Northwest Airlines Corporation 1996 Annual Report

50 YEARS

BRIDGING
the PACIFIC

At 1:15 a.m. on July 15, 1947, Northwest Airlines made the world a much smaller place when it began regularly scheduled flights to and from Asia. Today the people of Northwest Airlines are proud to serve 15 destinations in the Pacific and connect the world to Asia.

The Vision of Northwest Airlines

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

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.

About the Company

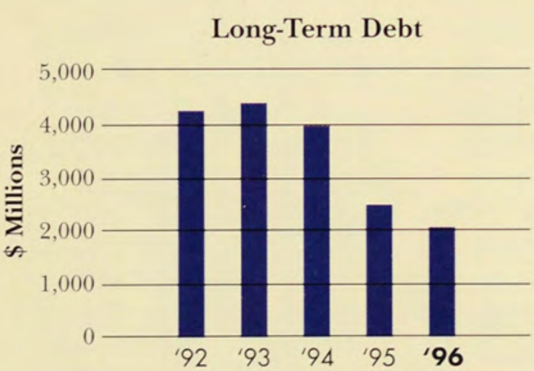
Northwest Airlines is the world's fourth largest airline with domestic hubs in Detroit, Minneapolis/St. Paul and Memphis, and Asian hubs in Tokyo and Osaka.

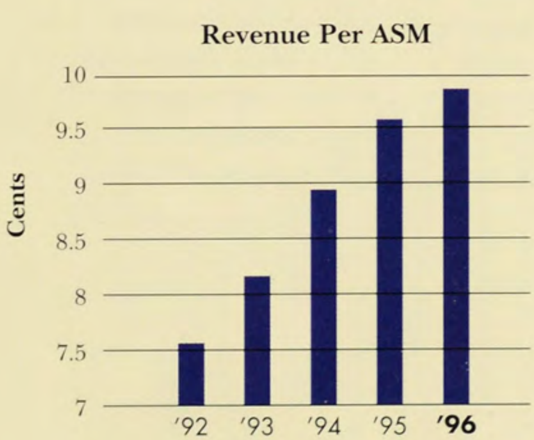
Northwest Airlines, together with major airline alliances and Northwest Airlink partners, serves more than 400 cities in over 80 countries on six continents. The airline has more destinations in Asia than any other U.S. airline, including the most nonstop flights between the U.S. and Japan. With KLM Royal Dutch Airlines, Northwest Airlines serves more than 85 cities in Europe, Africa and the Middle East from 12 U.S. gateways through a European hub in Amsterdam. With Alaska Airlines and its Airlink partners, Northwest Airlines serves more than 250 U.S. cities.

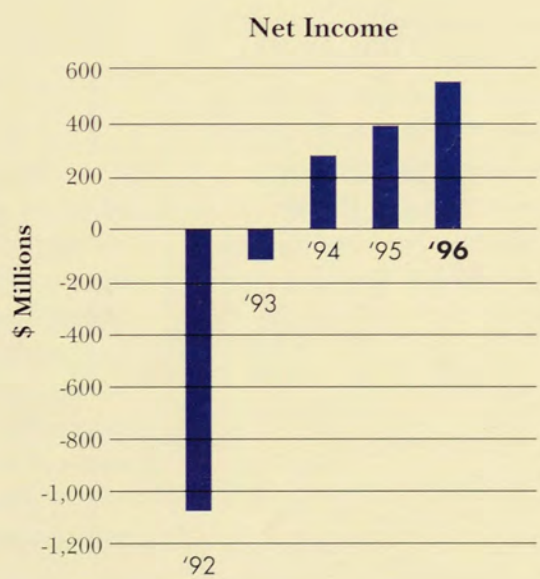
Northwest Airlines is one of the world's largest international air freight carriers with a dedicated fleet of eight main-deck freighter aircraft.

Condensed Financial Highlights

Northwest Airlines Corporation	Year Ended December 31		
(Dollar amounts in millions, except per share data)	1996	1995	Percent Change
Financial			
Operating Revenues	$ **9,880.5**	$ 9,084.9	8.8
Operating Expenses (Excluding Stock-Based Compensation)	**8,583.9**	7,693.5	11.6
Stock-Based Compensation	**242.8**	478.0	(49.2)
Operating Expenses	**8,826.7**	8,171.5	8.0
Operating Income	$ **1,053.8**	$ 913.4	15.4
Amounts Before Extraordinary Item:			
Income	$ **536.1**	$ 342.1	56.7
Earnings Per Common Share:			
Primary	$ **4.93**	$ 3.02	
Fully Diluted	$ **4.48**	$ 2.85	
Number of Common Shares Outstanding (in millions)	**97.6**	91.3	
Operating Statistics			
Scheduled Service:			
Available Seat Miles (ASM) (millions)	**93,913.7**	87,472.0	7.4
Revenue Passenger Miles (RPM) (millions)	**68,639.1**	62,515.2	9.8
Passenger Load Factor	**73.1 %**	71.5 %	1.6 pts.
Revenue Passengers (millions)	**52.7**	49.3	6.9
Revenue Yield Per Passenger Mile	**12.53¢**	12.42¢	0.9
Cargo Ton Miles (millions)	**2,215.8**	2,246.3	(1.4)
Operating Revenue Per Total ASM (RASM)	**9.85¢**	9.58¢	2.8
Operating Expense Per Total ASM (CASM)	**8.78¢**	8.66¢	1.4
Operating Expense Excluding Stock-Based Compensation Per Total ASM	**8.52¢**	8.11¢	5.1







To Our Shareholders from the Co-Chairmen

While we celebrate Northwest Airlines' fifty years of service to the Pacific, we want to express our appreciation for the recent accomplishments of Northwest people during the current decade — the most volatile in the history of the airline industry — and address our future challenges.

During the industry depression which included the Gulf War, prolonged recession, and devastating fare wars, over a third of major U.S. airline capacity sought bankruptcy protection, tens of thousands of jobs were lost, and the industry managed to lose more money than it had earned since its inception at Kitty Hawk — a staggering cumulative $13 billion before the industry turnaround in 1995.

Yet, during this period, Northwest people worked together to strengthen their Company in several vital areas:

Gary L. Wilson and Alfred A. Checchi

▼ Labor/management relations, once the most contentious in the industry, are now considered among the best. The employees of Northwest made a profitable investment in their Company over the past three years and now own 23 percent of it. They participate in decision-making from the board level to operations. Through their creative engagement in the affairs of the Company, they have helped to increase its efficiency, stability, and rate of growth and made it a better place for all of us.

▼ Northwest Airlines has achieved significant improvement in consumer preference. This is a highly complicated service business, affected by many variables ranging from weather to the complexity of international air traffic control systems. Yet, Northwest people have managed to mitigate a great many of these difficulties by taking on more individual responsibility to solve customer problems. We are by no means perfect but year by year our people are making the system better, and it shows in the response of our customers.

▼ We believe the management, led by our CEO John Dasburg, is the best in the industry. Nearly all new to Northwest this decade, the top management of Northwest was selected from non-airline institutions as well as a cross section of our competitors. We sought a management that was entrepreneurial, disciplined, and committed to creating a cooperative work environment. We have chosen a model of management which inspires personal achievement because it values and supports individuals. We believe that the change in management and management philosophy have keyed the improvements in Northwest's labor relations and customer service.

▼ The strategies employed and the hard work of Northwest's employees have also begun to produce competitive financial results. Over the past three years Northwest has generated significant revenue growth at improved operating margins, and has improved return on invested capital. Long-term debt has fallen dramatically from $4.4 billion in 1993 to $2.1 billion in 1996. Based on fixed charge coverage, Northwest Airlines is now among the least leveraged major airlines in the United States. Assuming we maintain our margins, we are well positioned to invest in future profitable growth opportunities.

Looking forward, we face major issues to remain competitive and to improve our industry position.

▼ Our collective challenge is to complete labor agreements that benefit our people but also allow productivity improvements that will keep us competitive. Customer demand for lower real air fares forces us to continue to reduce real costs through improved labor and capital productivity. Only by controlling costs and keeping our service competitive can Northwest people enjoy premium wages with long-term job security and the satisfaction of being part of a successful organization.

▼ While the industry was deregulated in 1978, vestiges of government regulation and intervention remain a major challenge. We are arguably the highest taxed industry in North America. In addition to normal federal and state income, property and sales taxes, governments take 15 cents from every sales dollar in the form of transportation taxes, fuel taxes, passenger facility charges and other federal user fees such as customs and immigration. We are subject to the scrutiny of the Department of Transportation, Federal Aviation Administration, and National Transportation Safety Board, and the U.S. Congress which imposes costly and redundant regulations that often serve political and bureaucratic purposes more than the needs of the traveling public. This government intervention is costly to our customers and employees. It is our challenge to stop the growth of unnecessary and unproductive regulatory intervention and roll back the mistakes of the past so that our industry can better serve the needs of the traveling public, as well as our other constituencies.

The people of Northwest have transformed their Company and achieved many of the goals that we established at the beginning of the decade. They have shown that if you create an environment where people cooperate and seek common ground and where individuals are valued and encouraged, you can achieve most anything that you set out to do. We salute and thank them for their efforts.

Sincerely,

Alfred A. Checchi

Alfred A. Checchi
Co-Chairman

Gary L. Wilson

Gary L. Wilson
Co-Chairman

To Our Shareholders from the President and Chief Executive Officer

To update Charles Dickens' opening line in *A Tale of Two Cities* — 1996 was the best of times and the worst of times.

Our earnings were the highest ever for Northwest Airlines at $536.1 million, with cash flow of nearly $1.4 billion. Operating income improved by 15 percent to $1.05 billion. Earnings per common share were $5.15 compared with $3.92 for 1995. Return on capital improved from 10.85 percent in 1995 to 11.48 percent in 1996.

However, by the fourth quarter we were being buffeted by strong gales. Congress again imposed a passenger ticket tax, thus discouraging air travel and hindering our revenue growth. For much of 1996 we were paying the highest jet fuel prices since the Gulf War, further compounded by the recently imposed federal jet fuel tax. New and costly government regulations were being threatened by year end. By the fourth quarter the yen had weakened sharply against the dollar, negatively affecting approximately 15 percent of our business.

The challenges of 1996 did not deter us from continuing to implement strategies and take actions in support of our mission: "To provide reliable, convenient and consistent air transportation that meets or exceeds customer expectations and earns a sustainable profit."

John H. Dasburg

Consistent Reliability and Convenience

We continued to focus on our historic markets and therefore continued to strengthen hubs in Detroit, Minneapolis/St. Paul, Memphis, Tokyo, Osaka and Amsterdam. We added increased frequencies and new markets to our hubs and major improvements to our distribution system, thus significantly improving our customer convenience. At year-end 99 percent of our flying was hub-related compared to 89 percent at year-end 1991.

Customer convenience was particularly enhanced in May as we expanded our presence in Detroit and China with the first ever nonstop service by a U.S. carrier between the U.S. and Beijing. We also continue to provide more trans-Pacific capacity between the U.S. mainland and Japan than any other carrier, and in 1997 commemorate 50 years of experience doing business in Japan.

We worked hard to improve our reliability but the results were mixed. Our investment in luggage systems, combined with the leadership and effort of our people, significantly improved mishandled luggage ratios from 6.33 per thousand in 1995 to 5.34 in 1996. However, on-time performance dropped from 80.7 percent in 1995 to 76.6 in 1996. Nevertheless, this level of on-time performance resulted in a virtual tie for Northwest Airlines with the leading competitor for first place among the seven largest U.S. airlines. We are redoubling our efforts during 1997 to maintain our leadership in on-time arrivals.

While we continue to implement service improvements, we are careful not to sacrifice unit cost management. We recognize that in a service industry, managing cost per unit is crucial to competitiveness and job security for our Northwest people.

Exceed Customer Expectations

To provide outstanding service and exceed our customers' expectations we must hire, train, motivate and promote the very best people. During 1996 we continued our initiatives, including a commitment to open communication and the strength that comes from diversity and equal opportunity for our 47,000 people around the world. A number of important recognition programs have been put into place throughout the Company. Please be sure to acquaint yourself with the winners of our Company's highest recognition, the President's Award, on Page 26 of this report.

Profitability

We benefited for eight months from the expiration of the federal ticket tax and cargo waybill tax. The ticket tax was originally enacted in 1941 with the intent of discouraging travel during wartime. The tax was increased in 1991 to 10 percent and expired on December 31, 1995. Unfortunately, following eight months without the tax, Congress imposed it again in August 1996 at the previous high level of 10 percent. Northwest Airlines and others are aggressively opposing this tax on the grounds that it is not in the national interest to discourage commercial air travel and commerce. Northwest proposes that the Air Traffic Control (ATC) system be funded by user fees, not a 10 percent tax on passengers. A change to user fees would more fairly share the burden of ATC cost and in the long term have less negative impact on travel since it would promote efficient use of the ATC system.

A combination of the expiration of the passenger ticket tax and a continuation of our marketing strategy to focus on our core markets resulted in an 8.8 percent increase in revenue in 1996. Expenses increased 8.0 percent, mostly as a result of increased fuel costs which approached Gulf War levels. Expenses were further burdened by jet fuel taxes and an increase in costs associated with the high load factors resulting from the stimulus of the expired passenger ticket tax.

We accomplished a significant phase of our DC-9 fleet strategy in 1996, with the refurbishment of all 106 DC9-30 aircraft interiors. Newly designed seats, additional overhead storage space and more convenient lavatories are among the many enhancements. Direct maintenance costs are consistent with projections and dispatch reliability is virtually the same as newer aircraft in the fleet. The net present value savings realized through refurbishing the DC9-30s instead of purchasing new aircraft is projected to be $1.1 billion.

Thus it truly was a "best of times, worst of times" year. Through it all the people of Northwest never lost their customer focus. They worked hard and were dedicated to achieving our mission, upholding our values and following our guiding principles.

Thank you for your interest and support.

John H. Dasburg

President and
Chief Executive Officer

Focus - Asia

1947

July 15, 1947 marked the long-anticipated first Northwest Airlines flight to the Orient. That first flight originated in the Twin Cities and had stops in Anchorage and Shemya, Alaska, Tokyo, Seoul, Shanghai, and Manila. The route followed was called "The Great Circle Route," because it crossed the Pacific by circling north of the earth's equatorial bulge. The route, now used each and every day, brought New York approximately 2,000 miles closer to Japan than the conventional mid-Pacific warm weather passage. Fifty years after this achievement Northwest is not a company that rests on its laurels.

Northwest Airlines charted a new course to Asia with its Great Circle Route.

Northwest Airlines defied the experts when it successfully pioneered flying across the northern Rockies — and beat United Airlines by 24 hours to Seattle in December 1933, thus clinching the region's valuable postal contract for eastward mail delivery.

That early victory was the prelude to Northwest's entrance into the trans-Pacific market during the following decade.

After the United States entered World War II, Northwest obtained the government contract to develop air travel to Alaska in support of the war effort. Northwest so excelled at the mammoth undertaking that after the war, in 1947, it was one of only two commercial U.S. airlines to win authority to provide trans-Pacific service. Pan Am was the other.

Northwest pioneered the Great Circle Route, which traced from the Midwest, north through Canada and Alaska before turning south to Japan. On a flat map, the route gives the illusion of appearing longer than the seemingly direct western route between Japan and the Eastern United States. But a globe reveals that the route is really much shorter. To this day, Northwest uses the Great Circle Route to offer more direct routings to reduce travel time, for example, from the Eastern U.S. to China on its new Detroit-Beijing service.

Northwest introduced service to Hong Kong in 1951. Osaka became the second major Japanese destination in 1967. The first three Northwest Boeing 747 freighters began to serve Asia in 1975. Service to Tokyo from New York was launched in 1982. Detroit and Tokyo were linked nonstop in 1987, and two years later Northwest became the first airline to fly the Boeing 747-400 — the world's largest commercial airliner.

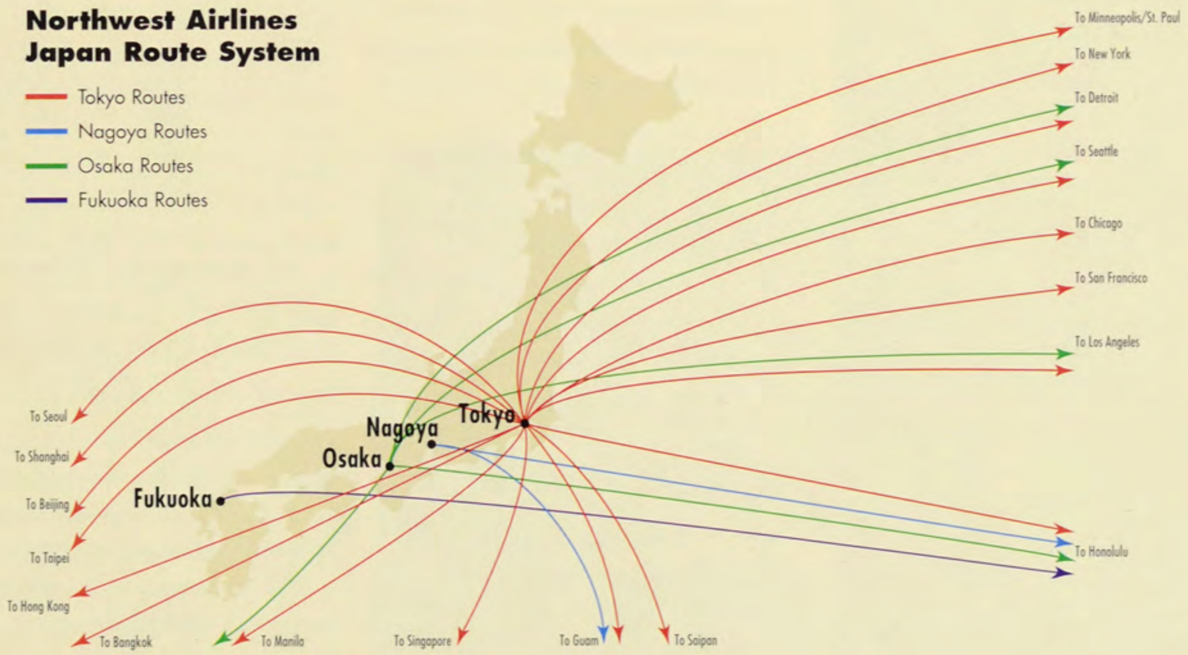
Other milestones of Northwest's service to Asia these past 50 years are featured in the side bars on the pages of this report.

Over the years, Northwest has built its position in Japan by investing billions of dollars to develop its hubs in Tokyo and Osaka. These hubs — and the extensive U.S.-Asia networks they helped create — enable the airline to serve more U.S.-Asia traffic flows and provide more nonstop service to Japan by carrying traffic via Tokyo and Osaka to Singapore, Bangkok, Manila, Hong Kong, Beijing, Shanghai, Seoul, Taipei and other cities on the Pacific Rim.

This extensive network from Japan is critical to the U.S. industry's ability to participate in the burgeoning Pacific Rim markets. Except for Japan, the majority of Asian markets are too small for Northwest to economically serve on a nonstop basis. Air service via Japan also enables U.S. carriers to participate in the heavily traveled intra-Asia market.

Thanks to investments in Japan and industry-wide efficiencies resulting from U.S. airline deregulation since the late 1970s, U.S. carriers have in recent years achieved a $4.8 billion annual aviation trade surplus with Japan.

Northwest recently expanded its Minneapolis/St. Paul-Tokyo service from once a week to seven times a week. We also expanded service from three times a week to seven times a week between Seattle-Osaka in the summer, and have continued to add and subtract capacity between Japan and the U.S. as market conditions warrant.



