Northwest Airlines Corporation
1997 Annual Report

ABOUT THE COMPANY

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

Northwest Airlines serves more than 400 cities in over 80 countries on six continents. With global alliance partner KLM Royal Dutch Airlines, Northwest Airlines serves more than 85 cities in Europe, Asia, Africa and the Middle East. With Alaska Airlines and its Airlink partners, Northwest Airlines serves more than 250 U.S. cities.

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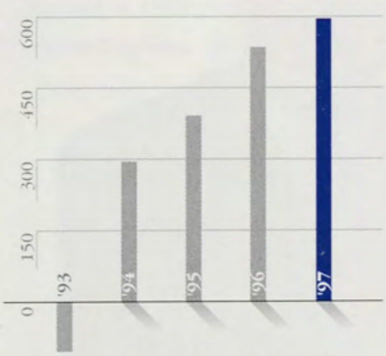
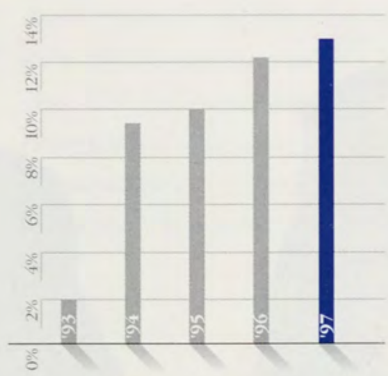
CONDENSED FINANCIAL HIGHLIGHTS

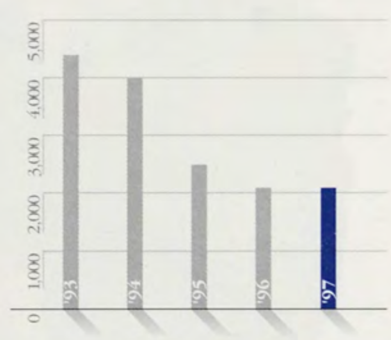
Northwest Airlines Corporation	*Year Ended December 31*		
(Dollars in millions, except per share data)	**1997**	*1996*	*Percent Change*
Financial			
Operating Revenues	**$ 10,225.8**	$ 9,880.5	3.5
Operating Expenses	**9,068.6**	8,826.7	2.7
Operating Income	**$ 1,157.2**	$ 1,053.8	9.8
Operating Margin	**11.3 %**	10.7 %	0.6 pts.
Net Income	**$ 596.5**	$ 536.1	11.3
Earnings Per Common Share			
Before Extraordinary Item:			
Basic	**$ 5.89**	$ 5.05	
Diluted	**$ 5.29**	$ 4.52	17.0
Number of Common Shares Outstanding	**97.0**	97.6	
Operating Statistics			
Scheduled Service:			
Available Seat Miles (ASM) (millions)	**96,963.6**	93,913.7	3.2
Revenue Passenger Miles (RPM) (millions)	**72,031.3**	68,639.1	4.9
Passenger Load Factor	**74.3 %**	73.1 %	1.2 pts.
Revenue Passengers (millions)	**54.7**	52.7	3.8
Revenue Yield Per Passenger Mile	**12.11 ¢**	12.53 ¢	(3.4)
Passenger Revenue Per Scheduled ASM	**9.00 ¢**	9.16 ¢	(1.7)
Cargo Ton Miles (millions)	**2,282.8**	2,215.8	3.0
Operating Revenue Per Total ASM (RASM)	**9.76 ¢**	9.85 ¢	(0.9)
Operating Expense Per Total ASM (CASM)	**8.63 ¢**	8.78 ¢	(1.7)



Net Income
$ millions



Return on Capital



Long-Term Debt
$ millions

To our Shareholders from the Chairman and the President & CEO

HUBS. ALLIANCES. NETWORKS. THESE ARE THE WORDS THAT SHAPED 1997 FOR NORTHWEST AIRLINES. OUR STRONG HUBS IN DETROIT, MINNEAPOLIS/ST. PAUL, MEMPHIS, TOKYO, OSAKA AND AMSTERDAM FORM THE HEART OF OUR SYSTEM, A SYSTEM THAT CARRIED MORE PEOPLE AND GOODS LAST YEAR THAN IN ANY OTHER IN OUR HISTORY. OUR STRATEGIC ALLIANCES WITH KLM ROYAL DUTCH AIRLINES, ALASKA AIRLINES AND NOW CONTINENTAL AIRLINES FORM A COMPLEMENTARY GLOBAL NETWORK WITH STRONG AND WELL MANAGED PARTNERS. OUR NETWORK IS WHAT WE OFFER TO OUR CUSTOMERS, A NETWORK WITH A GLOBAL WINGSPAN THAT NOW COVERS EVERY MAJOR TRAFFIC FLOW IN THE WORLD.

Gary L. Wilson
Chairman

John H. Dasburg
President and
Chief Executive Officer

Our vision in the 1990s has been to build a financially sound global airline that is preferred by our customers because we provide the most convenient and reliable air transportation network, with the best people. It is our view that strategic alliances are the best mechanism to create a global airline network in today's aero-political and economic environment.

To participate in the high growth international travel markets of the 21st century, an airline must be part of a global network. Such networks also diversify risks among various international regions. There will only be a few global airline networks as we pass the millennium and Northwest is the leader in creating these networks which provide security and growth opportunities for our employees and shareholders, and the employees and shareholders of our partners.

Together with KLM, we broke new ground in 1989 and pioneered alliance technology that has changed the face of the airline industry worldwide.

In 1992, The Netherlands became the first country to negotiate an Open Skies agreement with the U.S. Since then 25 countries have negotiated similar Open Skies agreements with the United States, opening markets and increasing world trade. Northwest and KLM in 1993 became the first carriers to be granted antitrust immunity by the U.S. government. This allows the two carriers to operate as one in realizing maximum benefits from the alliance. During the past five years we have increased revenues, reduced costs, and utilized capital assets more productively as we exploit the tremendous potential from our combined systems. This alliance has benefited consumers, our people, and the many communities we jointly serve around the world. In 1997, Northwest and KLM signed a permanent alliance agreement that will allow us to more fully integrate our operations with the security that flows from a permanent relationship. KLM has a memorandum of understanding with Alitalia that provides hubbing opportunities in Southern Europe and greater European scope that will benefit our network.

In January 1998, we concluded the first long-term alliance between two large domestic carriers. Continental and Northwest have complementary systems that give us the global coverage to compete effectively with American and United. Our domestic presence is enhanced by Continental's hubs in Newark, Houston and Cleveland. Internationally, Northwest covers Asia, Continental is a leader in Latin America, and together with KLM and Alitalia, we are a major competitive force across the North Atlantic into Europe, Africa, the Middle East, and South Asia.

Superior financial performance has allowed us to reduce long-term debt from \$4.4 billion in 1993 to \$2.1 billion in 1997. Concurrently, we have invested about \$2.75 billion principally in aircraft, product improvements, and advanced technology to serve our customers more productively. The high returns generated from our investments during the last several years will lead to sustained, predictable and consistent profit growth for the years ahead.

In addition, we invested in Northwest by purchasing 24 percent of our outstanding shares from KLM. Our liquidity was over $2 billion at year end.

The stock market has recognized Northwest's outstanding performance. Our shares have increased from the initial IPO price of $13 in 1994 to the high $50s presently. We are particularly gratified that the women and men of Northwest Airlines, who made an $855 million investment in their Company in 1993 for about 27 percent of its shares, have received superior returns on their investment. Those shares are now worth approximately $1.6 billion at a share price of $55. Every dollar of compensation invested in Northwest on a tax-deferred basis has produced an average 187 percent return for those people who have retained their shares.

Northwest has a solid strategic foundation and as a financially strong global airline, we must compete effectively with the other mega carriers. This means all Northwest stakeholders — employees, shareholders, suppliers, partners, and the communities we serve — must work together to be cost competitive and provide a high quality product to our customers. We are confident that all stakeholders will enthusiastically work as a team to build on our strong strategic foundation to provide growth and security for all of us.

In 1997, we celebrated 50 years of sustained service to and from Asia.

50 YEARS
BRIDGING *the* PACIFIC

As we look to the future, government intervention is one of the airline industry's major challenges in offering low-cost, efficient transportation to our customers. For every dollar Northwest receives from its U.S. passengers, approximately 15 cents is taken by the Federal government in transportation and fuel taxes.

No other industry — except tobacco — is subject to this tax burden. In "The Taxpayer Relief Act of 1997" Congress actually increased certain taxes by $28 billion. Our industry absorbed 14 percent of this increase. Tourism employs more people than any other industry and air transportation is the backbone of this business. As a presidential commission recommended in 1993, government should be reducing taxes on airlines, not increasing them.

"Building together the world's most preferred airline with the best people."

The new aviation agreement between the U.S. and Japan has secured Northwest's position in the Pacific. The original 1952 agreement had been periodically updated, most recently in 1989. Japan had been threatening to renounce the agreement for 20 years and even eliminate Northwest's rights to pick up passengers in Japan and fly beyond.

The new agreement appears to have ended all these threats and thus secures one of our important strategic assets. The U.S. has also received assurances from Japan confirming our slot portfolio at Japan's airports — the largest of any U.S. carrier — and our right to receive new slots as new airport capacity is added. In addition, the agreement actually improves our rights to operate beyond Japan with total flexibility, and allows us to build alliances serving Japan with carriers in the U.S. and in Asia. Northwest will have unlimited rights to operate between any point in the U.S. and any point in Japan, and will be the airline in the best position to operate single-carrier service, supplemented by alliances, linking all of the U.S. with all of Asia, via our hubs in Tokyo and Osaka.

Increased competition can be expected, but over the longer term, Asian traffic is expected to resume its strong rate of growth in an environment of constrained airport capacity in Japan. The new agreement will place Northwest in an advantageous position to serve these traffic flows.

Finally, in February, the distinguished airline industry publication, *Air Transport World* awarded its "1997 Airline of the Year" honor to the Northwest/KLM alliance and named our Airlink partner Mesaba Aviation the "Regional Airline of the Year."

These awards are fine recognition for the service that dedicated Northwest, KLM and Mesaba people deliver each and every day. These recognitions also challenge us to continuously improve our product and service for our customers. For the Northwest people who received this award — 50,000 strong — we pledge to work together to exceed your expectations when you travel our expanding network around the world.

Thank you for your interest and support.

Sincerely,

Gary L. Wilson

Gary L. Wilson
Chairman

John H. Dasburg

John H. Dasburg
President and Chief Executive Officer

Building Together...

IN JANUARY 1998, NORTHWEST AIRLINES RECEIVED THE FIRST OF 20 AIRBUS A320S ORDERED IN 1996. THESE TWIN-ENGINE, 150-SEAT AIRCRAFT WILL BE USED PRIMARILY ON NORTH AMERICAN ROUTES. IN 1997, NORTHWEST AGREED TO PURCHASE 50 AIRBUS A319S WITH OPTIONS ON UP TO 100 MORE. THE A319S ARE TWIN-ENGINE, 125-SEAT AIRCRAFT THAT ARE VIRTUALLY IDENTICAL TO THE A320S ALREADY IN THE FLEET AND BOTH OFFER THE WIDEST PASSENGER CABIN OF ANY SINGLE-AISLE AIRCRAFT. DELIVERIES UNDER THIS AGREEMENT ARE SCHEDULED TO BEGIN IN 1999.

Northwest made commitments during 1997 to invest $2.6 billion in fleet upgrades, facility improvements and new technologies — investments that will enhance service and convenience for travelers while improving productivity and containing costs.

A FLEET TO FIT NORTHWEST'S UNIQUE REQUIREMENTS

Northwest's global route structure emphasizes hub-and-spoke flying on routes as long as Minneapolis-Hong Kong and as short as Detroit-Lansing and encompasses more than 1,700 departures daily. To deploy the best possible mix of aircraft types for this operating environment, Northwest makes fleet planning decisions based on thorough analysis of market requirements, aircraft operating economics, capital costs and environmental concerns such as noise abatement. All this is done in order to satisfy our customers and create positive shareholder value.

Northwest increased its fleet overall by six aircraft during 1997. Additions included two Boeing 747-200s, three DC10-30s and six DC9-30s. At year end, the operating fleet included 405 aircraft.

During 1997, Northwest completed the project to refurbish 113 DC9-30 aircraft, upgrading them to the DC9-2000 configuration in which everything the customer sees is new. A similar refurbishing of DC9-40s, DC9-50s and DC9-10s will be completed in 1998.

358 aircraft in the 1993 Northwest fleet.

405

aircraft comprise the 1997 Northwest fleet.

Independent evaluations of the DC9 airframe confirm that it is one of the best constructed passenger aircraft ever built. Before the refurbishing commitment was made, Northwest engineers and independent consultants confirmed that these aircraft are safe for many years of additional flying life.

Northwest is also on schedule to complete hushkitting DC9s and Boeing 727s to comply with Stage 3 noise requirements. At year end, 90 aircraft had been hushkitted.

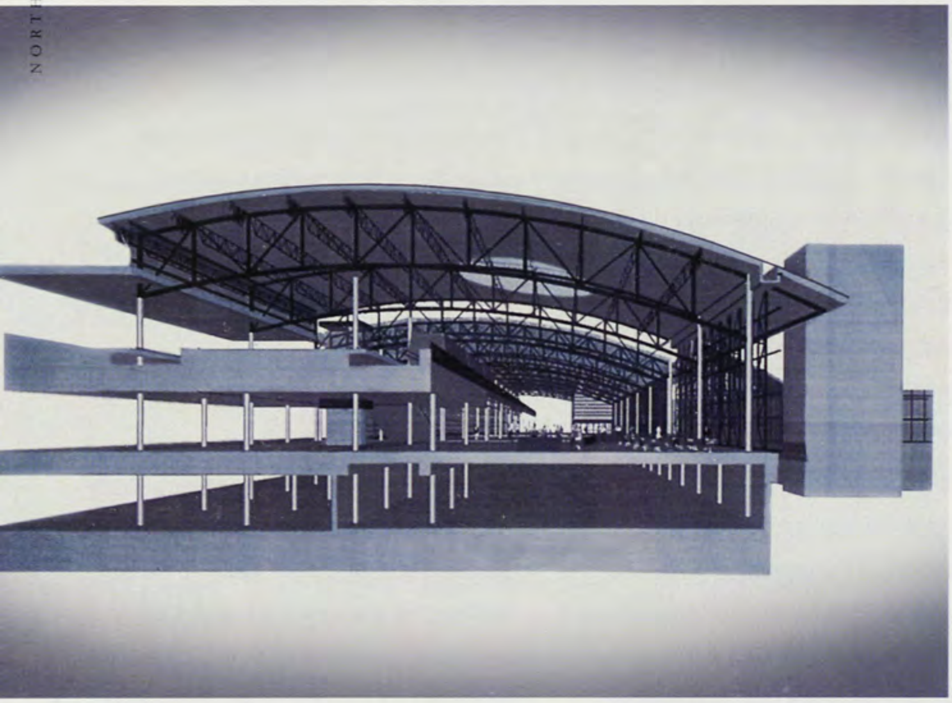
In addition, the airline is currently upgrading the interiors of all wide body aircraft in the international fleet. This $126 million project is expected to be complete in 2002.

In connection with this project, Northwest will take delivery of a new Boeing 747-400 in the spring of 1999, four years earlier than initially planned under a firm order with Boeing for four 747-400s. The earlier delivery of the new 747-400 will provide Northwest with added flexibility in managing the widebody upgrade and refurbishment project.

113

DC9-30 aircraft had been completely refurbished by 1997.

THE MIDFIELD TERMINAL COMPLEX, BEING JOINTLY DEVELOPED BY NORTHWEST AIRLINES AND WAYNE COUNTY, MICHIGAN, IS SCHEDULED TO OPEN IN 2001 AND IS EXPECTED TO ACCOMMODATE GROWTH IN NORTHWEST'S SERVICE THROUGH DETROIT FOR THE NEXT 30 YEARS.



74

new gates coming in Detroit's Midfield Terminal complex.

During 1997, Northwest completed improvements to passenger and cargo facilities that will significantly enhance customer service.

FACILITIES GROW TO MEET OPERATING NEEDS

In Detroit, Northwest's busiest hub, the airline opened a new international departures facility in September. This 17,000-square-foot addition to the Davey Terminal permits passengers for Northwest's 29 daily international Detroit departures to proceed directly from 24 new check-in positions to Northwest's WorldClubs,[SM] duty-free shopping areas or the F Concourse, from which 90 percent of Northwest's international flights depart. The F Concourse WorldClub will be significantly expanded in 1998 to accommodate more international World Business Class and First Class passengers traveling via Detroit.

Northwest also completed a 210-foot moving walkway linking the C and D Concourses and added six gates to Concourse C. These improvements are part of a $60 million investment Northwest is making to enhance comfort and convenience for passengers traveling via Detroit while construction of a new Midfield Terminal is in progress.

Northwest is managing the design and construction of the new $960 million Midfield Terminal, which will provide the airline with more than 70 gates compared to the 60 Northwest gates in the present Davey Terminal.

New international departures facility in Detroit.

The design phase of the terminal's construction is scheduled to be completed by the end of 1998.

The Minneapolis/St. Paul International Airport moved up in customer satisfaction rankings compiled by PLOG Research as Northwest, the Metropolitan Airports Commission and an independent janitorial services contractor worked together to improve cleanliness, convenience and comfort at the hub.

In addition, all gates for flights operated by Northwest Airlink partner Mesaba Aviation have been brought together in an expanded Regional Airline Terminal. This new facility and improved shuttle services help make connections to Airlink flights easier and more convenient. Bringing all the Airlink flights together in one location also makes servicing the flights more efficient.

Luggage-handling systems at Detroit have been improved to accommodate the growth in passenger traffic.

To improve service for its cargo customers, Northwest, one of the world's largest air freight carriers, is investing in new facilities at New York's John F. Kennedy International Airport and in Anchorage, Alaska. In New York, a new, highly automated facility will enable Northwest Cargo to handle 110 million import and export pounds annually. The new facility is scheduled to be completed in the fall of 1998.

In Anchorage, Northwest has completed facilities improvements that will create a "cargo hub" where freight inbound from Asia can be cross-loaded for delivery to various points in the United States. Northwest's eight 747 freighters stop in Anchorage as part of their normal flight schedules. Creation of the cross-load operation there allows Northwest more options in the use of Tokyo landing slots for freighters or passenger flights.

$5 million is committed in 1998 to refurbish customer contact areas in Detroit, Minneapolis/St. Paul and Memphis.

CUSTOMERS EMBRACE NEW SYSTEMS AND TECHNOLOGY; AND NEW TOOLS REDUCE NORTHWEST'S DISTRIBUTION COSTS

Northwest Airlines continues to harness new technology to improve customer convenience and lower sales and distribution costs.

During 1997, Northwest became the first major airline to deploy compact self-service kiosks to enhance its electronic ticketing services. These Electronic Service Centers enable E-Ticket℠ customers to obtain boarding passes, make current-day flight or seat changes, obtain WorldPerks® Gold upgrades and, at some kiosks, check their own bags — all from one easy-to-use touch screen. Electronic Service Centers have been installed at the Detroit, Minneapolis/St. Paul and Memphis hubs and also at the Chicago/O'Hare, Milwaukee, San Francisco and Seattle/Tacoma airports. Plans call for Electronic Service Centers to be installed in an additional 12 cities in 1998, to support the rapid growth of electronic ticketing, which is approaching 40 percent of domestic customers.

Northwest also continues to enhance the capabilities of its award-winning web site (www.nwa.com) by adding new features to provide convenient, efficient travel content including online booking and electronic ticketing — and great deals for travelers. Since June 1996, highly discounted CyberSaver℠ fares have been a popular web site destination for bargain hunters. Since March 1997, Northwest has sold more than 100,000 tickets online.

Northwest's WorldPerks Gold and International Gold Elite customers are now greeted by name when they call the Northwest Goldline for reservations and information.

46

Electronic Service Centers were installed in 1997.

