, 1998	Carrying Amount	Fair Value
Cash and cash equivalents	$29.4	$29.4
Marketable securities	277.2	278.0
Restricted deposits	69.1	69.1
Long-term debt	175.5	175.5

DECEMBER 31, 1999	Carrying Amount	Fair Value
Cash and cash equivalents	$132.5	$132.5
Marketable securities	196.5	195.2
Restricted deposits and depository certificates	63.5	70.5
Long-term debt	383.0	383.0

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 value of restricted deposits approximates the carrying amount. The fair value of restricted depository certificates convertible into the common stock of Equant N.V. is $7 million based on

sales of Equant N.V. stock in 1999. The fair value of long-term debt approximates carrying value.

NOTE 11. OPERATING SEGMENT INFORMATION

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

	1997	1998	1999
Operating revenues:			
Alaska	$1,447.9	$1,566.3	$1,680.8
Horizon	303.6	347.8	415.9
Elimination of intercompany revenues	(12.1)	(16.4)	(14.7)
Consolidated	1,739.4	1,897.7	2,082.0
Depreciation and amortization expense:			
Alaska	56.9	61.9	67.9
Horizon	11.2	12.9	16.7
Interest income:			
Alaska	12.2	23.2	21.7
Horizon	0.1	--	--
Interest expense:			
Alaska	25.0	17.4	16.3
Horizon	1.8	1.0	1.5
Pretax income:			
Alaska	127.4	190.5	196.4
Horizon	6.3	18.9	25.5
Air Group	(10.1)	(5.0)	(1.2)
Consolidated	123.6	204.4	220.7
Capital expenditures:			
Alaska	293.0	420.1	482.7
Horizon	145.9	193.4	82.3
Total assets at end of period:			
Alaska	1,370.7	1,548.8	1,981.2
Horizon	158.0	187.1	213.0
Air Group	668.0	790.5	945.7
Elimination of intercompany accounts	(663.6)	(794.6)	(959.8)
Consolidated	$1,533.1	$1,731.8	$2,180.1

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, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, 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, 2000

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, 1997				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$1.3	$1.0	$(1.1)	$1.2
Obsolescence allowance for flight equipment spare parts	$16.1	$3.4	$(1.5)	$18.0
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$38.6	$11.4	$(6.8)	$43.2
Year Ended December 31, 1998				
(a) Reserve deducted from asset to which it applies:				

Allowance for doubtful accounts	$1.2	$1.2	$(1.4)	$1.0
Obsolescence allowance for flight equipment spare parts	$18.0	$6.2	$(4.0)	$20.2
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$43.2	$13.1	$(7.6)	$48.7
Year Ended December 31, 1999				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$1.0	$1.2	$(1.2)	$1.0
Obsolescence allowance for flight equipment spare parts	$20.2	$5.2	$(1.6)	$23.8
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$48.7	$12.1	$(11.9)	$48.9

(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)	Articles of Incorporation of Alaska Air Group, Inc. as amended through May 21, 1996
3.(ii)	Bylaws of Alaska Air Group, Inc., as amended through Feb. 8, 1996 (Exhibit 3.(ii) to 1995 10-K)
4.1	Amended and Restated Rights Agreement dated 8/7/96 between Alaska Air Group, Inc. and The First National Bank of Boston, as Rights Agent (Exhibit 2.1 to Form 8A-A filed 8/8/96)
10.1	Lease Agreement dated Feb. 1, 1979 between Alaska Airlines, Inc. and the Alaska Industrial Development Authority (AIDA) (Exhibit 10-15 to Registration Statement No. 2-70742)
10.2	Lease Agreement dated April 1, 1978 between Alaska Airlines, Inc. and the AIDA (Exhibit 10-16 to Registration Statement No. 2-70742)
10.3	Management Incentive Plan (1992 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. 1988 Stock Option Plan, as amended through May 19, 1992 (Registration Statement No. 33-52242)
#10.6	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 and Letter Agreement #1 dated January 22, 1990 (Exhibit 10-14 to 1990 10-K)
#10.7	Agreement dated September 18, 1996 between Alaska Airlines, Inc. and Boeing for the purchase of 12 Boeing 737-400 aircraft (Exhibit 10.1 to Third Quarter 1996 10-Q)
#10.8	Agreement dated August 28, 1996 between Horizon Air Industries, Inc. and Bombardier for the purchase of 25 de Havilland Dash 8-200 aircraft (Exhibit 10.2 to Third Quarter 1996 10-Q)
10.9	Supplemental retirement plan arrangement between Horizon Air Industries, Inc. and George D. Bagley (1996 Proxy Statement)

