Northwest Airlines Corporation

1994 Annual Report

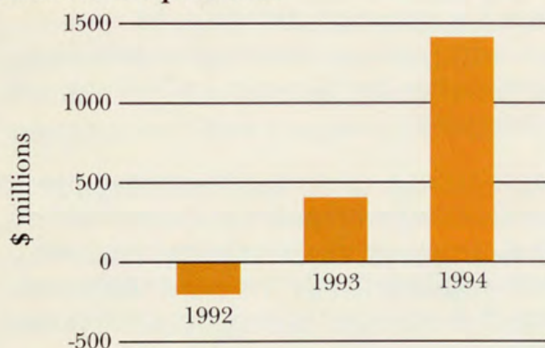
To build together the
world's most preferred
airline with the best people;
each committed to
exceeding our customers'
expectations every day.

– The Vision Of
Northwest Airlines
Corporation

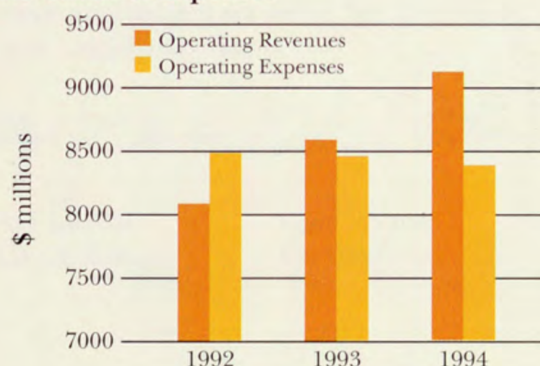
Condensed Financial Highlights (Dollar amounts in millions, except per share data)
Northwest Airlines Corporation

	Year Ended December 31		Percent
	1994	1993	Change
Financial			
Operating Revenues	$ **9,142.9**	$ 8,648.9	5.7
Operating Expenses	$ **8,312.5**	$ 8,376.5	(0.8)
Operating Income	$ **830.4**	$ 272.4	204.8
Operating Margin	**9.1%**	3.1%	6.0 pts.
Net Income (Loss)	$ **295.5**	$ (115.3)	
Net Income (Loss) Per Share:			
Primary	$ **2.92**	$ (2.82)	
Fully Diluted	$ **2.87**	$ (2.82)	
Number of Common Shares Outstanding (millions)	**84.3**	58.0	
Operating Statistics			
Scheduled Service:			
Available Seat Miles (ASM) (millions)	**85,015.6**	87,212.5	(2.5)
Revenue Passenger Miles (millions)	**57,873.2**	58,130.1	(0.4)
Passenger Load Factor	**68.1%**	66.7%	1.4 pts.
Revenue Yield Per Passenger Mile	**13.36¢**	12.58¢	6.2
Revenue Passengers (millions)	**45.5**	44.1	3.2
Cargo Ton Miles (millions)	**2,322.3**	2,188.0	6.1
Revenue Per Total ASM	**10.65¢**	9.82¢	8.5
Total Operating Expense Per Total ASM	**9.69¢**	9.51¢	1.9

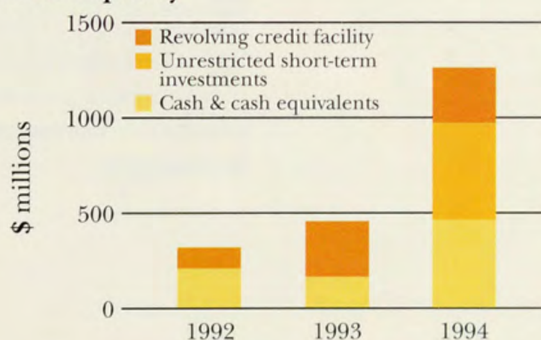
Cash from Operations



Revenues & Expenses



Total Liquidity



This is the first published Annual Report to shareholders of Northwest Airlines since 1988. The "New Northwest" that we present in this report is quite a bit different from its publicly known predecessor. There are many reasons for this, not the least of which has been the need to adapt our company to meet the challenges of a radically changed U.S. and global airline industry.

In this report you will read the Vision, Mission, and Principles which were developed by our people to guide our company during the past several years. Adherence to these fundamentals has gotten us where we are today and it is through their continued application that we intend to guide Northwest in the future.

As these statements reflect, Northwest is focused on people:

First, our customers, for whom we work – quite simply we are dedicated to providing them service that is convenient, reliable and consistent.

Second, our employees, who are our greatest asset – we are committed to improving their work environment and empowering them individually and collectively to express and enrich themselves through the creative use of their talents.

Third, our communities, which support us – we recognize the importance of air transportation to their economic development. We acknowledge our dependence on our communities and our responsibility to be productive corporate citizens wherever we do business.

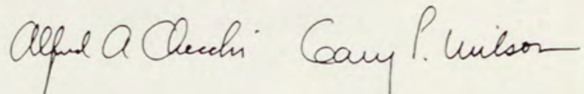
To these we would add the network of financial and commercial relationships that support our efforts; we also recognize that we are a capital intensive company whose future growth and prosperity depends upon fulfilling our commercial obligations and providing appropriate financial returns to our investors. We are dedicated to justifying the confidence that has been placed in us.

As we reflect upon the transformation of Northwest over the past several years and the results for 1994 which are discussed in this report, we note with particular satisfaction the achievements of the extraordinary and diverse executive management team that has been attracted to this company. Recruited both from within and outside the airline industry, this group has demonstrated uncommon energy, dedication and skill in addressing the problems and capitalizing upon the opportunities of an industry in process of transition. We are particularly appreciative of the leadership and skill provided by John Dasburg, Northwest's President and Chief Executive Officer.

On behalf of our fellow board members we welcome with special pride and gratitude the more than 40,000 employee shareholders of Northwest Airlines. Your enthusiasm, dedication, and excellent customer service are the envy of the U.S. airline industry. Through your financial and personal investment in your company you have defined the new Northwest and set an example not only for the air transportation industry but all of industry. To you we make a special pledge: To direct the resources of Northwest Airlines to produce not only a profit on your financial investment but a strong operating platform upon which to base your long term financial security.

On a personal note, many people have asked us if the hard work and effort during the past several years has been worth it. In other words, "If you knew what you know now....?" As we look at what the people of Northwest have collectively achieved and reflect on the opportunities that lie ahead, we say in the vernacular of our home state, "You bet!"

We hope that the following pages help you to understand better today's Northwest Airlines Corporation and the people who through their daily efforts continue to build and shape this company for a prosperous future for our customers, shareholders, and the communities that we serve. We appreciate your interest and support.



Al Checchi
Co-Chairman

Gary Wilson
Co-Chairman

The Mission Of Northwest Airlines

The people of Northwest Airlines will provide reliable, convenient and consistent air transportation that meets or exceeds customer expectations and earns a sustainable profit.

Reliable means safe, clean, on-time air transportation created by the best people providing friendly, professional, consistent and caring service. A cornerstone of Northwest's reliability is prompt and appropriate service recovery when, despite our best efforts, something goes wrong.

Convenient means making it as easy as possible for customers in the markets we serve to do business with us, with the best schedules and the simplest access to our network.

Consistent means delivering reliable and convenient service every time the customer flies or ships on our airline.

The Guiding Principles Of Northwest Airlines

1. **Never compromise safety.**
2. **Always emphasize cleanliness.**
3. **Always put customers first.**
   - ▾ Learn what makes a difference to each customer and deliver it.
   - ▾ Resolve customer problems on the spot whenever possible.
   - ▾ Obtain the training and tools we need to serve our customers.
4. **Always support and inspire each other.**
   - ▾ Work together to achieve common goals.
   - ▾ Recognize the good work of others.
   - ▾ Recruit and promote to the highest standards of performance and professionalism.
   - ▾ Build self-esteem and pride in each other.
5. **Always strive to improve.**
   - ▾ Measure against the best.
   - ▾ Solicit and offer ideas for improvement.
   - ▾ Search out and break down barriers that get in the way.

To Our Shareholders:

I am pleased to welcome you as a shareholder of Northwest Airlines and to report how we have developed strategies to compete in a radically changing competitive environment; how we have managed our assets to produce industry-high profits in 1994; and how we have positioned your company for solid performance in the years ahead.

New Strategies
During the early 1990s the U.S. airline industry was affected by war, deep worldwide recession, attempted unilateral imposition of an uneconomic pricing structure and flawed federal taxing policy.

Against this backdrop U.S. airlines struggled to absorb billions of dollars of losses and to complete the transformation from government-protected and -regulated route systems to competitive customer-focused global enterprises. During this period many great names in commercial aviation disappeared; several airlines continue to struggle financially and many are trying to determine the appropriate mission and strategy to conform to the new competitive environment.

In contending with these political and market forces we undertook to redefine our mission and strategies with the help of customers and employees. Our customers told us they want air transportation that is consistently convenient and reliable. Our employees told us they want the opportunity to be their best. We developed our strategies accordingly.

Convenience. To achieve convenience, which our customers largely define as frequent air service, we *manufacture connections* where we have the competitive advantage of speed and frequency. Thus we have concentrated our domestic flying through three large and efficient connecting hubs in Detroit, Minneapolis/ St. Paul and Memphis. We serve the high-growth Pacific market through connections with our major hub in Tokyo. Additionally, via our strategic alliance with KLM, we make connections with Europe, Africa, and the Middle East through a hub in Amsterdam. Providing more frequency at higher profit margins has resulted in high levels of customer satisfaction and substantially increased profits for Northwest Airlines.

This focus on convenient connections has inspired significant restructuring of our domestic and Pacific route systems over the past few years. Consistent with our strategy we have eliminated the previously unprofitable domestic flying dispersed among Washington D.C., Milwaukee, and the north-south corridor on each coast. Likewise, we have focused our Pacific service by reducing our flying to Seoul, Korea; Taipei, Taiwan; and Sydney, Australia.

In addition to passenger service, Northwest, unique among U.S. passenger airlines, operates a main deck freighter operation to meet cargo customers' transportation needs. Including the cargo capacity afforded by our extensive passenger fleet, the Northwest Cargo operations constitute the ninth-largest air cargo business in the world. These operations are targeted to capitalize on high-growth areas of world trade, particularly in the Pacific rim.

People of Northwest Airlines (left to right): Heidi Porch; Steve Taylor; Teresa Montgomery; Grant Walker; John Dasburg, President and Chief Executive Officer; Katy Juckel; Monte Tukumoeatu and Kathleen Lau.

Reliability. To achieve reliability we turned to the people of Northwest. As convenience is achieved through a hub-and-spoke operating system, reliability is achieved by people. Our customers tell us they want safe, clean air transportation that arrives on time, with luggage. They want professional, friendly and caring service and prompt and appropriate service recovery when, despite our best efforts, something goes wrong. And increasingly they are telling us they are delighted when we exceed their expectations.

To provide reliable air transportation, we have invested in hiring the best people, providing training and creating an environment that fosters high self-esteem and is dedicated to serving our customers.

An organization requires the best people performing at their best if it is to be the best. At Northwest Airlines we believe we have the best people; they have distinguished themselves by achieving extraordinary improvements in customer service and made their company number one in on-time performance among the seven largest U.S. airlines for an unprecedented five straight years. A high level of on-time performance is critical to our hub-and-spoke strategy.

It is difficult to single out those who deserve recognition for contributing to such dramatic results. We are fortunate to have so many people to celebrate. Those receiving this year's President's Award exemplify Northwest Airlines at its best (see page 21).

Improved Profitability

In business it is not sufficient to satisfy customers, employ the best people and possess strategic assets, or even to adopt thoughtful strategies. It is essential to earn sustainable profits and appropriate returns on capital. If we are not profitable, capital markets will not be accessible or will be prohibitively expensive and product and morale will erode. Ultimately, the competitive edge will be lost.

To achieve improved profits and return on capital we have improved revenue per unit, reduced costs and improved the productivity of our assets.

Our revenue programs are based upon increased flying at Detroit, Minneapolis/St. Paul and Tokyo, where connecting opportunities are maximized.

We have reduced expenses by lowering overhead and increasing productivity through the application of process improvement and applied technology.

We have increased the production of our assets by eliminating redundant inventory, selling unproductive assets, and investing in existing aircraft rather than uneconomic new aircraft.

The accompanying financial statements provide a detailed description of the past year's performance. Our focus on per unit revenue growth and cost containment has produced a significant increase in year-over-year profits from a $115.3 million net loss in 1993 to a $295.5 million net profit in 1994, the largest 1994 net profit in the U.S. airline industry. During this past year we also raised more than $1.7 billion of new capital to refinance our intermediate term liabilities at reduced cost and extended maturities.

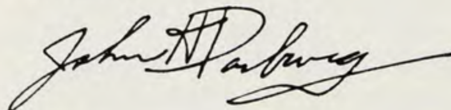
Future Prospects

While the results of 1994 are significant, the strategies adopted and actions taken to produce them are the foundation for our future success. We are well positioned to continue to improve our products and service and to improve our revenue per unit while tightly managing our cost per unit. Using our hubs in Detroit and Minneapolis/St. Paul, we can take advantage of the new U.S.-Canada bilateral agreement by increasing profitable flying to and from Canada. Using our hubs in Detroit and Japan we are well positioned to expand profitably in high growth Asia/Pacific markets.

In summary, 1994 has been a most rewarding year. We have achieved strategies with the necessary balance and focus to meet our customers' needs while building upon our competitive strengths. We have produced industry-high profits while building the foundation for long-term financial success. We have developed as an organization the flexibility necessary to respond to the profitable opportunities presented by our continually evolving industry.

I wish to thank the people of Northwest Airlines for their tremendous effort over the past year. Through their actions they have proved that some people *really* know how to fly!

Sincerely,



John H. Dasburg
President and Chief Executive Officer

Viewpoint:
Real Tax Reform Can Prevent The Next Airline Depression

The domestic U.S. airline industry lost $9 billion between 1990 and 1993, the worst financial battering in industry history. What went so wrong? What can keep it from happening again?

Clearly, many factors contributed. However, an examination of the profit and loss statements of the largest U.S. airlines for the period beginning in 1988 (the industry's most profitable year) and ending with 1993 suggests that the single leading cause of the last airline depression (and the greatest potential cause of the next airline depression) may be a factor beyond the airlines' control – namely, the staggering increase in government-imposed taxes and charges.

During these six years capacity increased at the fairly modest compound annual growth rate (CAGR) of 1.2%. Revenue during the same period grew faster at a 3.8% CAGR, a respectable rate given the overall recessionary state of the U.S. economy during several of the relevant years. These statistics suggest that costs rather than revenue hold the key to understanding the industry's profitability problems.

But many costs, such as fuel, increased *less* than revenue, posing no problem. Costs such as payroll grew at about the same rate as revenue and total operating expenses grew only slightly faster than revenue. However, the airline industry's *government-imposed* costs increased significantly more and significantly faster than either revenue or other costs. Consider the following:

- Benefits, many mandated by the government, increased at an 8.4% CAGR.
- Landing fees went up 7.4% CAGR.
- Federal ticket and passenger taxes rose a chilling 13.6% CAGR.

New taxes and fees levied during the airline industry's darkest financial hour included a 25% ticket tax increase that in one stroke added more than one billion dollars a year to airline costs; passenger facility charges that already have cost the industry an additional $1.3 billion and continue to rise; customs and immigration fee hikes of about $275 million per year; and a new fuel excise tax that is scheduled to start draining an additional $530 million per year from the industry starting in October 1995.

It is not difficult to appreciate the devastating impact of such cost increases on an industry that operates on thin after-tax margins of about two percent in its best years. The story of the airline industry in the '90s is a textbook example of the damage that ill-conceived tax policy can do to a vital industry. Fortunately, there are cures for this damage that will safeguard the jobs of highly skilled workers, allow for repairs to our industry's breached capital structure and help protect the industry from the next inevitable cyclical downturn.

President Clinton's National Commission to Ensure a Strong and Competitive Airline Industry called on Congress to "relieve the airline industry of its unfair tax and user fee burden" and recommended that the passenger ticket tax increase be rolled back. More recently, 56 Senators wrote the President a bipartisan letter urging cancellation of the jet fuel excise tax increase.

The U.S. airline industry is the most competitive in the world. We could be one of America's most successful global industries as well. We simply need the unfair tax burden lifted. Congress and the White House know this. They simply must choose to act.

1994 In Review

Northwest Airlines Corporation's 1994 results reflected three years of effort to implement a new and highly-focused business strategy. The company set annual records for both operating revenue and net income, reporting a net profit in each quarter.

Much of the improvement in profitability resulted from increased marketing focus on Northwest's key strategic assets. The airline launched new or expanded service in more than 20 domestic and international markets, with new flying focused on the company's network hubs. The airline supported this growth by shifting assets from under-performing markets rather than by adding capacity (available seat miles flown actually declined 2.5% year-over-year). As a result, the company's operating margin increased almost three-fold, from 3.1% in 1993 to 9.1% in 1994 and Northwest was one of the few major airlines to record growth in revenue per available seat mile (RASM) in 1994, improving 8.5% to 10.65¢/ASM from a 1993 RASM of 9.82¢/ASM. Profitability also benefited from continued aggressive cost control. Overall operating expenses declined one percent year-over-year and operating costs per ASM were essentially flat at 9.69¢.

Northwest Airlines Corporation strengthened its balance sheet in 1994, improving liquidity and securing a more conservative debt amortization schedule. The company completed more than $1.7 billion in financing in 1994, including a $265 million common stock offering in March and a $450 million refinancing of its major bank loan. The company's year-end total liquidity of $1.3 billion included cash and cash equivalents of $468 million, short-term investments of $500 million and $291 million in borrowing capacity under its revolving credit facility. Net debt was reduced by $1.3 billion during the year.