1996 In Review

1948

The "Red Tail" is painted on all Northwest aircraft for the first time, creating a trademark that becomes known worldwide and that continues in use almost fifty years later. Originally, the familiar red color was much more functional. With its routes crossing some of the most inhospitable terrain on earth, Northwest began in February 1948 to paint the vertical tail surfaces of its aircraft bright red as a measure to make them more visible.

Further optimization of Northwest Airlines' global route system and productivity improvements helped achieve a 1996 operating margin of 10.7 percent, among the best of the major network carriers, despite the challenges posed by rising fuel costs, reimposition of a federal ticket tax and unfavorable foreign currency exchange rates.

Record Operating Results

Northwest's 1996 operating revenue totaled $9.9 billion, up 8.8 percent from $9.1 billion in 1995, demonstrating the continued strong demand for Northwest's product. This increase was fueled by a 9.8 percent increase in demand and a 7.4 percent increase in capacity, reflecting the Company's emphasis on controlled, profitable growth and route optimization. As a result, our planes flew 73.1 percent full, 1.6 points better than 1995.

Through a combination of market-specific initiatives and national fare promotions, passenger loads increased throughout the year, while ongoing efforts to improve schedule convenience and operating reliability enabled Northwest to retain its strong share of frequent business traveler traffic in hub markets and on key trans-Pacific routes. Reflecting these efforts, revenue per ASM (Available Seat Mile) increased 2.8 percent to 9.85 cents from 9.58 cents in 1995 while yield per passenger mile improved to 12.53 cents from 12.42 cents in 1995.

Net income for 1996 totaled $536.1 million, up 36.8 percent from $392 million, including the extraordinary item, in 1995. Northwest achieved this substantial improvement in net income despite a 40.7 percent increase in aircraft maintenance material and repair expenses and a 28.9 percent increase in expenses related to aircraft fuel and related taxes. Overall operating expenses increased 8.0 percent in 1996 and operating expense per ASM increased 1.4 percent to 8.78 cents.

A Strong Financial Position

James A. Lawrence, Executive Vice President and Chief Financial Officer, who joined Northwest in October, presents a detailed Financial Review section beginning on Page 29 of this annual report. Northwest continued to strengthen its balance sheet and improve its overall financial position and liquidity in 1996. During the year, the Company reduced its long-term debt and capitalized leases by $476 million, and achieved pre-tax interest savings of $125 million.

The 1996 debt reduction is only the latest result of a three-year effort that has reduced the Company's long-term debt and capitalized leases by more than 47 percent since 1993. As a result, Northwest's annual debt amortization for the next five years is expected to be below $225 million annually.

New Flying Brings Profitable New Traffic

Northwest's focus on connecting through hubs still leads the industry, even though other U.S. carriers are now emulating this strategy. Northwest also maximizes the profitability of its route system by making seasonal and day-of-week adjustments to routes and schedules. For instance, the airline adjusts weekend schedules to accommodate the higher weekend traffic to leisure destinations and redeploys aircraft to serve ski and beach destinations in winter and other vacation destinations in summer.

Fleet Planning Balances Marketing and Economic Interests

Northwest continues to utilize a disciplined fleet planning process that is based upon thorough and balanced evaluation of marketing requirements, noise rule constraints and aircraft operating economics and capital costs. At year-end, the fleet included 399 aircraft. Northwest's fleet optimization model uses actual route profitability data and incorporates all start-up, operating and capital costs to identify the best available aircraft to satisfy mission and profit requirements.

In 1996, Northwest brought 13 new Boeing 757s into the fleet. These aircraft were accepted earlier than originally planned as part of a negotiation with the manufacturer that also provided greater flexibility to Northwest for its future aircraft deliveries. The Company also placed an order for 20 Airbus A320s to be delivered in 1998 and 1999 while deferring deliveries of 16 Airbus A330s to 2004 and 2005.

During the year, Northwest also augmented its fleet through the acquisition of 12 additional aircraft obtained from other airlines or intermediaries. Before entering service, these aircraft undergo a thorough commissioning process to ensure that they meet the highest standards of safety and passenger comfort.

Northwest has also completed the refurbishment of all DC9-30 aircraft interiors in its North American fleet. Customers have responded very favorably to the new DC9-2000 design, in which everything the customer sees is new, from exterior paint to new seating, a lavatory in first class, enlarged overhead bins and new galleys. Furthermore, the overall mechanical and dispatch reliability of the refurbished aircraft is virtually the same as that of the newer aircraft in the Northwest fleet.

Beginning in 1997, Northwest will invest approximately $120 million to upgrade the interiors of its entire international fleet of wide-body aircraft. This program is expected to be completed in 2002.

In October 1996, Northwest entered into a 10-year agreement with Mesaba Airlines under which Mesaba will operate 12 Avro RJ-85 jet aircraft.

One of 13 new Boeing 757 aircraft delivered in 1996.

North American Operations

*In the 1996 Airline Customer Satisfaction Study by **Frequent Flyer Magazine/J.D. Power** and Associates, Northwest Airlines shared honors in the ratings for the preferred U.S. carrier on short-haul and long-haul trips.*

Setting the Standard for Reliability and Convenience

Northwest Airlines' achievements in on-time performance, customer comfort and scheduling convenience were recognized with several awards for customer satisfaction. Northwest was named Best Short-Haul Airline (for flights under 500 miles in the United States) in the highly regarded *Frequent Flyer Magazine*/J.D. Power and Associates 1996 Airline Customer Satisfaction Study and placed second in the study for long flights. In addition, for the fourth consecutive year, Northwest earned the *Crystal Pyramid Award of Merit* as the "Best Airline on U.S. Domestic Routes" as chosen by the *Ashington-Pickett Airlines and Travel Report.* Northwest also led the industry with the fewest involuntary denied boardings among the seven largest U.S. airlines and significantly improved its performance in luggage handling, according to DOT statistics.

New Domestic Flying Strengthens Hubs, Leverages Alliances

Northwest continued controlled, profitable expansion of its domestic route system during 1996, concentrating on expanding service in hub markets to key spoke destinations. Overall, Northwest's domestic capacity grew 6.3 percent in 1996 compared with total U.S. industry capacity growth of about 3 percent. Northwest's domestic revenue passenger miles increased 7.1 percent and passenger load factor for the year was 69.0 percent compared with 68.4 percent in 1995.

From Detroit, Northwest began service during 1996 to Colorado Springs, Colorado; Reno, Nevada; and Greensboro, North Carolina, and increased service between Detroit and Raleigh/Durham and Charlotte, North Carolina; and Flint, Michigan.

From Minneapolis/St. Paul, Northwest began service to Saginaw/Bay City/Midland, Michigan and Charlotte, and increased service to Vancouver. In November, the DOT granted Northwest tentative approval to operate two daily roundtrip flights between Minneapolis/St. Paul and Toronto. Service began February 24, 1997. Northwest remains the leader among U.S. carriers offering service between the U.S. and Canada.

In Memphis, Northwest added service to Columbus, Ohio and Colorado Springs. Through service improvements and concerted community involvement, Northwest is now well established as the hometown airline in Memphis. As a result, Memphis has become the smallest local traffic market in the U.S. profitably operated as a hub by a major network carrier.

Northwest's marketing and code-sharing agreement with Alaska Airlines and its sister carrier Horizon Air, was greatly expanded late in 1995. It has proven to be successful in building traffic through Northwest's

Seattle/Tacoma gateway and has also strengthened Northwest's market position in Anchorage, Alaska. The code-share agreement now covers more than 400 flights each day serving some 40 cities.

Northwest also has Airlink relationships with Business Express Airlines, Express Airlines I, Mesaba Aviation and Trans States Airlines. These regional carriers serve 143 cities in North America and Canada. Through service to new markets and schedule coordination ensuring better connectivity with Northwest's domestic and international systems, these relationships have produced steadily increasing contributions to Northwest's operating revenue and income while providing added convenience for Northwest customers.

Ben Hirst, Senior Vice President-Corporate Affairs, is surrounded by Northwest people as they proudly accept the J.D. Power and Associates 1996 Customer Satisfaction Award.

Creating Incentives to Fly Northwest Again and Again

Northwest customers are benefiting from the airline's introduction of new distribution and service technologies, such as "ticketless travel," direct booking and self-service kiosks. During 1996, Northwest's entire North American route system became "E-ticket capable." Northwest's E-ticket product allows passengers to travel without a paper ticket. Instead, once the customer's flight arrangements are made, that information is stored in an electronic data base. On the day of the flight, the customer presents a picture ID at the ticket counter, gate area or WorldClub. At check-in the agent can access information from the electronic ticketing data base to issue a boarding pass.

Northwest will introduce self-service check-in devices in Minneapolis/St. Paul and at Chicago's O'Hare airport in early 1997. These kiosks let E-ticket passengers check-in, confirm or change seat assignments, check bags and receive boarding passes simply by entering a credit card number or passenger name record. If the kiosks prove popular with customers, their use will be expanded to other hub airport locations.

Northwest continues to extend its use of electronic commerce technologies to provide additional services for customers while reducing distribution and customer service costs and enhancing reservation agent productivity. During 1996, for example, Northwest began offering CyberSaver℠ fares via its site on the World Wide Web (www.nwa.com). These fares offer travelers the opportunity to realize deep discounts for weekend travel on selected domestic routes. Northwest has also allowed customers to make direct bookings on a third-party web site and, beginning in 1997, will offer direct booking from its own web site through a partnership with Microsoft Travel Technologies.

(Continued on Page 14)

North American Route System

North American Operations *(cont.)*

1960

Northwest becomes the first major airline to operate an all jet fleet across the Pacific. In 1960, five DC-8 aircraft went into operation, bringing Northwest into the "jet age." In addition, nine 720-B aircraft were brought into service that year.

These employees represent the 47,000 Northwest people who worked together to deliver safe, reliable, convenient and courteous service to more than 52 million passengers in 1996. Pictured from left to right: Equipment Service Employee Ed Wooten, Reservations Sales Agent Sharon Shimomura, Pilot Tom Eckert, Flight Attendant Tony Aguon, Advertising Manager Shevette Callier and Customer Service Agent Reta Vomela.

These new distribution technologies offer increased convenience for customers and are producing steady increases in Northwest's direct ticket revenue while reducing commissions and related distribution costs.

A new information system being installed for airport customer service agents will enable them to serve customers more quickly and completely. The "Airport of Preference" system ensures more consistent accommodation of passengers affected by flight irregularities and will help minimize Northwest's flight interruption expenses.

Facilities Improvements Enhance Service

Northwest and Wayne County, Michigan, have entered into an agreement that provides for the development of a new Detroit midfield terminal complex scheduled for completion in 2001. The agreement is part of a comprehensive airport development program that will accommodate the continuing growth in Northwest service through its busiest hub for the next 30 years at a "per enplanement" cost not substantially above current landing fees. While the midfield terminal is under construction, several interim improvements will enhance convenience and comfort for Northwest passengers traveling via Detroit. These include refurbishment and expansion of the luggage handling system, additional gates and an airside shuttle to ease connections between domestic and international flights.

In Minneapolis/St. Paul, international passengers can now make fast, convenient connections with Northwest's domestic route system through a new International Arrivals Facility. This new facility, opened in November 1996, enables Northwest passengers to clear U.S. Customs and Immigration and Naturalization inspections within the main terminal. Minneapolis/St. Paul passengers are also benefiting from the opening of Northwest's largest WorldClub, an expanded roadway system in front of the main terminal that eases passenger congestion, and expanded international service, resulting from the opening of a new crosswind runway that is capable of handling fully loaded wide-body aircraft on nonstop international flights.

Extending its capabilities in the Technical Operations area, Northwest opened a new maintenance base in October 1996 in Duluth, Minnesota for its Airbus A320 fleet. The 189,000 square-foot facility will eventually employ up to 350 mechanics and support personnel.

Northwest WorldPerks members are benefiting from a new reservations facility, the Iron Range Reservations Center, located in Chisholm, Minnesota. This center, which began taking calls in April, will employ up to 600 people by the year 2000 and is dedicated to serving the needs of the WorldPerks free travel program.

Aerial view of the new maintenance base in Duluth, MN, opened in October 1996, employing up to 350 mechanics.

Pacific Region Operations

A single regularly scheduled nonstop route across the Pacific brings significant direct and indirect economic benefits to the host community. For example, studies estimate that the Twin Cities derive $40 million to $45 million per year from the route between Minneapolis/St.Paul and Tokyo.

Bridging the Pacific for 50 Years
Northwest Airlines is a leader in linking Japan to the rest of the world, providing the single largest share of international capacity among all foreign carriers serving Japan. Overall, the scale of Northwest's operations in the Pacific provides a firm foundation for strong working relationships with the region's distribution system, tour operators, other air carriers and transportation industry authorities. These long-standing relationships are one reason that Northwest supports an open skies agreement between the U.S. and Japan. A free market is in the best economic interests of the U.S., Japan and Northwest Airlines.

Key to Northwest's continuing success in Asia is punctual, convenient and comfortable service through the airline's Tokyo hub. Reconfiguration of Northwest's schedule to provide two flight banks daily has reduced average connecting times through Tokyo's Narita Airport to 120 minutes or less while service to Asia through Northwest's Detroit and Minneapolis/St. Paul hubs provides shorter travel times for North American customers located east of the Mississippi. Demand for Northwest's World Business Class Service, an enhanced business class service launched in 1994, remains strong, and accounted for a greater share of Northwest's Pacific revenues in 1996 than the year before despite a slight decline in World Business Class capacity. In 1996 trans-Pacific surveys, 97 percent of World Business Class customers said they would choose Northwest again, reflecting the popularity of this service. The improved schedule and service and strong demand resulted in record trans-Pacific traffic during 1996. Northwest boarded its one millionth passenger in Japan in September, the earliest date this milestone has ever been reached, and for the first time ever, boarded more than 1.5 million passengers for the year through Tokyo, Osaka, Nagoya and Fukuoka.

Bringing the World to China and China to the World
As it did 50 years ago in Japan, Northwest has established a strong and early position in providing service to and from China. At the end of 1996, Northwest was providing seven flights each week to China, including three nonstop flights between Detroit and Beijing, the only regularly scheduled nonstop service from the U.S. to China's capital operated by a U.S. carrier.

Northwest's nonstop flights to Beijing cut up to eight hours of travel time for customers coming from the eastern half of North America. The new route was profitable in its first full month of operation and continues to enjoy high demand. Meanwhile, the direct service to China is estimated to provide an annual $200 million boost to Detroit's Wayne County and the surrounding area.

Northwest signed a Memorandum of Understanding in April 1996 with Air China, that nation's largest commercial airline and the Chinese carrier with the best safety record over its 40-year history. The MOU provides the basis for a comprehensive marketing and code-sharing agreement which would be the first such alliance between a major Chinese airline and a foreign carrier.

New Flying and Marketing Relationships Bolster Northwest's Asian Presence

Northwest's continuing strength in the Pacific results from its superior route structure to and from Japan. More than 94 percent of Northwest's Pacific flying touches Japan and new flying bolsters this strong position. During 1996, Northwest's new daily Minneapolis/St.Paul-Tokyo service not only enhanced convenience between the Twin Cities and Tokyo, but also provided convenient connections to 10 other Asia-Pacific destinations through the Narita hub. The expanded service meets the needs of business travelers and is also expected to help attract additional international tourism to Minnesota.

Northwest plans to begin Minneapolis/St. Paul-Osaka service in April 1997 with three flights weekly, expanding to daily service in June. Since Kansai airport opened in 1994, Northwest has increased service to Osaka from 18 flights per week to 42. From Osaka, Northwest operates daily service to Detroit, Los Angeles and Manila, double daily flights to Honolulu and four times weekly service to Seattle that will become daily in the summer of 1997. Northwest plans to offer 56 weekly Osaka flights in summer 1997 and provides the most service between Osaka and the U.S. Proposed new

Co-chairman Gary Wilson is joined by Yin Wen Long, president of Air China and chairman of the Air China Group; Li Ke Li, then a top official with the Civil Aviation Administration of China (CAAC); and Mike Levine, Executive Vice President-Marketing and International, during the Beijing-Detroit inaugural flight ceremony in May 1996, in Beijing.

service to Jakarta, Indonesia, and Kuala Lumpur, Malaysia is an extension of the current Northwest Seattle-Osaka service that will further enhance the Osaka hub.

Relationships with other Asian airlines allow Northwest to expand its operation in the Pacific and gain passenger feed and market presence that would be uneconomical to pursue otherwise. Northwest and Garuda Indonesia Airlines signed a Memorandum of Understanding in December 1996 designed to lead to an operational and marketing alliance between the two airlines, the first such alliance between a U.S. and Indonesian carrier. The agreement is expected to provide passengers with more convenient connections between Northwest and Garuda. It will also call for code-share services on each other's flights across the Pacific and in the U.S.

Northwest's trans-Pacific partnerships continue to enhance convenience for customers while strengthening Northwest's competitive position and increasing revenues. An agreement with Asiana, Korea's second largest airline, has enabled Northwest to maintain Northwest-coded service from several U.S. cities to Korea and ensures strong traffic on Northwest's Detroit-Seoul service. A code-sharing agreement between Northwest and Pacific Island Aviation enables Northwest to conveniently serve vacation travelers to Guam, Saipan and Rota, popular beach destinations in Micronesia for Japanese tourists. New agreements with Hawaiian Airlines and Mahalo Air enable Northwest to add beach destinations for Japanese travelers.

Atlantic Region Operations

Northwest Airlines has code-share and/or marketing agreements with these airlines:

Air UK

Alaska Airlines

America West Airlines

Asiana Airlines

Business Express Airlines

Eurowings

Express Airlines I

Hawaiian Airlines

Horizon Air

KLM Royal Dutch Airlines

Mahalo Air

Mesaba Aviation

Pacific Island Aviation

Trans States Airlines

Northwest Airlines operates service between its domestic hubs, and London, Paris and Frankfurt and between a hub in Amsterdam and several U.S. gateways. In 1996, Northwest increased Detroit-London service to twice daily, while continuing to offer twice daily Detroit-Frankfurt and daily Detroit-Paris service. In May, Northwest will inaugurate new daily Newark-Amsterdam service.

Building on Unprecedented Alliances
Northwest's new service from Newark will be the twelfth trans-Atlantic route operated by the alliance with KLM Royal Dutch Airlines. The new route provides one-stop service to more than 100 destinations in Europe, Western Asia, the Middle East and Africa. Effective June 1, Northwest will connect Amsterdam to Mumbai (Bombay) four times a week, and to Delhi three times a week. KLM serves the two Indian cities on the days Northwest will not, thus offering daily service for business and leisure travelers.

Successful commercial alliances with KLM, Air UK and Eurowings provide Northwest with an effective, profitable trans-Atlantic operation that would be impractical and uneconomic to provide directly.

In addition to these new routes, the alliance partners also added service on existing routes without diminishing load factors. Demand for World Business Class service remained especially strong. New hub-to-hub flying included increasing Memphis-Amsterdam service to daily and Minneapolis/St. Paul-Amsterdam to twice daily during summer. Northwest added capacity on its twice daily Detroit-Amsterdam flights by using a 747-400 aircraft to operate one of the two flights. In 1997, Detroit-Amsterdam service will be increased to three times daily during the peak summer travel season.

Flying under the Northwest/KLM joint venture alliance was significantly expanded during 1996 as both carriers continue to benefit from the convenience and scope their combined schedules offer business and leisure travelers. At year-end, KLM was placing its code on Northwest jet and Airlink flights to 180 U.S. destinations while Northwest was placing its code on KLM and KLM Cityhopper flights beyond Amsterdam to more than 60 points in Europe, Africa and the Middle East.