10.10	Alaska Air Group, Inc. 1996 Long-Term Incentive Equity Plan (Registration Statement 333-09547)
10.11	Alaska Air Group, Inc. Non Employee Director Stock Plan (Registration Statement 333-33727)
10.12	Alaska Air Group, Inc. Profit Sharing Stock Purchase Plan (Registration Statement 333-39889)
10.13	Alaska Air Group, Inc. 1997 Non Officer Long-Term Incentive Equity Plan (Registration Statement 333-39899)
10.14	Alaska Air Group, Inc. Supplementary Retirement Plan for Elected Officers (Exhibit 10.15 to 1997 10-K)
10.15	1995 Elected Officers Supplementary Retirement Plan (Exhibit 10.16 to 1997 10-K)
#10.16	Agreement dated December 21, 1998 between Horizon Air Industries, Inc. and Bombardier for the purchase of 25 Canadair regional jets series 700 aircraft
10.17	Alaska Air Group, Inc. 1999 Long-Term Incentive Equity Plan (Registration Statement 333-87563)
*10.18	Alaska Air Group, Inc. Change of Control Agreement dated 27 October 1999
*12	Calculation of Ratio of Earnings to Fixed Charges
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.

EXHIBIT 10.18 TO ALASKA AIR GROUP, INC. 1999 FORM 10-K

CHANGE OF CONTROL AGREEMENT

AGREEMENT by and between Alaska Airlines, Inc., an Alaska corporation (the "Employer"), and < < FIRSTNAME > > < < MI > > < < LASTNAME > > (the "Executive"), dated as of the 27th day of October, 1999.

The Board of Directors (the "Board") of Alaska Air Group, Inc. ("Air Group") has determined that it is in the best interests of Air Group and its stockholders to ensure that Air Group and its subsidiaries, including the Employer, will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in Section 2). The Board believes that it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Employer currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control that ensure that the compensation and benefits expectations of the Executive will be satisfied, are competitive with those of other corporations, and align the Executive's interests with those of Air Group's stockholders. Therefore, in order to accomplish these objectives, the Board has caused the Employer to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. CERTAIN DEFINITIONS

(a) "Accrued Obligations" is defined in Section 6(a)(i).

(b) "affiliated company" means any company controlled by, controlling or under common control with Air Group.

(c) "Annual Base Salary" is defined in Section 4(b)(i).

(d) "Annual Bonus" is defined in Section 4(b)(ii).

(e) "Business Combination" means (i) a reorganization, exchange of securities, merger or consolidation involving Air Group or (ii) the sale or other disposition of all or substantially all the assets of Air Group.

(f) The "Change of Control Period" means the period commencing on the date hereof and ending on the third anniversary of the date that either the Employer or Air Group gives notice to the Executive that the Change of Control Period shall be terminated.

(g) "Cause" means basis for termination for reason of admission by the Executive or substantiation by the Employer of:

(i) embezzlement, dishonesty or other fraud, conviction of a felony or conspiracy against the Employer; or

(ii) if prior to a Change of Control, any willful or intentional injury to either the Employer, its property, or its employees in connection with the business affairs of the Employer.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Effective Date" means the first date during the Change of Control Period on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Employer is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose in connection with or anticipation of the Change of Control, then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination of employment.

(j) "Employment Period" is defined in Section 3.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Good Reason" means the occurrence of one or more of the following events:

(i) the reduction in the Executive's annual base salary or the reduction in the value of other bonus payments or equity awards that Executive is eligible to receive under the Employer's plans;

(ii) the material diminution or reduction without the Executive's consent of the Executive's title, authority, duties, responsibilities or perquisites;

(iii) the Employer requiring Executive without the Executive's consent to be based at any locations other than the principal location of Executive's employment immediately prior to a Change of Control; or

(iv) any breach by the Employer of any other material provision of this Agreement.