Northwest further refined its fleet plan to meet current and anticipated system needs. After exhaustive engineering, economic and marketing studies, the company finalized plans to hushkit and refurbish its fleet of 100-seat McDonnell Douglas DC-9-30 aircraft. The plan will bring the DC-9-30 fleet into Stage III noise compliance and will allow Northwest to forego an unnecessary $3 billion investment in replacement of the DC-9-30 fleet with new aircraft. As of March 1, 1995, Northwest had placed firm orders for hushkits for 80 DC-9-30 aircraft, and held options to order 50 additional hushkit shipsets.

In February 1995, the company announced a rescheduling of Boeing aircraft deliveries, moving 15 B-757 deliveries forward to 1995 and 1996, and deferring 25 remaining B-757 deliveries until 2003-2005. The new schedule also gives Northwest the option to defer four B-747-400 deliveries to as late as 2002 and 2003. Northwest has obtained financing for the first 15 B-757 deliveries.

North America

Northwest Airlines' North American route system was on-time and exceeded profit expectations in 1994. For the fifth consecutive year, Northwest finished first among the seven largest U.S. airlines in domestic on-time performance statistics compiled by the U.S. Department of Transportation.

At the major domestic hubs, Detroit and Minneapolis/St. Paul, the airline further expanded schedules, adding eight new routes. At year end, Northwest offered more than 445 daily jet and Airlink departures from Detroit and more than 420 daily departures from Minneapolis/ St. Paul, up from approximately 400 and 405 daily departures respectively at year-end 1993. Northwest continued its successful wintertime "fun and sun" weekend leisure flying packages, primarily targeting ski resort destinations in the U.S. and Canada and beach destinations in Mexico.

In March, Northwest completed the rescheduling of the Memphis hub, converting six daily directional connecting banks into three daily omni-directional connecting banks. Total daily jet and Airlink departures at Memphis increased from approximately 215 at year-end 1993 to approximately 220 at year-end 1994.

The company supported increased jet service schedules at its three North American hubs with continued reductions in non-hub jet flying and improved schedule utilization of Airlink regional airline service. Northwest reduced domestic jet service from Boston, reducing or eliminating jet service from Boston to Florida, Washington D.C., and the West Coast. The company maintains a regional service partnership with Business Express Airlines to provide connections to and from Boston. Northwest began a regional service partnership with Trans States Airlines to provide connections from eight California cities to Northwest international and domestic jet service at Los Angeles and San Francisco. Only 7% of scheduled domestic seat miles are now non-hub flying.

The industry pricing environment improved in 1994. A major pricing issue facing network airlines like Northwest was how to maintain fare levels that can support frequent and convenient network service while still making airlines accessible to price-sensitive leisure travelers. Northwest adopted a strategy of brief, frequent and carefully targeted leisure fare sales that made bargain fares available to budget travelers while avoiding significant dilution of business travel revenue. The strategy was most successful in the first half of the year, before longer sale periods and less carefully structured sales originated by competitors caused deterioration of unit revenues.

During 1994 the company completed major customer service initiatives to improve both customer service and profitability. The introduction of A La Carte food service was completed throughout the domestic system. A La Carte offers passengers a simpler service

Northwest Airline North American Route System
New or expanded service in 1994
To Anchorage
To Anchorage
Edmonton
Vancouver
Kalispell
Seattle/Tacoma
To Honolulu
Spokane
Winnipeg
Minot
Grand Forks
Great Falls
Missoula
Portland
Fargo/Moorhead
Bismarck/Mandan
Bozeman
Billings
Boise
Rapid City
Rochester
Sioux Falls
Sioux City
Omaha
Des Moines
To Honolulu
Reno
Sacramento
San Francisco
San Jose
To Honolulu
Salt Lake City
Steamboat Springs (Hayden)
Vail (Eagle)
Denver
Wichita
St. Louis
To Honolulu
Las Vegas
Ontario
Los Angeles
Orange County
San Diego
Albuquerque
Phoenix
Tucson
Oklahoma City
Dallas/Fort Worth
Austin
San Antonio
Houston
Puerto Vallarta
Mexico City
To Ixtapa/Zihuatanejo
To Acapulco
Traverse City
Green Bay
Saginaw/Bay City/Midland
Grand Rapids
Milwaukee
Madison
Lansing
Detroit
Kalamazoo
Chicago (O'Hare)
South Bend
Chicago (Midway)
Ft. Wayne
Columbus
Cleveland
Toronto
Montreal
Rochester
Syracuse
Albany
Buffalo
Boston
Providence
Hartford/Springfield
Westchester
Newark
New York (La Guardia)
Allentown
Philadelphia
Pittsburgh
Harrisburg
Baltimore
Washington, D.C. (National)
Washington, D.C. (Dulles)
Indianapolis
Dayton
Cincinnati
Louisville
Richmond
Norfolk
Raleigh/Durham
Nashville
Knoxville
Charlotte
Greenville/Spartanburg
Memphis
Atlanta
Birmingham
Fort Walton Beach
Jacksonville
Baton Rouge
New Orleans
Orlando
Tampa/St. Petersburg
Sarasota/Bradenton
West Palm Beach
Fort Lauderdale
Fort Myers
Miami
Cancun
Cozumel
Grand Cayman
Montego Bay
San Juan
St. Maarten

and the opportunity to choose from a variety of menu items, often featuring name-brand foods such as Vie de France, Corky's Barbecue or Leeann Chin Chinese foods. A La Carte both improves selection and reduces waste. As a result, A La Carte service costs less and provides greater customer satisfaction than traditional in-flight food service.

The company completed installation of AirOne air-to-ground telephones in 225 DC-9/MD80, 727 and A320 aircraft. The new system offers greater calling range through a larger network of ground stations; more caller convenience with telephone handsets permanently installed in every seat row; and superior call quality and data transmission compatibility resulting from all-digital technology.

Pacific Region

In 1994, Northwest Airlines marked its 47th year of transpacific flying. Northwest has flown the Pacific longer than any other U.S. airline and offers the most service of any airline in the U.S.-Japan market.

Northwest's Japan presence capitalizes on the airline's unique position under the 1952 U.S.-Japan bilateral agreement, which gives Northwest extensive rights to carry traffic between Japan and as many as 16 U.S. gateways and between Japan and other Asian destinations. Additionally, Northwest has the largest slot portfolio of any non-Japanese airline at slot-constrained New Tokyo International Airport (Narita), with 316 weekly takeoff and landing slots (almost fifty percent more slots than the next largest non-Japanese competitor, United Airlines).

Northwest currently uses this authority and slot portfolio to operate a Narita-based network linking seven U.S. gateways and ten Asian and Micronesian destinations via Tokyo.

Northwest's Pacific strategy in 1994 focused primarily on strengthening its strategic presence in Japan. Aircraft were reallocated from marginal Asian routes to more profitable services to Tokyo and Osaka.

A second key to the airline's Pacific strategy was increased focus on Detroit as a transpacific gateway. Under its unique traffic rights Northwest is able to operate unlimited frequencies between Detroit and Japan, and the airline's strong domestic passenger feed into the Detroit hub makes Detroit the quickest and most convenient transpacific gateway for much of the Eastern and Midwestern United States. Northwest increased its Detroit-Narita service to two daily roundtrips.

These efforts and a gradually recovering Japanese economy helped Northwest show improved profitability in the Pacific.

The opening of Osaka's new Kansai International Airport on September 4 offered opportunity for Northwest to expand its presence in Western Japan. The Kansai

region, Japan's industrial heartland, is home to 20 million people and boasts a gross domestic product greater than that of Canada. Like Narita International Airport in Tokyo, Osaka's former international airport, Itami, was slot-constrained and accommodated only 175 international departures each week.

With the opening of Kansai, Northwest expanded service to Osaka from Detroit, Los Angeles and Honolulu. The addition of Osaka-Manila service and the inauguration of exclusive Seattle-Osaka service on January 6, 1995, further solidified Northwest's position in the Kansai market.

Northwest continued to build its leisure travel presence in the popular Japan – "beach destination" markets of Honolulu, Guam and Saipan. Northwest operates 19 weekly Boeing 747 flights from Tokyo to Honolulu, extensive service from Kansai, Fukuoka and Nagoya to Honolulu and daily service from Tokyo to Guam and Saipan.

The airline improved its on-board product in the Pacific Region in1994 with the launch of World Business Class service in February. World Business Class is an enhanced business class product jointly developed by Northwest and KLM and jointly introduced on all international routes flown by the carriers. The focal point of World Business Class is a roomier, more comfortable seat. Pitch, the distance between seat rows, was increased from 38 to 48 inches and seat recline was increased from 7 to 11 inches. This provides one of the best sleeping environments on long-haul international flights.

Other features of World Business Class service include better quality pillows, blankets, lavatory amenities, in-flight reading materials, video programming and menus. In addition, all of Northwest's ground and in-flight staffs were specially trained in the new service.

The airline improved its distribution system in Japan and its range of tour products. One of the unique aspects of the Japanese market is the size of the organized tour segment, which provides roughly 80% of Northwest's Japan outbound traffic. Most of this business is controlled by a few large tour operators and Northwest's success in recent years has benefited from efforts to build strong relationships with these companies.

These combined improvements resulted in Northwest boarding more than one million passengers in Japan in 1994 for the third year in a row (accomplished two weeks earlier than in 1993). Today, almost one out of every 10 Japanese travelers who departs Japan by air flies on Northwest. This sizeable market share makes Northwest the largest foreign carrier serving Japan.

Northwest also continued its expansion in the rapidly growing Chinese market during 1994. Service to China (Beijing and Shanghai) doubled in the spring and exclusive nonstop service from Seattle to Hong Kong was launched in November. The route was introduced with a no-smoking policy in all compartments. Hong Kong remains the primary gateway to China.

The U.S. Department of Transportation in 1994 awarded Northwest five additional weekly frequencies to China. Pending approval by the Chinese government, Northwest will use this new route authority to expand service to Beijing and Shanghai in 1995.

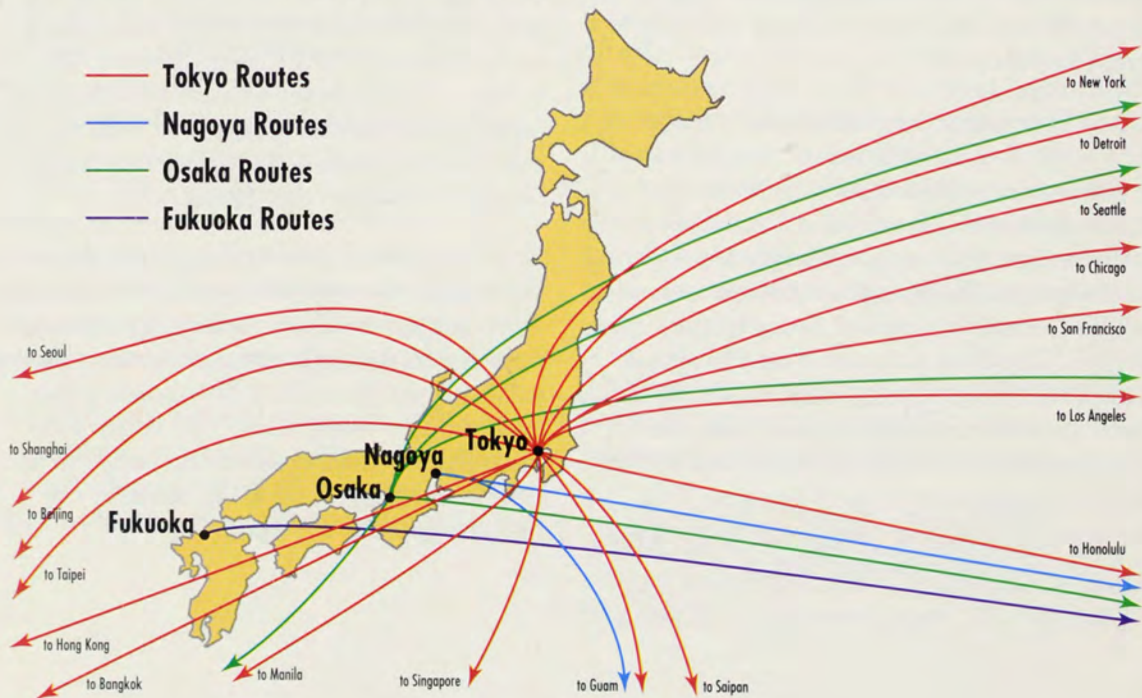
Northwest eliminated unprofitable Pacific services in 1994 in order to support expansion of potentially profitable services at Kansai and elsewhere in the region. Service to Australia, inaugurated in 1991, was suspended in August due to route over-capacity and resulting poor yields.

In addition, Northwest dropped service from Honolulu to Guam and further reduced service to Seoul, Korea, eliminating both Seoul-Los Angeles and Seoul-Seattle service.

To maintain presence in the Korea market, the airline signed a marketing agreement with Asiana Airlines to provide code-share service to Seoul from five destinations: New York, San Francisco, Los Angeles, Honolulu and Saipan.

While non-Japan markets in the region were marked by over-capacity and continued yield erosion in 1994, Japan markets saw a firmer price environment and yield improvement. A continuation of this trend along with the general recovery of the Japanese economy, continued enhancement of Northwest's Pacific products and further development of Northwest's Asia distribution system promise continuing improvement in the Pacific Region in 1995.

Northwest Airlines Japan Route System



Atlantic Region

Northwest Airlines in 1994 continued its successful Atlantic strategy of serving Europe, Africa and the Middle East via strategic alliance.

Taking advantage of the unique grant by the U.S. government of antitrust immunity, Northwest and KLM Royal Dutch Airlines jointly operate transatlantic services, including pricing, scheduling, product development and marketing.

Northwest and KLM presently operate under a joint venture agreement which includes all of the two airlines' services between ten U.S. cities and KLM's Amsterdam hub. This joint service has been particularly successful in the Minneapolis/St. Paul-Amsterdam and Detroit-Amsterdam markets which link Northwest's powerful hubs to Amsterdam and destinations beyond Amsterdam. Service on both of these routes is planned for twice-daily in 1995 and non-stop service between Amsterdam and Northwest's Memphis hub will be launched.

In 1994 Northwest and KLM expanded code-share service to a total of 88 North American cities beyond Northwest's Detroit and Minneapolis/St. Paul hubs, and to 29 European, Middle Eastern and North African cities beyond KLM's Amsterdam hub. Code-share service provides convenient single-system service on routes such as Des Moines-Abu Dhabi, a route that would be impractical for either airline to serve by itself. Passengers enjoy single-ticket convenience, luggage check-through and frequent flier mileage credit for all segments on either airline.

Northwest's transatlantic route strategy also included suspension of service in under-performing markets. Boston-Glasgow service was suspended October 25. Several airlines entered the U.S.-Glasgow market in recent years which led to over-capacity and declining yields. In early 1995, Northwest also suspended Boston-Paris and Boston-Frankfurt service. Aircraft and staffing resources from these routes will be reassigned to increased Detroit-Frankfurt flying and to the Detroit-London route, with service planned to begin in the second quarter of 1995, pending government approval.

Northwest Cargo

Northwest Airlines is the only U.S. passenger airline that also operates a dedicated fleet of main-deck freighter aircraft. Northwest Cargo's eight Boeing 747 freighters fly regularly scheduled routes between the U.S. and Asia and along with Northwest's extensive belly freight capacity in the passenger fleet make the airline one of the leading air freight competitors both in North America and in Asia.

Cargo accounts for over eight percent of Northwest Airlines Corporation's total revenue and historically has been a stable contributor to corporate revenues. This trend continued in 1994, as the company's freighters often operated at more than 90% capacity and overall cargo ton miles increased 6.1%.

In 1994, Northwest launched an effort to further improve this performance and develop Northwest Cargo to its full potential. William D. Slattery was named President of Northwest Cargo in addition to serving as an executive vice president of Northwest Airlines Corporation. The new management team's goal is to increase Northwest Cargo's revenue contribution to 15 to 20% of total corporate revenue by the end of the century by developing additional capacity, alliances and interline arrangements.

Northwest Cargo's principal focus will remain on the Pacific Region. More than 60% of Northwest Cargo traffic is carried on transpacific and intra-Asia routes and Northwest is second only to Japan Airlines in the amount of cargo capacity in the region. In 1995 and beyond, significant increases in cargo traffic are expected in markets such as Hong Kong, China and Singapore.

Domestically, Northwest Cargo in 1994 realigned its sales regions emphasizing the importance of customer service and marketing. The new sales efforts are designed to enhance the pricing structure and to improve yields and revenue from all products. These new sales regions will complement expansion efforts in the National Accounts, Government and Military Accounts and International Cargo Management programs.

Northwest Aerospace Training Corporation (NATCO)

Northwest Aerospace Training Corporation (NATCO), based in Eagan, Minnesota, is the world's largest independent, airline-affiliated training corporation. The wholly-owned indirect subsidiary of Northwest Airlines Corporation offers full service pilot and air crew training programs for eight different aircraft types. NATCO operates 20 full-motion, full-video, computer- controlled flight simulators housed in its 285,000 square foot classroom and training facility in Minnesota, plus an MD82 simulator in Seattle, Washington.

In 1994, approximately 62% of NATCO's training revenues were from Northwest Airlines. NATCO grew its non-Northwest revenues by 21% year-over-year, strengthening its position as one of the leading airline training centers in the world.