Other additional flying under the alliance included expanding San Francisco-Amsterdam service to daily. In addition, to improve aircraft

Over the past 12 months, Northwest had an average load factor of 80 percent on both the Minneapolis/St.Paul-London Gatwick and Detroit-London Gatwick flights.

utilization for both KLM and Northwest, Northwest operated one of two daily New York/JFK-Amsterdam flights during the summer of 1996.

Alliances and Code-Shares Expand System Scope, Enhance Convenience

As in North America and the Pacific, Northwest creatively uses marketing and operating partnerships with other carriers to extend the reach of its route system to improve convenience for customers. (See the side panel on this page for a complete listing of Northwest's code-share and marketing alliances.)

In 1996, Northwest and Air UK significantly expanded their cooperative marketing and code-share agreement for flights between the U.S. and the United Kingdom. Air UK offers service from Amsterdam to 11 cities in the United Kingdom. This relationship strengthens the Amsterdam hub and enables Northwest to offer more on-line service to these U.K. destinations than any other U.S. carrier.

Northwest maintains a similar relationship with Eurowings, a German carrier. Through its marketing and code-sharing agreement with Eurowings, Northwest offers Northwest-coded service to nine German cities, connecting through Amsterdam. As with the Air UK alliance, the Eurowings agreement strengthens the Amsterdam hub and enables Northwest and KLM to compete effectively against other European alliances and hubs.

Northwest Cargo

1947

*By August of 1947, Japan-bound air mail and cargo were permitted for the first time. The initial Tokyo payload included photographic plates used to print **Newsweek** magazine in Asia.*

Northwest Cargo is the only U.S. airline with a 100 percent guaranteed international product.

Northwest Cargo meets the needs of air freight shippers and freight forwarders by combining a fleet of eight Boeing 747 freighters with the belly-freight capacity of the Northwest passenger fleet to create a cargo carrier with international capacity unmatched by any other U.S. combination carrier. Northwest Cargo's ability to meld cargo fleet operations with belly-freight capacity offers shippers a wide range of origin-destination combinations, lift capabilities, routings and departure and arrival times. In 1996, Northwest Cargo's gross revenues totaled $747.9 million (including charter revenue), 7.6 percent of Northwest's total revenues.

Unique-in-the-Industry Cargo Service

Northwest's eight freighters fly between the U.S. and Japan and to four other Asian destinations. Northwest also operates a major cargo facility in Tōkyo and, in 1997, will begin construction of a new cargo facility at New York's John F. Kennedy International Airport.

Depressed yields in import traffic resulted in a reduction in Northwest Cargo's trans-Pacific revenues in 1996. However, Northwest Cargo remains well positioned for the expected resumption in trans-Pacific traffic growth, as most of its revenues are generated in the regions expected to have the fastest cargo growth rates, including the intra-Asian and U.S.-Pacific Rim markets.

Northwest Cargo continues to fine tune its schedule to suit the needs of freight forwarder customers. As a result, service to Osaka has been expanded and additional flights to Bangkok have been added.

Northwest Cargo is also expanding its trans-Pacific service through a cooperative marketing and operating agreement with Nippon Cargo Airlines (NCA), the leading Japanese all-cargo airline. The agreement results in more schedule choices and cargo capacity for both carriers' customers on key cargo routes, including Osaka-Chicago, Tokyo-Seoul, Taipei-Tokyo and Singapore-Tokyo. The agreement also positions both carriers to benefit from the recently expanded U.S.-Japan cargo agreement under which NCA can begin service to three additional markets in the U.S. while Northwest can serve three new points in Japan.

Northwest Cargo continues to enhance both service and operating efficiency through automation. Increased electronic data interchange (EDI) capabilities are improving Northwest Cargo's ability to track and report on shipments. The EDI capability was extended to Japan in 1996 and will be implemented in Hong Kong in 1997.

Cargo Operation Adds Services to Meet Shippers' Needs

To improve coordination of services for both passengers and shippers, during 1996, Northwest realigned Northwest Cargo's operations to integrate them more tightly with Northwest's mainstream operating departments.

In addition, Northwest Cargo introduced several new products. To provide freight forwarders with the reliable, flight-specific and time-definitive shipping they require to satisfy their customers, Northwest Cargo launched Specific Air and Standard Air. Specific Air, designed for urgent air freight shipments, offers preferred handling and guaranteed flight specific service at a premium price. Standard Air, an economical two-day product, provides reliable, time-definite service by 10 a.m. on the second day. For small package shipments, Northwest Cargo's VIP Same Day Package Service affords guaranteed "next flight out" service for packages up to 100 pounds.

Record passenger loads reduced Northwest Cargo's belly freight capacity on domestic routes throughout 1996. Despite the reduction in capacity, Northwest Cargo increased mail and express products revenues during the year and new premium products helped increase unit revenues.

Northwest Cargo offers a variety of special products to meet diverse shipping and delivery requirements.

Northwest Aerospace Training Corporation (NATCO)

1962

Northwest chief meteorologist Dan Sowa developed a method to predict wind-shear. His work helped pilots avoid approach and climb-out problems caused by unexpected changes in wind direction and/or velocity. By studying "mountain wave" activity, a special type of turbulence, the resulting Northwest procedures have helped pilots avoid or minimize dangerous turbulence situations.

Northwest is a world leader in enhancing air travel safety through training for pilots and flight crews, ground services and support personnel, and systems operations control professionals. This training is marketed to other airlines by Northwest Aerospace Training Corporation (NATCO), a wholly-owned indirect subsidiary of Northwest Airlines Corporation.

While Northwest provided 60 percent of NATCO's 1996 revenues, the remaining 40 percent came from NATCO's growing base of customers, reflecting worldwide recognition of NATCO's status as a leading training center.

During 1996, NATCO provided training services to 104 airlines, as well as non-airline jet operators and government agencies. In addition, NATCO's Technical Services division provided flight simulator support services for other training organizations.

Asia, in particular, continues to be a high-growth market for NATCO services. NATCO continued its pilot training relationship with five of China's major airlines. The Company also signed a contract to help China Eastern Airlines of Shanghai to become the first airline in China to be certified under a new set of aviation regulations, which were designed by the Civil Aviation Administration of China and the U.S. Federal Aviation Administration. During 1996, NATCO also contracted with airlines and government agencies in Taiwan to provide a range of airline training, from pilot training on simulators to crew resource management. Working with the Flight Safety Foundation of Taiwan, NATCO is providing a variety of training programs for China Airlines, Taiwan's flagship carrier, and other Taiwan airlines, including TransAsia and Far Eastern Air Transport.

One of NATCO's 27 state-of-the-art flight simulators and training devices at its Eagan, Minnesota facility.

MLT Inc.

MLT Inc. is a wholly-owned indirect subsidiary of Northwest Airlines Corporation. Its product lines, Northwest WorldVacations, MLT Vacations, and MLT Vacations' Land-Only Vacations, provide vacation package components such as air transportation, accommodations, car rentals, and shows and tours in easy-to-book packages. Each product line is designed to reach different customer demographics.

Northwest WorldVacations

WorldVacations, created in 1988, appeals to Northwest customers in established hubs as well as opportunity markets. The program features vacation packages to hundreds of destinations throughout Asia, Canada, the Caribbean, Europe, Mexico and the U.S. Northwest benefits from air revenues generated by package sales, as well as the sale of hotel packages, car rentals, and other vacation package components.

In 1996, WorldVacations played an important supporting role in the launch of Northwest's Detroit/Beijing service. Introductory prices for the new Northwest nonstop service spurred an increase in demand for Beijing packages by 500% over 1995.

Also, in 1996, MLT helped to support Northwest's new routes between the U.S. and Canada with the addition of WorldVacations packages to Montreal, Toronto, Ottawa, Edmonton and Calgary.

Hawaii is one of 32 popular MLT Vacation destinations.

WorldVacations also became an integral part of the Northwest Airlines web site. Cyber-shoppers can click to the WorldVacations screen to explore the WorldVacations product, get the latest news on special promotions, and order brochures via electronic mail (or call 800-358-3100).

MLT Vacations

A significant vacation package program in its own right, MLT Vacations is a charter product offered to primarily value-minded travelers from nine origin markets including Minneapolis/St. Paul, Dallas/Ft. Worth, and St. Louis. Year-round and seasonal vacation packages are offered to 32 popular vacation destinations throughout the U.S., the Caribbean, and Mexico. Since 1969, MLT Vacations has carried approximately 20 million vacationers to vacation destinations worldwide.

MLT Vacations' Land-Only Vacations is targeted to those travelers who require only accommodations. The land-only product features over 200 hotels, plus car rentals and tours in Las Vegas, Orlando, Hawaii, Cayman Islands, Jamaica, Cancun, and Cozumel.

Las Vegas remains the number one destination for all three products — with approximately 2,500 Las Vegas rooms booked per night.

In 1996, MLT worked diligently to make most MLT Vacations and WorldVacations programs available to book in all major CRSs (Computer Reservation System), decreasing distribution costs and improving access.

Northwest in the Communities Around the World

The 47,000 people of Northwest Airlines contribute in many ways to the communities in which they live, not only with the taxes they paid on 1996 wages and salaries of $2.1 billion, but in many innovative methods to support organizations and institutions around the world.

Northwest AirCares Provides Unique Benefits to Charitable Partners

Northwest AirCares, Northwest's award-winning charitable support program, enables charitable and philanthropic organizations to take advantage of the airline's worldwide route structure to increase their visibility, invite volunteer, board-level and corporate support and raise funds from individual donors. Under the program, Northwest partners with a different nonprofit organization each fiscal quarter. During the quarter, flight attendant announcements, videos and major articles in Northwest's in-flight magazine, *WorldTraveler*, promote the mission and services of the featured charitable organization and a donation envelope is provided for passengers who wish to make a cash or WorldPerks free travel award contribution. Northwest encourages individual donations by offering 500 WorldPerks bonus miles to anyone donating a FlyWrite ticket or making a cash contribution of $50 or more. Now in its fifth year, Northwest AirCares has raised millions of dollars for nonprofit organizations and provides AirCares beneficiaries with value far beyond what Northwest could offer alone.

The four organizations benefiting from the Northwest AirCares program during 1996 were:

Oxfam America. Oxfam America works in partnership with communities worldwide to implement long-term solutions to poverty and hunger.

Second Harvest. Second Harvest is a national network of foodbanks and the largest domestic charitable hunger relief organization. In addition to supporting Second Harvest through AirCares, Northwest also sponsored a concert benefiting Second Harvest's work in northern Minnesota. At Jam Against Hunger on the Range, Northwest collected 2,700 pounds of non-perishable food items for Second Harvest's North Central Food Bank.

Habitat for Humanity International. Habitat for Humanity is a nonprofit, ecumenical organization dedicated to eliminating substandard housing. It has 1,200 affiliates in the United States and 200 internationally in 50 countries.

During 1996, Northwest supported Habitat for Humanity, not only through AirCares, but also with thousands of volunteer hours and a first-of-its-kind auction that provided Northwest customers with the opportunity to use their WorldPerks frequent flyer miles to purchase unique entertainment, sports and travel packages. The Northwest *DreamPerks* auction, held in collaboration with Sotheby's, generated the second highest absentee bidding amount in Sotheby's history. Northwest customers bid more than 8.3 million frequent flyer miles for some 30 different packages, ranging from a shopping spree at Minnesota's Mall of America to a movie premiere with Arnold Schwarzenegger.

Proceeds from the auction and from the AirCares partnership enabled

Northwest people have been helping Habitat for Humanity for years. In August 1997, Northwest volunteers will build a Habitat house in Minneapolis/St. Paul.

Northwest to make gifts valued at nearly $250,000 to Habitat for Humanity.

The Salvation Army. The Salvation Army is dedicated to meeting the basic needs of people everywhere — feeding the hungry, sheltering the homeless and comforting the sick and lonely. It is the leading charity in the United States, according to the *Chronicle of Philanthropy.*

Corporate and Employee Support Benefits Charitable and Community Organizations

Through AirCares and other initiatives, Northwest and its employees continually offer their support to a wide range of charitable, philanthropic and community betterment projects around the world.

To aid victims of devastating flooding along China's Yangtze River, Northwest and the relief organization AmeriCares delivered nearly 85 tons of relief supplies to the nearly 6 million people left homeless by the once-in-a-century floods. Northwest helped consolidate shipments of medicines, hospital and surgical gear, shelter materials, food and other needed supplies, then provided a Northwest Cargo 747 freighter to deliver the supplies to Shanghai, where a relief organization coordinated their distribution and delivery to flood victims in cooperation with AmeriCares.

Also, for the fourth year in a row, Northwest donated a portion of the revenue from a special fare sale to several charitable organizations. This year, a dollar for every ticket sold during a fall fare sale was set aside for the support of a group of eight charitable organizations, including: Habitat for Humanity International, The Salvation Army, Children's HeartLink, Guide Dogs of America, the National Park Foundation, the National Marrow Donor Foundation, the United Negro College Fund and Operation Smile.

Under the banner of Northwest's "Adopt-a-School" program, Northwest employees in Thailand organized a raffle that generated proceeds enabling construction of a new school for a community in northeastern Thailand and the funding of a meal program for the school's students. The new school building replaced a 39-year-old wooden building and serves 50 students from kindergarten through sixth grade. In the United States, Northwest currently supports schools in Memphis, Minneapolis/St. Paul, Detroit, Baton Rouge and Los Angeles through the employee-driven "Adopt-a-School" program.

Across the country and around the world, Northwest people continue to support their communities with gifts of time and financial support. Beneficiaries include the United Way, blood banks and programs serving families and children in need.

The 1996 Northwest Airlines President's Award Recipients

Leffel's crew briefings contain this reminder: "Our customers should feel that their vacation begins on this flight, rather than when they reach their destination. Whether on leisure or business, the flight represents one of their greater travel expenses, and we must ensure that their expectations are exceeded."

Northwest honored seven employees in 1996 with the President's Award, the airline's distinction for achieving at the highest level. The employees and their contributions follow:

Montie Leffel, Seattle, flight attendant is recognized as the very best of his profession. His level of service has become so legendary in Seattle that frequent travelers have been known to plan their itineraries around Leffel's schedule. During his 41 years of flying he's combined meticulous and thorough preparation for his duties with an ability to solve difficult in-flight problems.

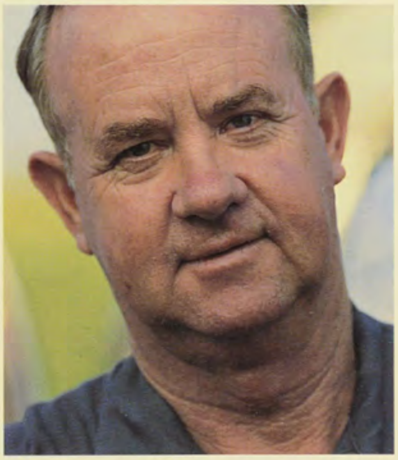
Vicki Fritz, Minneapolis/St. Paul, receptionist has been an inspiration to fellow Northwest people for more than 13 years. As the main lobby receptionist at Northwest's World Headquarters in the Twin Cities, she has touched the lives of so many with her dedication and spirit. She constantly volunteers for extra assignments, donates vacation time to employees in need and works as a tireless promoter of Northwest.

Dick Duxbury, Minneapolis/St. Paul, 747 captain dedicated much of his 28-year Northwest career to improving safety. Until his retirement in 1996 he was responsible for the

Northwest Air Line Pilots Association safety committee. Duxbury received ALPA's 1995 Air Safety Award, the association's highest honor for a line pilot volunteer for work in aviation safety.

C.Y. Tsai, Taipei, regional line-maintenance manager was largely responsible for a more efficient maintenance operation in the Pacific region. In his 13 years with Northwest, he has epitomized ethical leadership and a can-do attitude. Tsai is participating in the World Leader program that has identified several outstanding leaders in the Pacific region for additional training.

Renee Lopez-Pineda, Minneapolis/St. Paul, information services manager is on the leading edge of the IS transformation to an organization ready for the priorities of the information age and more responsive to internal customers. She has been a key player in making IS more productive with her superb leadership skills and genuine concern for co-workers. She has been with Northwest for 11 years.



Larry Freeman, Atlanta, lead mechanic has dedication and zeal that goes well beyond the implementation of three valuable COMPASS ideas worth more than $1.6 million. Freeman almost single-handedly coordinated one of the largest modification programs on the DC-9 fleet. Production would have fallen behind schedule without his leadership. In April 1996, Freeman observed his 25th anniversary with Northwest.

Duane Edelman, Minneapolis/St. Paul, DC-10 captain celebrated his 30th year as a pilot. Edelman has been a Northwest ambassador with numerous industry and airline organizations on his own time in addition to flying his regular schedule. He coordinated a project in Detroit between several agencies and departments to reduce taxi times, enhance safety margins and improve customer satisfaction.

The Values of Northwest Airlines

Safety First in all the services we provide to each other and to our customers

Honesty and Integrity in all we say and do

Trustworthiness... honoring our commitments and doing all that we say we're going to do

Respect for Self, Others, and Property in our behavior toward each other and for Company or personal property

Caring for our customers, for each other, and for the communities we serve

Resourcefulness and Innovation in the quality of our services, processes and technology to increase productivity and revenue and control costs

Commitment to Profitability to ensure financial stability and our careers

Enthusiasm and Camaraderie in our contributions to the success of each other and Northwest Airlines

The Guiding Principles of Northwest Airlines

- Never compromise safety.
- Always emphasize cleanliness.
- Always put customers first.
- Always support and inspire each other.
- Always strive to improve.

Throughout 1996, Northwest Airlines Corporation maintained its goal of maximizing shareholder value. To do this, we employ complementary operating, marketing and financial strategies. We deploy assets only into markets of competitive advantage. Our fleet planning strategy is highly cost effective. We maintain rigorous cost control. We manage our capital structure to our shareholders' long-term advantage. All this has allowed Northwest to increase return on assets while enhancing the long-term value of the enterprise and improving strategic and operating flexibility.

Maximize Return on Assets

Northwest continually seeks to expand its 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. Since 1992, Northwest has led U.S. network carriers in focusing on core strategic markets and by expanding beyond its core asset base largely through the use of domestic and international alliances and code-share agreements.

Through strategic route structure development, Northwest produced capacity growth of 7.4 percent in 1996. More than half of this growth was new flying. The annualization of flying added in 1995 and the addition of incremental seating capacity on existing aircraft comprised the remainder. Northwest expects to grow ASMs about 4 percent in 1997, with the majority of the growth occurring in the international markets.

Northwest has been pursuing a number of meaningful cost reduction and productivity improvement opportunities. These initiatives — which include process, automation, and technological improvements — will help the Company build upon the traffic and unit revenue advantage it currently enjoys while working to reduce costs.

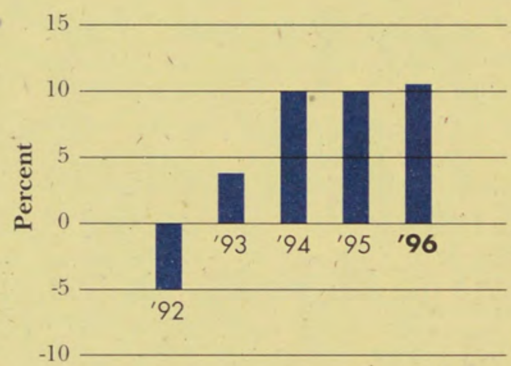
Reported unit costs increased 1.4 percent in 1996. Eliminating the impact of stock-based compensation, however, unit costs grew by 5.1 percent. We are not, therefore, fully satisfied with our 1996 performance in the area of cost containment. In order to maintain our competitive position, cost performance must continue to improve. The Company will focus efforts on this during 1997.