(m) "Incentive Plan" means Air Group's Management Incentive Plan.

(n) "Incumbent Director" means a member of the Board who has been either (i) nominated by a majority of the directors of Air Group then in office or (ii) appointed by directors so nominated, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

(o) "Notice of Termination" is defined in Section 5(a).

(p) "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act).

(q) "Recent Average Bonus" is defined in Section 4(b)(ii).

(r) "Retirement Plan" means the Employer's funded pension plan or any successor plan thereto.

(s) "Welfare Benefit Continuation" is defined in Section 6(b).

2. CHANGE OF CONTROL

For the purpose of this Agreement, a "Change of Control" means the occurrence of any of the following:

(a) the Board approves (or, if approval of the Board is not required as a matter of law, the stockholders of Air Group approve):

(i) any consolidation or merger of Air Group in which Air Group is not the continuing or surviving corporation or pursuant to which shares of common stock of Air Group would be converted into cash, securities or other property, other than a merger of Air Group in which the holders of common stock of Air Group immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;

(ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of Air Group; or

(iii) the adoption of any plan or proposal for the liquidation or dissolution of Air Group;

(b) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. "Incumbent Directors" means:

(i) individuals who constitute the Board at the beginning of such period; and

(ii) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (i); and

(iii) individuals who were nominated or elected by individuals described in (ii).

(c) any Person shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of Air Group ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board ("Voting Securities" to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of Air Group) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between Air Group and any Affiliate thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

3. EMPLOYMENT PERIOD

The Employer hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Employer, in accordance with the terms and provisions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of such date (the "Employment Period"), in an executive capacity, responsible for, among other things, duties associated with such capacity, and, subject to the general supervision of the Board as required by the Delaware General Corporation Law, such other duties and responsibilities as are not inconsistent with the express terms of this Agreement. Such employment may be with the Employer, Air Group or any of its principal operating subsidiaries, as appropriate to the management structure developed by the Employer or Air Group. The Employer agrees that it will not take any action, or make any demands on the Executive, that may be deemed to arbitrarily, unreasonably or unnecessarily interfere with the performance of the services to be rendered by the Executive hereunder.

Prior to the Effective Date, Executive's employment with the Employer is at will.

4. TERMS OF EMPLOYMENT

(a) POSITION AND DUTIES.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be in accordance with Section 3 and (B) the Executive's services shall be performed within the metropolitan area in which the Executive was situated immediately prior to the Effective Date, except for required travel in the Employer business to the extent consistent with the Executive's duties in Section 3.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Employer and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions, or (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Employer in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Employer.

(b) COMPENSATION.

(i) BASE SALARY. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid in equal installments, at least equal to 12 times the highest monthly base salary paid or payable to the Executive by the Employer in respect of the 12-month period immediately preceding the month in which the Effective Date occurs. For purposes of this Agreement, Annual Base Salary shall not include any payments by the Employer on the Executive's behalf pursuant to any incentive, savings or retirement plans, any welfare benefit plans or any fringe benefit plans, in each case, of the Employer or any affiliated company, of the type identified in paragraphs (iii) through (vi) of this Section 4(b), or any reimbursement of expenses by the Employer or any affiliated company in accordance with paragraph (v) of this Section 4(b), but shall include vacation pay in accordance with paragraph (viii) of this Section 4(b). During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Employer and any affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase, and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

(ii) ANNUAL BONUS. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the greater of (A) the Executive's target annual bonus (annualized if such target bonus is based on a period of less than 12 full months) in effect on the Effective Date and (B) the average annualized (for any fiscal year consisting of less than 12 full months or with respect to which the Executive has been employed by the Employer for less than 12 full months) bonus paid or payable, including by reason of any deferral, to the Executive by the Employer in respect of the three fiscal years immediately preceding the fiscal year in which the Effective Date occurs (the "Recent Average Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) INCENTIVE, SAVINGS AND RETIREMENT PLANS. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Employer, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, that are less favorable, in the aggregate, than the most favorable of those provided by the Employer for the Executive under such plans, practices, policies and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other executives of the Employer.