The corporation increased its global market share by gaining a sixth major Chinese airline customer for pilot training, adding two contracts from Taiwanese airlines, and signing its first Russian training contracts.

NATCO added Continental Airlines to its U.S. customer base and added a Boeing 727 simulator to its "fleet" to meet the increased training demands of its largest U.S. customer, Northwest Airlines.

In response to new FAA regulations and industry training demands, NATCO also developed several new training programs. An advanced qualification program (AQP) was designed to market to major national and regional airlines, along with regional airline programs aimed at satisfying recent industry training and safety concerns for these carriers.

NATCO currently provides training services to more than 100 airlines, non-airline jet operators and government agencies.

MLT Inc.

MLT Inc., a wholly-owned indirect subsidiary of Northwest Airlines Corporation, is one of the largest vacation wholesaling companies in the United States. From their headquarters in the Minneapolis suburb of Minnetonka, MLT's 900 employees provide leisure travel and vacation products and services to almost a million customers each year.

MLT's product offerings include both MLT Vacations and Northwest WorldVacations. These packages typically include components such as discounted charter or scheduled air travel, hotel accommodations, rail passes, event tickets, sightseeing tours and car rental. As a tour wholesaler, MLT relies on volume purchasing discounts to offer customers significant savings on vacation travel packages. MLT sells its vacation products through travel agencies as well as direct to consumers. In 1994, MLT's gross revenue was $341 million, an increase of 9.3% over 1993 revenue of $312 million. Enhancement of several MLT products contributed to this growth.

WorldVacations, Northwest and KLM's private label vacation product, expanded its European destinations to include Bergen, Norway, and Antwerp and Bruges, Belgium. Additional U.S. destinations also were added. These new destinations include Branson, Missouri, Memphis, Nashville and New Orleans – all part of WorldVacations new "Music Cities" packages.

MLT Vacations, a vacation wholesale product supported by charter service, added Wichita, Kansas, to its list of origin cities for Las Vegas vacation packages. MLT Vacations also added additional flights in its most popular markets, especially the Dallas-Mexico market where MLT Vacations' summer travel packages have been in high demand.

Together, WorldVacations and MLT Vacations offer packages to more than 100 destinations worldwide throughout the Caribbean, Mexico, Asia and the United States.

Employee Recognition

"Always support and inspire each other" is a guiding principle of Northwest Airlines. The company's recognition programs for employees support and inspire by singling out our best.

- *Honor Roll* is the quarterly employee publication that salutes every employee who has received a commendation from a customer, a supervisor or a fellow worker. In 1994, Honor Roll recognized 12,678 employees for exceeding customers' or co-workers' expectations.
- *The Caring Award* honors Northwest people who exceed the call of duty to deliver outstanding customer service. Northwest recognized 13 employees in 1994 with this award.
- *The Global Partner Award* honors Northwest and KLM employees who provide outstanding service to advance the Northwest/KLM Alliance. This award was presented to 12 employees – six from each of the partner airlines.
- *Twenty-five Year Service Anniversary Awards* were presented to 1,230 employees in 1994, honoring their long-term commitment to Northwest. Twenty-five year employees are honored each fall at a gala banquet in their honor in Minneapolis.

In 1995, Northwest will present for the first time three more employee recognition awards:

- *The Northwest Medal of Honor* will be presented to employees whose heroism prevents injury, loss of life, or severe damage to equipment or property.
- *The Support & Inspiration Award* will be presented to Northwest people who demonstrate outstanding concern for their colleagues in the best spirit of the company's Guiding Principle to support and inspire each other.
- *The Excellence Award* will be presented to employees who have contributed extraordinarily to the profitability and success of Northwest.

Employee Profile

	1994	1993
Flight Attendants	8,603	8,688
Mechanics	6,495	6,413
Equipment Service Employees	5,385	5,092
Customer Service Agents	5,015	4,849
Pilots	4,965	4,984
Management/Technical	3,667	3,520
Reservation Sales Agents	3,356	3,385
Secretaries/Clerical	2,363	2,375
Other	1,947	1,955
Cleaners	1,296	1,242
Subsidiaries - primarily MLT	987	855
Total Employment	44,079	43,358

The President's Awards

In 1994 Northwest Airlines Corporation President and CEO John Dasburg presented the President's Award to five employees.

The President's Award honors performance at the highest level, recognizing those who have made significant contributions to achieving Northwest's mission, goals and guiding principles.

The five honorees and their achievements were:

Sandra Shull, a 24-year flight attendant based in Seattle. Shull encountered a very upset, elderly passenger in the Seattle-Tacoma International Airport. The elderly woman had missed her British Airways flight to London when her Alaska Airlines flight arrived too late. Shull took the distraught, lost passenger under her wing and, despite the fact that Shull's family was waiting for her at home, stayed overnight with the passenger at her hotel. The next day Shull returned to British Airways with her new friend in tow, happy and well cared for, even walking her to her seat on the plane.

Mami Kasuya, manager-government affairs in Tokyo. Managing Northwest's government and political affairs in Japan requires a tremendous amount of diplomacy and discretion, particularly given the importance of Northwest's relationship with the Japanese government, especially the Ministry of Transport. Kasuya capably and effectively represents Northwest's interests before the Japanese government and has won great respect for her work as well as improving Northwest's image and respect throughout Japan. In 1994, Kasuya was recognized by the staff of the Japanese Ministry of Transport for her work – an unofficial honor, but also an extremely rare salute to an employee of any company, especially a foreign-owned company.

Dann Runik, Detroit captain. A physically disabled passenger on one of Runik's flights was concerned that his experimental medication – which needed to be kept frozen – would get too warm during a flight delay. Runik took it upon himself to go out and find more dry ice and make sure the customer's medication was repacked and kept frozen. He also helped the passenger in and out of his wheelchair, wheeled him to the rest room, and waited with him during the delay. When the flight was ready for reboarding, the customer was shocked to learn that Runik was the plane's captain – he'd had no idea!

Rick Beaudoin, equipment service employee, and **Dave Cabralin**, mechanic, both in Detroit. In February 1994 Beaudoin and Cabralin saved the life of a fellow employee who was accidentally struck by a ramp tug. Beaudoin and Cabralin, first on the scene, found the injured employee rapidly bleeding to death from severe cuts. Calling on their extensive emergency medical training and reacting quickly, they applied a tourniquet to stop the bleeding and assisted the injured employee until medical help arrived.

Northwest AirCares

Along with a commitment to providing reliable, convenient and consistent air travel, Northwest Airlines is committed to enhancing the quality of life in the communities where we live and work. That's why the Northwest AirCares charitable support program was created in 1992.

Each quarter, AirCares works with a different non-profit organization in a public awareness and onboard fund-raising campaign. On every flight passengers learn about the mission of the charity partner through a flight attendant announcement or a descriptive video. In addition, Northwest's in-flight magazine *WorldTraveler* features an article describing the organization and includes an envelope for passenger contributions. As an incentive, Northwest offers 500 WorldPerks bonus miles to anyone who donates a WorldPerks FlyWrite ticket or $50 or more.

In 1994, the Northwest AirCares program benefited four organizations that address a wide-range of problems that affect society today – from world hunger to blindness. They include:

Share Our Strength (SOS)
Share Our Strength is one of the nation's largest non-profit hunger relief organizations, with the goal of alleviating and preventing hunger in the United States and around the world. With the help of volunteers who contribute skills and resources, SOS distributes grants, educates the public, and organizes community outreach programs.

SightFirst
This Lions Club International program is dedicated to eliminating preventable and reversible blindness throughout the world. From recycling used eyeglasses to funding mobile units and eye hospitals in foreign countries, SightFirst is leading the charge against sight impairment.

The Nature Conservancy
The Nature Conservancy helps preserve plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Conservancy and its members have been responsible for the protection of over 7.5 million acres in 50 states and Canada.

Toys For Tots
Founded on the premise that "every child deserves a little Christmas," the U.S. Marine Corps Reserve Toys for Tots program has been dedicated to providing millions of toys annually to needy children for almost 50 years. The Toys for Tots Foundation reported that the AirCares program was "by far" their most successful fund-raising project of the year.

In addition to working with four on-board charity partners each year, AirCares swings into action as needed with special projects to answer community needs. In 1994, for example, Northwest conducted a special summer fare sale in which $1 from every ticket sold was donated to AirCares partners. And when an earthquake devastated the Kobe region of Japan in 1995, AirCares worked with Northwest Cargo and the AmeriCares organization to launch special 747 freighter relief flights. The flights were filled with donated disaster supplies and donated fuel, and crewed by Northwest people donating their free time to work the relief missions.

The AirCares program is unique to the industry and recognized nationally for its innovation in community relations, including a special Platinum Award as outstanding entry in its category.

Northwest and its employees are also major contributors to the United Way, and our employees volunteer countless hours to various causes.

Financial Review

Northwest Airlines Corporation has complementary operating and financial strategies to maximize shareholder value. The Company's financial strategy has two primary components:

- Maximize financial return on assets
- Improve the Company's strategic and operating flexibility through capital structure management

Maximize Return on Assets

Northwest seeks to maximize return on assets by deploying existing assets where they can generate maximum returns and by investing in additional assets only when they can produce superior returns. Two recent initiatives demonstrate the Company's commitment to this objective: the strategic route restructuring and the DC-9 refurbishment program.

Route Restructuring. Northwest has restructured its route system to redeploy aircraft to markets where the Company has the competitive advantage of speed and frequency. Available seat miles (ASMs) in Minneapolis/St. Paul and Detroit have increased significantly since 1992 and domestic hub flying now represents 93% of domestic ASMs. Japan now represents 92% of Pacific ASMs compared to 66% two years ago. The focus on hub flying has greatly improved the return on the redeployed assets by increasing the revenue generating capability of these assets. This strategy has also reduced revenue risk by reducing operations in short haul, high density markets which are susceptible to high-frequency, low-fare competition. Less than 5% of Northwest's revenues are now generated in these markets.

DC-9 Refurbishment Program. Northwest announced plans to invest $430 million over five years to hushkit and refurbish its fleet of highly efficient DC-9-30 aircraft. This decision allows the Company to continue to operate this highly reliable aircraft profitably, while foregoing a $3 billion unnecessary investment in new aircraft. As a two-pilot, two-engine aircraft, the DC-9-30 does not have a significant operating cost disadvantage versus new aircraft. Thus by producing similar operating economics at significantly lower capital cost, this program greatly enhances return on assets compared to replacement of the DC-9s with new aircraft.

Other Initiatives to Improve Return on Assets. Northwest has undertaken a number of other initiatives to maximize return on assets, including restructuring its fleet plan to match future capital investment with the Company's strategic plan. Since 1992, the Company has cancelled over $10 billion of firm aircraft

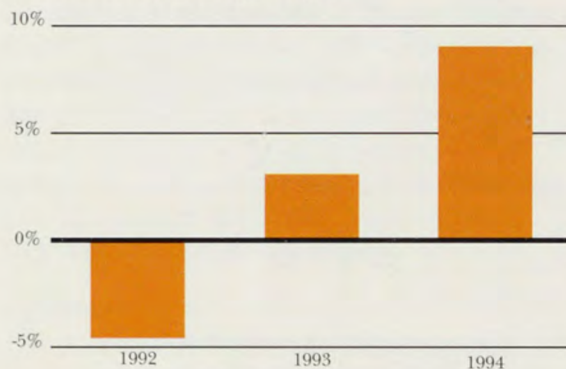
orders and options and deferred deliveries of an additional $4 billion. New aircraft commitments over the next five years are now limited to five B-757's in 1995, ten B-757's in 1996 and eight A330's in 1999.

Other investments that are contributing to profitability are product improvements and state-of-the-art management information systems. Investment in product improvement has helped to increase unit revenues, while investment in automation has both increased revenues and decreased unit costs.

An employee suggestion program, Northwest Now, was launched in 1992. This program has produced over 4,500 implemented ideas worth an estimated $140 million in increased asset productivity, revenue improvement and cost reduction.

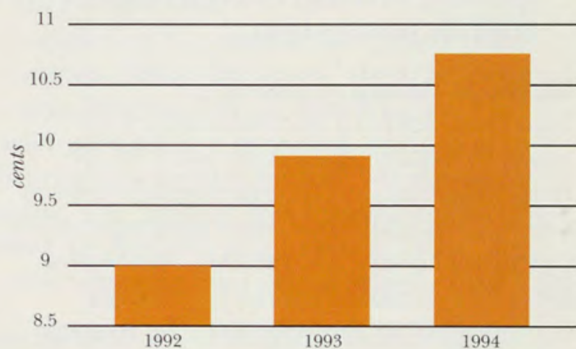
Results. Operating returns have improved dramatically with operating margins increasing from - 4.6% in 1992 to 9.1% in 1994. Operating income of $830.4 million and net income of $295.5 million in 1994 were company records.

Northwest Operating Margin



The major driver of this improvement has been revenue/ASM which has increased 18% since 1992. The redeployment of assets to areas of competitive strength and the investments in product improvement and management information systems played a major role in this increase.

Northwest Revenue per ASM



Improve the Company's Strategic and Operating Flexibility through Capital Structure Management

Northwest's financing strategy focuses on maintaining adequate levels of liquidity, prudent debt amortization schedules, and capital structure management that minimizes capital costs. Northwest's 1994 financing requirements were met through substantial cash flow from operations and new external financings.

Free Cash Flow. Northwest's record profitability combined with prudent investment in capital generated significant cash flow in 1994. Free cash flow (cash from operations less capital expenditures) was $1.2 billion. Free cash was used to improve the Company's liquidity position and reduce debt.

External Financings. Northwest completed more than $1.7 billion of new, cost-effective financings in 1994, the majority of which were refinancings that served to either pay down the 1997 debt amortization or extend and level existing maturities. Highlights of the 1994 financing activity include:

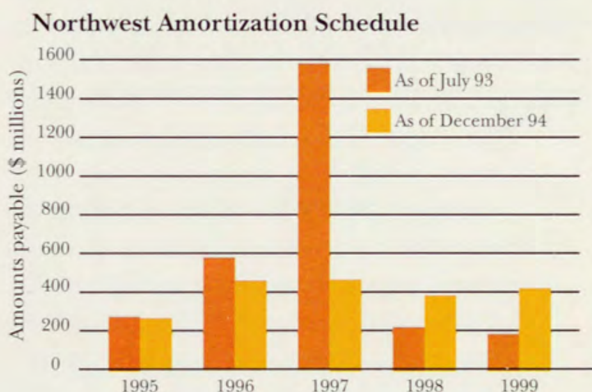
- A $265 million initial public equity offering which returned Northwest to the public equity markets for the first time since 1989.
- A $450 million refinancing of the Company's major bank loan which lengthened its term and leveled maturities.
- Two innovative structured aircraft financings totaling $645 million which lowered borrowing costs and extended maturities.
- A $175 million receivables financing which also lowered borrowing costs and extended maturities.
- $248 million of DC-9 hushkit and other financings.

Results. Northwest's 1994 financing actions resulted in major improvements in liquidity, debt amortization and capital structure.

Liquidity (cash and short-term investments plus available revolver capacity) improved to $1.3 billion by year-end 1994, giving the Company significant financial flexibility.

Northwest's debt amortization schedule was dramatically improved in 1994 with the 1997 maturity being reduced from $1.6 billion to under $500 million. The Company now has no annual amortization greater than $480 million for the next five years and believes these obligations can be comfortably met while maintaining Northwest's operating and strategic flexibility.

Northwest Amortization Schedule



Capital structure was also dramatically improved in 1994 by both reducing debt and raising equity. Debt (net of cash) was reduced by $1.3 billion. Interest coverage has improved from 1.1 in 1992 to 2.4 in 1994 and now compares favorably with Northwest's major network airline competitors. Equity was raised through the $265 million initial public offering and through the generation of significant retained earnings. Balance sheet net worth improved by $660 million.

Outlook

Northwest has excellent opportunities to further improve return on assets by continuing to focus on areas of competitive strength. The recently signed U.S.-Canada open skies agreement enhances strategic assets at Minneapolis/St. Paul and Detroit which are particularly well located hubs to provide convenient service between markets in Canada and the U.S. Northwest's greatest growth opportunity is in the Pacific. As the largest carrier in the U.S.-Japan market, the Company is well positioned to share in the economic rebound when it occurs in Japan. Furthermore, Northwest's strategic Tokyo hub provides an ideal opportunity to participate in high-growth Pacific markets such as China, where the Company recently gained authority to increase frequency by 125%.

Northwest is now well positioned with efficient aircraft and relatively modest future capital commitments. The Company will review future capital investment opportunities as they arise and will make additional investments if they are consistent with the objective to produce superior returns. Cash flow from operations in excess of that which the Company believes can be invested at superior returns will be used to reduce debt.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Northwest Airlines Corporation ("NWA Corp." or the "Company") reported net income of $295.5 million and operating income of $830.4 million for the year ended December 31, 1994, the highest annual net income and operating income in the Company's history. Net income and operating income increased by $410.8 million and $558.0 million, respectively, compared with 1993. Primary earnings per share was $2.92 ($2.87 fully diluted), compared with a loss of $2.82 per share (both primary and fully diluted) in 1993. The improved profitability was primarily the result of a $416.6 million increase in passenger revenue over 1993.