Fleet Initiatives- Northwest continued its strategy of identifying and employing the aircraft best suited to the Company's route structure while making the most efficient use of invested capital. Several major fleet transactions were completed during the year.

- Northwest took delivery of 13 new Boeing 757 aircraft in 1996. The Company decided to use cash to acquire six of these aircraft. The remaining seven aircraft are being financed with operating leases.
- Northwest continued its DC9-30 refurbishment and hushkit program begun in 1994. At year-end, 74 percent of the DC9-30 fleet had been refurbished and equipped with Stage 3 hushkits. This program allows the Company to continue to operate profitably this highly reliable aircraft, while pushing out the investment for new aircraft. During the last year, seven additional DC9-30 aircraft were purchased.
- The Company signed an agreement for the purchase of 20 Airbus A320 aircraft to be delivered in 1998 and 1999. The agreement also provided for a revision to the delivery schedule (with substitution rights) which pushed delivery of 16 Airbus A330 aircraft to 2004 and 2005.
- Northwest purchased three 747-200 aircraft from another airline. Two of these aircraft are configured for passenger service and will enter operations for Northwest in 1997. The third aircraft is a main deck freighter and is currently on lease to another airline.
- During 1996, Northwest was awarded the authority to serve two new cities in India. In order to take advantage of this profitable route opportunity, Northwest acquired three proven DC10-30 aircraft to be commissioned during the coming year.

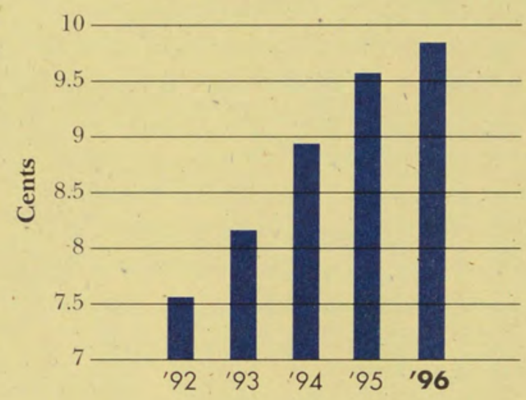
Results - Operating results continued to improve. 1996 operating income and net income of $1.05 billion and $536 million, respectively, were Company records. These records were achieved despite the negative impact of severe increases in the price of fuel. For every one cent increase in the price of a gallon of fuel, Northwest's costs increase by over $19 million per year. In 1996, a systemwide 21 percent increase in the price of jet fuel alone added $225 million to fuel costs and dramatically impacted the Company's 1996 results. Despite this, Northwest continued to improve its operating margin.

Operating Margin



As in 1995, a major contributor to this strong performance was revenue per ASM which has improved 30 percent since 1992. The 2.8 percent RASM growth which was achieved in 1996 came despite a dramatic weakening of the yen. Had the yen been steady from 1995 to 1996, Northwest's 1996 RASM would have increased 5.1 percent over the prior year.

Revenue per ASM



Northwest Airlines experienced healthy growth in 1996. Growth in capacity was 7.4 percent. Nonetheless, the Company had a load factor improvement of 1.6 points over the prior year. Of particular note was the 9.1 percent increase in capacity registered by the Pacific and Atlantic regions, which was principally accomplished through higher aircraft utilization. Northwest also enjoyed a 13.6 percent increase in international RPMs and a 3.1 point increase in the international load factor. The system growth allowed Northwest to board more than 50 million passengers in a single year for the first time in Company history.

Cost Management - Northwest Airlines recognizes the need to be vigilant in cost control. Pressures of cost expansion are constant. Certain external factors such as fuel prices are largely out of our control. Therefore, we are unrelenting in our management of controllable cost elements. We regularly examine our processes and structures to identify the most cost effective basis to deliver superior service to our customers. At some point, the national economies in which we operate will again experience recession. Northwest must and will be ready with an appropriate cost level.

Capital Structure Management

Northwest's financial strategy is intended to minimize capital costs while allowing the Company to maintain adequate levels of liquidity in order to maximize strategic and operating flexibility.

Transactions- Since 1994, Northwest has completed several major financings to advance these goals:

- ▼ A $265 million initial public equity offering designed to strengthen our capital base and to expand our access to the public capital markets. The completion of a $247 million secondary offering of common stock significantly increased the number of common shares held by the public, thereby improving the liquidity of the Company's stock.
- ▼ The innovative restructuring of a non-recourse obligation on certain of the Company's Tokyo land holdings in October 1995 which resulted in $696 million being removed from long-term debt and reclassified as a Mandatorily Redeemable Preferred Security.
- ▼ The prepayment of the $837 million balance of the 1989 initial acquisition loan. This transaction also released collateral with a market value of approximately $6 billion, and a book value of approximately $4 billion.

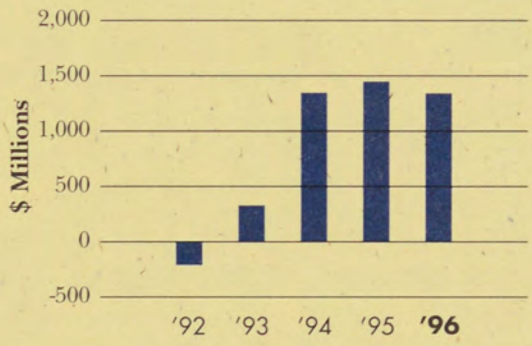
In 1996, Northwest continued to improve its capital structure. Transactions include:

- ▼ The exchange of outstanding Series A and B Preferred Stock from KLM for two unsecured promissory notes aggregating $379 million (both of which were repaid December 1996), resulting in an increase to net income applicable to common stockholders of almost $75 million.
- ▼ Execution of a $525 million public structured debt transaction for nine Boeing 757 and two Boeing 747-400 aircraft in order to prepay outstanding bridge loans. This is expected to generate annual interest savings of $4.5 million.
- ▼ In October, the Company increased its unsecured term loan to $150 million and extended the final maturity to 2002. The existing unsecured revolving credit facility was increased to $500 million and the availability period was extended to 2001.

Results- Northwest's financial management is focused upon reducing total cost of capital, enhancing overall financial stability and providing operating flexibility thereby increasing the value of common equity.

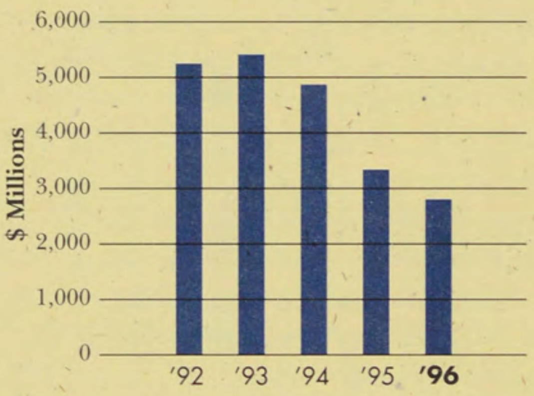
As a result of the above strategy and consequent actions, cash flow from operations improved from $(199) million in 1992 to nearly $1.4 billion in 1996.

Cash Flow from Operations



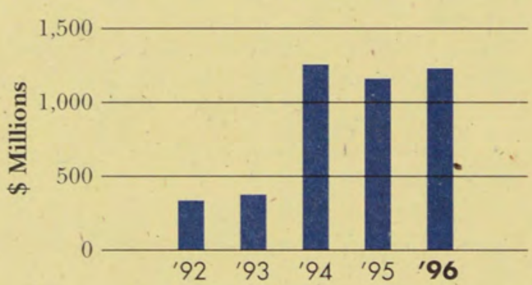
Debt levels (including capitalized leases and current maturities) have declined markedly since 1992 from $5.2 billion at December 31, 1992 to $2.8 billion at December 31, 1996.

Balance Sheet Debt and Capital Lease Obligations



As a result of strong earnings, in combination with financing transactions, liquidity (including an available revolver of nearly $500 million) at year-end was over $1.2 billion. This is an over 200 percent improvement over 1993 liquidity of $380 million and has been maintained for the past three years.

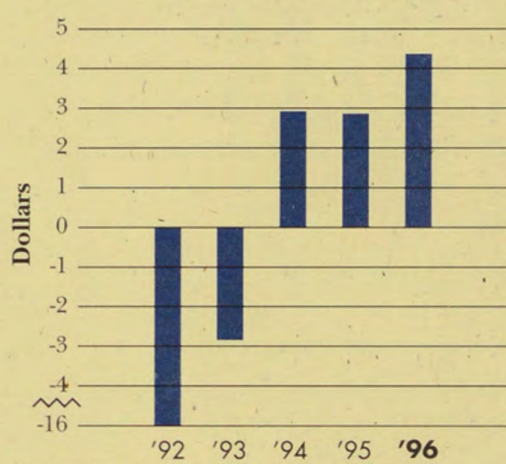
Liquidity



Earnings Per Share

Fully diluted earnings per share have improved significantly from a loss of $16.11 per share in 1992 to earnings of $4.48 per share in 1996. Since positive earnings have been generated in 1994, fully diluted earnings per share have improved by 56 percent.

Fully Diluted EPS (1)



(1) Before extraordinary item and preferred stock transactions.

Outlook

Northwest is positioned strategically to take advantage of growing economies in the Pacific. In May 1996, the Company began to move forward by initiating the only nonstop service operated by a U.S. carrier from the United States to China, with our new Detroit-Beijing service. Through both our own expansion and further international alliances, we see significant future opportunities in growth countries of China, India, Indonesia, and areas of Southeast Asia.

In addition, Northwest has excellent opportunities to further improve return on assets by continuing to focus on areas of competitive strength, particularly hubs. We will continue to grow in these hubs, ensuring that none of our customer demand is unserved. We will provide superior service in the most cost effective manner. The Company is well situated with efficient aircraft, a deleveraged balance sheet, a manageable debt amortization schedule and moderate future capital commitments.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Northwest Airlines Corporation ("NWAC" or the "Company") reported net income of $536.1 million, the largest annual net income in the Company's history, and operating income of $1.05 billion for the year ended December 31, 1996. Primary earnings per share were $5.67 ($5.15 fully diluted) compared with $4.17 per primary share ($3.92 fully diluted) in 1995. Income before extraordinary item and operating income increased by $194.0 million and $140.4 million, respectively, compared with 1995. Excluding the impacts of preferred stock transactions in both periods and a 1995 extraordinary item, primary earnings per share were $4.93 ($4.48 fully diluted) compared with $3.02 ($2.85 fully diluted) in 1995. The improved profitability was primarily the result of increased passenger revenue and decreased interest expense.

Northwest Airlines, Inc. ("Northwest") is the principal indirect operating subsidiary of NWAC, accounting for more than 97% of the Company's 1996 consolidated operating revenues and expenses. The Company's operating results are significantly impacted by both general and industry economic environments. Small fluctuations in revenue per available seat mile ("RASM") and cost per available seat mile can have significant impacts on profitability.

Results of Operations – 1996 Compared to 1995

Operating Revenues. Operating revenues were $9.88 billion, an improvement of $795.6 million (8.8%). Revenue per total service available seat mile ("ASM") increased 2.8%. System passenger revenue (which represented 87% of total operating revenue) increased 10.8%. The increase was due to a 7.4% increase in scheduled service ASMs and a 3.3% increase in passenger RASM which was attributable to a .9% increase in system yield and a 2.2% (1.6 points) increase in passenger load factor.

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

	1996	1995	1994
Passenger revenue			
Domestic	**57.9%**	56.1%	56.8%
Pacific	**22.8**	23.8	22.0
Atlantic	**6.4**	5.5	5.4
Cargo revenue	**7.5**	8.3	9.1
Other revenue	**5.4**	6.3	6.7
Total operating revenues	**100.0%**	100.0%	100.0%

Domestic passenger revenue of $5.72 billion increased $618.1 million (12.1%). A 6.3% increase in scheduled service ASMs and a 5.4% increase in RASM resulted in the improved performance. The increase in scheduled service ASMs resulted primarily from the addition of 19 aircraft, which allowed the Company to increase frequencies to 23 cities and enter seven new markets. The increase in RASM was largely driven by a 4.6% increase in yield which was favorably impacted by the lapsed federal taxes on airline tickets. See "Other Information – *U.S. Transportation Taxes*." Pacific passenger revenue increased $92.4 million (4.3%) to $2.25 billion due to an 8.3% increase in scheduled service ASMs resulting primarily from new service to Beijing, China and additional frequencies due to higher utilization of existing aircraft. However, RASM decreased by 3.8% because of a 7.5% decrease in yield which was somewhat mitigated by a 4.1% (3.1 points) increase in passenger load factor. The Pacific yield decreased primarily because of a weaker Japanese yen. The average yen per U.S. dollar exchange rate for the years ended December 31, 1996 and 1995 was 108 and 94, respectively, a weakening of the yen of 14.9%. Atlantic passenger revenue increased $125.9 million (24.9%) to $630.5 million due to a 12.0% increase in scheduled service ASMs and an 11.5% increase in RASM which was largely yield related.

Cargo revenue decreased $5.4 million (.7%) due to 1.4% fewer cargo ton miles. Cargo capacity was reduced because of increased passenger loads. Other revenue decreased $35.3 million (6.2%) due primarily to decreased charter activity.

Operating Expenses. Operating expenses increased $655.2 million (8.0%). While operating capacity increased 7.3% to 94.0 billion total service ASMs, operating expense per total service ASM increased 1.4%. Operating expense per total service ASM excluding stock-based compensation increased 5.1% to 8.52 cents largely related to higher fuel prices and increased maintenance costs. Salaries, wages and benefits increased $297.3 million (12.3%) due primarily to an increase in average full-time equivalent employees of 4.7% and the end of the Wage Savings Period as discussed under *"Labor Agreements."* The increase in full-time equivalent employees was attributable to the increased flying of 7.3% and increased traffic of 6.8%. Additionally, included in the increased salaries, wages and benefits expense was a $73.8 million unfavorable impact of pension expense due to a lower pension discount rate in 1996 compared to 1995. Non-cash stock-based employee compensation expense is a function of shares earned by employees and the period-ending common stock price. The 1996 stock-based compensation expense decreased to $242.8 million from $478.0 million for 1995 because fewer shares were earned by employees in 1996 (7.2 million common equivalent shares compared with 9.4 million common equivalent shares earned in 1995) and the common stock price used to measure expense decreased to a weighted average of $33.77 per share for 1996 from $51.00 per share for 1995. Aircraft fuel and related taxes increased 28.9% from $1.08 billion to $1.40 billion. A 20.8% increase in average fuel cost per gallon and an excise tax increase which was effective October 1995 caused $256.6 million of the increase with the balance attributable to increased flying. Commissions increased $27.9 million (3.3%) as a result of a 10.8% increase in passenger revenue somewhat offset by the impact of a decrease in the effective domestic commission rate. Aircraft maintenance materials and repairs increased $160.8 million (40.7%) due to a number of factors including the timing of maintenance activities, increased flying, higher engine overhaul costs and the impact of favorable vendor settlements in 1995. Other rentals and landing fees decreased $22.2 million (4.7%) due primarily to the weakening of the Japanese yen. Other expenses (the principal components of which include outside services, selling and marketing expenses, passenger food, personnel, advertising and promotional expenses, communication expenses and supplies) increased $86.5 million (4.8%) due primarily to increased volume and rates for outside services, promotional and personnel expenses.

Other Income and Expense. Interest expense-net decreased $124.8 million (32.2%) primarily due to the retirement of debt prior to scheduled maturity and the October 1995 restructuring of the Company's financing arrangement related to certain property in Japan. The foreign currency gain of $19.1 million was attributable to balance sheet remeasurement of foreign currency-denominated assets and liabilities. The $18.0 million benefit in other-net was largely due to a $25.5 million increase in income related to an equity investment in an affiliate offset by the payment of $10.9 million made related to the travel agency litigation settlement.

Results of Operations – 1995 Compared to 1994

Operating Revenues. Operating revenues were $9.08 billion, an improvement of $760.0 million (9.1%). Revenue per total service ASM increased 7.3%. System passenger revenue increased 10.7%. The increase was due to a 2.9% increase in scheduled service ASMs and a 7.5% increase in RASM which was attributable to a 2.6% increase in system yield and a 5.0% (3.4 points) increase in passenger load factor.

Domestic passenger revenue of $5.10 billion increased $369.7 million (7.8%). RASM increased 5.6% and scheduled service ASMs increased 2.1%. The increase in RASM resulted primarily from an increase in passenger load factor of 5.4% (3.5 points). Pacific passenger revenue increased $325.9 million (17.8%) to $2.16 billion. RASM increased 12.2% and scheduled service ASMs increased 5.1%. The increase in RASM resulted from a 5.0% (3.6 points) increase in passenger load factor and a 6.8% increase in yield (largely due to changes in the yen to dollar rate of exchange). Atlantic passenger revenue increased $56.3 million (12.6%) to $504.6 million due to an 11.6% increase in RASM which was largely due to a 9.8% increase in yield.

Cargo revenue decreased $4.6 million (.6%) due to 3.3% fewer cargo ton miles. Cargo capacity was reduced because of increased passenger loads. Other revenue increased $12.7 million (2.3%) due primarily to ticket exchange fee revenue and other incidental services provided to third parties, offset by decreased charter activity.

Operating Expenses. Operating expenses increased $686.2 million (9.2%). While operating capacity increased 2.1% to 87.6 billion total service ASMs, operating expense per total service ASM increased 7.2%. Excluding stock-based compensation in both periods, operating expense per total service ASM increased 2.0% largely related to increased load factor and strengthening of the Japanese yen. Salaries, wages and benefits increased $86.5 million (3.7%) due to an increase in average full-time equivalent employees of 2.4% and overtime, which were largely needed to handle the increased flying of 2.1% and increased traffic, and was partially offset by decreased pension expense. Non-cash stock-based employee compensation expense was $478.0 million and $107.2 million during 1995 and 1994, respectively. The stock-based compensation expense is a function of shares earned by employees during the period and the period-ending common stock price, which increased to $51.00 per share at December 29, 1995 from $15.75 per share at December 30, 1994. Commissions increased $70.3 million (9.1%) as a result of a 10.7% increase in passenger revenue and a higher Pacific effective commission rate, offset by the favorable impact of the new domestic commission structure implemented by Northwest in February 1995. Aircraft fuel and taxes increased $31.0 million (2.9%) due primarily to a 3.0% increase in gallons consumed. In October 1995, the United States increased taxes on aircraft fuel by 4.3 cents per gallon increasing expense for the fourth quarter of 1995 by $12.1 million. Other rentals and landing fees increased $40.2 million (9.2%) due largely to changes in foreign currency exchange rates and increased volume and rates for landing fees. Other expenses increased $86.2 million (5.1%) due primarily to increased volume and rates for selling and marketing fees and outside services.

Other Income and Expense. Investment income increased by $30.5 million (72.3%) due to increased invested cash. The foreign currency loss of $36.9 million was attributable to a $27.6 million loss on the balance sheet remeasurement of foreign currency-denominated assets and liabilities and a $9.3 million charge for Japanese yen collar option contracts. The $31.7 million unfavorable change in other-net for 1995 was largely due to miscellaneous licensing revenues received in 1994 and losses related to an equity investment in an affiliate in 1995.

Net income for 1995 included a $49.9 million net extraordinary gain which relates primarily to the restructuring of the Company's financing arrangement with respect to certain property owned in Japan. See Note E to Consolidated Financial Statements.

Liquidity and Capital Resources

During the past three years, the Company has substantially improved its financial position while also acquiring aircraft and commencing a program to upgrade existing aircraft. Cash flows provided by operating activities together with financing transactions have enabled the Company to reduce aggregate long-term debt and capital lease obligations, including current maturities, from $5.37 billion at December 31, 1993 to $2.83 billion at December 31, 1996, a reduction of 47.3%. In addition, the Company's common stockholders' equity became positive at December 31, 1996.