(iv) WELFARE BENEFIT PLANS. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Employer (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Employer, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Employer.

(v) EXPENSES. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable employment expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Employer in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

(vi) FRINGE BENEFITS. During the Employment Period, the Executive shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Employer in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

(vii) VACATION. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Employer as in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if

more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

5. TERMINATION OF EMPLOYMENT

(a) TERMINATION. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Executive's employment may be terminated at any time during the Employment Period for any reason by either the Executive or by the Employer, communicated by a notice of termination to the other party hereto given in accordance with Section 12(b) (a "Notice of Termination").

(b) DATE OF TERMINATION. "Date of Termination" means (i) if the Executive's employment is terminated by the Employer or by the Executive, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, and (ii) if the Executive's employment is terminated by reason of death, the date of death of the Executive.

6. OBLIGATIONS OF THE EMPLOYER UPON TERMINATION

If the Executive's employment is terminated during the Employment Period by the Executive for Good Reason or by the Employer without Cause:

(a) the Employer shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(i) A lump sum amount equal to all payments to which the Executive would have been entitled during the Employment Period, but for the termination, including, without limitation, the aggregate amounts of the Executive's Annual Base Salary (calculated in accordance with Section 4(b)(i) hereof) and the aggregate amounts of the Executive's Annual Bonus (calculated in accordance with Section 4(b)(ii) hereof), payable in each case during the Employment Period, less any amounts comprising any portion of Annual Base Salary or Annual Bonus actually received by the Executive during the period commencing on the Effective Date and ending on the Date of Termination.

(ii) A separate lump sum supplemental retirement benefit equal to the difference between (1) the actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Employer defined benefit retirement plan during the 90-day period immediately preceding the Effective Date) of the benefits payable under the Employer defined benefit retirement plans, the 1995 Elected Officers' Supplementary Retirement Plan and any similar plans providing benefits for the Executive that the Executive would receive if the Executive's employment continued at the compensation level provided for in Section 4(b) and for the remainder of the Employment. Assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas are no less advantageous to the Executive than those in effect during the 90-day period immediately preceding the Effective Date, and (2) the actuarial equivalent (utilizing for this purpose the same assumptions as outlined above) of the Executive's actual benefit paid (or payable), if any, under the foregoing plans; and

(b) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Employer shall continue benefits to the Executive and/or the Executive's family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies described in Sections 4(b)(iv) if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Employer as in effect and applicable generally to other executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any

time thereafter with respect to other peer executives of the Employer and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation"). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period; provided, however, that the Executive shall be entitled to the more favorable of the retiree benefits in effect on the Date of Termination or the retiree benefits in effect on the date that would have been the last date of the Employment Period if the Executive had remained employed;

(c) to the extent not theretofore paid or provided, the Employer shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Employer as in effect and applicable generally to other peer executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives of the Employer and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

7. NONEXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Employer and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Employer. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Employer or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. FULL SETTLEMENT; RESOLUTION OF DISPUTES

(a) The Employer obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Employer may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and, except as provided in Section 6(b), such amounts shall not be reduced whether or not the Executive obtains other employment. The Employer agrees to pay promptly upon invoice, to the full extent permitted by law, all legal fees and expenses that the Executive may incur as a result of any contest (regardless of the outcome thereof) by the Employer, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement).

(b) If there shall be any dispute between the Employer and the Executive (i) in the event of any termination of the Executive's employment by the Employer, whether such termination was in connection with or in anticipation of a Change of Control so as to trigger the Effective Date under Section 1(i), then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was in connection with or in anticipation of a Change of Control, the Employer shall pay all

amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Employer would be required to pay or provide pursuant to Section 6 as though such termination were in connection with or in anticipation of a Change of Control; provided, however, that the Employer shall not be required to pay any disputed amounts pursuant to this Section 8(b) except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

9. CERTAIN ADJUSTMENTS

(a) In the event that the Executive becomes entitled to the payments or other benefits described in Section 6 hereof and the Executive becomes subject to the tax imposed by Section 4999 of the Code or any successor provision (the "Excise Tax") as a result of such payments and benefits and any other payments or benefits from the Employer required to be taken into account under Code Section 280G(b)(2) (collectively, "Parachute Payments"), the Employer shall pay to Executive an additional amount (the "Make-Whole Payment") equal to the sum of (i) the Excise Tax payable to the Executive prior to the Make-Whole Payment and (ii) the Federal, state and local income tax and Excise Tax (including any interest or penalties thereon) payable upon all payments made under subparagraphs (i) and (ii) of this Section 9(a).