During the past three years the Company has taken actions to improve its financial condition and operating performance by improving its product, reducing and revising its route structure to focus on its strategic assets, strengthening its marketing and other operating relationships, reducing labor and other operating costs, canceling or deferring new aircraft deliveries, rescheduling debt maturities, reducing preferred stock dividends and deferring preferred stock redemption obligations. The effect of these changes, coupled with improved general economic and industry conditions, resulted in a significant operating income improvement during 1994.

Northwest Airlines, Inc. ("Northwest") is the principal operating subsidiary of NWA Corp., accounting for more than 96% of the Company's 1994 consolidated operating revenues and expenses. The Company's operating results are significantly impacted by both general and industry economic environments. Small fluctuations in yield per revenue passenger mile ("RPM") and cost per available seat mile ("ASM") can have a significant impact on profitability.

Results Of Operations – 1994 Compared With 1993

Operating Revenues. Operating revenues were $9.1 billion, an improvement of $494.0 million (5.7%). System passenger revenue (which represented 84.6% of total operating revenue) also increased 5.7%. The increase was primarily attributable to a 6.2% increase in system yield and a 2.1% (1.4 points) increase in passenger load factor, partially offset by the impact of a 2.5% decrease in capacity as measured by scheduled service ASMs. The increase in passenger revenue resulted largely from the redeployment of aircraft to more profitable markets, an improved U.S. economy and Company-initiated pricing actions. Revenue per total service ASM increased 8.5%.

Domestic passenger revenue of $4.7 billion increased $343.8 million (7.9%) primarily because domestic yield increased 6.6% to 13.92 cents and passenger load factor increased by 2.2% (1.4 points). Pacific passenger revenue increased .6% to $2.6 billion, due to a 5.3% increase in yield and a 1.7% (1.2 points) increase in passenger load factor, partially offset by the impact of a 6.1% decrease in scheduled service ASMs. Transatlantic passenger revenue increased 14.4% to $455.1 million, primarily due to a 10.2% increase in yield and a 4.1% (3.1 points) increase in passenger load factor.

The composition of the Company's operating revenues in each of the past three years is summarized below:

	1994	1993	1992
Passenger revenue			
Domestic	**51.5%**	50.5%	49.0%
Pacific	**28.1**	29.5	30.8
Transatlantic	**5.0**	4.6	5.1
Cargo revenue	**8.3**	8.5	9.1
Other revenue	**7.1**	6.9	6.0
Total operating revenues	**100.0%**	100.0%	100.0%

Cargo revenue increased $21.0 million (2.9%) due to an $18.0 million increase in freight revenue and a $3.0 million increase in mail revenue. Other revenue increased by $56.4 million (9.4%) due to increased passenger charter revenue, transportation service charges and other incidental services provided to third parties.

Operating Expenses. Operating expenses declined $64.0 million (.8%) while operating capacity decreased 2.6% to 85.8 billion total service ASMs and operating expense per total service ASM increased 1.9%. Salaries, wages and benefits decreased $111.8 million (4.6%) primarily due to the labor cost savings resulting from the labor agreements which became effective August 1, 1993. Non-cash stock-based employee compensation expense was $107.2 million and $93.1 million during 1994 and 1993, respectively. Commissions for 1994 rose $86.1 million (5.7%) primarily as a result of a 5.7% increase in passenger revenue. Aircraft fuel, oil and taxes decreased $107.2 million (9.2%) due to a 9.4% decrease in average fuel price per gallon to 56.2 cents and a .5% decrease in gallons consumed. Aircraft maintenance materials and repairs increased $28.0 million (7.6%) due to the timing of maintenance activities and increased engine parts usage. As a consequence of its DC-9-30 enhancement program discussed below, effective January 1, 1994, the Company extended the depreciable lives of its DC-9-30 aircraft. The net effect of the revision and certain other changes was to reduce 1994 depreciation as discussed in Note A to Consolidated Financial Statements. Other expenses (the principal components of which include outside services, passenger food, selling and marketing expenses, personnel and advertising) grew $74.5 million (4.6%), due primarily to increased advertising related to the launch of the Northwest/KLM World Business Class product, and increased computer reservation system fees.

Other Income And Expense. Interest expense increased $12.8 million (3.4%) primarily due to an increase in the weighted average interest cost of long-term debt (from 6.7% in 1993 to 7.6% in 1994) caused by higher market interest rates and an increase in fixed rate debt from 32.8% to 51.2% of outstanding debt, partially offset by a decrease in total outstanding debt. Investment income increased by $22.8 million due to increased cash balances. The foreign currency loss of $20.2 million for 1994 was primarily attributable to balance sheet translation of foreign currency-denominated assets and liabilities. The $38.8 million decrease in other-net for 1994 was largely due to a $46.4 million foreign tax refund received in 1993 related to commissions.

Results Of Operations – 1993 Compared With 1992

Operating results improved substantially with operating income increasing by $648.6 million to $272.4 million. An increase in passenger revenues of $410.6 million together with efforts to reduce and control operating expenses contributed to this improved performance. Loss per share was $2.82 in 1993 compared with $17.78 in 1992. The 1993 and 1992 non-operating expenses included $74.3 million and $792.7 million, respectively, of nonrecurring special charges. The 1992 results also include the impact of a $108.8 million ($1.67 loss per share) cumulative effect of adopting Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefit Other Than Pensions." See Note L to Consolidated Financial Statements.

Operating Revenues. Operating revenues totaled $8.6 billion, an improvement of $521.3 million (6.4%). System passenger revenue increased 5.9% to $7.3 billion. The increase was attributable to a 6.8% increase in system yield, offset by a .8% decrease in system RPMs. Domestic passenger revenue of $4.4 billion increased $380.5 million, due mainly to a 7.0% increase in domestic yield which was largely the result of the recovery of yields from 1992 pricing discounts, flight schedule changes and targeted promotions. Pacific passenger revenue of $2.6 billion was up $48.8 million. The performance in the Pacific market was affected by a 9.0% reduction in capacity as measured by scheduled service ASMs, primarily in Korean markets, which was more than offset by improvements in yield and load factor. The improvement in yield was largely attributable to the strengthening of the Japanese yen and reduced flying in low yield markets. The $18.7 million decrease in transatlantic passenger revenue was attributable primarily to a 9.2% decrease in yield, offset by a 5.2% increase in RPMs.

Cargo revenue decreased $1.4 million (.2%), as a decrease in freight revenue was largely offset by an increase in mail revenue. Other revenue increased $112.1 million (23.0%). This increase primarily resulted from a 53% increase in charter revenue volume, increased transportation service charges related to ticket exchanges, higher frequent flyer mileage sales revenue and higher revenue for contracted airport handling of other airlines.

Operating Expenses. Operating expenses declined $127.3 million (1.5%). Operating capacity decreased 2.3% to 88.0 billion total service ASMs and operating expense per total service ASM increased .9%. Salaries, wages and benefits decreased $130.6 million (5.1%) primarily due to a 6.5% decrease in average number of full-time equivalent employees and the labor cost savings resulting from the new labor agreements which became effective August 1, 1993, offset by $20.0 million of nonrecurring special charges relating to an early retirement plan offered to contract employees. Non-cash stock-based employee compensation of $93.1 million was recorded in 1993 to reflect the December 31, 1993, value of the stock earned by Northwest employees during the period August 1, 1993, to December 31, 1993. Commissions increased $122.2 million (8.9%) primarily due to a 5.9% increase in passenger revenue and higher incentive commissions paid to international travel agents which resulted from changes in currency exchange rates. Aircraft fuel, oil and taxes decreased $76.7 million (6.2%) due to a 3.7% decrease in average fuel price per gallon to 62.1 cents and a 2.5% decrease in gallons consumed. Aircraft rentals increased $16.2 million (4.9%), reflecting additional A320 aircraft leased in 1992 and 1993. Aircraft maintenance materials and repairs in 1993 decreased $13.0 million (3.4%) due largely to introduction of new aircraft into the fleet and fewer required airframe checks. Depreciation and amortization increased $16.9 million (4.2%) due primarily to the acquisition of eight additional Airbus A320 aircraft in 1993 and aircraft modifications. Other operating expenses decreased $164.2 million (9.1%). The reduction was principally caused by a decline in spending for personnel expenses and uniforms of $44.2 million, a decline in passenger meal expense and supplies of $41.4 million primarily due to the implementation of A La Carte food service, and a decline in advertising expenditures of $27.6 million.

Other Income And Expense. Although 1993 interest expense was virtually unchanged, the weighted average interest cost of long-term debt decreased in 1993 to 6.7%, compared with 8.2% in 1992, due to lower interest rates and renegotiation of the Tokyo land mortgages. Offsetting the effect of the reduction of average interest rates was an increase in debt related to new aircraft and increased borrowings under the Company's revolving credit facility. Capitalized interest decreased $33.9 million (93.4%) because of lower advance payments for flight equipment. During 1993, the Company experienced a $37.1 million currency exchange loss compared with a $10.3 million loss for 1992 primarily due to changes in the exchange rate between the U.S. dollar and the Japanese yen.

In 1993 a $46.4 million tax refund related to foreign commissions was included in other-net. In 1993 $74.3 million of estimated non-operating nonrecurring special charges were recorded related to the cancellation of two Boeing 747-400 aircraft and financing expenses.

Liquidity And Capital Resources

As of December 31, 1994, the Company had cash and cash equivalents of $468.0 million, unrestricted short-term investments of $500.3 million and $290.8 million in borrowing capacity under its revolving credit facility, providing total available liquidity of $1.3 billion. Cash flows from operating activities for 1994 were $1.4 billion, including nonrecurring working capital improvements of $224.0 million.

1994 Financings. The Company completed more than $1.7 billion in capital market transactions in 1994, substantially rescheduling its debt maturities and reducing overall scheduled 1997 maturities by more than $1.1 billion. These financings, coupled with the Company's strong financial performance over the past 18 months and approval from certain lenders and labor groups, have allowed the Company to eliminate its obligation to raise new equity capital or long-term subordinated debt previously required under its debt and labor agreements.

Maturities of long-term debt for the five years subsequent to December 31, 1994, are as follows: $334.2 million, $478.1 million, $476.7 million, $397.2 million and $468.5 million. In addition, the Company is obligated under its Credit Agreement to make annual term loan prepayments and revolving credit facility reductions under certain circumstances (see Note D to Consolidated Financial Statements). At December 31, 1994, there were no borrowings outstanding under the Company's revolving credit facility.

Capital Commitments. The current aircraft delivery schedule includes the acquisition of 60 aircraft, with 15 Boeing 757-200 aircraft to be delivered in 1995 and 1996. See Note I to Consolidated Financial Statements for a discussion of aircraft capital commitments. Non-aircraft capital expenditures are projected to be $175 million for 1995, which the Company anticipates, to a large extent, funding with cash from operations.

In August 1994, the Company adopted a program to refurbish and hushkit its DC-9-30 aircraft fleet which will require $200 million over the next five years to meet noise and aging aircraft requirements. The Company has also elected to invest $230 million for the upgrade of aircraft systems and interior refurbishment which is currently scheduled over the next five years. The Company believes that upgrading and refurbishing its planned 106 DC-9-30 aircraft fleet rather than acquiring a significant number of

expensive new aircraft will enable it to reduce overall capital expenditures without substantial increases in system operating costs and long-term debt and without impairing the quality of customer service.

The Company is evaluating similar alternatives in order to comply with noise and aging aircraft regulatory requirements for 110 of its remaining Stage II aircraft. If comparable programs are adopted for all such aircraft, the Company estimates the required additional costs over the next five years would be approximately $335 million for engine hushkits and aging aircraft modifications. The Company has arranged supplier financing of up to $225 million for engine hushkit shipsets.

Labor Agreements. The labor cost savings agreements discussed in Note C to Consolidated Financial Statements will improve the Company's 1993 to 1996 cash flow from operating activities and will expire on various dates from August through November 1996. At the end of the Wage Savings Period, wage scales will revert to 1993 levels with potential increases pursuant to the formula set forth in the labor cost savings agreements. While the Company cannot predict the precise wage rates that will be in effect at the expiration of the Wage Savings Period (since such rates will be determined by subsequent events), the Company believes that its labor costs will remain competitive in comparison to the largest carriers.

Cash Flows. During 1994 and 1993, investing activities were primarily for aircraft modifications, spare parts and non-aircraft property and, in 1994, the purchase of highly liquid, short-term investments, and the acquisition of 21 used DC-9-30 aircraft. In 1992, investing activities were primarily for property and equipment purchases consisting principally of four new A320 aircraft, three used DC-10-30 aircraft, aircraft modifications and non-aircraft property.

Financial Position. At December 31, 1994, the Company had a common stockholders' equity deficit of $1.4 billion, had aggregate long-term debt and capital lease obligations of $4.9 billion and, like its competitors, operated with a working capital deficit which aggregated $361.5 million. The working capital deficit is attributable primarily to the air traffic liability for advance ticket sales. Additionally, substantially all of the Company's assets are currently utilized to secure its long-term debt. The common stockholders' equity deficit is primarily the consequence of the unprecedented losses experienced by Northwest (and the other largest U.S. airlines) during the 1990-1992 period. As discussed previously, the

Company has taken a variety of actions which have substantially improved operating performance, financial position and liquidity. During 1994, the common stockholders' equity deficit was reduced by $659.8 million(32.5%) primarily due to the issuance of common stock, favorable operating results and stock earned by employees. Importantly, the Company's 1995 through 1999 scheduled maturities of long-term debt have been reduced substantially and liquidity aggregated $1.3 billion at December 31, 1994. Long-term debt was reduced by $424.4 million (9.6%) during 1994. The Company's ability to continue to improve its financial position and meet its financial obligations will be dependent upon a variety of factors, including continued profitable operating results, favorable domestic and international airfare pricing environments, absence of adverse general economic conditions and continued operating cost controls.

Other Information

Fully Distributed Earnings Per Share. The effect of the accounting for stock-based compensation on the Company's operating results and earnings per share may make it difficult to compare its earnings with other companies. Accordingly, management believes the pro forma "fully distributed" earnings per share amount, which excludes stock-based compensation and includes all the shares to be issued to its employees, provides additional information and makes analysis between years more comparable. On a fully distributed basis, the Company's net income applicable to common stockholders would have been $309.5 million ($2.80 per share) in 1994.

Deferred Taxes And Net Operating Losses. As of December 31, 1994, the Company had deferred tax liabilities of $1.7 billion and deferred tax assets of $1.0 billion. The Company has recognized its deferred tax assets, including net operating loss carryforwards ("NOLs"), based on the reversal of existing taxable temporary differences and certain tax planning strategies.

The Company utilized NOLs of $465.5 million in 1994 and alternative minimum tax net operating loss carryforwards ("AMTNOLs") of $35.8 million in 1993 and $536.8 million in 1994. At December 31, 1994, the Company had NOLs of $741.0 million expiring in 2007 and 2008, available on a tax basis to carry forward to future years' tax returns. See Note H to Consolidated Financial Statements for additional information regarding deferred taxes, NOLs, AMTNOLs and credit carryforwards.

Sections 382 and 383 of the Internal Revenue Code of 1986 and the regulations thereunder impose certain limitations on the carryforward amounts of NOLs,

AMTNOLs and credits that can be used to offset taxable income in any single tax year if the corporation experiences a more-than-50% ownership change, as defined therein, over a three-year testing period ending on any testing date. Management believes that no such ownership change occurred through December 31, 1994. Accordingly, no valuation allowance relating to an ownership change has been provided with respect to NOLs or other carryforwards recognized as deferred tax assets. However, the rules under Sections 382 and 383 are complex and ambiguous and their application involves numerous legal determinations and complex factual issues. The Company has not sought or obtained a formal opinion of counsel or an Internal Revenue Service ("IRS") ruling with respect to these issues. Should the IRS successfully assert that there has been an ownership change, the Company's ability to realize deferred tax assets already recognized related to the NOLs, AMTNOLs and credit carryforwards could be limited to an amount substantially less than that recognized (including those already utilized in 1993 and 1994) to date. The effect of an ownership change would depend in part on the value of the Company's stock at the date of any ownership change. A successful assertion by the IRS that an ownership change had occurred on any prior date, including August 1, 1993 (the date of the labor cost savings agreements), could have a significant adverse impact on the Company's ability to use its NOLs, AMTNOLs and credit carryforwards since the value of the Company's stock on certain prior testing dates was relatively low, and such low value would be used in computing the annual limitation with respect to losses incurred prior to the testing date. The amount allowed would also be realized over a longer period of time than if no such limitation had existed. Further, future transactions or events could result in an ownership change.

Foreign Currency. Changes in foreign currency exchange rates impact operating income through changes in foreign currency-denominated operating revenues and expenses. A strengthening (weakening) of the yen tends to increase (decrease) reported revenue and operating income because the Company's yen-denominated operating revenue exceeds its yen-denominated operating expense. During 1994, yen-denominated operating revenue net of yen-denominated operating expense was approximately 50.3 billion yen (approximately $490.1 million). Other non-operating income (expense) is also affected as a result of foreign currency gains and losses. A strengthening (weakening) of the yen tends to increase (decrease) non-operating expense because the Company's yen-denominated liabilities exceed its yen-denominated assets. At December 31, 1994, yen-denominated liabilities exceeded yen-denominated assets by approximately 16.6 billion yen ($165.8 million). The yen to U.S. dollar exchange rate at December 31, 1994, 1993 and 1992 was 100 yen to $1, 112 yen to $1 and 125 yen to $1, respectively.