At December 31, 1996, the Company had cash and cash equivalents of $559.4 million, unrestricted short-term investments of $192.7 million and borrowing capacity of $486.8 million under its revolving credit facility, providing total available liquidity of $1.24 billion. In addition, the Company has the ability under another facility to borrow up to $240 million using existing aircraft as collateral. Cash flow from operating activities was $1.37 billion for 1996, $1.46 billion for 1995 and $1.38 billion for 1994. Net cash used in investing and financing activities during 1996, 1995 and 1994 was $1.66 billion, $1.08 billion and $1.05 billion, respectively.

Investing Activities. Investing activities in 1996 pertained primarily to aircraft additions. The acquisition of 13 Boeing 757 aircraft, seven DC9-30 aircraft, three DC10-30 aircraft and two 747-200 aircraft; the purchase off lease of 13 DC-9 aircraft, seven 727 aircraft and two MD-80 aircraft; and the refurbishment of DC-9 aircraft account for most of the $1.21 billion of capital expenditures in 1996. Capital expenditures for 1995 pertain primarily to aircraft modifications, the acquisition of two Boeing 757 aircraft for sale-leaseback, the acquisition of 14 DC-9 aircraft and deposits on ordered aircraft. Capital expenditures for 1994 pertain primarily to aircraft modifications and the acquisition of 22 DC-9 aircraft.

Financing Activities. Financing activities in 1996 pertained primarily to the sale and leaseback of seven Boeing 757 aircraft and the payment of debt and capital lease obligations, including the prepayments of $150 million of the term loan and $30 million of the term certificates. In October 1996, the Credit Agreement was amended to increase the term loan to $150 million and extend the final maturity to 2002. The revolving credit facility was increased to $500 million and the availability period was extended to 2001. In July 1996, the Company acquired from KLM 3,691.2 shares of NWAC Series A Preferred Stock and 2,962.8 shares of NWAC Series B Preferred Stock in exchange for $379 million of unsecured promissory notes which were repaid December 1996.

In October 1995 the Company completed a restructuring of its financing arrangement related to certain property the Company owns in Japan. As a result, long-term debt decreased by $695.9 million and was replaced by a $622.0 million non-recourse obligation with longer maturities which is reflected in the Company's balance sheet as a Mandatorily Redeemable Preferred Security of

Subsidiary which holds a solely non-recourse obligation of Company. In December 1995 the Company also retired the 1989 acquisition loan by prepaying the remaining $837 million loan outstanding using proceeds from a new credit facility and available funds. Also during 1995, Bankers Trust New York Corporation exchanged 1,727 shares of NWAC's Series B Preferred Stock for 2,050,000 shares of the Company's common stock. During 1994 the Company completed more than $1.78 billion in capital market transactions, including an initial public offering of common stock and refinancing of existing indebtedness, and substantially rescheduled its debt maturities.

See Note C to Consolidated Financial Statements for maturities of long-term debt for the five years subsequent to December 31, 1996, which do not exceed $225 million for any year.

Capital Commitments. The current aircraft delivery schedule provides for the acquisition of 68 aircraft. See Notes I and M to Consolidated Financial Statements for additional discussion of aircraft capital commitments. Other capital expenditures and costs to commission presently owned aircraft that have not yet entered revenue service are projected for 1997 to be approximately $240 million and $130 million, respectively, which the Company anticipates funding primarily with cash from operations.

In addition, the Company has adopted programs to hushkit and modify 173 DC-9 aircraft to meet noise and aging aircraft requirements. As of December 31, 1996, the Company had hushkitted 79 of these 173 DC-9 aircraft. Capital expenditures for engine hushkits and aging aircraft modifications were $75 million in 1996 and are expected to aggregate $510 million during the next five years for these aircraft. The Company has also elected to upgrade aircraft systems and refurbish interiors for the 173 DC-9 aircraft. Capital expenditures associated with upgrading systems and interior refurbishment were $107 million in 1996 and are expected to aggregate $190 million during the next five years. In addition, the Company has adopted a program to hushkit and modify 29 727 aircraft, estimated to cost approximately $85 million over the next five years. The Company has arranged supplier financing of up to approximately $170 million for DC-9 and 727 engine hushkit shipsets.

The Company has also adopted a program to refurbish the interiors in 35 of its 747 aircraft and 26 of its DC-10 aircraft, estimated to aggregate $120 million over the next five years.

Labor Agreements. The labor cost savings discussed in Note B to Consolidated Financial Statements, which improved the Company's 1993 to 1996 cash flow from operating activities, ended on July 31, 1996 for flight attendants, September 30, 1996 for mechanics, ground personnel and management and October 30, 1996 for pilots. The Company's agreements with the employee unions provide that wage scales at the end of the Wage Savings Period snapback to August 1, 1993 levels and potentially snap-up pursuant to formulae based in part on wage rates and wage rate increases at other large U.S. airlines. Consequently, at the end of the Wage Savings Period, salaries and wages increased by approximately $310 million on an annualized basis for both the snapbacks and snap-ups and financial reporting recognition of stock-based employee compensation expense ceased. Each of the unions representing the pilots and flight attendants has challenged the Company's calculation of the snap-up and these issues are now subject to arbitration.

The Company's labor contract with each of its unions became amendable as each labor cost savings agreement ended. Consequently, future labor wage rates and costs are subject to collective bargaining. While the Company cannot predict the wage rates that will ultimately be in effect (since such rates will be determined by collective bargaining), management believes that its labor costs will remain competitive in comparison to the largest carriers. The Company has identified and continues to identify various work rule changes and productivity improvements which, if incorporated into new labor agreements and work processes, would mitigate the effect of wage rate increases.

Working Capital. The Company operates, like its competitors, with a working capital deficit which aggregated $793.3 million at December 31, 1996. The working capital deficit is attributable primarily to the $1.01 billion air traffic liability for advance ticket sales.

Other Information

Income Taxes. Sections 382 and 383 of the Internal Revenue Code of 1986 (the "Code") and the regulations thereunder impose limitations on the carryforward amounts of net operating losses ("NOLs"), alternative minimum tax net operating losses ("AMTNOLs") and credits that can be used to offset taxable income (or used as a credit) in any single year if the corporation experiences more than a 50% ownership change, as defined therein, over a three-year testing period ending on any testing date. See Note H to Consolidated Financial Statements for information regarding income taxes and NOLs, AMTNOLs and credits.

Management believes that an offering of outstanding common stock by existing stockholders in November 1995 triggered an ownership change, but that no ownership change occurred prior to such offering. If such an ownership change in fact occurred as a result of the November 1995 offering, management believes that even as limited by Sections 382 and 383 of the Code, the NOLs, AMTNOLs and credits would be used significantly earlier than their expiration, and the annual limitations would not have a material adverse impact on the Company. However, if the Internal Revenue Service (the "IRS") were to successfully assert that an ownership change had occurred on any prior date, including August 1, 1993 (the date of the labor cost savings agreements), the impairment of the Company's ability to use its NOLs, AMTNOLs and credit carryforwards would be significant because the value of the Company's stock on certain prior testing dates (which adversely affects the annual limitations described above) was relatively low, and such low value would be used in computing the annual limitations with respect to losses incurred prior to the testing date.

Foreign Currency. In general, each time the yen strengthens (weakens), the Company's on-going operating income is favorably (unfavorably) impacted and a nonoperating foreign currency loss (gain) is recognized due to the remeasurement of net yen-denominated liabilities. The Company's 1996 yen-denominated revenues exceeded its yen-denominated expenses by approximately 70 billion yen (approximately $650 million) and its yen-denominated liabilities exceeded its yen-denominated assets by an average of 14.6 billion yen during 1996. The Company's operating income was negatively impacted by approximately $120 million due to a weaker yen in 1996 than in 1995. The yen to U.S. dollar exchange rate at December 31, 1996, 1995 and 1994 was 116 yen to $1, 103 yen to $1 and 100 yen to $1, respectively.

Use of Financial Instruments. From time to time, the Company uses a collar option strategy to hedge its anticipated yen-denominated net cash flows. There was no material impact on 1996 earnings associated with the Japanese yen collar option contracts. As of December 31, 1996, the Company had entered into collar option contracts to hedge approximately 85% of its first quarter 1997 yen net cash flows. See Note N to Consolidated Financial Statements. In the ordinary course of business, the Company manages the price risk of fuel costs utilizing both regulated exchange traded futures contracts and fuel swap agreements. Gains or losses on hedge contracts are deferred until the related fuel inventory is expensed. As of December 31, 1996, the Company had no material hedges for future fuel requirements.

U.S. Transportation Taxes. The United States 10% passenger ticket tax applicable to domestic travel, the 6.25% domestic cargo waybill tax and the $6 per passenger international departure tax expired on December 31, 1995. Consequently, the Company ceased collecting these taxes (which aggregated $505 million in 1995) on January 1, 1996. These taxes were reinstated for tickets sold subsequent to August 27, 1996 for travel through December 31, 1996. The Company collected $146 million of such taxes during 1996. The taxes lapsed again on January 1, 1997 and Congress passed legislation which reauthorized these taxes for tickets sold from March 7, 1997 to September 30, 1997. The impact on future operating income of such reinstatement is uncertain.

Stock Repurchase Authorization. In December 1996, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase during the next two years up to five million shares of its Class A Common Stock. As of February 1997, the Company had not made any stock repurchases.

Detroit Midfield Terminal. In October 1996, the Company and Wayne County, Michigan (the "County") entered into an agreement pursuant to which, subject to the satisfaction of certain conditions set forth in the agreement, the Company will manage and supervise the design and construction of a $700 million terminal at Detroit Metropolitan Wayne County Airport. The new terminal is scheduled to be completed in 2001 and is anticipated to be funded from federal and State of Michigan grants, passenger facility charges and the County's issuance of airport bonds payable primarily from future passenger facility charges. The Company and the County have entered into agreements pursuant to which the Company will lease space in the new terminal for a term of 30 years from the date the terminal opens.

Consolidated Balance Sheets

Northwest Airlines Corporation

(In millions)	December 31 1996	1995
Assets		
Current Assets		
Cash and cash equivalents	**$ 559.4**	$ 850.9
Short-term investments	**253.1**	260.7
Accounts receivable, less allowance (1996–$19.7; 1995–$21.5)	**656.1**	700.3
Flight equipment spare parts, less allowance (1996–$127.3; 1995–$111.8)	**262.2**	268.0
Deferred income taxes	**95.5**	82.8
Prepaid expenses and other	**263.6**	175.5
	2,089.9	2,338.2
Property and Equipment		
Flight equipment	**4,724.0**	4,050.7
Less accumulated depreciation	**1,107.6**	953.5
	3,616.4	3,097.2
Other property and equipment	**1,484.2**	1,487.4
Less accumulated depreciation	**560.1**	505.2
	924.1	982.2
	4,540.5	4,079.4
Flight Equipment Under Capital Leases		
Flight equipment	**927.4**	940.9
Less accumulated amortization	**255.9**	230.8
	671.5	710.1
Other Assets		
Investments in affiliated companies	**164.4**	154.1
International routes, less accumulated amortization (1996–$216.3; 1995–$192.0)	**751.4**	775.7
Other	**294.0**	354.8
	1,209.8	1,284.6
	$ 8,511.7	$ 8,412.3

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

(In millions, except share data)	December 31 1996	1995
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Air traffic liability	**$ 1,010.7**	$ 888.4
Accounts payable and other liabilities	**796.7**	790.8
Accrued compensation and benefits	**456.8**	361.6
Accrued commissions	**177.4**	214.7
Accrued aircraft rent	**196.7**	173.2
Current maturities of long-term debt	**144.4**	329.7
Current obligations under capital leases	**61.7**	62.1
Short-term borrowings	**38.8**	20.1
	2,883.2	2,840.6
Long-Term Debt	**1,916.0**	2,137.4
Long-Term Obligations Under Capital Leases	**710.5**	779.1
Deferred Credits and Other Liabilities		
Deferred income taxes	**947.2**	772.5
Long-term pension and postretirement health care benefits	**461.2**	831.1
Other	**348.9**	306.5
	1,757.3	1,910.1
Mandatorily Redeemable Preferred Security of Subsidiary Which Holds Solely Non-Recourse Obligation of Company – Note E (Redemption value 1996–$628.8; 1995–$715.4)	**549.2**	618.4
Redeemable Preferred Stock		
Series A and B	**239.8**	656.9
Series C, liquidation value (1996–$371.0; 1995–$322.4)	**362.8**	288.6
	602.6	945.5
Common Stockholders' Equity (Deficit)		
Common stock, $.01 par value; shares authorized–315,000,000; shares issued and outstanding (1996–97,604,056; 1995–91,345,808)	**1.0**	.9
Additional paid-in capital	**1,151.1**	970.7
Accumulated deficit	**(945.2)**	(1,517.8)
Other	**(114.0)**	(272.6)
	92.9	(818.8)
	$ 8,511.7	$ 8,412.3

Consolidated Statements of Income

Northwest Airlines Corporation

(In millions, except per share amounts)	Year Ended December 31 1996	1995	1994
Operating Revenues			
Passenger	**$ 8,598.3**	$ 7,762.0	$ 7,010.1
Cargo	**745.8**	751.2	755.8
Other	**536.4**	571.7	559.0
	9,880.5	9,084.9	8,324.9
Operating Expenses			
Salaries, wages and benefits	**2,709.4**	2,412.1	2,325.6
Stock-based employee compensation	**242.8**	478.0	107.2
Aircraft fuel and taxes	**1,396.9**	1,083.8	1,052.8
Commissions	**868.4**	840.5	770.2
Aircraft maintenance materials and repairs	**556.2**	395.4	396.0
Other rentals and landing fees	**454.0**	476.2	436.0
Aircraft rentals	**346.3**	338.9	337.8
Depreciation and amortization	**377.7**	358.1	357.4
Other	**1,875.0**	1,788.5	1,702.3
	8,826.7	8,171.5	7,485.3
Operating Income	**1,053.8**	913.4	839.6
Other Income (Expense)			
Interest expense	**(269.8)**	(401.2)	(387.2)
Interest capitalized	**7.3**	13.9	3.5
Interest of mandatorily redeemable preferred security holder	**(27.2)**	(7.1)	–
Investment income	**71.2**	72.7	42.2
Foreign currency gain (loss)	**19.1**	(36.9)	(20.2)
Other – net	**18.0**	(11.3)	20.4
	(181.4)	(369.9)	(341.3)
Income Before Income Taxes and Extraordinary Item	**872.4**	543.5	498.3
Income tax expense	**336.3**	201.4	202.8
Income Before Extraordinary Item	**536.1**	342.1	295.5
Net gain on extinguishment of debt (less applicable income taxes of $29.4)	**–**	49.9	–
Net Income	**536.1**	392.0	295.5
Preferred stock requirements	**(37.5)**	(57.8)	(59.3)
Preferred stock transactions	**74.5**	58.9	–
Net Income Applicable to Common Stockholders	**$ 573.1**	$ 393.1	$ 236.2
Earnings Per Common Share:			
Primary			
Before effects of extraordinary item and preferred stock transactions	**$ 4.93**	$ 3.02	$ 2.92
Net gain on extinguishment of debt	**–**	.53	–
Preferred stock transactions	**.74**	.62	–
Earnings per common share	**$ 5.67**	$ 4.17	$ 2.92
Fully diluted			
Before effects of extraordinary item and preferred stock transactions	**$ 4.48**	$ 2.85	$ 2.87
Net gain on extinguishment of debt	**–**	.49	–
Preferred stock transactions	**.67**	.58	–
Earnings per common share	**$ 5.15**	$ 3.92	$ 2.87

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

Consolidated Statements of Cash Flows

Northwest Airlines Corporation

(In millions)	Year Ended December 31 1996	1995	1994
Cash Flows From Operating Activities			
Net income	**$ 536.1**	$ 392.0	$ 295.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**377.7**	358.1	357.4
Income tax expense	**336.3**	201.4	202.8
Payment of income taxes	**(256.6)**	(116.9)	(22.2)
Stock-based employee compensation	**242.8**	478.0	107.2
Pension and other postretirement benefit contributions (in excess of) less than expense	**14.7**	(97.6)	33.2
Other – net	**(40.2)**	(59.4)	18.8
Changes in certain assets and liabilities:			
Decrease (increase) in accounts receivable	**18.6**	(56.0)	89.8
Decrease (increase) in flight equipment spare parts	**12.2**	(59.7)	(45.2)
Decrease (increase) in prepaid expenses and other	**(6.6)**	28.3	233.9
Increase (decrease) in air traffic liability	**122.3**	127.3	(35.2)
Increase (decrease) in accounts payable and other liabilities	**(60.7)**	243.3	149.7
Increase (decrease) in accrued compensation and benefits	**75.7**	21.8	(6.5)
Net cash provided by operating activities	**1,372.3**	1,460.6	1,379.2
Cash Flows From Investing Activities			
Capital expenditures	**(1,205.3)**	(569.5)	(156.1)
Purchases of short-term investments	**(501.2)**	(659.3)	(992.1)
Proceeds from maturities of short-term investments	**511.2**	991.4	452.2
Other – net	**(46.6)**	(8.3)	1.3
Net cash used in investing activities	**(1,241.9)**	(245.7)	(694.7)
Cash Flows From Financing Activities			
Payment of long-term debt and capital lease obligations	**(550.4)**	(1,279.3)	(1,493.7)
Payment of short-term notes payable	**(379.2)**	–	–
Proceeds from long-term debt	**184.8**	352.1	1,182.0
Proceeds from sale and leaseback transactions	**350.0**	100.0	10.9
Issuance of common stock	**–**	–	249.1
Decrease in borrowings under revolving credit facility	**–**	–	(272.2)
Other – net	**(27.1)**	(4.8)	(32.2)
Net cash used in financing activities	**(421.9)**	(832.0)	(356.1)
Increase (Decrease) In Cash And Cash Equivalents	**(291.5)**	382.9	328.4
Cash and cash equivalents at beginning of period	**850.9**	468.0	139.6
Cash and cash equivalents at end of period	**$ 559.4**	$ 850.9	$ 468.0
Cash and cash equivalents and unrestricted short-term investments at end of period	**$ 752.1**	$ 970.9	$ 968.3
Available to be borrowed under revolving credit facility	**$ 486.8**	$ 187.6	$ 290.8

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

Consolidated Statements of Common Stockholders' Equity (Deficit)

Northwest Airlines Corporation

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Other	Total
Balance January 1, 1994	58.0	$ .6	$ 253.2	$ (2,147.1)	$ (137.2)	$ (2,030.5)
Net income				295.5		295.5
Issuance of common stock	20.4	.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 and B Preferred Stock				(54.5)		(54.5)
Accretion of Series C Preferred Stock				(4.8)		(4.8)
Tax benefit related to stock issued to employees			10.0			10.0
Translation adjustments, net of income taxes					(14.1)	(14.1)
Pension liability adjustment, net of income taxes					53.9	53.9
Other	.1		3.1		.2	3.3
Balance December 31, 1994	84.3	.8	636.6	(1,910.9)	(97.2)	(1,370.7)
Net income				392.0		392.0
Exchange of preferred stock for common stock	2.0		37.9	58.9		96.8
Shares earned by employees including shares issued to employee benefit plans	3.4		280.3			280.3
Accrued cumulative dividends on Series A and B Preferred Stock				(50.3)		(50.3)
Accretion of Series C Preferred Stock				(7.7)		(7.7)
Tax benefit related to stock issued to employees			2.1			2.1
Translation adjustments, net of income taxes					1.7	1.7
Pension liability adjustment, net of income taxes					(179.1)	(179.1)
Series C Preferred Stock converted to common stock	.5		8.1			8.1
Other	1.1	.1	5.7	.2	2.0	8.0
Balance December 31, 1995	91.3	.9	970.7	(1,517.8)	(272.6)	(818.8)
Net income				536.1		536.1
Acquisition of preferred stock				74.5		74.5
Shares earned by employees including shares issued to employee benefit plans	4.8		137.5			137.5
Accrued cumulative dividends on Series A and B Preferred Stock				(36.6)		(36.6)
Accretion of Series C Preferred Stock				(.9)		(.9)
Tax benefit related to stock issued to employees			7.0			7.0
Translation adjustments, net of income taxes					(.1)	(.1)
Pension liability adjustment, net of income taxes					157.5	157.5
Series C Preferred Stock converted to common stock	1.0		32.0			32.0
Other	.5	.1	3.9	(.5)	1.2	4.7
Balance December 31, 1996	97.6	$ 1.0	$ 1,151.1	$ (945.2)	$ (114.0)	$ 92.9

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

Notes to Consolidated Financial Statements

Note A – Summary of Significant Accounting Policies

Basis of Presentation: Northwest Airlines Corporation ("NWAC") is a holding company whose principal indirect operating subsidiary is Northwest Airlines, Inc. ("Northwest"). The consolidated financial statements include the accounts of NWAC and all subsidiaries (collectively, the "Company"). All significant intercompany transactions have been eliminated. Investments in 20% to 50% owned companies are accounted for by the equity method. Other investments are accounted for by the cost method.