22%

average monthly increase in tickets purchased online during 1997.

www.nwa.com

THE INDUSTRY-LEADING TRAVEL PLANNING FEATURES OF THE NORTHWEST AIRLINES' WEB SITE WERE RECOGNIZED IN 1997 BY *INTERNET WORLD* MAGAZINE, *INSIDE FLYER INTERNATIONAL* MAGAZINE, *WEBFLYER* MAGAZINE, *TWIN CITIES BUSINESS MONTHLY* AND BY HOSPITALITY SALES AND MARKETING ASSOCIATION INTERNATIONAL.

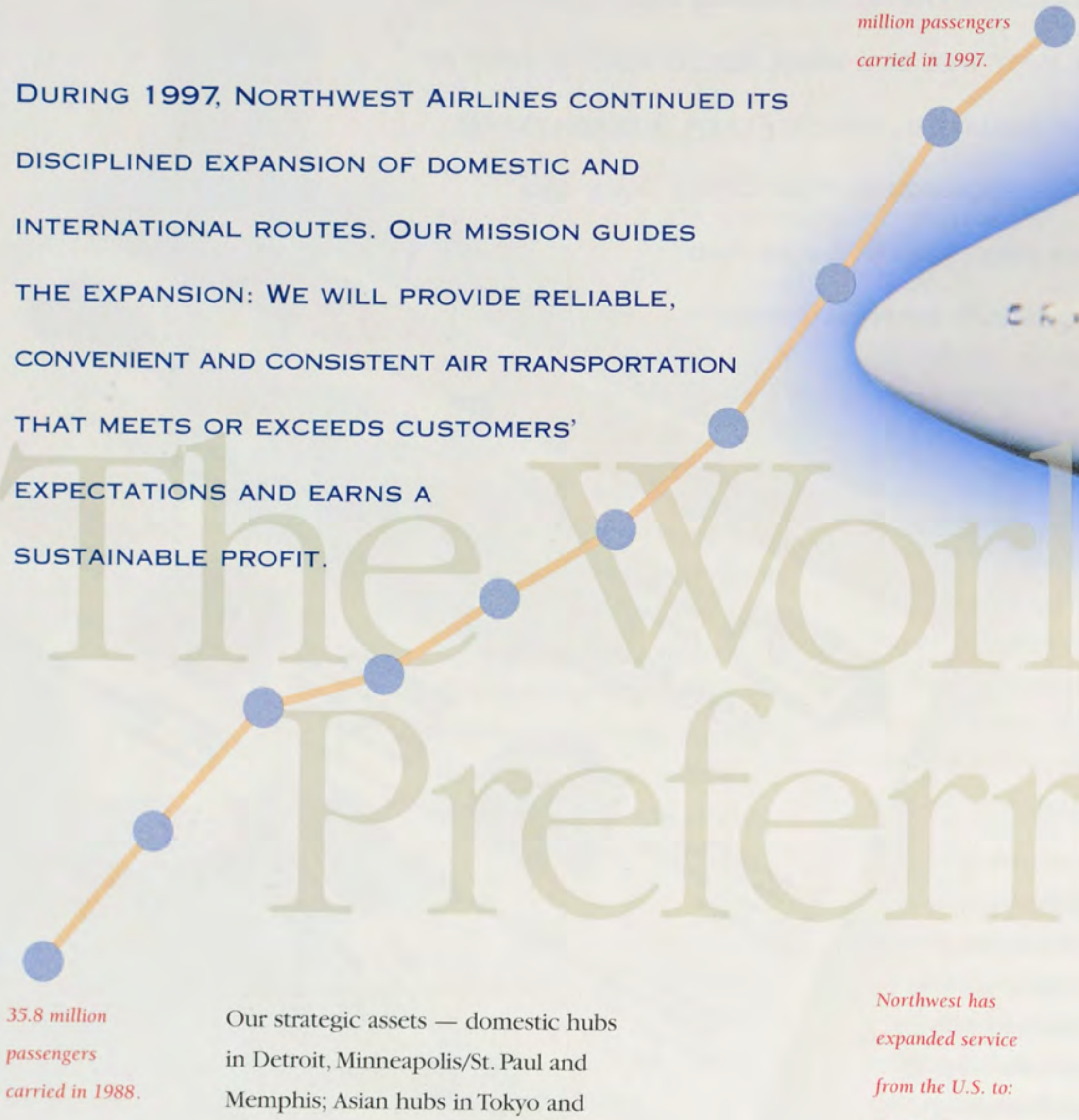
Unique call center technology that integrates telecommunications capabilities with a computer database enables Northwest to handle calls from these most profitable customers more personally and efficiently, eliminating the need for customers to repeat information already provided to an agent if a call is transferred.

Web-based technology is also benefiting other functions at Northwest. Caterers serving Northwest aircraft can use the web to identify menu specifications at a savings to Northwest of an estimated $2 million annually.

Throughout Northwest, new technology and systems are being applied to a wide range of operations. At gates serving international flights, new automated boarding control devices, more commonly called "gate readers," help cut boarding times by as much as 30 percent.

In aircraft maintenance, a newly implemented Aircraft Maintenance Information and Task System provides maintenance mechanics with better detail, including technical illustrations, to assign and track maintenance projects. Northwest is also the first commercial airline to use a remote control visual inspection system that can peer inside aircraft engines and transmit to Northwest technical staff and consulting engineers high resolution color images that enhance the efficiency and quality of engine safety inspections.

During 1997, Northwest completed installation of its ResNet℠ reservations sales system at all domestic reservations centers. This microcomputer-based system helps reservations sales agents focus on quickly fulfilling customer requests for flight information and leads agents through the booking process in a manner that helps increase sales of direct tickets. An audit completed in early 1997 confirmed that ResNet is helping Northwest increase revenue and productivity, improve customer service and reduce training costs.



DURING 1997, NORTHWEST AIRLINES CONTINUED ITS DISCIPLINED EXPANSION OF DOMESTIC AND INTERNATIONAL ROUTES. OUR MISSION GUIDES THE EXPANSION: WE WILL PROVIDE RELIABLE, CONVENIENT AND CONSISTENT AIR TRANSPORTATION THAT MEETS OR EXCEEDS CUSTOMERS' EXPECTATIONS AND EARNS A SUSTAINABLE PROFIT.

The World's Most Preferred Airline...

Northwest invited children from around the globe to create dramatic art depicting their home towns. The art was applied to WorldPlane, a 747-400 aircraft, to commemorate the 50th anniversary of Asian service.

Our strategic assets — domestic hubs in Detroit, Minneapolis/St. Paul and Memphis; Asian hubs in Tokyo and Osaka; and a European hub in Amsterdam — are the cornerstones for expansion of the airline's global route system. The creation of positive shareholder value results from the growth of these strong assets.

Northwest has expanded service from the U.S. to:

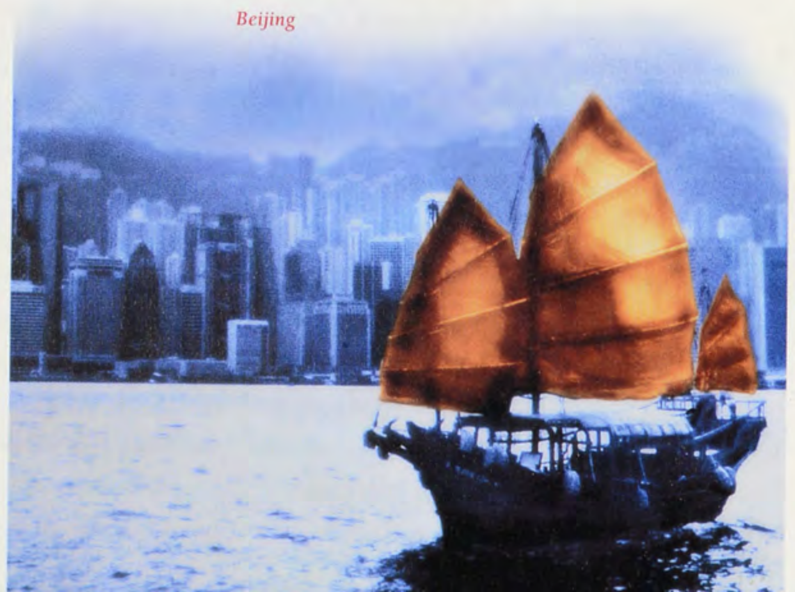
Hong Kong

Osaka

Tokyo

Amsterdam

Beijing



NEW FLYING BUILDS ON STRONG HUBS

The Detroit hub is the airline's key gateway to Asia and Europe. During 1997, Northwest increased Detroit-Tokyo service to twice daily and expanded Detroit-Amsterdam service. New North American destinations served from Detroit include Reno, Nevada; San Jose, California; and New York's JFK International Airport.

Minneapolis/St. Paul also offered expanded service to Asia and Europe during 1997, thanks to a runway extension that permits fully loaded widebody aircraft to depart Minneapolis/St. Paul for Tokyo. In October, Northwest inaugurated service on the longest commercial flight operated by any airline on a year-round basis: Minneapolis/St. Paul-Hong Kong three times a week.

Northwest also began daily flights between Minneapolis/St. Paul and Osaka, and expanded Minneapolis/St. Paul-Tokyo service from three times weekly to daily. Minneapolis/St. Paul is one of only three mainland U.S. cities with year-round, nonstop service to Tokyo, Hong Kong and Osaka — the three largest air traffic markets in Asia.

In addition to expanded service to Asia, Northwest also increased Minneapolis/St. Paul-Amsterdam service to twice daily during peak travel season and inaugurated Minneapolis/St. Paul-Toronto service. Studies cited by the Minnesota Department of Trade and Economic Development estimate that the direct and indirect economic benefits of these international routes for the host region total in the tens of millions of dollars annually.

Memphis remains the foundation for Northwest's presence in the southern United States, as well as a European gateway through Northwest's alliance with KLM. During 1997, Northwest began offering service to Jackson, Mississippi and daily seasonal nonstop service to Portland, Oregon from its Memphis hub.

At Osaka's Kansai airport in Japan, Northwest has continued to build its presence. Weekly departures from Osaka have increased since 1994 from 18 to 56. Osaka-Seattle service was increased to daily in 1997 and Osaka-Minneapolis/St. Paul service was inaugurated.

Tokyo (Narita)-Anchorage service will cater to Japanese leisure travelers when Northwest begins seasonal nonstop service in June 1998. This service will operate once weekly through September. In addition, Northwest will begin offering service between Los Angeles and Las Vegas, thus providing a convenient connection for Japanese passengers through Los Angeles to and from Osaka and Tokyo.

ON SEPTEMBER 29, 1997, NORTHWEST AIRLINES AND KLM ROYAL DUTCH AIRLINES SEALED A NEW ALLIANCE. TOGETHER, THE PRESIDENTS OF THE TWO AIRLINES, KLM'S LEO VAN WIJK AND NORTHWEST'S JOHN DASBURG ANNOUNCED THAT THE TWO COMPANIES HAD FORMED A GLOBAL JOINT VENTURE UNLIKE ANYTHING THE WORLD HAD SEEN BEFORE.

EXPANDING A PIONEERING GLOBAL ALLIANCE

The Northwest/KLM alliance was already the oldest airline alliance in the world, benefiting from antitrust immunity and an Open Skies agreement. While many airlines share flight codes, Northwest/KLM is the most deeply integrated, coordinating schedules, pricing and capacity under an Open Skies agreement between the United States and The Netherlands.

The enhanced global joint-venture agreement offers a level of seamless service that other airline alliances are only beginning to approach, with convenient connections and a single, fully-coordinated seat inventory between 266 cities in North America and 132 cities in Europe, the Middle East and Africa.

Under terms of the expanded joint-venture agreement, Northwest and KLM will link trans-Atlantic routes and service between Amsterdam and India with services between Europe, Canada and Mexico. In addition, Northwest and KLM plan to more closely synchronize inventory management, passenger processing, computer reservation systems, information systems, joint purchasing and their respective frequent flyer programs.

Air Transport World magazine named the Northwest/KLM alliance the "1997 Airline of the Year."

The agreement will also further streamline joint sales and marketing activities, improve operating productivity, broaden cooperation in Asia and deepen integration of the carriers' respective cargo operations which, when combined, represent the world's second largest air cargo carrier. Northwest will coordinate all KLM operational and marketing and sales activities in the U.S. KLM will do the same for Northwest in Europe, the Middle East, India and Africa.

In recognition of this premier global airline alliance, *Air Transport World* magazine named Northwest and KLM the "1997 Airline of the Year." The alliance is expected to produce more than $2 billion in total revenue in 1998.

Amsterdam's Schiphol Airport consistently rates as one of the best in the world. Serving as Northwest's European hub, these ratings are a strategic advantage.

NEW ALLIANCE FLYING

AMS

Amsterdam-India service began in October and illustrates the convenience offered through the global alliance. Independently, each carrier could offer only less-than-daily service to either of India's two largest cities, Delhi and Mumbai. Together, with Northwest operating service to these cities on the days KLM does not, the joint venture provides flights to both destinations every day.

Northwest and KLM also began offering daily Newark-Amsterdam service during 1997, increased Minneapolis/St. Paul-Amsterdam service to twice daily, and added a third daily Detroit-Amsterdam flight during the peak summer travel season. Atlanta-Amsterdam service was increased to daily and Los Angeles-Amsterdam flights increased from seven to nine weekly for peak travel periods. In 1998, Northwest and KLM will begin daily Seattle-Amsterdam and Philadelphia-Amsterdam service.

The Northwest/KLM alliance provides daily service to India's two largest cities: Mumbai and Delhi.

Strategic alliances and marketing affiliations throughout the world enable Northwest and KLM to increase convenience and provide 60,000 code-share service flights per month.

NORTHWEST AIRLINES: THE ALLIANCE EXPERTS

Toledo, Ohio and Dusseldorf, Germany are two of the 400 cities conveniently connected by Northwest Airlines and its 18 partner airlines. Through the Detroit and Amsterdam hubs, travelers can make the trip in less than 11 hours via Mesaba Aviation, Northwest/KLM and Eurowings, all with one phone call or web site visit to Northwest, one ticket and one luggage check-in. Each segment of the trip earns Northwest WorldPerks® miles.

Northwest and KLM have written the book on airline alliances. When *Air Transport World* named the "1997 Airline of the Year" the magazine noted, "Northwest and KLM have transformed the very structure of the airline industry through their successful alliance." The same respected publication named Mesaba the "Regional Airline of the Year" for its outstanding service as an exclusive Northwest Airlink partner.

Our new agreement with Continental Airlines will result in a domestic partnership as large as any other U.S. carrier. Continental's hubs in Newark, Houston and Cleveland fit well with Northwest's hubs and Continental's service to Latin America complements Northwest's strength in the Asian market.

Alaska Airlines and Horizon Air are among Northwest's largest U.S. partners. Together, we served well over one-half million passengers in 1997, when Alaska Airlines was honored — for the seventh consecutive year — 1st or 2nd most preferred U.S. carrier by *Conde Nast* magazine.

Our seven-year partnership with America West links their Las Vegas and Phoenix hubs with Northwest's California gateways and Asia. This efficient, quality service is utilized by nearly a quarter of a million passengers each year.

In addition, Northwest's developing alliance with Hawaiian Airlines provides convenient links to the neighbor islands for Northwest flights between Honolulu and both Japan and the U.S. mainland. Northwest, as Honolulu's largest major airline, provides this link with Hawaiian Airlines, Honolulu's largest regional airline.

The stars represent the scope of Northwest alliance partners and marketing affiliates:

Alaska Airlines
Pacific Northwest & Alaska

America West Airlines
Las Vegas & Phoenix

Braathens SAFE
Norway & Scandinavia

Business Express Airlines
Boston & New England

Continental Airlines
North & South America, Europe

Eurowings
Germany

Express I Airlines
Memphis

Garuda Indonesia
Indonesia

Hawaiian Airlines
The Hawaiian Islands

Horizon Air
Pacific Northwest

Japan Air System
Osaka & Japan

Jet Airways Private Ltd.
India

KLM UK
United Kingdom

KLM Royal Dutch Airlines
Europe, Middle East & Africa

Mesaba Aviation
Minneapolis/St. Paul & Detroit

Midwest Express Airlines
Milwaukee

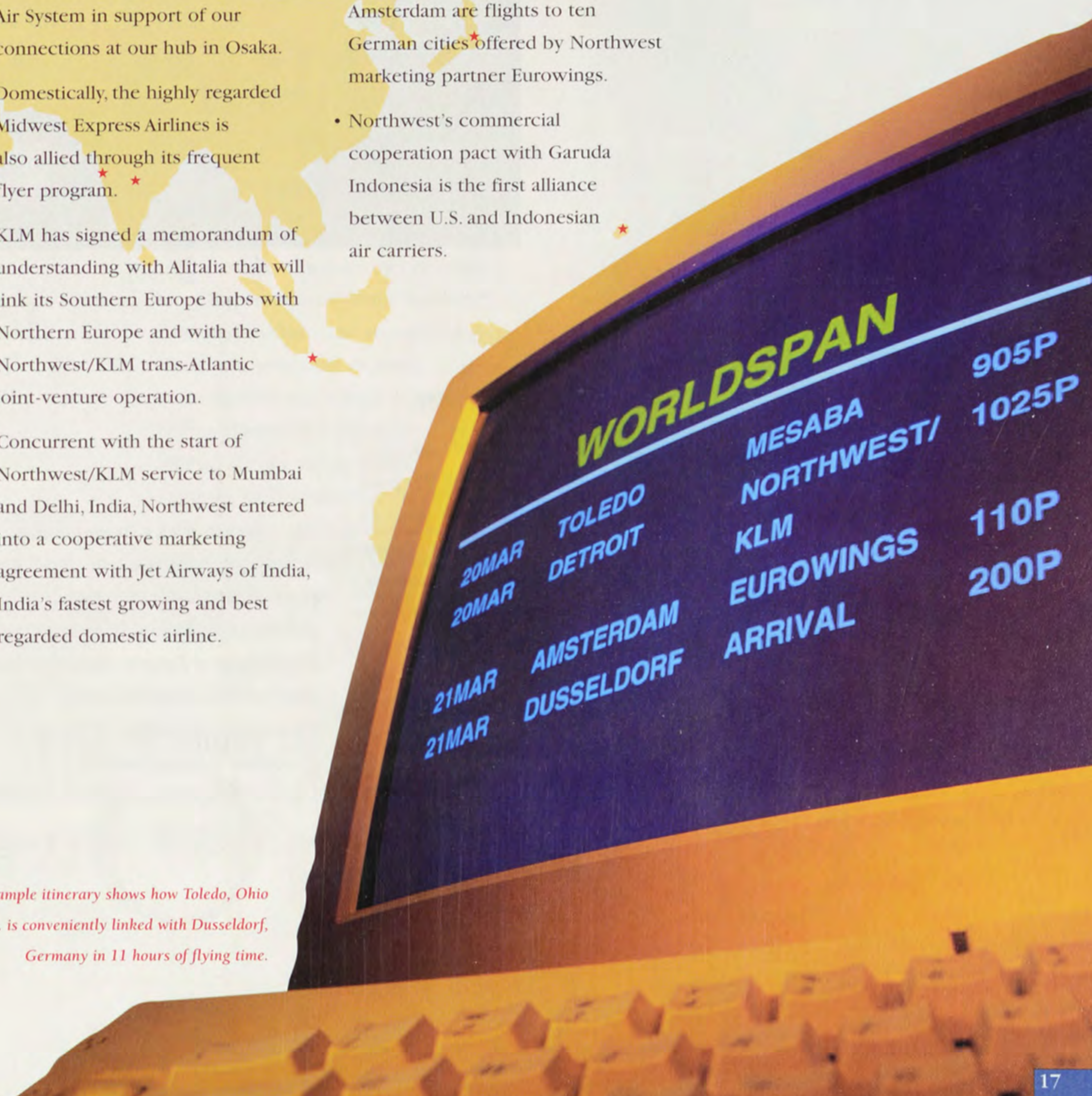
Pacific Island Aviation
Saipan & Guam

Trans States Airlines
California

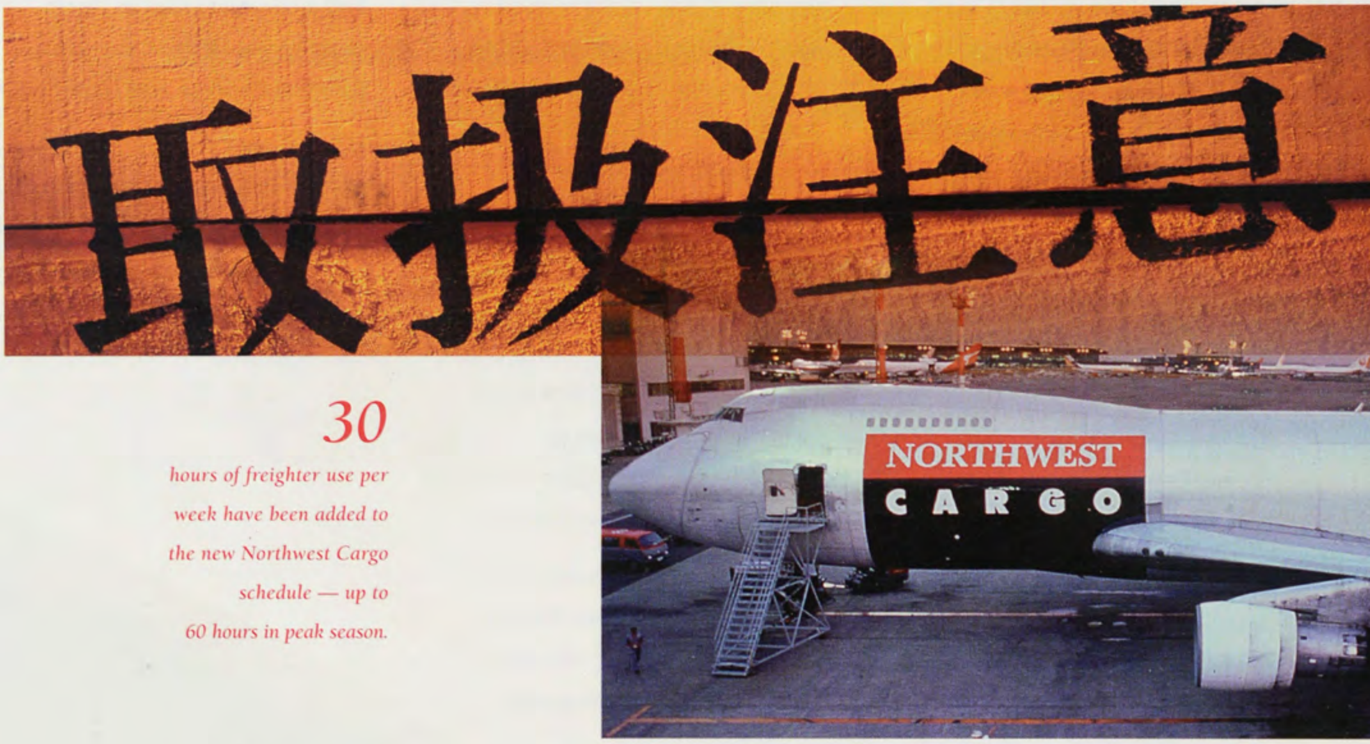
The arrangements summarized here extend the airline's global scope to serve more customer travel needs and increase access to Northwest's own worldwide route system while minimizing the investment and risk associated with network expansion. Together, Northwest and KLM, and their 29 respective airline partners operate 60,000 code-share flights per month.

- During 1997, Northwest signed a frequent flyer agreement with Japan Air System in support of our connections at our hub in Osaka.
- Domestically, the highly regarded Midwest Express Airlines is also allied through its frequent flyer program.
- KLM has signed a memorandum of understanding with Alitalia that will link its Southern Europe hubs with Northern Europe and with the Northwest/KLM trans-Atlantic joint-venture operation.
- Concurrent with the start of Northwest/KLM service to Mumbai and Delhi, India, Northwest entered into a cooperative marketing agreement with Jet Airways of India, India's fastest growing and best regarded domestic airline.
- In Europe, Northwest has established a new cooperation agreement with Braathens SAFE, Norway's largest regional airline, offering connections through Amsterdam to destinations throughout Scandinavia.
- Through an existing relationship with KLM UK (formerly Air UK), Northwest provides connections through Amsterdam to 14 European cities. Also connecting through Amsterdam are flights to ten German cities offered by Northwest marketing partner Eurowings.
- Northwest's commercial cooperation pact with Garuda Indonesia is the first alliance between U.S. and Indonesian air carriers.
- Northwest's Airlink relationships extend the airline's reach to nearly 150 additional cities in North America via Mesaba, Express I, Business Express, and Trans States.

It is Northwest's intent to create a highly integrated global air transportation network that services virtually all the travel needs of our customers and maximizes the value of our franchise for our shareholders.



This sample itinerary shows how Toledo, Ohio U.S.A. is conveniently linked with Dusseldorf, Germany in 11 hours of flying time.



30

hours of freighter use per week have been added to the new Northwest Cargo schedule — up to 60 hours in peak season.

NEW "BONSAI" SCHEDULE IMPROVES EFFICIENCY, ENHANCES CARGO SERVICE

Northwest Cargo, in 1997, added trans-Pacific flying during the peak air freight shipping season through implementation of the most extensive change to its freighter schedule in ten years. Overall, the new Northwest Cargo schedule increases peak season flying time by 10.5 percent and was a key factor in Cargo's record 1997 revenues of $790 million, a 5.7 percent increase over 1996. The more efficient Bonsai schedule was achieved by pruning domestic stops less integral to Cargo's operations and customer requirements while improving connections with all important U.S. destinations.

CARGO

MLT

PRIVATE-LABEL VACATION PROGRAMS FOR LEISURE TRAVELERS

MLT Inc., a wholly-owned indirect subsidiary of Northwest Airlines Corporation, develops and markets vacation programs that include air transportation and land arrangements. In addition to offering a competitive vacation product, Northwest benefits from the revenues gained by these air/land sales. These programs are used to increase the sale of Northwest services, offer a competitive tour product and promote new Northwest destinations.

MLT Inc. offers two distinct product lines. The Northwest WorldVacations℠ product combines the strength of Northwest's worldwide route network with MLT's land service buying power. MLT Vacations offers charter service to Las Vegas, Orlando, Mexico and the Caribbean for value-conscious customers from nine U.S. origin markets, including Minneapolis/St. Paul, Detroit and Dallas/Ft. Worth.

Due to a favorable currency exchange, WorldVacations destinations, such as Bangkok, are in more demand than ever before.

MLT Inc. is among the top vacation wholesale companies in the U.S., serving more than 800,000 customers in 1997.

With The Best People

THE SUCCESS OF A SERVICE BUSINESS SUCH AS AIR TRANSPORTATION RESTS ULTIMATELY ON THE ACTIONS OF ITS PEOPLE. THAT'S WHY NORTHWEST AIRLINES STRIVES TO CREATE AN ENVIRONMENT SHAPED BY WELL UNDERSTOOD VALUES AND GUIDING PRINCIPLES, IN WHICH PEOPLE KNOW HOW THEY INDIVIDUALLY AND COLLECTIVELY CONTRIBUTE TO PROVIDING THE SAFE, RELIABLE AND CONSISTENT SERVICE THAT FOSTERS PROFITABLE GROWTH.

50,000 people now comprise Northwest Airlines.

44,000 Northwest people in 1993.

Northwest's guiding principles help define the characteristics of the company's growing workforce. The President's Award winners profiled in these pages show how these principles come to life in the workplace.

NEVER COMPROMISE SAFETY

Northwest Aerospace Training Corporation (NATCO), a wholly-owned indirect subsidiary of Northwest Airlines Corporation, is an acknowledged world leader in air travel safety training for pilots, flight crews, ground services and support personnel and systems operations control professionals. In a demonstration of its leadership in safety training, NATCO became the first large jet training facility to become certified under new Federal Air Regulation (FAR) Part 142. This certification enables NATCO to provide airlines and jet operators with a complete package of pilot training services as required by the U.S. Federal Aviation Administration (FAA).

14 major airlines in Asia contract for training services through NATCO.

In 1997, NATCO provided training for 106 airlines, operators and government agencies worldwide. NATCO currently has relationships with 14 major airlines in Asia to provide various training services. NATCO is also training dispatchers in China's Civil Aviation Administration to ensure that they are working within standards established by Northwest and other international carriers.

During 1997, more than 3,100 Northwest line and hangar mechanics began participating in Northwest's human factors training. The training emphasizes teamwork, open communication, workplace discipline and situational awareness to reduce human error. Northwest instituted human factors training before it became mandated by the FAA. The airline has previously provided human factors training to its flight crews and systems operation center personnel.

Northwest Airlines 1997 President's Award Honorees

Each year Northwest bestows its highest honor — the President's Award — on a select number of outstanding achievers.

In 1997, ten Northwest people received the prestigious award, which is given to Northwest people who epitomize Northwest's values and guiding principles, and who have made a significant contribution to achieving the airline's mission. The ten people selected in 1997 follow:

Brian Anderson

Equipment Service Employee and Certified Ramp Instructor, Boston

Brian Anderson's expertise in the field of de-icing has earned him international recognition and Northwest acclaim as a leader in this crucial procedure. He co-authored the airline's de-icing training manual and the high-wind standard operating procedures that have been adopted as the company standard. Brian travels throughout the Northwest system, teaching other instructors in the best and safest methods of ramp operations.

Jacqueline Astleford

Account Manager-Information Services Business Results, Minneapolis/St. Paul

Jackie Astleford is responsible for 126 distinct projects to maintain and improve the WORLDSPAN central reservations system. Jackie's commitment to excellence has been critical to projects such as E-Ticket, Electronic Service Centers, ResNet and the online reservations product. As the leader of a strong and close team, Jackie has instilled dedication in the people with whom she works.

Northwest Airlines finished second among major global airlines in Fortune *magazine's first ever survey of the world's most admired companies.*

3,100

mechanics participated in human factors training in 1997.

ALWAYS EMPHASIZE CLEANLINESS

Northwest's concerted effort in 1996 to improve overnight interior cleaning of its aircraft was rewarded with a significant improvement in customer cleanliness ratings in 1997, according to an independent survey. Encouraged by the progress, and recognizing that customers associate cleanliness with operational integrity, Northwest embarked on a major initiative to further improve cleanliness in customer service areas and other "back room" areas in 1997.

In addition to aircraft cleaning goals, standards for facility cleaning were strengthened in 1997. Northwest established a cleanliness department and initiated self and third-party audits to measure progress. At year end both the domestic and international systems were meeting most of their cleanliness goals.

At Tokyo's Narita airport, Northwest employees instituted a "one minute to cleanliness" program under which they take a minute to clean up their work areas before starting work each day. At stations systemwide, Northwest is testing new processes and equipment for cleaning aircraft between flights more thoroughly without adding ground time.

ALWAYS PUT CUSTOMERS FIRST

The C Concourse at Detroit's Metro Airport is the busiest concourse at Northwest's busiest hub. Operations there affect customer service for thousands of Northwest passengers daily. Northwest people from customer

11,138

flight attendants received initial or recurrent training in 1997.

service, maintenance and parts, fleet service, and ramp areas worked together with representatives of the International Association of Machinists to improve operations and ensure on-time departures. Dubbed "Vitamin C," these collective efforts reduced ramp, fleet service, maintenance and passenger service delays, not only improving customer service but also saving thousands of dollars in delay-related costs. Many of the ideas tested during the Vitamin C initiative remain in place and continue to improve service.

To be the preferred carrier in the Pacific, Northwest continues to enhance the appeal of its service to Asian customers. Key to this effort has been increasing the number of multi-lingual personnel in front-line customer contact positions. Northwest is increasing the number of Japanese-speaking flight attendants, inflight service representatives and quality service assistants dedicated to serving in-transit passengers and during the year also graduated its first class of flight attendants recruited from China.

Northwest also was the first U.S. airline to launch a Japanese-language web site and operates a special toll-free reservations number to handle the needs of Japanese customers. The airline continues to adjust inflight services to accommodate the preferences of Japanese travelers in everything from cabin design and reading materials to food and beverage selections.

Sher Stramer

Flight Attendant, Minneapolis/ St. Paul

Sher Stramer has amassed an outstanding service record during her 18 years with Northwest. In 1997, she found a unique new way to serve. Sher played a pivotal role in the organization and implementation of the Northwest AirCares Habitat for Humanity project in the Twin Cities. The effort resulted in the construction of a Habitat home in St. Paul last August with the exclusive use of Northwest employees as the builders.

Michael Barnett

Systems Engineer-Technical Operations, Atlanta Base

Mike Barnett excels at tackling tough systems problems, staying with an aircraft for several days to personally direct maintenance troubleshooting. In one particular instance, Mike hand-carried samples to a lab in St. Louis for testing, but there wasn't a motel room within 40 miles. Mike slept in the back seat of his rental car until the test was completed so that he could make the correct engineering decisions based on the results.

Carl Bolenbaugh

Reservations Sales Agent, Los Angeles

Carl Bolenbaugh is affectionately known as "Mr. Northwest" among his peers and his community. Because of his genuine approach with travel agents and passengers, his 1997 revenues set an all-time record for sales by a single agent. Carl also assists fellow agents in learning his customer service skills and techniques.

Jon Austin

Managing Director-Corporate Communications, Minneapolis/ St. Paul

Jon Austin's tenacious defense of the airline against the allegations of WCCO television scored a stunning victory before the Minnesota News Council. Austin played a key role on the team that presented the case to the News Council. Last June, the Public Relations Society of America bestowed one of its highest honors, the Silver Anvil of Excellence, for the work Austin led in maintaining public trust.

Promoting and hiring the right people for the right jobs is an ongoing priority. In 1997, Northwest human resources developed enhanced methods to assess the strengths that job candidates offer.

As Northwest accelerates deliveries of new aircraft, the maintenance department is keeping a watchful eye out for defective components covered by manufacturers' warranties. This important initiative delivered approximately $75 million in cost-savings in 1997.

$75 million

in cost-savings was achieved by technical operations' improved tracking of components covered by manufacturers' warranties.

ALWAYS SUPPORT AND INSPIRE EACH OTHER

Keeping customers satisfied is a daunting challenge in an industry in which weather and air traffic are only two of many uncontrollable factors that can erode service quality. Northwest Airlines strives to foster a strong sense of shared goals among its people to help sustain the effort required to meet the daily challenges in this demanding environment.

In one example of how Northwest people support and inspire each other, more than 1,000 Detroit-area Northwest employees gathered last spring for a "Spirit of Success" open house and reception intended to recognize employees for their efforts during a particularly tough winter in 1996-1997 and to launch several initiatives designed to improve teamwork during the upcoming summer travel season and its heavy traffic. A committee of 15 Detroit customer service employees led efforts to identify ways to improve customer satisfaction while also making Detroit a better place to work.

ALWAYS STRIVE TO IMPROVE

An ever-widening array of training and development is being offered to Northwest people to help them sharpen their skills. The Professional Growth Program provided course-work for about 40 percent of the airline's salaried employees in 1997.

NORTHWEST AIRCARES: A CHARITABLE ASSISTANCE PROGRAM UNIQUE IN THE INDUSTRY

Northwest AirCares, a charitable and community support program, takes advantage of unique Northwest assets to help improve the lives and communities of the people Northwest serves.

Northwest AirCares raised more than $750,000 and 500 Fly-Write free travel certificates in 1997, culminating five years of assistance for charitable organizations.

Since 1992, Northwest AirCares has partnered with more than 20 non-profit organizations for three-month programs to promote their respective missions and services.

In 1997, Northwest AirCares charity partners included the Children's Diabetes Foundation, Operation Smile, the Red River Valley flood relief efforts of the Red Cross and Salvation Army and the National Marrow Donor Program.

Record flooding this spring drove thousands from their homes in Minnesota and North Dakota. Northwest responded by airlifting more than 220,000 pounds of relief supplies to Grand Forks, North Dakota and shuttling more than 1,500 volunteers from the Minneapolis/St. Paul area to Grand Forks to assist with flood clean-up over three weekends. A Northwest-sponsored FloodAid concert raised funds for the Red Cross and Salvation Army for the ongoing rebuilding effort.

The Northwest AirCares Program earned a 1997 "Quality of Life Award" from the Minneapolis Chamber of Commerce in recognition of the Company's commitment to flood relief.

Mariko Isa has helped Northwest people break down cultural barriers and work as one global team. She has worked diligently with the product development staff and inflight services in the U.S. to improve Japanese meal service, the beach product in general and the re-design of the interport meal. And she makes the airline a better place to work in the Pacific.

Mariko Isa

Manager-Inflight Services, Pacific Division, Tokyo

Steve Mayberry's concept for the new Midfield Terminal building at Detroit Metro Airport paved the way for a successful agreement with Wayne County, Michigan. Steve designed the new Minneapolis/St. Paul customs facility that has revolutionized international arrivals. And he led successful renovation plans at Seattle/Tacoma and Washington National, preserving strong Northwest positions at both airports.

Stephen Mayberry

Senior Design Manager-Facilities, Minneapolis/ St. Paul

Karen Young took immediate ownership of testing a new passenger security program at Washington National Airport. She represented Northwest at various meetings with the Federal Aviation Administration that provided a $2.2 million grant to fund Northwest's development of the industry leading system. She also briefed other U.S. Federal agencies on the system's benefits.

Karen Young

Customer Service Supervisor, Washington, D.C. National

Jim Franklin shows special warmth to kids and his caring goes well beyond the cockpit door. During a recent aircraft change in Memphis he observed a mother having trouble deplaning with her three children, all under the age of five. Captain Franklin picked up one of the kids, and the woman's luggage while she pushed a stroller all the way to the connecting gate at the opposite end of the terminal.

James Franklin

DC9 Captain, Minneapolis/ St. Paul

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Northwest Airlines Corporation

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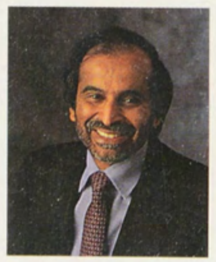

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Paracor Finance Inc.

Leo M. van Wijk
President & Chief Executive Officer
KLM Royal Dutch Airlines

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Vice Chairman of the Board
Bankers Trust New York Corporation

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First Vice President
Air Line Pilots Association International

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 cost.

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.

FINANCIAL TABLE OF CONTENTS

Financial Review

Northwest Airlines Corporation adhered to its complementary operating, marketing, and financial strategies in 1997. Through targeted deployment of assets into markets of competitive advantage, cost effective fleet planning, rigorous cost control, and strategic capital structure management, the Company has increased return on assets while improving strategic and operating flexibility. Our objective is to enhance shareholder value and to build the foundation for sustained profit growth.

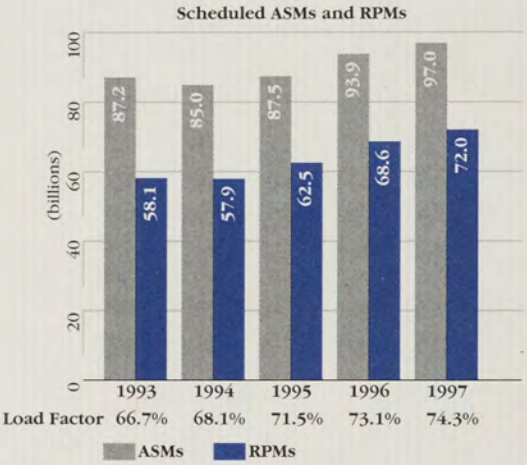
Maximize Return on Assets

Northwest deploys existing assets where they can generate maximum returns, and we invest in additional assets only when they can produce superior returns. 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 use of alliances we have shown how Northwest can expand its network and provide greater utility to its customers while avoiding the financial and human cost of acquisitions.

Our expanded relationship with KLM and our new agreement with Continental Airlines are prime examples of how this strategy allows us to conserve capital while dramatically increasing net revenues and providing more convenience to our customers.