Use Of Financial Instruments. In May 1994, the Company began using a collar option strategy to hedge its anticipated yen-denominated cash flows. The Company currently has hedged approximately 80% or $455 million (45.5 billion yen) of its anticipated 1995 yen cash flow. See Note M to Consolidated Financial Statements. In the ordinary course of business, the Company manages the financial market risk of fuel costs utilizing both regulated exchange based futures contracts and over-the-counter instruments. Gains or losses on hedged contracts are deferred until the related fuel inventory is expensed. As of December 31, 1994, the Company had contract volume commitments for approximately 20% of 1995 fuel requirements.

Energy Tax Impact. In August 1993, the United States increased taxes on fuel, including aircraft fuel, by 4.3 cents per gallon. Airlines are exempt from this tax increase until October 1, 1995. When implemented, this new tax will increase the Company's annual operating expenses by approximately $46 million based on Northwest's anticipated fuel consumption.

Financial Reporting. For financial reporting purposes, the Company reports certain rebates to customers as commission expense and the Company reports operating statistics on a consolidated basis. Effective with first quarter 1995 financial reporting, the Company will report such rebates to passengers as reductions to revenues and the Company will report operating statistics for Northwest only. These changes will conform the Company's financial reporting with the reporting practices of other large U.S. airline companies.

Consolidated Balance Sheets (Dollars in millions)

Northwest Airlines Corporation

	December 31	
	1994	1993
Assets		
Current Assets		
Cash and cash equivalents	$ 468.0	$ 139.6
Short-term investments	601.9	52.7
Accounts receivable, less allowance (1994–$19.5; 1993–$22.0)	640.4	725.5
Flight equipment spare parts, less allowance (1994–$86.2; 1993–$69.6)	226.7	196.9
Deferred income taxes	88.0	76.2
Prepaid expenses and other	160.2	353.8
	2,185.2	1,544.7
Property And Equipment		
Flight equipment	3,695.0	3,636.5
Less accumulated depreciation	820.8	764.4
	2,874.2	2,872.1
Other property and equipment	1,465.9	1,394.5
Less accumulated depreciation	435.5	356.2
	1,030.4	1,038.3
	3,904.6	3,910.4
Flight Equipment Under Capital Leases		
Flight equipment	940.9	940.9
Less accumulated amortization	193.3	155.8
	747.6	785.1
Other Assets		
Investments in affiliated companies	156.6	160.5
International routes, less accumulated amortization (1994–$168.0; 1993–$144.5)	798.1	821.6
Other	278.0	349.0
	1,232.7	1,331.1
	$8,070.1	$7,571.3

The accompanying notes are an integral part of these consolidated financial statements.

	December 31	
	1994	1993
Liabilities And Stockholders' Equity (Deficit)		
Current Liabilities		
Air traffic liability	**$ 761.1**	$ 798.7
Accounts payable and other liabilities	**607.4**	520.3
Accrued compensation and benefits	**418.2**	390.2
Accrued commissions	**172.0**	146.1
Accrued aircraft rent	**177.3**	167.6
Current maturities of long-term debt	**334.2**	244.9
Current obligations under capital leases	**52.7**	46.3
Short-term borrowings	**23.8**	9.5
	2,546.7	2,323.6
Long-Term Debt	**3,679.3**	4,193.0
Long-Term Obligations Under Capital Leases	**837.6**	881.8
Deferred Credits And Other Liabilities		
Deferred income taxes	**768.5**	562.0
Long-term pension, postretirement health care and other insurance benefits	**462.4**	614.8
Other	**351.3**	276.7
	1,582.2	1,453.5
Redeemable Preferred Stock		
Series A and B	**703.7**	650.6
Series C, aggregate liquidation value (1994–$185.0; 1993–$112.1)	**91.3**	99.3
	795.0	749.9
Common Stockholders' Equity (Deficit)		
Common stock, $.01 par value; shares authorized–315,000,000; shares issued and outstanding (1994–84,333,437; 1993–58,009,946)	**0.8**	0.6
Additional paid-in capital	**636.6**	253.2
Accumulated deficit	**(1,910.9)**	(2,147.1)
Other	**(97.2)**	(137.2)
	(1,370.7)	(2,030.5)
	$8,070.1	$7,571.3

Consolidated Statements Of Operations (In millions, except per share amounts)

Northwest Airlines Corporation

	Year Ended December 31		
	1994	1993	1992
Operating Revenues			
Passenger	**$7,730.6**	$7,314.0	$6,903.4
Cargo	**755.8**	734.8	736.2
Other	**656.5**	600.1	488.0
	9,142.9	8,648.9	8,127.6
Operating Expenses			
Salaries, wages and benefits	**2,325.6**	2,437.4	2,568.0
Stock-based employee compensation	**107.2**	93.1	–
Commissions	**1,588.2**	1,502.1	1,379.9
Aircraft fuel, oil and taxes	**1,052.8**	1,160.0	1,236.7
Aircraft rentals	**337.8**	349.5	333.3
Other rentals and landing fees	**436.0**	412.1	403.3
Aircraft maintenance materials and repairs	**396.0**	368.0	381.0
Depreciation and amortization	**357.4**	417.3	400.4
Other	**1,711.5**	1,637.0	1,801.2
	8,312.5	8,376.5	8,503.8
Operating Income (Loss)	**830.4**	272.4	(376.2)
Other Income (Expense)			
Interest expense	**(387.2)**	(374.4)	(374.0)
Interest capitalized	**3.5**	2.4	36.3
Investment income	**42.2**	19.4	10.4
Foreign currency loss – net	**(20.2)**	(37.1)	(10.3)
Other – net	**29.6**	68.4	24.4
Nonrecurring special charges	**–**	(74.3)	(792.7)
	(332.1)	(395.6)	(1,105.9)
Income (Loss) Before Income Taxes and Cumulative Effect Of Accounting Change	**498.3**	(123.2)	(1,482.1)
Income Tax Expense (Benefit)	**202.8**	(7.9)	(511.4)
Income (Loss) Before Cumulative Effect Of Accounting Change	**295.5**	(115.3)	(970.7)
Cumulative Effect Of Recognizing Postretirement Benefit Obligations, Net Of $58.8 Million Tax Benefit	**–**	–	(108.8)
Net Income (Loss)	**295.5**	(115.3)	(1,079.5)
Preferred stock requirements	**(59.3)**	(92.2)	(75.5)
Net Income (Loss) Applicable To Common Stockholders	**$ 236.2**	$ (207.5)	$(1,155.0)
Amounts Per Common Share:			
Primary			
Income (loss) before cumulative effect of accounting change	**$ 2.92**	$ (2.82)	$ (16.11)
Cumulative effect of accounting change	**–**	–	(1.67)
Net income (loss)	**$ 2.92**	$ (2.82)	$ (17.78)
Fully diluted			
Net income (loss)	**$ 2.87**	$ (2.82)	$ (17.78)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Cash Flows (In millions)

Northwest Airlines Corporation

	Year Ended December 31		
	1994	1993	1992
Cash Flows From Operating Activities			
Net income (loss)	**$ 295.5**	$ (115.3)	$(1,079.5)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**357.4**	417.3	400.4
Income tax (benefit) expense	**202.8**	(7.9)	(511.4)
Stock-based employee compensation	**107.2**	93.1	–
Nonrecurring special charges	–	68.5	774.8
Cumulative effect of accounting change	–	–	108.8
Increase in long-term pension liability	**33.2**	79.8	47.4
Net refunds (payments) of income taxes	**(22.2)**	15.4	8.8
Other – net	**18.8**	38.7	49.6
Changes in certain assets and liabilities:			
Decrease (increase) in accounts receivable	**89.8**	(14.6)	(25.4)
Decrease (increase) in flight equipment spare parts	**(45.2)**	(0.3)	2.1
Decrease (increase) in prepaid expenses and other	**233.9**	(155.0)	(42.6)
Increase (decrease) in accounts payable and other liabilities	**149.7**	(143.9)	(105.2)
Increase (decrease) in air traffic liability	**(35.2)**	77.4	147.0
Increase (decrease) in accrued compensation and benefits	**(6.5)**	(15.9)	26.1
Net cash provided by (used in) operating activities	**1,379.2**	337.3	(199.1)
Cash Flows From Investing Activities			
Additions to property and equipment	**(152.5)**	(81.1)	(479.9)
Purchases of short-term investments	**(992.1)**	–	–
Proceeds from maturities of short-term investments	**452.2**	–	–
Decrease (increase) in short-term investments	–	(15.8)	12.6
Increase in other assets and long-term prepaids	**(19.4)**	(20.8)	(34.2)
Proceeds from sale of property and other assets	**11.8**	25.4	25.2
Other – net	**5.3**	6.9	(6.6)
Net cash used in investing activities	**(694.7)**	(85.4)	(482.9)
Cash Flows From Financing Activities			
Issuance of common stock	**249.1**	–	–
Proceeds from long-term debt	**1,182.0**	–	724.8
Payment of long-term debt and capital lease obligations	**(1,493.7)**	(124.8)	(263.4)
Increase (decrease) in borrowings under revolving credit facility	**(272.2)**	(221.0)	493.3
Cash dividends on preferred stock	–	–	(35.4)
Other – net	**(21.3)**	(11.2)	(9.3)
Net cash provided by (used in) financing activities	**(356.1)**	(357.0)	910.0
Increase (Decrease) In Cash And Cash Equivalents	**328.4**	(105.1)	228.0
Cash and cash equivalents at beginning of period	**139.6**	244.7	16.7
Cash and cash equivalents at end of period	**$ 468.0**	$ 139.6	$ 244.7
Cash and cash equivalents and unrestricted short-term investments at end of period	**$ 968.3**	$ 139.6	$ 244.7
Available borrowings under revolving credit facility	**$ 290.8**	$ 240.1	$ 66.1

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Common Stockholders' Equity (Deficit)

(In millions, except per share data)

Northwest Airlines Corporation

	Common Stock		Additional Paid-In	Accumulated		
	Shares	Amount	Capital	Deficit	Other	Total
Balance January 1, 1992	52.7	$ 0.5	$ 232.2	$ (763.5)	$ (14.9)	$ (545.7)
Net loss				(1,079.5)		(1,079.5)
Cash dividends:						
Series A Preferred Stock, $6,016 per share				(35.0)		(35.0)
Series B Preferred Stock, paid in lieu of fractional shares				(0.4)		(0.4)
In-kind dividends on Series B Preferred Stock, 14%				(46.3)		(46.3)
Translation adjustments, net of income taxes					0.6	0.6
Pension liability adjustment, net of income taxes					(26.2)	(26.2)
Balance December 31, 1992	52.7	0.5	232.2	(1,924.7)	(40.5)	(1,732.5)
Net loss				(115.3)		(115.3)
Accrued cumulative dividends on Series A, B and C Preferred Stock				(63.3)		(63.3)
In-kind dividends on Series B Preferred Stock, 14%				(26.6)		(26.6)
Accretion of discount on Series C Preferred Stock				(0.8)		(0.8)
Translation adjustments, net of income taxes					(13.4)	(13.4)
Pension liability adjustment, net of income taxes					(78.7)	(78.7)
Shares issued to Series A and B Preferred stockholders	5.3	0.1	16.3	(16.4)		–
Other			4.7		(4.6)	0.1
Balance December 31, 1993	58.0	0.6	253.2	(2,147.1)	(137.2)	(2,030.5)
Net income				295.5		295.5
Issuance of common stock	20.4	0.2	248.9			249.1
Shares earned by employees including shares issued to employee benefit plans	5.8		121.4			121.4
Accrued cumulative dividends on Series A, B and C Preferred Stock				(54.5)		(54.5)
Accretion of discount on Series C Preferred Stock				(4.8)		(4.8)
Tax benefit related to stock issued to employee benefit plans			9.2			9.2
Translation adjustments, net of income taxes					(14.1)	(14.1)
Pension liability adjustment, net of income taxes					53.9	53.9
Other	0.1		3.9		0.2	4.1
Balance December 31, 1994	84.3	$ 0.8	$ 636.6	$ (1,910.9)	$ (97.2)	$(1,370.7)

The accompany notes are an integral part of these consolidated financial statements.

Note A – Summary Of Significant Accounting Policies

Basis Of Presentation: Northwest Airlines Corporation ("NWA Corp.," and together with its subsidiaries, the "Company"), a Delaware corporation, is the parent company of NWA Inc. ("NWA"), which in turn is the parent company of Northwest Airlines, Inc. ("Northwest"), its principal subsidiary. The Company changed its corporate name to Northwest Airlines Corporation from Wings Holdings Inc. ("Wings") effective December, 1993. Northwest's operations comprise more than 96% of the Company's consolidated operating revenues and expenses. The Company's consolidated financial statements include the accounts of NWA Corp., NWA, Northwest and other majority owned subsidiaries after elimination of intercompany accounts and transactions. Investments in 20% to 50% owned companies are accounted for by the equity method. Other investments are accounted for by the cost method.

Wings and its wholly owned subsidiary, Wings Acquisition Corp., were formed and incorporated by a group of investors in order to acquire all of the outstanding stock of NWA (the "Acquisition"). In 1989, Wings Acquisition Corp. was merged with and into NWA, with NWA being the surviving entity. The Acquisition was recorded using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their estimated fair market value at the date of Acquisition, determined primarily by independent appraisals. The estimated fair market value of net assets acquired was in excess of the purchase price, which resulted in noncurrent assets being recorded at 65% of the estimated fair market value on the date of Acquisition.

Certain amounts for 1993 and 1992 have been reclassified to conform with the 1994 financial statement presentation.

Flight Equipment Spare Parts: Flight equipment spare parts are carried at average cost. An allowance for depreciation is provided at rates which depreciate cost, less residual value, over the estimated useful lives of the related aircraft.

Property, Equipment And Depreciation: Owned property and equipment are stated at cost. Property and equipment acquired under capital leases are stated at the lower of the present value of minimum lease payments or fair market value at the inception of the lease. Property and equipment are depreciated to residual values using the straight-line method over the estimated useful lives of the assets. Estimated useful lives generally range from 2 to 25 years for flight equipment and 3 to 32 years for other property and equipment. Leasehold improvements are amortized over the remaining period of the lease or the estimated service life of the related asset, whichever is less. Property and equipment under capital leases are amortized over the lease terms or the estimated useful lives of the assets. Effective January 1, 1994, the Company revised estimated salvage values and depreciable lives for certain aircraft to better reflect current estimates. The net effect was to reduce depreciation expense for the twelve months ended December 31, 1994, by $49.7 million ($31.1 million net of tax or $.38 per share).

Airframe And Engine Maintenance: Routine maintenance and airframe and engine overhauls are charged to expense as incurred. Modifications that significantly enhance the operating performance or extend the useful lives of airframes or engines are capitalized and amortized over the remaining useful life of the asset.

International Routes: International routes are amortized on a straight-line basis, generally over 40 years.

Free Travel Awards: The Company accrues the estimated incremental cost of providing free travel awards earned under its WorldPerks frequent flyer program.

Postretirement Health Care And Other Insurance Benefits: The Company provides medical, dental and life insurance benefits to certain eligible retirees and their dependents. Effective January 1, 1992, the Company changed its method of accounting to accrue the expected future cost of providing such postretirement benefits over the service life of active employees. The Company previously recognized the expense for such benefits on a cash basis.

Foreign Currency: Assets and liabilities denominated in foreign currency are translated at current exchange rates with resulting gains and losses generally included in net income. Realized and unrealized gains and losses on Japanese yen collar option contracts are recognized currently in net income. Such open contracts are marked to market based on current forward rates since they do not qualify as hedges for financial accounting purposes.

Assets and liabilities of certain properties located outside of the United States whose cash flows are primarily in the local functional currency are translated at current exchange rates, and translation gains and losses are recorded directly to common stockholders' equity deficit. The net cumulative foreign translation loss was $41.0 million as of December 31, 1994.

Futures Contracts: The Company enters into futures contracts to hedge a portion of the price risk associated with aviation fuel costs. Gains or losses on hedged contracts are deferred until the related fuel inventory is expensed.

Operating Revenues: Passenger and cargo revenues are recognized when the transportation is provided. The air traffic liability represents the estimated value of sold but unused tickets and is included in current liabilities.

Income Taxes: The Company accounts for income taxes utilizing the liability method. Deferred incomes taxes are recorded to reflect the tax consequences of differences between the tax and financial reporting bases of assets and liabilities.

Earnings (Loss) Per Share: Primary earnings per share is based on the weighted average number of common and common stock equivalent shares outstanding and includes the common stock shares earned by employees. Common stock equivalents include the dilutive effect of the assumed exercise of stock options using the treasury stock method. Primary earnings per share in 1994 is based on 80,888,543 shares. For fully diluted earnings per share, net income applicable to common stockholders and weighted average shares outstanding are adjusted as if the Series C Preferred Stock earned by employees was converted to common stock. Fully diluted earnings per share in 1994 is based on 84,492,067 shares. Had the initial public offering (see Note G) taken place on January 1, 1994, primary and fully diluted earnings per share for 1994 would have been $2.78 and $2.74, respectively, after adjustment for reduced interest expense on the long-term debt repaid with a portion of the proceeds of such offering.

Loss per share in 1993 and 1992 was adjusted to reflect retroactively the stock split discussed in Note G. Also, pursuant to the Securities and Exchange Commission rules, common shares and stock options issued by the Company and the Series C Preferred Stock and common shares earned by employees within one year prior to the initial public offering have been included in the calculations as if they were outstanding for all periods using the treasury stock method. Weighted average shares were 65,494,013 in 1993 and 64,951,547 in 1992. For the year ended December 31, 1992, the Company's fully diluted amounts per common share were equal to the respective primary amounts per common share.