Certain amounts for 1995 and 1994 have been reclassified to conform with the 1996 financial statement presentation.

Business: Northwest's operations comprise more than 97% of the Company's consolidated operating revenues and expenses. Northwest is a major air carrier engaged principally in the commercial transportation of passengers and cargo, directly serving more than 150 cities in 18 countries in North America, Asia and Europe. Northwest's global airline network includes domestic hubs at Detroit, Minneapolis/St. Paul and Memphis, an extensive Pacific route system with hubs at Tokyo and Osaka, and a transatlantic alliance with KLM Royal Dutch Airlines ("KLM") which operates through a hub in Amsterdam.

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. Commencing with the acquisition of the parent of Northwest in 1989, estimated useful lives generally range from 4 to 25 years for flight equipment and 3 to 32 years for other property and equipment. Leasehold improvements are generally 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, 1996, the Company reports gains (losses) relating to the disposition of assets as part of operating expenses instead of other income (expense). Reclassifications increased operating income $11.2 million and $9.2 million for 1995 and 1994, respectively.

Airframe and Engine Maintenance: Routine maintenance and airframe and engine overhauls are charged to expense as incurred. Modifications that 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.

Frequent Flyer Program: The estimated incremental cost of providing travel awards earned under Northwest's WorldPerks frequent flyer program is accrued. The Company sells mileage credits to participating companies in its frequent flyer program. A portion of such revenue is deferred and amortized as transportation is provided.

Postretirement Health Care Benefits: The Company provides medical, dental and life insurance benefits to certain eligible retirees and their dependents. The expected future cost of providing such postretirement benefits is accrued over the service life of active employees.

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 regularly evaluated by the Company.

Advertising: Advertising costs, included in other operating expenses, are expensed as incurred and were $120.4 million, $119.4 million and $120.4 million in 1996, 1995 and 1994, respectively.

Employee Stock Options: The Company uses the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for employee stock options. Under the intrinsic value method, compensation expense is recognized to the extent the market price of the common stock exceeds the option price at the date of the grant.

Foreign Operations: Operating revenues from foreign operations, primarily in the Pacific region, totaled approximately $3.39 billion, $3.17 billion and $2.83 billion in 1996, 1995 and 1994, respectively. International routes are amortized on a straight-line basis, generally over 40 years. International operating route authorities are regulated by governmental policy and bilateral agreements between nations. Changes in such policies or agreements could favorably or adversely impact Northwest.

Assets and liabilities denominated in foreign currency are remeasured at current exchange rates with resulting gains and losses generally included in net income.

The Preferred Security (see Note E) and other 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, with translation gains and losses recorded directly to common stockholders' equity. The cumulative foreign translation loss, net of tax, was $39.4 million as of December 31, 1996.

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

Earnings 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 1996, 1995 and 1994 are based on 101,087,315 shares, 94,302,528 shares and 80,888,543 shares, respectively. For fully diluted earnings per share, both 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 1996, 1995 and 1994 are based on 111,358,902 shares, 102,241,106 shares and 84,492,067 shares, respectively.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in its consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Note B – Labor Agreements

The Company's labor agreements provided for wage and other compensation savings (the "Actual Savings") by domestic employees, including management, and other cost reductions which aggregated $897 million over a 36 to 39 month period (depending on the labor group) (the "Wage Savings Period") which ended between August and November 1996. As part of an overall revised compensation plan provided by the labor agreements, the Company agreed, among other things, to issue to trusts for the benefit of participating employees 18,214,419 shares of a new class of Series C cumulative, voting, convertible, redeemable preferred stock (the "Series C Preferred Stock") and provided 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.

Pursuant to a one-time special conversion right exercised in February 1994, the Company is issuing to certain of such trusts approximately 17.5 million shares of common stock (in lieu of approximately 9.1 million of the shares of Series C Preferred Stock that would have otherwise been issued). Information with respect to the shares issued to trusts for the benefit of employees is as follows (in millions):

	Series C Preferred Stock				Common Stock			
	Shares to be Issued	Shares Earned	Shares Held by Trusts	Financial Statement Amount	Shares to be Issued	Shares Earned	Shares Held by Trusts	Financial Statement Amount
Balance January 1, 1994	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	4.0	3.0	91.3	12.0	7.8	5.8	121.4
Shares earned by employees	–	2.9	–	197.7	–	5.5	–	280.3
Shares issued to trusts	(1.8)	–	1.8	–	(3.4)	–	3.4	–
Series C Preferred Stock converted to common stock	–	–	(.4)	(8.1)	–	–	.5	8.1
Withdrawals from trusts	–	–	–	–	–	–	(2.0)	–
Accretion	–	–	–	7.7	–	–	–	–
Balance December 31, 1995	4.1	6.9	4.4	288.6	8.6	13.3	7.7	409.8
Shares earned by employees	–	2.2	–	105.3	–	4.2	–	137.5
Shares issued to trusts	(2.6)	–	2.6	–	(4.8)	–	4.8	–
Series C Preferred Stock converted to common stock	–	–	(.8)	(32.0)	–	–	1.0	32.0
Withdrawals from trusts	–	–	–	–	–	–	(2.3)	–
Accretion and other	.2	–	–	.9	(.3)	–	–	–
Balance December 31, 1996	1.7	9.1	6.2	$ 362.8	3.5	17.5	11.2	$ 579.3

The final contribution of the Series C Preferred Stock and common stock to the trusts is scheduled for March 1997. 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. As long as the Class A Common Stock is publicly traded, no dividends accrue on the Series C Preferred Stock. Each share of the Series C Preferred Stock is convertible at any time into 1.364 shares of common stock. Consequently, at December 31, 1996 the aggregate 7.9 million shares of Series C Preferred Stock held by trusts and to be issued are convertible into approximately 10.8 million shares of common stock.

Series C Preferred Stock is required to be redeemed in 2003 for a pro rata share of Actual Savings ($371 million for the Series C Preferred Stock outstanding as of December 31, 1996 and to be issued). 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 holders of the Series C Preferred Stock. If the Company fails to redeem the Series C Preferred Stock, dividends accrue at the higher of (i) 12% 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. The financial statement carrying value of the Series C Preferred Stock is being accreted over ten years commencing August 1993 to the ultimate redemption amount. Prior to 2003, the Company at its option may redeem in whole or in part the Series C Preferred Stock. The consent of the holders of the Series A and B Preferred Stock must be received in order to redeem or repurchase the Series C Preferred Stock.

Because of applicable accounting requirements, the Company recognized compensation expense for each year based on the values at the measurement date of the Series C Preferred Stock and the common stock earned by employees. Such non-cash stock-based compensation expense was 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. The final measurement dates for 1996 coincided with the end of the Wage Savings Period for each of the labor groups and the final measurement date for 1995 and 1994 was December 31, 1995 and 1994, respectively. Any increase (decrease) in share value increased (decreased) non-cash compensation expense and the recorded effect in any month of a change in share prices was a function of all shares earned since the previous January 1.

Approximately ninety percent of the Company's employees are members of collective bargaining units. All of the labor agreements became amendable in 1996 at the end of the Wage Savings Period and hence future labor costs are subject to collective bargaining.

Note C – Long-Term Debt and Short-Term Borrowings

Long-term debt consisted of the following (in millions, with interest rates as of December 31, 1996):

	December 31 1996	1995
Secured notes due through 2009, 7.0% weighted average rate (a)	**$ 348.9**	$ 348.9
NWA Trust No. 2 aircraft notes due through 2012, 10.6% weighted average rate (b)	**337.9**	345.0
Equipment pledge notes due through 2013, 7.7% weighted average rate	**286.8**	307.9
Sale-leaseback financing obligations due through 2020, 9.9% imputed rate (c)	**262.5**	263.0
NWA Trust No. 1 aircraft notes due through 2006, 8.6% weighted average rate (d)	**220.4**	230.4
Senior unsecured floating rate notes due through 1998, 6.4% weighted average rate (e)	**152.0**	–
Term loan due through 2002, 6.5% (f)	**150.0**	300.0
Term certificates due 1999, 6.6% (g)	**145.0**	175.0
8.625% unsecured notes due 1996, net of discount (1995—$3.8)	**–**	196.2
Unsecured notes due through 1999, 12.1%	**79.0**	89.0
Hushkit financing due through 2002, 7.6% (h)	**12.3**	12.3
Other	**65.6**	199.4
Total long-term debt	**2,060.4**	2,467.1
Less current maturities	**144.4**	329.7
	$ 1,916.0	$ 2,137.4

(a) In April 1996, the Company restructured floating rate notes with certain manufacturers. Principal repayments are due semi-annually beginning 2001.

(b) 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). 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. 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.

(c) 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.

(d) 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.

(e) In December 1996, the Company issued $152 million of Senior Unsecured Floating Rate Notes, due in two installments of $76 million each in July 1997 and January 1998.

(f) During 1996, the Company prepaid $150 million of its $300 million term loan. In October 1996, the Company amended its credit agreement (the "Credit Agreement") to extend the final maturity of the term loan to 2002. The floating rate term loan is payable in three equal annual installments beginning 2000.

The amended Credit Agreement also provides an unsecured $500 million revolving credit facility scheduled to expire in October 2001. A commitment fee (.225% at December 31, 1996) is payable by the Company on the unused portion of the revolving credit facility at a floating rate per annum determined by reference to the Company's unsecured debt rating. At December 31, 1996, $486.8 million remained available to be borrowed as a result of the issuance on behalf of the Company of $13.2 million of letters of credit.

(g) 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 floating rate Term Certificates. These privately placed certificates require payment of interest only during their term with the principal due in 1999 and are secured by the purchased receivables and restricted cash.

(h) The Company has arranged supplier financing of engine hushkit shipsets for DC-9 and 727 aircraft. The credit facilities allow for borrowings up to approximately $170 million prior to December 1999. Generally, amounts borrowed under the facilities are payable in quarterly installments over six years commencing not later than one year from the date of such borrowing.

Maturities of long-term debt for the five years subsequent to December 31, 1996 are as follows (in millions):

1997	$ 144.4
1998	165.3
1999	220.2
2000	110.5
2001	127.9

The debt and lease agreements of the Company contain certain restrictive covenants, including limitations on indebtedness, equity redemptions and the declaration of dividends, as well as requirements to maintain certain financial ratios, including collateral coverage ratios. At December 31, 1996, the Company was in compliance with the covenants of all of its debt and lease agreements. Various assets, principally aircraft, having an aggregate book value of $2.2 billion at December 31, 1996, were pledged under various loan agreements.

Cash payments of interest, net of capitalized interest, aggregated $263.3 million in 1996, $365.6 million in 1995, and $332.7 million in 1994.

The maximum and average outstanding balances of short-term borrowings, used primarily for financing aircraft insurance premiums, fuel hedging activities and the acquisition of preferred stock (see Note F) were as follows (dollars in millions):

	1996	1995	1994
Maximum amount of borrowings outstanding during period	**$418.0**	$50.5	$46.4
Average daily borrowings during period	**$193.7**	$23.1	$17.8
Weighted average interest rate on borrowings during period	**7.00%**	5.81%	5.95%

Note D – 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 noncancelable operating leases which expire in various years through 2025. Portions of certain facilities are subleased under noncancelable operating leases expiring in various years through 2020.

At December 31, 1996, the Company leased 126 of the 399 aircraft it operates. Of these, 33 were capital leases and 93 were operating leases. Expiration dates range from 1997 to 2009 for aircraft under capital leases, and from 1997 to 2019 for aircraft under operating leases. The Company's aircraft leases can generally be renewed for terms ranging from one to five years at rates based on the aircraft's fair market value at the end of the lease term. Ninety-six of the 126 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		
	1996	1995	1994
Gross rental expense	**$ 596.5**	$ 601.9	$ 578.8
Sublease rental income	**(62.2)**	(57.6)	(57.2)
Net rental expense	**$ 534.3**	$ 544.3	$ 521.6

At December 31, 1996, future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms of more than one year were as follows (in millions):

	Capital Leases	Operating Leases
1997	$ 120.2	$ 452.2
1998	113.5	452.7
1999	105.4	422.4
2000	103.2	405.8
2001	104.1	394.5
Thereafter	583.6	4,541.8
	1,130.0	6,669.4
Less sublease rental income		85.3
Total minimum operating lease payments		$ 6,584.1
Less amounts representing interest	357.8	
Present value of future minimum capital lease payments	772.2	
Less current obligations under capital leases	61.7	
Long-term obligations under capital leases	$ 710.5	

Note E – Mandatorily Redeemable Preferred Security of Subsidiary Which Holds Solely Non-Recourse Obligation of Company

In October 1995, the Company completed a restructuring of its yen-denominated non-recourse obligation secured by land and buildings the Company owns in Tokyo. A newly formed consolidated subsidiary of the Company (the "Subsidiary") entered into a Japanese business arrangement designated under Japanese law as a tokumei kumiai ("TK"). Pursuant to the TK arrangement, the holder of the non-recourse obligation restructured such obligation and then assigned title to and ownership of such obligation to the Subsidiary as operator under the TK arrangement in exchange for a preferred interest in the profits and returns of capital from the business of the Subsidiary (the "Preferred Security"). The restructured non-recourse obligation is the sole asset of the Subsidiary. As a result of this restructuring, the original holder of such non-recourse obligation is no longer a direct creditor of the Company and the Company's obligation is reflected in the Company's Consolidated Balance Sheet as "Mandatorily Redeemable Preferred Security of Subsidiary which holds solely non-recourse obligation of Company." NWAC has guaranteed the obligation of the Subsidiary to distribute payments on the Preferred Security pursuant to the TK arrangement if and to the extent payments are received by the Subsidiary.

The restructured obligation matures in three approximately equal annual installments due in 2005, 2006 and 2007. In addition to these installments, cash payments on the restructured obligation will be payable semiannually at the rate of 4% per annum until March 31, 2000 and at a rate based upon a floating long-term Japanese prime rate (capped at 6%) thereafter. During the first three years, one-fourth of the cash payments are applied to reduce the obligation. The obligation remains non-recourse to the Company. In addition, the Company retains the ability (exercisable at any time after September 30, 2001) to transfer the property in full satisfaction of all Company obligations related to the financing.

The initial financial statement carrying value of the Preferred Security reflected the fair value as of the closing date. The excess of the financial statement carrying value of the original non-recourse obligation over the fair value of the Preferred Security at the date of the restructuring resulted in a 1995 gain of $62 million, net of tax. This gain, together with losses on other debt extinguishments, is shown as an extraordinary item.

The carrying value is being accreted over 12 years from October 1995 to the ultimate maturity value of 72.9 billion yen ($628.8 million based on the December 31, 1996 exchange rate). Such accretion is included as a component of "Interest of mandatorily redeemable preferred security holder" in the Consolidated Statements of Income.

Note F – Series A and Series B Redeemable Preferred Stock

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

	Series A		Series B		Accrued	
	Shares	Amount	Shares	Amount	Dividends	Total
Balance January 1, 1994	5,000.0	$ 250.0	6,853.0	$ 342.7	$ 57.9	$ 650.6
Accrued dividends	–	–	–	–	53.1	53.1
Balance December 31, 1994	5,000.0	250.0	6,853.0	342.7	111.0	703.7
Exchange of preferred stock for common stock	–	–	(1,727.0)	(86.4)	(10.7)	(97.1)
Accrued dividends	–	–	–	–	50.3	50.3
Balance December 31, 1995	5,000.0	250.0	5,126.0	256.3	150.6	656.9
Acquisition of preferred stock	(3,691.2)	(184.6)	(2,962.8)	(148.1)	(121.0)	(453.7)
Accrued dividends	–	–	–	–	36.6	36.6
Balance December 31, 1996	1,308.8	$ 65.4	2,163.2	$ 108.2	$ 66.2	$ 239.8

For each of the Series A and Series B Preferred Stock, 10,000 shares are authorized, par value is $.01 per share and the stated value is $50,000 per share. Both series are entitled to a preference in voluntary and involuntary liquidation, in the amount of $50,000 per share, plus accrued and unpaid dividends. Holders of the Series A and Series B Preferred Stock have voting rights for the election of directors. Both series accrue dividends at 8% per year and dividends accruing prior to August 1, 1998 are deferred until redemption. Dividends are cumulative if unpaid and, to the extent required cash dividends are not paid, the annual dividend rate will increase every six months by 1/2% up to a maximum of 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. The Series A Preferred Stock is redeemable at its liquidation preference at any time, in whole but not in part, at the option of the Company, and must be redeemed in three equal installments starting two years prior to August 1, 2002. Beginning August 1, 1998, dividends are payable semiannually in cash.

The Series B Preferred Stock ranks senior to the Series C Preferred Stock and all classes of common stock with respect to liquidation and dividend rights. The Series B Preferred Stock is redeemable at its liquidation preference at any time, in whole or in $50 million increments, at the option of the Company, and must be redeemed in three equal installments starting two years prior to August 1, 2003.

The consent of the holders of the Series A Preferred Stock must be received in order to redeem or repurchase the Series B Preferred Stock. Beginning August 1, 1998, dividends are payable semiannually in cash if all the accrued dividends on the Series A Preferred Stock have been paid.

In July 1996, the Company acquired from KLM 3,691.2 shares of Series A Preferred Stock and 2,962.8 shares of Series B Preferred Stock in exchange for two unsecured promissory notes aggregating $379 million, both of which were repaid December 1996. These transactions resulted in an increase to net income applicable to common stockholders of $74.5 million. In connection with these repurchases, KLM as a holder of Series A and Series B Preferred Stock consented through August 15, 1998 to the Company's payment of dividends on, and its redemptions or repurchases of, its common stock, Series C Preferred Stock and Series B Preferred Stock.

In January 1995, the Company consumated an agreement with Bankers Trust New York Corporation to exchange 1,727 shares of the Company's Series B Preferred Stock for 2,050,000 shares of newly issued Class B Common Stock. This transaction resulted in a transfer from redeemable preferred stock to common stockholders' equity deficit of $96.8 million, net of expenses, and an increase to net income applicable to common stockholders of $58.9 million.