Operating Activities

Northwest grew its capacity 3.2% in 1997 while RPMs increased 4.9%. International ASM growth outpaced domestic at 4.8%, versus 2.2%. Despite continuing increases in capacity, Northwest has consistently produced increases in load factor, specifically rising from 73.1% in 1996 to 74.3% in 1997.



Northwest expects to grow ASMs nearly 4% in 1998, with the majority of the growth occurring in the Atlantic region to support our alliance with KLM.

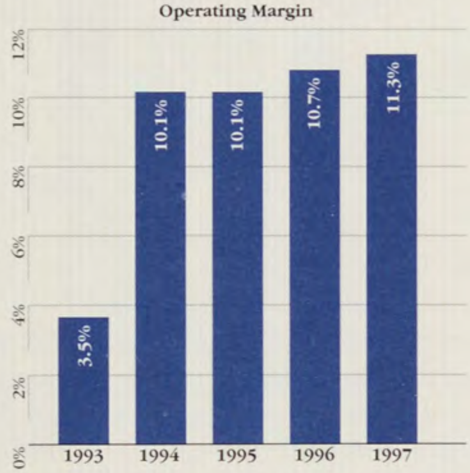
Fleet Initiatives

In 1997, Northwest continued its strategy of employing the aircraft best suited to the Company's route structure at the optimum capital cost. Several major fleet transactions were completed during the year.

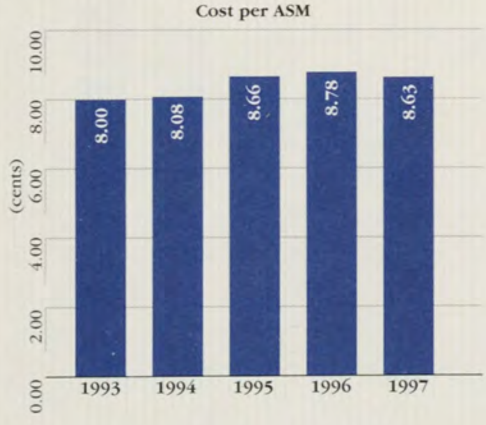
- Northwest signed an agreement with Airbus Industrie for the purchase of fifty A319 aircraft to be delivered ten per year beginning in 1999. The order included options for up to 100 additional Airbus aircraft. These aircraft are intended primarily to serve domestic growth needs from our strategic hubs.
- Northwest invested over $125 million on life extension of the DC9 fleet, which included new interiors, systems upgrades, and hushkitting. Approximately $200 million additional is budgeted in 1998. Over 75% of the DC9 fleet will be hushkitted by the end of 1998.
- Northwest entered into a services agreement, under which Northwest will operate five Boeing 727-200 aircraft for seven National Basketball Association teams and one National Hockey League team. During the teams' off-season, which occurs during the summer airline high season, Northwest will utilize the aircraft for commercial service.

Operating Results

1997 operating income and net income of $1.16 billion and $597 million, respectively, were Company records, and were achieved despite negative foreign currency impact and the reinstatement of the federal ticket tax in March 1997. Foreign currency translation in 1997 cost Northwest $185 million in passenger revenue, and the reinstatement of the ticket tax negatively impacted passenger revenue by $183 million. Still, the Company continued to improve its operating margin to 11.3% in 1997.



Cost Management - Unit costs in 1997 improved by 1.7% versus 1996. At Northwest we place a significant focus on cost containment and expect to be involved in meaningful initiatives throughout 1998.



Capital Structure Management

A key element of Northwest's financial strategy is to minimize capital costs while maintaining adequate levels of liquidity in order to maximize strategic and operating flexibility.

Transactions - Northwest has completed several major transactions to advance these goals in 1997:

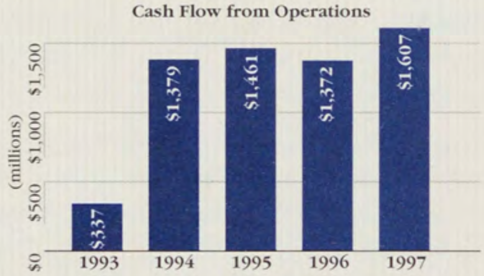
- Northwest completed its first public unsecured offering in ten years. The $250 million transaction at a blended interest rate of 8.5% had an average life of 8.2 years with no material covenants.
- Northwest and KLM signed two primary agreements — a 13-year enhanced alliance agreement and a stock purchase agreement. The alliance agreement joint ventures North Atlantic operations, thus formalizing and expanding the level of cooperation. Under the stock agreement, the Company will purchase KLM's entire 25 million Northwest common shares over the next three years. In 1998, an agreement in principle was reached to accelerate the stock purchase. The Company also purchased all outstanding Series A and Series B Preferred Stock for $251 million. The transaction eliminated all preferred stock dividend payments, which carried an effective pretax interest rate of 12.7%.
- In September, Northwest received $408 million cash in a bulk sale of frequent flyer miles to WorldPerks® partners. This transaction extended several partnership agreements while strengthening Northwest's liquidity.
- Northwest increased the size of its unsecured bank credit facility from $650 million to $1.0 billion. The facility includes a basic revolving credit facility of $675 million expiring in 2002, a one-year $175 million revolving facility, and a $150 million five-year term loan.
- Northwest prepaid $39 million on a loan received from Minnesota's Metropolitan Airports Commission in 1992.
- Northwest repurchased $65 million of NWA Trust No. 2 13.875% Class D Notes due December 2006, thus reducing interest expense.
- In December, Northwest received an unsecured debt rating upgrade by Standard and Poors to BB. After the Continental alliance announcement, the Company was put on "watch list" with a "positive outlook."

Financial Results

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

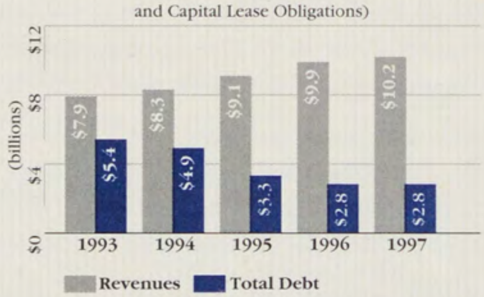
Northwest's focused financial strategy is reflected in our results. In 1997, cash flow from operations improved to more than $1.6 billion.

Cash Flow from Operations



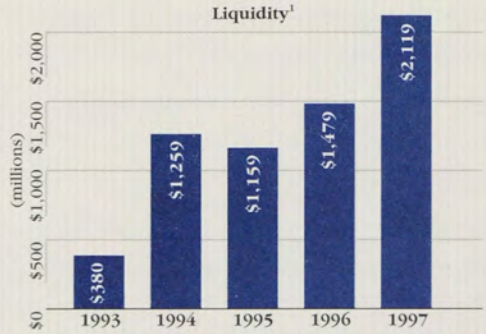
Debt levels have declined markedly from $5.37 billion in 1993 to $2.78 billion in 1997. The graph below contrasts this debt reduction with the growth of the enterprise as measured by revenue.

Revenues vs. Total Debt
(Balance Sheet Debt
and Capital Lease Obligations)



As a result of strong earnings, in combination with financing transactions, liquidity at year end was over $2.1 billion. This is an improvement of over 43% versus 1996 liquidity of $1.5 billion.

Liquidity[1]

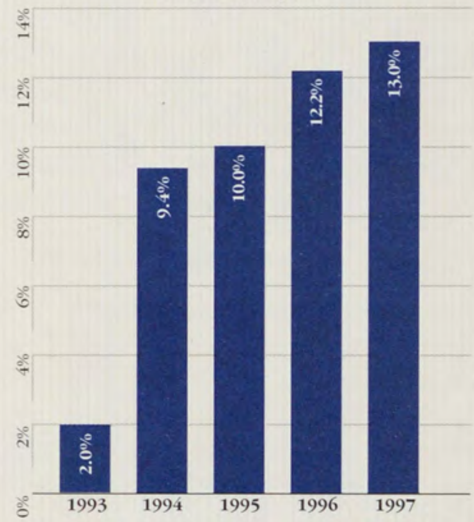


[1]Includes cash, unrestricted short-term investments and capacity under revolving credit agreement and 757 bridge facility.

Returns to Shareholders

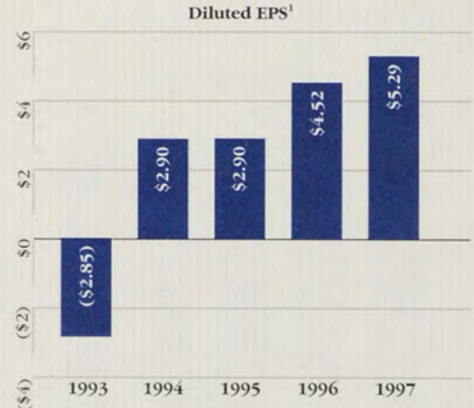
The Company has experienced a steadily improving return on capital, rising from 2% in 1993 to 13% in 1997.

Return on Capital



Growth in return on capital will be aided by our increased commitment to alliances, specifically with KLM and Continental, where earnings are increased with minimal capital investment. Diluted earnings per share have improved significantly from a loss of $2.85 per share in 1993 to $5.29 per share in 1997. Diluted earnings per share have grown at a compound annual growth rate of 22% since 1994.

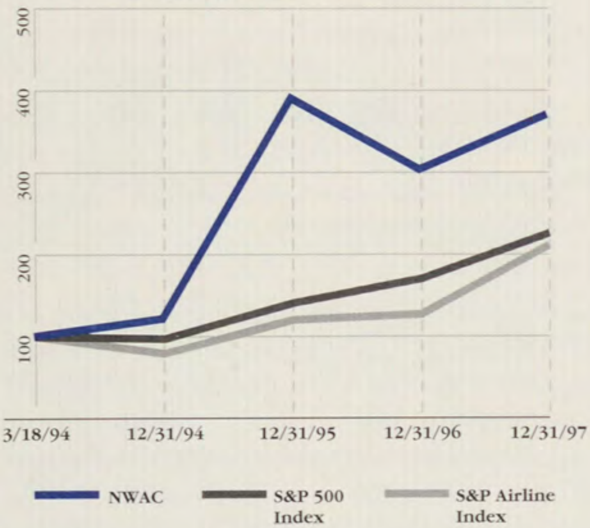
Diluted EPS[1]



[1]Before extraordinary items and preferred stock transactions.

The steady improvement in Northwest's financial performance has been beneficial to shareholders. Since the initial public offering of common stock in March of 1994, the Company has outperformed both the S&P 500 Index and the S&P Airline Index.

NWAC Equity Relative Performance[1]



[1]Assumes reinvested dividends, indexed to 100.

Average annual price appreciation has been 41%.

Recent Developments

In early 1998, several major developments have taken place which will improve Northwest's competitive position and increase shareholder value.

- The Company and KLM reached an agreement in principle to accelerate the purchase of KLM's remaining shares. Northwest will repurchase the remaining 18.2 million shares by May 1, 1998 for approximately $775 million in cash and unsecured notes. This transaction will reduce shares outstanding to about 88 million and is accretive to 1998 EPS by approximately $0.50.
- Northwest signed a 13-year marketing alliance agreement with Continental Airlines. In addition, the Company will acquire 8.5 million shares of Continental's Class A stock (14% equity stake; 52% voting interest) currently held by the Air Partners group. The share purchase and certain aspects of the alliance are subject to regulatory and other approvals.
- The U.S. and Japan signed an aviation agreement which modified the existing 1952 bilateral agreement. Northwest had significant rights under the 1952 agreement, but in recent years, many of those rights had been restricted by the Japanese government. While this new agreement presents the challenge of increased capacity in this market, it both secures the rights the Company originally had and contains several new provisions which are beneficial to Northwest. Therefore, this agreement provides security for Northwest's valuable Pacific asset. As the Japanese economy recovers, the Asia-Pacific region will offer significant profit potential for Northwest Airlines.

Outlook

Northwest will continue to enhance shareholder value. The Company has assembled the building blocks that will allow for consistent and predictable earnings growth. Over the last five years, the U.S. airline industry has been in an equilibrium, characterized by controlled growth, price rationalization, and increased financial discipline. We currently operate in a robust domestic economic environment. Although the Asian economies, particularly Japan, have been weak, Northwest stands to benefit handsomely from its strong Pacific presence and from the recovery to come. Our alliance partnerships, especially the new agreement with Continental and the expanded agreement with KLM, place the Company in a strong competitive position. This position has been achieved with minimal capital outlay. A truly formidable global force has been formed with the combination of KLM, Continental, and Northwest's other alliance partners.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Northwest Airlines Corporation ("NWA Corp." and, together with its subsidiaries, the "Company") reported record net income of $596.5 million and operating income of $1.16 billion for the year ended December 31, 1997. Diluted earnings per share were $5.21 compared with $5.20 per diluted share in 1996. Excluding the impact of the 1997 extraordinary item and 1996 preferred stock transaction, diluted earnings per share were $5.29 in 1997 compared with $4.52 in 1996, a 17% improvement. Operating income increased by $103.4 million compared with 1996, with operating margin increasing to 11.3% from 10.7% in 1996.

The Company completed several transactions in 1997 to strengthen its long-term financial position and enhance earnings as described in "Liquidity and Capital Resources." As of December 31, 1997, total available liquidity was $2.12 billion, the highest level in Company history.

Northwest Airlines, Inc. ("Northwest") is the principal indirect operating subsidiary of NWA Corp., accounting for more than 95% of the Company's 1997 consolidated operating revenues and expenses. The Company acquired Express Airlines I, Inc. ("Express") on April 1, 1997 and the operating results of Express are included in the consolidated financial statements commencing on that date. 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 ("CASM") can have significant impacts on the Company's profitability.

Results of Operations — 1997 Compared to 1996

Operating Revenues. Operating revenues were $10.23 billion, an improvement of $345.3 million (3.5%). Operating revenue per total service available seat mile ("ASM") decreased .9%. System passenger revenue increased $223.8 million (2.6%) due to a 3.2% increase in scheduled service ASMs and the inclusion of Express revenues of $100.1 million. These increases were offset by a 1.7% decrease in passenger RASM driven by unfavorable foreign currency translation and the reinstatement of federal ticket taxes in March 1997.

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

	1997	1996	1995
Passenger revenue			
Domestic	**57.5%**	57.9%	56.1%
Pacific	**21.5**	22.8	23.8
Atlantic	**6.3**	6.4	5.5
Express	**1.0**	—	—
Total passenger revenue	**86.3**	87.1	85.4
Cargo revenue	**7.7**	7.5	8.3
Other revenue	**6.0**	5.4	6.3
Total operating revenues	**100.0%**	100.0%	100.0%

Domestic passenger revenue, excluding Express, increased $165.5 million (2.9%) to $5.88 billion. A 2.2% increase in scheduled service ASMs and a .7% increase in passenger RASM resulted in the improved performance. The Company increased frequencies to ten cities and entered six new markets which accounts for the increase in scheduled service ASMs. The increase in RASM was due to a 2.6% (1.8 points) increase in passenger load factor offset by a 2.0% decrease in yield due to the reinstatement of federal taxes on airline tickets and international departures. The Company benefited from the absence of ticket taxes for only two months in 1997 versus eight months in 1996. See also "Other Information — *U.S. Transportation Taxes.*"

Pacific passenger revenue decreased $58.4 million (2.6%) to $2.19 billion due to a 7.7% decrease in Pacific passenger RASM which was partially offset by a 5.6% increase in scheduled service ASMs related to initiation of Minneapolis/St. Paul-Osaka service and additional trans-Pacific frequencies, mainly for the Minneapolis/St. Paul-Tokyo service. The decrease in Pacific RASM was primarily due to a 7.4% decrease in yield which was largely attributable to a weaker Japanese yen. The average yen per United States ("U.S.") dollar exchange rate for the twelve months ended December 31, 1997 and 1996 was 120 and 108, respectively, a weakening of the yen of 11.2%. Atlantic passenger revenue increased $16.6 million (2.6%) to $647.1 million due to a 1.7% increase in scheduled service ASMs and an increase in passenger RASM of .9%.

Cargo revenue increased $43.6 million (5.8%) due to a 2.6% increase in cargo revenue per ton mile and 3.0% more cargo ton miles primarily due to the development of a more efficient freighter schedule. The increase in cargo revenue per ton mile was primarily due to increased import sales driven by the continued strength of the U.S. dollar versus Asian currencies. Other revenue increased $77.9 million (14.5%) due to settlements under the joint venture alliance with KLM Royal Dutch Airlines ("KLM") and increased charter activity.

Operating Expenses. Operating expenses increased $241.9 million (2.7%) compared to the 3.3% capacity increase to 97.1 billion total service ASMs. Operating expense per total service ASM decreased for the first time in four years from 8.78 cents per total service ASM to 8.63 cents, a decrease of 1.7%. Salaries, wages and benefits increased $314.5 million (11.6%) due primarily to the end of the Wage Savings Period as discussed under "Liquidity and Capital Resources - Labor Agreements" and an increase in average full-time equivalent employees of 3.3%. The increase in full-time equivalent employees was attributable to the increased flying of 3.3% and increased traffic of 3.7%. Offsetting the increased salaries, wages and benefits expense was $49.2 million in lower pension expense due to a higher pension discount rate applied in 1997 compared to 1996. Aircraft fuel and taxes decreased $3.1 million (.2%) due to a 3.5% decrease in the average fuel price per gallon from 67.21 cents to 64.86 cents offset by an increase of 2.6% in fuel gallons consumed. Commissions decreased $13.2 million (1.5%) primarily due to increased domestic revenue where effective commission rates are lower than those paid internationally and also due to changes in the Company's commission structure beginning in September 1997 which reduced commissions paid from 10% to 8% on tickets purchased in the U.S. or Canada for travel to destinations outside North America. Aircraft maintenance materials and repairs increased $64.2 million (11.5%) due primarily to $19.1 million (3.4%) related to Express and an increased number of scheduled airframe and engine overhauls in accordance with the Company's maintenance program. The Company contracted for some of its additional maintenance work with outside suppliers, resulting in labor costs that would normally be classified as salaries and wages to be included in maintenance materials and repairs expense. 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 $88.7 million (4.7%), due primarily to increased volume and rates for outside services, selling and marketing fees and personnel expenses.

Other Income and Expense. Interest expense-net decreased $28.4 million (10.8%) primarily due to the retirement of debt prior to scheduled maturity and lower interest rates on debt. The foreign currency gain for the twelve months ended December 31, 1997 was primarily attributable to balance sheet remeasurement of foreign currency-denominated assets and liabilities.

Extraordinary Item. The Company repurchased for $78.7 million certain NWA Trust No. 2 aircraft notes in January 1998 pursuant to a tender offer. An extraordinary loss of $9.3 million, net of tax, was recorded in 1997 as 99% of the notes were tendered by December 31, 1997.

Results of Operations — 1996 Compared to 1995

Operating Revenues. Operating revenues were $9.88 billion, an improvement of $795.6 million (8.8%). Operating revenue per total service ASM increased 2.8%. System passenger revenue increased 10.8% 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.

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 ticket taxes. 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% largely related to higher fuel prices and increased maintenance costs somewhat offset by lower stock-based compensation. 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. 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 applied 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 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.

Liquidity and Capital Resources

At December 31, 1997, the Company had cash and cash equivalents of $740.4 million, unrestricted short-term investments of $299.5 million, borrowing capacity of $839.2 million under its revolving credit facility and the ability under another facility to borrow up to $240 million using existing aircraft as collateral, providing total available liquidity of $2.12 billion.

Cash flows from operating activities were $1.61 billion for 1997 which included higher than normal sale proceeds of frequent flyer miles in excess of revenue in the amount of $387.7 million. Such higher than normal sale proceeds were due to a 1997 bulk sale of such miles to the Company's frequent flyer partners. Cash flows from operating activities were $1.37 billion for 1996 and $1.46 billion for 1995. Net cash used in investing and financing activities during 1997, 1996 and 1995 was $1.43 billion, $1.66 billion and $1.08 billion, respectively.