Note B – Cash And Cash Equivalents And Short-Term Investments

The Company considers all unrestricted investments with an original maturity of three months or less on their acquisition date to be cash equivalents. The Company classifies investments with an original maturity of more than three months and less than one year on their acquisition date and those temporarily restricted as short-term investments. The Company's cash and cash equivalents and short-term investments at December 31, 1994, consisted of the following (cost approximates fair value, in millions):

	Cash and Cash Equivalents	Short-term Investments
Held-to-maturity debt securities:		
Commercial paper	$ 436.2	$ 490.3
Other	.3	111.6
Available-for-sale debt securities	20.5	–
Cash	11.0	–
Total	$ 468.0	$ 601.9

Short-term investments included $101.6 million of temporarily restricted investments.

Note C – Labor Cost Savings Agreements

The employee unions have ratified amended labor agreements which provide for wage and other compensation savings (the "Actual Savings") by domestic employees, including management, and other cost reductions aggregating approximately $886 million over a 36 to 39 month period (depending on the labor group) (the "Wage Savings Period") commencing August 1993. As part of an overall revised compensation plan provided by the amended labor agreements, the Company agreed, among other things, to issue 18,214,419 shares of a new class of Series C cumulative, voting, convertible, redeemable preferred stock (the "Series C Preferred Stock") and provide the union groups with three positions on the Board of Directors. The Company has authorized 25,000,000 shares of Series C Preferred Stock, par value $.01 per share. Notwithstanding that these shares will be issued to trusts for the benefit of employees in seven installments, the holders have the right to vote as if all shares were issued.

Pursuant to a one-time special conversion right exercised in February 1994, the Company will issue to such trusts approximately 17.8 million shares of common stock (in lieu of approximately 9.3 million shares of Series C Preferred Stock). Information with respect to the stock activity consists of the following (in millions):

	Series C Preferred Stock				Common Stock			
	Shares to be Issued	Shares Issued	Shares Earned	Financial Statement Amount	Shares to be Issued	Shares Issued	Shares Earned	Financial Statement Amount
Balance January 1, 1993	–	–	–	$ –	–	–	–	$ –
Stock to be issued to trusts for the benefit of employees	18.2	–	–	–	–	–	–	–
Shares earned by employees	–	–	2.5	93.1	–	–	–	–
Accretion and other	–	–	–	6.2	–	–	–	–
Balance December 31, 1993	18.2	–	2.5	99.3	–	–	–	–
Exercise of special conversion option	(9.3)	–	(1.4)	(62.7)	17.8	–	2.8	62.7
Shares earned by employees	–	–	2.9	48.5	–	–	5.0	58.7
Shares issued to trusts	(3.0)	3.0	–	–	(5.8)	5.8	–	–
Accretion and other	–	–	–	6.2	–	–	–	–
Balance December 31, 1994	5.9	3.0	4.0	$ 91.3	12.0	5.8	7.8	$121.4

The Series C Preferred Stock ranks junior to Series A and B Preferred Stock and senior to common stock with respect to liquidation and certain dividend rights. The 8.9 million shares of Series C Preferred Stock remaining after the special conversion option are convertible by the holders at any time into approximately 12.1 million shares of common stock.

Series C Preferred Stock is redeemable in 2003 for a pro rata share of Actual Savings (projected to approximate $408 million in total for the remaining Series C Preferred Stock which has not converted), plus accrued dividends, if any. The carrying value of the Series C Preferred Stock is being accreted over ten years commencing August 1993 to the ultimate redemption amount for the Series C Preferred Stock shares. The Company has the option to redeem in cash, issue additional common stock, or use a combination thereof, to satisfy the redemption requirements. A decision to issue only additional common stock must be approved by a majority of the three Directors elected by the Series C Preferred stockholders. If the Company fails to redeem the Series C Preferred Stock, dividends accrue at the higher of (i) 12 percent or (ii) the highest penalty rate on any then outstanding series of preferred stock, and the employee unions receive three additional Board of Directors positions.

Because of applicable accounting requirements, the Company must recognize compensation expense for each twelve month period ending December 31 based on the values at December 31 of the Series C Preferred Stock and the common stock earned by employees during the preceding twelve month period. Such non-cash stock-based compensation expense will be calculated each month by (1) determining the aggregate current value of all Series C Preferred Stock and common stock earned by employees since the previous January 1 using current per share values as of the balance sheet date and then (2) subtracting the non-cash compensation previously recognized since January 1. Any increase (decrease) in share value will increase (decrease) non-cash compensation expense and the recorded effect in any month of a change in share prices will be a function of all shares earned since the previous January 1. Such changes in share values may be unrelated to the period's performance or cash flows. Such compensation expense for shares earned in 1993 was determined using share values as of June 21, 1994, when the Company and its labor groups agreed to change to a calendar year approach to allocating shares to employees.

The fair value of the Series C Preferred Stock was estimated to be $87 million and is based on the assumed conversion to common stock for the shares earned through December 31, 1994, at the quoted market price of the Company's common stock at such date.

Note D–Long-Term Debt, Credit Agreement And Short-Term Borrowings

Long-term debt consisted of the following (in millions, with interest rates as of December 31, 1994):

	December 31	
	1994	1993
Term loans due through 2000, 9.4% weighted average rate (a)	$ 964.8	$ 1,525.4
Revolving credit facility due 1997 (a)	–	272.2
Land mortgages due 2000, 4.0% (b)	695.9	621.4
Secured notes due through 2000, 8.1% weighted average rate (c)	435.3	467.0
NWA Trust No. 2 aircraft notes due through 2012, 10.6% weighted average rate (d)	352.0	–
Equipment pledge notes due through 2013, 9.7% weighted average rate (e)	326.6	757.8
Sale-leaseback financing obligations due through 2020, 9.9% imputed rate (f)	263.5	263.9
NWA Trust No. 1 aircraft notes due through 2006, 8.6% weighted average rate (g)	239.1	–
8.625% unsecured notes due 1996, net of discount (1994–$9.7; 1993–$14.9)	190.3	185.1
Term certificates due 1999, 6.8% (h)	175.0	–
Unsecured notes due through 1999, 12.1% (i)	140.0	152.5
Unsecured notes due 1998, 10.8% (j)	92.4	92.4
Yen-denominated construction loan due through 1995, 8.0%	33.1	76.9
Hushkit financing due through 2001, 7.3% weighted average rate (k)	12.3	–
Other	93.2	23.3
Total long-term debt	4,013.5	4,437.9
Less current maturities	334.2	244.9
	$ 3,679.3	$ 4,193.0

(a) In December 1994, the Company entered into a Fourth Amended and Restated Credit Agreement (the "Credit Agreement") with various corporations and lending institutions which amended and restated a credit agreement orginally entered into in July 1989, which had provided a term loan of $3.1 billion. The principal is payable in installments through December 2000, subject to certain acceleration provisions.

The Credit Agreement also currently provides a $335.8 million revolving credit facility scheduled to expire in June 1997, which declines to $289.5 million in 1995 and $179.7 million in 1996. Repayment of all borrowings under the revolving credit facility, with permitted subsequent reborrowing, is required for a minimum of 30 days during each rolling twelve-month period. Commitment fees are 1/2% per annum on the average unused levels and amounted to $2.3 million in 1994, $.6 million in 1993 and $1.7 million in 1992. At December 31, 1994, $290.8 million remained available on the revolving credit facility, as the Company had utilized $45.0 million for letters of credit issued by Credit Agreement participants on behalf of the Company.

The term loans and borrowings under the revolving credit facility are comprised of one or more specific floating rate borrowings at any given date. Interest for each specific borrowing is currently determined by adding specified margins (expressed as rates per annum and ranging from 2% to 4%) to one of the following: (1) the higher of prime rate

of Bankers Trust Company or 1/2% plus a certificate of deposit rate; (2) an adjusted Eurodollar rate; or (3) an adjusted certificate of deposit rate.

(b) During 1990, the Company mortgaged certain Tokyo property on a non-recourse basis for two loans due in 2000 (aggregating 70 billion yen at December 31, 1994). To the extent that cash interest payments on these loans are less than interest calculated at a 4% rate, the difference will be additional accrued interest due in 2000. At the Company's option, the loans and accrued interest can be liquidated by transferring the land to the mortgagee.

(c) In 1990 the Company issued floating rate notes to certain manufacturers. Principal repayments are due quarterly through 2000.

(d) In December 1994, the Company completed a structured aircraft financing transaction in which 13 Airbus A320 aircraft were transferred from Northwest (subject to existing indebtedness) to an owner trust (NWA Trust No. 2). Win-Win L.P., a limited partnership of which Northwest is the limited partner and Norbus, Inc. (an affiliate of Airbus Industrie A.I.E.) is the general partner, is the sole equity participant in the owner trust. All proceeds from the transaction were used to repay equipment pledge notes which had previously been issued to finance the acquisition of these aircraft by Northwest. The aircraft were simultaneously leased back to Northwest.

Financing of $352 million was obtained through the issuance of $176 million of 9.25% Class A Senior Aircraft Notes, $66 million of 10.23% Class B Mezzanine Aircraft Notes, $44 million of 11.30% Class C Mezzanine Aircraft Notes and $66 million of 13.875% Class D Subordinated Aircraft Notes. Principal and interest on the new notes are payable semiannually through 2012 from rental payments made by Northwest under the lease. The notes are secured by the aircraft subject to the lease as well as the lease itself, subject to certain exclusions.

(e) In 1993 and 1992, floating rate equipment pledge notes of $263.7 million and $158.7 million, respectively, were issued to manufacturers in exchange for certain aircraft.

(f) In March 1992, the Company completed agreements with the Minneapolis-St. Paul Metropolitan Airports Commission ("MAC") for the sale and leaseback of various corporate assets. The sale-leaseback agreements, which are accounted for as debt, call for increasing quarterly payments over a 30-year term and include a provision which gives the Company the option to repurchase the assets.

The agreements with the MAC are part of a group of financing arrangements with the State of Minnesota and other government agencies. In December 1994, the Company and the State of Minnesota entered into agreements whereby the Company will build and operate a maintenance facility in Duluth, Minnesota, and a reservations center in Chisholm, Minnesota. The State of Minnesota and other government entities will provide aggregate financing of approximately $55 million.

(g) In March 1994, Northwest consummated a financing transaction in which six Boeing 747-200 and four Boeing 757-200 aircraft were sold to an owner trust (NWA Trust No.1) of which NWA Aircraft Finance, Inc., an indirect subsidiary of the Company, is the sole equity participant. A portion of the purchase price was financed through the issuance of $177 million of 8.26% Class A Senior Aircraft Notes and $66 million of 9.36% Class B Subordinated Aircraft Notes. The aircraft were simultaneously leased back to Northwest. The notes are payable semiannually from rental payments made by Northwest under the lease and are secured by the aircraft subject to the lease as well as the lease itself, subject to certain exclusions.

(h) In March 1994, Northwest agreed to sell certain receivables on an ongoing basis to Northwest Capital Funding Corp., an indirect subsidiary of the Company, which has issued through a master trust $175 million of floating rate Term Certificates. These privately placed Certificates are secured by the purchased receivables and require interest only during their term with the principal due in 1999.

(i) In December 1989, the Company entered into a funding facility, which was fully utilized at December 31, 1992. Principal and interest payments are due monthly through 1999.

(j) In December 1992, the Company issued floating rate notes due in 1998 to certain manufacturers. Interest accrued until January 1995 and is payable monthly thereafter.

(k) In August 1994, the Company entered into a credit agreement to finance engine hushkit shipsets for DC-9 aircraft. The credit facility allows for borrowings up to $225 million prior to December 31, 1998. Interest is payable quarterly. Generally, amounts borrowed during each annual period through 1998 are payable in quarterly installments over the six years following each such annual period.

Maturities of long-term debt for the five years subsequent to December 31, 1994, are as follows (in millions):

1995	$334.2
1996	478.1
1997	476.7
1998	397.2
1999	468.5

In February 1995 the Company prepaid $200 million of its scheduled 1995 payments under the Credit Agreement and certain other financing agreements.

The debt and lease agreements of the Company contain certain restrictive covenants, including limitations on indebtedness, capital expenditures, equity redemptions and the declaration of dividends, as well as requirements to maintain certain financial ratios, including collateral coverage ratios. At December 31, 1994, the Company was in compliance with the covenants of all of its debt and lease agreements. Substantially all of the Company's assets are pledged as collateral under certain of its debt agreements. In addition, the Company is obligated under its Credit Agreement to make annual term loan prepayments and revolving credit facility reductions in an aggregate amount equal to 70% of the first $200 million of Excess Cash Flow (as defined) and 30% of Excess Cash Flow in excess of $200 million, subject to an overall limitation of $200 million for 1994 (which was paid in December 1994) and $175 million for each year thereafter. Under the terms of the agreements governing certain other notes, the Company must pay up to 15% of Excess Cash Flow to the holders of such notes on an annual basis. The aggregate amount expected to be paid in 1995 under the agreements for such notes with respect to 1994 Excess Cash Flow is approximately $90 million.

Cash payments of interest, net of capitalized interest, aggregated $332.7 million in 1994, $322.9 million in 1993, and $239.9 million in 1992. The fair value of long-term debt, including current maturities, was estimated to be $3.83 billion at December 31, 1994, using discounted cash flow analyses based on quoted market prices for these or similar issues or on the current rates offered for debt of the same remaining maturities.

The maximum and average outstanding balances of short-term borrowings (principally under the revolving credit facility in 1992) and the weighted average interest rates during 1994, 1993 and 1992 were as follows (dollars in millions):

	1994	1993	1992
Maximum amount of borrowings outstanding during period	**$46.4**	$10.0	$637.5
Average daily borrowings during period	**$17.8**	$ 4.8	$327.4
Weighted average interest rate on borrowings during period	**5.95%**	4.18%	6.33%

Note E – Leases

The Company leases certain aircraft; space in airport terminals; land and buildings at airports; ticket, sales and reservations offices; and other property and equipment under noncancellable operating leases which expire in various years through 2025. Portions of certain facilities are subleased under noncancellable operating leases expiring in various years through 2020.

At December 31, 1994, the Company leased 150 of the 361 aircraft it operates. Of these, 34 were capital leases and 116 were operating leases. Expiration dates range from 1997 to 2008 for aircraft under capital leases, and from 1995 to 2016 for aircraft under operating leases. The Company's aircraft leases can generally be renewed for terms ranging from one to three years at rates based on the aircraft's fair market value at the end of the lease term. Eighty-one of the 150 aircraft lease agreements provide the Company with purchase options at the end of the lease term which approximate fair market value.

Rental expense for all operating leases consisted of (in millions):

	Year Ended December 31		
	1994	1993	1992
Gross rental expense	**$578.8**	$583.3	$536.9
Sublease rental income	**(57.2)**	(57.9)	(37.8)
Net rental expense	**$521.6**	$525.4	$499.1

At December 31, 1994, future minimum lease payments under capital leases and noncancellable operating leases with initial or remaining terms of more than one year were as follows (in millions):

	Capital Leases	Operating Leases
1995	$ 115.1	$ 483.4
1996	124.5	473.5
1997	126.8	434.1
1998	116.7	388.5
1999	107.4	351.8
Thereafter	801.7	4,431.0
	1,392.2	6,562.3
Less sublease rental income	–	79.2
Total minimum operating lease payments		$6,483.1
Less amounts representing interest	501.9	
Present value of future minimum capital lease payments	890.3	
Less current obligations under capital leases	52.7	
Long-term obligations under capital leases	$ 837.6	

Note F – Series A And B Redeemable Preferred Stock

Series A and B Preferred Stock issued and outstanding consisted of the following (dollars in millions):

	Series A		Series B		Accrued Cumulative	
	Shares	Amount	Shares	Amount	Dividends	Total
Balance January 1, 1992	5,000	$ 250.0	5,397	$ 269.8	$ –	$ 519.8
Stock dividends	–	–	924	46.3	–	46.3
Balance December 31, 1992	5,000	250.0	6,321	316.1	–	566.1
Stock dividends	–	–	532	26.6	–	26.6
Accrued dividends	–	–	–	–	57.9	57.9
Balance December 31, 1993	5,000	250.0	6,853	342.7	57.9	650.6
Accrued dividends	–	–	–	–	53.1	53.1
Balance December 31, 1994	5,000	$ 250.0	6,853	$ 342.7	$ 111.0	$ 703.7

For each of the above series of preferred stock, 10,000 shares are authorized, par value is $.01 per share and the stated value is $50 thousand per share. Both series are entitled to a preference in voluntary and involuntary liquidation, in the amount of $50 thousand per share, plus accrued and unpaid dividends. Holders of the Series A and B Preferred Stock have voting rights for the election of directors.

In 1993, the holders of Series A and B Preferred Stock agreed to extend the mandatory redemption dates to August 1, 2002, for Series A and to August 1, 2003, for Series B Preferred Stock and reduce the dividend rates. The Series A and B Preferred Stock, including accrued and unpaid dividends, must be redeemed in three equal installments starting two years prior to the respective final redemption dates. The Company issued simultaneously 5,270,038 shares of common stock to the holders of the Series A and B Preferred Stock, which was accounted for at fair value as a transfer from accumulated deficit.

Commencing July 31, 1993, the Series A and B dividends accrue semiannually at 8% per year and for the next five years dividends will be deferred until redemption and payable in cash thereafter. Dividends are cumulative if unpaid, and, beginning August 1, 1998, to the extent cash dividends are not paid, the annual dividend rate will increase every six months by 1/2% until it reaches 10%.