Note G – Common Stockholders' Equity (Deficit)

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

	Class A voting Par value $.01	Class B non-voting Par value $.01	Total
Balance at January 1, 1994	39.7	18.3	58.0
Issuance of common stock	20.4	–	20.4
Shares issued to employee trusts	5.1	.7	5.8
Conversion of Class B to Class A	11.8	(11.8)	–
Other	.1	–	.1
Balance at December 31, 1994	77.1	7.2	84.3
Exchange of Series B Preferred Stock for common stock	–	2.0	2.0
Shares issued to employee trusts	3.0	.4	3.4
Conversion of Class B to Class A	6.2	(6.2)	–
Conversion of Series C Preferred Stock	.4	.1	.5
Other	1.1	–	1.1
Balance at December 31, 1995	87.8	3.5	91.3
Shares issued to employee trusts	4.2	.6	4.8
Conversion of Class B to Class A	.3	(.3)	–
Conversion of Series C Preferred Stock	.9	.1	1.0
Other	.5	–	.5
Balance at December 31, 1996	93.7	3.9	97.6

Authorized shares are 250 million and 65 million of Class A and Class B Common Stock, respectively. Shares of Class B Common Stock are convertible at any time into an equal number of shares of Class A Common Stock and vice versa. The Company is effectively precluded from paying dividends or repurchasing for cash its common stock without the consent of the holders of the Series A and Series B Preferred Stock.

Pursuant to the Stockholder Rights Plan (the "Rights Plan"), each share of common stock has attached thereto a right and, until the rights expire or are redeemed, each new share of common stock issued by the Company, including the shares of common stock into which the Series C Preferred Stock is convertible, will include one right. Upon the occurrence of certain events, each right entitles the holder to purchase one one-hundredth of a share of Series D Junior Participating Preferred Stock at an exercise price of $150, subject to adjustment. The rights become exercisable only after any person or group (other than the trusts holding common stock for the benefit of employees) acquires beneficial ownership of 19% or more of the Company's "outstanding" common stock (as defined in the Rights Plan) or commences a tender or exchange offer that would result in such person or group acquiring beneficial ownership of 19% or more of the Company's outstanding common stock. If any person or group acquires beneficial ownership of 19% or more of the Company's outstanding common stock, the holders of the rights (other than the acquiring person or group) will be entitled to receive upon exercise of the rights, Class A Common Stock of the Company having a market value of two times the exercise price of the right. In addition, if after the rights become exercisable the Company is involved in a merger or other business combination or sells more than 50% of its assets or earning power, each right will entitle its holder (other than the acquiring person or group) to receive common stock of the acquiring company having a market value of two times the exercise price of the rights. The rights expire on November 16, 2005 and may be redeemed by the Company at a price of $.01 per right prior to the time they become exercisable.

In December 1996, the Company's Board of Directors approved a stock repurchase program (to which the holders of the Series A and Series B Preferred Stock have consented) authorizing the Company to repurchase up to five million shares of its Class A Common Stock from time to time in open market or negotiated transactions.

The Company has stock option plans for officers and key employees. Options generally become exercisable in equal annual installments over four or five years and expire 10 years from the date of the grant. The Company's policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant.

To the extent that options are granted with an exercise price less than the market price on the date of the grant, compensation expense is recognized over the vesting period of the grant.

Following is a summary of stock option activity (in thousands, except per share amounts):

	1996		1995		1994	
	Shares	Weighted-Avg. Exercise Price	Shares	Weighted-Avg. Exercise Price	Shares	Weighted-Avg. Exercise Price
Outstanding at beginning of year	3,509	$ 10.57	4,525	$ 8.70	2,891	$ 5.65
Granted	1,836	35.04	206	26.06	1,852	13.19
Forfeited	(118)	15.55	(165)	10.72	(61)	4.74
Canceled	–	–	–	–	(19)	24.43
Exercised	(453)	7.92	(1,057)	5.38	(138)	4.74
Outstanding at end of year	4,774	20.11	3,509	10.56	4,525	8.70
Exercisable at end of year	1,907	9.16	1,594	7.95	1,835	5.91
Class A Common Stock:						
Reserved for issuance	7,948		4,948		4,948	
Available for future grants	1,487		205		246	

At December 31, 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Shares	Weighted-Avg. Exercise Price
$ 4.74 to $13.00	2,442	6.7 years	$ 9.10	1,665	$ 7.85
14.00 to 31.875	1,102	8.5	25.89	232	17.29
34.00 to 43.688	1,230	9.7	36.79	10	38.23

The weighted-average fair value of options granted during 1996 and 1995 is $14.89 and $11.68 per option, respectively. The fair value of each option grant is estimated as of the date of grant using the Black-Scholes single option-pricing model assuming a weighted average risk-free interest rate of 6.4% and 6.9% for 1996 and 1995, respectively, and expected lives of six years and volatility of 30% for 1996 and 1995. Had compensation expense for stock options been determined based on the fair value method (instead of intrinsic value method) at the grant dates for awards, the Company's 1996 and 1995 net income and earnings per share would have decreased by less than 1%. The effects of applying the fair value method of measuring compensation expense for 1996 and 1995 are likely not representative of the effects for future years in part because the fair value method was applied only to stock options granted after December 31, 1994.

A long term performance and retention plan was established in 1996 under which 500,000 phantom stock units were awarded at no cost. The units are payable in cash based on the market value of the Company's common stock at the time the units vest. Of the units granted, 100,000 of the units vested and were paid in 1996. The remaining 400,000 units can vest, subject to the satisfaction of performance criteria, in installments over two-year performance periods, the first of which ends in 1998 and the final of which ends in 2004. As of December 31, 1996, 400,000 units were outstanding, none of which were vested.

Note H – Income Taxes

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

	Year Ended December 31		
	1996	1995	1994
Current:			
Federal	**$ 175.0**	$ 89.1	$ 11.9
Foreign	**4.1**	3.9	5.3
State	**22.3**	13.0	5.3
	201.4	106.0	22.5
Deferred:			
Federal	**112.1**	91.4	168.1
Foreign	**16.6**	.7	(5.3)
State	**6.2**	3.3	17.5
	134.9	95.4	180.3
Total income tax expense	**$ 336.3**	$ 201.4	$ 202.8

Reconciliation of the statutory rate to the Company's income tax expense is as follows (in millions):

	Year Ended December 31		
	1996	1995	1994
Statutory rate applied to income before income taxes and extraordinary item	**$ 305.3**	$ 190.2	$ 174.4
Add (deduct):			
State income tax net of federal benefit	**18.5**	13.5	16.0
Non-deductible meals and entertainment	**9.5**	9.0	8.9
Adjustment to valuation allowance and other income tax accruals	**6.2**	(12.3)	3.0
Other	**(3.2)**	1.0	.5
Total income tax expense	**$ 336.3**	$ 201.4	$ 202.8

The net deferred tax liabilities listed below include a current net deferred tax asset of $95.5 million and $82.8 million and a long-term net deferred tax liability of $947.2 million and $772.5 million as of December 31, 1996 and 1995, respectively.

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

	December 31	
	1996	1995
Deferred tax liabilities:		
Financial accounting basis of assets in excess of tax basis	**$ 1,392.0**	$ 1,357.5
Expenses other than depreciation accelerated for tax purposes	**287.9**	260.1
Other	**7.9**	22.9
Total deferred tax liabilities	**1,687.8**	1,640.5
Deferred tax assets:		
Pension and postretirement benefits	**186.3**	273.1
Expenses accelerated for financial reporting purposes	**437.4**	326.2
Leases capitalized for financial reporting purposes	**114.8**	141.2
Alternative minimum tax credit carryforwards	**97.6**	145.6
Net operating loss carryforwards	**–**	48.1
Foreign tax credit carryforwards	**–**	16.6
Total deferred tax assets	**836.1**	950.8
Net deferred tax liability	**$ 851.7**	$ 689.7

As of December 31, 1996, the Company has utilized all of its regular net operating loss carryforwards ("NOLs"). For tax purposes, the Company utilized NOLs of approximately $129.5 million, $684.4 million and $394.4 million in 1996, 1995 and 1994, respectively. The Company utilized alternative minimum tax net operating losses ("AMTNOLs") of $105.1 million and $446.7 million in 1995 and 1994, respectively. The Company has alternative minimum tax credits of approximately $97.6 million available for carryforward to future years' tax returns. The alternative minimum tax credit has an unlimited carryforward period. In 1995, the Company utilized its remaining AMTNOL carryforward, as well as its remaining investment credit carryforward and its remaining foreign tax credits available for alternative minimum tax purposes.

Sections 382 and 383 of the Internal Revenue Code of 1986 (the "Code") and the regulations thereunder impose limitations on the carryforward amounts of NOLs, AMTNOLs and credits that can be used to offset taxable income (or used as a credit) in any single year if the corporation experiences more than a 50% ownership change, as defined therein, over a three-year testing period ending on any testing date. The annual limitation on the amount of such NOLs, AMTNOLs and credits is calculated in part based on the value of the Company's stock. Management believes that the offering of outstanding common stock by existing stockholders in November 1995 triggered an ownership change, but that no ownership change occurred prior to the offering. If such an ownership change in fact occurred as a result of the November 1995 offering, management believes that even as limited by Sections 382 and 383 of the Code, the NOLs, AMTNOLs and credits would be used significantly earlier than their expiration, and the annual limitation would not have an adverse impact on the Company. However, if the Internal Revenue Service (the "IRS") were to assert successfully that an ownership change had occurred on any prior date, including August 1, 1993 (the date of the labor agreements), the impairment of the Company's ability to use its NOLs, AMTNOLs and credit carryforwards would be significant because the value of the Company's stock on certain prior testing dates (which adversely affects the annual limitation described above) was relatively low.

In November 1995, the IRS issued proposed adjustments to the tax returns of the Company for the 1988 through 1991 tax years. Certain of these proposed adjustments result from a disagreement between the Company and the IRS as to the timing of the recognition of approximately $385 million of taxable income. The IRS has also proposed that the Company recognize additional taxable income of approximately $375 million. The Company disagrees with the IRS' proposals. The Company is vigorously contesting all of the proposed adjustments and believes that its positions are correct. To the extent the IRS were to prevail on any of these issues, the Company would recognize taxable income and utilize net operating loss carryforwards sooner than otherwise scheduled. For financial reporting purposes, any adjustments to taxable income would largely be accounted for as temporary differences and would not result in a material charge to income tax expense.

Note I – Commitments

The Company's new aircraft orders as of December 31, 1996, include commitments to acquire 20 Airbus A320 aircraft (13 in 1998 and seven in 1999), 25 Boeing 757-200 aircraft from 2003 through 2005, and 16 Airbus A330 aircraft (eight each in 2004 and 2005). The Company also has agreed to purchase three DC9-30 aircraft in 1997. Committed expenditures for these aircraft and related equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately: $19 million in 1997, $536 million in 1998, $298 million in 1999, $87 million in 2001, and $3.6 billion from 2002 to 2005. The Company has substitution rights with respect to the Airbus A330 aircraft.

In addition to the above, 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 is scheduled to take delivery of two aircraft in 2002 and two aircraft as early as 1999 or as late as 2003. The Company is required to make pre-delivery deposits approximately two years prior to delivery of the aircraft.

Consistent with prior practice, the Company intends to finance its aircraft deliveries through a combination of internally generated funds, debt and lease financing. Financing has been arranged for the Airbus A320 aircraft deliveries. This financing is available for use at the option of the Company and can be utilized as either debt or lease financing. In addition, the Company has another facility (which expires in October 1999) pursuant to which the lenders have extended commitments to provide, at the option of the Company, up to $240 million of debt financing for up to six Boeing 757 aircraft delivered in 1996 and/or the Airbus A320 aircraft to be delivered in 1998 and 1999. There were no borrowings outstanding under this facility at December 31, 1996. Loans thereunder have a final maturity not later than October 2016.

Note J – Litigation

The Company is involved in a variety of legal actions relating to antitrust, contract, trade practice, environmental 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 Consolidated 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		
	1996	1995	1994
Service cost – benefits earned during the period	**$ 115.7**	$ 77.3	$ 89.0
Interest cost on projected benefit obligations	**267.2**	237.0	216.9
Actual (gain) loss on plan assets	**(399.1)**	(564.8)	23.4
Net amortization and deferral	**201.3**	361.8	(188.6)
Net periodic pension cost	**$ 185.1**	$ 111.3	$ 140.7

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):

	1996		1995	
	Assets Exceed Accumulated Benefits	**Accumulated Benefits Exceed Assets**	**Assets Exceed Accumulated Benefits**	**Accumulated Benefits Exceed Assets**
Actuarial present value of:				
Vested benefit obligations	**$ 218.9**	**$ 2,792.4**	$ 221.9	$ 2,702.8
Nonvested benefit obligations	**25.3**	**245.7**	30.0	277.9
Accumulated benefit obligations	**244.2**	**3,038.1**	251.9	2,980.7
Effect of projected future salary increases	**42.2**	**374.5**	35.5	435.9
Projected benefit obligations	**$ 286.4**	**$ 3,412.6**	$ 287.4	$ 3,416.6
Plan assets at fair value	**$ 292.4**	**$ 2,716.3**	$ 268.5	$ 2,285.1
Less projected benefit obligations	**286.4**	**3,412.6**	287.4	3,416.6
Projected benefit obligations (in excess of) less than plan assets	**6.0**	**(696.3)**	(18.9)	(1,131.5)
Unrecognized prior service cost	**5.1**	**198.0**	4.9	218.6
Unrecognized net loss	**5.4**	**346.7**	39.7	727.7
Adjustment required to recognize minimum liability	**–**	**(188.4)**	–	(528.5)
Prepaid (accrued) pension cost at December 31	**$ 16.5**	**$ (340.0)**	$ 25.7	$ (713.7)

As of December 31, 1996 and 1995, 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:

	1996	1995	1994
Weighted average discount rate	**7.60%**	7.10%	9.15%
Rate of increase in future compensation levels	**3.50%**	3.50%	3.75%
Expected long-term rate of return on plan assets	**10.50%**	10.50%	10.50%

An additional minimum liability is required to be recorded to the extent that a plan's accumulated benefit obligation less the accrued pension liability exceeds plan assets. The minimum liability is recorded as a long-term liability with a corresponding intangible asset (to the extent of unrecognized prior service cost) with the difference between the minimum liability and the intangible asset recorded as a reduction to equity (net of tax). The minimum pension liability adjustment of $188.4 million has resulted in a $71.6 million intangible asset included in other assets and a $73.5 million, net of tax, cumulative reduction in common stockholders' equity at December 31, 1996.

Note L – Postretirement Health Care Benefits

The Company sponsors various contributory and noncontributory medical, dental and life insurance benefit plans covering certain eligible retirees and their dependents. Retired employees are not offered Company-paid medical and dental benefits after age 64, with the exception of certain employees who retired prior to 1987 and receive lifetime Company-paid medical and dental benefits. 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.

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

	Year Ended December 31		
	1996	1995	1994
Service cost	**$ 10.3**	$ 7.3	$ 6.8
Interest cost	**22.1**	20.8	15.1
Net amortization and deferral	**3.2**	.2	.1
Actual gain on plan assets	**(.4)**	(.4)	(.5)
Net periodic postretirement benefit cost	**$ 35.2**	$ 27.9	$ 21.5

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

	1996	1995
Accumulated postretirement benefit obligation:		
Retirees	**$ 103.7**	$ 116.8
Fully eligible active plan participants	**67.1**	52.7
Other active plan participants	**142.8**	116.6
	313.6	286.1
Plan assets at fair value	**5.1**	5.1
Accumulated postretirement benefit obligation in excess of plan assets	**308.5**	281.0
Unrecognized net loss	**(72.4)**	(65.7)
Accrued postretirement benefit cost	**$ 236.1**	$ 215.3

At December 31, 1996, the weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is 7.0% for 1997 and is assumed to decrease gradually to 4.5% for 2002 and remain at that level thereafter (a rate of 7.5% was assumed for 1996). 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, 1996, by $35.9 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 1996 by $4.8 million. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.6% at December 31, 1996 and 7.10% at December 31, 1995.

Note M – Related Party Transactions

KLM Royal Dutch Airlines owns 21,684,099 shares of Class A Common Stock of the Company at December 31, 1996. 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 U.S. Department of Transportation, enabling them to operate their trans-Atlantic flights pursuant to a joint venture alliance and to coordinate pricing, scheduling, product development and marketing. 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, Middle Eastern, African and U.S. cities, with additional cities planned for 1997. Net settlements, other than normal interline ticket settlements, related to the trans-Atlantic alliance have not been material in any period.

The Company has an investment in WORLDSPAN, an affiliate that provides computer reservations services, which it accounts for using the equity method. The Company recorded expenses for certain reservation system services provided by this affiliate of $83.4 million, $87.7 million and $86.4 million in 1996, 1995 and 1994, respectively.

The Company owns 29.5% of the common stock of Mesaba Holdings, Inc., the holding company of Mesaba Aviation, Inc. ("Mesaba"), which operates as a Northwest Airlink. Northwest has an Airline Services Agreement ("ASA") with Mesaba under which Northwest determines Mesaba's commuter aircraft scheduling. In return, Northwest has agreed to guarantee Mesaba certain pre-tax profit levels for the year ending March 31, 1997. As of December 31, 1996, the Company has leased six Saab 340 aircraft and is committed to lease an additional 44 aircraft. Mesaba has agreed to sublease these aircraft subject to the execution of a new ASA which is currently under negotiation.

The Company entered into a Regional Jet Services Agreement with Mesaba in October 1996. The Company has also agreed to purchase 12 Avro Regional Jet aircraft. These aircraft are scheduled for delivery, eight in 1997 and four in 1998, and will be subleased to Mesaba. Committed expenditures for these aircraft, including related equipment and contractual price escalations, are approximately $300 million.

Note N – Financial Instruments and Risk Management

Fair Values of Financial Instruments The financial statement carrying values and estimated fair values of the Company's financial instruments, including current maturities, as of December 31 were (in millions):

	1996		1995	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and Cash Equivalents:				
Held-to-maturity debt securities:				
Commercial paper	**$ 435.6**	**$ 435.6**	$ 604.7	$ 604.7
Other	**8.5**	**8.5**	161.7	161.7
Available-for-sale debt securities	**101.5**	**101.5**	70.1	70.1
Cash	**13.8**	**13.8**	14.4	14.4
	$ 559.4	**$ 559.4**	$ 850.9	$ 850.9
Short-term Investments:				
Held-to-maturity debt securities:				
Commercial paper	**$ 10.5**	**$ 10.5**	$ 1.0	$ 1.0
Other	**91.9**	**91.9**	259.7	259.7
Available-for-sale debt securities	**150.7**	**150.7**	–	–
	$ 253.1	**$ 253.1**	$ 260.7	$ 260.7
Long-term Debt	**$ 2,060.4**	**$ 2,166.7**	$ 2,467.1	$ 2,738.8
Mandatorily Redeemable Preferred Security of Subsidiary	**549.2**	**536.2**	618.4	611.4
Series A and B Preferred Stock	**239.8**	**198.7**	656.9	522.9
Series C Preferred Stock	**362.8**	**332.4**	288.6	309.3

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 that are expected to be sold or called by the issuer within the next year, and those temporarily restricted, as short-term investments. Purchases of short-term investments classified as available-for-sale securities during 1996 were $161.3 million and proceeds from sales of such securities were $10.6 million. At December 31, 1996 and 1995, short-term investments included $60.4 and $140.7 million, respectively, of temporarily restricted investments. The temporarily restricted investments were pledged as collateral under various agreements.