Investing Activities. Investing activities in 1997 consisted primarily of costs to commission aircraft before entering revenue service, aircraft deposits, the refurbishment of DC9 aircraft, engine hushkitting, ground equipment purchases, the acquisition of Express, the purchase off lease of four aircraft and the purchase of eight RJ85 aircraft, one DC10-30 aircraft and three DC9-30 aircraft. Investing activities in 1996 pertained primarily to 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 22 aircraft; and the refurbishment of DC9 aircraft. Capital expenditures for 1995 pertained primarily to aircraft modifications, the acquisition of two Boeing 757 aircraft for sale and leaseback, the acquisition of 14 DC9 aircraft and deposits on ordered aircraft.

On January 25, 1998, NWA Corp. entered into an Investment Agreement pursuant to which NWA Corp. will acquire the beneficial ownership of 8,535,868 shares of Class A Common Stock of Continental Airlines, Inc. ("Continental"). These shares represent approximately 14% of Continental's common stock and 52% of its outstanding common stock voting power. The aggregate consideration was valued at approximately $519 million and is expected to consist of $311 million in cash and 4.1 million shares of newly issued common stock. The cash is expected to be funded from the Company's general working capital which may be supplemented by the proceeds of unsecured borrowings in the public capital markets. The transaction is expected to close by the end of 1998. For additional information regarding the formation of a new holding company and the related corporate restructuring, the Governance Agreement with Continental and the operating alliance, see Note S to the Consolidated Financial Statements.

Financing Activities. Financing activities in 1997 pertained primarily to NWA Corp.'s repurchases of its common stock and Series A and B Preferred Stock, the issuance of $250 million of unsecured notes, the sale and leaseback of eight RJ85 aircraft and the payment of debt and capital lease obligations. In December 1997, the Company repurchased $39 million of its sale-leaseback financing obligations. The Company's Credit Agreement was amended in December 1997 to increase its existing unsecured revolving credit facility from $500 million to $675 million and to extend the availability period to December 2002, and to add a new $175 million 364-day unsecured revolving credit facility. If the 364-day facility is not renewed for an additional 364-day period, the Company may borrow up to the entire amount of the facility and all such borrowings mature in December 2002.

On September 29, 1997, the Company entered into agreements to repurchase for $1.12 billion over three years the 25 million shares of NWA Corp. common stock held by KLM. On that date, 6.8 million of such shares were repurchased for $273.1 million. Concurrently, all of NWA Corp.'s Series A and B Preferred Stock held by KLM and other holders was repurchased for $251.3 million. Both repurchases were funded using existing cash resources. The remaining 18.2 million shares of common stock to be repurchased were reclassified to redeemable common stock from common stockholders' equity, as required for such stock transactions. However, earnings per share calculations will continue to include the 18.2 million shares until actually repurchased. The Company and KLM also expanded their alliance by entering into an enhanced commercial and operational alliance providing for a minimum term of 13 years.

Subsequently, on January 16, 1998, NWA Corp. reached an agreement in principle with KLM to accelerate the repurchase of the remaining 18.2 million shares of common stock. The agreement in principle is subject to the execution of definitive documentation and the approval of the respective boards of NWA Corp. and KLM. The estimated purchase price of $775 million will be paid with a combination of approximately $335 million of cash and three senior unsecured notes for the remainder. The cash is expected to be funded from the Company's general working capital which may be supplemented by the proceeds of unsecured borrowings in the public capital markets. The transaction is expected to close before May 1, 1998 at which time the 18.2 million remaining common shares will be repurchased and excluded from the earnings per share calculations. See Note H to the Consolidated Financial Statements.

Northwest sells certain receivables on an ongoing basis to Northwest Capital Funding Corp., pursuant to a receivable financing program (the "Receivable Program"). The Receivable Program provides for the early retirement of the related term certificates upon the occurrence of certain events, one of which occurred on January 25, 1998. Accordingly, the Company advised the trustee for the certificateholders that these certificates will be paid in full on February 25, 1998.

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 prepayments of $180 million. In October 1996, the Credit Agreement was amended to increase the term loan to $150 million and extend the final maturity to 2002. In July 1996, NWA Corp. acquired from KLM 3,691.2 shares of NWA Corp. Series A Preferred Stock and 2,962.8 shares of NWA Corp. Series B Preferred Stock in exchange for $379 million of unsecured promissory notes which were repaid in 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 yen-denominated 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 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 NWA Corp.'s Series B Preferred Stock for 2,050,000 shares of NWA Corp.'s common stock.

See Note D to the Consolidated Financial Statements for maturities of long-term debt for the five years subsequent to December 31, 1997.

Capital Commitments. The current aircraft delivery schedule provides for the acquisition of 115 aircraft over the next eight years. See Notes K and O to Consolidated Financial Statements for additional discussion of aircraft capital commitments. Other capital expenditures including costs to commission presently owned aircraft that have not yet entered revenue service are projected for 1998 to be approximately $395 million which the Company anticipates funding primarily with cash from operations.

The Company has adopted programs to hushkit and modify 173 DC9 aircraft to meet noise and aging aircraft requirements. As of December 31, 1997, the Company had hushkitted 89 of these 173 DC9 aircraft. Capital expenditures for engine hushkits and aging aircraft modifications were $51 million in 1997 and are expected to aggregate $360 million during the next five years for these aircraft. The Company has also elected to upgrade aircraft systems and refurbish interiors for the 173 DC9 aircraft. Capital expenditures associated with upgrading systems and interior refurbishment were $74 million in 1997 and are expected to aggregate $54 million during the next five years.

The Company has commenced its program, adopted in 1996, to refurbish the interiors of its international 747 and DC10 aircraft, estimated to aggregate $120 million over the next five years. In 1996, the Company adopted a program to hushkit and modify 29 Boeing 727-200 aircraft, estimated to cost approximately $65 million over the next two years.

Labor Agreements. The labor cost savings discussed in Note C 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 provided that wage scales at the end of the Wage Savings Period snapback to August 1, 1993 levels and 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 $340 million on an annualized basis including $50 million for snap-ups.

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 other large U.S. airlines. The Company cannot predict the ultimate outcome of the negotiations at this time.

Working Capital. The Company operates, like its competitors, with a working capital deficit which aggregated $674.2 million at December 31, 1997. The working capital deficit is primarily attributable to the $1.22 billion air traffic liability for advance ticket sales.

Market Risk Sensitive Instruments and Positions

The risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in the price of fuel, foreign currency exchange rates and interest rates as discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions management may take to mitigate its exposure to such changes. Actual results may differ. See Notes A and P to the Consolidated Financial Statements for accounting policies and additional information, respectively.

Aircraft Fuel. The Company's earnings are affected by changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. The Company also manages the price risk of fuel costs primarily utilizing futures contracts traded on regulated exchanges. Market risk is estimated as a hypothetical 10% increase in the December 31, 1997 cost per gallon of fuel based on projected 1998 fuel usage which would result in an increase to aircraft fuel expense of approximately $90 million in 1998, net of gains realized from fuel hedge instruments outstanding at December 31, 1997. Gains or losses on hedge contracts are deferred until the related fuel inventory is expensed. As of December 31, 1997, the Company had hedged approximately 28% of its 1998 fuel requirements, including 63% of the first quarter.

Foreign Currency. 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 comes from the Japanese yen. From time to time, the Company uses options and forward contracts to hedge its anticipated yen-denominated net cash flows. The result of a uniform 10% strengthening in the value of the U.S. dollar from December 31, 1997 levels relative to each of the currencies in which the Company's sales and expenses are denominated would result in a decrease in operating income of approximately $48 million for the year ending December 31, 1998, net of gains realized from yen hedge instruments outstanding at December 31, 1997, due to the Company's foreign-denominated revenues exceeding its foreign-denominated expenses. The increase to other income due to the remeasurement of net foreign currency-denominated liabilities and the increase to common stockholders' equity deficit due to the translation of net yen-denominated liabilities resulting from a 10% strengthening in the value of the U.S. dollar is not material. This sensitivity analysis was prepared based upon projected 1998 foreign currency-denominated revenues and expenses and foreign currency-denominated assets and liabilities as of December 31, 1997.

In 1997, the Company's yen-denominated revenues exceeded its yen-denominated expenses by approximately 75 billion yen (approximately $625 million) and its yen-denominated liabilities exceeded its yen-denominated assets by an average of 13.3 billion yen ($109 million) during 1997. In general, each time the yen strengthens (weakens), the Company's ongoing operating income is favorably (unfavorably) impacted due to net yen-denominated cash flows and a nonoperating foreign currency loss (gain) is recognized due to the remeasurement of net yen-denominated liabilities. The Company's operating income was negatively impacted by approximately $70 million due to a weaker yen in 1997 compared to 1996. The yen to U.S. dollar exchange rate at December 31, 1997, 1996 and 1995 was 131 yen to $1, 116 yen to $1 and 103 yen to $1, respectively. There was no material impact on 1997 earnings associated with the Japanese yen collar option and forward contracts. As of December 31, 1997, the Company had purchased put options to hedge approximately 90% of its 1998 net yen-denominated cash flows.

Interest. The Company's earnings are also affected by changes in interest rates due to the impact those changes have on its interest income from cash equivalents and short-term investments and its interest expense from variable-rate debt instruments. The Company has mitigated this risk by limiting its variable-rate debt instruments to approximately 47% of long-term debt at December 31, 1997. If long-term interest rates average 10% more in 1998 than they did during 1997, the Company's net interest expense would increase by approximately $7 million. If short-term interest rates average 10% more in 1998 than they did during 1997, the Company's interest income from cash equivalents and short-term investments would increase by approximately $7 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable-rate long-term debt and cash equivalent and short-term investment balances at December 31, 1997.

Market risk for fixed-rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in interest rates and amounts to approximately $45 million. The fair values of the Company's long-term debt were estimated using quoted market prices or discounted future cash flows based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

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 J to the 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 limitation would not have an 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 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) was relatively low.

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 on January 1, 1996. These taxes were reinstated for tickets sold subsequent to August 27, 1996 for travel through December 31, 1996. These taxes lapsed again on December 31, 1996 and were reinstated for tickets sold from March 7, 1997 to September 30, 1997. The Company estimates that the reinstatement of the transportation taxes had approximately a $183 million adverse impact on passenger revenues for the year ended December 31, 1997.

The Taxpayer Relief Act enacted by Congress revised transportation taxes and instituted new taxes for tickets for travel from October 1, 1997 to December 31, 2007. The legislation included a reduction in the domestic passenger ticket tax to 7.5% over three years (the rate decreased to 9% on October 1, 1997) with certain rural airports subject to a 7.5% tax throughout the life of the bill. The $6 international departure tax increased to $12 and a new $12 international arrival tax was imposed (both began for tickets sold on or after August 13, 1997 for travel commencing on or after October 1, 1997). The departure tax on travel between the U.S. 48 states and Alaska or Hawaii remained at $6. A new segment fee applicable to domestic travel began at $1 for the period from October 1, 1997 to September 30, 1998 and will gradually increase to $3 for the calendar year 2002. Rural airports are exempt from this segment fee, but travel between the U.S. 48 states and Alaska or Hawaii is subject to this new tax. Both the international departure and arrival taxes and the segment fee will be indexed each year to the consumer price index. In addition, a 7.5% tax on the sale of frequent flyer miles was included in the legislation. The impact of the changes is expected to increase annualized U.S. transportation taxes collected by Northwest from current levels by approximately $50 million resulting in an undetermined dilution of future passenger revenue.

U.S.-Japan Aviation Bilateral. On January 30, 1998, the U.S. and Japan signed a Memorandum of Consultation ("MOC"). The MOC outlines the agreement to modify the 1952 U.S. - Japan bilateral aviation agreement until a final Memorandum of Understanding is executed. Among other things, the MOC (1) confirms Northwest's "fifth freedom" rights between Japan and other Asian destinations, (2) provides unlimited opportunities to fly between any point in the U.S. and any point in Japan, (3) allows certain code-sharing rights, (4) provides opportunities for competitive pricing, (5) provides one additional Japanese passenger airline and one additional Japanese all-cargo airline with certificate authority issued pursuant to the 1952 aviation agreement and (6) permits expanded frequencies for U.S. and Japan airlines not holding certificate authority issued pursuant to the 1952 aviation agreement. In addition, the U.S. has received assurances that Northwest will retain all 316 of its weekly takeoff and landing slots at Tokyo's slot-constrained Narita International Airport, along with Northwest's allocation of 142 slots at Osaka's Kansai Airport and will have access to new slots as they become available. As a result of the MOC, Northwest expects its U.S. and Japan airline competitors to add capacity between the U.S. and Japan. Northwest expects to respond to the increased competition and to take advantage of its affirmed and additional rights resulting from the MOC. The increased competitive environment resulting from the MOC and the general economic environment in Asia may adversely impact the Company's Pacific revenues in 1998.

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 $960 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.

Year 2000 Issue. The Company uses a significant number of computer software programs and embedded operating systems that are essential to its operations. As a result, the Company implemented a Year 2000 project in 1996 to ensure that the Company's computer systems will function properly in the Year 2000 and thereafter. The Company anticipates completing its Year 2000 project in early 1999 and believes that with modifications to its existing software and systems and/or conversions to new software, the Year 2000 Issue will not pose significant operational problems for its computer systems.

The Company has also initiated communications with its significant suppliers and vendors with whom the Company's systems interface and exchange data or upon whom the Company's business depends and is coordinating efforts with these outside third parties to minimize the extent to which its business will be vulnerable to such third parties' failure to remediate their own Year 2000 Issues. The Company's business is also dependent upon certain governmental organizations or entities which provide essential aviation industry infrastructure, such as the Federal Aviation Administration ("FAA"). There can be no assurance that the systems of such third parties on which the Company's business relies (including those of the FAA) will be modified on a timely basis. The Company's business, financial condition or results of operations could be materially adversely affected by the failure of its systems or those operated by other parties to operate properly beyond 1999. To the extent possible, the Company will be developing and executing contingency plans designed to allow continued operation in the event of failure of the Company's or third parties' systems.

The total cost of the Company's Year 2000 project is currently estimated at $55 million (of which $10 million has been spent and expensed) and is being funded through cash from operations. The remaining costs for the Year 2000 project will be expensed as incurred. The costs of the Company's Year 2000 project and the date on which the Company believes it will be completed are based on management's best estimates and include assumptions regarding third party modification plans. However, in particular due to the potential impact of third party modification plans, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated.

New Accounting Standards. See Note A to the Consolidated Financial Statements for recent accounting standards that impact future financial statement disclosure requirements.

Forward-Looking Statements. Certain statements made throughout the Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking and are based upon information available to the Company on the date hereof. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements deal with the Company's expectations about the future and are subject to a number of factors that could cause actual results to differ materially from our expectations.

It is not reasonably possible to itemize all of the many factors and specific events that could affect the outlook of an airline operating in the global economy. Some factors that could significantly impact expected capacity, load factors, revenues, expenses and cash flows include the airline pricing environment, fuel costs, labor negotiations both at the Company and other carriers, low-fare carrier expansion, capacity decisions of other carriers, actions of the U.S. and foreign governments, foreign currency exchange rate fluctuation, inflation, the general economic environment in the U.S. and other regions of the world and other factors discussed herein.

CONSOLIDATED STATEMENTS OF INCOME

Northwest Airlines Corporation

(In millions, except per share amounts)	Year Ended December 31 1997	1996	1995
Operating Revenues			
Passenger	**$ 8,822.1**	$ 8,598.3	$ 7,762.0
Cargo	**789.4**	745.8	751.2
Other	**614.3**	536.4	571.7
	10,225.8	9,880.5	9,084.9
Operating Expenses			
Salaries, wages and benefits	**3,023.9**	2,709.4	2,412.1
Stock-based employee compensation	—	242.8	478.0
Aircraft fuel and taxes	**1,393.8**	1,396.9	1,083.8
Commissions	**855.2**	868.4	840.5
Aircraft maintenance materials and repairs	**620.4**	556.2	395.4
Other rentals and landing fees	**456.7**	454.0	476.2
Aircraft rentals	**358.9**	346.3	338.9
Depreciation and amortization	**396.0**	377.7	358.1
Other	**1,963.7**	1,875.0	1,788.5
	9,068.6	8,826.7	8,171.5
Operating Income	**1,157.2**	1,053.8	913.4
Other Income (Expense)			
Interest expense	**(244.7)**	(269.8)	(401.2)
Interest capitalized	**10.6**	7.3	13.9
Interest of mandatorily redeemable preferred security holder	**(24.3)**	(27.2)	(7.1)
Investment income	**68.0**	71.2	72.7
Foreign currency gain (loss)	**1.8**	19.1	(36.9)
Other—net	**16.0**	18.0	(11.3)
	(172.6)	(181.4)	(369.9)
Income Before Income Taxes and Extraordinary Item	**984.6**	872.4	543.5
Income tax expense	**378.8**	336.3	201.4
Income Before Extraordinary Item	**605.8**	536.1	342.1
Gain (loss) on extinguishment of debt, net of taxes	**(9.3)**	—	49.9
Net Income	**596.5**	536.1	392.0
Preferred stock requirements	**(13.5)**	(37.5)	(57.8)
Preferred stock transactions	—	74.5	58.9
Net Income Applicable To Common Stockholders	**$ 583.0**	$ 573.1	$ 393.1
Earnings Per Common Share:			
Basic			
Before effects of extraordinary item and preferred stock transactions	**$ 5.89**	$ 5.05	$ 3.11
Gain (loss) on extinguishment of debt	**(0.10)**	—	.55
Preferred stock transactions	—	.75	.64
Earnings per common share	**$ 5.79**	$ 5.80	$ 4.30
Diluted			
Before effects of extraordinary item and preferred stock transactions	**$ 5.29**	$ 4.52	$ 2.90
Gain (loss) on extinguishment of debt	**(0.08)**	—	.50
Preferred stock transactions	—	.68	.58
Earnings per common share	**$ 5.21**	$ 5.20	$ 3.98

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

CONSOLIDATED BALANCE SHEETS

Northwest Airlines Corporation

(In millions)	December 31 1997	1996
Assets		
Current Assets		
Cash and cash equivalents	$ 740.4	$ 559.4
Short-term investments	437.7	253.1
Accounts receivable, less allowance (1997—$21.2; 1996—$19.7)	664.8	656.1
Flight equipment spare parts, less allowance (1997—$148.9; 1996—$127.3)	376.1	262.2
Deferred income taxes	84.8	95.5
Prepaid expenses and other	294.0	263.6
	2,597.8	2,089.9
Property and Equipment		
Flight equipment	5,246.7	4,724.0
Less accumulated depreciation	1,295.6	1,107.6
	3,951.1	3,616.4
Other property and equipment	1,489.0	1,484.2
Less accumulated depreciation	612.4	560.1
	876.6	924.1
	4,827.7	4,540.5
Flight Equipment Under Capital Leases		
Flight equipment	907.1	927.4
Less accumulated amortization	270.0	255.9
	637.1	671.5
Other Assets		
Investments in affiliated companies	185.9	164.4
International routes, less accumulated amortization (1997—$239.9; 1996—$216.3)	727.8	751.4
Other	359.9	294.0
	1,273.6	1,209.8
	$ 9,336.2	$ 8,511.7