The Series A Preferred Stock ranks senior to the Series B and Series C Preferred Stock and all classes of common stock with respect to liquidation and dividend rights. At any time, at the option of the Company, the Series A (in whole) and Series B (in whole or in $50 million increments) Preferred Stock is redeemable. All outstanding shares of Series A Preferred Stock must have been previously redeemed before an optional redemption of any Series B Preferred Stock is permitted. The fair value of the Series A and B Preferred Stock was estimated to be approximately $520 million at December 31, 1994.

On January 25, 1995, the Company consummated an agreement with Bankers Trust New York Corporation ("BTNY") to exchange 1,727 shares of the Company's Series B Preferred Stock previously held by BTNY for 2,050,000 shares of newly issued Class B Common Stock. This transaction resulted in a $97 million transfer from redeemable preferred stock to common stockholders' equity (deficit) and an increase to net income applicable to common stockholders of $59 million in 1995.

Note G – Common Stockholders' Equity (Deficit)

The Company's classes of common stock consisted of (shares in millions):

	Par value	Shares authorized	Shares issued and outstanding as of December 31		
			1994	1993	1992
Class A, voting	$.01	250.0	**77.1**	39.7	38.6
Class B, non-voting	$.01	65.0	**7.2**	18.3	14.1
		315.0	**84.3**	58.0	52.7

In February 1994, the stock was split and each share of common stock issued and outstanding was effectively converted into approximately 659 fully paid shares of common stock for a total of 58,009,946 common shares. All applicable common share and per common share amounts have been adjusted to retroactively reflect the stock split.

In 1994 the Company raised $249.1 million from an initial public offering of 20.4 million shares of Class A Common Stock. Of these net proceeds, $103 million were utilized by the Company to pay down scheduled principal payments under the Credit Agreement in inverse order of maturity, with remaining proceeds used for general corporate purposes.

With respect to liquidation rights, all classes of common stock rank junior to all classes of preferred stock. Shares of non-voting Class B Common Stock are convertible at any time into an equal number of shares of voting Class A Common Stock. During 1994, 11.8 million shares of Class B Common Stock were converted into Class A Common Stock.

The Company has stock option plans for officers and key employees. At December 31, 1994 and 1993, respectively, the Company had 4,947,927 and 2,947,927 shares of Class A Common Stock reserved for issuance under the plans. There were 245,647 and 17,015 shares available for future grants at December 31, 1994 and 1993, respectively. It is generally the Company's policy to grant options at prices not below their fair value. To the extent that options are granted at less than fair value, compensation expense is recognized over the vesting period of the grant, which is generally four years. All stock options expire ten years after their grant date. Following is activity with respect to stock options (in thousands, except per share amounts):

	Shares	Price Per Share
Outstanding at January 1, 1993, of which 403 were exercisable	1,966	$18.98 - 28.46
Granted	2,879	
Forfeited	(321)	
Cancelled	(1,593)	
Exercised	(40)	$4.74
Outstanding at December 31, 1993, of which 1,135 were exercisable	2,891	$4.74 - 28.46
Granted	1,852	
Forfeited	(61)	
Cancelled	(19)	
Exercised	(138)	$4.74
Outstanding at December 31, 1994, of which 1,835 were exercisable	4,525	$4.74 - 28.46

Note H – Income Taxes

Income tax expense (benefit) consisted of the following (in millions):

	Year Ended December 31		
	1994	1993	1992
Current:			
Federal	**$ 11.9**	$ 0.1	$ (20.9)
Foreign	**5.3**	3.8	5.2
State	**5.3**	0.7	(0.1)
	22.5	4.6	(15.8)
Deferred:			
Federal	**168.1**	(6.4)	(444.0)
Foreign	**(5.3)**	(3.8)	(5.2)
State	**17.5**	(2.3)	(46.4)
	180.3	(12.5)	(495.6)
Total income tax expense (benefit)	**$ 202.8**	$ (7.9)	$(511.4)

Reconciliation of the Company's effective income tax rate applied to the income (loss) before income taxes and cumulative effect of accounting change is as follows (in millions):

	Year Ended December 31		
	1994	1993	1992
Statutory rate applied to income (loss) before income taxes and cumulative effect of accounting change	**$174.4**	$(43.1)	$(503.9)
Add (deduct):			
State income tax net of federal benefit	**16.0**	(1.2)	(34.8)
Non-deductible meals and entertainment	**8.9**	3.5	3.6
Effect of federal rate increase on deferred tax balances	**–**	12.0	–
Adjustment to valuation allowance and other income tax accruals	**3.0**	20.8	–
Other	**0.5**	0.1	23.7
Total income tax expense (benefit)	**$202.8**	$(7.9)	$(511.4)

The net deferred tax liabilities listed below include a current net deferred tax asset of $88.0 million and a long-term net deferred tax liability of $768.5 million as of December 31, 1994, and a current net deferred tax asset of $76.2 million and a long-term net deferred tax liability of $562.0 million as of December 31, 1993.

Significant components of the Company's net deferred tax liability were as follows (in millions):

	December 31	
	1994	1993
Deferred tax liabilities:		
Financial accounting basis of assets in excess of tax basis	**$1,398.9**	$1,420.3
Expenses other than depreciation accelerated for tax purposes	**241.9**	215.6
Other	**41.5**	57.1
Total deferred tax liabilities	**1,682.3**	1,693.0
Deferred tax assets:		
Pension and postretirement benefits	**248.7**	252.1
Expenses accelerated for financial reporting purposes	**284.3**	346.2
Leases capitalized for financial reporting purposes	**126.6**	136.0
Net operating loss carryforwards	**273.0**	442.0
Alternative minimum tax credit carryforwards	**38.7**	24.6
Investment tax credit carryforwards	**23.0**	23.0
Foreign tax credit carryforwards	**20.0**	17.1
Total deferred tax assets	**1,014.3**	1,241.0
Valuation allowance for deferred tax assets	**(12.5)**	(33.8)
Net deferred tax assets	**1,001.8**	1,207.2
Net deferred tax liability	**$ 680.5**	$ 485.8

As of December 31, 1994, the Company had regular net operating loss carryforwards ("NOLs") of $741.0 million available on a tax basis for carryforward to future years'

returns, with $625.8 million expiring in 2007 and $115.2 million expiring in 2008. For alternative minimum tax purposes, the Company has net operating loss carryforwards ("AMTNOLs") of $15.0 million available on a tax basis for carryforward to future years' returns, which will expire in 2007. The Company utilized NOLs of $465.5 million in 1994 and AMTNOLs of $35.8 million in 1993 and $536.8 million in 1994. The Company has alternative minimum tax, investment tax and regular foreign tax credits of $38.7 million, $23.0 million and $20.0 million, respectively, available on a tax basis for carryforward to future years' tax returns. The alternative minimum tax credit has an unlimited carry-forward period. Investment tax credits totaling $14.7 million expire in 2003 and $8.3 million expire in 2004. Foreign tax credits available for alternative minimum tax purposes total $19.8 million. Foreign tax credits for both regular and alternative minimum tax purposes expire through 1999.

Sections 382 and 383 of the Internal Revenue Code of 1986 and the regulations thereunder impose certain limitations on a corporation's ability to use regular and alternative minimum tax net operating loss and credit carryforwards if such corporation experiences a more-than-50% ownership change, as defined therein, over a three-year testing period ending on any testing date. Since management believes that no such ownership change has occurred through December 31, 1994, no valuation allowance relating to any ownership change has been provided with respect to deferred tax assets related to such NOLs, AMTNOLS and credits. However, should the Internal Revenue Service successfully assert that there has been an ownership change, the Company's ability to realize deferred tax assets already recognized related to the net operating loss and credit carryforwards could be limited to an amount substantially less than that recognized (including those already utilized in 1993 and 1994) to date. Such amount allowed would also be realized over a longer period of time than if no such limitation had existed.

The Omnibus Budget Reconciliation Act of 1993 increased the corporate tax rate from 34% to 35% retroactive to January 1, 1993. This rate change caused the Company to increase its deferred tax assets and liabilities and increase the effective tax rate. The net effect of these changes was $9.4 million of additional tax expense recorded during 1993.

Note I – Commitments

The Company's aircraft orders as of December 31, 1994, adjusted to reflect a February 1995 revised delivery schedule, included commitments to acquire 40 Boeing 757-200 aircraft, 15 in 1995 and 1996 and 25 in 2003 through 2005; and 16 Airbus A330 aircraft, eight each in 1999 and 2000. Committed expenditures for these aircraft and related equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately: $340 million in 1995; $527 million in 1996; $149 million in 1997; $94 million in 1998; $750 million in 1999; and $2.7 billion from 2000 to 2005. Financing has been arranged for all 1995 and 1996 aircraft deliveries. In addition, the Company has ordered four Boeing 747-400 aircraft at an aggregate cost, including related equipment and contractual price escalations, of approximately $750 million. The Company may elect to take delivery of these aircraft as early as 1997 and 1998 or as late as 2002 and 2003. Consistent with prior practice, the Company intends to finance its remaining aircraft deliveries through a combination of debt and lease financing.

Note J – Litigation And Contingencies

The Company is involved in a variety of legal actions relating to environmental, regulatory, antitrust, trade practice and other legal matters relating to the Company's business. While the Company is unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on the Company's financial statements taken as a whole.

Note K – Pension Benefits

The Company has several noncontributory pension plans covering substantially all of its employees. The benefits for these plans are based primarily on years of service and/or employee compensation. It is the Company's policy to annually fund at least the minimum contribution as required by the Employee Retirement Income Security Act of 1974.

The net periodic pension cost of defined benefit pension plans included the following (in millions):

	Year Ended December 31		
	1994	1993	1992
Service cost – benefits earned during the period	**$ 89.0**	$ 90.0	$ 86.5
Interest cost on projected benefit obligations	**216.9**	207.7	185.4
Actual return on plan assets	**23.4**	(197.9)	(95.6)
Net amortization and deferral	**(188.6)**	42.3	(34.3)
Net periodic pension cost	**$ 140.7**	$ 142.1	$ 142.0

The following table sets forth the defined benefit pension plans' funded status and amounts recognized in the Company's consolidated balance sheets as of December 31 (in millions):

	1994		1993	
	Assets Exceed Accumulated Benefits	**Accumulated Benefits Exceed Assets**	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:				
Vested benefit obligations	**$ 175.8**	**$1,960.2**	$ 192.0	$2,079.3
Nonvested benefit obligations	**12.1**	**110.5**	12.9	124.2
Accumulated benefit obligations	**187.9**	**2,070.7**	204.9	2,203.5
Effect of projected future salary increases	**20.6**	**353.0**	20.8	399.3
Projected benefit obligations	**$ 208.5**	**$2,423.7**	$ 225.7	$2,602.8
Plan assets at fair value	**$ 220.4**	**$1,667.8**	$ 235.5	$1,666.4
Less projected benefit obligations	**208.5**	**2,423.7**	225.7	2,602.8
Projected benefit obligations (in excess of) less than plan assets	**11.9**	**(755.9)**	9.8	(936.4)
Unrecognized prior service cost	**4.6**	**233.6**	5.1	239.5
Unrecognized net loss	**9.2**	**229.0**	12.0	430.8
Adjustment required to recognize minimum liability	**–**	**(138.6)**	–	(293.0)
Prepaid (accrued) pension cost at December 31	**$ 25.7**	**$ (431.9)**	$ 26.9	$ (559.1)

As of December 31, 1994 and 1993, plan assets were invested primarily in equity and debt securities.

Assumptions used in the accounting for the defined benefit plans as of December 31 were as follows:

	1994	1993	1992
Weighted average discount rate	**9.15%**	7.75%	9.00%
Rate of increase in future compensation levels	**3.75%**	3.10%	5.00%
Expected long-term rate of return on plan assets	**10.50%**	10.50%	10.50%

The net pension liability adjustment included in common stockholders' equity (deficit) was $51.9 million at December 31, 1994.

Note L – Postretirement Health Care And Other Insurance Benefits

The Company sponsors various contributory and noncontributory medical, dental and life insurance benefit plans covering certain eligible retirees and their dependents. With the exception of certain employees who retired prior to 1987 and receive lifetime Company-paid medical and dental benefits, retired employees are not offered Company-paid medical and dental benefits after age 65. Prior to age 65, the retiree share of the cost of medical and dental coverage is based on a combination of years of service and age at retirement. Medical and dental benefit plans are unfunded and costs are paid as incurred. The pilot group is provided Company-paid life insurance coverage in amounts which decrease based on age at retirement and age at time of death.

Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 106 ("SFAS 106"), "Employers' Accounting for Postretirement Benefits Other Than Pensions." The effect of adopting the new rules increased 1992 net periodic postretirement benefit cost for such benefit plans by $13 million. The Company also elected to recognize the entire transition obligation effective January 1992 as the cumulative effect of an accounting change. This accounting change has no cash flow impact.

Net periodic postretirement benefit cost included the following components (in millions):

	Year Ended December 31		
	1994	1993	1992
Service cost	**$ 6.8**	$ 6.1	$ 5.4
Interest cost	**15.1**	16.3	15.1
Actual return on plan assets	**(0.5)**	(0.5)	(0.4)
Net amortization and deferral	**0.1**	0.1	0.1
Net periodic postretirement benefit cost	**$21.5**	$22.0	$20.2

The following table sets forth the plans' combined funded status and amounts recognized in the Company's consolidated balance sheets as of December 31 (in millions):

	1994	1993
Accumulated postretirement benefit obligation:		
Retirees	**$ 81.7**	$ 84.8
Fully eligible active plan participants	**13.4**	16.8
Other active plan participants	**102.2**	101.8
	197.3	203.4
Plan assets at fair value	**5.0**	4.9
Accumulated postretirement benefit obligation in excess of plan assets	**192.3**	198.5
Unrecognized net (gain) loss	**10.7**	(6.2)
Accrued postretirement benefit cost	**$203.0**	$192.3

At December 31, 1994, the weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., the health care cost trend rate) is 8.0% for 1995 and is assumed to decrease gradually to 5.0% for 2002 and remain at that level thereafter (a rate of 9.0% was assumed for 1994). This health care cost trend assumption has a significant impact on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point would increase the accumulated postretirement benefit obligation as of December 31, 1994, by $23.1 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 1994 by $3.1 million. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 9.15% at December 31, 1994, and 7.75% at December 31, 1993.

Note M – Foreign Operations

The Company conducts passenger and cargo operations in various foreign countries, principally in Asia and Europe. Operating revenues from these foreign operations totaled approximately $3.60 billion, $3.52 billion and $3.50 billion in 1994, 1993 and 1992, respectively.

The Company is exposed to the effect of foreign exchange rate fluctuations on the value of foreign currency-denominated operating revenues and expenses. The Company's largest exposure to foreign currency fluctuations comes from Japanese yen representing approximately 50% of foreign currency-denominated net cash flow. The Company has entered into Japanese yen collar options to minimize the impact of these foreign exchange rate movements on its operating income. As of December 31, 1994, the Company had $455 million (45.5 billion yen) in collar options outstanding to hedge approximately 80% of its anticipated 1995 yen cash flow. The collars involve the purchase of Japanese yen put options coupled with the simultaneous sale of Japanese yen call options with identical expiration dates and notional yen amounts. The Company is exposed to credit loss in the event of nonperformance by counterparties to the yen collar options. The counterparties to the option contracts as of December 31, 1994, consist of five banks. The Company does not anticipate nonperformance by any of these counterparties. The amount of such credit exposure is generally the unrealized gains in such contracts. As of December 31, 1994, there are no unrealized gains or losses on outstanding yen collar option contracts.

Note N – Related Party Transactions

KLM Royal Dutch Airlines ("KLM") owned 16.4% of the voting stock of the Company at December 31, 1994. On January 9, 1995, KLM acquired all of the common and preferred stock owned by Paracor Finance, Inc. and Bright Star Investments Limited. Following this acquisition of shares and the BTNY transaction described in Note F, KLM owned 22.0% of the voting stock of the Company.

During 1992, Northwest and KLM signed a Commercial Cooperation and Integration Agreement. The intent of the agreement is to enhance the joint presence of each airline in the United States, Europe and other destinations by integrating the systems and services of each carrier. Northwest and KLM have been granted antitrust immunity by the Department of Transportation, enabling them to coordinate their flight schedules, cooperate in pricing and sales, negotiate revenue-sharing, and advertise jointly. Northwest and KLM have implemented code-sharing (the joint designation of flights under the Northwest "NW" code and the KLM "KL" code) on flights to certain European, African and U.S. cities, with additional cities planned for 1995. During 1994, passenger revenues generated by the Company's transatlantic flights comprised 5.0% of its total operating revenues. In addition, in 1993 Northwest and KLM began to coordinate operations. The Company recorded net expenses related to engine maintenance, airport handling and other transportation-related services provided by KLM of $28.8 million, $33.6 million and $45.3 million in 1994, 1993 and 1992, respectively.

The Company has an investment in an affiliate which it accounts for using the equity method. The Company recorded expenses for certain reservation system services provided by this affiliate totaling $86.4 million, $63.6 million and $80.7 million in 1994, 1993 and 1992, respectively.