The fair values of the Company's long-term debt were estimated using quoted market prices, where available. For long-term debt and preferred securities not actively traded, other than Series C Preferred Stock, fair values were estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of securities. The fair value of the Series C Preferred Stock shares is based on the assumed conversion to common stock and valuing such shares at the closing quoted market price for Class A Common Stock.

Foreign Exchange Risk Management The Company is exposed to the effect of foreign exchange rate fluctuations on the U. S. dollar value of foreign currency-denominated operating revenues and expenses. The Company's largest exposure to foreign currency fluctuations comes from the Japanese yen. In 1996, yen-denominated revenues exceeded yen-denominated expenses by approximately 70 billion yen (which was approximately 56% of the aggregate excess of foreign currency-denominated revenues over foreign currency-denominated expenses). From time to time, the Company uses a collar option strategy to hedge a portion of its anticipated yen-denominated net cash flows. As of December 31, 1996, the Company had $94 million (10.9 billion yen) in collar options outstanding to hedge approximately 85% of its anticipated first quarter 1997 yen net cash flows. 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, 1996 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. Realized and unrealized gains and losses on Japanese yen collar option contracts are recognized currently in net income. Open contracts are recorded at fair value since they do not qualify as hedges for financial accounting purposes. As of December 31, 1996, there are no material unrealized gains or losses on outstanding yen collar option contracts.

Fuel Price Risk Management The Company manages a portion of the price risk of fuel costs utilizing both regulated exchange traded futures contracts and fuel swap agreements. Gains or losses on hedge contracts are deferred until the related fuel inventory is expensed. As of December 31, 1996, the Company had no material hedges for future fuel requirements.

Note O – Quarterly Financial Data (Unaudited)

Unaudited quarterly results of operations for the years ended December 31, 1996 and 1995, are summarized below (in millions, except per share amounts):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996:				
Operating revenues	$ 2,264.8	$ 2,540.4	$ 2,735.2	$ 2,340.1
Operating income	134.4	374.7	469.4	75.3
Net income	$ 53.4	$ 202.8	$ 253.9	$ 26.0
Primary per common share:				
Before effects of acquisition of preferred stock	$ .41	$ 1.90	$ 2.42	$ .20
Acquisition of preferred stock	–	–	.73	–
Earnings per common share	$ .41	$ 1.90	$ 3.15	$ .20
Fully diluted per common share:				
Before effects of acquisition of preferred stock	$ .37	$ 1.72	$ 2.20	$ .19
Acquisition of preferred stock	–	–	.66	–
Earnings per common share	$ .37	$ 1.72	$ 2.86	$ .19
1995:				
Operating revenues	$ 2,043.0	$ 2,279.4	$ 2,561.0	$ 2,201.5
Operating income	147.3	249.6	425.2	91.3
Income before extraordinary item	2.6	104.8	231.1	3.6
Net gain on extinguishment of debt	–	–	–	49.9
Net income	$ 2.6	$ 104.8	$ 231.1	$ 53.5
Primary per common share:				
Before effects of extraordinary item and exchange of preferred stock	$ (.13)	$ .96	$ 2.27	$ (.10)
Net gain on extinguishment of debt	–	–	–	.51
Exchange of preferred stock	.65	–	–	–
Earnings per common share	$ .52	$ .96	$ 2.27	$ .41
Fully diluted per common share:				
Before effects of extraordinary item and exchange of preferred stock	$ (.10)	$ .92	$ 2.11	$ (.09)
Net gain on extinguishment of debt	–	–	–	.47
Exchange of preferred stock	.61	–	–	–
Earnings per common share	$ .51	$ .92	$ 2.11	$ .38

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 P – Condensed Consolidated Financial Information of Northwest Airlines, Inc.

Northwest Airlines Corporation (formerly Wings Holdings Inc.) 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 Inc. (the "Acquisition"), the parent company of Northwest Airlines, Inc. In 1989, Wings Acquisition Corp. was merged with and into NWA Inc., with NWA Inc. being the surviving entity. The Acquisition was recorded using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair market value at the date of Acquisition, determined primarily by independent appraisals.

After reflecting these values and certain acquisition indebtedness of NWA Inc. in the financial statements of Northwest, condensed financial information of Northwest consists of the following (in millions):

Condensed Consolidated Statements of Income

	Year Ended December 31		
	1996	1995	1994
Operating revenues	**$ 9,651.3**	$ 8,806.6	$ 8,057.0
Operating expenses	**8,641.7**	7,937.0	7,257.7
Operating income	**1,009.6**	869.6	799.3
Other income (expense)	**(183.6)**	(316.4)	(298.1)
Income before income taxes and extraordinary item	**826.0**	553.2	501.2
Income tax expense	**308.8**	215.9	198.2
Income before extraordinary item	**517.2**	337.3	303.0
Net gain on extinguishment of debt	**–**	50.4	–
Net income	**$ 517.2**	$ 387.7	$ 303.0

Condensed Consolidated Balance Sheet Data

	December 31	
	1996	1995
Current assets	**$ 1,626.8**	$ 1,861.1
Noncurrent assets	**5,818.3**	5,460.9
Current liabilities	**2,832.2**	2,535.6
Long-term debt and obligations under capital leases	**2,103.9**	2,351.8
Deferred credits and other liabilities	**935.7**	1,277.3
Mandatorily redeemable preferred security of subsidiary	**549.2**	618.4

Report of Ernst & Young LLP, Independent Auditors

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, 1996 and 1995, and the related consolidated statements of income, common stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Minneapolis, Minnesota
January 21, 1997

Five-Year Summary

Northwest Airlines Corporation	Year Ended December 31				
	1996	1995	1994	1993	1992
Statement of Income (in millions, except per share data)					
Operating revenues					
Passenger	**$ 8,598.3**	$ 7,762.0	$ 7,010.1	$ 6,619.5	$ 6,277.3
Cargo	**745.8**	751.2	755.8	734.8	736.2
Other	**536.4**	571.7	559.0	510.5	446.5
	9,880.5	9,084.9	8,324.9	7,864.8	7,460.0
Operating expenses	**8,826.7**	8,171.5	7,485.3	7,586.5	7,829.9
Operating income (loss)	**1,053.8**	913.4	839.6	278.3	(369.9)
Amounts before 1995 extraordinary item and 1992 cumulative effect of accounting change:					
Income (loss)	**$ 536.1**	$ 342.1[1]	$ 295.5	$ (115.3)	$ (970.7)[1]
Earnings (loss) per common share:					
Primary	**$ 4.93[2]**	$ 3.02[2]	$ 2.92	$ (2.82)	$ (16.11)
Fully diluted	**$ 4.48[2]**	$ 2.85[2]	$ 2.87	$ (2.82)	$ (16.11)
Balance Sheet (in millions)					
Cash, cash equivalents & unrestricted short-term investments	**$ 752.1**	$ 970.9	$ 968.3	$ 139.6	$ 244.7
Total assets	**8,511.7**	8,412.3	8,070.1	7,571.3	7,545.4
Long-term debt, including current maturities	**2,060.4**	2,467.1	4,013.5	4,437.9	4,271.4
Long-term obligations under capital leases, including current obligations	**772.2**	841.2	890.3	928.1	966.0
Mandatorily redeemable preferred security of subsidiary	**549.2**	618.4	–	–	–
Redeemable preferred stock	**602.6**	945.5	795.0	749.9	566.1
Common stockholders' equity (deficit)[3]	**92.9**	(818.8)	(1,370.7)	(2,030.5)	(1,732.5)
Operating Statistics					
Scheduled service:					
Available seat miles (ASM) (millions)	**93,913.7**	87,472.0	85,015.6	87,212.5	89,647.3
Revenue passenger miles (millions)	**68,639.1**	62,515.2	57,873.2	58,130.1	58,624.9
Passenger load factor	**73.1%**	71.5%	68.1%	66.7%	65.4%
Revenue passengers (millions)	**52.7**	49.3	45.5	44.1	43.5
Revenue yield per passenger mile	**12.53¢**	12.42¢	12.11¢	11.39¢	10.71¢
Passenger revenue per scheduled ASM	**9.16¢**	8.87¢	8.25¢	7.59¢	7.00¢
Operating revenue per total ASM[4]	**9.85¢**	9.58¢	8.93¢	8.23¢	7.59¢
Operating expense per total ASM[4]	**8.78¢**	8.66¢	8.08¢	8.00¢	8.10¢
Operating expense excluding stock-based compensation per total ASM[4]	**8.52¢**	8.11¢	7.95¢	7.89¢	8.10¢
Cargo ton miles (millions)	**2,215.8**	2,246.3	2,322.3	2,188.0	2,106.9
Cargo revenue per ton mile	**33.7¢**	33.4¢	32.5¢	33.6¢	34.9¢
Fuel gallons consumed (millions)	**1,945.1**	1,846.2	1,792.8	1,801.7	1,848.6
Average fuel cost per gallon	**67.21¢**	55.66¢	56.23¢	62.09¢	64.48¢
Number of operating aircraft at year-end	**399**	380	361	358	366
Full-time equivalent employees at year-end	**47,536**	45,124	43,673	43,358	45,455

[1] The 1995 extraordinary gain was $49.9 million ($.53 per primary share and $.49 per fully diluted share) and the 1992 cumulative effect of accounting change was $108.8 million ($1.67 per share).
[2] Excludes the effects of the 1996 preferred stock transaction ($.74 per primary share and $.67 per fully diluted share) and the 1995 preferred stock transaction ($.62 per primary share and $.58 per fully diluted share).
[3] No dividends have been paid on common stock for any period presented.
[4] Excludes the estimated revenues and expenses associated with the operation of Northwest's fleet of eight 747 freighter aircraft and MLT Inc.

Stockholders' Information

Common Stock Prices

	1996		1995	
Quarter	**High**	**Low**	High	Low
1st	**55 1/8**	**40 1/2**	28 1/2	15 7/8
2nd	**52 7/8**	**38**	35 3/4	24 3/4
3rd	**40 1/2**	**34**	42 7/8	33 1/4
4th	**42 1/8**	**30 1/2**	52 1/2	39 3/8

No dividends were declared during the years ended 1996 or 1995.

Stock Listing

The Company's common stock is quoted on the Nasdaq National Market under symbol NWAC. As of February 28, 1997 there were 458 stockholders of record and approximately 12,760 beneficial stockholders.

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 1997 Annual Meeting of Stockholders will be held at the Equitable Life Building New York, New York on Friday, April 25, 1997 at 9:30 AM.

Independent Auditors

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, without exhibits, 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:
Investor Relations
Department A4110
5101 Northwest Drive
St. Paul, Minnesota 55111
(612) 726-2111

Board of Directors

Alfred A. Checchi
Co-chairman

Gary L. Wilson
Co-chairman

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

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
Retired International Director
Teamsters Airline Division
International Brotherhood of Teamsters

Thomas L. Kempner
Chairman & Chief Executive Officer
Loeb Partners Corporation

Frederic V. Malek
Chairman
Thayer Capital Partners

Walter F. Mondale
Partner
Dorsey & Whitney

V. A. Ravindran
President
Paracor Finance Inc.

George J. Vojta
Vice Chairman
Bankers Trust New York Corporation

Duane E. Woerth
First Vice President
Air Line Pilots Association

Melvin R. Laird
Director Emeritus

Senior Officers

John H. Dasburg
President & Chief Executive Officer

James A. Lawrence
Executive Vice President & Chief Financial Officer

Michael E. Levine
Executive Vice President – Marketing & International

Donald A. Washburn
Executive Vice President – Customer Service & Operations

Richard H. Anderson
Senior Vice President – Technical Operations and State Affairs

Christopher E. Clouser
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Joseph E. Francht, Jr.
Senior Vice President – Finance & Treasurer

J. Timothy Griffin
Senior Vice President – Market Planning & Systems

Philip C. Haan
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Richard B. Hirst
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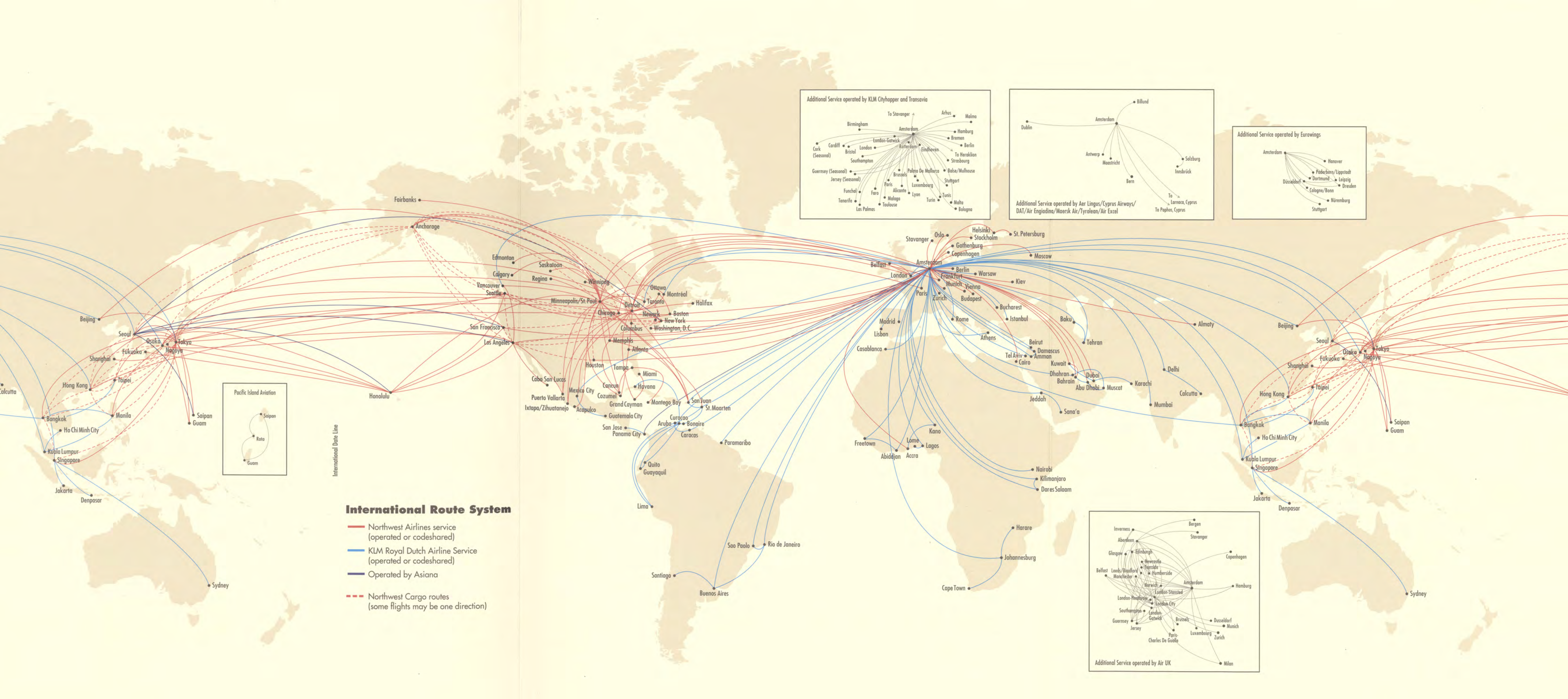
Ruthie M. McKee
Senior Vice President – Ground & Cargo Operations

William D. Slattery
President – Northwest Cargo & Charter

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

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



International Route System
Northwest Airlines service (operated or codeshared)
KLM Royal Dutch Airline Service (operated or codeshared)
Operated by Asiana
Northwest Cargo routes (some flights may be one direction)
Additional Service operated by KLM Cityhopper and Transavia
Additional Service operated by Aer Lingus/Cyprus Airways/DAT/Air Engiadina/Maersk Air/Tyrolean/Air Excel
Additional Service operated by Eurowings
Additional Service operated by Air UK
Pacific Island Aviation
International Date Line
Fairbanks
Anchorage
Edmonton
Calgary
Saskatoon
Regina
Winnipeg
Vancouver
Seattle
Minneapolis/St. Paul
Ottawa
Montréal
Toronto
Detroit
Halifax
Chicago
Boston
Newark
New York
Columbus
Washington, D.C.
San Francisco
Los Angeles
Memphis
Atlanta
Houston
Tampa
Miami
Cabo San Lucas
Mexico City
Cancun
Havana
Puerto Vallarta
Cozumel
Grand Cayman
Montego Bay
San Juan
St. Maarten
Ixtapa/Zihuatanejo
Acapulco
Guatemala City
San Jose
Panama City
Aruba
Curacao
Bonaire
Caracas
Paramaribo
Quito
Guayaquil
Lima
Sao Paolo
Rio de Janeiro
Santiago
Buenos Aires
Honolulu
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Osaka
Tokyo
Nagoya
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Shanghai
Taipei
Hong Kong
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Saipan
Guam
Bangkok
Ho Chi Minh City
Kuala Lumpur
Singapore
Jakarta
Denpasar
Sydney
Calcutta
Stavanger
Oslo
Helsinki
Stockholm
St. Petersburg
Gothenburg
Copenhagen
Moscow
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Warsaw
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Vienna
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Casablanca
Beirut
Damascus
Tel Aviv
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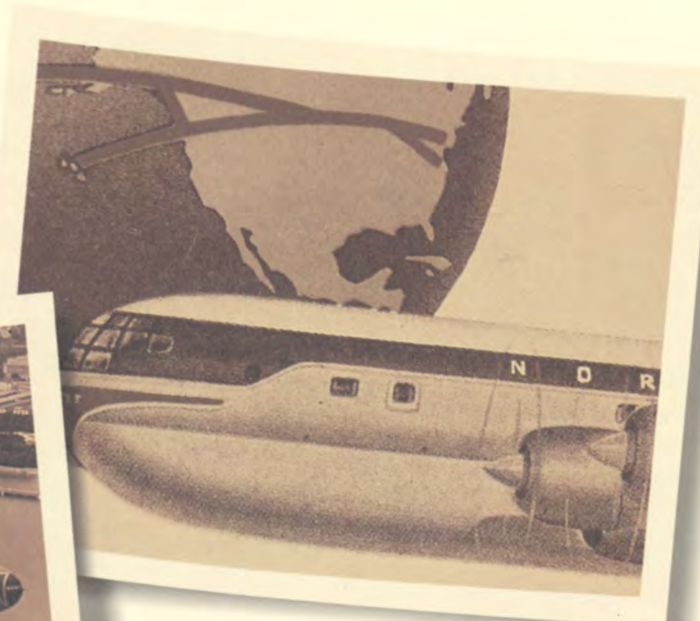
Cairo
Kuwait
Dhahran
Bahrain
Dubai
Abu Dhabi
Muscat
Karachi
Delhi
Calcutta
Mumbai
Jeddah
Sana'a
Freetown
Abidjan
Lome
Accra
Kano
Lagos
Nairobi
Kilimanjaro
Dares Salaam
Harare
Johannesburg
Cape Town

50 YEARS

BRIDGING *the* PACIFIC

The luxurious double-deck Boeing 377 Stratocruiser carried passengers in comfort from coast to coast and to and from Asia. Stratocruisers cut nearly eight hours off the previous DC-4 flight time to Tokyo.



The solid red tail, shown on this Martin 202, became Northwest's permanent identifying mark, introduced in 1948.

Northwest passengers received a colorful welcome during an inaugural flight arrival at Tokyo's Haneda Airport. While Northwest's Boeing 720-B aircraft primarily flew domestic routes, they were capable of trans-Pacific service via Anchorage.

Board of Directors

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Co-chairman

Gary L. Wilson
Co-chairman

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

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President & Chief Executive Officer
Northwest Airlines Corporation

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International Brotherhood of Teamsters

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Frederic V. Malek
Chairman
Thayer Capital Partners

Walter F. Mondale
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NORTHWEST
AIRLINES

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St. Paul, MN 55111-3034

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