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

(In millions, except share data)	December 31 1997	1996
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Air traffic liability	**$ 1,222.5**	$ 1,010.7
Accounts payable and other liabilities	**944.6**	796.7
Accrued compensation and benefits	**376.5**	456.8
Accrued commissions	**183.9**	177.4
Accrued aircraft rent	**207.5**	196.7
Current maturities of long-term debt	**227.4**	144.4
Current obligations under capital leases	**55.9**	61.7
Short-term borrowings	**53.7**	38.8
	3,272.0	2,883.2
Long-Term Debt	**1,841.9**	1,916.0
Long-Term Obligations Under Capital Leases	**649.4**	710.5
Deferred Credits and Other Liabilities		
Deferred income taxes	**1,161.5**	947.2
Long-term pension and postretirement health care benefits	**407.3**	461.2
Other	**674.1**	348.9
	2,242.9	1,757.3
Mandatorily Redeemable Preferred Security of Subsidiary Which Holds Solely Non-Recourse Obligation of Company - Note F (Redemption value 1997—$551.0; 1996—$628.8)	**486.3**	549.2
Redeemable Stock		
Preferred, liquidation value (1997— $311.3; 1996—$610.8)	**306.2**	602.6
Common (18,177,874 shares)	**848.5**	—
	1,154.7	602.6
Common Stockholders' Equity (Deficit)		
Common stock, $.01 par value; shares authorized—315,000,000; shares issued and outstanding (1997—103,780,875; 1996—97,604,056)	**1.0**	1.0
Additional paid-in capital	**1,273.8**	1,151.1
Accumulated deficit	**(362.2)**	(945.2)
Other	**(102.0)**	(114.0)
Treasury stock (6,800,000 shares repurchased and 18,177,874 shares to be repurchased)	**(1,121.6)**	—
	(311.0)	92.9
	$ 9,336.2	$ 8,511.7

CONSOLIDATED STATEMENTS OF CASH FLOWS

Northwest Airlines Corporation

(In millions)	Year Ended December 31 1997	1996	1995
Cash Flows From Operating Activities			
Net income	**$ 596.5**	$ 536.1	$ 392.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**396.0**	377.7	358.1
Income tax expense	**378.8**	336.3	201.4
Payment of income taxes	**(114.3)**	(256.6)	(116.9)
Pension and other postretirement benefit contributions (in excess of) less than expense	**(125.8)**	14.7	(97.6)
Stock-based employee compensation	**—**	242.8	478.0
Sale proceeds of frequent flyer miles in excess of revenue	**387.7**	31.3	7.5
Other—net	**(1.8)**	(40.2)	(59.4)
Changes in certain assets and liabilities:			
Decrease (increase) in accounts receivable	**39.5**	18.6	(56.0)
Decrease (increase) in flight equipment spare parts	**(136.7)**	12.2	(59.7)
Decrease (increase) in prepaid expenses and other	**(13.3)**	(6.6)	28.3
Increase in air traffic liability	**108.1**	91.0	119.8
Increase (decrease) in accounts payable and other liabilities	**82.3**	(60.7)	243.3
Increase in accrued compensation and benefits	**10.3**	75.7	21.8
Net cash provided by operating activities	**1,607.3**	1,372.3	1,460.6
Cash Flows From Investing Activities			
Capital expenditures	**(724.3)**	(1,205.3)	(569.5)
Purchases of short-term investments	**(632.0)**	(501.2)	(659.3)
Proceeds from maturities of short-term investments	**469.3**	511.2	991.4
Other—net	**1.1**	(46.6)	(8.3)
Net cash used in investing activities	**(885.9)**	(1,241.9)	(245.7)
Cash Flows From Financing Activities			
Repurchase of common and preferred stock	**(524.4)**	—	—
Payment of long-term debt and capital lease obligations	**(407.8)**	(550.4)	(1,279.3)
Payment of short-term notes payable	**—**	(379.2)	—
Proceeds from long-term debt	**250.6**	184.8	352.1
Proceeds from sale and leaseback transactions	**168.0**	350.0	100.0
Other—net	**(26.8)**	(27.1)	(4.8)
Net cash used in financing activities	**(540.4)**	(421.9)	(832.0)
Increase (Decrease) In Cash And Cash Equivalents	**181.0**	(291.5)	382.9
Cash and cash equivalents at beginning of period	**559.4**	850.9	468.0
Cash and cash equivalents at end of period	**$ 740.4**	$ 559.4	$ 850.9
Cash and cash equivalents and unrestricted short-term investments at end of period	**$ 1,039.9**	$ 752.1	$ 970.9
Available to be borrowed under credit facilities	**$ 1,079.2**	$ 726.8	$ 187.6

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	Treasury Stock	Total
Balance January 1, 1995	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	0.9	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
Net income	—	—	—	596.5	—	—	596.5
Repurchase of common stock	—	—	7.0	—	—	(273.1)	(266.1)
Common stock committed to be repurchased	—	—	21.9	—	—	(848.5)	(826.6)
Shares issued to employee benefit plans	3.5	—	—	—	—	—	—
Accrued cumulative dividends on Series A and B Preferred Stock	—	—	—	(14.4)	—	—	(14.4)
Accretion of Series C Preferred Stock	—	—	—	(1.1)	—	—	(1.1)
Tax benefit related to stock issued to employees	—	—	29.1	—	—	—	29.1
Translation adjustments, net of income taxes	—	—	—	—	5.8	—	5.8
Pension liability adjustment, net of income taxes	—	—	—	—	5.3	—	5.3
Series C Preferred Stock converted to common stock	1.8	—	57.7	—	—	—	57.7
Other	.9	—	7.0	2.0	.9	—	9.9
Balance December 31, 1997	103.8	$ 1.0	$ 1,273.8	$ (362.2)	$ (102.0)	$ (1,121.6)	$ (311.0)

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 ("NWA Corp.") is a holding company whose principal indirect operating subsidiary is Northwest Airlines, Inc. ("Northwest"). The consolidated financial statements include the accounts of NWA Corp. 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 prior year amounts have been reclassified to conform with the current year financial statement presentation.

Business: Northwest's operations comprise more than 95% 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 trans-Atlantic 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.

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.

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 $109.8 million, $120.4 million and $119.4 million in 1997, 1996 and 1995, 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 only to the extent the market price of the common stock exceeds the exercise price of the stock option at the date of the grant.

Foreign Operations: Operating revenues from foreign operations, primarily in the Pacific region, totaled approximately $3.43 billion, $3.39 billion and $3.17 billion in 1997, 1996 and 1995, respectively. International routes are amortized on a straight-line basis, generally over 40 years. International operating route authorities and alliances are regulated by governmental policy and bilateral agreements between nations. Changes in such policies or agreements could 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 F) 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 deficit. The cumulative foreign translation loss, net of tax, was $33.6 million as of December 31, 1997.

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: In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share." SFAS 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. All earnings per share amounts for all periods have been presented and restated to conform to SFAS 128 requirements. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of stock options and convertible securities. Diluted earnings per share is similar to the previously reported fully diluted earnings per share.

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.

New Accounting Standards: In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income" and Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information." SFAS 130 establishes standards for the reporting and presentation of comprehensive income and its components. SFAS 131 establishes standards for defining operating segments and the reporting of certain information regarding operating segments. Because these statements only impact how financial information is disclosed in interim and annual reports, the adoption will have no impact to the Company's financial condition or results of operations.

Note B — Earnings Per Share Data

The following table sets forth the computation of basic and diluted earnings per common share (in millions, except share data):

	Year Ended December 31		
	1997	1996	1995
Numerator:			
Income before extraordinary item	**$ 605.8**	$ 536.1	$ 342.1
Preferred stock requirements	**(13.5)**	(37.5)	(57.8)
Preferred stock transactions	—	74.5	58.9
Income applicable to common stockholders for basic earnings per share	**592.3**	573.1	343.2
Effect of dilutive securities:			
Series C Preferred Stock	**1.1**	0.9	7.7
Income applicable to common stockholders after assumed conversions for diluted earnings per share	**$ 593.4**	$ 574.0	$ 350.9
Denominator:			
Weighted-average shares outstanding for basic earnings per share	**100,616,605**	98,731,917	91,378,509
Effect of dilutive securities:			
Series C Preferred Stock	**9,981,547**	10,216,939	7,441,240
Employee stock options	**1,319,177**	1,482,406	1,838,509
Common stock repurchase obligation	**280,253**	—	—
Adjusted weighted-average shares and assumed conversions for diluted earnings per share	**112,197,582**	110,431,262	100,658,258

For additional disclosures regarding the outstanding Series C Preferred Stock, the employee stock options, the common stock repurchase obligation and additional shares to be issued, see Notes C, G, H, I and S.

Note C — 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, among other things, issued to trusts for the benefit of participating employees 9.1 million shares of a new class of NWA Corp. Series C cumulative, voting, convertible, redeemable preferred stock (the "Series C Preferred Stock") and 17.5 million shares of NWA Corp. Class A and Class B Common Stock and provided the union groups with three positions on the Board of Directors.

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, 1995	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
Shares issued to trusts	(1.7)	—	1.7	—	(3.5)	—	3.5	—
Series C Preferred Stock converted to common stock	—	—	(1.3)	(57.7)	—	—	1.8	57.7
Withdrawals from trusts	—	—	—	—	—	—	(4.2)	—
Accretion	—	—	—	1.1	—	—	—	—
Balance December 31, 1997	**—**	**9.1**	**6.6**	**$ 306.2**	**—**	**17.5**	**12.3**	**$ 637.0**

NWA Corp. has authorized 25,000,000 shares of Series C Preferred Stock, par value $.01 per share. The Series C Preferred Stock ranks 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. As of December 31, 1997, 2.5 million shares of Series C Preferred Stock have been converted into common stock and the remaining 6.6 million shares outstanding are convertible into 9.0 million shares of common stock.

Series C Preferred Stock is required to be redeemed in 2003 for a pro rata share of Actual Savings ($311.3 million as of December 31, 1997). NWA Corp. has the option to redeem in cash, issue additional common stock, or use a combination thereof, to satisfy the redemption requirement. 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 NWA Corp. 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, NWA Corp. at its option may redeem in whole or in part the Series C Preferred Stock at its liquidation value.

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 was December 31, 1995.

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. The Company is currently negotiating with each of the collective bargaining units, but cannot predict the ultimate outcome of the negotiations at this time.

Note D — Long-Term Debt and Short-Term Borrowings

Long-term debt consisted of the following (in millions, with interest rates as of December 31, 1997):

	December 31	
	1997	1996
Secured notes due through 2009, 7.2% weighted average rate (a)	**$ 348.9**	$ 348.9
NWA Trust No. 2 aircraft notes due through 2012, 10.6% weighted average rate (b)	**330.9**	337.9
Unsecured notes due in 2004 and 2007, 8.5% weighted average rate (c)	**249.7**	—
Equipment pledge notes due through 2013, 7.8% weighted average rate	**248.4**	286.8
Sale-leaseback financing obligations due through 2020, 9.9% imputed rate (d)	**223.0**	262.5
NWA Trust No. 1 aircraft notes due through 2006, 8.6% weighted average rate (e)	**208.7**	220.4
Term loan due through 2002, 6.9% (f)	**150.0**	150.0
Term certificates due 1999, 7.0% (g)	**135.0**	145.0
Senior unsecured floating rate note due 1998, 6.9%	**76.0**	152.0
Other	**98.7**	156.9
Total long-term debt	**2,069.3**	2,060.4
Less current maturities	**227.4**	144.4
	$ 1,841.9	$ 1,916.0

(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 semi-annually from rental payments made by Northwest under the lease of the aircraft and are secured by the aircraft subject to the lease as well as the lease itself.

In December 1997, the Company initiated a tender offer for the repurchase of the 13.875% Class D Subordinated Aircraft Notes. The offer expired on December 30, 1997 with 99% of the notes tendered. On January 2, 1998, the notes were repurchased for $78.7 million. Consequently, a loss of $9.3 million, net of $5.4 million in income taxes, was recorded as an extraordinary item in 1997.

(c) In March 1997, the Company issued $150 million of 8.375% notes due 2004 and $100 million of 8.70% notes due 2007. Interest on the notes is payable semi-annually.

(d) In March 1992, the Company completed agreements with the Minneapolis-St. Paul Metropolitan Airports Commission ("MAC") for the sale and leaseback of various corporate assets. The sale-leaseback agreements, which are accounted for as debt, call for increasing quarterly payments over a 30-year term and include a provision which gives the Company the option to repurchase the assets. The agreements with the MAC are part of a group of financing arrangements with the State of Minnesota and other government agencies. In December 1997, the Company prepaid $39 million of these obligations.

(e) 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 semi-annually from rental payments made by Northwest under the lease of the aircraft and are secured by the aircraft subject to the lease as well as the lease itself.

(f) The floating rate term loan is payable in three equal installments beginning 2001 with final maturity of the loan in 2002. During 1996, the Company prepaid $150 million of its $300 million term loan.

The Company's Credit Agreement was amended in December 1997 to increase its existing unsecured revolving credit facility from $500 million to $675 million and to extend the availability period to December 2002, and to add a new $175 million 364-day unsecured revolving credit facility. If the 364-day facility is not renewed for an additional 364-day period, the Company may borrow up to the entire amount of the facility and all such borrowings mature in December 2002. Commitment fees are payable by the Company on the unused portion of these revolving credit facilities at a rate per annum determined by reference to the Company's unsecured debt rating and are not considered material. At December 31, 1997, $839.2 million remained available to be borrowed in the aggregate under both facilities as a result of the issuance on behalf of the Company of $10.8 million of letters of credit.

(g) In March 1994, Northwest agreed to sell certain receivables on an ongoing basis to Northwest Capital Funding Corp. ("NCF"), pursuant to a receivable financing program (the "Receivable Program"). NCF, an indirect subsidiary of the Company, has issued through a master trust floating rate Term Certificates. The Receivable Program provides for the early retirement of the related Term Certificates upon the occurrence of certain events, one of which occurred on January 25, 1998. Accordingly, the Company advised the trustee for the certificateholders that these certificates will be paid in full on February 25, 1998.

Maturities of long-term debt for the five years subsequent to December 31, 1997, assuming the accelerated maturity in (g) above, are as follows (in millions):

1998	$ 362.4
1999	50.1
2000	47.4
2001	125.8
2002	189.8

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, 1997, 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, 1997, were pledged under various loan agreements.

Cash payments of interest, net of capitalized interest, aggregated $231.3 million in 1997, $263.3 million in 1996 and $365.6 million in 1995.

The weighted average interest rates on short-term borrowings outstanding at December 31 were 6.24%, 5.69% and 5.73% for 1997, 1996 and 1995, respectively. These short-term borrowings were used primarily for financing aircraft insurance premiums, fuel hedging activities and the acquisition of preferred stock (see Note G).

Note E — Leases

The Company leases under noncancelable operating leases certain aircraft, space in airport terminals, land and buildings at airports, ticket, sales and reservations offices, and other property and equipment which expire in various years through 2027. Portions of certain facilities are subleased under noncancelable operating leases expiring in various years through 2020.

At December 31, 1997, the Company leased 120 of the 405 aircraft it operates. Of these, 30 were capital leases and 90 were operating leases. Expiration dates range from 1998 to 2009 for aircraft under capital leases, and from 1998 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-five of the 120 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		
	1997	1996	1995
Gross rental expense	**$ 627.1**	$ 596.5	$ 601.9
Sublease rental income	**(79.5)**	(62.2)	(57.6)
Net rental expense	**$ 547.6**	$ 534.3	$ 544.3

At December 31, 1997, 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
1998	$ 112.8	$ 473.5
1999	105.3	460.2
2000	103.0	439.2
2001	103.5	425.8
2002	274.2	431.6
Thereafter	301.6	4,560.7
	1,000.4	6,791.0
Less sublease rental income		327.4
Total minimum operating lease payments		$ 6,463.6
Less amounts representing interest	295.1	
Present value of future minimum capital lease payments	705.3	
Less current obligations under capital leases	55.9	
Long-term obligations under capital leases	$ 649.4	

Note F — 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 ceased to be 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." NWA Corp. 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 semi-annually 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 $61.9 million, net of $36.6 million in income taxes. This gain, together with losses on other debt extinguishments, is shown as an extraordinary item net of $29.4 million in income taxes in 1995.

The carrying value is being accreted over 12 years from October 1995 to the ultimate maturity value of 72.2 billion yen ($551 million based on the December 31, 1997 exchange rate). Such accretion is included as a component of "Interest of mandatorily redeemable preferred security holder" in the Consolidated Statements of Income.

Note G — Series A and Series B Redeemable Preferred Stock

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

	Series A Shares	Series A Amount	Series B Shares	Series B Amount	Accrued Dividends	Total
Balance January 1, 1995	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
Acquisition of preferred stock	(1,308.8)	(65.4)	(2,163.2)	(108.2)	(80.6)	(254.2)
Accrued dividends	—	—	—	—	14.4	14.4
Balance December 31, 1997	—	—	—	—	—	—

In September 1997, NWA Corp. repurchased all of the Series A and B Preferred Stock outstanding for $251.3 million in cash.

For each of the Series A and Series B Preferred Stock, 10,000 shares were authorized, par value was $.01 per share and the stated value was $50,000 per share. Both series were 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 had voting rights for the election of directors. Both series accrued dividends at 8% per year and were cumulative if unpaid.

In July 1996, NWA Corp. 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 January 1995, NWA Corp. consummated an agreement with Bankers Trust New York Corporation to exchange 1,727 shares of NWA Corp.'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 H — Redeemable Common Stock

On September 29, 1997, NWA Corp. and KLM entered into agreements providing for the acquisition by NWA Corp. of all the NWA Corp. common stock held by KLM (24,977,874 shares) for $1.12 billion, which included 3,293,775 million shares of common stock that KLM acquired from other stockholders. On that date, 6.8 million shares were repurchased for $273.1 million. Concurrently with the purchase of the first tranche, all of KLM's existing governance rights under various stockholder and other agreements were canceled, NWA Corp. and KLM entered into an agreement containing customary standstill obligations and KLM withdrew its pending legal actions against the Company, its directors and certain stockholders. The remaining 18.2 million shares of common stock to be repurchased (4.9 million in 1998, 3.2 million in 1999 and 10.1 million in 2000) were reclassified to redeemable common stock from common stockholders' equity deficit, as required for such stock transactions. However, earnings per share calculations will continue to include the 18.2 million shares until actually repurchased. The Company and KLM also expanded their alliance by entering into an enhanced commercial and operational alliance providing for a minimum term of 13 years.

Subsequently, on January 16, 1998, NWA Corp. reached an agreement in principle with KLM to accelerate the repurchase of the remaining 18.2 million shares of common stock to 1998 versus over a three-year period. The estimated purchase price of $775 million will be paid with a combination of approximately $335 million of cash and three senior unsecured notes for the remainder. The notes will bear interest at 7.88% and mature each September 29, 1998, 1999 and 2000. This transaction will result in a transfer from redeemable common stock to common stockholders' equity deficit of approximately $73 million.

The cash requirements under the original repurchase obligation compared to the cash requirements under the accelerated repurchase are shown below (in millions):

	1998	1999	2000
As of December 31, 1997	$ 210.1	$ 147.4	$ 491.0
Initial cash payment and maturity of the unsecured notes	$ 539.0	$ 136.0	$ 100.0

The agreement in principle is subject to the execution of definitive documentation and the approval of the respective boards of NWA Corp. and KLM. The transaction is expected to close before May 1, 1998 at which time the 18.2 million remaining common shares will be repurchased and excluded from the earnings per share calculations. In certain limited circumstances (e.g., the failure of the alliance to maintain certain antitrust immunity or Northwest's default under the alliance agreement), KLM will have an option to buy back from NWA Corp. up to 18.2 million shares.

Note I—Common Stockholders' Equity (Deficit)

NWA Corp.'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, 1995	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
Exercise of stock options	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
Exercise of stock options	.5	—	.5
Balance at December 31, 1996	93.7	3.9	97.6
Shares issued to employee trusts	3.1	.4	3.5
Conversion of Class B to Class A	3.1	(3.1)	—
Conversion of Series C Preferred Stock	1.6	.2	1.8
Exercise of stock options	.9	—	.9
Balance at December 31, 1997	**102.4**	**1.4**	**103.8**

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.

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 NWA Corp., 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 NWA Corp.'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 NWA Corp.'s outstanding common stock. If any person or group acquires beneficial ownership of 19% or more of NWA Corp.'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 NWA Corp. having a market value of two times the exercise price of the right. In addition, if after the rights become exercisable NWA Corp. 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 NWA Corp. at a price of $.01 per right prior to the time they become exercisable.