Note O—Other Income (Expense)

During the years 1990 through 1992, the U.S. airline industry, including the Company, experienced unprecedented losses. As a result of the losses it had sustained, during 1992 and 1993 the Company undertook to reduce its costs and restructure its debt obligations to extend their maturities in order to gain access to the capital markets and facilitate a return to profitability. As a result of agreements obtained and actions taken, the Company's financial results included nonrecurring special charges. The 1993 financial results included $94.3 million of nonrecurring special charges, of which $74.3 million was classified as other income (expense) and $20.0 million as salaries, wages and benefits. These charges included aircraft order cancellations of $48.7 million, financing fees of $13.7 million, write-down of other assets of $11.9 million and early retirement pension benefits of $20.0 million. The Company's 1992 financial results included nonrecurring special charges of $792.7 million which consisted of charges for aircraft order cancellations of $314.6 million, non-cash write-off of aircraft delivery positions of $291.1 million, write-down of aircraft held for sale of $107.2 million and financing fees of $79.8 million.

Note P – Quarterly Financial Data (Unaudited)

Unaudited quarterly results of operations for the years ended December 31, 1994 and 1993, are summarized below (in millions, except per share amounts):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1994:				
Operating revenues	$ 2,129.9	$ 2,273.0	$2,548.0	$2,192.0 [1]
Operating income	120.5	207.8	359.2	142.9
Net income	$ 18.3	$ 71.3	$ 170.0	$ 35.9
Earnings per common share [3]:				
Primary	$ .05	$ .68	$ 1.80	$ .23
Fully diluted	$ .05	$ .67	$ 1.73	$ .23
1993:				
Operating revenues	$ 2,011.7	$ 2,094.9	$2,392.6	$2,149.7 [1]
Operating income (loss)	(70.3)	19.2	268.7	54.8
Net income (loss)	$ (100.3)	$ (136.2) [2]	$ 110.7	$ 10.5
Earning (loss) per common share [3]:				
Primary and fully diluted	$ (1.86)	$ (2.42)	$ 1.45	$ (.03)

[1] Includes an $18 million and a $29 million increase in passenger revenue related to prior quarters of 1994 and 1993, respectively, resulting from the normal review and adjustment of the air traffic liability balance.

[2] Includes nonrecurring special charges of $99.3 million ($62.1 million net of income tax benefit) related to aircraft order cancellations, employee early retirement and financing expenses.

[3] The sum of the quarterly earnings per share amounts does not equal the annual amount reported since per share amounts are computed independently for each quarter and for the full year based on respective weighted average common share equivalents outstanding.

Note Q—Condensed Financial Information Of Northwest Airlines, Inc.

As discussed in Note A, NWA Corp.'s 1989 Acquisition of NWA was recorded using the purchase method of accounting and, accordingly, the purchase price was allocated to the net assets acquired based on the estimated fair market value of such assets and liabilities at the date of the Acquisition. After reflecting these new values and the related Acquisition indebtedness of NWA in the financial statements of Northwest, condensed financial information of Northwest consists of the following (in millions):

Condensed Statements Of Operations

	Year Ended December 31		
	1994	1993	1992
Operating revenues	**$ 8,875.1**	$ 8,415.6	$ 7,893.6
Operating expenses	**8,085.0**	8,158.6	8,298.9
Operating income (loss)	**790.1**	257.0	(405.3)
Other income (expense)	**(288.9)**	(265.2)	(262.0)
Nonrecurring special charges	–	(71.9)	(571.9)
Income (loss) before income taxes and cumulative effect of accounting change	**501.2**	(80.1)	(1,239.2)
Income tax expense (benefit)	**198.2**	(25.6)	(427.3)
Income (loss) before cumulative effect of accounting change	**303.0**	(54.5)	(811.9)
Cumulative effect of accounting change - net	–	–	(108.8)
Net income (loss)	**$ 303.0**	$ (54.5)	$ (920.7)

Condensed Balance Sheet Data

	December 31	
	1994	1993
Current assets	**$ 1,752.4**	$ 1,363.1
Noncurrent assets	**5,242.1**	5,641.0
Current liabilities	**2,511.5**	2,277.0
Long-term debt and obligations under capital leases	**3,751.7**	4,702.9
Deferred credits and other liabilities	**967.6**	872.1

To the Stockholders and Board of Directors
Northwest Airlines Corporation

We have audited the accompanying consolidated balance sheets of Northwest Airlines Corporation as of December 31, 1994 and 1993, and the related consolidated statements of operations, common stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1994. 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 consolidated financial position of Northwest Airlines Corporation at December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note L to the financial statements, in 1992 the Company changed its method of accounting for postretirement benefits.

Ernst + Young LLP

Minneapolis, Minnesota
February 17, 1995

Five-Year Summary
Northwest Airlines Corporation

	Year Ended December 31				
	1994	1993	1992	1991	1990
Statement Of Operations Data					
(in millions, except per share data)					
Operating revenues					
Passenger	$ **7,730.6**	$ 7,314.0	$ 6,903.4	$ 6,499.4	$ 6,335.0
Cargo	**755.8**	734.8	736.2	696.8	655.4
Other	**656.5**	600.1	488.0	486.7	436.0
	9,142.9	8,648.9	8,127.6	7,682.9	7,426.4
Operating expenses	**8,312.5**	8,376.5	8,503.8	7,792.8	7,561.4
Operating income (loss)	**830.4**	272.4	(376.2)	(109.9)	(135.0)
Income (loss) before income taxes and cumulative effect of accounting change	$ **498.3**	$ (123.2)[1]	$ (1,482.1)[1]	$ (488.0)	$ (465.2)
Net income (loss)	$ **295.5**	$ (115.3)	$ (970.7)[2]	$ (320.2)	$ (302.5)
Net income (loss) applicable to common stockholders	$ **236.2**	$ (207.5)	$ (1,046.2)[2]	$ (387.9)	$ (361.2)
Net income (loss) per common share:					
Primary	$ **2.92**	$ (2.82)	$ (16.11)[2]	$ (5.97)	$ (5.66)
Fully diluted	$ **2.87**	$ (2.82)	$ (16.11)[2]	$ (5.97)	$ (5.66)
Cash Provided By (Used In) Operating Activities	$ **1,379.2**	$ 337.3	$ (199.1)	$ 341.5	$ 183.4
Balance Sheet Data (in millions)					
Cash, cash equivalents & unrestricted short-term investments	$ **968.3**	$ 139.6	$ 244.7	$ 16.7	$ 187.1
Total assets	**8,070.1**	7,571.3	7,545.4	7,956.7	7,663.7
Long-term debt, including current portion	**4,013.5**	4,437.9	4,271.4	3,252.6	2,899.3
Long-term obligations under capital leases, including current obligations	**890.3**	928.1	966.0	1,004.3	1,036.4
Redeemable preferred stock	**795.0**	749.9	566.1	519.8	486.0
Common stockholders' equity (deficit)[3]	**(1,370.7)**	(2,030.5)	(1,732.5)	(545.7)	(153.3)
Operating Statistics					
Scheduled service:					
Available seat miles (ASM) (millions)	**85,015.6**	87,212.5	89,647.3	80,937.7	77,319.9
Revenue passenger miles (millions)	**57,873.2**	58,130.1	58,624.9	53,283.3	51,491.5
Revenue yield per passenger mile	**13.36¢**	12.58¢	11.78¢	12.20¢	12.31¢
Passenger load factor	**68.1%**	66.7%	65.4%	65.8%	66.6%
Revenue passengers (millions)	**45.5**	44.1	43.5	41.1	41.0
Break-even load factor	**65.5%**	67.2%	69.8%	69.0%	69.8%
Cargo ton miles (millions)	**2,322.3**	2,188.0	2,106.9	1,925.8	1,875.3
Average fuel cost per gallon	**56.2¢**	62.1¢	64.5¢	69.8¢	79.5¢
Revenue per total ASM	**10.65¢**	9.82¢	9.01¢	9.45¢	9.51¢
Total operating expense per total ASM	**9.69¢**	9.51¢	9.43¢	9.53¢	9.68¢
Number of operating aircraft at year end	**361**	358	366	340	342
Average aircraft utilization (hours per day)	**9.55**	9.39	9.55	9.46	9.65
Total full-time equivalent employees at year end	**44,079**	43,358	45,455	45,620	43,385

(1) Includes nonrecurring special charges of $94.3 million and $792.7 million for 1993 and 1992, respectively.
(2) Excludes the cumulative effect of accounting change of $108.8 million ($1.67 per share).
(3) No dividends have been paid on common stock for any period presented.

Board Of Directors

Melvin R. Laird
Director Emeritus

Alfred A. Checchi
Co-chairman

Gary L. Wilson
Co-chairman

Rob J. N. Abrahamsen
Managing Director-Chief Financial Officer
KLM Royal Dutch Airlines

Richard C. Blum
Chairman & President
Richard C. Blum & Associates, Inc.

Pieter Bouw
President
KLM Royal Dutch Airlines

John H. Dasburg
President & Chief Executive Officer
Northwest Airlines Corporation

Thomas Ducy
Retired General Secretary & Treasurer
International Association of Machinists and Aerospace Workers

Marvin L. Griswold
International Director, Teamsters Airline Division
International Brotherhood of Teamsters

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Chairman & Chief Executive Officer
Loeb Partners Corporation

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Senior Vice President – Market Planning & Systems

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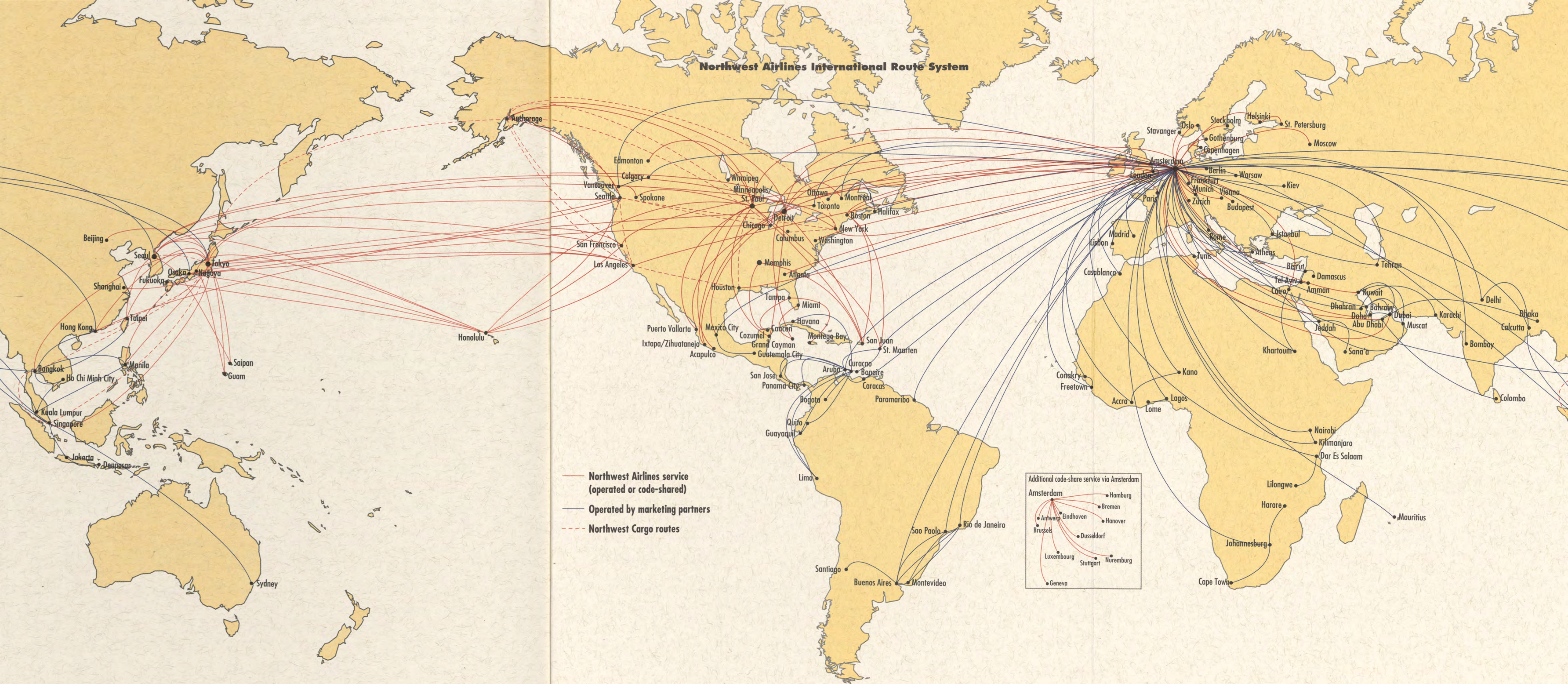
Senior Vice President – Corporate Affairs

John S. Kern
Senior Vice President – Operations
Chief Safety Officer

Barry A. Kotar
Senior Vice President/Sales & Chief Information Officer
General Sales Manager

Douglas M. Steenland
Senior Vice President – General Counsel & Secretary



Northwest Airlines International Route System
Northwest Airlines service (operated or code-shared)
Operated by marketing partners
Northwest Cargo routes
Anchorage
Beijing
Seoul
Tokyo
Osaka
Nagoya
Fukuoka
Shanghai
Taipei
Hong Kong
Manila
Saipan
Guam
Bangkok
Ho Chi Minh City
Kuala Lumpur
Singapore
Jakarta
Denpasar
Sydney
Honolulu
Edmonton
Calgary
Vancouver
Seattle
Spokane
Winnipeg
Minneapolis/St. Paul
Ottawa
Montreal
Toronto
Halifax
Detroit
Boston
Chicago
New York
Columbus
Washington
San Francisco
Los Angeles
Memphis
Atlanta
Houston
Tampa
Miami
Havana
Puerto Vallarta
Mexico City
Cozumel
Cancun
Montego Bay
San Juan
St. Maarten
Ixtapa/Zihuatanejo
Acapulco
Grand Cayman
Guatemala City
Curacao
Aruba
Bonaire
San Jose
Panama City
Caracas
Paramaribo
Bogota
Quito
Guayaquil
Lima
Sao Paolo
Rio de Janeiro
Santiago
Buenos Aires
Montevideo
Stavanger
Oslo
Stockholm
Helsinki
St. Petersburg
Gothenburg
Copenhagen
Moscow
Amsterdam
London
Berlin
Warsaw
Frankfurt
Munich
Vienna
Kiev
Paris
Zurich
Budapest
Madrid
Lisbon
Rome
Istanbul
Athens
Tunis
Casablanca
Tehran
Beirut
Damascus
Tel Aviv
Amman
Cairo
Kuwait
Dhahran
Bahrain
Doha
Dubai
Abu Dhabi
Muscat
Karachi
Delhi
Dhaka
Calcutta
Jeddah
Bombay
Sana'a
Khartoum
Colombo
Conakry
Freetown
Kano
Accra
Lome
Lagos
Nairobi
Kilimanjaro
Dar Es Salaam
Lilongwe
Harare
Mauritius
Johannesburg
Cape Town
Additional code-share service via Amsterdam
Amsterdam
Hamburg
Bremen
Hanover
Antwerp
Eindhoven
Brussels
Dusseldorf
Luxembourg
Stuttgart
Nuremburg
Geneva

Operating Aircraft Fleet (At December 31, 1994)

Northwest Airlines Corporation

Aircraft Type	No. of Seats	Owned	Capital Lease	Operating Lease	Total	On Order*	Average Age (Years)
Airbus:							
A320	141/150	22	4	24	50	–	3.1
A330	303	–	–	–	–	16	–
Boeing:							
757	184	9	14	10	33	40	8.3
747-400	383	–	3	7	10	4	5.1
747	358-409	18	–	5	23	–	16.6
747F	–	5	–	3	8	–	14.6
727-200	146	22	–	33	55	–	16.6
McDonnell Douglas:							
DC-10-40	288	19	–	2	21	–	21.2
DC-10-30	267/271	5	–	3	8	–	19.3
MD-80	143	6	1	1	8	–	12.5
DC-9-50	119/122	22	12	–	34	–	16.7
DC-9-40	112	–	–	12	12	–	26.3
DC-9-30	100	61	–	16	77	–	25.6
DC-9-10	78	22	–	–	22	–	28.0
Total		211	34	116	361	60	16.8

*In addition to new aircraft on order, the Company has purchased 18 DC-9-30 aircraft and will take delivery of an additional 11 DC-9-30 aircraft, all of which are expected to enter service in 1995.

Stockholders' Information

Stock Prices During 1994

Quarter	Sales Price of Common Shares High	Low
1st	13 1/2	11 7/8
2nd	16 1/2	11 1/2
3rd	20 1/8	13 3/8
4th	21 3/8	14 3/8

No dividends were declared during the year.

Stock Listing

The company's common stock is listed under the symbol NWAC on the NASDAQ Stock exchange. There were approximately 7,100 shareholders of record as of February 28, 1995.

Registrar And Transfer Agent

Norwest Bank Minnesota, N.A.
Post Office Box 738
South St. Paul, Minnesota 55075-0738
(800) 468-9716

Annual Meeting

The 1995 Annual Shareholders' Meeting will be held at the Equitable Life Building New York, New York on Friday, April 21, 1995 at 9:30 A.M.

Independent Accountants

Ernst & Young LLP
1400 Pillsbury Center
200 South Sixth Street
Minneapolis, Minnesota 55402

Financial Information

A copy of the Company's Annual Report on Form 10-K will be provided without charge by directing inquiries to:
Northwest Airlines Distribution Center
Phone (800) 358-3100
Fax (612) 885-8851

Direct all other inquiries to:
5101 Northwest Drive
St. Paul, Minnesota 55111
(612) 726-2111

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Every year, Northwest Airlines recycles enough paper to save more than 33,000 trees.