(b) All determinations required to be made under this Section 9, including whether the Executive has received a Parachute Payment, shall be made by Arthur Andersen LLP (the "Accounting Firm") which shall provide detailed supporting calculations to both the Employer and the Executive within 15 business days of the receipt of notice from the Executive that the Executive has received a payment under Section 6, or such earlier time as is requested by the Employer. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Employer. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. As promptly as practicable following such determination, the Employer shall pay to or distribute for the benefit of the Executive such payments as are then due to the Executive under this Agreement. Any determination by the Accounting Firm shall be binding upon the Employer and Executive.

10. CONFIDENTIAL INFORMATION

The Executive shall hold in a fiduciary capacity for the benefit of the Employer all secret or confidential information, knowledge or data relating to the Employer or any of its affiliated companies, and their respective businesses, that shall have been obtained by the Executive during the Executive's employment by the Employer or any of its affiliated companies and that shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Employer, the Executive shall not, without the prior written consent of the Employer or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Employer and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. SUCCESSORS

(a) This Agreement is personal to the Executive and without the prior written consent of the Employer shall not be assignable by the Executive otherwise than by will or the laws of descent and

distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding on the Employer and its successors and assigns.

(c) The Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Employer to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform it if no such succession had taken place. As used in this Agreement, Employer shall mean the Employer as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. MISCELLANEOUS

(a) This Agreement shall be governed by and construed in accordance with the laws of the state of Washington, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

If to the Employer:

Alaska Airlines, Inc.
P.O. Box 68947
Seattle, WA 98168
Attention: Corporate Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Employer may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Employer's failure to insist on strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the

Employer may have hereunder, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Employer acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Employer, the employment of the Executive by the Employer is "at will" and, prior to the Effective Date, may be terminated by either the Executive or the Employer at any time. Moreover, if prior to the Effective Date, the Executive's employment with the Employer terminates, then the Executive shall have no further rights under this Agreement.

(g) This Agreement may be executed in counterparts, each of which counterparts shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to authorization from the Board, the Employer has caused this Agreement to be executed in its name and on its behalf, all as of the day and year first above written.

ALASKA AIRLINES, INC.

By ____
John F. Kelly
Chairman and Chief Executive Officer

____
< < FirstName > > < < MI > > < < LastName > >

EXHIBIT 12

Alaska Air Group, Inc.
Calculation of Ratio of Earnings to Fixed Charges
(In thousands, except ratios)

	1999	1998	1997	1996	1995
Earnings:					
Income before income tax expense	$220,700	$204,400	$123,600	$64,349	$33,983
Less: Capitalized interest	(10,200)	(6,600)	(5,300)	(1,031)	(208)
Add:					
Interest on indebtedness	16,300	21,200	33,600	38,394	51,479
Amortization of debt expense	440	682	685	1,224	1,100
Portion of rent under long-term operating leases representative of an interest factor	81,437	80,547	72,900	71,562	67,295
Earnings Available for Fixed Charges	$308,677	$300,229	$225,485	$174,498	$153,649
Fixed Charges:					
Interest	16,300	21,200	33,600	38,394	51,479
Amortization of debt expense	440	682	685	1,224	1,100
Portion of rent under long-term operating leases representative of an interest factor	81,437	80,547	72,900	71,562	67,295
Total Fixed Charges	$98,177	$102,429	$107,185	$111,180	$119,874
Ratio of Earnings to Fixed Charges	3.14	2.93	2.10	1.57	1.28

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 25, 2000 included in this Form 10-K, into the Company's previously filed Registration Statements, File Numbers 33-52242, 333-09547, 333-33727, 333-39889 and 333-87563.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Seattle, Washington
February 25, 2000

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALASKA AIR GROUP, INC. 1999 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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