NWA Corp. 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. NWA Corp.'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):

	1997		1996		1995	
	Shares	**Weighted-Avg Exercise Price**	Shares	Weighted-Avg Exercise Price	Shares	Weighted-Avg Exercise Price
Outstanding at beginning of year	**4,774**	**$20.11**	3,509	$ 10.56	4,525	$ 8.70
Granted	**1,454**	**39.26**	1,836	35.04	206	26.06
Forfeited	**(154)**	**36.24**	(118)	15.55	(165)	10.72
Exercised	**(870)**	**7.49**	(453)	7.92	(1,057)	5.38
Outstanding at end of year	**5,204**	**27.09**	4,774	20.11	3,509	10.56
Exercisable at end of year	**1,894**	**15.55**	1,907	9.16	1,594	7.95
Class A Common Stock:						
Reserved for issuance	**7,948**		7,948		4,948	
Available for future grants	**187**		1,487		205	

At December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$ 4.74 to $13.00	1,624	5.9 years	$10.40	1,257	$ 9.90
14.00 to 31.875	1,061	7.6	26.25	428	21.75
34.00 to 44.125	2,519	9.2	38.20	209	36.87

The weighted-average fair value of options granted during 1997, 1996 and 1995 is $16.50, $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 6.1%, 6.4% and 6.9% for 1997, 1996 and 1995, respectively, and expected lives of six years and volatility of 30% for all years presented. 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 1997, 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 1997, 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.

In 1996, NWA Corp. adopted long-term performance and retention arrangements under which 500,000 phantom stock units were awarded at no cost. Vested units are payable in cash based on the market value of NWA Corp.'s common stock at the time of payment. 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 eight installments over two-year performance periods, the first of which ended in 1997 and the final of which ends in 2004. Compensation expense is recorded over each two-year vesting period. As of December 31, 1997, 400,000 units were outstanding, 50,000 of which were vested.

Note J — Income Taxes

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

	Year Ended December 31		
	1997	1996	1995
Current:			
Federal	**$ 108.5**	$ 175.0	$ 89.1
Foreign	**3.7**	4.1	3.9
State	**10.9**	22.3	13.0
	123.1	201.4	106.0
Deferred:			
Federal	**236.8**	112.1	91.4
Foreign	**—**	16.6	.7
State	**18.9**	6.2	3.3
	255.7	134.9	95.4
Total income tax expense	**$ 378.8**	$ 336.3	$ 201.4

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

	Year Ended December 31		
	1997	1996	1995
Statutory rate applied to income before income taxes and extraordinary item	**$ 344.6**	$ 305.3	$ 190.2
Add (deduct):			
State income tax net of federal benefit	**19.2**	18.5	13.5
Adjustment to valuation allowance and other income tax accruals	**5.8**	6.2	(12.3)
Other	**9.2**	6.3	10.0
Total income tax expense	**$ 378.8**	$ 336.3	$ 201.4

The net deferred tax liabilities listed below include a current net deferred tax asset of $84.8 million and $95.5 million and a long-term net deferred tax liability of $1,161.5 million and $947.2 million as of December 31, 1997 and 1996, respectively.

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

	December 31	
	1997	1996
Deferred tax liabilities:		
Financial accounting basis of assets in excess of tax basis	**$ 1,445.7**	$ 1,394.5
Expenses other than depreciation accelerated for tax purposes	**305.0**	283.7
Other	**12.5**	11.3
Total deferred tax liabilities	**1,763.2**	1,689.5
Deferred tax assets:		
Pension and postretirement benefits	**128.3**	180.2
Expenses accelerated for financial reporting purposes	**406.8**	430.9
Leases capitalized for financial reporting purposes	**97.0**	123.8
Alternative minimum tax credit carryforwards	**54.4**	102.9
Total deferred tax assets	**686.5**	837.8
Net deferred tax liability	**$ 1,076.7**	$ 851.7

During 1996, the Company utilized all of its regular net operating loss carryforwards ("NOLs"). For tax purposes, the Company utilized NOLs of approximately $121.8 million, $684.4 million and $394.4 million in 1996, 1995 and 1994, respectively, and alternative minimum tax net operating loss carryforwards ("AMTNOLs") of $105.1 million and $446.7 million in 1995 and 1994, respectively. The Company has alternative minimum tax credits of approximately $54.4 million available for carryforward to future years' tax returns. The alternative minimum tax credit has an unlimited carryforward period. In 1996, the Company utilized its remaining foreign tax credit carryforward available for regular tax purposes. In 1995, the Company utilized its remaining AMTNOL carryforward, as well as its remaining investment tax credit carryforward and its remaining foreign tax credit carryforward 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 NWA Corp.'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 IRS were to successfully assert 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 NWA Corp.'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 Company disagrees with the IRS' proposals. The Company is vigorously contesting these proposed adjustments and believes 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 K — Commitments

As of December 31, 1997, the Company had firm orders for 115 new aircraft including 20 Airbus A320 aircraft (13 in 1998 and seven in 1999), 50 Airbus A319 aircraft (ten per year beginning in 1999), 25 Boeing 757-200 aircraft from 2003 through 2005, 16 Airbus A330 aircraft (eight each in 2004 and 2005) and four Boeing 747-400 aircraft (one each in 1999 and 2000 and two in 2002). Committed expenditures for these aircraft and related equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately: $526 million in 1998, $665 million in 1999, $418 million in 2000, $425 million in 2001, $854 million in 2002 and $3.6 billion from 2003 to 2005.

The Company has substitution rights with respect to the Airbus A330 aircraft and has the option to defer the delivery of one Boeing 747-400 aircraft from 2000 to 2003. The Company has options to purchase 50 additional Airbus A319 and/or A320 aircraft for delivery from 2000 through 2003 and 50 roll-over options which would allow the replacement of the initial 50 options and are assigned delivery slots commencing in January 2004 as the initial 50 options are exercised.

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 committed Airbus A320 and A319 aircraft deliveries. This financing is available for use at the option of the Company. 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, 1997. Loans thereunder have a final maturity not later than October 2016.

Note L — 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 M — 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. In 1997 and 1996, the Company made contributions in excess of its minimum requirements of $133 million and $85 million, respectively.

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

	Year Ended December 31		
	1997	1996	1995
Service cost — benefits earned during the period	**$ 113.2**	$ 115.7	$ 77.3
Interest cost on projected benefit obligations	**286.4**	267.2	237.0
Actual gain on plan assets	**(623.6)**	(399.1)	(564.8)
Net amortization and deferral	**359.9**	201.3	361.8
Net periodic pension cost	**$ 135.9**	$ 185.1	$ 111.3

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):

	1997		1996	
	Assets Exceed Accumulated Benefits	**Accumulated Benefits Exceed Assets**	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:				
Vested benefit obligations	**$ 2,381.0**	**$ 1,077.0**	$ 218.9	$ 2,792.4
Nonvested benefit obligations	**204.8**	**116.0**	25.3	245.7
Accumulated benefit obligations	**2,585.8**	**1,193.0**	244.2	3,038.1
Effect of projected future salary increases	**389.0**	**83.5**	42.2	374.5
Projected benefit obligations	**$ 2,974.8**	**$ 1,276.5**	$ 286.4	$ 3,412.6
Plan assets at fair value	**$ 2,724.7**	**$ 1,033.4**	$ 292.4	$ 2,716.3
Less projected benefit obligations	**2,974.8**	**1,276.5**	286.4	3,412.6
Projected benefit obligations (in excess of) less than plan assets	**(250.1)**	**(243.1)**	6.0	(696.3)
Unrecognized prior service cost	**121.6**	**60.3**	5.1	198.0
Unrecognized net loss	**172.2**	**152.5**	5.4	346.7
Adjustment required to recognize minimum liability	**—**	**(144.6)**	—	(188.4)
Prepaid (accrued) pension cost at December 31	**$ 43.7**	**$ (174.9)**	$ 16.5	$ (340.0)

As of December 31, 1997 and 1996, 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:

	1997	1996	1995
Weighted average discount rate	**7.10%**	7.60%	7.10%
Rate of increase in future compensation levels	**3.50%**	3.50%	3.50%
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 exceeds plan assets. The minimum liability is recorded as a long-term liability with an offsetting intangible asset. Because the intangible asset is not allowed to exceed the unrecognized prior service cost, the balance is reported as a reduction to equity (net of tax). The minimum pension liability adjustment resulted in a $36.4 million intangible asset included in other assets and a $68.2 million, net of tax, cumulative reduction in common stockholders' equity deficit at December 31, 1997.

Note N — 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. The expected future cost of providing such postretirement benefits is accrued over the service life of active employees. 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		
	1997	1996	1995
Service cost	**$ 10.3**	$ 10.3	$ 7.3
Interest cost	**23.8**	22.1	20.8
Net amortization and deferral	**2.1**	3.2	.2
Actual gain on plan assets	**(.4)**	(.4)	(.4)
Net periodic postretirement benefit cost	**$ 35.8**	$ 35.2	$ 27.9

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

	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	**$ 99.5**	$ 103.7
Fully eligible active plan participants	**78.1**	67.1
Other active plan participants	**169.5**	142.8
	347.1	313.6
Plan assets at fair value	**5.3**	5.1
Accumulated postretirement benefit obligation in excess of plan assets	**341.8**	308.5
Unrecognized net loss	**(85.0)**	(72.4)
Accrued postretirement benefit cost	**$ 256.8**	$ 236.1

At December 31, 1997, the weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is 6.5% for 1998 and is assumed to decrease gradually to 4.5% for 2002 and remain at that level thereafter (a rate of 7.0% was assumed for 1997). 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, 1997, by $40.3 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 1997 by $4.8 million. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.1% at December 31, 1997 and 7.6% at December 31, 1996.

Note O — Related Party Transactions

KLM Royal Dutch Airlines owned 18,177,874 shares of Class A Common Stock of NWA Corp. at December 31, 1997. 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 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. In September 1997, the Company and KLM expanded their alliance by entering into an enhanced commercial and operational alliance providing for a minimum term of 13 years. Under the alliance agreement, the two airlines will expand their current areas of cooperation to include services between Europe and Canada, India and Mexico. In addition, the two companies plan to increase the level of cooperation between their respective cargo divisions and will explore extending their alliance to include additional partners and to further develop strategies for joint marketing and product development.

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 $78.6 million, $77.1 million and $81.8 million in 1997, 1996 and 1995, respectively.

The Company owns 29.3% of the common stock of Mesaba Holdings, Inc., the holding company of Mesaba Aviation, Inc. ("Mesaba"), which operates as a Northwest Airlink. The Company also holds warrants in Mesaba stock, which, if exercised, would increase the Company's ownership to 35.8% as of December 31, 1997. Northwest and Mesaba signed a new ten-year Airline Services Agreement ("ASA") effective July 1, 1997 under which Northwest determines Mesaba's commuter aircraft scheduling and fleet composition. As of December 31, 1997, the Company has leased 27 Saab 340 aircraft which are in turn subleased to Mesaba. The lease agreements provide the Company with renewal options ranging from one to five years and purchase options at the end of the lease or renewal term which approximate fair market value. The Company has committed to lease an additional 45 aircraft which Mesaba has agreed to sublease pursuant to the new ASA.

In addition, as of December 31, 1997, the Company has subleased eight of twelve Avro Regional Jet aircraft to Mesaba under a Regional Jet Services Agreement consummated in October 1996. In October 1997, the Company exercised an option to purchase 24 additional Avro Regional Jet aircraft, bringing the number of aircraft on order as of December 31, 1997 to 28, with ten scheduled for delivery in each of 1998 and 1999 and eight in 2000. Committed expenditures for these aircraft, including contractual price escalations, are approximately $600 million. The Company will lease four of the 28 aircraft to Mesaba under its Regional Jet Services Agreement. The Company intends to lease the remaining 24 aircraft to one or more regional commuter airline partners.

On April 1, 1997, NWA Inc., a wholly owned subsidiary of the Company, purchased all of the outstanding stock of Express Airlines I, Inc. and an affiliate ("Express") and their operating results are included in the Company's consolidated financial statements commencing on that date. Express is a regional carrier that provides passenger traffic to Northwest at Memphis.

Note P — Risk Management and Financial Instruments

Risk Management. The Company uses financial instruments to manage the price risk of fuel and its exposure to foreign currency fluctuations. The Company does not hold or issue derivative financial instruments for trading purposes. The notional amounts of financial instruments summarized below did not represent amounts exchanged between parties and, therefore, are not a measure of the Company's exposure resulting from its use of derivatives.

Foreign Currency. 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 comes from the Japanese yen. In 1997, the Company's yen-denominated revenues exceeded its yen-denominated expenses by approximately 75 billion yen. From time to time, the Company uses options and forward contracts to hedge its anticipated yen-denominated net cash flows. The changes in market value of such agreements have a high correlation to the movements in the yen exchange rate fluctuations. The Company is exposed to credit loss in the event of nonperformance by counterparties to these financial instruments, but it does not expect any of the counterparties to fail to meet its obligations. The amount of such credit exposure is generally the unrealized gains in such contracts. To manage credit risks, the Company selects counterparties based on credit ratings, limits exposure to a single counterparty and monitors the market position with each counterparty. As of December 31, 1997, the Company had $523.5 million (67.5 billion yen) in purchased yen put options outstanding to hedge approximately 90% of its anticipated 1998 yen-denominated net cash flows. The fair value of the options is not recognized in the financial statements and is not material at December 31, 1997. Premiums paid for the options are classified as prepaid expense. Realized gains and the amortization of the premiums will be recognized as a component of passenger revenue.

Fuel. The Company manages the price risk of fuel primarily utilizing futures contracts traded on regulated exchanges. The changes in market value of such contracts have a high correlation to the price changes of fuel being hedged. Gains or losses on open and closed hedge contracts are deferred and included in the statements of financial position as accounts payable and other liabilities or prepaid expenses, respectively, until the related fuel inventory is expensed, at which time both the fuel cost and the gain or loss on the hedge instrument are accounted for as fuel expense. As of December 31, 1997, the Company had hedged approximately 28% of its 1998 fuel requirements, including 63% of the first quarter.

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):

	1997		1996	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Cash and Cash Equivalents:				
Held-to-maturity debt securities:				
Commercial paper	**$ 372.4**	**$ 372.4**	$ 435.6	$ 435.6
Other	**281.1**	**281.1**	8.5	8.5
Available-for-sale debt securities	**68.8**	**68.8**	101.5	101.5
Cash	**18.1**	**18.1**	13.8	13.8
	$ 740.4	**$ 740.4**	$ 559.4	$ 559.4
Short-term Investments:				
Held-to-maturity debt securities:				
Commercial paper	**$ 176.3**	**$ 176.3**	$ 10.5	$ 10.5
Other	**122.1**	**122.1**	91.9	91.9
Available-for-sale debt securities	**139.3**	**139.3**	150.7	150.7
	$ 437.7	**$ 437.7**	$ 253.1	$ 253.1
Long-term Debt	**$ 2,069.3**	**$ 2,239.7**	$ 2,060.4	$ 2,166.7
Mandatorily Redeemable Preferred Security of Subsidiary	**486.3**	**434.1**	549.2	536.2
Series A and B Preferred Stock	**—**	**—**	239.8	198.7
Series C Preferred Stock	**306.2**	**432.9**	362.8	332.4
Redeemable Common Stock	**848.5**	**767.7**	—	—

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 1997 and 1996 were $63.1 and $161.3 million, respectively, and proceeds from sales of such securities were $74.5 and $10.6 million, respectively. At December 31, 1997 and 1996, short-term investments included $138.2 and $60.4 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, preferred securities and redeemable common stock not actively traded, 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.

Note Q — Quarterly Financial Data (Unaudited)

Unaudited quarterly results of operations for the years ended December 31, 1997 and 1996, are summarized below (in millions, except per share amounts):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1997:				
Operating revenues	$ 2,375.5	$ 2,557.6	$ 2,801.4	$ 2,491.3
Operating income	135.0	291.1	503.8	227.3
Income before extraordinary item	64.6	136.2	290.3	114.7
Net loss on extinguishment of debt	—	—	—	(9.3)
Net income	$ 64.6	$ 136.2	$ 290.3	$ 105.4
Basic earnings per common share:				
Before effect of extraordinary item	$ .59	$ 1.29	$ 2.80	$ 1.18
Net loss on extinguishment of debt	—	—	—	(.09)
Earnings per common share	$ .59	$ 1.29	$ 2.80	$ 1.09
Diluted earnings per common share:				
Before effect of extraordinary item	$ .53	$ 1.16	$ 2.53	$ 1.06
Net loss on extinguishment of debt	—	—	—	(.09)
Earnings per common share	$ .53	$ 1.16	$ 2.53	$ .97
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
Basic earnings per common share:				
Before effect of acquisition of preferred stock	$ 0.42	$ 1.95	$ 2.48	$ 0.21
Acquisition of preferred stock	—	—	0.74	—
Earnings per common share	$ 0.42	$ 1.95	$ 3.22	$ 0.21
Diluted earnings per common share:				
Before effect of acquisition of preferred stock	$ 0.38	$ 1.73	$ 2.22	$ 0.19
Acquisition of preferred stock	—	—	0.67	—
Earnings per common share	$ 0.38	$ 1.73	$ 2.89	$ 0.19

The 1996 and first three quarters of 1997 earnings per share amounts have been restated to comply with SFAS 128.

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 R — 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		
	1997	1996	1995
Operating revenues	**$ 9,882.9**	$ 9,651.3	$ 8,806.6
Operating expenses	**8,773.9**	8,641.7	7,937.0
Operating income	**1,109.0**	1,009.6	869.6
Other income (expense)	**(212.9)**	(183.6)	(316.4)
Income before income taxes and extraordinary item	**896.1**	826.0	553.2
Income tax expense	**342.6**	308.8	215.9
Income before extraordinary item	**553.5**	517.2	337.3
Net gain (loss) on extinguishment of debt	**(9.3)**	—	50.4
Net income	**$ 544.2**	$ 517.2	$ 387.7

Condensed Consolidated Balance Sheet Data

	December 31	
	1997	1996
Current assets	**$ 2,015.0**	$ 1,626.8
Noncurrent assets	**6,114.6**	5,818.3
Current liabilities	**3,164.7**	2,832.2
Long-term debt and obligations under capital leases	**2,016.9**	2,103.9
Deferred credits and other liabilities	**1,191.0**	935.7
Mandatorily redeemable preferred security of subsidiary	**486.3**	549.2

Note S — Subsequent Event

On January 25, 1998, NWA Corp. and its newly-formed, wholly-owned subsidiary, Newbridge Parent Corporation ("Newbridge"), and Air Partners, L.P., a Texas limited partnership, its partners and certain of its affiliates, entered into an Investment Agreement. Pursuant to the Investment Agreement, NWA Corp. and Newbridge will acquire the beneficial ownership of 8,535,868 shares of Class A Common Stock of Continental Airlines, Inc. ("Continental"). These shares represent approximately 14 percent of Continental's common stock equity and 52 percent of its outstanding voting common stock. The aggregate consideration was valued at approximately $519 million and is expected to consist of $311 million in cash and 4.1 million shares of newly issued Newbridge Class A Common Stock, par value $.01 per share.

Concurrently with the execution of the Investment Agreement, NWA Corp., Newbridge and Newbridge Merger Sub, a wholly-owned subsidiary of Newbridge ("Merger Sub"), entered into an Agreement and Plan of Merger providing for the merger of Merger Sub with and into NWA Corp. (the "Merger"), as a result of which NWA Corp. will become a wholly-owned subsidiary of Newbridge and each outstanding share of Class A Common Stock of NWA Corp. will be exchanged for one share of Newbridge Class A Common Stock. The merger will occur concurrently with the closing of the transactions contemplated by the Investment Agreement. Following the Merger, Newbridge will change its name to "Northwest Airlines Corporation" and NWA Corp. will change its name to "Northwest Airlines Holding Corporation."

The closing of the transactions under the Investment Agreement and the Merger, which are expected to close by the end of 1998, are subject to approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR"), and satisfactory review by the Department of Transportation.

In connection with the Investment Agreement and the alliance agreement discussed below, NWA Corp. and Newbridge have entered into a Governance Agreement with Continental for a six-year term. The Governance Agreement contains certain restrictions on NWA Corp.'s and Newbridge's ability to acquire additional shares of Continental common stock and to vote such shares and restrictions on Northwest's and Newbridge's ability to affect the composition and conduct of Continental's Board of Directors. Due to the restrictions in the Governance Agreement, the Company will account for this investment under the equity method.

On January 25, 1998, Northwest and Continental entered into an agreement providing for a global strategic operating alliance (the "alliance agreement"). The thirteen year alliance, when fully implemented, will connect the two carriers' networks and will include code-sharing, frequent flyer program reciprocity, cooperation between Continental and KLM and other cooperative activities. Full implementation of the alliance agreement is contingent on approval under HSR, approval of the Department of Transportation and the successful conclusion of negotiations with Northwest's pilots' union. The two airlines have no plans to merge their operations and will retain separate boards, management and headquarters. No layoffs, mergers of workforces, transfers of flying or assets or closures of facilities are planned.

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, 1997 and 1996, 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, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Minneapolis, Minnesota
January 25, 1998

Five-Year Summary

Northwest Airlines Corporation

	Year Ended December 31				
	1997	1996	1995	1994	1993
Statements of Income					
(In millions, except per share data)					
Operating revenues					
Passenger	$ 8,822.1	$ 8,598.3	$ 7,762.0	$ 7,010.1	$ 6,619.5
Cargo	789.4	745.8	751.2	755.8	734.8
Other	614.3	536.4	571.7	559.0	510.5
	10,225.8	9,880.5	9,084.9	8,324.9	7,864.8
Operating expenses	9,068.6	8,826.7	8,171.5	7,485.3	7,586.5
Operating income	1,157.2	1,053.8	913.4	839.6	278.3
Operating margin	*11.3%*	*10.7%*	*10.1%*	*10.1%*	*3.5%*
Income (loss) before extraordinary item	$ 605.8	$ 536.1	$ 342.1	$ 295.5	$ (115.3)
Net income (loss)	$ 596.5	$ 536.1	$ 392.0	$ 295.5	$ (115.3)
Earnings (loss) per common share:					
Basic	$ 5.89(1)	$ 5.05(1)	$ 3.11(1)	$ 3.00	$ (3.12)
Diluted	$ 5.29(1)	$ 4.52(1)	$ 2.90(1)	$ 2.90	$ (2.85)
Balance Sheets *(In millions)*					
Cash, cash equivalents and unrestricted short-term investments	$ 1,039.9	$ 752.1	$ 970.9	$ 968.3	$ 139.6
Total assets	9,336.2	8,511.7	8,412.3	8,070.1	7,571.3
Long-term debt, including current maturities	2,069.3	2,060.4	2,467.1	4,013.5	4,437.9
Long-term obligations under capital leases, including current obligations	705.3	772.2	841.2	890.3	928.1
Mandatorily redeemable preferred security of subsidiary	486.3	549.2	618.4	—	—
Redeemable stock	1,154.7	602.6	945.5	795.0	749.9
Common stockholders' equity (deficit)(2)	(311.0)	92.9	(818.8)	(1,370.7)	(2,030.5)
Operating Statistics (3)					
Scheduled service:					
Available seat miles (ASM) (millions)	96,963.6	93,913.7	87,472.0	85,015.6	87,212.5
Revenue passenger miles (millions)	72,031.3	68,639.1	62,515.2	57,873.2	58,130.1
Passenger load factor	74.3%	73.1%	71.5%	68.1%	66.7%
Revenue passengers (millions)	54.7	52.7	49.3	45.5	44.1
Revenue yield per passenger mile	12.11¢	12.53¢	12.42¢	12.11¢	11.39¢
Passenger revenue per scheduled ASM	9.00¢	9.16¢	8.87¢	8.25¢	7.59¢
Operating revenue per total ASM(4)	9.76¢	9.85¢	9.58¢	8.93¢	8.23¢
Operating expense per total ASM(4)	8.63¢	8.78¢	8.66¢	8.08¢	8.00¢
Cargo ton miles (millions)	2,282.8	2,215.8	2,246.3	2,322.3	2,188.0
Cargo revenue per ton mile	34.5¢	33.7¢	33.4¢	32.5¢	33.6¢
Fuel gallons consumed (millions)	1,996.3	1,945.1	1,846.2	1,792.8	1,801.7
Average fuel cost per gallon	64.86¢	67.21¢	55.66¢	56.23¢	62.09¢
Number of operating aircraft at year end	405	399	380	361	358
Full-time equivalent employees at year end	48,984	47,536	45,124	43,673	43,358

(1) Excludes the effects of the 1997 extraordinary loss ($.10 per basic share and $.08 per diluted share), the 1996 preferred stock transaction ($.75 per basic share and $.68 per diluted share), the 1995 preferred stock transaction ($.64 per basic share and $.58 per diluted share) and the 1995 extraordinary gain ($.55 per basic share and $.50 per diluted share).

(2) No dividends have been paid on common stock for any period presented.

(3) All statistics exclude Express Airlines I, Inc.

(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

	1997		1996	
Quarter	**High**	**Low**	High	Low
1st	**41¾**	**33⅛**	55⅛	40½
2nd	**43¾**	**33⅞**	52⅞	38
3rd	**42 19/32**	**35¼**	40½	34
4th	**49⅛**	**40½**	42⅛	30½

No dividends were declared during the years ended 1997 or 1996.

Stock Listing

The Company's common stock is quoted on the Nasdaq National Market under symbol NWAC. As of January 31, 1998 there were 450 stockholders of record and approximately 8,500 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 1998 Annual Meeting of Stockholders will be held at the Equitable Life Building, New York, New York on Friday, April 24, 1998 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) 271-0120
E-mail: www.nwairlines@4midwest.com

Direct all other inquiries to:
Investor Relations
Department A4110
5101 Northwest Drive
St. Paul, Minnesota 55111
(800) 953-3332

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

Raymond J. Vecci
Executive Vice President—Customer Service

Donald A. Washburn
Executive Vice President—Flight Operations & President Northwest Cargo

Richard H. Anderson
Senior Vice President—Technical Operations & Airport Affairs

Christopher E. Clouser
Senior Vice President—Administration

Joseph E. Francht, Jr.
Senior Vice President—Finance & Treasurer

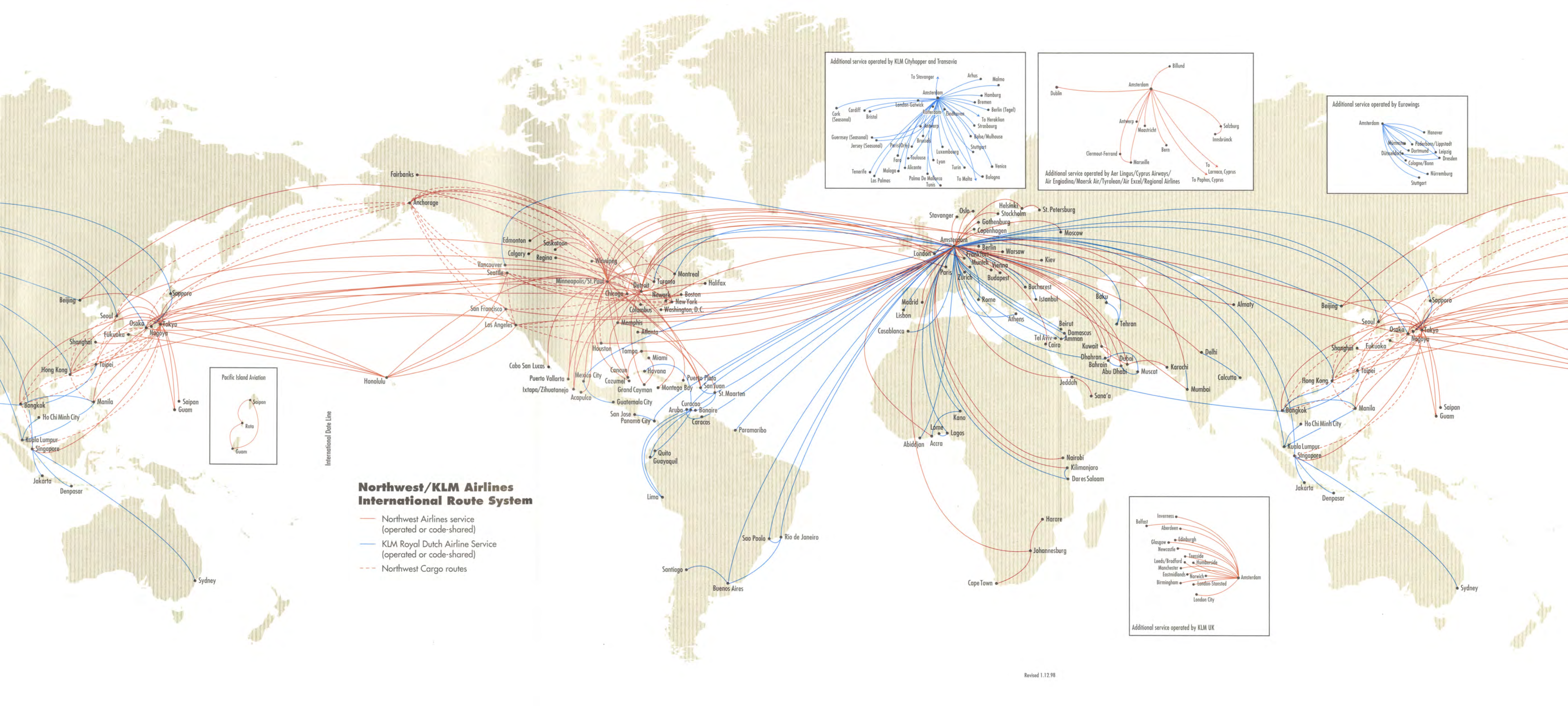
J. Timothy Griffin
Senior Vice President—Market Planning & Systems

Philip C. Haan
Senior Vice President—International

Richard B. Hirst
Senior Vice President—Corporate Affairs

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

John S. Kern
Vice President—Regulatory Affairs & Chief Safety Officer


Northwest/KLM Airlines
International Route System
Northwest Airlines service
(operated or code-shared)
KLM Royal Dutch Airline Service
(operated or code-shared)
Northwest Cargo routes
Additional service operated by KLM Cityhopper and Transavia
Additional service operated by Aer Lingus/Cyprus Airways/
Air Engiadina/Maersk Air/Tyrolean/Air Excel/Regional Airlines
Additional service operated by Eurowings
Additional service operated by KLM UK
Pacific Island Aviation
International Date Line
Revised 1.12.98
Fairbanks
Anchorage
Edmonton
Saskatoon
Calgary
Regina
Vancouver
Seattle
Winnipeg
Minneapolis/St. Paul
Montreal
Halifax
Detroit
Toronto
Chicago
Newark
Boston
New York
Columbus
Washington, D.C.
San Francisco
Los Angeles
Memphis
Atlanta
Houston
Tampa
Miami
Cabo San Lucas
Puerto Vallarta
Ixtapa/Zihuatanejo
Mexico City
Acapulco
Cancun
Cozumel
Havana
Grand Cayman
Montego Bay
Puerto Plata
San Juan
St. Maarten
Guatemala City
San Jose
Panama City
Aruba
Curacao
Bonaire
Caracas
Paramaribo
Quito
Guayaquil
Lima
Sao Paolo
Rio de Janeiro
Santiago
Buenos Aires
Honolulu
Beijing
Seoul
Sapporo
Osaka
Tokyo
Fukuoka
Nagoya
Shanghai
Taipei
Hong Kong
Manila
Saipan
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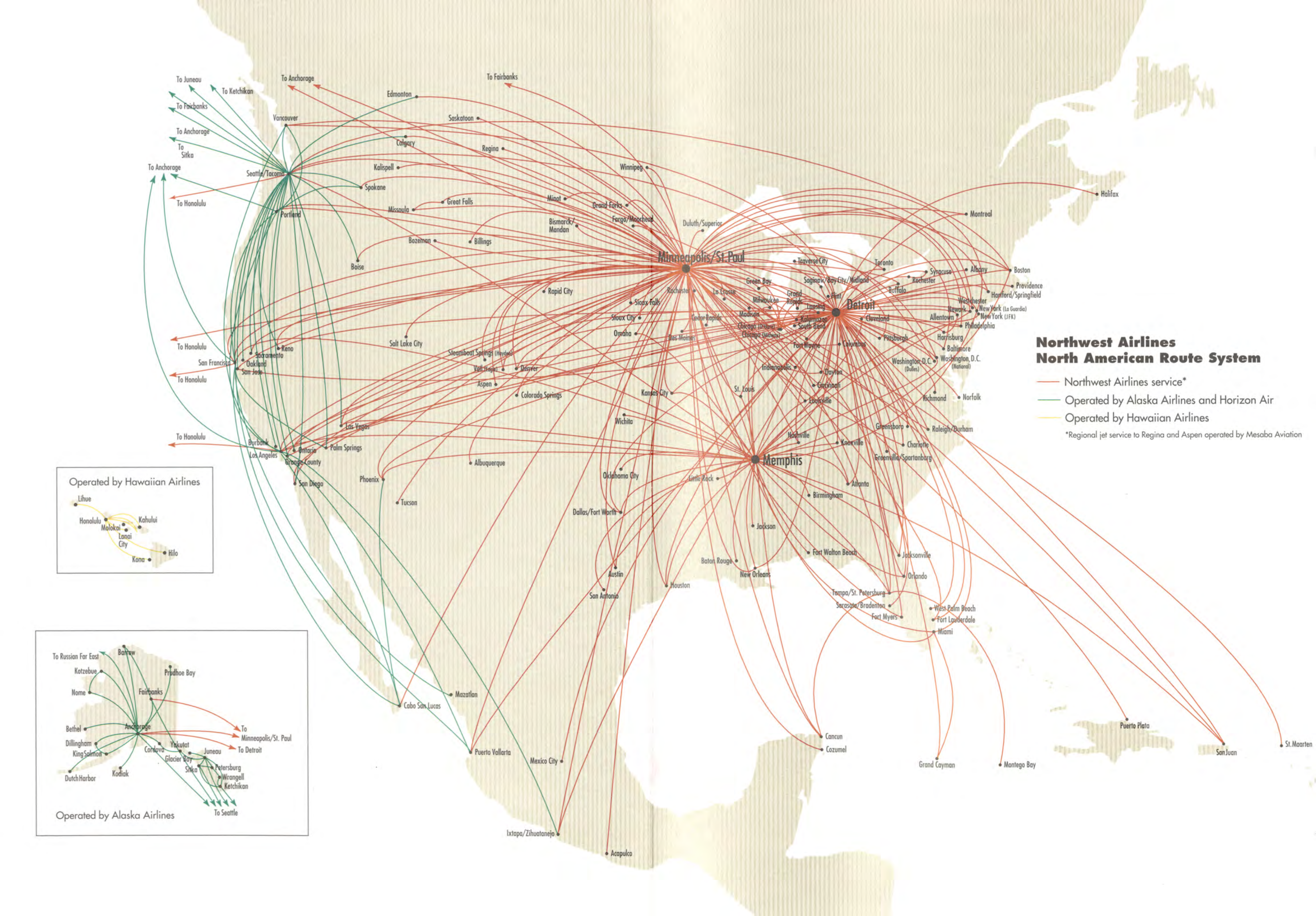
Damascus
Tel Aviv
Amman
Cairo
Kuwait
Dhahran
Bahrain
Dubai
Abu Dhabi
Muscat
Karachi
Delhi
Calcutta
Mumbai
Jeddah
Sana'a
Kano
Lome
Lagos
Abidjan
Accra
Nairobi
Kilimanjaro
Dares Salaam
Harare
Johannesburg
Cape Town
To Stavanger
Arhus
Malmo
Hamburg
Bremen
Berlin (Tegel)
London-Gatwick
Rotterdam
Eindhoven
To Heraklion
Strasbourg
Cork
(Seasonal)
Cardiff
Bristol
Antwerp
Basle/Mulhouse
Guernsey (Seasonal)
Jersey (Seasonal)
Paris (Orly)
Brussels
Stuttgart
Luxembourg
Faro
Toulouse
Lyon
Venice
Alicante
Turin
Tenerife
Malaga
Las Palmas
Palma De Mallorca
Tunis
To Malta
Bologna
Billund
Dublin
Salzburg
Maastricht
Innsbrück
Bern
Clermont-Ferrand
Marseille
To
Larnaca, Cyprus
To Paphos, Cyprus
Hanover
Münster
Paderborn/Lippstadt
Dortmund
Leipzig
Düsseldorf
Dresden
Cologne/Bonn
Nürnberg
Inverness
Belfast
Aberdeen
Edinburgh
Glasgow
Newcastle
Teesside
Leeds/Bradford
Humberside
Manchester
Eastmidlands
Norwich
Birmingham
London-Stansted
London City



Northwest Airlines
North American Route System
Northwest Airlines service*
Operated by Alaska Airlines and Horizon Air
Operated by Hawaiian Airlines
*Regional jet service to Regina and Aspen operated by Mesaba Aviation
Minneapolis/St. Paul
Detroit
Memphis
To Juneau
To Ketchikan
To Fairbanks
To Anchorage
To Sitka
To Honolulu
To Fairbanks
Edmonton
Vancouver
Saskatoon
Calgary
Regina
Kalispell
Seattle/Tacoma
Spokane
Winnipeg
Minot
Grand Forks
Fargo/Moorhead
Great Falls
Missoula
Bismarck/Mandan
Portland
Bozeman
Billings
Boise
Duluth/Superior
Rapid City
Traverse City
Toronto
Montreal
Halifax
Syracuse
Albany
Boston
Rochester
Providence
Hartford/Springfield
Buffalo
Green Bay
Saginaw/Bay City/Midland
Flint
Grand Rapids
Lansing
La Crosse
Milwaukee
Madison
Rochester
Sioux Falls
Sioux City
Omaha
Des Moines
Cedar Rapids
Kalamazoo
South Bend
Fort Wayne
Cleveland
Pittsburgh
Columbus
Westchester
Newark
New York (La Guardia)
New York (JFK)
Allentown
Philadelphia
Harrisburg
Baltimore
Washington, D.C. (Dulles)
Washington, D.C. (National)
Richmond
Norfolk
Indianapolis
Dayton
Cincinnati
Louisville
St. Louis
Kansas City
Wichita
Salt Lake City
Reno
Sacramento
Oakland
San Francisco
San Jose
Steamboat Springs (Hayden)
Vail (Eagle)
Denver
Aspen
Colorado Springs
Las Vegas
Burbank
Los Angeles
Ontario
Palm Springs
Orange County
San Diego
Phoenix
Tucson
Albuquerque
Oklahoma City
Dallas/Fort Worth
Little Rock
Nashville
Knoxville
Greensboro
Raleigh/Durham
Charlotte
Greenville/Spartanburg
Atlanta
Birmingham
Jackson
Fort Walton Beach
Jacksonville
Orlando
Baton Rouge
New Orleans
Austin
San Antonio
Houston
Tampa/St. Petersburg
Sarasota/Bradenton
Fort Myers
West Palm Beach
Fort Lauderdale
Miami
Mazatlan
Cabo San Lucas
Puerto Vallarta
Mexico City
Ixtapa/Zihuatanejo
Acapulco
Cancun
Cozumel
Grand Cayman
Montego Bay
Puerto Plata
San Juan
St. Maarten
Operated by Hawaiian Airlines
Lihue
Honolulu
Molokai
Kahului
Lanai City
Kona
Hilo
To Russian Far East
Barrow
Kotzebue
Prudhoe Bay
Nome
Fairbanks
Bethel
Anchorage
To Minneapolis/St. Paul
To Detroit
Dillingham
King Salmon
Cordova
Yakutat
Glacier Bay
Juneau
Petersburg
Sitka
Wrangell
Ketchikan
Dutch Harbor
Kodiak
To Seattle
Operated by Alaska Airlines

NORTHWEST
AIRLINES

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St. Paul, MN 55111-3034

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